

# 2017 SUMMER TRADING AND STRATEGY UPDATE

Nick Varney  
Chief Executive Officer

17 October 2017





# INTRODUCTION

## STRATEGIC STATEMENT

“To create a high growth, high return, family entertainment company based on strong brands and a global portfolio that is naturally balanced against the impact of external factors”

# WORLD OF ATTRACTIONS

## ★ NORTH AMERICA ATTRACTIONS



Arizona  
California  
Charlotte  
Dallas  
Kansas City  
Michigan  
Minnesota  
Orlando



Hollywood  
Las Vegas  
Nashville  
New York  
Orlando  
San Francisco  
Washington DC



San Francisco  
Orlando



California  
Florida



Arizona  
Atlanta  
Boston  
Chicago  
Dallas  
Kansas City  
Michigan  
Philadelphia  
Toronto  
Westchester



## ● UK ATTRACTIONS



Birmingham  
Blackpool  
Brighton  
Great Yarmouth  
Hunstanton  
Loch Lomond  
London  
Manchester  
Scarborough  
Weymouth  
and Tower



Gweek  
Oban



Blackpool  
London



Alton



Chessington



Blackpool  
Edinburgh  
London  
Warwick  
York



Warwick



Chertsey



London



Windsor



Manchester



London  
Blackpool

## ■ ASIA ATTRACTIONS



Bangkok  
Busan  
Chongqing  
Shanghai



Bangkok  
Beijing  
Chongqing  
Hong Kong  
Singapore  
Shanghai  
Tokyo  
Wuhan



Dubai  
Japan  
Malaysia



Osaka  
Shanghai  
Tokyo

## ▲ EUROPE ATTRACTIONS



Benalmadena  
Berlin  
Blankenberge  
Bray  
Gardaland  
Hannover  
Helsinki  
Istanbul  
Jesolo  
Königswinter  
Konstanz  
München  
Oberhausen  
Paris  
Porto  
Scheveningen  
Speyer  
Timmendorfer  
Strand



Amsterdam  
Berlin  
Istanbul  
Vienna



Sołtau



Billund  
Günzburg



Amsterdam  
Berlin  
Hamburg



Berlin  
Istanbul  
Oberhausen



Lake Garda



Berlin

## ◆ AUSTRALIA / NEW ZEALAND ATTRACTIONS



Auckland  
Melbourne  
Mooloolaba  
Sydney



Manly



Sydney  
Hamilton Island



Sydney



Melbourne



Sydney



Otway  
Illawarra



Mount Hotham



Falls Creek

MERLIN  
ENTERTAINMENTS



# WORLD OF ATTRACTIONS

## UK ATTRACTIONS



Birmingham  
Blackpool  
Brighton  
Great Yarmouth  
Hunstanton



Gweek  
Oban



Blackpool  
London



Alton

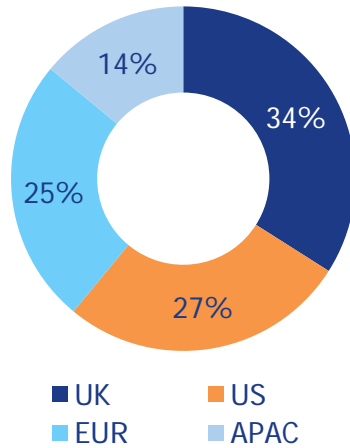


Chessington

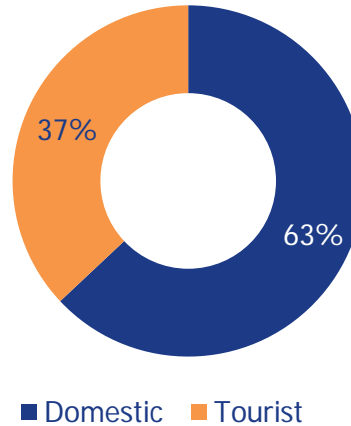


## Increasingly Diversified Asset Portfolio<sup>1</sup>

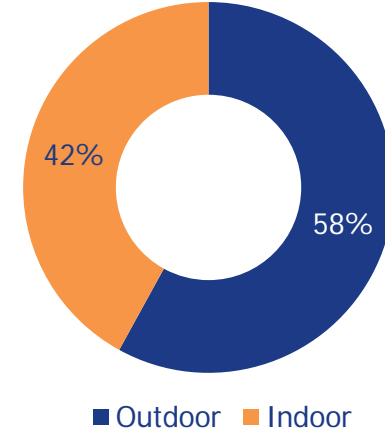
Geography



Tourist / Domestic



Weather Exposure



<sup>1</sup> – Geography and Weather split based on 2016 FY revenue. Tourist / Domestic visitor split based on touchscreen data

# SIX GROWTH DRIVERS

---

Unique international group  
operating in attractive markets  
with strong brands and clear  
structural growth drivers

1

Existing estate  
growth via capex

2

Strategic  
synergies

3

Resort  
positioning

4

Midway  
roll out

5

Developing new  
LEGOLAND parks

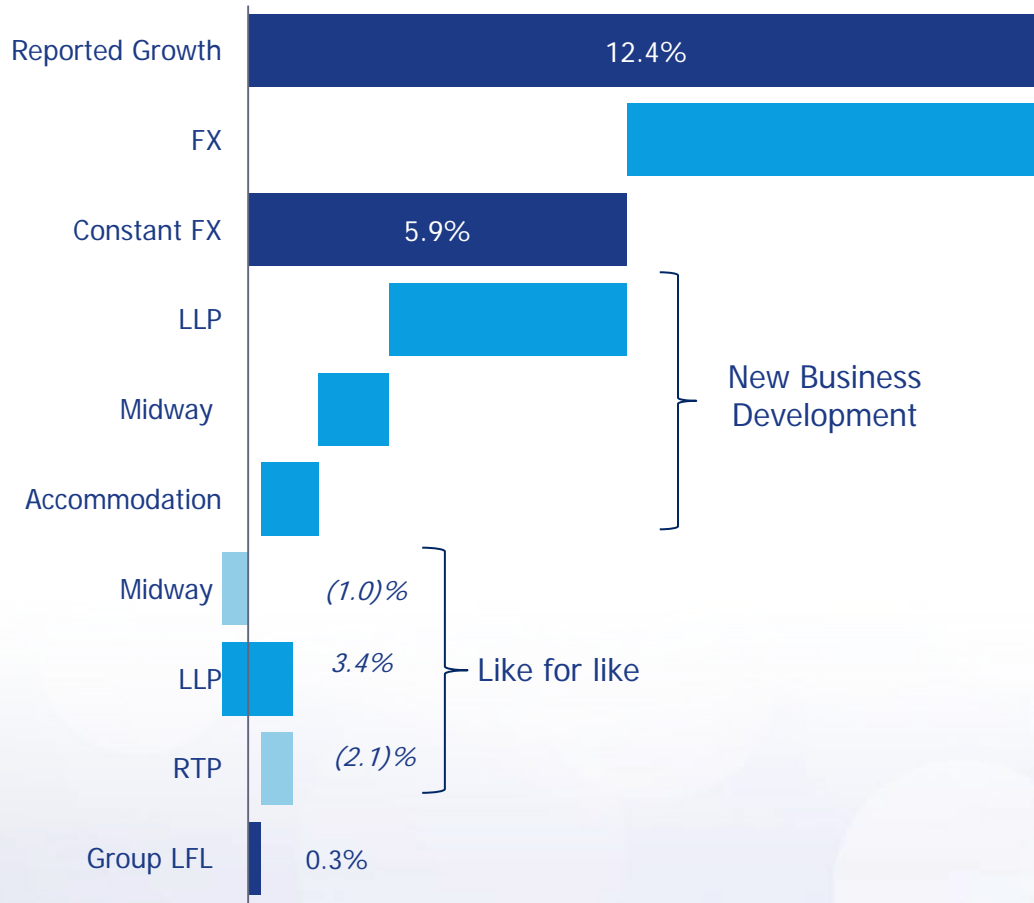
6

Strategic  
acquisitions



# TRADING UPDATE

# SUMMARY GROUP PERFORMANCE



- 12.4% total growth reflecting NBD contribution
- Strong accommodation performance
- Positive early season momentum across most attractions
- UK terror attacks pre-Easter and Whitsun represented inflection point in London and UK parks
- Pressure on LDCs from retail sales, particularly affecting Midway North America
- Peak summer trading (August/early September) impacted by extreme weather in Northern Europe, Italy and Florida



# SUMMARY GROUP PERFORMANCE



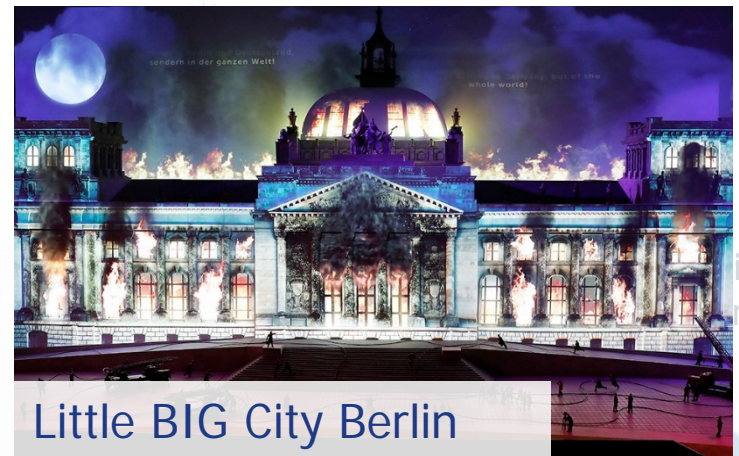
LEGOLAND Japan



CBeebies Hotel Alton Towers



MT Nashville



Little BIG City Berlin

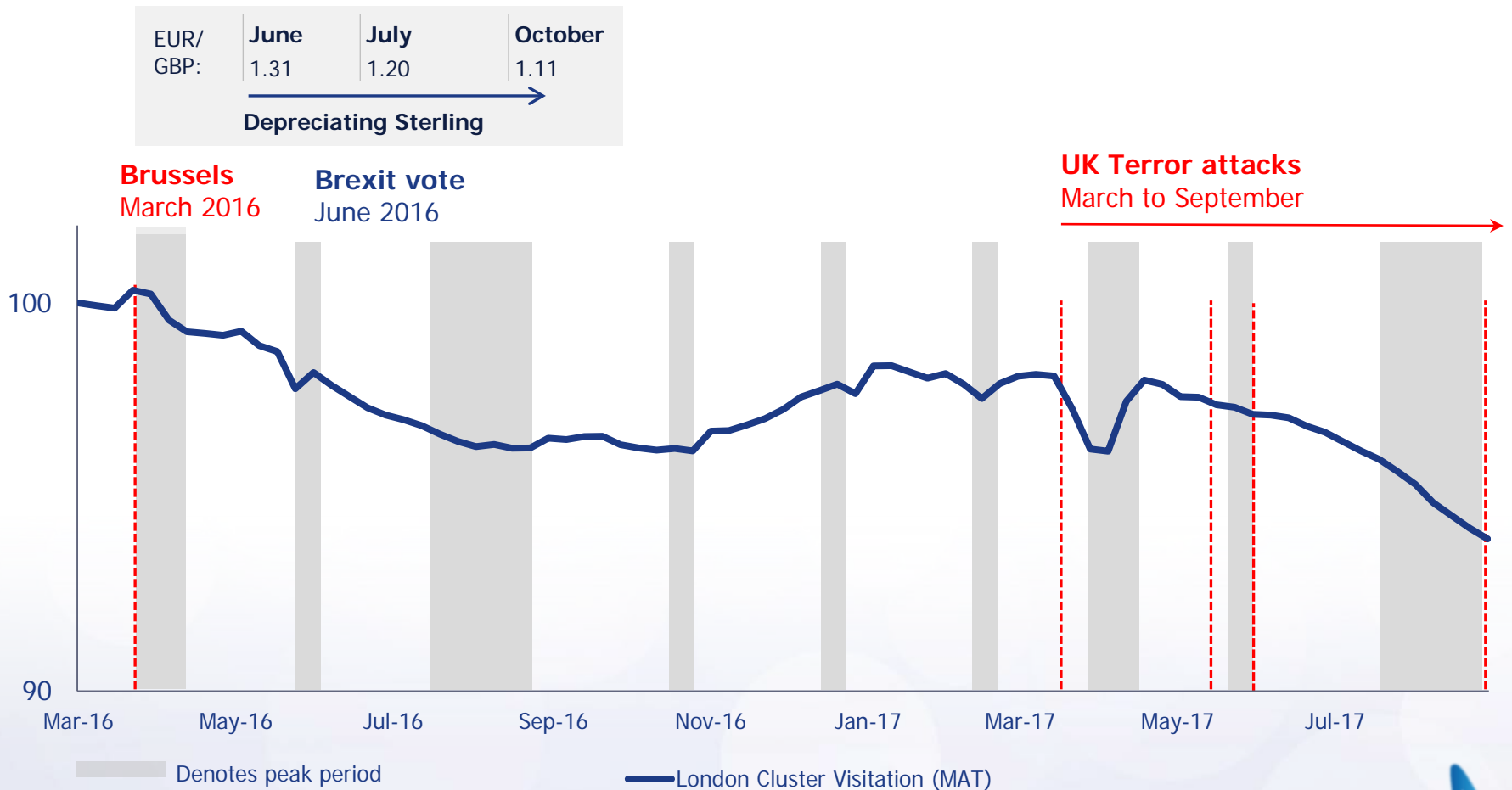
# SECURITY CONCERNS IN GATEWAY CITIES





# TERROR IMPACT ON MIDWAY LONDON

Inflection point following terror attacks; pre Easter and Whitsun

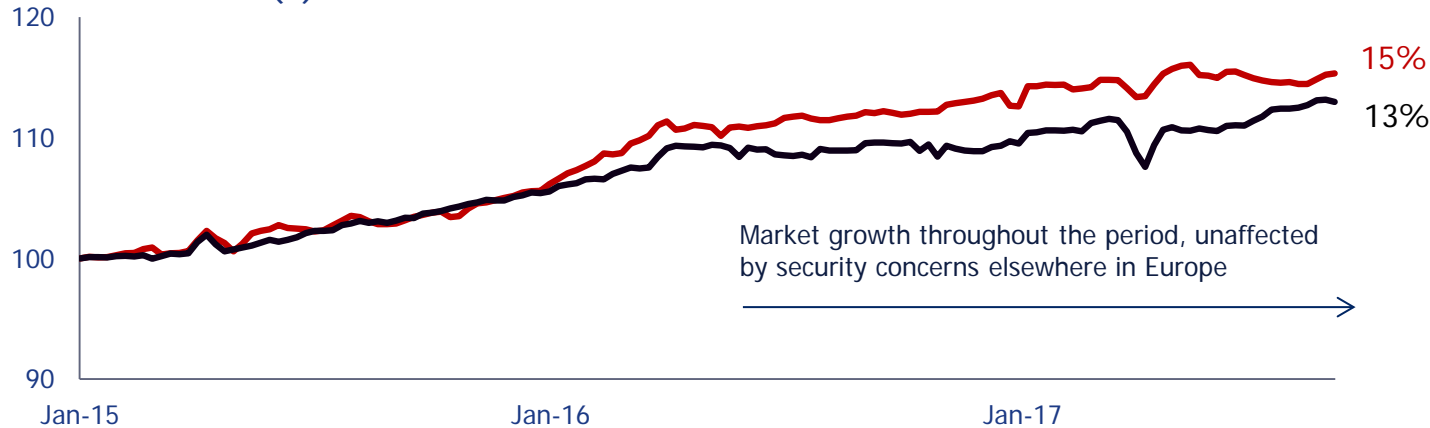


# A TALE OF FOUR CITIES AND TWO BRANDS

Performance driven by market dynamics

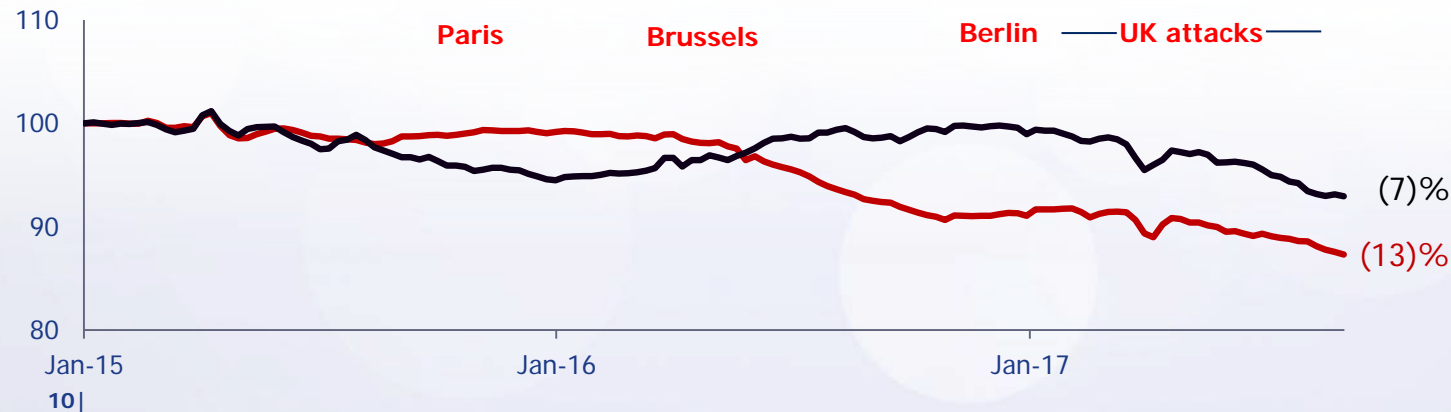
## MT Amsterdam & Edinburgh Dungeon

Visitation MAT (k)



## MT London & Berlin Dungeon

Visitation MAT (k)



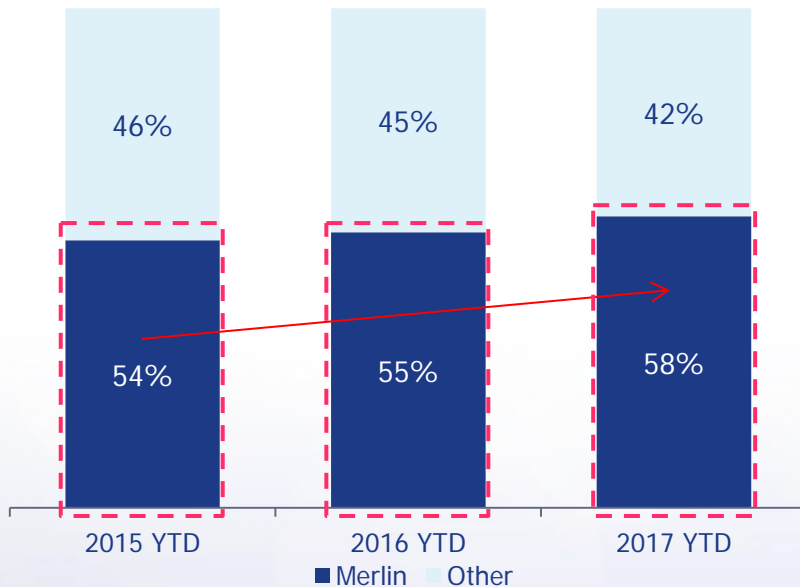


# UK RTP MARKET BACKDROP

Share gains in a difficult 2017 market

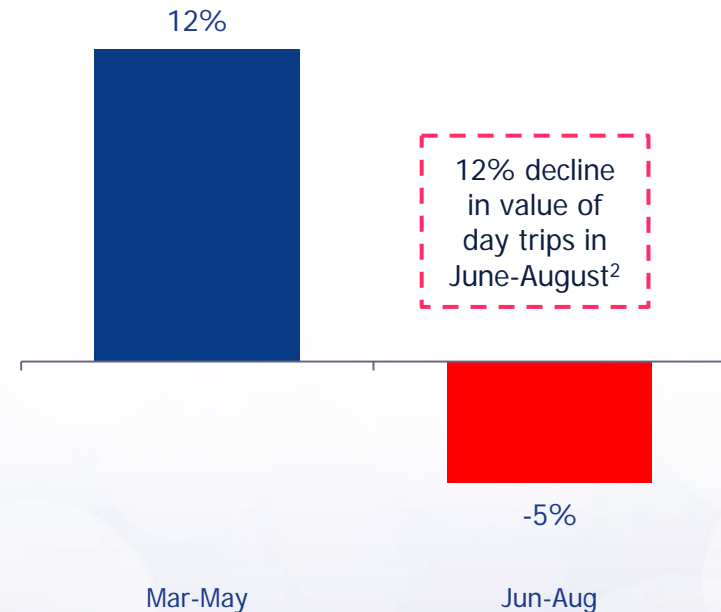
## Theme Park Market Share<sup>1</sup>

Merlin share increase of c4% vs 2015 reflecting gains at both Alton Towers and other parks



## Theme Park Market visitor growth yoy, 2017<sup>1</sup>

Strong market at the start of the year offset by terror attacks and poor weather resulting in difficult peak season trading



1 - GfK research based on visitation. Attractions comprise: Alton Towers, Chessington World of Adventures, LEGOLAND Windsor, THORPE PARK, Warwick Castle, Drayton Manor, Flamingo Land, Paultons Park, Longleat Safari and Adventure Park, Blackpool Pleasure Beach, CreaTyls, Gulliver's World, Warner Brothers Studios, Hobbledown Farm and others.

2 - VisitEngland

# SUMMARY AND 2017 OUTLOOK

---

- ✦ Challenging external conditions
- ✦ Clear inflection point after UK terror attacks
- ✦ Tight cost control ongoing



- ✦ Balance of year in line with YTD trends
- ✦ Key Halloween period remains
- ✦ 2017 EBITDA in the range of £470m to £480m



# FUTURE STRATEGY



# CONTEXT

---

- ✦ Tourism destinations clearly affected by security concerns
  - ✦ Now at the highest level of terrorist activity ever in Europe and unlikely to reduce in the foreseeable future
- ✦ Externally induced cost pressures across all countries, particularly UK

**“When you are experiencing storms, the sensible thing is to navigate around them”**

**NICK VARNEY**



# LOOKING AHEAD

Flexing the strategy 2018-2021

# LOOKING AHEAD

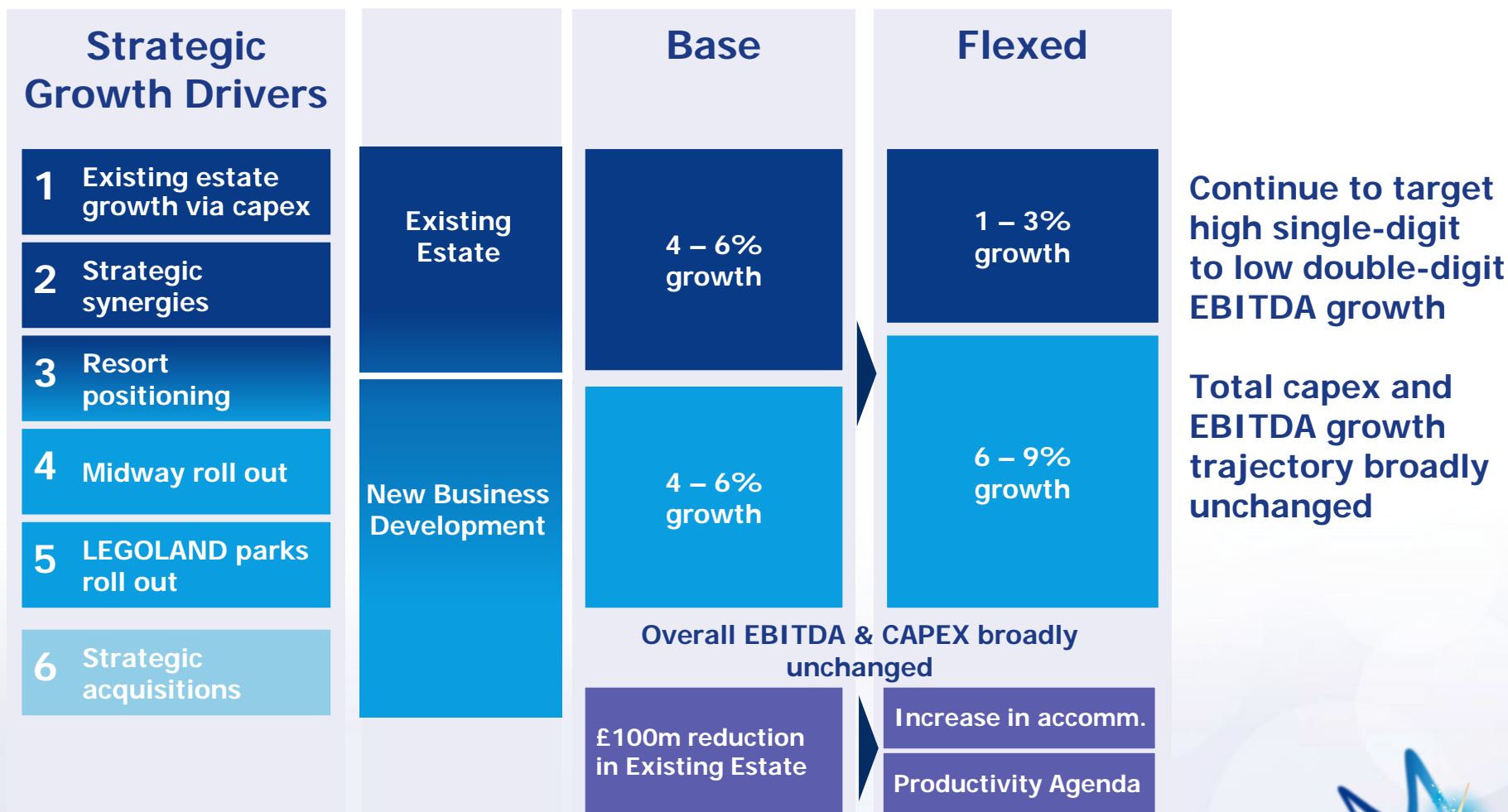
## Flexing the strategy 2018-21

---

1. Overarching strategy of geographic and brand diversification unchanged
2. Reduce capex and LFL expectation in Existing Estate, particularly in Midway. Release c£100m of capital from plan to...
3. Back the winners
  - Accommodation
  - New LEGOLAND parks
  - Midway roll out (including new brands)
4. Invest in Productivity Agenda to support LFL EBITDA

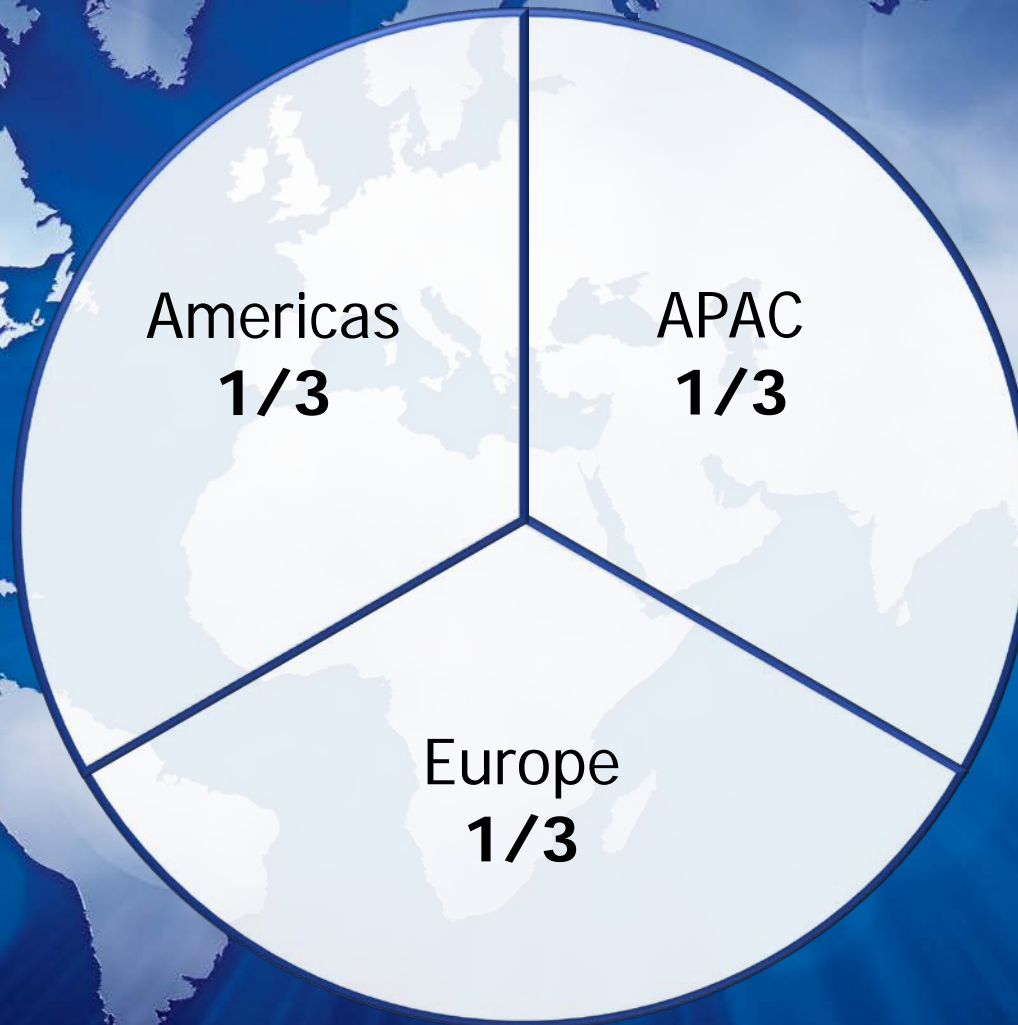


# DELIVERING LONG TERM GROWTH 2018-21



# 1. OVERARCHING STRATEGY OF GEOGRAPHIC AND BRAND DIVERSIFICATION

---

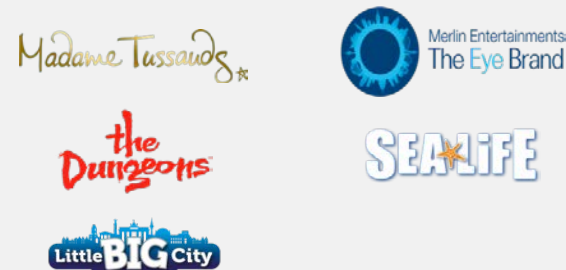


# 1. OVERARCHING STRATEGY OF GEOGRAPHIC AND BRAND DIVERSIFICATION

## Families



## City centre tourists



## Teenagers & Young adults



## Pre-school families



## Adventure/ experience seekers





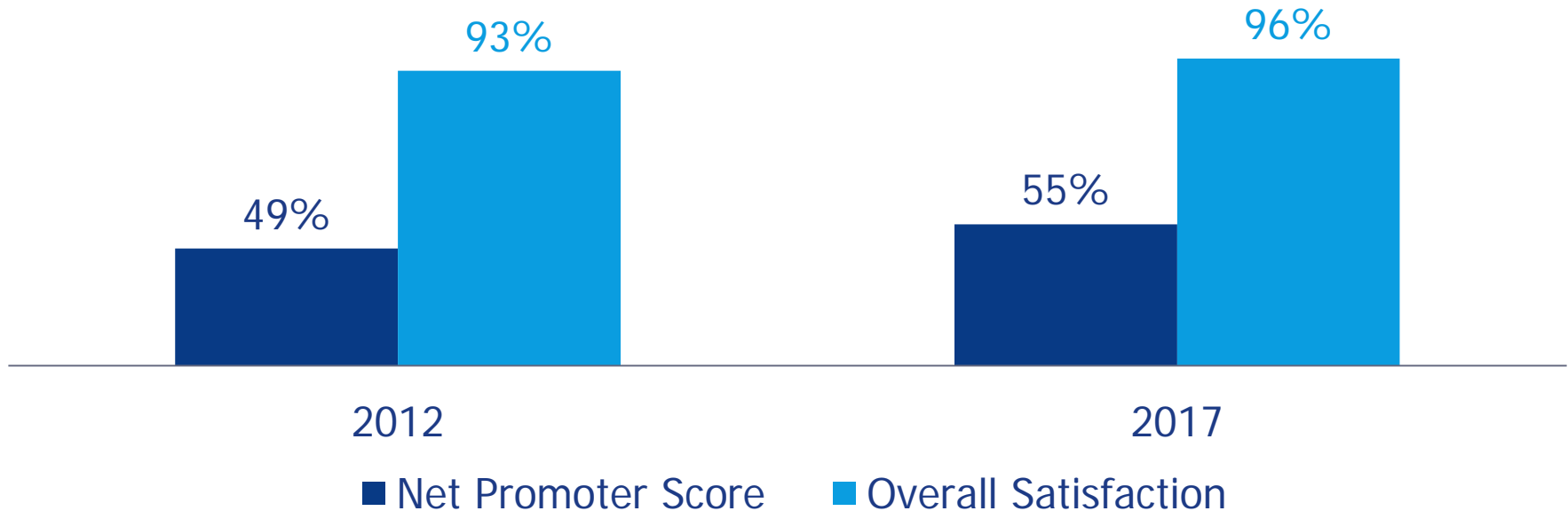
## 2. REDUCE CAPEX AND LFL EXPECTATIONS IN EXISTING ESTATE

---

- ✦ Targeting £100m cumulative saving on Existing Estate capex over 2018-21 versus plan
- ✦ Savings predominantly in Midway and RTP – focus on cash generation
- ✦ 2018 transition year due to committed spend
- ✦ 1-3% LFL EBITDA growth over 2018-21; lower end in 2018
  - ✦ Current trajectory of London trading
  - ✦ Benefit of Productivity Agenda from 2019
  - ✦ Next LEGO Movie scheduled for 2019
- ✦ Health and Safety and Repairs and Maintenance capex unaffected

## 2. REDUCE CAPEX AND LFL EXPECTATIONS IN EXISTING ESTATE

---



**Continued investment in product and focus on guest experience has resulted in growing guest KPIs**

## 2. REDUCE CAPEX AND LFL EXPECTATIONS IN EXISTING ESTATE

- ✦ Continued investment in 'show' capex in key attractions
- ✦ High year investments in LEGOLAND California and Alton Towers in 2018
- ✦ Deal signed with Warner Bros. for LEGO Movie Lands in all LEGOLAND parks from 2019 (following 'The LEGO Movie 2' planned release in Spring 2019)





### 3. BACKING THE WINNERS

Accommodation and short break opportunity

- ✦ Clear evidence to support continued investment into themed accommodation and the short break proposition (including second gates)
- ✦ Continued strong returns on both mature accommodation and recent openings
- ✦ Negligible evidence of cannibalisation of existing offerings
- ✦ Multiple concepts from glamping to chalets to 4\* hotels and luxury lodges



### 3. BACKING THE WINNERS

Accommodation and short break opportunity

**c£130m**

Capex incurred  
on openings 2012-2016<sup>1</sup>

**c£100m+**

Cumulative EBITDA  
(excluding park benefit)<sup>1</sup>

**Returns in  
excess of target**

**4%**

Accommodation  
revenue outperformance  
vs park, 2013-16

**8%<sup>2</sup>**

Satisfaction differential  
of short break guest  
vs park guest

### 3. BACKING THE WINNERS

Accommodation and short break opportunity

2016

210 rooms



2017

381 rooms



2018

642 rooms



2019 | 2020 | 2021

1,300+ rooms

#### Including

- ★ Alton Towers Barrels
- ★ Gardaland Holiday Village/ Hotel 3
- ★ LEGOLAND Billund Castle Hotel
- ★ LEGOLAND New York Hotel
- ★ LEGOLAND Florida Hotel 2
- ★ LEGOLAND Windsor Holiday Village



### 3. BACKING THE WINNERS

#### LEGOLAND park roll out

Successful roll out across the three operating models



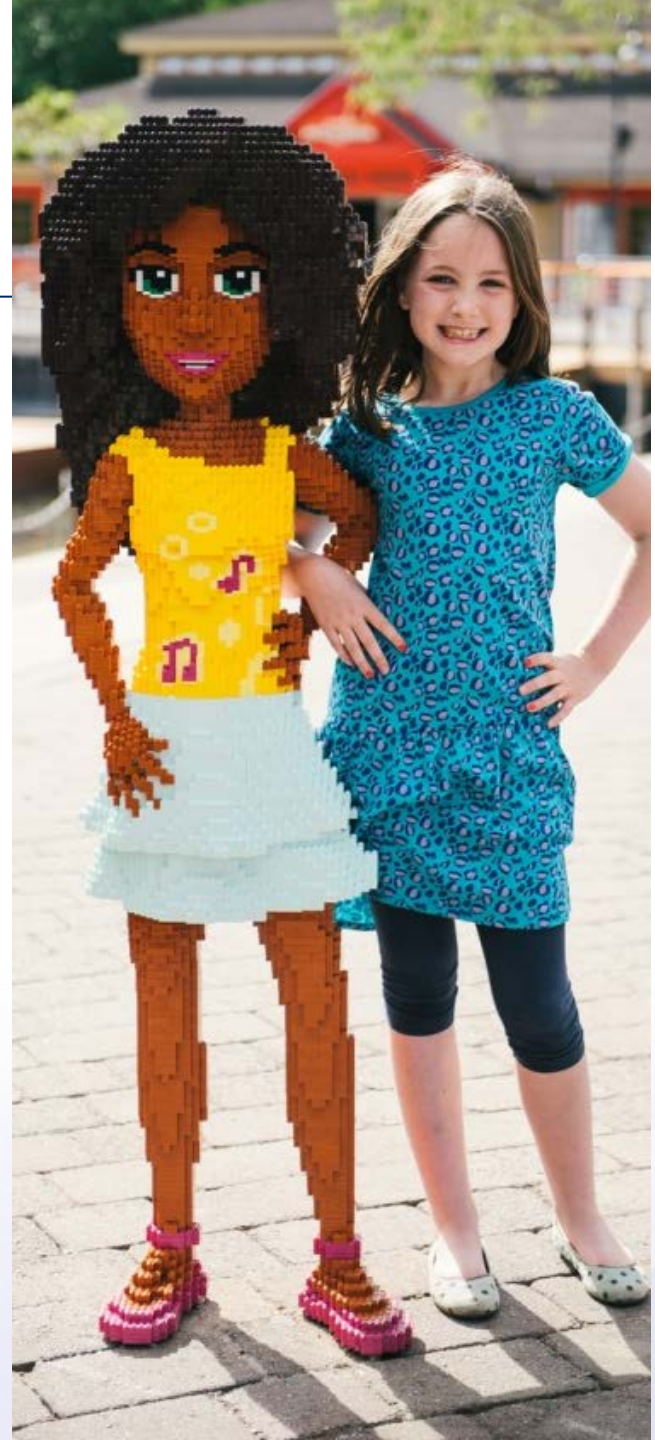
LEGOLAND Florida, Malaysia and Dubai combined capex<sup>1</sup>

c£160m

LEGOLAND Florida, Malaysia and Dubai cumulative EBITDA to date<sup>1</sup>

£200m+

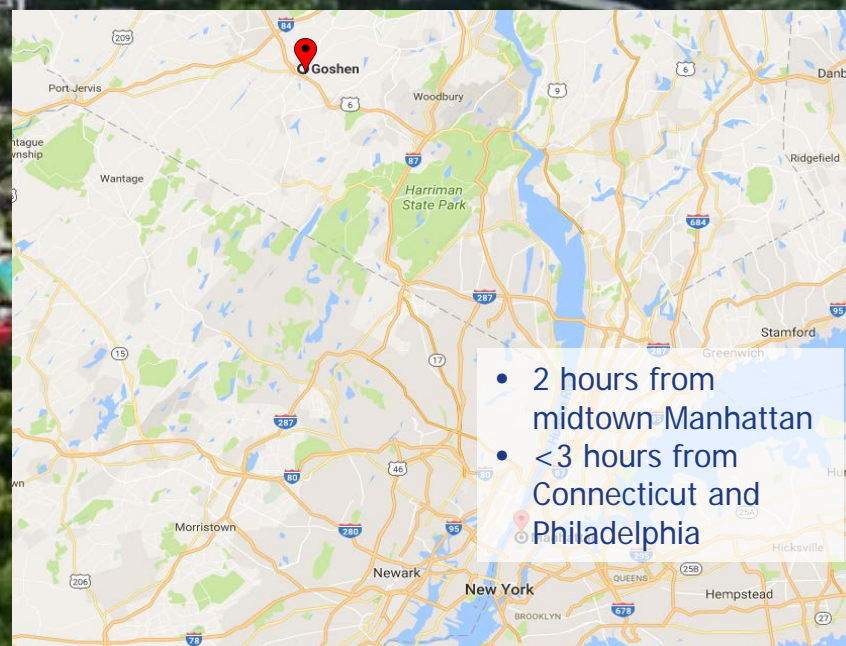
LEGOLAND Japan on track



### 3. BACKING THE WINNERS

#### LEGOLAND park roll out

- ★ LEGOLAND New York expected to open in 2020, subject to final formalities
- ★ North America represents LEGO's largest market
- ★ Proven success from two LEGOLAND parks
- ★ 23m residents (inc. 4m children aged under 14) within 2 hour catchment area
- ★ Good transport infrastructure, and strong political support
- ★ 500 acre site provides long term expansion opportunities
- ★ Total Merlin investment of c£260m<sup>1</sup>, including 250 bedroom, 4\* hotel





### 3. BACKING THE WINNERS

#### LEGOLAND park roll out

- ✦ Continue to target 2020 opening for Korea
  - ✦ Construction of bridge complete (funded by local government); site now ready
  - ✦ Partner funding yet to be finalised
  - ✦ Geo-political uncertainty
- ✦ Strong pipeline beyond 2020
  - ✦ Study agreements in place for four projects in China
  - ✦ Continue to believe there is an opportunity of at least 20 LEGOLAND parks around the world



### 3. BACKING THE WINNERS

Midway roll out

New brands extend the roll out opportunity, and further diversifies the quantum of capital expenditure allocated per attraction

Continue to expect a total of £60-70m NBD capex p.a. dependent upon the mix of attractions opened

Current Midway portfolio

<£5m capex

£5m-£6m

£6m-£8m

c.£20m

c.£250m





### 3. BACKING THE WINNERS

Midway roll out and new brands

#### ADVENTURE/ EXPERIENCE-SEEKER MARKET

“ People’s growing desire for experiences bring with it a desire for self improvement. We want to do things that make us better people rather than just enjoying ourselves ”



#### PRE-SCHOOL MARKET

- Strong brand engagement and loyalty
- Existing competition is typically generic and undifferentiated
- Good retail opportunities
- High levels of repeat visitation
- Drives volume outside of peak/holiday periods

**Proven success with  
CBeebies Land and The Gruffalo**

**Currently only limited Merlin presence in these markets**

### 3. BACKING THE WINNERS

Midway roll out and new brands



**SAS trained.  
Everest  
pioneer.  
Chief Scout.**



**Global media  
empire – over  
180 countries  
reaching c1.2bn  
people**

**9m books. 7.1m  
Facebook fans.**





### Key deal terms

- ★ Worldwide exclusivity to roll out 'The Bear Grylls Adventure' concept
- ★ Revenue based royalty payment
- ★ Initial exclusivity period until 2026, with ten year extension for each four attractions opened
- ★ Birmingham to open in 2018; 1 in 2019-20 in US or China



## OVERVIEW OF IP

Top ten pre-school brand in 30 countries (incl. US and China)

Broadcast in over **180** territories

**261** 5 min episodes by 2018 and **117** brand new episodes for 2019-2022

**£1bn+** annual global retail sales

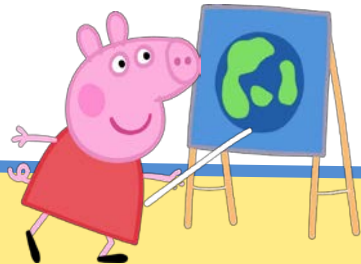




# DEAL OVERVIEW





## Key deal terms

- ✦ Multi-territory exclusivity to roll out Location Based Entertainment
- ✦ Revenue based royalty payment
- ✦ Initial exclusivity period until 2022; extension periods subject to pace of roll out
- ✦ In-park Peppa Pig themed areas to open at two attractions in 2018
- ✦ Targeting standalone attractions in at least two countries by the end of 2019



### 3. BACKING THE WINNERS

Changing shape of Midway roll out – 2020 onwards

Brand	Direction of travel
	Focus on clusters
	
	High potential for gateway city markets; positioning evolving outside of Europe
	Finite roll out of core brand; increasing focus on sub-brands
	Significant opportunity. Focus on gateway city clusters
	One every 2-3 years
	Significant roll out opportunity of multiple standalone attractions

## 4. PRODUCTIVITY AGENDA

£30m investment in systems

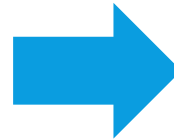
### Cost inflation

#### Wage pressures

- ✦ Legislative pressures around the world
- ✦ Asian wage inflation

#### Property

- ✦ Business rates
- ✦ Rent



### Productivity Agenda

#### Back office efficiencies

- ✦ Shared services
- ✦ Procurement savings



#### 'Working smarter'

- ✦ Automation, e.g. self-service terminals
- ✦ More motivated, better rewarded teams



**Maintaining margins despite market volatility and underlying cost inflation**

## 4. PRODUCTIVITY AGENDA

### London cluster trial of Self-Service Ticket Machines

- ✦ Trial of self-service ticket machines in London Eye ticket office
- ✦ Payroll savings, with further opportunity
- ✦ Positive upsell ratios (Cluster and Fastrack)
- ✦ Reduced queues in ticket office
- ✦ Integration with trade partners





# SUMMARY

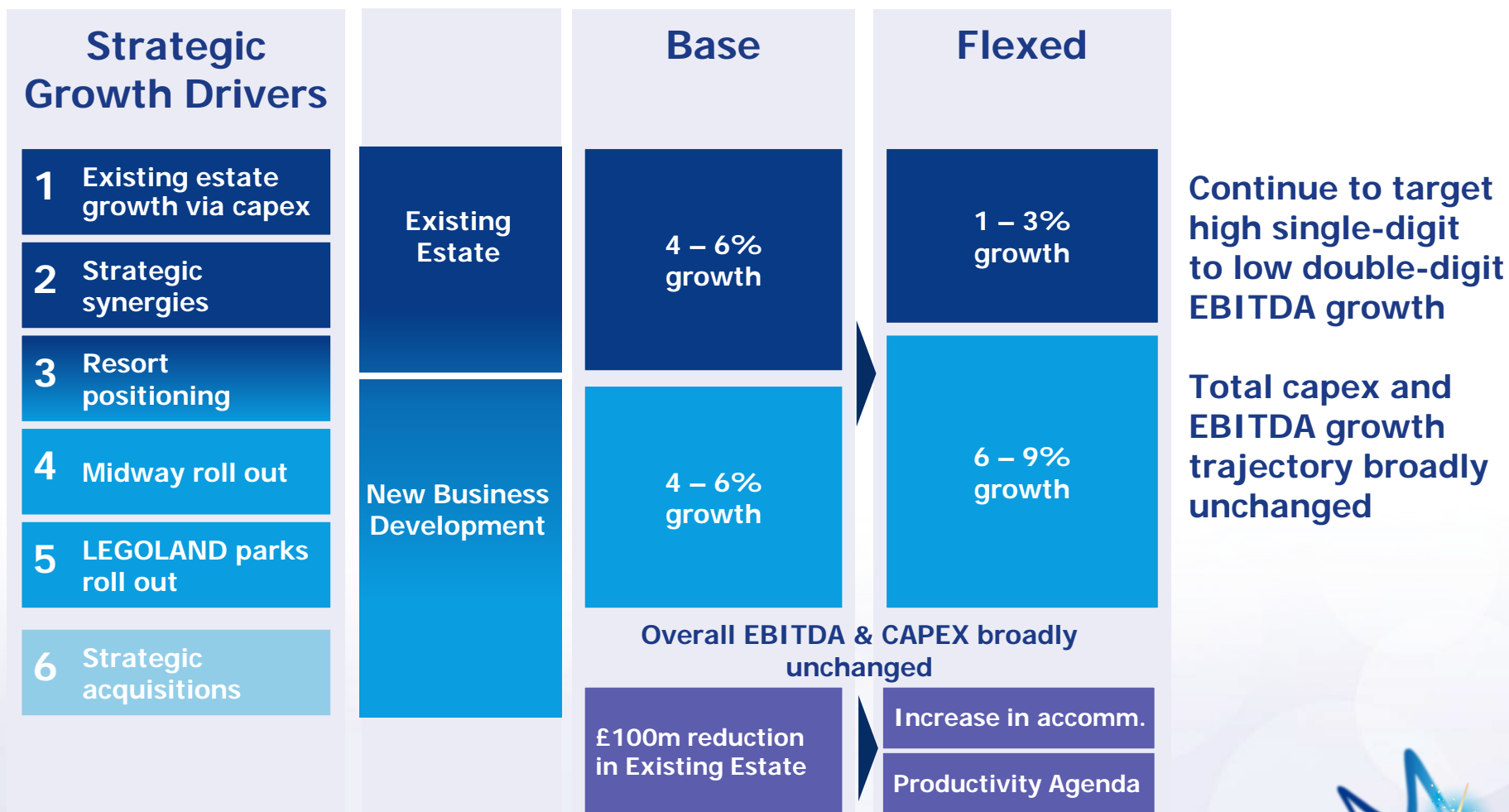
# SUMMARY

---

- ✦ Remain confident in medium-long term market attractiveness and our overarching strategy and growth drivers
- ✦ Unprecedented levels of market volatility resulting in lower LFL growth
- ✦ £100m reduction in Existing Estate capex over 2018-21
- ✦ Backing the winners
  - Accelerated accommodation roll out
  - Strong LEGOLAND parks development pipeline (all models)
  - Two new Midway brands in new categories to further support diversification
- ✦ Productivity Agenda to support LFL EBITDA growth
- ✦ A flexed model capable of delivering structural growth



# DELIVERING LONG TERM GROWTH 2018-21



# Q&A



# APPENDIX

# ATTRACTION COUNT

	UK		Cont. Europe			Americas			Asia Pacific			Group			
	31 Dec 2016	Mov't	7 Oct 2017	31 Dec 2016	Mov't	7 Oct 2017	31 Dec 2016	Mov't	7 Oct 2017	31 Dec 2016	Mov't	7 Oct 2017	31 Dec 2016	Mov't	7 Oct 2017
SEA LIFE	13	-	13	18	-	18	8	-	8	8	1	9	47	1	48
Madame Tussauds	2	-	2	4	-	4	6	1	7	9	-	9	21	1	22
Dungeons	5	-	5	3	-	3	1	-	1	-	-	-	9	-	9
LDC	1	-	1	3	-	3	9	1	10	3	1	4	16	2	18
Eye	2	-	2	-	-	-	1	-	1	1	-	1	4	-	4
Shrek	1	-	1	-	-	-	-	-	-	-	-	-	1	-	1
Other	-	-	-	-	1	1	-	-	-	6	-	6	6	1	7
Midway	24	-	24	28	1	29	25	2	27	27	2	29	104	5	109
LLP	1	-	1	2	-	2	2	-	2	2	1	3	7	1	8
RTP	4	-	4	2	-	2	-	-	-	-	-	-	6	-	6
Group	29	-	29	32	1	33	27	2	29	29	3	32	117	6	123

# ACCOMMODATION COUNT

	31 Dec 2016	Mov't	07 Oct 2017
Billund (Denmark)	356	80	436
California	250	-	250
Deutschland	319	-	319
Florida	152	166	318
Malaysia	249	-	249
Windsor (UK)	150	59	209
Dubai	-	-	-
Japan	-	-	-
<b>LEGOLAND Parks</b>	<b>1,476</b>	<b>305</b>	<b>1,781</b>
Alton Towers (UK)	516	76	592
Chessington World of Adventures (UK)	254	-	254
Gardaland (Italy)	347	-	347
Heide Park (Germany)	329	-	329
THORPE PARK (UK)	90	-	90
Warwick Castle (UK)	71	-	71
<b>Resort Theme Parks</b>	<b>1,607</b>	<b>76</b>	<b>1,683</b>
<b>Group</b>	<b>3,083</b>	<b>381</b>	<b>3,464</b>

# LEGOLAND NEW YORK

## COST PHASING

£m	2017	2018	2019	2020
Capex	10-20	30-50	110-130	80-100
Pre-opening costs	-	1-2	2-5	2-5



# REVENUE PERFORMANCE, 2017 YTD

Year to date revenue growth	Total growth at actual FX	Total growth at constant FX	Like for like growth
Midway Attractions	7.7%	1.6%	(1.0)%
LEGOLAND Parks	24.4%	15.7%	3.4%
Resort Theme Parks	3.4%	(0.8)%	(2.1)%
<b>Group</b>	<b>12.4%</b>	<b>5.9%</b>	<b>0.3%</b>

# GLOSSARY

Key terms	Definition
ARR	Average Room Rate
Cluster	A group of attractions located in a city close to one another
Constant Currency growth	Using 2017 exchange rates
EBITDA	Underlying basis, excluding exceptional items
LBC	Little BIG City
FX	Effect of movements in foreign exchange
LDC	LEGOLAND Discovery Centre
Lead price	Face value of a ticket, which may then be discounted
LFL	2017 Like for like growth refers to the growth between 2016 and 2017 on a constant currency basis using 2017 exchange rates and includes all businesses owned and operated before the start of 2016
LLP	LEGOLAND Parks Operating Group
MAT	Moving Annual Total
Midway	Midway Attractions Operating Group
NBD	New Business Development

Key Terms	Definition
Net Promoter Score	An index that measures the willingness of customers to recommend a company's products or services to others
Resident Market	The total population living within a two-hour drive of the attractions
ROCE	Underlying Operating Profit after tax divided by average net operating assets
ROIC	Average EBITDA over the first five years divided by total development capex
RPC	Revenue per Cap, defined as Visitor Revenue divided by number of visitors
RTP	Resort Theme Parks Operating Group
Second Gate	A visitor attraction at an existing resort with a separate entrance and for which additional admission fees are charged
SLC	SEA LIFE Centre
Top Box Satisfaction	The top box score is the sum of percentages for the top one, two or three highest points on guest satisfaction scale.
Underlying	Underlying information presented excludes exceptional items that are classified separately within the financial statements
Visitors	Represents all individual visits to Merlin owned or operated attractions
YOY	Year on year

# FORWARD-LOOKING STATEMENTS DISCLAIMER

---

The information contained in this presentation has not been independently verified and this presentation contains various forward-looking statements that reflect managements current views with respect to future events and financial and operational performance. The words “anticipate”, “target”, “expect”, “estimate”, “intend”, “plan”, “goal”, “believe” and similar expressions or variations on such expressions identify certain of these forward-looking statements. Others can be identified from the context in which the statements are made. These forward-looking statements involve known and unknown risks, uncertainties, assumptions, estimates and other factors, which may be beyond Merlin Entertainments plc’s (the “Group’s”) control and which may cause actual results or performance to differ materially from those expressed or implied from such forward-looking statements. All statements (including forward-looking statements) contained herein are made and reflect knowledge and information available as of the date of preparation of this presentation and the Group disclaims any obligation to update any forward-looking statements, whether as a result of new information, future events or results or otherwise. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements due to the inherent uncertainty therein. Nothing in this document should be construed as a profit forecast.



