

Ontario Bingo Revenue Model Review Results

Alcohol and Gaming Commission of Ontario
January 2007

Table of Contents

1. Introduction
2. Ontario's Bingo Gaming Sector
3. Methodology & Approach
4. Characteristics of Ontario's Bingo Gaming Sector
5. Assessment of Revenue Model Options
6. Recommended Revenue Model

1. Introduction

HLT has been retained to undertake a review of the current Bingo Revenue Model for charitable bingo gaming in Ontario.

The main objective of the review was to recommend an appropriate revenue model(s) for Ontario as it relates to bingo revenues, reasonable and necessary expenses, and profits for charities.

To fulfill this main objective, issues/areas that were investigated included:

- Verifiable bingo operation expense information by geographic location
- Assessment of the “reasonableness” of expenses
- Identification and assessment of bingo operation revenue streams
- Assessment of prize boards including determining factors

1. Introduction

Recommendation(s) regarding a new revenue model(s) were based on an analysis of the current state of bingo (as depicted by financial data collected from operators) and took into consideration:

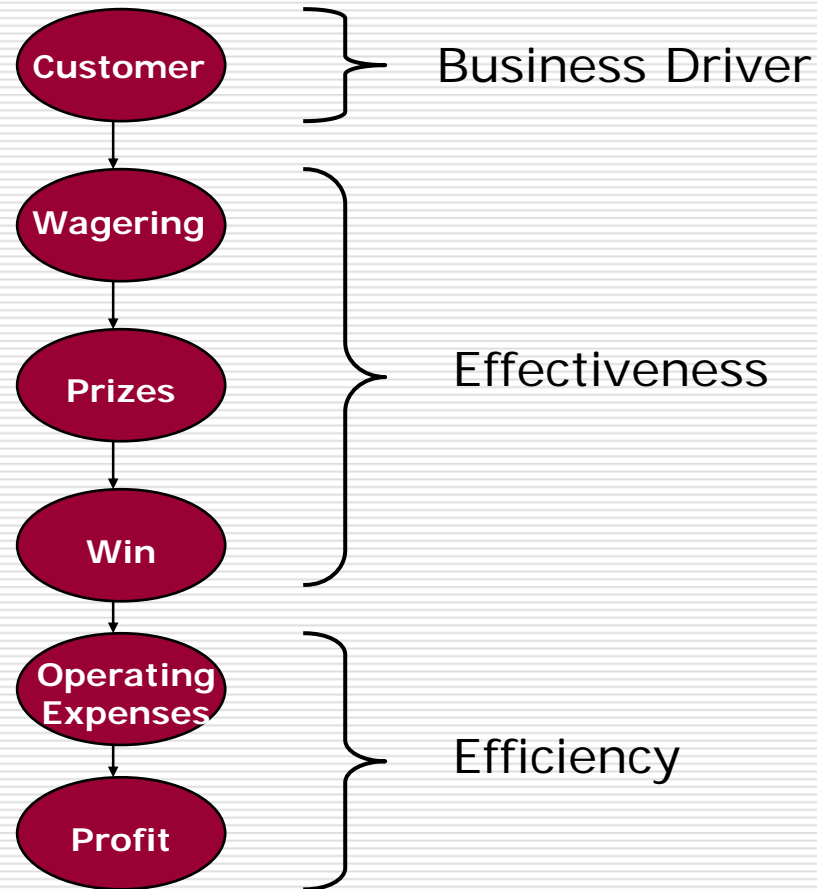
- Possible incentives and benchmarks to measure “success”
- Policy-based approaches to assessing and reviewing revenue model(s)
- Potential cost reductions that may result if changes to operations and/or regulatory structure are required to implement changes
- The need for more than one revenue model
- Standard reporting formats for monitoring and compliance

1. Introduction

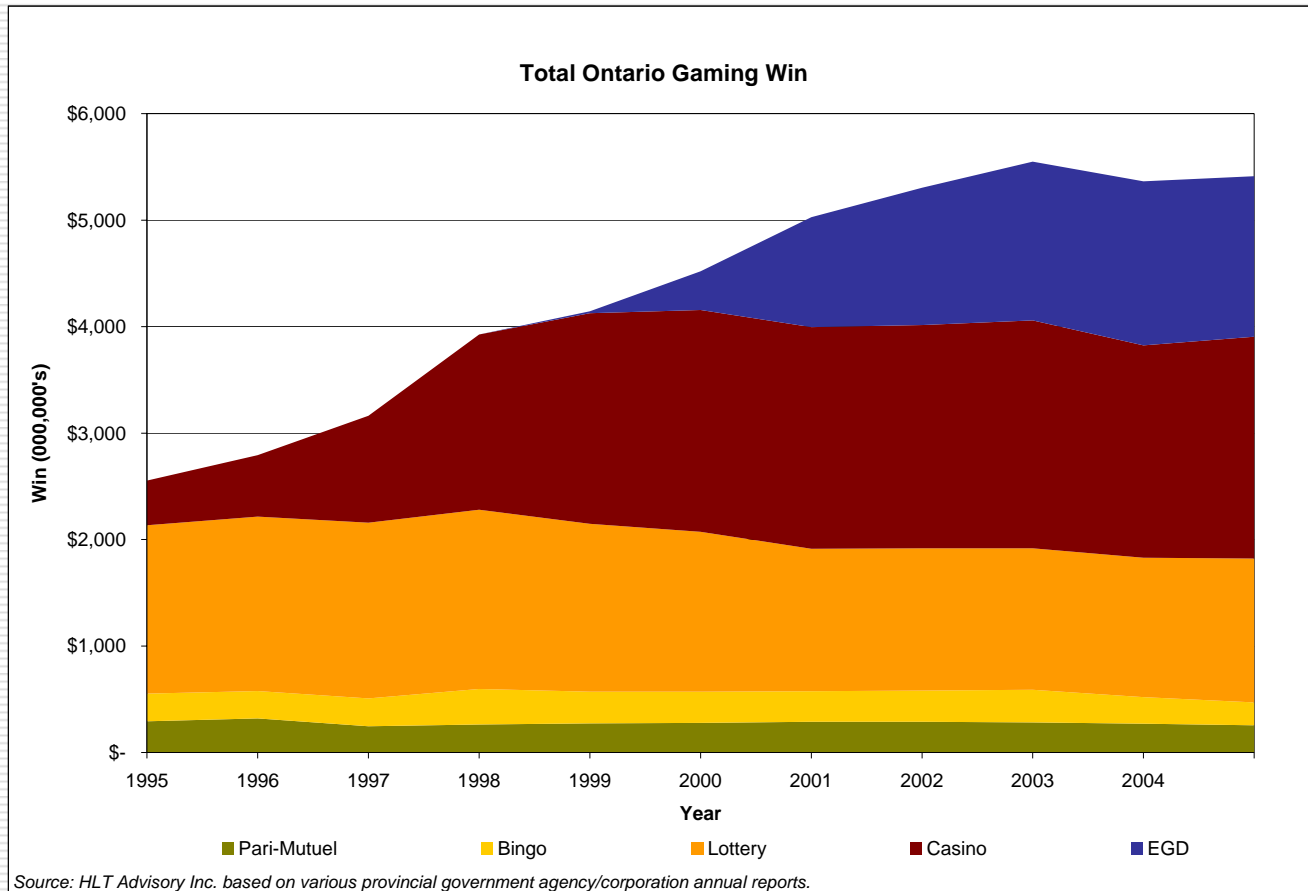
HLT Approach

All forms of gaming are dependant on customers ("business driver").

Bingo gaming can be financially successful when the gaming activity is appealing to customers (effective) and the business is managed profitably (efficient).

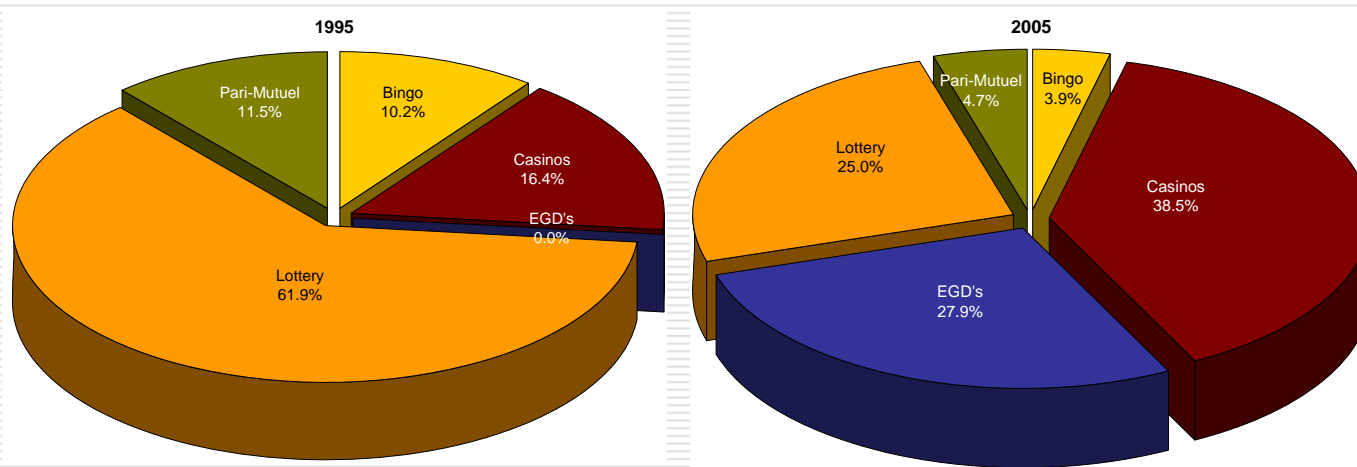


2. Ontario's Bingo Gaming Sector



2. Ontario's Bingo Gaming Sector

Ontario Gaming Industry Win Share by Sector



2. Ontario's Bingo Gaming Sector

Bingo is one of the oldest forms of legal gaming in Canada, including in Ontario. As other forms of gaming have been implemented in Canada and Ontario, bingo activity has generally been stagnant. This stagnant performance has led to a significant decrease in market share. HLT believes that this situation is indicative of both a decrease in the appeal of bingo to its core demographic player base and its historic narrow demographic appeal (i.e., small group of core players) as compared to other gaming sectors such as lottery and casino. For bingo gaming to maintain, let alone increase, its market share, it must both increase its appeal and expand its current player base.

3. Methodology & Approach



3. Methodology & Approach

Collected Financial Data- Summary

<u>By Bingo Halls</u>		
Total	102	100%
Total "Complete" Responses 2005 ¹	72	70.6%
Total 2005 "Complete" Bingo Wagering by Type Information	75	73.5%
Total 2005 "Complete" Hall Operator Income Statement	82	80.4%
Total "Complete" Responses 2004 ¹	75	73.5%
Total 2004 "Complete" Bingo Wagering by Type Information	75	73.5%
Total 2004 "Complete" Hall Operator Income Statement	80	78.4%

¹ The sample base for 2005 and 2004 is not the same (i.e., the 2005 halls do not necessarily match the 2004 halls).

<u>By Wager</u>		
Total 2005 Bingo Wager ²	\$ 994,700,000	
Total 2005 Respondents	\$ 745,850,779	75.0%
Total 2004 Bingo Wager ²	\$ 1,065,800,000	
Total 2004 Respondents	\$ 772,495,947	72.5%

² Based on AGCO estimate as presented in AGCO's Annual Report.

3. Methodology & Approach

"Useable" Collected Financial Data

Hall Groupings for Analysis Purposes

- Of the 72 halls that provided "complete" data in 2005, two have been excluded (one with less than \$1 million in wagering and, due to confidentiality, one unprofitable hall with over \$15 million in wagering).
- While direct comparisons between 2005 and 2004 data are not necessarily valid (see note below), more halls in the \$5M to \$10M and \$10M to \$15M ranges were unprofitable in 2005.

Size of Hall (Wagering)	2005 Data				Total
	\$1M to \$5M	\$5M to \$10M	\$10M to \$15M	>\$15M	
Profitable	7	19	10	14	50
Unprofitable*	9	6	5	-	20
Total	16	25	15	14	70

* negative EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization)
 "-" indicates that sample base is too small or data was not available.

Size of Hall (Wagering)	2004 Data				Total
	\$1M to \$5M	\$5M to \$10M	\$10M to \$15M	>\$15M	
Profitable	10	20	15	15	60
Unprofitable*	9	2	3	-	14
Total	19	22	18	15	74

* negative EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization)
 "-" indicates that sample base is too small or data was not available.

Note: the sample base for 2005 and 2004 is not the same hence some direct comparisons cannot be made.

3. Methodology & Approach

Hall Results – Total Wagering (2005)

- In 2005, the profitable halls generated 82% of total wagering. If the halls that have over \$15M in wagering are excluded, this percentage drops to 70%.
- Of the small (\$1M to \$5M) halls, 51% of total wagering is generated by unprofitable operations.
- Compared to 2004 data, unprofitable halls accounted for a greater amount of bingo wagering in 2005 (18% compared to 10%).

<u>2005 Data</u>					
Size of Hall (wagering)	Profitable (millions)	% of Total	Unprofitable (millions)	% of Total	Total (millions)
\$1M - \$5M	\$25.4	49%	\$26.8	51%	\$52.2
\$5M - \$10M	\$146.5	76%	\$47.4	24%	\$193.9
\$10M - \$15M	\$125.7	69%	\$55.5	31%	\$181.2
> \$15M	\$278.2	100%	-	-	\$278.2
Total	\$575.8	82%	\$129.7	18%	\$705.5

"-" indicates that sample base is too small or data was not available.

3. Methodology & Approach

Summary & Conclusions

The financial assessment of bingo operations in Ontario is greatly influenced by the quality and quantity of data assessed. A standard financial reporting format and clear understanding of the operations models being used by operators would have greatly assisted the assessment of the current revenue model. The sample base of financial operating data collected did not include every bingo hall in Ontario. Additional data (trend lines) from unprofitable halls would have been useful. With this said, the sample base was large enough to gain meaningful insight into the current state of bingo gaming in Ontario.

4. Characteristics of Ontario's Bingo Gaming Sector Summary & Conclusions

Major characteristics identified and analysed included:

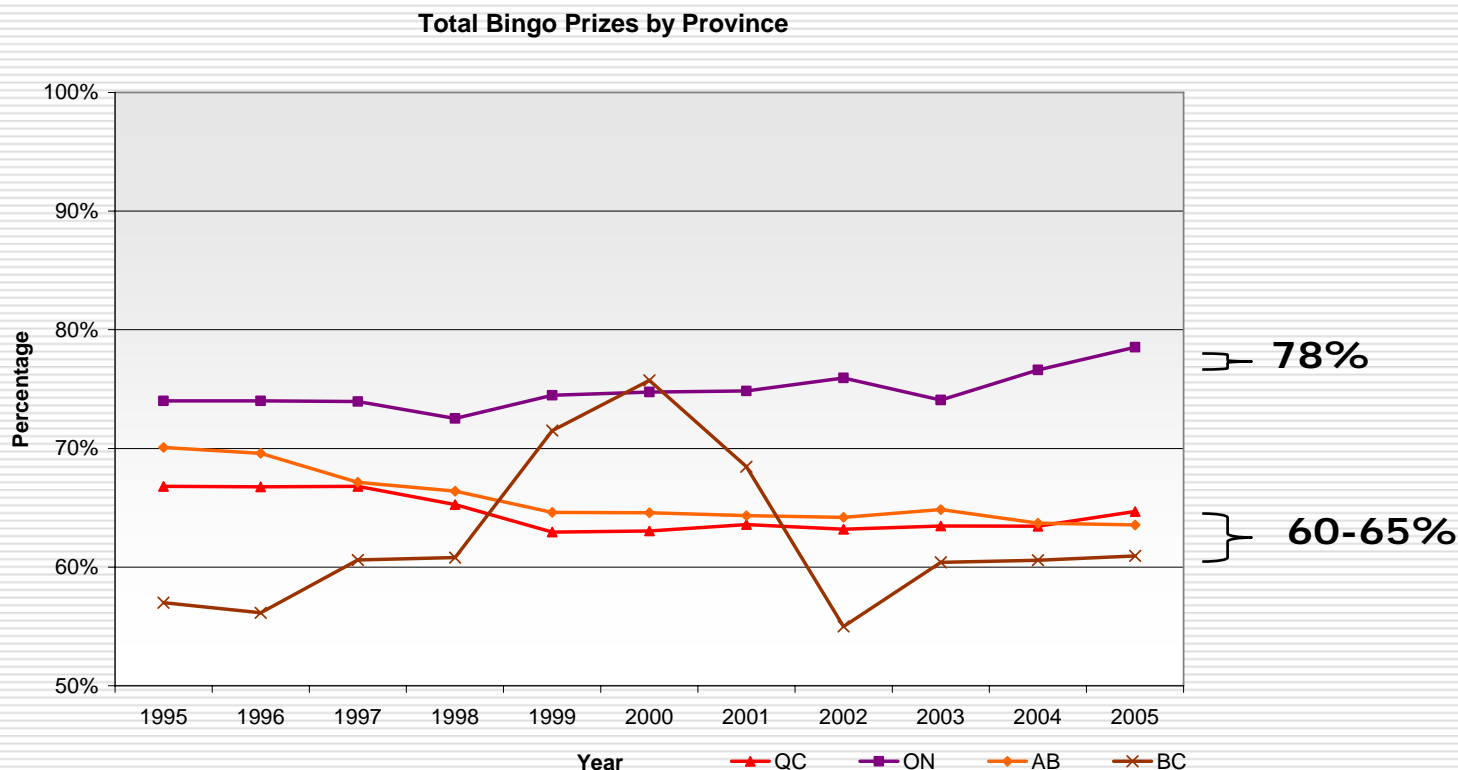
- wagering and prizes;
- operator revenue mix;
- bingo related labour costs;
- occupancy costs;
- marketing; and
- cost of paper.

4. Characteristics of Ontario's Bingo Gaming Sector

A. Wagering & Prizes – Prizes

Bingo Prize Payouts by Province – Ontario is “out of whack”

The total prize payout in 2005 for halls that provided financial data was 74.6%. In 2004, the corresponding prize payout was 73.7%.



Source: HLT Advisory Inc. estimates based on various government/agency reports and data. Ontario numbers are from AGCO and OLG annual reports.

4. Characteristics of Ontario's Bingo Gaming Sector

A. Wagering & Prizes - Mix

Municipal and Provincial Games (2005)

The mix of municipal and provincial games is driven by regulations as opposed to consumer preference.

- Municipal wagering accounts for a greater amount of total wagering in smaller halls.
- The prize payout for municipal games is higher than provincial games in all sizes of halls.
- Provincial games generate a greater amount of total win in larger halls.

Size of Hall (Wagering)	<u>2005 Data</u>							
	\$1M to \$5M		\$5M to \$10M		\$10M to \$15M		>\$15M	
	<i>Profitable</i>	<i>Unprofitable</i>	<i>Profitable</i>	<i>Unprofitable</i>	<i>Profitable</i>	<i>Unprofitable</i>	<i>All</i>	
Number of Halls	7	9	19	6	10	5	14	
Mix of Wager:								
Municipal	72.4%	66.0%	65.8%	65.7%	65.9%	63.7%	64.4%	
Provincial	27.6%	34.0%	34.2%	34.3%	34.1%	36.3%	35.6%	
Total (millions)	\$ 3.63	\$ 2.98	\$ 7.71	\$ 7.89	\$ 12.57	\$ 11.10	\$ 19.87	
Prize Payout:								
Municipal	74.1%	79.6%	78.5%	83.4%	79.8%	86.9%	81.5%	
Provincial	67.7%	61.2%	63.3%	69.3%	63.4%	63.0%	62.5%	
Total (%)	72.3%	73.3%	73.3%	78.6%	74.2%	78.3%	74.8%	
Win:								
Municipal	67.8%	50.5%	53.0%	50.9%	51.7%	38.3%	47.1%	
Provincial	32.2%	49.5%	47.0%	49.1%	48.3%	61.7%	52.9%	
Total (millions)	\$ 1.00	\$ 0.79	\$ 2.06	\$ 1.69	\$ 3.25	\$ 2.41	\$ 5.02	

4. Characteristics of Ontario's Bingo Gaming Sector

A. Wagering & Prizes

Municipal and Provincial Games (2004)

- 2004 data generally mirrors that of 2005.

Size of Hall (Wagering)	<u>2004 Data</u>							
	\$1M to \$5M		\$5M to \$10M		\$10M to \$15M		>\$15M	
	<i>Profitable</i>	<i>Unprofitable</i>	<i>Profitable</i>	<i>Unprofitable</i>	<i>Profitable</i>	<i>Unprofitable</i>	<i>All</i>	
Number of Halls	10	9	20	2	15	3	15	
Mix of Wager:								
Municipal	68.9%	66.3%	66.6%	64.8%	67.0%	63.2%	65.1%	
Provincial	31.1%	33.7%	33.4%	35.2%	33.0%	36.8%	34.9%	
Total (millions)	\$ 3.61	\$ 2.83	\$ 7.94	\$ 8.11	\$ 12.47	\$ 10.63	\$ 20.52	
Prize Payout:								
Municipal	75.1%	80.1%	78.5%	75.7%	78.7%	86.4%	79.8%	
Provincial	63.9%	62.9%	63.8%	66.6%	62.4%	61.6%	62.7%	
Total (%)	71.6%	74.3%	73.6%	72.5%	73.3%	77.2%	73.8%	
Win:								
Municipal	60.5%	51.3%	54.3%	57.2%	53.5%	37.8%	50.2%	
Provincial	39.5%	48.7%	45.7%	42.8%	46.5%	62.2%	49.8%	
Total (millions)	\$ 1.02	\$ 0.73	\$ 2.10	\$ 2.23	\$ 3.33	\$ 2.42	\$ 5.37	

4. Characteristics of Ontario's Bingo Gaming Sector

B. Operator Revenue Mix

- In 2005, other business streams usually accounted for between 35% and 45% of bingo operator revenue mix.

Size of Hall (Wagering)	Current Mix <u>After</u> Allowable Expenses and Win Split with Charities (2005)						
	\$1M to \$5M		\$5M to \$10M		\$10M to \$15M		>\$15M
	<i>Profitable</i>	<i>Unprofitable</i>	<i>Profitable</i>	<i>Unprofitable</i>	<i>Profitable</i>	<i>Unprofitable</i>	<i>Profitable</i>
Number of Halls	7	9	19	6	10	5	14
Number of Halls Reporting	7	9	19	6	10	5	14
Revenue:							
Bingo (operator share)	65.7%	54.0%	52.5%	56.9%	61.5%	54.1%	63.9%
Food and Beverage	28.8%	29.2%	31.6%	37.4%	32.1%	40.6%	29.8%
Other Gaming	3.9%	12.5%	13.2%	4.7%	3.6%	3.3%	3.5%
Other	1.6%	4.3%	2.7%	1.0%	2.9%	2.1%	2.8%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Note: Number of Halls Reporting refers to the number of halls within the sample base that reported Bingo Revenue.

4. Characteristics of Ontario's Bingo Gaming Sector

B. Operator Revenue Mix

Compared to Typical Gaming Facility (Casino)

- If the revenue mix includes the total bingo win, other business streams account for between 15% and 25% of total bingo hall revenue.
- Compared to a typical Canadian casino, Ontario bingo halls rely on ancillary business streams to a slightly greater extent. Canadian casinos are moving towards a greater emphasis on ancillary business streams to support core gaming activity (currently 90-95% gaming, 5-10% ancillary).

Size of Hall (Wagering)	Current Mix <u>Before</u> Allowable Expenses and Win Split with Charities (2005)						
	\$1M to \$5M		\$5M to \$10M		\$10M to \$15M		>\$15M
	Profitable	Unprofitable	Profitable	Unprofitable	Profitable	Unprofitable	Profitable
Number of Halls	7	9	19	6	10	5	14
Number of Halls Reporting	7	9	19	6	10	5	14
Revenue:							
Bingo (win)	83.9%	78.2%	76.4%	81.6%	83.9%	80.9%	85.4%
Food and Beverage	13.5%	13.8%	15.7%	15.9%	13.4%	16.8%	12.1%
Other Gaming	1.8%	5.9%	6.6%	2.0%	1.5%	1.3%	1.4%
Other	0.8%	2.1%	1.3%	0.4%	1.2%	0.9%	1.1%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Note: Number of Halls Reporting refers to the number of halls within the sample base that reported Bingo Revenue.

4. Characteristics of Ontario's Bingo Gaming Sector

B. Operator Revenue Mix

F&B Concession Performance

- Labour costs and cost of goods are typical industry benchmarks that are used to assess the operation of food and beverage outlets. Gross Profit Margin, as it is used below, equals Total Sales less Labour Costs and Cost of Goods.

Size of Hall (Wagering)	2005 Data						
	\$1M to \$5M		\$5M to \$10M		\$10M to \$15M		>\$15M
	Profitable	Unprofitable	Profitable	Unprofitable	Profitable	Unprofitable	All
Number of Halls	7	9	19	6	10	5	14
Number of Halls Reporting	6	9	18	4	9	4	14
Concession Sales (000's)	\$ 162	\$ 140	\$ 422	\$ 330	\$ 520	\$ 501	\$ 679
Labour							
(% of Concession Revenue)	18.5%	31.4%	27.8%	27.1%	16.7%	27.3%	11.6%
Cost of Good Sold							
(% of Concession Revenue)	51.9%	54.5%	41.0%	45.4%	48.9%	52.1%	52.8%
Gross Profit Margin							
(% of Concession Revenue)	29.6%	14.1%	31.2%	27.5%	34.4%	20.6%	35.6%

Size of Hall (Wagering)	2004 Data						
	\$1M to \$5M		\$5M to \$10M		\$10M to \$15M		>\$15M
	Profitable	Unprofitable	Profitable	Unprofitable	Profitable	Unprofitable	All
Number of Halls	10	9	20	2	15	3	15
Number of Halls Reporting	9	8	19	1	14	2	14
Concession Sales (000's)	\$ 176	\$ 185	\$ 443	\$ 460	\$ 541	\$ 471	\$ 714
Labour							
(% of Concession Revenue)	22.2%	20.9%	25.8%	-	33.2%	28.6%	24.5%
Cost of Good Sold							
(% of Concession Revenue)	59.2%	49.2%	43.1%	-	48.1%	57.1%	54.3%
Gross Profit Margin							
(% of Concession Revenue)	18.7%	29.9%	31.1%	-	18.7%	14.3%	21.2%

"-" indicates that sample base is too small or data was not available.

Note: Number of Halls Reporting refers to the number of halls within the sample base that reported Concession Sales.

4. Characteristics of Ontario's Bingo Gaming Sector

C. Labour Costs - 2005

Size of Hall (Wagering)	2005 Data						
	Small (\$1M to \$5M)		Medium (\$5M to \$10M)		Large (\$10M to \$15M)		Largest (>\$15M)
	Profitable	Unprofitable	Profitable	Unprofitable	Profitable*	Unprofitable	All*
Number of Halls	7	9	19	6	10	5	14
Number of Halls Reporting	6	8	17	3	10	5	14
Average:							
Operator Bingo Labour	\$ 86,422.60	\$ 73,374.48	\$158,926.58	\$323,610.46	\$348,789.38	\$308,882.44	\$ 589,672.34
Labour	\$ 92,400.44	\$ 73,720.04	\$164,942.95	\$238,516.97	\$279,658.81	\$148,948.01	\$ 474,310.59
Total Bingo Labour Costs	\$ 98,845.65	\$ 94,431.35	\$210,068.22	\$427,142.37	\$430,419.75	\$368,461.65	\$ 872,023.35
Average % of Win:							
Operator Bingo Labour	2.6%	9.2%	7.8%	20.2%	11.7%	12.8%	11.8%
Labour	6.5%	9.8%	7.7%	13.8%	8.6%	6.3%	9.5%
Costs	9.8%	12.1%	10.1%	26.6%	13.4%	15.3%	17.5%
Average % of Wager:							
Average Total Bingo Labour	2.8%	3.1%	2.7%	5.7%	3.5%	3.3%	4.4%
Halls by Range of Total Labour Cost:							
<\$50k	1	1	2				
\$50-\$100k	1	4	1		1		
\$100-\$200k	4	3	7		2	1	1
\$200-\$300k			2	1	1		
\$300-\$400k			3	1	2	2	
\$400-\$500k			1		2	1	2
\$500-\$600k			1				
\$600-\$700k				1		1	2
\$700-\$800k					1		1
\$800-\$900k					1		2
\$900-\$1M							1
>\$1M							5
Halls by Range of Bingo Labour as % of Win:							
<5%			5		2		1
5-10%	3	3	4		3	1	1
10-15%	3	3	4		1	2	3
15-20%		2	2	1	1		4
20-25%			1		2	2	5
25-30%			1	1	1		
30-40%				1			

Note: Number of Halls Reporting refers to the number of halls within the sample base that reported Labour Costs.

* Adjusted due to data being "skewed" by individual halls.

4. Characteristics of Ontario's Bingo Gaming Sector

D. Occupancy Costs - 2005

Size of Hall (Wagering)	2005 Data						
	\$1M to \$5M		\$5M to \$10M		\$10M to \$15M		>\$15M
	<i>Profitable</i>	<i>Unprofitable</i>	<i>Profitable</i>	<i>Unprofitable</i>	<i>Profitable</i>	<i>Unprofitable</i>	<i>All</i>
Total Occupancy Costs (% of win plus other revenue)	8.7%	13.1%	9.2%	10.0%	7.6%	13.7%	7.3%
Number of Halls	7	9	19	6	10	5	14
Number of Halls Reporting	5	9	19	6	10	5	14
Halls by Range of Occupancy Cost:							
<\$50k	1	2					
\$50-\$100k	1		1	1			
\$100-\$200k	3	5	4	3	2		
\$200-\$300k		2	10	1	2	2	3
\$300-\$400k			3	1	6	1	3
\$400-\$500k			1			1	3
\$500-\$600k							2
>\$600k						1	3
Number of Halls	7	9	19	6	10	5	14
Number of Halls Reporting	5	7	16	4	9	4	13
Halls by Range of Occupancy Cost/Seat:							
<\$100		2					
\$100-\$200	2			1			
\$200-\$300	2	1	1		2		2
\$300-\$400	1	1	4	1	1		2
\$400-\$500		1	4	2	4	1	1
\$500-\$600		1	3		1		5
\$600-\$700		1	1			1	1
\$700k-\$800			1		1	2	1
\$800+			2				1

Note: Number of Halls Reporting refers to the number of halls within the sample base that reported Occupancy Costs.

4. Characteristics of Ontario's Bingo Gaming Sector

D. Occupancy Costs - Location

While occupancy costs range by geographic region (southern urban bingo halls have larger occupancy costs and the greatest range in costs), almost half of the halls in Ontario have occupancy costs between \$200,000 and \$400,000. Of the 20 unprofitable halls only 3 have costs greater than \$400,000.

Geographic Location of Hall (2005)			
	<u>Northern</u>	<u>Southern Rural</u>	<u>Southern Urban</u>
Average Occupancy Cost	\$ 222,857	\$ 176,075	\$ 319,949
Cost Range:			
Low	\$ 77,290	\$ 33,629	\$ 80,000
High	\$ 376,872	\$ 377,756	\$ 708,267
Number of Halls	10	15	45
Number of Halls Reporting	10	15	45
Halls by Range of Total Occupancy Cost:			
<\$100k	1	3	2
\$100-\$200k	2	7	9
\$200-\$300k	5	3	12
\$300-\$400k	2	2	10
\$400-\$500k			6
\$500-\$600k			2
>\$600k			4

4. Characteristics of Ontario's Bingo Gaming Sector

E. Marketing

- Bingo hall operators and charities combined spend less than 1.5% of wagering (or less than 1.0% of win) on marketing. A "locally-based" casino would typically spend 10% to 15% of win on marketing.
- Generally, unprofitable halls spent more money on marketing in 2005 than profitable halls – the effectiveness of these marketing expenditures has to be questioned.

Size of Hall (Wagering)	<u>2005 Data</u>							
	\$1M to \$5M		\$5M to \$10M		\$10M to \$15M		>\$15M	
	<i>Profitable</i>	<i>Unprofitable</i>	<i>Profitable</i>	<i>Unprofitable</i>	<i>Profitable</i>	<i>Unprofitable</i>	<i>All</i>	
Average:								
Operator Expenditure	\$ 4,415	\$ 10,542	\$ 11,426	\$ 29,194	\$ 18,323	\$ 26,592	\$ 5,628	
% of Wagering	0.1%	0.3%	0.1%	0.4%	0.1%	0.2%	0.03%	
Allowable Expenditure	\$ 33,538	\$ 20,726	\$ 64,714	\$ 64,306	\$ 122,251	\$ 130,100	\$ 223,660	
% of Wagering	0.8%	0.7%	0.8%	0.8%	1.0%	1.2%	1.1%	
Total Marketing Expenditure	\$ 37,953	\$ 31,267	\$ 76,140	\$ 93,500	\$ 140,574	\$ 156,692	\$ 229,289	
Total as % of Wagering	1.1%	1.0%	0.9%	1.2%	1.1%	1.4%	1.2%	

4. Characteristics of Ontario's Bingo Gaming Sector

F. Cost of Paper

- The average cost of paper within each size of hall and between profitable and unprofitable halls is very similar (average actual cost and as a percentage of wagering).
- The range in actual costs within each group does vary. Based on discussions with hall operators, the actual cost of paper is influenced by a combination of what operators charge their customers for paper, and the degree of PBV usage by their customers.

Size of Hall (Wagering)	2005 Data							
	\$1M to \$5M		\$5M to \$10M		\$10M to \$15M		>\$15M	
	<i>Profitable</i>	<i>Unprofitable</i>	<i>Profitable</i>	<i>Unprofitable</i>	<i>Profitable</i>	<i>Unprofitable</i>	<i>All</i>	
Average Cost of Bingo Paper	\$ 37,529	\$ 38,174	\$ 90,437	\$ 77,171	\$ 125,918	\$ 124,308	\$ 154,235	
Cost Range:								
Low	\$ 7,342	\$ 21,462	\$ 54,757	\$ 49,564	\$ 58,142	\$ 104,639	\$ 90,728	
High	\$ 78,550	\$ 64,098	\$ 133,315	\$ 96,030	\$ 180,000	\$ 145,000	\$ 266,762	
% of Wagering	1.0%	1.3%	1.2%	1.0%	1.0%	1.1%	0.8%	

4. Characteristics of Ontario's Bingo Gaming Sector

Summary & Conclusions

Wagering & Prizes

- Prize boards are “too high” to sustain bingo, and an optimal prize payout needs to be achieved.
- The mix of games offered has limited impact on customer appeal with the rules and regulations around the mix of games influencing operating decisions.
- It would be difficult to “manage” prize boards down with the current set of rules and regulations regarding mix of games, as operators and charities require greater flexibility with the mix of games in order to manage prize boards and the profitability of bingo.
- The current mix of municipal and provincial games should be replaced with “one pool” of games with no expenses or fee items based on customer “winnings”.

Operator Revenue Mix

- From a customer perspective, the entire bingo hall operation represents the bingo experience.
- In typical gaming facilities, ancillary components are used to support the core gaming activity and as such are used directly in marketing efforts. Further, in these cases ancillary components are not stand-alone profit centres.

4. Characteristics of Ontario's Bingo Gaming Sector

Summary & Conclusions

Labour Costs

- “Allowable expenses” and “operator” labour costs are both required to operate bingo.
- The artificial cap on allowable labour-related expenses and the mix of games (municipal and provincial) in terms of both allowable expenses and number of sessions offered influence the range of labour costs experienced by bingo hall operators. Given this situation, it is difficult to determine reasonable labour costs. With this said, bingo labour costs should likely represent between 10% and 15% of win for a typical bingo hall in Ontario.

Occupancy Costs

- Locations in the Province and within urban centres have an impact on actual occupancy costs.
- Occupancy costs should likely represent between 5% and 10% of win plus all other revenues for a typical bingo hall in Ontario.

4. Characteristics of Ontario's Bingo Gaming Sector Summary & Conclusions

Marketing

- Marketing activity (as reflected in expenditures) is virtually non-existent in most bingo halls in Ontario.
- Greater emphasis should be placed on the role of marketing in helping to sustain and enhance bingo gaming in Ontario. Further, in the transition period from high prize boards to optimal prize boards, marketing should represent an effective tool to help mitigate potential negative consumer backlash.
- Charities and operators must commit additional dollars for marketing. With this said, marketing expenditures must be spent effectively. In this regard, greater attention should be spent on understanding marketing activity that is permitted and appropriate plans must be developed.

Cost of Paper

- Cost of paper is not a significant operating cost.
- From the analysis of the major characteristics of bingo gaming in Ontario, a clearer understanding of the current bingo revenue model, and direction for a new model, can be achieved.

5. Assessment of Revenue Model Options Stakeholder Views

The responses have been summarized by HLT into the following topic areas:

- Labour
- Bingo paper
- Licence fees
- Revenue split
- Advertising
- Prize boards
- Licensing (other)
- Revenue model changes

5. Assessment of Revenue Model Options

Stakeholder Views

Labour	<ul style="list-style-type: none"> • The honourariums should not be an event expense, but a Charity expense. • The labour subsidy should <u>not</u> be capped at 3% of the prize board. • Charities should pay for callers or it should be shared.
Bingo Paper	<ul style="list-style-type: none"> • Charities should pay for the cost of bingo paper or it should be shared. • Bingo paper should not be necessary for PBV play.
Licence Fees	<ul style="list-style-type: none"> • Charities should pay for licence fees. • Licence fees should be reduced to 2% of the prize board.
Revenue Split	<ul style="list-style-type: none"> • The split should be 50/50. • Hall operators should get 60% of the split to cover hall expenses. • Hall operators should get 18% to 20% of gross wagering. • The split should be based on gaming revenue only; ancillary activities should be 100% to the hall operator.
Advertising	<ul style="list-style-type: none"> • A central fund and a marketing board should be created to promote the game of bingo. • Hall Operators need a greater say in marketing expenditures. • The cap on advertising needs to be removed. • All advertising costs should be shared.
Prize Boards	<ul style="list-style-type: none"> • Prize payouts need to be reduced gradually. • Prize boards should be standard throughout Ontario. • Prize payouts should be based on attendance. • Prize payout percentage guidelines should be calculated over a 12-month period to allow for operator flexibility. • Prize board caps should remain the same.

5. Assessment of Revenue Model Options

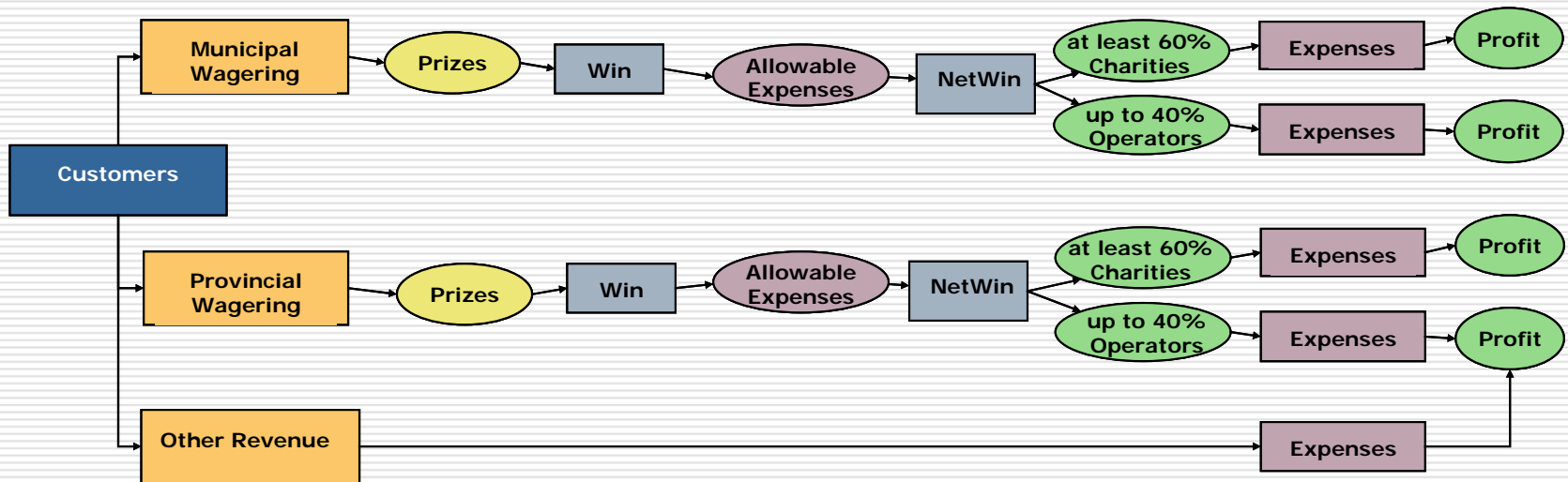
Stakeholder Views

<p>Licencing (Other)</p>	<ul style="list-style-type: none"> • Alcohol should be allowed to be served. • Reporting requirements for charities and hall operators should be streamlined. • Pooling of prize boards for multiple hall operators should be prohibited. • No new bingo hall facilities should be allowed to open until a market exists to support it. • Eliminate Municipal games – two separate games is too confusing. • There should be greater authority given to operators, and less to charities in running bingo events.
<p>Revenue Model Changes</p>	<ul style="list-style-type: none"> • All game revenue should be pooled before factoring the split. • Financial incentives should be provided to operators to make hall improvements. • An “all in” model will not provide a disincentive for dishonest or poor hall operators, but will create monitoring issues on the non-gaming side of the operation. • Operators should be allowed to be more competitive in product offering, including providing transportation to the hall, the number of events run, new gaming products, creating an entertaining experience. • The game formats need updating and restructuring. • Slot machines and e-gaming products should be introduced into halls. • There should be one provincial model. • Performance incentives should be offered to hall operators. • Operators should be rewarded for investing in their facilities. • There should be an “all in gaming revenue only” model, with the split happening after a portion of operating expenses are shared. • There should be greater flexibility given to operators to make operational decisions, with Charity consultation.

5. Assessment of Revenue Model Options

Current Bingo Revenue Model

Current Bingo Revenue Model



5. Assessment of Revenue Model Options

Summary & Conclusions

Profit Sharing Results Under the Current Revenue Model									
Actual Average Results of Profitable Halls									
	Small \$1M-\$5M					Medium \$5M-\$10M			
	Charities		Operator		Charities		Operator		
	Average	Split %	Average	Split %	Average	Split %	Average	Split %	
Win	\$1,004,364					\$2,057,841			
Allowable Expenses	\$150,839					\$303,811			
Split:									
Revenue									
Bingo	\$ 512,115	60%	\$ 341,410	40%	\$ 1,052,418	60%	\$ 701,612	40%	
Other	\$ -	0%	\$ 192,938	100%	\$ -	0%	\$ 634,870	100%	
Total Revenue	\$ 512,115	48.9%	\$ 534,348	51.1%	\$ 1,052,418	44.1%	\$ 1,336,482	55.9%	
Expenses*	\$ 36,318		\$ 409,687		\$ 77,112		\$ 963,043		
Profit	\$ 475,797	79.8%	\$ 120,639	20.2%	\$ 975,306	77.0%	\$ 290,781	23.0%	
Large \$10M-\$15M									
Largest > \$15M									
Win	\$3,246,786					\$5,017,834			
Allowable Expenses	\$581,167					\$970,656			
Split:									
Revenue									
Bingo	\$ 1,599,371	60%	\$ 1,066,247	40%	\$ 2,428,307	60%	\$ 1,618,872	40%	
Other	\$ -	0%	\$ 624,992	100%	\$ -	0%	\$ 827,428	100%	
Total Revenue	\$ 1,599,371	48.6%	\$ 1,691,240	51.4%	\$ 2,428,307	49.8%	\$ 2,446,300	50.2%	
Expenses*	\$ 125,734		\$ 1,198,418		\$ 198,747		\$ 1,726,183		
Profit	\$ 1,473,637	82.5%	\$ 312,612	17.5%	\$ 2,229,560	78.9%	\$ 595,124	21.1%	

Source: HLT Advisory Inc. based on survey data.

* Charity expenses are based on an assumption of 1% of wagering

6. Recommended Revenue Model

Underlying Principles of the New Model

The following principles guided the recommendation of a new revenue model:

- Bingo gaming is a vital means of fundraising for charities in Ontario – charitable gaming is for charitable fundraising.
- Operators (or “service providers”) have to have the ability to make a profit.
- There has to be clear relationships between operating risks and rewards (the decision makers should bear the risks and receive appropriate rewards).
- There has to be greater flexibility in terms of prizes, products, etc. to attract customers.

HLT believes that these guiding principles are consistent and/or compatible with AGCO’s principles for charitable gaming.

6. Recommended Revenue Model

“Necessary” and “Reasonable” Expenses

Fundamental to the operation of any business is the concept of “necessary” and “reasonable” expenses. This is especially important in businesses like bingo whereby revenue is split between stakeholders on the belief that each stakeholder receives an appropriate share.

- Necessary bingo expenses can be defined as expenses required to operate a bingo gaming activity in a prudent manner that maximizes customer attraction and ensures that the integrity of the gaming activity is maintained. These expenses include labour, marketing, occupancy, cost of goods and general & administration.
- Reasonable bingo expenses refer to how much is spent on necessary expenses. This concept is not easily defined. Based on the assessment of operator financial data, it can be concluded that while there are trends for each expense category within the various size groups of halls, there still exists a significant range in actual expenses experienced.

With this said, HLT used the results of the data survey to identify necessary expenses and estimated reasonable expenses. This estimate was used to arrive at the recommended model.

6. Recommended Revenue Model

Mix of Games and Prizes

The mix of games (municipal and provincial) influences prize boards. Prize boards can be considered to represent the main customer attraction tool that both charities and operators have to attract customers. “Decision Makers” should have the flexibility to “pick and choose” the types of games that appeal to their customers. With this said, HLT recommends that “one pool” of bingo games should be created and “Decision Makers” should be able to pick those games that their customers want.

Directly related to mix of games is prize boards. HLT recommends that the current maximum prize board (as a dollar figure) for municipal games be abolished and replaced with a maximum prize board for all games based on a percentage of wagering. The prize boards should be maximized at 70% of wagering. This recommendation is made in the absence of specific prize board research and analysis but is conservative compared to the experience of other significant bingo jurisdictions in Canada. With this said, this situation should be monitored while further research is undertaken to better understand the optimal prize board for bingo gaming in Ontario. In the future, it may be appropriate and necessary to reduce the prize percentage further.

6. Recommended Revenue Model

Facility Investment

Generally, it is a commonly held opinion that new or enhanced bingo facilities are required to help bingo compete with other forms of gaming by attracting customers, especially new customers. If this is the case, the issue then becomes, who should pay for these new or enhanced facilities and what monies (if any) should be given to compensate for this investment? In Canada, the two most common ways to compensate gaming facility investment are to:

- have the gaming operation pay for the investment; or
- allocate a separate share of revenue/profits to compensate for the investment.

Also, almost all facility investment is done through either facility cash reserves or a combination of equity and bank debt. In the latter case, return of equity and interest payments are funded through business cash flow. There are however, no standard “return on investment” levels applicable to bingo.

6. Recommended Revenue Model Facility Investment (cont'd)

In instances whereby a new facility standard is imposed on a business the following issues arise:

- If facility improvements are imposed, will this lead to increased business? Will the business be interrupted during construction?
- What is an appropriate return on investment? Return on investment levels are influenced by security, change in value of underlying building, level of risk, stability of cash flow streams, impact of investment on cash flow streams, etc.

Related to facility investment is third-party financing. Since bingo, like all other forms of gaming, is a “cash flow” business, financial institutions would like to secure the business for financing purposes (i.e., they want to secure the gaming licence). The issue with bingo in Ontario is two-fold: the operator does not hold the gaming licence and every event/session has a different licensee. Hence, even if facility investment is imposed, it would be difficult for any operator to obtain reasonable third-party debt financing.

While HLT believes that new or enhanced facilities will help maintain and attract new customers, the recommended revenue model does not contain a separate “revenue split” or separate financial compensation for facility investment. HLT recommends that an appropriate “contract” be considered that gives operators some form of tenure to operate a bingo hall.

6. Recommended Revenue Model

Role of Marketing

Marketing is a fundamental component of all forms of gaming. It represents the most powerful tool available to gaming operators to attract and retain customers. Based on the assessment of bingo halls and HLT's experience in all other gaming sectors, Ontario bingo marketing programs (as reflected in expenditures) are the least developed in all of Ontario's gaming industry. Currently in Ontario, bingo operators relied on prize boards to attract customers, as the main focus of marketing. If prize boards are reduced, mix of games, facilities and ancillary facility components will have to be used in marketing efforts to attract and retain customers.

Marketing expenditures are currently too low and should be increased. With this said, operators should not spend additional dollars blindly. Effective marketing programs should be established and tested to ensure effective use of expenditures. HLT recommends that a pool of funds be set aside from individual bingo operations to be used to market bingo (individually). The amount of funds to be set aside is recommended at 10% of bingo win.

