A scary ride

Disneyland Paris bills itself as a destination where dreams come true, but its shareholders have yet to see the magic rub off. As the resort celebrates its 15th anniversary, CHRISTIAN SYLT asks when the sleepless nights will end

With the obligatory fireworks and frenzy, Disneyland Paris will celebrate its 15th anniversary later this month. It will mark the occasion by opening a family-friendly roller-coaster themed around a cuddly character from Disney's film *Finding Nemo*. The ride sends guests plunging down steep descents in complete darkness before slowly climbing again, a sensation that all the park's shareholders will instantly recognise.

Corporate roller-coaster rides don't come much wilder than Euro Disney, the corporate entity behind the theme park. Within two years of opening, Disneyland Paris faced bankruptcy due to crippling repayments on a debt of €3bn originally incurred due to colossal construction costs. Saudi investor Prince Alwaleed bin Talal rescued the project by investing €263m following a refinancing deal in the mid-1990s. The park was then able to open the blockbuster Space Mountain ride, and the clouds lifted. Disneyland Paris became Europe's most visited theme park with over 12 million visitors annually, and such was its success that a second park was built next to the fairytale-inspired original.

Financed by borrowings and a capital increase, the €610m movie-themed Walt Disney Studios was meant to cement Euro Disney's comeback-kid reputation, but its timing couldn't have been worse. Operating costs doubled just as global tourism slumped following the attack on the World Trade Centre on September 11, 2001. The predicted 17 million visitors never materialised, and in fact numbers barely rose above the level seen when Euro Disney had just one park.

In 2005 the company was saved by a restructuring deal and a rights issue giving it a further €250m to invest in new attractions after three years of no new ride openings. Alwaleed personally put in €25m, diluting his stake to 10%; this left 50.2% in public hands and the rest in the name of the Walt Disney Company. Once again, the skies were starting to clear.

But visitor numbers have subsequently stalled, saddling the two parks with high fixed operating costs. Just 12.8 million visitors came last year, reducing the likelihood of a real return for Euro Disney investors. Despite revenues of €1.09bn in 2006, the company is just breaking even at the operating level. Then there are the repayments on outstanding debt of €1.9bn, meaning a real-world loss of nearly €90m. Despite sitting on a huge pile of assets, including 2,000 hectares of land, a 27-hole golf course and seven hotels in addition to the parks, Euro Disney's market capitalisation is just €390m, with each share worth a mere €0.10.

To put the situation in perspective, Alwaleed's 10% stake is worth almost four times less than when he invested his money in 1994. This doesn't worry him, however; Alwaleed is a real bull investor and is convinced that his investment will eventually fly.

Management agrees. "We are on the brink of the same generational phenomenon happening as we see in our US parks," says Jeff Archambault, Euro Disney's vice-president of communications and strategic alliances. "You're going to have children who came when they were five, 10 or 15 years old who are getting children of their own; they'll want to plunge back into that moment of childhood and share it with their own family." He adds that repeat business is close to 60%, and 98% of visitors say they'd recommend the experience to others – a giant word-of-mouth self-marketing network, given the 165 million visitors that have passed through the parks' gates.

The other reason for hope lies in Disney's 5,800 on-site hotel rooms, where profit margins are healthy. Occupancy levels hit 83% in 2006, up from 80.5% the previous year, and an increasing number of visitors are coming from Russia, eastern Europe and the Middle East, not just from Europe.

Other than debt and overheads, the only real remaining problem is the second, movie-themed park. It was supposed to be a €1.75bn facsimile of Disney's MGM park in Florida, which houses a working movie studio. This grand plan was shelved when visitor and revenue projections faltered, however. It didn't help that relations with MGM had grown cool and that Disney's own animation department was a shadow of its

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ABOVE: Disneyland Paris in the dead of night. BELOW: Alwaleed continues to back his investment

former self. Instead of starting afresh, Disney's design wizards, known as "imagineers", decided to create a normal theme park mimicking a real film studio; this turned out to be a disastrous imitation of the real thing, with masses of concrete, scant decoration and lots of plain, identical buildings that earned it the moniker "warehouse world". To make matters worse, it had just nine attractions when it opened as Walt Disney Studios Park in 2002, compared to 43 in its sister park.

Several new attractions are due to open this year as part of the anniversary celebrations, with additional expansion resting on visitor numbers. "We haven't yet determined how future growth would be financed," says Archambault. With €1.9bn in outstanding debt, it seems as if the company is years away from a net profit and will need Alwaleed's largesse once again.

"We will not sell it," Alwaleed says of his investment. "When visitors are coming more and spending more, there's nothing wrong with the business. The problem with Disney is that the financial structure was not right to begin with. It was too much debt and not enough equity. The restructuring we have gives us breathing time.

"This entity that 13 million people come to every year is not going to go bankrupt," he continues. "It is not going to shut down."

If you're willing to buy this line, the future potential of the company is not fully priced into the €0.10 share price, a factor prompting little-known Frankfurt-listed company Center-Tainment to declare late last year that it would bid for Euro Disney. Since it didn't follow through with its plans, France's regulator imposed a six-month moratorium on an offer. The plan seemed to have been dreamt up in Neverland, but the stunt was instructive. It was based on acquiring Euro Disney stock at €0.11 per share to gain a 50.01% stake, which if nothing else provided support for the share price at that level.

Euro Disney has until 2017 to launch a feasibility study for a third park, and sources at the company add that "the feasibility study would probably take another three to five years, so a third park would not be envisaged until 2020 at the earliest". Disney's resort in Orlando has been open for 35 years and its Californian resort, home to Disney's first park, opened its gates in 1955, so there is still time for Euro Disney to repay its patient investors.