

Need An Investor? Now Might Be The Time...

Jerry Merola, CFO
Amusement Entertainment Management, LLC

Looking back over the past year, a lot has changed with respect to our national economy, and quite coincidentally, our personal investments - the "personal economy" as I refer to it. Our high-riding stock markets have settled down to a gentle, and at times imperceptible roar while domestic production has slowed for two straight calendar quarters in a row. The Federal Reserve Bank has taken action by slashing interest rates, but in general the investment community is looking at a ho-hum performance year. From my vantage point, now might be the ideal time to solicit the investment community for development funding or that expansion project that you're considering.

A Change Of Focus

Over the past few years, it wasn't hard to achieve double-digit returns on your investments. A little research, some friendly tips from associates, and an experienced financial services professional created a recipe for investment portfolio growth. These same folks - the ones that were watching their investments grow at 20% per year - are now staring at flat or low single-digit returns. Few that I have spoken with are willing to accept the change. Most have built a lifestyle around the good fortunes of the investment marketplace and are now looking for new avenues by which to continue the trend. One of the more common questions posed to our firm these days is the viability of entertainment as a long term investment strategy. To a lay person, the idea of opening an indoor entertainment center or outdoor amusement park is essentially a license to print money. While this might be true in some markets, industry veterans know that operating entertainment requires substantial skills, effective planning, and careful budgeting. Can an entertainment facility provide the level of return demanded by these investors?

In The Long Run

Today's investor has been conditioned upon instant gratification - buy a stock or mutual fund and watch it grow - sometimes exponentially - every month. Remember the word "day trader"? These folks gauged investment performance by the hour. But substantially all of these options have mellowed and the emerging investor has been told to look at long term results. This level of thinking coincides a bit better with an entertainment facility's growth pattern and sets the stage for creating a convincing investment plan. Entertainment facilities that are designed well and are capable of commanding their market segment can grow quite rapidly and generate strong cash flows, which in turn can produce attractive dividends for investors. Even without the presence of dividends, the resulting build-up of value can lead to the facility's eventual sale, for which its core investors can achieve investment returns in a single lump transaction. Even if a facility is not sold, other exit strategies are available to the investor that can produce similar returns. For instance, a facility that has successfully operated for four or five years may opt to replace investor capital with more traditional bank debt. This "capital swap" essentially completes the investors' tenure by repaying initial capital contributions plus a pre-negotiated "bonus". This bonus essentially represents the interest charge for the period of time in which the funds were used.

Finding Mr. or Mrs. Right

Developing projects with private debt instead of more traditional bank debt can offer many advantages including flexibility of repayment, lower closing costs, and fewer reporting requirements. At times, though, private debt can become more cumbersome, as the facility must manage the needs and personal desires of individuals as opposed to institutions. With this in mind, it's important to consider the backgrounds and composition of these private investors to insure a suitable fit with the project's core objectives. Take the time to understand the needs of each investor, particularly the length of time in which each individual is willing to keep funds at risk. The inclusion of too many short term investors (under three years) may put unnecessary burdens on the business in future periods and cause management to divert funds away from needed attraction purchases (or rotations) to satisfy investor maturities.

Also consider the types of individuals for which you plan to do business. In many ways, private investors are like partners - each brings a decidedly different set of attributes to the table. Where possible, attempt to work with well-respected individuals that possess identifiable backgrounds. Nothing's worse than realizing down the road that your "partner" is/has been involved in negative events that run counter to the mission of your entertainment project. Conversely, identify the advantage of aligning the business with individuals that command great respect within a region or community. These individuals can greatly assist in smoothing municipal approval processes for development, recommend other reputable professionals to assist with specific aspects of the project, and even provide introductions into financial institutions that may serve to replace their equity funds in the future.

How To Get Started

While it's true that money doesn't grow on trees, it does grow in the hands of effective money managers. How do you find these individuals that possess the wealth and foresight to carry your project forward? First, you'll need to get networked - well networked. Consider that most of these prospective investors probably own successful enterprises of their own and are most likely involved in the business circles prevalent within your targeted region. Understand who the "players" are by attending chamber of commerce meetings, economic development seminars, and awards dinners. Make a list of the top 100 businesspersons in your area and make a point to identify the best means of introduction. Such an introduction will probably not involve the issuance of a business plan through the mail, but rather an introduction in a social setting whereby these prospective investors can first meet you as an individual and understand your passion for entertainment development. Such an encounter will go a long way toward opening their mind to your business proposition, which would be submitted later in the relationship.

Everyone loves a winner, but first the world needs to know that you are one. Don't be afraid to advertise the merits of your project - after all, the best kept secret usually remains that way - a secret. Send press releases to all of the area newspapers, business associations, and civic groups that outline the upcoming project and its value to the community. Volunteer your time with local not-for-profit business organizations that are promoting community enhancement projects such as new ball fields, playgrounds, "downtown refurbishment", and other media-worthy causes. Strive to get your photo in the newspaper alongside well-regarded public officials or area business owners. Why go through all of this effort? Quite simply, investors need to be sold on you, not just your business proposal. While everything might look rosy on paper, an accomplished business person will tell you that the management remains the key to a project's success.

Start Early

It's never too early to commence an investor search. Locating private money can take some time, as you'll need to find the investor or investors that most comfortably match your needs while at the same time meeting their financial goals. As the promises of our stock markets fade, more of these individuals are coming to light, each searching for a better way to increase their wealth. Your proposed project may be the answer, so don't feel awkward about asking for their involvement. Let them know why you've targeted them and why their inclusion in the project is a 'win-win'. Ask them for additional contacts that may have an interest in this type of investment and be proactive in sending "project update" newsletters to them as frequently as warranted. If you are not successful in getting their cooperation early on, don't be discouraged, but do maintain open communication by providing project updates often. Sometimes a 'no' becomes a 'yes' as outside circumstances change. Always be prepared by keeping the door open.

Be Prepared

In most cases, you've got one shot to drive your proposal home - make sure you're ready for anything. Expect negativity from prospects, be prepared for alternate viewpoints, and don't assume that your potential investor has "read everything". Keep your cool, drive home the important points, offer solutions to questions raised, and back up statements with confirmed facts. Don't be afraid to bring in the pros - your entertainment consultant, accountant, architect - those individuals that can have a positive impact on a meeting's outcome by sharing knowledge and expertise. Let your prospective investors know that you've assembled a qualified team that has dotted the "i's" and crossed the "t's". After all, they've worked hard for their money and want to be sure it's well spent. And frankly, so do you.

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