

Edgar Filing: SeaWorld Entertainment, Inc. - Form 10-Q

SeaWorld Entertainment, Inc.
Form 10-Q
November 09, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2016

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 001-35883

SeaWorld Entertainment, Inc.

(Exact name of registrant as specified in its charter)

Delaware 27-1220297
(State or other jurisdiction of (I.R.S. Employer

incorporation or organization) Identification No.)

9205 South Park Center Loop, Suite 400

Orlando, Florida 32819

(Address of principal executive offices) (Zip Code)

(407) 226-5011

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The registrant had outstanding 88,971,588 shares of Common Stock, par value \$0.01 per share as of November 4, 2016.

SEAWORLD ENTERTAINMENT, INC. AND SUBSIDIARIES

FORM 10-Q

TABLE OF CONTENTS

	Page No.
<u>SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS</u>	1
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1. <u>Unaudited Condensed Consolidated Financial Statements</u>	
<u>Unaudited Condensed Consolidated Balance Sheets</u>	3
<u>Unaudited Condensed Consolidated Statements of Comprehensive Income (Loss)</u>	4
<u>Unaudited Condensed Consolidated Statement of Changes in Stockholders' Equity</u>	5
<u>Unaudited Condensed Consolidated Statements of Cash Flows</u>	6
<u>Notes to Unaudited Condensed Consolidated Financial Statements</u>	7
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	26
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	40
Item 4. <u>Controls and Procedures</u>	41
<u>PART II. OTHER INFORMATION</u>	
Item 1. <u>Legal Proceedings</u>	42
Item 1A. <u>Risk Factors</u>	42
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	42
Item 3. <u>Defaults Upon Senior Securities</u>	42
Item 4. <u>Mine Safety Disclosures</u>	42
Item 5. <u>Other Information</u>	42
Item 6. <u>Exhibits</u>	43

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

In addition to historical information, this Quarterly Report on Form 10-Q may contain “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), which are subject to the “safe harbor” created by those sections. All statements, other than statements of historical facts, including statements concerning our plans, objectives, goals, beliefs, business strategies, future events, business conditions, our results of operations, financial position and our business outlook, business trends and other information, may be forward-looking statements. Words such as “might,” “will,” “may,” “should,” “estimates,” “expects,” “continues,” “contemplates,” “anticipates,” “projects,” “plans,” “predicts,” “intends,” “believes,” “forecasts,” “future,” “targeted” and variations of such words or similar expressions are intended to identify forward-looking statements. The forward-looking statements are not historical facts, and are based upon our current expectations, beliefs, estimates and projections, and various assumptions, many of which, by their nature, are inherently uncertain and beyond our control. Our expectations, beliefs, estimates and projections are expressed in good faith and we believe there is a reasonable basis for them. However, there can be no assurance that management’s expectations, beliefs, estimates and projections will result or be achieved and actual results may vary materially from what is expressed in or indicated by the forward-looking statements.

There are a number of risks, uncertainties and other important factors, many of which are beyond our control, that could cause our actual results to differ materially from the forward-looking statements contained in this Quarterly Report on Form 10-Q. Such risks, uncertainties and other important factors that could cause actual results to differ include, among others, the risks, uncertainties and factors set forth under “Item 1A. Risk Factors” in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015 (the “Annual Report on Form 10-K”), filed with the Securities and Exchange Commission (the “SEC”), as such risk factors may be updated from time to time in our periodic filings with the SEC, including this report, and are accessible on the SEC’s website at www.sec.gov, including the following:

- complex federal and state regulations governing the treatment of animals, which can change, and claims and lawsuits by activist groups;
- various factors beyond our control adversely affecting attendance and guest spending at our theme parks, including the potential spread of contagious diseases, such as the Zika virus;
- incidents or adverse publicity concerning our theme parks;
- a decline in discretionary consumer spending or consumer confidence;
- significant portion of revenues generated in the States of Florida, California and Virginia and the Orlando market, and any risks affecting such markets, such as natural disasters, severe weather and travel-related disruptions or incidents;
- seasonal fluctuations;
- inability to compete effectively in the highly competitive theme park industry;
- interactions between animals and our employees and our guests at attractions at our theme parks;
- animal exposure to infectious disease;
- high fixed cost structure of theme park operations;
- changing consumer tastes and preferences;
- cyber security risks and failure to maintain the integrity of internal or guest data;
- increased labor costs and employee health and welfare benefits;
- inability to grow our business or fund theme park capital expenditures;
- adverse litigation judgments or settlements;
- inability to protect our intellectual property or the infringement on intellectual property rights of others;
- the loss of licenses and permits required to exhibit animals or the violation of laws and regulations;
- loss of key personnel;
- unionization activities or labor disputes;
- inability to meet workforce needs;
- inability to maintain certain commercial licenses;

- restrictions in our debt agreements limiting flexibility in operating our business;
- our substantial leverage;
- inability to realize the benefits of acquisitions or other strategic initiatives;
- inadequate insurance coverage;
- inability to purchase or contract with third party manufacturers for rides and attractions;
- environmental regulations, expenditures and liabilities;
- suspension or termination of any of our business licenses;
- the ability of affiliates of The Blackstone Group L.P. to significantly influence our decisions;
- changes or declines in our stock prices, as well as the risk that securities analysts could downgrade our stock or our sector; and
- risks associated with our capital allocation plans and share repurchases, including the risk that our share repurchase program could increase volatility and fail to enhance stockholder value.

We caution you that the risks, uncertainties and other factors referenced above may not contain all of the risks, uncertainties and other factors that are important to you or to our business. In addition, we cannot assure you that we will realize the results, benefits or developments that we expect or anticipate or, even if substantially realized, that they will result in the consequences or affect us or our business in the way expected. There can be no assurance that (i) we have correctly measured or identified all of the factors affecting our business or the extent of these factors' likely impact, (ii) the available information with respect to these factors on which such analysis is based is complete or accurate, (iii) such analysis is correct or (iv) our strategy, which is based in part on this analysis, will be successful. All forward-looking statements in this Quarterly Report on Form 10-Q apply only as of the date of this Quarterly Report on Form 10-Q or as of the date they were made or as otherwise specified herein and, except as required by applicable law, we undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise.

All references to “we,” “us,” “our,” “Company” or “SeaWorld” in this Quarterly Report on Form 10-Q mean SeaWorld Entertainment, Inc., its subsidiaries and affiliates.

Website and Social Media Disclosure

We use our websites (www.seaworldentertainment.com and www.seaworldinvestors.com) and our corporate Twitter account (@SeaWorld) as channels of distribution of Company information. The information we post through these channels may be deemed material. Accordingly, investors should monitor these channels, in addition to following our press releases, SEC filings and public conference calls and webcasts. In addition, you may automatically receive e-mail alerts and other information about SeaWorld when you enroll your e-mail address by visiting the “E-mail Alerts” section of our website at www.seaworldinvestors.com. The contents of our website and social media channels are not, however, a part of this Quarterly Report on Form 10-Q.

Trademarks, Service Marks and Tradenames

We own or have rights to use a number of registered and common law trademarks, service marks and trade names in connection with our business in the United States and in certain foreign jurisdictions, including SeaWorld Entertainment, SeaWorld Parks & Entertainment, SeaWorld®, Shamu®, Busch Gardens®, Aquatica®, Discovery Cove®, Sea Rescue® and other names and marks that identify our theme parks, characters, rides, attractions and other businesses. In addition, we have certain rights to use Sesame Street® marks, characters and related indicia through certain license agreements with Sesame Workshop (f/k/a Children’s Television Workshop).

Solely for convenience, the trademarks, service marks, and trade names referred to hereafter in this Quarterly Report on Form 10-Q are without the ® and ™ symbols, but such references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights or the rights of the applicable licensors to these trademarks, service marks, and trade names. This Quarterly Report on Form 10-Q may contain additional trademarks, service marks and trade names of others, which are the property of their respective owners. All trademarks, service

marks and trade names appearing in this Quarterly Report on Form 10-Q are, to our knowledge, the property of their respective owners.

PART I — FINANCIAL INFORMATION

Item 1. Unaudited Condensed Consolidated Financial Statements

SEAWORLD ENTERTAINMENT, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share and per share amounts)

	September 30, 2016	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$ 55,807	\$ 18,971
Accounts receivable, net	49,380	39,538
Inventories	33,415	31,213
Prepaid expenses and other current assets	11,898	16,360
Total current assets	150,500	106,082
Property and equipment, at cost	2,803,477	2,748,161
Accumulated depreciation	(1,126,207)	(1,029,165)
Property and equipment, net	1,677,270	1,718,996
Goodwill	335,610	335,610
Trade names/trademarks, net	161,629	162,726
Other intangible assets, net	18,838	21,327
Deferred tax assets, net	15,283	23,994
Other assets	20,686	19,927
Total assets	\$ 2,379,816	\$ 2,388,662
Liabilities and Stockholders' Equity		
Current liabilities:		
Accounts payable	\$ 73,110	\$ 93,743
Current maturities on long-term debt	16,850	31,850
Accrued salaries, wages and benefits	16,917	12,330
Deferred revenue	98,124	79,818
Dividends payable	9,467	430
Other accrued expenses	20,481	11,143
Total current liabilities	234,949	229,314
Long-term debt, net of debt issuance costs of \$10,607 and \$13,333 as of		
September 30, 2016 and December 31, 2015, respectively	1,540,255	1,548,893
Deferred tax liabilities, net	73,250	65,689
Other liabilities	72,819	40,646
Total liabilities	1,921,273	1,884,542
Commitments and contingencies (Note 10)		
Stockholders' Equity:		
Preferred stock, \$0.01 par value—authorized, 100,000,000 shares, no shares issued		
or outstanding at September 30, 2016 and December 31, 2015	—	—

Edgar Filing: SeaWorld Entertainment, Inc. - Form 10-Q

Common stock, \$0.01 par value—authorized, 1,000,000,000 shares; 91,849,408 and 90,320,374 shares issued at September 30, 2016 and December 31, 2015, respectively	919	903
Additional paid-in capital	618,449	624,765
Accumulated other comprehensive loss	(25,369)	(13,137)
Retained earnings	19,415	46,460
Treasury stock, at cost (6,519,773 shares at September 30, 2016 and December 31, 2015)	(154,871)	(154,871)
Total stockholders' equity	458,543	504,120
Total liabilities and stockholders' equity	\$ 2,379,816	\$ 2,388,662

See accompanying notes to unaudited condensed consolidated financial statements.

SEAWORLD ENTERTAINMENT, INC. AND SUBSIDIARIES

UNAUDITED CONDENSED CONSOLIDATED STATEMENTS OF
COMPREHENSIVE INCOME (LOSS)

(In thousands, except per share amounts)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2016	2015	2016	2015
Net revenues:				
Admissions	\$294,605	\$304,626	\$655,510	\$679,917
Food, merchandise and other	190,713	192,313	421,185	423,230
Total revenues	485,318	496,939	1,076,695	1,103,147
Costs and expenses:				
Cost of food, merchandise and other revenues	35,854	36,959	81,768	83,974
Operating expenses (exclusive of depreciation and amortization shown separately below and includes equity compensation of \$505 and \$267 for the three months ended September 30, 2016 and 2015, respectively, and \$10,371 and \$595 for the nine months ended September 30, 2016 and 2015, respectively)	198,754	196,931	570,480	541,944
Selling, general and administrative (includes equity compensation of \$2,040 and \$1,282 for the three months ended September 30, 2016 and 2015, respectively and \$24,225 and \$4,205 for the nine months ended September 30, 2016 and 2015, respectively)	57,148	47,684	196,534	172,082
Restructuring and other related costs	—	—	112	267
Depreciation and amortization	40,921	44,505	156,677	138,469
Total costs and expenses	332,677	326,079	1,005,571	936,736
Operating income	152,641	170,860	71,124	166,411
Other expense, net	72	41	48	511
Interest expense	15,137	15,019	44,297	50,929
Loss on early extinguishment of debt and write-off of discounts and debt issuance costs	—	—	—	20,348
Income before income taxes	137,432	155,800	26,779	94,623
Provision for income taxes	71,777	57,850	27,405	34,462
Net income (loss)	\$65,655	\$97,950	\$(626)) \$60,161
Other comprehensive income (loss):				