



# Why I'm Still Breeding Racehorses

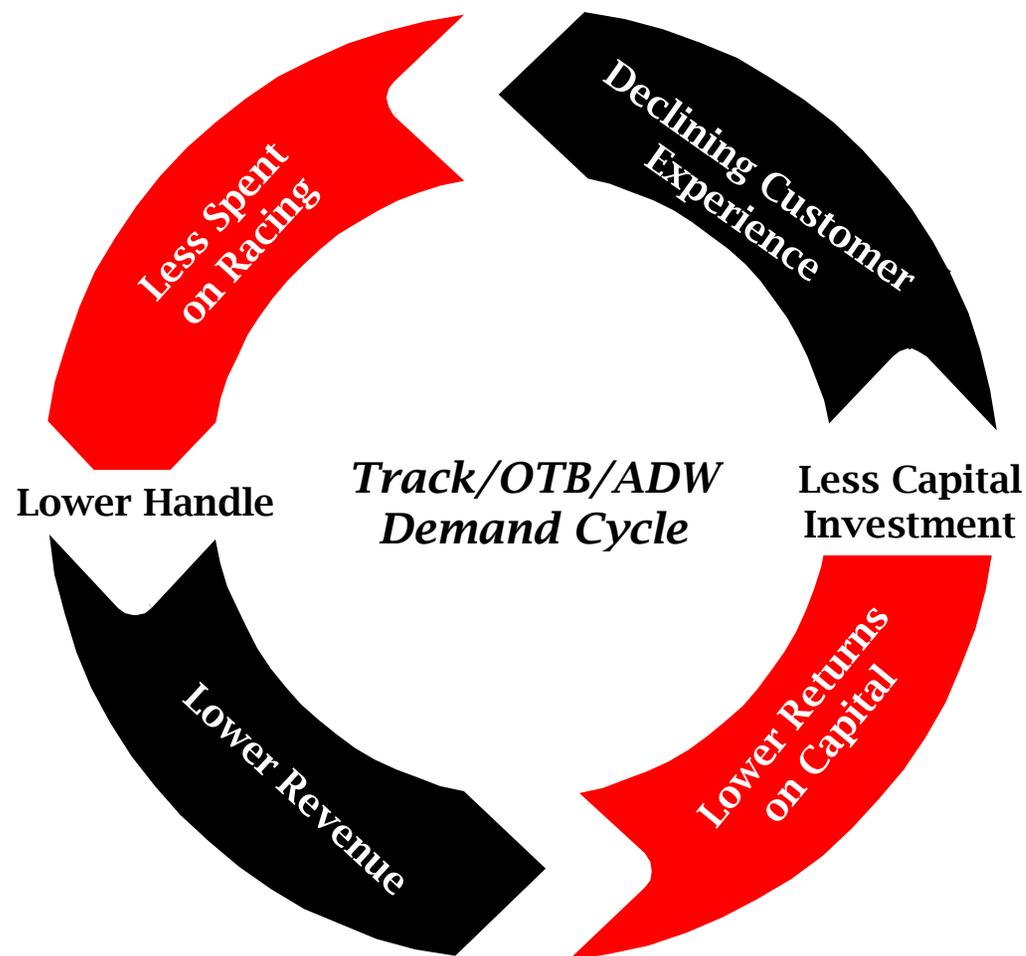
*Five reasons to be optimistic about racing's long-term future*



Bob Evans  
*CEO & President*  
*December 7, 2010*

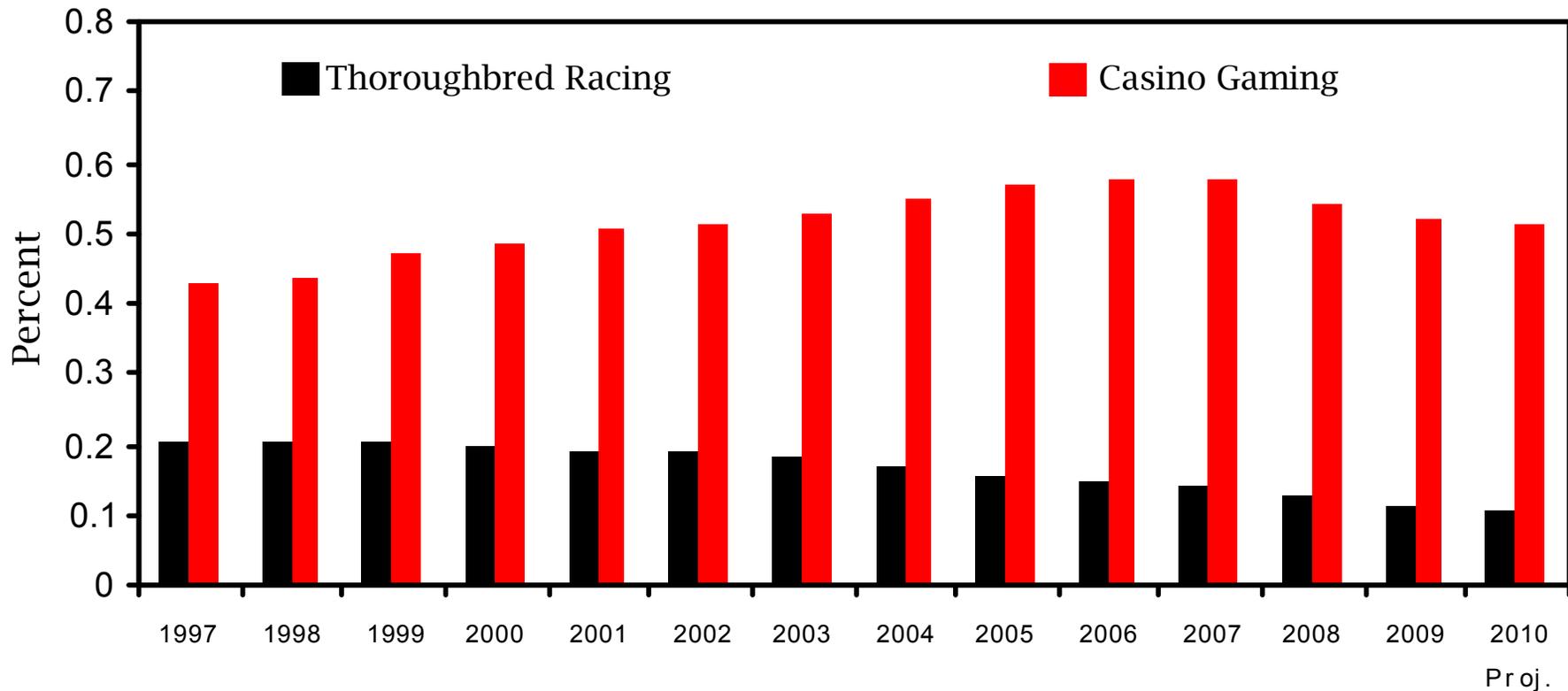
We all know the challenges thoroughbred racing faces.

... On the Demand Side



# Consumers are spending less on thoroughbred racing.

## U.S. Thoroughbred Racing & Casino Gaming as % of Personal Disposable Income

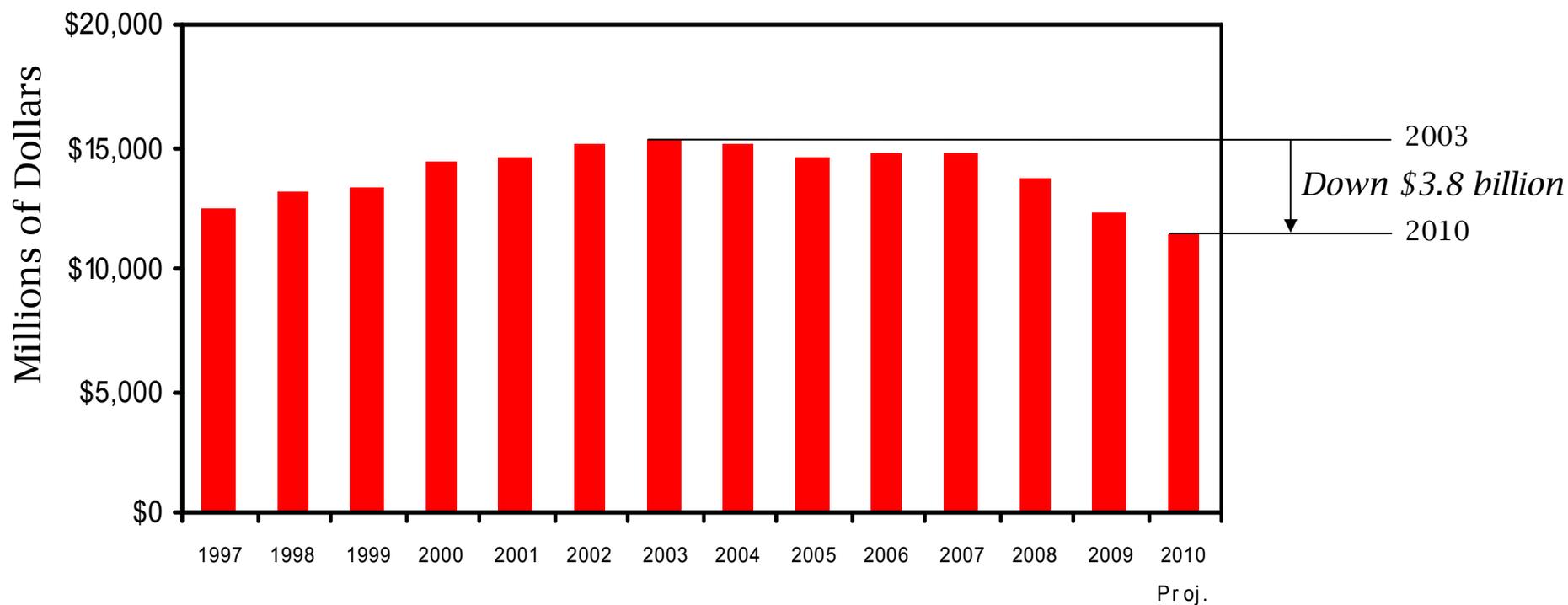


Handle has dropped from 0.2% to 0.1% of Personal Disposable Income.

Handle is declining.

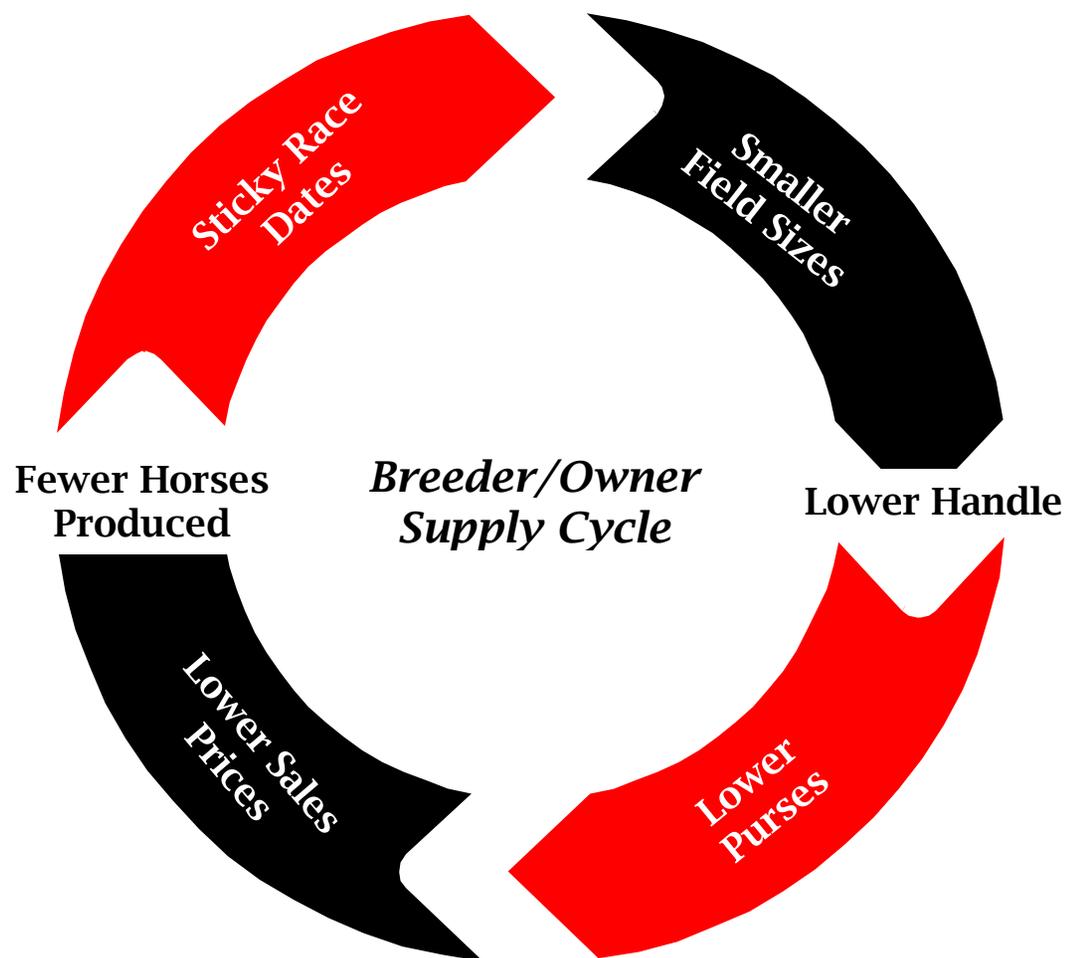
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## Total U.S. Handle



U.S. handle down 25% from 2003 peak.

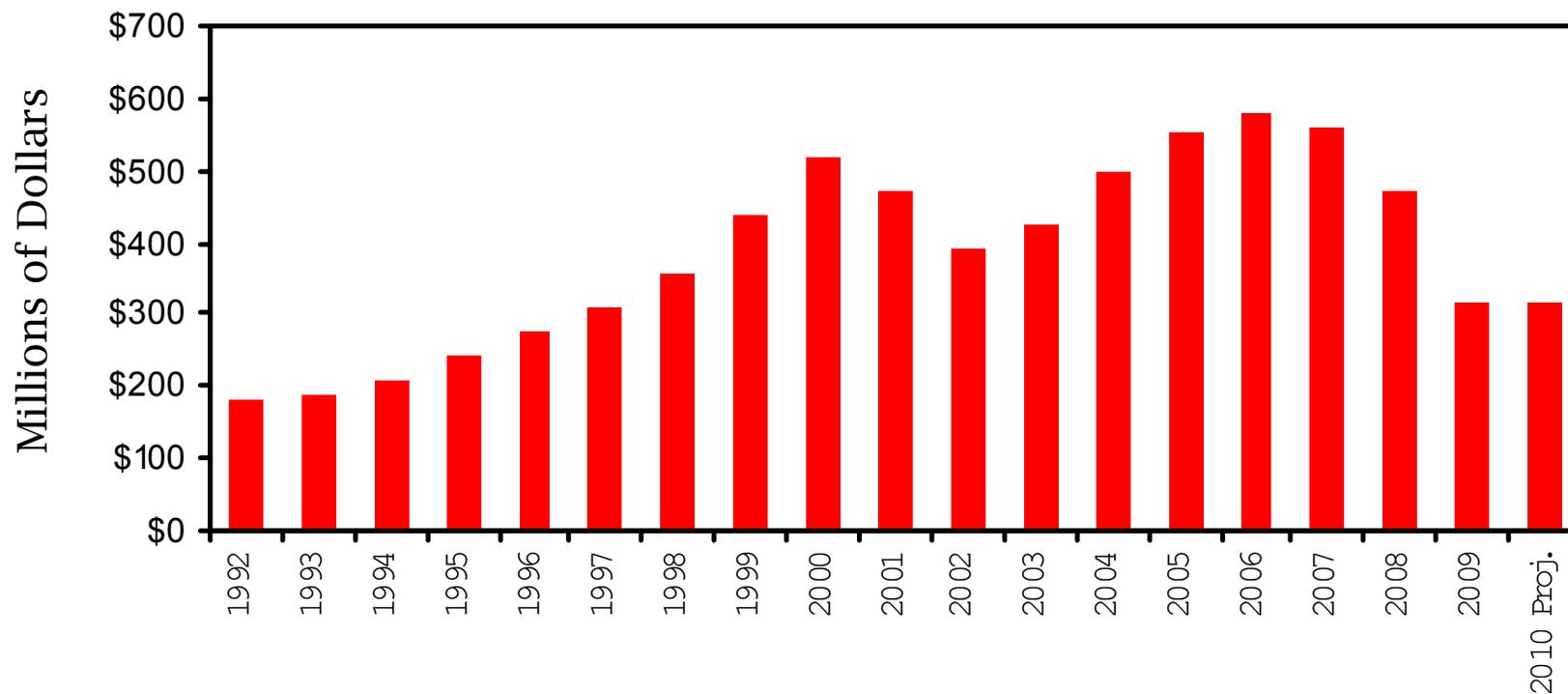
We all know the challenges thoroughbred racing faces.



... On the Supply Side

Yearling sales are down 49% from their 2006 peak.

## U.S. Yearling Sales



Number of U.S.-bred 3yos will decline 28% by 2014.

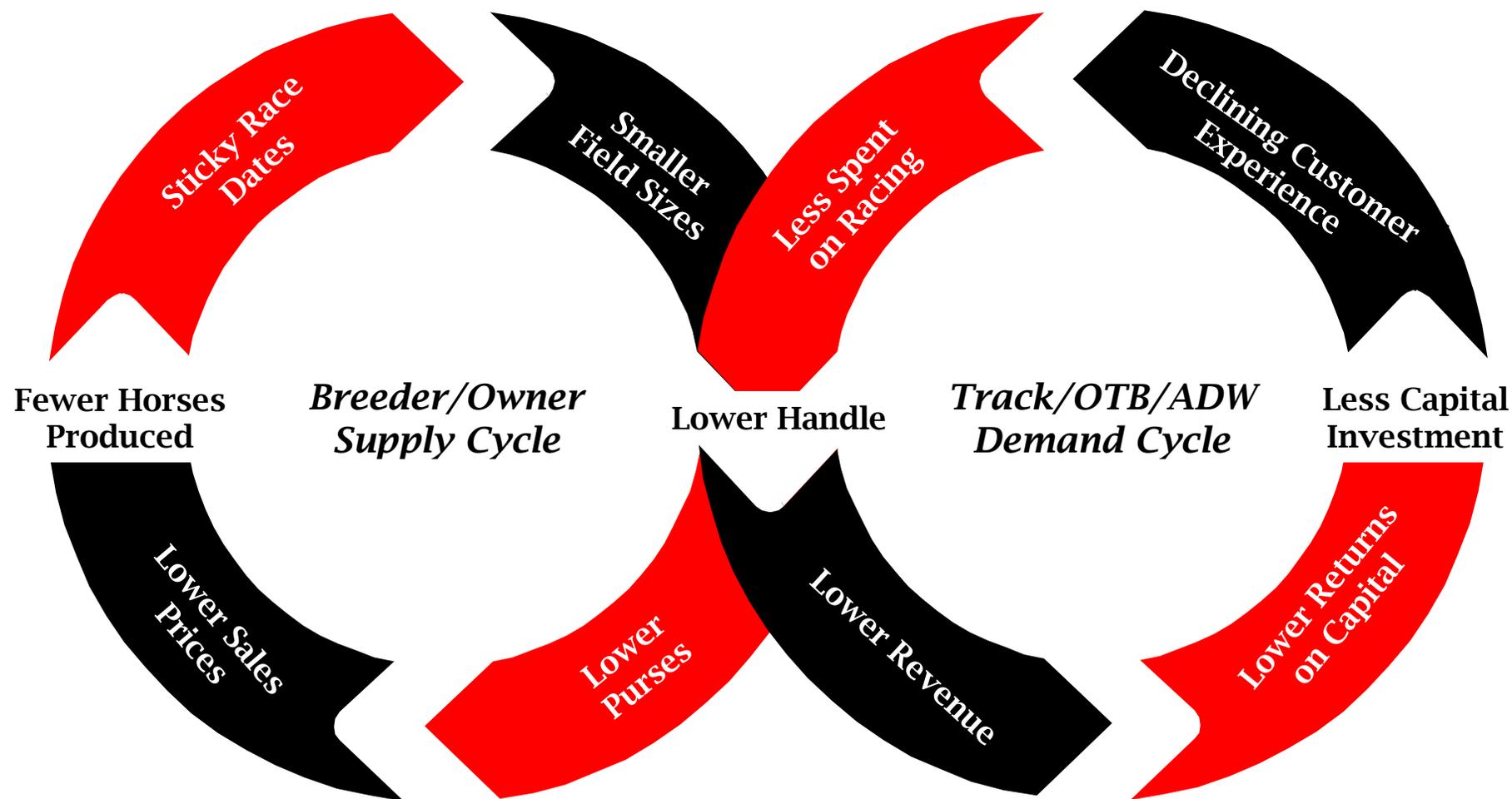
### U.S. Foal Crop - Plus 3 Years



It will become increasingly difficult to fill races.



Clearly our industry is consolidating ... not expanding.



The question is: Where are we headed?

# What is the future of racing and when do we get there?

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## Here's One Possible Answer ... That I Don't Like

**AP** Associated Press

March 17, 2010

### Harrah's asks to end subsidies to greyhound racing

Harrah's Entertainment Inc. offered to pay Iowa \$7 million a year to end the requirement that casinos with greyhound tracks subsidize the purses, in effect ending the racing but not the money.

... "Dog racing generates little consumer support. It does little for Iowa's economy," said Dan Real, an executive with Harrah's.

... The casinos have been required to subsidize purses at the dog tracks for 15 years, propping up an industry that can't stand on its own, Real said. The subsidies cost \$10 million a year.

... "These dollars are better spent on education, health care and other compelling and other public issues faced by the state," he said.

... The package also includes \$4 million to \$10 million for Iowa dog breeders who want to get out of the business, in essence providing a "soft landing" for the industry.

# What is the future of racing and when do we get there?

## Here's Another Possible Answer

- Question: What is racing's economically self-sustaining business model?
  - Included projected purse subsidies from gaming
  - Required that racetracks operate profitably (at a 5% pre-tax return on invested capital) excluding the tracks' profits from gaming
- Built an business model of the N.A. thoroughbred racetrack industry
- Solved for the 2020:
  - Number of races, race days and tracks
  - Handle per race and purses per race
  - Number of starters per race
  - Number of starters

# What is the future of racing and when do we get there?

## Key Assumptions

- Handle grows 2% annually to \$15.5 billion in 2020
- Used composite of CDI track cost structure in 13 cost categories
- Increased costs 2% a year for inflation
- Handle by channel
  - On-Track (11%) and Rebate (10%) channels constant as % of handle
  - ADW grows from 13% to 23%
  - Simulcast declines from 60% to 52%
  - Other channels (tribal casinos, Las Vegas, etc.) decline from 6% to 4%
- Handle by geographic origin remains as in 2010
- Signal pricing and takeout splits by channel remain at 2010 levels
- Purse contributions from gaming grow 5%/year

**CAUTION!** The future is a very uncertain place.

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## The Model Can Be Wrong, Because ...

- The assumptions are wrong
- Racetrack operators may not face economic pressures
  - No minimum return on invested capital required
  - Elect to use gaming profits to subsidize racing operations
  - Have other existing or new sources of subsidies
- Legislation/regulation may not permit market forces to work
- Racing may become socially unacceptable
- We find the secret to making racing more interesting to consumers

**These are not forecasts or predictions**, but merely a business model of one possible outcome of the economic forces we face.

## So, what might racing look like in 2020?

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### Racing 2020 ... A Viable Business Model

North America	2010	2020
Handle	\$12.3 billion	\$15.5 billion
Purses	\$1.2 billion	\$1.7 billion
No. of Races	56,000	31,000
No. of Race Days	6,600	3,100
No. of Racetracks	~55	~26
Avg. Handle/Race	\$230,000	\$495,000
Avg. Purse/Race	\$22,000	\$55,000
No. of Starters	74,000	56,000
Avg. Field Size	8.2	~12.0

These trends literally hit close to home.

## Tenlane Farm -- Founded 1981



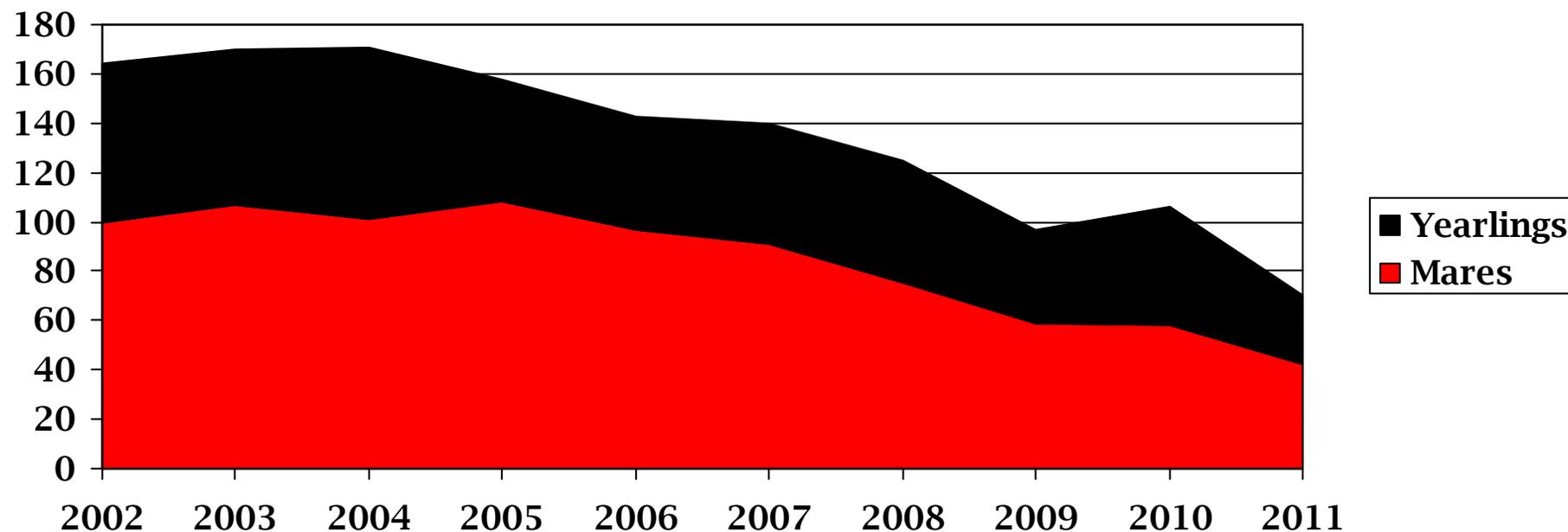
- 2000-03 developed current farm as a breeding & boarding operation
- Located in Woodford Co., Kentucky
- 475 acres
  - 226 acres pasture
  - 58 acres paddocks
  - 148 acres in development
  - 43 acres roads, buildings & wooded areas
- 3 barns / 52 stalls
- 4 houses & equipment shop
- Managed by Tom Evans who owns the adjoining 375-acre Trackside Farm

Mares	10
Yearlings (1/1/11)	7
In Training	3
Stallion Shares	2
Retirees	3
Total	25

We have seen significant declines in our boarding clients.

## Total Owned & Boarded Horses on Tenlane and Trackside Farms

*(As of January 1<sup>st</sup> of Each Year)*



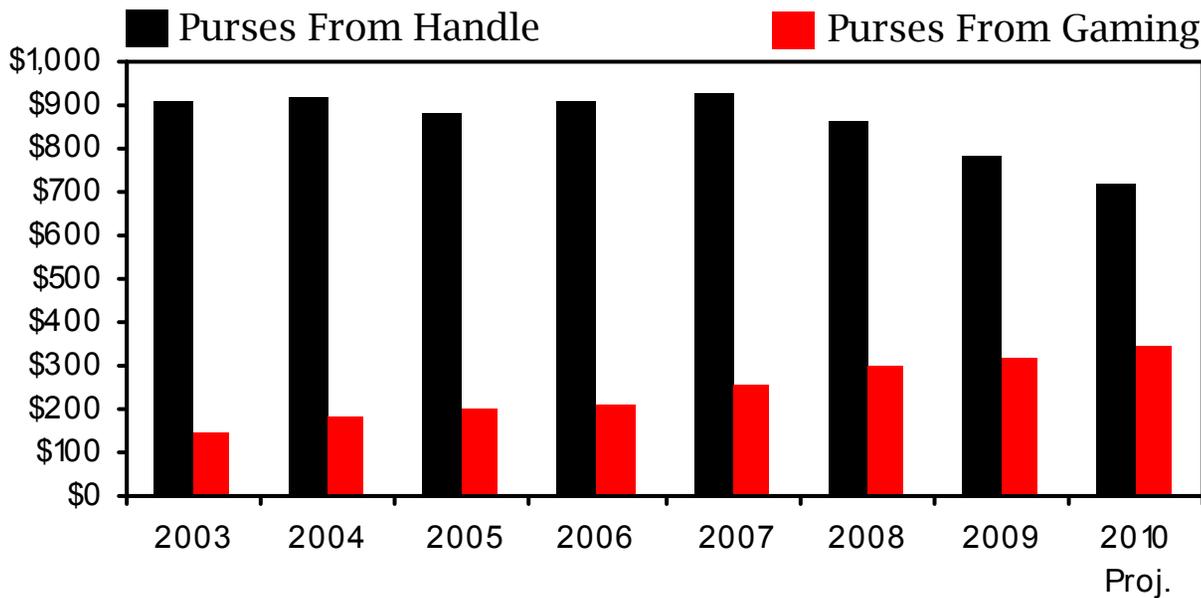
# Why am I optimistic about racing's long-term future?

## Five Reasons for Optimism

1. Alternative gaming at tracks is expanding.
2. Balance sheets are improving.
3. Racing is embracing technology that exponentially expands our knowledge of customers.
4. There is a market for quality.
5. Innovation is the basis of the competition for customers.

# Alternative gaming at tracks is expanding.

## Sources of U.S. Purses (Millions of Dollars)



Source: Thoroughbred Racing Associations of North America, Inc. (May 2010)

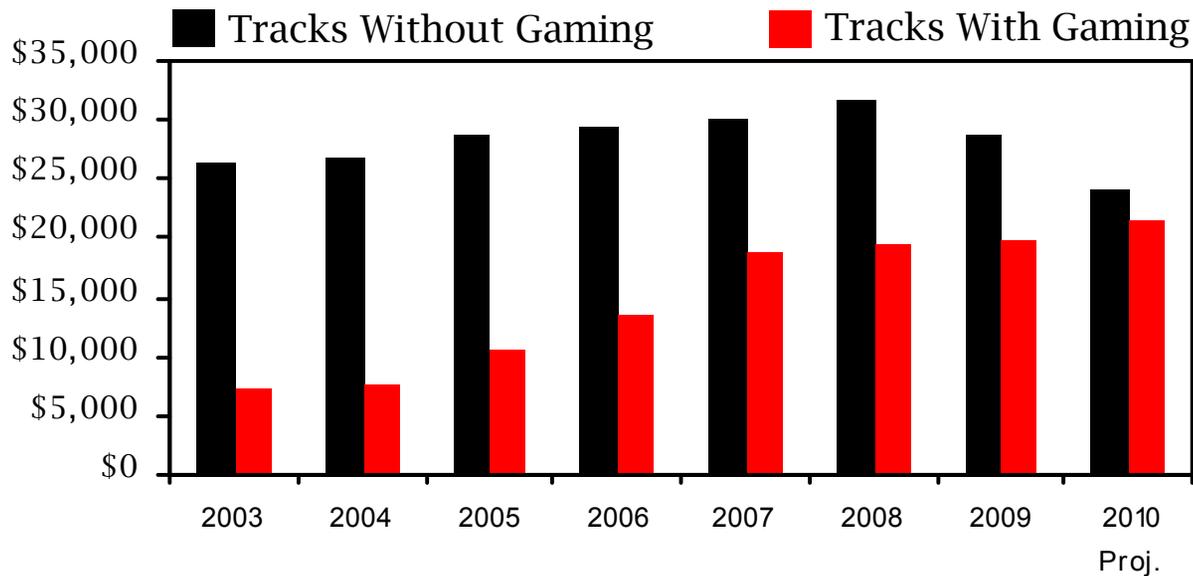


Gaming will account for about 70% of the 2010-2020 growth in purses.



# Alternative gaming at tracks is expanding.

## Average Purse Per Race (Dollars)



**CALDER CASINO  
& RACE COURSE**  
A Churchill Downs Company

**In 2011, for the first time, racino purses will exceed non-racino purses.**



Balance sheet are improving.

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## The Industry is Financially Stronger

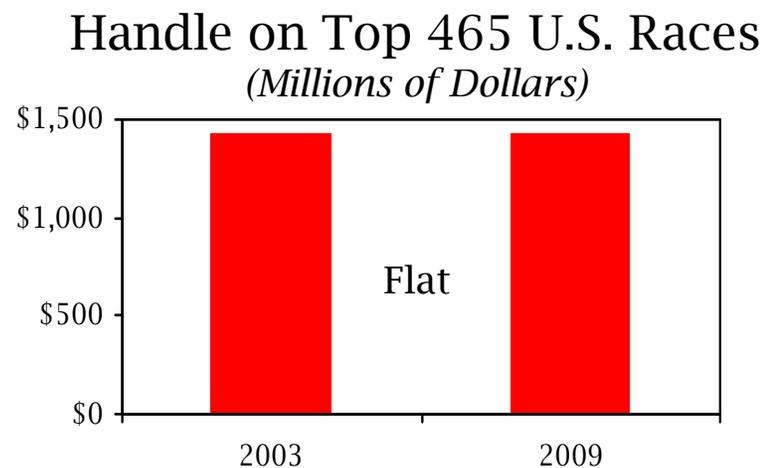
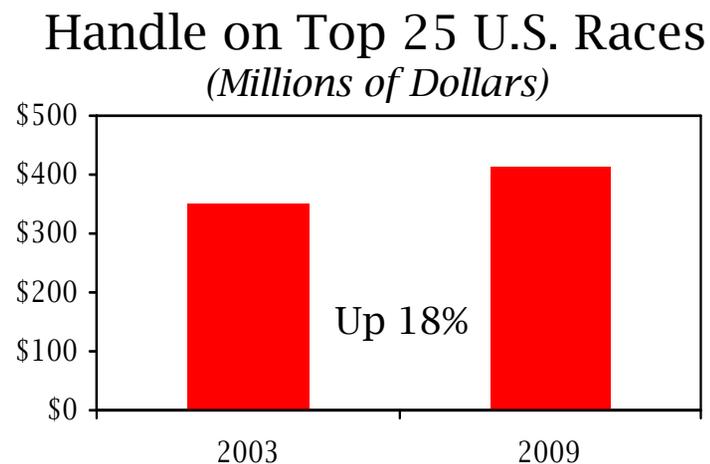
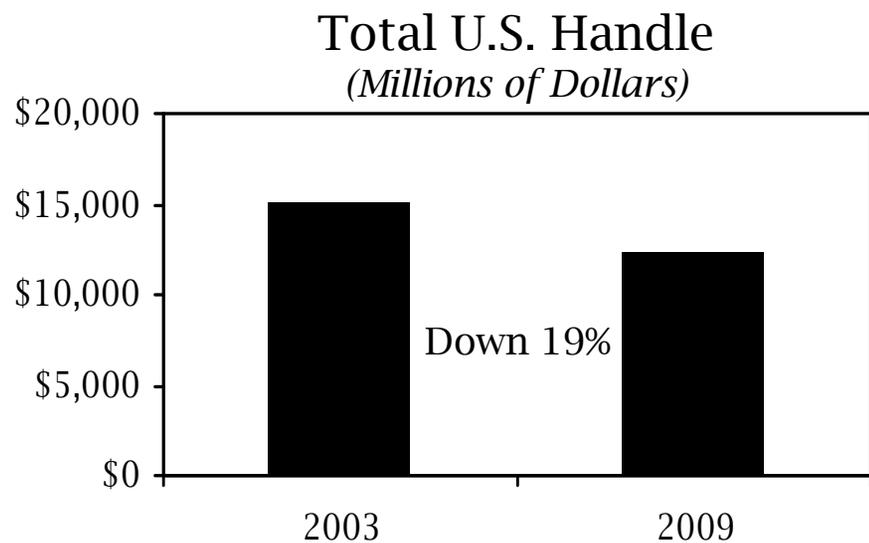
- Magna, NYRA and the New York OTB have completed bankruptcy
- About \$600 million in debt has been eliminated
- Alternative gaming is generating about \$800 million in cash flow annually for tracks (\$500 million) and purses (\$300 million)
- Since 2009, a number of tracks are now owned by companies with stronger balance sheets (six examples)
  - Beulah (Penn National)
  - Pimlico/Laurel (Penn National)
  - Lone Star/Remington (Global Gaming)
  - Thistledown (Harrah's)

# Racing is embracing technology.

- High-Definition Video
- ADW
  - Social networking
  - Online handicapping tournaments and contests
  - Mobile
- Customer Analytics



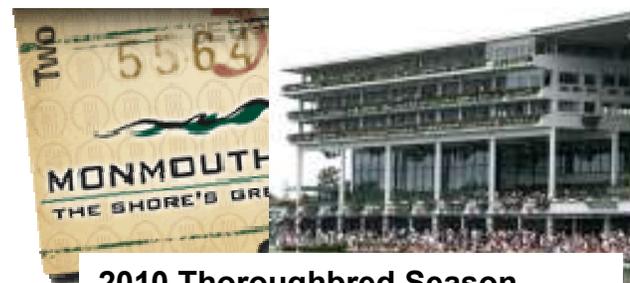
There is a market for quality.



**In dying industries there is no market for any product.**

# Innovation is the basis of competition for customers.

- Product Innovation
  - Monmouth Elite Meet
  - Saratoga 36-to-40 days
  - *Downs After Dark*
  - Exchange Wagering
- Promotion Innovation: 2.2 and 5.5
- Price Innovation: CA Takeout



**2010 Thoroughbred Season Shows Across the Board Gains**  
Sunday, November 21, 2010



**Expanded Saratoga Meet Exceeds Expectations, Bucks Industry Trends ...**

Monday, September 6, 2010



**Downs After Dark brings 126,000 to the track**



# Conclusions

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- Racing faces many challenges.
- The economic forces at work suggest racing will continue to consolidate.
- But, there is a viable business model at the foundation of racing's future.
- Alternative gaming and improved balance sheets give us the time and financial resources to make the necessary changes.
- Innovation, technology and quality are the paths to success.