

Title:

Cedar Fair to Buy Paramount Parks

Word Count:

429

Summary:

Publicly traded limited partnership Cedar Fair (FUN) will acquire the Paramount Parks business of CBS Corp (CBS) for approximately \$1.25 billion.

Keywords:

FUN, CBS, Cedar, Fair, parks, paramount, stock, stocks, market, investing

Article Body:

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Publicly traded limited partnership Cedar Fair (FUN) will acquire the Paramount Parks business of CBS Corp (CBS) for approximately \$1.25 billion. The five parks involved in the deal are located near Cincinnati (OH), Richmond (VA), Charlotte (NC), Santa Clara (CA), and Toronto.

Cedar Fair already operates seven amusement parks and five water parks, including the company's flagship Cedar Point property on Lake Erie. The company intends to keep all five properties. The deal will be financed by a \$2 billion loan from Bear Stearns (BSC). The interest rate charged will be determined once Cedar Fair's debt has been rated.

The acquisition is quite large relative to the size of Cedar Fair's existing business. Cedar Fair generated \$569 million in revenues during 2005. During the same time period, the Paramount Parks properties generated \$423 million in revenues.

In addition to the five parks, Cedar Fair will receive Star Trek: The Experience (at the Las Vegas Hilton) and the Nickelodeon license at the five Paramount Parks.

The Paramount Parks properties encompass about 1,250 owned acres and 180 leased acres. Based on past attendance, the five acquired properties will likely be some of the most visited parks in the new Cedar Fair portfolio. However, none of the new properties is likely to eclipse Cedar Fair's two most visited properties: Cedar Point and Knott's Berry Farm.

By far the two largest parks being acquired are Canada's Wonderland (located near Toronto) and Kings Island (located near Cincinnati).

Cedar Fair's chairman Dick Kinzel said:

"This acquisition will provide exciting new growth opportunities and the potential for meaningful incremental free cash flow as we realize \$20-\$30 million in annual cash flow synergies over the next 3-5 years. It will also add significant geographic diversity to our portfolio of parks and improve our position as one of the largest regional amusement park operators in the world."

The acquisition will require significant debt financing. However, the amusement park business generally has a very high free cash flow margin. Cedar Fair's existing properties are excellent generators of free cash flow. The company makes large cash distributions to unitholders; the current yield is somewhere around 6.85% (reminder: Cedar Fair is a Limited Partnership). Returns on both assets and equity have generally been quite high.

The deal is expected to close in the third quarter of 2006. Most analysts believe CBS will use the roughly \$1 billion in after-tax proceeds to buy back shares.

Over the last ten years, Cedar Fair has compounded its book value per share at an annual rate of 8.11% and earnings per share at an annual rate of 6.30%.