HOULIHAN LOKEY

OUT-OF-HOME MARKET

STATE OF THE INDUSTRY | **JULY 2021**

OOHE Sector Is Providing a Once-in-a-Generation Investment Opportunity

Dear Friends and Partners,

The out-of-home entertainment (OOHE) industry is expected to rebound strongly as companies return to pre-COVID-19 operations and benefit from pent-up demand, increased consumer spending, enhanced operating structures, and strong industry tailwinds. Though some operators and sectors will emerge more successful than others, there exists significant opportunity across all sectors of the OOHE industry today.

In the following pages, we will discuss several takeaways that we have seen from recent events:

- It has been more than a year since the COVID-19 outbreak caused the near complete global shutdown of all theme parks, live entertainment, location-based entertainment, movie theaters, cruises, and resorts. These sectors have each reacted and rebounded to the pandemic unevenly (for various sector- and geographic-related reasons) creating a bifurcation of COVID-19 “outperformers” and “laggards.” Despite the positive momentum in the space, the sector as a whole is trailing other industries and the broader market in public stock performance.
- The pre-pandemic out-of-home entertainment landscape saw some traditional OOHE players struggling to evolve and compete with more innovative offerings (coupled with cost inefficiencies), resulting in many instances of plateaued performance. The pandemic forced businesses to rethink their business models, which opened the door for innovation, cost-saving measures, and a refreshed view on how to best cater to audiences in a post-pandemic world.
- Today, there is significant pent-up demand within OOHE, and with leisure travel and consumer spend rebounding, strongly buoyed by record savings and stimulus checks, those best-positioned to capture the “overconsumption” will situate themselves for long-term growth and success.
- Operators emerging from the pandemic with trimmed cost structures, optimized for permanent savings, will benefit from significant operating leverage as revenues return to normalized levels and are positioned for near-term post-COVID-19 demand bumps. For these operators, margins are expected to expand substantially, driving significant profitability to the sector.
- Investors should keep a close eye on those companies that required significant financing to weather the pandemic. Although many have remained operationally successful, some businesses are operating with historically high leverage and will need to manage their capital structures carefully going forward. While the capital markets were kind to OOHE operators during the pandemic, allowing access to defensive capital at attractive rates, there may be opportunities for future debt/equity swaps. At the same time, some OOHE companies now possess record cash balances and may pursue growth initiatives and acquisitions more aggressively.
- Though almost all public OOHE companies remained intact throughout the pandemic, private companies struggled to find capital, particularly those with less scale or with previously existing high leverage, resulting in a number of bankruptcies and business closures. There is opportunity within the private markets to provide capital accessibility to middle-market operators and significantly scale select targets.
- Additionally, the rebound has not been linear across geographies. Europe, for example, lags months behind the United States in terms of COVID-19 vaccination, reopenings, and consumer spend rebound.

We hope you find this update to be informative and that it serves as a valuable resource to you in staying abreast of the market. Given the fast-changing market in this current environment, we would be happy to discuss these developments in real time and look forward to staying in touch with you.

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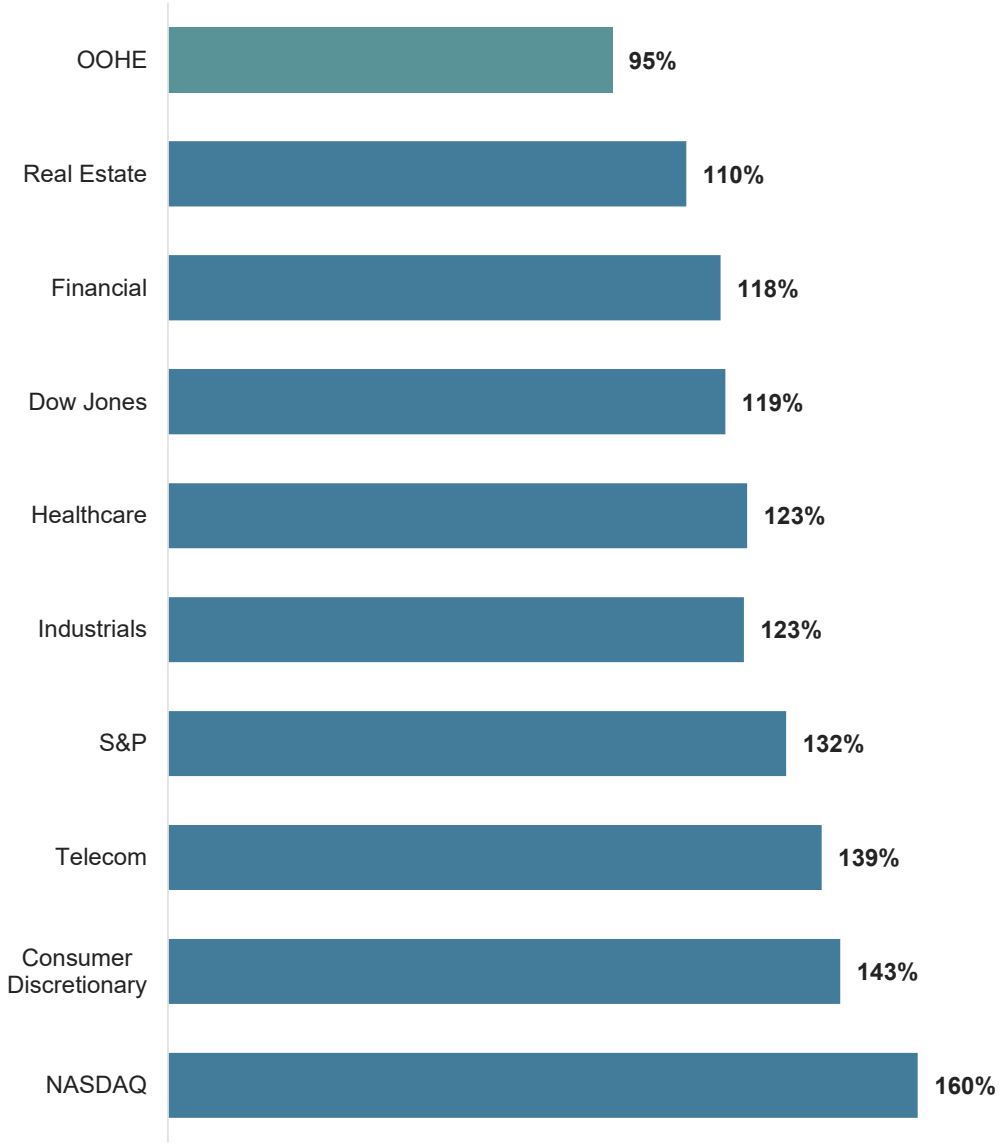
The OOHE Financial Market Recovery Is Lagging

The OOHE sector is behind many other sectors in its financial market bounce-back.

Sector Stock Performance (January 2020–June 2021)

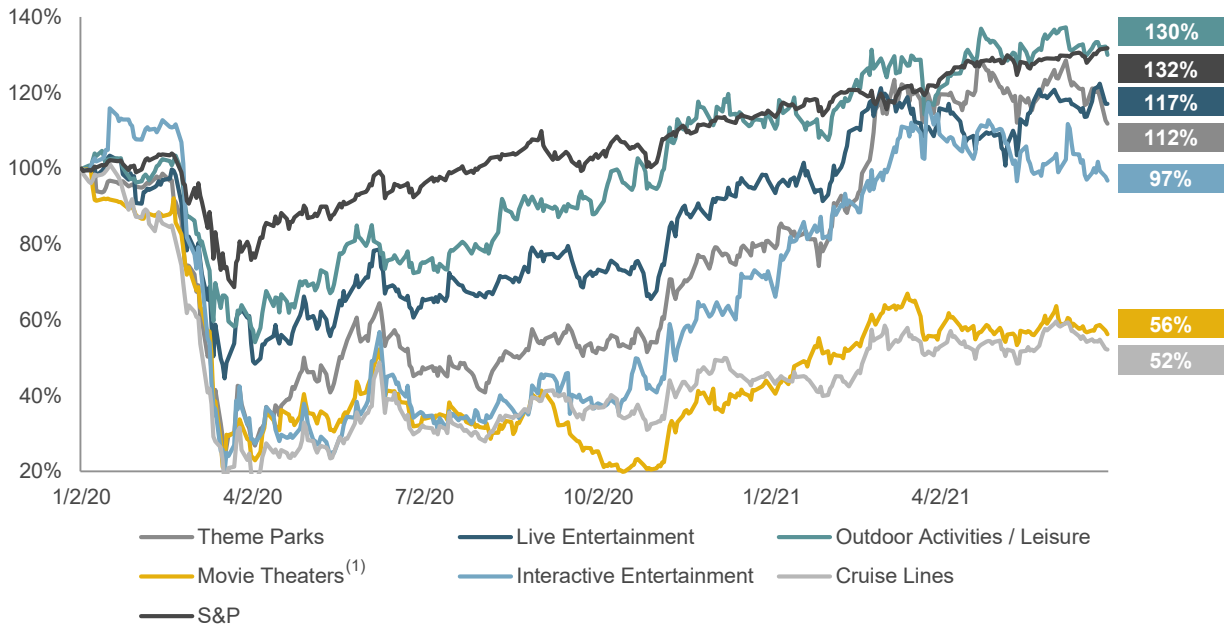


Source: S&P Capital IQ.
Note: Consumer Discretionary, Telecom, Industrials, Healthcare, Financial, and Real Estate sectors defined using S&P 500 subindices (e.g., Consumer Discretionary sector is representative of SP500-25 performance). Companies included in the OOHE sector are listed in the appendix. Pricing as of June 29, 2021. AMC excluded from the OOHE sector index.

Uneven Recovery Across the Sector

Sectors within the OOHE industry have experienced an uneven recovery from COVID-19 due to the nature of operational conditions, governmental restrictions, and consumer demand.

OOHE Stock Performance (January 2020–June 2021)



Industry Recovery Highlights

- **Outperformers:** Several segments of the OOHE industry have recovered strongly, with current share prices exceeding their pre-COVID-19 values. This is largely due to their natural exposure to outdoor space as a part of daily operations, consumer willingness to travel, investor optimism in pent-up demand, and their ability to operate at partial or full capacity as restrictions begin to fall off. Additionally, many are benefiting from optimized cost structures with meaningful permanent expense reductions expected on a go-forward basis.
- **Laggards:** The lagging segments of OOHE (cruises and movie theaters) have recovered at a much slower rate due to their lack of outdoor exposure (movie theaters), strong governmental restrictions, and tight density with large crowds. Furthermore, confined indoor spaces are seen less favorably by consumers, reducing demand.
  - Around 96%(2) of the cruise line industry fleet is suspended, but as vaccinations continue, operations and occupancy are expected to increase to pre-COVID-19 levels by summer 2021.
  - Movie theaters are on a slightly faster reopening trajectory, with AMC recently opening 99% of its theaters, driving some optimism across the segment. However, regulations that restrict capacity of these theaters still remain a limitation to their recovery relative to pre-COVID-19 levels, in addition to larger sector headwinds related to streaming and day and date considerations.

Sources: Wall Street Research, S&P Capital IQ.
Note: Companies included in each OOHE segment are listed in the appendix. Pricing as of June 29, 2021.
(1) AMC excluded from stock performance.
(2) Measured in passenger capacity.

Select Public OOHE Operators Overview

	Stock Performance vs. Pre-COVID-19 (1)	Pre-COVID-19 (2) Leverage	Post-COVID-19 (3) Leverage	Commentary
Dave & Buster's	(Loss)	6.8x	7.0x	▪ Dave & Buster's strong post-COVID-19 momentum is driven by increased discretionary spending combined with 97% of stores resuming operations as of May 2, 2021.
SeaWorld	Gain	3.3x	4.6x	▪ SeaWorld's cost savings initiatives throughout COVID-19 should yield significantly enhanced margins as attendance returns, driving strong post-COVID-19 momentum.
AMC	NM	13.9x	15.2x	▪ Despite the reopening of theaters in recent weeks, consumer hesitancy to return indoors and increasing competition from alternative offerings and streaming/day and date window threats have slowed AMC's recovery, coupled with an overweight capital structure.
Live Nation Entertainment	Gain	5.1x	6.9x	▪ Pent-up supply and demand and recent bolt-on acquisitions have positioned Live Nation for a strong recovery, building off of its pre-COVID-19 momentum, while other smaller operators remain constrained.
Six Flags	(Loss)	4.6x	5.3x	▪ Six Flags is well positioned as it emerges from the pandemic due to positive theme park industry tailwinds (outdoor operations) and optimized cost structure.
Lindblad Expeditions	(Loss)	3.3x	7.2x	▪ Large cruise operators are still on the sidelines, while Lindblad has been able to resume some operations due to its reduced, small-expedition cruise capacities.
Vail	Gain	3.2x	4.2x	▪ Vail was able to remain mostly operational for the past six months and is positioned to benefit from high-end leisure demand as consumers travel more frequently.
Carnival	(Loss)	2.1x	6.1x	▪ With a majority of Carnival's fleet suspended for the near future, the recovery timeline may be delayed in relation to other companies across the broader sector.
Drive Shack	(Loss)	NM	NM	▪ Drive Shack's new four wall location expansion strategy, coupled with demand for OOHE leisure activities, will contribute to a strong post-COVID-19 recovery and growth.

Sources: Wall Street Research, S&P Capital IQ.
(1) Represents stock price performance as of 6/29/21 vs. pre-COVID-19 January 2, 2020.
(2) Debt/EBITDA as of December 31, 2019. Uses book value of debt.
(3) Debt/EBITDA using 2019A EBITDA and the publicly disclosed debt amount as of March 31, 2021. Uses book value of debt.

Wave of 'Overconsumption' Is Underway

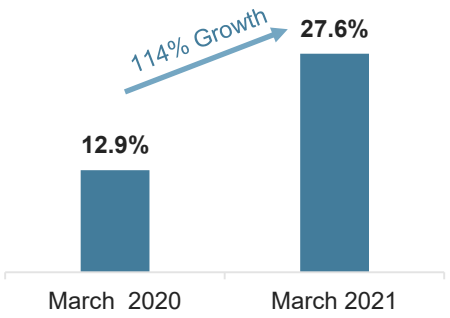
Consumer spending is expected to increase rapidly in the near-term, driven by pent-up demand and increased savings amounts.

Consumer Spending

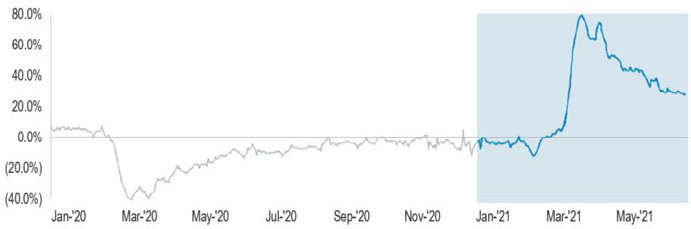
"American businesses are poised to benefit from twin victories in the $1.9 trillion COVID-19 relief package, which gives consumers more money to spend but doesn't force companies to raise workers' wages." THE WALL STREET JOURNAL.

"…as the pandemic ebbs, Americans are likely to start spending again—turning the built-up savings into fuel for the economy… there's going to be this huge pent-up demand for services that's going to be funded by that excess savings." The New York Times

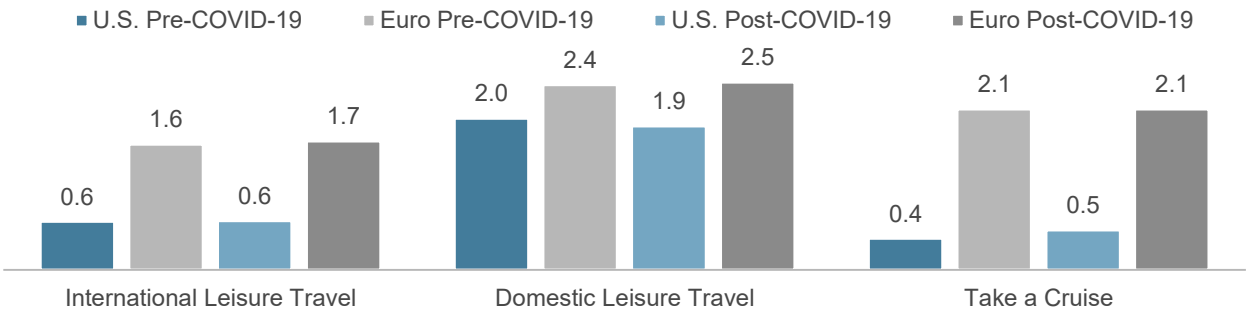
Y/Y Change in U.S. Personal Savings(1)



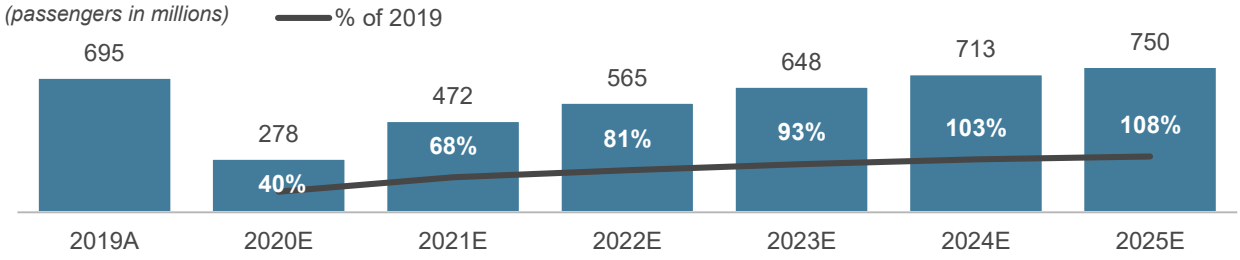
Y/Y Change in Consumer Spending(2)



Expectations of Leisure Travel Frequency(3)



U.S. Leisure Air Travel Volume



Source: Wall Street Research.
(1) Reflects the percentage of income that went into personal savings accounts.
(2) Y/Y change calculated on seven-day average of total spending (January 15, 2021–June 21, 2021).
(3) Figures represent how often in a given year a traveler anticipates doing each activity.

Adjusted Cost Structures Drive Improved Margins…

OOHE operators were forced to optimize cost structures strategically to reduce pressure on monthly cash burn during COVID-19. These measures are expected to provide permanent benefits, driving future operating leverage and increased profitability.

OOHE companies are operating with highly refined cost structures as a result of permanent cost savings initiatives during the pandemic.

As COVID-19 restrictions begin to subside and operations resume, these companies are benefiting from significant operating leverage and enhanced margins.

Once revenue has fully normalized, these operators will have additional profitability driven to their bottom line, providing incremental cash for organic and inorganic strategic initiatives.

	SeaWorld 2019A	SeaWorld 2022E	WWE 2019A	WWE 2022E
Revenue	$1,398	$1,516	$960	$1,251
COGS	(109)	(115)	(638)	(696)
Gross Profit	**$1,289**	**$1,401**	**$322**	**$555**
% Gross Margin	*92.2%*	*92.4%*	*33.5%*	*44.4%*
Operating Expenses	(832)	(794)	(142)	(190)
Adj. EBITDA	**$457**	**$608**	**$180**	**$365**
% EBITDA Margin	*32.7%*	*40.1%*	*18.7%*	*29.2%*
COGS % of Revenue	*7.8%*	*7.6%*	*66.5%*	*55.6%*
OPEX % of Revenue	*59.5%*	*52.3%*	*14.8%*	*15.2%*

"SEAS expects to be able to achieve ~$100 million of cost savings in 2022 at the 2019 attendance levels."

CREDIT SUISSE

"WWE will lap the peak of COVID-19 with a move to the low-cost performance centers for productions as live events continue to resume."

Morgan Stanley

Sources: Public Filings, Wall Street Research.

…As History Repeats Itself

The Great Recession in 2008 provides evidence of OOHE operators surviving a crisis and thriving with leaner operating structures.

NCL NORWEGIAN CRUISE LINE®

	2007A	2008A	2009A	2010A	2011A	2012A	2013A
Revenue	$2,177	$2,106	$1,855	$2,012	$2,219	$2,276	$2,570
COGS	(1,697)	(1,579)	(1,290)	(1,347)	(1,468)	(1,478)	(1,658)
Gross Profit	**$480**	**$528**	**$565**	**$665**	**$751**	**$798**	**$913**
% Gross Margin	*22.0%*	*25.1%*	*30.5%*	*33.0%*	*33.9%*	*35.0%*	*35.5%*
Operating Expenses	(287)	(300)	(225)	(242)	(224)	(225)	(253)
Adj. EBITDA	**$193**	**$228**	**$341**	**$423**	**$527**	**$573**	**$660**
% EBITDA Margin	*8.9%*	*10.8%*	*18.4%*	*21.0%*	*23.8%*	*25.2%*	*25.7%*
COGS % of Revenue	*78.0%*	*74.9%*	*69.5%*	*67.0%*	*66.1%*	*65.0%*	*64.5%*
OPEX % of Revenue	*13.2%*	*14.2%*	*12.1%*	*12.0%*	*10.1%*	*9.9%*	*9.8%*

The implementation of a number of cost savings initiatives, including realignment of operations, the restructuring of its new build program, and an overall focus on cost savings, began in 2008.

Norwegian Cruise Line's cost savings initiatives laid out during the Great Recession led to very strong margin improvements in the following years.

Six Flags

	2007A	2008A	2009A	2010A	2011A	2012A	2013A
Revenue	$971	$1,006	$899	$976	$1,013	$1,070	$1,110
COGS	(81)	(85)	(75)	(79)	(77)	(80)	(87)
Gross Profit	**$889**	**$921**	**$824**	**$897**	**$936**	**$990**	**$1,023**
% Gross Margin	*91.6%*	*91.6%*	*91.6%*	*91.9%*	*92.4%*	*92.5%*	*92.2%*
Operating Expenses	(674)	(619)	(606)	(598)	(613)	(638)	(607)
Adj. EBITDA	**$215**	**$302**	**$217**	**$299**	**$323**	**$353**	**$417**
% EBITDA Margin	*22.2%*	*30.0%*	*24.2%*	*30.6%*	*31.9%*	*32.9%*	*37.5%*
COGS % of Revenue	*8.4%*	*8.4%*	*8.4%*	*8.1%*	*7.6%*	*7.5%*	*7.8%*
OPEX % of Revenue	*69.4%*	*61.6%*	*67.5%*	*61.3%*	*60.5%*	*59.6%*	*54.7%*

Reducing full-time staff and developing a more efficient deployment of seasonal staffing, closing and removing inefficient attractions, and other various corporate savings were implemented to reduce costs during the recession.

Six Flags implemented aggressive cost savings initiatives from 2008 through 2013 (in addition to navigating a restructuring process). By 2011, its EBITDA margin had increased roughly 750 bps at near-equivalent revenue levels.

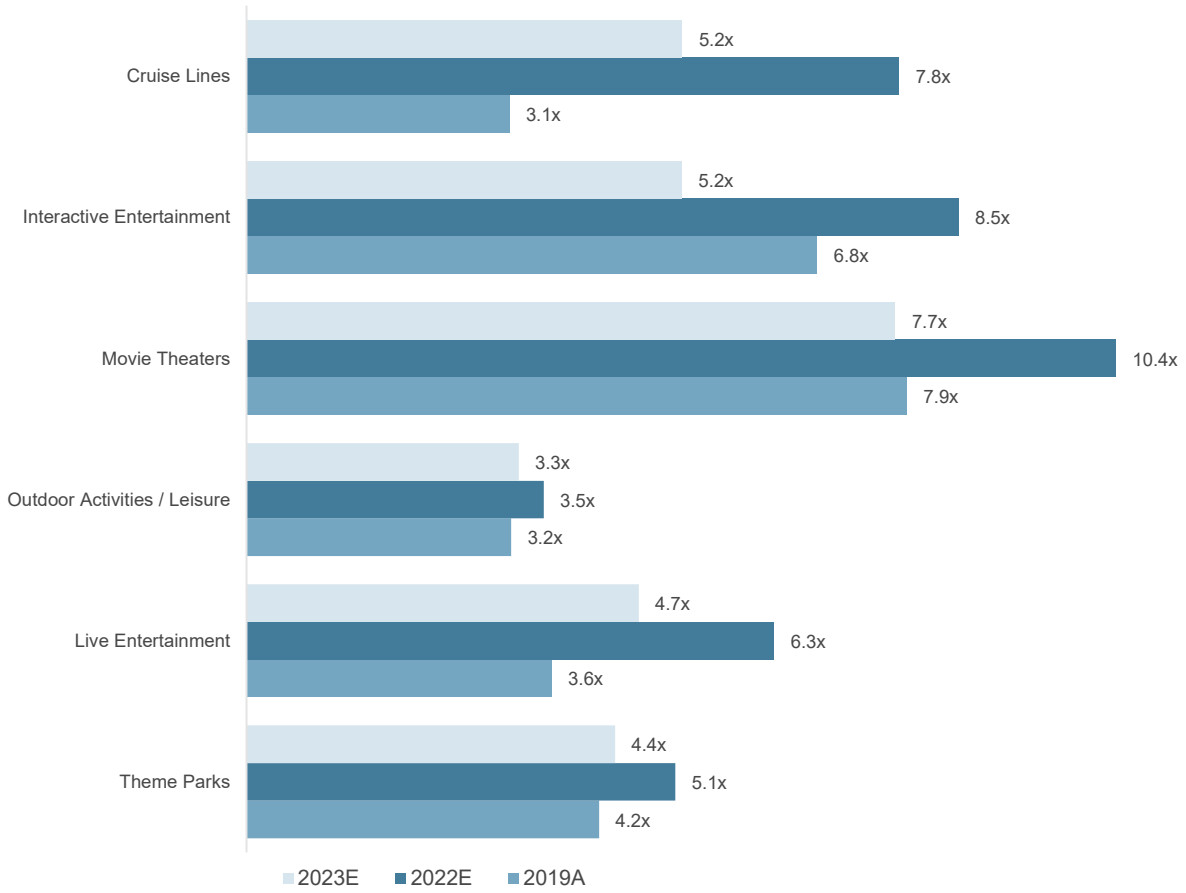
Source: Public filings.

Significant Debt Balances Have Potential to Weigh Down Certain Operators

COVID-19 Impact on Capital Structure

- When the pandemic first struck, many OOHE operators accessed the capital markets to enhance liquidity in order to survive a complete shutdown of operations for an unknown length of time.
- Additionally, many operators negotiated covenant holidays or other favorable concessions to provide flexibility.
- For some companies, the incremental leverage has been less impactful as they have utilized outdoor operations (or have found innovative solutions) to operate within governmental restrictions. This has allowed them to service the increased leverage and has left them in a better position than their peers to begin refinancing negotiations (where necessary).
- However, other companies that were unable to operate throughout the shutdown, or currently operate at significantly reduced capacity, have to combat the looming issues of an overweight capital structure combined with impending roll-off of covenant holidays that will only further hamstring their recovery.

OOHE Sector Leverage Post-COVID-19(1)



Sources: Wall Street Research, S&P Capital IQ.
Note: RDI excluded from 2023E leverage metrics; DS excluded from 2019A and 2023E leverage metrics. 2020 and 2021 is NM and excluded from the analysis.
(1) Calculated based on segment average (total debt/EBITDA). Total debt as of latest filing date. Consensus estimates as of June 29, 2021. Uses book value of debt.

Appendix: OOHE Sector Index Definitions

Cruise Lines

Movie Theaters

Live Entertainment


Outdoor Activities/Leisure

Interactive Entertainment

Theme Parks

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2020 M&A Advisory Rankings
All U.S. Transactions

	Advisor	Deals
1	**Houlihan Lokey**	**210**
2	Goldman Sachs & Co	172
3	JP Morgan	132
4	Evercore Partners	126
5	Morgan Stanley	123

Source: Refinitiv (formerly known as Thomson Reuters)

No. 1 U.S. M&A Advisor

Top 5 Global M&A Advisor

Leading Capital Markets Advisor

Financial Restructuring

2020 Global Distressed Debt & Bankruptcy Restructuring Rankings

	Advisor	Deals
1	**Houlihan Lokey**	**106**
2	PJT Partners Inc	63
3	Lazard	50
4	Rothschild & Co	46
5	Moelis & Co	39

Source: Refinitiv (formerly known as Thomson Reuters)

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1,400+ Transactions Completed Valued at More Than $3.0 Trillion Collectively

Financial and Valuation Advisory

2001 to 2020 Global M&A Fairness Advisory Rankings

	Advisor	Deals
1	**Houlihan Lokey**	**956**
2	JP Morgan	876
3	Duff & Phelps	802
4	Morgan Stanley	599
5	BofA Securities Inc	542

Refinitiv (formerly known as Thomson Reuters). Announced or completed transactions.

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TMT

2018 to 2020 M&A Advisory Rankings
U.S. Technology, Media, Entertainment & Telecom Transactions Under $5 Billion *

	Advisor	Deals
1	**Houlihan Lokey**	**133**
2	Goldman Sachs & Co	123
3	Raymond James Financial Inc	110
3	Morgan Stanley	110
5	JP Morgan	108

Source: Refinitiv (formerly known as Thomson Reuters)

43 Completed Transactions in 2020

** Includes acquired firm transactions.*

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