

Case 15-3
Big Islands Amusement Park

Big Islands Parks & Entertainment (“Big Islands” or the “Company”) is a leading entertainment company that owns 10 premier theme parks as follows: Big Islands Georgia, Discovery Adventure Place, White Rapids Orlando, Big Islands North Carolina, Big Islands Washington, Still Water Thrills Orlando, Island Adventure Cove, Still Water Thrills Charlotte, White Rapids LA, and Adventure Kids Cove.

Each of the Company’s 10 theme parks engages in similar business activities (e.g., ticketing, food, parking, and games). Revenues are earned for each of the separate business activities conducted at the 10 parks. Each park is designed to have a small, full-time employee base with a large seasonal staff that is hired each year. Employee costs represent the most significant annual expenditure by each park. Employees within the park are assigned to a base business activity but have the ability to assist other business activities within the park (i.e., a parking employee can also serve the food stands if necessary) and regularly do so. The movement of employees between businesses is not tracked for financial reporting purposes, and general park expenses are not allocated to the various business activities within each park. The operating results of each park are reviewed monthly by segment management (i.e., each park has a president that reports to the respective chief operating officer (COO) of that park who is directly accountable to, and maintains regular contact with, the Company’s chief executive officer (CEO) to discuss operating activities, financial results, forecasts, and future plans). In addition, the CEO meets with each park’s president several times a year to discuss budget/actual and forecasts.

The Company has a strategy committee that act together to make operational recommendations such as allocating resources. The Company’s CEO participates as a member of the strategy committee but is ultimately responsible for the allocation of resources and has the ability to make independent decisions that may not be in line with the strategy committee’s recommendations. The board of directors of Big Islands does not have involvement with the day-to-day operations of the parks.

The parks are designed to provide a similar guest experience and provide the same basic business activities (e.g., ticketing, food, parking, and games) even though the rides and attractions of the parks vary.

Each park caters to families seeking leisure or tourist activities. The large parks have a more diverse (international) group of customers because of location. While the Company does not market its products differently to those customers, it does provide a few additional services, including bilingual staff and certain internationally themed celebrations. Regardless of the location or customer base, the Company’s overall strategy is to ensure each park is a premiere theme park.

Although the Company operates parks in several states throughout the continental United States, the industry through which it operates, including food handling, water quality, ride operations, and animal-related permitting, are all monitored nationally; there are no significant differences in laws or regulations in the states in which the Company operates its parks.

Management Reporting

The CEO receives a monthly reporting package that includes a consolidated profit and loss statement (P&L) for all the parks, as well as a P&L for each of the 10 parks. The consolidated P&L and the P&Ls by park include revenues by business activity (e.g., ticketing, food, parking, and games) as well as total revenue. Expenses, including wages and other general overhead, are allocated to each park and are included in each park's P&L that is presented to the CEO. Expenses are reported in total in the P&L for each individual park since expenses are not allocated to each business activity. Although the CEO receives park-level data, the CEO makes decisions on a company-wide or aggregated basis as opposed to a park-by-park basis (i.e., rides, attractions, shows, and seasonal events are similar in each park).

The consolidated P&L and the P&L by park within the monthly reporting package include certain financial metrics considered to be important by the CEO. Those metrics are total revenue and adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) margin. A summary of some of the information presented to the CEO is included at the end of the case.

Discussions with the CEO and a review of competitors indicate that attendance is a critical business metric used by competitors in the industry. The CEO, however, uses adjusted EBITDA to make investment and allocation decisions to drive attendance growth. In addition, adjusted EBITDA is a significant factor in compliance with debt covenants because it includes an allocation of both employee and other overhead costs and the compensation of top executives of the Company.

Since total revenue ultimately drives profit, it is also included in the monthly reporting package. The Company analyzes long-term growth rates of revenue in its analysis, noting the compound annual growth rate (CAGR) over a 10-year period is between 2 percent and 4 percent, with the higher range occurring because of the attractions at newer parks. The CAGR projected for 2013–2017 is between 2 percent and 3 percent for each park.

Financial metrics analyzed by the CEO are highly dependent on the opening of new attractions and, therefore, the metrics may fluctuate slightly from year to year on the basis of the capital spending time frame and opening of new attractions.

Information Provided to Board of Directors

The board of directors is provided with a consolidated P&L that includes total revenue and adjusted EBITDA similar to the P&L received by the CEO. The board of directors does not receive information on a park-by-park basis or any other segmented grouping.

Required:

- Question 1 — Who is the chief operating decision maker (CODM) of Big Islands?
- Question 2 — What are the operating segments for Big Islands?
- Question 3 — Would it be acceptable for the Company to aggregate the operating segments identified in Question 2 into a single reportable segment for financial statement disclosure?

	Fully Diluted EBITDA Margin										
	Historical				Projected						
	2010	2011	2012	Average Historical	2013	2014	2015	2016	2017	Average Projected	Combined
Big Islands Georgia	33.50%	29.60%	31.50%	31.53%	32.80%	33.50%	32.80%	33.80%	34.20%	33.42%	32.71%
Big Islands North Carolina	24.40%	20.50%	26.10%	23.67%	27.60%	26.20%	28.60%	29.40%	30.00%	28.36%	26.60%
Big Islands Washington	26.40%	20.50%	25.80%	24.23%	26.80%	25.60%	28.00%	27.70%	29.20%	27.46%	26.25%
Still Water Thrills Orlando	22.80%	24.50%	28.80%	25.40%	25.30%	26.40%	26.60%	26.90%	28.80%	27.00%	26.40%
Still Water Thrills Charlotte	24.90%	28.60%	24.60%	26.03%	24.80%	23.80%	22.70%	24.50%	23.60%	23.88%	24.69%
Total Large Parks				26.17%						26.02%	27.33%
White Rapids Orlando	39.70%	35.80%	37.10%	37.53%	38.30%	37.30%	38.70%	40.30%	41.70%	39.26%	38.61%
Discovery Adventure Place	27.50%	28.60%	32.10%	29.40%	34.80%	33.30%	33.90%	35.00%	35.80%	34.56%	32.63%
Island Adventure Cove	38.20%	40.00%	46.50%	41.57%	40.80%	43.70%	43.00%	42.70%	42.10%	42.46%	42.13%
White Rapids IA	38.30%	41.90%	33.40%	37.87%	28.00%	31.80%	31.80%	32.00%	33.30%	31.38%	33.81%
Adventure Kids Cove	32.30%	35.30%	29.00%	32.20%	28.40%	27.70%	27.30%	26.80%	26.50%	27.34%	29.16%
Total Small				35.71%						35.00%	35.27%

	Revenue														
	Historical						Projected Revenue Growth								
	2010		2011		2012		2013		2014		2015		2016		2017
Big Islands Georgia	\$ 1,045,103	\$ 1,075,411	2.8%	\$ 1,102,794	2.5%	\$ 1,135,878	2.9%	\$ 1,158,595	2.0%	\$ 1,204,823	3.8%	\$ 1,228,920	2.0%	\$ 1,254,727	2.1%
Big Islands North Carolina	\$ 732,381	\$ 750,398	2.4%	\$ 755,721	0.7%	\$ 779,148	3.0%	\$ 804,081	3.1%	\$ 827,399	2.8%	\$ 850,566	2.7%	\$ 876,509	3.0%
Big Islands Washington	\$ 495,882	\$ 511,601	3.1%	\$ 514,202	0.5%	\$ 529,628	2.9%	\$ 545,464	2.9%	\$ 562,101	3.0%	\$ 578,402	2.8%	\$ 596,332	3.0%
Still Water Thrills Orlando	\$ 690,334	\$ 717,257	3.8%	\$ 718,050	0.1%	\$ 737,437	2.6%	\$ 757,348	2.6%	\$ 777,797	2.6%	\$ 798,797	2.6%	\$ 820,365	2.6%
Still Water Thrills Charlotte	\$ 428,796	\$ 437,458	2.0%	\$ 446,997	2.1%	\$ 461,077	3.1%	\$ 472,604	2.4%	\$ 484,419	2.4%	\$ 496,530	2.4%	\$ 508,943	2.4%
Total Large Parks	\$ 3,392,497	\$ 3,492,125	2.9%	\$ 3,537,764	1.3%	\$ 3,643,169	2.9%	\$ 3,738,093	2.5%	\$ 3,856,539	3.1%	\$ 3,953,215	2.4%	\$ 4,056,876	2.6%
White Rapids Orlando	\$ 157,930	\$ 162,336	2.7%	\$ 163,148	0.5%	\$ 166,737	2.2%	\$ 170,405	2.2%	\$ 174,154	2.2%	\$ 177,985	2.2%	\$ 181,901	2.2%
Discovery Adventure Place	\$ 251,078	\$ 259,715	3.3%	\$ 262,151	0.9%	\$ 269,229	2.6%	\$ 276,498	2.6%	\$ 283,964	2.6%	\$ 291,631	2.6%	\$ 299,505	2.6%
Island Adventure Cove	\$ 58,598	\$ 60,936	3.8%	\$ 61,302	0.6%	\$ 62,528	2.0%	\$ 63,778	2.0%	\$ 65,054	2.0%	\$ 66,355	2.0%	\$ 67,682	2.0%
White Rapids LA	\$ 65,307	\$ 67,260	2.9%	\$ 68,605	2.0%	\$ 70,252	2.3%	\$ 71,938	2.3%	\$ 73,664	2.3%	\$ 75,432	2.3%	\$ 77,243	2.3%
Adventure Kids Cove	\$ 136,941	\$ 141,186	3.0%	\$ 143,304	1.5%	\$ 147,030	2.5%	\$ 150,852	2.5%	\$ 155,363	2.9%	\$ 160,008	2.9%	\$ 164,793	2.9%
Other - Corp	\$ 33,203	\$ 33,867	2.0%	\$ 33,901	0.1%	\$ 33,935	0.1%	\$ 33,969	0.1%	\$ 34,003	0.1%	\$ 34,037	0.1%	\$ 34,071	0.1%
Total Small	\$ 703,056	\$ 725,300	3.1%	\$ 732,410	1.0%	\$ 749,710	2.3%	\$ 767,440	2.3%	\$ 786,201	2.4%	\$ 805,448	2.4%	\$ 825,194	2.4%
Total	\$ 4,095,553	\$ 4,217,425		\$ 4,270,174		\$ 4,392,879		\$ 4,505,533		\$ 4,642,741		\$ 4,758,663		\$ 4,882,069	