RUSSELL CORPORATE ADVISORY

INFLECTION POINT

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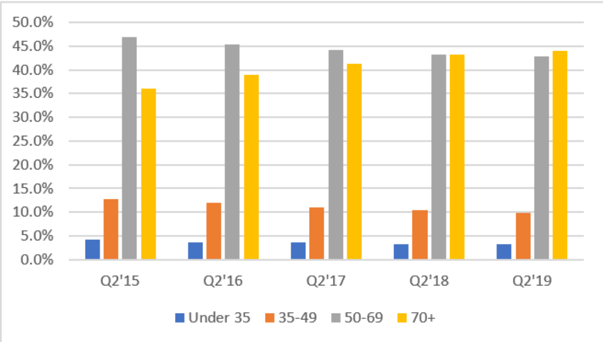
AUG 2019

Clubs have invested enormous time and effort to engage younger markets through, food, beverage, entertainment and other activities over the last 5 years. In this same period, Pub performance has rocketed ahead with growth averaging around 5% a month (year on year) over the last 18 months, so where does that leave Clubs? The older age demographics are still the bedrock of Clubs, and RCA data has demonstrated how the average age continues to climb. Current trends show the extent this has continued and is expected to continue in the short term.

NSW	Minutes Played				
Age Range	**Q2'15**	**Q2'16**	**Q2'17**	**Q2'18**	**Q2'19**
Under 35	4.3%	3.7%	3.7%	3.2%	3.3%
35-49	12.8%	12.0%	11.0%	10.4%	9.9%
50-69	46.9%	45.4%	44.1%	43.2%	42.8%
70+	36.0%	38.9%	41.2%	43.2%	44.0%



Using minutes played as a proxy for Club engagement and visitation, we have tracked the breakdown of minutes representation by each age group over the last 5 periods. This allows us to track the year on year change and determine when the tipping point may happen. With the 70+ bracket growth slowing, this would be reasonably expected to plateau at ~46% in the next 2 years. Anything beyond that should serve as a warning to Clubs.

From Q2'15 to Q2'19, the 70+ age bracket share of all carded minutes played has gone from 36% to 44%. As a multiple of the 50-69 age bracket, this has moved from 75% of the 70+ age bracket in Q2'15 to 103% in Q2'19. While life expectancy in the western world is growing, this rate is far higher than the national rate of increase.

Method: minutes played as a share of all reported minutes played in the relevant quarter. All numbers are carded play from NSW Clubs only.

So how does an aging customer base effect Clubs? The largest impacts are macroeconomic in their nature. Based on the numbers above, one could draw the conclusion that over 50% of gaming patrons are retired (or at least beyond the retirement age), meaning discretionary income is funded primarily from savings or social security payments. Referencing www.tradingeconomics.com, there are some key numbers which explain why this demographic are facing some economic challenges at the moment which may affect some Clubs with large representation of older people in the LGA are surrounding areas.

Data Point	Month	Value	Club consequences
Cash Rate	Jul '19	1%	Low interest rates to fund retirement
Unemployment	May '19	5.2%	Steady, but forecast to start increasing in coming quarters
Inflation	Mar '19	1.3%	Minimised price rises
Business Confidence	Jun '19	2 index points	Will possibly dampen investment sentiment
Consumer Confidence	Jun'19	101	Values over 100 indicate positive confidence – good for Clubs
Retail Sales	May '19	-10.6%	An indicator of discretionary spend sentiment

Conclusion: the 'price' of playing a gaming machine is often seen as the maximum of number of lines to cover all multiplied by the denomination. As products evolved from 3 to 5 to 9 to 15 to 20 lines all the way up to 100, the cost of a player to cover all the lines increased exponentially. The market has settled back to 50 credits, which for income strapped people (in a flat market) is a price that is affecting their experience. Trends change, and gaming product design is dictated by performance, which is dictated by the top players. The committed top player seeks risk more than the social player, so games are taking on more of that persona as the market develops. Club analysis is still largely centred around turnover and net. The story of declining occupancy is starting to form now and is pointing to a greater reliance on top end players, a declining engaged player base and changes in cancelled credits and turnover to cash clearance ratios. A mindset change by Clubs must commence to reverse this trend and look at the gaming floor in a different way.

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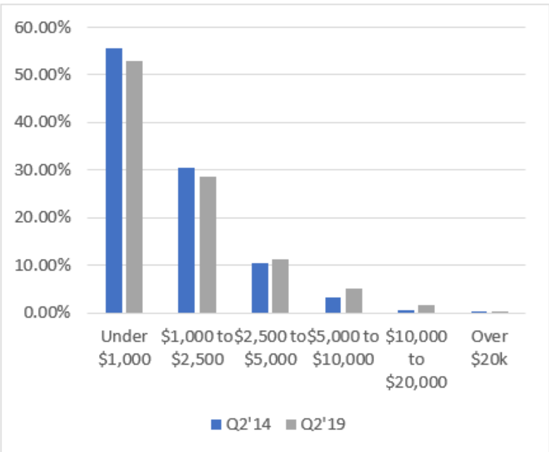
SANCTUARY, GAMING FLOOR ANALYSIS AND 3 POINT HEALTH CHECK – *By Terry O'Halloran*

With game volatility on the rise and a certain homogeneity around product design at present, attention should be paid to the possible effects on the player base. Elaborating on descriptive player terms used by UNLV Research, we can construct a gaming room visualisation based on 3 key areas – contribution, participation and representation. The table below is a visual representation of key player group's distribution in these areas. Contribution is the financial impact the group make as a whole; participation considers the group multiplied by visitation frequency and representation is the volume of the group's population.

	Contribution	Participation	Representation
All-in enthusiasts	EXTREME	MODERATE	LOW
Motivated enthusiasts	VERY HIGH	HIGH	MODERATE
Social exuberants	HIGH	HIGH	HIGH
Practical part-timers	MODERATE	HIGH	VERY HIGH

So, what does this mean for a gaming floor? If we take the 'Practical part-timers' as risk averse players, looking for 'time on device' and a level of entertainment, then their presence in any gaming room creates the atmosphere that hospitality needs. Like an empty restaurant or bar, an empty gaming room is not inviting nor anonymous. Gaming analysis has been almost focused solely on the contribution metrics of turnover and net, with limited analysis given to participation (subset of membership, engagement) or representation (minutes played).

NSW	Avg. Daily TO	
Age Range	**Q2'14**	**Q2'19**
Under $1,000	55.45%	53.01%
$1,000 to $2,500	30.35%	28.58%
$2,500 to $5,000	10.34%	11.33%
$5,000 to $10,000	3.25%	5.17%
$10,000 to $20,000	0.57%	1.66%
Over $20k	0.04%	0.03%



The table to the left details the minutes played by each level of average daily turnover value per player. It shows the contribution changes from Q2'14 to Q2'19. Some growth in the upper echelons is masking reported decreases in player numbers. Each player band is a part of the ecosystem of a gaming floor that makes up the whole.

If this was to be represented like a fruit salad – the top tier of players is akin to the mango, strawberry or kiwi fruit. Presented conspicuously on the top but limited in quantity and volume. As we move down the pecking order, the bulk of the fruit salad is represented by 'lesser fruits' in the melon family. This bulks up the fruit salad and validates the price charged, but it is not the prime economic driver of the fruit salad sale. Player analysis is based on the value of revenue where the top players are almost exclusively focused on. Little analysis is given to the intrinsic value of the lower bands, but their participation is important to the ambience of a floor.

If we can appreciate the importance of a large player base ('total addressable market'), and how to market segment successfully by modifying our analysis methods, then creating areas of the floor that appeal to the less risk seeking player makes sense – a 'sanctuary' of sorts. The notion of a sanctuary area requires an appreciation of why it is needed. With most Clubs having an average occupancy of less than 35% with limited peak occupancy hours of 60%+, we have what is called 'latent supply' of operating machine hours. The key to using this supply in a smarter way is to attract a market that Clubs rarely analyse or discuss. By developing a specific area of lower volatility product, we need to reset the analysis goalposts and understand how different metrics contribute to a wider success. If Clubs develop market segments to drive visitation, manufacturers will follow suit and develop products for those segments.

APEX VOLATILIY RATING

To assist Club's in understanding the impact of games on the floor, the appeal to player types and market segmentation, Russell Corporate Advisory have developed the 'Apex Volatility Rating' system that uses venue specific data to rank games from least to most volatile based on their specific player preferences and habits.

The development of 'low-volatility' gaming areas for players seeking entertainment and less risk will become important for venues moving forward. Market segmentation moves beyond gender and age into more data driven designs based around player preferences. Email: terry.ohalloran@russellcorporate.com.au for more details

While there are any number of metrics to gauge the performance of gaming in a venue, we consider some key numbers to conduct a health check of your engaged player base. Key health checks to conduct include;

1. Look at turnover from a recent quarter and divide it by cash clearance (no ticket, no cashless) then compare this to a corresponding quarter from 3 years prior. If there is a decline in that number by more than 10%, then your floor volatility level has increased dramatically and may need to be addressed.
2. If the total number of unique, engaged players has reduced from the last quarter to the corresponding number of players 3 years ago by 5% or more, that is a warning sign and needs further investigation (assumes carded play is at the same rate).
3. If revenue contribution from your top 20 (small Clubs), top 50 (medium Clubs) or top 100 (large Clubs) has increased from the last quarter to the same quarter 3 years ago, then this also requires some investigation.

Conclusion: a change in approach requires a renewed mindset, analysis skillset change, experimentation and a desire to frame a different outcome. In identifying these segments, Clubs are engaging in 'brand activation' which decays slowly and maintains player acceptance longer. The alternative is to continue to drive top end business with promotions, the marketing equivalent of 'sales activation' which decays quickly. With the Pub performance improvement looking to continue for some time, the opportunity to reset the way Clubs segment players and engage them based on product preferences is the chance to use scale and size as a competitive advantage.

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