



Review of the Contribution which Irish Racecourses make to the Horseracing Industry and the Finances of those Racecourses

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1. EXECUTIVE SUMMARY

The horse racing and breeding sector contributes c. €1bn annually to the Irish economy; employs in excess of 16,000 people and is responsible for exports worth €174m¹.

Racecourses are the critical element for horseracing to take place – without the well-developed network of 26 racecourses located in nineteen different counties on the island, which are capable of hosting both National Hunt and flat race meetings, horseracing in Ireland simply would not happen and the related economic activities such as training, horse breeding, and betting would either not be possible or would be seriously curtailed. In this sense, racecourses may be seen as the underlying ‘network infrastructure’ over which the spectacle of horseracing, with all its ancillary add-on activities, is provided to the public.

Key Indicators. - In recent years, horseracing has seen significant declines in almost all the key indicators. Attendances have fallen by 18% between 2007 and 2012 with over 250,000 fewer attendances at meetings in 2012 compared to 2007. On-Course betting activity has fallen by over 50% and the number of racehorse owners and horses in training are down by about one third. However, there are some recent indications that the declines may have stabilized.

Racecourses play an important part in Ireland’s **tourism** industry, with a number of racing festivals coinciding with peak holiday times within the country. As a result, racing festivals held at Irish racecourses have an important role to play in the development of tourism within the country by attracting attendance at race meetings from domestic sources and from overseas. A research study commissioned for Horse Racing Ireland (HRI) in 2009² estimated the annual expenditure in the economy by overseas visitors who attend race meetings in Ireland came to just over €67 million. The same study found that overseas visitors made up 9% of all attendees at race meetings in Ireland. The 2009 report commissioned by the Irish Thoroughbred Breeders’ Association on the economic impact of the Irish Thoroughbred industry (‘the Dukes report’)³ estimated that the combined economic contribution of Irish racing festivals in 2008 totalled €260.6 million.

Employment. - Wages and salaries for full time, part time and casual staff amount to over €10 million annually. It is estimated that there are approximately 380 full time equivalent (FTE) jobs supported by racecourses directly and employment has remained stable over the 4 year period 2009 – 2012 but with a reduction of 15% in average employee cost. The figure of 380 FTEs is made up of 193 full time FTEs, 67 part time FTEs and 120 casual FTEs. On-course and off-course activities in areas such as training, breeding, catering, betting, regulation and transport, all have high employment content and are supported or enabled by the existence of the racecourses. The most recent figures from HRI for 2012 suggest that 16,000 people are employed in the overall horseracing, breeding, betting etc. sectors. Each job on the racecourse supports over 40 jobs off the racecourse.

Racecourses are only one part of the overall horseracing and breeding industry but, if it is accepted that racecourses are an essential precursor to all the related activities, then the direct employment on racecourses is critically important and has a very high multiplier effect for all the other related employment in the wider horseracing industry.

Financial Assessment. – The overall assessment of the financial position of racecourses is that up until 2011 they were loss making entities making negative returns on the assets and on capital employed. This situation was unsustainable without some change in the underlying business model. The change which has brought racecourses to a moderate level of profitability is the increase in media rights income. Debt levels were high but have reduced over the period. Racecourses would have been under pressure because of their relatively

¹ Horse Racing Ireland Factbook, 2012

² Overseas Visitors Quantitative Research 2008/09 Prepared August 2009 by Behaviour & Attitudes for Horse Racing Ireland.

³ *Analysis of the economic impact of the Irish Thoroughbred Horse Industry*, Directed by Alan Dukes, commissioned for the Irish Thoroughbred Breeders’ Association, 2009, available at: http://www.goracing.ie/AssetLibrary/Files/HRI/Resource_Centre/Dukes%20Report%202009%20.pdf

weak working capital position. The loss making position of earlier years has recently been overcome but the level of profitability is still low. Racecourses do not pay dividends and any surplus is reinvested into the racecourses for the benefits of all users.

Operating a racecourse is a **capital intensive** business which is generally loss making or earns low returns which, if they are made, are reinvested for the future. The benefits provided by racecourses do not accrue to the racecourses themselves but, rather, to the other horseracing participants such as owners, trainers, jockeys, bookies, breeders, support and ancillary service providers. Benefits also accrue to the wider economy in the form of employment and taxes/charges paid. Racecourses are distinguished by the fact that their objective is not to earn a return for shareholders but to maintain and develop their facilities in order to provide safe and enjoyable venues for holding race meetings. They do not pay dividends or directors' fees and if profits are earned such profits are re-invested in the racetrack and associated facilities.

Revenues. - In real terms, the revenues of racecourses have increased marginally by about 1.7% in total in the 4 years 2009 – 2012. Maintaining overall revenue at just slightly above 2009 levels is a highly creditable performance by racecourses in the period of severe economic turbulence experienced in recent years.

Total revenue for all racecourses is estimated to have been €42 million in 2012. Revenues from all sources other than media-related income have been in sharp decline as a result of falling attendances and lower economic activity levels. Between 2009 and 2012, income from all sources other than media rights income fell by over €6 million. Media Rights income rose by just over €8 million in the same period.

Media Rights Income. - The rise in media rights income in recent years compensated for the underlying decline in revenue from all other revenue sources. The increase in media rights income, which now represents 48% of total revenues, has been essential in order to overcome the underlying systemic decline in revenues from more traditional sources. Media rights income is masking the underlying or core loss making activities and position of practically all racecourses. Any reduction in media rights income would compromise the ability of racecourses to maintain and invest in the racetrack asset, threaten the ability of many racetracks to continue as going concerns and, ultimately, endanger the future of the overall horseracing industry. Without media rights income, racecourses would have experienced aggregate losses of over €13.7 million in 2012.

Non-racing income is also very significant, does not have a high related cost of sales in most cases and is equivalent to over 85% of the reported profit after tax for all racecourses combined.

Profitability expressed as a percentage of turnover is estimated at 15% but this is heavily dependent on media rights and non-racing income levels as seen above. There is also a significant variation between individual racecourses and racecourse types with Grade II type courses earning just 3% profit on turnover and Grade I type courses earning 7%. The level of profitability of racecourses has to be considered in terms of their core purpose which is to generate funds in order to provide venues for fixtures and races to take place for the benefit of all horseracing stakeholders including owners, trainers, jockeys, bookies, breeders and the racegoing public. The on-going capital investment required is provided by means of capital grants, by borrowings and by the level of cash reserves that racecourses can provide directly from profits generated and retained for investment purposes.

Return on Assets and Return on Capital Employed Ratios. - Up to and including 2009 these ratios were showing either a loss making position or a negligible return. The 2010 position was distorted by an exceptional item and after adjusting for this the level of return in 2010 is also negative. In 2011, the return on assets and capital employed ratios were positive at a level of about 4-4.5%. In 2012, based on questionnaire data the return on asset ratio was 3.2%. If replacements costs are used the ratio falls to 1.55%. Such a level of return is insufficient to ensure long term sustainability and support future capital investment.

Taxes and Charges. - Racecourses are estimated to pay over €5 million annually in taxes and charges for costs such as rates and local authority charges.

Historic Capital Investment. - In total, an estimated €270 million has been spent on capital expenditure by racecourses in the last 15 years. This expenditure was funded by a combination of grants, loans and contributions by the racecourses. The estimated replacement cost of land and buildings for all racecourses is over €400 million.

Future Capital Investment. – Racecourses have estimated that €116 million will be required to upgrade facilities across all racecourses over the next 15 years, that grant funding of approximately €40 million will be provided and the balance of €76 million will be provided by racecourses either directly or by borrowings undertaken for the purpose. Whether through borrowings or by direct contribution by the racecourses, the cost of the racecourse investment in terms of interest and capital payments and to provide racecourses' own contribution can only come from profits generated and retained for reinvestment.

Funding Future Capital Expenditure. - Racecourses, in aggregate, need to generate net cash flow of c. €11.2 million each year for 18 years to repay their loans for new investment, repay existing borrowings, and allow them to contribute their portion of the own funding. This figure compares to the €11.2 million cash flow that racecourses are estimated to have generated in 2012 meaning that it is just feasible for racecourses to undertake the investment programme. This is however totally dependent on all assumptions being met and in particular that there are no cost increases or additional operating costs incurred, that the decline in all revenue sources apart from media rights income is stopped and that these revenue sources remain stable into the future. This is also an aggregate calculation taking all racecourses together and it is clear that individual racecourses differ greatly in terms of their profitability and cash position. In general, medium and small racecourses will find it far more difficult than the larger racecourses to fund future capital investment.

Critical assumptions for all racecourses are that there will be no adverse changes in revenue or costs, that capital grants of at least €40 million will be provided, that loan funding of an additional c. €21 million will be provided by banks on top of existing loans on borrowing terms of 6.5% over 18 years or better and, most critically, that racecourses can fund their cash contribution.

Racecourses have only recently become profitable and the level of profitability and cash flow generated is essential in order to enable racecourses to fund future capital investment. The racecourse asset requires considerable investment over the coming years which can only be provided from grant aid, borrowings and cash reserves. Racecourses need to maintain at least the current level of profitability or else the necessary capital investment cannot be made. If racecourses cannot invest to maintain and develop the racecourse asset then horseracing itself and all the related stakeholders will suffer.

2. TERMS OF REFERENCE AND METHODOLOGY

2.1. BACKGROUND

Petrus Consulting was engaged by the Association of Irish Racecourses (“the Association”) to carry out a review of the financing and economic contribution of Irish racecourses. Every racecourse in Ireland is a member of the Association and a list of racecourses is included as Appendix 1. The summarised objectives of the Association include furthering the interests of horseracing generally in Ireland and particularly the interests of racecourse owners and executives and advising and assisting members individually and, or, collectively on all matters appertaining to their separate and collective interests.

The background to this review is that several studies and reviews have been carried out in recent years on aspects of the horseracing industry but these studies either did not include the racecourses directly or did not give sufficient weight to the critical importance of the racecourse element to the overall horseracing industry.

A key issue for racecourses is the perception that their contribution to the overall horseracing industry and associated sectors such as to the horse breeding industry is not sufficiently recognised. The second key issue for racecourses is that there appears to be little understanding among other industry participants about their high cost structure and capital investment requirements and their low level of profitability. Recent increases in media rights income are both welcome and necessary but only compensate for the steep decline in all other revenue sources for racecourses and continuing cost increases.

The terms of reference for the review follow from the key issues highlighted above namely to:

Review the contribution which the racecourses make to the overall horseracing industry (including to owners, trainers, breeders, on and off course betting, attendees at meetings, sponsors and all the other associated direct and indirect social and economic benefits.)

Review and examine the overall finances of the racecourses with particular attention to the following:

- *income streams from all sources including attendances, sponsorship, media rights, grants*
- *the costs associated with operating these racecourses*
- *the level of capital expenditure which has taken place over the last 15 years*
- *future aggregate investment requirements*
- *borrowings, loans and cash position of the racecourses.*

2.2. METHODOLOGY

The methodology for the review comprised the following:

A questionnaire was circulated to all racecourses requesting quantitative information on, for example, their income and expenditure levels and the trends therein, past and future capital expenditure and employment levels. Respondents were also asked to provide qualitative information on their views about the current and future issues facing their racecourses. The Association of Irish Racecourses assisted in circulating the questionnaire and used its influence to obtain responses from a high proportion of racecourses. The responding racecourses are considered to be representative of all levels and types of course. We wish to thank all those racecourses who responded to the questionnaire and provided us with their detailed financial information and views on racecourses.

A desk analysis of previous reports and reviews on the horseracing and related industries was carried out. In some cases, aspects of these reports which have a direct bearing on the racecourse element of the overall industry were updated based on more recently available data.

Financial information for racecourses was obtained from the returned questionnaires and also from the annual financial statements which several racecourses also provided. These annual financial statements were supplemented by accessing information from the Companies Registration Office (“CRO”) which in many cases was available in great detail. However, some racecourses are exempt from filing full financial statements or became exempt during the period examined. Similarly, most racecourses have filed financial statements for years up to and including 2011. Some, but not all racecourses, have filed financial statements for 2012. This means that care must be taken in examining trend information based on CRO information throughout this report because the base of racecourses in succeeding years may not be comparable. Ratio analysis based on individual years is considered to be reliable.

Where meaningful or where the confidentiality of data provided by individual racecourses would not be compromised we analysed the financial data according to the grade of racecourse in the categories of Premier, Grade I and Grade II to highlight differences in financial performance according to the size of racecourse.

A set of ratios related to profitability and return on investment was developed and applied to the financial data for each racecourse, the separate grades of racecourse and the racecourses in aggregate.

2.3. SCOPE OF THE REVIEW

The time period covered by the review is based on the most recently available information. The questionnaires provided information in all cases based on 2009 - 2012 income and 2012 expenditure levels. CRO financial statements were obtained from 2006 up to the most recently available time period which in most cases was 2011 with, in some cases, information for 2012. The racecourses included in the review comprise all the members of the Association of Irish Racecourses. There are 26 such racecourses as set out in Appendix 1.

The economic review deals mainly with issues related to racecourses directly and also take into consideration several of the closely related horseracing activities such as betting. The review does not go beyond the horseracing industry into the wider economy although it is recognised that the horseracing industry is a key contributor to the overall economy in terms of breeding, betting and, in addition, provides social and amenity benefits not captured in economic terms as well as being an employer in its own right.

The scope of this review therefore concerns the horse racing industry and it is not the intention to consider the overall economy wide impact of racecourses. However, in certain areas we have considered the wider contribution of racecourses such as, for example, the role that racecourses play in tourism or the linkages between horseracing and the bloodstock, media and gambling industries.

Our main focus is on the horse racing industry and we only consider wider social and economic impacts to the extent necessary to provide a clear view of the overall impact of racecourses with the pool of related and supporting activities.

2.4. STRUCTURE OF THE REVIEW

This report is structured as follows:

- Section 1 Executive Summary contains a summary of the main findings from the review.
- Section 2 Background, terms of reference and methodology for the report.
- Section 3 An assessment of the economic contribution of racecourses.
- Section 4 An assessment of the financial position of racecourses and their future outlook.

3. ECONOMIC CONTRIBUTION OF RACECOURSES

3.1. OVERVIEW

It is an indisputable fact that Irish racecourses make an important economic contribution to the horseracing sector within the country. At a basic level, **racecourses are the critical element for horseracing to take place – without the well-developed network of 26 racecourses located in nineteen different counties on the island, which are capable of hosting both National Hunt and flat race meetings, horseracing in Ireland simply would not happen and the related economic activities such as training, horse breeding, and betting would either not be possible or would be seriously curtailed. In this sense, racecourses may be seen as the underlying ‘network infrastructure’ over which the spectacle of horseracing, with all its ancillary add-on activities, is provided to the public.**

Location of Racecourses in Ireland



Source: Horse Racing Ireland Factbook 2012

It would be easy to extend this analogy to imagine that the network of racecourses which exists bears strong similarities to other types of networks, over which services are provided to end-users. It is quickly apparent, however, that any such analogy is quite limited, given that the economic activities that occur over the racecourse network involve very different kinds of relationships between the various parties involved compared to the provision of services over other network industries, such as electricity, gas, telecommunications, railways and so forth.

These other network industries were for many years characterised by monopoly provision of services to end-users, with a vertically integrated monopolist both owning the infrastructure and providing all the services along the value chain. In those network industries where competition has been allowed to take place, the ex-monopolist incumbents have typically retained a very strong presence within their respective sectors, with intervention from sectoral regulators required to ensure that other players are granted access to the incumbents' networks in order to provide their own services to end-users. In a number of these sectors – such as the retail supply of electricity and gas – the ex-monopolists have retained high market shares while in others – for example, railway services – competition has yet to be

introduced at all. In this case, the integrated monopoly that owns and operates the network infrastructure also controls and operates every facet of production in relation to the service provided.

In contrast, racecourses have never acted – and would never have been in any position to act – as monopolists in the provision of horseracing services on their network of racecourses. Instead, racecourses⁴ have actively co-operated with other parties – such as regulators, owners, trainers, on-course bookmakers, facilities providers, sponsors, media companies, the racegoing public etc. – to create between them an attractive year-round programme of race meetings across the country. In this regard, while the existence of racecourses themselves is a necessary condition for horseracing to take place, it is not in itself a sufficient condition. For horseracing to happen, the active input of all the other key players listed above is required as well.

It is also instructive to view the provision of horseracing services – and, in particular, the active collaboration in doing so by a number of disparate and different economic agents – as a type of economic ‘ecosystem’, whereby the different parties bring very different resources, inputs and skills to horseracing overall which, when combined together, enables the provision of an attractive and important sporting spectacle. As well as providing their own inputs to the process, these different entities have their own individual expectations about the kind of outputs they expect to derive from their involvement in horseracing.

The kinds of inputs provided and outputs derived by the various parties involved in horseracing tend to be well established amongst the parties involved. Sudden changes in commercial arrangements governing any of these inputs or outputs – say, for example, a rapid decrease in the amount of sponsorship money being made available or a significant rise in entrance ticket charges to the racegoing public – would clearly have the capability of upsetting the quite delicate balance that currently exists between the various economic agents operating in the horseracing sector. Changes in what entities pay for services provided to them by others or in payments for services they themselves provide therefore require careful consideration in terms of the impact such shifts might have for the financial and economic wellbeing of the sector as a whole.

We review a number of key trends within the industry before setting out a description of the services that are typically provided at Irish racecourses. We then focus on the inputs to horseracing made by Irish racecourses and the outputs the courses derive from their involvement on the industry. We examine indirect as well as direct economic effects and focus on the positive spin-off effects generated by horseracing, focusing in particular on the key areas of tourism and employment. Finally, we set out a forward-looking assessment by the racecourse operators themselves of the prospects for Irish racecourses derived from the qualitative responses to the questionnaire.

⁴ There are many racecourse owners and the racecourse ‘network’ is not owned by a single entity: four of the 26 racecourses are owned by HRI but the remainder are owned and operated by local committees and/or companies. In contrast, in other network industries the entire network infrastructure tends to be owned by a single entity (aside from telecommunications, where a number of competing networks exist).

Irish Horse Racing and Betting Industries in Numbers (2006 - 2012)

| Key Indicators for Horseracing | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | % Change from Peak to 2012 | Annual Average Change 2008 - 2012 |
|--|--------------|--------------|--------------|--------------|-------|-------|-------|----------------------------|-----------------------------------|
| Betting and Exchequer Funding | | | | | | | | | |
| Total Betting € M | 3,667 | 3,926 | 3,903 | 3,281 | 3,257 | 2,858 | 2,838 | -28% | -266.25 |
| Total On Course Betting €M | 262 | 282 | 237 | 182 | 164 | 153 | 130 | -54% | -26.75 |
| Total Off-Course Betting €M | 3,405 | 3,644 | 3,666 | 3,099 | 3,093 | 2,705 | 2,708 | -26% | -239.5 |
| Previous Year's Betting Duty (HRI 80%) €M | 36.7 | 43 | 29.1 | 29.3 | 24.8 | 24.7 | 21.6 | -50% | -1.875 |
| Further Government Funding of HRI €M | 19.4 | 15.1 | 32 | 25.2 | 22.6 | 21.1 | 23.4 | -27% | -2.125 |
| Total Government Funding of HRI €M | 56 | 58.5 | 61 | 54.5 | 47.4 | 45.8 | 45 | -26% | -4 |
| Prize Money | | | | | | | | | |
| Total Irish Horse Racing Prize Money €M | 55.1 | 59.6 | 60 | 52.9 | 46 | 44.4 | 44.9 | -26% | -3.875 |
| HRI Funding of Prize Money | 30.6 | 32.3 | 34 | 30.3 | 28.3 | 28.1 | 28 | -18% | -1.5 |
| Commercial and Other Funding of Prize Money | 8.6 | 10 | 9.2 | 7.9 | 5.4 | 5.2 | 5.9 | -39% | -0.825 |
| Owners' Funding of Prize Money | 15.9 | 18 | 17.2 | 14.7 | 12.3 | 11.1 | 11 | -38% | -1.55 |
| Attendance, Fixtures, Races, Entries | | | | | | | | | |
| Total Racecourse Attendance | 1,447 | 1,461 | 1,392 | 1,237 | 1,198 | 1,238 | 1,194 | -18% | -49.5 |
| Average Attendance | 4,536 | 4,387 | 4,070 | 3,586 | 3,587 | 3,685 | 3,411 | -25% | -165 |
| No of Fixtures | 319 | 333 | 342 | 345 | 334 | 336 | 350 | 1% | 2 |
| No of Races | 2,268 | 2,397 | 2,454 | 2,444 | 2,381 | 2,397 | 2,516 | 3% | 15.5 |
| No of Race Entries | 87.4 | 105 | 96.5 | 94.7 | 72.5 | 65.9 | 64 | -39% | -8.125 |
| Racehorse Numbers and Sales | | | | | | | | | |
| No. of Stallions Mares and Foals in Ireland | 31.7 | 34 | 32.8 | 29.3 | 23.2 | 21.5 | 20.7 | -39% | -3.025 |
| of which foals born | 12 | 13 | 12.4 | 10.2 | 7.6 | 7.6 | 7.6 | -40% | -1.2 |
| No. of Irish Foaled Horses Exported | n/a | n/a | 5,016 | 5,315 | 5,181 | 4,987 | 4,837 | -9% | -44.75 |
| Aggregate Value of Irish Horses sold in Irish Sales | 192 | 179 | 100 | 68 | 68 | 81 | 93.8 | -51% | -1.55 |
| No. of Horses in Training | 6,585 | 6,742 | 6,817 | 6,483 | 5,769 | 5,030 | 4,846 | -29% | -492.75 |
| No. of Racehorse Owners | 5,207 | 5,588 | 5,641 | 5,107 | 4,667 | 4,278 | 3,779 | -33% | -465.5 |
| Source: Indecon Report 2012 updated using HRI Factbook 2012. Peak figures indicated in bold. | | | | | | | | | |

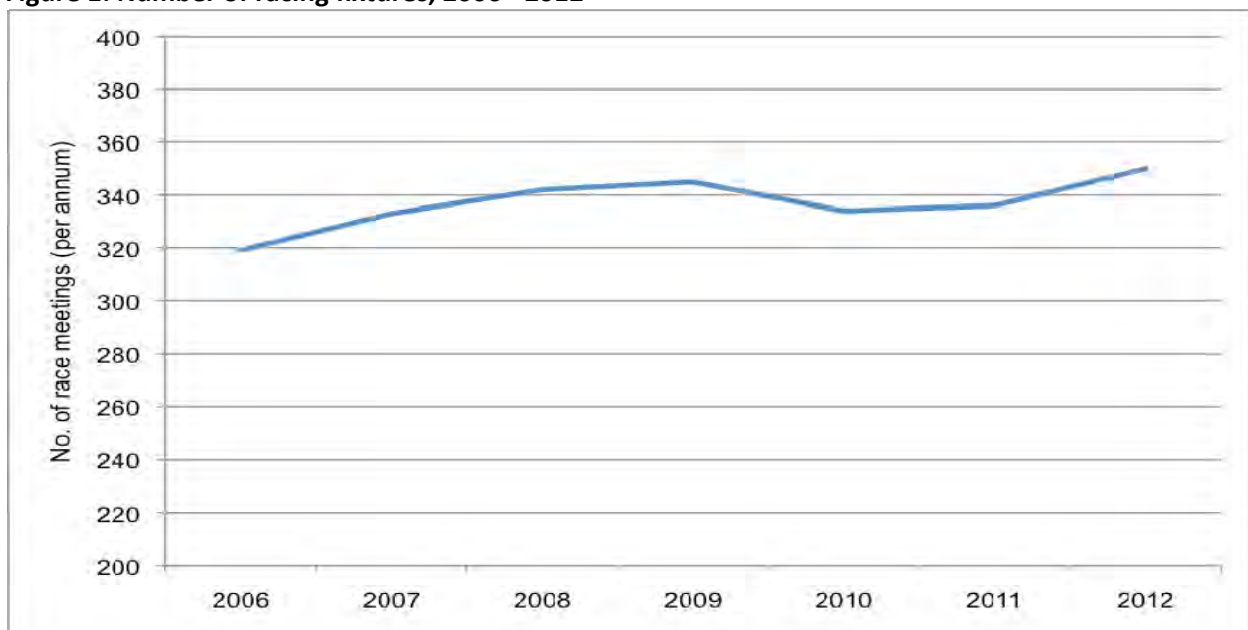
Table 1 on the previous page sets out a number of key indicators for the overall horseracing and betting industries in Ireland from 2006 to 2012. Almost without exception every indicator has decreased substantially over the period. The peak to trough falls in some cases are over 50% as in the case of Total On-Course Betting and in the case of Aggregate Value of Irish Horses Sold in Sales. Examining the peak to trough falls, it is clear that there has been a very large change in the nature of the industry over the period.

In order to look at the more recent years we also calculated the average level for each indicator over the 4 year period 2009 to 2012 so that earlier peak figures would not cloud any more recent improvement or dis-improvement in the figures. In almost all cases, the indicators have continued to dis-improve although not at the rate experienced earlier. Two indicators which increased were the number of fixtures and the number of races.

3.2. KEY TRENDS RELATING TO RACECOURSES

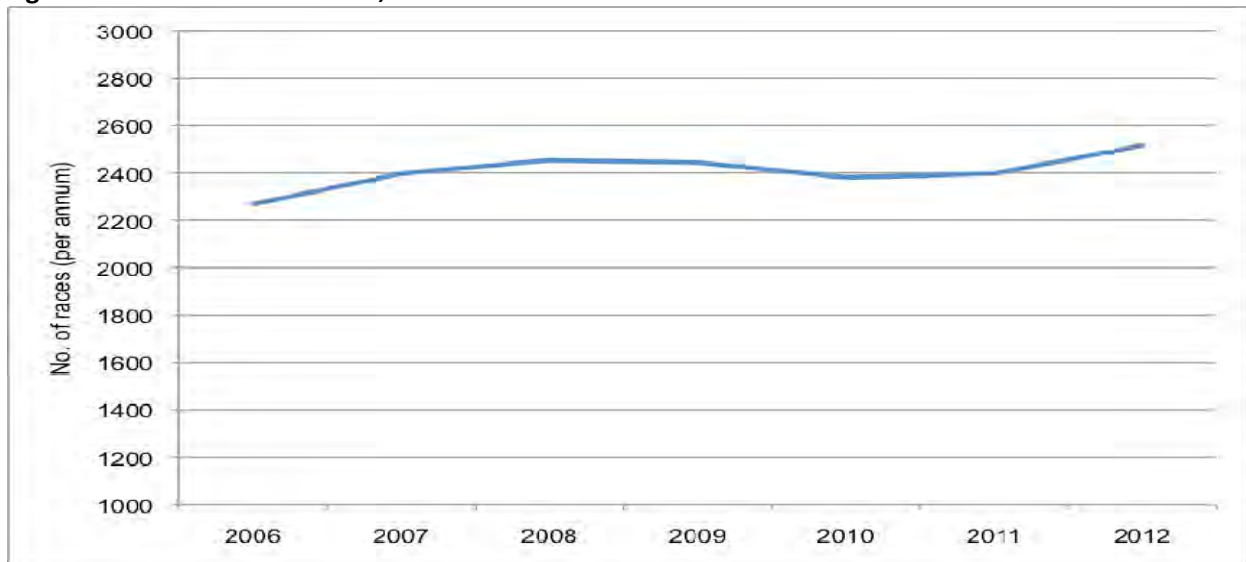
If viewed from a supply and demand perspective, it is clear that the provision of the entertainment spectacle of horseracing has increased in recent years, despite the severe economic downturn since 2008. As Figures 1 and 2 below show, the number of racing fixtures (Figure 1) and races run (Figure 2) have increased since 2006. Although both witnessed a decline in 2010 and 2011 compared to 2009, the number of fixtures and races in 2012 were higher than those recorded in the earlier peak year of 2009.

Figure 1: Number of racing fixtures, 2006 - 2012



Source: Indecon Report 2012, HRI Factbook 2012 Update, Petrus Analysis

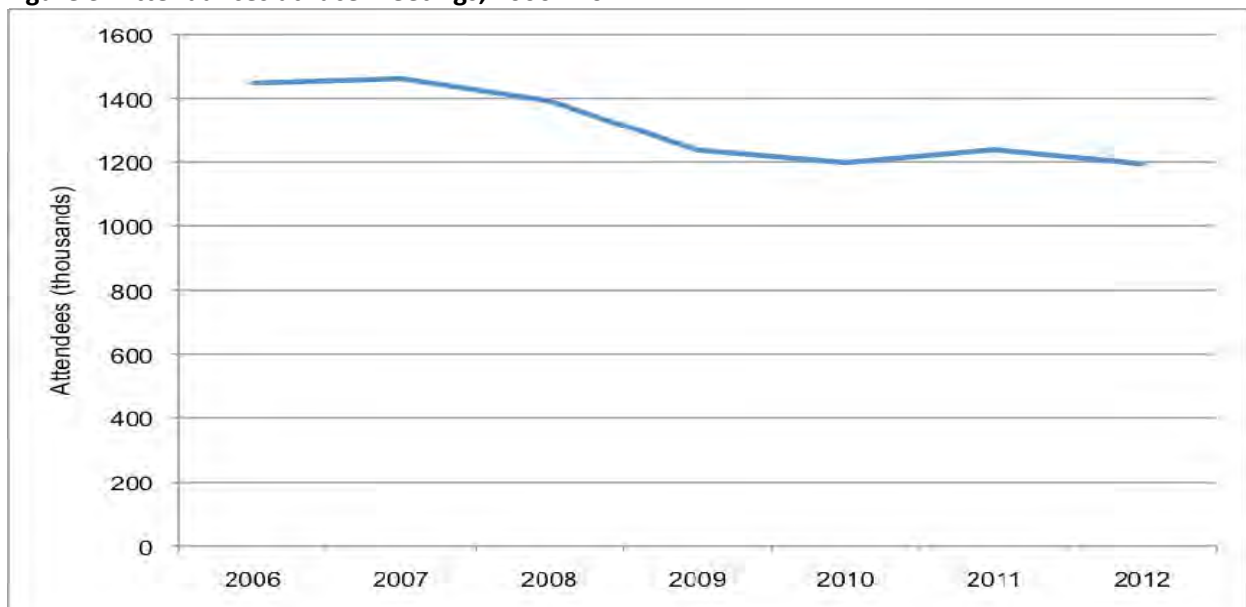
Figure 2: Number of races held, 2006 - 2012



Source: Indecon Report 2012, HRI Factbook 2012 Update, Petrus Analysis

Seen from a demand perspective, however, Figure 3 below illustrates clearly that, despite the increase in fixtures, attendances have been falling steadily since 2007 – from a peak of 1.46 million recorded in that year attendances had fallen to 1.19 million by 2012, an 18% decrease. It is worth noting that this decline set in well before the national economic downturn began in 2008 but, as Figure 3 shows, the largest decline in attendances took place between 2008 and 2009, i.e. when the economy was contracting sharply.

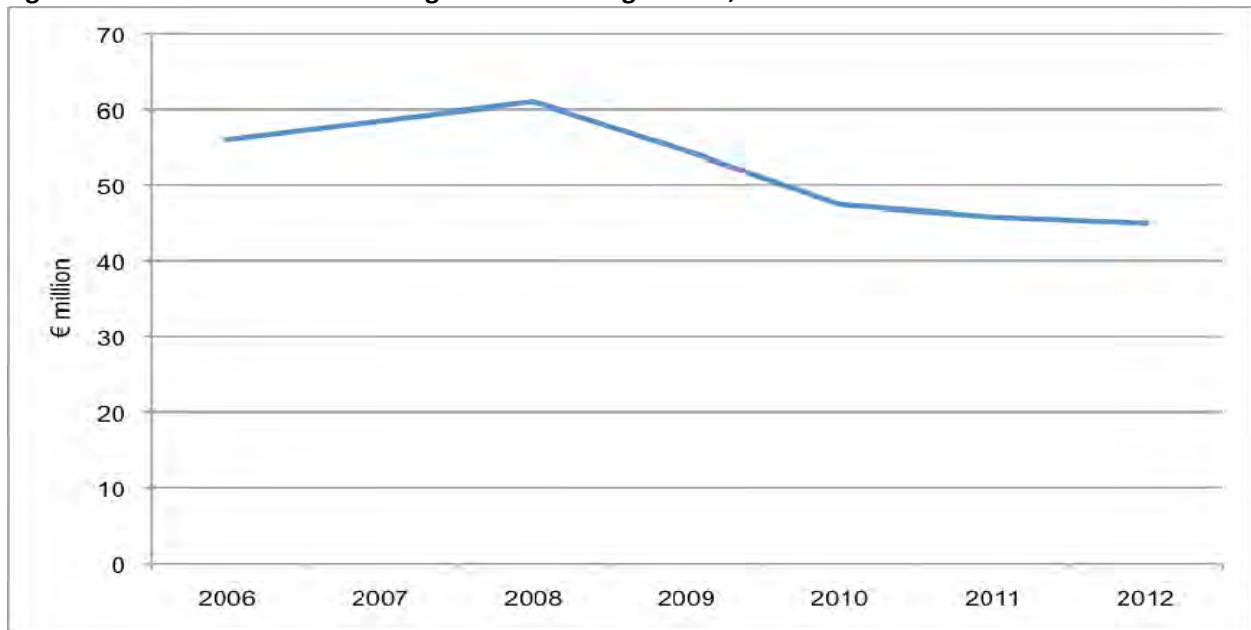
Figure 3: Attendances at race meetings, 2006 - 2012



Source: Indecon Report 2012, HRI Factbook 2012 Update, Petrus Analysis

The effect of national economic contraction, and in particular the rapid deterioration in the public finances, on the horseracing industry may also be seen by the reduction in government funding provided to Horse Racing Ireland (HRI) in recent years. This is illustrated in Figure 4 below which shows that funding for HRI peaked at €61 million in 2008 but then fell sharply to €45 million – a decrease of 26% - by 2012.

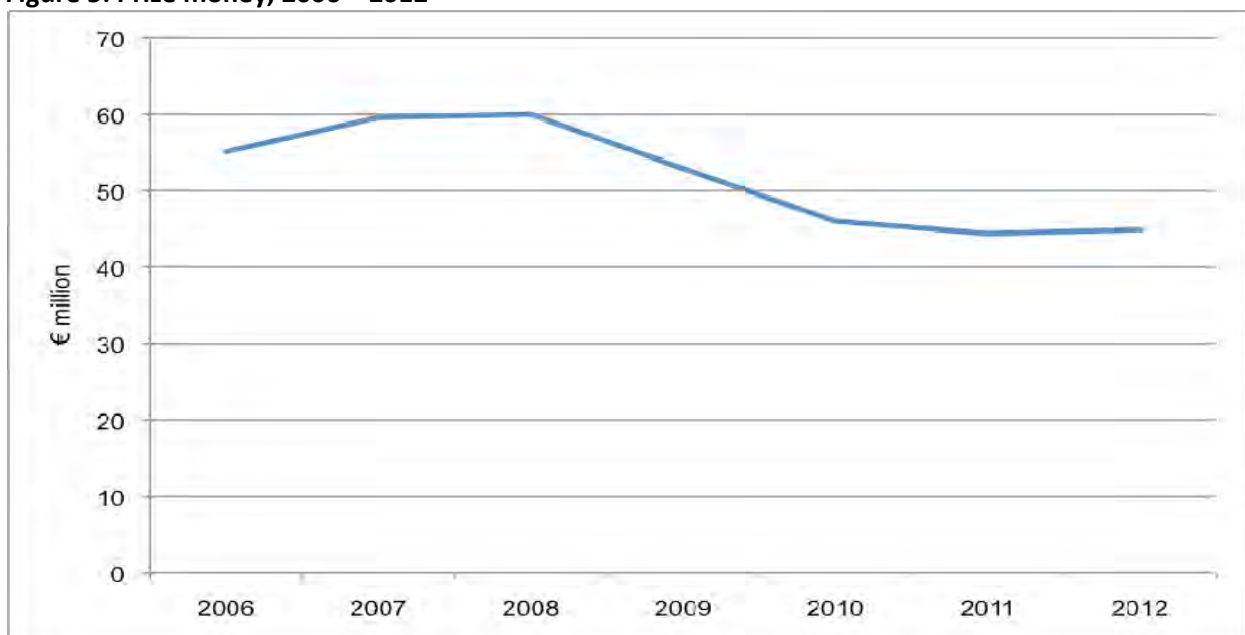
Figure 4: Total Government funding of Horse Racing Ireland, 2006 – 2012



Source: Indecon Report 2012, HRI Factbook 2012 Update, Petrus Analysis

A similar picture emerges in relation to the amount of prize money available for horseracing. This is illustrated in Figure 5 below. The strong correlation between the trend shown in Figure 4 above and that for prize money in Figure 5 may be explained by the fact that a significant proportion of prize money comprises funding provided by HRI and so the observed decline in the former relates in large part to the substantial reductions in the latter since 2008. That is not, however, the entire picture – since the peak year of 2008 the proportion of HRI funding of total prize money has risen from 56% in that year to 62% in 2012. During this time, other principal sources of prize money – i.e. from commercial sources and from owners – fell even more sharply, with the former down 39% from its peak level and the latter down 38%. The relative stabilisation in government funding of HRI (as may be seen in Figure 4 above) had, therefore, the result of also arresting the sharp decline in prize money for horseracing, as Figure 5 shows.

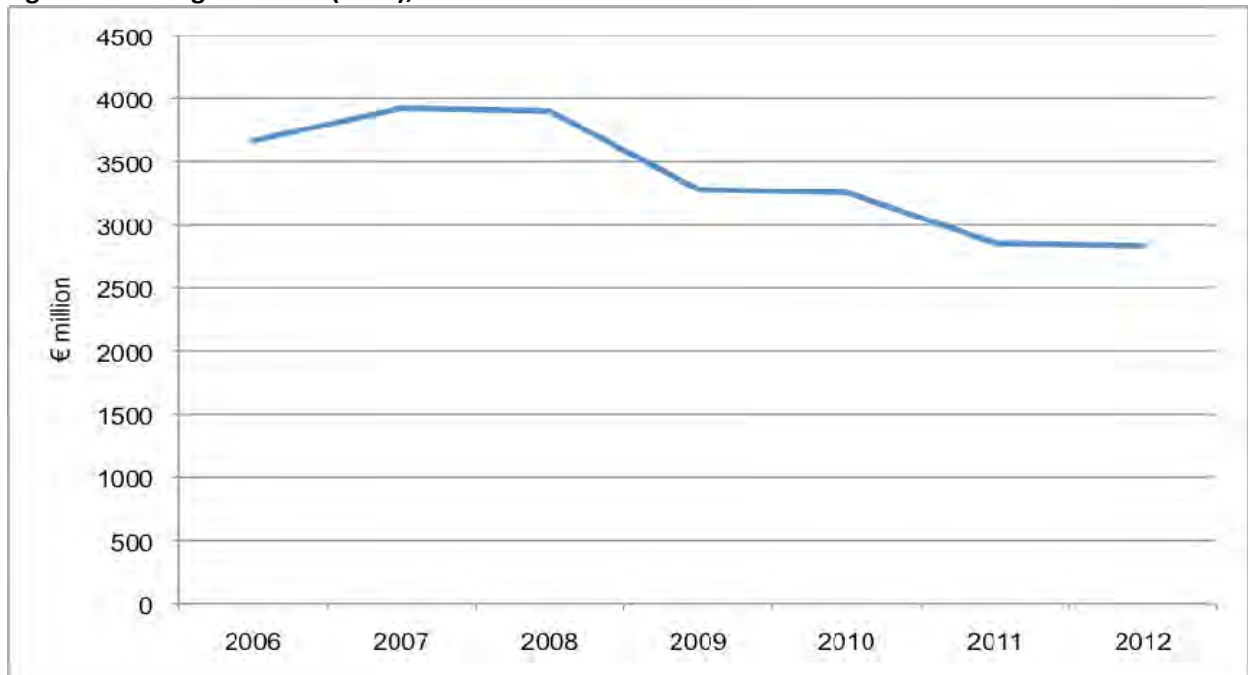
Figure 5: Prize money, 2006 – 2012



Source: Indecon Report 2012, HRI Factbook 2012 Update, Petrus Analysis

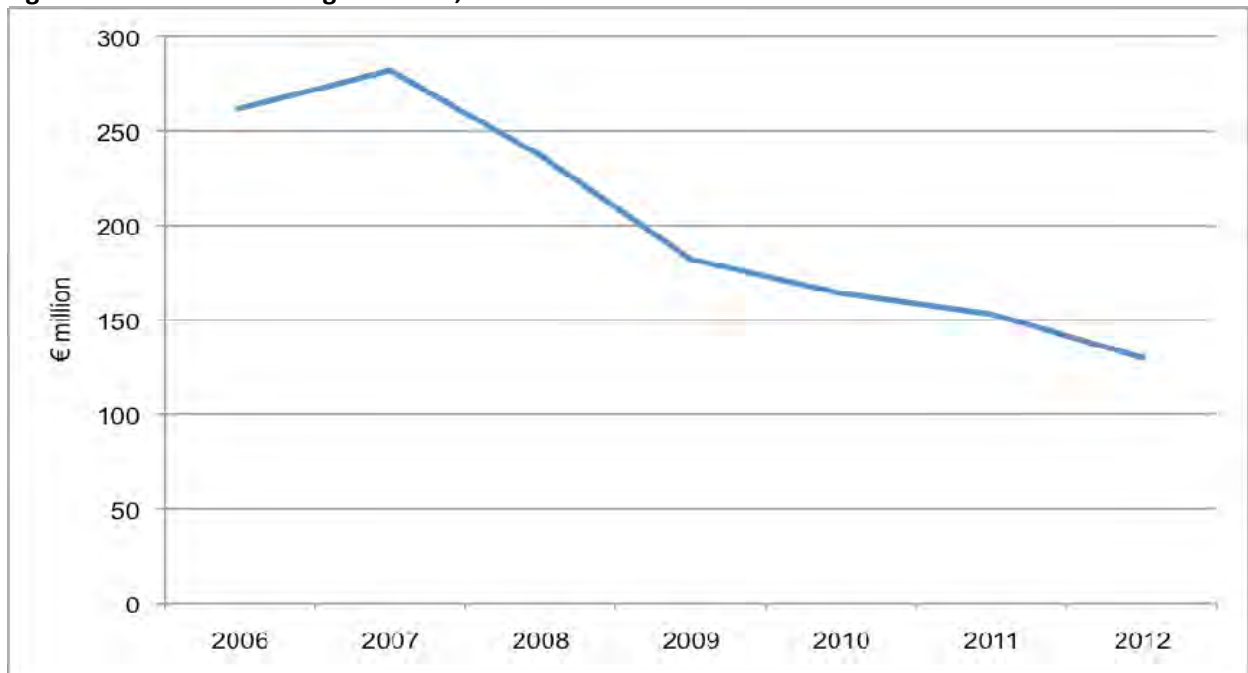
Figures 6 and 7 show that, like prize money, betting revenues have also fallen significantly in recent years. However, as Figures 6 and 7 show, the decline in betting revenues set in as far back as 2007 and, in the case of on-course betting, this fall has been precipitous. Total betting revenues have fallen from a peak of €3.9 billion in 2007 to €2.8 billion in 2012 (a 28% reduction) while on-course betting receipts have collapsed from €282 million in 2007 to just €130 million by 2012, representing a 54% decline over the period.

Figure 6: Betting revenues (total), 2006 - 2012



Source: Indecon Report 2012, HRI Factbook 2012 Update, Petrus Analysis

Figure 7: On-course betting revenues, 2006 – 2012

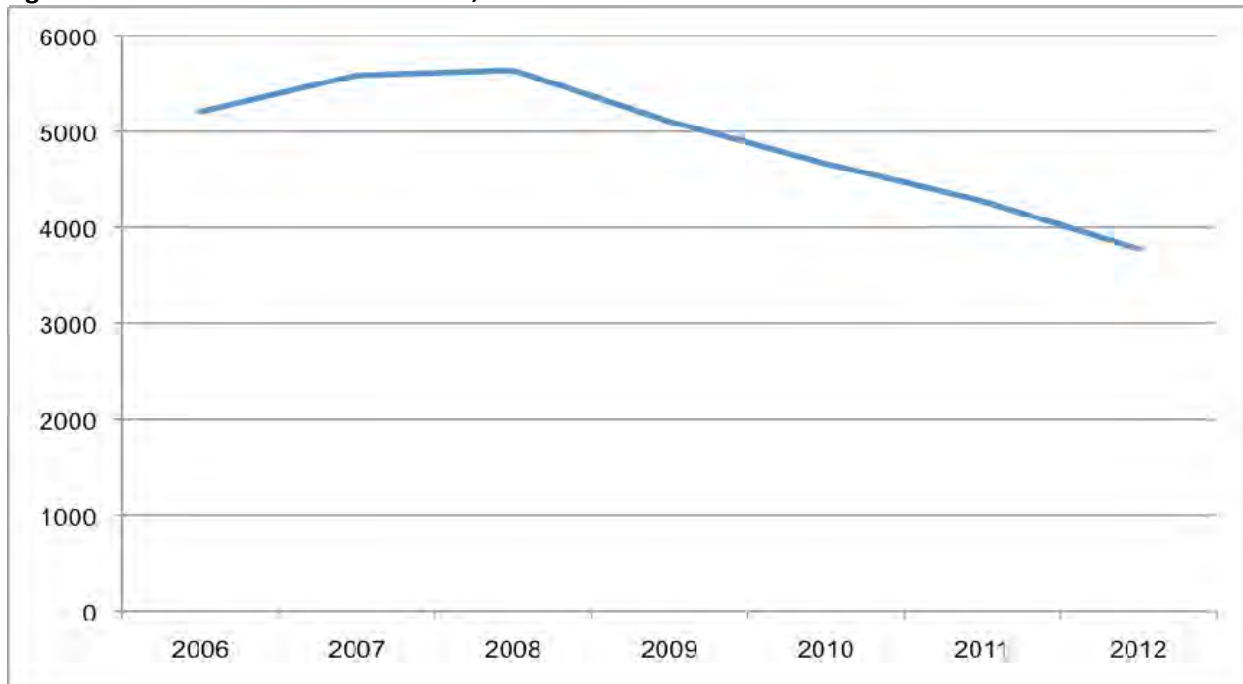


Source: Indecon Report 2012, HRI Factbook 2012 Update, Petrus Analysis

While the macroeconomic contraction since 2008, allied to falling attendances at race meetings, may partly explain the steep decline in on-course betting receipts, it seems clear that other factors – possibly related to technological change and the rise in online betting – may be at play here⁵.

The years since 2008 have also seen a significant decline in the numbers of racehorse owners, as Figure 8 below illustrates. The number of owners peaked in 2008 at 5,641 but have seen fallen by one-third to stand at 3,779 by 2012.

Figure 8: Number of racehorse owners, 2006 - 2012



Source: Indecon Report 2012, HRI Factbook 2012 Update, Petrus Analysis

3.3. SERVICES PROVIDED AT RACECOURSES

As well as providing the locations at which owners, trainers, jockeys and race-goers can all benefit from and enjoy the spectacle of horseracing, racecourses also provide the occasion and the facilities for other horseracing industry participants to supply a number of important services. Such services include the provision of dedicated, serviced areas for on-course catering, stabling and on-course betting. Racecourse venues are also used for a variety of other non-racing purposes, ranging from conferences to car boot sales, and some racecourses have facilities such as co-located golf courses and gyms.

Racecourses provide and pay for a number of services that enable race meetings to take place. The most important of these services are the racetracks themselves, which are located on land holdings encompassing 3,500 acres owned and operated by the 26 racecourses. As well as the racetracks, racecourses also have other facilities such as turnstiles, stands, car parks, enclosures, bars, restaurants, weighing rooms, first-aid rooms, stable yards and facilities for on-course betting (comprising both on-course bookmakers, typically located in a bookmakers' ring, and the Tote).

⁵ In this respect, it is worth noting that the research company Econsultancy recently reported that the online gambling market in the UK increased by 80% in value between 2008 and 2012, with the sector valued at £2bn in the latter year. This research found that sports betting continues to be the most popular online gambling activity (accounting for 45% of the market) but that, within this segment, betting on football – driven by the increasing popularity of in-game betting – has experienced the largest growth, with a 69% increase since 2009. See *UK's gambling sector worth £2bn in 2012: stats* at <http://econsultancy.com/ie/blog/62407-uk-s-online-gambling-sector-worth-2bn-in-2012-stats>

Racecourses also provide and pay for necessary racing-related equipment such as starting tapes, number cloths, public address systems, closed-circuit TV systems, race cards and race form information, telephones and media facilities, including dedicated press rooms.

Racecourses also arrange for the provision of important support personnel and services at race meetings. Key personnel include stewards, doctors (usually a minimum of two), Order of Malta personnel (usually at least 12), two ambulances, two veterinary surgeons (in addition to the vet provided by the Turf Club), a Blue Cross horse ambulance, farriers and security personnel. Racecourses provide support to and liaise with An Garda Síochána in the area of traffic management in the vicinity of racecourses on race meeting days. Racecourses are also obliged by the Health and Safety Authority (HSA) to prepare and maintain event emergency plans in relation to race meetings held at their tracks.

Racecourses are also subject to stringent regulation from a variety of bodies such as the Health and Safety Authority, Local County Councils regarding fire, water, waste and development planning, the Food Safety Authority for catering facilities, Revenue Commissioners for tax purposes, the Turf Club for participant facilities and Horse Racing Ireland for physical infrastructure. This regulatory oversight has improved horseracing and racecourses for the benefit of everyone involved in the sport but the burden of regulation itself falls principally on racecourses.

3.4. ECONOMIC INPUTS AND OUTPUTS RELATING TO RACECOURSES

Table 2: Racecourse Benefits Provided and Received to and from Stakeholders

| Stakeholders | Benefits/Inputs from Racecourses to Stakeholders | Outputs from Stakeholders to Racecourses |
|-----------------------|--|---|
| Owners | Racecourse Facilities | Racehorses (but no financial benefit to racecourses) |
| Trainers and Jockeys | Racecourse Facilities | Racehorses (but no financial benefit to racecourses) |
| Caterers | Racecourse Facilities | Concession fees |
| On-course Bookmakers | Racecourse Facilities | Pitch fees |
| Off-course Bookmakers | Race meeting content provided | Media rights income |
| Sponsors | Exposure/publicity | Fees for Sponsors guests (indirect spin-off benefit to racecourses) |
| Advertisers | Exposure/publicity | Advertising fees |
| Racegoers | Racecourse Facilities - Race meetings | Entrance money |
| Media | Race meeting content and press facilities | Exposure/publicity (but no financial benefit to racecourses) |
| Breeders | Showcase/Shop window | Racehorses (but no financial benefit to racecourses) |
| Government/HRI | Racecourse Facilities, Taxes and Charges | Capital Grants/Fixture Management, Regulatory |

Source: Petrus Analysis

The economic activities of racecourses may be seen in the context of a number of key inputs and outputs. These are summarised in Table 2 above. As can be seen, racecourses provide a variety of important inputs to various other entities or stakeholders involved in the horse racing industry, some of which are remunerated in the form of monetary outputs but others which are not.

A critical input provided by racecourses is the range of on-course facilities which are made available to owners and trainers when they bring their horses to race meetings. Racecourses provide on-course facilities such as stabling, changing facilities for jockeys, parking etc. as well as the track itself over which the races take place.

Racecourses also provide on-course facilities to other stakeholders that in turn provide retail services to the racegoing public at race meetings. The main providers of such services include the different on-course caterers (which range from table service offered to premium ticket holders to fast food outlets) as well as on-course bookmakers, including the Tote.

Racecourses also provide important exposure and publicity – both on-course and over TV and other media – for companies and organisations who rent advertising space at strategic locations around the course. Race sponsors are also provided with the same kind of on-course and off-course exposure and publicity.

The key input provided by racecourses is, however, the venues themselves, with the racegoing public gaining access to the entertainment spectacle of an Irish race meeting, while media organisations gain access to valuable race meeting content for use in their TV programming. Live content from Irish race meetings is broadcast over a variety of Irish, UK and international TV channels, as well as being broadcast on a closed circuit TV basis and to off-course betting shops.

Races held at Irish racecourses also provide breeders with important opportunities for showcasing equine talent. In this sense, racecourses act as the ‘shop window’ for the breeding industry. For Government, too, racecourses are an important outlet for showcasing an important national industry, which means that racecourses may be seen as a key input to national policy aiming at the development of the Irish horseracing industry.

Associated with each of these inputs provided by the racecourses, there are a series of corresponding outputs that racecourses may or may not receive. Owners pay race entry fees to HRI, trainers do not pay fees to racecourses, caterers, on-course bookmakers and other on-course service providers pay concession/pitch fees to the racecourses in return for the facilities provided to them by the racecourses to enable them to trade at race meetings.

Companies and organisations who take advertising space at racecourses pay fees to racecourses for doing so and in return receive marketing exposure for their products or services. Race sponsors also get exposure but in this case the racecourse tends not to receive direct remuneration as the winning owners take this in the form of prize money. Racecourses may receive a small percentage of revenues from sponsors indirectly through the payments made by caterers.

In recent years, an important benefit for racecourses has been generated via media rights income ultimately paid by off-course bookmakers in return for the supply of race meeting content.

Racecourses also derive monetary gains from racegoers and from the Government (via HRI), the former by way of entrance fees to race meetings and the latter via capital grants for the development of

racecourses. HRI also provides important fixture management services to the horseracing industry, which services are of benefit to racecourses.

The inputs made and outputs that are derived from horseracing are not, of course, limited to those that directly involve the racecourses themselves, although it remains the case that without the existence of racecourses none of these inputs or outputs would occur. Examples of these include the relationships between bookmakers on the one hand and racegoers and owners on the other in relation to bets laid and winnings paid out on races, food and drink provided by caterers to racegoers, owners and trainers and the revenues earned by them arising from this and the relationship between breeders and owners, which is so dependent on the results garnered by horses in races held at Irish racecourses. Taken together, these relationships of themselves constitute a significant volume of economic activity.

3.5. IMPACT ON LOCAL ECONOMIES: TOURISM

Racecourses play an important part in Ireland's tourism industry, with a number of racing festivals coinciding with peak holiday times within the country. As a result, racing festivals held at Irish racecourses have an important role to play in the development of tourism within the country by attracting attendance at race meetings from domestic sources and from overseas⁶.

A research study commissioned for HRI in 2009⁷ estimated the annual expenditure in the economy by overseas visitors who attend race meetings in Ireland came to just over €67 million. This study estimated that the number of overseas visitors attending race meetings in the period June 2008 to May 2009 came to 68,405 who, between them spent an average of €980 per visit, yielding a total spend over the period of €67,036,900.

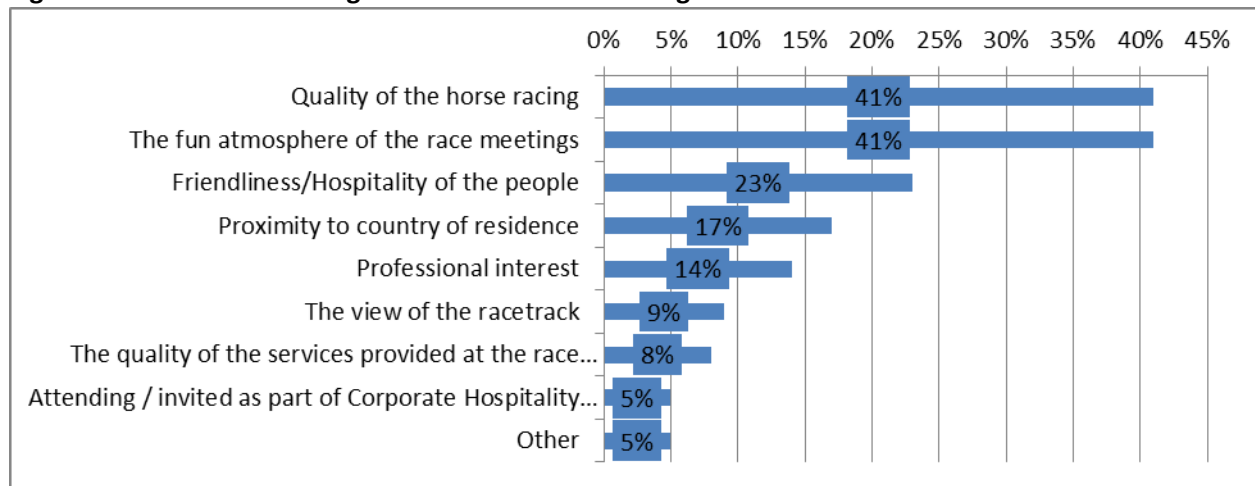
The same study found that overseas visitors made up 9% of all attendees at race meetings in Ireland. Of this percentage, a sizeable proportion stated that attendance at a race meeting was the primary purpose of their visit to the country. Overseas visitors were found to be very similar to their Irish counterparts in terms of age and gender and, like Irish racegoers, had a slight preference for attending racing festivals. Three-quarters of all overseas visitors came from the UK (60%) or the United States (14%) and over half of them attended race meetings in Dublin (14%) or the rest of Leinster (38%).

The same study conducted market research with overseas visitors to determine their reasons for visiting the country to attend race meetings. The principal reasons provided are illustrated below. The quality of the spectacle and the atmosphere at Irish race meetings were the two principal reasons provided for attending race meetings here.

⁶ Irish racing is broadcast live to 14 million UK and Irish homes and to over 33,000 retail betting outlets/shops in over 20 countries and with a total broadcast and online audience of tens of millions of viewers.

⁷ Overseas Visitors Quantitative Research 2008/09 Prepared August 2009 by Behaviour & Attitudes for Horse Racing Ireland.

Figure 9: Reasons for Visiting Ireland for a Race Meeting



Source: Horse Racing Ireland - Overseas Visitors Quantitative Research 2008/09

Other studies have also confirmed the value of race meetings to local economies. A 2012 study carried out by National University of Ireland Maynooth (NUIM) estimated the value of the previous year's Punchestown festival at just under €60 million.⁸ This study estimated that in addition to the direct economic contribution of €59,800,000 a further €9 to €12 million could be added to take account of indirect spin-off benefits to the local economy. The study estimated that the €59.8 million direct economic effect comprised spending inside the racecourse of €21.4 million, spending outside the racecourse of €24.8 million, spending on attire of €7 million and spending on travel of €6.6 million.

An earlier 2003 study estimated that the value to the local economy arising from the Galway festival was at a similar level to that of Punchestown. This study, carried out by the Marketing Development Programme of the Michael Smurfit Graduate School of Business, UCD found that the full economic impact of the Galway festival totalled €58 million.⁹

The 2009 report commissioned by the Irish Thoroughbred Breeders' Association on the economic impact of the Irish Thoroughbred industry ('the Dukes report')¹⁰ estimated that the combined economic contribution of Irish racing festivals in 2008 totalled €260.6 million. As Table 3 below shows, this estimate placed Galway as the most valuable festival (contributing €60 million to the total), followed by Punchestown (€43 million), Listowel (€38.4 million), Leopardstown (€21.3 million), the Curragh (€15.6 million) with other festivals together contributing the remaining €62.1 million. It should also be remembered that the opposite is also true so, for example, without the Galway festival there would be a €60 million economic dis-improvement experienced.

⁸ The Economic Contribution of the 2011 Irish National Hunt Festival at Punchestown to the Economy of Kildare and its Surrounding Regions, Report for Punchestown Racecourse by NUIM, January 2012, available at: <http://www.goracing.ie/pics/2012/NUIMREPORT.PDF>

⁹ 'See Galway races €60 million win for local economy', Irish Independent, 9th July 2003 available at: <http://www.independent.ie/irish-news/galway-races-60m-win-for-local-economy-25938172.html>

¹⁰ Analysis of the economic impact of the Irish Thoroughbred Horse Industry, Directed by Alan Dukes, commissioned for the Irish Thoroughbred Breeders' Association, 2009, available at: http://www.goracing.ie/AssetLibrary/Files/HRI/Resource_Centre/Dukes%20Report%20%202009%20.pdf

Table 3: Economic Contribution of Irish Racing Festivals:

| Festival | No. of days | Attendance | Value (€m) |
|--------------|-------------|------------|------------|
| Galway | 7 | 192,321 | 60.0 |
| Punchestown | 5 | 105,669 | 43.0 |
| Listowel | 7 | 106,822 | 38.4 |
| Leopardstown | 4 | 59,379 | 21.3 |
| Curragh | 3 | 43,336 | 15.6 |
| Others | 39 | 228,942 | 62.1 |
| Totals | 65 | 736,469 | 260.6 |

Source: Dukes Report, Table 3.3.1, citing HRI Fact Book 2008.

3.6. EMPLOYMENT BY RACECOURSES

Table 4: Employment Numbers and Cost – Estimate All Racecourses

| Employee Numbers | 2009 | 2010 | 2011 | 2012 |
|------------------------------|------------|------------|------------|------------|
| Core Full Time Employees | 206 | 199 | 198 | 193 |
| Core Part Time Employees | 93 | 101 | 104 | 133 |
| Race Day Full Time Employees | 115 | 114 | 116 | 110 |
| Race Day Part Time Employees | 1,098 | 1,150 | 1,154 | 1,195 |
| Total Employee Costs € | 12,041,025 | 10,829,590 | 10,837,290 | 10,601,681 |

Source: Petrus Questionnaire

Full time and part time employment on racecourses is estimated to be 193 and 133 respectively. On racedays it is estimated that 1,195 casual employees are employed in total across all 26 racecourses or an average of 46 employees. Total employee costs are estimated at €10.6 million in 2012 having reduced from €12.04 million in 2009.

To estimate an average cost per person we have taken each part time position as representing 50% of a full time position and each race day employee as representing 10% of a full time position. Using this approach there has been a decrease in the cost per employee over the years 2009 to 2012. In 2009 the average cost per employee was €33,240, reducing to €29,721 in 2010, €29,712 in 2011 and €28,028 in 2012. This represents a 15.6% decrease in average cost per employee over the period.

Using the same approach to estimate full time equivalents, **it is estimated that there are approximately 380 full time equivalent (FTE) jobs supported by racecourses directly and that employment has remained stable over the 4 year period 2009 – 2012 but with a reduction of 15% in average employee cost. The figure of 380 FTEs is made up of 193 full time FTEs, 67 part time FTEs and 120 casual FTEs.** The number of full time staff has reduced slightly since 2009. The number of part time staff has increased suggesting that part time staff positions have replaced full time positions. Casual race day staff have increased slightly.

3.7. EMPLOYMENT IN THE OVERALL HORSERACING INDUSTRY

The job numbers estimated above represent only a small part of the overall employment in the horseracing industry. **On-course and off-course activities in areas such as training, breeding, catering, betting, regulation, and transport all have high employment content and are supported or enabled by the existence of the racecourses.** In the report, “Analysis of the economic impact of the Irish

Thoroughbred Horse Industry – The “Dukes Report” - Update October 2010 it was estimated that the total employment in the industry was 17,351¹¹.

The most recent figures from HRI for 2012 suggest that 16,000 people are employed in the overall horseracing, breeding, betting etc. sectors. Each job on the racecourse supports over 40 jobs off the racecourse.

The breakdown of employment from the Dukes report is set out in the table below and shows the wide range of activities and occupations involved in the horseracing industry.

Table 5: Overall Horseracing Industry Employment 2008 – 2010

| Sector | 2008 | 2009 | 2010 |
|--|---------------|---------------|---------------|
| Breeding - Stallions, Broodmares, Sales Prep etc. | 6,107 | 4,738 | 3,982 |
| License Trainers | 784 | 785 | 785 |
| Jockeys - Flat, N.H. Apprentice and qualified Riders | 619 | 591 | 570 |
| Racing and racing support services - Stable staff, PTP training yards, Pre Training, Breaking yards, Breeze ups and Administration staff | 3,920 | 3,469 | 3,080 |
| Racecourse employment - General (incl. catering and security) | 996 | 950 | 935 |
| Betting - Bookmakers, On course clerks, Total Bookmakers off course, Tote | 6,998 | 6,528 | 6,034 |
| Educational institutes - Third level, RACE, FETAC courses, PLC's | 151 | 126 | 119 |
| Other - Farrier, Feed producers, HRI, Transport, Turf Club, Auxiliary services | 2,509 | 2,196 | 1,846 |
| Total Employment | 22,084 | 19,383 | 17,351 |

Source: Dukes Report Update October 2010

The Dukes report identified that jobs in the horseracing industry had already declined significantly between 2008 and 2010 and that almost 5,000 jobs had been lost in the period.

Bearing in mind the “network” and “ecosystem” concepts referred to earlier, the **racecourses are only one part of the overall horseracing and breeding industry but, if it is accepted that racecourses are an essential precursor to all the related activities, then the direct employment on racecourses is critically important and has a very high multiplier effect for all the other related employment in the wider horseracing industry employment.**

3.8. HORSERACING INDUSTRY EMPLOYMENT BY OCCUPATIONAL GROUP

The Central Statistics Office provided a special tabulation extracting information from the 2011 census as it relates to horseracing. The tabulation shows persons aged 15 years and over classified by occupational group and industrial group. This shows a lower level of employment than is shown in the previous and other reports on employment in the horseracing industry which can be explained by the categorization of occupation and industry used by the CSO to record activity where, for example, Gambling and betting activity (CSO employment 5,912) is a separate industry group, (included as part of Arts, Entertainment and Recreation) to horseracing (included as part of Agriculture, Forestry and Fishing). The different categorisations of occupations and industries explain the main differences

¹¹ According to the HRI Factbook 2012 this figure is believed to have reduced to 16,000.

between the figures generally understood to comprise employment in the overall horseracing industry (16,000 – 17,000) and the employment reported by the CSO (4,241).

The table below shows that there is a very wide variety of occupations employed in the horseracing sector with a high level of employment for Managers, Professionals, Associate Professionals and Skilled Trades and also for Elementary occupations. Figures are also provided for employment in Gambling and Betting activities and in Sports, amusement and recreation activities. Those involved in horseracing enjoy a wide variety of occupations with employment generated at many different levels.

Table 6: Occupation Analysis in Horseracing

| Occupations | Horseracing activities | Gambling and betting activities | Sports activities, amusement and recreation activities |
|---|-------------------------------|--|---|
| Corporate managers and directors | 65 | 383 | 541 |
| Other managers and proprietors | 304 | 1,153 | 1,515 |
| Science, research, engineering and technology professionals | 14 | 182 | 96 |
| Health professionals | 5 | 1 | 79 |
| Business, media and public service professionals | 55 | 154 | 157 |
| Science, engineering and technology associate professionals | 11 | 63 | 51 |
| Health and social care associate professionals | 4 | 1 | 188 |
| Culture, media and sports occupations | 601 | 40 | 3,034 |
| Business and public service associate professionals | 105 | 235 | 478 |
| Administrative occupations | 232 | 1,770 | 1,093 |
| Secretarial and related occupations | 116 | 43 | 652 |
| Skilled agricultural and related trades | 856 | 4 | 1,548 |
| Skilled metal, electrical and electronic trades | 60 | 31 | 191 |
| Skilled construction and building trades | 26 | 11 | 76 |
| Textiles, printing and other skilled trades | 11 | 15 | 536 |
| Caring personal service occupations | 43 | 10 | 251 |
| Leisure, travel and related personal service occupations | 68 | 729 | 1,027 |
| Sales occupations | 23 | 360 | 198 |
| Customer service occupations | 5 | 441 | 52 |
| Process, plant and machine operatives | 32 | 16 | 144 |
| Transport and mobile machine drivers and operatives | 38 | 9 | 65 |
| Elementary trades and related occupations | 1,372 | 4 | 117 |
| Elementary administration and service occupations | 129 | 168 | 1,195 |
| Not stated | 66 | 89 | 269 |
| Total | 4,241 | 5,912 | 13,553 |

Source: Central Statistics Office Census 2011 Special Tabulation

3.9. IMPACT ON HORSE BREEDING SECTOR

The Irish horse breeding sector is an important success story within the national economy. It is stated in the Dukes report that Ireland produces 42% of all thoroughbreds foals in Europe¹² and that, in 2008, the country exported a total of 6,222 thoroughbred horses worth a combined total of €126.8 million to 42 different countries.¹³ The same report estimates that employment in the horse breeding sector in 2008 stood at 6,107.¹⁴

While all of this value cannot be solely attributed to the existence of racecourses, it needs to be borne in mind that without a well-developed network of racecourses offering a year-round programme of racing events, it is impossible to imagine that the horse breeding industry in this country would have become anything like as successful as it undoubtedly has. As noted earlier, racecourses provide breeders with an important 'shop window' for equine talent and, as a result, a significant proportion of the value of the horse breeding sector may be traced to the part played by racecourses in providing important exposure for this talent.

3.10. PRIZE MONEY AND SPONSORSHIP

Prize money and the sponsorship of races are essential components of the horse racing industry, providing an important source of income for owners and trainers while also increasing the attractiveness of the Irish racing calendar.

As already noted earlier in this report, the level of prize money on offer at Irish races has fallen significantly in recent years, from a total of over €60 million in 2008 to just under €45 million in 2012.¹⁵ There was, however, a 1.1% increase in prize money levels between 2011 and 2012¹⁶ which would indicate the position in this area has now stabilised and as the worst of the economic crisis begins to recede it could well be the case that prize money levels will see further recovery in the years ahead.

Race sponsorship is also a key factor underpinning the success of the horse racing industry in this country. **In 2012 almost half of all races run in Ireland were sponsored races, with sponsorship funding coming from commercial sources and the European Breeders' Fund (EBF).**¹⁷ The former contributed some €3.7 million in sponsorship money in 2012 while the latter contributed €1.8 million.¹⁸

As is the case with the breeding industry, not all of the value created for the horse racing industry in the form of prize money and sponsorship can be attributed to the racecourses. It is, however, equally apparent that without a network of racecourses on which to run races – including globally recognised events such as the Irish Derby and iconic tourist events like the Galway Races – none of this value would arise in the first place and it would not accrue to owners and trainers in the important way that it does. As it is in so many other areas of the horse racing industry, racecourses are the key enablers for unlocking this important source of income within the sector to the benefit of other market participants.

¹² Dukes report (op. cit.), Section 4.2, page 19.

¹³ Ibid., Section 4.4, page 20.

¹⁴ Ibid., Section 4.1, page 17.

¹⁵ HRI Factbook 2012, page 51.

¹⁶ Ibid.

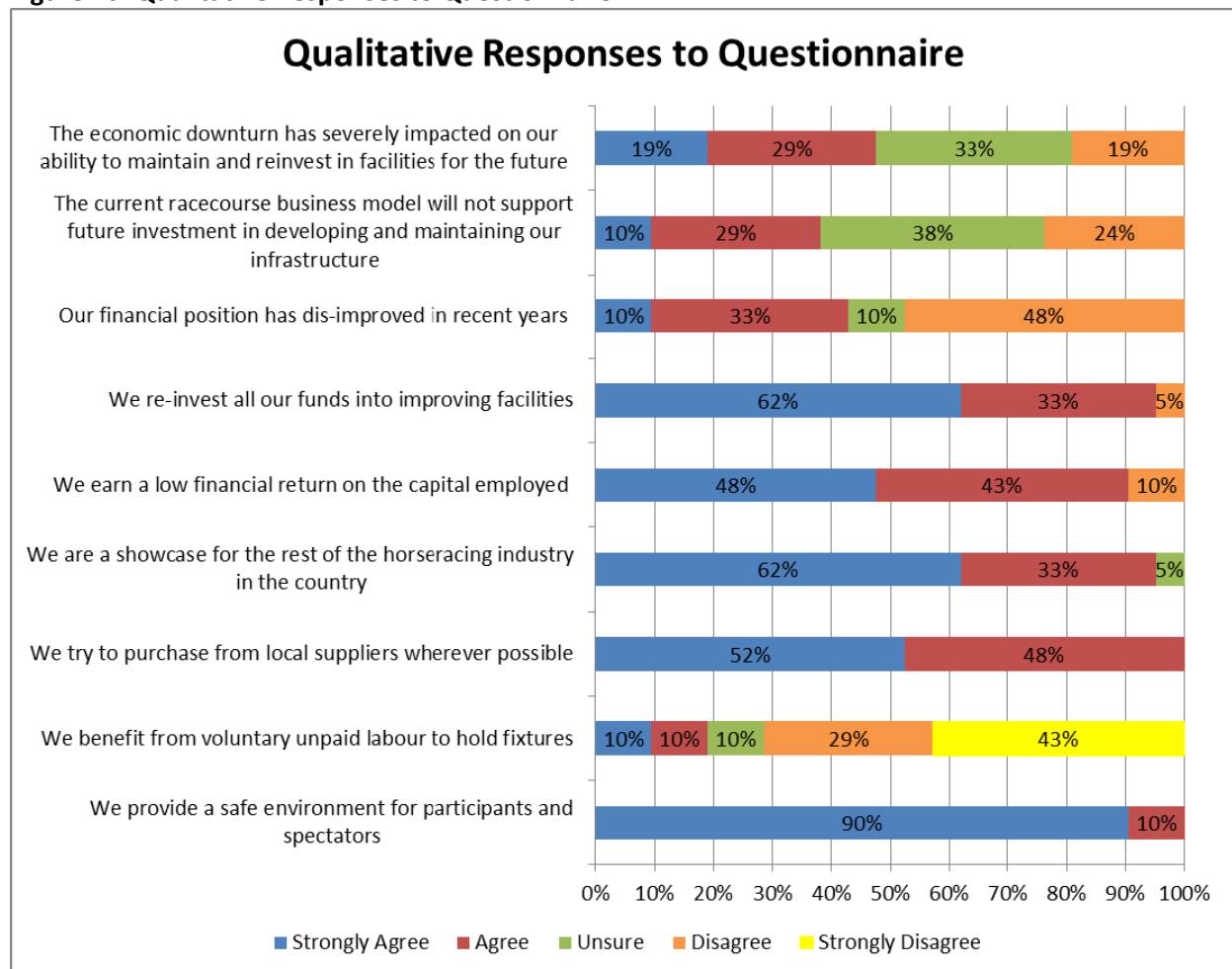
¹⁷ Ibid., page 55.

¹⁸ Ibid., pages 55-6.

3.11. QUALITATIVE DATA FROM QUESTIONNAIRES

Figures 10 and 11 below set out in aggregate form the responses received from racecourses to a set of qualitative questions contained in the questionnaire about the sector and its future prospects¹⁹.

Figure 10: Qualitative Responses to Questionnaire – A



Source: Petrus Questionnaire

Figure 10 shows that there is a spread of opinion regarding the impact on racecourses of the current economic downturn. Opinions are almost evenly divided between those racecourses which agree or strongly agree that **the ability of their racecourse to maintain and invest in facilities for the future has been severely impacted** (48%) and those disagreeing (52%). The range of opinions is similar for views on the current business model for racecourses where 39% agree or agree strongly that **the current model will not support future investment**. As regards statement that **the financial position of racecourses has dis-improved in recent years**, 43% believe that the position has dis-improved in recent years.

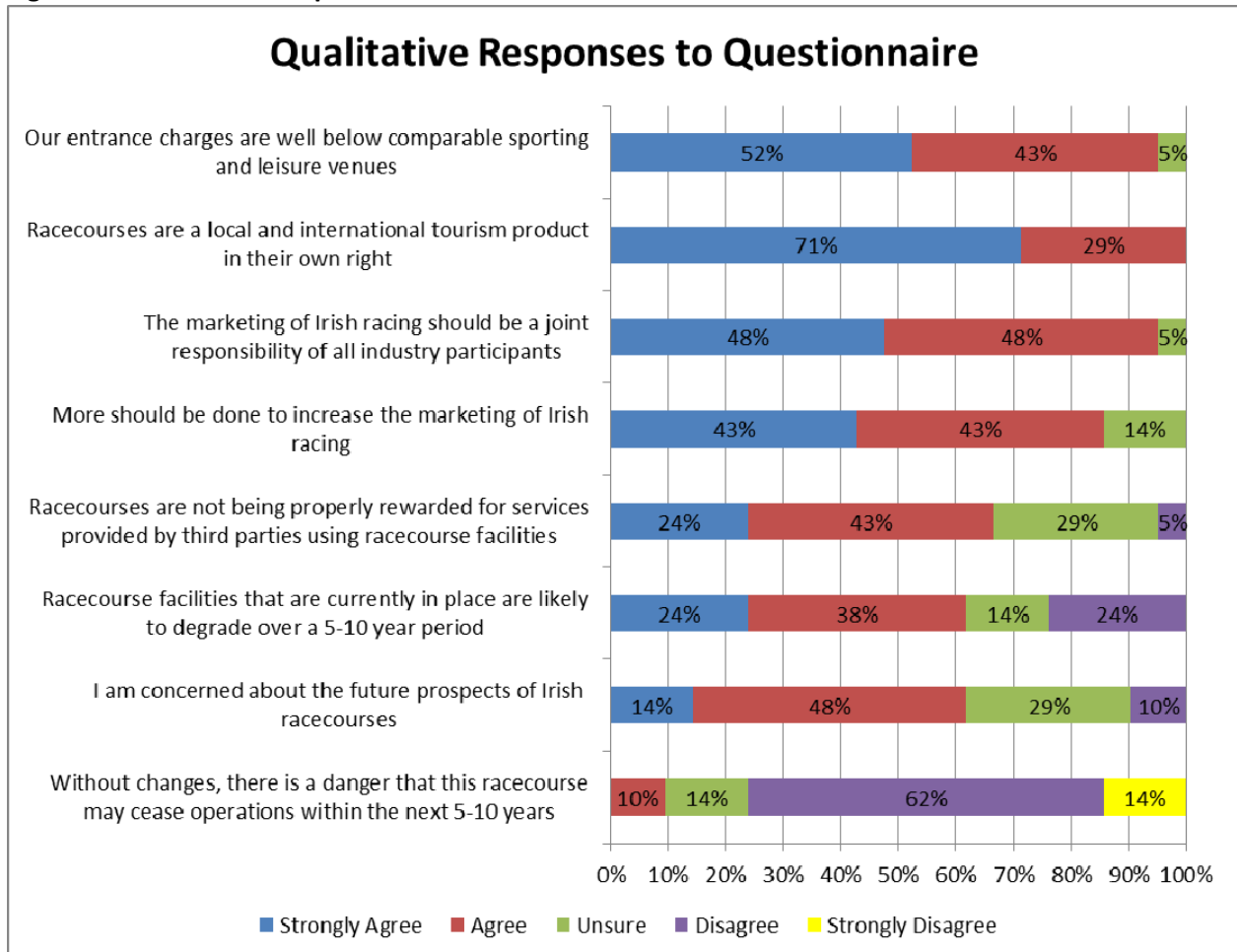
95% of respondents were in strong agreement or agreement that **all funds are re-invested into improving facilities**. Over 90% of respondents strongly agreed or agreed that **racecourses earn a low financial return on capital employed**.

¹⁹ Respondents were asked to choose between the following options in relation to each statement: “Strongly Agree”, “Agree”, “Unsure”, “Disagree” and “Strongly Disagree”. Figures are rounded and may therefore not sum to 100%.

There was almost unanimous support, meaning agreement or strong agreement, for the statement concerning “**we are a showcase for the rest of the horseracing industry**” (95%).

The statement that **racecourses try to purchase locally wherever possible** was unanimously supported as was the statement that **racecourses provide a safe environment for participants and spectators**. **Racecourses also tend not to benefit from voluntary unpaid labour**.

Figure 11: Qualitative Responses to Questionnaire – B



Source: Petrus Questionnaire

Respondents almost unanimously (95%) believe that **entrance charges are below comparable sporting and leisure venues**. There was unanimous agreement that **racecourses are a local and international tourism product in their own right**.

When considering the future development of racecourses, there was almost unanimous support for the statement that **the marketing of Irish racing should be a joint responsibility of all industry participants (96%)** and almost unanimous agreement that **more should be done to market Irish racing** (with 86% strongly agreeing or agreeing).

It is not just in relation to the marketing of horseracing that racecourses are looking to other market participants to play a greater role. Two thirds of all respondents either “strongly agreed” or “agreed” with the statement that **racecourses are not being properly rewarded for the services provided to third parties**.

Looking to the future, sentiment amongst respondents was somewhat negative, with over 60% starting that they either “strongly agreed” or “agreed” with the statement that **racecourse facilities are likely to**

degrade over a 5-10 year period. Similarly, there are concerns for the future of racecourses with 62% agreeing or strongly agreeing with the statement **“I am concerned about the future prospects of Irish racecourses”**.

Racecourses were more optimistic about the **danger of racecourse closure within the next 5 – 10 years** with 76% disagreeing or disagreeing strongly about the risk of closure.

In summary, the qualitative responses to the questionnaire demonstrate that racecourses are generally concerned about future prospects for the sector. Racecourses also take the view that more could be done to market the sector better and that other market players need to shoulder increased responsibility in this area and in relation to what they pay for services provided to them at racecourses. However, in spite of the concerns about the future it is also clear that there is a level of resilience among racecourse owners and most racecourses appear to have weathered the economic downturn and do not anticipate closure.

The same views are borne out in the answers to a number of open questions posed in the questionnaire, as the following quotations show:

Without racecourses there is simply no industry and this racecourse is an integral part of the racing network.”

“Horse racing is a great industry and ... racecourses are the key element to the success of the racing industry. Racecourses are the shop front of Irish racing providing superb racetracks and facilities for horses and horse people to race over.”

“Rising operating costs are an obstacle. Stricter controls and safety considerations for racing and non-racing are increasing costs.”

“The racecourse needs to be redeveloped as facilities are old and not in keeping with its international status.”

Racecourses are going through enormous change with more and more new regulations and peoples’ expectations are also getting higher. We are in the entertainment business ... Entertainment is like fashion, it keeps changing all the time. What may be good enough for today may not be good enough for tomorrow.”

“The recession has hit racecourse attendances and costs have continued to soar.”

“Rising costs and falling incomes are worrying as is spiralling regulation with bureaucracy gone mad.”

“Annual funding from Government needs to be put on a secure basis.”

Part of this funding from Government should be ring-fenced every year for capital development grants so that racecourses can plan over a period of 5 years to improve facilities.”

“All or any profits are reinvested to benefit the industry and this should be recognised.”

“If revenues are not sufficient from all sources or costs controlled then we will go out of business.”

“Racecourses do not want to be over-compensated. They want respect for the service provided and a reduction in costs being allocated to them.

4. FINANCIAL REVIEW OF RACECOURSES

4.1. OVERVIEW OF RACECOURSE FINANCING

Racecourses vary greatly in size from very small racecourses which host a single meeting attended by a few thousand racegoers to racecourses which host festival meetings and with annual attendance of over 100,000 racegoers. The racecourses are usually established as limited companies although some are constituted on a more informal committee basis. However they are constituted, **racecourses are distinguished by the fact that their objective is not to earn a return for shareholders but to maintain and develop their facilities in order to provide safe and enjoyable venues for holding race meetings. They do not pay dividends or directors' fees and if profits are earned such profits are re-invested in the racetrack and associated facilities.**

With 26 racecourses on the island and racing taking place on 350 days of the year, the average utilisation of racetracks is about 4%. While costs must be paid for 365 days each year, revenues can only be earned on a small number of days. This is not the fault of racecourses but simply a reflection of the limited availability of fixtures, the number of horses in training and sponsorship available. The racing calendar is already crowded and individual racecourses do not have ultimate control over the number or allocation of racing fixtures although there are many established fixtures on the calendar.

The sector is characterised by the need for long term capital investment, severely limited opportunities to earn revenues on the capital investment and, even when fixtures are scheduled, they can be subject to cancellation at the last minute due to adverse weather conditions. Such an event is particularly serious for smaller racecourses which may be unable to reschedule the cancelled fixture on a suitable date.

Operating a racecourse is a capital intensive business which is generally loss making or earns low returns which if they are made are reinvested for the future. The benefits provided by racecourses do not accrue to the racecourses themselves but, rather, to the other horseracing participants such as owners, trainers, jockeys, bookies, breeders, support and ancillary service providers. Benefits also accrue to the economy in the form of employment and taxes/charges paid.

In environmental policy there is a principle whereby "the polluter pays" meaning that the party responsible for producing pollution is responsible for paying for the damage done to the natural environment. This is because such parties should not benefit from passing on the costs or negative externalities caused by their polluting activities to external parties and must therefore bear these costs themselves internally.

As a corollary to this, racecourses generate positive externalities or benefits for parties external to the racecourses and for which those parties do not pay. If such parties derive a benefit from the investment and effort made by racecourses then it is reasonable to expect that racecourses should be rewarded for this by economic transfers from those parties to racecourses. As an example and in practical terms the situation of owners and trainers can be considered. Owners and trainers of horses running at a fixture do not pay for admission to the racecourse although they are attending in a sporting or professional capacity. Whereas general racegoers are required to pay to watch an owner's horse taking part in a race, the owner is not required to do so or, for example, to pay for stabling costs which would be payable in other equestrian sports. Tourism benefits, local economic benefits arising from festivals, breeding and bloodstock services are enabled by racecourses but for which they are not rewarded.

When cash inflows and outflows between all the parties involved in the horseracing industry are considered it shows that racecourses are not being fully rewarded for all the services they directly provide or for the indirect benefits they enable and support.

4.2. ATTENDANCES

Table 7: Racecourse Attendances

| Racecourse | Fixtures | Fixtures | Total Attendance | Total Attendance | Average Attendance | Average Attendance | Change in Attendance | % Change |
|--------------|----------|----------|------------------|------------------|--------------------|--------------------|----------------------|-------------|
| | 2011 | 2012 | 2011 | 2012 | 2011 | 2012 | 2012 – 2011 | 2012 - 2011 |
| Ballinrobe | 9 | 9 | 18,788 | 15,490 | 2,088 | 1,721 | -3,298 | -17.6% |
| Bellewstown | 5 | 5 | 16,355 | 11,705 | 3,271 | 2,341 | -4,650 | -28.4% |
| Clonmel | 12 | 12 | 12,751 | 12,590 | 1,063 | 1,049 | -161 | -1.3% |
| Cork | 18 | 18 | 38,865 | 34,926 | 2,159 | 1,940 | -3,939 | -10.1% |
| Curragh | 18 | 19 | 98,079 | 99,442 | 5,449 | 5,234 | 1,363 | 1.4% |
| Downpatrick | 10 | 9 | 26,745 | 23,310 | 2,675 | 2,590 | -3,435 | -12.8% |
| Down Royal | 12 | 12 | 46,421 | 43,305 | 3,868 | 3,609 | -3,116 | -6.7% |
| Dundalk | 24 | 40 | 41,421 | 52,868 | 1,726 | 1,322 | 11,447 | 27.6% |
| Fairyhouse | 16 | 20 | 53,546 | 54,206 | 3,347 | 2,710 | 660 | 1.2% |
| Galway | 12 | 12 | 172,220 | 152,747 | 14,352 | 12,729 | -19,473 | -11.3% |
| Gowran Park | 16 | 16 | 27,776 | 26,593 | 1,736 | 1,662 | -1,183 | -4.3% |
| Killarney | 11 | 11 | 30,956 | 28,478 | 2,814 | 2,589 | -2,478 | -8.0% |
| Kilbeggan | 8 | 8 | 32,500 | 36,452 | 4,063 | 4,557 | 3,952 | 12.2% |
| Laytown | 1 | 1 | 3,890 | 4,241 | 3,890 | 4,241 | 351 | 9.0% |
| Leopardstown | 23 | 23 | 144,464 | 142,374 | 6,281 | 6,190 | -2,090 | -1.4% |
| Limerick | 18 | 18 | 75,233 | 81,048 | 4,180 | 4,503 | 5,815 | 7.7% |
| Listowel | 9 | 9 | 85,508 | 91,139 | 9,501 | 10,127 | 5,631 | 6.6% |
| Naas | 15 | 15 | 27,821 | 28,257 | 1,855 | 1,884 | 436 | 1.6% |
| Navan | 19 | 16 | 32,951 | 31,512 | 1,734 | 1,970 | -1,439 | -4.4% |
| Punchestown | 18 | 18 | 120,957 | 114,843 | 6,720 | 6,380 | -6,114 | -5.1% |
| Roscommon | 9 | 9 | 26,316 | 26,138 | 2,924 | 2,904 | -178 | -0.7% |
| Sligo | 8 | 7 | 19,023 | 15,800 | 2,378 | 2,257 | -3,223 | -16.9% |
| Thurles | 11 | 11 | 15,884 | 15,421 | 1,444 | 1,402 | -463 | -2.9% |
| Tipperary | 12 | 10 | 17,196 | 12,521 | 1,433 | 1,252 | -4,675 | -27.2% |
| Tramore | 11 | 11 | 34,000 | 24,740 | 3,091 | 2,249 | -9,260 | -27.2% |
| Wexford | 11 | 11 | 18,011 | 14,363 | 1,637 | 1,306 | -3,648 | -20.3% |
| Total | 336 | 350 | 1,237,677 | 1,194,509 | 3,684 | 3,413 | -43,168 | -3.5% |

Source: HRI Factbook 2012 Adjusted

The table above shows the attendances at all race meetings in Ireland in 2011 and 2012. In 2011 there were 336 fixtures whereas in 2012 there were 350 fixtures. Total attendance in 2011 was 1,237,677 whereas in 2012 the total attendance was 1,194,509. The average attendance at race meetings declined from 3,684 in 2011 to 3,413 in 2012. The average attendance level is small in absolute terms and it can be seen from the table above that only one racecourse – Galway – achieved average attendance levels higher than 10,000 in both years and only Listowel and Galway had average attendance levels higher than 10,000 in 2012.

The reduction in total attendance from 2011 to 2012 amounted to 43,168 and, expressed as a percentage of the attendance level in 2011, this equates to a reduction in overall numbers attending race meetings of 3.5%.

As stated above, more race meetings were held in 2012 than in 2011. The decline in the average attendance at all meetings is 7.3%.

These attendance numbers include a high proportion of attendees who either do not pay the full admission cost or do not pay for admission at all. The reasons for this are varied including that they are part of a sponsor's package, are connections of the owners and trainers, are associated with the racecourse management and administration or are availing of family/group admission.

The decline in absolute and average racegoer numbers attending race meetings also does not fully reflect the financial impact that such reductions have. The decline in admission numbers has to be seen in the context of the overall economic environment in Ireland in recent years whereby racecourses have done particularly well to maintain attendance levels. Taking the average attendance level between 2009 and 2012, total attendance at race meetings in 2012 was just 1.9% below the average for those years. The most recent figures from HRI for the first 6 months of 2013 indicate that attendance levels were .6% higher than in the corresponding period in 2012. This is a highly creditable performance by racecourses and shows that, after the dramatic declines from 2006 to 2008, attendance levels may have bottomed out and even show a small increase.

From the questionnaires circulated as part of this review, we estimate that the reduction in revenues from attendances is 9.7% overall between 2011 and 2012. This overall reduction varies by grade of racecourse with Premier/HRI tracks seeing a reduction of 10.5%, Grade I tracks seeing a small reduction of 1.1% and Grade II tracks seeing a reduction of 11.5%. The smaller reduction in Grade I tracks is possibly explained by one racecourse which had more fixtures in 2012 than in 2011.

In summary terms, between 2011 and 2012 there are more meetings held but:

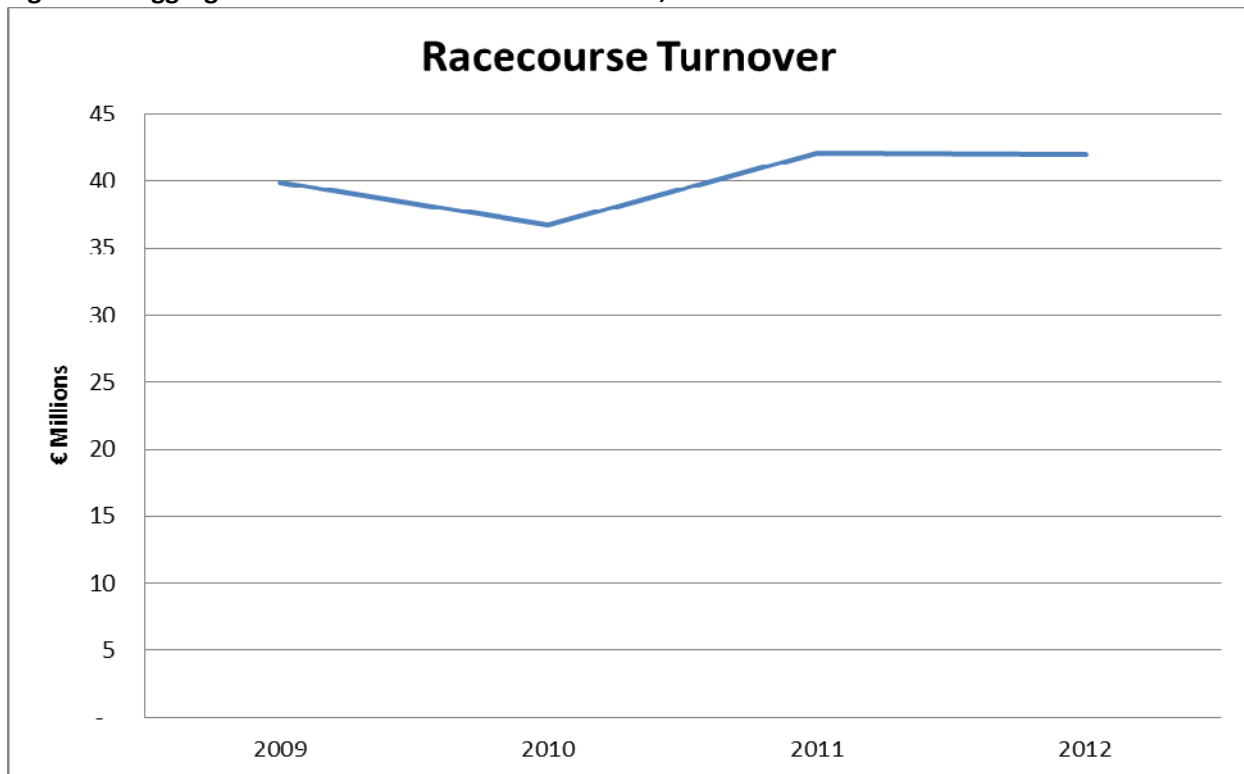
- Total Attendance fell by 3.5%
- Average attendance fell by 7.3%
- Total Racegoer Attendance Fees fell by an estimated 9.7%
- Average admission prices fell by 7%.

The decline in total and average attendances appears to have now stabilised and may show a small increase for 2013 which is a very creditable performance by racecourses.

4.3. REVENUE STREAMS

Over the period 2009 to 2012, the total estimated income for racecourses remained relatively stable increasing by just 5% in nominal terms over the 4 year period. In the same period inflation, as measured by the Consumer Price Index, increased from 102.2 in 2009 to 105.6 in 2012 or 3.3% in total over the period. **In real terms, the revenues of racecourses have increased marginally by about 1.7% in total in the 4 years 2009 – 2012. Maintaining revenue at just slightly above 2009 levels is a highly creditable performance by racecourses in the period of severe economic turbulence experienced in recent years.**

Figure 12: Aggregate Turnover of all Irish Racecourses, 2009 – 2012



Source: Racecourse Questionnaire, Petrus Analysis

Table 8: Turnover Analysis –Estimate - All Racecourses

| Revenue Sources | € | € | € | € |
|----------------------------|------------|------------|------------|------------|
| | 2009 | 2010 | 2011 | 2012 |
| Racegoer Attendance Fees | 11,221,558 | 9,877,516 | 9,705,078 | 8,847,152 |
| Franchises and Concessions | 3,146,062 | 2,497,470 | 2,426,326 | 2,344,358 |
| Bookmaker Income | 2,596,411 | 2,121,629 | 2,004,161 | 1,850,013 |
| Advertising / Sponsorship | 2,037,058 | 1,981,827 | 1,913,773 | 1,740,647 |
| Non-Racing Income | 6,668,766 | 6,281,739 | 5,478,356 | 5,361,060 |
| Grants and Subsidies | 1,138,822 | 1,180,454 | 949,526 | 941,287 |
| Media Rights Income | 11,861,433 | 11,502,425 | 18,512,916 | 19,972,284 |
| Other | 1,258,521 | 1,255,275 | 1,108,702 | 897,940 |
| Total Turnover | 39,928,633 | 36,698,335 | 42,098,837 | 41,954,742 |

Source: Racecourse Questionnaire, Petrus Analysis

Note - Advertising and sponsorship is included above on a net basis. This means that prize money and sponsorship is only included in the tables above to the extent that it remains with the racecourse.

Table 9: Breakdown of Revenue Streams in Racecourses

| Revenue Sources | % 2009 | % 2010 | % 2011 | % 2012 |
|----------------------------|-----------|-----------|-----------|-----------|
| Racegoer Attendance Fees | 28% | 27% | 23% | 21% |
| Franchises and Concessions | 8% | 7% | 6% | 6% |
| Bookmaker Income | 7% | 6% | 5% | 4% |
| Advertising / Sponsorship | 5% | 5% | 5% | 4% |
| Non-Racing Income | 17% | 17% | 13% | 13% |
| Grants and Subsidies | 3% | 3% | 2% | 2% |
| Media Rights Income | 30% | 31% | 44% | 48% |
| Other | 3% | 3% | 3% | 2% |
| Total Turnover | 100% | 100% | 100% | 100% |

Source: Racecourse Questionnaire, Petrus Analysis

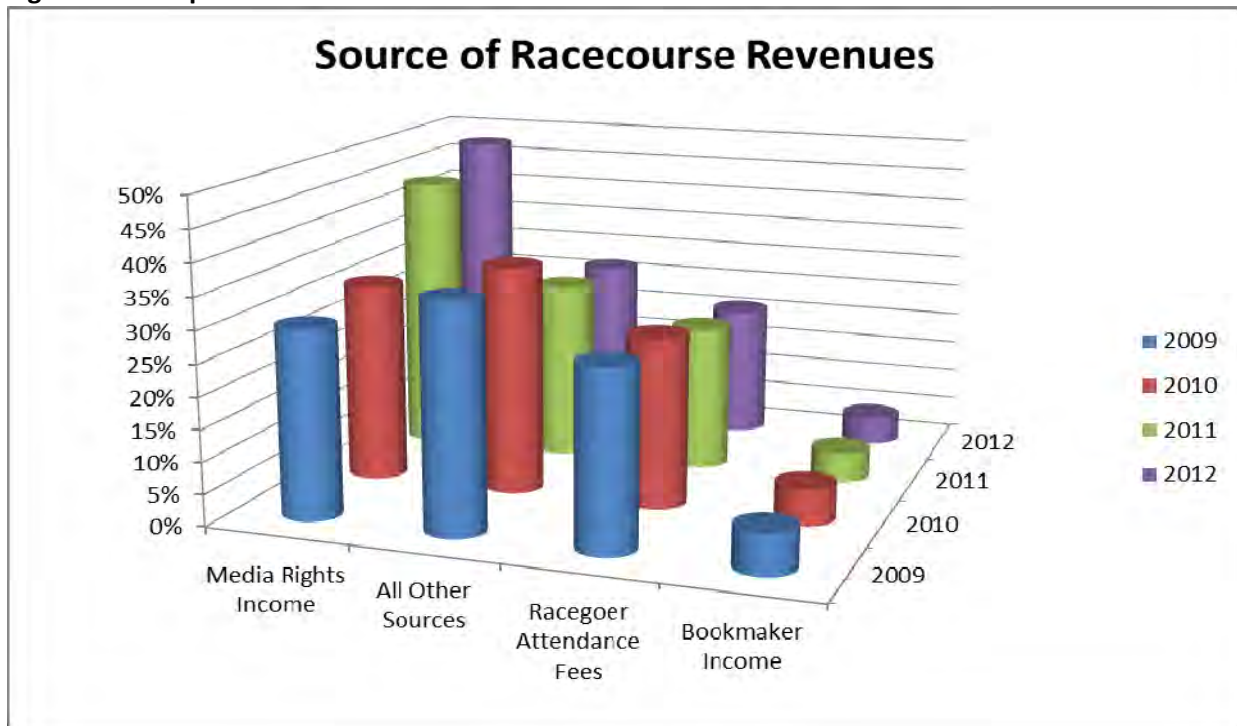
The previous tables show the change in the composition of racecourse revenues over the period 2009 to 2012. Several trends are evident including:

- A continuing sharp reduction in the revenues earned from racegoers
- A reduction in the revenues earned from bookmakers
- The low overall level of grants and subsidies
- The increasing dependence on media rights income which is now the most important revenue source for racecourses.

Total revenue for all racecourses is estimated to have been €42 million in 2012. Revenues from all sources other than media-related income have been in sharp decline as a result of falling attendances and lower economic activity levels. Between 2009 and 2012, income from all sources other than media rights income fell by over €6 million. Media Rights income rose by just over €8 million in the same period.

If media rights income is excluded from the table above, then the underlying decline in revenues during the period 2009 - 2012 is 22%. This is a critical issue because it demonstrates that **the rise in media rights income in recent years compensated for the underlying decline in revenue from all other revenue sources. The increase in media rights income, which now represents 48% of total revenues, has been essential in order to overcome the underlying systemic decline in revenues from more traditional sources.**

Figure 13: Composition of Total Racecourse Revenues 2009 - 2012



Source: Racecourse Questionnaire, Petrus Analysis

In 2009, racegoer attendance fees comprised 28% of overall revenues whereas by 2012 revenue from this source comprised just 21%. The reduction in racegoer attendance fees has been compensated by the increase in media rights income which has risen from 30% of overall revenue in 2009 to a position where it now accounts for almost half of total revenues.

This increase in a media rights is very welcome, particularly in a period where all other revenue sources are declining. A number of points need to be kept in mind about the nature of Media rights income:

- Racecourses are now almost as dependent on media rights income as on all other sources of revenue combined
- Prior to the recent increased level of media rights income, racecourses were at best breakeven and in most cases loss making entities. The media rights income was firstly applied to support the underlying loss making position of racecourses
- The current contract of media rights expires at the end of 2018 and it remains to be seen how any new contract might turn out
- The biggest financial risk facing racecourses at present is the high level of dependency on media rights income which is controlled by a very small number of operators
- There are other competing sources for this media rights income in other countries
- **Any material reduction in media rights income would compromise the ability of racecourses to maintain and invest in the racetrack asset, threaten the ability of many racetracks to continue as going concerns and, ultimately, endanger the future of the overall horseracing industry.**

Franchises and Concessions

Income from these sources has declined in absolute and relative terms over the period 2009 to 2012 and the level of decline is entirely consistent with the decline in most other revenue streams.

Bookmaker Income

This revenue stream has shown a decline in absolute and relative terms from a situation where it accounted for 7% of total revenues to the position in 2012 where it now accounts for 4% of revenues.

Advertising / Sponsorship has declined slightly in absolute and relative terms from 5% of revenues to 4% of revenues in 2012.

Non-Racing Income has declined in absolute and relative terms from 17% of total revenues to 13% of revenues in 2012. The figure for non-racing income is distorted by one factor which accounts for a high proportion of the €5.3 million total non-racing revenues across all racecourses. If this factor is adjusted, non-racing income would have represented 7% of total income in 2009 and 5% in 2012.

However, it should be kept in mind that **non-racing turnover is very significant, does not have a high related cost of sales in most cases and is equivalent to over 85% of the reported profit after tax for all racecourses combined.**

Table 10: Estimated Non- Racing Income - All Racecourses

| | Estimated Non Racing Income € | % |
|---------------------------|-------------------------------------|------|
| Golf / Driving Range | 1,935,377 | 36% |
| Events and Conferences | 342,005 | 6% |
| Farming / Letting of Land | 135,355 | 3% |
| Interest Received | 385,500 | 7% |
| Other – Rental Income/ | 2,539,864 | 48% |
| Total Non-Racing turnover | 5,338,100 | 100% |

Source: Racecourse Questionnaire, Petrus Analysis

Grants and Subsidies form a very small proportion of total income. In 2009, the proportion of total income represented by grants and subsidies was 3% and in 2012 this had fallen to 2%.

Media Rights Income originally comprised 30% of revenues in 2009 but by 2012 formed 48%. It thus represents the single largest revenue source for racecourses. As noted above the decline in revenues from all other sources has been countered by the increase in media income.

Other Income has fallen from 3% total revenues in 2009 to 2% in 2012

Many, if not all, of the revenue streams above have little in the way of directly associated costs meaning that reductions in these revenue streams impact directly on the bottom line of profitability of racecourses.

4.4. PROFITABILITY OF RACECOURSES

Table 11: Estimated Profitability for all Racecourses

| Profit Summary | All Racecourses | |
|----------------------------------|-----------------|------|
| | 2012 € | % |
| Income | 41,954,742 | 100% |
| Operating Costs | 26,969,946 | 64% |
| Interest Costs | 968,527 | 2% |
| Depreciation | 5,503,457 | 13% |
| Exceptional Items | 1,515,420 | 4% |
| Corporation Tax | 744,343 | 2% |
| Dividends | - | 0% |
| Profit/(Loss) After Tax | 6,253,048 | 15% |
| Media Rights Income | 19,972,284 | 48% |
| Profit/(Loss) excl. Media Rights | (13,719,236) | -33% |

Source: Racecourse Questionnaire, Petrus Analysis

Profitability expressed as a percentage of turnover is estimated at 15% but this is heavily dependent on media rights and non-racing income levels as seen above. There is also a significant variation between individual racecourses and course types with Grade II type courses earning 3% profit on turnover and Grade I type courses earning 7%. The level of profitability of racecourses has to be considered in terms of their core purpose which is to generate funds in order to provide venues for fixtures and races to take place for the benefit of all horseracing stakeholders including owners, trainers, jockeys, bookies, breeders and the racegoing public. The on-going capital investment required is provided by means of capital grants, by borrowings and by the level of cash reserves that racecourses can provide directly from profits generated and retained for investment purposes.

Included in the aggregate income figure above is media rights income of €19.9 million meaning that, **without media rights income, racecourses would have experienced aggregate losses of over €13.7 million.** This again shows firstly, the very high level of dependency of the racecourses on this revenue stream and secondly, the **media rights income is masking the underlying or core loss making activities and position of practically all racecourses.**

4.5. PUBLIC INFORMATION FILED WITH THE COMPANIES REGISTRATION OFFICE

We obtained information for racecourses²⁰ filed with the Companies Registration Office (“CRO”). However, some racecourses are not required to file accounts and some racecourses avail of the exemption which permits small companies with turnover below a certain threshold and a balance sheet total below another threshold to only file balance sheet information in a summary form and not to reveal details of turnover and profit levels.

At present the thresholds for small company audit exemption are a balance sheet total below €4,400,000 and turnover below €8,800,000. These thresholds have been revised over the years and it is clear that some racecourses which previously filed full accounts have in more recent years become eligible to avail of the exemption. In addition, several racecourses have not yet filed their 2012 accounts with the CRO. For this reason the figures below are indicative only and in particular the figures for 2012

²⁰ We analysed full financial information for sixteen racecourses and abridged financial information for a further seven racecourses.

are not provided because they are incomplete. Data for individual years should not be used for year on year trend analysis.

Table 12: Racecourses Aggregate Profit and Loss Accounts for 16 Racecourses

| Year | 2007 | 2008 | 2009 | 2010 | 2011 |
|---------------------|-------------|-------------|-------------|-------------|-------------|
| Turnover | 29,089,521 | 37,495,296 | 27,185,280 | 23,595,243 | 29,078,074 |
| Interest Payments | 1,857,921 | 1,985,087 | 535,158 | 401,106 | 336,322 |
| Pre Tax Profit | 471,337 | -52,966 | -93,041 | -1,739,449 | 7,231,225 |
| Taxation | -502,351 | -779,462 | -172,160 | 411,208 | 119,309 |
| Profit After Tax | -31,014 | -832,428 | -305,227 | -1,851,397 | 7,036,413 |
| Dividends Payable | 0 | 0 | 0 | 0 | 10,000 |
| Retained Profit | -31,014 | -832,428 | -305,227 | -1,851,397 | 7,026,413 |
| Total Assets | 194,451,393 | 199,899,719 | 191,962,190 | 182,894,657 | 206,063,641 |
| Capital Employed | 174,196,591 | 177,334,633 | 171,973,552 | 168,423,614 | 191,255,583 |
| Return on Assets % | 0.0% | -0.4% | -0.2% | -1.0% | 4.3% |
| Return on Capital % | 0.0% | -0.5% | -0.2% | -1.1% | 4.6% |
| Gearing % | 64% | 58% | 62% | 48% | 37% |

Source: CRO Data, Petrus Analysis

Note. The profit before tax figure for 2010 was distorted by an exceptional item in the accounts of The Leopardstown Club Limited. This has been adjusted in the figures shown above. It can be seen therefore that prior to 2011 there was either a very low level of profitability or there were losses as was the case from 2007 to 2010 (as adjusted).

Setting aside the difficulty with year on year comparisons and examining individual years, there were losses in each year 2007, 2008, 2009 and 2010 (adjusted). This was the case even though media rights income was significant in those earlier years also. This again supports the conclusion that media rights income was and remains a very welcome addition to racecourse revenues but was only sufficient to counteract the effect of the significant decline in all other revenue sources.

Interest payments have been declining since 2008 and this possibly reflects racecourses paying off loans, reducing interest costs and a reduction in capital investment overall. Another notable feature of the racecourse financial data is the almost complete absence of dividend payments. Only a single racecourse in one year paid a dividend amounting to €10,000.

Table 13: Racecourses Aggregate Balance Sheets 2007 to 2011– 23 Racecourses

| Year | 2007 | 2008 | 2009 | 2010 | 2011 |
|------------------------------------|-------------|-------------|-------------|-------------|-------------|
| Tangible Assets | 147,929,177 | 161,146,554 | 141,263,329 | 138,368,570 | 155,973,631 |
| Intangible Assets | 95,966 | 93,966 | 591,966 | 739,966 | 973,466 |
| Total Fixed Assets | 148,025,143 | 161,240,520 | 141,855,295 | 139,108,536 | 156,947,097 |
| Total Current Assets | 46,426,251 | 38,659,198 | 29,674,624 | 24,878,211 | 30,310,575 |
| Trade Debtors | 6,500,599 | 7,458,176 | 6,085,336 | 5,621,278 | 3,068,243 |
| Stock | 6,274,456 | 6,797,384 | 65,478 | 67,933 | 68,447 |
| Cash | 9,931,773 | 6,713,617 | 5,951,033 | 4,410,459 | 15,966,481 |
| Other Current Assets | 23,703,156 | 17,677,988 | 15,612,845 | 11,503,388 | 7,750,597 |
| Increase In Cash | -3,196,645 | -1,509,978 | -1,042,918 | -301,351 | 839,077 |
| Miscellaneous Current Assets | 16,267 | 12,033 | 2,643 | 9,347 | 3,247 |
| Total Assets | 194,451,393 | 199,899,719 | 191,962,190 | 182,894,657 | 206,063,641 |
| Total Current Liabilities | 20,254,802 | 22,565,086 | 20,208,406 | 14,622,993 | 14,893,366 |
| Trade Creditors | 8,027,177 | 7,203,859 | 5,146,011 | 3,932,328 | 4,754,386 |
| Bank Overdraft | 2,393,208 | 937,243 | 1,208,693 | 2,618,899 | 2,084,716 |
| Other Short Term Finances | 3,659,812 | 5,654,868 | 5,341,810 | 1,737,700 | 2,858,880 |
| Miscellaneous Current Liabilities | 6,174,605 | 8,769,116 | 8,511,892 | 6,334,066 | 5,204,670 |
| Other Long Term Finances | 38,276,464 | 35,443,635 | 29,325,362 | 22,580,513 | 19,862,823 |
| Total Long Term Liabilities | 68,058,053 | 65,172,899 | 65,447,033 | 54,379,298 | 51,936,074 |
| Bank Overdraft and Long Term Loans | 70,451,261 | 66,110,141 | 66,655,726 | 56,998,197 | 50,329,821 |
| Total Liabilities | 88,312,855 | 87,737,984 | 85,655,439 | 69,002,290 | 66,829,439 |
| Net Assets | 106,138,538 | 112,161,735 | 106,306,751 | 113,892,367 | 138,942,302 |
| Working Capital | 26,171,449 | 16,094,113 | 14,471,352 | 13,927,257 | 19,146,683 |
| Paid Up Equity | 7,874,791 | 7,874,793 | 7,874,793 | 7,878,794 | 7,878,793 |
| Profit and Loss Account Reserve | 22,130,551 | 21,664,682 | 22,004,197 | 47,750,916 | 71,214,967 |
| Sundry Reserves | 65,668,394 | 72,157,260 | 70,312,185 | 52,147,081 | 51,168,784 |
| Revaluation Reserve | 10,464,802 | 10,465,000 | 6,115,576 | 6,115,576 | 8,971,658 |
| Shareholder Funds | 106,138,538 | 112,161,735 | 106,306,751 | 113,892,367 | 138,942,302 |
| Net Worth | 106,042,572 | 112,067,769 | 105,714,785 | 113,152,401 | 138,260,717 |
| Contingent Liability | 9,042,222 | 14,256,730 | 17,039,660 | 17,974,769 | 17,974,769 |
| Capital Employed | 174,196,591 | 177,334,633 | 171,973,552 | 168,423,614 | 191,255,583 |

Source: Extract from Companies Registration Office filings for 23 racecourses

NB. The table above is also extracted from the CRO data and the same caveats apply to this table as to the earlier profit and loss table. In addition, while overall total figures may be correct, it is likely that the analysis of some figures may have differed from year to year and between different racecourses. This means that the figures should be viewed as broad indicators only.

Fixed assets are generally valued at cost by most racecourses so the figures above represent the historical acquisition cost after depreciation has been charged since acquisition. Taking the figures for 2011, the aggregate cost of fixed assets appearing in the accounts of racecourses is approximately €156 million. **Total Current Assets** have declined overall since 2006 brought about mainly by a decline in cash balances in the earlier years - albeit with an increase in 2011 - and stood at €30 million at the end of 2011

Total Current Liabilities have reduced somewhat over the years and at the end of 2011 stood at €15 million. Bank overdrafts included within Total Current Liabilities are relatively small amounting to approximately €2 million in 2011. **Total Long Term Liabilities** have been reducing over the years and stood at c. €32 million at the end of 2011. This figure does not include contingent liabilities of c. €18 million which represents a potential future obligation to repay grants received.

Net Assets have increased to stand at €139 million at the end of 2011. **Shareholders' Funds** - paid in equity and retained reserves – stood at €139 million at the end of 2011. The level of **Capital Employed** by racecourses was €191 million at the end of 2011. Capital employed means the total of paid in equity, retained reserves and long term debt used to finance the racecourse activities. In summary format the balance sheet for the 23 racecourses reporting information to the CRO can be presented as follows:

Table 14: Aggregate Balance Sheet - 23 Racecourses

| | 2011 € Millions |
|--------------------------|--------------------|
| Fixed Assets | 156 |
| Current Assets | 30 |
| Less Current Liabilities | -15 |
| | <u>171</u> |
| Shareholders' Funds | 139 |
| Long Term Debt | 32 |
| | <u>171</u> |

Source: CRO Data, Petrus Analysis

The table above shows the level of investment and the nature of the funding which is predominantly through reserves. Part of the Current Liabilities will be the current portion of long term debt becoming due and payable within 12 months.

4.6. RATIO ANALYSIS

Table 15: Selected Ratios for Racecourses

| Ratio Analysis | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 |
|-------------------------------|--------|--------|--------|--------|--------|--------|
| Asset Intensity Eur | 7.36 | 6.68 | 5.33 | 7.06 | 7.75 | 7.09 |
| Profit Margin % | 1.34% | -0.11% | -2.22% | -1.12% | -7.85% | 24.20% |
| Working Capital Ratio - Times | 2.49 | 2.29 | 1.71 | 1.47 | 1.70 | 2.04 |
| Acid Ratio Times | 0.92 | 0.81 | 0.63 | 0.60 | 0.69 | 1.28 |
| Average Employee Cost Eur | 14,272 | 17,069 | 23,579 | 23,952 | 21,311 | 21,266 |
| Return on Assets % | 0.2% | 0.0% | -0.4% | -0.2% | -1.0% | 4.3% |
| Return on Capital employed % | 0.2% | 0.0% | -0.5% | -0.2% | -1.1% | 4.6% |
| Depreciation Ratio % | 2.2% | 2.0% | 2.1% | 2.5% | 2.7% | 3.0% |
| Asset Life - Years | 46 | 49 | 48 | 41 | 37 | 33 |
| Gearing % | 64% | 64% | 58% | 62% | 48% | 37% |

Source: CRO data, Petrus Analysis

Asset Intensity Ratio. Developing a racecourse is a capital intensive business and this ratio attempts to identify the relationship between asset levels and revenues. Over the period 2006 to 2011, the value of assets required to generate €1 of revenue/turnover has averaged €6.9. This ratio differs between individual courses and between grades of course but as an overall figure it is useful to keep in mind that there is a high level of investment required in order to generate turnover.

Profit Margin %. This ratio measures the relationship between turnover and profit levels. The profit margin % was very low in early years and not sufficient to represent an adequate return on assets or to support future investment needs. The figure for 2010 has been adjusted for the effect of the exceptional item in the accounts of The Leopardstown Club Limited.

The **Working Capital Ratio** is a measure of the working capital position measuring the ability of racecourses to pay their bills as they become due. Levels above 2 are generally considered adequate and it can be seen that, while the ratio was dis-improving in earlier years, it has now recovered to more acceptable levels.

The **Acid Test ratio** is a more stringent test of the working capital position. It can be seen that the working capital position of racecourses was under pressure up to 2010 but improved in 2011 to a more acceptable level.

Average Employee Cost measures the cost of employees in the business and from the data provided we can see that the cost of employees has reduced on average in recent years. Comparing 2009 and 2011, average employee costs have reduced by 18%. (The average employee cost here is different to the cost discussed earlier because one is from the returned questionnaires and this one above is from the figures provided by a smaller number of racecourses reporting data to the CRO)

Return on Assets and Return on Capital Employed Ratios. Up to and including 2009 these ratios were showing either a loss making position or a negligible return. The 2010 position was distorted by an exceptional item and after adjusting for this the level of return in 2010 is also negative. In 2011, the return on assets and capital employed ratios were positive at a level of about 4-4.5%. In 2012, based on questionnaire data the return on asset ratio was 3.2%. If replacements costs are used the ratio falls to 1.55%. Such a level of return is insufficient to ensure long term sustainability and support future capital investment.

Depreciation and Asset Lives. Depreciation is running at about 2.5% to 3% implying asset lives on average of about 40 to 33 years. While this may reflect the physical condition of the buildings it is likely to be too long a period over which to depreciate assets for operational purposes or to reflect the more demanding nature of the public for up to date modern facilities. Depreciation is also being charged on the historic cost of the buildings and not the replacement cost which is far higher than the historic cost. Thus it is likely that racecourses are under depreciating their physical infrastructure and reporting profits that are higher than would otherwise be the case.

Gearing is a measure of the level of indebtedness and the ratio analysis clearly shows that the debt levels in aggregate have reduced throughout the period. One reason for this could be that racecourses have not invested in new assets and are using their cash flow to pay down existing debt.

Summary Financial Assessment

The overall assessment of the financial position of racecourses is that up until 2011 they were loss making entities making negative returns on the assets and on capital employed. This situation was unsustainable without some change in the underlying business model. The change which has brought racecourses to a moderate level of profitability is the increase in media rights income. Debt levels were high but have reduced over the period. Racecourses would have been under pressure because of their relatively weak working capital position. The loss making position of earlier years has been overcome but the level of profitability is still quite low. Racecourses do not pay dividends and any surplus is reinvested into the racecourses for the benefits of all users.

4.7. CAPITAL EXPENDITURE - PAST AND FUTURE

We asked in the questionnaire about the historic and future levels of capital expenditure. The table below shows the estimated level of capital expenditure undertaken for all racecourses. In total, **over €270 million has been spent on capital expenditure in the last 15 years. This expenditure was funded by a combination of grants, loans and contributions by the racecourses.**

Table 16: Capital Investment last 15 years

| Historic Capital Investment | € |
|--|-------------|
| Capital Expenditure on Track and Facilities in the last 15 years | 271,800,816 |
| Grant Aid received towards Capital Expenditure | 85,328,367 |
| Loans and Borrowings undertaken to fund Development | 75,493,203 |
| Contribution from Own Reserves | 77,674,482 |
| Other - Various including Land Sales | 33,304,762 |

Source: Racecourse Questionnaire, Petrus Analysis

The table below shows that **capital investment of an estimated €116 million will be required to upgrade facilities across all racecourses over the next 15 years.** Future capital expenditure is estimated over the next 15 years but it is expected that the bulk of this expenditure will be required in the short to medium term. We have used a 15 year period to estimate borrowing costs.

Table 17: Capital Investment next 15 years

| Future Capital Investment | € |
|--|-------------|
| Capital Expenditure on Track and Facilities in the next 15 years | 116,000,000 |
| Grant Aid to be received towards Capital Expenditure | 38,962,500 |
| Loans and Borrowings to be undertaken to fund Development | 20,818,750 |
| Contribution needed from Own Reserves | 36,218,750 |
| Other - Various including Land Sales | 20,000,000 |

Source: Racecourse Questionnaire, Petrus Analysis

4.8. CASH FLOW IMPLICATIONS AND FUNDING FUTURE CAPITAL EXPENDITURE

Racecourses have estimated that grant funding of approximately €40 million will be provided and the balance of €76 million will be provided by racecourses either directly or by borrowings undertaken for the purpose. Whether through borrowings or by direct contribution by the racecourses, the cost of the racecourse investment in terms of interest and capital payments and to provide racecourses' own contribution can only come from profits generated and retained for reinvestment.

The level of profitability of racecourses has to be considered in terms of their core purpose which is to provide venues for fixtures and races to take place for the benefit of all horseracing stakeholders including owners, trainers, jockeys, bookies, breeders and the racegoing public. The on-going capital investment that is required is provided by capital grants, by borrowings and by the level of cash reserves that racecourses can provide directly.

Racecourses have estimated that €116 million will be invested going forward and have made assumptions that part of this will be provided by capital grants, part by borrowing and part from cash reserves. This allows an estimate to be made of the cash that will be required to fund these various elements. In addition, there are existing borrowings which also have to be taken into consideration for cash planning purposes.

The table below compares the likely level of cash generated by racecourses to the cash requirements to support future capital investment and to continue to pay existing loans. This is a simplified presentation and assumes that all the necessary investment would take place at the beginning of 2014 whereas in reality it would be spread out over a number of years, taxation issues are not included and the estimated financial outturn for 2012 is assumed to be valid as a base for future projections.

Table 18: Funding Future Capital Expenditure

| Funding Future CAPEX | | 2014-2029 |
|---------------------------------|------|-------------------|
| Profits | | 6,253,048 |
| Add Back Depreciation | | 5,503,457 |
| Add Back Interest | | 968,527 |
| Less Exceptional Items | | <u>1,515,420</u> |
| Cash Flow Available | | <u>11,209,612</u> |
| | | |
| Opening Debt Existing and New | | 84,740,011 |
| Interest Cost Annual | 6.5% | 5,508,101 |
| Annual Repayment and Period | 18 | 8,122,721 |
| Own Funding Element Annualised | | 3,093,333 |
| Total Cash Required | | <u>11,216,054</u> |
| Surplus/(Deficit) | | (6,442) |
| Existing Borrowings | | 63,860,011 |
| Total Investment | | 116,000,000 |
| Grant - Nil Cost | 34% | 39,440,000 |
| Borrow - Capital and Interest | 18% | 20,880,000 |
| Own Funding - Cash Contribution | 48% | 55,680,000 |

Source: Petrus Analysis

Racecourses have assumed that they would receive grant assistance of a minimum of c. €40 million of the total capital requirement. For cash flow purposes we assume that racecourses borrow funds over 15 years and pay interest at 6.5% on existing and new borrowings.

This funding profile would mean that **racecourses, in aggregate, need to generate net cash flow of c. €11.2 million each year for 18 years to repay their loans for new investment, repay existing borrowings, and allow them to contribute their portion of the own funding. This figure compares to the €11.2 million cash flow that racecourses are estimated to have generated in 2012 meaning that it is just feasible for racecourses to undertake the investment programme. This is however totally dependent on all assumptions being met and in particular that there are no cost increases or additional operating costs incurred, that the decline in all revenue sources apart from media rights income is stopped and that these revenue sources remain stable into the future. This is also an aggregate calculation taking all racecourses together and it is clear that individual racecourses differ greatly in terms of their profitability and cash position. In general, medium and small racecourses will find it far more difficult than the larger racecourses to fund future capital investment. Critical assumptions for all racecourses include:**

- **No adverse changes in revenue or costs for racecourses**
- **Capital grant level of at least €40 million will be provided**

- Loan funding of an additional c. €21 million is provided by banks on top of existing loans on borrowing terms of 6.5% over 15 years or better
- Racecourses can fund their cash contribution.

Racecourses have only recently become profitable and the level of profitability and cash flow generated is essential in order to enable racecourses to fund future capital investment. The racecourse asset requires considerable investment over the coming years which can only be provided from grant aid, borrowings and cash reserves. Racecourses need to maintain at least the current level of profitability or else the necessary capital investment cannot be made. If racecourses cannot invest to maintain and develop the racecourse asset then horseracing itself and all the related stakeholders will suffer.

Table 19: Loan Facilities and Borrowings

| Loans and Borrowings | Loan Balances € |
|--|-------------------|
| Overdraft | 682,285 |
| Short term loans – repayable with 1 year | 1,284,386 |
| Long Term Loans repayable > 1 year | 61,016,555 |
| Other Loans, HP, Leasing etc. not included above | 876,785 |
| Total | 63,860,011 |

Source: Racecourse Questionnaire, Petrus Analysis

The table above summarises the borrowing position of racecourses. Figures provided are current and based on up to date figures and therefore are not directly comparable to the figures provided above sourced for 2011 from the CRO.

The borrowing position of racecourses shows that these racecourses have borrowed c. €64 million. Overdraft funding is not a feature of the borrowing position with almost negligible levels of overdrafts in place. Short term borrowings repayable within 1 year are also very low. The main funding comprises borrowing repayable in more than 1 year.

4.9. TAXES AND CHARGES

Table 20: Estimated Taxes and Charges paid by Racecourses 2012

| Taxes and Charges | Amount Paid € |
|--|------------------|
| Corporation Tax | 828,081 |
| VAT | 47,293 |
| PAYE/PRSI | 2,303,669 |
| Rates | 1,568,548 |
| Local Authority Charges, Water Refuse etc. | 176,809 |
| Other taxes and Charges | 214,874 |
| Total | 5,139,273 |

Source: Racecourse Questionnaire, Petrus Analysis

Racecourses pay a significant amount in various taxes and charges which amount to approximately 12% of total revenues or about 34% of operating income. Corporation Tax is estimated to amount to €828k, PAYE/PRSI €2,303k and rates €1,568k. In aggregate, **racecourses are estimated to pay over €5 million annually in taxes and charges.**

4.10. LAND AND BUILDINGS

Table 21: Value of Land and Buildings and Replacement Cost

| Land and Buildings. | € |
|---|-------------|
| Value of Land and Buildings per the most recent accounts | 201,491,477 |
| Estimated replacement cost for buildings – Insured Replacement Cost | 322,657,445 |
| Estimated remaining useful life of buildings and facilities | 32 |

Source: Racecourse Questionnaire, Petrus Analysis

The value of land and buildings on an historic cost basis is estimated to be over €200 million based on the most recent financial accounts. The replacement cost of the buildings alone is estimated to be over €322 million. In addition to the buildings replacement cost we have added a further €78.2 million for the value of the 3,500 acres of land and racing track across all racecourses. Therefore **the overall replacement cost for the land and buildings for all racecourses is estimated to be over €400 million.**

Taking a simple average of the asset lives provided indicates that the level of depreciation being charged on the historic cost basis is somewhat below the required level but this may be a result of the averaging method used. More significantly, if depreciation were to be charged based on the replacement cost basis – in order to maintain the operational capacity of the racecourses – the level of depreciation to be charged would be significantly higher.

This possible under-depreciation of the racecourse assets is significant because the level of reported profitability would be much lower if depreciation were to be charged on a replacement cost basis.

APPENDIX 1 LIST OF RACECOURSES

Racecourses in Ireland - All being members of the Association of Irish Racecourses

| Racecourse | Category |
|-------------------|-----------------|
| Ballinrobe | Grade II |
| Bellewstown | Grade II |
| Clonmel | Grade II |
| Cork | Grade I |
| Curragh | Premier |
| Downpatrick | Grade II |
| Down Royal | Grade I |
| Dundalk | Grade I |
| Fairyhouse | Premier |
| Galway | Premier |
| Gowran Park | Grade I |
| Kilbeggan | Grade II |
| Killarney | Grade II |
| Laytown | Grade II |
| Leopardstown | Premier |
| Limerick | Grade I |
| Listowel | Grade I |
| Naas | Grade I |
| Navan | Grade I |
| Punchestown | Premier |
| Roscommon | Grade II |
| Sligo | Grade II |
| Tipperary | Grade II |
| Thurles | Grade II |
| Tramore | Grade II |
| Wexford | Grade II |

Premier Racecourses are the largest racecourses, with Grade I racecourses being medium sized racecourses and Grade II being the smaller racecourses.

