



Race Track Industry Program

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KEEPING RACING RELEVANT AND THE PARI-MUTUEL SIDE OF THE RACINO PROFITABLE

MODERATOR/SPEAKER:

Erich Zimny, Vice President, Racing Operations, Hollywood Casino at Charles Town Races

SPEAKERS:

Justin Cassity, Owner, AlphaCrucis

Yves Ronin, Racing Manager, Groupe Carrus-The Parimutuel Company

Ms. Wendy Davis: I was just speaking to our moderator and he said he was gonna keep everything here on schedule. He's so on schedule, they were ready five minutes early. How often do you just have to kill time waiting to get everything together with your speakers?

Just a couple of housekeeping notes, I'd like to thank Prairie Meadows Racetrack and Casino for the refreshment break, and I do want to remind everyone there is a luncheon today. Some of the Race Track Industry Program awards will be presented as well as the TPA's Big Sport of Turfdom Award, so please plan to attend and it will be in the room that's just next to us on my right, and that will be after the following panel.

Our panel today should be very interesting. Named "Keeping Racing Relevant and the Pari-Mutuel Side of the Racino Profitable," it's probably the most important concept, or one of the most important concepts we're gonna deal with at the symposium this year, and to lead us through that, I'm proud to say an alumni of the Race Track Industry Program is Erich Zimny. He's the Vice President of Operations at Hollywood Casino at Charles Town Races. He's been there since 2008 and is currently the Vice President of Racing responsible for the oversight of racing, pari-mutuel and communication operations at the track. He is a person who is very well educated. He has an undergraduate degree from Georgetown University and an MBA and JD from Rutgers University, but he's a race tracker at heart. He's coming back to us.

After earning those degrees, he decided he wanted to turn those skills toward racing and he came to the Race Track Industry Program as part of the first class that we offered for Master's students, so he indeed was one of our first graduates in the Master's program. He's a member of Thoroughbred Times' "40 Under 40." He serves on the board of directors for both the TRA and the West Virginia Breeders' Classics. He has agreed to both moderate

and act as a speaker on this panel, so without further ado, I'd like to turn it over to Erich with our great thanks for being here.

[Applause]

Mr. Erich Zimny: Great. Thank you, Wendy. First, I want to introduce my fellow panelists as well. To my left here is Justin Cassity, who is the owner of AlphaCrucis, a business consulting company focusing primarily on the pari-mutuel and racino industry.

AlphaCrucis specializes in revenue enlargement and operational management.

Justin's a fifth generation racing participant and native of the St. Louis area. He began his professional career as a trainer in 1984, and in 1988, Justin accepted a job offer from Fairmount Park and over the next decade and a half, worked for some of the most prolific racing managers and track operators in history, including the Bidwell and Carey families, Richard Duchossois, Bill Thayer, Tommy Trotter and Frank Gabriel, Jr.

In the fall of 2003, Justin accepted an offer from the Chicago Horsemen to be their Executive Director and held that capacity until 2006 when he began the consulting company. AlphaCrucis and Justin have consulted for an array of clients, ranging from horsemen associations, race tracks, regulators, accounting and law firms. Projects have included association management, mergers and acquisitions, off track wagering, simulcasting and immigration law, and we're happy to have Justin as part of the panel as well.

Sitting to Justin's left is Mr. Yves Ronin, Marketing and Communication Manager for Groupe Carrus, The Pari-Mutuel Company.

Yves is a branding and marketing consultant. Yves has devoted the bulk of his career to developing brand policy for international groups and brands, accumulating over 30 years of experience in strategic marketing consultancy, and he is a specialist of redevelopment of markets and brands. He collaborates with Groupe Carrus as Marketing and Communications Manager and animates an ambitious group of modernization and revitalization of on track betting.

Please welcome my other two panelists, here. We're very lucky to have them, and I will turn it over to them after I'm done with my spiel, here.

As Wendy said, the topic today is the challenge of making racing relevant and profitable at facilities possessing alternative gaming or at least stand on its own two feet as a business the best it can. It's certainly not a simple topic, and one a lot of people have opinions on, so when we're done, we'll open it up for any questions or comments you all might have in the audience.

By way of background, as far as Charles Town is concerned, I'll give everyone a brief history of our facility, some key dates and numbers, just to give you an idea of the transformation that it's made.

After original owner, Albert Boyle, spent \$160,000 on the facility, Charles Town opened its doors for live racing in 1933. After dwindling purses and waning financial success, a referendum was passed in 1996 authorizing slots at the track, and in 1997, Penn Gaming took over as the operator. In 2009, another referendum authorizing table games was passed, and in 2011, Charles Town set a record for daily pari-mutuel handle on its live

products. Currently, we have 3500 slots in operation, more than 100 table games, a 50 table poker room and 235 live racing days scheduled for 2013 in addition to the other amenities we offer. Annual purses paid have also seen significant growth, as you can imagine. In 1997, approximately 5 million was paid out, ballooning to a high of about 44 million in 2006 and standing at almost 37 million in 2011, and we'll be right around that 37 million number here in 2012 as well.

Before getting into some of the steps we've taken that have been successful at making racing at Charles Town relevant and putting it in a better financial position, I think it's important to touch on why profitability and a move toward self-sufficiency is important. I won't pretend that horse racing at Charles Town could ever be fully self-sufficient in its current structure; that can't happen.

However, whether Charles Town or elsewhere, being self-sufficient does not have to be an all or nothing proposition and an attempt to move the needle toward self-sufficiency and also profitability is desirable on several fronts.

With respect to profitability, it could be as cut and dried as a publicly traded company meeting its legal obligation of maximized shareholder value. In states where live racing and gaming are linked, there are not provisions in the code that mandate the operator hemorrhage money on live racing. We can try and make it as profitable as possible within the statutory and contractual parameters we're operating in.

There are also plenty of studies and theories I could cite that positively correlate self-sufficiency with long term growth, but I think the practical benefits of self-reliance speak for themselves. First, it simply allows for more control over the long term fate of your industry. It can be an important means of protecting against external factors such as competition and neighboring states that threaten the flow of purses derived from gaming. It can also illustrate to those who have entrusted you with millions in subsidies that you can also put the money to good use.

I'll read a quote here that I came across, and I feel like it captures the entirety of the concept very well. It says "The horsemen must continue to look at gaming revenue as a supplement. Our main source of revenue is pari-mutuel wagering. If you can't continue to work on the pari-mutuel side and improve it drastically, your racing will continue to decline. This will cause the track operator to continue questioning the need for live racing." This quote is attributed to someone very, very esteemed; it's actually my fellow panelist here, Justin Cassity. I did give him a heads-up that I was gonna use it, so not to blindside him.

The reason I think Justin's quote is so good is because, when you think about how many different constituents and groups that could be plugged into the words where horsemen and track operators sat before — think of how many different constituents or groups could be plugged into there and you would not be surprised to see that statement uttered. Whether it's state, industry, race track, a horsemen's group, whatever, there are probably five or six you could put in either one and the permutations there are such that you wouldn't be shocked to see the comment. It's not just a track operator or a horsemen comment, it's really more global than that.

Regardless of the permutations that you use, the undercurrent remains the same. Are you taking hundreds of millions in subsidies and trying to improve rather than survive, doing your part to at least try and move towards becoming a more self-sufficient business, trying to generate more fan interest, and ultimately revenue through pari-mutuel handle or are

you, as I like to say, kneeling on the proverbial ball and playing out the string with a large sum of money going into your purse fund?

Which brings me to the interplay between racing as a stand-alone, operationally profitable entity and the benefits that gaming can confer. Something not to gloss over, just by way of more, I guess, semantics, whenever I've heard of profitability, I'm just referring to the P&L of racing rather than the purse money which, in our state, is treated as a gaming tax on revenue rather than treated as an expense in West Virginia, so I'm just speaking about the strictly operational aspect of it.

If you think about the nature of a track's cost structure versus business demand, it paints a picture of why profitability in racing can be tough to achieve. If you tell a gaming operator that they have to keep operating but there won't be one customer or dollar of revenue, they can send everyone home except a security guard or two and turn off the lights. You tell a race track operator that nobody will bet a dime on your product, but you have to operate, you can't send your officials home, or the tractor drivers. They still have to pay for drug testing, too, and a host of other costs that you're likely going to incur as a result of conducting live racing.

While we're always looking for ways to become more efficient or remove unnecessary operating costs, so much of the cost at a track like ours remains relatively fixed regardless of business levels. Your margins and your net income are virtually held hostage by the revenue your signal can produce.

In the case of Charles Town, the most difficult obstacle to making our signal more popular, that we had to push back at, was the image the national racing public has had regarding our facility throughout the years. Thirty years ago, that image didn't matter as much as it does today, as your audience was, for the most part, people who were traveling by car, bus, train, what have you, to your property to watch your live racing.

The advent of simulcasting, the expansion of our pool of customers was such that brand image of the small to mid-sized tracks on a national scale became far more important than it once was. The reach that you were trying to convey to your customers was just that much grander than a local sport that it was at most places.

Outside of giving a reprieve from its extinction in some places, the most significant operational impact the advent of gaming has had at tracks was the influx of purse money that was in some cases dramatic. A question Charles Town and other tracks have had to answer is how that purse money is best utilized to not only impact its racing product, but also attract more attention from customers to its racing and its signal.

Acknowledging that challenge of brand identity, we decided that the purse money gaming generated could be used in a manner which simply brought more eyes to our facility in a good way. We needed something that allowed people to identify us with an element of quality rather than quantity, integrate us more into the national racing scene, hopefully create some fans in our area and do that all with an impact on the image of our brand, and also more simply we wanted to create some excitement in a product that can, quite frankly, be a grind running 235 live days a year, as we do.

What we decided on was a group of carefully tailored and spaced events that might catch the attention of the racing public at large. We formulated a race, the Charles Town Classic, that would become our first ever graded stakes race and it has drawn some of the best horses in training since inception in 2009.

In 2013, with a purse of 1.5 million, it will stand alone as the richest thoroughbred race in the United States outside of the Kentucky Derby and Breeders' Cup. We instituted a day in June, the Charles Town Sprint Festival, that was centered around one of the richest 3-year-old sprints in the country and has drawn the likes of eventual Eclipse Award winner, Big Drama. The third day we created was in mid- to late September and featured the \$400,000 Charles Town Oaks, which will have produced an Eclipse Award winner of its own when Groupie Doll collects hers in the Filly and Mare Sprint Division this upcoming January.

I think it's pretty hard to challenge that the newfound presence of Eclipse Award winners running at a track that never had that type of presence before does anything but make racing there more relevant and more marketable. I like to call it moving the focus and pushing the signal, and these are some of the horses who have come to our place and competed.

It's devising a program that helps shift the focus from quantity to quality, at least a little bit, making the product more promotable and then pushing the signal off the back of that. Also on these nights, we did what we could to promote the local talent. When more eyes would be on us, we tried to leverage that to breed a familiarity with names people would see when they tuned in on a Thursday night in February. We had to expose fans to Russell Road, Jeff Runco, Travis Dunkelberger, and some of the other names that they'd be accustomed to seeing when they would come back on, as I like to say, a more run-of-the-mill night.

When you're faced with a year-round racing calendar like we are, it's important where the events are spaced relative to themselves as well to other key dates on the calendar. We've found we get a nice bump in the live and export market leading up to the Charles Town Classic in mid-April, and that creates a bit of a halo effect afterwards in our business.

When that wears off, it's time for the Triple Crown, where racing has a chunk of mainstream America's focus. When that's done, we have the Sprint Festival in late June to look forward to.

After a little break, the lead-in to the Charles Town Oaks is followed by the West Virginia Breeders' Classics and some of those locally based names we tried to promote when we had our high visibility days.

Following the Charles Town Oaks, we had a newfound ability to help draw on the Breeders' Cup as a source of fan interest, due to horses stepping on our track and going on to compete in the sport's championship day.

Then came the winter months when our signal was simply more visible due to the lean marketplace at night. It's created this continuum of relevance with very few gaps where we can push our signal, or in the case of the Triple Crown and Breeders' Cup, the signal of others.

It'll change a little bit in 2013, but the spirit remains the same. With 235 live days on the schedule, you can't make every day special in isolation, but if you have a structure that allows you to keep that element of upper end talent in the customers' minds and eyes over a span of time, we can keep racing relevant on its own terms and use it to our advantage on the more run-of-the-mill days that we hold.

In addition to trying to become more identifiable, we've backed that up by simply making our content more available. Over the past few years, we've entered into content

agreements with HRTV and TVG and made streaming video of our live racing and replays available free of charge on our website.

With all that packaged together, here's some of the results we've seen: In 2009, when we started revamping our program a little bit, the average daily handle on our races stood at about 770,000. Since then, it's increased every year and stands at over 1 million through the first 10 months of 2012, or an increase of more than 32 percent in the last three years. If you take that and multiply it out over the year, it begins to add up to something tangible.

If you compare that to the average daily handle for the United States as a whole over that same time span, that puts us about 30 points ahead of the national trend. I'd be hard pressed to say I wouldn't take that every time over any duration of time, let alone three or four years. We've seen a rise in our import handle as well. Now that local fans have seen horses like Game On Dude or Groupie Doll up close, they do come back and watch and wager when those horses are running elsewhere.

We've impacted our revenues without impacting our cost structure or expenses. The only real impact on our expenses was the creation of situations that, in isolation, justified a contribution of marketing and promotional dollars that made financial sense. It's had an impact that can be seen in purses earned for the horsemen as well.

In 2008, the purses earned from live and export handle was almost 3.7 million. Now, if you take that number and just apply the national trend for average handle to it, between 2009 and October of 2012, you'd expect our live product to produce about 13.5 million in purses. Again, that's just following the national trend, right there.

However, if you look at the actual results, it's produced almost 15.9 million, which is 2.4 million in incremental money gained from the purse fund derived from live and export handle. It might not seem like a lot, but I'll get to an example here in a second which I think can illustrate the value of that.

In addition to the state of the economy, we're also facing competition for the gaming dollar in neighboring states. Despite these external factors, the incremental gain that you see here has put our purse account in a position to stave off, or at least mitigate, a material cut in overnight purses for some duration of time.

Here's a quick hypothetical example and there's the incremental purses, as I said. Right now, the average daily purse distribution at Charles Town is approximately 150,000 per day. Obviously, a 10 percent purse cut from that amount would be 15,000 per day, and if you parceled out that 15,000 per day of that near 2.4 million that we've stockpiled, you'd ward off a double digit purse cut from nearly 160 days of live racing.

At many places, that's an entire year's worth of live racing, so just due to the incremental amount that we've produced off our own signal, that's a double digit purse cut that they would be able to avoid for 160 live days of racing. That's significant. That's significant.

In a sport that has relatively high fixed costs for conducting a live program, we're able to move the needle by impacting the top line. We were also able to utilize those same increases to positively impact the money going into the horsemen's collective pockets. Again, none of this would have been possible without the purse money generated by gaming.

While there are some very important top level issues that can be addressed through the subsidy gaming provides, a lot of the challenges regarding profitability exist regardless of whether or not a track has that sort of funding. You don't need slot machines to call up other tracks that race year 'round and coordinate post times. You don't need instant racing to study your take-out structure and to make a decision that you're not optimally priced, and you don't need sports betting to decide you're better off running Tuesday nights instead of Sunday afternoons in the cold winter months. Those are all steps that we've undertaken as well and moved on.

Nothing more than action over inaction; it had nothing to do with the amount of money that gaming would produce for the purse fund, but rather simply a desire to make racing profitable at our venue.

In some, we did a lot of the little, quote-unquote, things that moved us away from losing money operationally and utilized the incredible opportunity that gaming based subsidies had on our purses to create a marketable signal that was easier to push, which brings me to my final point.

As an industry, we've received what now amounts to billions of dollars in subsidies injected into our business and our value chain, and if that isn't an opportunity, I don't know what is. At that point, it's up to us what we do with it. We're responsible for taking action at this point. We're not absolved of the responsibility we have to make this game stand on its feet the best it can, and if we don't undertake efforts to do that and simply treat this subsidy as an entitlement without regard for improvement, profitability and self-sufficiency, we can probably look internally if that opportunity ceases to exist.

With that, I will turn it over to Justin, here, who will be the middle leg of the pick three.

Mr. Justin Cassity: Thanks. Thank you, everybody. Electronic games has resuscitated numerous racing facilities across the states, we all know that. The pari-mutuel industry in this country is now simply the fortunate or the not so fortunate.

The majority of the fortunate tracks and their respective horseman partners have taken a position of sole reliance on the sudden influx of new revenue. This has happened at many, many places. After the honeymoon has worn off, there's a sudden realization that the pari-mutuel operation is losing money. What should we do?

I believe the philosophy is simple and there is not an enormous capital investment required, and I think that's very important to the success in this. Look at the revenue received from electronic games as supplemental and establish the pari-mutuel division as a focal point. I actually learned this in Illinois in the early 2000s in a push for gaming they still do not have in Illinois, and a legislator said to me one day "Why don't you worry about racing?" That has stuck with me to this day.

Racing cannot control the profitability of electronic games. It can control the profitability of racing. Quit thinking about losing money pari-mutuelly and instill an operational practice to increase the pari-mutuel revenue. Embrace your export product, be flexible and cognizant of your marketplace. Establish relationships with your partners — I cannot stress that enough. Look closely at your competition.

I first started working on this at Hawthorne in 2005. I wanna take note on this once again that Illinois did not have gaming at that time, nor do they today. At that time, most

horseman associations, organizations around the country, along with their track partners, were pushing for increased rates. We looked at it differently.

Hawthorne lowered rates to key partners; key partners that you can work with, that you have a weekly dialogue with. The length of that meet that fall at Hawthorne was approximately 57 days. In 57 days, 1,050,000 increase in net revenue to Hawthorne and the horsemen for that meet. Individual export rates for key dates and races, importance of carding races in the right slot on the daily program. Keep your post times off your competitors' post times and make yourself player friendly. All of those things that I just mentioned do not cost anything.

The bottom line is, if you enlarge your pool size, the folks will bet. Everyone's a winner at the track, the horsemen, the state, and in principle, the players.

Will Rogers Downs in Claremore, Oklahoma — no offense to the folks in northeast Oklahoma, I spent five wonderful years there, it's a pretty spot, but it's out in the middle of nowhere. It's six miles east of Claremore, it's 12 miles left of Pryor, it's 35 miles from Tulsa proper. They've got 32 live thoroughbred dates and average 150,000 a day in purse distribution. The goal at Will Rogers was to pay for the expenditures of the racing department.

Will Rogers is a race track in Oklahoma that, in 2005, had received, through state vote, supplemental income from gaming machines. They have 250 gaming machines — that's it, 250.

At Will Rogers, we implemented a plan and a model. We examined the market, worked on the communication, adjusted the live racing post time, adjusted live racing dates and days, identified the optimal position for a positive return on your investment, monitored field size, enhanced the positioning of certain races and constant monitoring of pari-mutuel pools of what your competitors are doing.

Once again, basically all of this, there was very little capital expenditure — the communication with your partners, adjusting the live racing post time.

For people that have been in this business for a long time, there's a general agreement among industry participants that racing suffered from not being smart enough to embrace the television era in the early to mid '70s. I still agree with that. We, in this industry have a horrible time trying to adjust. It's taken racing 20 years to kind of figure out that we can't compete with the NFL on Sunday. I mean, realistically, not many people can.

What made me really look more and more deeply into why adjustment is important is, when I had the opportunity to represent the Horsemen in Oklahoma, the people in Oklahoma, those folks love OU football. I mean, they — it is, OU football is the topic of conversation not during football season, it's January through December.

The first year I was there, the football season schedule came out in March or April for that fall. I believe at the time, OU, the pre-season rankings were number one in the country, and when I looked at their football schedule, there was one game of their 12 game schedule that had a game time on it, and it was the OU-Texas game at the Cotton Bowl. Every other game, for the time, said TBA, and the reason it said TBA is because they were going to adjust where a television and where they were gonna fit into the marketplace on that given day.

Racing days and dates — I think this works for everybody, but the majority of the race tracks in North America, it's not New York, it's not Florida, it's not Kentucky, it's not California. They're small to mid-sized race tracks that are looking to stop the bleeding, increase revenue — you know, you have to look at what days that you race.

When we look at Keeneland, when we look at Del Mar, their happenings, their events, their 12 day meets, their 14 day meets — of course, Del Mar is longer — find the time that you can optimize. The folks at Will Rogers were very good about this. We played with racing days, we played with post times. We moved post times, I believe, three times—once was good, second time was bad, back to the third time was good.

Now the happy ending: Their three year, small capital investment, it paid off. One hundred and seventy nine percent increase in simulcasting outlets. Seventy two percent increase in revenue from on-track wagering, only. One hundred and eighty four percent increase in revenue from export wagering. One hundred and one percent increase in purse revenue from pari-mutuel.

Now, mind you, this has nothing to do with the electronic games. A 91, almost a 92 percent increase in the taxes for the state of Oklahoma. I guarantee you that there's nobody in the state of Oklahoma that realized that this one entity, in three years, that the taxes collected on it had doubled. The exotic pools are averaging three and a half times what their WPS are; two-thirds of their live racing is shown nationally on TVG. I think they met their objective.

Why this works for everybody is because everybody wins. The tracks, when their pari-mutuel is offsetting its loss, the horsemen win, the state wins, your export partners win, and the players win. I was fortunate in my career to work with some very good people, great horses, great racing.

What I have learned is; I used to think that quality, quality, quality was better. I'm really starting to believe that it's quantity in what you produce — in pool size, in field size.

There are several people that are fortunate in this country to be able to get their signal in to California periodically throughout the year. It might be one race a day, two races a day. Those folks want field size. They've got great racing in California, but it's hard to bet into a five horse field.

When I analyze pari-mutuel pools and look at what the caliber of race it was and what the field size was, there's a lot of times you can throw 14 maidens at them, maiden \$15k, and they're gonna bet more than if they had seven horses in a three-other-than going a mile and a 16th. I'd like to thank Will Rogers — they're fantastic to work with—the folks at Hawthorne over the years, the state of Oklahoma.

The key to success is that it's small capital expenditure, but everybody has to work at it. The track has to be committed, the horsemen have to be committed.

There are certain things you might need to ask from your commissions to help alter, change — you know, you need to sell them on why this needs to happen and build your relationships with your wagering partners. They're not your enemy, they're your savior.

We all know that 95 percent of the action, it's not taking place at the place where you're trying to operate, so don't look at them as an enemy. Embrace them, talk to them, work with them, and hopefully we can continue to make this industry better for all. Thank you.

[Applause]

Mr. Erich Zimny: Thanks, Justin, I appreciate that. Even though he spoke about OU football, for disclosure's sake, Justin is actually a Notre Dame fan, and I am very jealous that you guys will be playing in this game in a couple weeks. Next up is Yves Ronin, who will take us home, here.

Mr. Yves Ronin: Is it working? Good morning, everybody. It's a little surprising for me to be on the situation of talking about the racinos issue from a country where there are no racinos, but the particular situation of financing, the way the racetracks in France are financed, it somewhat rings a bell for the evolution and the influence of the way they are financed rings a bell with what's happening here and the results of the racino policies here.

France has a reputation to be a complicated country. I will try to make simple the French context. French race tracks belong mostly to horse breeders and local unions and they are not-for-profit organizations — which doesn't mean that it's supposed to make losses. Mainly the race track is a place to train and run the horses, to show and sell the breeders' achievements—sort of a show room, showcase — to bet, and to have fun. In fact, the rank is not casual. It's definitely a place where the breeders are interested by the horse operations before considering that there's an audience and that they have to be happy.

France is characterized by a very strong density of race tracks. There are 245 race tracks, which is as many as in the rest of all Europe except UK, which is a big race track country, which means that there's strong competition between — of course, all these race tracks are not important places. Some are very small places that race only a few days a year, but there is always a strong competition. As you see, it's mainly concentrated on the west part of France, which are the breeders' places, in fact, and they are great, culturally rich places.

To make it simple again, the big figures of financing of the industry, \$14 billion are raised in betting by the PMU off track network, which is something important, because it makes that the second operator in the world and the first operator in Europe. The amount of money raised by the PMU makes 98 percent of total handling and 2 percent of the on-track. Easy to understand that — 98 percent off, 2 percent on, and you can imagine the influence on the way the race tracks are financed and what can be in their future. Seventy five percent go back to the wagerers, 10 percent to the state, 15 percent to breeders' unions, financing breeders, prizes, race track organization.

Definitely PMU has been, and is, a very powerful machine. It's jointly owned. Sometimes people think that the PMU is public owned and it's government owned, and it's not. It's jointly owned by the breeders' union. That's the first operator in Europe, as I said, second worldwide. There's 11,300 point of sales. It's been consistently growing for 14 years, it's very profitable. All profits are paid back to the industry. Eighty percent of industry's funding comes from the PMU, and the PMU now goes on successful diversification — online betting, sports betting, poker — and, as it has been probably shown here yesterday, has a successful international development, too.

Of course, nobody can complain on the money situation in France, but you can understand that definitely, the money is made from the race tracks, but not on the race tracks. Other resources are probably the same as here — direct sales, admissions, restaurants, beverages, local families, and on track parameter, which is the historical activity of our company, Groupe Carrus, which is operating on most of the race tracks in France. Another resource which is very important is, in fact, a non-expense. There's a very strong tradition

of volunteering in France and there are about 6000 volunteers all year long working for free on the race track, and it can go from the top management of very big race tracks to the track's helpers.

The big race, of course, and that you have probably imagined, is that race tracks are financed by racing activity, which is good, but mostly indirectly. If race tracks are not profit centers, even become heavy loss centers, a big risk of concentration of race tracks on a few major, very important showcase racing capitals and a lot of technical facilities to make the horses run will happen. You will have, probably, in France, 10, 15, important race tracks and then a lot of places with nobody on-track, they're just to have the events go and be filmed.

There's some kind of French paradox, as in wine. For the last 10 years, French racing has been very successful at developing the PMU revenue and simultaneously, race tracks have faced stable decline of on track betting situation that has been shown here before. I'd like, today, to present four experiences, four successful benchmarks of race tracks. Of course, race tracks are not unaware of the situation and a few of them have engaged in major rejuvenating actions. Of course we are very interested in these actions for operations as a pari-mutuel on track operator. For example, to come from a regional race track, okay, the Cagnes Cote d'Azur; a seasonal trace track, Deauville-Clairefontaine; a local race track, Feurs; and a country race track, Corlay. They are very different in size, very different in situation, in location and they've been, all of them, successful, each in their ways and I think that's it.

You all know the Riviera, the French Riviera, and the race track we put on, the Cote d'Azur, is a very big thing, right on the sea, right in between Nice and Cannes. It's about the surface of six football fields. It's just, as you can see there, just lining the sea. It's a big facility with 900 horse stalls. It's a training center, there's accommodation for 150 trainers and their teams. There's a clinic and there's about 100,000 admissions a year and 81 racing days.

The problem with the race track was that, in fact, it's really in a very populated area, but it was something a little out of their lives. The decision of the president — not an ex-lawyer, in fact, a retired lawyer

[Laughter]

his idea, his idea. I point to that because in each of these benchmarks, each of these references that we'll present, there is an idea at the beginning, and I think that, we all know that what's important is first to have strong positioning. In each of these experiences there was good positioning at the beginning.

The idea of the president was to be really at the heart of the town and to make the race track a gathering place. Basically, his work was to — and that's why the idea was one of the retired lawyer, to have strategic partnerships with regional operators. All the collective activities are around, integrating the race track within the local community, make investments in infrastructure, make a new Polytrack track, focusing on the younger generation as most of us try to do, whether or not we're successful, offering a house of quality entertainment for a wide audience. It's been very successful.

This race track has become the second largest race track in France and it's something, really, that works and became really a center of French Riviera.

The second experience — in fact, you probably had some information for those of you who were here last year, because there was a presentation from the General Manager of Clairefontaine, Axelle Maitre, who was there and presented her work there, but I take it, again, as an example because it's quite successful, too.

Clairefontaine is a very different place. We are not any more in the south, we're in the north of France, in Normandy, right on the channel. It's very famous. Normandy has definitely very famous breeding and it's a vacation area, a summer region. Clairefontaine is not racing all year, it's only two months racing in July and August.

It's a very big, very important race place with 600 acres of greenery, of trails. It's a beautiful place. It's 500 meters from the coast and anywhere, and that's the problem, the competition. There are two very important race tracks just next to Clairefontaine, so we're competing with that.

For those of you who were there last year that Axelle was keen about talking about the 100,000 flowers all cultivated on site. It's a beautiful place and the idea here is the idea of a woman. That's again, the positioning is to attract families and what she wants to do is more than just a race course, a family experience. Again, significant investments, I think that's the key, definitely, for all the successes, is there was not only ideas behind, but some decisions of finance.

She was very good at developing, and she showed that last year, in very original viral marketing. She doesn't have so much money compared with her competing race tracks, which are racing all year, more or less. She was very successful at not spending money on traditional media and advertising, things like that, but really going on small media where she was alone, bread and vegetable packaging, table settings, tissue packets, McDonald's napkins, things like gas pump decorations. She even went to distribute Clairefontaine condoms. She's a funny girl, very active.

[Laughter]

Maybe that's not just to attract families, I don't know, but family planning is relevant, too. She's developing lots of entertainment experiences. She has 250 local sponsorships with small places, most are small businesses. She really made it a family operation on the race track. It is just not a marketing idea, it's really something — well, people feel very at home. Her betting revenues are still key, and she went from 25,000 to 70,000 race goers in 10 years, so definitely she is an example for us in France.

The third example is — well we go now to small places. Right in the center of France, Feurs is in fact a long tradition race track, it was created in the 19th Century. It was known as the Chantilly du Forez. It doesn't mean something for you, probably, Chantilly probably is very prestigious, very important Parisian race track and the Forez is the area where Fur is. It means that it has some kind of prestige and it specialized, in fact, in high level harness.

The reputation of the race track goes far away beyond France and it's something, but success needed to be — the idea here comes from the president who is a business man. He operates a private company and definitely he capitalized on the team strategy. He introduced a strong management structure, convinced 18 of his friends or corporate representatives of the region, all with an active business role, so he convinced company directors, accountants, lawyers, vets, horse racing industry experts, all with complementary skills, to work with him. The decision was to make the race course as professional as possible. It doesn't mean too much for you, because here, the race tracks are always a

professional business. Again, in France, it's first not-for-profit and very often based on volunteers' work. The idea of acting professionally was an idea. They've been very successful. They were, 12 years ago, at the 150th rank and they are now in the top 10. They are probably the most successful of all of the examples I show.

The last example is a very small thing. It's in Brittany, not on the coast, in the country. It's really countryside. There's a strong reputation of cross country racing there. It's a beautiful setting, it's really, really charming. It's not a place where they run very often, it's probably a few days a year, but it's well organized, a little like a big golf course where you can see several stands all over the track so you can see every hurdle from a different point of view.

The idea here was to make, really, a place for sports and a place for outdoors. The manager is a farmer, he's a breeder, so it was really the idea of developing a countryside experience. It's a very warm welcome, there are various events targeting children. They have, for those of you who have the occasion of visiting Brittany, there's a very traditional pancake and sausages meal, so that's an event. It's a place where he developed lots of secondary activities to make the race track live all year 'round. He's developing harness racing, too, national endurance, dressage, jumping, cross country — all what you can do with a horse has been showcased there.

There's no real meaning in talking about figures for Corlay, [*inaudible 51:09.8*], which is a very small place, we have a few days of races a year, but we can say that the success is the very strong interest in family frequentation and a very good come back rate and it proves that the efforts were successful, too.

Just as a conclusion, what we think is, there is an industry which has been faced to very strong attack, which is the music industry, the recording industry was totally ruined by the downloading practice of music. In fact, you all know that somewhat the music has been successful in recovery based on the concerts and the live music places. Basically, we try to think that race tracks must be to wagerers what concerts are to fans. I will end this presentation by a small video which are testimonials of people taken on a race track and I think it's interesting to listen to the different people, casual, real people. This video is in French, as you know, if you practice very good French, but we put titles in it for those who would like.

(Audio from French video)

Mr. Yves Ronin: Thank you.

[Applause]

Mr. Erich Zimny: One of the advantages of the symposium becoming more global is obviously the great cross-section of people who come and the different perspectives that they bring, and no better example of that, so thank you, Yves, for that. My pledge to Doug is to keep things moving on time. We only have about five minutes left to field any questions that you might have, but would certainly be more than welcome to do that over the next few minutes if anyone has anything for any of the panelists.

Male Voice: Good morning. I attended the same session last year when the presenter was here from La Fontaine — Clairefontaine — it was a terrific presentation, and we have taken some of those ideas back to our local race track. I think we're very fortunate to have a panel like this with the enthusiasm that you've displayed to try and keep the industry alive

and a lot of good ideas have come out of this, and I want to thank you for your participation.

Mr. Yves Ronin: Wow, thank you very much.

Mr. Erich Zimny: Thank you, sir.

Mr. Justin Cassity: Thank you.

[Applause]

Male voice 2: Just one question for you, Erich — what percentage of your total purse fund is dedicated to stakes races?

Mr. Erich Zimny: That's a good question, Scott. It's actually a very small percentage. It's about — this year it'll be about 7.8, 7.9 percent of our total purse distribution that's gonna go towards unrestricted stakes. The statebred money is a separate source rather than a general purse fund, so we've made a pretty good go of it with a pretty small amount relative to other tracks in terms of what they spend on their stakes.

Mr. Mike Campbell: Hello, my name is Mike Campbell, I'm president of the Illinois Thoroughbred Horsemen's Association. Justin worked for us at one time and was a fabulous executive director, I might add.

A question that I have that I'd like all of you to respond to is, when — we passed two bills, now, in Illinois, for slots at the race track. We passed one in 2011, it was never sent to the president of the Senate to give to the governor, and then last year we passed out of the House and onto the Senate a second bill for racinos at the race track, an expanded gaming bill, really, that was vetoed by the governor.

We're back doing it again this time, and we think we're gonna finally be successful in January with a new bill, but when we developed the concept in Illinois for racinos at the race track, it wasn't for stand alone gaming facilities, so there weren't two separate ledgers considered. There wasn't a ledger for the racino operation, the gaming operation and then a separate one for the purse account. It was a subsidy that was to go to the purse account for the survival of an entire industry — the breeding industry, the purse account and the ag business.

As I see the notion being developed, it's very disturbing to me that corporations, particularly, are taking advantage of the situation to give the perception that they have some right for exclusivity for a gaming operation that doesn't contribute to the racing operation. In Illinois, we reject this philosophy entirely. We feel that their relationship with horse racing has caused them to get them a license to begin with, and I'm concerned about this, because the sole objective should be to enhance horse racing, and I'm concerned that we're removing from that logic and we're allowing the perception to take place that the casinos are there because they have an exclusive right to gaming. I'd like a comment about that, please.

Mr. Erich Zimny: Yeah, I think, as I had said in my presentation as well that we — in West Virginia, it is a state where gaming and racing are linked, but at the same time, there's nothing in the code, nothing in the statute that says we have to operationally lose money on racing, and that's all we're trying to do. The fulcrum of my presentation was more along the lines of "All right, we have this, let's make it work, let's make it as profitable as

possible, let's enhance the racing product—we don't have to lose money on it, though." It has nothing to do, at that point, with the casino other than the purse money being generated on that side going into the purse fund and being what we can leverage to make ourselves work as a product, as a whole, really.

Mr. Justin Cassity: Hi, Mike. Thanks for the nice compliment. Racing and gaming are two completely different things. I was not a part of the passage of State Question 712 in Oklahoma where they received electronic games. What I think that they've done well in Oklahoma, regarding their games, are three things.

Number one, there's no gaming commission. The games at the tracks are under the authority and auspices of the Oklahoma Horse Racing Commission. Their gaming law is short, compared to the projects that we've worked on in Illinois, compared to the projects in Maryland and other jurisdictions. The actual gaming law in Oklahoma, if it wasn't double lined, is nine pages, maybe, eight.

I think the issue is, when you have two different businesses, essentially. Yes, you are correct, they are there because of the racing, but you have a casino operation and you have a racing operation, in most cases you have a horse racing commission and a gaming commission, and you've got people that specialize in horse racing and people that specialize in gaming, and gaming knows that they're generating more revenue than pari-mutually. They know that.

I've never been a casino operator, but if I'm the casino guy at the track and I'm looking at the racing guy, I'm like "Dude, you know, I'm generating 5 million a month and you're losing 840,000. Pfft!" and that's what it is.

That's why it goes back to, the gist of the whole thing is making pari-mutuel more relevant. Try to exempt — I think, you can look at it two ways. Racing loses 5 million a year at a certain location; well, let's make it our goal next year to lose 4 million. I also wanna look at it another way that I've tried to tell track partners and track operators, is ways to deal with a pari-mutuel partner. Okay, you were at 4.5, 5, 5.5, 6 times EBITDA last year? Let's go for 7, let's go for 7.5.

There's great, smart minds in this business, but everybody seems to want to get away from what we're supposed to be doing, and it's racing. I don't care if it's the medication issue or whatever the issues are, this industry's great about making up its own problems.

Sure, is there too much racing, is there too this, is there too that? I've said earlier that you've gotta pick your prime spot and your optimal location. I heard a guy one day, I can't even remember where I was at, it was a conference somewhere, and he said "Do you think people at McDonald's sit around going 'Hey, how are we gonna sell less quarter pounders this year?'" No, but I think that racing has to prove itself to the casino side.

I think there's a difference, and I don't mean to offend anybody that's in the casino business or a casino manager — most people that are in horse racing have some sort of passion for it. This is what they do. I've been doing it five generations.

A lot of mornings I wake up and I wish that my family didn't do this. That's about one-tenth of a percent. I'm very thankful. I don't think there's a lot of passion on the business side of the electronic games, so let's figure out how to make more money, how to make it more relevant to the guy.

I'll pick on our moderator. He's a very well educated, well spoken, smart guy that has done tremendous things at Charles Town. The numbers are there. I don't know if Erich's a racing guy or not. He's done great things with racing, but don't look at it from your heart; horsemen, race tracks, there's a lot of race track operators that have been doing this their entire life. I'm looking right here at a guy that hired me 25 years ago. He's a lifer, and he's a race track operator, but don't — think with your head, not with your heart.

I think, unfortunately, we have, if you're a racing guy, you have to prove yourself to the money guys why this is viable. That's why — it's betting. Promote the betting. That's how we make money. Race tracks are starting to lose money on F&B, for crying out loud. Promote the betting.

I think there's just a natural, it's like the Army and the Air Force. I'm the Army, you're the Air Force. I think it's just a natural pick-on because you're smaller and they're generating more money. Simple is easier.

Mr. Erich Zimny: I think that's very, very well said, Justin, I do. With that, we've concluded this panel. I want to thank everybody for coming and for their comments. We appreciate it.



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