



# op/ed

by rob whiteley

## A WORLD WITHIN A WORLD WITHIN A WORLD

The Keeneland September sale is now in the record books and the dust is settling. How it went pretty much depends on who you talk to and their particular reality and agenda or intention to spin.

An industry magazine cover proclaimed that it was “Rock Steady,” whatever that means. With fewer horses on offer as a result of industry contraction, the supply and demand ratio was improved and one sale company spokesman said, “The feel of the sale is much better than last year.” Another one said, “It was an extraordinary sale.” A major consignor was quoted as saying, “There is plenty of money for the horses that buyers line up on, and for the others it’s a struggle.” One buyer said, “It’s been tough to buy with everyone looking down the same hole.” A foreign buyer remarked, “You can buy yearlings for a more reasonable price than five years ago.” A long-time major breeder said to me, “Despite a couple of good hits, I got killed again for the fourth straight year. How long can this go on?” A smaller breeder said, “They make a big deal about the drop in RNAs. They don’t get that we’re so tapped out we can’t afford to take them home and can’t protect them.”

It’s a lot to sort out. So my purpose in this article, therefore, is simply to present some fundamental facts and let the readers draw their own conclusions.

**The basic picture.** In many ways, the American Thoroughbred sales scene is a microcosm or reflection of the broader economy. It is ultimately a function of competing entities that have difficulty cooperating with one another in order to create a system that will “grow the whole” in a way that benefits the entire industry over the long-term.

The horse sale world, however, is different from the outside world in one respect. In the larger economy, the rich are *making more money* and getting richer, and the middle class and underclass are getting poorer. In the horse world, the middle class and underclass horsemen are indeed getting poorer, but the wealthier horsemen are simply *losing less money* than everyone else.

Service providers who do not share the costs and risks of production (such as sale companies, consignors, vets, and agents, etc.) are collectively *making about the same money* in 2012 as they did in 2011. Stallion owners in Kentucky who have modestly adjusted their fees and have had fewer mares to breed are collectively *making less money* than the previous year.

Commercial breeders, however, are distinct in that they collectively are *not making money*. The facts below show that breeders *lost well over \$100 million* during the recent September sale.

Those breeders who could afford more expensive or more “commercial” stock and obtained placements in the first three books lost much less than those who were placed in books four through six. (Yearlings in the much reduced Book One broke even or were profitable at a 63.6% rate. A 43.6% break-even or profitable rate in Book Two was an improvement compared to recent years. For those in the underbelly of the sale, however, the break-even or profitable rates were 16.3% in Book Four, 6.7% in Book Five, and 0.9% in Book Six where over two days only five yearlings made it to a break-even point.)

No matter what commercial strata breeders fell into, because of the currently diminished and stagnant sales gross or “churn,” each breeder segment was unprofitable. In addition, many individual breeders have more than one year’s results to contend with as they try to absorb cumulative losses that have piled up over several years.

Those breeders who have wealth outside of the industry and can use losses to offset other income have supplementary resources to sustain their efforts, if they choose to continue participating despite negative outcomes. Without a major change in fundamentals, however, many of those who depend on breeding for a livelihood and have no other source of wealth or revenue will probably disappear, especially if they operate with the bank as a partner. Thus, it appears that more contraction lies ahead.

**The “churn.”** The churn is the amount of revenue generated by the auction process that in turn becomes the source of money to feed and resupply the system. The Keeneland gross proceeds totals are the best indicator of the churn that is needed for Thoroughbred breeders to pay expenses and conduct their breeding activities going forward.

This year’s September Keeneland gross was \$219,781,500, down from \$223,487,800 in 2011. The recent total is slightly above the \$208 million average for the last four years, but is 33% below the 2008 revenue when the gross was \$327,999,100. Furthermore, last week’s gross which will become the working churn for 2013 is 47% less than 2006 when the gross was \$399,791,800. Having 50% less funding available to operate puts perspective on recent comments that we have “stabilized.”



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**Stud fees.** Total stud fees for yearlings catalogued in the 2012 sale (bred in 2010) amounted to \$126,215,370, based on 2010 advertised prices and including 6% sales tax.

Stud fees have on average declined during the last four years, but not enough to give breeders sufficient relief, especially as the cost of feed, fuel, and bedding has risen sharply.

Adding in the other expenses required to produce a yearling from conception to auction ring, the sale gross or churn would need to be over \$350 million for breeders to break even. *(For a detailed analysis of yearling production costs and a formula for profitability, please click [here](#) for the TDN op/ed of 10/8/2010).*

The bottom line is that after paying stud fees and sales commissions, a gross of \$219,781,500 leaves breeders with about \$75 million in revenue to cover more than \$200 million in additional production costs that was paid out over the previous two and a half years.

As the breeder quoted above said, "How long can this go on?"

**Profitability (or unprofitability) by sale session.** Breeders' profitability by catalogue placement and assigned session are detailed in the Table below. Historical data for 2008 and 2010 are also included.

Of the total yearlings whose sales price returned the cost of production to their breeders this year, 176 broke even (4.8% or one in twenty), and 743 were profitable (20.6% or one in five).

Altogether, 2,186 yearlings were unprofitable in 2012, not counting 490 "outs" which are usually a bad story for their breeders. (Although a few of the withdrawn yearlings might have been sold privately, most early "outs" are typically withdrawn because of injury or a veterinary issue, and many late "outs" occur because the yearling has a problem or attracts no buyer interest once at the sale).

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**Final Comment.** My purpose in presenting this research has been to provide a factual basis for discussing how to develop a framework for growing our overall breeding and sales business, now and in the future. Your ideas and comments are welcome.

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### BREAK-EVEN or PROFITABLE SEPTEMBER YEARLINGS

Session	2008 (using 2006 stud fees)		2010 (using 2008 stud fees)		2012 (using 2010 stud fees)	
	Yearlings	%	Yearlings	%	Yearlings	%
1	93	38.1	45	48.4	84	63.6*
2	92	36.5	42	46.2	147	48.1*
3	154	38.4	95	31.4	129	42.2*
4	144	35.9	72	24.7	123	40.3*
5	143	34.9	89	31.9	144	34.6
6	110	26.5	76	25.6	129	31.0
7	86	21.6	55	14.6	74	18.3
8	84	21.0	54	14.2	58	14.4
9	54	13.5	20	5.4	26	6.7
10	32	8.0	17	4.6	4	1.2
11	21	5.3	7	1.8	1	0.4
12	10	2.5	4	1.1		
13	7	1.8	1	0.3		
14	4	1.2	0	0.0		
15	1	0.3				
<b>Overall</b>	<b>1035</b>	<b>18.6%</b>	<b>587</b>	<b>14.0%</b>	<b>919</b>	<b>25.4%</b>

\*Tapit and War Front sired 49 of 483 (10.2%) of the yearlings that broke-even or were profitable in Books One and Two, significantly elevating the group statistics. Their fees in 2010 were \$50,000 and \$10,000, respectively. As their fees were raised to \$125,000 and \$60,000 in 2012, it may be difficult to reproduce these results in 2014.