No Fun for Six Flags As Parks Face Slump --- As Debt Looms, Smaller Coasters Are In
By Jeffrey McCracken 5 August 2008 The Wall Street Journal A1

AUSTELL, Ga. -- Six Flags Inc. Chief Executive Mark Shapiro looked up at Goliath, a 200-foot-tall roller coaster just outside of Atlanta, as riders roared downhill at 70 miles per hour. "Nice ride," he noted. "But we'll never get our return on investment with it."

Six Flags, one of the nation's largest amusement-park companies, is under serious financial strain. It hasn't posted an annual profit in years. It's weighed down by $2.4 billion of debt, and faces a $288 million payment to preferred stockholders next August.

Luring more customers to its 20 amusement parks during the peak summer months is essential to the New York-based company's turnaround effort. "This is the year we've got to put a number on the board that impresses," Jeffrey Speed, the company's chief financial officer, said last month. "It's a show-me story, and we've yet to perform. We know that."

Mr. Shapiro, the former head of programming at ESPN, has been trying to cut costs wherever he can. While competitors such as Ohio-based Cedar Fair try to lure more customers with ever bigger, more outrageous and expensive roller coasters, Six Flags is moving in an opposite, family-friendly direction. It has barred bikini tops and banned smoking everywhere but in small areas on the outskirts of the parks.

On Monday, Six Flags gave investors the first indication that its overhaul may be gaining traction. It posted a second-quarter profit of $94.6 million, in part due to a recent debt-restructuring deal.

But it's a terrible time for any company to try to pry more disposable income out of the wallets of beleaguered consumers. Consumer confidence is shaky, and sky-high gasoline prices are causing Americans to think twice about unnecessary driving. Already, several retailers and restaurant chains that cater to middle-market consumers have sought bankruptcy protection.

"Some theme parks held up in the last recession, but this is a different downturn, so you can't necessarily say they will hold up during this one," says John Puchella, a theme-park analyst for Moody's Investors Service. "This is a consumer-led downturn." Moody's estimates that attendance at amusement parks will drop about 5% this year.

At Six Flags, attendance declined 3% in the quarter, in part because Easter didn't fall during the second quarter this year. But revenue inched up 1%, thanks to management's efforts to squeeze more money from sponsorships and licensing fees.

Six Flags shares were down nine cents at $1.03 a share in 4 p.m. composite trading Monday on the New York Stock Exchange. They remain far below the $3.67 they were trading at one year ago.

That's bad news for two big Six Flags investors -- Washington Redskins owner Daniel Snyder, who won a proxy fight for control of the company in 2005, and Microsoft's Bill Gates, whose investment fund backed Mr. Snyder. As of March 31, Mr. Snyder, now the company's chairman, owned about 5.4% of Six Flags, and Mr. Gate's investment fund, Cascade Investments, owned 11%, the most recent securities filings indicate.

"We aren't where we want to be, but I think we are heading in the right direction," said Mr. Snyder in an interview in late June. Cascade declined to comment on its Six Flags investment.

Mr. Shapiro, who is 38 years old, says he wants to attract a family crowd with more modest roller coasters and kiddie rides. The new Dark Knight coaster at Six Flags Great Adventure in Jackson, N.J., tied to the latest Batman movie, cost about $7.5 million to build, compared with $20 million or so for giant coasters like the Goliath in Georgia. Its top speed is just 30 mph, less than half of Goliath's top speed. It's housed in a dark building, which makes it harder to notice how much smaller it is than its high-octane competitors.

"My strategy makes perfect sense," says Mr. Shapiro. "It's just whether we have enough money. So I need to make recognizable progress this year."

Six Flags was founded in Texas in 1961. Time Warner Inc. bought the company in 1991, then sold it in 1998 to Premier Parks, an Oklahoma-based park operator. Premier combined the two operations and took the company public later that year as Six Flags. The new company spent heavily on new rides, acquisitions and expansion into Canada, Mexico and Belgium. Its debt load ballooned.

Mr. Snyder, whose investment company was a large stockholder, began pushing in 2004 for Six Flags to bring in new management, sell off some parks, and begin going after families rather than thrill-seeking teenagers. "Stockholders would have been better off hiding their money under a mattress" than investing in the company under the existing management, Mr. Snyder wrote in a letter to Six Flag shareholders in October 2005, during the proxy battle. At the time, Six Flags shares were trading at about $7.25.

After he took over as chairman, he recruited film producer Harvey Weinstein to fill a seat on the company's board, for his marketing prowess. Mr. Snyder had met Mr. Shapiro when ESPN was trying to lure the National Football League's Monday night games to the network. Impressed by Mr. Shapiro's marketing background, Mr. Snyder persuaded him to run Six Flags, and to bring a team of ESPN veterans with him.

In 2006, after cleaning up its parks and adding some new rides, management raised admission prices by $5 to $10, driving the ticket price to as high as $40 in some markets. But attendance dropped below 25 million in 2006, from 28.7 million in 2005. "Our lack of pricing power was really a big surprise to me," says Mr. Shapiro.

In 2006 and 2007, Six Flags sold 10 parks and a 100-acre lot in Houston for about $400 million, hundreds of millions less than anticipated, according to Mr. Speed, the company's CFO. Mr. Snyder had set a goal of trimming debt to less than $2 billion. But with the real-estate proceeds going to fund operations, the debt remained at $2.4 billion. Rivals such as Cedar Fair and Universal City Development Partners, whose theme parks include Universal Studios Florida, carry much smaller debt loads relative to their cash flow.

Mr. Shapiro hasn't wavered from his view that the old amusement-park formula -- build bigger and better roller coasters as often as possible -- isn't a money-maker. He says he's not overly interested in the typical teenage fans of such rides, who were once Six Flags' best customers. He is courting parents, young children and corporate groups, and is emphasizing rides tied to movies and cartoon characters, which can generate T-shirt and sweatshirt sales.

Six Flags used to spend $200 million or more a year on capital expenditures, mostly on new roller coasters and other rides. It has cut that figure to about $100 million a year, an amount Mr. Speed calls "sustainable."

Mr. Shapiro also has been trying to boost revenue from licensing deals and movie tie-ins. One afternoon this summer at Six Flags Over Georgia, the 297-acre park outside Atlanta, employees were loudly hawking food and trying to persuade customers to buy photos. Employees have been encouraged "not to sell stuff, but to hawk it exuberantly," says one Six Flags executive based at the park.

Mr. Shapiro sees advertising and licensing possibilities all over the parks. Before climbing aboard the Dark Knight roller coaster, riders see a faux newscast that's partly a promotion for the movie. Elsewhere, flat-screen TVs bombard people standing in lines with advertisements for everything from Chrysler cars to Pampers diapers.

Sitting recently at a restaurant in the Atlanta park, he explained what he has in mind. "The umbrellas at the tables are Coke," he said. "That fits. No one complains about that. And we signed up Ben & Jerry's to sell ice cream. That fits. Disney does some of this, but they are too subtle."

Annual revenue from licensing deals is expected to jump to about $56 million this year, from $16 million in 2005.

Mr. Shapiro readily admits that this year is a critical one for Six Flags. Shortly before Memorial Day, in an effort to boost summer attendance, he cut ticket prices across the country by an average of about $10. Adults can now buy discounted one-day passes for about $29. He added a weekly concert series with performers intended to appeal to preteen girls, such as Vanessa Hudgens of Disney's "High School Musical" fame and English pop singer Natasha Bedingfield. He says studies show that young girls influence their parents' spending habits more than young boys do. Attendance this year, through June, is at year-ago levels.

The company's debt load, says Mr. Shapiro, gives it less room for error than he'd hoped. Accidents, while rare, can dent attendance. In June 2007, a Superman free-fall ride malfunctioned at a Kentucky park, severing the feet of a 16-year-old girl. Six Flags estimates that tragedy, which resulted in a lawsuit, cost it 500,000 visitors last year. In June, a 17-year-old boy was killed at the Georgia park after he jumped a fence and was hit by a Batman roller coaster.

To conserve cash, Six Flags has gotten rid of one of its three advertising agencies, reduced radio advertising, and cut about 300 full-time jobs at the end of 2007. Its goal is to shave operating expenses by $50 million in 2008.

Some of Six Flag's bonds have been changing hands at about 50 cents on the dollar, reflecting investors' doubts that the company will make good on its financial obligations. In June, the company gained breathing room when it struck a deal with nervous bondholders that lowers the company's total bond debt and gives it more time to pay the bondholders back, albeit at higher interest rates.

Next August, Six Flags is obligated to pay $288 million to preferred stockholders. On Thursday, for the second straight quarter, it suspended dividend payments to these shareholders. That will save the company $5 million, for now, but the amount will be tacked on to next summer's bill.

"We see it as an interest-free loan, and given this credit environment, you've got to take advantage of that," says Mr. Speed. He says the company hopes to renegotiate with its preferred shareholders, which include a Fidelity Investments fund and Silver Point Capital, a hedge fund. A strong summer, he adds, would give him more leverage in such talks.

Mr. Shapiro's goal for the year is simply to break even on a "free cash flow" basis -- that is, to bring in more than it spends on operations, capital expenditures and debt service. Six Flags hasn't managed that feat for any full year since going public, says Mr. Speed. "There are too many yellow flags, like weather or the broader economy, to guarantee it," Mr. Shapiro told investors on Monday. "But if current trends continue, then we can get there."

Walking around Six Flags Over Georgia in suit and tie, Mr. Shapiro engages in some wishful thinking: High gas prices can help his business. Cash-strapped families will still take vacations, he theorizes, but instead of flying to California or overseas, they'll take weekend trips closer to home.

"It's a working premise," he says. "But no one knows for sure. We've never had $4-a-gallon gas. It's obviously not the economic environment I would have chosen." Brad Elster, a 40-year-old software consultant, brought his wife and two daughters to the Georgia park, lured by the discounted tickets. He says he spent $100 refueling his Mercedes sport-utility vehicle on the way to the park. "The cost of filling up would never have crossed my mind in the past," he says. "But we decided this time not to buy any souvenirs or any of the pictures they try to sell." Mr. Snyder said in June he was supportive of Mr. Shapiro's approach. "A lot of times it takes longer than you like, longer than you want," he said. "A lot of companies that are consumer cyclical are down now," he said. "No one anticipated gas would be where it is, or this real-estate market. But we think if Mark gets the cash flow to positive, the market will reward him and us."