



Race Track Industry Program

**38th ANNUAL
SYMPOSIUM ON RACING & GAMING**

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**Driving Sustainable Growth for Thoroughbred
Racing and Breeding**

PRESENTOR:

Jason Wilson, Vice President Business Development, The Jockey Club

Mr. Steven Barham: Our breakfast sponsor, EquiBase, refreshment break sponsor EquineLine.com, and last night's reception sponsor, GROUPE CARRUS. Talking up here with Jason, and this is the tough crowd. You're actually up for an 8:30 am panel, most of you were early, on the last day of the Symposium. There's a lot that just don't make it all the way through like that.

I've noticed that's kind of a tendency for every symposium, too. So, we welcome you to the last day. For the first panel, Driving Sustainable Growth Through Thoroughbred Racing and Breeding, or for Thoroughbred Racing and Breeding, our speaker is Jason Wilson. Jason is currently the Vice President of Business Development for the Jockey Club, and he will talk to you about the McKenzie Report and what's going on with that for the implementation of that report. Jason?

Mr. Jason Wilson: Good morning everyone, and thank you for that introduction, Steve. This is my first visit to the Symposium, and I'm very happy to be here. I'm a relative newcomer to the sport of thoroughbred racing, with just over a year under my belt, but over the past year I've had the opportunity to catch breakfast at Clocker's Corner at Santa Anita, grab a Shake Shack Burger at Saratoga, bask in the sun at opening day at Keeneland, and even cash a winning ticket at the Belmont Stakes. I'm not going to talk about my losing tickets.

In connection with the McKenzie study, I participated in interviews with over 200 industry leaders and countless round tables with fans and prospective fans. In implementing their studies, I've worked with numerous people across the industry and I can say that throughout it all, I've been impressed with the enthusiasm and passion that I've seen. There's genuine love for the game from owners, breeders, racetrack executives, and horse players, and others, and that's been a source of inspiration to me.

Today, I am here to talk to you about an update on the implementation of the recommendations from the comprehensive economic report that was done by McKenzie & Company. Many of you have probably already heard or read about the report, but for those who haven't, I encourage you to visit our website at www.JockeyClub.com to see the full presentation.

To set the foundation, I will quickly go through their findings before I get to the good stuff, and I hope to have some time at the end for questions.

Their prognosis for our sport is in their words, "sobering." We are facing headwinds from five primary areas. The first is intense competition from other types of gambling. Over the past 10 years, we've seen a proliferation of gambling away from the racetrack to the point where casinos now outnumber racetracks by a factor of 6:1.

The second major cause of racing's decline is brand perception. The research with fans and non-fans alike shows that racing suffers from a negative perception relative to our competition. For example, only 22 percent of the general public has a positive impression of thoroughbred racing. Even more stark and surprising is that only 46 percent of our fans would recommend the sport to others. For the sake of comparison, that's 80 percent for football and baseball, and even 55 percent for poker.

The third major cause is dilution of the best racing. So, what do we mean by that? Horses are running less often. Field size is in decline, and overlapping race schedules make it difficult to follow the best races and the best athletes. All of this in turn reduces interest and handle.

The fourth major cause is the fan experience. New fans find many tracks to be out-of-date and in poor condition, with just 19 percent of consumers thinking that the sport is entertaining to watch live, versus 76 percent for other sports.

The final major cause is fragmented distribution. Distribution of racing on television, online and off track is just too limited, particularly for reaching new fans. In McKenzie's view, no other major sport has lost control of its distribution to the extent that racing has. McKenzie found that at our current course and speed, the five factors we have just described will translate into a continued downward trajectory for thoroughbred racing over the next decade. That's not surprising.

This includes handle, which they forecast to decline by as much as 25 percent, the foal crop which is down by up to as much as 18 percent, the number of viable tracks down 27 percent, state revenue and tax receipts from racing down 25 percent, and average owner losses up 50 percent.

Now, with all that said, McKenzie's research also indicated that the core of the sport is very strong. Attendance at the Kentucky Derby is up 8 percent from 2000 to 2011. The best racing is still compelling. Grade 1 and Grade 2 handle per race is up 23 percent. Race betting is also extremely exciting. When people were asked about what they liked about the sport of racing, they responded with what they liked about gambling, with 45 percent saying that they were most attracted to the sport by a sense of camaraderie at the track, 37 percent saying that they were attracted because of the respect from others while on a winning streak, and 34 percent are attracted by the chance to win big money.

So, those were McKenzie's findings. They also recommended nine initiatives to put the sport back on the path to growth, and rather than go through each of them in isolation, I think it helps to think of them in groups, because many of the strategies were meant to be complimentary.

The four primary groups are the integrity initiatives, the ownership initiatives, the racetrack initiatives, and new fan development initiatives.

The first group of initiatives consists of the integrity initiatives, and they are necessary for the sport to retain the public trust and include integrity and safety reforms, and innovative wagering platforms. Both of these initiatives involve coordinated action across the industry to make sure that we're putting on a show that adheres to the public desire for fairness in competition. With respect to integrity and safety reforms, medication, welfare and safety issues all represent a serious and direct threat to the future of thoroughbred racing.

Negative press and word of mouth detract from racing's prestige and alienate new or prospective fans. It also adds to the stigma associated with race wagering and increases the risk of disruptive and costly new legislation that we might not be able to control.

In addition, perceptions among core fans that rule violators are not sanctioned quickly, uniformly or severely enough, create a cynicism and contribute to fans' reluctance to recommend the sport to others.

While we, as an industry, have taken significant steps in the past few years to address health and safety issues in the sport such as the establishment of the Equine Injury Database, the RNTC, the Thoroughbred Safety Commission, the NTRA's Safety and Integrity Alliance, McKenzie's research demonstrates that this is still an area of concern.

The consumer research is consistent with other research and frankly, common sense. For example, they found that 78 percent of our fans would stop betting, if they thought that horses were treated unfairly. Of course, that begs the question, what do the other 22 percent of people say?

38 percent would bet more if they knew that horses were not given drugs, and 36 percent cited medication as a top-three issue facing the sport. In a similar vein, a survey undertaken by consulting firm Penn Schoen Berland of policy influencers, shows that they view performance-enhancing drugs and horse welfare as the number one issue facing racing today.

They also think that we are too lenient in dealing with performance enhancing drugs. Now, it is important to keep these issues constant in our minds and that we continue to address them over time.

In August, we announced that several industry organizations are collaborating on a new and comprehensive set of model medication rules. These rules, called the Reformed Racing Medication Rules, include among other things a simplified system of drug classifications, a consistent standard for labs so a positive in one is a positive in all, and a new penalty structure to provide a more powerful system of deterrents for participants in our sport who demonstrate a blatant disregard for the rules.

In 2012, we will work with major racing jurisdictions to achieve adoption of the Reformed Racing Medication Rules, and if not feasible, how the existing rules can be improved.

Turning to wagering platforms, the research shows that bettors value three things: wagering integrity, the ability to see real time odds, and poor liquidity. It stands to reason that if bettors lose faith in the wagering system, they will leave the sport.

Last year, the Thoroughbred Racing Protective Bureau announced that it was developing a platform to address many of the integrity issues that have been cited. Called the Tote Security System, this is a piece of middleware that sits between a Tote system and bet-

takers, that's tracks, ADWs and OTBs, and it is designed to provide greater transparency and audit capabilities, secure stock betting signals, and provide real-time decimal odds.

Today, wagers are pushed through the tote system every 45 seconds. The result is that odds appear to change very significantly, especially as post time approaches. Real-time odds provides greater transparency on how the odds are moving, and gives handicappers the ability to make better-informed decisions.

The TRPB is working with tote companies and expects to have a pilot program in the summer of 2012.

Two other concepts, single-pool wagering and exchange wagering, have the potential to increase pool liquidity. This week, TVG Betfair demonstrated a test model of its exchange wagering system. Now, I have not had the opportunity to look at it, but I encourage people to go and check it out and provide feedback to the people at TVG Betfair.

While I believe that this has the potential to open up new avenues of wagering, it is very important that we help them get the model right so the economics makes sense for the industry.

The second main initiative involves ownership. Owners have told us that they find it hard to find good information about ownership. I know this is a difficult slide to look at, but they find it hard to find good information about ownership when they first became owners, and as they continue to be owners, they find it hard to find good information about trainers and others. This is a big problem for the sport.

In a sense, I think what they are looking for is a Carfax or an Angie's List type of resource that they can go to, to make their decisions. For the past several months, we've been working with Tova and others to develop a comprehensive website devoted to providing data to owners so that they can learn more and make better informed decisions. The working title of this website is "Owner View."

The initial rollout of the site will include information on trainers, public racing syndicates, getting started owning thoroughbreds, racetrack retirement, and owner licensing. It will also include a free owner management software program to help owners keep track of their horses.

We expect to roll out the initial site in the first quarter of 2012 with additional updates throughout the year.

The third set of initiatives is around the racetrack and involves moving towards fewer, better race days, creating an integrated rewards system, and disseminating the best practices among tracks. One of the most valuable things that McKenzie demonstrated was the effect that current scheduling system was having on handle and profitability. At all levels, our calendars are needlessly crowded. At the top of our sport, 30 percent of our graded stakes races are run within five minutes of another graded stakes race. Sometimes, this cannot be avoided, but when the races are your marquee races where you are trying to attract the maximum attention, it really pays to adjust your schedule so you are not running on top of another similar race or races.

McKenzie analyzed over 600,000 races over the past 11 years, and came to the conclusion that if you move some races by a small amount, you can achieve a boost to your handle for that race. One prime example is from April 2009, where Oaklawn, Keeneland and Aqueduct

ran Grade 1 races within 22 minutes of each other. Our model shows that if Keeneland had moved their race by 10 minutes to get away from the Oaklawn race, and Aqueduct had moved their race 12 minutes, the handle would have increased by between 4 percent and 9 percent. All three tracks would have seen an increase in handle by this slight adjustment in post times.

This is not to say that Aqueduct and Keeneland should have adjusted for Oaklawn, or that at times unavoidable circumstances might be at play, but it does illustrate how coordination of your future races can help everyone involved.

On profitability, looking at the number of race days where handle generated covered purses, the number of races that have not paid their way is around 30 percent, and the number of race days that do not pay for themselves is around 50 percent. Obviously, this is not a viable long-term strategy.

The number of races also has an effect on field size, which not surprisingly, also has an effect on the handle and profitability. It is widely believed that it is difficult to cover the cost of a race with less than seven betting interests. Well, fully one in five of our feature races have fields of six or less.

To say that another way, every fifth race that we write has no chance of being profitable, so how do we address this? With input from racing secretaries and other racing officials, InCompass and McKenzie used the 11 years of data to create a predictive model that can be used to create an optimal race schedule given where other races are run. This tool is not designed for the financial type to forecast revenue. Rather, it's used for racing secretaries and others to get a sense of what their options are and the relative economic impact of scheduling one race at a certain time, versus scheduling it at another time.

In addition, InCompass took the feedback from the tracks to make enhancements to their RTO system, that will better enable them to monitor horse inventory and create their condition books based on historical information. Together, these tools will arm tracks to put together better races and run them at times that should generate a higher handle.

The InCompass team has gotten rave reviews from racetrack folks on the prototype, and we expect the beta version of this to be available in January, with a full rollout of the next suite of enhancements later in the year.

In addition to the scheduling tools, InCompass is in the initial stages of determining the market demand for an integrated customer relationship system that allows the sport to track customers from the track to the OTB, to the ADW. This system will allow us to better know and serve our customer base and improve that percentage of people who would recommend their friends from 46 percent.

Earlier this week, we heard from the young guns on the racetrack side on novel ways that they are marketing the sport. InCompass is looking to develop a very comprehensive consulting service to tracks that would foster widespread adoption of the most promising of these ideas, as well as other best practices in racetrack operation. In a sense, this would be a McKenzie for racetracks, although at a much more affordable rate.

Now, the final area of recommendations is new fan development and engagement. Much has been said and written about this recommendation, and I think it is simply overly simplistic to boil it down to more television. That is not the thrust here; rather, the main point of these recommendations is that we need to provide a more engaging experience for

casual fans, and a more proactive strategy for either converting such fans into more active fans, or otherwise finding a way to monetize their interest in the sport.

It is not just anecdotal that we are doing a poor job serving our fans. We have heard from new fans that racing, with its complicated jargon, has too much complexity. 39 percent of our fans say that we make insufficient efforts to reach out to new fans, 29 percent say that it is difficult to handicap and bet. Only 2 percent of consumers feel that they have access to the information they need to know about the sport, and that compares with 71 percent for other sports.

Obviously, we are not doing enough to introduce and distribute our sport effectively. This all leads to a relevance problem. Only 14 percent of consumers and a minority of our fans feel that racing is "for people like me." Only 17 percent of fans feel that racing understands fans' needs, compared to 45 percent for other sports. Now, I know that is a great deal of negativity to throw at you all at once, so how do we address this?

Part of the answer is found in a survey of 1100 senior level sports executives at the college and professional level that appeared in the Breeder's Cup Edition of the Sports Business Journal. Now, these are folks who have worked on these issues, and they are very conversant in new fan development. When asked what racing can do to increase fan interest, the first response was that, "We need a Triple Crown winner."

Well, from their mouths to God's ears, but the second response gets to the heart of what ails us. They say that what the sport needs to do is to establish a consistent presence in the mainstream media, and that is precisely what we aim to do.

We have developed a multi-media strategy that involves traditional media outlets, television, new digital media and mobile technologies, to provide fans with a more contemporary experience, educate them about the richness of the sport, and meet them where they consume sports and entertainment.

The first step of this strategy actually began before there even was a strategy. This past summer, the Jockey Club provided the NTRA with funding to greatly enhance the efforts of NTRA communications so they could find, develop and pitch stories to the mainstream media and engage fans through social media on a national basis.

The new NTRA communications team has had early successes placing stories, and will continue to shape our messaging in mainstream media. As an extension of this relationship, we are working with the NTRA to revamp their website to be more fan-centric and engaging for our fans. Through this site, we will seek to generate unique programming and user-generated content that can be pushed to other sites, and support our efforts in developing and distributing our unique story lines.

The Jockey Club has also actively embraced McKenzie's recommendations with respect to games. To help fans learn a deeper appreciation of the sport through handicapping, we are developing a free-to-play game that incorporates social media and fantasy sports elements to provide the basics. This game is being overseen by a 10-year veteran of fantasy sports games and a former front office executive for the NBA.

To serve a demographic that is interested in the sport but not necessarily the betting aspects of it, we are developing a social game along the lines of Farmville. Development of this game is being overseen by the creator of one of the most popular social games, that has over 15 million monthly users.

Now, on the gaming front, I've been fortunate to see many different approaches such as the Play Keeneland game, the Play Saratoga game, the Derby Wars game, and others. It is my hope that we can cross-promote and facilitate the use of these games where it makes sense and fosters some additional innovation in this area.

Finally, there's television. TVG and HRTV do a good job servicing existing fans, but frankly their reach is not wide enough to reach the casual fans. That is where mainstream national television comes in. We don't think it is enough to simply get your races on television, however. Our approach is to fully integrate national television, digital media and social media, to drive awareness, engagement and participation in the sport.

In addition, we seek to update the content of what we show on television. There are technological enhancements that are beginning to be integrated into racing's television coverage, and in this regard, we acknowledge that there is some very positive developments along these lines.

TVG, along with Del Mar and Keeneland, has announced an HD initiative to upgrade the network's signals. This will allow fans to experience racing as they do other sports and entertainment options. Tracks are increasingly adopting Trakus, which will make it easier for fans to follow the action, and a group right here in Arizona [EquiSight] is developing technology to bring helmet cams to the live racing environment.

Still in its experimental stage, this technology has the ability to revolutionize the way that people experience racing, as well as help owners and other connections keep tabs on their horses during workouts.

While our primary focus with respect to television has been the traditional route of focusing on races, we are also investing time and resources in developing alternative programming concepts such as reality programming and handicapping contests. Development of these concepts can be tricky, but we hope to take advantage of the anticipated interest in the sport generated by HBO's *Luck*, to gain network interest in some of our concepts.

So, to recap, our strategy is fairly straight forward. Rather than devoting precious time and resources to trying to establish a national office, which may or may not be able to address our problems as we've seen this past year with the NFL and the NBA, we will focus on things that we can do today.

We will generate or acquire compelling content and then figure out the right distribution model for that content, whether it be print, digital, mobile, or television. This is a long-term strategy. By placing all of these assets together, we hope to build a self-sustaining model for new fan development that does not have to rely on traditional methods of funding similar initiatives. In this respect, the five years of funding cited in the press can be thought of as seed money to help get this off the ground.

With the free-to-play game slated to roll out in February, the *Road to the Kentucky Derby* series set for March and April, the social game targeted for release later in April, and *Owner View*, the InCompass scheduling tool, and the first phase of a new website that will launch in the first quarter, this Spring is going to be a very busy time for the Jockey Club and for the thoroughbred industry.

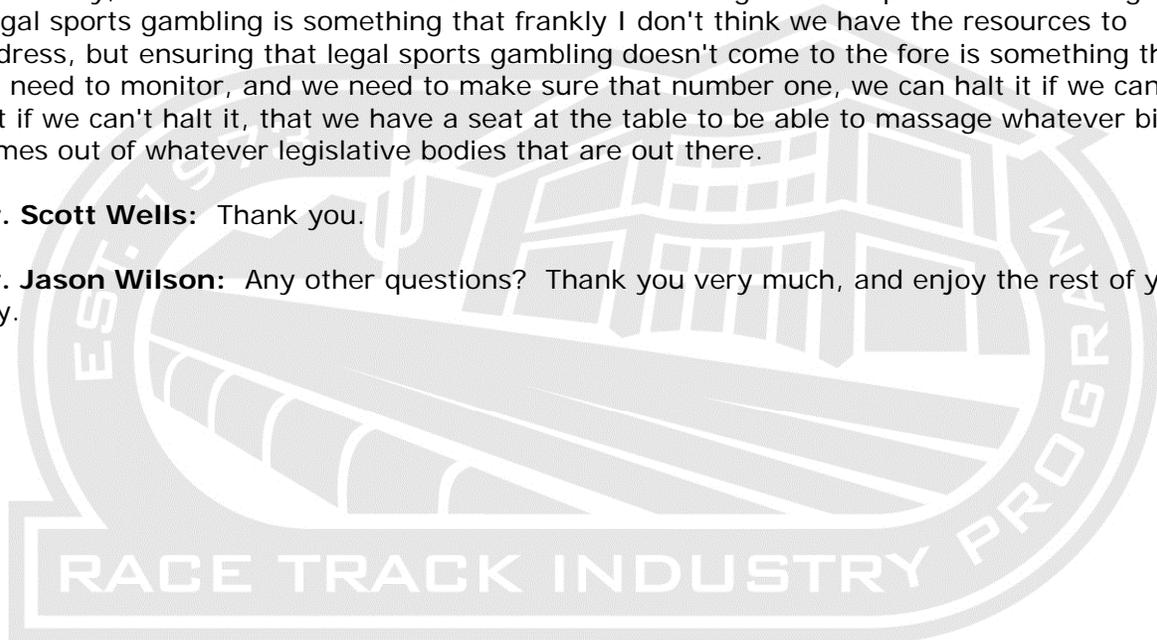
We look forward to your support and feedback on all of these, and with that, I'll ask if there are any questions.

Mr. Scott Wells: Remington Park. I was at the Jockey Club round table presentation, and both there and here I've been very, very surprised that no one has mentioned the competition from sports betting. I know you showed competition from poker and from casinos. I know in Oklahoma City, where I live, the afternoons on the sports radio stations are completely occupied by people selling their selections for college basketball, and especially for football. I know people that used to be major horse players who now are illegally betting on sports, and I think billions of dollars have disappeared from the racing game into these other games. Is there any strategy that anyone is discussing to either hitch our wagon to this runaway train, or to equalize the playing field in some way?

Mr. Jason Wilson: That is a very good point. I think part of the reason why it's not included in the slides is, that's a little bit of piling on; but as far as addressing the strategy specifically, at this time most of it has been around the legislative aspects of it. Getting to illegal sports gambling is something that frankly I don't think we have the resources to address, but ensuring that legal sports gambling doesn't come to the fore is something that we need to monitor, and we need to make sure that number one, we can halt it if we can, but if we can't halt it, that we have a seat at the table to be able to massage whatever bill comes out of whatever legislative bodies that are out there.

Mr. Scott Wells: Thank you.

Mr. Jason Wilson: Any other questions? Thank you very much, and enjoy the rest of your day.



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