Private equity bet billions on live entertainment in 2019. Here's how the coronavirus has turned that investment thesis on its head.

BUSINESS INSIDER

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- Private equity has poured billions into businesses that get people out of the house and into locations for entertainment.
- Now amusement parks and hotel resorts are shutting down as the coronavirus keeps people indoors.
- Private-equity firms have bet billions on outdoor and visitor attractions, from TPG's investments in Viking Cruises and Cirque du Soleil to Apollo Global Management's ownership of ClubCorp.
- The Blackstone Group is one firm that placed several related bets in 2019, with high-price deals involving Merlin Entertainment, Great Wolf Resorts, and the Bellagio.
- Attorneys and consultants said the leisure and hospitality industries have been especially hit hard by the coronavirus and that private-equity firms were looking at providing portfolio companies with cash during the downturn.
- "We continue to be big believers in the sector, and these are extremely high-quality assets," a spokesman for Blackstone told Business Insider.

Many of private equity's big bets last year centered on one idea: getting people out of the house and into locations for entertainment.

But now amusement parks and resorts are closing to visitors, and the spread of the coronavirus is keeping people at home.

Legoland announced it would close its theme and water parks in Florida and California through the month of March; Great Wolf Lodge said it would close all of its 19 resorts in 13 states, with plans to reopen on April 2; and MGM said it would close its Las Vegas resorts, including the Bellagio.

All three of those companies are under the management of the Blackstone Group, which in 2019 took the owner and operator of Legoland, Merlin Entertainment, private in a $7.5 billion deal. It also took a 65% controlling stake in Great Wolf to form a $2.9 billion joint venture with Centerbridge Partners and bought the Bellagio for $4.25 billion in a sale-leaseback deal.

"We continue to be big believers in the sector, and these are extremely high-quality assets," a spokesman for Blackstone told Business Insider. "Fortunately, our investing model allows us to hold for the long term through periods of market turmoil."

Private-equity firms have poured billions into outdoor and visitor attractions, from TPG's investments in Viking Cruises and Cirque du Soleil to Apollo Global Management's ownership of the live-entertainment golf company ClubCorp.

On Thursday, a Reuters report citing sources familiar with the matter said that Cirque du Soleil was exploring debt restructuring options that included a possible bankruptcy filing. Cirque du Soleil has not yet decided how to address its finances, according to the Reuters report.

Apollo and TPG did not immediately respond to a request for comment from Business Insider.

'Lost opportunity'

Attorneys and consultants told Business Insider the leisure and hospitality industries have been especially hard hit by the coronavirus and that private-equity firms with investments in these areas were looking at providing their portfolio companies with cash during the downturn.

Christopher Sheaffer, a lawyer at Reed Smith who advises private-equity firms, said he expected to see some restructurings as a result of the downturn and pointed to the hospitality sector as one obvious area where companies are hurting.

"I don't think it will be the large hotel chains filing for bankruptcy per se, but being in that sector means you are just losing revenue as opposed to deferring sales for example," he said. "It's lost opportunity. Anything in the hospitality sector is going to get beat up pretty bad here."

Typically, a private-equity firm will manage a company for between three to seven years before selling it, ideally for a profit, and any economic turmoil that occurs between that buying and selling will change how a firm manages its investment.

Steven Siesser, a private-equity lawyer at Lowenstein Sandler, said he believed the economy would snap back and people would start going to concerts and live events again.

"I think it's premature for anybody ... to say it's going to be a loss" for investors, Siesser said.

Right now, private-equity firms are looking into short-term liquidity solutions for their portfolio companies while also deploying their armies of operating partners — former CEOs and other C-suite executives who help portfolio companies make decisions about layoffs, jettisoning of business lines, and operational improvements.

Private-equity firm phones up CEOs

Eric Resnick, the CEO of the private-equity firm KSL Capital Partners, oversees numerous companies within the leisure and hospitality sector, including Margaritaville Hollywood Beach Resort and Outrigger Hotels and Resorts. The firm was formed in 2005 as a spinoff of a KKR portfolio company, and it owns and operates ski resorts, hotels, fitness companies, and clubs.

Resnick told Business Insider last Thursday that he was holding daily phone calls with the CEOs of his investments, as well as investors in KSL Capital Partners, to talk about how they're managing the situation. On joint CEO calls, he said, they are sharing what actions they're taking and trying to learn from each other.

At one of his companies, senior management took a 50% pay cut to keep essential service staff intact to maintain business operations, he said. Another company in which KSL Capital is a controlling shareholder, the ski-resort conglomerate Alterra Mountain Co., shuttered resorts coast-to-coast, including Squaw Valley to Steamboat, to help stop the spread of the coronavirus, he said.

"Your concern then turns to protecting employees and seasonal staff who are now finding themselves without a job," he said. "We're being as accommodating as we can, utilizing employee housing and assisting in transportation back to homes where they live."

But Resnick said KSL had seen numerous downturns in the past, from the tech bubble to the global financial crisis, and that even though its portfolio was placed at the epicenter of the coronavirus meltdown, its investments were strong in the long term. He pointed to $4 billion in liquid assets that KSL would now use, in part as cash to alleviate its investments. And he said his firm would not be forced to sell any of its businesses at a discount in this environment.

"If you think about a public stock, the thing that matters is the price you buy it at and price you sell it at," he said. "If it's up and down in between, it can create angst. But fundamentally, it doesn't impact your return. The same thing applies."

In the long term, Resnick remained confident about people's "burning desire" to get out of the house, travel the world, and embark on adventurous excursions, especially after the downturn subsides.