



**Review of “Expert Report of Greg Houston” of 29 March 2016  
by Dr Lance Bell (November 2016)**

## Introduction:

Darley and Coolmore have asked me to review the 80-page report compiled by HoustonKemp Economists and to offer my honest, professional opinion as to their findings. I have been hired as an independent consultant and do not represent Darley or Coolmore and have no business dealings with either one of them. Having presented to the PAC last September at Denman Memorial Hall, I learned firsthand the importance of the government's decision and its impact on so many lives within the region. I know that the complexities and peculiarities of the horse business are rather arcane and complicated. I respect the diligence and objectivity of the committee's work as witnessed by their report issued last October. Once again, I will look to proffer expert analysis so that you may have a proper perspective and foundation upon which to base your all-important decision.

## Personal Qualifications:

My name is Dr. Lance Bell. I had established my credentials in equine advertising and international luxury brand marketing when I presented to the PAC last year. I am currently pursuing a Masters Degree at Harvard University in Nano biotechnology so as to broaden my understanding of the technology sector, another market where my company has a dominant presence. I mention this because my philosophy is to know a customer's business better than they know it themselves. My company's obligation to our customer mandates a profound and abiding understanding of their product or business so as to earnestly, honestly and effectively represent them. It is with twenty-five years of expertise, bound by the above stated philosophy that I provide my opinion and expertise. What is most relevant to an evaluation of my expertise is the following: I am an equine veterinarian who was a research associate and instructor at Cornell University's College of Veterinary Medicine. Twenty five years ago I founded the advertising agency LGB,LLC of which I am the President and CEO. We are the longest-standing and most reputable creative equine advertising agency in North America having represented the majority of the most prestigious stud farms and owners in America. Our work has appeared in Australia, New Zealand, England, Ireland, France and of course the US. Though LGB,LLC has a deep knowledge and has represented clients in the following sectors: technology, semiconductors, sports, spirits, manufacturing, real estate, art, apparel, hotels, politics, entertainment/Hollywood, medicine, etc., it is in the sector of equine marketing that I have the greatest expertise.

## Summary Review:

The HoustonKemp analysis offers a quantitative analysis that is well presented but in my opinion, however, is flawed in many of its assumptions and therefore its conclusions. I will look to provide a qualitative analysis, based on my experience, to provide relevant perspective to your evaluation. In review, the views I represented when presenting to the PAC are unchanged.

## Point 1: Background

First, I would like to point out two vitally important facts that are not evident from this report. Darley and Coolmore are not two average stud farms. There are no two players in the world like them. They are without equal. Each are powerful proprietors of global equine empires whose scale and scope is gargantuan and extends far beyond the Upper Hunter region. As such, to purport that similar players could take their place in the market is both misleading and inaccurate, with all due respect.

Another important consideration, which is not evident without an intimate knowledge of the business, is that horse-men at this level are often driven as much by passion as logic. I have witnessed it first-hand time and again being a strategic alliance partner and intimate advisor to several of the leading stud farms. There is an age-old adage, which advises the best way to make a small fortune in the horse business is to start out with a large one. This behavioral driver skews modeling, which presumes exclusively “rational economic decision-makers”.

## Point 2: Reputation and Brand

A company’s reputation and brand is its promise to its customer. Reputation builds long-term value for a company by communicating a uniquely compelling and convincing brand story that extols the experiences and attributes singular to that company. The goal is for a customer to believe that only by buying a certain brand of suit, car, wine, watch, or shoes, for example, will they attain the status, validation or pleasure perceived to be associated with a specific brand of goods. Reputation is communicated by way of a brand voice. The most reliable way to build confidence and value is through truthful and accurate messaging and marketing. Brand building is about a dialogue with a customer or consumer, which is geared toward developing a relationship. I recently heard my father-in-law, who sits on the board of Amazon, give a talk about how Amazon was first and foremost focused on developing a relationship with a customer base, long before they truly knew exactly what they were going to sell to them. The point is that the relationship with the customer, predicated on trust, is the foundation for everything. Numerous studies have shown that if consumer confidence is breached because of disingenuous or deceitful representations, it is very difficult to regain because the consumer feels betrayed and disrespected. Successful brand stories are unique and reliable representations that transparently and accurately portray a fact pattern. The car company Bentley’s brand story communicates, opulence, luxury and prestige whereas that of Volvo is safety. Effective brand stories and brand voices are not interchangeable.

The HoustonKemp report states the following:

“Stud farms are not alone in wanting to portray a good image of themselves through the physical beauty of their premises. It is common in many customer-facing industries – from vineyards to retailers, shops and restaurants – for companies to manage their image and present their business in the best possible way, to customers and potential investors.”

A restaurant can show crisply-ironed cloth napkins, neatly folded on a well arranged table with chairs purposefully arranged around a table with an inviting basket of fresh baked bread which communicates: ‘the kitchen is clean, the food is fresh, come with your friends and break bread with us for a very special meal’. Likewise, a luxury hotel with its manicured gardens inviting you visually to the lobby promise nothing more than a wonderful stay with your family, friend or significant other. A high end golf course with a tree-lined drive to the clubhouse in its marketing with lush green Photo shopped grass and a soft focus sprinkler in the distance promises nothing more than a great round of golf where you can connect with your friends.

The brand promise and reputation of a horse farm is completely different than what is portrayed in numerous references in this report.

Before differentiating and clarifying the unique brand promise of a world class horse farm from other luxury categories, I would like to offer some background and establish some fact patterns to put certain aspects of the horse business into proper focus. Take Coolmore for example. When they are looking at a valuable stallion prospect, the majority of the time, they are able to put the largest offer on the table to obtain that prospect because of their ability to predictably rely on both Northern and Southern Hemisphere stud fees. Because they are so deeply vested in the areas of the world where they do business, they are able to more reliably control their fate. The way to maximize a stallion's chances of being successful starts by attracting the best mares genetically and commercially to their stallion. This happens by way of the quality of the stallion himself along with the quality of Coolmore's reputation. Top breeders know that Coolmore will year-in and year-out be bringing in the best international bloodlines available anywhere in the world. In fact, it was Coolmore who acquired Danehill upon retirement from racing in Europe, (from LGB, LLC's client Juddmonte whom we've represented for 25 years), and brought him to Australia, first in partnership with Arrowfield, then as sole owner. Danehill turned out to be a 9-time Champion sire in Australia. He is a testament to the unique value Coolmore brings to the gene pool in Australia and to breeders in the Hunter Valley. Without Coolmore, there is no Danehill. Without Danehill, there is no Redoute's Choice, a sire fast forming a worldwide following and a dynasty of his own. It is access to breed-shaping blood, which is the hallmark of Coolmore worldwide that encourages leading breeders to maintain a relationship with them.

The next part of the equation is raising foals by their stallions. Coolmore has an established protocol for raising the progeny of their stallions. Thus, they are not only breeding to client's mares, but by boarding and raising the progeny of their stallions, Coolmore is able to maximize the chances that their stallions can succeed. By controlling more elements in the equation, they control more of their own fate; the equation is predictable and repeatable. The raising of foals on a stud farm for clients is not unique to Coolmore. Many of the farms we represent in the US will board their client's best mares and raise the foals. It is a win-win scenario because everyone is looking in the same direction and it is clearly in the stud farm's interest to raise the best foal imaginable so as to afford their stallion the greatest chance for success.

### Point 3: The Crux of the Issue - The Brand Promise of a World Class stud farm

It is well known that the thoroughbred horse business is a high-risk venture that is very capital intensive and not for the faint of heart. This is no secret.

The HoustonKemp report states:

**“In economic terms, the demand for the services provided by an individual stallion is derived from the demand to race thoroughbreds”**

That statement should read 'derived from the demand to race winning and profitable thoroughbreds.' This is the actual hope of any breeder that pays a stallion service fee and raises a thoroughbred foal. A breeder is often times not a realist who realizes that in the majority of cases, the deck may be stacked against them. Therefore, he or she will align themselves with the farm standing the stallions with the track record and reputation for maximizing their chances for producing a profitable race or sale horse. This is what differentiates the brand story of a horse farm from a golf course or a hotel. It is not about idyllic pretty pictures suggesting a nice round of golf or a pleasant night's stay; there are not tens to hundreds of thousands of dollars on the line with those brand promises. There is, however, with a Darley or a Coolmore. A world-class horse farm's marketing paints the perception of a path to profitability and success by virtue of extolling a way of doing business, a promise. The more reliable, truthful and appealing that promise, the greater value of reputation.

As I stated to the PAC, the brand experience begins with the first board at the outermost confines of the farm. How the fence boards are seated on the post and the condition of the paint job offers the opening salvo to the brand experience. A world class operation like a Darley and a Coolmore are setting the table of expectations geared to reassuring the customer that no expense is being spared toward the singular goal of raising you, their customer, a profitable horse. Market research has proven the importance of impressions to a customer.

When building the theme park Dollywood (created by country music star Dolly Parton) a research team surveyed mothers at various theme parks around the US and asked them what the most important thing that influenced their decision when they visited a theme park with their children. The answer was: how the flowerbeds were maintained at the entry to the park. The belief was that if the flowerbeds at the entrance were not meticulously maintained, neither were the theme park rides. The brand story of a Coolmore portrays immaculate attention to detail. The length of the grass, the paint job on the boards, the marble floors in the office, the bronze statues of famous stallions from the farm, the age of the trucks, the quality of the hay, the height of the manure pile, the condition of the asphalt roads, the hair coat of the horses, how much heel has been trimmed on the foals, how muddy are the fields, are the young horses restless, is the staff courteous, was there a guard in the shack, how well behaved are the stallions with the handlers, are the halters sitting properly on the mares, are the lead shanks at the stud barn new? The customer is sizing up every element of the operation and asking himself: What are the chances I will be successful here? The brand promise communicates with clarity and sincerity, 'we have thought of everything and are providing the best of everything, from the stallions to the land to the environment so as to enhance and maximize your chances of raising a profitable and successful horse with us'.

That is the promise. Introduce the visual insult of an open cut coal mine within eyeshot or earshot or within range so as to hear or smell the blasting of coal then the entire promise becomes a lie.

If you reference my previous submission to the PAC, I had googled at google.com.au and had found over 500 articles to the search query: "Is it safe to live next to a coal mine" over 90 percent of the articles said that it was not.

Coolmore conducted an anonymous survey of 1809 customers asking the following question: Is it acceptable to put a coal mine 900 m from a stud farm. With 455 responses within 48 hours, the survey revealed that 96% of those who responded indicated unequivocally that it was not.

**Here is the problem.** The perception of 96% of respondents of Coolmore's customers to a survey, independent of any scientific data, perceived it was not safe to raise a foal near a coal mine. Their customers' perception is their customers' reality, which is in turn Coolmore's problem. And their fears are not irrational. It is a known fact that defects of wind can render an expensive racehorse useless. At maximal exercise, at racing speed, horses breathe 160 to 180 times a minute. That's three breaths a second during a race. Oddly enough, the sensitivity of a racehorse exposed to an insult to its respiratory tree, (because of their need to perform at racing speeds which mandates that they breathe as many times as they stride), is of greater functional significance compared to a human because of the demand put on the thoroughbred racehorse at racing speeds. It is not irrational for a breeder to question whether continued exposure to a growing foal could insult the lungs, trachea or throat and compromise that individual's performance and therefore potential profitability as an adult. This perception could logically cause a Coolmore or Darley customer to ask themselves if they should take that risk when if they go elsewhere the threat would not exist. I had mentioned in my previous presentation the power of social media. The US election revealed that the social media platform Facebook had more fake news on it than real. One can only imagine if someone posted videos of foals coughing at Coolmore with the Facebook post or tweet: 'I never remembered this many foals coughing before. Is it the coal or just a cold? We may never know.' This is not a far-fetched scenario; it is a true threat to two extremely valuable anchor tenants to the Upper Hunter Region.

**"The environmental impact of the Drayton South mine in the Upper Hunter as a whole is not expected to be substantial"**

**The report itself in its own words admits that there will be an environmental impact, which is not unquantifiable.**

One other observation:

The Report states on page 26:

“The Upper Hunter will be essentially unchanged if the Drayton South mine goes ahead. The equine CIC has an area of 254,900 hectares (118) and the mine will not be on any of this land. If Coolmore and Darley Woodlands are taken to be affected by the mine, this would amount to 6,230 hectares or 2.4 per cent of the total area of the equine CIC. (119)” Further: “If Coolmore moved, it would not impact the equine critical industry cluster CIC”

The PAC on the other hand concluded:

“...does not just threaten the viability of two neighbouring horse studs, but by virtue of the significance of those studs, it places the wider Equine Critical Industry Cluster under threat.”

I clearly concur with the PAC’s conclusion. What is not stated in the HoustonKemp report’s quantitative analysis is that 40% of the mares covered in the Upper Hunter Valley come from the “2.4 per cent of the total area of the equine CIC.(119)”

What is also not stated is the obvious conclusion that if the investment made by Coolmore and Darley on that 2.4 per cent of land in the cluster relocates out of the Hunter Valley, then so does 40% of the breeding activity in the cluster, as stated. If Darley and Coolmore were to relocate to Victoria or elsewhere, I can assure you that with the extreme quality of stallions they stand, the mares would likely follow them to wherever they go. An interesting fact that you should know is that the most valuable stallion of all time was the stallion Northern Dancer who had perhaps the most far-reaching influence in modern time. At the height of the market he commanded a \$1 million US stud fee. Northern Dancer did not stand in Kentucky, he stood in Maryland, a 16 hour van ride from Kentucky, yet the best mares in the breed made the trip to Maryland to be serviced by this legend of the breed.

What you do know is that the largest and most powerful two stud farms in the world currently located in NSW account for 36% of the covers in the Hunter Valley. What you don’t know, regardless of any report, is whether they would relocate or not. Looking at the risk/reward of your decision, I suggest there are too many unknowns and too many hypothetical analyses that could forever unfavorably reshape the landscape of one of the most picturesque regions of horse country in the world that I have ever visited.

I wholeheartedly believe in the conclusions I have expounded which are based on 40 years of experience in the marketing business. I assert that all of my conclusions are based on my knowledge and understanding of the issues having visited the region last year. I hope this report will be deemed helpful as you derive your conclusions.

