



# 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





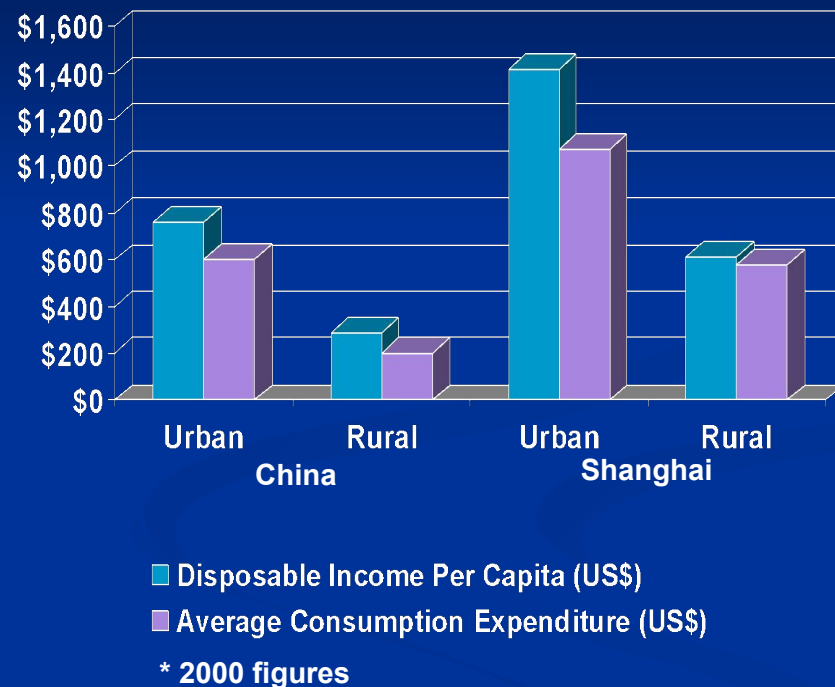
# Theme Parks in China

- 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

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

\* 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
<b>Total Revenue</b>	\$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
<b>Total Operating Expenses</b>	\$0	\$0	\$0	\$0	\$0	\$183,070,109	\$168,699,819
<b>EBIT</b>	\$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
<b>EBITDA</b>	\$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
<b>Taxable Income</b>	\$0	(\$6,350,000)	(\$20,637,500)	(\$42,862,500)	(\$57,150,000)	\$110,953,769	\$140,381,366
<b>Adjusted Taxable Income</b>	\$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
<b>Free Cash Flow</b>	\$0	(\$50,800,000)	(\$114,300,000)	(\$177,800,000)	(\$114,300,000)	\$47,974,365	\$55,501,463
<b>PV FCF</b>	\$0	(\$43,759,152)	(\$84,811,864)	(\$113,644,212)	(\$62,931,341)	\$22,752,817	\$22,674,387
<b>NPV</b>	\$19,242,097						
<b>IRR</b>	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
<b>Ave Annual Temperature (F)</b>	72.4	67	73	60.1	73	60
<b>Population (2000) in Millions</b>	0.185984	2.1	3.7	28	7.116	13.216
<b>2002 Attendance in Millions</b>	33	12	39.7	0		
<b>% of Attendance vs. Local</b>	17743%	571%	1073%	0%	0%	0%
<b>Ticket Price (1 Day 1 Park Adult) No Tax Included</b>	\$ 50	\$ 39	\$ 47	\$ 46		
<b>Ticket Price Base MultiDay</b>	\$ 192	\$ 106	\$ 119	\$ 81		
<b>Ticket Price Premium MultiDay</b>	\$ 307		\$ 166	\$ 143		
<b>Ticket Price (Annual Pass) No</b>	\$ 369	\$ 248	\$ 225	\$ 332		
<b>Percentage of 1D1P to Annual</b>	14%	16%	21%	14%		
<b>Annual Income (2000)</b>	\$ 42,148	\$ 32,660	\$ 42,148	\$ 37,661	\$ 20,832	\$ 5,542
<b>Annual Disposable Income</b>	\$ 25,939	\$ 5,128	\$ 25,939	\$ 3,924	\$ 13,244	\$ 1,400
<b>DI % of Annual Income</b>	61.54%	15.70%	61.54%	10.42%	63.58%	25.26%
<b>1D1P % of Disposable Income</b>	0.19%	0.76%	0.18%	1.17%		
<b>Annual Pass % of Disposable</b>	1.42%	4.84%	0.87%	8.46%		

<b>Potential 1D1P Price</b>	155.25	16.41
<b>Potential Annual Park Price</b>	1,120.44	118.45
<b>Potential Attendance (in Millions)</b>	0.00	7
<b>Average Attendance Per Day</b>	0	19178



# Demand Projections

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



# 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
<b>Total Revenue</b>	\$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	
<b>Total Expenses</b>	<b>\$153.17</b>	<b>\$115.55</b>	<b>\$133.95</b>	

	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
<b>Total Expenses</b>	<b>\$133.95</b>	<b>\$138.41</b>	<b>\$143.01</b>	<b>\$147.76</b>	<b>\$152.70</b>



# Capital Structure

## Capital Structure Assumptions

		Investment Schedule				
		Year	Percent	Total	Debt	Equity
Park Investment	\$1,200,000,000	2004	0.1	\$127,000,000	\$76,200,000	\$50,800,000
Hotel Investment	\$70,000,000	2005	0.225	\$285,750,000	\$171,450,000	\$114,300,000
Total Investment	\$1,270,000,000	2006	0.35	\$444,500,000	\$266,700,000	\$177,800,000
% Debt	60%	2007	0.225	\$285,750,000	\$171,450,000	\$114,300,000
% Equity	40%	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