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Get out of town

Americans ordinarily book the same volume of domestic flights in August as they do in July, but not when the word "delta" evokes something other than the name of a certain airline. The dip in August seat sales, and the corresponding fall in seat prices, persisted into the first 10 days of September. Indeed, compared to the like period in 2019, airline ticket prices in that week-and-a-half plunged by 22%.

Nonetheless, *Grant's* is bullish on Viad Corp. (VVI on the New York Stock Exchange), a speculative-grade corporate-events and travel business that straddles both the leisure and business markets. It stands to gain from the world's long-anticipated escape from the pandemic jailhouse.

Bloomberg's Sept. 1 international poll of 45 large companies found that 84% of respondents are planning to spend less on travel (by 20%–40%, say most) than they did before Covid. Given that business travelers deliver as much as three-quarters of the airline industry's profits while filling just 12% of its seats, the news made for discouraging reading.

Small business took the cue this summer. According to Kabbage, Inc., only 63% of small businesses reported being fully open and unaffected by government restrictions, down from 85% in May. And so has the national economy taken note, with the Atlanta Fed's GDPNow model currently projecting third-quarter growth of 3.2%, down from an initial guess of 6.1% at the end of July.

Still and all, *homo economicus* does not love solitary confinement. "Aside from any skepticism about trusting CEO/CFOs on cost-saving targets," a Sept. 17 Sanford Bernstein & Co. report begins, "we have previous data on companies being too optimistic on cuts to business travel. The Deloitte Business Travel survey in 2010 showed 77% of firms were expecting to retain or lower...spend[ing] into 2011 as well. [American Express Global Business Travel] forecast 2010 business travel to grow between -4% and +6%—in fact, it grew 7.5%—and 2011 business travel to grow between +1% and +10%—in fact, it grew 15%."

According to a hedge-fund investor we know, the unspoken motive for most business travel is escape from an unhappy marriage. However that may be, Hilton Hotels Corp. CEO Christopher Nassetta, speaking at the Sept. 22 Skift Global Forum conference, predicted that business travel will top 2019 levels in three years.

Careful analysis of internet search activity shows signs of cabin fever, contends Ben Breitholtz, a data scientist at Arbor Research & Trading, LLC. Increased frequency of such terms as "vacationing," "commuting" and "apartment-hunting" may augur a movement out of the house, says he.

Governments, at least, are shedding their hyper-caution as inoculation rates rise. Canada opened its borders to vaccinated American travelers on Aug. 9 and began welcoming international passengers on Sept. 7. The Biden administration will permit fully vaccinated foreign visitors (whatever their country of origin) to enter early next month. Even locked-down Australia is throwing open its doors, with double-jabbed travelers to be admitted by Christmas, Canberra says.

"There's pent-up demand both on the leisure and the corporate side," Ben Smith, CEO of Air France-KLM S.A., told Bloomberg TV hours after the U.S. announcement. "Many businesses haven't seen their colleagues or customers for a year-and-a-half, so, in the short run, we expect there to be a kick start." Smith said that the carrier he heads is ramping up transatlantic flights.

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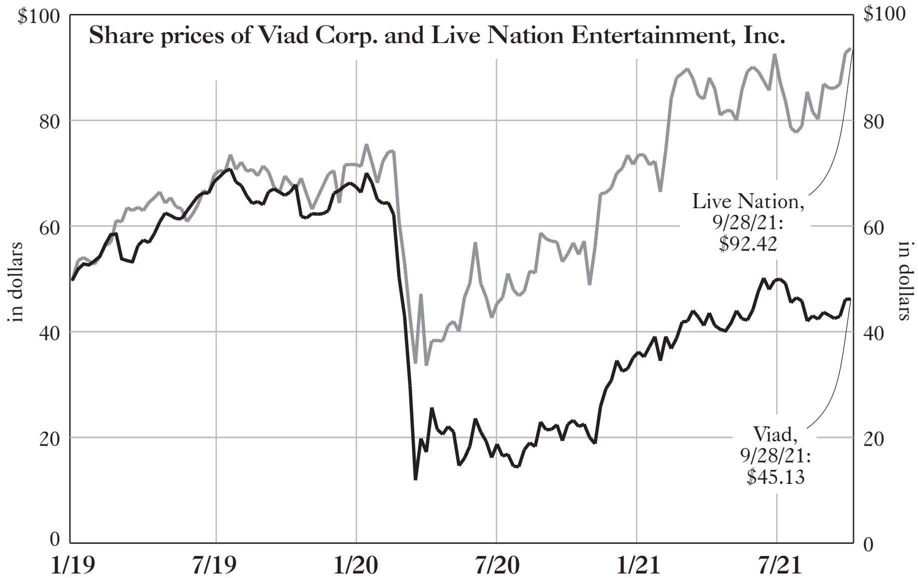
Viad operates two divisions, of which GES, a full-service live-events company, is the dominant one by revenues. In 2019, it generated $1.1 billion in sales and $71.5 billion in Ebitda, while Pursuit, a small, niche travel-experience outfit, produced $222.8 million in sales and $81.2 million in Ebitda.

Say that you, Mr. or Ms. CEO, decide to announce your company's return to life as it used to be lived by holding a party at the Las Vegas Convention Center. Without GES or its primary competitor, the closely held Freeman, you'd be entertaining your guests in a large, empty concrete box. By attending to the details of electrical wiring, lighting, audiovisual setups, booths, etc., GES makes events happen.

On the one hand, the events business is a slow grower, having compounded revenues by 4% a year between 2015 and 2019. On the other, it's a nice, plump duopoly.

Pursuit is a different story. Canada-focused and consumer-facing, the segment does business in national parks such as Banff, Jasper, Glacier, Waterton Lakes and Denali as well as in Las Vegas and Reykjavik, Iceland. It owns and operates hotels, tour groups, restaurants, cruises and such attractions as the Sky Lagoon (an oceanfront geothermal pool

Bet on the tortoise



source: The Bloomberg

in Iceland) and FlyOver (a theater-style experience that mimics the sensation of flight, but without the TSA).

Canada chipped in 66% of division revenues and 88% of division operating income in 2019. Indeed, Pursuit owns around one-third of the hotel rooms in Banff and Jasper national parks. "They're vertically integrated in Banff," Tyler Batory, who rates VVI a buy for Janney Montgomery Scott, LLC, tells colleague Evan Lorenz. "So they have the bus service that takes you from Calgary airport to Banff. They have all the hotels. They have food and beverage there, and they own the attractions and tours. It's difficult to go to Banff as a tourist and for Pursuit not to make money off you."

As there are few synergies between the consumer-driven leisure division and the corporate-events segment, curious minds will wonder how the two businesses came to live under the same corporate roof. Viad, which began in 1926 as the Motor Transit Corp., got a nomenclatural upgrade in 1930 to Greyhound Corp. Over the next half-century, America's top private bus operator diversified into the money-transfer business (Travelers Express) as well as packaged foods, restaurants, airport services and ocean cruises.

In the 1980s, management began to undo what it had previously done by selling off Greyhound to a group of Dallas investors. Subsequent transactions, including the 2004 spinoff of the Travelers Express unit as MoneyGram International, Inc., duly followed, and Viad remains a work in progress. There were pre-Covid plans to spin out Pursuit from GES as soon as the smaller subsidiary reached $250 million in sales—which, in fact, Pursuit was on track to achieve in 2020.

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Virus-deflated revenue was 68% lower in 2020 than in 2019, but resilience is the Viad theme in 2021. Listeners-in to the Aug. 5 earnings call heard that GES has more events under contract in the second half of the year than it did in the latter half of 2019, even if the average meeting is about 30% smaller. (GES's revenue correlates approximately with the square footage of a conference.) The closing of the Canadian border has weighed on results, but, as of Aug. 2, booked revenues in Alaska were 7% ahead of 2019, while the Glacier National Park properties were 13% ahead.

The front office has stayed busy. "We shifted to an outsource model for certain non-core services and moved more activity to a variable or freelance labor model," CEO Steve Moster told his conference-call audience about GES. "We also permanently reduced our annual fixed cost base by about $10 million by exiting and downsizing facilities." With the recovery in revenues, management is pointing to 8%-plus Ebitda margins, up from 6.6% in 2019.

In May, Pursuit added Sky Lagoon; in June, the Golden Skybridge (Canada's highest suspension bridge, located in Banff); and in September, FlyOver Las Vegas. By adding cost reduction at GES to the new attractions in Pursuit, Batory says, "we estimate these opportunities could generate $48 million of incremental Ebitda by 2023," a 31% increase from the 2019 level.

On the Aug. 5 call, management indicated that 2022 Ebitda could match 2019 levels and 2023 Ebitda might best them. Next year's guidance, the front office added, does not bank on a return to peak operations, but rather on GES's lower cost structure and Pursuit's new attractions.

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To be clear, Viad is a leveraged company with sub-investment-grade debt ratings—B3/single-B—to match. Net debt, including unfunded pensions, operating leases and minority interests, summed to $699.1 million as of June 30, or 4.6 times 2019 Ebitda. That figure may well come down. On Aug. 5, 2020, i.e., before the first Covid vaccine was approved, Viad sold $135 million in convertible preferred stock. The holders of those preferreds can convert to common stock at a price of $21.25 versus the current price of $45.13, a looming 32% dilution that would also reduce debt to 3.7 times 2019 Ebitda.

"Given management's aforementioned desire to separate the Pursuit and GES business units," Lorenz notes, "a sum-of-the-parts approach to valuation seems appropriate for Viad. Outside of the pandemic, GES is a slow-growing, stable, cash-flow-producing asset, just the type of business that private equity likes. (Blackstone, Inc., for example, acquired PSAV, an audiovisual supplier to the events sector, in 2018 and has used the company to make additional, related acquisitions.) Using a 9-times multiple on 2023 Ebitda and giving GES credit for the lower cost structure would value the business at $823 million.

"The Street projects that Vail Resorts, Inc., operator of the famed Colorado ski resorts, will generate record-high Ebitda in 2022," Lorenz continues. "The market ascribes an 19.2-times multiple to that estimate. Using a 14-times multiple of 2023 Ebitda for Pursuit and giving the business credit for new attractions would value the unit at $1.8 billion. Adjusting for net debt, and including the dilution from the convertible preferred, would value the stock at $75.61, or a 68% premium to today's price. Viad traded above $70 per share in 2019."

As a leveraged reopening play, Viad might remind more than a few readers of pick-not-to-click Live Nation Entertainment, Inc. (*Grant's*, Dec. 11, 2020). The concert-promoting giant, like Viad, prays for a return to normalcy. Moody's Investors Services and S&P Global Ratings can hardly tell the pair apart, to judge by their near-identical credit ratings (in Live Nation's case, B2/single-B), but the similarities end there.

Cash flow is a key differentiator. Viad says it expects to resume positive free cash-flow generation in the third quarter. Live Nation, which posted a free cash outflow in 2019 and recently disclosed its intention to draw down a $400 million term-loan facility, is set up for continued cash combustion. "Coupled with the $500 million in Senior Notes issued in January 2021, the YTD debt raise is now circa $800 million, net, and counting," writes Douglas Arthur, who covers Live Nation for Huber Research Partners, LLC and is the lone bear on the stock. The company, Arthur continues, "ended 2019 with $3.4 [billion] in debt—pre-pandemic—and will likely exit 2021 with $6 billion in debt. The fact that LYV needs more external cash is noteworthy."

Live Nation shares are quoted at a price just 1.3% shy of the all-time high set on Sept. 27, whereas Viad changes hands 37% below its pre-Covid top, set on July 24, 2019. The Street pencils in record earnings for Live Nation next year but foresees no such pinnacle for Viad until 2023.

"Live Nation," Lorenz observes, "which trades at 28.3 times enterprise value to 2019 Ebitda and at 24.5 times the 2022 estimate, is priced for no such familiar contingencies as supply-chain snafus, labor shortages or an unscripted setback in economic growth. Viad, which trades at 10.6 times 2019 Ebitda and 7.4 times the *Grant's* 2022 guess (which gives the company credit for GES's margin improvement and Pursuit's new attractions), should have more downside protection."

That 4.2% of Viad's free float is sold short may have more to do with hedging activity on the part of the preferred-stock holders than any outright expression of disapproval of the company or its common shares. Two out of the three analysts who cover VVI say "buy," and the third is impartial.

Over the past 12 months, insiders have net sold 8,660 shares of VVI for net proceeds of $406,751. Not much of a vote of confidence, to be sure, but less concerning than last year's dumping of 675,369 shares, for proceeds of $60.2 million, by the knowledgeable inside holders of Live Nation.

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