

# ECONOMIC IMPACT OF BRITISH RACING **2013**



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# 5.6m

ATTENDANCE AT 1,369 FIXTURES

# 17,500

INDIVIDUAL RUNNERS IN 2012

# £1.1 billion

DIRECT EXPENDITURE OF BRITISH RACING

# 85,000+

DIRECT, INDIRECT AND ASSOCIATED EMPLOYMENT OF BRITISH RACING

# 17,400

FTE OF CORE INDUSTRY

# 8,215

NUMBER OF OWNERS

# £950m+

TEN YEAR CAPITAL EXPENDITURE OF BRITISH RACING

# £275m+

TAX CONTRIBUTION BY BRITISH RACING

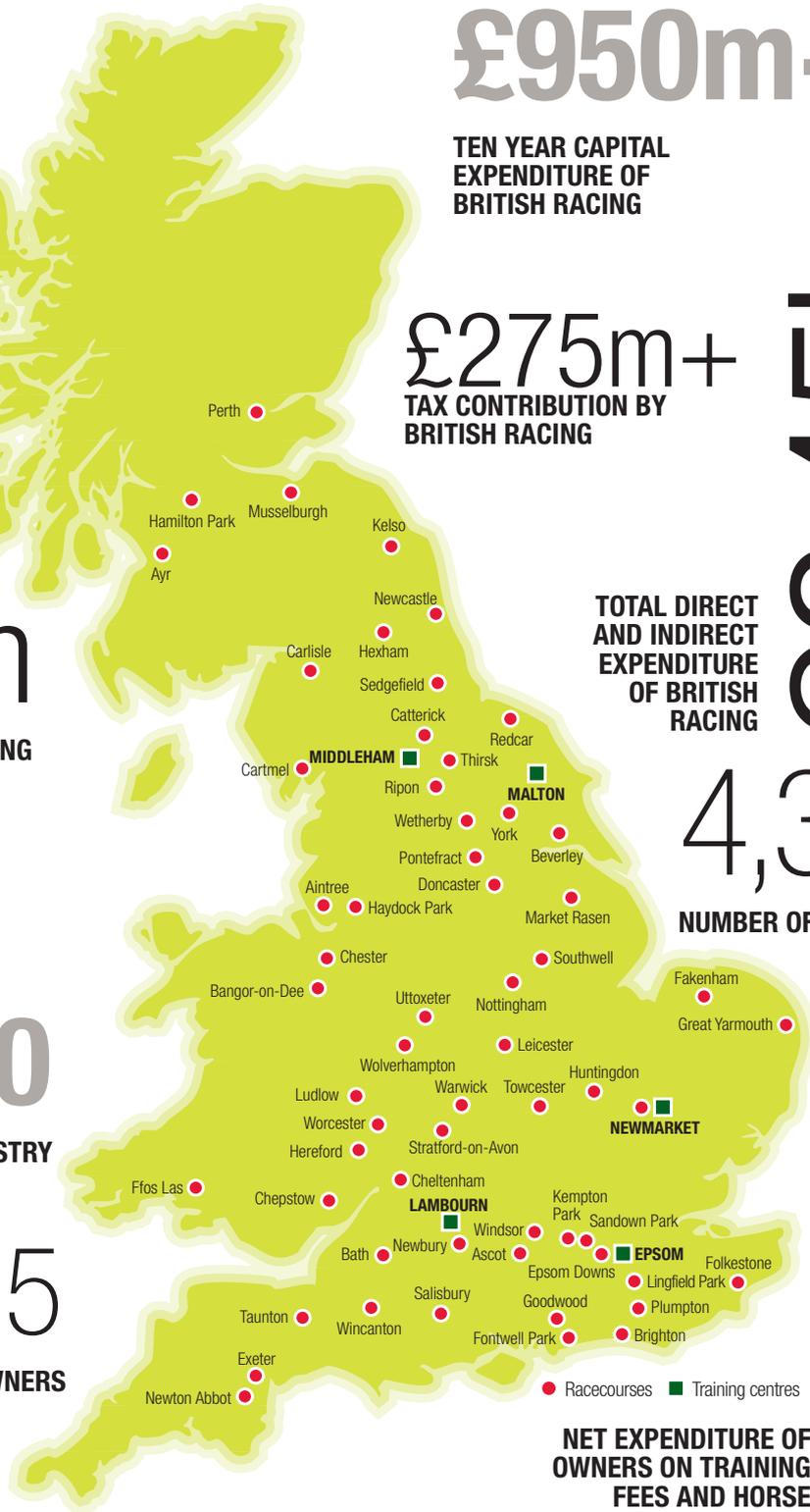
TOTAL DIRECT AND INDIRECT EXPENDITURE OF BRITISH RACING

# £3.45bn

# 4,366

NUMBER OF FOALS BORN

# £475m+



● Racecourses ■ Training centres

NET EXPENDITURE OF OWNERS ON TRAINING FEES AND HORSE PURCHASES

# FOREWORD

## **British Horseracing Authority Foreword**

**It is our great pleasure and privilege to introduce the 2013 Economic Impact of British Racing, and present a comprehensive picture of the numbers that lie behind one of the world's greatest and wonderfully diverse sports.**

This report's findings have been eagerly awaited. The last such study was published in 2009 as Britain, and indeed much of the world, was entering a downturn that has sadly proved in line with the most pessimistic of forecasts four years ago.

British Racing has faced, and largely come through, a significant test. We were never going to be immune to the wider financial difficulties that still prevail, but can all be extremely proud of the scale of our sport's continued contribution to the British economy. Core industry expenditure of over £1.1 billion and a total economic impact of £3.45 billion are just the headline demonstrations of British Racing's importance.

Resilience is a recurring theme throughout. This resilience is however no accident, coming instead as a result of the collective steps taken within the sport over the last decade.

Our structure as a racing jurisdiction is in many ways unique. The quality of our racing may be the envy of the world but our central funding model is quite the opposite, but this in turn provides an imperative to diversify our revenue streams, to both seek new customers and enhance the enjoyment and experience of our most loyal supporters, and explore different markets.

For the first time, we have deliberately separated the sections on our participants from those on our customers. British Racing is prioritising its presentation to commercial partners in the Betting industry, and the broadcasting and sponsorship sectors.

Putting funding arrangements with bookmakers on to a truly commercial footing remains our sport's biggest challenge – many of the financial contrasts inherent in the pages that follow are testament to that – and one we are committed to overcoming. We believe the relationship is heading in the right direction, even if not yet fully the numbers.

We want to meet the needs of our customers in order that our producers receive appropriate reward. The participants at the heart of our sport continue to make significant financial contributions, most notably owners whose expenditure has risen despite a fall in the number of horses in training over the period covered.

The racecourses section details the variety of business models that exist in this key sector, and their requirement for a wide range of income sources. The programme of investment across British racecourses over the previous decade has certainly been rewarded, as has an increasingly commercial outlook.

The report's feature articles also serve as a perfect snapshot of British Racing: the superstar athletes both at home and attracted from abroad; an unstinting commitment to the highest standards of horse welfare; the world's best races not resting on laurels but packaged for modern consumers; the importance of prize money for all taking part in the sport and the commitment of those working at the sharp end.

We were never going to be immune to the wider financial difficulties that still prevail, but can all be extremely proud of the scale of our sport's continued contribution to the British economy.



**Paul Bittar, Chief Executive,  
British Horseracing Authority**

We still bear strong comparison to those that operate in similar sectors to ours, such as the sports and leisure markets, though British Racing and its many stakeholders will never be complacent and instead take a long-term view and seek to learn from the experience of others, including these sports and leisure industries where appropriate.

The British Horseracing Authority, as governing and regulatory body, takes its responsibility on behalf of the sport extremely seriously.

We are confident in our ability to carry out our varied roles, leading and serving those we work for and playing a central part in creating the environment in which all revenue streams can be maximised.

The report naturally highlights that the numbers, the sport, the industry, are all made up of a great many different component parts: in addition to as ever thanking the Sports Business Group at Deloitte for their work, we would like to express our gratitude to all those who have played their part in the collation of this report, and who make British Racing what it is in 2013.

## Deloitte Foreword

**This is the third Economic Impact report the Sports Business Group at Deloitte has produced for the British Racing industry. In addition to painting the picture of the sport's economic footprint in 2012, it examines how the sport has coped with the worst recession to hit the UK economy since the 1930s.**

We are privileged in the Sports Business Group to work full time in sport, including a significant amount of time in Racing, which enables us to compare British Racing's scale and performance to other sports and leisure activities.

We have consistently maintained that sport is better placed than most parts of the leisure and entertainment industries to withstand the worst of the current economic headwinds due to the passion and commitment of its core followers and participants – a dedication Racing benefits from more than most. This Report is further evidence of this resilience, as while there have inevitably been contractions in some sectors of British Racing, other areas have held their own whilst some have experienced substantial growth.

In real terms (after adjusting for effects of inflation) the core British Racing industry in aggregate shrunk by 1.2% per annum since we last reported in 2009, not substantially worse than the UK economy's contraction. Considering the industry relies on the discretionary leisure spend of racegoers, racehorse owners (often very substantial), punters and viewers etc., this is a creditable performance.

The industry's core employment has reduced but still stands at c.17,400 full time equivalents, made up of over 20,000 full time, part time and raceday posts. British Racing also generates over £275m in tax revenues for the Exchequer. Our 2009 Report described an unprecedented period of investment in the sport's racecourses and equine

facilities, hence spending levels were always going to be much lower in the most recent period even before the impact of the credit squeeze. However, the estimated £203m investment since 2008 brings the total for the last decade to over £950m (around 75% on racecourses), and this investment has undoubtedly played a part in helping Racing withstand the economic storm.

Racing has exhibited some of the trends we have seen across other major British sports. While attendances have held up well, indeed growing to a modern era record of 6.15m in 2011 prior to the dampening impact of the British summer weather in 2012, racecourses' raceday revenues have seen limited growth. Racecourses reacted to the financial pressures on their consumers by limiting ticket price increases and, as with many sports, there was a softness in the corporate hospitality market as firms were unable, or reluctant to be seen, to entertain their staff and clients. Nonetheless, Racing remains comfortably the best attended sport in Britain after football, and its festivals number amongst Britain's sporting crown jewels.

Broadcasting has been responsible for most of the major revenue gains to sport in the last five years. The growth of Racing's media revenues – whether from selling pictures to bookmakers, allowing punters to watch racing on the move via their mobile or smartphone, or from selling British Racing to close to 40 countries worldwide – has been one of the success stories of the last five years.

The sponsorship and commercial markets are tough, with the majority of what growth there is generally reserved for the biggest brands and properties in sport. Yet British Racing has made progress in this sphere, with the creation of the QIPCO British Champions Series and British Champions Day arguably the biggest development. Those sports that are the most successful tend to be the best at

Racing remains comfortably the best attended sport in Britain after football, and its festivals number amongst Britain's sporting crown jewels.



**Alan Switzer, Director  
Sports Business Group at Deloitte**

showcasing their biggest days and stars, using them to draw in new followers to the sport. Frankel undoubtedly helped, but Racing was also well organised to leverage his impact beyond the usual industry press coverage in 2012. Most notably this was enhanced through the activities of Great British Racing, the industry's central marketing and promotion body, which has played a key role in building the sport's profile since its creation four years ago.

Top level sport now transcends national borders. The heritage and reputation of British Racing means it continues to attract many of the top horses in the world and that it benefits from an increasingly diverse set of major international investors.

During the course of preparing our report we have spoken to individuals from over 30 organisations drawn from every sector of the industry. We would like to thank everyone involved for their time, responsiveness, information and for the spirit of openness in which all our consultations were performed.

We hope you enjoy reading the report and that it proves a valuable tool for British Racing.

# EXECUTIVE SUMMARY

This report examines the economic impact of British Racing.

Key participants in Racing include owners, racecourses, trainers, breeders, jockeys, stable staff, racing organisations, media and racing consumers such as racegoers, punters and sponsors.

In addition to assessing its own economic impact, this report positions British Racing in the context of the British sports, betting, leisure and rural economies, as well as international racing.

The report updates the analysis included in the previous 2009 edition and focuses on the period up to, and including 2012. The intervening period has seen the worst recession in the UK since the 1930s, hence an important part of this report considers how Racing has coped with the resulting economic challenges.

## Economic impact

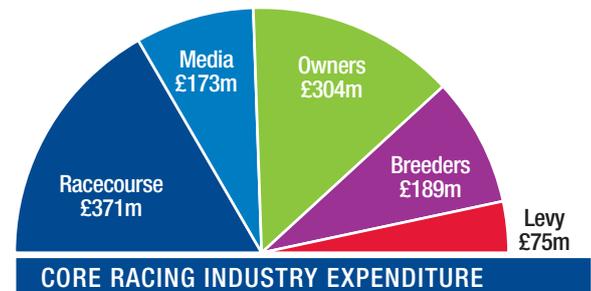
British Racing generated an estimated £3.45 billion in direct, indirect and induced expenditure in 2012 (up marginally from £3.41 billion in 2008). This small nominal increase means the

industry has shrunk in real terms once the impact of inflation is built in, but given the industry relies on discretionary leisure spend of racegoers, owners, viewers, punters and others, this still represents a resilient performance in the face of strong economic headwinds.

## Core industry expenditure

The £1.11 billion inflows into the core industry can be categorised as follows:

- Owners incurred direct gross expenditure of £389m whilst receiving income of £85m through prize money and sponsorship. This resulted in net expenditure of £304m (excluding horse purchases) and represents a 10% increase since 2008, despite a fall in the average number of horses in training.
- The expenditure of the breeding industry, primarily the 300 full time stud farms, was estimated as being £189m.
- Racecourses received expenditure of £371m by racegoers, sponsors and corporate customers (excluding media).



- Media operations generated £173m in revenues primarily through picture sales to Licensed Betting Offices, Racing's two dedicated horseracing broadcast channels and related domestic and international betting orientated broadcasts.
- £75m was received by Racing from betting operators through the statutory 10.75% Levy applied to the profits on British Racing from British betting operators, and an agreed contractual contribution by Betfair, both paid to the Horserace Betting Levy Board. Levy receipts have fallen considerably over the last five years and now represent less than 7% of the total inflows to the industry.
- Racing's outflows very closely align with its inflows hence the industry operates on limited cash reserves. Major outflows include wages (£324m), prize money (£98m), horse costs such as veterinary and farriers (£90m) – together with a variety of other operating costs.
- Very little cash "leaves" the sport in the form of returns to non-Racing shareholders. Interest payable was estimated as being £26m which, combined with dividends and share buy-backs of £12m, represented less than 3% of the £1.1 billion cash inflows.

British Racing generated an estimated £3.45 billion in direct, indirect and induced expenditure in 2012.

## Key measures of Racing – 2012

 <b>£3.45bn</b> Total economic impact of British Racing	 <b>£710m</b> British betting industry's gross win on British Racing
 <b>£1.11bn</b> Core British Racing industry expenditure	 <b>13,716</b> Average number of horses in training
 <b>£203m</b> British Racing's capital expenditure (2009-12)	 <b>8,215</b> Number of owners
 <b>£276m</b> British Racing's tax contribution	 <b>5.58m</b> Total racecourse attendances
 <b>17,400</b> Core industry employment (FTE)	 <b>85,200</b> Direct, indirect and associated employment

## Employment

- Racing's core industry, comprising those directly involved in the day-to-day operation of the sport, equates to c.17,400 Full Time Equivalents in 2012 – made up of over 20,000 full-time and part-time positions, together with many thousands of raceday staff.
- Headcount has declined by 8% on aggregate since 2008 as employment levels have fallen in many sectors in response to lower activity levels and/or as racing organisations have sought to control costs.
- The largest proportion of employees are involved in the production and training of racehorses with over 10,000 FTE involved in these activities. Racecourses and their direct service providers, notably caterers, are the next largest employers.
- Further activity within the economy as a result of the Racing industry, including those directly related to Racing such as vets and farriers, sustains another 29,000 jobs. In addition, the British Betting industry employed an estimated 38,800 FTEs (including many part-time roles), the majority in Licenced Betting Offices where British Racing remains the largest sports betting product.

## Capital expenditure

- The last decade has seen unprecedented capital investment throughout British Racing, with over £950m estimated to have been spent on racecourses (c.£700m), equine, media and other racing facilities.

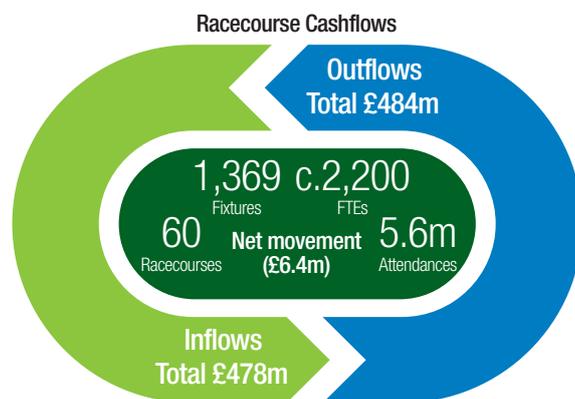


- The economic downturn and credit crunch have understandably had an impact on the level of capital spending with an estimated £203m investment between 2009-12, compared to £706m in the previous five years.
- Nonetheless, further investment in facilities is planned including a £45m redevelopment of Cheltenham Racecourse – in part funded by the innovative Jockey Club Retail Bond which raised c.£25m. Racecourse financing in general will be assisted by the re-instatement of Levy Board loans.



## Taxation

- British Racing generated over £275m in tax in 2012 and over £1.4 billion in the last five years.
- Betting on racing provides the largest proportion of tax generated for Government at around £100m in 2012. This has fallen sharply from over £150m per annum earlier in the decade, in part as betting on racing has migrated to remote means – the large majority of which are currently offshore and hence not subject to British betting taxes or Levy.
- Employment taxes from the industry's 17,400 FTEs, VAT paid by racegoers and some racehorse owners and a modest amount of corporation tax (rare, as profit maximisation is typically not the central objective of many Racing organisations) – together contributed £176m in tax to the Exchequer.



Racing's core industry, comprising those directly involved in the day-to-day operation of the sport employs c.17,400 Full Time Equivalents (FTEs) in 2012.

## Racecourses

- Overall revenues for Britain's 60 licenced racecourses (in 2012) are a combination of central distributions from the Levy Board and internally generated revenues from raceday admissions, media rights, sponsorship, and other commercial activities.
- Distributions from the Levy Board fell by over a third compared to 2008, but growth in other racecourse revenues – notably media rights – meant total revenue edged up by 1% to £478m.
- Revenues from admissions and catering (grossed up to reflect the actual spend of racegoers) – totalling £214m, have been flat as racecourses have limited price increases where possible given the squeeze on consumers' disposable income. A challenging corporate hospitality market has also had a disproportionate dampening effect on these income streams.
- Racecourses experienced significant cost inflation in areas such as utilities and security – together with significantly increasing their contributions to prize money. These factors contributed to modest profits, estimated to have been less than £10m excluding exceptional items in 2012, and a small net cash outflow as the racecourses made net loan repayments to financiers.

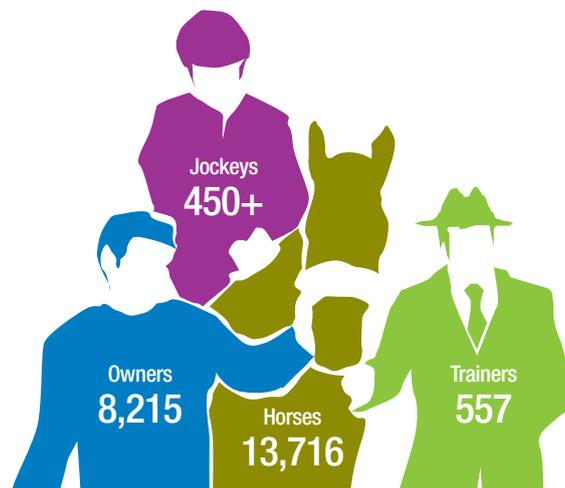
- While it remains a tough sponsorship market, racecourses have had some success in growing such revenues. Helped by initiatives including the QIPCO sponsorship of the British Champions Series and expanding offerings beyond pure race sponsorship into areas such as stand sponsorship and category sponsorships by industry, such revenues grew to £31m in 2012.
- The 60 racecourses' aggregate revenue was the largest in sport after football in Britain – although Rugby Union, its nearest rival, has narrowed the gap. Racecourses' modest revenue growth outside of media rights matches the experience of many other sports in the last five years, certainly for all but the biggest global brands and athletes.

### Attendances

- Racing is the second best attended sport in Britain after football, and in 2012 accounted for four of the ten highest attended sporting events (excluding the London 2012 Olympic and Paralympic Games).
- Racecourse attendances reached a modern era record of 6.15m in 2011 but dropped to 5.58m in 2012 (1,369 fixtures at an average of 4,077 per fixture), hindered by the poor weather which led to abandonments and lower attendances at traditionally well attended summer fixtures.
- Attendances at the major festivals and premium fixtures held up well, with over 1.25m people attending the top ten meetings in 2012.
- Racecourses frequently combine other entertainment with the core racing product in order to attract new racegoers. Over 350,000 people attended the 35+ fixtures with a significant music element in 2012, and Ladies' Days are extremely popular at both a national and more local level.

### Horsemen

- British Racing benefits from a huge variety of owners – ranging from major international owners, typically focused on Flat racing, to a large number of racing clubs and syndicates which allow thousands of people to get involved in horse ownership.
- Collectively these owners are the single biggest contributors to the funding of British Racing through both their purchase of horses from breeders (£189m being breeders' expenditure and commission paid on horse purchases) and ongoing training and racing expenditure paid to trainers, jockeys and supporting industries (£369m). After receipts of prize money and sponsorship of £85m, owners are estimated to have made a net injection of over £470m in 2012 (compared to £465m in 2008).
- The net increase came despite falls in the number of horses in training and number of owners. Cost inflation resulted in the average cost of keeping a horse in training rising, estimated to be £17,500 for a Jump horse and £21,500 for a Flat horse in 2012.
- Prize money was £98m in 2012 (of which owners get c.80%, with the rest distributed between the jockey, trainer and stable staff), less than the £100m in 2004, representing a substantial fall in real terms. Increasing prize money is a focus of the industry, with 2013 levels expected to be around £110m, similar to the previous record (from 2009).
- Britain's 450+ professional jockeys are amongst the hardest working and toughest sportspeople in the country, and on average earn around £35,000 before substantial direct and travel expenses.



Owners are the single biggest contributors to the funding of British Racing through both their purchase of horses from breeders and ongoing training and racing expenditure.

- Britain's foal production of 4,635 was the seventh highest in the world in 2011 (last year for which global data is available). The breeding sector employs c.3,900 FTEs across c.300 full-time stud farms in Britain, and over 3,500 part-time breeders.
- The global reputation of British Racing means it has become the destination of choice for investors in bloodstock for an increasingly diverse set of international buyers. It is estimated that £150m of the £221m sales at Tattersalls in 2012 were made to non-British buyers from over 50 countries.
- The Breeding sector was one of the first to experience the impact of the global economic slowdown, with sharp falls in bloodstock values and subsequently foal production levels. Britain's foal production fell by 26% from the peak 2008 levels to the 4,366 recorded in 2012. However, public auction sales have grown by 25% since the low of 2010, driven by the top end of the market. Expenditure at Tattersalls and Doncaster Bloodstock Sales totalled £247m in 2012.
- Much of this fall in production has been at the lower quality end of the market hence, while the sector has shrunk in terms of employment and expenditure, it is not as dramatic as the production falls would suggest. Total breeders' expenditure has been estimated at £170m in 2012.

4,366  
Foals born  
in 2012

## Betting

- British Racing competes in arguably the most competitive betting market in the world, which results in the highest returns to stakes bet by horseracing punters of any major country.
- In 2012/13 the gross win from British Racing is estimated to have been £710m – consisting of c.£570m generated from Licenced Betting Offices but excluding all but one of the top 20 online betting operators with a British focus.

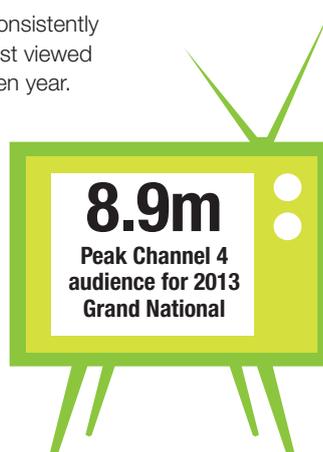


- Total gross win has fallen from the £1 billion+ recorded in 2008/09. The fall reflects the intense competition from other sports betting and products, lower margins, and a migration to remote forms of betting (including increasingly via smart phones) – primarily with operators offshore.
- The move offshore has contributed to the significant falls in the Levy – the 10.75% statutory Levy on British betting which operators pay on their gross win from British Racing – which is forecast to have generated £75m in 2012/13 compared to an average of over £100m p.a. around the middle of the last decade. Racing has, however, benefited from increased media rights payments by bookmakers in recent years.

- Racing continues to seek an alternative mechanism to the Levy capable of capturing revenues from all bets placed on British Racing. The landmark five-year agreement with Betfair, whereby the exchange will pay 10.75% of gross win from British punters betting on British Racing, underwritten by substantial guaranteed minimum payments back to the sport, despite being offshore, is one possible template for future funding mechanisms.

## Broadcasting

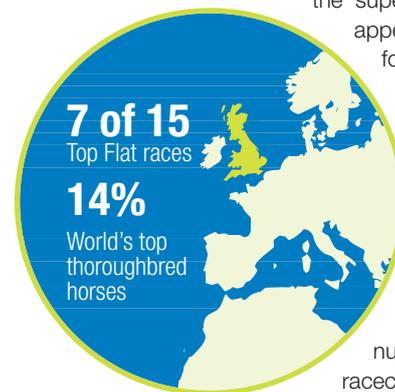
- British Racing has substantially grown broadcasting revenues across the evolving platforms over the last five years. The amount paid to racecourses in licence fees has increased to £88m in 2012 (£57m in 2008), and is expected to exceed £100m in 2013.
- The majority of the growth has come as a result of the higher rights fees in the LBO market, arising from the entry of Turf TV into the market in 2007. In addition, both the dedicated racing channels – At The Races and Racing UK – have developed their video streaming products (70m race streams in 2012) and the joint venture GBI Racing, which sells British Racing to close to 40 countries internationally, has helped grow revenues.
- The Grand National is consistently placed in the top 10 most viewed sports events in any given year. A peak audience of 8.9m viewers watched the first Grand National televised on Channel 4 in 2013 – now British Racing's exclusive terrestrial broadcaster.



British Racing competes in arguably the most competitive betting market in the world.

## International standing

- British Racing is highly regarded across the international racing market, and is the global hub for Jump racing.
- British Racing provided around 14% of the world's top ranked Flat thoroughbred racehorses and staged seven of the world's top 15 rated Flat races over 2010-12. It regularly attracts star horses from across the world, most notably in 2012 when the 'supermare' Black Caviar appeared at Royal Ascot for her only race outside of Australia.



- The global economic slowdown has resulted in many major racing nations experiencing contractions in horse numbers, betting and/or racecourse attendances. Britain has been more resilient than most to such stresses.
- British Racing operates a different funding model from many other countries, notably in that it is much less reliant on betting. Less than 2% of betting turnover on British Racing is paid back to the sport, a significantly lower percentage than in other major racing nations.

# INTRODUCTION



## Background

As the sport's governing and regulatory body, the British Horseracing Authority ("BHA") commissioned the Sports Business Group at Deloitte to perform an assessment of the contribution of the British Racing industry ("British Racing" or "Racing") to the British economy.

This report combines analysis of the more traditional measures of the activity levels, and ultimately the health, of British Racing – such as racecourse attendances, horses in training, number of owners, prize money and bloodstock auction values – with key economic metrics including total expenditure, employment, capital investment and the tax contribution of the sport.

This report updates the analysis included in the 2009 Economic Impact of British Racing report (which covered the period up to 2008) which has been an invaluable tool for the Racing industry.

The intervening period since 2008 has seen the worst recession in the UK since the 1930s (and a downturn globally). British Racing was not immune to its effects. An important part of this Report is therefore examining how Racing has fared during the downturn, in part through appropriate comparisons with the figures contained in the previous report.

The report focuses on the period up to and including 2012 but, where appropriate, individual sections comment on developments in 2013.

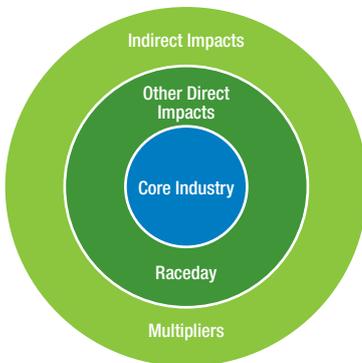
## Methodology

Page 56 sets out in detail the methodology, assumptions and parameters of the study. The following points are particularly important:

- The study measures the economic activity stimulated directly by the expenditure of participants in British Racing (breeders, owners, racecourses, trainers and others), and Racing consumers (racegoers, viewers, punters etc.), which then flows through the economy to create activity in other non-related industries.
- The data included in this report has been gathered through a combination of:
  - extensive consultations with Racing's stakeholders – over 30 consultations were conducted;
  - data supplied directly by Racing's stakeholders;
  - results of a racegoers' online survey;
  - results of the 2010 Racehorse Owners Association ('ROA') survey in relation to the training costs of racehorse owners; and
  - additional primary research and analysis performed by Deloitte.
- The internal flows between Racing's participants are relatively complicated, and are of less relevance to those outside of Racing. Hence, wherever possible this study simplifies matters to focus on the flows into and out of Racing.
- The study focuses on 2012 wherever possible – adjusting for or commenting on, where appropriate, "exceptional" factors during the year.



**Figure 1: Components of Economic Impact**



Source: Deloitte analysis.

Figure 1 illustrates the separate components when determining the economic impact of an industry.

- **Core industry** – primarily expenditure by, or generated from, Racing’s consumers, racecourses, owners, trainers and breeders but also incorporating organisations such as the BHA, Horserace Betting Levy Board (‘Levy Board’), At The Races, Racecourse Media Group (‘RMG’), Turf TV, Weatherbys, Tattersalls, etc.

- **Other direct impacts** – mainly off-course raceday expenditure by racegoers on goods and services such as food and transport.
- **Indirect and induced impacts** – quantifies the ‘ripple effect’ as the direct expenditure by the core industry subsequently flows through the economy via further Business to Business expenditure (e.g. business spending on suppliers) and consumer expenditure (e.g. recipients spending wages elsewhere in the economy).

- **Betting industry** – the impact of the Betting industry is primarily addressed via the statutory Levy on British betting operators’ gross profits and betting exchanges’ commission on British Racing as paid to the Levy Board, and subsequently distributed amongst Racing’s participants, primarily owners, through prize money.

This report also sets out the total amount of gross win of the British Betting industry from betting on British Racing as this is expenditure of racing punters. It also considers the direct taxation generated from betting on Racing and the total employment levels in the Betting industry.

The period since 2008 has seen the worst recession in the UK since the 1930s. British Racing was not immune to its effects.

## Report structure

This report is broken down into six key sections as described below:

**Section 1:** Assesses the overall economic impact of Racing via the aggregate level of expenditure by its participants, consumers and indirect impacts.

**Section 2:** Discusses Racing’s aggregate levels of employment, taxation and capital investment.

**Section 3:** Considers the role of racecourses in the Racing industry, including a detailed analysis of racecourse attendances.

**Section 4:** Looks at the impact made by horsemen – Owners, Trainers, Jockeys and Breeders – on the industry, with particular reference to their revenues and costs.

**Section 5:** Examines the commercial appeal of Racing as demonstrated by its close ties with the Betting, Broadcast and Sponsorship sectors.

**Section 6:** Includes a comparison to major racing nations, an assessment of Racing’s position in the rural economy and British Racing’s role in the sport and leisure markets.

A number of ‘Feature articles’ have been included in appropriate sections which examine in more detail particular aspects of British Racing, including assessing the impact of Frankel – the highest rated Flat horse of all time, the economics of being a jockey – a profession amongst the hardest working in British sport, and looking at the impact the QIPCO British Champions Series has had on the sport.

# OVERALL ECONOMIC IMPACT

## Industry size

British Racing's economic impact has been estimated based on the direct expenditure of its participants and the associated expenditure of Racing consumers.

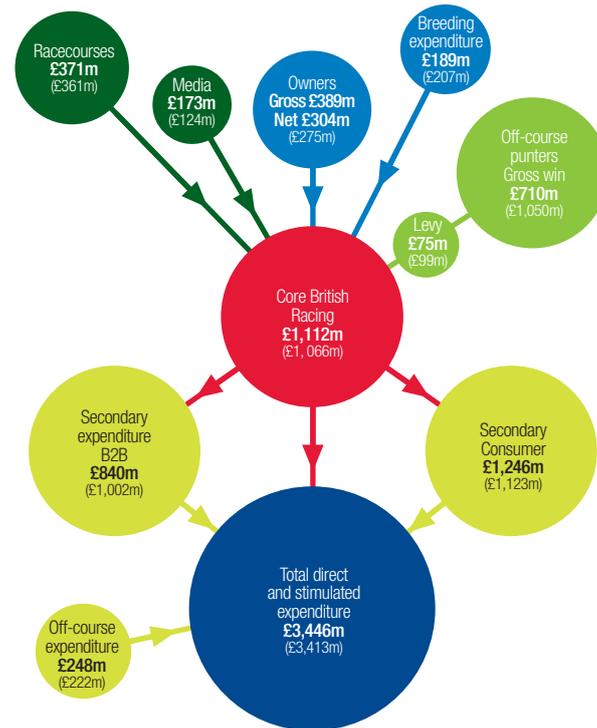
In determining the economic impact of any industry it is normal to attempt to eliminate any double counting of expenditure in order to derive the net injection of expenditure created. This is particularly important for Racing given the often complex, and two-way, flow of funds between the participants of the industry – one participant's expenditure is often another participant's income. The definition of expenditure will vary between participants and consumers but essentially it refers to new cash being injected into Racing at each of its component 'levels'.

Figure 2 sets out details of each participant group's expenditure in order to estimate the overall economic impact of British Racing.

## Core Industry

- The spending by racegoers, sponsors and commercial partners at racecourses injected £371m into the core Racing industry, marginally up from 2008.
- The revenue of the broadcasters and print media (the expenditure of viewers, betting companies and readers) of British Racing increased by 40% from 2008 levels to £173m in 2012 – by a significant margin the highest growth rate of constituent core Racing expenditure.
- The gross win of the British Betting industry from betting on British Racing (i.e. the amount lost by punters) was c.£710m in 2012 – markedly down from the over £1 billion in 2008. A 10.75% (as the standard rate) statutory Levy on this gross win is paid to Racing, equating to £75m in 2012. The remaining c.£635m plus includes c.£100m

Figure 2: The flows into Racing from its participants and consumers – 2012



Note: Figures in brackets represent the equivalent expenditure in 2008 which have been reclassified where appropriate. Source: Deloitte analysis.

The expenditure of the core British Racing industry was £1,112m in 2012 – up from £1,066m in 2008, a 4% increase.

gross profits tax with the balance being betting operators' contribution to operating costs and profits.

- Owners incurred direct gross expenditure of £389m but received £85m back in prize money and sponsorship, resulting in a net expenditure of £304m. However if the expenditure of breeders – £189m – is assumed to be ultimately incurred by owners, via the purchase of horses, gross owners' expenditure was c.£578m, with a net expenditure of £493m.
- The expenditure of the core British Racing industry was £1,112m in 2012 – up from £1,066m in 2008, a 4% increase.
- It is important to note that whilst trainers, jockeys and stable staff are

not shown separately in Figure 2, this is merely a function of the expenditure method used to assess the economic impact as not only do they play a vital role in the industry but they also provide an economic impact in their own right. Their expenditure is effectively included within that of owners.

## Secondary expenditure

The core industry expenditure of £1,112m, augmented by £248m of off-course expenditure, generates a further £2.1 billion of expenditure as the initial expenditure filters through the economy. Business to Business expenditure made up £840m of this total, with the balance of £1,246m generated by consumer expenditure.

This means that for every £1 spent in the core industry and on off-site expenditure, an additional £1.53 is generated in secondary expenditure by linkages in the economy.

## Total expenditure

Excluding the impact of capital expenditure, British Racing therefore generated £3.45 billion in direct, indirect and induced expenditure in 2012 (a small increase from £3.41 billion in 2008).

## Gross Value Added

Total expenditure generated by the industry is relevant in assessing the contribution made to the British economy. However, using expenditure alone does not acknowledge the fact that no value is added by the sourcing of physical inputs alone. It is what the industry does with those inputs that contributes to the economy, rather than simply purchasing the inputs.

In simple terms, expenditure can be adjusted to exclude intermediate demand so that only the real or gross value added by stakeholders is included in the analysis. An alternative

measure of industry contribution – and the one which can be most readily compared to national indicators such as Gross Domestic Product (GDP) – is given by Gross Value Added (GVA). To obtain this estimate it is necessary to adjust expenditure to isolate the value added in terms of operating profit and wages paid, based on data from the Office for National Statistics.

On this basis, the GVA associated with the £3.45 billion in direct and secondary expenditure is found to be approximately £1.65 billion (with £475m from the core industry). This represents an increase from the 2008 nominal estimate of £1.56 billion (a 1.3 per cent per annum increase).

#### Real contraction

The above estimates are based upon current prices in 2008 and 2012. After accounting for inflation and rebasing the 2008 estimates in 2012 prices, total expenditure of £3.45 billion in 2012 represents a fall of £300m in real terms from a 2008 rebased estimate of £3.74 billion.

Similarly GVA sees a fall of £80m from a rebased 2008 estimate of £1.73 billion – a contraction of 1.2% per annum.

Together this shows that the Racing industry has grown in nominal terms but has contracted in real terms over the period from 2009 to 2012. By way of comparison, UK GDP (at constant prices) fell by 0.25% per annum over the period. This shows the industry has contracted only marginally quicker than the economy as a whole.

Given the Racing industry relies on the discretionary leisure spend of racegoers, owners, viewers etc., this should be regarded as a resilient performance in the face of strong economic headwinds.

Given the Racing industry relies on the discretionary leisure spend of racegoers, owners, viewers etc., the real contraction of 1.2% per annum should be regarded as a resilient performance in the face of strong economic headwinds.

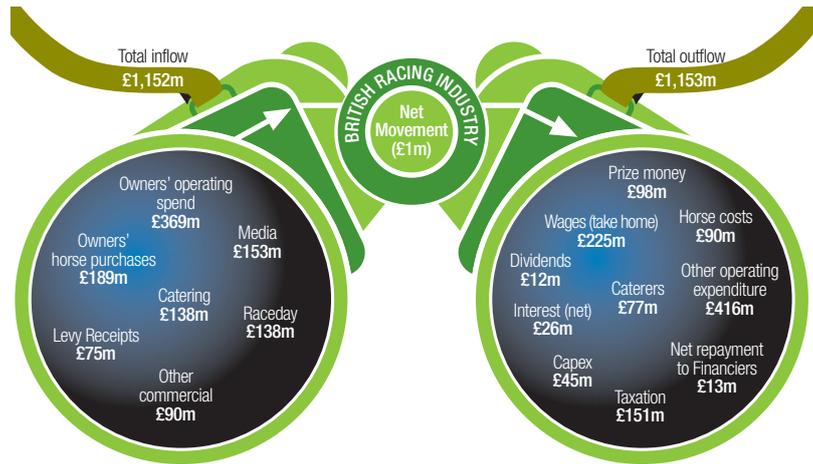
Figure 3: Expenditure of Racing's participants

Participant	Industry cash inflow (equivalent to assumed expenditure)
<b>Racecourses</b>	<p>The expenditure generated by Britain's 60 racecourses and 109 Point-to-Point courses from the expenditure of Racing consumers, namely:</p> <ul style="list-style-type: none"> <li>• Racegoers: Raceday admission, membership fees, racecards, etc; Catering spend (actual spend of racegoers); Corporate attendees</li> <li>• Sponsors and advertisers</li> <li>• On-course betting – commission paid by Tote and on-course bookmakers' fees</li> <li>• Non raceday attendees – conferences, banquets, on-site hotels, etc.</li> </ul> <p>All racecourse cash flows are exclusive of VAT, except for catering and admission income which include VAT.</p>
<b>Media</b>	<p>Primarily the expenditure of broadcasters and viewers on British Racing via:</p> <ul style="list-style-type: none"> <li>• Broadcasters – payments from terrestrial channels and bookmakers (SIS and Turf TV). All amounts paid to Turf TV have been included, but only the racecourse licence fee element of bookmaker payments to SIS.</li> <li>• Racecourse Media Group and At The Races – through subscriptions (for Racing UK), overseas sales of picture rights, betting commission, etc.</li> </ul> <p>An estimate of Racing's print media revenues, excluding reader purchases, has also been included.</p>
<b>Owners</b>	<p>Owners' expenditure on racehorses takes two main forms:</p> <ul style="list-style-type: none"> <li>• Ongoing operating expenditure on keeping and training horses – training fees (including vet costs, transport etc.), jockey costs, entry fees etc.</li> <li>• Capital cost of buying racehorses</li> </ul> <p>Owners' expenditure on buying horses is incorporated via breeders' expenditure. In aggregate, owners recoup a proportion of their ongoing expenditure on horses from prize money, funded from various industry inflows. It is therefore necessary to deduct prize money from owners' gross expenditure to get their net investment into British Racing. The c.£20m training and keep costs of c.3,400 Point-to-point horses are also included.</p>
<b>Breeders</b>	<p>There are an estimated 300 full-time stud farms and over 3,500 other breeders in Britain generating revenue primarily from the sale of horses (via public or private sales).</p> <p>Given the lack of country specific vendor data for breeder sales, and the importance of home-bred racehorses, the economic impact of the breeding sector has been estimated based on breeders' expenditure. Additionally, c.£20m was paid to British public auctioneers in commission.</p>
<b>Off-course betting</b>	<p>Over £700m of gross win (the amount lost by bettors) was generated by the Betting industry on British Racing. The statutory Levy is applied to betting operators' gross profits on the sport – at a rate of 10.75% – and generated £75m in 2012 which was paid to Racing. Only the Levy element of gross win has been included within the core Racing industry expenditure.</p>
<b>Off-course expenditure</b>	<p>The on-course expenditure of racegoers is captured within racecourse revenue. In addition, the c.5.6m annual racegoers incur additional expenditure costs on travelling to the racecourse, accommodation, food and drink outside the racecourse and other local spending. This expenditure has been directly generated by the decision to go racing hence, while not part of the core industry, is still generated by Racing.</p> <p>Off-course expenditure also includes estimated total Racing press expenditure (arising from reader purchases).</p>

# RACING'S CASH FLOW

The assessment of the economic impact of Racing as set out on pages 10 to 11 focused purely on the flows into Racing, but it is also instructive to examine the outflows from the industry. Figure 4 sets out inflows and outflows for the participants and racing organisations detailed in the note to the chart. The analysis illustrates how Racing's outflows are very closely aligned with its inflows. Where comparable and relevant, the figures from the 2008 report, or restated amounts, have been indicated in the text below.

Figure 4: Racing's key cash flows



## Inflows

- Raceday – £138m (2008: £141m) consists of racecourse admission receipts from the 5.6m racegoers in 2012 (excluding Point-to-point) and on-course betting (commission only). The decrease since 2008 reflects racecourses' limited price increases given the challenging economic conditions for their customers, and a tough corporate hospitality market.
- Catering – After admissions, catering is the highest area of expenditure for racegoers. The £138m spend (2008: £129m) represents the gross VAT inclusive spend on the racecourse (and some non-raceday spend), however racecourses typically outsource their catering operations and are paid a commission by the caterers (hence the £77m shown separately as an outflow).
- Media – Income of £153m (2008 restated: £104m) comprises the total revenue of Turf TV, RMG, At The Races, GBI Racing plus the amounts paid to the racecourses in licence fees by Satellite Information Services ('SIS') and terrestrial broadcasters. The revenue derived from these rights has increased by nearly 50% since 2008, through growth in existing mature channels and the exploitation of newer media channels – notably online streaming – and a

### Basis of preparation:

1. For the purposes of the cash flows the following organisations are included in the British Racing industry – racecourses, trainers, breeders, owners, jockeys, Tattersalls, DBS, BHA, HBLB, Weatherbys, RMG, Turf TV, At The Races and several Racing trade bodies.

Several high level assumptions have been required, hence the cashflow should be regarded as illustrative only, but nonetheless it provides a valuable insight into Racing's cashflows.

2. Movements in working capital have been assumed to be cash neutral.

3. All flows exclude VAT except raceday admissions and catering, with the implicit assumption that all other participants can reclaim VAT.

Source: Deloitte analysis.

much wider sale of British Racing pictures internationally. As discussed in the **Racecourses** section, after deducting the media companies' operating costs, £88m of this was paid to the racecourses in 2012 (2008: £57m) – with further increases expected in 2013.

- Other commercial – Income of £89m (2008: £82m) is primarily generated by the racecourses, including sponsorship and non-raceday activities, but is augmented by revenue from other racing bodies.
- Excluding horse purchases, racehorse owners spent a gross £369m (2008: £347m) on their horses in training in 2012 (excluding Point-to-point horses). As explained in more detail in the **Owners** section, while the number of horses in training has declined since 2008, the higher costs per horse have resulted in owners injecting more funding into the sport to train and keep their horses than in previous years, despite the economic downturn.

- As explained in more detail in the **Breeders** section, the expenditure of the breeders has been used as a proxy for owners' expenditure on purchasing horses, hence in the cash flow model the inflow is shown with separate components of expenditure in the appropriate categories.

- Total 2012 estimated calendar year Levy receipts of £75m are substantially down on the average of over £100m from the mid/late 2000s for the reasons discussed in the **Betting** section.

## Outflows

- Prize money – c.80% of the £98m (2008: £106m) prize money was received by owners. The balance is distributed widely within the sport, and is a vital additional revenue source to Racing's participants but one that has declined markedly in recent years.
- Total wages, including employers' National Insurance and estimated





trainers' profits, of £324m were paid to approximately 16,800 employees (FTEs). Of this, an estimated £225m was taken home by the employees after £99m of PAYE and National Insurance was deducted.

- Horse costs consist of veterinary, feed, transport, farriery and others incurred by trainers and breeders.
- Other operating expenses of £416m (2008 restated: £350m) include racecourse raceday expenditure and operating expenses (£207m), trainers' costs (£103m) and various racing organisation overheads.
- Taxation paid of £151m (2008: £144m) comprises the VAT element of raceday admissions and catering, and employment taxes for the entities included – see page 18 for a fuller discussion of **Racing's tax contribution**.
- Racecourse spending makes up the largest element of the £45m (2008: £88m) capital expenditure, which

also includes estimated amounts to cover other Racing sectors' 2012 capital expenditure – see page 16 for further discussion of this point.

- The movement to the £13m net repayments to financiers from the 2008 net injection of £23m in part reflects the impact of tightening credit markets since the banking crisis. Racing industry entities, primarily racecourses, are now making net repayments to external finance providers.
- Net interest paid of £26m (2008: £20m) is relatively low given the size of the industry, although it has increased markedly in the last ten years as racecourses have increased their borrowings to fund capital expenditure.
- Dividends and share buy-backs of £12m were paid in 2012, primarily the £6.5m share buy-back by The Racecourse, Newbury in connection to the sale of land for development and a £4.5m dividend to Timeweave

The large majority of racing entities operate with very limited cash reserves and the availability of external finance is limited.

PLC (Turf TV's 50% joint venture partner) with the remainder made up by Tattersalls and Weatherbys. Net interest and dividends in total represented just over 3% of operating cash inflows of the industry.

#### Overall

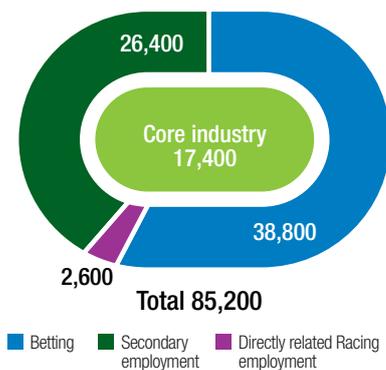
The total inflows of £1,152m, compared with outflows of £1,153m, resulted in a notional decrease in cash of £1m. The primary aim of many parts of the industry is not a financial return on investment (hence the low dividends seen) and cash inflows are generally reinvested in Racing for the benefit of the sport.

The large majority of racing entities operate with very limited cash reserves and the availability of external finance is limited. A continuation of the close balance between cash inflows and outflows is therefore expected. Indeed it is likely that if there were any cash surpluses the majority would be retained in the industry to strengthen respective entities' balance sheets.

# EMPLOYMENT

The extensive and complex nature of Racing means it supports significant levels of employment in a range of economic sectors, ranging from racehorse production in the breeding industry to the staging of c.1,450 fixtures and the facilitation of betting on racing.

Figure 5: Direct, indirect and associated employment of British Racing



Note: Secondary employment is calculated by dividing total secondary expenditure generated within the economy as a result of racing activity by the national average productivity (revenue) per employee. Source: Deloitte analysis.

Racing's core industry, comprising those directly involved in the day-to-day running of the sport, employed 17,400 FTEs in 2012 – made up of over 20,000 full time and part time positions, together with many thousands of raceday staff.

Levels have fallen across most sectors as might be expected due to the overall economic downturn. It is worth noting that total employment levels over this period in the UK dropped from 29.3m in 2008 to a low of 28.9m in 2009, before picking up to 29.7m in 2012.

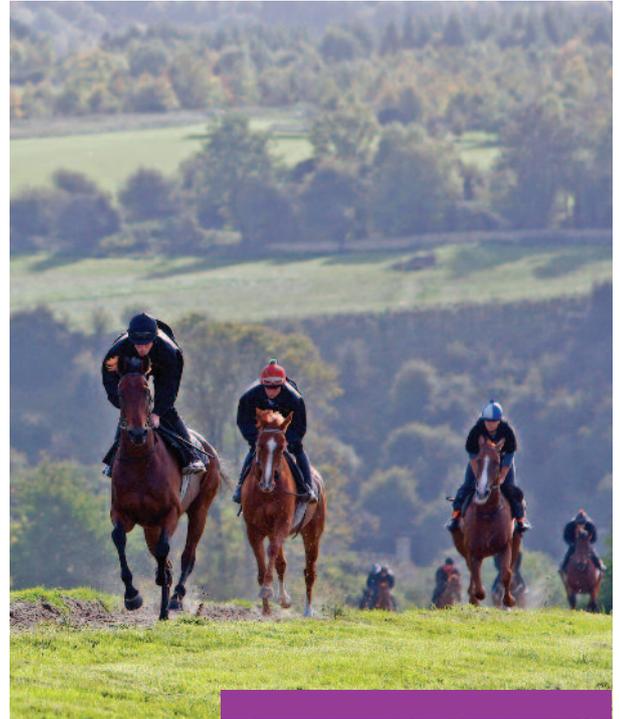
One particular aspect of employment in the Racing industry is the high proportion of staff employed in part-time roles – particularly in the training, breeding and betting sectors. This fits with the Government's aim of providing employment opportunities for certain

population groups traditionally less likely to engage with the labour market in a full-time role. In the UK, whilst full time employment declined by 0.6% from 2008 to 2012, part time employment rose by over 7% in this period.

Significant numbers of jobs also flow from British Racing's core activities into secondary employment. These include those serving Racing directly such as vets and those working in the broader equine industry (estimated at 2,600), to other roles that emerge from the 'ripple effect' of the Racing industry through the wider economy.

There has always been a symbiotic relationship between Racing and the Betting industry, and the workforce employed in Britain's c.8,700 Licensed Betting Offices and firms' head offices numbers over 35,800 FTE roles. Whilst these staff will take bets on a number of sports and provide numerous other gaming offerings, Racing still remains a core product to the High Street bookmaker. Retail employment in British Betting was estimated at 36,700 in 2008, so the 2012 equivalent represents a c.3% reduction of 900, in part due to betting operators driving greater staffing efficiencies but also the continual shift to online and mobile channels which has had a negative impact on the retail sector.

In addition to the retail figures are another 3,000 UK based employees responsible for remote gambling. These figures have dropped by 32% since 2008 based on Gambling Commission figures, mainly due to the relocation of many firms' remote gambling arms to offshore territories, in particular Gibraltar.



Significant numbers of jobs flow from Racing's core activities into secondary employment. These include those serving Racing directly such as vets and those working in the broader equine industry.

### Analysis of core racing industry

- The core racing industry is estimated to support c.17,400 FTE jobs in Britain. This figure is composed of over 13,000 full time posts and 4,000 FTE jobs when part-time and raceday staff (over 9,500) are included in the calculations.
- The majority of this figure (over 10,000) are employed in either the training or breeding sectors. Training businesses account for over 6,300 jobs (2008: 6,800), including 557 licensed trainers (2008: 592) and their staff in 2012, whilst the breeding industry numbers over 3,800 FTE roles (2008: 4,500). The breeding industry has a particularly high proportion of part-time roles due to the number of breeders who carry out the role in their spare time. In addition to the core breeding industry roles are the bloodstock auctioneers (notably Tattersalls and Doncaster Bloodstock Sales) and agents which add over 180 further jobs.

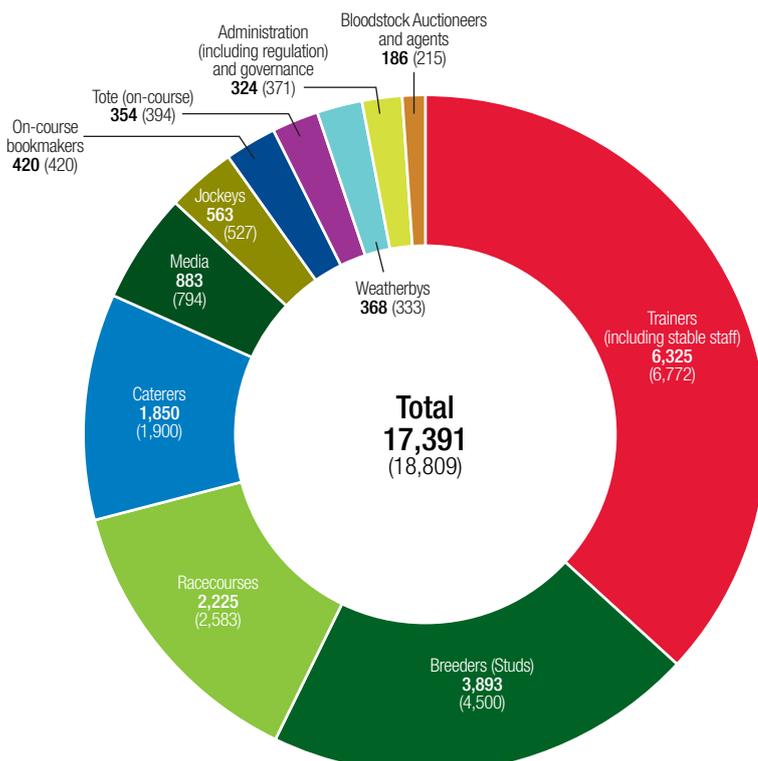
- Britain's racecourses were responsible for over 2,200 FTE roles (2008: 2,500+), comprising of over 1,400 permanent staff and 800 FTE raceday roles. Over half of these roles fall under the remit of the two largest racecourse groups, Jockey Club Racecourses (14 racecourses in 2012) and Arena Racing Company ('ARC') (17 racecourses in 2012). The remaining roles are distributed over the remaining 29 British racecourses. Both these groups have significantly restructured since 2008, Jockey Club Racecourses taking on a more regionalised approach and ARC representing a newly formed entity following the merger of Arena Leisure PLC and Northern Racing. Such restructuring has led to an overall decline in employment levels as efficiencies are implemented in both groups. Other racecourses have also reduced headcount.
- In addition to the centrally employed racecourse staff are those working in catering, representing a key role in the hospitality offerings provided by racecourses. Although the catering function is often subcontracted out to third parties it still represents a sizeable number of employees, c.1,850 FTEs in 2012 – consisting of many thousands of individuals.
- The administration (including regulation) and governance of Racing (excluding Weatherbys) is responsible for over 300 staff in Britain. In addition to the BHA as the governing and regulatory body of the sport, this includes the employees of the associations responsible for different sectors of the Racing industry. This figure has fallen by c.10% since 2008 as cost efficiencies have been found. While it is possible falls in employment levels may occur in the

Britain's racecourses were responsible for over 2,200 FTEs, composed of over 1,400 permanent staff and 800 FTE raceday roles.

short term, these will always be in the context of ensuring the highest standards of integrity in the sport are maintained.

- Weatherbys plays a vital role in British Racing as the central administrator of the sport, acting as its bank and maintaining the Thoroughbred breed register (stud book), together with other commercial activities. It is therefore one of the single biggest employers with over 350 staff.
- Whilst owners obviously play an integral part in British Racing they are not directly employed in the industry so are not included in the calculations. Those who could be considered to work for owners (notably trainers and jockeys) have been included in employment figures elsewhere.
- There were 463 licensed professional jockeys in 2012 (2008: 427), with a further 100 jobs being represented by the valets and agents that support them.

Figure 6: Employment within the core Racing industry in Britain – 2012



Note: The figures in the diagram above represent Full Time Equivalent (FTE) employment numbers. However three sectors (Trainers, Breeders and Caterers) have over 7,000 Part Time positions. Raceday FTE (including Racecourses on-course caterers) are estimated to be c.2,300. Figures in brackets indicate 2008 estimates.

Source: BHA, Deloitte analysis.

- The media represents another sizeable employment group, comprising those staff directly involved in the racing press, broadcasters and those enabling the provision of live pictures to bookmakers and broadcasters. Employment in this area has grown significantly since 2008.
- Whilst employees within the Betting industry have been categorised elsewhere, those specifically involved in on-course betting have been included in the core racing figures. Totalling over 750 FTE roles, these include on-course bookmakers and Tote staff that are present at the majority of meetings.

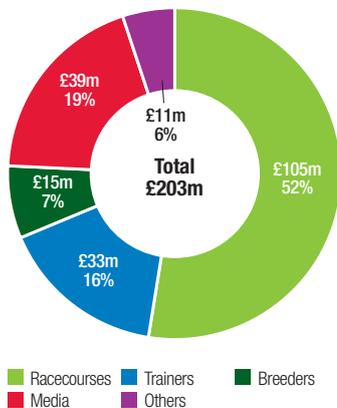
# CAPITAL INVESTMENT

The last decade has seen unprecedented investment of over £950m in facilities throughout British Racing. While the largest investment has been at racecourses, significant investments have also been made by breeders, trainers, the media and other racing bodies.

The economic downturn has understandably had an impact on levels of spending, with the amount of investment that has taken place since 2009 markedly lower than in the preceding five years.

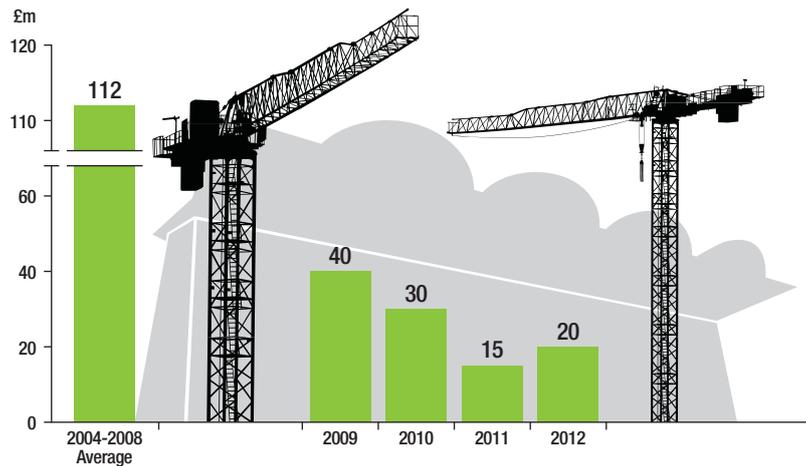
Racecourses invested just over £100m between 2009 and 2012, compared to £556m in the previous five years. There was always going to be a major decline in investment due to the unusually high number of planned major projects being completed in the prior period – including Ascot’s redevelopment, Doncaster (phase one), Aintree, Epsom, Cheltenham’s Centaur facility, and new racecourses at Ffos Las and Great Leighs, but the challenging economic climate certainly exacerbated this reduction.

**Figure 7: Racing industry capital expenditure: Four years 2009-2012**



Note: Capital expenditure by other bodies includes spending by Weatherbys and Tattersalls. Source: Deloitte analysis.

**Figure 8: Capital expenditure by British racecourses: 2004-2012**



Source: Company/group financial statements; Deloitte analysis.

The investments that did occur tended to be on the smaller scale, focused on enhancing the racegoer experience, improving equine facilities or, in some cases, expanding non raceday operations to complement the core racing activity.

Investments included:

- ARC’s £29m development at Lingfield Park incorporating a redesigned stable complex and new hotel and country club which opened in 2010. This was followed by the replacement of the All Weather racing surface at a cost of over £2m. All Weather Racing provides c.20% of the fixture list and plays a vital role, especially in the winter months when abandonments are most frequent;
- ARC also invested in a new £6.5m premier grandstand at Fontwell Park which came into operation in 2010, enhancing the racegoer experience and improving the venue’s hospitality offering;
- Jockey Club Racecourses continued their programme of investment in their facilities including the creation of new turf tracks at Haydock and Carlisle and a number of improvements to the watering facilities and

modifications to the Grand National fences at Aintree;

- Chester Race Company, the legal entity for Chester and Bangor racecourses, has spent over £4m in the four year period on developments to the paddock area, internal control systems, catering and hospitality infrastructure at Chester together with overall improvements to facilities at both racecourses;
- £2.9m of investment at Musselburgh, including a new stable yard and All Weather Track bend.

While the needs of Britain’s diverse racecourses will vary significantly there will always be the need for smaller scale improvements to complement larger projects in order to keep racecourse facilities competitive with rival sports and leisure activities.

As has been used extensively by other sports in Britain, a valuable and logical approach to help fund future racecourse redevelopments is the sale of excess land. This is often referred to as enabling development, provided safeguards are in place that such sales do not compromise the core sporting activity. The Racecourse, Newbury is the largest current such example, with the sale of



land for at least £42m to David Wilson Homes (DWH) to build 1,500 homes. As part of this development DWH is funding a number of projects including new stable staff accommodation, refurbished stables and car parks.

The next envisaged major racecourse development is at the home of Jump racing, Cheltenham, with the project aiming to improve facilities for owners and trainers, and an overall focus on upgrading the customer experience at the racecourse. The £45m redevelopment is, subject to planning, due to start in 2014 and be completed by 2016. It involves replacing a viewing area built in the 1920s with a state-of-the-art new grandstand including new annual members' facilities, general public viewing areas, private boxes and Royal Box facilities.

In order to help finance Cheltenham's redevelopment, The Jockey Club launched a retail bond scheme in April 2013, the first of its kind in British sport. This innovative financing tool offers a competitive interest rate for investors which will be paid part in cash, and part as reward points that can be redeemed at any of the group's racecourses. The scheme has proved very successful with the Jockey Club raising close to £25m from the bond.

The reintroduction of Levy Board loans to racecourses in 2013 will also help fund future investments. Indeed, the fact that a number of loans have already been taken out demonstrates that racecourses are keen to invest where commercially feasible. For example,

significant redevelopments are in the pipeline for York, which has announced plans for a new pre-parade ring, saddling boxes and weighing room.

#### Equine facilities

The training and breeding sectors, whilst incurring lower capital expenditure since 2008, have also continued to invest in their infrastructure where possible. Investment in new or improved training facilities has occurred at a number of yards, for example at Manor House Stables, which were developed by footballer Michael Owen and Betfair founder Andrew Black for Tom Dascombe to train from. Over £30m is estimated to have been spent on training facilities in the four years to 2012.

Jockey Club Estates, which owns and manages the Newmarket and Lambourn gallops, has continued to invest in its facilities. There are also discussions in progress over a new multi-million pound gallop being developed at Newmarket to meet the increasing demand of the town's racehorse population which has continued to grow despite an overall fall in the number of horses in training. This move may be due to trainers consolidating their approach to training facilities, finding it more cost-efficient to use the high quality communal gallops provided by Jockey Club Estates rather than invest in their own private facilities.

The level of capital expenditure in the breeding sector is difficult to estimate accurately given limited financial data but investment in improving facilities

The reintroduction of Levy Board loans to racecourses in 2013 will also help fund future investments.

continues, despite UK economic conditions, often funded by major overseas investors in the sport. A prime example of this is the Pearl Bloodstock facility at Tweenhills Farm & Stud, funded by the same Qatari investors which, through QIPCO, are such important contributors to British Racing via their sponsorship of British Champions Series. Based on the financial information available capital expenditure of £15m has been conservatively estimated in the breeding sector (excluding purchase of stud farms which is a transfer of value between the buyer and seller).

Tattersalls and Doncaster Bloodstock Sales have also continued to invest in their world-class facilities over the last four years. In 2013 Tattersalls will embark on a £1m investment programme at their Newmarket headquarters.

#### Other investment

There has been significant investment in the broadcast of Racing in the last four years. RMG, RaceTech, At The Races, Satellite Information Services and Channel 4 Racing have between them invested close to £40m since 2008 in technology to improve the quality of racing coverage, and build multi-channel and international capabilities.

Other organisations which have contributed towards the overall capital expenditure of British Racing include Weatherbys – who have invested over £4.5m, the majority on upgrading the technology which is central to the effective administration of the sport.

# RACING'S TAX CONTRIBUTION

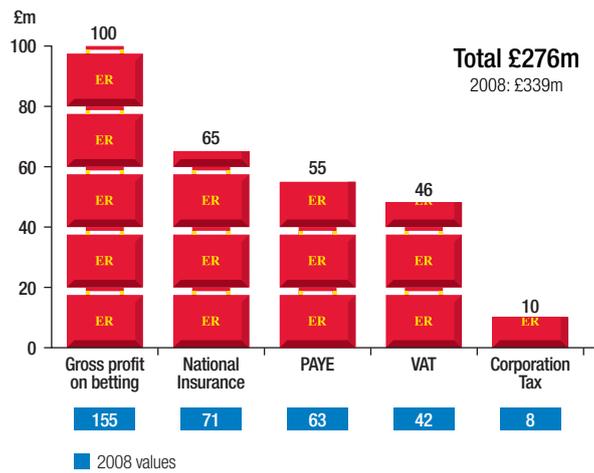
British Racing contributed £276m in tax in 2012, with just over a third from tax on British betting operators' gross win on the sport and the remainder generated from Racing's varied constituent parts. Over the five years to 2012, it is estimated that Racing has generated approximately £1.4 billion in tax receipts for the Government. Racing's tax payments have declined by 19% since 2008, due to a shrinkage in employment and expenditure in some sectors, but mainly due to gross profits betting tax receipts falling by a third – in part due to the move offshore of virtually all phone and internet sportsbook betting.

Betting duty represents the largest element of tax paid to Government from Racing activity, with an estimated £100m payable by bookmakers on their gross win on British Racing in 2012, but this is down £55m compared to 2008. One of the main drivers for this fall has been the now offshore location, notably to Gibraltar, of all but one of the top 20 remote betting operators accepting bets from British punters. Offshore operators do not pay the 15% tax on gross win nor the 10.75% Levy paid to Racing.

The Government is intending to introduce a 'Point of Consumption' tax from December 2014, meaning betting operators based offshore will be liable to pay gross profits tax based on where bets are struck (i.e. the UK) rather than where the betting operator is located.

The Betting industry's total gross win will generate corporation tax on bookmakers' profits, irrecoverable VAT and employment taxes on the industry's estimated 38,500 employees. The Association of British Bookmakers estimates that, including gross profit tax on betting, the sector currently contributes over £1 billion a year to the Exchequer.

Figure 9: Total tax contribution by type – 2012



Source: Deloitte analysis.

Racing's 17,400 core employees generated total employee taxes of £120m in 2012 (PAYE and employee/employers' NIC).

Racing's VAT contribution has been estimated primarily on racecourses' admissions and catering revenue, as it is these sources of income from which the ultimate payer, the racegoer, is unable to recover VAT.

The corporation tax payable by British Racing is relatively low as profits are limited in most sectors, in part as many entities are not profit maximising in their work.

The tax estimates do not include a number of other taxes (including duty on fuel and alcohol) which, while in isolation will be relatively small, in aggregate will be more significant.

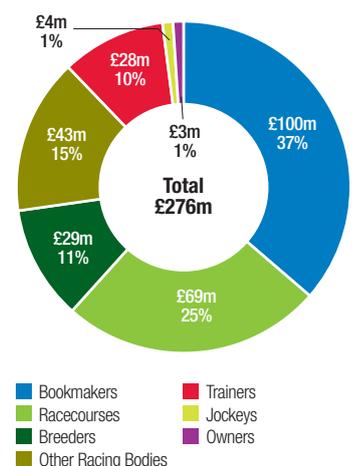
Racecourses' estimated £69m tax contribution comprised over £40m in VAT (charged on admissions and catering) and £23m employment taxes from the estimated 1,400 full time employees and additional raceday staff. The employees of the racecourses' catering operations, which are often outsourced, are also included in this sum.

Over the five years to 2012, it is estimated that Racing has generated approximately £1.4 billion in tax receipts for the Government.

For breeders and trainers the figures represent the PAYE and NICs on staff wages. The rates are modest owing to the relatively low wages in the industry, and a large number of part-time employees.

In 2012, an estimated 88% of registered owners were members of the VAT Scheme for Racehorse Ownership, which by generating business income, often sponsorship, from their racing activity enables them to recover VAT incurred on the costs of purchasing and keeping horses in training. This can total up to £4,000 p.a. and thereby makes ownership more affordable hence, the scheme plays a significant role in supporting ownership levels within British Racing. It is likely the scheme has contributed to the number of horses in training experiencing a more modest decline than might have been expected, given the severity of the economic contraction.

Figure 10: Total tax contribution by contributor – 2012



Note: Racecourses includes employment taxes in relation to racecourse and catering employees and VAT on admission and catering revenues.

Source: Deloitte analysis.



# RACECOURSES

In 2012 Britain had 60 licensed racecourses which staged racing, but two racecourses – Folkestone and Hereford – closed at the end of 2012 and will not stage thoroughbred racing in 2013. This section discusses the estimated revenues generated by racecourses in 2012, together with their costs, cashflows and profits. The analysis focuses on cash flows rather than on accounting profit, as this is more representative of the financial position of the racecourses.

Compared to 2008, Britain's 60 racecourses have seen limited growth in overall revenues. Racecourses' profits are modest due to this subdued revenue growth and increases in costs.

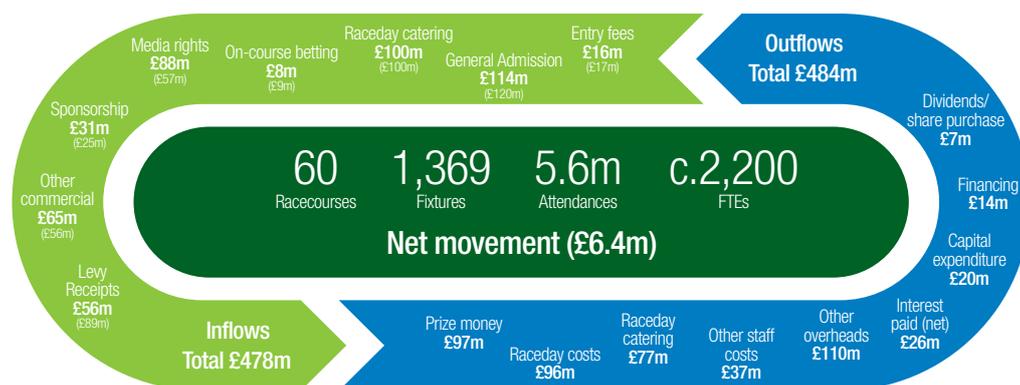
## Business Models

Britain's racecourses operate a variety of racing activities and business models, ranging across various parameters from:

- Those hosting Jump or Flat racing exclusively as well as mixed-use racecourses;
- All-Weather Tracks (enabling a higher volume of fixtures than traditional turf); and
- Those racecourses (such as Aintree and Epsom) with a dominant meeting each year to those with a more even spread of fixtures.

Britain's two major racecourse groups, Jockey Club Racecourses and ARC, between them own and/or operate 29 racecourses with fixtures in 2013 (31 in 2012), with the other 29 being independently owned and operated – largely by private companies but some through race clubs or local trusts. Commercial profit maximisation, in the true sense of the term, is often not the main objective of racecourse owners. Indeed, many racecourses do not allow for the payment of dividends to owners, with all profits being reinvested into the sport.

Figure 11: Racecourse cashflows – 2012



Note: 2008 equivalent in brackets where possible. Source: BHA; RCA; Deloitte analysis.

Compared to 2008, Britain's 60 racecourses have seen limited growth in revenues, driven largely by increases in media rights, with other sources of revenue either remaining flat or reducing slightly.

Racecourse revenues are generated through a combination of centrally-generated Levy Board distributions, which are largely outside the direct control of the racecourses, and individual racecourses' revenue streams. The quantum of Levy distributions is dependent on the level of British betting operators' gross win and the Levy Board's distribution policies. The 2012 Levy distributions to racecourses of £56m consisted of £34m in prize money grants, a £17m contribution to racecourse integrity services, £3m in fixture incentive payments (to encourage racecourses to race in non racegoer friendly times of the year and week to assist off course betting turnover) and £2m in other payments.

Individual racecourses' remaining revenues have been split into the seven categories illustrated in Figure 11, and are discussed separately below. We have grossed up catering revenue where racecourses outsource catering operations, in order to reflect the "real" spend by racegoers on food and drink.

## Overall revenues

Total racecourse revenue in 2012 was £478m, compared with £473m in 2008. This small increase in revenues masks the two main contrasting opposite movements:

1. A marked fall in Levy distributions – down to £56m in 2012, a £33m (37%) fall from 2008 levels;
2. Growth in racecourses other revenues (including grossed up catering) to £422m, a £38m (8%) increase from 2008 – with media rights growth the dominant factor.

Jockey Club Racecourses and ARC together accounted for c.60% of revenues with the other 29 racecourses generating the remaining c.40%, representing an average of c.£6m each, but with significant variation ranging from Ascot's £40m+ revenue to the majority of racecourses with revenues typically in the £3-4m range.

Racecourses earned c.£150m from direct (on-course betting, proportion of sponsorship and the majority of media income) and indirect (Levy Board distributions) betting sources, broadly similar to 2008 but composed differently with higher media income set against lower Levy Board distributions. The betting orientated income is therefore around a third of total revenue but has a much higher margin attached than other revenue sources.

## Admission revenues

Racecourses generated total admission revenue of £114m in 2012, a small decrease of £6m (5%) since 2008.

As discussed in more detail in the **Attendances** section of this report, total attendances of 5.6 million in 2012 were down from 5.7m in 2008, with over 50 fewer fixtures (many of which would be traditionally well-attended) in 2012 than 2008 due to bad weather and subsequent abandonments. 2011 saw record racecourse attendances of 6.15m.

The UK economic climate has resulted in squeezed disposable income for the general admission racegoer, and against this backdrop, racecourses have generally implemented limited price increases over the last four years to support attendance levels.

The on-going difficult economic climate has also affected corporate hospitality revenues across all sports, with businesses less able or willing to spend on client or staff entertaining than they were in 2008. Due to the higher price of hospitality packages, a reduction in corporate hospitality numbers will cause a disproportionately large fall in overall admission revenue.

The average revenue per admission was £20 in 2012, which after adding VAT means the average racegoer spent c.£24 on their ticket. However, this average reflects the diverse nature of racing across racecourses and fixtures. High profile fixtures continue to charge premium ticket prices, and have remained among Britain's best attended sporting events in 2012.

Beyond this relatively small number of fixtures, prices are typically much lower and the large majority of racecourse attendees will have paid substantially less than £24 – aided by initiatives such as free entry at some fixtures, low-cost family passes, and the fact that children under 16 gain free admission for the overwhelming majority of fixtures.



## Catering

British racecourses operate different catering models, with many outsourcing operations in return for commission payments. Several racecourses operate their own "in-house" catering function, whilst Jockey Club Racecourses operate a joint venture – Jockey Club Catering – with Compass Group.

Total gross catering revenue in 2012 was £100m the same as in 2008 (representing a real fall given cost inflation). This represents an average of £18 revenue on food and drink per attendee (£22 including VAT) but again this spend varies considerably between premium fixtures and the bulk of the fixture list.

The reduction in overall attendances has affected overall catering spend, as has the fall in high spending corporate hospitality numbers. The abandonment of, or lower than expected attendance at, traditionally high-grossing summer fixtures due to the unusually wet weather, also had a significant impact on catering revenue.

The introduction of Turf TV to the LBO market has increased competition and driven revenue growth.

## Media

Racecourses' media rights revenues grew to £88m in 2012, up £31m (54%) compared to 2008, with substantial growth across all platforms contributing to the success. This is discussed in more detail in the **Broadcasting** section of this report, but the key factors have been as follows:

- The introduction of Turf TV to the LBO market has increased competition and driven revenue growth. Licence fees paid to racecourses in 2012 totalled £67m, an increase of over 50% from 2008; and
- Increased licensing fee payments from Racecourse Media Group and At The Races, estimated to have been around £20m in 2012.

Further increases in licence fees derived from picture sales to LBOs, along with the new and exclusive deal signed with Channel 4 for terrestrial broadcasting of 88 days of live racing, will see further growth in media revenues in 2013.

## RACECOURSES



### Sponsorship

Sponsorship is discussed in detail in the **Sponsorship** section, but key characteristics and movements are:

- Racecourses generated an estimated £31m in 2012 from sponsorship, an increase of £6m from 2008. The large majority of the sponsorship is for specific races and/or series of races, and the majority of such sponsorship money is paid out by racecourses in prize money.
- Racecourses are also increasingly pursuing other sponsorship opportunities such as stand naming rights and official supplier arrangements, including with betting companies.

### On-course betting

Total on-course betting revenue of £8m represents a £1m fall against 2008. On-course betting revenue is comprised of the commission payable to racecourses from on-course Tote operations and bookmaker shops plus bookmaker badges. The actual amounts staked, and left behind (i.e. lost) by racegoers, does not flow to racecourses, and is therefore not included in our racecourse revenue analysis.

The significant increase in remote (i.e. mobile and on-line) betting is thought to have contributed to the

reduction in on-course betting revenues, whilst the negative impact of the general economic climate on individuals' discretionary betting spend is also likely to have played a part.

In 2012, Chester and Bangor-on-Dee set up their own on-course betting operations to replace the Tote, and Ripon has followed suit in 2013. The racecourses have stated these new operations have brought a greater degree of control over on-course betting activities and resulted in higher returns to the respective racecourses, which in turn will help support prize money levels.

### Other commercial

Other commercial revenues comprise a wide range of revenue streams. These can include:

- Raceday activities such as retail income from on-course merchandise outlets at larger fixtures;
- Non-raceday activities such as conferences, concerts and numerous other events;
- Hotels at some racecourses.

These streams deliver an average of just over £1m in annual revenue per racecourse (but with wide variations), and make a significant contribution

The ability to grow non-raceday revenue has been an important part of many of the racecourse developments that have occurred in the last ten years.

towards many racecourses' financial wellbeing.

Total other commercial income of £65m has increased by £9m (up 16%) since 2008 despite tough trading conditions in many markets, notably in the conference and banqueting and exhibitions markets.

The ability to grow non-raceday revenue has been an important part of many of the racecourse developments that have occurred in the last ten years. While racing remains the central activity of a racecourse, if an improved racegoer facility can also be designed such that it generates revenue for the other c.340 days of the year on which racing is not taking place, then it can help with the funding of the overall development.

### Operating costs

The costs associated with staging professional sport have experienced marked increases in the UK in the last decade, which is reflected in racecourses' results. The main costs, and where applicable their movements, being:

- Prize money – racecourses' largest single cost which totalled £97m in 2012 (compared with £106m in 2008). The reduction in prize money is explained in more detail in the



Despite record cash inflows in 2012, after taking into account capital expenditure and financing flows, in aggregate the racecourses experienced a net reduction in cash levels of £6m in 2012.

**Owners** section but the net cost to racecourses after reduced industry funding has markedly increased in the last four years, being £46m in 2012 (£30m in 2008).

- Direct raceday costs - these totalled an estimated £173m in 2012 (an average of £125,000 per fixture, although this will vary greatly). Raceday costs included an estimated £77m catering costs (whether the cost of sales of in-house catering or the amount of gross spend retained by outsourced caterers), integrity and medical/welfare payments of £25m, raceday staff and security costs of £16m and a wide variety of other costs of £55m – including hospitality costs, power, cleaning etc.
- Wages and staff costs – excluding raceday staff, an estimated £37m was paid to the c.1,400 full-time racecourse employees in 2012. This cost has been tightly controlled as many racecourses have reduced their headcount in the face of increasing external pressures on their finances. This is discussed in greater detail in the **Employment** section.
- Other overheads/operating costs – this estimated £110m cost includes on-going maintenance and utility costs, marketing and promotion etc. Many of these costs, notably utilities, have experienced marked cost inflation.

#### Other costs and cash outflows

In addition to operating costs, racecourses have a variety of other costs and/or cash flows, notably:

- Interest paid (net) – racecourses paid an estimated £26m in net interest in 2012, the large majority being payable on the external funding element of the c.£700m of capital expenditure undertaken by the racecourses since 2003.
- Net financing outflows of £14m have been estimated. These are a combination of repayments of external loans and in some cases an adjustment to reflect lower receipts from certain revenue streams given previous up-front advances.
- Capital expenditure – the racecourses incurred an estimated £20m of capital expenditure in 2012. Note that depreciation and amortisation of £28m have not been shown as these do not represent cash flows, although they do illustrate the level of capital investment made by the racecourses in the last ten years.
- Dividends – there was an insignificant amount of dividends paid by racecourses in 2012, as there has been for the last ten years, although the Racecourse, Newbury's exceptional profit from the sale of land to David Wilson Homes for house building did result in a £6.5m buy-back of shares.
- The low level of profitability means that less than £4m of corporation tax was paid by the racecourses in 2012 but as the **Racing's tax contribution** section discusses, racecourses generated other taxes of over £66m.

#### Profits and cash levels

The analysis estimates that despite record cash inflows in 2012 after taking into account capital expenditure and financing flows, in aggregate the racecourses experienced a net reduction

in cash levels of £6m in 2012.

The aggregate accounting post tax profit (including depreciation) of the 60 racecourses in 2012 is estimated to have been £5m, excluding The Racecourse, Newbury's exceptional £10m profit from disposal of land.

Such profit levels equate to a very small return to racecourse owners when compared to a net asset base that is, on a historic accounting basis, likely to be in excess of £300m, and significantly more if land is revalued to current market prices. This further illustrates that "pure" profit maximising is often not a core racecourse objective. Profits are necessary, however, in order to provide funds for continued investment in facilities.

#### Looking forward

Racecourses will benefit from further increases in media rights in 2013, with total receipts likely to exceed £100m. A significant proportion of these increases have already been committed by the racecourses to help fund higher prize money, with the final amount to be influenced by discussions between horsemen and racecourses.

It is evident that the low growth rates and declines experienced by the British economy are unlikely to improve significantly for the remainder of 2013, and potentially not until much later. Racecourses will therefore continue to operate in highly competitive and challenging markets with only modest revenue growth expected outside of media rights. A continuing focus on reducing costs, or at worst limiting increases, will also play a key role in strengthening racecourses' financial standing. The racecourses have already shown themselves to be resilient in the face of the prolonged economic headwinds which will stand them in good stead to cope with further buffeting.

# ATTENDANCES

Racing is the second best attended sport in Britain after football, and in 2012 accounted for four of the top ten highest attended sporting events (outside of the London 2012 Olympic and Paralympic Games).

The 60 racecourses staged 1,369 fixtures across 360 days in 2012, attracting total attendances of 5.6m, equating to an average attendance of 4,077 (but with a huge variation across fixtures). In addition over 600,000 people are estimated to have attended Point-to-point fixtures

Figure 12 shows the total Jump and Flat fixtures since 2003, together with average attendances.

Total attendance experienced a gradual decline to 5.7m between 2003 and 2009, but then recovered and increased to a modern era record of 6.15m in 2011. Part of the reason for the recovery was the activities of Racing For Change (now Great British Racing), which worked closely with the racecourses on a large range of initiatives to promote and encourage racegoing, including to new racegoers.

Free Racing Week was staged in 2010 and, across nine fixtures, attracted over 40,000 racegoers, over 60% who were either novice, infrequent or lapsed. This was built on with Free Racing Month in April 2011, with the 26 participating racecourses boosting their monthly attendance by 63,000 across the 29 fixtures in comparison to 2010.

Going into 2012, Britain's racecourses faced the not inconsiderable challenge of competing with the European Football Championships and the London 2012 Olympic and Paralympic Games, and although total attendance dropped to 5.6m this can be considered a creditable performance in such unique circumstances.

Figure 12: Total and average attendances in Britain: 2003-2012



Note: Total attendances for Flat racing in each year include a very small proportion of attendances for mixed meetings of both Flat and Jump.

Source: BHA; Deloitte analysis.

Racecourses were additionally hampered by the 2012 summer being the second wettest on record which led to a high level of abandonments, including a significant number of traditionally well attended fixtures.

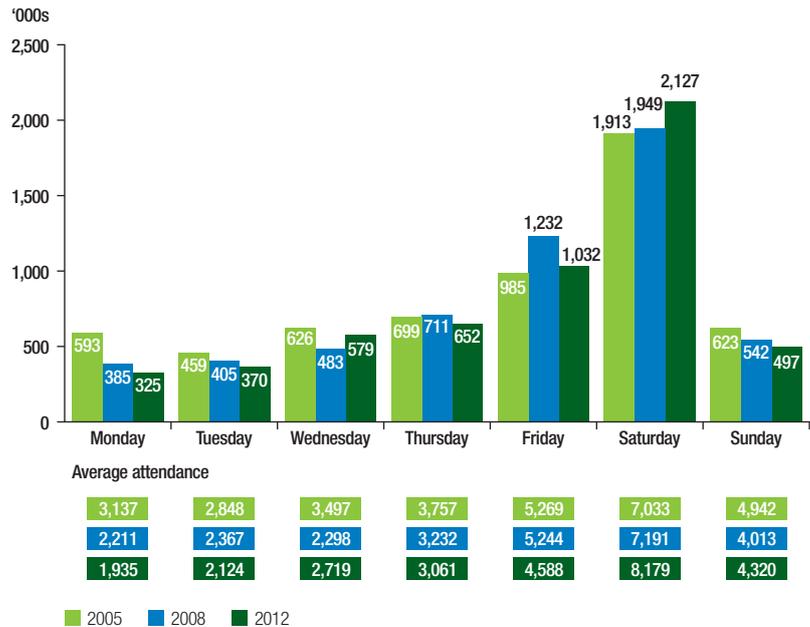
Furthermore, attendances at many fixtures that did proceed were hit by the inclement weather which reduced the number of people deciding to attend on the day (being those without advance tickets).

Over the four year period from 2009 to 2012 average attendances rose for three consecutive years to nearly 4,200 in 2011 before dropping to 4,077 in 2012.

The broadly two thirds/one third split between the number of people attending Flat and Jump racing has remained steady over the last ten years with Flat attendances averaging 3.75m over the period compared to just over 2m for Jump fixtures. The difference is primarily due to the respective levels of fixtures as average attendances in 2012 were only moderately higher for Flat (4,203) than Jump (3,867). However, when the 313 All-Weather Track fixtures are excluded, given these are primarily for the benefit of the Betting industry and in unattractive slots for most racegoers, the average attendance of Flat fixtures rises to 6,088 in 2012.

Going into 2012, Britain's racecourses faced the not inconsiderable challenge of competing with the European Football Championships and the London 2012 Olympic and Paralympic Games.

Figure 13: Day by day comparison of racing attendances: 2005, 2008 and 2012



Source: BHA; RCA; Deloitte analysis.

### Day by day attendance comparison

Saturday remains by some way the best attended day's racing of the week in terms of both total and average attendance. As shown in Figure 13, total attendances increase steadily from Monday through to Saturday before returning to midweek levels on Sundays. Although total annual attendances were over 124,000 lower than 2008, in 2012 total Saturday attendances increased by over 177,000. This reinforces the importance of Saturdays as the most popular day of the week for people to go racing and emphasises the need for racecourses to continue to stage good quality fixtures on these days.

Friday is by a healthy margin the second best attended day of the week with around 1m people attending year on year, averaging over 4,500 in 2012. Several racecourses have multi-day meetings starting on a Friday which then leads into the feature Saturday, for example the Investec Oaks on the Friday before the Investec Derby at

Epsom. The Betfred Cheltenham Gold Cup has also been run on a Friday since 2005 and is always one of the best attended days of the year.

When taken together Fridays, Saturdays and Sundays comprise nearly two thirds of the total attendance at British race meetings so it remains imperative that racecourses continue to focus on attracting high weekend crowds.

The strength of the weekend should not preclude midweek fixtures being targeted to social groups with more leisure time such as the growing 'grey' market – and already over 10m people in the UK are over 65 years old. Indeed, some social groups actively avoid the busiest Saturday fixtures which can attract a more boisterous crowd.

The strength of the weekend should not preclude midweek fixtures being targeted to social groups with more leisure time such as the growing 'grey' market.

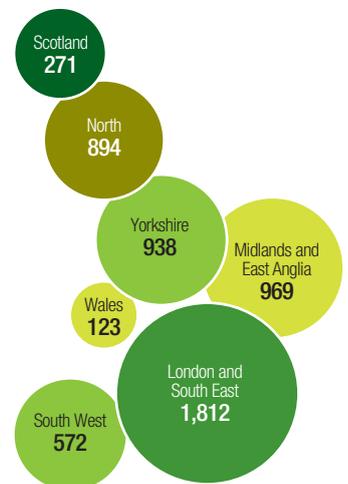
### Attendances by racecourse and region

The highest total racecourse attendance in 2012 was at Ascot with 570,331 attendees, nearly half of this number (280,268) derived from the five days of the Royal meeting. Cheltenham attracted the next highest number of racegoers and was the best attended Jump racecourse with 445,772 whilst York (342,120) pipped Newmarket (339,972) to being the best attended Flat only racecourse.

Cheltenham had the highest average daily attendance of 27,861 in 2012, emerging ahead of Ascot, Aintree, York and Chester who make up the rest of the top five. The geographic spread of these five racecourses illustrates how Racing is a great draw across the length and breadth of the country.

- Figure 14 shows the regional spread of attendances for 2012.
- The five Scottish racecourses, assisted by the promotion of Scottish Racing, also attracted a total of over 270,000 racegoers.

Figure 14: Attendances by region: 2012 (to nearest '000)



Source: RCA; Deloitte analysis.



- The opening of Ffos Las in 2009 has helped bring Racing to another region of the country, and Welsh racecourse attendances totalled over 123,000 in 2012.
- Attendances in Yorkshire exceeded 938,000, with the Yorkshire Summer Festival in late July promoted by Go Racing in Yorkshire attracting 83,000 of these over a nine-day period. Indeed, on a visits per capita basis, Yorkshire is the best attended region with 0.2 racecourse visits per member of the population.
- The six racecourses within a radius of 30 miles of central London mean there is typically at least one convenient high quality fixture for London-based racegoers each weekend.

### Racing festivals

British Racing benefits from iconic fixtures which are firmly established in the nation's sporting and social calendar. Figure 15 shows the top ten attendances in 2012. In total, these fixtures attracted over 1.25m people, 22% of the total attendances.

The 2012 Cheltenham Festival drew in record attendances for the four day

Racing benefits from a loyal but relatively small core of high frequency racegoers who make up a sizeable proportion of total attendances.

**Figure 15: Top ten meeting attendances – 2012**

Rank	Event (days)	Total
1	Royal Ascot (5)	280,268
2	Cheltenham Festival (4)	237,369
3	Epsom Derby (2) <sup>A</sup>	157,347
4	Aintree Grand National (3)	150,268
5	Glorious Goodwood (5)	102,475
6	York – Ebor (4)	91,339
7	Cheltenham Open (3)	70,771
8	Doncaster St Leger (4)	57,269
9	Ascot – King George (3)	54,180
10	York – Music Showcase (2)	53,370

Note A: Includes an estimated 100,000 attendees on the Hill who pay limited admission fees.

Source: RCA, Deloitte analysis.

meeting of over 237,000, a 26,000 increase since 2009, and the Investec Derby attracted over 130,000 people to Epsom Downs. Despite Glorious Goodwood coinciding with the first week of the Olympic Games it recorded an increase on 2011's attendances, illustrating that, with sufficiently compelling content, Racing need not fear competition from other sports.

QIPCO British Champions Day, in its second year in 2012, sold out its 32,000 capacity – an increase of over 5,000 attendees on 2011 – and is now

firmly established as a fitting finale to the Flat season. Fixtures with QIPCO British Champions Series races attracted over 680,000 racegoers in 2012.

While the list of the top ten attended meetings is drawn from highlights at the larger capacity racecourses, there are many festivals and centrepiece fixtures at smaller racecourses that are major annual attractions in their respective local communities. For example, Cartmel typically attracts over 40,000 racegoers in total to its three family friendly fixtures around the May and August Bank Holidays.

### Attracting new racegoers

Racing benefits from a loyal but relatively small core of high frequency racegoers who make up a sizeable proportion of total attendances. For these racegoers, the racing is a central part of the experience, hence racecourses' focus should be on ensuring 'purists' can fully enjoy the excitement and drama of the racing through high quality customer service.

However, the sport appeals to, and needs, other less frequent racegoers for whom racing is only a part of the raceday experience – with other factors as, or indeed more, important.



Racecourses have for a number of years therefore promoted initiatives such as Music Nights and Ladies' Days to attract such racegoers. The importance of such additional entertainment or themes has arguably been amplified since 2008, as with the squeeze on disposable income the public have searched for activities which they perceive as being the best value for money and/or the unmissable event in the local social calendar. Over 350,000 people attended the 35+ fixtures at which there was a significant music aspect in 2012, well up from the 250,000 in 2008.

Other innovative racecourse initiatives include Carlisle's twist on the traditional Ladies' Day with all races restricted to Lady riders; the Chester Rocks Festival, which extended the traditional music night into a two day event; Goodwood's series of DJ nights and Beverley's Fashion Week which launched at an evening fixture. The development of the Racecourse Association's Showcase Awards in 2011, which has an Events category for such schemes, is helping recognise, and facilitate the sharing of, best practice in these initiatives.



## FRANKEL

**"He constitutes a new benchmark for equine excellence on the racecourse"**

IFHA World Rankings Supervisory Committee

The QIPCO Champion Stakes at Ascot in October 2012 saw the final racecourse appearance of the equine superstar Frankel, now officially declared the highest rated racehorse since international rankings commenced. Frankel's performances on the racecourse led to a recalibration of the World Thoroughbred Rankings, which he tops on 140, two pounds ahead of Dancing Brave. He also became the first racehorse to be officially a champion at two, three and four years of age respectively.

The publicity generated by Frankel on and off the racecourse was enormous as he crossed from the racing press to sports pages and ultimately to the front pages. This provided British Racing with an unprecedented amount of exposure over the course of his racing career – the media value from his final appearance alone on QIPCO British Champions Day being estimated at over £2m (according to a QIPCO British Champions Series media evaluation).

Racecourses also benefitted directly from the "Frankel effect" through the boost to attendances and hence racecourse revenues wherever he ran, by illustration:

- Close to an additional 11,000 attendees (55% up from 2011) were present for Frankel's run at York's Ebor meeting in August 2012;

- In a survey of racegoers at QIPCO British Champions Day at Ascot 82% of attendees gave 'Frankel' as a reason for their attendance, comprising over 26,000 people on that one raceday alone.

It is probable that Frankel generated over £1m in additional racegoers' spend in 2012.

After 14 straight wins, including 10 at Group 1 level, Frankel was retired and now resides at the Banstead Manor Stud of his owner/breeder Prince Khalid Abdullah of Juddmonte Farms. Having Frankel standing at stud in Britain, at a reported fee of £125,000, will undoubtedly strengthen the reputation of the British breeding industry as the owners of many of the globe's top broodmares compete for a match with the great horse.

Frankel should therefore continue to exert a positive economic impact on British Racing for many years to come.

### FACTFILE: FRANKEL (GB)

<b>14/14</b> Races won/run (10 Group 1s)	<b>£2m+</b> Media value of last run
--	---

**£2,998,302**  
Total prize money won

<b>145,000</b> Total attendance at the five meetings where he ran in 2012	<b>£125,000</b> Fee at stud (reported)
--	---

# OWNERS

Racehorse owners are the single largest contributors to the funding of British Racing through both their purchase of horses from breeders and on-going training and racing expenditure paid to trainers, jockeys and supporting industries such as vets, farriers and horse transport companies.

British Racing benefits from a huge variety of owners – ranging from major international investors largely focusing on Flat racing, to a large number of racing syndicates and clubs which allow thousands of people to get involved in horse ownership at a lower cost.

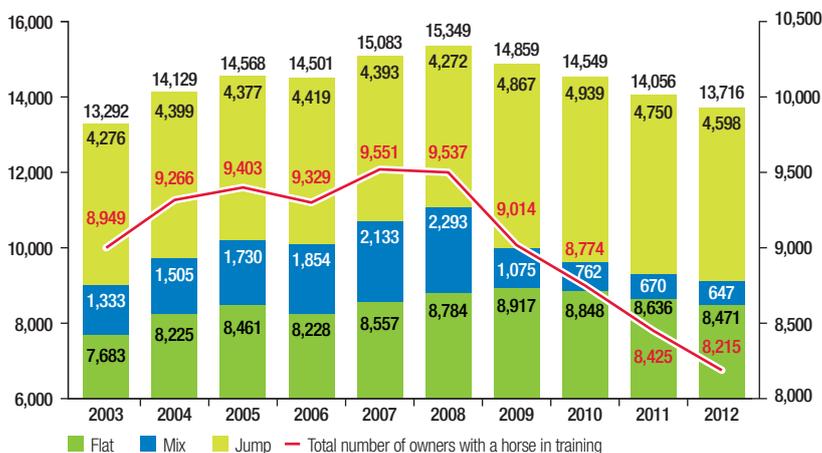
This section first considers the contribution of owners by examining the numbers of owners and horses in training. Both these headings are considered key barometers of the health of the Racing industry, and central to understanding how Racing has fared during the economic downturn. Later, it considers the level of prize money paid by British Racing as, while financial return is generally not the main driver of horse ownership, the possibility of a reasonable return on an owner's outlay for a successful horse, together with a need to avoid them feeling unfairly treated, is nonetheless important.

The expenditure of racehorse owners on training and keeping their horses, both gross expenditure and net of income (mainly prize money) that offsets some of the costs, has increased in recent years. Such gross expenditure is estimated to have been £369m in 2012 (excluding expenditure on keeping Point-to-point horses), £22m higher than in 2008 – despite fewer horses being in training owing, at least in part, to an increase in the average cost of training and keep.

After prize money and owner sponsorship, the net expenditure is estimated to have been £284m, up £29m from 2008, with the net increase being greater than the gross amount due to a decline in the amount of prize money (British only) paid to owners in 2012 compared to 2008.

Figure 16 shows how the average number of horses in training has declined from a peak of 15,349 in 2008 to 13,716 in 2012 (down 11%). This is still a greater number in training than in 2003, and, considering the economic challenges since 2008 in the UK and elsewhere, is perhaps surprisingly resilient for what is a discretionary spend.

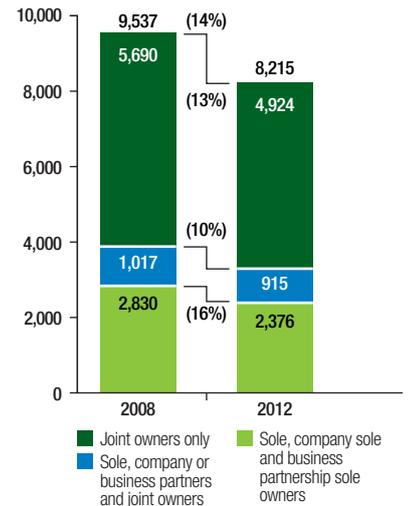
Figure 16: Horses in training and number of owners: 2003-2012



Note: Horses in training and owners represent the monthly average during the year. Source: BHA; Deloitte analysis.

Owners have injected over £470m into British Racing in 2012.

Figure 17: Number of owners by type – 2008 v 2012

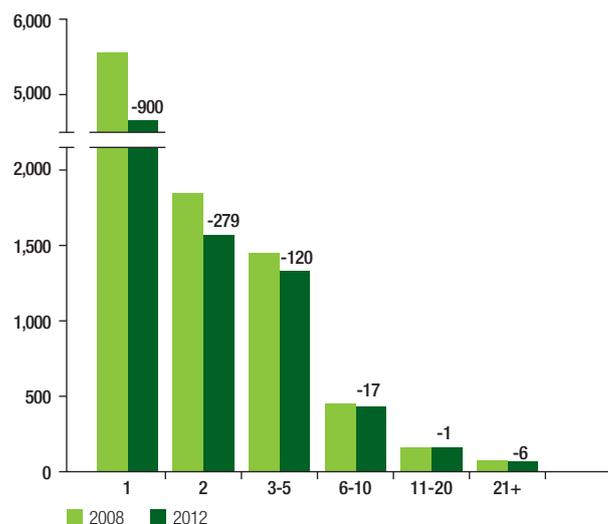


Note: Percentage change shown in brackets. Source: BHA; Deloitte analysis.

The 13,716 horses in training represent the average number across the year, based on the returns submitted by trainers to the BHA. The total number of horses that were in training at some point in the year will therefore be significantly higher than this due to the natural flow of horses in and out of the sport for reasons such as retirement, injury and young horses at the start of their careers in training not yet ready to run. In 2012, c.24,000 horses (excluding the 3,000 registered as privately trained hunters and Point-to-point runners) were in training at some point, down slightly from c.25,000 in 2008. Of this number, there were 17,500 individual runners in 2012 (18,500 in 2008).

Possible explanations for the disparity between the 11% drop in the average number of horses in training and the lesser 4% decrease in horses in training at some point during the year are that some owners are not persevering with lower quality horses in training for as long as in previous years and/or even those horses retained are spending less time in trainers' yards.

**Figure 18: Owners by number of horses in training – 2008 v 2012**



Source: BHA; Deloitte analysis.

Figure 16 shows that the number of owners has declined to 8,215 in 2012, 14% down from the peak in 2008. There are a variety of different models of horse ownership in Britain, as shown in Figure 17, with only 2,376 (29%) of owners exclusively owning horses individually in 2012. The number of annually newly registered owners has declined from 1,950 in 2008 to 1,462 in 2012 – and accordingly the industry is placing increasing focus on attracting new owners.

In addition to the 2,376 Sole Owners, 915 were involved both as Sole and Joint owners. Joint Ownership remains the most common type in Britain, with over 4,900 owners (60% of all owners) being involved in a joint ownership only, which reduces costs by sharing expenditure across a number of individuals.

Whilst total numbers of owners have fallen by 14% since 2008 the most rapid drop has been among Sole Owners, which have decreased by 16% over the period.

It is estimated that around 35,000 individuals are involved in horse ownership in some way when



syndicates and racing clubs are accounted for – Elite Racing Club has over 11,000 members for example. As Figure 18 shows it is owners with an interest in one or two horses that have decreased most between 2008 and 2012. There are 16% fewer owners with an interest in one horse and the number of owners of two horses dropped by 15%, whereas those with three or more was down only 7%. Indeed, there are only seven fewer owners of eleven or more horses in 2012 than 2008 – suggesting that the upper end of the ownership scale has been more resilient to the economic challenges of the period.

### Overseas investment

Britain's high quality global reputation means it benefits from a number of significant owners from around the world. This continuing ability to attract overseas investment has been particularly important to the industry in recent years as the economic downturn throughout the UK and Europe took hold. In the 2012 Flat season, of the 22 owners which had 50 or more runners in Britain nine were from overseas or were overseas nationals. This included four of the owners with the most runners – Godolphin, Sheikh Hamdan Bin Mohammed Al Maktoum, Sheikh Hamdan Al Maktoum and the owner of

Frankel, Prince Khalid Abdulla. Being able to attract a mix of well-established major investors, such as the Godolphin stable from Dubai, and also new entrants such as Pearl Bloodstock and Qatar Racing (with over 140 different runners between them in the 2012 Flat season) is a great attribute of British Racing. Whilst international investment is particularly focussed on Flat racing, Jump racing also benefits from major patrons. The biggest international Jump owner is JP McManus from Ireland, who had over 500 runners in Britain in the 2011/12 season.

### Owners' costs

The average cost of keeping a horse in training in 2012 was estimated to be over £21,500 for a Flat horse, with the equivalent Jump figure being over £17,500. These sums include keep costs for those periods when horses may not necessarily be registered in training, and have increased from 2008 for both codes.

The figures represent the average costs for horses in training taken from a survey performed by the Racehorse Owners Association (ROA). Most of the horses in the survey ran in that year, the vast majority more than once, however there will also be a large number of

## OWNERS

Figure 19: Average owners operating expenditure per horse 2012

	Flat £	Jump £
Basic training fees (including gallops)	14,585	11,179
Vets, medical and farriers	2,082	1,783
Transport and racing expenses	1,868	1,392
<b>Sub total</b>	<b>18,535</b>	<b>14,354</b>
Registration fees	581	590
Jockey fees	641	644
Race entry	1011	745
Insurance	332	377
<b>Total owners' expenditure on horses in training</b>	<b>21,100</b>	<b>16,710</b>
Keep costs	670	800
<b>Total owners' expenditure</b>	<b>21,770</b>	<b>17,510</b>
2008 equivalent expenditure	18,501	16,717

Note: Majority of dual code horses included under Jump. Adjustments have been made to several cost categories from the ROA survey results to reflect available 2012 industry data. Cost inflation of 5% assumed from 2010 survey following 2012 research carried out by ROA.

Source: BHA; ROA Owners Survey 2010, Jockey Club owners survey 2012; Deloitte estimates.

horses which, although in training at some point, did not run. The owners' costs will therefore be considerably lower for these horses.

The total amount of expenditure incurred by owners (see Figure 20) has increased from £347m in 2008 to £369m in 2012. Whilst this £22m rise is a result of increases in most costs, the largest came in transport expenses which are outside of the control of trainers. Diesel costs alone have risen by over 20% since 2008.

In general, trainers have been trying to limit increases in training fees where possible but nonetheless, when all training and associated cost increases are considered cumulatively, they result in the average cost per day of each horse in training rising from £54 to £62 over the four year period.

The gross cost per run was c.£4,000 in 2012 (reduced by c.20% when prize money is taken into account) which is more than it costs in many other major racing nations. One notable explanation for this is due to the fact that in Britain horses are often trained at locations hundreds of miles away from the racecourse, unlike many other jurisdictions where the vast majority of trainers are racecourse-based. Whilst this alternative has some cost advantages, notably as trainers have all the facilities they need on hand rather than having to provide these themselves, it lacks the diversity and richness of British Racing with its many varied racecourses, training centres and yards. It is this variety which appeals to a significant number of owners who are prepared to pay higher costs for the experience.

There are notable disparities between training costs depending on the relative size and reputation of the trainers in question and their geographical location. Flat training costs p.a. varied by nearly £7,000 between larger, well established yards and their smaller, often less well known counterparts. Average training costs for Newmarket, widely acknowledged as Flat racing's headquarters, were, at over £20,000, more than double those from some other areas. Similarly, for Jump trainers, the Lambourn and West Country regions were found to be the most expensive, although the difference from other areas was less pronounced.

### Prize money

Total prize money has varied within a relatively narrow band of between £94m and £110m over the past decade. A new record level of prize money of £110m was set in 2009, before two years of decline which saw the total fall to £94m by 2011. Prize money recovered marginally to £98m in 2012. 2013 is predicted to see a much larger increase, probably to around £110m.

Figure 20: Total owners' expenditure 2008, 2012

	2012 total expend £m	2008 total expend £m	change %
Basic training fees (including gallops)	246	238	3%
Vets, medical and farriers	33	30	10%
Transport & racing expenses	28	20	41%
<b>Sub total</b>	<b>307</b>	<b>288</b>	<b>7%</b>
Registration fees	8	6	31%
Jockey fees	11	11	0%
Race entry	16	17	(6%)
Insurance	10	10	0%
<b>Total owners' expenditure on horses in training</b>	<b>352</b>	<b>332</b>	<b>6%</b>
Keep costs	17	15	12%
<b>Total owners' expenditure</b>	<b>369</b>	<b>347</b>	<b>6%</b>
<b>Income</b>			
Owners' prize money	78	85	(8%)
Sponsorship	7	7	0%
<b>Net owners' expenditure</b>	<b>284</b>	<b>255</b>	<b>11%</b>

Note: Income does not include prize money won abroad by GB trained horses. In 2008, this totalled £5.6m, in 2012 it totalled £25.1m.

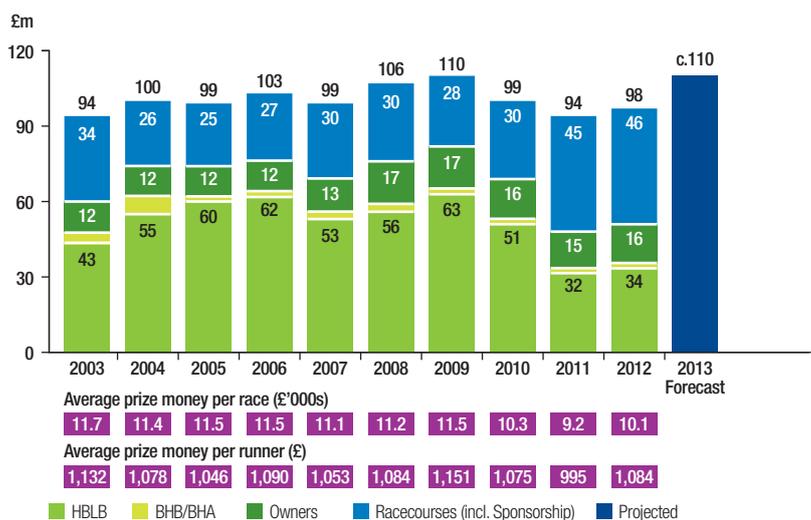
Source: BHA; ROA Owners survey; Deloitte estimates.

The expanding fixture list has meant that the average prize money per race has declined by 14% since 2003 to £10,100 in 2012. Average prize money per runner has also fallen although by a smaller amount as average field sizes have declined by 10% over the same period.

Once the substantial impact of inflation is taken into account, with cumulative inflation of 34% between 2003 and 2012 based on the Retail Price Index, prize money has fallen very markedly over the last decade.

Prize money comes from three main sources – the Levy Board, Racecourses (including sponsor contributions) and Owners (via entry fees). There have been much greater movements in the sources of funding than in total prize money, particularly in the three years from 2010-2012. This has largely been due to marked falls in Levy receipts,

Figure 21: Prize money by source 2003-2013



Source: BHA; Deloitte analysis.

leading to Levy Board contributions to prize money falling by 45% between the peak of £63m in 2009 to £34m in 2012. Racecourses (including sponsorship) have gone some way to compensating for a large proportion of this Levy Board reduction, with contributions increasing by over 50% from £30m in 2010 to £46m in 2012, aided by growing media revenues.

Based on the total amount of expenditure incurred by owners in 2012, prize money enabled them to recoup approximately 21% of their expenditure. If racehorse sponsorship payments are also included this rises to 23%. It must be remembered that whilst more than 17,500 horses ran once or more in 2012, over 11,000 of these did not win a race. The majority of owners with a runner in 2012 would therefore not have had a winner and the recovery of their expenditure would be considerably lower.

Approximately 80% of prize money is paid to owners, with the remainder going to trainers (7-8%), jockeys (7-8%) and stable staff (5%). A small amount also goes to fund industry training, jockeys' valets attendance, the

Professional Jockeys Association pension fund and the National Association of Stable Staff. The exact distribution formula depends largely on the number of placed runners awarded prize money.

### Horse purchases

The cost of bloodstock purchases has been excluded from the analysis due to an insufficient amount of robust information on the buying and selling of horses. Nonetheless, this cost does represent a significant further injection of funds into Racing by owners. By way of illustration, the average cost of horses sold at Tattersalls and Doncaster Bloodstock Sales, the two leading auction houses in Britain, was c.£38,000 in 2012. Owners may recoup some of this expenditure from subsequent sales. As in the 2009 version of this report, the expenditure related to the purchase of horses is incorporated in the **Breeding** section. As such, owners can be said to have injected over £470m into British Racing in 2012 once the £189m of breeders' expenditure and public auction commission is added to the £284m previously discussed in this section.

Improvements in prize money will play an important part in retaining existing owners and aiding the recruitment of new owners.

### Looking forward

Indications are that total prize money in 2013 will be around £110m, back to the level reached in 2009 but still representing a real terms decline since levels in the early part of the last decade. Improvements in prize money will play an important part in retaining existing owners and aiding the recruitment of new owners (given there will always be a natural churn of owners leaving the sport who must be replaced), and the industry's leaders are working hard to deliver the necessary conditions to allow that to happen.

However, this is only one part of the solution, with many other parties in Racing having key roles to play including:

- Trainers – typically owners' most prominent link to the sport, and should be a valuable "sales force" for Racing;
- Racecourses – by ensuring the owners' contribution is recognised including through the provision of appropriate quality facilities for owners and their horses.

The newly formed Great British Racing – as the sport's central promotional arm – will also play a role in attracting future owners into the sport by various means. Current examples include the new OWN1 website, which acts as a resource for individuals to find out more about becoming a racehorse owner; introducing new audiences to horse ownership via social media (People's Horse project on Twitter); partnerships with sports broadcasters such as the Sky Sports News owned horse; or Great British Racing International's focus on attracting new high net worth individuals from overseas as owners within British Racing.

# TRAINERS

**There were 557 licensed trainers in Britain in 2012, with a further 119 permit holders. Whilst licensed trainers carry out the training of racehorses as their primary occupation, permit holders are essentially amateur – often family run operations which train horses to compete in Point-to-point and hunter chase contests.**

The number of licensed trainers in Britain has decreased by 35 (6%) since 2008, as illustrated by Figure 22.

The smallest c.300 yards trained c.2,000-2,500 horses in 2012, meaning the remaining c.11,000-11,500 of the average number of horses in training came from the other c.250 yards.

Whilst the total number of licensed trainers increased steadily in the four year period to 2008, the decline in the number of owners and horses in training in the years since has contributed to a reduction in 2012. The largest decline in 2012 compared to 2008 (in percentage terms) has been in the number of yards training between 31 to 40 and 41 to 100 horses respectively, which have decreased by 23% (29 yards).

The number of yards training 21 to 30 horses has increased over the same period however, so it is likely that a number of trainers with 31 or more horses in 2008 have been forced to operate with fewer horses in the intervening four years.

### Effect of economic downturn

As would be expected, there have been movements of trainers both entering and leaving the profession since 2008, although on-going economic challenges have meant the latter have exceeded the former over this period. The decline in the numbers of both owners and horses in training has undoubtedly had some effect.

Trainers at the top end of the championship tables have maintained, and in many cases increased, their number of horses, resulting in more revenues from training fees. The number of yards with, on average, over 100 horses in training over the course of the year has therefore remained largely unchanged from 2008 (17 yards) to 2012 (18 yards). However, it appears to be the 'mid-ranking' yards that have felt the squeeze more than most. The smaller operations will often have other

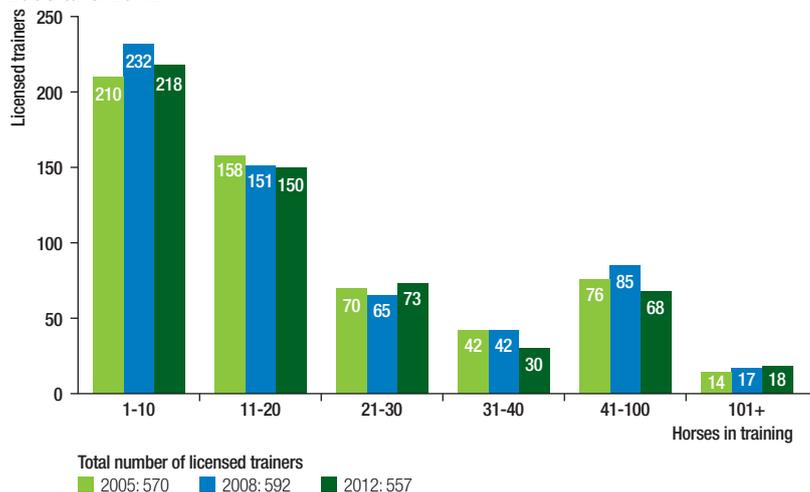
*Around a third of Britain's licensed trainers are based at one of the five main training centres.*

forms of income to supplement the revenue generated by training, such as farming, but the mid-tier trainers will be wholly reliant on training as their main source of income. Declines in the number of horses in training and prize money will therefore hit this group hardest. One result of this has been the combination of some yards, with trainers seeking to minimise costs.

In spite of this there have been several new yards appearing with, for example, a number of former trainers' assistants having started up their own businesses in this period despite the recession.

Overall the fact that the number of licensed trainers has not dramatically decreased over the period of economic decline is testament to the dedication and passion of the individuals involved, who have managed to maintain their businesses in trying financial circumstances.

**Figure 22: Licensed trainers' yards by number of horses in training – 2005, 2008 and 2012**



Note: Licensed trainer numbers based on an average of the monthly returns to the BHA. Source: BHA; Deloitte analysis.

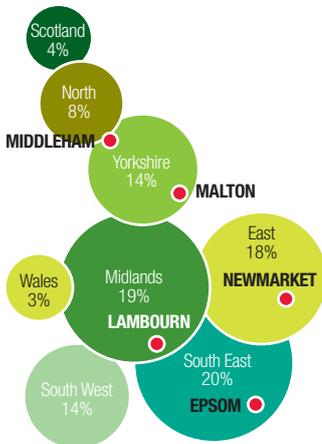


### Geographic spread

Many yards are concentrated around the largest training centres in Britain – Newmarket, Lambourn, Epsom, Middleham and Malton – with around a third of Britain’s licensed trainers based at one of these centres. These areas are heavily reliant on Racing in terms of employment and revenue generation, and the sport is deeply ingrained in the local community. Facilities at these training centres have developed considerably over the past decade and now represent some of the finest in the world, both in trainers’ private facilities and on the public gallops, administered and maintained by Jockey Club Estates in Newmarket and Lambourn.

Nonetheless, two-thirds of yards are located outside of these main training centres, and most rural areas in Britain will be represented by licensed trainers or permit holders – large and small – as demonstrated by the spread around the regions in Figure 23. The West Country, for example, contains a strong contingent of Jump trainers.

Figure 23: Percentage of trainers based in each region



Source: RCA; Deloitte analysis.

## PRIZE MONEY DISTRIBUTION

Figure 24: Flat prize money 2012 (2004)

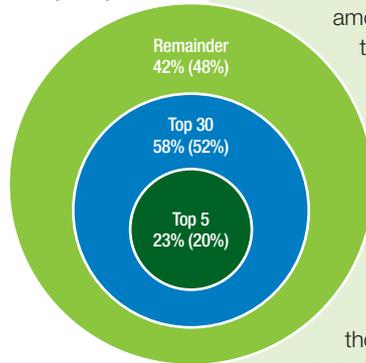
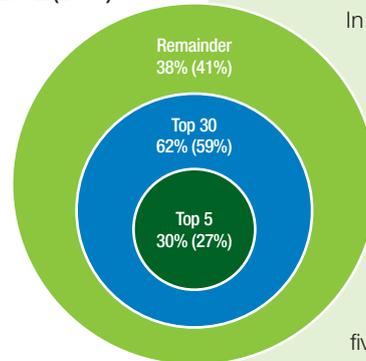


Figure 25: Jump prize money 2012 (2004)



Source: Deloitte analysis.

It has been suggested that, in recent years, the majority of prize money has become concentrated

amongst only the top few trainers in both Flat and Jump racing. In order to determine whether the top trainers have become more dominant, this analysis examines how the proportion of prize money won by the top 30 in the 2012 season’s trainers’

championship, and within that the top five trainers, has moved since 2004 in both codes.

In Jump racing, whilst the proportion of prize money won by the top 30 trainers in the 2011/12 season is greater than in the 2003/04 season, this increase is solely attributable to the success of the top five trainers. Indeed the dominance of the top two trainers in the 2011/12 season, Paul Nicholls and Nicky Henderson, is a significant factor in this shift, with the

two yards winning over 19% of total prize money that season.

When the 2012 and 2004 Flat seasons are compared, the top 30 trainers in the championship have increased their percentage of prize money won by six percentage points – with this increase split evenly between the top five and the remainder of the top 30.

These movements do show a slight shift towards the top 30, and indeed top five, trainers in each code becoming more successful, which is to be expected in a time of recession as a number of the smaller and medium sized trainers have fewer horses to work with in their yards.

This movement mirrors that seen more widely in sport, as there has been a trend towards further concentration of wealth with top sport teams and operations becoming more successful. However, sport is such that there always remains the potential for well funded new entrants to challenge the status quo, such as Manchester City’s emergence to win the 2011/12 Premier League and Red Bull’s recent dominance in Formula 1. The same opportunities exist within racing, and ‘small’ owners and trainers can of course still win big prizes.

### Trainers’ revenues

The fees paid by owners represent the primary income stream for trainers and these vary depending on the reputation and size of yard, and location of the trainer in question. As set out in the **Owners** section, basic training fees are estimated to have been c.£250m in 2012, with only a 3% increase from 2008, as the 7% increase in average basic training costs (excluding costs

such as vets and transport which are passed on), was largely cancelled out by the fall in the average number of horses in training. Trainers have sought to restrict increases in training fees given financial pressure on many, if not all, of their owners by tightly controlling costs, evidenced by the 7% fall in headcount at stables and lower levels of investment than seen in the middle of the last decade.

## TRAINERS



Around 7-8% of prize money is generally paid to trainers under the Rules of Racing, which in 2012 equated to £7.8m – c.3% of training fees. It is therefore a less important, and also less predictable, direct revenue source but does nonetheless provide the means for some yards to improve profits and provide funds for future investment in facilities. Prize money levels also indirectly impact upon trainers' businesses as, if owners consider levels inadequate, some may withdraw from, or reduce their exposure to, Racing hence denting trainers' core training revenues. Stable staff also receive around 5% of prize money – with trainers and their staff deciding on how this pool is distributed amongst each yard.

Many trainers also buy and sell horses, but no reliable data is available to accurately estimate the scale and value of this trading. Like prize money though, this can be an important source of revenue for trainers to supplement their basic training fees.

#### Trainers' expenditure

Although the initial expenditure of purchasing and training horses is ultimately incurred by owners, trainers still play an important part in distributing this revenue around the industry and the British economy as a whole. The largest expenditure incurred by trainers is on staff costs. The vast majority of trainers employ fewer than 50 staff, but there are a small number of much larger yards each employing over 100 people. The 557 licensed trainers and 119 permit holders employ over 7,000 people in total, in a mixture of full and part-time roles.

The annual wages and salaries of yard employees and trainers, including National Insurance payments, were estimated to be c.£100m in 2012, generating an estimated £28m in employment taxes. Substantial additional expenditure will flow from these wages with significant amounts being reinvested in the local economy, generally in rural locations. Like jockeys, stable staff are dedicated and often work long hours. The National Association of Stable Staff (NASS) is the Independent Certificated Trade Union representing stable staff employed by licensed racehorse

Prize money levels also indirectly impact trainers' businesses, as if owners consider levels inadequate some may withdraw from, or reduce their exposure to, racing.

trainers, and annually agrees a framework of minimum wages and general working conditions with the National Trainers Federation (NTF). In 2009, NASS agreed to forego an immediate increase in the minimum rates of pay in exchange for a review of the pay and conditions system, and each year since has seen a c.2% p.a. increase and latterly a new framework on travelling expenses as a result.

Other expenditure incurred by trainers, but in the most part ultimately funded by owners, includes the cost of farriers, vets, transport and keep fees. Such expenditure will flow through to generate revenue for the rural businesses and communities in which most trainers' yards are based.

Whilst the recent economic downturn has reduced spending on facilities compared to previous years, there has still been significant capital expenditure incurred in training facilities. Jockey Club Estates have continued their investment in the training facilities at Newmarket and Lambourn in the last four years, and there has been notable investment at several, often up and coming, yards.

## THE ECONOMICS OF BEING A JOCKEY

Jockeys are amongst the hardest working and toughest sportspeople in Britain – working long hours, travelling long distances and risking injury on a daily basis for comparatively limited financial reward.



For the vast majority of jockeys, the riding fee will represent their main source of income. From 1 January 2013 the riding fee per race has been £116 for Flat jockeys and £158 for Jump jockeys.

The only other substantial income most jockeys earn is a percentage of prize money as set out in the Rules of Racing. A Flat jockey gets about 7% of any win fund and less than 3.5% of any place fund (Jump jockeys get c.1% more of win funds than their counterparts on the Flat), much less than the often assumed 10%. This income is inherently unpredictable. Whereas those jockeys riding for the larger, more successful yards can to some extent assume they will be regularly earning a sum of prize money, jockeys perhaps with just one or two rides a day for smaller yards may go for months without receiving any meaningful prize money.

A limited number of retainers exist, whereby an agreement is in place for a jockey to ride all of a trainer or owner's string, but only a handful of these will involve payment. Jockeys receive no

Jockeys' Championship position	<sup>A</sup> FLAT 2012 season average earnings (£'000s)		JUMP 2011/12 season average earnings (£'000s)	
	Riding fees and prize money	<sup>B</sup> Earnings after direct expenses (pre travel)	Riding fees and prize money	<sup>A</sup> Earnings after direct expenses (pre travel)
Top three	217	187	202	176
4th-20th	156	135	110	92
21st-100th	65	51	40	28

Note A: Flat positions determined by total wins in 2012 calendar year.

Note B: Direct expenses consist of insurance, licences, PJA subscriptions, valet fees, physiotherapy and agent fees.  
Source: PJA; BHA; Deloitte analysis

pay for riding out each morning, just the benefit of keeping the rides on certain horses or for certain yards.

Some jockeys benefit from sponsorship but these are limited both in number and amount. Aside from the Professional Jockeys Association's central sponsorship arrangement with Stobart Group, there are over 180 individual sponsorship arrangements in place totalling just over £450,000 p.a.

Jockeys pay a variety of direct costs, such as insurance and valet fees, from their riding fee and prize money earnings. On top of these costs, they also incur significant travel expenses which will vary greatly depending on the fixtures they have rides at and how many fixtures they attend each day.

The table above estimates the gross and net earnings, after direct costs, of the top 100 Jump and Flat jockeys in British Racing in 2012.

While estimating travel expenses is difficult, the geographically diverse nature of Britain's racecourses means they are significant for all jockeys and will represent a substantial proportion of their earnings – especially for those with a small number of rides.

Overall total riding fees and prize money paid to jockeys in 2012 from British Racing is estimated to have been c.£16m, an average of c.£35,000 across the 453 professional jockeys.

When compared to the earnings of other top sportspeople in Britain it is evident that jockeys work extremely hard for comparatively little financial reward.

By way of contrast, the average Championship footballer earned c.£350,000 in 2012 and Premiership rugby union players in excess of £100,000, although county cricket players are more comparable with earnings of c.£40,000.

## BREEDERS



**The thoroughbred breeding industry is the first link in Racing's many chains. As such, the British breeding industry is a major contributor to the current, and future, overall health of British Racing.**

The British breeding industry operates across a wide range of scales, from the c.3,500 breeders who exclusively own broodmares to the estimated 300 full-time stud farms which typically stand both stallions and broodmares.

The global reputation of British Racing – across breeding, training and racing – means it has become the destination of choice for an increasingly diverse international set of investors in bloodstock. The British industry was the seventh largest producer of thoroughbred foals in 2011 (the latest year for which data was available) and investment in British-bred bloodstock is a major direct injection not just into the Racing industry but the wider economy. In addition, a large number of Irish-bred horses are sold at British public auctions which, although having a less significant impact on British Racing, strengthens Britain's reputation as the place to trade in thoroughbred racehorses.

The breeding sector was among the first to experience the impact of the global economic slowdown in many countries through major falls in the value of bloodstock sales, and in turn substantial reductions in foal production. The main challenge for the industry was to readjust the supply to meet the demand for foals and yearlings after a decade of growth from the mid-1990s.

Foal crops were at an all-time high, and there were effectively three years of peak production available but with a much reduced demand due to the time lag of the breeding process. By 2011, the number of foals had declined such that the supply and demand was better balanced, although further adjustments are still likely to be required. The International Federation of Horseracing Authorities (IFHA) estimate that between 2008 and 2011, global thoroughbred foal production dropped by over 13%, so Britain's 22% reduction over that time was even sharper.

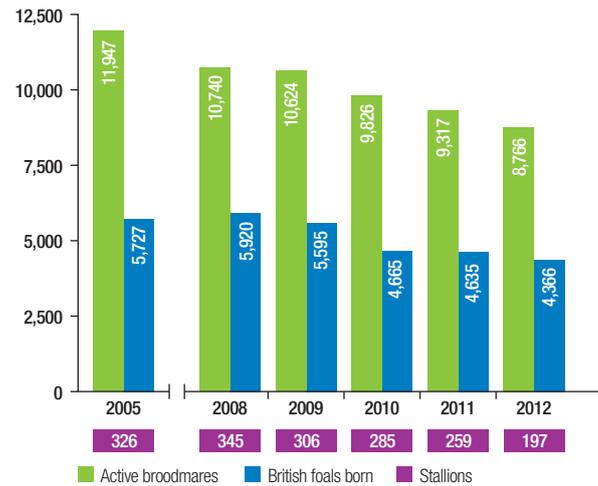
Figure 26 shows the number of stallions, broodmares and foals born in Britain in 2005, and each year between

**The global reputation of British Racing – across breeding, training and racing – means it has become the destination of choice for an increasingly diverse international set of investors in bloodstock.**

2008 and 2012. It illustrates the scale of the cut in production by 2012 with a fall of over 26% in foals from the peak in 2008 to 2012. The majority of this occurred between 2009 and 2010, with numbers stabilising thereafter. The decrease in the number of stallions is even more dramatic with a 43% drop between 2008 and 2012.

The scale of these reductions is such that they have clearly had an impact on the economic footprint of the breeding industry. However, the impact has not been as dramatic as the simple percentages suggest, given that the biggest adjustment has occurred at the lower quality, often part-time or recreational, end of the sector. The downturn accelerated what had already started in the mid-2000s, namely the concentration of mares and bloodstock stallions at a relatively small number of professionally organised and focused studs. By removing large numbers of lower quality broodmares and stallions from the industry, it is generally accepted that the standard of British-bred horses will improve, as well as ensuring the highest standards of welfare are maintained.

**Figure 26: Number of stallions, active broodmares and British foals born 2005 and 2008-2012**



Source: BHA; Deloitte analysis; Weatherbys.

### Breeding industry revenue

The primary external income for the British breeding industry comes from the sale of horses. Individual breeders will have other revenue streams including stallion nomination fees and other charges such as keep fees, but as these costs are internal, (i.e. charged to other stakeholders in the breeding industry), they do not derive a direct additional economic benefit to British Racing.

Sales do, however, generate direct economic benefit, and in Britain most horses are sold through public auctions. The two largest auction houses are Tattersalls and Doncaster Bloodstock Sales, and the majority of foals and yearlings sold in Britain (or Ireland) will pass through their sales rings at some stage.

A small number of private sales will also occur, but due to the confidential nature of these there are no reliable information sources by which their volume and value can be estimated. On a larger scale, there are a number of home breeder operations, whereby the whole breeding operation (broodmares, stallions, foals and yearlings) are kept in-house. Most of the yearlings

produced by these operations will be transferred to the respective owners and trainers, with only those deemed surplus to requirements (typically lower quality horses) sold. Frankel is a notable example of a British home-bred, having been bred at the Juddmonte Farms operation of his owner Prince Khalid Abdullah.

The volume and average price of horses sold at public auctions are considered a key indicator not just of the health of the breeding sector, but of the wider Racing industry. Figure 27 shows both measures, total value and average sale price, for horses sold at Britain's largest sales houses, Tattersalls and Doncaster, from 2005 to 2012.

Total sales and average price peaked in 2007 before the economic downturn began in 2008, resulting in three consecutive years of significantly reduced sales values. 2011 saw a slight upturn in fortunes with the volume of sales increasing by over £20m, but 2012 exceeded all expectations following the previous three years with

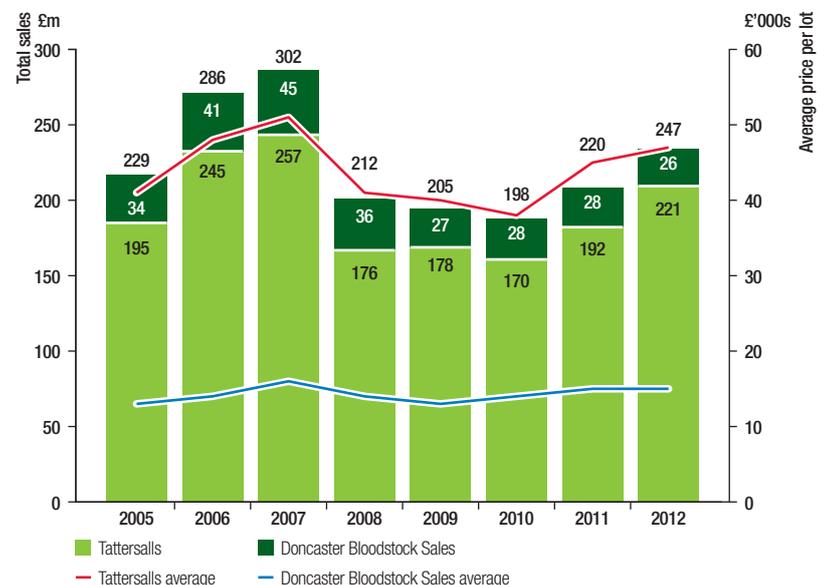
Tattersalls sales increasing by 15% to over £220m, the third highest total ever for the auction house. The average sale price of £47,000 reached in 2012 was also close to the levels recorded in the 'boom' era of 2006-07.

The demand for quality at the top end of the bloodstock market was strong with six horses sold for over £1m each. This included the highest yearling price in the world in 2012, when Hydrogen was sold at Tattersalls for £2.6m.

The lower end of the market remains more challenging. Clearance rates (% of horses sold) have improved though, with 76% of horses offered for sale in 2012 by the four major sales companies in Britain and Ireland changing hands. This compares to 73% in 2011 and 67.5% in 2010, demonstrating how overproduction in previous years perhaps led to too many moderate horses being bred and offered for sale.

Although the majority of horses passing through Britain's sales rings are Flat-bred, there is still a sizeable market for

**Figure 27: Value and average price of horses sold at Tattersalls and Doncaster Bloodstock Sales British public auctions: 2005-2012**



Note: Sales comprise all horses, not just yearlings. Source: Tattersalls, Doncaster Bloodstock Sales

## BREEDERS

Jump horses. Doncaster Bloodstock Sales plays a leading role in this sector and the 2012 Spring sale, their largest Jump sale in terms of lots offered, saw over £5m of sales, with an average sale price of over £13,400. Brightwells, specialist auctioneers for the sale of Jump horses, achieved new records for turnover and average sales price for the third consecutive year in 2012. Despite selling fewer horses than in 2011, turnover exceeded £12.6m and the average sales price reached £15,000, a near £5,000 (50%) increase.

**Overseas investment**

The attractiveness of British (and Irish) bloodstock to an increasingly diverse set of international buyers has been the single biggest driver for the recovery in auction values since 2010. It is estimated that, of Tattersalls sales of £221m from British public auctions in 2012 (the vast majority being British and Irish-bred horses), around £150m (70%) was made to non-British buyers from over 50 countries. This £150m covered c.60% of the total c.4,800 horses sold, the lower percentage compared to value illustrating that international buyers are particularly focussed at the upper end of the market.

The biggest source of finance outside of Ireland comes from the long-standing investors in British Racing from the Middle East. This has traditionally been the UAE states and Saudi Arabia but more recently others have entered the market, notably Qatar, who have in a relatively short period of time become very significant investors in British Racing. Indeed, it was Qatari investors who in 2012 paid the highest price anywhere in the world for a yearling, Hydrogen.



**£150m**  
TATTERSALLS  
SALES TO  
NON-BRITISH  
BUYERS

The biggest source of finance outside of Ireland comes from the long standing investors in British Racing from the Middle East.

While it is natural that some of the horses bought by international buyers will leave Britain to race and/or improve breeding stock elsewhere, the majority remain in Britain or Ireland to be trained and race, and after their racing career many will stay for breeding purposes. Top class sport is increasingly funded by wealthy individuals and organisations drawn from outside the “host” country, and British Racing is no exception. Great British Racing International has also been established to develop this further by focusing on the world’s wealthiest individuals with a message of: “Buy in Britain, Train in Britain, Race in Britain, Breed in Britain, Invest in Britain”.

**Breeding industry expenditure**

As Figure 28 sets out, total expenditure by breeders was estimated at £170m, down 16% from 2008 due to lower production levels and consequent falls in employment and general expenditure.

Due to the labour intensive nature of the breeding process, wages and salaries are the largest cost incurred by the British breeding industry – an estimated £98m in 2012 – driven primarily from the 3,640 full time employees in the industry. The biggest studs will employ around 100 people but the majority of studs are significantly smaller.

The 4,325 part time employees include the owners of broodmares who often fit their breeding activities round their main job. This area is understood to have experienced some of the most marked falls in production since 2008 given its general lower quality stock, which experienced a dramatic fall in demand after the recession took hold.

Other costs incurred by breeders will be on overheads similar to those of trainers, such as feed, keep costs, vets, farriers and, to a lesser extent, transport.



**Figure 28: Breeders’ expenditure and employment (£m)**

	2012	2008
Wage costs	98	113
Transport	7	7
Vets, medical & farriers	22	27
Other operating costs	28	35
Annual maintenance/capital spend	15	20
<b>Total annual expenditure</b>	<b>170</b>	<b>202</b>
<b>Employment</b>		
Full time	3,640	4,000
Part time	4,325	5,000
Total (FTE)	3,893	4,500

Note: Part-time breeders on average spend only a small proportion of their time on breeding. Source: Thoroughbred Breeders Association; Deloitte analysis.

A relatively high level of capital investment is necessary in the breeding industry in order to maintain the standard of facilities. The £15m annual maintenance/capital spend reflects the cost of building and maintaining the high quality facilities required to breed and rear top quality racehorses. It does not reflect the bloodstock investment or the sale of stud farms.

The auction houses also spend considerable amounts maintaining their facilities. For example, from 2009-2012 Tattersalls has invested over £5m on maintaining and redeveloping its land and buildings, boxes and other plant and equipment in order that they meet the exacting requirements necessary to showcase the top quality bloodstock that will pass through its sales ring.

## BETTING



**The British betting industry is the most diverse in the world, with a mix of fixed odds, pool and spread betting, together with betting exchanges. While British Racing is a core product for the betting industry, it must increasingly compete with a huge range of sports and other betting products.**

The following major trends are particularly relevant to betting on Racing:

- Shifting patterns in the channels through which people bet – the proportion of total sports betting that takes place remotely via online operations continues to increase markedly, largely driven by the activity of younger people. While betting on sports in Britain's 8,700 Licenced Betting Offices ("LBOs") remains the largest market, and offers customers a social environment to bet not replicated online, it is likely to continue to decline – certainly in relative terms and potentially in absolute levels.
- Growth of mobile phone betting – the increasing smartphone penetration, delivering significant computing power, has acted as a further boost to growth in online betting. This presents significant opportunities for British Racing as a race can be easily watched, and bet upon, on the move. There were an estimated 70m live race streams of British Racing in 2012 with further growth expected. The challenge for British Racing is to ensure it obtains a fair share of betting revenue via this channel.
- The explosion of sports betting products, notably in-play betting, which are particularly prevalent online – whilst racing does permit in-play betting, much of it currently through betting exchanges, the relatively short duration of races limits its potential compared to other sports, such as football.
- Consolidation in the retail market – following Betfred's purchase of the Tote's 500+ LBOs in 2011, four firms

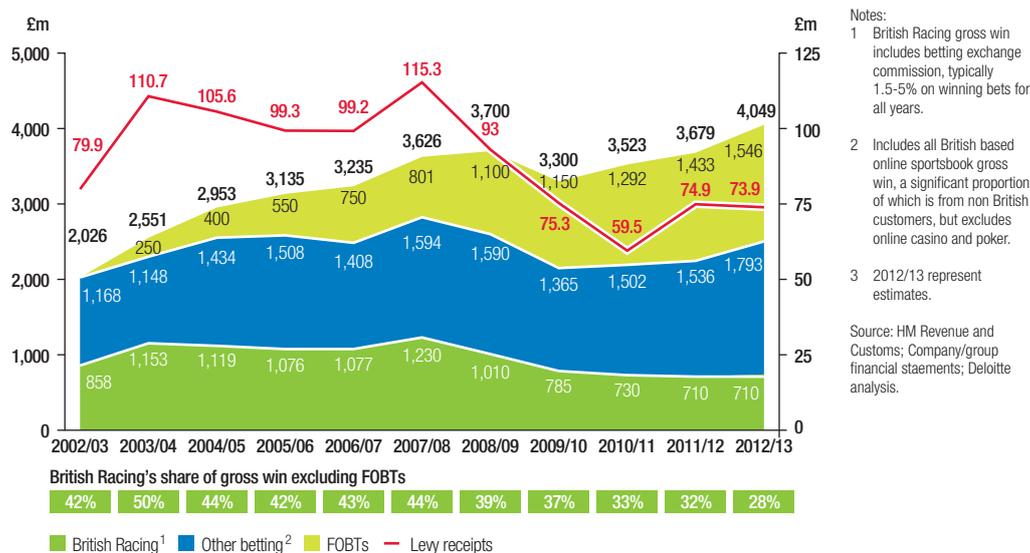
*The competitive nature of the British Betting industry results in the highest return to stakes bet by Racing punters of any major betting country.*

(Betfred, Coral, Ladbrokes and William Hill) now make up over 85% of the industry retail gross win. Ensuring productive relationships with these firms is therefore critical to British Racing. The Tote's exclusive pool betting operation was also acquired by Betfred, on a seven year licence.

- The competitive nature of the British Betting industry results in the highest return to stakes bet by Racing punters of any major betting country. The ability of punters to compare prices online, the low margin exchange betting model and the aggressive offers and marketing campaigns run by many betting operators on British Racing are all factors in narrowing margins on the sport. Whilst good for the punter, this can lower the returns to British Racing from the Levy, currently based on a percentage of operators' gross win on the sport.

BETTING

Figure 29: British Betting Industry Gross Win by type



Notes:  
 1 British Racing gross win includes betting exchange commission, typically 1.5-5% on winning bets for all years.  
 2 Includes all British based online sportsbook gross win, a significant proportion of which is from non British customers, but excludes online casino and poker.  
 3 2012/13 represent estimates.  
 Source: HM Revenue and Customs; Company/group financial statements; Deloitte analysis.

Gross Win from British Betting and position in British Betting market

Figure 29 sets out, from 2002/03, the estimated total gross win of onshore betting operators from betting on British Racing (plus Betfair's commission from British Racing), the total gross win from Fixed Odds Betting Terminals ("FOBTs") and the total gross win from all other betting.

In 2012/13 the gross win from British Racing is estimated to have been £710m, based primarily on forecast Levy receipts. It therefore represents a marked fall from the £1 billion plus per annum that was generated until 2008/09. The main reasons for the fall are:

- A marked drop in gross win from the traditional LBO customers – retail gross win was estimated to be c.£570m in 2011/12, down from as high as £800-900m p.a. in the mid 2000s. Part of this shop gross win has migrated online. The scale of the migration of sports betting to online is illustrated by the fact that William Hill's Online sports book betting turnover was 110% of Over The Counter (OTC) in their c.2,375 LBOs for the first quarter of 2013. Online turnover on the 2013 Cheltenham Festival exceeded LBO volumes.

- All but Bet365 of the top twenty online operators with a British focus are located offshore and hence are not included in the gross win figures – nor do they pay the Levy as discussed below. While accurate estimates of the gross win from offshore operators is very difficult due to a lack of publicly available information, it is probable that it is now well in excess of £100m. This will almost certainly increase as more people migrate online and betting operators aggressively market remote/mobile betting, including through competitive price-related offers compared to those available in LBOs.

FOBTs were introduced to LBOs in 2002 and now generate over £1.5 billion of gross win each year, in 2011 becoming bigger than all OTC gross in LBOs. They are highly profitable and have predictable returns in the region of 2%.

The majority of other sports/activities betting consists of OTC betting in LBOs, including on overseas racing. This is estimated to have been c.£850m in 2012/13, with the remainder of this category consisting of other online betting activity.

While football and, to a lesser extent, some other sports continue to experience growth in LBOs, this growth has slowed and British Racing remains the single biggest sports betting product of bookmakers. The estimated £570m gross win represented 41% of the total £1,375m OTC gross win in 2011 (calendar year).

Despite recent falls, the onshore Betting industry generated close to £4 billion in gross win from British Racing in the last five years, of which £375m was paid back to the sport through the Levy.

The British Betting industry has been relatively resilient to the worst of the economic downturn. While some declines in total onshore gross win did occur in 2008-10, levels have subsequently reached new records, exceeding £4 billion in 2012/13, despite the movement of several hundreds of millions of sportsbook gross win offshore.

The Levy

Racing generates a significant part of its revenue from betting via the 10.75% (with some exceptions) statutory Levy on British betting operators' gross win from British Racing. The majority of Levy receipts are allocated to fund either prize money or integrity services.

The Levy is a legislative product of the 1960s – when LBOs were legalised in the UK – and has been a regular source of disagreement between the Racing and Betting industries since. The 50th Scheme (2010/11) required a Determination by the Secretary of State for Culture, Media and Sport, who made several amendments to the previous scheme, including an increase in the headline rate to 10.75% from the previous 10%.

Levy receipts have declined from the £100m+ average in the middle of the last decade (the £115m yield in 2007/08 is understood to have been inflated by exceptional losses of big staking



telephone “high rollers”) to the current £75m for much the same reasons as the movement in gross win explained above.

The Levy does not apply to bets placed with offshore betting operators even if staked by British-based punters. Given the migration of betting from retail to online this has resulted in an increasing amount of “lost” Levy to British Racing. When Betfair moved offshore in 2011, it continued to pay amounts equivalent to its Levy liability to the Levy Board, and in 2012 entered into a landmark five-year agreement whereby the exchange will pay 10.75% of gross win from British punters betting on British Racing underwritten by substantial guaranteed minimum payments back to the sport.

### Patterns in betting on British Racing

The Racing and Betting industries are working increasingly closely together to develop a Fixture List that serves the needs of punters amongst other, sometimes competing, demands, including the constraints of the horse population as detailed in the **Owners** section. This has been evident for many years through the development of the Levy Board fixture criteria which sets out the slots where fixtures will be centrally funded and which is now informed by detailed market information on the betting patterns of punters on British Racing. The following features are particularly pertinent:

- Excluding the impact of major festivals, betting levels are relatively steady between Monday and Thursday but then increase progressively from Friday to Saturday. A typical Saturday can generate close to 50% more turnover than a weekday. Turnover drops markedly on Sunday and is currently the most performing day in terms of racing betting turnover. The number of fixtures staged on each day reflects these factors, along with the presence of terrestrial TV coverage on Saturdays.
- The top fixtures generate the highest turnover and hence funding for the sport but, given the relatively small number of these, the large majority of racing betting turnover, and hence Levy, is generated from the core day-to-day fixtures.
- On average, evening fixtures generate 30-40% less turnover than afternoon fixtures.
- There is a strong positive correlation between the number of runners in a race and the level of turnover, particularly at the lower end, where turnover drops substantially for races of fewer than six runners, and at the upper end where turnover for 16+ runner races can be two to three times higher than more typical field sizes of 8-12.



The onshore Betting industry generated close to £4 billion in gross win from British Racing in the last five years, of which £375m was paid to Racing via the Levy.

### Looking forward

British Racing continually investigates, trials and, when appropriate, implements new initiatives to deal with betting-related issues. These include measures to increase field sizes, and the staging of replacement fixtures at short notice following abandonments. Such co-operation acts for the mutual benefit of both industries.

At a strategic level, British Racing continues to seek a commercial replacement to the Levy Board, with discussions between Racing, the Betting industry and Government on-going. The capture of the increasing amount of online, mostly offshore, betting turnover is central to these discussions and is critical in enabling the Racing industry to formulate its financial plans.

# BROADCASTING

**Broadcast coverage is a crucial 'shop window' for the sport, as it allows access to a greater proportion of the population than those attending race meetings. It also plays a key role in supporting betting levels on British Racing.**

The way sports fans view sport is constantly evolving, with a wide range of options now demanded as standard. Sport at its best needs to be "consumed" live and rights holders, broadcasters and media companies have adapted to satisfy this demand. British Racing has been at the forefront of these developments with the result being its fans and punters can access live pictures from virtually wherever they wish.

Traditional coverage in LBOs and on terrestrial television is complemented by extensive coverage through two dedicated digital racing channels – Racing UK and At The Races – and via live online pictures accessed through laptops, tablets or mobile phones. As such, Racing has the most broadcast time of any sport in Britain.

## Terrestrial television coverage as cornerstone

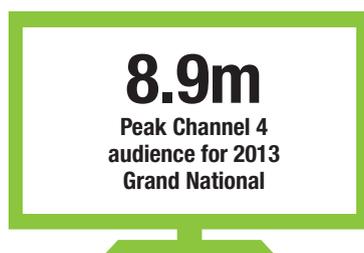
Up until the end of 2012, the BBC and Channel 4 both covered British Racing, with Channel 4 holding the lion's share and the BBC an increasingly small number of fixtures but which encompassed some of the sport's 'crown jewels', notably the Grand National and Royal Ascot.

Following a competitive bidding process British Racing took the decision to grant all its rights to Channel 4, making the channel the sole terrestrial broadcasting partner of the sport from 2013. The new deal represented a significant increase in media rights payments, and also confirmed Channel 4's commitment to the sport – helped by being able to tell the whole Racing story in any given year.

2013 will see 88 days coverage on Channel 4, representing over 300 hours of live programming. Early analysis of 2013 viewing figures indicate there are more 16-34 year old, female and ABC1 viewers than in previous years, bringing the sport to new demographics.

Average terrestrial viewing figures in 2012 for Channel 4 were 516,000, but were significantly higher for the biggest meetings – with over 0.9m watching the Cheltenham Gold Cup and 1.6m the Epsom Derby on the BBC. In 2012 over 16m people watched Channel 4 Racing at some point, and on average 1.2m each Saturday.

The Grand National is consistently placed in the top 10 most viewed sports events in any given year. Channel 4's first Grand National in 2013 attracted a peak audience of 8.9 million (10.9m on BBC in 2012) – strong figures when considering the usual marked fall when coverage of a sports event moves from the BBC to any other terrestrial channel.



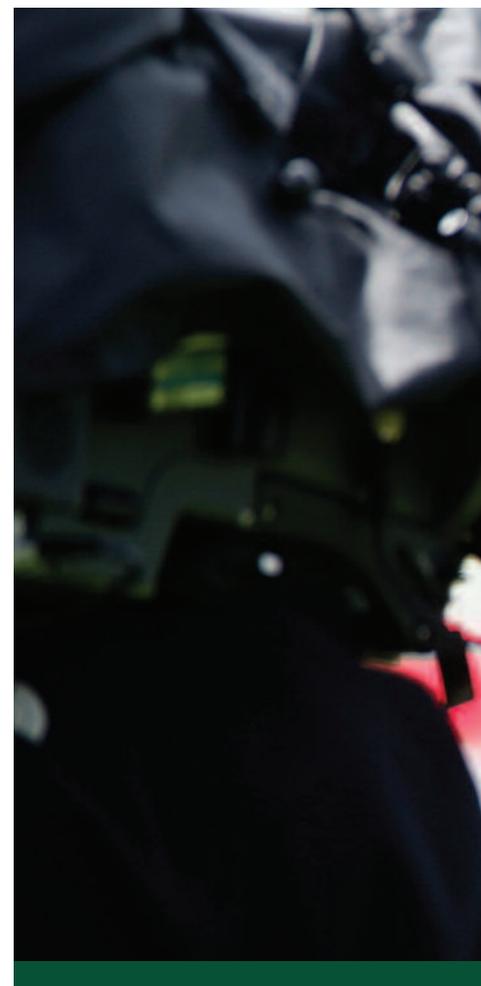
## Dedicated racing coverage

British Racing's two dedicated digital television channels have very different business models.

At The Races is a free satellite/cable channel which has over 1.5m individual viewers per month from a potential base of 13m homes. It broadcasted live from 27 racecourses in Britain as well as from Ireland and overseas.

Racing UK is a subscription-based channel and is part of the Racecourse Media Group ('RMG'), which in 2013 is

The way sports fans view sport is constantly evolving, with a wide range of options now demanded as standard.



owned by 33 racecourses. The channel had over 44,000 residential subscribers in 2012 (up from 37,000 in 2009). Many commercial premises – particularly pubs – also regularly show Racing UK with over 3,600 such subscribers (up from 1,900 in 2008).



## Betting on the go

Punters can now access live pictures of a specific race by placing a bet with the vast majority of British focused online betting companies. The pictures are then viewed for free through the Bet2View network



operated by both At The Races and RMG on their PC or tablet devices.

Most betting operators also offer this service for betting via smartphone. This is experiencing rapid growth, and in total an estimated 70m video streams across all platforms were watched in 2012 (up by over 30% compared to 2011).



#### Growing revenues

While pursuing different business models both media groups have experienced steady growth, enabling them to pass on substantial revenue to their respective racecourse owners/partners. Including £17m from GBI Racing – a joint venture between At The Races and RMG which sells pictures of British Racing internationally (see the **International comparisons** section for details) – the two groups increased revenue to £60m in 2012 compared to only £33m in 2008.

#### Looking forward

Changes in technology and viewer behaviour (including the advent of IPTV, 4G, second screen/tablet viewing etc.) are likely to provide further opportunities to enhance racing fans' viewing experience, and in turn drive further revenue growth for the broadcasters and their racing partners.

Racing is an extremely "data rich" sport hence an ideal candidate to benefit from such technological advancements.

# SPONSORSHIP

**Sponsorship represents an important revenue stream for British Racing. A variety of sponsorship opportunities exist within the sport including those for an individual race, series of races, and for jockeys or racehorse owners.**

While British Racing has markedly more sponsorship than the majority of other racing nations, the absolute and/or relative size of revenue earned is still lower than that for many other major British professional sports.

Racecourse sponsorship is the largest revenue stream, totalling c.£31m in 2012, an estimated 20% increase since 2008. The large majority of this income is paid over directly in prize money, or indirectly by helping racecourses fund additional executive contributions to prize money.

Long-standing racecourse sponsorship deals include the John Smith's Cup at York, which at 53 years represents the longest running Flat race sponsorship, and the Hennessy Gold Cup at Newbury which celebrates its 56th year of sponsorship in 2013 and is the oldest race sponsorship in British Racing.

Series of races will often also have a common sponsor, for example Pertemps sponsor a series of handicap hurdles which culminate in a Final at the Cheltenham Festival. QIPCO is the most prominent series sponsor in Flat racing with the British Champions Series. QIPCO also sponsors the 2,000 and 1,000 Guineas, the Yorkshire Cup, the Sussex Stakes and all races at the series finale, British Champions Day.

**Figure 30: Sponsorship values – 2012**



Source: BHA; Deloitte analysis.

Other features of the racecourse sponsorship landscape are:

- Over 75% of all races were sponsored in 2012 with the summer months attracting the higher proportion of race sponsorship – in August over 80% of races were sponsored.
- As would be expected, the betting industry sponsors the largest number of races due to the close ties it has with Racing. 41% of sponsored races in 2012 were sponsored by betting firms (up from 37% in 2005).
- Racecourses are increasingly looking beyond traditional race sponsorship to agreements such as stand naming rights and building a range of official partners as is seen already in many other sports. Arena Racing Company's four-year deal with Heineken, starting in 2013, under which the brewer will provide the 15 ARC courses with a range of beers and ciders, is a recent example of such an agreement.
- Investec have taken an innovative approach to their sponsorship of the Derby Festival at Epsom Downs. As part of their long term partnership through to 2022, Investec has built its profile alongside the Derby via specific branding, PR strategies and sponsorship of Epsom's Derby Trial.

While it is natural for betting companies to be prominent, there are some industries which are arguably underrepresented in Racing when compared to sponsorship in other sports, such as financial services and food and drink.

**Figure 31: Top race sponsors by economic sector – 2012**

Economic sector	Total prize money of sponsored races (£m)	Races sponsored	% of total sponsored races
Betting	31.8	3,018	41%
Other	25.2	1,977	27%
Bloodstock	6.9	642	9%
Food & Drink	6.5	502	7%
Finance	4.3	113	1%
Private/Individual	2.4	436	6%
Construction	1.7	235	3%
Racing Authorities/bodies	1.5	70	1%
Press/publication	1.2	138	2%
Charity	0.4	137	2%
Broadcaster	0.3	58	1%
<b>TOTAL</b>	<b>82.2</b>	<b>7,326</b>	

Source: RCA; Deloitte analysis.

Rights holders greatly benefit from sponsorship of their top events, and as such will build a programme around the core product for the mutual benefit of the sponsor and rights holder themselves. Racing has some such sponsors but it would benefit from others. There is a balance to be reached between core Betting and internal industry sponsorship, and attracting more blue chip and aspirational brands from other industries.

## Owners' sponsorship

In the four year period to 2012, around £7.6m was received per annum as owners' sponsorship, which has continued its steady growth from levels of less than £3m in 1999.

Racehorse sponsorship enables owners to register for the VAT Scheme for Racehorse Owners, which allows owners to reclaim their VAT on racing related expenses. Some yards have blanket sponsorship agreements in place covering all horses, although a significant number of private sponsorship arrangements also exist. The ROA also helps to provide sponsorship via the Satellite Information Services Owner-Sponsorship Scheme.

Racecourses are increasingly looking beyond traditional race sponsorship to agreements such as stand naming rights and building a range of official partners.

### Jockeys' sponsorship

As a key public face of Racing, jockeys are also commonly sponsored (generally via branding of clothing) but for modest amounts. These totalled £450,000 across over 180 individual sponsorships in 2012 (less than £3,000 per agreement and often involving 'payment in kind'). The PJA also has a central sponsorship agreement in place with Stobart Group, covering 500 jockeys in 2012.

### Looking forward

A key challenge faced by Racing to grow sponsorship revenues is mitigating against the inherent disadvantage it faces of a relatively short period of time for the actual event(s) taking place, particularly if a single race, when compared to other sports. Racecourses and other bodies are seeking to address this through initiatives such as:

- Greater aggregation of rights – as used in other sports, which provides both more inventory for sponsors to build an activation programme beyond the simple "badging element". The QIPCO sponsorship of the British Champions Series is the highest value example of this and is anticipated to grow further. Greater aggregation is used in other sports to seek to reduce 'clutter' of multiple brands and remove low cost entry points which can drag down overall sponsorship value.
- More segmentation of sponsorship opportunities to fit prospective local, national and international sponsors' desired target audiences.
- Increased coverage of Racing outside of the core Racing media which in turn should provide sponsors with greater value.
- Ensuring new technology, including Customer Relationship Management, in the sports sponsorship market is fully harnessed.



## QIPCO BRITISH CHAMPIONS SERIES

Whilst the best Flat races in Britain have for decades formed the traditional 'Pattern', in 2011 the QIPCO British Champions Series was introduced to showcase the top 35 races and provide more of a narrative to the season. The series is composed of five categories – Sprint, Mile, Middle

Distance, Long Distance and Fillies & Mares – with each category comprising the seven highest rated races.

Opening with the 2,000 Guineas in May and concluding on British Champions Day in October, the series is staged at 10 racecourses and includes

all the key meetings of the British Flat season. Following initiatives in other sports to clearly signpost their prime assets to attract more 'non-core' fans, the creation of the season-long series aims to draw further interest and investment in British Racing by clearly flagging the top 35 races as a 'premium product', balanced against maintaining the tradition of the Flat racing season.

The subsequent generation of media value via enhanced broadcasting arrangements and other promotional activities has helped create a now visibly distinguishable brand. The

second year of the series in 2012 saw both a 14% annual increase in cumulative race audience and a 17% rise in its total media value.

The series climaxes on QIPCO British Champions Day at Ascot in October, which showcases the last races in each of the five British Champions Series categories and in 2013 offers total prize money of £3.35m, making it Britain's richest raceday. In both 2011 and 2012 it has been the best day's Flat racing anywhere in the world – challenging the Arc de Triomphe and Breeders' Cup as the end-of-season finale. In fact, based on World Thoroughbred Rankings, the 2012 running of the QIPCO Champion Stakes was the best race in the world since 1997.

Looking forward, British Champions Day in 2013 has been strengthened by the upgrade of the Fillies & Mares Stakes to Group 1 which, together with an increase in prize money of £350,000, should reinforce its growing status as the end-of-season finale.

The metrics shown illustrate the success of the first two years of the series, with marked increases across attendances, prize money and audience viewing figures.

Further efforts will be focused at raising the profile of the 'series' element of the initiative, creating an absorbing story for fans new and old to follow.

	2010 (pre BCS)	2011	2012	% change 2010 to 2012
Aggregate attendance at British Champions Series races ('000s)	658	715	1713	8%
Attendance at British Champions Day ('000s)	<sup>2</sup> 12.5	26.7	32.3	158%
Total prize money for British Champions Series	£11.1m	£12.9m	£13m	17%
Total prize money for British Champions Day	<sup>3</sup> £0.9m	£3m	£3m	233%
Cumulative terrestrial TV audience for British Champions Series	<sup>4</sup> 20.3m	28.4m	32.3m	59%
Peak viewing audience for British Champions Day	n/a	1.4m	2.4m	n/a

Notes: 1 Total attendances at British racecourses in 2012 declined by 8%; 2 Champion Stakes fixture at Newmarket; 3 Includes prize money of equivalent races; 4 Excludes three additional races now staged on Champions Day.

## INTERNATIONAL COMPARISONS

British Racing is highly regarded on the international stage and, helped by standout performers such as Frankel, the highest rated horse since world rankings began, Britain has been more resilient to the global economic challenges than many other major racing nations. This section compares and contrasts British Racing with its main international competitors by examining the quality and quantity of racehorses, attendances, and betting turnover. It then looks at the various – and varied – funding models that exist worldwide.

### Quality of racehorses and races

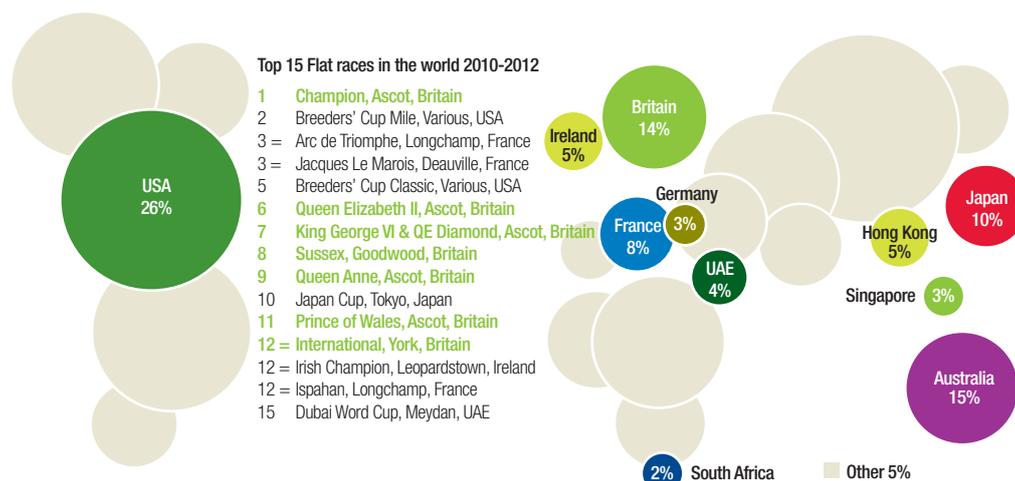
Of the 341 horses listed as the best in the world in the 2012 World Thoroughbred Rankings (WTR), 48 (14%) were trained in Britain, including standout performer Frankel. This is a similar proportion to 2008 when 15% of horses in the WTR were based in Britain, illustrating that – amongst other things – Britain remains a prestigious location for owners to train their horses.

In the four years to 2012 some £82m was won overseas by British trained horses, compared to £30m by overseas horses (including Irish-trained) in Britain. Whilst this is in part due to higher prize money levels abroad (see funding model comments later) it does demonstrate that horses trained in Britain are extremely competitive on the international stage, as exemplified by the fact that 16 overseas Group 1 races were won by British-trained (or being trained in Britain at time of racing) horses in 2012.

### Attracting the best

Britain has continued to stage many of the world's leading races by quality. In the increasingly global world of Flat racing, from 2010 to 2012 seven of the 15 top Flat races were staged in Britain including the top-rated race in the world, the QIPCO Champion Stakes (see Figure 32). The high standard of

Figure 32: Top international classified Flat thoroughbred racehorses by training location – 2012



Source: 2012 World Thoroughbred Rankings; IFHA; Deloitte analysis.

these races is boosted by the appearance of many top overseas horses in Britain, with 16 of the 32 British Group 1 races in 2012 won by such runners.

Britain also remains the global hub for Jump racing, with over 220,000 people flocking to the Cheltenham Festival every year to witness the clash of the best jumpers in Britain and Ireland, and the Grand National meeting at Aintree with its centrepiece as the world's greatest steeplechase.

The list of top Flat races demonstrates the enduring appeal Britain has in attracting the owners of the world's leading thoroughbreds to compete. Royal Ascot hosts runners not only from all over Europe but also much further afield including Australia, the USA, Hong Kong, Japan and South Africa amongst others.

Part of this international pull is the 'aspirational' status that racehorse ownership commands in Britain, as seen by its high social standing and relationship with the Monarchy – in sharp contrast to some other racing nations. This image of British Racing has been a factor in the growing

The list of top races demonstrates the enduring appeal Britain has in attracting the owners of the world's leading thoroughbreds to compete.

number of overseas investors purchasing British (and Irish) bloodstock at British auction houses. In 2012, purchasers from over 50 territories bought foals or yearlings at Tattersalls.

### Bet British

British Racing's reputation for the highest quality and standards of integrity has enabled it to develop an extensive and growing global broadcasting reach to support betting on its races. Britain now has a single body, GBI Racing, selling the pictures of British Racing to global betting operators. Nearly 40 countries now take content from GBI Racing, ranging from established racing nations such as the USA and Australia to more emerging nations in terms of horseracing betting. One such example is Israel, who in a competitive tender selected British Racing as the best partner as they opened up their sports betting market in 2013 beyond existing football and basketball offerings.

Broadcast coverage has helped drive levels of international betting on British Racing which in 2012 saw over £386m of international tote turnover, up from around £200m in 2008.



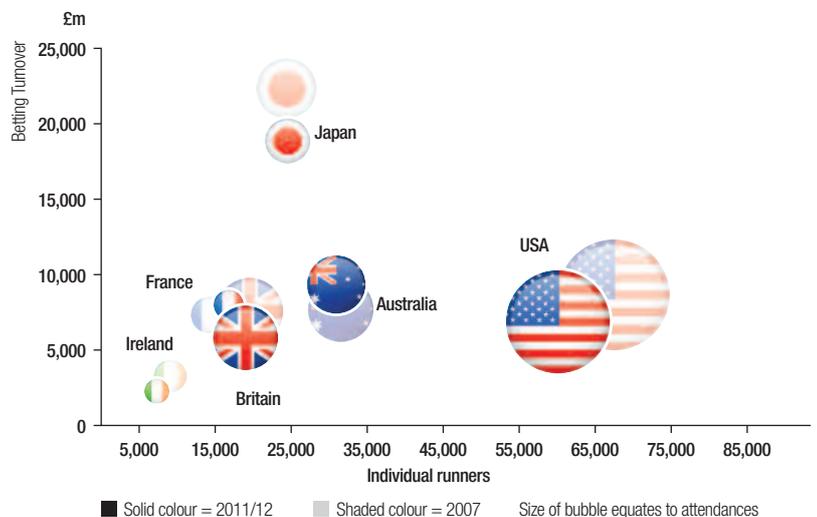
### Resisting the economic headwinds

Whilst Britain has suffered considerably from the difficult economic conditions since 2008 the downturn has also been felt globally, with most Racing nations being affected to some degree as illustrated by the following global horseracing statistics.

- Overall foal production decreased by 13% in the three years from 2008-2011.
- Total betting turnover from 2003-2011, despite increasing nominally by 1.9%, has actually decreased by 1.2% when foreign exchange variations are taken into account and after considering inflation represents a marked real decrease.
- The relative economic decline of large parts of Europe and America compared to other parts of the world

Britain appears to have weathered the economic downturn better than most other racing nations.

Figure 33: Leading horseracing nations – betting, horses and attendances



Note: For 2011/12 data 2012 have been used where available, 2011 where not. 2007 and 2011 betting turnover data shown at 2012 exchange rates.

Source: IFHA, Racing Authorities; Deloitte analysis.

## INTERNATIONAL COMPARISONS



is mirrored in the global racing industry. The proportion of total thoroughbred horse numbers, prize money and betting turnover have all decreased in Europe and America and increased in Asia between 2007 to 2011.

Figure 33 shows how British Racing compares on the international stage by three key metrics – betting turnover, the number of different runners and racecourse attendances. Britain does appear to have weathered the economic downturn better than most other racing nations:

- The number of different runners has remained at a similar level to 2007, unlike the USA and Ireland which have both seen sizeable decreases.
- Betting turnover on Racing in Britain has decreased from 2007 but this is also the case in the USA, Ireland and

notably in Japan. There are particular challenges faced by Britain as discussed in the **Betting** section of the report, but globally racing faces common problems of intense competition from the ever expanding range of other betting products.

- Attendances in Britain have also been maintained at around 2007 levels unlike the other leading racing nations which have all experienced declines over the period.

Another factor which strengthens Britain's position is that there is an inherent interest in racing as a sport amongst the general population, rather than just as a betting medium. This broader interest base, which covers all social classes and geographic areas, will have helped British Racing prove more resilient to the economic strain of the last four years.

*There is an inherent interest in racing in Britain as a sport amongst the general population, rather than just as a betting medium.*

#### **British Racing's alternative funding**

British Racing's resilience is perhaps perversely aided by the fact that, due to the lower proportion of betting profits returned to racing in Britain compared to other nations, it is not as dependent on betting related income, forcing a more diverse revenue mix (see **Racecourses** section).

Other countries which have often lucrative pool betting monopolies in place, whilst receiving a fairer proportion of betting revenue, have not had the same imperative to develop other income sources, so struggle to adjust when this dominant revenue stream experiences declines.

Putting that aside, the much lower levels of funding from betting received by British Racing are stark. The racing industries in those countries with a pool betting monopoly typically receive 6-10% of betting turnover on racing.

By illustration the PMU in France, which along with Ireland is arguably Britain's biggest competitor, returned over £760m to racing (including trotting) in 2011, over 9% of the £7.9 billion betting turnover on French racing. Even those countries with a more diverse betting market return a greater proportion of betting turnover to the sport. In Australia, which has a mix of established pool betting and growing fixed odds betting (mainly online), racing received more than £340m from betting operators in 2011 – c.4% of turnover.

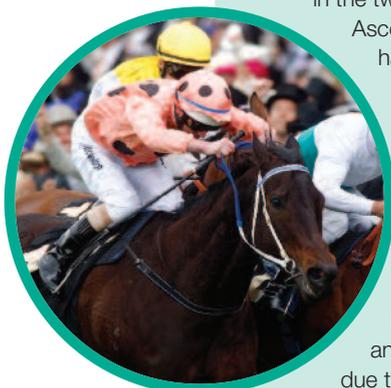
In contrast, in 2012 British Racing received significantly less than 2% of onshore betting turnover on British Racing through those mechanisms directly related to gross win, being the Levy and commission from on-course Tote betting. Even allowing for the media rights payments generated through different markets (see **Racecourses** section) the return to Racing is far lower than overseas.

### Looking forward

Healthy competition between the major racing nations for the best horses and largest owners already takes place, with Britain more than holding its own.

The establishment of QIPCO British Champions Day as an end of Flat season finale to challenge the Arc meeting in Paris and the Breeders Cup in the USA is a continuation of that trend. At the same time there is increasing co-operation between racing nations, most notably in enabling and promoting greater betting on each other's product.

The potential emergence of a significant Racing industry in mainland China will see further competition between established nations as they seek to help the relevant authorities to develop the industry there. The reputation of British Racing should stand it in good stead to play a key role.



## BLACK CAVIAR

**“ Just as Frankel has set the standard for overall equine excellence, so Black Caviar has set the new benchmark for equine distaff excellence.”**

**IFHA World Rankings Supervisory Committee**

Royal Ascot regularly sees a number of non-European challengers competing in its sprints. Since the Global Sprint Challenge began in 2005, 45 horses from outside Europe have competed in the two Group 1 Royal Ascot sprints and there have now been four Australian winners and two from Hong Kong.

However, the fervour surrounding the Australian challenge in 2012 exceeded anything seen before due to the participation of

“the Wonder from Down Under”, Black Caviar. At the time unbeaten in 21 races, Black Caviar's fan base had reached global proportions and the international racing world eagerly anticipated her first run outside Australia at the most prestigious meeting in the world.

Running in the Group 1 Diamond Jubilee Stakes on the Saturday of the Royal meeting, large crowds were anticipated due to her travelling support. Whilst the Saturday of Royal Ascot usually sells out its 77,000 capacity, Ascot officials stated that more than 5,000 tickets had been sold to customers with Australian addresses, and this would be perhaps doubled by ex-pat Australians

attending. Despite the race taking place at 1.00am in Black Caviar's home city of Melbourne it was still shown on a big screen in Federation Square as the climax to a civic celebration, and pictures were also broadcast live on America's TVG racing channel. The presence of Black Caviar played a key role in helping to boost the overall Australian Tote betting turnover on the meeting by over £2.6m.

The 'supermare' managed to delight her legions of fans and won by the narrow margin of a head. Her run at Royal Ascot was to be her only racecourse appearance outside of Australia.

Black Caviar's offspring are also likely to be record breakers at the sales based on her exemplary racing career. Indeed, her half-brother was sold in April 2013 for an Australian yearling record of £3.25m.

Whilst is unlikely we will see the like of Black Caviar again, the draw of British Racing means global racing superstars will continue to regularly be seen at British racecourses.

### FACTFILE: BLACK CAVIAR (AUS)

**25/25**

(15 Group 1s)  
Races won/run

**Est 10,000**

Australian attendees  
for her appearance at  
Royal Ascot 2012

**£4,652,092**

Total prize money won in Australia and Britain

# RURAL CONTEXT

**Due to the significant land requirements and specialist facilities required to train or breed racehorses Racing has always been a rurally-based industry at heart, and as such plays an important role in the rural economy and communities.**

Racing is particularly important to areas where a high proportion of its participants are directly employed in the sport such as the training centres of Newmarket, Lambourn and Middleham, but, with trainers and breeders spread across the whole of the British Isles, most rural areas benefit from the industry to some extent. Racing's core industry employs 17,400 FTEs and the majority of these will be based in rural areas. The only notable exceptions are Racing's governance, administrators, media organisations and the more urban-based racecourses.

Rural businesses, mainly small and medium-sized enterprises, continue to make a substantial contribution to the British economy. Over the past decade the population of rural areas in England actually grew 10% faster than their urban counterparts.

The table below compares employment patterns in the core Racing sector with the wider Agriculture, Forestry and Fishing industry sector (that most closely aligned to Racing in the Standard Industrial Classifications).

**Figure 34: Agriculture, Forestry and Fishing industry sector comparison – 2012**

	Total jobs	Full time	Part time
Agriculture, forestry and fishing	375,000	80%	20%
Core racing sector	<sup>1</sup> 17,400	77%	23%

Note:  
1 FTE – Includes all full time, part time and raceday roles.

Source: Office for National Statistics, UK Commission for Employment & Skills.

## The broader equine industry

As is the case for the Racing sector, the larger equine industry is predominantly rurally located and fulfills a vital role in the rural economy in terms of employment and revenue generation. The National Equestrian Survey, most recently carried out by the British Equestrian Trade Association in 2011, found that, like the majority of industries in Britain, the equestrian industry has suffered as a result of the economic downturn. The survey found that the number of people riding had declined from the previous survey carried out in 2006 mostly due to expense, with another significant reason being the loss of access to a horse. As consumers' disposable income levels have decreased during the period of recession people have been less able to afford to ride or keep a horse as a result. This has been exacerbated by the rising costs of the upkeep and care of horses, largely due to increases in raw material prices, notably feed.

**Figure 35: Horse Owners and Riders**

	2006	2011
Number of horses	1.4m	1.0m
Number of owners	0.7m	0.5m
Population that rides once a month	2.1m	1.6m
Population that rides at least once a year	2.2m	1.9m
<b>Total riders p.a.</b>	<b>4.3m</b>	<b>3.5m</b>
Land dedicated to horses	0.5m ha	n/a
Direct expenditure on upkeep and care of horses	£2.6bn	£2.8bn
Equestrian sector gross output (excluding racing and major equestrian events)	£4.3bn	£3.8bn

Source: British Equestrian Trade Association National Equestrian Survey.



Point-to-point racing provides an important link between the grass roots and professional Jump racing.

There are obvious parallels between the Racing and equestrian industries, with the numbers of horses in training and owners also declining over the same period, albeit not as significantly as the broader equestrian sector. Perhaps the most obvious areas of overlap in rural areas between the equestrian and Racing industries occur via the manufacturers and retailers which provide supplies to trainers, breeding establishments and riders (both jockeys and work riders). A wide variety of items such as feed and nutrition, bedding, riding and safety equipment will be used in both the Racing and equestrian sectors so an increase in costs will naturally have repercussions for both.

## Point-to-point racing

Point-to-point racing provides an important link between the grass roots and professional Jump racing. Point-to-point meetings, and the amateur jockeys, trainers and permit holders that compete at them, are very much rurally based, often affiliated to local hunts, and the amateur sport plays a significant role in these communities. Running from November to June, Point-to-point delivers economic benefits to rural areas and also acts as a 'feeder system' to the professional racing industry with many of the leading professional jockeys and some horses having graduated from the Point-to-point ranks.



**Figure 36: Point-to-point 2011/12 season key statistics**

Annual racedays	189 of 209 scheduled
Hunter certificates registered	3,377
Riders certificates issued	722
Number of courses	109
Total raceday attendance	630,000

Source: BHA.

Whilst there has been a modest decline in the number of riders and horses since 2008, mirroring the trends in the wider equestrian sector, the enduring popularity of Point-to-point is demonstrated by the number of people attending racedays which has remained at a similar level to four years ago.

Whilst not exclusively a rural phenomenon, Pony racing has also developed in recent years to accompany Point-to-point as an important source of new riding talent. 46 races took place on British racecourses in 2011 and a number of Pony racing graduates are now well established on the professional circuit including Sam Twiston-Davies and Rhys Flint.

## HORSE WELFARE

The welfare of its equine participants continues to be an utmost priority for all stakeholders in British racing. This message has been reinforced by 'The Horse Comes First' campaign, funded by the DCMS British Horseracing Grant Scheme, in which the BHA, Racecourse Association, ROA, PJA, NTF and The Jockey Club have all collaborated to highlight the high standards of equine welfare in the sport and to improve understanding of the care given to racehorses in Britain before, during and after their racing careers.

Racing in Britain is among the world's best regulated animal activities and the level of care and quality of life of the 20,000+ horses in training is among the highest for any domesticated animal. The welfare standards within British Racing are set significantly higher than existing national animal welfare legislation.



British Racing continues to play a leading role in the advancement of equine veterinary research and techniques which brings benefits for the wider horse population in Britain, not just racehorses. A key role is played by the Levy Board Veterinary Advisory Committee, which advises on matters related to the advancement of veterinary science and education by recommending investment in priority areas, identified in consultation with the racing and breeding industries. The Levy Board awards funding grants for equine veterinary research projects based on these recommendations. In the last decade the Levy Board has invested over £20m in veterinary activities, including research and education.

Racecourses also contribute significant resources to horse welfare, and in the last four years it is estimated that over £14m of investment has been made in this area. An example of this has been at Aintree Racecourse, which since 2011 has spent c.£1m on improvements to the welfare provisions of horses. Working in conjunction with the BHA measures put in place for the 2012 renewal included enhanced watering facilities, improvements to wash-down and unsaddling areas and a number of other procedural changes. These were complemented by further modifications to the Grand National fences at the 2013 meeting, which helped contribute to there being no significant horse or jockey injuries in the 2013 race. The work undertaken to the racing surface at Musselburgh, Haydock, Carlisle and York (as mentioned in the **Capital Investment** section) also represents notable expenditure on horse welfare.

Due to both advances in veterinary care and welfare measures taken by racecourses, over the last 15 years the equine fatality rate in British Racing has fallen to just 0.2% of all runners.

Nor does the end of a horse's racing career mean an end to an active and productive life. Over 7,500 former racehorses are currently registered as being active in other equine disciplines including polo and eventing, as well all those retired to exercise and hacking. Dressage is another post-racing career for a number of retired racehorses – two high profile competitors in recent years being 2012 Grand National winner Neptune Collonges and the legendary Steeplechaser Kauto Star. Organisations such as Retraining of Racehorses play a part in helping to provide facilities, support and advice for the care, retraining and rehoming of former racehorses.

# RACING'S POSITION WITHIN THE SPORTS MARKET

**The British appetite for sport, in absolute terms and relative to its population size, remains unmatched anywhere in the world.**

Boosted by the 11m people who attended the London 2012 Olympic and Paralympic Games, an estimated 75m people attended paid sporting events in the UK in 2012 in what was a golden year for sport.

Racing continues to occupy a key position in the British sporting landscape, and in this section we compare the sport to its major competitors in terms of attendees, revenues and employee numbers.

## Attendances

Racing is Britain's second most popular sport in terms of attendees behind football, as shown in Figure 37.

Total attendances at Racing fixtures in 2012 were 5.6m – down from 6.1m in 2011, largely due to poor weather, but still almost a million more than Britain's third most popular spectator sport, Rugby Union. This gap has closed since 2008, with Rugby Union's total attendances increasing by an estimated 900,000 (24%) to 4.7m, boosted by the establishment of showcase fixtures at Twickenham and Wembley in the annual domestic club calendar.

Racing's high total attendances were driven by the number of fixtures. In 2012, the total of 1,369 fixtures generated an average attendance per fixture of 4,077. This compares to Rugby Union's average attendance per fixture of c.11,000 (from around 420 fixtures).

In common with Racing, cricket suffered badly from Britain's second-wettest summer on record, with estimated attendances in 2012 of 1.8m, down from 2.2m in 2008. Domestic cricket in Britain benefitted greatly from the development of Twenty20 with its mixture of spectator-friendly timings, exciting action and other entertainment.

This combination of top class sport with other leisure attractions, is also seen in British Racing through initiatives such as music nights.

The most prestigious events in the Racing calendar are among the most popular sporting events in Britain, making up four of the top ten highest attendances in 2012 (excluding the London Olympic and Paralympic Games), as shown in Figure 38. The Epsom Derby is Britain's best attended single sporting day.

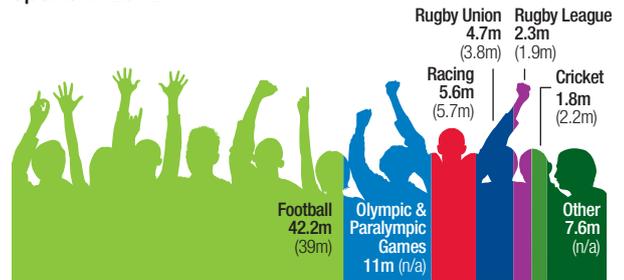
The stellar success of the ATP World Tour Finals at the O2 Arena, which was first staged in London in 2009, is an example of how a competition boasting a sport's elite players – backed by innovative marketing and expert presentation – is capable of appealing beyond a sport's core market. There are certainly parallels with QIPCO British Champions Day at Ascot as British Racing looks to build on the successful first two years of the new finale to the Flat season.

## Revenues

Racing remains the second-highest revenue-generating sport in Britain, behind football. The fact that racecourse revenues have only marginally increased to £386m in 2012, for the reasons previously discussed in the **Racecourses** section, has contributed to Rugby Union narrowing the gap. That sport's £334m revenue means it is now the clear third biggest revenue generating sport in the country. Football remains the country's highest revenue-generating sport, with total revenues of c.£3.5 billion in 2012. This is 19% up on total revenue of around £2.9 billion four years ago.

New broadcasting deals mean Premier League revenues alone look set to pass the £3 billion mark in the 2013/14 season, highlighting football's continued dominance over the British sporting landscape. However, the British public's appetite for sports other than football,

**Figure 37: Total attendances in Britain for selected sports in 2012**



Note: Figures in brackets indicate 2008 equivalents. Source: BHA; Deloitte analysis.

**Figure 38: Top ten attended sporting events in Britain in 2012**

Rank	Sport	Event (duration in days)	Aggregate attendance
1	Tennis	Wimbledon (13)	485,000
2	Motorsport	Formula One (Silverstone) (3)	297,000
3	Racing	Royal Ascot (5)	280,000
4	Tennis	ATP World Tour Finals (8)	263,000
5	Racing	Cheltenham Festival (4)	237,000
6	Golf	The Open (4)	181,000
7	Equestrian	Burghley Horse Trials (4)	178,000
8	Racing	Epsom Derby (2)	160,000
9	Racing	Aintree Grand National (3)	150,000
10	Motorsport	MotoGP at Silverstone (3)	146,000

Note A: Includes an estimated 100,000 attendees on the Hill who pay limited admission fees.

Source: BHA; Deloitte analysis.

as demonstrated by the attendance figures highlighted above, illustrate how football's appeal need not eclipse other sports.

The last five years have seen limited growth in football clubs' matchday revenue, as clubs have recognised the pressure being put on fans' finances by higher ticket prices. This mirrors British Racing's experience as racecourses have resisted price increases despite cost inflation in the economy.

Rugby Union revenues have grown by an estimated £52m (18%) since 2008, with growth through all three revenue sources. Event day (£123m) and commercial revenues (£122m) contributed similar proportions of total revenue in 2011/12, at 37% each. Investment in stadium facilities has helped drive attendances, increase ticket yields, and develop non-

matchday opportunities which have been key in underpinning growth across these two revenue streams. As a relatively young professional sport, Rugby Union continues to increase the quality and sophistication of its offering to supporters, broadcast and commercial partners.

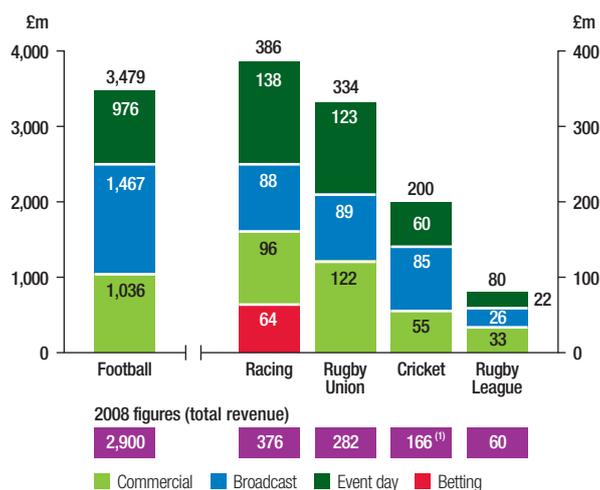
Cricket revenues have grown to £200m in 2012 from £166m in 2007 largely driven by a substantial uplift in broadcasting revenues. Event day revenues were only marginally up, with the wet 2012 summer having a negative impact – mirroring Racing's experience.

It is estimated that Rugby League revenues have grown by c. £20m (33%) over the last four years, due largely to a £14m (117%) increase in broadcast revenues, from £12m to £26m. Rugby League works extremely closely with its broadcast partners in scheduling and presentation matters, which has greatly contributed to creating value for all parties. British Racing's new five year exclusive broadcast partnership with Channel 4 is also an example of such cooperation.

The substantial increases in media revenue of British Racing now mean that, together with Rugby Union and cricket, it generates higher media revenue than any sport in Britain with the obvious exception of football.

The analysis in Figure 39 further demonstrates how British sport has proved remarkably resilient to the worst of the economic downturn over the last five years, with all sports enjoying at least some growth. Sport's customers are typically passionate about their chosen sports and hence will often make sacrifices in other areas of their lives before giving up their season ticket, satellite TV subscription and other associations. Racing's revenue growth has been markedly lower than the comparative sports but that is in large part due to the steep decline in Levy receipts for a variety of reasons, many unconnected to economic pressures.

**Figure 39: Revenue breakdowns for selected sports in Britain – 2012**



Note: To aid comparability, racecourse revenues do not gross catering revenues and exclude entry fees and will therefore differ from the figures shown in Racecourses section. Football, Rugby Union, Cricket and Rugby League revenues include income from international matches.  
1. 2007 figures.

Source: Deloitte analysis.

While Racing has seen some recent growth in sponsorship and other commercial revenues, it still lags behind other sports in both the relative and absolute amount it generates from this area. The sports sponsorship market is challenging, with much of the value and growth focussed on a few premium properties, often with global appeal. Nonetheless, there are opportunities for all sports, including Racing, to grow such revenues by effective targeting and adopting a partnership approach with sponsors.

The ability of a sport to grow, or even maintain their event day revenues, is dependent on having venues which are safe and attractive places for sports fans to visit. Over the last ten years British Racing, particularly its racecourses, have seen levels of investment in facilities and infrastructure rivalled only by football within British sport. All successful sports have invested, and will continue to invest, large sums of money in their facilities – whether the c.£200m that has been

invested to date in Test Match venues since 2000, or the addition of a roof over show courts at Wimbledon. Failure to maintain the quality of a sport's venues risks losing spectators and ground to rival sports. As a warning of the dangers of this, Italian football's recent steep falls in attendance are largely due to the poorly maintained and out-dated stadia even many of their top clubs play in.

### Employees

In 2012, Racing employed c.13,000 full-time employees, with a further 4,000 FTE posts when including part-time and raceday employees. This is second only to football in Britain, whose clubs and administrative bodies employ approximately 21,000 full-time staff. Racing's estimated FTE total is substantially greater than Rugby Union (2,800), Cricket (1,700), and Rugby League (1,300).

### Looking ahead

Racing has maintained its position behind football as the nation's second most popular sport, but the gap between Racing and its closest challengers has closed in the last four years. Rugby Union in particular has enjoyed an increase in popularity, in terms of attendances and ability to attract corporate sponsorship.

Like all sports in Britain, Racing must continue to find new ways to deepen its engagement with its current customers, and also attract new entrants.

Showcasing the sport's top assets through initiatives such as the QIPCO British Champions Series, bringing new racegoers to the sport through race meetings with entertainment to support the core racing, and promoting the image of the sport beyond the racing and even sports media all have an important part to play.

Over the last ten years British Racing, particularly its racecourses, have seen levels of investment in facilities and infrastructure rivalled only by football within British sport.

# RACING'S POSITION IN THE LEISURE INDUSTRY

The pure sporting side of horseracing is at the heart of the Racing industry, the driver of horse ownership and breeding, and the main reason many people go racing. However, a day “at the races” combines many of the nation’s favourite leisure activities – which is both a strength but also the source of evolving and widespread competition from other leisure offerings.

This section first positions Racing against other relevant leisure activities. It then sets out how the sport is the driver for significant off-course expenditure in the leisure and transport industries.

## Size and diversity of the leisure market

Leisure expenditure is discretionary and naturally becomes more vulnerable during periods of economic decline and uncertainty. Following two years of decline in 2008 and 2009, the UK leisure market is generally only considered to have recovered to 2007 levels of expenditure in 2012, and even then this is based on current prices – meaning it has experienced a sizeable

real contraction. The fact that expenditure on Racing has increased between 2008 and 2012 illustrates that it has withstood the economic constraints better than many other parts of the leisure industry.

Figure 40 below shows the relative popularity of various leisure activities in Britain in 2012, and highlights how many of them are regularly combined with Racing – whether directly at the racecourse or as part of a wider day out.

‘Intertainment’ (leisure time at home) has gained popularity in recent years as consumers are increasingly demanding value for money for their leisure spend.

The current economic climate encourages consumers to be price and value conscious but a sole reliance on price to drive/protect demand is unsustainable in the medium term.

Online surveys into racegoer behaviours and preferences illustrate this point, as when asked what prevents them from going racing more often typically around a third cite the cost of going racing, but lack of available leisure time is consistently the most quoted reason

The fact that expenditure on Racing has increased between 2008 and 2012 illustrates that it has withstood the economic conditions better than many other parts of the leisure industry.



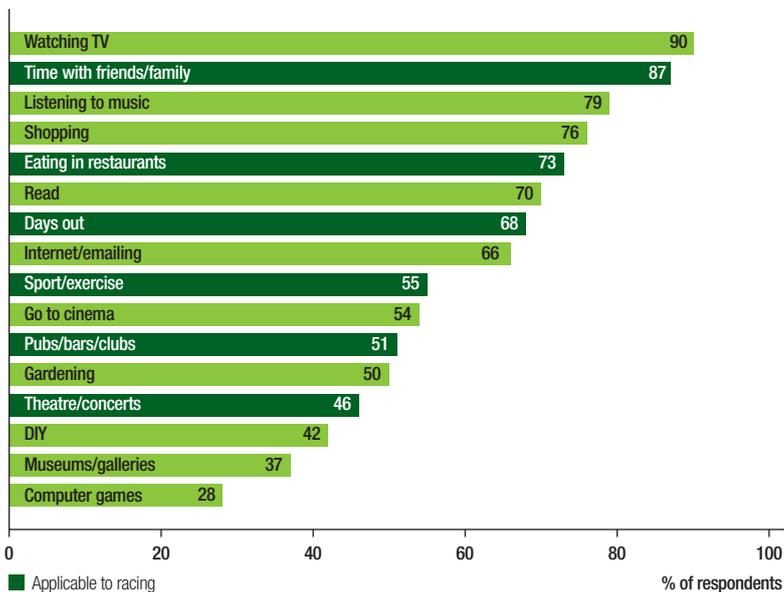
(usually over 40%). Around a quarter of racegoers say they go racing as often as they wish.

There are other levers that leisure operators must employ to compete successfully in the market. Arguably the two most important are investment in new facilities and a focus on improving customer service levels. It is no coincidence that racecourses have focused on both in the last decade.

Initiatives include:

- VisitEngland Quality Assured Racecourse Scheme – 54 racecourses in England and Wales have been accredited by VisitEngland with an assessment team providing visitor experience feedback. The scheme is in its third year and is a first for sports venues in England and Wales. Racecourses in Scotland are covered by a similar VisitScotland scheme.
- The RCA Showcase and Awards – established by the Racecourse Association to recognise and reward how racecourses are innovating to improve the customer experience.
- Great British Racing Advisory Panel – the establishment of a panel of senior operators from consumer brands and wider media who will act as an independent forum to discuss and recommend innovative opportunities for British Racing.

Figure 40: Activities performed in free time

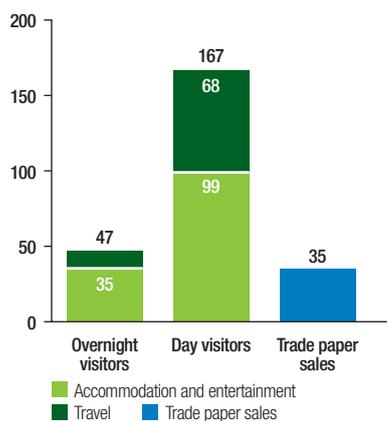


Note: Dark green shading has been used to highlight leisure activities that could be combined with Racing. Percentages do not sum to 100 per cent as respondents could give more than one answer.

Source: Taking Part: The National Survey of Culture, Leisure and Sport, Department for Culture, Media and Sport, 2011/12.



**Figure 41: Estimated off-course expenditure in Britain – 2012**



Source: Deloitte analysis.

- Making it simpler for new racegoers to understand the sport's terminology through a variety of central and individual racecourse actions. These include improved signage and consistent branding to explain the different enclosures at racecourses, and distribution of literature to explain the sport's terminology, both of which can be confusing to newcomers to Racing.
- Introduction of customer loyalty schemes, notably the Jockey Club's Rewards4Racing, under which customers earn points from various Racing activities/spending which are redeemed against Racing products or with the scheme's commercial partners.

These initiatives are in addition to the racecourses' existing focus on combining racing with other entertainment as discussed in the **Attendances** section.

#### Off-course expenditure

Given that racegoers often combine other activities with going racing the sport generates substantial additional expenditure, comparatively more than many other sports, in part as many racegoers go racing relatively infrequently, so may make a major occasion of the day.

The areas surrounding racecourses benefit from a large proportion of this secondary raceday expenditure, which includes transport to and from the meeting, accommodation, food and drink and entertainment for those staying in the area overnight. For many leisure-focussed businesses their takings on racedays are amongst the highest in the year.

The level of off-course expenditure naturally varies across the fixture list, with Racing's flagship festivals attracting the largest crowds and generating the greatest expenditure.

A substantial proportion of this expenditure is derived from major multi-day events such as the Cheltenham Festival (aided by an estimated 5,000+ Irish racegoers per day) to a very low proportion of racegoers for a single day

Given racegoers often combine other activities with going racing the sport generates substantial additional expenditure, comparatively more than many other sports.

midweek fixture. It has been estimated that, on average, one in 20 racegoers include an overnight stay (although much lower for many fixtures) and in 2012 these racegoers incurred total expenditure of £47m on accommodation, transport and food and drink.

The remaining racegoers are day trippers and are estimated to have incurred expenditure of £167m on transport, off-course food and drinks and other spending – an average of £31 per attendee (again with very significant variation).

British Racing benefits from the media coverage of extensive specialist racing papers, primarily the Racing Post, the only daily specialist sports paper in the UK. In 2012 the average daily circulation of the Racing Post was over 47,000, and significantly more on a Saturday. In common with virtually all newspapers circulation has fallen in recent years, however the Racing Post has developed an extensive range of digital services as customers migrate online. Once spending on other racing publications is added it is estimated around £35m was spent on Racing papers in 2012.

Once racegoers' off-course expenditure is added to trade paper spending, total off-course expenditure is estimated to have been c.£250m.

# REPORT PREPARATION, METHODOLOGY AND LIMITATIONS

## INTRODUCTION AND SCOPE OF OUR REVIEW

The BHA commissioned Deloitte LLP ("Deloitte") to produce this Report, which has been prepared in accordance with the contract dated 16 November 2012. The Report sets out the results of research and analysis of the Economic Impact of the British Racing Industry, and sets this in the context of other sports, leisure activities and the rural economy in Britain and major overseas racing nations.

## USE OF THIS REPORT AND LEGAL RESPONSIBILITY

Some of the matters discussed in this Report are by their nature technical. The intended recipient of the report, the BHA, is familiar with the issues, facts and other matters addressed and the Report was written with that in mind.

This Report is prepared for the sole and confidential use of the BHA and for the purposes set out in the terms of engagement. In preparing this report our only responsibility and duty of care is to the BHA. We did not, and do not by consenting to publication of this Report, assume or accept or owe any responsibility or duty of care to any other person.

The BHA has asked for our consent to making this report publicly available by posting it on BHA or other Racing websites, and other appropriate distribution methods as agreed with Deloitte. We have agreed to provide such consent on the following conditions:

- This report may not be suitable for the use of any person other than the BHA. Accordingly, publication of this report to persons other than the BHA is for information purposes only and no person other than the BHA should place any reliance on this Report; and
- We do not assume or accept or owe any responsibility or duty of care to any person other than the BHA. Accordingly, any person other than the BHA who, contrary to the above, chooses to rely on this Report, does so at their own risk and we will not be responsible for any losses of any such person caused by their reliance on this Report.

## ECONOMIC MODEL METHODOLOGY

The methodology applied can be simplified into three broad stages described below:

- Collation of direct and indirect expenditure data from available information.
- Translation of expenditure data into expenditure by industry type to facilitate modelling.
- Development and use of an input-output model to estimate the wider effects of the industry on the economy as a whole.

### 1. Collating industry expenditure

The methodology used in estimating direct and indirect expenditure within the industry is discussed in the main body of the document.

The collation of this information serves two purposes. First and foremost as an end in itself, but also as the input to the model which generates estimates of multiplier impact activity in the rest of the economy. An example of this is the need to source services that are not related to the core industry, such as a trainer using the services of an accountant.

The method used to assess this type of knock-on benefit is outlined below.

### 2. Translating expenditure

The horseracing industry does not neatly correspond directly to one of the 108 industry/product groups used for modelling purposes as defined by the Office for National Statistics in relevant 2005 Input-Output Analyses ("ONS"). For this reason it is necessary to relate industry expenditure to the appropriate industry/product.

This means that the direct expenditure is treated as a sporting activity, which comes under industry/product group 121 – Recreational, Cultural and Sporting Activities.

Indirect off-site expenditure such as on retail and travel is distributed accordingly to the relevant industry/product group.

### 3. Modelling

The multiplier methodology described below is used extensively by Deloitte in assessing both the impact of a given sector or industry on the national economy or the economic impact of new developments in a given location.

The model is based upon the 2005 Domestic Use input-output table for the United Kingdom, produced by the ONS.

Specifically the model is based upon the publicly available Input-Output Analyses, which have been modified to differentiate between types of impact that are not published by the ONS. The model details what proportion of inputs each industrial sector sources from other sectors when producing an extra unit of output.

The principle behind a multiplier effect is that a change in economic activity will have knock-on effects for the rest of the economy. These effects can be assumed to take place through two channels:

- Supply-chain linkages (Business to Business effects) – if industry demand increases it can be assumed that production will increase. This expansion requires more raw materials and associated services from other industries. In turn these other industries may need to increase production to meet the demand and they too will increase levels of economic activity (the indirect effect); and
- Consumer or wage effects – an increase in an organisation's activity level will mean a higher wage bill. This money will be spent partly in the economy. This rise in consumer demand requires increasing production of goods and services, hence increasing expenditure (the induced effect).

The multipliers used in this Report, give both the indirect and induced effects of expenditure in the horseracing industry.

The indirect and induced effects are estimated by Type I and Type II multipliers in the model. Type I multiplier data allows us to calculate the indirect effects as a result of the initial expenditure. Type II multipliers enable us to calculate the indirect and induced effects generated by the initial expenditure. By taking the differences between Type I and Type II effects, it is possible to isolate the consumer spending effects of the expenditure.

It should be pointed out that in interpreting the results from the model, the hypothetical removal of the horseracing industry from the UK economy would not result in a drop in national economic output of the magnitude that the industry currently contributes. This is simply because businesses and people would spend their money elsewhere.

The model is intended to show the extent to which the industry is linked with the rest of the economy and what the contribution of the industry currently is, rather than suggesting what would happen to the UK economy if the industry did not exist.

## CONSULTATIONS

We have consulted with individuals from over 30 organisations from every sector, including:

- Racecourses – Racecourse Association, Arena Racing Company, Jockey Club Racecourses, Ascot, Goodwood, Newbury, York, Salisbury, Ludlow.
- Other racing organisations – Great British Racing, Jockey Club, Levy Board, Weatherbys, Professional Jockeys Association;
- Ownership and training – Racehorse Owners Association, National Association of Stable Staff, National Trainers Federation, Jockey Club Estates;
- Breeding – Tattersalls, Thoroughbred Breeders Association;
- Betting industry – Association of British Bookmakers, Betfair;
- Broadcasting – At The Races, Channel 4, Racecourse Media Group, Racing Post, Satellite Information Services;
- International – Various international horseracing governing authorities and IFHA; and
- Other – British Equine Trade Association.

## OUR RELIANCE ON INFORMATION

In preparing this Report, we have used information and data extracted from various published surveys, which we assume to be reliable, to obtain the inputs into the economic model which we used to estimate the economic impact of the Racing Industry. In addition, we have used information and data which have been provided to us by a wide variety of organisations including the BHA, other British racing organisations, overseas Racing bodies, the betting industry and Government sources. In all cases (and including information from organisations not listed), we have relied upon such information and data as being true, correct and complete and have not audited, tested or checked any such information or data.

## SPECIFIC LIMITATIONS OF OUR REVIEW

In accordance with our terms of engagement, or due to our findings when performing our work, the following specific limitations should be noted:

- The economic impact of those elements of the "Horse Industry" outside of the British Racing and Industry ("British Racing") – other than the

indirect expenditure which arises in these elements as a result of British Racing – has been excluded.

- The British breeding industry is complex and consists of a number of sub-sectors with distinct, often very different, characteristics. In preparing this Report we have considered the breeding industry in aggregate, and at a high level, only. The amount and robustness of information available for the breeding sector is currently less than for other aspects of British Racing addressed in this Report.

- The economic impacts in this Report do not specifically include the likely economic contribution made by off-course British Bookmakers from profits made on British Racing other than that generated through the Levy payments and tax paid on betting operators' gross win on British Racing.

- As a simplification of any industry an economic model of this type can only ever be expected to represent an approximation of a real-life outcome. The model relies upon information provided by stakeholders as well as data published by the Office of National Statistics ("ONS"). It is possible that industry linkages have changed since the publication of the 2005 Domestic Use Matrix, but as the latest available data on which to base our analysis the ONS data used is the most appropriate.

## GLOSSARY OF TERMS

<b>BHA</b>	British Horseracing Authority
<b>British Racing or Racing</b>	British Racing and Breeding Industries
<b>FOBT</b>	Fixed Odds Betting Terminal
<b>FTE</b>	Full Time Equivalent
<b>GDP</b>	Gross Domestic Product
<b>GPT</b>	Gross Profits Tax being 15% of Gross win
<b>Gross win</b>	Amount staked by bettors less prizes paid out
<b>GVA</b>	Gross Value Added
<b>Horsemen's Group</b>	A collective representing owners, trainers, jockeys, breeders and stable staff
<b>HBLB or Levy Board</b>	Horserace Betting Levy Board
<b>IFHA</b>	International Federation of Horseracing Authorities
<b>LBO</b>	Licensed Betting Office
<b>NTF</b>	National Trainers Federation
<b>PAYE</b>	Pay As You Earn
<b>PJA</b>	Professional Jockeys Association
<b>RCA</b>	Racecourse Association
<b>REL</b>	Racing Enterprises Limited
<b>ROA</b>	Racehorse Owners Association
<b>RMG</b>	Racecourse Media Group
<b>SIS</b>	Satellite Information Services Ltd
<b>TBA</b>	Thoroughbred Breeders Association
<b>VAT</b>	Value Added Tax



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