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Euro Disney: A Mickey Mouse Project?

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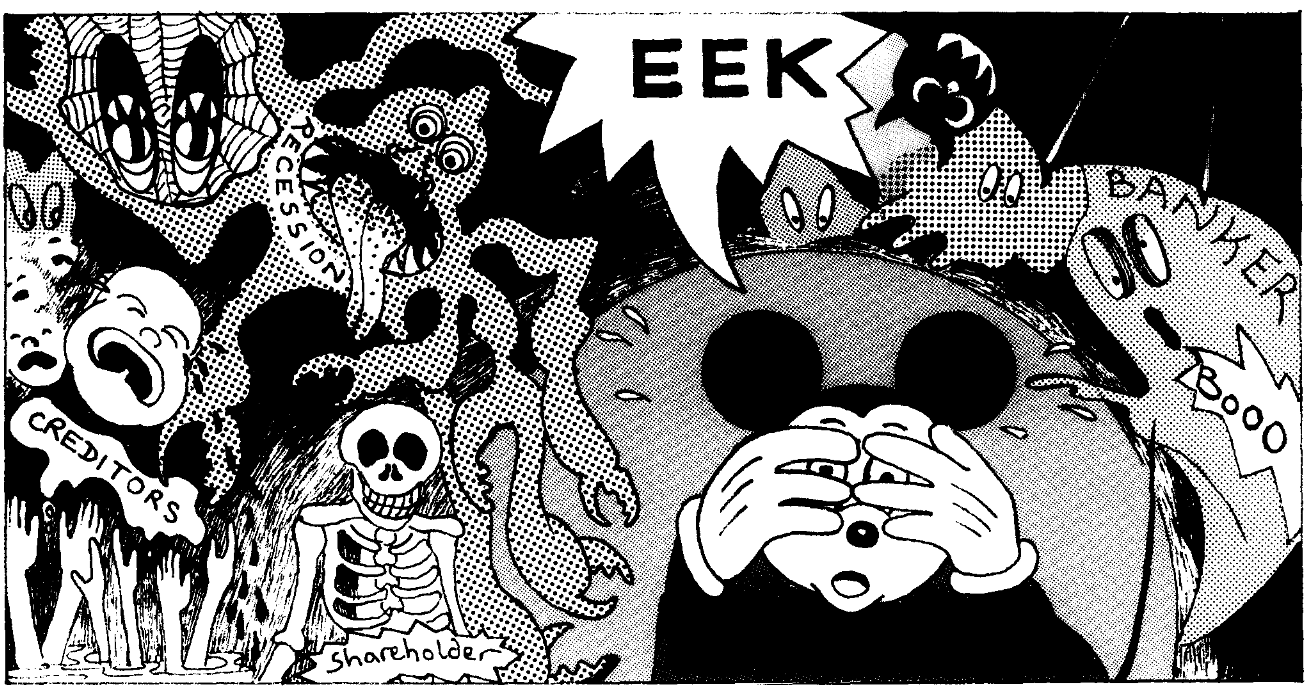
In this Case Study of Walt Disney's investment in a theme park near Paris, Roger Mills, James and Victoria Dimech Debono document the unfavourable economic conditions and over-optimistic projections that caused the successful launch of the project in 1992 to quickly turn sour. By using a Shareholder Value Analysis model they then show how estimates of shareholder value per share, based on information in the original prospectus, are drastically revised downwards as more realistic assumptions, like total debt owed, are built into the valuation model. In March 1994, a major financial restructuring plan was agreed with Euro Disney's banks — but was this another Disney fantasy?

Background

It was in the early 1950s when Walt Disney pioneered the concept of the theme park. This was to be a unique entertainment experience where the guest is not only a spectator but also a participant. Walt Disney wanted his theme park to be different from the random collection of roller coasters, merry-go-rounds and ferris wheels which could be found in the conventional carnival atmosphere, so he thought up the idea of the 'lands', distinct areas in which a selected theme can vary from an exotic adventure, to a childhood fairy tale. These are presented through architecture, landscaping, costuming, music, live entertainment, merchandise and food and beverage.

The first Disney theme park was established in 1955 with the opening of Disneyland in Los Angeles, California. This was an immediate success and over the years has attracted more than 300 million visitors. In 1971 Disney opened its second theme park Walt Disney World in Florida. This also proved to be another raging success.

It was in the early 1980s when Disney first ventured overseas with the theme park idea. In April 1983 Disney, together with the Oriental Land company, opened Tokyo Disneyland. This was very similar in concept to Disneyland in Southern California and whilst it had a rocky beginning it soon turned into another monstrous success for Disney. Unfortunately though, Disney took



no equity stake in the Oriental Land company, the company which owns and operates the park. Consequently from this venture Disney only earns a relatively modest share for the use of its name and characters in the form of 10 per cent of admission revenues and 5 per cent of food and souvenir revenues.

In the mid 1980s Walt Disney came under new management, and it was at this time that the idea of bringing the Disney magic to Europe was first fantasised. This was as a consequence of the success of the Tokyo theme park, the popularity of the American theme parks amongst Europeans and the success of Disney's products in Europe for over 50 years.

Why France?

It was evident right from the beginning that nothing would stop the French from winning the race to host the Disney theme park. Besides bringing prestige and 12,000 jobs to France, Euro Disney would help the depressed agricultural region of Marne-la-Vallée.

To achieve its ends France gave many concessions. Apart from money, it offered subsidised loans, 5000 acres of land at 1971 prices and sufficient land to permit expansion of the project to meet increasing demand, road and rail links giving ready access to the site, tax breaks, reduced Value Added Tax on ticket sales and the acceptance of a claim of French ancestry for the Disney patriarch.

Disney felt that this site would provide a central position within Europe for the theme park which, in turn, would have a favourable effect on the attendance levels and on the commercial development they had planned for the site.

In 1985 a letter of intent was signed confirming France as the host country and identifying Marne-la-Vallée, a 1943 hectare site 32 km east of Paris as the site for the newest Magic Kingdom. Some two years later, on March 24th 1987, Michael Eisner, the President of Disney and Jacques Chirac the Prime Minister of France, signed the contract for the building of the Disney theme park east of Paris.

Just before the signing of this contract, a poll was held in France, the results of which suggested that 85 per cent of the French population supported the idea of the park being built in their country. But the French reasoning behind this may have been less the love of cartoon animals and more the money the park would generate.

Offer For Sale Of Shares

In October 1989, Euro Disney offered its shares to the public. In the prospectus prepared by Arthur D. Little, the forecasts showed how the park would enchant the 310 million Europeans calculated to live within the circle of Disney magic. It illustrated why the park would be an immediate success as a consequence of revenue from high attendance levels, from property development around the park and from accommodation provided to visitors in the various standards of hotels that were to be built.

The prospectus also indicated that the early profits and the sale of the first hotels to be built would fuel funds for the repayment of the loans and further expansion which was expected to start at the latest in 1996, when a second theme park would be built. Disney seemed to bank on the fact that it had a competitive advantage in respect of the expected size and quality of Euro Disneyland and its attractions as well as its hotel capacity and resort environment. These, according to the prospectus, made it unique and comparable to no leisure resort or amenity in Europe.

It should also not be ignored that the prospectus revealed how Walt Disney was not going to let its shareholders be short-changed from the profits of Euro Disney as they had been in the case of the Tokyo theme park. Nor was it going to lose out on the profits from property development around the park, as had happened in California where the surrounding land owners saw the value of their plots soar and were able to cash in on the Disney magic. However, Euro Disney could not be a subsidiary of Disney because according to French law the company would have to be controlled within the European Community. The group thus sought to secure its position by setting up a number of companies in France which were wholly owned by it.

Euro Disney's offer of shares to the public in the European Community on 9 October 1989 was a huge success. A total of 85.8 million shares were offered to the public, half of these were offered in France and the other half were made available to the other member states of the European Community. The shares had a nominal value of 10 FFr. approximately £1 (Oct. 1989 rates) and were sold at 707p per share payable in full on application. This meant that each share had a premium of approximately £6.

In the European Community (excluding France) the shares were 11 times oversubscribed, although the methods used to offer shares to the public did vary. For example, in France the shares were offered by way of a public subscription while in the United Kingdom they were sold through an offer for sale.

In France, so huge was the success of the share offer that the next day the banks refused to accept any further orders from customers. Similar success was experienced in the United Kingdom where the £67 million of shares offered for sale were 4.7 times oversubscribed.

Why did Euro Disney Demand Such a High Share Price?

Euro Disney's offer for shares to the public was seen to be a huge success. But, why was the public ready to pay such a high price for the shares and how justified was Euro Disney in demanding this price? The reason why the public was ready to pay such a high price can be understood with reference to a valuation undertaken which used a discounted cash flow model known as Shareholder Value Analysis (overview provided in Appendix 1). This valuation was based upon the published information given in the original prospectus, and resulted in a value per share of FFr. 78.36. When compared with the issue price of FFr. 72.82 (translated at the rate given on the prospectus of (£1 = FFr. 10.30), the analysis shows a premium of FFr. 5.54.

At this stage it should be noted that to arrive at this shareholder value certain assumptions had to be made because of the limited data available in the prospectus. The main assumptions used were as follows:

Sales Revenues
Sales revenues for Euro Disney relate to cash inflows from three main streams

- Magic Kingdom
- Second Theme Park (after 1996)
- Resort and Property Development

Operating Profit
The operating profit figure was derived after deducting the relevant operating expenses under the three revenue centres.

- Investment — Increases in both fixed assets and working capital are necessary for growth to occur. It has been assumed that there is a direct relationship between the increase in sales and the increase in the incremental fixed capital and the incremental working capital requirements.
- Planning period — A planning period was provided in the Euro Disney prospectus. Any value beyond this planning period, has been captured by performing a perpetuity calculation.
- Cost of Capital — The cost of capital rate used in the valuation process was that of 12 per cent, the rate used by Arthur D. Little in the prospectus.

Disney Opens its Doors to the Public

Euro Disney opened its magical doors to the public on 12 April 1992 amidst a £10 million television Europe-wide advertising campaign capped by a two hour live broadcast to 30 countries, and amidst forecasts of huge profits and a share price which had reached a peak of 1659p a few weeks before.

Roy Disney, the founder's nephew in the welcome speech told the 15,000 guests in the opening ceremony who overflowed the neat pavements and flooded around the Chateau de la Belle au Bois Dormant almost blotting it out of sight, that the d'Isigny family had lived in France as recently as the Norman Invasion of England.

However, the grand opening was marred by technical failures, long queues, striking railway employees, the missing speech of welcome from France's socialist government and by the virulent opposition of some of the French intellectuals who described it as a 'cultural Chernobyl' and felt that the idea of Euro Disney was a threat to French civilisation and culture. It soon also became terribly evident that everyone, bankers, brokers and even government had been blinded by the glamour and that all the projections that had been made four years before had all been horribly off the mark. Things started to turn sour for Euro Disney right from the very beginning. For example, its opening corresponded with economic conditions which were very different from those that had existed and were anticipated when the projections had been drawn up.

The first shock was reflected in attendance figures. These were alarmingly low in comparison to the projections. It had been estimated that the initial attendance potential was to be between 11.7 and 17.8 million with an annual growth rate of around 4.9 per cent in the first five years. These high attendance levels were thought possible because of research conducted by Arthur D. Little (ADL) which concluded that:

1. Euro Disney would require more than one day to visit
2. The hotels available would satisfy the demand of these customers who would need to stay longer than one day
3. The Disney name and the quality of the experience would make the theme park a popular holiday destination resort.
4. The park has a location at the centre of an area of high population density. Paris was just 40 minutes away by train and the international airports of Roissy-Charles De Gaulle and Orly were easily accessible from the park.

ADL calculated that there were 310 million people to whom Euro Disney was easily accessible. As regards the admission price, ADL reviewed admission prices charged in Paris for major attractions which could be considered competitive in terms of entertainment value. It concluded that although the price of Euro Disney was higher it was justified when one takes into consideration the destination resort features and the high quality of the entertainment.

Projections are way out

What in actual fact happened was that the initial visitor figures from the UK and Germany exceeded their expectations but the French attendance was disappointingly low, despite all that had been done to attract them. All in all, from the opening to June 1992 Euro Disney's peak period, attendance had only averaged around 30,000 tourists daily. To achieve an attendance anywhere near the 11 million target it had to maintain this level even throughout the winter period.

To try and boost French attendance during the low season Euro Disney offered residents of the Paris area discounts of up to 30 per cent on the admission price. unfortunately, this corresponded with a drastic fall in the attendance of foreigners after the collapse of the Exchange Rate Mechanism in September 1992. The French government's determination to maintain the value of the franc, meant that this currency acquired strength against other currencies. This meant that suddenly for the British and Italian tourists it became between 10 to 20 per cent more expensive to visit Euro Disney.

The decline in foreign attendance was a significant 50 per cent in respect of British tourists and 25 per cent in respect of Italian visitors. Furthermore, it was reckoned that on occasions for British tourists, a mere £41 separated the cost of visiting either Euro Disney in Paris, or Disneyworld in Florida, where one had the added advantage of guaranteed good weather. This ignores other issues like the fact that a tourist in Florida would ultimately spend less because food and other entertainment is virtually half European prices.

The strengthening Franc in late 1992 was only one reason for Euro Disney's developing problems

The second major shock came in respect to the per capita spending. Those people who did go to see Mickey Mouse in Marne-la-Vallée did not spend as much on food, beverage and merchandise once they where inside the park. The main reason being that many visitors felt that the admission fees had been pitched unrealistically high and they were not ready to dig deeper into their pockets and splash out on food and merchandise which they also felt were priced too high.

The shocks for Euro Disney were not over yet and they were in for another disappointment in respect of their hotel occupancy rates. It had been projected way back in 1988 that the occupancy rates would grow from 68 per cent in the hotels opening year to a rate which stabilises in the third year of operation at 80 or 85 per cent depending on the location of the hotel. What they had not anticipated was that due to the sluggish economic environment, tourists were able to find accommodation in Paris and in business hotels with cut-price week-end rates and commute to Euro Disney by RER, the overland rail link. Ironically, the superb infrastructure installed by the French government proved to be a deterrent for Euro Disney. Occupancy at the Euro Disney hotels only averaged around 55 per cent.

The high prices and the exchange rate fluctuations were not the only reasons why people stayed away. Euro Disney had conducted its marketing in the wrong way by treating Europe as a homogeneous market. The concept for the park was too close to Disney's US parks to suit European tastes.

Euro Disney also started to face huge problems in connection with its employees. In the original prospectus Euro Disney felt that by paying wages which were 10 per cent over the market average it would attract high quality personnel, who could be trained effectively to be Disney people. But Disney's insistence of conforming to its rigorous standards of appearance, behaviour and chaotic working hours caused discontent among its employees and caused many to leave. In fact by June 92 in just 3 months some 1000 employees had left Euro Disney.

One other problem Euro Disney was also reckoned to be facing with respect to staff was that the French authorities had in effect 'bought' the jobs that came with the Park. This meant that the Company was operating with a staff that some analysts considered to be more that 10 per cent higher than necessary.

Shareholders on a Disney Roller Coaster

After just 6 months of operation, Euro Disney announced a net loss before taxes of 339 million FFr., also confirmed in its 1992 annual report, which contained the first set of published accounts following its opening in April. This was extremely different from the net profit before taxes of 34 million FFr. which had been projected in the 1989 prospectus.

In the letter to shareholders in the report both the Chairman and President of Euro Disney expressed an air of optimism which lead them to believe that the assumptions used to develop the financial model associated with the company flotation were still possible to achieve. They stated that they were very satisfied with what the park had achieved in spite of all that had happened and the prevailing economic environment. They pointed out that the company has moved aggressively to develop new marketing strategies but that the company would postpone any further office development for the time being. In fact, they noted with some pride that Euro Disney had hosted seven million guests, the majority of whom stated their intent to make a return visit and achieved an average hotel occupancy rate of 74 per cent in the first six months of its operations.

However Euro Disney shareholders had seen great changes in their share prices. As the opening of the park had drawn near, shareholders saw their share prices soar to a high of FFr. 165.2. However, subsequent prices had fallen to a low of FFr. 71.10 in September. The movement in the share prices for the period October 1991 to October 1992 is shown below in Figure 1.

What was the Underlying Value?

An analysis of the share price utilising the same valuation model reviewed earlier resulted in a shareholder value per share as at 30 September 1992 of FFr. 70.33, close to the low of FFr. 71.10.

Table 1 shows a summary of its computation.

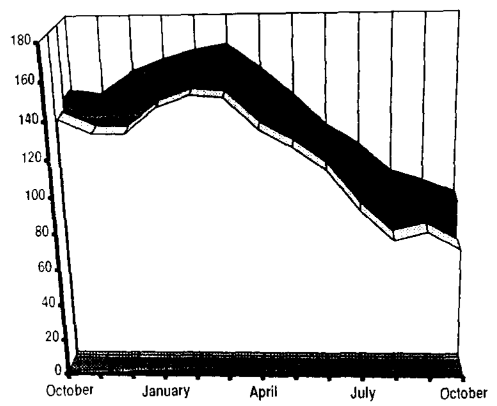


Figure 1 Euro Disney Share Prices, October 1991 to October 1992

Table 1 Shareholder Value per Share, Euro Disney, 30 September, 1992

	FFr. (Millions)
Present value of Free Cash Flows	20239.76
Present value of Perpetuity Calculation	4315.99
Corporate Value	24555.76
Deduct Value of Debt	12600.00
Shareholder Value	11955.76
No. of Shares (in millions)	170.007
Shareholder Value per Share (FFr.)	70.33

A major dilemma encountered in undertaking this valuation concerned the amount of debt owed by Euro Disney. On the face of it, Consolidated Balance Sheet long term borrowings amounted to FFr. 6,222 million. But on scrutiny of the annual report, the notes to the accounts revealed that the total debt owed by the group amounted to FFr. 12.6 bn. To complicate matters further, the Group's Consolidated Balance Sheet prepared under US Generally Accepted Accounting Principles (GAAP), showed that borrowings amounted to approximately FFr. 18.9 bn! Using this figure would have resulted in a Shareholder Value per Share of FFr. 33.31.

Euro Disney Runs Into More Trouble

Euro Disney had stated in its prospectus that the net proceeds would be of FFr. 5.73 bn. Of these, FFr. 1.3 bn would be used for the repayment of securities made by the bank, the balance to be used for the funding of the remainder of Phase 1 and any subsequent phases.

Euro Disney originally intended to obtain a total of FFr. 9.3 billion in loans from banks and, CDC (la Caisse des Depots et Consignations, a French state-owned financial institution). It also had a standby facility of FFr. 2.5 bn. With these in hand it was confident that it would be in a position of completing Phase 1 and have sufficient working capital to be able to operate.

Bank loans taken out by Euro Disney were intended to be repaid as a result of selling hotels because Euro Disney intended to keep only the Euro Disney hotel. The company also had the intention of building more hotels in Phase II. A total of 18,200 rooms of different class and in different locations were to be provided. These were assumed to be financed from new loans and the company was confident that it would be able to sell these hotels within two or three years and thus pay back the loans.

The water recreation area and all the commercial and residential property development like offices, retail shopping centres, the corporate car park, and the residential development were to be financed out of future cash flows. Unfortunately, once again the assumptions were wrong.

Disney's grand ideas were scuppered as the property market in France crashed and Euro Disney was left to maintain and run the five hotels it had built and also to service the debt on borrowed funds. Furthermore, in July 1993 Euro Disney's American parent declined giving the expansion of the second theme park the go-ahead. However the second theme park was thought to be vital for the survival of the hotels, because visitors would be required to stay overnight so as to be able to visit the whole resort. This would in turn boost hotel occupancy.

To make matters worse the company had initially expected to repay the floating FFr. 9.5 billion at 9 per cent but had to pay an average of 2 per cent more which added approximately FFr. 200 million to its annual interest bill. Inflation, the salvation of many an indebted developer was running at only 2.1 per cent. In France as compared with the 5 per cent which Disney had projected. All of this resulted in Euro Disney carrying a debt burden of around £2.3 billion by the end of 1993.

The restructuring of the company's operations and its debts now seemed to be vital. In October 1993 Euro Disney announced that it was to shed some 950 jobs out of a total of more than 11,000 and that it had put ambitious expansion plans on hold.

On 10 November 1993 Euro Disney issued its financial statements for the year ended September 1993. These demonstrated another loss for Euro Disney amounting to FFr. 5.3 bn. These losses, which where higher than had been anticipated, were due to the balance of the pre-opening costs which was entirely written off.

The scale of the losses increased the urgency of the capital restructuring and put pressure on Walt Disney to help rescue the European leisure company. The central dilemma regarding the restructuring which faced Euro Disney was that the most likely means of restructuring was via a share issue, probably by way of a rights issue. But the weakness of the share price, which had tumbled to 436p on the London Stock Exchange after the announcement of the 1993 results, complicated the issue. It would also have to be an extremely large issue to raise the sort of money that the company required. By November 1993 financial restructuring talks were under way between Euro Disney, its bankers, of which there were about sixty, and Walt Disney.

No optimism for Euro Disney in 1993

The air of optimism voiced by Euro Disney Chairman Phillippe Bourguignon in his statement to the shareholders in the 1992 annual report was nowhere to be found in the 1993 annual report. In his statement to shareholders in 1993, he acknowledged that Euro Disney was facing difficulties which he attributed to the high prices charged, an ineffective marketing strategy and the recessionary economic environment. Consequently, Euro Disney's plan in respect to the future would be to counter these factors by adopting more 'affordable' prices, changing its marketing strategy to target its customers with the intention of smoothing seasonal fluctuations, and also by being more cost effective. In this respect Euro Disney was undergoing a delayerisation of its management and attempting to implement a more flat management structure. Furthermore he explained the reasoning behind the shelving of the expansion of the second theme park as being a consequence of the current economic conditions.

Quoting Mr Bourguignon's words and summing up the whole story: 'Finally, the severe unbalance in Euro Disney's financial structure has become such a burden it is jeopardising the very existence of the company.' As would be expected in such circumstances the statutory auditors issued a qualified audit report on a going concern basis. Both the auditors and the directors reported that the company would run into liquidity problems. Furthermore, it was underlined that Walt Disney had promised to fund the distressed Euro Disney group until Spring 1994. Also of importance was the change in accounting policy regarding pre-opening and start up costs. It was decided to write off such costs as soon as they were incurred and not amortise them over a period of five or twenty years. The effect of this change was an exceptional expense amounting to FFr. 3,213 million and the Consolidated Income Statement showed a net loss of FFr. 5,337 million. This meant that the retained deficit amounted to FFr. 5,036 million (see Table 2), which reduced shareholder's equity to a mere FFr. 1,517 million, a decrease in value of 78.4 per cent from that of the previous year. The shareholder's equity per share fell from FFr. 41.33 to FFr. 8.92. Share prices for Euro Disney during this period fluctuated between FFr. 99 in March and FFr. 23.7 in November (Figure 2) and on several occasions were suspended from trading. A Shareholder Value Analysis was undertaken based upon 1993 information and resulted in a Shareholder Value per Share of FFr. 37.84 (Table 3).

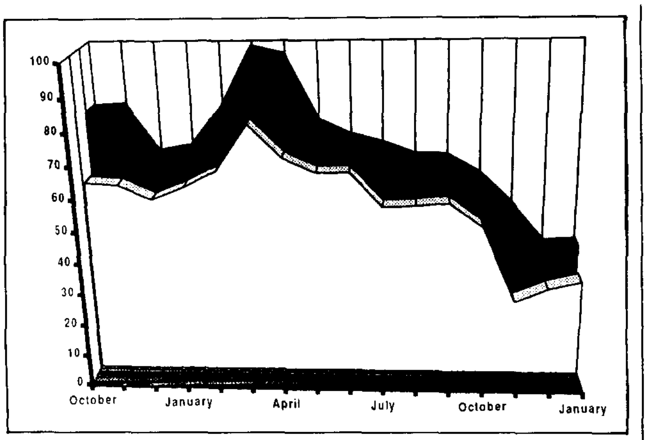


Figure 2 Share Prices of Euro Disney, October 1992 to January 1994

Many assumptions in the valuation model were drastically changed in view of Euro Disney's decision to shelve the plans of building the second theme park, the resort, and property development.

Euro Disney Runs Out of Cash

Bruised by recession and crushed by the weight of FFr. 20 bn in debt, Euro Disney ran out of cash. This forced

Table 2 Retained Earnings/Deficit, Euro Disney 1991–93.

	Shares (in thousands)	Share Capital	Share premium	Retained earnings (deficit)
Balance at Sept. 30, 1991	170,000	1,700	4,878	636
Conversion of 7,308 bonds	7		2	
Net Loss				(188)
Allocated				(1)
Balance at Sept. 30, 1992	170,000	1,700	4,880	447
Conversion	1			
Net Loss				(5336)
Dividends				(173)
Balance at Sept. 30, 1993	170,000	1,700	4,880	(5,063)

Table 3 Shareholder Value Analysis, Euro Disney, 1993.

	FFr. (Millions)
Present value of Free Cash Flows	16501.83
Present value of Perpetuity Calculation	2531.10
Corporate Value	19032.93
Deduct Value of Debt	12600.00
Shareholder Value	6432.93
No. of Shares (in millions)	170.007
Shareholder Value per Share (FFr.)	37.84

Walt Disney to provide emergency funds to keep it from going into receivership. Walt Disney also gave Euro Disney until 31 March 1994 for a financial restructuring plan to be devised.

It was estimated that to survive, Euro Disney would have required a combination of cash and debt relief of at least FFr. 12 bn. Disney had the power to put the park into bankruptcy, but total collapse for Walt Disney, the most image-conscious of firms, would have added humiliation to insult and locked it out of Europe for the foreseeable future. Walt Disney thus had to face the choice between serving the interests of its shareholders or suffer the damage to its image.

The well-publicised difficulties of Euro Disney helped to depress the parent company's share price and in December 1993, Mr Michael Eisner chairman of Walt Disney, wrote to all its shareholders explaining the problems of Euro Disney and assured them that although

we certainly are interested in aiding Euro Disney the public company that bears our name and reputation. We will deal in good faith with our fellow shareholders and Euro Disney creditors. But in doing so I promise all shareholders of Walt Disney that we will take no action to endanger the health of Disney itself.

Closure would have involved much embarrassment for the French government which would have had an additional 40,000 people on the already extensive unemployment list of 3.2 million.

The Disney camp awaited an audit commissioned by the creditor banks into Euro Disney's financial position before the full scale negotiations over restructuring got under way. Despite the depth of the park's financial crisis, Euro Disney, its creditors and France appeared to be stuck with one another because closure of the park really was not feasible. All of the French banks and financial institutions would have lost everything.

Selling Euro Disney to other operators would not have made much of a dent in the debt and putting the company into receivership would have entailed them finding somebody to operate the park. Realistically, there was no one better to run the park than Disney.

A restructuring is agreed for Euro Disney

Euro Disney was pulled from the brink of closure. After weeks of intricate negotiations between Walt Disney and the steering committee which represented Euro Disney's banks, an agreement was reached on a rescue deal.

The terms of the rescue were presented to Euro Disney's anxious shareholders at the annual general meeting on 14 March 1994 which was held in the Buffalo Bill Wild West Saloon, a place which ideally reflected the feelings of shareholders.

It was agreed that Walt Disney would:

- arrange a FFr. 1.1 bn standby line of credit for 10 years at market interest rate,
- spend an additional FFr. 1.4 bn on buying certain park assets which it would eventually lease back,
- waive royalties on entrance fees, food and merchandise and suspend management fees, both for five years, and
- subscribe for 49 per cent of a FFr. 6 bn rights issue which they hoped to float.

The banks on the other hand had agreed to:

- underwrite the remaining 51 per cent of the FFr. 6 bn rights issue,
- accept a moratorium of 18 months on their interest payments, and
- defer principal payments for 3 years.

The most controversial element of the package was an issue of bonds subscribed by the banks and Walt Disney, with a ten year warrant to buy Euro Disney stock at FFr. 40 per share, which may lead to the potential issue of up to 70 million new Euro Disney shares. This last piece of news and the fact that the FFr. 6 bn worth of shares would have denominations of FFr. 10 did not please ordinary shareholders, who saw their shares very heavily diluted.

Finally, Phillippe Bourguignon also announced a projection that Euro Disney should turn in a profit for the 1994–1995 financial year. But can Euro Disney shareholders expect this to be so? Euro Disney sells fantasy, is this another Euro Disney dream? Time alone will tell.

Appendix 1: Shareholder Value Analysis Overview

Shareholder Value Analysis (SVA) is a technique that has been developed for company valuation which uses the principles of discounted cash flow analysis. At its simplest and for purposes of this case study it can be thought of as centring upon the following seven key value drivers:

- Sales growth rate.
- Operating profit margin.
- Cash tax rate.
- Fixed capital needs.

- Working capital needs.
- Cost of capital.
- Planning period.

With a knowledge of current sales revenue, the first five of these value drivers can be used to generate a free cash flow forecast, which can then be discounted at the cost of capital to produce a present value. However, one problem that exists is the time period over which cash flow estimation should be undertaken. The going concern assumption of organisations and their separate legal entity status from the owners can be taken to imply an infinite forecasting period and 'forever' cash flow projections.

Most individuals are loathe to project too far into the future, quite simply because of a lack of faith in making assumptions about very long term business performance, e.g. beyond say 10 years. Fortunately, this forecasting problem can be dealt with quite straightforwardly by determining a limit to the planning period. Use of project life cycle analysis or competitive analysis frameworks enables the future in principle to be divided into two time periods for purposes of valuation. The first is the planning period over which the first six value drivers are estimated for each time period to produce a number of present value calculations. These individual present value calculations are then summed up to give the present value of the planning period as a whole. The second is the infinite time period beyond the planning period. It is assumed that there will be no further sales growth after the planning period but that sufficient replacement expenditure will be undertaken to maintain future sales revenue, then the valuation of this time period can be shown to reduce to a perpetuity calculation. This perpetuity value at the end of the planning period is then converted into today's terms by a present value calculation and added to the present value of the planning period to produce a total present value. After the present value of anything owing to debt holders is deducted from this figure, we are left with the total present value attributable to shareholders, otherwise known as 'shareholder value'.

Appendix 2

The Consolidated Financial Statements

Consolidated Profit and Loss Statement in FFr. (millions).

	1993	1992	1991
Revenues			
Theme park and Resorts	4874	3819	
Constituent sales and related services	851	4644	6201
	5725	8643	6201
Costs and Expenses			
Theme park and Resort direct operating expenses	3382	2427	
Cost of constituent sales and related services	846	4644	6215
Operating income/loss before fixed and adminstrative expenses	1497	1392	(14)
Depreciation and amortisation	227	316	
Lease rental expense	1712	716	
Royalties	262	197	
General and administrative expenses	1113	845	
Operating Profit/Loss	(1817)	(682)	(14)
Financial income	719	541	521
Financial expenses	615	(307)	(115)
Profit/Loss before exceptional items	(1713)	(448)	392
Exceptional income	(3624)	109	4
Income tax benefit (provision)		151	(147)
Net Income/Loss	(5337)	(188)	249

Consolidated Balance Sheet

	1993	1992	1991
Fixed Assets			
Intangible assets	173	1491	79
Tangible assets	5111	4788	2722
Long-term receivables	5223	3988	1564
	10507	10267	4365
Deferred charges	510	2001	1716
Current Assets			
Inventories	221	387	42
Accounts receivable			
Financing companies		585	1915
Trade debtors	313	456	11
Other	966	1248	1903
Short term investment	861	1726	5947
Cash	343	560	69
Total Assets	13721	17230	15968
Shareholders Equity			
Share capital	1700	1700	1700
Share premium	4880	4880	4878
Retained earnings	(5063)	447	636
	1517	7027	7214
Deferred income tax liability			151
Deferred revenues	160	316	265
Long term borrowings	8287	6222	4226
Current Liabilities			
Payments to related companies	1525	796	421
Accounts payable	1640	2869	3691
Provision for risk and charges	601		
Total	13721	17230	15968

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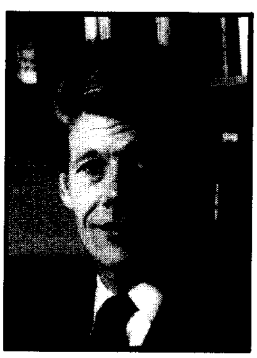

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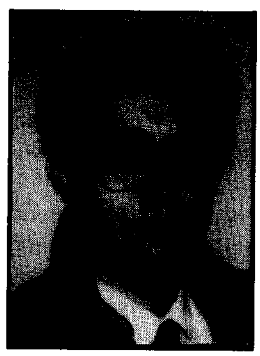

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