

**City of London – Market Analysis
Charitable Bingo and Gaming Revitalization Initiative
February 2013**

Background

In 2010, OLG was directed by the Ontario government to launch a new focused charitable gaming program to modernize the industry in an effort to sustain and grow revenue in support of local fundraising.

The industry has been in a decline for the past decade with an average provincial contraction of 8% to 10% year over year. A decade ago there were more than 6,000 charities raising funds at 200+ halls; today there are just under 3,000 charities fundraising in approximately 65 halls.

Market Research – The Customer is the business driver

In 2009, the Ontario Bingo Development Fund commissioned Pollara Research to conduct an in depth study into the bingo industry.

One of the major findings shows that people have stopped playing bingo due to a simple lack of interest. The industry has been stale for decades and no new games have been introduced to keep players interested.

The Report also revealed that more than two-thirds of adult respondents in Ontario reacted positively to changes in bingo facilities including – renovating facilities to update decor, ability to play bingo using a touch screen and expanding facilities to include a restaurant or pub.

- This supports the direction of the Charitable Bingo and Gaming Revitalization Initiative - to introduce a new entertainment experience through enhanced facilities, new paper and electronic bingo-themed games and improved customer service.
- OLG, in collaboration with the Ontario Charitable Gaming Association (OCGA) and Commercial Gaming Association Ontario (CGAO), has developed a formal multi-year Revitalization Initiative. Phase One of the Revitalization Initiative provides for the continued expansion of electronic Bingo and additional product including: Break Open Ticket Dispensers, an eSuite of games (bingo-themed play on demand, electronic Instants and electronic break open tickets), Rapid Draw Bingo and electronic Shutterboard.

The Revitalization Initiative serves to retain current players, bring back lapsed players and appeal to new players.

Financial Analysis

The London Bingo Country 5-year financial forecast is based on projections and reasonable assumptions made by OLG. The projections have been based on experience gained from other Charitable Gaming jurisdictions in Canada, the U.S., as well as current data for the site operating in London.

The 5-year forecast was developed and then compared to the status quo to determine what net benefits, if any, are bestowed upon the Charity Association and the host Municipality.

Net Win at the London Bingo Country site has been declining since 2009, with the exception of 2011 which was greater than 2010 primarily due to a reduction in the prize payout percentage. In addition,

visitation has seen a steady decline annually between 7 – 9%. The overall reduction in net revenue and attendance has resulted in decreased funding to Charities, and less cash flow to the operator in order to run the business. The net win decline, moving from 2009 to 2012 has been almost 22%. Since earnings for the operator and funding for the Charity Association are directly related to site revenues, both stakeholders have seen significant reductions in recent times.

The model developed by OLG indicates a yearly benefit, versus status quo, for both the Charity association and the host municipality. It is described as follows:

Table 1.0 – Financial Projection Summary

Stakeholder	Status Quo Projection – 5 years	OLG Revitalization Projection – 5 years	5-year variance from Status Quo Projection
Charities	\$1.6 Million	\$3.6 Million	\$2.0 Million
Municipality	\$0.2 Million	\$0.4 Million	\$0.2 Million

In December 2011, OLG introduced new and interactive Play on Demand games which has lifted the net win for this product category by 400% across the four pilot sites (Barrie, Kingston, Peterborough and Sudbury). This provides evidence that OLG's new product lineup can make a substantial impact on site financial performance and in increasing attendance levels.

High Level Timeline

OLG will discuss the launch date for London Bingo Country at a later date as the launch date is conditional upon: product readiness by vendors for the Ontario market; product tested and approved by the Alcohol and Gaming Commission of Ontario; and service provider agreements being signed by the commercial operator, charity association and municipality.

Timing is critical as the commercial operator must invest in a build out of the facility to support the products and devices to be provided by OLG. Build out of the facility will occur following signature of all three agreements.

London Bingo Country would require an initial capital investment to ready their facility for the launch of new bingo-themed paper and electronic games. The facility will remain open through the build out; so there will be no loss in licensing revenue for London as the facility prepare to transition to operate under 207(1)(a) of the Criminal Code.

Therefore, London stands to benefit on a number of fronts:

- a sustainable long-term revenue stream
- allows charities to be self-sufficient through local fundraising efforts vs. applying to the City for funding
- generates annual municipal taxes from London Bingo Country
- maintains annual payroll at London Bingo Country (with potential growth) resulting in spinoff benefits in the community

OLG Cost Recovery

OLG has been given direction by government to launch the program on a cost recovery basis, at best. OLG's profit mandate remains for its Lottery and Casino Gaming divisions. The mandate of the

Charitable Bingo and Gaming Revitalization Initiative is to modernize the Charitable Gaming industry and sustain and grow charity fundraising efforts to support the local funding model. Another primary benefit is to keep private businesses operating in the local community.

OLG's business case, and related projections, has determined that approximately 25% of total site generated net win (i.e. from 37 sites) is necessary to cover costs for the following activities:

- All necessary hardware related to site set up including gaming devices
- A hardware refresh and replacement strategy which will replace old technology with new devices for customer use
- Initial product software for launch and software development for new games to be continuously introduced on the gaming floor
- Costs related to a small but dedicated team committed to launching and maintaining the success of the Initiative
- All telecommunications and related maintenance required to support the centres which includes central servers and backups at OLG headquarters
- The cost of the Bingo Paper (once borne by the charities)
- A percentage of Food and Beverage and other non-gaming revenues generated at the site that is paid directly to charities by OLG
- HST expense as applicable
- An IT help desk which includes Tier 1, 2 and 3 support
- Other operating expenses associated to maintaining and overseeing 37 sites in operation (i.e. travel, consumables etc.)

Responsible Gaming

OLG is committed to employing its same rigorous approach and methodology of responsible gaming within the bingo halls that OLG has used across its other lines of business.

This Responsible Gaming program seeks to:

- educate and inform players about the risks of gambling
- encourage safe play
- support employees

The Program will be subject to regulatory oversight, from the Alcohol and Gaming Commission of Ontario, upon completion of its new standards for Responsible Gaming.

There are several specific items that have been identified at the site level:

- Development of new employee training, to inform players on safe play, and to support their interactions with players
- Information resources available at key traffic areas for players, including on new games. This material will explain:
 - How games work
 - Signs of risks for problem gambling
 - Tips for safe play
 - Information on how to obtain a range of counseling services in local communities
- On-site Responsible Gaming education campaigns by both OLG and the Responsible Gambling Council of Canada

Under OLG Conduct and Manage, bingo halls will also enforce an age-controlled environment. No person under the age of 18 will be permitted inside the hall.

New Standard Agreement

Following extensive analysis, the Revitalization Initiative will move to a new standard financial commission model – where all participating municipalities will receive 3% of adjusted site net win. A Standard Agreement supports speed to market for all markets that want to participate. It allows for the maximum number of participants and recognizes the needs of commercial operators, charities and municipalities. It also provides for an equalized offering to provide a uniform product offering and eliminates competitive advantages.

The Standard Agreements have been reviewed by OLG's regulator, Alcohol and Gaming Commission of Ontario (AGCO), and by the Ministry of the Attorney General, to validate that the Terms and Conditions meet OLG Conduct and Manage under 207(1)(a) of the Criminal Code. OLG will further issue formal policies and procedures aligned to AGCO's pending standards-based regulation for charitable gaming in the spring of 2012.