



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

24TH - 29TH JANUARY 2016, MUMBAI INDIA

GALLOPING AHEAD GLOBALLY



Hosted by:



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Agenda

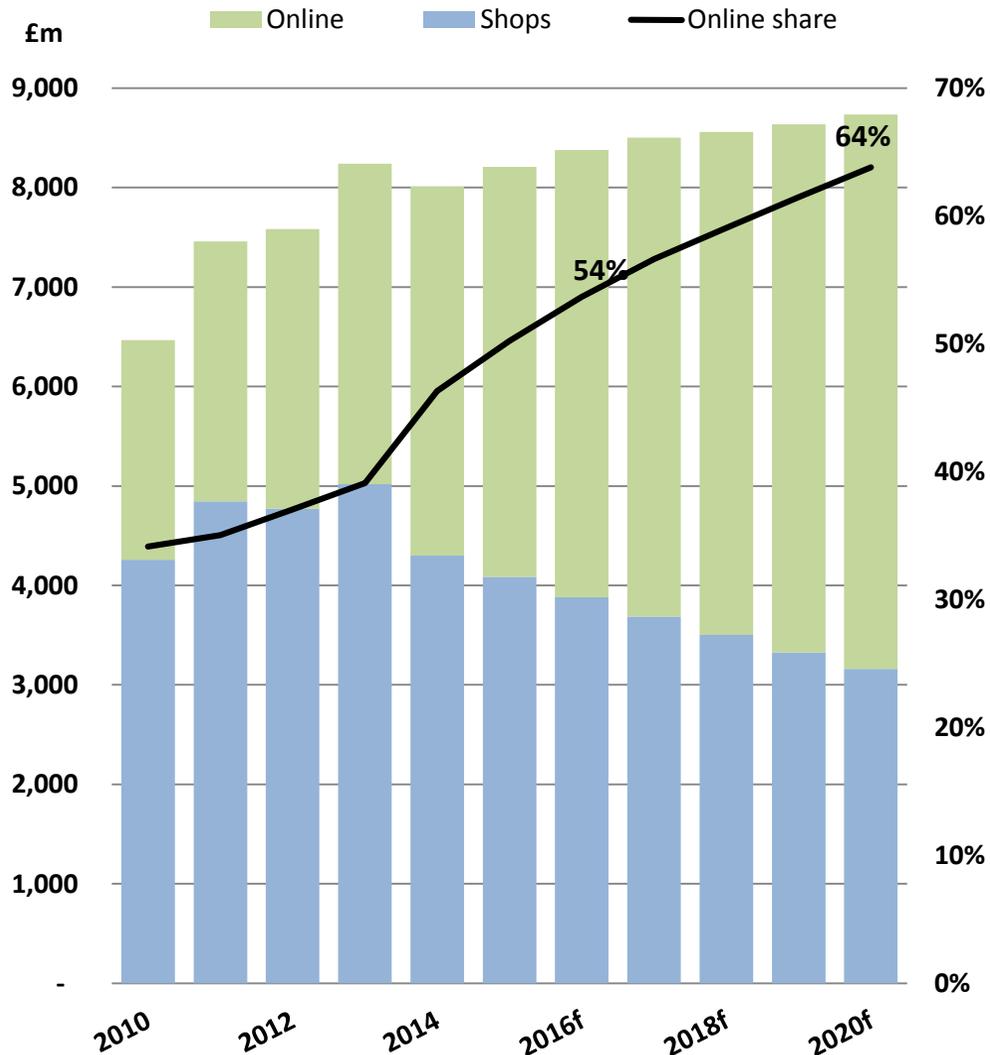
- UK Horseracing wagering performance - what are the latest trends?
- Funding, Levy, Prize Money
- Options to improve UK racing revenues
 - 1) The Racing Right
 - 2) Authorised Betting Partner
 - 3) Latest media rights deal
 - 4) The Tote
- Mega mergers - what will be the impact on UK racing?



UK Betting - Market Trends



UK Horse Racing retail and online turnover (£m)

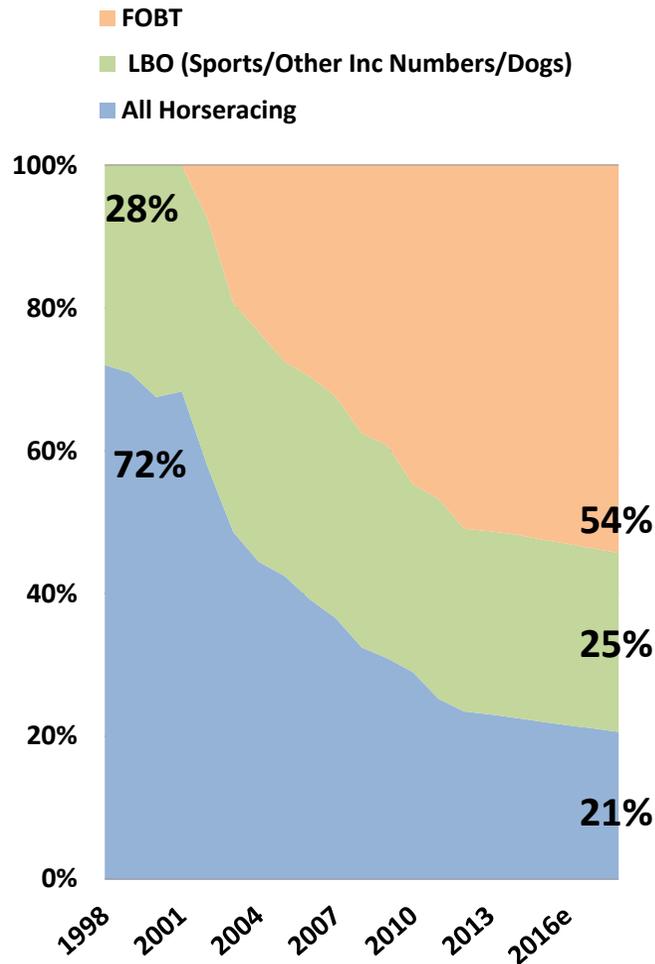


- Graph showing turnover of Horse Race betting
- Total market worth **more than £8bn**
- Market dominated by some major brands
- Vibrant, de-regulated and **highly competitive**
- Truly **multi-channel**: On-course, in shops, desktop, mobile, telephone
- Predominantly fixed-odds
- **Tote** a tiny but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

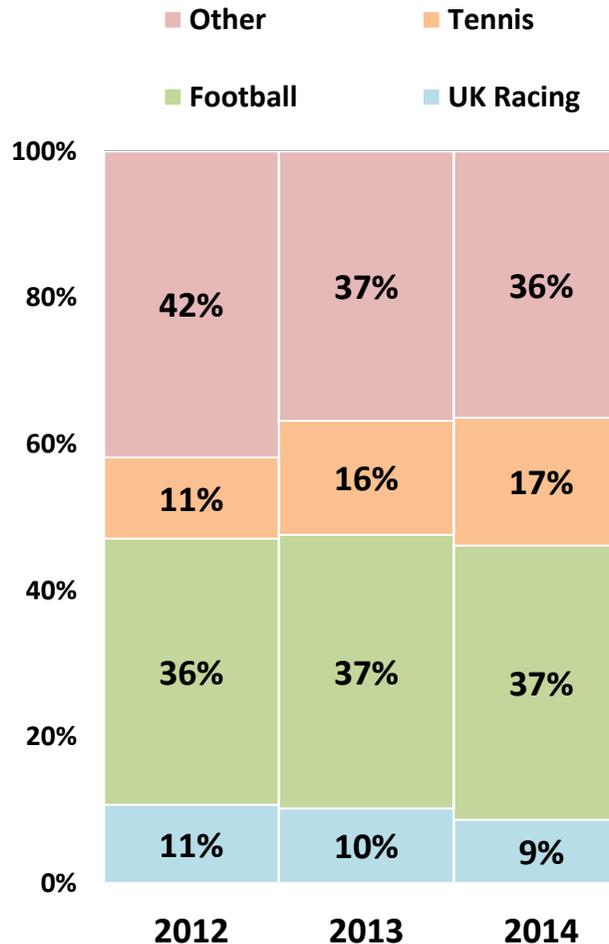
UK Betting - Market Share



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



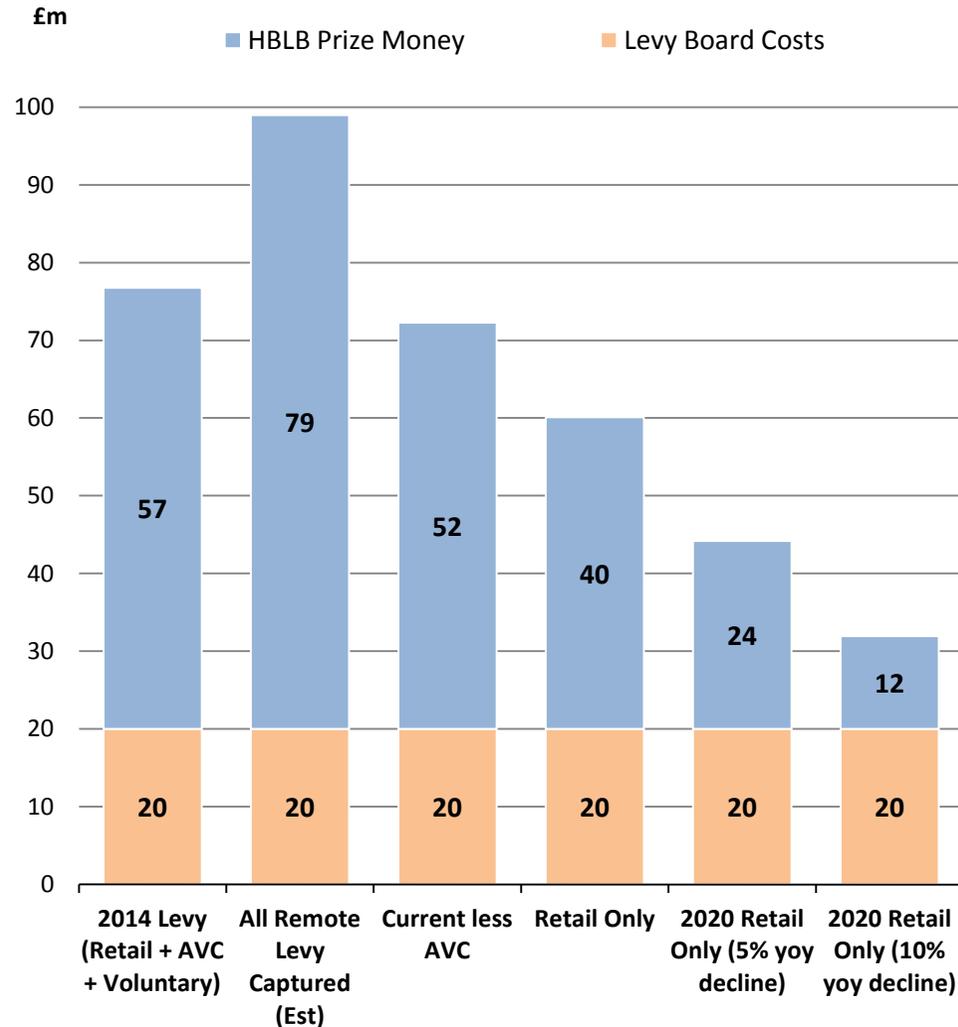
- Old legislation, in need of improvement
- Levy of **10.75%** paid on **retail gross win on UK horse racing bets only**
- Levy distributes funds to racecourses, predominantly for prize money
- Racing fixture list designed to avoid clashes
- Creates established betting product for retail estates
- BUT, 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

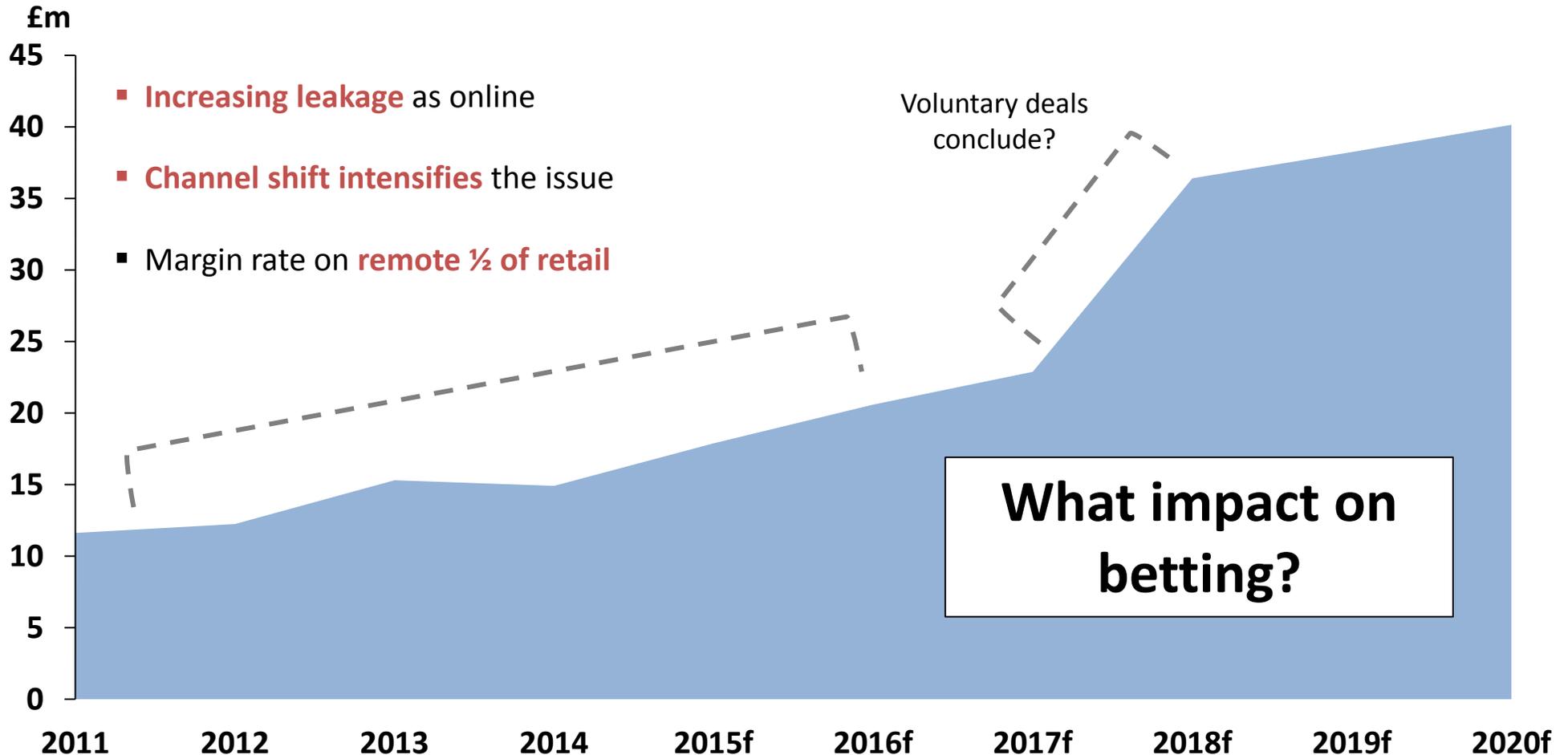


Commentary

- 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

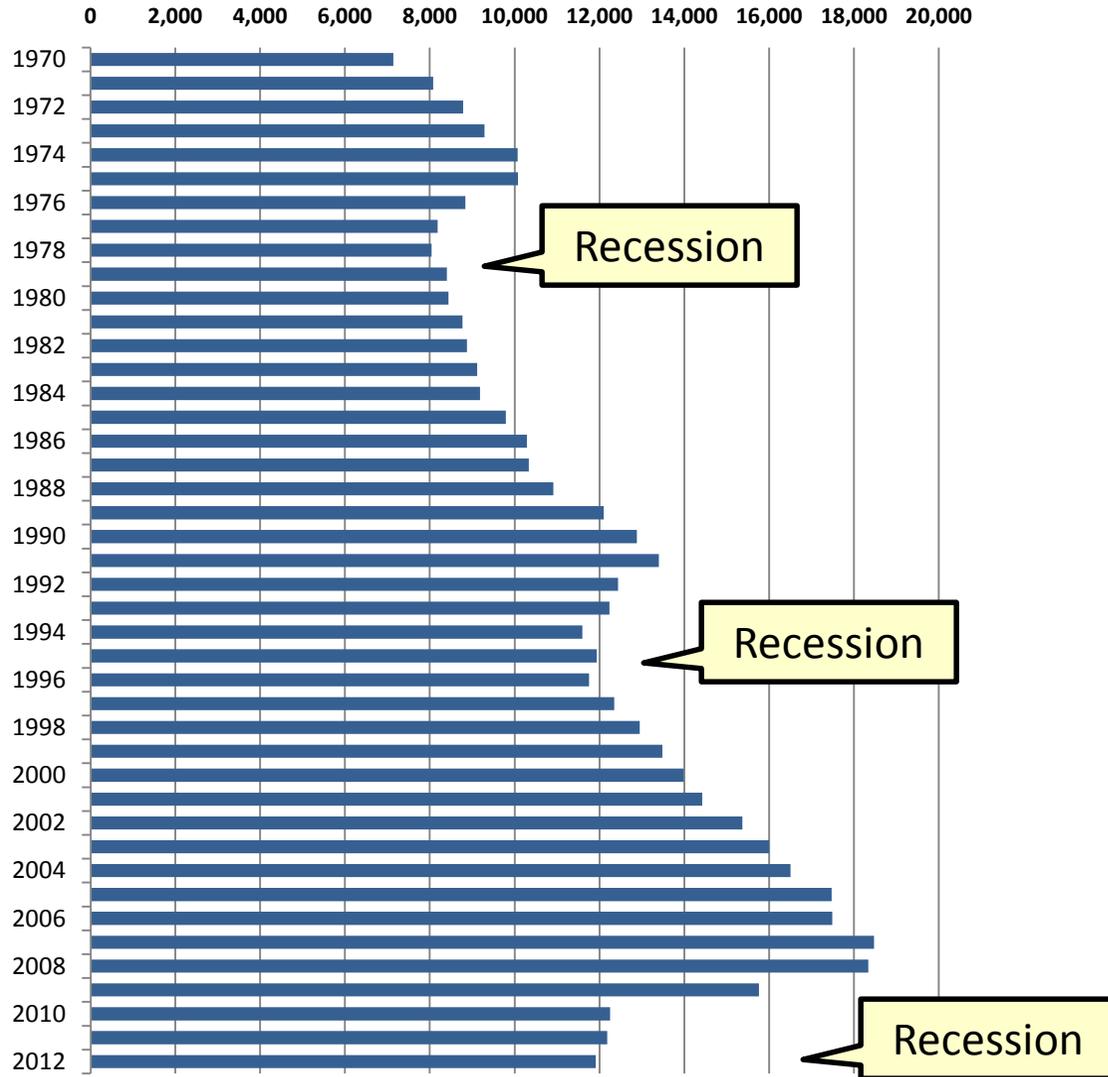
Levy Leakage Worsening

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?



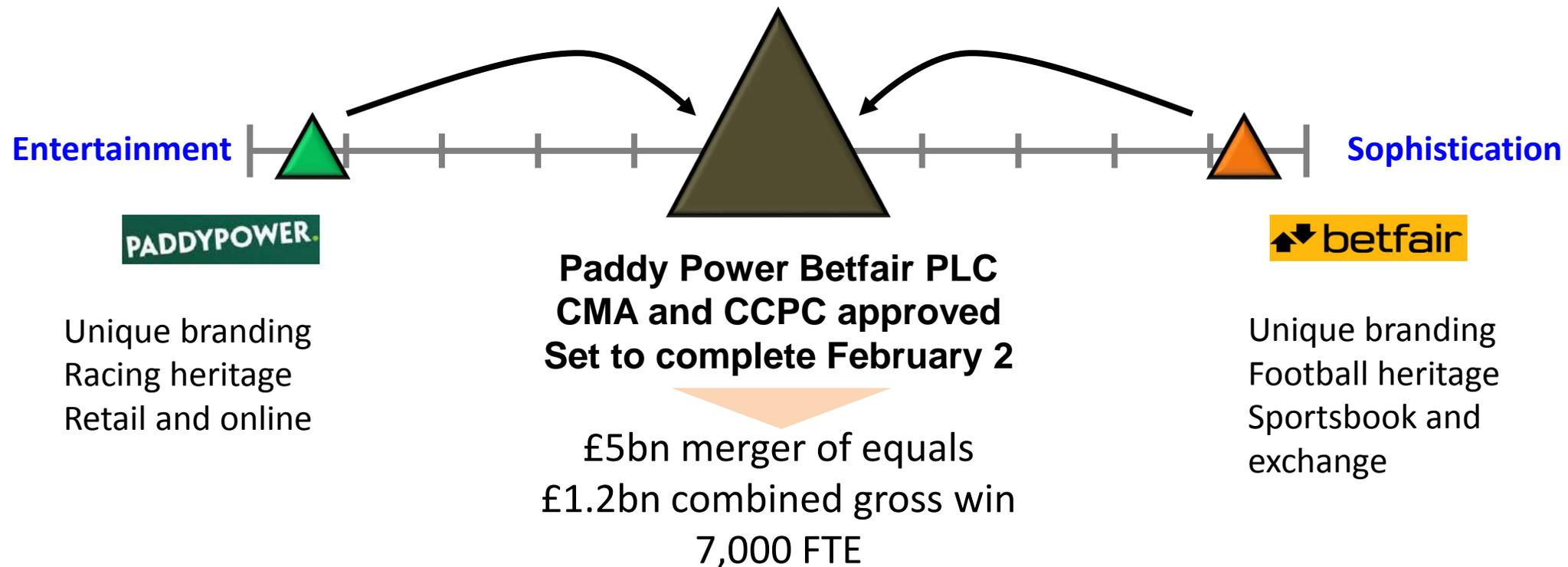
- Risk is without these ingredients, decline will continue to detriment of both racing and betting operators

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



Unique branding
Racing heritage
Retail and online

Unique branding
Football heritage
Sportsbook and exchange

Low duplication of regular online customers
Different and complementary sports mix
Cultural fit (fast paced and data driven)

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**