HOW TO FINANCE THE FUTURE

A trail guide for traversing an avalanche of debt.

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As the country's economy began to shovel out from under the avalanche of debt that buried so many businesses and people from 2008 to 2013, many of the nation's ski resorts found themselves unable to surface. The result was a flurry of bankruptcy filings and asset sales by resorts that lacked the liquidity and capital to survive. While this was devastating for several resorts, the lessons to be learned can help other resorts escape a financial pinch intact or at least in the best possible fiscal shape.

After the onset of the recession, many resorts found themselves unable to service millions of dollars of debt they took on to finance real estate and capital acquisitions and construction. Toss in a low snow year and the financial storm became a debilitating blizzard.

Among those impacted were Wisp Ski Resort, Md., Greek Peak and West Mountain, N.Y., and Snö Mountain, Pa. These companies crash landed in Chapter 11. Many other resorts were forced by their lenders to hire turnaround professionals, restructure their debt, or sell the business altogether. Vancouver's Mount Washington Alpine Resort is the latest to hire a broker and seek a buyer.

Long term planning not only helps smooth out seasonal revenue shortfalls and provide a means for future resort maintenance and improvements, but recent history now proves that it could mean the difference between the continued existence of the business and a disastrous fall. Experienced restructuring attorneys and investment bankers can assist in planning the process and avoiding the bumps along the way.

After working in the bankruptcy cases of Wisp, Greek Peak, and others, I learned a number of lessons that every resort should consider when plotting its financial future. Whether seeking an equity infusion, refinancing or taking on new debt to address a liquidity crisis, or selling the business to a better-capitalized owner, these lessons can help achieve financial stability.

Timing Is Everything

As with nearly everything in life, timing is everything. While financial statements may paint a rosy picture, sophisticated lenders, investors, and buyers are savvy enough to know that revenue from ski operations can vary widely from season to season depending on snowfall, consumer spending trends, and other factors that are outside of a resort's control. Consequently, the timing of a financial restructuring and its necessary due diligence phase should be strategically planned. You only get one chance to make a first impression on the markets, so make sure it's a good one.

For instance, investors inspecting a ski operation in the spring or summer must close their eyes and imagine bustling trails, lift lines, and eager guests. In addition, site visits in the off season tend to reveal wear and tear on lifts and infrastructure, as well as all the rough edges that are covered with snow during the winter. These perceptions all affect value. It should not be surprising that most bankers rely on what they see during the underwriting process.

With proper planning, though, a resort can schedule to host investors, bankers and buyers on high-volume dates like President's Day, and burn in a lasting impression of value.

Attempting to access capital, restructure, or sell in the summer, when revenues are at their lowest, also puts a lender, investor, or purchaser in a superior bargaining position. If a resort needs immediate cash to fund necessary repairs or opening day preparations, the resort may have to concede to harsh lending terms or a lower sale price in order to survive.

Buyers and other interested parties also typically demand that the transaction close in advance of opening day, so that they can capture as much seasonal revenue as possible. Conceding to their timing could result in an abbreviated marketing process.

Finally, know that lenders are less likely to exercise their default rights during the peak ski season and risk the loss of revenue from a change in operational management or the negative publicity. So it helps to have restructuring professionals approach lenders to start discussions while the cash is flowing.

Snö Mountain's 2013 bankruptcy shows the importance of timing. The resort's financial advisers, Scott Victor and Terry Koehler of SSG Capital Advisors, agree that the sale of smaller East Coast resorts during the ski season can be challenging. The local and regional prospects that typically would be interested in a purchase of that size are concentrating on operating their own resort, and they are not in acquisition mode. But the work of preparing the necessary information and documentation for a capital raise, refinancing or sale should be completed during the season, so the resort can hit the market as soon as the season is over.

Going forward into 2014, ski areas should fare better in reaching their long-term financial goals. There is more liquidity in the real estate lending markets than in prior years, and the snow sports industry is showing gains over 2013 spending. Resorts that are in need of restructuring should take this opportunity before it melts away. Like finding stashes of powder, timing is everything.