



Racing's Lifeblood – The Future Landscape for Wagering



Racing's Lifeblood – The Future Landscape for Wagering

Speaker:

Paul Bittar

Chief Executive, British Horseracing Authority



35th ASIAN
RACING
CONFERENCE
HONG KONG 2014

BRITISH RACING AND THE BETTING INDUSTRY

PAUL BITTAR

BRITISH
HORSERACING
AUTHORITY

BRITISH RACING IN THE WAGERING MARKET

- Britain has the most competitive and deregulated wagering market in the world
- Racing has a relationship with the Betting Industry in a number of distinct channels:

Channel

Relationship point

- | | | |
|----------------------|---|--|
| • The Levy | - | The Levy Board (inc BHA/Racecourses/Horsemen) |
| • Media Rights: | | |
| • Betting shops | - | Racecourses (via Turf TV & SIS) |
| • Terrestrial | - | Racecourses (via Channel 4) |
| • Digital TV | - | Racecourses (via Racing UK and At The Races) |
| • Bet2View | - | Racecourses (via Racing UK and At The Races / GBI) |
| • Sponsorship | - | Racecourses, primarily |
| • Tote (via Betfred) | - | Racecourses, primarily |
- Significant challenges and opportunities in the coming years

THE LEVY

- The horserace betting levy system (“The Levy”) was introduced in 1961. It is “a mechanism for transferring funds from the business of betting on horseraces to ‘horseracing’ in a broad sense”
- The Levy Board is an independent body that collects a Levy at the point of supply
- Racing lacks a direct negotiating platform with the Betting Industry
- Current legislation does not allow for the collection of Levy from remote betting operators based and licensed outside of Great Britain
- At a time when the digital channel share of the market has grown significantly, only one (Bet365) of the major operators in the British market have not re-located their remote (online and phone) operations offshore
- The remote market is far more diverse than the retail equivalent, in which the big four collectively have 87% of the market by volume

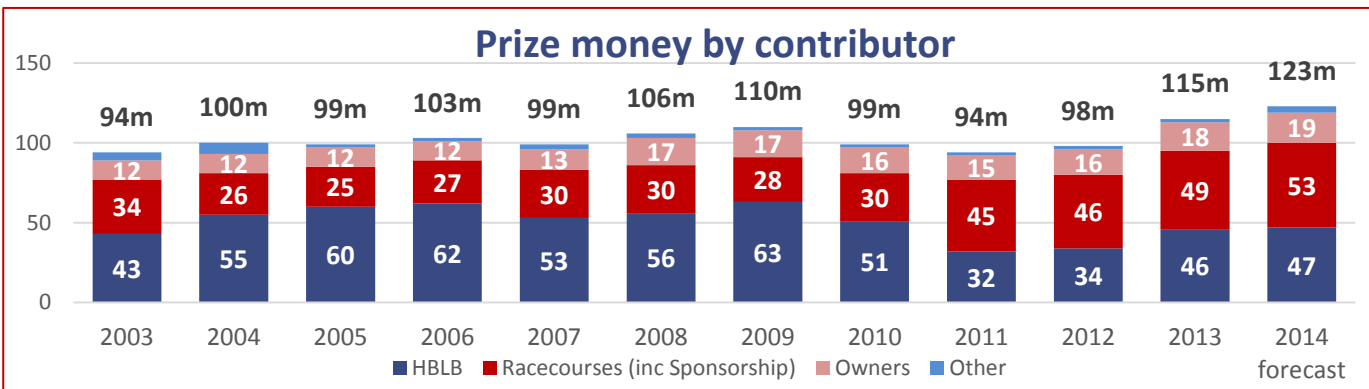
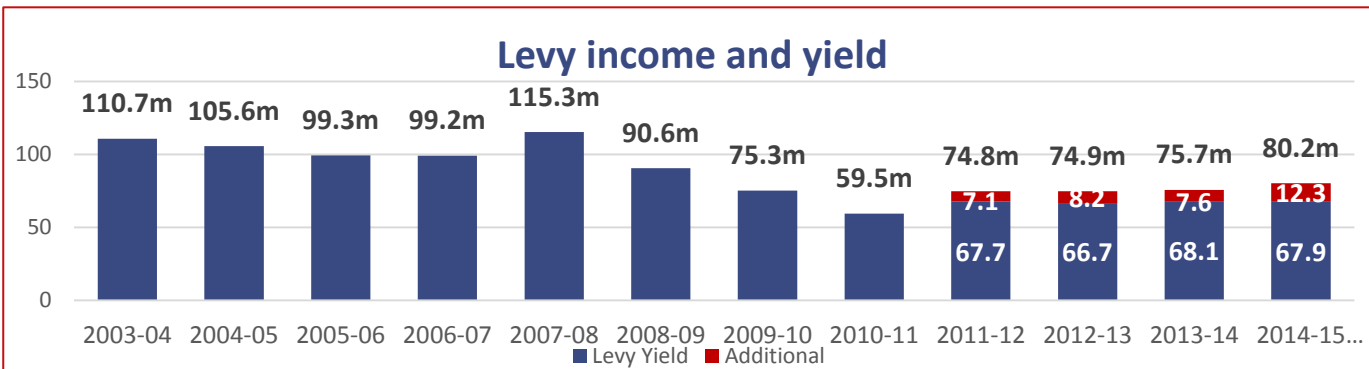
MARKET TRENDS

Retail Market

- In 2008/09 British Racing accounted for 44% of the retail market.
- In 2013/14 this had fallen to 38%
- Sector is under considerable regulatory pressure

Remote Market

- Racing has no direct access to information and data on the remote market (except from Betfair)
- In 2012, William Hill's remote stakes were 87% the size of their retail operation's. In 2013 remote stakes were 120% the size of their retail operation's
- Active mobile users was up 93% in 2013, and represented 45% of Paddy Power's online revenues
- Bet2View streams has a 5-year compound average growth rate of 48% per annum



COMMERCIAL DEAL WITH BETFAIR AND LEVY ARRANGEMENT WITH MAJOR BOOKMAKERS

- Betfair signed a commercial agreement with the sport in July 2012 which contributes £40m over five years
 - Landmark agreement
 - KPI framework introduced (for fixtures, races, field sizes)
- The leading four retail operators agreed in October 2013 to make both:
 - A minimum guarantee (underwriting £47.5m p.a to the Levy) and;
 - An annual Additional Voluntary Contribution (AVC) of £4.5m
 - This arrangement begins in 2014/15 and should run for four years concluding March 2018

FUTURE OF THE LEVY – LEGISLATIVE EXTENSION

- A recent amendment to key legislation provides for the extension of the Levy collection base to offshore operators
- The Gambling (Licensing & Advertising) Bill: Offshore operators will be licensed with the Gambling Commission and subsequently be liable for tax (15% of gross profits) at the point of consumption from December 2014
- Subject to European Commission approval, this change is expected to come into effect from 2016/17
- It is estimated the extension could capture an additional £25m of Levy

FUTURE OF THE LEVY – LEVY REPLACEMENT

- The Government has committed to a consultation in Summer 2014 on wider Levy reform/replacement including the introduction of a ‘Racing Right’
- Key Characteristics of a ‘Racing Right’
 - Enshrined in legislation that all betting operators are required to obtain an authorisation from Racing to provide a betting service on Racing product
 - Racing provided with a civil right of enforcement against operators accepting bets on Racing without authorisation
 - Betting industry providing a fair contribution towards administration, integrity and future development of Racing
 - No ongoing Government involvement in funding of Racing
 - Parallels with Australian Race Fields legislative regime



Thank you

**BRITISH
HORSERACING
AUTHORITY**