

Before the Queenstown Lakes District Council

Under the Resource Management Act 1991

In the matter of a submission under clause 6, Schedule 1 of the Resource Management Act 1991 on Stage 3B of the Queenstown Lakes Proposed District Plan

Wayfare Group Limited (#31024)

Submitter

Statement of Evidence of David Bridgman

28 May 2021

Submitter's solicitors:

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**anderson
lloyd.**

I, **David John Bridgman**, Chartered Accountant of Auckland, say that:

- 1 My full name is David John Bridgman. I specialise in the provision of corporate finance and valuation advice, which I provide through my company, David Bridgman Advisory Limited (**DBA**). Until 31 December 2020 I was a Corporate Financing and Restructuring Partner with the international accounting and business advisory firm, PricewaterhouseCoopers (**PwC**), based in the Auckland office.
- 2 I hold a Master of Commerce (1984) and Bachelor of Laws (1984) from the University of Auckland. I am a member of Chartered Accountants Australia New Zealand (**CAANZ**) and hold a Public Practising Certificate (dated 15 July 1987). I am also a member of the Institute of Directors.
- 3 I have spent more than 30 years in corporate finance and financial advisory roles, including:
 - from 1991 to 1998 with Arthur Andersen, establishing their corporate finance practice;
 - from 1998 to December 2020 as a corporate finance partner with PwC, and since 2010 also undertaking restructuring work; and
 - from January 2021 through DBA providing strategic, corporate advisory and transaction support services, as well as governance services.
- 4 In my corporate finance roles I have been extensively involved in the provision of valuations and strategic advice, acquisitions and divestments, independent expert reports and litigation support. I have significant experience in providing strategic financial advice to directors and senior management, having worked closely with listed companies as well as substantial privately-owned businesses and a number of public sector agencies.
- 5 I have prepared more than 20 independent reports under the NZX Listing Rules and the Takeovers Code in relation to a variety of transactions, including takeovers, proposed share issues, and material related party transactions.
- 6 I have prepared numerous valuations of public and private companies in a range of circumstances, including in relation to actual or proposed transactions, succession planning, shareholder and other disputes and for tax-related purposes. These valuations have spanned a wide range

of businesses operating across different industries in New Zealand and internationally.

- 7 I have made numerous presentations to external conferences and seminars on the topics of valuation, due diligence, mergers and acquisitions, and restructurings.
- 8 I also have considerable corporate finance experience in the real estate area. I have authored independent reports for listed property vehicles, including St Lukes Group, Kiwi Property, St Lawrence Property, Urbus Property, DNZ (now Stride), Augusta Property, and Property for Industry.
- 9 I have provided advice and expert evidence in relation to a range of commercial disputes, including matters that have come before the District Court and High Court and in connection with private mediations and arbitrations. I have provided expert evidence upon the instruction of the Registrar of Companies and for Crown Law in relation to a Treaty of Waitangi relativity adjustment arbitration.
- 10 I have undertaken work within the tourism industry, including previous assignments for Tourism Holdings Limited, Ngai Tahu Holdings Limited, Shotover Jet Limited, Auckland International Airport Limited, Sky City Limited and Worldwide Leisure Limited (owner of Huka Lodge). I have led due diligence assignments relating to proposed hotel acquisitions in Auckland.
- 11 I am also the independent chairman a privately owned business, Index Group Limited, which operates three rental car businesses nationally (Omega, Pegasus and RaD).
- 12 Whilst at PwC I was the engagement partner with overall responsibility for leading a project commissioned by the Ministry for Business, Innovation and Employment (**MBIE**) and Tourism New Zealand (**TNZ**), to conduct a series of business continuity workshops for domestic tourism businesses. Over the period between mid-May and the end of 2020, the team that I led completed more than 140 workshops with individual businesses. This program of work provided me with considerable understanding of the principal business issues impacting a broad cross-section of tourism businesses operating in New Zealand in the wake of the Covid-19 global pandemic and the impact for these businesses operating in a domestic tourism environment devoid of international tourists, coupled with the consequences of altered patterns of domestic tourism, including the impact of two lockdowns. No businesses within the Wayfare Group participated in this workshop programme.

- 13 Earlier this year I was engaged by Anderson Lloyd, acting on behalf of Wayfare Group's subsidiary, Real Journeys Limited, to provide expert financial evidence in relation to an arbitration hearing relating to the fee payable under a lakebed licence and occupation right granted to Real Journeys Limited. This is the only other engagement I have ever had with Wayfare Group.
- 14 I am a small shareholder owning 50,000 ordinary A shares in Treble Cone Investments Limited (**TCIL**), which comprises less than 1% of that company's issued capital. In January 2020 Wayfare Group through its subsidiary, Cardrona Alpine Resort Limited (**CARL**), purchased the skifield assets and business of TCIL, leaving TCIL to be wound up to enable the distribution of residual net proceeds to its shareholders. Along with other shareholders holding class A shares in TCIL I received a 20 year ski pass issued by CARL for Cardrona and Treble Cone as part consideration for the sale transaction. I was not involved in negotiating or completing the transaction between TCIL and CARL. I do not believe that my small investment in TCIL, its transaction with CARL or my CARL ski pass compromises my independence in any way.
- 15 I have read the Code of Conduct for Expert Witnesses, set out in Schedule 4 to the High Court Rules 2016 (the **Code**). I agree to comply with the Code. I confirm that the statements made in this brief of evidence are within my area of expertise, and that (unless otherwise stated) I have not omitted to consider material facts which might alter the opinions I have expressed.

Instructions

- 16 I have been instructed by Wayfare Group Limited to provide expert evidence relevant to the commercial and economic aspects of Walter Peak and the TSS Earnslaw, in the context of New Zealand and Queenstown's tourism industry. This evidence has been provided as part of Wayfare Group's submissions to the Queenstown Lakes District Proposed District Plan, seeking a revised Walter Peak Tourism Zone.

Information

- 17 In preparing this evidence I have reviewed:
 - Draft Statement of Evidence of Paul Norris, dated 28 May 2021;
 - Draft Statement of Evidence of Fiona Black, dated 28 May 2021;

- Letter from Richard Lauder, former Chief Executive of Wayfare Group to Tony Hill, Chair, Planning and Strategy Committee, Queenstown Lakes District Council (**QLDC**), dated 22 August 2019;
- Section 42A Report of Elias Jacobus Matthee, on behalf of QLDC, dated 4 March 2021;
- QLDC Proposed District Plan Section 32 Evaluation Report – Stage 3 Components (Rural Visitor Special Zone);
- Submission on Notified Proposal for Policy Statement or Plan, Change or Variation, prepared on behalf of Wayfare Group, dated February 2021;
- Appendix A – Walter Peak Tourism Zone proposed provisions, prepared on behalf of Wayfare Group, dated February 2021;
- Appendix B – map of proposed Walter Peak Tourism Zone, dated February 2021;
- Appendix C – section 32AA Assessment of proposed Walter Peak Tourism Zone, prepared on behalf of Wayfare Group dated February 2021;
- Statement of Evidence of Richard Lauder, prepared on behalf of Real Journeys Limited, dated 17 October 2018;
- Destination Queenstown website:
<https://www.queenstownnz.co.nz>
- “Tourism 2025 & Beyond” – report prepared by Tourism Industry Aotearoa, May 2019;
- Tourism New Zealand website:
<https://www.tourismnewzealand.com/>
- Tourism Industry Aotearoa website: <https://www.tia.org.nz/>
- Statistics New Zealand Tourism Satellite Account for year ended December 2019, issued December 2020:
<https://www.stats.govt.nz/information-releases/tourism-satellite-account-year-ended-march-2020>
- “*Tourism 2025 & Beyond*” – report prepared by Tourism Industry Aotearoa, May 2019;

- Management information and reports supplied by Wayfare Group relating to the financial performance, financial position, and customer numbers for Walter Peak and TSS Earnslaw;
- 18 In the course of preparing my evidence I have had discussions with:
- Matthew Day, Commercial Director of Wayfare Group;
 - Fiona Black, Consents and Concessions Manager of Real Journeys;
 - Maree Baker-Galloway and Rosie Hill, Partner and Associate respectively, of Anderson Lloyd, legal advisors to Wayfare Group.
- 19 I have recently undertaken a trip on the TSS Earnslaw and visited Walter Peak. This included a full tour of its various facilities and a general inspection of the Property.

Overview of my evidence

- 20 My evidence is focused on the commercial and economic aspects of Walter Peak and the ancillary operation of the TSS Earnslaw given the interdependency between the two businesses as a substantial tourism-orientated enterprise in the Queenstown region. This provides important context to the significance of the planning regime as it applies to Walter Peak. The planning regime has enormous significance when it comes to managing future investment and employment requirements, and the role that Walter Peak and the TSS Earnslaw play over the longer term within the Queenstown region's tourism sector, affecting the environment, the local economy and employment.
- 21 My evidence is divided into the following sections:
- executive summary;
 - background to Walter Peak and Wayfare Group;
 - trends in New Zealand's tourism industry;
 - the structure of New Zealand's tourism industry;
 - Walter Peak's role within the tourism sector generally and the localised Queenstown market specifically;
 - the interdependency between Walter Peak and the TSS Earnslaw;

- investment requirements for Walter Peak; and
- employment.

Executive Summary

- 22 Wayfare Group Limited (**Wayfare Group** or the **Group**), through its wholly-owned subsidiary, Real Journeys Limited (**Real Journeys**), owns the Walter Peak land and buildings (**Walter Peak** or the **Property**) situated on the southern side of Lake Wakatipu, 11 km across the lake from Queenstown.
- 23 The Walter Peak property comprises approximately 155 ha of high country and lakeside land and a range of buildings and other improvements for guest and staff use.
- 24 The vast majority of guests at Walter Peak travel there via the TSS Earnslaw. Walter Peak has its own wharf situated at Beach Bay which is used for berthing the TSS Earnslaw.
- 25 Walter Peak is a comprehensive, integrated, self-sustaining, and unique tourist attraction that provides visitors with the opportunity for special insights into New Zealand's history and rural economy whilst affording them the opportunity to have an immersive experience in a high country sheep station on the shores of Lake Wakatipu. Its special character and attractiveness to visitors is enhanced by the fact that visitors travel there using the iconic 109-year-old coal fired steamship TSS Earnslaw.
- 26 The Walter Peak tourist attraction is, by virtue of history and necessity situated in a rural setting with outstanding natural landscape features. This forms a large part of what makes Walter Peak unique and authentic.
- 27 Walter Peak has shown itself to be a very resilient tourist attraction, continuing to operate throughout 2020 other than during the periods when the South Island was at lockdown level four or three. This is in spite of the fact that visitor numbers have dramatically reduced due to the closure of New Zealand's borders following the Covid-19 outbreak in March 2020.
- 28 Wayfare Group as owner of Walter Peak has a long and proud history of being at the forefront of environmental best practice in New Zealand. This is one of the founding values for Wayfare Group and continues to be a fundamental aspect of the Group's modus operandi. This is clearly demonstrated in the Group's approach to managing and developing Walter Peak. Substantial investment has already been made in

improving the natural landscape and environment, through initiatives such as removing wilding pine trees, extensive planting of native vegetation, flood control, whilst at the same time ensuring that any building improvements are undertaken in a manner sympathetic to the original architectural style that forms part of the history of the Property.

- 29 Wayfare Group is also very conscious of the need to assure that all tourism activities are sustainable and is prepared to undertake the necessary investment to make this a reality. At Walter Peak this is likely to entail conversion of power generation sources from diesel to wind and/or solar. Similarly, planning is well underway to convert the TSS Earnslaw's fuel source away from coal to a cleaner-burning material.
- 30 In tandem, Walter Peak and the TSS Earnslaw constitute a marquee drawcard attraction in the Queenstown region, which is assisted by Wayfare Group's extensive and sophisticated marketing network and initiatives locally and internationally. In turn, many other tourist orientated businesses in the QLDC region benefit through leveraging the investment that Wayfare Group makes in its marketing efforts to bring visitors to Queenstown.
- 31 Tourism is one of New Zealand's largest and most important industries, and a major driver of export revenues and employment. But it is also a volatile and cyclical activity, as has been clearly demonstrated by the enormous downturn induced by the Covid-19 global pandemic.
- 32 New Zealand's international tourist flows reached a cyclical peak in 2019, well before the Covid-19 pandemic took hold. Prior to Covid-19 there was growing awareness of macro factors creating headwinds for New Zealand's tourism industry and causing industry leaders to question assumptions about longer term growth trends and investment requirements. Factors driving these concerns included growing awareness of climate change and the need to reduce carbon emissions, and the adverse impacts on New Zealand's environment as a result of what some were describing as "over-tourism".
- 33 A further factor is the over-reliance that New Zealand's tourism industry has on foreign workers, many of whom are low skilled and low paid.
- 34 Compared to other regions in New Zealand, QLDC region has by far the largest tourism industry as a proportion of its local economy. Therefore the QLDC region and the local economy is particularly susceptible to any downturn in tourism. The QLDC region was already facing acute pressures in terms of its ability to cater for the growing number of tourists, particularly its need to invest in additional direct and indirect

infrastructure. QLDC's situation is exacerbated by the high ratio that visitors to the region comprise relative to ratepayers.

- 35 In response to the changing nature of tourism and these other factors New Zealand's tourism sector requires a reset so that the country derives greater value from its tourism activity rather than relying solely on ever-increasing tourist volumes. Given changing consumer preferences, and the emphasis on preserving the environment and achieving sustainability, Wayfare Group aims to broaden its visitor and tourist offering at Walter Peak.
- 36 This diversification is an economic necessity to reduce Walter Peak's seasonality, make it less reliant on historical tourism patterns, and broaden the base of business generally. It will also assist Wayfare Group to justify additional capital investment on the property, much of which will have no direct or immediate financial return, especially expenditure on maintaining and improving the physical environment as well as sustainability initiatives.
- 37 Whilst the QLDC region needs to diversify its economic base to reduce reliance on tourism, it nonetheless remains critically important that the tourism industry itself continues to have a strong and sustainable foundation and one that will serve the region's best interests over the long-term. The tourism sector within the region needs to be underpinned by strong and successful operators who have proven their ability to:
 - withstand industry cycles and setbacks such as Covid-19;
 - maintain their commitment to operating facilities, activities and attractions that deliver world-class experiences for customers and serve as a drawcard for the region and which enable other (typically smaller) tourism businesses to leverage;
 - conduct domestic and international marketing activity that benefits not only their own business but also the QLDC region as a whole;
 - invest in their businesses to make them more productive and more environmentally sustainable; and
 - demonstrate their commitment to maintaining employment, developing skill levels throughout their business, and employee health, safety and well-being.
- 38 Wayfare Group is also unique within the sector by virtue of its history and ownership. Wayfare Group was established more than 65 years ago

by Les and Olive Hutchins when they acquired the Manapouri Doubtful Sound Tourist Company. The Group remains family-owned by descendants and related parties of Les and Olive Hutchins. Wayfare Group has consistently demonstrated its respect for the environment and its commitment to fostering sustainable tourism.

39 Wayfare Group is a leading tourism industry participant, especially in the Queenstown and Fiordland regions. This is evident in terms of the Group's:

- domestic and international market development activities;
- capital investment program;
- commitment to environmental best practice and sustainability initiatives;
- employment of a large number of people, most of whom live in the QLDC region, across a variety of roles;
- innovation around the nature of the products and services offered to guests; and
- general industry leadership.

40 Walter Peak's success as a major tourist attraction in the Queenstown region stems from a combination of:

- its authentic farm show experience that is offered within a natural setting that forms part of an iconic working high country sheep station;
- its high quality BBQ dining experience;
- its ability to accommodate large groups;
- the ability for guests to partake in a range of activities; and
- its convenient proximity to Queenstown, with guest and staff access via the TSS Earnslaw.

41 There is no equivalent tourist business in the Queenstown region that can offer the same combination of experiences and activities at the same standard whilst also being able to cater for the number of guests that Walter Peak can host. The convenient proximity allows visitors to witness and understand a key aspect of New Zealand's history and economy that would otherwise be difficult to access and enjoy.

- 42 Walter Peak's evolution from being solely a remote high country working farm to its predominant use today as a unique visitor attraction would be difficult if not impossible to replicate. Allowing further consolidation and enhancement of this existing asset would seem preferable to allowing the asset to devalue through an uncertain planning regime, which could result in Walter Peak becoming less attractive to future visitors, and thereby at risk of being replaced by some form of new development in another rural area.
- 43 Longer term, the need for New Zealand's tourism sector to focus on extracting greater value from tourism will mean that Walter Peak needs to expand and enhance its range of visitor offerings with a view to having guests stay longer and participate in more activities, so that individual guests deliver greater revenue and are of greater value to the business.
- 44 Wayfare Group is also considering options to diversify its business base. Examples under consideration include conferencing facilities and associated functions capability, a wedding chapel, and wellness facilities such as a spa or onsen. Such diversification of Walter Peak's offerings over time also improves year-round trading performance.
- 45 It is not possible for Wayfare Group to foresee precisely what changes will be needed, but there is reasonable certainty that the Walter Peak tourism offering will require adaptation and extension to reflect a change in customer mix and preferences, a focus on obtaining greater value from visitors, and an emphasis by customers and from Wayfare Group itself on environmental sustainability across every aspect of the business.
- 46 Most customers will experience a trip on the TSS Earnslaw as an element of their Walter Peak experience. The business of Walter Peak is integrated with the operation of the TSS Earnslaw. Both assets and activities are managed together.
- 47 Whilst the TSS Earnslaw is often described as "iconic" and "unique", these features, by themselves, do not ensure its commercial success. The TSS Earnslaw, by virtue of its 109 year age and unique characteristics, is costly to operate and expensive to maintain.
- 48 If Walter Peak was to become less attractive or successful in its own right as a key tourist attraction in the Queenstown region, then this would have an adverse impact on the economics of continuing the operation of the TSS Earnslaw, notwithstanding its iconic and unique status.

49 Walter Peak's land, buildings and other improvements constitute a very substantial asset for Wayfare Group. Over the last 10 years, more than \$9 million has been invested on improvements at Walter Peak, on top of the \$9.5 million that Wayfare Group paid to acquire the Property in 2013. The Property's tourism use, and its physical isolation from Queenstown and any conventional infrastructure and services, necessitates a substantial ongoing investment program over the long-term. This is likely to include:

- new and replacement infrastructure and services;
- introduction of more environmentally friendly infrastructure;
- enhancement of the Property's natural environment;
- maintaining and improving safe, convenient, and comfortable access for visitors and staff;
- enhancement and extension of existing visitor experience facilities;
- new attractions or activities for visitors, such as conferencing and functions, a wedding chapel, and wellness facilities;
- replacement or extension of ancillary buildings;
- staff accommodation and facilities;
- tourist/visitor accommodation options; and
- development of residential dwellings in designated areas of the Property.

50 Residential development at Walter Peak could take many forms. Such development will help to diversify Walter Peak's business base and assist Wayfare Group to justify further tourism orientated development of the Property. Residential development will assist in defraying the cost of infrastructure. Private residential ownership at Walter Peak could also serve a dual purpose as visitor accommodation, as it is commonplace in New Zealand for privately owned residential units to be included within a pool of units that are centrally managed and made available for short term visitor accommodation.

51 Walter Peak is fully self-sufficient, in terms of services such as water and wastewater, electricity generation, telecommunications and access (relying principally on the TSS Earnslaw). The existing developments on

the Property together with any future development plans do not rely on any QLDC infrastructure.

- 52 Planning future investment at Walter Peak is a critical business issue for Wayfare Group given the substantial capital involved. Wayfare Group has shown a long-term commitment to owning and operating Walter Peak as a key tourism attraction within the Queenstown region. Throughout its ownership, Wayfare Group has also demonstrated that it has been a responsible owner, ensuring that its investment preserves and enhances the natural landscape and enables visitors to enjoy an immersive high country farm experience where they learn about New Zealand's history and rural economy.
- 53 However, the Property does have alternative uses. Tourism does not necessarily represent the Property's highest and best use over the longer term. If the Property was acquired for an alternative use, whether as a private residence or if it simply reverted to farming purposes, then there is no guarantee that the same enhanced economic or environmental outcomes will be realised, as can be the case through a diverse tourism-orientated focus.
- 54 Much of the investment undertaken at Walter Peak does not deliver any direct or immediate financial return. For example, more than \$500,000 was spent on the removal of pine trees on the peninsula, which enhanced the attractiveness of this area but adds nothing to the financial returns for Wayfare Group.
- 55 The fact that the Property has a realisable market value by virtue of its alternative use is a relevant consideration for Wayfare Group and heightens its emphasis on maximising the Property's tourism potential.
- 56 The future range of investment requirements at Walter Peak is extensive. Whilst all the different categories of investment are foreseeable, the precise nature and timing of individual investments cannot be accurately determined at the present time. Instead, it is important for Wayfare Group to have flexibility and confidence in its ability to undertake the necessary investment as and when circumstances and market opportunities dictate.
- 57 Wayfare Group therefore has a critical need for ongoing planning certainty in order to justify major capital expenditure decisions at Walter Peak. Many of those investment decisions will only be justified if Wayfare Group has confidence in its ability to carry out further investments in future to maximise the long term returns from the

Property. Many of the investments require substantial upfront capital expenditure, with the benefits only being derived over the longer term.

- 58 There are close parallels between the situation at Walter Peak and ski areas. Both are capital intensive businesses, where upfront capital investment is required but where returns are uncertain and take time to materialise. Both forms of business occupy specially designated areas where there is a need to have a comprehensive and cohesive approach to overall management of the asset over the long-term.
- 59 Over the peak summer season the combined operation of Walter Peak and the TSS Earnslaw employed a total of approximately 100 staff, with a permanent staffing complement of approximately 60. Overall, the Group employs more than 350 people who live in the QLDC region (rising to over 800 during the peak season).
- 60 In addition to the staff directly employed at or in connection with Walter Peak, Wayfare Group employs a large number of personnel situated in its Queenstown and Te Anau offices and operational bases who provide a range of support services for Walter Peak.
- 61 When Walter Peak diversifies its activity base and provides a broader range of facilities, attractions and activities for its guests this will lead to a need for additional staff to support these areas of the business.
- 62 Wayfare Group has always placed significant emphasis on staff training and internal skill development amongst its people. The Group runs nationally recognised qualification programs across a number of professions, particularly maritime roles.
- 63 By virtue of the Group's overall scale of operation and the fact that its portfolio includes well-established and successful businesses such as Walter Peak, Wayfare Group is able to provide employment opportunities for more highly skilled and consequently highly paid staff located in Queenstown and nearby areas.
- 64 Most of Wayfare Group's senior management roles, including the Chief Executive, Chief Financial Officer, Commercial Director and Sales Director, are based in the QLDC region, further demonstrating the Group's commitment to the QLDC region.

Background

- 65 Wayfare Group Limited, through its wholly-owned subsidiary, Real Journeys Limited, owns the Walter Peak land and buildings situated on the southern side of Lake Wakatipu, 11 km across the lake from Queenstown. Another wholly-owned subsidiary of Wayfare Group purchased the Walter Peak freehold in 2013, having previously leased it since 1991, and ownership of the Property was transferred to Real Journeys in 2019 as part of an internal restructuring.
- 66 Although both the Walter Peak tourism attraction and the TSS Earnslaw vessel are owned and operated by Wayfare Group's wholly-owned subsidiary, Real Journeys, in my evidence I have generally referred to Wayfare Group, being the parent entity, as the ultimate owner of these assets.
- 67 The Walter Peak Property comprises a total of approximately 155 ha of high country and lakeside land and a range of buildings and other improvements for guest and staff use. These include the main buildings such as the Colonel's Homestead which is used for visitor dining (maximum capacity of 250 guests seated), the specially designed and recently constructed amphitheatre which has a seating capacity of 400 and which is used for farm shows, the woolshed which has been converted into a gift shop, and café (which can accommodate up to 150 guests), various residential buildings used for staff accommodation, and other buildings used for offices, workshops and ancillary support services.
- 68 References throughout my evidence to Walter Peak or the Property generally refer to the entirety of the asset base along with the tourist business operated therefrom as described in this section of my evidence.
- 69 Walter Peak is self-contained, with its own facilities that provide diesel-powered electricity generation, telecommunications, fresh water, wastewater and sewage treatment.
- 70 The Property has extensive gardens and lawns surrounding the Colonel's Homestead and original historic buildings, various walking, horse riding and mountain bike paths, ground works designed to manage flood risk, and extensive plantings of native trees and vegetation to enhance its overall attractiveness for visitors.

- 71 The area predominantly used for guest dining, the farm shows and other guest activity is situated on flat land adjacent to the sheltered beach known as Beach Bay and comprises approximately 9 ha of land.
- 72 The balance of the Property amounts to approximately 146 ha, much of which comprises moderate to steep sloping land, and includes approximately 3 km of lake foreshore. Large areas of the Property enjoy excellent mountain and lake views. This land is used for farming activities but which is also accessible to visitors via the walking and mountain bike pathways.
- 73 Since acquiring freehold ownership of Walter Peak, Real Journeys has undertaken considerable capital expenditure to expand and enhance the buildings and develop the exterior grounds and visitor facilities. Total capital expenditure on Walter Peak over that 10 year period exceeds \$9 million. Major projects undertaken over the last 10 years include:
- expansion of the Colonel's Homestead building, including kitchen redevelopment and "gourmet barbecue";
 - construction of farm show amphitheatre;
 - woolshed conversion to accommodate café;
 - farm and utility buildings, including storage/warehousing for inwards goods;
 - new staff housing (three buildings);
 - extensive gardens and landscaping works including waterway protection and enhancement, new planting, new animal viewing areas, native planting around hillsides adjoining lake edge;
 - new public (picnic area) campsite that includes shelter and toilet facilities;
 - removal of wilding trees from the peninsula.
- 74 The Property's improvements include a wharf at which the TSS Earnslaw regularly berths. The Property can also be accessed directly via a 86 km mostly gravel road which comes off State Highway 94 in Southland. Travel time to Walter Peak via road from Queenstown is approximately three hours, including one hour on the gravel road. The Property also includes its own grass airstrip.

- 75 The vast majority of guests at Walter Peak travel there via the TSS Earnslaw (when that vessel is out of service, smaller alternative vessels owned by the Group are used).
- 76 Once at Walter Peak, guests may partake in morning or afternoon tea, lunch or dinner, horse riding, mountain biking, as well as a range of farm tours and experiences. Guests are also able to bring their own food and picnic at Walter Peak and are also free to walk around the farm itself and observe the livestock, as well as enjoying the scenery and beach.
- 77 The business of Walter Peak is integrated with the operation of the TSS Earnslaw. Both assets and activities are managed together and their combined revenues, direct operating costs and aggregated contribution margin are reported as a single consolidated business unit. However, it is possible for customers to utilise only the TSS Earnslaw, for example, if they elect to only go on a lake cruise. It is also possible for customers to select a variety of options at Walter Peak, with or without having purchased a trip on the TSS Earnslaw.
- 78 Walter Peak is a major attractions business within Wayfare Group's portfolio of tourism businesses and represents one of the largest single tourist attractions in the Queenstown area.
- 79 In the year ending 31 December 2019 Walter Peak attracted more than 226,000 guests, marginally down on the approximately 227,000 guests who visited during the preceding 12 months to December 2018.
- 80 Walter Peak's guest numbers during the year ending 31 December 2020 reduced drastically, principally due to the Covid-19 lockdowns and the cessation of international tourism flows after New Zealand's borders were closed to all but New Zealand citizens and permanent residents with effect from 19 March 2020. This meant that Walter Peak had only 82,000 guests last calendar year, of which more than 59,000 came in the first three months of the year before the initial Covid-19 Level 3 lockdown occurred on 23 March 2020 (followed by the move to Level 4 on 25 March). Walter Peak closed entirely for the three months of April, May and June 2020 with only minimal visitors (2,024) over the following three months July, August and September.
- 81 Walter Peak can justifiably be described as one of Queenstown's "signature tourist attractions", especially in combination with the TSS Earnslaw. It offers tourists an unrivalled opportunity to experience key aspects of New Zealand's cultural and economic history through the combination of the journey on the TSS Earnslaw and the Walter Peak dining and farm show experiences, all of which is set against the

backdrop of Lake Wakatipu and the surrounding mountains and alpine terrain.

- 82 The TSS Earnslaw first sailed on Lake Wakatipu in 1912. Due to its 109 year history, its uniqueness by virtue of being the only surviving coal fired commercial vessel in operation in the southern hemisphere, and its involvement in the history and development of Lake Wakatipu and the Queenstown area, the TSS Earnslaw has a widely recognised and iconic status as a tourist attraction in its own right, quite apart from its more utilitarian purposes involving the transportation of passengers and supplies across Lake Wakatipu to Walter Peak. Passengers on the TSS Earnslaw not only witness first-hand the unique coal-fired steamship operation, but whilst on board they also learn about the role that the vessel played in transporting people, livestock and goods around Lake Wakatipu in the early part of the 20th century, which facilitated early economic development and life in the area.
- 83 Walter Peak plays a significant role as a large-scale stand-alone tourist attraction within the Queenstown region. It is the largest farm show experience of its kind and caters for substantially more visitors than any other similar attraction. It differs from other farm shows in New Zealand, such as the Agrodome in Rotorua, because of its natural setting within the Walter Peak farm environs. Visitors not only experience the farm show but also have the opportunity to experience the entirety of a high country farming environment. They can walk around the farm and view the livestock, and this all takes place against the spectacular backdrop of Walter Peak and the other surrounding mountains on one side, and Lake Wakatipu on the other. Despite its remote rural location, Walter Peak is only 11 km from Queenstown, meaning that it is very convenient, and this fact along with use of the TSS Earnslaw as the principal transportation mode, contributes to its ongoing popularity with tourists.
- 84 Walter Peak can accommodate large-scale group dining, making it an attractive venue for large groups or coachloads of tourists, which are unable to be catered for within most Queenstown restaurants. It also provides visitors with what amounts to a half day experience, spanning either morning tea, lunch, afternoon tea or dinner. For these reasons Walter Peak is an attractive proposition to travel wholesalers and tour organisers who are keen to include it within group tour itineraries for predominantly overseas visitors. Walter Peak is also attractive to what is known as the “meetings, incentives, conferences and exhibitions” (**MICE**) market because of its ability to handle large numbers of guests at one time and because it provides a useful “wet weather day”

alternative if visitors are unable to undertake a more active outdoor activity.

- 85 Wayfare Group is one of New Zealand's largest tourism industry players. Operating through a range of wholly-owned subsidiaries and several joint ventures, its businesses include:
- Walter Peak and the TSS Earnslaw, in Queenstown;
 - Milford and Doubtful Sounds day and overnight cruises and coach transport between Queenstown and these destinations;
 - Te Anau glow-worm caves and walks;
 - Stewart Island ferry service, guided walks and other on-island activities, and accommodation;
 - Cardrona and Treble Cone ski areas;
 - Kayaking, rafting, jet boating, ferry and water taxi services in and around Queenstown through its Go Orange brand; and
 - the International Antarctic Centre near Christchurch Airport.
- 86 For its financial year ending 30 September 2019 (being its last completed financial year pre-Covid-19) Wayfare Group provided services to over 1.6 million guests across its portfolio of businesses and employed more than 1,200 people during its peak season.

Trends in New Zealand's tourism industry

- 87 Tourism is one of New Zealand's largest and most important industries. Current industry metrics are heavily distorted due to the substantial downturn caused by the Covid-19 global pandemic which saw the complete cessation of international tourism from late March 2020 when New Zealand's borders were closed through until mid-April 2021 when New Zealand's border with Australia reopened to enable quarantine-free travel.
- 88 The following data for the year ending 31 March 2020 provides a snapshot of New Zealand's tourism industry and its trends in the pre-Covid-19 environment (although New Zealand's border closed on 19 March 2020, there was a lagged effect as many overseas tourists were still in the country at that time, especially as this was near the end of the peak summer tourism season, however there was nonetheless a small adverse Covid-19 related impact on the total year figures).

89 For the year ended 31 March 2020:

- total tourism revenue was \$41.9 billion, an increase of 2.4% over the prior year;
- international tourism contributed revenues of \$17.5 billion (annual increase of 2.2%) and represented 20.1% of New Zealand's total exports of goods and services;
- domestic tourism contributed revenues of \$24.4 billion (annual increase of 2.7%);
- tourism generated a direct contribution to Gross Domestic Product (**GDP**) of \$16.4 billion, or 5.5% of total GDP;
- in addition, the indirect value added from industries supporting tourism represented an additional \$11.3 billion (or 3.8%) of GDP;
- total overseas visitor arrivals to New Zealand were 3.652 million, representing a decrease of 5.6% over the 2019 year (3.868 million).

90 For the five years to 31 March 2020 total international visitor arrivals to New Zealand increased from 3.255 million to 3.652 million, representing a Compound Annual Growth Rate (**CAGR**) of 2.34% (note CAGR lower due to 5.6% decline in March 2020 year).

91 Relative to other OECD countries, New Zealand's tourism sector represents a much larger proportion of the total economy. This means that New Zealand's overall economic performance is more susceptible to trends in both domestic and international tourism patterns, as has been evident in the wake of the Covid-19 global pandemic.

92 Compared to other regions in New Zealand, the QLDC region has by far the largest tourism industry as a proportion of its local economy:

- Tourism directly accounts for 43.7% of total GDP within the QLDC region, whereas the equivalent figure for New Zealand as a whole is 5.1%;
- Over the five years since 2016, tourism has accounted for between 39.5% and 43.7% of GDP in the QLDC region, with this proportion continuing to increase. This proportion has more than doubled from what it was 20 years ago, when tourism accounted for around 20% of GDP in the region;

- Tourism in the QLDC region accounts for 56% of total employment compared to the national average of 8.7%;
 - The QLDC region is particularly reliant on international tourism, which accounts for 64% of total spending, versus a national average of 42%.
- 93 The QLDC region faces acute pressures in terms of its ability to cater for the growing number of tourists, particularly its need to invest in additional direct and indirect infrastructure such as roads, car parking, public toilets and housing for those who work in the industry. QLDC's situation is exacerbated by the high ratio that visitors to the region comprise relative to ratepayers.
- 94 Tourism tends to be a cyclical and volatile industry sector, given it relies on discretionary spending by consumers. This is the case in respect of both domestic and international tourists. Tourism activity is a function of macro-economic conditions and consumer confidence. Tourism activity is particularly susceptible to cost pressures, and in the case of international tourism, the cost of airfares to New Zealand is a key influence on travel patterns. Tourism activity is also subject to external events and shocks over which industry participants typically have little or no control.
- 95 Whilst Covid-19 was not known until early 2020, the tourism sector has experience of other similar external shocks, such as SARS in 2003, Avian bird flu in 2005 and 2006, and subsequently MERS in 2012, as well as the fallout from the global financial crisis in 2008.
- 96 **Attachment 1** contains a tabular summary showing Real Journey's total customer numbers (Walter Peak and TSS Earnslaw combined) by month for the 2018, 2019 and 2020 calendar years, together with analysis as to the country of origin for customers. Analysis of visitor numbers by country of origin over the 2018 and 2019 pre-Covid-19 years shows that domestic customers comprised 19% and 20% of total visitors for each respective year. For the two years preceding 2020 (when the Covid-19 outbreak occurred), more than 80% of customers at Walter Peak were from overseas. This market ceased entirely as from late March 2020.
- 97 Based on my conversations with a cross-section of tourism industry leaders, and discussions with senior people involved in coordinating New Zealand's health and economic response to Covid-19, in my opinion is unrealistic to expect any resumption of quarantine-free travel with countries outside of Australia and selected Pacific Islands any time before 2022 at the earliest. This has a material bearing on New

Zealand's entire tourism industry, and more particularly, the expected visitor numbers and financial performance of the Walter Peak business.

- 98 Not only are overall visitor numbers sharply reduced as a result of the absence of international tourists, but there is also a negative impact on yields. Yield is reduced because New Zealand domestic tourists are not typically willing to pay the same prices as overseas tourists, so in many cases pricing (including food and beverage prices) needs to be reduced. The New Zealand tourism industry is now entirely dependent on the domestic and Australian markets and as a consequence has become very concentrated in particular seasons, with low levels of utilisation through much of the year. Activity tends to be concentrated around the key holiday periods, such as the Christmas-New Year period, long weekends and school holidays. International tourists from outside of Australasia tend to smooth out these peaks and flows. The combination of greatly reduced volumes, lower yields, and increased peak seasonality means that operating margins and earnings are substantially reduced across the entire tourism industry.
- 99 **Attachment 2** presents data summarising monthly overseas visitor arrivals between 2010 and 2020. This data shows that whilst there had been steady growth in overseas visitor arrivals for most of the decade, on a seasonally adjusted basis, overseas arrivals peaked in March 2019, and had been in a slight decline since then, well before the onset of the Covid-19 pandemic in March 2020.
- 100 In total, international visitor arrivals to New Zealand in 2019 increased by 0.7% to 3.89 million. This was the lowest annual growth experienced since 2013.
- 101 Further evidence regarding the peaking of overseas visitor numbers can be seen by looking at arrivals from China, which by 2019 had become New Zealand's second largest source of international tourists and was widely expected to become the largest single market before long. **Attachment 3** contains a table showing arrivals from China over last 10 years. This data shows that monthly arrivals peaked in February 2018. Visitor arrivals from China in 2019 actually fell 9% from the prior year, and this declining trend had been evident from early 2019. China represents the largest single source of customers for the combined Walter Peak/TSS Earnslaw businesses, accounting for more than 31% of customers over the last three years. It is also worth noting that relative to other foreign markets, China tends to be a more volatile market which can be significantly influenced by domestic events and government policies within China.

- 102 Together, the Covid-19 global pandemic and the peaking in New Zealand's overseas visitor numbers have had a profound impact on the near-term outlook for New Zealand's tourism industry. Whereas New Zealand's tourism industry had experienced a decade of virtually uninterrupted growth over the 2010-2020 period, the same trend cannot not necessarily be anticipated for the next decade.
- 103 Tourism is also an extremely competitive global industry. New Zealand is very distant from its major international markets, and therefore can be an expensive destination, particularly if airfares increase. The growth in New Zealand's inbound international tourism over the past decade coincided with a period of low airfares, due in part to low fuel prices (and no charge for carbon) coupled with intense competition amongst airlines. It cannot necessarily be assumed that this will resume as the aviation industry starts to operate more extensively post Covid-19.
- 104 Prior to Covid-19 there were other challenges confronting New Zealand's tourism industry, including the fact that in some respects New Zealand's tourism activity was exceeding capacity, our natural environment was suffering, and resources in some areas were strained.
- 105 This important issue was addressed by the Parliamentary Commissioner for the Environment, Simon Upton, in a report entitled "*Pristine, popular... imperilled? The environmental consequences of projected tourism growth*", which was released in December 2019. Mr Upton warned that increasing numbers of tourists, both domestic and international, are placing New Zealand's environment under pressure, and eroding the very attributes that make New Zealand an attractive tourism destination.
- 106 Similar themes underpinned the industry blueprint released by Tourism Industry Aotearoa (**TIA**) in May 2019 titled "*Tourism 2025 & Beyond - A Sustainable Growth Framework*". This report, whilst acknowledging the tremendous growth and success that the tourism industry had experienced, also recognised the challenges confronting the industry and the need to adopt a longer term view in order to embed a more sustainable future for New Zealand's tourism sector. The report's prescription for achieving long-term sustainable success in the industry is based around three core values:
- *Kaitiakitanga* - guardianship and protection of our natural, built and cultural resources for the benefit of current and future generations;
 - *Manaakitanga* - showing respect, hospitality, generosity and care for others;

- *Whanaungatanga* - a sense of family and belonging; relationships built on shared experiences and working together.

107 TIA's report contains an extensive list of actions that need to be progressed by the tourism industry in conjunction with central and local government, with the top 10 priorities being:

- embedding sustainability;
- managing destinations;
- growing and shaping demand;
- embracing tikanga Māori;
- living tiaki;
- engaging the community;
- measuring and managing industry carbon use;
- investing in infrastructure and amenities;
- fostering domestic tourism;
- investing to deliver quality tourism data and research.

108 The conclusions that emerge from the commentary above, and which have a bearing on the role that tourism will play going forward in the QLDC region and the implications for Walter Peak, can be summarised as follows:

- tourism is a volatile and cyclical activity, as has been clearly demonstrated by the enormous downturn induced by the Covid-19 global pandemic;
- New Zealand's international tourist flows had reached a cyclical peak in 2019, well before the Covid-19 pandemic took hold;
- relative to the rest of New Zealand, the QLDC region is very heavily reliant on tourism and consequently the local QLDC economy is particularly susceptible to any downturn in tourism which affects many forms of business activity and employment in the region;
- prior to the onset of Covid-19 there was growing awareness of macro factors creating headwinds for New Zealand's tourism industry and causing industry leaders to question assumptions about longer term

growth trends and investment requirements. Factors driving these concerns include:

- growing awareness of climate change and the need to reduce carbon emissions, making New Zealand a less attractive country for overseas travellers due to the long haul flights involved;
- the adverse impacts on New Zealand's environment as a result of what some were describing as "over-tourism", as evident from the ongoing debate about freedom camping, growing pressure on infrastructure, the need for more investment in basic facilities such as toilets in popular tourist locations, management of Department of Conservation (DoC) concessions and hut bookings in national parks.

109 New Zealand's tourism industry, whilst touted as a major economic success given the growth that the industry had witnessed, was in need of a "reset" prior to Covid-19. The severe downturn has only served to accelerate and emphasise this requirement.

110 A further factor driving the need for a reset, which has really only become apparent following Covid-19, is the over-reliance that New Zealand's tourism industry has on foreign workers, many of whom are low skilled and low paid. This has become very apparent over recent months as the industry begins to scale up to meet anticipated additional demand from Australian visitors. Many businesses have found themselves unable to recruit staff to meet both existing and anticipated demand. It is somewhat perverse that in the midst of the industry's most severe downturn in decades, staffing shortages are hampering efforts to revive the sector.

111 I note that whilst severe staffing shortages are affecting many tourism industry participants, Wayfare Group has been affected to a lesser degree because it has well-established practices designed to ensure that it is both a good and attractive employer within the industry. Measures that it has introduced in this regard include ensuring that all permanent staff earn at least the living wage, transitioning a majority of roles to permanent rather than seasonal, provision of staff housing (and in some cases meals) for staff at remote locations such as Walter Peak and Milford Sound, and investment in nationally recognised training and development qualifications, particularly maritime roles. It is also noteworthy that in 2017 Wayfare Group won the Supreme Award at the New Zealand Diversity and Inclusion awards.

112 Taking the above factors into account, New Zealand's tourism industry reset needs to place much greater emphasis on building value and capability within the industry rather than relying on ever increasing volumes of tourists. Additional tourist volumes, whilst growing revenues, require much greater investment in the sector and place a drain on existing infrastructure and natural resources. Moreover, future development of the industry needs to place less reliance on low skilled and low paid workers, and instead utilise capital investment and higher productivity which should deliver stronger returns in the sector and in turn fuel further investment, thereby making the industry more successful and sustainable over the longer term.

113 When the prognosis for an industrywide reset is overlaid on the QLDC region, with its current over-reliance on tourism, it is apparent that the region needs to focus on the following factors:

- diversification of the region's economic base and activity, so that the region is not so reliant on tourism and therefore less vulnerable to the cyclical and volatility inherent in the tourism industry. Note that this does not imply any reduction in the level or emphasis on tourism, but rather, a need to develop the region's economic base in other sectors unrelated to tourism or sectors that are adjacent to tourism;
- ensuring that the tourism sector within the region is underpinned by the involvement of strong and successful operators who have proven their ability to:
 - withstand industry cycles and setbacks such as Covid-19;
 - maintain their commitment to operating facilities, activities and attractions that deliver world-class experiences for customers and serve as a drawcard for the region and which enable other (typically smaller) tourism businesses to leverage;
 - conduct domestic and international marketing activity that benefits not only their own business but also the QLDC region as a whole;
 - invest in their businesses to make them more productive and more environmentally sustainable;
 - demonstrate their commitment to maintaining employment, developing skill levels throughout their business, and employee health, safety and well-being.

114 These themes are recognised in QLDC's economic development strategy which includes amongst its objectives achieving greater value from the visitor industry and also growing a more diverse range of businesses in the region. The QLDC strategy also recognises the need to make the region's economy more resilient and increase the number of high value jobs.

Industry structure and Wayfare Group's role

115 New Zealand's tourism industry is often referred to as if it was a single homogeneous sector exhibiting a high degree of commonality across the entire industry ecosystem. In fact this is far from being an accurate description of the industry. Instead, the industry is characterised by its enormous differences, in terms of the nature of business activity that is classified as falling within the sector, the size of the various enterprises that make up the sector, and the different business models which they utilise.

116 The New Zealand tourism industry can be broken down into the following sub-sectors, each of which involves very different types of business:

- transportation (including airports, international and domestic airlines, cruise ships, rail, ferry and coach services, rental cars etc);
- accommodation (including hotels, motels, private rental accommodation, backpacker hostels, Airbnb etc);
- hospitality/food and beverage (including restaurants, café's, bars, takeaway food etc);
- retail (including souvenir shops and other tourist-orientated retail outlets);
- entertainment (including casinos, theatres, cultural events, concerts, sporting events etc);
- attractions (including museums, national parks, outstanding natural landscapes and features, scenic rides and cruises, farm tours and shows etc);
- activities (including adventure tourism (e.g. bungee jumping, jet boat rides, rafting, sky diving etc), hunting and fishing, mountain biking and cycling, guided walks etc).

117 Whilst all the above sub-sectors rely, to varying degrees, on demand from domestic and international tourists, the nature of these businesses

varies enormously, especially in terms of their capital intensity (the extent to which they need to invest in plant, equipment, facilities and other infrastructure), staffing requirements (numbers of staff and skill levels required), the relative reliance on international versus domestic visitors, and the extent and degree of competition.

- 118 The New Zealand tourism industry comprises over 35,000 individual enterprises, with more than 225,000 people employed during the year ended March 2020, so that on average each enterprise employs less than 7 staff. These statistics show that the industry is made up of a very large number of small businesses. There are very few participants in the industry who employ more than 100 staff and if airlines, other transportation businesses, casinos and large hotel groups are excluded, then the number of large participants is even smaller.
- 119 The number of tourism businesses that are in any way comparable to Wayfare Group in terms of both size and nature of their business activity is extremely limited. To the best of my knowledge there are no more than three comparable tourism businesses that exhibit similar size and characteristics to Wayfare Group, and which operate in the QLDC region, of which Wayfare Group is the largest.
- 120 This observation underscores the importance of the role that Wayfare Group plays within the tourism sector, especially in the QLDC region. The combination of Walter Peak and the TSS Earnslaw serves as a major drawcard attraction for visitors coming to Queenstown. The fact that Queenstown serves as a base for many visitors who travel to/from Milford Sound to partake in the Group's activities and attractions at this spectacular destination reinforces this aspect.
- 121 Wayfare Group is also fairly unique within the sector by virtue of its history and ownership. Wayfare Group was established more than 65 years ago by Les and Olive Hutchins when they acquired the Manapouri Doubtful Sound Tourist Company, followed by the acquisition of Fiordland Travel in 1966, the acquisition of the TSS Earnslaw in 1969, and commencement of cruises on Milford Sound in 1970. More recent acquisitions have included the International Antarctic Centre in Christchurch, the Cardrona ski area followed very recently by Treble Cone, and Kiwi Discoveries. Wayfare Group remains family-owned by descendants and related parties of Les and Olive Hutchins.
- 122 Wayfare Group has consistently demonstrated its respect for the environment and its commitment to fostering sustainable tourism. For example:

- Paul Norris, General Manager of Real Journeys, was awarded a New Zealand Order of Merit for his services to tourism and conservation. Paul has been particularly active in predator trapping in Fiordland and Rakiura;
- Wayfare Group's founder, the late Sir Leslie Hutchins received a knighthood for services to conservation and tourism;
- establishment of the Leslie Hutchins Conservation Foundation, which continues to be funded by Real Journeys to support conservation and community initiatives in the Otago and Southland regions;
- the annual (pre-Covid-19) Birds of a Feather Ball held to raise funds for various conservation projects. The last project to receive a grant was the Cardrona Karearea project;
- funding for predator trapping on Cooper Island in Dusky Sound;
- prior to Covid-19, Wayfare Group was well advanced in its planning to adopt hydrogen power for some of its coaches and is presently examining options for conversion of the fuel source for the TSS Earnslaw away from coal.

123 Post Covid-19 Wayfare Group employs more than 800 people during peak seasons. Prior to the Covid-19 induced downturn which forced some retrenchment in areas of the Group's business, Wayfare Group employed more than 1,750 people during peak seasons.

124 Wayfare Group has a substantial and highly sophisticated marketing infrastructure comprising personnel based locally and overseas together with long established relationships with travel wholesalers and inbound tour operators, alongside sophisticated internet-based channels, all of which contributes to securing local and overseas visitors to its key attractions, including Walter Peak. This is a core element of Wayfare Group's business model, but one that is only possible given the scale of the Group's operations and its ability to leverage this investment across a range of activities and attractions.

125 Wayfare Group's drawcard attractions, such as Walter Peak, and its successful marketing efforts, benefit not only its own business, but also deliver considerable benefit to all other industry participants, many of which lack the scale and sophistication to carry out a similar level of marketing activity on their own account. Instead these much smaller players tend to leverage off major attractions like Walter Peak and the

marketing efforts undertaken by large enterprises such as Wayfare Group.

126 Wayfare Group can therefore be described as a substantial and leading tourism industry participant, especially in the Queenstown and Fiordland regions. This is evident in terms of the Group's:

- domestic and international market development activities which are both extensive and highly sophisticated;
- capital investment program across many of the businesses, including Walter Peak where more than \$9 million has been spent over the last decade;
- commitment to environmental “best practice” and sustainability initiatives such as those mentioned earlier in my evidence;
- employment of a large number of people across a variety of roles, including more than 350 who live in the QLDC region (rising to over 800 during the peak season);
- innovation around the nature of the products and services that are offered to guests, recognising the constantly evolving nature of tourism and the importance of ensuring that what is offered remains relevant and attractive to visitors; and
- general industry leadership, such as the involvement of senior executives in key industry bodies and related organisations, such as:
 - Wayfare Group's former Chief Executive, Richard Lauder, was chair of TIA;
 - Matthew Day is a Board Member of Destination Queenstown and is assisting DoC with its current concession framework review;
 - Fiona Black has been appointed by the Minister of Conservation to DoC's Southland Conservation Board;
 - Bridget Legnavsky, General Manager of Cardrona Alpine Resort is a member of the Executive Committee of the Ski Areas Association of New Zealand and chairs the QLDC Climate Reference Group and is a previous chair of the Wanaka Chamber of Commerce;

- Matt Woods, Head of Sales at Cardrona Alpine Resort, is Chair of Wanaka Tourism;
- Paul Norris is Chair of Predator Free Rakiura Leadership Group.

Walter Peak

127 As has been noted earlier in my evidence, Walter Peak is a major asset within Wayfare Group's portfolio of tourism businesses. Its financial results are integrated with those of the TSS Earnslaw given both businesses are managed and operated together and are interdependent.

128 Walter Peak's success as a major tourist attraction in the Queenstown region stems from a combination of it's:

- authentic farm show experience that is offered within a natural setting that forms part of an iconic working high country sheep station;
- high quality dining experience involving either a barbecue lunch or barbecue dinner;
- ability to accommodate large groups due to the Colonel's Homestead having a dining capacity for 250 guests;
- ability for guests to partake in a range of activities whilst at Walter Peak, including walking, mountain biking or horse riding, picnics, exploring the farm and viewing livestock, having morning or afternoon tea, and visiting the gift shop; and
- convenient proximity to Queenstown, with guest and staff access via the TSS Earnslaw.

129 There is no equivalent tourist business in the Queenstown region that can offer the same combination of experiences and activities at the same standard whilst also being able to cater for the number of guests that Walter Peak can host. Walter Peak is also unique by virtue of the fact that it can offer guests a high country farm experience that is in such close proximity to Queenstown. This convenient proximity allows visitors to witness and understand a key aspect of New Zealand's history and economy that would otherwise be difficult to access and enjoy.

130 Walter Peak's evolution from being solely a remote high country working farm to its predominant use today as a unique visitor attraction would be difficult if not impossible to replicate. Allowing further consolidation and

enhancement of this existing asset would seem preferable to allowing the asset to devalue through an uncertain planning regime, which could result in Walter Peak becoming less attractive to future visitors, and thereby at risk of being replaced by some form of new development in another rural area.

131 Given the Covid-19 induced downturn and the need for an industry reset in any event, for the reasons explained above, Walter Peak has already modified its offering to cater for the change in the mix of guests (who are predominantly domestic rather than international) and further evolution of its offering is inevitable to ensure ongoing success for the business.

132 Modifications to the Walter Peak business that have already been made or which are being considered in response to these changing tourist patterns include:

- changes to the menu items offered to better suit the culinary preferences of predominantly Australasian guests;
- modifications to the layout and number of rooms used within the Colonel's Homestead given the reduced visitor numbers at present;
- changes to the farm show to focus on aspects of farming activity of most interest to Australasian guests; and
- fewer scheduled departures by the TSS Earnslaw.

133 Maritime New Zealand has recently advised that the maximum number of passengers that can be accommodated on the TSS Earnslaw must be reduced from 400 to 250 (although there may be scope to undertake modifications that allow this number to be increased slightly). This is likely to mean that smaller numbers of guests can be transferred from Queenstown to Walter Peak using the TSS Earnslaw. At some times during the year Wayfare Group will either need to adjust the schedule for the TSS Earnslaw to enable more frequent trips or it may need to invest in another vessel to provide greater frequency of services to accommodate the volume of guests in future.

134 Longer term, given the need for New Zealand's tourism sector to focus on extracting greater value from tourism activities rather than simply looking to additional revenue from ever-increasing tourist volumes, this will mean that Walter Peak needs to expand and enhance its range of visitor offerings with a view to having guests stay longer and participate in more activities, so that individual guests deliver greater revenue and are of greater value to the business. This may include, for example,

additional dedicated mountain bike tracks (possibly in conjunction with some sort of uphill lift capability), investment in a rental fleet of mountain bikes, a broader range of dining options, and a range of visitor accommodation options for different market segments.

- 135 Wayfare Group is also considering other options to diversify the business base at Walter Peak. Examples under consideration include dedicated conferencing facilities and associated functions capability, a wedding chapel, and wellness facilities such as a spa or onsen. Such diversification of Walter Peak's offerings over time also enhance its ability to operate more strongly on a year-round basis, reducing the traditional low-season downturn which presently exists. This will enable better utilisation of investment and provide additional employment opportunities.
- 136 At present it is not possible for Wayfare Group to foresee precisely what changes will be needed, but there is reasonable certainty that the Walter Peak tourism offering will require adaptation and extension to reflect a change in customer mix and preferences, a focus on obtaining greater value from visitors rather than relying on volume growth alone, and an emphasis by customers and from Wayfare Group itself on environmental sustainability across every aspect of the business.

Relationship between Walter Peak and the TSS Earnslaw

- 137 As noted above, Wayfare Group's business operations are structured such that the Walter Peak and TSS Earnslaw comprise a single integrated business unit.
- 138 Both activities are managed together from the Group's Queenstown base. However, it is possible for customers to utilise only the TSS Earnslaw (for example, if they elect to only go on a lake cruise); and it is also possible for customers to select a variety of options at Walter Peak, with or without having purchased a trip on the TSS Earnslaw.
- 139 In summary, the TSS Earnslaw is used within Wayfare Group's Queenstown tourism business in the following ways:
- to transport customers to and from Walter Peak;
 - sightseeing excursion trips for Real Journeys customers on Lake Wakatipu, principally between Queenstown and Walter Peak, but on occasion to other parts of Lake Wakatipu;

- for specially arranged charter trips such as corporate functions or private events; and
 - to transport staff and supplies between Queenstown and Walter Peak (although it does not provide the sole means of transport given Walter Peak also has road access).
- 140 Due to its 109 year history, its uniqueness by virtue of being the only surviving coal fired commercial vessel in operation in the southern hemisphere, and its involvement in the history and development of Lake Wakatipu and the Queenstown area, the TSS Earnslaw has a widely recognised and iconic status as a tourist attraction in its own right, aside from its more utilitarian purpose of transporting passengers and supplies across Lake Wakatipu.
- 141 Most customers will experience a trip on the TSS Earnslaw as an integrated element of a Walter Peak farm visit or other activity at Walter Peak which may in fact be their primary objective, and they will purchase this as part of a “bundled” product.
- 142 Other customers may elect to simply partake in a cruise on Lake Wakatipu on the TSS Earnslaw. In this regard I note that there are a range of other Queenstown operators who also provide trips on Lake Wakatipu, either as a stand-alone attraction, or as part of some other activity.
- 143 Importantly however, no other tourism business in the Queenstown region can offer the unrivalled combination that is available to guests through visiting Walter Peak and travelling there using the TSS Earnslaw.
- 144 Whilst the TSS Earnslaw is often and rightly described as “iconic” and “unique”, these features, by themselves, do not ensure its commercial success. The TSS Earnslaw, by virtue of its 109 year age and unique characteristics, is costly to operate an expensive to maintain.
- 145 Operation of the vessel is costly because the know-how required on the part of its Skippers/Launch Masters is very specialised given the vessel’s size, unique propulsion system, manoeuvring characteristics, and health and requirements. The coal fired boilers require constant stoking, meaning there is a need for dedicated stokers with the necessary physical attributes to undertake this heavy but essential work throughout each voyage. The vessel’s coal supplies need to be replenished, generally on at least a daily basis. The Vessel's maintenance requires highly specialised engineering know-how.

- 146 As noted above, Maritime New Zealand has recently promulgated a material reduction in the TSS Earnslaw's capacity, with the maximum number of passengers reducing from 400 to 250. This change will have a material impact on the operating economics for the vessel as there will be no commensurate reduction in the vessel's operating costs.
- 147 Being a coal-powered steamship means that the vessel's operation emits substantial carbon into the atmosphere. Its current mode of operation therefore runs counter to the Groups focus on environmental sustainability and reducing the carbon footprint.
- 148 The TSS Earnslaw is 109 years old. Replacement parts are seldom available "off-the-shelf" and instead need to be specially engineered to suit what is required. I am advised by Real Journeys' management that it typically spends in the order of \$1 million annually on what I would describe as "stay in business" repairs and maintenance (R&M) expenditure on the TSS Earnslaw. In addition, major refits of the vessel occur at less frequent intervals but involving more substantial capex amounts running into the millions of dollars. These necessitate the vessel being hauled out of the lake using a slipway on Kelvin Peninsula every year and taken out of service for one-two months.
- 149 I am further advised by Real Journeys management that within the next three years the TSS Earnslaw is expected to undergo a major refit, involving an expected outlay of approximately \$5 million and potentially a further estimated amount of \$2 million if vessel's fuel source is changed from coal to an alternative cleaner burning material.
- 150 Most of Wayfare Group's customers elect to purchase a product that involves a combination of a trip on the TSS Earnslaw and a visit to Walter Peak. Customer data provided to me by Wayfare Group for the last three calendar years (from January 2018 to December 2020) shows that over 77% of customers purchased a product which included Walter Peak. 23% (averaged over 2015-2019) of customers elected to only take a trip on the TSS Earnslaw.
- 151 I believe that Walter Peak is the primary earnings driver behind the combined Walter Peak/TSS Earnslaw business rather than the TSS Earnslaw. The reasons for this include the fact that less customers elect to purchase only a trip on the TSS Earnslaw, there are a range of competing alternatives for these customers, and whilst the TSS Earnslaw itself is unique as a coal-fired steamship, the sightseeing excursion it offers on Lake Wakatipu does not share that same uniqueness. On the other hand, Walter Peak is a very distinctive product

given its combination of dining experiences, farm shows and other activities. It has a strong brand and market proposition and little if any direct competition.

152 It follows from the analysis and commentary above that if Walter Peak was to become less attractive or successful in its own right as a key tourist attraction in the Queenstown region, then this would have an adverse impact on the economics of continuing the operation of the TSS Earnslaw, notwithstanding its iconic and unique status. In my opinion ongoing operation of the TSS Earnslaw is reliant on its continued utilisation to transfer guests between Queenstown and Walter Peak. If, by way of example, Walter Peak was no longer operated as a tourist attraction then in my view it is highly doubtful that Wayfare Group would be able to commercially justify continued operation of the TSS Earnslaw as a stand-alone business.

Investment requirements at Walter Peak

153 Walter Peak's land, buildings and other improvements constitute a very substantial asset for Wayfare Group. Given its tourism use, and its physical isolation from Queenstown and any conventional infrastructure and services, this necessitates a substantial ongoing investment program over the long-term.

154 In the Background section above I summarised the investment undertaken at Walter Peak by Wayfare Group over the last 10 years, which amounts to more than \$9 million, which is on top of the \$9.5 million that Wayfare Group paid to acquire the Property in 2013.

155 In this section I summarise the anticipated future investment requirements for Walter Peak. These can be categorised as follows:

- replacement and additional infrastructure and services, much of which is necessitated by the absence of any external services due to the Property's physical isolation;
- introduction of more environmentally friendly infrastructure, such as wastewater treatment, or electricity generation using solar or wind sources;
- enhancement of the Property's natural physical environment, such as the maintenance of the removal of exotic vegetation (e.g. ensuring wilding pines do not re-establish), planting of native shrubs and trees consistent with the alpine terrain, clearing and protecting existing waterways, and flood control;

- maintaining and improving safe, convenient, and comfortable access for visitors and staff alike. This includes wharf maintenance and potentially upgrade, and similarly maintenance and potentially upgrade of the road access;
- enhancement and extension of existing visitor experience facilities, such as the food and beverage operations, the farm show amphitheater, walking and mountain bike tracks, picnic areas, retail, and souvenir shop;
- new attractions or activities for visitors. This could include additional facilities for conferencing and functions and possibly a wedding chapel. To enhance the mountain biking experience there may be a need to invest in some form of vertical transportation for customers and their bikes, such as a specially designed chairlift;
- replacement or extension of ancillary buildings such as maintenance facilities and other aspects of the Property's infrastructure and services;
- staff accommodation and facilities;
- tourist/visitor accommodation options, which could range from dedicated tent sites and basic cabins to fully self-contained and self-catered units, as well as fully serviced accommodation options such as a hotel or luxury lodge;
- development of residential dwellings (which could take different forms and styles) situated in designated areas of the Property.

156 I understand that some form of residential development at Walter Peak has been contemplated for a long time, and that in fact a residential development scheme plan (incorporating a golf course, hotel(s), 800 houses and a village centre) was originally proposed and approved back in 1986 and subsequently reconfirmed by QLDC in 1991.

157 Residential development at Walter Peak could take many forms, in terms of where it is sited within the Property, the scale of development (number of units/dwellings), and the type of development, (ranging from stand-alone homes, situated either individually or in clusters, through to some form of unitised concept, that could comprise physically adjoining units).

158 Residential development will help to diversify Walter Peak's business base and assist Wayfare Group to justify further development of the Property in virtually every respect. Residential development will assist in

defraying the cost of infrastructure, as any residential element would incorporate allowance for capital contributions towards the overall infrastructure investment required at Walter Peak. Moreover, all of the infrastructure at Walter Peak has been and will continue to be installed, owned and operated independently of and at no cost to QLDC.

- 159 Some form of private residential ownership at Walter Peak could also assist in establishing visitor accommodation, as it is commonplace in New Zealand for privately owned residential units to be included within a pool of units that are centrally managed and made available for short term visitor accommodation. The Millbrook Resort is a good example in this regard. Experience shows that it can be challenging to raise the necessary capital investment for stand-alone visitor accommodation in New Zealand, and instead private capital is often employed, through individually titled and separately owned dwellings that make up the base of the visitor accommodation capacity when these dwellings are not being used by their owners.
- 160 Residential development would also help leverage Walter Peak's investment in food and beverage facilities at the Property. In future residents may utilise these outlets for their own dining and entertainment purposes.
- 161 In summary, investment in some form of limited residential development at Walter Peak in future will assist in meeting the costs of infrastructure, maintaining and improving the landscape and environment at the Property, assist the Property to expand its tourism-orientated offerings, and diversify the business base.
- 162 It is important to recognise that many of these investment requirements involve complex interdependencies. Investment in one aspect of Walter Peak may trigger investment in another. For example, any move to increase the on-site visitor capacity may require additional infrastructure and services such as electricity, water and wastewater.
- 163 A key feature of the investment profile at Walter Peak is the fact that it exists and operates on a stand-alone basis without any reliance on or recourse to existing QLDC infrastructure. Walter Peak is self-sufficient in every respect. By necessity, it has been designed as such, and the investment to date has ensured this remains the case.
- 164 Planning and justifying future investment at Walter Peak is a critical business issue for Wayfare Group given the substantial amount of money involved. Wayfare Group has demonstrated a long-term commitment to owning and operating Walter Peak as a key tourism

attraction within the Queenstown region. Throughout its ownership, Wayfare Group has also demonstrated that it has been a responsible owner, ensuring that its investment preserves and enhances the natural landscape and enables visitors to enjoy not only the dining options and farm shows, but also, if they wish, have a more immersive high country farm experience.

- 165 However, the Property does have alternative uses. Tourism does not necessarily represent the Property's highest and best use over the longer term. There are market indications suggesting that prospective buyers will pay high prices for so-called "trophy high country stations" such as Walter Peak. Some prospective purchasers will be non-residents, meaning they will need to first obtain approval from the Overseas Investment Office, however there is ample precedent for this being achieved.
- 166 If the Property was acquired for an alternative use, whether as a private residence or simply for farming purposes, then there is no guarantee that the same sorts of enhanced economic or environmental outcomes will be realised, as can be the case through a diverse tourism-orientated focus. Wayfare Group has amply demonstrated through its ownership of Walter Peak to date its commitment to enhancing the natural environment at Walter Peak and enabling widespread public use and enjoyment. A good example in this regard is the public camping ground where the Group constructed the access track, shelter and public toilets.
- 167 Much of the investment undertaken at Walter Peak does not deliver any direct or immediate financial return. For example, more than \$500,000 was spent on the removal of pine trees on the peninsula, which is an environmental improvement in that it removed a wilding pest but adds nothing to the financial returns for Wayfare Group. Similarly, conversion of electricity generation from diesel-fired to solar or wind sources will be costly with no immediate net financial return. Wayfare Group has a demonstrable history of undertaking such investments at Walter Peak to enhance the natural features and attractiveness of the property in a manner that is sympathetic to the Property's rural alpine setting.
- 168 The fact that Walter Peak has a realisable market value by virtue of its alternative use is a relevant consideration for Wayfare Group and heightens its emphasis on maximising the Property's tourism potential, which in turn means that all capital expenditures proposals for the Property are subject to careful scrutiny. Without ongoing investment in the Property, it will gradually lose some of its tourism appeal, hence

ongoing investment is a necessary part of Wayfare Group's ongoing ownership and use of the asset for its current purpose.

- 169 Walter Peak is a comprehensive, integrated and self-contained tourism attraction. It is managed as such currently, and its investment requirements need to reflect both this aspect coupled with the need to maximise its future potential as a tourism asset.
- 170 As is evident from the list above, the future range of investment requirements at Walter Peak is extensive. Whilst all the different categories of investment are foreseeable, the final nature and timing of individual investments cannot be accurately determined at the present time. Instead, it is important for Wayfare Group as owner to have full flexibility and confidence in its ability to undertake the necessary investment as and when circumstances and market opportunities dictate.
- 171 Wayfare Group therefore has a critical need for ongoing planning certainty in order to justify major capital expenditure decisions at Walter Peak. Many of those investment decisions will only be justified if Wayfare Group has confidence in its ability to carry out further investments in future to maximise the long term returns from the Property. Many of the investments require substantial upfront capital expenditure, with the benefits only being derived over the longer term. For example, investment in alternative solar or wind powered electricity generation, or a replacement wharf, will not, of itself, deliver any additional revenue at Walter Peak in the short term, but over the longer-term such investments are almost certain to be required given the Group's emphasis on environmental sustainability and best practice.
- 172 Wayfare Group also requires a planning regime applicable to Walter Peak that enables the Group to plan and operate this attraction in a manner that is nimble and flexible. This enables Wayfare Group to readily adapt the Walter Peak business to new tourism trends, not all of which are readily foreseeable, and thereby ensure that the business operated at Walter Peak will not only survive but thrive, especially if there are further setbacks affecting New Zealand's tourism industry.
- 173 I believe that the situation at Walter Peak and its investment profile are similar to those which exist at ski areas, including the two which Wayfare Group operate, being Cardrona and Treble Cone. Walter Peak and these ski areas are all capital intensive businesses. They require large upfront capital investment (such as the new amphitheatre at Walter Peak or the new Soho basin chairlift at Cardrona ski area) but where the

amount future incremental revenue that can be directly attributed to the investment is uncertain and will take time to materialise.

- 174 Similarly, such businesses occupy specially designated areas, and Wayfare Group, as owner, requires the ability to adopt a comprehensive and cohesive approach to overall management of the asset, which in turn entails having certainty around the planning regime such that the Group can confidently plan for a reasonably foreseeable range of future capital projects that will be undertaken in accordance with future customer preferences and market demands as and when required.
- 175 Another parallel between Wayfare Group's ski areas and Walter Peak is the way in which the Group has adapted the product offering at its ski areas to suit customer preferences and make these operations more economically viable. For example, at Cardrona the food and beverage offering has been substantially enhanced to cater for a wide variety of tastes and budgets. Cardrona has also invested in the chondola to cater for guests who prefer sightseeing or don't like a chairlift and introduced mountain biking as a summer activity, utilising its chairlifts to provide the uphill transportation of riders and their bikes, thereby enabling the facility and its infrastructure to be used on a year-round basis.

Employment

- 176 Over the peak summer season the combined operation of Walter Peak and the TSS Earnslaw employed a total of approximately 100 staff, with a permanent staffing complement of approximately 60. Roles include the TSS Earnslaw's skippers, stokers and other crew members, the farm manager and farming team at Walter Peak, the executive chef and kitchen team at Walter Peak, front of house hosts at Walter Peak, operations management supporting both Walter Peak and the TSS Earnslaw, engineering staff and other management support personnel.
- 177 The Covid-19 induced downturn forced some retrenchment of the business and some staff redundancies occurred. This reflected the fact that Walter Peak was closed for three months during 2020 (April, May and June) and experienced drastically reduced volumes over the balance of 2020 and through into 2021 due to the absence of overseas tourists. Walter Peak has also been closed for the May/June 2021 period.
- 178 In addition to the staff directly employed at or in connection with Walter Peak, Wayfare Group employs a large number of personnel situated in its Queenstown and Te Anau offices / operations who provide a range of support services for Walter Peak, such as accounting and finance,

procurement, marketing, HR, IT, engineering support and senior management.

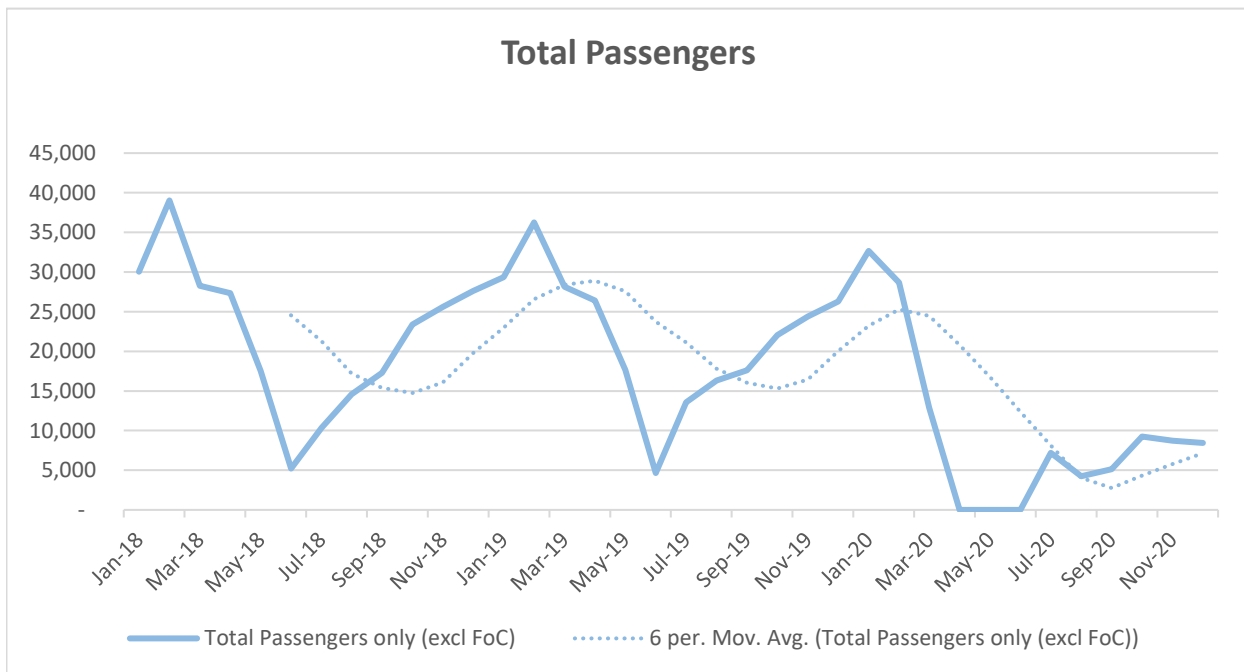
- 179 Although the entire tourism sector will gradually recover, it is not expected that the industry will quickly if ever, return to how it was operating in the pre-Covid-19 era. Instead, for the reasons set out above, there will be a greater focus on driving value from tourism activity rather than relying so much on increasing volumes of tourists. Nonetheless, Wayfare Group expects to rebuild its staffing complement at Walter Peak as the business gradually rebuilds.
- 180 When the Walter Peak business diversifies its activity base and provides a broader range of facilities, attractions and activities for its guests, as has been described earlier in my evidence, then this in turn will lead to a need for additional staff to support these areas of the business.
- 181 Wayfare Group has always placed significant emphasis on staff training and internal skill development amongst its people. As noted earlier in my evidence, the Group runs nationally recognised qualification programs across a number of professions, particularly maritime roles.
- 182 Wayfare Group is very conscious of the need to drive enhanced productivity from all its business units, and in this regard Walter Peak is no exception. Achieving this objective will drive additional investment in capital assets and technology, along with skill development amongst all its staff.
- 183 By virtue of the Group's overall scale of operation and the fact that its portfolio includes well-established and successful businesses such as Walter Peak, Wayfare Group is able to provide employment opportunities for more highly skilled and consequently highly paid staff located in Queenstown and nearby areas, such as in its accounting, engineering, marketing, IT and HR support functions.
- 184 Wayfare Group's senior management roles, including its Chief Executive Officer, Chief Financial Officer, Sales Director, Commercial Director, and Cardrona Alpine Resort General Manager are all based in the QLDC region. This further demonstrates the Group's commitment to the QLDC region.
- 185 It is also notable that unlike many other tourist attractions in the QLDC region, Walter Peak provides a substantial amount of its own on-site staff accommodation with beds for 20 staff as well as plans for additional staff accommodation. This helps to alleviate the pressure that exists within

central Queenstown for accommodation suited to those who work in the tourism sector.

David Bridgman

Dated this 28th day of May 2021

Attachment 1

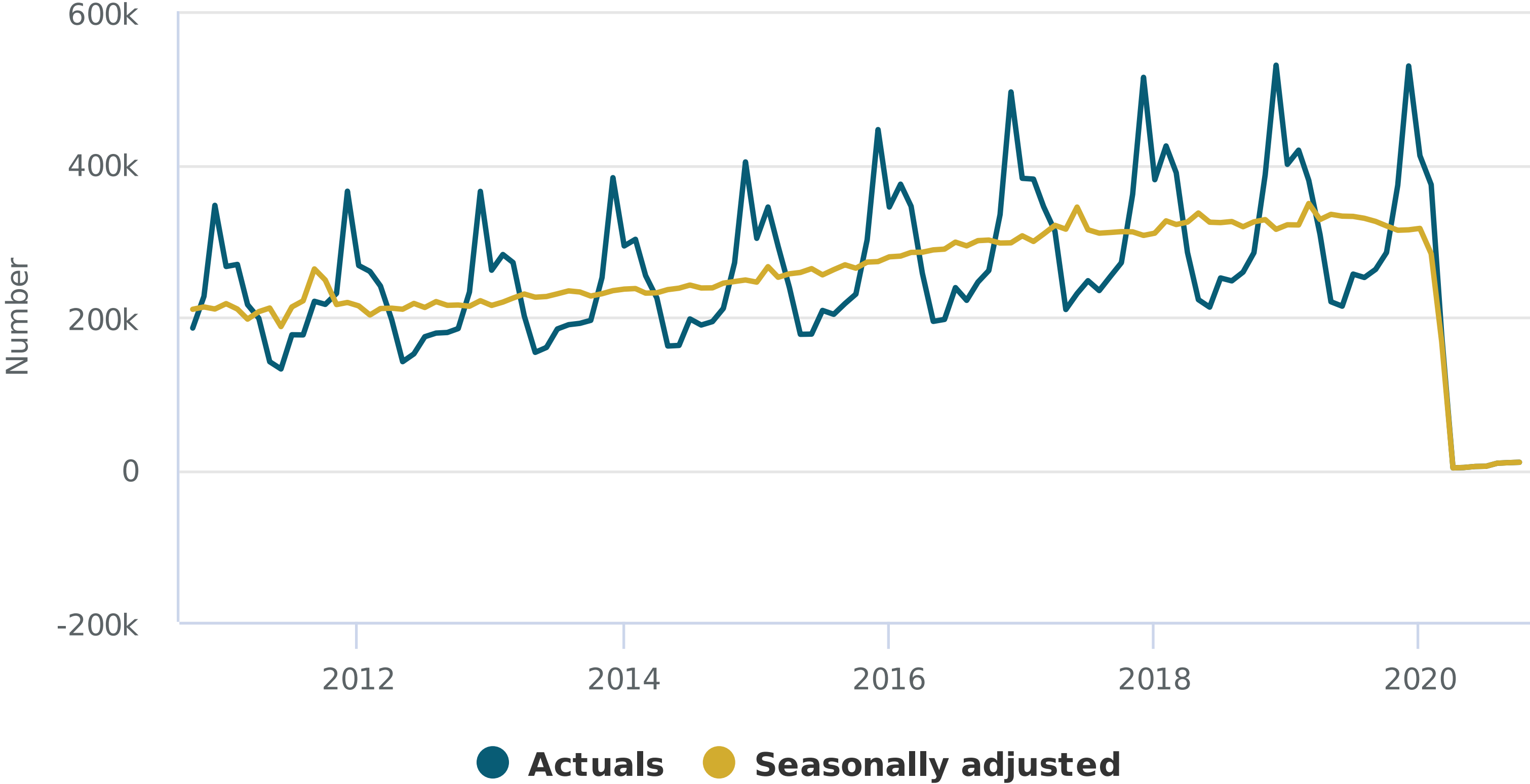


Source: RJL management information

Customers by country of origin						
Financial year ending	2018		2019		2020	
30 September						
NORTH ASIA	105,371	39.8%	106,565	39.7%	53,852	32.7%
DOMESTIC	49,552	18.7%	53,026	19.8%	43,739	26.6%
AUSTRALIA	46,391	17.5%	45,070	16.8%	23,750	14.4%
AMERICAS	23,409	8.8%	22,130	8.2%	15,444	9.4%
SOUTH ASIA	15,139	5.7%	13,258	4.9%	5,938	3.6%
UNITED KINGDOM	8,269	3.1%	9,275	3.5%	6,331	3.8%
EUROPE	7,942	3.0%	9,247	3.4%	7,679	4.7%
OTHER OVERSEAS	3,606	1.4%	6,408	2.4%	5,066	3.1%
JAPAN	3,334	1.3%	3,085	1.1%	2,501	1.5%
Unknown	1,823	0.7%	212	0.1%	228	0.1%
Total	264,836		268,276		164,528	

Attachment 2

Monthly overseas visitor arrivals, October 2010-2020



Attachment 3

Arrivals Peoples Republic of China

