The Spin-Off Report

COMPREHENSIVE REPORT

March 20, 2023 2:00 PM EST

Madison Square Garden Entertainment Corp. (Pre-Spin) (BUY)

Current Share Price (3/17/2023): $53.90	Ticker: MSGE
Fair Value Estimate: $75 per share	Dividend: Nil
Shares Outstanding: 34.6 million	Yield: N/A
Market Capitalization: $1.9 billion	

MSG Sphere Corp.

Fair Value Estimate: $47 per share	Ticker: SPHR
Shares Outstanding: 34.6 million	Dividend: TBD
Market Capitalization: $1.6 billion	Yield: N/A

Madison Square Garden Entertainment Corp.

Fair Value Estimate*: $27 per share	Ticker: MSGE
Shares Outstanding*: 51.6 million	Dividend: TBD
Market Capitalization: $1.4 billion	Yield: N/A

TBD – To be determined. N/A – Not applicable.
* Fair value estimate and shares outstanding based on a one-for-one share distribution ratio.
Note: Market capitalization is based on fair value estimate for post-spin entities and current market cap for pre-spin MSGE.
Market capitalizations may not sum due to rounding.

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Institutional Research Group
Michael Wolleben
Robert Dunn

HORIZON KINETICS
Murray Stahl
Steven Bregman

PCS RESEARCH GROUP
Exclusive Marketers of The Spin-Off Report
PCS Research Group LLC · 88 Pine Street, Suite 3100 · New York, NY 10005 · (212) 233-0100 · pcsresearchgroup.com

INVESTMENT THESIS

Madison Square Garden Entertainment Corp. (NYSE: MSGE) plans on spinning off its traditional live entertainment business from the MSG Sphere, Tao Group, and Networks businesses. The spin-off would be accomplished via a pro-rata distribution, to both MSGE Class A and Class B common stockholders, of shares in the spin company, to be equivalent, in aggregate, to approximately two-thirds economic interest in the spin company. Following the transaction, the spin company will retain the MSG Entertainment corporate moniker. The parent company will be renamed MSG Sphere Corp. and will retain a one-third economic interest in the spin company. If completed, it is expected that the spin-off transaction would be tax-free to MSGE shareholders.

The live entertainment entity would include the company's portfolio of performance venues, including Madison Square Garden, Radio City Musical Hall, The Beacon Theater and The Chicago Theater, the entertainment & sports bookings business, and the Christmas Spectacular production. Meanwhile the parent would retain the MSG Sphere, which is a state-of-the-art entertainment facility being constructed at the Venetian Hotel in Las Vegas, NV (with expected completion in 2H 2023), a 67% interest in Tao Group Hospitality, which operates entertainment & dining brands, including Tao, Marquee, Lavo, Beauty & Essex, Cathedrale, Hakkasan and Omnia, along with the MSG Networks business, which owns two regional sports & entertainment networks, as well as an approximately 1/3 interest in the spin company. (Management suggests that the retained ownership in the SpinCo would be used for either a tax-free exchange offer for MSG Sphere common shares to raise capital or be distributed to MSG Sphere shareholders in a follow-on pro rata spin-off). It should be noted, for context, that the MSG complex has a long history of conducting tax-free spin-offs, most recently with the separation of MSG Sports (NYSE: MSGS) and MSGE in April 2020.

The proposed separation comes as MSGE nears the completion of its new state of the art Sphere arena in Las Vegas, Nevada, which was originally announced in 2018. The project's budget increased from an initial estimate of $1.2 billion to the current expected cost of approximately $2.2 billion. Management has made several key decisions in an effort to increase the cash flows necessary to fund the project; however. the company has also taken on an increased debt load to fund the project. Notably, MSGE was separated from the sports business in 2020, which resulted in a significant net cash balance to fund construction. Subsequently, the company acquired MSG Networks (in an all-stock deal), seemingly to harness its cash flow generation to further fund operations and construction. Nonetheless, given the significant negative impact the COVID-19 pandemic had on MSGE's operations, the company now carries a significant net debt position.

The proposed spin-off will separate the fairly stable entertainment and bookings business along with the highly valuable Madison Square Garden arena, from a business that is in transition as it looks to stabilize subscriber count at Networks and an unproven Sphere arena. (Management has indicated it is looking to sell its ownership position in Tao).

On a pre-spin, sum-of-the-parts basis, we assign a fair value estimate of $75 per share to Madison Square Garden Entertainment Corp. Our fair value estimate includes $34 per share in value from the parent company (MSG Sphere), and $41 per share in value derived from New MSGE. Given the implied upside from the current share price, combined with our view that MSGE's assets are undervalued within the current corporate structure, we recommend shares of MSGE prior to the spin-off. Following the separation, we expect investor skepticism surrounding MSG Sphere's as yet unproven ability to drive profitable revenue at the Las Vegas Sphere will likely weigh on shares, at least initially. That said, we think longer term investors that believe in the Sphere concept could see significant returns over time if the company is able to execute on its strategy to maximize utilization at the facility.

COMPANY DESCRIPTION

Madison Square Garden Entertainment Corp. (NYSE: MSGE) became a publicly traded company in April 2020 when The Madison Square Garden Company (formerly NYSE:MSG) spun off its entertainment businesses from its sports businesses. (The parent company, MSG, subsequently changed its corporate moniker to Madison Square Garden Sports Corp. [NYSE: MSGS]).

For context, The Madison Square Garden Co. was first publicly traded in 2010 following its spin-off from Cablevision Systems Corp. (previously trading on the NYSE under the symbol "CVC"), which was acquired by Altice NV in 2016. At the time, MSG controlled various sports and entertainment franchises, including the National Basketball Association's (NBA) New York Knicks and the National Hockey League's (NHL) New York Rangers. In addition, the company owned and/or operated a number of entertainment venues, including Madison Square Garden Arena (The Garden), the Hulu Theater at Madison Square Garden, Radio City Music Hall, The Beacon Theatre (New York City), The Chicago Theatre, the Wang Theatre (Boston), and the Forum (Inglewood, California) while also producing and promoting various live events, including the Radio City Christmas Spectacular starring the Rockettes.

CVC was established during the 1960s, when founder Charles Dolan began building out cable systems in Manhattan as well as launching the Home Box Office (HBO) cable channel, both of which were ultimately sold to Time Life Inc. Subsequently, Mr. Dolan funneled the proceeds from the sale into new cable systems throughout Long Island under the Cablevision brand name. Through a series of transactions, CVC expanded its cable systems across the country and began investing in other assets.

James Dolan, the current Chairman and CEO of MSGE, is the son of Cablevision founder Charles Dolan. MSGE has a dual class structure where Class B shares carry 10 votes per share and are entitled to elect 75% of the Board of Directors. Class A shares have one vote per share and elect the remaining 25%. Class B shares do not trade; as of December 31, 2022, the Class B shares are 100% owned by the Dolan Family Group, which also owns 5.5% of Class A shares.

As MSGE is currently structured, the company reports results under three operating segments: 1) Entertainment; 2) MSG Networks; and 3) Tao Group Hospitality.

Entertainment consists of MSGE's portfolio of owned and operated (primarily under long-term leases) performance venues, originally created productions along with the bookings business. Venues include Madison Square Garden ("The Garden"; owned), Hulu Theater at Madison Square Garden ("Hulu Theater"; owned), Radio City Music Hall (leased until August 31, 2038), the Beacon Theatre (leased until December 31, 2036), and The Chicago Theater (owned). Additionally, the company is currently in the process of building its state-of-the-art performance venue in Las Vegas, Nevada, which will be called the MSG Sphere (discussed later in this report). Original performances primarily consist of the Christmas Spectacular Starring the Radio City Rockettes ("Christmas Spectacular"). The bookings business books owned and leased venues for entertainment and sporting events. For entertainment events, including music concerts, comedy shows, family shows, etc., MSGE primarily licenses company venues to third-party promoters for a fee, while also, to a lesser extent, promoting or co-promoting shows. (Promotion and co-promotion engagements involve higher economic risk as compared with fee-based licensing deals.) For Sports, the company has long-term Arena License Agreements with Madison Square Garden Sports Corp. (NYSE: MSGS) for the NY Knicks and NY Rangers to play home games at The Garden. Additionally, the company promotes, produces, and presents other sporting events including college basketball and hockey, professional bull riding, wrestling, and professional darts, amongst others.

Revenue is derived from ticket sales, license fees from third party promoters, facility & ticketing fees, concessions, sponsorship & signage, suite license fees at The Garden, and merchandising. Entertainment generated $655.4 million in revenue and operated at a loss of $118.4 million in F2022 (June year-end), representing an increase of 36% in revenue and a 50% lower operating loss when compared to F2021. F2021, and to a degree F2022, Entertainment results were significantly impacted by restrictions on public gatherings due to the COVID-19 pandemic, with the F2022 increase in revenue being driven by live event-related revenue. Through 1H F2023, segment sales have increased by 79% versus the prior year period driven by a full return of The Christmas Spectacular, an improvement in suite license fee pricing, and an increase in the number of live events at company venues (see Exhibit 1).

Exhibit 1 Madison Square Garden Entertainment Corp.: Entertainment Segment Historical Results

($ in thousands)

	F2020 Year Ended June 30, 2020	F2021 Year Ended June 30, 2021	F2022 Year Ended June 30, 2022	Six Months Ended 31-Dec-21	Six Months Ended 31-Dec-22
Revenues	585,208	82,281	655,392	281,849	503,620
Direct operating expenses	388,643	103,089	420,305	(183,645)	(282,807)
Selling, general and administrative expenses	282,043	268,705	394,551	(184,478)	(212,923)
Depreciation and amortization	84,289	80,142	77,177	(38,680)	(41,204)
Impairment and other (gains) losses, net	-	-	(245)	-	7,412
Restructuring charges	-	21,299	14,238	-	(9,694)
Gain on disposal of assets held for sale	(240,783)	-	-	-	-
Operating income (loss)	71,016	(390,954)	(250,634)	(124,954)	(35,596)
Reconciliation of operating loss to adjusted operating loss:					
Operating income (loss)	71,016	(390,954)	(250,634)	(124,954)	(35,596)
Add back:					
Non-cash portion of arena license fees from MSG Sports	-	(13,026)	(27,754)	(11,889)	(12,929)
Share-based compensation expense	41,227	47,633	47,813	26,298	23,945
Depreciation and amortization	84,289	80,142	77,177	38,680	41,204
Restructuring charges	-	21,299	14,238	-	9,694
Impairment and other (gains) losses, net	-	-	(245)	-	(7,412)
Gain on disposal of assets held for sale	(240,783)	-	-	-	-
Merger and acquisition related costs	-	16,080	20,834	15,448	2,693
Amortization for capitalized cloud computing costs	-	-	95	7	268
Remeasurement of deferred compensation plan liabilities	-	-	46	-	6
Adjusted operating income (loss)	(44,251)	(238,826)	(118,430)	(56,410)	21,873
Other information:					
Capital expenditures	448,944	448,962	732,891	299,756	546,461

Source: Company reports.

MSG Networks ("Networks") operates regional sports networks (RSN), including MSG Network, and MSG+, a streaming app MSG GO, as well as other digital properties. Networks focuses on the New York Designated Market Area and has exclusive live event content that includes programing related to the New York Knicks, New York Rangers, New York Islanders, New Jersey Devils, and the Buffalo Sabres. Additional programming content includes significant coverage of the National Football League's (NFL) New York Giants and Buffalo Bills. MSG Networks was acquired in July 2021 for $1.6 billion in MSGE stock. Notably, in 2015, a predecessor to MSGE, which contained the current MSGE operations, as well as the sports franchise business contained in the current Madison Square Garden Sports Corp. (NYSE: MSGS), spun off the sports and entertainment business, creating MSG Networks as a standalone publicly traded company. Subsequently, the Sports and Entertainment company separated into two new companies in April 2020, prior to MSGE re-acquiring the Networks business.

Revenue is generated from affiliation fees (paid by distributors such as cable companies to carry the RSN channels), and advertising revenue. Networks generated $608.2 million in revenue and $185.8 million in EBITDA in F2022, representing a 6% and 36% respective decline versus F2021. The decline in revenue and profitability was attributed to a non-renewal of carriage agreements with Comcast Corp. (NASDAQ: CMCSA), which was partially offset by increased advertising revenue as live sports broadcasts returned following the easing of COVID-19 restrictions. Through 1H F2023, segment sales have decreased by 7% on lower affiliation fee revenue (i.e., Comcast) and an approximate 10% decrease in subscriber count (excluding the Comcast impact). Lower affiliate fees were only partially offset by an increase in advertising revenues (see Exhibit 2).

Exhibit 2 Madison Square Garden Entertainment Corp.: MSG Networks Segment Historical Results

($ in thousands)

	F2020	F2021	F2022	Six Months Ended	Six Months Ended
	Year Ended June 30, 2020	Year Ended June 30, 2021	Year Ended June 30, 2022	31-Dec-21	31-Dec-22
Revenues	685,797	647,510	608,155	301,454	281,377
Direct operating expenses	282,837	262,859	320,278	(154,347)	(165,820)
Selling, general and administrative expenses	100,829	115,339	147,007	(85,167)	(55,899)
Depreciation and amortization	7,163	7,335	9,394	(3,553)	(3,255)
Restructuring charges	-	-	452	-	(3,988)
Operating income (loss)	294,968	261,977	131,024	58,387	52,415
Reconciliation of operating loss to adjusted operating loss:					
Operating income (loss)	294,968	261,977	131,024	58,387	52,415
Add back:					
Share-based compensation expense	19,235	17,667	17,092	13,532	5,002
Depreciation and amortization	7,163	7,335	9,394	3,553	3,255
Restructuring charges	-	-	452	-	3,988
Merger and acquisition related costs	-	4,502	27,683	24,075	7,445
Amortization for capitalized cloud computing costs	-	176	176	88	88
Adjusted operating income (loss)	321,366	291,481	185,821	99,635	72,193
Other information:					
Capital expenditures	2,814	3,853	3,673	2,049	3,892

Source: Company reports.

Tao Group Hospitality (“Tao”) comprises the company’s 67% ownership of TAO Group Holdings LLC. Tao Group owns and operates a myriad of dining and nightlife brands including Tao, Marquee, Lavo, Beauty & Essex, Cathedrale, Hakkasan, and Omnia. Tao’s portfolio includes over 70 branded locations within 60 venues in over 20 markets across four continents. Major markets include New York City, Las Vegas, Southern California, London and Singapore, amongst others.

Revenue is derived from the sale of food, beverage, and services provided to venue patrons. Tao revenue significantly rebounded in F2022 to $484.9 million as COVID-related capacity and gathering restrictions that previously stifled Tao operations during F2021 were largely lifted as the year progressed. Additionally, in April 2021, the company acquired Hakkasan USA Inc., which included 31 venues and added approximately $174 million in revenue during F2022. Through 1H F2023 segment sales have increased by 14% as the company opened new venues and increased same-store sales at existing venues, as well as continued to re-opened venues that were closed as a result of COVID-19 (see Exhibit 3). Notably, On February 6, 2023, MSGE issued a press release stating that the company was exploring a potential sale of its majority interest in Tao Group Hospitality.

Exhibit 3 Madison Square Garden Entertainment Corp.: Tao Group Hospitality Segment Historical Results
($ in thousands)

	F2020 Year Ended June 30, 2020	F2021 Year Ended June 30, 2021	F2022 Year Ended June 30, 2022	Six Months Ended 31-Dec-21	Six Months Ended 31-Dec-22
Revenues	180,201	100,166	484,947	236,550	268,645
Direct operating expenses	116,638	66,591	264,641	(121,973)	(153,060)
Selling, general and administrative expenses	63,049	54,034	160,991	(74,779)	(86,712)
Depreciation and amortization	8,156	8,955	26,021	(12,621)	(12,246)
Impairment and other (gains) losses, net	94,946	-	(3,969)	(375)	473
Operating income (loss)	(102,588)	(29,414)	37,263	26,802	17,100
Reconciliation of operating loss to adjusted operating loss:					
Operating income (loss)	(102,588)	(29,414)	37,263	26,802	17,100
Add back:					
Share-based compensation expense	963	5,284	7,647	3,869	4,426
Depreciation and amortization	8,156	8,955	26,021	12,621	12,246
Impairment and other (gains) losses, net	94,946	-	(3,969)	375	(473)
Merger and acquisition related costs	-	3,638	247	-	-
Adjusted operating income (loss)	1,477	(11,537)	67,209	43,667	33,299
Other information:					
Capital expenditures	3,482	3,192	23,309	11,271	11,455

Source: Company reports.

In addition to the above noted segments, MSGE also owns equity investments in digital sports gambling website DraftKings Inc. (NASDAQ: DKNG; ~869,000 shares) and Townsquare Media Inc. (NYSE: TSQ; ~3.1 million shares).

MSG Spheres

MSG first announced intentions to build a "groundbreaking new venue" in Las Vegas, Nevada, in May of 2016. While details were sparce at the time, in May of 2018 the concept of the MSG Sphere began being detailed with management describing the concept as "the next generation of immersive experiences" that would "revolutionize the way artists and audiences connect." The venue's cutting-edge video, acoustical, and connectivity technologies will enable the creation of multi-sensory environments on an unprecedented scale, making MSG Sphere the go-to platform for anyone who wants to share their vision, including musicians, artists, storytellers, as well as companies." Initial plans called for the initial MSG Sphere to be built in Las Vegas with groundbreaking in summer 2018 and a goal of opening by the end of calendar 2020. Additionally, the company also disclosed plans to build a second MSG Sphere in London, with a goal of opening approximately one year after the Las Vegas project's completion. (The company had already purchased a five-acre site next to Westfield Stratford City Shopping Center at the time.)

Given an evolving construction plan/timeline, the Las Vegas Sphere is now scheduled to open by year-end calendar 2023 with a projected final construction cost of $2.175 billion. (MSGE management increased its budget several times since announcing its initial $1.2 billion projection in August 2019.) The debut performance at the Las Vegas Sphere is scheduled to be made by rock band U2 beginning in September 2023. It has been reported in the press that the band will receive at least $12 million for the twelve shows currently scheduled to be performed. (MSGE has made little to no progress on its planned London Sphere, and now indicates it will likely take a capital light approach to future Spheres and enter into licensing agreements or managed facility agreements moving forward.)

The prolonged construction timetable and seemingly ever-increasing budget have led to challenges in allocating capital for MSGE. It is notable that the initial Sphere announcement was made while MSGS and MSGE were still a combined company. Management likely chose to separate the two entities in an attempt to increase capital flexibility via a 1/3 retained ownership stake in MSGS by MSGE. (The planned ownership structure was eventually scrapped in favor of a 100% spin-off, given tax concerns). MSGE was spun-off with approximately $1 billion in cash and virtually no debt. MSGE's acquisition of MSGN was another financial flexibility move made given MSGN's free cash flow profile (the acquisition was made via an all-stock transaction). Since becoming a standalone entity, MSGE's debt balance has increased to ~$2 billion, or $1.4 billion on a net basis (see Exhibit 4).

Exhibit 4 Madison Square Garden Entertainment Corp.: Historical Net Debt and Cap Expenditures
($ in millions)

	Q1 2021	Q2 2021	Q3 2021	Q4 2021	Q1 2022	Q2 2022	Q3 2022	Q4 2022	Q1 2023	Q2 2023
Cash	925.8	1,451.4	1,277.7	1,517.0	1,331.5	1,258.1	999.1	846.0	458.9	553.7
Debt	32.2	654.6	661.4	1,704.6	1,676.4	1,663.2	1,650.1	1,743.1	1,738.8	1,987.8
Net Debt (Cash)	(893.5)	(796.8)	(616.3)	187.6	345.0	405.1	651.0	897.1	1,279.9	1,434.0
Capital Expenditures	(112.1)	(109.8)	(102.8)	(131.4)	(137.3)	(175.8)	(203.4)	(240.2)	(270.1)	(288.7)

Source: Bloomberg.

Proposed Spin-Off

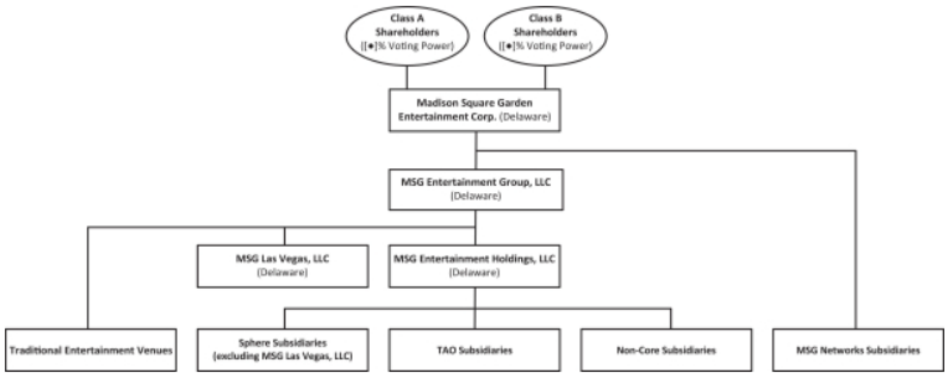
In August 2022, the company announced that its Board of Directors had approved the exploration of a potential tax-free separation of its traditional live entertainment business from its MSG Sphere and Tao Group Hospitality businesses. On October 27, 2022, after the market close, Madison Square Garden Entertainment Corp. announced that it had revised its spin-off plan to separate its traditional live entertainment business and MSG Networks business into a separate company and had confidentially filed a Form 10 with the SEC. On December 6, 2022, the company again revised its spin-off plan to now separate its traditional live entertainment from the MSG Sphere, Tao Group, and Networks businesses. Management cited the revised plan as being optimal for creating shareholder value while enhancing post-spin operational flexibility.

The spin-off would be accomplished via a pro-rata distribution to both MSGE Class A and Class B common stockholders, of shares in the spin company, which will retain the MSG Entertainment corporate moniker, to be equivalent, in aggregate, to approximately a two-thirds economic interest in the spin company. Following the spin, the parent company will be renamed MSG Sphere Corp. and will retain a one-third economic interest in the spin company. If completed, it is expected that the spin-off would be tax-free to MSGE shareholders.

Following the separation, New MSG Entertainment would control the portfolio of venues (i.e., The Garden, Hulu Theatre, Beacon Theatre, and The Chicago Theatre), the Christmas Spectacular, along with the entertainment and sports bookings business, as well as the previously noted equity investments. MSG Sphere will control the still under construction Sphere venue, the Tao ownership, and the MSG Networks business (see Exhibits 5 and 6)

Exhibit 5 Madison Square Garden Entertainment Corp.: Pre-Spin Corporate Structure

Before the Distribution:



Source: Company reports.

Exhibit 6 Madison Square Garden Entertainment Corp.: Post-Spin Corporate Structures

After the Distribution:

Source: Company reports.

On a pro-forma basis, New MSGE generated $653.5 million in revenue and $11.6 million in adjusted operating income (see Exhibit 7). New MSGE will report under one operating segment.

Exhibit 7 New Madison Square Garden Entertainment Corp.: Historical Operating Results
($ in thousands, except per share data)

	Historical					Pro Forma Combined	
	Years Ended June 30,			Six Months Ended December 31,		Year Ended June 30, 2022	Six Months Ended December 31, 2022
	2020	2021	2022	2021	2022		
Operating Data:							
Revenues	584,601	81,812	653,490	281,162	502,332	653,490	502,332
Operating income (loss)	225,332	(237,288)	(5,648)	(15,931)	102,134	(70,162)	76,846
Net income (loss)	170,659	(219,308)	(136,200)	(58,369)	78,807	(202,831)	52,466
Less: Net loss attributable to nonredeemable noncontrolling interests	(1,071)	(694)	(2,864)	(367)	(553)	(2,864)	(553)
Net income (loss) attributable to Spinco's stockholders	171,730	(218,614)	(133,336)	(58,002)	79,360	(199,967)	53,019
Other Financial Data:							
Reconciliation of Operating income (loss) to Adjusted operating income (loss):							
Operating income (loss)	225,332	(237,288)	(5,648)	(15,931)	102,134	(70,162)	76,846
Non-cash portion of arena license fees from MSG Sports (a)	-	(13,026)	(27,754)	(11,889)	(12,929)	(27,754)	(12,929)
Share-based compensation expense	26,110	40,663	37,746	21,079	13,965	34,802	12,104
Depreciation and amortization	81,591	71,576	69,534	33,159	31,571	69,534	31,571
Restructuring charges	-	14,691	5,171	-	7,359	5,171	7,359
Gains, net on dispositions	(240,783)	-	-	-	(4,412)	-	(4,412)
Amortization for capitalized cloud computing arrangement costs	-	-	-	-	104	-	104
Remeasurement of deferred compensation plan liabilities	-	-	46	-	6	46	6
Adjusted operating income (loss)	92,250	(123,384)	79,095	26,418	137,798	11,637	110,649

Source: Company reports.

VALUATION ANALYSIS

New MSG Entertainment: Post-Spin Valuation

Regarding MSGE's Entertainment segment, with stable attendance, minimal re-investment requirements, and double-digit margins, we view the Christmas Spectacular and Bookings businesses as highly valuable assets for new MSGE. However, we note that there is no direct comparison for valuation. In F2022, the Entertainment business generated $653.5 million in revenue and adjusted operating income of $11.6 million on a pro-forma basis. Through 1H F2023 the business generated $502.3 million in sales and adjusted operating income of $110.6 million, representing a 22% margin. The 1H F2023 increase in profitability was a result of favorable comparisons to 1H F2022, which were still impacted from COVID-19 restrictions. Assuming flat 2H F2023 revenue compared to 2H F2022, and normalized growth of 3% in F2024, we estimate that the company would record revenue of $875 million in F2024. Modelling a 4% margin, slightly above the new company's pro-forma results disclosed in the most recent 10-K filing, yet below pre-pandemic levels for the former Entertainment segment, we estimate that the business would generate $35 million in EBITDA in F2024. Valuing the business at 11.0x implies an enterprise value of $385 million for the operating businesses of New MSG Entertainment. Our 11.0x multiple is a slight discount to Live Nation Entertainment Inc.'s (NYSE: LYV) 10-year average of 12.1x (excluding the pandemic-impacted 2Q 2020- 4Q 2021 period).

The Entertainment business presents or hosts live events, such as concerts, shows, and other events, at its portfolio of owned and leased venues. MSG Entertainment primarily licenses its venues to third-party promoters for a fee (but in some cases takes on the incremental economic risk of promotion). As well, the company collects facility and ticketing fees and generates revenue from concessions, sponsorships, and merchandise. Among its real estate assets, Madison Square Garden, located between 31st and 33rd Streets and 7th and 8th Avenues in Midtown Manhattan, has been dubbed "The World's Most Famous Arena." The complex, which includes both The Garden and the Hulu Theatre, was appraised at $1.2 billion by the New York City Independent Budget Office in a May 2014 tax assessment. While some analysts have suggested that the property is worth closer to $2 billion, and would cost approximately $8 billion to rebuild, we view a $1.6 billion estimate as appropriate given the dependance on the bookings business.

Additionally, New MSG Entertainment will also own approximately $40 million in equity investments, carry $615 million in net debt, and will have 51.6 million shares outstanding when accounting for the 1/3 ownership interest that the parent company, MSG Sphere, will retain. Incorporating net debt and expected shares outstanding, we fairly value shares of New MSG Entertainment at $27 per share (see Exhibit 8).

Exhibit 8 New MSG Entertainment: Operating Businesses Valuation Based on F2024E EBITDA

($ in millions, except per share data; shares in millions)

F2022 Revenue	653.5
Growth	30.0%
F2023E Revenue	849.6
Growth	3.0%
F2024E Revenue	875.0
Margin	4.0%
EBITDA	35.0
Multiple	11.0x
Operating Value	385.0
Madison Square Garden	1,600.0
Equity Stakes	39.9
Enterprise Value	2,024.9
Net Debt	614.7
Market Capitalization	1,410.3
Shares Outstanding	51.6
FVE $ / Share	**$ 27.35**

Source: Company reports, Bloomberg, and *The Spin-Off Report* estimates.

This analysis does not include any value for the so-called air rights, which are also known as development rights and refer to the transferable allowances of potentially buildable space, most commonly applying to the space above a building that could be used for additional construction. While MSG management implicitly concedes that its air rights have substantial value, it is quite cagey about the potential timing and magnitude of any monetization; thus, we exclude air rights from our valuation but urge investors to be cognizant of their potential as a valuable source of upside optionality. For context, we have seen estimates suggesting MSG could have 2.4-5.4 million square feet of potential development rights, and we note that, according to real estate firm Hauseit, air rights generally range between $200 and $400 per square foot with values in prime locations, such as the High Line, Hudson Yards, and Times Square, in the $400-$800 per square foot range. This suggests to us that even at a conservative $250 per square foot, MSG's air rights alone could be valued at more than $600 million, or ~$11 per share based on New MSGE's shares outstanding. The most likely purchaser of MSG's air rights would be Vornado (NYSE: VNO), which owns extensive property around the current Garden and whose CEO has expressed interest in purchasing the air rights. VNO's vested interest in the West Side likely makes MSG's air rights more valuable in the event of a sale, while proceeds could be used to help finance a new venue.

MSG Sphere: Post-Spin Valuation

MSG Sphere will initially control two operating businesses, MSG Networks and Tao Hospitality Group (67% ownership interest in the consolidated results), the still unfinished Las Vegas Sphere project, and 1/3 economic interest in New MSG Entertainment. Networks was purchased for $1.6 billion in July 2021 ($823 million in MSGE shares and the assumption of $747 million in net debt). Notably since the acquisition, Networks lost its contract with Comcast, and the trend of "cord-cutting" has continued to pressure subscriber counts. The company has recently announced that Networks streaming service is developing a "state-of-the-art" streaming platform that the company believes will help stabilize its revenue base with features not found on other RSN platforms, including the ability to purchase a single game of a customer's favorite local team. Based on published trailing results at the time of the acquisition announcement, the acquisition price equated to 4.9x EBITDA.

Networks generated $608.2 million in revenue in 2022, and we forecast an 8% decline in F2023, followed by a 4% decline in F2024. The improvement in the revenue decline is largely attributable to lapping of the Comcast expiration. Since the acquisition, segment margins have approximated 27%. Assuming 27% margins in F2024, the Networks business would generate EBITDA of $145 million. Valuing Networks at 5.0x, we estimate Networks value at $725 million (see Exhibit 9).

Exhibit 9 MSG Sphere: Networks Segment Valuation Based on F2024E EBITDA

($ in millions, except per share data; shares in millions)

F2022 Revenue	608.2
Growth	-8.0%
F2023E Revenue	559.5
Growth	-4.0%
F2024E Revenue	537.1
Margin	27.0%
EBITDA	145.0
Multiple	5.0x
Enterprise Value	725.1

Source: Company reports, Bloomberg, and *The Spin-Off Report* estimates.

Tao Group Hospitality is currently in the process of being sold. The business, of which MSGE owns 67%, generated $484.9 million in revenue in F2022, and operated with a 13.8% EBITDA margin, which benefited from the incorporation of Hakkasan's higher margin clubs. Assuming 8% revenue growth in F2023, and a more normalized 3.0% growth in F2024, we forecast TAO to generate $539.5 million in revenue in F2024. Assuming EBITDA margins of 12%, the TAO segment would generate $64.7 million in EBITDA in F2024. We view the best public comparisons to the company being full-service restaurants that have a similar margin profile, which trade in a range of 9x-13x. Valuing the segment at the low end of this peer set implies a $582.6 million enterprise valuation for the business (see Exhibit 10).

Exhibit 10 MSG Sphere: TAO Group Segment Valuation Based on F2024E EBITDA

($ in millions, except per share data; shares in millions)

F2022 Revenue	484.9
Growth	8.0%
F2023E Revenue	523.7
Growth	3.0%
F2024E Revenue	539.5
Margin	12.0%
EBITDA	64.7
Multiple	9.0x
Enterprise Value	582.6
Ownership Interest	67%
Value to MSGE	390.35

Source: Company reports, Bloomberg, and *The Spin-Off Report* estimates.

The most difficult portion of the parent company's valuation is assigning a value to the physical Sphere arena, which has yet to open. As a base case, investors could look to the cost to build, which is currently projected at ~$2.2 billion. That said, it is difficult to justify that this full value would be assigned at the time of the separation given that it is still unclear what the initial year's returns will be due to limited information about the extent of the facility's utilization aside from the previously announced U2 concerts. Management has stated that it is developing shows that can run multiple times a day and has been in talks with other headliner acts to maximize returns. In general, the company targets returns of approximately 20%, which would imply EBITDA of $440 million per year. (Notably no return figure has been explicitly stated for the Las Vegas Sphere.) For our part, we think it is more reasonable to project returns closer to 10% given initial under-utilization, which implies adjusted EBITDA of $220 million would be generated. If valued at 5x, an enterprise value of $1.1 billion could be assigned to the Las Vegas Sphere's operations, which equates to half the construction cost.

Based on the above assumptions, on a sum-of-the-parts basis, we value MSG Sphere's core operations at $2.2 billion. Incorporating the 1/3 ownership of New MSGE, valued at our fair value estimate, net debt of $1.0 billion, and current shares outstanding of 34.6 million, we fairly value shares of MSG Sphere at $47 per share (see Exhibit 11). (Notably excluding the 1/3 ownership position in New MSGE, our fair value estimate implies $34 per share in value derived from MSG Sphere operating businesses and assets.)

Exhibit 11 MSG Sphere: Sum-of-the-Parts Fair Value Estimate

($ in millions, except per share data; shares in millions)

Tao	390.3
Networks	725.1
Sphere	1,100.0
	2,215.5
33% of SpinCo	465.4
Enterprise Value	2,680.9
Net Debt	1,042.6
Market Capitalization	1,638.2
Shares Outstanding	34.6
FVE $ / Share	$ 47.41

Source: Company reports, Bloomberg, and *The Spin-Off Report* estimates.

On a pre-spin, sum-of-the-parts basis, we assign a fair value estimate of $75 per share to Madison Square Garden Entertainment Corp. (see Exhibit 12). Our fair value estimate includes $34 per share in value from the parent company (MSG Sphere), and $41 per share in value derived from New MSGE. Given the implied upside from the current share price, combined with our view that MSG's assets are undervalued within the current corporate structure, we recommend shares of MSGE prior to the spin-off. Following the separation, we expect investor skepticism surrounding MSG Sphere' as yet unproven ability to drive profitable revenue at the Las Vegas Sphere will likely to weigh on shares, at least initially. That said, we think longer term investors that believe in the Sphere concept could see significant returns over the longer term if the company is able to execute on its strategy to maximize utilization at the facility.

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Exhibit 12 MSG Entertainment: Pre-Spin Sum-of-the-Parts Fair Value Estimate

($ in millions, except per share data; shares in millions)

Entertainment	385.0
MSG Building	1,600.0
Equity Stakes	39.9
TAO Group	390.3
Networks	725.1
LV Sphere	1,100.0
Enterprise Value	4,240.4
Net Debt	1,657.3
Market Capitalization	2,583.1
Current Shares Outstanding	34.6
SOTP FVE $ / Share	$ 74.76

Source: Company reports, Bloomberg, and *The Spin-Off Report* estimates.

CONCLUSION

The proposed spin-off will separate the fairly stable entertainment and bookings business along with the highly valuable Madison Square Garden arena, from a business that is in transition as it looks to stabilize subscriber count at Networks and an unproven Sphere arena. (Management has indicated it is looking to sell its ownership position in Tao).

On a pre-spin, sum-of-the-parts basis, we assign a fair value estimate of $75 per share to Madison Square Garden Entertainment Corp. Our fair value estimate includes $34 per share in value from the parent company (MSG Sphere), and $41 per share in value derived from New MSGE. Given the implied upside from the current share price, combined with our view that MSGE's assets are undervalued within the current corporate structure, we recommend shares of MSGE prior to the spin-off. Following the separation, we expect investor skepticism surrounding MSG Sphere's as yet unproven ability to drive profitable revenue at the Las Vegas Sphere will likely weigh on shares, at least initially. That said, we think longer term investors that believe in the Sphere concept could see significant returns over time if the company is able to execute on its strategy to maximize utilization at the facility.

Disclosures

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