

Mossberg's Investor Digest

Best Idea Profile

Speedway Motorsports (NYSE: TRK)

DESCRIPTION:

Headquartered just outside of Charlotte, North Carolina, Speedway Motorsports owns and operates eight NASCAR race tracks with seating capacity for 884,000. TRK generates just over 90% of its revenue (Broadcasting - 27%, Admissions - 30%, Event related - 35%) from race related events. The remaining 10% comes from sales of motorsports souvenir merchandise.

KEY INVESTMENT CONSIDERATIONS:

Fan base is highly responsive to brand advertising

- NASCAR's popularity has grown significantly over the past decade. It is the highest rated sport from February through July and regularly receives high television ratings, second only to the NFL. During the 2009 Sprint Cup races, Fox received a 5.1 rating, which was more than double that of regular season NBA games. In addition to its popularity, NASCAR's fan base is widely recognized as the most brand loyal of any sport. These factors will continue to drive the value of both broadcast rights and sponsorship revenue.

Kentucky Speedway Sprint Cup Race in 2011 -

After several failed attempts to get a Sprint Cup Race (NASCAR's most popular race series), the former owners of the Kentucky Speedway sued NASCAR claiming a violation of antitrust laws and decided to sell the track to TRK for \$78 million. The lawsuit was dropped earlier this month. TRK should have better luck garnering a Sprint Cup date in 2011 and the settlement of the former owner's lawsuit removed a major obstacle.

Oligopoly - The majority of Sprint Cup races are held by one of three track owners, including: Speedway Motor Sports, International Speedway Corp (Nasdaq: ISCA), and Dover Motorsports (NYSE: DVD). Not having a Sprint Cup race, which draws greater broadcast, sponsorship, and event related revenue, is a major risk for building a new track and represents a significant barrier to entry. NASCAR is maturing and is unlikely to add to the schedule of 36 races, which some say is already too many.

Predictable revenue streams - A significant portion of TRK's future revenue is generated under long-term contracts. For example approximately 30% of revenue is derived from an 8-year NASCAR television broadcast agreement that is in effect until 2014. In addition, sponsorships for many of the larger events are sold on multi-year basis. With predictable revenue, EPS guidance has remained unchanged at \$1.70 to \$1.90 for the entire balance of the year. This is quite a feat given the uncertainty of the economy this past year.

Operating leverage - During this downturn, TRK has been able to maintain profitability by cutting some costs. However, due to the high fixed cost nature of this business, a 5% reduction in revenue led to a 15% reduction in profitability (non-gaap) during the first nine months of 2009. (The revenue decline would have been more like 10% to 15% had it not been for an acquisition and the movement of a significant race). While the bottom line shrank faster than the top line during the economic downturn, the opposite can be expected to happen during a cyclical recovery. Even modest revenue growth should have significant positive effect on earnings. In the past, TRK has generated operating margin in the low 30's, more than double the operating margin produced during the trailing twelve months.

VALUATION:

TRK currently trades at just 5x EV/ EBITDA and 11x the consensus analysts EPS estimate. Over the past five years, shares have regularly traded from 15x to 25x EPS. As modest growth returns, utilization, profits and valuation multiples should all improve. It is conceivable that shares could command a multiple within their historical range, which translates into at least 35% upside from current levels. In addition, the company is returning value to shareholders in the form of a regular dividend and share repurchase program.

(NYSE: TRK)

Investment Data (as of 12/24/09)

Recent Price	\$17.49
52-Week Range	8.14 - 20.43
Fiscal Year End	December
Dividend	0.36
Yield	2.1%
Shares Outstanding	42 MM
Average Trading Volume (3 mos)	90,000
Market Capitalization	741 MM
Cash	117 MM
Long Term Debt	695 MM
Enterprise Value (EV)	1.3 B
LT Debt/ Equity	0.8
Tangible BV/ Share	6.83
TTM Revenue	590 MM
P/ Revenue	1.0x
2010 EPS Estimate	1.59
P/ EPS	11
TTM EBITDA	241 MM
EV/ EBITDA	5.4x

We attempt to provide subscribers with reasoned opinions based on our analysis of publicly available information from sources believed to be reliable, but make no representations as to its accuracy or completeness. Best Idea profiles are not based upon individual needs of subscribers nor are they an offer to buy or sell securities. Additional disclosures can be found under the Disclosures portion of the Mossberg's Investor Digest website.