

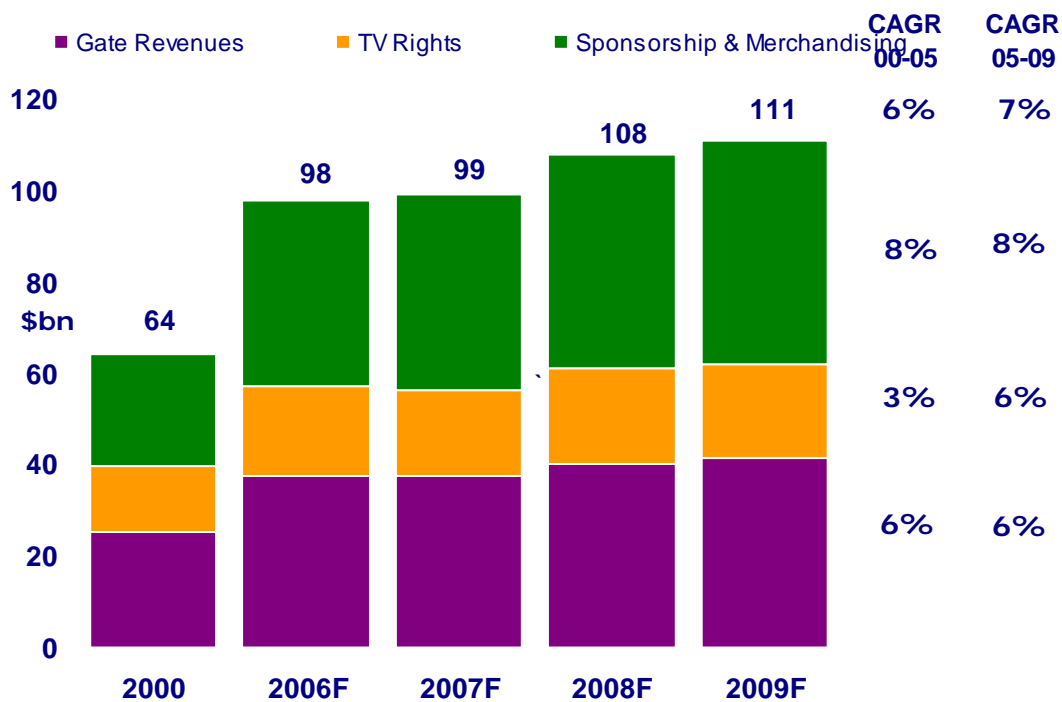
Experiences from other sports
by Mr. Alan SWITZER, Director, Deloitte Sports Business Group

Good news first: Sport is massive. US\$ 100 billion in 2006, at least, and that is just the core sports market. There is lots more to add on to that as well.

The second part of the good news is that it is growing. It still continues to grow. It has had a strong growth over the last number of years and that growth is continuing. So that is the great, good news.



**SPORTS MARKET OVERVIEW –
 Growth forecast to continue**



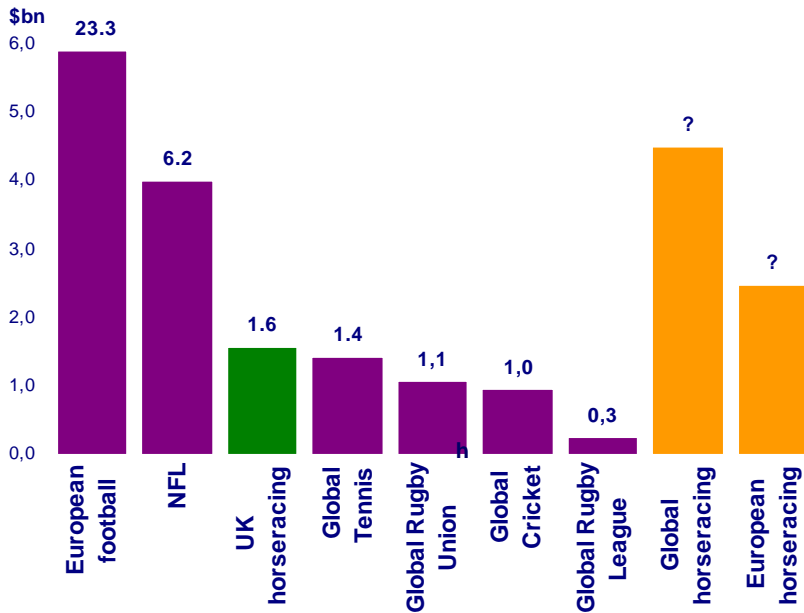
- ✓ Continued growth predicted over next 3 years
- ✓ Sponsorship growth illustrates attractiveness of sport in fragmented advertising environment
- ✓ TV rights smallest revenue (still US\$20 billion in 2006) – concentrated in top tier sports
- ✓ Gate revenue vital to many sports, particularly smaller sports

The flipside to that is that it is hugely competitive. It has never been so competitive and it can only continue to get more competitive. All those sports are becoming increasingly savvy. Each sport is becoming more and more clued up and more focused.

Just in terms of the ‘haves and the have nots’, because Sport is ‘haves and have nots’, football dominates generally. It has passed probably most of the US sports, and actually motor racing is the real powerhouse in terms of financials. Then you have tennis and rugby union that we had. The global rugby league, which is US \$300 million generally, is much smaller than rugby union.

There is a question mark though for what size is global horseracing and smaller European horseracing because it is a much harder thing to quantify because it is much richer and deeper than other sports. It is a combination of betting, the rural economy and sport which is actually quite unique.

**REVENUES FOR SELECTED SPORTS –
A hugely competitive global sports market in which football dominates**



- Growth experienced by all other (shown) sports. Less clarity for racing.
- No available racing figures at European or global level
- Difficult to compare racing and other sports due to racing’s diverse nature. Different revenue profile from other sports.

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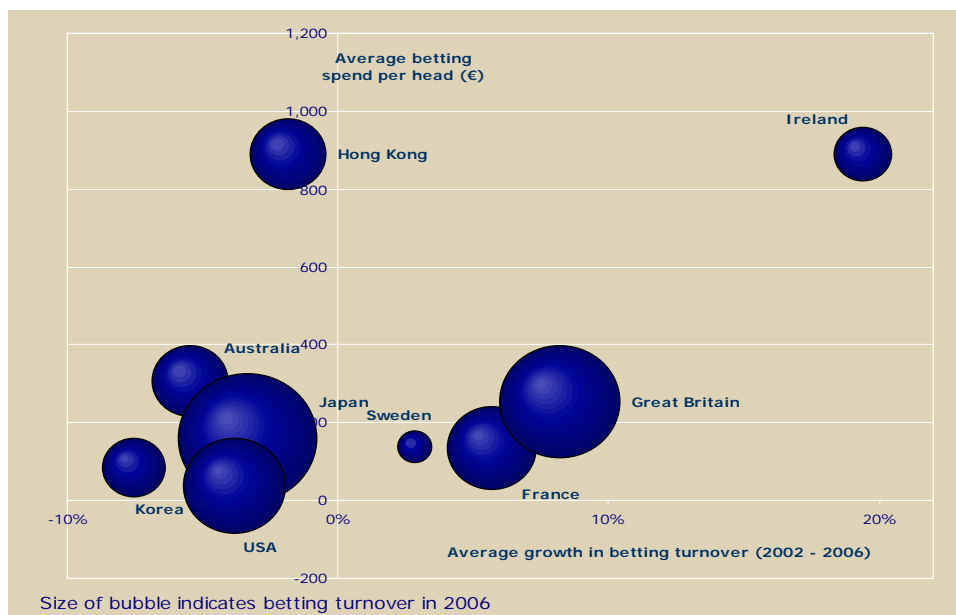
We have to have this bubble chart; the point is do not accept that betting revenues are going to go down but plan for betting revenues going down, so the co-mingling, the development of new exotic bets and cracking down of illegal betting are absolutely the right things to be doing. But they alone are not enough, so the diversification of revenue is absolutely key.

Just to explain the graph, the “x axis” is average growth in betting turnover in the last number of years, and the “y axis” is the more high up you are, the more is the population spend per head, and the bigger the bubble is the absolute size of revenue at the minute.

So you want to be up in the top right : well done, Ireland. Some of the nations being under pressure for their betting revenues, albeit Hong Kong have arrested that decline.

BETTING ON RACING –

Mixed experiences between countries but racing should plan for (but not accept) declining betting revenues



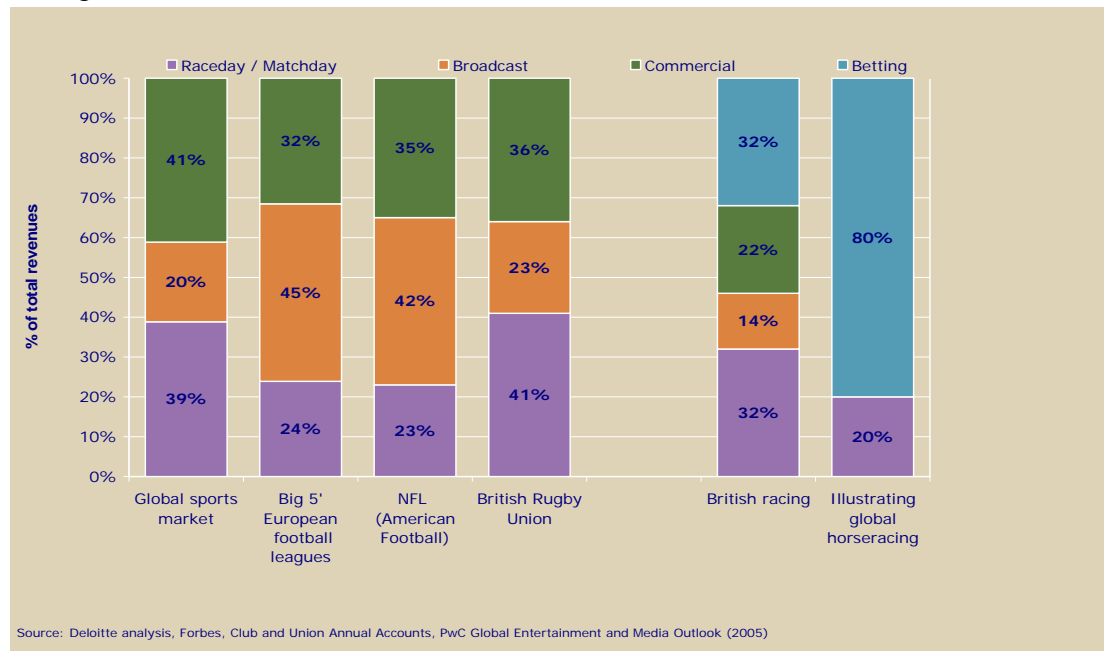
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The only point to say in terms of revenue diversification is that what is right for one sport will not be right for another, but equally what is right for one racing nation may differ from another racing nation. It is all about finding and adapting to the local circumstances.

Just looking at a couple of revenue themes in particular, if we focus on the core race day activity, it is not particularly rocket science. It is getting more people to go racing more often and when they get there, giving them more opportunities to spend their money. That does not mean just putting prices up; it means adding extra value and finding different ways of diversifying it.

REVENUE DIVERSIFICATION –

Racing less diversified than other major sports must be addressed to cushion any further betting declines



One example from the UK is how racecourses have added combined entertainment and racing to create a kind of a bigger, wider package. The best two examples are probably Newmarket Nights, which is a series of seven evening fixtures after the racing; they have various pop bands, which are not exactly ground breaking : Status Quo and the like – and Epsom Live, which is again the same.

Comparison of attendances at those fixtures for the rest of the fixtures at the racecourses excluding the classics, shows that double Newmarket go, and treble at Epsom.

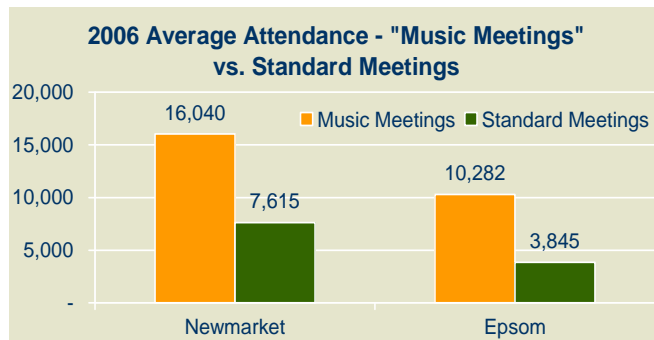
Not all of those people are going for the racing. A lot of them are going purely for the music, but there are two benefits there : the revenue from Newmarket is used to a large extent to subsidise a lot of quality racing that goes on through the year. But also if you get even five per cent of those people who came for the pop concert to actually think, ‘Yes, I like this racing. I will actually give it a go’, then that is a victory.

I am not for one minute saying that racecourses should have pop concerts at the end of each race meeting. That is not what it is about. It is about finding the right opportunity to do that and just being selective. The popularity of Ladies’ Day is not just in the UK; it is in Ireland and probably as afield as well. That is another example of a theme that people have had some success with.

Just lastly to confirm that increasingly the new generation are very savvy. They are educated; they are time constrained; they are technologically literate, and racing, as with any other sport, has to acknowledge that that is the consumer that it is targeting and needs to be equally sophisticated and savvy.

RACING AND ENTERTAINMENT –

Mixing racing and other entertainment forms already hugely successful in the UK. What is the potential in other countries?



Ladies Day – 2006 Attendance Ranking	
Aintree	2nd highest attendance of the year
Ascot	Highest attendance
Bath	4th highest attendance (up over 30%)
Brighton	2nd highest attendance

- ✓ Several UK courses have combined racing with entertainment with great effect
- ✓ Re-branding “Ladies Day” has a positive impact on attendances at several UK courses
- ✓ Entertainment element will vary by country/culture

Probably bucking the trend a bit in terms of attracting the new generation, one thing interesting is that actually the world’s population is ageing so while getting the new generation is absolutely vital and the right thing.

Let us not neglect the older generation who are increasingly financially well off and have time as well, so what is going to work for attracting the young population to a pop concert or whatever is not necessarily going to work for that population but it is about.

Segmenting the offering and actually finding different things and never get in the way as well, particularly from the core entertainment of racing, the sport, the passion and the drama that racing actually has to offer.

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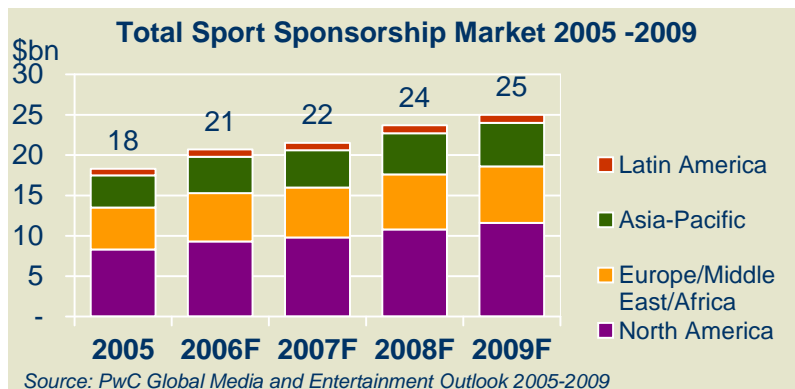
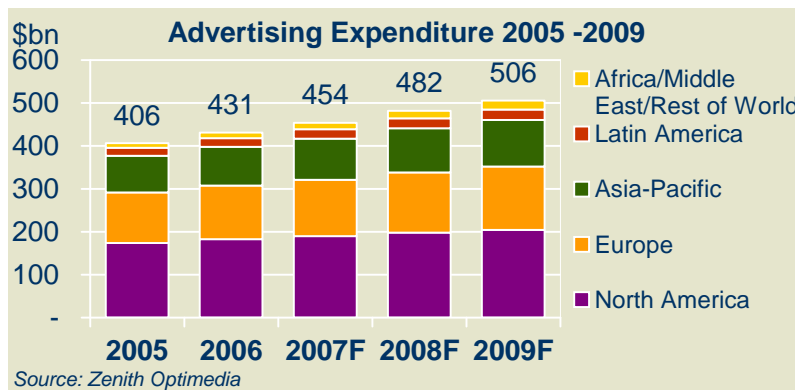
Going on, we touched on sponsorship. One thing that has been mentioned is the increasing popularity of sports sponsorship across the piece. There is one key driver for that really : sponsors love to be associated with the passion of sport. It instils loyalty. For many people it is one of the most important things in their life.

Sponsors really like to be attached to that. Also, in terms of advertising, it is increasingly fragmented now. There are so many channels. It is harder for big sponsors to get to their

people and to keep them there. Sport gives them a means to do that because if you are the type of sponsor that they are, for instance, you have that all year round and you can really leverage that.

Equally, you might need to tailor it for once you get down to the more standard, day-to-day racing, there is still an opportunity there. It is just that the sponsor may not be the blue chip. It is more likely to be the local firm which wants to put something together, to bring some of their customers and put a package together. The two are not mutually exclusive.

Commercial revenues – sport sponsorship is an increasingly important part of corporates’ advertising strategies



- ✓ The total advertising market is forecast to grow by a CAGR of 6%
- ✓ The Sports Sponsorship Market is forecast to grow at a CAGR of 8%
- ✓ Sport delivers loyalty, passion and affinity to sponsors
- ✓ Partnership approach delivers maximum long term value
- ✓ Biggest brands migrating to tier 1 sporting events
- ✓ Racing’s challenge to expand non betting & internal sponsorship

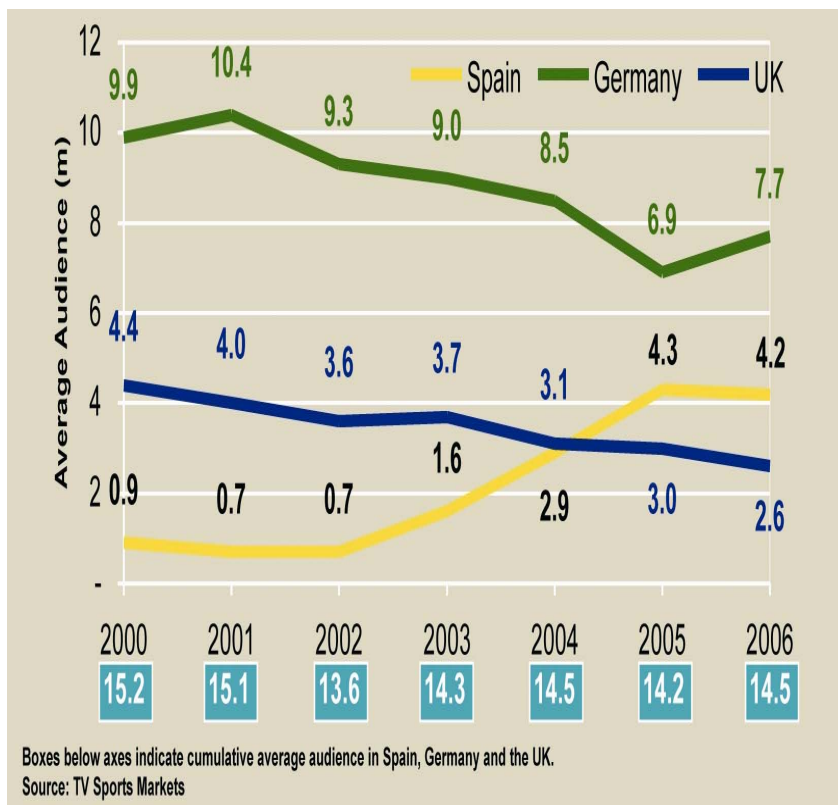
Global stars, local heroes are quite popular at the minute in terms of what a local star can bring to a sport. Just a couple of examples from other sports : the chart here shows Alonzo and Schumaker. The viewing figures in Germany have declined significantly since as Schumaker has waned but Alonzo has really driven the Spanish viewing figures. And actually Lewis Hamilton wants to cry about that as well. It has really bounced up. In 2007 the British viewing figures for Grand Prix have rocketed up because we do not get many winners. He has not won yet but fingers crossed for a couple of weeks. That really has driven interest. It is not just interest.

That does translate into bottom line profits as well, because the Spanish broadcasting date for ever was a multiple greater once Alonzo came into the world championship. Others are in there as well. We have the Federa effect, the Nadal effect. Tiger Woods has revolutionised golf. Of course the question with racing is who is the star. Is it the horse or is it the jockey ? I would say it is both because you cannot necessarily plan for the star horse.

They do not come along all the time. When they do, absolutely make sure it is fully leveraged. Really use that to drive people's interest and push them towards other parts of the sport. But also the jockeys as well, they are the ever present and so it is all about trying to develop the personalities there. In the UK we are probably not that strong at the minute.

When those stars emerge, we must help them and actually coach them to become media savvy as well.

**Opportunities - Global stars –
Sporting icons can prove a key driver of revenue growth**



- Local heroes have been proven to drive TV audiences and in turn rights values
- Formula 1 TV audiences in Germany and Spain have been driven by the relative successes of Schumacher and Alonso
- “Global Stars” have driven interest in sports, and hence rights values e.g. Tiger Woods, Roger Federer
- Can racing develop and leverage Local Heroes or even Global Stars?
- Mixture of horses and people?

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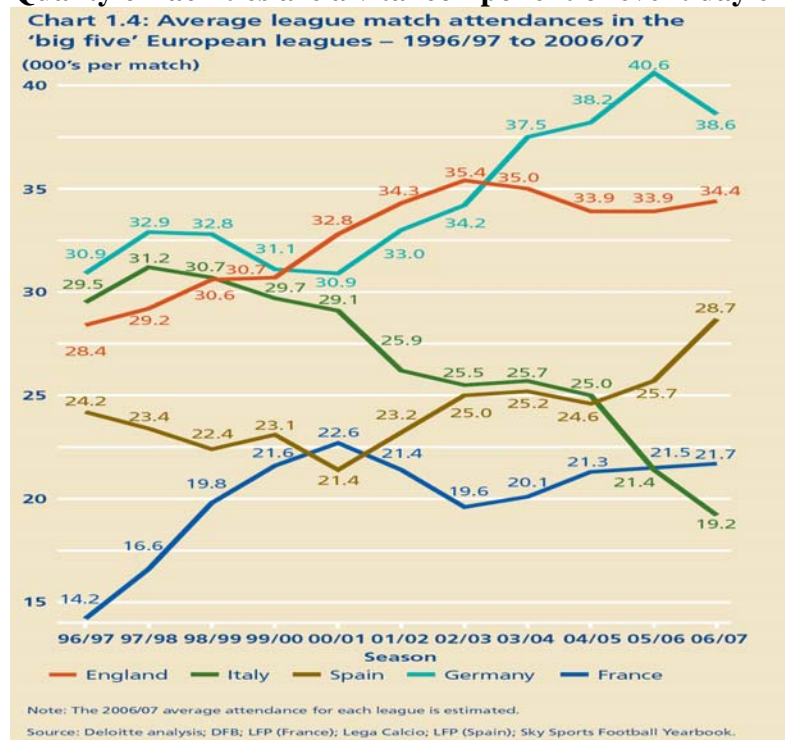
One interesting thing is that the luxury market is a booming sector :

- *Elements of racing – notably horse ownership – share characteristics of luxury goods*
- *Global luxury goods market worth \$88bn in 2005, up 9% on 2004*
- *Growth of 11% was forecasted for 2006.*
- *Growth is expected to slow in 2007 but the market will grow by approximately a third in the period to 2010.*
- *Racing likely to face increased competition from other ‘luxury’ activities.*
- *Delivering value to racing’s luxury investors will be critical – prize money is only one part of the mix.*

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When you are developing a facility you really need to do the groundwork, do the homework first. Find out what your market needs. Tailor it to that. The ‘build it, enable’ co-mentality does not always work, although there will be millions and millions of people going to that.

Opportunities – investment in facilities – Quality of facilities are a vital component of event day experience



☞ *Contrasting Italian football (minimal stadia investment) v England/Germany (over \$6 billion spend on facilities) football experience illustrates positive impact of upgrading facilities*

☞ *Substantial racing investment already made in many countries*

☞ *Challenge of funding future developments, particularly if betting revenues declining*

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To conclude :

SUMMARY

- Sport is a growing industry but intensely competitive
- Betting revenues stagnated or declined in some countries – racing should plan for the worse
- Revenue diversification is key
- Polarisation of media revenues - no easy fixes for racing
- Mixed experience in racing attendances – need for flexible marketing strategies including mixing entertainment and racing
- Targeting the next generation of race goer is key, but equally consideration of aging population required
- Sports sponsorship increasingly important for corporate
- Opportunities to develop global stars, learn from booming luxury goods market and invest in facilities.

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