



Wednesday, December 11, 2019

**Maintaining the Critical Mass in Racing:
The Equine Population**

Moderator:

Andrew Schweigardt, Director of Industry Relations and Development,
Thoroughbred Owners and Breeders Association

Speakers:

Doug Burge: President, California Thoroughbred Breeders Association

Jeff Cannizzo: Executive Director, New York Thoroughbred Breeders Association

Lonny Powell: CEO, Florida Thoroughbred Owners' and Breeders' Association

Brian Sanfratello: Executive Secretary, Pennsylvania Horse Breeders Association

Ms. Jane Murray: We're gonna get going with our next panel, but I'd like to thank International Sound for the beverage break we just enjoyed.

Our next panel is gonna be regarding the — Maintaining the Critical Mass in Racing. This time, they're gonna be dealing with the equine population.

Our moderator for this panel is the Director of Industry Relation and Development for the Thoroughbred Owners and Breeders Association, Andy Schweigardt.

Andy?

Mr. Andy Schweigardt: Thank you.

Is this working?

All right. Still loading the PowerPoint.

There we go.

Good morning. The description of this morning's panel talks about stopping the decline and possibly increasing the size of the US annual foal crop.

I guess the inference being the more foals produced, the more horses in inventory at the track, which should lead to larger field sizes, an indicator of the overall health of our game or one of the indicators.

Our panelists today will discuss if the issue is as simple as increasing foal crop will at least end up increasing field size or are there other factors and market forces in play that may be affecting the Thoroughbred breeder in achieving that goal.

To open, I'd like to show three slides to introduce the topic. These are pretty much Captain Obvious slides, but I think they broadly lay out the situation.

This first one here is a graph of the trend of the annual foal crops for nine major racing countries: Australia, Canada, France, Germany, Great Britain, Ireland, Italy, Japan, and the US in this century, so that's 2000 to 2018.

I'm sure to no one's surprise, the US is the largest producer, as you can see on this graph, but its annual foal crop has been in decline since 2005 and is now down almost 43 percent since 2000.

Australia, the second largest producer, has seen its foal crop decline by about 30 percent since the beginning of the century, but it has been increasing the last 4 years and has recovered from the sharp drop experienced after the 2008 financial crisis.

Likewise, the foal crops in Great Britain, Japan, Germany, and to a small extent in Canada have recovered from that 2008 event.

In fact, Ireland and France have foal crops in 2018 larger than those — than they had in 2000. In Italy, which is probably the smallest one on this graph down at the bottom, the green, its foal crop continues to decline sharply for — there's a whole bunch of unique reasons going on that's causing that, specific to Italy.

Then the next slide is the total number of annual flat races conducted in those same countries in that same period. Again, I'm sure this is not surprising:

The US conducts almost twice as many flat races as the second largest country, that being Australia, but the number of races has decreased by 34 percent over that 19-year period. Now five other countries have also experienced declines, but we have three countries — France, Great Britain, and Ireland — that have increased the number of flat races run in 2018 as compared to 2000.

Two countries, that being France and Ireland, have both increased their foal crop and increased the number of races that they're running. The foal crop has declined by about 43 percent; the total number of flat races conducted has declined by only 34 percent, so simply just increase the foal crop to have supply meet the current demand, right?

I guess so.

We'll see.

Now the final slide — hope this works — has two tables showing the number of unique starters per flat race in 2000 and 2019, as well as the average annual field size for the same nine countries.

Looking at the tables, one would assume that the more unique starters that you have per race, the larger the average field size. For the most part, that holds true, but when you look at the US in 2000, we have 1.16 unique starters per flat race and an average field size of 8.2 and then by 2018, it's been increased to 1.28, yet the average field size has gone down by over half a horse to 7.6.

That's also, you can see happening to some extent in Australia and Canada, so maybe it's not as simple as just increasing the foal crop to have more horses available to increase the field size at the racetrack.

In addition to the challenges facing the breeders, probably other factors and forces are at work beyond the farm that are contributing to these numbers.

That's a real high-level look at this topic, but we should discuss it down at the state level because that's the structure of our industry in this country as well as the relevance of the state breeding programs to the industry.

To discuss this are the top executives from four state breeder organizations: Doug Burge, from the California Thoroughbred Breeders Association, Jeff Cannizzo, from the New York Thoroughbred Breeders, Lonny Powell, from the Florida Thoroughbred Breeders' and Owners' Association and Brian Sanfratello, from the Pennsylvania Horse Breeders Association.

Having said all that, I wanna ask the guys in your opinion, what factors do you believe contributed or are contributing to the declining foal crop and I guess the last few years, the stagnation of that?

Mr. Lonny Powell: I'll take a stab to get it started. I think we all realize that during the economic crisis or recession, that a big chunk of the foal crop and our business as a whole was altered tremendously, but since that point in time and

even leading up to that point in time, 'cause there were cautionary tales to be told prior to the economic recession, our whole industry — not just the breeding side, but the racing side — has gone through some dramatic changes and is in the process, as we've heard during this conference, of going through even more.

I think it's more than just, "Let's produce more foals and we'll have more field sizes." It's the barriers to breeding; it's the barriers to ownership and it's a very complex — as we've talked as a group yesterday — it's a multilayered challenge.

It does directly impact field size.

Running opportunities impact people's breeding plans.

There's been a concentration — our industry is experiencing intense market pressures that are driving the small-time backyard breeder or if you wanna look at the racetrack, the small-time trainer, the smaller operations.

You heard Bob Baffert even refer to that, driving them out of the business and concentrating the business in fewer hands.

As we look forward, we even have some other things that are going to be impacting us because as you heard Dr. Dionne talk about yesterday, is a lot of the racetracks, most of the racetracks we're all involved with, are going through some type of protocols and policies or their states are going through new regulations that are trying to screen out horses for past performance reasons or condition reasons.

That is gonna lead to field sizes decreasing, at least she said in the short run; hopefully, just the short run.

That does not lead to the increase of racing days or races. It actually compresses those down.

Therefore, I think one of the big challenges is what is the demand; what is the market? If the foal crops were at the level they were before the recession, would all those horses even be able to have a chance to run or where would they run?

Things have gotten much more complicated. That's why I'm glad I'm sitting up here with a bunch of other smart people that can figure it out.

Mr. Jeff Cannizzo: I think it's a very complicated problem that doesn't have one silver bullet that can result in addressing it and it depends on what the timeline you're looking at, too.

From 1990 to today, you've seen dramatic declines and decreases. Over a 30-year span, our foal crops dropped by 53 percent.

The number of races during that same 30-year span has dropped by 49 percent. Horses are making 57 percent less starts over that 30-year period and field size is down 17 percent.

Collectively, you have the same declines. If you look at a shorter period of time, perhaps the last 10 years, we've got a 34 percent drop in foal crop just in that window and subsequently, you're seeing what's happening in the racing economic side of it, as Lonny mentioned.

I think it's the cost of doing business has dramatically changed the economics of our country and society; commercial breeding versus breeding to race over that period has dramatically changed.

We operate in a polarized industry, such that the top 10 percent of our sport is succeeding in a certain fashion, where the other 90 percent perhaps can't say that, so it's become ultracompetitive to be in the landscape, hence fewer people are doing it.

Again, there's many complicated factors that play into all those parts.

Mr. Any Schweigardt: Go ahead.

Mr. Doug Burge: I was just gonna comment that I think there are a lot of economic reasons that we've mentioned this morning.

I think it's also really shifted the focus on the importance of these state-bred programs, which is why we're here.

When I started 25 years ago in this position, Cal-breds were a third of the field size.

We had to fight for any race we could get and do some things legislatively and so forth. Now, we average two, three, four Cal-bred races a day.

The horses that haven't left California are the Cal-breds and so it's our responsibility to figure out a way to stabilize, to hopefully grow the production in state and obviously tried to lure as many barns as we can from out of state.

I guess what I'd just like to stress is that it's really — over the last two decades or more, has really put an emphasis on the dependency on these state-bred programs and the local horses.

Mr. Andy Schweigardt: Brian?

Mr. Brian Sanfratello: I think in Pennsylvania, it came down to one question: Was the investment worth the return?

As Jeff mentioned, the costs have gone up drastically, especially for the smaller breeder. The money that it set aside for the breeding and racing industry in Pennsylvania was, over the past few years, being hit by the legislators and so if I want to breed or I want to invest in any state, I'm going to do a plan approximately five to seven years and if I can't count on money being there, then I'm less likely to invest. I think that's what it was.

We were lucky enough in Pennsylvania to have the — our what's called the Racehorse Development Fund put into trust about three years ago. Again, it was a lot of work and a lot of the whole industry, both Standardbred and Thoroughbred coming together, to get that to complete.

At that time, once it was put in a trust and can't be used for anything else other than racing and breeding, you saw the numbers start coming back up. We're not here to tout any one state, but just in general, those numbers have increased because of that.

Mr. Lonny Powell: Andy, if I could follow off of Doug's point.

Mr. Andy Schweigardt: Sure.

Mr. Lonny Powell: It's something I think we have consensus on up here, is within every challenge that this industry has dealt with along the way, there always seems to be something that is a bit of an opportunity or a silver lining — and I think Doug hit on it; we talked about this yesterday — is that's the relevance of the state-bred programs to our respective tracks and our respective states.

I remember a lot of my career has been spent running racetracks. We were talking about this yesterday. When we'd have state-breds, I was always glad to have the state-breds but wanted to make sure that those were on the weekdays, those were early in the card.

Never really thought they were a novelty if they showed up in open races or open stakes. That situation I believe has dramatically changed for us all.

I know in Florida, we race year-round in Florida and without Florida-breds, Gulfstream or Tampa Bay — and it doesn't matter what time of the year — would be dramatically hit from a field size standpoint.

In Florida, we primarily run an open company, but oftentimes we run for more money in an open company than our open company competitors.

Nonetheless, the state-breds now are fixtures, not only on the overnight programs, but on the stakes programs.

There's a heavy responsibility for all of us up here to try to make sure we keep that connection to the racetrack and to the breeding relevant.

I think the fact that we're relied on so much — of all the Breeders' Awards we pay out — we go down to first, second, and third — we've also noticed a trend that 75 percent of those horses are also sired by Florida sires. That number was much smaller going years back, but because of — like what Doug's saying and we're all experiencing — of the state-breds pretty much staying' home, our state-bred programs are absolutely critical to our racetracks' success and our racetracks' success is critical for us to be successful.

I don't think that connection has ever been closer or tighter than it is right now.

Mr. Jeff Cannizzo: I want to add to that and echo that because it's highly important.

You have people staying within each state to — because that's their core business and at the same time, you have a national decline in the foal crop size. It's become localized, in a sense, in each state.

You look at New York State. The state-bred horses in New York account for 57 percent of our starts, which is dramatic.

A decade ago, it was a fraction of that. The Saratoga meet alone, 37 percent of Saratoga starts were made by New York bred horses. Fifty-three percent of Aqueduct's and another 48 percent of Belmont Park's total starts were made by New York bred horses.

The point being exactly — to mimic what Lonny just mentioned — NYRA and New York State doesn't — the race meets that we've become traditionally accustomed to would not exist as they do without these state-bred programs, such that that's why there's investment in them.

You've seen growth in New York. We've seen a marginal growth, about 35 percent increase in our foal crop over the last six or seven years and it's solely based on the support of NYRA in our state.

The issue is — is that this group of people up here, our states only account for 30 percent of the nation's foal crop size. Kentucky's about 41 percent. We're a smaller component to the national landscape; however, we're critical to each region and without that, you'd see — we wouldn't be able to put on racing as we do today.

Mr. Andy Schweigardt: Hearing that, now that the state programs are more relevant than ever to their local racing economics or the local racing industry, I've heard cost, but what other obstacles, then, do breeders face in attempting to produce a larger foal crop now that you're becoming a larger percentage and it seems the racetracks are much more reliant on the product your members produce?

Brian?

Mr. Brian Sanfratello: I think the obstacles that we face — and here's a novel idea — the breeders, the horsemen and the racetracks try to get on the same page on how we promote the breeding and racing program.

We spend an awful lot of time discussing ways with the horsemen's groups that are gonna benefit both our breeders and also the racing product.

What seemed to happen over the past few years is we're seeing smaller breeders having a tougher time on producing a product and the ones that are being produced are being produced more by your bigger breeders.

We tried to figure out by a survey and some focus groups what was important to the breeders. Basically, a smaller breeder getting back as much money as they possibly can before their horse is claimed was one of the areas.

I mentioned it earlier about the legislators taking care of the money and we addressed that by the Racehorse Development Fund trust.

Also, what was very important was a level playing field. We did some things with the horsemen's groups to help in that area.

We have both a restricted race program which helps those breeders that are not going to breed a horse — I don't want to say not going to breed a horse; that can be an open company — but less likely to win in open company and then there's another bonus for those who are — that can race in open company and win in open company.

They were a couple of things that we did. We also put in a waiver of maiden claimer, which basically, if you're running in certain maiden claiming races, you

can waive that claim. That helped breeders get a little bit more of their money back before they possibly lost their horse.

Mr. Doug Burge: Let me just add to that a little bit. This whole shift and focus on the importance of the state-breds, like we've been talking about in the beginning, because of the dependency — it's particularly with us and I'm sure in every other state — we're getting' buy-in now from everybody.

The tracks buy into what you need to do, to the resources you need, whether it's from the purse standpoint, whether it's more incentives, whether it's more stakes op — whatever it is.

Whatever those opportunities are, whatever those carrots are that we can throw out there to basically stabilize and hopefully grow the foal crop in the state, we're getting' a lot of support right now. The TLC's in; everybody's in 'cause we all see the trend.

Like I said earlier, we're 50 percent of the field size is now in California and that was — 20 years ago, that wasn't the case at all.

Given that and given the dependency on the local horses, one of the obstacles that we used to have that we no longer have is everybody's on the same page.

Mr. Lonny Powell: It's amazing what — when this industry has its back pressed against the wall, how there's a direct correlation to the spirit of cooperation.

I think the spirit of cooperation is here to stay. Even though we're gonna have our differences in terms of different segments of the industry and always gonna be a competitive industry, I think we're all starting to realize how badly we all need each other and it's a shame it took this long.

Same situation in Florida: the recognition of the importance of having state-breds and a state-bred program probably was up for debate 20 years ago because of — there were just so many horses and now, it's such a critical part of the business of us being able to work together.

Even though not all of our people breed to race, we realize the racing component is critical to what we do.

I do think one of the challenges that we all face because we're — of all the folks here at the symposium, we're probably the most ag-based stakeholders as breeders — is just what's going on in the rest of the agricultural industry: farmland is precious. In some cases, real estate is escalating in value.

A lot of the farms in a lot of our states were close into the population base and that land becomes worth more and more for development, so farms have to — some farms have to relocate, reinvest, go further out.

I think that's got some additional pressure out there.

Again, when you look at — and I don't think any of us have this answer — but it seems to me in the last 10 years, the market's been heading a certain way on our product, but it's still a little confused on what the product needs to be, especially with some of the issues of today.

We can't forget what's going' on at the racetrack because it impacts us. If you're at the lower end of the claiming ranks, especially based on current events — and that means going' to the future — those horses are being screened out. There's less and less opportunity for those horses.

If you're at the bottom of the sales catalog, the chances of you not achieving your goal of sale have become much greater.

Again, you've got this squeeze on the lower end of the marketplace and I know those of us that have run racetracks, we always counted on that small-time trainer to give that one horse to make that race go or at the sale and it was always the story of that small breeder that hit the homerun.

The realities of the economics of this business nationwide are it's much tougher and tougher because of expenses and all the other things you guys have mentioned.

It's much tougher for somebody to get that done these days. It's the new normal in our business and I think that's why, again, we all realize how badly we need each other.

Mr. Jeff Cannizzo: The most important factor to determine our breeding success, which ultimately is going to affect racing success, is our core demand group, which are owners.

Without growing' our owner base, you're not gonna see foal crops be sustainable, which is — everything else is gonna trickle down from that. Whatever we can be doing to allow their investments in ownership to be as lucrative as possible or sustainable for themselves to be in the industry, we all suffer.

All the programs we talk about, that's why we're doing it, the incentives that are there. At the end of the day, they need to be able to have racing opportunity, too, which is where field size comes into effect or making races go and everything in

itself in between.

Again, it's a complicated problem, but without our ownership base becoming sustainable or growing to the point where you're seeing new people involved in new investments, it makes it very difficult for foal crop size to be sustained itself.

My specific concern in New York, too, and I think it's — this probably could be true nationally, of course — is demographic shifts. We have an aging population of people that are involved in our sport.

You have an aging group of people that are leaving the industry for various reasons or not passing it along to their families or the next generation. In my circumstance, there are several people that within the next five to seven years that could be a part and have a major effect on our state foal crop.

It's how can we sustain and grow that, such that it'll have positive effects for everybody?

Mr. Lonny Powell: Andy, can I hit on the owner topic, since we hit there?

Mr. Andy Schweigardt: Yeah. Run with it.

Mr. Lonny Powell: This is a topic that I know we all believe in and we all realize the importance of owners. I'm extremely passionate about it.

I made a presentation here a couple years ago on do we have a horse shortage or is it really a shortage of owners and buyers. If there are owners and buyers wanting product, wanting horses, I think all of our breeders in our jurisdictions are going to gladly step up and breed and produce those foals, but the marketplace has gotten more difficult from the owner's standpoint.

It used to be the classic barriers of entry for ownership — not just getting owners, but keeping the ones we have, which I think is just as important.

Any of us who've owned horses know it's an expensive venture. It's a fun venture, but it's expensive and sometimes by the time you're done getting the win picture if you're lucky enough to do that, you broke even. Those people are our lifeblood, the owners and the players.

It's more than economics — which is important 'cause a lot of these folks, they need to operate as a business, and they need an ROI.

They're concerned about purses if they're nearby racetracks because purses are drivers for them as owners. Then obviously, if the facilities aren't good or if they

feel like they're not treated well, they lose the fun aspect, which a lot of folks are investing that money for the social and fun part of it as well.

I think the things that are happening today even provide that additional — an additional barrier or complication.

The 800 pound gorilla in the room is always going to be, from this point forward, equine safety and welfare. I think all of the substance and all the noise wrapped around it has created real confusion about people who either were thinking about expanding the business or getting into the business.

I think until our industry — and everybody's working very hard on it — until our industry can really produce a message with substance attached and demonstrate we do what we say — I'm not saying' that a lot of that isn't being done — I think that's a new barrier that we all inherited as of this past year in 2019 and it's a significant one.

Also, from an economic standpoint — and some of this we're seeing in Florida and it goes to another presentation I made about three years ago: the racino, our best friend and at the same time, boy, they sometimes get bored with the old racing product is we have to — everything's about purses and to a certain extent awards — breeders' awards, stallion awards, whatever, we have to watch these racinos.

As racinos become more focused on the casino side — and now that we have all these other issues going' on — as they roll back race dates or races or in the case of Calder within our own state, do something as bizarre as saying, "Okay, we were a Thoroughbred track. We're gonna be a jai alai tomorrow," and they start withdrawing their support of, in our case, the Thoroughbred industry.

Virtually all those racinos got their licenses because, "Hey, we're a racetrack. Support our industry. All the ag jobs," et cetera et cetera.

That is something that is going to very much complicate the ability to keep owners in the game. I encourage all of you that have a racino in your jurisdiction — again it's great you have 'em.

Gosh knows Doug and his crew do their fine business without even having' any gaming help. The rest of us are all in some way beneficiaries of gaming.

You've gotta watch those racinos and if they start takin' the money they were putting' in purses and awards and just throwing it into their coffers, as an industry, you got to press to make sure that the breeders and horsemen are getting that piece. It's so important. Otherwise, we're gonna watch our industry

slowly get cannibalized by the very gaming product that we brought in.

The other thing, and it's related to animal welfare is — and I'll pick up on something I think it was Bob Baffert this morning said — is we all — no matter where we live or what part of the industry we're in, we all need to be Californians because what's happening in California is impacting all of us and major breeding states like us, we're not strong if any at one of us gets minimized or marginalized.

The politics and the media and the activism going on in California, we all — it's easy for me to root for California 'cause it's the place of my birth, my father's birth.

I had an opportunity to make a living there and grow up there, but our industry needs California and not just needs California; it needs a strong California.

I think we've got to support California and get through this situation together in terms of how we're going to approach this industry going forward, but I think all of those things right now throw such a major — another round of barriers out there that it makes it even more challenging to get those owners, to get those buyers who want to buy those horses, which makes us increase our foal crops, et cetera. I think in 2020, things will become even much more complicated.

Mr. Andy Schweigardt: You touched on California, so I wanted to ask Doug: How is the California breeding industry dealing or handling the current uncertainties in your state?

Mr. Doug Burge: The uncertainties have made it — they've made it tough. We've shown stability and growth in the foal crop and the mares bred numbers the last several years and this year we took a pretty big hit.

If you think about it, most of our problems started when most of those breeding decisions were made, so I can — I'm worried, obviously, even more about what we're gonna see next year.

Given that, I've been to Sacramento I can't tell you how many times in the last six months, met with the governor several times, you name it.

We have support.

We have to support the protocols that are in place. We need to make some adjustments and move forward, but with that uncertainty and with all those questions about what's this gonna do to the population going forward — because obviously the decision that you make today is dependent on whether there's viable racing three years from now when the horse is ready to ride.

Mr. Andy Schweigardt: At least.

Mr. Doug Burge: For me, it's a little more difficult sell in the uncertainty part, but at the same time, I was just in — came in November with several major California breeders buying a lot of mares because they see this as an opportunity because as I mentioned earlier, before, where the Cal-breds were a third of the field size, now we're 50 percent or more.

We're gonna be even more relevant than ever. We've got the uncertainty we're dealing with. Once we get over that hump, which we believe we will — it's not gonna be easy, but everybody's working' together to do so — that if you didn't bail on us and you stayed in there, the opportunities are gonna be there.

Mr. Andy Schweigardt: I guess thinking three years out and breeders making a decision today, that horse may get to the races and three years down the line — or will be sold in possibly two years, but will the demand — the other side of it is keeping the demand there for these mares that they're buying to —

Mr. Doug Burge: Well, yeah, but the other part of California — we've always been this way and we're probably even more this way now than ever — is we're pretty much a breed to race state.

I've seen a huge consolidation in farms over the years, but most of the farms that are still there, they're very healthy. They all have training tracks so they can take those horses all the way to the — as far as they wanna go.

If they wanna sell and one of our sales is a yearling or two-year-old, that's great, but they have the option.

It seems to be even more of a focus today than even it was years ago is that a lot of these people that are jumping in, they're willing to go on with them and raise 'em. Yes, we'd love to have commercial outlets and there are obviously owners that are looking for Cal-breds. Why wouldn't you?

Like Baffert, he'll tell you it's like spreading your portfolio. He's got all these Kentucky bred and now you've got Cal-breds. You don't have to run against 'em. You're in it for the same amount of money if not even more, and you can keep 'em separate.

As an owner or even trainer in California, they love the Cal-bred option. Like I said, it's a difficult time right now. A year ago, if you'd've told me what we were gonna be facing, I would've said, "Are you kidding me?"

At the same time, I think we've — like I said, I know we've got the support legislatively because I've been told a number of times, we just need to make sure that we go forward with what we promised.

Mr. Andy Schweigardt: Doug mentioned breed to race in his state and becoming probably even more so.

In your other states, are you gentlemen seeing that as well or is there still more of a commercial —?

Mr. Brian Sanfratello: In Pennsylvania, the majority breed to race, but you're starting to see a few larger breeders that are getting involved in selling commercially.

That's something that we've seen progress over the past couple of years and that's why we try to make sure that we help both ends of it.

Mr. Jeff Cannizzo: In New York, it's interesting. It's certainly a combination of both because it's ultra-lucrative, obviously, to own and race a state-bred horse from New York, bred in New York with the amount of state-bred money that's distributed and whatnot and the incentives, but at the same time, we've very much become a commercial landscape for breeders as well.

What's happened is — is it's become ultracompetitive to commercially sell it in New York. We have people from outside of New York that are dropping foals and selling them in our Fasig-Tipton yearling sale and the numbers tell the truth there.

From 2010 to 2018, we went from grossing roughly \$9.9 million in yearlings to \$33 and a half million in yearlings. I think that tells the story of what's going on.

At the same time, the average price went from 25 grand to \$74,000 across collectively for yearlings of state-bred New York breeds.

Fasig-Tipton essentially sells 300 New York breeds. It's a select Saratoga sale that happens.

That's only 18 percent of our foal crop that are gonna make it to the track, but the average price is over \$110,000 for those yearlings. It's become very much commercial. At the same time, there is that outlet, of course, in racing.

Mr. Lonny Powell: I think in Florida, like New York, we have a pretty even mixture.

Particularly in horse country in our state, the Ocala/Marion County area, we have a number of people who still breed to sell.

However, I think overall, our membership or our breeders, even those that breed to sell, that are not there to be involved in the racing end of it realize that there's no market for them without the racing and I think they very much respect those that breed to race.

We have a good number of people that breed to race, but that's become the lucrative part — as Jeffrey was talking about in New York — that's become the lucrative part for the business in Florida.

If you have a Florida bred in this case, or in the case of a Florida-sired Florida bred and you're running in an open company race during certain times at Gulfstream, you're gonna be running for 25 to 50 percent more purse in that open company race and we're not even talking' about the breeders' awards yet or the stallion awards.

That's just in the purse component, so it seems like if you're really in it for the economic upside, at least in Florida, breeding to race or at least making sure your racetracks are successful to offer that type of program and purse money to keep attracting people, be involved in the business, it seems like it's more important than ever before now.

Again, it ties into what these guys, what everybody was talking' about: the relevance of our state-bred programs to our states I think having been elevated.

Mr. Jeff Cannizzo: To go back to the other point, it's a double-edged sword because of the cost of doing business factor. Not every breeder has the luxury of being able to race or own at the numbers that perhaps we would like them to.

Mr. Lonny Powell: That's true.

Mr. Jeff Cannizzo: It's very difficult in terms of who's doing that, how does that affect the actual horse population itself that's racing, who's owning them and whatnot.

Obviously, I ran some numbers to do this, but one that was interesting to me related to New York was — and I shared this the other day with the group — is that if you looked at a 30 year period in New York from 1990 to 1991 through 2017, we have a quarter — we have essentially the same number of starters — it's actually 7 percent more in that period — running 31 percent less starts, making a third of the starts in a quarter of less races for 44 percent less trainers.

Forty-four percent less trainers have made a start or are a unique starter in the state of New York and horses are racing a third of the time, although it's essentially the same horse population.

There's again, many factors that are going into the landscape, that it's not just, "Well, if we produce more foals it's gonna solve this magical equation of field size and getting races to go."

Unfortunately, I don't personally believe that to be necessarily the case for everything.

Mr. Doug Burge: Real quick, what Lonny was talking' about with all the benefits when you get to open company, that's the other thing we should probably talk about is not just the quantity, but the quality of the product we're putting out there.

The horse you want, the Cal-bred you want's the one that can get through his state-bred conditions, get into open company, run for all that extra bonus money in open company and pretty soon, you've got a horse that's done very well for you.

I think that's the balance, also, that we look at. It's not just the number of horses and so forth, but the quality and how many can compete in Southern California or how many are we breeding for Northern California or how many are actually going to run in Arizona or wherever.

That's one of the things that we've really, over the last probably 15 years or so, have really focused on, is trying to figure out a way to breed more horses that can compete and be successful in Southern California.

Mr. Jeff Cannizzo: That's a huge point that Doug just made because if you were to — if the question was what's the measurement of success for your program, to me, it's absolutely not the size of the foal crop, the growth of that.

It's based on performance and quality. It goes hand-in-hand — when I was talking' about a polarized marketplace. That perceived top 10 percent that's selling commercially, well guess what? You have to produce a quality horse in order to make it through that such that it's gonna perform, too.

Just to give you an example, in 2003, when Funny Cide won the Derby, he was a complete anomaly. New York bred's weren't running on Saturday. They weren't Saturday horses in grade one events week in and week out and you look at the landscape now and it's dramatically different.

To me, that's a measurement of all of our successes, when PA-breds are in the Breeders' Cup and Florida bred, Cal-breds and California Chrome and if I went down the New York bred list, too, that's where we're benefiting and the industry's benefiting from that, too.

Mr. Lonny Powell: Jeffrey and Doug are spot on — on that. I think foal crop is always an important metric, but it used to be the end-all.

Now, just like we're talking about, it's so complicated. It's not always the number of foals; what type of foals and how are they performing, either in the sales ring, in the breeding shed or more visibly, at the racetrack?

Because again, the market at — both at the sales arena and on the racetrack is pushing for more quality.

Quantity no longer is gonna get the job done. Even though we all need those field sizes, let's remember what we just heard yesterday: racetracks — and we understand why — but racetracks are putting in protocols — oftentimes in collaboration with the horsemen, breeders and everybody else — but are putting in protocols and so forth that are going to decrease the entrants, at least in the short term and all the emphasis is gonna be on quality.

Ultimately, our product has to match up with that.

Again, as Doug said and Jeffrey says, we all know our people more than any other stakeholder in the business have to be able to tell the future.

The crystal ball gets foggy all the time, but you've got to predict three years out what the racing industry's going to be like and match your product up to it.

That's where all the people we represent I think have a real huge challenge. There's also, though, a lot of good things to be said about quality. I remember when I first got into this business, that's what we all strived for: "We need to improve our quality. We need to increase the quality."

It's not necessarily a bad emphasis, but it sure does limit our options right now and again, a lot of the things that are gonna be going' on at the racetracks starting this year into next year in terms of protocols and procedures and policies and regulations are gonna have a big impact on what that industry is or what that product is that everybody's wanting.

Mr. Jeff Cannizzo: I would say that in Pennsylvania, we're trying to do both. We're trying to increase the number of foals along with the quality.

Many of our breeders who own farms are very much trying to make a living and increasing or trying to increase the number of foals also is important to them.

I understand what you guys are saying and I agree that quality is really important, but I think that for the economy, at least within our state, we're trying to do both things.

Mr. Lonny Powell: I don't think any of us are suggesting that there's a lesser importance for the small breeder, backyard breeder or get into the racetrack, the small-time trainer.

I in fact, I think if you were gonna talk to us about what one of the big priorities is keeping those folks in the business, is providing them the economic playing field and the opportunity to stay in the business, so you are correct, but nonetheless, we can't ignore the fact that the emphasis on quality has tremendously escalated over the past 5, 10 years.

Mr. Brian Sanfratello: Absolutely.

Mr. Jeff Cannizzo: It's because of the commercial landscape that's been created and exists and again, the polarized market that — I see people that breed all the time that don't have an outlet.

"What am I gonna do? No bid, I'm out. What am I gonna do? I don't have the money to race this horse," and that's part of this problem of well, we're increasing our foal crop size, yet we don't have the owner base to support necessarily that, nor does racing.

I've said it six times: it's not a simple, straightforward answer.

Mr. Lonny Powell: We're waiting for Andy to summarize and come up with all the answers.

Mr. Doug Burge: That's where I was takin' that with the quality is — 'cause we keep talkin' about the reduction in foals and all that, which is a problem, but if you're breeding horses that can't compete on your circuit, then what good are you doing?

That's why I thought we ought to just talk about that briefly.

Mr. Andy Schweigardt: How have you gone about trying to increase quality? Is it easing on the breed back rule?

I guess I'm looking at the mare side, but then what does that do to your stallion folks? If there's now more incentive to go for a better stallion outside of your jurisdiction, how are you approaching that to incentivize quality, other than dollars?

Mr. Jeff Cannizzo: Well, whoever can answer, but for me, it's a little bit of both. The monetary incentives are based on performance, first of all, so you're not rewarding mediocrity or inferior performance.

That's the first key and I think that's pretty consistent across the board, is that the horses that are performing in the right races are earning more money.

That's one factor that goes into it.

We have several different programs geared towards performance and at the same time, if you look at the other end, the mirror side of it, there's a lot of different rules.

In New York, we're investigating a rule change right now as we speak that's just been started, where if you — to buy a mare from public auction under a certain threshold — for our sake, 50 grand or more — she'll be able to come into the state and be an instant resident mare.

Does that have an effect, exactly as you said, on this current stallion pool? I'm gonna say yes, it could, but at the same time, it's allowing people to participate in the landscape of a certain quality perspective and grow and incentivize them to do so.

Mr. Doug Burge: It goes back to the old debate I used to have subsidy versus incentive.

Are you just providing a subsidy for people to put horses on the ground or are you actually providing an incentive for people to put a better horse on the ground?

It gets back to the higher the purse you win, the higher the reward, which it should be, but there's other things you can put in place, too.

We have qualifying levels, for instance, for stallion awards and owner awards. It's gotta be at a certain level and then the money starts coming' in pretty strong.

Stakes program.

We've implemented a new stakes program a few years ago that's got 40 stakes and no race less than 100,000.

A lot of 'em are 200, \$250,000 restricted stakes, but you gotta have a good Cal-bred that — to compete in those races.

It takes an 80 plus, 85 plus buyer to win those. I think there's the balance there that we've hit on with incentive versus subsidy and how do you — what can you provide that basically can get you to more of the incentive side of things.

Mr. Jeff Cannizzo: It's a competitive sport.

We lose track of what racing is really about.

What I'm seeing happening is — is that the Tapit or Into Mischief New York bred is perhaps demonstrating or showcasing that quality itself and it's become so competitive such that the — whatever stallion named you wanna throw at it perhaps can't compete with them, yet the landscape itself is addressing the strive for excellence or the strive for quality.

Mr. Lonny Powell: I think probably for all of us, our greatest ambassadors for our state-bred programs are those of our horses that not only campaign in their own states but hit the road.

We've all been blessed.

In Florida, we have a real strong showing in the — obviously graded races and the classics and I think those horses, year in and year out, are our great ambassadors and our selling tools.

We all relish in their success and share their success. At the end of the day when you come home, though, our major emphasis — and again, it connects to racing.

I think again, this nexus of breeding and racing is getting so cemented is we wanna — it's particularly at Gulfstream and to a great extent at Tampa Bay Downs, you've got to have Florida bred in your shed row if you wanna run for the big money. I think that's what we really strive for.

Even if you're not a state-bred trainer as a rule, you're gonna want some state-breds and even hopefully some state-sired state-breds that are in your shed row because the money out there cannot be ignored.

The economics are always going to be the big important part, but all of us have our breeders' awards, our stallion awards and our bonus programs and all. They're very competitive.

They're very creative.

Everybody here can make a case why it makes sense to breed in their state.

I think what we're all trying to do is then take it to the next level: Where else can we have the impact?

We certainly have to make sure that the racing side remains lucrative for our folks that either own or are breeding or maybe both — our state-breds.

Mr. Brian Sanfratello: In Pennsylvania, you can have a PA-sired horse or a non-PA-sired horse.

We try to incentivize the PA-sired horses more, as far as a breeder award is concerned, but in doing that and some of the other things, we've seen a higher-quality stallion come into Pennsylvania, which is very good for the program and good for the people, your in-state breeders, also.

Mr. Andy Schweigardt: Down to our last five minutes, so time to ask for each of your final thoughts on this and looking ahead.

Speakers: Wow. Time flies.

Mr. Andy Schweigardt: You wanna start with final thoughts?

Mr. Brian Sanfratello: If I had one thing to say, I would say — and I said a little bit earlier — it is so important to make sure that everyone's working together for the common goal because if that doesn't happen, there is absolutely no way that you're gonna have a consistent or any growth within your breeding program.

We get together; we meet all the time, the breeders, the horsemen, the tracks aftercare, every facet of the industry and we've seen some pretty good strides.

As you can see, what's happened throughout the United States now with everything that's been going on, it's imperative.

There's no way to survive unless we stay together, and we go towards a common goal.

Mr. Lonny Powell: You can't disagree with that.

I would also say on behalf of all the folks we represent and having been involved in other segments of the industry, everybody works hard; everybody takes risk; everybody invests, but boy, I got to tell you, the breeders, they're all in and it is a tough business.

It is a business that requires, as we said, a lot of speculation of what down the road looks like and the margins can be very thin.

It's a tough business, yet when you hit the homerun, it makes it all worthwhile.

One thing about it, I think we all would agree, our people that we represent, they're not afraid of risk.

It's part of their daily gettin' up in the day and doing' their business, but they do have to have a fair shot at reward.

One thing I wanna squeeze in there that's a little off-topic and then I'll finish up is while we're talkin' about reward, for all the breeders in the audience up here or horsemen, we all have these incentive programs that are very important.

They alone don't make the industry work, but they're very important.

I encourage you all to revisit what's going on in ADW in your state.

California's done a great job. California gets a good share of ADW. I guarantee you most of the rest of you don't.

Being a former ADW guy, there's margin there. If you need to revisit your ADW statutes, or regulations or contracts, please do.

Again, on those racinos, capture that money if they start moving more of the money from your business and your pocket.

Historic racing breeders have a piece of it, if it's gonna happen and sports betting.

We were talkin' about this yesterday. I'm horrified that a couple jurisdictions actually launched sports betting without the breeders or in some cases the horsemen even getting a piece, yet being told, "Oh, we'll get you on down the road when we all stabilize," or, "You're gonna benefit from the floor traffic."

Didn't we learn from the slot situation?

Yeah, the floor traffic is at the slots. The sports betting floor traffic will in all likelihood be primarily at the sports betting.

You need to get a piece of it.

We can't forget about we still need to build the programs we have, but ultimately,

I come back to what Brian said, is when our industry is redefining itself and evolving like we're doing, we need each other more.

We need to cooperate more, and we also need to not do a lot of self-fulfilling prophecies.

I came to the first symposium 39 years ago.

I hate to say that; it's hard to believe.

I'm one of those folks that thought, "My God, aren't they pretty ancient up there on the stage?"

That's really old.

Thirty-nine years ago, and I've been to 38 of these.

I missed one because a child was born near the symposium and my wife didn't let me leave and that was understandable.

I remember during the breaks and so forth as a student, I was a junior and then a senior.

My job in racing was assistant starter and jockey valet.

I didn't know the coat and tie end of it, and I came to this symposium.

I'm looking' at all these rock stars 'cause I know their names from the racing program or the *Thoroughbred Times* or the *Horsemen's Journal* and when we'd have our little breaks as students, these people that I so looked up to, they'd be tellin' us, "Oh, wow."

This is 39 years ago: "This game isn't fun anymore. I don't think it's gonna be around till I retire.

Change your major," all those things and I remember gettin' a little pissed off about that, as somebody that was in this program.

Granted, it's not the easiest game. It doesn't get easier. It has its tough moments.

I think it's an extremely demanding career in this business, but 39 years later, we're here. The symposium is still here. We're still talkin' about issues and challenges, but ultimately, this industry has been able to evolve and redefine itself.

I just encourage us all, even though — we decided we were gonna be very frank and honest in our discussions up here.

It could've been easy for us to do a bunch of puff pieces and presentations, but our candor should not be equated with pessimism or that we can't work our way through all this.

I think even more the industry is listening to each other.

I think states like all of us have each other's backs a heck of a lot more than we did even a few years ago 'cause we know we need each other, just like all of you in all your different industry segments and stakeholders do.

I'm trying' to put a little bit of a positive out there and again, the fact that our state-bred programs are that much more relevant.

There are things to work hard for.

We gotta work smart and work together, but we will navigate through all this.

Mr. Jeff Cannizzo: Without a successful racing, the breeding landscape doesn't exist.

I'll keep this really short and sweet.

Either you can lead, follow, or get out of the way and there's never been more of a time that our industry needs this to do that.

Talk is cheap.

Actions speak louder than words. The coalitions and everything that's been put in place need to implement — our industry's great at strategizing; we're poor in implementation.

I think that that's really the key with all this.

There's nothing more important than equine safety and welfare.

Mr. Doug Burge: I think you hit it there and that's — we're obviously taking the lead on that right now and with that comes the uncertainties.

There's a horse racing board meeting tomorrow and there are some agenda items that people are concerned with and where is California racing going.

You're exactly right with that, but I just wanna go back to the importance of this — of basically what we do, this whole state-bred initiative program.

When I first started, I came from Kentucky and that was foreign to me. Now I see it.

California without it, it's over, seriously. We're less than 10 percent of national foal crop. We make up over 50 percent of the fields, which is very volatile. If that foal crop continues to or starts to decline, decline further — we have a hard time runnin' four days a week right now.

You can only imagine what would happen, which is also the reason why when you talk about getting a piece of ADW or getting a piece of — we get a piece of all that and that's what I mentioned earlier was 'cause we've got buy-in from everybody that we wanna keep racing going in California, we'd better make sure these guys are breeding and these guys have the means to provide to help sell their product.

That's really what I just would like to leave it with, is just that even though we're 30 percent of the foal crop within our regional markets in our states, we're a hell of a lot more important than that.

Mr. Andy Schweigardt: All right.

With that, we'll end it and wanna thank you gentlemen for your insights and candor and thank you for your attention.

Thanks.

[Applause]