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Attractions
EXPO

How to finance an amusement facility project

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Room # B408

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IAAPA Attractions Expo 2006

How to Finance an Amusement Facility Project

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November 15, 2006

Presentation Structure

- What Does the Patron Want?
  A Brief Overview
- Equipment Financing and Leasing Alternatives
  Edward Bolluijt - Fitraco
- Revenue Sharing: Is it Right for Your Facility?
  Ed Hiller – RES
- Senior Debt Financing
  Ralph Willis – GE Commercial Finance

What Does the Patron Want?

What Does the Patron Want?

Full-day entertainment creating a unique experience

- Sensational adventures
- Secure Environment
- Friendly, clean, smiling, original atmosphere
- Feeling to be there where the action is
- Simple, not too expensive food & beverages

What Does the Patron Want?

Success Factors

- Great staff and market-oriented management
- Good lay-out
- Sensational attractions
- Funny and easy rides
- Design-day capacity

What Does the Patron Want?

Challenges

- To create the right image
- Find the right mix of attractions
- Play the market, not what management or the board likes
- Motivate staff and management
- Limit and animate queue-lines
- Short season: staff, weather influences more critical

What Does the Patron Want?

Perceptions

- Perception is reality
- Invest carefully, keeping in mind that the patrons often seeks new attractions each year

Equipment Financing and Leasing Alternatives

Edward Bolluijt
Fitraco

Equipment Financing and Leasing Alternatives

Return on Assets

- Well-managed parks succeed in producing EBITDA of more than 30% of gross sales
- Successful attractions can pay for themselves in less than 3 years (including profit on related food and beverages and merchandising)

Equipment Financing and Leasing Alternatives

Leasing Structures

- Equipment leasing is offered by various financial institutions
- The leasing company (Lessor) can either
  - Purchase equipment from the vendor and then lease it to you (Lessee) or
  - Purchase directly from you and lease it back to you (sale/leaseback)
- Lessee will make lease payments (usually fixed) during the leasing term (generally 3-7 years)
- At the end of the lease there usually is a purchase option (purchase options vary)

Equipment Financing and Leasing Alternatives

Comparisons to Traditional Financing Methods

- Depending on lease type, title to the equipment may be with Lessor
- Lease types:
  - Operating Lease: Title with Lessor, Pass residual risk to Lessor, No debt on books, Expense each lease payment
  - Finance Lease: Similar to loan, May have low purchase option ($1)
- Little or no down payment required
- Financing frees up cash flow for other needs

Revenue Sharing: Is it Right for Your Facility?

Ed Hiller
RES

Revenue Sharing: Is it Right for Your Facility?

What is a Revenue Share project?

- Project in which a company provides a facility certain equipment that is used in the facility's operations and the net profit from such use is "shared" by the company and the facility

Revenue Sharing: Is it Right for Your Facility?

Foundation of a Successful Revenue Share Project

- Everything starts with the "need" for the equipment (eg. amusement ride, arcade games)
- The equipment must be marketable
- Partnership mentality is the key
  - The company needs to provide service for the equipment
  - Facility management needs to market the equipment to the public

Revenue Sharing: Is it Right for Your Facility?

Foundation of a Successful Revenue Share Project (continued)

- The project needs to be viewed as a "Revenue Center" for both the company and the facility
- As such, a business model needs to be prepared that is agreeable to both parties
- The projects needs to be a "Win/Win" relationship

Revenue Sharing: Is it Right for Your Facility?

Advantages for the Facility

- No capital investment
- Ability to obtain equipment even if capital is restricted
- Ability to generate additional attendance for the facility due to new equipment and marketing of that equipment
- Facility normally has equipment purchase option which allows the facility to "finance" the equipment with the cash flow generated from the equipment
- If the "partnership" is successful, it gives the facility a private source for equipment that frees up cash flow

Revenue Sharing: Is it Right for Your Facility?

Potential Disadvantages

- Equipment use is normally sold on an "extra-charge" basis to facility patrons otherwise tracking mechanism must be implements to gauge equipment use
- Staff personnel need outgoing personality to "sell" and promote the use of the equipment
- Sold equipment location is critical if the facility is going to charge an extra fee for the experience
- Must establish marketing budget with funds allocated
- Experienced staff for daily maintenance of equipment

Revenue Sharing: Is it Right for Your Facility?

Is it Right for Your Facility?

- Yes, if:
  - Your capital is limited
  - You have the right location
  - You have personnel to operate/maintain the equipment
  - Your marketing budget is flexible
  - You're comfortable with your relationship with the revenue sharing company

Senior Debt Financing

Ralph Willis
GE Commercial Finance
Global Media & Communications

Senior Debt Financing

Industry Players

- More players investing in amusement/leisure industry
  - Investment banks, Equity sponsors, Hedge Funds, REITs
- Examples: Recent publicly announced transactions
  - Bear Stearns advising Cedar Fair's acquisition of the Paramount Parks
  - Mid Ocean acquisition of Palace Entertainment
  - Fortress acquisition of Intrawest
  - CNLs financing of certain Great Wolf assets

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Senior Debt Financing

Senior Debt Structures

- Various potential structures
  - Working capital revolvers to meet seasonal needs
  - Term Loans for long term financing needs (Term B Loans offer low amortization with cash flow sweep)
  - 2nd Lien Loans (for larger sites, stretches financing amount)
  - Recapitalizations (combination of any of the above for refinancing any or all of various leases and loans on the books)
- Potential terms
  - Total senior debt at 2.5x to 4x EBITDA (4.5x to 5x with 2nd lien)
  - Terms typically 3 to 7 years; Primarily floating rate but some fixed

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Senior Debt Financing

Financing for Start-Up Facilities

- Single Site vs Multi-Site Operators
  - Financing easier to obtain if cash flow from a separate site is available
- Financing for Construction Projects
  - Construction financing is available in the market
  - Need strong location, strong management, feasible 'take-out' financing
- Credit Enhancements
  - Guarantees (personal or corporate), LCs
  - Strong equity backing (strength of equity provider can be just as important as amount of equity)

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Q & A

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