



Race Track Industry Program

THURSDAY, DECEMBER 9, 2004

Morning Session 3A

EMERGING MARKETS: SOUTH AMERICA

Moderator:

Scott Wells, Racing Coordinator, Hipodromo Nacional de Maronas

Speakers:

Dr. Martín Cánepa, President of Hipica Rioplatense

Ramon Rionda, Consultant, Maronas Race Track

MR. STEVE BARHAM: For this panel Scott Wells is going to be our moderator. He's currently in charge of racing operations — I'm not even going to try to say that — in Uruguay, yes, where he is also a charter member of the Racing Commission.

So Scott?

(Applause)

MR. SCOTT WELLS: Thank you, Steve, and thank you all for being here. I want to thank Doug Reed for inviting us as well, and I want to compliment Steve and Doug and Wendy and the entire Race Track Industry Program for putting on what I think this year has been one of the most interesting and thought-provoking Symposiums we've ever had. And we appreciate the sponsorship and all the parties that work together to make this important event happen each year.

Our topic today is "Emerging Latin American Markets," and joining me on the panel are two very knowledgeable men in the field. Ramon Rionda, besides being one of the leading thoroughbred breeders in Mexico, is the director of simulcasting and race book operations in Uruguay, Brazil and Panama, and Argentina.

He's also opened and operated race and sports books in Paraguay and Columbia. That's quite an international resume. We're very thankful that he was able to join us here today.

Martin Cánepa is a distinguished corporate attorney, president of Codere Uruguay, vice president of the Latin American Association of Jockey Clubs, president of the Latin American Gaming Association, and president of Hipica Rioplatense Uruguay, a company comprised of Codere, the international gaming company, and SLI, a Latin-American Investment Group.

Martin? I'm going to turn it over to you.

DR. MARTIN CANEPA: Thank you. Good morning, racing associates; on behalf of Hipica Rioplatense Uruguay I'd like to take a moment to sincerely thank the University of Arizona and Director Doug Reed for the kind invitation to present today our Maronas Racetrack in this Symposium; which reopened last year, became a reality and the first obligation of the concept of racinos in Latin American.

The first time I would like to thank all of you for coming to this session and I'd also like to thank my colleagues here today assisting me with the presentation for which we have selected an exhibition-type system which allows us in a short period of time to explain to you all our expansive and successful product in Maronas.

I have the pleasure of presenting to you the history of our project. At the end of our presentation we will open up the forum to any questions you may have.

(A tape was played)

MR. WELLS: Try to imagine a country about two-thirds the size of Kentucky with that state's great grass, soil and water but without its harsh winters. Imagine a climate warm enough for palm trees and flowers blooming the year around, and yet cool enough for giant plantations of eucalyptus and pine trees.

Think of beautiful birds, the likes of which you've never seen from parrots in the treetops to wild ostriches running on the plains to even a few penguins swimming along the coastline up from Antarctica. Also the cattle ranches, the sheep ranches, the vineyards, the wheat fields and the horse farms.

All that with the beautiful port city as its capital, and that will give you a pretty good idea of this American's geographical impressions of Uruguay.

In 1999 while doing some consulting work in Puerto Rico I was showed some photos of Montevideo and of Hipodrome Nacional de Maronas.

The photos showed that grandstand covered in vines, dilapidated, all the windows broken out, and yet there was something very romantic and intriguing about it. However, when I was told there were only 3.4 million people in the whole country, I never dreamed I'd ever end up living and working there. But a year later Corey Johnson called me and asked me to go down and take a look at the place. At that time it was a 29-hour trip from my place in New Mexico to Montevideo, and when I arrived it was a dark, rainy day.

And as we approached the racetrack we drove through an economically depressed neighborhood; but when I saw the track itself, it was love at first sight. What grabbed my attention right off the bat were the horses and the riders. The horses because they're obviously so well bred, and the riders because of their astounding skill.

Most of them wore no helmets, many of them wore sandals instead of boots. They galloped the horses without saddles, and yet you have never seen such fine, fine riders. They are natural horsemen.

The four remaining grandstands on the property were a gigantic mess. There wasn't a pane of glass in the whole place that hadn't been broken and there were stray dogs, hundreds of stray dogs everywhere.

However Maronas had a grandness about it that I just couldn't overlook. It reminded me of the first time that I ever galloped a horse past the grandstand at Churchill Downs. I felt like I could feel the presence of legends long past. And as I grew to know more about the great horses and great horsemen that had made history at Maronas for 125 years I began to understand why, when the old-timers came to see how we were refurbishing the track, many of them had to wipe tears from their eyes, tears of genuine appreciation.

Now, having spent much of my life in New Mexico, first as a trainer, owner and breeder, and then later as a track manager, I know that the racino racing model can uplift an industry, and now having spent the last three years of my life helping a tremendous team implement that model at Maronas, I am here to tell you that it does work if you have the right people. And in Uruguay we have the right people.

There is 98 percent literacy in the country. But there's also double digit unemployment. We had 13,000 resumes come across our desk to hire a few hundred people. And of the people that we hired I can count on my fingers the number who didn't work out.

But I guess if I could relate to you a single incident which says more about this project than any other, it would be this: One October morning as I was driving in I saw the construction team painting part of the wall surrounding the racetrack, they were painting it white.

It's about a four-kilometer wall. And having done projects in Los Angeles and Mexico City and other places I looked at my watch so that I could count the hours before graffiti had started appearing on that wall. I thought the over and under would be about 24 hours.

Well, I was so wrong. Twenty-four months later, more than two years later now, despite a national economic crisis, despite national elections, not one letter of graffiti has appeared on that wall. That says how this population in this country has respected the project that we've done, and I'm proud and very thankful to have been a part of it.

And I sincerely — and I really mean this — I extend our most cordial invitation to any of you who get a chance to go to South America, do not miss its newest and most modern 125-year-old racetrack.

(Applause)

(A tape was played)

DR. CANEPA: Well, the problems, the horse racing industry appeared in December 1997, when the Jockey Club went bankrupt and consequently the racetrack was auctioned off. The government later extricated the racetrack and called an international public bid, from which we were awarded and took possession of the race on July 2002, after five years of abandonment and almost 20 years of deterioration.

In nine months we were able to make its transformation. I want to mention in this moment the president of Uruguay, Dr. Jorge Batlle, whose determination was fundamental for the achievement of all these objectives. From day one Lone Star Park belonging to Magna Entertainment worked with us as a consultant and many other ways.

Our project has several important aspects that are worth mentioning. First Maronas is an industry from which two percent of the Uruguayan population lives. This takes into account those working in various distant sectors and their families.

Second, the business generates an increasingly important income to the state designated social action. The Uruguayan racing industry crisis turned into a leading case from which other countries with failing corporation industries may apply.

Next we demonstrated that the slot machines and OTBs with national and international simulcast are the best vehicles to promote racing activity, since everything contributes to increase the purse.

Finally we have positioned the racetrack and all other related games as a proposal of entertainment in accordance with the most modern tendencies. Today we have generated more public presence in Maronas than the Uruguayan soccer industry. That in itself deserves merit, considering this is happening in a South American country. Our visitors are astonished at the amount of families, men, women, young people who come to enjoy this spectacle.

Our designation is to consolidate Maronas as an entertainment industry like pioneers in Latin America and a residence of technological innovation and diversification of products and services.

In order to illustrate the magnitude of our work we would like to continually show you images of where we began and where are we today, only a year and a half into operation.

(A tape was shown)

MR. RAMON RIONDA: Good morning industry guests, regulators and fellow horsemen. As mentioned, I'm a consultant of the off-track betting operation for a company known as Maronas Race Track. I will present a general overview of the tremendous positive impact that a racing simulcasting operation have had on the Maronas Race Track.

As you can imagine, developing a concept like this one can create concern for the racing community. The first concern raised by the local horseman, was it possible that cannibalization of the local racing product and handle would occur because of the simulcasting product feature of the racetrack and the OTBs. So we created an educational program for horsemen and our racing partners.

Our program provides in-depth presentation of the benefits, advantages and net value to both segments in our industry. Our horsemen and partners understood and accepted that this OTB concept will be beneficial for the industry as a whole and for the horsemen in particular.

Collectively we believe that in a relatively small market live racing and a simulcasting product can exist in markets such as ours. Focused in getting our signal to the international markets, we have been successful in negotiating agreements which authorize us to simulcast the Maronas live signal to 20 agencies in South America, 130 agencies in Latin America and 10 agencies in Europe.

The Maronas simulcasting product includes six simultaneous live signals via satellite received through six decoders. The simulcasting product is 80 percent horses, 20 percent greyhounds. We have 16 hours continuous transmission of gaming product, scratch sheets, programs, past performance, and three percent of the total handle contribute to local purses.

We include in our program around 35 major racetracks from America including greyhound tracks also. And we have important races such as the Kentucky Derby, Belmont Stakes, Preakness, Dubai Cup and among others.

Then we're going to see the evolution of wagering which is very important, as you can see with the first, the blue graphic says that international simulcasting from the beginning has been kind of the stable. When you see the big differences is because sometimes we don't have high rollers because in our OTBs we have PIP services, but in general terms has been very stable.

And what gave us a very good satisfaction is that live wagering has been like increasing a lot and the off-shore betting wagering as well. Without the media presence we have in Latin America which includes and have the most important media's as Cronica TV, the more important TV in Argentine; ESPN as everybody knows, and ESPN plus.

The last word that I want to include is Maronas is one of the best in the racing industry, by including tradition and new opportunities as a clear example of what a culture that is horse friendly can transfer them into.

Now I would like to show a short entertainment video of Maronas.

Thank you very much for your time.

(Applause)

(A tape was shown)

DR. CANEPA: Well as you can see success in Maronas means success for everybody in this industry, especially in Latin America. But it will need to be done with strong basic expertise and real knowledge about the potential market, the legal, fiscal, financial and economic implications.

Right now the Maronas experience has set a precedent in our markets where benefits can be duplicated.

Let me tell you now real quick about the situation in other countries and the plans of one of the partners. Brazil, Panama, Paraguay, Puerto Rico are some of the countries where companies like Codere are trying to implement the new strategy to be elected to new open markets with higher potential to be matched up with others will put them in an advantage position.

They will change our margin to come into agreements to operate and administrate the products in order to take them into the path of success that increases the intention of people. Codere is the most important Spanish corporation in the gaming industry. They have been in Latin America market for more than 15 years, and that allows them to be one of the protagonists of expansion and professional development. Through strategic alliances they have been able to have a presence in Italy, Spain, Mexico, Ecuador, Argentina, Colombia, Chile, Venezuela, Peru, Uruguay and Brazil.

Codere relates to Latin American gaming and racing industries is set for the growth in the coming years, with governments preparing to accept more foreign ownership of their betting infrastructure.

Codere Brazil has already executed the joint venture in Paraguay, with international simulcast operations and future opportunities with its Class 2 machines.

Current negotiation has been going on to close with a company from Rio de Janeiro for local pari-mutuel races and interconnection in a local Latin American racing network under the umbrella of Maronas. So Maronas signing Brazil and Brazilian races in Maronas.

If we move towards to the west side of South America, you will find the typical association management agreement with Monterico Race Track in Peru for the operation of the race track and machines through the Jockey Club concession of the track. That means horse racing preservation.

And we will also include in the Latin America racing network pari-mutuel booths in Maronas and exporting the signal to Brazil, Uruguay and other countries in Latin America.

The Central American execution is closing, is going on with the track in Panama to manage the racetrack and install 250 machines. This is depending on allowing for sports betting outside the racetrack is permitted.

In Puerto Rico a company has signed a joint venture for the operation of the racetrack and the video gaming system network, 7,000 machines to be operated in the OTB outlets of El Commandante. There is still agreement for the operation after El Commandante track.

Well, dear colleagues, thank you very much for your attention. I want to repeat the invitation of Ramon, that it would be an honor and pleasure to receive you down there, and obviously any questions that you have that we can answer.

Thank you.

(Applause)

MR. WELLS: Thank you, Martin, Ramon; and at this time we'd like to open it up for questions.

No questions? Got to be some questions?

Yes, sir? Would you identify yourself, sir?

MR. MAURITS BRUGGINK: My name is Maurits Bruggink, I'm from the International Association of Horse Racing Authorities.

You mentioned three percent of the handle that goes back to purses; my first question: Is that three percent on national races or also on simulcast internationals?

MR. WELLS: The three percent applies to the simulcast part of it. Actually nine percent of the handle, of the live handle goes to purses, and the simulcasting of the internationals and the —

DR. CANEPA: Excuse me, I would like to add that five percent of slot machines go also to purses.

MR. RIONDA: The composition is nine percent of the local pari-mutuel betting, five percent of the net win of the slot machines and 3 percent of the handle of international simulcasting.

MR. BRUGGINK: The second question: Do you have any estimation on how much handle is on foreign races compared to national races? Total handle?

MR. RIONDA: Excuse me; could you repeat, please?

MR. BRUGGINK: Yes. The total handle on foreign races simulcast races compared to all national racing's, do you have any kind of estimation?

MR. RIONDA: Yes. Fifty percent. Fifty-fifty. The last month was like 48-52 international, without the good thing. The international simulcasting helps keep the same level almost, which is around a million dollars, a little bit over, and now the pari-mutuel local racing, the handle is almost the same part, 50 percent.

MR. BRUGGINK: Thank you.

MR. WELLS: And regarding the purses I might add that for the first year our purses averaged right around \$3,500, and that will go up dramatically this next year, about 25 percent.

Keep in mind that to keep a horse in training in Uruguay costs about \$200, maybe \$250 a month including shoeing.

MS. BLANCO: Michelle Blanco with Calder Race Course in Miami, Florida.

What is the racing season at Maronas? How many racing days or what days of the week do you host live racing?

DR. CANEPA: Well, we will wager all the year around, we have races Saturdays and Sundays, and now we are, as you see, lighting the track so we will be able the race also during the week. So any moment that fits for you we will wait you down there.

MR. WELLS: Yes, the lights will be installed probably in late January or February and we will race probably Friday nights as well.

Any other questions?

If not, thank you again for being here and we welcome the opportunity.

(Applause)