

## **Madison Square Garden - Fiscal Q4 2019 Quarter Results**

### **Summary**

Madison Square Garden (MSG) reported fiscal 4th quarter results this morning. Revenue was a little weaker than expected due to the disappointing performance of the Knicks. For the full fiscal year, revenue increased by 5% to \$1.6BN. Management is still working to complete the spin-off of the Sports business. However, it is now expected to be complete in the first quarter of calendar 2020 (originally it was expected to be completed by year end). While slightly disappointing, this is not a huge issue in my opinion. I continue to expect significant value to be unlocked with the consummation of the spin-off. Management also announced that its contractor has estimated that the construction of the Las Vegas Sphere will cost \$1.7BN, up from management's initial estimate of \$1.2BN.

### **Additional Details**

#### Financials

For the full fiscal year, revenue increased by 5% to \$1.6BN. The company generated an operating loss of \$13.9MM in fiscal 2018 due to higher costs primarily related to the proposed spin-off. 4th quarter revenue declined by 17% to \$263.6MM, missing consensus revenue by 2%. The revenue decline was due to the impact of ASC Topic 606 which is a new accounting standard which changes when revenue is recognized. Excluding the impact of ASC Topic 606, 4th quarter revenue would have increased by 3%.

As discussed in my deep dive, MSG's profitability on a standalone basis would not justify its current valuation. Nonetheless, the company has significant asset value in the Knicks, the Rangers, and the Madison Square Garden arena, which will be unlocked once the spin-off occurs.

#### Spin-off Update

Management acknowledged that it is disappointed that the spin-off has been delayed, but noted that it continues to work through the spin-off process. The spin-off is now expected to occur in the first quarter of 2020.

Management continues to plan that the Entertainment company to retain a 1/3 stake in the Sports spin-off. This stake will be used to finance the construction costs for the Las Vegas and London Spheres.

## Las Vegas Sphere

Management noted that Aecom, MSG's construction contractor for the Las Vegas Sphere, estimated that the project would cost \$1.7BN, above management's initial estimate of \$1.2BN. Management has formally protested that Aecom's estimate is too high. I think it's likely that Aecom's estimate declines slightly, but that the ultimate cost will be closer to \$1.7BN than \$1.2BN. This is disappointing, especially because management has not highlighted the return that it expects to generate from the project.

## **Conclusion**

I bought more MSG this morning following share price weakness. I think the spin-off will ultimately happen in Q1 2020 and by that point, I expect MSG to be trading close to \$350. Shares could be dead money over the next couple of months, but I continue to like the stock's setup into 2020.