



ECONOMIC IMPACT OF IRISH BREEDING AND RACING 2017

Deloitte.



HORSE RACING
IRELAND



28,900

DIRECT, INDIRECT AND SECONDARY EMPLOYMENT



1.3 million

ATTENDEES AT IRISH RACING



€1.84 billion

TOTAL DIRECT AND STIMULATED EXPENDITURE



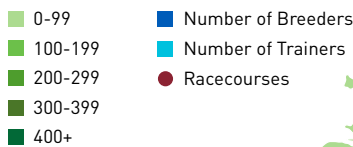
€438m

BLOODSTOCK SALES BY IRISH VENDORS

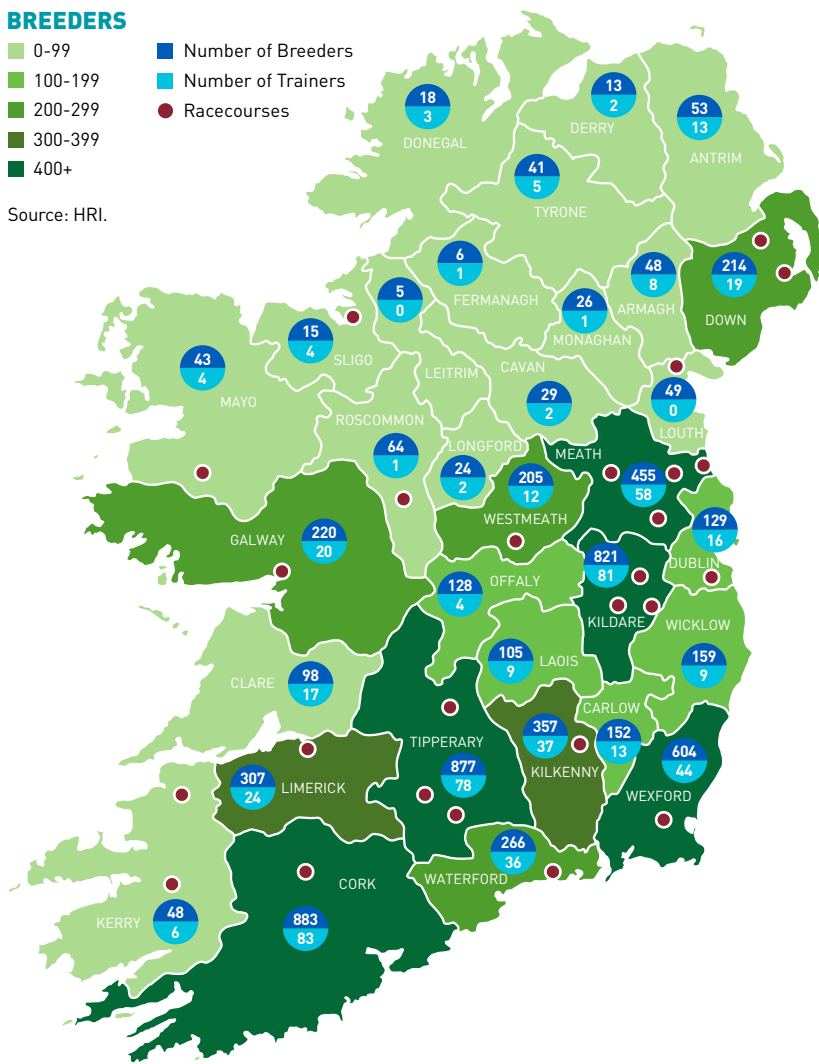


CONTENTS

BREEDERS



Source: HRI.



FOREWORD	02
EXECUTIVE SUMMARY	04
INTRODUCTION	08
OVERALL ECONOMIC IMPACT	10
ECONOMIC FACTORS	12
INTERNATIONAL STANDING	18
BREEDING	22
OWNERS	30
TRAINERS	36
RACECOURSES	38
MEDIA AND BETTING	46
DOMESTIC IMPORTANCE	52
REPORT PREPARATION, METHODOLOGY AND LIMITATIONS	60

This Report has been prepared for Horse Racing Ireland and has been written in general terms and therefore cannot be relied upon to cover specific situations; application of the principles set out will depend upon the particular circumstances involved and we recommend that you obtain professional advice before acting or refraining from action on any of the contents of this publication.

No other party is entitled to rely on our report for any purpose whatsoever and we accept no duty of care or liability to any other party who is shown or gains access to this report.

The report has been prepared principally from information that you have provided to us, pursuant to the scope of the work agreed in the engagement letter, and from other available sources consulted during the preparation of this report.

Whilst all reasonable care has been taken to ensure that such information has been accurately extracted or derived from these sources, we have not separately verified the information, nor sought to establish the reliability of the sources.

Insofar as this document contains conclusions and opinions, these are statements of opinion and should not be treated as statements of fact. These opinions and conclusions are derived from the work we have undertaken, as described herein, and are held at the date hereof but may not be applicable thereafter.

Further details covering the scope and limitations of our report, its use and our legal responsibilities are set out on page 60.

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FOREWORD

HORSE RACING IRELAND

I am privileged to introduce Deloitte's Economic Impact Study into the Irish Breeding and Racing industry, a document that captures in great detail the contribution that this industry makes to the Irish economy.

When Horse Racing Ireland commissioned this report in spring 2017, we set Deloitte the task of quantifying the up-to-date economic impact of Irish Breeding and Racing.

The key findings unearthed for this report reflect a vibrant industry that, as well as sparking significant economic activity in Ireland, also brings with it much needed foreign direct investment.

The headline figures back up the assertion that this is a unique industry with a wide rural reach and a sizeable economic impact. For example, according to Deloitte's report, 15,200 FTEs worked in the core Breeding and Racing industry and directly related industries, with a total direct and stimulated expenditure of €1.84 billion, driven by a core gross expenditure of €1.05 billion.

In every county in Ireland the tradition of breeding thoroughbred horses continues. 92% of the 6,777 registered breeders have fewer than five broodmares but the Irish Breeding industry continues to set global standards. In 2016 Ireland produced 9,381 live foals, greater on a per capita basis than any other country in the world and a figure that makes us the third biggest thoroughbred breeding nation in the world.

Our advantages are many: our climate, our pastures with limestone bedrock, our generations of bloodlines and our horsemen and women, together with government support and public interest in what happens on the racecourse.

But while our disadvantages are not as strong in number, they have come into sharp focus since 2016 when Britain voted to leave the European Union. We are a nation surrounded by water, on the edge of the EU, with access to our near neighbours and our biggest export market filled with uncertainty. Brexit poses serious potential risks to the Irish Breeding and Racing industry and Horse Racing Ireland will be working very closely with our stakeholders and European colleagues, including the BHA and France Galop, as well as various State and EU departments.

This work will be important to everybody in the industry but especially to those areas that have not yet returned to the levels experienced pre-2007. This report – a snapshot of where we are – shines a light on a number of areas that need investment, care and attention.

By far the most important issue that needs to be addressed is to put in place a long-term and sustainable funding structure for the industry which can allow it to be developed to its full potential, increasing both the economic and social dividend for the country.

We would ask politicians from all parties to provide the necessary policy support to allow this to happen.

The investigations in this document inform the great responsibility felt in Horse Racing Ireland to those thousands of people across the country who, directly and indirectly, rely on a successful Breeding and Racing industry for their livelihood.

There is little doubt: breeding and racing is in our blood. 25% of the Irish public say that they are interested in racing and when Deloitte analysed the breeding and ownership numbers for Ireland, and held them up to international comparison, they found that there were over 50 thoroughbred horses per 10,000 people in Ireland, a number that is several multiples more than the other major racing nations and ten times higher than our nearest neighbour, Great Britain.

The success of Irish-bred and Irish-trained horses abroad, and the continued influence of Irish-born jockeys and stable staff, underline Ireland's global standing. Our Breeding and Racing industry certainly delivers to the local economy like few others but, in racing terms, it also sits in the centre of the world.

A big thank you to the Deloitte team for their expertise and diligence in putting together this intriguing document and to those people who, behind the data and charts, are a daily embodiment of what makes thoroughbred breeding and racing in Ireland so good.

Joe Keeling
Chairman
Horse Racing Ireland



DELOITTE SPORTS BUSINESS GROUP

It is increasingly important for an industry to be able to demonstrate its size and economic worth to its stakeholders. This is particularly the case for an industry such as Irish Breeding and Racing, which encompasses elements of very different sectors, notably the rural economy, sport (as part of the wider leisure economy) and a diverse betting industry. We were therefore delighted to be set this task by Horse Racing Ireland, on the industry's behalf.

We are privileged in the Sports Business Group to work full time in sport, which enables us to compare and contrast the size, scale and structure of many sports across the globe. Our previous work in racing in other major racing nations meant we knew the economic footprint of the Irish Breeding and Racing industry would be significant – both in absolute terms and relative to the size of the overall economy – but nonetheless we were impressed with the scale of contribution that emerged.

Considering the headline economic data first, the total direct and stimulated expenditure of the Irish Breeding and Racing industry is estimated at €1.84 billion, with Gross Value Added (comparable to GDP) of €813m.

This expenditure supports a workforce of 28,900 FTEs, encompassing the core industry, directly related industries (many equine related such as vets and farriers), secondary employment (as the industry's expenditure flows through the wider economy) and employees of the betting sector (primarily working in the c.1,200 betting shops in Ireland).

The report highlights that whilst the industry suffered contractions from the deep economic challenges faced by Ireland from 2007, the most important industry metrics are now recovering.

Our research identified that Breeding and Racing activities in Ireland are the most prominent and important of any country on a per capita basis. Ireland was the second biggest seller of bloodstock at public auctions in 2016 with €338m of horses sold by Irish vendors, behind only the USA. More than 1 in 5 of the top rated Flat horses in training in 2016 were Irish bred, with many of them trained in Ireland and winning major global races.

The international standing of Irish Breeding and Racing is further highlighted by the substantial presence of many of the world's largest thoroughbred breeders and owners drawn from a wide range of countries, providing significant direct investment to the island.

The report also illustrates the geographic spread of the industry, perhaps best shown by the Breeding sector whose 6,500+ breeders are drawn from every county, with racecourses and trainers also spread across the island, typically supporting jobs in the rural economy.

The domestic popularity of the sport is highlighted by over 1.3m people attending the 356 fixtures staged at the 26 racecourses in 2016, second only to GAA in terms of Irish sporting attendances. Furthermore 25% of the Republic of Ireland's adult population are interested in racing – other major racing nations would be delighted to reach such high levels.

The global nature of racing brings competition between the top racing nations for owners, breeders and horses. It is therefore important the Irish Breeding and Racing industry continues to invest in its infrastructure – whether that is continuing the programme of capital investment in racecourses (over €100m scheduled for 2017 to 2019), ensuring prize money remains competitive, the education and development of its skilled workforce or retaining high class bloodstock, particularly stallions, in Ireland.

In preparing the report we have spoken to people from more than 20 organisations drawn from every sector of the industry. We would like to thank everyone for their time, responsiveness, information and the openness in which all our consultations were performed.

We hope you enjoy reading the report and that it proves a valuable tool for Irish Breeding and Racing.

Alan Switzer
Director
Deloitte Sports Business Group



EXECUTIVE SUMMARY

THE ECONOMIC IMPACT OF THE IRISH BREEDING AND RACING INDUSTRY IS ESTIMATED IN THIS REPORT BY REFERENCE TO ITS CORE PARTICIPANTS – BREEDERS, OWNERS, TRAINERS, STABLE STAFF, JOCKEYS, RACECOURSES, RACING ORGANISATIONS, MEDIA AND RACING CONSUMERS SUCH AS BETTORS AND RACEGOERS.

The report also assesses Ireland's position in comparison to other leading racing nations, discusses the industry's contribution to rural economies and places racing in the context of the wider sports and leisure market.

Economic activity is set out on a 32 county basis reflecting the structure of the industry in Ireland, with references to activities in both the Republic of Ireland and Northern Ireland. The focus is on 2016, but where appropriate comments on recent movements and trends, hence encompassing the period since 2007 with extremely challenging economic conditions which had a negative impact on the industry, but from which it is now recovering.

OVERALL ECONOMIC IMPACT

The total direct and stimulated expenditure of the Irish Breeding and Racing industry is estimated as €1.84 billion in 2016, the core industry comprising €914m of this with secondary expenditure of €927m as the initial expenditure filters through the economy through business to business and induced consumer expenditure (further detail on p.8).



Key measures of Racing – 2016

	€1.84bn Total expenditure
	€1.05bn Core Breeding and Racing gross expenditure
	28,900 Direct, indirect and associated employment
	15,200 Core and directly related industries FTEs
	€333m 10 year capital investment
	9,381 Live foals (third highest in world)
	€438m Public and Private bloodstock sales by Irish vendors
	8,187 Individuals involved in ownership
	1.3m Total racecourse attendance

The core Breeding and Racing industry is estimated to generate €1.05 billion gross expenditure, which results in economic input of €914m into the Irish economy, (after the removal of some internal flows), made up of:

- The Breeding industry generates gross expenditure of €583m, primarily from bloodstock sales and stallion nomination fees, with economic input of €489m after internal flows are removed.

- Owners are estimated to have incurred gross expenditure of €176m on training and associated costs, with a net input of €134m after €42m of domestic prize money is received.
- Racecourses, via the total spending by racegoers, broadcasters, sponsors and commercial partners contribute €80m. Additionally HRI receives media and data rights income of €6m.
- Government funding of €60m comes via the Horse and Greyhound Racing Fund, primarily funded from a 1% tax on off-course betting.
- Off-course expenditure by racegoers is estimated to contribute €145m.

EMPLOYMENT

Total employment from the core Irish Breeding and Racing industry, off-course betting and arising from secondary expenditure resulted in c.28,900 FTEs. The core Breeding and Racing industry is estimated to employ c.9,500 FTE workers.

Close to half of the core industry's employment is attributable to the Breeding sector, comprising over 4,000 FTE. Trainers and the staff they employ make up the next largest sector, stable staff numbering over 2,800 FTE.

A further c.5,700 jobs are in directly related employment, many in equine focussed jobs such as veterinary, farriery, transport, feed manufacturers etc.

Ireland's off-course betting industry, primarily Licensed Betting Offices ("LBOs") and betting operators' head offices is estimated to employ c.6,000 FTE, where betting on racing is the largest sport by a considerable margin.

Secondary employment covers roles that are supported by the spending of racing's participants in other areas of the Irish economy, commonly known as the 'ripple effect'. This is estimated to comprise c.7,700 jobs.

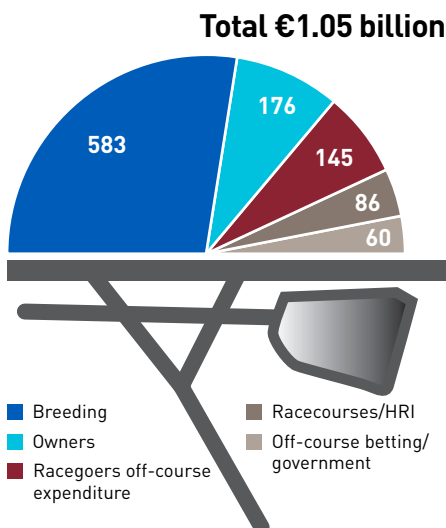
CAPITAL INVESTMENT

The Breeding and Racing industry continues to invest in its facilities and infrastructure. A total of €330m+ is conservatively estimated to have been committed in the last 10 years despite challenging economic conditions.

Racecourses have invested nearly €100m of this, underpinned by the HRI capital scheme. A further €105m is scheduled for 2017 to 2019, the largest investment being the complete redevelopment of The Curragh Racecourse.

Including real estate purchases, breeders' expenditure over the last decade is estimated to be in the region of €200m, with c.50% of this from international investors.

Core industry Gross Expenditure



INTERNATIONAL STANDING

Breeding and Racing activities in Ireland are the most prominent and important of any country on a per capita basis. By illustration there are over 50 thoroughbred horses per 10,000 of population in Ireland, compared to between three and five for Great Britain, France and the USA, with Australia the nearest at 28 horses.

This prominence is reflected in international success in breeding and racing. In addition to exports generated, more than one in five of the top 100 rated Flat horses in 2016 were Irish bred, and c.13% Irish trained.



In the 2016 racing season Irish trained horses won €79m in prize money globally, including a total of 29 Group 1 races (Flat) and 47 Grade 1 races (Jump).

BREEDING

Ireland is one of the leading bloodstock producing nations in the world. It is the third biggest producer of foals, and Irish vendors are, by value, estimated to have been the second biggest sellers of bloodstock by public auctions in 2016 after the USA.

Irish breeders cover a broad range of operations – from some of the biggest global bloodstock operations with many of the world's top stallions, to smaller breeders – 92% of the 6,777 registered breeders having fewer than five thoroughbred broodmares.

Following the recession the international foal market bottomed out in 2010 and 2011 before showing signs of recovery into 2014. 2015 and 2016 have seen marked growth, with an increase of c.1,400 thoroughbred foals (17%) born from 2014 to 2016.

Of the major thoroughbred auctions taking place in Ireland, Great Britain and France, Irish vendors comprise €338m (45%) of the total €751m sales in 2016, with €196m (58%) of these sales to non-Irish buyers. These sales therefore represent foreign direct investment into the Irish economy.

Total bloodstock sales are estimated to rise to c.€438m when a conservative estimate of €100m of annual private sales are added to public auctions. Great Britain, followed by Hong Kong and the USA being amongst the current most lucrative markets.

Aside from bloodstock sales the other major source of breeders' income is from nomination fees paid for each live birth resulting from a covering by an Irish stallion. In 2015 there were over 13,800 coverings by Irish stallions resulting in nomination fees of c.€130m being generated (excluding coverings of mares in the same ownership as the stallion). Flat stallions were responsible for 56% of coverings resulting in 2016 foals, yet earned over 91% of the total c.€130m nomination fees.

An estimated €45m of nomination fees were from overseas breeders sending their mares to Irish stallions, hence representing a further export for Irish breeding. Many international owners also locate their mares at Irish studs for extended periods pre and/or post coverings earning additional boarding fees, conservatively estimated at c.€15m.

Brexit has had an impact on the value of bloodstock sales in both Ireland and Britain, the fall in the value of the pound negatively impacting Irish vendors selling in Britain, although helping Irish buyers there. A satisfactory solution is also required to the Brexit threat to the current ease of movement of horses between Ireland, Britain and France. These factors, and the global nature of major breeding operations (e.g. Britain and France recently adding to the quality of their stallions) illustrates that while Ireland arguably currently has a leadership position within Europe, its pre-eminence is not guaranteed.

OWNERS

There are a variety of different horse ownership models in Ireland, encompassing sole owners, syndicates, companies and clubs. Across all these forms more than 8,100 people have an interest in ownership.

Registered owners declined by over 40% between 2008 and 2015 due primarily to economic conditions, but since 2015 have returned to growth and the industry has a number of initiatives designed to further boost ownership levels.

Owners are estimated to have incurred gross expenditure in excess of €162m in 2016 on the c.8,600 horses who were in training in Ireland at some point (equating to an average cost of €18,800). The payments to trainers, jockeys and supporting industries such as vets, farriers and transport companies spread the economic benefit widely across the industry.

Ireland attracts a wide range of international owners. In 2016 over 2,000 horses were owned by 500+ non-Irish owners, generating training fees and associated expenditure of over €35m.

Total prize money of €57m was paid out in 2016, less than the amount paid in 2008. Prize money comes from three main sources, the biggest being HRI's contribution of €36m, followed by owners' entry fees (at 25% the highest proportion of any major racing nation) and commercial contributions.

The anticipated increase in British prize money in 2017/18 will erode the competitive advantage Ireland currently has in terms of higher prize money for the majority of races (which is already somewhat diluted by it being harder to win races in Ireland). It is therefore more important than ever that all parties in the industry play a role in increasing the number of owners, including trainers and racecourses.

TRAINERS

The drop in the number of horses in training since 2008 resulted in a reduction in public trainers, down from 449 in 2008 to 372 in 2016. It remains a challenging climate for many trainers to maintain sustainable businesses.

The largest trainers account for a relatively high proportion of horses in training, the largest 32 yards holding over 3,500 horses (45% of all horses in training) in 2016. Despite the overall reduction in horses in training, the number of horses trained by the largest yards has increased substantially since 2012. Nonetheless, there will always be the potential for well supported, connected and skilled new entrants to challenge the status quo.

While the estimated average daily training rate of €45 is subject to variation, it is at a level which makes it challenging for many trainers to operate without alternative income sources.

Trainers' expenditure plays an important role in distributing the owners' financial injection across the rural economy. The labour intensive nature of training means that the wages of the 2,800 FTE stable staff represent the largest expenditure item.

RACECOURSE FINANCES

Ireland's 26 racecourses generated revenue of €52m in 2016. A significant proportion (60%, €31m) of this is commercial revenue, the majority being media rights, the importance of which has increased significantly over the last decade.

The remaining income is derived from on-course racegoer spend. Racegoers' estimated spend totalled €45m in 2016, consisting of general admissions, catering and on-course betting, equating to an average spend per racegoer of €35. Of this only €21m, an average of €16 per attendee, was retained by the racecourse, with the remainder going to catering partners and on-course betting operators.

Racecourse costs totalled €41m in 2016 (excluding prize money which is not a direct racecourse cost). Racecourses are therefore estimated to have made a cash surplus of €11m in aggregate in 2016, resulting in a €5m profit after depreciation and finance costs.

A new media rights deal, agreed with SIS in 2017, will secure income until 2023 assuming LBO numbers and exchange rates remain steady. Opportunities for revenue growth are therefore focused on increasing general admissions, catering and other commercial revenues.

ATTENDANCES AND OFF-COURSE EXPENDITURE

Racing is the second best attended sport in Ireland after GAA, with over 1.3m attendees in 2016. A further estimated 100,000 people attended point-to-point meetings. Attendances have grown since 2012, following several years of decline.

The major festivals are key drivers of attendance and direct economic impact, the seven largest festivals forming 39% of total attendances in 2016.

The larger festivals tend to attract a particularly diverse range of attendees, including overseas visitors. One or two day feature meetings or festivals are also very important to a number of smaller rurally based racecourses and the local communities of which they form a valued part.

Off-course expenditure also provides substantial economic impact, estimated as €137m in 2016, the main components being accommodation, food and beverage, and transport – particularly from festivals. Overseas visitors contribute a sizeable proportion.

BETTING

Betting on racing is a core part of the popularity of the sport in Ireland and internationally, Irish racing being attractive to punters given its quality and competitive nature. Per capita betting turnover on racing in Ireland is amongst the highest in the world and plays a key role in supporting a large Irish betting industry primarily consisting of a large retail estate.

The Republic of Ireland LBOs have declined from c.1,400 in 2008 to c.850 in 2016, due to economic conditions, consolidation in the

sector, and an increase in online and mobile betting, although the rate of decline has slowed. The c.330 LBOs in Northern Ireland have been more stable over this period, in part reflecting the largely favourable regulatory and taxation environment.

While on-course betting in Ireland remains a central part of the raceday experience, turnover levels have markedly declined over the last 10 years, and are likely to continue to do so as further migration online occurs.

Irish Racing generates substantial revenue from the media rights sold to the c.10,000 British and Irish LBOs and for live streaming of races (25m streams in 2016, an average of c.10,000 per race, and continuing to grow). It is also sold by GBI Racing to over 40 territories worldwide.

MEDIA

Irish racing benefits from regular coverage on terrestrial broadcaster RTE. Total racing viewing figures averaged c.4m over the past five years, with the most watched day's racing each year being the Irish Grand National.

POINT-TO-POINT

Point-to-point racing is an established pathway to racing under Rules (professional racing) for horses, riders and trainers. The 100 meetings at the c.70 point-to-point locations also contribute significantly to many rural communities as one of the biggest events in the local calendar. Attendances can reach several thousand at popular fixtures, with the average estimated at c.1,000.

The success of graduates of the Irish point-to-point scene is illustrated by 1,127 ex-Irish point-to-pointers winning under Rules in 2015/16, with 66 of these wins coming in

graded races. Over the last five years 25 Cheltenham Festival winners have been Irish pointers and such success has underpinned marked growth in specialist bloodstock sales, from €4m in 2010/11 to €15m in 2016/17.

RURAL STANDING

The relatively high rural proportion of the Irish population means Agriculture is an important employer, with Breeding and Racing a key part of that. Whilst the industry is spread across the island, there are a number of areas where it is particularly prominent, often providing significant direct and associated employment in rural areas with otherwise high unemployment rates.

The estimated €370m+ exports of the Breeding and Racing industry are higher than many other forms of agriculture.

NORTHERN IRELAND

The Breeding and Racing industry in Northern Ireland is estimated to generate £32m of direct and indirect expenditure, driven by its two racecourses and network of trainers and breeders. The industry currently receives a very limited contribution from the betting sector, which risks hindering its growth prospects.

RACING'S POSITION IN THE SPORTS AND LEISURE MARKET

25% of the Irish Republic's adult population are interested in racing, comprising nearly 900,000 individuals.



INTRODUCTION

HORSE RACING IRELAND (“HRI”), THE NATIONAL AUTHORITY FOR THOROUGHBRED RACING IN IRELAND WITH RESPONSIBILITY FOR THE GOVERNANCE, ADMINISTRATION, DEVELOPMENT AND PROMOTION OF THE INDUSTRY, COMMISSIONED DELOITTE TO PRODUCE A REPORT ASSESSING THE CONTRIBUTION OF THE IRISH THOROUGHBRED BREEDING AND RACING INDUSTRY (“BREEDING AND RACING”) TO THE IRISH ECONOMY.

The report combines traditional measures of economic activity such as total expenditure, employment and capital investment together with elements more specific to the Breeding and Racing industry such as racecourse attendances, horses in training, number of owners, prize money and value of bloodstock sales in order to provide as complete a picture as possible of its economic worth.

Breeding and Racing is organised on an all-Ireland basis, with HRI governing activity in the both the Republic of Ireland and Northern Ireland. The report primarily describes economic activity on a 32 county basis, but where appropriate separate estimates for the two countries are set out.

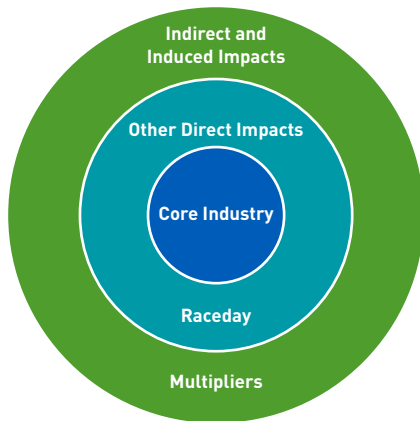
The report focuses on the period up to and including 2016, with comments on current or future developments as appropriate. Where relevant, analysis of the period up to ten years ago has been carried out, covering the significant economic declines experienced from 2007 but also the gradual recovery that has occurred in more recent years.

METHODOLOGY

A detailed methodology, assumptions and parameters are included on p.60, the key elements being:

- The study measures economic activity stimulated directly by the expenditure of Breeding and Racing’s participants (breeders, owners, trainers, jockeys etc.) and consumers (racegoers, viewers, punters etc.) which then flows through the wider economy.
- Data used to compile this report has been gathered via:
 - Consultations with over 20 Irish Breeding and Racing stakeholders listed on p.60;
 - Data supplied by Breeding and Racing stakeholders;
 - A survey of racecourses, carried out in conjunction with the Association of Irish Racecourses (“AIR”);
 - A survey of breeders, carried out in conjunction with the Association of Irish Thoroughbred Breeders (“AITB”); and
 - Additional primary research carried out by Deloitte.

The components of economic impact that this report covers include:



- **Core industry** – expenditure generated by Racing’s participants and consumers, including other administrative and media organisations which work exclusively in the Breeding and Racing industry;
- **Other Direct impacts** – primarily off-course expenditure of racegoers e.g. on food, accommodation, transport. For economic modelling purposes this expenditure is included in the core industry; and
- **Indirect and induced** – Indirect = business to business expenditure of suppliers related to the racing and breeding industry; Induced = additional expenditure from consumer spending e.g. individuals working in the Breeding and Racing industry spending their wages.

REPORT STRUCTURE

The report is broken down into seven sections as described below:

ECONOMIC FACTORS – describes the employment and capital investment generated by the Irish Breeding and Racing industry;

INTERNATIONAL STANDING – illustrates Ireland’s global standing, primarily by considering its position in the global bloodstock industry and the success of Irish trained and bred horses;

BREEDING – an overview of the Irish thoroughbred Breeding industry including production, income and expenditure (i.e. nomination fees and bloodstock sales), and overseas investment;

OWNERS – reviews the variety of different ownership models, number of owners and horses in training before analysing owners’ expenditure, the role of prize money and significance of major owners;

TRAINERS – assesses changes in the number of trainers - including by number of horses trained - before an overview of trainers’ revenue, expenditure and business models;

RACECOURSES – considers the role of racecourses as the stage for racing, including analysis of revenue and expenditure and attendances;



MEDIA AND BETTING – considers racing’s close ties with the media and betting industries; and

DOMESTIC IMPORTANCE – examines the spread and impact of Breeding and Racing across the island, considering point-to-point racing, ancillary industries and their importance in rural areas, an overview of the education and research role the industry plays, an assessment of the industry in Northern Ireland and its position in the sports and social landscape.

Specific feature articles have been included in some sections, describing in more detail particular aspects of Breeding and Racing.

OVERALL ECONOMIC IMPACT

THIS REPORT ESTIMATES THE ECONOMIC IMPACT OF THE IRISH BREEDING AND RACING INDUSTRY BASED ON THE DIRECT EXPENDITURE OF ITS PARTICIPANTS AND THE ASSOCIATED EXPENDITURE OF ITS CONSUMERS WHICH THEN FLOWS THROUGH THE WIDER ECONOMY.

Given the many complex two-way flows of funds between participants in the Breeding and Racing industry, with one participant's costs often being another's income, this report has attempted to remove any double counting in order to derive the net injection of expenditure into the Irish economy. The definition of expenditure will therefore vary from stakeholder to stakeholder within the industry, but ultimately aims to refer to and reflect 'new incremental' cash entering the Irish economy.

CORE INDUSTRY

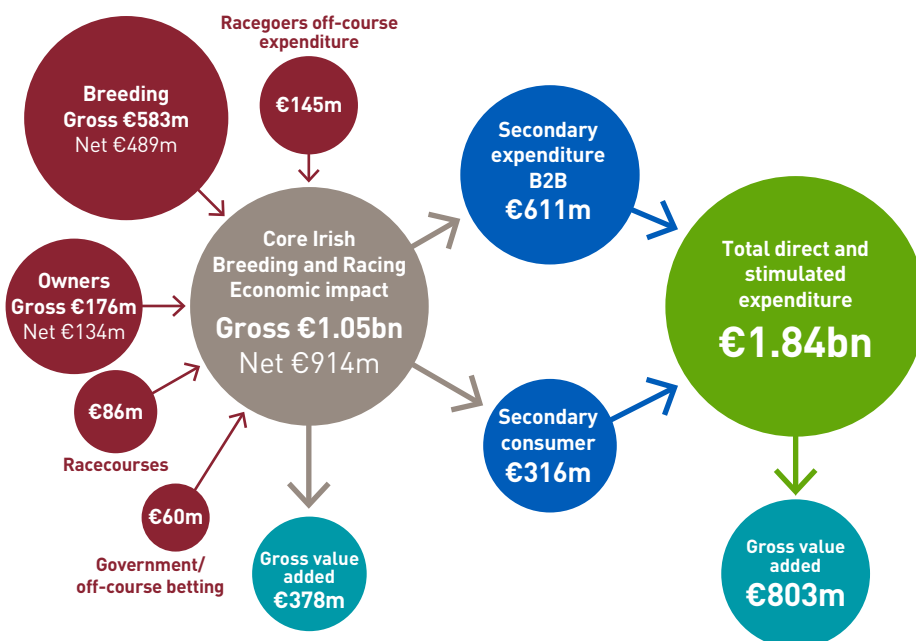
The core industry is estimated to generate €914m of expenditure into the Irish economy made up of the following components:

- The Breeding industry contributes €489m through public and private sales of bloodstock from Irish vendors both to overseas owners/breeders but also to domestic owners/breeders not using the bloodstock as a means of production. In addition the Breeding industry receives

stallion nomination fees from overseas breeders and Irish breeders not intending to sell the progeny. Other income from overseas owners/breeders such as keep costs for mares is also included here;

- Owners are estimated to have incurred gross expenditure of €176m, but received €42m back in domestic prize money, resulting in a net contribution to the economy of €134m. This does not include expenditure on bloodstock which is included in the Breeding industry as described above;
- Racecourses, via the spending by racegoers (including on-course betting and all catering spend), sponsors and commercial partners contribute €80m to the core industry. Additionally HRI receives direct media and data rights income of €6m;

Figure 1: Overall economic impact – total impact



- Government, via betting tax accrued from off-course betting and the subsequent annual Horserace and Greyhound Fund payment to HRI, represents a €60m core industry contribution;
- Off-course expenditure by racegoers, principally on food and drink, accommodation and transport before and after they enter the racecourse, is estimated to contribute to core industry expenditure of €145m.

Whilst trainers, jockeys and stable staff are not specifically detailed in the description above their expenditure is effectively included within that of owners. This is merely a function of the expenditure methodology used as not only do they play a vital role in the industry but will also provide economic input in their own right.

SECONDARY EXPENDITURE

This core Breeding and Racing industry input of €914m is then augmented by secondary expenditure of €927m as the initial expenditure filters through the economy, via:

- Secondary business-to-business (B2B) expenditure of €611m as businesses supplying the core Breeding and Racing industry source their own goods and services from other providers;
- Secondary consumer expenditure of €316m as people working in the core industry spend their wages on other goods and services within the Irish economy;
- This €927m secondary expenditure implies that for every €1 spent in the core industry, another €1 is generated due to linkages in the economy.

TOTAL EXPENDITURE AND GVA

The total direct and stimulated expenditure of the Irish Breeding and Racing industry is therefore estimated as €1.84 billion in 2016, the core industry comprising €914m of this with secondary expenditure the remaining €927m.

An alternative measure of the industry's contribution that can be compared to national indicators such as Gross Domestic Product (GDP) is provided by Gross Value Added (GVA). This is obtained by adjusting expenditure to isolate the value added in terms of operating profit and wages paid, based on data from the Central Statistics Office (ROI) and the UK Office for National Statistics (NI).

This means that only the real or gross value added by stakeholders is included in the analysis, and on this basis GVA associated with the €914m core industry expenditure is estimated to total €378m and overall GVA is €803m.

The assumed expenditure of the main group of stakeholders has been estimated as follows:

Stakeholder	Assumed expenditure
BREEDERS	There are over 6,500 breeders in Ireland with over 60 farms standing stallions. Revenue will be generated from the sale of bloodstock (public or private sales) and by stallion nomination fees. The economic impact of the breeding sector has been primarily estimated based on nomination fee income and an analysis of global bloodstock sales by Irish vendors – both public and private.
OWNERS	There are two forms of expenditure for owners: 1. Initial purchase of bloodstock either by public or private sale – this is accounted for as breeders' income in the section above; 2. Yearly expenditure on keeping and training horses i.e. training fees, keep costs, jockey fees and other racing expenditure. The annual expenditure is estimated for the c.3,700 owners with horses in training (or being kept) in Ireland. The expenditure of the owners of c.2,800 point-to-point horses is also included.
RACECOURSES	The expenditure generated by Ireland's 26 licensed racecourses (and c.70 point-to-point locations) is assumed to include: <ul style="list-style-type: none"> • Racegoers – on-course spending such as admission, racecards, catering, corporate hospitality • Sponsors and advertisers • On-course betting – Tote commission and bookmaker fees • Non-raceday attendees – use of racecourse facilities for conferences and events etc. • See also media below being a major revenue source for racecourses.
RACEGOERS (off-course expenditure)	The off-course expenditure of Ireland's 1.3m racegoers before arriving at the racecourse and after leaving will include transport, accommodation, food and drink, attire and other local spending. Whilst providers of these services (e.g. transport companies, local bars and restaurants) are not part of the core Breeding and Racing industry the expenditure is still generated by the decision to go racing. Purchases of racing publications are also included here.
MEDIA	Viewer and broadcaster expenditure on Irish racing via: <ul style="list-style-type: none"> • payments from Satellite Information Services ("SIS") for distribution of live pictures and data to LBOs in Ireland, the UK and internationally, including rights to stream Irish racing to online operators and direct to home (via At The Races) • payments from terrestrial channels (RTE) • Irish racing's print media revenues (e.g. Racing Post, Irish Field), are included in off-course expenditure.
BETTING	The Irish Government supports the Irish Breeding and Racing industry through the Horse and Greyhound Fund. A 1% betting tax on all bets placed by Irish punters feeds into the Fund, which in 2016 paid €60m to HRI and is included in core industry expenditure. The betting industry also pays racecourses for various media rights to show pictures of racing via different media channels. Betting operators outside of Ireland (notably from Great Britain), also contribute via media rights (as described above).

EMPLOYMENT

THE BREEDING AND RACING INDUSTRY IS A SIGNIFICANT DIRECT PROVIDER AND SUPPORTER OF EMPLOYMENT ACROSS IRELAND IN A RANGE OF ECONOMIC SECTORS. THE PRODUCTION OF OVER 9,000 FOALS A YEAR, TRAINING OF 8,600 HORSES AND STAGING OF OVER 350 FIXTURES AT 26 RACECOURSES IS FACILITATED BY EMPLOYEES OF THE CORE INDUSTRY. THESE IN TURN ARE SUPPORTED BY A LARGE NUMBER OF INDIRECT AND ASSOCIATED EMPLOYEES IN ANCILLARY AND RELATED INDUSTRIES. MANY BETTING SECTOR JOBS ARE ALSO FOCUSED ON BETTING ON HORSERACING.



c.28,900 jobs in Irish Breeding and Racing industry direct, indirect and secondary employment

Total employment from the core Irish Breeding and Racing industry, directly related employment, off-course betting and that arising from secondary expenditure resulted in c.28,900 Full Time Equivalent ("FTE").

The core Breeding and Racing industry was estimated to employ c.9,500 FTEs workers in 2016. However, because of the considerable number of part-time roles that the industry employs due to the seasonal nature of the Breeding industry and event-focussed nature of racing, the total number of individuals involved is c.15,000.

The c.5,700 directly related employment covers those activities which, whilst many are heavily reliant on the Breeding and Racing industry, will also serve other economic sectors. This will include equine-focused roles such as farriers and vets, alongside those serving the industry more widely in other sectors such as leisure and hospitality.

The Irish Racing and Betting industries have long worked alongside each other for mutual benefit. Ireland's off-course betting industry, primarily Licensed Betting Offices ("LBOs") and betting operators' head offices is

estimated to employ c.6,000 FTE, as whilst the staff in LBOs also take bets on sports other than racing it remains the primary product.

The number of LBOs in the Republic of Ireland has reduced significantly in recent years, from c.1,400 in 2008 to c.850 in 2016, a decline of 39%, resulting in lower employment. The number of LBOs in Northern Ireland is c.330, and has remained relatively steady over the period, meaning employment has also been stable.

Secondary employment covers roles that are supported by the spending of racing's participants in other areas of the Irish economy, commonly known as the 'ripple effect'. This is estimated to comprise c.7,700 jobs in 2016.

CORE BREEDING AND RACING INDUSTRY

The core Breeding and Racing industry was estimated to support c.9,500 FTE employees in 2016, broken down into c.5,500 full-time and c.9,500 FTEs from part-time and raceday positions.

Breeding

Breeding sector employment comprises c.1,800 full-time and c.4,700 part-time roles. The high proportion of part-time roles is due to the seasonal nature of the work – i.e. covering and foaling seasons – and also due to the fact that a significant proportion of breeders are 'Owner/breeders' who will often carry out the role in addition to larger farming activities and/or with a small number of temporary staff. This topic is discussed in more detail in the **Breeding** section.

Around 90 individuals are employed in bloodstock administration, including employees of the main auction houses in Ireland – Goffs and Tattersalls Ireland, bloodstock agents, and Weatherbys Ireland which controls the General Stud Book.

Trainers, stable staff and jockeys

Ireland's trainers and the staff they employ make up the next largest sector, comprising around a third of the core industry. Ireland's full time trainers (Public Trainers and Restricted Licence Holders) totalled 620 individuals in 2016, which rises to c.880 FTE when point-to-point handlers, a significant proportion of whom will also be full-time, are included.

Stable staff employed by these trainers and point-to-point handlers numbered over 2,800 individuals in 2016, comprising c.1,900 full time and c.1,800 part time staff. The high proportion of 1,800 part time staff is primarily due to the working patterns of yards and the fact that a number of yards, particularly point-to-point, will be relatively small operations.

Jockeys, plus their valets and agents, totalled c.220 in 2016. The vast majority will be attached to a yard where they will ride out every day alongside the stable staff.

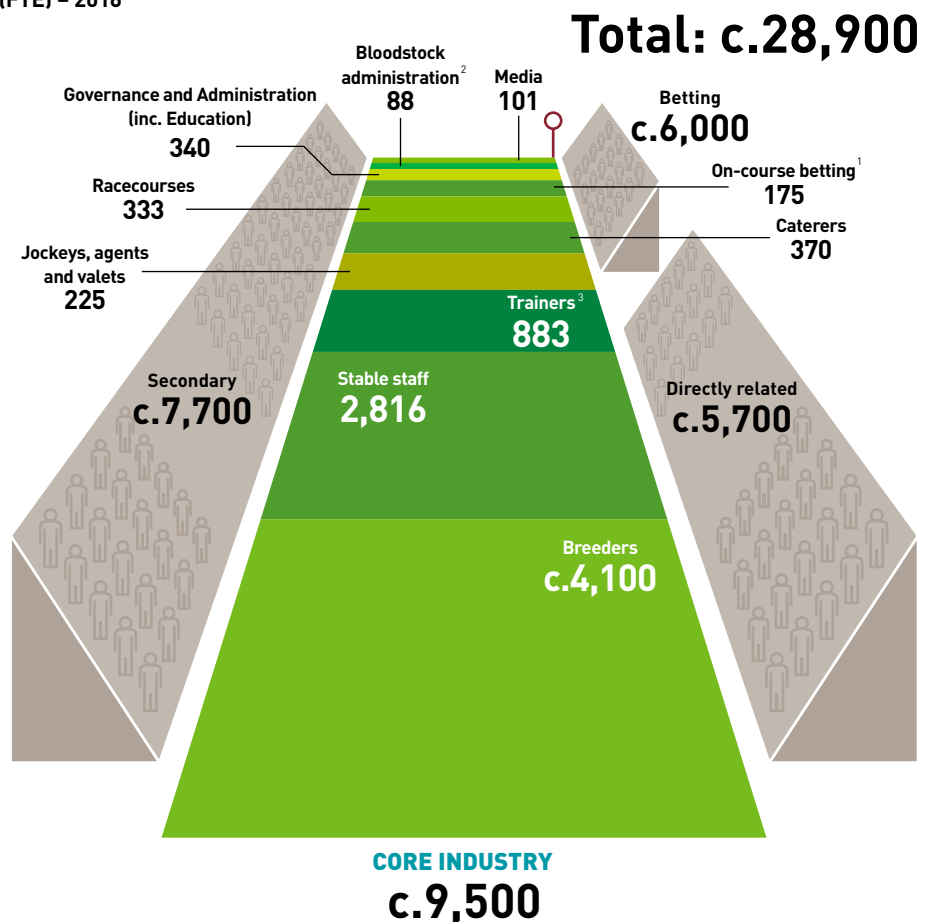
The marked decline in horses in training from 2008 (reduction of c.29% to 2016), has seen a drop in employment of around 600 (c.15%) across trainers, stable staff and jockeys in the same period.

Racecourses

Ireland's 26 racecourses employ c.330 FTE, but the actual number of individuals involved is estimated to total c.1,500 due to the event-focussed nature of their activities. Full-time roles will typically include racecourse management, non-raceday event staff and ground staff that tend to the racing surface all year round. At the larger festivals up to 800 individuals can be employed on a raceday when caterers are also included.

Catering employees are central to racecourses' food and beverage offerings, including corporate hospitality, and although

Figure 2: Irish Breeding and Racing industry direct, indirect and secondary employment (FTE) – 2016



most racecourses outsource this function to external catering companies, it will still be an important provider of local jobs. It is estimated to employ c.370 FTE, with several thousand individuals working at a racecourse at some point in the year.

On-course betting activity supports c.175 FTE, comprising independent 'rails' bookmakers alongside employees of the Tote. Employment is under pressure in this area given a decline in on-course betting.

Notes:

1. Includes Tote and on-course bookmakers.
2. Includes Weatherbys Ireland and bloodstock auctioneers and agents.
3. Includes Public Trainers, Restricted Licence Holders and point-to-point Handlers.

Source: HRI; Deloitte analysis.



Governance and administration

The governance and administration of Breeding and Racing is estimated to employ 340 FTE. This includes all employees of HRI and its subsidiaries such as Irish Thoroughbred Marketing alongside the Turf Club and associations responsible for different sectors of the Breeding and Racing industry. Educational and Research establishments such as the Racing Academy and Centre of Education (RACE) and Irish Equine Centre are also included.

Media

Media staff directly involved in racing are estimated to number c.100 FTE. These include the written and online press for publications such as the Racing Post and Irish Field together with racing correspondents of the national newspapers and local journalists who cover the major festivals in their specific locality. It also includes those individuals who are involved in the broadcast of racing, both transmission of pictures to betting shops and also terrestrial broadcasters for those fixtures shown on RTE.

CAPITAL INVESTMENT

IN ORDER TO MAINTAIN AND BUILD ON ITS POSITION AS ONE OF THE WORLD'S LEADING BREEDING AND RACING NATIONS THE INDUSTRY CONTINUES TO INVEST IN ITS FACILITIES AND INFRASTRUCTURE. OVER €330m IS CONSERVATIVELY ESTIMATED TO HAVE BEEN COMMITTED IN THE LAST 10 YEARS, DESPITE CHALLENGING ECONOMIC CONDITIONS.

Whether through racecourse redevelopments or maintenance and improvement of facilities at training yards and breeding operations, ongoing investment is required to offer racing's customers and participants the highest quality infrastructure and ensure the highest standards of equine welfare.

Due to the predominantly rural location of racecourses, breeding operations and training facilities capital projects provide significant business and resulting employment for construction and development firms across the country, supporting a construction industry which has suffered a marked contraction. A National Roads Authority report estimated that for each €100m invested in capital projects, over 1,200 jobs will be supported, many of these in rural areas.

RACECOURSE IMPROVEMENTS

Racecourses operate in a highly competitive leisure market, hence must continually improve the standard of facilities for customers, as well as for participants and horses. The required facilities will vary significantly according to the type of racecourse, and should always be tailored to local demand.

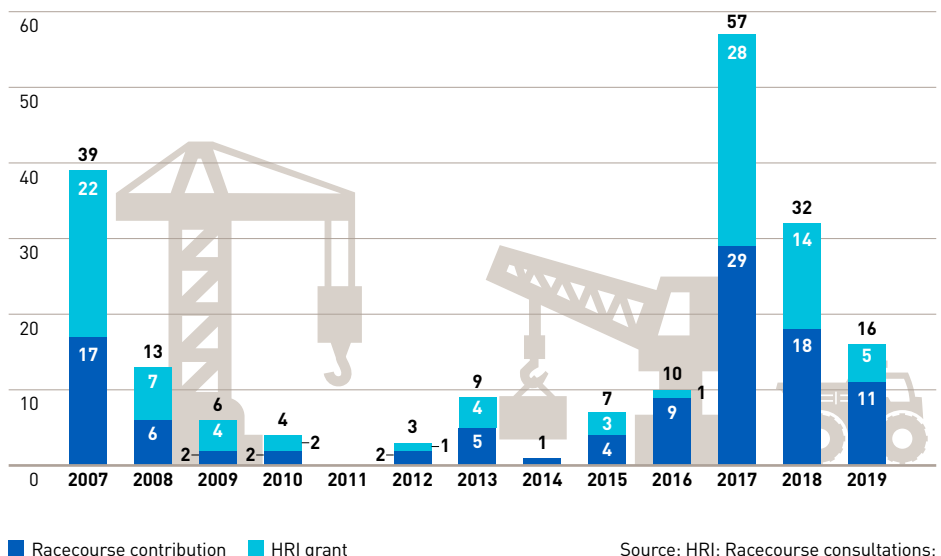
HRI provides substantial financial assistance to racecourses through capital schemes. Total funding of €44m in the last decade, plus

a further €47m allocated for the next three years to 2019, has enabled the majority of racecourses to carry out improvements to their facilities.

Since 2012 these schemes have typically funded around 40% of a project, hence when racecourse contributions are included it is estimated that total investment of over €90m has occurred in the last 10 years, and a further €105m is scheduled for 2017 to 2019.

The largest investment is the complete redevelopment of The Curragh racecourse. Funding has been sourced from a combination of the HRI Capital Development Scheme and private investment. The objective from the outset has been to finance the redevelopment without any debt, with the project being overseen by a new company whose shareholders include HRI, The Turf Club and a number of private investors.

Figure 3: Racecourse capital investment – HRI capital schemes and racecourse contributions 2007-2019 (€m)



Source: HRI; Racecourse consultations; Deloitte analysis.

Note: 2017-2019 represents projected spend.



When complete the redeveloped Curragh racecourse will house world class facilities including a major new grandstand, a new arrivals and reception area, a new parade ring, a new weighing room and a refurbished stable yard.

It is estimated that the Curragh project will result in direct and indirect employment of c.800 people in the construction industry, most of these being from the local area.

In addition to the largest racecourse developments listed in the table, the large majority of other racecourses have, and continue to, invest significantly in their facilities, including Naas with €3m, Tramore, Listowel, Roscommon and Sligo who have already or plan to invest more than €1m each.

BREEDING

Due to the large number (over 6,500 registered breeders) and variety in the scale of operations - from major global operations through to the much larger number of owner-breeders with one or two mares pursuing it as a hobby - estimating the level of capital expenditure by the sector is difficult.

However, it is evident that despite the testing economic conditions experienced throughout the industry from 2007, investment has continued, often funded by major international investors.

Major breeding operations make significant capital investments in order to ensure facilities are of the highest standards and have also spent €millions on the purchase of additional farms and land.

Racecourse	Year of completion	Total investment €m	Description
The Curragh	2019	72	Complete redevelopment
Dundalk	2007	35	Construction of new racecourse including greyhound stadium
Galway	2007	22	New grandstand and other works
Leopardstown	2016	20	Major enclosure redevelopment
Punchestown	2018	6	New reserved stand enclosure including owners and trainers facilities
Galway	2018	6	Facilities redevelopment

Source: HRI; Racecourse consultations; Deloitte research.

It is conservatively estimated that when these real estate purchases are included, breeders' expenditure over the last decade will be in the region of €200m. This investment excludes the much larger expenditure on bloodstock, which is discussed in the **Breeding** section.

TRAINERS

The difficult economic climate experienced since 2007, with subsequent decreases in the number of horses in training, will have limited the expenditure available for trainers to carry out extensive capital projects. However, prior to 2007 considerable amounts had been spent on training facilities, meaning that a high quality infrastructure was already in place, and improvements have been made by a number of major yards in the last decade.

The Curragh Training Grounds, the largest public training facility in Ireland (and amongst the largest and most respected globally) used by c.1,000 horses per day, have continued to invest in facilities – c.€5m over the last decade. The facilities at the Curragh Training Grounds are owned and managed by the new Curragh Racecourse Company and include:

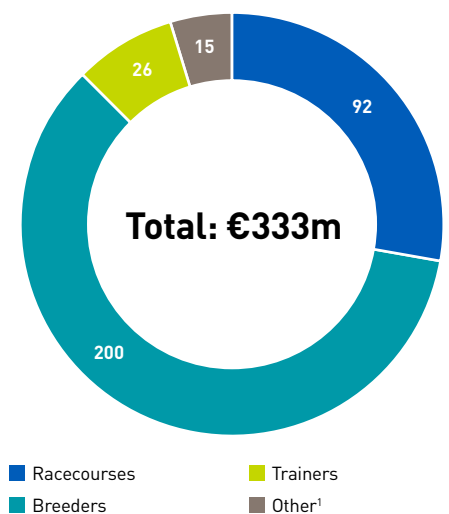
- 70 miles of grass gallops
- 12 miles of peat gallops
- 8 All-Weather tracks
- 2 furlong schooling strip
- Grass NH schooling facilities

When all public trainers, restricted licence holders, point-to-point handlers and public training grounds are included it is conservatively estimated that c.€26m of capital expenditure has occurred in the last decade on training facilities.

OTHER INVESTMENT

Capital investment will also have been incurred by other stakeholders in the core racing industry, including Media and Governance and Administration (including Education), for example on IT infrastructure. These sums are estimated as €15m over the past decade.

Figure 4: Breeding and Racing industry capital expenditure 2007-2016 (€m)



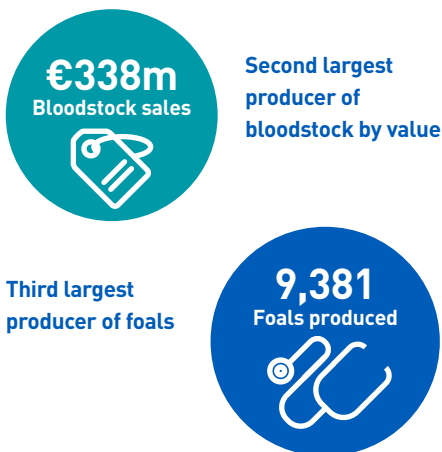
Note:

- 1 'Other' comprises expenditure incurred by other racing shareholders involved in Governance, Administration and Education such as HRI, RACE and Irish Equine Centre.

Source: HRI; Deloitte estimates.

INTERNATIONAL STANDING

THE IRISH BREEDING AND RACING INDUSTRY IS EXTREMELY COMPETITIVE AT A GLOBAL LEVEL, DESPITE OTHER MAJOR RACING NATIONS HAVING MUCH LARGER POPULATIONS AND ECONOMIES. THIS SECTION ILLUSTRATES IRELAND'S GLOBAL STANDING BY FIRST CONSIDERING ITS BREEDING SUCCESS, BEING THE SECOND LARGEST PRODUCER OF BLOODSTOCK BY VALUE, AND THEN THE CONSISTENT INTERNATIONAL RACECOURSE SUCCESS OF HORSES TRAINED IN AND/OR BRED IN IRELAND.



Horseracing is a global sport with racing taking place in over 60 territories, but is dominated by a small number of countries, primarily Ireland, Great Britain, USA, Australia, France, Japan, the UAE and Hong Kong. In 2015, these eight countries staged over 60% of Flat races and accounted for 75% of total Flat prize money.

Jump racing is much more concentrated, dominated by Ireland and Great Britain, with a significant presence also in France. In 2015, these three countries constituted approximately 89% of Jump races and 83% of total Jump prize money.

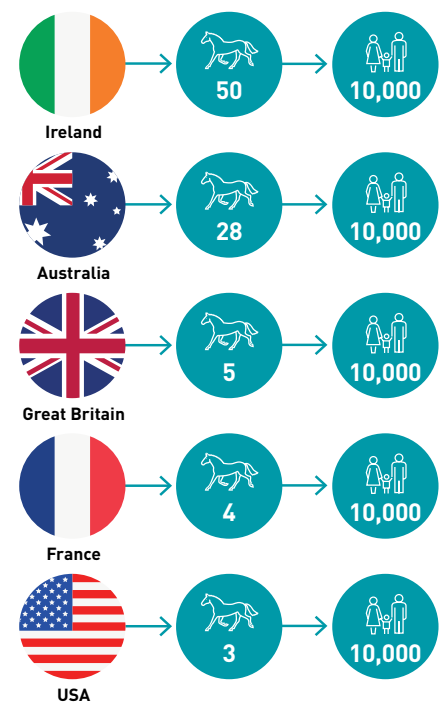
The primary competitors to, and indeed markets for, Irish Breeding and Racing are therefore Great Britain, France, USA, Australia, and, to a lesser extent, Japan.

While Hong Kong and the UAE are significant players, these markets have unique features that make them less directly comparable to Ireland. The Japanese and Hong Kong markets in particular are domestically focused with international participation typically on an invitation-only basis and limited to a very small number of big races (although Hong Kong owners are a regular buyers of Irish bloodstock).

The population of Ireland is significantly smaller than most other leading racing countries and it is therefore useful to compare some metrics on a per capita basis.

Figure 5, illustrates just how prominent the thoroughbred is within Ireland, with approximately 50 horses per 10,000 people. Australia is the next nearest, at 28 horses. Thoroughbred Breeding and Racing activities are therefore the most prominent and important of any country.

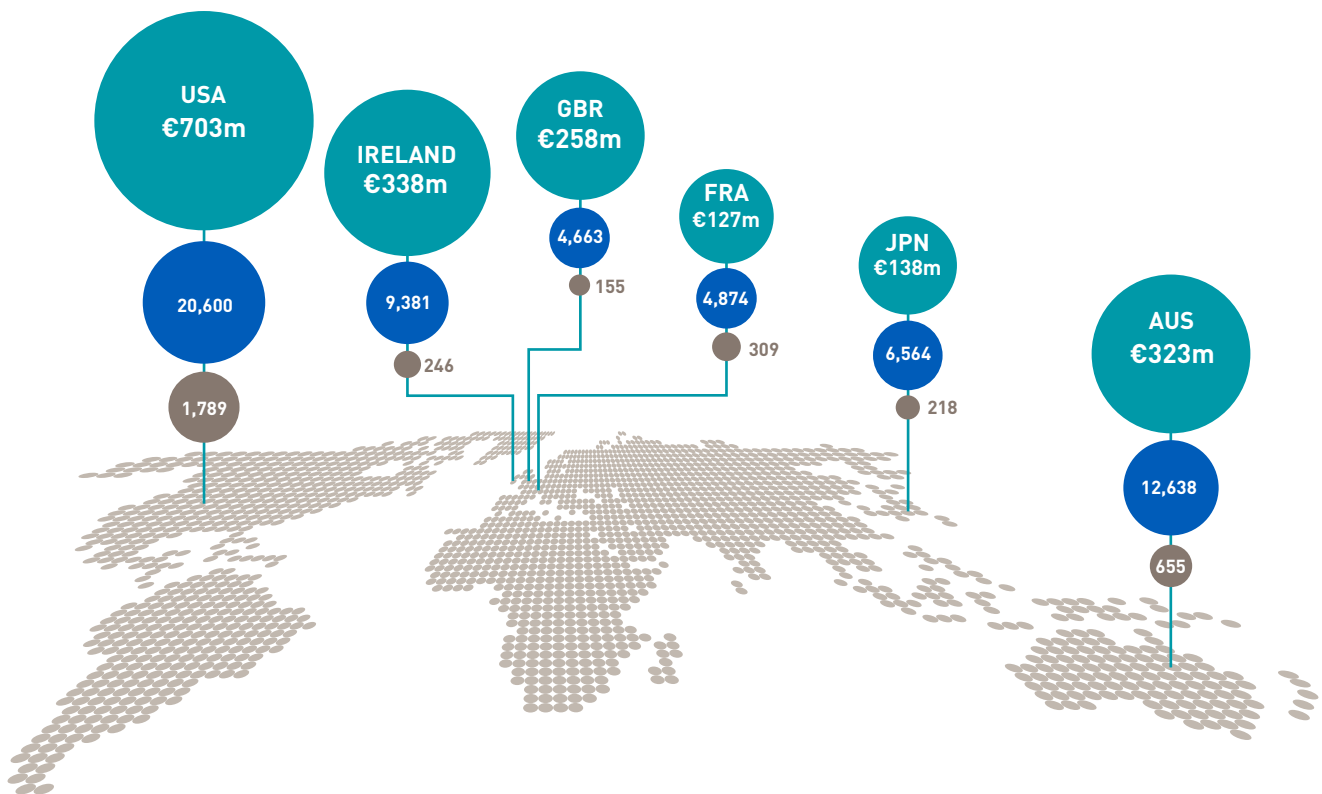
Figure 5: Ratio of thoroughbreds to population



Note: Thoroughbreds comprise horses in training, mares and foals in order to enable comparisons, but will significantly understate total horses in each country.

Source: Weatherbys; IFHA; BHA; RA; HRI; Worldbank.

Figure 6: Public auction bloodstock values, live foals and standing stallions – 2016



BREEDING

Irish thoroughbred breeding is both highly successful and influential on the global stage. Influence comes from both production levels and, arguably more importantly, quality.

Ireland is the third highest producer of foals, and has the third highest number of active broodmares. Many of the world’s top stallions also stand in Ireland, including nine of the top 12 stallions in Europe to date in 2017 (by prize money earned) – these are Galileo; Dark Angel; Invincible Spirit (see Feature overleaf); Sea the Stars; Kodiak; Pour Moi; Fastnet Rock; Acclamation and Ifraaj (now standing in Britain).

Bloodstock sales

Sales of bloodstock are primarily conducted through public auctions, with the most valuable sales occurring in Ireland, USA, Great Britain, France, Australia and Japan. A significant number of private sales also occur, and may involve some very high value horses.

The auction houses are highly respected historic companies which have established strong market positions and attract leading bloodstock buyers and sellers. The most prominent auction houses are Tattersalls (Ireland and Great Britain), Goffs (Ireland and Great Britain), Inglis (Australia), Magic Millions (Australia), Keeneland (USA), Fasig-Tipton (USA), JRC (Japan), and Arqana (France).

Public auction bloodstock sales Foals Stallions

Notes:
Bloodstock figures represent reported public auction sales values in that country for 2016, but with Irish, British and French sales adjusted for bloodstock sales of Irish vendors at British and French sales. It is assumed that the vast majority of bloodstock sales in the USA, Australia and Japan will be by vendors selling horses bred in each respective country.

For foals and stallions IRE and GBR data is 2016, all other is for 2015.

Source: Weatherbys; IFHA; HRI; Auction Houses; Deloitte analysis.



INVINCIBLE SPIRIT

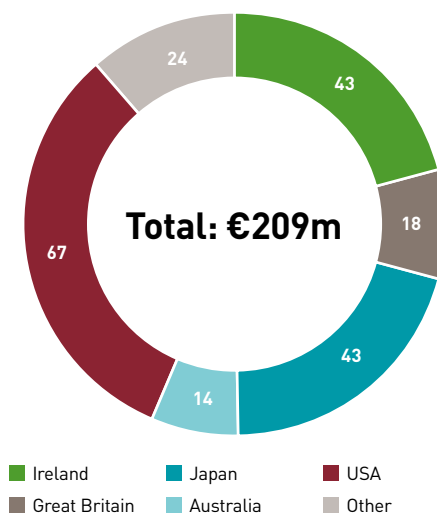
Invincible Spirit was purchased by the Irish National Stud in Co. Kildare in 2002 to commence stud duties in 2003. He was syndicated, which allowed independent breeders to participate in fractional ownership in the stallion market.

His initial fee of €10,000 reflected his original purchase price, in excess of €2.5m. His first crop broke the world record for 2 yo winners, containing 35 individual winners. That crop also included Lawman, winner of the French Derby and who would become a stallion at the Ballylinch Stud in Co. Kilkenny.

Invincible Spirit's fee declined from €75,000 to €45,000 after the 2008 financial crash but his success globally continued and demand for his services pushed his fee upward, peaking in 2016 at €120,000. He has 15 sons at stud worldwide, thus creating his own dynasty.

Invincible Spirit's success is important in directly supporting the 50 jobs at the National Stud and also benefits a broad range of other Irish breeders who have consistently sold his progeny for healthy profits. His 100 yearlings who were sold at public auctions in 2015 and 2016 were on average sold for more than three times his stud fee.

Figure 7: Top 100 progeny earnings 2016 by sire standing country (€m)



Note: This progeny analysis focuses only on the most valuable contests, i.e., Group/Grade 1 races.

Source: Racing Post; Deloitte analysis.

The most valuable auctions are typically for yearlings, with the largest sales being the Keeneland September Yearlings, Tattersalls Yearlings (notably October Book 1), the Goffs Orby Yearling Sale and the Magic Millions Magic Millions Gold Coast Yearling Sales. Irish bred horses generated the second highest sales value in 2016, at approximately €338m, behind only US breeders, and making up c.18% of bloodstock auctions from major racing nations.

Stallions

In 2016 the progeny of stallions who stand in Ireland earned in excess of €43m in prize money on the track, approximately 21% of the global top 100 sire earnings. These earnings were led by the "super sire" Galileo (€19.9m, 1st overall).

RACING

Races

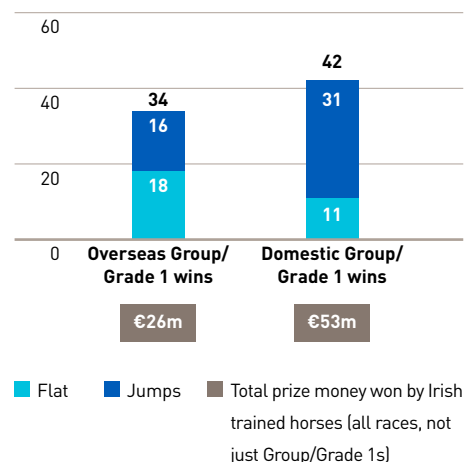
Ireland is unique among the leading horseracing countries in that there are more Jump than Flat races held each year. Jump races are primarily restricted to Ireland, Great Britain and France, however the latter two still hold approximately twice the amount of Flat races as Jump races.

While Ireland hosts significantly fewer races in a year than most other major racing countries, it is well represented in the top rated Flat races with the QIPCO Irish Champion Stakes being the equal second highest rated race in the world in 2016.

Results

In the 2016 racing season, Irish trained horses won a total of 29 Group 1 races (Flat) and 47 Grade 1 races (Jump), while taking home approximately €79m across all races globally. This was a record season for Irish trained horses in terms of prize money won abroad.

Figure 8: Irish trained horses Group/Grade 1 wins – 2016



Source: HRI; Deloitte analysis.

Recent notable victories for Irish trained horses include:

- Flat – **Found** in the Qatar Prix de l'Arc de Triomphe comprising an Irish trained 1-2-3 and **Highland Reel** in the Longines Breeders' Cup Turf.
- Jump – **Rule the World** in the 2016 Crabbie's Grand National, and Irish trainers recorded 19 wins at the 2017 Cheltenham Festival.

The success of Irish bred and trained horses is also illustrated by examining the top 100 rated Flat horses for the 2016 season. Ireland is the most successful breeding nation, with more than 1 in 5 of the top 100 rated Flat horses being Irish bred, with approximately 13% also being trained in Ireland.

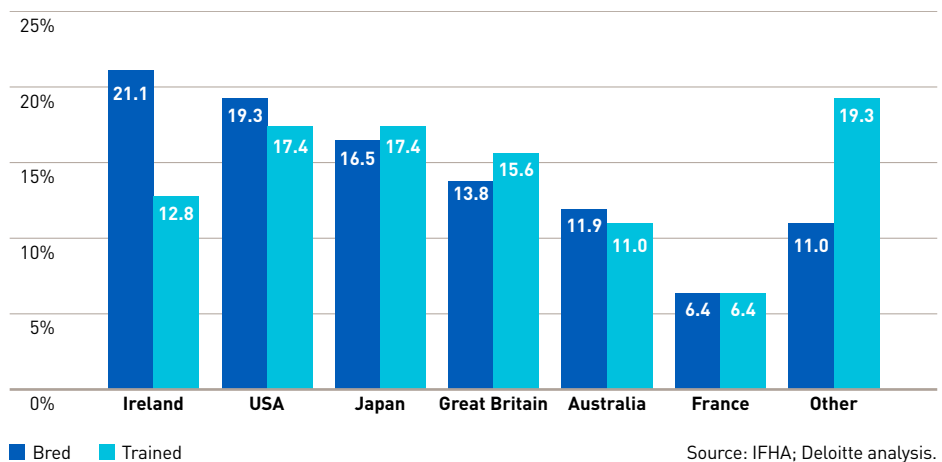
Irish bred horses won four of the top ten rated Flat races in 2016, of which three were trained in Ireland.



Prize money

Of the three major racing nations with both a full Flat and Jump programme (Ireland, Great Britain and France) Ireland's average €8,100 prize money per individual horse in training that ran at least one race, compares less favourably to both other nations. The British equivalent measure was over €1,000 more and French over €4,000 more, the latter benefitting from prize money primarily funded by the PMU with its retail betting monopoly.

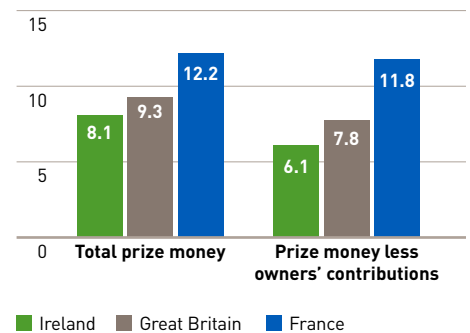
Figure 9: Percentage of Top 100 rated horses by breeding and training location (%)



The high proportion of prize money that is contributed by Irish owners means the differentials are even greater when considering net prize money, with prize money earned by Irish individual runners being three quarters and half of that in Great Britain and France respectively.

Therefore whilst the average prize money per race on offer in Ireland is very competitive, on average prize money for individual horses in training, and the net receipts for owners, are less than in the most directly comparable countries. This is an important consideration to address in both the retention of existing and recruitment of new owners.

Figure 10: Prize money per individual horse – 2016 (€000s)



BREEDING

THE IRISH BREEDING INDUSTRY IS PIVOTAL TO IRISH RACING, BEING THE SUPPLIER OF THE VAST MAJORITY OF HORSES IN TRAINING – THE FIRST STEP IN RACING’S ‘PRODUCTION LINE’. IT IS A MAJOR EXPORTER FOR IRELAND, OVER €300m ESTIMATED IN 2016, RENOWNED GLOBALLY AS A LEADING PRODUCER OF BLOODSTOCK IN TERMS OF BOTH QUALITY AND QUANTITY.

Compared to the racing industries and total populations of other leading racing nations, the Irish Breeding industry is of a significantly greater scale on a per capita basis than any other in the world, a point previously detailed in the **International standing** section.

This section assesses the economic impact of the thoroughbred Breeding industry across the island, covering a broad scale of operations. After discussing the historic development of the industry, the current position is outlined with reference to:

- Number of breeders, bloodstock and production
- Bloodstock sales
- Breeders’ income and expenditure
- Overseas investment
- Future considerations

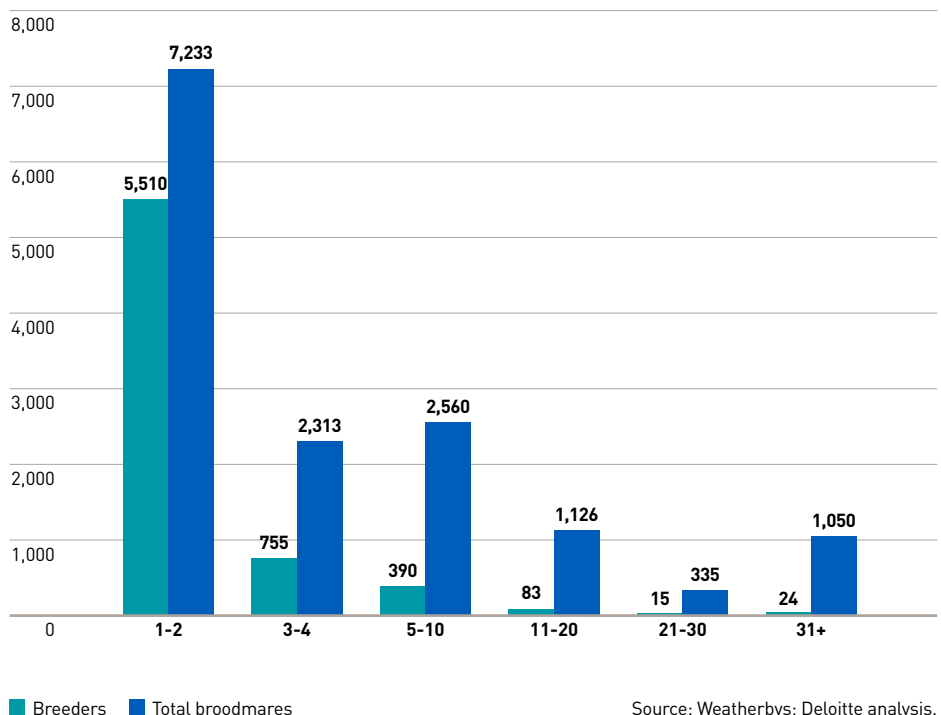
HISTORY

The Irish thoroughbred Breeding industry has developed from an essentially amateur ‘cottage’ industry pre-1969 to now being one of the leading bloodstock producing nations in the world, producing close to a half of all thoroughbreds in Europe.

The exemption of stallion stud fees from corporation tax from 1969 was pivotal in helping it develop, meaning breeders, including international operations, chose to stand stallions in Ireland whereas previously they would have located them elsewhere, helping cement its position as a leading producer of thoroughbreds. This tax exemption, combined with favourable environmental conditions and a skilled workforce, meant that the Irish Breeding industry expanded significantly through to the 1980s.

However, under EU state aid rules the exemption was removed in 2008. This removed the fiscal competitive advantage

Figure 11: Irish Breeders by number of broodmares – 2016



Ireland had over other racing nations (notably Great Britain), and also fell at the time of the global economic crisis which hit the Breeding industry hard through major declines in production (given falling demand) and bloodstock values. In spite of this Ireland has continued to lead the European Breeding industry, both in terms of the quality and quantity of bloodstock produced.

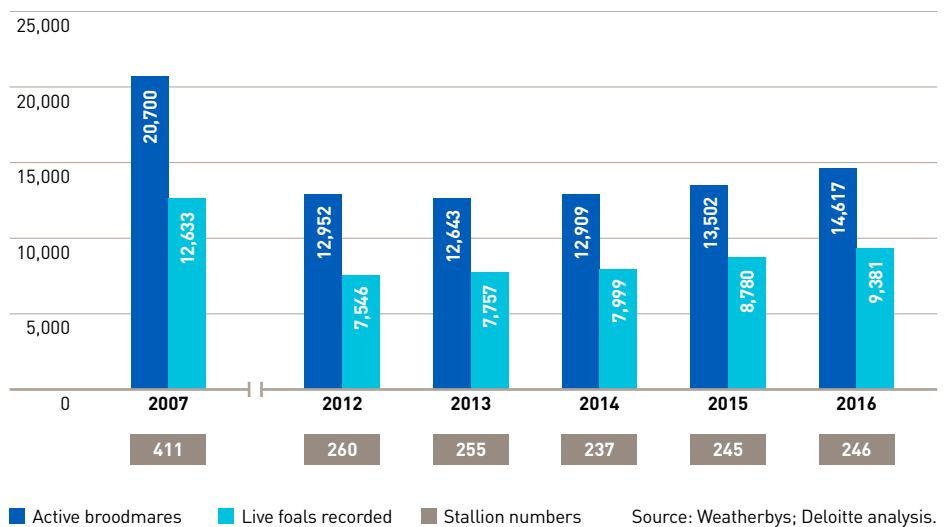
BREEDERS, BLOODSTOCK AND PRODUCTION

Irish breeders cover a broad range of operations – from global bloodstock entities with farms and stallions in several countries through to several thousand owner-breeders with one or two broodmares. The diversity of Irish breeding is highlighted by the fact that over 6,200 (92%) of the 6,777 Irish breeders have fewer than five broodmares, representing 65% of Ireland’s broodmare population. Only 39 breeders (less than 1%) have more than 20 broodmares, although these form a substantial proportion of the sector’s output, expenditure and employment.

Breeders are located in all 32 counties, the Breeding industry thus generating economic activity across the island. There are, however, areas of concentrated activity, with the top five counties by breeder number containing over half of Ireland’s breeders.

County	Total Breeders	% of total
Cork	883	13
Tipperary	877	13
Kildare	821	12
Wexford	604	9
Meath	455	7

Figure 12: Number of stallions, active broodmares and Irish foals born 2007 and 2012-2016



Following the global economic crisis from 2007, foal numbers declined from a peak of over 12,600 in 2007 to c.7,500 in 2012, a drop of over 5,000 foals (40%). Despite the crisis impacting the wider economy from 2007, stallions had already covered mares in the previous year so foal numbers did not immediately decline. Instead there was a ‘lag’ effect, with the biggest decrease being from 2009 to 2010 (c.2,500 foals, 25%).

The market effectively bottomed out in 2010 and 2011 before showing signs of recovery to 2014. 2015 and 2016 have seen further growth, with an increase of c.1,400 foals (17%) from 2014 to 2016.

The number of stallions suffered a similar decline, with 165 (40%) fewer stallions standing in 2016 than in 2007. Despite this decline, it was vital to the Irish Breeding industry that a broad base of stallions was retained and new entrants brought to the market each year, as without well-bred colts being given the opportunity to stand at stud, there would be no way of finding out if they could be the next ‘super-sire’.

BLOODSTOCK SALES

Approach

The majority of bloodstock sales take place at public auction, and the sales information for these auctions forms the basis of the analysis in this section. The other sales to take place are those conducted privately, and a value for these private sales has been estimated by consultations with major breeders and bloodstock experts.

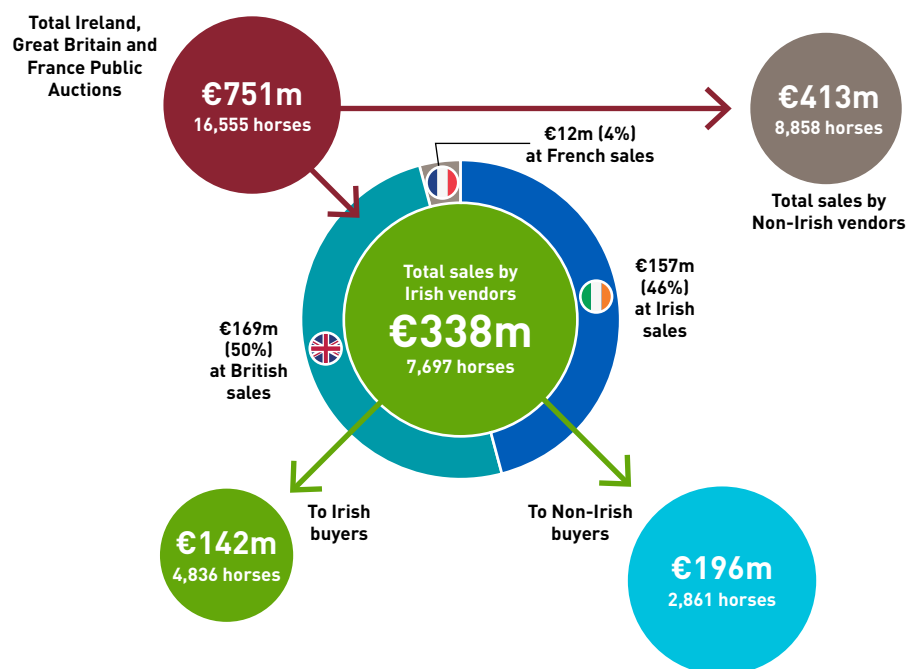
Previous analyses of bloodstock sales have concentrated on the number and value of exports of Irish bred horses, given the (IRE) suffix, hence would have omitted horses born outside of Ireland but sold by Irish vendors. This report focuses instead on the gross sales accruing from the sales of Irish bloodstock vendors, regardless of where the horse is bred or where the sale takes place. This gives a more accurate reflection of the true economic impact these bloodstock sales have, as it represents funds either directly entering, or circulating around, the Irish economy.

The impact of Irish bred (IRE) horses is discussed with reference to the values achieved at sales and the reputation of IRE bloodstock, but IRE sales per se are not included in the industry economic impact analysis unless they are sold by Irish vendors.

Total sales by Irish vendors

Of the major thoroughbred auctions taking place in Ireland, Great Britain and France, Irish vendors comprise €338m (45%) of the total €751m sales. When private sales, conservatively estimated as €100m are included this results in gross sales of bloodstock by Irish vendors of c.€438m in 2016.

Figure 13: 2016 Public sales analysis



Source: Weatherbys; Deloitte analysis.

By their very nature these private sales are difficult to capture. The €100m of private sales have therefore been estimated using the following methodology:

- consultations with the largest owner/breeder organisations;
- analysis of the number of horses sold privately overseas, notably to the USA and Hong Kong;
- analysis of changes in ownership as an indication of private domestic sales; and
- analysis of private sales of point-to-point horses.

Of the €338m sales by Irish vendors at public sales, €196m (58%) are to non-Irish buyers. These sales therefore represent foreign direct investment into the Irish economy, which increases further when private sales, 90% of which are estimated to be to international buyers, are also included.

Whilst the gross sales from Irish vendors to overseas purchasers in 2016 were €196m, the net position of Irish breeders should also be considered. Irish purchasers bought €94m of bloodstock from overseas vendors, resulting in net sales of €102m.

Yearling sales make up €159m (47%) of the total €338m sales by Irish vendors. They form c.2,700 (35%) of the actual horses sold, demonstrating the high value of yearlings compared to foals and older horses, and the importance of these sales to the Irish Breeding industry.

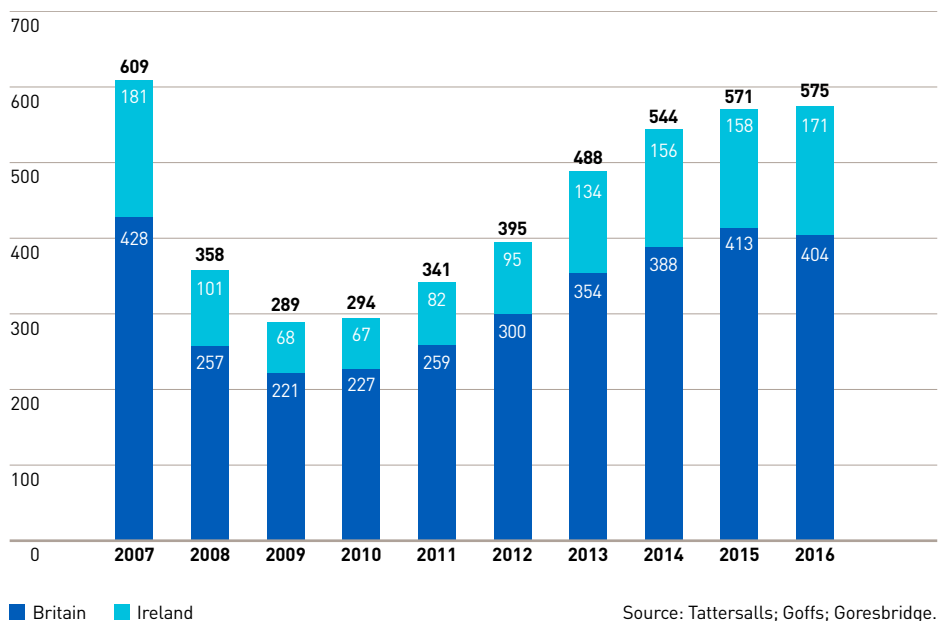
An indication of the value of Irish bred bloodstock (i.e. all horses with an (IRE) suffix) can be obtained by assessing exports of IRE horses via public auction. These 3,890 exported IRE horses represented 23% of all bloodstock passing through the ring in Ireland, Great Britain and France, yet formed 36% of the total value generated by such sales. Irish bred bloodstock can therefore be said to have generated sales worth 13 percentage points higher than would be expected on a proportional basis in 2016.

Public auctions

The two largest auction houses in Ireland are Goffs and Tattersalls Ireland, with Goresbridge also holding public auctions. The equivalent entities in Great Britain are Tattersalls and Goffs UK, and the vast majority of horses sold by Irish vendors will pass through these Irish or British sales houses, with a small number being sold at auction in France.

The sales values at public auctions are key indicators of the health of the Breeding and Racing industry. As would be expected, sales at Irish and British auction houses experienced a similar decline to foal production following the economic crisis, with the nadir being the period around 2009 and 2010. Values have recovered since then however, with total GB and Ireland sales in 2016 just €34m (6%) off the previous peak year of 2007, Irish sales being just €10m (6%) off.

Figure 14: Total bloodstock sales at public auction – 2007-2016 (€m)



Note: British sales converted to Euros at average rate in each year.

Brexit has also had implications on the value of bloodstock sales in both Ireland and Britain, and in 2016 British sales fell in Euro terms despite increasing in sterling. The fall in the value of the pound has negatively had an impact on Irish vendors selling in Britain, although helped Irish buyers there.

Of the €338m bloodstock sold at auction by Irish vendors, c.€157m (46%) took place in Ireland (€109m at Goffs, €43m at Tattersalls Ireland and €5m at Goresbridge). €169m (50%) of sales took place in Great Britain, with the remaining €12m in France.

Bloodstock agents play an important role in the Breeding industry for both public and private sales, facilitating a large number of transactions and connecting Irish vendors/consignors and purchasers within Ireland, in Great Britain and internationally.



INCOME AND EXPENDITURE

Ireland's breeders adopt a wide array of business models due to the huge variation in their scale of operations. Whilst the larger commercial breeders will own 50+ broodmares and stand a number of stallions, the vast majority own fewer than five broodmares and the business models will vary accordingly.

Nomination fees

Income from bloodstock sales (public and private), which covers breeders at all operational scales has been discussed in the sales analysis above. The other major source of income for those breeders standing stallions is from nomination fees, which can vary significantly depending on the stallion in question.

Of the 2017 nomination fees that are publicly disclosed the highest are Sea the Stars (Gilltown Stud) at €125,000 and the Irish National Stud's Invincible Spirit at €120,000, however a number of the fees are not publicly available, being on a 'Price On Application' ("POA") basis.

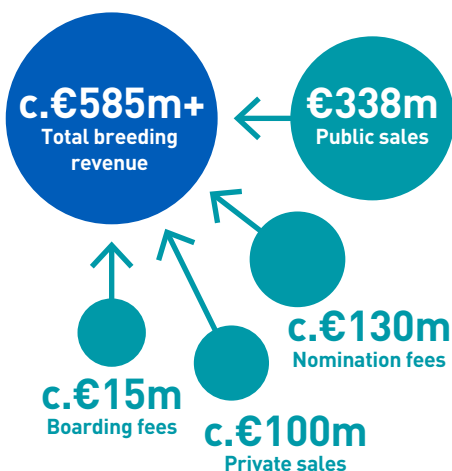
Galileo, the leading thoroughbred stallion in the world, who stands at Coolmore, is one such stallion whose fee is on a POA basis. By the great stallion Sadler's Wells, who also stood at Coolmore, Galileo has been the leading sire by progeny earnings in seven of the eight years since 2008 and is now also established as a 'sire of sires' with his sons Teofilo, New Approach and Frankel all proving a success at stud.

Estimating the total nomination fees received by stallion owners is difficult due to a number of coverings being of the same owners' mares, which as an internal provision of services will not generate any immediate movement of finances. In addition, not all mare owners will pay the advertised price if, for example, they send multiple mares to the same stallion.

In 2015 there were over 13,800 coverings by Irish stallions, which would have led to fees being paid in 2016 when 9,344 foals from these coverings were born. When coverings of mares also owned by the stallion owner or connected parties are excluded and an adjustment applied to the advertised price, this results in estimated total nomination fees of c.€130m being generated by the owners of Irish stallions.

An estimated €45m of nomination fees were from overseas breeders sending their mares to Irish stallions, hence representing a further export for Irish breeding.

Breeding industry revenue



Of the c.€130m arising from 9,344 coverings that produced foals, €118m (91%) was attributable to Flat stallions responsible for 56% of the coverings. National Hunt stallions therefore earned €12m (9%) of fees from 44% of coverings.

The large commercial breeders standing stallions in Ireland for the breeding season will often 'shuttle' a number of these to the southern hemisphere for the second half of the year. These will generate additional nomination fees or leasing charges depending on the model used.

Another source of income for breeders comes from boarding fees, i.e. the keep costs owners pay to keep their mare at a breeders' premises when they are in foal or due to be covered, or to keep their foals, yearlings and Jump 'store' horses before they enter pre-training. The majority is an internal cost within the breeding industry, effectively part of production costs realised through later sales. However, an estimated €15m is related to mares owned by overseas owners who board in Ireland prior to and/or after covering by an Irish stallion, hence representing a further injection of funds over the nomination.

Total breeding industry revenue is therefore estimated to total c.€585m comprised of €338m public sales, €100m private sales, €130m nomination fees and €15m boarding fees for international mares.



Expenditure

The total operating expenditure, excluding bloodstock purchases, incurred by the breeding industry to generate the c.€438m in bloodstock sales from Irish vendors will be considerable.

After investment in bloodstock, wages are the largest cost incurred by the Breeding industry, due to the skills required and labour intensive nature of the breeding process.

Figure 9: Breeding industry employment

Full time employment	c.1,800
Part time employment	c.4,700
Total (FTE)	c.4,100



Other costs incurred by breeders are similar to those of trainers, i.e. the purchase of goods or services required to keep horses such as vets, farriers, feed, transport etc. Insurance will also be sizeable given the high value of the breeding stock, notably stallions.

Maintaining breeding facilities to the high standards of equine welfare required involves considerable amounts of capital expenditure. Over the last 10 years c.€200m of capital expenditure is conservatively estimated to have occurred – again this does not include investment in bloodstock itself.

Due to the diverse range of breeding operations found in Ireland it is not practical to estimate profitability. Especially at the owner/breeder end of the scale of operations, where thoroughbred breeding is essentially a supplementary income to other farming activities, profits will be often negligible (or negative) due to the nature of the activities taking place.

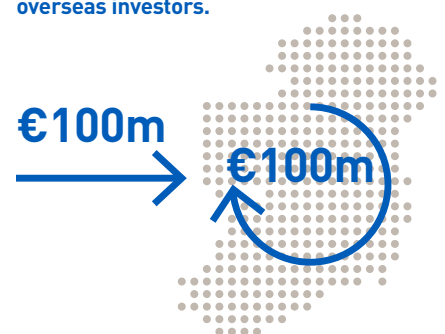
At the commercial scale the different allocations of revenues and costs (in particular with reference to any private sales) and the fact that breeding operations will in some cases be treated together with racing, again means that assessing a level of profitability for the Breeding industry is not practical.

OVERSEAS INVESTMENT

Leading sporting organisations around the world are increasingly being funded by overseas investment from wealthy individuals and organisations, and as the leading nation for thoroughbred breeding Ireland is no exception.

In addition to Irish vendors selling over €250m of bloodstock to international owners in 2016, it has also attracted considerable investment from international breeding operations which have chosen to locate their operations there.

Of the c.€200m of capital investment experienced in the past decade it is estimated that half of this comes from overseas investors.



Great Britain provides the main source of overseas investment in Irish Breeding and has longstanding links with the industry due to its close proximity and the shared Stud Book. Two of the partners in Coolmore, the leading breeding operation in Ireland, are British – Michael Tabor and Derrick Smith.

After Great Britain, the Middle East is the main source of overseas investment. Major long-standing investors include Sheikh Mohammed Bin Rashid Al Maktoum, the ruler of Dubai, whose Darley breeding operation has had a presence in Ireland at Kildangan Stud for over 30 years, Sheikh Hamdan Al Maktoum, owner of Derrinstown Stud and Prince Khalid bin Abdullah, owner of Juddmonte farms.

Recent years have seen investment from other Middle Eastern states such as Bahrain and Qatar, but the geographic spread of investment in the Irish Breeding industry extends to numerous other countries including the USA, Switzerland and Hong Kong amongst others.

Irish Thoroughbred Marketing (“ITM”), a subsidiary of HRI was formed in 1991 to promote Ireland internationally as the leading source for the production and sale of quality thoroughbreds, and as a premier country in which to own, breed and buy thoroughbreds. It continues to target international investors through schemes such as the Inward Buyer Programme, whereby overseas purchasers at the Irish bloodstock sales are eligible to claim a fixed contribution towards their travel expenses.

Figure 15: Location of highest advertised value European first season sires 2009-2017

Year	Sire	Location	Initial fee
2009	New Approach	Great Britain	£30,000
2010	Sea The Stars	Ireland	€85,000
2011	Makfi	Great Britain	£25,000
2012	Pour Moi	Ireland	€20,000
2013	Frankel	Great Britain	£125,000
2014	Dawn Approach	Ireland	€35,000
2015	Kingman	Great Britain	£55,000
2016	Golden Horn	Great Britain	£60,000
2017	Shalaa	France	€27,500

Source: HRI.

FUTURE CONSIDERATIONS

Whilst the Irish Breeding industry currently has a leadership position within Europe, the nature of global breeding operations means that they will have multiple other locations to which they could relocate staff, bloodstock and ultimately investment should conditions in Ireland become less favourable. The fiscal environment, and in particular the implications of Brexit on the movement of horses into Great Britain and across the border into Northern Ireland, are issues that will need to be carefully managed in order to protect the c.€438m of sales by Irish vendors in 2016.

Ireland’s success was built on the back of a sequence of successful stallions encouraged through Government policy and strengthened through the decades, although since the stallion stud fees exemption from corporation tax was removed in 2008, only three of the highest priced first season sires have stood in Ireland (in contrast to seven in the previous ten years). Ironically, in 2008 one of the less heralded new stallions was Dark Angel who ten years later commands a fee far in excess

of his original first-season rivals from his base in Co. Kildare, which explains the importance of having a broad base of stallions so that as many as possible have the opportunity to prove their worth as future champions.

Whilst the British Breeding industry remains around half the size of that in Ireland in terms of foal production, recent years have seen the quality of stallions standing in Britain improve, with sires including Dubawi, Frankel and Kingman now based in Newmarket. While elite retirees may not necessarily become future champion sires, there is a definite indication that British and French stallion rosters have improved considerably over the past few years. Ireland’s pre-eminence is therefore not guaranteed.

OWNERS

OWNERS WITH RACEHORSES IN TRAINING REPRESENT THE FOUNDATIONS OF IRISH BREEDING AND RACING, BEING THE LARGEST FUNDERS OF THE INDUSTRY. IN ADDITION TO THE €150m+ OF ANNUAL EXPENDITURE ON BUYING/BREEDING HORSES FROM/IN IRELAND, IRISH BASED OWNERS INCUR EXPENDITURE IN EXCESS OF €150m EACH YEAR TRAINING AND KEEPING HORSES, VIA PAYMENTS TO TRAINERS, JOCKEYS AND SUPPORTING INDUSTRIES SUCH AS VETS, FARRIERS AND TRANSPORT COMPANIES – THE VAST MAJORITY INJECTED INTO THE RURAL ECONOMY THROUGHOUT IRELAND.

This section first sets out the characteristics of what is a diverse and international set of over 3,600 registered racehorse owners in Ireland together with the number of horses in training that they own, followed by an examination of the annual expenditure of these owners and the role prize money plays in rewarding ownership.

The section focuses on ownership in 2016, but it is important to consider how ownership levels and horses in training have experienced significant declines since the global financial downturn and resulting shrinkage of the Irish economy, so movements are discussed where appropriate. Owning thoroughbred horses is a discretionary spend for most owners, and the industry is therefore particularly vulnerable to such economic shocks. The industry has subsequently begun to pick up, aided by domestic and global economic recoveries.



TYPES OF OWNERS

There are a variety of different ownership models in Ireland, encompassing sole owners, syndicates (typically with 5-20 members for each horse), companies and clubs (the largest of which has c.400 members). Across all these forms more than 8,100 people have an interest in ownership.

The majority (over 80%) of horses are still owned by sole owners (including a small number of partnerships).

Syndicates and clubs provide a means to reduce costs by sharing expenditure across a number of individuals. Whilst responsible for only c.10% of horses in training, these forms of ownership provide a route for many individuals to become future sole owners, as syndicate membership builds their knowledge and comfort in ownership.

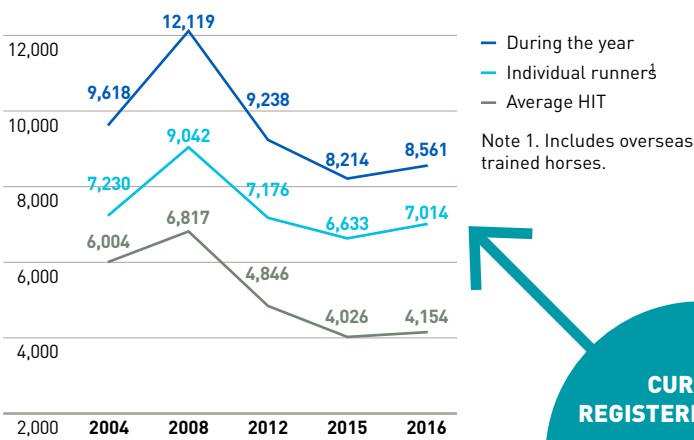
There are a much smaller number of companies owning horses, but they include some very significant owners – many drawn from substantial training and/or breeding interests including Gigginstown House Stud, Moyglare Stud Farm and Qatar Racing.

HORSES IN TRAINING

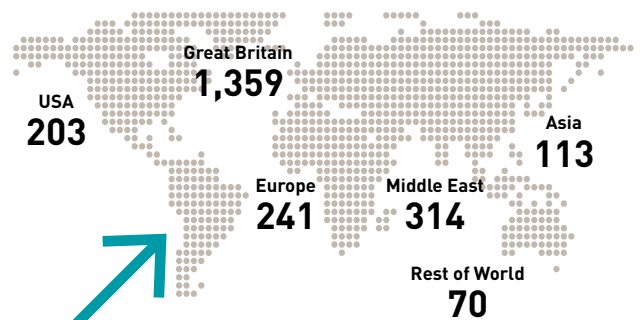
There were 8,561 horses declared in training with HRI at some point of the year in 2016, an increase of 4% on 2015 but down 7% from 2012 and nearly 30% since the peaks of 2008.

The average number of horses in training is based on trainers' declarations at representative points of the year and is significantly lower than the total horses in training at some point. These figures are highly likely to be understated as horses only need to be declared in training just before running, and given the heavy workloads of trainers, often with limited administrative support, trainer declarations will not fully

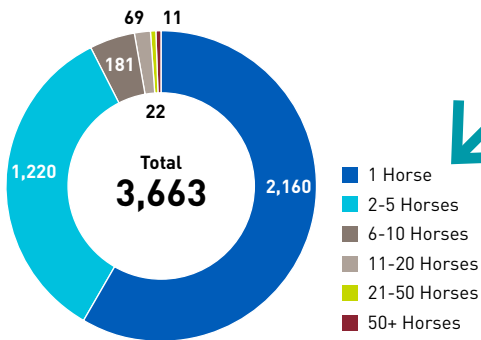
HORSES IN TRAINING



OVERSEAS OWNED HORSES BY OWNER NATIONALITY



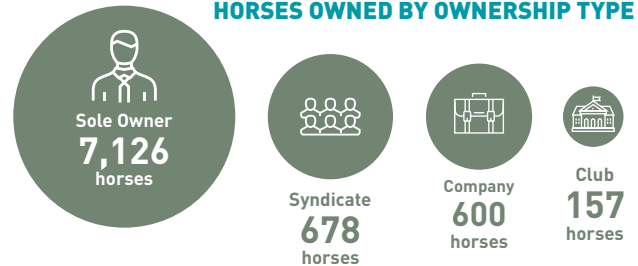
OWNERS BY HORSES OWNED 2016



CURRENT REGISTERED OWNERS
3,663

(2012: 4,195)
(2008: 7,157)

HORSES OWNED BY OWNERSHIP TYPE



Source: HRI; Deloitte analysis.

reflect the true number of horses in training. In total c.6,700 Irish trained horses ran at least once in Ireland in 2016. This means around 1,800 horses did not run in the year, which will be for a variety of reasons related to the natural flow of horses in and out of the sport. This includes young Flat horses (yearlings or two year olds) entering training at the end of the year in preparation for running in 2017, and younger Jump horses being educated in advance of running.

NUMBER OF OWNERS

Registered owners decreased by nearly 50% since 2008, but the pace of decline has slowed significantly, and indeed increased in 2016 from 2015 levels. There were over 700 new owners registered in 2016, the highest number since 2011.

The biggest declines in ownership were of owners of one horse, down nearly 50% between 2008 and 2016.

The number with more than 21 horses in training has actually increased since 2008, many of these being international owners.

INTERNATIONAL OWNERS

Ireland's reputation for top quality racing under both codes means it attracts a wide range of owners from all parts of the world.

In 2016 there were over 300 owners from Britain, with c.1,400 horses in training including Coolmore (given two of the three partners are British), with more than 200 horses in training with Aidan O'Brien at Ballydoyle in Co. Tipperary.

Many of the world's leading Flat owners have substantial interests in Ireland – including long standing supporters of Irish Racing in Godolphin and Sheikh Hamdan Al Maktoum from Dubai, the Aga Khan, and more recently the emergence of Qatar Racing as a major Flat owner.

A number of prominent International Jump owners, such as Susannah and Rich Ricci, Alan and Ann Potts, Graham and Andrea Wylie and Roger Brookhouse, have chosen to locate a substantial proportion of, or in some cases all, their horses in Ireland. The competitive prize money and associated race programme for high quality horses, the track record of leading trainers (consistently winning top races in Ireland and Britain) and access to high quality facilities all play a part in this decision.

Across both codes, a total of 2,300 horses, owned by over 500 non-Irish owners, were trained in Ireland in 2016. These horses generated training fees and associated expenditure of over €35m.

Figure 16: Total and average per horse owner's operating expenditure

	€m	Average per horse €
Basic training fees	101	11,700
Vets, medical and farrier	13	1,500
Transport and racing expenses	11	1,300
Sub total	125	14,500
Entry fees	15	1,700
Jockey fees	5	500
Insurance	5	700
Total owners' expenditure on horses in training	150	17,400
Keep costs	12	1,400
Total owners' expenditure	162	18,800
Prize money won¹		
Owners' prize money – Irish	42	4,900
Owners' prize money – International	21	2,400
Net owners' expenditure	99	11,500

Note 1: Owners' share only, typically 80% of total prize money won.

Source: HRI.

Horses trained in Ireland have ready access to racing in Britain and France, under the tripartite agreement of free movement of horses between the three racing nations. Threats to this freedom of movement, including any restrictions arising from Brexit, could therefore potentially damage the Irish Breeding and Racing industry (and its British and French counterparts).

OWNERS' COSTS

The main items of owner expenditure are discussed below:

- Basic training fees are typically charged on a daily rate. The average daily rate has been assumed to be €45 but does vary by code, with Flat horses typically attracting higher charges, and as discussed in the **Trainers** section a large proportion of trainers will charge less. The opening of the All-Weather track at Dundalk means there is now a year round Flat racing programme, Jump racing having benefitted from this for many years. Most horses benefit from a break from training at some point in the year, hence on average a horse will be in full training for around 9-10 months. On this basis, owners are estimated to have incurred



training fees of over €100m in 2016. The costs of looking after the horse for the other 2-3 months are shown in keep costs, estimated at €12m.

- Vet and medical fees have been estimated as an average of €1,500 per horse, but will vary and can be significantly higher if a horse is injured or requires specialist treatment.
- Transportation costs will be relatively low for runners at Irish racecourses, rising significantly for those travelling abroad – whether in Britain (close to 1,500 runs by Irish trained horses in 2016) or further afield as Irish horses contest many of the world's top races.
- Jockeys are paid per ride, €147 for a Flat ride and €169 for Jumps. In addition they earn c.9% of prize money and a very small number have paid retainers for certain yards and/or owners. Jockeys are amongst the hardest working and toughest sportspeople in Ireland, risking injury for comparatively limited financial reward. Irish jockeys are acknowledged as being amongst the best in the world, with many riding extensively outside of Ireland as a result.
- Owners pay entry fees for each race, with the amount increasing according to the race value. There are additional fees for registration, colours etc. paid by owners to HRI, which has reduced these fees in the last two years to limit the financial burden.
- Overall owners are estimated to have spent €162m on training and related expenditure, with an average cost per horse of c.€18,800.
- Owners recouped €42m (26%) of their expenditure in domestic earnings, with an additional €21m from international sources, although it should be noted that this will not be spread evenly, with the majority of owners earning significantly less than this in prize money.

PRIZE MONEY

The level of prize money paid in any major racing nation is a key barometer of the health of the industry.

Whilst financial return is not the main driver of horse ownership in Ireland, and most owners do not expect to recoup all of their costs (whether acquisition or training costs), prize money nevertheless plays a vital role.

It is important that an owner has the prospect of a reasonable return from a successful horse, providing the aspirational aspect of horse ownership. Owners also need to feel that they are being fairly treated as the sport is largely built on their investment.

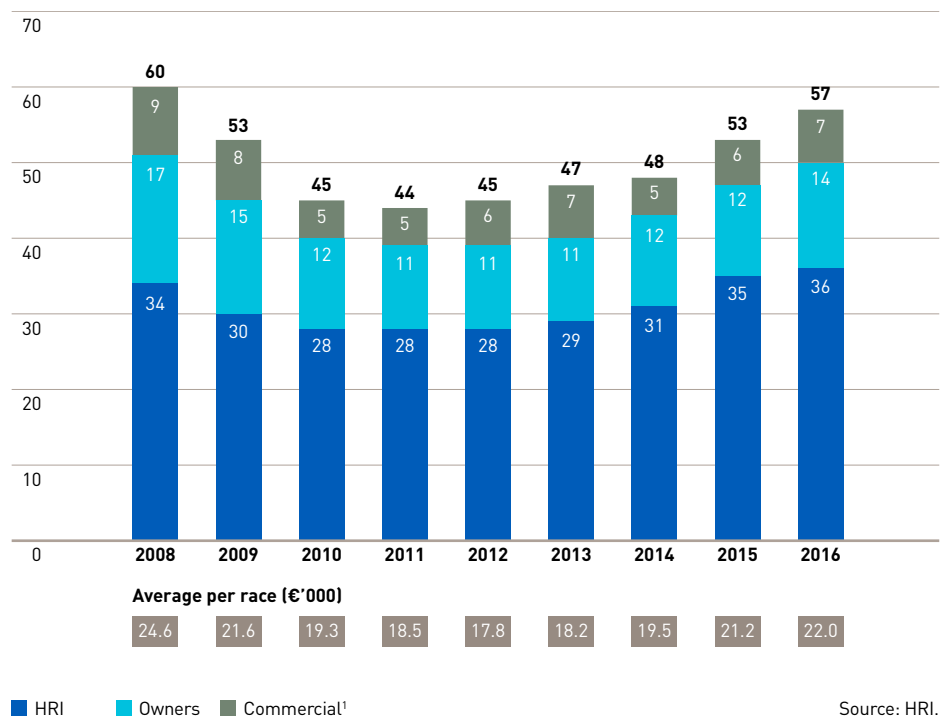
Total prize money of €57m was paid in 2016, and in 2017 is expected to be €60m, back to 2008 levels but still representing a real decline over the period.

The industry has been able to steadily grow prize money since 2011 following four years of decline, caused by a combination of reduced HRI funding, a challenging sponsorship market and falling entry fees as horse numbers reduced.

Prize money comes from three main sources. The single biggest source, representing nearly two thirds in 2016, is HRI's contribution of €36m, having increased by c.30% since 2012.

Owners, via entry fees, represent the second biggest source at €14m (25%). This is the highest proportion of any other major racing nation.

Figure 17: Prize money by source 2008-2016



Source: HRI.

Note:

1 Includes European Breeding Fund (EBF) and Northern Ireland (much less than €1m each per year) funding.

Commercial contributions consist of sponsorship and racecourse contributions. The biggest sponsors of Irish races are the betting industry, media companies and stud farms. Whilst sponsorship levels have recovered from 2012, the sport would benefit from attracting more non-industry sponsors, particularly those from sectors such as airlines, financial services and telecommunications that are active in sport sponsorship, but arguably under-represented in Irish Racing.

The reduced numbers of horses in training means prize money per runner was a record in 2016, at close to €2,000.



HRI have introduced a series of new races, with conditions framed such that smaller owners should have more chance to compete.

The situation differs somewhat in Flat racing as the proportion of prize money won by the leading owner, being the aggregate of different Coolmore partnerships, has remained relatively steady at c.15% between 2008 and 2016. There is a marked gap to the second placed owner, with the subsequent places subject to more variability amongst a group of six to ten owners, with success often dependent on the performance of an owner's best horses in any given year.

Further increases in prize money would assist in maintaining growth in the number of owners. The anticipated increase in British prize money in 2017/18 as a result of additional funding from the betting industry, much of which is expected to be directed to the lower end of the sport, will erode the competitive advantage Ireland currently has in terms of higher prize money for the majority of races (which is already somewhat diluted by it being harder to win races in Ireland).

It is therefore more important than ever that all parties in the industry play a role in increasing the level of ownership, including:

SIGNIFICANCE OF MAJOR OWNERS

Owners with the largest number of horses make the biggest single economic contribution to the industry, hence are vital to its ongoing health. There are a mix of operating models employed, with some such owners choosing to locate all their horses with one trainer, while others spread their horses across a number of yards.

The size of the strings of the leading owners, together with the quality of horses purchased (many from Irish breeders), inevitably means that a significant proportion of races and prize money is won by them. In Jump racing, three leading owners won 29% of all prize money from just under 500 individual runners in 2016/17, up from 7% from 220 runners in 2008/09.

LOOKING FORWARD

While ownership numbers are unlikely to return to 2008 levels in the near future, it is encouraging that ownership has returned to growth. Irish Racing also benefits from as broad a range of international owners as it has ever had, but this should not be taken for granted as economic and political shocks, largely outside the influence of the industry, are always possible and require strategies and, when appropriate, Government support to mitigate against.

HRI, aided by its newly created Ownership department and working with key stakeholders, continues to pursue a number of initiatives to grow the ownership base, including helping to support syndicates and racing clubs which can act as a gateway for many into ownership.

It is also important to recognise that while there will always be an element of "churn" of owners leaving the sport, reducing the rates of such churn can play as valuable a role as recruiting new owners.

- **Trainers** – typically owners' most accessible link to the sport and should be a valuable resource in the recruitment of new, but also importantly in the retention of existing, owners. HRI launched a Trainer Marketing Support scheme in 2016 to help support in this regard. Communication by some trainers to owners about their horses also has scope to improve;
- **Racecourses** – the provision of appropriate quality facilities for owners and their horses is important in recognising their contribution. The €90m+ investment in racecourse facilities in the last 10 years, together with further planned developments, has made a significant difference but further improvements should be considered, including ensuring the owners fully benefit from available facilities.

TRAINERS

IRELAND HAS SOME OF THE LEADING TRAINERS IN THE WORLD AMONGST ITS 372 PUBLIC TRAINERS AND 248 RESTRICTED LICENCE HOLDERS. WHILST THERE ARE AREAS OF CONCENTRATION, NOTABLY THE CURRAGH BEING A GLOBAL CENTRE OF EXCELLENCE FOR THOROUGHBRED RACEHORSE TRAINING, TRAINERS ARE LOCATED IN 31 OF IRELAND'S 32 COUNTIES.

The significant reduction in the number of horses in training, discussed in the **Owners** section, since 2008 has also resulted in a marked decrease in public trainers, down from 449 to 372 between 2008 and 2016, however the pace of decline has slowed since 2012. There have been further trainers leaving the sport since 2012, including several trainers and/or former high profile jockeys,

and it remains a challenging climate for many trainers to maintain sustainable businesses.

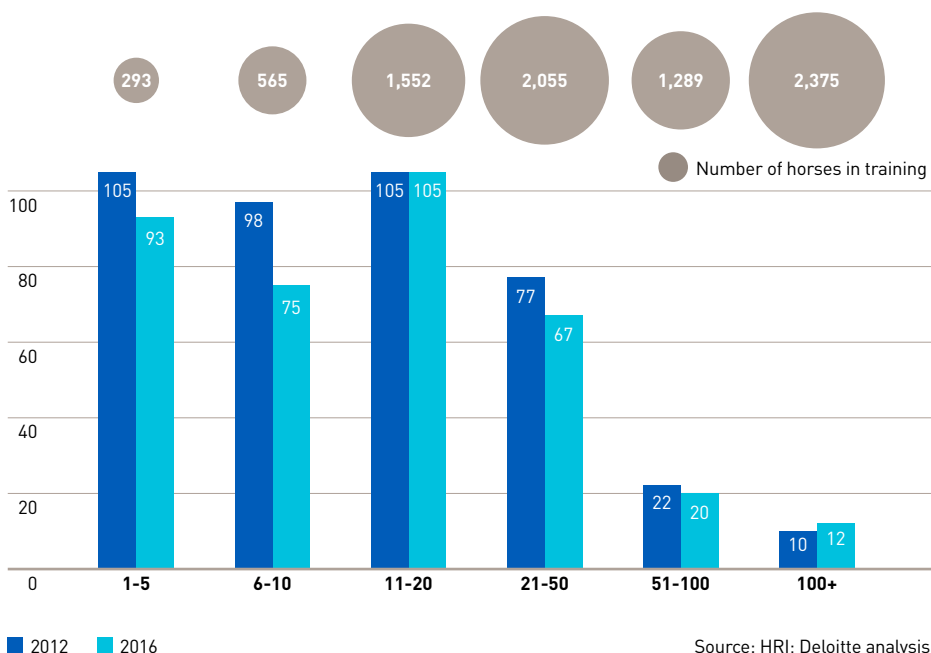
The number of horses a trainer has is a key part of that challenge, and there is significant variation in the number of horses trained by public trainers, hence the scale of their business and employment levels.

The largest trainers account for a relatively high proportion of horses in training. In 2016 the largest 32 yards accounted for over 3,500 horses, 45% of all horses in training. At the opposite end of the spectrum the smallest 166 yards accounted for less than 900 horses (11%).

Restricted licence trainers are only permitted to have a maximum of four horses declared in training at any given time (hence capable of running), although some will have more than four horses in their care with different horses in training at different times in the year.

Despite the overall reduction in horses in training, the number of horses trained by the largest yards has increased substantially since 2012, when the ten trainers with 100+ horses had 1,700 horses – compared to 2,375 horses under the care of the 12 trainers with 100+ horses in 2016.

Figure 18: Public trainers by number of horses in training – 2016



This concentration of horses amongst the largest, often most successful, trainers mirrors a wider trend within professional sport with the top teams and operations becoming more successful. However, the sport is such that there will always be the potential for well supported, connected and skilled new entrants to challenge the status quo, the rise of Gordon Elliot's yard being a case in point. In the 2008/09 season the yard had 66 horses which ran and finished 25th in the Jump prize money table, but by the 2016/17 season had more than 280 horses running and came within €200,000 of winning the Trainers Championship.

Such successes, combined with a passion for the sport, explain why, despite the clear financial challenges, around 25 new trainers enter the sport each year, a proportion of whom will be taking over a family business.

Source: HRI; Deloitte analysis.

TRAINERS' REVENUE

The main source of trainers' revenues is the training fees described in the **Owners** section, but trainers do also benefit from a share of prize money.

Figure 19: Trainers' revenue – 2016

Source	€m
Training fees ¹	101
Prize money ²	5
Bloodstock trading	n/a
Other farming/activities	n/a

Notes:

1. Assumes other training costs such as vet, farriers and transport are paid direct by owners, or represent a full recharge.
2. 7-8% of all domestic and overseas prize money won by Irish trained horses (after deductions).

Source: Deloitte analysis.

The fees that are charged by trainers can vary significantly, and will depend on recent results, trainer reputation, size of yard and location. Fees are typically higher for Flat focused trainers compared to their Jump counterparts, although many train both and typically have the same rate per day.

The average estimated daily training rate of €45 will therefore be subject to variation. The differential between the rates charged by the trainers at, or towards, the top of the trainers Championships and the remaining trainers, notably, those in mid tier, are not as great as seen in Britain. New trainers entering the sport also often consider price as a key means by which they can compete, and the combination of both factors dampens the daily rate achievable which means many trainers struggle to make the business work from training fees alone.



While prize money won by trainers can be significant it is unpredictable, particularly given the competitiveness of Irish Racing, hence the majority of trainers do not budget on its receipt.

Many trainers therefore have to generate other forms of income related to racing – primarily the buying and selling of horses for their owners – or other forms of farming or activity using their land.

EXPENDITURE

Trainers' expenditure plays an important role in distributing the owners' financial injection across the rural economy, being primarily with rural based employees or local businesses.

The labour intensive nature of training means that the wages of the c.2,800 FTE stable staff represent the largest expenditure item. The next most significant cost is that of feed and bedding. This spending is primarily with specialist equine feed and bedding providers, typically local businesses.

Other expenditure incurred by trainers, but ultimately paid for directly, or funded by, owners includes the cost of farriers, vets and transport.

The **Capital Investment** section discussed the relatively limited investment in new facilities in the last ten years given the challenging economic climate for trainers, however the costs of maintaining existing facilities is considerable.

RACECOURSE FINANCES

IRELAND HAS 26 LICENSED RACECOURSES, SPREAD ACROSS THE BREADTH OF THE COUNTRY WITH 17 OF THE 32 COUNTIES HAVING AT LEAST ONE. THEY FORM A CRITICAL PART OF THE INDUSTRY, BEING THE STAGE ON WHICH HORSES PERFORM AND OFTEN ESTABLISH THEIR VALUE AS FUTURE BREEDING STOCK.

This section provides an overview of racecourse finances in 2016, focussed on their aggregate profit and loss. The 26 Irish racecourses vary significantly in size and business models, dependent on a number of factors such as the number and type of fixtures hosted, their locality and customer base.

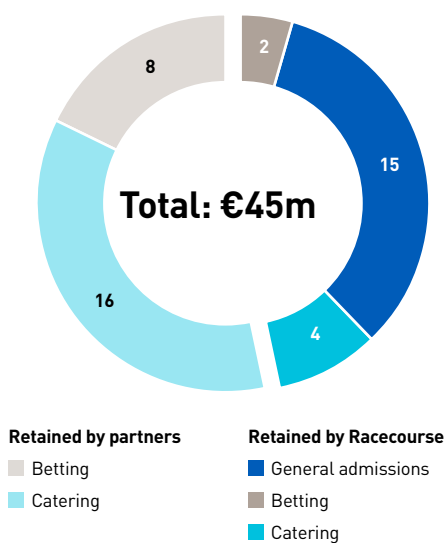
Many racecourses are owned by local bodies, including companies, trusts and charitable organisations, meaning their objectives are not concentrated solely on profit maximisation. Four racecourses – Leopardstown, Navan, Fairyhouse and Tipperary – are owned by HRI, with the remainder independently owned.

The majority of racecourses host both Jump and Flat racing with some prominent exceptions, including the Curragh - Ireland’s premier Flat racing venue and Punchestown, which hosts the leading Jumps festival. The only All-Weather racecourse is at Dundalk, which enables Flat racing to take place all year round.

This section firstly considers the total racegoer spend, assessing the full economic activity generated at the racecourse, before discussing the revenue and expenditure directly attributable to the racecourses.

RACEGOER SPEND

Figure 20: Total racegoer spend (€m)



Source: HRI; Deloitte analysis.

It is important to note that a large proportion of racegoer expenditure is not retained by the racecourses – notably catering and betting, which is shared amongst other parties (betting operators and catering franchises).

Racegoers’ estimated spend totalled €45m in 2016, consisting of general admissions (including hospitality), catering and on-course betting (considering the net amount lost by racegoers only, amounts staked will be significantly higher) equating to an average spend per racegoer of €35.

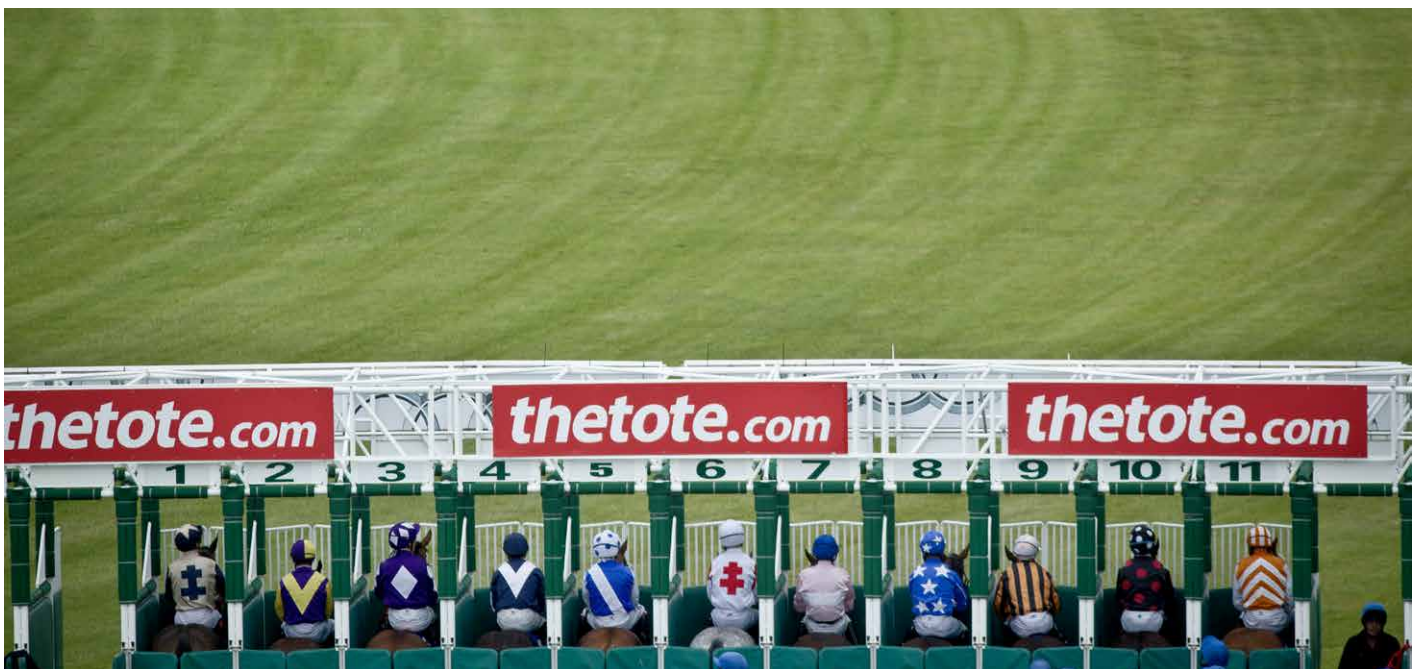
Of the amount spent by racegoers only €21m (47%) was retained by the racecourse, with the remainder received by catering franchises and betting operators. The racecourse, therefore, retains only €16 per attendee. Often there is a misunderstanding by racegoers and other participants of the amounts actually earned by racecourses from on-course activities.

General admissions

The 1.3m racegoers spent in excess of €15m on general admission fees during 2016, which is fully retained by racecourses. The average general admissions revenue per racegoer in 2016 was €11, although it should be noted that this covers a broad range of fixtures, from major festivals to less prominent mid-week meetings.

Racecourse standard general admission prices for non-festival fixtures are typically in the region of €15, which, if all attendees paid, would imply total admissions revenue of close to €20m. One reason for the difference is due to the large number of attendees not required to pay admission fees such as owners, trainers and other industry personnel.

Other attendees able to attend free or at a minimal cost include those using promotional initiatives such as family tickets, or free student entry at certain fixtures designed to encourage younger generations to take an interest in the sport.



Higher priced hospitality tickets contribute a sizeable proportion (over 15%) to the €15m of general admission spend. This varies significantly depending on the racecourse and nature of fixtures, with demand heavily weighted towards the larger festivals such as Punchestown and Galway.

Catering

In 2016 racegoers spent an estimated €20m on food and beverages across the public bars and eating outlets and a much smaller number of racegoers engaging in hospitality dining. This corresponds to an average spend per head of €15.

The large majority of Irish racecourses outsource the catering operation at their fixtures in return for commission payments, with the specific terms varying across racecourses. Many of the racecourses partner

with local catering firms, thus providing a further source of employment to the area, and are committed to sourcing local produce as far as possible.

Ensuring a fair division of risk and reward between the racecourse and catering partners is important when such agreements are negotiated.

Betting

On-course betting takes place via the centrally operated Tote (owned by HRI), independent rails bookmakers and usually an on-course betting shop (operated by a variety of betting firms).

Total on-course betting turnover was c.€90m in 2016, of which c.75% was with rails bookmakers and the balance Tote/on-course betting shops. Overall this represented an

average of €68 per attendee, however, on average punters win around 80%-90% of their turnover back in winnings, meaning c.€10m was lost by punters, representing the gross win of the various betting operators.

Racecourses received €2m of the total racegoer spend on on-course betting in 2016. This consists of bookmaker badges (four times the general admission price per fixture per bookmaker), commission on Tote turnover and betting shop turnover.

On-course betting has fallen markedly for the last 15 years. The decline is driven by attendance patterns and spend per head, in turn largely attributable to the increase in remote (i.e. online and mobile) betting and the enhanced value and offers etc. that this provides to the bettor.

Figure 21: Racecourse revenue and expenditure – 2016

	€m
Revenue	
General admissions	15
Catering	4
On-course betting	2
Racegoer revenue total	21
Commercial revenue	31
Total revenue	52
Expenditure	
Direct raceday costs	9
Wages and staff costs	13
Other operating costs/overheads	19
Total expenditure	41
Cash profit¹	11
Depreciation/Finance costs	6
Profit before tax	5

Note 1: Excluding impact of working capital movements.

Source: Deloitte analysis.

REVENUE

Including all revenue sources racecourses generated revenue of €52m in 2016. A significant proportion (60%, €31m) of this revenue is commercial, the majority being media rights, whose importance has increased significantly over the last decade.

The remaining income is driven by on-course racegoer spend as described above.

Commercial revenue

Racecourses generated significant media rights income representing the amount paid to racecourses for the right to show pictures of racing across various media platforms, primarily to support betting activity.

Satellite Information Services ("SIS") and At The Races own the rights to show Irish fixtures in c.10,000 Irish and British LBOs, streaming of races over the internet for betting services, and international exploitation of Irish racing for betting purposes. The payments are largely based on fees per race but there is some variation depending on the racecourse, timing and type of races, together with a per stream payment.

Other commercial income consists of:

- Other raceday revenue covering a mix of activities including sale of racecards, advertising, income from retail stalls, use of the racecourse for schooling etc.
- Non-raceday revenue comprising any activities taking place at racecourses on the c.350 days of the year when racing is not taking place. These will include conferences, exhibitions and numerous other events, providing an additional boost to raceday revenue. The exact nature and scale of opportunities will vary depending on the locality of the

racecourse, in particular the proximity of major conurbations and business hubs in terms of the potential use and demand for non-raceday facilities.

EXPENDITURE

Racecourse costs totalled €41m in 2016 (excluding depreciation and finance costs). Prize money is not considered a direct racecourse cost due to the fact that it is largely funded via HRI, owners and sponsors and administered by HRI.

- **Direct raceday costs** – these totalled an estimated €9m in 2016 and represent an average cost of c.€26k per fixture, although this will vary significantly. Direct raceday costs include elements of catering, safety and security and other raceday operational activities.
- **Wages and staff costs** – were estimated at €13m, distributed to the c.330 FTE employees in 2016. Whilst employment in other sectors of the core industry has declined significantly since the recession of 2008, the number of fixtures has remained steady over the period (and increased at Dundalk) meaning racecourse employment has not been as significantly affected.
- **Other overheads/operating costs** – this cost is estimated at €19m and is tightly controlled given the limited resources available to racecourses. This will include on-going maintenance and utility costs. The re-assessment of rates under the Government's latest methodology is of concern to racecourses as they have experienced a significant increase in these over the past year.



- **Depreciation** – amounted to €6m in 2016.
- **Finance costs** – in recent years racecourses have focused on reducing debt and therefore interest and financing costs amount to less than €0.3m (ignoring the repayment of the finance which is a call on racecourses’ resources).
- **Dividends** – generally no dividends are paid by racecourses, with any profits being re-invested into the racecourse, often as capital expenditure.

Racecourses made an estimated cash profit of €11m, which after depreciation/finance costs resulted in a profit before tax of €5m.

FUTURE DEVELOPMENTS

The new media rights deal, agreed with SIS in 2017, means secured income until 2023, assuming LBO numbers and pound/Euro exchange rate remain steady. Opportunities for revenue growth by racecourses are therefore focused on increasing general admissions, catering and other commercial revenues.

There remains a need to continually invest in customer facilities given racecourses operate in a highly competitive leisure market. Past investment and future plans are discussed in the **Capital Investment** section, with HRI funding of up to 40% of projects playing a key facilitating role.

Festivals already form an integral source of income for the industry but there is some scope to develop these further, with potential opportunities around amending or extending festival dates. Leopardstown will stage a new two-day festival from February 2018.

Racecourses are also seeking to develop initiatives to increase attendances on other days with growth potential.

ATTENDANCES AND OFF-COURSE EXPENDITURE

IRISH RACECOURSES ATTRACTED OVER 1.3m ATTENDEES IN 2016. THESE ATTENDEES GENERATED A SUBSTANTIAL ECONOMIC IMPACT FROM THEIR EXPENDITURE ON-COURSE BUT ALSO ASSOCIATED OFF-COURSE EXPENDITURE, WHICH CAN BE EVEN GREATER.

Driven by the wider economic decline, average attendance had previously experienced a sharp fall (18%) from 2007 to 2010 before modest growth to 2016. The 2016 average attendance of 3,700 is the second highest of the last eight years, suggesting that initiatives aimed at increasing attendances are starting to take effect.

This section discusses racecourse attendances – racegoers being racecourses’ core customers and a key driver of revenue – before then discussing the significant expenditure of racegoers before and after their time at the racecourse.

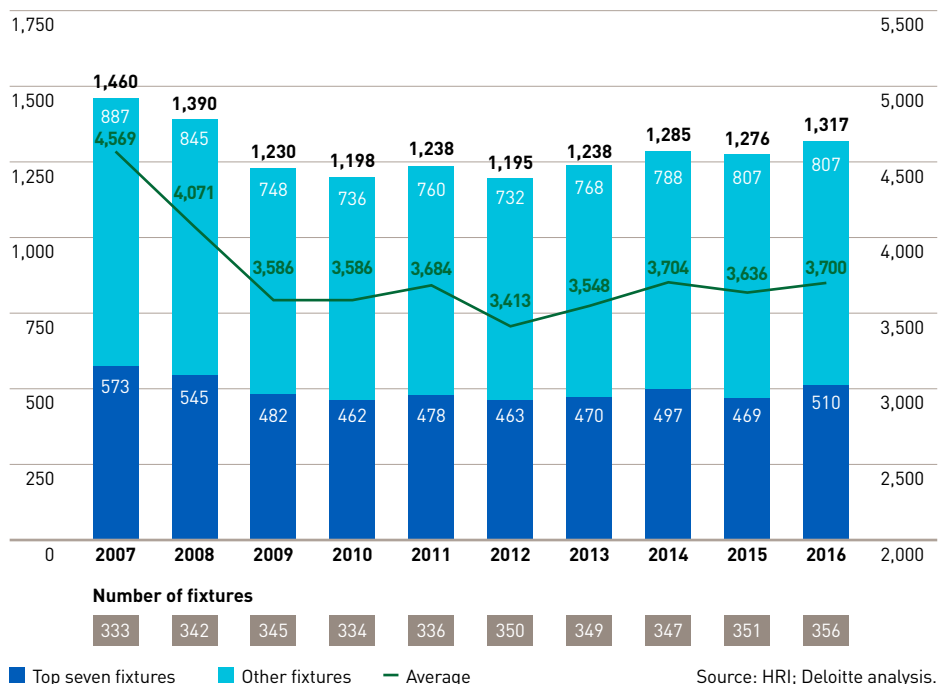
The number of fixtures has increased over the last decade, largely attributable to the opening of Dundalk’s all-weather track in 2007 which facilitated all year round Flat racing (including floodlit fixtures) with its fixtures gradually increasing.

RACECOURSE ATTENDANCES

Racing is the second best attended sport in Ireland after GAA, with over 1.3m attendees at the 356 fixtures held in 2016. A further estimated 100,000 people attended the c.100 point-to-point meetings.

The 356 fixtures staged in 2016 comprised 141 Flat (40%), 185 Jump (52%) and 30 Mixed (8%). Whilst the average attendance for Jump (3,694) exceeded that of Flat fixtures (2,568), Mixed fixtures, of which Ireland hosts more

Figure 22: Total attendance split by top seven festivals and other fixtures ('000s)



Source: HRI; Deloitte analysis.

than any other major racing nation, averaged over 9,000 attendees. This was aided by the best attended festival, Galway, comprising mixed cards.

Sunday is the best attended day of the week in terms of total attendance (246,000 in 2016), aided by the higher volume of fixtures taking place, although Saturday fixtures generate the highest average attendance (4,068). Fixtures in the remainder of the week tend to be arranged in racegoer friendly slots, notably in the summer when a significant number of evening fixtures are programmed, and average attendances are consistently around 3,800 across the weekdays.

RACING FESTIVALS

The major festivals are key drivers of attendance hence direct economic impact in the racecourse locality. The seven largest festivals formed 39% of all attendances in 2016, a proportion which has been relatively steady over the last decade.

The highest single daily attendance in 2016 came at the Galway Festival, attracting over 34,000 racegoers on Ladies Day. The Punchestown and Listowel festivals also drew c.30,000 on their busiest days.

The larger festivals tend to attract a particularly diverse range of attendees, including in some cases a significant proportion from overseas. For example, Punchestown estimates c.20% of attendees at its festival to be from overseas (mainly Britain) comprising over 20,000 attendees who will incur expenditure not just at the racecourse but in local bars, hotels and restaurants.

Aside from the major festivals, attendances at some smaller, typically more rural, racecourses are also driven by one or two day



Figure 23: Selected festivals – 2016

	Total attendance ('000s)	Number of days	Average attendance
Galway	147	7	21,066
Punchestown	114	5	22,888
Leopardstown (Christmas)	61	4	15,248
Listowel	92	7	13,179
Limerick (Christmas)	40	4	10,060
Fairyhouse (Easter)	28	3	9,302
Curragh (Derby)	26	3	8,828
Tramore (August)	21	4	5,195
Killarney (July)	14	4	3,512
Down Royal	11	2	5,371

Note: Only the largest meeting for each racecourse is shown.

Source: HRI; Deloitte analysis.



feature meetings or festivals, which are very important to these racecourses and the local communities of which they form a part.

Student racedays are a popular feature in the racing calendar, with the six racedays staged in 2016 attracting over 38,000 attendees. These introduce a younger generation to the sport with the long term aim of providing future benefits to the Racing industry. This initiative has continued in 2017 when, thanks to arrangements with sponsors, for the third year running students can gain free entry to the Longines Irish Champions Day at Leopardstown.

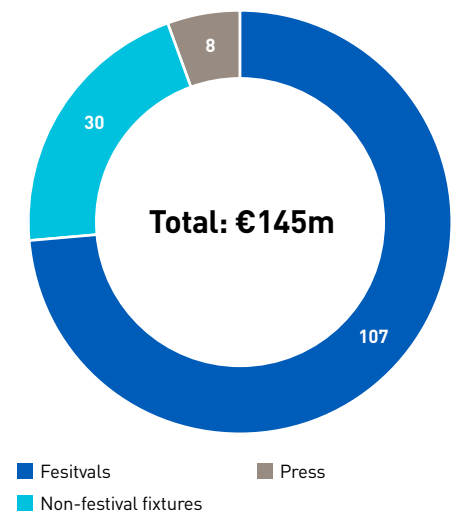
OFF-COURSE EXPENDITURE

The expenditure of racegoers before and after their time at the racecourse will be a significant driver of the economic impact of the Racing industry for the benefit of a broad mix of other service industries. This spend is frequently greater than racegoer’s spending at the racecourse itself.

Particularly at the largest festivals, off-course spending in local hotels, bars and restaurants is an important source of income for local businesses, and when this spend is from international visitors it represents direct economic impact into Ireland. Local, national and international travel (the majority being provided by Irish owned airlines) is also significant.

It is estimated that total off-course expenditure by racegoers at all fixtures, i.e. the major festivals and non-festival fixtures, was €137m in 2016, the main components being accommodation, food and beverage, and transport, with some spending on attire for the larger festivals.

Figure 24: Off-course expenditure (€m)



Source: Punchestown racecourse; Galway racecourse; HRI; Deloitte analysis.

Due to the larger number of visitors attending festivals these form a significant proportion of the total off-course spend – estimated at 74% (€107m) in 2016. Whilst other non-festival fixtures do still generate off-course expenditure they will generally be attended by a much more local customer base, with less spending on accommodation and travel etc. as a consequence.

An HRI survey found that c.9% of racecourse attendees were from overseas, with c.25% of these visiting Ireland for the primary purpose of going racing. These international visitors will generate considerable amounts of the off-course expenditure described above, and often build an extended stay in Ireland around their racing activities.

The purchase of trade papers, namely the Irish Field, Racing Post and its sister publications, will add a further €8m to off-course expenditure to bring the overall total

to c.€145m p.a. This figure includes all trade paper purchases, not just racegoers.

Future developments

A major challenge to racecourses is the significant change in the drivers of, and hence demographics of, racegoers in recent years with social aspects increasingly important, compared to attending for the purposes of betting and the ability to see live sport. The development of online betting, with often preferential prices to betting on-course, and the availability to watching Irish racing on television or other media channels, has much reduced the need for the “traditional punter” to physically attend the races.

Racecourses are therefore often competing with a multitude of alternative leisure activities, both sporting and others. The quality of facilities offered by racecourses and the associated comfort and services provided are key factors in attracting more social racegoers.

Racecourses’ capital investment of €90m+ over the last decade, and a further €105m anticipated between 2017 and 2019 including major developments at the Curragh, Punchestown and Galway, is in part a response to such changing demands.

Racecourses continue to attempt to improve other areas of the racegoer experience – particularly around the major festivals – with enhanced transport links, partnerships with local hotels, and investment in ticketing systems and associated marketing which encourage attendees to book in advance hence mitigate the impact of inclement weather on attendances.



GALWAY FESTIVAL

The Galway Festival is the best attended horseracing festival in Ireland, and one of the biggest in Europe. Staged over seven days from the last Monday in July, it currently attracts around 150,000 attendees, having been as high as 200,000 up to 2007.

It is one of the highlights of Galway’s internationally renowned events calendar, attracting a diverse mix of locals, Irish nationals and international visitors.

Typical attendance (7 days)	c.150,000
Racegoers on-course spending	c.€10m+
Racegoers off-course spending	c.€20m+
Total	€30m+
Raceday staff	Up to 800

Note: Excludes secondary expenditure which could be c.€20m.

While the racecourse is at the heart of events, Galway City has developed an extensive infrastructure offering staged by many local businesses to cater to the Festival attendees, with more expenditure taking place outside the racecourse than on it. The majority of the suppliers to the racecourse will be local businesses, and more than 800 people work at the racecourse during the Festival, again primarily locals. These factors ensure the economic benefit is spread widely across the city and wider region.

The racecourse has also invested in its facilities with over €25m of capital investment since 2006. After the completion of the 2017 Festival construction will commence on a €6m enclosure redevelopment, intended to provide an enhanced raceday experience to existing attendees and attract new racegoers to the Festival.

BETTING

BETTING ON RACING IS A CORE PART OF THE ATTRACTION OF THE SPORT TO MANY OF ITS FOLLOWERS, AND GENERATES SUBSTANTIAL ECONOMIC ACTIVITY. PER CAPITA BETTING TURNOVER ON RACING IN IRELAND IS AMONGST THE HIGHEST IN THE WORLD, REFLECTING BETTING'S STATUS AS A POPULAR LEISURE ACTIVITY.

Ireland has one of the most diverse betting markets in the world with a mix of fixed odds, pool betting and betting exchanges. Racing is a core product, but it competes with a wide range of sports and other betting offerings.

Irish racing is also a popular betting product overseas, particularly in Great Britain, given the strong links between racing in the two countries.

This section first sets out the popularity of Irish racing as a betting product, then considers in turn the different channels by which betting occurs domestically and internationally, and how funds are returned to the Irish Breeding and Racing industry.

COMPETITIVE AND HIGH QUALITY RACING

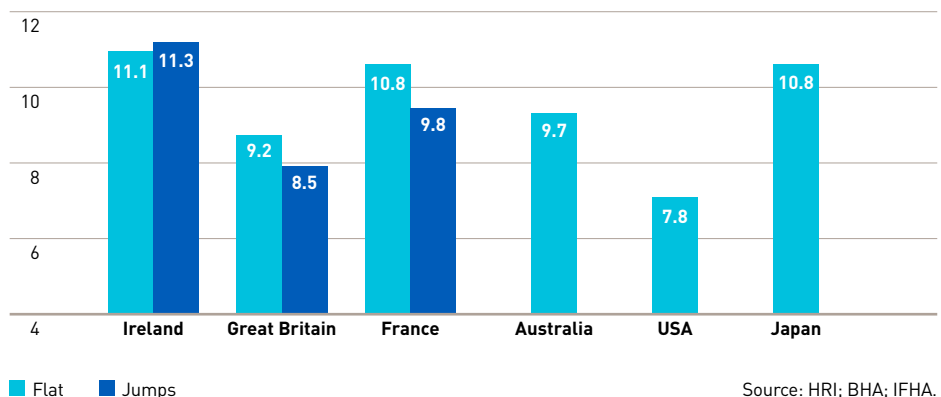
Irish racing is highly attractive to punters given the competitive nature of most races, evidenced by higher average field sizes than many other major racing nations. This is supported by the participation of some of the world's best horses, trainers and jockeys.

The battle between Irish and British trained horses at the major British festivals and races also creates interest and betting in both markets. Irish and British racing represent one offering from a betting perspective, with both governing bodies and respective stakeholders working closely together, for example avoiding clashes in the schedule wherever possible.

BETTING CHANNELS

Betting on Irish racing takes place by different channels depending on the location of the punter, and the means and scale by which Irish Racing benefits varies significantly.

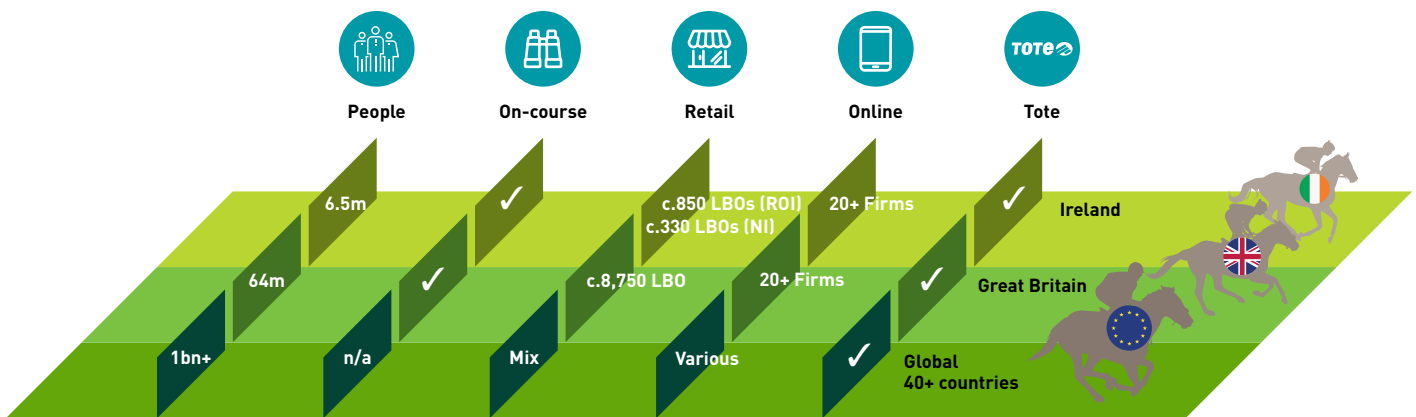
Figure 25: Average runners per race



Source: HRI; BHA; IFHA.

Note: Ireland and Great Britain figures are for 2016; all others for 2015.

Figure 26: Betting channels on Irish Racing



Source: HRI; Deloitte analysis.

On-course

The **Racecourse Finances** section set out that while on-course betting in Ireland remains a colourful and central part of the raceday experience for many, turnover levels have markedly declined over the last 10 years, and are likely to continue to do so, albeit more gradually.

Licensed Betting Offices (LBOs)

Despite the rapid growth in online sports betting (discussed below), betting in the Republic of Ireland’s c.850 LBOs represents the most significant source of betting on racing in Ireland.

LBO’s focus remains on their core offering of sports betting, with horseracing the largest sport by a considerable margin, supported by greyhound racing, football and a mix of other sports and activities. Fixed Odds Betting Terminals (“FOBTs”), which offer high volume gambling such as roulette, are not permitted in the Republic of Ireland, but are allowed in the c.330 Northern Ireland LBOs, and based on trading information from the rest of the

United Kingdom may contribute 50% or more of LBO turnover. However, even here racing still represents the primary sports betting product.

The number of LBOs in the Republic has declined from 1,385 in 2008 to c.850 in 2016, although the rate of decline has slowed in recent years. The reduction in LBOs has been primarily focused on independent operators as the industry undergoes a period of retail consolidation. Over 70% of LBOs in the Republic of Ireland are owned by three operators.

Online

The experience in Ireland mirrors that across much of Europe in the shifting patterns of how people bet. The proportion of betting on racing and other sports that takes place remotely continues to increase markedly, notably by younger people.

Increasing smartphone penetration has accelerated growth in remote betting, with well over 50% of remote betting taking place by mobile and online companies focusing

their product and technology innovation and marketing on this channel.

It is an extremely competitive market with over 20 companies active in the Irish market, but with four operators representing a high proportion. One of these is Paddy Power Betfair PLC, formed by a merger between Paddy Power and the dominant betting exchange, Betfair, in 2016. Paddy Power is an Irish formed company which experienced rapid growth domestically and internationally, with a strong brand identity and reputation for innovation.

Paddy Power Betfair earned revenue approaching €2 billion in 2016, is a constituent of the FTSE 100, and is the third largest Irish incorporated company by market capitalisation (c.€8 billion in July 2017) on the London Stock Exchange.



INTERNATIONAL BETTING ON IRISH RACING

In March 2016, HRI, the Association of Irish Racecourses and Satellite Information Services (SIS) agreed a contract up to the end of 2023 for the distribution of live pictures and data of Irish horse racing to c.10,000 LBOs in Ireland and Great Britain and also internationally. Additionally, SIS acquired the rights from 2017 to stream Irish horseracing to online operators worldwide.

Approximately 90% of media rights is generated outside of Ireland, principally from British LBOs.

British betting

Irish racecourses therefore generate substantial revenue from British LBOs. This revenue is, however, vulnerable to exchange rate fluctuations and adverse regulatory shocks that may reduce LBO numbers.

Irish Racing also generates revenue from British punters betting online via the media rights for live streaming of races. In 2016 Irish races generated 25m streams, c.10,000 per race (up 10% on 2015).

Other overseas betting

GBI Racing and SIS are the rights distributors of Irish racing to overseas retail betting outlets and online operators. Approximately 40 territories currently show Irish racing, with Australia, Cyprus, France, Israel, Italy, South Africa and USA generating the highest level of revenue.

In addition to the direct media rights values generated, punters from many of these territories bet into the Irish Tote pools. Such international betting has been the main driver of the substantial growth in Irish Tote turnover (total turnover up 85% since 2012 to €97m in 2016).

The margins earned from these overseas customers are much lower as international betting companies need to retain the majority of the profit from the bets if they are to participate in pool commingling.

Nonetheless, there remains substantial growth potential which would be boosted by attracting more leading international horses to run in top Irish races. Japanese horses in particular can generate huge interest and betting activity from within Japan.



TAXATION OF IRISH BETTING

Ireland's Betting (Amendment) Act 2015 came into effect on 1st of August 2015. The new legislation was in response to the growth of online gambling and reflected the fact that taxes were only being paid by LBOs, and resulted in the betting duty of 1% of turnover being expanded to cover all bets entered into with individuals in Ireland irrespective of the domicile of the bookmaker. In addition, a betting intermediary duty was applied to organisations acting as betting intermediaries (e.g. Betfair), set at 15% of their commission charges and all bookmakers, irrespective of domicile, are also required to hold an Irish betting license.

Betting duty raised was €51m in 2016, up from €26m in 2014 (being the last full year without duty on online). The increase was driven by the capture of online activity, which represented 45% of duty in 2016, and much of the future growth in betting duty is likely to come from this source. By comparison, 75% of the gross betting tax generated from betting in Britain in LBOs (excluding FOBTs) and online, was generated from online betting.

Irish betting operators continue to benefit from Ireland having one of the lowest rates of betting tax (as a percentage of turnover) in the world, significantly lower than other major racing nations such as France and Great Britain.

MEDIA

MEDIA COVERAGE OF IRISH RACING PROVIDES AN IMPORTANT CONDUIT LINKING THE SPORT TO THE GENERAL PUBLIC, ALLOWING A FAR GREATER PROPORTION OF THE POPULATION ACCESS THAN THOSE ATTENDING FIXTURES AS WELL AS SUPPORTING AND ENHANCING THE ATTRACTIVENESS OF BETTING ON IRISH RACING.



BROADCAST

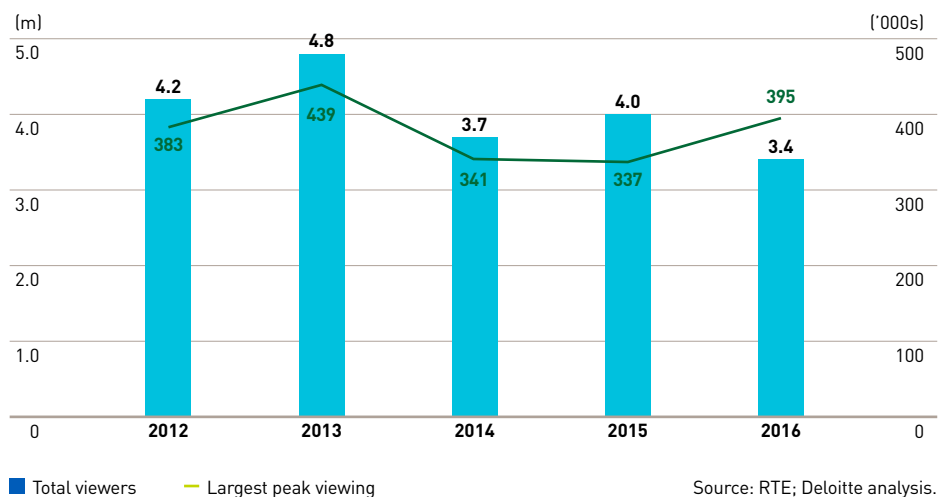
The changing way people consume live sport that has accompanied the increased use of smartphones and enhanced connectivity, in recent years has also been reflected in the broadcast of Irish racing by rights holders, broadcasters and media companies. Live pictures of every Irish race are now available to anyone with access to the At The Races channel, or placing a bet in Ireland or the United Kingdom via laptop, tablet or smartphone. On this basis Irish racing has the most broadcast hours of any domestic sport in Ireland.

Terrestrial coverage

Irish racing benefits from regular coverage on terrestrial broadcaster RTE, with most major days racing being broadcast on free to air television including the Punchestown Festival, Galway Festival, Irish Grand National at Fairyhouse, the Classics at the Curragh and Irish Champions Weekend.

Total viewing figures have averaged 4m over the past five years, with the most watched day's racing on RTE in each of these years being the Irish Grand National from Fairyhouse on Easter Monday, which reached a peak of 395,000 viewers in 2016. Of the regular annual sporting events held in Ireland this is consistently one of the best viewed (excluding major tournaments such as Football and Rugby World Cups or Football European Championships).

Figure 27: Racing broadcast on RTE - Total viewers and Largest single viewing 2012-2016



Source: RTE; Deloitte analysis.

Note: 2012 and 2013 peak viewing estimated based on average viewing figures.



Figure 28: Top five peak viewing figures for RTE Racing 2016 ('000s)

Event	Peak viewing figures
Fairyhouse - Irish Grand National	395
Galway Festival - Thursday	209
Galway Festival - Tuesday	179
Punchestown - World Hurdle	178
Galway Festival - Monday	171

Source: HRI; Deloitte analysis.

Viewing figures are dominated by the major festivals, with all of the top five peak viewing days of racing on RTE in 2016 apart from the Irish Grand National coming from either the Galway or Punchestown Festivals.

From 2017 the broadcaster TV3 has broadcast British racing onto terrestrial television in Ireland via an agreement with RMG. This coverage of the leading British meetings including the Cheltenham Festival, Aintree Grand National meeting and the Derby and Oaks at Epsom brings top quality racing including numerous Irish trained, owned and ridden horses – many of them winning – to the attention of the Irish public, thus helping generate further interest in the sport.

Specialist racing coverage

After the latest agreement with SIS was announced in early 2016 regarding LBO payments (discussed further in the **Betting** section), it was subsequently announced that At The Races had agreed a deal with SIS to secure the Direct To Home rights to the end of 2018.

This extends the specialist racing channel's partnership with Irish racing which it has been the exclusive non-terrestrial broadcast partner of since 2004, ensuring the continued broadcast of Irish racing to over 12 million UK and Irish homes via digital satellite and cable television.

Sport viewing figures

The popularity of major sporting events in Ireland is borne out by RTE viewing figures, with ten of the top 20 most watched broadcasts in 2016 being sporting events.

Whilst attracting fewer viewers than prime time football and rugby fixtures involving the national team, racing's major events, in particular the Irish Grand National, are still an important part of the sports broadcasting landscape.

Figure 29: RTE average viewing figures for 2016 sporting events – largest audience by sport ('000s)

Sport	Event	Audience
Football	Euro 2016: Ireland v France	1,262
GAA	SFF: Dublin v Mayo replay	844
Rugby	Ireland v New Zealand	683
Racing	Irish Grand National	223

Source: HRI; Deloitte analysis.

WRITTEN MEDIA

The daily trade newspaper for the Breeding and Racing industry in Ireland is the Racing Post. This has an average daily circulation of c.6,000, but sales can rise significantly for the major racing festivals in Ireland and Britain. The Irish Field is an Irish focussed specialist racing and equestrian newspaper, published every Saturday with a circulation of over 10,000.

The main national newspapers all cover racing on a daily basis and most have full-time racing correspondents. Local newspapers on a provincial or county level will also cover racing, usually limited to major festivals or when a fixture is taking place in their immediate locality.

Whilst the distribution of printed media has declined in recent years, written media per se continues to be supported by the many online offerings now available. Irish Racing is no exception in this regard, with a number of specialist websites offering comprehensive coverage of the sport.

Despite the general shift away from printed to online media, a large proportion of racing's core audience still relies on print. Indeed, a recent survey commissioned by HRI asked participants for the sources of information they use for horseracing, with 44% of respondees stating that they use printed newspapers compared to 14% quoting specific racing websites. Online and social media are nonetheless increasingly important ways for racing's fan to obtain information, with racingpost.com, Attheraces.co.uk and irishracing.com the most popular websites according to the same survey.

POINT-TO-POINT

POINT TO POINT RACING HAS LONG BEEN A SOURCE OF HORSES, RIDERS AND TRAINERS FOR RACING UNDER RULES. TAKING PLACE AT 70 LOCATIONS ACROSS THE ISLAND, POINT-TO-POINT MEETINGS ALSO CONTRIBUTE SIGNIFICANTLY TO MANY RURAL COMMUNITIES AS ONE OF THE BIGGEST EVENTS IN THE LOCAL CALENDAR.

The current autumn point-to-point calendar developed in 2001 when the foot and mouth crisis led to the traditional spring season being cancelled. The autumn season proved successful and has therefore remained.

The quality of horses graduating from point-to-point racing has significantly improved since the autumn season format commenced with a number of winners of the top Jumps races in Ireland and Great Britain including multiple winners of the Cheltenham Gold Cup.

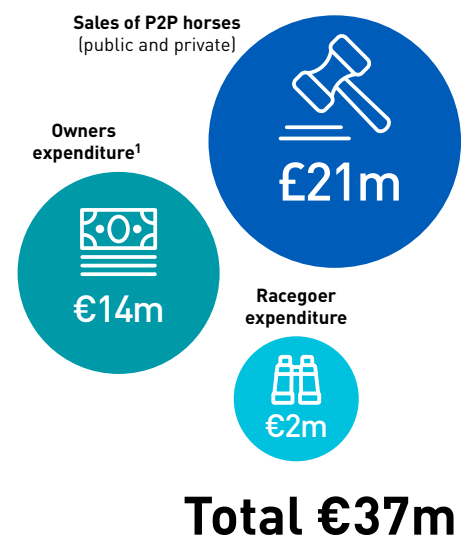
Figure 30: Point-to-point – 2016 key statistics

	Number
Fixtures	98
Races run	613
Runners	5,438
Attendees	c.100,000
Horses	2,787
	Hunter Certs issued
Handlers	667
Amateur riders	337

Source: Turf Club; P2P.ie.



Figure 31: Point to point estimated expenditure p.a.



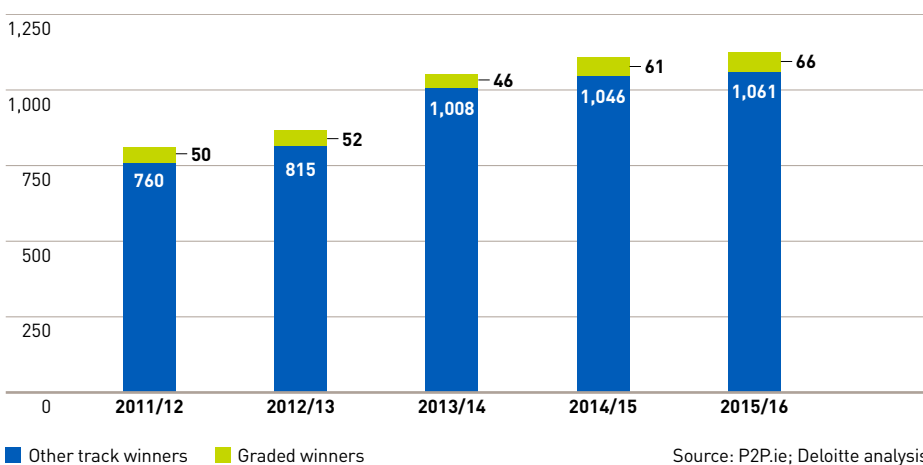
Note 1: Indicative cost of €1,000 per month to keep horse in training, total costs p.a. estimated at €5,000 per horse.

RACING

The number of races run and runners have declined by 24% (192 fewer races) and 43% (4,094 fewer runners) respectively over the last 5 seasons. Individual horses running have also declined by over 1,000 (30%).

This decline is due to the general economic downturn and a related lack of supply of available bloodstock following the drop in foal production from c.2009. The youngest age for a horse to run in point-to-point/National Hunt racing is four, and therefore there is a four year 'lag' effect before these horses make it to the track.

Figure 32: Success of Irish P2P graduates under Rules



OWNERS, TRAINERS AND RIDERS

As for races and runners, the number of point-to-point related licenses issued by the Turf Club has also declined over the last five years – hunter certificates (required for a horse to run in a point-to-point race), amateur riders and handlers (point-to-point trainers) licenses all being affected.

The majority of owners in point-to-point racing train their horses as a stepping stone to running under Rules. As such, whilst owners' expenses are not to the level for a horse in training under Rules, the quality of horses necessitates that high standards of training and facilities are maintained.

ATTENDANCES

Attendances at point-to-point meetings can reach several thousand at the most popular fixtures, although the average is estimated as c.1,000. Over c.100 fixtures p.a. this will total c.100,000 attendees per season.

Whilst racegoer expenditure will not be as high as on Rules racecourses, once admission, transport, racecards and food and drink are included, on average each attendee is estimated to spend in excess of €20, representing €2m+ in total.

QUALITY OF HORSES, TRAINERS AND JOCKEYS

The success of horses graduating from point-to-point racing is illustrated by 1,127 ex-Irish point-to-pointers winning under Rules in 2015/16, with 66 of these wins coming in graded races, an increase of 317 wins (39%) over the past five years.

The winner of the 2017 Grand National at Aintree, One For Arthur, was an Irish point-to-point graduate, and over the last five years 25 Cheltenham Festival winners have been graduates of the Irish point-to-point scene. Several leading trainers and jockeys also commenced their racing careers in Irish point-to-points including, amongst others, Aidan O'Brien and Ruby Walsh.

BLOODSTOCK SALES

Point to pointing provides a valuable source of quality young National Hunt horses to the Racing industry. Four year old maidens at point-to-points in particular have provided a rich source of younger horses that have gone on to achieve success in full training, and the sport provides a valuable service in providing a "shop window" for such horses.

The increase in quality of horses graduating from point-to-point racing has also had a significant impact on the value of these horses as they pass through the sales ring. From a total sales value of c.€4m in 2010/11 values for 2016/17 reached €15m, and when private sales, estimated as c.€6m in 2016/17, are also included this brings the total sales value of Irish point-to-point graduates to over €20m. The vast majority of these sales will be from Irish owners and breeders selling their bloodstock on to Irish and British owners, sales to the latter representing foreign investment into Ireland.

A number of these successful sales take place after racing at the major Irish and British festivals and have been increasingly successful, adding further colour to these occasions.

RURAL IMPACT

THE IRISH BREEDING AND RACING INDUSTRY RELIES ON CONSIDERABLE LAND REQUIREMENTS TO CARRY OUT ITS ACTIVITIES, AND IS LABOUR INTENSIVE. IT IS THEREFORE PARTICULARLY IMPORTANT TO THE RURAL ECONOMY AND THE COMMUNITIES IN THESE AREAS, INCLUDING THROUGH EMPLOYMENT OF THE C.9,500 FTE IN THE CORE INDUSTRY BUT ALSO THROUGH THE ANCILLARY INDUSTRIES THAT SUPPLY IT.

THE RURAL ECONOMY

Of the leading racing nations Ireland has, by some way, the highest proportion of its population based in rural areas. As a result rurally based industries like thoroughbred Breeding and Racing will be more important to the economy in Ireland than elsewhere.

The wider 'agri-food' sector, combining the 'Agriculture, Forestry and Fisheries' and 'Food and Drink Manufacturing' sub-sectors, is the largest indigenous economic sector by output in the Republic of Ireland, representing over €13 billion p.a., and is also significant in Northern Ireland.

In comparison to a number of other 'agri-food' agricultural activities the Breeding and Racing industry is considerably more environmentally friendly, involving low-intensity land use with limited use of fertilisers and pesticides and high standards of maintenance.

Figure 33: Agri-food sector economic scale (€bn)

Output (Gross Value Added)	% GDP
Republic of Ireland	13 7.5%
Northern Ireland	1.5 5.2%

Source: Teagasc; Dept of Jobs, Enterprise and Innovation; Deloitte analysis.

Employment

The agri-food sector is estimated to account for 8.6% of the workforce in the Republic of Ireland (5.7% in Northern Ireland), totalling over 200,000 employees.

Ireland's rural economies therefore rely on agriculture to a significant extent for employment, with c.10% of the workforce in the Republic's border regions and 9% of the workforce in the Midlands, West, and South-East being employed in this sector.

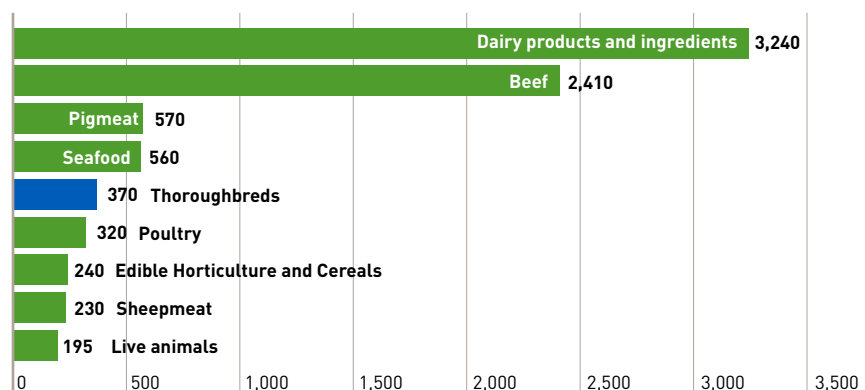
Significantly, these regions are also those affected by the highest unemployment rates in the Republic of Ireland which reinforces the importance of those industries that are present and contributing to local economies, notably Breeding and Racing.

Exports

The Republic of Ireland's agri-food sector produced €11 billion in exports in 2015, nearly 11% of total exports, with Northern Ireland equivalent figures being €1.5 billion, 18% of total exports.

Over 6,100 thoroughbreds left Ireland in 2016 either after being sold overseas or being moved to different breeding or training locations. The value of thoroughbred exports, i.e. horses sold by Irish vendors to non-Irish purchasers, totalled over €370m when known public auction values and an estimate of private sales are summed, together with overseas purchases of stallion nominations and international owner training costs.

Figure 34: Republic of Ireland value of selected agri-food exports – 2015 (€m)



Note: Thoroughbred category includes value of bloodstock sold by Irish vendors to non-Irish purchasers at public auction, an estimate of equivalent private sales, international nominations and training cost of international owners. It is not therefore fully captured in CSO agri-food statistics.

Source: Department of Agriculture; Deloitte analysis.

FARRIERY

Farriers are an integral part of the Breeding and Racing industry, providing a highly specialised service in making and fitting horseshoes. The Irish Farriery Authority estimates that there are c.350 farriers operating in Ireland, with concentrations in the key Breeding and Racing counties. Many farriers will be heavily reliant on the Breeding and Racing industry and the 45,000+ horses under its care, together with another 120,000+ sport horses.

Farriers in Ireland	c.350
Entrants each year	c.8
Formal qualification	QQI Level 6 Advanced Certificate Craft of Farriery certification
Training providers	Irish School of Farriery at RACE

HORSE TRANSPORT

The horse transport sector is an important ancillary service given the geographical spread of breeding and training operations across the island. Transport is required both domestically and internationally for racing, breeding and sales purposes. There are more than 30 horse transport companies in operation, with the majority offering both domestic and international transport services. In addition to the transport, these companies typically also provide stabling, grooming, handling and insurance services.

In 2016 more than 6,000 horses were exported from Ireland following sale or for breeding purposes, in addition to the thousands of overseas runners – hundreds of horses travelled to the Cheltenham and Aintree festivals from Ireland and

Champion Flat trainer Aidan O'Brien alone sent more than 130 runners to the UK via Shannon Airport. This facility is particularly important in the international transit of Irish thoroughbreds, aided by the recent reintroduction of direct equine services to a number of locations. In 2016 a record €3m airlift of 76 Irish thoroughbreds to China took place out of Shannon Airport – the single biggest movement of horses from Ireland to China on record.

It is estimated that Owners and Breeders spent a combined €20m on horse transport in 2016. The volume of transport required and labour intensive nature of the industry will support significant local rural employment in the towns and wider regions in which these companies are based, estimated as over 500 FTE.

RURAL IMPORTANCE OF BREEDING AND RACING

Ireland's Breeding and Racing industry extends across the island, with Breeding operations being located in all 32 counties.

Ancillary services

The core industry relies on a number of ancillary services which, while not all totally dependent on Breeding and Racing, will derive a large proportion of their business from it. These will include provision of equine related goods and services to breeders and trainers, including vets, farriers, horse transport companies, tack and equipment, bedding and feed, in addition to highly specialised roles such as horse dentists and physiotherapists.

Those counties with a high concentration of breeding and training operations will have a well-developed network of these ancillary

services, providing significant employment. As an example Tipperary, one of the most populous counties for breeders and trainers, has a wide array of ancillary services that will support a number of jobs in this rural locality.

At an even more local level the importance of the Breeding and Racing industry, via direct employment and supporting ancillary industries, is even greater in those rural towns and villages suffering from high unemployment.

Bagenelstown in Co. Carlow, where a number of trainers including Champion Jumps trainer Willie Mullins are based, has one of the highest unemployment rates in the Republic of Ireland (15% in 2016). With over 200 horses in training during the Jumps season, the Mullins yard alone is a significant direct employer and source of business for ancillary industries in the locality, which includes five equine veterinary practices/hospitals, two equine suppliers,

Figure 35: Ancillary employment in Tipperary

Ancillary industry	Employment
17 Veterinary practices/hospitals	c.150
Equine lab	c.10
28 co-ops/supply stores	c.250
4 horse transport companies	c.50
17 farriers	17
TOTAL	c.477

Note: Total individuals employed by these industries included (not FTE).

a horse transport company and horse feed company. The industry will therefore likely be responsible for c.400 jobs in Bagenelstown.

EDUCATION AND EQUINE HEALTH AND WELLBEING

THE WELFARE OF BOTH EQUINE PARTICIPANTS AND ITS DIVERSE WORKFORCE ARE CRUCIAL TO MAINTAINING THE HEALTH OF THE IRISH BREEDING AND RACING INDUSTRY. KEY INITIATIVES IN THESE AREAS ARE SET OUT BELOW.



EDUCATION

Maintaining a highly skilled workforce is essential as it represents a key selling point for Irish racing, but is not without its challenges given shifting demographics in Ireland including continued urbanisation. To assist in this regard HRI established the position of Director of People and Industry Education alongside a Careers and Racing Education (CARE) department in 2015. CARE now plays a key role in the learning and development of individuals in the industry, developing further pathways into racing for future generations and providing strategic direction on education and training, vital given the multiple parties working together in this area.

In 2016, over 2,400 children from over 50 schools participated in the 'Go Racing Kids Club' days at seven racecourses around the country. This initiative aims to build relationships between racecourses and the local community giving the children an understanding of what goes on behind the scenes at a raceday for the various participants, including jockeys and stable staff.

The Racing Academy and Centre of Education (RACE) represents a key pathway for those seeking a career in the industry. The academy was established in 1973 and has evolved into the national training centre for the Irish Racing industry, with around 700 students undergoing a variety of courses and qualifications each year. Many of the current leading Irish jockeys are RACE graduates.

RACE recruits individuals from all over the island from both traditional racing heartlands and also areas with challenging economic conditions such as high unemployment and economic deprivation. The academy is now regarded as an international centre of excellence, providing training programmes to students from more than 30 countries around the world.

EQUINE HEALTH AND WELLBEING

Equine welfare is a key priority for all involved in Irish Breeding and Racing. In addition to the significant volumes of equine related capital investment incurred by racecourse, breeders and trainers, Racing's stakeholders invest in research and development in the field of equine welfare via the Irish Equine Centre (IEC).

The IEC is a not-for-profit organisation responsible for the protection of the wellbeing of Ireland's horse population. Services provided by the IEC help ensure the health of Ireland's horses and include the provision of specialised facilities for the diagnosis, management and prevention of diseases, in addition to further research and education in this area.

The IEC is primarily funded through the fees it charges for the daily diagnostic services it provides. This income is supplemented through annual grants received from HRI and the ITBA via the Foal levy (totalling €2.4m in 2016), contributions from Weatherbys Ireland and contract research, teaching and research grants.

BREEDING AND RACING IN NORTHERN IRELAND

BREEDING AND RACING IS STRUCTURED AND MANAGED ON A 32 COUNTY BASIS IN IRELAND WHICH PROVIDES ORGANISATIONAL AND PRACTICAL ADVANTAGES. AN INDICATION OF THE CURRENT SCALE OF BREEDING AND RACING IN NORTHERN IRELAND (“NI”) AND ITS WIDER ECONOMIC CONTRIBUTION, TOGETHER WITH BRIEF DETAILS OF ITS LARGEST CHALLENGE AND POTENTIAL FOR GROWTH ARE SET OUT BELOW.

The metrics contained in the table below illustrate that whilst NI represents a relatively small proportion of the total industry across Ireland (typically 2-3%, compared to 25% of the combined population of Ireland), this is largely a function of the large size of the industry in the Republic of Ireland (“ROI”). In absolute terms it has a significant economic footprint and is responsible for sizeable levels of employment in NI, spread across the six counties. It has also produced some of racing’s most successful participants, including AP McCoy and Richard Dunwoody.

There are an estimated 6,500+ horse movements across the Irish border each year, primarily made up of horses running at racecourses and in point-to-point meetings,

and NI owned mares visiting stallions in the ROI. It is important for the health of the industry in NI that the current ease of movement is protected as part of a Brexit solution.

FUNDING CHALLENGE

Gambling is a devolved issue for NI, with the Assembly determining the fiscal and regulatory aspects of the betting industry. NI betting operators benefit from the absence of the 10% levy on gross win from betting on British Racing that is paid by other United Kingdom betting operators. NI operators do not contribute to any ROI taxation, but HRI makes contributions to the two racecourses – effectively an element of ROI taxation of 1% of turnover of all bets.

The only significant racing betting related tax/charge for NI LBOs is the amount paid to the Horse Racing Fund, set by the Department of Agriculture, Environment and Rural Affairs. This is currently £1,123 per shop, which given the c.330 shops in NI generates c.£370,000 per year, which is considerably lower than the equivalent figure for the rest of the United Kingdom and Republic of Ireland. The fee had previously been over £2,000 per shop, with Racing lobbying for over £4,000.

The Horse Racing Fund is distributed to the two racecourses for certain prescribed racing related purposes. The current payments are considered by the Racing industry to be wholly inadequate and despite extra HRI funding, has resulted in the deferral of investment in racecourse facilities and reductions in other expenditure.

GROWTH POTENTIAL

Whilst it is unrealistic in the foreseeable future for Breeding and Racing in NI to be comparable on a per capita basis to the ROI, there is potential for significant growth given the right conditions – both in the wider economy and industry structure.

A satisfactory solution to the funding issue would not only help to protect the current industry, but ultimately provide funding to establish enabling conditions for growth, which could include the strengthening of the racing programme (via prize money), investment in racecourse facilities, marketing of the sport and support of the education and development of the racing workforce.

Whether through overall growth in the all-Ireland industry and/or an element of migration to NI, each 1% of total expenditure would equate to an additional £10m+ in expenditure in the Northern Irish economy.

Figure 36: Key NI industry economic factors – 2016

Metric	Economic factors
Horses	2,500+ thoroughbreds, including c.1,000 horses in training and 800 broodmares
Racing	c.70,000 attendees at 22 fixtures staged at Down Royal and Downpatrick (in addition 20 point-to-point meetings are typically staged)
Economic input ¹	£26m – core industry expenditure £32m – total expenditure including indirect and induced
Employment	c.500 FTEs, large majority core industry employees from breeders, trainers and racecourses, augmented by suppliers’ jobs (including tourism, leisure and agricultural sectors) and jobs from induced secondary expenditure. In addition c.1,500 people work in its c.330 betting shops

Note 1: Annual expenditure forms part of estimated industry and total expenditure of €1.05bn and €1.84bn respectively.

Source: HRI; Deloitte analysis.

RACING'S POSITION IN THE IRISH SPORTS AND SOCIAL LANDSCAPE

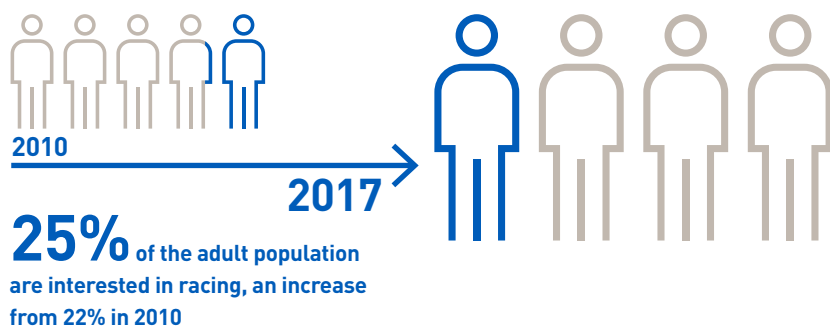
RACING OCCUPIES A KEY POSITION IN THE IRISH SPORTING AND SOCIAL LANDSCAPE, WITH ITS MAJOR FESTIVALS HIGHLIGHTS OF THE SPORTING CALENDAR AND THE 26 RACECOURSES BRINGING REGULAR LIVE SPORT TO COMMUNITIES ACROSS THE ISLAND. THERE IS A STRONG AFFINITY WITH RACING AMONGST THE IRISH POPULATION, AND THIS SECTION ASSESSES THE SPORT'S POSITION COMPARED TO OTHER SPORTS AND ALSO IN THE WIDER LEISURE MARKET.

OVERALL INTEREST

Research has previously been carried out by HRI to provide insight and understanding around consumer disposition to racing in the context of the wider sports and leisure market.

The most recent survey, conducted in the Republic of Ireland in early 2017, found that 25% of the adult population are interested in racing, comprising nearly 900,000 individuals. Whilst the highest proportion of any sport is just over 50% for GAA, racing is the clear leader of those sports behind GAA, Rugby and Football.

This proportion of the adult population expressing an interest in racing has also increased from 22% in 2010, equating to over 100,000 more people now showing an interest in racing.



SPORTING ATTENDANCES

Racing is Ireland's second biggest sport after GAA, attracting over 1.3m attendees in 2016. Racing's attendances are underpinned by the major festivals – forming over 40% of total attendances and comprising close to 600,000 racegoers – whilst average attendances at non-festival fixtures are in the region of 2,500.

Racing's large total attendance is assisted by the relatively high number of fixtures held when compared to other sports, with the 1.3m attendees generating an average attendance per fixture of 3,700. This compares to an average attendance of c.14,400 for the 96 matches comprising GAA All-Ireland Championships, and over 16,000 for Rugby Union (61 matches).

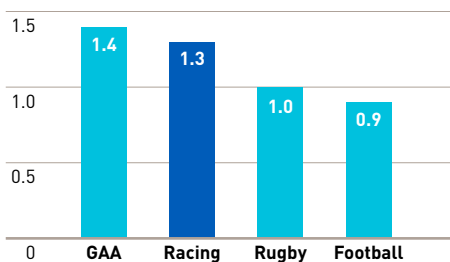
The Irish public has long displayed an appetite for major sporting events, and Racing's largest festivals will be amongst the best attended stand-alone events in the sporting calendar. The Punchestown and Galway festivals attract in aggregate a similar number of total attendees to Ireland home rugby internationals in a typical season (over 250,000).

Racing faces a similar challenge to the other major sports in that whilst attendances at the showpiece fixtures/matches are robust, it is more challenging to attract spectators to other fixtures/matches outside of the biggest

events. More extensive broadcast coverage of sports events, and increasing options for the leisure consumer are particular challenges.

Sport also often acts as a hook in attracting the Irish 'diaspora' – estimated at over 70m – to return to the country, with major sporting events such as racing festivals a central part of their visit.

Figure 37: Sporting attendances in Ireland 2016 – (m)



Note: Represents top level events for each sport respectively. Based on 2016 information where available or most recent year/season if not. GAA = All Ireland Championships; Rugby = Internationals, European Rugby competitions, Pro12; Football = Republic of Ireland and Northern Ireland Internationals, League of Ireland, Irish League.

Source: GAA; HRI; IRFU; FAI; IFA; UEFA; Deloitte analysis.

LEISURE MARKET POSITION

A distinction has emerged in the last decade between sporting events enjoyed purely for the sport itself, and those events that have taken on a much broader social aspect. For many of racing's customers, particularly racegoers, it is now seen in the greater context of the leisure market, with socialisation at its core.

This finding is backed up by research carried out on behalf of HRI, which found that racing "evokes a positive sense of Irishness",



amongst racegoers. An additional study also questioned a number of racegoers as to what they like about going racing, and the most popular response by some way (70% of people who had attended a fixture) was 'to socialise with friends' ahead of 'to have a bet' (37%).

The discretionary nature of leisure spend means that it is significantly affected by periods of economic decline such as the recession of 2008, and as such the Irish leisure market will have experienced a sizeable contraction, as has been described for the racing industry elsewhere in this report, before the economy experienced positive growth in 2013.

Music concerts, festivals and events in Ireland are estimated to attract c.2.7m attendees p.a. At just under half this amount racing's 1.3m racegoers compare favourably when the size of venues for festivals and concerts is considered, with the biggest events attracting over 50,000 attendees.

FUTURE DEVELOPMENTS

A challenge for the racing industry to maintain its position in the sports and leisure market concerns the demographics of its consumers. When different sports are analysed, racing has a significantly older demographic compared to other sports, the age category expressing the most interest in racing being 50-64 by five percentage points. Whilst this age group also express an interest for other sports the difference to younger age groups are not as marked as for racing, an issue actively being addressed by HRI via initiatives such as student racedays and the 'Go Racing Kids Club'.

REPORT PREPARATION, METHODOLOGY AND LIMITATIONS

INTRODUCTION AND SCOPE OF OUR REVIEW

Horseracing Ireland ("HRI") commissioned Deloitte to produce this Report, which has been prepared in accordance with the contract dated 5 May 2017. The Report sets out the results of research and analysis of the Economic Impact of the Irish Breeding and Racing Industry, and sets this in the context of other sports, leisure activities and the rural economy in Ireland and major overseas racing nations.

USE OF THIS REPORT AND LEGAL RESPONSIBILITY

Some of the matters discussed in this Report are by their nature technical. The intended recipient of the report, HRI, is familiar with the issues, facts and other matters addressed and the Report was written with that in mind.

This Report is prepared for the sole and confidential use of HRI and for the purposes set out in the terms of engagement. In preparing this report our only responsibility and duty of care is to HRI. We did not, and do not by consenting to publication of this Report, assume or accept or owe any responsibility or duty of care to any other person.

HRI has asked for our consent to making this report publicly available by posting it on HRI or other Racing websites, and other appropriate distribution methods as agreed with Deloitte. We have agreed to provide such consent on the following conditions:

- This report may not be suitable for the use of any person other than HRI. Accordingly, publication of this report to persons other than HRI is for information purposes only and no person other than HRI should place any reliance on this Report; and
- We do not assume or accept or owe any responsibility or duty of care to any person other than HRI. Accordingly, any person other than HRI who, contrary to the above, chooses to rely on this Report, does so at their own risk and we will not be responsible for any losses of any such person caused by their reliance on this Report.

ECONOMIC MODEL METHODOLOGY

The methodology applied can be simplified into three broad stages described below:

1. Collation of direct and indirect expenditure data from available information.
2. Translation of expenditure data into expenditure by industry type to facilitate modelling.
3. Development and use of input-output models to estimate the wider effects of the industry on the economy as a whole.

1. Collating industry expenditure

The methodology used in estimating direct and indirect expenditure within the industry is discussed in the main body of the document. The collation of this information serves two purposes. First and foremost as an end in

itself, but also as the input to the models which generate estimates of multiplier impact activity in the rest of the economy. An example of this is the need to source services that are not related to the core industry, such as a trainer using the services of an accountant.

The method used to assess this type of knock-on benefit is outlined below.

2. Translating expenditure

The Republic of Ireland model is based on data from the Central Statistics Office ("CSO"). The Northern Ireland model is based on data from the Office for National Statistics ("ONS").

The horseracing industry does not neatly correspond directly to one of the industry/product groups used for modelling purposes as defined by the CSO and ONS in relevant Input-Output Analyses.

This means expenditure is allocated between a number of the most appropriate industry/product groups, primarily - Agriculture, Forestry & Fishing (representing the high proportion of allocated expenditure), Recreational, Cultural and Sporting Activities and Hotels and Catering.

3. Modelling

The multiplier methodology described below is used extensively by Deloitte in assessing both the impact of a given sector or industry on the national economy or the economic impact of new developments in a given location.

The Republic of Ireland model is based on the latest Domestic Use Matrix sourced from the OECD Structural Analysis Database.

The Northern Ireland model is based upon the 2005 Domestic Use input-output table for the United Kingdom, produced by the ONS.

Specifically the model is based upon the publicly available Input-Output Analyses, which have been modified to differentiate between types of impact that are not published by the sources above. The models details what proportion of inputs each industrial sector sources from other sectors when producing an extra unit of output.

The principle behind a multiplier effect is that a change in economic activity will have knock-on effects for the rest of the economy. These effects can be assumed to take place through two channels:

- Supply-chain linkages (Business to Business effects) - if industry demand increases it can be assumed that production will increase. This expansion requires more raw materials and associated services from other industries. In turn these other industries may need to increase production to meet the demand and they too will increase levels of economic activity (the indirect effect); and
- Consumer or wage effects - an increase in an organisation's activity level will mean a higher wage bill. This money will be spent partly in the economy. This rise in consumer demand requires increasing production

of goods and services, hence increasing expenditure (the induced effect).

The multipliers used in this Report, give both the indirect and induced effects of expenditure in the horseracing industry.

The indirect and induced effects are estimated by Type I and Type II multipliers in the models. Type I multiplier data allows us to calculate the indirect effects as a result of the initial expenditure. Type II multipliers enable us to calculate the indirect and induced effects generated by the initial expenditure. By taking the differences between Type I and Type II effects, it is possible to isolate the consumer spending effects of the expenditure.

It should be pointed out that in interpreting the results from the models, the hypothetical removal of the horseracing industry from the Republic of Ireland and Northern Ireland economies would not result in a drop in national economic output of the magnitude that the industry currently contributes. This is simply because businesses and people would spend their money elsewhere.

The models are intended to show the extent to which the industry is linked with the rest of the economy and what the contribution of the industry currently is, rather than suggesting what would happen to the economies if the industry did not exist.

CONSULTATIONS

We have consulted with individuals from over 20 organisations, including:

- Breeding - Irish Thoroughbred Breeders Association; Weatherbys Ireland; Coolmore; Darley; The Irish National Stud; Tattersalls Ireland
- Racecourses - Association of Irish Racecourses; Down Royal Racecourse; Galway Racecourse; Punchestown Racecourse; Roscommon Racecourse
- Other racing organisations - Horseracing Ireland; Irish Thoroughbred Marketing; Turf Club
- Ownership and Training - Association of Irish Racehorse Owners; Irish Racehorse Trainers Associations; Irish Stable Staff Association; Michael Halford
- Other - Racing Academy and Centre of Education; BBA Ireland; Sean Barrett Insurances; Equine Council for Northern Ireland

OUR RELIANCE ON INFORMATION

In preparing this Report, we have used information and data extracted from various published surveys, which we assume to be reliable, to obtain the inputs into the economic model which we used to estimate the economic impact of the Breeding and Racing Industry. In addition, we have used information and data which have been provided to us by a wide variety

of organisations including HRI, other Irish racing organisations, overseas Racing bodies, the betting industry and Government sources. In all cases (and including information from organisations not listed), we have relied upon such information and data as being true, correct and complete and have not audited, tested or checked any such information or data.

SPECIFIC LIMITATIONS OF OUR REVIEW

In accordance with our terms of engagement, or due to our findings when performing our work, the following specific limitations should be noted.

As a simplification of any industry an economic model of this type can only ever be expected to represent an approximation of a real-life outcome. The model relies upon information provided by stakeholders as well as data published by the Central Statistics Office and Office of National Statistics. It is possible that industry linkages have changed since the publication of the Domestic Use Matrix and 2005 Domestic use input-output table, but as the latest available data on which to base our analysis the data used is the most appropriate.

EXCHANGE RATES

For the purpose of the international analysis and comparisons we have converted the figures into euros using the average exchange rate for the respective year ending 31 December. The sterling to euro exchange rate used for 2016 was (€1 = £0.79).

GLOSSARY OF TERMS

AIR	Association of Irish Racecourses
AIRO	Association of Irish Racehorse Owners
ATR	At The Races
FOBT	Fixed Odds Betting Terminal
FTE	Full Time Equivalent
GAA	Gaelic Athletic Association
GDP	Gross Domestic Product
Gross win	Amount staked by bettors less prizes paid out
GVA	Gross Value Added
Irish Breeding and/or Racing	the Irish thoroughbred breeding and/or racing industry
HRI	Horseracing Ireland
IFHA	International Federation of Horseracing Authorities
IRTA	Irish Racehorse Trainers Associations
ITBA	Irish Thoroughbred Breeders Association
ITM	Irish Thoroughbred Marketing
NI	Northern Ireland
LBO	Licensed Betting Office
PAYE	Pay As You Earn
RACE	Racing Academy and Centre of Education
RMG	Racecourse Media Group
ROI	Republic of Ireland
Rules	Professional racing
SIS	Satellite Information Services Ltd
VAT	Value Added Tax



**HORSE RACING
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