

Merlin's Amusement Park Magic

The attractions operator has become No. 2 globally behind Disney, and an IPO may be in the works

By [Mark Scott](#)

London - Among companies that run attractions designed for family fun, Merlin Entertainments Group is bigger than Universal Studios and Six Flags and second only to Walt Disney ([DIS](#)). But if you've never thought of Merlin beyond the mythical sorcerer, you're not alone. You do, though, probably know Merlin's attractions: Madame Tussauds wax museums, Legoland theme parks, the giant London Eye Ferris wheel across the Thames from Big Ben, and more. "No one on the planet has the brands that we have," Nick Varney, Merlin's 47-year-old chief executive, says in the original Madame Tussauds in London, where wax figures of Michael Jackson, Barack Obama, and Elvis eyeball one another across a room packed with camera-toting visitors.

"A KID LET LOOSE IN A TOY SHOP"

The big-name brands explain why Merlin is the fastest-growing major player in the business. The company is majority-owned by New York private equity giant Blackstone Group ([BX](#)), which paid \$195 million for most of Merlin in 2005. That year the company saw pretax profits of \$28 million on sales of \$87 million; by 2008 (the most recent data available) profits had hit \$405 million and revenues topped \$1.3 billion. "Sometimes I have to pinch myself. I feel like a kid let loose in a toy shop," Varney says as he prepares to jet off to Orlando to unveil a new Legoland at the site of the now-shuttered Cypress Gardens. Last year, Varney clocked more than 100,000 air miles keeping an eye on 60 attractions on three continents.

Investors are now hoping for a bit of Merlin's magic. Analysts believe an initial public offering of Merlin shares could raise some \$3.3 billion. That would make it the largest listing on the London Stock Exchange in two years. While Varney won't comment, Nick Batram, a leisure analyst at brokerage KBC Peel Hunt in London, says there's mounting investor interest and reckons an IPO could happen as early as the second quarter.

It's little wonder that investors are eager to get a share of Merlin's growth. Visitors to attractions Merlin has owned for more than a year rose 17% in 2008, to 38 million, Merlin says. The industry worldwide saw attendance fall by 0.4%, according to Los Angeles consultancy AECOM ([ACM](#)), and analysts see a similar picture for 2009. Some rivals have fared far worse. As U.S. unemployment rose and consumer spending tumbled, Six Flags—which owns 20 amusement parks in 14 North American cities—filed for Chapter 11 bankruptcy protection last June. "Merlin

is the rising star of the industry," says John Gerner, managing director of consultancy Leisure Business Advisors in Richmond, Va.

FISH AND FERRIS WHEELS

The key to Merlin's success is diversification. Like Disney, the company operates vacation resorts such as its bigger Legolands and Alton Towers, a combo theme- and water-park in northern England that boasts six roller coasters. These attractions rely on people traveling long distances and spending big bucks, so Merlin—along with other park operators—has been forced to offer discounted tickets and promotions such as cheap annual passes. But unlike its biggest competitors, Merlin also runs smaller attractions in Chicago, Washington, Munich, and elsewhere. Local families can spend a day there for under \$100, which has kept them coming through the turnstiles even if they can't afford a trip to Disney World. "A museum, aquarium, or other family entertainment center is seen as good value for money," says John Robinett, a senior vice-president at AECOM.

That's certainly true for Merlin's Sea Life Aquarium in London. On a cold Saturday in January, more than 40 families speaking everything from English to Polish to Mandarin line up to see the riverside attraction, which the company bought in 2008. For \$75, a family is treated to shark-filled tanks, pools teeming with stingrays and tropical fish, and talks on marine conservation. Merlin offers extras, such as kids' face painting for \$5 and group photos for \$15, that can easily add up to the entrance fee.

At the nearby London Eye, locals and tourists wait to pay the \$80 for a family ticket that will take them 442 feet above the Thames for 30 minutes. "Even when the weather is bad, you've got to find something to entertain the kids," says Jeremy Butler, a 37-year-old accountant from central England visiting London with his wife and two children. "Compared to a holiday in France or Spain, the London Eye isn't that expensive."

London may be home, but Merlin is betting on city attractions well beyond its base. Four Madame Tussauds are in the U.S., a Legoland is coming to Dallas next year, and a \$15 million Sea Life center is to open in Phoenix this spring. At the Meadowlands in New Jersey, Merlin plans to open a Legoland and operate a 287-foot-tall Ferris wheel, to be called the Pepsi Globe, with views across the Hudson to the Manhattan skyline. In Asia, Madame Tussauds is in Shanghai, Hong Kong, and (soon) Bangkok. A Legoland in Malaysia will open by 2012. "The U.S. and Asia are where most of Merlin's growth will come in the next five years," says Joseph Baratta, a senior managing director at Blackstone and a member of Merlin's management committee.

Analysts reckon Merlin could also buy parks, particularly if cash-strapped smaller locations in the U.S. go up for sale. "If you're a new kid on the block like Merlin, you've got to be out there staking your flags," says Dennis Spiegel, president of consultancy International Theme Park Services in Cincinnati. "They're on the offensive and are ready to act."

Family Fun

Merlin Entertainments Group isn't a household name, but you've probably heard of—or even visited—some of its attractions. The British company, majority-owned by U.S. private equity

giant Blackstone, operates 60 venues on three continents, including Madame Tussauds wax museums, Legoland theme parks, and miscellaneous sites such as the popular London Eye ferris wheel on the banks of the Thames facing Big Ben.



No wonder, then, that Merlin is second only to Disney in the number of annual visitors passing through its turnstiles. After expanding aggressively in Europe, the company now has turned its sights towards the U.S. and Asia, where it expects to open four or five attractions during the next 18 months. That includes a Legoland theme park near Orlando, Fla., which chief executive Nick Varney announced on Jan. 21.

Merlin's growing global presence has got markets salivating that it will go public sometime in 2010. Executives won't comment on the speculation, but investment analysts figure an IPO could raise \$3.5 billion and might happen as soon as the second quarter of 2010. To learn more about Merlin's world, click on for an introduction to its attractions—and a summary of its main competitors.



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