

Submission to the Department of Internal Affairs from Fortuna Ltd, an Authorised Thoroughbred Syndicator, on the Messara Report

This submission is prepared by **John Galvin, Director of Fortuna Limited**, an Authorised Thoroughbred Syndicator.

Background

Fortuna Limited, founded in 2007 by John Galvin, is a significant player in the Thoroughbred Syndication space in New Zealand. Now in its 12th year of operation, Fortuna has successfully syndicated 82 Thoroughbreds in that time and currently manages 29 active thoroughbred syndications, with 20 of those syndicates racing horses domiciled in New Zealand and 9 in Singapore/Malaysia. Capital raised by Fortuna Ltd over the years to syndicate those 82 horses would be in excess of \$12m.

Fortuna Ltd has a client base of over 650 individuals (with 95% of those NZ based) who are currently or who have been in the past Members of Fortuna Syndicates. Fortuna has had significant success over the years, recording close to 150 race day wins during its time of operation. It currently races the race mare, Melody Belle, who is the highest rated racehorse currently racing in New Zealand.

John Galvin's own background has seen him involved with thoroughbreds since his early years as a raceday attendee and punter, with his first foray into thoroughbred ownership over 30 years ago. John's business background, prior to incorporating Fortuna Ltd, featured a 25 year career with his own financial services company, specializing in capital raising, portfolio management and estate planning.

As a significant player in the thoroughbred racing scene for many years and representing the interests of around 650 people who have a "stake in the ground" via shared ownership of thoroughbreds, John is well positioned to provide useful feedback on the key issues of the Messara report.

My submissions focus on key areas as follows;

Stakes Money

Facilities

Structures

TAB Outsourcing

Stakes Money

Our industry is close to a state of crisis, if not already there. A key factor in this state of affairs is the low level of investment by owners into the acquisition of thoroughbred horses. It is not hard to grasp the reason why when one considers that if a thoroughbred horse managed to win just one Maiden race in its career, with that race carrying prize money of \$10,000, the net return to the winning owner would be less than \$5,000.

Further, an examination of most Open Class racing fields would show that most of the starters in those fields, despite having won several times, would have won total prize money of less than \$200,000 each – and yet the capital cost of that horse plus its training costs over the years to have gotten it to that point, would probably exceed that figure. There are the exceptions to that rule – the Fortuna four year old mare, Melody Belle, has won over \$1.2m in prizemoney from less than two years of racing and would now have significant value as a broodmare prospect for the future, but these types of horses are thin on the ground.

Indeed, the Messara report puts forward more detailed figures which show that NZ Owners receive back by way of prizemoney only 22.9% of their expenditure – this compared to the 48.1% received back by NSW owners.

It is clear to me that any revamp of how racing is conducted and administered in New Zealand must focus on the ways and means that significant improvements to the prizemoney structure can be achieved. Revenue must be increased and cost structures brought under control. Revenue (from betting turnover) can be increased by providing a better standard of racing and improved facilities, costs can be reduced by rationalization of facilities and a better management/governance structure of the racing codes and of the entity that ends up in control of the TAB.

All of these issues are dealt with by the various recommendations of the Messara report, which in my view, provides a clear road map of how to get our industry from its present parlous state into a highly successful one.

Facilities

- Race day Venues

As a Syndicator, who regularly hosts large number of Syndicate Members on race days at various race tracks around New Zealand, frankly I am embarrassed on so many occasions at the poor standard of facilities offered at (most) of the NZ race tracks. The standard of lounges, eating/drinking facilities, toilets etc is a long way short of customer expectation in this day and age. Capital investment into the improvement of customer facilities urgently needs to happen, however the reality is that most race clubs are desperately short of capital and cash flow and such improvements are simply not possible under the current model. At the same time, however, the thoroughbred industry is not short of capital – I am told that the total value of infrastructure in race tracks around NZ is well in excess of \$1 billion dollars. The “unlocking” of a significant portion of this capital is a key factor (although not the only one) in improving the customer experience.

The Messara report notes (correctly in my view) that 48 race tracks in a country with a population of under 5 million people is just not sustainable and recommends that 20 of those race tracks close – the report notes however, that that does not mean the closure of race clubs, but that closure and rationalization of facilities can be achieved by discussion/negotiation between those clubs who own tracks that will close and those clubs. No one should think that this process will be easy and yet it is vital if the racing industry is to

survive and prosper. Again, the report is quite specific on the ways and means that race track rationalisation can be achieved – again I sure the words “Road Map”

My view is that the carrot is always better than the stick and that every attempt should be made by both NZ Thoroughbred Racing and the Government to assist racing clubs to reach agreement, but with legislative back up if needed. Common sense indicates that if a club which closed its track and sold its asset and then used those funds to invest into a track which was not closing would result in a markedly improved facility for the Members of both clubs, not to mention the general public.

- **Synthetic Tracks**

Long overdue, participants (trainers/owners) are desperate for this type of facility, not just for the holding of race meetings during the winter months in particular, but also to provide reliable trials surfaces, particularly in the late winter/early spring period when horses are being prepared for spring racing.

Allow me to make one important point however and that is that, despite the Messara report recommendation that 20 race tracks be closed, UNTIL such time as the three proposed synthetic tracks are installed, the thoroughbred code needs every Turf surface it has at the moment. In other words, no track closures should occur until the synthetic tracks are up and running.

- **Location Northern Districts Synthetic track**

I am aware that no decision on location has been made but the Messara report recommends Cambridge as its preferred location. I must take issue with this recommendation, purely on the basis that the Cambridge track has very limited customer facilities (stands etc). I do appreciate that Cambridge is a significant training facility and that trainers domiciled there would appreciate synthetic track construction there – the report describes such a track as “vital for its training needs.” However, bearing in mind that any synthetic track must also be able to be used for racedays, I find it incomprehensible that Cambridge can be considered unless significant additional funding can be found for attendee facilities (and of course, any such facilities would take time to plan and construct). I understand that the view has been expressed that any such race days will be “industry days” only and therefore numbers of attendees will not be large, but nevertheless it defies commonsense to have a synthetic track to be used for race days if there are no attendee facilities. I am also concerned about the “tightness” of the current Cambridge circuit and would not regard it as ideal for a race day track.

I submit that there are two other locations that should be considered for the Northern synthetic track, they being Te Rapa or Te Aroha.

- **Te Rapa**

Te Rapa is already a very significant race track facility – It is located in Hamilton City – NZ’s fourth largest city – it is a big roomy track that has sufficient room on the inside of its Turf

track. Attendee facilities are more than adequate and, indeed, The Waikato Racing Club has spent significant capital in recent years upgrading its customer facilities. While not a significant training venue these days, the construction of a synthetic track at this venue may well see more trainers establishing their training base at this track. Te Rapa is also reasonably close to the major training venues of Cambridge and Matamata and trainers based at those facilities would have the option of bringing their horses to gallop (final pre-race track gallops for example) on a good surface.

- **Te Aroha**

Te Aroha also has a significant race day facility – its attendee facilities are not as good as Te Rapa, but adequate. The main point about the Te Aroha track is that it is very roomy and provides plenty of room for the construction of a synthetic surface on the inside of the present Turf track. There are some trainers based at Te Aroha although it is not a significant training centre these days, but the construction of a synthetic track at this venue may well see more trainers establishing their training base at this track. Te Aroha (like Te Rapa) is also reasonably close to the major training venues of Cambridge and Matamata and trainers based at those facilities would have the option of bringing their horses to gallop (final pre-race track gallops for example) on a good surface.

In summary, then, I would urge officials and administrators to be cautious on the allocation of the Northern Synthetic track to Cambridge.

Structures

I have studied carefully the analysis and recommendations provided in the report. Mr Messara of course has a very significant successful track record as a Racing Administrator and I found his logic, reasoning and conclusions compelling and can see no reason why his very good recommendations should not be adopted by the Codes and the Racing Board and supported by the Government with appropriate legislation.

TAB Outsourcing

This is an issue dear to my heart. I have followed the debate over outsourcing versus continuation of the status quo for some time now and I am aware that NZTR feels very strongly that outsourcing the TAB and Broadcast operations of the NZRB should be adopted and have commissioned external reports which support that view. I am also aware of the NZRB counter view that they can stand alone. Again I have studied the Messara report on this issue carefully and found his arguments for outsourcing compelling. Naturally one always wonders about the integrity and abilities of any potential outsourcing partner and potential conflicts of that partner and the negative impact that those conflicts may have on the NZ Racing product. However, Mr Messara outlines in some detail on pages 38-41 the structure, individual parties responsibilities and commercial arrangements necessary to create a robust and effective outsourcing model.

Accordingly, I stand by my view that the arguments for outsourcing are compelling and rapid progress should be made to establish interest from potential partners and reach agreement in principle ahead of any necessary legislative changes

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