CENTER FOR
PRIVATE EQUITY AND
VENTURE CAPITAL

Ski Industry Consolidation

Trends, Economics, and Implications

Conor Carlucci

Friday, May 15, 2020

This Started with a Question

What is driving the consolidation of the ski industry and what does it mean?

Trends

Mega Passes & Consolidation

Implications

US Ski Industry

Overview & By the Numbers

The Ski and Snowboard Resorts Industry

is composed of companies engaged in operating downhill, cross-country, or similar skiing areas (or operating equipment, such as ski lifts and tows).

These operators often **derive income from:**

(1) mountain operations

(2) food and beverage

(3) real estate

(4) equipment rental services

(5) ski instruction services

By the Numbers

Skiers	**10M**
Skier Days	**60M**
Industry Wide Revenue	**$3.2B**
# of Resorts (US)	**480**
Major Players	**2**

Two players – Vail Resorts and Alterra Mountain Company – have come to dominate the US Ski Industry over the last five years

	VAIL RESORTS	ALTERRA MOUNTAIN COMPANY
DATE INCORPORATED	1997	2018
OWNERSHIP STRUCTURE	Public	Private Equity – KSL Partners & Crown Family
# OF RESORTS OWNED (PARTNERED)	37 (43)	15 (43)
2019 REVENUE	$2.3B	$680M*
OPERATING MODEL	Consistent Experience	One company, many unique brands
2018 PASSES SOLD	925K	250K

Rapid Consolidation:
In 2015 Vail owned only 11 resorts and Alterra did not exist

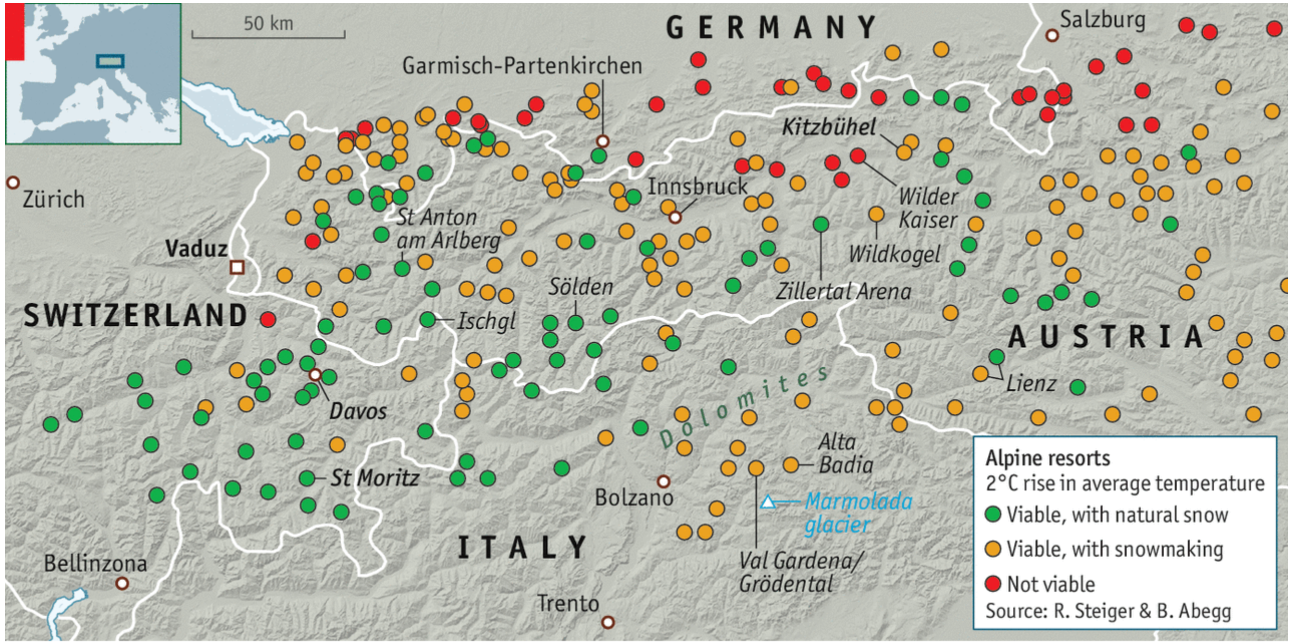
**Alterra Revenue Estimate from IBIS Worldwide*

The ski resort industry is capital intensive, which is being exacerbated by climate change – these trends are ultimately driving consolidation

- Resorts must build and maintain ski lifts, real estate, snowmobiles, and rental equipment – contributing to high capital costs (a new chairlift can cost up to $10M)
- The western snow season has shrunk by 34 days since 1982
- Capital intensity has increased notably over the past five years – largely due to snowmaking infrastructure
- Resorts with snowmaking capabilities can attract more visitors when snowfall is poor
- Snowmaking to cover 1 acre of terrain is ~$5K; snow making can account for up to 15% of operating expenses in total

Snowmaking is not only costly; it makes the problem worse

"How paradoxical. Snow-sports enthusiasts think of themselves as great lovers of nature and clean air, more conscious than most people of the changing climate. Yet their sport is becoming ever more man-made, expensive and exclusive. Perversely, it is also becoming more polluting, producing ever more emissions of greenhouse gases to survive." – The Economist



Economist.com

[The Economist: Winter sports face a double threat, from climate and demographic change]

Capital intensity and weather variability have led to the rise of the mega pass, and in-turn consolidation

KEY REVENUE STREAM RISK

Lift-tickets provide the foundation of ski industry economics

But, a resort that offers only skiing is a risky business model

HEDGING STRATEGY

1 Own the skier

2 Own the mountain

RISE OF THE MEGA PASS

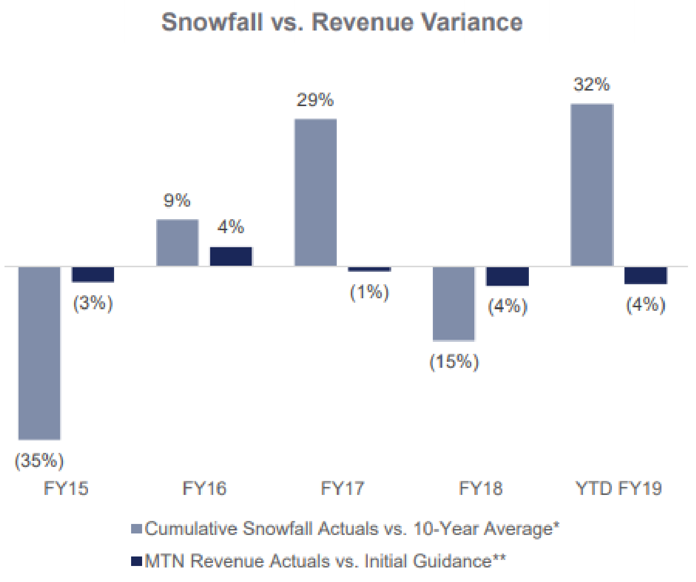
epic™ SEASON PASS

1 OWN THE SKIER

1) Pulls revenue forward:
   Smooths cashflows, reduces weather dependence
2) Better customer data leads to more sophisticated marketing
   capture more revenue from shrinking customer base
3) Fulfill Consumers Travel Aspirations:
   Drive customers to high-margin resorts and increase customer LTV

2 OWN THE MOUNTAIN

1) Vail has spent almost $2B on acquisitions since 2014
2) Acquired marquee resorts throughout North America
   Whistler Blackcomb, Park City Mountain Resort, Stowe Mountain Resort
3) Capture all revenue once skiers are at resort
   Average Family spends $20K/week at Vail



Vail paved the way for KSL and Aspen Snowmass to form Alterra, entering the arms race of megapasses

ALTERRA OWNERSHIP STRUCTURE	Alterra is the creation of KSL Capital Partners – renowned investors in travel and leisure. GPs led Vail Resorts IPO. KSL has raised 4 PE funds and 2 credit funds, with ~$9B in equity commitments Aspen Skiing Company is the other equity owner, which is in turn owned by Henry Crown and Company
INVESTMENT THESIS	Compete in the arms race of the megapass, by rollup of geographically diverse assets Aggregate through pass program and drive consumer behavior up the aspirational funnel

Aspirational Funnel: selling the potential of adventure, through always having a better experience to offer

RESORT TYPE	Local	Drive-To	Destination	Hardcore
RESORT	WINDHAM MOUNTAIN	Sugarbush	DEER VALLEY	CMH HELI-SKIING

The Big Question: *Can the Alterra rollup justify the PE investment and achieve a successful exit?*

AN IPO IS THE LOGICAL EXIT OPPORTUNITY	An IPO is the logical next step for Alterra – highly unlikely that private capital is attracted (e.g., selling to Blackstone) Rolling up a portfolio to compete in the arms race – selling the parts is also unlikely
PATH TO IPO	Drive growth and margin in the current assets through growing market through customer targeting, increasing market share, improving customer experience Inorganic growth opportunities are limited as ski resorts are finite: the last major resort built in the US was Beaver Creek in 1980
BIG QUESTION MARK	IPO goal would be (1) an exit event for KSL and Henry Crown & Company and (2) capital infusion for operating and future investments Both climate and demographics are working against the industry: **is there a public market appetite for an offering in an industry experiencing secular decline?**

Implications for Industry Future, Investors, Consumers:
Can these two mega companies create value for investors and consumers?

	Trend	Issue to Resolve
1	The addressable market of skiers is in decline *Aging of population and rise of substitute activities*	*Only 7% of new skiers stick with the sport, can resorts improve retention?*
2	Small independent resorts are struggling, but remain critical for building the pipeline of future customers	*How do resorts build a pipeline of future customers?*
3	Difference in approach to operating models between Vail and Alterra: Brand consistency v. portfolio of unique resorts *"Vail pulling the soul out of skiing"*	*Which model resonates with consumers?*
4	Millennials have desire to travel, but ski less than older generations	*Can resorts achieve success in pushing consumers up the aspirational ladder?*
5	Tech enables synergies in marketing, scale enables synergies in capital purchases and employee benefits	*Can resorts continue to find operating efficiencies?*

TUCK
SKI & SNOWBOARD CLUB

What is driving the consolidation of the ski industry and what does it mean?

Answer

What happened?

Climate change
led to rise in Epic pass

Vail became a monopoly
through Epic Pass capital and customer growth

Attracted Investors
Alterra entered the megapass arms race

What might happen in the future?

Significant Headwinds:
(1) Climate change
(2) Shifting demographics / shrinking customer base

What to watch:
- *Diversification – Vail increased summer business by 34%*
- *Retention rate from 7% to 10-12%?*

Key Question?

What is the exit for Alterra – is there a public market appetite?

Appendix: Coronavirus impact on Ski Industry

On March 14th, a vast majority of the ski industry shut down abruptly

Roughly 50% of revenues come from lodging, food and beverage, and ski schools. How constrained will operations be in the 2020/21 season?

Vail Resorts issues $600M bond on April 27th, received a two-year break on debt covenants.

Debt to EBITDA Ratio approaching 4x; postponed major capex projects – credit downgrade by S&P

On the positive side, one resort executive suggested that since more people can work remotely, there may be an uptick in full-time residents in ski towns

Resorts were slow to respond to the public backlash associated with closing early – Vail eventually issued partial credits for next season's passes