

NZRB Industry Conversations Series August 2016

Recently, NZRB CEO John Allen, along with members of his executive leadership team, went out and met with the people of the wider New Zealand racing industry. Over a series of open sessions and smaller group catchups, John and his team talked with people about NZRB, what it is achieving and its plans for the future, and the critical issues that others in the industry wanted to discuss, question or raise with NZRB leadership directly.

Here is John's report summarising the discussions, both for those who attended and for those who weren't able to come along but wish to know more about what was covered.

Hi everyone,

Thanks to everyone who was able to join me at the industry conversations recently. It was great to meet and talk with people from all parts of our industry, be they Club officials, trainers, breeders, owners, jockeys/drivers, punters, or any of the myriad of other roles that keep our industry going.

Over the course of 10 days and a couple of dozen meetings, there was a lot of robust, honest and open discussion, concerns were raised and a number of interesting ideas were offered. There is simply no way to include all of the questions and comments that were discussed at the sessions here without writing a short novel. But there were clear key themes across all of the sessions, and these are the ones I'll recap here.

These sessions were an important step towards building a closer, more open relationship between NZRB and the wider industry. I know some people came to these sessions with a mistrust of NZRB. I understand that and know we need to earn people's confidence. We must be able to talk honestly about where we are as an industry, where we are going and what we need to do to get there.

The quality of our racing industry – both its animals and its people – is truly remarkable. But there is insufficient money and growing uncertainty within the industry. Quite simply, people aren't getting the returns they require to thrive.

NZRB is very conscious of the dependency of the racing industry on our performance. This is why we are investing in key areas which will deliver an estimated \$50-55 million per year in annualised profit once fully implemented. All our profit goes to the racing industry.

However, we also know that this will take time - we estimate it will be two to three years to fully realise the benefits of this work, and that time is something not everyone has - the pressure is on now. There is a valid concern about the level of costs incurred by NZRB, and the rate by which these are increasing compared to profit.

We recognise the need to deliver change now, and have begun to do so. Our annual accounts are currently being finalised and audited, so we don't have final figures to release just yet, but we are looking at exceeding our budgeted Net Profit for the year. Early indications are that we will exceed our profit targets and see a year-on-year increase of around 4% (taking out the impact of gains on building sales of Petone and Christchurch in both this and the previous year). We've improved our

customer numbers and our turnover and revenue figures for both betting and gaming, and while margins have been impacted by a continuing shift to Fixed Odds Betting and lower margin sports betting, encouraging improvements have been seen in domestic racing FOB particularly for Harness racing.

It's not game-changing, but it is progress in the right direction. And while we are investing in our business to generate long-term growth, we've also committed to increasing distributions to the Codes over the next two years through anticipated revenue/profit due to new race fields legislation. We will also revisit distributions each year and we expect them to increase further as benefits from our investment strategy are realised.

I'll talk more about what we are doing to address the issues facing our business and industry in the following look back at the main questions from the sessions.

Q. Is our future secure?

I want to start with this - probably the most fundamental of questions. My answer to the group of young trainers - and to everyone - who posed the question 'Do we have a future here, or should we move to Australia now?' is an emphatic yes, we have a future in New Zealand.

Creating a sustainable future for the industry is exactly what NZRB is here to do. And we have a plan that will create real additional value for the industry.

I spent about 20 minutes at each session walking through the details of the 'what we're doing' as outlined in the latest NZRB Statement of Intent. I think it's worth briefly reiterating this here. We are focused on:

- Implementing a full automated fixed odds betting platform. We've seen a noticeable shift from tote to fixed odds betting (FOB) in domestic racing and the largest proportional growth in overseas FOB and in-play sports betting in recent years. FOB now represents 36% of all racing turnover. Investing in a new FOB platform will improve the margins and improve competitiveness as a result of increased offerings and efficiencies.
- Addressing the impact of offshore betting. The proposed Race Fields legislation is designed to help ensure that those using offshore betting and those offering offshore betting on NZ product contribute to our industry. Betting exists in New Zealand to support the racing industry so it makes sense that all should contribute to that.
- Optimising the racing calendar. We are working collaboratively with industry to draft a plan that will result in an industry-agreed domestic racing calendar that enhances profitability, reduces costs (I particularly discussed broadcasting costs), and prioritises infrastructure investment (tracks/lights/facilities).
- Increasing customer numbers to generate revenue. We have to remain relevant in a domestic and international market and attract new punters. Our international competition invests heavily in this space. Australian betting businesses, for example, spend over 10% of revenue on customer acquisition and retention. We spend between 6-7%. As part of that we need to strengthen our channels – particularly our retail network. We need to offer a consistent experience that meets the needs of our customers – both current and future.

Through these efforts we will generate some \$50-55 million per annum more for the industry. Yes, more is needed and we will work to deliver more but we believe this is a good start.

Q. How can you say costs at NZRB are under control when, according to the Statement of Intent, OPEX has gone up?

We are also clear that if one side of the issue is the need for more money to invest in the industry, the other side of the issue is cost control. It's important to clarify that getting costs under control is not the same as a freeze on spending. It is about being careful where money is invested and tightly managing our costs in all areas.

It is equally true that there was an increase in our operational expenditure over the past year. This was largely a result of upgrading our technology support to a managed service with Spark and staff costs associated with closing the Phonebet service. The Spark change was necessary to give us access to resilient technology and means we avoid substantial capital costs buying new equipment, and the Phonebet change will provide save us \$2.3 million per annum from the current financial year.

Looking at the current year we've put the brakes on the former year-on-year leaps in operating expenses. Our budget is that operating costs will only increase by \$0.3 million, or 0.2% - primarily due to increases in health and safety expenditure and technology expenditure, and these have been largely offset by a decrease in budgeted staff expenses of \$1.9 million.

One other example of cost management is that the senior leadership team will get a 0% increase in wages and no bonuses will be given. While there will be people who say that is not enough and that it's easy to freeze salaries when they are 'already so high', for me it shows that our people are genuinely committed to cost control and growing profits and returns to the Industry.

Q. How can non-racing industry people effectively run NZRB?

Firstly, I think it's important to say that NZRB is a part of the racing industry, and those of us here at NZRB are, through the very nature of our roles, racing industry people. While the length of our time in the industry may vary, our commitment to the industry and desire to see it grow and succeed is very real.

We do have a number of people both in our senior leadership team, on our Board, and indeed throughout NZRB, who have significant backgrounds in New Zealand racing. Many are still closely involved outside of their role at NZRB, and there are a number of people on my leadership team who are serial owners and enthusiastic punters.

An understanding of, and passion for, racing is beneficial to any role at NZRB, however we do also need to ensure that we have people with the right skills and knowledge to do their job, and some of those skills and experience are in areas that are equally applicable outside the racing industry. We would be doing the industry a disservice if we limited our pool of potential recruits to only those with direct experience in racing, rather than getting the best people for the job.

Q. We need to keep the die-hard ‘older’ punters but we also need to attract new people – are we doing enough for both?

It's a difficult balance to manage, both keeping and looking after our existing customers, while also providing a fresh and exciting product to attract a new and broader audience - and all while managing our costs. We know we have to grow our customers significantly if we are to lift profit and we are dependant on a very narrow group who we can't risk losing in the process.

The recent change to telephone betting to Phonebet is a good example of this challenge. We had a channel that historically been popular - receiving 30 million calls per year at its height - that had decreased to a point where it was no longer economical to run, but was still used by a small group of customers. The need to manage costs and knowing other channels including a telephone option (Touch Tone) would still be available, the change made sense, but we were aware of the potential impact on this group of often older customers so we tried to make the transition to our other channels as easy as possible for this group.

While we're changing how we do things, we also continue to explore and invest in new technologies that will be attractive to new punters. And yes, that means making changes to enhance the flexibility of Jetbet. While that technology has served us well, it is now hampering us in offering things that young punters are telling us they want – things like the ability to withdraw money from their online account, or to create a league table they can use to compete against their friends.

Q. Can one of the Codes go it alone and leave NZRB?

In my view, the current legislation does not anticipate this. The structure of the industry under the Racing Act is vertically integrated, with the NZRB empowered as leader. As a consequence of that we get monopoly protection, we get a ban on advertising in New Zealand by offshore betting providers, tax benefits in that we and the Codes don't pay corporate tax but we do pay levies and duties, and we have the ability to use our gaming profits to benefit racing and amateur sports.

Putting aside the legislation itself, if you start disaggregating the industry, the risk you run is that those other benefits will be affected. In addition under a disaggregated model it is likely to be more difficult for the NZRB to fund critical areas of its operation such as Broadcasting and Retail.

Q. Was moving Trackside exclusively to Sky a good idea?

While there is a lot of debate about the move to Sky, it has enabled us to move to better technology through our partnership with New Zealand Live which provides the production and studio facilities we use in Auckland, and has meant we are now broadcasting thousands more races a year which directly correlates with increased betting on those races.

Leaving our broadcasting operations unchanged was not an option; we had to move to high definition to meet our obligations under our broadcast agreements with Tabcorp, and the technology we were working with could not support this. Partnering with NZ Live meant avoiding significant capital costs of new equipment. Moving exclusively to Sky gave us the ability to offer two different schedules of racing over our two TV channels, rather than replicating content on both.

Having said this we would love to get more New Zealanders watching racing. Both free to air and digital channels would help us achieve this. We are aware that this is a fast changing landscape and that there are some very interesting digital options opening up. We need to be smart about our

decisions here and look at this through the lens of asking 'What is in the best interest of the New Zealand racing industry and its people?'.

Q. Isn't selling assets like buildings short-sighted?

The reason we have sold buildings in recent years is twofold - first, it provides money to invest in projects to improve returns to the industry - things like the Fixed Odds Betting platform and the customer projects that I mentioned; and second, buildings need maintenance and we are not property managers. The Christchurch building, for example, needed significant work to bring it up to scratch, which would have been a big cost to the business.

Q. Can we lift minimum stakes?

I absolutely agree we need to lift stakes. There has been big debate in the industry about where you lift the stakes - in the Maidens, move Saturday racing to \$40,000, or do you lift stakes at the top end with those very large meetings? I've heard support for all three of those models.

This is a particularly good example of one of the big challenges for our industry as it's not one that NZRB can change alone - it will take the racing Codes, who set the stakes, to support any action, and we know from experience that getting people lined up and behind new ideas is hard.

Part of that is there are so many ideas out there about what is best for the industry. I personally supported the idea of a \$10,000 minimum, but because we couldn't get agreement on that option over others, we couldn't gain traction. We must find a way to get alignment within the industry if we are to successfully make changes like this that can lead to fundamental improvements to our industry.

Q. Why can't we have appearance fees regardless of the Code?

Different racing Codes have different perspectives on this. The Harness Code is looking to expand appearance fees while the Thoroughbred Code is not currently looking to do so. There is some debate about that but those are decisions that are made by the Codes in terms of how they want to structure their distributions and stakes.

Q. How do we keep people coming to the races?

There's no doubt that one of the best ways to get people interested in betting and racing is to get them to come along to a course and see something fantastic. It has to be good racing and an enjoyable on-the-course experience. There is a lot of the infrastructure that is not up to scratch. Everyone knows this - it's no secret.

For me, the only way through that is for us, as an industry, to do two things.

First we have to prioritise and focus our efforts on the most important infrastructure for the industry. We just don't have the money to spread across all the infrastructure in every jurisdiction. The work we are doing with the industry around optimising the calendar and thinking about the structure of the industry with the Codes will enable us to focus infrastructure investment around courses and facilities.

The second thing we need to do is work on getting track surfaces that are more robust. We need tracks that can stand up to the reality of our weather conditions and can be raced on more intensively. If we can get more intensive racing on fit-for-purpose tracks, we can get more races broadcast, we'd save the costs of moving horses around the country etc. There are real benefits for the whole of the industry to be had here.

We're also looking at setting up an infrastructure fund. I know that NZTR has had an infrastructure fund and we're not interested in duplicating things already in place, but we, as an industry, have to take a long-term view around infrastructure and we're going to need to put some serious funding in place.

My observations

As I said in the beginning, there were lots more questions and observations made during the sessions. While they aren't all reflected here, please know I heard you. And I appreciated the passion and enthusiasm that was so evident everywhere I went.

While we need to work on getting more people along to these sessions, I'm very pleased that we did them. We'll schedule another round of get-togethers for late 2016 early 2017 - with dates and times advertised well in advance. I look forward to talking with you more then. In the meantime, if you have ideas or concerns, please send me an email (John.Allen@NZRB.co.nz), or if you see me at a race meeting, please come and say hello.

The discussion at these sessions confirmed that we (NZRB) have more work to do. I heard the skepticism and I understand it. We have outlined a high-level plan in the Statement of Intent and now we have to deliver on it. I get that and I know my team is as committed as I am to doing so.

Interestingly, more than one person said to me that the racing industry is its own worst enemy, possibly reflecting on how challenging it can be to make changes. That may or may not be true, but the key thing for me is that NZRB is making changes. We have a responsibility to the industry and its people to do so. These changes will improve the returns to the industry. It won't be easy, but we as NZRB, and as an industry, have an obligation to find our way through. And it can only happen if we all work together.

I still have a number of meetings to be scheduled in Hawkes Bay, Taranaki and the West Coast. I am looking forward to continuing what have been very valuable conversations.

I appreciate everyone's time in attending.

Regards,
John