

Confidential



Financial Comparison with Mt Buller & Falls Creek

Analysis by

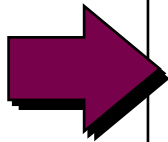
Andrew Maughan of Somerset Capital

March 2009

Today's Objective

COMMUNICATE answers to 4 key questions:

1. Are MHAR **direct charges** on the community reasonable? How do they compare with the direct charges on overnight visitors at Buller and Falls?
2. Are MHAR **operating expenses** reasonable? How do they compare with Buller and Falls?
3. Is MHAR being managed in a **sustainable & commercially viable** way? How does this compare with Buller and Falls?
4. Is MHAR strategy **adding value** to the Resort and its Stakeholders?



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8. *Strategy adding value?*

Objective of process

- Understanding
- Compare / benchmark
- Trends
- Improve
- Budgeting and strategic decision making
- Communicate

Definitions

- **Revenue**

- Operational revenue (on-going, identifiable charges on stakeholders)
 - Gate entry ** (~ 33% - Hotham's operational revenue)
 - Annual Service Charge ** (~43%)
 - Site rental (limited control) (~23%)
 - Other [Transport levy (Hotham) (~2%), Marketing (Buller & Falls), Ski Patrol Contributions (Falls)]
- Non – operational revenue
 - grants eg. Geotech, Water Trust
 - capital in-goings
 - land sales
 - interest
 - gas supply – revenue has been excluded from this assessment
 - “Other income” at Buller (\$930,000), Falls (\$277,000) & Hotham (\$271,000)

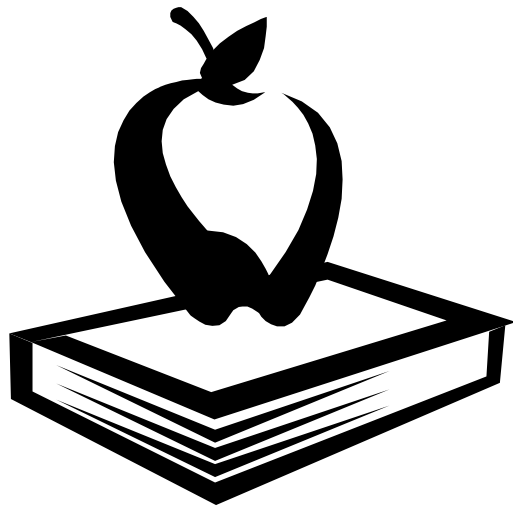
- **Operating Costs**

- Administration and infrastructure – vary more with FECA
- Village operations, visitor services, marketing – vary more with visitor days
- Operating costs exclude cost of supplying gas, includes depreciation
- Excludes one-off projects eg Hotham water recycling project, Falls Geotech

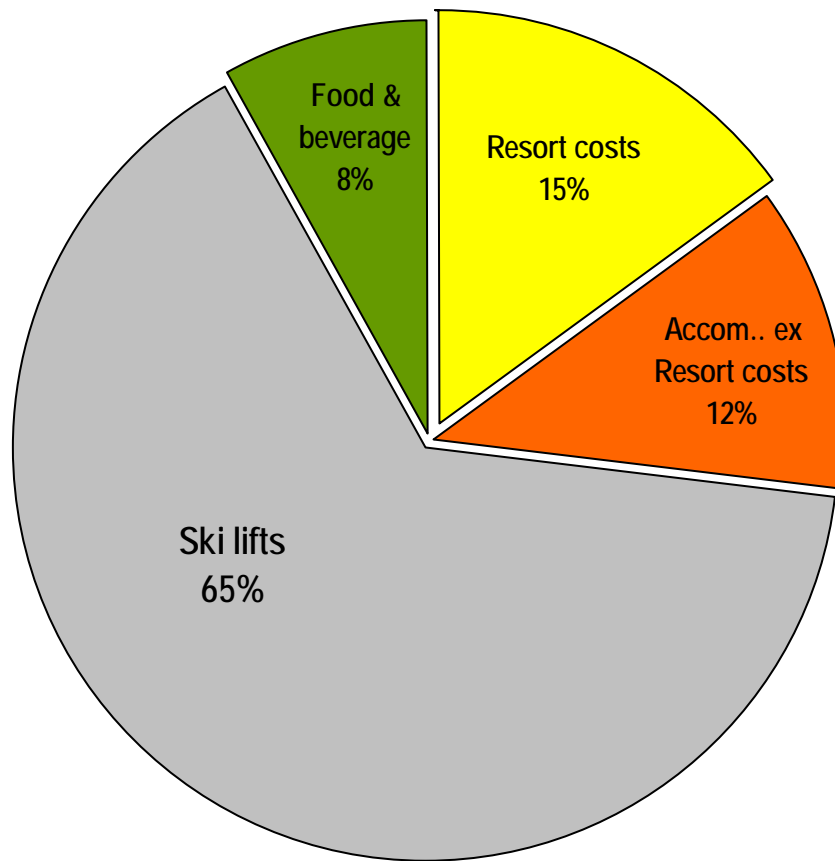
- **Operating Surplus / Deficit** = Operating Revenue less Operating Costs

Apples to Apples

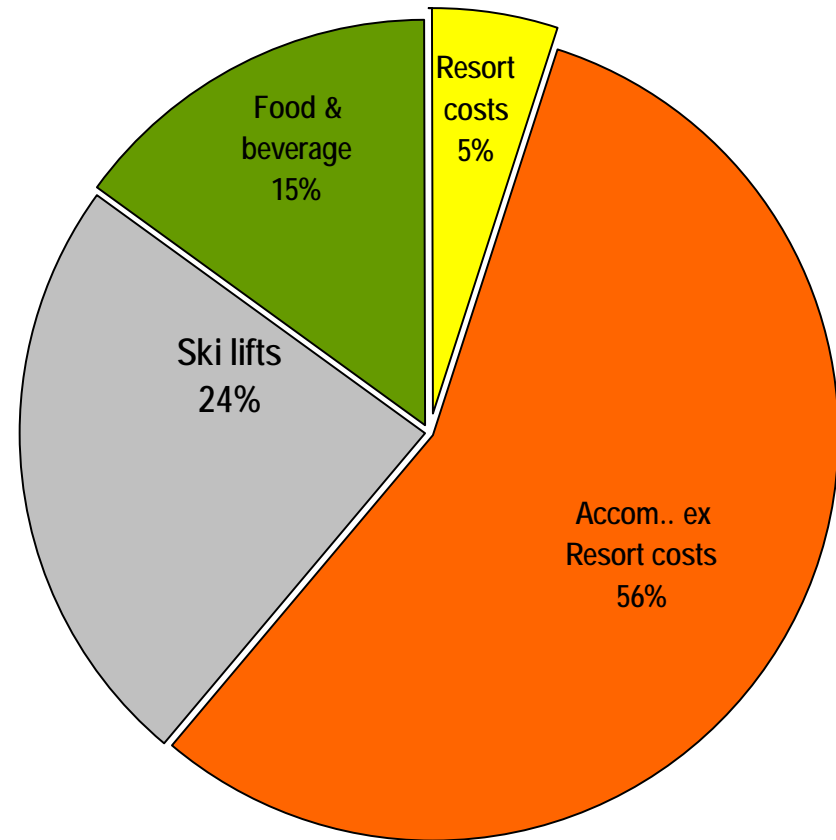
- To enable comparisons we have assessed the financials
 - in total \$
 - per visitor day
 - per square metre of FECA



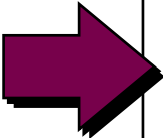
Context, the combined Resort charges of gate entry, rent and annual service charge represent **between 5% and 15% of the total cost** to a skier



Budget



Premium

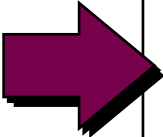
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Material differences between the Resorts

- Transport to on mountain accommodation
- Ski patrol
- Buller – Health Services (2008)

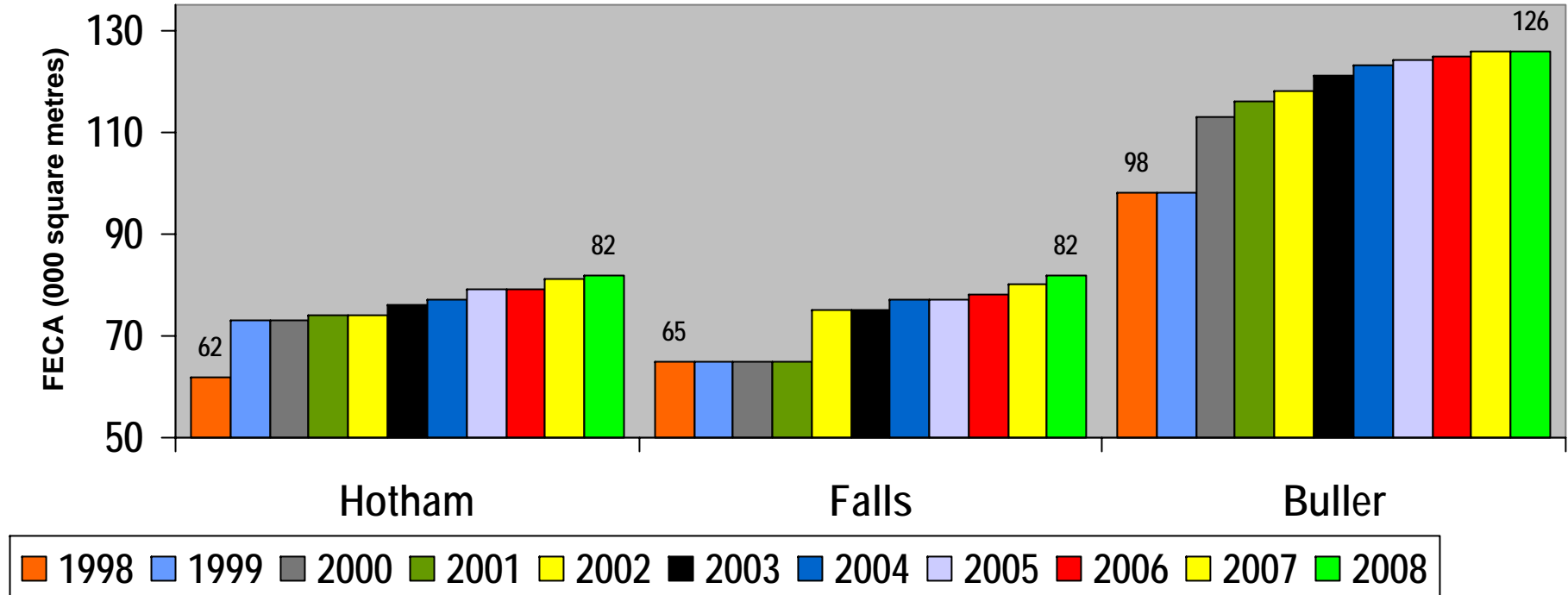
Impact of the differences

- Hotham
 - no additional costs to the consumer once at the car park
- Buller & Falls
 - additional transport costs to get to accommodation
- Buller
 - doesn't incur operating expense of ski patrol
 - incurs additional expense for Health Services (2008)

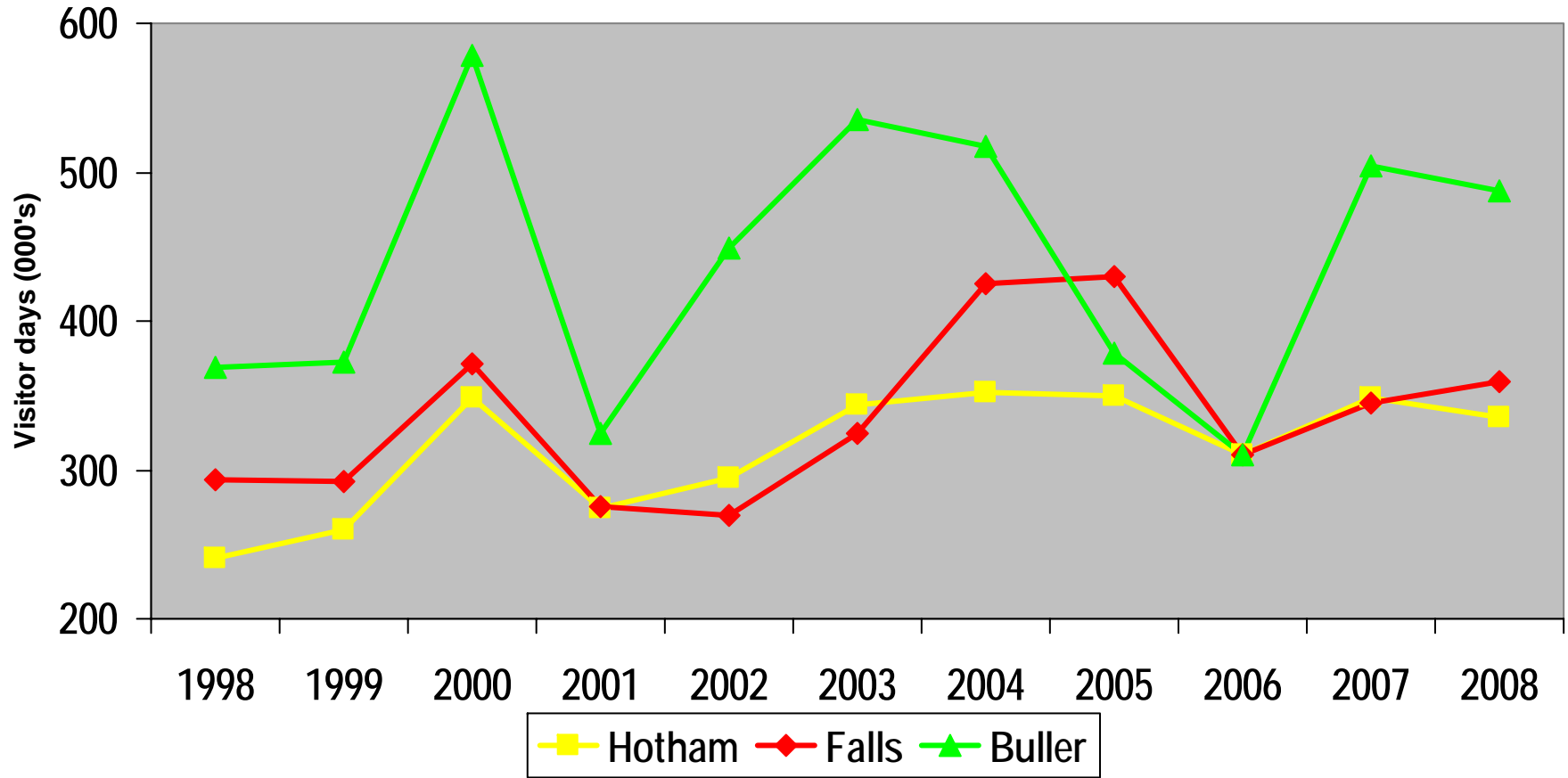
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Hotham has grown 20,000 sq m (32%), Falls 17,000 (26%), Buller 28,000 (29%) since 1998

FECA 1998 - 2008



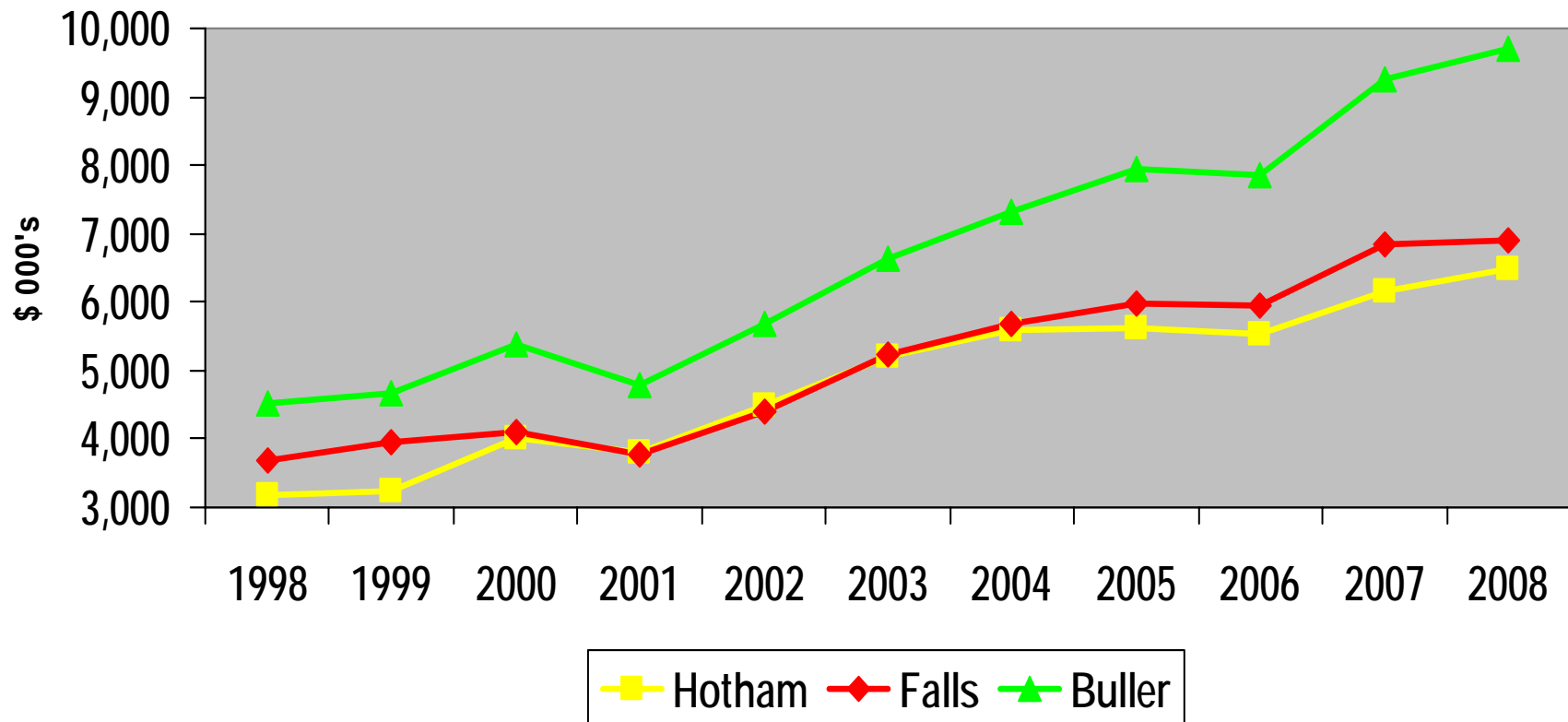
Visitor days from 1998 – 2008



Operating revenue

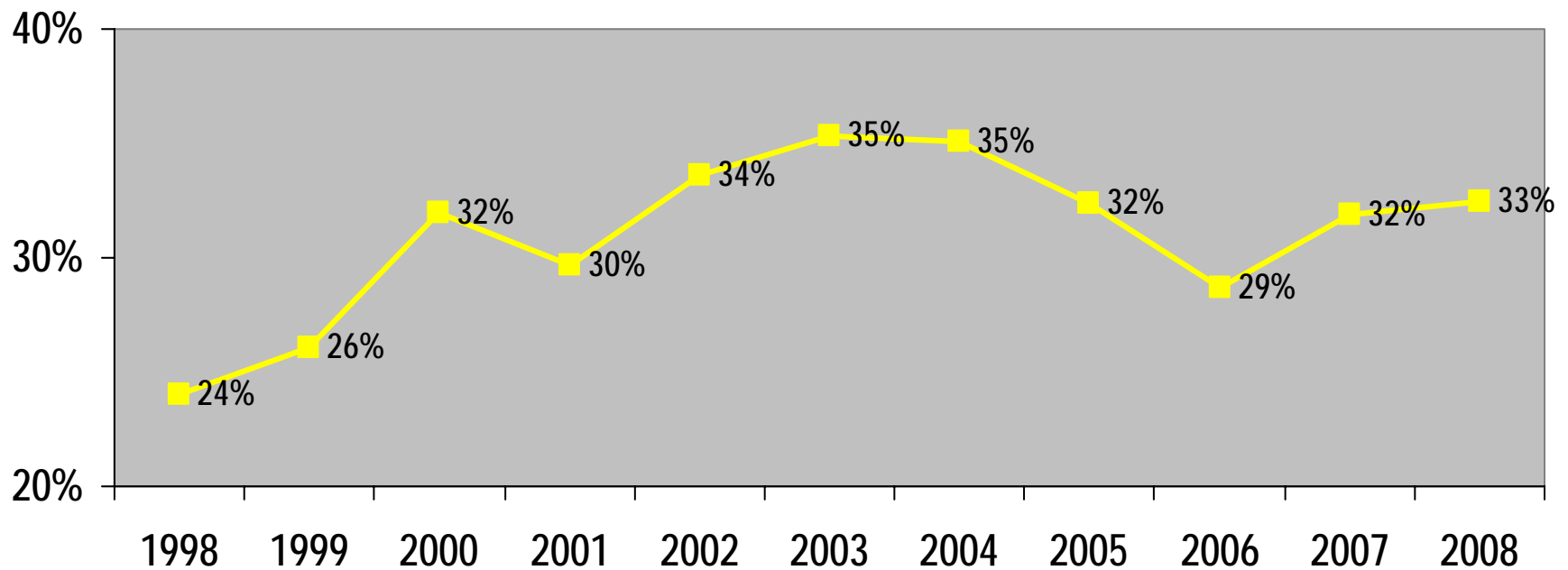
* \$400,000 pa retrospective site rental adjustments for Falls, FY03 – FY07

Operating revenue



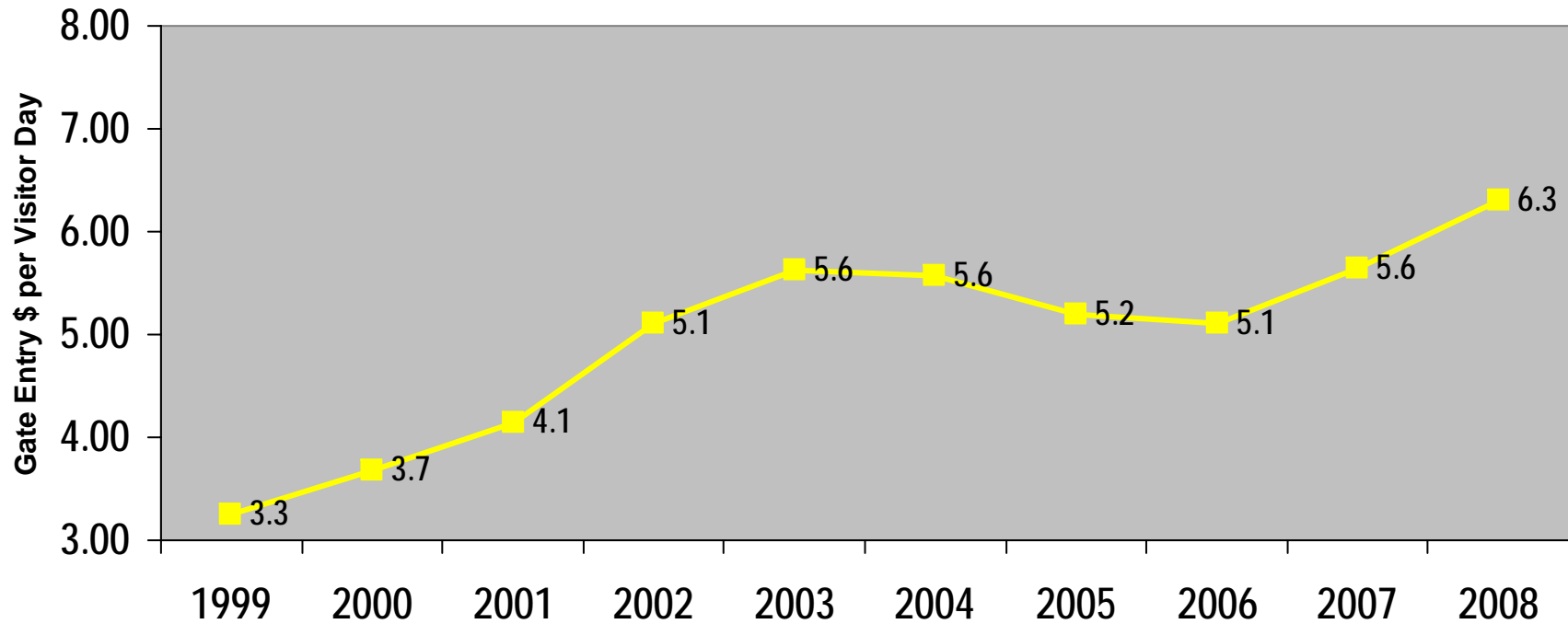
Gate Entry as % of Op. Rev correcting – “user pays” policy at work, 2006 an aberration due to fewer skier days

Hotham Gate Entry Revenue as % Total Operating Revenue



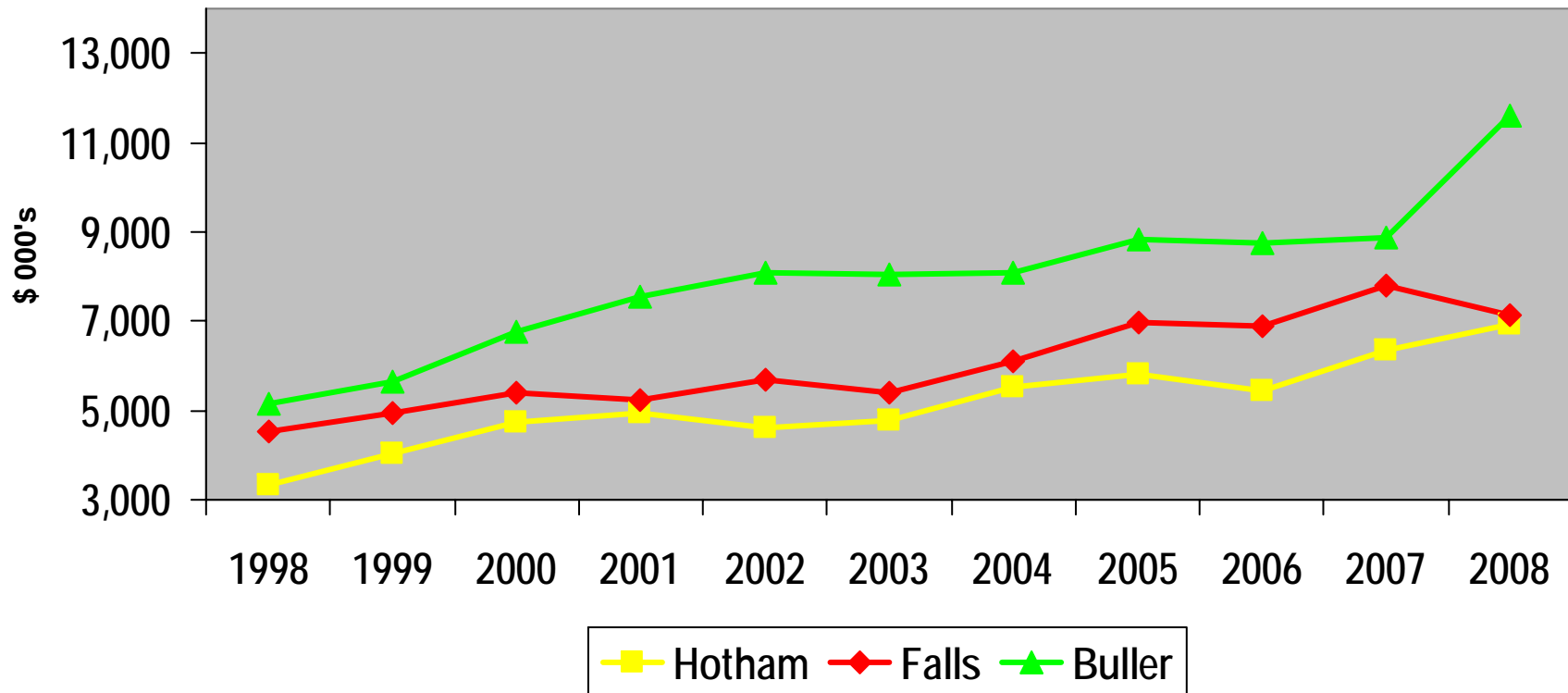
Gate entry yield / visitor day trending upwards

Gate Entry Revenue per Visitor Day



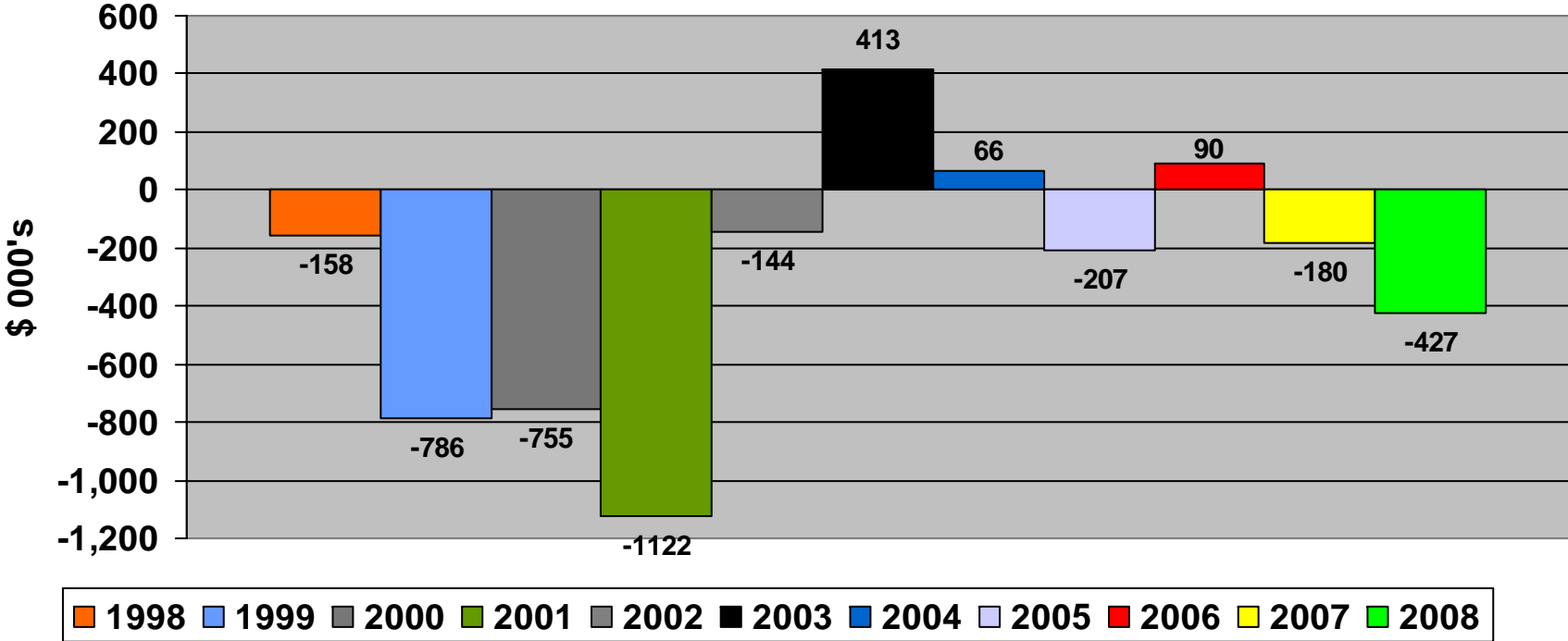
Operating expenses grew at Hotham, declined at Falls, Buller – big increases in village ops, marketing, health services/medical centre

Operating Expenses



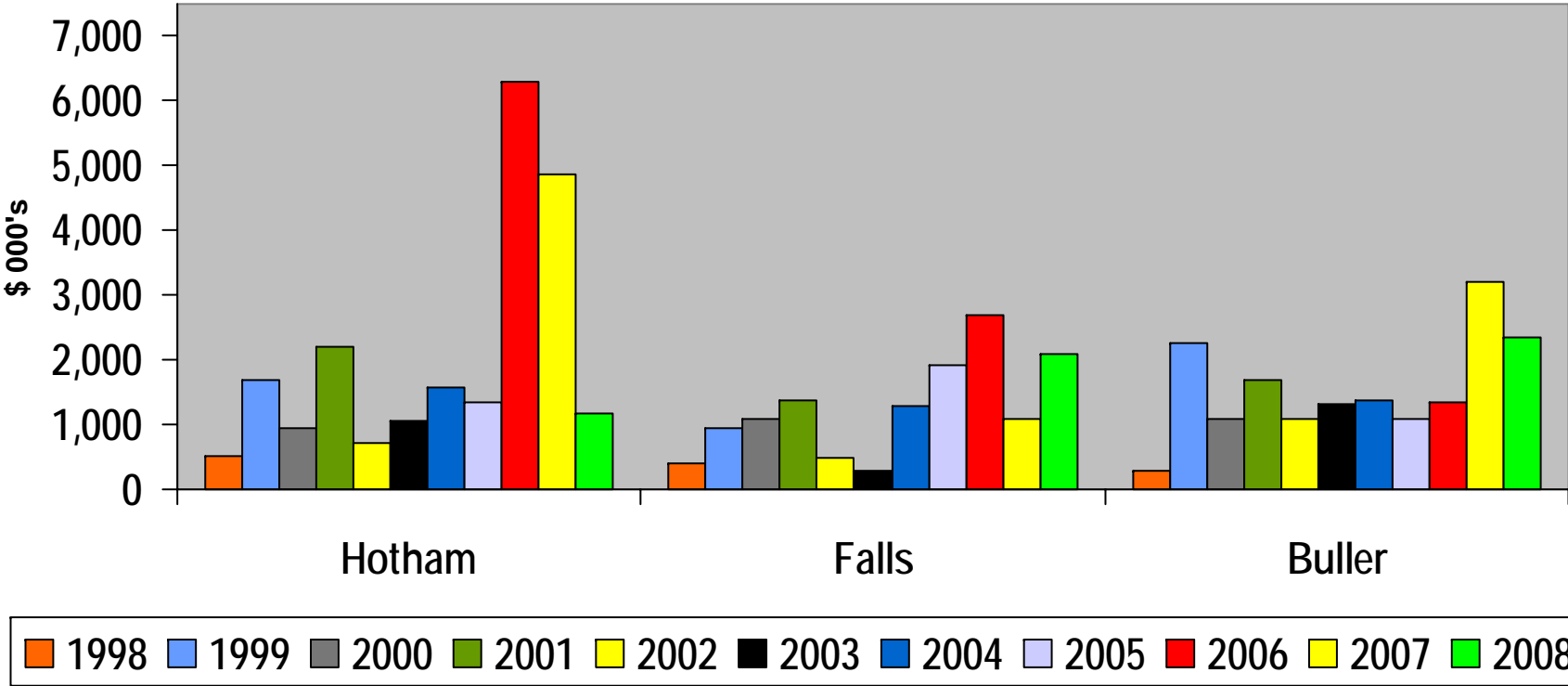
Hotham – “operating deficit” in 2008. Enough to fund future capex requirements? Cash +ve (Depreciation \$750k, Other Rev \$330k)

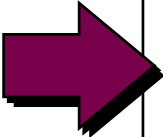
Hotham
Operating Revenue less Operating Costs



Hotham has invested \$22 million to upgrade the Resort from 1998 to 2008, Falls \$14 mil, Buller \$16 mil

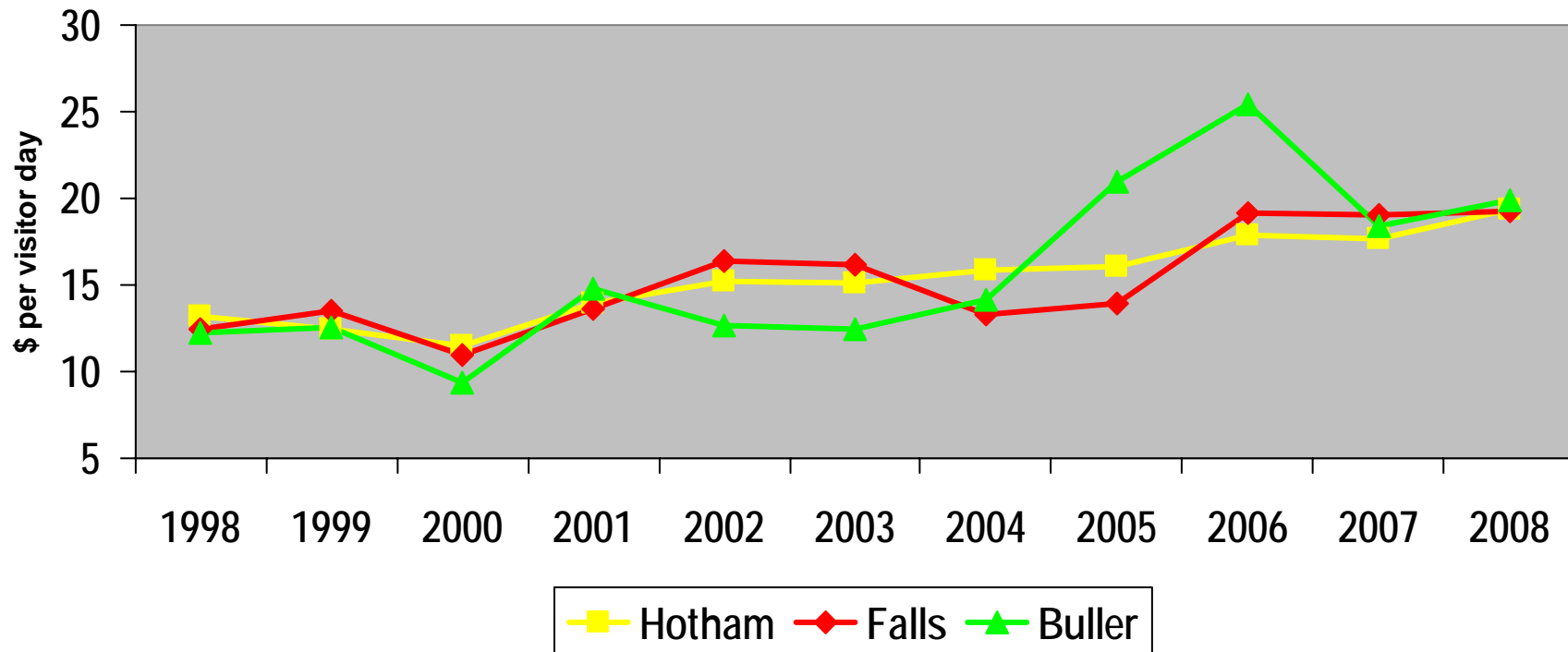
Capital Expenditure



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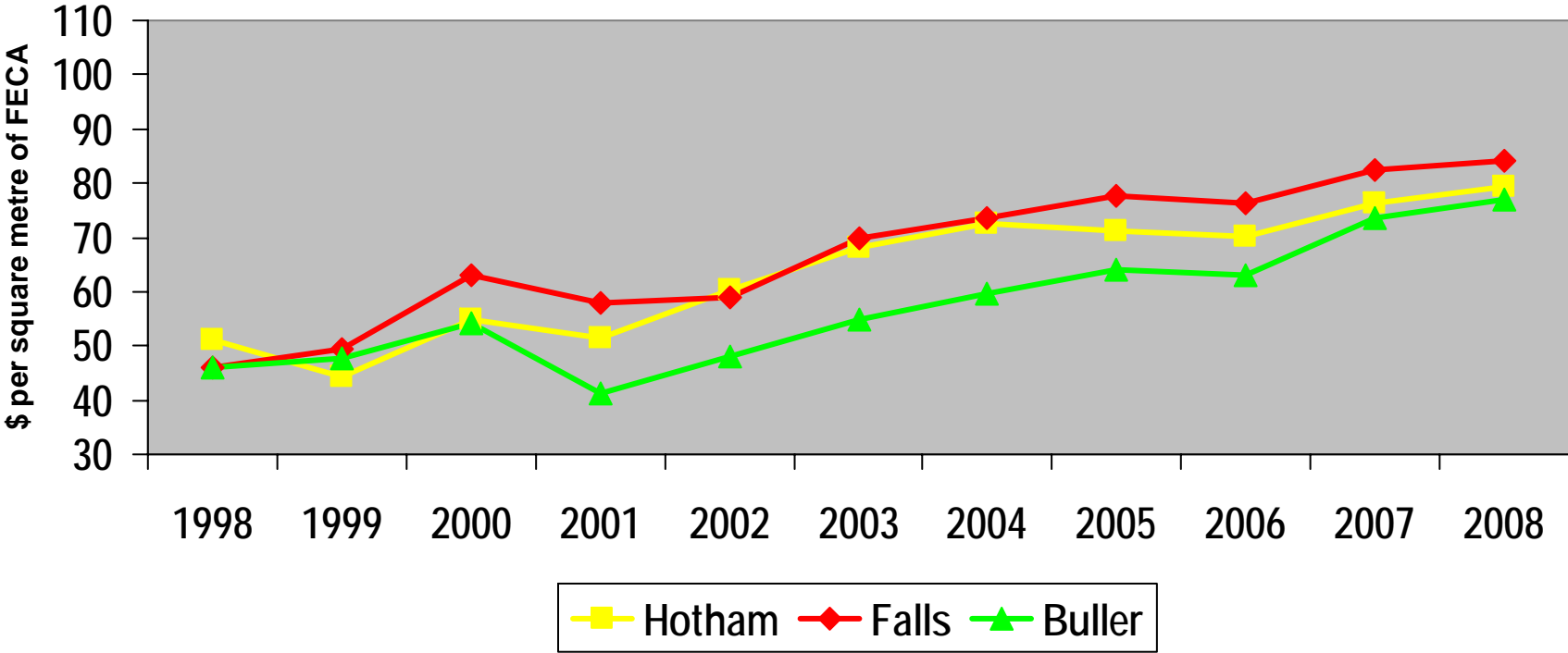
Hotham's operating revenue per visitor day was similar to Buller and Falls in FY08

Operating revenue per visitor day



Hotham's operating revenue per FECA is marginally higher than Buller's and lower than Falls....

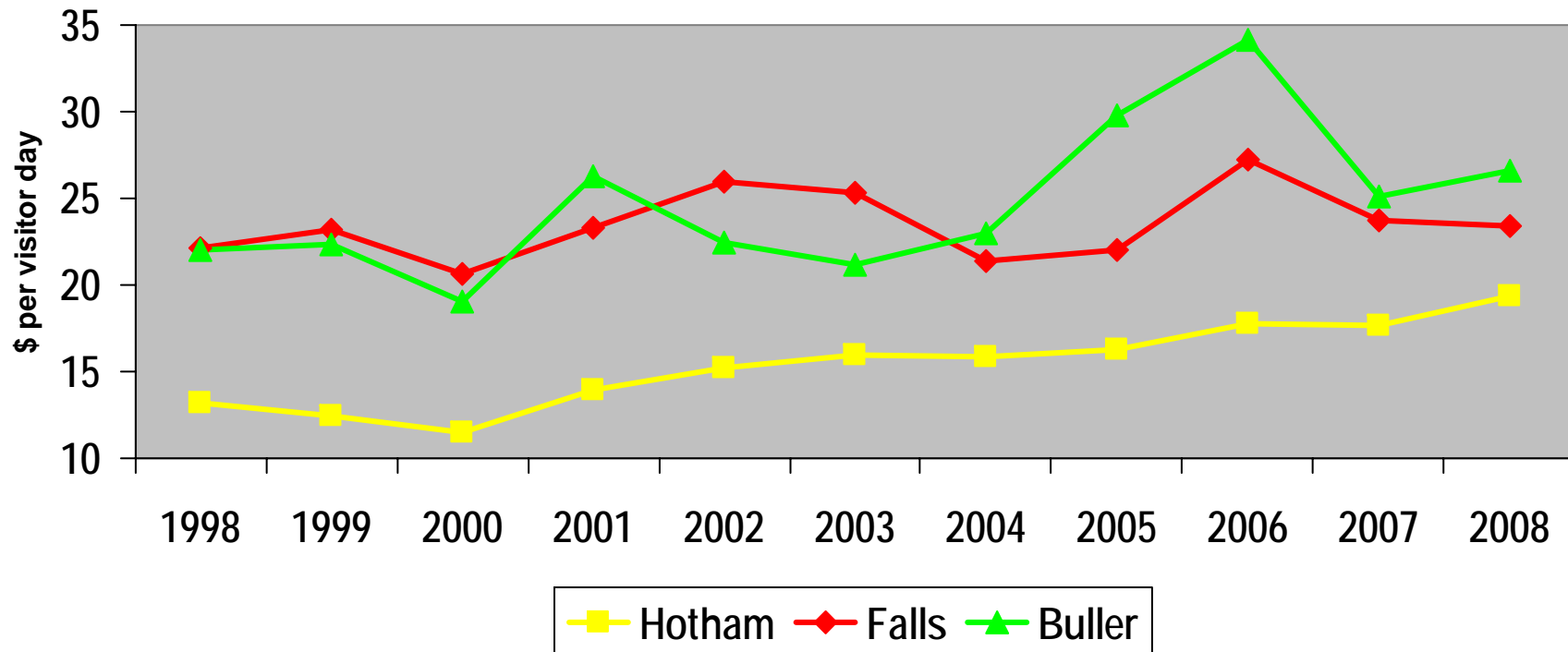
Operating revenue per FECA



....for a true comparison....

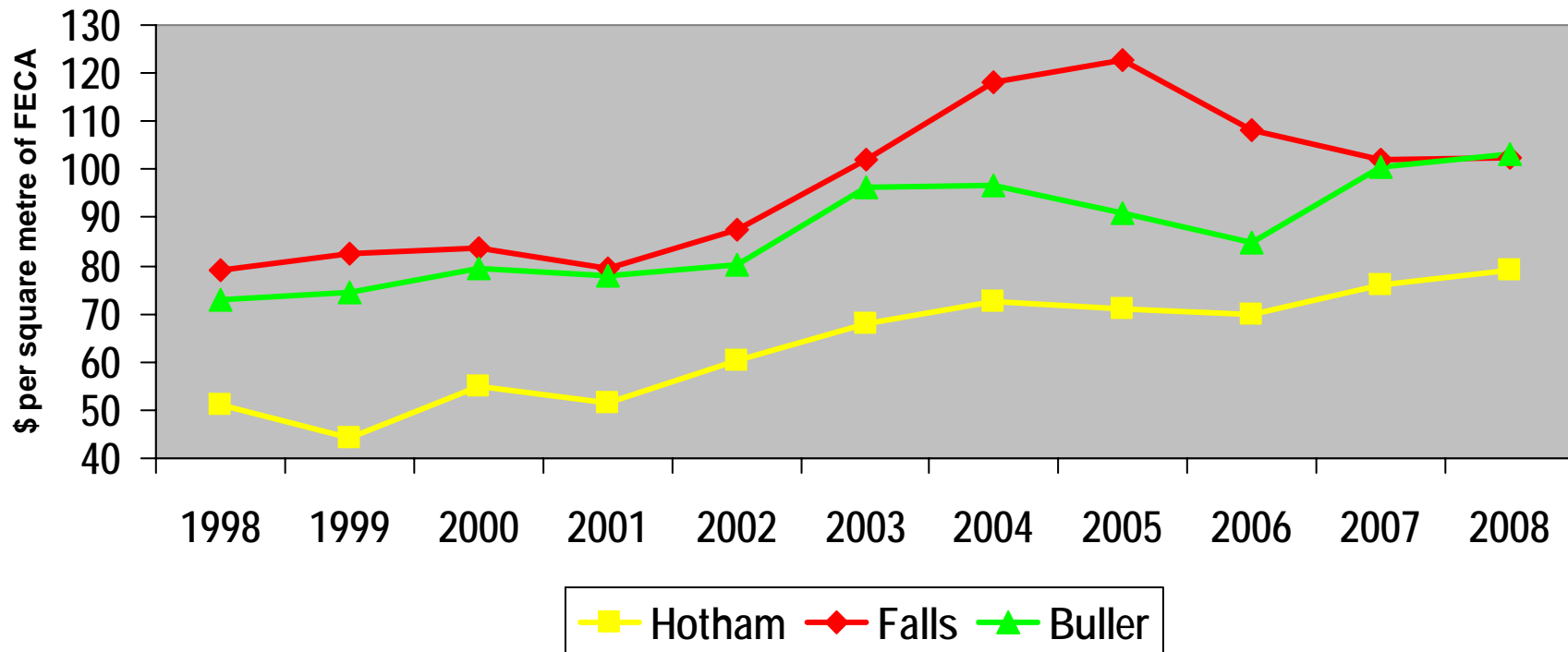
.....after adjustments, Hotham is the **lowest cost** Resort (direct charges to overnight visitor) – per visitor day.....

Operating revenue per visitor day after adjustments



.....and also per FECA

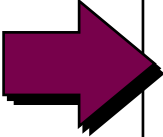
Operating revenue per FECA after adjustments



Conclusion – Question 1

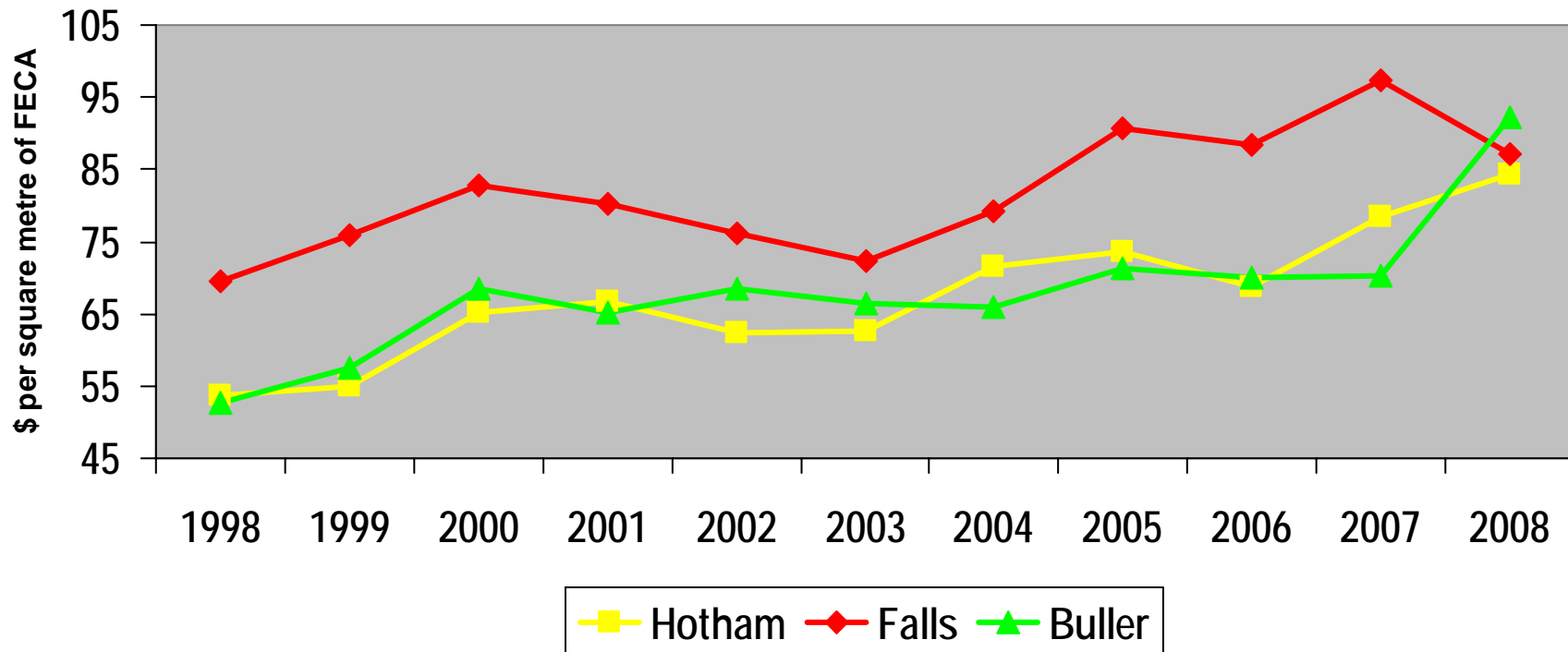
**HOTHAM IS MATERIALLY THE
LOWEST COST RESORT
FOR
OVERNIGHT VISITORS**



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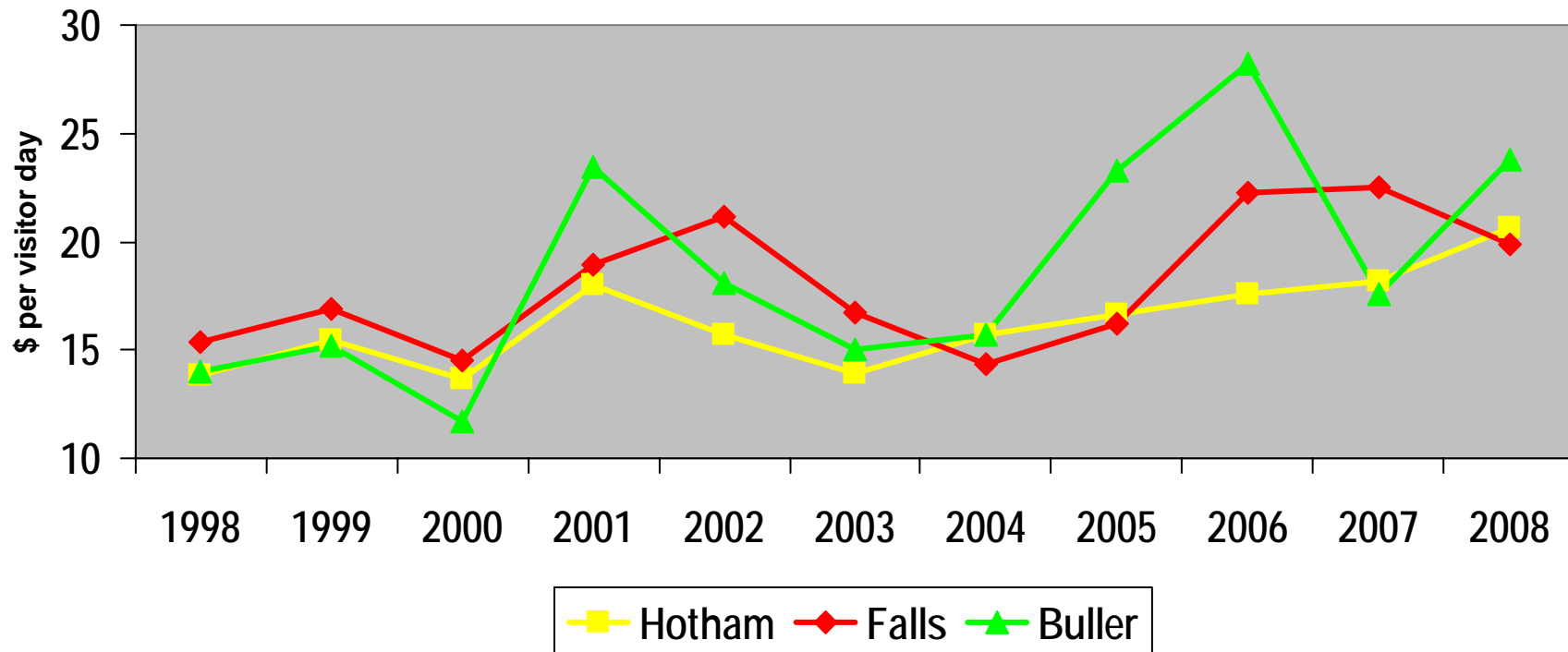
Hotham's operating expenses per FECA are lower than Falls & Buller

Operating expenses per FECA



Operating expenses per visitor day were highest at Buller, lowest at Falls, Hotham slightly higher than Falls in FY08

Operating expenses per visitor day

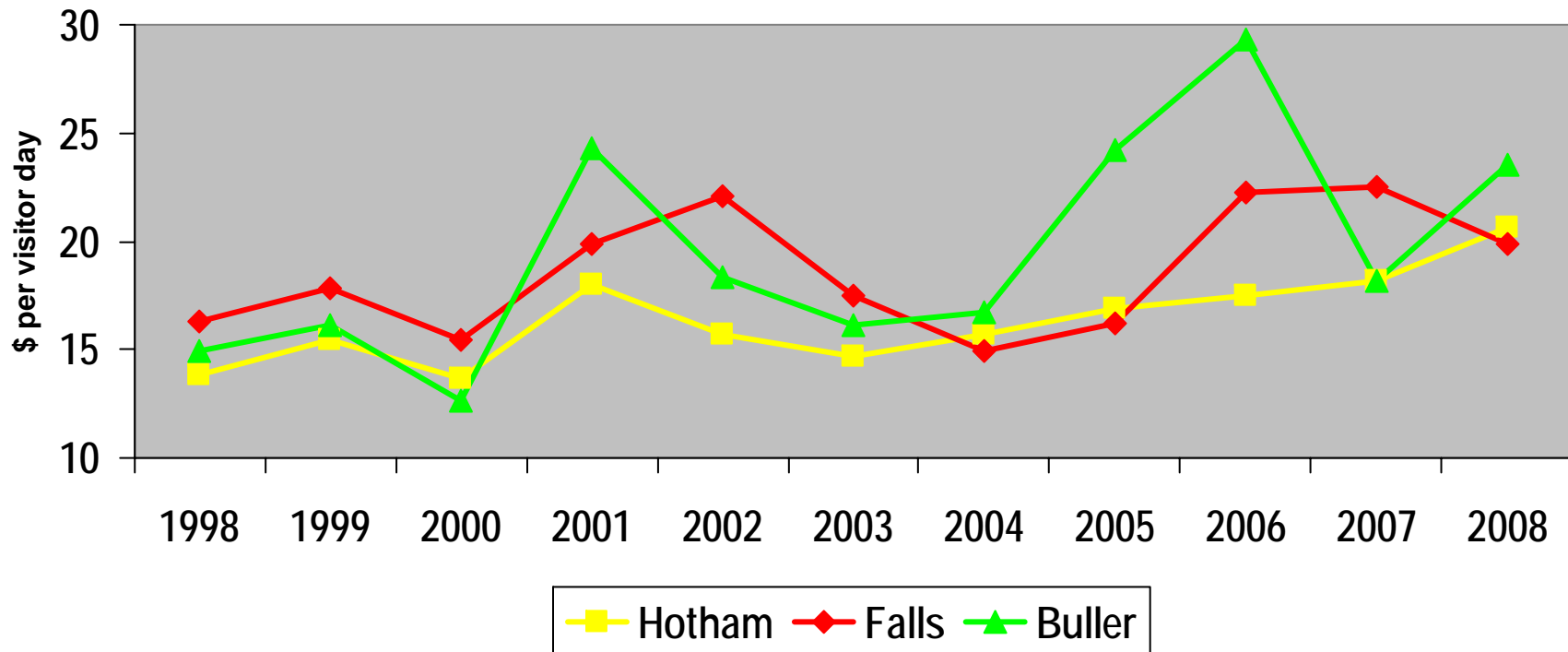


...for a true comparison...

- Adjust for additional expenses that Buller incurred
 - Health Services / Medical centre (\$568,000)
- Adjust for net expenses that Buller does not incur
 - Ski patrol
- No adjustment between Hotham & Falls

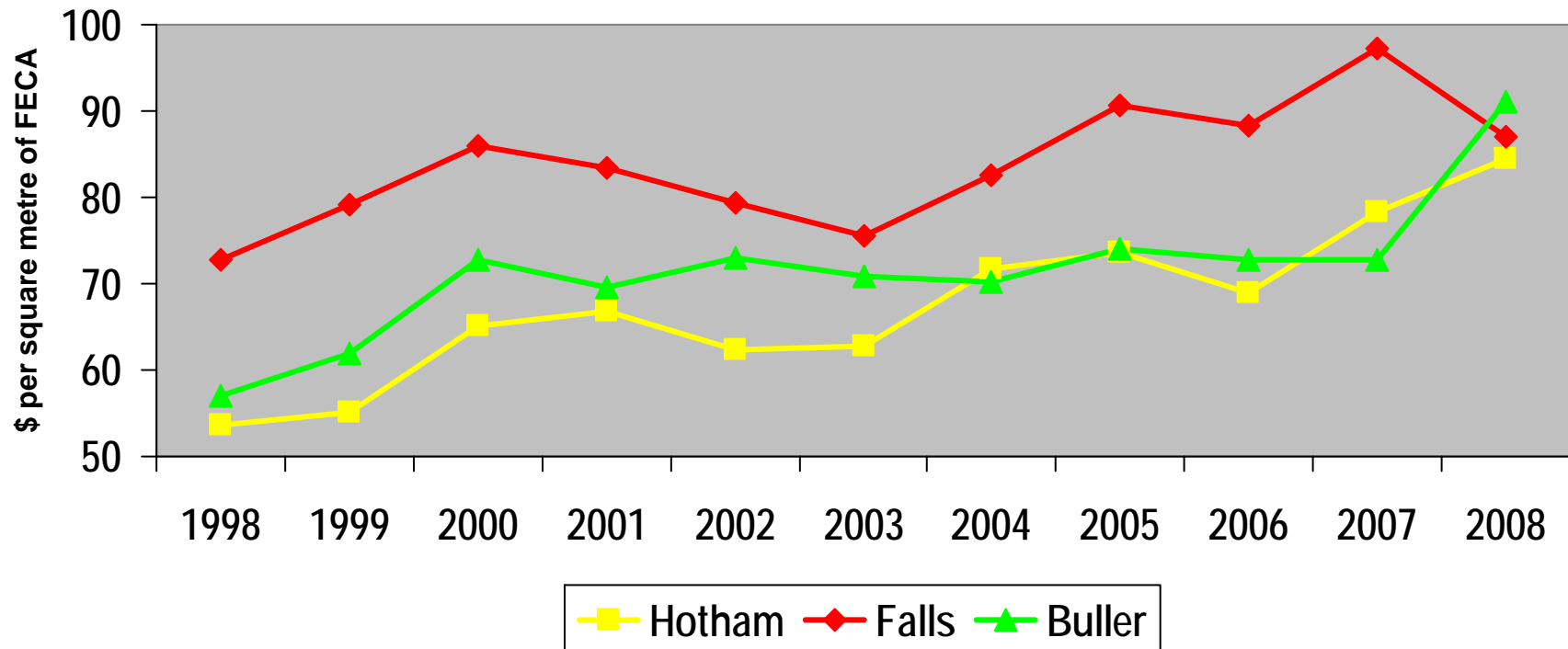
.... on a comparable basis, Hotham's operating expenses per visitor day were lower than Buller and similar to Falls in FY08

Operating expenses per visitor day after adjustments



....on a comparable basis, Hotham's operating expenses per FECA are lower than Falls and Buller

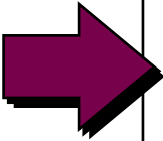
Operating expenses per FECA after adjustments



Conclusion – Question 2

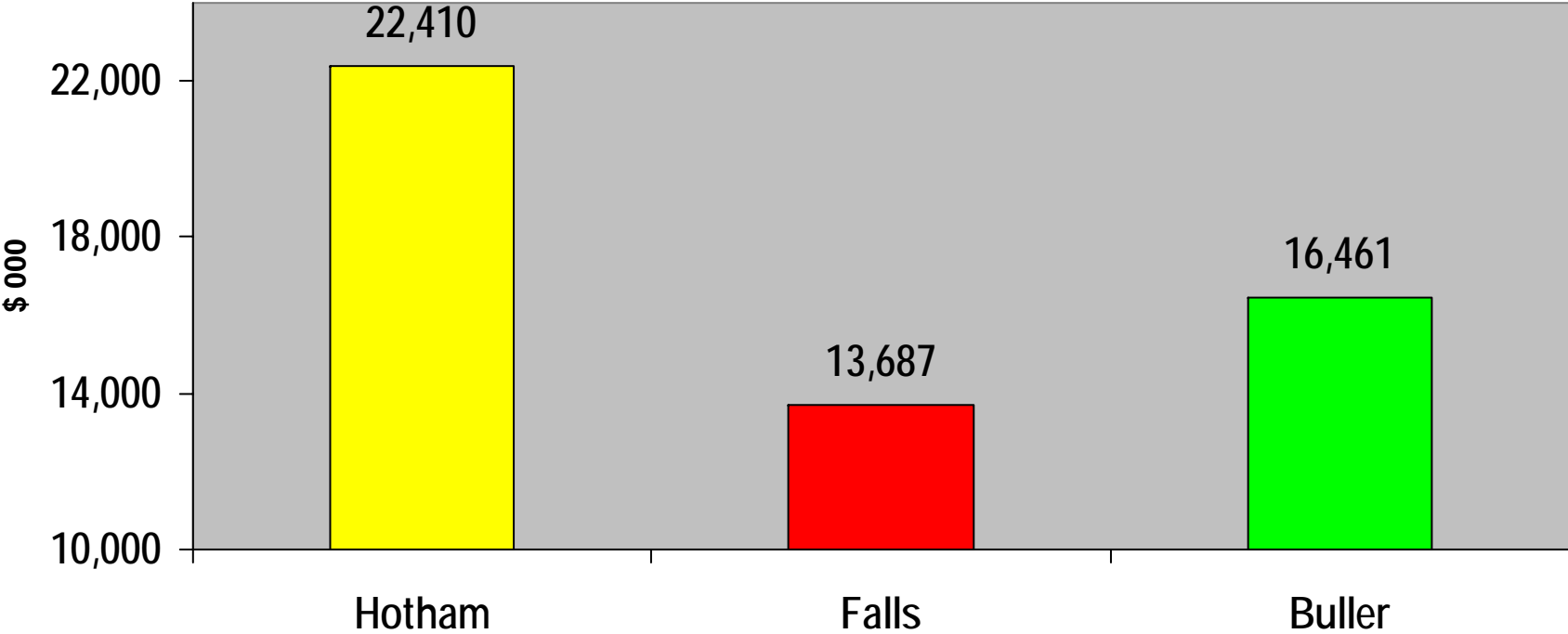
**HOTHAM'S OPERATING COSTS ARE
REASONABLE AND
ON A COMPARABLE BASIS
ARE LOWER
THAN FALLS & BULLER**



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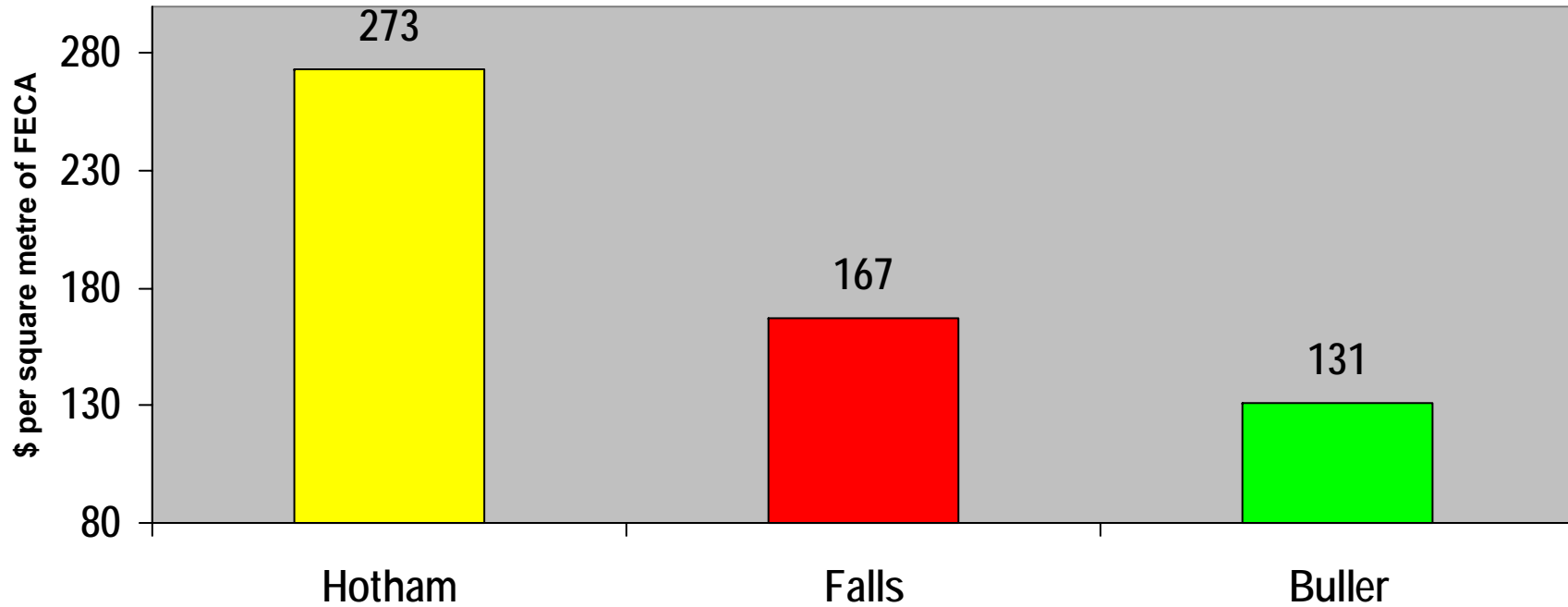
Hotham's infrastructure has been significantly upgraded in the past 11 years

Total capex from 1998-2008



Per FECA, Hotham's has invested materially more than Buller & Falls to upgrade its infrastructure

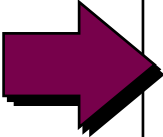
Total capex from 1998-2008 per FECA (2008)



Conclusion – Question 3

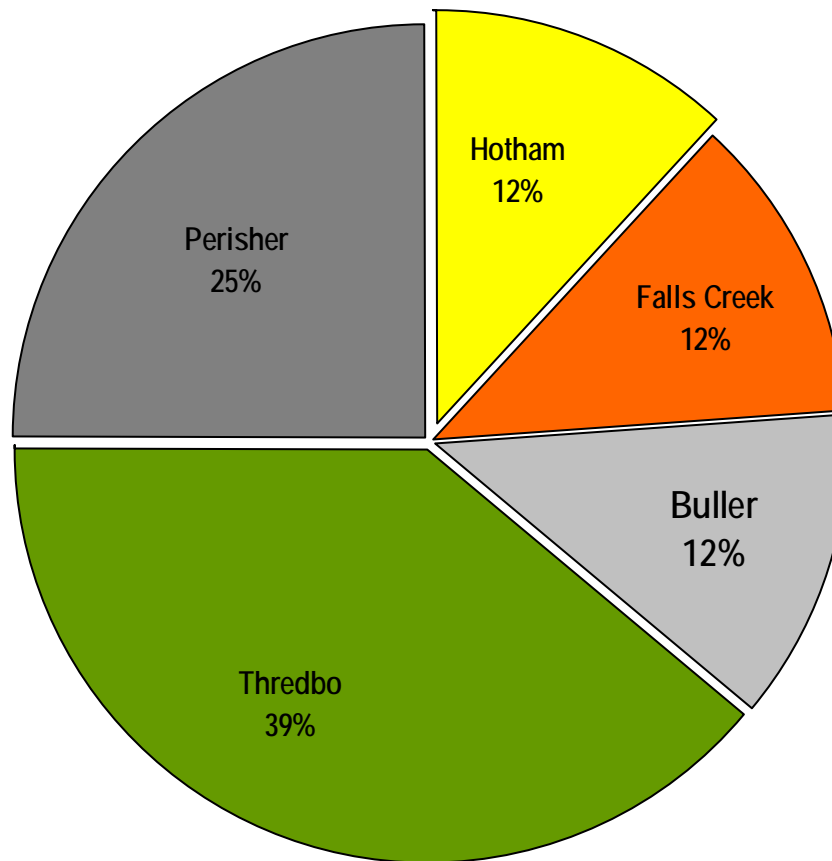
**HOTHAM IS BEING MANAGED IN A
SUSTAINABLE AND COMMERCIALY VIABLE WAY
MAY NEED TO EDGE UP SURPLUS
TO FUND FUTURE CAPEX**



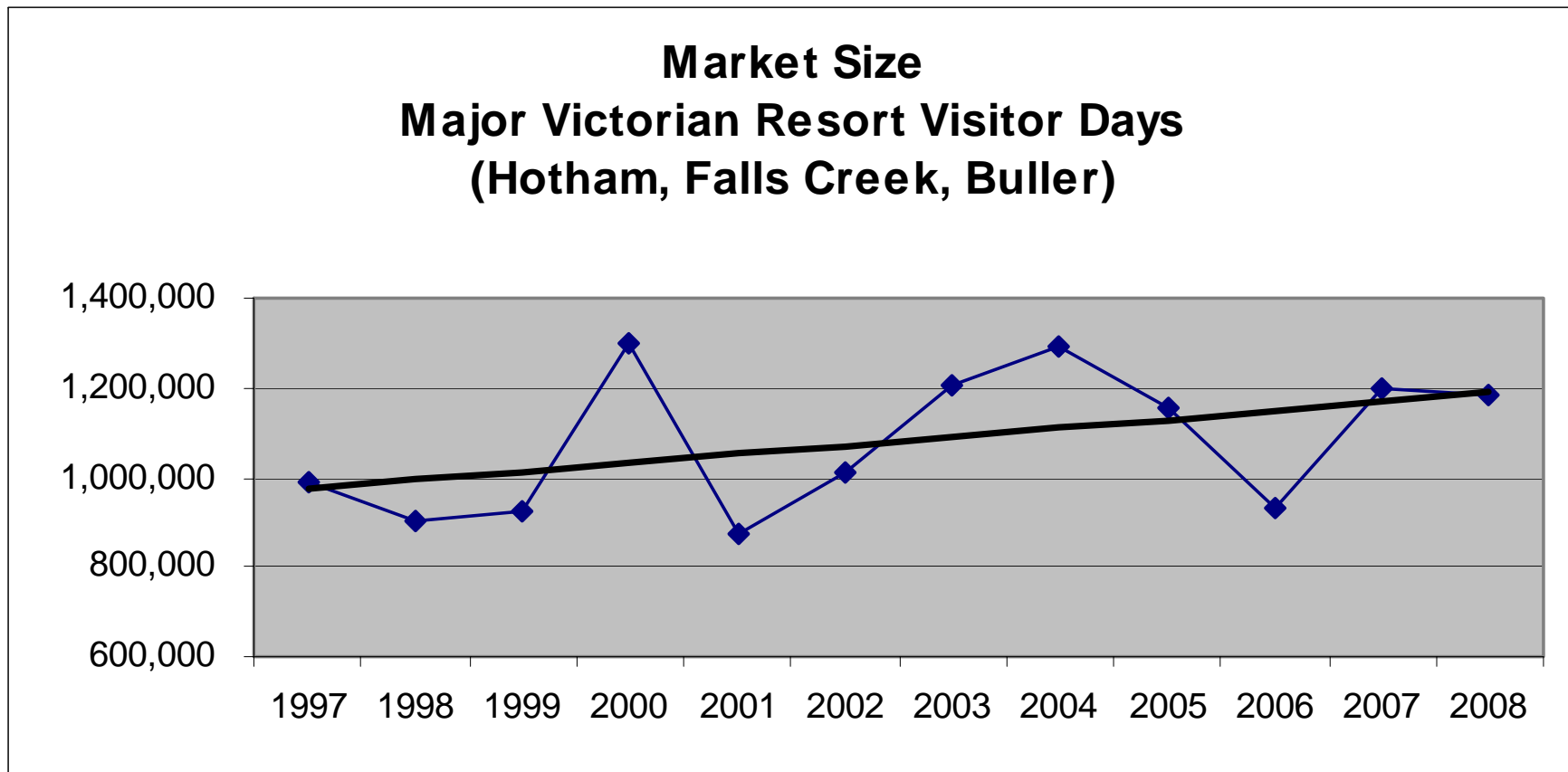
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Context, Hotham represents ~12% of the Australian market

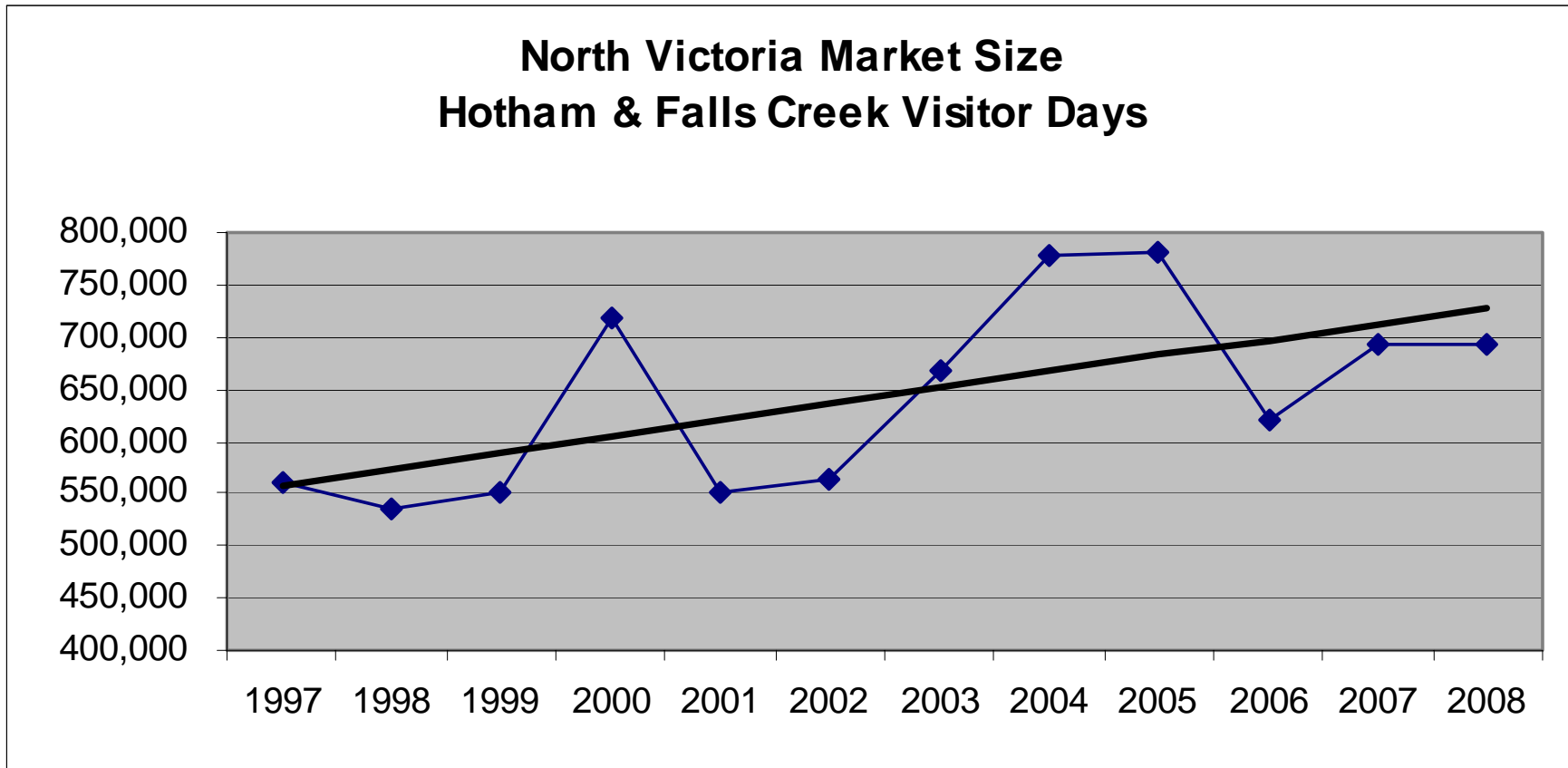
Australia's Major Alpine Resorts – Market Share of Visitor Days – FY06



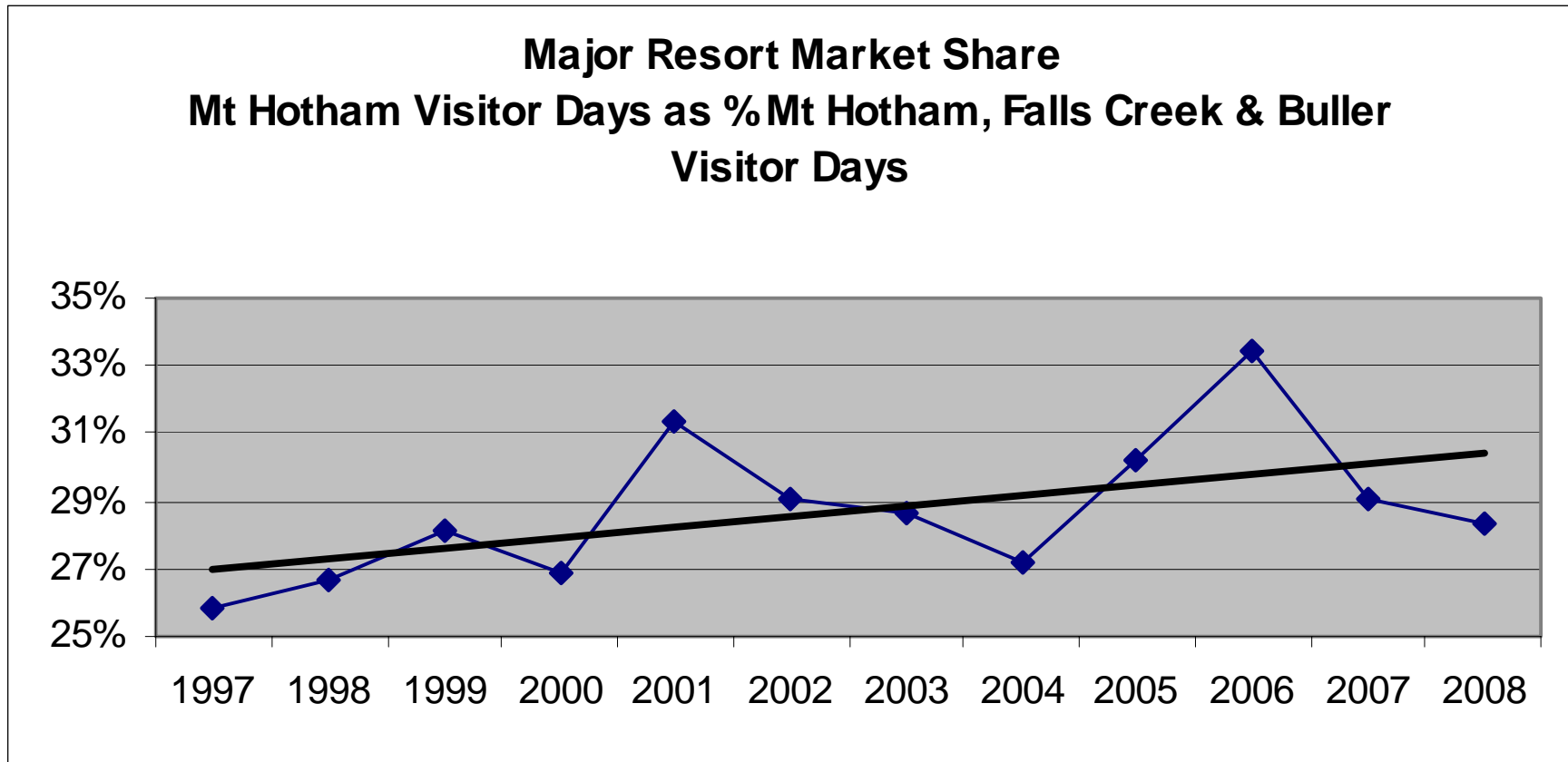
Victorian Major Resort skiing market ~1.1 million visitor days in the past 12 years. 2008 just better than average



Nth Victorian market is steadily growing, 12 year average 642,000 visitor days and ~59% share Vic Major Resorts

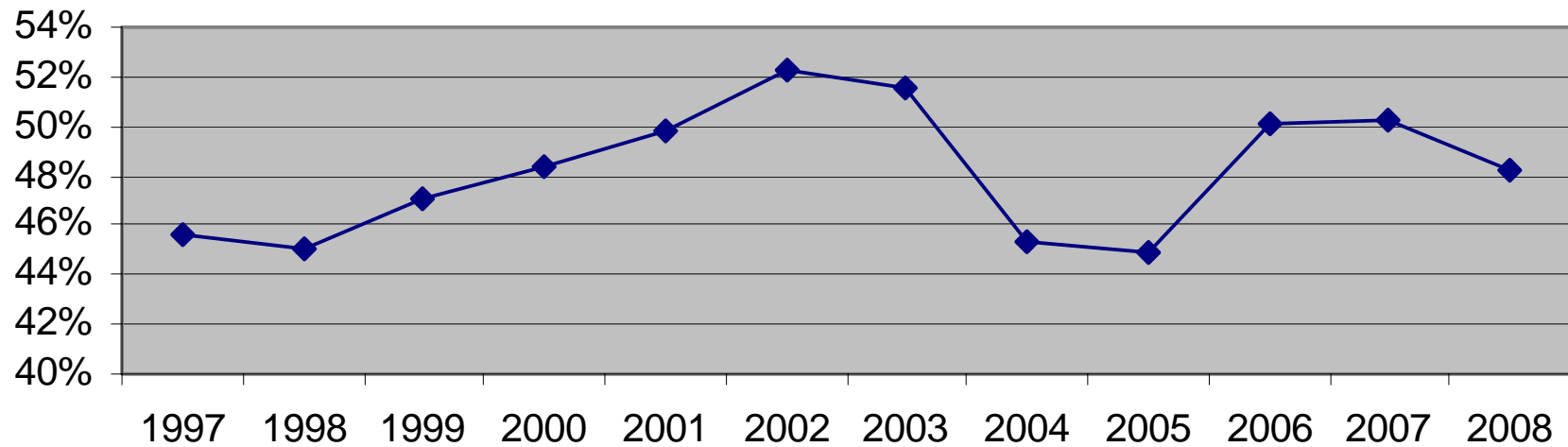


Hotham market share of Victorian Major Resorts is trending upwards, averages 29%, 2008 28%

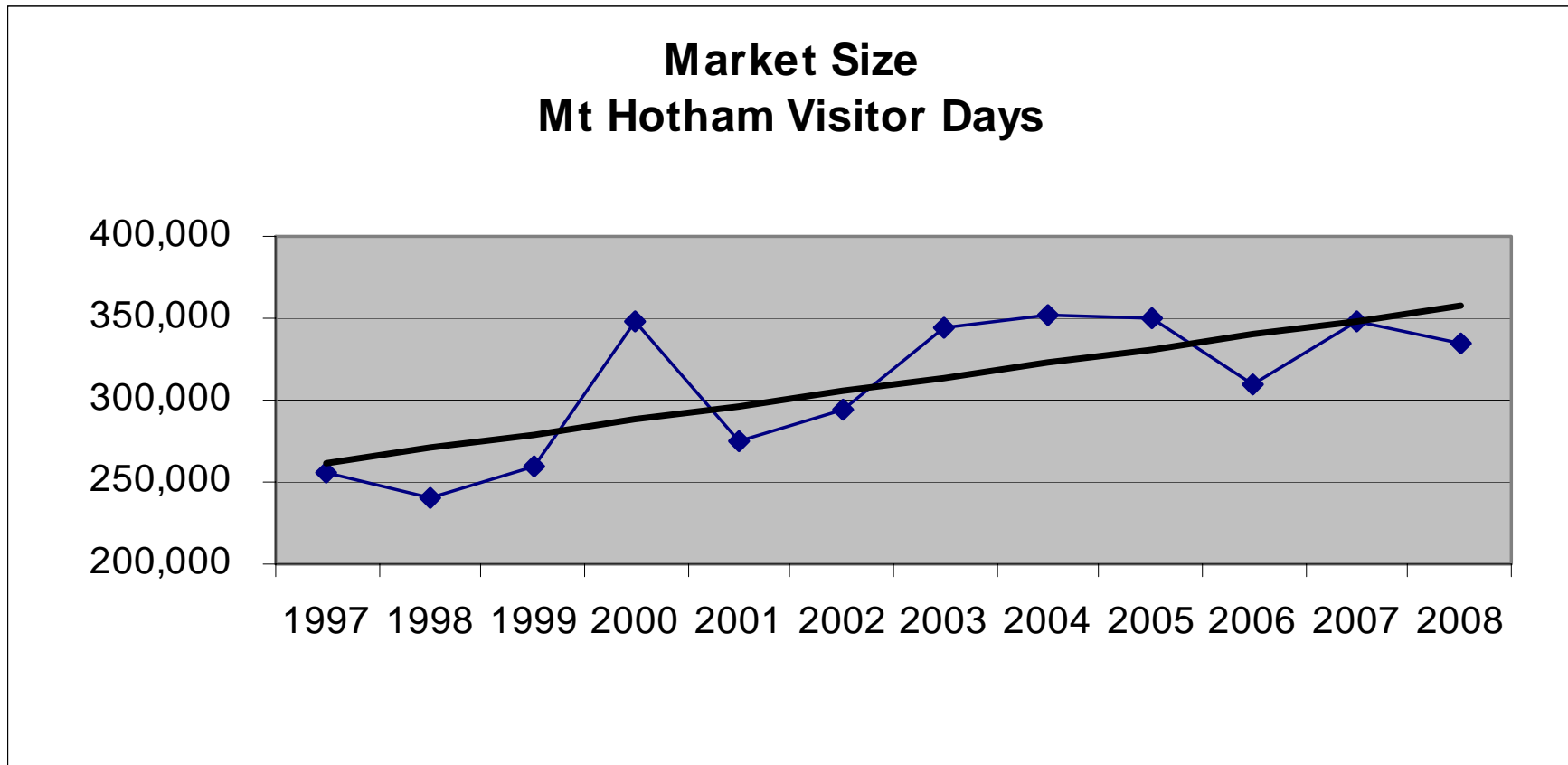


Hotham lost some share to Falls in 2008

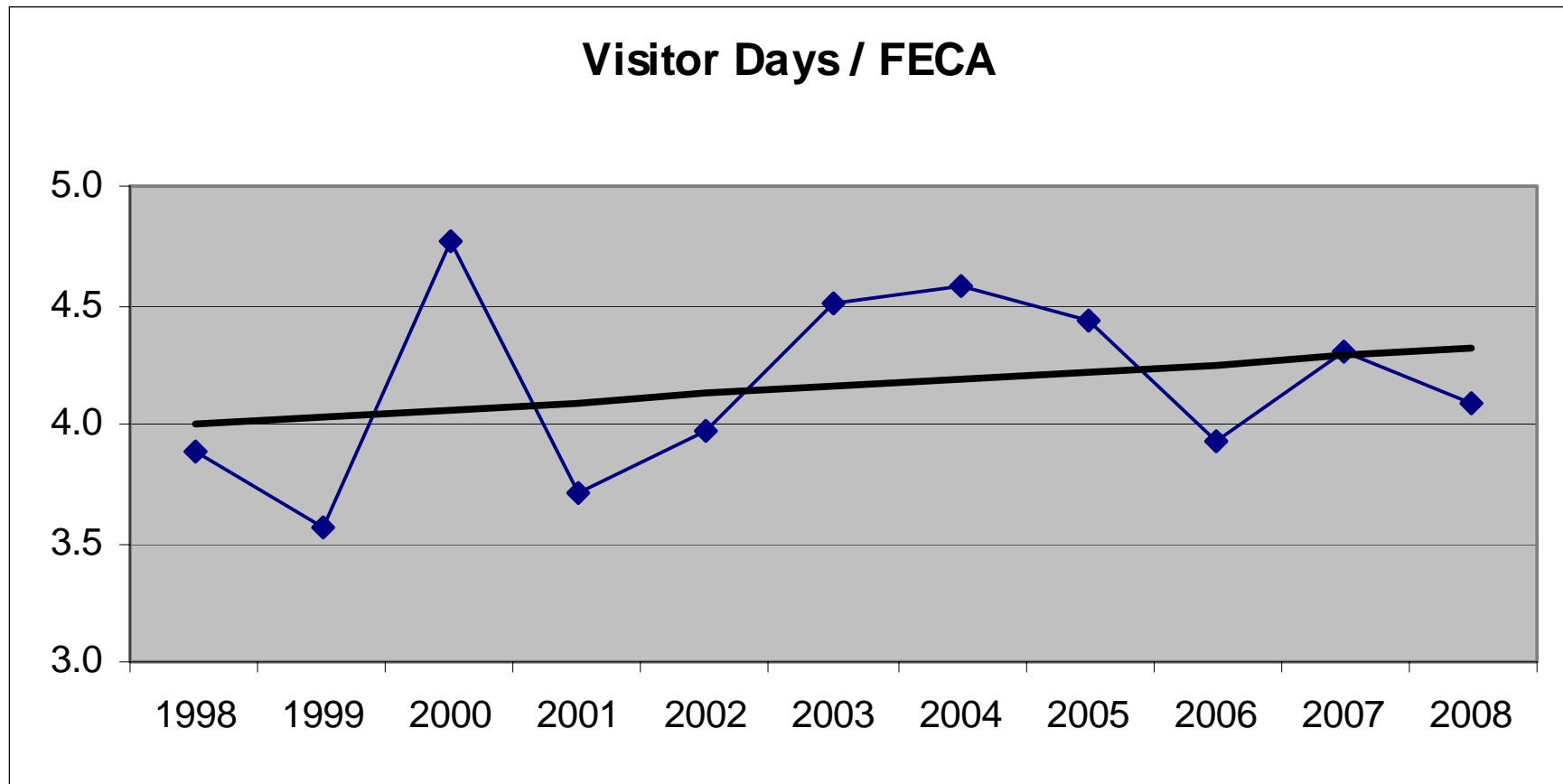
**North Victoria Market Share
Mt Hotham Visitor Days as % Mt Hotham and Falls Creek
Visitor Days**



Visitor days flat past 6 years, trending up over 12 years (+~100,000), not only due to FECA growth...



...yield (visitor days per FECA) is also trending upwards.



100,000 additional visitor days provides a major benefit to Hotham stakeholders

- **\$5 – 10 million** additional revenue to **lodges and unit owners** @\$50 - \$100 per bed night
- **\$2.5 – 5.0 million** additional revenue to **commercial operators** @ \$25 – \$50 / day spend
- **~\$6 - 8 million** additional revenue to **ski company**

Conclusion – Question 4



**HOTHAM'S STRATEGY IS
ADDING VALUE
TO THE RESORT
AND ITS
STAKEHOLDERS**

Summary

- ✓ **Lowest cost to overnight visitor**

(Hotham \$19 / Visitor Day vs \$23 & \$26 / VD)



- ✓ **Low operating expenses**

(Hotham \$84 / FECA vs \$87 & \$91 / FECA)



- ✓ **Sustainable & commercially viable**

(Cash flow positive, (watch operating deficit), >\$22 mil capex in 11 years

\$273 / FECA vs \$167 & \$131 / FECA)



- ✓ **Adding value**

(additional 50,000 to 100,000 visitors / year, higher visitor days / FECA)

