



TAYLOR WOODINGS

NEWS FLASH

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Is 2009 the Bottom of the Pint Glass for Pubs in Australia, or a Cocktail for a New Direction?

The Australian Hotels Industry in 2009

There has been a lot of media coverage about the Hotel and Pub industry of late, relating to issues around increased regulation, binge drinking, restricted trading hours, excessive debt and corporate failures. So it's time to take stock and consider where the industry is really at, how it got there, and where it's heading.

The Australian Hotels Association (AHA) recently commissioned PriceWaterhouseCoopers (PWC) to provide a report into the hotels industry, which was completed in April 2009 (the Report)¹. The Report provides an insight into the current composition of the industry and key challenges that venue operators face in the current economic and regulatory climate.

The Report provides a current snapshot of the industry in 2009:

- The income growth evident in the industry in the past 25 years has been minimal indicating a mature industry;
- The number of businesses in the industry operating venues has declined in the past 10 years from approximately 4,500 to 3,150 nationally. During this period however, the number of venues per business has increased from 1.09 in 1997-98 to 1.27 in 2007-08, suggesting an increasingly consolidated industry – yet one that is still dominated by single operator traditional publicans;
- The large majority of operators in the industry are small independent operators, comprising approximately 88% of the total market. The remaining proportion of the market is comprised of Woolworths Ltd (7.9%), Wesfarmers Limited (3.3%) and ALE Property Group (0.3%);
- The industry continues to provide employment to approximately 180,000 workers with most hotels remaining relatively small businesses employing up to 30 people;
- Hotels earn the majority of their income from alcohol sales, with revenue from gambling activities typically accounting for approximately 30% of income;
- Venues with Electronic Gaming Machine (EGM) facilities are more likely to provide a larger range of facilities, and are more likely to provide sponsorship and financial contributions to sporting and community groups;
- There is evidence that average food prices in venues with EGM facilities are lower than venues without EGM facilities indicating a level of cross subsidisation of facilities.

¹ Australian Hotels: More than Just a Drink and a Flutter – An overview of the Australian Hotels Industry 2009 PriceWaterhouseCoopers. The report cites a number of sources of information including IBISWorld (2008) report, and ABS statistics relating to Pubs, Taverns & Bars

More information

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Current Policy Issues Affecting Hotels

Recent policy issues facing the industry such as regulations relating to smoking, trading hours and responsible service of alcohol have been well publicised. The issues detailed below relate to proposed measures designed to curb problem gambling in licensed premises. These measures have the potential to affect hotel trading and operations into the future.

Proposed Changes to ATM's in Pubs

In Victoria, ATM's will be banned from gaming premises from 2012. The Report analysed possible effects of a restriction or ban on ATM's in venues generally and provides some points for consideration by venue operators in states outside of Victoria. A study by the Centre for Gambling Research in 2004² concluded that the majority of funds withdrawn from ATM's in venues offering gaming were done in order to purchase food and beverages. As such, any restrictions placed on ATM's in gaming venues may cause inconvenience for non-gambling patrons and reduce venue revenue overall.

There are also concerns that venues that exist without an ATM in close proximity to the venue (especially in regional areas) will be more severely affected by ATM restrictions than other venues in more populated areas. The industry also holds safety concerns for pub patrons in situations where they will need to leave licensed premises, often late at night, to access an ATM. Given that it is estimated that the industry spends approximately \$515m on security measures annually, it is argued that licensed venues provide a more secure environment for patrons to access ATM facilities, especially late at night.

Gaming Pre-commitment

Another regulatory step that has been proposed in respect of addressing problem gambling in licensed venues is the notion of a mandatory "pre-commitment" to gaming through smart card technology. Other proposals being considered include placing pre-determined spend limits on EGMs to cap the amount that gamblers can spend on a machine at any one time. Advocates of such an approach argue that this would allow gamblers to pre-commit to a specified level of spending on gaming and that this would prevent problem gamblers from overspending on gambling and "chasing losses".

Opponents of these proposals argue that such a system would impose an unreasonable burden on hotel gaming revenue in respect of the inconvenience that would be felt by occasional recreational gamblers in having to register and participate in pre-commitment initiatives. It is argued that this inconvenience factor may deter occasional gamblers from playing EGMs. As part of a survey conducted by PWC in researching the industry for the Report, a majority of hotel operators surveyed (58%) were of the opinion that the introduction of smart card technology would reduce their gaming revenue by more than 10%³.

The Current Environment

The industry continues to face well publicised challenges in relation to the current economic climate, coupled with regulatory and societal pressures relating to issues such as smoking and the responsible service of alcohol. These revenue pressures have seen a range of less experienced and/or excessively leveraged operators face difficulties, particularly in situations where they are operating an inferior business. This environment has resulted in a number of insolvency and forced sale scenarios.

² Australian Hotels: More than Just a Drink and a Flutter – An overview of the Australian Hotels Industry 2009 PriceWaterhouseCoopers P47

³ Australian Hotels: More than Just a Drink and a Flutter – An overview of the Australian Hotels Industry 2009 PriceWaterhouseCoopers P55



Problems have also arisen for operators with multiple venues where they have moved away from the central principle of treating each venue in their group as a unique business. In attempting to achieve greater business efficiency by centralising and standardising marketing, management, and operational procedures, some operators have found that standards of management and service provided in venues have declined to the detriment of each individual venue.

Our View

The industry is continuing to move through a period of consolidation. Economic, regulatory and cultural pressures on the industry will force operators to redefine their vision for the role that their venues will play in the community. Importantly, operators will need to reconsider any over-reliance that they may have on revenue generated from one specific area of their business. Specific consideration will need to be given as to how operators may be able to bundle offerings to create an attractive environment for patrons to engage in discretionary spending, such as combining food service, accommodation and entertainment. Businesses with a good mix between accommodation, gaming, food and beverage will be the best positioned. In particular, attention should be given to targeting certain sectors of an ageing population (e.g. “baby boomers”) who will generally have a higher capacity for discretionary spending.

The current environment also provides a range of opportunities for experienced operators to acquire underperforming businesses. Pragmatic operators may also find that the current environment provides them with opportunities to exploit under-served markets. At present, quality “hands on” operators with good venues and appropriate capital structures should withstand the current challenges that the industry faces.

How can Taylor Woodings assist?

Taylor Woodings has extensive experience and specialist expertise in the hotel and hospitality industry.

In recent times, Taylor Woodings has been appointed as receivers and managers and voluntary administrators to a number of licensed hotels and clubs. Taylor Woodings has also provided consulting services to a number of financiers in relation to various forms of financing (both debt and equity) and operational issues.

Some of our recent roles have involved:

- Recently acting as Receivers and Managers of the Woolpak Hotel in Redfern NSW, which included the operation, marketing and sale of the business;
- Recently acting as Receivers and Managers of the Chook & the Ox Tavern at Tura Beach NSW, which included the sale of the premises;
- Advising financiers by undertaking detailed due diligence and pre lending reviews of operational hotels;
- Undertaking valuations of leasehold hotels for mortgage security purposes for financiers;
- Currently appointed as Receivers & Managers to the Cauliflower Hotel at Waterloo, which is currently trading under the Receivers’ control;
- Currently acting as the Voluntary Administrators of Cornerstone Hotels Pty Ltd, which operated a number of venues in Melbourne VIC. Working with the financiers and Receivers to restructure the business.



- Recently acting as Receivers and Managers of the Skyways Restaurant located in Katoomba NSW, which included the operation, marketing and sale of the business;
- Recently acted as Voluntary Administrators of the Manly Fishing and Sporting Association Limited located in Manly NSW, which involved a restructure of the club under a deed of company arrangement;
- Previously acted as the Administrators of the Hunters Hill Club in Hunters Hill NSW, which involved a restructure of the club under a deed of company arrangement;

Through our various assignments we have developed:

- A detailed understanding of the legislative and practical issues associated with formal insolvency appointments and commercial issues associated with the industry; and
- An extensive network of contacts in the hospitality industry such as valuers, sales agents, business managers and suppliers who can work with us to ensure that due consideration is given to every aspect of the assignment.

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