



# Upscale Wine Bar / Gaming Establishment

Location: Coming Soon

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# Executive Summary

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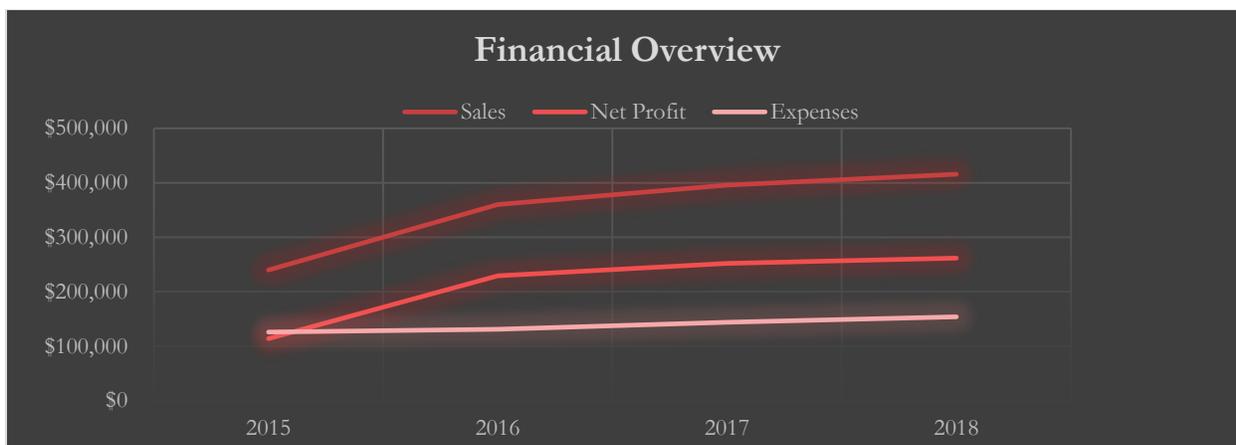
Enterprise owners and founders, Matthew Juntunen and Donald Thatcher, propose and seek investors to finance a unique and upscale group of wine-bar style dining and gaming establishments. The amount of investor funding sought is \$270,200, and will be used to finance the lease, build-out, initial inventory and launch of the first proposed venue, the which will be launched in spring/summer 2015.

Equipped with solid backgrounds for quickly developing this group of refined wine and gaming venues, Matthew and Donald expect the store development program to occur at a sufficiently brisk pace to establish the enterprise as a major player in the Illinois wine-bar/gaming industry before the market becomes more saturated, which current dining, drinking, and gambling preferences and trends indicate will occur.

Startup costs are soundly calculated based on similar build-outs Matthew and Donald have recently completed in the restaurant/bar industry. The published experience of other retail bar/restaurant/gaming establishments, demonstrates that profitability can be attained within 2-3 months of “going live” with onsite video gaming terminals. A complete (100%) return of investor funds will likely occur in less than 24 months of first venue opening, based on investor participation in net location (gaming and retail) revenues at a one-third rate. Competitor gaming revenues are strong and growing and warrant the conclusion that \$10,000 in net monthly revenue from the gaming side can reasonably be expected as a minimum, and that net monthly gaming revenue exceeding \$40,000 is readily attainable. A significant part of these net gaming revenues will be allocated to the monthly return of investor capital, depending on the company’s ability to maintain required operating balances. When feasible, disbursements of net store retail and gaming revenues will be disbursed two-thirds to the founders/principals and one-third to the investor(s).

## Highlights

Projected revenue for each location is based on numbers available in the industry. Owners expect revenues to grow annually. Expenses will increase at a slower pace than revenues, yielding larger profit margins in future years.



## Objectives

The company's main objective is to establish and operate a chain of upscale wine bars offering a luxurious video-gambling experience. The owners anticipate opening the first location's doors by June 1<sup>st</sup>, 2015. The goal is to follow that first location with a 2<sup>nd</sup> location opening by November 1<sup>st</sup>, 2015, and a 3<sup>rd</sup> by April 1<sup>st</sup>, 2016, and three or four quarterly openings the remainder of 2016. Owners expect to be profitable in the first quarter of operation.

## Mission Statement

The effective combination of video-gaming entertainment and a quality wine-bar-style dining experience is not only attainable, but simultaneously takes advantage of two key consumer trends, which the owners believe will position the enterprise as a valuable, well-liked, and welcome dining and entertainment addition to the communities served. The mission is to deliver, through this combination, a superior consumer experience that yields significant positive "chatter," reliable repeat business, positive community impact, higher profits, and strong growth.

## Keys to Success

One goal is to offer a unique gaming experience for patrons by creating a wine-bar atmosphere, an as-yet comparatively untapped theme in the Illinois market, featuring a diverse wine selection and simple, yet elegant food that reliably attracts customers. By offering a comfortable, high-quality and upscale gaming area, customers are enticed to stay a while longer (and buy a little more). The décor, wine selection, food offerings and superior gaming experience will make each venue an appealing "destination" capable of generating local "buzz," loyal customers, and repeat traffic. Because wine and gaming are both very popular pastimes today, the owners are confident the two can be rightly combined into a perfect match.

# Description of Business

## Wine Bar / Gaming Establishment

The upscale wine bar/gaming establishment will be just that. The aim is to create the feel of a winery with all the offerings typically available in such venues, but in a suburban setting with video slot and poker machines. Each store will offer a nice selection of wines and a limited offering of craft and domestic bottled beers, accompanied by cheeses and other simple but quality food offerings that pair well with wine and gaming. Liquor will not be offered.

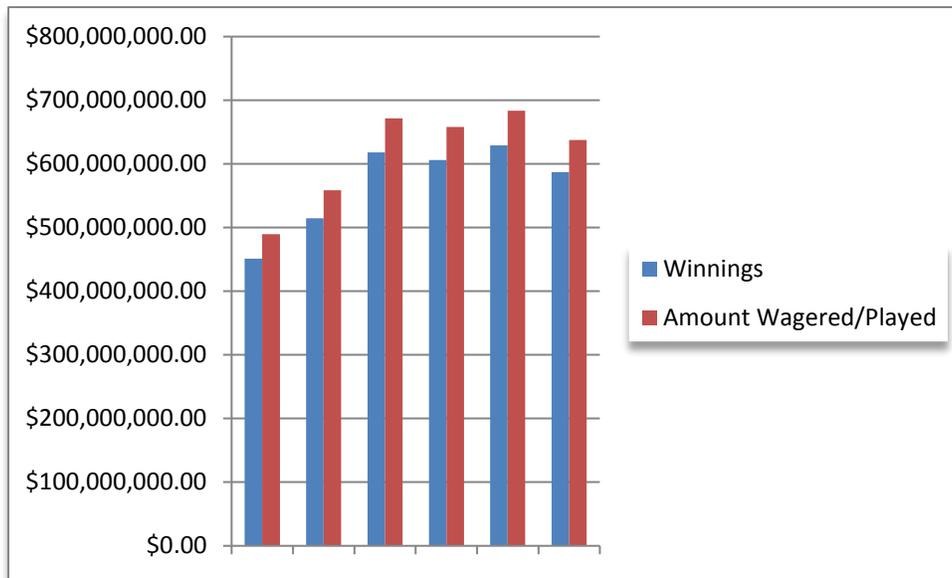
Wines will be offered at \$8 to \$12 per glass and \$30 to \$80 per bottle. Food items will average \$10 per plate. Average per-person sale is expected to be \$30.

## Products and Services

Since Illinois legalized video poker and slots in 2009, demand has been very strong for this popular form of entertainment. During the four-month period from March through June, 2014 well over \$600 million was wagered statewide *in each month*, over \$600 million was paid out in winnings (except June at \$587), and over \$50 million was distributed to the state, municipalities, establishments and VGT operators. Moreover, to accommodate the demand, the number of licensed Video Gaming Terminals (VGTs) has grown from 14,423 in January 2014 to 17,467 in June (21% growth in six months).

Statewide Video Gaming Activity in Illinois (January – June 2014) <sup>1</sup>							
Month	Number of VGTs	State Tax	Municipalities	Establishments	VGT Operators	Winnings	Amount Wagered/Played
January	14,423	\$9,608,176.71	\$1,921,636.01	\$13,451,255.00	\$13,451,255.00	\$451,322,026.37	\$489,747,554.60
February	14,859	\$11,017,723.09	\$2,203,539.00	\$15,424,575.00	\$15,424,575.00	\$514,446,289.69	\$558,522,303.47
March	15,667	\$13,342,556.14	\$2,668,502.97	\$18,679,310.00	\$18,679,310.00	\$618,215,577.82	\$671,585,491.28
April	16,380	\$13,077,518.32	\$2,615,497.91	\$18,308,262.00	\$18,308,262.00	\$605,892,820.49	\$658,200,421.63
May	16,879	\$13,637,757.42	\$2,727,545.75	\$19,093,008.00	\$19,093,008.00	\$628,972,209.30	\$683,521,623.51
June	17,467	\$12,693,992.63	\$2,538,792.01	\$17,771,327.00	\$17,771,327.00	\$586,902,390.52	\$637,674,713.88
<b>Total:</b>	♦	<b>\$73,377,724.31</b>	<b>\$14,675,513.65</b>	<b>\$102,727,737.00</b>	<b>\$102,727,737.00</b>	<b>\$3,405,751,314.19</b>	<b>\$3,699,252,108.37</b>

<sup>1</sup> <http://www.igb.illinois.gov/VideoReports.aspx>



Illinois Video Gaming Wagers/Winnings (Jan.-June 2014)

To take advantage of this highly popular and traffic-getting entertainment feature, the proposed wine-bar establishments will offer video gaming in a unique and distinguished way—in an upscale wine-bar environment unlike other common gaming venues (truck stops, VFW halls, neighborhood bars). In this environment patrons can enjoy gaming in style and comfort along with a great selection of quality food and beverage. The gaming and quality consumables will complement each other, take advantage of higher-end dining and drinking trends, and combine to drive sales success.

### Video Poker and Slots (Gaming)

Video Poker, Video Slot Machines, and Video Gaming all refer to gaming permitted under the Illinois Video Gaming Act (2009). The establishment(s) proposed under this plan will each offer both video poker and video slots on five (5) Video Gaming Terminals (VGTs), the maximum permitted under the VGA in one location.

The video poker and slots are added to complement the traditional wine-bar experience, rendering it more dynamic, and capable of attracting a broader mix of patrons. The VGTs enhance each establishment’s entertainment value for the patrons, render the experience offered more interesting and “fun.” For a maximum wager per hand of \$2, patrons can win up to \$500 per hand. Combining the right environment with the excitement of video gaming will improve the customer experience, enticing them to visit the venue regularly, stay longer, and share the experience with peers.

By expanding the venue's appeal and traffic, video gaming offers the owners a high-yield, low-effort, low-cost revenue stream, while generating much-needed revenue for the state treasury's capital-improvement fund.

## **Service**

From the moment every guest walks in they will feel like the establishment is a place they want to be—a very comfortable, welcoming space, with a staff well trained in and focused on customer service to meet their needs. Staff will be perfectly informed about the variety wines, beers, and cheeses and other consumables offered and able to speak eloquently about it all. To reward customers the business will, to the extent possible, calibrate VGTs to maximize customer payouts—higher than the competition—thus encouraging players to return often.

## **Locations**

Being license dependent, all stores will be located within the state of Illinois, ideally in suburban areas already populated by or drawing substantial traffic from the target demographic. Locations will be primarily dictated by population density, income level, and proximity to shopping, other businesses and housing. Each location will be 1600-1800 sq. ft. in size, either in an existing strip mall, or near shopping, in a town with a high population density of patrons in the 35-65 age groups with disposable income. Each venue is expected to have a patron capacity capable of hosting from 50 to 100 guests at a time.

With investor approval, owners will hire a market research company to identify and strategize regarding suitable areas and locations to open each store. Operators seek a specific patron demographic for these establishments and believe that a small investment in reliably identifying areas regularly patronized by that target demographic will be highly beneficial.

## **Interior**

Owners have secured the services of an interior designer to help with all decorating selections, ensure the business creates the right “feel,” and provide guidance and supervision in every area from paint colors and flooring types to wine glasses and charcuterie serving boards. Owners have constructed spaces for similar business types and have accurately calculated the required square footage and layout for these wine bar / video-gaming venues. Build out of each venue will take between four and six months from Architect's site measurement. This time frame allows for drawings to be completed and all reviews by the city building department and county health department for permit issuance.

## **Hours of Operation**

Our hours of operation will be dictated by the liquor license in the municipality. Ideal hours of operation will be 10:00 a.m.-1:00 a.m. Sunday through Thursday, and open until 2:00 a.m. Friday and Saturday.

## Suppliers

Owners will use various vendors on the retail side and will select those that best suit each establishment's specific needs. Each establishment will also source local producers of wines and cheeses to show our customers how good their area can be.

## Business Structure

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### Company Ownership/Legal Entity

Separate corporations will work in combination (through a partnership or joint venture agreement) to operate the business. One entity will operate each retail store (running the wine bar) and a second entity will act as the VGT Operator, which obtains, installs and maintains the gaming machines and generally operates the gaming side for all locations. Each entity will secure separate gaming-related licenses from the Illinois Gaming Board (see Licensing detail below). Both entities work together, though performing separate functions, to maximize revenue to the wine-bar/video-gaming enterprise. Entity names under consideration are "Two Winos, LLC" for the establishment entity(s), and "Spyder Gaming Systems, Inc." (SGS) for the VGT operating entity.

Further, in compliance with Illinois' Video Gaming Act of 2009, the VGT Operator (holder of the "Operator's License) and the venue/location owner operating the main business (holder of the "Location License") must enter into a written "User Agreement" before VGTs are installed at a location. A separate business operating entity will be established for each "store/location." The VGT Operator entity will contract separately as required with each store/location entity.

The machines—Video Gaming Terminals (VGTs) — and other components of the systems (e.g., site controller), will be purchased and owned by the VGT operator entity (and these purchases may be financed through programs offered by VGT manufacturers like Ballys and IGT).

The wine bar retail entity will be owned and operated by Donald Thatcher, this owing to Mr. Thatcher's expertise in restaurant development and management. The wine bar's non-gaming net revenues, *and* its 35 percent share of Net Terminal Income (gaming revenues), will be distributed one-third to Donald Thatcher, one-third to Matthew Juntunen, and one-third to capital sources (investor(s)/lender(s)) under a management/revenue-sharing/partnership agreement.

The gaming operator entity will be owned and operated by Matthew Juntunen, owing to Mr. Juntunen's general business management experience and technical expertise. The operator's 35 percent share of Net Terminal Income (gaming revenues) will be distributed one-third to Matthew Juntunen, one-third to Donald Thatcher, and one-third to capital sources (investor(s)/lender(s)) under a management/revenue-sharing/partnership agreement.

Investor(s) and lenders are not expected to hold an equity position, voting authority, or specific managerial roles in either of the operating entities. Governance and managerial decision making concerning each entity will be vested in the respective owners of each entity (Donald Thatcher and Matthew Juntunen). Any decision-making or voting authority granted to a financier will be provided for contractually in the management/revenue-sharing/partnership agreement.

Additional retail wine-bar/video gaming establishments are expected to be opened after the first. Each new store location will operate under a separate gaming license, and each is expected to be a separate operating entity. Financier(s)/investor(s) in the first establishment will be offered the opportunity to participate financially in subsequent store development, but their participation arrangement in the first establishment is limited to that establishment's operations alone and does not automatically extend to subsequent stores developed or operated by the principals. To participate in subsequent store development will require additional and separate investment arrangements.

## **Management**

**Donald Thatcher** has 25 years' of extensive experience in the food industry. After 20 years in food sales to restaurants and other retailers (everything from retail (Con Agra) to distributor (U.S. Foods) to operations), Don launched and managed his own business securing retail locations, managing build-outs, opening and managing café-style operations, including video-gaming stores, for other private investors. As a bar owner he has worked on every aspect of operation and increased revenue since buying the bar by remodeling the location and designing a successful menu. Don owns a bar in Yorkville, is partners in five café-style operations, is married, and has three children.

**Matthew Juntunen** has been a business manager in some capacity for the last 15 years and presently owns three businesses (aside from this venture), including two construction companies and a snow-removal company. As a self-employed business owner since 2002, Matt's people- and general-management skills have been critical for each business' success. Through Matt's direct sales efforts, his companies have seen steady revenue growth (despite general economic conditions) and 2014 sales will top \$1.5 million (another \$1 million in sales is already booked for 2015). Having previously worked in the restaurant business, Matt now desires to apply his considerable experience in the field once again—as an owner.

## **Employees**

Each location will employ a store manager to handle day-to-day operations. Donald Thatcher and Matthew Juntunen will both participate in fulfilling managerial functions as required. Beyond a store manager and the two owner/operators, each facility/store/location will require six to eight employees including bartenders, servers, and hosts. To be open and operational a facility may require only one individual staff member on site during certain hours of operation. Staff requirements will depend on business demand, but will remain limited due to the simple menu items.

## Financial Management

Initial startup costs and operating-capital needs are detailed below. Because each location is a cash business operation, cash flow will essentially commence as doors open. Except for gaming revenues, which will be received from the State every 30 days, accounts receivable are not an issue. VGT revenues are all monitored and processed (disbursed) by the State via computerized system. Vendor payment terms will vary from cash on sale to 45 days. After first stocking a location with product, ongoing costs are driven by sales of previously purchased product and consequent restocking requirements.

**Two Sets of Books** — The VGT operator’s gaming revenues and the expenses associated with acquiring, maintaining, servicing, and operating the VGTs will be accounted for separately in one set of financial books maintained by the VGT Operator entity. Revenues from retail sales of food and beverage, VGT gaming revenues received by the location directly from the state of Illinois each month, and the expenses associated with operating each retail store will be accounted for separately in financial books maintained by each location entity.

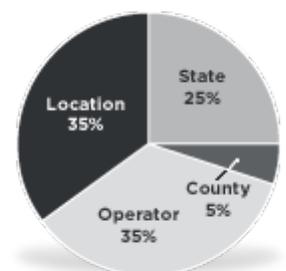
**Subsequent Stores/Locations** — Owners plan to develop two to four wine-bar VGT gaming venues each year for four or more years. Subsequent stores will be financed in part through the cash flow developed from the first location(s), and in part through additional investor cash arrangements, as circumstances warrant. Eventually each additional store/location will be self-funded through cash flow from existing stores; once approximately eight to ten stores are open the cash flow is estimated to be sufficient to open additional stores in a timely manner without investor capital. So, each of the first 10 stores is likely to require investor capital to launch, and each presents an opportunity for investor participation.

Development of the second and third locations is not dependent on performance at the first. Each venue presents its own unique performance circumstances, and implementing at least three locations will be necessary and appropriate to refining and perfecting performance and ascertaining the viability and pace of ongoing store development. The owners believe that securing capital funding in an amount sufficient to quickly move on to development of the second and third locations is appropriate. Any investor in the first location will be offered the option to invest in the subsequent locations before owners seek capital elsewhere.

## Gaming Revenue Distribution

Each Video Gaming Terminal’s revenues are automatically monitored and administered by the State’s end of the “system” via a direct online connection. VGT's have a central communication device that connects to the IGB central server system.

On average VGT wagering activity pays out between 88 and 94 percent of the “amount played” to players as winnings on average. The payout rate is set when machines are hooked up and must be in a certain payback range to patrons. The remaining six to 12 percent of the amount played is Net Terminal Income (NTI).



Thirty percent of NTI is automatically allocated to the state as an assessed tax, which is further divided 25 percent to the state and five percent to the municipality hosting the VGT. The remaining 70 percent of NTI is divided equally between the VGT owner/operator and the location venue (the two gaming licensees).

In the table below are five randomly selected sample illustrations of actual 2014 monthly VGT revenue and distribution figures drawn from the Illinois Gaming Board’s online monthly reports.<sup>2</sup> The numbers in the chart are representative of tavern style operations similar to that contemplated by the owners here.

Monthly VGT Revenue and Distribution Illustrations per Establishment (from published records)							
Amount Played	Amount Won	Net Terminal Income	State (25%)	City (5%)	Location / Venue (35%)	Operator / Terminal Owner (35%)	Monthly Total to Owners (70%)
\$536,058.83	\$493,846.64	\$42,212.19	\$10,575.31	\$2,115.06	\$14,760.91	\$14,760.91	\$29,521.82
\$199,749.72	\$188,106.99	\$11,642.73	\$2,910.76	\$582.15	\$4,074.91	\$4,074.91	\$8,149.82
574,555.39	523,711.53	50,843.86	12,711.01	2,542.20	\$17,795.33	\$17,795.33	\$35,590.65
729,280.82	684,462.83	44,817.99	11,204.59	2,240.92	\$15,686.24	\$15,686.24	\$31,372.48
454,956.75	422,605.94	32,350.81	8,087.73	1,617.55	\$11,322.77	\$11,322.77	\$22,645.53

Gaming licensees generate widely varying net revenue figures depending on myriad factors including the number of VGTs, location, venue traffic, venue style and purpose, and patron demographics. Monthly Net Terminal Income for a wide variety of licensee types ranges from a few hundred dollars to over \$65,000, with a significant percentage of licensees drawing between \$15,000 and \$40,000.

The owners believe that the target market demographic and the nature of the adjunct business (wine bar) could easily place the company’s monthly Net Terminal Income for each store in a the range of \$41,000 to \$46,000 (with five VGTs), using likely competitors’ (those with similar patron demographics and neighborhood locations) published figures as a guide. At this very attainable NTI level the owners will retain \$32,000 per month (over \$200 per VGT per day) after payouts to the state and municipalities. While the owners believe such numbers are attainable, this plan calls for much more conservative monthly revenues in its pro forma financial projections for planning purposes.

## Licensing

**Gaming License** — To secure the authority to operate video slot and poker machines requires a state license. The type of “gaming” license the enterprise will operate under is issued by the state of Illinois,

<sup>2</sup> <http://www.igb.illinois.gov/VideoReports.aspx>

Illinois Gaming Board, in accordance with the Illinois Video Gaming Act (2009).<sup>3</sup> Two types or levels of license are issued under this act relevant to this plan.

**One is essentially a “Terminal Operator’s License.”** Operators are the owners of the video gaming terminals, and they are responsible for servicing and maintaining the terminals for placement in a **location**. The licensee is the “gaming operator.” Operators are responsible for:

1. Purchasing the VGT Machines.
2. All aspects of maintaining and servicing machines in a location.
3. Providing wiring, and covering the costs of the network connection to the site controller to the central system.

On August 5, 2014 the IGB has issued 71 terminal operator’s licenses throughout the state.<sup>4</sup>

**The second is a “location” or “establishment” license.** Examples of a licensed location include bars, restaurants, truck stops, and fraternal and veterans' organizations. With the license a facility becomes a “licensed video gaming location.” Each licensee is permitted to install and operate up to five (5) video gaming terminals per location. Licenses are location based, i.e., each location requires a license.

On August 5, 2014 the IGB has issued 4,120 location/establishment licenses to bars and restaurants, 153 fraternal organizations, 278 veteran establishments, and 148 truck stop establishments.

Each Licensed Video Gaming Location must have a signed Use Agreement with a Licensed Terminal Operator before VGTs can be installed at the location.

Only gaming terminals authorized (prescribed) by the state and connected to the state’s gaming administration system are authorized for use under the Act by licensees. As the licensing authority, the State of Illinois regulates licensees and plays a direct administrative role for them by managing the electronic receipt and disbursement of gaming revenues.

Gaming license fees are charged by the state per machine, per year. The total annual gaming license costs will be approximately \$4,000 per location per year for five machines. The gaming licenses are not in hand at this time, the applications will be filed with the Illinois Gaming Board upon commitment for funding. No obstacles to securing the gaming licenses are anticipated, and owners have every reason to believe the application process will succeed without issue.

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<sup>3</sup> [The Video Gaming Act \(230 ILCS 40\)](#).

<sup>4</sup> This data is derived from Illinois Gaming Board’s published list of video gaming licensed applicants, found here: <http://www.igb.illinois.gov/VideoLists.aspx>.

**Liquor/Wine Licenses** — Each retail wine-bar establishment will require both a municipal and state liquor license. The annual state license fee is \$500. The municipal license fees vary substantially, and so will depend on each establishment’s location. In Chicago, for example, a liquor license fee is \$4,400. Each retail store entity will secure the required licenses in a two-step process, first gaining municipal approval (license), and then secondly applying for the Illinois state liquor license. The owners will require that any lease agreement for a wine-bar facility include a contingency provision rendering the lease null and void if the municipality fails to issue a license.

## Marketing

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### Market Analysis

According to the US Census Bureau, the 2011 population of Illinois was 12.87 million, with 9.5 million, or 74 percent, adults (age 21+). In 2016, Illinois’ estimated population will be 12.92 million, with 9.7 million gambling-age adults. Gaming participation rate for Illinois adults is 38-40 percent of the adult population (adults patronizing either casinos in Illinois or casinos in nearby states or VGTs). 2012 marked three consecutive years of increasing growth rates for gross gaming revenue, with revenue figures the second-highest in history.<sup>5</sup>

According to polling data, more than one-third (34 percent) of Americans visited a casino in the past 12 months, while 32 percent of Americans say they gambled at a casino in 2012, an increase from 27 percent in 2011. Young adults age 21-35 had the highest rate of casino visitation, as nearly two out of five (39 percent) went to a casino.<sup>6</sup> Consumer spending in Illinois on commercial casino gambling was \$1.48 billion in 2011 and increased by 11 percent to \$1.64 billion in 2012; by contrast, in 2013 VGT wagering activity in Illinois totaled \$3,849,597,623.77, winnings were \$3,548,923,582.03, and revenues generated were \$300,674,041.74<sup>7</sup> Gross Gaming Revenue (the amount wagered minus the winnings returned to players) per individual player per year is \$800-900 in Illinois.<sup>8</sup>

Consumers interested in visiting casinos, and thus in video gaming, are generally better educated than the general population—52 percent have completed college, compared to 46 percent of the overall population, and among young adult casino visitors 66 percent have completed college. Moreover, 49 percent of all casino visitors’ households have annual income of more than \$60,000, while only 34

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<sup>5</sup> 2013 State of the State Survey, American Gaming Association, [http://www.americangaming.org/sites/default/files/aga\\_sos2013\\_rev042014.pdf](http://www.americangaming.org/sites/default/files/aga_sos2013_rev042014.pdf).

<sup>6</sup> Id.

<sup>7</sup> Illinois Gaming Board, Video Gaming Report, *Statewide Allocation Summary*, January 2013 - December 2013, <http://www.igb.illinois.gov/VideoReports.aspx>.

<sup>8</sup> *Illinois Gaming Market Analysis*, Spectrum Gaming Group, March 2, 2012, pp. 38-39, <https://www.dailyherald.com/assets/pdf/DA115518416.pdf>.

percent of all households have the same annual income.<sup>9</sup> Over 60 percent of casino-goers agree that their favorite casino games are electronic gaming machines like slot machines and video poker.<sup>10</sup>

Thus, the market for video gaming is broad based; large segments of the adult population enjoy and participate in casual gaming when it is available.

The wine-bar video-gaming business will target 35-65 year old men and women, those with disposable income and a regular interest in out-of-home entertainment, and who enjoy gaming, but prefer a more relaxed environment than a casino or bar. The venues will strive, in part, to create an atmosphere that is welcoming to women, as opposed to traditional bars and sports bars that skew marketing, service and environment primarily toward men.

According to IBISWorld<sup>11</sup> the Wine Bar industry (which consists of bars that primarily serve a range of quality wines and often craft beers by the glass, along with a limited food menu) remains in a growth stage, enjoying a stellar run over the last five years while recovering strongly from the recession, and continues to outpace the broader Bars and Nightclubs industry. While the industry's revenue declined 0.7% in 2009, it has since then grown at an average annual rate of 2.7%, and at a 3% rate in 2013 with annual revenues increasing to \$619.7 million.

“ The industry has been assisted by rising wine consumption in the United States over the past decade ”

This growth is driven by changing consumer preferences, rising incomes in urban areas where wine bars are popular, demographic trends, rising wine consumption in the United States over the past decade, and affordable gourmet products. Wine bars are expected to thrive in the future by virtue of their simplicity and ability to quickly adapt to evolving consumer preferences and newly introduced products. With limited food services, a defined product range, and a comparatively small footprint of space, operators control costs and maximize the high margins wines provide. Premium beverages and simple but high-quality and healthful food offerings in unique environments are increasingly popular, especially among younger consumers.

The Wine Institute,<sup>12</sup> an advocacy organization for the wine industry in California, reports that California wine shipments within the U.S. were 215 million cases in 2013, up 3% from the previous year, with an estimated retail value of \$23.1 billion, up 5%. California wine sales to all markets, both domestic and international, increased 3% by volume to 258 million cases in 2013. Per capita wine consumption increased 35.8% between 2000 and 2012 from 2.01 to 2.73 gallons.

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<sup>9</sup> 2013 State of the State Survey, American Gaming Association, p. 27, [http://www.americangaming.org/sites/default/files/aga\\_sos2013\\_rev042014.pdf](http://www.americangaming.org/sites/default/files/aga_sos2013_rev042014.pdf).

<sup>10</sup> Id. at p. 29.

<sup>11</sup> IBISWorld Release, December 4, 2013, <http://www.prweb.com/releases/2013/12/prweb11389685.htm> .

<sup>12</sup> <http://www.wineinstitute.org/> .

Wine bars continue to meet this demand. An estimated 1,146 are currently in operation throughout the United States, with primary growth occurring in major metropolitan areas with higher-than-average incomes and consumers with a preference for premium products. Consumers with rising incomes will continue to demand affordable, “classy” gourmet dining opportunities. Given these trends, industry revenue is expected to grow in the next five years.

## Market Segmentation

Initially, the owners will allow the market itself to determine where the various establishments will operate. For simplicity and managerial efficiency, each venue will offer essentially the same products and service to the public. This may change with later venues or in cases where catering to particular local tastes is appropriate and profitable.

## Competition

Broadly speaking, competition includes all establishments offering VGTs as an entertainment value to their patrons, and today in Illinois that is 4,700 establishments.<sup>13</sup> However, very few of these are what could be characterized as direct competitors because each retail establishment is unique, and draws patrons by combining VGTs with its other (principal) offerings. A number of establishments in areas suitable for wine bars—and who may be competitors for dining, drinking, and entertainment dollars—offer video gaming in café-type settings, but none offer exactly the same mix of VGT and wine bar elements. These companies have succeeded doing this in other states for years now.

The owners expect to distinguish the proposed wine bar venues from comparable establishments by offering a unique product mix (menu and beverage offerings) and style, but also anticipate learning from successful competitors operating similar establishments in other areas. Also, the concept here is slightly different from other “wine bars” offering VGTs in this sense: these are “full” upscale wine bars with video slots, not just video slot locations that also offer wine, beer and food. Moreover, in accord with the upscale posture of these venues, the owners anticipate gaining market share by offering higher VGT payouts (to customers) and other unique attributes designed to foster active word-of-mouth promotional chatter among the target demographic. This, coupled with carefully tailored marketing strategies for the target demographic, should well position these venues competitively.

The combination of wine-bar and video gaming is not a completely unique concept in Illinois. At least a few other establishments offer the combination. It is nonetheless a distinctive approach, and not widely available. One other wine bar offerings VGTs is also a flower retailer (Avenue Flower Shop & Wine Bar in Oak Lawn, NTI=\$175,457.67 for 2014 through August, location share=\$61,410). Others offering video gaming include Aunt D’s Wine Bar and Gaming, in Hickory Hills Illinois, Benson's Wine Bar in Chester, Illinois, Salt Creek Wine Bar in Brookfield, Flame Eatery & Wine Bar, LLC in Carbondale, and Lou's Coffee and Wine Bar, Inc. in Crestwood (NTI=\$269,885.00 for 2014 through August, location share=\$94,460). In

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<sup>13</sup> On August 5, 2014 the IGB has issued 4,120 VGT location/establishment licenses to bars and restaurants, 153 fraternal organizations, 278 veteran establishments, and 148 truck stop establishments.

Joliet, Betty's Bistro, Penny's Place, and four others offer sandwiches, beer, wine—and the added attraction of video poker—operated by the Blackhawk Restaurant Group of Oak Brook, which is part of an Oregon-based company specializing in restaurant/bar/video gaming enterprises. These establishments demonstrate the viability of the concept. But, because such wine-bar/video-gaming combinations are rare (together comprising a very small fraction of all VGT location licensees), many suitable locations exist within the state where directly competitive establishments do not exist.

Wine bars are a common and popular style of drinking and dining establishment, and can be found with inestimable style variations. While distinctive, catering to a more refined patron, and not as common as standard bars and restaurant establishments, wine bars are sufficiently common to warrant careful examination of locations options, population ratios, neighborhood culture, and demand—to ensure that patronage will be steady and strong in each case.

As the viability of this model is tested and proven in the market, the owners expect many other wine-bar /video-gaming enterprises to enter the space in a number of variations. It is a natural combination, and may become quite commonplace—but it remains to be seen. The competitive advantage of this model today is that traditional wine bars don't yet see themselves as fitting into the “gaming” culture, and will likely resist embracing the VGT culture for a long time. This affords those who blaze the trail and successfully merge VGTs into the “sophisticated” full wine-bar experience a competitive edge among that segment of the market looking for *both* a sophisticated dining and drinking experience and the entertainment of casual video gaming in a moderately elegant environment.

Another advantage of the wine-bar /video-gaming combination is this: these establishments won't pose a direct competitive threat to other VGT bars and restaurants in a particular area because of their unique upscale food and beverage (beer, wine, non-liquor) offerings. City liquor commissioners are wary of adding new businesses to a community that want to offer video poker and gaming, and may only allow them in areas where they won't compete with existing bars and restaurants (city leaders have a tendency to take care of their existing local businesses). The wine-bar / VGT combination avoids this issue because there are so few wine bars in any given community compared to pervasive, standard-issue bars and restaurants.

## **Pricing**

Pricing will be dictated by each location's market and competition. To the extent possible, the owners will strive to dictate/govern pricing by being discerning and unique in selection of product offerings. Premium pricing will be sought where feasible, given market tolerances (limitations) on pricing for a bottle of wine and a charcuterie plate. Owners expect that the mark up on some of the finer wines will be as high as 300%, while mark ups on house wines and beers will average between 50 and 75%, and 35% on food.

## **Advertising and Promotion**

To effectively reach the target demographic, advertising and promotion will be mixed and highly localized for each establishment, with a strategic concentration on social-media mechanisms. Each venue will have a strong online presence to ensure patrons are easily aware of location and specials, new offerings, and events.

Because wine bars market primarily to customers in the local area, local community support is very important—so involvement in the community is a critical component of marketing strategy. Each establishment’s staff will attend and participate in community functions, thus establishing a reinforcing “visual” and “hands-on” presence where appropriate. Moreover, each establishment will host wine- and cheese-tasting events, both in house and at other community venues and public events, with a special focus on local producers from the Midwest. This local focus and these activities will enhance each establishment’s reputation and community “buzz” among locals. If the locals have a positive impression, they’ll patronize regularly and buy more.

## **Branding and Identifiers**

The owners will develop, with the aid of professionals as necessary, a compelling and artful trade name and logo for the wine-bar establishments. Each location may have a distinctive twist on the core name and logo—but all locations will be linked through common logo attributes. The logo and name, its design and color scheme, will be appealing and interesting, and instantly capture and convey a sense of style, distinctive, comfortable, and sophisticated atmosphere, and the combination of quality libations and dining, and video-gaming fun. The logo and name identity must be unique and easily recognized.

## Appendix

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### Start-Up Expenses/Capital

Startup costs are estimated to be \$270,200 for the first location, and include the items identified in the chart below. Of the total, \$75,000 is allocated as operating capital to fund first store operations in the first five to six months.

<b>Startup Expenses</b>	
Business Licenses	\$2,200
Incorporation Expenses (2 corporations)	\$1,500
Interior Modifications (build out)	\$75,000
Equipment/Machinery Required:	\$95,000
Item 1 – Kitchen Appliances (\$10,000 estimated)	
Item 2 -Video Game Terminals (\$15,000 ea. estimated)	
Item 3 -ATM/Vault (\$10,000 estimated)	
Insurance	\$3,000
Stationery/Business Cards	\$500
Pre-Opening Advertising	\$500
Other (list):	
Attorney fees	\$3,000
Gaming license	\$4,000
Liquor License State	\$500
Liquor License Municipality	
<b>TOTAL STARTUP EXPENSES</b>	<b>\$185,200</b>
<b>Startup Assets</b>	
Deposits (Operating capital)	\$75,000
Opening Inventory	\$10,000
<b>TOTAL STARTUP ASSETS</b>	<b>\$85,000</b>
<b>TOTAL STARTUP REQUIREMENTS</b>	<b>\$270,200</b>

### Funding Sought

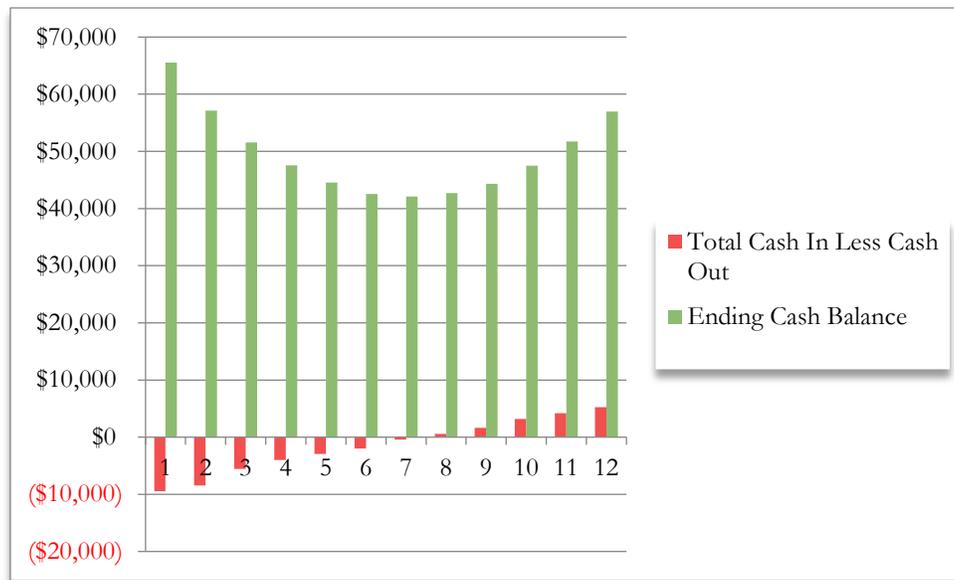
The owners seek funding capital from potential investors in an amount sufficient to cover the startup expenses identified above to properly launch the business: \$270,000. Investor(s) will participate in net revenue distribution at a one-third level under terms to be addressed in a management/revenue-sharing/partnership agreement.

Owners recognize that prospective investors may find it appropriate or necessary for tax, contractual, or profit-maximization reasons to structure investment arrangements as a hybrid of equity, debt, or other arranged credit and financing mechanisms. Because prospective investors needs and interests vary, owners are flexible and invite dialog on financing / structural options.

## Cash Flow/Income Projection

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
<b>Starting cash</b>	<b>\$75,000</b>	<b>\$65,540</b>	<b>\$57,105</b>	<b>\$51,545</b>	<b>\$47,535</b>	<b>\$44,575</b>	<b>\$42,565</b>	<b>\$42,105</b>	<b>\$42,695</b>	<b>\$44,335</b>	<b>\$47,525</b>	<b>\$51,715</b>
Cash In:												
Cash Sales	\$5,750	\$6,800	\$7,850	\$9,400	\$10,450	\$11,500	\$13,050	\$14,100	\$15,150	\$16,700	\$17,750	\$18,800
Receivables	0											
<i>Total Cash Intake</i>	\$5,750	\$6,800	\$7,850	\$9,400	\$10,450	\$11,500	\$13,050	\$14,100	\$15,150	\$16,700	\$17,750	\$18,800
Cash Out (expenses):												
Rent	\$2,500	\$2,500	\$2,500	\$2,500	\$2,500	\$2,500	\$2,500	\$2,500	\$2,500	\$2,500	\$2,500	\$2,500
Utilities	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
Payroll (incl. taxes)	\$7,325	\$7,325	\$7,325	\$7,325	\$7,325	\$7,325	\$7,325	\$7,325	\$7,325	\$7,325	\$7,325	\$7,325
Worker's Comp	\$500.00	\$500.00	\$500.00	\$500.00	\$500.00	\$500.00	\$500.00	\$500.00	\$500.00	\$500.00	\$500.00	\$500.00
Linen	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100
Promotion	\$250	\$250	\$250	\$250	\$250	\$250	\$250	\$250	\$250	\$250	\$250	\$250
Insurance	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500
Advertising	\$2,000	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100
Professional fees	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500	\$500
Ops and Office supply	\$225	\$225	\$225	\$225	\$225	\$225	\$225	\$225	\$225	\$225	\$225	\$225
Postage	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10	\$10
Taxes and Licenses	\$100	\$1,825	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Outside Services	\$100	\$300	\$300	\$300	\$300	\$400	\$400	\$400	\$400	\$400	\$450	\$450
Maint. and Repair	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100	\$100
<i>Total Cash In Less Cash Out</i>	<i>(\$9,460)</i>	<i>(\$8,435)</i>	<i>(\$5,560)</i>	<i>(\$4,010)</i>	<i>(\$2,960)</i>	<i>(\$2,010)</i>	<i>(\$460)</i>	\$590	\$1,640	\$3,190	\$4,190	\$5,240
<b>ENDING CASH BALANCE</b>	<b>\$65,540</b>	<b>\$57,105</b>	<b>\$51,545</b>	<b>\$47,535</b>	<b>\$44,575</b>	<b>\$42,565</b>	<b>\$42,105</b>	<b>\$42,695</b>	<b>\$44,335</b>	<b>\$47,525</b>	<b>\$51,715</b>	<b>\$56,955</b>

## Cash Flow Graph



## Sales Forecast

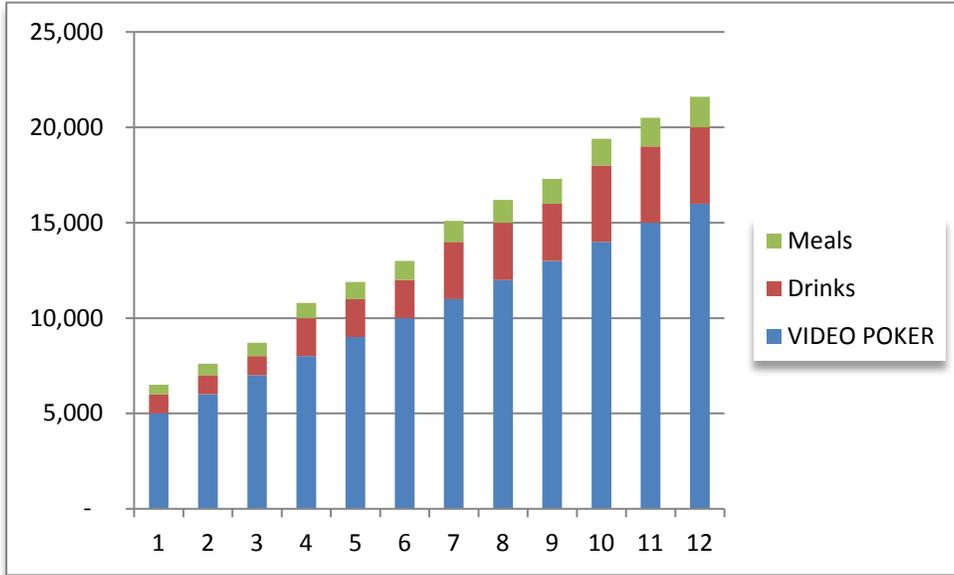
The first store will open, and sales will commence, in June 2015. Monthly food and beverage sales will start modestly on opening at approximately \$1,500 and rise through the first 12 months to \$5,600. Total food and beverage sales during the first year will be \$42,600, with the cost of those sales at \$21,300, or 50 percent. In year two, food and beverage sales will continue to steadily increase from \$6,700 in month 13 to \$8,800 in month 24, with an annual second-year total of \$93,000. Cost of sales will remain at 50 percent. All food and beverage sales revenues are received in cash or via credit/debit transactions at point of sale. No credit is granted to patrons and the enterprise will carry no receivables.

Gaming Sales (combined revenues to both retail and VGT entities) are expected to start strongly at \$5,000 in the first month of operation, and rise steadily to \$16,000 per month by month 12. Total gaming revenue in year one is expected to be \$126,000. In year two gaming revenue will start at \$17,000 in month one and end at \$28,000 in month 12. Total year-two gaming revenue is likely to be \$270,000. Gaming revenues are received directly from the state of Illinois on a scheduled basis.

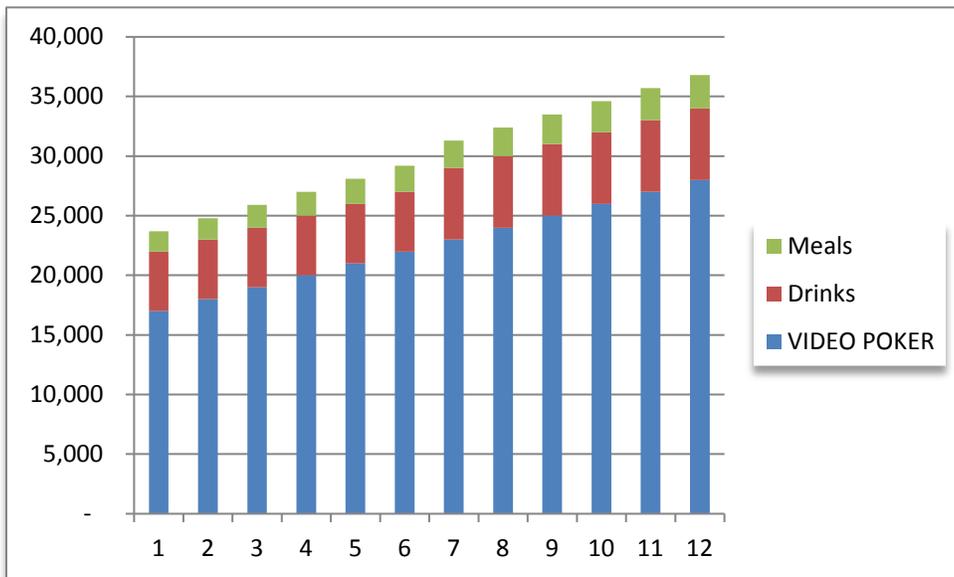
Based on sales among competitors, owners anticipate strong growth in the first quarter. Competitor's growth in gaming revenue has jumped from \$10,000 to \$44,000 during their 1<sup>st</sup> quarter, with consistent monthly increases. Similar growth in this business model is readily attainable, though the financial projections developed by the owners take a more conservative approach.

In the charts below sales of food and beverage are shown along with video gaming revenues on a monthly basis for years one and two.

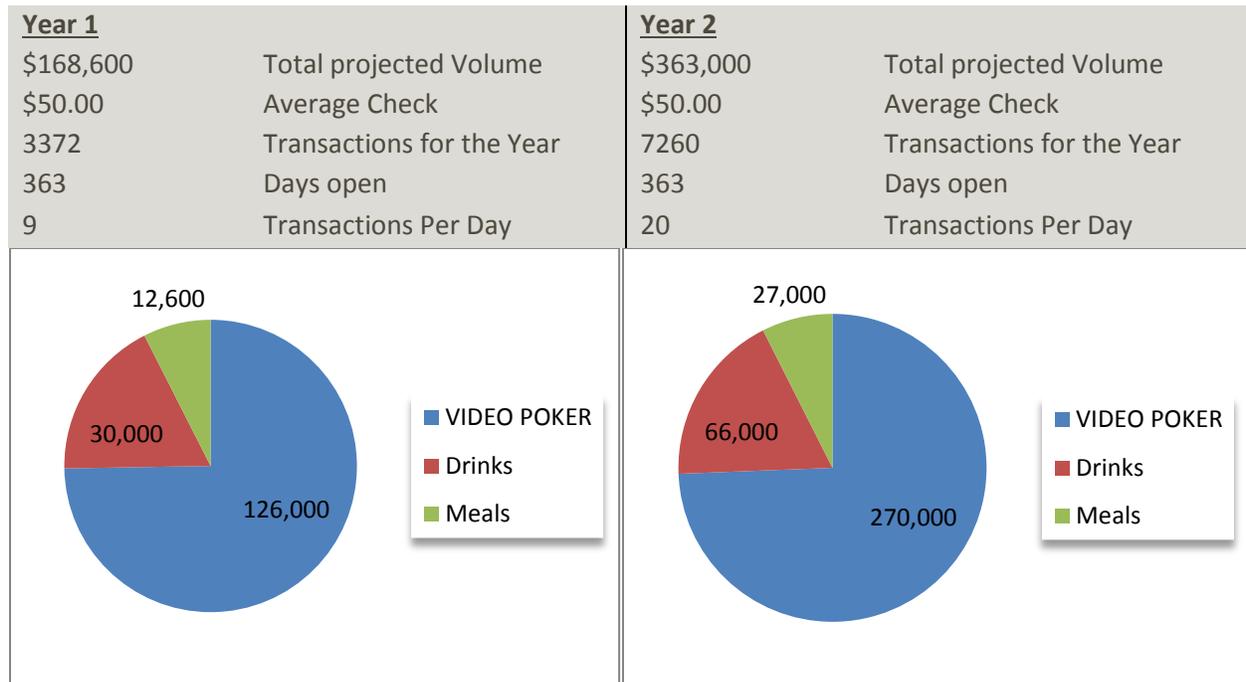
Year One Sales (months 1 – 12)



Year Two Sales (months 13 - 24)



Combined revenues from gaming and food and beverage sales in year one will be \$168,600, and should rise to \$363,000 in year two.

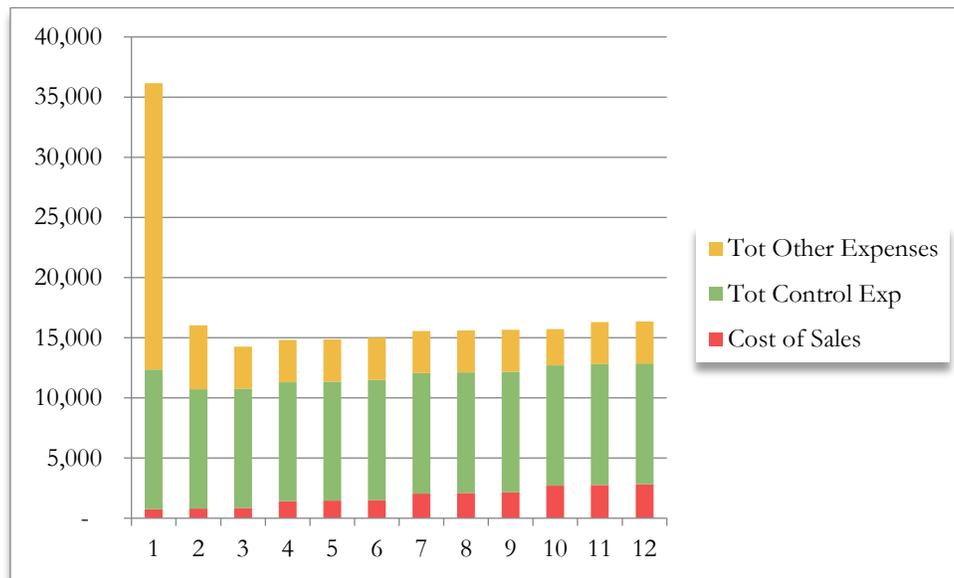


<b>Sales Forecast</b>		
	<b>FY 2016</b>	<b>FY 2017</b>
<b>Sales</b>		
Food	\$12,600	\$27,000
Beverage	\$30,000	\$66,000
Gaming	\$126,000	\$270,000
<b>Total Sales</b>	<b>\$168,600</b>	<b>\$363,000</b>
<b>Direct Cost of Sales</b>		
Cost of Sales	\$21,300	\$46,500
Control expenses	\$121,420	\$121,420
Other expenses	\$63,625	\$42,425
<b>Subtotal Direct Cost of Sales</b>	<b>\$206,345</b>	<b>\$210,345</b>

## Break-Even Analysis

The first store's break-even point will be attained, according to the attached financial projections, between month 7 and month 8, when total monthly sales have risen to between \$15,100 and \$16,200 (this is the combined sales of food, beverage, and video-gaming revenue received by both the retail and gaming entities) and match the average monthly total operating expenses of approximately \$15,500.

**First Year Expense Analysis (months 1 - 12)**



Total monthly costs as depicted in the chart above will rise in subsequent years as food and beverage sales increase (thereby increasing the cost of those sales). By month 24, the costs above will rise to approximately \$18,000. In the first month of operation the business will incur a one-time expense of \$20,200 for \_\_\_\_\_, and will see launch-related advertising charges far higher than in subsequent months (necessary to ensure appropriate "opening" buzz and community awareness).

By the early months of year two, the per-venue monthly profit after all expenses will exceed the break-even point by \$10,000, comfortably leaving funds available for distribution to owners and investors each month. While minimum profits of \$10,000 per month are anticipated early in year two, based on competitor's current gaming revenues, this number could reasonably be expected to exceed \$40,000 per month.

## Employee Compensation/Payroll

Monthly employee payroll-related costs for each store are expected to be \$7,825, including \$6,500 in payroll, \$500 in workers' compensation, and \$825 in payroll taxes. This is expected to cover one store manager (at \$15/hr. plus tips), and other required servers and kitchen personnel (at \$8-\$10/hr. plus tips). The retail store locations will not offer benefits to employees at startup, but may alter that policy as revenues stabilize at sufficient levels.

## Profitability Analysis

### Projected Profit and Loss

The table below contains the yearly analysis, and month-to-month profit and loss assumptions are included in the appendix. Two important assumptions underlying the Projected Profit and Loss statement are:

1. Revenue is based on minimum estimated averages against highest expense expectations.
2. Major expenses of rent and utilities are fixed for the next five years (based on likely lease terms).

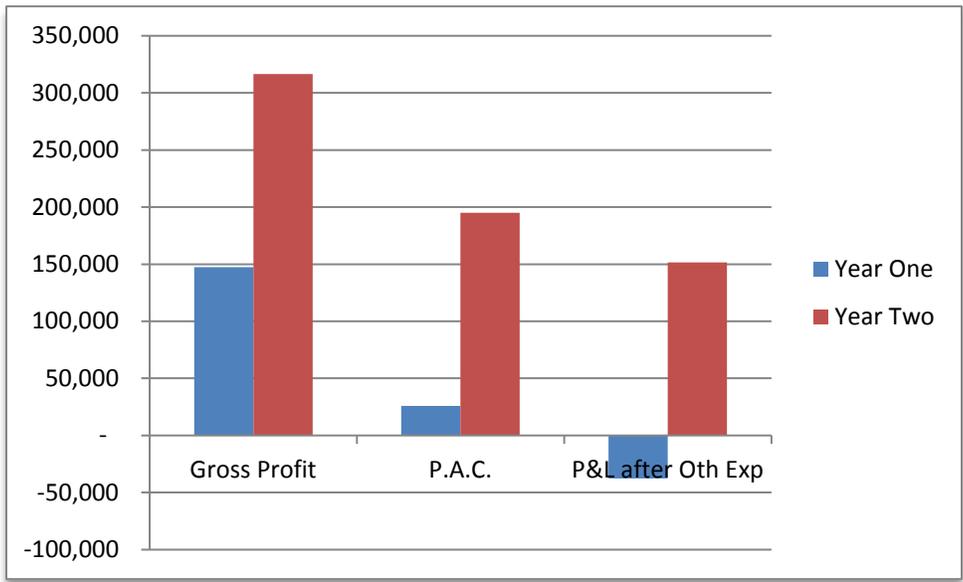
Note that the wine bar / gaming operation generates profit by the seventh or eighth month of operation. As the charts below reveal, in the early months of operation profits are low due to front end operational costs and low initial sales. By the end of year two, monthly profit after all expenses rises to approximately \$19,000, and second-year annual profit is nearly \$152,000.

#### Pro Forma Profit and Loss

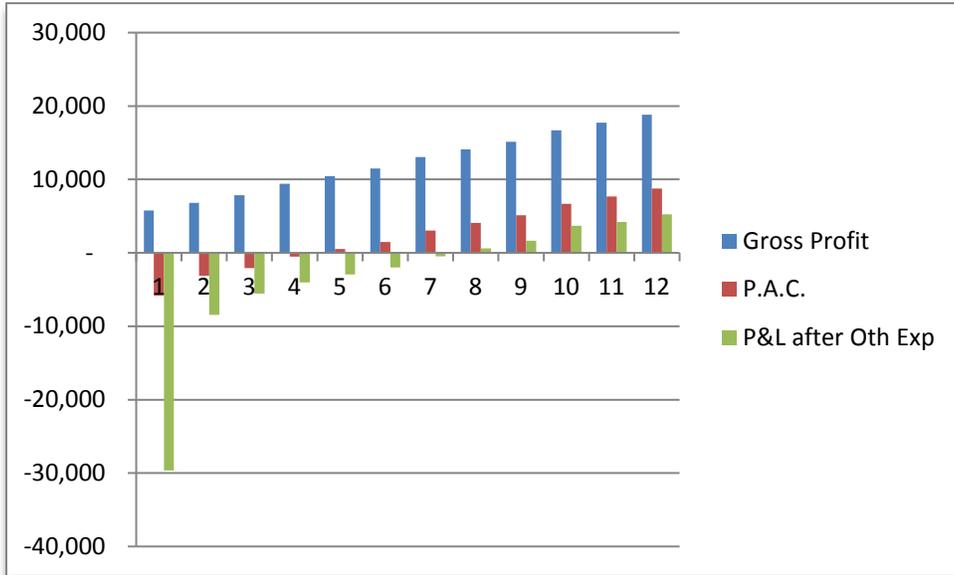
	2016	2017
Total Video Poker Revenue	126,000	270,000
Beverage Sales	30,000	66,000
Food Sales	12,600	27,000
<b>Cost of Sales</b>	<b>21,300</b>	<b>46,500</b>
<b>Gross Profit</b>	<b>147,300</b>	<b>316,500</b>
Payroll	78,000	78,000
Payroll Taxes	9,900	9,900
Work Comp	6,000	6,000
Advertising	3,100	3,100
Promotion	3,000	3,000
Outside Services	4,200	4,200
Linen	1,200	1,200
Ops Supplies	2,400	2,400
Maint & Repair	1,200	1,200
Utilities	12,000	12,000
Office Expenses	300	300
Cash Over/Short	120	120
<b>Tot Control Exp</b>	<b>121,420</b>	<b>121,420</b>
<b>P.A.C.</b>	<b>25,880</b>	<b>195,080</b>
Rent	30,000	30,000
System Fee	-	-
Service Fee	-	-

Additional Subsidy/Opening Costs (One-time costs)	20,200	0
Legal & Acctg	5,500	5,500
Insurance	6,000	6,000
Taxes & Licenses	1,925	1,925
<b>Tot Other Expenses</b>	<b>63,625</b>	<b>43,425</b>
<b>Profit Before Finance</b>	<b>-37,745</b>	<b>151,655</b>
Depreciation	-	-
Lease Costs	-	-
Interest Exp/Loan	-	-
Rent Adjustment	-	-
<b>Tot Finance Expenses</b>	<b>-</b>	<b>-</b>
<b>P&amp;L after Oth Exp</b>	<b>-37,745</b>	<b>151,655</b>

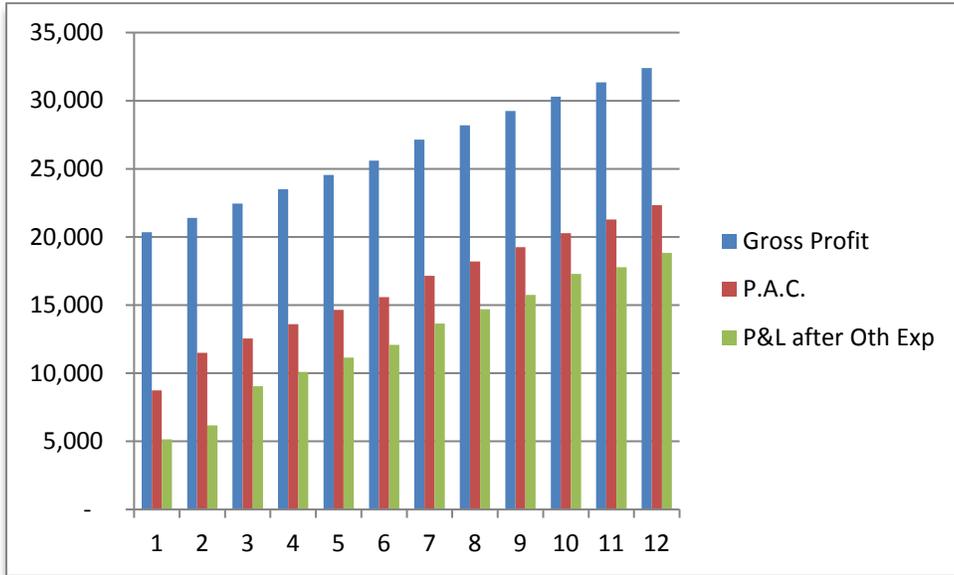
Profit Analysis — Years One and Two Totals



**Profit Analysis Year One**



**Profit Analysis Year Two**



**Miscellaneous Documents**

Documents will be updated and appended as appropriate.