

A D V A N C E I N S I G H T

FINAL REPORT

**Thoroughbred Racehorse Sales Integrity
And Sales Commissions Study**

**A Survey of Kentucky Thoroughbred
Farm Managers Club Members**

December, 2006

Introduction

Advance Insight, LLC was asked to conduct a survey of members of the Kentucky Thoroughbred Farm Managers Club (KTFMC) about racehorse sales, industry ethics and sales commissions.

Interviewing took place the week of December 4-9, 2006.

Respondents

A total of 129 interviews were completed with club members. This equals more than 20% of the total membership and, as such, is a reasonably projectable sample. The distribution of respondent occupations is:

	N (Number)	Percent
Owner	77	60%
Breeder	57	44%
Manager	35	27%
Trainer/Bloodstock Agent	13	10%
Veterinarian/ Medical Professional	15	12%
Other	44	34%

The percentage noted is of the 129 completed interviews. A KTFMC membership list of approximately 592 names with phone numbers obtained from the club website was called. While representative of the KTFMC, the sample of 129 interviews was not a random sample of the thoroughbred industry as a whole. Therefore, this data may not be representative of the entire industry.

Notice that the N totals more than 129 and the percents total more than 100%. This is due to the fact that most respondents indicated that they fit into more than one category – Owner/Breeder, Owner/Agent, and in one instance, CPA/Owner.

This multi-positioning means that we will not be able to isolate the opinions of a single group, such as just Owners. Never-the-less, if Owners or Breeders have substantively different opinions on questions, we will point that out.

Survey

The survey queried club members about:

- Familiarity with TOBA Code of Ethics
- Conducting business by the TOBA Code of Ethics
- Conducting business by an industry Code of Ethics
- Disclosure of commissions by bloodstock agents
- Disclosure of dual agency before sale
- Standardized commissions
- Dual agency propriety
- Effect of undisclosed commissions on purchase prices

- Role of auction houses
- Future of Thoroughbred racehorse industry

Findings

TOBA Code of Ethics

Figure 1 shows that a majority of members surveyed say they are familiar with the TOBA code of ethics.

Figure 1. Familiarity with TOBA Code of Ethics among Kentucky Thoroughbred Farm Managers Club members

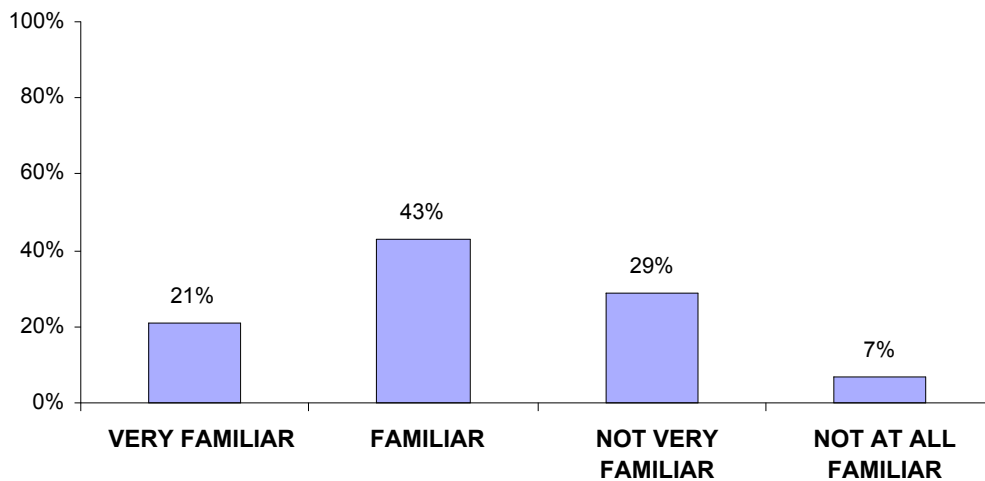


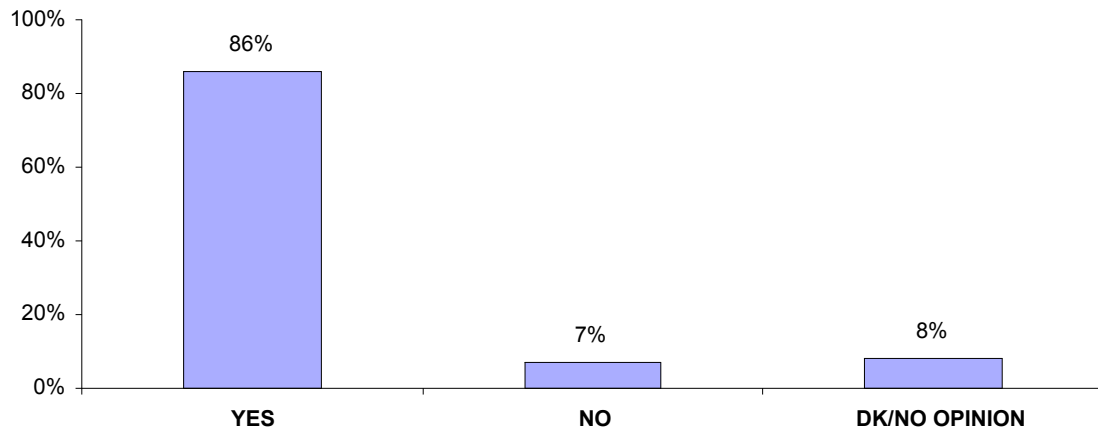
Figure 1 shows that while 64% say they are familiar, 36% say they are not very, or not at all familiar with the Code.

Conducting Business by a Code of Ethics

Respondents were asked if they believed that everyone in the Thoroughbred racehorse industry has an obligation to ensure that business activities are conducted in accordance with either TOBA’s Code of Ethics or at least an industry-wide Code of Ethics.

Respondents who were at least somewhat familiar with the TOBA Code were asked if they thought the Thoroughbred racehorse industry should ensure that business activities were conducted in accordance with the TOBA code of ethics.

Figure 2. Should everyone in the Thoroughbred racehorse industry ensure that business activities are conducted in accordance with the TOBA Code of Ethics?



Those respondents who were not familiar with the TOBA Code in the previous question and those respondents who said No, or Don't Know to this question were asked if they thought people in the industry should conduct business in accordance with some "Industry-wide" Code of Ethics - 85% said Yes.

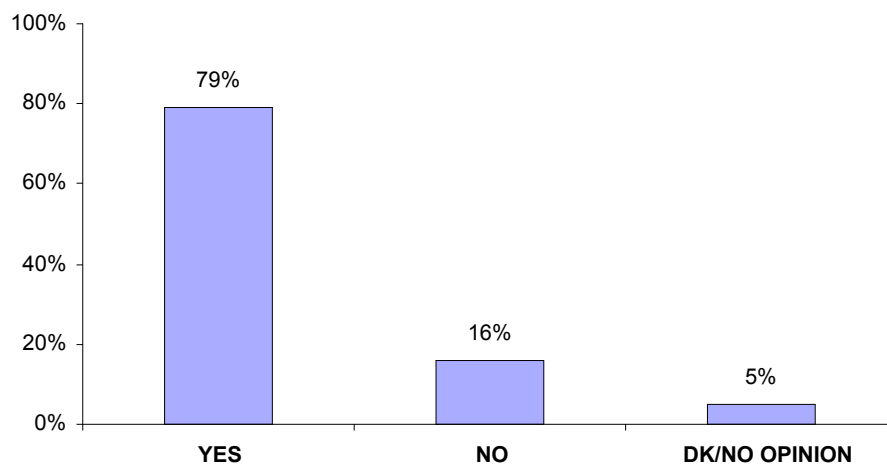
Awareness and agreement are higher in the Owner, Manager and Breeder positions.

Sales Commissions

Disclosing Commissions

Figure 3 shows how respondents feel about disclosing commissions.

Figure 3. Should bloodstock agents be required to disclose the commission rates he/she will receive to both the buyer and seller?



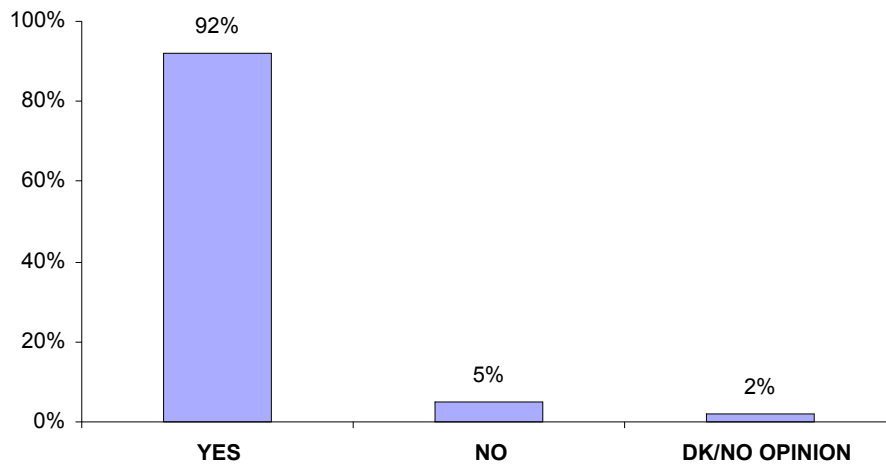
The proportion of each occupational position who said yes is:

- Owners – 77%*
- Breeders – 81%*
- Managers – 80%
- Trainer/Bloodstock Agent – 62%
- Vet – 87%
- Other – 75%

*Only the Owner and Breeder categories have enough respondents for the data to be considered reliable.

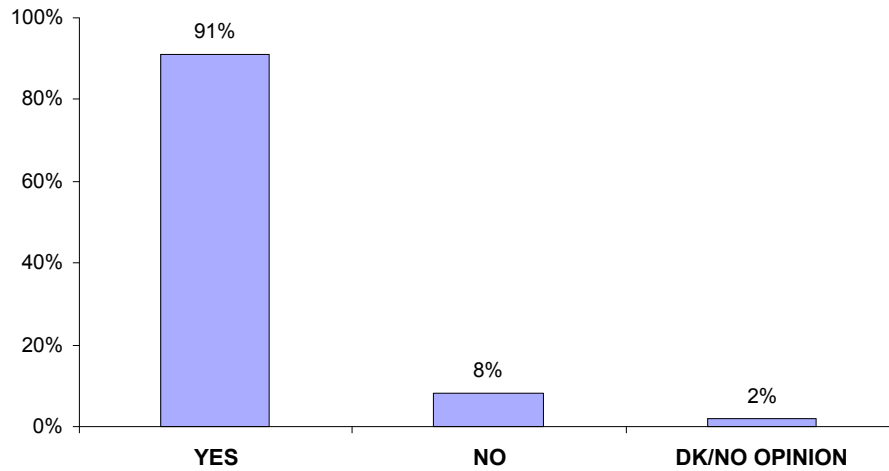
Disclosing Dual Agency

Figure 4. If a bloodstock agent is receiving a commission from both buyer and seller, should agent be required to disclose this to both buyer and seller prior to sale?



This question was also put to members another way.

Figure 5. Is it wrong for a bloodstock agent to receive a commission from both buyer and seller without disclosing dual agency?

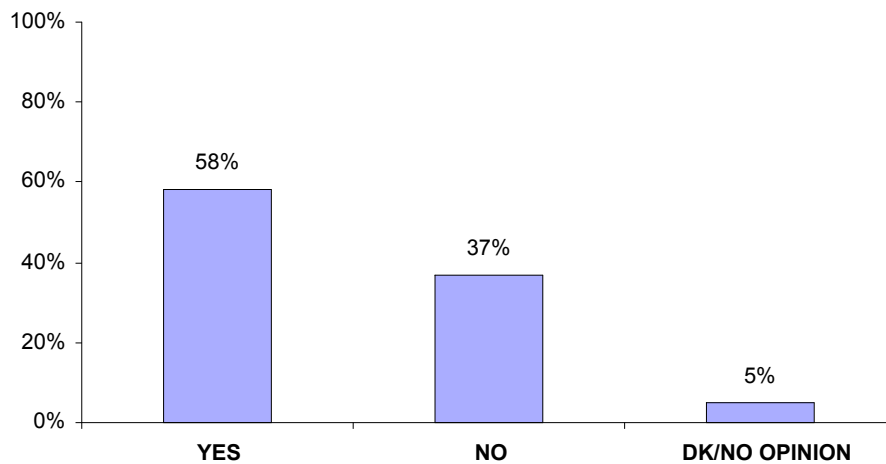


Both of these figures show that members feel pretty strongly that dual agency should be disclosed to both buyer and seller prior to a sale. Opinion is consistent across occupational categories.

Is dual agency wrong?

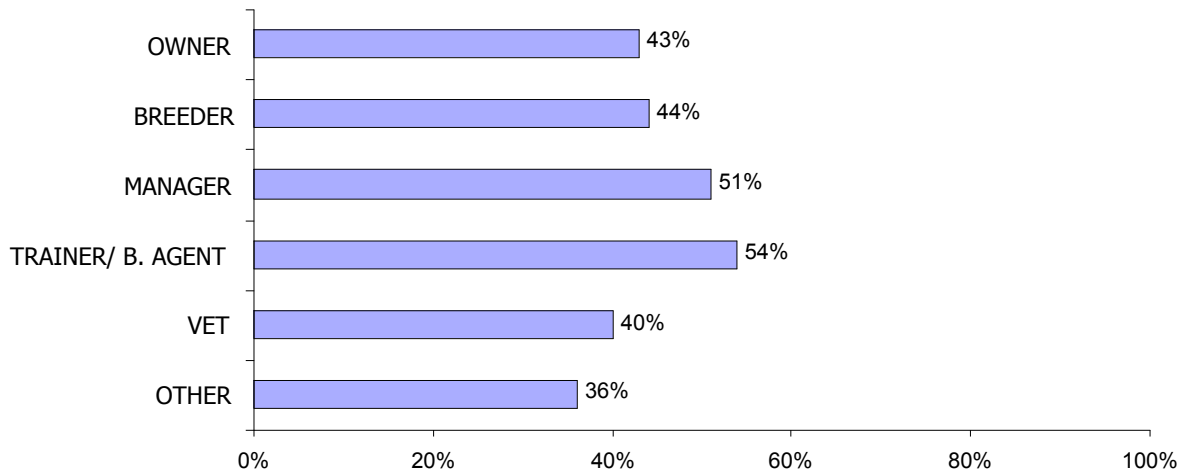
Figure 6 shows that members are not unanimous about whether dual agency is wrong or not.

Figure 6. Do you believe that dual agency is wrong?



Members were also asked if the commissions should be standardized across the industry such as real estate commissions.

Figure 7. Should the amount of bloodstock commissions be standardized as in other industries such as real estate?



Managers and Trainer/Bloodstock Agents seem to be slightly more in favor of standardizing commissions than Owners and Breeders. Keep in mind that the sample sizes are very small for these categories.

It appears that DISCLOSURE is the most important factor. Eliminating dual agency and standardizing commissions are seen by some as worthwhile, but having everything on the table disclosing dual agency and commission rates appear to be the most important issues.

Effect of Undisclosed Commissions on Purchase Price

A large majority (83%) of members believe that the payment of undisclosed commissions inflates the purchase price of certain Thoroughbred racehorses. Ten percent (10%) said No, they don't believe it does, and 7% did not have an opinion.

Role of Auction Houses

Figure 8 shows that members are of mixed opinions as to whether or not auction houses should police commission payments.

Figure 8. Should auction houses implement measures to prevent payment of undisclosed commissions?

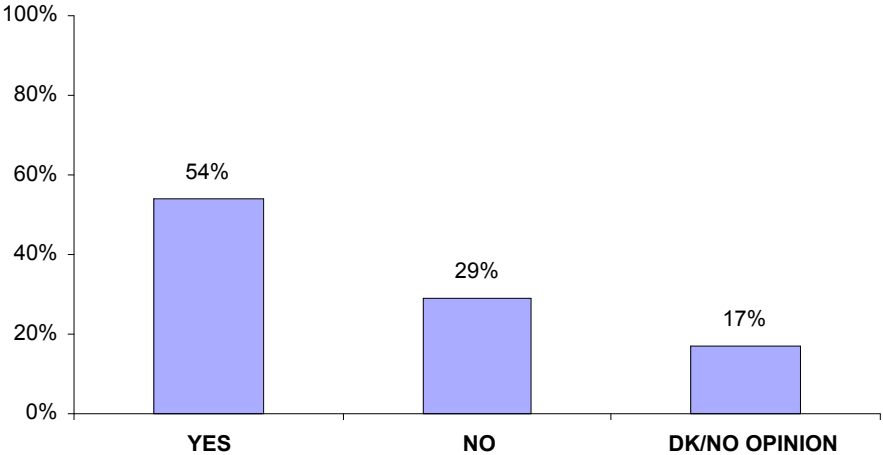


Figure 9 shows that a larger majority feels that bloodstock agents and consigners should be responsible policing themselves.

Figure 9. Should bloodstock agents and consigners have to sign written agreement to act in accordance with TOBA Code of Ethics to engage in business at major auction houses?

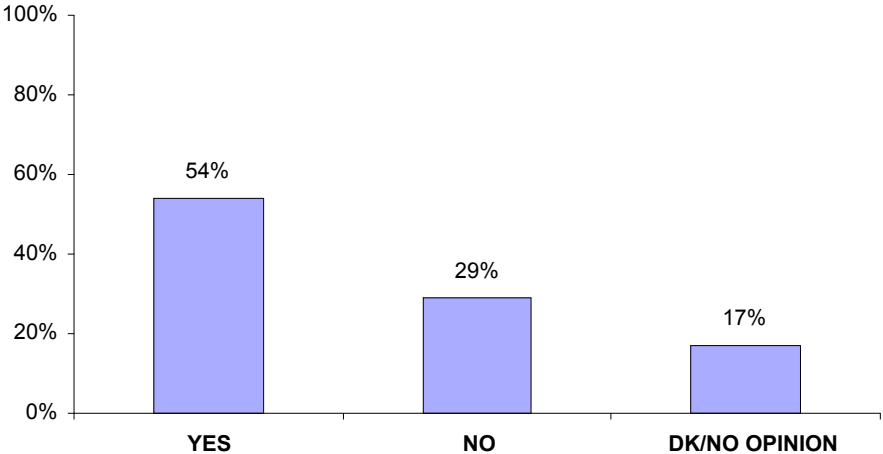
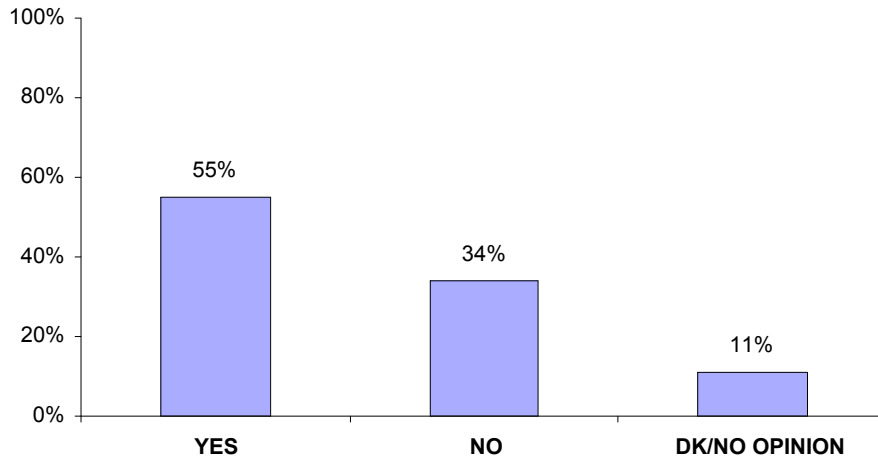


Figure 10 shows that about half of respondents think submitting an Agent Disclosure Agreement to auction houses is a good idea.

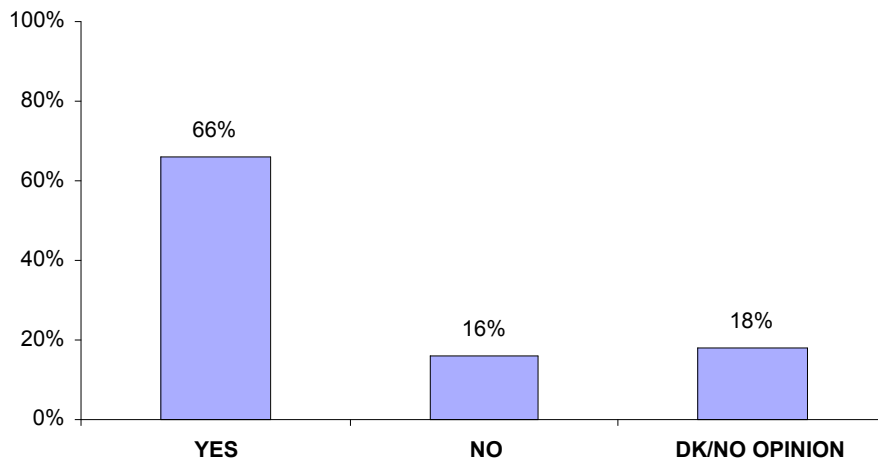
Figure 10. Should bloodstock agents and buyers be required to submit some type of Agent Disclosure Agreement to auction houses before participating in auctions?



Consequences of double sale or undisclosed commissions

A majority of members feel that there should be consequences if a bloodstock agent or consigner is caught receiving or paying an undisclosed commission or participating in a double sale.

Figure 11. If a bloodstock agent or consigner is caught receiving/paying an undisclosed commission or participating in double sale – should they be prohibited from business at major auction houses for a period of time?



This question shows a much higher proportion of members who are not sure what should be done. Almost one in five said they did not know on this question.

Finally, half of the members (50%) feel that new owners are hesitant to enter the Thoroughbred racehorse industry because of dual agency, undisclosed commissions and double sales.

Threats to Reputation of Thoroughbred Racehorse Industry

Respondents were asked what they saw as the biggest threat to the reputation of the industry. Table 1 shows the coded responses. Actual verbatim responses are under separate cover.

Table 1. Perceived Threats to the Thoroughbred Racehorse Industry

	N	Percent
• A lack of new horse owners	42	33%
• Dual Agency	13	10%
• Unenforceable TOBA Sales Integrity Guidelines	11	9%
• Combination of the three	17	13%
• None of the above-Other	16	12%
• Horse Medication Issues	9	7%
• Negative Media publicity	5	4%
• Nothing/Refused	5	4%
• Lack of New Owner Education	4	3%
• Lack of Honesty in the industry	4	3%
• Outside Gambling Forces	3	2%

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