

**PRODUCT DISTRIBUTION, INTERACTIVE DEVELOPMENT AND
REWARDS PROGRAM**

*Nick Eaves - Senior VP Marketing, Gaming & Business Development,
Woodbine Entertainment Group*

*Andrew Macdonald - Director, Business Development, Woodbine
Entertainment Group*

Mr. Eaves: Product distribution, interactive development and rewards program is not a strategy that Woodbine is the only group pursuing, but hopefully we can depart some unique thoughts in terms of some of the strategies that we have employed and give you a sense of where we're going. I will give you an overview in terms of our philosophy as it relates to distribution. Andrew is going to take us through the various elements as it relates to the various wagering services, our television programming strategy, and we'll end by talking about the actual results themselves and, from the standpoint of the future, where we're going as it relates to distribution. The reality in terms of the future and distribution is enormous. Our view is that it is an opportunity instead of a threat and it's our intention to pursue it vigorously.

Some context should be appropriate. Our market, which is principally Toronto, the surrounding areas and based on distribution much farther than that, is not all that different from others in the room. The early 1990s were a different time and it provides some context in terms of the strategy that we decided to employ. For us the 90s really represented a time where we were not attracting any new customers to our horseracing business. In large part it was due to the fact that our facilities had not been improved. Because we weren't comfortable with our facilities, we weren't putting a lot of muscle behind the marketing of our facilities. It was a bit of a self-fulfilling structure and the net effect at the time was an absence of new interest in our business.

One of the reasons was a limitation of distribution. At the time we were purely a live racing operation at four racetracks—Woodbine, Mohawk, Greenwood and Fort Erie. Live racing at those four racetracks was our whole business. We had little if any television exposure. The Queens Plate was carried on our main national network and we might have had another couple of races carried but that was the extent of our television exposure. We were not looking at any technological advances; our focus was simply live racing.

All of that happened at a time when there was more gaming and entertainment competition. In the early 90s we saw three big casinos open quite close to our primary market. The three of them together have 400 table games and over 8,000 slot machines. All of it came to us in the short period of three years—between 1994 and 1996. That's a huge influx of new gaming, which had a significant impact on our market place.

There has been a lot of discussion whether we're a gaming business, a sports business or an entertainment business and I think we're probably all of those businesses. We saw a lot of new entertainment competition coming our way—a major new sports franchise the Toronto Raptors, a new theater. There was a lot of that new entertainment, which again provided competition in terms of how our customers would determine how they would spend their dollars.

The result of that was pretty compelling to us. We didn't have to do a lot of analysis to determine whether or not we were in a good state. It was pretty clear the status quo was not going to be the right strategy to pursue. Instead we came at it from a different standpoint. There wasn't an enormous amount of experience in terms of what the impact of distribution is, but

knowing the status quo was not the right approach, we adopted the strategy and philosophy that we would employ any and all distribution that would result in new incremental business and wagering. We came at that with a sense of confidence, though not absolute certainty, that this would be the outcome of that distribution strategy and it would not be a cannibalistic approach.

In that regard we began a plan which started first with an off-track network, which today numbers about 27 off-track locations and generates about 50 percent of our total primary market handle. In recent years we've gone out and pursued any and all multiple distribution platforms that come back to our core strategy of bringing new, incremental customers who are either going to get involved with our business again or become involved for the first time. That was the over-riding strategy that we employed and while we were exploring these multiple distribution platforms, we kept an open mind to what other accompanying services must go with that to enhance the service. Andrew will talk about the television strategy, the ready availability of odds and racing information. All the accompanying services are key and link back to our core strategy, which is driving new wagering activity.

That was the philosophy we brought and Andrew will take us through the various wagering services and television pieces to give you a sense of where that model has gone.

Mr. Macdonald: Horse Player Interactive represents the fulfillment, or at least a stage in the fulfillment, of the philosophy that Nick was talking about. It was the first fully automated toll-free telephone account wagering system in North America. We did this very consciously by using technology to help avoid certain big cost centers such as the acceptance of the bet through tellers. By fully automating it with an IVR, we've avoided those costs and are much more efficient at taking a wager. We tried to eliminate all barriers to entry in using these services. Minimum balances and surcharges were unacceptable to us and the accompanying services—odds and information electronic programs, video streaming—is all for free. It is our belief that you can't have people pay for a service that you're asking them to try and, possibly, that they know nothing about.

To that end, we also embraced other technologies to distribute these services—the Internet for the web tote, screen phones for delivering screen phone odds, a fax on demand service, live video streaming. We did not

think that this has a large future without television. From that we evolved our telephone account betting to include partner tracks. In Canada, you're assigned market areas and you can only conduct account wagering within those market areas. That obviously limited our distribution. What we did is go out and contract with all the different partner tracks to access all their market areas. We leverage our account wagering and all the related services that we've been talking about to these tracks that, for a large part, could not develop these services on their own. We provide them with a valuable service and in exchange we help them develop the markets.

The rewards program, through offering the incentives in this was not about player poaching and still isn't. This was to secure our big players; to keep them from going offshore, keep them interested in our product and to get them something back. It's a two-tiered program that we designed with points for the everyday player and take-out adjustments for the bigger players, and has more than 11,000 active participants wagering more than \$290 million since it's inception. The horsemen share in the cost of this, as it is a form of take-out reduction. We've distributed more than \$100,000 cash and prizes back to customers valued at more than \$3 million. We're

expanding this service as well to have a much more customer friendly face-to-face relationship with our biggest customers.

The key to structuring our rewards program was to promote Woodbine racing. This seem to be occurring as people participating in the rewards program are 10 percent more likely to bet on our racing than if they're not in the program. We also use it, as with the other services, to generate tab accounts. You can't participate in the rewards program without having a tab account, which can be used for other forms of wagering as well. Promote our services. Although the great majority is redeemed for cash, which eventually goes through our wagering operations, we do support our food and beverage and other operations through this program and, not least, generate a database. We know now where our customers go, what product they bet on and, on an individual basis, what device, what type of bet. We know everything about every bet that comes through the system, which is currently about 22 percent of all our wagering.

In keeping with the technology, we worked hard to try to produce an Internet wagering system. The regulations in Canada are still slightly fuzzy but we did go forward with a work-around. Basically we came up with what we

call a PC Tab. To the user, it appears that you do everything over the Internet however to fit within the existing regulations, we take your bet through the Internet and once it comes to us, we translate it into touch-tones and throw it through our phone system. It's a limited test as per our CPMA approved beta test and we're looking towards generating true Internet wagering in a very short time period—probably within the next four months. In the meantime it gave both our regulators and ourselves a good look at the security issues, customer acceptance, etc.

Which brings us to television programming. We felt it was utterly important to try to push our product onto people. Telephone account wagering and other forms of wagering are only marginally successful without a push product such as television. Our strategy there was primarily to drive account wagering with television. We also thought it was important to have multiple programming approaches for multiple audiences. Your core user is not the same as your new customer. We also use it to provide a cost effective form of our simulcast distribution and we firmly believe that this can generate revenue aside from wagering.

To that end we went through a number of systems. In 1995 we applied to the federal regulator on communications, CRTC, for a basic cable racing channel—The Horse Network. Unfortunately the industry was very fragmented at that time and, as a result, we were unsuccessful. We still needed to get on TV so we did launch TrackPower; we actually installed a microwave transmitter on top of the CN Tower in order to get our signal out to people who wanted it. It was a very expensive system, low user rate because of the technology itself was proprietary; we didn't leverage ourselves on any distribution and eventually that system was cancelled with only 100 subscribers a year later. We did note that with those subscribers that did have it, there was a strong correlation with increased wagering and wagering growth.

That's when we launched TRN Canada on a proprietary U.S. based satellite system. Again our problem there was that it was proprietary. You had to go out and buy that hardware. It wouldn't work on your existing cable or your existing satellite. That's where our true strategy started to evolve. We started with TRN pay-for-view. This is available through Bell ExpressVu, which is the largest satellite distributor in Canada with over 1.1 million homes. Two channels featuring full card simulcasts targeted towards our

core customer. This is just simulcasting. This is production that we were already producing so really at no additional cost to us. We then sell that to customers as a pay-for-view product. It also replaced our costlier distribution system with decoders so our entire teletheater network now uses this system to get a large part of their simulcast and all of our live simulcast, and it was focused on driving wagering.

From that we evolved in TRN Digital. We actually migrated two channels— there use to be four on that pay-for-view— so we took two channels off and put it on digital cable and digital satellite available through Expressvu, Rogers Cable and Cogeco. Expressvu, again, being the largest satellite distributor, Rogers Cable and Cogeco Cable being the largest cable providers in Ontario. One channel is the live racing channel where we splice together live clips from four simultaneous tracks; typically always showing the horse parade and other information required for wagering. We also have an odds channel so people can check at any point, by flipping the channel to get the odds on the four tracks that are racing. Again, it's targeted primarily at the core customer. It's a less costly expense and it was available to people through existing hardware—their cable and satellite. In fact, it was packaged with seven other digital sports channels. So anybody who wanted

to get the NBA channel, NHL channel, Fox Sports World and others also got our product. That made us available in 1.5 million homes throughout Canada.

It's important to realize that none of this could have happened without realizing the importance of television and the funding that we had to place for it. Before this could happen we invested significant capital in upgrading our facilities. At that point we increased our television staff more than tenfold and we now operate three full-fledged studios at Woodbine.

That was focused primarily toward wagering and increasing wagering. The next two products that we're looking at are towards getting new customers. Getting people interested on a softer approach. This is available on basic cable so we're talking about five million homes. We've got a product through Headline Sports and another product through SportsNet; these are two basic cable channels available across Canada. We soften the programming. We did not believe that we could afford to do this on an everyday basis. We restrict this to particular races, about 190 90-minute programs featuring three to four races. There's a lot of live race profile and general interest. This would be something that would be a bit more similar

to a TVG type of product however we're only doing it on a limited basis to attract customers and for some of our best quality racing.

At this point, I'll turn you back to Nick to tell you the encouraging results we've seen coming from this.

Mr. Eaves: I spoke a lot at the beginning about the impact on wagering. For us the strategy is about driving wagering and it's conclusive that telephone account wagering, soon to be other forms of account wagering, generate incremental wagering. Our tab handle was first introduced in 1997. That year that we did \$10 million and it's risen to just over \$73 million, including our partner markets, in 2001. Significant increase in our account wagering business but when you look at the non-tab—that's all of Woodbine Entertainment Group in market wagering exclusive of our tab business—over the same period we're seeing an increase from \$720 million in 1997 to just around \$800 million in 2001. While we saw significant increase in our account wagering business it did not come at the expense of our other forms of wagers. That was obviously a critical fact and part of the strategy that we had expected and it was a relief to see it fulfilled.

Andrew spoke a lot of our different television mediums. There are four principal ones and each of them is a little different—targeted at a different audience ranging from our core pay-for-view service, which is attractive to the core customer, and softening down to Headline Sports and Sportsnet which really goes after a combination of new customer and wagering customer. Our view is that there is a whole spectrum of customers in our market, all of whom want something different. One of our key television strategies is to deliver our racing product in as many different ways as is possible so that, whether you are a core customer or whether you are one of our potential new customers, you'll be able to see racing in a way that's appealing to you. That was the strategy behind the four different mediums.

Another result, thankfully, is that racing on television indeed drives wagering. That was the core belief going in and it's proven to be the case. Andrew talked about the launch of TRN Digital, which was in September of this year. Since that time we've seen a 25 percent increase in our telephone account wagering activity largely attributable to that much broader base exposure. Another compelling fact that speaks to the impact of racing on television is Headline Sports, which is one of our analog cable systems across Canada. We've had some simulcasts programming, somewhat

intermittently, but through 2000 we were on most Saturdays beginning about half way through the season. We did an analysis where by those Saturdays that we didn't have our product on Headline Sports we did about \$60,000 in telephone account wagering and the Saturdays that we were on Headline Sports we did \$100,000; a 67 percent increase in wagering activity as a result of the customers' ability to see the product.

A couple of other results that have come with the strategy. Andrew spoke about our intention to bring down the operating cost of our signal distribution, which we've been able to do through our pay-for-view arrangement. Obviously the cost of taking a wager through the telephone account betting system is considerably less expensive than doing it through our other means so we we're able to bring some efficiencies through that. New sources of revenue. Things such as pay-for-view revenue, individual digital subscriber revenue. One of our key strategies behind getting racing on television was to expose the customer, but one of our mandates was to make it profitable. That's what we've been able to do and through some of the softer programming we've been able to present racing to new customers in a way that does get them interested. It's a longer term proposition. They don't stumble on the programming and immediately come to the realization

that this is what they've been missing and become fans. What does happen is in time, through general exposure and interest, it does create a little more of a following and hopefully that will compel a customer to come and really see what it's like on- track.

New wagering platforms. Television distribution for us has to be and is a profit center. The bottom line is that from this business unit we are projecting total income from these various sources just over \$12 million in 2002. Income from wagering, television services, pay-for-view revenue, subscription fees and partner tab arrangement—when you net out all of our administrative, operating expenses and our purse contribution—the net contribution from this line of business is projected to be \$3.8 million. That is the key to what really works about this business. Certainly we have many objectives, we've got a couple different strategies but ultimately as we bring them all together it is our objective to continue to make this a stand-alone profit center. The net contribution figure would speak to that specific result.

It's all well and good to have embraced a couple of technologies, some different means of distribution that seem to work, but where is all of this going? What is the future as it relates to product distribution, different

advancements in technology? For us it will remain top in mind as to where we go with these businesses. We will continue to focus on the various wagering services that are going to keep bringing us back to our mandate which is to drive incremental wagering.

Andrew touched on the migration of our current PC tab system into a true Internet wagering platform. This is an opportunity because it's here; we have to embrace it. We will work with our federal regulator, as we already have been doing, through administrative changes to the regulations, which will clearly allow Internet wagering on horseracing in our market. That is a true evolution in terms of distribution of our services.

Interactive television feature prominently in terms of our business line. We're half way there in that we have partnership arrangements with the bigger television companies both on the satellite side and on the cable side; each of them is rather intent on delivering some sort of interactive application. Our view is that interactive wagering application is probably the best out there. It's no home shopping network but it will be appealing to a lot of people and we're going to work closely with these different satellite and cable companies to develop that medium. Everybody has a television,

most people have a PC, but the television is the medium that is not going anywhere. All wireless wagering platforms will be on the radar screen. Our mandate is to bring distribution in the manner the customer wants. Far be it for us to determine how a customer can enjoy our business more. We have to adapt to the way they're living their lives and make sure we can get our business to them. Whether it's the next generation of cell phone, whether it's a WAP device, whether it's a palm pilot—all of those devices to the extent that they become the choice of consumers need to be adaptable to our business and we're going to ensure that they are. That comes down to exploring all new opportunities on new wagering services.

Similar strategy on a going forward basis in terms of our television programming. Andrew spoke of Roger and Cogeco who are the two big cable providers in our market. The reality is there are dozens more across Canada who we want to ensure are carrying the racing network product. That will allow us to distribute much more broadly across the county so we'll make that a priority. We're going to do all that we can to get on every cable distributor across Canada to help drive wagering.

Within each of those distributions there are different tiers—we want to be available to every subscriber to these various services. We're happy to be in the cable sports pack but we want to be in the basic package of every distributor so that we truly are available in every home that has a television. It's going to take some work for us to get into those broadest penetration tiers but that's part of the strategy.

Increasing our basic cable distribution. Certainly there is enormous marketing value to the soft product going out into the homes of people in our market. It's our intention to keep trying to distribute that level of softer product into different markets over our cable channels and grow the business that way. Similarly on the pay-for-view. We are on the biggest satellite provider in Canada, Bell Expressvu, but there are others and it's our intention to evolve that pay-for-view service as well.

That's been a lot of information this morning. I hope that our over-all philosophy gave you some context of where it is that Woodbine Entertainment Group is looking to take the business from the standpoint of distribution. We've touched on future opportunities for us and Woodbine will keep coming back to a central principal—new forms of distribution,

which is going to drive incremental wagering, harness new interest in our horseracing product and satisfy and exceed customer demand. That will be the measure we keep trying to achieve. Thank you for your time.