

# Maximizing Returns On Your Coin Op Game Portfolio



By Frank Seninsky

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The Dow Jones. Dividends. Price earnings ratio. You may recognize these terms from stock investments. When you look at the definitions of these terms, you also may find that they can apply to the amusement game industry. In this business, I believe that the whole secret to making money is to keep your games' current asset value high by trading in or selling the games when they still have decent value, but they're just not earning for you anymore. It's like with stock ... you want to get rid of poorly-earning stock and buy stock that'll pay good dividends. We all do it on the stock market. Why not in the amusement industry? Playing the stock market is like working the amusement machine industry. There is a huge parallel between the stock market and the coin.-op industry.

In my business, I am constantly figuring out when to buy games, when to sell, and when to rotate for maximum profitability. So, I came up with the idea on how to teach my process to other operators. I figured out the way to teach this concept is to compare the coin-op industry to the Stock Exchange. What I want to get across is that the people who run the stock market have come up with meaningful measurements to determine an item's value, etc.. and we can apply this method to the game industry when it comes to a game's value and earnings. A game's value goes down continuously. We need to know this, and predict what'll happen to our equipment value three to six years in the future.

What the stock market terms mean to coinop is this: your games are stocks, and your portfolio is your game supply. I want to go over some basic stock market definitions as they apply to our industry, and maybe you'll see what I mean. There's the back-end load, which is the amount a distributor subtracts from the fair market value of game to arrive at the trade-in price, and it's usually about a 25% difference. This is important to know. A frontend load is distributor profit off the game's initial profit after it's sold to a location. 'there's a deep discount broker, which is buying at distributor costs directly from the manufacturer. And of course, there are dividends, which in coin-op are the weekly net revenues that a game owner receives from the game ... after the cost of sales, like prizes and merchandise. A dividend yield equals yearly net revenues (or estimated revenues) a game earns.

You'll probably guess that equity is a game's trade-in value less the balance of payments owed on the game. As most of us know, game equity can be negative if the operator owes more on the game than the games are worth. This happens because games lose value very quickly. A price earnings ratio, which I've renamed the turnover ratio, translates to a game's cumulative net earnings since the day you bought it divided by the amount you bought it at. A percent yield or yield percent equals the percentage of weekly net revenues of the game (cashbox earnings) divided by that game's current asset value.

I use all of these measurements and terms to rank my games and determine their profitability. They lead to the most crucial measurement of all (based on the yield percent mentioned above) - the rubber band ratio test. It's a way to evaluate the profitability of a game based on all the other games in a location. It's the weekly net revenues of a game divided by their current asset value (as a percentage). My benchmark of 5% lets me estimate if my games are earning well. I track every one of my games by whether it falls below or above the 5% line. That way, I'm able to rank locations and find out whether I'm making or losing money.

The Stock Exchange goes to all kinds of detailed trouble with terms and percentages and rankings so investors can watch their stocks and know what to do next. We need this in coin-op. Let's take an example, for instance, Sega's Top Skater. We tracked its revenue for 16 weeks in one of my locations. It made a high of \$963 dollars a week in this location, and a weekly low of \$376.15. We also calculate its dividends (how much money that game would make in a year ...of course we have to estimate.) We look at Top Skater's whole average and project what it would make in a year. We think \$17,300, after taking holidays in account, as well as when kids are in school, etc. What we don't know, we estimate.

Now, we go to the rubber band test. We take the earnings of what Top Skater made this week - \$512 - and divide it by the current asset value of the game, which is \$14,500 (we bought it at \$16,000 and it's depreciated already to \$14,500). This gives us a 3.0. Ranked against my other games in the location, that's not so hot. The point with this example is that Top Skater was the highest grossing game in this location in the last 16 weeks ... but because it's not earning in the correct relationship to what it costs or what it's worth ... it may not be as profitable as other games above my rubber band ratio benchmark of 5%. Yes, we've gotten some money back from the game, but there are expenses we have to pay.

We do the rubber band ratio based on six-weeks earnings. We look at this six week time frame-take high and low revenues and out of all this is the rubber band test. I'll illustrate again with I.C.E.'s Cyclone. In six weeks, this great redemption game made a high of \$836 and a low of \$136. Annual dividends? It took in over \$14,000 this year. Rubber band ratio test? Cyclone comes in at 7% - well over the 5 mark. Turnover ratio? We've had the game 101 weeks, and it's already made 4.28 times what we paid for it.

What I'm trying to communicate with this column is it's important to know where you stand with your games. It's crucial to take games, determine their current asset value, their weekly grosses, cost of sales, net revenues, and how they earn in relation to other games. If you want to determine current asset value of games, look in RePlay's blue pages, and other classified ads to see what your games are worth right now. Warranties and reconditioning may raise prices a bit past current market value, but you'll get a good idea of used prices. You can also call your distributor to see what the real trade-in value is for the games - it's usually about 25% off. There's also the "half-life rule." It's something I believe in very strongly. It's just an estimate, but I think that games lose half their value yearly. What you do is take the original purchase price of the game and divide by 2 to the x power (x is the number of years you've had the game).

This half-life rule allows you to determine the present value of your game, which in turn tells you if you're still making money with it, (after you figure your rubber band ratio). You can figure out how much you lost on the value of your equipment - and that's the amount that should be subtracted from your gross profit or net profit to see if you made or lost money for the year. We call this the "delta" - a figure you use as you track a game's value from year to year. As the value of the games go down and the earnings stay constant, the rubber band ratio will go up ... but keep in mind the delta comes off and you've lost that corresponding amount of money.

Again, these measurements let you take your weekly gross, subtract the cost of sales so you get a weekly net, which is divided by the current asset value (what the game is worth this week, today, as close as you can approximate) and from there you see if you're making money on the equipment or not. These yardsticks let you take into account the big picture of what's happening to your games' asset value and where that value is headed.

Going back to our Top Skater and Cyclone location: we have \$126,800 worth of redemption games in this site. Weekly gross is \$8,300, and cost of sales (cost of prizes) is \$2,500 as an average. My rubber band ratio for all games in the center is a 4.6. That's below my 5 benchmark. So what do I do? We track these games every week... when they fall 5% or below ... they're on the chopping block to sell. I want to get rid of that "stock" and I want to buy "stock" that'll give me a good dividend. I'll lose more money in the denominator (delta ... current asset value) than I have in the numerator (what it grosses per week) if I keep operating this equipment.

I realize this is all a bit confusing, so I'll try to put in another way. You all go to your accountants who come up with a balance sheet. At the end of the sheet, you look at your profit given a depreciation amount. You may have an operation showing you made \$300,000 profit ... but probably only a 20% depreciation of your equipment's original purchase price has been figured to come up with this profit. That's only half the story.

What is the current value of your equipment? You can figure out how much you lost on the value of your equipment by subtracting the current asset value from your gross profit or net profit to see if you made or lost money that year. Those are the real numbers you want to be aware of. You may be shocked when you calculate profits this way, but don't you want to know?

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