

# Driving sustainable growth for Thoroughbred racing and breeding



Selected Exhibits  
August 2011

## Sources of Insight

- Regression analysis on **600,000+ races spanning 11 years**
- Developed a **model of the industry** and its **likely evolution**
- **150+ interviews** with **industry stakeholders**
- **1,800 current and potential fans** surveyed
- **30+ in-depth fan interviews**
- **920 Thoroughbred owners** surveyed
- **200+ interviews** with **regulators and opinion leaders**

## Executive summary

The core values of racing are still powerful, but we are losing the battle for new bettors and new fans. Serious intervention is required to stabilize the fan base and position the industry to resume growth.

- **Without new growth strategies, Thoroughbred racing handle will decline 25% in the next decade.** The number of viable tracks will decline by 27%. The losses of an owner will grow 50% and the foal crop will decline by at least 9%.
- **Despite many laudable innovations, Thoroughbred racing has failed to keep up with rising competition from other forms of gambling, sports, and entertainment.** Racing has a serious brand problem, a diluted product and insufficient distribution. Only 22% of the general public has a positive impression of the sport, and only 46% of fans would recommend racing to others.
- **Now is the moment to turn this around, with disruptions in other professional sports and in online gambling creating a unique window for action. Racing must:**
  - **Refocus** on the best racing through television, integrity reforms, and elevating the best product
  - **Retain** the core bettor by innovating wagering and providing an integrated on-track and off-track wagering platform through a track integrated ADW. Enhance the ownership experience through additional tools and transparency
  - **Reinvest** in new fans through simplified betting, social games, and promoting innovations in on-track experiences and new-look OTBs

## Industry outlook – baseline or momentum view

Without new growth strategies, we project that Thoroughbred racing handle in 2020 will be down 44% from its 2003 peak and down 25% from 2010

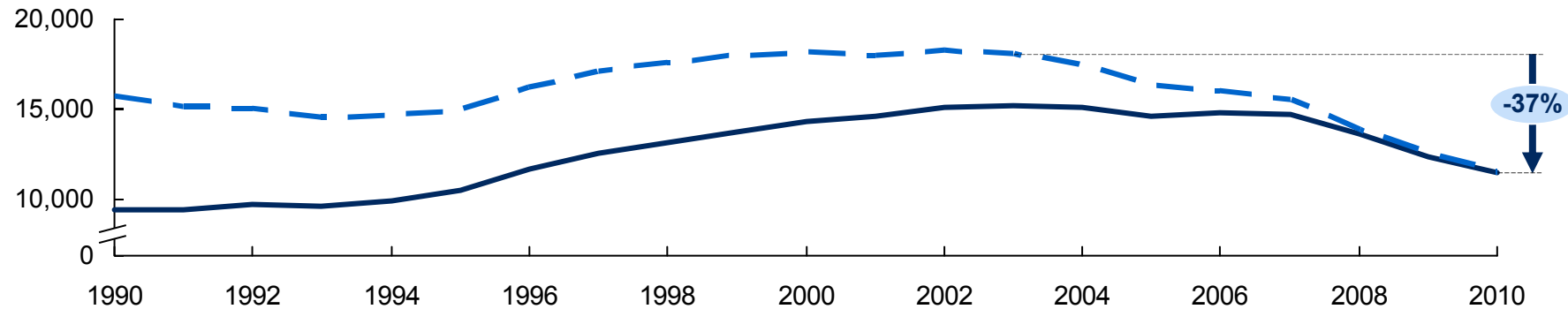
- All major metrics have been declining: real handle is down 37% from its peak in 2003; the number of starters is down 23% since 1990, and race days are down 14% from 2000
- Although handle per race of GI and GII races has grown by 23% over the past 10 years, they are only a small proportion of total races (0.53% of the 2010 races). The vast majority of races are struggling. The largest group (claimers), have seen a handle decline of 4% since 2000
- Racing is experiencing a shrinking share of wallet from a shrinking fan base:
  - From our research, the average age of a fan today is 51 (vs. 43 for football and baseball, 35 for basketball, and 46 for poker). Approximately 2% of fans die each year, and the average age will increase by 6 years by 2020
  - Over the past 12 months, 5% of fans 'lapsed' (i.e., stopped following the sport) and only 3% of racing fans are new to the sport in the last 12 months
  - Existing fans are wagering less on the sport: 16% of racing fans say that they bet less now on the sport than they did one year ago (vs. 9% who say they bet more). The poor economic environment was the top reason (57%), followed by worries of losing too much money (23%), and concerns about past-posting (12%)
- The situation could be even worse than the scenario outlined above:
  - An acceleration of the negative feedback loop between foal crops, starters and handle could lead to further declines
  - There is a risk that other forms of distribution collapse (e.g., greyhound tracks, net importer Thoroughbred tracks) and that fans who attend those venues are not recovered by other distribution outlets

# Demand for the sport is down...

Real handle has fallen 37% since 2003 and 49% since 1975

Annual handle in the US  
1990-2010, \$ Millions

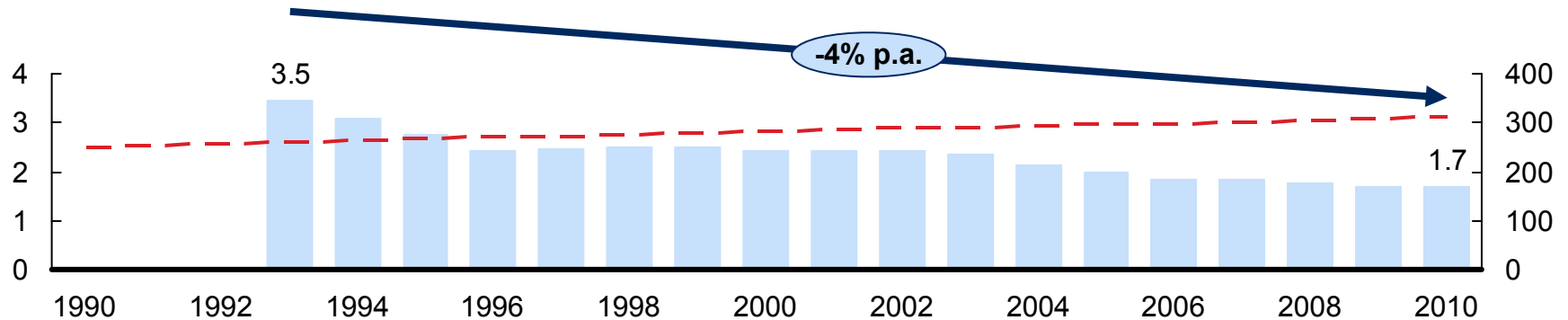
1975 Handle in 2010 dollars **\$22.5B**  
 — Nominal  
 - - Real (\$, 2010)



Attendance has been down by as much as 53% at tracks

Annual attendance at one US track vs. Total US Population  
1990-2010, Millions of people

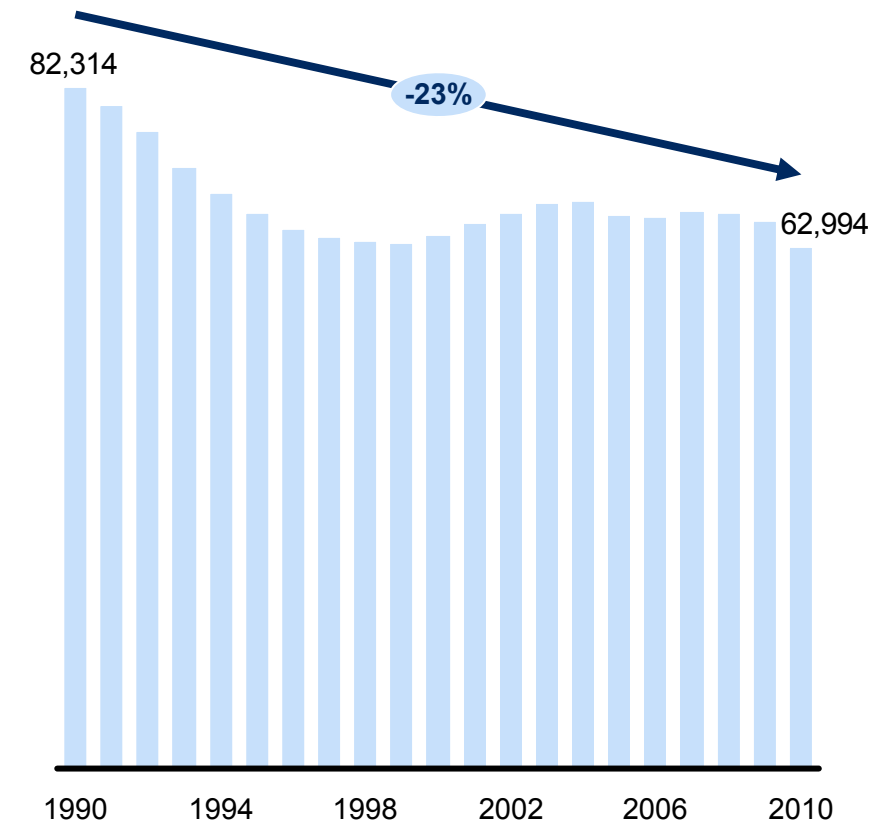
- - Total US Population  
 ■ Annual Attendance at One Track



# ...supply has contracted...

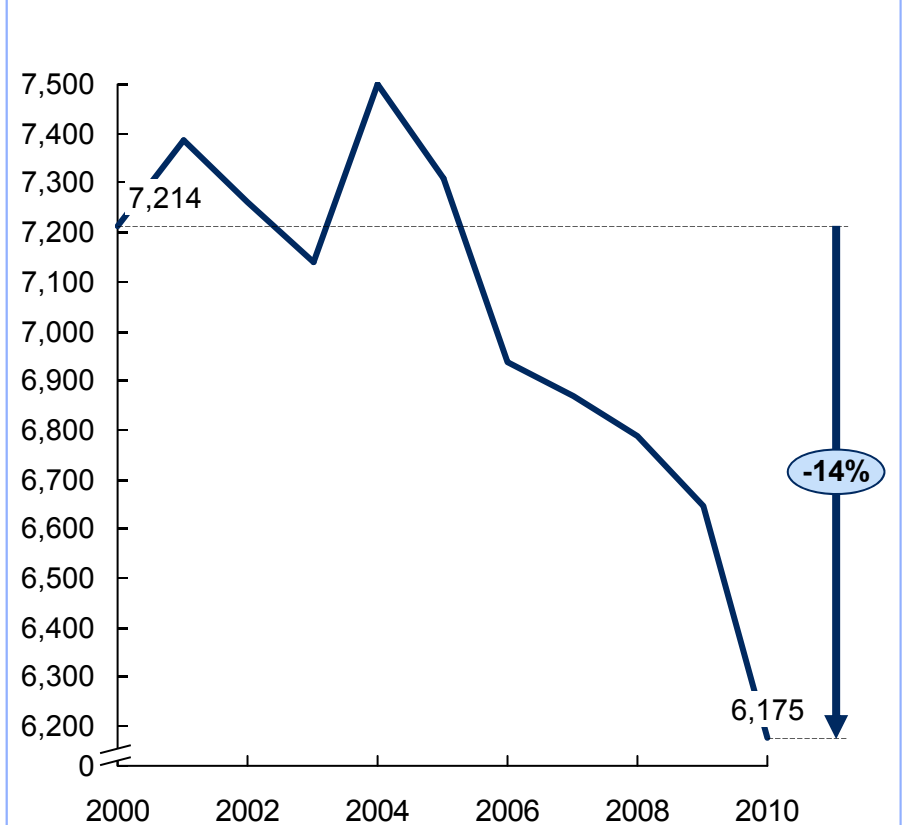
## Starters are down 23% since 1990

Annual number of starters  
1990-2010



## Race days at tracks down by 14% since 2000

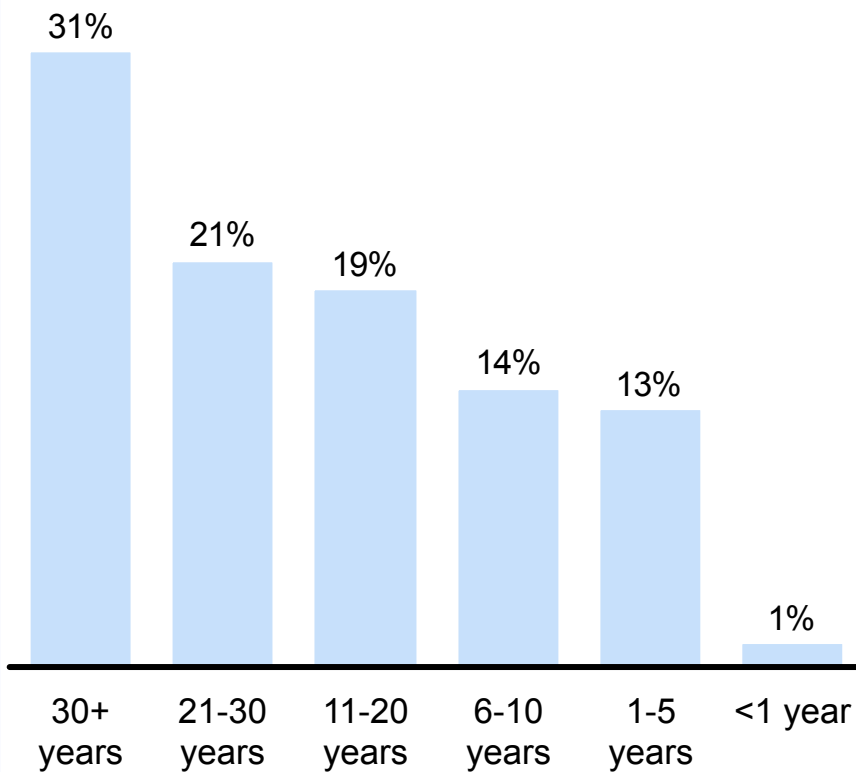
Annual number of race days  
2000-2010



## ...and the core fan base is shrinking

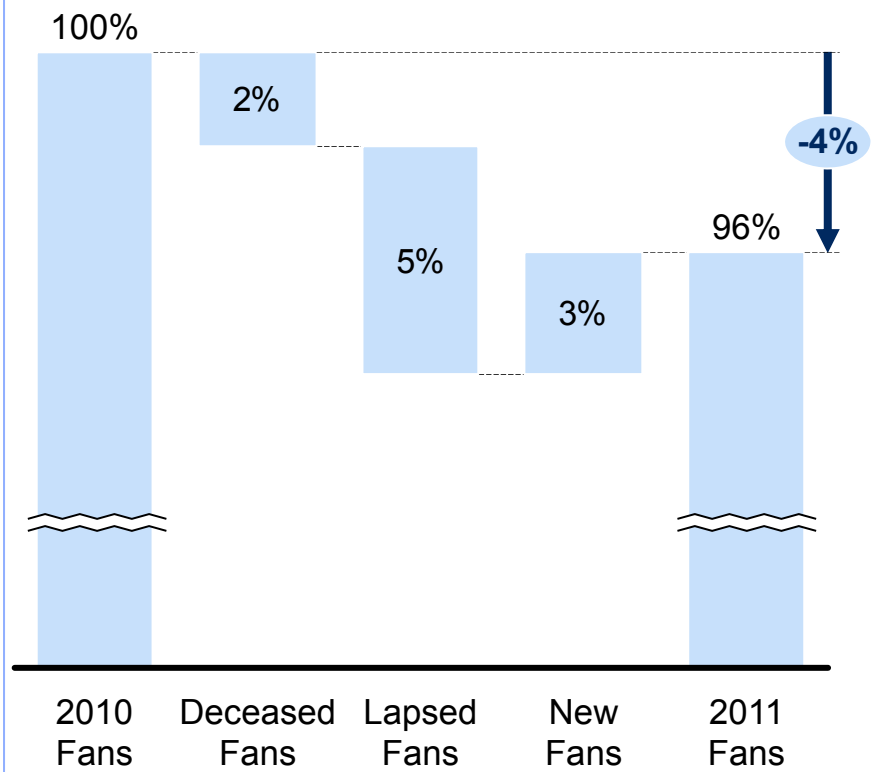
The fan population is stagnating with over half of all fans<sup>1</sup> having joined the sport 20+ years ago

*Length of involvement in the sport (% of fans)*



Slow entry into the sport is causing racing to lose 4% of fans<sup>1</sup> each year

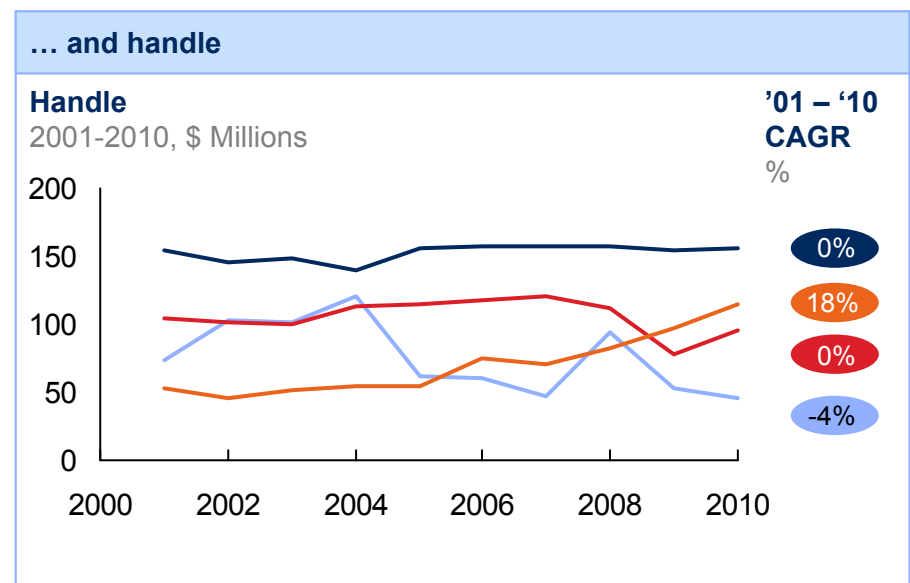
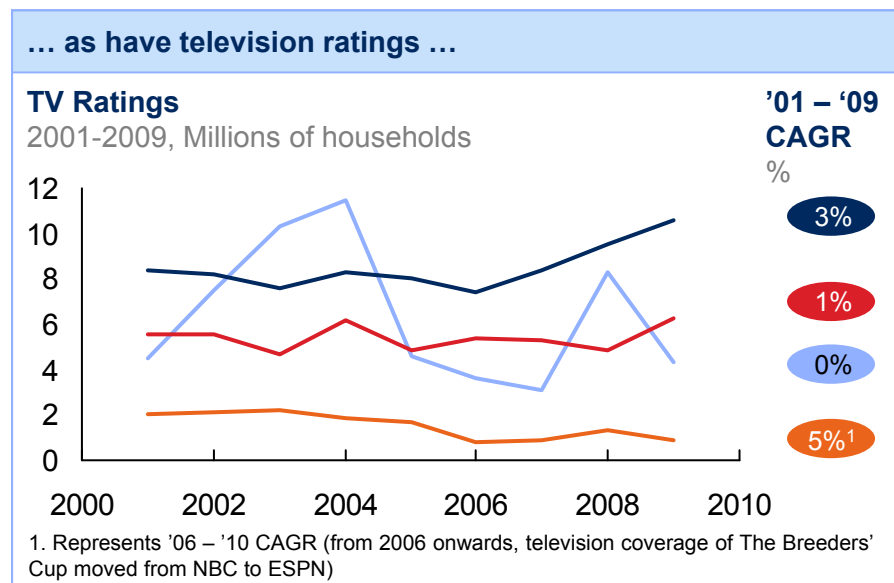
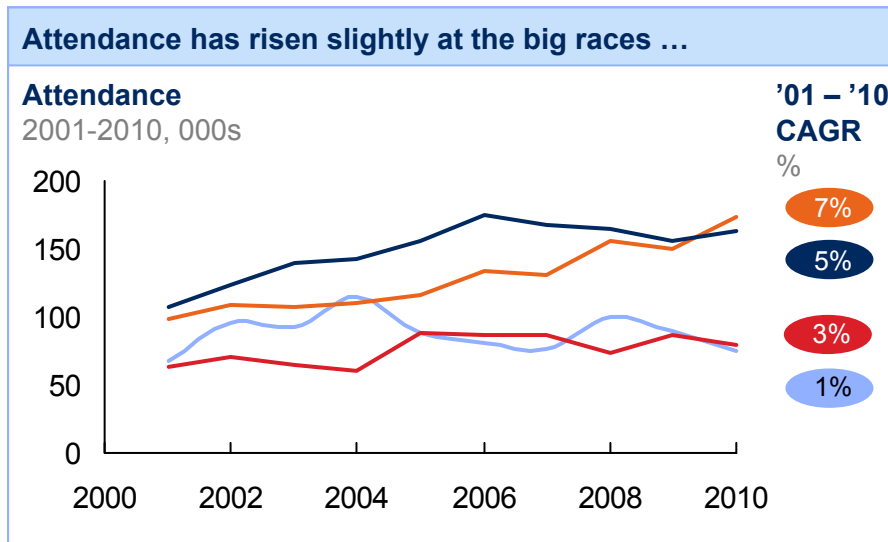
*Fan attrition (%)*



<sup>1</sup> A fan is defined as an individual who bets on or attends a Thoroughbred race at least 3 times per year

# While the big events are resilient...

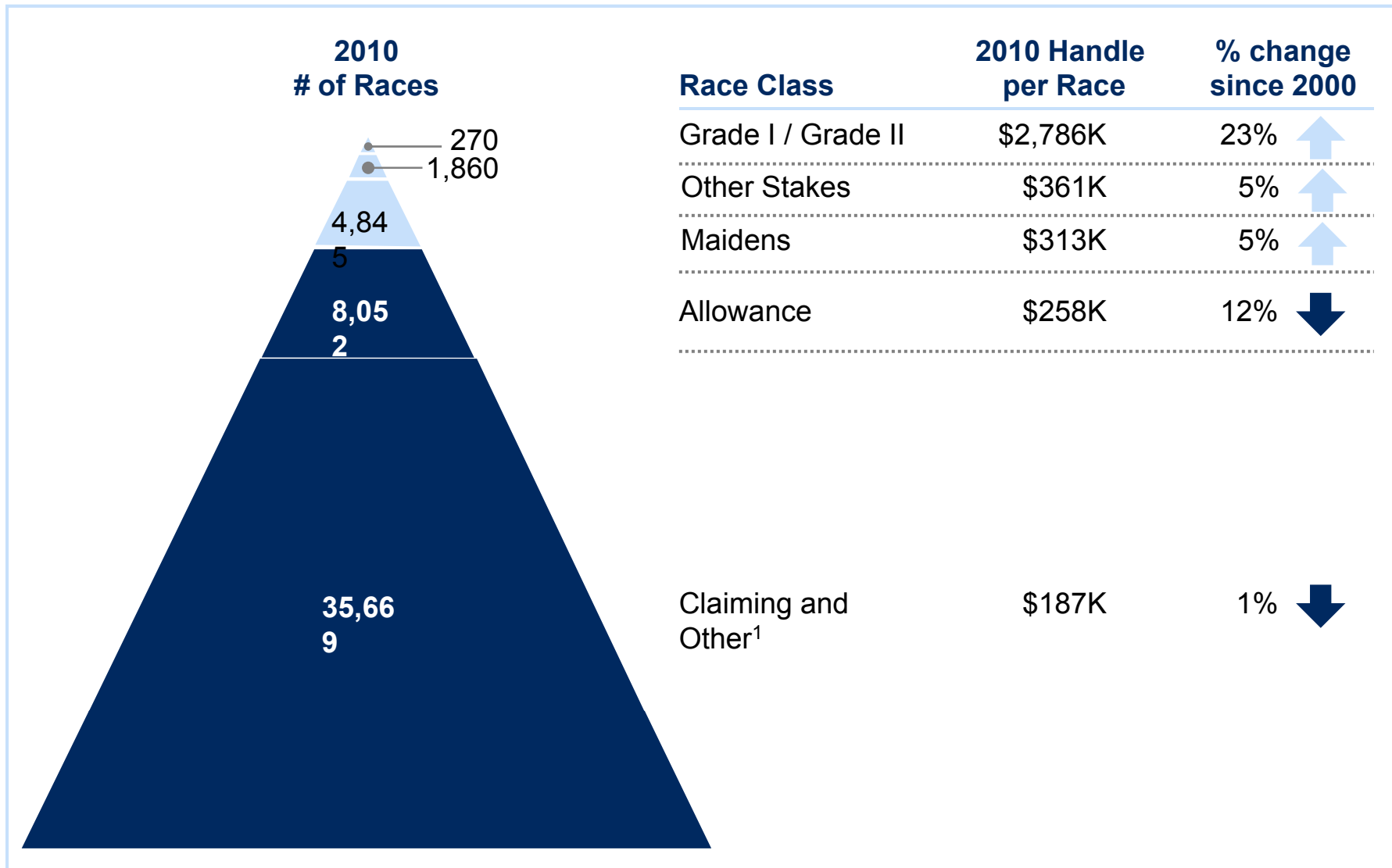
- Belmont Stakes
- Preakness Stakes
- Breeders' Cup
- Kentucky Derby



Note: 2004 and 2008 were years in which the Belmont Stakes featured potential Triple Crown winners, hence explaining the high variance of Belmont data between 2001-2010; Additionally, in 2007, The Breeders' Cup expanded to a two-day format, which is the likely reason for the rise in attendance and handle in recent years



## ...the majority of events are struggling



<sup>1</sup> Includes Waiver Claiming and Match races. All Claiming races (i.e., not including 'Other') have declined by 4% during this period

## Projected Economics of the sport by 2020



Handle

25%



Foal crop

9%



Tracks

27%



State  
revenue

25%



50%

Owners'  
losses

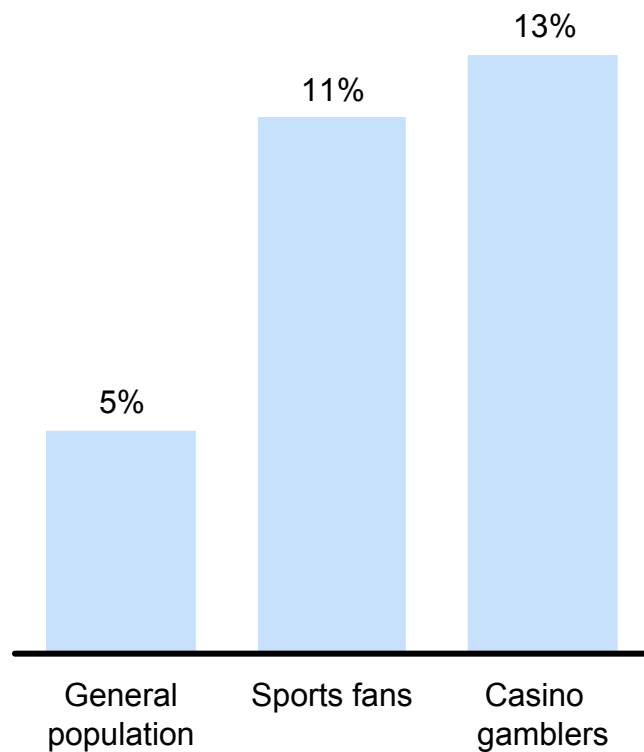
## Main issues facing racing

- 1 Competition from Other Forms of Gambling
- 2 Brand Perception
- 3 Dilution of the Best Racing
- 4 Fan Experience
- 5 Fragmented Distribution

# 1 Competition from other gambling options appears to be pulling fans away from Thoroughbred racing

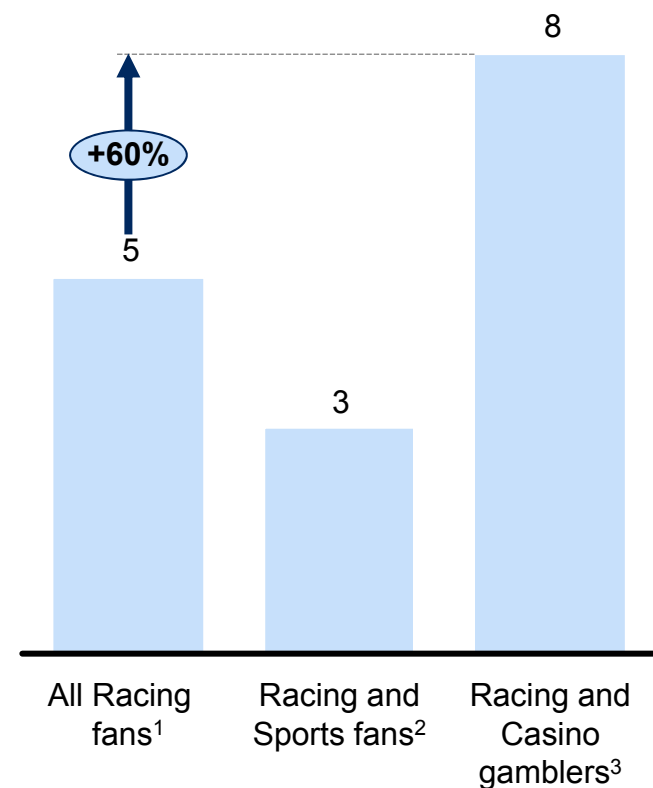
Sports fans and gamblers are twice as likely to follow racing as the average population...

*% of consumer segments that bet or attend Thoroughbred races 3+ times a year*



... but horse fans who also gamble in casinos are nearly twice as likely to lapse

*% annual lapse from Thoroughbred racing*



1 A fan is defined as an individual who bets on or attends a Thoroughbred race at least 3 times per year

2 Defined as a person who bets or attends a Thoroughbred race at least 3 times per year and also attends or bets on other professional sporting events at least 3 times per year

3 Defined as a person who bets or attends a Thoroughbred race at least 3 times per year and also gambles in a casino at least 3 times per year

SOURCE: 2011 Jockey Club Consumer Research (N=1800)

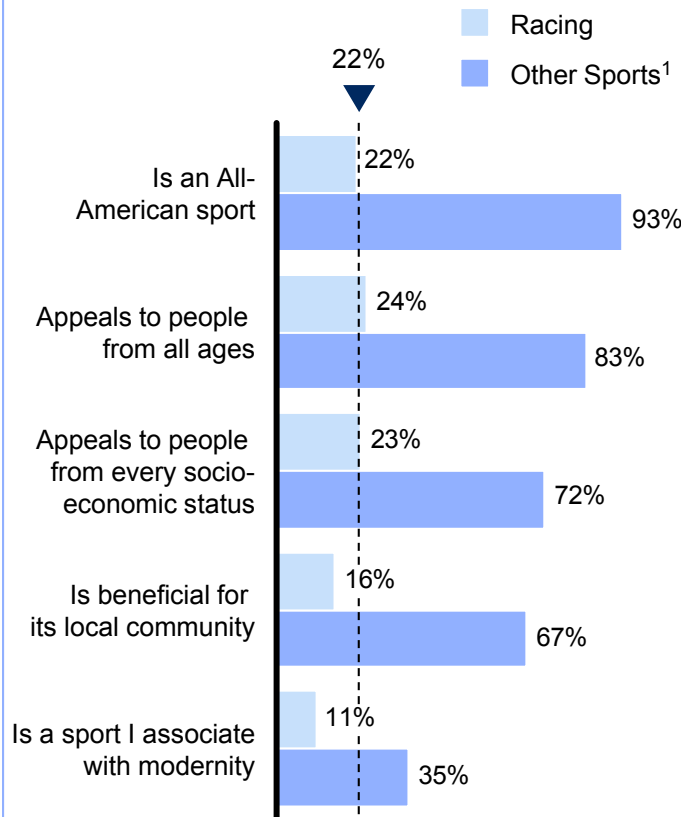
## 2 Thoroughbred racing struggles against a strong negative public perception

### Despite recent safety initiatives conducted by the sport...

- *Equine Injury Database (2008)*
  - Collects incident data from 85 racetracks, representing over 90% of racing days in North America
- *Racing Medication and Testing Consortium (2001)*
  - Develops, promotes and coordinates policies, research and education programs designed to promote equine and rider safety
- *Thoroughbred Safety Committee (2008)*
  - Formed to review every facet of equine health and to recommend actions the industry can take to improve the health and safety of Thoroughbreds
- *NTRA safety and integrity alliance (2008)*
  - Establishes standards and practices to promote safety and integrity in Thoroughbred racing

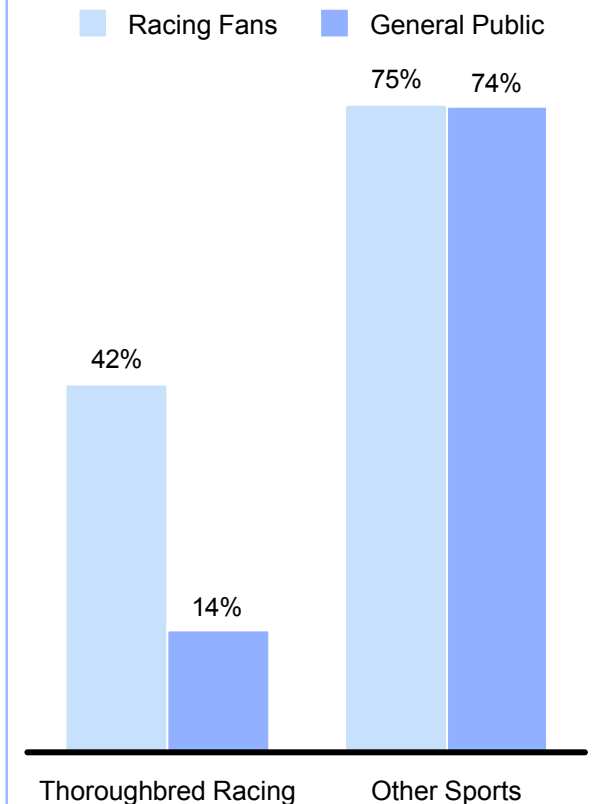
### ...only 22% of the general public has a positive impression of Thoroughbred racing...

% of respondents from the general population who agree/strongly agree with the following statements



### ...and even horse racing fans identify twice as much with their preferred sport<sup>1</sup> as with racing

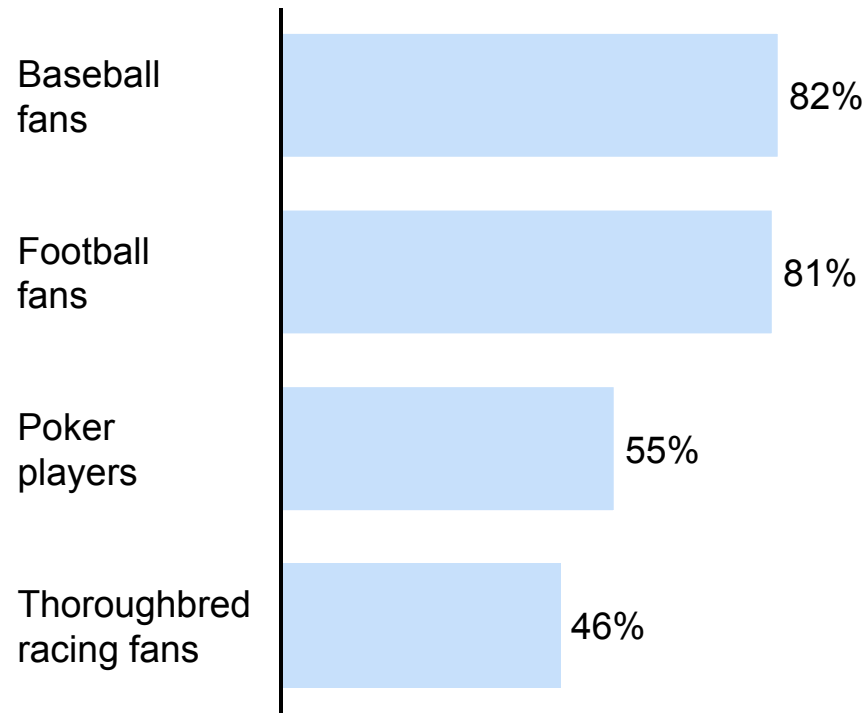
% of respondents who agreed/strongly agreed that sports or racing was for "someone like me"



## 2 Just 46% of current fans would recommend their friends follow Thoroughbred racing

The majority of Thoroughbred fans<sup>1</sup> would not actively recommend other people follow the sport

*% of fans responding to the statement "I would recommend other people to follow it"*

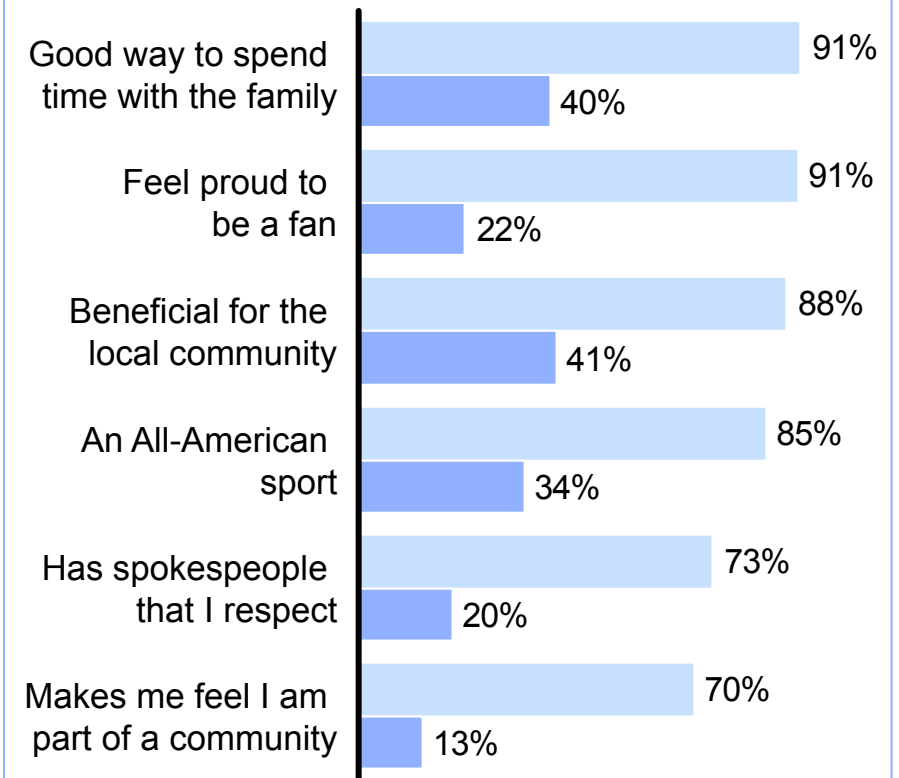


<sup>1</sup> A fan is defined as someone who bets or attends an event 3+ times per year

Thoroughbred fans who do not promote the sport are less likely view the sport as having positive family and social value

*Responses with the largest difference in % of Thoroughbred fans who agree with each statement*

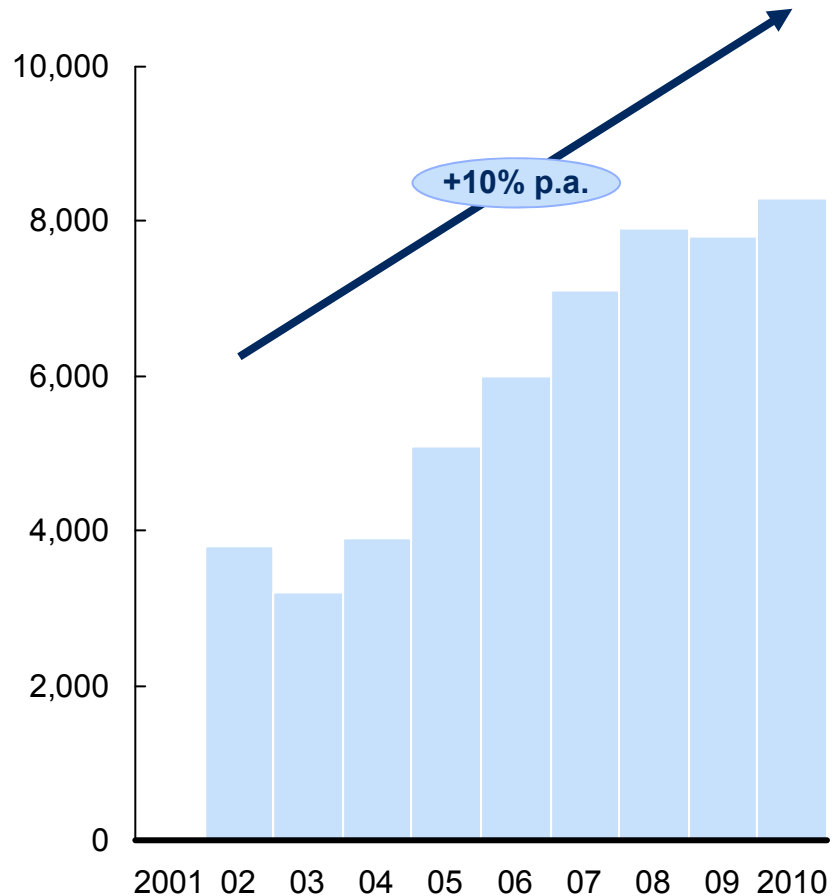
Promote  
Do not promote



## 2 Animal welfare is a growing concern for the US public...

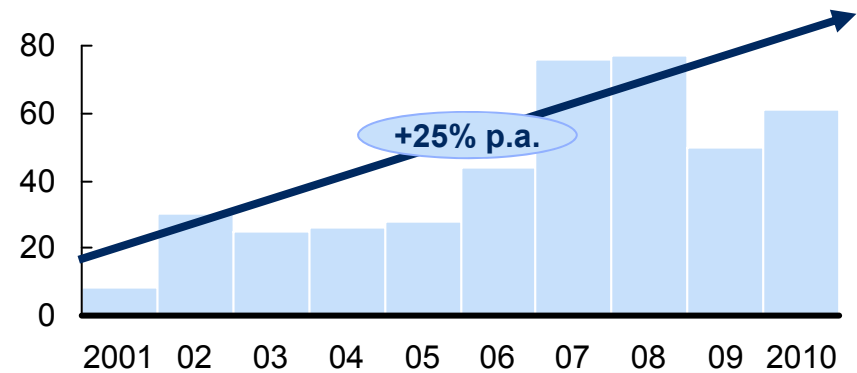
### Animal welfare is a growing concern for the US public...

Number of articles from U.S. publications on Animal Welfare

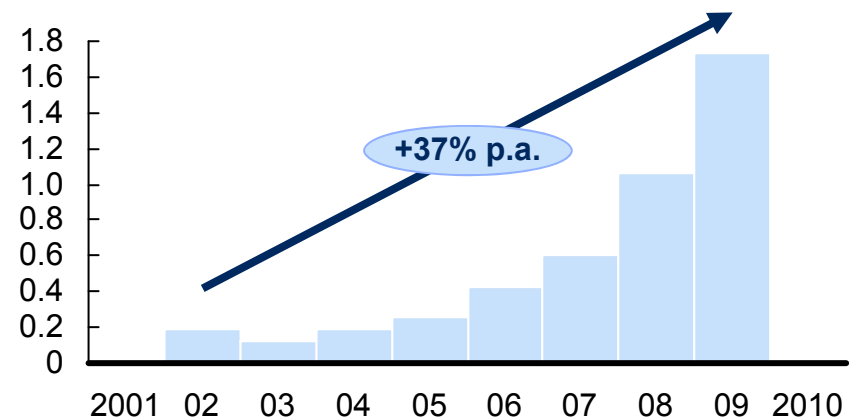


### ...and horse welfare in particular is on the rise

Number of articles from U.S. publications on horse health



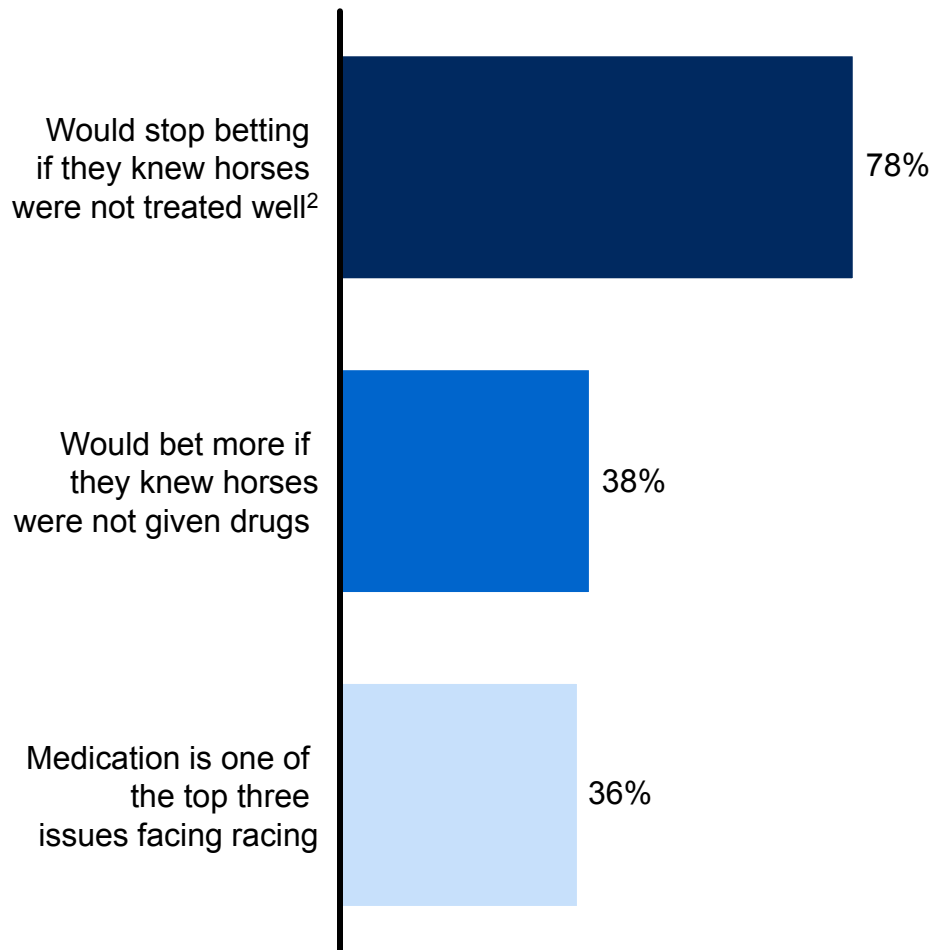
Number search results on horse welfare (thousands)



## 2 ...and concerns over animal safety/welfare and medication are consistent themes in consumer and stakeholder research

### Survey (2011)

% of horse racing fans<sup>1</sup> who agree (to any degree) with each statement



### Stakeholder interviews (2011)

- Medication of horses was highlighted as an issue adversely affecting Thoroughbred racing in 78% of stakeholder interviews
  - 50% believed inconsistent regulation hurt field size
  - 25% felt medication issues adversely impacted wagering among fans

### HANA Survey (2009)

- 59% reported they were “extremely concerned” with illegal use of medication and drugs
- Stiffer penalties for drug positives was voted as the #2 policy issue behind lower takeout rates

### NTRA Survey (2008)

- Top three concerns among Thoroughbred fans:
  - Health and safety of the horses
  - Performance enhancing drugs
  - Therapeutic overages

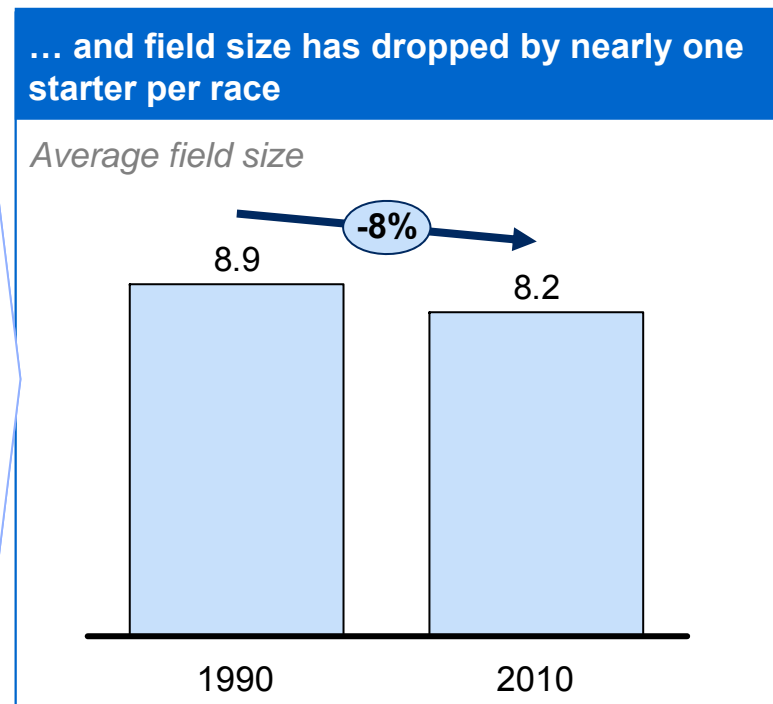
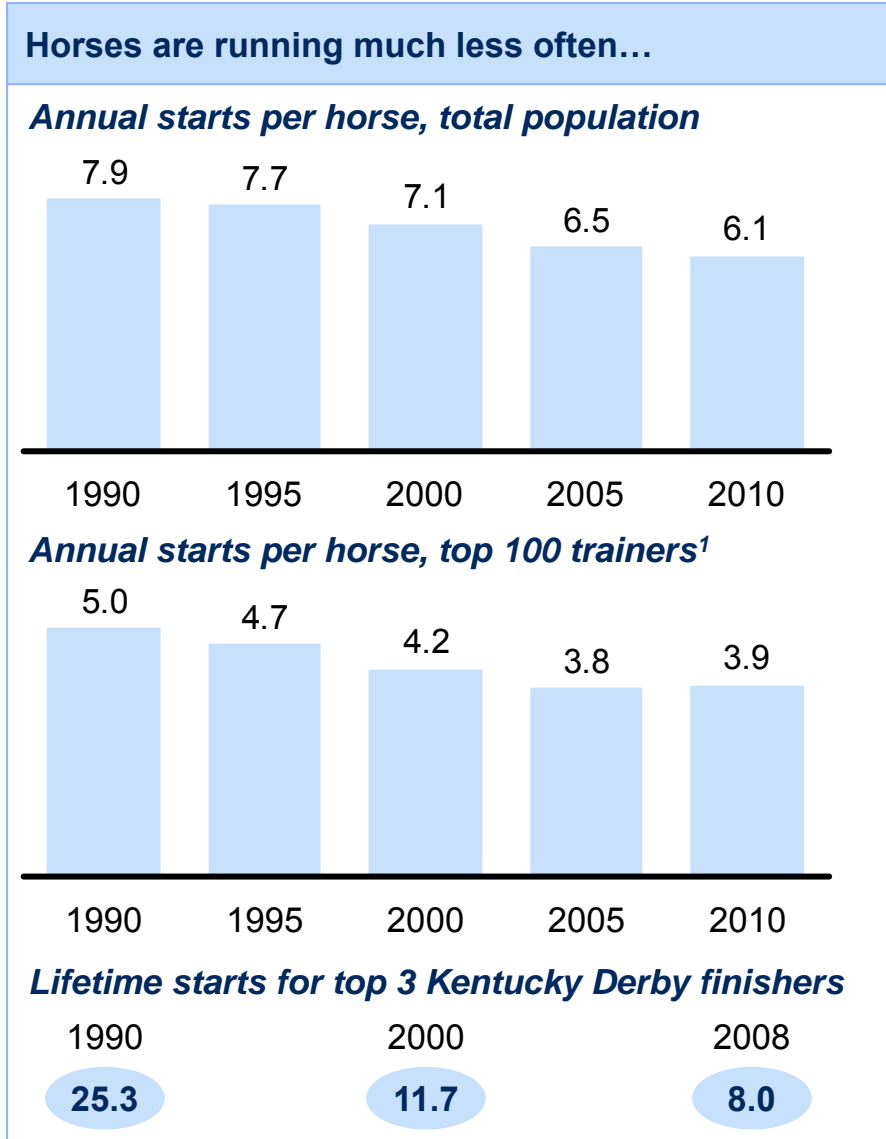
<sup>1</sup> Fan is defined as someone who bets or attends a Thoroughbred race 3+ times per year

<sup>2</sup> Also includes concerns regarding Thoroughbred safety

SOURCE: 2011 Jockey Club Consumer Research (N=1800), HANA, NTRA



### 3 Horses are starting less, and shorter fields are on the rise

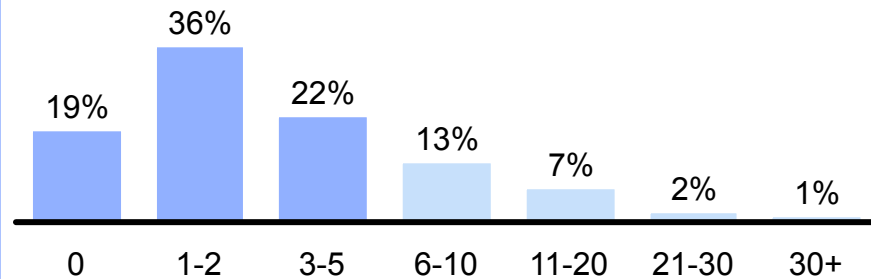


<sup>1</sup> Defined as the top 100 trainers by total purse winnings in each of the years indicated  
 SOURCE: The Jockey Club Factbook, Equibase

### 3 There is a large number of overlapping races, contributing heavily to fan confusion

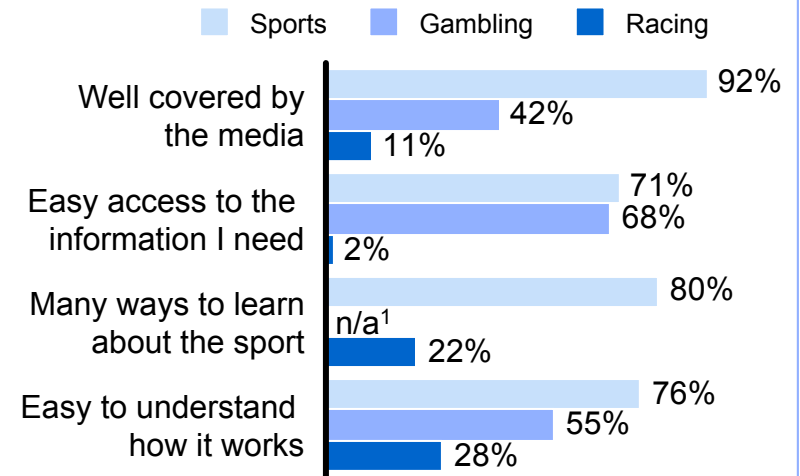
**77% of races occur within 5 minutes of another race at tracks with large average purses**

*Minutes between post at tracks with >\$200k in average daily purses, 2010*



**This contributes to consumers' perception that the sport is difficult to follow**

*Consumer attitudes about Thoroughbred racing vs. other sports and gambling products, % agree*



*"I find it very difficult to figure out which races to watch"*

*"There are so many races that I can gamble on—I'm not sure which tracks I should even look at..."*

*"When I first got into Thoroughbred racing, it was very hard to know where to start"*

<sup>1</sup> Consumers were not asked if they believed there were many ways to learn about gambling

### 3 Uncoordinated scheduling of races costs tracks significant handle...

There is a large number of race meets on any given day, particularly during summer weekends ...

Number of race meets per day/month, 2010

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
M	6	6	7	8	14	12	14	11	16	14	9	7
Tu	5	5	6	9	12	15	14	12	10	11	8	5
W	9	9	11	12	10	13	11	14	13	14	13	10
Th	11	10	12	9	14	18	17	19	13	12	12	11
F	16	16	20	22	28	36	34	33	27	20	19	13
Sa	17	17	23	27	36	43	41	38	34	28	22	14
Su	12	12	17	18	27	33	33	29	26	19	14	12

... and eliminating bad competition can benefit handle

Original Race: Delaware Park

Month	October
Other Races	200
Purse	\$4,600

**Handle = \$80.5k**

Keeping all else constant, moving the race to a day with 25% fewer races could generate an incremental \$9.4k in handle...

Month	October
Other Races	150
Purse	\$4,600

**Handle = \$89.9K**

### 3 ...especially for Grade I and Grade II Stakes

EXAMPLE

On April 4, 2009, Oaklawn, Keeneland and Aqueduct each featured a Grade I Stakes race within a period of 22 minutes

	Oaklawn	Keeneland	Aqueduct
<b>Post Time</b>	4:57 PM	5:05 PM	5:19 PM
<b>Field Size</b>	5	9	8
<b>Purse</b>	\$500,000	\$400,000	\$750,000
<b>Handle</b>	<b>\$963K</b>	<b>\$1.50M</b>	<b>\$2.38M</b>

Our predictive model suggests if these tracks were to have scheduled the races more effectively, handle could have been 4-9% higher

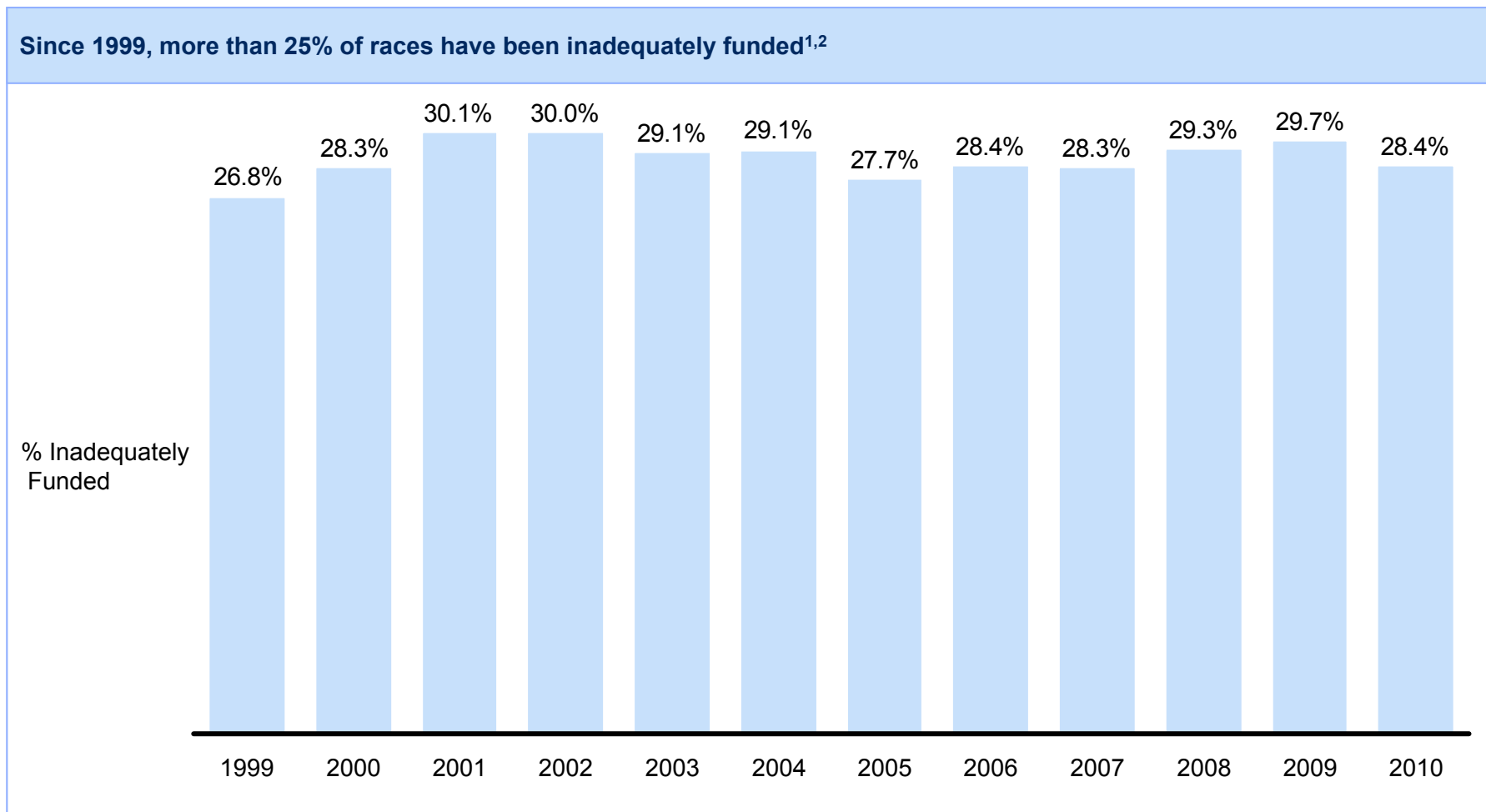
<b>New Post Time</b>	4:57 PM	5:15 PM	5:31 PM
<b>New Handle</b>	<b>\$1.01M</b>	<b>\$1.63M</b>	<b>\$2.49M</b>
<i>% change in handle</i>	+4.4%	+9.2%	+4.6%

*Keeneland would benefit most from this new scheduling, since it faces competition from two stakes races*

In 2010 alone, there were 30% of Grade I and Grade II stakes races that occurred within 15 minutes of a similar race; if these overlaps were eliminated it could generate an additional \$4.7M (+5%) in Grade I & II handle

Regression controls: Race Type, Track, Year, Season, Racino vs. non-Racino, Weekday vs. Weekend

### 3 A large number of races are inadequately funded ...



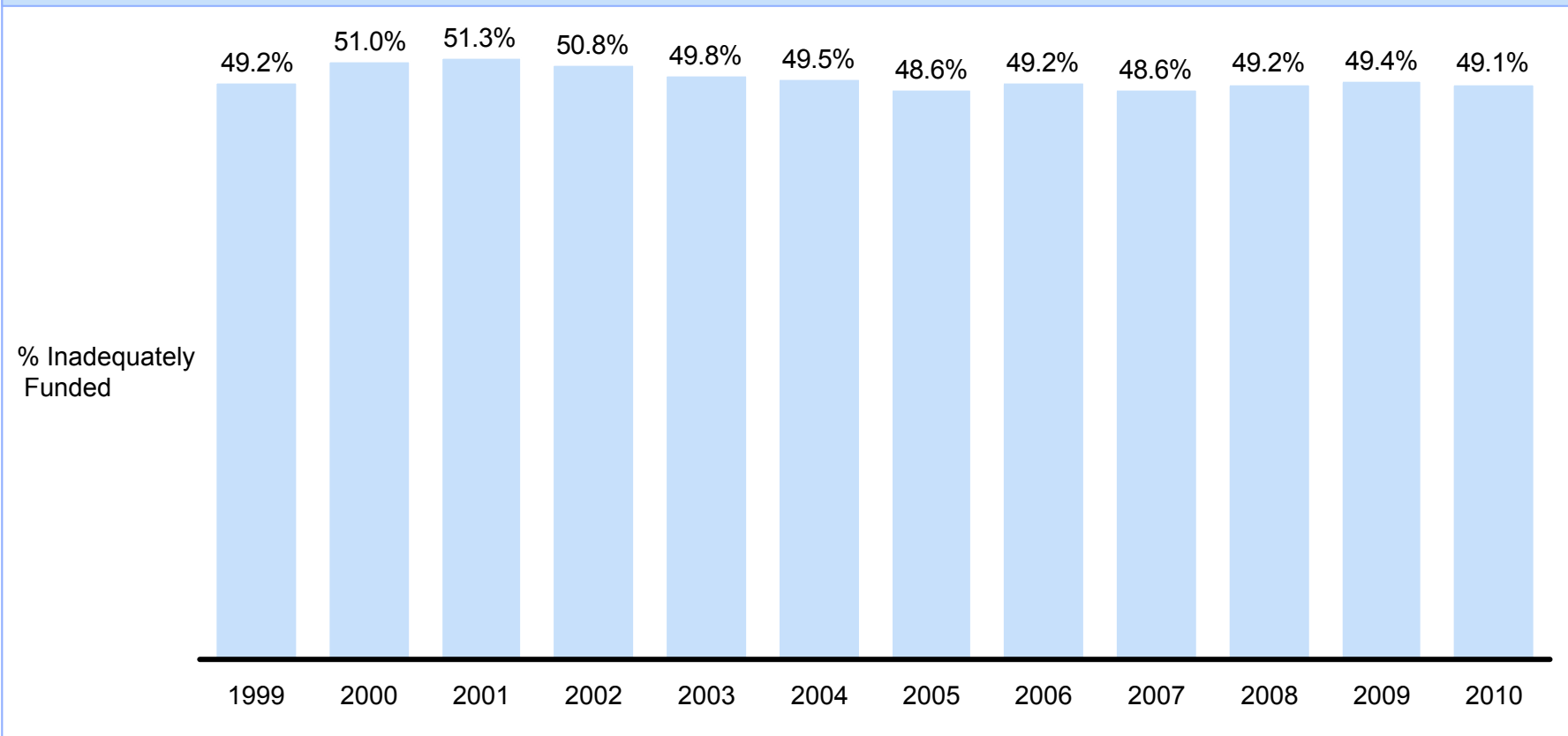
1 An inadequately funded race is one in which the live handle contribution from all sources to the tracks and purse account is less than the purse paid out to horsemen

2 Contribution is assumed to be 16.62% of handle, representing total takeout on live races net of taxes, fees to state wagering boards, and other miscellaneous expenses; this is the upper bound of contribution, since actual contribution likely to be lower due to host fees from off-track and ADW wagering (~7.18%, blended)

Note: All figures exclude racino tracks and all races on the days of the Breeders' Cup, the Kentucky Derby, the Preakness Stakes, and the Belmont Stakes

### 3 ... and 49% of race days do not generate enough handle to adequately fund purses and the cost of running the day

Since 1999, ~49% of race days have been inadequately funded<sup>1,2,3</sup>



1 An inadequately funded day is one in which the live handle contribution from all sources to the purse account and the track (16.62% of handle) is less than the purse paid out to horsemen and the cost of the day

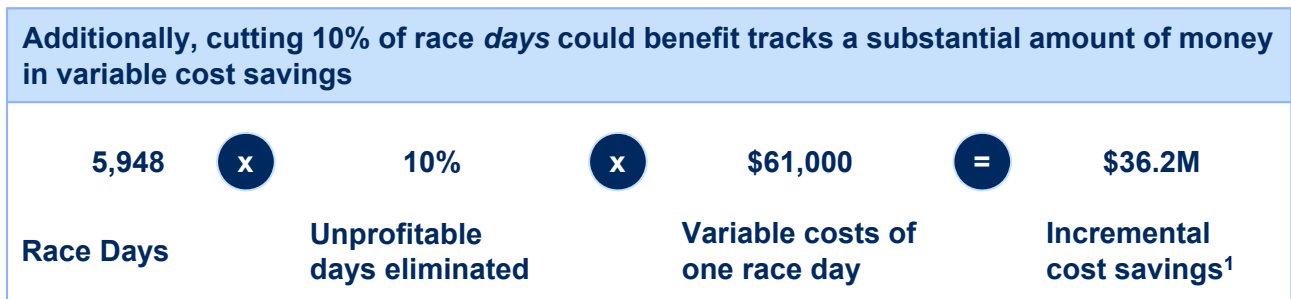
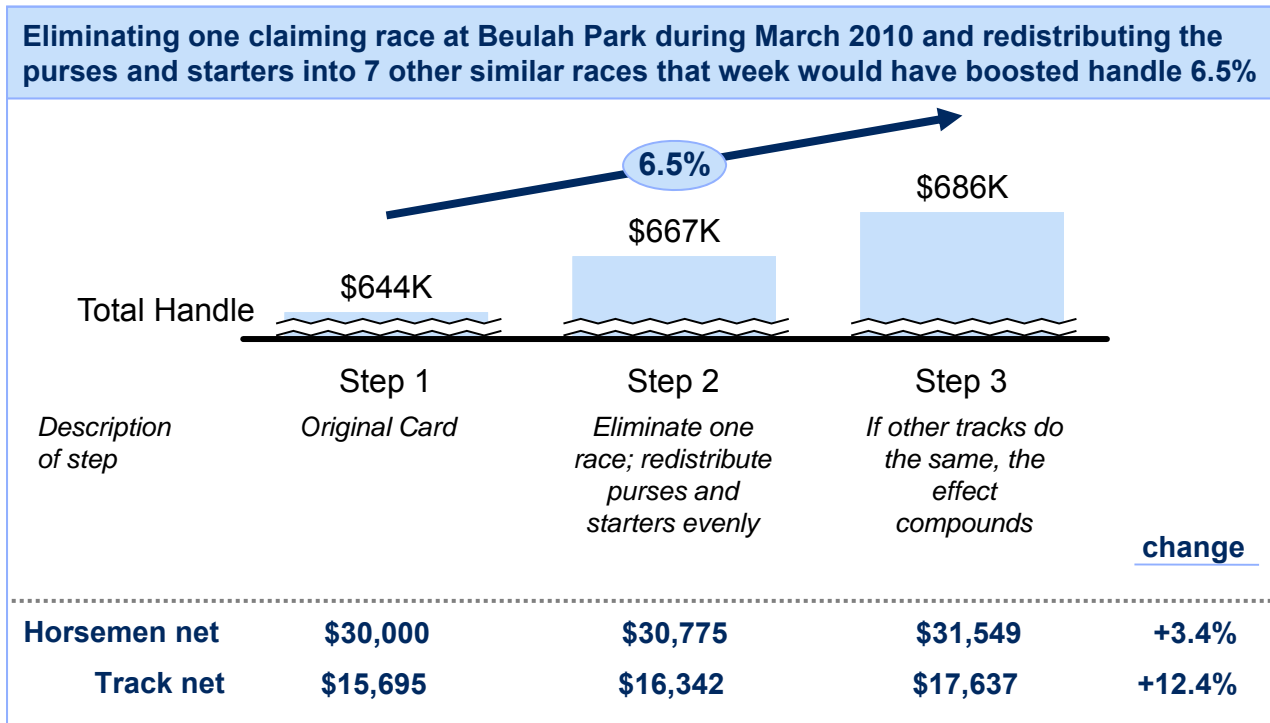
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3 Assumes cost of a race day is \$62,000 in 2010 (inflation-adjusted 2.25% p.a. for earlier years)

Note: All figures exclude racino tracks and all races on the days of the Breeders' Cup, the Kentucky Derby, the Preakness Stakes, and the Belmont Stakes

### 3 Consolidation of races and race days could be beneficial for tracks and horsemen

We built a predictive model based on data from over 600,000 races over 11 years; controlling for track, race type, state, year, season, racino vs. non-racino, and weekdays vs. weekends, we can draw the following conclusions ...



<sup>1</sup> Based on the estimated variable costs for running a race day at a median track  
SOURCE: Equibase

### 3 The case of Monmouth's 2010 Elite summer meet shows that fewer race days can actually drive up handle

In 2010, Monmouth held an "Elite" summer meet, with fewer race days, higher purses and larger field sizes

#### Elite Meet Figures<sup>1</sup>

	2009	2010	Δ
Summer race days	93	49	(47%)
Races per day	10	12	+20%
Average field size	7.4	9.3	+26%
Casino purse enhancements	\$11 M	\$14 M	+27%
Average purse per day	\$350K	\$782K	+123%
Total purses	\$32.5M	\$38.3M	+18%

This resulted in a huge increase in handle, boosting revenues and decreasing Monmouth's annual losses

#### Elite Meet Figures<sup>1</sup>

	2009	2010	Δ
Handle	\$180.9 M	\$392.8 M	+117%
Revenue	\$15.7 M	\$24.8 M	+58%

#### Annual Figures

	2009	2010	Δ
Handle	\$293M	\$477M	+63%
Revenue	\$39 M	\$45 M	+15%
Op. Expense	\$48 M	\$51 M	+5%
Profit	(\$9 M)	(\$6 M)	+33%

- Monmouth's Elite summer meet cut summer race days by 47% and boosted purses by 123%, which caused field size to jump 26%, handle to increase 117% and revenue to climb 58%
- If Monmouth had been able to negotiate higher host fees, the financial benefits of the Elite summer meet would have been even greater

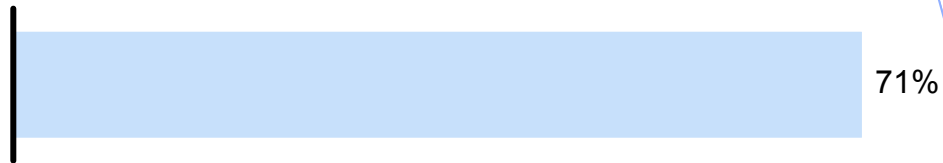
<sup>1</sup> 2010 Elite meet days vs. comparable 49 days in the summer of 2009



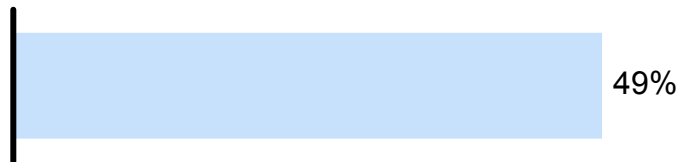
## 4 High takeout is a very important concern for serious bettors

### Takeout is a concern for frequent bettors<sup>1</sup>...

Respondents who believe that takeout is too high, (% strongly agree)



Respondents who believe takeout to be the most important issue in Thoroughbred racing, (% first choice)



Rebates and rewards offer a targeted set of pricing levers to address the concerns of core bettors, an approach that has proven effective in other forms of gambling

### ...but casual fans do not appear to be price-sensitive<sup>2</sup>

19%

Fans who state that takeout for racing is higher than for most other forms of gambling

<1%

Lapsed fans who cite takeout as their reason for leaving the sport

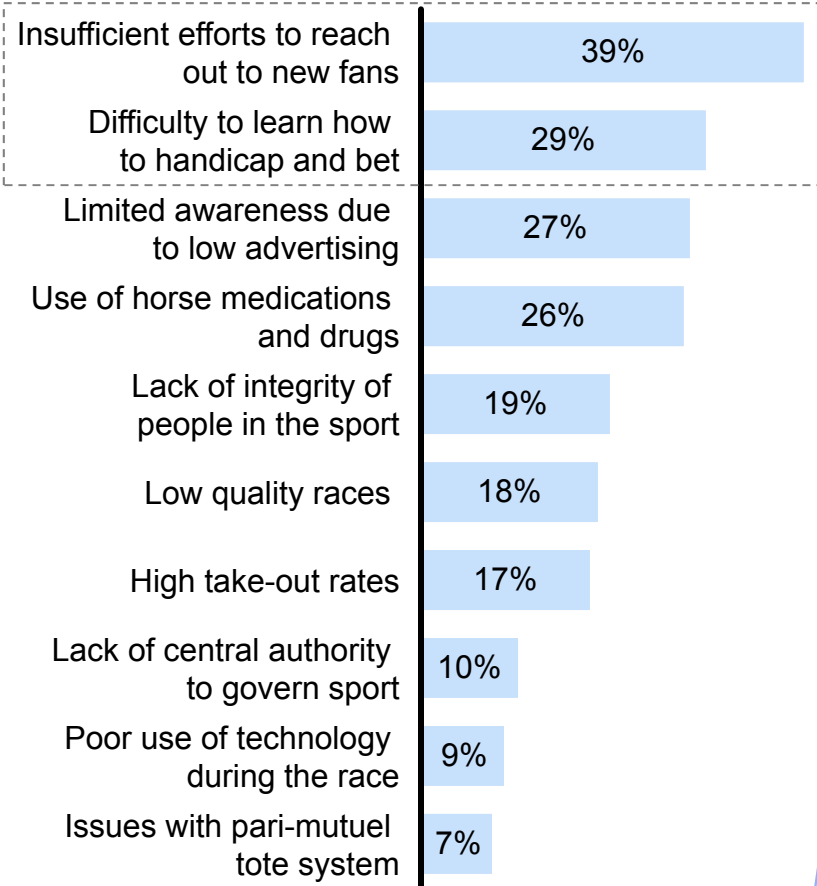
1.3%

Non-fans who cite takeout as their reason for not betting

## 4 Existing fans feel racing is inaccessible to new fans due to its complexity

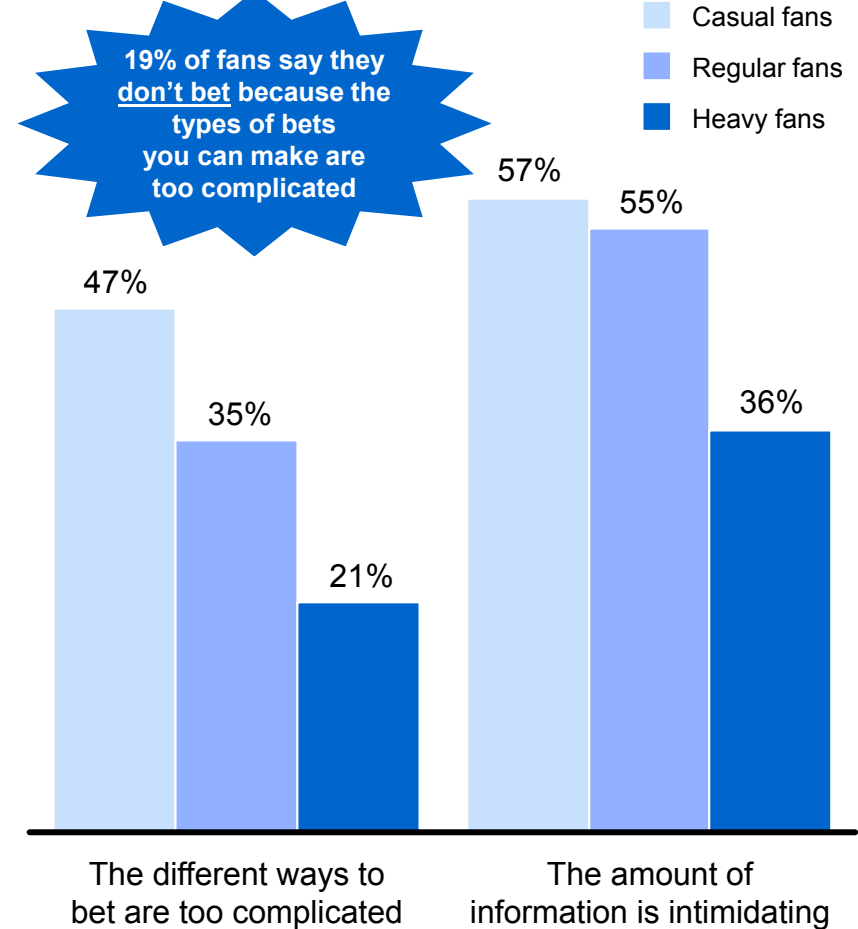
Complexity of the sport is seen as a major issue even among existing fans...

*% of respondents indicating an issue is the #1 or #2 most important issue facing horse racing today*



...and may inhibit fans from recommending horse racing to their social groups

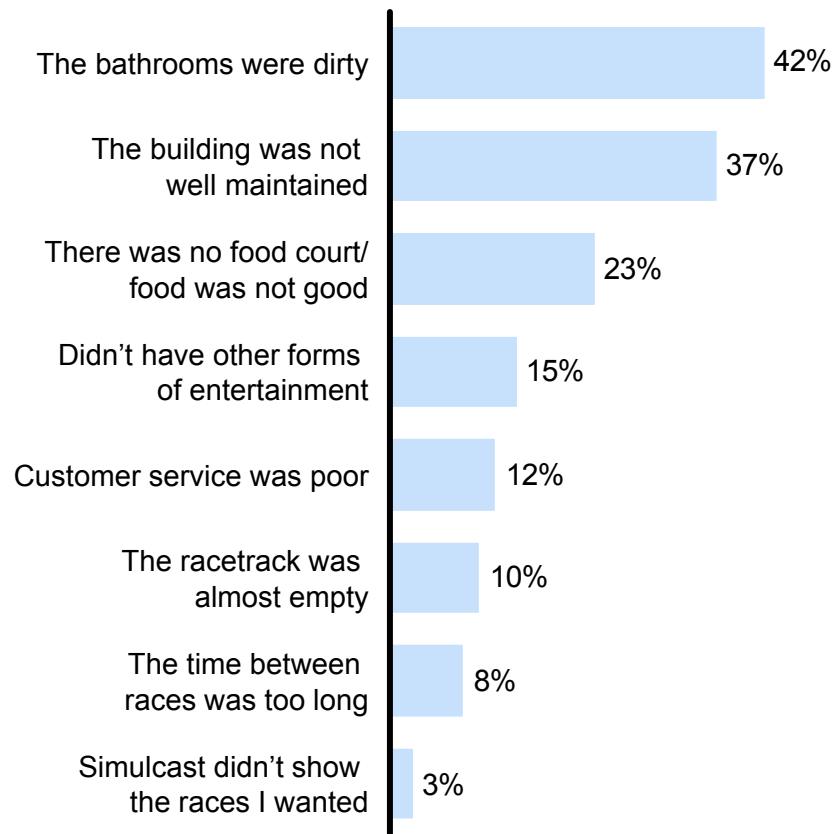
*% of horse player respondents who agree (top 3 boxed scores) with each statements*



## 4 The on-track experience can undermine new fan development and be unappealing to families

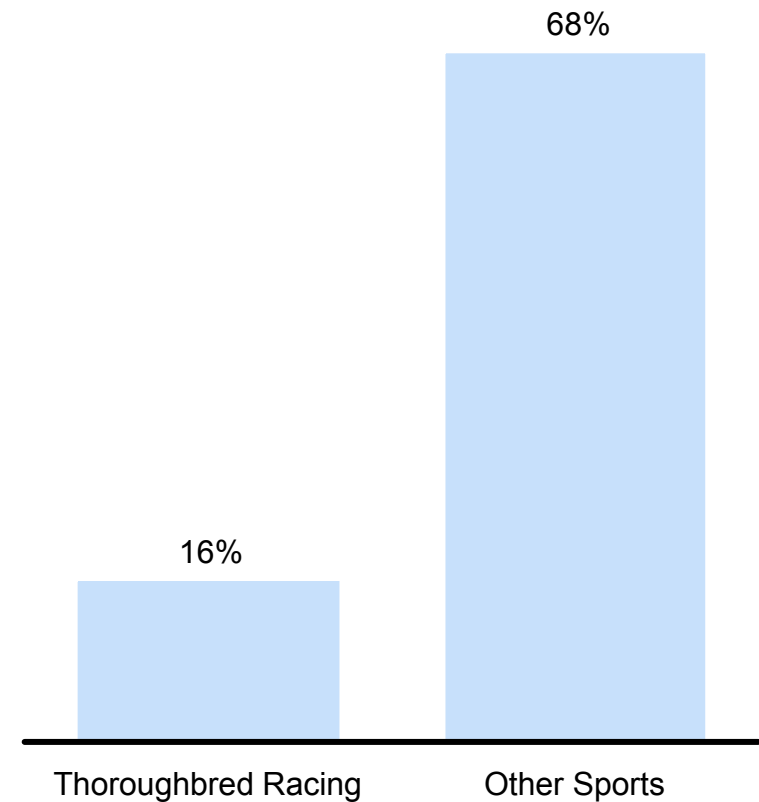
### Track environment, rather than the sport itself, is the leading cause for a poor fan experience

*Top reasons racetrack visitors did not have a good experience (selecting all that apply)*



### Thoroughbred racing is not perceived as family friendly

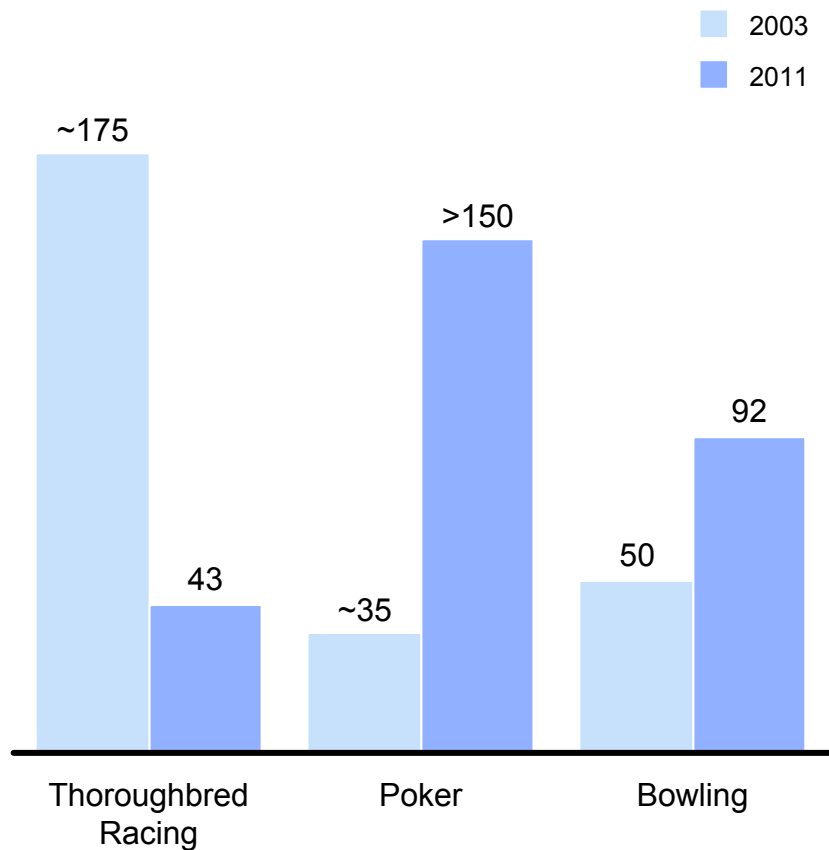
*% of respondents who think an activity is a "very good way to spend time with family"*



## 5 Low television exposure is hurting fan development

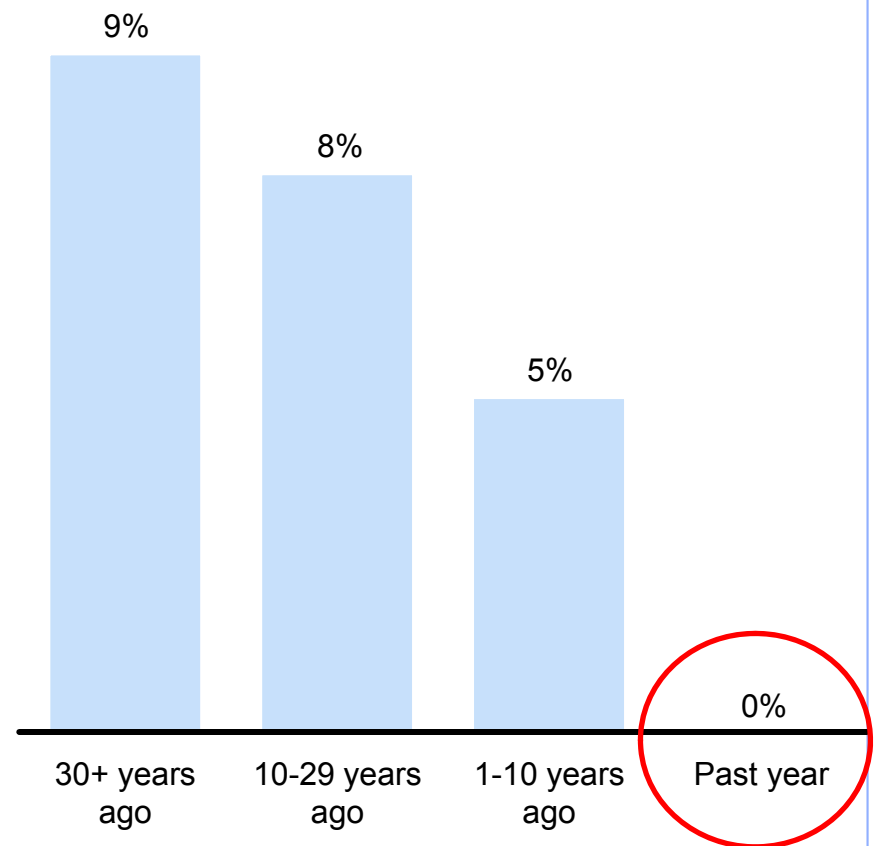
### Coverage of racing is at an all-time low...

Hours on television (excluding subscription based channels such as HRTV and TVG)



### ... with a clear impact on new fan development

% of respondents who said an important/exciting race on TV was the single most important reason they got involved in the sport



1 Fan is defined as someone who bets or attends a Thoroughbred race 3+ times per year

Note: 9% of fans who joined in the past year indicated that they were motivated to join by a movie (likely Secretariat)

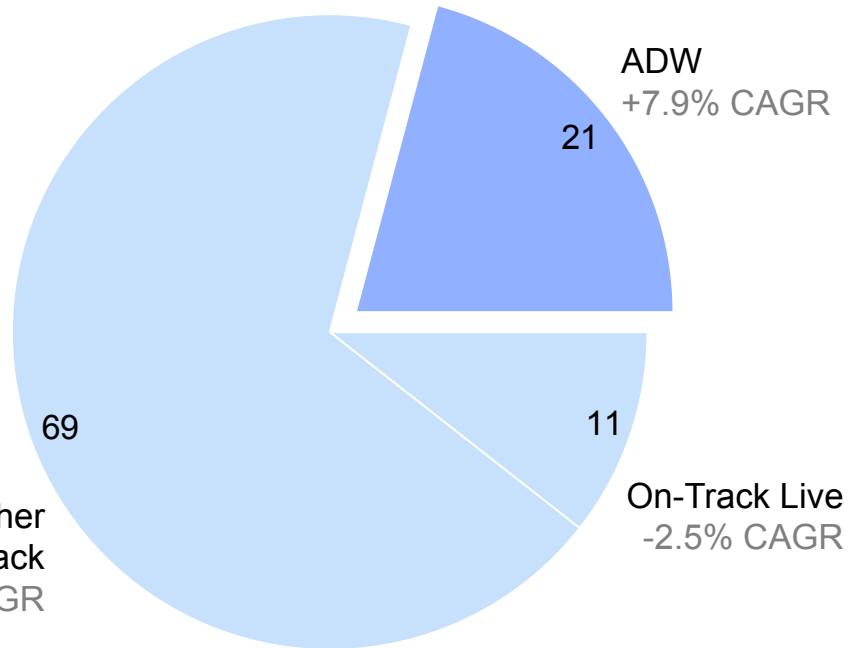
SOURCE: 2011 Jockey Club Consumer Research (N=1800), Press articles

## 5 ADWs have grown to ~20% of handle and are likely to get bigger

ADWs account for ~21% of all handle today, and are growing quickly relative to on- and off-track methods of betting

2010 market share, %

2007-2010 market share CAGR, %



If ADWs grow consistently as a % of total handle, by 2020, they will account for 44% of all handle

## 5 ADWs are not attracting new fans to the sport...

### Fans first involvement at the sport is predominantly at the track

Source of Thoroughbred fans' first involvement with the sport (%)

#### Online sources

Watched an important / exciting race on TV

4.3%

0.4%

Family has always been involved with horses

6.7%

Friend/relative who bets suggested it

8.1%

Friend/relative took me to a track as a child

13.6%

Friend/relative took me to a track as an adult

53.7%

Other

13.0%

Joined in the past 10 years

#### Key distribution channels are not acting as sources of new fan development

- Less than 1% of fans say they first became involved because of online sources
- Less than 1% of fans say they first became involved through off-track betting locations

5 ...in part because the ADW sign-up experience can be daunting: only 53% of people who submit an ADW application end up making a bet

The complexity of the sign-up process for ADWs significantly inhibits the number of people betting on Thoroughbred racing online

ADW applicants (%)

EXAMPLE OF LEADING ADW

