

THE FUTURE OF THOROUGHBRED HORSE RACING & THE THOROUGHBRED WAGERING PRODUCT

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GREG NICHOLS



“RIDING INSTRUCTIONS” FROM THE MODERATOR

- **Examine the Financial State of Thoroughbred Racing Internationally.
Australia, Britain, Hong Kong and Japan.**
- **Elaborate upon the Substitutability Conundrum ?
Has Exchange Wagering had a Material Impact upon Other Types of Wagering?**
- **Is Technology a Key Component to the Future Prosperity of Thoroughbred Horse Racing?**
- **Will the Promotion of US Thoroughbred Horse Racing to the International Market Deliver a Lucrative and Sustainable Revenue Stream? Can Exchange Wagering and Pari-mutuel Wagering Act as the Catalyst?**

WAGERING ENVIRONMENT - AUSTRALIAN RACING

Overview Off-Track:

Retail Pari-mutuel wagering – Monopoly Providers in the 6 States and 2 Territories [TabCorp – Victoria, TAB Limited – New South Wales et al];
Retail Technology - Corporate Bookmakers; and
Retail Technology - Betting Exchanges.

Overview On-Track:

Pari-mutuel wagering – Monopoly Providers operate an exclusive pari-mutuel licence in all 6 States and 2 Territories; and

On-course Bookmakers.

Access to betting exchange accounts is permitted however Betfair, at present, does not operate on-course

Racetrack Ownership – 390 Race Clubs, 367 Race Tracks.

Australian Racing is non-proprietary. Membership model that prohibits Race Clubs from distributing “profits” to its members. Race Clubs are compelled to distribute surpluses to Prize Money and invest in co-related Capital Development.

Sports Betting – Thoroughbred Racing’s Competition

An Australian Colloquialism but Australians will “bet on two flies crawling up a wall”



WAGERING ENVIRONMENT – BRITISH RACING

Overview Off-Track:

High Street Retail – Bookmakers [Ladbrokes, Corals, William Hill et al]

High Street Retail - UK Tote [exclusive pari-mutuel licence]

Technology Retail – Betting Exchanges, Corporate Bookmakers [Gibraltar, Isle of Man, Ireland et al], Spread Betting.

Overview On-Track:

Pari-mutuel wagering – the Tote currently holds a monopoly licence to operate on-course

On-course Bookmakers – an amalgam of the Big Bookmaking Firms and on-course exclusive bookmaking operatives

Access to betting exchange accounts occurs however Betfair, at present, does not operate on-course

Racetrack Ownership – 60 race course venues

A Diverse Assortment! The Jockey Club owns and operates 14 tracks, publicly listed entities Northern Racing and Arena Leisure own and operate 10 and 7 tracks respectively. Many are privately owned, Musselburgh is owned by the Local Council, York by a Trust. All have different and competing operational and strategic objectives!

Sports Betting – Thoroughbred Racing's Competition

Unlimited. You name it they bet on it!



WAGERING ENVIRONMENT – HONG KONG RACING

Overview Off-Track:

High Street Retail Pari-mutuel - Hong Kong Jockey Club (HKJC) holds the exclusive licence

Technology Retail Pari-mutuel - HKJC

Overview On-Track:

Pari-mutuel wagering – the HKJC is the exemplification of a well-run vertically integrated enterprise

Racetrack Ownership – 2 Race tracks Sha Tin and Happy Valley

The Hong Kong Jockey Club is the monopoly entity entrusted with managing and promoting thoroughbred horse racing in Hong Kong. Profits are distributed to Prize Money and Capital Development Projects at HKJC properties. The HKJC is reputedly the largest contributor of taxation revenue to the Hong Kong Government.

Sports Betting – Thoroughbred Racing's Competition

Limited to Soccer and Thoroughbred Horse Racing



WAGERING ENVIRONMENT – JAPANESE RACING¹

Overview Off-Track:

High Street Retail Pari-mutuel – The Japan Racing Association (JRA) holds the exclusive licence and operates 38 WINS [off-course betting facilities].

Technology Retail Pari-mutuel - JRA

Overview On-Track:

Pari-mutuel wagering – the JRA is also an example of a vertically integrated enterprise

Racetrack Ownership – 10 Race tracks

The JRA is a legislatively pronounced and authorised public entity entrusted with managing and promoting thoroughbred horse racing in Japan. Profits are distributed to Prize Money and Capital Development Projects at JRA properties and a proportion of its annual surplus is payable to the National Government.

Sports Betting – Thoroughbred Racing's Competition

A regulated market comprising limited sport offerings – Soccer, cycling, power boat racing, motor cycle racing et al

¹ Summary of Japanese Racing excludes data relating to race tracks operating under the auspices of the National Association of Racing

THE STATE OF RACING UNITED STATES V THE BIG 4 BETTING TURNOVER

	2000	2004	2008	% Increase 2000 / 2008
Australia ₁	\$9.54b	\$11.70b	\$14.43b	51.2%
Britain ₂	£5.05b	£11.32b	£10.55b	108.92%
Hong Kong ₃	\$73.38b	\$67.69b	\$62.66b	(14.60%)
Japan ₄	¥3.43t	¥2.94t	¥2.76t	(19.53%)
United States ₅	\$14.32b	\$15.10b	\$13.65b	(4.67%)

1. 2009 Australian Racing Fact Book produced by the Australian Racing Board www.australianracingboard.com.au
2. IFHA Annual Report www.horseracingintfed.com
3. Hong Kong Jockey Club Annual Reports www.hkjc.com
4. Japan Racing Association – Annual Statistical Analysis – www.japanracing.jp
5. The Jockey Club 2009 Fact Book www.jockeyclub.com



BETFAIR – THE AUSTRALIAN IMPACT

Betting Turnover a more detailed analysis

	FY1996	FY2000	CAGR 96/00	FY2004	FY2007	CAGR 04/07
Tote - off course	\$6,496	\$6,897	1.5%	\$6,214	\$6,691	2.5%
Tote - on course	\$764	\$612	-5.4%	\$592	\$703	5.9%
Tote - phone/internet	0	0	n/a	1,603	1,948	6.7%
Total Tote	\$7,260	\$7,509	0.8%	\$8,408	\$9,342	3.6%
Bookmakers - on course	\$1,192	\$1,070	-2.7%	\$999	\$1,004	0.1%
Bookmakers - phone/internet	\$383	\$397	0.9%	\$1,743	\$2,504	12.8%
Total Bookmakers	1,575	1,467	-1.8%	2,742	3,508	8.6%
Sub-Total	\$8,835	\$8,976	0.4%	\$11,150	\$12,850	4.8%
Betfair Exchange	\$0	\$0	n/a	\$0	\$390	n/a
Total Wagering	\$8,835	\$8,976	0.4%	\$11,150	\$13,240	18.7%

1. Source 2007 Australian Fact Book

2. Betting exchange Revenue reflects Betfair Australia's thoroughbred Racing turnover as defined as the sum of back bets

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“THE SUBSTITUTABILITY CONUNDRUM”

Do Pari-mutuel Wagering and Exchange Wagering compete for the same dollar?

Britain and Australia provide the best insights. We have 10 years of history to help understand the impact of substitutability of what some characterize as competing products.

Betfair International commemorated its 10th year of operation in June 2010 while January 2006 was the landmark month for Betfair Australia with the issuance of a betting licence by the Tasmanian State Government.

The evidence suggests that while an element of substitutability is likely to have occurred it is greatly exceeded by the influx of new revenue. Remember Exchange Wagering is confined to Win and Place and does not encroach on exotic bet types.

Over-whelming evidence supports our contention that punter value is optimised by our capability to “cross-sell” i.e. Encourage exchange punters [high volume/low transactional] to invest in “exotic” pari-mutuel wagers [less volume/considerably higher transactional cost].

Racing’s demographics are complemented by a new audience that has been cultivated by the genesis of Exchange Wagering. No longer is Racing perceived as the domain of the 50+ Male ranging in the low to mid range income brackets. The US racing audience can evolve beyond its declining demographic base however there are challenges ahead with the proliferation of sports betting, specifically soccer, in Europe being the most significant one. At least we have time to establish a defence in the US to the onset of sports betting.



“THE SUBSTITUTABILITY CONUNDRUM”

THINGS WE DO KNOW

Australian and British Racing offer the most dynamic betting environments in the world.

By almost all metrics Australia and Britain are leading the international way – Turnover, attendances, horses in training, horse ownership and most importantly REVENUE, derived primarily from wagering. And all this in the era of the Global Financial Crisis!

The nay-sayers would have you believe that competition in wagering platforms will add to the contagion precipitating the sharp decline in punter interest in our sport.

Increasing take-out rates will expedite the decline in punter interest in racing. We do not need to dis-incentivise our existing clientele. We need to hang on to each and every one, the more positive task is to expand our customer base and capitalize on new demographics that have gravitate to horse racing following the inception of exchange wagering.

We cannot continue to tread the same path. Innovation is critical.



IS TECHNOLOGY THE KEY TO THE FUTURE PROSPERITY OF THOROUGHBRED HORSE RACING?

An unequivocal Yes.

Technology is a way of life for the vast majority of under 40's in all First World countries and for many in the "emerging" economic powerhouses, Brazil, China, India. Its influence will continue to burgeon and not as some in the sport would hope and simply diminish.

Younger consumers demand higher levels of customer service – Technology is the driver that satisfies this unprecedented demand.

Younger consumers capitalize upon technology unlike all predecessor generations

We are wrong if we believe that better utilization of Technology is limited to enhancing the betting experience

Technology is investing in High Definition Broadcast of Racing

Technology drives our understanding of our customers. Market Research into Racing's diverse group of customers is virtually non-existent and the malaise is not confined to those comprising US racing.

Technology is, at this point in time, an under-capitalized media asset that in some instances has vastly superseded conventional media as the primary choice of consumers.



BETFAIR'S TECHNOLOGY A COMPLETE CHANNEL OFFERING

Internet

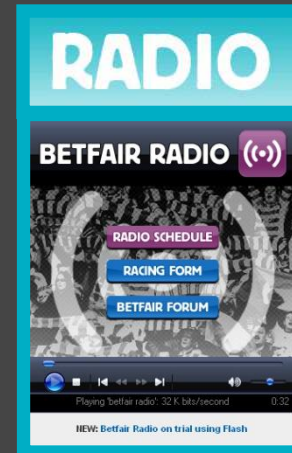
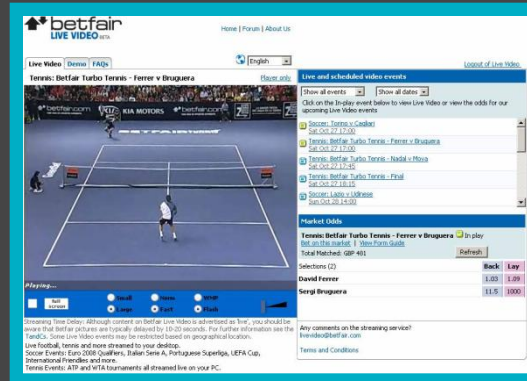
Telephone

Mobile

IP Streaming

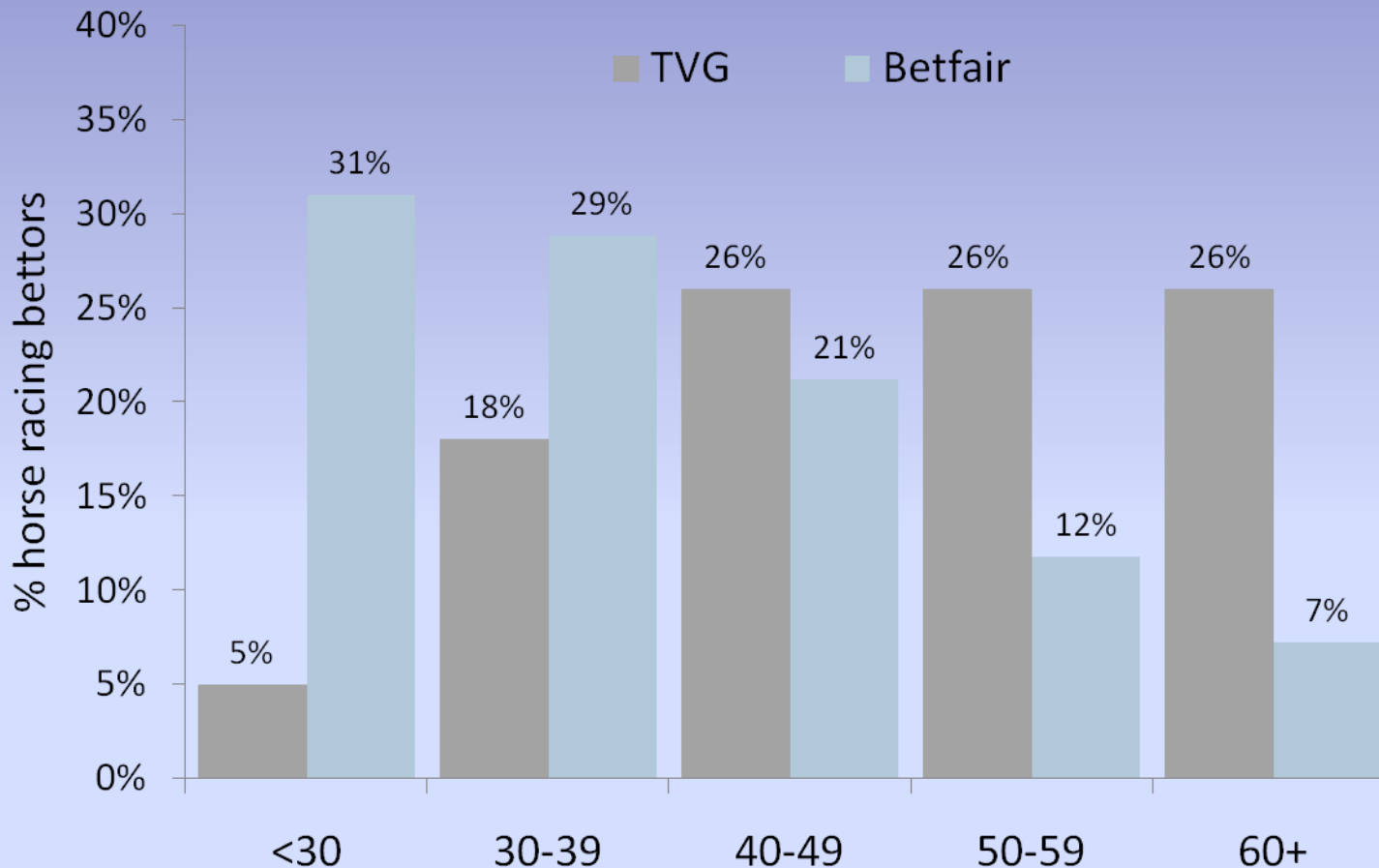
Radio

Interactive TV



'EXCHANGE APPEALS TO THE 'INTERNET GENERATION'

The demographic profile of Betfair's horse racing customers differs markedly from that of TVG.

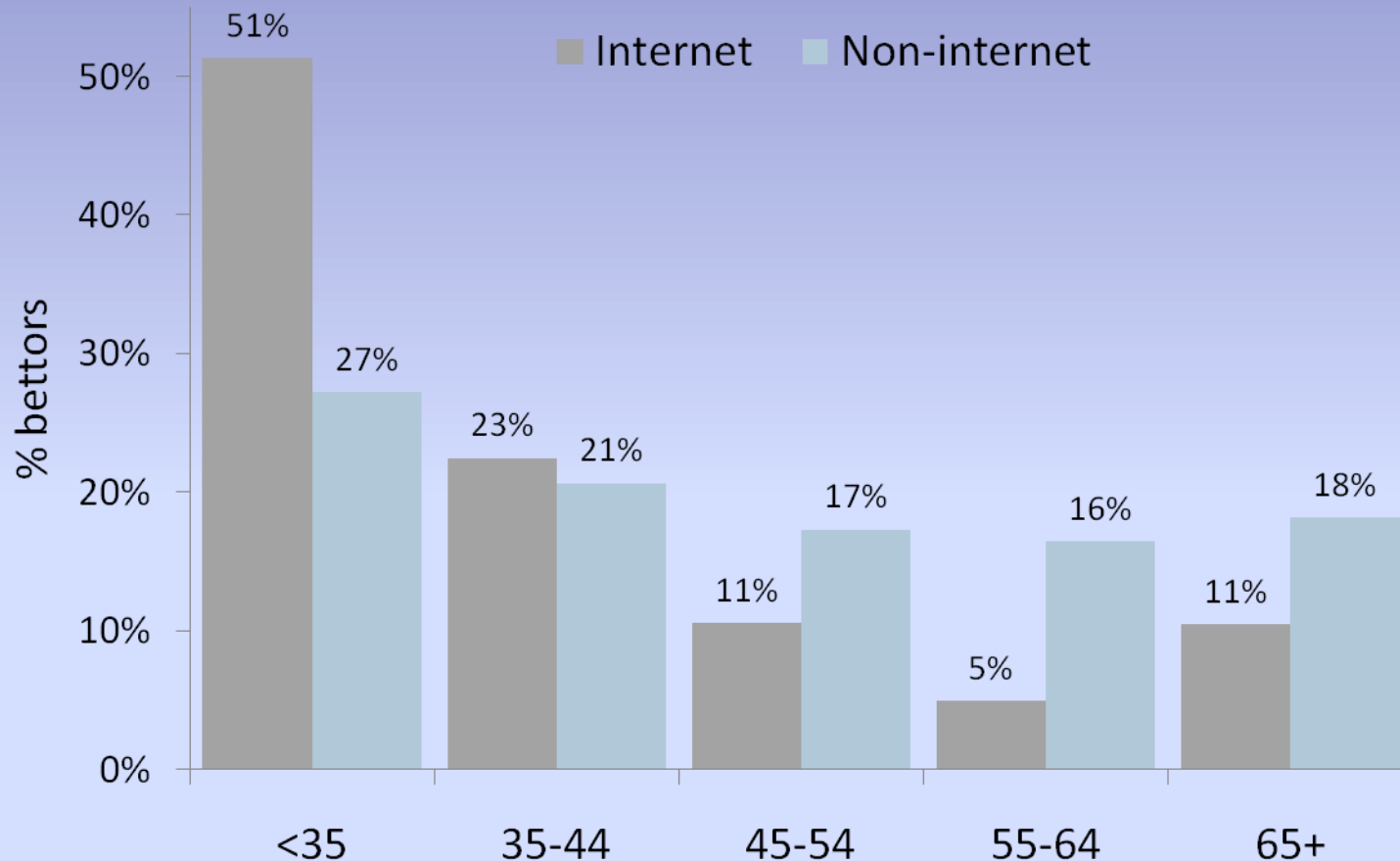


- **31% of Betfair's horse racing customers are under the age of 30 compared to only 5% of TVG customers**
- **81% of Betfair customers are less than 50 years old compared to only 49% of TVG customers**



INTERNET BETTORS ARE MUCH YOUNGER THAN UK SHOP BETTORS

The demographic profile of UK bettors also highlights a marked difference between internet and traditional shop bettors



- **51% of online UK bettors are less than 35 years old compared to only 27% of bettors that frequent fixed-odds betting shops**



IS TECHNOLOGY THE KEY TO THE FUTURE PROSPERITY OF THOROUGHBRED HORSE RACING?

The utilization of technology provides an additional, yet almost invisible benefit.

As i alluded to earlier we should not under-estimate the importance of real-time technology in managing critical, yet low-profile, components of our enterprise and sport, such as:

- **Compliance of international laws and regulations**
- **Implementation of anti-money laundering procedures**
- **Implementation of anti-fraud measures**
- **Instituting “Know your Customer” programmes**
- **Implementing and enforcing policies to combat problem/underage gambling**
- **Enhancing and protecting the Integrity of racing and related betting enterprise**
- **Conform to best standards of corporate social responsibility**



OPPORTUNITY TO MONETIZE US RACING WORLDWIDE WITH EXCHANGE WAGERING AND PARI-MUTUEL WAGERING AS THE CATALYST

US Racing is highly regarded, notwithstanding the slow pace of reform on uniform regulation of medication, and is potentially the one racing nation that has a universal appeal and a capacity to succeed in monetizing its assets.

A pre-requisite for success is the production of a US Racing programme incorporating all tracks, independent of present commercial allegiances and broadcast to High Definition quality standards.

The compilation and dissemination of pre-race [past performance] data, results etc delivered in real time to end users. Formatted to suit the designated international market.

it will require coordination of programming that, to the untrained eye, is not presently evident in US Racing.

Ultimately its the consumer who decides. It all comes down to quality, price and accessibility to data. All of the above require considerable investment and acknowledgement that not everyone will benefit from the influx of international interest in US Racing.



THANK YOU

