

BIG MOUNTAIN RESORT

Type: Interviewer-led | Difficulty: Medium | Function: Mergers & Acquisitions | Sector: Leisure & Tourism | Stretch area: Math | Author: ex-McKinsey

Our client is Many Mountains, a company that owns and operates ski resorts across North America and Europe. The firm has built its success by acquiring resorts, investing in improvements and expansions, and then driving growth through lowering prices for season passes in an effort to increase the revenue per skier-day. Many Mountains has performed strongly in recent years and has significant cash reserves as well as access to financing.

The client is now considering the acquisition of Big Mountain, a North American resort widely regarded as the top destination globally due to its snow quality, terrain variety, and broad appeal to families. Big Mountain has been owned by a private equity firm for the past decade, which is now looking to sell at a minimum price of \$500 million.

The CEO of Many Mountains wants to know whether they should acquire Big Mountain Resort and, if so, how much should they offer?

ADDITIONAL INFORMATION

- Target – Big Mountain Resort:
 - Generates revenue from tickets, passes, and ancillary sources (gear rental, lessons, food & beverage); offers a wide range of winter activities and is regarded as one of the world's leading ski resorts.
 - Located in a tourism-dependent town ~1.5h from a major airport, hotels/restaurants support ~20k visitors at peak (Jan–Mar).
- Client - Many Mountains:
 - Operates 12+ ski resorts (mainly North America, recently Swiss Alps) on a high-quality winter-sport model; has delivered >10% annual growth for the past decade.
 - Holds \$1B in financing to fund acquisitions and expansion; strategy is to grow scale and profitability.

BIG MOUNTAIN RESORT – QUESTION 1

Dimension: Structuring

How would you structure your approach to the problem?

PROPOSED
SOLUTION

1. Standalone value of Big Mountain
 - Current revenue and expected growth (incl. impact of climate change)
 - Current and expected costs
 - Expected capital investments (e.g., lifts to replace)
2. Potential synergies of the acquisition
 - Revenue synergies (cross-selling, marketing know-how)
 - Cost synergies (savings in marketing, organizational rationalization, procurement costs, etc.)
3. Capabilities and risks involved
 - Culture and organization (working norms, performance measures, org. structure implications)
 - Regulations (anti-trust, health & safety)
 - Strategic factors (strategic rationale for acquisition, seller's urgency to sell)

BIG MOUNTAIN RESORT – QUESTION 2

Dimension: Judgement & Insights

Share Exhibit 1 with the candidate. Big Mountain has shared this exhibit with the information about monthly average skier-days. **What can you conclude from this information?**

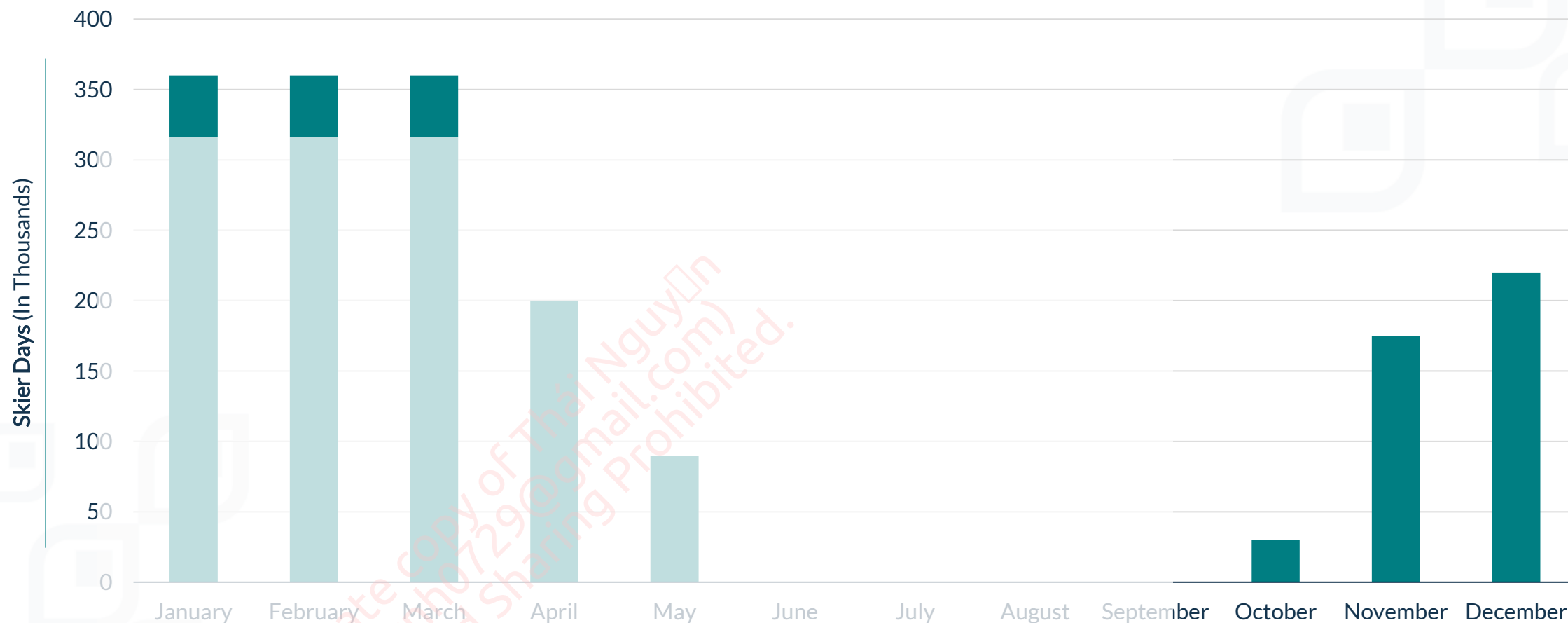
PROPOSED SOLUTION

- Key takeaways:
 - There is **extreme seasonality of the business**, with zero skier-days from June through to October
 - With likely **high fixed costs**, this is a **difficult business to profit from** under the current model, which would affect the price Many Mountains would pay
 - If the mountain is able to draw so many people during the winter, presumably there are ways to invest and **build a year-round business** to get a return on Many Mountains' investment
- Next steps:
 - Pair the skier-days figures with revenue per skier-day and costs to calculate profits of Big Mountain Resort
 - Evaluate potential summer-months development opportunities to generate new revenue and value them, as well as **other growth and cost-saving opportunities**

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BIG MOUNTAIN RESORT – EXHIBIT 1

MONTHLY AVERAGE SKIER DAYS AT BIG MOUNTAIN RESORT



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BIG MOUNTAIN RESORT – QUESTION 3

Dimension: Creativity

What are the possible ideas for generating a summer revenue stream at Big Mountain Resort?

PROPOSED SOLUTION

- **Using existing assets** – mountain, lifts, restaurants, etc.
 - Hiking trails
 - Mountain biking trails
 - Adventure expeditions
 - Wildlife excursions
 - Mountaintop fine dining
- **Building new assets**
 - Spa resort
 - Festival destination
 - Athletics destination – mountaintop marathon, ironman, etc.
 - Casino
- Overall there are many opportunities to expand Big Mountain's business beyond the current **scope** provided the company has necessary capabilities.

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BIG MOUNTAIN RESORT – QUESTION 4

Dimension: Math

The CEO of Many Mountains wants to value Big Mountain Resort, including its potential for a summer operation with a mountain biking park, hiking, and sightseeing trails using existing chairlifts and runs. **What is the value of Big Mountain's business?**

ADDITIONAL INFORMATION

- Winter operations
 - Revenue per skier-day is \$150, and from Exhibit 1, we know the resort records 1.8m skier-days annually.
 - No revenue or skier day growth is expected.
 - Annual fixed costs for current skiing operations are \$200m.
 - No additional capital expenditure is required to maintain current winter operations.
- Summer operations
 - 5,000 users per day over four months, \$150 daily revenue per user.
 - \$50m in additional annual overhead and an upfront investment of \$50m.
- Cost synergies from Many Mountains portfolio of \$10m per year.
- Discount rate is 20%.

INTERVIEWER GUIDANCE

- If a candidate is unsure how to conduct the valuation, tell them to calculate this by dividing annual profit by the discount rate.
- This “zero-growth perpetuity formula” is a simplifying tool to estimate the theoretical maximum valuation, recognizing that with a high discount rate most of the present value comes from near-term cash flows, while far-future revenues contribute very little.

BIG MOUNTAIN RESORT – QUESTION 4

Dimension: Math

PROPOSED SOLUTION

- Total value of Big Mountain = value from winter operations + value from summer operations + value from cost synergies - investment
- Value of winter operations = Profit from winter operations / discount rate
 - Profit from winter operations = (Revenue per skier day x # skier days) – cost of winter operations
 $= (\$150 \times 1.8m) - \$200m$
 $= \$270m - \$200m$
 $= \$70m$
 - Value of winter operations
 $= \$70m / 20\%$
 $= \$350m$
 - Value of current operations is \$350, which is less than the asking price. At this stage, there must be significant synergies and value creation opportunities to justify the asking price
- Value of summer operations = profit from summer operations / discount rate
 - Profit from summer operations = (Users per day x days of operation x revenue per day) – costs
 $= (5,000 \times 120 \times \$150) - \$50m$
 $= \$90m - \$50m$
 $= \$40m$
 - Value of summer operations
 $= \$40m / 20\%$
 $= 200m$
- Value of cost synergies = cost synergies / discount rate
 $= \$10m \div 20\%$
 $= \$50m$
- Total value = value from winter operations + value from summer operations + value from cost synergies - investment
 $= \$350 + \$200 + \$50m - \$50m$
 $= \$550m$
- The total value of Big Mountain Resort to Many Mountains is therefore around \$550m, which makes **the \$500m asking price appear financially justifiable.**
- This valuation depends heavily on the **successful development of the summer operations and realization of cost synergies.** As a next step, these assumptions should be validated through benchmarks from comparable resorts. In parallel, qualitative factors such as cultural fit, organizational capacity to expand into summer activities, regulatory considerations, and the strategic rationale for the acquisition should be evaluated.

BIG MOUNTAIN RESORT – QUESTION 5

Dimension: Synthesis

The CEO of Many Mountains is looking for a recommendation based on your findings so far. **Would you recommend acquiring Big Mountain Resort and if so, what price would you offer?**

PROPOSED SOLUTION

You have asked us whether Many Mountains should acquire Big Mountains and if so, what price they should offer.

Based on current findings, there is a business case to **go ahead with the acquisition at a price of \$500 million.**

- The total value of Big Mountain Resort to Many Mountains is \$550 million, which is higher than the asking price
- The client has sufficient cash to cover the asking price
- The acquisition will help Many Mountains to grow its scale in North America while not compromising on quality (given high quality standards at both the target and the acquirer)
- There are a lot of opportunities to expand Big Mountain's business beyond the current scope which will be in line with Many Mountain's long-term strategy to increase profitability

However, we want to stress that this business case **relies on generating \$90M of incremental revenue from new summer operations.**

As next steps, we would like to confirm that the incremental revenue and cost synergies can be captured, with scenarios and benchmarks from comparable resorts and looking at Big Mountain's **capabilities to expand its business to summer months.**

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