

**ALCOHOL & GAMING COMMISSION OF ONTARIO
BINGO REVENUE MODEL REVIEW
Key Findings Report**

OCTOBER 2006



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1. Introduction

HLT Advisory Inc. (“HLT”) has been retained by the Alcohol and Gaming Commission of Ontario (“AGCO”) to undertake a review of the current Bingo Revenue Model for Charitable Gaming in Ontario. This report (“Key Findings Report”) summarizes the results of the comparison review.

1.1 BACKGROUND

In Canada, the authority to licence gaming activity stems from provisions contained in the Criminal Code. In 1969, the Government of Canada amended the Criminal Code which made it possible for eligible charitable and religious organizations to conduct and manage lottery schemes under a licence issued by an appropriate provincial authority.

Based on this authority, the Government of Ontario passed an Order-in-Council, which delegated the authority to licence charitable gaming events to the Registrar of Alcohol and Gaming and to municipal councils. The Registrar has the authority to licence all types of approved lottery events, while municipal councils have authority to licence certain types of approved lottery events. As stated in the AGCO’s *Lottery Licensing Policy Manual*, AGCO is responsible for the administration and regulation of charity casinos, commercial casinos, slot machine facilities at racetracks, and charitable gaming. The Registrar has authority in three main areas:

- to administer and enforce the Gaming Control Act, 1992;
- to administer the lottery licensing framework that governs all charitable lottery licensing in the province; and
- to issue licences for lottery events, in accordance with the Order-in-Council.

In December 2005, the AGCO released a directional document entitled *Modernization of Charitable Gaming: Direction and Priorities*, which identified the development of a new or revised revenue model(s) as critical to the viability of the charitable gaming sector for all stakeholders. The document outlined a dual-phased approach to enact changes to the regulation of charitable gaming in Ontario that coincided with the changing needs of the stakeholders of charitable gaming.

One key initiative for the first phase was the review of the Bingo Revenue Model for Charitable Gaming in Ontario. Any recommendations for change to the existing model were to reflect a comprehensive, coordinated and consultative process and adhere to the essential guiding principles of the AGCO as stated in the directional document.

- Charitable gaming exists to raise funds for charitable activities to be carried out in Ontario by eligible charities at the local community level.
- Charitable organizations are largely volunteer-based with charitable gaming recognized as a form of fundraising for organizations rather than the focus of their business.

- Enhanced flexibility must be balanced by appropriate levels of accountability and trackability.
- Gaming products and participants in the sector (charities, suppliers and others) must operate with honesty and integrity and in the public interest.
- Success of charitable gaming is dependent upon fair and productive partnerships between all participants in the sector.
- Adaptability is necessary in a continually and rapidly changing environment.

Under the *Criminal Code*, a bingo hall operator is allowed to participate in the operation of a lottery scheme by providing goods and services in accordance with the terms and conditions to the licensee, but only the licensee (charity) may conduct and manage. Expenses associated with the conduct and management of the gaming activities are to be reasonable and necessary. The revenue model that has been in place for over a decade was established to provide compensation to the operators of a bingo hall to cover reasonable and necessary expenses as well as to provide a reasonable profit. The model was essentially based on a 60/40 split of net proceeds (wagering less prizes and certain 'allowable' costs). Under this model, the licensee retains at least 60.0 percent of the net proceeds and the hall operator received up to 40.0 percent from which the hall operator paid for its expenses such as staff, occupancy expenses, and equipment.

1.2 PROJECT OBJECTIVES AND APPROACH

AGCO's 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, the issues/areas that were investigated included:

- verifiable bingo operation expense information by geographic location;
- the 'reasonableness' of expenses;
- bingo operation revenue streams; and
- prize boards and determining factors of same.

To arrive at new revenue model(s) recommendation(s), a detailed analysis of the current state of bingo (as depicted by financial data collected from bingo operators) was undertaken. The analysis took into consideration:

- possible incentives and benchmarks to measure 'success';
- policy-based approach 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 potential need for more than one revenue model; and
- standard reporting format for monitoring and compliance.

HLT approached the project from the viewpoint that bingo gaming (as well as all other forms of gaming) is dependent upon customers. Hence, customers represent the “business driver”. Further, bingo gaming is financially successful when the gaming activity is appealing to customers (effective) and the business is managed profitably (efficient). With this said, every gaming activity, including bingo, has a different demographic appeal. Compared to other forms of gaming such as lottery and casinos, bingo has a narrow demographic appeal. This situation gives rise to two obvious, interrelated questions: can bingo gaming (customer base) be expanded?; and can this expansion occur without losing its current core customer base? While the recommended revenue model presentation in this report cannot guarantee the growth of bingo gaming, it attempts to better equip stakeholders with an enhanced ability to potentially grow the activity.

1.3 ORGANIZATION OF REPORT

This document represents the Key Findings of the revenue model review. The detailed analyses undertaken to arrive at these Key Findings are contained in a separate document entitled *Analysis of the Current State of Bingo Gaming in Ontario*. This document contains the following sections:

- Introduction- Objectives and Approach – This section introduces the objectives of the review and HLT’s focus in completing the same.
- The Data – This section analyzes the current revenue model through review and analyses of financial operating data provided by bingo hall operators.
- Characteristics of Bingo Gaming In Ontario – This section identifies and analyses major characteristics of bingo gaming in Ontario as contained in the operating data that was analyzed.
- Assessment of the Revenue Model Options – This section summarizes the results of HLT’s assessment of the current revenue model using the results of the analysis of the characteristics of bingo gaming in Ontario.
- Framework for a New Revenue Model – This section presents and discusses a framework for the creation of a new revenue model.

Following the introduction, the Key Findings Report is organized in four additional sections.

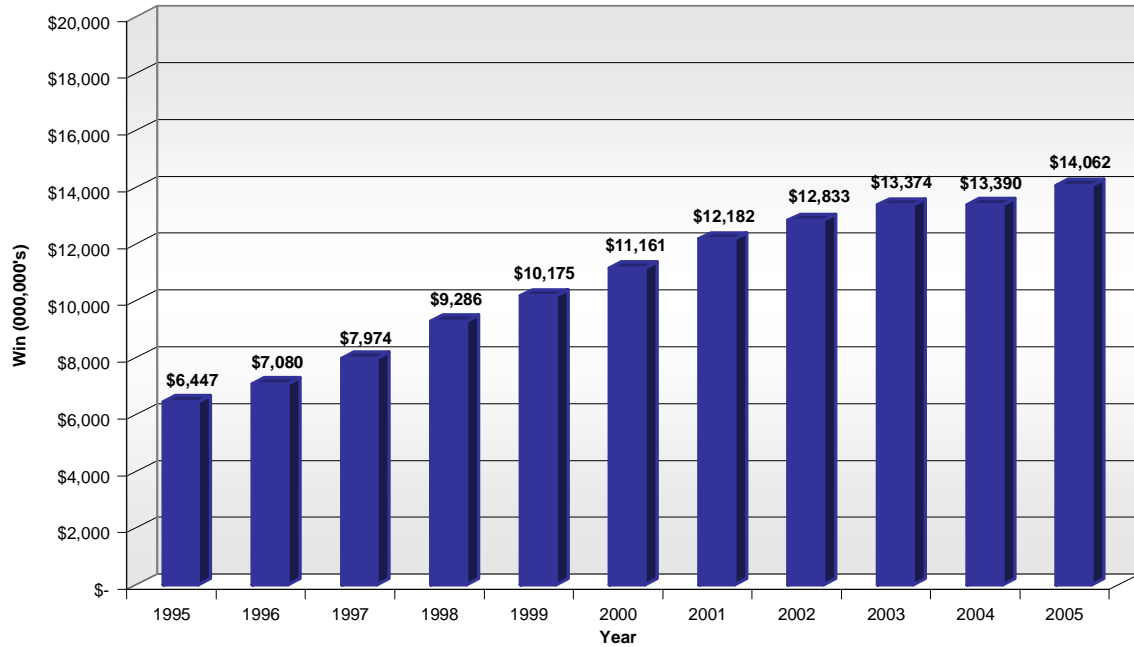
Section 2 outlines Ontario’s bingo gaming sector in the context of Ontario’s entire gaming industry and the overall Canadian gaming industry.

Section 3 discusses the results of HLT’s analysis of the current revenue model through the collection of financial operating data from bingo hall operators.

Section 4 identifies and analyzes major characteristics of bingo gaming in Ontario as contained in the operating data that was analyzed.

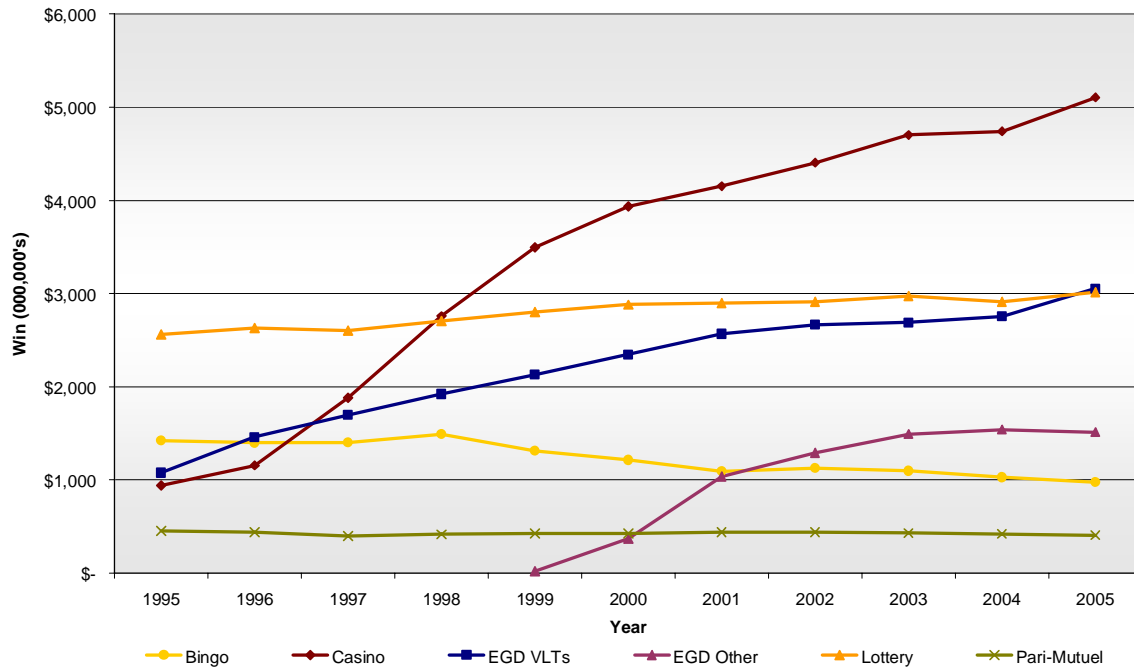
Section 5 first presents a framework for the creation of a new revenue model. Finally a recommended model is put forward.

**Exhibit 2
Canadian Gaming Industry Win Trends**



Source: HLT Advisory Inc. based on various provincial government agency/corporation annual reports.

**Exhibit 3
Canadian Gaming Industry Win Trends by Sector**



Source: HLT Advisory Inc. based on various provincial government agency/corporation annual reports.

2. Ontario’s Bingo Gaming Sector

This section of the report provides a brief description of Ontario’s bingo gaming sector. First, a brief overview of the Canadian and Ontario gaming industries are presented. Bingo gaming is but one sector in Ontario’s entire gaming industry.

2.1 OVERVIEW OF CANADIAN GAMING INDUSTRY

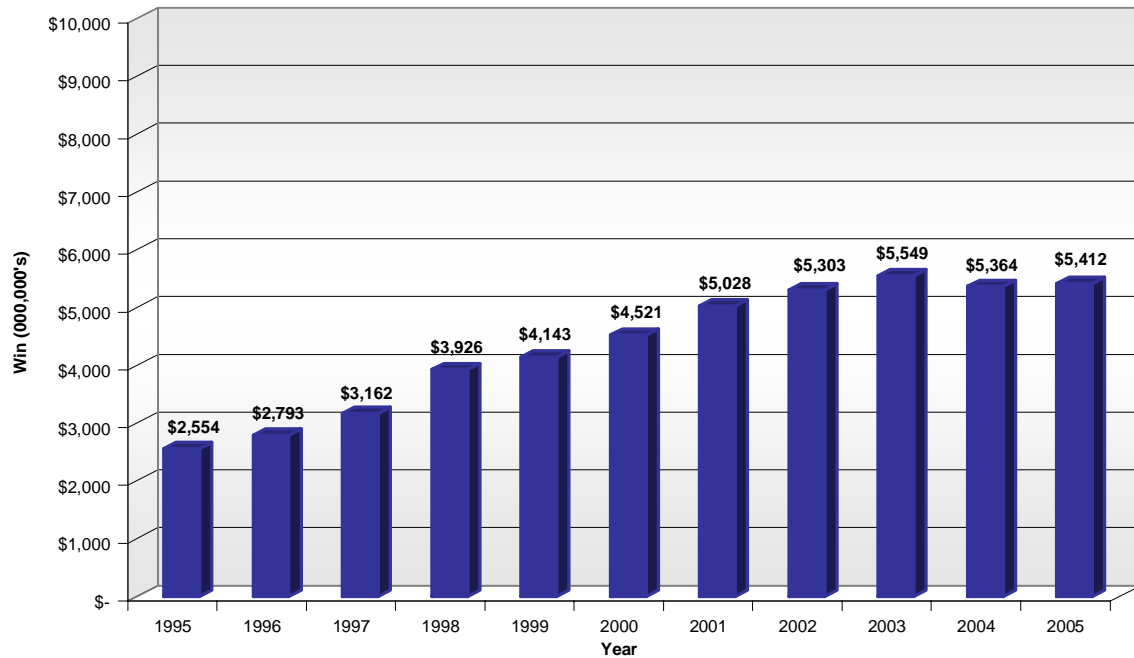
The Canadian gaming industry consists of five basic sectors – bingo, casino, electronic gaming devices (EGDs), lottery, and pari-mutuel (horse racing). EGDs are further divided into VLTs and EGDs at horse racetracks. As depicted in Exhibit 1, most provinces, including Ontario, permit almost all gaming sectors to operate within their boundaries. Only Newfoundland and Labrador, Prince Edward Island and New Brunswick do not currently permit the operation of casino facilities. British Columbia and Ontario do not permit the operation of EGDs (VLTs) in non-gaming facilities, while Newfoundland, Nova Scotia and New Brunswick currently do not have EGD installed at horse racetracks.

Exhibit 1						
Gaming Availability in Canada by Sector						
Province	Bingo	Casino	EGDs		Lotteries	Pari-Mutuel
			VLT	Horse Racetracks		
Newfoundland	●	---	●	---	●	●
Prince Edward Island	●	---	●	●	●	●
Nova Scotia	●	●	●	---	●	●
New Brunswick	●	---	●	---	●	●
Quebec	●	●	●	●	●	●
Ontario	●	●	---	●	●	●
Manitoba	●	●	●	●	●	●
Saskatchewan	●	●	●	●	●	●
Alberta	●	●	●	●	●	●
British Columbia	●	●	---	●	●	●

Source: HLT Advisory Inc.

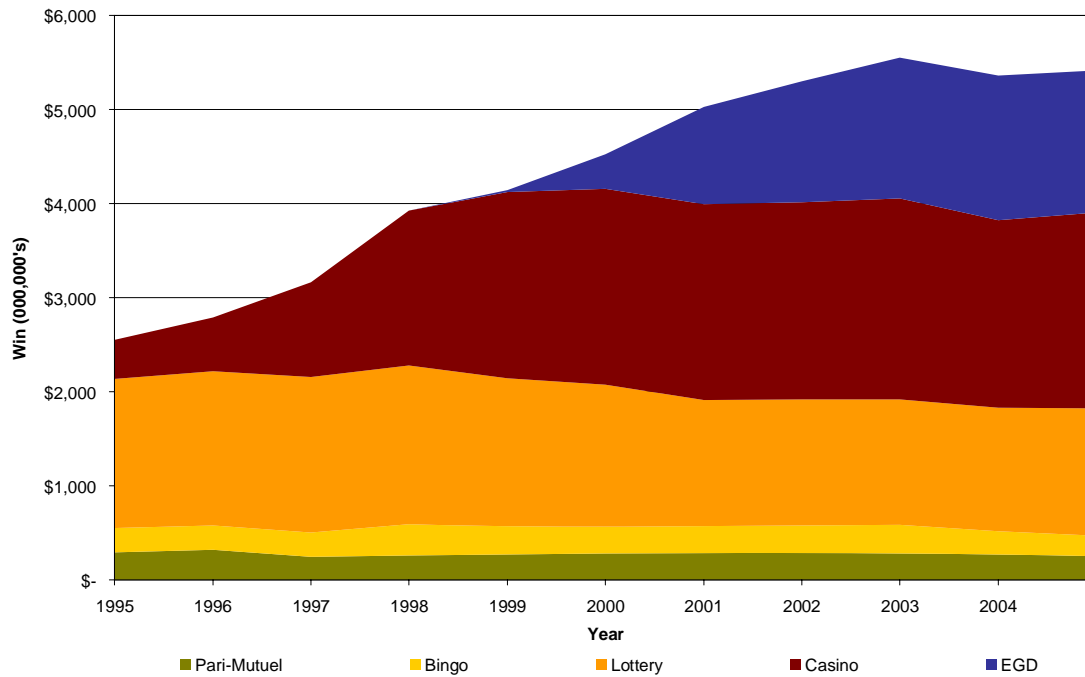
As shown in Exhibit 2, the Canadian gaming industry has more than doubled in size since 1995 in terms of win (total wagering less prize payouts). Today the industry as a whole is more than \$14 billion in size. From a sector perspective (see Exhibit 3), casinos followed by lotteries, and EGDs are the largest sectors, while bingo and pari-mutuel are the smallest in terms of win (wagering less prizes). The most notable trends are the rapid growth of casinos and the steady growth experienced by the EGDs (VLTs and EGDs at horse racetracks). Conversely, the lottery sector, the pari-mutuel sector, and the bingo sector have been relatively stagnant. These three sectors are the oldest gaming sectors in Canada.

**Exhibit 5
Ontario Gaming Industry Win Trends**



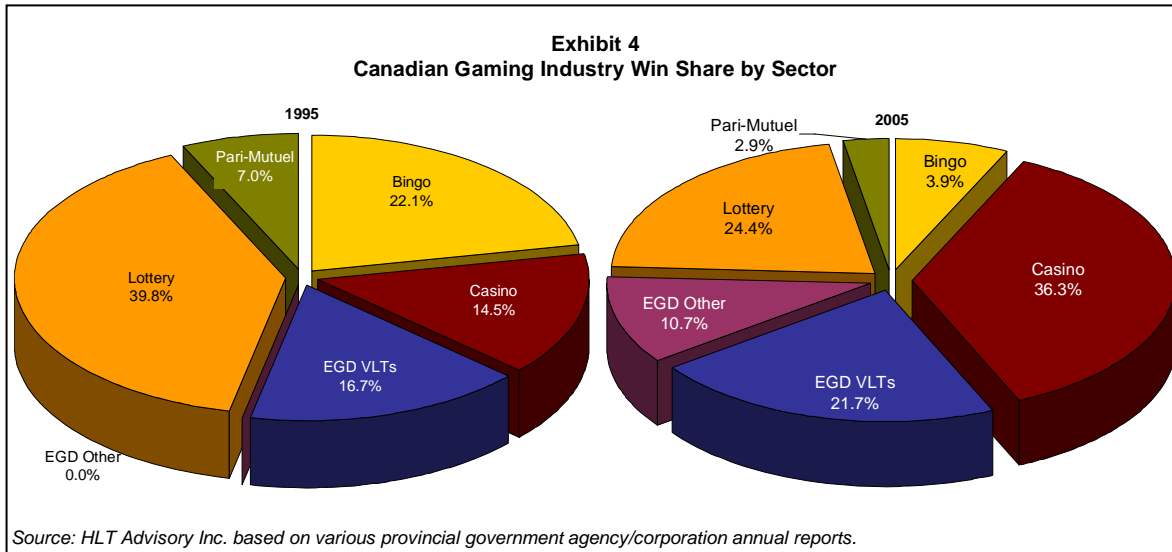
Source: HLT Advisory Inc. based on various provincial government agency/corporation annual reports.

**Exhibit 6
Total Ontario Gaming Win**



Source: HLT Advisory Inc. based on various provincial government agency/corporation annual reports.

As shown in Exhibit 4, the Canadian gaming industry was dominated by lotteries in 1995 (over 50% market share). By 2005, lottery's share decreased by over one half while casinos more than doubled its share of the entire market. EGD (VLT) gaming increased its share of the market from 16.7 percent to 21.7 percent. Other EGDs (at horse racetracks) were implemented in the late 1990's and by 2005 accounted for 10.8 percent of the entire Canadian gaming industry. Bingo's share of the market (as well as pari-mutuel's) decreased by over half from 9.8 percent to 3.9 percent.

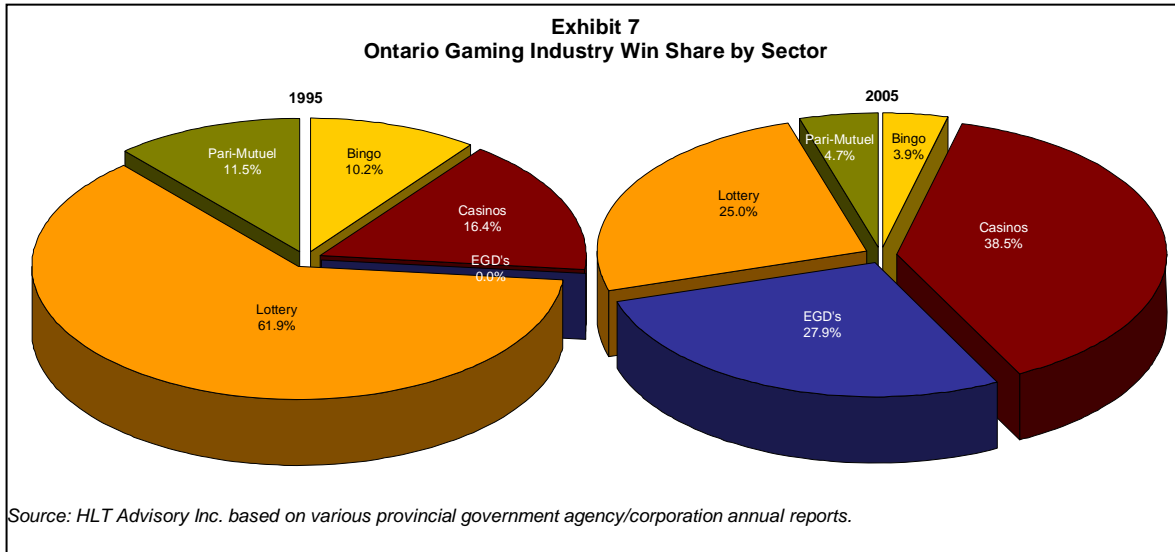


2.2 ONTARIO'S GAMING INDUSTRY

Ontario currently accounts for approximately 40.0 percent of the total Canadian gaming industry. As shown in Exhibit 5, the Ontario gaming industry has more than doubled in size since 1995 in terms of win (wagering less prizes). Today the industry as a whole is nearly \$5.5 billion in size.

From a sector perspective, casinos followed by EGDs (at horse racetracks), and lotteries are currently the largest sectors, while bingo and pari-mutuel are the smallest in terms of win (see Exhibit 6). Looking at industry trends, most notable is the rapid growth of casinos and EGDs (at horse racetracks). The lottery sector declined in absolute win, while both the bingo and pari-mutuel sectors remained relatively stagnant.

As shown in Exhibit 7, the Ontario gaming industry generally mirrors that of the greater Canadian industry, with lottery domination of over 60% market share in 1995. By 2005, lottery's share of the market decreased by more than half, while casino's doubled their market share. EGDs (at horse racetracks) entered the market in the late 1990's and by 2005 represented more than a quarter of the market. Bingo's and pari-mutuel's share of win has decreased by one half over the last ten years.



2.3 ONTARIO'S BINGO GAMING SECTOR

After lottery retail outlets, bingo gaming is the largest available gaming activity in Ontario. As of January 2006, there were some 102 operating bingo halls in the Province. These halls are dispersed throughout Ontario with concentrations in Windsor, the Greater Toronto Area and the Niagara region. Other areas with multiple halls include Sarnia, London, Kitchener/Waterloo/Cambridge, Ottawa and Thunder Bay.



Source: HLT Advisory Inc. based on information provided by AGCO.

Exhibit 9
Ontario Historical Bingo Trends - Wagering, Prizes, Win

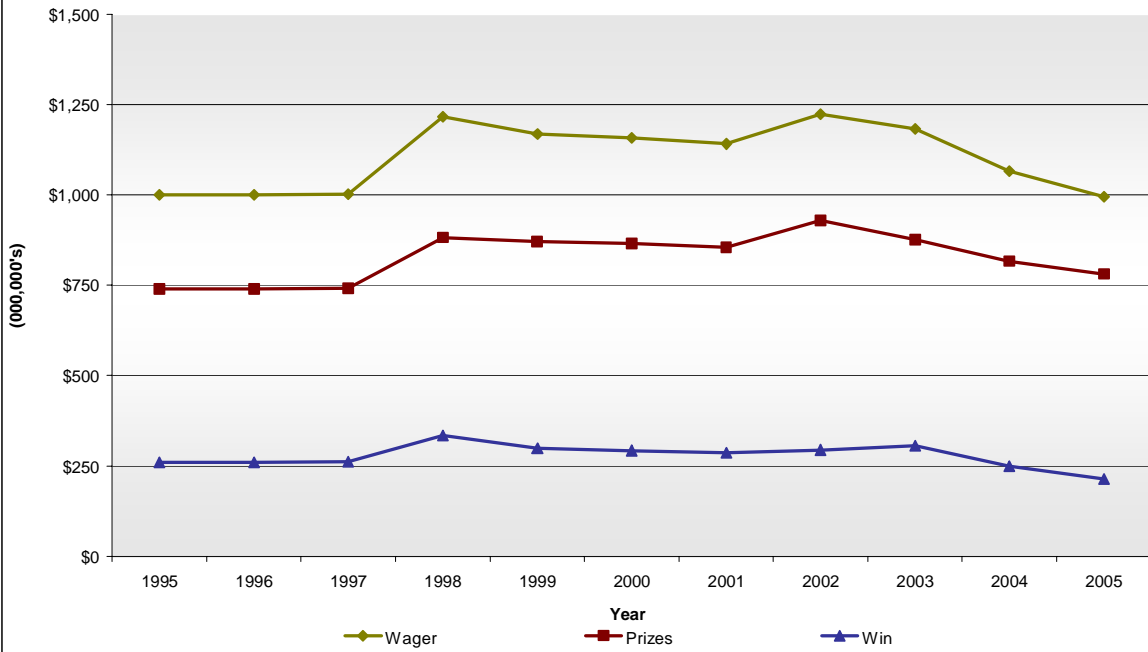
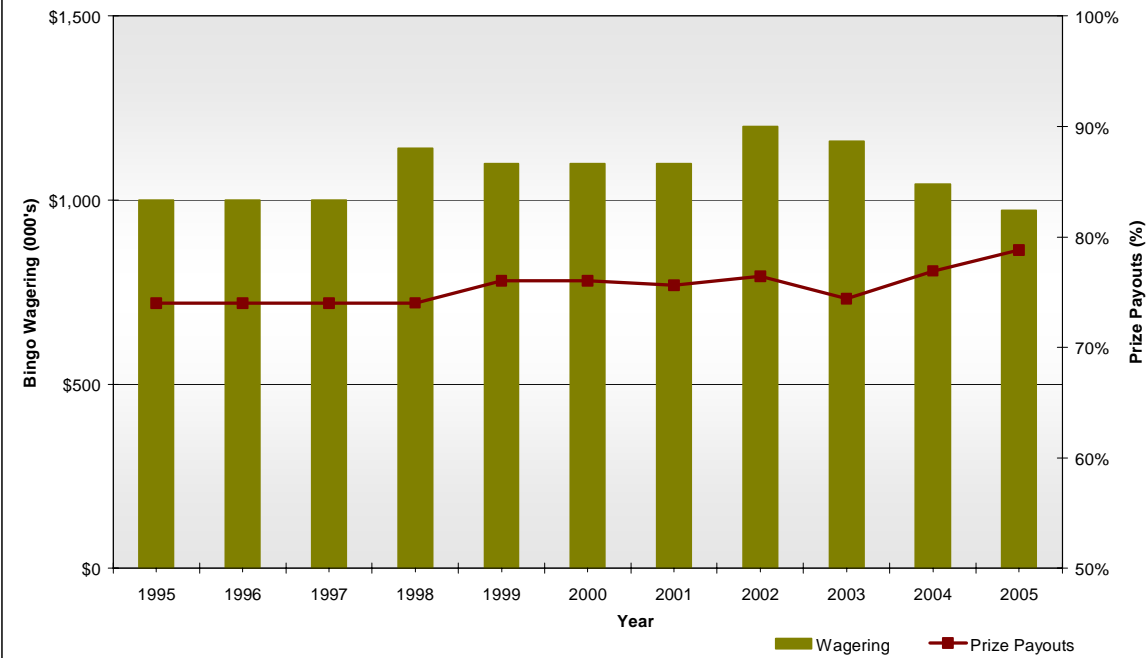


Exhibit 10
Ontario Historical Paper Bingo Trends - Wagering, Prizes



Bingo gaming activity is tracked by both the AGCO and individual municipalities for various regulatory purposes. While total wagering and total prizes are collected, this data is not tabulated for the entire province. The AGCO estimates total annual wagering and prizes for the province based on a sample of municipalities. Exhibit 9 shows total wagering, total prizes and total win since 1995. Since 2002, wagering, prizes and win (actual dollars) have been trending downward.

Typically in gaming it is a commonly held belief that as prizes increase, so does wagering. As illustrated in Exhibit 10, while prizes (expressed as a percentage of wagering) have increased year over year since 2003, wagering (actual dollars) has decreased. The result of these interrelated trends has produced a situation whereby current win levels are the lowest they have been over the last ten years.

2.4 SUMMARY AND CONCLUSIONS

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 and Approach

This section of the report discusses the data collection survey undertaken to complete the review. The collection of financial bingo hall operating data represents the base input for the review of the bingo revenue model.

3.1 FINANCIAL OPERATING DATA SURVEY

HLT contacted or attempted to contact all 102 identified bingo hall operations in Ontario. Requests were made for three years of financial operating data. Specific data requested included the following:

- Number of seats and annual attendance (per hall).
- Total bingo sales/wagering by type of bingo event (i.e. by municipal and provincially licenced events).
- Total bingo prizes by type of bingo event (i.e. by municipal and provincially licenced events).
- Win (bingo sales less bingo prizes by type of bingo event).
- Allowable expenses (licences, advertising/promotions, cost of personal bingo verifiers, paid runners, reimbursable expenses for charity volunteers, authorized transportation costs).
- Hall operator share of revenue (hall rent) by type of bingo event.
- All other revenue sources (i.e. other gaming products, food and beverage, lottery, retail, etc.).
- Detailed operational expenses including but not limited to:
 - Wages and salaries (by revenue source);
 - Management fees (if applicable);
 - Advertising/promotional expenditure;
 - Cost of goods sold (i.e., bingo paper, food and beverage, etc.);
 - Property maintenance (repairs and maintenance);
 - Occupancy costs;
 - Utilities;
 - Office administration (i.e., telephone, insurance, supplies, etc.).

HLT did not audit nor verify the information received from bingo hall operators. It was assumed that the financial data provided was correct and reflected the true operating situation of the various halls that provided such data. In selected instances, clarification of certain data was obtained from individual bingo hall operators.

All bingo hall operators were contacted to participate in the data collection component of the study. In some situations, we were unable to make contact despite repeated attempts. A list of operators that participated in the survey was provided to the AGCO.

3.2 RESULTS OF SURVEY

Collected Financial Data – Summary:

Exhibit 11 summarizes the results of the data survey by bingo hall. For 2005, 82 halls provided “complete” hall operation income statements and 75 halls provided “complete” bingo wagering (wagering and prizes by provincial and municipal games). In total, 72 halls provided both income statements and detailed wagering information. This represents 70.6 percent of all halls. Results for 2004 were very similar to 2005 results.

Exhibit 11		
Survey Results - Respondents by Bingo Hall (2005)		
	# of Halls	% of Total
Total	102	100%
Total "Complete" Responses 2005 ¹	72	70.6%
Total 2005 "Complete" Bingo Wagering 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 Information	75	73.5%
Total 2004 "Complete" Hall Operator Income Statement	80	78.4%

Source: HLT Advisory Inc. based on survey data.

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

Note: "Complete" refers to useable financial information. In some instances, HLT did have to request additional information to clarify data even when a bingo hall did provide "complete" information.

As shown in Exhibit 12, the 72 halls that provided complete information accounted for 75.0 percent of total province-wide bingo wagering. This is up slightly from 72.5 percent in 2004.

Exhibit 12		
Survey Results - Respondents by Wagering		
	Total Wagering	% of Estimate
Total 2005 Ontario Bingo Wagering ¹	\$ 994,700,000	
2005 Survey Respondents	\$ 745,850,779	75.0%
Total 2004 Ontario Bingo Wagering ¹	\$ 1,065,800,000	
2004 Survey Respondents	\$ 772,495,947	72.5%

Source: HLT Advisory Inc. based on survey data.

¹ Based on AGCO estimate as presented in AGCO's Annual Report.

Exhibit 13					
2005 Bingo Halls by Size of Hall					
Size of Hall (Wagering)	Small (\$1M to \$5M)	Medium (\$5M to \$10M)	Large (\$10M to \$15M)	Largest (>\$15M)	Total
Profitable	7	19	10	14	50
Unprofitable*	9	6	5	-	20
Total	16	25	15	14	70

Source: HLT Advisory Inc. based on survey data.

* negative EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization)

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

Exhibit 14							
2005 Bingo Halls							
Size of Hall (Wagering)	Small (\$1M to \$5M)		Medium (\$5M to \$10M)		Large (\$10M to \$15M)		Largest (>\$15M)
	Profitable	Unprofitable	Profitable	Unprofitable	Profitable	Unprofitable	Profitable
Number of Halls	7	9	19	6	10	5	14
Average Attendance	61,099	61,785	150,206	156,612	263,185	226,477	453,558
Average Wager/Attendee	\$ 57.12	\$ 51.04	\$ 52.51	\$ 49.05	\$ 47.56	\$ 49.02	\$ 43.87
Average Win/Attendee	\$ 17.10	\$ 13.92	\$ 14.09	\$ 10.01	\$ 12.18	\$ 10.65	\$ 11.01
Average F&B Spend	\$ 2.31	\$ 2.42	\$ 3.00	\$ 1.69	\$ 1.97	\$ 1.77	\$ 1.51
Average Other Spend	\$ 0.41	\$ 1.18	\$ 1.17	\$ 0.28	\$ 0.29	\$ 0.20	\$ 0.25
Wagering (000's)	\$ 3,632	\$ 2,978	\$ 7,711	\$ 7,894	\$ 12,573	\$ 11,102	\$ 19,875
Prizes (%)	72.3%	73.3%	73.3%	78.6%	74.2%	78.3%	74.8%
Win (000's)	\$ 1,004	\$ 794	\$ 2,058	\$ 1,691	\$ 3,247	\$ 2,413	\$ 5,018
Total Operator Revenue (000's)	\$ 563	\$ 481	\$ 1,336	\$ 882	\$ 1,621	\$ 1,237	\$ 2,366
EBITDA (000's)	\$ 121	\$ (90)	\$ 291	\$ (131)	\$ 313	\$ (252)	\$ 595
Management Fee (000's)	N/a	\$ 11	\$ 52	\$ 31	\$ 120	\$ 37	N/a

Source: HLT Advisory Inc. based on survey data.

Exhibit 15						
2005 Total Wagering by Size of Hall and Profitability						
Size of Hall (Wagering)	Profitable		Unprofitable		Total	
	(millions)	% of Total	(millions)	% of Total	(millions)	Total %
Small (\$1M - \$5M)	\$ 25.4	49%	\$ 26.8	51%	\$ 52.2	100%
Medium (\$5M - \$10M)	\$ 146.5	76%	\$ 47.4	24%	\$ 193.9	100%
Large (\$10M - \$15M)	\$ 125.7	69%	\$ 55.5	31%	\$ 181.2	100%
Largest (> \$15M)	\$ 278.2	100%	\$ -	0%	\$ 278.2	100%
Total	\$ 575.9	82%	\$ 129.7	18%	\$ 705.6	100%

Source: HLT Advisory Inc. based on survey data

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

Exhibit 13 presents the 2005 halls that provided complete information, by size of hall and profitability. For analysis purposes, halls were grouped into sizes based on total wagering.

- “Small” – \$1.0 to \$5.0 million
- “Medium” – \$5.0 to \$10.0 million
- “Large” – \$10.0 to \$15.0 million
- “Largest” – over \$15.0 million

Note: Two halls were not included due to size (one had less than \$1.0 million in wagering) and due to confidentiality (one with over \$15.0 million in wagering was unprofitable).

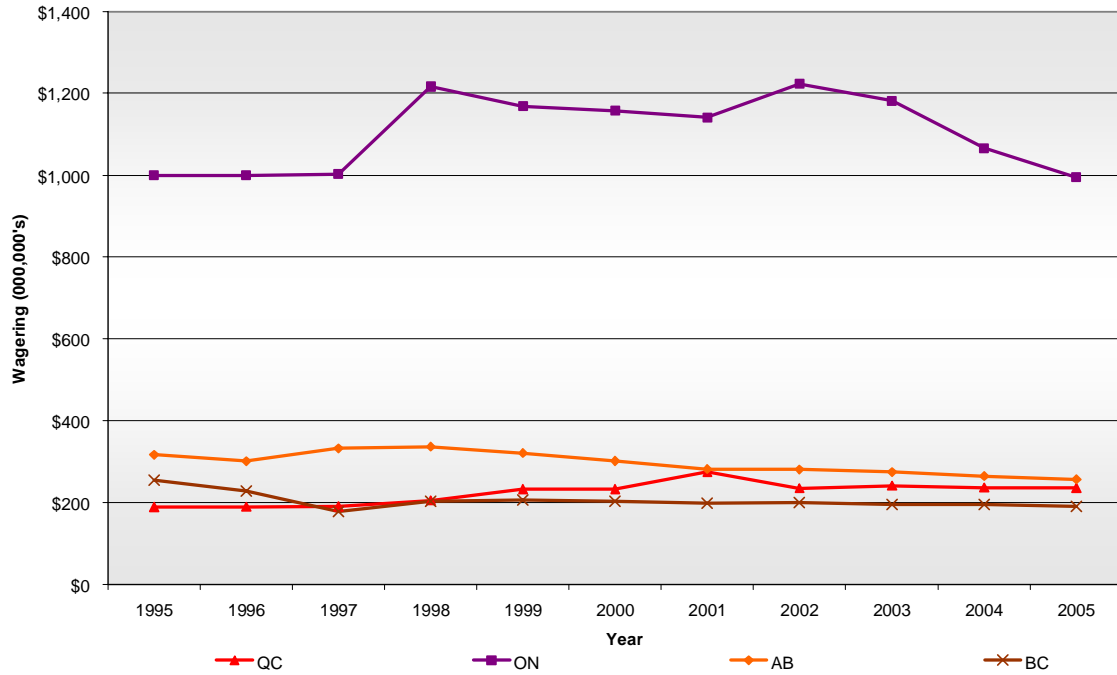
Of the 70 halls, 50 were profitable (positive EBITDA) and 20 were unprofitable (negative EBITDA). In 2004, 14 halls were unprofitable. Exhibit 14 provides summary characteristics of halls by grouping. The single largest difference between profitable and unprofitable halls is prize payouts. Unprofitable halls have higher prize payouts (expressed as a percentage of wagering) than profitable halls in the same group.

Exhibit 15 summarizes total wagering by size of hall and by profitability. Of the \$705.5 million in total wagering, \$129.7 million or 18.0 percent was generated by unprofitable halls. If the Largest group were excluded, this percentage increases to just over 30.0 percent of wagering being generated by unprofitable halls. HLT estimates that these unprofitable halls generated over \$13.0 million in profit to charities in 2005.

3.3 SUMMARY AND CONCLUSIONS

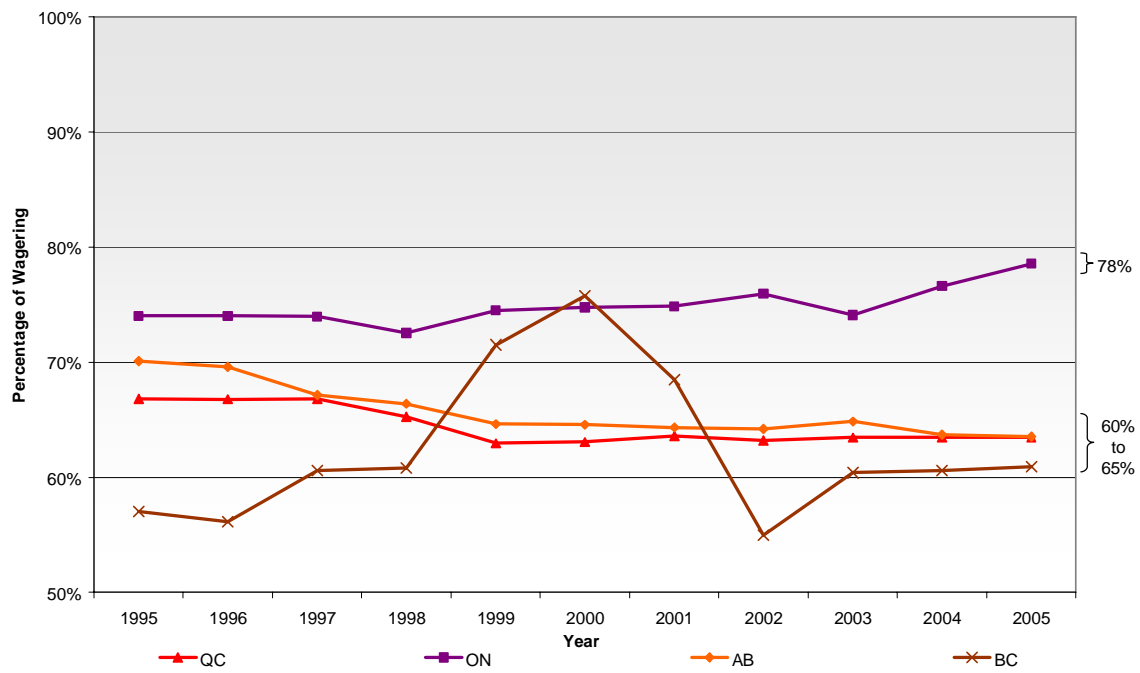
The financial assessment of bingo operations in Ontario is greatly influenced by the quality and quantity of data assessed. A standard financial reporting format and clear understanding of the operations models being used by operators would have greatly assisted the assessment of the current revenue 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.

Exhibit 16
Total Bingo Wagering By Province
Major Provinces



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

Exhibit 17
Total Bingo Prizes by Province



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

4. Characteristics of Ontario's Bingo Gaming Sector

This section of the report identifies and analyses major characteristics of bingo gaming in Ontario as contained in the operating data that was analyzed. Major characteristics identified and analyzed included:

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

Through an analysis of these characteristics an assessment of the current revenue model can be made.

4.1 WAGERING AND PRIZES

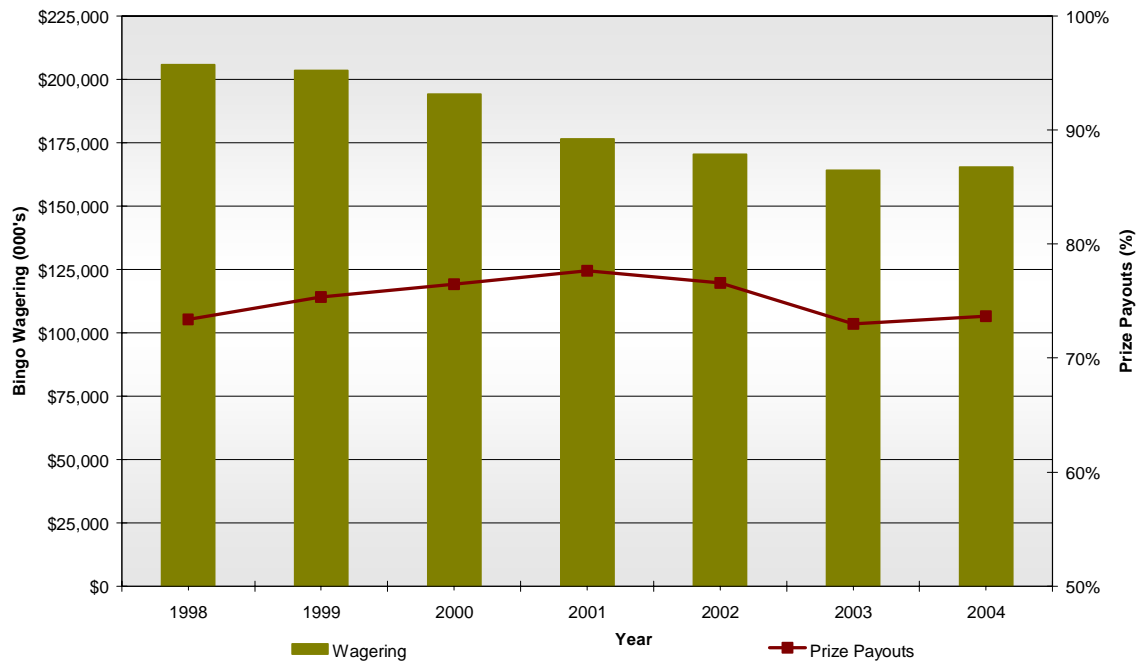
The assessment of wagering and prizes looked at:

- bingo wagering, prizes and win by province and for paper and electronic bingo;
- bingo wagering, prizes and win for Windsor bingo halls;
- mix of wagering, prizes and win by type of bingo licence (municipal and provincial) in Ontario; and
- customer spending (bingo, food and beverage and other) in Ontario.

Bingo Wagering, Prizes and Win by Province

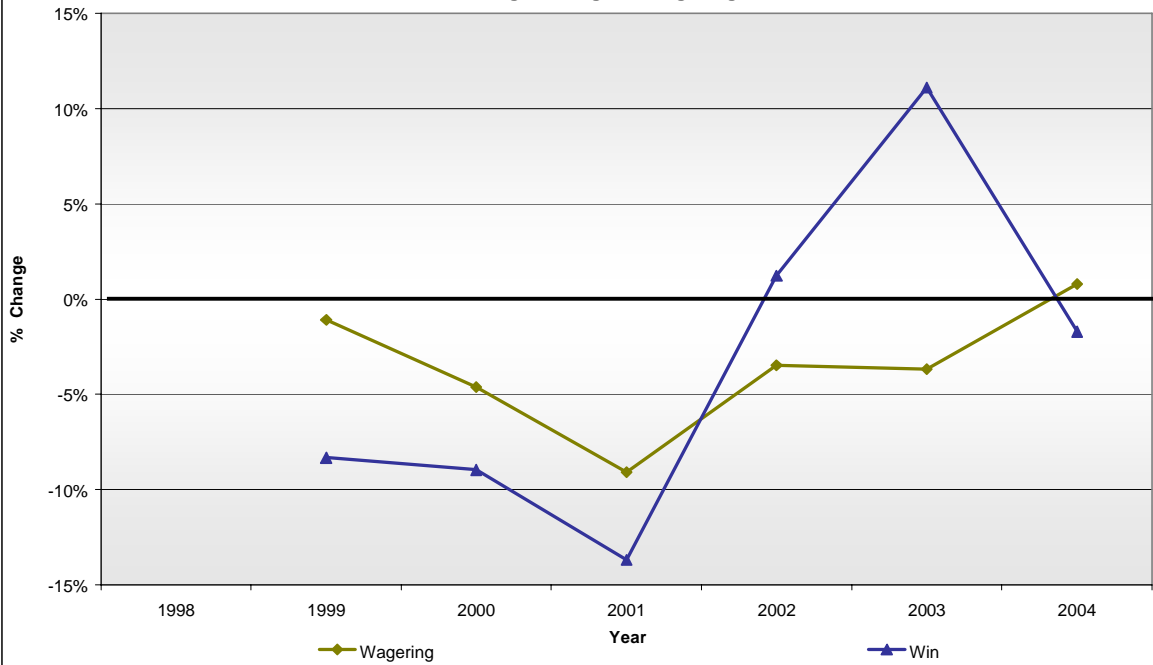
Ontario has, by far, the largest bingo gaming sector in Canada at approximately \$1.0 billion in wagering. Alberta, Québec and British Columbia are the next largest markets, each having less than \$250.0 million in wagering (see Exhibit 16). From a win perspective the gap between Ontario and the next largest bingo market narrows as Ontario has high total average prize payouts at 78.0 percent of wagering. This compares to between 60.0 and 65.0 percent for each of Alberta, Québec and British Columbia (see Exhibit 17). These latter provinces mandate maximum prizes that can be awarded, based on a percentage of wagering. Ontario regulates the maximum dollar amount of total prize boards by bingo session and by licenced game.

Exhibit 19
City of Windsor Historical Bingo Trends - Wagering, Prizes



Source: HLT Advisory Inc. based on information/data from the City of Windsor.

Exhibit 20
City of Windsor Historical Bingo Trends
Annual Percentage Change in Wagering and Win



Source: HLT Advisory Inc. based on information/data from the City of Windsor.

Compared to the other provinces, Ontario currently has the least developed bingo market in terms of electronic bingo activity (see Exhibit 18). While the majority of electronic bingo in Canada, including British Columbia, is still based on “parallel” paper bingo activity, this form of bingo activity is growing. The prize payouts for electronic bingo (not played in parallel with paper bingo) are also generally lower than paper bingo activity. Further, electronic bingo does have the potential to appeal to a wider audience which may lead to an increase in bingo’s customer base. The linked bingo games managed by Ontario Lottery and Gaming represent all of the electronic bingo activity in Ontario in Exhibit 18. Ontario’s future penetration of electronic bingo should increase due to the OLG’s electronic bingo initiative (“Pilot Project”).

Exhibit 18												
% of Total Bingo Wager Breakdown by Game Format (Paper or Electronic)												
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Ontario:												
Paper Bingo	100%	100%	100%	94%	94%	95%	96%	98%	98%	98%	98%	98%
Electronic	0%	0%	0%	6%	6%	5%	4%	2%	2%	2%	2%	2%
	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Quebec:												
Paper Bingo	100%	100%	100%	93%	82%	83%	85%	83%	84%	84%	85%	85%
Electronic	0%	0%	0%	7%	18%	17%	15%	17%	16%	16%	15%	15%
	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Alberta:												
Paper Bingo	100%	100%	88%	87%	86%	86%	85%	85%	85%	81%	78%	78%
Electronic	0%	0%	12%	13%	14%	14%	15%	15%	15%	19%	22%	22%
	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
British Columbia:												
Paper Bingo	100%	100%	100%	93%	81%	77%	74%	68%	59%	55%	51%	48%
Electronic	0%	0%	0%	7%	19%	23%	26%	32%	41%	45%	49%	52%
	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%

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

Bingo Wagering, Prizes and Win at Bingo Halls in Windsor

Typically in gaming it is a commonly held belief that increased prizes leads to increased wagering. Wagering, prizes and win trends at bingo halls in Windsor can provide some insight into this commonly held belief. Windsor is one of the largest bingo markets in Ontario. Exhibit 19 shows recent wagering and prize trends while Exhibit 20 shows annual changes in wagering and win over the same time period. Bingo activity in Windsor recently experienced three distinct trends.

- From 1998 to 2001, wagering decreased while prizes increased resulting in decreased win levels.
- From 2001 to 2003, while wagering continued to decline, win levels were increased as prizes were reduced to offset the decline in wagering.
- Since 2003 (albeit only one year of results) while wagering increased, a slight increase in prizes resulted in a decrease in win.

From these trends, it can be concluded that a balance between wagering and prizes (i.e., optimal prize board) has to be achieved in order to increase win levels. Further, given the sensitivity between prizes and wagering and win, rules and regulations that directly and/or indirectly influence prize payouts must be clearly understood and minimized and/or simplified wherever possible.

Exhibit 21 Mix of Municipal and Provincial Games (2005)							
Size of Hall (Wagering)	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
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

Source: HLT Advisory Inc. based on survey data.

Exhibit 22 Bingo Customer Expenditures (2005)							
Size of Hall (Wagering)	Small (\$1M to \$5M)		Medium (\$5M to \$10M)		Large (\$10M to \$15M)		Largest (>\$15M)
	Profitable	Unprofitable	Profitable	Unprofitable	Profitable	Unprofitable	Profitable
Number of Halls	7	9	19	6	10	5	14
Average Attendance	61,099	61,785	150,206	156,612	263,185	226,477	453,558
Average Wager/Attendee	\$ 57.12	\$ 51.04	\$ 52.51	\$ 49.05	\$ 47.56	\$ 49.02	\$ 43.87
Average Win/Attendee	\$ 17.10	\$ 13.92	\$ 14.09	\$ 10.01	\$ 12.18	\$ 10.65	\$ 11.01
Average F&B Spend/Attendee	\$ 2.31	\$ 2.42	\$ 3.00	\$ 1.69	\$ 1.97	\$ 1.77	\$ 1.51
Average Other Spend/Attendee	\$ 0.41	\$ 1.18	\$ 1.17	\$ 0.28	\$ 0.29	\$ 0.20	\$ 0.25
Total	\$ 19.82	\$ 17.53	\$ 18.26	\$ 11.98	\$ 14.44	\$ 12.62	\$ 12.77

Source: HLT Advisory Inc. based on survey data.

Mix of Wagering, Prizes and Win by Type of Bingo Licence

In Ontario there are two types of paper bingo games, municipal and provincial. Municipal games (regular bingo) are licenced by individual municipalities while provincial games are licenced by the Provincial Registrar (AGCO). Municipal games cannot have prize boards that exceed \$5,500 per session. Many municipalities in fact only allow smaller prize boards. As discussed further in this report, certain “allowable” expenses are calculated off of the municipal prize board. Finally, provincial games can only be offered in conjunction with municipal games. Also, prize boards for provincial games are not regulated but rather they have a theoretical prize payout built into the structure of the games (approximately 60.0 to 65.0 percent). Individual prizes for provincial games are usually higher than for municipal games, hence operators attempt to increase the number of provincial games that are offered.

Exhibit 21 shows the 2005 mix of municipal and provincial games by wagering, prizes and win and by size of bingo hall. Given the rules and regulations described previously, municipal games account for the largest amount of wagering and have higher prize payouts. Larger halls rely more on provincial games to generate win than smaller halls. Also, unprofitable halls in each size group have higher prize payouts (expressed as a percentage of wagering) than profitable halls. The single largest factor influencing the total prize payouts in Ontario (78.0 percent of wagering) is the prize payout of municipal games.

Customer Spending

Exhibit 22 shows bingo customer expenditures by size of hall and by profitable/unprofitable halls. In all cases but one, profitable halls have higher customer wagering and win levels per attendee than unprofitable halls. Win levels are directly influenced by prize payouts. There are no clear trends with regard to average food and beverage (“F&B”) and other (break-open tickets, novelty, etc.) spending by attendee. In all cases however, profitable halls have higher total expenditures (win plus F&B plus Other) than unprofitable halls. Also, generally speaking, smaller halls have higher expenditures per attendee levels than larger halls. This latter characteristic is likely due to the number of casual customers that larger bingo halls are able to attract as compared to smaller halls that rely on a small core group of customers.

4.2 OPERATOR REVENUE MIX

The current revenue model only pertains to bingo gaming activity and does not include other business streams such as F&B, novelty/gift merchandise and other forms of gaming (i.e., break-open tickets, lottery products, etc.). These other business streams are needed for bingo halls to offer a “complete” product offering from a gaming customer perspective. HLT investigated the current mix of bingo hall revenue streams and typical gross profit margins of F&B operations.

Exhibit 23							
Current Mix <u>After</u> Allowable Expenses and Win Split with Charities (2005)							
Size of Hall (Wagering)	Small (\$1M to \$5M)		Medium (\$5M to \$10M)		Large (\$10M to \$15M)		Largest (>\$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%

Source: HLT Advisory Inc. based on survey data.

Exhibit 24							
Current Mix <u>Before</u> Allowable Expenses and Win Split with Charities (2005)							
Size of Hall (Wagering)	Small (\$1M to \$5M)		Medium (\$5M to \$10M)		Large (\$10M to \$15M)		Largest (>\$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 (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%

Source: HLT Advisory Inc. based on survey data.

Exhibit 25							
Industry Gross Profit Margins (2005)							
Size of Hall (Wagering)	Small (\$1M to \$5M)		Medium (\$5M to \$10M)		Large (\$10M to \$15M)		Largest (>\$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
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%

Source: HLT Advisory Inc. based on survey data.

Exhibits 23 and 24 shows the mix of bingo hall revenue before and after the revenue split with charities, by size of hall and profitability/unprofitability. After the revenue split, non-bingo gaming revenue accounts for approximately 35.0 to 45.0 percent of operator total revenue. Before the revenue split, non-bingo gaming revenue accounts for approximately 15.0 to 25.0 percent of total bingo hall revenue. This average non-bingo gaming share of total revenue is slightly higher than what is experienced at typical Canadian casinos (5.0 to 10.0 percent).

Exhibit 25 shows the gross profit margin for all halls by size and profitability. Based on the *2001 Operation Report* of the Canadian Restaurant and Food Service Association (the latest available report that contains financial operating data for concession-type F&B operations in Canada) the gross profit margin for concession-type F&B operations should be 33.2 percent. In 2005, all profitable halls had gross profit margins of between 30.0 and 36.0 percent. In 2004, profitable halls in almost all size groups had significantly lower gross profit margins (below industry standards).

In both years, profitable halls had sales (revenue) ranging from \$150,000 to \$700,000. This should produce gross profit margins of \$50,000 to \$230,000 respectively. Hence, from the review of survey data it can be concluded that while non-gaming profit is meaningful, it is not significant from an actual dollar perspective.

4.3 BINGO-RELATED LABOUR COST

In most gaming operations, the two largest operating cost centres are typically labour and marketing. Bingo labour costs include runners, callers, session managers and hall managers. These labour costs are included in both allowable expenses (paid runners and reimbursable expenses for charity volunteers) and in hall operations.

Labour costs contain both a fixed base amount (based on number of sessions offered and minimum staffing requirements per session) and a variable amount based on business volume. Expressed as a percentage of wagering or win, labour costs should decrease as halls become larger (in terms of wagering). Exhibit 26 summarizes 2005 labour costs by size of hall and profitability/unprofitability. While there is a wide range of labour costs within each size group and within profitable/unprofitable halls, some general trends can be highlighted.

- Expressed as a percentage of win, unprofitable halls have higher relative labour costs than profitable halls in the same size group. This is likely a function of the fixed labour component and prize payouts.
- Labour costs do not decrease as halls become larger (in terms of wagering). This is likely a result of the number of sessions and the mix of municipal and provincial games offered.

Exhibit 26 Bingo Labour Costs (2005)							
Size of Hall (Wagering)	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
Allowable Expense Bingo 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%
Allowable Expense Bingo Labour	6.5%	9.8%	7.7%	13.8%	8.6%	6.3%	9.5%
Average Total Bingo Labour Costs	9.8%	12.1%	10.1%	26.6%	13.4%	15.3%	17.5%
Average % of Wager:							
Average Total Bingo Labour Costs	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			

Source: HLT Advisory Inc. based on survey data.
*Adjusted due to limited sample base data and/or data being "skewed" by individual halls.

The location of halls and operator sophistication (operations models) including the number of sessions offered are two significant factors influencing the range of survey results. The current revenue model and current regulations are also significant. Rules and regulations regarding the inclusion of allowable expenses, its artificial cap (based on a percentage of municipal prize boards with a maximum as well as a mix of games including sessions offered) and charity volunteers and compensation significantly impact the operations models of individual halls across Ontario.

4.4 OCCUPANCY COSTS

Occupancy costs include building rent, property taxes, insurance, repairs and maintenance, utilities, waste removal, landscaping/snow removal and building cleaning. The largest components of occupancy costs are building rent and property taxes. For typical casinos, operating occupancy costs are usually not a significant cost centre. For bingo halls however, this cost centre is significant.

Some stakeholders believe that hall operators are intentionally paying high building rents to entities who own the facility and are related to the operator. Many bingo hall operators do own the building that they operate bingo out of. In almost all of these cases, the building is owned by another "related" company and there is a rent charged between companies. This is generally done for both accounting/tax and financing purposes. For instance, banks will not lend money to the operation of a bingo hall without security. As bingo hall operators do not hold the bingo licence, the only security they can usually

Exhibit 27 Occupancy Costs (2005)							
Size of Hall (Wagering)	Small (\$1M to \$5M)		Medium (\$5M to \$10M)		Large (\$10M to \$15M)		Largest (>\$15M)
	Profitable	Unprofitable	Profitable	Unprofitable	Profitable	Unprofitable	All
Total Occupancy Costs (% of win plus other revenue)	8.7%	13.1%	9.2%	10.0%	7.6%	13.7%	7.3%
Halls by Range of Occupancy Cost:							
Number of Halls	7	9	19	6	10	5	14
Number of Halls Reporting	7	9	19	6	10	5	14
<\$50k	1	2					
\$50-\$100k	2		1	1			
\$100-\$200k	4	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
Halls by Range of Occupancy Cost/Seat:							
Number of Halls	7	9	19	6	10	5	14
Number of Halls Reporting	6	8	16	6	10	4	13
<\$100		2					
\$100-\$200	2			1			
\$200-\$300	2	1	1		2		2
\$300-\$400	2	1	4	1	1		2
\$400-\$500		2	4	2	4		1
\$500-\$600		1	3		2	1	5
\$600-\$700		1	1			1	1
\$700-\$800			1		1	2	1
\$800+			2	2			1

Source: HLT Advisory Inc. based on survey data.

Exhibit 28 Occupancy Cost by Geographic Location of Hall (2005)			
	Northern	Southern Rural	Southern Urban
Average Occupancy Cost	\$ 222,857	\$ 176,075	\$ 319,949
Cost Range:			
Low	\$ 213,493	\$ 130,336	\$ 148,008
High	\$ 350,728	\$ 91,126	\$ 243,163
Halls by Range of Total			
Number of Halls	10	15	45
Number of Halls Reporting	10	15	45
<\$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

Source: HLT Advisory Inc. based on survey data.

Exhibit 29 Marketing Expenditures (2005)							
Size of Hall (Wagering)	Small (\$1M to \$5M)		Medium (\$5M to \$10M)		Large (\$10M to \$15M)		Largest (>\$15M)
	Profitable	Unprofitable	Profitable	Unprofitable	Profitable	Unprofitable	All
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%

Source: HLT Advisory Inc. based on survey data.

provide the bank is the real estate component of the operation (i.e., a building with a rental revenue stream).

As with labour, actual occupancy costs should increase as halls become larger (in terms of wagering). However, expressed as a cost per seat or as a percentage of revenue, occupancy costs should decrease as halls become larger. Site location between urban centres, as well as within urban centres will influence this expected trend. Exhibit 27 displays the total occupancy cost as a percentage of bingo win plus other revenue and the cost range for both average occupancy and the average occupancy per seat. Within each size group, profitable halls show a lower relative occupancy cost than unprofitable halls. Also, total occupancy costs for profitable halls generally do decrease as halls become larger (in terms of wagering).

Exhibit 28 shows the relationship between occupancy cost and geographic location of hall. 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.

Note: The survey did not cover age of facility or facility investment. With this said, HLT understands that there has not been significant sector-wide reinvestment in facilities over the past number of years in Ontario.

4.5 MARKETING

In most gaming operations, the two largest operating costs centres are typically labour and marketing. The current marketing cost component of a bingo hall is included in both the allowable expenses and in hall operations.

Exhibit 29 shows average operator and allowable marketing expenditures in dollar amounts and as a percentage of wagering. Bingo halls in Ontario spend less than 1.5 percent of wagering on marketing. A typical local-based casino would spend 10.0 to 15.0 percent of win on marketing. Generally, unprofitable halls spent more money on marketing in 2005 than profitable halls; the effectiveness of marketing expenditures in these cases should be questioned.

Greater sector-wide focus should be given to the role of marketing in the operation of bingo gaming in the Province. The current level of marketing expenditures (and likely focus of these expenditures) will not assist bingo gaming to grow. It is also not likely that it will assist bingo gaming in sustaining its current business levels.

Currently, the licencees and hall operators are permitted to undertake a wide range of marketing and advertising activities. HLT believes that few bingo halls (both charities and operators) take full advantage of the range of marketing activities currently available to them and this is an area that should be investigated further.

4.6 COST OF PAPER

Bingo paper is required to play the traditional game of bingo. Many stakeholders believe that there is a large discrepancy between the costs of bingo paper across the Province.

Exhibit 30 shows the average cost of bingo paper in dollars and as a percentage of wagering for all size groups and profitability/unprofitability. The average cost of paper within each size group and between profitable and unprofitable halls is very similar (average actual cost and as a percentage of wagering is about 1.0 percent). With this said, 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 Personal Bingo Verifier usage by their customers.

Size of Hall (Wagering)	Exhibit 30 Cost of Paper (2005)							
	Small (\$1M to \$5M)		Medium (\$5M to \$10M)		Large (\$10M to \$15M)		Largest (>\$15M)	All
	Profitable	Unprofitable	Profitable	Unprofitable	Profitable	Unprofitable		
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%	

Source: HLT Advisory Inc. based on survey data.

4.7 SUMMARY AND 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.

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 10.0 and 15.0 percent 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 5.0 and 10.0 percent of win plus all other revenues for a typical bingo hall in Ontario.

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

This section of the report contains the views of operators and the Ontario Charitable Gaming Association (“OCGA”) with regard to the current operation of bingo gaming in Ontario and recommended revenue model changes, including principles upon which to create a new model. This section also contains HLT’s assessment of the current revenue model.

5.1 STAKEHOLDER VIEWS

Operators who provided financial information were contacted and invited to participate in submitting a written response to changes they would like to see made to the existing revenue model. In total, 11 responses were received. In addition, the OCGA and the Association of Municipal Manager, Clerks and Treasurers Ontario (“AMCTO”) were included in the process. The responses have been summarized by HLT into the following topic areas:

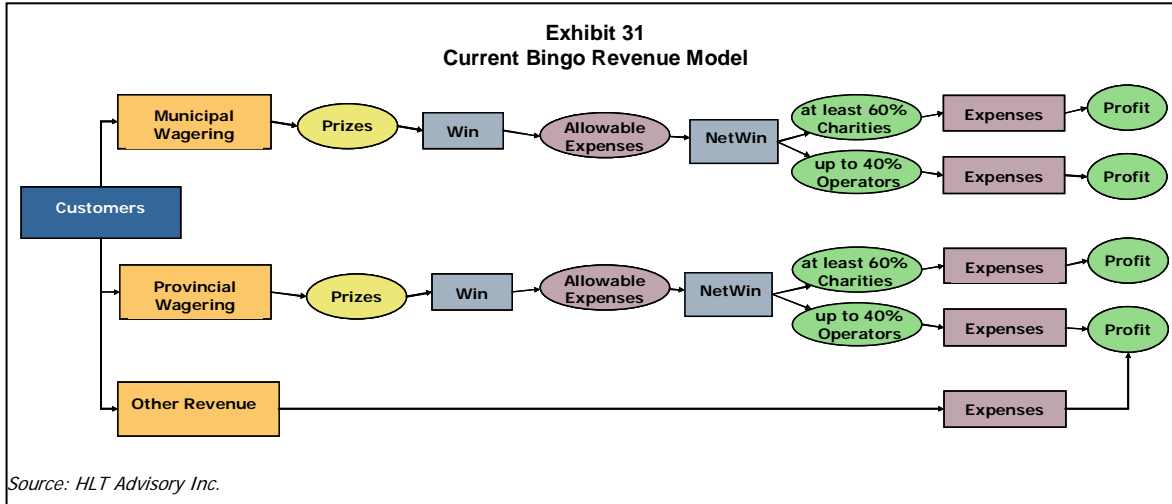
- Labour
- Bingo paper
- Licence fees
- Revenue split
- Advertising
- Prize boards
- Licensing (other)
- Revenue model changes

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.
Licensing (Other)	<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.
Revenue Model Changes	<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.

5.2 HLT’S ASSESSMENT OF THE CURRENT BINGO REVENUE MODEL

The current bingo revenue model is based on two licenced bingo games (municipal and provincial), defined allowable expenses calculated from municipal game prizes and a split in revenue off of an adjusted win amount (win less allowable expenses) with a “cap” for the operators, as depicted in Exhibit 31. Furthermore, the revenue model is applied to each bingo event or session that is conducted in a bingo hall. The model only applies to bingo gaming and does not take into account any ancillary revenue streams.



The following summarizes the assessment of individual components of the current model. Please note that HLT’s assessment did not involve an assessment of why the current model was created (principles and/or intention). Our comments should not be taken as either agreement with or opposition to these model principles and/or intentions. Our assessment is based solely on the current financial situation of bingo gaming in Ontario and the future health of the same.

General	<ul style="list-style-type: none"> The revenue model is applied to every bingo event/session and only includes bingo gaming. The entire bingo hall operation (bingo plus ancillary activities) represents the total bingo experience for the customer.
Licensed Games	<ul style="list-style-type: none"> Provincial games can only be offered in conjunction with municipal games. The gaming customer <u>does not know</u> the difference between types of games – municipal or provincial. The gaming customer <u>does know</u> the differences in prize payouts between games.
Prizes	<ul style="list-style-type: none"> Municipal game prizes cannot exceed \$5,500 in total per bingo event. Provincial game prizes are based on a “theoretical prize payout” (60% to 67% on average). The gaming customer factors in the prize structure per event as part of his/her decision to play bingo. The overall prize payout of 78% in the Province (or 74.6% in sample base) is “too high” and not reflective of an optimal situation that maximizes both attendance and hall profitability (win).
Allowable Expenses	<ul style="list-style-type: none"> Most allowable expenses are “necessary” bingo operating expenses (i.e., labour and marketing). The allowable expenses do not cover all “category” expenses (i.e., there are “necessary” labour expenses in both allowable expenses and in the operator expenses). Allowable labour and marketing expenses are calculated off of prizes. This situation has forced operators and charities to factor both customer appeal and expenses into determining prize payouts. <u>Customer appeal should be the main determining factor in prize payout structure.</u> True labour and marketing costs are more closely tied to wagering

	<p>(number of attendees and how much they spend) as opposed to customers' prizes.</p> <ul style="list-style-type: none"> • Licence fees are calculated off of prize payouts and this situation takes away from using the prize board to maximize customer appeal. • Licence fees are currently "shared" but should be for the account of the licence holder.
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5.3 SUMMARY AND CONCLUSIONS

The current revenue model produces a profit split of approximately 80/20 in favour of the charities (see Exhibit 32). Given certain rules and regulations both inherent in the model and external, it can be said that there is a fine line between profitable and unprofitable halls, especially in the Small and Medium halls. With regard to the Largest group of halls, the revenue cap of 40.0 percent or 14.0 to 15.0 percent of wagering, comes into effect and operators have no incentive to increase business levels.

Further, it can be put forward that operators currently spend a considerable amount of time and energy on determining mix of games, number of sessions and prize payouts not solely based on customers but rather on a combination of customer appeal, allowable expenses and bottom line profitability.

Exhibit 32									
Profit Sharing Results Under the Current Revenue Model									
Actual Average Results of Profitable Halls									
	Small \$1M-\$5M					Medium \$5M-\$10M			
Win	\$1,004,364					\$2,057,841			
Allowable Expenses	\$150,839					\$303,811			
Split:	Charities		Operator			Charities		Operator	
	Average	Split %	Average	Split %	Average	Split %	Average	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:	Charities		Operator		Charities		Operator		
	Average	Split %	Average	Split %	Average	Split %	Average	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

This section presents HLT's recommendations to the AGCO with regard to a new bingo revenue model. This recommendation is based on our assessment of the current state of bingo gaming in Ontario from the survey data received from operators, submissions from operators, the OCGA and AMCTO, and our experience in the Canadian gaming industry in general.

Prior to presenting the recommended revenue model, we first present the guiding principles that were used to make our recommendation as well as a discussion of basic issues related to bingo gaming. Some of these issues are reflected in the recommended model while others are "flagged" for further investigation. The revenue model presented is not intended to be static, but rather it should be monitored and adjusted when appropriate. With this said, we believe that the model presented better reflects the current state of bingo gaming and gives stakeholders more tools to respond to changing market conditions. Finally, some recommendations require certain rules and regulations governing bingo gaming to be changed. These changes have to be assessed by the AGCO.

6.1 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 as listed in Section 1.1.

6.2 BASIC ISSUES OF BINGO GAMING

From the analysis of bingo gaming characteristics in Ontario, four basic issues that impact the "profitability" of bingo gaming can be identified and discussed. These issues should be investigated further and/or monitored.

"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.

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 70.0 percent 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.

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.

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.

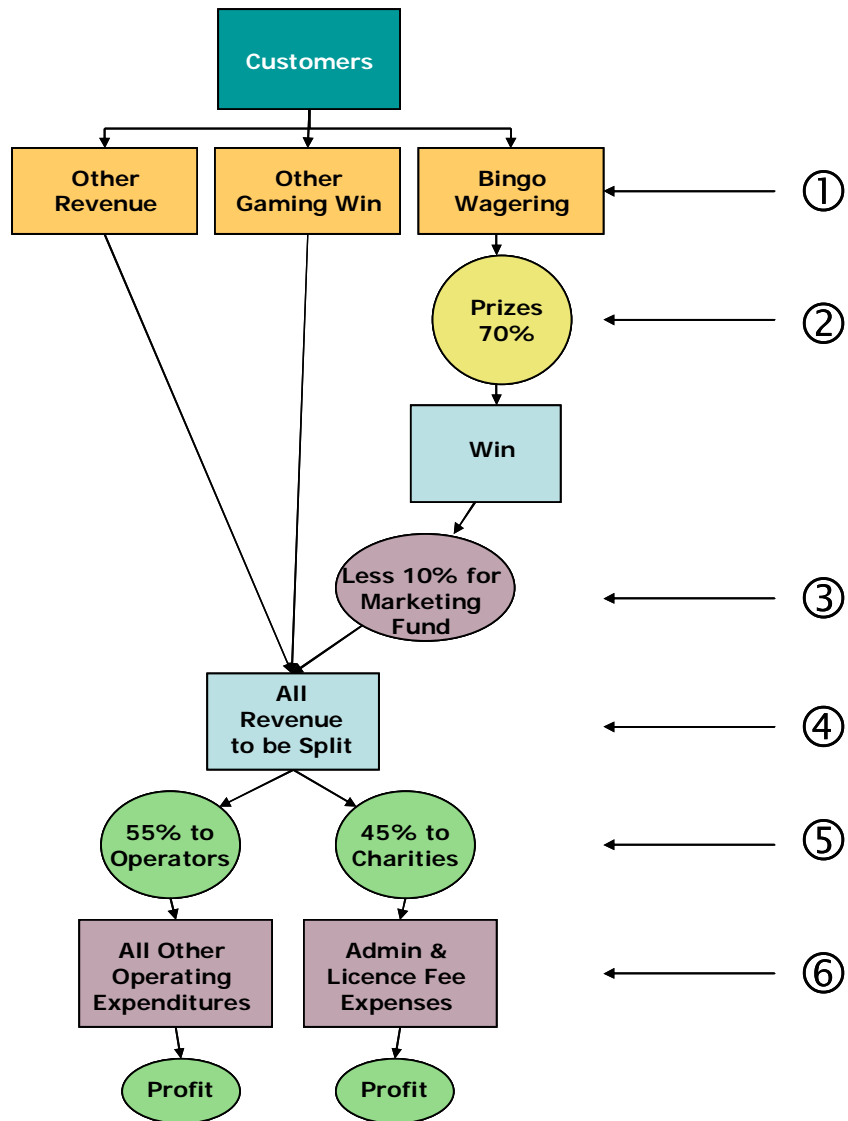
The Role of Marketing

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 10.0 percent of bingo win.

**EXHIBIT 33
RECOMMENDED BINGO REVENUE MODEL**

Summary of Major
Model Components*



Source: HLT Advisory Inc.

*Numbers correspond to Section 6.3 of this report.

6.3 RECOMMENDED BINGO REVENUE MODEL

Based on the various analyses and stakeholder consultations undertaken to complete the review, HLT put forth the following recommended revenue model for charitable bingo gaming in Ontario. For illustration purposes, Exhibit 33 graphically depicts the recommended model. The numbered labels in Exhibit 33 under Summary of Major Model Components correspond to the numbered points below.

1. One pool of games is established with “Decision Makers” having the ability to pick games that match their markets.
2. Prize boards are capped at a maximum average of 70.0 percent of wagering. This requirement should be monitored to ensure compliance.
3. Both the charities and operators share marketing costs. Ten percent of bingo win is put aside into a marketing fund to be used to market the bingo hall. If these funds are not spent, they are subject to the recommended revenue split. Both the charities and operators must agree on how marketing dollars are spent.
4. All bingo hall revenues (bingo win less 10.0 percent for marketing plus all other hall revenues) are subject to the split between charities and operators.
5. The charities are entitled to 45.0 percent of bingo win less 10.0 percent for marketing plus all other hall revenues. The operators are entitled to 55.0 percent of bingo win less 10.0 percent for marketing plus all other hall revenues.
6. The charities are responsible for their own administration and licence fees. Operators are responsible for all other operating costs including labour costs related to the entire operation.

Finally, HLT is recommending that only one revenue model be implemented for all bingo gaming in the Province.