



## Discovery Parks Case Study

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### Transaction background

Allegro's involvement with holiday parks operator Discovery Parks ('Discovery') began in September 2008 when it was appointed to manage the ABN AMRO Capital Australia Fund II (renamed Allegro Fund I), which was the 90% equity holder of Discovery.

In December 2010, Allegro Fund I, in conjunction with a group of Australian institutional investors, recapitalised Discovery, providing the platform for the company's next stage of growth and development.

### About Discovery Parks

Discovery was established in 2004 with a portfolio of three parks in Western Australia, by 2008 it had accumulated 40 holiday parks. However, this rapid acquisition-led expansion was not supported by back-end integration and was fuelled by high levels of debt.

The strategy being pursued by Discovery involved growing EBITDA through acquisitions to achieve critical mass with the intention to list on the ASX. However, this approach gave no consideration to the over-gearred balance sheet, nor did it consider external factors such as the GFC and the impact this would have on the local tourism sector, further compounded by a rising Australian dollar.

At the same time the company was locked in a distracting and damaging litigation with a minority shareholder who had previously been heavily involved in the business. This was impacting morale and raising concerns with key stakeholders, including lenders who wanted the issue resolved prior to considering a much-needed recapitalisation.

Discovery's most pressing problem was its financial predicament, a result of poorly integrated acquisitions and excessive head office costs. The company was in breach of its senior banking facility covenants, with its mezzanine provider unwilling to rollover the facility and other debt facilities due to expire in the next 12-18 months.

Return on capital employed was just 7% and maintenance capex needed to be spent on the parks. Forward bookings had been hit by the GFC and the tight cash flows meant Discovery was just meeting interest payments.

Despite rapid expansion the company's prospects looked bleak.

## **Turnaround program**

It was at this point that our multi-year journey with Discovery began.

There were three key planks underpinning our successful turnaround of Discovery – financial stabilisation, operational restructure and cultural change.

We worked with Discovery's financiers for more than two years to extend facilities numerous times. The threat of receivership was real. We negotiated the sale of \$28m of low yielding parks to pay down debt. At the same time we drove assets harder (enabled by our operational improvements) and reduced head-office costs by \$1.5m. These measures eventually enabled us to re-negotiate the debt facilities and in 2010 lead a consortium of investors to raise funds to recapitalise Discovery.

The operational restructure involved significant improvements in Discovery's information systems. This included the development of a flexible tariff system based on real-time occupancy rates. We also implemented internet booking systems, which provided a competitive advantage over owner operated parks. The introduction of new business intelligence reporting software provided live performance data at a park level, this had previously been missing.

To address some of the cultural concerns we shifted the business' focus from being an "asset accumulator" to a leading "park manager". A new incentive structure for Park Managers was also introduced to create ownership of budgets and drive EBITDA outperformance at the park level. Finally, we addressed the issue with the minority shareholder, which helped lift morale and removed a major distraction.

## **Exit**

We sold Discovery to Sunsuper, an original co-investor, in February 2014.

The transaction delivered strong returns to Allegro Fund I when compared to the carrying value of when Allegro assumed control in 2008. Investors that participated in the 2010 recapitalisation received an IRR of 38%.

Today, Discovery owns and operates almost 60 parks across Australia. The company successfully integrated more than 20 parks in a single acquisition in December 2015.

*"With enviable park positions Australia-wide, leading systems, fantastic people and a strong balance sheet, Discovery is now well positioned to take advantage of other opportunities as they arise," said Discovery Parks Founder and CEO Grant Wilckens.*

Allegro retains a minority interest in Discovery Parks.