



Race Track Industry Program

34th ANNUAL SYMPOSIUM ON RACING & GAMING

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Technology — Threats & Opportunities

Moderator/Speaker:

Louis Skelton, Vice President, Technical Services, Scientific Games Racing, LLC

Speakers:

Steven C. Hawley, Principal & Consulting Analyst, Advanced Media Strategies

Vernon Niven, Executive Vice President, Technology, Churchill Downs, Inc.;

President, TwinSpire.com

MR. DOUG REED: The last panel ran a little over. I think we'll go ahead and get started. Those who are out in the hall can drift in. "Technology — Threats and Opportunities," is our session this afternoon. First of all I would like to thank our sponsors, LVDC, Las Vegas Dissemination will put on our Reception tonight. And this session is sponsored by The Blood-Horse, so we appreciate their participation.

"Technology, Threats and Opportunities," well, I hope our speakers can tell us more about the opportunities but don't ignore the threats. Our moderator today is Louis Skelton. Louis is with Scientific Games, he's the VP of technology services. He's been a speaker at quite a few prior Symposiums and I'm going to make this short, he's the technology guru for Scientific Games, so welcome Louis.

MR. LOUIS SKELTON: Thank you. Ladies and gentlemen, good afternoon. The subject for today, "Technology, Threats and Opportunities," we are going to take three different presentations and three different looks at some of the new and emerging technologies that are out there and how we can apply them in this industry. And whether they turn out to be opportunities or threats or more importantly how we can convert some of those threats into opportunities and really benefit from some of the technology that is available today.

Our first speaker is Mr. Vernon Niven, he is the executive vice president of technology initiatives for Churchill Downs Inc. Mr. Niven brings with him some 20

years of experience in developing and implementing new technologies. Catching Up With Our Customers Online, is the name of his presentation. Ladies and gentlemen, Mr. Niven.

(Applause)

MR. VERNON NIVEN: Thank you very much. Again, my name is Vernon Niven, I have been in this industry one year, a little over a year now. I came into racing really never having played horses, not really attended a whole lot of tracks, although I did place my first bet at the Fair Grounds when I was 16. I'm from Louisiana so I was exposed to racing and horses quite a bit as a child, just didn't really participate in the industry. I came into Churchill Downs, I guess last October after spending the past few years working in Silicon Valley on retail e-commerce and online advertising technology start-ups. So you could say that I've made a bit of a stretch. I took this opportunity because, in my opinion, I saw an industry that felt a lot like industries that I had worked with before when I was with Accenture. That is an industry that had sort of flattened on sales, was trying to find its way into growth again. And I personally, maybe it's because of the last few years in my career, I really felt that there was a lot of opportunity, especially with online technology and the things that I was seeing take off on the Internet to help us market and attract new people, new customers, new players to our sport. And so that is kind of my passion, if you will, what drives me, what gets me up in the morning in this industry. I took the opportunity with Churchill Downs because I got a chance to work with Bob Evans, who I worked with, this is my third gig with him, and a few other investments, we'll see how well we do. But we are attempting to actually grow in this industry using technology.

So I'm going to talk to you about one of the themes that we talk about a lot inside Churchill which is catching up with our customers online. I've only got 20 minutes, so I'm going to try and hit the high points. This is very much an IT strategy discussion, it will hit on a bunch of different angles, not enough time to dive in. After I'm done, I believe Louis — Louis you're going to be addressing account management?

MR. SKELTON: Yes.

MR. NIVEN: Correct, and IP video, which are two of the topics that we are hot after as well, so I'll maybe give that some perspective but I won't really dive in.

So, one of the things that I keep preaching inside Churchill Downs, and I know a lot of us here believe the same thing, it's not that I'm the only one, technology is changing customers' expectations about how they interact with our business. Their behavior is changing whether or not we like it, whether or not, people are buying on Best Buy, people are going to Walmart.com, people are playing poker online, there's nothing we can do about it. So one of the things that I keep preaching inside the company is you've just got to expect it, now what are we going to do to catch up and pull away? So I'm going to talk a little bit about

Churchill's response so far after about a year in the job and then what we're talking about doing moving forward, hopefully with some of you.

So behavior is changing online. As we all know, we are acutely aware of this, entertainment options are expanding quickly, both online and off. Did you know that 10 to 20 percent, I've been looking for surveys and trying to track this, 10 to 20 percent of U.S. adults have watched television online versus pretty much zero five years ago. I'm sure we will talk a lot more about that later but that is a phenomenal change in behavior and it's really redefining what television is; I'll leave that for a later discussion today. But it is a real change in the way our customers perceive entertainment through video and it really is going to impact us.

And our customers are online. We may not be as far as retail e-commerce customers are yet, our demographics are a bit older, but account wagering is making inroads and most of our customers use the Internet in their daily lives. And there is a new expectation that is coming our way whether we know it or not and that is the multi-channel expectation. The best way to describe to you what that is — is in this industry it would be one account everywhere, people talk about one account everywhere, but a better example would be Best Buy, and I'll show you some screens from their site to give you an idea of what we're talking about. It's taking the best of online and offline and putting it together under one brand, with one service level expectation. So, for example, in Best Buy you can order online and pick up at the store. What Best Buy has learned and I hope we do too, that you can actually reduce costs and better meet customers' needs with those kinds of techniques. Now, we aren't retail e-commerce but there are a lot of similarities. More than anything, our customers are getting used to this and we can't ignore that.

So, what have we done so far at Churchill Downs? Since October of last year we've done a few things. Most of our energies, as you're probably aware, have been focused on launching an account wagering business. We're playing catch up and we've invested quite heavily, we launched TwinSpires at Derby, we acquired AmericaTab and BRIS four weeks later and we recently consolidated those sites into TwinSpires.com. We are continuing to move forward with more innovation at a very aggressive pace. A lot of that is still behind the scenes but we hope you like what you see next year.

I've also been working very hard with some of our strategic partners like Scientific Games and others on new deal structures that reflect the fact that we are in a no-growth industry. The classic one that comes to mind is paying tote as percent of handle, which is, when you're in a growth mode that works great, but when you're in flat line, and other industries are going through this as well, you have to really dig deeper than that to take cost out of relationships. You can't just let vendors and customers do their own thing. So we're trying to create deal structures with our vendors that acknowledge and reward investments into taking cost out and in innovation.

Also, we're broadening our digital presence. Having the Kentucky Derby definitely makes us one of the few tracks in the country that has a unique challenge on our hands, it's a crossover brand into non-core players. But we're investing in new tools and new talent, hiring new people, we're investing in a new content management platform. We're opening up our content, we just signed a deal with YouTube to put all of Churchill Down's tracks replays online for free, tagged with handicapping information so that our player's can go find our videos on YouTube. It sounds like a really simple thing and it is, but we believe that that kind of content, which doesn't produce a whole lot of revenue for everyone, is a lot better off in the public domain, it's much more valuable. We hope that stimulates, especially younger players, to find us just that little bit more easy to do business with.

We're doing a bunch of other things, we're tagging all of our digital content and feeding through our assess fees, if you go on the Kentuckyderby.com site you can see that in action. We have podcasts and videocasts, etcetera, and we have RSS feeds for everything.

And we're also trying to connect with younger players and if any of you are, and I'm sure you are, trying to market online, you know that it is a highly fragmented, volatile changing world week by week. So our approach is very pragmatic, we're trying bunches of different things, Thoroughbred Bloggers Alliance is one, Netvibes, I'll show you that in a second, we're doing a lot of little things to see if we can attract the younger demographic.

And we have just started looking at new ways to play, we launched a new wager, an over-under, it's nothing big, it's not going to change the world and it's been done before, but we're kind of testing our system to launch a few more things next year. So we're trying to move forward here.

TwinSpires, as I mentioned, we just relaunched in November, consolidated sites, nothing to point out here except that it's a new site. Netvibes, this is the — you probably can't read that, but this is — is anyone here familiar with what Netvibes is? I got one, two. Netvibes is an RSS reader, it's a Web site that you go to consolidate all of your news feeds and in this case, this is a Kentucky one. What this is — is a combination of photo groups that we have regarding the Derby, we've got feeds from our guys in the field, we've got merchandise, bloggers that are following the Derby, etcetera, whatever digital information whether we own it or not, that relates to the Derby, we've got it there. When you use Netvibes you can subscribe to this in one click, it's called a Netvibes Universe, called Kentucky Derby. Now, this isn't out yet, it's still in beta, but it will be out for this Derby. This is a very popular way to consume information for people especially under 40 online, so this is just an example.

Now, that's the Kentucky Derby and this is for our tracks, we have our four tracks lined up here. And you can see that we have live video cams, etcetera, as well. So any kind of information can be served. This took one person three days to

do both of these panels. So it gives you a feel for how little work it can take to go online.

So inside our shop, what are we doing? We're having to change, we've been in a cost containment mode for like, I'm sure a lot of you have been, for the last five years. We're now moving to one of innovation so we're having to pretty dramatically change our IT, we're not finished with that yet. We are looking to refocus our organization. We've added a lot more investment discipline, this stuff is going to gloss your eyes over, but basically we're trying to become much more professional about the way we invest money. We're re-jiggering our skills and we're moving towards a model of more outsourcing, including offshore development, which by the way, we aren't doing so much for cost savings, we're doing it so that we can deliver features faster online, it's more capacity, it's not about cost, especially with the dollar the way it is.**Other terms, concepts and keywords contained in the balance of this transcript are:** Steven Hawley, Player's Lab, personalized entertainment, internet video, multi-channel service model, real-time race tracking, Autochart, Trackus, account wagering, tote services, personal devices, national account service, payment processing, national marketing and promotion service, national CRM service, third-party integrations, Internet protocol television, Joost, on-demand content, cost basis for distributing race video, revenue opportunity, latency, guaranteed availability.....If you desire a full transcript contact bprewitt@ag.arizona.edu

