

THE REALITIES OF INTERNATIONAL SIMULCASTING

Tom Aronson - Senior Vice President International, Television Games Network

Tom Aronson: One of the things I've come to understand about business, that I really didn't understand when I started out 25 years ago, is that it's all a process. It is a process of remaining committed to improving things as opposed to finding a magic formula. There are no magic pills that you can take to solve them but if you remain committed to the desired outcome, generally speaking, things work out.

TVG itself is a pretty good example of that. TVG, Television Games Network, is in 8 million homes programming 12 hours of premium horse racing live every day. It goes without saying that what we're putting on television today, as an industry but also specifically at TVG, is really very good. As good as anything that could have been envisioned for racing's everyday television network. Last year we put up 16,800 races on TVG and about 5,700 of them were harness races. That's a pretty fair number. Remember this programming is now available in 8 million homes and we're moving from there.

This is not meant to be an advertisement for TVG. It is meant simply to say that there is progress that comes out of controversy. The controversy with TVG is why are you going so slowly. Why is it taking so long to deliver home betting and home programming to people around the country and around the world. That's a great irony considering that six years ago the controversy was why would we want programming in everybody's home everyday because they were just going to stay home and bet races. Of course the answer is through mutual efforts, dialogue, discussion, hair-pulling and kicking and screaming, we've come to some sort of accommodation on it that I think sets the stage for the next period of growth.

I am speaking today specifically about the international side of TVG. The international business is huge—110 billion being bet on horses around the world every year. But it's deceptive in the sense that it's very difficult to access. People maintain the same kinds of reluctance that they did at the outset of TVG—I need to protect my local market, I'm not too keen on you coming in from the outside world but yes I recognize that together we can do good things.

Getting back to harness racing's position on TVG. Harness racing's traditional nighttime racing remains one of its biggest assets. After 5 p.m. on our network, harness racing accounts for maybe 40 percent of the races that are shown. One of the interesting and unfortunate things is that harness racing isn't accounting for 40 percent of the handle in that time slot. Harness racing has the ability from this vantage point to really develop itself on television.

The problem we've been having at the racetracks is that we're talking to the same people and we're worried that our average daily handles, average per caps, are always going up because fewer people are accounting for the amount of bet. We wish we could have more people in, lower per caps, and build them from there. Here's your situation on television going into the home. We have a need for the harness product. It has a rightful place in the programming and the handle needs to be built up. We're in front of an awful lot of people who can get to us for free. This is a building block for the sport.

In general, the import/export issues that we look at in international simulcasting are very much the same as you see around the United States.

The racing issue is that access works both ways, at least in the developed or desirable markets. That is to say that if you want in, then you have to let me into your market. This is a balance that has been worked out and is still a work in progress around the industry. When I first sat down for the Television Games Network and worked out what is now called the source market—the structure—there wasn't any magic to it except what had been drilled into me after working for 20 years in this industry. That is, the local markets have to be protected and they have to get their rightful amount. You can't simply have one-way simulcasting. You can't have power providers, hosts, sending their signal in and paying nothing to the locals for that person's bet.

When you get into the home, it becomes an even bigger issue. That revenue balance is critical and it's the same on the international front. What I found after traveling around the world the last few years on behalf of TVG is that there also are some non-racing issues that are almost cultural in their origin and their effect. There's certainly an aura of distrust for American products in the sense of American business products taking over in a local market—US Imperialism if you want to put a phrase to it. Those countries are protectionists. Other countries, France for example, have developed their

own television and home betting systems. It hasn't been easy to negotiate any give and take with these countries. That's understandable, which is the key word here today. That's part of the business process, coming to some sort of legitimate business conclusion that helps both sides. The cliched "win—win." Balance of trade is very important even in trying to take what we consider to be the premium North American product and move it around the world.

The specific issues are just as difficult. It's very easy for someone to get up in front of you and say, "It's a huge market out there and through technology and our own smarts, we're going to make the world bet on North American races and we're all going to do very well." Unfortunately, there are local laws and regulations in a number of countries around the world that makes just straightforward business with them extremely difficult. Currency movement restrictions. We may think that we'd love to, on your behalf, deliver TVG and harness racing into Brazil, but the Bank of Brazil has some very strong opinions on our taking bets from Brazilians and having their money move across international lines. The same thing with Argentina, the same thing with a lot of countries.

Thanks to my relationship history with the American Horse Council comes one of my favorites—U.S. laws and regulations. There we run into the non-resident alien withholding, which simply says whenever a U.S. corporation makes a payout to a non-resident of the United States, there has to be a 30 percent withholding. Unless there's a treaty in place and there are 20 countries with treaties. But let's just say a Brazilian wanted to make a bet on an American race and we put it into an American pool. It was the equivalent of a \$2 wager and that person was suppose to get \$10 but we're supposed to send them back \$7. We hang onto 30 percent of the payout and that person in Brazil gets the unique pleasure of trying to file an American tax return to get that money back. Or it's simply lost. Obviously since all of us have been in the business of trying to ameliorate the effects of the American withholding tax for years, you can imagine what that would do on the international business. That's just a killer. I will make a plug right here for the American Horse Council. I can't stress strongly enough that AHC's work on this particular topic is going to potentially dictate whether we are going to be successful selling our product around the world.

That brings us to the question of how we're trying to do business. Are we trying to put money into American pools or are we willing to make separate

pools, which would obviate the non-resident alien withholding tax if we could make pools someplace in the world. You can do that but you run into a lot of local withholding problems. You also run into the question of separate pooling and small pools. Try to pool the bets that Argentines would make on Balmoral Park on a particular night. It's going to be pretty slim pickings. That's not a comment on Balmoral. It's a comment on the fact that there's just not a lot of volume. The third choice is bookmaking. We could all make book if we wanted to. It's a question of what business you want to be in. Bookmaking is legal in certain parts of the world, but not legal in most. The places that allow bookmakers on their shores, typically don't allow people to make book on the Internet and take bets out of that country.

One thing I have learned is to never underestimate the impact of inconvenience and tax laws on the inclination of people to participate in this game. You cannot underestimate it. Would you bet on Australian racing if it were delivered into your home and you could do it with a few clicks of the remote but you'd get back only 70 percent of your money or you had to fill out forms ahead of time that weren't applicable to you?

Further along the lines of the issues we have to deal with is the timing of our products, where they land overseas. The same product that we produce in the United States would land in the evening in the United Kingdom and in the morning in Australia. You can't alter this reality unless we start running races at 3 a.m. or 4 a.m., with the dubious prospect of trying to get an Australian to bet on that in competition with Australian racing which would be running at that time. That's not going to happen.

The bottom line on all of this is that the demand of our product internationally is not as huge as we wish it were. That's just the simple reality of what people get used to. The demand for racing in a state, in a city, is really determined by what the local product is like and typically 30 to 50 percent of the betting is going to want to go to a local product. If you can't work out accommodations with these locations like we have done in the United States, state by state, in order to balance the revenue and basically be a welcomed partner, then you have a very difficult business prospect world-wide.

There also are language differences, obviously. Think about Europe. It's a mess when you try to figure out how to modify your product to

accommodate the needs and basic language of people in all these countries. In Brazil, I found myself watching an American movie, dubbed in Portuguese with Spanish sub-titles. The prospect of having TVG in the same mode or any product that we might produce, even just a simulcasting flow with English information, is daunting. What we can all fall back on is the hope that the world does use English as it's second language. My recommendation is don't mess around with translations. It will break your heart. It's miserable and incredibly expensive.

At the heart of the challenges and opportunities, internationally, information is my favorite. Look at the way the English look at the races. Generally there's not a lot of harness racing interest over there and they write a paragraph per horse in the thoroughbreds. In America we have 12 or 15 lines of past performances with an incredible amount of data. The British look at us like we're crazy. We look at them like they're crazy. Data may be the new international language for racing. This is something that deserves attention. There is something to be done that can put racing fans around the world on the same plane. Everybody grows up with something they're used to. However, you can get close to what they're used to and marry up some of these vast differences into a product line that can be used

around the world. The British can be brought closer to using some of our data, we can be brought closer to using some of the more general descriptions of horse performances in a platform that everybody could access. That's not a recommendation that we turn harness programs into a paragraph description of a horse. It's simply saying that data can be a more internationalized language.

I would direct you all to USTA's partner TrackMaster and David Siegal and a lot of the work that's been done in creating a new language for racing on technology platforms. A little bit different but much the same message as we migrate to on the Internet, television on-line and hand-helds. There's a need for recasting traditional data to accommodate new technology platforms. A past performance line just doesn't work very well on a hand-held device. I'm not suggesting that we run out and make everything work on a hand-held device. Refined data has a place in that environment and if you need the past performance line you need to go someplace else, like a bigger screen.

Broadly speaking, this is an HTA and USTA issue. If you do have designs to be working in the international market, in conjunction with TVG or any

other potential or real providers that are out there, you really need to start thinking about how to package the information so that it can be used worldwide. Numbers are numbers, worldwide. Languages differs, but numbers are the universal language.

I have a bias towards the presentation. That's why I was one of the early people building the TVG business plan. I believe that a stream of races from the United States, just the races themselves, is no better than a stream of races from anywhere else in the world. We may think it is—that the horses are better or faster—but they all look like horses. Anyone can produce a simulcasting stream, it's really what you do with it that matters. If you want to penetrate markets around the world you have to make your product stand out. You have to make them want it because they recognize that it will generate more revenue for them because people will be more attracted to that product than the other one. It's a big competitive world out there. If the races aren't put together in an attractive, compelling manner, we're not going to be competitive. We will have frittered away an advantage and allowed everyone else's races to look just like ours. In that environment, there won't be much money to be made out in the world at large.

The final point I'd make is you have to have some patience. It just takes time. It takes time to build relationships with other markets, with other people, other racing businesses in those markets. It takes time to get distribution for the kind of product that we're talking about. It's an intergraded product—thoroughbred, harness, quarter horse. It's a very North American product. It's a very attractive product if we do it right. By encouraging patience I hope I've bought TVG another five years of stumbling around in the marketplace. We're going as fast as we can. There really has been a change in this industry in the last five years as to what the home market can be and support for the industry for that effort to get into the home. Thank you very much.