

GOLF REPORT 2021



FOREWORD

I'm pleased to present our 2021 Sydney Metropolitan Golf Survey. This is our 10th edition and we have been fortunate enough to once again collaborate with Golf NSW to bring you a more comprehensive report.

The main objectives of this report are to:

- Inform clubs on the performance of the industry as a whole over the past 12-18 months;
- Serve as a benchmarking tool of useful information to compare the performance of your home club against other clubs in the Sydney Metropolitan area; and
- Present our opinions on the direction of the golf industry for the coming 12 months.

The information in this report is taken from our sample of the 92 courses classified as being part of the Sydney Metropolitan Area. We have limited the scope of our survey to this area as it is our intention to provide informative results to the clubs in the areas in which we ourselves work and play. Expanding the survey outside of these boundaries would have reduced the applicability of the results across the group as a whole. We understand the challenges faced by clubs in the metropolitan area may not be applicable to those dealt with by those in country

and rural NSW. We have however included some competitive round information Australia wide and for Rural NSW sourced from Golf Australia data.

COVID-19 has significantly impacted golf, both positively from flexible work arrangements and more rounds played and negatively as a result of diminished functions and catering. We have explored competition rounds in light of this and how these trends may continue going forward.

There are new accounting standards that will impact your club's financial report. We have included some explanations throughout this report as to what to expect.

During the production of this report we would like to thank Stuart Fraser, CEO of Golf NSW for his assistance in the collation of data and provision of information. Thanks Stuart, very much appreciated! We would also like to thank Golf Australia for the competition rounds reports made available on their website, which we have referred to in our report.

We trust that you enjoy the survey.



SIMON JAMES
HLB Mann Judd
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SURVEY HIGHLIGHTS



Across the Club's surveyed, subscription income has increased by **3.83%**



Similar to subscription income, cash collected via subscriptions in advance has increased by **3.77%**



Club's are very wary of what the future holds post pandemic and have deferred CAPEX projects and increased cash reserves, with CAPEX falling **54%** and cash balances increasing 52%.



Competition rounds played have increased due to the surge in the demand for golf, resulting in a **6.70%** increase in revenue sourced from competition fees.



Bar and catering revenue decreased by **26%** on average.



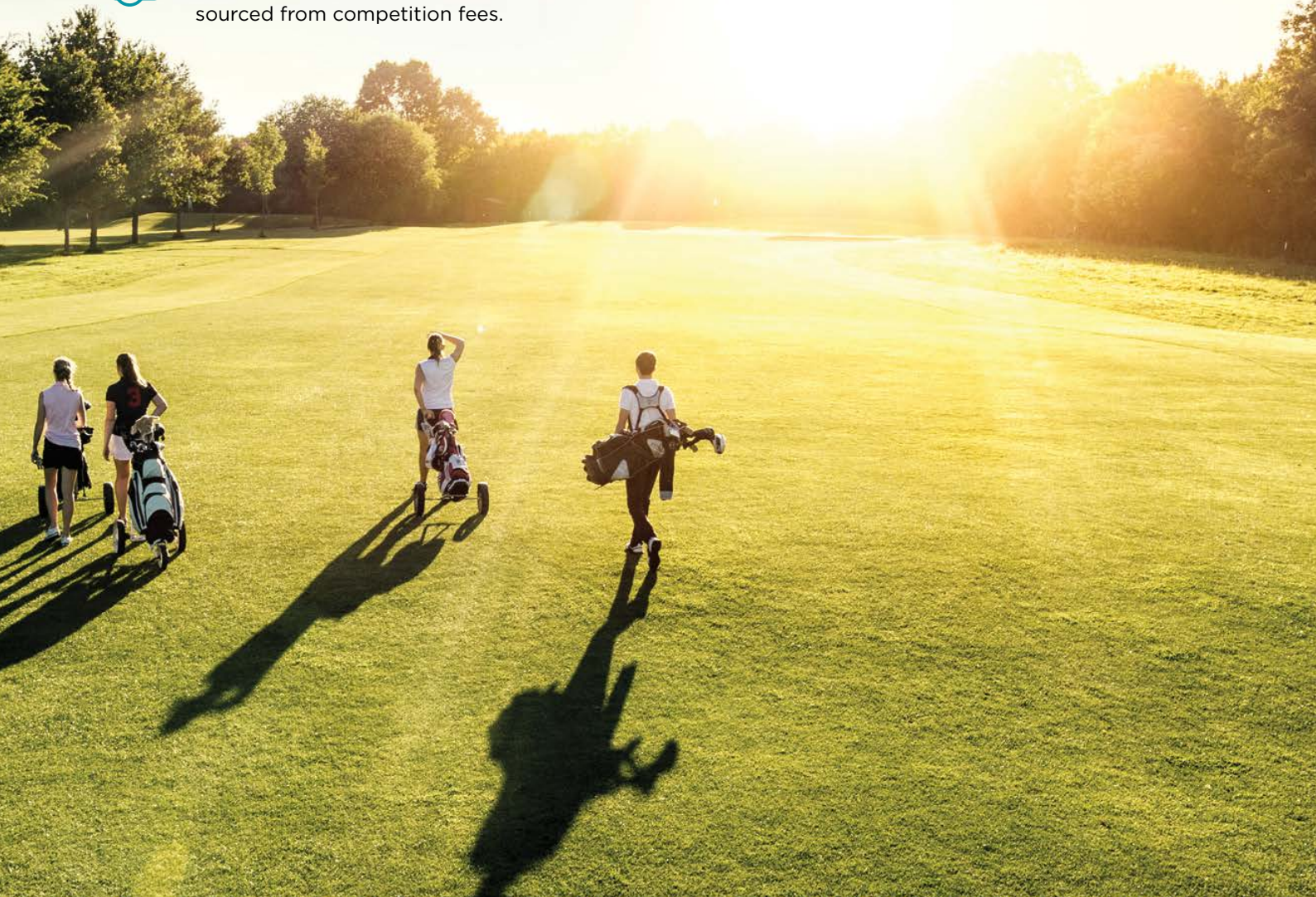
Wage costs decreased approximately **3.30%** during the year.



Course wages represent **30%** of a Club's total wages expense.



Depreciation expense increased by **17%** during the year which is driven by changes in accounting legislation and recognition of assets.



REVENUE, WAGES AND MEMBERSHIP

The global COVID-19 pandemic has impacted the leisure and entertainment industry significantly over the past 12 months. Whilst venues such as pubs and restaurants have had large exposure to the ever-changing rules and restrictions around capacity and social distancing, the golfing industry has fortunately been able to respond and adapt to these better than its competitors.

Players being restricted to only two people per group for part of the year put increased pressure on tee times, which saw a decrease in the number of rounds played in the April - May 2020 period. Further restrictions around the ability to share a golf cart also resulted in a decrease in played rounds due to people who usually use a golf cart when playing, not having access to one.

However, as playing conditions returned to normal due to golf's ability to adhere to social distancing easier than other entertainment options, Clubs began to reap the benefits from increased demand and popularity for the game. Subscription income recognised increased by 3.83% during the year whilst subscriptions in advance grew by 3.77%. This demonstrates that Clubs have been successful in attracting and retaining members during the year, whilst at times, also being able to pass on a fee increase. This increase in demand for golf memberships has also presented some clubs with the opportunity to re-introduce an entrance fee to new members, which as evidenced in past years' reports, has seen significant decreases in prior years. A challenge however that clubs are now faced with is the increased demand for a limited supply of tee times and ensuring members are having the opportunity to play and not fight for position on a waiting lists.

Whilst golf related revenue has seen a sharp increase, including competition fee revenue of 6.70%, other departments within the Club, such as the bar and kitchen, have experienced decreases in revenue in comparison to prior years, with a fall on average of 26%. This is attributed to largely the restrictions around number of patrons allowed in the bar area, however, can also be tied to a change in the product offering Clubs were offering players, with a shift towards a 'grab & go' style menu being implemented instead of a more traditional sit down meal and drink.

Of the Club's surveyed, a clear trend in the industry is for clubs to be reporting an operating surplus at year end, which is largely due to the assistance received through the various government grant initiatives such as JobKeeper. From a review of cash balances at year end in comparison to the prior period, the trend in the market has been for significant increases to current year balances. This indicates that senior management of clubs are still very wary about the unpredictability of the pandemic and want to ensure that Clubs are in a strong financial position should the economic outlook worsen, and these reserves are needed to be called upon.

The past 18 months has also been an intriguing time for salaries and wages paid to Australians. According to the Australian Bureau of Statistics' 'Wage Price Index', Australians have seen a 1.4% increase in hourly rates of pay as at the December 2020 quarter (comparison period of December 2019). Golf clubs need to be aware of increases to individual's remuneration and discretionary spending abilities and ensure that increases in subscription rates do not continuously outpace wage growth. Further, as of 1 July 2021, the superannuation guarantee rose from 9.5% to 10% potentially reducing take-home pay.

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With a much smaller number of functions being held at golf clubs during the year, as well as a general decrease in need for staff, due to less patrons being allowed in the club, total salaries and wages expenses have also decreased during the year, falling by approximately 3.30%. Club's also found that re-allocating staff between various departments to match demand aided in efficient staff management, with bar staff assisting in the pro-shop or on the course as examples. These departments rose to 30% and 12% of wages respectively, versus 26% and 9% in the prior year.

Employee entitlements, being made up of mainly annual leave and long service leave, remained relatively steady during the year, decreasing by only 0.71%. This can be attributed to offsetting factors such as borders being closed and staff electing to delay any travel plans against any forced leave the Clubs required staff to take during the pandemic when they were operating at reduced hours.

This balance is expected to continue to fluctuate going forward with any salaries and wage rises that may have been delayed coming into effect, with the mitigating factor of staff taking additional leave due to the inability to travel over the past 18 months.

The issuance of new Australian Accounting Standard 'AASB 15 Revenue from Contracts with Customers', saw Clubs change the way entrance fees were accounted for, which in the past were recognised as income upon receipt. Instead, Clubs have now been forced to recognise entrance fee income over the term of the average membership, with future amounts to be recognised, sitting on the balance sheet as a liability. Therefore, it is important when looking at a Club's financial performance for the period, to not only refer to the statement of profit and loss, but rather the statement of cash flows as well. Club management need to be prudent in managing both funds received at the start of the year in relation to the coming subscription period, as well as funds from entrance fees that can fluctuate year on year. With the high demand for golf we have seen a reduction in member churn, resulting in decreased joining fee income.

Interestingly, as noted, the majority of clubs reported an accounting profit during the year, which for the current period, included additional depreciation charges due to the impact of another new Australian



Accounting Standard 'AASB 16 Leases'. This forced clubs to look at any leases for assets they had in place and bring these 'right-of-use' assets that fell under the scope of the standard, onto the balance sheet, which in the past had not been included and were categorised as 'operating assets'. On average, Club's depreciation expense has increased by 17% during the year as previous 'rent' expenses are now classified as depreciation.

A trend we are also noticing with the Club's that we service, as well as other clubs included for this report, is the growing number of Foundations being attached to golf clubs. These Foundations serve as a vehicle for members to donate through, with the funds being used on projects such as the fostering and development of junior golf, promotion of the Club or large CAPEX projects that members can directly fund. These Foundations can have the added incentive of offering favourable tax deductions to members for their contributions, which has made them an ever-appealing option to Club management to help generate cash inflows.

COMPETITION ROUNDS

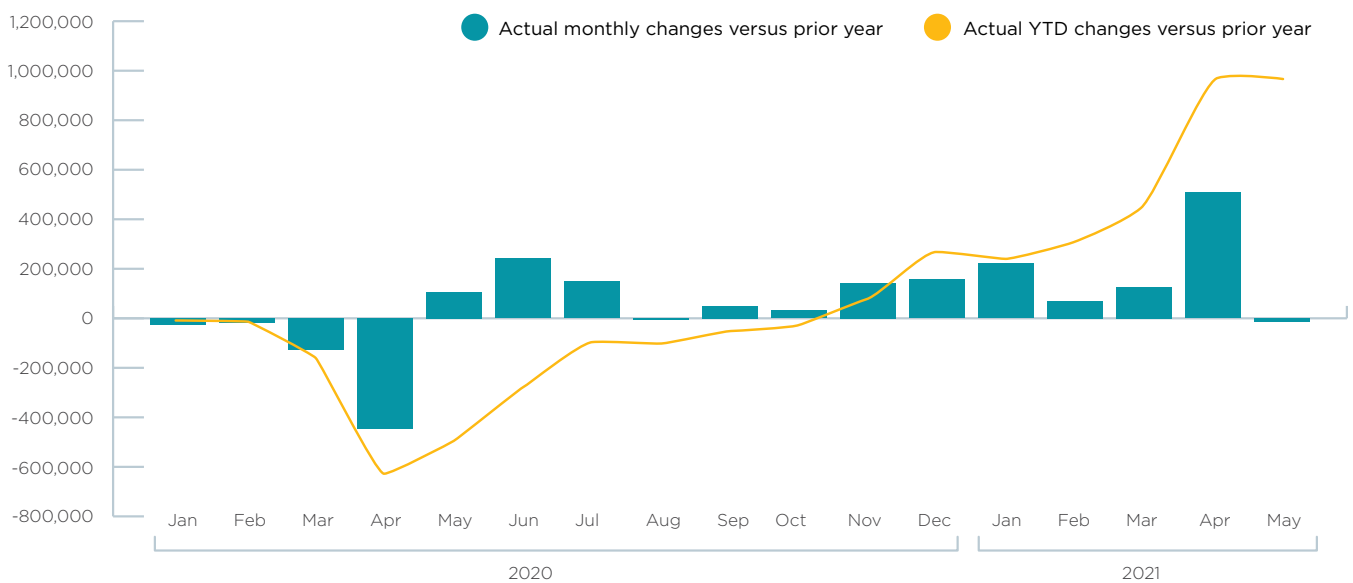
SOURCE: GOLF NSW AND GOLF AUSTRALIA (GOLF.ORG.AU)

In NSW, the competition rounds played in 2020 was 4.5m, up 10.5% from 4.1m in 2019. However, this follows a steady decrease in competition rounds from January 2020 until the initial closure impacts from COVID-19 (starting in April), with YTD rounds down by 11%. Once courses reopened, competition rounds

increased significantly as society was coping with the new normal and leisure patterns changed, which reversed the YTD 11% deficit.

Extending this analysis to May 2021, growth in competition rounds remains strong.

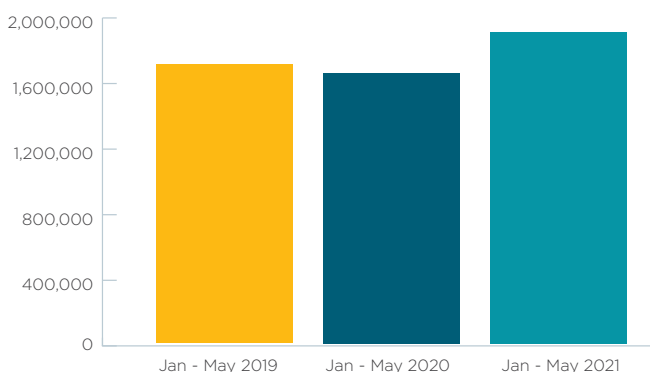
NSW COMPETITION ROUNDS - MONTHLY



We have also compared total rounds from January to May, to compare like for like periods before the boom from COVID-19. January to May 2021 of 1.9m rounds is higher than the 1.7m rounds in the same period in 2019 which suggests the boom as a result of COVID-19 is still ongoing.

While actual YTD to May 2021 is well above the same period in 2020, rounds played in May 2021 was approximately the same as in May 2020. This may suggest growth is slowing, however, indicates players remain as interested in playing golf as they were when lockdown restrictions first eased in May 2020. We are interested to see whether the higher number of competition rounds played will remain through the remainder of 2021 and beyond, or if rounds will begin to taper as domestic and international travel opens and if working from home arrangements change. If flexible work arrangements remain in place, there may be opportunity for golf clubs to target these people such as by promoting 9-hole competitions.

NSW COMPETITION ROUNDS - JAN - MAY



In NSW, women account for 17.8% of competition rounds played, similar to the same period in the prior year and consistent with the national average.

Excluding Victoria, the age cohort with the highest growth in competition rounds is 20-49 years with 37% growth. However, 62% of competition rounds are played by golfers over 60 years and the cohort experienced a 2% drop in competition rounds.

ABOUT HLB MANN JUDD

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The Australasian network has 85 Partners with offices in all major Australian business centres. Through our membership of HLB International, the global advisory and accounting network (a global network of accounting firms with 700 offices in 150 countries), our clients also have access to worldwide expertise.

The Sydney firm has over 32 Partners and Directors and over 160 staff members and is located at 207 Kent Street, Sydney.

We are a viable alternative to the larger accounting firms with parallel expertise, but still with Partners' individual involvement... and a more cost-effective fee structure. The bottom line always matters and so does the service.

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- Tax Consultancy & Compliance
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