COMM 421

SEAWORLD ENTERTAINMENT®

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SeaWorld Entertainment, Inc.

About the Company

SeaWorld Entertainment, Inc. is a leading park and entertainment company that provides experiences that matter, and inspires their customers to save wildlife and the wild wonders of the world (1). It was founded in 1959 and is headquartered in Orlando, Florida (2). The company is famous for rescuing marine and terrestrial animals that are ill, injured or abandoned, with the ultimate goal to ensure their safe return to the wild (1).

The company operates "SeaWorld theme parks in Orlando, Florida; San Antonio, Texas; and San Diego, California, as well as Busch Gardens theme parks in Tampa, Florida, and Williamsburg, Virginia. It also operates water park attractions in Orlando, Florida; San Antonio, Texas; Chula Vista, California; Tampa, Florida; and Williamsburg, Virginia." (3) Overall, SeaWorld owns and operates "12 destination and regional theme parks under the SeaWorld, Busch Gardens, Aquatica, Discovery Cove, Water Country USA, Adventure Island, and Sesame Place brands." (3)

Apart from the traditional way of innovating and reinventing their offerings to attract new and returning visitors, SeaWorld has put in a lot of effort in showcasing the company's considerable animal rescues and ocean conservation (4). Their innovation and the mission to protect animals has benefitted both wildlife and SeaWorld's success. They reduced their emphasis on whales, which helped them garner goodwill and allowed them to provide customers a positive experience.

The main competitors for SeaWorld are Disney, Universal Parks, Six Flags and Cedar Fair. Among the top 10 competitors, SeaWorld's is ranked 4th on the basis of its revenue. The average revenue for the top 10 competitors is about $18.2 billion. Over the last four quarters, SeaWorld's revenue has dropped by about 96% (see Figure 2) (5).

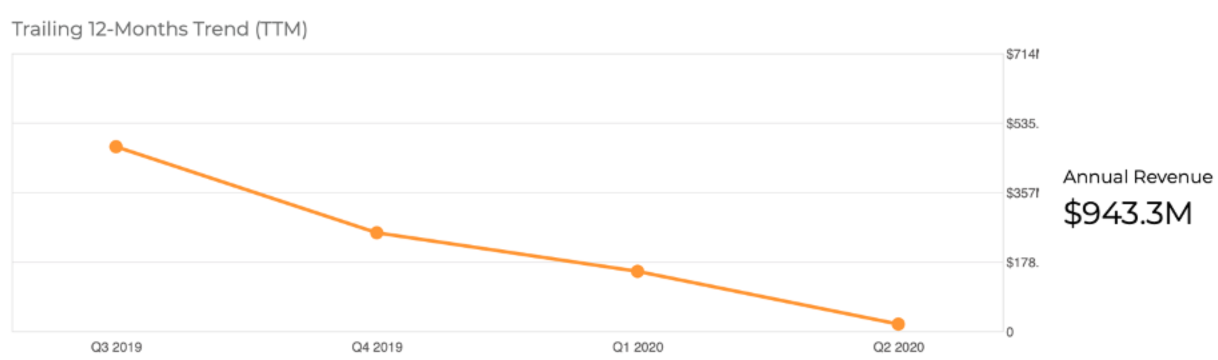

Figure 2. SEAS quarterly revenues over the last year.

Stock Summary

The SEAS stock opened in April of 2013 (see Figure 1), and closed at $33.52 USD on its first trading day (6). This stock offering followed the January 2013 release date of the documentary, Blackfish; a film that focused on the wellbeing of animals and staff within SeaWorld Parks, highlighting the death of an Orlando Orca trainer during a show, and bringing much negative attention to the franchise. Re-igniting the flame of a long-standing debate concerning the morality of keeping and breeding marine animals, SeaWorld experienced a hefty drop in attendance, revenue, and overall public interest (7). It can be assumed, therefore, that the issuance of the stock was a response to these issues; a way to generate extra cash to make up for a projected lack of attendance.

Around mid-2014 SEAS began to drop, and remained relatively low compared to its starting price in 2013 between 2014-2018. By November of 2014 it had decreased by nearly half, as attendance continued to drop (8). In response to this, more cost-saving practices were introduced, and per their announcement in 2016 regarding the end of their in-house breeding programs, less funds were being used for animal procurement and captivity (9,10). In 2018, with the addition of new attractions, SEAS began to increase once more. SEAS stock rose sharply between 2018-2019, nearly matching its highest ever price of $38.32 USD (see Figure 1). A portion of this increase may be due to the increasingly vehement campaigns to close all Marine-based parks permanently, leading some attendees to believe they must "experience the park before it is gone." New animals and rides are also likely sources of increased revenues and profits. At the beginning of 2020, due to the Coronavirus pandemic, the stock took a massive hit, plummeting to its lowest ever price (see Figure 1), and has slowly been slowly recovering ever since businesses have begun to reopen.

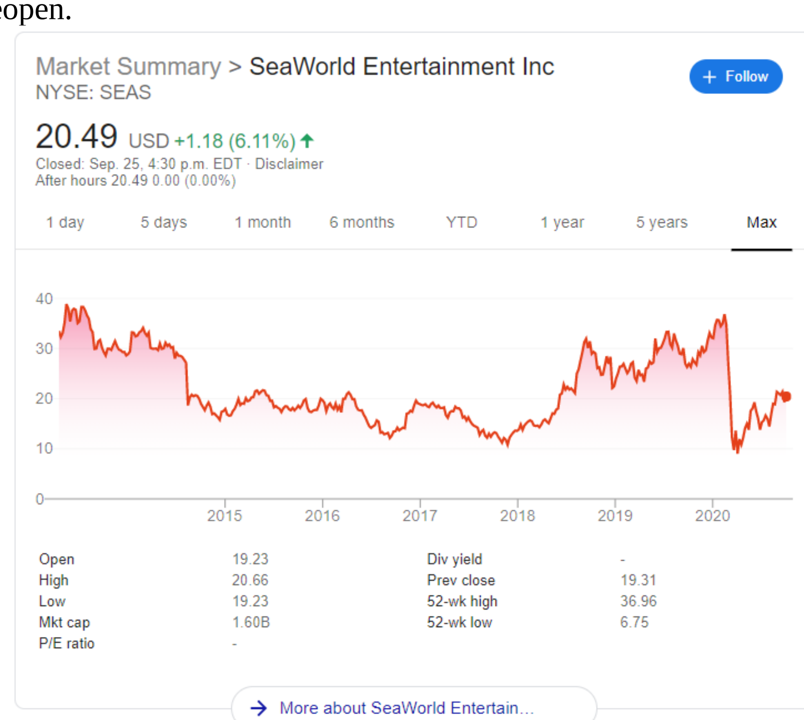

Figure 1. Historical stock chart for SEAS.

As campaigns continue to end all zoo-like parks and attractions, it is expected that SEAS will decline once more. Removing all animal-based attractions and appealing to a wider audience may potentially benefit SEAS and curb the expected loss, but it is difficult to determine by how much with the current global economic state. As well, in February of 2020 SeaWorld announced a $65 million settlement, as investors alleged they were deceived by the company about Blackfish's effects on park attendance (11).

Industry Analysis

SeaWorld operates within the amusement park and arcades industry, which can be considered a subset of the leisure attraction industry within the Consumer Discretionary sector. Under the commercial industry classification system, the Consumer Discretionary sector is defined as companies which earn most of their revenue from selling consumer-related products which exhibit a high degree of economic sensitivity (12). SeaWorld falls under this category because their main product, marine-themed amusement parks, is a luxury product/service which requires customers to have the adequate time and disposable income to enjoy, and is thus sensitive to the economic cycle.

Within the Consumer Discretionary sector lies the leisure industry. The leisure attraction industry is composed of companies whose main source of revenue is “recreational attractions, such as museums, historical sites and similar institutions, and amusement parks and arcades.” (13) Companies who are specifically within the amusement parks and arcades industry are defined as companies who operate “amusement or theme parks that host a variety of attractions, such as mechanical rides, water slides, games, shows and theme exhibits. These operators may lease space to others on a concession basis.” (14) Since their main source of revenue comes from their 12 theme parks (14), SeaWorld definitively falls within the amusement park and arcade industry.

The annual revenue generated by the Amusement Park and Arcade industry in the US is around $17 billion dollars, with global spending being estimated to be around 50 billion dollars. Approximately 55% of the revenue earned by companies in the amusement park industry comes from admission tickets, and approximately 30% comes from the food and merchandise. (16)

In a Porter's five forces analysis, the amusement park industry faces a strong threat in substitutes and rivalries among competing companies. They also face a medium threat of new entrants, buyer power, and supplier power. Threats from substitutes are high because many alternatives exist for consumers to spend their free time on, such as vacation travelling, movie theatres, or home entertainment options. Rivalry within the industry is also strong with the multimillion-dollar corporations competing not only among each other but also with smaller regional amusement parks with sites located within their proximity. The rivalry between companies is further intensified by the low cost of switching for buyers. Thus, strong marketing and product differentiation is crucial for companies to gain and retain their market share. The low cost of switching can also be encouraging for new entrants into the market, but new entrants are hampered by the high expenses that come from land and rides, as well as the maintenance of expensive rides needed to attract customers. (13)

In the US, the leading companies in the industry include Walt Disney, NBCUniversal Media which is owned by Comcast, Cedar Fair, Six Flags, and SeaWorld. Within these leading companies, SeaWorld, Cedar Fair, and Six Flags each own approximately 7%-7.5% of the US market share, while Walt Disney owns approximately 46.5% of the market share and NBCUniversal Media owns approximately 23.5% of the market share. (14) Furthermore, Disney and Comcast are also much more diversified in their revenue generating products, while the majority of Cedar Fair, SeaWorld, and Six Flags' regular operations comes from rising levels of consumer spending and by the company's increased marketing focus on season passes for their amusement parks. Thus, while all leading companies within the industry are competitors, the closest competitors to SeaWorld are Cedar Fair and Six Flags.

Cedar Fair LP currently owns 7.5% of the market share in the US, (14) and 32.3% of the market share in Canada. (15) Cedar Fair owns "13 amusement parks, three outdoor water parks, one indoor water park and five hotels throughout North America." In the US, Cedar fair earned $1.5 billion dollars in revenue in 2019, and is expected to earn $1.5 billion dollars in 2020 as well before being impacted by COVID-19. Cedar Fair's growth is primarily "driven by rising levels of consumer spending and by the company's increased marketing focus on season passes," a trend which has been seen throughout the industry (14).

Six Flags currently owns 7.0% of the market share in the US, (14) and 12.6% of the market share in Canada. (15) Six flags currently operate 26 different theme parks covering over 6000 acres of land located across Canada, US, and Mexico, with the majority of the marks located in the US. In the US, Six flags earned $1.4 billion dollars of revenue in 2019 and was expected to earn $1.4 billion dollars in 2020, before being impacted by COVID-19. Over the past five years, Six Flags have expanded their per capita revenue from admissions, "driven primarily by improved yields on single-day tickets and seasonal pass pricing" and supported by "increased revenue from rentals, food and beverage, retail, paid attractions and catering." (14)

Throughout the process of preparing this report, there were some minor issues that presented themselves. For example, we are aware that there are no other companies that are *exactly* like SeaWorld. Thus, caution must be taken when comparing with other companies, since competitive differences arise through product/service offerings, as well as geographic locations. For example, SeaWorld largely incorporates live animals into their entertainment, whereas competitors such as Cedar Fair and Six Flags do not place as much emphasis on this, as they feature little to no live animal-related entertainment, such as zoos and animal shows.

Moreover, geographical differences exist between competitors. Disney, for example, operates parks across the world, and Cedar Fair features Canada's Wonderland. SeaWorld, however, only operates within the United States.

Finally, we are aware of the current coronavirus pandemic that has caused these parks to temporarily shut down. While these parks have remained largely competitive up until now, we admit that vast differences may arise in the future due to financial pressures put on these companies. Since massive overhead and debt payments are necessary to keep these parks afloat, a complete stoppage in admissions, and thus, revenues, can be very dangerous for these companies financially and may threaten their very existence.

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