How Vail Resorts is changing skiing

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One Tuesday morning in early March, the day before Vail Resorts Inc.'s scheduled earnings announcement for the second quarter of Fiscal Year 2017, I clicked in to my skis outside a 10th Mountain Division backcountry hut high in Colorado's Sawatch Range, nearly 12,000 feet above sea level.

The first light of dawn was just bleeding into the sky. I was less than 20 miles as the crow flies from the site where Pete Siebert and Earl Eaton, back in March of 1957—60 years earlier almost to the day—first stood on skis atop the "no-name mountain" that would eventually become the centerpiece of an $8.5 billion global resort and hospitality empire. Eaton had come upon the terrain while prospecting for uranium. Siebert was a WWII ski trooper, nationally ranked slalom racer, and a ski patrolman at Aspen. "My God, Earl," he famously said, looking across wide open powder fields (that would later be trademarked as Vail's World-Famous Back Bowls™ and Blue Sky Basin™), "we've climbed all the way to heaven."

My plan for the day was to ski down to the car and drive to Broomfield for a congenial visit to Vail's LEED-certified corporate headquarters. Ideally, I'd sit down for a quick chat and maybe even a beer with CEO Rob Katz, recently hailed in the local press as "the most powerful man in the ski industry." He'd been on Vail's Board of Directors since 1996 and lead director since 2003. Since taking the helm as Chief Executive in 2006, he'd pissed plenty of people off—moving the company offices from the mountains to the suburban Front Range (to cut costs); pulling Vail out of (and nearly breaking) the marketing-slash-trade association Colorado Ski Country USA; mocking climate change in the national media; underpaying employees; and leading the charge to purchase and homogenize major North American ski resorts. He'd also successfully brought Vail Resorts through a devastating recession; navigated an unprecedented spree of ski resort acquisitions; helped push legislation through Congress (the Ski Area Recreational Opportunity Enhancement Act) to allow for greatly expanded summer use of public lands under existing ski area permits; began a protracted battle with homeowners at Beaver Creek over a proposed roller coaster; pioneered the popular Epic Pass program; and overseen—despite less than one percent growth in skier numbers over the past two decades—one of the most impressive, sustained stock growth curves on Wall Street in recent history.

"It's unbelievable actually," Hal Hallstein, managing partner at an investment advisory firm in Boulder, told me over the phone as we pored over Vail's SEC filings. Starting in about 2013, the price of shares in Vail Resorts began to climb at a steeper, more sustained pitch than anything on Vail Mountain. And it's still climbing today. "I haven't seen a stock like that in a long time," he said.

A week earlier, in late February, the company had announced an agreement to buy Stowe Mountain Resort from multinational insurance giant AIG for $50 million, securing a solid beachhead in the Northeast, cementing Vail's broad market dominance—as owner of 14 major resorts, from Whistler, BC (for which they'd paid $1.06 billion); to Wilmot, Wisconsin; to Perisher, Australia; plus a luxury hotel chain and numerous subsidiaries and affiliates. Consolidation was clearly the model of choice for robust stock growth in the ski business.

I was looking forward to asking Katz what all this might mean not just for shareholders and investors but for the future of skiing. Could he use all that buying power to improve the experience for skiers? Could he help make ski town economies more sustainable for the people who lived in them? Would he put some of his considerable leverage into trying to save winter from climate change? Vail's communications folks had at first seemed enthusiastic about the possibility of a feature article in this magazine, but the closer I got to Broomfield, the more questions they had for me. What exactly did I want to talk to Katz about? Who else was I talking to?

The ski down from the hut was less than optimal, Rocky Mountain-style, with a faint trace of overnight cold smoke on a layer of long warmed-over and refrozen breakable crust. I enjoyed myself thoroughly, going way too fast on a narrow track that had hardened into a blue-ice luge run through the aspens above the parking lot. I drove up over Fremont Pass, past the tailings reservoirs and the newly reopened Climax open-pit molybdenum mine. On a local radio program there was discussion of a 40 percent drop in Colorado's coal production, a modest uptick in oil and gas, and the blessings of a diversified state economy. As I shot out of the winter-brown foothills into the cancerous conurbation that is the Front Range (where I grew up), almost precisely as I hit the flats, I received an email on my phone. It went like this:

"At this point, and especially not today, we are not able to provide any spokesperson for you here at the company. At this point, we aren't sure how we'll be participating given the past coverage of Vail Resorts in Powder."

I assumed they weren't referring to newsy bits like "Vail Announces $13 Million in Updates at Wilmot Mountain" (2016) or "Vail Resorts Offers Free Skiing to Colorado Kids" (2015). I guessed they'd been piqued by a piece entitled "Campaign Donations Link Ski Industry Leaders to Climate Change Deniers" (2016), which revealed that high-level Vail executives, including Katz, had, both individually and through a variety of Political Action Committees, donated tens of thousands of dollars to politicians actively working to block regulation of greenhouse gas emissions. To be fair, the article also called out executives at Jackson Hole, Mammoth Mountain, Deer Valley, Snowbird, and Boyne Resorts for having made similar donations. Mammoth Mountain VP Ron Cohen, explaining to a local reporter that ski resorts have more complex agendas than simply curbing greenhouse gas emissions—like building bipartisan Congressional support for the development of zip-lines and mountain coasters on public lands, and for strategic public land exchanges to facilitate private base area development—dismissed the article as "just an oversimplification of the way the system works."

Katz's first job out of college was with Drexel Burnham Lambert, the high-flying investment bank that collapsed spectacularly in 1990 when one of its lead traders, "Junk Bond King" Michael Milken, went down for securities fraud. From there Katz moved over to a newly minted private-equity firm called Apollo Global Management, founded by a core group of Milken's former colleagues from Drexel. Katz, then 23 years old, was already deep into an apprenticeship in the complex and lucrative craft of mergers and acquisitions. Among the new firm's projects was Gillett Holdings, the bankrupt parent company of Vail Associates, which at the time owned Vail, Beaver Creek, hundreds of trademarked phrases involving the words "Vail" or "Beaver Creek," and two local TV stations in California. Katz and his team helped the company through a Chapter 11 reorganization, after which a limited partnership dubbed Apollo Ski Partners became majority owner of Vail Associates.

Thus began a golden age of outward expansion and vertical integration. In January 1997, the company took over Breckenridge and Keystone from Ralcorp Holdings, parent company of breakfast cereal and dog-food maker Ralston Foods. Vail would have kept A-Basin as well, except that Bill Clinton's Justice Department objected to what would have represented 38 percent control of the Front Range ski market and a virtual monopoly on skiing in Summit County. "Competition among ski resorts has meant discounts for Colorado Front Range skiers," the Acting Assistant Attorney General in charge of DOJ's Antitrust Division said in a press release announcing approval of the merger. "Without selling off the Arapahoe Basin resort, this deal would have resulted in fewer and smaller discounts on lift tickets."

In an Initial Public Offering that same year, Vail Resorts Inc., then valued at $660 million (just eight percent of what its valuation would be in two decades), sold 1.21 million shares at $22 each, raising $26.6 million in capital, half of which went to the existing shareholders of Apollo. The other half would go into improvements—high-speed quads, increased snowmaking capacity, food services, retail and rental operations, real estate development, and soon, further expansion and acquisitions.

The next move was a deeply contentious, $14-million, 885-acre expansion into a backcountry zone on the White River National Forest that would soon be called Blue Sky Basin. Sloan Shoemaker, now executive director of Carbondale-based Wilderness Workshop, was part of a growing group of conservationists and local citizens who were already voicing concerns about the ski industry's outsized growth model and its impact on public lands. "At that point, Vail, frankly, was considered the Evil Empire," Shoemaker told me. "They had this voracious appetite and they didn't really care about environmental concerns." In October 1998, a radical group calling itself the Earth Liberation Front burned down the Two Elk Lodge at the top of Vail to protest further encroachment into diminishing

Canada lynx habitat. Vail made an insurance claim and promptly rebuilt the lodge in grander fashion. The expansion went ahead, and Vail—at the time—claimed the title as the largest ski resort in North America.

What did I imagine Katz might have shared with me on the day before his company's quarterly earnings announcement? How much he loves skiing? How Vail Resorts Inc. understands the need to preserve and protect the authentic character of the far-flung mountain communities from which it derives its profits?

"Vail was always a little different from the other ski areas in the sense that they started out with what at the time was this very new vision of the total resort experience, to include not just the skiing but also the ready-built town at the base," said William Philpott, assistant professor of history at the University of Denver and author of Vacationland: Tourism and Environment in the Colorado High Country. "And they controlled things very closely, architecturally and otherwise. There was the fear that they would take these places that historically had their own unique, quirky identity, like Breckenridge, and homogenize them, and the soul or the identity of the community would be lost."

Over the next 18 years, the enterprise founded by Pete Siebert's friends and investors back in 1958 under the guise of the "Trans Montane Rod and Gun Club" would expand way beyond Eagle and Summit counties, buying Heavenly, Northstar, Kirkwood, Afton Alps, Mount Brighton (Michigan), Canyons, Park City, Perisher, Wilmot, Whistler Blackcomb, and finally Stowe, as well as the luxury hotel chain RockResorts, the ground transportation company Colorado Mountain Express, dozens of retail and rental outlets, thousands of trademarks, several small snowcat and heli ski operations, major corporate partnerships (Pepsi, Bud Light, Verizon, Starbucks, etc.), and a host of real estate concerns. By the time I received the email from the communications department, shares in Vail Resorts Inc. (MTN) were trading at $184 (as of this writing, the price had climbed to $228). Instead of an interview, they offered me a courtesy/consolation voucher for a day of skiing at the mother resort.

With GoogleMaps already set to 390 Interlocken Crescent in Broomfield, I decided I should at least go have a look at Vail's headquarters. I turned onto gracefully meandering Interlocken Boulevard toward a vaguely sand-colored office building. Clouds piled up over the distant mountains. Inside, shades were drawn against the glare of the afternoon sun. It was windy, but unseasonably warm. To the right of the main revolving entrance door a diminutive sign proclaimed "Vail Resorts: Experience of a Lifetime." In smaller print on the door itself: "This area may be subject to video surveillance."

What did I imagine Katz might have shared with me on the day before his company's quarterly earnings announcement? How much he loves skiing? How Vail Resorts Inc. understands the need to preserve and protect the authentic character of the far-flung mountain communities from which it derives its profits? How Vail is a model steward of public lands? How last year the $8.5 billion company "contributed over

$7 million in cash and product to over 250 nonprofit partners in its resort communities" and $30 million toward affordable housing options for its employees? How over the last five years it invested more than $3 million in energy-saving measures and achieved a 19 percent reduction in energy consumption since 2008? How by the sheer force of capital it was saving ma-and-pa operations in the Midwest (Mount Brighton, Afton Alps, Wilmot) for the creation of new generations of skiers and the long-term survival of skiing? How "everything we do is driven by the spectacular natural environments that we operate in"? How "the environment is our business and our passion"? How one day, in a couple of short generations, when his grandkids are riding up to the mountains with their kids in self-flying pods, though there may not be any snow, there will surely be all sorts of super fun gravity-based analog experiences, as well as synthetic beef patty sandwiches available for purchase?

"Vail Resorts is best in class," said Jamie Schectman, CEO of Mountain Rider's Alliance. Schectman spends most of his time trying to help small community ski areas survive in an era of ballooning infrastructure costs and massive ski industry consolidation. We met later that winter on top of Mammoth Mountain, in the wake of that resort's high-profile $1.7 billion merger with Aspen Skiing Company and Denver-based private-equity firm KSL Capital Partners. "All of Vail's ski resorts are meticulously operated," he added.

They also know how to wring maximum profits from skiers, he explained, luring them in with what he called "Walmart pricing," by which he meant the still relatively inexpensive Epic Pass at $879 (650,000 sold in 2016 for more than $500 million in preseason, weatherproofed revenue for Vail Resorts—more than 30 percent of its annual revenue). The company then takes a big piece of every transaction thereafter: lodging, parking, ski rental, equipment sales, clothing, lessons, food, and beverage. "Vail Resorts is a publicly traded company whose sole goal is to make its shareholders as much cash as possible," Schectman said. "Their operating model is about the next quarter, not the next generation."

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The KSL/Aspen/Mammoth/Intrawest deal was the largest in skiing history, pulling together Steamboat, Winter Park, Blue Mountain, Stratton, Mount Tremblant, Snowshoe, Squaw Valley, Alpine Meadows, Aspen, Mammoth, June Mountain, Bear Mountain, Snow Summit, and heli ski giant Canadian Mountain Holidays, plus all the attendant lodging and retail operations, trademarks, corporate partnership deals, and more than 1,000 acres of prime developable real estate. Vail Resorts had shown the way. And now, from the high plains of Colorado, another behemoth was born: a Godzilla to Vail's King Kong.

Hal Clifford laid out the argument for why mega-mergers could be bad for skiing in his 2002 book Downhill Slide: Why the Corporate Ski Industry is Bad for Skiing, Ski Towns, and the Environment.

Citing the demand for revenue growth in publicly traded corporations, and how that culture does not fit with the fragile nature of mountain communities, Clifford points out how early mega-ski corporations like Vail Resorts, the American Skiing Company, and Intrawest gutted ski towns, damaged alpine environments, and commoditized the once-family-friendly skiing experience. The deal does not always work out for stockholders either: The American Skiing Company began a spectacular collapse around 2000 when it crumbled beneath its own debt. Left in ASC's wake: As much as a 500 percent increase in ski ticket prices at some New England resorts. Intrawest, once the world's largest ski area operator, suffered a similar fate in the last few years and was sold in the spring to Aspen-KSL.
On the flip side, $879 for an Epic Pass, with unlimited access to 14 blue-ribbon ski resorts across North America and Australia, plus up to 17 days of free skiing in Europe, is an extraordinary bargain for skiers, especially compared to a $189 peak-season walk-up one-day lift ticket at Vail. Next season, presumably, there will be another such branded multinational mega-resort discount deal available throughout the KSL/Aspen/Mammoth/Intrawest Empire. How awesome will that be? And anyway, won't the competition between the two entities keep prices at a reasonable level for the average skier?

Short answer: maybe. The question being: Are those ski pass prices sustainable? Vail's stock prices are already overvalued and in order to maintain big returns (and continued stock growth) ticket prices will likely have to rise—maybe by a lot, at every merged resort, Hallstein said. "They're an $8 billion company, but an $8 billion company needs to be making significantly more," he said. "The stock market average over history is 15-times earnings. So we can do the math: If the company is doing $4 per share, the average price on the total stock market suggests this should be a $60 stock, not a $206 stock. They're thinking this is just inning two of nine innings of industry consolidation and price increases with flat costs."

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Social responsibility—fighting climate change, creating affordable housing, worker's rights, community development—is often diminished among corporations driving to reach aggressive quarterly returns. Vail has long been embroiled in worker compensation disputes and controversies about employee housing and thorny corporate culture at its headquarters. Last summer, Summit County Commissioner Karn Stiegelmeier called Vail Resorts out for failing to follow through on a $30 million promise to ease an employee housing crisis. The company has supported anti-climate change politicians in pursuit of protecting water rights—largely for snowmaking, the most carbon-intensive operation on the hill—and development rights.

When the first announcement was made about the KSL/Aspen/Mammoth/Intrawest merger last April, many Mammoth locals—where I live now—breathed a sigh of relief that their mountain hadn't gone to Vail. Despite stories that trickled down from Squaw Valley about KSL's increasingly nasty relationship with Tahoe skiers, there was the comforting notion that Aspen Skiing Company, at least, was a different animal, with a long and fairly demonstrable showing of social and environmental responsibility. Led by its VP of Sustainability, Auden Schendler, Aspen had taken a host of meaningful steps in recent years to reduce its operational impact. More importantly, the company was using its significant marketing and brand cachet, wherever possible, to drive big policy changes on climate action both inside and beyond the ski industry. "I remember when Chris Lane [Aspen's first director of environmental affairs] and then Auden started raising these issues around climate change," said Shoemaker, who had been part of the losing battle over Blue Sky Basin in the '90s. "They were getting laughed out of conference rooms. They were pilloried to some degree. It's taken a long time. But here we are now."

Likely feeling pressure from Aspen's newly favorable market positioning, Vail began to see the value of trying to differentiate itself not just as "the leading global mountain resort operator," but also as an environmentally aware brand. It seemed an admirable evolution. In 2012, Katz had written a puzzling op-ed in the Denver Post in which he criticized those who would "try to alarm people with images of melting snow." The following year, Vail ran a series of full page ads in The New York Times essentially mocking the notion of climate change. Now, in late July of 2017, the folks in Broomfield released an "Epic Promise" to achieve a zero net operating footprint by 2030. Katz's quote in the press release: "As a growing global company so deeply connected to the outdoors, we are making a commitment to address our most pressing global environmental challenge and protect our local communities and natural resources. Vail Resorts is both doing the right thing for the environment and for our business."

It was indeed the right thing, and a huge step forward for the ski industry. While the plan included many efficiency improvements that help the company's bottom line while curbing emissions, it also promised to negotiate game-changing deals with energy companies and utilities to essentially buy wind power directly from a wind farm—rather than "offsets" that are proven to be underpriced and ineffective. The details of those plans are still being hashed out—and they will have to work with a multitude of agencies and utilities for every one of their ski resorts—but Vail's decision to pursue clean energy, lower their carbon footprint, and speak out about climate change are all good for skiing. Vail's reach is more than Aspen's or any other business in the ski industry, and their efforts to set an example, to the extent they follow through, could have broad and meaningful influence.

"Changing light bulbs and buying green energy to make a lift run more efficiently is great," Shoemaker said. "But alone it's insufficient. Hopefully this means they'll also use their significant resources to try to affect the political environment so that we can make some comprehensive change, which is long overdue and needs to happen ASAP."

With commuter traffic thickening on the Turnpike, I spent the night in Breckenridge at the cheapest place I could find—a frayed 208-room brutalist arrangement owned not by Vail Resorts but by Hilton Worldwide Holdings Inc. A single room with a view of a concrete retaining wall set me back $170. It came with two free microwaved cookies. I strolled down Main Street, a brightly colored simulacrum of a 19th century mining-supply settlement (where once upon a time there had been an authentic 19th century mining-supply settlement). Clutches of wealthy Chileans and college students on early spring break browsed among the wine bars and brewpubs and gift shops. The whole district was like one big, highly curated tourist boutique; every item in every shop was mountain-themed and stamped with some variation of the Breckenridge logo.

"The tacky tourist town thing has been around for a while," said Philpott, the assistant professor of history, who had not been to Breckenridge in a long time but had heard about the changes. "It dates back to Niagara Falls in the 19th century." The concern in a place like Breckenridge, which had a local identity that long predated skiing, was not so much that Vail Resorts would turn it into a tourist town, which it already had long been, but that it would turn it into yet another Vail Resort. "The fear is that Vail will impose its vision of what a resort should look like. And so people in Breckenridge fear that Breckenridge will become more and more just like Vail or Whistler or any of the other places that Vail Resorts owns."

I would later try to pin down an employee at Wilmot, in Wisconsin, about changes there since Vail took over, good or bad. I'd heard some nostalgia about the way things used to be, but the prevailing wind seemed to be in favor of massive infrastructure improvements and Epic Pass discounts. One longtime ski instructor said he would be happy to chat with me but first needed to clear it with his boss's boss up in Epic PR. At Kirkwood, there seemed to be no one who did not, in one way or another, work for Vail Resorts.

"It's still a lot of wait and see here," said Josh Hall, owner of Dissent Labs, an independent performance sock manufacturer in Whistler. They hadn't yet had a full season under Vail. Right out of the gate there had been the cancellation of the popular parent pass, provoking "a lot of fallout, a Facebook page, and some light vigilantism." Whistler COO Dave Brownlie had announced that he was moving on, and folks were concerned about who would follow in his footsteps. "He really did have everybody's best interest in mind," Hall told me. "He was a good person to balance the growth that the shareholders wanted with what was sustainable from a human standpoint. The corporate mandate is to provide value to the shareholders, but if you blow it and wreck the vibe and create an experience that starts eroding, then the product suffers and the returns aren't good." (In June, Vail announced the hiring of Pete Sonntag, a Vail Resorts senior leadership veteran, as COO.)

The next morning I clocked into the parking garage at Vail Village and hiked across the original faux Swiss village to get my lift ticket. I rode up the gondola and met up with legendary speed-carver Jay Bowen, who splits his time between Stowe and Vail when he's not otherwise on the road as national sales director for Stöckli USA. We skied fast groomers all over the resort, all the way out to the distant edge of Blue Sky Basin and back, watching for "yellow-jacket" ski cops who might pull our privileges. The loading areas on the newer lifts were dressed up like old mining buildings. The day was flawless. Skier traffic was light—mostly gangs of retirement-age chargers in tasseled hats and goggles—but everyone was bracing for the impending, extended crush of spring break. The tiki bar was in place at mid-mountain, with live palm saplings installed alongside on the snow.

We found a few chopped-up crusty powder pokes here and there. We ate lunch in the sunshine at the rebuilt Two Elk Restaurant—an Epic Burger with Epic Sauce, fries, and a bowl of buffalo chili cost $49.80. The young woman at the cash register, who'd come for the season from Costa Rica, said she'd had fun but hadn't been able to save any money and probably wouldn't be coming back next year. For Bowen's part, one of his primary complaints was Vail's thorough monopolization of retail outlets across its resorts, how it was becoming more and more difficult to connect with discerning buyers on a pair of $1,000 performance skis through 24-year-old retail managers making minimum wage who often didn't even ski. And he worried vaguely about the future of his beloved Stowe.

Later we shared a pair of cold beers creekside at a locally owned pub called Vendetta's. A pair of bonafide dirtbags in telemark boots sat at the next table. It felt a long way from Breckenridge. I wondered if there would be a place for ski bums—and the skiing life as we know it—in Vail's ever-expanding empire. I would likely never know what Katz thought about any of it. Maybe it was irrelevant alongside the intricate, fierce, impressive, and seemingly precarious pursuit of record margins. After all, when the soul of something is squeezed out, it always seems to find some other place to manifest. That afternoon, I contributed $25 to the Town of Vail as I exited the parking garage. I was headed home, eastbound *[VHAED: westbound]*, across the Great Basin to the land of Mammoth Resorts and its soon to be slightly differentiated future.