Ski Industry Consolidation
Trends, Economics, and Implications

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Friday, May 15, 2020
**This Started with a Question**

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

<table>
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<th>Trends</th>
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<td>Mega Passes &amp; Consolidation</td>
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<td>Implications</td>
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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

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<tr>
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<th>VAIL RESORTS</th>
<th>ALTERRA MOUNTAIN COMPANY</th>
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<tbody>
<tr>
<td>DATE INCORPORATED</td>
<td>1997</td>
<td>2018</td>
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<tr>
<td>OWNERSHIP STRUCTURE</td>
<td>Public</td>
<td>Private Equity – KSL Partners &amp; Crown Family</td>
</tr>
<tr>
<td># OF RESORTS OWNED (PARTNERED)</td>
<td>37 (43)</td>
<td>15 (43)</td>
</tr>
<tr>
<td>2019 REVENUE</td>
<td>$2.3B</td>
<td>$680M*</td>
</tr>
<tr>
<td>OPERATING MODEL</td>
<td>Consistent Experience</td>
<td>One company, many unique brands</td>
</tr>
<tr>
<td>2018 PASSES SOLD</td>
<td>925K</td>
<td>250K</td>
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*Alterra Revenue Estimate from IBIS Worldwide

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

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

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**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?*

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<th>AN IPO IS THE LOGICAL EXIT OPPORTUNITY</th>
<th>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</th>
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<td>PATH TO IPO</td>
<td>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</td>
</tr>
<tr>
<td>BIG QUESTION MARK</td>
<td>IPO goal would be (1) an exit event for KSL and Henry Crown &amp; Company and (2) capital infusion for operating and future investments Both climate and demographics are working against the industry: <strong>is there a public market appetite for an offering in an industry experiencing secular decline?</strong></td>
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## Implications for Industry Future, Investors, Consumers:
*Can these two mega companies create value for investors and consumers?*

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

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<th>Roughly 50% of revenues come from lodging, food and beverage, and ski schools. How constrained will operations be in the 2020/21 season?</th>
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<th>Vail Resorts issues $600M bond on April 27\textsuperscript{th}, received a two-year break on debt covenants. Debt to EBITDA Ratio approaching 4x; postponed major capex projects – credit downgrade by S&amp;P</th>
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<th>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</th>
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<th>Resorts were slow to respond to the public backlash associated with closing early – Vail eventually issued partial credits for next season’s passes</th>
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