The Economic Contribution and Financing of Racecourses in Ireland 2017

Cover Page: Killarney Racecourse August 2017, Healy Racing Photographers

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1. Executive Summary

The core Breeding and Racing industry is estimated to generate €1.05 billion gross expenditure, which results in economic input of €914m into the Irish economy and core employment is estimated at 21,200[1].

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, previous declines in several key indicators for the overall horseracing industry have been reversed and improvements have taken place in a number of areas. However, long term issues remain – total attendances have increased in recent years but are still well below the level seen at the peak and average attendance is weak. There has been a small increase in the number of fixtures and races held and industry funding has increased along with prize money. More betting activity is subject to tax but on course bookmakers are under severe pressure. The number of horse owners and horses in training have each shown steep declines which is a cause for concern for the future of horseracing.

Economic Contribution. 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 racecourse activity is critically important and has a very high multiplier effect for all the other related activities in the wider horseracing industry. The 2017 Deloitte report on the Economic Impact of Irish Breeding and Racing estimated that the core breeding and racing industry generated €1.05 billion gross expenditure and, when secondary effects are included, that total economy wide expenditure amounted to €1.84 billion.

Tourism. Recent information on the relationship between horseracing and tourism is lacking. However, from earlier work in this area, it is clear that 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 HRI in 2009[2] 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.

Employment. - Wages and salaries for full time, part time and casual racing staff amount to just over €12 million annually. It is estimated that there are approximately 407 full time equivalent (FTE) jobs supported by racecourses directly and employment has increased slightly over the 4 year period 2013 – 2016. The figure of 407 FTEs is made up of 225 full time staff, 60 part time FTEs and 120 casual FTEs. Average cost per full time equivalent employee has increased by 18% in the period.

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 racecourses. Core and directly attributable employment is estimated at 21,200 in 2016 in horseracing, breeding, betting and directly attributable activities. Each job on the racecourse supports over 50 jobs off the racecourse and each racecourse supports over 800 jobs across the core breeding and racing sectors.

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1 Economic Impact of Irish Breeding and Racing 2017, Deloitte for Horse Racing Ireland

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

Qualitative Response Assessment. On a qualitative basis racecourses are somewhat more positive about the current and future position of racecourses. While the general economic downturn appears to have been mostly overcome, it has been replaced by concerns about the effect of Brexit on the industry and on racecourses. Racecourses are now less concerned than previously about their financial position and their ability to support future investment. However, racecourses have concerns about a number of critical issues relating to Brexit, attendance levels, the continuation of media rights income and managing operating costs**.**

Summary Financial Assessment. The overall assessment of the financial position of racecourses is that the loss making position seen in earlier years has now been reversed and racecourses are making a reasonable level of profits and generating positive cash flows. Almost all revenue sources have increased and this, combined with the continued support from media rights income means that the racecourse sector is in a better financial position than previously. However, the returns are not uniform across all racecourses. The financial situation of individual racecourses can differ markedly from the overall average position. We have identified seven racecourses that are either unprofitable, marginally profitable or whose profitability is highly exposed. Debt levels have been reduced but the aggregate working capital position of racecourses is too low and needs attention. The level of return on assets is still low and lower still when calculated on a replacement cost basis.

Total revenue for all racecourses is estimated to have been over €56 million in 2016. Revenues from all sources - other than non-racing income - have increased over the period 2013 to 2016 and show a continuation of the recovery from the sharp declines in previous years that arose as a consequence of the economic downturn and its impact on key revenue elements such as Attendance, Betting, Advertising and Sponsorship etc.

Media Rights income rose by just over €3.3 million in the period. Although Media Rights Income is now somewhat smaller as a proportion of total revenue it is still by far the largest income source for racecourses and, if non-racing income is excluded, represents half of all racing related income. Media rights income remains the single most important revenue source for racecourses and a critical dependency for the industry overall.

Media Rights income is both the biggest support to Irish racecourses and, at the same time, the biggest risk to racecourses and to the industry more generally. The dependency ratio, defined as Media Rights as a percentage of Total Revenues, has reduced slightly overall in recent years. However, the dependency ratio varies considerably by Grade of racecourse with Premium Racecourses depending on Media Rights for 30% of their total revenues, Grade 1 racecourses depending on Media Rights for 55% of their total revenues while Grade 2 racecourses depend on Media Rights for 67% of total revenues.

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.

Other Revenue Streams. There has been an increase in the proportion of total revenues contributed by racegoers from 31% in 2012 to 34% or approximately one third of total revenues in 2016. Advertising and Sponsorship has remained relatively stable as a proportion of total revenue at 4%. Non-racing income represents about 6% of total revenues.

Profitability for all racecourses combined, expressed as a percentage of turnover, is estimated at 10.6% in 2016 but this is heavily dependent on media rights and non-racing income levels. Results vary between individual racecourses and course types with Grade II type courses earning 13% profit on turnover and Grade I type courses earning 9% with Premier racecourses earning 11%. 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 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. Without media rights income, racecourses would have experienced aggregate losses of over €18 million. This shows the very high level of dependency of the racecourses on this revenue stream.

Operating Costs. Operating costs for racecourses are high at 75% of total revenues. This figure is similar across Premier, Grade 1 and Grade 2 racecourses. The figure has increased when compared to the level seen in the previous report where operating costs were estimated to amount to 64% of revenues. The data do not fully allow an analysis of all the constituent elements of operating costs or the changes in the period but the increase identified in average wages and salaries would explain the increase. This cost needs to be carefully controlled in the future. Given the sensitivity of all the elements of the profitability mix a small increase in costs over time can erode the limited level of profitability of individual racecourses and the sector overall.

Debt and Liquidity. During the period 2012 to 2015 racecourses are estimated to have reduced their total liabilities by approximately €20 million. Interest costs have declined consistently since 2008 reflecting racecourses paying off loans, reducing interest costs and a reduction in capital investment overall. 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 this ratio, at 1.20, is in the risk area. The reason for the adverse movement in the ratio is that current liabilities have risen and, within that, the dependence on short term loans has increased.

Return on Assets and Return on Capital Employed Ratios. In 2015, the return on assets and capital employed ratios are positive but at a low level namely 3.5% and 3% respectively. These levels of return are higher than previously achieved but are insufficient to ensure long term sustainability and support future capital investment. When computed on the basis of replacement costs the return ratio falls below 2%.

Capital Intensity. Operating a racecourse is a capital intensive business that earns low returns which, if they are made, are reinvested for the future. Each €1 in revenues is estimated to require €4 in capital investment. Over the past 15 years racecourses have invested €212 million and plan to invest €296 million over the coming 15 years.

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 and if profits are earned such profits are re-invested in the racetrack and associated facilities for the benefit of all stakeholders.

Racecourse Asset. The most important function of racecourses is to develop and maintain the racetracks themselves, which are located on land holdings encompassing 3,500 acres owned and operated by the 26 racecourses. Racecourse facilities have to be developed and maintained throughout the year even though racing may only take place on a small number of days during the year. Racecourses in total are used for about 4% of the time available but must be maintained for the remaining 96% of the time.

Required future capital investment is estimated by racecourses to be €296 million in order to upgrade facilities across all racecourses over the next 15 years. This is a considerable increase in the level of future investment seen in the last report and may reflect underinvestment in more recent years along with pressure to upgrade facilities and rising construction costs. It is also the case that there will be investments listed that do not materialise because they cannot be funded as a result of the situation of individual racecourses.

Racecourses have estimated that grant funding of approximately €97 million will be provided and the balance of €200 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 direct financial contribution comes from profits generated and retained for reinvestment. The investment required net of anticipated grants at 33% cannot be funded by all racecourses on the basis of current profitability and cash flows generated.

Racecourses, in aggregate, need to generate free net cash flow of c. €16.3 million annually to repay their loans for new investment, repay existing borrowings, and allow them to contribute their portion of their own funding. This figure compares to the approximate €12.5 million cash flow that racecourses are estimated to have generated in 2016 meaning that there is a shortfall in the ability of the racecourses to finance the required investment. Either the investment has to be reduced, grant aid increased, profitability and free cash flow increased or a combination of all of these elements. Implicit assumptions include that there are no cost increases or additional operating costs incurred and that revenue sources and in particular media rights income remain stable into the future. This is also an aggregate calculation taking all racecourses together and the Premier racecourses having the largest investment plans will find it more difficult than the Grade 1 and Grade 2 racecourses that have more achievable investment plans. In order to fund the required investment the following are required:

- Investment requirements to be prioritised with associated business cases
- Improved profitability and free cash flow to be generated by racecourses from all sources
- Increased revenue and / or decreased costs for all racecourses
- Capital grant level to be increased

Racecourses have only recently become moderately profitable but the level of profitability and cash flow generated is still inadequate to fund the level of capital investment identified by racecourses as being required over the next 15 years. 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 increase 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.

Taxes and Charges. Racecourses are estimated to pay over €5 million annually in taxes and charges equivalent to over 37% of operating profit.

Asset Replacement Cost. The overall replacement cost for the land and buildings for all racecourses is estimated to be over €325 million.

Cost per Attendee. The average cost per attendee taken across all racecourses is €37 compared to the average admission price of approximately €15 showing that racegoer attendees are paying a small proportion of the cost of holding the fixture. The balance is made up partly by income from bookmakers, non-racing income and advertising. However, the largest contribution is made from media rights income that contributes over €18 per racegoer without which racecourses could not survive.

Cost per Fixture. The average cost to hold a fixture across all racecourses is almost €140k. This cost varies widely according to the specific cost structure of each racecourse and the nature of the meeting from a low of c. €60,000 to a high of c. €340,000. The average per fixture cost is €260,000, €114,000 and €90,000 for Premier, Grade 1 and Grade 2 racecourses respectively.

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. The review is a follow-up to a similar review carried out in 2013. This current review can be read as a standalone report without reference to the previous review. For this reason, where relevant, the review repeats some material provided in the earlier review.

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 pertaining to their separate and collective interests.

The earlier review highlighted the importance of racecourses to the overall ecosystem of horseracing across the island. It identified the highly capital intensive nature of the business and the low level of return on investment, the critical importance of media rights income and the need for continuing and significant capital investment in the racecourse asset in future years in order to maintain and improve facilities for the benefit of all stakeholders. The review sought to highlight the economic contribution of racecourses and their financial structure in order to raise understanding among other industry participants about the high cost structure of racecourses, their capital investment requirements and their low level of profitability.

The terms of reference for this current review are the same as before namely to:

Update the previous review by examining 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. We wish to thank all the racecourses for responding to the questionnaire and for providing 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 for use in this report 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 greater 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 2015. Some, but not all racecourses, have filed financial statements for 2016. 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.

Where meaningful or where the confidentiality of data provided by individual racecourses would not be compromised we analysed the data provided by racecourses 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. See Appendix 1 for the categorisations of racecourse used.

A set of ratios related to profitability and return on investment was 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 2013 - 2016 income and 2016 expenditure levels. CRO financial statements were obtained from 2006 up to the most recently available time period which in most cases was 2015 with, in some cases, information for 2016. 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 racecourses within the context of the overall horse racing industry. 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

Since the previous review in 2013 there has been a general improvement in the economic environment and the effects of this can be seen in several of the key indicators for the horseracing sector and for the industry overall. A key measure of the resilience of Irish racecourses is that all 26 survived the economic crisis enabled in no small part by the availability of media rights income and the effort and dedication of racecourse owners, management and staff.

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.**

Figure 1: Location of Racecourses in Ireland

Source: Horse Racing Ireland Factbook

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 economic operators 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, racecourses[3] 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

[3] 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).

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 deliver 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.

Table 1: Irish Horse Racing and Betting Industries in Numbers (2006 - 2016)

Key Indicators for Horseracing		2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	Change from Peak - 2016	Avg. Level 2012-2016	Avg. Change 2012-2016
Betting and Exchequer Funding															
Total Betting	€m.	3,667	3,926	3,903	3,281	3,257	2,858	2,843	2,675	2,755	3,262	5,245	0%	3,356	600.28
Total On Course Betting	€m.	262	282	237	182	164	153	135.4	132.8	138.7	156.1	169.5	-40%	147	8.53
Total Off-Course Betting	€m.	3,405	3,644	3,666	3,099	3,093	2,705	2708	2,542	2,616	3,106	5,075	0%	3,209	591.75
Total Government Funding of HRI	€m.	56	58.5	61	54.5	47.4	45.8	45	44	43.3	54.4	59.2	-3%	49	3.55
Prize Money															
Total Irish Horse Racing Prize Money	€m.	55.1	59.6	60	52.9	46	44.4	44.9	46	48.6	53.4	56.8	-6%	50	2.98
HRI Funding of Prize Money	€m.	30.6	32.3	34	30.3	28.3	28.1	28	28.9	30.8	34.9	36.4	0%	32	2.10
Commercial and Other Prize Money	€m.	8.6	10	9.2	7.9	5.4	5.2	5.9	5.8	5.9	6.2	6.8	-29%	6	0.23
Owners' Funding of Prize Money	€m.	15.9	18	17.2	14.7	12.3	11.1	11	11.3	11.9	12.3	13.6	-23%	12	0.65
Attendance, Fixtures, Races and Entries															
Total Racecourse Attendance	000's	1,447	1,461	1,392	1,237	1,198	1,238	1,194	1,238	1,285	1,276	1,317	-10%	1,262	30.75
Average Attendance		4,536	4,387	4,070	3,586	3,587	3,685	3,413	3,548	3704	3,636	3,700	-18%	3,600	71.75
No of Fixtures		319	333	342	345	334	336	350	349	347	351	356	0%	351	1.50
No of Races		2,268	2,397	2,454	2,444	2,381	2,397	2,516	2,530	2,489	2,522	2,577	0%	2,527	15.25
No of Race Entries	000's	87.4	105	96.5	94.7	72.5	65.9	64	63.5	56	54.9	58.3	-45%	59	- 1.43
Racehorse Numbers and Sales															
No. of Stallions Mares and Foals in Ireland	000's	31.7	34	32.8	29.3	23.2	21.5	21.3	21.1	21.4	22.7	24.1	-28%	22	0.70
of which foals born	000's	12	13	12.4	10.2	7.6	7.6	8	8.2	8.3	9	9.3	-26%	9	0.33
No. of Irish Foaled Horses Exported		n/a	n/a	5,016	5,315	5,181	4,987	4,837	4,844	5,028	5,115	4,992	-6%	4,963	38.75
Agg. Value of Irish Horses sold in Irish Sales	€m.	192	179	100	68	68	81	93.8	133.4	147.4	152.5	164.1	-15%	138	17.58
No. of Horses in Training		6,585	6,742	6,817	6,483	5,769	5,030	4,846	4,556	4,175	4,026	4,154	-39%	4,351	- 173.00
No. of Racehorse Owners		5,207	5,588	5,641	5,107	4,667	4,278	3,457	3,289	3,108	3,011	3,038	-46%	3,181	- 104.75

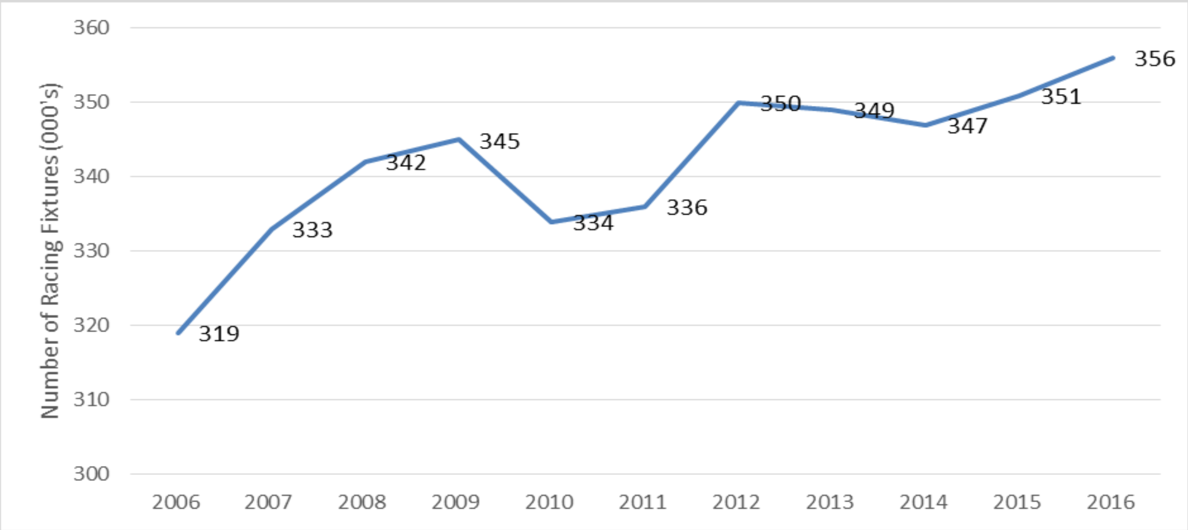
Source: HRI Factbooks, Petrus Analysis

Table 1 sets out a number of key indicators for the overall horseracing and betting industries in Ireland from 2006 to 2016 inclusive. Since the previous review, several indicators have improved substantially but many still remain below the peaks achieved in earlier years. Total betting and government funding of HRI have increased significantly although on-course betting still remains well below the levels seen in earlier years albeit with some increase in more recent years. This is as a result of a technology shift whereby an increasing number of racegoers can place bets using smartphones while on the course. The substantial increase in revenues recorded from off-course betting from 2015 onwards is a result of enacting the Betting (Amendment) Act, 2015 that brought online betting into the tax net.

KEY TRENDS RELATING TO RACECOURSES

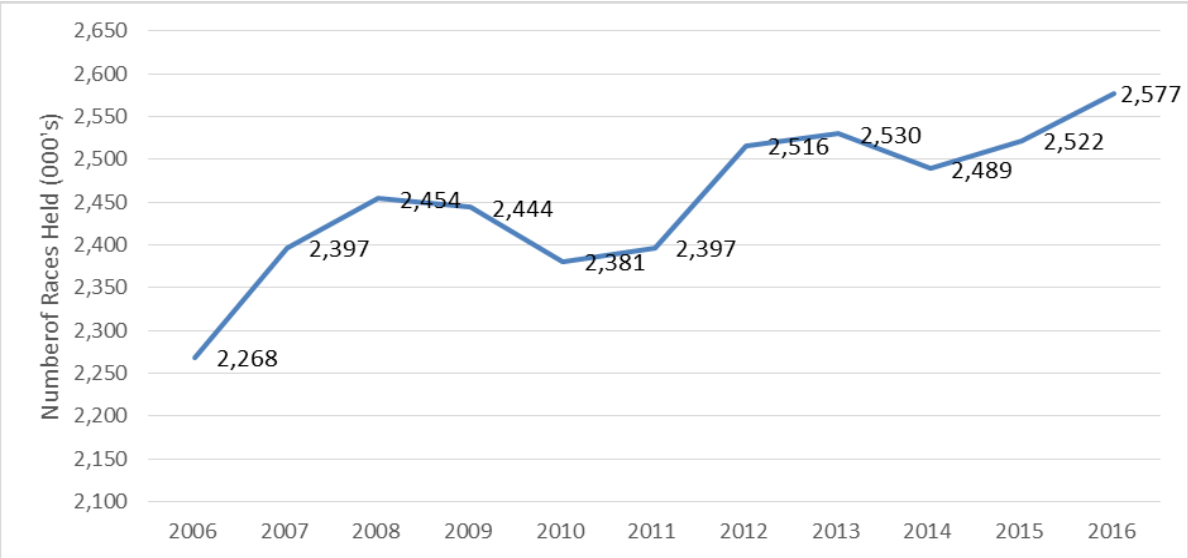
The number of racing fixtures (Figure 2) and races held (Figure 3) have increased since 2006. Despite a decline in both races and fixtures in 2009, 2010 and 2014, the number of each in 2016 surpassed the former peak values in 2012 and 2013, respectively.

Figure 2: Number of racing fixtures, 2006 – 2016



Source: HRI Factbooks, Petrus Analysis

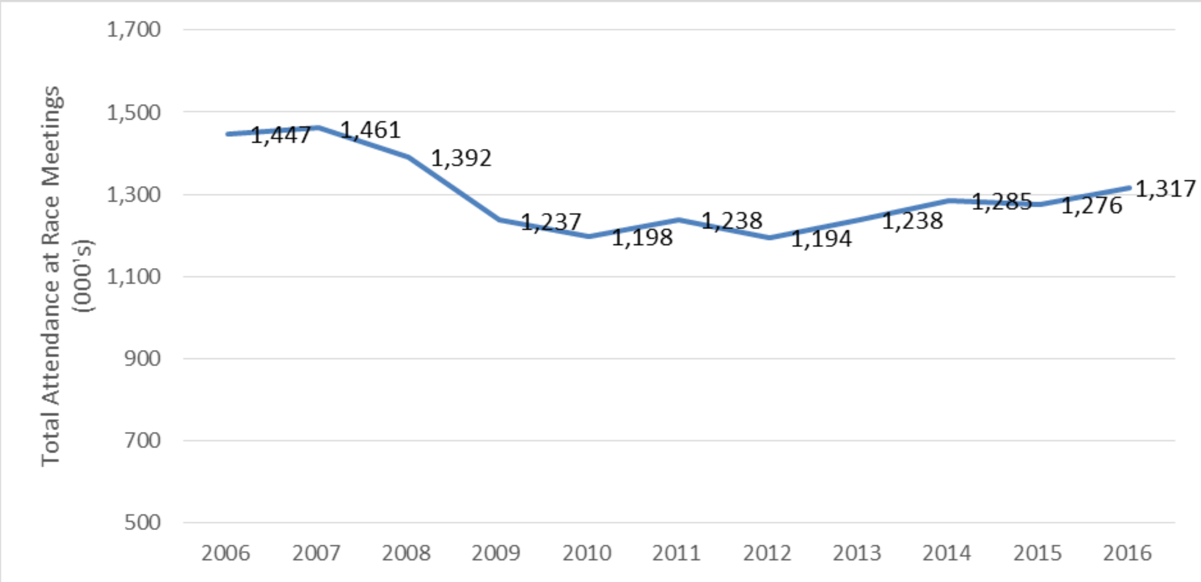
Figure 3: Number of races held, 2006 - 2016



Source: HRI Factbooks, Petrus Analysis

Despite increasing numbers of both races and fixtures, the attendance at race meetings has declined from its peak of 1.46 million in the year 2007 (Figure 4). By 2012 there had been an 18% decrease in attendance to 1.19 million, with the largest fall in attendance observed between 2008 and 2009, during a period of sharp economic contraction. Since 2012, attendance at race meetings has increased moderately, from 1.19 million to 1.317 million, an annual average increase of approximately 30,000 racegoers.

Figure 4: Attendances at race meetings, 2006 - 2016

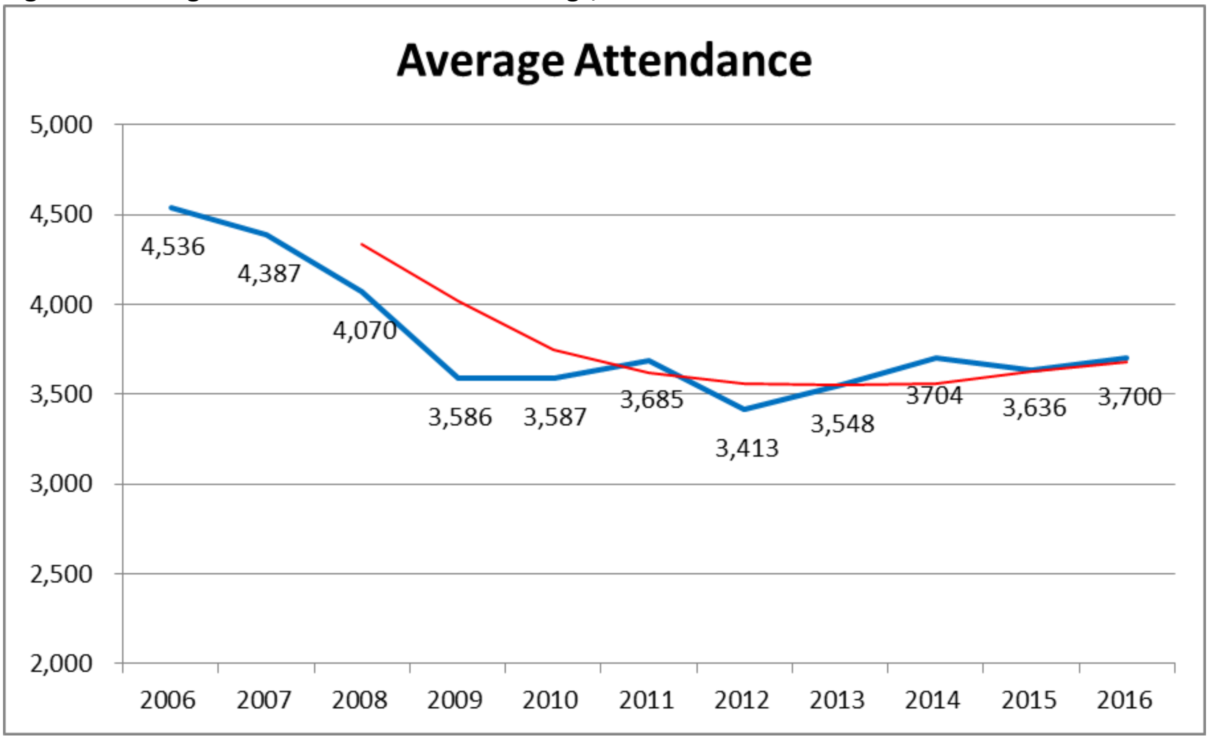


Source: HRI Factbooks, Petrus Analysis

However, as seen above, the number of racing fixtures has increased since 2006. Given the decline in overall attendance it is unsurprising that the average number of racegoers attending each race fixture has declined by a greater amount and is still considerably below the peak level achieved in 2006 – Figure 5 below. In 2016, average attendance was 3,700 compared to an average attendance in 2006 of just over 4,500. There has been an 18% decline in average attendance over the period. The trend line, (shown in red) illustrates the decline and the more recent modest uplift in average attendance.

As will be seen later in this report the fixed costs associated with holding a fixture are considerable and declining attendances are a serious concern for the future financial wellbeing of racecourses.

Figure 5: Average Attendances at Race Meetings, 2006 – 2016

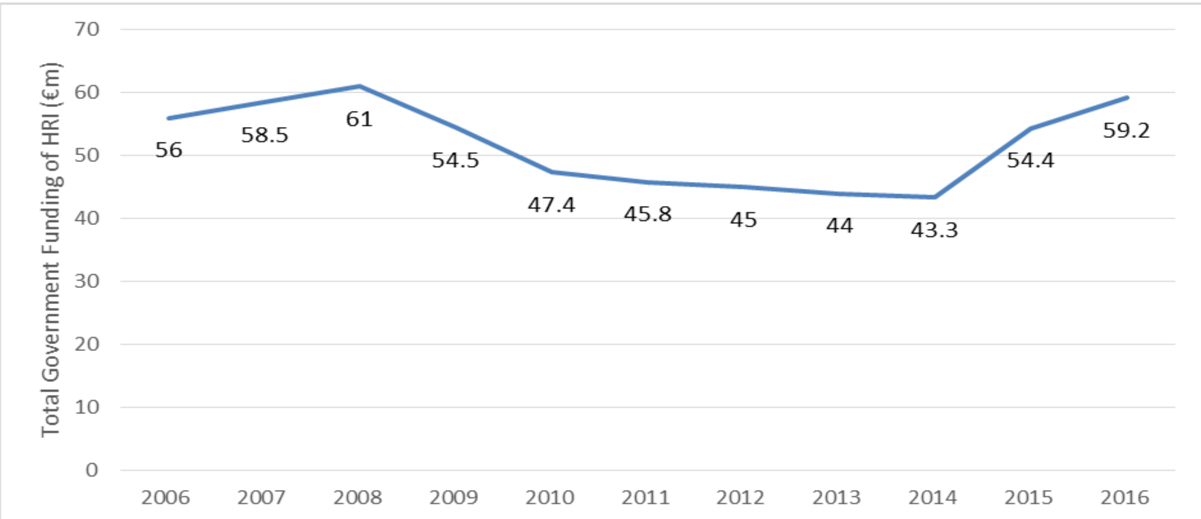


Source: HRI Factbooks, Petrus Analysis

A sharp decline in government funding of HRI is observed between the years 2008 and 2010, with a 22% reduction from €61 million to €47.4 million over the two years (Figure 6). From 2010 to 2014 there was a steady decline in HRI government funding, from €47.4 million to €43.3 million, a 9% decrease. There was a sharp increase in government funding in the years 2015 and 2016; from €47.4 million to €54.4 million in 2015 and €59.2 million in 2016, a 37% increase from the 2014 figure.

This increase is welcome and shows that the impact of bringing online betting within the tax net by the enactment of the Betting (Amendment) Act 2015.

Figure 6: Total Government funding of Horse Racing Ireland, 2006 – 2016

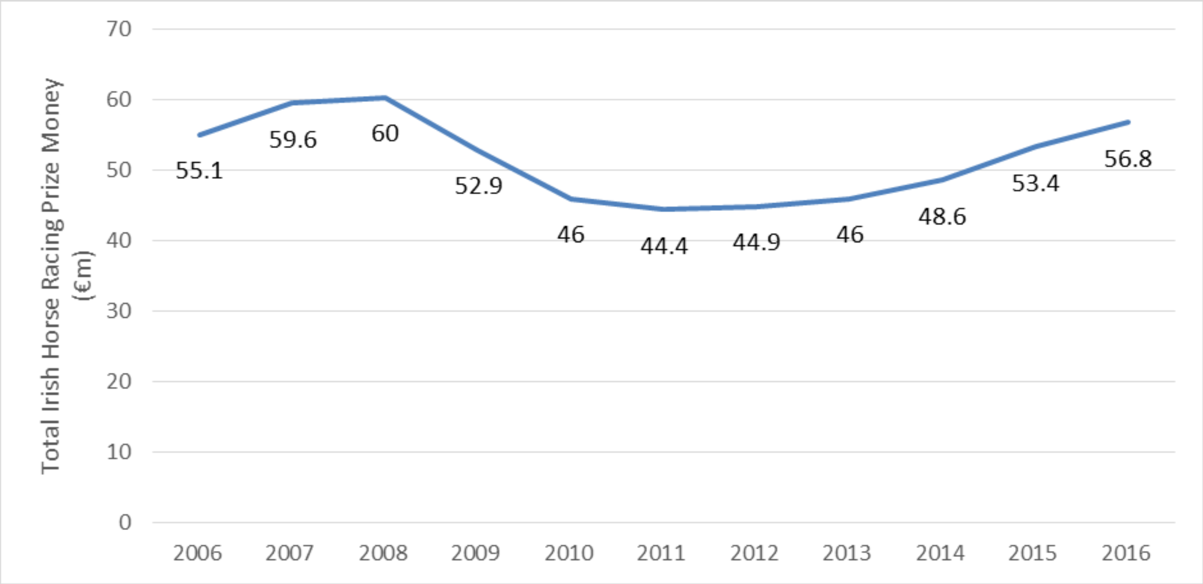


Source: HRI Factbooks, Petrus Analysis

A similar trend to that seen in Figure 6 is observed in the figures for the prize money available for horseracing (Figure 7) which declined from its peak of €60 million in 2008 to €46 million in 2010, a 23% decline. An increase in prize money is observed from 2011 onwards, with the sharpest increase observed from 2014 to 2016; from €48.6 million to €56.8 million, a 17% increase. However prize money in total has still not reached the level seen at the peak in 2008.

This increase is also welcome as it supports the wider horseracing industry but has only an indirect impact on racecourses as it is racehorse owners who benefit in the first instance.

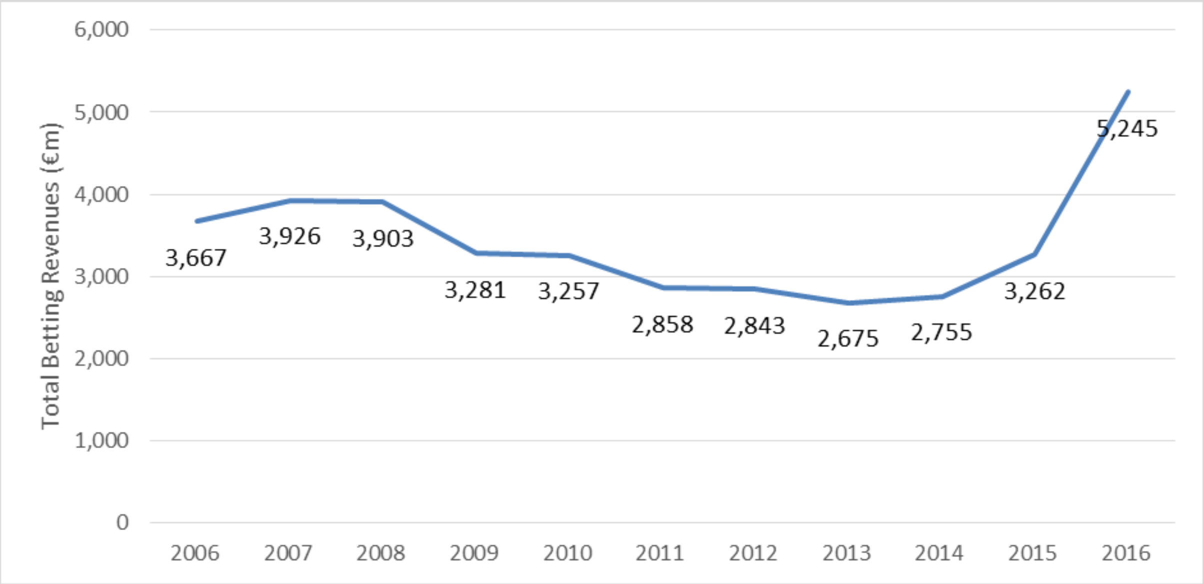
Figure 7: Prize money, 2006 – 2016



Source: HRI Factbooks, Petrus Analysis

Betting revenues, shown in Figure 8 and 9, experienced a significant decline, beginning as early as 2007. In the case of total betting revenues (Figure 8), the decline is relatively steady, from a peak of €3.9 billion in 2007 to €2.7 billion in 2013 (a 32% reduction). In the case of on-course betting (Figure 9) the decline was relatively drastic; from €282 million in 2007 to just €133 million by 2013 (a 53% reduction). This can be attributed in part to the attendance levels at racecourses but a more important factor was the rise in popularity of online betting. In both cases, there has been an increase in betting revenues from 2013 onwards. Total betting revenues have increased from €2.7 billion in 2013 to €5.2 billion in 2016 (a 49% increase). At noted above the main element of this increase is a result of bringing online betting within the tax net from late 2015.

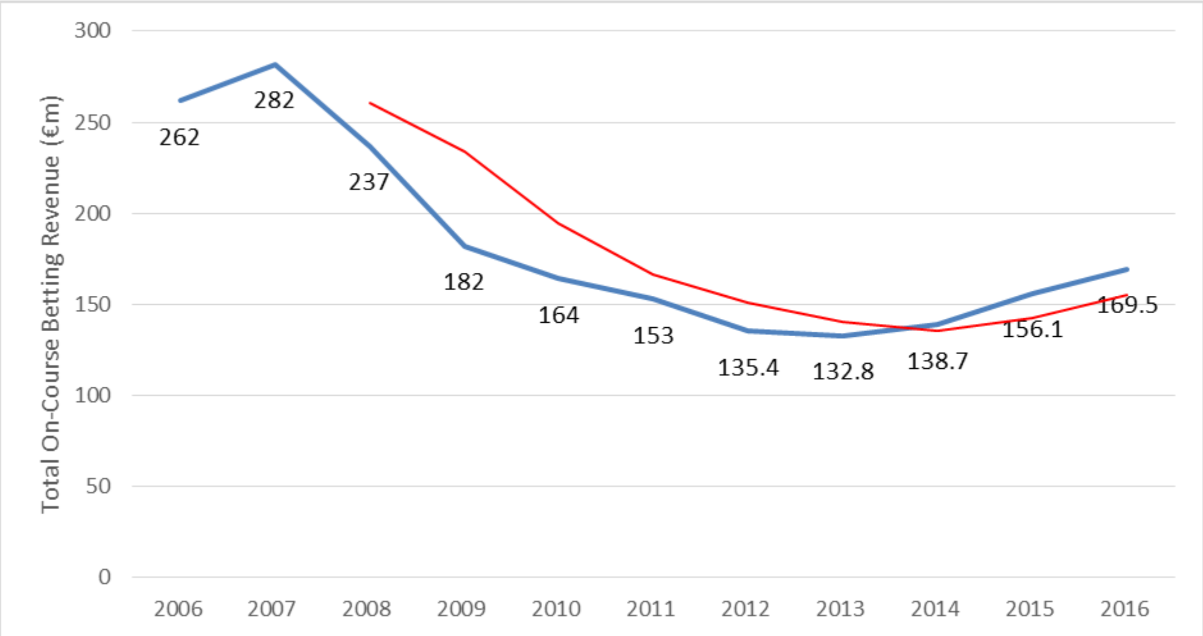
Figure 8: Betting revenues (total), 2006 - 2016



Source: HRI Factbooks, Petrus Analysis

The level of on-course betting revenues has seen a modest increase in recent years and the trend is positive but is 40% below the peak level seen in 2007.

Figure 9: On-course betting revenues, 2006 – 2016

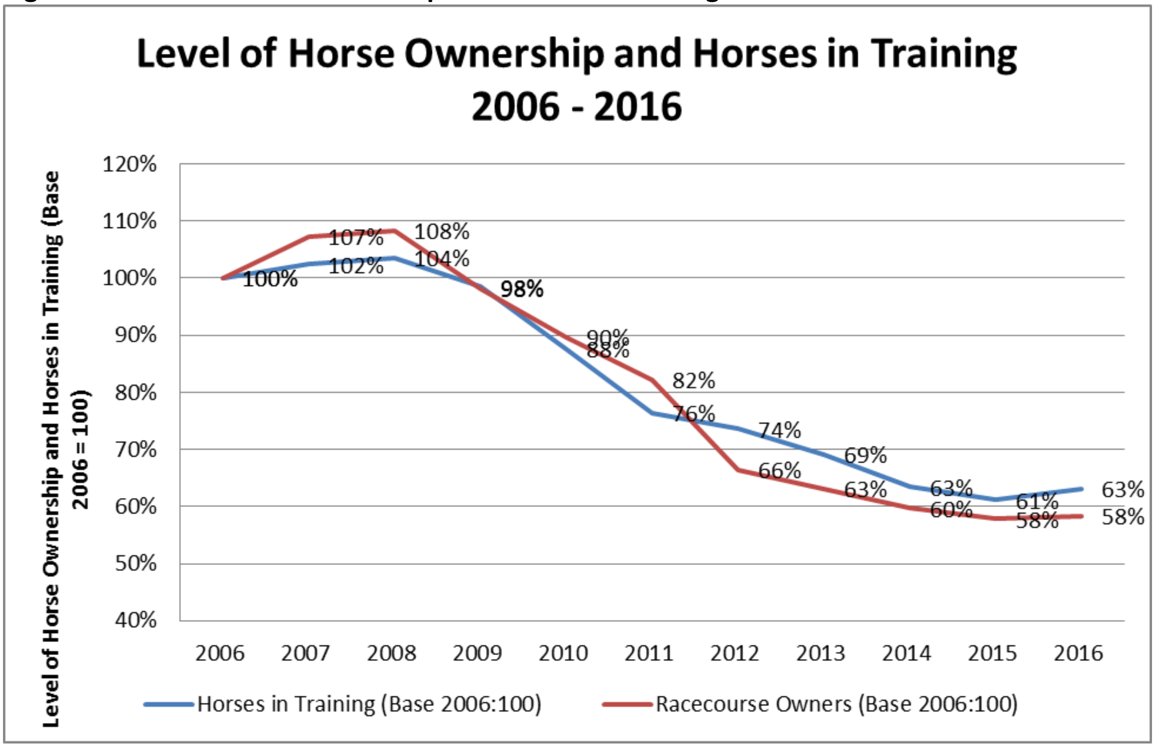


Source: HRI Factbooks, Petrus Analysis

Since 2008, there has been a steady decline in the number of racehorse owners. In 2006 there were 5,207 racehorse owners and by 2016 this number had declined to 3,038. The figures for horses in training show a large reduction - from a peak in 2008 of 6,817 horses in training, by 2016 this number had declined to 4,154.

Figure 10 below shows the level of horse ownership and horses in training from 2006 to 2016 with 2006 as the base year. It can be seen that there is a close correlation between the decline in horse ownership and horses in training. Horse ownership and horses in training are a key indicator for the present and future strength of the industry and the decline in these numbers is a particular concern.

Figure 10: Level of Horse Ownership and Horses in Training 2006 – 2016



Source: HRI Factbooks, Petrus Analysis

Summary of Key Indicators

Indicator	Trend	Impact on Racecourses
Racing Fixtures	Small Increase	Somewhat positive but see declining Average Attendance
Races Held	Small Increase	Positive impact on Media rights Income
Total Attendance	Small increase in recent years	Positive but insufficient to counteract rising costs. On a per fixture basis the increase is minimal
Average Attendance	Still well below Peak	Cost structure for racecourses is predominantly fixed and there is a high cost per fixture.
Government Funding	Almost at peak levels	Recent increases are welcome and beneficial
Prize Money	Almost at peak levels and increases in recent years	Welcome but only indirect impact on racecourses generally
Betting Revenues	Strong increase in recent years from inclusion of online betting	Widened funding source is welcome
On-course Betting revenues	Still far below peak levels but small recent increase	On-course bookie revenue is important to racecourses and they are under severe threat
Racehorse Owners Horses in Training	Large reduction in number of owners and Large reduction in horses in training	As key indicators for the present and future of horseracing, the large reduction in both indicators is cause for concern.

Source: Petrus Analysis

3.2. 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. Racecourses also enable the racing fixtures to be broadcast to a far wider audience across the world for enjoyment and for off-course betting purposes in Ireland and in other countries. 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 function of racecourses is to develop and maintain the racetracks themselves, which are located on land holdings encompassing 3,500 acres owned and operated by the 26 racecourses. Racecourse facilities have to be developed and maintained throughout the year even though racing may only take place on a small number of days during the year. Racecourses in total are used for about 4% of the time available but must be maintained for the remaining 96% of the time.**

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).

From the returned questionnaires, racecourses reported employing almost 1,300 staff for race days in total comprising both full time staff and part time race day employees. The related employment costs for these staff are reported at over €12 million.

Racecourses also provide and pay for necessary racing-related equipment such as admission systems for racing participants, 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 veterinary surgeon 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.

3.3. 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. Racecourses also raise race sponsorship for the benefit of other stakeholders
Advertisers	Exposure/publicity	On course 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 indirectly (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 monetary form whereas others are not.

A critical input provided by racecourses is the range of on-course facilities described above that 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 as was pointed out by many of those responding to the racecourse questionnaire. 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 aimed 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. 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. However, owners pay race entry fees to HRI and trainers do not pay fees to racecourses.

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. Racecourses raise race sponsorship funds that are then transferred to and administered by HRI for the ultimate benefit of winning owners and connections. 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 for sponsors' guests.

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. In a later section we set out the revenue and cost structure of the racecourse element of the overall horseracing spectacle. HRI also provides important capital grants which benefit racecourses and fixture management services to the overall horseracing industry.

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 – much of which bypasses the racecourses and is captured, in an economic sense, by other industry participants.

3.4. IMPACT ON LOCAL ECONOMIES: TOURISM

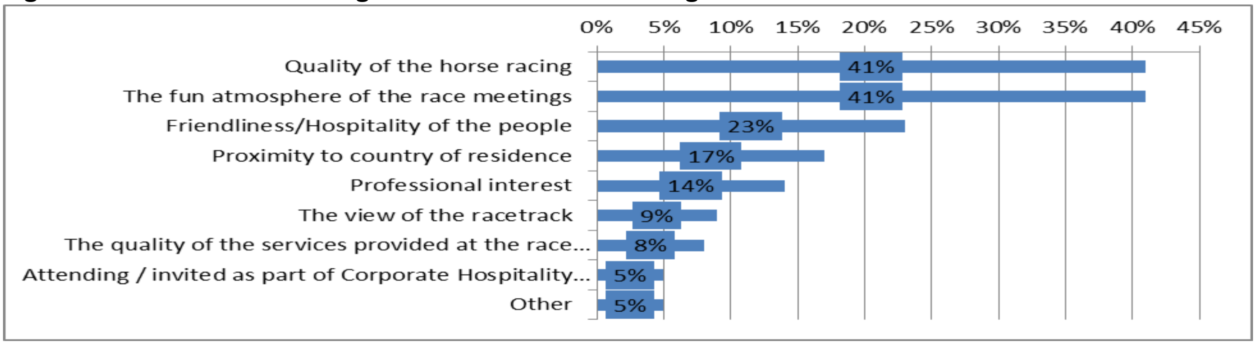
Recent information on the relationship between horseracing and tourism is lacking. However, from earlier work in this area, it is clear that racecourses play an important part in Ireland's tourism industry, with a number of racing festivals coinciding with peak holiday times within the country. As a 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 HRI in 2009[4] 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.

Figure 11: Reasons for Visiting Ireland for a Race Meeting



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

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.[5] 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

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

5 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

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.[6]

The 2017 Deloitte report on the Economic Impact of Irish Breeding and Racing estimated that the core breeding and racing industry generated €1.05 billion gross expenditure and, when secondary effects are included, that total economy wide expenditure amounted to €1.84 billion. Key elements included in the figure of €1.05 billion include Breeding €583million, Owners €176 million and Racegoers €145 million.

From analysis of the returned questionnaires for this report we have identified approximately €23.4 million direct racecourse turnover from sources including admission fees, bar and catering income, advertising and income from bookmakers. For current purposes we exclude media income, non-racing income and grants and subsidies. While there may be some doubt over the gross value of the industry as a consequence of missing or insufficient data and the extent of the secondary expenditure effects, it is clear that racecourses are critical enablers of a very large multiplier linking the various sectors of the industry and enabling the wider economic benefits to flow to all parties.

3.5. Employment by Racecourses

Table 3: Employment Numbers and Cost – Estimate All Racecourses 2016

Employee Numbers	2013	2014	2015	2016
Core Full Time Employees	208	211	212	225
Core Part Time Employees	110	109	116	119
Race Day Full Time Employees	154	160	159	166
Race Day Part Time Employees	1,128	1,174	1,168	1,220
Race Day Total Employees	1,282	1,334	1,327	1,386
Full Time Equivalents	376	383	387	407

Source: Petrus Questionnaire

Full time and core part time employment on racecourses is estimated to be 225 core full time employees and 119 core part time employees respectively. Race day employees are estimated to be 166 and 1,220 for race day full time and race day part time respectively. In terms of the total numbers, there has been a small increase in the employment level seen in our previous report.

On racedays it is estimated that 1,386 casual employees are employed in total across all 26 racecourses or an average of 53 part time employees per course.

6 '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

Wages and salaries for full time, part time and casual racing staff amount to just over €12 million annually.

To estimate the number of full time equivalents and an average cost per person we have taken the same approach as in the previous review with each part time position representing 50% of a full time position and each race day employee as representing 10% of a full time position. The number of full time equivalent employees has risen modestly each year and is estimated at 407 in 2016 compared to 380 in 2012.

In the previous report the average cost per full time equivalent employee saw a decrease over the years 2009 to 2012 with an average cost per employee of €33,240 in 2009 reducing to €28,028 in 2012. Cost per full time equivalent has risen in the current review and is estimated at €33,194 for 2016 including non-racing costs.

It is estimated that there are approximately 407 full time equivalent (FTE) jobs supported by racecourses directly and that employment has increased slightly over the 4 year period 2013 – 2016. Average cost per full time equivalent employee has increased by 18%. The figure of 407 FTEs is made up of 225 full time staff, 60 part time FTEs and 122 casual FTEs.

3.6. Employment in the Overall Horseracing Industry

The employment 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 recent Deloitte report, "Economic Impact of Irish Breeding and Racing 2017, it was estimated that the total employment in the industry and including secondary employment effects amounted to 28,900 in 2016. Excluding the secondary employment effects, **core and directly attributable employment is estimated at 21,200 in horseracing, breeding, betting and directly attributable activities.**

The breakdown of employment shows the wide range of activities and occupations involved in the horseracing industry. Breeding activities employ 4,100 individuals and racing and racing support services such as stable staff, Point to Point training yards, pre-training, breaking yards, breeze ups, catering and administration staff account for 4,048 individuals. Betting activities comprising bookmakers, on course clerks, total bookmakers off course and tote staff account for another 6,175. Trainers and Jockeys comprise 883 and 225 individuals respectively.

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 racecourse activity is critically important and has a very high multiplier effect for all the other related activities in the wider horseracing industry**.

3.7. Horseracing Industry Employment by Occupational Group

The Central Statistics Office previously provided a special tabulation extracting information from the 2011 census as it relates solely to horseracing. The detailed classification of occupations within the Horseracing category is not yet available from the 2016 census although the figures are available at a total level. **The total number classified as employed under "Horseracing Activities" has increased from 4,241 to 4,570 between 2011 and 2016 representing an increase over the period of 7.7%.**

The original table is included below along with the updated total figures and shows persons aged 15 years and over classified by occupational group and industrial group for 2011. Other reports show a higher level of employment in the horseracing industry which can be explained by the categorisation of occupation and industry used by the CSO to record activity. For example, Gambling and betting activity (CSO employment 6,204) 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 between the figures generally understood to comprise employment in the overall horseracing industry (c.21,000) and employment reported by the CSO (4,570). The table below shows that there are many occupations 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 4: Occupation Analysis in Horseracing

Occupation Analysis 2011	Horseracing Activities	Gambling and betting activities	Sports activities, amusement 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 2011	**4,241**	**5,912**	**13,553**
Total 2016	**4,570**	**6,204**	**15,363**
Change %	**7.7%**	**4.9%**	**22.7%**

Source: Central Statistics Office Census 2011 Special Tabulation, Census 2016 Summary Results

It can be seen from the figures above that there is a wide variation in the estimated numbers employed in the horse racing industry. Our questionnaire identifies 407 full time equivalents directly employed by racecourses on-course. The CSO estimates that 4,570 are employed in horse racing activities which includes many of the off-course direct occupations. The figure of c. 21,200 employed across all categories is the most comprehensive figure taking in other related activities and can be considered as the equivalent of what we refer to as the "network" or "ecosystem" employment level.

Looking at racecourse employment and activity levels from another perspective it can be seen **that each full time equivalent job on the racecourse supports over 50 jobs off the racecourse. On a per racecourse basis, each racecourse supports over 800 jobs across the core breeding and racing sectors.**

3.8. Impact on Horse Breeding Sector

The Irish horse breeding sector is an important success story within the national economy. The performance of the sector in recent years has been very strong with total sales of Irish horses sold in Irish sales reaching €164.1 million in 2016.

Table 5: Horse Sales

		2011	2012	2013	2014	2015	2016
Agg. Value of Irish Horses sold in Irish Sales	€m.	81	93.8	133.4	147.4	152.5	164.1
Annual Change	%	19.1%	15.8%	42.2%	10.5%	3.5%	7.6%
Number of Horses Sold		4,248	4,555	5,129	5,488	5,762	5,965
Annual Change in Number of Horses Sold	%	7%	7%	13%	7%	5%	4%
Average Value of Horses Sold		18,965	20,595	26,013	26,858	26,470	27,516
Annual Change in Average Value	%	11%	9%	26%	3%	-1%	4%

Source HRI Factbook 2016, Petrus Analysis

The total value of sales of Irish horses in Irish sales has more than doubled since the low point in 2009 and 2010 when sales amounted to just €68 million. In 2016 sales of Irish horses sold in Irish sales amounted to €164 million. This increase in total sales value is a function of an increase in the number of horses sold along with an increase in the average sale value. Table 5 shows that there has been a fairly consistent increase in the number of horses sold. Average sales value also increased strongly in the early years of the decade with increases of 11%, 9% and 26% recorded in 2011, 2012 and 2013. The change in average sales value has been lower in more recent years including a small decrease in 2015. High individual sales prices in any one year may lead to some distortion in the overall averages but it is clear that, taken as a whole, the horse breeding sector has recovered strongly in recent years.

The consistent view from racecourses is that they provide a "shop-window" for the rest of the horseracing industry. They act as the focal point of the industry by bringing together owners and trainers, racegoers and bookmakers and all the other stakeholders while trying to meet the needs of each of their stakeholders to the best of their ability. While no one part of the industry could survive without the others, each plays an important role for each of the other elements.

It is still the case, as was pointed out in the previous review, 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 a critical proving ground for breeders' efforts.

3.9. 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.

The previous report identified a significant decrease in the level of prize money on offer at Irish races falling from a total of over €60 million in 2008 to just under €45 million in 2012. Since 2012 however the prize money available has increased considerably and in 2016 reached €56.8 million - not far below the level of prize money seen at the peak in 2008. From the low point in 2011 where prize money was €44.4 million it has increased by nearly 28%. HRI has announced that prize money for 2017 will increase to €60.5 and, with that increase, prize money will slightly exceed the peak level seen in 2008. While prize money is important for the overall well-being of the industry it has little if any impact on racecourse finances.

Race sponsorship is also a key factor underpinning the success of the horse racing industry in this country. Racecourses raise sponsorship money thereby increasing the attractiveness of races and fixtures. The sponsorship money is part of the overall prize money available to owners. In 2016 almost two thirds of all races run in Ireland were sponsored races, with sponsorship funding coming from commercial sources and the European Breeders' Fund (EBF). The former contributed some €4.8 million in sponsorship money in 2016 while the latter contributed €1.7 million.

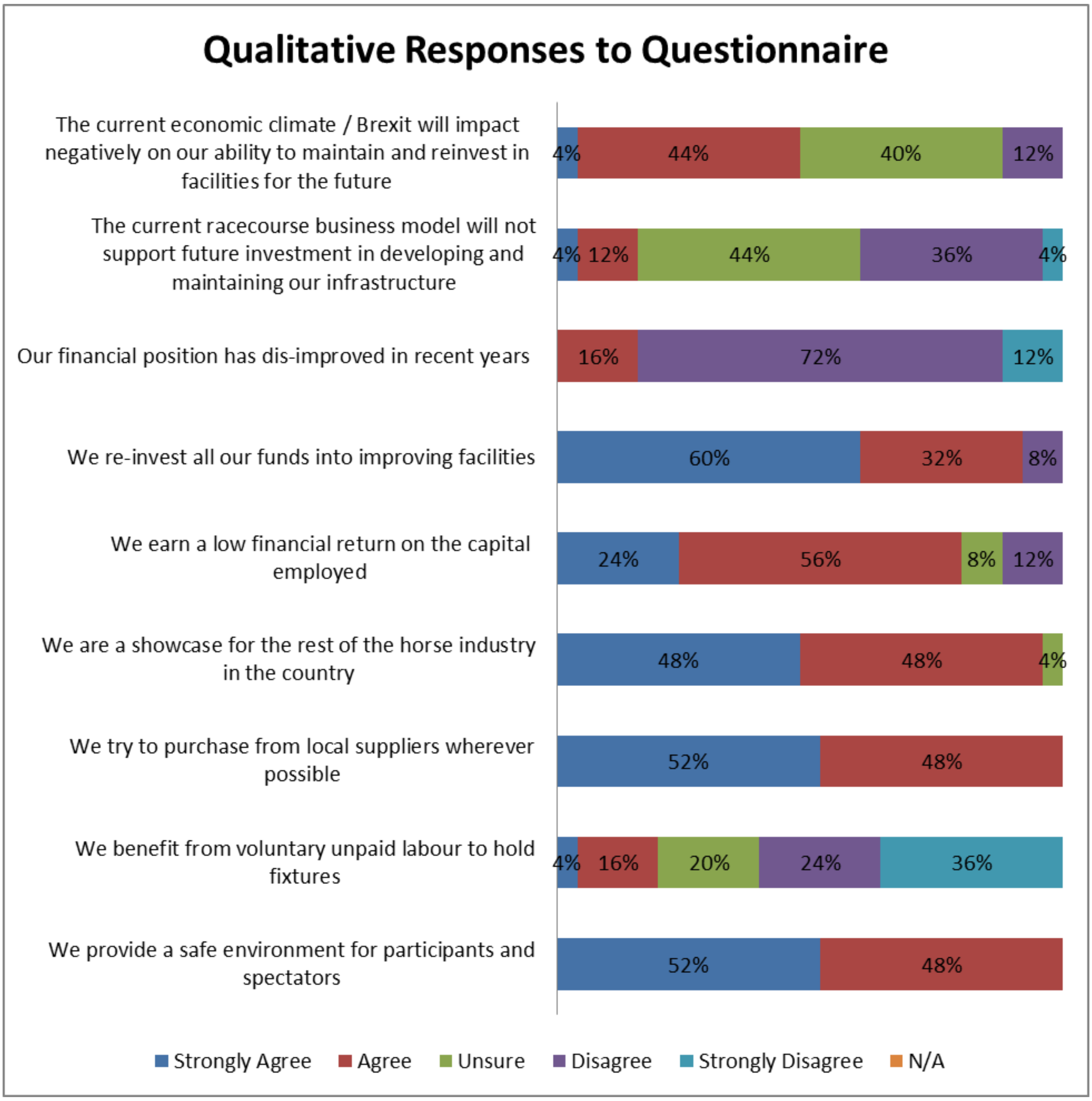
As is the case with the breeding industry, not all of the value created for the horse racing industry in the form of prize money and sponsorship can be attributed to the racecourses. It is, however, equally apparent that without a network of racecourses on which to run races – including globally recognised 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.

3.10. Qualitative Data from Questionnaires

Figures 11 and 12 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 prospects[7].

Summary for All Racecourses

Figure 11: Qualitative Responses to Questionnaire – A



Source: Petrus Questionnaire

Figure 11 shows that there is a high level of concern – 48% - across nearly all racecourses regarding the potential impact of Brexit on the ability of racecourses to maintain and reinvest in facilities. The level of concern shown in this survey regarding the economic situation and Brexit is the same as the level of

[7] 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%.

concern regarding the economic downturn in the earlier review. This is in spite of the general improvement in the economic climate overall and is attributed to the uncertainty arising from Brexit.

The potential impacts of Brexit on racecourses are both direct and indirect. Direct impacts are likely arising from a reduction in UK based visitor numbers and a reduction in spend by those UK based visitors who continue to attend as a result of the weakened value of sterling. Further direct impact would be to the level and value of media rights because they are denominated in sterling.

Indirect impacts may arise from the behaviour of trainers, owners and breeders where there may be significant impediments to, for example, the movement of horses into or out of the country and the value of horses at sales arising from the weakness of sterling.

Regarding whether the current business model for racecourses can support future investment the results this year are more optimistic with only 16% (2012: 39%) believing that the current model cannot support future investment and 42% believing that it is sustainable.

Likewise, there is more optimism regarding the statement that the financial position of racecourses has dis-improved in recent years, with just 16% (2012: 43%) believing that the position has dis-improved in recent years.

92% (2012: 95%) of respondents were in strong agreement or agreement that all funds are re-invested into improving facilities. This represents, effectively, unanimous agreement because a number of racecourses do not either generate funds for reinvestment and/or do not need to invest in facilities.

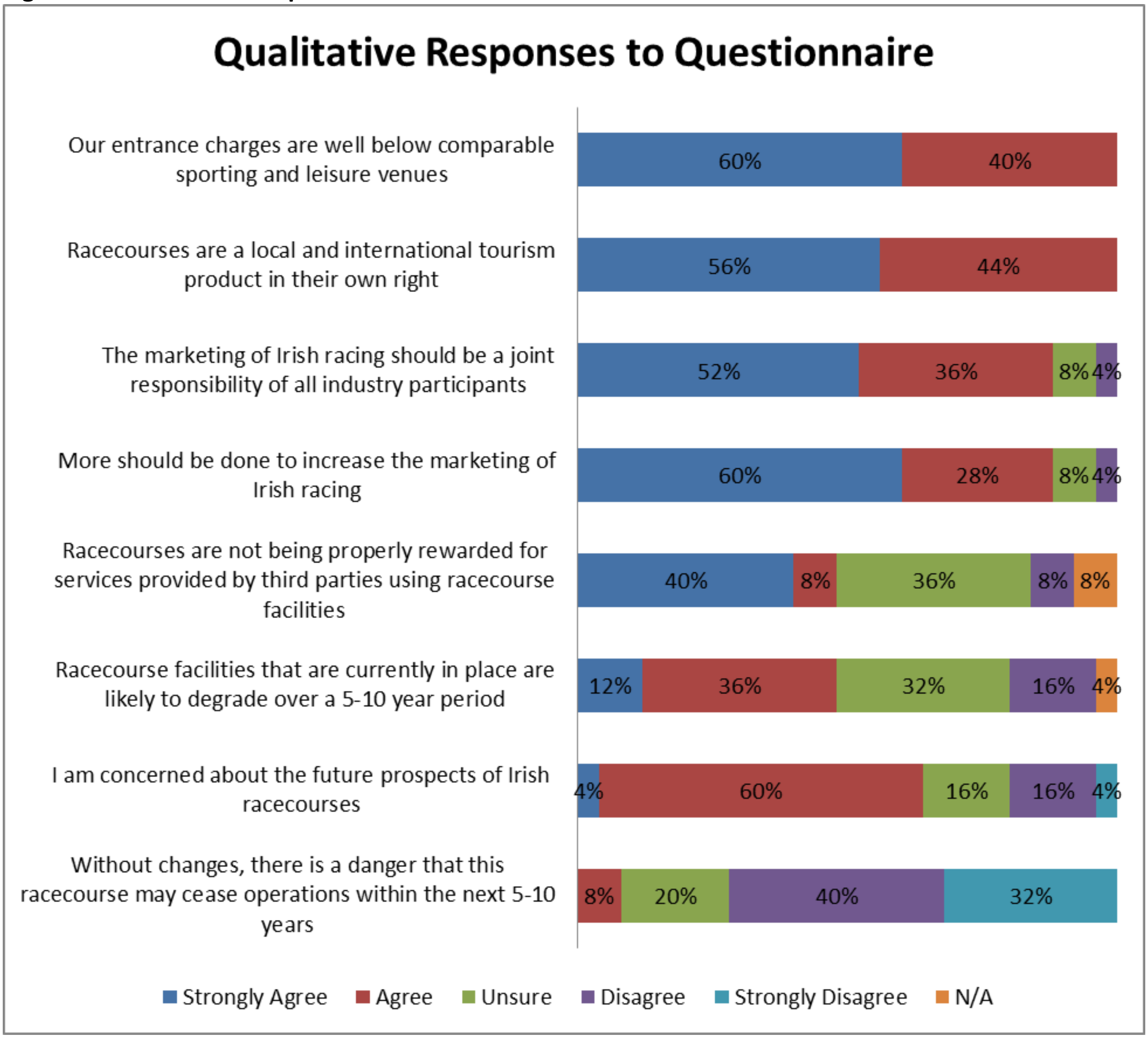
80% (2012: 91%) of respondents strongly agreed or agreed that racecourses earn a low financial return on capital employed.

There was almost unanimous support at 96% (2012: 95%) meaning agreement or strong agreement, for the statement concerning “we are a showcase for the rest of the horseracing industry”

The statement that racecourses try to purchase locally wherever possible was unanimously supported (2012: 100%) as was the statement that racecourses provide a safe environment for participants and spectators.

Racecourses also tend not to benefit from voluntary unpaid labour. Some smaller racecourses benefit but overall it is not a feature.

Figure 12: Qualitative Responses to Questionnaire – B



Source: Petrus Questionnaire

Respondents unanimously (100%) (2012: 95%) believe that *entrance charges are below comparable sporting and leisure venues*. There was unanimous agreement (2012: 100%) that *racecourses are a local and international tourism product in their own right*.

When considering the future development of racecourses, there was a very high level of agreement for the statement that *the marketing of Irish racing should be a joint responsibility of all industry participants (88%)* (2012: 96%) and a similar level of agreement with 88% (2012: 86%) strongly agreeing or agreeing that *more should be done to market Irish racing*.

It is not just in relation to the marketing of horseracing that racecourses are looking to other market participants to play a greater role. Almost half (2012: 67%) 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 48% (2012: 62%) stating 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 64% (2012: 62%) agreeing or strongly agreeing with the statement "*I am concerned about the future prospects of Irish racecourses*".

Racecourses were more optimistic than previously about the danger of racecourse closure within the next 5 – 10 years with 72% (2016: 76%) disagreeing or disagreeing strongly about the risk of closure.

Figure 13: Analysis of Qualitative Responses by Grade of Racecourse

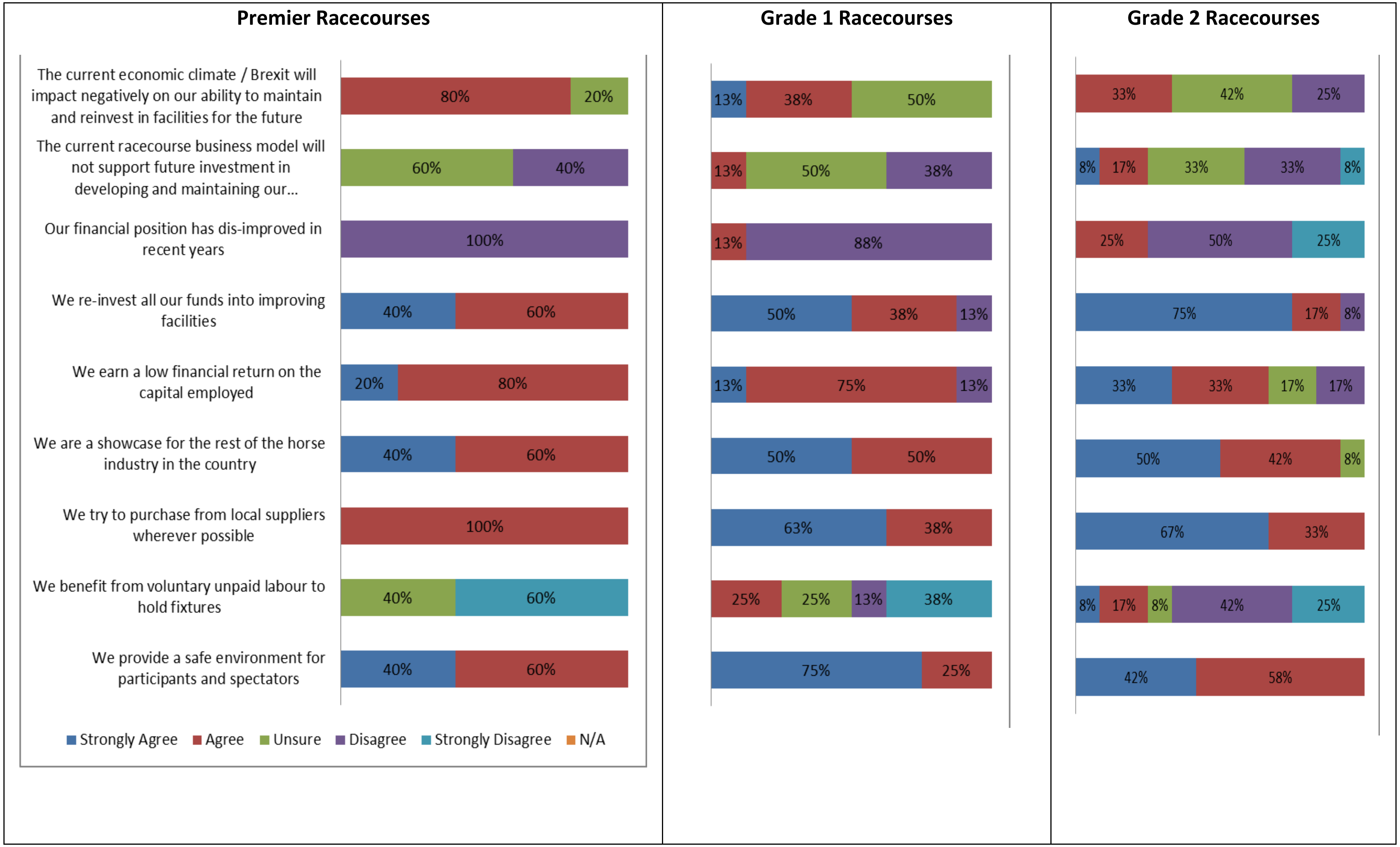
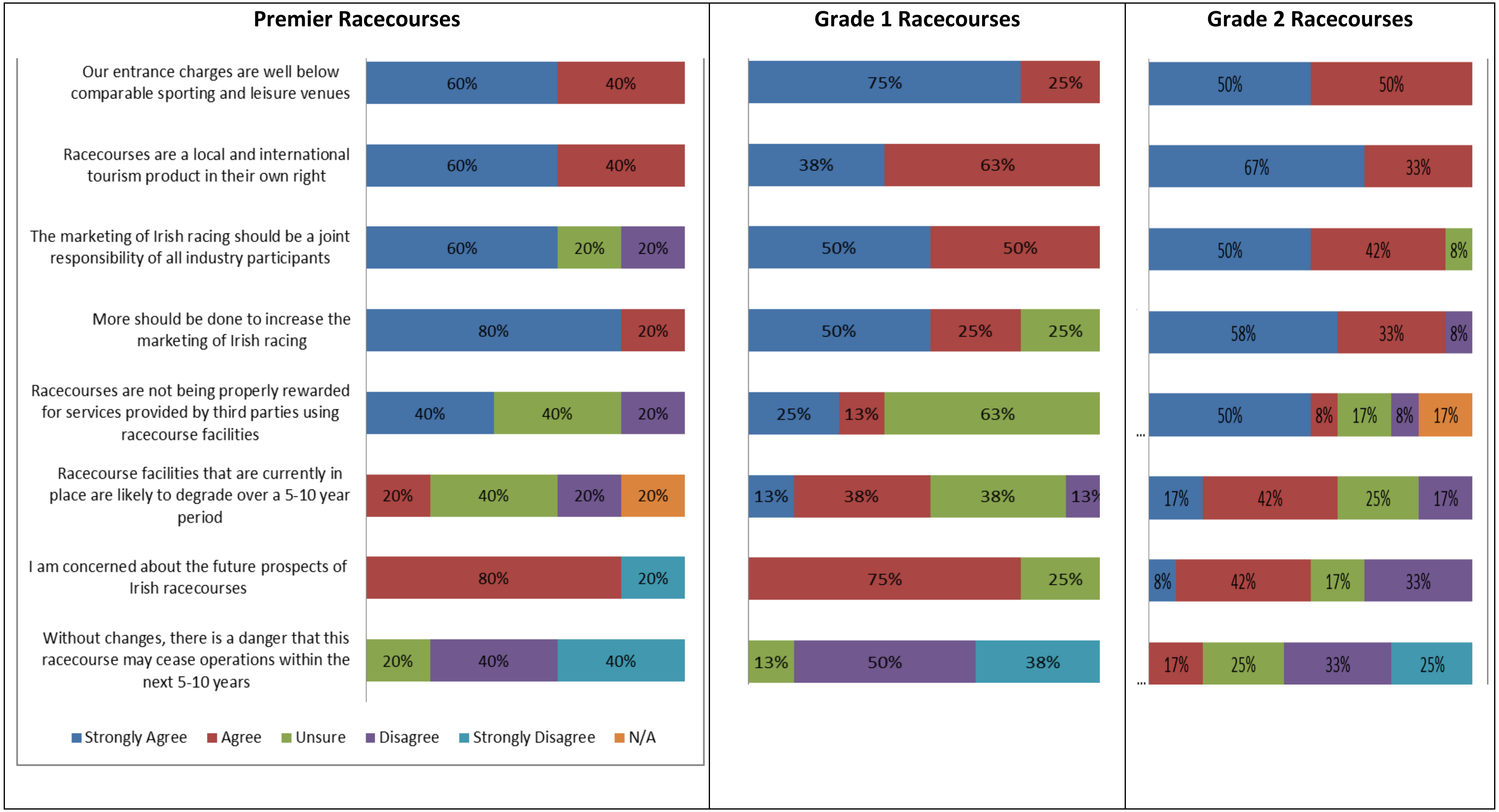


Figure 14: Analysis of Qualitative Responses by Grade of Racecourse



Comparing responses across the different grades of racecourse there is a higher level of concern among Premier racecourses regarding the current economic climate and Brexit. They are also more concerned about the future prospects of Irish racecourses particularly when compared to the Grade 2 racecourses. Premier courses also are unanimous in the view that their financial position has improved in recent years.

3.11. Current and Future Issues Qualitative Responses

Racecourse owners were questioned about a range of current and future issues facing their course. The summaries below are edited extracts from their responses.

Q. 15. Initiatives to drive attendance

Initiatives to drive attendance at racecourses include the introduction of social events such as music nights after racing, breeders' days, Ladies Days, BBQs, themed days, Christmas festivals, Munster National Weekend, evening races and greyhound racing after horseracing and meals for owners. Theme days are popular with the premier racecourses, in order to give each race day an individual identity.

Promotion strategies include implementation of marketing and advertising plans, collaboration with fashion and social bloggers to familiarise fans with the racecourse brand and gather attention, running competitions such as "Best Dressed Lady" along with radio, television and social media marketing campaigns. Other strategies include improving the quality of catering, investment into themed days, providing bulk discounts on tickets and incentive packages and collaboration deals with local clubs for fundraisers and hotels for "Race and Stay" packages. Advanced ticket sales are encouraged by running online promotions.

Q. 16. How racecourses support the overall development of the wider horseracing and related industries.

Racecourse owners highlight that they provide safe quality ground for racehorses to run and improved amenities for the trainers, owners, jockeys and stable staff, as well as promoting attendance by new and returning racegoers. Racecourses provide employment, especially in rural areas, and support a variety of professions and trades. This promotes the local economy through the development of relationships with local and secondary suppliers. Particularly amongst the premier racecourses, horse racing provides a lucrative positive knock-on effect on related industries such as bookmakers, horse transport, betting partners, Stable Staff, Farriers, Valets, Vets, Doctors, HRI, Turf Club, Tote, Bloodstock Agents, Stud Farms, Equine Insurance.

Smaller courses highlight that they provide a career start for young horses which is attractive for breeders. In general, attendance at the smaller racecourses is believed to further promote attendance at the premier racecourses. Race meetings showcase the Irish horseracing industry nationally and internationally, attract the main industry players and enhance potential breeding prospects and resale value of horses. At the premier racecourses there is valuable prize money available raised in part by the racecourses directly.

Q. 17. Critical difficulties - Current and Future

Critical difficulties facing racecourses include attracting attendance at race meetings, the continuation of income from media rights, aging facilities, increased costs, competition from other sports and the impact of Brexit on attendance and participation from overseas runners at race meetings arising from the potential impact on the free movement of goods, animals and services. For the smaller racecourses, fewer stand-alone fixtures make it harder to attract a live audience in competition with big festival fixtures at the premier racecourses. Selected edited comments on this topic are provided below.

Concern over "……..Attendance levels and uncertainty of media rights income"

"Rising costs, poor infrastructure and dependency on media rights"

"Attendances dropping. Non-equine industry investment in the sport is almost non-existent."

Concern over"…….Reduction in income from picture rights; Fall in attendances; Brexit and in particular the impact on Free Movement of goods, animals and services"

"Brexit and the Continuation of the SIS (Media Rights) arrangement"

"Millennials and the increasing need to encourage them to attend the races rather than watch online. Brexit has had impact in terms of currency fluctuations. A hard border would impact visitors". Competition from other festivals e.g. Electric Picnic, Bloom festival.

"Continuation of media rights. Increased demand by owners and stakeholders for improved amenities / facilities free of charge."

"increasing cost of hosting race meetings. We … are finding it more difficult each year to maintain our racecourse and keep our facilities on a par with modern day expectations and standards …"

"Costs being placed on racecourses by third parties. Culture of making the racecourses pay must stop"

"Falling attendance due to decline in interest in the sport"

"Media Rights - The reliance of racecourses on that revenue stream. Drop in Attendances - The decline in attendances at non -festival fixtures. Online Gambling - The increase in online gambling that sees a continuous decline of betting turnover at the racecourses."

"Finance is critical and SIS (Media Rights) payments are critical. Costs continue to rise, Grants from HRI have fallen from 70% to 40%"

"…..HRI taking bigger contributions from each course"

Q. 18. Changes needed so that racecourses are put on a firm financial footing with the resources to enable facility development and improve racegoers' experience

According to racecourse owners, in order to put racecourses on a firm financial footing with the resources to enable facility development and improve racegoer experience, certainty and stability in relation to Brexit and funding are required and media rights must be maintained. One suggestion was for betting taxes to be funnelled directly to racecourses. Another issue was the need to change the expectation that racecourses should pay for everything.

Other areas commented on included the need for improved or centralised marketing, higher attendance and more meetings, continued capital development funding from HRI, increased non-racing income and the promotion of regular use of facilities. In relation to capital funding one suggestion was to have higher (60%) rates for smaller courses. Another racecourse suggested that racecourses should have robust financial plans in place and aim for profitability without media rights income.

Q. 19. Overall Contribution of racecourses

“No racecourses means no racing industry”. According to racecourse owners, the contribution of racecourses to the industry should be valued on factors such as customer experience, audience attraction, number of runners, contribution to local economies, emphasis on quality of facilities and commercial performance, quality of racing and prize money provided, betting turnover and hospitality. The added value to pedigrees and bloodstock should be recognised. Among Premium racecourses it was suggested that racecourses should be recompensed with recognition, fixtures and HRI grants which should be at least 50%. Another racecourse commented that higher performing racecourses should be rewarded regardless of grade.

Q. 20. Change since 2013

Some positive changes, according to racecourse owners, include the improvement in the economy of Ireland, new Capital Grant Scheme, extension of the media rights agreement, improved attendance and upgrading of racecourse facilities with higher standards across the board.

Negative changes include an increase in expectations, reduced funding from the HRF (NI), continual quality, health and safety demands, Brexit and the fall in value of sterling. Many racecourses commented on the increasing / escalating operating costs. “Increased attendance and media rights negated by ever increasing overheads.

In summary, **on a qualitative basis racecourses are somewhat more positive about the current and future position of racecourses. While the general economic downturn appears to have been mostly overcome, it has been replaced by concerns about the effect of Brexit on the industry and on racecourses. Racecourses are now less concerned than previously about their financial position and their ability to support future investment. However, racecourses have concerns about a number of critical issues relating to Brexit, attendance levels, the continuation of media rights income and managing operating costs.**

4. Financial Review of Racecourses

4.1. Overview of Racecourse Financing

Racecourses vary greatly in size from one racecourse which hosts a single race 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 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 356 days of the year, the average utilisation of racetracks is under 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 prize money available. The racing calendar is already crowded and individual racecourses do not have ultimate control over the number or allocation or 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 that 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. Benefits accrue to tourism and local economies from festivals, breeding and bloodstock services that 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 6: Racecourse Attendances

Racecourse	Fixtures	Fixtures	Total Attendance	Total Attendance	Average Attendance	Average Attendance	Change in Attendance	% Change
	2012	2016	2012	2016	2012	2016	2012 – 2016	2012 - 2016
Ballinrobe	9	10	15,490	22,263	1,721	2,226	6,773	43.72%
Bellewstown	5	5	11,705	10,701	2,341	2,140	-1,004	-8.58%
Clonmel	12	11	12,590	14,539	1,049	1,322	1,949	15.48%
Cork	18	16	34,926	31,178	1,940	1,949	-3,748	-10.73%
Curragh	19	20	99,442	90,910	5,234	4,546	-8,532	-8.58%
Downpatrick	9	10	23,310	25,668	2,590	2,567	2,358	10.12%
Down Royal	12	12	43,305	43,824	3,609	3,652	519	1.20%
Dundalk	40	39	52,868	52,372	1,322	1,343	-496	-0.94%
Fairyhouse	20	21	54,206	61,487	2,710	2,928	7,281	13.43%
Galway	12	12	152,747	159,262	12,729	13,272	6,515	4.27%
Gowran Park	16	18	26,593	48,146	1,662	2,675	21,553	81.05%
Killarney	11	11	28,478	28,654	2,589	2,605	176	0.62%
Kilbeggan	8	8	36,452	37,362	4,557	4,670	910	2.50%
Laytown	1	1	4,241	5,483	4,241	5,483	1,242	29.29%
Leopardstown	23	23	142,374	172,936	6,190	7,519	30,562	21.47%
Limerick	18	20	81,048	107,058	4,503	5,353	26,010	32.09%
Listowel	9	9	91,139	95,661	10,127	10,629	4,522	4.96%
Naas	15	16	28,257	31,466	1,884	1,967	3,209	11.36%
Navan	16	19	31,512	37,184	1,970	1,957	5,672	18.00%
Punchestown	18	17	114,843	135,051	6,380	7,944	20,208	17.60%
Roscommon	9	9	26,138	17,299	2,904	1,922	-8,839	-33.82%
Sligo	7	7	15,800	17,625	2,257	2,518	1,825	11.55%
Thurles	11	11	15,421	15,631	1,402	1,421	210	1.36%
Tipperary	10	12	12,521	16,047	1,252	1,337	3,526	28.16%
Tramore	11	10	24,740	26,650	2,249	2,665	1,910	7.72%
Wexford	11	9	14,363	12,702	1,306	1,411	-1,661	-11.56%
Total	350	356	1,194,509	1,317,159	3,413	3,700	122,650	10.27%

Source: HRI Factbooks 2012, 2016 Adjusted

Table 6 above shows the attendances at all race meetings in Ireland in 2012 and 2016. In 2012 there were 350 fixtures whereas in 2016 there were 356 fixtures. Total attendance in 2012 was 1,194,509 whereas in 2016 the total attendance was 1,317,159. The average attendance at race meetings increased from 3,413 in 2012 to 3,700 in 2016. The average attendance level is small in absolute terms and it can be seen from table 6 above that only two racecourses – Galway and Listowel – achieved average attendance levels higher than 10,000 in both years.

Comparing attendances in 2012 and 2016 there was an overall increase of 10.3% representing an increase in numbers attending of 122,650. The change in the average attendance level between 2012 and 2016 shows an increase of 8.4% over the period.

The increase in attendance numbers is very welcome but when it is spread over the number of meetings held it represents an increase, on average, of approximately 344 attendees at each meeting in 2016 compared to 2012. The figures do not allow the impact, if any, of higher attendances at particular festivals or holiday fixtures to be extracted but it can be seen that 4 racecourses – Gowran, Leopardstown, Limerick and Punchestown - accounted for 98,333 or 80% of the total increase in attendance of 122,650.

Average basic admission charges rose by 8.4% from €14.21 in 2013 to €15.40 in 2016. While the increase in admission prices is helpful it is still the case that average admission costs are extremely reasonable for a day at the races compared to other competing activities and are well below the cost of staging the fixture.

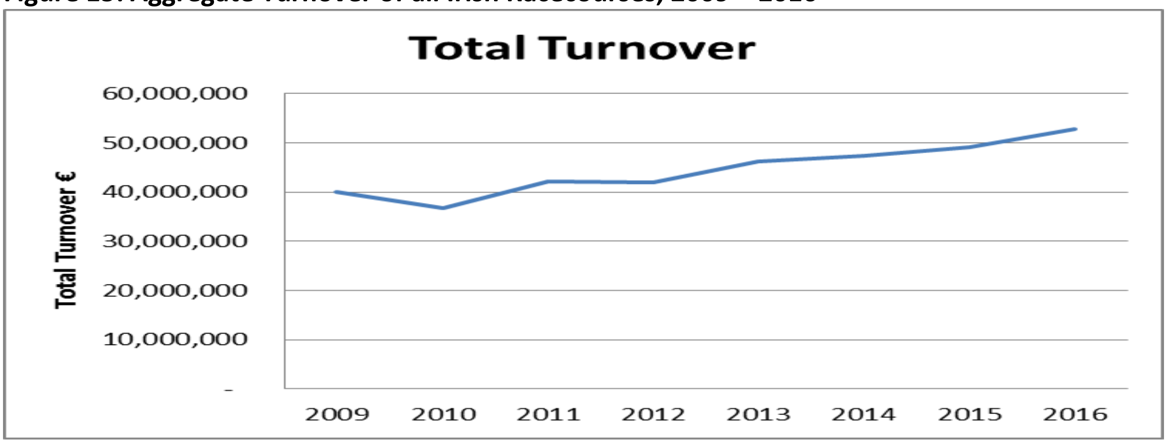
From the questionnaires circulated as part of this review, we estimate that there was an aggregate increase in revenues from attendances of just over 21% between 2013 and 2016 split almost evenly between the volume increase and the increase in basic admission charges seen above. The overall 21% increase in revenues from attendance is made of a 30% increase in Premier racecourses and an increase of 9% in Grade 1 racecourses but only a 4% increase in Grade 2 racecourses.

In summary terms, between 2012 and 2016:

- The number of race meetings increased from 350 to 356
- Attendance increased by 10.3% and average attendance rose by 8.4%
- Average admission revenue per attendee rose by 8.4% but is still considered to represent very good value when compared to other entertainment venues and activities.
- Total Racegoer Attendance Fees rose by over 21% although this increase was heavily concentrated in a small number of Premier racecourses.

Over the period 2013 to 2016, the total estimated turnover for all racecourses has increased by approximately 13.6% in nominal terms. In the same period inflation, as measured by the Consumer Price Index, has shown almost no change. In real terms, the revenues of racecourses have increased by over 13% in the period 2013 to 2016 inclusive.

Figure 15: Aggregate Turnover of all Irish Racecourses, 2009 – 2016



Source: Racecourse Questionnaire, Petrus Analysis

Table 7: Turnover Analysis –Estimate - All Racecourses

Revenue sources	2013	2014	2015	2016
Racegoer Attendance Fees	11,167,755	11,451,014	12,081,702	13,574,057
Bar and Catering Income	2,983,740	3,238,591	3,827,966	4,054,748
Franchises and Concessions	1,364,083	1,656,281	1,770,612	1,850,654
Income from Bookmakers	1,613,301	1,609,125	1,714,111	1,705,771
Advertising / Sponsorship[8]	1,837,966	1,863,557	1,975,306	2,252,142
Non-Racing Income	6,250,557	6,155,343	5,516,750	5,675,257
Grants and Subsidies	1,325,368	1,236,525	825,088	847,394
Media Rights Income	21,152,467	21,756,736	22,868,164	24,448,168
Other	1,033,798	1,066,021	948,501	917,708
Total Turnover	49,575,134	50,903,462	52,442,928	56,303,826

Source: Racecourse Questionnaire, Petrus Analysis

Table 8: Breakdown of Revenue Streams in Racecourses

Revenue Analysis	2012	2013	2014	2015	2016
Racegoer Attendance Fees	21%	23%	22%	23%	24%
Bar and Catering Income	6%	6%	6%	7%	7%
Franchises and Concessions	4%	3%	3%	3%	3%
Attendance, Catering and Concessions Combined	31%	32%	31%	33%	34%
Income from Bookmakers	4%	3%	3%	3%	3%
Advertising / Sponsorship	4%	4%	4%	4%	4%
Non-Racing Income	13%	13%	12%	11%	10%
Grants and Subsidies	2%	3%	2%	2%	2%
Media Rights Income	48%	44%	44%	45%	45%
Other	2%	3%	2%	2%	2%
Total Turnover	100%	100%	100%	100%	100%

Source: Racecourse Questionnaire, Petrus Analysis

The previous tables show the change in the composition of racecourse revenues over the period 2012 to 2016. Several trends are evident including:

- Revenues in absolute terms have increased over the period from all sources - apart from Non-racing income
- Racegoer attendance fees have increased and now represent 24% of total turnover
- Media Rights Income, while increasing in absolute terms, has reduced somewhat in relative terms whereby it now represents 45% of overall turnover
- Advertising and sponsorship has remained constant as a proportion of total revenue
- Grants and subsidies remains relatively small along with "Income from Bookmakers" and "Other"

[8] Advertising and sponsorship is included above on a net basis. This means that prize money and sponsorship is only included in the table above to the extent that it remains with the racecourse. The split out of Bar and Catering Income was not requested in 2012.

Total revenue for all racecourses is estimated to have been over €56 million in 2016. Revenues from all sources - other than non-racing income - have increased over the period 2013 to 2016 and show a continuation of the recovery from the sharp declines in previous years that arose as a consequence of the economic downturn and its impact on key revenue elements such as Attendance, Betting, Advertising and Sponsorship etc.

Media Rights income rose by just over €3.3 million in the period. Although Media Rights Income is now somewhat smaller as a proportion of total revenue it is still by far the largest income source for racecourses and, if non-racing income is excluded, represents half of all racing related income. Media rights income remains the single most important revenue source for racecourses and a critical dependency for the industry overall.

The different grades of racecourse have very different revenue profiles.

Table 9A: Breakdown of Revenue Streams in Premier Racecourses

Revenue Analysis	2013	2014	2015	2016
Racegoer Attendance Fees	29%	30%	31%	33%
Bar and Catering Income	4%	4%	5%	5%
Franchises and Concessions	4%	4%	5%	5%
Attendance, Catering and Concessions Combined	37%	38%	41%	43%
Income from Bookmakers	3%	3%	3%	3%
Advertising / Sponsorship	5%	5%	5%	5%
Non-Racing Income	22%	21%	18%	17%
Grants and Subsidies	1%	0%	0%	0%
Media Rights Income	30%	30%	31%	30%
Other	2%	2%	2%	2%
Total Turnover	100%	100%	100%	100%

Source: Racecourse Questionnaire, Petrus Analysis

Table 9B: Breakdown of Revenue Streams in Grade 1 Racecourses

Revenue Analysis	2013	2014	2015	2016
Racegoer Attendance Fees	18%	17%	16%	17%
Bar and Catering Income	10%	10%	13%	12%
Franchises and Concessions	2%	3%	2%	2%
Attendance, Catering and Concessions Combined	30%	30%	31%	31%
Income from Bookmakers	3%	3%	3%	3%
Advertising / Sponsorship	3%	3%	3%	4%
Non-Racing Income	4%	3%	2%	4%
Grants and Subsidies	4%	3%	3%	2%
Media Rights Income	52%	54%	55%	55%
Other	4%	3%	3%	2%
Total Turnover	100%	100%	100%	100%

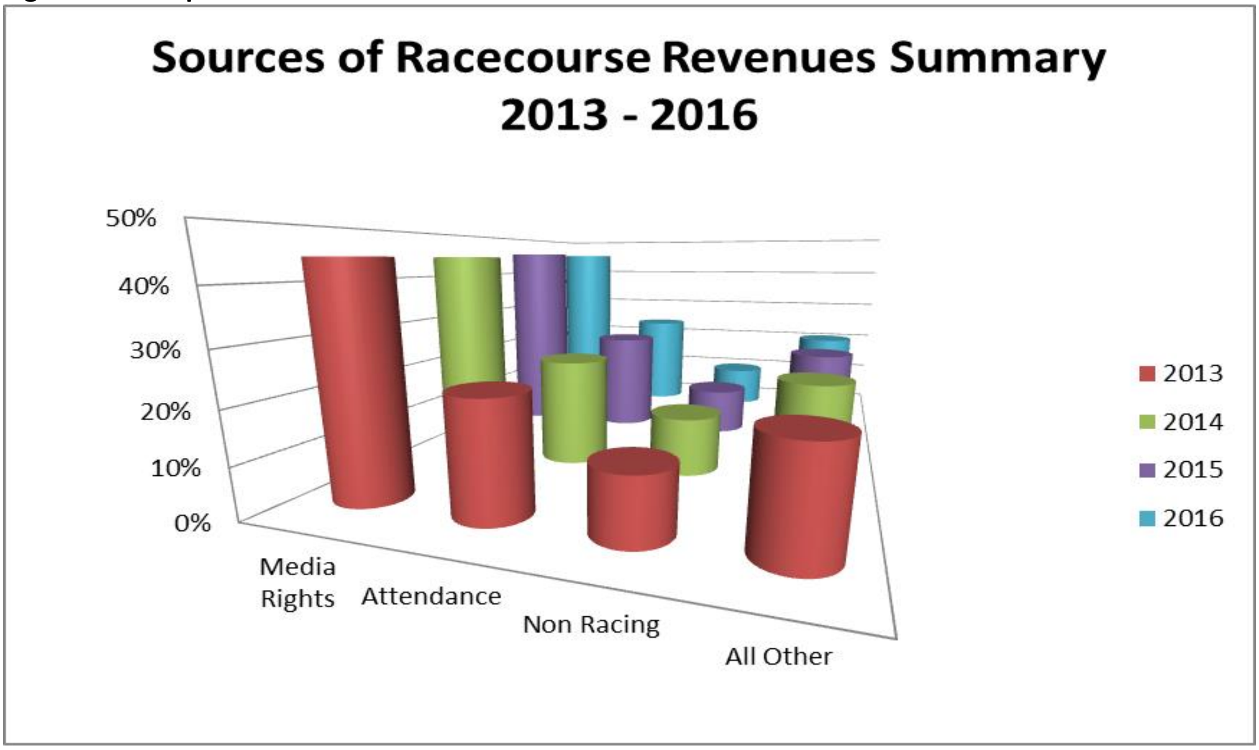
Source: Racecourse Questionnaire, Petrus Analysis

Table 9C: Breakdown of Revenue Streams in Grade 2 Racecourses

Revenue Analysis	2013	2014	2015	2016
Racegoer Attendance Fees	14%	14%	14%	14%
Bar and Catering Income	5%	5%	5%	5%
Franchises and Concessions	1%	1%	1%	1%
Attendance, Catering and Concessions Combined	20%	20%	20%	20%
Income from Bookmakers	3%	3%	3%	3%
Advertising / Sponsorship	2%	2%	2%	2%
Non-Racing Income	5%	4%	4%	5%
Grants and Subsidies	5%	6%	3%	3%
Media Rights Income	65%	64%	67%	67%
Other	1%	1%	1%	0%
Total Turnover	100%	100%	100%	100%

Source: Racecourse Questionnaire, Petrus Analysis

Figure 16: Composition of Total Racecourse Revenues 2012 – 2016



Source: Racecourse Questionnaire, Petrus Analysis

In 2012, racegoer attendance fees comprised 21% of overall revenues whereas by 2016 revenue from this source had risen to 24%. Media Rights income, while increasing in absolute terms, now accounts for a somewhat smaller percentage of total racecourse revenues at 45% compared to 48% in 2012. **Media Rights income is both the biggest support to Irish racecourses and, at the same time, the biggest risk to racecourses and to the industry more generally. The dependency ratio, defined as Media Rights as a percentage of Total Revenues, has reduced slightly overall in recent years. However, the dependency ratio varies considerably by Grade of racecourse with Premium Racecourses depending on Media Rights for 30% of their total revenues, Grade 1 racecourses depending on Media Rights for**

55% of their total revenues while Grade 2 racecourses depend on Media Rights for 67% of total revenues.

A number of points need to be kept in mind about the nature of Media rights income:

- Racecourses overall are now as dependent on media rights income as on all other sources of racing related revenue combined
- Media rights income is substantially denominated in GBP thus giving rise to a currency exposure now exacerbated by the immediate and potential impact of Brexit
- Prior to the previous 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. Without the media rights income it is difficult to see how many of the racecourses would have survived in the past or could exist in the future quite apart from the previous economic downturn or current and future Brexit related uncertainty. This is particularly the case for smaller racecourses.
- The current contract for media rights expires at the end of 2023
- 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.**

Bar and Catering Income and Franchises and Concessions. Income from these sources has increased in recent years both in absolute terms and as a proportion of total revenues.

Looking at the combined revenue from Racegoer Attendance fees, Bar and Catering income and Franchises and Concessions **there has been an increase in the proportion of total revenues contributed by racegoers from 31% in 2012 to 34% equivalent to approximately one third of total revenues in 2016.**

Bookmaker Income. This revenue stream has shown a slight decline over the period 2012 to 2016 and is likely to decline further in future years arising from competition from online, smartphone based betting access. In 2009, income from bookmakers amounted to €2.6 million and accounted for 7% of total revenues. It represents 3% of total revenues in 2016 compared to 4% in 2012.

Advertising / Sponsorship has grown slightly in absolute terms and shows a relatively stable pattern at 4% of total revenues.

Non-Racing Income has reduced over the period and therefore the proportion of total revenues accounted for by non-racing income is declining from a position where it was 17% of revenues in 2009, 13% in 2012 and now stands at 10%. The figure for non-racing income is distorted by one factor which accounts for a high proportion of the €5.7 million total non-racing revenues across all racecourses. If this factor is adjusted, **non-racing income represents about 6% of total revenues**.

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, in aggregate, is greater than the reported profit after tax for all racecourses combined.

Table 10: Estimated Non- Racing Income - All Racecourses

	Estimated Non Racing Income €	%
Golf / Driving Range	1,390,480	25%
Events and Conferences	313,044	5%
Nightclub and Entertainment	145,600	3%
Farming / Letting of Land	65,827	1%
Interest Received	15,776	0%
Other – Mainly Rent	3,744,530	66%
Total Non-Racing turnover	5,738,973	100%

Source: Racecourse Questionnaire, Petrus Analysis

Operating costs for racecourses are high at 75% of total revenues. This figure is similar across Premier, Grade 1 and Grade 2 racecourses. The figure has increased when compared to the level seen in the previous report where operating costs were estimated to amount to 64% of revenues. The data do not fully allow an analysis of all the constituent elements of operating costs or the changes in the period but the increase identified in average wages and salaries would explain the increase. This cost needs to be carefully controlled in the future. Given the sensitivity of all the elements of the profitability mix a small increase in costs over time can erode the limited level of profitability of individual racecourses and the sector overall.

4.3. Profitability of Racecourses

Table 11: Estimated Profitability for all Racecourses

Profit Summary	All Racecourses 2012 €	%	All Racecourses 2016 €	%
Income	41,954,742	100%	56,303,826	100%
Operating Costs	26,969,946	64%	42,215,403	75.0%
Interest Costs	968,527	2%	273,944	0.5%
Depreciation	5,503,457	13%	6,317,138	11%
Exceptional Items	1,515,420	4%	923,520	2%
Corporation Tax	744,343	2%	590,122	1%
Dividends	-	0%	-	0%
Profit/(Loss) After Tax	6,253,048	15%	5,983,698	10.5%
Media Rights Income	19,972,284	48%	24,448,168	43%
Profit/(Loss) excl. Media Rights	(13,719,236)	-33%	(18,464,470)	-33%

Source: Racecourse Questionnaire, Petrus Analysis

Profitability for all racecourses combined, expressed as a percentage of turnover, is estimated at 10.6% in 2016 compared to 15% in 2012 but this is heavily dependent on media rights and non-racing income levels. Results vary between individual racecourses and course types with Grade II type courses earning 13% profit on turnover and Grade I type courses earning 9% with Premier racecourses earning 11%. 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 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 €24 million. **Without media rights income, racecourses would have experienced aggregate losses of over €18 million. This again shows the very high level of dependency of the racecourses on this revenue stream.**

Table 11A: Estimated Profitability by Grade of Racecourse

Profit Summary	**Premier**		**Grade 1**		**Grade 2**		**Total**	
	2016	%	2016	%	2016	%	2016	%
Income	27,498,640	100%	17,917,130	100%	10,888,055	100%	56,303,826	100%
Operating Costs	20,812,480	76%	13,331,714	74%	8,071,209	74%	42,215,403	75%
Interest Costs	53,040	0%	125,944	1%	94,960	1%	273,944	0.5%
Depreciation	3,076,320	11%	2,301,556	13%	939,261	9%	6,317,138	11%
Exceptional Items	195,520	1%	520,000	3%	208,000	2%	923,520	2%
Corporation Tax	319,280	1%	106,232	1%	164,610	2%	590,122	1%
Dividends	0	0%	0	0%	0	0%	0	0%
Profit/(Loss) After Tax	3,042,000	11%	1,531,684	9%	1,410,014	13%	5,983,698	10.6%
Media Rights Income	7,992,000	29%	9,443,590	53%	7,012,578	64%	24,448,168	43%
(Loss) excl. Media Rights	(4,950,000)	(18%)	(7,911,906)	(44%)	(5,602,564)	(51%)	(18,464,470)	(33%)

Source: Racecourse Questionnaire, Petrus Analysis

4.4. Public Information Filed with the Companies Registration Office

We obtained information for racecourses[9] 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 where it satisfies two of the following criteria: a balance sheet total below €6 million, turnover below €12 million and fewer than 50 employees. These thresholds have been revised over the years and 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 2016 accounts with the CRO. For this reason the figures below are indicative only and in particular the figures for 2016 are not provided because they are incomplete. Data for individual years should not be used for year on year trend analysis.

[9] We analysed full financial information for ten racecourses and abridged financial information for a further thirteen racecourses.

Table 12: Racecourses Aggregate Profit and Loss Accounts for 10 Racecourses

Year	2012	2013	2014	2015
Turnover	22,747,868	26,328,071	23,677,424	25,585,259
Interest Payments	761,489	609,154	570,839	494,444
Pre Tax Profit	3,334,877	1,894,376	1,752,398	5,779,820
Taxation	-360,277	-613,353	-415,353	-1,151,176
Profit After Tax	2,974,600	1,281,023	1,337,045	4,628,644
Dividends Payable	Nil	Nil	Nil	Nil
Retained Profit	2,974,600	1,281,023	1,337,045	4,628,644

Source: CRO Data, Petrus Analysis

The retained profit figures for 2014 and 2015 above have been adjusted for an exceptional gain and an exceptional loss in the reported figures for two separate racecourses. Setting aside the difficulty with year on year comparisons and examining individual years, the subset of 10 racecourses has been profitable in recent years. The racecourses reporting turnover figures to the CRO are the larger racecourses and thus would have been in receipt of the bulk of the media rights income. It is clear that without the media rights income the racecourses would have been heavily loss making. Interest payments have been declining since 2008 and this reflects racecourses paying off loans, reducing interest costs and a reduction in capital investment overall.

Table 13: Racecourses Aggregate Balance Sheets 2012 to 2015 – 23 Racecourses

Balance Sheet	2012	2013	2014	2015
Intangible Assets	906,966	840,466	863,966	848,217
Tangible Assets	159,343,873	157,774,051	152,245,138	154,434,084
Investments & Other	8,527,413	8,413,573	7,181,750	9,513,621
Fixed Assets	168,778,252	167,028,090	160,290,854	164,795,922
Stock	7,034,282	7,032,202	6,990,975	7,070,089
Trade Debtors	4,850,933	5,937,725	9,546,931	10,625,283
Other Debtors	8,135,442	7,668,315	3,904,810	3,224,969
Miscellaneous Current Assets	127	127	127	127
Cash	15,259,017	11,518,559	12,404,691	13,257,110
Current Assets	35,279,801	32,156,928	32,847,534	34,177,578
Total Assets	204,058,053	199,185,020	193,138,386	198,973,499
Bank Loans & Overdrafts	1,359,250	2,300,661	2,482,194	1,579,531
Trade Creditors	4,176,530	3,907,965	3,451,255	4,781,236
Miscellaneous Current Liabilities	6,094,815	5,450,925	5,345,556	7,250,308
Other Short Term Finances	2,991,509	2,682,009	16,580,600	14,888,840
Current Liabilities	14,622,104	14,341,561	27,859,605	28,499,915
Total Long Term Liabilities	63,989,955	46,545,287	30,802,521	30,433,634
Total Liabilities	78,612,058	60,886,848	58,662,127	58,933,549
Net Assets	125,445,992	138,298,170	134,476,262	140,039,951
Equity Paid Up	7,878,793	7,878,750	7,878,750	7,878,750
Revaluation Reserve	9,221,658	3,622,424	277,030	277,030
Sundry Reserves	35,805,275	51,452,353	44,904,959	42,448,749
Profit & Loss Account Reserve	72,540,266	75,344,641	81,415,521	89,435,425
Shareholder Funds	125,445,992	138,298,170	134,476,262	140,039,951

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 2015, the aggregate cost of fixed assets appearing in the accounts of racecourses is approximately €165 million. **Total Current Assets** have remained fairly steady in the period and stood at €34 million at the end of 2015.

Total Current Liabilities have increased considerably in the period but this needs to be viewed in conjunction with the figures for **Long term liabilities**. One re-classification of long term loans into short term loans between 2013 and 2014 has a distorting effect on the overall numbers. **Total liabilities** have reduced from €78 million in 2012 to €58 million in 2015. 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 €140 million at the end of 2015. **Shareholders' Funds** - paid in equity and retained reserves – stood at €140 million at the end of 2016. The level of **Capital Employed** by racecourses was €170 million at the end of 2016. 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	**2016 € Millions**
Fixed Assets	169	165
Current Assets	35	34
Less Current Liabilities	-15	-28
	189	171
Shareholders' Funds	125	140
Long Term Debt	64	31
	189	171

Source: CRO Data, Petrus Analysis

During the period 2012 to 2015 racecourses are estimated to have reduced their total liabilities by approximately €20 million.

4.5. Ratio Analysis

Table 15: Selected Ratios for All Racecourses

Ratio Analysis	2016
Asset Intensity Eur WDV/Replacement	4.1/6.7
Profit Margin %	10.5%
Working Capital Ratio - Times	1.20
Acid Ratio Times	0.95
Return on Assets %	3.51%
Return on Capital employed %	3.01%
Depreciation Ratio %	3.8%
Asset Life - Years	26
Gearing %	42%

Source: CRO data, Racecourse Questionnaire, 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. **Taking all racecourses together the asset intensity ratio is 4.09 meaning that €4 in assets is required for racecourses to generate €1 in revenue.** The asset intensity ratio increases to 6.7 on a replacement cost basis. 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 has increased in recent years and in 2016 is estimated at just over 10%

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 this ratio, at 1.20, is in the risk area. The reason for the adverse ratio is that current liabilities have risen and within that the dependence on short term loans for funding purposes has increased.

The **Acid Test ratio** is a more stringent test of the working capital position. It excludes any investment in Stock and at a level of .95 would be considered as a risk. The reasons for the adverse ratio are the same as for the Working Capital ratio above.

Return on Assets and Return on Capital Employed Ratios. In 2015, the return on assets and capital employed ratios are positive but at a low level namely 3.5% and 3% respectively. These levels of return are higher than previously achieved but are still insufficient to ensure long term sustainability and support future capital investment. When computed on the basis of replacement costs the return ratio falls below 2%.

Depreciation and Asset Lives. Depreciation is running at about 4% implying asset lives on average of about 25 years. In our previous report asset lives were seen to be around 33 years based on the depreciation being charged at that time. We commented that while this might reflect the physical condition of the buildings it was 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. The higher depreciation currently being charged is considered to be more appropriate to the asset replacement cycle in racecourses.

Gearing is a measure of the level of indebtedness and at 42% is below the level seen in the earlier years of our previous report and reflects the ongoing reduction in debt levels.

Summary Financial Assessment

The overall assessment of the financial position of racecourses is that the loss making position seen in earlier years has now been reversed and racecourses are making a reasonable level of profits and generating positive cash flows. Almost all revenue sources have increased and this, combined with the continued support from media rights income, means that the racecourse sector is in a better financial position than previously. However, the returns are not uniform across all racecourses. The financial situation of individual racecourses can differ markedly from the overall average position. We have identified 7 racecourses that are either unprofitable, marginally profitable or whose profitability is highly exposed. Debt levels have been reduced but overall the working capital position of racecourses is too low and needs attention. The level of return on assets is low and lower still when calculated on a replacement cost basis. Racecourses do not pay dividends and any surplus is reinvested into the racecourses for the benefits of all stakeholders.

4.6. CAPITAL EXPENDITURE - PAST AND FUTURE

We asked in the questionnaire about the historic and future levels of capital expenditure. Table 16 below shows capital expenditure undertaken by all racecourses in the last 15 years**.** In total, **over €210 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	212,030,874	100%
Grant Aid received towards Capital Expenditure	61,237,110	29%
Loans and Borrowings undertaken to fund Development	41,182,000	19%
Contribution from Own Reserves	90,711,764	43%
Other - Various including Land Sales	18,900,000	9%

Source: Racecourse Questionnaire, Petrus Analysis

Table 17 below shows that **capital investment is estimated by racecourses to be €296 million in order to upgrade facilities across all racecourses over the next 15 years. This is a considerable increase on the level of future investment seen in the last report and may reflect underinvestment in more recent years along with pressure to upgrade facilities and rising construction costs. It is also the case that there will be investments listed that do not materialise because they cannot be funded as a result of the situation of individual racecourses.**

Table 17: Capital Investment next 15 years

Historic Capital Investment	€	%
Capital Expenditure on Track and Facilities in the last 15 years	296,486,000	100%
Grant Aid to be received towards Capital Expenditure	97,004,000	33%
Loans and Borrowings undertaken to fund Development	39,812,000	13%
Contribution from Own Reserves	159,670,000	54%

Source: Racecourse Questionnaire, Petrus Analysis

4.7. Cash Flow Implications and Funding Future Capital Expenditure

Racecourses have estimated that grant funding of approximately €97 million will be provided and the balance of €200 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 investment required net of grants at 33% cannot be funded by all racecourses on the basis of current profitability and cash flows generated.

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 €296 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.

Table 18 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 borrowings would take place at the beginning of 2018 whereas in reality it would be spread out over a number of years, the contribution by racecourses is spread over 15 years, taxation issues are not included and the estimated financial outturn for 2015/6 is assumed to be valid as a base for future projections.

Table 18: Funding Future Capital Expenditure

	Premier	Grade 1	Grade 2	Total
Investment Funding				
Projected Capex	239,636,000	32,184,000	24,666,000	296,486,000
Grant Aid Assumed	76,354,000	11,874,000	8,776,000	97,004,000
Balance To be Funded	163,282,000	20,310,000	15,890,000	199,482,000
Borrowings New Investment	24,000,000	5,040,000	10,772,000	39,812,000
Existing Borrowings	8,606,000	10,035,500	3,510,765	22,152,265
Total Borrowing	32,606,000	15,075,500	14,282,765	61,964,265
Annual Repayments 20 years, 6.5%	€2,959,203	€1,368,198	€1,296,252	5,623,653
Own Contribution	139,282,000	15,270,000	5,118,000	159,670,000
Own Contribution Annualised	9,285,467	1,018,000	341,200	10,644,667
Investment Outflows	12,244,670	2,386,198	1,637,452	16,268,320
Annual Cash Flow Available	6,171,360	3,959,184	2,444,236	12,574,780
Surplus/(Deficit)	-6,073,310	1,572,986	806,784	-3,693,540

Source: Petrus Analysis

Racecourses have assumed that they would receive grant assistance of a minimum of c. €97 million of the total capital investment required. For cash flow purposes we assume that racecourses borrow funds over 20 years and pay interest at 6.5% on existing and new borrowings.

This funding profile would mean that **racecourses, in aggregate, need to generate free net cash flow of c. €16.3 million annually 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 approximate €12.5 million cash flow that racecourses are estimated to have generated in 2016 meaning that there is a shortfall in the ability of the racecourses to finance the required investment. Either the investment has to be reduced, grant aid increased, profitability and free cash flow increased or a combination of all of these elements. Implicit assumptions include that there are no cost increases or additional operating costs incurred and that revenue sources and in particular media rights income remain stable into the future. This is also an aggregate calculation taking all racecourses together and the Premier racecourses having the largest investment plans will find it more difficult than the Grade 1 and Grade 2 racecourses that have more achievable investment plans. In order to fund the required investment the following are required:**

- Investment requirements to be prioritised with associated business cases
- Improved profitability and cash flow to be generated by racecourses from all sources
- Increased revenue and / or decreased costs for all racecourses
- Capital grant level to be increased

Racecourses have only recently become moderately profitable but the level of profitability and cash flow generated is still inadequate to fund the level of capital investment identified by racecourses as being required over the next 15 years. 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 increase 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 from CRO

	2012	2013	2014	2015
Bank Loans & Overdrafts	1,359,250	2,300,661	2,482,194	1,579,531
Trade Creditors	4,176,530	3,907,965	3,451,255	4,781,236
Miscellaneous Current Liabilities	6,094,815	5,450,925	5,345,556	7,250,308
Other Short Term Finances	2,991,509	2,682,009	16,580,600	14,888,840
Current Liabilities	14,622,104	14,341,561	27,859,605	28,499,915
Total Long Term Liabilities	63,989,955	46,545,287	30,802,521	30,433,634
Total Liabilities	78,612,058	60,886,848	58,662,127	58,933,549

Source: CRO Data

Table 20: Loan Facilities and Borrowings from Questionnaire

Loans and Borrowings from Questionnaire	Loan Balances €
Overdraft	187,250
Short term loans – repayable with 1 year	1,878,442
Long Term Loans repayable > 1 year	20,013,373
Other Loans, HP, Leasing etc. not included above	73,200
Total	22,152,265

Source: Racecourse Questionnaire, Petrus Analysis

Table 19 above summarises the borrowing position of racecourses based on returns made to the CRO and referring to 2015. From figures provided as part of the return of questionnaires (Table 20), the borrowing position of racecourses appears to have improved but for the purposes of this analysis we are using CRO data.

The borrowing position of racecourses shows that these racecourses have borrowed c. €59 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 were low previously but have now grown significantly and are now at a level where they represent a risk when viewed in aggregate as shown in the ratio analysis earlier. This high level of current liabilities is however, mainly due to the reclassification into short term loans from long term loans in one instance between 2013 and 2014.

4.8. Taxes and Charges

Table 21: Estimated Taxes and Charges paid by Racecourses 2016

Taxes and Charges	Amount Paid €
Corporation Tax	635,158
VAT	462,245
PAYE/PRSI	2,661,180
Rates	1,176,740
Local Authority Charges, Water Refuse etc.	127,850
Other taxes and Charges	0
Total	5,063,173

Source: Racecourse Questionnaire, Petrus Analysis

Racecourses pay a significant amount in various taxes and charges which amount to approximately 9% of total revenues or about 37% of operating income. Corporation Tax is estimated to amount to €635k, PAYE/PRSI €2,661k and rates €1,176k. In aggregate, **racecourses are estimated to pay over €5 million annually in taxes and charges equivalent to over 37% of operating profit.**

4.9. Land and Buildings

Table 22: Value of Land and Buildings and Replacement Cost

Land and Buildings.	2012	2016
Value of Land and Buildings per the most recent accounts	201,491,477	214,483,673
Estimated replacement cost for buildings – Insured Replacement Cost	322,657,445	274,354,048
Estimated remaining useful life of buildings and facilities	32	35

Source: Racecourse Questionnaire, Petrus Analysis

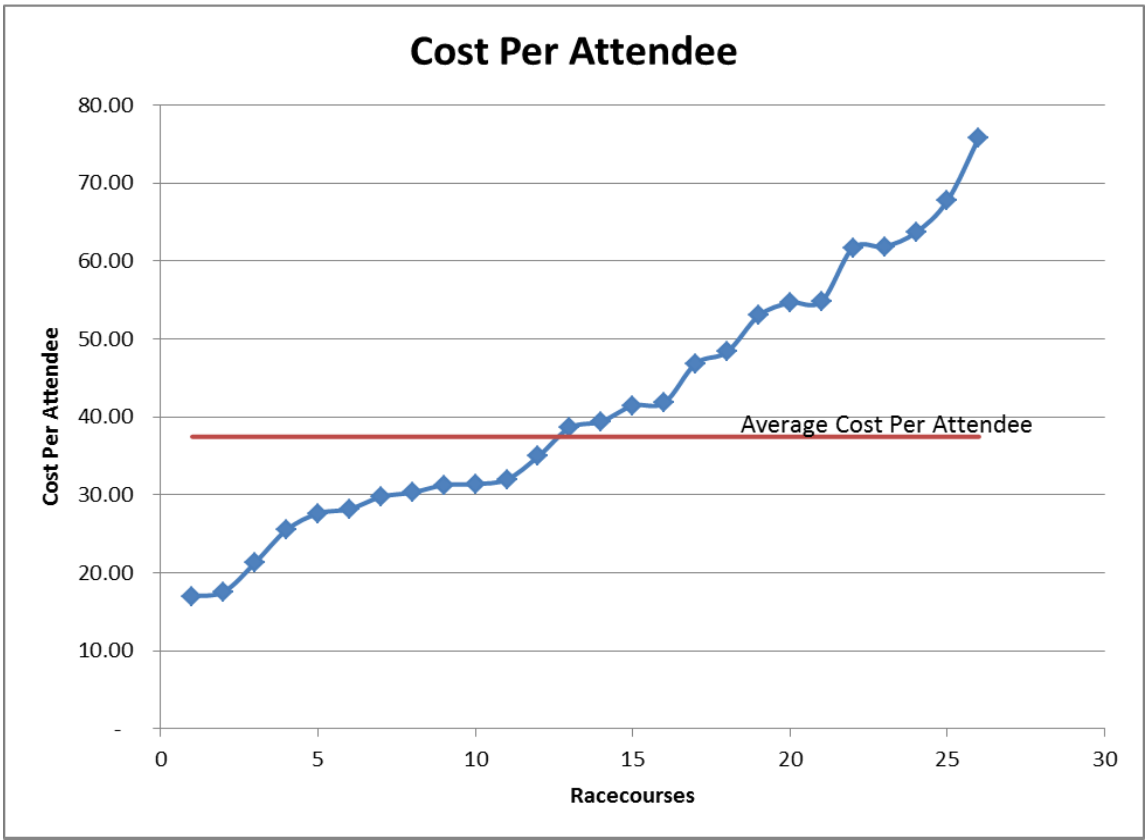
The value of land and buildings on an historic cost basis is estimated to be over €214 million based on the most recent financial accounts. The replacement cost of the buildings alone is estimated to be over €274 million. In addition to the buildings replacement cost we have added a further €52.5 million as an estimate 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 €325 million**.

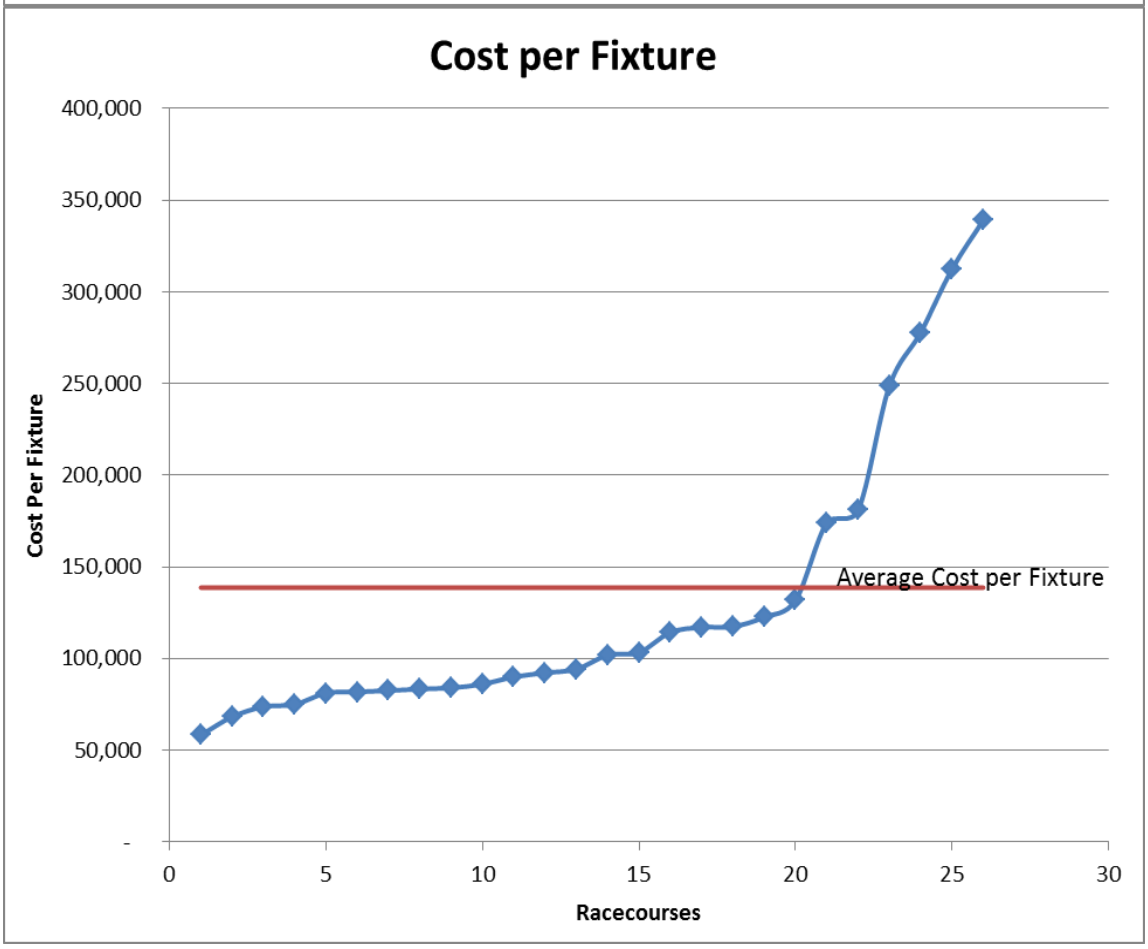
4.10. The Cost of Staging Fixtures

The cost to operate a racecourse for the number of days on which racing is held during the year is built up of the variable costs incurred on race days and the other fixed costs that are borne for the rest of the year such as permanent staff costs, maintenance, insurance and all the other costs incurred in order to have the racecourse available for racing. The cost to stage a fixture varies widely between racecourses and primarily according to the size of the racecourse and the nature of the fixture. Festival meetings held in Premier racecourses will be higher cost events than regular meetings held in Grade 1 or Grade 2 racecourses.

The graphs below show the variation in the cost per attendee and the cost to stage an average fixture for each racecourse. The figures should be taken as indicative only and depend in some cases on factors that are outside the control of racecourses such as the number of fixtures. Some aggregate conclusions can be drawn however. **The average cost per attendee taken across all racecourses is €37 compared to the average admission price of approximately €15 showing that racegoer attendees are paying a small proportion of the cost of holding the fixture. The balance is made up partly by income from bookmakers, non-racing income and advertising. However, the largest contribution is made from media rights income that contributes over €18 per racegoer without which racecourses could not survive.**

On the basis that all costs, both fixed and variable, are incurred by a racecourse for the purpose of staging racemeetings then **the average cost to hold a fixture across all racecourses is almost €140k. This cost varies widely according to the specific cost structure of each racecourse from a low of c. €60,000 to a high of c. €340,000. The average per fixture cost is €260,000, €114,000 and €90,000 for Premier, Grade 1 and Grade 2 racecourses respectively.**


Cost Per Attendee
Cost Per Attendee
80.00
70.00
60.00
50.00
40.00
30.00
20.00
10.00
-
0
5
10
15
20
25
30
Racecourses
Average Cost Per Attendee


Cost per Fixture
Cost Per Fixture
400,000
350,000
300,000
250,000
200,000
150,000
100,000
50,000
-
0
5
10
15
20
25
30
Racecourses
Average Cost per Fixture

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.