



Progress Report on NZTR Initiatives

Dear Stakeholder,

At the beginning of a new season of racing, it is my pleasure to provide a progress report on initiatives that NZTR has carried out, has in progress and is considering. I look forward to discussing the initiatives in more detail and receiving feedback in industry forums around NZ in early-mid September. Following those forums, NZTR will update and release its Business Plan for 2013-15, which will include a report on the targets set out in the 2012-14 Business Plan.

1. INTER-CODE AGREEMENT

This agreement reached in July 2011 was a landmark for the codes. It provides a strong degree of downside protection regarding the NZRB's distribution and it makes a modest move away from the Section 16 allocation to a defined percentage in return for each code meeting various product supply criteria. This certainty was critical for NZTR given the funding reversals and impact on prizemoney suffered in 2010/11. I am pleased to report that NZTR was the closest of the codes in meeting its field size criterion and we comfortably scheduled the agreed number of races and meetings.

	THOROUGHBRED	HARNESS	GREYHOUND
FY12 Targeted field size target	10.80	11.50	7.99
FY12 Actual field size	10.59	10.72	7.81
Proportion of target	98.1%	93.2%	97.7%

The agreement is reviewed annually and expires at the end of July 2015. A number of elements are currently being reviewed to recognise that while field size is an important driver of wagering, actually conducting the targeted number of meetings/races and minimising the number of fields with less than eight starters are at least as important.

2. MONDAY RACING

Monday racing began on 5 March 2012. This is an important component behind the Inter-Code Agreement, with the underlying principle being that NZTR is paid above its domestic market share percentage to recognise the:

- Extra costs of holding more meetings;
- Money saved by HRNZ from holding fewer meetings with more races; and,
- Upside for overall wagering due to the most popular code holding more meetings across the week.

Our analysis showed that races prior to 12.30pm midweek and noon on Saturdays, as well as some non-summer Sundays generated very poor wagering turnover and that the new Monday meetings could therefore be formed from these races. NZTR also identified Monday as a day with fewer Australian meetings, with this potentially allowing more favourable placement in the Australian broadcast schedule. While we have made some progress in lifting the number of races on Sky1, more remains to be done.

Key indicators such as field size, market share and wagering turnover have all moved favourably since Monday racing began in March.

NZRB domestic thoroughbred totalisator and fixed odds sales for the period:

- 1 August 2011 to 4 March 2012 was down -\$11.8 million (-4.2%) compared to the prior year period;
- 5 March 2012 to 31 July 2012 was up +\$7.4 million (+5.2%) compared to the prior year period;
- 1 August 2011 to 31 July 2012 was down -\$4.2 million (-1.0%) compared to the prior year period.
- NZRB international thoroughbred totalisator and fixed odds sales for the period:
 - 1 August 2011 to 4 March 2012 was up +\$10.4 million (+4.4%) compared to the prior year period;
 - 5 March 2012 to 31 July 2012 was up +\$19.1 million (+11.9%) compared to the prior year period;
 - 1 August 2011 to 31 July 2012 was up +\$29.4 million (+7.4%) compared to the prior year period.
- NZRB combined domestic and international thoroughbred totalisator and fixed odds sales for the period:
 - 1 August 2011 to 4 March 2012 was down -\$1.4 million (-0.3%) compared to the prior year period;
 - 5 March 2012 to 31 July 2012 was up +\$26.6 million (+8.7%) compared to the prior year period;
 - 1 August 2011 to 31 July 2012 was up +\$25.2 million (+3.1%) compared to the prior year period.

NZTR acknowledges that the New Zealand wagering environment is dynamic and other factors such as the introduction of fixed odds place betting, improved NZRB customer relationship management, changes in the racing schedule and changing economic conditions also impacted favourably during the period since the commencement of the Monday racing schedule on 5 March 2012.

NZTR recognises that Monday racing has placed greater demands on industry participants. However, we believe the lift in industry income, the increased opportunities to place a horse, and the lesser amount of racing on high cost Sundays has made it well worthwhile.

As part of the Inter-Code Agreement, NZTR also agreed to a limited schedule of spring/autumn Tuesday meetings to meet the NZRB's international commitments. These have performed adequately but have not been ideal. In combination with negotiations around race start times, NZTR will run three less Tuesdays than originally planned in FY13, with the twenty-three races being redistributed to Saturdays.

3. FUNDING POLICY FOR FY13

Minimum prizemoney payments will rise by \$3.0m in the FY13 season. Despite a slight reduction in the originally projected NZRB distribution for FY13, the NZTR Funding Policy forecasts prizemoney funding of \$47.5m compared to \$44.5m in FY12 and \$41.9m in FY11. The \$3.0m increase is comprised of:

- Full year of prizemoney increases introduced from 1 March 2012;
- Upgrade of 11 meetings from Industry to Tier 2 Feature and 7 from Tier 2 Feature to Feature compared to the original plan;

- Dispersal of races from three Tuesdays across higher prizemoney Saturdays.

The NZTR Board has discussed at length the removal of the \$50 nomination fee. The removal from all maiden and rating 65 races would cost \$1.4m, with a further cost in maintaining relativity with rating 75 and higher races. Removal of the fee will be a priority in the event of future funding increases.

At the other end of the spectrum, the next priority will be concentrating increased funding on a small number of iconic race days, where a major marketing push can be made to attract new owners, bettors and race-goers beyond our current participants.

The Board is not satisfied that the current suite of Premier race-days is performing as it should, with a number of days being reviewed during the FY13 season in terms of attendance, turnover and other performance measures.

The options being considered include:

- Fewer Premier days with higher prizemoney races to provide an aspirational goal for owners and trainers, with a lift in feature funding; or
- Retaining the status quo to provide a broad set of opportunities to owners and clubs across the racing year.

NZTR will assess these options as FY13 progresses and feedback from stakeholders is welcome.

4. FILLIES AND MARES STRATEGY

In the FY11 season, fillies and mares comprised approximately 54-57% of the horse population but were just 46.5% of individual starters and 45.0% of individual winners.

As a trading nation of horses, the long-term success of our industry is dependent upon developing the country's female racing opportunities and broodmare band. The current disproportion of female starters and winners is unacceptable in terms of foregone racing opportunity and the disincentive to breed the future racehorses.

In response, NZTR has considerably increased female opportunities by lifting the weight allowance from 1.5kg to 2kg in November 2011 and establishing a national series of lower grade fillies/mares races with higher prizemoney. These changes have been successful thus far, with females rising to 47.2% of individual starters and 45.8% of individual winners. NZTR continues to work with the NZTBA and NZTM in supporting the introduction of a fillies and mares scheme designed to revive ownership interest in fillies and mares and reduce "wastage" in the present and maintain horse numbers for the future.

5. HANDICAPPING REVIEW

NZTR is pleased with the initial results of the handicapping review that were implemented in November 2011 and further improved in June 2012.

Prior to this season, there was an unacceptable bunching of horses in the rating 70 band which both limited opportunities in that grade and led to consistently poor field sizes in the rating 80 and rating 90 grades.

Changes occurred progressively over the course of FY12, so we expect to see a further evening out of field sizes in FY13. This will lead to more racing opportunities and better wagering outcomes as we reduce the number of races with less than eight starters.

After initial doubts in some quarters, the benchmark system has proven extremely effective in lifting opportunity and bolstering field size in the rating 75 and rating 85 grades. From June, all rating 65-85 races have become benchmarks, with the

one proviso that 2 win+ horses that are rated 66 or higher cannot race in the rating 65 grade. We do not want a repeat of the former rating 70 log-jam. Stakeholders have expressed some concern that placed horses can be re-rated out of their class and then struggle to get a start in the higher band. The benchmarking of all races largely deals with this issue.

6. JUMPS RACING

Well-signalled stakes increases for jumping races began on 1 March 2012. However, while acknowledging the long lead-times in getting a jumper to the races, we have been disappointed with the field sizes this winter. The overall FY12 season has seen an average jumping field size of 8.4 compared to 8.7 in FY11. As a result, NZTR in co-operation with New Zealand Jumps Inc will conduct a review of the location and structure of jumps racing ahead of autumn 2013. Re-engagement with hunt clubs and a focusing of activity on regions with a sustainable base of horses and riders are two obvious focus points. With NZTR's income from the NZRB being dependent on conducting specified numbers of meetings, races, field sizes, and fields of less than eight starters per race, we cannot afford to let this issue drift. We welcome engagement and ideas to revitalise jumps racing.

7. RACE CLUB PERFORMANCE & STATUS

In FY12 63 different clubs conducted thoroughbred racing at 49 different venues. As one might expect from such a spread, there is a wide variety of operational and financial performance across these clubs and racemeetings. NZTR has introduced standardised race meeting reporting templates which have already provided extremely useful information to identify operational and financial issues.

In the FY13 NZTR Funding Policy has incorporated a modest race-day support payment of \$3,500 for "strategic" and \$1,500 for "significant" venues. This reflects the higher standards expected of these venues and the higher associated costs. The categorisation of venues has been based on a detailed score-sheet incorporating factors such as turnover, starters trained, proximity to horse population, proximity to customers and other factors.

NZTR has no desire to rationalise venues as an end in itself and we would indeed face some difficulty in doing so given current race surface requirements. Our focus is to gradually move the calendar to concentrate racing at key venues to spread the cost of their infrastructure and professional management, while ensuring that smaller volunteer-based clubs have an amount of racing that they are able to conduct. In broad terms, the intention is to have more 10+ meeting venues, more 1-2 meeting venues and fewer venues running 3-9 meetings.

Avondale's future is central to any wider decisions in the northern region. The Avondale Jockey Club (AJC) has met a series of conditions previously set out by NZTR for a resumption of racing. This was disappointingly delayed to give the track time to consolidate following its sand-slitting and drainage work. Recent feedback from gallops on the course proper has been excellent, with a full trials meeting scheduled for early September. The AJC is working positively on a venue Spatial Plan, which will aim to realise some of the considerable value inherent in the site and ensure the venue's long term financial viability.

8. SYNTHETIC TRACK

NZTR has carried out considerable work on the technical aspects, costing and possible locations for a synthetic track. The first such track will logically be located in the Waikato/Counties region to maximise its use given the capital investment required.

There is a variance of opinion as to the desirability of such a track but we view it as essential. While a well-prepared grass track is preferable, evidence provided to NZTR suggests that a properly drained and laid synthetic surface outperforms a variable grass track during the wetter months of the year. A synthetic surface would be a work-horse track for the industry, capable of hosting more than 40 mid-week race and trial meetings and significant numbers of horses in training. The missing piece to the puzzle is a workable funding model which recognises the revenue upside and cost savings that an artificial surface will provide. We are confident that a solution will be found.

9. RACE STAKES PAYMENTS TO TRAINERS AND RIDERS

The previous NZTR Board identified inconsistencies within the Rules of Racing relating to the payment of prizemoney percentages to trainers and riders and to the long-standing practice of NZTR (on behalf of Clubs) paying prizemoney in three components, directly to owners, trainers and riders.

In early 2011, NZTR consulted with stakeholders on proposed changes to the Rules. These changes were intended to recognise the important services provided by trainers and riders to Clubs; resolve ambiguities and contradictions within the Rules; better reflect actual practice; and align NZ with the equivalent rules in Australia.

Prior to implementing these changes, the previous NZTR Board prudently sought a binding ruling from Inland Revenue confirming the GST consequences of the proposed changes – being NZTR on behalf of Clubs could recover all GST added to trainer and rider payments. Unfortunately, Inland Revenue has adopted a contrary position. NZTR remains committed to proceeding with these rule changes and to operating in accordance with the law and the Rules of Racing. It is likely NZTR will seek to have the matter resolved by a court before implementation can be completed. We are currently considering the most cost effective way to proceed.

10. INSURANCE

The tragic earthquakes in Christchurch have major cost ramifications. The traditional process of each club arranging its own insurance cover is extremely inefficient as the benefits of scale and geographic risk diversity are lost to the industry. Moreover, post-Christchurch, it is now all but impossible for some clubs with older buildings in high risk areas to arrange earthquake cover or it is on unacceptable commercial terms. NZTR has been working to put in place a group scheme covering all clubs on a first risk basis. We have strong indications that this will be at cheaper premia, lower deductibles and better terms and conditions. Clubs in low risk areas will not be subsidising clubs in high risk areas. A premium allocation scheme will ensure that all clubs will pay lower premia with better terms and conditions than they would have otherwise. While we understand the long-standing club insurance relationships that have existed in some cases, the world has utterly changed and we are determined to get this scheme over the line in the FY13 season for the benefit of all clubs.

11. ACC COSTS

ACC costs will fall sharply in FY13. ACC costs have been a significant issue in recent years, with trainers and therefore owners facing a major cost burden due to the levy rate increasing from 6.28% in FY08, to 7.25% in FY09, 8.85% in FY10 and 11.17% in FY11. However, I am pleased to advise that after a decline in the levy to 9.58% in FY12, it will fall further to 6.91%

in FY13. This reflects a combination of changes at ACC and excellent work between NZTR, the NZ Trainers Association, NZ Thoroughbred Breeders Association and NZ Jockeys Association to improve work practices and have the nature of the employee risk correctly defined. There may be potential to lower the impact of levies further and we will work with industry bodies in the coming period towards such an aim.

12. DIGITAL BUSINESS STRATEGY

The world is moving online and our industry simply must move with it. NZTR has started development of a wide-ranging digital business strategy.

Our website www.nzracing.co.nz has extremely impressive visitation metrics with more than 3.2 million hits a year, accessing an average seven page impressions per visit with an average of seven minutes of engagement per visit.

Whilst our website has enormous commercialisation potential it is currently severely under-utilised and it is technologically dated. The NZTR Board has approved the initial stage of a five prong strategy, which will focus on:

- Commercialisation;
- Website redevelopment to greatly enhance usability and integrate new social media technologies;
- Social racing ownership campaign to introduce new participants to our sport;
- Industry web platform to provide a single solution for stakeholders and the training and devices that will be required for our participants to utilise it; and,
- Social media content generation to attract the “next generation” of racing participants.

NZTR is well aware of the execution risks and potential costs in this area but has undertaken an in-depth review process, which together with a phased delivery will mitigate these risks. We look forward to delivery of Stage 1, which will include a website revamp in December 2012.

13. GAMING MACHINES & GAMBLING HARM REDUCTION AMENDMENT BILL

NZTR has made a detailed submission to the Commerce Select Committee with regard to this Bill and is hopeful that it will not proceed in its present form. NZTR opposes this Bill on the primary grounds that:

- It singles out racing for exclusion, while all other sports will continue to receive gaming grants;
- In 2003, the Gambling Act was amended and racing was aligned with other sports to be allowed to apply for funding from gaming trusts. Nothing has changed since then which requires reversal;
- In contrast to the Bill's statement that “racing... is inconsistent with the community benefit tenor of the rest of the Principal Act,” racing clubs are an integral part of their local communities. Across the codes, over 1,000 race-days were attended by over 1m people and over 270 community organisations and charities use racing club facilities every year;
- There is a view that racing receives special consideration but the facts are that thoroughbreds received just 2.7% of all grants in 2011, well below professional sports such as rugby at 10.6%, soccer at 3.7% and cricket at 3.2%.

14. PATTERN RACING

The future of NZ Pattern racing is now secure. The Asian Pattern Committee requires all Asian Racing Federation members to adhere to guidelines based on the international ratings for

the first four place-getters in a race for that race to be rated as Group One, Two or Three. At this time last year, we were deeply concerned that NZ races, especially at 3YO level, were receiving unduly low international ratings, with their pattern status therefore being at considerable risk.

I am pleased to report that NZTR is now satisfied the international ratings of NZ horses. Our schedule of races does not face the systematic risk that it potentially did. Without pre-empting the report of the NZ Pattern Committee that will be released in coming weeks, it is my expectation that the status of a considerable number of individual NZ pattern races may change over the next 4-5 years to better reflect the merits of the horses contesting them, with the strong probability of some downgrading of our handicap racing and upgrading of our 3YO and fillies and mares events.

15. MARKETING

The historical fragmentation of marketing efforts between the NZRB, NZTR, NZTM, NZB, NZTBA and race clubs has been an obvious cause for concern. To provide some common direction, a Marketing Steering Group incorporating all of these parties has been formed and is working in a collaborative manner to drive new initiatives. As part of this process a Thoroughbred Brand will be developed, with this being integral to supporting initiatives around ownership, event promotion, wagering on thoroughbreds, on-course attendance and social media.

16. ANIMAL WELFARE

While tremendous good intentions have abounded, NZTR has historically lacked a comprehensive set of welfare policies and procedures. To resolve this, NZTR has:

- Approved in principle the formation of a thoroughbred rehabilitation organisation;
- While not enforceable under the Rules of Racing, NZTR has now joined many other countries in adopting the International Group of Specialist Racing Veterinarians' "Welfare Guidelines for Horse-racing" to provide a formal measure of welfare standards that are deemed acceptable;
- NZTR is considering some Rule amendments aimed at strengthening Rule 417 "Notification on Horse's Death" and a proposed new Rule re notification of horses leaving racing/breeding.

17. INDUSTRY TRAINING

The former Equine Industry Training Organisation (EqITO) lacked scale and did not provide a recognised framework of training/qualifications for all areas of our industry. The EqITO has now been merged into the much larger Agriculture Industry Training Organisation (AgITO) and formal qualification pathways are in place for all areas such as apprentice jockeys, stable hands, stable managers, racecourse managers and track-work riders.

NZTR has made it a mandatory licensing requirement that all new stable hand licensees complete a "Limited Credit Programme" of 20 credits out of the 100 credit Level 3 Stable Procedures Certificate qualification. This is based on keeping a diary of tasks and will ensure a basic level of competency and knowledge. Three regional NZTR Training Advisors who are sub-contracted to AgITO determine if there is sufficient evidence of competency or if more training is needed. There is a requirement to complete this programme within 12 months in order to retain the stable hand licence. We believe this will be met by the vast majority of stable hand participants.

I would like to conclude by thanking Greg Purcell and the entire team at NZTR for their hard work and dedication in the 2011/12 season. I would also take this opportunity to thank the outgoing Board members and management of the New Zealand Racing Board (NZRB) for their work, which has such major ramifications for our industry's financial health. I congratulate the new NZRB Chairman, Alan Jackson and the NZTR nominee, Greg McCarthy on their appointments along with that of the other new Board members and the CEO, Chris Bayliss. The NZRB's success in navigating the dynamic domestic and international wagering environments will be critical in providing the codes the financial ability to sustainably lift returns to stakeholders.

I look forward to meeting with you at the NZTR regional presentations in coming weeks and best of luck for your racing endeavours in the season ahead.

Yours sincerely

MATTHEW GOODSON

CHAIRMAN

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