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CEO SPOTLIGHT

Vail Resorts' CEO: Transforming the Business of Skiing

Vail Resorts CEO Robert Katz brought modern business practices to the rough-and-tumble ski industry.

By [DYAN MACHAN](#)

November 15, 2014

With ski season well under way in the Western U.S., the forecast for Vail Resorts is sunny and balmy. The nation's largest owner and operator of ski resorts recently scored a big win by acquiring Utah's popular Park City Mountain Resort after a lengthy legal battle. Vail, based in Broomfield, Colo., plans to combine Park City with another of its properties, Canyons Resort, to create the largest ski resort in the country, which it hopes will become a mecca for "destination" skiers worldwide.



Katz, a Wall Street veteran, is upgrading Vail's slopes and amenities. Photo: Ray Ng for Barron's

The Park City purchase, like much else at Vail (ticker: MTN), reflects the strategic vision of CEO Robert Katz, 47, a former Wall Street deal maker who has run the company for the past eight years. In that span, he has applied business precepts common in the lodging and cruise-ship industries to the more informal world of skiing, markedly enhancing the experience of customers and boosting shareholder returns.

"The company literally transformed under his leadership," says Roland Hernandez, Vail Resorts' lead independent director and the former chairman of Telemundo. "He created a fundamentally different business model for skiing."

Katz's model relies, in part, on the so-called Epic Pass, a discounted season pass that gives holders access to Vail's 12 resorts and 10 other ski properties around the world. Introduced in 2008 at a preseason price of \$579, Epic Pass gives Vail a major competitive advantage and predictable, recurring revenue. It also allows the company to leverage its growing scale. Today, the pass accounts for 40% of annual ticket revenue.

VAIL RESORTS, FORMERLY known as Vail Associates, was founded by a World War II mountain-division ski trooper, who trained in the Western U.S. and saw its potential as a ski destination. He opened a resort in Vail, Colo., in 1962. The company gradually expanded through acquisitions, adding the Keystone and Breckenridge resorts in Colorado in 1997.

Under Katz, Vail has acquired the Northstar, Kirkwood, and Heavenly resorts near Lake Tahoe, Calif.; Afton Alps, in Minnesota; and Mount Brighton, in Michigan, as well as a summer resort in Wyoming.

It also owns Beaver Creek, in Colorado.

The mountain division, encompassing the ski resorts, ski schools, and dining, contributed 77% of fiscal 2014 revenue of \$1.3 billion (the fiscal year ended on July 31). The company's lodging segment manages hotel properties, including RockResorts, and its real estate arm owns and develops property around the resorts.

Vail was pummeled during the financial crisis, as occupancy rates and customer spending fell. Determined to avoid layoffs, Katz persuaded employees to agree to salary reductions in return for stock. He also skipped his own paychecks. The shares plummeted 76% from mid-2007 to March 2009, when they bottomed at \$14.80, but have since rebounded to a recent \$87.85. They spiked 12% when the Park City deal finally was announced.

Vail is expected to generate \$341 million in fiscal 2015 earnings before interest, taxes, depreciation, and amortization—a 30% gain. Shares aren't cheap at 11 times estimated Ebitda, but the company's largest holder, Baron Capital Management, looks for the stock to double in the next five years. "I'm betting on Katz," says Ron Baron, whose firm holds a near-15% stake. "I don't want to sell, but some foreign [investor] who wants to own U.S. real estate might be willing to pay 12-13 times cash flow."

BASED ON INDUSTRY statistics, skiing seems a troubled business. RRC Associates, a market-research firm, reports that annual snow-sport visits per 1,000 people fell to 180 in 2013 from 220 in 1980. In roughly the same span, according to the National Ski Areas Association, the number of operating ski resorts in the U.S. fell to 470 from 735, as the high cost of snow-making, coupled with the stress of warmer weather, forced smaller, undercapitalized facilities to close. Yet customer spending at ski resorts has been rising; it climbed to \$7.1 billion in the 2012-13 season from \$6.1 billion three years prior, the NSAA says.

Vail has been particularly astute in developing products and services to separate customers from their money, albeit in highly enjoyable ways.

During warmer winter weather, for instance, visitors spend less time on the mountain and more in the spa, or tubing, or taking snow-boarding lessons. As Katz sees it, "Our company is less about skiing and more about vacations."

That's because he helped make it so.

When Vail introduced the Epic Pass, Katz says, "people thought I was crazy. They assumed we had made a mistake and that the board would fire me and undo it."

But the CEO figured that skiers who purchased the pass would corral their friends into joining them on the slopes, skiing more and buying more food, hotel rooms, and ski lessons. Even at a current preseason rate of \$769, the pass is a steal compared with an early-bird price of \$1,985 for a season pass at Colorado's Deer Valley Resort. Sales of the Epic Pass rose 20% in fiscal 2014.

Vail continually upgrades its resorts and amenities to attract visitors and build loyalty. In the past five years, it spent \$492 million on capital improvements, including a new gondola at Vail and a lift/gondola at Beaver Creek. It has also upgraded restaurants across its properties. The company plans to build lifts and other infrastructure next summer to connect Park City and Canyons, and upgrade restaurants and snow-making capabilities at both resorts.

Katz has invested in technology, as well, some of it aimed at using data collected from customers to improve their experience and get them to spend more. Recently, for example, the company inserted chips into lift tickets to track skiers' elevation and help them broadcast their feats on Facebook. Slope photographers likewise scan lift tickets to identify skiers, and use the information to zap photos of prodigious children to their parents.

LIKE OTHER RESORT operators, Vail has benefited from growing interest in skiing among younger athletes. Golf and tennis, in contrast, have struggled to attract younger fans. Katz credits product enhancements, such as twin-tip skis that facilitate backward skiing, and parabolic skis, which make it easier to learn the sport.

Where the industry has failed, he says, is in attracting fast-growing minority populations. "Skiing is very white," says Katz. "This is an opportunity."

The company's purchase in 2012 of smaller, less expensive resorts in Minnesota and Michigan was intended, in part, to target beginning skiers and a more diverse population that could, in time, graduate to Vail's premier resorts. The company plans to market directly to people of color, among others, but Katz thinks it could take as much as a decade to better integrate the slopes.

Vail also is investing heavily to attract summer visitors to its resorts. Breckenridge, Colo., home of the Breck Summer Fun Park, with slides, a zip line, and an alpine roller coaster and track, already gets more visitors on peak summer days than at the height of the winter season. Vail Resorts has earmarked \$25 million each, in the next few years, for its Vail, Breckenridge, and Heavenly resorts to add or enhance zip lines, hiking trails, and mountain coasters. Once operational, the new attractions could generate an additional \$15 million in annual Ebitda at each property. "Even small growth in the industry can be profitable, since no one is building new resorts," Katz says.

KATZ AND HIS younger brother grew up in New Rochelle, in New York's Westchester County. His father ran his own law firm; his mother, Marylyn Dintenfuss, is an acclaimed artist. Katz majored in economics at the University of Pennsylvania, getting strong grades in math and science. During his freshman year, he used several thousand dollars of his bar mitzvah money to buy an advertising-supported campus newspaper that he later sold for a small profit.

IN THE SPOTLIGHT

Age: 47

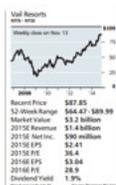
Education: University of Pennsylvania, B.S. in economics, 1988

CEO since: 2006

Affiliations: Vail Valley Foundation, supporting local arts, education and education; UnitedHealth Group, which helps identify through healthcare data and active living; Park City Medical Center

Personal life: "I'm a married guy," says Katz and his wife, Elana Amsterdam, author of *Elana Cooks from Scratch*, a party, and their two teenage sons.

Spouting life: Katz is an avid cyclist and expert skier. "In New York, you can't be too strong," he says. "In Boulder, you can't be too strong." (Katz)



on a hike and going strong when a very pregnant woman jostling a three-year-old child passed out."

Gillett/Breckenridge: Katz's brother, handle, worked for his brother along a high-end investment firm on the Mountain's Back Street. Katz learned to ski on Breckenridge, and first worked in the resort when he began working with Vail in 1991.

Vacations: Katz, San Juan, Mexico

Listen to: Mountain & Sun

Current reading: *The Hunt* by Lyndee Johnson, by Robert Caro

Wishes: Porsche hybrid has played an order to Katz. Would it attract? Also, available on 2015

During college, the future CEO interned at the New York Stock Exchange, and learned he didn't want to become a securities trader. Recruited by Drexel Burnham Lambert, he joined the investment bank after graduating in 1988, and became a mergers-and-acquisitions analyst. When Drexel collapsed several years later after the indictment of junk-bond king Michael Milken, Katz thought his career was over. But he soon followed members of the Drexel diaspora to Smith Barney, and then to Apollo Global Management, the private-equity firm.

"I learned it's not just being smart," he says. "Getting anything done involves building relationships."

In 1991, Apollo took control of Gillett Holdings, a bankrupt company that owned what would become Vail Resorts. Eventually, it sold some of Gillett's assets, restructured the company's loan portfolio, and expanded its ski operations, merging Vail with Keystone and Breckenridge. Katz, who had worked on these transactions, joined the Vail board before the business came public in 1997.

DESPITE HIS success at Apollo, Katz, an avid biker and skier, and his wife, cookbook author and gluten-free advocate Elana Amsterdam, had been contemplating a lifestyle change. A year after the attacks on the World Trade Center, they left New York and relocated in Boulder, Colo., with their two young sons.

Katz consulted for Apollo and remained on Vail's board. He also contemplated becoming a farmer.

When Vail's then-CEO stepped down in 2006, however, the board tapped Katz as his successor. Katz immediately shook up the company, moving its headquarters from a ski resort in Avon, Colo., to a glass tower in suburban Broomfield. "On the mountain they are throwing a party," Katz says.

He also yanked Vail's membership from a trade group that ran ads for Colorado's ski areas, taking with it a large share of the organization's budget. He believed that the group was spending too much on traditional print media and the funds could be put to better use via digital outlets.

These and other sharp-elbowed moves have earned Katz his share of detractors. At a leadership summit in late summer, he proudly ticked off some of the things he has been called: Machiavellian. Jackass. Calculating frat boy. Heartless. Managers shouldn't try to be perfect, he told the crowd. In doing so, they lose their authenticity and their messages aren't heard. "Some people don't own the leader they are," he says. "Some people are challenged with that. Not me!"

It is easier to accept criticism, of course, when the results are hard to dispute, and that is how Katz wants to keep it. He plans to focus now on standardizing services across Vail's resorts and enhancing the use of technology, instead of adding new properties.

And, when time allows, he plans to ski.

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