COMM 421

SeaWorld Entertainment®

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CEO Statement:

"Thank you all for the hard work you have put in to provide our customers with the safest, yet the most amazing experience. Now, we need to reanalyze our situation and come up with a recovery plan. After a lot of discussions, we found two potential opportunities that could help us generate additional revenue as well as save some money. We will be looking into the sale of some of our animals, and also providing live streaming services to our customers."

Current Situation:

The SeaWorld Entertainment company saw a 30% decline in the total attendance and total revenue for the first quarter as they closed all of their theme parks due to the Covid-19 pandemic. (MacDonald, 2020) All adventure parks took a big dive in revenues due to the pandemic. SeaWorld Entertainment revenue for the quarter ending June 30 tanked by 95%, they fell down from $406 Million for the same time last year to $18 Million this year. (Bilbao, 2020) However, SeaWorld tried to lessen the impact of coronavirus by cost-reduction measures. They laid off 95% of their workers, along with stopping all advertising and marketing spending. They even cut pay for some of the executives to reduce expenses. (Carter, 2020) SeaWorld Entertainment parks reopened in mid-June, and are now running at a limited capacity to create more open spaces for the guests. In order to get back on track from Covid-19, we are suggesting SeaWorld to start live streaming of its animal as well as other shows hosted at the park. Along with that, SeaWorld should consider the sale of some of its animals as they would enable them to reduce the huge expenses associated with feeding and taking care of these animals. We have briefly discussed the recovery plan for SeaWorld Entertainment below along with financial analysis evaluating the new return on equity and stock prices.

Live Streaming Services to Showcase Animals:

With the COVID-19 pandemic causing the closure of public spaces and necessitating social distancing, many people and businesses have leveraged the capabilities of modern-day technology to find new solutions for their problems. For example, people have ordered their groceries online, universities have closed down their campuses and are having classes online, and employers have allowed for remote working whenever possible for their employees. Some Zoos which were required to close have begun providing online streaming programs to showcase their animals. For example, the Cincinnati Zoo has begun offering a series on Facebook Live every weekday at 3:00 PM ET where they would feature a new animal at the Zoo and provide educational content for children (Lewis, 2020). Similarly, the Monterey Bay Aquarium is currently offering a live stream of their animals paired with commentary of their caretakers, who will also answer questions from the audience (Lewis, 2020). Unlike its direct competitors, Six Flags and Cedar Fair, SeaWorld has a unique expense on its financial statements related to the care of its live animals, a unique expense which is also shared by Zoos. Thus, SeaWorld could follow the examples that the Zoos have set and begin a live streaming service.

The online streaming service could directly address the problem of the unique expenses that SeaWorld has to spend on maintaining its live animals. Even if the overall profits generated by this project does not fully cover the overall expenses generated by the animals, it could help in lessening the financial burden and provide assurance to shareholders the SeaWorld is taking measures to stay afloat and actively combat the effects of COVID-19. Furthermore, the live streaming could also serve as a marketing tool for SeaWorld to increase customer awareness and engagement and help further customer attendance numbers once the COVID restrictions are lifted and the parks are allowed to reopen.

However, the undertaking of creating these livestreams will result in SeaWorld taking further risk because the project will cost the company further expenses at a time where SeaWorld is already in dire financial condition. Thus, the project failing could place a further financial strain on SeaWorld and increase the likelihood that the company declares bankruptcy. With the current projections, SeaWorld has enough cash and cash equivalents to survive until the end of 2021. With a possibility for a vaccine being released in 2021, it may be a better idea for SeaWorld to wait until the social distancing measures brought by the Pandemic ends and then rely on the revenue then to begin repaying the deferred debt and begin rebuilding.

Implementation:

Some content ideas for the streams could range from basic cams showing the marine animals living out their lives, narrated tours given by SeaWorld employees to give customers insight into the daily lives and routines of the various animals, or fully produced live shows. Basic livestreams could consist of static cams of the animals living out their lives within their habitats. Narrated tours could follow the example of Monterey Bay Aquarium and have caretakers narrate the animals' behaviors, provide background information regarding caretaking routines, give facts about the animals, and answer questions from viewers. The streamed live shows could a performance that would typically be done for a live audience but would be streamed online.

Currently, the Cincinnati Zoo offers its Facebook Live streams for free (Lewis, 2020). In contrast, the Oakland Zoo offers its interactive live stream on a subscription basis (Rendon,2020). SeaWorld could choose to broadcast its live streams for free like the Cincinnati Zoo, choose to put their live streams behind a subscription like the Oakland Zoo, or do a combination of both.

If SeaWorld chooses to do both, they could offer basic streams, such as an idle camera on its animals or basic tours, for free while reserving the more well produced streams, such as an online live show, on subscriptions basis. SeaWorld could also follow a freemium business model and allow its content to be viewed for free but incorporate additional benefits such as interactive options, lottery draws, etc. for viewers who are willing to pay a subscription fee. On content which it chooses to release for free, SeaWorld could also earn revenue through running Ads on the stream encouraging viewers to support it by buying merchandise in the form of t-shirts, cups, etc. SeaWorld could leverage the work it has been doing in helping preserve wild marine life. If they wish to release their streams for free, SeaWorld could also choose to partner with a streaming platform such as Twitch and make revenue from the partnership.

Implications on SeaWorld's Finances:

Impact on Revenue

Depending on how they choose to sell their live streams, SeaWorld could potentially earn revenue from live streaming through factors such as subscription fees, advertising revenue, or increased sales of merchandise. The Cincinnati Zoo has been estimated to have raised approximately $100,000 through the sale of hippo t-shirts and emergency fundraiser programs (Peeples, 2020). SeaWorld could attempt to capture a similar amount of revenue through the sale of its merchandise by leveraging the work it has been doing in helping preserve wild marine life to appeal to its customers.

If SeaWorld chose to host a subscription based stream to earn money either through their own website or a third party platform such as Facebook live, they could mirror the Oakland zoo and charge around $15 per month, with discounts potentially being given to long term customers or customers who had previously purchased long term passes. SeaWorld had 22,624 visitors in 2019 (Lange, 2020). If SeaWorld can achieve around 20,000 of people paying a subscription fee, they could achieve a revenue of approximately $300,000 annually from their stream.

If SeaWorld chooses to use a freemium business model where they would provide their streams for free but offer additional benefits to subscribers, they could choose to host their stream on a platform that helps content creators monetize their streams such as Twitch. On Twitch, streamers who have become part of the affiliate and partners program can make revenue through donations, subscriptions to the channel, and advertising revenue. Twitch streamers can earn approximately $2.50 dollars per subscribers per month, and an additional $250 per 100 subscribers from Ad revenue (Businessofapps, 2020). Thus, if SeaWorld can obtain around 20,000 subscribers, they could earn around $650000 dollars from subscription ad revenues annually.

Thus, assuming that SeaWorld chooses to stream on Twitch and supplementing that revenue with sales of Merchandise, they could earn an additional $750,000 dollars from live streaming.

Impact on Expenses

The expense related to live streaming depends on how they choose to set up and produce their livestreams. In order to attract viewers, especially if SeaWorld wants its viewers to pay money on subscriptions, SeaWorld will need to invest in the resources which can produce a professional stream. In order to host a professional livestream, SeaWorld would first need to have the proper equipment to record and capture the event. This means possibly investing in multiple high-quality cameras and audio device packages including microphones and mixers. Depending on the environment, proper lighting devices may also be needed in order to optimize visibility.

One high end camera can cost around $500 per Camera (Najera, 2020), with a control panel to coordinate between the multiple cameras costing around $500 dollars (Blackmagicdesign, n.d.). Since each ATEM control panel coordinates four Cameras, this set up would cost around $2500. A high-end microphone bundle can cost around $370 dollars (myrepublic, n.d.), and one high end mixer and interface such as the Zoom L12 could cost around $600 (Expandore Electronics,2020). Thus, the overall cost of audio devices could cost around $1000. Assuming that one set of studio lights are needed, an additional $100 dollars will be needed to purchase them (Najera, 2020. Proper software will also be required to "coordinate the graphics, media, and video footage into a single feed" (Najera, 2020). Fortunately, SeaWorld can use the free software platform called OBS. Overall, this would bring the overall cost of equipment at one park to around $3600. Assuming that SeaWorld selects 5 parks to purchase video equipment to bring variety to its streams, this would bring the total cost of equipment to around $18,000. SeaWorld will also need to spend additional money on marketing their stream to reach a desired number of viewers. Assuming that SeaWorld fixes their marketing expenses at 2% of their projected revenue from the specific operation, this will translate to $15,000 of advertising expenses.

Finally, employees with knowledge of how to properly film and coordinate the livestream will be needed. Assuming that a proper minimalist team to film the livestream will cost around $1500 (Wind & Sky Productions, n.d) per day and we assume the stream will occur 252 days per year and the teams will only be paid on days they are set to film, this will result in labor costs of $378,000 per year. Thus, the overall expenses in this scenario is around $411,000, annually.

Overall Impact on Stock Prices

Assuming $750,000 in revenue and approximately $411,000 dollars in expenses, net income would only increase by roughly around $339,000. We will assume that no taxes will be paid because all the money will be used to satisfy SeaWorld's other expenses. Using a total shareholder equity amount of $210,000,000, this would result in a 0.2% increase in ROE. Since this venture will expose SeaWorld to additional risks investors will likely require a higher return to invest in SeaWorld. To quantify this additional requirement, we will use the calculated increase in ROE as the increase the investors expect. Thus, we will add this increase to the required ROE in our residual model. Using a weighted average of 78.2 million shares outstanding and net income increase of $339,000, earnings per share will increase by $0.004, which is a negligible monetary amount. With the newly purchased equipment having a total book value of $18,000, assuming negligible depreciation for the future 5 years, we would have BVPS increase by $0.0002, a negligible monetary amount.

Thus, for our residual income model, we will keep BVPS and EPS constant and increase required ROE by 0.2%. As shown by the excel sheet calculation, our stock price would decrease from $6.07 to $5.96.

Note that if we decrease the number of subscribers down to 10,000, then the overall revenue would fall to $425,000. Expenses in this case, which equals the fixed labour and equipment costs of producing the stream plus the marketing costs which equals 2% of our estimated revenue, which would be $394,000 + $8,500. This equals $402500. Thus, our net income would be reduced to approximately $22,500 annually. In this scenario, the profits produced by the livestream ventures are essentially negligible.

On the other hand, if we increase the number of subscribers up to 30000, then the overall revenue from livestreaming would increase to $1,075000. Expenses would equal $394,000 + $21500 = $415,500. Then our net income would equal around $659,600 annually. This scenario is unlikely because as a new venture into live streaming, SeaWorld would likely have low subscriber numbers in its initial years. Furthermore, the increase in net income is still not sufficient to significantly address the $15.1 million current debt SeaWorld has (Yahoo Finance, 2020).

Conclusion on starting a Stream:

Overall, the adoption professional livestream will not provide SeaWorld with a significant amount of revenue to help its financial situation, and would indeed decrease its stock price. Furthermore, some assumptions that were made to arrive at the conclusion that the livestream will produce a net income of $350,000 may be optimistic for its starting years. Firstly, we forecasted SeaWorld's subscription numbers to be equal to its attendance numbers, which may not be realistic. Indeed, the alternate scenarios show that indeed if the actual number of subscribers is 10,000 lower, then the livestream will barely breakeven. Further decreases could result in the project having greater expenses than the revenue it produces. Secondly, our analysis of the expenses required to begin livestreaming was extensively simplified and assumed that Twitch could be a successful platform for SeaWorld to stream. In reality, hidden costs related to creating a professional livestream could further increase the actual expenses, and unseen issues, such as for SeaWorld having to change streaming platforms, revamp its business model, etc. This could cause further financial strain to a company which is close to being on the edge of insolvency. Thus, beginning a professional livestream will gain SeaWorld little additional income and expose SeaWorld to additional risks in a new industry in which it has no experience. Hence, setting up a professional livestream may not be a good idea to address the effects of COVID 19 given SeaWorld's current circumstances.

Sale of Animals:

In order to survive the COVID-19 Pandemic, SeaWorld needs to reduce expenses as much as possible, while holding a position where they can re-open quickly and efficiently and maintain strong revenues. By far, SeaWorld's largest expenses relate to the husbandry and care of their animals; thus it makes sense to consider it a possible avenue for reducing costs. Here, two potential options will be explored: selling animals to other theme parks or facilities temporarily or permanently, or retiring to sanctuaries permanently.

When considering the first option, it is important to note that being able to sell off the animals, either for short-term or long-term stints, requires eligible buyers who are in the market for them, and have the cash on hand. In addition to lowering expenses in the meantime, a cash injection would also be helpful in aiding the company during the pandemic. SeaWorld has over $142 million USD worth of animals (SEC, 2020). Depending on the current market, number of interested parties, and available assets, SeaWorld could exchange a portion of their parks' animals for cash. There is also a potential to loan animals instead of selling, meaning they would receive a smaller amount of cash now, but still own the animals and be able to bring them back when the parks reopen.

In addition to the cash received for selling or loaning out its animals, SeaWorld would also save hundreds of millions of dollars in other expenses related to the caring of the animals no longer residing in their parks. In 2019, SeaWorld spent over US $600 million on their fixed operational expenses, which range from employee wages, to animal care, to utilities, maintenance, and insurance (SEC, 2020). Once they were forced to close all of their parks during the peak of the first wave of the coronavirus, SeaWorld stated that 90% of their employees were to be furloughed (Jones, 2020). However, the company would still be forced to pay $25 million per month (extrapolated to $300 million per year) in fixed costs, even though their parks would be closed (Jones, 2020).

We argue that these costs are almost solely dedicated to their animals; with no parks open, the only expenses left are those related to their animals. SeaWorld has kept all of their animal care employees on the job to ensure that their animals are taken care of. Moreover, the animals must still be fed and given medicine. Utilities and maintenance are still necessary for all animal-related expenditures, since enclosures must still be kept clean, running, and problem-free. Finally, SeaWorld must still pay insurance on their animals, as they still own them. Given the massive fixed costs explained above, it is obvious that SeaWorld can save hundreds of millions of dollars in expenses by ending their animal-related operations. However, it is imperative to investigate how this would affect revenues going forward.

When considering the option of retiring animals to sanctuaries, while SeaWorld would not be receiving any of their animals' values in cash, they would reduce their animal-care costs in the same manner as discussed above.

However, these options must be taken with great caution, as one of two things may happen:

1) Potential gained revenue from the end of the "Blackfish effect": Customers and the general public are thrilled by the release of animals from SeaWorld's' parks. This brings about positive publicity, and excitement about the parks, which may lead to an influx of paying customers, and a higher stock price.
2) Potential lost revenue from tourists who come to the park for the animal-related attractions: Customers that visited SeaWorld for the animals lose interest in the parks, as they are not satisfied with the other attractions. While the actions are appreciated, SeaWorld no longer lives up to its name, and has a difficult time advertising itself and standing out amongst other now very-similar theme parks.

Thus, it is imperative to strike an optimal balance of animals kept versus animals let go; dollar value, related expenses, revenue-producing abilities, and level of controversy should all be considered. It is also key that SeaWorld maintains some sort of animal-related attractions, as it helps them to differentiate from theme parks run by other companies (Weisberg, 2019).

Taking the above factors into consideration, we suggest that SeaWorld let go of all mammals, such as whales, dolphins, and sea lions, etc. Although they help produce the most revenue, they are the costliest to care for and have the most controversy surrounding them; as a result, they are the most expensive animals to own. Other animals, such as sharks, fish, and other smaller marine life, are decent revenue-producing animals, as aquariums are still a very popular attraction. They are also easier and less expensive to care for, and have little to no controversy surrounding them.

Implications on SeaWorld's Finances:

Impact on Expenses

For the effects on expenses, we must first estimate the amount of animals let go be SeaWorld. We will assume ⅔, or 66.6%. Since SeaWorld has $600 million in yearly fixed expenses, half of which are animal-related, fixed expenses become $600m - $300m * 2/3 = $400m per year. Since fixed expenses are approximately 55% of total expenses (SEC, 2020), we estimate total expenses to be $400m / 0.55 = $727m. Thus SeaWorld could save $458m, or 40% of their expenses. This will allow them to cut ticket prices by a similar margin.

Impact on Revenue

For the effects on revenues, we look into how SeaWorld attains them, which is through admissions and park spending. We will assume that admissions and park spending are proportional on a per-person basis. In 2019, 22.6 million guests attended SeaWorld's parks (Mitchell, 2020), which generated $1.4 billion in revenue. This amounts to $62 spent per customer in admissions, food, and merchandise. We then assume that the amount of guests who choose to longer come back (due to the absence of some animals) is equal to the amount of newcomers to the park (who previously did not show up because they did not support the park based on moral values).

57% of SeaWorld's revenues come from admission. If they decide to cut ticket prices by 20%, total revenues would amount to (1 - 0.2) * 0.57 * $1.4b + (1 - 0.57) * $1.4b = $1.24b.

Impact on Stock Price

From the above calculations, we determined that The decrease in expenses is greater than the decrease in revenues. Thus, the effect on net income is positive, which adds additional income to SeaWorld's bottom line. This in turn affects our valuation model, so we must adjust EPS to compensate for this particular scenario.

Our residual income model previously had an output of $6.07 per share as the intrinsic value. However, upon updating EPS to accommodate this scenario, SeaWorld's intrinsic share price becomes $20.45, a 237% increase from our earlier estimate.

Conclusion on sale of Animals:

Overall, the sale of animals seems to be a viable option for SeaWorld. Not only will it heavily decrease expenses and increase net income, but it will also end much of the controversy surrounding their parks, which may generate additional positive publicity. By choosing to let go of the animals that are most expensive to care for and most controversial, SeaWorld can add to their bottom line. However, it is important to note that animal-related attractions are central to the competitive differentiation of SeaWorld's parks. Thus, it is a good idea to keep other animals in their parks; ones that are less expensive and controversial to care for that still generate revenues (such as small sharks, fish, and other non-mammal marine life).

Overall Conclusion

In summary, the venture to start a livestream appears to be a poor choice to address the effects to SeaWorld's business caused by COVID-19 because the profits expected will not be enough to significantly address the debts SeaWorld's currently has and by taking on the venture, SeaWorld will expose themselves to new risks within a new industry they have no experience in. On the other hand, the sale of some of its live animals could be a viable option because it would significantly decrease SeaWorld's current expenses and take steps in reducing the controversies surrounding the capture and treatment of those live animals.

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