



INVESTIGATION INTO THE PROFITABILITY OF HORSES SOLD AT THE **MAGIC MILLIONS YEARLING SALES**

2022 // REPORT BY COALITION FOR THE PROTECTION OF RACEHORSES

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Introduction

Horse racing has been part of Australian culture for 250 years. In its modern form, horse racing only exists because of gambling. More than \$29 billion is gambled on horse racing in Australia every year (*Australian Racing Fact Book 20-21*). Aside from the gambling, many people see buying a racehorse as an investment that will hopefully yield a profit. But is that actually the case? This study aims to determine the facts around the profitability of owning a racehorse based on a sample of 1086 horses from the 2015 foal cohort. The study questions the integrity of an industry that not only exploits horses for financial gain, but also uses dubious marketing strategies to entice people into investing in a racehorse with the aspirations of making a profit.

Objective of this study

To ascertain the profitability of investing in a racehorse in Australia.

If an investor were to invest in shares or property, the most they would lose is the capital. However, investing in a racehorse costs a lot more than the initial outlay. Even if you bought one of the very rare, valuable outliers, this does not by any means guarantee success. Further, the returns from investing in racehorses aren't normally distributed like most other asset classes. This probabilities game is, of course, driving the economics of the racing industry.

This report has been produced in the interests of transparency and fairness. Investors have the right to be informed of the financial risks of racehorse ownership, and to make an informed choice about their financial outlay and risks. The following is a short discourse, which has been limited to comments on some key statistics about Magic Millions racehorse sales and resulting losses or profit.

Method

The sample

The study sample comprises all the horses that were listed for auction at the 2017 Magic Millions yearling sales on January 11-17, 2017. This sale was selected because it is considered the most prestigious in Australia and the horses sold at this auction are amongst the best-bred horses in the country. The horses are also all of the same age being yearlings from the 2015 foal cohort (one year old) and had not previously raced. Horses typically start racing as two-year-olds.

Another reason for choosing the 2017 sale, was because at the time of collecting and analyzing the data, all the horses were seven years old and most of them had retired, or at the least, were at the very end of their time being used in racing when they are unlikely to win any additional prize money.

The catalogue listed 1,086 horses for sale. This represents 8.5% of the 12,844 foal cohort for 2015. (*Racing Australia Fact Book 2021*, Table 47). Of these, 107 were removed from the sample because they had been exported overseas, without having raced in Australia. The reason for their exclusion is because of the difficulty in ascertaining data from other countries. This left a final sample of 979 horses for analysis.

Data collection

Identification of the sample was based on the online catalogue of the Magic Millions, 2017 Gold Coast sale. The list of horses, and their details were sought using industry websites. Details were: purchase price, date of birth, breeding pedigree, number of races, period in racing, prize money earned and current status. Data were collected from each horse up to September of 2022.

2017 Gold Coast Yearling Sale

<https://catalogue.magicmillions.com.au/sale/17GPR>

Ascertaining the profitability of each racehorse

Information about the income and costs to purchase and maintain a racing horse were obtained from industry websites, and advice from people working in the racing industry. In order to ascertain the profitability of each racehorse the following calculation was made:

Income

Prize money earned

Price for horses sold for breeding at the end of racing

Less expenses:

- Initial purchase price
- 10% trainers' commission on prize money
- 5% jockeys' commission on prize money
- \$15,000 one-off cost to prepare a horse for racing in his/her first race, including all costs from when he/she is bought from the sales.
- An annual cost to train and maintain a horse in racing (\$45,000 per year). This cost was applied pro rata to each horse for each year, from the date of the horse's first race to the date of their last race.

Notes:

- *The buying and selling cost of horses while racing was not considered because it did not affect the profitability of the horse. The purchase price and selling price cancel themselves out.*
- *No allowance was made for any out of the ordinary vet treatments.*
- *Horses who were passed in and not sold were given the value of the sire's stud fee for 2014 (the year the mare was mated with the stallion) as that is the minimum cost that would be incurred by the owner of the mare*
- *Stud fees were ascertained from racing industry websites. Conservative estimates were made when this was not possible.*

Annual estimated cost to keep a horse in training for racing (\$45,000)

Nine different racing industry sources were found that advertised as part of their advertisement to sell shares in their horse, the annual cost to maintain the racehorse payable by the owner or owners in installments. These are costs owners are compelled to pay.

The median of the nine results was \$51,720

The mean (average) was \$57,514.

Further reducing this amount by 20% to be conservative \$46,011.00

The number was further rounded down to \$45,000.

Through consultation with several anonymous racing industry sources, \$45,000 was adopted as a conservative estimate of annual maintenance costs. This does not include any out of the ordinary vet costs, surgery and other procedures, medications and transport. It is worth noting that due to the high risk of injuries as a result of the high frequency and intensity of racing, vet costs would be significant, in some cases costing tens of thousands of dollars.

Results

The sample horses

1,086 horses were registered for sale at the Gold Coast Magic Millions Yearling Sale in 2017. Of these 107 horses were exported from Australia without having raced. The current status of the 979 horses is shown in Table 1 below. It should be noted that eighty-nine horses have not raced since 1 January 2022, but of these, twenty-nine are recorded as Active, nineteen Spelling and forty-one Transferred. A further forty-six horses have not raced since January 2021 (almost two years), yet six are recorded as Active, with six Spelling and thirty-four Transferred.

Table 1 Status of horses in the sample

	No. of horses	%
Recorded as exited racing		
Retired	293	29.93
Breeder	259	26.46
Deceased	91	9.30
Exported	52	5.31
Pending	4	0.41
Not registered	24	2.45
	723	73.85
Recorded as active		
Active	167	17.06
Transferred	55	5.62
Spelling	34	3.47
	256	26.15
TOTAL	979	100%

Of the 979 horses who made up the study group, 110 horses didn't race at all.
That is 11.24%

Profitability

Of the 979 horses, 92% were unprofitable. The breakup of these losses, and the smaller number of horses (7.97%) who made a profit, are detailed in Table 2, and illustrated in graphic form in Figure 1.

Table 2 Profitability of racehorses

	No. of horses	%
Loss		
\$500,000+	38	3.88%
\$300,000-\$499,999	112	11.44%
\$100,000-\$299,999	512	52.30%
\$75,000-\$99,999	87	8.89%
\$50,000-\$74,999	68	6.95%
\$25,000-\$49,999	64	6.54%
0-\$24,999	20	2.04%
Sub total	901	92.04%
Profit		
1-\$24,999	6	0.61%
\$25,000-\$49,999	10	1.02%
\$50,000-\$74,999	11	1.12%
\$75,000-\$99,999	5	0.51%
\$100,000-\$299,999	25	2.55%
\$300,000-\$499,999	7	0.72%
\$500,000+	14	1.43%
Sub total	78	7.96%
TOTAL	979	100%

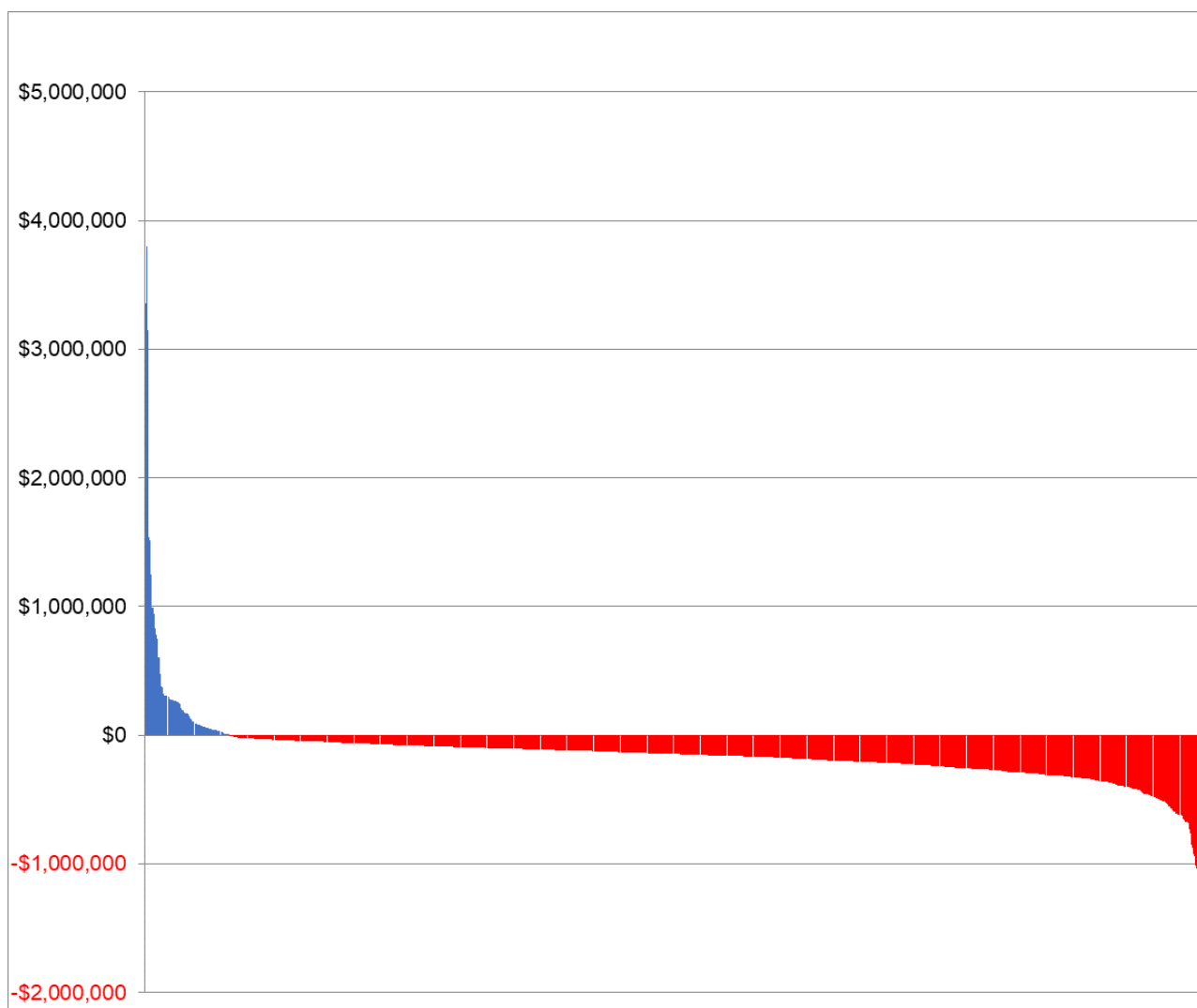


Figure 1 Profitability of 979 horses in this study
(92% of horses made a loss shown in red, 8% made a profit, as shown in blue)

Deceased horses for sale at auction

The data collected from the racing industry websites was mostly consistent. However, there were nine horses listed in this sale as yearlings, who were deceased shortly after birth, according to the Australian Stud Book. This suggests potential fraudulent behaviour in record keeping by the industry.

Horses exported - never raced in Australia

107 horses of the 1,086 (9.9%), were exported.

Despite the very poor outcomes for racehorses after racing in Australia, anecdotal evidence of the treatment of animals in other countries where racehorses are exported to is even worse. The Australian racing authority does not have any control over horse welfare once they are exported overseas. Therefore, all exporting of racehorses should be banned.

Comparison of profitability with highest and lowest sales prices

Table 3 Top ten sales prices from 2017 Gold Coast Magic Millions Yearling Sales

Lot	Horse	Purchase price	Prize money	Estimated Profit/loss	Status
339	Mayback	\$1,300,000	\$105,775	-\$1,343,961	Retired
651	Tchalkovsky	\$1,300,000	\$109,555	-\$343,912	Retired
765	Angel	\$1,200,000	\$47,357	-\$1,217,926	Deceased
409	Adana	\$1,100,000	\$355,430	-\$941,907	Retired
419	Unnamed	\$1,000,000	\$0	-\$1,015,000	Did not race
549*	Stratosphere	\$925,000	\$28,200	-\$592,817	Breeder
232	Nordicus	\$900,000	\$154,240	-\$924,273	Retired
607	Still Invincible	\$900,000	\$41,750	-\$1,032,905	Retired
583**	Set Goals	\$850,000	\$8,050	-\$614,888	Breeder
348	Munich	\$750,000	\$86,565	-\$853,804	Retired
Total		\$10,225,000	\$936,922	\$8,881,393	

*Stratosphere is a breeding stallion. As a result, his losses have been reduced by stud fees

**Set Goals was sold as a breeding mare for \$321,000. This has been taken into account.

Of the top ten sales, none of the horses made a profit. In fact, all made considerable losses. If there is possibly one exception, it is the stallion Stratosphere who has become a breeding stallion and has produced

eighty-five foals to date. His losses have reduced significantly but are still a loss at the time of writing.

In summary, over \$10.2M was spent on purchasing the top ten horses. The total prize money earned was \$936,922 - barely enough to cover the cost just for the purchase price for one of the cheaper horses from the top ten lots.

Total combined purchase price was almost eleven times the prize money earned.

Furthermore, of the top fifty lots sold, only two horses yielded a profit with a combined amount of less than \$240,000. The overall loss from these fifty lots is in excess of \$30M.

Although a high price for a racehorse can be seen as an indicator of superior breeding and subsequent racing ability, the real problem for owners is that there is very little time in which to recover this large capital cost. Horses typically begin racing at two or three years of age and exit from racing at five or six, thus having a racing span of two to four years. Given the high maintenance costs that must also be recovered, it is only in rare cases that a profitable outcome is possible.

Table 4 shows that none of the ten lowest sales price horses made a profit either, including those who are still Active. There is no correlation between the initial purchase price of a horse and the likelihood of making a profit, other than, the higher the initial purchase price is the more the owner is likely to lose.

Table 4 Lowest ten sales prices from 2017 Gold Coast Magic Millions Yearling Sales

Lot	Horse	Purchase price	Prize money	Estimated profit/loss	Status
1031	Western Beat	\$500	\$0	-\$18,663	Retired
1054	Unnamed	\$500	\$0	-\$15,500	Did not race
1065	Scaramouche	\$1,000	\$39,625	-\$86,932	Active
1075	Freeze de Beers	\$1,500	\$6,600	-\$60,277	Retired
1085	Arabian drum	\$1,500	\$0	-\$16,622	Retired
1038	Happy Birthday Dad	\$2,000	\$9,800	-\$55,625	Retired
1046	Monaco Deluxe	\$2,000	\$32,920	-\$61,396	Active
1067	Zarafet	\$2,000	\$20,200	-\$79,993	Retired
1086	Seventy Below	\$2,000	\$15,350	-\$100,173	Active
1041	Tinder	\$2,500	\$73,475	-\$147,365	Active
TOTAL		\$15,500	\$197,970	-\$642,546	

Life after racing and who pays

The question that also needs to be asked is what happens to the horses once they finish racing and what are the costs involved. Keeping any horse, let alone a racehorse, can cost upwards of \$5,000 per annum.

Racehorses, in particular, are likely to have sustained injuries as a result of racing and this is the most likely reason why they have been retired. The care required can be extremely costly - a cost most owners are not willing to pay.

A horse's lifespan can be thirty plus years. If owners were made to look after their horses their entire lives, this would add at least \$100,000 to their expenses.

While some will argue that it is common for mares to go into the breeding cycle, every year for the last ten years the number of breeding mares has been in steady decline from 27,063 in 2010-11 to 19,008 in 2019-20 (*Australian Racing Fact Book* Table 21). This means that for every mare that goes into breeding, at least one is exiting breeding. With an estimated 3,000 mares going into breeding each year, at least 3,000 are exiting breeding with very little hope of

being re-homed. The racing industry keeps no records of mares exiting breeding.

If the racing industry is to maintain its social license, every owner must be obliged to ensure the proper care that is required for their horses their entire lives regardless of the cost.

Conclusion

Despite the racing industry's promotion of buying a racehorse to make money, the results from this study suggest the opposite to be the case. Even the name of the particular sale being studied, 'The Magic Millions' suggests that investing in a racehorse is extremely lucrative, yet less than 8% of horses actually made a profit.

Disclaimer

To ensure the integrity of this data, all costs and expenses have been very conservatively valued. The true cost of risks associated with racehorse ownership is likely to be much higher than in this report.

Conflict of Interest

This report has been produced by the Coalition for the Protection of Racehorses. We hereby declare that we, as an organisation, are fundamentally opposed to the treatment of horses in the racing industry and are actively campaigning on the horses' behalf. This report serves to educate potential investors on the very real risk of financial losses that can be incurred when investing in a racehorse.