# CASE 32

# Six Flags, Inc.:

## THE 2006 BUSINESS TURNAROUND

Patricia A. Ryan

"THE BUSINESS WAS BROKEN," COMMENTED DANIEL SNYDER IN JUNE 2006, THE NEW Chairman of the Board of Six Flags.[1] Fixing the business would not occur overnight for Snyder, who owned the Washington Redskins, but clearly he thought it would be doable and profitable, as was the proxy fight to run the theme park company in late 2005. According to Mark Shapiro, CEO of Six Flags:

> We're investing more in our operations because the health of the business depends on bringing back families. Our first priority is to fix the operation and that is not going to happen overnight. We see this as a long-term investment.[2]

Over the past five years, Six Flags stock had underperformed relative to Cedar Fair, its closest competitor, as well as compared to market indices. In May 2001, Six Flags stock traded at $23.25, and it sank nearly 80% in value to the $5 range in 2005. In 2004, Snyder's company, RedZone, increased its ownership in Six Flags, as did Bill Gates' investment vehicle, Cascade Investments. Together, the two parties owned over 20% of the stock, and they demanded changes to improve financial and operating performance. Snyder and Gates used their ownership to try to influence the Board to make some drastic changes, but the parties were at odds as how to improve the performance of the company. Snyder then made a successful move to remove the old Board of Directors and senior management, replacing them with his own hand-picked executives and board members. The fight for the company was over. In 2006, Snyder had Six Flags in his hands—it was now time to implement the changes he saw necessary to increase the value of his investment.

"The company was so ground down; it won't reverse in a year or two," commented Dennis L. Speigel, President of Consultancy International Theme Park Services.[3] Clearly, it would take skill and time to turn this company around.

# The Business

Six Flags operated the largest regional theme park company in the world with a sole focus on theme and water parks. Six Flags operated 29 theme parks as listed in **Exhibit 1.** Regional theme park companies such as Six Flags located parks within a day's drive for visitors and worked to place its parks near large population bases within 50 and 100 miles for a one- or

**EXHIBIT 1**
Theme Parks by Focus, Location, Population, and Size: Six Flags, Inc.

| Theme Park | Type of Park | Location | Population within 50 and 100 Miles, Respectively (in millions) | Size (acres) |
|---|---|---|---|---|
| Six Flags America | Theme and water | Largo, Maryland | 7.4, 12.4 | 523 |
| Six Flags Darien Lake and Camping Resort | Theme and water | Darien Center, New York | 2.1, 3.1 | 978 |
| Six Flags Elitch Gardens | Theme and water | Denver, Colorado | 2.9, 3.9 | 67 |
| Six Flags Fiesta Texas | Theme and water | San Antonio, Texas | 2.0, 3.6 | 216 |
| Six Flags Great Adventure, Six Flags Hurricane Harbor, Six Flags Water Safari | Theme, water, safari (three separate parks) | Jackson, New Jersey | 14.3, 28.1 | 2279 |
| Six Flags Great America | Theme and water | Gurnee, Illinois | 8.8, 13.5 | 324 |
| Six Flags Kentucky Kingdom | Theme and water | Louisville, Kentucky | 1.5, 4.8 | 59 |
| Six Flags Magic Mountain and Six Flags Hurricane Harbor | Theme and water (two separate parks) | Valencia, California | 10.6, 17.7 | 262 |
| Six Flags Marine World | Theme and mammals | Vallejo, California | 5.7, 10.7 | 135 |
| Six Flags Mexico | Theme | Mexico City, Mexico | NA, 30 | 107 |
| Six Flags New England | Theme and water | Springfield, Massachusetts | 3.2, 15.8 | 263 |
| Six Flags New Orleans* | Theme | New Orleans, Louisiana | NA | 140 |
| Six Flags over Georgia and Six Flags White Water Atlanta | Theme and water (two separate parks) | Atlanta, Georgia | 4.8, 7.7 | 290 |
| Six Flags over Texas, Six Flags Hurricane Harbor | Theme and water | Arlington, Texas | 5.7, 6.8 | 285 |
| Six Flags Splashdown | Water | Houston, Texas | 5.1, 6.3 | 60 |
| Six Flags St. Louís | Theme and water | Eureka, Missouri | 2.7, 3.9 | 503 |
| Six Flags Waterworld Parks | Water (two parks) | Concord and Sacramento, California | 7.6, 11.3 | NA |
| Enchanted Village and Wild Waves | Water and rides | Seattle, Washington | 3.5, 4.6 | 66 |
| Frontier City† | Western theme | Oklahoma City, Oklahoma | 1.3, 2.6 | 113 |
| La Ronde | Theme | Montreal, Canada | 4.3, 5.8 | 146 |
| The Great Escape and Six Flags Great Escape Lodge and Indoor Waterpark | Theme and water (two parks) | Lake George, New York | 1.1, 3.2 | 351 |
| White Water Bay† | Tropical theme | Oklahoma City, Oklahoma | 1.3, 2.6 | 21 |
| Wyandot Lake | Water and rides | Columbus, Ohio | 2.2, 6.8 | 18 |

* Closed for 2006 season because of hurricane damage from Hurricane Katrina.
† Scheduled to close at the end of the 2006 season.

two-day mini-vacation. Unlike national entertainment parks such as Disneyworld and Universal Studios, they were more likely to attract visitors for a day or two as opposed to being a vacation destination. Six Flags' management estimated that their parks were within 150 miles of two thirds of the U.S. population. Specific population bases for each park are given in **Exhibit 1.**

Six Flags was founded in 1961 by Angus G. Wynne with the opening of Six Flags over Texas, a pirate-themed adventure theme park. Over the next 45 years, the company grew into a chain of theme parks with such parks as Six Flags over Georgia, and Great America in Gurnee, Illinois. Known for their fast roller coasters and adventure rides, the company successfully built a group of theme and water parks under the Six Flags name.

The theme parks changed hands several times over the 45-year history and in 1991 were sold to Time Warner. In 1998, Time Warner sold the theme parks to Premier Parks. Premier Parks continued the rapid expansion of Six Flags, using the Six Flags name for several smaller theme parks that Premier had developed including Darien Lake, Elitch Gardens, and Adventure World (CITIES). The Six Flags name was adopted for the entire firm in 2000 and by the end of 2005, the company was the largest amusement operator in the United States.

Six Flags held licenses for multiple Warner Brothers and DC Comics characters including Bugs Bunny, Tweety Bird, Daffy Duck, Yosemite Sam, Batman, and Superman. This meant they could market these characters through merchandise sold in the parks, as well as use the characters to enhance the park experience and for advertising the parks.

Multiple factors affected the business success of Six Flags. The theme parks were seasonal, with 85% of theme park attendance in the second and third quarters of the calendar year.[4] Given the outdoor nature of the theme parks, adverse weather conditions affected attendance and thus revenue. There were multiple competitors for family entertainment dollars; competition came both from direct competitors, such as Cedar Fair and Busch Entertainment, and other competitors, such as Walt Disney World, Disneyland, Sea World, and family fun centers. Cedar Fair owned 12 amusement parks and five outdoor parks including Knott's Berry Farm in California and Cedar Point in Ohio. Busch Entertainment, a subsidiary of Anheuser-Busch, owned nine theme parks in five states. It included Sea World parks in California, Florida, and Texas and two Busch Gardens parks.

## The Financial Picture

Six Flags had not turned a profit since 1998. In the last six years, its net losses had been \$51,959,000 in 2000, \$58,102,000 in 2001, \$105,698,000 in 2002, \$61,713,000 in 2003, \$464,809,000 in 2004, and \$110,938,000 in 2005. During that time, its revenues totaled \$1,041,197,000 in 2000, \$1,075,989,000 in 2001, \$1,059,095,000 in 2002, \$1,048,643,000 in 2003, \$1,037,692,000 in 2004, and \$1,089,682,000 in 2005. It had been the huge loss of \$5.23 per share in 2004 that had forced a management change at the company. Furthermore, long-term debt had been continually increasing during the past six years. This left Six Flags burdened with excessive debt payments. In 2000, long-term debt accounted for 52.34% of total assets, whereas at the end of 2005, long-term debt had increased to 60.94% of total assets. Six Flags was burdened with about \$2,242.4 million in total indebtedness at the end of 2005. On August 2, 2006, Moody's downgraded Six Flags' \$2.4 million in debt from B2 to B3. It further lowered Six Flags' senior unsecured debt to lower junk level at Caa2 from Caa3. The ratings agency expressed concern about potential higher future expense associated with management's changes on the currently weak financial position.[5] On the day the debt was downgraded, the stock price fell 22.7% to \$5.76. Clearly, the stock market interpreted this as a negative signal, and one that was a surprise to the market. The annual maturities of long-term debt subsequent to December 31, 2005 were as follows:[6]

| | |
|---|---|
| 2006 | $113,601,000 |
| 2007 | 7,148,000 |
| 2008 | 317,675,000 |
| 2009 | 314,400,000 |
| 2010 | 299,754,000 |
| Thereafter | 1,189,779,000 |
| Total | $2,242,357,000 |

After 2000, the company had lost money each year, with losses skyrocketing in 2004 to 17.08% of sales. Total operating costs were over 80% of revenue in all but one year, with interest payments on debt swallowing the rest of the revenue. Nevertheless, the company's operating income (before debt payments and park closing costs) had been consistently positive at $195,686,000 in 2000, $205,454,000 in 2001, $230,389,000 in 2002, $188,723,000 in 2003, $149,573,000 in 2004, and $183,347,000 in 2005. The company's overall poor performance was reflected in its falling stock price. Although the stock showed strong gains during the exuberant market of the late 1990s, since the market decline in 2000 Six Flags had struggled to maintain its value in the stock market. (For financial statements, see www.sixflags.com.)

In October 2005, Six Flags AstroWorld in Houston was closed. The 104-acre site was placed on the market and Six Flags planned to use the proceeds to retire some of its debt. Six Flags New Orleans sustained extensive damage from Hurricane Katrina in August 2005 and did not open for the 2006 season. The company was in negotiation with its insurance carrier for insurance claims and planned to rebuild the park.

In January 2006, Six Flags announced it intended to sell its Oklahoma City theme and water parks after the 2006 season. The proceeds were to be used to repay some of the debt. Six Flags, according to industry analysts, had considerable potential in the theme park industry, but Snyder had his work cut out for him. Would he succeed?

## Enter Bill Gates

Bill Gates, founder of Microsoft, one of the world's wealthiest men and a major shareholder of Six Flags, was not pleased with the company's recent performance. His ownership was under the name of his Canadian investment company, Cascade Investments. Gates began buying Six Flags stock in 1999 and accumulated 10,810,120 shares, which accounted for 11.5% of the firm's stock in 2004, at a market value of $54 million. It was stated in SEC filings that Gates had become increasingly dissatisfied with the financial performance of Six Flags over the past five years.[7] He expressed intent to discuss with Six Flag's board the company's strategic decision making and recent financial and operating performance.

When Gates began investing in Six Flags, the stock price had fallen about 80%.[8] Rather than recovering over time, the stock fell further. Gates and Snyder combined owned over 20% of the company's stock, and the pressure to remove old management was great.

## Enter Daniel Snyder and Mark Shapiro

In 2005, there was a full management and board turnover. Unsatisfied with how things were being run, Daniel M. Snyder, owner of the Washington Redskins and Red Zone LLC, entered a proxy fight to gain control of Six Flags. Successful in his bid, he became Chairman of the

Board in late 2005. Additionally, two of his designates joined the board. This included Mark Shapiro, the new President and CEO. Shortly after this change, there were six new directors placed on the Board and five resignations, two of which were new directors.

Mark Shapiro became CEO of Six Flags on December 14, 2005. For the previous year, Shapiro had served as CEO of RedZone LLC, a private investment firm founded by Daniel Snyder. Snyder held an 11.5% interest in Six Flags.

Although the management turnaround may have been exactly what Six Flags needed, the new management team and directors did not have a proven success record with Six Flags. The management was young in age and in tenure with Six Flags. Only four members had been associated with Six Flags prior to 2005. The rest of the management team and board were new to the company in 2005 or 2006. Given the change in management and the new operational plan to turn around Six Flags, the risks of failure must be assessed.

## Turnaround

At the end of 2005, Six Flags employed about 2,500 full-time employees with an additional 31,500 seasonal employees. Many of the seasonal employees were college students. According to CEO Shapiro,

> *While we see 2006 as a transitional year, by reaffirming previous management's guidance we are underscoring confidence that our redefined strategy, coupled with celebration of our 45th anniversary, will broaden our customer base by attracting families as well as teenagers, boosting our per capita revenue.*[9]

In June 2006, Six Flags announced that it was considering the closure of six more of its 30 theme parks. These were Six Flags Darien Lake near Buffalo, New York; Six Flags Waterworld in Concord, California; Six Flags Elitch Gardens in Denver, Colorado; Six Flags SplashTown in Houston, Texas; Wild Waves and Enchanted Village near Seattle; and Hurricane Harbor outside Los Angeles, California.[10]

Six Flags Darien Lake, one of the six parks facing closure, announced that it would close four weeks early for the 2006 season, closing October 1 rather than November 1. The situation was becoming dire for the company. According to Robert Niles, founder of themeparkinsider.com, "In many respects, they've slid to a point where they resemble a souped-up county fair more than world-class theme parks."[11]

## The Future

Six Flags changed its ticker symbol from PSK to SIX on June 5, 2006. On August 17, 2006, Shapiro rang the closing bell on the NYSE to celebrate the new ticker symbol. He commented:

> *The 2006 season is winding down, and we've witnessed families returning to our parks, spending more, and driving our guest approval ratings to a five-year high. We're proud of what our employees have accomplished in this transitional year, and we're looking ahead to new horizons in 2007.*[12]

There were many challenges facing Six Flags. Shapiro felt that the company's new strategy of closing the less productive theme parks and working to increase spending from guests who were in the parks was working. Management eliminated the deep discounts to maintain sales and instead focused on stronger sales techniques. Shapiro felt that the new strategy was working.

> *Increased guest spending is continuing at a strong pace—a clear indication that our strategy is working. The drop-off in attendance was driven primarily by an anticipated decline in our season*

*pass sales, which we are no longer deeply discounting in an effort to restore price brand integrity, and to wean ourselves from those teens who don't spend money in the park.*[13]

Looking to the future, Shapiro felt that management had clarified the company's mission. They were repositioning Six Flags as a set of themed parks, rather than as a collection of individual amusement parks. They were increasing the bang for the buck for visitors hoping they would stay longer, spend more, and return faster. The emphasis on customer satisfaction was stronger—as indicated by Shapiro's comments:

*This means Six Flags will get back to being genuine theme parks—not merely amusement parks. It means we will restore diversified entertainment offerings such as the Chinese acrobats. It means reinvigorating the parks with "streetmosphere"—a process of enhancing the spaces between the rides with a variety of entertainment offerings. It means that daily parades, in-park celebrations, acrobatic and juggling acts will dazzle our guests. It means the casts of our Looney Tunes characters and Justice League superheroes will expand dramatically from one or two per park in 2005 to at least 30 in every Six Flags branded park, every hour of every operating day, mingling with the crowds, greeting our customers, posing with them for photographs, even riding the rides. By offering a true character program, we will have created new revenue streams that are sorely needed.*[14]

Six Flags faced a number of challenges as it ended the 2006 season. Management was in the middle of implementing a new operational plan and there was uncertainly about its success. Management was young and energetic, but fairly new to the company. Given that 85% of park attendance occurred in the second and third quarters of the calendar year, Six Flags faced the challenges of managing a seasonal business.[15] This was a problem for Six Flags given that a number of its parks were in northern locations. As more recreation facilities competed for the consumer's recreation dollar, pressures would surely intensify. Finally, there was the huge mound of debt from which Six Flags needed to unbury itself. There was a risk that the company would not be able to meet its debt obligations. This would affect management's ability to obtain future funding as well as possibly force the company into bankruptcy.

What lay ahead for Six Flags? Would management's turnaround strategy save the firm, or would the heavy debt burden eventually sink the company?

## ENDNOTES


1. "The Batman and Robin of Six Flags," *Business Week* (May 8, 2006).
2. "6 Flags Mulling Future of 6 Parks," Associated Press (June 22, 2006).
3. "Batman and Robin" (2006).
4. Six Flags, *2005 Annual Report*, 20.
5. "Moody's Downgrades Six Flags Debt," Associated Press (August 2, 2006).
6. *Six Flags 2005 10-K*, F-25.
7. *Six Flags 13-D* (August 27, 2004).
8. Matt Krantz, "Add Bill Gates to List of Unhappy Six Flags Investors," *USA Today* (September 1, 2004).
9. Six Flags Company Press Release (March 8, 2006).
10. Associated Press (June 22, 2006).
11. "Batman and Robin" (2006).
12. "Six Flags President and CEO Mark Shapiro Rings NYSE Closing Bell to Celebrate Company's New Stock Ticker Symbol, SIX," Six Flags Press Release (August 17, 2006).
13. Associated Press (June 22, 2006).
14. "Annual Letter to the Shareholders," *Six Flags 2005 Annual Report*.
15. *Six Flags 2005 10-K*, 22.