

Star Parks

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Fabio Giuseppetti and Julian Carreras of Palamon Capital Partners were preparing for the firm's weekly investment review meeting, at which the Palamon investment team discussed existing portfolio companies as well as the status of new deals. The two partners were working on the potential acquisition of Star Parks, a group of European amusement parks. The seller's investment banker had made it clear that the seller, a large, diversified US quoted company, wanted a quick, clean sale in a totally confidential process. It appeared that if a price could be agreed, then Palamon could gain exclusivity on the deal immediately. Giuseppetti and Carreras were trying to decide if this was an appropriate investment opportunity for Palamon and, if so, what issues the firm would have to resolve before making an offer for the group.

Palamon Capital Partners

Founded in 1999, Palamon Capital Partners raised €440 million for its first fund, which was to be invested in growth capital opportunities in the mid-market segment across Europe. The firm's objective was to generate a return to its fund investors, net of all costs and carried interest, equal to two-to-three times their total capital commitment to the fund, a return that should place the Palamon fund among the top quartile of private equity funds in Europe.

Palamon's investment activity was focused on six industry sectors: financial services, media and entertainment, business services, information technology, healthcare, and specialty engineering. The investment team, composed of nationals from several European countries, were all based in London in order to instill a common culture and investment approach and to facilitate optimum communications among the partners.

By late 2003, when the Star Parks opportunity arose, Palamon had a portfolio of ten companies in six countries (see **Exhibit 1**) and expected to add another six or eight companies to the portfolio. They also needed to reserve sufficient funds to make follow-on investments in existing

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portfolio companies, recognizing that under the fund's partnership agreement Palamon could not invest more than twelve per cent of the total fund in any one deal.

Palamon's investment style involved a lot of up-front effort with a prospective investee company, working with the management team (i) to ensure that the team and Palamon shared the same vision for the company and (ii) to develop or refine, with the management team, the right strategy for the business. Thus, in the due diligence process, while outside firms were often used for specialist functions, the heart of the effort was actively led by Palamon investment executives. For this purpose, Palamon always used a team approach, with at least two investment professionals heavily involved in assessing and progressing each deal and regular presentations to all the partners at their weekly investment review meetings. Palamon preferred to be either the sole or the majority investor and always took more than one board position, continuing its team approach.

The Opportunity

Star Parks, a group of seven amusement parks located in Germany, Holland, Belgium, France and Spain, was the largest regional theme park operator in Europe. The parks were owned by a large, diversified entertainment company listed on the New York Stock Exchange. The parent company had stated that these parks did not fit with its long-term strategy and decided to find a buyer for them. Because it was a listed company, the parent company was concerned that the process should remain confidential and wanted to ensure that the sale was quick and clean.

Combined 2003 sales for the group of parks were projected to be €119 million, with earnings before interest, taxes, depreciation and amortization (EBITDA) of €25 million. These results reflected a depressed economic environment beginning after 2000, when the company's sales and EBITDA were €135 million and €43 million, respectively. The financial performance of the individual parks varied, with some doing well and others in decline (see **Exhibit 2**). Over the years, a total of nearly €775 million had been invested in acquiring or building and then improving the parks; thus the company was forecasting a relatively low level of capital investment for the business going forward.

All of the parks were reasonably well located (see **Exhibit 3**). Regional amusement parks drew most of their visitors from within a radius of 150 km. The closest competitor to any of the seven parks was 120 km. away from that park, and all other competitors were at least 140-350 km. away from the parks. The marketing plan for the group was established by corporate staff in the US, with input from local managers, and then implemented by local management at each park.

In Europe, there were just over 100 theme parks – fewer per capita than in any other major region of the world – but only a few companies with multiple park locations in different countries. In-park spending per capita in Europe was only 50-60 per cent of the level in the US, and a major international consulting firm had forecast annual growth of 6.6 per cent for amusement park revenues in Europe. While there were few global players in the market, the amusement parks industry in Europe was beginning to consolidate, and various groups were building their holdings of parks. Other private equity firms had also become involved in the field, with some already having invested in amusement parks groups.



Palamon's Response

When the opportunity was first presented to them in October 2003, the Palamon team immediately began contacting people who could give them insights into the amusement parks business, one of whom then introduced them to Mike Jolly. Jolly had twenty years of experience running major amusement park companies, having most recently been managing director of the Tussauds Group, which owned, among other things, Madame Tussauds, the premier wax museum in the world. Jolly agreed to work with Palamon on assessing the deal. Giuseppetti recalled his first meeting with Jolly:

“Mike really knew the business and was able to help us quickly reach some preliminary conclusions about the business. Though he had not seen these parks, just from looking at the park descriptions and the financial statements he had a strong feeling that there was room for improving the financial results at several of the parks. He suggested that we engage Economic Research Associates, a consulting firm with the broadest experience in the amusement parks industry in the world, to advise us on a number of key issues. We also used our investment banking connections to obtain data about other transactions in the industry” (see **Exhibit 4**).

Giuseppetti knew that any purchase would have to include substantial bank debt in the capital structure to make the deal financially viable¹, so he asked Julian Carreras, another Palamon partner who had extensive experience in and knowledge about leveraged finance, to help with the assessment. Carreras then met with Jolly to discuss the question of bank finance:

“I had had lots of dealings with banks but did not know the amusement parks industry. Mike believed that we should be able to obtain debt equal to three to four times EBITDA, which sounded reasonable to me; but when we went to see several of the banks we knew, there was little interest in the proposition. Finally, we visited the German group HypoVereinsbank ("HVB"), who had developed a specialty in entertainment park lending. HVB were interested in the deal but expressed concerns about the stability of the group's cash flows, especially in light of the financial trends at some of the group's parks.”

During the process, the seller's investment banker indicated that they were talking with several parties and were looking for an offer of at least \$250 million for the group. (The exchange rate at that time was €1.00 = \$1.17.) Giuseppetti and Carreras discussed the deal and concluded that this price level was unattractive.

“We told the seller's advisor that we were interested in the group, but not at that price level. We emphasized that if the price were to come down later, our team was ready and could move quickly on a possible transaction. We wanted the advisor to know – and to convey to the seller – that we were serious and would deliver on our offer if we could agree on a price.”

By coincidence, another large European amusement parks group was also being marketed at the same time, and many potential buyers were already heavily involved in that auction process when Star Parks came on the market. Consequently, interest in Star Parks was not as high as anticipated, and offers were not forthcoming. The seller was still intent on securing a firm deal with a buyer whom they could trust to complete the deal at an agreed price, and in February 2004 the seller's investment banker returned to Palamon to solicit an offer from the firm. Giuseppetti recalled the team's thinking:

“We knew that the large European private equity firms were immersed in the other amusement parks auction, and that was drawing interest away from the Star Parks deal. They

¹ Euro Libor was 3.25%.