

Executive summary | Roundtable X, November 15, 2022

Wipfli Tribal Gaming CFO Peer Exchange

Hosts: Barnaby Allen and Grant Eve | Wipfli

Facilitator: Josh Iverson | Profitable Ideas Exchange

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Introduction

Seventeen chief financial officers (CFOs) from tribal gaming facilities met virtually to share leading practices and discuss topics of mutual interest based on an agenda created through a series of pre-interviews.

From Wipfli, Barnaby Allen, partner in the tribal gaming practice, and Grant Eve, tribal gaming industry leader, hosted the exchange and Josh Iverson of Profitable Ideas Exchange facilitated. Alex McBride, a senior manager in construction litigation services, joined to provide subject matter expertise.

The focus of the discussion covered the following topics over the course of the hour:

- The economic environment
- Infrastructure and capital projects
- Projecting revenue

The economic environment

Wipfli's Grant Eve opened the conversation by sharing an overview of the current economic environment.

- The U.S. economy is humming along, with Q3 GDP rising approximately 2.6%, up from a decrease of 0.6% in Q2. The American Gaming Association recorded another record quarter, which barely beat Q2 of 2022. Q3 of 2022 was an all-time high with over \$15 billion of revenue for the first time ever. Year-to-date revenue is up 14.7% ahead from the prior year.
- Eve briefly commented on the elections, noting that the fall 2022 election cycle is over with all but a few races decided, and notably for the gaming industry, Propositions 26 and 27 in California did not pass.



The economic environment

Alex McBride of Wipfli shared perspectives on capital projects.

- Construction prices remain elevated and may be reaching a new normal. [The producer price index](#), which is tracked by the Federal Reserve, shows construction inputs are 40% higher than they were at this time in 2019. The good news is that number peaked at 45% about five months ago and has been around the 40-45% range for about six months. This compares to the dramatic increases from 2021 to mid-2022. Construction costs stalling out is a welcome change compared to the relentless increases seen in the previous year.
- Construction cost trends will be difficult to predict. The market anticipates continued labor cost increases, partly due to lagging renegotiation of union contracts. Those types of costs get carried through to owners. Additionally, for builders, contractors have a backlog of work, which means they don't need to drop prices yet. Materials prices are now inconsistent, with examples of concrete costs up dramatically but lumber costs down significantly compared to a year ago.

Infrastructure and capital projects

The group discussed how they are viewing capital expenditure projects in the current environment.

- One CFO has tried to continue business as usual in terms of planning. Fiscal year 2022 had a lot of projects, but they've tried to imagine the schedule continuing normally. It is due to supply chain issues that projects have been delayed. Another leader said they expect to dip into their revolving credit to finance future capital development.

The group also discussed whether to repair or replace a multitude of things that help with the operation of a gaming casino, such as shuttle buses, generators, and restaurant and game floor spaces.

- Difficulties in finding replacement parts are pushing leaders to be more surgical in their approach to repair or replace. However, there are promising signs of a lessening of the squeeze on the supply chain for appliances, vehicles and construction materials. One member observed that parts for slot machines are arriving more quickly, although some are still seeing delays from 18-24 months. Overall, equipment seems to be arriving more quickly.

Infrastructure and capital projects

Interest rates are rising as the Federal Reserve tries to tamp down inflation.

- Loans taken out only a few months ago can be very favorable, but revolver credit lines can have high rates. One leader commented that the revolver is useful for seasonal business, but it should not be relied upon as a rule.

Convenience stores as profit centers were discussed as well.

- Convenience stores can be a profit center for rural tribal gaming operations because of the combination of lower gas prices and having slot machines in the store. It can be difficult to gauge how many slot machines to have in order to maximize ROI – participants discussed ranges of 15-25 machines. The profit driver is the gasoline price, where beneficial tax laws can make the convenience store profitable.

Projecting revenue

Lastly, the group talked about recent revenue cycles and what to expect in 2023.

- Even if the competition has evened out compared to the COVID-19 pandemic years, revenue is still above 2019, which was a strong year. In fact, for one leader, 2022 has been a record year for revenue and net income.
- An economic downturn could make 2022 look stronger than 2023, something some CFOs are anticipating as they look at macroeconomic factors such as inflation, which is making consumers less likely to part with their money.
- High-end players are where the revenue continues to be. One CFO said that high-end play has stayed at the same level, but retail and low-end play has fallen off. In response, marketing has been focusing on bringing in the high-end players to make up the difference.
- In order to cater to the high-end patron, another leader's management has handheld devices that hosts carry on the gaming floor. The device calculates reinvestment and allows hosts to comp food and drink for valuable patrons. There is a lot of value to having an immediate gratification experience for the guests, and the CFO credits the approach for sustaining their high-end business.



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