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

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 been 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.

Our industry may yet come out of our pupal cocoon as a precious, exotic butterfly of great worth—the prize asset in the greatest entertainment portfolio of them all. ■