

FRANCE

# A nightmare in Disneyland

Shareholders say the French company would make money if U.S.-based Walt Disney wasn't siphoning off so much of its cash.

BY NICHOLAS VINOCCUR AND  
ALEXANDRIA SAGE



## FRANCE NIGHTMARE IN DISNEYLAND

PARIS, FEBRUARY 2, 2015

**W**hen Edith Zemirou bought Euro Disney stock two decades ago, she expected a decent return and her own small share in Mickey Mouse magic.

In 1989, the Walt Disney Company announced a public share offering of its young European arm. It was the continent's largest-ever IPO to that point and analysts said Euro Disney stock promised "good long-term returns."

Zemirou bought in, and has regretted it ever since. Her original 1992 investment would have lost 95 percent of its value by now. "It's too bad they didn't give us paper share certificates," said the grandmother and former high school principal, who still has 100 shares worth about 3 euros (\$3.4) each. "At least we could have framed them, as souvenirs."

Zemirou says she feels duped. She heads Euro Disney's investor club and is one of 1,000 or so investors who are furious at the way Euro Disney, which is raising fresh capital in the face of insolvency, has been run. The Paris-listed firm has recorded losses in 16 of its 23 years, despite owning Europe's top tourist destination with about 14 million visitors per year.

Euro Disney managers say the firm has struggled because initial projections were too optimistic and the park borrowed too heavily. They also blame a lack of visitors, Europe's weak economy and, in many years, guests who spend too little on food and merchandise.

Shareholders do not dispute there are difficulties, but point to another factor: U.S.-based Walt Disney Company, which owns 40 percent of Euro Disney, extracts tens of millions of euros annually from the European firm by charging it a host of fees and royalties for everything from operating a call centre to the use of intellectual property.

Those charges cost Euro Disney around 10 percent of its annual revenue — too much, shareholders say, for it to become profitable.



CAKE TIME: Disneyland Paris celebrated its 20th anniversary (above and on cover) in 2012. Euro Disney shareholders like Edith Zemirou say Walt Disney has made money while they lost up to 95 percent of their investments. The company rejects that claim. **REUTERS/BENOIT TESSIER (2);**

**CHARLES PLATIAU**



“It's too bad they didn't give us paper share certificates. At least we could have framed them, as souvenirs.”

**Edith Zemirou**  
Shareholder

As evidence, they point out that all the years the European firm did turn a profit for shareholders were between 1995 and 2001, a period when Walt Disney Company had suspended most of its charges.

Euro Disney Chief Financial Officer Mark Stead rejects the complaint. Fees, he said, are priced at “market rates” or lower. He pointed to similar fees for Tokyo Disneyland which amount to about 7 percent of its revenue. Disney, which does not own Tokyo Disneyland, would not suspend such charges if a retailer selling its branded

products fell on hard times, for instance. Why should it for Euro Disney?

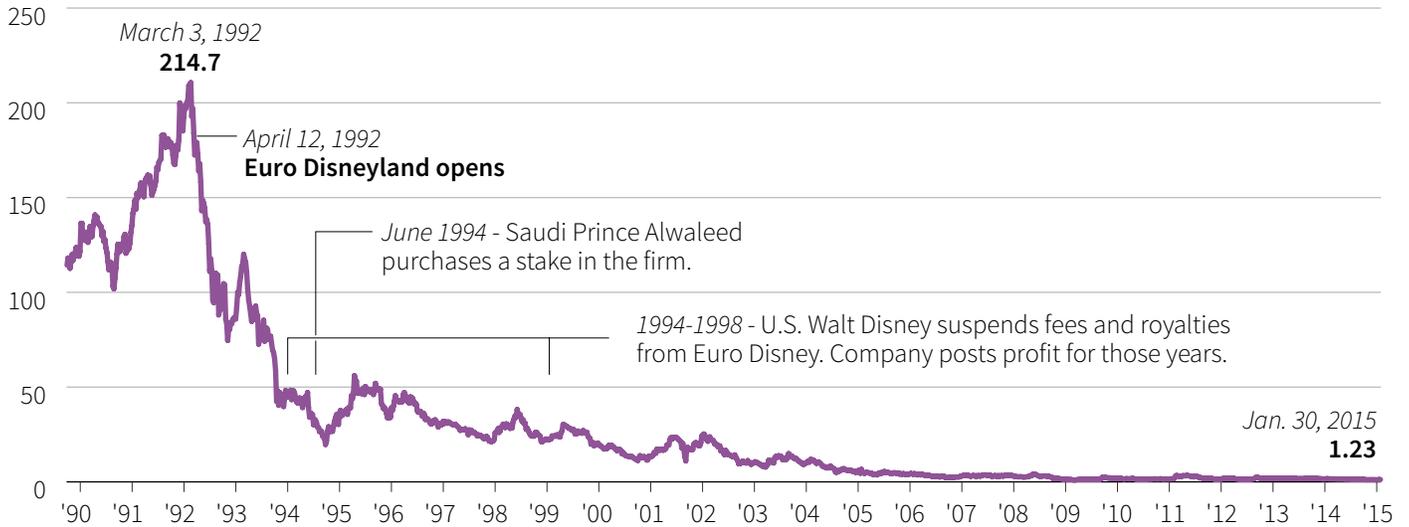
But shareholders say this argument is flawed because Disney, as part-owner of Euro Disney, has a shared responsibility in the firm's financial well-being. Yet Disney charged further fees and even raised them as Euro Disney fell on hard times.

A Disney spokeswoman said the Burbank, California-based firm had “consistently demonstrated its commitment” to supporting Euro Disney and, in addition to waiving fees in the mid-1990s, had

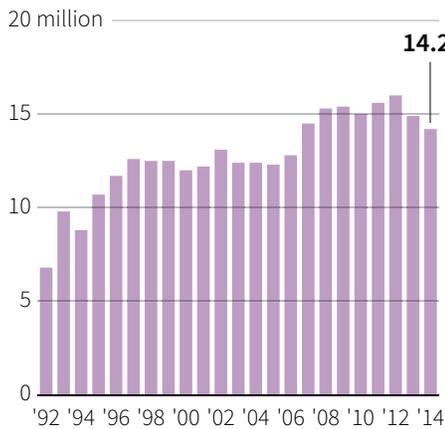
# Euro Disney

Despite owning a theme park which has become Europe's top tourist destination with about 14 million visitors per year, the Paris-listed company has recorded losses in 16 of its 23 years since it opened its park in 1992.

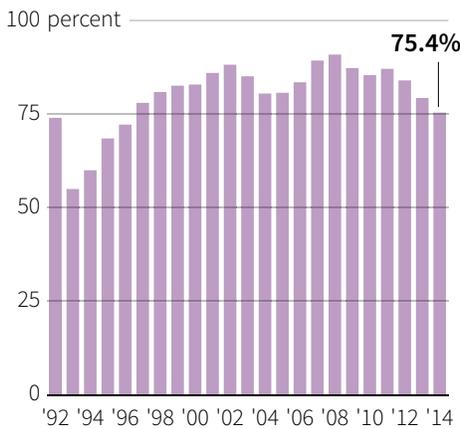
## Share price - in Euro



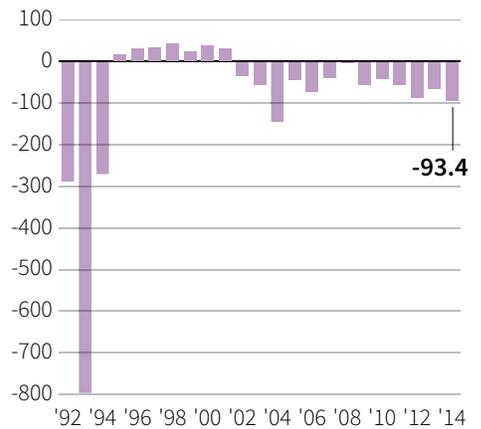
## Theme park attendance



## Hotel occupancy rate



## Net income/loss - in million Euro



Source: Company filings

Graphic: C.Inton/Reuters

deferred payment on some of its fees.

Multinational firms regularly shift revenue between different divisions to minimise the taxes they have to pay. In Euro Disney's case, finance experts and shareholders argue that such transfers have been used primarily to channel revenue to one

dominant shareholder over others. Those transfers, as well as management mistakes, have led to under-investment in the French theme park, some shareholders say, hurting visitors' experience.

Broken-down rides, hotels needing renovation, long queues at restaurants and

shortened opening hours have dragged down visitor satisfaction, company documents show.

Euro Disney acknowledges the need for new investment. It won shareholder approval on Jan. 13 for a recapitalisation plan to cut debt, renovate the park and set it on

a firmer financial footing. The Walt Disney Company, which purchased Euro Disney's debt load from French banks in 2012, says it aims to reduce the 1.7-billion-euro debt to about 1 billion euros and improve Euro Disney's cash position by about 250 million euros.

Virginie Calmels, head of Euro Disney's supervisory board, told shareholders that the strategy would "finally put the firm on the path to profitability."

But some shareholders – there are around 56,000 – no longer trust such assurances.

They are angry that the operation will give the parent company up to 82 percent in Euro Disney. In addition to Disney's stake, 10 percent of Euro Disney's equity is held by Saudi Prince Al Waleed bin Talal, and 6 percent by U.S. investment firm Invesco. Both declined to comment. The rest of the equity is held by small shareholders in Europe.

Under terms laid out in a letter to investors last October, Euro Disney proposes that small shareholders triple their initial investment to keep the same stake proportionally. Alternately, they can sell purchase options for new shares and make a small gain. If they do nothing, they will lose money.

"After so many years of losses the fair thing to do would be to buy everyone out at a decent price," said shareholder Pierre-Alain Le Duc. "Instead they're taking our shares when they are close to their all-time low and securing the rest of the park's equity for a bargain."

"Last stop, everybody off - that's what they're telling us."

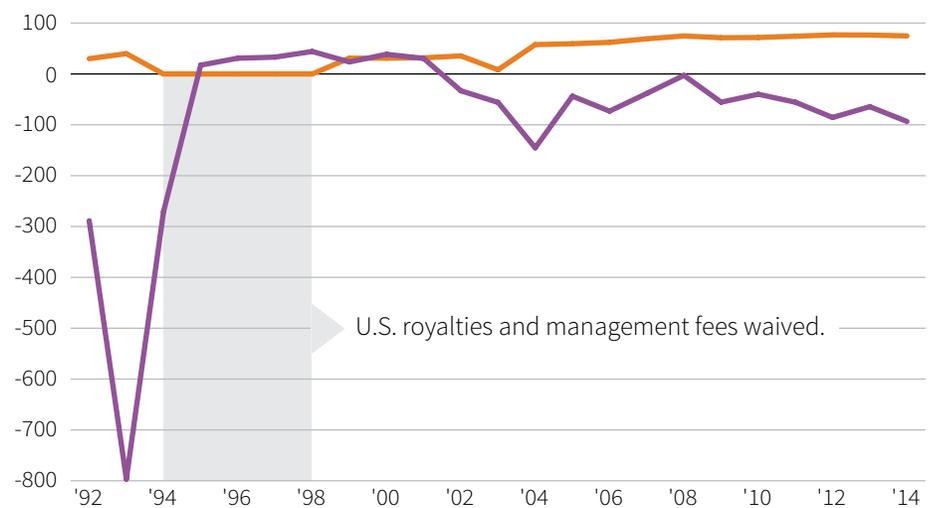
### "SHAREHOLDERS NOT THE MAIN CONCERN"

The trouble at Euro Disney stems from the firm's origins and ownership structure.

Pierre-Henri Leroy, head of the independent investment advisory firm Proxinvest, says the 1987 agreement that established Euro Disney was made to benefit Disney and the French state, whose main concern was developing a depressed

## Earnings vs royalties

in million Euros



**Management fees**, currently calculated at 1% of revenue, will rise to 3% in October 2015, then 6% in October 2018.

**Royalties** are 10% of gross revenues from rides and admissions, 5% of gross revenues from merchandise, food and drinks, 10% of fees paid by participants (companies like Coca-Cola, MasterCard and Unilever, who sponsor attractions and/or have marketing rights) and 5% of gross revenues from exploitation of hotel rooms and related revenues at certain Disney-themed accommodations. All percentages are net of taxes.

Some 285 million euros were deferred, but are still owed to Disney.

Source: Company

agricultural region east of Paris.

In this, Disney was a welcome guest. Some 55,000 jobs in the greater Paris area depend, directly or indirectly, on Euro Disney, making it the largest private employer in the Seine-et-Marne region, according to a 2012 economic study commissioned by the government. The firm has also paid 5.3 billion euros in various taxes to local and national authorities since 1992.

In return, Disney has won a foothold in Europe, a storefront for its merchandise and media properties, and prime access to 500 million consumers.

The U.S. parent company has also made money from its French adventure. Since 1992, royalty and management fees have added up to 975.69 million euros for

the Walt Disney Company, according to Reuters calculations based on financial reports. Euro Disney said 285 million euros of that was not paid as of 2014, but still owed to Disney.

Add to that other Related-Party Transactions such as those for developing and building rides, other services and financial charges, and total charges reach at least 1.481 billion euros. Most of that revenue goes to other holding firms in the Netherlands, which has a tax-friendly policy for intellectual property. Disney says such services are crucial to maintain high and consistent standards at Euro Disney.

Over the same period, Euro Disney has incurred total net losses attributable to shareholders of more than 2 billion euros. As

## FRANCE NIGHTMARE IN DISNEYLAND

a result, it has paid no corporate taxes. Even in its profitable years, Euro Disney used “tax loss carry forwards,” which allow firms that have incurred losses to avoid taxes.

The losses were almost inevitable according to Proxinvest’s Leroy, who is not a Euro Disney shareholder but advised French investment banks and corporations on the stock.

“To us it was clear from the start that this was not a good investment,” he said. “I would never have advised anyone to buy these shares because so much money was being taken out through transactions with Disney.”

An official in former Prime Minister Jacques Chirac’s government when the deal was signed said the state had imposed a shared ownership structure out of “patriotic sentiment,” and had not prioritised the protection of European shareholders.

“The shareholders were not the main concern,” said Christian Cardon, mayor of Trouville in northern France and former chief of staff for then Transport Minister Pierre Mehaignerie. Disney and the government “didn’t look too closely at the financial setup. If there had been a purely private approach... with major private shareholders, things would have been different.”

### WAITING TO PROFIT

The U.S. parent firm uses a corporate structure known as the “societe en commandite par actions,” or SCA. This set-up, used by a handful of firms in France, allows Disney to manage Euro Disney via a 100-percent-owned subsidiary. It charges what Leroy and others call “enormous” fees for Related-Party Transactions including royalties, management, development, maintenance and other services.

These services are not only expensive, but sometimes inefficient, shareholders say. Maintenance and upgrades cannot be performed on most Disney-themed rides, hotels and restaurants, without using Disney-controlled businesses. Shareholder



SMILES IN JAPAN: Tokyo Disneyland, solely owned by a Japanese firm, attracts more people and makes bigger profits. Here, Mickey Mouse poses with visitors in 2008. REUTERS/YURIKO NAKAO

Le Duc cited the example of a hotel inside Disneyland Paris. Staff there were unable to open windows because they had lost their only keys; replacements had to be ordered from the United States.

All the fees add up to around 10 percent of Euro Disney’s revenue. And that’s set to climb even further. As part of Euro Disney’s turnaround plans, one of those charges, the management fee, will rise to 6 percent on Oct. 1, 2018 from 1 percent now. Disney says this will restore it to originally planned levels.

Euro Disney Chief Financial Officer Stead said Euro Disney shareholders were aware of its fees and charges which had “always been disclosed.”

It is not uncommon for parent firms to charge their subsidiaries such fees. Disney says its royalty and management fees are priced at market rates and less than what’s charged by some other sellers of intellectual property. But some theme parks pay much less. Merlin Entertainments, which operates the Legoland park near London, for instance, paid Lego fees and royalties of around 2 percent in 2011 and 2012.

Euro Disney shareholders complain that they have held on to their stock because of repeated assurances from management that it will become profitable in the medium-term. In 2012, CEO Philippe Gas said Euro Disney was “setting the stage for sustained long-term profitability.”

When Supervisory board chief Virginie Calmels and CEO Tom Wolber presented the rescue plans in Paris this month – Calmels said Euro Disney will finally turn a profit in 2019 – guests hectored them with shouting and accusations.

### TROUBLING?

Shareholders also point to the fact that Euro Disney made money during the years Disney suspended Related-Party Transactions payments as evidence that the fees are an important cause of the theme park’s losses.

Euro Disney faced its first financial crisis just two years after opening. Walt Disney Company suspended royalty fees between 1994 and 1998, before reinstating them at half the normal rate until 2004. The firm’s profitable years came during this period. Euro Disney warned in its 1995 financial



FAIRYTALE?: Visitors at Paris Disneyland in January, the month the firm that runs it won shareholder approval for a fourth recapitalisation plan that aims to reduce debt and renovate the park. **REUTERS/GONZALO FUENTES**

report that reinstating full payment of royalties and management fees would “have a significant impact on the Group’s results of operations.”

That prediction came true. Euro Disney plunged back into the red in 2002, soon after an investment in a second park, Walt Disney Studios. The second financial crunch led to a capital-raising operation in 2004.

At that point, “they should have said: ‘either we stop these fees, or we buy back everyone’s shares at a decent price.’ But instead of that they are coming back for more money,” said Leroy. “Investors have already lost their underwear. I find it troubling.”

A Disney spokeswoman said further deferring or waiving fees would not have substantially improved Euro Disney’s liquidity situation.

Moez Bennouri, a finance professor at Rouen Business School, said one problem is that auditors often struggle to determine the market value of Related-Party Transactions. In Euro Disney’s case, all but one financial analyst has given up reporting regularly on the stock. The last to do so, financial services firm Oddo Securities, works for Euro Disney to help ensure investors can trade in the company’s shares.

A spokeswoman for Oddo said there is

a Chinese wall between its brokerage and corporate finance sections.

*Edited by Simon Robinson and Sara Ledwith*

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