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ISCA - Q1 2019 International Speedway Corp Earnings Call

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Jaime M. Katz *Morningstar Inc., Research Division - Equity Analyst*

PRESENTATION

Operator

Good morning, and welcome to the International Speedway Corporation 2019 First Quarter Earnings Conference Call. (Operator Instructions) As a reminder, this conference is being recorded on Thursday, April 4, 2019. With us on this morning's call are John Saunders, President; and Greg Motto, Executive Vice President and Chief Financial Officer. After formal remarks, John Saunders and Greg Motto will conduct a question-and-answer period. (Operator Instructions)

Before we start, the company would like to address forward-looking statements that may be addressed on the call. Forward-looking statements involve risks, uncertainties and assumptions. Actual future performance, outcomes and results may differ materially from those expressed in these forward-looking statements. Please refer to the documents filed by the International Speedway Corporation with the SEC, specifically the most recent report on Form 10-K and 10-Q, which identify important risk factors, which could cause actual results to differ from those contained in these forward-looking statements.

So with these formalities out of the way, I will turn the call over to John Saunders. Mr. Saunders?

John R. Saunders - *International Speedway Corporation - President*

Good morning, everyone, and thanks for joining us today on our first quarter call. As I discussed on our year-end call in January, NASCAR Holdings, Inc. provided the ISC Board of Directors a nonbinding offer to acquire the outstanding shares of ISC not currently owned by the France family stockholders. Our board formed a special committee of independent directors in connection with the NASCAR proposal. The special committee retained advisers and is evaluating the proposal. As we stated in January, there can be no assurance that the transaction proposed by NASCAR or any other transaction will occur nor can there be any assurance as to the terms of any potential transaction, including pricing and timing.

Please refer to our SEC filings, including our Form 10-K filed on January 25, 2019, and our Form 10-Q being filed today, for additional information concerning the NASCAR offer. We undertake no obligation to update any such information except as required by law. The purpose of this call is to discuss our first quarter results, and we will have no further comment concerning the NASCAR offer on this call.

Overall, our first quarter financial results are in line with our 2019 outlook despite certain attendance headwinds that impacted admissions and related revenue. We reported increased revenue to approximately $151 million, our non-GAAP earnings were $0.57 per share, and we generated adjusted EBITDA of $64.4 million.

During the first quarter, we hosted another successful Rolex 24. NASCAR Speedweeks culminated with the fourth consecutive sellout of reserved grandstands for the DAYTONA 500. Admissions revenue for the quarter declined as a result of an increase in the number of value-priced group packages for events during Speedweeks leading up to the DAYTONA 500. Greg will provide further details on financial results for the quarter and outlook for 2019.

Looking into the second quarter, we have hosted 3 Monster Energy NASCAR Cup weekends at ISM Raceway, Auto Club Speedway and Martinsville Speedway, with mixed results for these events. We also hosted another successful Bike Week at Daytona that exceeded expectations. Admissions revenue for the second quarter is currently trending down on average of approximately 5%. Events to be held in the third and fourth quarter are still early in the sales cycle. We will provide an outlook for these events on our second quarter earnings call. We will continue our consumer-focused sales and marketing strategies, providing segmented experiences at good value. Our objective is to slow and stabilize the recent trends and ultimately position for long-term growth.

Our financial position is strengthened by our contracted corporate sales and broadcast agreements that provide long-term visibility. NASCAR is a powerful brand with a loyal fan base that we believe is aware of, appreciates and supports corporate participation to a greater extent than fans of any other sports property. We continue to drive the business forward with corporate partnerships. Nearly half of Fortune 100 companies and 25% of the Fortune 500 companies invest in NASCAR.

Currently, we have agreements in place for approximately 86% of our 2019 goal and open race entitlements for only 2 Monster Energy NASCAR Cup series events in 2019, comparable to this time last year.

From a broadcast perspective, the Monster Energy NASCAR Cup series remains strong. Viewership is up on an average of 7% through the first 6 races of the 2019 season, and every cup event has been rated the #1 or #2 sport event of the weekend.

NASCAR digital platforms have delivered strong growth. For the DAYTONA 500, digital sites generated approximately 2.4 million race day visits, up 54% compared to 2018, representing the highest fan engagement digital has ever had on a race day.

Domestic broadcast rights fees, which include digital streaming, continue to provide significant cash flow visibility to us, race teams and NASCAR over the contracted term through 2024. We will continue to navigate the evolving media landscape through our long-term partnerships with industry leaders, NBC and FOX.

Recently, NASCAR announced dynamic changes to the 2020 NASCAR Cup Series schedule, with intriguing shifts during both the regular season and the playoffs. The changes reflect NASCAR's response to fan and industry stakeholder feedback for sweeping changes to the schedule and a result of unprecedented consensus building among NASCAR, track operators and broadcast partners.

For ISC, the significant changes include our investment in ISM Raceway, which was rewarded with the championship events for NASCAR Cup, Xfinity and Truck series. Homestead's triple-header will move to March. Daytona's July event is moving to become the final event of the regular season, followed by the first race in the playoffs to be held at Darlington during the track's Throwback Weekend. Martinsville will host its first cup race under the lights in May. Martinsville fall weekend will be the final playoff cutoff event on the famed half-mile short track, setting the final field of contenders for all 3 of NASCAR's national touring championships at ISM Raceway. The 2020 event schedule will result in movements of quarterly earnings, which we will address at a later date when we provide financial outlook for fiscal year 2020.

In October, Talladega Superspeedway commenced construction on the redevelopment of the iconic Talladega infield. The redevelopment will immerse fans into the sport of NASCAR with one-of-a-kind Talladega Garage Experience, featuring unprecedented access, interactive attractions and enhanced amenities for guests. While components of the redevelopment will open this spring, the full project will be completed this year by Talladega's fall event as the track celebrates its 50th anniversary. We believe prudent reinvestment in our facilities will continue to position ISC for long-term growth and deliver shareholder value.

Development at ONE DAYTONA continues to gain momentum as tenants complete construction and commence operations. The DAYTONA, the Marriott Autograph Collection Hotel, is progressing with an anticipated opening later this month. Entertainment continues to be a focus for ONE DAYTONA, with Victory Circle fast becoming the development's focal point for hosting events from live music, car shows and community festivals as well as providing greater opportunities for fans to meet competitors and observe vehicles for motorsports events held at Daytona International Speedway. We anticipate ONE DAYTONA to be a destination for retail, dining and entertainment in the Daytona Beach area.

ISC maintains strong visibility of future cash flow over half of its revenue secured through the industry's 10-year broadcast agreement and multiyear partnership agreements. We will continue our strategic focus on consumer marketing initiatives to deliver growth through our core business. We will also seek opportunities for increased utilization of our facilities through ancillary events. In addition, investments in qualified developments, like the Hollywood Casino and ONE DAYTONA, will provide for further growth and shareholder value.

I will now turn the call over to Greg to give you the financial review for our first quarter and the outlook for 2019. Greg?

Gregory S. Motto - *International Speedway Corporation - Executive VP, CFO & Treasurer*

Thanks, John, and good morning, everyone.

Before reviewing the financial results, it's important to note several items impacting fiscal year-over-year first quarter comparability. These include revenues and expenses and noncapitalized nonrecurring acquisition costs related to the purchase of certain assets from Racing Electronics; costs associated with the NASCAR offer; certain marketing and consulting costs recognized in general and administrative expense that were not capitalized, associated with the redevelopment project at ISM Raceway during 2018; accelerated depreciation and removal of assets not fully depreciated, related to the redevelopment projects at Talladega, ISM and Richmond Raceways and ONE DAYTONA; in 2018, with capitalized interest associated with ISM Raceway and ONE DAYTONA; and in 2018, the onetime noncash benefit due to the lower effective tax rate associated with the Tax Cuts and Jobs Act of 2017. All of these are outlined in the earnings news release and are included in the GAAP to non-GAAP reconciliation where appropriate.

Now looking at the income statement. Admissions revenue for the first quarter was $29.3 million, a decrease of approximately 4% from 2018, primarily related to lower attendance for certain NASCAR events held during Daytona Speedweeks and lower average ticket price associated with certain ticket programs, partially offset by increased admissions revenue for the Rolex 24 at Daytona and sold-out crowd for the DAYTONA 500. Average ticket price for cup events held during the first quarter was approximately $164, down 3.2% from 2018.

The increase in motorsports and other event-related revenue to $106.6 million is primarily due to increased TV broadcast rights and ancillary revenues and certain non-motorsports events held at Daytona, partially offset by certain sponsorships. ISC's domestic television broadcast and ancillary revenue were $68 million for the quarter.

The increase in food, beverage and merchandise revenue to $9.3 million is primarily related to the aforementioned acquisition of assets from Racing Electronics, partially offset by lower attendance for certain NASCAR events held during the quarter.

The increase in other revenue to $5.3 million is primarily related to rents received from tenants at ONE DAYTONA.

NASCAR event management fees increased to $30.9 million. The increase is due to variable costs driven by higher television broadcast rights fees associated with NASCAR Cup, Xfinity and Truck series events as well as contracted increases in non-TV NASCAR event management fees.

Motorsports and other event-related expense increased to $26.4 million, primarily due to costs related to certain non-motorsports events held at Daytona and sponsor activation associated with guest amenities during NASCAR and other events held during the period. These were partially offset by cost reductions related to lower attendance.

Food, beverage and merchandise expense increased to $6.6 million. The increase is related to costs associated with Racing Electronics, partially offset by lower attendance for certain NASCAR events and other events. Food, beverage and merchandise event -- expense as a percentage of associated revenue increased to approximately 71.1%, primarily related to costs associated with Racing Electronics.

Other operating expense increased to $1.9 million, primarily relating to operating costs associated with ONE DAYTONA. General and administrative expense increased to $29.6 million. The increase is primarily due to costs related to the aforementioned NASCAR offer and noncapitalized costs associated with the acquisition of assets from Racing Electronics. Also contributing to the increase were certain employee-related and administrative costs.

Depreciation and amortization expense increased to $29.3 million for the quarter, largely due to assets placed in service during the fourth quarter of 2018 related to the completion of projects at ISM and Richmond Raceways and accelerated depreciation associated with the infield renovations at Talladega Superspeedway. Partially offsetting the increase were assets that had been fully depreciated or removed from service as compared to the same period in the prior year.

Losses on asset retirements decreased to $400,000, primarily due to removal of assets not fully depreciated associated with our facility redevelopment projects.

Interest income increased to approximately $1.2 million for the quarter, primarily related to higher yield on our short-term investments. Interest expense increased to $3.7 million as a result of lower capitalized interest associated with the ISM and ONE DAYTONA projects in the prior year.

Equity and net income from equity investments of approximately $5.5 million represents our 50% interest in the Hollywood Casino at Kansas Speedway and, to a lesser extent, our approximate 33% equity interest in the Fairfield Inn Hotel at ONE DAYTONA. This compares to approximately $4.3 million in the first quarter of 2018. The increase is primarily due to higher operating profits at the casino. For the quarter, we received cash distributions from the casino totaling $6.2 million.

The effective tax rate for the first quarter of fiscal 2019 was 24.5% compared to a benefit of 391.5% in the first quarter of 2018. In the first quarter of fiscal 2018, we recorded a onetime noncash material reduction in our deferred income tax liability as a result of the lower federal tax rate associated with the Tax Cuts and Jobs Act of 2017. Excluding this benefit, the effective tax rate for the first quarter of 2018 was 26.1%.

Net income for the 3 months ended February 28, 2019, was $21.6 million or $0.50 per diluted share on approximately 43.4 million shares outstanding. However, when you exclude noncapitalized nonrecurring acquisition costs related to the purchase of assets from Racing Electronics, costs associated with the NASCAR offer and certain nonrecurring costs for the removal of assets and accelerated depreciation incurred in connection with the infield project at Talladega, we posted earnings of $0.57 per diluted share for the first quarter fiscal 2019 compared to non-GAAP net income for the first quarter of 2018 of $0.60 per diluted share. And adjusted EBITDA was $64.4 million for the first quarter of fiscal 2019 compared to $65.8 million in the first quarter of fiscal 2018.

As for the balance sheet and future liquidity, at quarter end, our combined cash and cash equivalents totaled $273.2 million. And shareholders' equity was $1.7 billion. Our deferred income was $71.3 million, down approximately $26.5 million from the same period in the prior year. The decrease in deferred income is primarily due to the change in accounting associated with the new revenue recognition standard, which requires netting of certain accounts receivable and deferred income items and unearned sponsorship revenue deemed uncollectible associated with a sponsor that recently filed Chapter 7 bankruptcy.

At the end of the quarter, total principal outstanding on debt was approximately $257.1 million, which includes $165 million in senior notes, $46.3 million in TIF bonds associated with the Kansas Speedway and $45.8 million for our term loan on our headquarters office building. We currently have no borrowings drawn on our $300 million revolving credit facility.

As it relates to capital spending, for the 3 months ended February 28, 2019, we spent approximately $25 million, including capitalized interest and labor.

Now for capital allocation. Our plan remains as previously communicated. We have established a long-term capital allocation plan to ensure we generate sufficient cash flow from operations to fund our working capital needs, capital expenditures at existing facilities, return of capital through payments of an annual cash dividend and repurchase of our shares under our Stock Purchase Plan. We operate under a 5-year capital allocation plan adopted by the Board of Directors, covering fiscal years 2017 through 2021. Components of this plan include capital expenditures at existing facilities, including the Talladega Infield Project; the ONE DAYTONA development project; and return of capital to shareholders.

For existing facilities, we expect capital expenditures up to $500 million from fiscal 2017 through fiscal 2021. These include the previously discussed reinvestment at ISM Raceway and Richmond projects and the recently announced infield renovations at Talladega as well as other maintenance and guest experience capital expenditures for the remaining existing facilities. While many components of these expected projects will exceed weighted average cost of capital, considerable maintenance capital expenditures, estimated at approximately $40 million to $60 million annually, will likely result in a blended return of invested capital in the low to mid-single digits. In addition to the $500 million in capital expenditures for existing facilities, we expect approximately $111 million of capital expenditures, exclusive of capitalized interest and net of public incentives related to ONE DAYTONA.

For fiscal 2019, we expect total capital expenditures associated with our capital allocation plan to range between $95 million and $115 million for existing facilities, which includes the Talladega Infield Project and remaining capital expenditures related to the completion of projects at ISM and Richmond Raceways and the ONE DAYTONA development.

Return of capital to shareholders through dividends and share repurchases is a significant pillar of our capital allocation. We expect dividends to increase in 2019 and beyond by approximately 4% to 5% annually. Concerning share repurchases, we terminated our active Rule 10b5-1 plans immediately upon receipt of the previously discussed NASCAR offer. Therefore, we did not repurchase any shares of ISCA during the fiscal quarter of fiscal 2019. At February 28, 2019, we had approximately $138.7 million remaining purchase authority under the current $530 million Stock Purchase Plan.

For 2017 through 2021, we expect our return of capital program to be approximately $280 million, comprised of close to $100 million in total annual dividends and $180 million open-market repurchase of ISCA shares over the 5-year period. We've built a capital allocation plan based on conservative estimates that will maintain a strong financial position prudently and disciplined reinvestment in the business and provide stable and growing return to shareholders.

And now for our outlook for 2019. In an effort to enhance the comparability and understandability of our forward-looking financial guidance, we adjust for certain nonrecurring items that will be included in our future GAAP reporting. We believe this adjusted information best represents our expectations for our 2019 core business performance. Please refer to our earnings release for a detailed list of items excluded from our fiscal 2019 non-GAAP guidance.

For fiscal 2019, we are reaffirming our outlook within the previously provided guidance range. The high end of our range contemplates stabilization in our attendance and related revenues in securing 100% of our corporate sales goals. While the low end of our range contemplates further erosion in attendance, approximately 95% of our corporate sales goal left the uncollectible revenue from a sponsor currently in bankruptcy proceedings and net of lower operating expenses as a result of cost-containment initiatives.

Our full year fiscal 2019 guidance includes total revenues to range between $685 million to $705 million. Adjusted EBITDA will range between $230 million and $250 million. Included in adjusted EBITDA is approximately $27 million in pretax cash distributions from the Hollywood Casino. Operating margin is estimated between 13.5% and 16%. Our non-GAAP effective tax rate is forecasted at 25% to 26%, and non-GAAP earnings of $1.85 to $2.15 per share.

In closing, we continue to see areas of success like the fourth consecutive sellout of the DAYTONA 500. Our 2019 financial outlook provides for year-over-year growth. We have a defined, consumer-focused marketing and sales strategy. We continue to reinvest in new fan experiences that competitively reposition our facilities against other entertainment options. And we maintain a solid financial position, developed over many years, that affords us the ability to follow our disciplined capital allocation strategy and maintain our leadership position in the motorsports industry. For the future, we are well positioned to balance the strategic capital needs of our business with returning capital to our shareholders.

We look forward to speaking with you on our next earnings conference call in July. And with that, I'll turn it back over to the operator who'll lead us through the Q&A portion of the call. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And your first question comes from the line of Jamie Katz with Morningstar.

Jaime M. Katz - *Morningstar Inc., Research Division - Equity Analyst*

So I think you guys talked a little bit about value ticketing and maybe the mix having an impact on admissions. But I'm curious if the demographics of those attendees are changing, and maybe you're able to capture some new underpenetrated cohorts coming into this space that you weren't able to reach before.

Gregory S. Motto - *International Speedway Corporation - Executive VP, CFO & Treasurer*

It's Greg. Yes, we are undergoing a very extensive consumer marketing and sales strategy, which we've been talking about, which includes 5 key strategic categories of acquisition of data, segmentation analysis using predictive modeling, engagement in -- with the various outbound strategies using all media channels, monetization to convert these tickets into sales and building these customers and through a retention program, which I also think is important to note here, that we focus on converting our first-time customers to second-year customers because what we've found is once a customer is a second-year customer, they're 75% or more likely to continue renewing their tickets. So we think these strategies can encompass an opportunity for us to stabilize our attendance trends and to market our properties year round.

Jaime M. Katz - *Morningstar Inc., Research Division - Equity Analyst*

And then is that what you guys have been seeing? Is it actually bringing in new consumers to the sport? Or is it just existing consumers trading down to the lower-priced tickets? Is there a way to determine that maybe is a better question.

Gregory S. Motto - *International Speedway Corporation - Executive VP, CFO & Treasurer*

So I think we use this information again to market to these consumers in our various ways. And where consumer demand persists, then that's where the results will come.

Jaime M. Katz - *Morningstar Inc., Research Division - Equity Analyst*

Okay. And then is there any update on what next year looks like after the Monster Energy relationship lapses?

John R. Saunders - *International Speedway Corporation - President*

Jaime, this is John. NASCAR is currently, as they've advised us, in the marketplace, looking for an upper tier of multiple sponsors to present the series going forward. I think we've talked on previous calls that the cost per one company, such as Monster or previously Sprint or going back to the Nextel/Winston days, is a pretty significant number. And we feel and agree with NASCAR that having more of, let's call it, the Olympic model of presenting sponsors to represent the series is a better way forward. They're currently in the marketplace talking to folks. It presents a great opportunity for 2020 and beyond, but I don't have any more to add to that at this point.

Jaime M. Katz - *Morningstar Inc., Research Division - Equity Analyst*

Okay. I was just curious if there was any update. And then lastly, I know you don't want to talk about a potential transaction, but it did cost the business a nickel this quarter. So maybe a better way for us to think about it is to better understand what we expect the expense to evaluate this transaction to be. And maybe that will help us think about what a time line might be because I assume there is some finite life to the evaluation process, and it's not going to cost the business $2 a share. So if we can get to maybe what the company expects to spend on evaluating the business, it might help us think about what the duration of that evaluation process is.

Gregory S. Motto - *International Speedway Corporation - Executive VP, CFO & Treasurer*

It's Greg. Yes, the costs are not determinable or available at this time for -- as the special committee continues to work through this process. As you mentioned, we've incurred $2.8 million to date. We have excluded these from our non-GAAP reported earnings and our full year 2019 financial outlook. And as more information is available, we'll publish it.

Operator

(Operator Instructions) And it looks like there are no further questions.

John R. Saunders - *International Speedway Corporation - President*

Well, I'd just like to thank everybody for joining us today on our first quarter call, and we look forward to visiting with you on our second quarter call in July. And have a great day. Thanks for joining us.

Gregory S. Motto - *International Speedway Corporation - Executive VP, CFO & Treasurer*

Thank you.

Operator

And this concludes today's conference call. You may now disconnect.
