



Getting a Handle

BY AMANDA DUCKWORTH AND TOM LaMARRA

The economic downturn that began in 2008 and is expected to last for quite a while hasn't spared horse racing, but issues inside the industry are perhaps just as damaging, Thoroughbred owners and other officials have said. Still, some owners see the crisis as an opportunity.

Owners may use depressed prices to their advantage

Outside forces such as falling stock prices, declining capital, and gas prices that hit \$4 a gallon certainly impacted owners last year. Internally, however, a 7% drop in total handle and a 1.3% decline in purse money compounded the problem. Even hundreds of millions of dollars in revenue from gaming machines could only keep purses just at or above 2007 levels.

"Obviously, the recession and tough economic times have impacted owners, but it's not totally the economy," said Dan Metzger, president of the Thoroughbred Owners and Breeders Association. "We had the impasse over (advance deposit wagering), and handle is down."

Indeed, the nine-month ADW conflict took money out of the pari-mutuel system, and whether it will return this year remains to be seen. Thoroughbred Horsemen's Group president Bob Reeves, an owner who has about 15 horses stabled

at Oaklawn Park in Arkansas, said the conflict among horsemen, racetracks, and ADW providers generated all-important dialogue and, moving forward, potentially more money for purses.

Other owners agree with that assessment.

"I am actually quite encouraged that with the drop off in the business, people are now starting to talk about what the core issue is, which is handle," California-based owner J. Paul Reddam said. "Handle drives purses, and purses ultimately have to drive the bloodstock market because, after all, bloodstock is purchased to supposedly earn purses."

"I think people probably need to suffer more pain first (before they will work together to find a solution). One thing about the business is that people have very, very strong opinions, and they are very bad at compromising those opinions for the

greater good. If you look at the ADW dispute in California, I am not sure that the ultimate solution they ended up with was any different from where it was a couple months before that, but they had to go through some pain to arrive at the same spot. I think we are kind of destined to do that because compromise is not part of the vocabulary, which is unfortunate.

"If you saw handle drop another 20%, and purses go down commensurately, they would all be panicking and would probably be more cooperative with one another. Unfortunately, that is a tougher spot to get it fixed from then if you just decide you are going to work on fixing it now.

"Businesses all go through cycles."

Said Samantha Siegel of Jay Em Ess Stable: "We are running for the same or less purse money, our bills are all double, and the horses cost three times as much. It is very hard."

Declines in the bloodstock market in 2008 were hardly unexpected, though the magnitude of the overall decline was somewhat surprising. A correction was inevitable—stud fees had to come down. How owners and breeders capitalize on that will lay the groundwork for a recovery.

It's not all gloom and doom, Metzger said. Some owners plan to take advantage of the situation with an eye toward the future.

"I've heard people saying it's a great time to buy horses," Metzger said. "I've had owners telling me they're looking for bargains. Everybody is hoping they can weather the storm, and some owners may end up saying, 'I'm glad I had the capital then and invested it.' If there is a silver lining, it's that the cost of goods has come down."

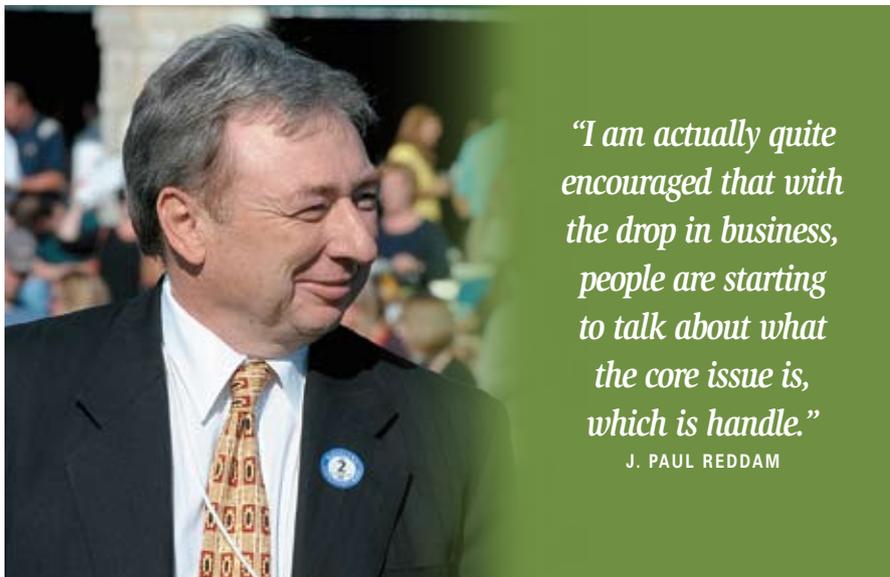
Reddam is one of the owners who decided not to pull back.

"(The situation) actually encouraged me to buy a few horses because in some cases, prices have been closer to reality," he said. "I haven't made any active effort to shrink the operation other than I put a number of horses in claimers. I was surprised under the current economic conditions that somebody claimed them, but they have."

"I haven't really felt the effects one way or the other. The bigger concern is that while racing has always gotten sidetracked on smaller issues, it has kind of missed the main issue—you have to drive revenue in a business. Treating horses like they are tulip bulbs from the 1600s really at a certain point is going to backfire on you. We have certainly seen some of that."

Dogwood Stable's Cot Campbell said that aside from making minor adjustments, his operation is looking for stock as usual.

"I think it is a marvelous time to buy horses," Campbell said. "It doesn't take any genius to figure that out. I have never been a great one for wanting to be in the breeding business, but if ever I was going



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to do it, this would be the time to buy some nice fillies and look to the future.

"The truth is that we have built up a lot of momentum through the years. We have been at it a long time, and I think we have momentum built up that some would not have, and that has helped us. I hope it continues to help us."

Campbell said he's only looking to cut back slightly on the number of horses he purchases at auction.

"(The industry) certainly slowed down across the board," he said. "I think the low tide affects all boats, as the saying goes. We normally buy about 28 yearlings and 2-year-olds a year, and I guess this year, we would buy 25-26. We will buy them as we can use them; we expect a little reduction, but not too much.

"We have sold 44 shares in partnerships, averaging about \$40,000, since Aug. 15, so that's pretty good. They didn't sell as fast as usual. We have had the luxury in recent years of sending out our partnership offerings and then 10 days later they are gone. It wasn't quite that lovely, but it got done."

Siegel said her operation has made adjustments as well.

"We had already bought our yearling crop," she said. "Normally, we use the

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2-year-old in training sales as a fill-in if we want one or two more so that all of our trainers get a certain number. Those sales have been so high that we have stopped participating in them.

"We are really mid-range buyers. The last few years we have gone to a 2-year-old sale to buy one or two, so that doesn't really affect us much. What happens when it comes time to buy horses in the summer and fall? I hope they are cheaper. They have been so expensive."

Siegel said she expects to see modifications in the bloodstock market.

"I think maybe some of the people participating that should not (be buying horses) will be weeded out, and some of the people that have overextended themselves will pull back, too," she said. "I think the pinhookers have been doing so well and

the prices have been so crazy, that hopefully that end will calm down a little bit, and it won't take so much money to buy a halfway decent horse."

Though economic disruption in the bloodstock market was easily identified in 2008, the same can't be said for racing. Owners paid more to ship horses because of skyrocketing gas prices, but the bottom didn't fall out. They still raced their horses, even if it meant staying closer to home.

An unofficial poll of a group of owners by TOBA indicated expenses were about the same last year, if not a bit higher, particularly in the area of veterinary care. Any hike in expenses is more pronounced when purses are flat, which was the case in 2008, the poll revealed.

The National Horsemen's Benevolent and Protective Association, which represents owners and trainers through about 30 affiliates in North America, plans to discuss the economy and industry economics at its winter convention in late January. National HBPA executive director Remi Bellocq said the organization hopes to survey members on how they are dealing with the downturn.

"Right now, it's a bit early to see what the trickle-down effect is going to be like," Bellocq said. "It's obviously going to have an effect on handle. By and large, I haven't heard a lot of sky-is-falling stuff, but we've never dealt with anything like this before.

"Where it's going to impact horsemen first and foremost is things like the cost of feed and exercise riders. It's more of a delayed impact, and a lot of it will have to do with where purses are (in the future)."

"There is some belt-tightening going on, and there is uncertainty over what the future may bring," Metzger said. "But owners are committed to the sport. They're just looking for different ways to adjust."

Campbell said constriction in horse racing may be necessary to improve the economics. And that will mean fewer participants and horses.

"I think racing is going to have to condense; I think racing is going to get smaller," Campbell said. "I think it is going to have to retrench. Some phases of racing are doing great, and there are some that are hanging by their fingernails.

"I think racing is going to have to tighten up and be a smaller industry." 

We Have Been Here Before: Remembering the '80s

The Thoroughbred industry is no different than any other market economy. It is cyclical in nature with periods of growth, a peak, a decline, and a valley.

The last deep valley came in the early 1990s. After a bubble-producing run-up in the bloodstock market that peaked in 1984, the Tax Reform Act of 1986, which eliminated the investment tax credit and curtailed tax advantages with limited partnerships, hit breeders and owners where it hurts worst: right in the wallet. On Oct. 19, 1987, known as "Black Monday," the Dow Jones Industrial Average fell more than 22%.

The gross spending on yearlings in North America declined 26.7% from 1984 to 1986; then dropped another 24% from 1986 to 1991. The total yearling market fell from \$384 million in 1984 to \$214 million by 1991. The average price of a summer sale yearling plunged nearly 32%, from \$456,902 in 1984 to \$311,312 two years later. That figure in 1991 was \$250,014.

"The tax laws were a serious downer in the '80s," said Cot Campbell, president of Dogwood Stable. "I remember the problems in the '80s as being a 'hiccup,' and it ain't no 'hiccup' now."

Tim McMurry, a bloodstock agent for Lane's End Farm in Kentucky, recalled that, "in the '80s we had overproduction and expensive stud fees, too, but the economy was soft, not like the crash of today. Then, you could still get credit; now, a lot of people are handcuffed.

"There is a freeze on trade," he said. "I don't recall that happening then. There was still a market to sell a horse."

"The biggest difference in those days was that the market declined from the bottom," said veteran horseman Stanley D. Petter Jr. "We all thought that if we bred high-class horses, people would want them. Today, overproduction is the same, but it is all one big slippery slope. Breeders are being besieged on all fronts."

Of concern to many is the state of racing today when compared to the 1980s.

"I find an amazing lack of interest in racing in the general public," Petter said.

"The racing business isn't good right now," McMurry said, "but it is still better than retiring a horse that is sound."

"Racing doesn't have the vigor it had then," Campbell echoed. "It's not in as good a shape to weather the battering it's taking right now. It's hard to look back, but my outlook is darker now than it was then."

By Evan I. Hammonds