

# Whisper #319--COMPANY ANALYSIS SIX FLAGS



*Here's my latest Whisper  
for Premium subscribers  
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*Whisper #319 June 28 2022*

## COMPANY ANALYSIS SIX FLAGS (SIX-NASDAQ)

Consumer Discretionary stocks are at their lowest level since the pandemic started. And now that there has been a sharp pullback in markets—and the market is still fearful of even deeper pullbacks—investors can think to the other side of this chasm.

COVID is part of our lives but doesn't run our lives. We go out now. We may not travel abroad as much, but going to an amusement park is still ON.

Hence my idea of **Six Flag (SIX -NYSE)**. This is a bit of a turn-around story, which is already underway as a great Q1 released last month attests.

Six Flags is the largest regional theme park operator in the world. They operate 27 parks, 24 in the United States, 2 in Mexico and 1 in Canada. 900 rides, 150 rollercoasters, you get the idea. Note--I doubt anybody else will ever achieve this in our NIMBY world; permitting etc. *So huge moat here.*

SIX' stock had a great run until 2018, when profitability peaked. It then came down by 1/3 before the pandemic hit.



Source: Stockwatch.com

So there's a macro thesis here—Consumer Discretionary has been beaten down and should lead out of a recession (which we are probably in now).

The micro (company specific) thesis is—a new team, and a new business model—**Premium-ization**. (is that a word?) Going up-market. Sacrificing higher attendance for higher revenue & profit out of each park attendee.

Q1 numbers released in May suggest this new strategy is working: Six Flags reported revenue per park-goer of \$75.46 – up 34% from the prior year quarter (\$56.16) and 55% from Q1 2019 (\$48.48). Admission revenue increased 41.95% from Q1 2019 while in-park spending increased 78.87%.

They're eliminating or reducing freebies in the park (get a soda before each ride to ease the pain of line-ups) and discounting. They're charging more, etc.

In fact, Six Flags expects EBITDA in 2022 to exceed EBITDA in 2019. The stock is trading at 8x earnings. Could those numbers come down? Yeah, they could.

But I'm just not sure how much lower the market can take the stock. If the bottom isn't in here, we are getting very close.

The potential here for a double over the next year is very real, IMHO, and hinges on two things:

1. The economy not completely collapsing due to an over-reaching FED (i.e. high interest rates)
2. A new business strategy by the new management team to go up-market at their theme parks.

## QUICK FACTS

Trading Symbols:	SIX
Share Price Today:	\$22
Shares Outstanding:	86.2 million
Market Capitalization:	\$1,896 million
Debt:	\$2,379 million
Enterprise Value:	\$4,275 million

## POSITIVES

- Largest regional theme park operator in the world
- Generates a ton of free cash flow
- Trading at rock-bottom multiple

## NEGATIVES

- A new business model—going up market to improve margins—is unproven
- Consumer recession means this stock could take weeks to bottom
- Costs are mostly fixed, will have to deal with rising food, labor inflation

## THE PREMIUM-IZATION STRATEGY IS STARTING TO WORK

SIX' stock was cut in half in two months this spring as investor fears—first about inflation then recession—killed everything but oil and gas stocks.

Yet the Q1 numbers in May gave investors a lot of positive feedback on the new business model.

Six Flags reported Q1 revenue of \$138 million (vs \$122 million consensus) and GAAP loss of \$.76 per share, which was lower than the \$-1.05 consensus. (First quarter losses are typical as the majority of parks are not open during the quarter). Total attendance was 1,686,000 versus 2,167,000 in Q1 2019 – down 22%.

This new management WANTS attendance to drop 5% to 10% from their push for higher pricing. They believe modestly lower attendance will greatly increase the park-goer experience.

On their earnings call, CEO Selim Bassoul said about 3 million of the 33 million visitors in 2019 came on free 'bring-a-friend' type passes, which they're now wanting to eliminate and replace with discounted day tickets instead. Discounted is better than free! (for investors)

Their press release summarized their progress toward 'premiumization,' stating:

*"Six Flags has been quickly executing to improve the guest experience, improving ride throughput by increasing ride uptime and implementing single rider lanes on busy days; improving staffing and training of our team members; upgrading our park appearance, including our front gates, restrooms and restaurants;*

*providing better food quality; and offering more guest amenities such as benches, shade structures, and children's areas. We have reoriented our culture to prioritize the guest in everything we do, and we fundamentally believe this will drive significant and sustainable long-term earnings growth."*

Keep in mind TTM revenue was \$1,553 mln – so a further 20% price increase should be sufficient to send annual EBITDA to nearly \$1 bln assuming costs remain largely unchanged.

I had my research team go through some financials from years past, and this shows a breakdown of spending per visit versus during the first quarter, going back to 2019:

### Six Flags First Quarter Attendance and Revenue per Visit

	<u>Q1 2022</u>	<u>Q1 2021</u>	<u>Q1 2020</u>	<u>Q1 2019</u>
Attendance (mln)	1.69	1.35	1.58	2.17
Admission Revenue (per visit)	\$ 43.28	\$ 32.95	\$ 37.77	\$ 30.49
In-Park Spending (per visit)	\$ 32.18	\$ 23.21	\$ 18.83	\$ 17.99
Total Revenue (per visit)	\$ 75.46	\$ 56.16	\$ 56.60	\$ 48.48
Growth (%)	34.4%	-0.8%	16.7%	5.2%
Total Revenue (mln)	\$138	\$82	\$103	\$128

The bump in admission revenue is from higher season pass prices. And these passes have few benefits (no longer is there free unlimited soft drink refills and free unlimited dining).

Note that total revenue this year beat Q1 2019 by \$10 mln—almost 8%-- despite a 22% drop in attendance (from 2.17 to 1.69 million).

The number of active membership and season pass holders fell 12% from the prior year to 3.6 million. Six Flags stated:

*We continue to test our new pricing and promotional programs with the ultimate goal of maximizing our profitability. It is still quite early in the process, and most of our parks are not yet open full-time. However, we are pleased with the early results. Based on our initial learnings, we have decided to lean even more heavily into pricing and expect this will further lower our attendance.*

Costs are tougher to parse out, but park-related costs APPEAR to be flat or even slightly lower, coming in at \$91.81 per visit in the most recent quarter versus \$95.81 last year and \$92.11 in Q1 2020. During their conference call, Six Flags stated:

*We are facing approximately \$80 million in cost headwinds in 2022 relative to 2019. About 40 million of these headwinds are related to labor wage rates and \$20 million relates to our annual bonus accrual, both of which we called out on previous earnings calls. The remaining \$20 million relates to inflation and other input costs throughout our park operation, which is accelerated over the past two months.*

*While we were able to successfully offset these cost headwinds in the first quarter through cost savings programs, we expect to see some impact on our cost structure in the subsequent three quarters of the year.*

So, in conclusion here is a summary of their 'premiumization' program:

1. Previously nearly 30% of roller coaster seats went empty, new 'single rider' lines on the "busiest days" should correct this
2. Staffing levels are "greatly improved versus last year"
3. Parks are being updated for a new, more modern front gate experience
4. Restaurants being modernized and will have expanded capacity
5. New menus will be rolled out at parks over the course of the summer
6. Adding premium brands to parks including Starbucks, Fat Burger and Costa Coffee
7. Updating parks to offer more parent seating areas with shade, more comfortable seating and more shade in restaurant areas
8. Upgrading WiFi and cell phone coverage in parks
9. "For the first time in several years, our guest satisfaction scores are trending upwards" and scores re now above pre-pandemic levels

Net debt at quarter end was \$2.38 billion, (\$2.63 billion gross debt and \$252 million cash. Six Flags plans to use cash flows to pay down debt and “opportunistically” repurchase shares.

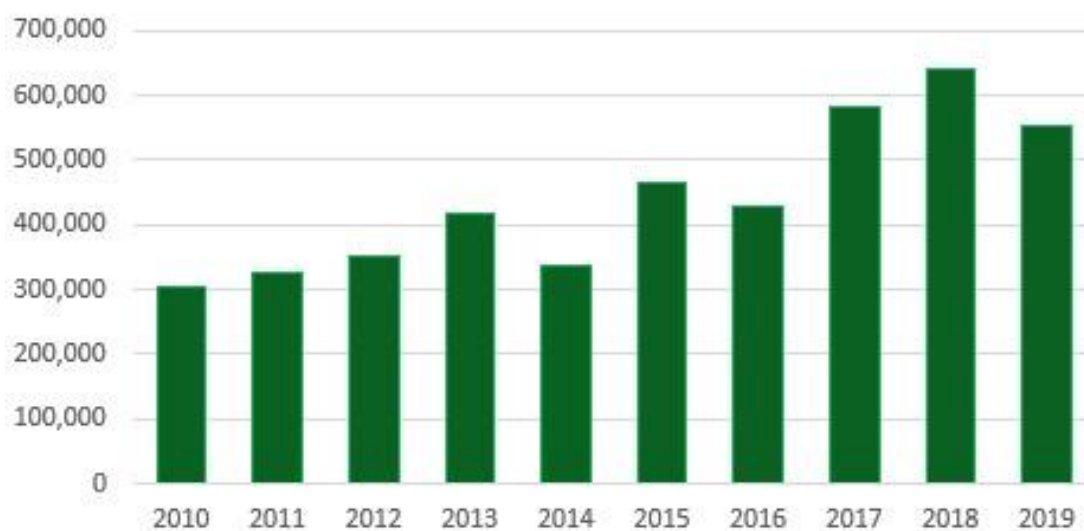
On those cash flows, Six Flags guided they will beat 2019 EBITDA levels this year--\$555 million. Now, in Q4 21 they beat Q4 19 EBITDA by \$21 million and Q1 22 EBITDA beat 2019 by \$28 million—almost \$50 million better than 2019!

2022 COULD be an all-time record year, beating their \$640 million of 2018. Their Enterprise Value—EV is just over \$5.5 billion now.

## THIS HAS ALWAYS BEEN A GOOD BUSINESS

The Street has been worried about the declining EBITDA margins and free cash flow since before COVID.

### EBITDA GREW UNTIL 2019

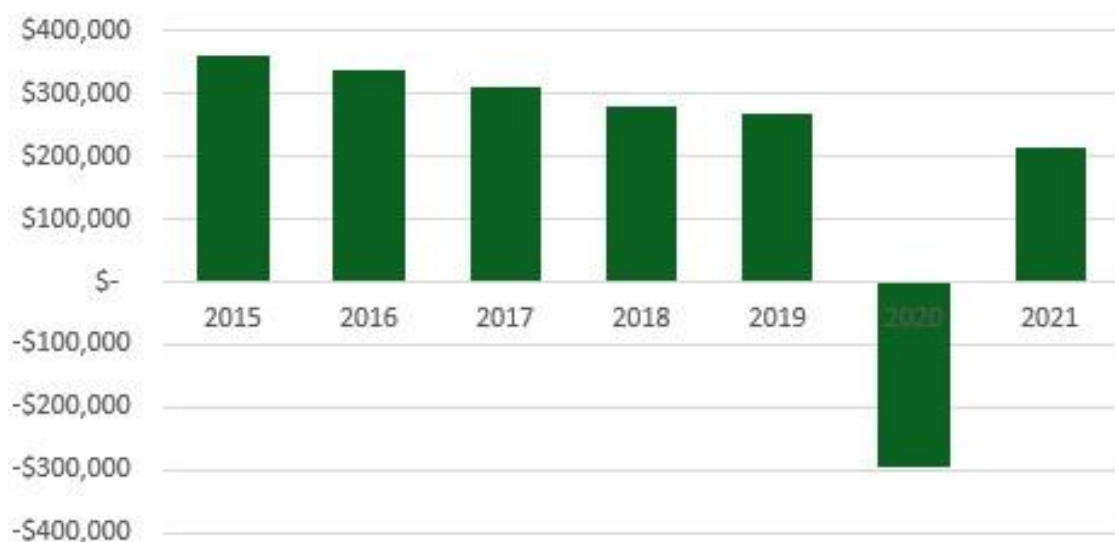


*Source: Six Flag Filings*

Its why the stock peaked out in 2018. EBITDA and free cash flow margins began to slip.

But even then, this was a viable business. Six Flags was firmly free cash flow positive every year before the pandemic. Last year the company returned to generating cash.

## LOTS OF FREE CASH

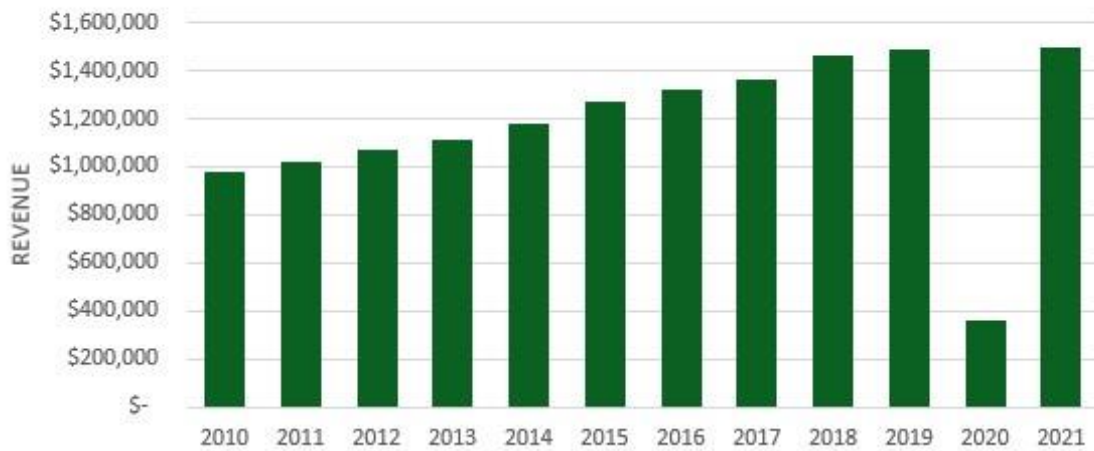


*Source: Six Flag Filings*

Through it all the topline has grown – which as I will get to, has been part of the problem.

In the 5 years before COVID Six Flags grew the topline at between 2-8% per year.

## FOCUS HAS BEEN ATTENDANCE



*Source: Six Flag Filings*

There is debt—arguably lots of it but D:CF here can pay that down year over year no problem. There is \$1 billion of July 2024 debt with a 4.875% current rate. The rest is 2027 and beyond. There is \$480 million on a 2026 revolver too.

## THE TURNAROUND

Six Flags has gone through a couple of management teams in the last few years trying to right the ship.

Their new leader is CEO Selim Bassoul. Bassoul took over in Q4 of last year. Before that he spent two years on the board, with the last as Chair.

Bassoul is changing the focus at Six Flags from attendance to profitability. Each of the next couple quarters will give the Market a good insight if the turnaround seen in the last couple quarters is on track still.

On a side note, Paragon Intel put together an interesting short report on Six Flags a few months ago. Their thesis centered on Bassoul. They believed he is out of his element and the strategy he has used in the past won't work

Bassoul had a successful go at it with Middleby Corp – a manufacturer of food equipment.

Bassoul was successful at Middleby. He drove compound return of 35% over 17 years.

But there was no focus on organic growth. Bassoul made Middleby work through growth by acquisition. Acquiring companies, cutting costs.

Six Flags is embarking on a different strategy. This is about driving margins, improving the park experience, driving dollars per head – pure operational stuff.

Paragon interviewed 7 former colleagues of Bassoul. He scored very badly on these interviews.

On the question (asked to all 7) will Bassoul succeed as CEO – all 7 answered no. Paragon Intel went on to say that no one has went “O for 7” on this question before.

Those are the negatives. It is a short report, it is going paint a bleak picture. But keep in mind, this report was written when the stock was \$50. Their *target* was a \$25 stock.

We’re already 20% below that, folks!

## CONCLUSION

The thesis here is simple. Six Flags gets back to driving the bottom-line margins growth they did before 2019. The stock gets back to trading at a free-cash yield it did before 2019. We all go home happy.

From 2015 to 2019 Six Flags traded between \$32 to \$68 per share. The market gave them a FCF multiple of between 10-18x. The high end of that range was when the business was bopping.

Today Six Flags gets a multiple of less than 8x on a trailing basis, lower looking forward if you think Six Flags can meet their 2022 guidance.

The bet here is that Six Flag can outrun inflation by

1. driving more \$'s from customers
2. their strategy won't be derailed by a recession
3. that Bassoul can turn around margins.

In this first truly post-COVID summer, consumers are going to cut back on a lot of other luxuries before they start cutting back on their ability to get out.

Six Flags has always been an efficient operator – top tier in the industry. In the past costs were kept down at a lower rate than inflation.

Finally, is it all in the stock? Is the bad news, of which there has been plenty, priced into Six Flags at \$20?

I think that it might be.

I intend to dollar cost average into this position over the coming months. I see new lows in the DOW after this rally week, and I'll try to be buying during those times.

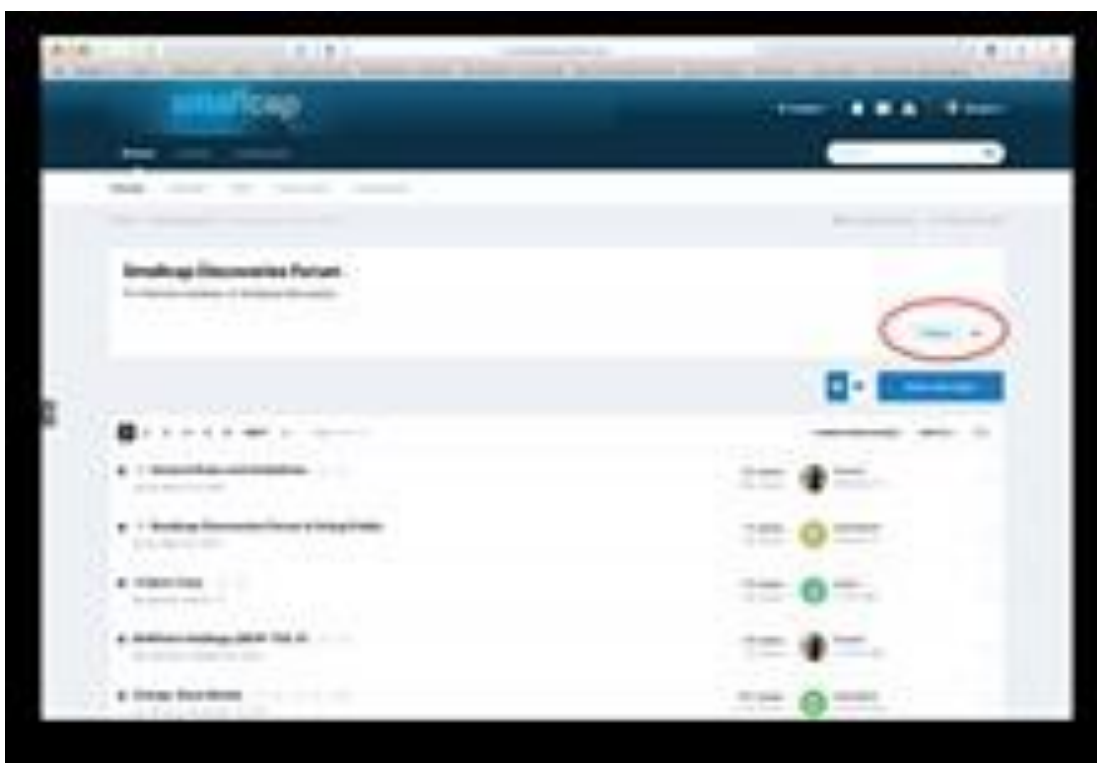
**REMINDER:** Next subscriber conference call is **Tuesday July 26th at 430 pm pacific**. Don't forget to **REGISTER HERE**. Please mark it in your calendar.

Don't forget to go to **the forums!** Lots of smart, connected people who are posting there. And I post some interesting tidbits there first sometimes.

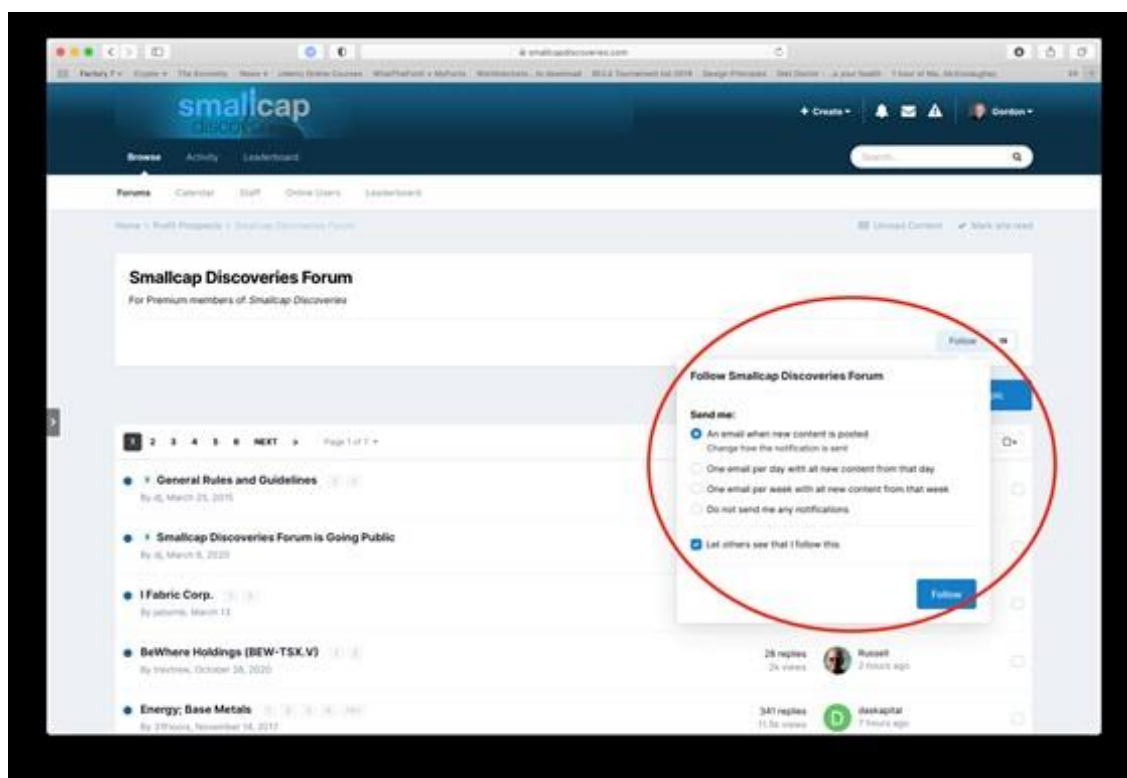
Please reach out to me at [keith@investingwhisperer.com](mailto:keith@investingwhisperer.com) if you have any questions or comments.

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