



Randwick Bloodstock's Fillies and Mares For Sale

Dear Melissa,

If you breed to sell there's a 99.9% chance you're making less money at present than you were three years ago. This has come about primarily because of the drop off in demand for bloodstock caused by the GFC. There are also other underlying factors which are contributing to reduced profitability.

There are two types of broodmare owners in Australia. Type 1 – those who must make money from the industry to survive in it and Type 2 – those who don't. Type 2's are commonly referred to as the "hobby breeder". The hobby breeder may try to make money from the industry, however, they have an alternative source of revenue or savings in order to subsidise any losses.

If all breeders in the industry were Type 1's, the stallion service fee scenario would be very different from what we have at present. By my calculations fees would be roughly 50% lower. Start at \$62,500 for REDOUTE'S CHOICE and work down.

Recent research has shown broodmare owners (Type 1 and Type 2) who have sold yearlings this year have achieved an average return of fifty-three cents for every dollar spent on producing their yearling for sale – that's not including their original capital outlay for the broodmare! If you've been able to break even this year at the yearling sales, you have outperformed the average breeder by 200%.

If the market continues to evolve in a similar fashion as to what we've seen over the past twenty-five years, we will see a continuing decline in the ratio of Type 1's to Type 2's. The day may actually arrive when the Type 1 breeder no longer exists. Owning a broodmare will be on a par to owning a racehorse. The only way to make a profit is through good luck, not good management.

Can the Type 1 breeder rise again? This is a possibility if:

- (1) There is an increase in demand for yearlings. If China were to one day ramp up their horse racing we could see a major rise in demand for our horses. Also with some clever marketing perhaps the domestic and other existing international markets could be resurrected.
- (2) Production costs were reduced. It is difficult to imagine costs such as wages being lowered. The most obvious cost that could be reduced is stallion service fees.

I am not so sure stallion masters are actually deserved of the criticism heading in their direction at present. If they set a price on their stallions and there are people who are prepared to pay it, what is it that they are doing wrong? A stallion master is running a business and their aim is to make as much profit as they can. They are not holding a gun to a breeder's head and forcing them to pay a \$10,000, \$20,000 or \$50,000 service fee. If they set their fees too high or stand a horse the breeders don't like, the breeders go elsewhere. They are at the mercy of the market place, just like the broodmare owners. Since the mid to late '80's, relatively speaking we have actually seen more stallion masters struggle to survive in the business than broodmare owners. Stallion numbers are down just over 80% from 3,926 (1986) to 700 (estimate 2011), while the numbers of broodmares covered is down 40% from 40,000 (1988) to 24,000 (estimate 2011).

To a large extent the problem of lower profitability for all broodmare owners has been caused by the Type 2's being prepared to prop up their hobby with funds derived from elsewhere. If the Type 1's were somehow able to educate or convince the Type 2's to operate their breeding enterprise purely along business lines, then I absolutely guarantee you will see service fees lowered to levels not seen for many a year.

What happens to stallion service fees from here on in will be driven by one thing only – the market place. There is a proviso to this – without the rise of "hobby stallion owners".

Breeding & Racing Magazine's upcoming September edition will be publishing a cross-section of opinions from industry stakeholders in respect of what they are calling "The Great Stud Fee Debate." I for one will be very interested to read this article to find out what others have to say on the subject.

For those of you still doing some last minute shopping for a mare, please have a look through our listings below. I assume a number of you will be making your way to the Hunter Valley next week to attend the various stallion parades. Just over half our current listings are located in the Hunter, so if there was anything on the list that is of interest and you are in the area, you will be able to kill two birds with one stone.

Like many I look forward to viewing an exceptional line up of stallion flesh over the next week or so.

Until next time

Best Regards

Brett Howard

P.S. We also have a number of stallion nominations left to place on behalf of shareholders and breeding rights holders. Each vendor is open to an offer. Why not test them with a figure. You could be pleasantly surprised with the outcome!