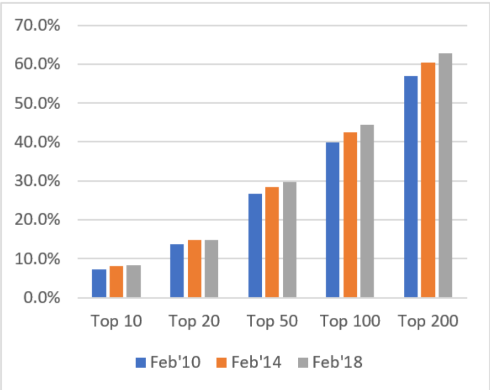
RUSSELL CORPORATE ADVISORY
INFLECTION POINT
powered by Astute business intelligence
AUG 2018

Clubs are having mixed success with their efforts around revenue diversification. The reality is that Gaming, and its 55%+ margin, is the engine room that drives most Clubs and will continue to be for some time. With Pubs taking the lion share of the State growth, what are the numbers showing us about the direction Clubs are going? This month's 'Inflection Point' uses the quarterly Venue Ranking publications as a catalyst to see if size matters.



Methodology – using OLGR Club Rankings from February 2010, 2014 and 2018 we grouped venue by size and machine totals to derive the data and trends.

Figure 1.1 – the fall in venue numbers over the period is not matched by an equal decline in the number of machines. This has resulted in an increase in the average number of machines per Club. The growth is driven by the larger venues. From 2010 to 2018, the number of machines in the top 200 Clubs has increased from 57.0% to 62.7% of the total installed base. In the case of 2018, the remaining 900 Clubs accounted for the remaining 27.3% of active Gaming machine units.

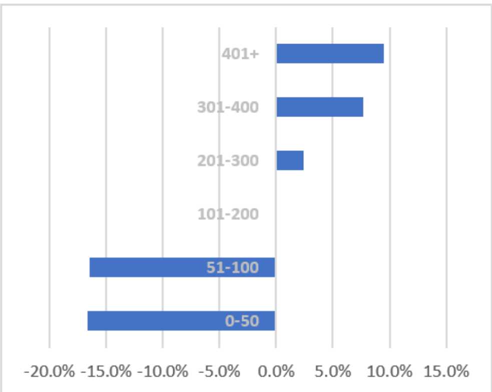


Figure 1.2 – as the concentration of machines has resulted in an increase of Clubs at the top end, this has been offset by a decline in the number of Clubs with less than 100 machines.

All Club closures (178) between 2010 and 2018 were venues with less than 100 EGMs. As the 101-200 bracket remained stable, one may assume this is the 'fire break' line of sustainability for venues. If this line starts to recede in the next 2 years, this would indicate scale can only be achieved higher up the food chain.

Conclusion – Clubs in 2018 are at the crossroads. Venues are trying to become less reliant on Gaming, and in most cases, the best assets they possess are the land they own and the license they possess. We believe the future is as simple as 3 options – get bigger, get with another Club to get bigger or transform the business where the Club is secondary in the long run.

JULY 2018 GAME PERFORMANCE – games released in last 12 months, sample of 5+ units

NSW

Game Name	Manufacturer	Avg. vs Floor	Sample
GOLDEN CENTURY DL	Aristocrat	2.19	122
GOLDEN CENTURY DC	Aristocrat	2.17	253
HAPPY & PROSPEROUS DC	Aristocrat	2.07	238
HAPPY & PROSPEROUS DL	Aristocrat	2.01	112
PANDA MAGIC DL	Aristocrat	1.95	111
AUTUMN MOON DC	Aristocrat	1.86	209
AUTUMN MOON DL	Aristocrat	1.60	65
MIGHTY COINS MIGHTY DRAGON	Aristocrat	1.44	29
PC OPAL EDITION	Aristocrat	1.37	124
MIGHTY COINS WEALTHY TIGER	Aristocrat	1.31	22

QUEENSLAND

Game Name	Manufacturer	Avg. vs Floor	Sample
SPRING FESTIVAL DL	Aristocrat	2.19	156
PEACOCK PRINCESS DL	Aristocrat	2.12	141
PEACOCK PRINCESS DC	Aristocrat	2.01	14
WILD COUNTRY - CASH CONNECTION	SciGames	1.73	7
SWEET TWEET - CASH CONNECTION	SciGames	1.62	14
SPRING FESTIVAL DC	Aristocrat	1.55	16
WEALTHY MONKEY THUNDER ARROW	Konami	1.15	13
5 DRAGONS EMPIRE	Aristocrat	1.14	18
PROSPERITY PRINCESS	Aristocrat	1.13	7
FORTUNE FURY	IGT	1.09	28

If Loyalty costs and RTP retention are an issue at your venue, a review for less than $2,500 could be the solution to getting things back on track. Contact Terry O'Halloran on 0426 468 738 or terry.ohalloran@rusellcorporate.com.au to discuss your options.

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MANUFACTURER DEMOGRAPHIC APPEAL

Any number of people with a greater understanding of Gaming floors than I have looked through a variety of lenses over the years to identify 'lead indicators' of performance. Besides the obvious metrics of turnover and net, what are the lead indicators for Manufacturer success? How do we measure the appeal of each Manufacturer? Knowing who they appeal to and when contributes to floor layout and grouping is an important component and is that desired 'second level' of understanding that becomes the IP of that venue.

While I will concede 'time on device' and such metrics are very secondary, the insights can provide more input to the eternal search of the 'perfect product mix' on any given floor. Below is another metric derived from the AstuteBI data store that identifies minutes and sessions by Manufacturer.

AGE	MANUFACTURER	Minutes/Session
Under 35	Advanced	9.73
	Ainsworth	7.34
	Aristocrat	9.78
	Aruze	9.61
	Atlas	7.89
	IGT	10.06
	Konami	7.79
	SciGames	14.38
	Weighted Avg.	**10.26**
35 - 49	Advanced	10.36
	Ainsworth	10.74
	Aristocrat	13.13
	Aruze	12.73
	Atlas	9.93
	IGT	14.57
	Konami	9.86
	SciGames	17.51
	Weighted Avg.	**13.45**
50 - 69	Advanced	10.83
	Ainsworth	12.57
	Aristocrat	14.75
	Aruze	14.68
	Atlas	11.04
	IGT	17.10
	Konami	11.34
	SG	18.11
	Weighted Avg.	**14.92**
70 +	Advanced	13.12
	Ainsworth	12.10
	Aristocrat	15.16
	Aruze	14.64
	Atlas	12.15
	IGT	17.24
	Konami	11.96
	SciGames	15.40
	Weighted Avg.	**14.75**

Methodology: By dividing over 200 million minutes by the 14 million sessions from Q2 2018 [Apr/May/Jun], we can compare the average time per gaming session on each manufacturer across age groups (left) and by Gender (below). The number reflects the average number of minutes a player will have on a game released by that Manufacturer. It considers carded play only, and includes all games currently installed in the market.

Observations: the peak time in each session is the 50-69 age group (14.92 minutes per session) is almost 40% more than the under 35 age group. Another way to phrase that is that you have a smaller window of opportunity to 'impress' someone in the younger demographic. SciGames and IGT are the top 2 Manufacturers by this metric, with Aristocrat a good stretch behind – so is that a good thing or bad thing?

When considering Gender, IGT and Ainsworth have the widest gap between Female and Male minutes per session (17%+). The female demographic had a higher rating across every Manufacturer.

MANUFACTURER	GENDER	Minutes/Session
Advanced	Female	11.58
	Male	11.43
Ainsworth	Female	12.73
	Male	10.85
Aristocrat	Female	14.69
	Male	13.07
Aruze	Female	15.07
	Male	13.40
Atlas	Female	11.82
	Male	10.54
IGT	Female	17.79
	Male	15.15
Konami	Female	11.85
	Male	10.63
SciGames	Female	16.83
	Male	16.28

The secret to Aristocrat's overwhelming success may lie in occupying the middle ground, the chunky bit of the bell curve if you will. Alternatively, IGT's performance correlated to these numbers may be accidental or a key indicator of a place to start arresting poor performance.

Conclusion: Club revenue is still heavily reliant on Gaming revenue, and while the push for revenue diversification is on in earnest, the industry is best served when Manufacturers provide a diversity of product that appeals to the widest market possible. Having product development work in concentric circles is not healthy. I have long advocated venues to hold some under performing product as 'loss leaders' so stand alone, and less volatile games can grow and develop rather than be converted 3 months in.

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Kicking off September 19 at Norths in Cammeray, RCA in conjunction with the CMA present GAMING GOLD, a one-day Gaming course that is designed to bring a Finance focus to Gaming, Marketing and Loyalty, as well as Insights and trends across a range of markets.

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for more details, email info@russellcorporate.com.au

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"An intensive one-day masterclass focused on the business of Gaming. Understand the finance of running a Gaming floor, how to identify the competitive pressure points and the contributing factors that determine success"

With 7 dates and locations on the card, this course will seek to elevate the knowledge of Gaming, Finance and Management alike.

Wednesday, September 19 Norths [Cammeray, Sydney]	**Wednesday, September 26** Warilla Bowls [Warilla, Illawarra/South Coast]	**Thursday, October 18** Diggers @ the Entrance [Entrance, Hunter/Central Coast]
Tuesday, October 23 Armidale Ex Services [Armidale, New England]	**Thursday, November 8** Wenty Leagues [Wentworthville, Sydney]	**Thursday, November 15** Moama RSL [Moama, Riverina/Victoria]
Tuesday, November 20 Bathurst RSL [Bathurst, Central West]	To register your interest, email terry.ohalloran@russellcorporate.com.au for more details	

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