

Consolidation: Analysis and Direction

What are the deals and why are they being made? What is critical mass and when do you get it? Are smaller independents at risk, or are they the beneficiaries? SAM steps up to the plate with some answers.

Staff Analysis

It used to be you could get a good debate between area operators on the value of detachables or snowmaking automation. Now all anyone wants to talk about is consolidation. Not only "Who's going to be next?" but also "What does it all mean?"

The simplistic, universal answer to the big question about meaning is that it's all about making money, economy of scale, synergy and adapting to change. The other simplistic observation is that consolidation is going on around us in virtually every field, from the turbulent, fast-changing health care industry to banks to the funeral industry.

As American Skiing Company's grand consolidator, Les Otten, puts it, "We operate under tenets common to the rest of the American economy. Because you're in this business called skiing doesn't mean you're somehow removed from marketing forces and how you motivate people to do things and buy things."

One of the key concepts, whether dealing with hospitals, banks or ski resorts, is that of critical mass. When it is achieved it can provide access to new thresholds of capital, attract strategic partners, give purchasing leverage and generate marketing torque. Critical mass is usually not a definable amount or level; rather, it is recognized by judgment or instinct; it can also be recognized after the fact on the basis of its results.

How does the existence of these agglomerates with critical mass affect the rest of the industry that lacks it? To get at this

one must look at the separate outcomes of critical mass.

- *Access to capital*—Financial analysts seem to agree that there is a lot of capital nowadays chasing opportunities. But there also seems to be consensus that critical mass—at least in our field—must exceed \$100 million to catch the attention of serious investors. Above that level, the packages can be creative and flexible (see Otten interview, Page 58), and the fact that the investment community today *can* find some interesting opportunities in the ski resort field is a positive development. Without that threshold of critical mass, however, an area is probably dealing with conventional bank financing where they have the unfortunate custom of wanting to amortize, and harbor the stingy notion of wanting their money back within six or seven years.

The deals being made these days are based on multiples of various factors. If it is skier visits, the multiple is now around \$60 to \$80, so a ski area with 500,000 skier visits might be expected to sell for between \$30 and \$40 million. But that considers operations and has to be modified by any upside real estate potential, just as it might be lowered if the condition of the assets warrants. Another indicator is of gross revenue, and most deals today go for a multiple of between 1.25 and two times that figure. The most common multiple used is of EBITDA (usually pronounced "eebit-dah")—standing for Earnings Before Interest, Taxes, Depreciation and Amortization. It

"I hope [consolidation] is a big wake-up call"—Les Otten

is a more precise way of expressing the concept of net cash flow, or NOI (net operating income). Most deals are coming through between five and eight times EBITDA, with the median around six, which is clearly financeable.

Such calculations of multiples are reality checks more than anything else, or a sort of shorthand to justify a deal—or not, as the case may be.

- **Attracting strategic partners**—The world of sponsors—their recruitment, care and feeding—has become fiercely competitive. No longer is it some ill-defined exposure offered in return for a juicy check. Sponsors demand and get a lot of *quid* for the *quo* they supply. So, the ability of a resort company to offer a soft drink company exposure at a whole string of resorts, for instance, or do a bank card deal, is powerful “stuff.” There is critical mass that allows the partner to design a whole integrated program, rather than a tentative scattershot deal.

- **Marketing leverage**—Joint marketing programs with the strategic partners is an attractive and efficient option that vastly increases the reach of a marketing effort. In addition, the ski consumer can be attracted by pricing incentives to ski within the company's family of resorts where they can also offer the consumer a variety of experiences and ambiances at *different* resorts, while funneling the revenue stream into the *same* cor-

porate coffers.

- **Buying leverage**—“You’re going to have to do better on your proposal at our XYZ operation if you want to be considered for our expansion at ABC.” In one form or other, the buying power of a multi-resort company is exerted at the supplier level. That’s the real world.

So, does all this leverage—all these advantages that accrue to multi-resort companies with critical mass—mean there is no hope for the rest, the independents? Should they be scared?

“I don’t think ‘scared’ is the right word at all,” says ASC’s Otten. “But I hope it is a big wake-up call. I think there are some real opportunities ahead.” And George Gillett echoes the thinking, with the word “opportunity” becoming almost a mantra.

The rationale is that the big players are going to be re-energizing the sport—“fevering it up,” to use Otten’s expression—as they reach out to get new participants with literally tens of millions of promotional clout, creating awareness and a desire to participate. Independents, the argument goes, are inevitably going to benefit from all this positive exposure of the fun of the sport. Their opportunity is to piggy-back—to hustle to develop exciting, unique programs of their own to catch the wave.

Another strategy for independents is to form alliances with

(Continued on page 71)

6 Biggest Multi-Resort Groupings and What They’re Doing

The six principal consolidators in the ski resort field are (listed alphabetically): American Skiing Company (3.0), Booth Creek Partners (1.5), Boyne USA (1.2) Intrawest (2.6), Powdr (1.2) and Vail Resorts (5.0). The numbers represent an estimate in millions of skier visits of what their announced properties might be yielding. (Some acquisitions were not final at presstime or were subject to Department of Justice (DOJ) review.)

American Skiing Company—What was one Maine resort, Sunday River, just three years ago is now a seven-resort grouping with the second largest skier visit volume. Though currently positioned as a northeastern regional power, ASC’s owner, Les Otten, is prowling the country. He has been talking to Squaw Valley’s Alex Cushing and has shown interest in Hunter Mountain, N.Y. He has promised “some surprises before the year is over,” and he seldom disappoints on his promises.

Booth Creek Partners—George Gillett heads up a family enterprise consisting of his business-savvy wife, Rose, and four sons. They picked up two New Hampshire resorts spun off by ASC as required by DOJ, and bought the three California resorts owned by Fibreboard, which itself was up to that point a fast-track acquirer of ski resorts. The Gilletts are looking for more ski operations with expansion potential. Claiming underdog turf, Gillett looks forward “to having fun nipping at the heels of the big conglomerates.”

Boyne USA—Veteran ski area builder, Everett Kircher, whose fortune was made as a major GM car dealer, has been putting together a far-flung grouping of ski resorts and golf courses, with his Michigan resorts, Boyne Mountain and Boyne Highlands, as the hub. Also with sons in the business, Kircher made an unsuccessful run at California’s Kirkwood last year, losing out to Telluride owners. He was also a finalist recently in New Hampshire before losing out to Gillett on Waterville Valley and Cranmore Mountain. Boyne USA recently agreed to buy Crystal Mountain, Wash.

Intrawest—A dynamic, publicly traded Canadian company that has picked up resort properties in all four corners of North America, from Quebec and Vermont to California, from West Virginia to the Canadian West. Though their emphasis is perceived as real estate development, their strategy calls for strong resort operations. As a company, Intrawest is constantly in the acquisitive mode and is currently negotiating with Alex Cushing (Squaw Valley, Calif.) and talking to Maurice “Hank” Greenberg (Stowe, Vt.).

Powdr—The most enigmatic of the six, Powdr is run by the father/son team of Ian and John Cumming. After originally buying Nick Badami’s properties of Alpine Meadows, Calif., and Park City, Utah, they added California’s Boreal in 1995. They do not seem to be in the chase, but could join at any time.

Vail Resorts—At least for now, the biggest and arguably the grandest. With Vail, Beaver Creek and Arrowhead, they have serious mass; add Breckenridge, Keystone and A-Basin and it becomes critical mass. The question is whether or not DOJ allows the purchases to stand. Investment entrepreneur Leon Black, whose Apollo Group acquired Vail/Beaver Creek out of the 1992 bankruptcy of Gillett Holdings, cashes in this fall with the sale of some Vail stock in an IPO. But he still controls, and some predict he will nurture the asset only to the point where it is irresistible to some other player in the overall big-time recreational or entertainment field.

CONSOLIDATION

(Continued from page 56)

other areas and thereby develop some of the benefits of joint marketing and buying. The first such alliance to form was Mountains of Distinction, a grouping of eight mid-size areas from Pennsylvania to Vermont that also negotiated a special relationship with Vail. They have retained marketer Käthe Dillmann to administer their joint efforts. There could well be more such alliances, with one reportedly being discussed in Colorado.

Will there be more consolidation? Yes, almost certainly. Is that bad? Probably not. The multi-resort owners of Jay Peak, Vt., for instance, are deliberately putting that resort on the block on the assumption it will look attractive in today's acquisitive marketplace. And to those who play the speculation game, a trophy like Heavenly in California looks like an appetizing target now that it has its major permitting in place to expand into a new year-round operation with awesome potential.

But is this piecemeal building of ski resort conglomerates the endplay or is it foreplay? To use the imagery of a seventh grade natural science course, is the industry undergoing metamorphosis, perhaps just now finishing up its larval stage and reconstituting as pupa so that we can realize our destiny as something quite different?

Are we being absorbed and in time will be seen as one asset in an entertainment portfolio in much the same way that, say, *Time* magazine, once the powerful flagship of a publishing empire, has become a simple asset of a giant entertainment company called Time-Warner?

The jockeying of the big players—Intrawest, Apollo Group,

American Skiing Company, Gillett's Booth Creek Partners and others—can be seen as the fashioning of bite-size chunks of business that will be packaged for profitable sale to corporate entertainment entities down the road.

Who knows whose corporate umbrella we might be under one day, but for the sake of example, think of Disney Enterprises in the role. Let's say they decide on an expansion strategy that involves building an international travel-related network of hotels, travel agencies and golf, ski and island resorts. Everett Kircher's Boyne USA, with its mix of choice golf and ski resort properties, might become a Disney target, as might Apollo Group's Vail Resorts and Les Otten's American Skiing Company. The process would supply exit strategies for these and other packaged properties, and Disney would end up with a critical mass that would produce a healthy cash flow for that division—and they would have it all for a fraction of what they spent to buy Capitol Cities/ABC.

The above is purely speculative, but if some sort of scenario like it did start to play out, what would be the impact on all the remaining independents? There is no computer model to turn to for answers, but logic would suggest that an even brighter array of opportunities would open up for the alert and nimble. The giant new players would have an ever-greater need to keep the pipeline of participant winter sports enthusiasts full, and ski areas offering convenient, attractively priced, basic snow-sliding fun should be able to thrive.

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REGIONAL REPORT

Consolidation Gets Mixed Reviews

by Linda Goodspeed

"Everybody's talking about 'market synergy' and the 'synergy of size' that's going to result from all these mergers," said Ted Motschman, general manager of Mount La Crosse, Wis. "I'm not dead sure what that is."

This was one of many responses SAM got on a spot survey of several ski area operators from around the country. Their answers about the impact of merger mania were both surprising and candid.

Market Synergy: True or False?

Expanding on his response, Ted

Motschman added, "When all the major resorts in the same weather system are owned by the same company, to me, market synergy just means they're all going to get nailed at the same time."

Added Richard Kun, president and general manager of Snow Summit, Calif.: "The theory of ski area synergy is just that, a theory. I think a lot of talk and purchases have been made with this theory in mind, but I haven't heard of anybody proving it. I'm not talking about economies of scale and efficiencies in operating costs. I'm talking about marketing, where ski areas can create visits between them. If each one makes money, fine. But if you're buying strategically so each area feeds the other skiers, that's one I'm very skeptical of."

Kun and Motschman are not alone. Marketing synergy—the idea that ski areas under one parent corporation can feed each other skiers—seems to have few believers around the industry.

"Maybe I'm missing something," said Dave Crowley, general manager of Wachusett, Mass. "But if I'm a Mount Snow skier and own a house there, and my son's in the racing program there, why

would I want to ski Sunday River?

"I'd love to be proven wrong," Crowley continued, "but I don't get it. We've always been taught to promote loyalty in ski area marketing, why my ski area is best. Now we're teaching trial, encouraging skiers to ski other areas that are part of my partnership. If I'm a customer, I would find it very schizophrenic."

Tim Mueller, president of Okemo, Vt., also questions how much one area can help increase skier visits at another area. "People who ski a lot tend to have lodging, a home base. This is not to say the conglomerates can't get the person who's not attached. But how much more areas can do between areas I don't know. What the conglomerates have to do is grow the market. They'll say that's what they're trying to do. But the realism is somewhat questionable. I think there will still be attempts to steal market share."

Bill Stenger, president of Jay Peak, Vt., which has just been put up for sale by its parent conglomerate, Mont Saint Sauveur International of Canada, disagrees. "We all know that increasing skier frequency is at the core of our growth needs," Stenger said. "We need to get skiers who

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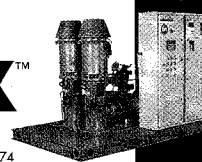
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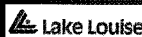
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ski four or five times a year to ski nine or 10 times. A good ski experience is what makes people do that. A good ski experience comes from good lifts, good grooming, good snow. These areas that are merging and being acquired are coming forward with investment scenarios that are going to improve their product and service, and the customer's going to be the beneficiary of that. I buy into the fact that with better products our customers are happier, and happy customers come back more often."

Steven Showalter, general manager of Massanutten, Va., thinks southern skiers will be prime candidates for market synergy. "Being able to buy a ticket that's good at five or six areas and then stay in a central location certainly has a lot of appeal to me," Showalter said. "I think it's going to give people who travel north and west options they never had before."

Vern Greco, president and CEO of Purgatory, Colo., agrees market synergy can be achieved, but says it won't be easy.

"If Vail can take its existing customer base and learn which of those customers have a tendency or preference to visit another area next year, and can then reach that customer at his decision-making time and offer him that product at one of Vail's other areas, you can indeed feed skiers from one area to another. But it requires not just good market segmentation, but *great* market segmentation. That's really all market synergy is—great market segmentation."

Operational Synergy

Most independent ski operators were also skeptical of how much synergy—in this case savings—was possible on the operations side.

"Unlike manufacturing, where you can consolidate operations and eliminate duplication and actually cut costs because of it, you can't consolidate that many operations in the ski business," said **Dennis Eshbaugh**, president and general manager of Holiday Valley, N.Y. "You still have to park cars at all your various locations, you still have to make snow on every trail, you still have to groom at every area. I think you can get some synergy on the management side, the sharing of ideas and leadership and so forth. There's a lot of potential for synergy there, but I think we've worked very hard on that across the entire industry, including the independents."

"I disagree you can't get efficiencies out of the operations side," Greco said. "I think you can. But it hasn't happened yet in any of the multi-area ski resort groups we've seen so far. I keep asking myself, 'When is one of these big conglomerates going to be bold enough to genuinely flatten out the organizational chart?' Clearly, you can't eliminate some jobs at every area. You still have to have somebody oversee all the moving parts at every area. But maybe it's an operations manager as opposed to an operations vice president. There's still a lot of duplication out there in all these conglomerates. Simply combining companies doesn't mean you're going to get efficiencies."

Kun had a different view: "One thing that's been under-appreciated in the ski industry is how difficult it will be for a central headquarters of a conglomerate to operate all these unique little subsidiaries. Ski areas are not like a chain of hotels or restaurants. They are unique operations, unique in character. By nature, ski areas don't lend themselves to management from above, the way some units of a chain might. I think there's going to be a lot of headaches in the

industry before some people grasp that management from afar in the ski area business is very difficult."

Deal-making Synergy: An attitude?

"One of my problems with some of the conglomerates is that they're behaving like real bullies," said one eastern ski resort operator who asked to remain anonymous. "If there's a deal out there, they've grabbed it."

Another ski area operator told how he had been invited to participate in a CD promotion only to have the recording company revoke the offer after the ASC took over the promotion in the ski operator's state. "They don't even have a ski area in this state," said the operator. "It's a small thing, but I sense a real attitude."

Another operator lamented the way one of the conglomerates in his region had grabbed personnel from rival companies. "In one case, they even flew down in a plane and got the person."

"I do think the clout some of these conglomerates have in terms of attracting corporate sponsorships and the deals they can offer is a real concern in the industry," Mueller said.

On the other hand, the conglomerates have opened up partnership opportunities for the independents that they never had before. At Wachusett, Crowley said as a result of ASC's exclusive deal with Mobil, "I have deals with Gulf, Shell and Exxon. This probably wouldn't have happened if ASC hadn't picked Mobil. They could only pick one which left the other three scrambling for partners."

Similarly, Crowley said that ever since ASC switched their food companies, Wachusett's food supplier "has been much more attentive to me."

"In some ways I think all this deal-making and buying power the conglomerates have has opened up opportunities for all of us by making the suppliers more competitive."

Other Thoughts

Tim Cohee, president and CEO at Kirkwood, Calif.: "If you're not one of these guys (part of a conglomerate) and you don't have a real point of difference, you've got to be a little worried."

Tim Mueller at Okemo: "I think all the merger activity is helping legitimize skiing on Wall Street, and that's going to be

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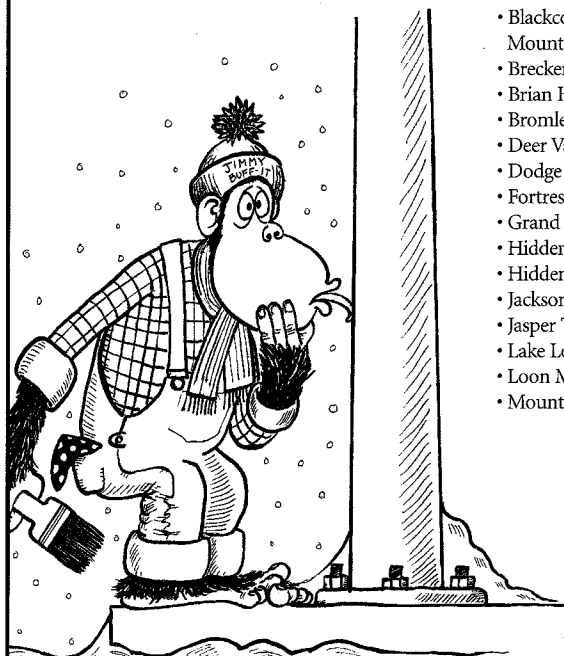
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good for the industry as a whole. Trying to raise capital for a startup or fledgling ski area is very difficult because the industry as a whole is viewed as very risky, weather-related—a luxury-type item which all adds to risk. Wall Street is very risk-averse. So the conglomerates are opening up a new funding market for a lot of ski areas by legitimizing investment in skiing."

However, others are worried about the amount of investment by some of the conglomerates and the way they are raising the money. "Some of the prices being paid for some of these areas are subject to discussion," said one ski area operator, who asked not to be named. "And the instruments that are being used to finance them could be considered speculative. I guess we'll just have to wait and see if these people made the right move."

Another east coast operator worries about the ripple effect a financial setback at one of these large companies could have on the entire industry.

"If one of these large companies stumbles, it could be a real PR black eye on the entire industry. Interest rates could rise, and eight or nine ski areas could all run into trouble at the same time. People might perceive it's an appeal problem when it's really a financial problem. It could create widespread belief that skiing is having problems.

"My belief is that the opposite will happen—that with all the cash going into these areas, the ski industry is going to see a renaissance."

Finally, as everybody keeps reminding everybody else, ski area mergers are not new. Areas have been consolidating for some time now. And those who've been competing head-to-head with multiple ski area companies, say the conglomerates have made them better and smarter.

Just ask Richard Kun at Snow Summit, who went head-to-head with S-K-I, then Fibreboard and now Gillett. "We're a better, stronger company by far than we were 10 years ago when S-K-I first came in and bought Bear Mt.," Kun said. "It was a classic example of competition making you better. We had to respond and not sit on our duff, and we did respond. And we're a better company because of it."

"It's not unlike when Walmart moves into town," added Greco at Purgatory. "The smart retailers thrive and actually get better. It's the ones who fail to look far enough ahead who get hurt in my opinion."