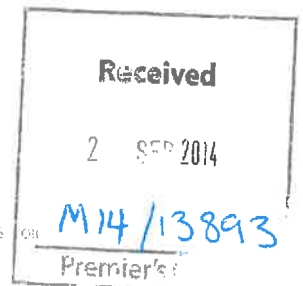


MONA



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Hon Will Hodgman MP
Premier of Tasmania
Level 11, 15 Murray Street
HOBART TAS 7000

Dear Premier,

Re: Hotel and casino development at Mona

I thought I'd jot down my thoughts in an informal way, for the purposes of this cover letter. The data to follow are highly speculative, but my intention, which is to fund Mona indefinitely, isn't.

Making predictions is hard – particularly for the future, to paraphrase Yogi Berra. I can say, however, that since we already have a considerable audience, we don't have to depend on 'build it, and they will come'. We are closer to 'build it, and they will stay'.

The so-called 'Mona effect' has, over the last few years, given me cause to reflect on the consequences of my financial or actual demise. Mona is, of course, financed by me personally; as my chosen path has its attendant risks, and doesn't develop an asset that can be tapped for an annuity, a self-sufficient path for Mona seems necessary, for the interests of myself and my extremely committed staff, as well as those of the larger community.

To this end I have explored many options. We are currently spinning off some of the technology developed while designing Mona, in particular the touring guide system and its embedded indoor location. This is a promising development, but the shortfall between a fully realised and fully financed Mona will still be of the order of eight million dollars per annum.

We have looked very carefully at a hotel and expanded function facility development. While the fit with the Mona brand is natural and compelling, the standard to which Mona aspires resulted in a marginal development. There was, and is, a clear need to benefit from economies of scale.

We went big.

Our plan now includes a twelve ~~hundred~~^{hundred}-seat auditorium, a one thousand-seat function room (in the earlier plan the existing three hundred-seat facility would have been expanded slightly, now it is to be maintained), another (jazz style) bar, a further restaurant, and, at the site of the existing library, a new function centre tailored for weddings. The library is one of the few elements of Mona that is not particularly successful, but I have learnt from its failure, and the library mark II will be a vastly more engaging structure situated in the mooted hotel. We intend to greatly expand our book holdings, including rare books and manuscripts. The latter collection is already substantial, but presently we have no facility that allows their display.

And then there is the casino. The hotel needs an attractor, a centrepiece that operates as the financial fulcrum of the complex. Elsewhere I have stated my belief that casinos operate best on a tourist-only model. The social problems that are rightly associated with casinos are mitigated when the market targets visitors only. To achieve this a members-only, high limits, no pokies, private facility – unlike Wrest Point in conception and operation – seems to be the way to go. High net worth (I do hate that indulgent phrase) individuals would come to see art, and would stay a little bit longer to take on the house.

It would be essential to target another significant market: those high rollers who are delivered by junket operators. Since they are paid a rebate, typically a competitive casino pays slightly less than one percent on turnover, and since the large-volume players (affectionately known as 'whales') play low-percentage games (in other words they don't lose a large percentage), the margin is constrained by the tax regime. We would require a variation on the typical casino structure, which imposes an impost on turnover (or drop, the amount of money that is exchanged for chips). This structure is suited to high margins and low volume. Since our business would operate on low margins and (hopefully) high volumes, deferring the tax impost until the end of the year (with the potential for losses to be carried

forward) benefits both the Government and us, as the casino operator. To illustrate this point, imagine a player who is paid 0.75% on turnover by the house and chooses to play Baccarat. The house has an advantage of about 1.25% on Baccarat, resulting in a house margin of 0.5%. The usual payment of a turnover tax means that this player generates losses for the house and cannot be engaged. However, if this player visits for eight days a year, gambles an average bet of 1000, and gambles for four hours each day, his turnover will be around 3,200,000 dollars, generating an average profit of 16,000 dollars (and there would be large variations. This sort of low-margin play causes difficulties for most casinos. It is eminently suited to someone with my background). This \$16,000 could be split between the operator and the Government, thus generating a resource where otherwise none existed.

It may be unnecessary to point out that this sort of tax regime proffers a competitive advantage in the junket market, because greater rebates can be paid. In a market where most competitors operate in huge markets with multiple-billion dollar infrastructure investments, attracting customers for a lower budget casino in a less marketed city is fraught with difficulty. The proposed variation in the tax regime, coupled with high-level elegant design and the extraordinary power of Mona to attract and satisfy visitors, may allow us to overcome these ostensibly insurmountable hurdles.

The ideal scenario allows us to offer a service (high stakes gambling, and perhaps the Keno product licenses to clubs and hotels by Federal Hotels) to all conference visitors, and to all guests of the house. The daily entrance fee for these customers would be packaged with their hotel rates (or in the case of conference visitors who choose not to be domiciled at Mona this fee would be levied, but perhaps with discounts pertaining to other services).

I would be seeking to make about five million dollars per annum, an amount that would allow Mona to be neatly packaged as a non-profit with income. More is possible, but within the structure that would emerge, the majority of profits would be maintained within, and spent on, Mona.

The nature of the development would, in my opinion, constitute only a negligible risk to the existing casino environment. As I previously stated, their profit profile is low volume, high edge, and their physical environment conducive to the activities of small, but highly regular, poker machine players. (I leave as an exercise the determination of the percentage of Federal's profit that results from pokies.) They very rarely cater (if at all) to high-value players, but if this market was serviced by Mona, they could choose to attempt to attract such customers for some part of those customers' time in Hobart. And, in particular, the existing operators have already benefitted enormously from the change in the economic circumstance at play in Hobart due to the presence and continued operation of Mona. An expanded regime at Mona can only attract anew, with tourists capable of larger spending the likely result.

The expansion of Mona's facilities is not intended to service only the high-end tourist. During casino closing hours tours will be taken (and this development would, in true Mona style, have an attractive art and architecture component), and the bar may operate for the general public until opening time (perhaps coinciding with the museum closing). Adjacent to Mona there is a caravan park, owned by the Glenorchy City Council. Our intention is to seek to operate this park, and upgrade its facilities (for example by having artists paint on-site vans) to make them commensurate with Mona's, but at a much lower price (my present target is \$60 a night for some sites). I would love to see, at bars operated throughout the Mona campus, billionaires sharing a beer with backpackers, with neither apprised of the other's situation.

In concert with my background as a gambler, and Mona's as a speculative attraction, this is a high-risk proposal. In the event that the necessary approvals are granted and the facility and its attended services are constructed, but then fail, I will not seek to support a failed business model by changing the parameters. In particular, I will not be seeking to introduce poker machines. But Tasmania will still have accrued some significant benefits: the hotel and function centre will remain. And I will remain committed to Mona, and Tasmania.

Another issue exists that I think worthy of mention. This development is pushing the boundaries of the existing planning laws, but I nevertheless think it would garner approval. Under the apparently imminent planning-law changes, this proposal would require intervention. It seems odd to make changes to planning and very soon thereafter seek to bypass those changes. However, I am unable to seek planning approval without a clear picture of what development is possible (i.e. without a casino I would propose a far more modest development). Therefore I ask that the planning changes not be implemented until September 2015.

Thank you for your consideration,



David Walsh
25th September 2014