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Making Wagering Great Again!

MODERATOR:

Ray Paulick: Co-Founder and Publisher, Paulick Report

SPEAKERS:

Bart Barden: Director, US Exchange Paddy Power Betfair

Klaus Ebner: Manager, Simulcast & Track Relations, Woodbine Entertainment Group

David Haslett: President and CEO, Sky Racing World

Andrew Offerman: Director of Racing Operations, Canterbury Park

Ms. Liz Bracken: Okay, we'll get going on this panel.

We have a good group of people with a lot of good things to talk about, so we wanna give them enough time.

This is the panel making wagering great again, a title I came up with, which I thought was a lot funnier about five weeks ago.

It is sponsored by AmWest Entertainment.

Without further ado, we will turn it over to Ray Paulick, the moderator, who is the co-founder and publisher of the Paulick report.

Mr. Ray Paulick: Thank you, and thank you for saying that it was not my idea to come up with that title.

Anybody that knows my politics knows I wouldn't have done that.

We're here to talk about wagering.

I've got a comparison, 2005 to 2015, the jockey club fact book shows, over the ten-year period, wagering on Thoroughbred racing has dropped 27 percent in the United States from \$14.5 billion to \$10.7 billion.

The number of races has dropped over that same timeframe 25 percent from 52,257 races to just under 39,000 races.

Wagering is declining slightly faster than the number of races, and that is despite tremendous online access to races, information, and wagering platforms.

It's a little bit troublesome.

A closer look at the numbers that I took shows the entire decline is in the form of single race bets.

Win, place, and show bets are down \$1.1 billion.

That's 25 percent.

Exactas are down \$1.2 billion, 32 percent.

Trifectas are down 45 percent, or a loss of \$1.4 billion.

The only increase in single race bets over the ten-year period is the superfecta, and that must be because of the \$0.10 minimum that's very popular.

The difference is that multi-race bets are up 17 percent in that same timeframe from \$1.4 billion to \$1.8 billion.

The pick three and the pick six is down, but the pick four and five are up, and jackpot bets didn't exist in 2005.

Ten years ago, multi-race bets were ten percent of handle.

Today, multi-race bets are 17 percent of annual handle.

I see two problems with this.

The first, these are non-churn bets, which means you're blocking up the money for multiple races instead of having someone bet cash, bet again — hopefully cash — bet again, and so on.

The other problem is, these are high risk bets that, in my opinion, tap out horse players, however, not everybody agrees with me, and the first presenter is Klaus Ebner, the manager at Simulcast and Track Relations for Woodbine Entertainment, and he's gonna show that I'm nuts to even talk about churn.

Mr. Klaus Ebner: I thought I'd have a little homage to the Conquest Stables there with Conquest Top Gun.

Let's hope it's not highway to the danger zone after this conversation.

Just gonna quickly go over what we've done at Woodbine for the past six years or so, just in terms of wagering, also some things we've noticed in terms of wagering landscape that's evolved for us over the past six years.

Again, after that, we'll just go to the panel, and I'll take some more abuse from Ray.

Again, where we stand right now, again, these are our two main breeds we have at Woodbine, both Thoroughbred and Standardbred.

Current Thoroughbred, 133 race days.

We did change to tapeta surface this year.

Obviously, there was little bit of press that being we're the only track that, in the past ten years or so, has actually gone from a synthetic surface, actually, to another synthetic surface.

Obviously, there was kind of cries out there saying, "What are you guys doing?"

In terms of consistency of how the tracks played this year, I think the numbers have shown — in terms of the increases — that, right now, the decision to go to another synthetic surface was right for us, at least at Woodbine.

We also have our turf surface being the EPTL turf course, and our current handle is, here, is about \$3.5 million for the Thoroughbreds.

On the Standardbred side, we operate both Woodbine and Mohawk with 222 race days, 7/8 track rock oval and roughly \$1.5 million in handle.

In 2010, we started our push with new wagering initiatives.

Start off with a pick four.

With the pick four itself on the Thoroughbreds, usually start at \$50,000.00.

We kinda did was saw what was happening in the market, kinda did some analysis in terms of the tracks that are currently doing at that time.

We thought \$50,000.00 was the safe mark to start off with.

From there, we've grown the numbers exponentially.

As it stands right now, we're doing about \$100,000.00 on most of our pick four pulls, in terms of an average.

Again, over the past five years, it's continued to be one of our most popular wagers, and especially on Wednesday nights when there's not a lotta tracks that are racing that night, and it's a big wager that customer can invest and try to cash a life changing score.

On the Standardbred side, a little bit less in terms of the pick four handle.

I start off at \$35,000.00 as the guarantee, and, as it stands right now, we're roughly around \$50,000.00 or so.

Again, that can increase depending on our days.

We do have increase guarantees on our big days.

That'll be Queen's Plate as well as the Pattison Canadian International, Woodbine mile, for instance.

Some of these days, we've had bonuses where we'd have a \$350,000.00 pick four.

Again, it's just more to incentivize the customer to play the pool.

Again, like we're saying, the biggest thing we wanna do is emphasize that the customer can walk away from these wagers with a life changing score, or at least walk outta the racetrack with a lot more money than they came in with.

In 2012, we decided to lower our bet mins to \$1.00 across the board for whips, so win plays show at \$1.00.

Also, with our exacta double pools, also \$1.00, and then the trisuper pick three and pick four pools reduced to \$0.20.

When we did it at the time, there was a lot of questions.

People said, "Well, you know, you're gonna dilute your pools, gonna cause problems," but, for us, we found that — the biggest thing we're happy is the fact that — we want the customer to be able to extend their bank rule.

It's hard enough for customers to win, so we feel that, at a lower wager point, the customer can play more wagers, more pick threes, more tries.

With the ability to — even at \$0.20, to have, again, a big score at the end of the day.

In 2013, we lowered our win takeout to the lowest North America to 14.95 percent.

Sure enough, just the way our industry goes, about three months later, someone else beat us to the punch going at 14.65, but oh, well.

These things happen.

Also in 2013, in September, we launched our jackpot high five bet for both our thoroughbreds and Standardbreds.

With that, has come some success and some good value for us in regards to Woodbine.

We've seen it grow over the years in terms of how popular it's been as a wager.

Yes, I know, some people said, "Maybe it's one of those gimmick bets where people are just throwin' their money in."

We found that, for customers that can hit the pool when it's at a fairly good number, they have a chance, again, to walk away with a really good chunk of money.

Along with the mandatory days, which are now on some of our bigger days, the possibility for the pool to grow and the millions of dollars is one big thing, and it's a big push for us.

Customer has, again, the ability to see that, for \$0.20, I can walk away — even a mandatory pool that it's all five favors — I finish one through five.

We've had some payouts in the realm of over \$1,200.00, \$1,300.00 for a \$0.20 bet.

Last year, we launched our pick five.

Obviously, the industry has had some pick fives already.

For us, it was a case of analyzing what's popular, what's working in the industry, and we decided to implement our own.

We did a lot of research with this in terms of where to position in our card.

The last thing you wanna do is — we know why our pick four is popular.

We didn't wanna cannibalize on that pick four that we have right now, so the pick five we decided based on where we stood with California coming in, take advantage of the California players, to go in there at our second race.

As we developed the pick five, we've seen the popularity grown, in terms of over the years.

It's done nothing but excel throughout the past two years for us.

We've added a second pick five in some of our larger days, for instance, Queen's Plate.

We've added a \$150,000.00 guarantee.

It kinda ties in your races for those days.

We have, possibly, an all stakes pick five on the card, and, again, just draws the customers to — they're focusing on those bigger aces on your card.

Additionally, they're gonna say, "Well, you know what?

I'm playin' the card anyway for those five races — for those stake races, I might as well play a short pick five for \$0.20 and get in on the action."

On the other side of the spectrum, we're definitely gonna try and implement new wager types for both our breeds being a thoroughbred and Standardbred.

The jackpot pick six was one that didn't go so well.

We rolled it out.

We thought, definitely, with the success of our jackpot pick five, we'd have some success with a jackpot pick six, have the marketing spin on it.

Alex is back there he was part of that over there.

We're tryin' to push that pick six to get it, again, where we thought — well, we had some success with the jackpot pick five.

Some customers walked away with some big amounts of money.

Let's try with a pick six.

Yeah, it didn't work very well.

We had it about five times in a row, and as you guys know, tryin' to grow a jackpot pool, if your pool hit five times in a row, you're not growing it very well.

Just one of those things that we're gonna keep on the back burner.

We may implement again in the future, but as it stands right now, it's gonna be forever the elusive pot of gold.

Last year, we rolled out our rolling doubles.

It really was a case – I know a lotta tracks already had rolling doubles.

For us, we had an early and a late double, and it really was a case of listening to our customers.

A lotta them had said, “What are you guys doin’?”

I wanna leverage the pick three, the pick four with other wagers.

You don’t have any rolling double, so why don’t you have a rolling double?”

It really was a case of us coming together with our wagering team, listening to the players themselves, what they wanted, and, again, we rolled out the rolling doubles last year for 15 percent and also at a \$1.00.

In terms of numbers themselves, so far, for the rolling double, they’ve been fairly good.

We’ve doubled the handle, at least.

Again, that also is because the fact of the matter you’re adding more and more pools.

The payouts have been pretty good.

Again, it’s been nothing but successful so far for us.

In terms of other observations that we’ve had so far, for the past six years or so, obviously, we have a turf course being the EPTL turf course.

It’s very popular.

We’ve seen a huge shift in turf racing.

As, in the past, customers would have a high demand for dirt racing and wanna have that focus on dirt racing, but our customers can’t seem to get enough of turf racing.

It’s crazy.

They want more turf racing than we offer right now.

We are working on some things for the future that, possibly, take care of that.

I’ll leave that for our management team to decide on that, but it’s just one of those things we noticed that demand is there, larger fields, a lot more competitive races, bigger payouts, and it all leads to customers wanting more turf racing across the board.

For us, as well, along the lines of turf racing, is that big fields are key at driving wagering, but quality is also important.

We noticed that you may have a big field of 12 horses on the turf for a claimer.

Yes, the handle may be pretty good, but if you can have some sort of quality to that field — whether it be allowance race or even in the form of a stakes race where you have — where we had Tepin, for instance, this year as a headliner, definitely if you can have that headline horse or that quality horse or horses in there, you can definitely see a bump to your wagering.

Don't force your customers to decide.

Why I'm saying this is we notice this more and more in the industry.

That's the fact is we're all competing for the same customer, guys.

In terms of post time management, it's key here.

There's no sense in us tryin' to trip over customers.

Your customers are my customers.

My customers are your customers.

When they're done playin' my track, guess what?

They're looking for the next track if they won their race, in terms of increasing churn.

It really is a case of, watch your post times.

See where you stand in the grand scheme of things.

If you have to adjust to stay off a certain track, then, by all means, do so.

Again, we've done that, as we've gone along, just to make sure that we're not treading on anyone's feet.

Doing your homework before going ahead.

Just along the lines of just analyze what you're doing.

In the case of — for us, for our pick five, you can certainly put it wherever you want on the card.

You could put it in race one.

You could put it in race three.

Again, just focus on what's working for you right now.

In the case of — say, for instance, you want to increase your pick five guarantee or pick four guarantee, if you know you're doing, right now, \$7,500.00, you could certainly go ahead and try for a \$10,000.00 guarantee.

You're not blowing things outta the water, but you tryin' to push people to wager in that pool more and more.

Last but not least is, find your niche.

We all know that racing takes place seven days a week.

I know everyone wants to race on the weekend, but we've seen a lot of good examples from partners across the industry — for example, our partners at Fort Erie Race Track, they ran their big day on a Tuesday, and they had an outstanding handle.

Again, you wouldn't think that on Tuesday, in the middle of nowhere, that you'd have a large handle, but, again, they ran their marquis race on there.

The second jewel of the Claiming Crown, and they had an outstanding handle that day.

The same goes for some of us with our harness content.

We have partners with the Standardbred Alliance, and they know that, guess what?

I'm not gonna go head to head with guys on a Friday, Saturday, or Sunday.

I'm gonna pick my spots.

I'm gonna go on a Monday, Tuesday, Wednesday, and have the opportunity to grow my handle that way.

It's a question of you have to choose between simulcast handle or your on-track handle and what you wanna do with it.

Thanks very much.

[Applause]

Mr. Ray Paulick: Thanks, Klaus.

Woodbine has one of the best turf courses in North America, I think.

He's referring to, maybe, some changes in the future, and I've heard they may try to add a second turf course someday, which is pretty exciting.

Earlier this year, Canterbury Downs made a bid to become the favored track of the Horse Players Association of North American when they announced across the board cuts in takeout.

Here to talk about that is the director of racing operations of Canterbury, Andrew Offerman, who's also a graduate of the University of Arizona Program here. He's got the facts and figures from Canterbury's takeout reduction program for this year. Andrew.

Mr. Andrew Offerman: Thank you, Ray.

Thank you, Wendy and Liz, for inviting me to come speak.

I always enjoy coming back to Tucson.

It kinda feels like coming home.

Like Ray said, I will be giving you some facts and figures and some, actually, pretty data heavy slides as it relates to our takeout experiment this past year.

Before I talk about those, I'd like to give you a little bit of background as to where we came from over the previous five years.

As you can on the screen, we signed a \$75 million purse enhancement agreement in June of 2011, which put \$75 million, over the course of 11 years, into our purse structure.

This agreement has provided and given us an opportunity to increase the number of races, amount of purses that we offer for both of the breeds that we race, thoroughbreds and quarter horses.

Over that time, it's allowed us to do some pretty remarkable things compared to the national averages.

This slide shows you a history of where we were, starting in 2011, the year before that agreement, to where we were in 2015.

After the 2015 meet is when we made the decision to try to reduce takeout and see what would happen.

As you can tell, there's some relatively gaudy increases.

Twenty percent increase in the number of race days, purses that were up over 120 percent during that time period, an increase in live handle of approximately 30

percent, an increase in off track handle of over 120 percent, which amounted to a total increase in handle of about 83 percent over that time period.

When you compare this to the national average over a similar time period, you can see that, as the number of U.S. races decreased by 14 percent, we were up over 20.

As the average U.S. field had gone down by approximately 0.2 horses a race, we had gone up by about a tenth of a horse per race.

As purse money had remained flat, we had almost, or more than doubled, our purse money that we gave away, and as handle had remained flat throughout the country, we were able to increase ours by 83 percent.

Going off of those statistics, we thought, what was the thing that could potentially take us to the next level?

What would give us that next step to compete with different markets, markets that we envied?

We have a bit of an approach of being innovative and trying different things.

We're the host of Claiming Crown, when that first came out.

We're significantly based on the attendance model.

We do a lotta unique things, draw crowds in excess of 20,000 people to the races on a somewhat regular basis.

Our average attendance is almost 7,000 a card.

Obviously, as I talked about, we have a unique purse deal, somewhat kinda cutting edge in North America.

Additionally, we'd never really had done anything with our takeout rates.

They had been, basically, stagnant since set in statute in 1985.

Lastly, we have a captive and unique in-state market in that there's no ADW wagering allowed in Minnesota on Minnesota's races.

All the handle that's derived in the state of Minnesota on our product is on track.

We have a somewhat causal customer, maybe less sophisticated than your average better.

Maybe, at least, the idea was a unique person to try to test the reduced takeout model to see if they would churn more money.

What do we do?

Our takeouts, historically, had been 17 percent in the win, place, and show pools and 23 percent in the exotics.

The only thing that we had done in the past was reduce takeout on our pick three and pick four, which we had done, I believe, for the first time in 2012 and played around with that a little bit over the previous five meets.

We decided to try something more global, and that was reduce takeout across the board on all of our bets, a 15 percent takeout in the win, place, and show pool, and an 18 percent takeout in the exotic pool.

We estimated — and it turned out to be true — that that would change our blended takeout rate from roughly 20.5 percent to 16.5 percent, so about a 20 percent reduction.

When we did that, we determined that the breakeven point for us, financially, was to be up roughly a couple percentage points on track, and some were in the neighborhood of 35 to 40 percent off track.

I think a lotta people are somewhat stunned when I say those numbers, and I've heard some comments about, "Well, that was a ridiculous assumption."

When you come off of the years that we had had, we didn't feel like it was completely unrealistic to see gains in that neighborhood.

As it says at the bottom, the results are mixed.

We did see a handle increase, but the revenue did not make up for that.

What happened during our 2016 meet?

Here's some key statistics.

You can see that we had one fewer race day, attendance decrease slightly.

The number of races basically remained flat with one fewer race in 2016.

Our field size did go down about 0.1, 0.15 horses per race.

Purse money was essentially flat.

Our live handle decreased by three percent, roughly in line with our attendance change.

The per cap basically remained flat.

Off track handle did go up about nine percent, but, as you can see, when you go back to the left side of the slide, kind of a small number based on what we had become accustomed to over the previous four years, especially compared to 2015 when we saw an increase of 16 percent.

That left total handle up about 5.3 percent.

What did that mean on a financial basis?

The top portion of this slide breaks down our revenue from live handle.

We have a little bit of a unique challenge in that our purses and breeder's fund contributions are set in statute as a percentage of handle.

We took 100 percent of the risk on our side of the ledge, as the horsemen, through purse contributions and breeder's fund contributions, were gonna be left unchanged based on what happened in the on-track environment.

As you can see, commissions from on-track wagers decreased by slightly over \$410,000.00.

When you back out to what that meant to Canterbury's bottom line, we lost about \$380,000.00 in on-track pari-mutuel commission, about a 31 percent decrease.

Question was, how much of that were we gonna be able to get back off-track?

As you can see, off track handle had gone up by 8.9 percent.

The host view revenue that we received from off-track wagering increased by roughly the same, about nine percent.

The horsemen had made a deal with us previous to the meet that we were allowed to capture of that upside due to the fact that they were gonna be getting the same purse figures and breeder's fund figures on track, so our share of that amount went up slightly, 12.7 percent increase or \$61,000.00.

At the end of the day, it cost us about \$320,000.00, assuming that handle would've been flat otherwise.

The rest of my presentation takes you through a series of different ways to look some of the data to try to glean some insight as to what pools changed, what days of the week, months, and those types of things had an impact.

A lotta these slides are pretty data heavy, but I'll try to move through them and point out the highlights.

From a total handle perspective, you can see that the win pool, maybe not surprisingly, was one of the largest increases at five percent.

It's the place where the customer's gonna see the takeout decrease the most and the fact that their win odds are gonna have a direct relationship to that decrease.

As you see, show betting was way down, likely due to the fact that we had, really, no significant bridge jumping races last year as compared to previous years.

Inter-race, or single race, exotic bets, largest increases seen in the exacta pool.

Daily doubles, up 110 percent were rolling last year for the first time, as opposed to two a day.

That probably accounts for the increase in that pool.

Interesting to point out that our pick three was up 14 percent, which is one of the largest increases, and we also decreased the minimum from \$1.00 to \$0.50.

The one thing that I would point out, that Ray alluded to, that I find the most interesting is that, of our changes, if you sort them by win, place, show, vertical exotic and multi-race exotic, we saw a 33 percent increase in multi-race exotic bets.

As we're seeing an increase as it relates to the takeout reduction, we weren't seeing any significant benefit as it came from churn.

This slide's very similar.

It's just looking at live handle as opposed to total handle.

Again, I'd note that you see a small increase in the win pool, that place that's probably most likely to see it.

Also, changes that are similar amongst daily double and the pick four and pick five — I should've mentioned on the previous slide.

Pick five was a new wager in 2016. Basically, pick five money came outta the pick four pool.

For our customers, that turned out to be a negative because they won the pick five a lot less than they were winning the pick four.

This slide looks at a further segment of live handle.

This is all of our tracked play.

Again, I would point out, and was consistent was across the board, win pool is where we're seeing, to me at least, the most noticeable change, and it's kinda what you would expect given the fact that the odds are gonna directly be better when you have a lower takeout rate.

I've had a lotta questions about signal distribution, what did outlets do? Did a lotta people cut you off?

My answer to that is not really.

I've broken it down by what types of outlets that took us and the number of sites that took us each year.

Decrease in roughly 27 bricks and mortar facilities.

I equate most of that to OTB closures throughout the country and casino properties that stopped taking us.

I think it was mostly due to those casinos stopping offering horse racing, not necessarily not taking Canterbury Park.

A decrease of only about five percent.

I viewed that as pretty successful, as far as keeping our signal out in the marketplace.

I broke down handle by each one of these sources, again, to take a look at where our increases were coming from.

Our live handle is down three percent, as I mentioned earlier.

High volume customers, we're up about seven percent, which I find interesting in that they were up about the same amount as the total, which, to me, suggests that their increase may be as much based on liquidity available as anything else.

Tracks and OTBs down about three percent. ADW and account wagering up 28 percent, which I think is — as that type of wagering becomes more popular, make sense, and it's also, I believe, where most of the Hanna members are playing on a regular basis.

Definitely some increase in that way.

As you can see, Nevada Casinos and in-state Simulcasting both fell off rather dramatically, however, in terms of total dollars, it didn't make that much of a difference.

When you look at the numbers by month, you get a somewhat expected, I guess, larger bump in May that was then challenging to continue throughout the rest of the meet.

August jumps off the page a little bit at a 24 percent increase, but we came off of one of our worst August's in a long time in 2015.

I think that month is a little bit more inflated than it should be.

The main point here being that we were able to generate some excitement for what felt like a short period of time and then, somewhat, unable to continue that moment.

When you look at days of the week, we do run a pretty regular race schedule.

Thursday and Friday nights, Saturday and Sunday days.

I think there's been some questioning as to whether that schedule makes the most sense, and it's really where we're stuck in a tough spot because there's no doubt we could generate more handle by running at less popular times, but with a significant on-track business, the results of doing that would dramatically alter our business model.

The thing that I found most compelling about this chart is that Thursday night, which has been our best performing day for a long period of time, actually showed a decrease in 2016.

Interestingly, Sunday, which you'd expect to be pretty popular and difficult to compete in, showed our largest increase.

Those are unexpected results for me.

I broke down average single handle by field size.

This is discounting all horizontal bets, but only looking at inter-race bets.

The interesting thing, I think, that sticks out here is you see a decent size increases amongst six, seven, and eight horse fields.

Where the majority of our races were run, as far as field size, you did see decent increases.

The rest of them are relatively small sample sizes that are a little bit harder to interpret.

A few other variables that impacted our results, there was definitely a decrease in the unpaid promotion of signal by Simulcast outlets, whether it be through bonus

points, free past performances that people were giving away, or other promotions, we simply didn't get them as we have in previous years.

Additionally, we dealt with a really challenging weather summer that caused us to come off the grass a lot more than we would've liked and a lot more than we have in previous years.

Almost three times the number of races were taken off the turf in 2016 as there were in '15, and that resulted in more than two times the number of scratches.

Lastly, the lack of familiarity with our racing product — we don't really run on a defined circuit.

Our horses come from all over the country.

There's not a lotta better familiarity.

If you follow Tampa Bay or Turf Paradise, you know a few of our horsemen, but you certainly don't know the whole population.

It is challenging to get a circuit going, as far as a handicapping basis.

I've had a few people ask, "What do you think would've happened if we didn't do the takeout reduction?"

I said, "It's hard to answer."

I put up slides here for tracks that saw decreases, which included Arlington, Prairie Meadows, which are both regional competitors of ours, but also Monolith at Meadowlands, which did a takeout reduction as well.

Tracks that increased are also tracks that we view as either competitors or regional competition that had good years.

I think that, without a doubt, it helped us do better than we would've without it.

As far as the total handle perspective, it's hard to really quantify what that number is.

Again, just a brief recap, our total handle went up by about 5.3 percent or so, but, at the same time, we saw a decrease in revenue that approached 19 percent, and a total cost to the company of about \$320,000.00.

There were a lotta variables that make it challenging to pull apart as far as just looking at rates, whether it be field size, weather, the competition that you face, familiarity, post time selections, or days of the week that you run on.

They all factor into the equation.

We're gonna continue to look at those variables and try to better statistically model what we did so we can figure out what to do in 2017 and beyond.

Our results are a little bit challenging to extrapolate as far as other facilities go.

We have a large percentage of on-track business, which, obviously, made a much great hurdle for us to overcome.

The benefit, for us at least, and our feeling in doing that, was that we were not shifting the burden onto the rest of the industry.

We were taking a large part of that burden when, roughly, 30 percent of our handle comes from on-track.

Obviously, like I said, that made it more risky for us.

Lastly, the lack of familiarity with our product was something that hindered our growth potential and would be, obviously, very different at different facilities throughout the country.

Thanks.

Mr. Ray Paulick: Thank you, Andrew.

That was a tremendously detailed and, I think, important analysis, and I applaud Canterbury for doing what they did this year.

You've heard a couple of reports of what's going on in North America with different bet types and takeout.

David Haslett is here from Sky Racing World.

He's the president and CEO of Sky Racing World, subsidiary of Tabcorp in Australia, which has distributed over 14,000 races in the last 12 months.

It seems like there's racing going on just constantly in Australia if I watch on TV or online.

They've got some unique bet types that U.S. racing may wanna take a look at.

David.

Mr. David Haslett: Thank you, Ray.

Thanks for that introduction.

Good afternoon, everybody.

Just as a starting point, I wanted to do a quick update.

I get a million question about who is Tabcorp, and do we do?

This is not what the presentation's about.

I'm not gonna spend a lotta time on it, but I wanna give a quick update on Tabcorp, and I'm doing it, by the way, of the Tabcorp brand.

Tabcorp, bein' the parent company.

Down the left-hand side, those are the brands we operate under within Australia.

Tab brand is both a retail and online brand that we operate under.

Luxbet is an online brand that we operate.

These are all wagering in Australia.

Sky Racing's our media business in Australia, which is television and radio within Australia.

Keno is a business we operate within Australia.

We operate a gaming services business, and we operate virtual racing within Australia.

UK facing brand.

We have recently launched Sunbets, which is an online wagering platform, UK facing.

We have Premier Gateway International, which is a joint venture with Mayasian gaming and leisure, and then our USA facing brand is Sky Racing World.

Just wanna use that as an update about Tabcorp and some of the business brands you operate under.

Today, I'm gonna talk about what we've been doing in Australia and what the Australian market is like.

As a starting point, I'm gonna go back, and Ray's introduction kinda covered it.

If you look at the graph on the right-hand said is what Ray was referring to.

That comes from the Jockey Club fact book, and that's what happened from 2005 through 2015.

The North American thoroughbred handle has gone from roughly \$16 billion — I'll just round it up to \$16 — down to roughly \$11 in that time period.

On the left-hand side, that's exact same time period and the exact same scale of what's happened in the Australian Thoroughbred market.

That's come racing Australia fact book.

In 2005 through 2015, wagering — the only difference bein' Australian dollars versus U.S. dollars has gone from roughly \$11 billion up to \$16 billion — almost a direct inverse to what has happened in the North American market.

There are a number of factors, clearly, that have driven that.

Today, I'm gonna talk, primarily, about a couple of the wagering products that we believe have helped contribute to that trend, which is growing, and we see it continuing to grow in the future.

Just before I get into the bet types, this is kinda fundamental, and it's actually core, and it's critical to everything within Tabcorp and what we do within the Australian wagering market.

The customer's always put at the center.

There's nothing that we do that is not focused around the customer.

Where's the customer, what are they doing, and how do they want to consume our product or our content?

Customers have evolved, and we've evolved with them to make sure that whether they choose to visit a race track or an OTB, they choose to be online, they choose to consume information by digital channels, or whatever product and service is out there — everything is designed around their customer.

We engage with that customer constantly, 24/7, 365 — we want to engage with that customer.

Whatever they want to do.

Even if they just want to research information.

They just wanna research upcoming races or upcoming horses, we make sure that we are engaging with them and providing them that information.

When it comes down to the products, we look at the products and how we can deliver those products that will meet those customers' needs.

The products I'm gonna talk about now really are products that have evolved from what we'll call traditional pari-mutuel products.

That's what they are.

We've evolved them with the customers.

Our colleagues from Betfair who will talk next, they've done a great job at innovating new products, and we're gonna hear about that later.

What I'm gonna touch on is some products that we've actually evolved and how they have helped drive that growth that I referred to a little bit earlier.

The first one we refer to as flexi betting.

What is flexi better?

It really just allows a player to take a percentage of a wager.

The player can come and take multiple selection, as many selections as they want, we don't really care, and they can take a percentage.

It's simplest example, I put up there.

I just took a trifecta box, and they player determines how much they wanna spend.

In this case, we just took \$10.00.

They make a number of selections.

In this case, took five.

They will get 16.66 percent of that payout or that bet or their payout.

It's printed on the ticket.

Everyone knows what they're getting ahead of time.

That player now has got five horse trifecta box, and if those horses come in the first three, they will get 16.66 percent of the payout.

Flexi betting, we offer across multiple bet types, exactas, quinellas, doubled, the duet, trifecta, first four, which is the superfecta, the pick four, and the pick six.

The key here is, what are the benefits of flexi betting?

The first point there is it allows players to get into the game and invest to the level that they are comfortable with.

If a player just wants to get in and play \$10.00, they can get in that level.

If they wanna get in a \$50.00, they can get in that level.

If they wanna get in \$5.00, they get at that level.

Players can get into the game at any level they chose and wherever they're comfortable with. It creates consistent winners.

They may not win the huge payout if they're only taking 16 percent of the dividend, but they'll win something, they'll feel like a winner, they'll stay engaged, and they'll keep laying. The churn factor, it helps the churn factor immensely.

People are winning consistently.

They are playing that money straight back again, and they're staying in the game. Again, it's keeping players engaged.

Flexi betting has been around for almost ten years now.

It has been a huge benefit to the way that the players engage in the sport and the way that the players play their racing bet.

Fixed odds, and I know that's been spoken about a number of times in these forums, but fixed odds is pretty important to us down there.

It's actually the fastest growing segment.

Currently, racing wagering is 67 percent, pari-mutuel in 33 percent fixed odds, and last year, fixed odds grew by 16 percent.

Again, putting the customer in the middle, we give the customer the opportunity to choose what they wanna do.

They can compare prices between the tote pari-mutuel and the fixed odds and determine which wager they wanna take.

In other words, do they wanna take it on the tote, or they want to take at fixed odds?

We offer it via all channels, whether they're in the retail environment or whether they're online.

They can choose.

For example, if you go to a self-service terminal, you can call up a race, you can look at a horse, and you can look at the current pari-mutuel odds, you can look at

the current fixed odds, and you can make your decision at the self-service terminal and take your bet.

It gives players the option to build wagers across different tracks if they choose to do that.

Because of the fact that we can bet on both racing and sports, they can build a wager across a race bet as well as a sports bet.

The operators and customers have a lot of flexibility about how they play, what kinds of markets they want to produce, and how they want to bet.

We also provide a cash out option.

In other words, if someone takes a multi-bet, and they are at some stage of that multi-bet, before the end of it, they have the option to cash out before the end of it.

One thing it does do is it creates a huge amount of interest when the final fields come out 48 hours ahead of time in the morning lines are released.

Creates a huge amount of interest because players who believe that they've done their homework and they've studied their form, and they know which horses that they believe are value, when they see the morning line odds, they start playing the fixed odds immediately.

The early betting has actually increased tremendously through the fixed odds option.

All right, this cash out quaddie is a fairly new one.

The quaddie in Australia is the pick four.

This was introduced earlier this year.

This simply allows a player to cash out of a pick four after the first leg, the second leg, or the third leg.

It's totally up to the player to choose how they want to cash out and when they want to cash out.

Interesting part about this, certainly from a regulator's point of view, is that it does not change the pari-mutuel pool.

That ticket stays live in the pari-mutuel pool.

Once the pick four quaddie is in the pool, it does not change.

The pari-mutuel pool stays intact, and the integrity of the pool stays intact as well.

The wagering operator offers the player a cash out price, and the player has the option to accept it and say, "Yes, I think that price — I'll take it," or, "No, I won't. I'd rather let it ride and see if my bet wins in the end."

Effectively, if the player accepts the cash out option, their ticket is then owned by the operator.

If it's a losing ticket, it's a losing ticket.

If it's a winning ticket, the operator then cashes that out.

We make that available in Australia on races where we have a fixed odds market that allows us to calculate what we would call the cash out price, as long as we have a fixed odds market available on it.

Then we've also included a partial cash out option where a player can say, "I'll only take out 50 percent of the cash out option, and I'll let the rest just ride on it."

Again, it gives the players the option to cash out at any stage, or they can just let it ride.

It keeps the players engaged cuz they're constantly looking at, "What is my cash out option worth?"

Ironically, from the multi-leg wager point of view, it actually increases churn because people will cash out and actually start churning that money earlier than waiting for the four legs of the multi-leg.

The final one I'll talk about is virtual racing.

You'll probably say, "What has this got to do with it?"

It is relevant, certainly, based on our experience in the Australia market.

The virtual racing is purely just animated horse racing.

Our brand we operate under is called Trackside.

We run a race every three minutes.

We provide a form guide on screen centers, run through about 3,000 outlets — all the traditional racing bet types, including flexi betting.

You'll have your win and your place and your exacta and quinella and trifectas, etc.

There's always 12 runners a race.

As one of my colleagues said in a forum over in Europe, we never ever, never ever had a scratching.

It's fixed payouts.

In Australia, last year, they annual handle was around \$500 million Australian dollars on virtual racing.

This is interesting, particularly for race tracks and horseplayers is that it actually compliments that live product.

We have not found that it actually takes money away from the live racing product. People are playing it in between.

When you have a gap of 20 or 30 minutes between races, people will play two or three virtual races in between.

It keeps them engaged.

When the live racing comes along, they still prefer live racing.

It also starts educating people into the different bet types because they can play them in a virtual race, and they can try the different bet types and the flexi bets.

For those of you who don't know, we actually offer that under license currently in the United States in the state of Maryland through the Maryland lottery.

Last year, the Maryland lottery did — I think the real number was actually finished around \$160 million U.S. dollars in sales on their virtual racing product in the state of Maryland.

The brand that it's run under Maryland is called Racetracks.

Those are the key points I wanna cover today, and I just wanted to thank Ray for sending Scott Jagger over to Australian for the Melbourne Cup.

I think he had a great time.

Those of you who followed his reporting in the Paulick Report, thought that it was pretty interesting, and it was just great that he could be over there and experience it.

I know that he spoke about some of these bet types as well in some of his reports.

Thank you very much.

Mr. Ray Paulick: That's right.

Scott came back, and all he could talk about was the bets that David just went over.

He had a great time playing the races over there.

Bart Barden is the director of Betfair's exchange business unit, and he wins the prize for, probably, the worst travel experience getting here coming over from Ireland through Heathrow, and, what, you ended up on a Southwest flight somewhere to get here?

Mr. Bart Barden: Yes.

Mr. Ray Paulick: He's gonna talk about exchange.

It was launched earlier this year in New Jersey in May, and the word engaging customers is something that I've heard here quite a bit, and Bart is gonna tell us about how the exchange engages customers.

Bart.

Mr. Bart Barden: Thanks, Ray.

Thank you, everyone, for takin' the time to listen to this.

David, some of the stuff that David talked about — great Segway into some of the things here on the exchange.

Just quick show of hands.

It did launch this year in the state of New Jersey, but has anyone here not familiar with exchange wagering or what is done?

Who's familiar with exchange wagering?

Okay, a good, at least, two thirds of the group.

I'll go into a couple of the exchange basics, but just wanted to go through that and talk, really, about how the exchange is in innovative product is good for the industry.

Now, Ray made a point about win, place, show in comparison to exotics.

The exchange here, one thing to really keep in mind is it's an innovation built off of, really, win, place, show.

Those are the only bets you can on the exchange.

Increase churn is good here.

We're bringing new money and new players to this sport by offering choice and value.

There's a lotta things on the exchange that you can do, some of the fixed odds stuff that David talked about, as well as just a value.

We're charging commission on winning bets only and things of that nature.

That choice in value and bringing that to the win, place, show has led to some very, very good data points that I'll share with you in a second.

We're very complimentary because you have new things that you can do, such as, maybe, in play, cash out — these type of things.

We're complimentary to the tote.

We're looking to provide the most value in that win, place, show bucket and try to bring up that trend that is seemingly declining and try to get more activity and more churn in value there.

Look, the exchange is really built to increase engagement.

It is a unique platform.

1999, launched first in the UK.

First time it's been used here in the U.S. is this month, so we've been around for about eight months now.

Very encouraging results.

From an engagement perspective, if you take a base engagement level, you just layer a lotta — the exchange layers a lotta great things on top.

First, there's innovative betting features.

As I said, you can be in play.

You can bet against, or there's ability to bet against as well as bet for a winner.

We increase the frequency and people with their ability to trade.

Prior to the race, or during the race, someone can quickly go in and make several bets to either take a position, see a price change, take another position, realize that transaction.

That money goes back into their account immediately, allowing them to churn instantaneously.

That's what's great about the exchange platform, which gets into the churn of bank roll.

Any trade that's made, if you wanna take three horses, we're not saying you have to take \$20.00 per horse, and we're taking \$80.00 out of your account.

We're already calculating what we call exposure is on those four bets, and we're returning whatever the remaining is into your wallet.

Then you can continue to bet, which is increase churn mechanic.

We're only charging on commission on winning bets.

Our 12 percent base commission rate is only takin' off of any bets that win.

Really, quickly, how does an exchange bet work?

Customers are, in effect, matching bets against each other.

Some person has an opinion that a horse is going to win, and someone has an opinion that a horse is going to lose.

Whether they're deciding to back a second horse in the race to win, that is an opinion that the other horses in the race are going to lose.

Really, what we're doing is, if you're betting a horse to win at 4:1 — we use decimals — someone else has to put up, in effect, the opposite of that or to cover the winnings.

If I'm betting \$100.00 to profit \$400.00, then someone has to put up \$400.00 to win \$100.00 on the other side of the bet.

If I win, I realize that revenue, and if someone wins, that money has been already taken outta their account, and the bet is settled.

The wagering interface kind of — if you've seen this, this is the mobile view.

The big thing to note here is, we do a couple things.

We're always showing you — we're allowing you to select the odds that you're looking for or to pick the odds that are fixed at that moment in time.

Once you lock into, let's say, the one horse at 22, that is the odds.

If the pari-mutuel system has driven that price down to 8:1, and you got it at 22 ten minutes ago, you still own that \$10.00 bet at 22 for a potential profit of \$220.00.

You can select price, and you can select your stake to give you more choice in value.

Then we're always showing — if you can see the green and the red — you what your total exposure is.

If you're taking multiple selections in a race, we're always saying what the potential outcome is.

If you've backed three horses, we'll say, "Great. If horse one, two, or three, win, this is what your profit is going to be, but if a horse that doesn't win comes in, it shows what your liability is."

Here's some engagement improvement by the numbers.

I wanna caveat this as saying, these are actual numbers, and this is from the most recent month of November of what we just came out of.

Exchange customers index higher in some very key engagement KPIs between the similar track and bet types — so win, place, show only — and the tracks that the exchange supports against what is 4NJBets TVG in New Jersey and the exchange customers.

As you can see here, it's very astounding, potentially unbelievable, and I can cover that off.

Your monthly bets per player is about 16 on 4NJBets in those bet types.

On the exchange, it's 184.

Why is that?

That's an element of trading.

In one race, someone might be making five different bets on a single horse because they're seeing the price go up.

They're taking a little profit.

They're seeing it go down.

They might buy it low again.

Then they see it go up.

They buy it high again.

The ability to trade drives that number very much so.

The handle generated per \$100 deposit.

Because we charge different, we have a different business model.

One of the ways that I try to compare apples to apples with the pari-mutuel system is to say, "What is generated from \$100.00 deposit?"

I'll get into an example next.

On the totes, about 300, 3.1 ratio.

On the exchange in November, it was about 13.2x, meaning a brand-new customer came in.

They deposited \$100.00.

They spun through that \$100.00 at \$1,300.00 over the month.

That is, again, also — there's various things about the exchange.

They're cashing out.

They're trading out.

If they see a position that they like that they see the odds move, maybe, on the tote side, and they think they, maybe, got it wrong, they can try to trade outta that position.

Their money lasts longer.

It's built for engagement.

Then your average player days, 4.12 to 6.56.

An additional increase in average player days as well.

How can this be?

I just did an example here.

We're not on Del-Mar.

That isn't a track that we're on, but I just took an example up because it's one of the most recent meets that just went live.

If you take the average exchange customer can, in effect — what does it really mean to the track?

They can wager 66 percent longer.

That's what it means — 22 more races.

They took their \$100.00, and they went up to the window, and they bet \$20.00 per race.

They just did win bets only, and they bet in and around even money shots the entire time.

At a takeout of 16 percent against the exchange commission of 12, basically, they'd be out of funds — meaning, they couldn't make their next \$20.00 bet — after the second day of racing if they bet every race.

This is actual Del-Mar data.

There were nine races in the first two days.

On the exchange, though, you see their ending balance go from \$100.00 down and down and down.

They'd be outta funds on the 1, 2, 3, 4—5th day — on the 6th race of the fifth day.

They're goin' an extra two days, they bought an extra 22 races.

That's the pure example of churn right there.

Do you think that's a happier customer?

Most likely.

They at least felt their money lasted longer, that's entertainment value right there.

That's the basics of how the exchange is really built using some kind of actual data and actual examples of driving this engagement factor.

We're hoping to get it pushed into more places and more customers using it.

Mr. Ray Paulick: Thank you.

Mr. Bart Barden: Thanks.

Mr. Ray Paulick: Thank you.

We've got a few minutes for questions.

I know I've got a couple if nobody else does.

Any questions from the audience for any of our great panelists today?

All right, let me ask Bart on the — oh, do we have one?

Yeah.

Audience Member: I have a question for David on the fixed odds that you offer.

Mr. David Haslett: Yep.

Audience Member: Is that the track that's offering it, or do licensed book makers do it?

If it's you, what is the whole percentage on the fixed compared to the whole percentage on the pari-mutuel?

Mr. David Haslett: Okay, so, first of all, it's us at Tabcorp.

We offer it.

We're the waging operator.

We would be offering the fixed odds.

Fixed odds on racing, I know, varies a little bit, but it's running, probably, now, around about the 11 percent versus the pari-mutuel in Australia runs around 16.

Mr. Ray Paulick: Same question on the — when you cash in your quaddie, is that coming out of the tote, or is that —

Mr. David Haslett: The ticket always stays in the pool.

Once a pari-mutuel bet is placed and the pool is closed, that ticket stays in the pool.

Moderator: You're familiar with the U.S. racing laws. Are either of those bets possible in the states right now?

Mr. David Haslett: I think, certainly, the fact that the bet stays in the pool is nothing wrong with that issue.

The real question is, would state regulations allow an operator to take the risk by saying, "I'll buy that ticket off of you," and hold their ticket?

Mr. Bart Barden: Ray, we offer cash out on the exchange as well, and it's because, basically, there's someone on the other side who's — when you're cashing out, you're effectively working within the pari-mutuel pool.

We did have a — the state of New Jersey did regulate and say, "That is an acceptable bet type based on how it works within our pari-mutuel pool."

Mr. Ray Paulick: Anybody else?

Bart, on the exchange, I don't know if you wanna address — the biggest issue we hear about is integrity with exchange, when you're betting against a horse.

Could you talk a little bit about the BetFair integrity program?

Mr. Bart Barden: Sure.

Yeah.

First of all, on the exchange, there's nothing in racing that the exchange allows for anything different.

Anything integrity related on how races are run or anything of that nature, there's no bet type that — you can technically trifecta box a horse out, and you're then factoring a horse to not finish. That's the same thing on the exchange.

We don't employ anything that incents any type of integrity issue.

For us, we actually would say that we provide — because of the uniqueness of the platform, we have a lot more data, and we're able to show activity — lots of lots of activity, and we work very closely with the regulators, and that activity can be provided in real time.

It can be accessed and alerts can be done—all that.

We have amazing integrity program.

All U.S. races — not all U.S. races, but there's been a significant amount of U.S. racing that's been offered on the UK exchange since 2009.

There has not been one issue.

We really look at ourselves as a tool.

We provide information to regulators, and they treat any integrity issues the same way they would for pari-mutuel.

Mr. Ray Paulick: Thank you.

Klaus, noticed you said turf racing has just gone crazy up there.

The statistics show, in the United States, the percentage of races that are run on turf now is also increasing.

Do you know why that would be?

Why is turf racing becoming more of a popular play?

Mr. Klaus Ebner: I think it's just the competitive nature of it.

More and more people are seeing the fact that there's close finishes, and, on top of that, the trainers themselves, especially in our case, are demanding more races from us.

It actually comes to a fact where we actually have to work to carve more races for turf racing.

Even on the breeding side, you can see with horses like Kitten's Joy, for instance, who, back, probably, ten years ago, wouldn't even be considered a sire here in North America.

Now, all of a sudden, with the proliferation of turf racing in North America now, it's starting to become the racing as opposed to, in the past, where it's dirt racing.

It's crazy.

Mr. Ray Paulick: Earlier this year, Woodbine had a couple of experiments with racing going in the other direction.

Will we see that in 2017?

Mr. Klaus Ebner: I'll let you know.

Much to the chagrin of our friends from Trackus.

They weren't too pleased, I'm sure, when they said we're going the other way.

It was a pleasant surprise.

We had a part of our turf course that was underutilized, so we decided to say, "What the hell.

Let's give it a shot, see what happens."

Our customers like you're a bunch of idiots, and some of them said that.

At the end of the day, you gotta try.

You gotta try something to see what may work for you.

Again, there were only five furlong and five and a half furlong sprints.

At the end of the day, actually, the wager was more than would be for a standard opening race in the card, for instance.

Mr. Ray Paulick: Thank you.

Andrew, I don't wanna put you on the spot, but I'm gonna go ahead and put you on the spot.

When will Canterbury make a decision about their program for 2017?

Do you know?

Andrew Offerman: Our dates won't be approved for next year until sometime next week.

I imagine that, likely, sometime early first couple months of 2017, we'll know exactly what we're doin' for next year.

Mr. Ray Paulick: Okay.

Well, thank you, all, for great presentations, and thank you to the audience for your attention, and let's give them one more round of applause before we go.

Thank you.

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