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Likelihood and effect of Darley/Coolmore leaving the Upper Hunter

Presentation to the Planning Assessment
Commission public meeting

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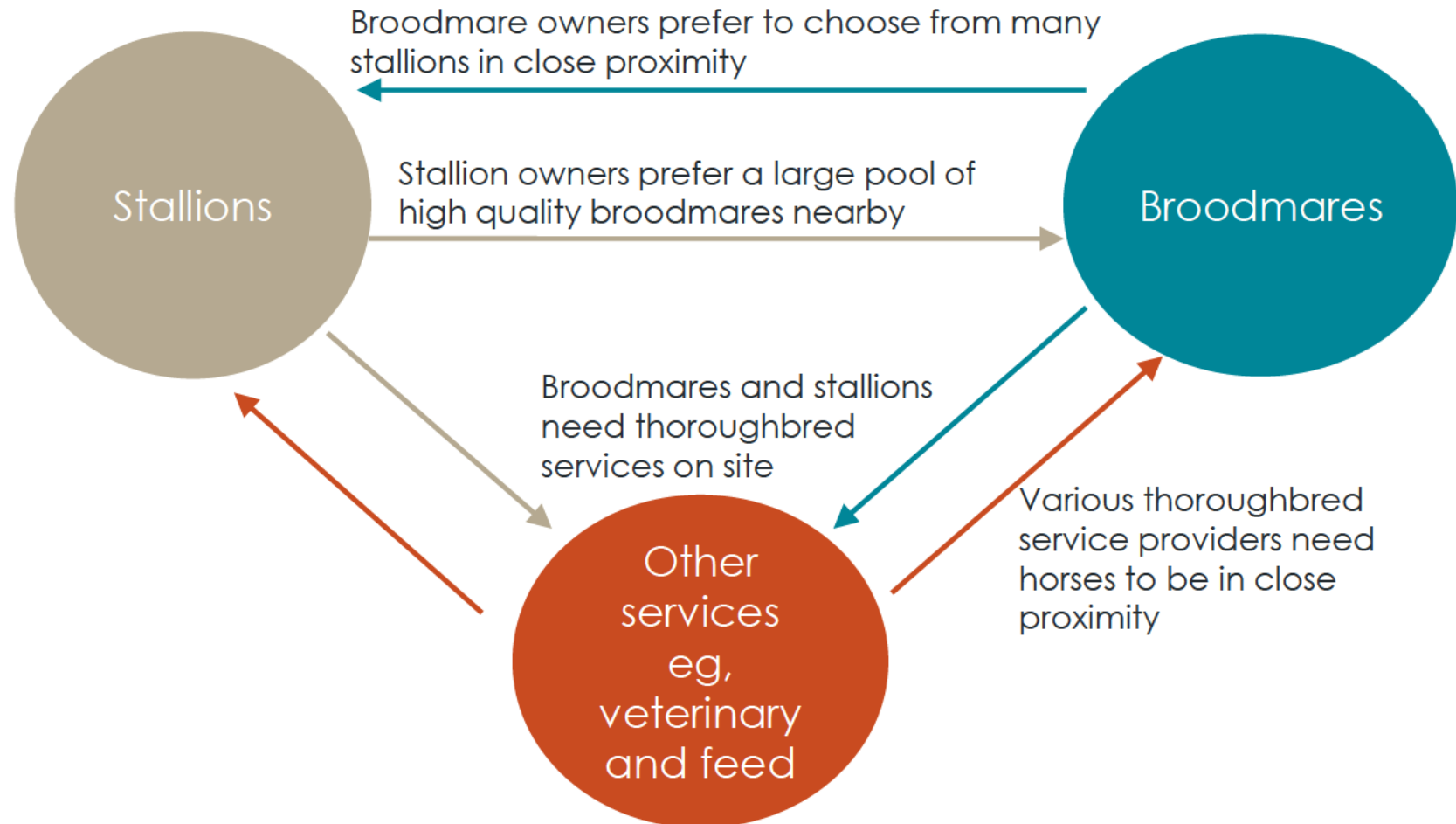
Purpose of report

- Anglo asked me to evaluate
 - › the likelihood that either Darley or Coolmore would leave the Upper Hunter if the Drayton South mine proceeds
 - › the economic impact on the equine critical industry cluster (CIC) in the Upper Hunter if either or both of Darley and Coolmore were to leave

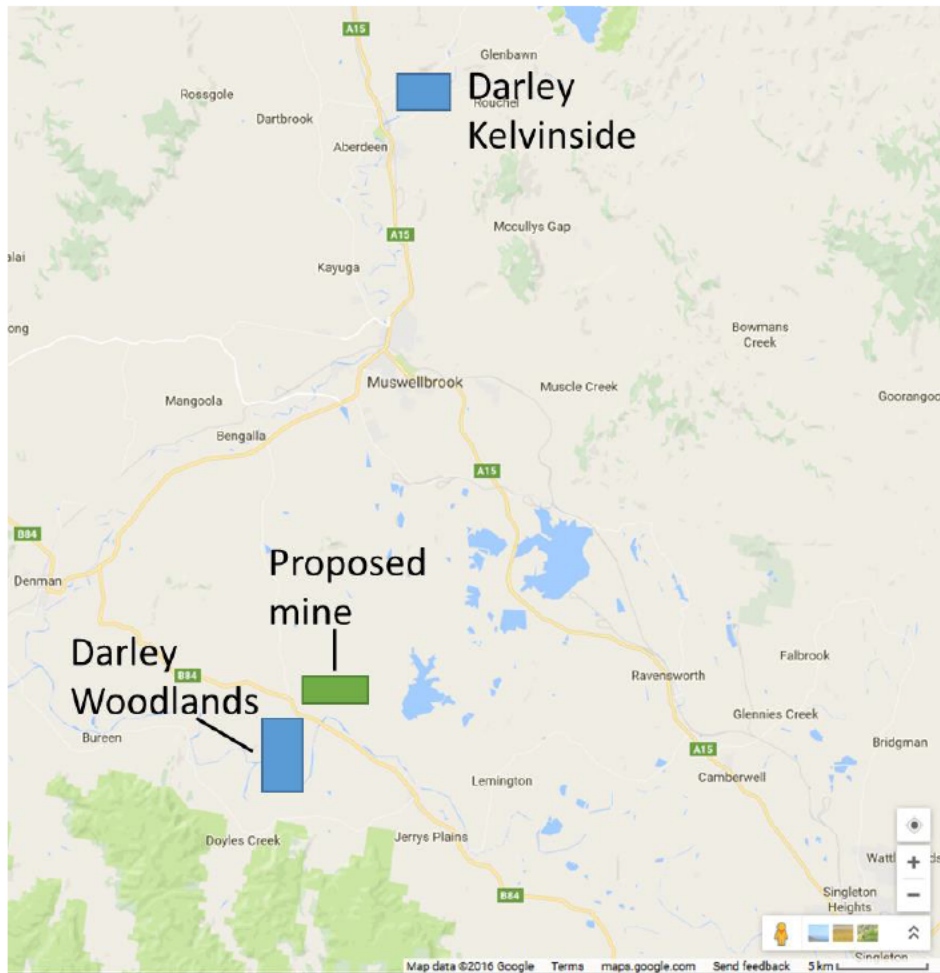
Summary of findings

- Application of economic principles in combination with analysis of industry data show that
 - › it is not in either Coolmore or Darley's interest to leave the Upper Hunter
 - › the CIC would continue to be successful without either or both of Coolmore and Darley

Broodmares, stallions and other services all benefit from co-location



Not in Darley's interests to leave the Upper Hunter



- Darley breeds and races its own horses
 - Woodlands holds around 250 of Darley's mares
 - stallion services provided at Kelvinside
- Kelvinside, Woodlands integrated operations
 - perceptions of Kelvinside – source of outside stallion fees – unaffected by Woodlands' location
 - preferable to move Woodlands *within* the Upper Hunter

Not in Coolmore's interests to leave the Upper Hunter



- Coolmore is a breeding business offering
 - stallion owners the ability to stand stallions
 - broodmare owners the ability to have their horses covered
- Relocating Coolmore risks revenue sourced from owners with broodmares located at 150 nearby farms
 - next largest industry cluster (Goulburn) is ~10 per cent (by value) of existing Upper Hunter market

But, what if the Studs did leave the CIC?

- Upper Hunter would remain by far the largest thoroughbred breeding location in Australasia
 - › No other location (Goulburn, Waikato) has sufficient broodmares to represent anywhere near the same revenue earning potential
- Covers presently provided by Coolmore/Darley could easily be replaced by
 - › Shuttle stallions – already serve 23 per cent of market
 - › Increased covers by other stallions at other studs
- Vacated properties a highly attractive base for new entry
- In reviewing Darley's 2008 acquisition of Woodlands, the ACCC found that
 - 'Barriers to entry into the national market for breeding of thoroughbred horses appear to be relatively low.'*

Response of the Studs

- Studs' comments do not change my findings
 - › Many observations not relevant to the analysis in my report
- Contentions of potential relevance to my analysis
 - › 'Broodmares follow stallions'
 - › 'Spare stallions do not exist'
 - › 'Victorian stud market would be bigger than NSW'
- Short form responses to studs' contentions
 - › 150 broodmare farms less able to relocate than 15-20 studs
 - › Shuttle stallions performed 23 per cent of covers in 2014/15
 - › Victoria (23m ha) is >90 times larger area than Upper Hunter CIC (250k ha), and so does not have benefits of colocation

Professor Bennett's reviews confirm my findings

- Review of Houston report

- › Existing agglomeration of broodmare farms will continue to attract stallion owners
- › Expansion and entry of stallions likely if Studs left

'Benefits of agglomeration and forces of competition are too strong to see the CIC disbanded, with or without the studs'

- Professor Bennet rejects the Studs' contentions that

- › broodmares will follow the stallions (to Victoria)
- › there are no substitutes for Coolmore and Darley stallions

'The [Houston] Report does not go far enough in recognising the competitive potential in the stallion services supply and the prospect of substitution in the segment of the market currently occupied by the Studs'



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