



**36th asian
racing conference
Mumbai India 2016**

24TH - 29TH JANUARY 2016, MUMBAI INDIA

GALLOPING AHEAD GLOBALLY



Hosted by:



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Agenda

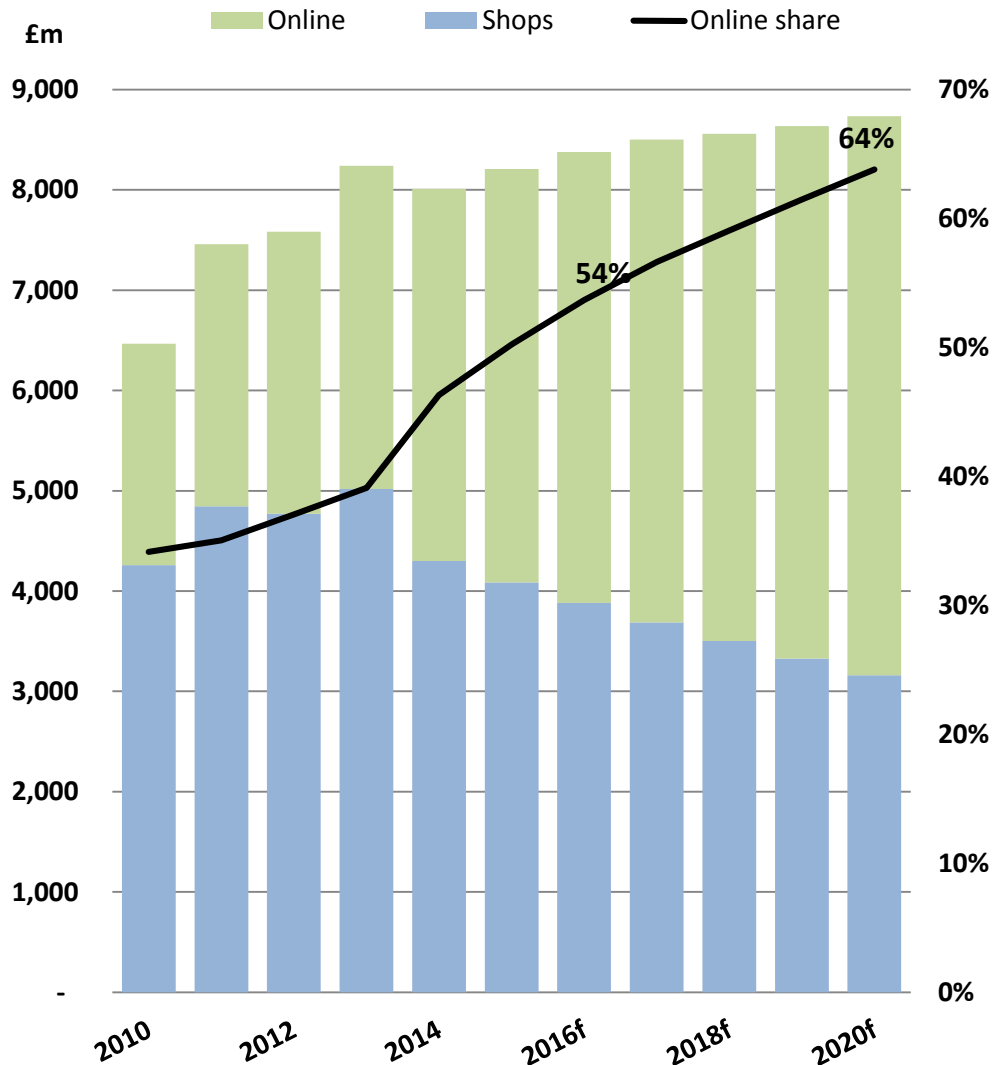
- UK Horseracing wagering performance - what are the latest trends?
- Funding, Levy, Prize Money
- Options to improve UK racing revenues
 - 1) The Racing Right
 - 2) Authorised Betting Partner
 - 3) Latest media rights deal
 - 4) The Tote
- Mega mergers - what will be the impact on UK racing?



UK Betting - Market Trends



UK Horse Racing retail and online turnover (£m)

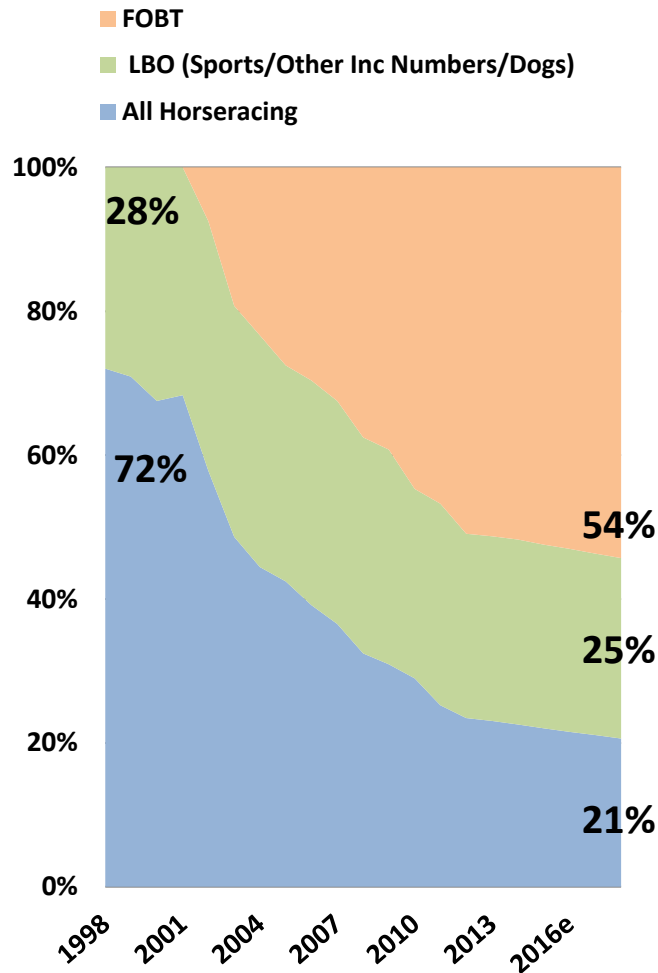


- Graph showing turnover of Horse Race betting
- Total market worth **more than £8bn**
- Market dominated by some major brands
- Vibrant, de-regulated and **highly competitive**
- Truly **multi-channel**: On-course, in shops, desktop, mobile, telephone
- Predominantly fixed-odds
- **Tote** a tiny but important share (<3%)
- LBO and Online: Convergence this year when **remote is larger than LBO**
- Driven by mobile
- Structural shifts

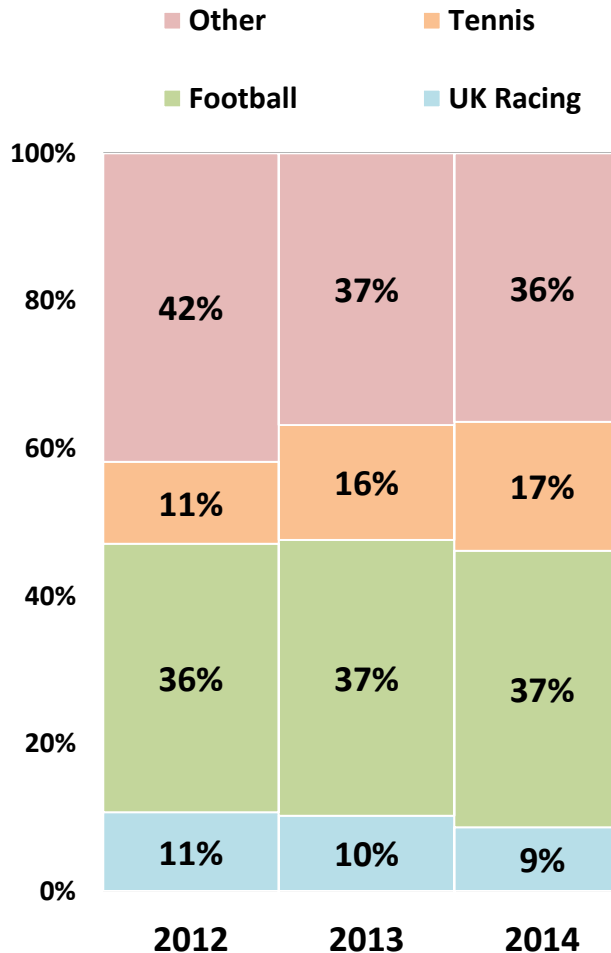
UK Betting - Market Share



Retail market gross win share



Digital market gross win share



Retail

- Racing share of gross win expected decline to **21% share in 2018**
- Other sports performed well (Football acca's)
- But...aggressive expansion of **FOBT's** has stolen the lion share
- FOBT's more than 50% of gross win; likely higher share of profit (low cost)

Digital

- Difficult to get real intelligence
- **Racing share decline** at slower rate due to channel shift
- Football growth by static share
- Multiple other products

Funding and Levy Challenge



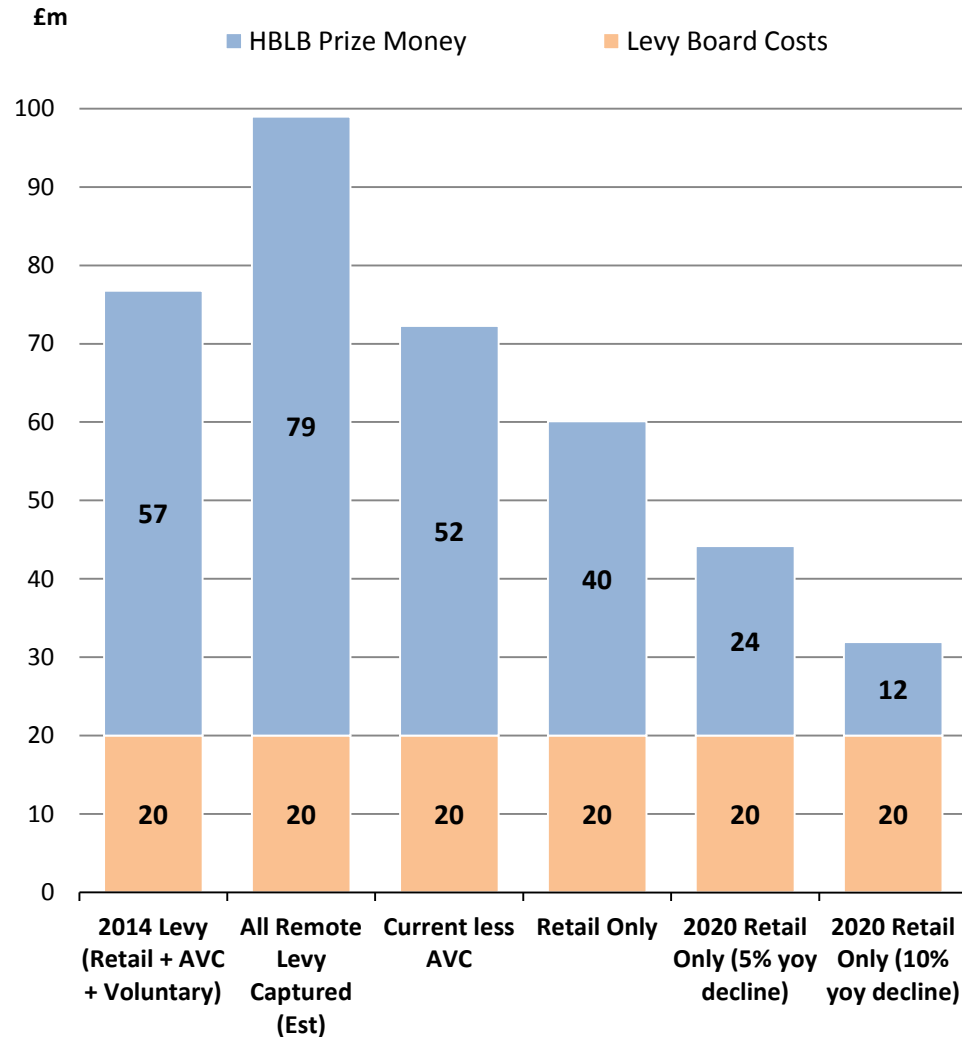
- Old legislation, in need of improvement
- Levy of **10.75%** paid on **retail gross win on UK horse racing bets only**
- Levy distributes funds to racecourses, predominantly for prize money
- Racing fixture list designed to avoid clashes
- Creates established betting product for retail estates
- BUT, levy **does not** currently **capture online** business
- Consequently, significant **funding source of industry at risk**; exacerbated by **channel shift**
- Betfair and Bet365 voluntarily contribute equivalent sums
- Potentially very substantial **risk to prize money levels**

So, how bad could things get if nothing was done...?

HBLB Prize Money Impact



Levy yield and spend allocation scenarios

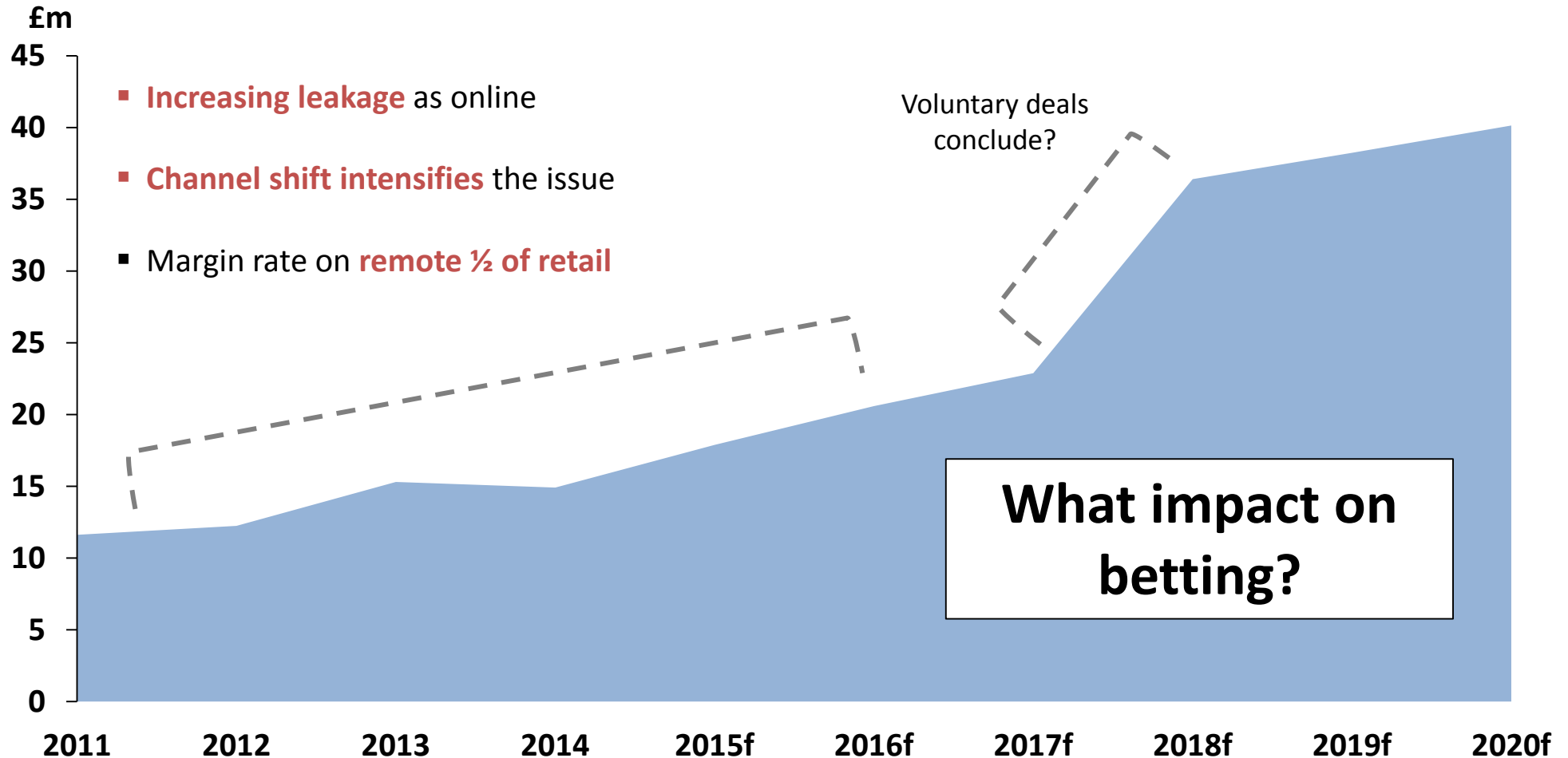


Commentary

- If remote **all** levy is captured (2014), HBLB prize money growth of **£22m**
- 2020 vision looks very challenging
- Assume 5% year-on-year reduction in retail performance, less AVC and Betfair and B365 voluntary contribution, HBLB prize money contribution of just **£24m by 2020**
 - ↳ **£33m** deficit or **57%** reduction
- Assume 10% year-on-year reduction reduction in retail performance, less AVC and Betfair voluntary contribution, HBLB prize money contribution of just £24m by 2020
 - ↳ **£45m** deficit or **79%** reduction

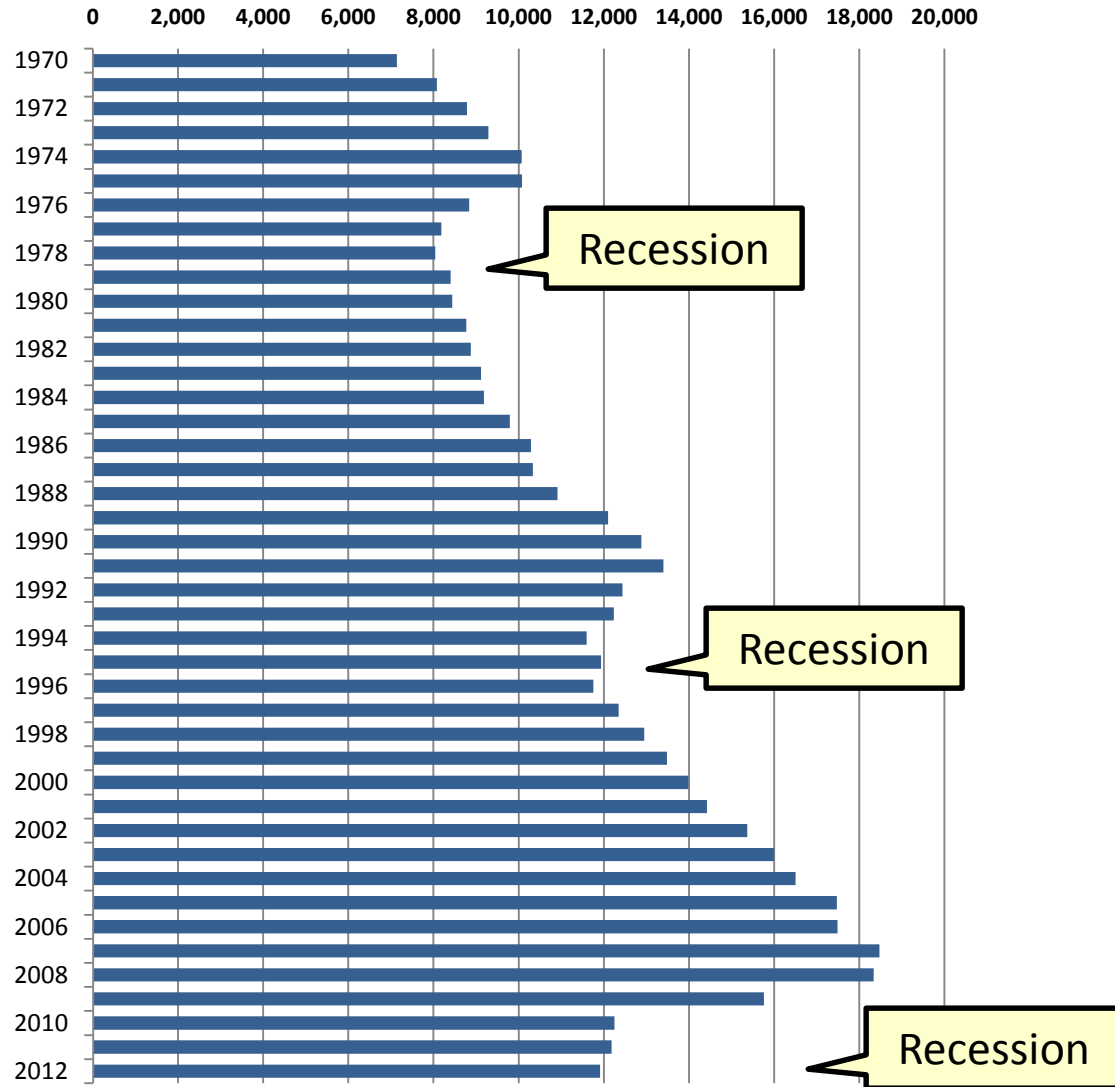
Levy Leakage Worsening

Funding leakage forecast from online horseracing, not captured by levy



Impact on betting

UK & Irish foal crops



- Prize Money directly affects **ownership economics**
- **94% correlation** between field size and betting turnover (4 – 18 runners)
- Ownership is a hobby, but wider economics clearly highlights **impact on foal crops, and therefore field size**
- **Less than 1%** of owners made a **profit** from racing in class 4 – 7 (excluding capital costs of purchase)
- Class 4 – 7 is **>80% of fixture** list and est **50% - 60% of turnover** (likely higher gross win %)

How can we solve this?

1. Government and Racing



HM Government

- March 2015, **UK Chancellor** announces intention to introduce a **“Racing Right”**, that would capture off-shore leakage
- **Time horizon** on introduction is **unclear**; Chancellor mentioned in “this parliament” i.e. in next four years from now. Some commentators say it could be **2018 or later**
- Funding of British horseracing at significant risk until that time
- And the Government would prefer Racing and betting come to their own commercial arrangement before intervention

2. Authorised Betting Partners



- **BHA, RCA, and Horsemen's Group** (tripartite structure that governs UK racing) are leading the initiative.
- Aim to establish a **more commercially aligned and value adding** relationship.
- Rewards those betting operators that make a contribution to Racing on their digital businesses, by becoming "Authorised Betting Partners"
- **Jockey Club Racecourses and Arena Racing Company** (c.60% of fixture list) supporting the initiative by **stating they will not enter into commercial deals** with betting operators that are not signed up to ABP, which could include:
 - └ Sponsorships
 - └ Access to ticket concessions, Wifi access on-course
 - └ Access to race course customer data
 - └ Streaming deals



Outcome should lead to reduced costs to betting shops

3. New Media Rights Deal



Racecourse Media Group (34 racecourses) announce 5 year deal with SiS for pictures to be delivered into betting shops from 2018

Deal Rationale

- Retail media rights **market had some inefficiencies**
- RMG estimate **£60m - £80m** per annum of lost to leakage
- Opportunity **to restructure market** and address some of this
- Start working more collaboratively with bookmakers: shared interests in growing sport



Deal Outcomes

- Increased **revenue for RMG** tracks
- SiS restructure business to make racing **business unit very low margin**
- **Reduced costs** to betting shops
- Racecourses incentivised to improve **quality of betting product**
- Licence fees structured to **heavily incentivise** this
- Align economic interests with bookmakers to grow betting turnover on racing

4. The UK Tote Opportunity



- Historically, the **UK Tote has under indexed market growth rates**
- Current licence is held by private operator, Betfred, which becomes non exclusive in July 2018
- One off chance for racing to take control of core racing offering. RMG is providing leadership and structure for the UK racing industry to look at **positioning options.**
- Rationale - only a large **unified single tote works**. Multiple competing totes cannot achieve sufficient liquidity. Best option appears to be racecourse ownership and **Pool USP** of small stake big win.
- **Racecourse control** of on course and international liquidity means any non racecourse Tote will struggle.
- Objective: to deliver a **revolutionised UK pools betting product and reverse the decline**
- How? **Technology, racecourse and bookmaker cooperation** all mission critical



UK Tote – A New Vision



“A UK Racecourse Collective running its’ own **revolutionised pools** betting operation leveraging the very latest in cutting edge **technology** to deliver the most innovative global racing wagering product and the most finely tuned **customer centric betting experience** across **all distribution channels** for the good of UK racing”

On-course



- Re-invigorate → modern and relevant

Off-course



- New opportunity and new revenue stream

**Add More
Control**



- Put racecourses in the driving seat and create more value

An upturn for the UK Tote?



- Strategy and positioning options – **fixed odds versus exchanges versus pools**
- On-course is important but **strategic opportunity is also off-course** where industry currently obtains zero value.
- Racecourse operated. LBO and online bookmakers provide the distribution.
- **Exotics are the key product** proposition of the Tote
- Road-shows with bookmakers at end of 2015 were well received
- Further, market research tells us there is an **underserved opportunity** on the market
- Very long way to go – racing collective established, bookmaker deals signed, products agreed, technology supplier appointed, branding etc
- But nonetheless, **size of prize extremely significant**, important and valuable for UK racing
- **Somebody will take this valuable opportunity if racing does not. Key decision to be made.**



Future Funding of Racing?

- Real opportunity for growth

Commercial alignment

+

New Levy Replacement Paradigm

+

Racing Tote

+

?Racing Right?



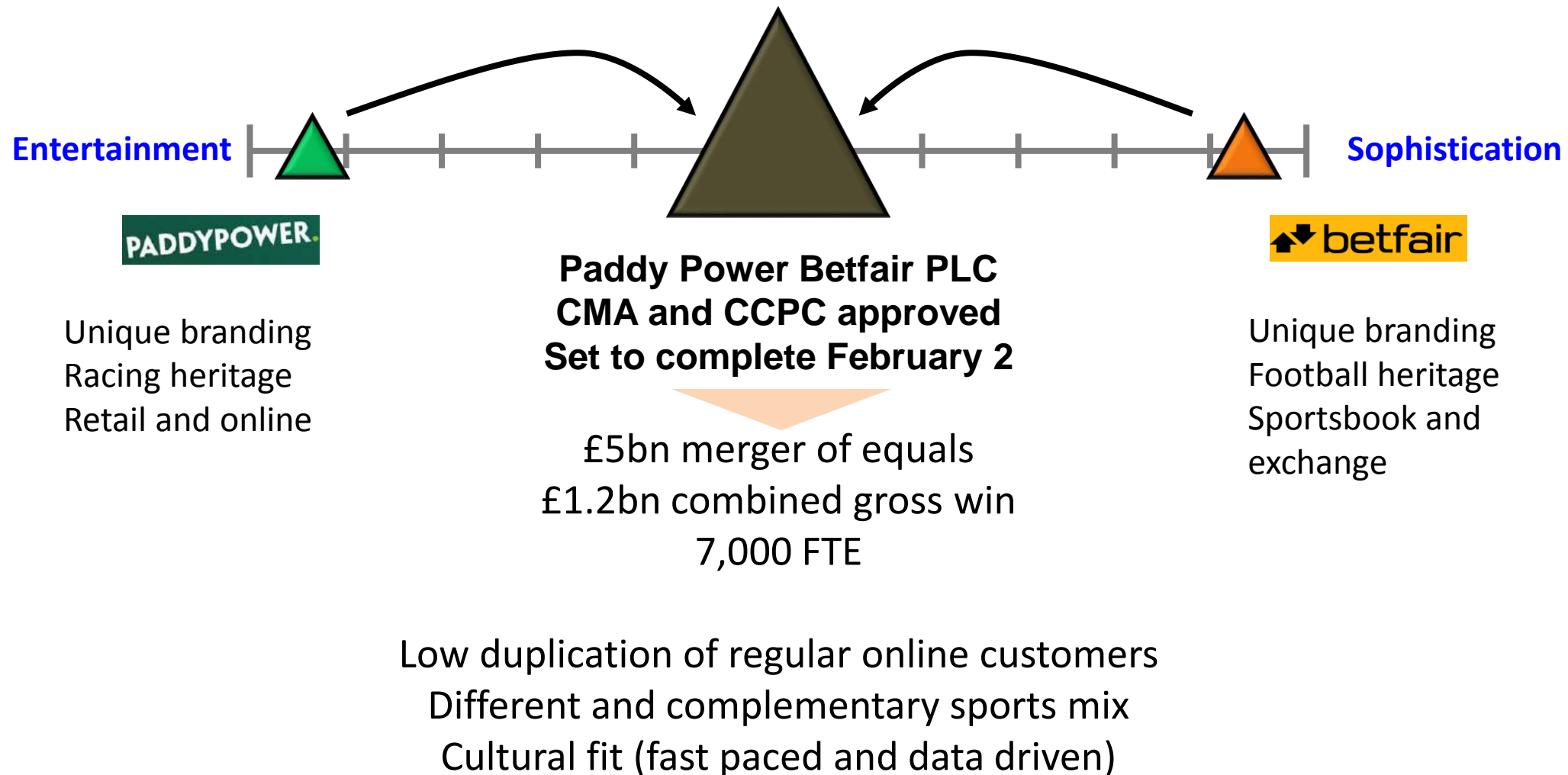
- Risk is without these ingredients, decline will continue to detriment of both racing and betting operators

The Mega Mergers

Paddy Power and Betfair



Combining 2 betting operators at opposing ends of the entertainment and sophistication spectrum makes for compelling strategic rationale



Ladbrokes and Coral

Deal Value	£2.3bn
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Retail Estate	c.4,000
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FTE's	25,000
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- CMA regulatory approval less straight forward
- Potential sale of some of the retail estate
- Largest retail estate
- Faster online growth
- Cost synergies

Impact on Racing

- Diminished price choice for consumers **could boost margins and levy**
- Could make media rights deals more difficult due to **one larger operator**