# It takes a village

## At Whistler and Mont Tremblant, you thought you were going skiing. In fact, Intrawest's ersatz Alps towns were telling you a story. Next chapter: whatever you like

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Gary Raymond sits in the bar of Whistler's swish new Four Seasons hotel. Next door is a Club Intrawest, while down the street that winds along the lower slope of Mount Blackcomb is the Fairmont Chateau Whistler, built on land that Intrawest sold to the hotel in the 1980s. As with a lot of other things in North America's largest ski resort, the company that Raymond helps run has a history with the Four Seasons too. Intrawest planned it, built it, negotiated the Four Seasons branding and management, and then sold each of the 244 rooms in the residential tower to investors through condominium agreements. In a meeting room upstairs, the company's chairman, president and CEO, Joe Houssian, is telling analysts and institutional investors about the period of reflection the company has just gone through, the actions that have resulted, and the growth and profitability that will, he says, be the outcome.

Raymond is chatting about the intricacies of resort design--or "placemaking," as his business card describes it. Having lived in Whistler for 25 years, the CEO of Intrawest's resort development group acknowledges that the place is not completely innocent of the charge sometimes hurled its way of being a soulless cookie-cutter theme park. That's why Intrawest's latest generation of Whistlers--places like Sandestin, Fla., and a half-dozen other resort towns on drawing boards around the world--throws lots of new wrinkles into the resort-making process, some of them literally wrinkly.

In Sandestin, a gated golf and beach resort on the Florida Panhandle, the company was careful to design a few ungainly buildings amid all the perfectly proportioned ones. "We created a full storyline," he explains. "We wrote a history for every building." Sandestin's story turned what had recently been undeveloped land into a historic fishing village that had evolved over hundreds of years. According to the story, the structure that now houses an ice-cream stand was once someone's home, and not an attractive one either--"there's someone crazy in every town," Raymond explains. "The struggle is to not overdesign," he adds. "We want Sandestin to be the kind of authentic experience that everyone who visits Florida will want to see."

The "authentic" touches will actually make Sandestin even more fabricated than Whistler. No matter: The system works. The precisely tuned experiences created by Vancouver-based Intrawest now set a global standard that few others can match (Four Seasons itself would be one, of course). But when will this world-beater get the respect of the Street, both Wall and Bay? Outside the hotel window, the February weather is almost summery, continuing the warm spell that a couple of weeks earlier inspired investors to punish Intrawest's stock. In fact, intransigent weather at an individual Intrawest resort--even Whistler, which still accounts for some 40% of resort revenues--is not the catastrophe it might be for the lift-operating competitors that chief financial officer John Currie wryly refers to as "vertical transportation companies." Analysts and observers may disagree on how profitable the trend-sensitive and capital-intensive resort business should be, but they agree that no one has tackled the problem in quite the way Intrawest has. For one thing, the company has enough mountain resorts--no fewer than 10--that, when the peaks are bare at one, they're blanketed at another. For another, the company is careful to ensure that its mountains thrive during at least two seasons of the year (and, in any case, Intrawest's current growth is concentrated in warm-weather locations). For yet another, just over half the company's 2004 revenues of $1.54 billion (U.S.) came not from the visitors boarding the double-black diamonds or double-bogeying the par-threes, but from real estate sales, mostly under condominium agreements.

So the market's pegging Intrawest down in direct proportion to climbing mercury is not especially rational. The weather may, in fact, provide a proxy for investor anxiety over Intrawest's high debt and inability to spin off cash. The company wishes investors would see that its real competitive advantage doesn't even reside in its choice properties, but rather in the intellectual capital it has accumulated--its ability to invent new places that people want to visit and buy into. That and the understanding it has gained of the people who are its customers: affluent boomers the company thinks it can tap for more than just a condo in the mountains. That will take time, naturally. If you are an Intrawest investor waiting for the company to finally outgrow its cash-burning habits, you may still have some finger-drumming to do. But if you are an Intrawest customer wondering what else the company can do for you, your curiosity will soon be satisfied.

According to legend, it all started with a T-bar smuggled from since-mothballed Fortress Mountain near Banff and erected under cover of darkness atop Blackcomb Mountain. The year was 1985, and Hugh Smythe, now president and chief operating officer of Intrawest's leisure and travel group, was managing the less established of Whistler's two-mountain threat for Aspen Skiing Corp. and its partner. Aspen wanted out, and Smythe, an operations wizard who'd been running ski resorts since the age of 23, recognized that the best way to help putative buyers understand the mountain's potential was to get skiers up there, right to the Horstman Glacier. Hence the Tbar. Raymond, a Montreal-born ski bum whom Smythe had hired away from the municipality of Whistler a year earlier, stresses it was all above board; the overnight installation was more a case of opportunism than of skullduggery. He agrees, however, that the T-bar's sudden presence had as much to do with whetting the appetites of potential buyers as with satisfying the powder lust of fellow skiers.

One of the few nibbles for Blackcomb came from a young Vancouver developer whom Smythe had met through the Young Presidents' Organization. Joe Houssian, who's now 56, was born in Brandon, Man., to Lebanese parents who later ran a general store in rural Saskatchewan. After getting an MBA at the University of British Columbia and working as a Xerox salesman, he founded a company with a cousin in 1976. They made forays into oil and gas and other businesses, but, says Houssian, "we weren't becoming experts in anything," so the company soon decided to focus on real estate. It did well, developing shopping malls and industrial parks in Vancouver, but Houssian was impressed with Smythe's ski-business expertise and thought a union with his own real estate strength could be potent. With Blackcomb suddenly vying for the distinction of offering skiers the continent's biggest vertical drop, it looked like an interesting opportunity. Houssian soon found himself the owner of a ski hill that other prospective purchasers had dismissed as marginal.

Blackcomb came into its own in the years following the purchase. Between 1986 and 1990, skier visits to the mountain increased by 140%, and the resort pulled Intrawest uphill along with it. So in 1991, when the opportunity came along to pick up a resort north of Montreal at a fire-sale price, the company jumped. To many observers, the acquisition and turnaround of Mont Tremblant has been Intrawest's standout achievement. Though Smythe, and Raymond in particular, had long associations with Whistler, the Intrawest team were not directly involved in its design. However, they had seen at close hand how it worked, and had studied the European resort villages on which it was modelled. Though Tremblant was in rough shape, it did have some promising attributes, including the highest vertical drop in eastern North America and a location near a large population centre, Montreal. And as broken-down as the physical plant was, there were some buildings to work with, among them a scattered assortment of old rental lodges that would provide the genesis of Raymond's first story.
Intrawest's development process begins with "envisioning." Typically, a couple of dozen community members, outside experts and Intrawest "visioneers" gather to get the lay of the land. The visioneers break up into smaller groups and "what if" their way through ideas, no matter how strange. When they come back together, they assemble a document that eventually becomes the

blueprint for development.

In the case of Tremblant, says Raymond, the old lodges were impossible to ignore even if their locations were unworkable. So a story was developed in which the buildings formed the core of a 19th-century Quebec village but were laid out in a more European style. New foundations were poured, and the structures were moved into place. That they did not fit together in a perfect and contiguous way was seen as a bonus, he says. Not only did it seem more European, but the company had already noted that the most successful areas of Whistler were the ones suffering from development constraints, which resulted in an idiosyncratic streetscape.

The company's villages are sometimes identified with the new urbanism that seeks to bring smalltown qualities into suburban neighbourhoods. Raymond bristles at that idea. New urbanism tends to rely on main streets: "Straight roads with boulevards and trees that hide the shops," he complains.

An Intrawest street always separates people from traffic and is never straight. "Otherwise, people will see what's coming up and won't need to walk there." Moreover, pedestrian walkways are designed to create rather than alleviate traffic confusion. North Americans are trained to walk on the right side of a sidewalk, and rarely find themselves bumping into each other--that is, until they visit an Intrawest village. There, crossroads encourage milling and interaction. Large plazas are eschewed because--city planners, please note--people will avoid public areas if they are too open or exposed. Instead, meeting places are built on the margins, like eddies in a river. "A street is like a stream," says Raymond. "The richness is at the edges." And so, of course, are the shops. Another ubiquitous Intrawest feature is the way virtually every human instinct is catered to, every sense indulged. That scent of baking bread wafting through the air is not there by accident any more than is the beckoning sight of a crackling fire, located just so. The company calls it "fivesensing."

Here again, Tremblant served as the prototype. The first steps were to enhance the mountain experience through better lifts and other investments, then to begin construction of the "animated village" at the bottom. The result was a substantial increase in visitors, allowing the company to develop more real estate and attractions, which led to still more visitors. Before long, the crowds began to ignore the seasonal constraints, enabling the construction of more year-round amenities and increasing the profitability and potential of shops, hotels and restaurants. That led to still more visitors, still more real estate sales and, ultimately, what the company calls a "total resort experience."

At Tremblant and elsewhere, delivering a total experience required something approaching total control, which has not always sat well with communities that for decades had been meandering along their own mountain paths. Where once there had been one company running the lifts and dozens more doing all and sundry, suddenly they found themselves in Intrawest City, where the company ran the mountain, built the village, developed the real estate and, especially in recent years, controlled the reservations systems, leased the commercial space, and operated many of the stores and visitor services.

The company has run into the most resistance in long-established communities like California's Mammoth Mountain, where environmental and residents' groups took issue with ambitious development plans. But complaints also arise from pro-development camps in less set-in-theirways places. A former civic official in Whistler describes the relationship with Intrawest as love/hate, likening residents to the "serfs who depend on their lord for their livelihood, and acknowledge that his success is ultimately their success, but bitterly resent him for it nonetheless." Gary Raymond has heard the criticisms but believes they are not widespread. He says that Intrawest limits its retail involvement to soft goods and ski gear and services, adding that there are more opportunities for all after Intrawest takes over, simply because the resorts attract more people.

By 1994, Tremblant was well on its way and that, combined with Blackcomb and Panorama, the resort in B.C.'s Columbia Valley acquired a year earlier, made Intrawest the largest ski operator in Canada. In 1993, the company also embarked on its first big stateside project, partnering with an offshoot of Ralston Purina to build a resort village at Keystone, Colo.

Of course, a growing company needs capital, and the best way to get a pile of it is to go public. In 1990, Intrawest floated its first public offering, netting the princely sum of $36 million. The combination of sensible urban holdings and sexy mountain developments somehow wasn't compelling to investors. Dan Jarvis, CEO of the leisure and travel group, says the hitch was the grab bag of real estate Intrawest still maintained back in town. "We could see people's eyes glaze over," he says. "We didn't have a story they could understand."

Jarvis remembers he and Houssian were sitting at the round table in the latter's downtown Vancouver office when a solution to the problem crystallized: Intrawest would divest itself of its urban assets and become a company devoted to perfecting its resort formula. Over a few months in 1994, the company sold its various holdings in Vancouver, Seattle and Alberta. Tellingly, there were a wide assortment of buyers. "It was only later that we realized how distracting it had been," says Jarvis.

With its new focus, the company found that many of its opportunities lay in the U.S. Between 1994 and 1996, it picked up Stratton Mountain in Vermont, Snowshoe Mountain in West Virginia, Copper Mountain in Colorado and a major stake in Mammoth Mountain. In 1996, it also bought Whistler Mountain, giving it a lock on what had grown to become North America's largest mountain resort by far.

In 1994, the company launched its first Club Intrawest at Whistler, a venture into fractional ownership (not time-share--"we shudder at the word," says Jarvis), which allows members to spend their credits not at just one site, but at various Intrawest resorts. By the late 1990s, the company was beginning to run out of mountains to acquire, and, in any case, the Club had created a need for a greater diversity of experiences. So apart from picking up Sandestin, Intrawest has begun projects in Maui and Orlando, and started prospecting in the Mediterranean and throughout the American Southeast. In 2000, it also signed deals to build resort villages for other companies at Les Arcs, in France, and Lake Las Vegas. Europeans embraced the Intrawest style at Les Arcs, and the company has entertained several more development proposals. While some executives relish the incongruity of exporting "European-style" villages to Europe, it's far from a joke. The company recently established a placemaking branch in Lausanne, Switzerland, to go with the five it has in North America. And the latest twist--for Intrawest, even more surprising--is a move into pure travel businesses possessing no obvious real estate links, a switch that is taking place for reasons both within and beyond the company's control.

Though never a market darling, Intrawest, with its aggressive growth strategy, was in sync with the late-'90s boom, when investors had plenty of patience for establishing a brand. But the 21st century has demanded a different set of attributes, some of which Intrawest lacked. The criticisms revolved around the company's debt load and rate of cash-burn and, as Whistler and Tremblant neared build-out, the lukewarm performance of the mostly American properties to which the company had hitched its wagon. As **Veritas Investment Research** analyst **Anthony Scilipoti** wrote in 2003, "The momentum generated during the stock market bubble, both from increased resort visits and presold real estate units, led many to overlook the company's weakening balance sheet. As the economic slowdown lingers, Intrawest must deal with a mountain of debt."

That something had to change was equally clear to Intrawest executives. If the first pivotal moment in the development of the company's resort business can be traced to a legendary TBar, and the second to a eureka moment in Joe Houssian's office, the third had most to do with a share price that in 2003 dipped to the $14 level, half of its former value. The past couple of years have seen the company enter into another major transition, one that it hopes will resolve the issue of fiscal credibility.

Intrawest's drive to reduce debt and increase return on invested capital is the domain of CFO John Currie. In his view, there are four ways that Intrawest, the erstwhile swashbuckling charmer, is becoming the kind of sober breadwinner investors want to glom onto. First is a round of rationalizing and the reorganization of the company into placemaking and leisure/travel wings, under Raymond and Jarvis, respectively. Second is the move to expand fee-based businesses. The most active front here is Playground, Intrawest's real estate sales and marketing arm. In 2004, the division sold more properties for other developers than it did for Intrawest itself. "A developer may have a great piece of land and may have done a great job of master-planning, but they don't always have the marketing expertise," Currie explains. In 2004, third-party management fees brought in $124 million (U.S.), a figure the company aims to grow rapidly.

The third, and most important, change was the creation of Leisura in 2003, in response to Bay Street's complaints about Intrawest's high debt load. There were distinct advantages to controlling every part of the development process under Intrawest's old model, but building resorts is nothing if not capital-intensive. As the company's projects expanded, so did its debt, to more than $1.2 billion (U.S.) by the end of 2002.

The invention of Leisura, a partnership between Intrawest and Manulife Capital (in Canada) and JPMorgan Fleming Asset Management (in the U.S.), offered a partial solution. Intrawest still buys the land, gets it ready for construction and starts marketing the property. But as construction day nears, the project is sold to Leisura (of which Intrawest owns a third), and the partnership arranges the money to build it to completion. Intrawest gives up some revenue and profit, but the structure allows the company to say goodbye to millions in debt that would have otherwise been on its balance sheet. And it still takes fees for managing the process. "Intrawest has evolved in 2005 into a company that really resembles a hotel-management company, like Four Seasons," Houssian summarizes.

Most analysts have been receptive to Intrawest's new direction, as have investors, January's thaw notwithstanding. Raymond James's Gail Mifsud recently reiterated her "outperform" rating. "It's all about value and this stock is trading at a discount relative to its peers," she says. "The company is on the best financial footing in years." Even **Scilipoti** is mildly conciliatory. "I'm warming to the thought that they are taking the right steps. But the jury's still out whether this is a growth situation."

Salubrious indicators are the recovery of the stock price and a decline in borrowing costs. In 2001, Intrawest's average cost of debt was 9.4%. By last fall, it was able to borrow money at rates between 6.8% and 7.5%. Still, the debt remains a burden and has been on the rise again--gross debt was up to nearly $1.1 billion (U.S.) as of last December.

As for the other bugbear, Intrawest doesn't expect to earn any so-called free cash flow in fiscal 2005. "Our opinion and rating of the stock would change radically if the company was advising that it would be producing $100 million or more of free cash flow...and there was a reasonable expectation that [it] would grow," National Bank Financial analyst Michael Smith told clients in a research report in February. "This is just not the case." Smith thinks investors should avoid the shares. It is the fourth leg of Currie's plan--new revenue streams--that will possibly bring satisfaction to the likes of Smith. Buying new businesses will require money, of course. But rather than borrow more, the company is transferring a lot of income-producing commercial space--as much as 500,000 square feet--to an income trust, CNL Income Properties, and using the freed-up money to pick up assets that add heft to the bottom line. (Some of these dollars will also go toward paying down debt.) One recent acquisition is Canadian Mountain Holidays, the world's largest heli-ski operation, in which Intrawest already held a 45% stake. Another is 67% of Abercrombie & Kent, which also has world's-largest bragging rights, in this case in the guided luxury-travel business--safaris and the like. Intrawest is particularly high on A&K, which it was able to pick up cheaply due to post-9/11 troubles. "It has a brilliant opportunity to complement its organic growth with acquisitions," says Houssian. And the add-on is perfectly in step with Currie's fourth leg: finding more things to sell to the millions of well-heeled customers it already serves. With them, Houssian says, "We realized we had this tremendous asset."

If you take a marketing-oriented company like Intrawest and give it the relatively narrow customer base provided by skiers and boarders, one of the results will be a database of almost frightening specificity. Make no mistake: If you are a habitué of Intrawest resorts, Dan Jarvis has you pegged. You didn't merely go to university, you went away to university. You probably live in one of a few neighbourhoods within a dozen or so large North American cities. You are overcommitted and find it difficult to balance what you like to do with what you have time to do. And, while you are affluent, a more defining characteristic might be that you are, as Jarvis says, "active in the pursuit of life." Given that you must also be rather intelligent to have done so well, you may have figured out by now that the future fulfillment of your every leisure-time desire forms an important part of Intrawest's strategy. Jarvis's aspiration is for customers to find that "the easiest decision to make is to stay within the Intrawest family." Of course, it was an earlier recognition of this potential that led to the initial diversification away from ski resorts. "We realized that we only had our customers for part of the year," says Jarvis. "We couldn't be a company defined by a single question: 'How's the snow?' "