

**Cairngorm Mountain Resort: Market
Sounding**

Highlands and Islands Enterprise

03 April 2012

Ernst & Young LLP

Private and confidential

Susan Smith
Head of Business Development
Highlands & Islands Enterprise
Cowan House
Inverness Retail and Business Park
Inverness
IV2 7GF

03 April 2012

Dear Susan

Cairngorm Mountain Resort – Market Sounding Exercise

In accordance with your instructions, this report sets out the methodology and results of our market sounding exercise, for an alternative operator for the Cairngorm Mountain resort.

Scope and nature of our work

The scope and nature of our work, including the basis and limitations, are detailed in our scope of services letter dated 31 October 2012. Our work in connection with this assignment is of a different nature to that of an audit. Our report to you is based on our review of data and information received from you and other third parties. We have not sought to verify the accuracy of this data or the information.

Purpose of our report and restrictions on its use

The report was prepared on the specific instructions of Highland and Islands Enterprise solely for the purpose set out in the report and should not be relied upon for any other purpose. Because others may seek to use it for different purposes, this report should not be quoted, referred to or shown to any other parties unless so required by court order or a regulatory authority, without our prior consent in writing. In carrying out our work and preparing our report, we have worked solely on the instructions of Highland and Islands Enterprise and for its purposes.

Our report may not have considered issues relevant to any third parties. Any such use third parties may choose to make of this report is entirely at their own risk and we shall have no responsibility whatsoever in relation to any such use. This report should not be provided to any third party without our prior approval and any third party should recognise in writing that we assume no responsibility or liability whatsoever to them in respect of the contents of our deliverables.

Yours sincerely



Director, Ernst & Young LLP

Contents

1. Executive summary	i
2. Introduction	1
3. Market awareness raising	3
4. Market analysis	5
5. Market sounding results	10
6. Recommendations	14
Appendix A Summary of market soundings	16
Appendix B Notice of Interest	18

1. Executive summary

Ernst & Young LLP (“Ernst & Young or “EY”) was engaged by Highlands and Islands Enterprise (“HIE”) to undertake a market sounding exercise to obtain feedback from parties who may be interested in bidding for the opportunity to operate the Cairngorm Mountain Resort. HIE has instructed this exercise with a view to gaining valuable insight into market perceptions of this unique investment opportunity to help inform HIE’s next steps and options for potentially bringing the opportunity to the market in a manner that optimises value for money.

The results of this exercise will inform a subsequent option appraisal exercise regarding HIE’s ongoing commitment to the Resort. Should HIE’s option appraisal indicate that procurement of a private sector operator or a disposal of the resort are preferred, then our market sounding exercise would help ensure the resulting offering is structured to be commercially appealing to private sector operators.

With this in mind the objectives of our work were:

- ▶ To assess market interest
- ▶ To define a viable market proposition
- ▶ To assess the required proposition structure
- ▶ To assess barriers to investment.

We adopted a multi-sectoral approach to engaging with the market and employed a mix of media and direct contact to ensure an optimal mix of the market was canvassed. The methods of market engagement employed included:

- ▶ Issuing a Notice of Interest brochure
- ▶ Publishing a Prior Information Notice in the European Journal
- ▶ Advertising in a number of industry online journals
- ▶ Direct approaches based on market intelligence
- ▶ A communications strategy that resulted in positive UK wide press coverage.

Market interest has unsurprisingly come primarily from the traditional ski and snow sports related sector, but there is other interest. Positive respondents are as follows:

- ▶ [REDACTED]

This level of interest suggests to us that there would be competitive interest should HIE decide to proceed to procurement of a new operator.

The market sounding exercise produced consistent interest across the respondents, regardless of their sectoral focus. Common feedback received from respondents are summarised below:

- ▶ **Debt burden:** There was a popular misconception that the Resort carries large historic debts. Although inaccurate, this may be restricting market interest. Procurement documentation should reaffirm the position with perhaps explicit reference in the procurement notice to address this matter.
- ▶ **Commercial autonomy:** Operators would require full management autonomy. This is to be expected. HIE would need to consider what residual interest it would seek with regards to governance and management/performance arrangements.
- ▶ **Asset ownership:** There was little appetite for outright ownership of the underlying asset. Instead the preference is to enter into a long-term contract, licence or lease agreement, allowing the operator full rights over the Resort over a long-term investment horizon.
- ▶ **Investment value:** Valuing the investment opportunity is not straight forward, particularly under EBITDA multiplier based valuations; returns on this basis may not satisfy operators' external funders. Financial support and performance guarantees may be required from HIE in the short term to improve the attractiveness of the investment opportunity. This suggests that HIE would need to enter into detailed negotiations with potential operators which could only be achieved via the use of Competitive Dialogue.
- ▶ **Employee structure:** Operators noted that commercialisation of the Resort would likely involve streamlining of staffing models. There was a view expressed by a number of operators that the headcount is high. Potential redundancy costs could be an inherent cost of the transaction and would have to be factored into transaction pricing.
- ▶ **Employee benefits:** Concerns were raised that existing employee benefit packages may act as a commercial barrier to achieving investment returns. Specifically, the existence of a defined benefit pension scheme and the £0.3m liability and the impact of TUPE. This is a linked point to the above in many respects if a more efficient staffing structure will be an inevitable outcome. This is a matter for HIE to consider in the context of how operators will approach transaction pricing and whether this could constrain competition if operators are expected to absorb the full costs of restructuring and take the pension liability.
- ▶ **Reliance on ski season:** This was of limited concern. However, there will have to be genuine commitment to drive a diversified sports offering, which has obvious environmental, planning and investment impacts to manage.
- ▶ **Procurement:** An overly onerous and complex procurement process would exclude many operators from participating. Again this is a common complaint of the private sector when engaging in public sector procurement exercises. Clarity of process and timescales will be key to ensuring investor confidence in the procurement process.

The market sounding exercise has concluded that there appears to be credible interest in operating and investing in the Cairngorm Mountain Resort. At this stage, interest is in the full range of operations and suggests that HIE could look to structure a procurement exercise for the operations in totality. Clearly information provided was in the absence any firm commitment from the respondents and the investment returns required by the private sector can only be realistically assessed from procurement once factors such as restructuring costs and service provision plans can be negotiated and modelled.

We would advise that HIE now consider its preferred commercial model and procurement options in order to develop an appropriate strategy for the disposal of the Resort. The potential barriers to investment identified above should be addressed and consideration made as to how these can be mitigated by HIE in order to optimise the investment value. Clarity is required as to

what would constitute value for money for HIE from implementing a disposal strategy. For example, defining minimum commercial, performance and operating criteria with reference to developing a 'public sector comparator' model against which private sector bids can be measured and negotiated against.

A benefit of this market sounding exercise is that it has provided a degree of 'market warning'. This is an important precursor to formal procurement. If disposal via procurement is the chosen route then there is a significant benefit from proceeding swiftly as the market is expecting action and viable operators have been identified. To build on the interest generated by this exercise we recommend that HIE take the opportunity to market in Summer 2012.

The procurement process used must be carefully considered, as it must be flexible enough to deal with the various operating structures and costs associated with the Resort, while not becoming onerous to interested parties. In our view the transaction should be able to reach financial close within 9 to 12 months of placing a procurement notice under Competitive Dialogue. A bidders' day may be helpful to arrange to help educate potential bidding parties on public procurement as well as communicating clear messages with regards HIE's objectives and commercial clarifications.

2. Introduction

2.1 Background

Ernst & Young LLP (“Ernst & Young” or “EY”) was engaged by Highlands and Islands Enterprise (“HIE”) to undertake a market sounding exercise to assess interest in operating the Cairngorm Mountain Resort (“the Resort”). The Resort is currently operated by CairnGorm Mountain Ltd, a wholly owned subsidiary of HIE.

Cairngorm Mountain Resort is Scotland’s busiest ski resort and accessed by the only funicular railway in the country. It is a leading tourism development and situated in a National Park boasting a mountain tundra environment that is largely unique in the UK. As such the Resort has obvious tourism value, however, ski related business is highly subject to seasonal variances while the annual funicular visitor figures primarily in the summer season, has been declining for a number of years.

Consequently HIE, through this exercise, sought the views of interested parties to explore the options for operating and managing the asset, to ensure it is contributing effectively to maximising economic impact in the area.

2.2 Objectives

The market sounding exercise had objectives at two obvious levels. Firstly, the purpose of the exercise was to inform a subsequent option appraisal exercise regarding HIE’s ongoing commitment to the Resort. The market sounding exercise would inform whether attracting a private sector operator was realistic and therefore one of the options available for consideration.

Secondly, should the option appraisal indicate that procurement of a private sector operator or a disposal of the resort are preferable actions, then the market sounding would ensure the resulting offering is structured to match the market appetite of potential operators.

In delivering these strategic objectives the testing had four objectives:

- ▶ **To assess market interest:** For the exercise to be successful it had to assess what number, type and quality of potential bids might come about, should HIE decide to take the Resort to market.
- ▶ **To define the market proposition:** The operations have numerous facets including ski operations, general visitor tourism and catering, as well as heavy plant facilities and management. It is important to assess whether there was sufficient interest in the operations as a whole or whether HIE would be best served finding operators within the individual, specialist functions.
- ▶ **To assess the required proposition structure:** Largely dependant on the chosen market proposition, there are numerous options for structuring. Obvious examples include a complete disposal of a going concern, a licence agreement over the operations and assets or the operator simply receiving a management charge and a share of profits. There are numerous variations within these basic structures.
- ▶ **To assess barriers to investment:** This objective seeks to draw out concerns that interested parties may have so that HIE can seek to mitigate such concerns. The issues and barriers identified may be inherent (e.g. seasonal snow variations) or manageable (e.g. concerns over management autonomy). By identifying issues at this stage they can either be addressed, mitigations clarified or negotiated as part of any eventual procurement process, or reflected in the transaction price.

2.3 Report structure

The methodology applied in addressing these key objectives is set out in the 'Market awareness raising' section. This is followed by the 'Market sounding results' section, which details the respondents and how their responses provided incite into assessing market appetite.

A full list of direct contacts made, respondent for this report and a copy of the Notice of Interest are included in the appendices.

3. Market awareness raising

3.1 Introduction

A key consideration of the market sounding exercise was how to maximise awareness of the exercise amongst potential operators. In addition to the overriding business activity of the Resort, there are constituent activities that may attract attention from the respective sectors in which the core skills generally reside (for example catering or retail).

Penetrating these different sectors required a flexible approach and as such we devised a strategy and utilised a range of media, fully integrated into HIE's own communication strategy. Our approach is summarised below.

3.2 Approaches

3.2.1 Direct approach

One of the most effective, but time consuming, methods is to make targeted approaches to selected individuals within the market. This method was more critical in canvassing some market sectors more than others. However, it provided a high rate of responses. A full list of parties contacted is included in Appendix A. This method also maximised the value added by Ernst & Young, as we were able to use our professional networks to increase market reach.

3.2.2 Prior Information Notice

It was agreed that a placing a Prior Information Notice (PIN) in the European Journal would be a worthwhile exercise and raise awareness across the European procurement platform. This process is free and as such would drive good value for money, even if the reach was limited primarily to certain sectors of likely interest, namely facilities management companies.

3.2.3 Advertisements

A range of journals and newspapers were considered, including national and international news press and industry specific publications. This list was refined based on the required sectoral reach, after considering value for money and the appropriateness of production cycles. These key factors informed the following conclusions:

- ▶ Mainstream broadsheet press offers limited targeting versus high advertising costs
- ▶ Investment publications were initially considered, but are generally focussed on investments of wider consumer relevance; small business opportunities or publicly traded investments. Advertising costs at the upper end were very high.
- ▶ Industry specific journals present a good balance of targeting and relatively low cost, although publication cycles tend to be limited generally and did not suit the timeframe
- ▶ Industry specific e-bulletins provide high penetration at a relatively low cost, with short publication cycles. These were effectively employed for the ski industry operators.

The eventual strategy was to limit advertising to two ski resort management trade e-bulletins, one (Ropeways) with a primarily European focus and the other (Ski Area Management) with a primarily North American focus.

3.2.4 Notice of Interest

The primary information tool used in this exercise was a formal Notice of Interest ("NoI"). This 8 page document was produced in a glossy A4 format as well as in a PDF and set out key strategic, operational and financial information. The NoI was mailed and emailed in support of direct approaches and was sent to respondents to the PIN and other advertisements. A copy of this document is included in Appendix B

3.2.5 Communications strategy

HIE's Communications Department achieved local and regional press coverage as well as favourable national press coverage in the Times and the Herald.

4. Market analysis

4.1 Introduction

In developing an appropriate market testing strategy, we faced the challenge of having no real precedent of how to market a UK based ski resort. There is no acquisitive market within the UK ski resort sector and we were initially unsure of the level of interest from overseas operators.

While a primary focus would be to attract an operator interested in managing the operations in its entirety, prudence dictated we also address the numerous facets of the current operations that could be detached and marketed on a sector specific level. This presented the following key factors for consideration:

- ▶ A wide range of sectors may have appetite for the existing Resort operations
- ▶ The limited ski season and high summer visitor numbers means opportunities may be more favourable received out with the traditional ski sector
- ▶ Concessions for separate aspects of operations may be most attractive.

The Resort's operations were evaluated and likely sources of potentially interested parties categorised under the following sectors:

- ▶ Traditional ski operators
- ▶ Other adventure sports operators
- ▶ Hospitality sector
- ▶ Visitor attraction operators
- ▶ Facilities Management ("FM") providers
- ▶ Other investors.

As the sectors identified had very distinct attributes, it was necessary to define a strategy that addressed the unique requirements for each.

4.2 Market analysis

4.2.1 Traditional ski operators

This sector was problematic for number of reasons, primarily as UK operators were largely local concerns and as such there was no established mergers and acquisition market within this UK sector.

Challenges

- ▶ Largely fragmented market, with primarily local operators
- ▶ Most operators of suitable scale overseas
- ▶ Access to large and actively acquisitive US market may prove difficult
- ▶ Operator information was limited
- ▶ Level of interest from major ski operators likely to be limited due to scale, profitability and lack of accommodation/hospitality included in the resort offering

- ▶ Limited investment funding potential for existing Scottish operators.

Opportunities

- ▶ Highly commercialised approach in some overseas markets, represented in operating models and using branding of selected partners such as ski equipment
- ▶ Likely to have necessary expertise and appetite to operate the funicular and related plant
- ▶ Scottish operators already aware of the operational and commercial potential of the Resort and where the necessary focus on efficiencies and investment will lie
- ▶ Locally based, existing ski operators would be able to offer clear economies of scale, for example in the areas of staffing, access to moveable assets and back office functions.

Market engagement

In order that we reached the wider international market we placed advertisements in the e-bulletins of two major ski resort operator journals (Ropeways and Ski Area Management). The former is primarily European focussed with the latter having a considerable North American coverage.

Direct contacts were identified within the sector. [REDACTED] who had previous discussions with HIE regarding potential interest in the Resort. We also identified [REDACTED] who we contacted directly along with [REDACTED] was a particularly visible example of a ski resort forming business partnerships with highly visible merchandise brands. [REDACTED]

4.2.2 Other adventure sports operators

This sector is reasonably diverse, however, some of the more dynamic operators had cross over between sub-sectors. [REDACTED]

Challenges

- ▶ Limited players in market
- ▶ Few operators of suitable scale or experience
- ▶ Operators of suitable scale are highly commercial and requiring rates of return (“IRR”) that may make investment unviable
- ▶ Limited potential appetite for operating the funicular.

Opportunities

- ▶ Highly commercial with retail and wide branding expertise
- ▶ Potential to exploit market synergies, for example, developing new markets for indoor ski customers
- ▶ Expertise in diversification of sporting offering.

Market engagement

This market is relatively diverse in its offering and did not appear to be well covered by a distinct industry journal. As such we did not use trade press advertising. The limited number of operators of appropriate scale and experience did make direct contact the most obvious and effective route. We directly contacted [REDACTED].

4.2.3 Hospitality sector

While highly unlikely to have an interest in acquiring the Resort's wider operations, there is an obvious sectoral interest if the hospitality offerings of the resort were detached and marketed accordingly.

The Ptarmigan centre having the highest restaurant in the UK is marketable in its own right and a degree of imagination from a credible hospitality provider could maximise the destination potential of this asset. [REDACTED]

Smaller independent operators may provide vision and expertise; however, this is a highly fragmented market making the marketing of the opportunity problematic. Smaller operators may not have ready access to investment capital and restaurants have an inherently high rate of business failure, which would be an obvious risk to HIE.

One option considered worth exploring could be for a celebrity endorsement, such as Nick Nairn branding a high-end café at Erskine Hospital's garden centre.

Challenges

- ▶ Regional market largely split between small independent operators and large international companies – neither being ideal investor profiles
- ▶ Likely to have little, or no, appetite for wider ski resort operations
- ▶ Little or no potential appetite for operating funicular.

Opportunities

- ▶ Expertise in developing cafés and restaurants, with potential for a destination venue at the Ptarmigan
- ▶ Potential to exploit traditional hotel/resort guest cross over
- ▶ Potential for high profile celebrity endorsement or franchising.

Market engagement

The hospitality market is diverse, with a high proportion of private ownership. The separate marketing of a hospitality concession was seen as a less favourable alternative to a wider resort operator and so the resources required to effectively canvass this market had diminished returns. Two key targets were identified for direct contact. [REDACTED]

4.2.4 Visitor attraction operators

Visitor attraction operators were an obvious choice, especially as the peak visitor figures for the funicular is out with the ski season. This is despite the visitor offerings at the Ptarmigan, and the resort in general, being extremely limited, especially due to the restrictions on foot access beyond the viewing area.

Remodelling the resort to include an imaginative and vibrant visitor experience could provide increased footfall, and importantly, a far higher spend per non-snow sports visitor. Currently there is limited monetisation of this summer footfall.

In identifying potential operators in the sector we reviewed several hundred of the UK and Scotland's primary visitor attractions to establish ownership. However, it was clear that the market was dominated by locally focussed and/or interest based groups, who are often not-for-profit. Many of these were charities and would not have the ability to invest in speculative ventures unrelated to their charitable aims.

One very noticeable exception was the [REDACTED]

Challenges

- ▶ Limited number of potentially acquisitive UK operators – most highly specific in nature or not for profit organisations
- ▶ Appetite for operating funicular highly dependant on nature of existing attractions

Opportunities

- ▶ Expertise in developing non ski related visitor experience, increasing non snow-sports footfall
- ▶ Potential to exploit marketing synergies

Market engagement

There were very few realistic potential operators within this sector and direct contact was only made to [REDACTED]

4.2.5 Facilities management providers

The FM market is dominated by a large number of international companies, offering a diverse range of specialist skills. The market is active and sophisticated, with players well versed in public procurement and monitoring the European Journal for commercial opportunities.

The larger players would be comfortable taking on most operational facets of the resort, in particular the catering and hard facilities management.

Challenges

- ▶ Limited interest in ski specific/market related aspects of the business

- ▶ Focussed on larger scale opportunities than presented by the Resort.

Opportunities

- ▶ Wide sector expertise of catering, leisure and sports facilities
- ▶ Economies of scale from large operations
- ▶ Benefits from hard and soft FM provision
- ▶ Potential expertise for operating technical operations of funicular service.

Market engagement

The FM market is well established and highly sophisticated with regular deal flow through publically procured contracts. We agreed with HIE that this market would be best engaged via the use of a PIN.

4.2.6 Other investors

This sector included a number of subsectors, such as dedicated leisure funds, angel investors and large institutions.

There are a handful of dedicated leisure funds, with [REDACTED]
[REDACTED] Large institutional investors would be unlikely to view the Resort of suitable scale to be of interest, while venture capital companies would demand a rate of return that would be very difficult to deliver from the Cairngorm operations. We identified private 'angel' investors as a potential source of interest. This is by definition, a highly diverse market, however many angels operate through investment networks and these are linked through organisations such as [REDACTED].

Challenges

- ▶ Challenge to provide hurdle return rates on investment
- ▶ High focus on return and potential exit strategies
- ▶ Likely to focus on most profitable area of operations
- ▶ Limited appetite for operating risk of funicular.

Opportunities

- ▶ Number of investment funds exist that focus on the leisure industry
- ▶ Potential interest / funding from niche private equity and investment angel networks.

Route to market

This broad category required a mixed approach. Targeted approaches were made to the [REDACTED] as well as a number of Scottish based investment companies. This included [REDACTED]
[REDACTED] It was considered that the diverse range of investor profiles made general press releases via HIE's communication strategy a potential route for private investors.

5. Market sounding results

5.1 Introduction

This section highlights the results of our market testing exercise. Professional judgement has been used to screen respondents for genuine and relevant interest and, as expected in a high profile and widely solicited exercise there was a number of extraneous submissions.

The market feedback has been analysed by sector. In order to explore the question of barriers to investment, then we entered into discussions with a number of respondents. To obtain true candour a level of anonymity was requested and we have respected this in reporting these issues.

5.2 Traditional ski operators

5.2.1 Market interest

The primary source of interest for the market testing exercise came from the traditional ski operator market. Those respondents who registered interest are listed below:

- ▶ [Redacted]

5.2.2 Defining the market proposition

In the case of ski operators, the general position was that operators would look to take on all of the ski resort's current operators and, in general, add to these.

[REDACTED]

[REDACTED]

5.2.3 Required proposition structure

An over-riding theme of ski operators' consultations was that there is a perception of the Resort's operations as carrying disproportionately high staff costs and a management which is unable to deliver a clear commercial strategy, largely due to political, environmental and public sector intervention. It is perception that could drive away market interest and as such cannot be dismissed.

There is also a misperception that the operations were heavily debt burdened from previous infrastructure investment and would have to be clarified and addressed in any future procurement exercise. Some operators proposed a form of earn-out agreement for HIE, so that it could recover the outstanding debt over a number of years. Others viewed this as a barrier to investment.

These factors drove the primary concerns regarding deal structure and it was clear that all UK based potential ski operators required full commercial autonomy and would not tolerate board level influence from HIE. The more internationally focussed operators were more used to different operating models and seemed open to operating the resort on a management fee and profit share in agreement with HIE and subject to an underlying performance framework.

There was little appetite for outright ownership of the underlying assets and a preferred option was for some form of licence agreement within the operating contract allowing the operator full rights over the resort on a long term basis. Longevity was considered important in the context of investment and returns.

5.2.4 Barriers to investment

The seasonal weather risk facing the Resort was viewed as being prohibitive to ski operator interest. The limited snow season was not a uniquely Scottish phenomenon and ski areas affected by short winters have had to be innovative in diversifying their offering. All respondents expressed they did not view this as a primary issue. However what is unknown is how many other operators were put off by this inherent risk. Several operators anticipated an element of financial concession from HIE or underwriting of minimum revenues at least over the short term until the new operations had bedded in. If such support was not forthcoming from HIE, then this would just be reflected in the commercial offer.

The ski operators who perceived themselves as having a good working knowledge of the Resort were consistent in expressing the staffing structure was very heavy compared to commercial sector equivalents. An unavoidable issue is that potential operators see little investment incentive in the current operating model and any commercialisation of the resort will result in redundancies to optimise the staffing structure. Redundancies costs would inhibit investment if these were to be fully funded by the private sector operator.

Another area of concern was the defined benefit pension liability of staff, which is in the region of £300,000. This liability was completely unpalatable to some potential operators while others were arguably unaware of this at the time of the survey. We have experienced this situation in many similar restructuring projects and a solution would be for HIE to retain this liability.

If a defined benefit pension scheme only has a limited number of members and is ultimately closed to new members, the liability will ultimately crystallise in full. This is less likely to occur within a larger, active pension fund.

Operators with North American experience expressed less concerns about environmental constraints on operations. However, this was largely based on their North American experiences finding workable impact mitigations strategies, rather than stating a desire to maintain the operational status quo. Their optimism for workable solutions to planning in sensitive ecosystems may be misplaced in the face of arguably more rigid UK planning regimes.

A number of potential operators expressed plans for diversifying the sports offering, particularly away from snow sports reliance. Common themes included luge and ring tracks, additional tows, aerials ramps, mountain bike trails and even a dry ski slope. All these would be key constituents of the continuing economic development of the area however they would face considerable environmental challenge.

Several of the UK based operators had little appetite for public procurement processes, which were seen as costly in time resources and professional fees. Many of the operators, especially those with less corporate resources, may find this too onerous unless managed to make this as commercial and time efficient as possible.

5.3 Other adventure sports operators

5.3.1 Market interest

Those respondents who registered interest are listed below:

- ▶ [REDACTED]
- ▶ [REDACTED]

5.3.2 Further information

[REDACTED]

There was no other interest from this sector.

5.4 Hospitality sector

5.4.1 Market interest

There was only one respondent from the hospitality sector, [REDACTED]

- ▶ [REDACTED]

5.4.2 Defining the market proposition

The consortium was open-minded about this; however, it has the combined expertise to run the resort as a whole. [REDACTED]

5.4.3 Required proposition structure

[REDACTED]

An operating model based on a licence agreement was discussed and this seemed an appropriate model. [REDACTED]

[REDACTED]

5.4.4 Barriers to investment

[REDACTED]

[REDACTED]

5.5 Visitor attraction operators

[REDACTED]

5.6 FM providers

Despite ready access to the FM market through the PIN route, there was little credible interest.

[REDACTED]

5.7 Other investors

The most likely source of interest from the 'Other Investor' market was to focus on private angel investors, particularly those with an interest in snow sports of the region. The obvious vehicle for this was through [REDACTED], an organisation that's purpose if to link together the various Scottish investment syndicates.

In addition general media coverage was seen as a likely way to reach any interested parties. Other casual approaches were made in the course of our ongoing business relationships and included high net worth individuals, investment syndicates and Scottish corporate finance/brokerage. Generally interest was superficial and little materialised out of initial enquires.

[REDACTED]

6. Recommendations

6.1 Progressing the project

We would consider the market testing to reveal a viable competitive market for the resort and identified the following nine interested parties:

- ▶ [REDACTED]

A summary of these discussions are included in Appendix A.

Even when the highly indicative nature of this interest is taken into consideration, there is strong evidence to suggest that there exists a competitive bidding environment, should HIE decide to progress to procurement.

We recommend that an option appraisal exercise is commenced, based on the assumption that a viable market exists and procurement of an alternative operator is credible option for consideration.

This would be simplest in a two phase approach:

Option appraisal:

- ▶ Propose and agree credible options for appraisal
- ▶ Agree criteria by which options will be appraised: economic, commercial, socio-political
- ▶ Carry out a full options appraisal
- ▶ Reporting.

Should procurement be the preferred option:

- ▶ Defining the structure and nature of the market proposition
- ▶ Define an appropriate procurement process and strategy
- ▶ Agree next steps for procurement.

6.2 Define a market proposition

HIE should define a market proposition that is acceptable to the organisation as well as the wider market. Our market sounding exercise suggested a licence based agreement would be the most favourable proposition and the potential operators were primarily interested in operating the resort in its entirety.

The barriers to entry identified as part of the exercise would have to be addressed. Some of these were merely perceived barriers and based on misinformation however this should be addressed in any eventual marketing of the resort and could be addressed in a vendor due diligence pack.

Financial analysis should be employed to define the actual costs of the current operating structure. Should a concession be required by the market then this exercise would inform what level of financial support would be comparative to the existing operating model.

6.3 Procurement

In delivering the right operator a procurement strategy must be compliant statutory requirements, provide the appropriate commercial focus to the decision making process, while ensuring the process does not become a deterrent to genuine bidders.

The following are critical in ensuring successful procurement:

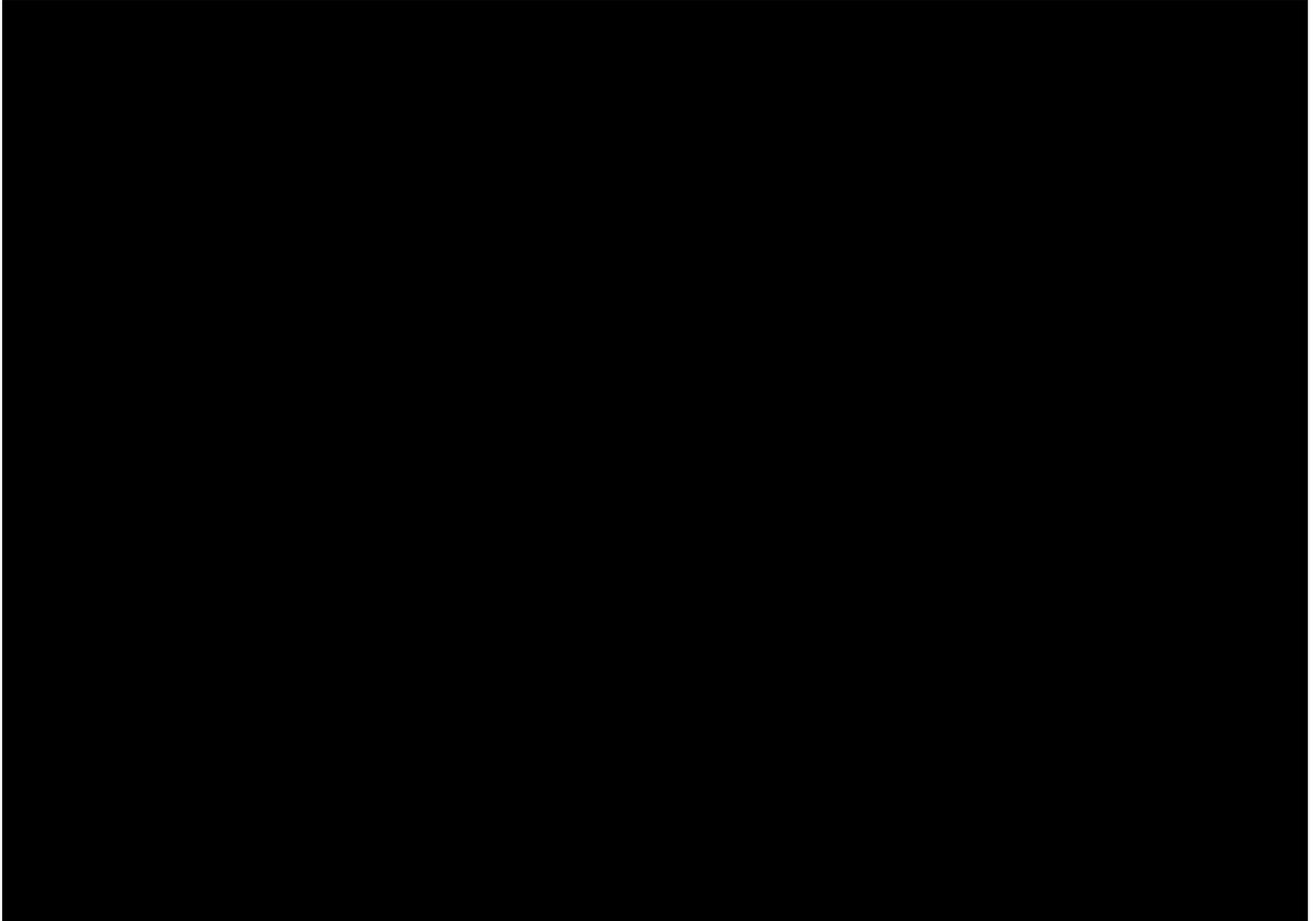
- ▶ **What is being procured?** – the offering must be defined and acceptable to both HIE and the market. This should be the focus of the exercise to define the market proposition.
- ▶ **Timing** – this exercise has warmed the market, a key step in a major procurement, and interested parties are awaiting the next step.
- ▶ **The right process** – avoid inflexible and onerous procurement by appropriate use of Competitive Dialogue. This approach must be fully communicated to ensure bidder participation and confidence.

Bidding costs for public procurement can be onerously high and the timeframes frustratingly long. This may deter potential bidders from participating and avoidance of public procurement was stated as condition to previous interest in the resort. HIE can effectively mitigate these factors by ensuring the definition of the offering is tight and a considerable amount of vendor due diligence is prepared and made available to all bidders in the form of a virtual dataroom.

Appendix A Summary of market soundings

Direct contacts

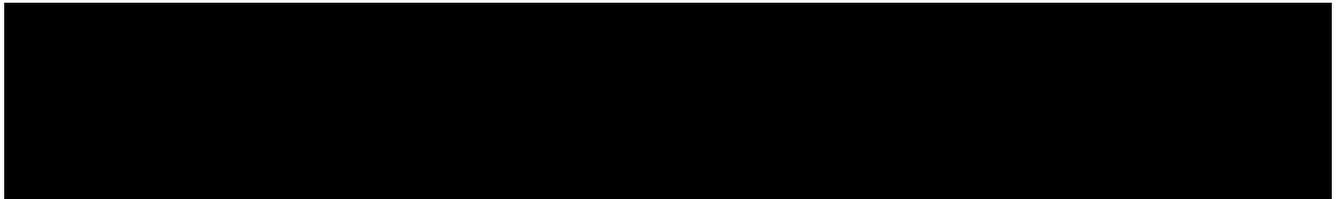
Market Testing Direct Contacts



Other Respondents

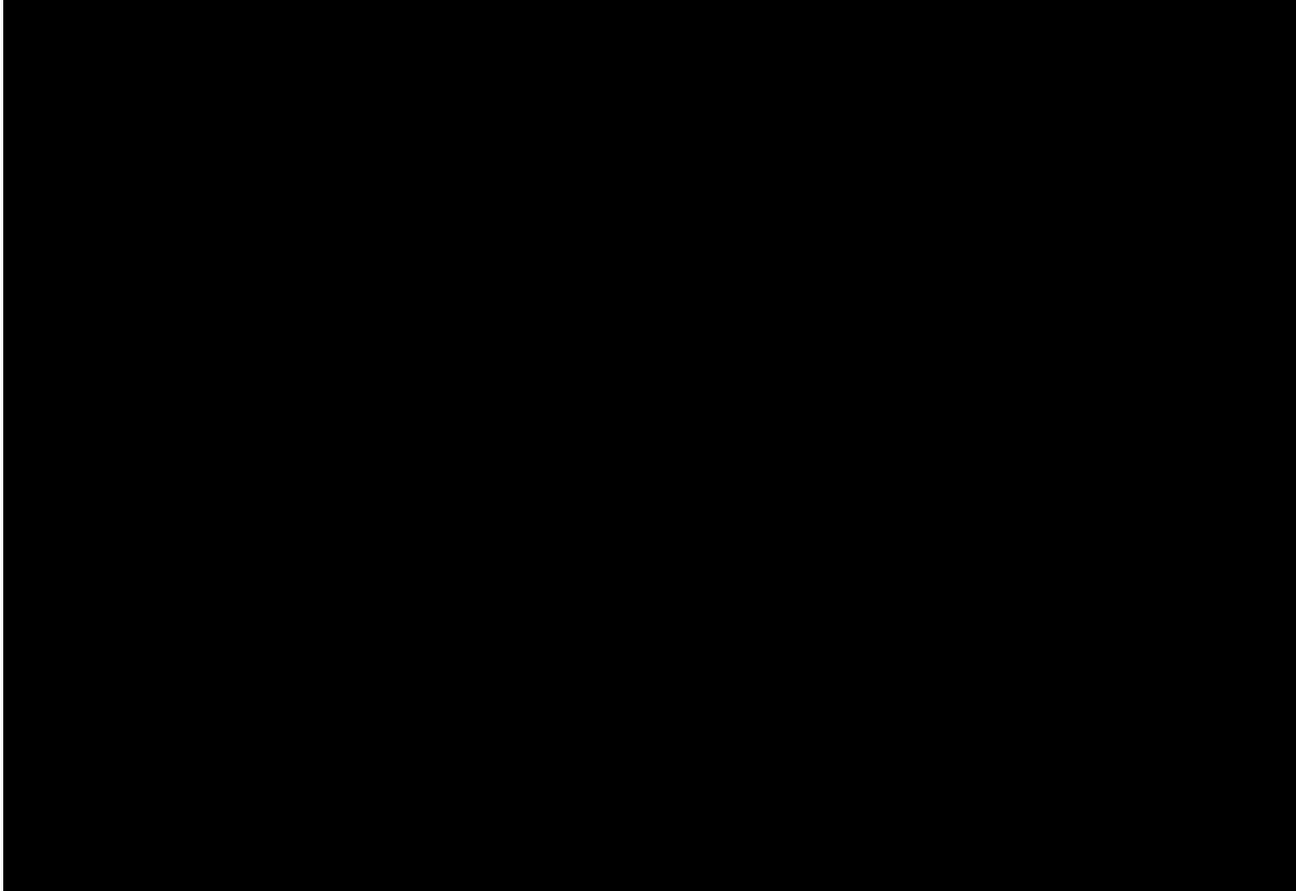
Other Parties Providing Detailed Responses

Organisation	Contact	Title	Nature of Interest
--------------	---------	-------	--------------------



Summary of Potential Bidders

Approaches considered credible

Organisation	Core Business	Nature of interest	Expected structure of bid
			

Appendix B Notice of Interest

[refer to separate enclosure]