

# MSGE Earnings Call Transcript

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**Quarter: 2**

Operator: Good morning. Thank you for standing by, and welcome to the Madison Square Garden Entertainment Corp. Fiscal 2025 Second Quarter Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' remarks, there will be a question and answer session. I would now like to turn the call over to Ari Danes, Senior Vice President, Investor Relations, and Treasury. Please go ahead.

Ari Danes: Thank you. Good morning and welcome to Madison Square Garden Entertainment Corp.'s fiscal 2025 second quarter earnings conference call. On today's call, Lee Weinberg, our interim chief financial officer and senior vice president, business and financial operations, will provide an update on the company's operations. I will then conclude with a review of our financial results for the period. After our prepared remarks, we will open up the call for questions. If you do not have a copy of today's earnings release, it is available in the investor section of our corporate website. Take note of the following. Today's discussion may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Any such forward-looking statements are not guarantees of future performance results and involve risks and uncertainties that could cause actual results to differ materially from those in the forward-looking statements. Please refer to the company's filings with the SEC for a discussion of risks and uncertainties. The company disclaims any obligation to update any forward-looking statements that may be discussed during this call. On pages five and six of today's earnings release, we provide consolidated statements of operations and a reconciliation of operating income to adjusted operating income or AOI, a non-GAAP financial measure. And with that, I'll now turn the call over to Lee.

Lee Weinberg: Thank you, Ari, and good morning, everyone. As we move into the second half of our fiscal year, we are seeing strong demand from our offerings as consumers continue to demonstrate their desire for shared in-person experiences. This was evident in the company's fiscal second quarter results, with revenues of \$407 million and adjusted operating income of \$164 million. This was led by the Christmas Spectacular, which in its 91st holiday season achieved record-setting results across a number of metrics. During the quarter, we also welcomed back the Knicks and Rangers to the Garden for the start of their 2024-2025 regular seasons, and we are seeing positive momentum in our economic arrangements with the teams. On the bookings front, while we are facing a tough year-over-year comparison at The Garden, which had a record number of concerts last year, we continue to fill our calendar and expect to grow the overall number of bookings events at our venues in fiscal 2025. So coming off of our seasonally busiest quarter, we remain on track to deliver mid to high single-digit AOI growth this year. In addition, the strength of our business has enabled us to opportunistically return capital to shareholders. During the quarter, we resumed our buyback program with the repurchase of \$25 million of our Class A common stock. Let's now review second quarter operational highlights. Across our portfolio of venues, we hosted nearly 2.7 million guests at more than 440 live entertainment and sporting events during the quarter. As I mentioned earlier, these results were led by the success of the Christmas Spectacular. For the show's 91st holiday season, the production included new immersive elements which were well received by our guests. And while we initially went on sale with 197 shows, we added shows throughout the run due to strong demand, ending at 200 total performances. This compares to 193 shows last season. Across eight weeks of

performances, we sold approximately 1.1 million tickets, leading to the show's strongest sell-through rate in 25 years. These results were driven by robust demand for individual tickets, as our business continues to benefit from the ongoing recovery of New York City tourism. At the same time, average ticket yields across both individual and group sales grew year-over-year as we continue to thoughtfully manage market and price our ticket inventory. In addition, per cap spending on food, beverage, and merchandise reached record levels for the show. Putting it all together, average per show revenue increased by a low double-digit percent as compared to fiscal 2024 and resulted in over \$170 million in total revenue for the Christmas Spectacular this season, a new record for the production and a testament to the show's enduring appeal. Turning to bookings, during the fiscal second quarter, we saw a decrease year-over-year in the number of events across our venues. This was primarily driven by a lower number of concerts at both our theaters and the Garden, which includes the absence of three Billy Joel performances that took place in the prior year quarter. That said, consumers continue to show their enthusiasm for our in-person events, with the majority of concerts selling out during the quarter. In terms of in-venue spending, combined food, beverage, and merchandise per caps at concerts were up year-over-year. Outside of concerts, we had a busy schedule of family shows and sporting events during the quarter. At the Chicago Theatre and the Theatre at MSG, we welcomed the musical Annie for an extended holiday run. And at the Garden, we hosted UFC, which was the second highest-grossing event in the arena's history, as well as a sold-out professional tennis event which made its first appearance at the Garden since 2018. We continue to expect strong growth in our special events category this fiscal year and are looking forward to a number of high-profile events in the coming months. This includes Saturday Night Live's 50th anniversary special, set to take place at Radio City Music Hall next week, as well as the Tony Awards in June. During the quarter, the Knicks and Rangers began their 2024-2025 regular seasons at the Garden, and so far, we are seeing positive momentum across our various revenue and profit-sharing arrangements with the teams. I would also note that as a result of this year's schedules, the Knicks and Rangers played a combined three more home games during the fiscal second quarter, as compared to the prior year quarter. This timing impact will reverse over the balance of the fiscal year. Turning to marketing partnerships and premium hospitality, fiscal 2025 has been highlighted by a number of sponsorship announcements, including new multiyear deals with Lenovo, its subsidiary, Motorola, as well as with the Department of Culture and Tourism, Abu Dhabi, and a multiyear renewal with Verizon. In terms of premium hospitality, we continue to see strong new sales and renewal activity for suites at the Garden. That includes our expanded event level club space as well as a number of event and Lexus level suites that were recently renovated. In summary, our fiscal second quarter reflects the robust demand we continue to see in our business. We remain confident in our outlook for solid AOI growth this fiscal year and our ability to generate long-term value for our shareholders. With that, I will now turn the call back over to Ari.

Ari Danes: Thank you, Lee. For the fiscal 2025 second quarter, we reported revenues of \$407.4 million, an increase of 1% as compared to the prior year quarter. Revenues from entertainment offerings were essentially unchanged year-over-year, while we saw increases in revenues from food, beverage, and merchandise, as well as arena license fees and other leasing revenues. Revenues from entertainment offerings primarily reflected lower concert revenues, mainly due to a mixed shift at the Garden from promoted events to rentals and a decrease in the number of concerts at the Garden. In addition, revenues from other live entertainment and sporting events decreased year-over-year. These decreases were largely offset by growth in the Christmas Spectacular production, primarily due to higher ticket-related revenues. This reflected higher personal revenue and, to a lesser extent, two additional performances as compared to the prior year period. In addition, revenues subject to the sharing of economics with MSG Sports pursuant to the arena license agreements also grew year-over-year, primarily due to higher suite license fee revenues. The increase in food, beverage, and merchandise revenues primarily reflected the impact of more Knicks and Rangers games and two additional Christmas Spectacular performances, as well as higher per event revenues across both categories. This was partially offset by lower food and beverage sales at concerts, primarily at the Garden. The increase in arena license fees and other leasing revenues included the impact of the Knicks and Rangers playing a combined three additional home games during the fiscal second quarter. Second quarter adjusted operating income of \$103.9 million increased 2% as compared to the prior

year quarter. The increase in adjusted operating income primarily reflects lower direct operating expenses and the increase in revenues, partially offset by higher selling, general, and administrative costs. I would note that the increase in SG&A; expenses includes the impact of \$3.1 million of executive management transition cash costs incurred in the quarter. Excluding these costs, AOI would have increased 4% as compared to the prior year quarter. Turning to our balance sheet, as of December 31st, we had approximately \$55 million of unrestricted cash. Our debt balance was approximately \$618 million, which reflects the pay down of the full \$55 million balance under our revolving credit facility during the quarter. As Lee mentioned earlier, during the quarter, we repurchased \$25 million or approximately 682,000 shares of our Class A common stock. As a reminder, we continue to have \$85 million remaining under our current buyback authorization. Going forward, we will continue to explore ways to opportunistically return capital to shareholders. With that, operator, can we now open up the call for questions?

Operator: Thank you. We will now begin the question and answer session. If you would like to withdraw your questions, simply press star one again. Your first question comes from the line of Peter Henderson from Bank of America.

Peter Henderson: Good morning, and thank you for taking the question. I'm just wondering, can you provide an update on how concert bookings are pacing for the rest of fiscal 2025? And then also for the first half of fiscal 2026. Thank you.

Lee Weinberg: Thank you, Peter. In terms of this fiscal year, we continue to face a tough year-over-year comparison at The Garden, for a number of factors, including the end of the Billy Joel residency. Similar to what we shared on our last earnings call, The Garden continues to pace behind for the March and June quarters. Our theaters also continue to pace behind for the March quarter, but they are pacing up for the June quarter. However, as we look ahead to fiscal 2026, we are seeing a number of positive signs in our bookings business. In terms of the Garden, as you know, our typical booking window is about six to nine months. So now we have a meaningful sample size of the first quarter of fiscal 2026, and we are pleased to say we are pacing up versus what was a record first quarter fiscal 2025. This is being driven by a diverse set of acts, including a number of multi-night runs, residencies, new headliners, and repeat headliners. And then with respect to our theaters, our typical booking window is about six months. So it's still a little early there, and it's a relatively small sample size at this stage. That said, our theaters are currently pacing ahead for the first quarter of fiscal 2026. So while we're dealing with a tough comp at the Garden this year, it's important to note that we are still expecting a solid year of concerts at the arena. And as we look ahead, we're encouraged by the positive signs we're seeing for fiscal 2026 so far. Thank you.

Operator: Your next question comes from the line of Stephen Laszczyk from Goldman Sachs. Your line is open.

Stephen Laszczyk: Great. Thanks for taking the question. Lee, on the Christmas Spectacular, nice performance this year. Could you maybe talk a little bit more about the pricing demand and some of the audience demo trends that played out over the course of this holiday season and how that compared to prior years? And then looking ahead, I'd be curious, any early thoughts on the opportunity to grow Christmas Spectacular off this new higher base? Thank you.

Lee Weinberg: Thanks, Stephen. As you know, the Christmas Spectacular is a cherished New York tradition with a rich history. The show continues to be beloved by guests and consistently generates outstanding customer feedback. This translated into a number of positive signs across ticket demand and pricing, which we believe sets us up for further success. First, we saw strong demand driven by individuals as tourism to New York approaches pre-pandemic levels. In terms of individual ticket sales, we saw a high teens percentage increase in tourists attending the show. This strong demand led us to add additional performances during this year's run. And with tourism projected to exceed pre-pandemic levels next year, we think there is an opportunity to increase our show count again next season. Second, we were able to increase our average ticket yield across both individual and group sales by thoughtfully managing marketing and pricing our ticket inventory. The Christmas Spectacular continues to be a premium entertainment product, and it is still priced well below Broadway during the holiday season. Going forward, we continue to believe there are opportunities to more effectively price our ticket inventory and maximize revenues. So we're optimistic that there is continued ticket pricing upside

along with the potential to increase our show count as we look ahead to next year.

Operator: Your next question comes from the line of David Karnovsky from JPMorgan. Your line is open.

David Karnovsky: Oh, hey. Thank you. So just, you know, as noted last quarter, you were buying back stock at a price above where you're trading now. I think you called those repurchases prudent in light of your long-term growth. So I thought I would ask for an update on your approach, given the outstanding authorization and also considering factors like leverage or cash flow timing. Thank you.

Ari Danes: Sure. Hey, David. It's Ari. I'll take your question. So stepping back, I'd start by saying that our company is in a strong position. Our business continues to grow, and we're generating significant free cash flow. In terms of capital allocation, as you've heard us discuss before, we have three core priorities. The first is to make sure we continue to have a strong balance sheet. On that front, our net debt leverage is now approximately three times. We should naturally delever as the business continues to grow. And going forward, we'll continue to make our quarterly principal payments, which are currently \$4.1 million per quarter. Our second priority is to ensure we have flexibility to invest in our core business when we see compelling opportunities. Now this fiscal year, as you know, our capital needs have been modest. And looking out over the near-term horizon, there aren't any material capital projects to flag. And then lastly, our third priority is to opportunistically return capital to our shareholders, which is precisely what we did this past quarter when we repurchased \$25 million of stock. That brought our total share repurchases to \$165 million since our April 2023 spin-off. We have \$85 million remaining under our current authorization. And looking ahead, we'll continue to explore ways to opportunistically return capital to our holders.

Operator: Next question comes from the line of Cameron Mansson-Perrone from Morgan Stanley. Your line is open.

Cameron Mansson-Perrone: Thank you. Good morning. Lee, a couple of questions related to the Garden for you, just more generally. First, there's been a lot of news and various proposals over the years around the renovation of Penn Station. I'd be interested to hear your latest expectations there. And then second, there's also been some speculation the Garden may lose its property tax exemption, at least claims that the original intent or logic behind that exemption may be less relevant today than it was historically. Would like to hear your view or outlook there as well. Thanks.

Ari Danes: Hi, Cameron. It's Ari. I'll take your second question first, and then I'll pass it over to Lee on Penn Station. So on the property tax exemption, there are a few points I'll make on this topic that I hope will frame the issue for you. So first, the Garden is an important creator of jobs and economic activity both in our community and in the broader region. In addition, the vast majority of major New York sports venues receive some type of governmental incentives and subsidies. And in fact, our tax abatement is estimated to be hundreds of millions of dollars lower than the amounts received by those sports venues as measured over several decades. I know you know this next point, but in 2013, we completed a \$1 billion top-to-bottom renovation of the Garden. And that was done without any subsidies from either New York City or state. And then the last point I would note for you is that any repeal of the tax exemption would require action by both houses of the New York state legislature. So hopefully that color is helpful, and I'll pass it over to Lee.

Lee Weinberg: Thanks, Cameron. As invested members of our community, we're committed to improving Penn Station and the surrounding area. We and our guests are already seeing the benefits of some of the recent improvements that have taken place. We've seen improved ingress and egress at the arena. The beautification and commercialization efforts have created an enhanced experience for guests that are attending our events. And as redevelopment of the area continues, we remain in very close collaboration with a wide range of stakeholders, and we have nothing further to report at this time.

Cameron Mansson-Perrone: Helpful. Thank you both.

Operator: Next question comes from the line of Peter Supino from Wolfe Research. Your line is open.

Peter Supino: Good morning. Two, if I may. The first is that last quarter, you talked about seeing increased cancellations, and so I wondered if you could update us on that subject. And on Christmas Spectacular, you discussed dynamic pricing. In your prepared remarks, you talked about revenue optimization, and I just wondered how much room there might be to extract more value from dynamic pricing or other tools for the Christmas Spectacular. Thank you.

Lee Weinberg: Great. Thank you for both of those. I'll start with cancellations. Quickly, just to say things have returned to normal levels. We are not seeing anything out of the ordinary as it comes to cancellations. As you know, cancellations or postponements can happen for a variety of different reasons, such as artist health, changes in ticket demand, or album release schedules. At the time of our last earnings call in November, we had seen a number of cancellations, primarily at the Garden, and that impacted our concert outlook for fiscal 2025. Subsequent to that call, cancellations have returned to normal levels, and we're not seeing anything out of the ordinary. So for your second question on Christmas and dynamic pricing, as we touched on earlier, we continue to strategically manage market and price our ticketing inventory to maximize revenue each season. Revenue potential for each individual show varies by time of day, day of week, and where we are in the run. And we are continually analyzing sales performance, trends, and market dynamics to inform our sales strategy. On the pricing side, we have multiple levers we use, including dynamic pricing and discounting, to name a few. In terms of dynamic pricing, we implemented a number of tactics this season. For example, we utilized our data and insights to take a fresh approach to build our show schedule in order to maximize pricing for the highest demand shows. We also started our dynamic pricing efforts earlier in the season based on early data we received. From there, we continue to monitor every show on a seat-by-seat basis and on a week-by-week trend versus the prior year. All of this allows us to recognize where we can make price changes to maximize revenue. So we continue to get smarter on dynamically pricing our performance throughout the run. While our yield has grown, we remain priced well below Broadway, and we believe there is an opportunity to continue to narrow that gap.

Operator: Thanks, Peter. Operator, we will take one last caller. Your final question comes from the line of David Joyce from Seaport Research Partners. Your line is open.

David Joyce: Thank you. Two questions. First, if you could please provide some more color on the opportunity for residencies at your venues? I know you did mention them in your earlier remarks, but do you have any specifics of who would be coming when and with which venues? And then separately, on the per cap spending, just wanted to think about how the signs of the general consumer health look to you in the coming months. Thank you.

Lee Weinberg: Thanks for both of those. On the residency front, we are proud to have hosted ten years of Billy Joel's residency. It was an incredible run, and it was a great example of how we've developed new ways to increase venue utilization. We continue to be in discussions with a number of artists for other residencies, and we're excited by the conversations that are taking place. Future residencies at the Garden probably won't look exactly like the Billy Joel one did. Artists want to put their own unique structure and spin on something like this. Beyond MSG, looking forward, we have a number of upcoming residencies across our theaters. Last month, Hugh Jackman kicked off his 24-show residency at Radio City Music Hall, which runs through October of this year. Next month at the Beacon, Mike Birbiglia and Nikki Glaser start their multi-night runs. And at the Chicago Theatre, next week, Taylor Tomlinson kicks off her multi-night run. Going forward, we'll continue to work with artists to look for unique ways to increase venue utilization. And the second part on consumer demand, we are not seeing any slowdown in consumer demand. In our booking business, the majority of concerts were once again sold out during the quarter. This led to over 90% sell-through for concerts at our venues in the quarter. For shows that have or will take place in the fiscal third quarter, our sell-through is roughly in line with what we saw last year. And as I mentioned earlier, combined food, beverage, and merchandise per caps at concerts were up as compared to the fiscal 2024 second quarter, as well as the fiscal 2024 full-year average. And then, of course, we saw very strong consumer demand for this year's Christmas Spectacular with record revenues, the strongest sell-through rate in 25 years, and record high ticket, food, beverage, and merchandise per caps. So we continue to see strong demand from consumers.

Operator: And that concludes our question and answer session. I will now turn the call back over to Ari Danes for closing remarks.

Ari Danes: Thank you all for joining us. We look forward to speaking with you on our next earnings call. Have a good day.

Operator: This concludes today's conference call. Thank you for your participation. You may now

disconnect.