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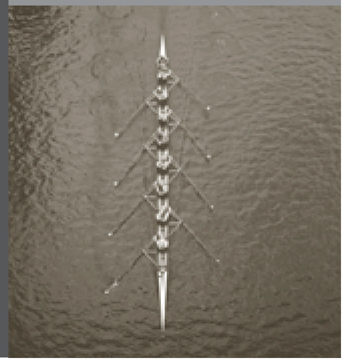
Euro Disney: From Dream to Nightmare



At the press conference announcing Euro Disneyland SCA's financial results for the year ended September 30, 1994, CEO Philippe Bourguignon summed up the year in succinct terms: "The best thing about 1994 is that it's over."

In fact, the results for the year were better than many of Euro Disneyland's long-suffering shareholders had predicted. Although revenues were down 15% – the result of falling visitor numbers caused by widespread expectations that the park would be closed down – costs had been cut by 12%, resulting in a similar operating profit to that of the previous year. The bottom line still showed a substantial loss (net after-tax loss was FF1.8bn); however, this was a big improvement on the previous year (FF5.33bn loss). Tables 15.1 and 15.2 show details of the financial performance.

Regarding the future, Bourguignon was decidedly upbeat. Following the FF13bn restructuring agreed with creditor banks in June, Euro Disney was now on a much firmer financial footing. As a result of the restructuring, Euro Disneyland SCA was left with equity of about FF5.5bn and total borrowings of FF15.9bn – down by a quarter from the previous year. With the threat of closure lifted, Euro Disney was now in a much better position to attract visitors and corporate partners.

Efforts to boost attendance figures included a new advertising campaign, a new FF600m attraction (Space Mountain), which was due to open in June 1996, and changing the park's name from Euro Disneyland to Disneyland Paris.

In addition, Euro Disney had made a number of operational improvements. Mr Bourguignon reported that it had cut queuing times by 45% during the year through new attractions and the redesign of existing ones; hotel occupancy rates had risen from 55% in the previous year to 60%; and managers were to be given greater incentives. The net result, claimed Bourguignon, was that the company would reach break-even during 1996.

TABLE 15.1 Euro Disneyland SCA: financial performance 1993–4. Operating revenue and expenditure (millions of French francs)

	1994	1993
Revenue:		
Theme park	2,212	2,594
Hotels	1,613	1,721
Other	322	559
Construction sales	114	851
Total revenue	4,261	5,725
Direct costs/expenses:		
Park & Hotels	(2,961)	(3,382)
Construction sales	(114)	(846)
Operating income	1,186	1,497
Depreciation	(291)	(227)
Lease rental expense	(889)	(1,712)
Royalties	–	(262)
General & Admin.	(854)	(1,113)
Financial income	538	719
Financial expenses	(972)	(615)
Loss	(1,282)	(1,713)
Exceptional loss, net	(515)	(3,624)
Net loss	(1,797)	(5,337)
Employees (cast members)		
Number	11,865	10,172
Annual Cost (FF, millions)	2,108	1,892

The stock market responded positively to the results. In London, the shares of Euro Disneyland SCA rose 13p to 96p. However, this did not take the shares much above their all-time low. On November 6, 1989, the first day of trading after the Euro Disneyland initial public offering, the shares had traded at 880p. Since then, Euro Disneyland stock had been on a near-continuous downward trend (see figure 15.1). The *Financial Times*' Lex column was also unenthusiastic:

> *Still beset by high costs and low attendances, Euro Disney will find it hard to hit its target of break-even by the end of September 1996. Costs in the year were reduced by FF500m by introducing more flexible labor agreements (more part-timers, increased job sharing and the use of more students in the peak season) as well as outsourcing contracts in the hotel operation. But the company admits that the lion's share of cost reductions has now been realized. Now it hopes attendances are rising . . . Getting people to spend more once they are at the park might be more difficult. Euro Disney is pinning its hopes on economic recovery in Europe. It'll have to start paying interest, management fees and royalties again in five years' time. Management will not say whether it'll be able to cope then.*[1]

Returning to his office at the end of the press conference, Bourguignon sighed. Since taking over from the previous chief executive, Robert Fitzpatrick, in 1993,

TABLE 15.2 Euro Disneyland SCA: financial statements 1992–4 (under US GAAP)

Balance sheet

	1994	1993	1992
Cash and investments	289	211	479
Receivables	227	268	459
Fixed assets, net	3,791	3,704	4,346
Other assets	137	214	873
Total assets	4,444	4,397	6,157
Accounts payable & other liabilities	560	647	797
Borrowings	3,051	3,683	3,960
Stockholders' equity	833	67	1,400
Total liabilities & stockholders' equity	4,444	4,397	6,157

Statement of operations

	1994	1993	1992
Revenues	751	873	738
Costs and expenses	1,198	1,114	808
Net interest expense	280	287	95
Loss before income taxes and cumulative effect of accounting change	(727)	(528)	(165)
Income tax benefit	–	–	30
Loss before cumulative effect of accounting change	(727)	(528)	(135)
Cumulative effect of change in accounting for pre-opening costs	–	(578)	–
Net loss	(727)	(1,106)	(135)

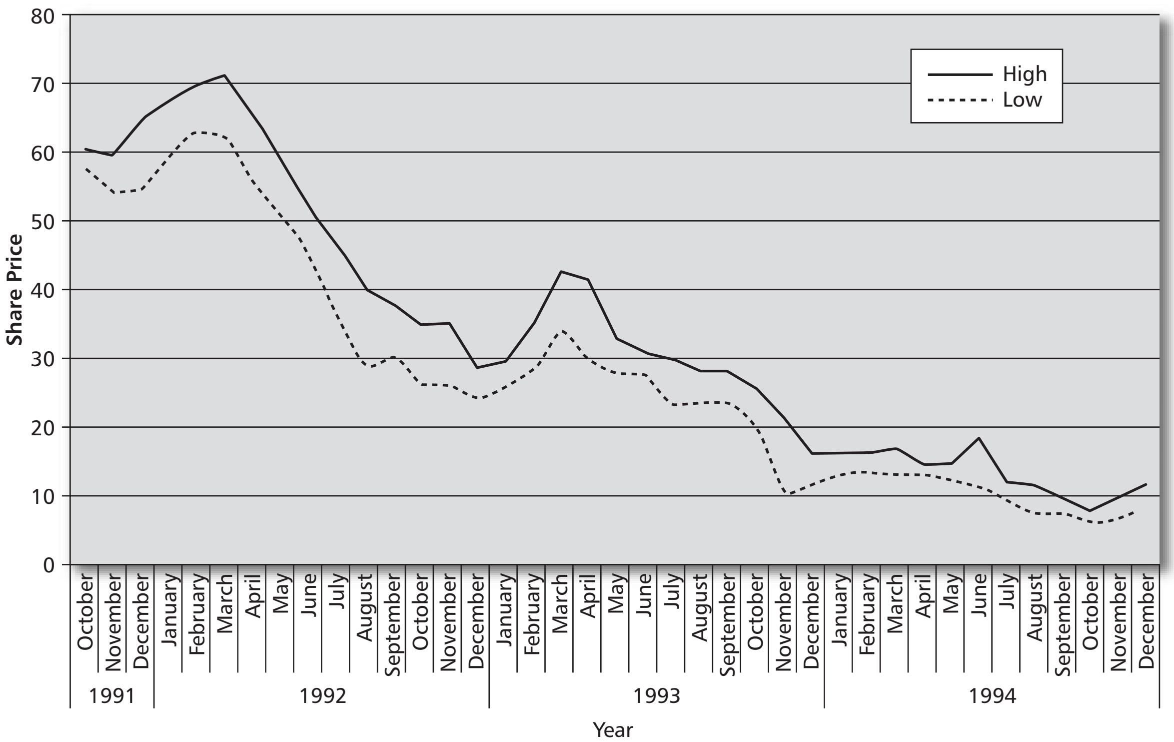
SOURCE: WALT DISNEY COMPANY, 10-K REPORT, 1994.

the 46-year-old had been engaged in a continuing battle to ensure the survival of Euro Disney. Now that survival was no longer an issue, Bourguignon now faced his next challenge: could Euro Disneyland ever become profitable – especially once Euro Disney had to resume paying licensing and management fees (amounting to some FF500 million a year) to Walt Disney Co. after 1998?

Disney Theme Parks

Walt Disney pioneered the theme park concept. His goal was to create a unique entertainment experience that combined fantasy and history, adventure, and learning in which the guest would be a participant, as well as a spectator. Current Disney-designed theme parks in California, Florida, Japan, and France are divided into distinct lands. All the parks include a number of similar lands with identical attractions. These include Main Street, Frontierland, Tomorrowland, Fantasyland, and Adventureland. The objective is to immerse the guest in the atmosphere of the particular land. The theme of each land is reflected in the types of rides and attractions, the costumes of

FIGURE 15.1 Euro Disneyland's share price in Paris, 1991–4 (in French francs)



employees, the architectural style of the buildings, and even the food and souvenirs sold within the boundaries of the particular land. Rather than presenting a random collection of roller coasters, carousels, and other rides, the Disney parks create an all-embracing experience which envelops the guest in carefully designed, tightly managed fantasy experience such as space flight, a Caribbean pirate attack, a flying ride with Peter Pan, or a race down the Matterhorn in a bob-sleigh.

Disney theme parks benefit from the talent and expertise of the Walt Disney "family" of businesses. Parks are designed by the engineers and architects of a wholly owned subsidiary – WED Enterprises. The themes for the attractions and characters that are featured in them often have their origins in cartoons and live action movies produced by Disney's studios. The parks also benefit from management and merchandising techniques developed over many years at Disney. These techniques have led to tremendous successes. In merchandising, Disney retail stores achieved some of the highest sales per square foot in the United States.

Disney's success can be traced to the control of the environment to create a unique experience for the visitor. This control is achieved through highly systematized operations management and human resource management. Disney has sophisticated procedures for selecting and training employees to ensure the highest levels of service, safety, and maintenance in the industry. Disney's ability to reconcile a high level of occupancy with high levels of service and customer satisfaction is achieved through sophisticated methods of forecasting visitor levels on a daily basis, and careful design of parks to minimize the frustrations of crowds and waiting. Disney also emphasizes the continual renewal of its theme parks' appeal through investment in new attractions. It then supports these with heavy promotion.

Disney parks have historically had higher attendance levels than other theme and amusement parks throughout the world. During the late 1980s and early 1990s, Disney's theme parks in Anaheim, Orlando, and Tokyo together attracted over 50 million guest visits annually.

Disney's US Parks

The Los Angeles Disneyland theme park was finally opened in July of 1955 on 160 acres of land in Anaheim in California's Orange County. The success of Disneyland created a real estate boom in Anaheim, resulting in Disneyland being surrounded by a ring of hotels, motels, restaurants, and other businesses.

For his next theme park project, Walt Disney aimed for undiluted control over the business and its revenue stream. Walt Disney World Resort opened in 1971 on a huge tract of 29,000 acres that Walt acquired outside of Orlando, Florida. Walt Disney World eventually comprised three separate theme parks: the original Magic Kingdom, the Experimental Prototype Community of Tomorrow (EPCOT) Center that opened in 1982 which in itself hosted two themes: *Future World* and *World Showcase*, and Disney-MGM Studios which opened in 1989.

The experience of creating a theme park as a destination resort represented a major development in Disney's conception of a theme park and was influential in its expansion plans into Europe. The huge site allowed Disney to broaden the scope of its theme park activities to create themed hotels, golf courses and other sports, convention facilities, night clubs, a range of retail stores, even residential housing. The complementary coupling of a theme park with resort facilities that could even host commercial activities (conferences, a technology park) became central to Disney's theme park strategy.

By 1990, Walt Disney World had become the largest center of hotel capacity in the United States with approximately 70,000 rooms, of which almost 10% were owned and operated by Disney. Even though the room rates charged by Disney were considerably higher than other hotels in the vicinity, they achieved a remarkable occupancy rate of 94% during the late 1980s.

Tokyo Disneyland

Tokyo Disneyland, which opened in 1983, was a major departure for Walt Disney Company. The Oriental Land Company Limited (OLCL), a Japanese development company, had approached Disney with a proposal to open a Disneyland in Japan. Disney's top management regarded a Disney theme park in another country with a different climate and a different culture as a risky venture. Disney insisted on a deal that would leave OLCL with all the risk: the park would be owned and operated by OLCL while Disney would receive royalties of 10% on the admissions revenues and 5% on receipts from food, beverages, and souvenirs. These royalties represented licensing fees for Disney's trademarks and intellectual property, engineering designs for rides, and ongoing technical assistance. Despite the challenges of limited space and cold winter weather, Tokyo Disneyland was a huge success. By the late 1980s it was drawing 15 million visits a year – more than any other Disney park.[2] By 1989, Disney's royalties from Tokyo Disneyland had risen to $573 million – greater than the operating income received from Disney's US theme parks.

Planning and Development

Beginnings of Euro Disneyland

The success of Tokyo Disneyland was clear evidence to Disney's top management of the international potential for Disney's theme parks. Europe was considered the obvious location for the next Disney park. Europe had always been a strong market for Disney movies, and there was a strong European demand for toys, books, and comics that featured Disney characters – European consumers generated about one-quarter of revenues from Disney licensed consumer products. The popularity of Disney theme parks with Europeans was evident from the 2 million European visitors to Disneyland and Walt Disney World each year. Moreover, Western Europe possessed a population and affluence capable of supporting a major Disney theme park.

In 1984, Disney management made the decision to commit to development of a European theme park and commenced feasibility planning and site selection. In assessing alternative locations, the following criteria were applied:

- proximity to a high-density population zone with a relatively high level of disposable income;
- ability to draw upon a substantial local tourist population, availability of qualified labor, and readily accessible transportation;
- availability of sufficient land to permit expansion of the project to meet increasing demand;
- provision of necessary infrastructure, such as water and electricity.

Two locations quickly emerged as front-runners: Barcelona and Paris. While Barcelona had the advantages of a better year-round climate, Paris offered key economic and infrastructure advantages, together with strong backing from the French government. Disney's interest in a European theme park corresponded with the French government's plans to develop the Marne-la-Vallée area east of Paris. The result was rapid progress of Disney's formal negotiations with the range of local government authorities and public bodies whose cooperation and agreement were essential for a project of this scale. The proposed site's demographic characteristics offered the right set of conditions for a successful theme park. The park rested on a 4,500 acre site 32 kilometers east of Paris, providing proximity to a metropolitan area and room for expansion; the high population of the greater Paris area (over 10 million) and Europe (over 330 million) provided a large consumer market; and existing and planned transportation equipped the park with access to vital infrastructure. Paris was already a major tourist destination with excellent air, road, and rail links with the rest of Europe.

On March 24, 1987, the Walt Disney Company entered into the Agreement on the Creation and the Operation of Euro Disneyland in France (the "Master Agreement") with the Republic of France, the Region of Ile-de-France, the Department of Seine-et-Marne, the Etablissement Public d'Aménagement de la Ville Nouvelle de Marne-la-Vallée, and the Régie Autonome des Transports Parisiens. This was followed by incorporation of Euro Disneyland SCA (the "Company") and the conclusion of an agreement with the SNCF (the French national railway company) to provide TGV (the French high-speed train) service to Euro Disneyland beginning in June 1994. The agreement involved commitments by Disney to establish Euro Disneyland as a French corporation, to develop a major international theme park, and to create 30,000 jobs in the process. The French authorities committed to provide land (at Marne-la-Vallée 32 km east of Paris) and infrastructure over the project's 30-year development period ending in 2017. The real estate deal involved Disney acquiring 1,700 hectares (approximately 4,300 acres[3]) of agricultural land at Marne-la-Vallée. In addition, a further 243 hectares were reserved for public facilities and infrastructure. The purchase price for the land included the raw land price (FF11.1 per square meter or approximately $8,360 per acre), direct and indirect secondary infrastructure costs, and certain financing and overhead expenses of the French authorities. The area of the total site was equivalent to one-fifth of the area of the city of Paris. The land for the first phase of the development was purchased outright by Euro Disneyland SCA, with purchase options on the remaining land. Euro Disneyland SCA also had the right to sell land to third parties, as long as the development plans of any purchasers were approved by the French planning authority.

The agreement provided for motorway links to Paris, Strasbourg, and the two international airports serving Paris – Charles de Gaulle and Orly, while the planned extension of the RER (the express commuter rail network) would allow visitors to reach the Magic Kingdom from the center of Paris within 40 minutes. Euro Disney[4] would also be linked to France's TGV system, with its own station serving the park. This would also give rail service from Britain through the Channel Tunnel. In addition to infrastructure, the French government's financial inducements included FF4.8 billion in loans and a favorable tax rate (34%). The total package of incentives added up to roughly FF6.0 billion.[5]

The Market: Demand and Competition

A key factor attracting Disney to Paris was market potential. The greater Paris metropolis has a population of over 10 million. Roughly 16 million people lived within a 160km radius of the proposed site; within a 320km radius were 41 million people; and within a 480km radius were 109 million people. Paris' transportation links facilitated access to this huge market. As a result, Euro Disneyland would be capable of achieving a high level of capacity utilization, even with much lower market penetration rates than those achieved by Disney's California and Florida theme parks. European vacation patterns were also seen as conducive to visits – Europeans received substantially more vacation time than US workers and in addition to their summer vacation, European families frequently took shorter vacations throughout the year. Projections of numbers of visitors to Euro Disney and their expenditures were made by consultants Arthur D. Little as part of their financial projections for Euro Disneyland SCA (see Appendix 1).

The ability of Euro Disney to achieve its visitor targets would depend not only on the size of the market but also upon the relative attractiveness and number of competing tourist destinations. Although Disney viewed its theme parks as unique in terms of the quality and intensity of the entertainment experience that it offered, the company also recognized that, ultimately, a wide range of family vacation and entertainment experiences compete for household disposable income. Although there were very few large-scale theme parks in Europe to directly compete with Euro Disneyland (most of the world's major theme parks were located in the US), there were a

TABLE 15.3 Attendance at major theme parks

	Estimated attendance in 1988 (millions of guest visits)
Sea World – *Florida*	4.6
Tivoli Gardens – *Denmark*	4.5
Universal Studios Tour – *California*	4.2
Knott's Berry Farm – *California*	4.0
Busch Gardens – *Florida*	3.7
Sea World – *California*	3.4
Six Flags Magic Mountain – *California*	3.1
King's Island – *Ohio*	3.0
Liseberg – *Sweden*	2.8
Alton Towers – *United Kingdom*	2.3
De Efteling – *The Netherlands*	2.3
Phantasialand – *West Germany*	2.2

SOURCE: EURO DISNEYLAND SCA ABRIDGED OFFERING CIRCULAR.

number of family entertainment destinations within Europe that would be potential competitors (see table 15.3). In addition, European cities – such as London, Paris, Rome, Prague, Barcelona, and many others – offered a richness and variety of cultural and historical experiences that few US cities could match and represented an alternative to Euro Disney for short family vacations. In addition, there were a host of traditional forms of family entertainment in Europe, including fairs, carnivals, and festivals, some of which were small and local while others – such as the Munich Bierfest, the Pamplona bull-running festival, the Edinburgh cultural festival, and the Dutch tulip festivals – were major events attracting large numbers of international visitors.

In addition, Disney's plans for Euro Disneyland created its own competitors. Within two years of Disney's announcement to build Euro Disney, three French theme parks – Mirapolis, Futuroscope, and Zygofolis – had opened in an attempt to preempt Disney's entry into the market. By the summer of 1989, two more theme parks – Asterix and Big Bang Schtroumph – opened their gates. However, with aggregate annual losses of about $43 million on a total investment of over $600 million, these parks were considered financial disasters.[6]

The Development Plan

Euro Disney's Development Program provided for a theme park, based closely on the themes and concepts of Disney's US theme parks, that would be the largest theme park and resort development in Europe. The plan established two stages for the project.

Phase 1 Phase 1, the major part of the overall project, was subdivided into two sections. Phase 1A comprised the Magic Kingdom theme park, the Magic Kingdom Hotel (which would serve as the entrance area to the theme park), and a camping ground, which were to be completed at a budgeted cost of FF14.9 billion. Of the 570 acres allocated for Phase 1, Phase 1A would utilize 240 acres. The rest of the land would be developed in Phase 1B to accommodate five additional hotels; an entertainment, restaurant, and shopping complex; and sports facilities with an 18-hole championship golf course. Phase 1A also provided for the French government to construct two junctions with the nearby motorway, main access roads to the park, a drinking-water supply and distribution system, storm drainage, sewers, solid waste treatment, and telecommunications networks. The cost of the additional infrastructure, including links with the RER and the TGV, was to be financed by Euro Disneyland SCA.

The Magic Kingdom theme park was to include five themed lands: Main Street USA, the gateway to the park; Frontierland, a reproduction of wooden streets typical of a mid-nineteenth-century frontier town; tropical Adventure Land, the most exotic of the park settings; Fantasyland, with attractions drawn from well-known Disney characters; and Discoveryland, which, through the sophisticated use of technology, illustrates the past and the future. Each offers appropriately themed restaurants and shopping facilities.

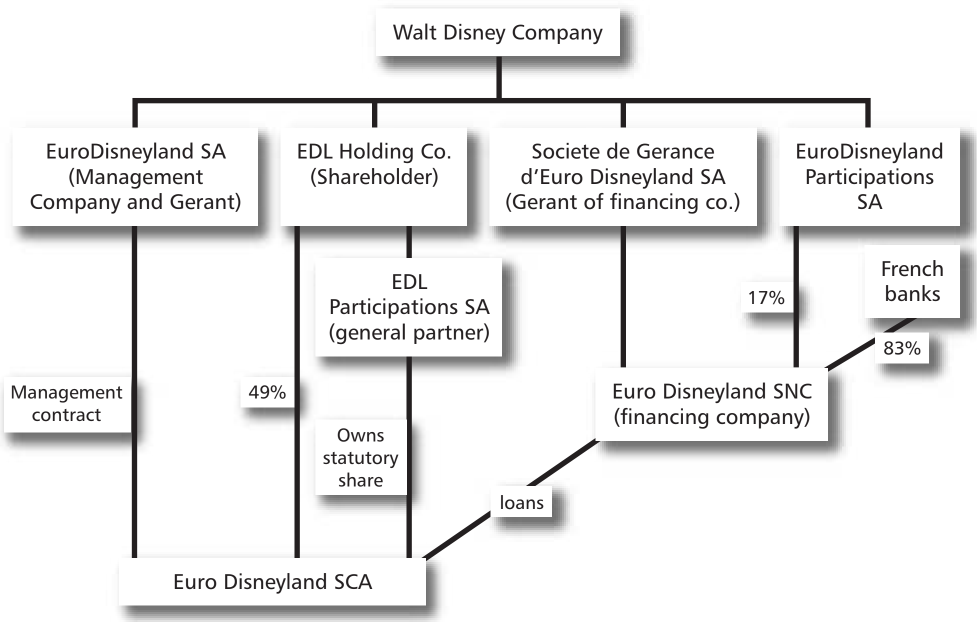
To permit year-round operation, Euro Disney included adaptations designed to make attendance less dependent on the weather, with more interconnected covered areas than at other Disney parks. Many modifications to the themes, architecture, and dining facilities were made to tailor the park to the European market. For example, while French is the first language of the park, universal signposting is used wherever possible to aid non-French-speaking visitors, and many attractions are identified by visual cues.

Phase 2 Phase 2 of the Long Term Development Strategy extended to 2011. It envisioned a second theme park (Disney-MGM Studios) on a site adjacent to the Magic Kingdom; 15 additional hotels, which would increase the number of rooms available by 13,000; a water recreation area and second golf course; and residential and commercial development. This phase was left flexible to accommodate the policies of the French authorities, economic and market conditions, participant needs, and visitor preferences.

Construction Disney exercised close control over design and construction of Phase 1A of Euro Disney. Lehrer McGovern Bovis Inc. (LMB), an independent construction management firm with international experience in the management of large-scale construction projects, was the main contractor. LMB reported to Euro Disneyland Imagineering SARL (EDLI), a French subsidiary of Disney that had overall responsibility for designing and constructing Phases 1 and 2 of the theme park. Also reporting to EDLI were separate Disney companies responsible for design, conceptual and otherwise; engineering; and the development and equipping of attractions.

Participants As with other Disney theme parks, at Euro Disneyland Participants played an important role in financial and in marketing terms. Participants are companies or organizations that enter into long-term marketing agreements with the Company. Typically, these relationships represent a ten-year commitment and physically tie the Participant to the Magic Kingdom, where it hosts or presents one or more of the theme park's attractions, restaurants, or other facilities. Relationships with Participants may also involve marketing activities featuring the association between the Participant and the Company. Each Participant pays an individually negotiated annual fee, which may contribute to the financing of a particular attraction or facility.

FIGURE 15.2 The financial and management relationship between Walt Disney and Euro Disneyland



Initial Participants at Euro Disneyland included Kodak, Banque Nationale de Paris, Renault, and Europcar.

Financial and Management Structure

For Euro Disneyland, Disney chose a unique financial and management structure. Rather than a pure franchise operation similar to Tokyo Disneyland, Disney chose to retain management and operational control of the park while allowing European investors to take majority ownership and European banks to provide most of the debt financing. The relationship between Walt Disney Company and Euro Disneyland is depicted in figure 15.2.

Euro Disneyland SCA

Euro Disneyland SCA was formed to build and own Euro Disneyland. The company was a *société en commandite par actions* – the French equivalent of a limited partnership. The company was governed by a supervisory board elected by the shareholders and chaired by Jean Taittinger, the Chairman and Chief Executive of Société du Louvre and Banque du Louvre. Disney took a 49% stake in Euro Disneyland SCA; the remaining 51% of equity was floated through an initial public offering underwritten by three investment banks. The shares were listed on the Paris and London stock markets. Although Disney held 49% of Euro Disneyland SCA equity it contributed only 13% of its equity book value (FF273m net of incentives received). The difference was "granted" to the company, both as a goodwill "gesture" in recognition of Disney's reputation and credibility in the investment community and as compensation for Disney's assumed risk in the undertaking.

The Management Company

Euro Disneyland SCA was managed by a separate management company, Euro Disneyland SA (the "Management Company"), a wholly owned subsidiary of Disney. The Management Company, or *gerant*, was responsible under French law for managing Euro Disneyland SCA and its affairs in the company's best interests. In turn, the Management Company agreed that the provision of management services to the Company would be its exclusive business. Under the Articles of Association, the Management Company was entitled to annual fees consisting of a base fee and management incentive fees. The base fee in any year was set at 3% of the Company's total revenues, and increased to 6% after five years of operation, or after the Company had satisfied certain financial targets. On top of the base fee, the Management Company was entitled to incentive fees based on Euro Disneyland SCA's pre-tax cash flow. These incentives increased in stages up to a possible maximum of 50% of Euro Disneyland SCA's net profit. The Management Company also received 35% of pre-tax gains on the sales of hotels. In addition, Euro Disneyland SCA was obligated to reimburse the Management Company for all its direct and indirect expenses incurred in its management role. The management contract was for five years.

The Shareholding Company and General Partner

Disney's shareholding in Euro Disneyland SCA was held by EDL Holding, a wholly owned subsidiary of Disney. This shareholding company also owned EDL Participations SA, which held the key role of "general partner" in Euro Disneyland SCA – it assumed unlimited liability for the debts and liabilities of Euro Disneyland SCA. As general partner, EDL Participations SA was entitled to a distribution each year equal to 0.5% of Euro Disneyland SCA's net after-tax profits.

The Financing Company

Euro Disneyland SNC was formed to buy the park facilities from Euro Disneyland SCA at book value plus development costs, then lease them back to Euro Disneyland SCA. Euro Disneyland SNC was owned 17% by Disney and 83% by French corporations. The rationale was to allow French corporations to take advantage of the tax benefits of Euro Disneyland's early years of projected losses. Once again, Euro Disneyland SNC was to be managed by a Disney subsidiary and Disney would act as its general partner with full debt default liability.

The License Agreement

Under the License Agreement, Walt Disney Company granted to Euro Disneyland SCA a license to use any present or future Disney intellectual and industrial property rights incorporated in Disney's attractions and facilities and made available to the Company for Euro Disney. These included the Walt Disney name, the Disney characters, and the proprietary technology in theme park attractions. Disney was to receive royalties as follows:

- 10% of gross revenues (net of TVA, the French value-added tax, and similar taxes) from rides and admissions and certain related fees (such as parking, tour guide, and similar services) at all theme parks and other attractions (including the Magic Kingdom and any future theme park);
- 5% of gross revenues (net of TVA and similar taxes) from merchandise, food, and beverage sales in or adjacent to any theme park or other attraction or in any other facility (other than the Magic Kingdom Hotel) whose overall design concept is based predominantly on a Disney theme;
- 10% of all fees due from Participants;
- 5% of all gross revenues (net of TVA and similar taxes) from room rates and related charges at Disney themed accommodations (excluding the Magic Kingdom Hotel).

Cultural Issues

Euro Disneyland presented huge challenges for Disney. Climate was a major problem. The long gray winter of Northern France created complex design problems that were absent from Disney's sun-drenched California and Florida parks. However, the challenges posed by adverse weather conditions were mainly technical and amenable to careful analysis. The issues of culture were much less tractable.

While the success of Tokyo Disneyland was a major factor behind the decision to create Euro Disney, the cultural challenges of France were very different from those of Japan. Tokyo Disneyland had been conceived, built, and operated on a wave of popular Japanese acclaim. As a result, Tokyo Disneyland had made very few concessions to Japanese culture. Although, at first, Disney wanted to adapt some of the attractions to the Japanese context (for example, Samurai-Land instead of Frontierland), their Japanese partners strongly resisted efforts to "localize" Disneyland, arguing that the park would attract more Japanese people if it were built as a perfect replica of US Disneyland. They emphasized that Disney's cartoon characters were very familiar to the Japanese people and that visitors would want "the real thing." As a result, only minor changes were made, such as the addition of Cinderella's Castle and the Mickey Mouse Theater.

After the enthusiasm with which the Japanese greeted Disney's entry, the response of the French could not have been more different. France presented a very different situation. French intellectuals had long shown antagonism towards American popular culture, and they were supported by widespread nationalistic sentiment that saw the French language and French culture as threatened by the global hegemony of the English language. At the political level too, France had been the most independent of the Western European powers in terms of its independent foreign policy and unwillingness to accept US leadership in world affairs. The announcement of the Euro Disneyland project was greeted by howls of outrage from the French media and from the intelligentsia who viewed the park as "a cultural Chernobyl," "a dangerous step towards world homogenization," "a horror made of cardboard, plastic, and appalling colors, a construction of hardened chewing gum and idiotic folklore taken straight out of the comic books written for obese Americans."[7] Euro Disney quickly became a focal point for anti-Americanism, fueled by multiple issues. For example, shortly after opening, Euro Disney was blockaded by farmers protesting US farm policies.

The design of the park incorporated many adaptations of French and European culture. Disney emphasized the European heritage of many of Disney's characters and storylines (referred to by Chairman Michael Eisner as "European folklore with a Kansas twist"). Some attractions featured European adaptations: Cinderella lived in a French inn and Snow White's home was in a Bavarian village. Other attractions were unique to Euro Disney: Discoveryland (which substituted for Tomorrowland at other Disney parks) was based on themes from Jules Verne and Leonardo da Vinci; "Visionarium" was a 360-degree movie theater showcasing French culture; an Alice-in-Wonderland attraction was surrounded by a 5,000sq. ft. hedge maze. Designing and constructing these European-themed attractions added substantially to the cost of Euro Disneyland.

Some "American" themed attractions were adapted on the basis of market research findings. For example, the finding that European visitors to Disney's US parks responded positively to themes embodying the American West encouraged Disney to redesign several attractions around a Wild West theme – including a mining town setting for one ride, a "Davy Crockett" themed campground, and hotels named the "Cheyenne," "Santa Fe," and "Sequoia Lodge."

Other adaptations were made to cater to European social behavior and culinary tastes. Concern over European aversion to queuing resulted in the provision of video screens, movies, and other entertainment for guests waiting in line. Disney's no-alcohol policy was adjusted by allowing wine and beer to be served at Feastival Disney, an entertainment complex just outside the theme park. In the restaurant facilities, greater emphasis was placed on sit-down dining and much less on fast food. At a seminar at UCLA in 1990, Robert Fitzpatrick placed a major emphasis on the Company's determination to provide the highest standards of quality at Euro Disney. This was evident both in the cuisine and in the furnishings and service standards of the hotels. In both areas, Fitzpatrick argued, quality was well in excess of the standards at Disney's US parks.

Human relations management posed further cultural challenges. Central to the Disney theme park experience was the way in which "cast members" interacted with the guests. Disney was famous for its meticulous approach to recruitment, its commitment to employee training, and the maintenance of rigorous standards of employee conduct. For example, Disney's employee handbook spelled out a strict code with respect to dress and appearance, including:

- Above average height and below average weight
- Pleasant appearance (straight teeth, no facial blemishes)
- Conservative grooming standards (facial hair and long hair is banned)
- Very modest make-up, very limited jewelry (for example, no more than one ring on each hand)
- Employees were required to wear specific types and colors of underwear; only neutral colors of pantyhose were allowed.[8]

Training embraced both general principles and specific knowledge and behaviors. For example, employees were instructed that their behavior on the job should be governed by three major rules: "First, we practice a friendly smile. Second, we use only friendly phrases. Third, we are not stuffy."

To what extent could locally recruited employees provide the level and quality and consistency of service at Euro Disney that would match that of other Disney theme parks, and to what extent could Disney simply transplant its US HRM practices? Euro Disney's selection and training were closely modeled on Disney's US approach. A Euro Disney branch of Disney University was opened and recruitment of 10,000 employees began in September 1991 Selection criteria were "applicant friendliness, warmth, and liking of people." The rules for job applicants were spelled out in a video presentation and in the employee handbook, "The Euro Disney Look." The rules went far beyond weight and height requirements, describing the length of the men's hair, beard and mustache requirements, tattoo coverage requirements, and hair color specifications (for example, hair had to be of a natural-looking color, without frosting or streaking). Only moderate use of cosmetics was allowed. Women could wear one earring in each ear with the earrings' diameter not to exceed three-quarters of an inch.[9] The goal was a nationality mix that would match that of Euro Disney's customers, about 45% of whom were French. However, in response to local pressure and the greater availability of local applicants, some 70% of employees were French. At the management level, Disney relied on importing about 200 managers from other Disney parks and training 270 locally recruited managers (this involved training at Disney's other theme parks).

Disney's recruiting practices and employee policies produced a storm of protest. French labor unions started protesting right from the moment that Euro Disney started interviewing applicants. Representatives of the General Confederation of Labor handed out leaflets in front of Euro Disney's HQ warning applicants that the Disney hiring practices represented "an attack on individual freedom." Many of Disney's normal US hiring and employment practices contravened French law. Workforce flexibility was limited by the restrictions on terminating employees with more than two years with the company and the high severance payments involved. There were also legal limits over the recruitment and dismissal of seasonal workers. As for Disney's dress and personal grooming codes, French law prohibited an employer from restricting "individual and collective freedoms" unless the restrictions could be justified by the "nature of the objective to be accomplished and were proportional to that end." Since Disney estimated that no more than 700 employees would be involved in "theatrical actions," dress code limitations could only be imposed on those employees, not on those who would only be "back stage."

The First Year

Euro Disney's opening on April 12, 1992 combined both fanfare and protest. An extravagant opening ceremony involved some of the world's leading entertainers and was televised in 22 countries. Michael Eisner proclaimed Euro Disney to be "one of the greatest man-made attractions in the world" while the French Prime Minister described the park as an "incredible achievement which transcends national frontiers . . . We are deeply attached to the links of friendship between our continent and yours. Euro Disney is one of the symbols of this transatlantic friendship." However, the opening was marred by a demonstration of local residents, a train strike affecting lines leading to the park, and a terrorist bomb threat. By the end of the first day, park attendance had been way below capacity and only one-half of the anticipated number.

The park ran into early teething problems. Design problems ranged from insufficient breakfast facilities to an absence of toilet facilities for bus drivers and a shortage of employee accommodation. During the first nine weeks of operation, 1,000 employees left Euro Disney, about one-half voluntarily. Long hours and hectic work pace were the main reasons given for leaving. Nevertheless, visitor reactions were mainly highly positive. Negative comments related to frustration with long periods of waiting in line and the high cost of admission, food, and souvenirs. Some voiced concern over the multinational, multicultural flavor of Euro Disney: "They haven't yet figured out whether it's going to be an American park, a French park, or a European park . . . Differences in waiting line behavior is striking. For instance. Scandinavians appear quite content to wait for rides, whereas some of the southern Europeans seem to have made an Olympic event out of getting to the ticker tape first." Some visitors had difficulty envisaging Disney within a European context: "Disney is very much an American culture. Florida is the true Disney World, the true feeling of Disney, what Disney is trying to project. Americans are part of that, the French aren't."[10]

Start-up difficulties were normal in the theme park business – all major theme parks, including those of Disney, experienced some teething problems during the period of initial operation. Universal Studios in Florida had a disastrous first few months, but subsequently rebounded. With 30,000 visitors daily during the summer of 1992, it seemed that Euro Disney might reach its projected target of 11 million visitors annually. However, it was soon clear that, despite good visitor numbers during the summer, Euro Disney's profitability would fall far below expectations. There were a larger number of day-visitors and fewer period-visits than had been anticipated. As a result, Euro Disney cut hotel rates by up to 25%. Moreover, average visitor expenditure on beverages, food, and gifts was 12% less than the $33 per day that had been anticipated. Part of the problem was the economic situation – during 1992, most of Western Europe was mired in one of the worst economic downturns since World War II. The depressed state of the French real estate market also prevented Euro Disney from boosting revenues through land sales.

By the end of Euro Disney's first full financial year, the extent of the financial underperformance was becoming clear. Even with exceptional items, the Company lost over FF1.7 billion. In terms of US GAAP, Euro Disneyland's pre-tax loss was over half a billion dollars. Top-line performance was a key problem. Instead of the 11 million visitors forecast, Euro Disney attracted 9.8 million visitors during its first full year. Equally serious was the fact that average visitor spending was below target, and much lower than at Disney's US and Japanese parks. Fewer visitors than projected were staying in Disney theme hotels, deterred by room rates that were much higher than in comparable hotels in Paris. Hotel occupancy rates were below 50% in contrast to the 60% figure projected. On the cost side, Disney's emphasis on quality had boosted both construction and operating costs, while higher than anticipated debt together with rising interest rates caused interest charges to spiral upward. Labor costs amounted to a huge 24% of sales, rather than the forecasted level of 13% of sales. Much of the cost overruns could be attributed to Disney's belief that "Lacoste and Polo loving" Europeans would not tolerate anything unsophisticated or cheap. For example, in the US, "The Walt" restaurant had wallpaper but at Euro Disney the walls were covered in Moroccan leather. When it came to trading off sophistication for lower prices, most Euro Disney customers opted for the latter.

For Walt Disney Company, the financial returns were better than they were for Euro Disneyland's other shareholders. During 1992 and 1993, Disney's 49% share of

Euro Disneyland's losses was offset by royalties from its licensing agreement. These amounted to $36.3 million in 1993 and $32.9 million in 1992; however, Disney agreed to defer its base management fees for 1992 and 1993.

Restructuring

During the winter of 1993/4, Euro Disney visitor numbers plummeted. Despite a fall of the French franc against the US dollar, many Europeans found that Disneyland Florida was not only a more attractive destination during the winter months, it was also cheaper. "It's cheaper to go on a two-week holiday in Florida than to come to Euro Disney for five days," remarked one British traveler with a family of four. With low transatlantic fares, European visitors to Walt Disney World in Orlando increased sharply during 1992 and 1993. By early 1994, Euro Disney was in crisis. Faced with mounting losses, rising debt, and doubts about the Company's capacity to cover its interest payments, rumors were rife that the park would be forced to close.

The financial restructuring package agreed between Euro Disneyland and its creditors in June 1994 involved the following measures:

- A $1.1 billion rights offering of which Disney agreed to take up 41%.
- The provision by Disney of $255 million in lease financing at an interest rate of 1%.
- The cancellation by Disney of $210 million in receivables from Euro Disneyland.
- The agreement by Disney to waive royalties and management fees for five years.
- The agreement that Disney would receive warrants for the purchase of 28 million Euro Disneyland shares and would receive a development fee of $225 million once the second phase of the development project was launched. Euro Disneyland's lenders agreed to underwrite 51% of the Euro Disney rights offering, to forgive certain interest charges until September 2003, and to defer all principal payments for three years. In return, Euro Disneyland issued the lenders ten-year warrants for the purchase of up to 40 million shares of Euro Disneyland stock.

In a separate agreement, Disney agreed to sell 75 million shares, equivalent to 10% of Euro Disneyland's total shareholding, to Prince Alwaleed Bin Talal Bin Abdulaziz Al Saud. The sale reduced Disney's shareholding in Euro Disneyland to 39%.

Looking Ahead

While the restructuring package had staved off disaster for the time being, the traumas of the past year made Bourguignon cautious about the future. Despite heavy advertising, the addition of new attractions, and the fine-tuning of Disney's image, customer service, and offering of food, drinks, and souvenirs, Euro Disney had yet to reach the initial forecast of 11 million visitors annually. Significant cost reductions had been achieved; however, the scope for further cost reductions was limited if Euro Disney was to maintain Disney's standards of customer service excellence. While Bourguignon was convinced that the Company would be generating operating profits by 1995, such profits would have been the result of Disney's agreement to forgo its royalties and management fees. Once these were reinstated. Euro Disney's costs would increase by about FF500 million annually.

Bourguignon believed that many of the problems that had dogged Euro Disney from the beginning had been resolved. In particular, the renaming of the park as Disneyland Paris had helped alleviate ambiguity and conflict over the park's identity. Disneyland Paris was to be a Disney theme park located close to Paris. Dropping the "Euro" prefix released the Company from the public's mistrust of all things Euro, and helped the park to avoid the debate over what European culture and European identity actually meant. Moreover, the new name firmly associated Euro Disney with the romantic connotations of the city of Paris. In terms of the need to differentiate Euro Disney from Disney's other theme parks, the experience of the past two years suggested that Euro Disney's expensive adaptations to meet European tastes and European culture were not greatly appreciated by customers. For the most part, visitors were delighted by the same rides as existed in Disney's US parks and generally preferred fast food over fine dining.

Over the next six months, Bourguignon recognized that key decisions needed to be taken:

- To what extent should Euro Disney cut admission prices in order to boost attendance? An internal study had estimated that a 20% reduction in admission prices would boost attendance by about 800,000 visitors; however, the net result would still be a reduction in total revenues of about 5%.
- The problems of insufficient demand related primarily to the winter months. In previous winters some senior managers had argued for the closure of the park. However, so long as most of Euro Disney's employees were permanent staff, such a closure would do little to reduce total costs.
- Bourguignon had already deferred Phase 2 of the development plan – construction of a Disney–MGM Studios theme park. The other members of his senior management team were urging him to go ahead with this phase of development. Only with a second theme park, they believed, would Euro Disney's goal of becoming a major destination resort become realized. However, Bourguignon was acutely aware of Euro Disney's still-precarious financial situation. With net equity of about FF5.5bn and total borrowings of FF15.9bn, Euro Disney was not well-placed to begin the large-scale capital expenditures that phase 2 would involve.

As Bourguignon arranged the papers on his desk at the end of a long day, he reflected on his success at pulling off the rescue plan and the continuing uphill struggle to realize the ambitions that had driven the project in the early days. The wartime words of Winston Churchill summed up the situation well: "This is not the end. It is not the beginning of the end. It is the end of the beginning."

Appendix 1
Euro Disneyland SCA's Financial Model

The Company has prepared a financial model, based on the principal assumptions described below, which projects revenues, expenses, profits, cash flows, and dividends of the Company

TABLE 15.A1 Euro Disneyland SCA: projected revenues and profits (FF millions)

1992–6 **12 months commencing April 1**	**1992**	**1993**	**1994**	**1995**	**1996**
Revenues					
Magic Kingdom	4,246	4,657	5,384	5,835	6,415
Second theme park	0	0	0	0	3,128
Resort and property development	1,236	2,144	3,520	5,077	6,386
Total revenues	5,482	6,801	8,904	10,930	15,929
Profit before taxation	351	620	870	1,676	1,941
Net profit	204	360	504	972	1,121
Dividends payable	275	425	625	900	1,100
Tax credit or payment	0	138	213	313	450
Total return	275	563	838	1,213	1,550
Per share (FF)	1.6	3.3	4.9	7.1	9.1
Later years **12 months commencing April 1**	**2001**	**2006**	**2011**	**2016**	
Revenues					
Magic Kingdom	9,730	13,055	18,181	24,118	
Second theme park	4,565	6,656	9,313	12,954	
Resort and property development	8,133	9,498	8,9119	5,923	
Total revenues	22,428	29,209	36,473	42,995	
Profit before taxation	3,034	4,375	6,539	9,951	
Net profit	1,760	2,538	3,793	5,771	
Dividends payable	1,750	2,524	3,379	5,719	
Tax credit or payment	536	865	1,908	2,373	
Total return	2,286	3,389	5,287	8,092	
Per share (FF)	13.4	19.9	31.1	47.6	

SOURCE: EURO DISNEYLAND SCA ABRIDGED OFFERING CIRCULAR.

for 12-month periods beginning 1 April, 1992 and ending 31 March, 2017 as summarized in table 15.A1. Although the Company's accounting year-end is 30 September, years beginning 1 April have been used for the projections in order to represent whole operating years from the projected date of opening of the Magic Kingdom. The projections contained in the model do not constitute a forecast of the actual revenues, expenses, profits, cash flows or dividends of the Company. The model assumes that the Company will complete Phase 1 as described in this document and will develop the remaining elements of Euro Disneyland according to the Long Term Development Strategy. As discussed above, the Company retains the flexibility to change the Long Term Development Strategy and the designs for Phase 1B in response to future conditions. Table 15.A2 summarizes the principal components of the development plan.

TABLE 15.A2 Planned development of Euro Disneyland

	Phase 1A	Phase 1B	Long-term development	Total
Theme parks	1	–	1	2
Hotel capacity (rooms)	500	4,700	13,000	18,200
Camping ground (campsite plots)	595	–	1,505	2,100
Entertainment center (sq. meters)	–	22,000	38,000	60,000
Offices (sq. meters)	–	30,000	670,000	700,000
Corporate park (sq. meters)	–	50,000	700,000	750,000
Golf courses		1	1	2
Single-family homes	–	570	1,930	2,500
Retail shopping center (sq. meters)	–	–	95,000	95,000
Water recreation area	–	–	1	1
Multi-family residence	–	–	3,000	3,000
Time-share units	–	–	2,400	2,400

SOURCE: EURO DISNEYLAND SCA ABRIDGED OFFERING CIRCULAR.

In addition, the model is based on other assumptions developed by the Company in light of Disney's experience with existing theme parks and resorts, after taking into account analyses of local market conditions and an assessment of likely future economic, market, and other factors. The major assumptions have been reviewed by Arthur D. Little International, Inc. ("ADL"), the independent consultancy firm retained by the Company to test and verify their reasonableness. Set out at the end of "The financial model" is a letter from ADL regarding its reports. While the Company believes that the assumptions underlying the model are reasonable, there is no certainty that the projected performance of the Company outlined below will be achieved.

Principal Assumptions and Rationale Underlying the Financial Model

Theme Park Attendance To project the number of visitors expected to visit the Euro Disneyland theme parks, several internal and external studies were commissioned. The most recent of these studies was undertaken by ADL in 1989 to verify and confirm the methods and assumptions used in the previous studies, and to make its own estimates of attendance.

The Magic Kingdom The model assumes that the Magic Kingdom will be constructed as described in this document, and that it will open and be fully operational by April 1992.

Summary figures for assumed attendance at the Magic Kingdom are shown in the table below. Attendance is measured in terms of the total numbers of daily guest visits per annum. For example, a visitor who enters a theme park on three separate days will count as three daily guest visits.

	1992	1996	2001	2011
Magic Kingdom (in millions of persons)	11.0	13.3	15.2	16.2

The assumed attendance of 11 million for the first full year of operation of the Magic Kingdom is in line with the average attendance achieved in the first year of operation of the Magic Kingdom theme parks in Florida and Japan, and is below the range of potential initial attendance estimated to be between 11.7 and 17.8 million in the attendance study conducted by ADL. Depending on its seasonal distribution, the higher end of the range could require acceleration of the attraction investment program. ADL concluded that the attendance target of 11 million could be achieved if the development program envisaged for Phase 1A is accomplished and a well-conceived marketing campaign tailored to European patterns is carried out to support the opening of the Magic Kingdom.

Attendance at the Magic Kingdom is assumed to grow over the period covered by the financial model at an average compound rate of 2% per annum. This growth rate compares with an average growth rate of 3.8% per annum for the three Magic Kingdom theme parks in California, Florida and Japan.

The assumed growth rate, which is higher in early years, consists of a basic growth rate, adjusted for the effect of the addition of new attractions every two to three years and for the effect of the opening of a second theme park. The overall assumed growth rate is broken down as follows:

Years	2–5	6–10	11–20	20+
Annual growth (%)	4.9	2.7	0.6	0.0

The method used by ADL involved three steps: first, individual target markets were identified by distance and population: second, penetration rates (the percentage of the total population in a target market which visits the theme park) were estimated for each target market; and third, the average number of annual visits per guest from each target market was estimated.

ADL noted that a number of factors, including the following, contribute to the high attendance levels at Disney-designed theme parks:

- The design and scope of a Magic Kingdom theme park are such that a complete visit requires more than one full day. This means that visitors are likely either to extend their stay or to return at a future date.
- The quality and capacity available at Disney hotels allow the demand for longer stays to be satisfied.
- The level of recognition of the Disney name and the quality of the experience make Disney theme parks popular holiday destination resorts.

In the opinion of ADL these factors distinguish Disney-designed theme parks from existing theme parks and amusement parks in Europe, which are much smaller and are basically designed for single-day visits. Accordingly, in determining potential penetration rates and the number of annual visits per guest to derive projected attendance levels at Euro Disneyland, ADL relied largely on the experience at Disney-designed theme parks.

ADL concluded that because of the large number of people living within a convenient traveling distance of Euro Disneyland, the assumed attendance figures in the model could be achieved with market penetration rates at or below those experienced at other Disney-designed theme parks.

The Company believes that these factors will exist at Euro Disneyland and will support the assumed penetration rates and attendance levels, which are consistent with those experienced at Disney-designed theme parks. The Company also believes that the location of the site at the center of an area of high population density with well-developed transport links will enable Euro Disneyland to draw visitors from both local and more distant markets.

Second Theme Park The model assumes that a second theme park will be completed and will open to the public in the spring of 1996. Summary figures for assumed attendance at the second theme park are as follows:

	1992	1996	2001	2011
Second theme park (in millions)	–	8.0	8.8	10.1

Attendance at the second theme park is assumed to grow at an average compound rate of 2% per annum over the first ten years, and 1% per annum for the next ten years until 2016. These assumptions are primarily based on Disney's experience of opening a second theme park at Walt Disney World, where EPCOT Center drew attendance of over 11 million guest visits in its first year of operation.

Per Capita Spending Theme parks derive their revenues principally from admission charges, sales of food and beverages consumed by visitors while at the park, and from sales of merchandise available at the park's shopping facilities. Revenues from these sources are measured in terms of *per capita* expenditure, which is the average sum spent per daily guest visit.

The Company has assumed *per capita* expenditure figures separately for the two theme parks under the four categories below:

	Magic Kingdom		Second theme park	
	Amount in 1988 FF[a]	Annual growth rate	Amount in 1988 FF[a]	Annual growth rate
Admissions	137.6	6.5%	137.6	6.5%
Food and beverage	56.7	5.0%	53.2	5.0%
Merchandise	74.9	5.0%	46.5	5.0%
Parking and other	5.2	5.0%	5.2	5.0%

[a] Excluding value-added tax.

The assumed real growth rate of admission prices of 1.5% per annum is less than the average 2.6% experienced at the Disney theme parks since 1972.

The *per capita* spending assumptions are based on experience in theme parks designed by Disney, adjusted for local conditions. A separate report on *per capita* spending was undertaken by ADL. To evaluate the reasonableness of the assumed admission prices, ADL reviewed the admission prices charged in Paris for major attractions which could be considered competitive in terms of entertainment value and also the prices charged by European theme and amusement parks. These reviews showed that the assumed admission prices for Euro Disneyland, although higher than those charged at other European theme and amusement parks, (i) could be considered low when related to prices charged in the Paris region for quality adult-oriented entertainment, and (ii) appeared in tune with prices charged for other family-oriented attractions. ADL concluded that the Company's assumed admission prices were justified, having regard for the destination resort features of Euro Disneyland and the high quality of its entertainment.

To evaluate the reasonableness of the assumed prices for food and beverages at Euro Disneyland, ADL analyzed the prices paid by residents of, and tourists to, Paris in those areas that were particularly attractive to visitors. ADL also examined food and beverage prices at other European theme and amusement parks and reviewed typical food and beverage expenditure patterns in France as compared with the United States. ADL concluded that Euro Disneyland's assumptions concerning food and beverage expenditure were reasonable.

ADL determined, in the case of assumed merchandise sales, that there was no comparable experience in the Paris region of small, high-intensity retail shops, exposed to a high volume of visitor traffic, as are found at Disney-designed theme parks. ADL accordingly concluded that it was reasonable to forecast Euro Disneyland's retail sales revenue on the basis of that at other Disney theme parks.

Revenues Total revenues projected in the financial model for the two theme parks are summarized in the table below (in FF millions):

	1992	1996	2001	2011
Magic Kingdom				
Admissions and parking	1,909	2,981	4,664	9,314
Food, beverage and merchandise	1,759	2,692	4,065	7,401
Participant fees and other	229	303	417	421
Second theme park				
Admissions and parking	–	1,788	2,697	5,794
Food, beverage and merchandise	–	1,178	1,660	3,107
Participant fees and other	–	162	208	412

The first two categories of projected revenues are based on the attendance and *per capita* spending assumptions described above. Projected Participant fees are based on the assumption that approximately ten Participant contracts will have been signed by the opening of the Magic Kingdom. Four contracts have been signed, each with a term of at least ten years.

Operating Expenses The principal operating expense assumptions are based on the following estimates:

Labor costs (including related taxes) have been estimated on the basis of experience at Disney parks, adjusted to the conditions of the French labor market. They include a premium on operating labor rates of approximately 10% over the market average, intended to attract high-quality personnel. On this basis, it has been assumed that gross operating labor costs will be FF424 million for the Magic Kingdom and FF232 million for the second theme park (measured in 1988 French francs) in the respective opening years of these parks and that they will increase at the rate of inflation, taking into account increased employment associated with higher attendance levels. Cost of sales has been estimated on the basis of experience at Disney parks, adjusted to reflect factors specific to Euro Disneyland. The assumptions are:

	Cost of sales (% of revenue)
Magic Kingdom	
Merchandise	40–43[a]
Food and beverage	31
Second theme park	
Merchandise	41.5
Food and beverage	31

[a] Declining from 43% in 1992 to 40% in 1996 and thereafter.

Other operating expenses have similarly been based on Disney experience, adjusted to reflect local market conditions. Individually they are assumed to be as follows:

- maintenance expenses:
  - Magic Kingdom: 6% of revenues
  - Second theme park: 6.5% of revenues
- general and administrative expenses (which include marketing, legal, finance and data processing):
  - Magic Kingdom: 14% of revenues
  - Second theme park: 16% of revenues
- property and business taxes, which have been estimated according to the French tax regime
- the base management fee.

Operating Income Operating income is the difference between revenues and operating expenses, but before royalties, financing costs and interest income, depreciation and amortization, lease expense, management incentive fees, and income taxes. The summary table below shows the operating income projected by the financial model for the two theme parks:

	1992	1996	2001	2011
Magic Kingdom (in FF millions)	1,603	2,773	4,226	8,006
Second theme park (in FF millions)	–	1,334	1,921	4,293
Total	1,603	4,107	6,147	12,299

Cost of Construction The cost of construction of the Magic Kingdom is assumed to be FF9.5 billion and the total cost of Phase 1A is assumed to be FF14.9 billion, in accordance with the estimated cost for Phase 1A. The construction cost of the second theme park has been assumed to be FF5.9 billion, with construction and related expenditures being incurred equally in 1994 and 1995. The construction cost of the second theme park has been estimated on the basis of Disney's direct experience of recent theme park construction, notably in completing the Disney-MGM Studios Theme Park within Walt Disney World. The construction cost of that theme park was then adjusted for capacity considerations, inflation, and the construction cost differential between Florida and the Paris region.

Table 15.A3 summarizes Walt Disney Company's financial results during 1984–8.

TABLE 15.A3 Summary of Walt Disney Company financial results, 1984–8 (US$ millions)

	1984	1985	1986	1987	1988
Revenue					
Theme parks and resorts	1,097.4	1,257.5	1,523.9	1,834.2	2,042.0
Filmed entertainment	244.5	320.0	511.7	875.6	1,149.2
Consumer products	109.7	122.6	130.2	167.0	247.0
Operating income					
Theme parks and resorts	185.7	255.7	403.7	548.9	564.8
Filmed entertainment	2.2	33.7	51.6	130.6	186.3
Consumer products	53.9	56.3	72.4	97.3	133.7
Net income	97.8	173.5	247.3	444.7	522.0

SOURCE: THE WALT DISNEY COMPANY ANNUAL REPORTS.

Appendix 2
Excerpt from Walt Disney 1994 Annual Report

Investment in Euro Disney

1994 vs. 1993 The Company's investment in Euro Disney resulted in a loss of $110.4 million in 1994. The loss consisted of a $52.8 million charge recognized in the third quarter as a result of the Company's participation in the Euro Disney financial restructuring, and the Company's equity share of fourth quarter operating results. The prior year's loss reflected the Company's equity share of Euro Disney's operating results and a $350.0 million charge to fully reserve receivables and a funding commitment to Euro Disney, partially offset by royalties and gain amortization related to the investment. The funding commitment was intended to help support Euro Disney for a limited period, while Euro Disney pursued a financial restructuring.

A proposed restructuring plan for Euro Disney was announced in March 1994. During the third quarter of 1994, the Company entered into agreements with Euro Disney and the Euro Disney lenders participating in the restructuring (the "Lenders") to provide certain debt, equity and lease financing to Euro Disney.

Under the restructuring agreements, which specify amounts denominated in French francs, the Company committed to increase its equity investment in Euro Disney by subscribing for 49% of a $1.1 billion rights offering of new shares; to provide long-term lease financing at a 1% interest rate for approximately $255 million of theme park assets; and to subscribe, in part through an offset against fully reserved advances previously made to Euro Disney under the Company's funding commitment, for securities reimbursable in shares with a face value of approximately $180 million and a 1% coupon. In addition, the Company agreed to cancel fully reserved receivables from Euro Disney of approximately $210 million, to waive royalties and base management fees for a period of five years and to reduce such amounts for specified periods thereafter, and to modify the method by which management incentive fees will be calculated. During the fourth quarter of 1994, the financial restructuring was completed and the Company funded its commitments.

In addition to the commitments described above, the Company agreed to arrange for the provision of a ten-year unsecured standby credit facility of approximately $210 million on request, bearing interest at PIBOR. As of September 30, 1994, Euro Disney had not requested that the Company establish this facility.

As part of the restructuring, the Company received ten-year warrants for the purchase of up to 27.8 million shares of Euro Disney at a price of FF40 per share. The terms of the restructuring also provide that, in the event that Euro Disney decides to launch the second phase of the development of its theme park and resort complex, and commitments for the necessary financing have been obtained, the Company will be entitled to a development fee of approximately $225 million. On receipt of the development fee, the Company's entitlement to purchase Euro Disney shares by exercise of the warrants described above will be reduced to 15 million shares.

In connection with the restructuring, Euro Disney Associes SNC ("Disney SNC"), an indirect wholly owned affiliate of the Company, entered into a lease arrangement (the "Lease") with the entity (the "Park Financing Company") which financed substantially all of the Disneyland Paris theme park assets, and then entered into a sublease agreement (the "Sublease") with Euro Disney. Under the Lease, which replaced an existing lease between Euro Disney and the Park Financing Company, Disney SNC leased the theme park assets of the Park Financing Company for a noncancelable term of 12 years. Aggregate lease rentals of FF10.5 billion ($2.0 billion) receivable from Euro Disney under the Sublease, which has a 12-year term, will approximate the amounts payable by Disney SNC under the Lease.

At the conclusion of the Sublease term, Euro Disney will have the option to assume Disney SNC's rights and obligations under the Lease. If Euro Disney does not exercise its option, Disney SNC may continue to lease the assets, with an ongoing option to purchase them for an amount approximating the balance of the Park Financing Company's outstanding debt. Alternatively, Disney SNC may terminate the Lease, in which case Disney SNC would pay the Park Financing Company an amount equal to 75% of its then-outstanding debt, estimated to be $1.4 billion; Disney SNC could then sell or lease the assets on behalf of the Park Financing Company to satisfy the remaining debt, with any excess proceeds payable to Disney SNC.

As part of the overall restructuring, the Lenders agreed to underwrite 51% of the Euro Disney rights offering, to forgive certain interest charges for the period from April 1, 1994 to September 30, 2003, having a present value of approximately $300 million, and to defer all principal payments until three years later than originally scheduled. As consideration for their participation in the financial restructuring, Euro Disney issued to the Lenders ten-year warrants for the purchase of up to 40 million shares of Euro Disney stock at a price of FF40 per share.

Euro Disney has reported that it expects to incur a loss in 1995, which will have a negative impact on the Company's results. The impact on the Company's earnings, however, will be reduced as a result of the sale by the Company in October 1994 of approximately 75 million shares, or 20% of its investment in Euro Disney, to Prince Alwaleed Bin Talal Bin Abdulaziz Al Saud. The sale will reduce the Company's ownership interest in Euro Disney to approximately 39%. Beginning in 1995, the Company will record its equity share of Euro Disney's operating results based on its reduced ownership interest. The Company has agreed, so long as any obligations to the Lenders are outstanding, to maintain ownership of at least 34% of the outstanding common stock of Euro Disney until June 1999, at least 25% for the subsequent five years, and at least 16.67% for an additional term thereafter.

1993 vs. 1992 The Company's investment in Euro Disney resulted in a loss of $514.7 million in 1993, including the charge referred to below, after being partially offset by royalties and gain amortization related to the investment. The operating results of Euro Disney were lower than expected, due in part to the European recession which affected Euro Disney's largest markets.

During 1993, Euro Disney, its principal lenders, and the Company began exploring a financial restructuring for Euro Disney. The Company agreed to help fund Euro Disney for a limited period, to afford Euro Disney time to pursue the financial restructuring. The operating results for the fourth quarter and the year, and the need for a financial restructuring, created uncertainty regarding the Company's ability to collect its current receivables and to meet the funding commitment to Euro Disney. Consequently, the Company recorded a charge of $350.0 million in the fourth quarter to fully reserve its current receivables and funding commitment.

In 1992, the Company's investment in Euro Disney contributed income of $11.2 million. Although Euro Disney incurred a loss in 1992, the Company's 49% share of the net loss was offset by royalties and gain amortization related to the investment.

Source: Walt Disney Annual Report, 1994.

Notes

1 "Euro Disney," *Financial Times*' Lex column, October 30, 1996.
2 "Disney Goes to Tokyo," in D. Ancona, T. Kochan, M. Scully, J. Van Maanen, and E. Westney, *Organizational Behavior and Processes*. Cincinnati, OH: Southwestern College Publishing, 1999, pp. M-10, 25.
3 The conversion factors used in the case are: 1 hectare = 2.47 acres, and 1 acre = 4,047 square meters. The US dollar/French franc exchange rates at the beginning of each year were: 1987 6.35, 1988 5.36, 1989 6.03, 1990 5.84, 1991 5.08, 1992 5.22, 1993 5.59, 1994 5.93.
4 "Euro Disney" is used to refer to the Euro Disneyland theme park: "Euro Disneyland SCA" or "the company" refers to the company that owns Euro Disney.
5 "The Euro Disneyland Project – Project Financing: Asset-Based Financial Engineering," Case Study: John D. Finnery, © 1996 by John D. Finnery, John Wiley & Sons.

6 "No magic in these kingdoms," *Los Angeles Times*, December 15, 1989.
7 "Disneyland goes to Europe," in Ancona, Kochan, Scully, Van Maanen, and Westney, *Organizational Behavior and Processes*, op. cit. pp. 38–9.
8 Ibid., p. 15.
9 From Jacques Neher, "France amazed, amused by Disney dress code," *The New York Times*, October 5, 1995.
10 *Euro Disney: the First 100 Days*, Harvard Business School Case No. 9-693-013, 1993, p. 14.