Imperial Capital®

Capital Structure Focus

EQUITY AND INDUSTRY RESEARCH

February 26, 2019

Haymaker Acquisition Corp. (HYAC: $10.29 Outperform; $14 PT)

After Our Meetings with Management, We Continue to See Upside in the Stock—We Are Maintaining Our Outperform Rating and $14 Price Target

George Kelly, CFA
(212) 351-9476
gkelly@imperialcapital.com

Key Data

Symbol:	HYAC
Price (2/25/19):	$10.29
Rating:	Outperform
Price Target:	$14
Valuation:	
2019 P/E:	16.6x
2020 P/E:	11.6x
2019 FCF Yield:	4.9%
2020 FCF Yield:	8.4%

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 2/25/19

Key Data		FY: December	2018E	2019E	2020E
Price:	$10.29	*Updated Financial Projections and Valuation:*			
Price Target:	**$14.00**	Revenue	535	573	668
52-Week Range:	$9.55-$10.65	Growth	5.5%	7.1%	16.6%
Market Cap ($mn):	649	Adj EBITDA	56	62	78
Shares Out. (mn):	63.1	EV/EBITDA	15.5x	14.0x	11.1x
Avg. Daily Vol.:	550,000	Adj Net Income	32	39	56
Avg. Daily Vol. ($mn):	5.7	P/E	20.3x	16.6x	11.6x
Net Debt ($mn):	220	Free Cash Flow	na	32	55
EV ($mn):	869	Yield	na	4.9%	8.4%

Note I: Balance sheet items are pro forma assuming the transaction closes with no redemptions.
Note II: Financial projections provided by OSW/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 EBITDA in 2018.

View and Valuation

We are maintaining our Outperform rating and one-year price target of $14 on HYAC shares, about 36% above the recent share price. Our price target is based on 15.8x 2020 net income, a 6.2% free cash flow yield, and assumes the OSW transaction will close. Longer term, we see further upside from deleveraging and organic growth (scenario presented on page 3).

Investor Meeting Highlights

In January and February, we hosted a series of investor meetings with members of the Haymaker and OneSpaWorld management teams. We have also connected with other industry participants. Following those meetings/discussions, we remain confident in the story and optimistic that OSW will be well-received by the public market. Meeting highlights are provided below.

Transaction update: OneSpaWorld filed its definitive proxy statement on 2/14/19 and scheduled the special meeting for 3/6/19. We are confident that the transaction will be consummated, especially given the heavy trading volume above the redemption price ($10.17 as of 12/31/18). The transition from traditional SPAC owners to fundamental owners appears well underway. Another positive indicator is the move in HYAC warrants, which have more than doubled in value since 1/1/19.

Yield improvement initiatives: Much attention during our meetings was given to OSW's long-term yield (revenue per ship) outlook. The company has a history of steady yield improvements, and many initiatives underway are aimed to drive further upside.

Pricing: In 2018, OSW raised service prices for the first time in nearly ten years. The 3.8% increase has been implemented on approximately one-third of OSW's ships, with plans to fully implement in the near-term. Management appears pleased with the response and cruise lines have encouraged the company to take additional pricing. OSW remains underpriced when compared to competitor Canyon Ranch (likely >20%).

Technology upgrades: Improved technology is allowing OSW to drive pricing and occupancy improvements. Efforts around dynamic pricing have substantially improved occupancy on port-days, and pre-scheduling/pre-payment capabilities are driving yield improvements. Both initiatives are still in early days and fully rolled-out on less than half of OSW's fleet.

Capitalization

Figure 2. Haymaker Acquisition Corp.—Capitalization as of 9/30/18, Prices as of 2/25/19

LTM Revenue	(09/30/18)	534	Debt Face		Net Debt Face		Net Debt Market			Price / YTM Analysis			Interest Exp. Analysis	
LTM ADJ EBITDA	(09/30/18)	56												
LTM EBITDA %	(09/30/18)	10.5%												
Settlement Date		NA	Cum.	LTM EBITDA	Net Cum.	LTM EBITDA		Net Cum.	LTM EBITDA					
	M/S&P Rating	Balance	Debt Face	56 Mult.	Debt Face	56 Mult.	Debt Mkt	Debt Mkt	56 Mult.	Price	YTM	Mat.	Rate/ Coup.	Est. Int. Exp.
Cash		16												
Proforma Debt Assumting Transaction Closes														
Term Loan		195										7 years	L+3.75%-4.25%	13.7
First Lien Revolver ($22.5mn)		-										5 years	L+3.75%-4.25%	-
Second Lien Term Loan		25										8 years	L+7.50%	2.6
Total		**220**	**300**	**5.4x**										**16.3**
Common Equity														
Common Stock (OSW)		649												
Total Equity		**649**			**853**	**15.2x**							**Interest**	**16.3**

Note: Capitalization is pro-forma assuming the transaction closes.
Sources: Company data and Imperial Capital, LLC.

Medi-spa: OSW's medi-spa offerings have been well received by guests and now account for approximately 10% of total revenue. Impressively, in about 15 years OSW has become the largest Botox treatment provider in North America and the largest acupuncturist in the Western Hemisphere. OSW is working to continue growing the business by offering additional treatments and fleet expansion. Newer treatments, such as CoolSculpting, are being rolled out and OSW is continually testing new services. CBD could be an area of focus in the coming years. Fleet expansion is also underway, with approximately 12 additional ships added per year. New vessels have dedicated medi-spa rooms.

Marketing: Cruise line collaboration has improved in recent years. OSW and its cruise partners are now targeting and marketing to specific guests onboard, offering "anniversary" or "happy-birthday" packages. Technology improvements by the cruise lines and OSW have made these initiatives possible.

Fitness: While currently small, onboard fitness is likely to be a more meaningful revenue driver over time. More robust programming and/or premium experiences could drive higher yields.

Tracking yield history/projections: Yield growth has been steady over time – average revenue per ship per week has grown from approximately $46K in 2005 to $61K in the nine months ended 9/30/18. Onboard guests find value in "wellness" services onboard, and OSW has been successful broadening the offering.

Management's yield growth estimates for FY18-FY20 appear conservative, in our opinion, given the strong consumer backdrop and many near/medium-term initiatives already in-place. Projected yield growth deceleration (shown in Figure 3) is at odds with recent trends. In the nine-months ended 9/30/19, yields improved 6.9% year-over-year to $61K per ship per week, well ahead of management's previous 2018 projection and not far from 2019.

Figure 3. Haymaker Acquisition Corp.—Yield Projections

	2015A	2016A	2017A	2018E	2019E	2020E
Avg Weekly Rev / Ship	51,721	53,741	56,999	59,414	61,838	63,622
Growth	2.3%	3.9%	6.1%	4.2%	4.1%	2.9%

Sources: Company data.

Cruise contracts: Cruise line relationships were another focus point of the meetings.

Cruise renewals: Recent renewals have carried stable revenue share and management appears content with the revenue share dynamic. OSW has pushed for and received longer tenure in recent renewals.

Recession downside: Management restructured the vast majority of its contracts to reset the "minimum" or "guarantee" lower, thereby reducing deleveraging in a recession. It has back-tested contracts and believes margins would remain flat in a recessionary environment, compared to 2008/2009 recession, when a 10% revenue decline led to a 15% EBITDA decline.

Competitive wins: The company is far along in negotiations with Prestige (Oceania and Regent) and is confident it will win Celebrity when its contact with Canyon Ranch expires in mid-2020. OSW has already started planning staffing levels, etc. Cunard's contract with Canyon Ranch expires in 2021

Expedition/river cruising: OSW believes expedition/river cruising could be a growth engine longer-term. There is a large pipeline of new ships entering these markets, and OSW is developing segment expertise.

Recent onboard trends: All three major public cruise operators (CCL, RCL, NCLH) reported stable 4Q18 results, consistent with prior trends, and the equities have appreciated sharply so far in 2019.

Competition: Management spent much time discussing the competitive dynamics of the industry and why it is challenging for competitors:

Staffing: OSW employs 3K staff members annually (including 90 doctors) that speak 80 languages. Staff contracts last approximately nine months and employee churn, while much improved, remains high at 38%. The company utilizes nine global training centers to maintaining appropriate staff levels and quality. OSW also employs "quality assurance" and "spa ops" staff to visit and review onboard spas, often as "hidden shoppers."

Breadth of services: Over time OSW has expanded services onboard. The company started with haircuts and now offers a full suite of medi-spa services, many of which are exclusive. This suite of offerings would be challenging to replicate.

Unique margin dynamic: With approximately 55% of service and product revenue remitted to cruise lines, scale is an important factor to margin. Without scale or a portfolio of owned brands, it would be challenging to generate positive gross margin, especially on products and medi-spa treatments. OSW has been successful in contracting with suppliers that understand the margin dynamic and the value of being at sea (with >25mn annual guests). OSW also benefits from a favorable long-term contract with a major beauty brand that was previously owned by its parent company, Steiner Leisure.

Staggered contracts: OSW's major cruise contracts are staggered, making it difficult for a competitor to quickly gain scale.

Others in the industry: Competition remains minimal. Celebrity/Prestige/Cunard utilize Canyon Ranch, while Viking and MSC use separate partners. We are unaware of any new entrants or cruise insourcing.

Scenario Analysis

We provide a long-term scenario analysis in Figure 3 that tracks OSW beyond the projection period (2018E-2020E). The analysis is based on management's long-term targets, which call for mid-single digit revenue growth and high-single digit/low-double digit EBIT growth.

As shown, the model drives $94mn in 2024 free cash flow (FCF) and $19 share price in 3-4 years. Our analysis fully dilutes the warrants/deferred shares/management options, lets cash build after paying down debt, and utilizes a 6.5% FCF yield. If the company utilizes cash more aggressively, it could drive additional upside; for example, tendering the warrants at $3.00 drives the stock above $21. Any sustained MSD yield growth or margin expansion would provide further upside.

Figure 4. Haymaker Acquisition Corp.—Long-Term Scenario Analysis

	2019E	2020E	2021E	2022E	2023E	2024E
Revenue	573.1	668.4	722.7	761.8	800.4	834.8
Sea	529.0	618.7	671.5	709.1	746.1	778.9
Avg Weekly Rev / Ship	61,838	63,622	64,894	66,192	67,516	68,866
Growth	4.1%	2.9%	2.0%	2.0%	2.0%	2.0%
Avg Ships	162	184	199	206	213	218
Yr End Ships	168	196	202	210	215	220
Land	44.1	49.7	51.2	52.7	54.3	55.9
Growth	*-2.2%*	*12.7%*	*3.0%*	*3.0%*	*3.0%*	*3.0%*
EBIT	52.1	68.6	75.9	81.5	88.0	93.5
Mgn	9.1%	10.3%	10.5%	10.7%	11.0%	11.2%
Interest	14.7	11.0	8.0	3.5	(0.5)	(1.5)
Pretax	37.4	57.6	67.9	78.0	88.5	95.0
Cash Taxes	0.7	1.2	1.4	1.6	1.8	1.9
% of Pretax	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Net Income	36.7	56.4	66.5	76.5	86.8	93.1
Public Company	(2.8)	(3.0)	(3.0)	(3.5)	(4.0)	(4.5)
Atlantis Adj	1.5	0.0	0.0	0.0	0.0	0.0
Amort of Intan	3.4	3.4	3.4	3.4	3.4	3.4
Adj NI	38.8	56.8	66.9	76.4	86.2	92.0
D&A	8.3	9.2	9.5	10.0	10.5	11.0
Working Capital	(2.8)	(5.7)	(3.0)	(3.0)	(3.0)	(3.0)
Maint Capex	(1.0)	(2.1)	(1.5)	(2.5)	(2.5)	(2.5)
Growth Capex	(1.8)	(2.7)	(2.0)	(2.0)	(3.0)	(3.0)
Special Resort Capex	(8.4)	(0.2)	(0.5)	(1.0)	(1.0)	(1.0)
FCF	33.1	55.3	69.4	77.9	87.2	93.5

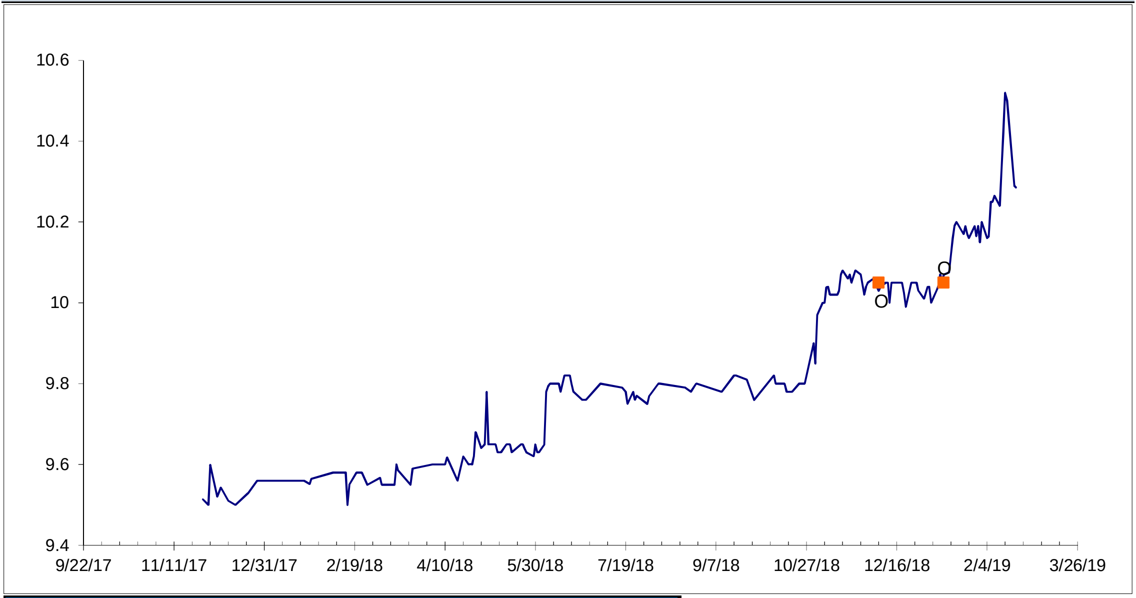
Sources: Company data.

Risk Factors

- **Cruise line contracts:** Cruise contracts generally range 3-8 years. Renewals can carry less favorable terms.
- **Key customers:** Carnival and Royal Caribbean account for approximately 50% and 21% of revenue, respectively.
- **Taxes:** OneSpaWorld is based in the Bahamas and pays relatively little in U.S. taxes. Any changes to tax law could negatively impact the company's tax status.
- **Consumer:** Any changes in consumer confidence or spending could impact OneSpaWorld.

Price Chart and Ratings History

Figure 5. Haymaker Acquisition Corp.—Price Chart and Ratings History



Description	Price	IC Rating	Report Date
Common Stock	$10.05	Outperform	1/11/19
Common Stock	$10.05	Outperform	12/6/18

Sources: Bloomberg and Imperial Capital, LLC.

Companies under coverage: George Kelly, CFA: Acushnet Holdings (GOLF), Brunswick Corporation (BC), Callaway Golf Company (ELY), Drive Shack (DS), Freshpet (FRPT), Haymaker Acquisition Corp (HYAC), Johnson Outdoors (JOUT), Lindblad Expeditions (LIND), MINDBODY (MB), Nautilus (NLS), Planet Fitness (PLNT), Primo Water (PRMW), Town Sports International Holdings (CLUB), YogaWorks (YOGA).

Important Disclosures, Certifications and Other Information

Ratings Distribution and Definitions

Equity Ratings Definitions (as of 7/1/09)		
Outperform	65.29%	**Outperform**: TRR expected to exceed basket by at least 10%
In-Line	29.75%	**In-Line**: TRR expected to be in-line with basket
Underperform	4.96%	**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 1/1/18 through 12/31/18. 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 12/31/18, IC has provided investment banking services to 12.66% of companies with equity rated an Outperform, 0.00% of companies with equity rated an Underperform, and 11.11% of companies with equity rated an In-Line. As of 12/31/18.

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.

For a discussion of the valuation methods used to determine our price target, if any, please see page(s) 1. See page 4 for the risks that may impede achievement of such price target, and page 4 for our ratings history and price chart.

Analyst Certification: *Each research analyst whose name appears in bold on the front page certifies that: (1) the views expressed in this report reflect the analyst's personal views about the subject securities or issuers; and (2) none of the analyst's compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed herein. The analyst(s) responsible for the preparation of this report receive(s) compensation primarily based upon individual performance (e.g., productivity and quality of work) and the overall financial performance of Imperial Capital, LLC, including overall revenues from investment banking activities.*

COMPANY	DISCLOSURE
Haymaker Acquisition Corp.	3

[1] As of the date hereof, the analyst or other Imperial Capital, LLC (IC) or Imperial Capital Asset Management, LLC (ICAM) employee who assisted in the drafting of this report (or a member of his/her household) has a financial interest in the securities of this entity.
[2] IC makes a market in the debt securities of this entity.
[3] IC makes a market in the equity securities of this entity.
[4] As of 1/31/19, IC or its affiliates beneficially own 1% or more of any class of common equity securities of this entity.
[5] IC has managed or co-managed a public offering or Rule 144A offering of securities for this entity during the past 12 months.
[6] IC has received compensation for investment banking services from this entity during the past 12 months.
[7] IC expects to receive or intends to seek compensation for investment banking services from this entity within the next three months.
[8] IC or its affiliates has received compensation for products or services other than investment banking services from this entity during the past 12 months.
[9] IC had a [investment banking services] [non-investment banking securities-related services] [non-securities services] client relationship with this entity during the past 12 months.
[10] As of the date hereof, the analyst or other IC or ICAM employee who assisted in the drafting of this report (or a member of his/her household) serves as an officer, director or advisory board member of this entity.
[11] IC had (and/or currently has) a financial advisory relationship with certain creditors or equity holders with respect to the entity during the past 12 months.

Compendium Disclosure*: Securities of issuers in this report, in addition to the subject issuer, may be rated by IC or its affiliate. Please see disclosures, price charts, and ratings histories for those issuers in our previously-published research reports, available by contacting your account executive at 1-800-929-2299, or on IC's Web site at www.imperialcapital.com.*

*Disclosure items appropriate to each entity, if any, are indicated.

The table above discloses IC's or its affiliate's ownership, if any, of securities mentioned herein. While this report is in circulation, IC or its affiliates may, from time to time, make purchases or sales for their own accounts of securities of any entity. The table above also discloses, as of the date hereof, whether or not IC makes a market in any of the securities mentioned herein. IC's market making may constitute, in the case of equity securities and certain debt securities, standing ready to make purchases or sales of securities on a regular or continuous basis or quoting markets in debt securities. Notwithstanding IC's market making activities as of the date hereof, while this report is in circulation IC may begin or discontinue such market making activity for any entity.

This report was jointly prepared pursuant to an intercompany agreement with IC's affiliate, Imperial Capital Asset Management, LLC (ICAM), a SEC registered investment advisor. The analyst who prepared this report is an associated person of ICAM. From time to time, ICAM may accept payments from customers for generic investment advice contained in this report. None of the analyst's compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed herein. This report is for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of an offer to buy any security. While the information contained in this report has been obtained from sources believed to be reliable, we do not represent or guarantee that the report is accurate or complete, and it should not be relied upon as such. Any references or citations to, or excerpts from, third-party information or data sources (including, but not limited to, Bloomberg, Capital IQ and IBISWorld) do not and are not intended to provide financial or investment advice and are not to be relied upon by anyone as providing financial or investment advice. Based on public information available to us, prices and opinions expressed in this report reflect judgments as of the date hereof and are subject to change without notice. The securities covered by or mentioned in this report involve substantial risk and should generally be purchased only by investors able to accept such risk. **This research report and the securities mentioned herein, some of which may not be registered under the Securities Act of 1933, are intended only for Qualified Institutional Buyers (QIBs), as defined under Rule 144A.** Any opinions expressed assume that this type of investment is suitable for the investor. This report may be the last or only report covering the issuer(s), industries sectors and/or securities discussed. Decisions to cease coverage are based on a variety of factors. IC and ICAM's research coverage is opportunistic in nature and analysts generally are not assigned continuing-coverage responsibilities for any issuer, industry, sector or security. As a result, coverage of such issues is frequently characterized by either isolated reports or long periods between reports. IC's and ICAM's views of a security, issuer, industry or sector may change without the issuance of a new report. If you would like to know whether IC's and ICAM's views have changed, please call us at (310) 246-3700.

Imperial Capital, LLC is a member of FINRA (www.finra.org) and SIPC (www.sipc.org)