



Race Track Industry Program

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

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New Frontiers in Wagering

MODERATOR:

Mark Thurman, President/CEO, CHRIMS

SPEAKERS:

Stephen Burn, President/CEO, TVG & Director of Horseracing, Betfair

Paul Cross, International Wagering Manager, Tabcorp, Media & International Division

Ben Pinnick, CEO, i-neda

Mr. Doug Reed: Welcome back from lunch and I know we've got some speakers here that'll keep you awake, even though you got your bellies full. Got an exciting panel here for you this afternoon. I wanna first thank our sponsors once again, Del Mar Thoroughbred Club. We have a refreshment break after this in the exhibit hall, and we'd like to thank them for their sponsorship. Also sponsoring this panel is Trakus.

Gonna turn this panel over to a very well-qualified moderator. We have a wagering panel and certainly the president and CEO of CHRIMS, Mark Thurman, has been tracking wagering data and certainly qualified to discuss wagering issues and pari-mutuel pools and other types of pools, so please help me welcome Mark Thurman as our moderator for today's session.

[Applause]

Mr. Mark Thurman: I'm going to moderate this session so we got the call about trying to do something about new frontiers in wagering, and I think we've got a lot of good people here to talk about different subjects. We keep trying to try new things and we have technical difficulties in trying some of the things that we have just because of the infrastructure that we work with. We'll start out with — you ready to get up, Paul? Okay, Paul's got a nice presentation and then we'll start there, and then one of the things I would really appreciate is once we get done, then we'll get into questions because I think everybody out in the audience also has some good input for here.

Mr. Paul Cross: Thanks very much, and thanks to Doug for inviting me here to speak at this symposium. I spoke to Doug a couple of months ago at another conference and we were talking about new things that are happening back home in Australia and what things may appeal to the American market. One subject that came up, in particular, was this issue of fixed odds on racing. I know it's illegal in the U.S. at the moment, but I know there are also movements to legalize in some way, shape, or form fixed odds betting, I suppose on sports, but I'm not sure whether that may extend to racing.

One of the things I'm about to show you, you might wanna consider if it does become a reality and I'm sure you'll be able to use your lobbyists to make that happen. Some of the things that are going back home that you might be able to apply to the American market that's been quite attractive for Tabcorp and a few other operators back home. The fixed odds on racing have been one of the major growth areas in Australia in the last few years, particularly as it relates to off track betting. The things you're going to see here, we've got a number of UK colleagues here in the audience and they're probably already saying what the hell are you gonna talk about fixed odds for? I mean, it's everywhere. What's the big deal, but in the case of Australia or in case of the world, there are very few jurisdictions where tote betting predominates.

Fixed odds betting have been to the side or it's been mainly held on the track as opposed to off the track. Now whilst in the UK yes, you've got tote betting and fixed odds betting and exchange betting. The level of betting as far as tote goes in the UK is very, very small whereas in other jurisdictions it's very, very large. It's the largest contributor to the racing industry. Australia's a good example of where you can combine both pari-mutuel or tote betting and the fixed odds betting on racing. I hope you'll enjoy what I'm about to tell you.

Just a bit of slide on the front there, I'm from Australia obviously. A bit of an icon in the background there with the Sydney Opera House. I was just talking to someone earlier at lunch, at the Mentor Lunch and this is not a Photoshop photo which has been doctored to appear as though there are wagering facilities down the road from Sydney Opera House. It's actually a real photograph where we've got some freedom within the Australian market to — and it's because it's part of the culture within Australia to operate, for example, betting on sites during Melbourne Cup, so Melbourne Cup Day, it's classically been called the race that stops a nation and, in fact, it does stop the nation, Australia and New Zealand.

We have our staff get out to organizations or out to the public during the day and that's a shot of one of our mobile vans down towards Sydney Opera House educating customers. Yes, regular customers but also new customers to the idea of having a bet on the Melbourne Cup. That's a way we use to try and get that fringe audience that you've got out there that might bet once a year on the Breeder's Cup or on the Derby, to try and get them more involved with racing and betting. It's one of the things we have tried to do is, if we could have more than one Melbourne Cup Day a year it would be absolutely fantastic.

A bit of background to Tabcorp. As of 2011 we generated \$2.9 billion in revenue, a profit of \$562 million and, more importantly, we delivered \$560 million Australian for the racing industry in just New South Wales and Victoria. Now the exchange rate being what it is today, it's roughly one on one, so it's equivalent to around \$560 million U.S. to the industries in just two states of Australia. Most of that comes from tote betting but more and more money is coming from fixed odds on racing. As far as our brands go, you may not have heard them but here they are anyway. TAB; Tabaret; Keno; Luxbet; Sportsbet; Tabcorp Gaming Solutions; Sky Racing which is our television station, a bit like TVG; a radio station; and we serve needs of customers today. It's the fact that we have racing and betting in Australia as part of our culture. It's part of the mainstream of Australia.

Lastly, but quite importantly, we place a great deal of emphasis on responsible gambling. I know a lot of people sometimes give it a very short story, but we pride ourselves on having the responsible gambling policies within our organization and we promote it quite extensively, so much so that were number one on the Dow Jones sustainability index for the last eight of the last nine years. We do place it seriously. It does come in handy from our customers' point of view but also when we're trying to expand overseas the regulators are

quite excited by that little statistic. Just a bit more background on Tabcorp, we cross a number of boundaries across wagering and media, gaming and Keno. I'll be very quick.

On the wagering side we've got a number of outlets in two states, 2,600 in fact. 300,000 customers and revenue of \$1.5 billion last year. On the media side, which is the Sky Racing, we export Australian racing to just over 30 countries now, so it's getting quite extensive. I think of all the international operators that we've got, we're probably up there with the best of them, if not the best in terms of the revenue we earn from international operations. We've been doing it for quite some time now. Our licenses go for some use. On the media side, as I said, of Sky, export to 30 countries.

Interestingly enough, I heard some talk about the volume of racing. We actually cover 82,000 races per year now. It sounds a lot. It covers thoroughbred racing, harness racing, and greyhound racing, and it covers racing from around the world. Domestically we have about 55,000 races; the rest are imported from overseas. The last two bits to our business are the gaming and Keno which I want to discuss today. Okay, what's the wagering business? The wagering business we've got is a combination of pari-mutuel race betting which is our traditional race betting that we had since 1960. We've also got pari-mutuel sports, so we have pool betting on particularly local sports back home.

More recently, we've introduced fixed odds betting on sport, I wanna say more recently. It's back to 1998, so we've doing it actually for 13 years. In the last few years, in particular, we've been able to negotiate the ability to offer fixed odds race betting in all our off-track outlets, so it's been a big bonus for us the last couple of years. We can offer product right across the board. If the customer prefers tote betting, they're gonna have tote betting. If they prefer fixed odds betting, they can have fixed odds betting. Or they can have a combination of both. We've also got virtual race betting which is sometimes been described as cartoon races. Just launched it in one state alone. We anticipate in the first 12 months that we'll turn over something like \$500 million Aussie dollars or \$500 million American dollars. That's in the first year alone because of our extensive retail outlet. People have taken to the virtual racing like water to ducks? Ducks to water as the case goes.

The last bit there is the broadcasting side. We've got the broadcaster called Sky, so we're one of the biggest broadcasters of live racing. Interestingly enough, we also schedule racing in Australia and New Zealand. We actually work with the racing industry to frame day-by-day race programs to make sure that there are as few clashes as possible. We try not to have a situation where the feature race from three tracks on a Saturday afternoon is not all running at 3:00 p.m. Some will go at 3:00 p.m., one will go at 3:30 p.m., one might go at 4:00 p.m., but there's a coordination that Sky does to make sure there are as few clashes as possible even though we cover so many races. That's done within a highly regulated state. We've got regulators in three states we deal with just in Australia alone, so it's highly regulated.

The product I wanna talk about today is fixed odds racing and what we've got and how you might apply it if it ever became legal in the American market. The brand is TAB Sportsbet. We offer that betting via retail race track — or on the race track, via phone, online, and now mobile. We've also got an online bookmaker called Luxbet. It's actually licensed in the northern territory of Australia, so we've actually got two brands out there, two businesses running fixed odds betting but that's only via online and mobile so it's a dedicated online service.

The sort of products that we offer, and I'd imagine most of you would be familiar with the futures betting where you might have the Breeder's Cup out six months from now, you might have entries there, and you might wanna bet on that particular runner in that event. It might be six months out, it might be two months out, and it might be a month out. It's a case of, it's what we call all in, so if the horse doesn't make it through to the Breeder's Cup or the Derby or the Melbourne Cup, you've lost your money so that's why it's called all in. Been there a while and we tend to use it, and I'll show an example, of a way of marketing racing before the event. It's always very difficult from a tote perspective to market racing using tote products because you don't really know the price until the day the totes open equivalent to your morning line.

We tend to use futures to try and talk up the racing coming up and add a bit more excitement, get a bit more breadth of market penetration for the race that's down the track. The next thing is what we call final fields. When the fields have actually come out we open a new round of betting and in this case it's slightly difference of futures where if there is a scratching, you'll get your money back on the scratching and we'll rearrange the price that you would have got had the scratching not taken place.

A good example of that is I was working in New Zealand for New Zealand TIB back in 2003 and I introduced final field betting. It took about two years to work with the racing industry because I can imagine in this room right now there will be many of you saying that's great to have fixed odds betting, but all it's gonna do is destroy my tote betting. It took a while for us to work with the racing industry to bring them to realize that we needed a greater product offering more than just tote itself. It wasn't enough to sustain the levels of profit going back to the industry.

We finally came to some arrangement, introduced final field betting on one particular Saturday. I sat down with the bookmakers just to make sure everything went well. It was quite exciting. We were quite nervous about the first day of introducing that because there was so much talk about this new innovative common style of betting that was so foreign to people who were so used to tote betting in the past. Saturday came along and there were two scratchings in the major race that we're covering. We're only covering one race and the scratchings were number five and seven. That was fun. All good, everything's going well, plenty of money coming in, the liability on both sides was quite good. It looked like we were gonna have a fantastic afternoon for the first final field betting event that New Zealand had seen.

I happen to look up at the monitor. Remember, five and seven were scratched. I happen to look up at the monitor of the broadcast from the track and in the mounting yard was number five parading around the mounting yard with all the other horses. I looked and I thought — I won't use the exact words I used

[Laughter]

but because it was the first time we'd introduced this product and here we'd taken five out of it, so everyone was used, now, to the new market and five was there. Five was actually racing. What are we gonna do now? It's not in the menu anywhere that you'd have to reintroduce a runner that was supposedly scratched.

This is our first day, the most exciting day of introducing this product that everyone was skeptical about, and I can see horse number five in the mounting yard. A number of phone calls took place and to cut a long story short, what had happened was the attendant hadn't realized of the horse that the horse had been scratched by the trainer and forgot all about

that — wasn't even aware of it, so the horse should have stayed in the stalls, not come in the mounting yard. It was a lucky escape on that particular afternoon. I think the blood pressure went from whatever it is, 120 back down to normal, about 80 I think by the time that finished.

Having said that, final field is now a vital part of New Zealand racing and now a vital part of Australian racing. What's left to say? The last bit there, and it's not a huge business on racing at the moment, more on sports, but this in-run betting on the sporting side has become more and more quite valuable in terms of the turnover it's generating and the revenue it's generating. Our product mix in Australia for racing is futures betting, final field betting, and to a lesser extent in-run betting. Why little in-running betting? Because most of our races are around the 1,200 mark, six and 800 meter mark. It's a bit hard to offer in-run betting for those particular races. We might do something later on, but it's more for the longer distance races, the 2,400s, 32s, and the 4,000 in the case of the UK, my colleagues over in the UK. How far is the longest race in the UK?

Audience Member: Runs about eight minutes.

Mr. Paul Cross: Yeah. Distance-wise?

Audience Member: Four and a half miles.

Mr. Paul Cross: Four and a half mile, okay four and a half mile. There you go. There'd be plenty of in-run betting for the Grand National. Okay, an example of how we use futures betting, I just picked up an article. Again, we use futures betting to promote the racing for that particular weekend. I just picked up an article of the *Golden Rose* and prices quoted \$4.00 there, \$26.00 and \$5.00, \$50.00 I think there. Again, it's a way of talking it up because one of the things we know in wagering is that it's a skill-based product. If punters see that the price of the \$4.00 horse in the punter's view should have been \$3.00 we'll have an immediate stampede to get on the horse at \$4.00.

We know when we've incorrectly priced markets the very second we put the market up cuz back home, as far as the racing industry is concerned, we are the price leaders as opposed to the price takers. We will set the markets. Most of the bookmakers will follow what we do, and if we get it wrong — and we can get it wrong and we can make mistakes, and it's all based on opinion at the end of the day — the punters who have done their own handicapping will pounce fairly quickly to take that price.

In terms of our overall market, the Australian wagering market continues to thrive from a turnover point of view. From a racing point of view, that's down on the left hand side there, on the pari-mutuel side it's come off a bit in the last couple of years, but the strongest growth segment has been on fixed odds racing and, to a lesser extent, fixed odds sports. I won't go through some of the number there but you can see there by the grass that it's quite impressive in terms of its growth. So much so that fixed odds now represent 43 percent of our wagering turnover, up from 33. We can see that increasing over the next few years.

On the fixed odds sports side, between '07 and '11 it's gone from — fixed odds racing side, sorry — gone from 23 percent to 29 percent of our turnover. On the sports, fixed odds sports side, gone from 14 percent — sorry, from 10 percent up to 14 percent so good growth numbers there. In terms of racing turnover per se, quite impressive graph from zero up to just on the Sportsbet side, \$800 million in turnover in a relatively short space of time so there's plenty of growth there yet.

Just a few bits of trivia for you. As an entry point for sports lovers, every spend doubles when customers add racing to their repertoire. If we have a pure sports customer come in and that customer starts to bet on racing we see the average spend of that customer double. Only five percent of our customers bet exclusively on sport. 60 percent bet exclusively on racing and 35 percent bet on racing and sport. What we do see as far as fixed odds go is it tends to attract a younger audience. I know from being in sessions here over many years and in sessions around the world that one of the biggest issues we have as far as the racing industry is concerned is the demographics of racing, how it's aging. How, if you go into an outlet, it'll be mainly miles over the age of 50. Sports betting and betting on racing from a fixed odds perspective tends to bring in the younger audience — a younger audience and, in fact, a more female-orientated audience. I'm not sure why it is, but on the female side tend to bet more — not more, but more so than they do on the tote side than the other one.

A few more stats, in Australia, most of our turnover still comes from our retail shops. As I said, we've got 20 — over two and a half thousand shops in the states that we manage. As far as sports betting goes — and that's sports betting across racing and sports — retail represents 71 percent, internet 22 and growing at a rapid rate, and telephone declining at seven percent. It's one thing to talk about turnover. It's another thing to talk about revenue. On the revenue side, most of our bets, 66 percent or two thirds of our bets are for a bet value of between \$100.00, large transactions are worth \$10,000.00 or more are just two percent. The bulk of our money is in the \$1.00 to \$100.00 and then \$100.00 to \$1,000.00. That's where 95 percent of our money is.

As far as sports turnover goes, 68 percent is single bets and 32 percent are multi-bets, so that covers — and multi-betting is where you take more than one option. At the moment we're offering customers up to 20 multiples. Can you imagine having 20 multiples? I can't imagine having 20 multiples, but some people have and they've made quite a bit of money out of it. On the revenue side, and again, I'm steering away from turnover here because from a fixed odds business perspective, it is not about the turnover. People can talk and wax lyrical about the amount of turnover in fixed odds racing or fixed odds on sports, and it can look very, very impressive the turnover numbers you might be able to get from fixed odds. The reality is it's the revenue, not the turnover which is different from tote because you know that you're working on a commission, right? It's pretty standard, but with fixed odds betting, very much different.

From a revenue perspective, 37 percent comes from single bets, multi from 63. If you do the math, on the left hand side there, sports bet turnover. Single bets 68 percent yet deliver 37 percent of our revenue. Multi-bets 32 percent of our turnover yet it delivers 63 percent of our revenue. In terms of display, how do we merge both tote and fixed odds betting? How does it work? Do we simply show tote betting by itself? Is fixed odds racing by itself or do we try and bring it together? Reality is we try and bring them together. If you go on our website for tab.com.au, you'll see that we're offering we call it TAB fixed odds and TAB tote. The customer has a choice. He can pick fixed odds or he can pick tote, he or she, or they can pick both. It's up to them. It does give a good guide as to what the market actually says. It's not always the case the tote price is the same as the fixed odds case.

An example I've got there, there are some quite wide variances from \$26.00 I think for — \$26.00? My eyes are now going — for number one on the fixed odds and \$16.50, so there is a difference between the two and it's up to the customer. The beauty of having it under one roof is that the customer has a choice and we've seen some good grace from that as a

result. It also extends now to, on the up side and I'm sure others will talk about this perhaps, we cover both Android and the iPhones. This one is a demonstration of our iPad. I just pulled up one screen.

Again, customers have got the choice, quite a bit of information there but the one I wanted to concentrate on was the marriage — I'll call it a marriage, sometimes rocky, sometimes good — of fixed odds and tote. They can work quite well together. It's not a case of, from a business point of view, that one will cannibalize the other. There is some degree of cannibalization, but the overall pool grows as a result. Now, it's one thing to have the products, another thing to have the environment by which customers actually place a bet. We spent a lot of money on retail, a heap of money on retail, making sure the customer is enticed back into the store. A lot of money in the call center; you saw the car early on in the first slide. Again, got the iPad apps, the iPhone apps, and that's just a little picture of our retail source.

One thing I noticed about the North American market is, and for whatever reason, I'm sure there are many of them — is they're not very inviting to come into. We have a deliberate policy in working with government to make sure they're enticing — or not enticing — they're places you would like to come and visit. One of the criticisms we've had about outlets and it's been going for like 20, 30 years, is they tend to be male dominated, smoking, and the older population. We did a survey actually last year on what people's thoughts were about outlets and you'd be surprised the number of people who said they're dark and dingy and full of smoke, when in fact the smoke ban came in like five or six years ago.

It's funny how people have these perceptions of things and how that provides for a long period of time before it actually goes, so quite a bit of money spent on continually refurbishing, continually encouraging customers to come into the store and stay as long as they like. I've got a — I always like to see at these conferences what other countries do as far as promoting their particular product, so I've got a little demonstration of what we do on the tote side. Have we got it yet? Let's see, there we go.

Male Voice [TAB Advertisement]: *[Music plays in background]* With TAB Sportsbet, you're on. Everywhere, every time whether you're turning it on or kicking on, on the board, on the carnival, or on the money. Everywhere you are, every time you wanna back yourself with TAB Sportsbet, you're on.

Mr. Paul Cross: Okay, that's one of many. I just wanna finish off by making a particular point, that in considering fixed odds betting, per se, it means a move — and I've experienced this several times now in several organizations. It's a move away from the traditional tote model which is no risk from a takeout perspective to a risk perspective. For those who aren't involved I remember dealing with the CEO in the first week of our sports betting. We'd had a couple of bad days because the favorites had gone up and we'd actually lost I think it's one and a half million dollars.

The CEO who wasn't very familiar with fixed odds betting and was taking a bit of a gamble after being pushed by management said what's going on? What the hell has gone wrong? How can we possibly lose money? They CEO needed some assurance, but that just hold for it. We'll get that money back and, sure enough, as we knew already anyway, that over time there'll be a margin there. It will be impacted by other things but you will have your up days and your down days, so it's not a case of simply taking the money, taking 20 percent of the money, and everything's rosy. It's a case of moving from a culture, from a business perspective of no risk to actually taking a risk.

It's a bit of a ballsy move to this type of fixed odds environment for operators who have traditionally been in a tote environment. I've dealt with a number of organizations who are tote operators. I won't say big tote operators cuz that'll give it all away, but I've dealt with a number of operators who are very, very cautious about introducing fixed odds betting on racing because they — and there are many reasons for it, but one of the main reasons is because you are moving away from a no risk business to a risk business. And that's it. Thank you.

[Applause]

Mr. Mark Thurman: Thank you Paul. I wrote down a lot of questions, but I'm gonna wait until afterwards. Our next speaker I first met in California and I've always wondered what it would have been like hiring him and saying you get to go to the United States. He's with Betfair and he's gonna give us a talk on, I believe, exchange wagering and how that works, so thank you.

[Applause]

Mr. Stephen Burn: Hi everyone, I'm the president and CEO of TVG and look after horse racing for Betfair. Thanks to Doug and his team for the invite here. I feel like I was slightly mislead, though. I was promised feisty debate and fun in the sun and I don't know about you guys, but when they said fun in the sun I didn't realize it was gonna be cold enough to freeze the gonads off a brass monkey.

[Laughter]

It's more like Britain here than it is California, so if I'm a little hesitant and reticent it's because I'm not used to this cold weather. I apologize.

Good news is I don't have a PowerPoint presentation for you. You don't have to sit through a bunch of my slides which, I'm sure, would be tedious in the extreme. Hopefully, though, the better news is that we have got an exciting proposition to talk to you about and that is exchange wagering. A couple of other things, too. I wanna try and broaden the debate if I possibly can because one of the things that seems to be apparent to me now, and listening to some of these discussions here in the last day or so has also helped me formulate my own thoughts and I'd be interested in yours, is that there's a crisis going on in our industry.

I know you all know that, but it's reminiscent to me of what's happening in Europe with the euro. The way to treat that crisis, I think, is not to pretend that we're some 19th century doctor back in Europe who thinks the way to cure people is to bleed them, cut them, put leeches on them, and when that doesn't seem to work, cut them more and put more leeches on them. When the patient is suffering and virtually dying, I think you need to do something a little bit more forward-thinking than just to continue to try and bleed the patient.

One of the things that we're hoping to do through TVG and Betfair is to try and put together some semblance of a coalition of the willing, if you like. People who are prepared to just rise above their own self-serving, rather narrow centric, self-centered view of the world, and look to collaborate, get long-term greedy, put the customer first, start to bring innovation into the industry and do things that maybe five years ago we would have all been really nervous and reticent about doing. Paul mentioned fixed odds. One of the good things about exchange wagering — and I don't just wanna be a snake all salesman for exchange wagering here, but one of the good things about it is if it does get introduced is that gives

you a solution to fixed odds wagering straight away. You don't need to bring a second product in. You can have risk-free fixed odds wagering with an exchange.

Before going into the weeds and the detail of that, I'd like if I may, to just update you on where we are, specifically in a couple of states with regard to regulation and progress. We're trying to put together a model with interested parties in California. We've worked closely with the CHRB. Many of you will know that the state passed a piece of legislation that allows for exchange wagering to operate in California under very strict and stringent conditions from May 2012, and it may be possible to put together a deal to be able to do that with Hollywood Park, it may not. We're sitting down with track owners and with horsemen to try and construct a model that works for them.

From my perspective as somebody who's completely passionate and loves horse racing, I also love Betfair. I've never worked for another gaming organization. I'm not one of these guys who bounces around from one company to the next and takes the best offer on the table and works for them. I work for Betfair because it has the best betting product in the world and the fairest betting product in the world and I believe in what it does, and I will not work for another gaming company because I don't think others offer anything like the same degree of integrity, the same degree of product offering to the customer, the same degree of consumer choice and value.

What we need is to try and get, as I said earlier, a coalition of the willing who believe the same thing I believe, and that we put it out into the market. We test it as a proof of concept, and we see if it works. If it doesn't work and it's not right for U.S. racing, then turn it off. It'll be someone like me who has to go home with my tail between my legs looking like I've been defeated because I'm trying to sell you guys a product that I think is a game-changer for you. It just proves out not to be the case. For it to work, though, I think it needs a degree of trust that's gonna be a little bit hard for people to try and give us. It needs the racing industry to work with us on a pricing model that first and foremost puts the consumer first and allows us to give a low margin product to bettors so that they can get embraced by it.

We've seen in the rest of the world what does and doesn't work. We know in the U.S. that same model can't be offered here for a whole bunch of reasons, but we're not looking to offer the same model here. We've put forward a pricing mechanic that offers a ten percent commission structure to the player so the idea is that we'll offer win, place, and show betting and the takeout if you like will be ten percent. That ten percent will be shared between a number of people. It'll be shared back to the player, will bonus players on a monthly basis and give them a Betfair bonus back into their account to keep them going and help limit the churn. But it'll also go to the racing industry and the proposition that we have is that for every \$1.00 we earn as an operator, the sport should earn \$2.00. That's the fairest thing to do.

Now, it may be that the sport thinks that it should get more or that the margins aren't big enough, but I'm here to tell the sport now if it tries to enter the market with an exchange product with us or with anyone else and it sets the bar, the margin, too high, it just simply won't work. There has to be an optimal pricing point that works for the player, that works for the stakeholder of the industry, and that it works also for the operator.

As someone who heads up the company here and is hoping to be one of those operators, I'm completely prepared to take a long-term view and to make the initial investment. We've so far spent over \$10 million building a unique exchange for U.S. racing. That's a big leap of faith on our part because we're still a long way away from having anything set in

stone that says this thing is gonna operate, but it's a terrific tool that's available to the industry and I think we're making a unique offering to a sport that's in a unique position to be able to benefit from it. I spent a fair bit of my time talking to people and indeed employing them who are lobbyists that work at a state and a federal level.

It's clear that what's happening in the U.S., there's an awful lot of foreign operators now who are sniffing around in this country and they wanna try and get some action in anticipation of what they think is gonna be a relaxation of regulation at some point. We're an inherently conservative organization at Betfair. On our ADW business, we've got one of the biggest ADWs in the country but we operate in half the states that our competitors do. We don't wanna take the same kind of risks that the likes of XpressBet and TwinSpires are prepared to take by going into states that are rather gray.

We try and take a more conservative approach than they do and we work with regulators hand-in-hand. We don't wanna put our shovel where there's no muck, basically, and we only wanna operate with legislators who want to operate with us. Other people do what they think is the right thing, obviously, for their model and we'll take a long-term approach and do the right thing for us. At the end of the day, if the U.S. Racing Industry doesn't want to embrace Betfair and its proposition, then it should just tell us and we'll pack up our bags, as far as exchange wagering is concerned, and go away, but I think racing should be careful. It should recognize and realize that there's a train coming down the track and that train, in my view, has relaxed online betting flagged all over it.

There's already talk at a federal level about a poker bill bubbling away. California, some other states are talking about poker legislation there as well, and racing has to be very careful that it doesn't get left behind. On sports betting I don't think it's gonna be too far off. I think five or ten years might not be unrealistic to start talking about where some states are looking to open up sports betting and maybe even federally there'll be some kind of movement there. Now racing has an opportunity to take advantage of its unique position right now. It's the only sport that you can legally gamble on in an online capacity. I just wish it would work with us and with other people — excuse me — to try and find a way of capitalizing on that advantage. We run a big ADW business. We're turning over \$700 million in handle a year. We want to partner with other people with tracks and states and offer them our same level of services.

We also run a TV network. Is it perfect? Absolutely not. Is it better than anything else there in the marketplace? Absolutely yes, and yet we have to work really hard to try and sell the proposition of what TVG can bring to the sport. The sport doesn't do anything, really, to try and capitalize on TVG as an asset and that's a real shame. The exchange for us is just another tool in that armory. We have really good marketing. We have over 600 technologists and engineers working back at Betfair and we want to make some of those people available to this industry to try and get them to work with us because we want to partner up with horse racing.

In the end, if there's not a successful horse racing industry it doesn't matter how good TVG or Betfair is. There won't be a successful business in a decade's time. It's absolutely imperative for us to try and find people who will be interested in working with us to try and grow the pie. I don't feel very good although I get well-bonused on the fact that TVG's got double digit growth in a year-by-year basis. That doesn't matter if the pie's shrinking. I see all these reports all the time about seven percent decline year-on-year in handle and seven percent rise in prize money. Well, frankly, that's disastrous. It's absolutely catastrophic if that continues and we shouldn't relax and think that because the slot money

coming into the sports in some way, shape, or form that that's still gonna be there in a decade's time.

We've seen in New Jersey the pressure from gaming companies to try and withdraw their funding for racing, and that state now has a crisis with its racing establishment, partly as a consequence of that. If we become dependent on slot machines and slot revenues rather than look to ourselves to try and do something to make this sport self-sufficient and profitable, then I think, again, that's potentially disastrous for all of us. I mean, I'm not a doom and gloom merchant at all about horse racing. It's a wonderful sport and it can appeal to lots of people. I think the exchange, as I say, is just one tool that can help racing do that. It's not the only tool.

There's other things that we could do, too, but I think it's an interesting observation for you guys to be aware of that at TVG our demographic is that people who play the product tend to be 55 and older. At Betfair people who play the product are 35 and younger. That's an asset that U.S. racing, I think, should look to try and engage with, and work with us and try and find the right model to roll out so that the sport can benefit from it. Aside from the exchange, at Betfair we have a bunch of people whose job it is, really, is to do nothing other than a bit of blue sky thinking and to try and come up with innovative things.

In the last week while they've developed a product that has become mildly embarrassing for us, but I'll share it with you anyway. It's called Slot Mansion. It's basically just a fantasy gaming product that's available in the U.S. that we did very quietly. We didn't think anybody would pick it up or do anything with it, but we signed a deal, ourselves, with Facebook and we're one of only five gaming operators the world over that are allowed to work and to operate on Facebook, and Slot Mansion is a version of a game that is played there where people, mainly women — the demographic is one that we didn't particularly look to appeal to — sit down every night of the week, pay real money to play with each other and compete on league tables for who is the best slot machine player in Kansas or who's the best slot machine player in Florida. I can't believe that people wanna do such a thing, but actually they do and they do it in large numbers. We have over 600,000 people playing on that game and it's astonishing to me that that's a wonderfully new and radical way of tapping into markets that potentially we didn't know existed.

How do we take those customers and convert them into horseplayers? I don't really know but I think there's an opportunity there that we should sit down and we should talk about. Just on reverting back to the exchange side, in California there is an opportunity, I think, to do something but racing has the off switch. If we come forward with a proposition that the sport doesn't like or doesn't think is gonna work it just turns it off and the exchange, itself, won't operate, but it is a galvanizing product for players.

We have a demonstration of what we call an alpha model out there, which is a very early version of the betting exchange proposition in the U.S. that we would like to offer out, but we need feedback from you. We need to know if we're looking to do the right thing. Is the model set up in the right way? Is it engaging enough? In a real time environment if you check out betfair.com, Paul alluded to in-running betting on sports. We have it already on horse racing. 23 percent of our global racing betting product is in play.

People don't start betting at Betfair, many of them, until the gates open. Some of them don't even start betting until the race is over. If there's a photo-finish, they're betting on the outcome of the photo-finish, and there are others who specialize in steward's inquiry betting. They've had no interest, financially, in the race at all until the stewards sit down and start deliberating on whether or not to overturn the result of the race. That's when

they participate and get involved, as well. It opens up a whole new number of betting opportunities, I think, for people that ought to be exciting.

In my view, and I don't understand why it isn't happening, horse racing should be coming to companies like ourselves and say we wanna work with you. How do we set a model up to do it? It's surprising to me, I think, that we have to constantly be on the front foot to try and push our proposition forward because there are many other sports outside of horse racing the world over who've embraced what we do and I think they're beneficiaries of it. Horse racing has been a beneficiary of it, too.

In the UK I'm really pleased to say that from absolutely nowhere we've become one of the biggest participants in the horse racing game and we return an excess of \$10 million a year back to British horse racing. We've moved our businesses off shore so that we can compete from a taxation point of view. We're no longer required or obligated by law to pay that money back to British horse racing, but we've given a commitment to do it because it's the right thing. The DNA of our company is structured in such a way that we want to be there to do the right thing for the product provider and if that's the horse racing establishment, then we should be working with the horse racing establishment to try and make sure that it's properly funded, it receives revenues in an appropriate way, but at the same time we have to address the needs of the player.

I did a radio phone in California at the weekend where the most criticism I got about the proposed model for exchange wagering in this state wasn't from people saying how are you gonna prop up purses and get more money back into the horse racing industry with this thing, and what about cannibalization? It was from players who were critical of us for looking to enter the market with a ten percent commission rate when they, themselves, thought they were able to go offshore and bet at two to five percent commission with other exchange operators. Well, shame on them I say. I don't wanna take criticism from people phoning me up or talking to me who are illegally betting offshore on other products. They should, if they wanna come and criticize me or criticize our industry, they should be active players and participants in our industry here and not doing what everybody else seems to do sometimes in this business and be as self-serving as they are.

I think one of the challenges that we've got — and I've seen a few people here actually from businesses who operate offshore and do what they do with rebate shops and that kind of thing, but I think as an industry we have a challenge with that. I think we should be fighting tooth and nail not to shut those businesses down, but to put more compelling propositions in front of the consumer here on home soil so that men and women don't wanna bet with rebate companies offshore. They wanna bet in places where their money's safe, with competitive businesses who are offering them a really good deal at the point of origin.

We should be rebating customers more because it works in the long run for your business when you do that. I know it's a hard sale, I know people don't believe it, I know everybody wants to talk about takeout and how it can go up and up and up, but one of the things that I think we can bring to the table is a low margin product that is the betting exchange. Again, to take a relatively risk-free opportunity to look at how you can tweak the pari-mutuel model overall. The exchange is just an innovative form of pari-mutuel wagering. It couldn't operate here if it wasn't that. It's been licensed in California with a legislature because they've looked at the law and they agree it's just a modern kind of risk-free pari-mutuel betting.

Well, racing has an opportunity, I think, to get ahead of everybody else and to take advantage of that. I hope that it embraces that chance and it gives us a shot as a winning operator to see what can be done for it. Do we have all the answers? Absolutely not, but I think we have some of them and I think that we want to have a dialog with the sport not just on betting exchanges, but to have betting exchanges as part of it if that's something that can add value to the overall proposition. I hope the sport uses us for our television network. I hope we get enough people who are willing to work with us to convert their product to HD so that we can put a product on screens that go into living rooms that we're not ashamed of.

I didn't realize the difference until I lived in California and got a television that was something a little bit bigger than a laptop, how awful TVG looks on people's screens. I'm mildly ashamed of the kind of coverage that we have to pump into people's homes when you compare it to what other sports networks are doing. I'm old and gray and my eyesight isn't great. I appreciate that, but I should still be able to distinguish between the two horse and the four horse and a close finish at Aqueduct, but often I can't because the screen quality is such that the picture definition doesn't help me as a viewer understand what's going on. I think we need to try and do something about that and use our channel as a shop window for the sport. We should be collaborating with the likes of HRTV and with Churchill Downs who all have a different model and wanna do their own thing, but it's too small an industry in my view for us all to be kicking the crap out of each other and litigating against each other.

I think it's time for olive branches, and pride to be swallowed, and for teamwork and for collaboration. That, to me, is the key to new forms of wagering. I think people trying to do things on their own in isolation might succeed in the short-term, but I think they're gonna drag us all over a cliff edge towards oblivion if they end up being successful. I think the future for our industry should be about collaboration. It should be about most of us being prepared to accept a little less in the hope that it contributes to the overall good and that ultimately the sport itself makes a little more. That's it, and hopefully I'll be able to take any questions from you a little later on. Thank you.

[Applause]

Mr. Mark Thurman: Thanks Steve. Oh no, you can't leave.

[Laughter]

I'm just — not after all that. Ben and I met probably, God, 20 years ago and no matter what we do we always end up popping back up in each other's life so I think you're gonna find a lot of interesting points from Ben on his discussion on the wagering. He's been all over the globe and been in different parts of the world, seen it from different angles, so I think it'd be real important to hear what he's got to say. Thanks.

[Applause]

Mr. Ben Pinnick: It was interesting when Doug invited me to speak. I'm not, probably, a common choice of panelists as we're not an operator. I'm a licensed bookmaker but that's a long and winding story. We, instead, we service the industry by providing technological infrastructure that allows people to connect, to integrate, to innovate, and to develop new products. We have many customers here in the U.S. Our customers bet into Paul's products in Australia. We provide services for Betfair. We cover a wide gamut of interest

within racing. I think the most important thing that we see, particularly within the North American market is that sometimes it's difficult to see the wood from the trees.

When looking at this presentation it was very interesting for me to say new frontiers in wagering. Knowing the panelists, it was fairly obvious what everybody would speak about. From my perspective, I tried to find something which potentially is more looking at whether or not there are frontiers in American racing at the moment, right now, and whether or not we can open those frontiers. Can we create them? The problem the industry has at its core is we have ten years of same.

By that I mean I started working in this industry just over ten years ago developing ADW systems. I know some of you probably can't even remember ADW systems that go back ten years, but they were there. Trust me. When we were creating those ADW systems back then we had harder to work with tools, we had to do more manual work, we didn't have necessarily the toys and the tricks that are available to us now, but fundamentally we were doing the same job back then that we're still doing today. That was the last fundamental and radical change in the U.S. marketplace that has occurred in the last 15 years, in my estimation.

Since then, essentially, all that's happened is incremental improvement. We can offer more facilities, we can do things faster, and we can make it a bit prettier, we can put the video up on the computer rather than having to watch it via a TV channel, but essentially nothing's really changed. Trakus and that technology offers some interesting opportunities to begin developing new technology products on top of the wagering, but fundamentally we've really seen no change in any meaningful way. If you wanna know what that actually translates to, our good friends at the Jockey Club in McKenzie handily produced a nice graph for me a few years ago, or a few months ago rather, and as you'll be able to see from this graph in the second half of the graph, I think this should probably pull it up for you.

There's the 2000 mark, so this is our last ten years. That is what no innovation looks like within your industry. If you don't do anything about it, whether it's exchange wagering, whether it's fixed odds, whether it's single pool, that trend is gonna continue and it's not gonna reverse, and I think everybody knows it. Not everybody wants to hear it over and over again, but I believe it's true. What is innovation? I mean, innovation is essentially the technological version of breaking new frontiers. The dictionary definition is something new or different that's introduced. It's the act of innovating. Interestingly, the *Oxford English Dictionary* describes it slightly differently. Innovation is crucial for the continuing success of any organization. In an industry that has gone ten years without innovation I think it becomes quite clear why the graph looks like the graph does.

The big question, do we start again or we change direction? This is a radical approach or, rather, an evolutionary approach. Part of what we'll be talking about today is looking at how pari-mutuel betting might not be on its last legs after all. There are things that we can do in terms of legislation, in terms of technology, in terms of the way we treat our customers which would change the perception of our industry without us having to tear everything out, stick it all in a skip out the back, and bring in new stuff.

A simple case study on this, on June 29, 2007, Apple launched the iPhone. The iPhone revolutionized the mobile market overnight. It made Apple the dominant player in smartphones almost immediately. Other companies such as HTC have caught up over the period of the last four years, but fundamentally, overnight they changed the market. The thing, though, that's interesting is people say that it's a revolution. Well, actually, these two products launched in the same week. On the left you have the iPhone, on the right you

have the HTC. They both have one button. They're both touch screen. They're both colorful, interactive interfaces.

The difference is that Apple got it right. They understood what the customer wanted, they understood how the customer wanted it, and they delivered on that reality. Apple's innovation since 2005, everybody knows about 'em. I mean, we've all got iPods, I've got a Mac. Lots of people have Macs. Millions and millions of people have iPhones. It's amazing to see the number of iPads at this conference. It seems like every third person has them. I know we've given a few away at other conferences. I don't remember giving away that many so they must be selling pretty well. The whole thing has created a huge rise in Apple's stock. If you wanna see the Apple stock graph, this is their stock graph. For the same period since 2000, they've gone from a \$40.00 stock to a \$400.00 stock. That is what innovation and delivering on what your customers want can do for your business.

How do we move forward? What are the steps for change? Here I put together ten — some simple, some more difficult — points which we as an industry collaboratively — and I really echo Stephen's comments with regards to this is not a time for people to take their own personal interest, their own individual, specific businesses, and treat that only as the important thing. I completely agree with Stephen with that regard. We need to work together, but at the same time we need to be careful of too big a bang.

Big bangs tend to have a horrible history of making a nasty mess of whatever they blow up near. Big infrastructural change would risk destroying any value that you want to build. The customer frustration with teething problems, with understanding new products, we've all got to accept we have a very old demographic. We can't simply throw them in the bin and expect to replace them overnight with a new demographic. That is not gonna happen. The introduction of new technologies, new types of betting, new distribution channels might only paper over the cracks for now but it will begin a process which is fundamental for the change of our industry.

If we create our environment for change, what we will do is we will allow people to innovate. It always amazes me the lack of outside investment that comes into racing. Racing is an incredibly insular industry. If you look at almost any other market sector there are hundreds of companies, quite often VC backed, but certainly cash rich who throw money at ideas, who try and develop markets and expand on propositions. Racing does not have that. Racing does not have its VC backers. It does not have its angel investors.

One of the key reasons that I strongly believe it doesn't is because we're not leaving the door open for them. We're simply not allowing those people to walk through the door, deal with our industry, and help us evolve. We need to create an environment of healthy competition. We need to create an environment where somebody knows if I launch an ADW tomorrow that's revolutionary, that has something real to offer to the industry, I'm not gonna run up against a brick wall of content that I can't get ahold of. I'm not gonna run up against a brick wall of industry bodies that simply want to put me through a highly regulated process which may or may not ultimately kill our industry. Regulators need to understand that competition is good. They need to understand that we need to relax the rules that we need to engage more proactively with our audience, and make sure that we're delivering what the customer wants.

Only when we do this will participants in our industry be judged on their merits. Those who have good ideas will make money. Those who have bad ideas will lose money and fail. They will fall by the wayside but we will end up with a stronger core. If you have 100 people trying, 50 bad, 50 good, the 50 bad will leave and you're left with 50 great

businesses moving forward. That is a better position than we are in right now. How do we make the change?

Well, I could probably sit here and give you 100 points, but I kept it to ten because I know that it would be pretty dull if I put too many on the board for you. The first one, give me a chance. Give me a chance. Bettors bet based on opinion. It's a fact. It's undeniable and I'm sure that probably Paul or Stephen could give us some actual numbers that are more concrete than my empirical experience, but essentially, bettors will bet more if they have an opinion. That is a simple case.

The interesting thing is bettors won't bet more or less if they're right or wrong on their opinion. They just want to have an opinion. The actual correctness of their opinion is almost irrelevant with regards to the confidence it gives them, the ability they have to deliver revenue to us and generate money for our industry. The problem with having an opinion is in order to have an opinion they have to have input. In order to have input we need data. We need something that we can build on that we can give to our users that we can create a view of the world for them that they can understand.

For your handicappers — we have customers who are very sophisticated handicappers. They run complex statistical models that generate all kinds of numbers that I have no idea what any of them mean. But the point is they have one way of looking at it. We have customers, as well, who simply want to be told Joe Blocks thinks this horse is gonna come first. As far as they're concerned, that's it. That's good enough for them. Both will bet based on their opinions. The problem we have, though, in North America particularly is this is the right view. This is a horse running in Aqueduct today. This is free. It's available online for UK customers. It gives me the history of the horse. It gives me the previous races. I can drill through. I can see all the bits and pieces. It's all online. Everything's there and it's very accessible for me.

This is wrong. \$3.95 for a PDF is not a sustainable model. I will stand here in front of you today and tell you if you continue down the path of generating PPs and charging people for buying those PPs race by race, you will not get an audience younger than me. The people who are younger than me, the next generation for racing, simply will not engage in this kind of business. They do not want to pay over and over again to get data. Their model, the way they see the world, is everything should be available on my iPhone. It should be on my iPad. It should be right in front of me and when I am ready to give you value I will bet with you. That is how I am gonna return my money back to your industry. This, for me, is a fundamental crux of where we need to move to in the industry.

We need to, in North America, really rationalize our relationship between the data, how it's distributed, the ADWs and the audience. I don't believe that it's a sustainable model. People cannot bet without data and opinion. We have to resolve this issue. There's a small issue, a minor one, it's a bugbear of mine. It's been a bugbear of mine for ten years so I thought I'd throw it in.

The \$2.00 issue. If you're looking to attract a new audience, if you're looking to engage with a new audience who you want to understand racing, you want to understand betting, we already have fraction odds, decimal odds, and probable pays. For reasons that people have explained to me but I've never quite believed, the U.S. continues to price everything to \$2.00. I know it sounds like a small thing, but you've got to understand the mindset of the people as we move forward is not to accept the fact that this is the way it works. They will not accept it. They will simply move away and find something else which is more rational. Betting is already a complex process.

Even the smallest changes like moving from a \$2.00 to a \$1.00 decoration, I appreciate that you can't actually bet \$1.00, but the point is it's easy math. People can understand it. They can get their heads around it. They know if I put in \$10.00 I get 10 times what it says. If I put in \$20.00 I get 20 times what it says. It's a small point, but it's a fundamental point moving forward that we have to cater for what the new audience is gonna look for.

Single pool wagering is another interesting concept. It's gained a lot of traction, a lot of discussion over the last few months and years. Depending on your level of interest in it and how much you've looked at it, you may or may not realize that single pool wagering is kind of already out there if you want to. I could offer you a single pool wager on trifectas today as long as you've got enough money. The problem with the way it would work right now is because of the restrictions on the way I'm allowed to place money into the pool. I can't use a trifecta to run my win, place, show, and exacta because I'd have to have an enormous bankroll. I'd have to be like the Federal Reserve to bet into the trifectas on a single pool.

Pareto's Principle tells us that 80 percent of the benefits you gain from anything will come from 20 percent of the input. Single pool wagering is a very interesting concept. It provides a lot of benefits, but ultimately, a lot of them are fringe benefits. The very core benefits could be achieved very simply within our industry. If we drop the minimum stake on trifecta pools effectively to zero, we implemented fractional betting, and then we actually put a price on every combination in a tri pool, then I could build you a single pool betting ADW tomorrow. This would not be complicated. These are changes that could be affected within your existing tote systems without completely re-engineering your entire environment and deliver you almost all benefits of the custom prebuilt single pool wagering engines that may be available without the cost of the infrastructure changes and the radical overhaul of your system.

Fractional wagering falls out of that. Fractional wagering, for those who don't know, I think it should be a cornerstone of the future strategy of North American pari-mutuel betting certainly. When you're trying to explain to a customer how a complex pool works, one of the worst parts of it is doing math. I know I've done it myself and I'm sure a lot of people here have done it. You walk up to a window, you have a ticket with six races on it. You've picked two or three selections in the window. You say to the lady I'd like \$1.00 on this and then before you know it, it's \$264.00 and you're standing there saying you know what? That probably wasn't the number I thought of originally.

Now you wonder why people have difficulty transitioning through the bet types going from a win, a place, and a show moving to an exacta, then a trifecta, then a superfecta, up to the doubles, the picks, and all the way up to the pick six. It's because there's a fear. There's a fear factor which says I don't know what I'm investing. I don't know how this works. If I go up to the window the lady behind the window is gonna laugh at me cuz I've got this wrong. I see it happening all the time. I take a lot of our friends and colleagues racing. They just don't like doing this.

I have a good friend who's an owner/trainer. He's owned horses for, it's gotta be an excess of 30 years. He's had lots of winners. Six months ago I had to explain to him how to do a place pot bet in the UK. He is a UK citizen. He goes racing every single week. This guy lives at the race track. He did not know how to do a place pot. He had never bothered cuz it seemed too complex for him. He didn't wanna do the math, he just couldn't be bothered to figure it out.

We need fractional wagering in the U.S. to open up opportunities for us to create derivative products to engage with novice bettors and allow them to deliver value for us to deliver revenue, and also an interesting side point is that fractional betting opens up international betting enormously. When you can deliver 12 decimal places on a currency you can start sending bets directly between ADWs and hosts overseas. You can manage your currency conversion very effectively. You no longer have to take into account huge breakages on individual transactions. It would actually expedite the process of internationalization of the pool products enormously as well. As we all know, ultimately in pool wagering your goal is to get your customers to win other people's customers' money. That's the circus that we live in. That is the merry-go-round of ADWs, race tracks, and international bettors all over.

Number five on my top ten things that I would change given the opportunity is the pricing mechanism. Just tell me the price. Racing is unique in many varied and interesting ways. One of its most unique features, particularly compared to other industries is that we let you buy stuff but we don't tell you what it's worth. We don't even give you an opportunity to kind of guess what it's worth. We all understand that pari-mutuel problem that you can't fix the price effectively. You can do a conditional bet. You can give yourself the chance of getting the price you want. We can't fix all those problems but the one thing we could fix is we could at least give 'em a shot.

Right now we aren't pricing the place pools, we aren't pricing the show pools, we are publishing exacta data but it's not particularly well handled, especially on track. We aren't publishing trifecta data, superfecta data, and then the remaining units for doubles, sixes, and everything. I mean, you try and find that on a track. It's nearly impossible. There is no effective delivery of data for our customers right now. This needs to be addressed quite urgently. You cannot run a business where you ask your customers to give you money and give them nothing in return until all the horses have gone around the track, the stewards have got involved and everything else. This is just not a sustainable way of running a sport right now and we need to address it.

One of the most interesting aspects that exchange betting I would say has had, particularly in the UK, is the search for the truth. Very quickly we've seen a shift away from bookmakers' prices being the truth about what a horse should be priced at, and instead, especially on the television, we begin to see the exchange prices being used more and more as the benchmark, the guideline for what a horse is actually worth. Now, this obviously, because of the nature of the exchange model, it is a far fairer representation of the likelihood of the outcome because there isn't so much influence directly from what's going on at individual bookmakers, the central trading team, and those kinds of things.

I think it's a fair representation, but the interesting part is the public now understand the Betfair price, which is the one that's most widely publicized but the other exchanges such as Betdaq and WBX come into it, too, that price is taken as the truth. It is almost gospel that that is what the horse is worth and, in fact, no matter what the bookies tell you, that's just what they're trying to get from you. Pari-mutuel needs its own truth. It needs that confidence from the players that says when I'm betting on this horse, this is the value of that horse. This is what it's worth. I understand your product. I understand your model. And it can be done. It's not something that's a terribly difficult thing for us to do. It's just something we need to engage with. We need to produce better pricing information more often, more accurately. We need to speed up the correlation of best so that prices don't change too far to the off. If we do those things we will be able to give our customers a much better service.

The next one really relates to the same thing, rigging the pools. Well, of course nobody's actually gonna rig the pools. That's just a kind of slightly jokey way of putting price stabilization. I believe firmly that pari-mutuel industry should invest in price stabilization in the pools. If you understand how other markets work, prices don't just happen. The fixed odds aren't set based on the first bet that comes through the door and then Paul's team in Australia just start making prices up from there. They have a preconceived concept of the value of each horse.

Likewise on the exchange. Exchanges don't exist purely off of the liquidity that comes from customers. There are teams of people who create these markets. They create liquid stable markets that you can engage with immediately. Racing needs to do the same thing. Racing needs to take control of its product and say you know what? When I open my pool at 9:00 in the morning I'm gonna have a pool that actually reflects the likely outcome of this race, because then people can bet into something they believe in. They can see that price. They can understand that that price is likely to be the price they're gonna get. They don't have to think too hard about it. They don't have to do too much. They simply get — they understand what they're seeing as a likelihood outcome.

I'm not saying we need to actually manipulate the pools all the way to the line. I'm saying just give us a chance to at least get some money in, get the pools liquid, get them stable before we let them free flow. Cuz you know what'll happen? A better product will create happier bettors. If our bettors are able to bet against a price that's quite likely to be the final price they'll bet more early. If they bet more early the pools become stable early. If the pools become stable early your bigger volume bettors are gonna come in and they're gonna give you a boost earlier on in the day because they believe the pools are stable. That will generate more liquidity. More liquidity, as we all know, creates more liquidity. It's a very circular argument.

We see it all the time in the big pools. We see it when the jackpots drive up. We always know and everybody, I think, buys into the industry fact that big pools drive further liquidity. The growth is exponential. In order to engage that growth early on in the day I believe we should be engaging in a practice of price stabilization within our pools where we create artificial pool prices until such a point that the pools are semi-liquid and can stand on their own two feet. We're planning on experimenting with this on one of our European customers. I'll be happy to come back next year and let everybody know how we got on.

Competitive environments are another important factor. We cannot exist as an industry without having competition. We can't have individual organizations controlling vast ways of the industry with their own agendas. One of the options in order to even the balance of competition would be to move to an at-source takeout model. We use something similar with some of our customers in Europe where the pools are run at a certain takeout. That takeout is essentially what the operators and the media rights holder and whoever else might need to be fed from that chain. That is the cost of service. It's the production cost of putting that horse around that track, feeding it at the end of the day, putting it up on the TV and whatever else needs to happen in order for that product to exist.

Then after that, an additional takeout is taken at the source of the bet which caters for the profit that the operator wishes to make as opposed to the profit that the race track wishes to make. This creates an extremely fair environment for everybody to play in because, essentially, now you're able to engage with your customer at the level you want to engage with them. If you're an ADW operator with a huge marketing budget, you're trying to get yourself into every magazine, every shop window, on every TV advert, then you're likely to

be after a type of customer that's gonna be more interested in your brand than your price. They won't be so price sensitive.

We see it all the time in fixed odds. The price sensitivity varies with brand, varies with customer type. Some customers will simply bet with who they like. Other customers will shop around and individually pick the bookmaker they want to deal with based on the individual price. By moving to an at-source takeout model, we would free up the U.S. market to say okay, the race tracks get what they need. Everybody's getting fed. The horses are still getting groomed, they're still getting watered. All those necessary things that keep the market moving are still operating.

Beyond that if you want to operate a high volume level and take a very small clip, that's your business. If you want to operate a retail level and take a very large clip you can do that, too. You will create price differentiation in the market that people can understand. They can choose and they can take the option that they want to take and go with the product that they want to go with. It does have some difficulties because obviously you do create a market where people tend to move around. You have problems with putting TV prices up there. We'll get on to that in a second. There are significant modifications that would be required to the way the industry operates in order to change your takeout model to something that is fairer for race tracks and better for operators to manage.

However, I genuinely believe that that would be a significant step forward in delivering value for racing and evening the market out for operators to essentially define their own channels, their own customer base and go after them. How would that work? It's pretty simple. This is basically how it works in Europe. The customer would walk up and they'd say I want a win bet on race number two. They hand \$10.00 to the cashier. The OTB's running at a seven percent margin. They deduct that seven percent from that \$10.00. \$9.30 hits the pool. The pool operated at 10 percent, so that person has effectively lost 17 percent of their bet when it went into the pool. That is their takeout. Their takeout for going to that OTB on that day was 17 percent.

However, when the dividends are declared the central pool can still declare its dividends exactly how it does right now because it will simply declare that this ticket was worth 93 percent of its original dividend. It's been very effective for us in the UK to roll out product to countries where tax jurisdictions are restrictive, where our product takeout rates — cuz we have pretty low takeout rates in some of our products in the UK — are difficult to work with, and it's a very quick and effective method of evening out those disparate groups without actually having to change the fundamental infrastructure underneath for every time you need to cater for a new party.

Talking about video, I mean Stephen touched on it and it's a great bugbear of mine. The quality of TV production in the U.S. is — I'm trying to think of a nice way to describe it. Substandard is probably the best way I can put it. The picture quality coming out of race tracks, appreciating that some have invested in HD and there is definitely a differential occurring in the market right now, the picture quality coming out of the race tracks just simply isn't good enough for a new generation. The key thing I think that we could do as an industry together is to claim back the clean feed, to claim back the feed without the graphics, without the intrusion of the branding, and enable operators to create custom branded feeds that matches their marketing profile.

One of the things that we're great at doing in the UK, particularly, is marketing. Our fixed odds operators, particularly people like Paddy Power, are just fantastic. They have gorilla marketing, they get all the best headlines. They are brilliant at delivering on marketing and

that's part and parcel of what they do as a business. Also interestingly in the UK, if you walk into a William Hill bookmaker and you watch a product on TV there, it's branded William Hill, it carries William Hill prices, it has William Hill advertising, everything is William Hill. If you walk into a Ladbrokes, it's exactly the same product. Ladbrokes branded, Ladbrokes pricing, Ladbrokes everything.

This is a realistic proposition. This is not kind of adware. We're not preaching something that can't be done here. By doing this, by changing the model and saying we're gonna take clean feeds and then rebrand, you give yourselves the chance of marketing to your customer base consistently with a consistent product that delivers exactly what they want, when they want it rather than simply mashing together a collection of variable bit rate, variable quality streams where the graphics will move from the left to the right. They'll be up above, they'll be down below. It's a real mess.

Then you see it when you bring in international content. American racing all runs one direction, so guess what? When you bring international content into the U.S., if you apply the same graphics right over the top all you're gonna find is that the horses are suddenly running behind the odds. By moving to a clean feed model and as an industry investing in the ability to deliver new visuals, new graphics, and new packages around that that suit the operator, not the race track, you'll begin to create a much higher quality product because the operators will invest in it. We've seen it in the UK. We've seen it in Ireland. We see it in other markets. Operators will invest in that quality if you give them the tools to do it.

This is always a controversial topic to talk about in amongst a U.S. company because comingling and simulcasting here is so prevalent. It's not so prevalent overseas. We generally have individual dominant operators who control everything so they don't really need to do this kind of thing, but I'm gonna give you one example and it's a little nod to Betfair. Betfair operates something called the BDP, the Betfair Developer's Program. They set this up very early after the inception of Betfair. It was a mechanism by which they were able to encourage people in to bet with them without having to use Betfair's interface. Stephen, I'm sure, will extoll the virtues of Betfair's interface all day but it doesn't fit everybody.

It's not a model that everybody wants to work with. Other people like to bring their own data in, they like to do all their own things. They just wanna get access to the markets, access to the market information, put their bets in and let it fly. That's what they want to do. All over the U.S. there are players doing exactly this. They're generally known as computer wagerers, but there's various different types of them. The one problem we have in North America is that's a bit of a dirty word. People don't really like to talk about it. It's a little under the table. Nobody's ever really tried to embrace the concept of independent people betting in and out of tote systems without going through the standard gateways.

Betfair has developed a program that allows you very simply to go and sign up. You create an account and you get access. If you want access to data at a certain timed interval you pay more or you have a higher level account. It's tiered in order to protect Betfair from people simply coming in and requesting tens of thousands of markets worth of data every second and crushing the service. What it does do is it provides a very open, very flexible mechanism for people to engage with us.

If we look a little bit at our industry we seem to be rather obsessed with the mechanics of how our systems talk to each other. We don't really worry too much about how our systems talk to everybody else. If you ask your customer do they care about ITSP? They'll say what's ITSP? They don't care. It's of no interest to them whatsoever. What they care

about is the touch point you put in their hand. What they care about is the way that you deliver your service to them. Not to criticize the race track terminals that are out there, but I'm pretty certain if NCR wanted to build a race track terminal they could do a great job.

Likewise if Wincor Nixdorf [IT company that redesigns interface with customers] wanted to build a race track terminal they could probably do a great job, too. I tell you the reason — there's two reasons why they don't build race track terminals. One is because maybe they're not interested in the market. They've got plenty of ATMs to build, they got all kinds of other stuff. Two is because nobody would ever give 'em a chance. Right now there is no way that Wincor Nixdorf could simply walk in and say you know what? I'm gonna do a deal with track X and next week I'm gonna deliver them 5,000 terminals. That does not exist within our environment. My company has spent an awful lot of time learning the individual foibles of each tote in order that we can deliver our customers' platforms.

I think it's very important that the industry understands that in order to move forward, in order to progress, in order to innovate, we need you as an industry to say no, let's stop talking internally. Let's stop worrying about what we're doing between ourselves. We'll keep doing it, but the important thing is how do we deliver to the people outside of us? How do we get new blood in? How do we get new companies to come and invest in our industry and deliver new product?

I believe the simplest way to do this would be to adopt a single standard for the external control systems of a tote, to allow test systems to be exposed, control test markets potentially using an ITSP trailing tote system in order that people can actually work against our systems. They could innovate, they could deliver products that we might not have thought of by having a better test bet, a foundation on which they can build their infrastructure without wrecking everything. We'll still send them through compliance. They'll still have to deal with all the various regulatory things at the end but we'll give them that opportunity to get that foot in the door. We're not doing this right now.

Finally, one of the big things I think that we fail to do as a market is to recognize that ultimately cancellations is not a terrible thing. It's becoming more widely adopted but I think as a legislative practice I think cancellations and pari-mutuel wagers within certain constraints to prevent absolute pool manipulation should be broadly accepted across the industry as acceptable. It's a very unusual circumstance in any online purchase nowadays. I'm talking mainly about the ADW market, but certainly it would count for telly betting and teller wagering as well. It's an extremely unusual circumstance that you can go and buy something and you can't change your mind before that has been delivered to you. This just really isn't the case anymore and you've got to remember the mindset of our new generation of customers, this is what they're growing up with. This is what they're going to understand.

In the UK we have an even odder rule. In the UK if you buy something online you have up to 14 days to send that back, even if you've opened it. Doesn't matter what you do. That is the expected behavior of online retailers these days. As our market becomes more ADW driven we have to accept that that is the mentality of the customers that we might be chasing after and we need to deliver on that. Thank you very much.

[Applause]

Mr. Mark Thurman: Thanks everybody. Well, now I wanna turn it over to you guys. Hopefully you have a lot of questions. Things that I heard were there are a lot of different things that we can embrace. I think that, in our market, we are fearful of change. I've

been here for a long time and I've seen that over and over again, but I do think that what these gentlemen just talked about gives us a lot of reason to think about things, so does anybody have any questions? Come on! That's not the people I know out there. Somebody's got to have a question. Okay!

Audience Member: Paul, you're offering various prices. Could you explain the differences that you have to display and how they correlate? How does that average out between fixed odds and tote?

Mr. Paul Cross: And tote. Well, we've essentially got two products, having talked about fixed odds and tote. We've got the opportunity to have a betting exchange but we've declined that because we still had a few concerns and Stephen can talk more about the commissions, but essentially, with tote betting our takeout rates are quite low in Australia so we average around the 16, 16 and a half percent whereas in the U.S. I think it's more like the 20. On the fixed odds racing side we average around the 12 to 14 percent so it's marginally less than pari-mutuel but still quite strong. Again, Steve can talk about commissions on the exchange side, but I think in Australia it's operating around the two to five percent mark. There are the three variables.

Audience Member: Does the average come to passing on a winning favorite? How do they do that through those?

Mr. Paul Cross: On a winning favorite? Well, it's — I haven't got an average number cuz it can vary so much, but we talk more about the take out as opposed to the average favorite. As I said, it's more like 16, 16 and a half, 14, and then whatever the exchange is offering.

Mr. Mark Thurman: Anybody else? Yes, in the back.

Audience Member: From your experience, what have been the policies on cancellations near post time? Should they be brought down?

Mr. Ben Pinnick: Well, that's an interesting question because, of course, it depends to a certain degree on how fast you're collating the pools and therefore what the net effect of that's gonna be. I think that certainly within our Irish operations that we run, cancellations are allowed up to two minutes before the race runs. There are limitations, particularly within the place pool, around how big a bet you're allowed to cancel, specifically what percentage of the pool it represents in order to prevent place pool manipulation and negative breakage issues. Those two seem to be quite effective. Whether or not bringing that down further would give us any specific benefits I'm not sure.

Ultimately, I think it's all gonna be an artifact of how liquid your pool is. We currently are working on a process called the stability index which allows us to actually, within we hope a fairly accurate percentage, calculate how stable and how liquid a pool is at any given moment in time. Over time we may begin to utilize that index as the marker by which we decide whether or not a cancellation should now be allowed.

Mr. Mark Thurman: Well I'm glad we can —

Audience Member: Well I think all cancellations need to be standardized.

Mr. Ben Pinnick: I agree. I think it does need to be standardized. I think it needs to be clear and that really is the issue in the market right now. There are different rules for

different states, for different operations. You know, it's different if it's telly betting versus ADW and I think there needs to be one way of dealing with it. Our customers have enough problems with understanding our products as it is without then further complicating it by operating one set of rules for one product and one set of rules for another product.

Mr. Mark Thurman: Yes?

Audience Member: I'm from *Racing UK*, long time, no see. You mentioned that in the U.S. market for every \$1.00 that you made you'd put in \$2.00 back to racing. In the UK market what would you say the current proportion would turn out to be?

Mr. Stephen Burn: It's actually not that different. It's just cut and sliced in a different way. One of the things that looks like we might be able to do in the U.S. that we can't do in the UK is share the 15 percent GPT that we have to pay to UK operator or at least we used to have to pay to UK operator, so the actual revenue share is 25 percent of gross or 66 percent of net profits and it's not that different.

I know British racing thinks it is but if you look at how much money we actually make on racing when we've taken out costs of marketing and running the thing and all the rest of it, that UK racing gets not that much less than the proposition is in the U.S. I don't know what the figure is. It's probably — it certainly wouldn't be two to one, but it wouldn't be very far off that.

Audience Member: Based on the calculation let's say if you pay \$27 million in levy over the last five years and ten percent of your gross profit, so \$270 million gross profits over five years, less other costs, other commercial arrangements, etcetera, if not on a one to two basis, it would be more likely, I don't know, 170 million nights of racing against maybe 40 or 50 —

Mr. Stephen Burn: I would dispute that. I don't think it would be anywhere near that. I think that racing in the UK now has come to realize it's getting a pretty good deal from Betfair. I think some personalities and their alignment with the fixed odds bookmakers in the UK were persuaded of a different view, but I think if you look at people now, an example of someone is Simon Bazalgette who's the chief executive of the Jockey Club, an organization you know very well, as recently as last week sent a letter out, I think, finally acknowledging and recognizing how much we do for British racing and what our contribution is and how valuable it is.

Audience Member: I don't know, I see them thanking you for sponsorships, etcetera, but it does seem that one to two numbers by your standards is off.

Mr. Stephen Burn: We can maybe chat offline and take it away, but it's really not that far away from that once you distill how much money we have to spend in the UK on things like marketing. I mean, it's a viciously competitive market there compared to the U.S. which is one of the reasons why we have the commission structure that we have. We're competing against very good operators like Paddy Power and William Hill who know how to market their product very well. Their margins are increasingly getting reduced which is one of the issues that racing has.

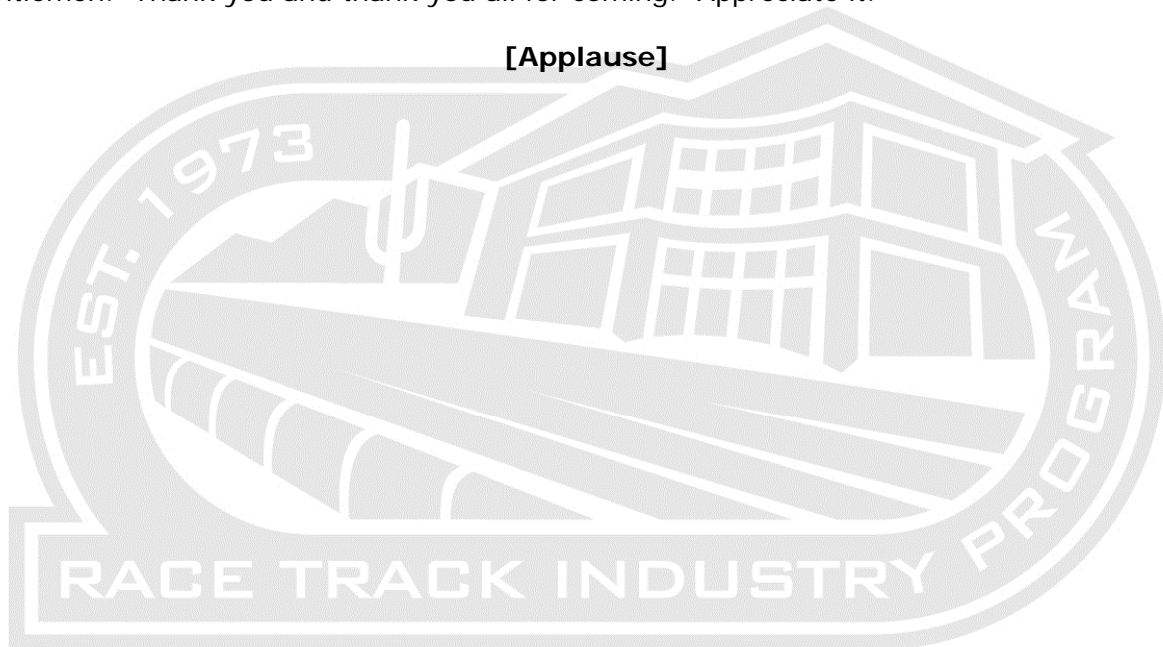
I think that the levy problem is really because everybody has to get more competitive than they did because we're competing for the leisure dollar, not just with amongst ourselves, but people can spend money on increasingly in austere times on theaters or cinemas or going out and doing whatever, lotteries and all sorts of stuff and we're having to fight for

that pound in the UK, both against each other but also against other industries and it's getting harder and harder as the margins go down. Do we have the model right in the UK? I don't think so, but for a long time we've tried to sit down with the racing establishment and the betting industry to try and find something that would work.

The dialog hasn't really been that great. You know better than me. I mean, this is a UK discussion, probably not a U.S. one, but a lot of the dialog seems to have taken place with loud hailer in the press rather than in rooms around a boardroom table which I think would be more productive. Hopefully that's changing and there's a new broom coming into British racing I think from early January. It would be nice to think that they were a bit more forward-thinking than some of the people in the past that they —

Mr. Mark Thurman: Anybody else? If you're raising your hand I can't see you. Okay, gentlemen. Thank you and thank you all for coming. Appreciate it.

[Applause]



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