MSG Entertainment Separation

MSG Entertainment Corp.	
Ticker:	MSGE
Price:	$32.45
Fiscal Year End:	June
Intrinsic Value Estimate (Per Share):	$45.08
% Upside:	39%

Sphere Entertainment Co.	
Ticker:	SPHR
Price:	$30.20
Fiscal Year End:	June
Intrinsic Value Estimate (Per Share):	$46.97
% Upside:	55%

Capitalization ($MM)	
Share Price	$32.45
Diluted Shares (MM)	51.6
Market Cap	$1,674
Cash	($50)
Debt	$675
Enterprise Value	$2,299

Capitalization ($MM)	
Share Price	$30.20
Diluted Shares (MM)	34.71
Market Cap	$1,048
Cash	($330)
Debt	$1,313
Enterprise Value	$2,031

**Clients of Boyar Asset Management, Inc., own 81,093 shares of MSG Entertainment Corp. at an average price of $33 a share and 79,963 shares of Sphere Entertainment Co. at an average price of $28.90 a share. Analysts employed by Boyar's Intrinsic Value Research LLC own shares of MSG Entertainment Corp. and Sphere Entertainment Co.*

MSG Entertainment Separation Overview

On April 20, 2023, MSG Entertainment (Old MSGE) completed the separation of its traditional live entertainment business (The Garden, Radio City Music Hall, etc.) from its MSG Sphere business. Investors in Old MSGE received one share of MSG Spinco (the traditional live entertainment business, or New MSGE), which has adopted the name MSG Entertainment, for each share of the parent (Old MSGE), which changed its name from MSG Entertainment to Sphere Entertainment Co. As part of the separation, Sphere Entertainment retained a 33% interest in New MSGE, giving it the financial flexibility needed to fund the current MSG Sphere (and potentially future Spheres).

MSG Entertainment Corp.

Sphere Entertainment Co.

Source: Company presentation.

We last featured shares of the predecessor to MSG Entertainment and Sphere Entertainment Co. in July 2022, as part of a piece on Dolan Discounts in our Fresh Looks issue. In that same piece, we also profiled shares of MSG Sports. Shares of the companies that make up Old MSGE are little changed since our report, though they are up substantially from December 2022 lows. Meanwhile, MSG Sports (up 29% vs. the S&P 500 up 5%) has been buoyed by a robust market for professional sports franchise transactions, improved team performance (the Knicks and Rangers have both made the playoffs, with the Knicks recently advancing to the second round of the NBA playoffs for the first time in 10 years), and strong returns to shareholders, including ~$250 million returned to shareholders in the form of an accelerated share buyback (~$75 million) and $7.00 per share special cash dividend (~$173 million). Despite the strong share price performance of MSG Sports, the entity continues to trade at a substantial discount to our estimate of its intrinsic value.

However, we believe that the recent MSG Entertainment separation provides a nice catalyst for unlocking the value of Old MSGE's top-notch assets by enabling both companies to attract investor bases consistent with their capital requirements and growth profiles. New MSGE boasts a number of iconic assets that help generate significant recurring revenue streams, which should enable it to return a meaningful amount to shareholders in the form of dividends and share buybacks after paying down a portion of the debt assumed in the spinoff.

Meanwhile, Sphere Entertainment consists of a state-of-the-art arena (The MSG Sphere) that is nearing completion (expected to open in September 2023). Although the MSG Sphere concept is unproven, the Dolans/Old MSGE have a proven track record of arena renovations, targeting underserved entertainment markets, and generating meaningful revenue from corporate sponsorships, suite revenues, and the like, which should go a long way toward ensuring the project's success. Investors are currently taking a skeptical view of the concept/project, but even if The MSG Sphere is only moderately successful, at current share prices investors could be amply rewarded. What's more, we see SPHR's 33% retained stake in MSGE as giving it some downside protection, providing a nice return/risk situation.

Business Overview: MSG Entertainment and Sphere Entertainment

MSG Entertainment Corp. (ticker: MSGE)

Current venues: The Garden, Hulu Theater at Madison Square Garden, Radio City Music Hall, the Beacon Theatre, and the Chicago Theatre.

Bookings business: Includes live entertainment bookings, the sports bookings business that was owned and operated by MSG through its MSG Sports business segment, and arena license agreements that will require the Knicks and Rangers to play their home games at The Garden. In FY 2023, the payment pursuant to the 35-year arena license agreements is expected to total ~$42 million (Knicks: ~$24 million; Rangers: ~$18 million).

Proprietary production: The Christmas Spectacular, starring the Radio City Rockettes, which has been a holiday tradition for 89 years running.

Cash/cash equivalents: As of the separation, MSGE has approximately $675 million in total debt and ~$50 million in cash, representing leverage (net debt to 2023E EBITDA) of 4.0x-4.3x based on its 2023 projected EBITDA of $145-$155 million.

Hidden assets: MSGE holds valuable development rights residing over The Garden in NYC, which sits above Penn Station, the nation's busiest transportation hub.

Sphere Entertainment Co. (ticker: SPHR)

MSG Sphere: Includes the MSG Sphere under construction in Las Vegas and the MSG Sphere planned for London. The MSG Sphere in Las Vegas is a 17,500-seat arena with state-of-the-art capabilities.

33% stake in New MSG Entertainment: Tax laws will require SPHR to dispose of its New MSG Entertainment stake within a fixed time frame with the distribution potentially occurring via a number of different measures, including sales, exchange offers, and pro-rata distributions. MSGE's information statement indicated that the disposition will occur within 1 year of the separation, subject to market conditions.

MSGN/Regional sports networks (RSNs): Includes MSG Network, MSG Sportsnet, and streaming service MSG Go. The RSNs were initially targeted for inclusion with the traditional live entertainment business when the Company first announced the potential for a separation in August 2022 but were subsequently included with The Sphere, ostensibly due to their use as a funding source for The MSG Sphere.

~67% stake in Tao Group Hospitality: Brands include Tao, Hakkasan, Omnia, Marquee, Lavo, Beauty & Essex, and Cathédrale. In April 2023, SPHR entered into an agreement to sell its 67% stake in Tao to Mohari Hospitality for $550 million, or ~$300 million in after-tax proceeds.

Cash: At the time of the separation, Sphere Entertainment had net debt of ~$1.0 billion (cash: ~$330 million; debt: $1.3 billion). Approximately $900 million of the debt is an MSGN term loan (discussed hereafter) that comes due in 2024, and SPHR expects to pay down a portion of this amount and refinance the remainder prior to maturity. The bulk of the remaining debt is a $275 million MSG Sphere term loan that matures in December 2027.

Dolan Family Group Ownership

Prior to the separation, The Dolan Family Group controlled ~71% of the total voting power (~24% economic) in Old MSGE. Following the separation, the Dolans continue to control ~71% of the voting power of SPHR, though their voting control in New MSGE has been reduced to 61%, reflecting the 33% stake retained by Sphere Entertainment, which consists of the lower-voting class A shares. Ostensibly, SPHR retained these lower-voting shares in New MSGE due to tax considerations, with the MSG Entertainment filing stating of SPHR's 33% stake in New MSGE that "for the avoidance of doubt, MSG Entertainment will not own any of the Company's Class B Common Stock following the Distribution." The Dolans remain firmly in voting control of both entities, but their decision to cede some control in the more mature business may give some indication of what they value more highly.

Strong Performance Prior to Separation

Shares of Old MSGE were a strong performer in the months leading up to the separation, increasing by 50% from December lows (vs. an increase of just 3% for the S&P 500) to the separation on April 20. Despite this strong performance, we believe that both entities remain undervalued. Although the performance of Old MSGE was strong heading into the separation, at the time of the spinoff they were still trading down about 50% from their all-time high, reached in 2021, of nearly $120 a share.

Dolan Discount Prevails

MSG Entertainment and Sphere Entertainment Co. are trading at sizeable discounts to our estimate of their intrinsic values of 28% and 36%, respectively. We believe that the wide discounts to intrinsic value at both entities represent an opportunity, and we note that a number of key factors could be pressuring the shares and/or keeping them significantly below our estimated valuations:

- **Retained entertainment interest:** The retained interest in MSG Entertainment held by Sphere Entertainment represents a bit of an overhang for the MSGE common stock and increases the complexity of the SPHR investment to some extent (i.e., not a pure-play high-growth business). SPHR will need to dispose of this interest at some point for tax purposes, which could create pressure on the MSGE shares depending on the method chosen.

- **Elevated leverage:** Both entities were spun off with an elevated amount of leverage, which may give investors pause in the current environment. However, we note that MSG Entertainment will be focused on deleveraging in the near term and has strong revenue and cash flow visibility, as it generates a significant amount of recurring/contracted revenues, including ~$42 million annually (expected to increase to $107 million in FY 2055 after its 35-year term) from its long-term arena license agreement with the New York Knicks and New York Rangers. In addition, the professional basketball and hockey leagues likely had to sign off on the amount of leverage attributed to New MSGE, which gives us confidence in New MSGE's ability to pay down debt following the separation. Although Sphere Entertainment has ~$1.3 billion in debt, we note that the majority (~$900 million) is associated with MSGN (an indirect subsidiary that is highly cash-generative) and is nonrecourse to Sphere Entertainment.

- **Uncertainty about The Sphere:** Details of The Sphere's economic model have been limited to date, frustrating investors. Old MSGE stated in February 2023 that it is "confident it will generate substantial revenue and AOI [adjusted operating income; similar to EBITDA]," but that statement, and other similar ones made since the project commenced, have done little to quell investor apprehension about the project's long-term prospects/returns. However, MSGE does have a proven track record of targeting underserved concert markets and generating high-margin sponsorship, suite, and advertising revenues, which should go a long way toward ensuring the venue's success.

- **Other factors:** MSGE and chairman/CEO Dolan have been featured in the press recently, surrounding MSGE's use of facial recognition policy to bar from its venues holders of tickets (even season tickets) who are associated with firms that have represented certain ticket resellers in lawsuits against MSGE. The use of the technology to flag individuals prompted the New York State Liquor Authority to consider taking away the Company's liquor license. Although the resellers' suit was recently thrown out, the controversy around the Dolans/MSGE's measures and related retaliatory actions has given James Dolan another black eye, handing his critics further ammunition.

Could Spinoff Structure Facilitate Taking Sphere Entertainment Private?

Sphere Entertainment was structured as the parent company in the separation, an approach that generally makes it easier for such an entity to be acquired in the wake of the spinoff. Although MSGE's information statement cited several factors for the separation (unlocking shareholder value, increasing financial flexibility, etc.), we would not be surprised if the spinoff were part of a plan to opportunistically take The Sphere private. The $2.25 billion price tag to complete the first MSG Sphere is jaw-dropping, but investors in Sphere Entertainment today would not be paying for the asset at a valuation of $2.25 billion. Backing out Sphere Entertainment's 33% stake in New MSGE (at our intrinsic value estimate), we estimate that investors are acquiring The Sphere at an implied value of just $850 million, representing a significant discount to its total projected cost. In 2021, when Old MSGE was in the process of acquiring MSG Networks, an SEC filing revealed management's projection of an ~$210 million increase in adjusted operating income for FY 2024, attributed almost entirely to the opening of The MSG Sphere.

MSG Entertainment Projections ($MM)

	FY2021	FY2022	FY2023	FY2024	FY2025
Revenue	$ 132	1,026	1,175	1,729	2,033
Adjusted operating income (loss)(1)	$ (247)	62	90	301	378
Free cash flow(2)	$ (271)	(631)	(358)	96	305

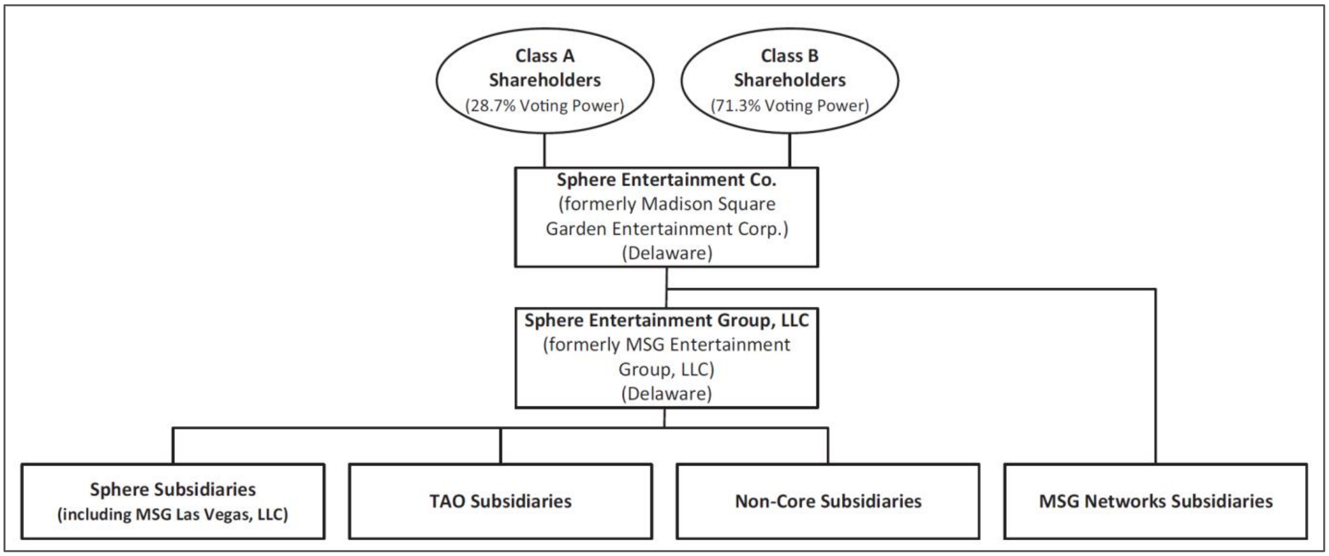
(1) Adjusted operating income includes pre-opening expenses for MSG Sphere.
(2) Free cash flow in fiscal year 2021 includes only the second half of fiscal year 2021.

Source: MSG Networks SEC filing.

Although it is prudent to be skeptical of management projections contained in merger documents, we believe that even if The Sphere is only modestly successful relative to prior expectations, generating just 50% of the EBITDA management forecast, an investment in SPHR at an implied valuation of just 8.5x EBITDA would be extremely compelling. The implied valuation for The MSG Sphere reflects ~$900 million in MSGN subsidiary debt, which is nonrecourse to SPHR (having been issued by a subsidiary of what is now Sphere Entertainment Co). SPHR stated in a recent 10-Q filing that it plans to "pay down a portion of MSG Networks' term loan upon the refinancing of the loan prior to its maturity in October 2024." Although SPHR appears likely to make good on this obligation, it would also be able to walk away from the debt (which, again, is nonrecourse to SPHR), though obviously not without any adverse ramifications (e.g., securing future financing following such a default could be more challenging). Even so, we believe that MSGE could be in a position to reduce a portion of the debt in an upcoming debt refinancing by exchanging a portion of MSG Networks' debt for equity in the RSNs. (To be conservative, we have ascribed no equity value to MSG Networks in our estimate of SPHR's intrinsic value, deducting only MSG Networks' debt in our valuation.) Such a move would further reduce our implied Sphere valuation from the $850 million previously mentioned.

If the market does not value Sphere Entertainment accordingly, we believe that the Dolans could see an opportunity to take Sphere Entertainment private at an extremely attractive valuation—a level that would be a fraction of its replacement costs. As our longtime readers are aware, the Dolans sold Cablevision in 2016, giving the family a windfall of funds that it could potentially utilize to help take SPHR private if the current valuation disconnect persists.

Sphere Entertainment Ownership Structure

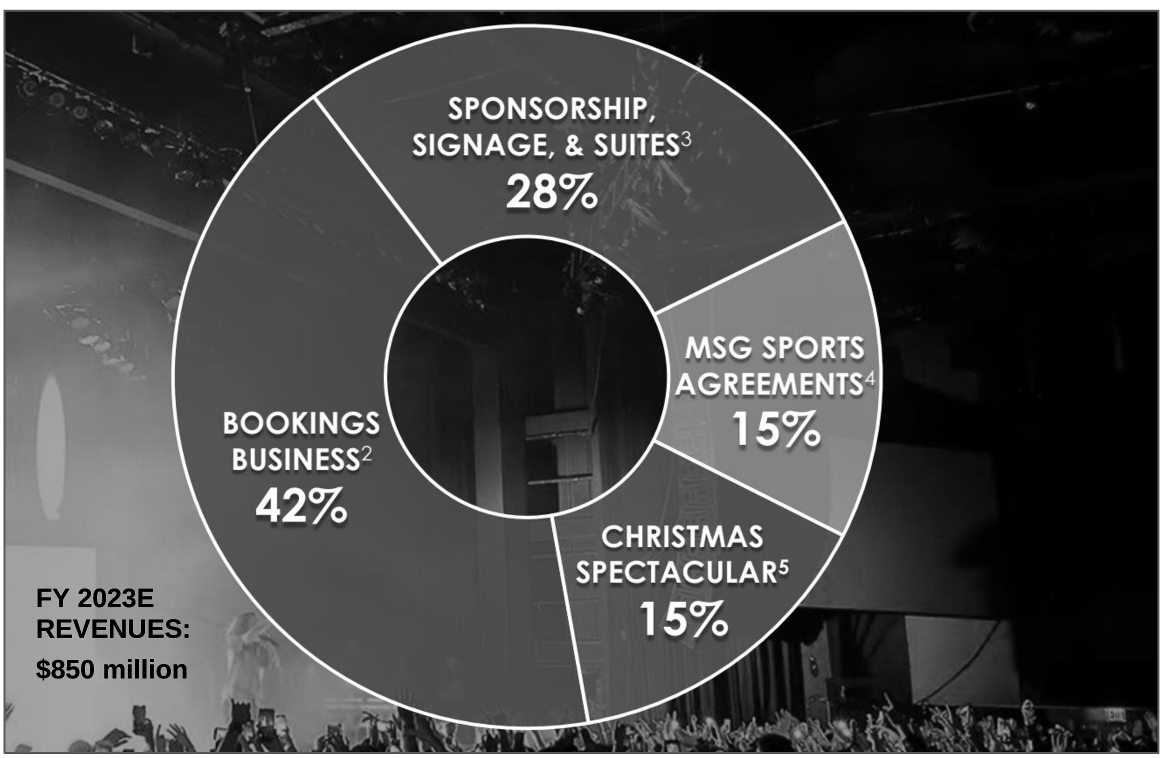


Source: MSGE information statement.

MSG Entertainment Corp.

MSG Entertainment's live entertainment business is a mature business yet is not without its growth opportunities (see following), and it operates an attractive business model. As we have detailed previously when profiling MSG Entertainment, MSGE's live entertainment business generates a significant amount of revenue pursuant to recurring and/or contractual agreements with long-term escalators. MSGE projects that during FY 2023 it will generate $840-$860 million in revenue from four key sources:

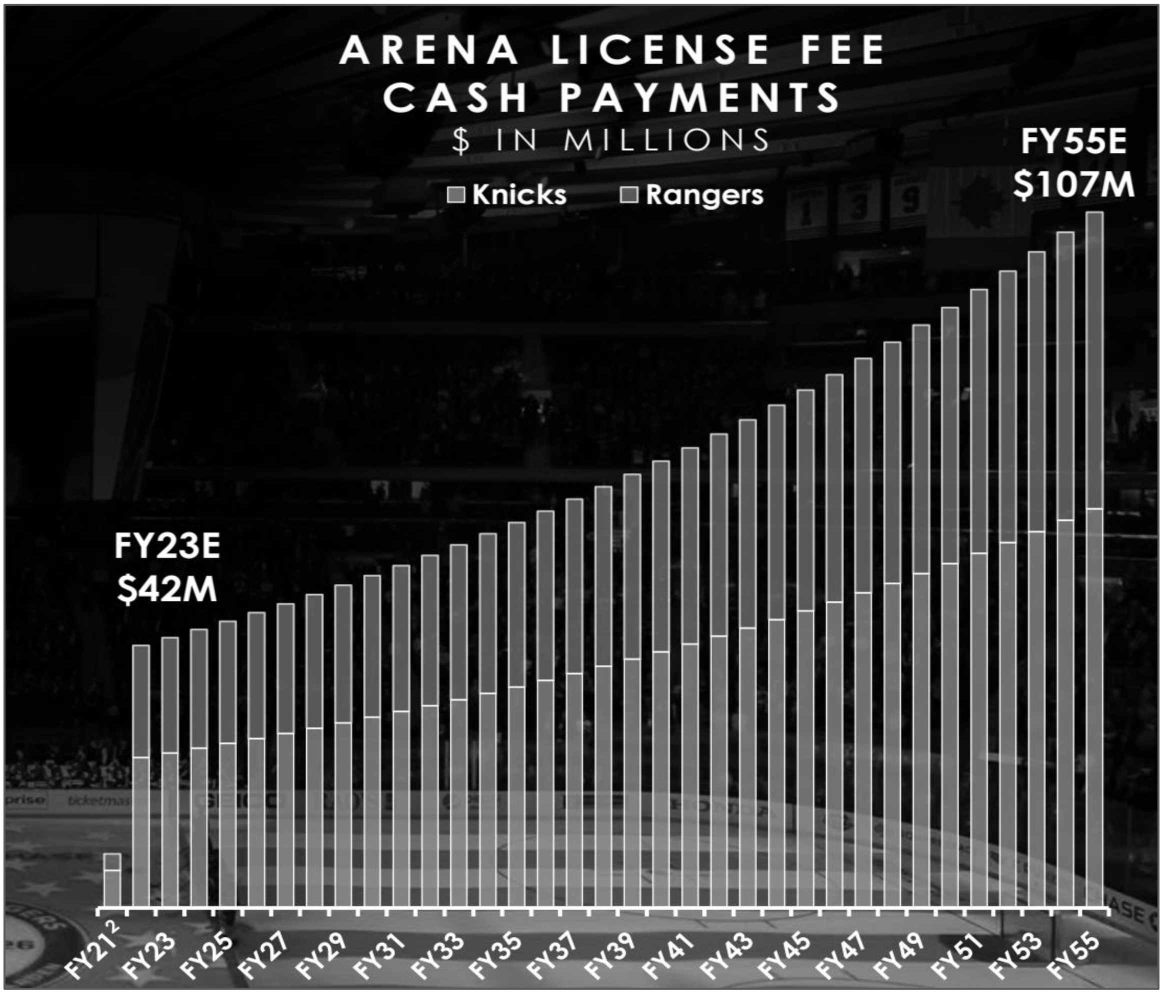
MSGE's FY 2023E Revenue Composition



Source: Company presentation.

Although the Company's arena license agreements account for only ~15% of MSGE's revenues (rent collected from the Knicks' and Rangers' use of The Garden), they represent a very high-margin source that is expected to increase over the deal's 35-year term at 3% annually. The agreement began in FY 2021, but revenue was adversely impacted by COVID-19. During FY 2023, the Company is expected to generate $42 million in annual revenue pursuant to its arena license agreements, with this figure increasing to $107 million at the end of the deal's 35-year term.

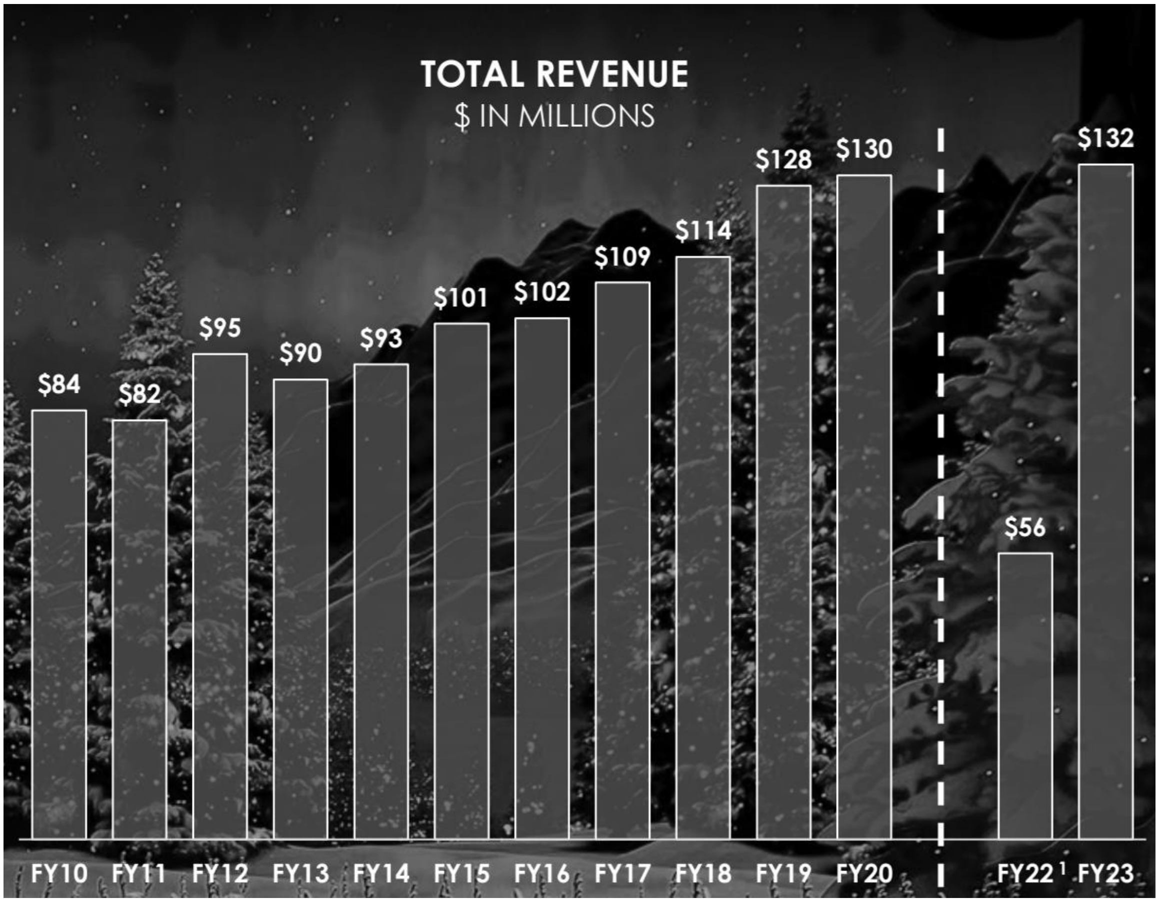
MSGE's Arena License Agreement Summary ($MM)



Source: Company presentation.

The largest source of MSGE's revenues is its bookings business (which hosts concerts or licenses its venues for a fee to outside promoters who put on events/concerts at The Garden), which is expected to generate ~42% of the Company's revenues in FY 2023. Although the bookings business does not generate revenues pursuant to multiyear agreements, much of its business tends to recur at increasing annual amounts. For example, paid attendance at MSGE's Christmas Spectacular, which has been a fixture at Radio City Music Hall for the past 89 years, has remained steady at ~1 million over the past decade (except during the COVID-19-impacted FY 2021 and FY 2022), a trend that has helped the event increase revenue from $84 million in FY 2010 to $132 million in FY 2023.

Christmas Spectacular Historical Revenues ($MM)



Source: Company presentation.

Growth Opportunities

- **Increased venue utilization:** MSGE continues to look for opportunities to increase its venue utilization, and management believes that its "artist-first" approach helps bring key performers back for repeat performances, including multinight shows. The Company is also actively exploring opportunities for new events that would be unique to its venues, including additional high-profile residencies. Moreover, the Company has a large and growing proprietary database of millions of customers to whom it can cross-promote its products and services. Going forward, MSGE also plans to use its proprietary database to gain unique insights into how to proactively identify potential bookings for its venues.

- **Leveraging of owned IP:** MSGE is selectively exploring opportunities to create new live entertainment content by leveraging its owned intellectual property, such as the Radio City Rockettes. If it does develop new content, MSGE would benefit from the economics of being both the content owner and the venue operator. What's more, holding more proprietary content could help MSGE increase venue utilization while simultaneously reducing its reliance on third-party content. However, the Company has not yet been very successful in developing new proprietary content associated with the Rockettes.

- **Outdoor signage:** MSGE offers its corporate sponsorship partners expanded reach through its outdoor signage around the Madison Square Garden Complex and Pennsylvania Station. MSGE is currently pursuing additional opportunities for external signage that could increase its existing sponsorship packages and attract new sponsors.

Recent Results and Outlook

Over the past ~5 years, MSGE's true level of profitability was masked by its Sphere investment, but a recent investor presentation focused on the live entertainment business, and MSGE's information statement has shed some light on the Company's underlying profitability and free cash flow (FCF)-generating potential. During 2023, management expects MSGE to generate the following:

- Revenues of $840-$860 million
- Adjusted operating income of $145-$155 million
- Operating income of $90-$100 million

Comparisons of the Company's results through 1H FY 2023 (ended December 31, 2022) with the year-ago time period are still skewed by the impacts from the pandemic. During 2Q FY 2023, revenues and adjusted operating income were up 24% and 63%, respectively, compared with the year-ago quarter, which was negatively impacted when the Omicron variant cut short the run of the Christmas Spectacular and caused the cancellation or postponement of events in the Company's bookings business. MSGE hosted over 380 events and more than 2.3 million guests in 2Q FY 2023, and demand from both artists and fans remains "robust," with FY 2023 expected to be its first full year of bookings since before the pandemic. (Notably, most concerts held at its venues were sold out during the quarter.) Meanwhile, the Company's Christmas Spectacular completed its first full run in over 3 years. Key revenue components in FY 2023, such as marketing partnerships, are expected to surpass results for FY 2019, the last full year before the pandemic. The Company's premium hospitality business is also demonstrating strong momentum, with management having recently noted that it has exceeded annual goals for renewals and new sales of suite licenses and other premium products, like the Caesars Sportsbook Lounge and HUB loft.

Capital Allocation: Debt Reduction and Share Buybacks

As already noted, MSGE's leverage is elevated post separation, as it has assumed a significant amount of debt incurred at Old MSGE prior to the spinoff. This debt was incurred primarily to fund the development of the MSG Sphere in Las Vegas, where nearly $2 billion of the project's $2.175 billion current projected cost has already been paid. Going forward, MSGE's near-term capital allocation priority is debt reduction, but management has stated that over the longer term it "will evaluate all options, including return of capital." We believe that MSGE's attractive business and recurring/contracted revenue business model will enable it to quickly delever so that it can begin returning capital to shareholders. Our belief in the Company's ability to begin returning value to shareholders sooner rather than later is reinforced by Old MSGE's announcement in March 2023 that it had authorized a $250 million share buyback (15% of MSGE's current market cap) for the live entertainment business (New MSGE) following the completion of the spinoff. We also believe that regular dividends and/or special dividends could be possible. Indeed, we would not be surprised if the Company were to use the same playbook it has recently deployed at MSGS to help unlock shareholder value, including a robust return of capital to shareholders. (And we note that MSGS's share price has increased by 46% since it announced its capital return plan in October 2022, versus an 11% increase in the S&P 500.)

Free Cash Flow

We believe that MSGE's FCF is poised to accelerate, as the Company's venues are now operating at full capacity in what is (hopefully) a post-COVID-19 environment. MSGE's recurring revenue and capital-light business model enable it to throw off strong levels of FCF (depreciation and amortization have also significantly exceeded annual capital requirements, as discussed hereafter), which it will use to pay down debt while simultaneously bolstering future FCF (reduced interest expenses). In addition to the benefit from the core operations and reduced interest expense, a recent restructuring completed by Old MSGE is expected to generate "meaningful" synergies and should also buoy MSGE's FCF going forward.

Historical MSGE D&A vs. Capex

	2020	2021	2022
D&A	$81.6	$71.6	$69.5
Capex	$29.6	$10.3	$15.8

MSGE FCF Summary ($MM) *AAF* Projections

	FY 2023E	FY 2024E	FY 2025E
FCF	$79	$84	$100
% Growth		*7.0%*	*19.3%*
FCF Yield	4.9%	5.3%	6.3%
Leverage (net debt/EBITDA)	4.2x	3.4x	2.5x

Sphere Entertainment Co.

Amid the uncertainty surrounding the MSG Sphere project, it is no surprise that the larger discount to intrinsic value is currently seen at Sphere Entertainment. However, as the completion of The Sphere nears (expected to open in September 2023) and further announcements are made about the venue, including a potential naming rights partner, the discount between SPHR's share price and our estimate of its intrinsic value should narrow. The following developments gives some idea of The Sphere's operating momentum to date:

- **Formula One:** In May 2022, The MSG Sphere signed a multiyear partnership with Formula 1, which will begin with the 2023 inaugural Las Vegas Grand Prix. As part of the agreement, F1 will have significant access to the venue and grounds to welcome thousands of race fans and will be able to use The Sphere's exterior LED displays for race-related content, activations, and advertising. F1's entry into Las Vegas is a strong vote of confidence for the market as a key destination for sports and entertainment events. What's more, The MSG Sphere's prime positioning on the race circuit should help increase The Sphere's visibility to a global audience.

- **U2:** In February 2023, U2 revealed in a Super Bowl commercial that it will provide the opening act for The Sphere, titled "U2:UV Achtung Baby Live at The Sphere." The U2 shows at The Sphere will be the band's first live outing in 4 years. The band initially scheduled 5 shows at The Sphere but shortly after announcing the dates added an additional 7 shows in response to "overwhelming demand"; as this report went to press, the band is now scheduled for 17 total shows. Ticket prices for the show range from $140 to $500 on Ticketmaster, via the Company's website.

- **Sphere Experiences:** In April, MSG Sphere announced "Sphere Experiences" as one of the core content categories that will feature at The Sphere, utilizing the venue's next-generation technology to provide an "immersive" experience. The first Sphere Experience will be entitled "Postcard from Earth." Each Sphere Experience will be approximately 60 minutes long, with productions scheduled to run multiple times per day year-round. Tickets for the first show cost $69-$199, with other showings costing $49-$129, depending on date and time (for up to four showings per day). To date, very few tickets have been sold for the "Postcard from Earth" shows (even the inaugural one), though we expect more active marketing of the performance as the opening of The Sphere approaches. Certainly this is a development worth monitoring. We also note that Sphere Experiences is currently selling shows for almost every day through April 2025 except the U2 concert dates, the dates around the Formula One race, and the week of the 2024 Super Bowl, which is being held in Las Vegas. The Sphere Experiences online storefront does state that "All prices, dates and times are subject to change"—presumably to give the venue flexibility to fill in major acts, but the Company's preemptive scheduling of Sphere Experience shows for virtually every day between now and 2025 may indicate that major acts have been slow to sign up, which could suggest a bit of a ramp-up before The Sphere achieves our base case level of profitability.

MSG Sphere Venue Overview Potential Profitability

The Company's first MSG Sphere, a next-generation concert/entertainment venue, is nearing completion. The MSG Sphere at the Venetian, which is located adjacent to the Strip in Las Vegas, will utilize cutting-edge technologies to create immersive experiences on an unprecedented scale. Key design features of the venue include the following:

- The 580,000-square-foot fully programmable LED exosphere, the world's largest LED screen

- An interior bowl featuring the highest-resolution LED screen ever built, with more than 160,000 square feet of immersive display surface (larger than three football fields)

- An advanced acoustics system featuring more than 160,000 speakers and beamforming technology that will deliver crystal-clear audio and provide unique directional listening experiences

- Multisensory technologies, including an immersive seating system that uses deep vibrations to help guests "feel" the experience, along with environmental effects such as temperature and scent

- An advanced architecture for connectivity that will support a broad range of content, encourage interaction among guests, and enable immersive entertainment experiences

SPHR management believes that the venue and its technologies will create a powerful platform, making The MSG Sphere the venue of choice for a wide variety of content, including original immersive attractions, concerts, residencies, and corporate and marquee events. Much of The Sphere's future success will likely be tied to the development of proprietary content that capitalizes on the venue's state-of-the-art technologies. To aid in the development of proprietary content at The Sphere, SPHR has created MSG Sphere Studios in Burbank California to develop, record, and produce content for MSG Sphere. As already noted, in April 2023 SPHR announced its first proprietary production for The Sphere, which will debut in fall 2023.

Beyond proprietary content, concerts, including residencies, are expected to be instrumental in the venue's utilization and profitability, and indeed The Sphere's capabilities should be particularly appealing to artists; U2, for example, was particularly impressed with its recent tour of The MSG Sphere.[1] As already noted, legendary rock band U2 is slated to be The Sphere's opening act (and first residency), and we believe that additional performances and/or residencies will be added in the coming months, which could serve as a potential catalyst in unlocking shareholder value. Management has previously stated that it is targeting four to six residencies per year.

Sponsorships and naming rights are expected to be a key source of the venue's profitability. However, few details have thus far been released beyond the aforementioned agreement with Formula One. In 2010, SPHR's predecessor, MSG, signed a 10-year sponsorship deal with JPMorgan Chase for The Garden worth about $30 million annually, which did not include naming rights. (In 2021 the deal was renewed, on undisclosed terms.) Naming rights for top stadiums have generally cost $10-$20 million annually, though outliers have included Crypto.com's deal for the former Staples Center (~$35 million annually), Scotiabank's deal for the basketball and hockey arena in Toronto (~$32 million annually), and SoFi's naming rights to the football stadium in LA (~$31 million annually).

Top Stadium Naming Rights Deals ($MM)

Stadium	Metro area	Sport(s)	Cost per year
Crypto.com Arena	Los Angeles		$35M
Scotiabank Arena	Toronto		32
SoFi Stadium	Los Angeles		31.3
Allegiant Stadium	Las Vegas		25
MetLife Stadium	New York City		20
Citi Field	New York City		20
Chase Center	San Francisco		20
AT&T Stadium	Dallas		19
UBS Arena	New York City		17.5

Note: Costs are based on maximum figures reported by news organizations and were identified for 86 out of 122 sponsored venues.
Data source: Stacker // Icons: Twitter
stacker

Source: Stacker.

We see no reason The MSG Sphere should not be able to bring in $35 million annually from naming rights, and we note that the venue's year-round utilization could help it command amounts well beyond those brought in by other top stadium deals. According to press reports, the Company is reportedly seeking a $50 million/year naming rights deal. In addition, the exterior of The Sphere will provide companies with a unique opportunity to showcase their brands, and The Sphere's visibility to the ~40 million people who visit Las Vegas annually (prepandemic; >40 million) could be highly sought after. Las Vegas hosts thousands of trade shows annually, including the well-known Consumer Electronics Show (CES), and advertisement on The Sphere's exterior could increase their visibility.

1. Apple Music, "U2 Tour Sphere in Las Vegas," April 24, 2023, https://youtu.be/w0-HNkh9JtY.

MSG Sphere Potential Profitability

Following we summarize our EBITDA projections for SPHR's MSG Sphere in Las Vegas using bear, base, and bull case scenarios. For a detailed breakdown of EBITDA by each scenario, see the appendix on page 29 of this report.

In our base case scenario, we estimate that the MSG Sphere in Las Vegas will generate $103 million in total EBITDA from three main revenues sources: proprietary events, marquee concerts, and sponsorship/advertising. We have not given The MSG Sphere credit for ancillary revenues (food, beverage, merchandise, etc.) within the proprietary events and marquee concert categories (which could provide upside to our projections). For these two categories, we have projected EBITDA based only on ticket sales to events.

MSG Sphere Las Vegas EBITDA Projections Summary ($MM)

Bear Case	
Proprietary Events	$5.9
Marquee Concerts	$11.4
Sponsorship/Advertising	$39.2
Total EBITDA:	**$56.5**

Base Case	
Proprietary Events	$29.6
Marquee Concerts	$21.8
Sponsorship/Advertising	$51.8
Total EBITDA:	**$103.2**

Bull Case	
Proprietary Events	$81.9
Marquee Concerts	$35.4
Sponsorship/Advertising	$64.4
Total EBITDA:	**$181.7**

- **Proprietary events:** In our base case scenario, we forecast that proprietary events will run on 70% of available weekdays and that The Sphere will host two screenings per day at an average ticket price of $100, with attendance of 6,500. For comparison, we note that tickets for the Christmas Spectacular average $120-$140. We project that the Company will be able to generate a 12.5% margin on this revenue, which we note is below the ~18% EBITDA margin that MSGE expects its traditional entertainment business to achieve in FY 2023. The Company believes that its original immersive attractions, which will run multiple times per day, will enable the MSG Sphere in Las Vegas to become the most highly utilized venue in its portfolio.

- **Marquee concerts:** We project that The Sphere will hold 78 marquee concerts on weekends throughout the year, or ~75% of available weekend days. We apply a lower margin (10%) to the concert revenue stream than the proprietary events revenue stream, with proprietary events likely carrying higher margins since they feature owned content. During Old MSGE's 2Q FY 2023 earnings call, management noted that it is in "active discussions" with a number of artists about residencies at MSG Sphere and is targeting four to six headliners annually.

- **Sponsorship/advertising:** We project that SPHR will secure sponsoring of naming rights to The Sphere for an annual amount of $35 million. Although this is above the ~$10-$20 million historically garnered for high-profile arenas and stadiums in the U.S., The Sphere's unique attributes and potential for year-round utilization should help it garner significant interest. We also expect that The Sphere's exterior will be in high demand as a place for corporations to showcase their brands. We project that The Sphere will garner $750,000 per week throughout the year ($39 million annually) for this advertising inventory.

Within our base case scenario, we project that sponsorship will be the largest contributor to profitability, as this revenue component tends to produce very high margins. MSGE has a proven track record of generating significant sponsorship revenues. During FY 2023, New MSGE is expected to generate $238 million, or 28% of its revenues, from the sponsorship, signage, and suite categories. (We have not explicitly forecast suite revenues in our projection, but this could provide upside to our valuation.) During MSGE's 1Q FY 2023 earnings call, Old MSGE's CFO stated the following about The Sphere's sponsorship opportunities:

> *"The Sphere will have a tremendous amount of sponsorship opportunities and inventory capacity, just given its physical size, scale, and the digital exosphere. We are already speaking with potential corporate partners across all major industries and seeing healthy interest for suites and sponsorship opportunities.*
>
> *What's even more encouraging is that several of these Sphere sponsorship conversations—it's probably not a surprise—are with existing major sponsors at MSG Entertainment venues. So clearly companies recognize the value of event sponsorship for Sphere. Similar to The Garden, The Sphere will have a variety of sponsorship tiers ranging from*

lucrative founding partnerships to official partners, all the way to transactional campaigns that will tend to be shorter in duration.

And the inventory is meaningful—just think about the brand inclusion opportunities for the largest LED screen in the world—and there are a lot more, from traditional suites to our atrium, which is going to be incredible, to the immersive gallery spaces. And we keep saying—and I'll say it again—the exosphere will ultimately be covered with 580,000 square feet of fully programmable LED panels, which will be seen by not only the millions of people who visit Las Vegas or come to our events but really as an iconic landmark that offers tremendous opportunities for social content that reaches far beyond Las Vegas. It'll be a unique and powerful platform for brands, and we expect major sponsorship partner agreements to include exosphere inventory for sure.

I realize some of this is hard to visualize without either having seen The Sphere in person and experiencing it, but we anticipate strong demand for all the sponsorship and inventory opportunities, and just like our other venues, we will be creative in finding new and impactful inventory to utilize. We do feel very good about the sponsorship opportunities, especially in Vegas. It's the number one destination for entertainment, and in our opinion, Sphere will be the number one immersive experience that city offers, and companies and brands are going to want to be associated with this experience."

MSG Networks

Sphere Entertainment's MSG Networks business has continued to struggle as cord-cutting continues unabated. Viewing subscribers to the Company's two RSNs peaked at about 16 million a little over a decade ago before declining to about 10 million at the end of FY 2021, at which point the Company stopped disclosing the RSN subscriber count. Nevertheless, the business has been a strong cash generator for the Company, and its cash flow has been boosted by the ability to utilize certain SPHR tax attributes (NOLs, etc.). We estimate that MSGN generated ~$130 million in FCF during FY 2022.

MSGN Summary Results ($MM)

	FY 2020	**FY 2021**	**FY 2022**	**6 Mos. FY 2023**
Revenues	$686	$648	$608	$281
Adjusted Operating Income	$321	$292	$186	$72
AOI Margin	*46.9%*	*45.0%*	*30.5%*	*25.7%*

Although the business has faced significant pressure, a couple factors could stem the decline, including the upcoming launch of a standalone streaming product, a free ad-supported streaming television (FAST) channel, and the improved team performance of two of the key teams featured on the RSN: the Knicks and Rangers. MSG Networks announced in March that it is planning to launch its direct-to-consumer streaming product, MSG+, this summer. Consumers who do not subscribe to a traditional linear television package will now be able to subscribe to the DTC service by purchasing monthly and annual subscriptions, priced at $29.99 and $309.99, respectively, that will include all of the network's content (Knicks, Rangers, Islanders, Devils, and Sabres games as well as other live sports, events, and programming included on the networks in their area). Fans will also be able to purchase single games for $9.99, a capability currently not offered by any other RSN. MSG+ will also be available to all current pay-TV subscribers of MSG Networks, replacing MSG Go as the Company's authenticated streaming service.

Beyond MSG+, the Company also recently launched MSG SportsZone, a FAST channel that features a mix of original programming from the MSG Networks content library. In our view, the Company's digital initiatives, coupled with the resurgence of both the Knicks and Rangers, could help stem linear subscriber declines by making its content available to a new base of potential subscribers. What's more, although subscription revenue has been negatively impacted by subscriber declines, advertising revenue has been a bright spot, benefiting from the approval of online sports gambling in New York beginning in early 2022. Although advertising revenues represent just ~20% of MSG Networks' total revenues, they are growing rapidly (up ~30% in FY 2022) and should help offset declines from the traditional linear cable business.

Balance Sheet and Liquidity

SPHR is expected to have $330 million in cash following the separation, compared with estimated debt of ~$1.3 billion, for net debt of ~$1 billion. The Company's cash position and other sources of liquidity should enable it to fund the remaining cost of the first MSG Sphere, which we estimate was $261 at the time of the April 2023 spinoff. Although the project has been riddled with cost overruns thus far, the Company is well positioned to fund the remaining costs (including any potential increase in the final cost estimate) thanks to its strong liquidity position, which beyond its cash balance includes the following sources:

- Tao proceeds, expected to be ~$300 million after tax (transaction closed as this report was going to press)
- $65 million in capacity pursuant to a delayed draw term loan (DDTL) with New MSGE as the lender
- FCF generation from MSG Networks
- The Company's stake in MSGE, which we estimate is worth $775 million, based on our estimate of its intrinsic value, or ~$550 million at current market prices

In addition, as already noted, Old MSGE recently completed a restructuring that is intended to produce "meaningful" cost savings going forward. Old MSGE took a restructuring charge of $13.7 million in 2Q FY 2023, and Sphere Entertainment Co. is also expected to benefit from this cost savings initiative.

MSGE and SPHR Valuations

- ***MSG Entertainment:*** MSG Entertainment operates an attractive business model with recurring/contractual revenue streams that should generate strong levels of FCF. In valuing MSGE, we have applied a 15x multiple to the Company's projected 2023 EBITDA to obtain an intrinsic value estimate of $45 a share, representing 39% upside from current levels (reflects 67% ownership in MSGE). We believe that this approach is extremely conservative, for two reasons. Not only should the Company's EBITDA continue to expand going forward, due to growth opportunities and the ongoing tailwind from concert touring, but its iconic assets should also be extremely difficult to replicate. Peer Live Nation commanded an ~13x EV/EBITDA multiple, on average, for the 10 years preceding the pandemic, and we believe that MSGE's top-notch assets should command a premium. We would not be surprised if shares were to surpass our estimate of their intrinsic value in the coming years, especially as the Company delevers and begins repurchasing its shares and/or starts paying dividends or special dividends.

MSG Entertainment Corp. Estimate of Intrinsic Value ($MM)

MSGE @15x 2023E EBITDA	$2,250
Air Rights	$700
Net Debt	($625)
Equity Value	$2,325
MSGE Diluted Shares (includes MSGE shares held by SPHR)	51.6
Per Share	$45.08
% Upside	*38.91%*

- ***Sphere Entertainment:*** In valuing SPHR, we have applied a 14x multiple to our base case EBITDA. Taken together with the proceeds of the Tao sale, SPHR's 33% stake in MSGE (at our intrinsic value estimate), and our current net debt projection, along with our estimate of The Sphere's and MSGN's FCF over the next 2 years, we derive an intrinsic value of $47 a share, representing 56% upside from current levels. We believe that our base case EBITDA projection is conservative, and we would not be surprised if there were meaningful upside to our projection, which would drive significant upside in our intrinsic value estimate. We also note that the Company's stake in MSGE provides downside protection. Although The Sphere is an unproven concept and is not without its risks, the MSGE stake should provide some support for the shares. For example, If SPHR is able to generate nothing more than our bear case

EBITDA projection, we estimate that SPHR's valuation would approximate the current stock price. In short, we believe that Sphere Entertainment currently offers an attractive return/risk situation.

Sphere Entertainment Co. Estimate of Intrinsic Value

MSG Las Vegas Sphere EBITDA @14x 2025E EBITDA	$1,445
Tao Proceeds	$300
MSG Networks	$0
Net Debt	($983)
33% Stake in MSGE (at intrinsic value estimate)	$775
Sphere/MSGN FCF Generation (2024-2025)	$254
Remaining Construction Costs (at separation)	($261)
London Land	$100
Equity Value	$1,630
Diluted	34.71
Per Share	$46.97
% Upside	*55.5%*

Appendix: Sphere Profitability Projections

	Bear Case	Base Case	Bull Case
Proprietary Events			
Utilization (of weekdays)	50.0%	70.0%	80.0%
# of Events Days / # of Event Days	130	182	208
Events per Day	1	2	3
# Events per Year	130	364	624
Average Ticket Price	$75	$100	$125
Attendance	6,000	6,500	7,000
Revenues	$58,500,000	$236,600,000	$546,000,000
Margin	10.0%	12.5%	15.0%
Proprietary EBITDA:	**$5,850,000**	**$29,575,000**	**$81,900,000**
Marquee Concerts			
Utilization (of weekends)	65.0%	75.0%	80.0%
# of Events per Year	68	78	83
Average Ticket Price	$150	$175	$200
Attendance	15,000	16,000	17,000
Revenues	$152,100,000	$218,400,000	$282,880,000
Margin	7.5%	10.0%	12.5%
Concert EBITDA:	**$11,407,500**	**$21,840,000**	**$35,360,000**
Sphere Sponsorship			
Naming Rights	$30,000,000	$35,000,000	$40,000,000
Exterior Advertising:			
Weeks per Year	52	52	52
Advertising Fee per Week	$500,000	$750,000	$1,000,000
Advertising Fee per Year	$26,000,000	$39,000,000	$52,000,000
Total Sponsorship	$56,000,000	$74,000,000	$92,000,000
Margin	70.0%	70.0%	70.0%
Sponsorship EBITDA:	**$39,200,000**	**$51,800,000**	**$64,400,000**
Total EBITDA:	**Bear Case: $56,457,500**	**Base Case: $103,215,000**	**Bull Case: $181,660,000**