



Win, lose, or draw in a struggling economy



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Making business decisions in today's world calls for careful study of the marketplace, and the ability to seize opportunities. Make strong bets for your future growth.

There's no question that times are turbulent. The gang on Capitol Hill tells us that the world is getting better, but daily life in many parts of America continues to trudge forward at a snail's pace.

When times are good, decisions seem to be made at a fast and furious pace, often without the benefit of performing any real due diligence. When times get tough, the pendulum swings the other way, with inaction taking center stage.

How on earth did we go from a society of decision-makers to one of cautiously optimistic benchwarmers? Such are the perils of navigating through a crumbling economy. But should we all sit back and wait for confirmation that the world is good once again, or seize the opportunity to create our own success formula?

Below are my thoughts on the winning, losing, and safe bet propositions. There will certainly be exceptions to these observations, so for those who have made lemonade out of lemons, chances are that you've excelled at Texas Hold 'Em for quite some time.

THE WINNERS: ENTERTAINMENT DEVELOPERS

Much has changed in our local and national economies over the past year. These changes have had a dramatic impact on the cost of many elements critical to the development of business operations, including:

- Reduced real estate acquisition and leasing costs
- Falling construction costs
- Availability of products and supplies under short lead times
- Access to qualified labor
- Easing of municipal restrictions

and "red tape"

In essence, a project under development in 2009/2010 is likely to carry a budget that is at least 20-percent LESS than a comparable project built in 2007. More importantly, the long-term effect of reduced asset acquisition costs, particularly with respect to real estate, positions a new project for substantially greater investment returns and permits the business model to be more marketable to investors and financiers.

In turn, contractors and builders—in an effort to keep their crews employed and their equipment working—have reduced profit margins to win contracts. Even government agencies, such as zoning and licensing commissions, have begun to stimulate and support new business enterprises by eliminating common roadblocks that have frustrated developers over the last decade.

Everyone's quickly learning that we all need to play on the same team if we're going to keep our local economies moving forward.

From an industry perspective, our access to skilled and unskilled labor has never been better. The rising pay rate challenges of 2005-2007 have receded sufficiently to allow entertainment businesses to hire more qualified candidates within targeted budget limits.

Executive-level managers, many with more than 20 years of operating experience, are available within the marketplace, often as a result of downsizing by large, destination-based entertainment venues. Industry suppliers are also narrowing their margins to make deals work, which in turn is helping to lower development budgets and improve the likelihood of success for new projects.



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Taken as a whole, our national economy might be at its worst position in more than 35 years, but from an opportunity perspective, the light couldn't shine any brighter. For the new entertainment developer, a down-turning economy spells prime opportunity.

THE LOSERS: BUSINESS AND ASSET SELLERS

Often when times get tough, an individual's first instinct is the lighten the load, particularly when one has accumulated more assets and associated debt than can be reasonably serviced. When this happens, the market becomes saturated with items for sale. These can range from existing business operations to real estate to personal belongings.

As we're all aware, when the supply of a particular asset exceeds its demand, the balancing mechanism often becomes the price point. Prices must fall sufficiently to make buyers out of casually interested parties.

Transactions that will likely result in less-than-expected returns for sellers

within the current marketplace include:

- Real estate, particularly raw land and larger commercial structures
- Businesses in destination locations, particularly tourist driven areas
- Physical assets, including machinery and equipment, automobiles, and associated products

There's no question that real estate transactions in the present day are being impacted by several key elements, including a buyer's ability to finance, tempered appraisals by third-party professionals, and a general oversupply of housing and commercial property.

As we've seen in almost every other recession period over the last 80 years, the value of real estate assets will typically rise and fall along the same curve as national economic production. As commercial output and associated employment build, the value of real estate climbs, as buyer confidence and capability increase accordingly.

If you're a real estate seller today, potentially consider some alternative options, including a partial sale to a private party to reduce debt to more manageable levels without entirely losing future upside potential.

If you're a business seller, expect to take a haircut on the overall selling price, particularly if the business is to be appraised by a third-party business assessor.

Up through 2007, many valuations had assigned sale "multiples" (the value of future cash flows generated from the business) of up to 10 times a business' current earnings position. This viewpoint was driven largely by demand, as the volume of buyers greatly exceeded the availability of selections.

Under present conditions, sale multiples are hovering closer to five times current cash flows, as wary buyers seek cushion in their purchases and routinely expect to encounter bargains.

Last but not least, don't expect to

put the kids through college with the sale of personal assets. Used assets are becoming increasingly difficult to finance, as lenders are concerned about rapidly deteriorating values as manufacturers hawk equivalent new product as bargain-basement prices.

Nonetheless, if the asset is truly unneeded—and is of the variety whereby future depreciation, maintenance, or usefulness is a concern—it makes sense to convert such elements to cash equivalents now. There's nothing worse than holding a depreciating asset that requires continued maintenance only to find out that future demand has become non-existent due to design or efficiency changes.



"There are times when sitting on the sidelines is a reasonable choice. Now's not that time."

While there are no winners in this section, sometimes it makes sense to cut your losses and move on. Evaluate that decision with a trusted professional and attempt to structure any related transactions with an eye toward recouping losses, particularly through income tax offsets.

THE DRAW: CURRENT ENTERTAINMENT OPERATORS

Entertainment is not a bad place to be in a down-turning economy. After



all, the media is ablaze with stories about how consumers have “traded down,” giving up their luxury vacations and purchases for destinations and options closer to home.

The cinema sector is enjoying one of its best years on record, driven largely by the relatively low cost of

entry for the consumer. Location-based entertainment, particularly in the bowling sector, is performing quite well, with most venues at or just slightly behind last year's performance.

While the industry might not be posting 10-percent market gains, we're also not reporting 40-percent slides in

revenue volumes, as seen by durable goods manufacturers. In essence, low-cost experiences sell well these days, and with per caps of \$25 or less, our industry is well positioned to ride out the economic storm.

The business models that are likely to build market value more quickly in future periods than traditional consumer and retail styles include:

- Hybrid bowling centers
- Adult-focused, high style restaurant and entertainment venues
- Children's specialty centers
- Multi-screen cinema and entertainment combinations

From an investment perspective, the “new” investor of the 21st century is quickly learning that protecting the downside is as equally important as capturing the upside.

To that end, the above-referenced entertainment formats are proving themselves to be vibrant during the good times, and resilient during the tentative times. Overall, they represent strong bets for future growth, particularly as our economy begins to grab hold of its footing.

PLACING YOUR BET

There are times when sitting on the sidelines is a reasonable choice. Now's not that time. A quick study of every previous economic recession in this country will reveal that the post-recession period offered the highest gains to early stage investors, be they holders of stock, property, or business entities.

When it comes time to place your own bet, weigh your options, but wager with confidence. After all, the bigger the bust, the bigger the boom—and this one is going to be a doozie. ▲

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