



Shanghai Disneyland

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BA 456

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Agenda

- Case Introduction
- Background
- Project Description
- Our Analysis
- Recommendation
- Questions?





The Walt Disney Company

- Entertainment Conglomerate consisting of Media, Studio Entertainment, Consumer Products and Theme Parks & Resorts
- Theme Park & Resorts Division
 - Current Park Locations: Anaheim, Orlando, Tokyo, Paris, Hong Kong (2005)
 - Also includes: The Disney Cruise Line, Disney Regional Entertainment, The Disney Vacation Club, The Anaheim Angels, and the Mighty Ducks of Anaheim
 - Revenues of \$7 Billion in 2001, or 28% of company-wide revenue



Disney's Interest in China

- Long-term
 - Consistently searching for areas of expansion where there are un-captured markets
- Current
 - Government relations established through the Hong Kong Disneyland project indicate easier entry into the mainland
- Competitive
 - Universal-Vivendi's land purchase in Shanghai and proposed expansion into Beijing



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Background: Disney Parks

- Disneyland, Anaheim: 1955
- Walt Disney World, Orlando: 1971
- Tokyo Disneyland: 1983
 - Owned and operated by the Oriental Land Company
 - Deal structure indicative of financial turmoil within the company in the early 1980s with a 0% Equity stake
 - Revenue from royalties and management fees
- Disneyland Paris/Euro Disneyland: 1992
 - Disney retains 39% of Equity Interest and receives management fees as part of reported revenue



Hong Kong Disneyland

- \$1.8 Billion USD Project
- 60% Debt
 - 80% Government
 - 20% Commercial
- 40% Equity
 - 43% Disney
 - 57% Government (will eventually sell down ownership stake)
- 6 Million Visitors in its first full operating year, and 1.4 Million additional visitors to Hong Kong
- \$148 Billion value added boost to the Hong Kong economy over the next 40 years
- 35,800 jobs created in the next 20 years



Background: China

- Largest population in the world with relatively slow projected population growth
 - 1.26 B (2001) - 1.5 B (2050F)
 - 63 - 70% Rural
- High growth rates in GDP and foreign direct investment (FDI)
 - Urban income growth of 17.2% in 2002,
 - Growth in FDI of 14.8% in 2002
 - 2003F: US\$58 B
 - 2004F: US\$62 B
- Accession to the World Trade Organization in December 2001
 - Increased support for private and foreign investments
 - Theme parks still fall under Restricted Foreign Investment Industries



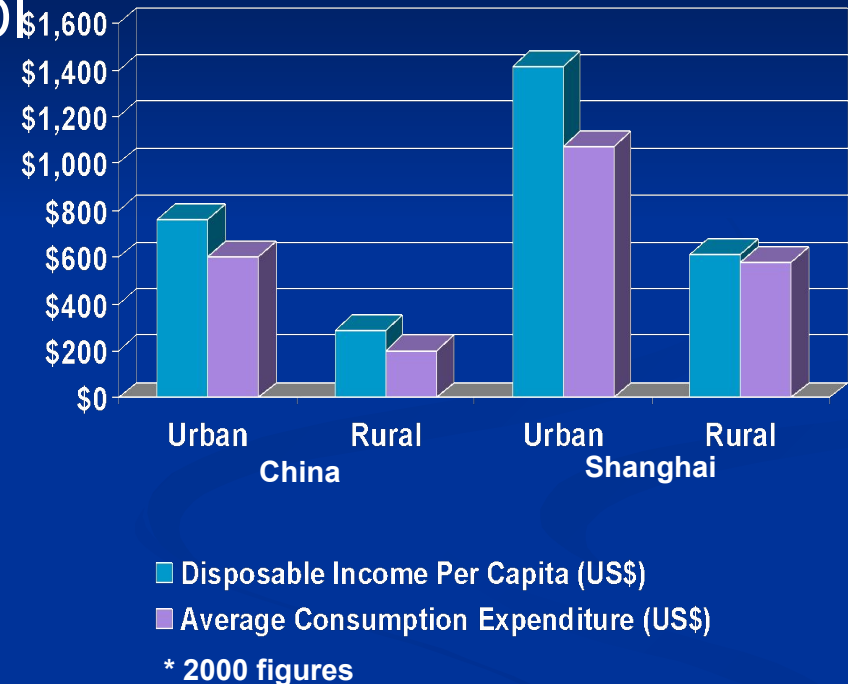
Theme Parks in China

- Most parks in China were American-themed
- Few have survived mainly because of transportation issues
- Admission Prices: 56 – 100 yuan (\$6 – \$12)
- Park Sizes: 70 – 150 acres
- Universal-Vivendi December 2002 agreement to build a park in Shanghai
 - Projected park opening in 2006, with more than 8 million visitors in the first year
 - In discussions to build a similar park in Beijing



Background: Why Shanghai?

- Shanghai leads in GDP and FDI in China
 - GDP US\$4,512 (2001)
 - 9% of total FDI in China
- Shanghai residents (2002)
 - 18.4 M, including floating population
 - Average household size is 2.9
- Tourist population (2000)
 - 64.7 mainland domestic
 - 1.5 million foreign overseas
 - 0.5 million





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Park Location is Key



Expo Site
and
Universal
Property

Significant infrastructure
development is occurring to
support the 2010 Expo



Target Market

Target Local Market	(million)
By Income Level (yuan)	
30,000 – 60,000	2.44
60,000 – 90,000	1.62
> 100,000	1.14
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Total Local Market (based on income)	5.20
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Tourist Market	(million)
Domestic (Mainland)	64.7
Overseas - Foreign	1.5
Overseas - Domestic	0.50
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Total Target Market	71.90

* Based on 2008F Population numbers



Project Structure

- 1.27 Billion US\$ total capital investment
- 60% Debt
 - 80% Government
 - 20% Commercial
- 40% Equity
 - 43% Disney
 - 57% Government
- 10.6 Million Visitors in its first full operating year and average annual growth of 1.5%
- Corporate tax rate of 30%, with tax loss carry-forwards permitted for five years



Operating Cash Flows

Revenues

- Admissions (50%)
- Food and beverage (24.5%)
- Merchandise (24.5%)
- Main entrance (1%)

Costs

- Park labor and overhead
- Maintenance materials
- Entertainment (costuming, labor, etc.)
- Food and beverage COGS
- Merchandise COGS
- Support labor
- Miscellaneous



Discussion





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Risk Analysis - Sovereign

- Currency risk is not mitigated by this project since the majority of cash inflows and outflows are in local currency
- Expropriation risk is mitigated some with the government taking a controlling equity stake
- No other commercial or multi-lateral agency partners are involved in the project
- Because the project is in the tourism industry and involves an American cultural icon, the susceptibility to strikes or terrorism is slightly higher than average
- The project's location in Shanghai reduces the overall risk of natural disasters when compared to country averages



Risk Analysis – Operating and Financial

- The technology for this project will be provided by Disney and is proven in other locations
- Potentially lengthy negotiations with the Chinese government increases start-up risks slightly
- Given the project is very service oriented, there is some risk associated with the level of control assumed by the government, but this is difficult to quantify
- There are no financial mitigating factors — rather, this project is closely tied to the government
- Real option: A minor amount of cannibalization from the Hong Kong property may be expected



Cost of Capital

- ICCRC 16.10%
 - U.S. Risk Free 4.00%
 - U.S. Risk Premium 4.00%
 - China's Country Credit Rating 58.9
 - Anchored to U.S. cost of equity

- Adjustments
 - Industry beta adjustment -0.80%
 - Expropriation -0.97%
 - Start-up risks assoc. with Gov't negotiations +0.12%
 - Sensitivity to strikes, terrorism +0.08%
 - Sensitivity to natural disasters -0.12%
 - Real option: Cannibalization from HK Disney +0.08%

- Project Cost of Capital 16.09%



Cash Flow Analysis

	2003	2004	2005	2006	2007	2008	2009
Admissions	\$0	\$0	\$0	\$0	\$0	\$283,179,483	\$296,060,956
Merchandise	\$0	\$0	\$0	\$0	\$0	\$53,532,494	\$55,967,619
Food & Beverage	\$0	\$0	\$0	\$0	\$0	\$53,532,494	\$55,967,619
Main Entrance	\$0	\$0	\$0	\$0	\$0	\$500,000	\$515,000
Hotel Revenues	\$0	\$0	\$0	\$0	\$0	\$13,687,500	\$14,098,125
Total Revenue	\$0	\$0	\$0	\$0	\$0	\$404,431,972	\$422,609,319
Park Operating Expenses	\$0	\$0	\$0	\$0	\$0	\$133,951,636	\$138,405,572
Hotel Operating Expenses	\$0	\$0	\$0	\$0	\$0	\$8,896,875	\$9,163,781
Start Up Costs	\$0	\$0	\$0	\$0	\$0	\$20,000,000	\$0
Royalty Expenses	\$0	\$0	\$0	\$0	\$0	\$20,221,599	\$21,130,466
Total Operating Expenses	\$0	\$0	\$0	\$0	\$0	\$183,070,109	\$168,699,819
EBIT	\$0	\$0	\$0	\$0	\$0	\$221,361,863	\$253,909,500
Depreciation	\$0	\$6,350,000	\$20,637,500	\$42,862,500	\$57,150,000	\$63,500,000	\$63,500,000
EBITDA	\$0	(\$6,350,000)	(\$20,637,500)	(\$42,862,500)	(\$57,150,000)	\$157,861,863	\$190,409,500
Interest on Debt	\$0	\$0	\$0	\$0	\$0	\$46,908,093	\$50,028,135
Taxable Income	\$0	(\$6,350,000)	(\$20,637,500)	(\$42,862,500)	(\$57,150,000)	\$110,953,769	\$140,381,366
Adjusted Taxable Income	\$0	\$0	\$0	\$0	\$0	\$0	\$124,335,135
Less: Taxes	\$0	\$0	\$0	\$0	\$0	\$0	(\$37,300,540)
Less: Debt Principal	\$0	\$0	\$0	\$0	\$0	(\$75,679,404)	(\$72,559,362)
Less: Capital Expenditures	\$0	(\$50,800,000)	(\$114,300,000)	(\$177,800,000)	(\$114,300,000)	(\$50,800,000)	(\$38,520,000)
Plus: Depreciation	\$0	\$6,350,000	\$20,637,500	\$42,862,500	\$57,150,000	\$63,500,000	\$63,500,000
Less: NWC	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Free Cash Flow	\$0	(\$50,800,000)	(\$114,300,000)	(\$177,800,000)	(\$114,300,000)	\$47,974,365	\$55,501,463
PV FCF	\$0	(\$43,759,152)	(\$84,811,864)	(\$113,644,212)	(\$62,931,341)	\$22,752,817	\$22,674,387
NPV	\$19,242,097						
IRR	17%						

* Cash flows analyzed through 2029 (per Disney, typical 20-25 year financial analysis time horizon)



Real Options

- Option to wait until Universal Studios opens
 - Already losing any first mover advantage
 - Universal's track record at opening resorts is not on par with Disney's — lessons learned from Universal may be minimal
- Build a resort hotel in conjunction with the park
- Build a “Downtown Disney” entertainment center adjacent to park
- Build another gate after several years of operation (double park size)



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Recommendation

- Begin negotiations with Chinese government
 - Government equity stake and debt provisions
 - Land and infrastructure provisions
- Disney must make the argument that a Shanghai Park would not substantially damage Hong Kong
- Escalating political tensions on the Korean peninsula could change the risk assessment



Questions?





Ticket Price Projection

Source: <http://www.time.com/time/europe/magazine/article/0,13005,901020325-218398,00.html>

All Currency in USD

	Orlando	Paris	Anaheim/Los Angeles	Tokyo	Hong Kong	Shanghai	
Ave Annual Temperature (F)	72.4	67	73	60.1	73	60	
Population (2000) in Millions	0.185984	2.1	3.7	28	7.116	13.216	
2002 Attendance in Millions	33	12	39.7	0			
% of Attendance vs. Local	17743%	571%	1073%	0%	0%	0%	
Ticket Price (1 Day 1 Park Adult) No Tax Included	\$ 50	\$ 39	\$ 47	\$ 46			
Ticket Price Base MultiDay	\$ 192	\$ 106	\$ 119	\$ 81			
Ticket Price Premium MultiDay	\$ 307		\$ 166	\$ 143			
Ticket Price (Annual Pass) No	\$ 369	\$ 248	\$ 225	\$ 332			
Percentage of 1D1P to Annual	14%	16%	21%	14%			
Annual Income (2000)	\$ 42,148	\$ 32,660	\$ 42,148	\$ 37,661	\$ 20,832	\$ 5,542	
Annual Disposable Income	\$ 25,939	\$ 5,128	\$ 25,939	\$ 3,924	\$ 13,244	\$ 1,400	
DI % of Annual Income	61.54%	15.70%	61.54%	10.42%	63.58%	25.26%	
1D1P % of Disposable Income	0.19%	0.76%	0.18%	1.17%			
Annual Pass % of Disposable	1.42%	4.84%	0.87%	8.46%			
					Potential 1D1P Price	155.25	16.41
					Potential Annual Park Price	1,120.44	118.45
					Potential Attendance (in Millions)	0.00	7
					Average Attendance Per Day	0	19178



Demand Projections

Captured 2008 Market (million)		
30000 - 60000	1.83	1.84
60000 - 90000	1.30	1.23
>100,000	0.97	0.86
Captured Market Based on Income Level	4.09	3.94
Market From Tourism		
Local - Domestic Tourists	6.47	7.764
Overseas - Foreign Tourists	0.075	0.075
Overseas - Domestic Tourists	0.005	0.005
Total Captured 2008 Market for Disney-Shanghai	10.64	11.78
		1.14
Total 2008 Market (million)		
30000 - 60000	2.44	
60000 - 90000	1.62	
>100,000	1.14	
Total Market Based on Income Level	5.20	
Market From Tourism		
Local - Domestic Tourists	64.7	
Overseas - Foreign Tourists	1.5	
Overseas - Domestic Tourists	0.50	
Total 2008 Market for Disney-Shanghai	71.90	



Revenue Projections

Revenue Assumptions

	2008	2009	2010	2011	2012	2013
Year	0	1	2	3	4	5
Expected Demand (Mil)	10.64	10.80	10.96	11.13	11.29	11.46
Admissions (\$ Mil)	\$283.18	\$296.05	\$305.49	\$315.31	\$325.50	\$336.10
Merchandise (\$ Mil)	\$53.53	\$55.97	\$58.51	\$61.17	\$63.95	\$66.85
Food and Beverage (\$ Mil)	\$53.53	\$55.97	\$58.51	\$61.17	\$63.95	\$66.85
Main Entrance (\$ Mil)	\$0.50	\$0.52	\$0.53	\$0.55	\$0.56	\$0.58
Total Revenue	\$390.74	\$408.50	\$423.04	\$438.19	\$453.96	\$470.39

	2003 USD	2008 USD
F&B Per Cap	\$4.34	\$5.03
Merch Per Cap	\$4.34	\$5.03

- Assume Expected Demand Grows 1.5% Annually (Based on Attendance Figures at Other Disney Parks)



Operating Costs

Operating Expenses

	USD (Millions)	Adjusted (2003 Dollars)	Adjusted (2008 Dollars)	% Revenue
Park Labor (Salaried & Hourly)	\$50.00	\$20.00	\$23.19	
Costs Associ. w/ Park Labor	\$25.00	\$25.00	\$28.98	
Maintenance	\$15.00	\$15.00	\$17.39	
Entertainment	\$25.00	\$24.30	\$28.17	
F&B	\$10.62	\$9.77	\$11.33	21.16%
Merchandise	\$17.55	\$14.48	\$16.78	31.35%
Support Labor	\$5.00	\$2.00	\$2.32	
Miscellaneous	\$5.00	\$5.00	\$5.80	
Total Expenses	\$153.17	\$115.55	\$133.95	

	2008	2009	2010	2011	2012
Park Labor (Salaried & Hourly)	\$23.19	\$23.88	\$24.60	\$25.34	\$26.10
Costs Associ. w/ Park Labor	\$28.98	\$29.85	\$30.75	\$31.67	\$32.62
Maintenance	\$17.39	\$17.91	\$18.45	\$19.00	\$19.57
Entertainment	\$28.17	\$29.02	\$29.89	\$30.78	\$31.71
F&B	\$11.33	\$11.84	\$12.38	\$12.94	\$13.53
Merchandise	\$16.78	\$17.55	\$18.34	\$19.17	\$20.04
Support Labor	\$2.32	\$2.39	\$2.46	\$2.53	\$2.61
Miscellaneous	\$5.80	\$5.97	\$6.15	\$6.33	\$6.52
Total Expenses	\$133.95	\$138.41	\$143.01	\$147.76	\$152.70



Capital Structure

Capital Structure Assumptions

		Investment Schedule				
		Year	Percent	Total	Debt	Equity
Park Investment	\$1,200,000,000					
Hotel Investment	\$70,000,000	2004	0.1	\$127,000,000	\$76,200,000	\$50,800,000
Total Investment	\$1,270,000,000	2005	0.225	\$285,750,000	\$171,450,000	\$114,300,000
% Debt	60%	2006	0.35	\$444,500,000	\$266,700,000	\$177,800,000
% Equity	40%	2007	0.225	\$285,750,000	\$171,450,000	\$114,300,000
		2008	0.1	\$127,000,000	\$76,200,000	\$50,800,000
Debt	\$762,000,000					
Equity	\$508,000,000					
% Disney	43%					
% Government	57%					
Disney Equity	\$218,440,000					
Government Equity	\$289,560,000					

On-Going Capital Expenditures

Assumptions:

- US Parks spend approximately \$100 Million every 3 years for new attractions
- Assume 10% is local labor
- Labor costs are 1/3 of US
- Estimate Shanghai Disneyland will spend approximately \$93 Million every 3 years (Current Dollars)
- With inflation, translates to \$37.02 Million for 2009, Grow at rate of inflation
- Assume hotel will have \$1.5 Million in Cap Ex every year beginning in 2009, Grow at rate of inflation
- Total Cap Ex in 2009 is \$38.52 Million



Depreciation

Year	Cap Ex	Depreciation Expense					Total
		2004 Cap Ex	2005 Cap Ex	2006 Cap Ex	2007 Cap Ex	2008 Cap Ex	
2004	\$120,000,000	\$6,000,000	\$0	\$0	\$0	\$0	\$6,000,000
2005	\$270,000,000	\$6,000,000	\$13,500,000	\$0	\$0	\$0	\$19,500,000
2006	\$420,000,000	\$6,000,000	\$13,500,000	\$21,000,000	\$0	\$0	\$40,500,000
2007	\$270,000,000	\$6,000,000	\$13,500,000	\$21,000,000	\$13,500,000	\$0	\$54,000,000
2008	\$120,000,000	\$6,000,000	\$13,500,000	\$21,000,000	\$13,500,000	\$6,000,000	\$60,000,000
2009	\$0	\$6,000,000	\$13,500,000	\$21,000,000	\$13,500,000	\$6,000,000	\$60,000,000
2010	\$0	\$6,000,000	\$13,500,000	\$21,000,000	\$13,500,000	\$6,000,000	\$60,000,000
2011	\$0	\$6,000,000	\$13,500,000	\$21,000,000	\$13,500,000	\$6,000,000	\$60,000,000
2012	\$0	\$6,000,000	\$13,500,000	\$21,000,000	\$13,500,000	\$6,000,000	\$60,000,000
2013	\$0	\$6,000,000	\$13,500,000	\$21,000,000	\$13,500,000	\$6,000,000	\$60,000,000
2014	\$0	\$6,000,000	\$13,500,000	\$21,000,000	\$13,500,000	\$6,000,000	\$60,000,000
2015	\$0	\$6,000,000	\$13,500,000	\$21,000,000	\$13,500,000	\$6,000,000	\$60,000,000
2016	\$0	\$6,000,000	\$13,500,000	\$21,000,000	\$13,500,000	\$6,000,000	\$60,000,000
2017	\$0	\$6,000,000	\$13,500,000	\$21,000,000	\$13,500,000	\$6,000,000	\$60,000,000
2018	\$0	\$6,000,000	\$13,500,000	\$21,000,000	\$13,500,000	\$6,000,000	\$60,000,000
2019	\$0	\$6,000,000	\$13,500,000	\$21,000,000	\$13,500,000	\$6,000,000	\$60,000,000
2020	\$0	\$6,000,000	\$13,500,000	\$21,000,000	\$13,500,000	\$6,000,000	\$60,000,000
2021	\$0	\$6,000,000	\$13,500,000	\$21,000,000	\$13,500,000	\$6,000,000	\$60,000,000
2022	\$0	\$6,000,000	\$13,500,000	\$21,000,000	\$13,500,000	\$6,000,000	\$60,000,000
2023	\$0	\$6,000,000	\$13,500,000	\$21,000,000	\$13,500,000	\$6,000,000	\$60,000,000
2024	\$0	\$0	\$13,500,000	\$21,000,000	\$13,500,000	\$6,000,000	\$54,000,000
2025	\$0	\$0	\$0	\$21,000,000	\$13,500,000	\$6,000,000	\$40,500,000
2026	\$0	\$0	\$0	\$0	\$13,500,000	\$6,000,000	\$19,500,000
2027	\$0	\$0	\$0	\$0	\$0	\$6,000,000	\$6,000,000