**ACCT 210**

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**Financial Analysis**

**Cedar Fair vs Six Flags**

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Ratio Analysis

# Introduction

The publically traded companies Six Flags and Cedar Fair were analyzed for the current project. Both companies fall under the entertainment industry. Other top competitors in the industry include priceline.com, Carnival, Orbitz Worldwide, and MakeMyTrip (Yahoo Finance, 2012). A complete analysis of both companies was used through both ratio and SWOT Analyses. The findings are summarized below

A ratio analysis was completed and the areas of liquidity, leverage, operating efficiency, and profitability were used to analyze both Six Flags and Cedar Fair.

# Liquidity

Liquidity ratios measure a company’s ability to pay off its short-term debt obligations. This is done by comparing a company’s most liquid assets and short-term liabilities (Investopedia, 2012).

**Current Assets/Current Liabilities = Current Ratio**

* 2010 to 2011 Cedar Fair: This ratio increased from .42 in 2010 to .48 in 2011. This raise is a good sign, but because any totals less than 1 could mean that the company is unable to pay short-term debts at any given point, Cedar Fair’s current ratio doesn’t look good.
* 2010 to 2011 Six Flags: Up from 1.30 in 2010 to 1.40 in 2011, Six Flags’ current ratio is an indicator that it is in good standing with its ability to pay its obligations. The higher the number, the better; and because this number is above 1 and growing, this ratio is good.
* Assessment: Six Flags ratio total is considerably better than Cedar Fair’s in this category. Because there is such a major difference between the two, it isn’t even a question to choose Six Flags for investing purposes based on this ratio.

**Cash + Marketable Securities + Accts Receivable/Current Liabilities = Quick Ratio**

* 2010 to 2011 Cedar Fair: The company increased this ratio by 8% from 2010 to 2011, but because this number is an even deeper assessment (compared to the current ratio) of the company’s ability to pay for its current liabilities, the numbers are not near high enough to have confidence that the company’s liquid assets will cover current obligations.
* 2010 to 2011 Six Flags:
* Assessment:

**Cash + Marketable Securities + Cash Flow from Operating Activities/Current Liabilities = Cash Flow Liquidity**

* 2010 to 2011 Cedar Fair: For every dollar of liability with in Cedar Fair’s company there was $1.14 in 2010 and $1.25 in 2011 worth of cash flow to cover that liability. This number balances out the low current and quick ratios above, as far as the company’s ability to pay immediate obligations is concerned.
* 2010 to 2011 Six Flags:
* Assessment:

**Net Accts Receivable/Average Daily Sales = Average Collection Period**

* 2010 to 2011 Cedar Fair: In 2011 this ratio dropped from 4.61 in 2010 to 2.7. Because this ratio determines the amount of time it takes to receive payment from clients who have purchased inventory on credit, it is a good sign that the ratio dropped so dramatically over one year indicating that the collection period was almost cut in half.
* 2010 to 2011 Six Flags:
* Assessment:

**Inventory/ (Cost of Goods Sold/365) = Days Inventory Held**

* 2010 to 2011 Cedar Fair: The ratio dropped from 135.43 in 2010 to 131.12 in 2011, which is a good thing because lower is better in this ratio.
* 2010 to 2011 Six Flags: In 2010 this ration equaled 108.62 and dropped to 99.03 over the next year. Again, it a good thing when the numbers drop in this ratio.
* Assessment: Because this ratio determines the number of days it takes for the company to turn inventory into sales, Six Flags has Cedar Fair beat by a number of days. They are relatively close, but when it comes to inventory turnover, faster is better and between 2010 and 2011 Six Flags did it almost 42 days faster.

# Leverage

The following leverage ratios are used to give investors an idea about a company’s overall debt and mix of debt and equity (Investopedia, 2012). Investors can use this information to see how much of a risk company’s are at for bankruptcy.

**Total Liabilities/Total Assets = Debt Ratio**

* 2010 to 2011 Cedar Fair: They saw about a 4.5% decrease in the amount of debt they had compared to their assets. It is good to see the amount of debt to assets go down but by the end of 2011 they still had over 92% debt to asset. This high of a ratio is risky.
* 2010 to 2011 Six Flags: They saw about a 5% decrease in the amount of debt they had compared to their assets. It is good to see the decrease in debt and liabilities to assets. By the end of 2011 their ratio of 72% debt to asset is still fairly high. This ratio is risky.
* Assessment: Both companies have relatively high debt ratios. The better risk here would be Cedar Fair if looking for a safer investment. The edge here goes to Six Flags in terms of the safer pick.

**Long Term Debt/Long Term Debt + Stockholders Equity = Long Term Debt to Total Capitalization**

* 2010 to 2011 Cedar Fair: They saw a decrease in this ratio by about 1%. The decrease in this number shows that there is an increase in the amount of equity but with such a small decrease there is not much change. There final ratio of over .9 is relatively high and puts them at a greater risk of default.
* 2010 to 2011 Six Flags: They remained the same in this two year comparison. This ratio shows a steady amount of equity in the corporation and with their relatively low ratio of .53 they are stable and are not at a great risk of defaulting.
* Assessment: Six Flags has a much lower ratio in this case compared to Cedar Fair, because of their high debt ratio and high debt to total capitalization ratio Cedar Fair does not look like a financially stable corporation at this point. With this said in this category Six Flags has the Edge.

**Total Liabilities/Stockholder’s Equity = Debt to Equity**

* 2010 to 2011 Cedar Fair: Ratio was 11.75 in 2010 and 10.5 in 2011.
* 2010 to 2011 Six Flags: Ratio was 1.59 in 2010 and 3.35 in 2011.
* Assessment: Currently Six Flags has a way better debt to equity ratio, because they are using less debt to finance their assets. It is not surprising that Six Flags uses a lower amount of debt to finance operations, because they went bankrupt in 2009 due to debt financing. The company probably wants to take a more conservative approach to their financing after the bankruptcy. Cedar fair may have a higher debt to equity ratio because they are hoping the risks they are taking now will be successful in generating returns.

The industry leader for entertainment is priceline.com with 46.45%. Cedar fair is within a close range of them standing at 48.78% making them the 4th best company in the entertainment industry for this ratio. Six flags is at 79. 27% which means

**Operating Profit/Interest Expense = Times Interest Earned**

* 2010 to 2011 Cedar Fair: The times interest earned for Cedar Fair was 1.46 in 2010 and 1.54 in 2012. Cedar Fair’s ratio went down just a little bit from 2010 to 2011 showing that the company was using less earnings to pay down debt.
* 2010 to 2011 Six Flags: The times interest earned for Six Flags was 1.05 in 2010 and 2.33 in 2011. Six flags ratio decreased from 2010 to 2011. This could be due to the fact that the company was being more conservative with paying down too much debt with earnings in 2010, so they decided to spend the money on different projects in 2011.
* Both companies have fairly similar times interest earned ratios. This indicates that both companies are using similar amounts of their earnings to pay their debt. There is no industry average given for this ratio.

# Operating Efficiency

Next Paragraph introduce operating efficiency (Average Collection Period, Days Inventory Held, Days Payable Outstanding, Fixed Asset Turnover, Total Asset Turnover)

**Inventory/(Cost Of Goods Sold/365)**

* From 2010 to 2011 Cedar Fair: They increased their days payable outstanding by over 5 days. This increase in the number of days could be a result in better relationships with their vendors.
* From 2010 to 2011 Six Flags: They increased their days payable outstanding by over 40 days. Like the previous circumstance it is always better to have a higher number of days outstanding and it is likely due to a better relationship with vendors.
* Assessment: The ability to increase this ratio is important so that they are able to increase the cash that they can conserve at any point in time. This allows the company more freedom of where they want their cash. In this case Six Flags has a higher increase in days than that of Cedar Fair as well as their total number of days. The edge here goes to Six Flags.

**Net Sales/Net Accts Receivable = Accounts Receivable Turnover**

* From 2010 to 2011 Cedar Fair: They increased their number of turnover times by over 55 times. The more times the accounts receivable is turned over the better. This is a very good number.
* From 2010 to 2011 Six Flags: They increased their number of turnover times by over 6 times. The more turnover there is the better. This is a good increase.
* Assessment: Although Six Flags still increased the number of turnover they had Cedar Fair had a much greater increase and also a much greater total number of turnovers. The edge here goes to Cedar Fair.

**Cost of Goods Sold/Inventory = Inventory Turnover**

* From 2010 to 2011 Cedar Fair: They increased the number of turnovers in this case by about 3.3%. In 2011 the number of times inventory was turned over was 2.78 times, a fairly low number indicating they purchase an appropriate amount of their needed inventory.
* From 2010 to 2011 Six Flags: They increased the number of turnovers in this case by about 9.8%. In 2011 the number of turnover times was 3.69 times. This is a fairly small number of turnovers, indicating that they purchase an appropriate amount of needed inventory.
* Assessment: Although both corporations have a good, low number of turnovers in this two year comparison. The slightly lower ratio that Cedar Fair has gives them a slight edge. Cedar Fair also has a smaller increase in the number of turnovers looks advantageous for planning reasons but both companies here have good ratios and acceptable increases.

# Profitability

These ratios are used to show investors how well a company uses its resources in generating profit and shareholder value (Investopedia, 2012).

**Gross Profit/Net Sales = Gross Profit Margin**

* 2010 to 2011 Cedar Fair: The gross profit margin for Cedar Fair was .91 in 2010 and .91 in 2011. Cedar Fair did not decrease or increase their Gross Profit Margin between 2010 and 2011. This could be seen as a sign of strength and stability for the company; however it does not show any improvement.
* 2010 to 2011 Six Flags: The gross profit margin for Six Flags was .92 in 2010 and .93 in 2011. Six Flags slightly increased their Gross profit margin from 2010 to 2011 which shows the company improved on their profitability.
* Assessment: Both companies have pretty high gross profit margins, which mean they are both pretty efficient companies. The ratio means that in 2011; Six Flags was getting back .92 on every dollar and Cedar Fair was getting back .91 for every dollar.

**Operating Profit/Net Sales = Operating Profit Margin**

* 2010 to 2011 Cedar Fair: The operating profit margin for Cedar Fair was .22 in 2010 and .23 in 2011. Cedar Fair also improved their ratio slightly between 2010 and 2011 which meant they were making more money for every dollar of sales.
* 2010 to 2011 Six Flags: The operating profit margin for Six Flags was .14 in 2010 and .15 in 2011. Six Flags improved slightly from 2010 to 2011, which is a good indicator of profitability within the company.
* Assessment: Cedar Fair has a stronger operating profit margin that almost doubles the profit margin of Six Flags. In 2011 Cedar Fair was making $.23 for every dollar of sales, but Six Flags was only making $.15 for every dollar of sales.

**Net Earnings/Net Sales = Net Profit Margin**

* 2010 to 2011 Cedar Fair: The net profit margin for Cedar Fair was -.03 in 2010 and -.07 in 2011. Cedar Fair’s net profit margin has decreased from 2010 to 2011. However, if you look at their net earnings from 2010 to 2011, they did increase substantially.
* 2010 to 2011 Six Flags: The net profit margin for Six Flags was .61 in 2010 and -.02 in 2011. Six Flags showed a huge decrease in profit margin from 2010 to 2011. Although this may look like a bad indicator of the company, it does not necessarily show the whole picture. This could just mean that the company has costs that have increased at a greater rate than sales. However, this does show that Six Flags needs to get their costs under control.
* Assessment: In 2011 it appears that Six Flags had a better net profit margin than Cedar Fair. However, they both have low ratios which show that both companies need to do a better job of controlling their costs.

**Cash Flow from Operating Activities/Net Sales = Cash Flow Margin**

* Cedar Fair has been able to keep sales dollars in cash more consistently than Six Flags although Six Flags has improved this ratio drastically between 2010 and 2011. The ratios show that Cedar Fairs has a good grasp on keeping sales dollars cash so expenses are ready to be paid.
* The cash flow margin for Six Flags increased from .07 in 2010 to .27 in 2011; Cedar Fair’s cash flow margin increased also from .19 in 2010 to .21 in 2011. An average of these cash flow margins gives an industry average of about .19.
* Considering Six Flags filed bankruptcy two years ago, they are doing quite well in keeping up with the industry; it is especially important for Six Flags to have available funds in order to stay on top of debt and expenses so their image can be restored.

**Net Earnings/Total Assets = Return on Total Assets**

* 2010 to 2011 Cedar Fair: Cedar Fair is doing marginally better than Six Flags on their return on total assets ratio. Cedar Fairs has increased net income received per dollar of asset which means they are making profitable asset decisions.
* 2010 to 2011 Six Flags: Six Flags return on total assets ratio decreased dramatically from 2.24 in 2010 to -.07 in 2011. In contrast, Cedar Fair’s ratio increased from -.02 in 2010 to .03 in 2011. An average of these returns on total asset ratios gives an industry average of about .55.
* Assessment: Unfortunately, Six Flags has experienced a dramatic decrease in net income which has caused their ratio to decrease in 2011. Compared to the industry average, Six Flags was doing well in 2010 but now they fall closer to the industry average. Cedar Fair’s ratios have improved but they are not particularly impressive either.

**Net Earnings/Stockholder’s Equity = Return on Equity**

Six Flag’s return on equity ratio decreased from .46 in 2010 to -.02 in 2011 while Cedar Fair’s ratio increased from -.19 in 2010 to .40 in 2011. An average of these ratios gives an industry average of .16.

Patterns similar to the return on total asset ratio characterize the return on equity ratios for Six Flags and Cedar Fairs. Six Flags had an above average ratio in 2010 but again, net income fell in 2011 causing the ratio to decrease dramatically. Cedar Fairs, on the other hand, is doing quite well in 2011, with a well above industry average ratio. Their improvements in net income between 2010 and 2011 led to this increase in return on equity.

**Cash Flow from Operating Activities/Total Assets = Cash Return on Assets**

Six Flags cash return on assets ratio increased dramatically from .24 in 2010 to .89 in 2011 while Cedar Fair’s ratio increased conservatively from .09 in 2010 to .11 in 2011. An average of these ratios gives an industry average of about .33.

Six Flags is doing very well in 2011 compared to Cedar Fairs and the industry average. The company has increased incoming cash per dollar of asset significantly in one year which gives them a more advantageous ratio; they did this by improving cash flow from operating activities. The consistency of Cedar Fair’s cash flow margin and also their cash return on assets suggests consistency in current and future profitability of current assets. Six Flags seems to have greater potential in generating more revenue and net income with their assets.