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JAPANESE ARTIST BUILDS HER OWN MUSEUM

PHOTO: JEREMY SUTTON-HIBBERT/GETTY

part seven

THE ATTRACTIONS BUSINESS
Is it worth it?

In the penultimate part of this series by industry consultant David Camp, understand how to assess profitability and predict whether a new venture will deliver adequate returns


David Camp

SERIES ROADMAP

This eight-part series outlines the patterns and dynamics that define every attraction – from visitor behaviour and guest spending to operating costs and profitability

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SeaWorld's profit margin is impacted by negative attitudes to orcas in captivity

In this series of articles, we have discussed demand volumes, revenues and operating costs. Combining these leads to the critical assessment of profit or loss for a business, helping us answer the question – is it worth it?

While there is no standard financial reporting method for visitor attractions specifically, a common measure of the profits of a business is an assessment of the EBITDA (earnings before interest, tax, depreciation and amortisation). This effectively measures the core business operation and also allows comparison between attractions businesses.

Comparing the EBITDA to the total revenue provides a measure of the profit margin for the business. All too often, promoters of development projects over-state the potential profits, either through an over-estimation of the income or understating the operating costs, or both.

Analysing income

Table 1 provides revenues and profit margins for 2016 from the annual reports for a number of attractions operating groups. The average profit margin across the sample is 32.5 per cent, although, as shown, there are some variances, with Universal Parks performing particularly well on the back of the popularity of their Harry Potter-themed attractions.

The continuing negative press coverage around keeping killer whales in captivity and the *Blackfish* film is impacting SeaWorld's performance, while Compagnie des Alpes continues to wrestle with operating a diverse range of medium and small attractions across Europe.

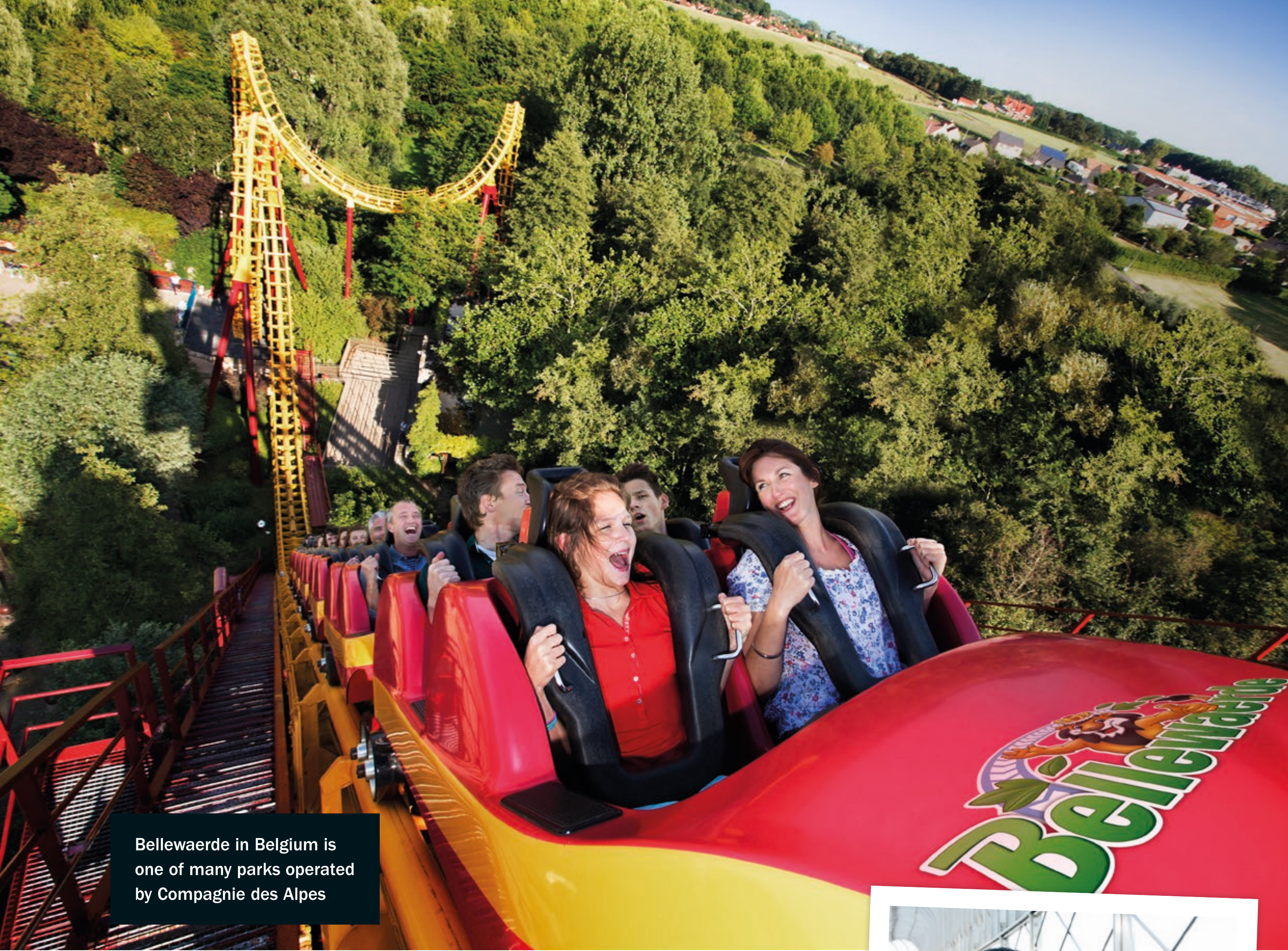
With each group operating a number of attractions, these consolidated figures mask stronger or weaker individual attraction operations. While details for individual attractions within these groups are not publicly available, there is published information available on the performance of a range of visitor attractions. We show the performance across a selection of individual attractions in Table 2.

Talking margins

The list includes a number of theme parks, entertainment attractions, museums and wildlife attractions. As shown, the majority of the attractions listed achieve EBITDA margins between 10 per cent and 40 per cent, with an average of 22 per cent. These margins are generally lower than the averages

Table 1 : Revenues and profit margins for operating groups in 2016

Group	Revenue (mill)	EBITDA (mill)	Profit margin	Currency
Universal Parks	4,946	2,190	44.3%	USD
Six Flags	1,319	506	38.4%	USD
Cedar Fair	1,289	481	37.3%	USD
Parques Reunidos	584	188	32.3%	EUR
Merlin Entertainment	1,457	451	31.0%	GBP
Disney Parks & Resorts	16,974	5,019	29.6%	USD
SeaWorld	1,340	332	24.8%	USD
Compagnie des Alpes	301	68	22.6%	EUR



Bellewaarde in Belgium is one of many parks operated by Compagnie des Alpes

Table 2 : Revenues and profit margins for individual attractions

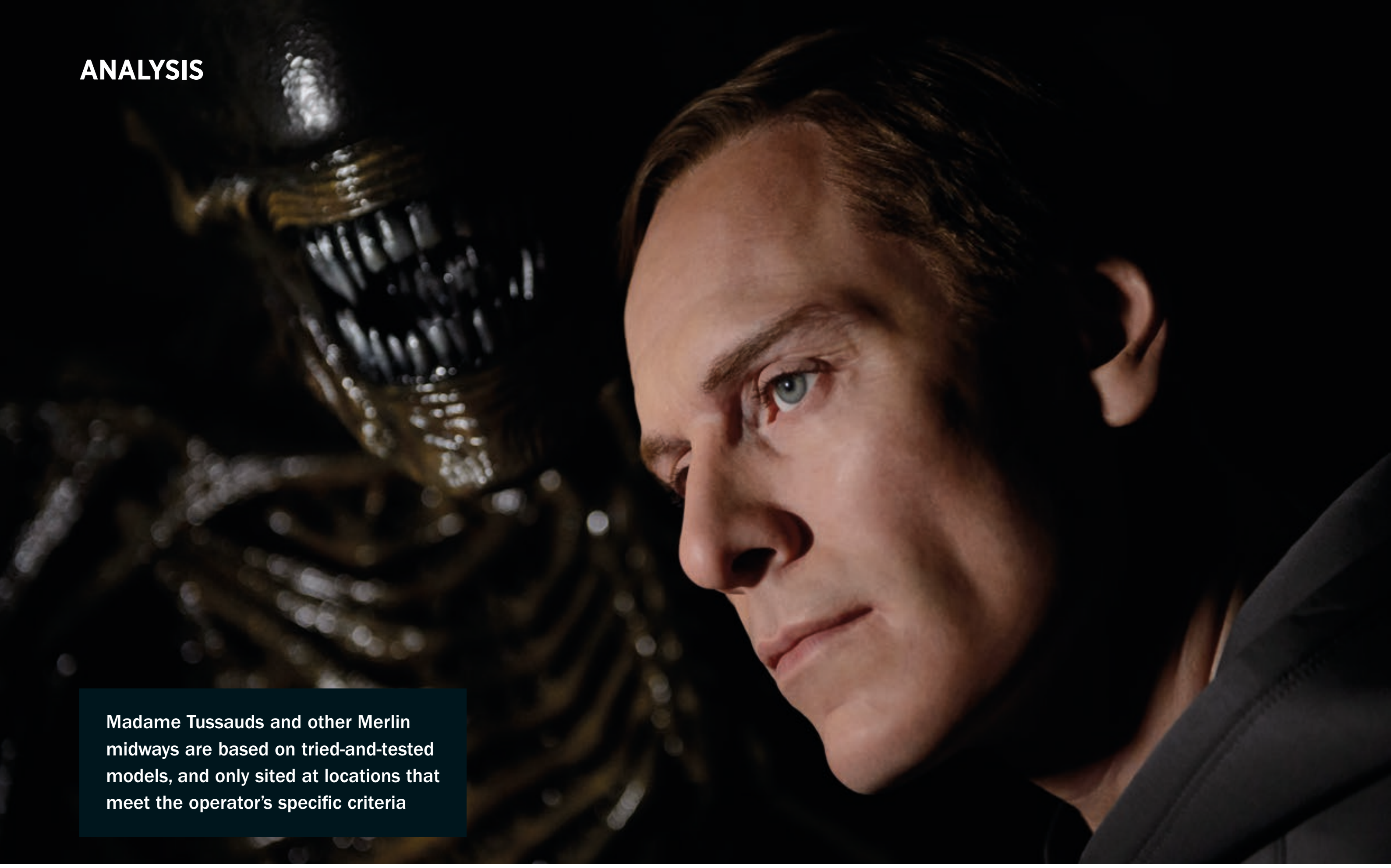
Attraction	Revenue (000s)	EBITDA (000s)	Profit margin	Year	Currency
Empire State Building	112,172	82,329	73.4%	2015	USD
Paulton's Park	25,472	9,819	38.5%	2016	GBP
CN Tower	62,700	20,800	33.2%	2012	CAD
Ocean Park	1,598,200	505,400	31.6%	2012	HKD
Farup Sommerland	122,236	34,225	28.0%	2014	DKK
Polynesian Cultural Center	53,632	13,645	25.4%	2011	USD
Taronga Zoo	96,773	22,731	23.5%	2015	AUD
Monterey Bay Aquarium	92,141	21,350	23.2%	2013	USD
Liseberg	1,073,340	245,595	22.9%	2014	SEK
View from the Shard	20,031	4,495	22.4%	2014	GBP
Berlin Zoo	29,153	6,291	21.6%	2016	EUR
Blackpool Pleasure Beach	28,689	4,575	15.9%	2015	GBP
Chester Zoo	35,445	5,455	15.4%	2015	GBP
Canadian Museum of History	87,193	13,263	15.2%	2013	CAD
Tivoli Gardens	1,288,100	187,200	14.5%	2016	DKK
San Diego Zoo Authority	273,847	38,258	14.0%	2014	USD
Imperial War Museums	56,179	6,727	12.0%	2015	GBP
MET Museum, New York	389,778	46,363	11.9%	2016	USD
Toronto Zoo	45,563	-394	-0.9%	2015	CAD
Disneyland Paris	1,278,000	-34,000	-2.7%	2016	EUR

The Empire State Building's visitor attraction achieves a profit margin of 73.4 per cent

achieved by the major operators, reflecting the experience of these operating groups.

While almost all of the attractions report a positive EBITDA margin, a number of them require significant financial support from grants, donations or endowments to be able to deliver these returns. This is common with many museums and wildlife attractions where visitor revenues account for less than half of the annual revenues and it is only through external funding that the attractions can continue to operate.

As shown, while attraction operations can be profitable, even for the strongest commercial operators it is difficult to exceed profit margins of more than 35 per cent. This leads to the question of what attractions are worth and how much should be invested to create new attractions?



Madame Tussauds and other Merlin midways are based on tried-and-tested models, and only sited at locations that meet the operator's specific criteria

Successful attractions developers and operators understand the importance of balancing costs and values

An attraction's value

For visitor attractions, valuations are based on the earnings of the business, regardless of the amount invested. Sometimes there is an additional value associated with a building, if owned, but for most attractions there is little alternative use that the assets could be put to. Therefore, attractions are valued on a multiple of their EBITDA.

The assessment of what multiple to use depends upon a number of factors, such as the future potential of the business, whether the current EBITDA is strong or weak, the quality of the assets, how much future investment will be needed at the attractions, and the appetite of the investor for the business.

Table 3 shows examples of attraction sales and the associated EBITDA multiple. The average EBITDA multiple across the deals is just over eight, meaning that, in general, attractions are worth around eight times their annual profits. This is a useful guideline for the scale of investment that can be supported by a new attraction.

However, this presents a challenge for developers and designers of new attractions, as it is often difficult to create the scale and vision that a developer is seeking for budgets that can be supported by the business and deliver a return.

Table 3 : Sales of attractions and EBITDA multiple

Attraction	Deal date	Sales value	EBITDA	EBITDA multiple
Dolfinarium Harderwijk & Walibi Sud-Ouest	Jan-15	38	4	10.4
Merlin Entertainments	Nov-13	3,190	340	9.4
Sydney Attractions Group	Jan-11	115	12	9.6
Cedar Fair	Dec-09	2,279	300	7.6
SeaWorld	Oct-09	1,563	248	6.3
Parques Reunidos	Jan-07	927	114	8.1
Six Flags Europe	Mar-04	200	28	7.1

Forecasting success

It is not uncommon for promoters of new projects to develop a bottom-up business plan based on a target investment level, with operating revenue and cost forecasts created to justify the scale of investment. Typically, these plans are over-optimistic, have little relationship to the size of the markets or demand levels, and do not reflect industry performance benchmarks. This may not stop them getting funded and built, but it often leads to financial problems when the operation cannot deliver on the forecasts.

Successful attractions developers and operators, such as Merlin Entertainments, understand the importance of balancing costs and values. Much of Merlin's expansion has been through their midway attractions – Sea Life Centres, Dungeons, Madame Tussauds and Legoland Discovery Centres. These attractions are designed to a standard scale and budget, and new locations need to be able to deliver appropriate attendance levels and revenues to provide the company with a solid return on their investment. If a location cannot do this, they do not pursue the opportunity.

Success for Merlin is based on learning from past experiences and replicating proven business models. While this is not the only route to creating successful attractions, new developers would do well to take a leaf out of their book. ●

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