From: Nat Craig
Sent: Tuesday, 19 November 2019 12:37 PM
To: Gavin McNeill
Subject: Cardrona Alpine Resorts/Treble Cone Merger

Dear Mr McNeill

I understand that submissions pertaining to Cardrona Alpine Resorts (CARL) acquisition of Treble Cone (TC) are closed. I have read the submissions made public. The purpose of this email is to provide you with additional information you may or may not be aware of and which may assist you in forming an opinion on this transaction.

My background in providing this information is that I was one of the two individuals involved in TC's acquisition in 2002 and I chaired the company for 6 years and was on its board for 10 years. I was the director primarily involved in the restructuring of this business over that time. I remain a small shareholder. My background was as a CA trained in insolvency work and for the past 30+ years I have been involved in the acquisition and restructuring of many SME businesses across numerous sectors in NZ.

1. The TC business model is a particularly difficult commercial one. TC occupies a unique position in the NZ ski sector. It does not sit with the high volume model of the main operators (NZSki, RAL and CARL) for various reasons. It's product caters for the 30% of the market which is classified as advanced/expert. It is a large mountain (one of the biggest ski areas in NZ) which demands a higher cost structure due to health and safely and compliance issues and high fixed operating costs, which are in the main unavoidable if the business wishes to continue to operate. The major commercial ski area operators enjoy 200-300,000+ skier days, and the smaller commercial ski areas have in the main 20-30,000 skier days with many club fields having less than 5,000. No other ski area sits in that middle zone of 90,000-100,000 skier days, nor has a cost structure associated with that volume and size mountain. In my opinion the TC business cannot be made independently viable with the cost structure required to operate with the skier day volumes it attracts.

2. Revenue yields have essentially been maximised. Appealing to the advanced/expert market results in lower overall revenue yields than other areas because it cannot attract sufficient revenue from departments such as ski school and rentals which are highly profitable for most ski areas, but come mainly from the beginner/intermediate markets. There is considerable resistance at TC from the beginner/intermediate market due to the mountains topography, and despite extensive terrain modification and marketing efforts TC has failed to attract sufficient growth in that market segment. With circa 90,000 to 100,000 skier days it has been unable to increase its skier days over the past 20 years despite everything conceivable having been tried, including capital expenditure of around $10million over my period. The business is no longer commercially viable as a stand alone independent operation no matter which way you assess it or attempt to restructure it, or invest in it.

3. As part of a larger ski group such as CARL, there would be an opportunity to significantly reduce duplicated overheads, and include the differing product offering with combined marketing efforts. In my opinion this is the only viable solution to TC's financial difficulties and a sustainable future.

4. CARL and TC cater in the main for very different skiing clientele and as such complement each other rather than compete directly against each other. This has been highlighted in submissions and I totally endorse that view. This is why TC has been able to operate a different pricing structure from CARL (and the other major skier areas) both for seasons passes and day tickets. CARL competes more directly with the other main operators, particularly NZSki and they set their pricing more

directly to compete in that market. In considering the criteria of lessening competition, I cannot comprehend the argument that CAL would increase its prices more in line with TC, as it could have chosen to do that at any time over the years, but this goes totally against their historic pricing strategy and where they need to price their product for their target market. It is likely that CARL will decrease TC's prices more in line with it's own and offer joint mountain passes to compete with the joint passes offered by its Queenstown competitor. I believe the acquisition will increase rather than decrease competition and will result in numerous consumer benefits.

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6. Having read Mr Hepburns's submissions, I would consider them in the main to be inaccurate and/or incorrect. From information provided to me I believe that should the acquisition with CARL not proceed, Mr Hepburn may further attempt to acquire the company and such a transaction could benefit him commercially. Furthermore, I do not believe Mr Hepburn or his associates have the necessary knowledge or skills in relation to the New Zealand ski industry to make these assessments or operate TC successfully.

I hope this information is of some assistance and I am happy to provide additional information if you require it.

Yours faithfully

Nat Craig