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OVERVIEW OF THE BOWLING INDUSTRY

The bowling industry currently is enjoying a period of unprecedented popularity, financial stability and positive change. By applying new technology, broadening its customer focus and offering a diversity of entertainment options, bowling has been able to tap into the country's renewed emphasis on family activities and traditional values. As a result, bowling now is the nation's number one participatory sport.

Bowling attracts a remarkable customer base: over 67 million people bowled at least once last year, and almost 2 million of those actively participated in league play. Bowling traditionally does well in tough economic times, as was proven again during the recent national economic slowdown, primarily because it offers reasonably-priced family-oriented recreational activity close to home. Indeed, from 2010 through 2013, most centers reported that their operating revenues and margins were up, stable or down only slightly. Then sales rebounded, and in 2014 and 2015 most centers reported improved results, according to recent national studies, with patronage boosted in part by lower gas prices and reduced unemployment.

Like many industries, bowling is changing with the times. Historically, most bowling centers catered to a blue collar, league and tournament-oriented customer base. Now bowling is repositioning and rebranding itself to appeal to a more diversified, younger and upscale clientele which seeks an enjoyable entertainment experience in a well-appointed facility, a broader array of product offerings and a high-quality food and beverage operation. These changes are enabling most centers to broaden their customer base, achieve higher prices and become more effective competitors for their customers' entertainment dollars and scarce spare time.

The bowling business continues to be quite profitable, generating above-average levels of return on investment and exceptionally strong cash flows. As a result, failures are rare and the industry's standing among lenders is strong.

In all, bowling is a \$6 billion industry in the United States.

History of the Industry

Bowling has been a popular sport in the United States since Colonial days. The concept of bowling as a viable business took hold in the early 1900's. When modern bowling began in the late 1950's and early 1960's with the introduction of the fully-automatic pinsetter, the total number of bowling lanes more than doubled between 1957 and 1963, representing a capital investment of over \$2 billion. Then, in the mid-1960's, the industry suffered a brief period of over-development followed by a number of failures and repossessions.

The industry stabilized during the late 1960's and then flourished during the 1970's and the early 1980's. During that period, the business was driven by a large and loyal base of league bowlers who bowled several times every week and participated in tournaments and other competitive events. Food and beverage sales also were strong, and centers began to profit from video-game arcades as well.

By the mid-1980's, as traditional league bowling began to decline because of changing lifestyles, bowling proprietors initiated aggressive promotional programs to create new markets of recreation-minded and socially-oriented bowlers. In addition, a significant number of centers began to expand their product offerings, adding a wide range of ancillary activities to broaden their appeal to new market segments.

Over the last decade, the bowling industry essentially repositioned itself squarely within the booming location-based entertainment industry by adopting two basic strategies: 1) repackaging traditional bowling products to appeal to both league and recreational/casual bowlers; and 2) reconfiguring facilities into "bowling-based entertainment centers" which feature a broad range of activities with bowling as the core product, or into upscale "bowling lounges" which cater to young adults and corporate outings.

These days, as its customer base continues to expand, bowling is the only major recreational activity that can market itself as a competitive sport, a social and family activity, a multi-faceted party and meeting venue, and a location-based entertainment.

Industry Data

As of January 2016, approximately 4,800 bowling centers with about 95,000 lanes were operating in the United States. Of that group, over 4,200 facilities were commercial centers; the others were operated by the military, colleges, fraternal organizations and private clubs. Approximately 25% of the commercial centers are 32 lanes or larger in size.

In addition, the industry also has about 175 duckpin and candlepin centers with approximately 2,800 lanes in the United States, mostly along the east coast.

During the past ten years, the makeup of the industry has changed. In general, as older and smaller centers closed, they were replaced by new, larger and more diversified operations. Indeed, between 30 and 50 new facilities featuring bowling have been built annually in this country over the past few years, many in vacant big-box store buildings.

The majority of newly-constructed establishments combine bowling with a range of other recreational activities such as laser tag, go-karts, bumper cars, expanded video game arcades, climbing walls, redemption, bocce, glow miniature golf and similar activities to create family entertainment centers. Meanwhile, a growing number of existing centers are being converted into bowling-based entertainment centers by removing a small number of lanes and replacing them with amenities of that type.

Bowling lanes also have been added to many non-traditional venues such as movie theaters, adult communities, hotels and resorts, gambling casinos (commercial and Indian), churches and young-adult oriented entertainment centers such as Dave and Busters, Hooters and Gameworks.

In addition, a number of upscale nightclub-type complexes known as “bowling lounges” or “boutiques” have opened in urban areas featuring bowling lanes, plush restaurants, intimate lounges, stylish furnishings, private party rooms and high-tech video presentations enabling them to cater to large numbers of young adults, corporate parties and charitable fundraisers.

Many bowling centers were built years ago in under-developed areas in the path of growth. As those locations experienced intense commercial development, many bowling buildings were converted to other uses, most often retail and other commercial uses. In some situations, the underlying land has been used for new residential or commercial development. Frequently, the size, layout and structure of the bowling buildings, together with large parking lots and strong locations facing major arteries, make conversion an attractive alternative to refurbishing an older facility.

Ownership of bowling centers is remarkably diverse. By far the great majority of bowling centers in this country are individually or family-owned. Indeed, as a business, bowling is unusually family-oriented; compared to other similar small businesses, a disproportionate number of bowling centers are passed down from one generation to the next. It is not unusual to find second, third and even fourth-generation owners actively involved in this business.

This industry also is marked by fragmented ownership. The largest company owns about 340 centers, while the next three largest companies together own only about 50 centers.

The military services currently operate over 215 bowling centers with about 3,500 lanes both domestically and overseas as part of its worldwide Morale, Welfare and Recreation Program.

Bowling also is quite popular internationally. The Federation International des Quilleurs, the international bowling federation, estimates that as many as 100 million people in almost 150 countries bowl on a regular basis. One hundred twenty-five countries are members of the FIQ and compete regularly in international bowling tournaments. Asia experienced rapid growth in the construction of new centers some years ago, first in Taiwan and Korea and later in China and even war-torn Afghanistan. Europe, South Africa and Australia also have seen a considerable amount of new construction recently.

Although economic conditions in some parts of the world are slowing the growth of bowling in the short term, the long-range prospects for bowling internationally remain favorable.

Industry Demographics

A recent Experian Simmons National Consumer Survey found that over 51 million adults aged 18 and over, and 19 million youths aged 6 to 17, bowled at least once in the last year. Bowling clearly is gaining in popularity as 2015 represented the eighth consecutive year of growth in participation.

A significant portion of that increase resulted from heightened interest from women and younger bowlers. Since 2007, the number of adult women bowling has shown an increase every year while participation among 6 to 12-year-olds also has trended up steadily, according to Experian Simmons. Significantly, over 10 million consumers classify themselves as “frequent bowlers,” those who bowl 12 or more times a year, a notable base of loyal customers.

Bowling now ranks as the most popular participatory sport in America for those 18 and older. The level of bowling’s participation clearly outranks golf, fishing, tennis, billiards/pool, bicycling, roller and ice skating, jogging and hunting by wide margins. As one example: The Statistical Abstract of the United States published recently by the U.S. Census Bureau found that twice as many young adults bowl as ride bicycles.

Bowling’s traditional image as a sport appealing to blue-collar and lower-middle-income persons also is no longer accurate. Indeed, bowling clearly is moving upscale; several recent studies have found that the largest number of bowlers, both casual and serious, is found in higher socioeconomic households. Indeed, “Consumers in households that earn more than \$100,000 are the largest market for bowling centers”, according to a recent report issued by IBISWorld. By 2019, IBIS projects that 25% of all domestic households will have incomes over \$100,000, which bodes well for the future of the bowling industry.

Several other recent national surveys have verified bowling’s growing appeal to an upper-income clientele. For example, the Experian Simmons National Consumer Survey cited above found that the median income of a bowling household is over \$76,000 per year, more than 28% of all bowlers have household incomes exceeding \$100,000 per year, 64% of all bowlers are homeowners and almost 60% of bowlers earn their livings in professional fields. Similarly, a recent National Sports Goods Association Sports Participation survey found households with incomes over \$100,000

have higher than average bowling participation, while a Sports and Fitness Industry Association Bowling Participation Report determined that over 40% of all bowlers have college degrees.

One of bowling's major attractions is that it is a lifetime sport in which everyone, including those with major physical disabilities can participate. Many centers host leagues consisting of handicapped and even blind bowlers. Age is no barrier; indeed, the youngest person known to have bowled a perfect 300 game was only 9 years old while the oldest known 300 bowler was over 90 years old.

The bowling industry is poised for significant growth according to two recent studies. In a report entitled "Bowling Centers: A Global Market Report", Global Industry Analysts, Inc. concluded that the industry, both domestically and world-wide, "is expecting to witness a phase of extraordinary popularity, positive change and family activities by widening its customer base, applying innovative technology and offering a diverse range of entertainment alternatives". Another recent study, "The Bowling Benchmark Strategy Study", published by Roper Starch Worldwide, stated that the industry is well positioned to expand because the appeal of bowling as a "fun activity to be shared with family and friends of all age groups remains strong".

Bowling ranks as the most successful form of commercial recreation ever developed. By way of comparison, bowling has almost double the active participants of golf (participation in which is declining) and more than four times the active participants of tennis or skiing. The industry's two major national tournaments, the USBC Open Championship and the USBC Women's Championship, attract over 70,000 entries each year, making them the largest participatory sporting events in the world, surpassing even the most popular marathons.

Types of Bowlers

Customers of bowling centers generally fall into one of three categories: League Bowlers, Open Bowlers and Special-Event Bowlers.

League Bowlers. A bowling league is a formally organized group, often associated with a company, church or other organization which signs a contract with a bowling center to bowl on a regularly scheduled basis,

normally at the same time on the same day each week. Participants are divided into teams which compete with each other for prizes. Traditionally, leagues bowl a season of 30-to-35 weeks, although many leagues now utilize far shorter schedules.

Statistics provided by the bowling membership organization shows that over the past seven years the number of certified league bowlers (men, women, youth) declined from 2,482,785 in the 2007-2008 season to 1,570,589 in the 2014-2015 season. That includes 1,422,385 adults and 148,204 youths. Early registrations indicate that the 2015-2016 season will run about 6% to 8% below the prior season.

Indeed, over the past ten years, the census of certified league members has declined by an average of 5% to 6% annually. However, these numbers do not present an entirely accurate picture because an increasing number of leagues bowl regularly but do not register with the membership organization. Industry observers believe that only about 75% of all leagues now certify their members, so that the number of persons who currently participate in league play on a regular basis probably is close to 2 million.

Several factors have contributed to the decline in traditional league bowling: the return to work force of women who formerly bowled in daytime leagues, an increase in one-parent households, wider competition for consumers' leisure time and recreational dollars, expanded legalized gaming activity around the country, a heightened concern for health and physical fitness and a growing unwillingness to commit to a program which requires attendance for 30 or more consecutive weeks.

Open Bowling. An open bowler does not belong to an organized league but bowls whenever he or she chooses to do so. At most centers, open bowlers now comprise the largest customer segment; because open play pricing typically is stronger than league prices, this high-margin business has more than offset the impact of the decline in league bowlers.

Special Events. Many bowling proprietors also have turned to one-time "special events" which both introduce new customers to their centers and produce substantial revenue, in part because they are premium products which command top prices. More than 10 million children celebrate their birthdays annually in bowling centers, making bowling the #1 birthday party destination for kids age 12 and under. In addition, company parties,

corporate “team building” meetings, adult birthday parties, charity fund raisers, high school “lock-ins”, after-prom and graduation parties, celebrations of all types and similar events are expanding in popularity and have become a major components in most centers’ book of business and help centers bond to their local communities.

The fastest-growing segments of the bowling market are seniors and youth. Senior programs are based on social and group participation while broader youth participation has been created by aggressive promotion of birthday parties, “bumper bowling” (where padded slats block the gutters so every ball knocks down some pins) and efforts to include bowling in elementary and high school physical-education programs. Over 10,000 schools now have a “bowling curriculum” in which they set up carpet and pins in their gyms and have access to local bowling centers. This has led to a 17% increase in bowling among youngsters under the age of 14, according to The Bowling Proprietors Association of America. Significantly, recent consumer surveys have indicated that one out of every two youths under the age of 18 bowls at least once every year, a total of about 18 million.

Perhaps the most exciting development in this area has been the recent growth of high school varsity team competition, complete with rooters, cheerleaders, state finals and considerable parental involvement. Twenty states now recognize bowling as a sanctioned varsity inter-school athletic competition. In fact, bowling is the fastest-growing high school team sport in the country for both males and females, as participation has doubled over the last eight years. During the 2012-2013 season, over 53,000 male and female high school athletes in more than 4,900 schools in 48 states competed in either team or club schedules, while in the 2013-2014 season, the program expanded to include over 5,000 high school athletes in 49 states. Figures for the 2014-2015 season are not available yet.

In addition, over 250 colleges field competitive bowling teams with over 3,000 student athletes. The National Association of Intercollegiate Athletics recently elevated bowling to the status of “emerging sport”, a major step to becoming a NAIA championship sport. Collegiate bowling is now a recognized sport of NCAA, NJCAA and NAIA.

As a result of these trends, the ratio of patronage between league and open-play/special events bowlers has changed radically. Traditionally, and as late as the mid-1980’s, league play amounted to 75% to 80% of every centers’

business; but by 2015, open play and special events expanded to account for an estimated 60% to 65% of total lineage throughout the country. Moreover, the growth of non-league bowling has significantly lessened the seasonality of the business, allowing most centers to generate revenue on a year-around basis.

Current Developments in the Bowling Industry

To compete for the location-based entertainment dollar and to induce consumers to forego their multiple sources of in-home entertainment, the bowling industry has implemented a series of strategic innovations, including the following areas:

Providing quality dining experiences. Many center are aggressively seeking to grow revenues from sales of food by focusing on their menu pricing and presentation. An upgraded restaurant operation now is seen as playing a vital role in attracting and retaining customers, and many centers report that better food is bringing more people back to bowling.

Applying new technology to attract new customers. Much of the recent growth in open play and special events has been stimulated by such things as automatic scoring, which is continually upgraded with flashy graphics, multiple flat screens and new electronic features to make the bowling experience more fun and user-friendly. Most centers today have replaced traditional wood lanes with synthetics. Moreover, bumpers (mechanical devices which keep the ball from rolling into the gutter) now provide the “training wheels” for the eight-to-ten million youngsters who formally were considered too young to bowl.

Another popular feature is “glow in the dark” bowling which is marketed as “Cosmic” or “Extreme” bowling. The bowling center is converted into a virtual disco, complete with throbbing music, computer-programmed lighting effects, fog machines, strobe lights, lasers and balls, pins and lanes which literally glow from ultra-violet lighting. This program has packed centers with teens and young adults, usually in off hours and late in the evening, all over the country.

Other new products which have benefited the industry include a host of novelty balls with logos and cartoon figures embedded in them, upgrading of rental shoes which often are now packaged with a pair of new sports socks,

and in-house database programs designed to track centers' customers and create opportunities for follow-up marketing.

Offering a wider diversity of entertainment options such as expanded video-game arcades, modern lounges with sport-bar themes and Karaoke, electronic darts, classy billiard parlors, redemption centers, supervised children's playrooms, electronic and regular darts, party and banquet rooms, mini-bowling (a coin-operated game featuring short lanes and small balls), climbing walls, bungee jumping, glow miniature golf and outdoor volleyball. Most bowling centers offer well-appointed private party rooms, often equipped with food and beverage service stations and audio-visual equipment, to facilitate birthday and corporate parties and fund-raising events; as an added attraction some centers have constructed bowling lanes in distinct "VIP" areas, often enhanced with private bars and restrooms, separated from the lanes available to the general public.

About 900 facilities are now "family entertainment facilities" which feature bowling as the primary attraction and also offer such amenities as virtual reality, laser tag, branded-food outlets, children's soft play, go-karts, redemption centers, climbing walls, glow miniature golf, simulated and outdoor golf driving ranges, skating rinks, bocce and carnival rides. These activities increase the number of customer visits and revenue per visit.

In yet another significant development, many urban areas have seen the construction of trendy "bowling lounges" which feature upscale food and beverage presentations, plush furnishings, contemporary decor, high-tech video and sound systems and intimate party facilities. These facilities market to the sophisticated 21-to-40 year old crowd, corporate executives and professionals, and local celebrities. The most prominent example of this trend is the flashy 90,000 sq.ft. Bowlmor which was constructed recently inside the former New York Times Building in Times Square, at a cost of over \$20 million.

Utilizing centrally directed national marketing. The industry's promotional arm, Strike Ten Entertainment, is sponsored and supported by the entire industry. Strike Ten's mission is to increase national awareness of bowling through national marketing programs, cross-promotions, brand tie-ins, sponsorships and a concerted public relations effort to gain media coverage for placement of bowling as background for advertisements and commercials.

Employing sophisticated and local electronic marketing. Almost every center now has a web site featuring its programs, schedules and promotions, and utilizes social media and marketing programs such as Groupon, Facebook and Twitter to expand its customer base. Many centers are able to process open play lane and party reservations on line

Increasing the industry's visibility. The bowling industry recently has received a considerable amount of publicity in newspaper and magazine stories, and television news and feature programs, both nationally and in local markets, generally stressing "bowling's resurgence" and similar themes. The industry also benefits from tournaments conducted by the Professional Bowlers' Association regularly televised on ESPN; indeed, recent ratings have increased by 23%, a positive trend. Stylish bowling merchandise such as shoes also has been featured in upscale boutiques and apparel stores, adding to the industry's broader awareness.

Providing a better product. The majority of bowling facilities in this country are 25 years of age or older, but most of them have been renovated in recent years to make them fully competitive with other recreational venues. Over the last 10 years the industry has placed major emphasis on the importance of modernizing older centers and installing state-of-the-art equipment, modern furnishings, sophisticated lighting, bright colors, electronic interior and exterior signage, high-tech sound and video attractions and expanded food service, all designed to attract new patrons and retain existing customers. Indeed, 60% of bowling centers recently surveyed by the Bowling Proprietors Association of America reported that they had completed major capital improvement projects within the last 3 years, despite the current difficult economic climate. Some progressive operators even are taking steps to "brand" their business.

Most centers today also have substantially improved their employee selection, training and compensation programs to enhance levels of customer service. Furthermore, the industry has benefited as many older proprietors who came into the industry in the 1970's and the 1980's are now retiring and are being replaced by younger, more aggressive operators, often their own children.

For many years, the industry did not maximize its business because it failed to increase its prices at least in line with the rate of inflation. In recent years however, many proprietors have adopted more aggressive pricing policies

which have strengthened bottom-line results. In addition, the rapid growth of open play and parties, market segments which are less price sensitive than league bowling, plus a trend towards charging by time rather than by lines bowled, also have helped to boost revenues. These developments, along with additional sources of ancillary income, have offset the industry's decrease in average annual lineage, from an estimated 9,500 lines per lane in the mid-1990 to about 7,300 lines per lane in 2015.

Impact of Current Trends in Society

Bowling currently is well-positioned to take advantage of a number of trends and developments within society as a whole. These advantages are:

Convenience. As a reasonably-priced recreation activity located close to home, bowling appeals to consumers who want a hassle-free, easily-accessible fun experience.

Family fun. Bowling fits comfortably within the current renewed emphasis on family activities and traditional values.

De-cocooning. After a decade of seeking refuge in their homes, Americans are venturing out for entertainment and recreation, triggering a boom in sales in away-from-home products, services and activities.

Consumer Spending Habits. Higher socio-economic households now represent an increasing majority of customers for location-based entertainment facilities, particularly those like bowling which provide a significant social component. This trend is enabling most bowling centers to rely less upon their traditional blue collar customer base and focus their marketing on a more reliable and rewarding up-scale clientele.

Community. People are social animals, and bowling centers offer an escape from the loneliness inherent in much of today's lifestyles by providing convenient and hospitable sites for socializing with family, friends and business associates.

Smoking restrictions. Expanded prohibition of smoking in public places by over 40 states and a growing number of cities has opened up new markets

for bowling because many potential customers will not patronize a facility perceived to be “smoke-filled”. A number of centers also have voluntarily adopted a no-smoking policy.

Reduced consumption of alcoholic beverages. Although the decline in bar sales adversely impacted overall revenues in many bowling centers, it has enhanced the industry’s status as a wholesome family activity.

Financial Climate for Bowling Centers

The industry’s standing among bankers and other lenders today is quite strong, although that hasn’t always been the case. After the industry went through a difficult period in the 1960’s, many banks were reluctant to make loans on bowling centers. The lending climate improved, however, when bowling proved to be resilient during economic downturns and when it became clear that many bowling buildings in fact had substantial value if converted to other commercial uses.

Over the past 10 to 15 years, as the industry modernized its business practices and strengthened its financial viability, the number of defaults, failures and bankruptcies by bowling centers has been well below the average for small businesses generally. Both Moodys and SBA have recently published data ranking bowling as among the industries nationally with the most favorable default ratings. In fact, the industry’s recent growth, inherent stability and renewed vigor have created a favorable lending climate and attractive low interest rates for centers all over the country.

Because the industry has experienced very few losses of any significance in recent years, property and casualty insurance coverage is readily available at competitive prices.

Business Dimensions of a Bowling Center

The unique league structure of bowling enhances the industry's appeal as a business. In most centers, about 35% to 40% of revenues are guaranteed by league contracts which reserve lanes for specific time periods each week over an eight-to-nine month season.

Bowling centers produce additional revenues from other amenities such as sales of alcoholic beverages, bowling-shoe rentals, food facilities, pro shops,

billiards, vending machines, video games and, of increasing importance in recent years, a wide range of other entertainment activities.

Over the past 30 years, the industry has been quite profitable and has regularly generated above-average returns on investment and levels of EBITDA. During that period, the rate of bowling-center loan failures and defaults has been minimal.

Indeed, because of the highly-favorable financing terms available on both commercial loans and those guaranteed by the SBA, center purchasers often achieve returns on their invested capital of well over 40%, even in their first year of ownership.

As a business and investment, bowling centers also provide several additional advantages:

The league structure provides remarkably stable and predictable levels of revenue and cash flow.

Bowling is among the relatively few industries that thrive on "recurring revenues." Many financial analysts endorse businesses that must sell a customer only once to create an automatic, on-going stream of future revenues by providing continuing services to that customer. In bowling, once a league signs a contract with a center, that league should continue to patronize the center indefinitely without the need of "selling" it again, so long as the center services it properly.

Bowling is a cash business with no receivables. Because of the strong cash flow, a bowling business needs little working capital, and funds tied up in inventories are minimal.

Bowling centers have excellent operating leverage; once basic expenses are covered, an unusually large percentage of each additional dollar of revenue flows through to the bottom line.

A bowling center runs little risk of functional obsolescence; the design and function of the major components of a center rarely change, and modest ongoing expenditures in decor and appearance can keep a facility fresh and modern for many years. With proper maintenance, the basic equipment normally will function efficiently for well over 20 years.

Bowling centers normally provide significant tax shelter created by substantial investments in equipment and often in buildings.

Bowling potentially appeals to virtually all segments of this country's demographic base. A highly-social activity, it is enjoyed by people of all ages, physical abilities and skill levels. Families, employee organizations and other groups frequently bowl together for fun, fitness and friendly competition.

The industry benefits from this country's expanding desire for wholesome recreation and, particularly as more bowling centers diversify by adding ancillary activities for family-fun participatory activities.

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