



**TUESDAY, DECEMBER 6, 2016**

## **Racinos: Is the Marriage Headed for a Divorce?**

### **MODERATOR:**

**Derron Heldt:** Director of Racing, Prairie Meadows Racetrack & Casino

### **SPEAKERS:**

**Greg Martin:** Vice President-Wagering, Woodbine Entertainment Group

**Christopher McErlean:** Vice President-Racing, Penn National Gaming, Inc.

**Lonny Powell:** CEO, Florida Thoroughbred Owners & Breeders Association

**Ms. Liz Bracken:** I guess we gotta get moving.

You guys all set? Okay? All right, everyone, if you could just settle in for the last panel.

Our apologies especially to them for running late, but I assure you we'll make sure the cocktail reception runs a little later, too.

We'll have everything covered.

We won't miss anything.

This is one of the panels that I put together.

I really love these speakers.

I think you're gonna get some very interesting opinions on, "Racinos: Is this marriage headed for divorce?"

Just give a shout-out again to our sponsors.

This is sponsored by American Quarter Horse Association and the Beverage Break, which we didn't really give you much time for — it was sponsored by Elite Turf Club.

Our evening reception later on will be Sky Racing World.

Without further ado, I will turn it over to Derron Heldt, director of racing for Prairie Meadows Racetrack and Casino, who is our moderator.

**[Applause]**

**Mr. Derron Heldt:** Thank you, Liz, and good afternoon.

Many racinos are in different stages of growth.

Today, we'll provide a look into what has taken place within our speakers' racing operations.

The majority of these racinos are doing very well.

Others are faced with stiff competition, dealing with a mature market, and the possibility of less racing and decreasing purse dollars that could hurt the breeding and racing industry within their states.

In addition, we will discuss the impact associated with the elimination of racino subsidies in racing.

Our first speaker is Lonny Powell.

Lonny has held numerous positions throughout the racing and is currently the CEO and EVP of Florida's Thoroughbred Owners & Breeders Association.

Lonny.

**Mr. Lonny Powell:** Thank you very much.

Good afternoon, everybody.

It's good to hear the reception is going to be extended out.

You don't need to leave our panel to get a drink, because the drinks will still be there.

Thank you, everybody, for coming here in the afternoon.

The last session is always a challenge.

This is a very good audience.

It's always great to come back to Tucson.

This symposium, this program, this university has had such a major impact on our lives.

Many of our lives of the people in this room, many of us that are alumni from this program — I was a student here.

I arrived here in 1980, as a student.

I was the director later on as some of you know.

I think this symposium and the program has done so much for so many of us.

It's so good to just get back together and compare our ideas and notes and dreams and challenges.

This is actually my 35<sup>th</sup> symposium.

I can't believe it.

I remember my first one in 1980.

The topics were basically, "Bute or Lasix, good or bad? Simulcasting and off-track betting, good or bad?"

You fast forward 35 years later, I think we're still having those same debates.

A lot else happened during those 35 years.

Should racing offer sports betting?

Should racing be more entertainment?

Gosh, we're still talking about some of those today, 35 years later.

I remember the very controversial topic at the time when some of the early speakers, John Mooney from Delaware Park being one of the first ones and this symposium when I was director, who said there should be slot machines at race tracks.

I remember the audience got pretty upset by that whole idea.

A lot of people didn't know where it was gonna take them.

Now, today, I think with this panel, you have some experts up here, we're gonna tell you the good, the bad, and the ugly.

Mostly, at least from my end, I'm gonna talk about the need to make this relationship work better and to morph and evolve.

I'm gonna literally jump on the title of this panel.

I saw it and I said, "That's perfect." Racinos: Is the marriage headed for divorce?

You're gonna hear a lot of marital themes throughout my presentation, but I've gotta tell you, I've been married for 35 years, so I don't have the divorce experience, but I sure as heck have some ideas on how it can head that direction.

You'll hear me try to make some parallels.

First of all, when it comes to the word "divorce," period, in some of our industries looking at things always — oh, everything is — our glass is half empty, the industry is dying.

I, for one, want to reference one of the speaker's remarks from earlier this morning, a former manager of mine who is such a good, passionate racing executive, Amy Zimmerman from Santa Anita.

I totally agree with her.

This industry we've been told has been dying for decades.

Yet, we keep coming back.

No doubt it's tougher.

No doubt it's changing, but the only way this industry dies is if we keep talking about this industry dying. Self-fulfilling prophecies do happen.

Likewise, divorce between gaming and racetracks, if we keep just insisting that it's a divorce, I imagine it will be.

I want to fall someplace in between.

I want to set aside the possible nuclear option of divorce and look more at how the marriage between pari-mutuels and gaming are getting to the point where there's a growing level of strain and tensions in some jurisdictions and in some facilities, and the need to somehow try to make this all work.

I mean, there's no doubt the need for deep intensive couple's counseling is long overdue in this marriage.

The difference between the two, between these two gaming and entertainment partners, in some situations seems to be verging on irreconcilable differences.

We don't want to see that happen.

The two partners appear to have grown apart over time with each of them feeling neglected and underappreciated by the other.

In fact, this wedded couple over time have, to a great extent, forgotten why they even got together in the first place.

In many cases, each of the partners feels misled or taken advantage of. In so many ways, this couple still really needs each other.

They can continue to be a foundation and a benefit to so many in their respective industries and communities.

The clues of the emerging strain between gaming and racing have been emerging and evolving for years, both in front of our very eyes and deep down under the surface.

I think all of us have to admit in this room that most, not all — or let's say many — racinos in this day and age when it comes to the concept of racino, the race part of that concept has been slowly but surely de-emphasized, while the "-ino" part of the equation has been driven up big time by a number racino owners and unfortunately some of our state and provincial governments.

Not coincidentally, if truth be told, some, not all, maybe not even many, racino owners greatly embrace the concept of fewer live racing dates, fewer live races, more gaming products, more floor space devoted to gaming, less money into the racing side of the facility, less investment into the racing customer, more expansion of casino marketing, less emphasis on racetrack marketing.

By the way, when it comes to those boardroom meetings and those staffroom meetings, we have one token racing person there.

You say, "Just keep those crazy racing people away so we can run our racino."

That's not everybody, but we all know there's some examples of that that are out there.

All that being said, you might find this to be shocking.

I'm not here to be an anti-racino presentation.

In fact, I'm pro-racino.

I'm pro-racino, like so many of us are, but it's gotta work right for everybody.

Many of us, virtually all of us in this room, have somehow some way benefitted from the contributions of gaming to racing operations, to purses, to track profits, to facility investments, and so forth.

In so many ways, it's been a good thing.

Let me reference Florida for a little bit, 'cause, like everything else in the country, Florida does things just a little bit differently.

When it comes to this whole racino concept, in a way, we're on the cutting edge and in some other ways, there's some other jurisdictions that actually quietly have gone down the same path as us.

First of all, as a Thoroughbred guy, I'm here representing the Thoroughbreds.

Although I'm a fan of all pari-mutuels, I basically run all types of pari-mutuels, but I'm a Thoroughbred guy.

When it comes to Florida, probably the greatest thing we have going for us in this mix is the fact that we are a major jurisdiction in breeding and racing. We're the second largest breeding jurisdiction in North America.

We're top three or four racing jurisdictions.

Our economic impact for Thoroughbreds exceeds that of baseball spring training, which is a pretty big deal in Florida. We're well over a billion-dollar annual impact.

The jobs, conservatively, are 12,000.

We have a bit of an industry to talk about, but nonetheless, we're facing some challenges, more the other breeds than the Thoroughbreds, but it still involves all of us.

I gotta preface my comments by saying where we're fortunate is our two Thoroughbred racetracks — Gulfstream Park and Tampa Bay — are committed to live racing.

They got into it for the racing end of things and they still want to make racing work and they want to grow racing.

They are not out on what's called the decoupling front.

Now, decoupling in Florida, for those of you who don't know what that concept is, it actually was invented here in Arizona, to my recollection.

I'll get back to that later, but what decoupling means — and please don't kill me, I'm the messenger, I know it makes no sense.

I know we should all get angry about it, but nonetheless there are certain major — the Seminole tribe, a number of greyhound track owners, some questionable quarter horse track owners, Hialeah, now a quarter horse track, and Calder, which is an in-between racetrack.

Is it a racetrack?

Isn't it a racetrack?

They all embrace decoupling.

Here's what decoupling is.

"Let me, the racetrack, the racino operator — let me just stop racing. Let me not invest in purses and breeders' awards.

Let me not put any money into a racing facility, but here's the catch, just let me keep all of the money that used to go to the horsemen and the dogmen.

Let me keep all that for profits. By the way, we want to keep our gaming and we want all future gaming and have a good day."

Well, we all know in this room that's bizarre, unless you're in for a money grab. Maybe some folks are.

That would be shocking.

I mentioned who the players are.

Even though we, as Thoroughbreds, are — we're cautiously and confidently optimistic that we will be out of the decoupling bull's eye.

We're still watching our pari mutuel brethren go down that path.

It sets bad precedent and it just isn't right.

Selfishly, it creates a bunch of mini-casinos that compete against our Thoroughbred racetracks.

It's unfair competition from a marketing standpoint if you don't have to invest in racing yet you are a racetrack.

I mean, let's also remember all these racing facilities got slots and cards because they passed referendums saying they were there to build the industry.

They were gonna help the community and the state, but they were going to build racing.

Nonetheless, it's been out there for the last couple legislative sessions.

We'll be dealing with it this session.

The Seminole tribe is a big driving factor in it as well.

Largest and most complicated Indian gaming compact in North America.

There's really a lot of things going on.

Also that's added to the mix is we had a couple of these, and I want to make clear, non-AQHA — AQHA is the standard bearer of credible quarter horse racing in this country — these are non-AQHA accredited and approved, rogue quarter horse permits, where they started out with barrel racing to have a card room.

Then when we defeated them on barrel racing, then they just went to flag-drop match racing, slow motion, 'cause nobody wants to win.

Some of these places handle between \$200.00 and \$1,000.00 a day while their card rooms are packed.

By the way, they want slots. They want slots, because, after all, they're a racetrack.

They've really been enablers to this whole process and really helped diminish the importance of racing. To the public, what does a real race look like?

They're in rural parts of the state and they're making a very bad picture of what racing is.

We have a legislative strategy.

I'm not gonna get into all of that.

We play to our strengths on the Thoroughbred side.

We, in Gulfstream and Tampa and Ocala breeder sales, are united in this approach.

Almost all the Thoroughbred industry is united in how we fight it.

We fight it basically — we're against decoupling, but if it's going to happen to any breed, we want to see revenue streams come from all these windfall profits going to the other folks get channeled into the second largest breeding and third largest racing jurisdiction in North America.

We think we have a case. We've made it well so far.

That's where we're gonna be.

Aside from Florida, I mentioned Arizona.

Arizona's where I first heard decoupling.

Phoenix Greyhound Park about seven years ago wanted to decouple live racing and still offer simulcasting on Thoroughbreds and greyhounds.

By the way, if gaming ever comes to Arizona, these want the slots, too.

Tucson Greyhound Park, down the road, just this year decoupled live racing.

They're a simulcasting place.

If they can get gaming, boy, they're all over it while you're got a track, Turf Paradise, virtually in — and Zia Park — you don't hear the only live-running places that don't have that advantage.

We've heard other jurisdictions in Iowa — and I think our moderator might address it.

It was really the first state to sell out its racino.

Greyhound tracks in Iowa sold out their industry to their state government by saying, "You know what? We'd just as soon not pay these dogmen purses and maintain these racing facilities. Let us just become a casino and we'll write you, the state, a check for what we were paying the dogmen," and they took the check.

We hear in New York slot machines are being installed or going to be installed in OTBs and tracks that don't even benefit the racing industry.

Race date reductions, all kinds of things are going on in so many jurisdictions — Pennsylvania, West Virginia, Canada.

Our speakers will address those.

Here's my, in a nutshell, advice to states, industries, or facilities that are or have racinos.

First, be proactive.

As tough as it is, get everybody together around the table and have that tough conversation — your track owners, your horse men, your regulators, and maybe even your local legislators and civic officials, and say, "How committed are we to live racing?"

By the way, what do you all define committed as?"

You need to know now where the stakeholders stand and what their intentions are or what their lack of intentions are before you have to do it with your back against the wall, a political gun at your head, and no time to react.

Build as much of a united, unified message as possible in coalition.

Unfortunately, not necessarily known as a strength in our industry over our history, but when times have gotten really brutal, we in the racing industry have united at least temporarily to fight the good fight.

Three, develop a plan A, B, and C.

Don't go into our typical industry reaction of denial and righteous indignation, 'cause it's just not right for this to be happening.

I hear you.

I feel it, but that doesn't get the job done.

Have back-up plans.

If the political process involved, for those of us that have lobbied for many years, we know the possibilities of hybrids that come out politically keep you on your feet.

You're gonna have to audible constantly.

Economic impact studies, dust them off, and if they're more than five years old, you need new ones.

That's every jurisdiction here.

You need new ones yesterday.

Please don't take that for granted.

They've been the biggest key for us in the Florida thoroughbred racing industry, to be able to demonstrate our point.

The politicians do understand independent economic impact studies.

Finally, on that end, take it from me and my fellow Floridians in this industry, get ready for a long and wild ride, but a ride that can be achieved.

Some parting advice I have for this martially challenged couple.

To the gaming spouse, remember your pari-mutuel spouse presented you with the engagement ring in the first place and brought you to the altar, for gosh sakes.

Remember, gaming spouse, the promises you made to your pari-mutuel partner, to their community, to their state.

You personally gave wedding vows that basically said, "For better or for worse, for richer or for poorer, and to death do us part."

Keep to your vows, gaming industry.

Finally, gaming spouse, don't underestimate the connections, the tenacity, and the resilience of your pari mutuel partner.

To the pari-mutuel spouse, we have some tough love there, too.

I look at myself in the mirror when I say it, but shame on all of us over the years.

This is something I've felt strongly about for a long, long time.

Shame on all of us that had racinos and for all those years just took that money as new money and threw it into track profits and threw it into purses and didn't set aside money for racing, for the racing facility.

Not the casino facility, not to enlarge casino dining rooms, not, "Oh, wait, we got some monitors here. Here's your casino space," but money in the facility for the customers, for the participants, and market to the existing and the future racing fans.

Virtually nobody's done that.

They took the money and said, "Oh, we'll have cross-over fans."

Well, that never happened, and now look where we're at.

It's not too late to get that going.

It's not too late to get to the table and try to do that.

I encourage everybody to do so.

Also, pari-mutuel spouse, you and your gaming partner still need each other in so many ways.

You mutually benefit from each other. Ultimately, our enemy does not need to be each other.

It's important we put forth the word, energy, and investment to make this marriage work and our future is stronger versus watching slowly but surely our differences become irreconcilable and dissolving of the racino marriage is our only unfortunate outcome.

It should not be.

It does not have to be. In places like Florida, West Virginia, Arizona, New York, Delaware, Iowa, the time is now to be doing this.

For some jurisdictions, the time was yesterday.

For almost all of you that have gaming in your states or have racinos, the time will be soon.

Be ready. Be prepared.

We've put up good fights before.

We've taken on many things in our industry's history.

Our industry is not going away, but it's being challenged. We need to be up to that challenge.

For that, I ask you all just to think ahead, prepare, and think big.

Thank you.

**[Applause]**

**Mr. Derron Heldt:** Thank you, Lonny.

Our next speaker is Chris McErlean.

Chris is the vice president at Penn National Gaming, Inc.

Chris oversees 11 pari-mutuel tracks across the United States that conduct over 1,200 racing events each year.

Penn Gaming is the largest operator of pari mutuel facilities and regional gaming operations in North America.

**Mr. Chris McErlean:** Thank you, Derron.

I want to thank the university for allowing me back here.

I think it's been about five years since I've been here.

I first came here in 1990, when simulcast was considered a growth industry and just beginning.

There were no racinos.

I had more hair and no glasses.

A lot has changed.

**[Chuckles]**

Is the marriage headed for divorce?

Lonny played up the marriage theme and I'm gonna keep that going here.

Given that Penn National Gaming has a wide footprint, I think I can hopefully give some perspective of the present, past, and future of what's been going on — on the racino side and tying it into the marriage theme.

Just a little bit more background on Penn National Gaming.

As Derron mentioned, we operate a lot of racetracks.

We're in 9 different jurisdictions, over 1,100 live performances annually, about a billion dollars in wagers processed through our facility.

Penn National Gaming started with a single racetrack in Grantville, Pennsylvania, in 1972.

Started with the racing roots and Penn, admittedly, has done very well in terms of the marriage of racing and gaming.

The casinos we have up here now, the seven properties range from just VLTs to full-scale casinos and, as you can see, are pretty widely dispersed geographically — we consider our sweet spot in terms of how we operate our casinos. In addition, we also have, in total, 17 other casinos across the United States adding to our portfolio.

We have a lot of perspective.

Some of that's good.

Some of that's challenging.

Hopefully, you'll be able to see here where it's been and where it's going.

Playing up on the marriage theme, we see some predictable themes with the racino marriage.

They're common themes.

It's like watching the same movie and, unfortunately, the same ending usually happens.

We're in different stages of the relationship.

The first one is obviously the honeymoon period.

The states that are in the honeymoon period at least from Penn National Gaming's side — the state of Ohio.

We started in 2012 with VLTs at the racetracks.

Actually, casinos were approved a year before in a constitutional referendum, and VLTs have been talked about for a long time and had failed on several referendums previously.

After the casinos were approved, the then-governor did an executive order and approved VLTs at the seven racetracks in the state, which Ohio was always considered a pretty rich market from a gaming perspective, and really opened it up.

To get some perspective, the Ohio racing industry in 2012, when it started, was certainly challenged.

While they had a lot of race dates, and the numbers seem fairly robust, remember that's seven racetracks, harness and Thoroughbred combined into that.

The numbers prior to 2012 were much higher.

I think the pari mutuel handle in the late 90s — mid to late 90s was over \$500 million.

Ohio had a very robust industry at one point and was certainly near the bottom at the point the VLTs started.

You can see the impact now that all the racinos are operating in Ohio.

Statewide purses have been very positively affected.

Statewide racing dates have gone up.

Pari-mutuel handle has gone down.

Again, it has stabilized over the past couple of years.

I think, again, it was still on a downward trajectory and things don't happen overnight in terms of just flicking the switch, because you have gaming at your racetrack.

We've been encouraged with the pari-mutuel trends, but, like the whole industry, it's challenged.

That's gonna be to get back to the — even the prior-2012 numbers.

It's gonna take some work in Ohio, but I think Ohio can be considered one of the early success stories certainly from a breeding perspective, which, again, you see a predictable and common theme with a lot of the states that get the gaming.

There's certainly a rush to get into those states, get in early, even before the gaming starts, when people know about it to get the foot in the door, so to speak.

It's almost a gold rush mentality. It plateaus and then goes down. Breeding of the Thoroughbreds in Ohio was actually pretty large at one point.

It's up almost 100 percent now, but is still less than the 1995 figures.

Again, it is growing.

On the Standardbred side, it's been really amazing in terms of the growth.

Ohio is probably gonna be the number one state for breeding of Standardbred race horses by the end of this year.

Ohio definitely has — can be seen as a success story early on in this relationship. Again, it's only about four or five years.

They still have some room to grow out, but it is a crowded marketplace.

In addition to seven racetrack casinos, which only have VLTs, there's also four full-scale casinos in the four major cities.

You have 11 casinos now operating in the state of Ohio, where almost less than five years ago there was zero.

That market has quickly ramped up.

The other state that we're in that could be considered in the honeymoon period is the state of Massachusetts.

The slot machines commenced in 2015 at our Plainridge Park Casino.

It was a very rigorous slot machine process — process for deliberation by the gaming commission in the state for one slot machine license.

It wasn't guaranteed for a racetrack.

Plainridge was only one of three locations that were considered and the only racetrack.

Even though a percentage of the gaming law went towards racing, there was no guarantee that there would actually be gaming at a racetrack.

One of the downsides is that potentially, even though the racing industry would be getting close to nine percent, potentially it could be going to money for purses but nothing else, which makes you a purse-rich facility, poor operation.

Which, again, challenges the ability for the racetrack to continue.

You can have money for purses but no racetrack to run it at.

Fortunately, we were able to secure the sole slot machine license.

We opened in mid-2015.

The impact on racing's been pretty dramatic in a very short time span.

By law, we had to increase racing dates.

They'll be up 50 percent, 125 days in 2017.

We had 80 days in 2014. Purses were less than \$2 million in 2012.

They'll be about \$7.5 million next year.

There's a formula that the gaming commission allocates the money.

It was adjusted this year.

More money was going to thoroughbred racing prior to this year.

It was adjusted because of the increased live racing at Plainridge to be a little bit higher percentage for the Standardbreds, but that impact has also had a positive impact on the wagering.

Live race wagering is up 25 percent.

Wagering on our imports coming in — we have more people in the building.

We have a much nicer facility now.

A lot of work was done on the racing side.

For those who have been to Plainridge in the past, I'd encourage you to come up and see it.

It's a nice operation there.

Again, work was done there that is certainly paying dividends from the pari-mutuel side.

The honeymoon period, everything's great.

It's happy.

Everybody is seeing the benefits of the new revenue streams coming in.

They're investing. Breeding's going up.

Everybody is very happy that everything has happened.

Kentucky's another state with the instant racing there, which is seeing benefits like this, and to some extent, the state of Maryland, which gets a percentage of revenue both for purses and for capital investment at the race track.

Those states I would definitely consider in this honeymoon period.

How long does it last? Again, the state of Ohio's been doing it for just about five years.

It's usually that five-year — five-, seven-, eight-year period where you have that upward swing.

Again, the next predictable pattern that we usually see, which again following on the theme of the marriage, is the seven-year itch.

What happens here is you become fairly complacent.

Revenues keep coming in.

Business is steady. It's growing.

Starts to plateau, but it's still significant revenue.

The businesses are chugging along.

There are certainly some headwinds along the way.

This seven-year itch, you start looking around.

You start saying, "Wow, is this really the best way to be doing the business or is this the way it's going to continue?"

You start looking around.

You start saying, "What's the best way to continue?"

We see this in a couple of our states that we're in.

First is Pennsylvania, which was in a honeymoon period, I'd say, a few years ago.

Pennsylvania really was probably one of the model jurisdictions for racinos.

It really played well, because it had very good geography in the spread of the way both the racetracks and then the stand-alone casinos.

There's 12 facilities in the state.

They're very well-placed geographically.

Also, the percentage of gaming not only goes to the racing industry from the racetrack casinos, but it comes from the stand-alone casinos as well.

They are not competing against the racing industry from that perspective.

You can see, Pennsylvania just, again, huge market.

Over \$17 billion in revenue has been generated since the slot machines started just about ten years ago.

The Racehorse Development Fund, which started out with about 12 percent of the gaming revenue and was impacted through some statutory changes over the past couple years.

I think it's down right around ten percent, a little bit — 9.5 or 10 percent, but close to — almost \$2 billion has gone into that, a significant amount of money.

That's over \$225 million a year that's gone into that.

Again, Pennsylvania has six racetracks; three harness, three Thoroughbred.

A lot of racing dates, but that's a lot of money that's gone into that Racehorse Development Fund, which is primarily purses, but also for the health and welfare programs and the breeding programs as well.

You can see in terms of handle, again, this rides up over the years, when it started in 2007.

Right now it's still higher than 2007 level, but down from its peak year.

For the racing dates, the same pattern from that standpoint.

Again, we see this upward swing.

We see the plateauing.

Pennsylvania, I'd say, is right — still in the middle of the plateau, but certainly its peak years, at least from this business perspective and from the overall gaming perspective, because of increased competition is starting to show.

One other positive in the state of Pennsylvania.

There was a minimum capital investment that was required between the contractual arrangements between the racetracks and the horsemen's groups, which ranged anywhere — I think the minimum was about \$6.5 million.

Some negotiations or some contracts exceeded those numbers. I know at Penn National, our minimum number was \$10 million, plus additional money from our regular capital fund towards racing.

That was certainly a benefit.

That was something that, as Lonny said, being able to put money in more than just the purse side is important.

Pennsylvania is certainly a model.

There are some chinks in the armor right now in terms of money grabs from the legislature.

They see, again, this Racehorse Development Fund and gaming in general as a piggybank.

We've had our taxes raised on table games last year.

The legislature is looking for more money.

They've raided the Racehorse Development Fund I think about four times for significant amounts of money.

Pennsylvania started off as what everybody wanted to aspire to.

It's still very strong, but it's certainly showing some, as I said, chinks in that armor.

The other state that is in the, I'd call, the plateau period is the state of New Mexico, which started in the late 90s.

There is both tribal casinos, which generate nothing for the racing industry, but there is also, I believe, seven racetracks in the state — six or seven in New Mexico.

We have one, Zia Park.

You can see in New Mexico, I mean, again, this classic boom.

I wouldn't call it bust period, but there's certainly a big rise and then a tailing off in terms of business numbers.

You can see that in the breeding in particular.

Jockey clubs, state fact books have been very helpful in terms of showing some of these numbers.

You can see the full crop is way up and then coming back down to about where they are.

Although, purses remain the same from that standpoint.

The races and racing dates have been fairly steady, but, again, starting to see some weakness in field sizes and in terms of being able to maintain that level of business.

New Mexico, we're definitely seeing that they've gotten to the top of the curve.

I think you're definitely seeing that they're gonna be challenged to be able to maintain their business levels going forward.

We went through the first two phases.

The last phase, as we go into it, is states that may be headed for counseling. We have two states.

These are states that usually were early in the game and did very well for a number of years, competition has caught up.

One of those is the state of Maine, which we have a casino.

It's actually not attached to the racetrack.

It sits right down the street from our Bangor Raceway.

We did open the first gaming facility in Maine in 2005.

About seven years later, a new casino opened in Oxford, which, in miles is actually not that close.

In Maine miles, where going out for a quart of milk you might travel an hour, it's actually had a pretty big impact on our business.

They now have the market share in terms of gaming revenue in the state.

The interesting thing is when our casino opened, there was a very large percentage that went towards the racing industry.

About 21 percent of the gaming revenue went to the racing industry.

Three percent goes from the Oxford casino.

Not only is the industry getting less money from this new casino, it's obviously shifted money that was being generated for the industry at our casino.

It's shifted to this new one.

That's been a double whammy, not only for us as our company, but also from the racing industry standpoint as well.

The funding for both purses and racing operations in Maine is — there's funds, and those are proportionately allocated based on racing dates.

Which, again, I think has been a positive in terms of being able to keep racing, from a financial point of view, viable and stable.

Quite honestly, without that stipend, racing at at least our racetrack would be difficult to maintain.

The other racetrack, Scarborough Downs, even though they are the major beneficiary since they have the most live racing days, they are financially on the ropes in terms of their financial situation.

They may be sold.

That may change the dynamic in Maine as well.

Although Maine started not too long ago, 12 years ago, they've come full-circle pretty quickly.

It shows how this life cycle of gaming can go pretty quickly.

They final jurisdiction is West Virginia.

I think this is one of the classic first in the game, first to market.

West Virginia really was a leader on the racino side.

Actually, I believe it was Mountaineer that started the first VLTs back in the early 90s, but Charles Town, up until a few years ago, was actually the largest racino in North America, which a lot of people didn't realize, but certainly had the advantage of not a lot of regional competition.

You can see in the mid-90s, just about when it was kicking in at Charles Town, low foals, purses were miniscule.

I pulled out an Equibase chart from 1996 from Charles Town.

The average purse I think was about \$1,800.00.

They raced a ton of days.

I think they had about 260 days of racing that year.

You can see West Virginia was definitely on the ropes in the early 90s.

The explosion both at Mountaineer and Charles Town, up until the mid to late 2000s.

You can see that proportionate increase in the breeding, the purses are phenomenal, the racing dates.

Since around 2007, 2008, Pennsylvania, Maryland, Ohio, all the border states, have joined in and it's just like the nuclear arms race.

You get the nuclear arms first, and then everyone else has to arm up and get to the border war.

Then everybody's back in the same position they were.

It's been challenging.

Charles Town has been able to maintain its — has reduced racing dates, but it's been able to maintain its purse — average per day purse almost the same from about seven, eight years ago.

We're trying to maintain that, but it's getting very difficult.

The newest casino in Maryland, MGM National Harbor is opening, I believe, on Thursday.

Which, again, could be one of the biggest casinos in the United States when it opens.

That's only an hour or so from our Charles Town facility. That's definitely gonna have an impact.

This is really forcing West Virginia racing industry to really rethink how it's gonna be going forward.

Obviously, looking at racing dates is important, but how we fit in the whole mid-Atlantic region as well.

I will say for West Virginia, one of the best things that happened there was a capital investment fund from the VLTs not only for casinos, but for racetrack projects as well.

Allowed us to redo the entire backstretch, the entire racetrack, lighting, whole new interior for the track.

Tens of millions of dollars on the racing side were invested since the late 90s from that capital fund.

Unfortunately, it looks like the state's gonna be raiding that and taking it away in the next couple years, but, again, that's something which if there's anything you can do, if there is money set aside for specific racing capital projects — I think Lonny mentioned it — at least it allows that money to be there.

What happens in a lot of these states, legislation is done, everybody divides up the money, everybody has great ideas after the money is divided, and then they have to figure out who's gonna pay for these — all these great new projects.

You should be thinking about that ahead of time and setting that money aside. They did that in West Virginia, and it was a really good program.

I think the other thing we were able to do at least at our racetrack in West Virginia is taking that money and improving the racing program.

It's by no means perfect, but I think we've been able to get a good niche in the racing calendar. We have a \$1.25 million race at Charles Town annually, which has gotten national attention.

Again, I think we've done some good things for the racing side in terms of strategically allocating that money and some of our other tracks as well.

Again, I think what you've seen is a fairly consistent pattern, common themes, that it's not all about the purses.

Trying to structure the business to succeed and try to make the business of racing a little bit stronger.

I mean, running a racetrack is still very difficult.

I know, obviously, owning horses, training horses is very difficult, too, but running a racetrack's difficult.

The business of racing is still very challenging from a margin perspective with or without a racino there.

There are obviously benefits to the marriage, but the business of racing is still challenged.

We have to expect the unexpected, whether it's legislatures looking for changes, whether it's new forms of gaming coming down the pike, whether it's changing the rules of the game after they've already been set.

You always have to be alert from that standpoint.

Finally, the last one, while this has been great from a marriage perspective and being married is great — I've been married for 23 years — there are still a couple places they're still seeking a partner.

Two places where we're at, New Jersey and Texas.

Again, for these states, it's a challenge to compete.

They're obviously on the outside looking in.

I think hopefully if gaming can come to these states tied in with racing, hopefully that some of the past history of what's happened in other jurisdictions will be a good guide in terms of setting these jurisdictions up for success.

Taking the good points that have happened in some of these other jurisdictions that I went over and applying them to hopefully make those the beneficiaries down the road. Thank you.

**[Applause]**

**Mr. Derron Heldt:** Thank you, Chris.

Our final speaker is Greg Martin.

Greg is the vice president of wagering at Woodbine Entertainment Group, which is the largest horse racing operator in Canada.

**Mr. Greg Martin:** All right.

I'm gonna stick with the marriage theme.

I'm just gonna talk about our relationship with gaming in the province of Ontario.

Just about Woodbine, we were established in 1881, largest racetracks in Canada, one of the leading horse racing organizations in North America.

We are a private company without share capital.

We have no owners.

All profits are reinvested in the business.

We've got our two racetracks — Woodbine, which currently runs both Standardbred and Thoroughbred, and Mohawk, which is a Standardbred-only facility, which is just outside of the city.

We're currently running 133 Thoroughbred dates.

We start in April and go right through to December, and 222 Standardbred dates.

Those run year-round.

We're essentially four days a week.

We directly employ 1,800 people at our facilities.

Courtship.

We're going back to the 90s.

The province in the early 90s had charity casinos.

They wanted to move away from that model.

What we presented to them was a place that was acceptable to all of the communities that we were in. We were already a gambling establishment.

There was quite a bit of pushback by several communities in Ontario, specifically in Toronto.

In our case, the city was not interested in any other gaming in any other location other than at Woodbine.

With that leverage, the tracks in Ontario negotiated commercial agreements with the Ontario Lottery and Gaming Corporation, OLG, in an historic win-win deal. We got married.

The agreement reflected that — the communities obviously accepted us as gaming sites.

As I talked about at tracks, our deal was basically equivalent margins for what we would make on a bet, on a pari mutuel bet.

That's with our agreement with our horsemen, we're always a 50/50 split.

Ten percent of that went to the track and ten percent went to purses.

The other thing that's maybe a little different than some of the US jurisdiction that Chris and Lonny talked about is that our regulator decided to run it themselves.

They use their staffing at all the locations — sorry — there are slots only at all these locations.

There were 17 Ontario racetracks that signed these deals.

That was a little bit different than the US model.

Then we went into our honeymoon.

WEG invested about \$400 million.

As I said earlier, there is no shareholders.

There is nobody taking money out of the business.

We had that.

We took the profits and invested in cap-ex.

We went up to over 400 race dates a year, increased daily purses at \$500,000.00 a day for Thoroughbreds and \$350,000.00 a day for Standardbreds.

Our live wagering pools increased by about 53 percent over this period. We rebuilt barns. We installed Polytrack.

I guess we're the second Polytrack after Keeneland.

We completely upgraded our entire facility, every floor.

The deal we made was we essentially gave up our first floor at Woodbine to the slot operation.

One of the things is we had a Breeder's Cup in '96.

We basically gave up on ever hosting it again, because we gave up so much of our plant to the slot operation, 'cause we couldn't fit 50,000 people anymore.

The other thing we did was we built probably one of the best sports bars in Toronto.

It's 23,000 square feet, holds about 800 people.

It also, by the way, handles about \$25 million a year just in about 10 to 15 Tote machines in the corner.

We host live events. UFC every Saturday night, you can't get in.

It's a very happening place. We're certainly very proud of it.

We called it WEG's Stadium Bar, Woodbine Entertainment Group.

Most people that go there don't know that that's who we are, but they just know that it's a funny name, WEG's.

Marriage benefits to the OLG, we started with about 1,700 slots in Woodbine and 750 at Mohawk.

The hours of operation went to 24 hours fairly quickly due to demand.

Customers were lining up to get in to play slot machines.

Woodbine reached a long-term extension, site-holder agreement, in 2010.

They expanded to 3,000 slot machines.

Our role in that is basically to outfit the shell.

OLG did everything inside.

We have just invested about \$30 million in that.

We're one of the most profitable slot operations in the world on a per-machine basis.

You gotta remember there is about five million people in Toronto.

You have to drive at least an hour to get to a slot or a casino operation, so a fairly captive market.

Everything's good, right? Until March 2012. The province decided that they had a deficit. They were looking for a solution.

Their intentions were to add more gaming sites, including a downtown Toronto location, and privatize the operations.

Instead of them operating it, they were gonna go to the highest bidder on all these sites.

They promised the province that they'd raise an extra \$1.3 billion in increased profit.

Those are our two friends there.

Slots at a Racetrack Program, which is what the program was called, SARP, what happened is that immediately the language started from the government.

We were getting a subsidy.

It was no longer a commercial agreement.

They basically gave us a year's notice that they were gonna cancel the program.

They intended on doing a lease agreement with us.

That's about 100,000 square feet. They were talking about — I don't know — \$10.00 a square foot, which is a little different than what we were used to.

Border tracks, Windsor, Fort Erie, and Sarnia all lost their slots. The reason they did that is because the province operates full casinos in those markets.

It's not a secret that those operations were losing money, their operations. What they did was they got rid of the competition by removing the slots from those three border towns.

It quickly became clear to us that the government didn't understand how the industry operates and had no workable plan.

They didn't know that the industry was about \$2.1 billion in economic value, 55,000 jobs, over 40,000 horses.

They thought that we could just transition, give us 12 months, even though we'd been setting up our entire business around this plan.

For us, we had just done a seven-year extension the year before.

We didn't see this coming at all.

The lesson learned there is that if you don't have a lobbyist, you should find one.

**[Chuckles]**

We use GR firms now.

We hired some lawyers.

The fallout for the industry, WEG underwent major restructuring.

Sorry.

It's a little personal.

We cut expenses and about 350 employees.

Other tracks went through similar efforts.

Some of the markets were completely vacated.

Sudbury closed down.

Windsor track closed down.

Industry lost about 9,000 jobs.

We figure we lost at least 3,000 horse owners.

A lot of mares with foals, they took them to New York and other jurisdictions where they — we didn't have — we weren't showing much of a future at that point.

For the OLG, we got lucky in that our Premier was in some trouble and about five or six other scandals, so he resigned as well as the finance minister.

That was one of those guys in the picture.

The new Premier fired the chair of the OLG, which was fortunate for us.

There was a public admission by the government that they dropped the ball on horse racing.

Our new Premier, Premier Wynne, she announced racing commitment and integration of gaming and racing initiative with a new plan.

They commissioned a group of ex-politicians, did a study, and came up with a plan, so we moved to a settlement after the divorce.

Not always the same.

Not clearly the same as what we were participating in as a commercial partner, but they came up with a strategy for funding the core industry tracks — 10 tracks with 800 race dates and fixed purses.

Funding regional tracks, 5 tracks, about 180 race dates and fixed purses.

WEG was chosen as the single operator of OTB and online account wagering.

One of the things that happened — it is unique to Canada, in that every track is assigned a whole market area.

Those tracks can put in OTBs or have account wagering online.

In our business plans that we submitted, the only way we could see this working was we did two things.

One is we said, "We need to be the operator," because we had diverse equipment, Tote equipment.

We had some sites that were closed some days, very inconsistent for customer experience.

We produced a plan.

They approved.

One of the pieces of that plan was to actually combine the six Standardbred tracks with us and formed an alliance.

There's tracks there, obviously our two tracks, Flamboro, Clinton, Georgian, Grand River, Western Fair, and Hanover.

We put together a strategy of how we can move forward, and it was accepted by the province.

How's it going?

You can see what happened in 2013.

We cut a bunch of race dates.

We really bottomed out then.

What we promised the government is with this new plan we'd grow the handle one percent a year.

We've grown it five percent in the first two years.

Clearly, we've had some success there.

That's what they want to hear, by the way.

They want to hear that you're growing things, you're being very, very successful.

Fortunately, the way that it was structured, we were able to do that.

As I talked about the OTB model, we're 53 OTB locations.

Unless somebody can correct me, we probably have the biggest OTB network in North America.

We are everywhere.

Again, same — we're trying for — we were in bars and restaurants, but as far as the wagering experience goes, we're trying to make it the same everywhere you go, the same Tote machine, same number of channels.

Certainly some of the smaller sites in northern Ontario might have a few fewer decoders, but we're trying to have a similar experience.

The other thing we've done is we've really tied in our HBI bet platform, which is our — I guess you guys would call it ADW platform.

One of the things that we do that's a little different, excuse me, is we use it for two things.

We use it for online wagering, which is obviously a very convenient option.

It's also our loyalty tracking system.

We're rewarding customers.

We give them cards.

They can be at any OTB, any of our tracks, and swipe and get compensated with rewards at the same level.

We're trying to have one access point or one card accessible everywhere.

One account for customers.

We're unique in this way. We strongly believe in it.

Right now, we track 63 percent of all of our wagering.

I think that's the envy of most other jurisdictions.

We know exactly who these people are, how old they are, and where they live.

Certainly, we look at their play.

We do a lot of analytics on that.

That model has worked well for us.

Part of the new deal is they pay us rent now.

The government gives us a subsidy, but one of the things that we've been able to do — the OLG is moving forward with their plan to privatize our tracks.

They're going out for bids.

One of the things we're able to do at Woodbine and at Mohawk is basically get on the other side of the deal.

Instead of waiting to find out who the operator's going to be and trying to negotiate with them, we negotiate with the OLG for long-term contracts.

We're talking about 20, 22 years.

We're fairly confident that this stuff isn't gonna happen again, but that was really big for us.

We do remain positive about — one of the things that the government has challenged the OLG to do is to work with us on integration.

Their view and our view of integration is not necessarily aligned, but we're working on that and we're not gonna give up.

Historical horse racing, not necessarily slot machine, that's not what we're looking at, but trying to integrate that in some way is what we've been talking to them about.

We don't have an agreement in any way, but we're working towards that.

Like I said, the RFP on the Woodbine site closes next fall. We'll see how that goes.

What's next?

I mean, we've adopted a model internally of thinking differently.

Everyone in our organization is being challenged to take a different approach to the way we do everything.

One of the things is we've got 650 acres of land in the middle of Toronto.

It used to be on the edge of Toronto. Toronto grew past us.

We grow soy beans on some of that land, get a farm subsidy for that.

We're working with Live, Work, Play, who is a consulting company on land design.

We're working every angle on how to essentially get off this subsidy and generate enough income so that we can be self-sufficient. T

That's where we're moving towards.

We've added some different types of people that we've never had before.

We've got a director of innovation.

We have guest experience senior people.

We're building groups of cross-departmental teams to encourage new ideas.

We've created a new language as well related to our core values and our culture.

There's our nine values up there on the right.

It's been very deliberate from senior management on down. We've realigned our organizational structure.

When we had to purge, some of us had seven to ten departments reporting to us.

We've realigned that to make sense.

We are focused on growth and optimization, challenging industry standards and moving forward.

Telling the story is important, too.

As I said, we employed a GR firm.

We're at every fundraiser with every party.

Some of the other things we're doing, we are actively pursuing innovations and partnerships.

There's just a couple here, this initiator app that — like in maybe next year we can share more about that — Insta-pick, PCO, historical racing.

We did they call them hacks.

It's basically a technology — one of the universities in Toronto downtown called Ryerson, they've got a tech incubator.

We worked with them. We put up a \$25,000.00 prize.

They spent four or five months working with us trying to come up with new ideas.

One of the challenges that they have is we told them all of the things we were working on already, and they're like, "Oh."

It's been really interesting working with students.

We're seeing some things, one of them is a virtual reality, Emma-Jayne Wilson on Friday before we closed Thoroughbreds won a race with a 360 camera on her head.

The video on that's pretty interesting.

We're gonna work with that and try to — that's just one idea.

The other thing I also talked about is just exploring integration with OLG. That's it.

Thank you for your time.

**[Applause]**

**Mr. Derron Heldt:** Thank you, Greg.

I think we're running a little bit over time.

If anybody has any questions for the panel, we would be happy to entertain them.

If not, I believe Liz says the reception is going on.

All right.

Thank you, everybody.

**[Applause]**

Well done.