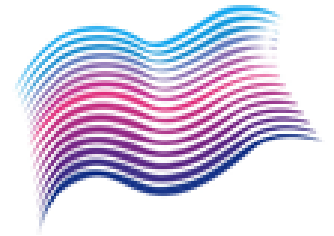


**RUSSELL
CORPORATE
ADVISORY**



RSL & SERVICES CLUBS

RSL and Services Clubs Association

Diversification Workshop

October 2019

Greg Russell and Harry Harris

Content

This workshop will examine the factors to consider in achieving income and profit diversity and will examine the implementation alternatives that should be engaged to achieve business diversification.

Understand the steps that must be undertaken before your club commits to new investments and be clear on the objectives and purpose of the enterprise.



Diversification Opportunities

- Under-utilised Assets
- Land Assets
 - Can develop for profit / recurrent revenues – instant leverage
 - Sale can provide one-off capital gain that can be reinvested in the core business
- Areas within existing Club building
 - Do you have underutilised areas?

Diversification

Correctly identify drivers for diversification

- Risk management
- Gaming reliance
- Improved use of capital
- Responding to changing needs of community
- Diversity of income revenue or profit?

When is the correct time?

When is the core business viable?

Is there an overarching masterplan and strategy?

Beware of impact of accounting

Income or Profit Diversity?

We need to be clear in our objective

Is it a satisfactory outcome to diversify your income if none of that revenue sticks as profit?

Let's continue with that point.

Diversification Considerations



Diversification Risks

Accounting for costs WIP (work in progress)

Impact on EBITDA of development costs going to balance sheet

Particular project risks include:

- Approval risk
- Site risk
- Funding risk
- Sales risk
- Trading risk



Diversifying out of desperation is a recipe for disaster

INSIDE The Square

Are there opportunities within the business that can best utilise your team's existing skill set?

Is there still opportunity "inside the square" to turn "cost" centres into "profit" centres ?



Outside the Square

- “Diversify”; “Think Outside the Square”
- Consider this:
 - What skills do you have within your organisation to develop new revenue streams?
 - Will it contribute or absorb cash, will it make make a profit!
 - What would you & your team’s skills be best suited to?
 - Can new skills be acquired or obtained
 - Note comments from survey findings

Take a look at numbers

- [revenue mix example.xlsx](#)

- We will play with these numbers in the workshop

							asset value	\$ 20,000,000		
Annual Revenue		\$ 9,000,000		\$ 7,817,978		\$ 8,788,228		\$ 900,000		\$ 26,506,2
Costs										
COGS			38%	\$ 2,970,832	35%	\$ 3,075,880				
Direct wages	7%	\$ 630,000	24%	\$ 1,876,315	40%	\$ 3,515,291				
Gaming Duty	26%	\$ 2,340,000		\$ -		\$ -				
Other direct overheads	10%	\$ 900,000	10%	\$ 781,798	10%	\$ 878,823	20%	\$ 180,000		
Energy	7%	\$ 630,000	10%	\$ 781,798	13%	\$ 1,142,470				
total direct costs	50%	\$ 4,500,000	82%	\$ 6,410,742	98%	\$ 8,612,463		\$ 180,000		
									Yield	
Contribution		\$ 4,500,000		\$ 1,407,236		\$ 175,765		\$ 720,000	3.60%	\$6,803,
		66%		21%		3%		11%		

Diversification

- Structure alternatives:
 - Owner and Operator – higher risk
 - Landlord (rental stream)



Business activity	Nature of Diversification	Club business model
Seniors Living	Landlord or Operator	Operator with employed specialist manager
Childcare	Landlord or Operator	Operator with employed manager
Aged care	Landlord or Operator	landlord
Carwash	Landlord or Operator	Operator with employed manager
Marina	Landlord or Operator	Operator
Cinema	Landlord or Operator	Operator with employed manager
Entertainment centre	Landlord or Operator	Operator
Accommodation hotel	Landlord or Operator	Operator with employed specialist manager
Serviced apartments	Landlord or Operator	Landlord
Retail shops or centre	Landlord or Operator	Operator with employed manager
Butchery	Landlord or Operator	Operator with employed specialist manager
Car wash	Landlord or Operator	Operator with employed specialist manager
Commercial Car park	Landlord or Operator	Landlord
Café and coffee shop	Landlord or Operator	Operator
Bowling alley	Landlord or Operator	Landlord
Medical centre	Landlord	Landlord
Gymnasium		Operator with employed manager

Seniors Living



Diversification Strategy

- Choice considerations:
 - Synergy potential
 - Enhance existing revenue streams
 - Ideally complement the Club's brand and culture (eg. Health, Sport)
 - attract people to the Club precinct (eg. shared car park facilities)
 - Reduce reliance on gaming revenue
 - Conformity with Club's Strategic Plan
 - Resources available?
 - Land / floor space available
 - Cash
 - Internal Skills and experience



Diversification - Planning

Code of Practice Guideline for Major Capital Works

Very useful planning reference document

Preliminary Appraisal

- statement of need, & how this will be achieved
- identify all realistic options
- cost benefit analysis for each, ensuring preferred option benefits warrant costs
- ability to pay

Research & Planning is vital

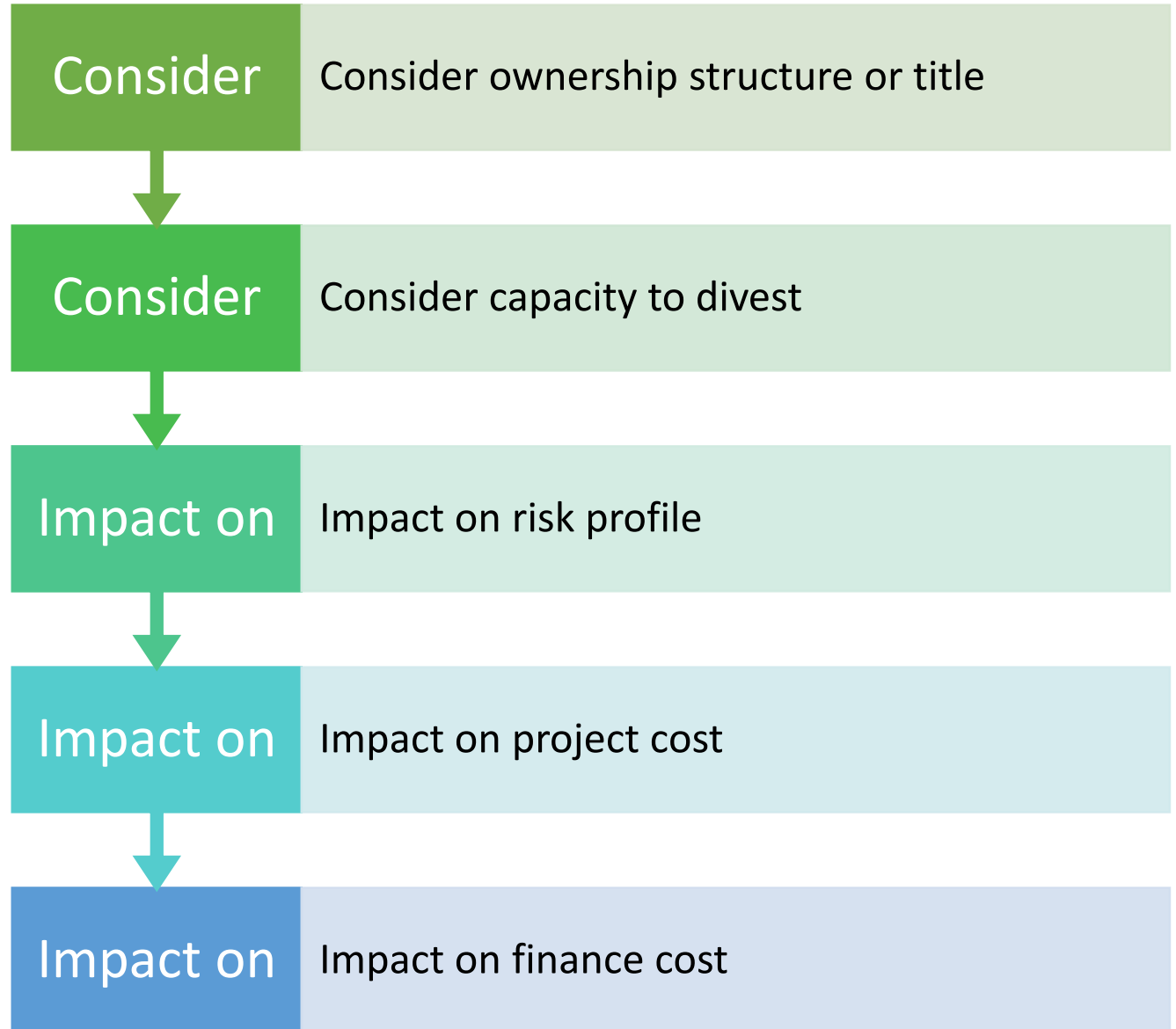
- Market Demand Analysis
 - Information from publicly available sources
 - Catchment area – LGA or Tourism Region
 - Existing and Future Supply
 - Existing Demand - revenue, fair share analysis
 - Projected Supply and Demand Models –
 - Is there a gap in the market



Diversification - Planning

- Detailed Appraisal
 - Detailed justification – including affordability, benefits to members & community, fulfillment of strategic objectives
 - Legal compliance
 - Town planning/land uses advice
 - Design details if applicable
 - Project management
 - Financial feasibility study – how will we pay for this project ? can we afford any associated borrowings ? can we demonstrate the viability of this venture?
 - Market demand study

Project Structuring



Diversification and Feasibility Studies

- Analytical processes which examine the viability of a concept or opportunity with emphasis on identifying potential problems to determine if a concept is likely to work and whether it should proceed.

Financial Feasibility



A financial feasibility study is dependant on a market study to validate revenue assumptions



Financial models range in sophistication depending upon the concept being tested and the nature of the organisation

Financial Risk Policies



Interest Coverage

The number of times the Club can meet its interest commitment. Usually expressed at EBITDA level as a "number of times coverage", say 3 times



Total Debt Level

The total level of debt is determined as a multiple of say EBIT, Eg. 6 times EBIT



These ratios are examples only and are based upon policies that are applied by banks & financial institutions from time to time.

Financial Feasibility

Projects may be funded through debt or cash reserves

Definition of criteria to be feasible must be clear

- Understand bank expectations for equity contribution
- return on capital
- return on assets
- payback period
- debt servicing capacity

Financial Feasibility

Projects may be funded through debt or cash reserves



Definition of criteria to be feasible must be clear

return on
capital

return on
assets

payback
period

debt
servicing
capacity

Financing

Separate core and non core assets

Cash flows from each business unit require analysis

Equity contributions to non-core business units may be required

Interest rate differentials may be negotiated depending on structure

Types of Debt



PROJECT OR
AMORTISING?



FORMULATE A POLICY
FOR DEBT



PLAN CONSERVATIVELY



ENSURE BANK
COVENANTS ARE
UNDERSTOOD.

Inflation

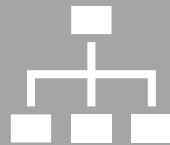
The Consumer Price Index (CPI) measures quarterly changes in the price of a 'basket' of goods and services which account for a high proportion of expenditure by the CPI population group (i.e. metropolitan households).

Long term projections need to factor the effect of inflation

Logic for a financial Model

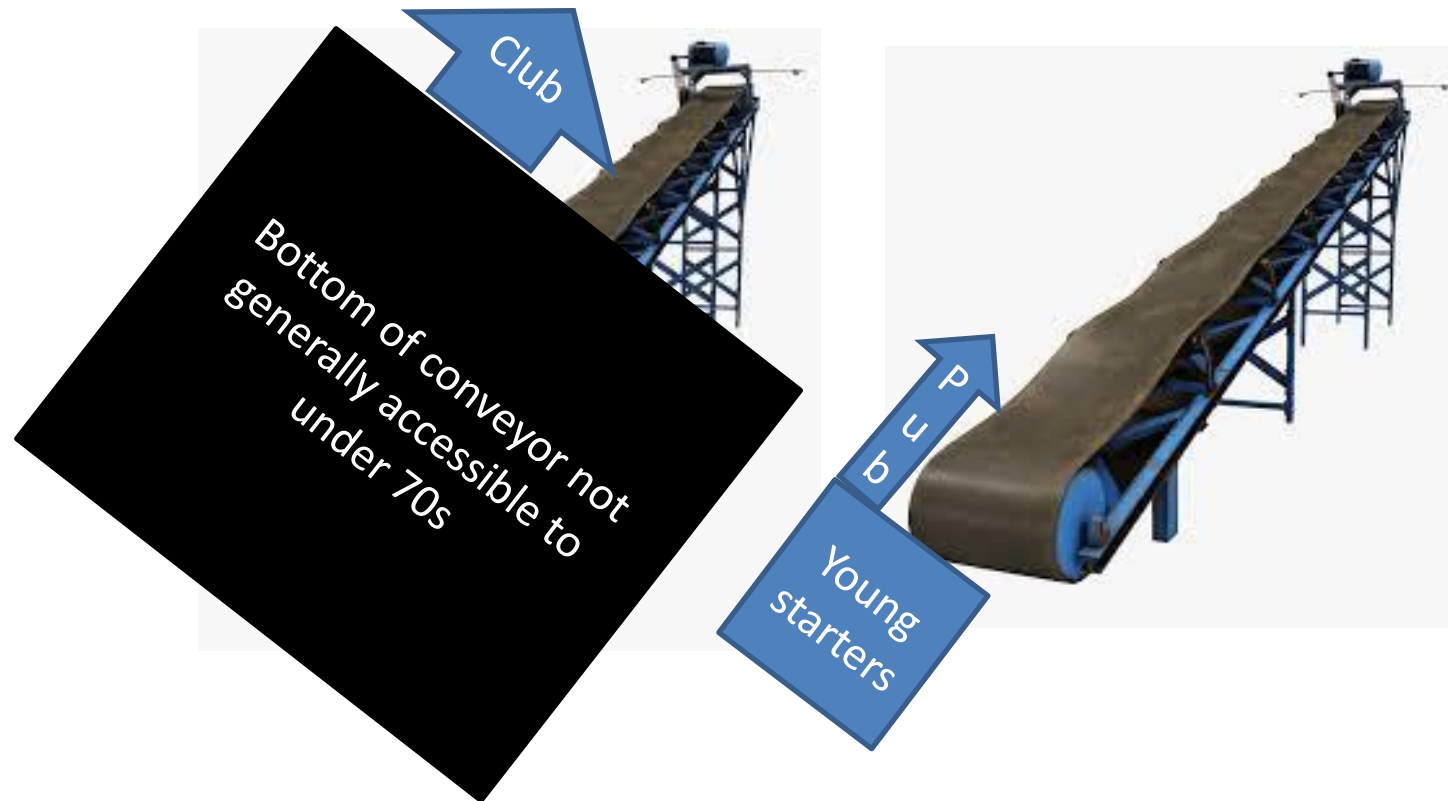


Key Assumptions must be supportable and reasonable



Fundamental assumption of appropriate ongoing management, marketing and governance generally.

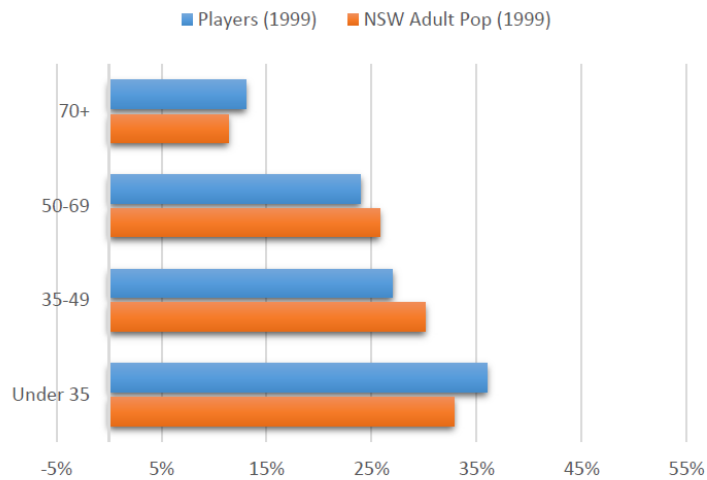
The Club and Pub Gamer Conveyor[©]



Gaming Trends

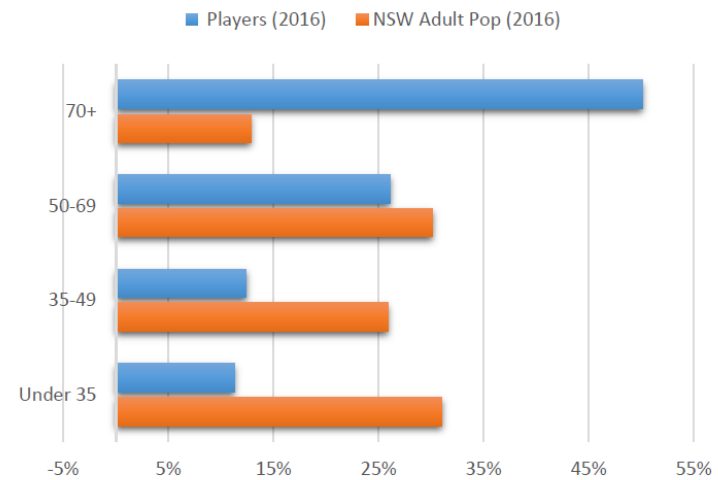
Changing Player Demographics

1999 – Club Player Profile



Source: 1999 Productivity Commission

2016 – Club Player Profile

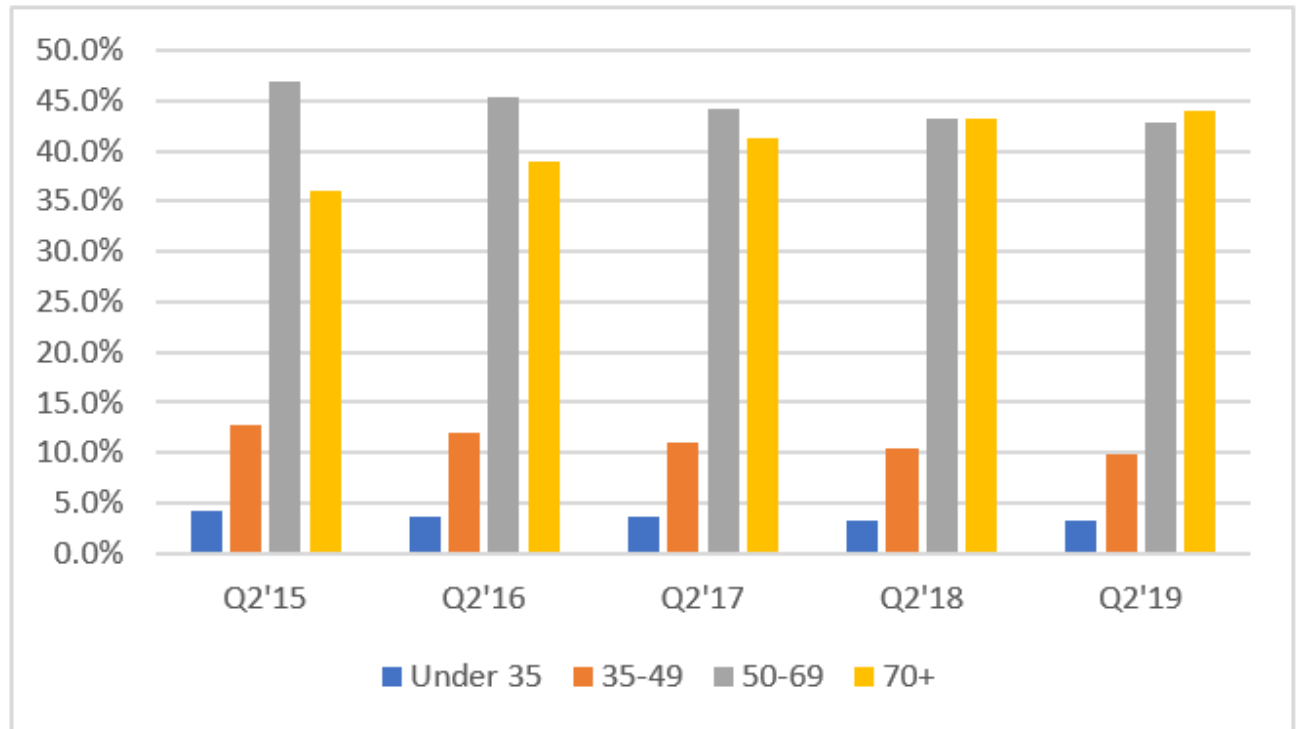


Source: Astute BI Data Cube, 2016

The Demographic Challenge

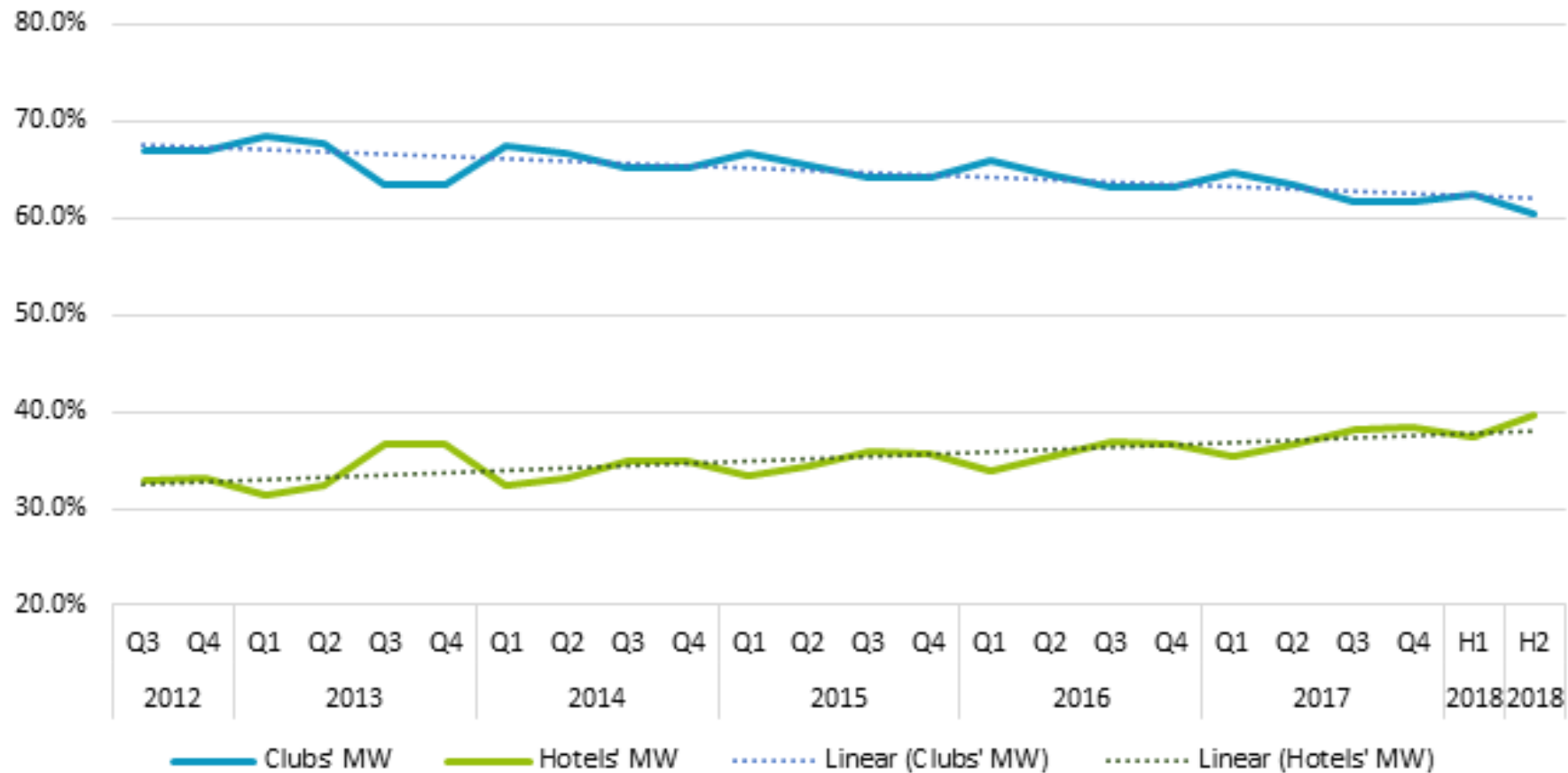
- The player base is getting older
- Life expectancy increasing
- Retirement funds are finite

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%



Gaming Trends

NSW Clubs and Hotels' MW Market Share



Summary

Diversification must be in context

Keep eye on the main game

Diversification as a short term saviour is a risky strategy

Your cash flow must be able to support independent advice in planning stages