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Haymaker Acquisition Corp. (HYAC: $10.05 Outperform; $14 PT)

Research Brief—Reviewing the Key Issues—We Have an Outperform Rating and $14 Price Target

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Key Data	
Symbol:	HYAC
Price (1/10/19):	$10.05
Rating:	Outperform
Price Target:	$14
Valuation:	
2019E P/E:	16.3x
2020E P/E:	11.3x
2019E FCF Yield:	5.0%
2020E FCF Yield:	8.6%

Company Description
Haymaker Acquisition Corp. is a special purpose acquisition company (SPAC). On 11/1/18, the company announced its intention to acquire OneSpaWorld, the largest provider of spa and wellness services to cruise lines and land-based resorts.

Figure 1. Haymaker Acquisition Corp.—Key Company Data, Prices as of 1/10/19

Key Data		FY: December	2018E	2019E	2020E
Price:	$10.05	*Updated Financial Projections and Valuation:*			
Price Target:	**$14.00**	Revenue	535	573	668
52-Week Range:	$9.50-$10.09	Growth	5.5%	7.1%	16.6%
Market Cap ($mn):	634	Adj EBITDA	56	62	78
Shares Out. (mn):	63.1	EV/EBITDA	15.3x	13.8x	11.0x
Avg. Daily Vol.:	210,000	Adj Net Income	32	39	56
Avg. Daily Vol. ($mn):	2.1	P/E	19.8x	16.3x	11.3x
Net Debt ($mn):	220	Free Cash Flow	na	32	55
EV ($mn):	854	Yield	na	5.0%	8.6%

Note I: Balance sheet statistics are pro forma assuming transaction closes with no HYAC redemptions.
Note II: Key financial projections were provided by HYAC on 1/8/19.
Sources: Company data and Imperial Capital, LLC.

Financial Summary

Haymaker Acquisition Corp. (HYAC) is not an operating company. It recently announced the intention to acquire OneSpaWorld (OSW), which expects to generate $535mn of revenue and $56mn in adjusted EBITDA in 2018.

View and Valuation

We have an Outperform rating and a one-year price target of $14 on HYAC shares. Our price target is based on 15.8x 2020 net income (6.2% free cash flow yield [FCF]) and assumes the OSW transaction will close. Our valuation methodology changed given the updated transaction terms and peer multiple contraction. Longer term, we see further upside from deleveraging and organic growth.

Updated Transaction Terms

On 1/8/19, Haymaker updated the terms of the OneSpaWorld transaction "due to recent market performance." The most important elements were that **1)** the transaction is now valued at $850mn, as compared to $950mn in the previously announced agreement, **2)** pro forma debt of $220mn falls $80mn versus the previous expectation, **3)** forward revenue and EBITDA projections are unchanged, while net income and FCF improve from lower interest (shown in Figure 1), and **4)** *L* Catterton will receive 4mn incremental deferred shares that are granted at $20 or under other circumstances. The transaction is still expected to close in 1Q19.

Reviewing the Key Issues

Since initiating coverage on HYAC in December, we have spent much time discussing the stock with investors, management, and other industry participants. In those conversations, several key issues have come up repeatedly. As we learn more about the transaction, our confidence has grown that OneSpaWorld (OSW) will be well-received by the public market.

Key Issue #1: Is valuation attractive given HYAC's high leverage and challenging market conditions?

Many investors have commented that HYAC's pro forma valuation appears fair given the recent market weakness and high balance sheet leverage.

In our view, the updated transaction terms will alleviate these investor concerns. Under the new terms, OSW's 2020 valuation on a free cash flow basis is more compelling than each of its peer groups – and with OSW's unique tax and capex attributes, free cash flow valuation is most appropriate, in our opinion. Updated pro forma leverage at 3.9x 2018 EBITDA is not worrisome. With very high cash flow conversion, management will have flexibility to quickly pay down debt. The company expects to reach 1.7x leverage by year-end 2020.

Figure 2. Haymaker Acquisition Corp.—Peer Valuation and Leverage

	EV/EBITDA		FCF Yld		Rev Growth		Leverage
	2019	2020	2019	2020	2019	2020	2018
Royal Caribbean	9.5x	8.8x	4.9%	5.4%	14.0%	5.7%	3.6x
Lindblad Expeditions	10.3x	8.4x	8.9%	na	9.6%	11.0%	1.3x
Carnival	7.9x	7.3x	-0.9%	2.5%	4.1%	6.9%	2.0x
Norwegian Cruie Line	8.1x	7.4x	4.3%	10.5%	5.9%	9.9%	3.5x
Cruise Comparables	*8.9x*	*8.0x*	*4.3%*	*6.1%*	*8.4%*	*8.4%*	*2.6x*
Vail	14.0x	12.8x	5.0%	5.8%	15.1%	5.8%	2.8x
Churchill Downs	11.3x	10.7x	8.3%	8.6%	23.1%	5.9%	2.7x
Planet Fitness	24.8x	21.8x	2.5%	3.0%	12.8%	10.3%	5.3x
Six Flags	12.9x	12.0x	6.8%	7.3%	5.4%	5.0%	4.6x
SeaWorld	8.5x	7.8x	7.6%	9.8%	2.7%	2.1%	3.9x
Entertainment Comparable	*14.3x*	*13.0x*	*6.0%*	*6.9%*	*11.8%*	*5.8%*	*3.9x*
Choice Hotels	13.5x	12.6x	5.6%	5.8%	6.6%	4.3%	2.3x
Hilton	12.7x	11.9x	7.0%	6.1%	7.0%	6.2%	3.6x
Hyatt	10.0x	9.5x	6.3%	6.0%	6.0%	6.1%	2.1x
Marriott	12.8x	11.8x	6.5%	7.2%	4.3%	3.9%	2.7x
Asset-Light Hotel Comparal	*12.3x*	*11.4x*	*6.3%*	*6.3%*	*6.0%*	*5.1%*	*2.7x*
OneSpaWorld	13.8x	10.9x	5.0%	8.6%	7.1%	16.6%	3.9x

Sources: Bloomberg and Imperial Capital, LLC.

Key Issue #2: Why Is *L* Catterton (the seller) taking OSW public through a SPAC?

We have also received many questions about the process. Specifically, the questions tended to focus on why *L* Catterton chose the SPAC path to the public market instead of a traditional IPO or outright sale.

Our understanding is that *L* Catterton's options were somewhat limited by two factors. A traditional IPO was challenging because OSW currently services Steiner Leisure's (predecessor firm) debt load, which is sizeable. An IPO would not have realized enough upfront proceeds to support the debt and also allow for cash proceeds. An outright sale would have also been challenging given OSW's unique tax status. The company pays little U.S. taxes as it is based in the Bahamas and it earns most of its income at sea. Being >50% owned by a "U.S. Shareholder" would risk this status and subject the company to incremental taxes. Investors owning <10% do not count to the 50% ownership threshold, allowing the company to maintain its tax status as a U.S. listed public company.

A SPAC route afforded *L* Catterton the ability to generate enough upfront proceeds to satisfy the debt, while also protecting OSW's tax status.

Key Issue #3: Are management's 2020 projections realistic?

Management's projections bake in a significant ramp in revenue and profitability in 2020. For reasons discussed below, we believe the projections are realistic.

Figure 3. Haymaker Acquisition Corp.—Management's Projections

	2018E	2019E	2020E
Revenue	535	573	668
Growth	*5.6%*	*7.1%*	*16.6%*
EBITDA	56	62	78
Margin	10.5%	10.8%	11.7%
Ships Served	163	168	196

Sources: Bloomberg and Imperial Capital, LLC.

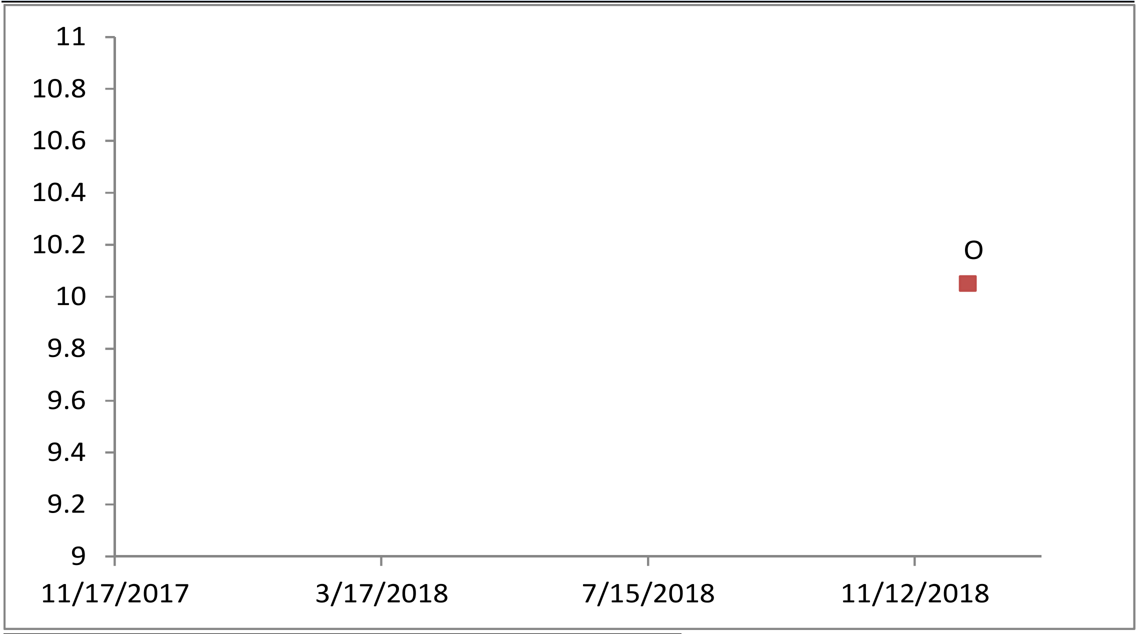
(1) Ship growth: OSW benefits from a large slate of new ships launching in 2019 and 2020 and it is also likely to benefit from market share gains in 2020. We have heard from independent industry participants that OSW's share gains are likely.

(2) Margins: OSW will gain g&a leverage in 2020 from scale. Additionally, the company will benefit from a contract with a beauty product brand that goes into effect when the HYAC/OSW transaction closes. Longer-term, OSW's initiatives regarding dynamic pricing, pre-scheduling, and fitness could yield incremental yield and margin.

Please refer to our previous research report dated 12/6/18 for additional information and details (including associated risk factors). This research brief should be read in conjunction with previously published research reports, which can be obtained from our Web site (www.imperialcapital.com) or your account executive. No investment decision should be made without reviewing the related research reports.

Price Chart and Ratings History

Figure 4. Haymaker Acquisition Corp.—Price Chart and Ratings History



Description	Price	IC Rating	Report Date
Common Stock	$10.05	Outperform	12/6/18

Sources: Bloomberg and Imperial Capital, LLC.

Important Disclosures, Certifications and Other Information

Ratings Distribution and Definitions

Equity Ratings Definitions (as of 7/1/09)		
Outperform	63.87%	**Outperform**: TRR expected to exceed basket by at least 10%
In-Line	31.93%	**In-Line**: TRR expected to be in-line with basket
Underperform	4.20%	**Underperform**: TRR expected to underperform basket by at least 10%

This Equity Ratings Distribution reflects the percentage distribution for rated equity securities for the twelve month period 10/1/17 through 9/30/18. Rating definitions are expressed as the total rate of return (TRR) relative to the expected performance of a basket of like securities over a 12-month period. Within the twelve month period ended 9/30/18, IC has provided investment banking services to 19.74% of companies with equity rated an Outperform, 0.00% of companies with equity rated an Underperform, and 7.89% of companies with equity rated an In-Line. As of 9/30/18.

Fixed Income Ratings Definitions and Equity Ratings Definitions (prior to 7/1/09)

Buy: TRR expected to exceed basket by at least 10%
Hold: TRR expected to be in-line with basket
Sell: TRR expected to underperform basket by at least 10%

Rating definitions are expressed as the total rate of return (TRR) relative to the expected performance of a basket of like securities over a 12-month period. Please refer to our publication dated 7/1/09 for details associated with the transition of our Equity Ratings to the current definitions.

See the previously issued research reports for a discussion of the valuation methods used to determine our price target, if any, risks associated with this issuer, and the prior page for our price chart of rated equities and rating history of rated securities, if any.

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