

Illawarra Leagues Club Ltd (ABN 38 001 005 027) is seeking Expressions of Interest from other Registered Clubs, or Club Groups with a view to exploring the possibility of an amalgamation.

1. What is happening?

The Board has a responsibility to explore what options it has to ensure long-term viability. Our club trades in a very difficult market. Clubs our size, particularly in competitive markets, face big challenges. Recent trading improvements, whilst pleasing, have not proved large enough for the club to pull ahead financially. Amalgamation in general could offer us a lifeline, enough support to navigate the difficult times, and the possibility of a more secure planned future. In the meantime we will continue to pursue our growth strategy and hope we can pull ahead.

2. Why now?

Whilst the club has reasonable cash reserves and is trading fairly well, it is not able to predict whether in the future there would be enough growth to maintain its independence. The Club also considers it is prudent to see who may be interested now, and how that might work, rather than leaving it until later, when options may be less palatable.

3. How did this happen?

Very large clubs in NSW have had the lion's share of any growth for a long time now. Clubs our size have been under increasing pressure. In the last 8 years, 14% of clubs have closed or amalgamated. Unfortunately how fresh you look often won't determine how well you trade, in our case, the recent renovations did not deliver a return on investment.

4. How do you measure that club earnings are insufficient?

The industry accepted standard is EBITDA (Earnings before Interest Tax Depreciation and Amortisation) as a percentage of total revenue. We have been trading below 10% for more than 10 years, considered by an IPART review to be "disaster looming" territory. The interest we were earning on our savings before the renovation was helping to support the clubs trading. This income is no longer there making the years since the renovation very difficult to navigate.

5. Is our financial position currently sufficient short term?

We remain easily solvent by any measure, we have remaining liquid assets but do not project that we will need to use them this year. We will have a limited ability to reinvest in ourselves this coming year however, hence the need to explore our options.

6. Who decides if an Amalgamation happens?

You, the members, decide in a vote. The Board decide which amalgamation scenarios, if any, are in the members' best interest and would narrow the offers down to the best deal in the Board's view. The chosen entity would then have an information night for our members where they could explain their offer, then questions could be asked. Members will be given access to the signed MOU and accompanying Deed of Amalgamation which will set out the terms of the amalgamation. Then at a General Meeting, the members have an opportunity to vote. A simple majority 50% +1 votes cast at the meeting is required for approval.

Completion of the Amalgamation will also be subject to the approval of the members of the other registered club and of the Independent Liquor and Gaming Authority.

7. How does the industry view amalgamation as an option for clubs to secure their future?

The trend is for clubs, who are not yet in financial distress but who see an uncertain future, to explore amalgamation as an option for growth in the normal course of business. Boards must weigh up all options. To do this they need as much information as possible. Preferably you should look at options early to enable you to negotiate from a stronger position, at the pace to do it properly.

Please contact the Board via email if you have any questions or concerns:

gm@illawarraleaguesclub.com.au

Nick Condell
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1/3/19