

All that Glitters

It's been three and a half years since advance deposit wagering ("ADW") was authorized in the state, yet numerous key questions about its impact remain unanswered. For example:

- *Has ADW been successful in attracting new fans to the sport?*
- *Has it cannibalized handle previously derived at locations from which the industry received a higher return/percentage?*
- *To what extent has the shift in wagering handle from satellite facilities to ADW companies reduced funding for stabling and vanning, marketing, customer services, capital improvements, etc.?*
- *Have the ADW companies followed through on their promises to expand the distribution of CA race signals into out-of-state markets?*
- *Has their insistence on the proliferation of exclusive broadcast/wagering agreements led to greater revenues for and distribution of California race signals?*
- *Is it time to substantially revise the distribution of revenues derived from ADW such that purse and track commissions receive a far greater share?*

I have found that when they are asked such questions our friends at the ADW companies typically avoid answering directly, but choose to point to the convenience of the bettor and the growth in overall handle as the most significant justifications for continuing the ADW status quo. While we agree that accessibility and convenience for the betting public objective we all share, TOC nonetheless believes that the actual value – and shortcomings – of ADW can only be assessed when all of the relevant benefits and costs are identified, considered, and weighed.

This exercise becomes even more difficult when compounded by the needs of these publicly traded companies to reconcile their revenues with market forecasts and expectations. Sound familiar? It should. In dealing with "our ADW partners" we encounter some of the same problems we do with publicly-traded racetrack operators; their primary corporate objective is not the promotion and advancement of the California Thoroughbred racing and breeding industry, it is the maximization of shareholders' investment, pure and simple.

At TOC, we're realists. We recognize that our partners in this business need and deserve a reasonable return on their investment. Yet, we also recognize that there may come a point at which our definition of "reasonable" may differ – and differ substantially – from theirs.

In no uncertain terms, the California ADW market is the most significant of all for our three ADW partners. It ranges from approximately 40% to 66% of total handle for these companies. Likewise, since ADW first became authorized in the State – 2002 – these companies have seen their growth in their business between 370% and over 930%.

No doubt, that growth is impressive! But, sadly, it has not translated into comparable growth in the California racing industry's corresponding handle and revenue numbers. In fact, it has translated into very little growth in California handle – less than 3%; yet when adjusted for inflation – in accord with the CPI – it actually becomes a *decline* of -3.6%. In terms of purse revenues, while total purse commissions from commingled-pool wagering, including out-of-state wagers, have increased +0.8% between 2001 and 2004, again when adjusted for inflation, purse revenues have similarly *decreased* by 5.5%.

Further, there is ample evidence to suggest what is asserted to be "growth" in California ADW handle on live California races corresponds to the loss in handle on those races at California satellite wagering facilities. In other words, the majority of California ADW handle growth represents nothing more than a shift in handle from these sites to the ADW companies.

Consequently, the promise of developing new fans and markets seems to us to be a long way from being fulfilled. Therefore, unless the industry begins to experience more "true" growth and less cannibalization, our friends should expect a radical revision of the revenue distribution model: one weighted much more heavily in favor of those with the greatest on-going investment in the industry – California Thoroughbred owners.



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