

THE IMPACT OF THE DRAYTON SOUTH COAL MINE PROJECT PROPOSAL ON THE COMMERCIAL VIABILITY OF COOLMORE AUSTRALIA

Below is the exact transcript of the presentation delivered to the committee in Denman, NSW on September 10, 2015.

“Good afternoon commissioners. Thank you for the opportunity to present to you today. I have been commissioned by Coolmore and Darley.

My name is Dr. Lance Bell. I grew up with a passion for horses and marketing. By way of introduction, my father was the publisher of a prominent US magazine named McCall's, my uncle was the Vice President of marketing at the Wall Street Journal, was the President of the American Advertising Federation, and was inducted into the Advertising Hall of Fame. My father-in-law is the retired CEO of Reader's Digest, is the former President of the Magazine publisher's association and he sits on the board of Amazon, Virgin, Starwood Hotels and several others. I have been mentored by some of the industry's true thought leaders. I say this not to be boastful, rather so that you may understand my qualifications as an expert in the field. I am the founder and owner of LGB, LLC, the largest thoroughbred advertising agency in America. For the past quarter century, I have had the good fortune to represent some of the most preeminent horse farms in North America. Our advertising has been seen in Australia, New Zealand, Japan, France, England, Ireland, and of course, North America.

Although I have travelled extensively throughout the world, I am embarrassed to say that this is my first trip to Australia, though it will certainly not be my last. I am taken by the raw beauty of the physical landscape of the Hunter Valley and by the warmth of the people in the community.

One thing that has completely amazed me is how much a part of the social fabric horse racing truly is in Australia. While at lunch in my hotel in Sydney, there were 3 twenty somethings at the table next to me that were talking about horse racing. While searching for a station on the radio in my rental car at 11 o'clock one night, I stumbled upon a horse racing channel. The thing that brought this observation into clearest focus, however, was the state funeral on Monday for Bart Cummings. Only in Australia would a horse trainer be so revered as to have a state funeral that would land on the front page of the Daily Telegraph.

I have been asked to properly understand the circumstances surrounding the The Drayton South Coal Project and render my objective opinion as a marketing expert as to how a new mining footprint would effect the commercial viability of the few hundred million dollar investment that Coolmore has made to the region, to the thoroughbred business, its employees, its customers, its community, and I would add, to Australian racing as a whole, which I have come to learn has a continent-wide reach.

Each business has its own idiosyncracies and intricacies. I hope that I may help you to better understand this business so that you can most objectively conduct your independent review.

The horse business is global. I found out about Bart Cummings' passing via Twitter. It is collegial, insular, seeks value like any other business, however, it operates with a herd mentality. In my experience, when key influencers derive a conclusion, the rest of the industry tends to follow. There are no secrets in this business. I didn't want anyone of my horse clients to be concerned that I wasn't in the office while on this trip and meanwhile, six of them called my cell phone and asked what I was doing in Australia. Perhaps, most important to understand, is that in the thoroughbred business, perception defines reality.

I have spent the past five days traveling throughout the Hunter to literally understand the lay of the land. What a special place this is.

The customer experience in the horse business, starts with the first fence post marking the boundary of the property. How the rails are seated on that post, the condition of the paint and nails, is the customers' introduction to the brand expectation from that farm.

Marketing is the window into a company's soul and the voice from which it speaks.

The marketing of a horse farm is richly visual. Interestingly, in America, they now call a marketing degree, a degree in visual studies. To the visual experience, Coolmore has created a pristine, park-like landscape for its customers, with luxurious flower beds and manicured irrigated pastures, which sets the table of expectations attendant to their brandscape and reputation. If none of this mattered, Coolmore wouldn't have planted over 100,000 trees on the property nor would they employ 12 full time gardeners among their 150 plus employees on the farm. If it didn't effect their customers' perception and perceived value, there would be no logical reason to do it.

It is my view that the presence of the existing mines, is not currently effecting Coolmore's business. In essence, I see the situation currently as being 'out of site and out of mind.'

I do, however, have grave concerns if there is mining activity within eyeshot or earshot of Coolmore's customers.

I Googled, "is it safe to live next to a coal mine". With 550 plus results, 542 articles were an objective testament to the perception that living next to a coal mine poses a threat to one's health. A direct visual impact, or an indirect impact, or anything that represents a continuous reminder that there is active mining being conducted, raises a daily spector of doubt in the customer's mind as to how safe it is to raise a valuable equine athlete so close to a coal mine. In a sport that is measured in hundredths of a second, the percieved risk to the respiratory tree of an athelete that needs to breath approximately three times a second at maximal exercise, is a clear and present danger to the commercial viability to Coolmore's operation in the Hunter Valley.

Once Coolmore's customers start questioning the viability of raising an elite athelete beside an active coal mine, I wholeheartedly believe that everything will be seen through that prism. If a breeder starts wondering if a foal's cough is due to exposure to coal and not a cold, then you can start to understand the true impact. In the same way that I learned of Bart Cummings passing via Twitter, the global social media mechanism stands to amplify the impact and mold the perception. If there is any doubt in a breeders' mind that the future performance of his foal could be compromised, then why would he or she elect to raise their sales or racing prospect under such circumstances, when they could mitigate the risk by going elsewhere.

I have come to the opposite side of my world to your wonderful world, to give you commissioners my honest opinion, based on a quarter of a century of understanding this industry and successfully marketing to it. In my honest, professional opinion, The Drayton South Coalmine Project, would represent a threat to the commercial viability of Coolmore.

Thank you for you time."

End of transcript

As mentioned above, my company has represented stud farms around the world for over a quarter century. I have personally visited the Leading farms in the U.S., England, Ireland, France, Italy, Sweden, Switzerland, Germany, Hong Kong and now Australia.



Shadai Farm, Japan



WinStar Farm, USA



French National Stud, France



Hill 'n' Dale Farm, USA



Coolmore America, USA



Coolmore Australia

Coolmore is truly an international leader and innovator in the thoroughbred breeding business. The hallmark of their operation is quality, delivered immaculately at every touch point to its customer. To understand their model is to understand the critical importance of their operation in the Hunter Valley.

Coolmore purchases the absolute best, most desirable stallions in the world. They are able to do so, in large part, because of their ability to stand those stallions double duty. Their stallions service mares in the Northern Hemisphere, in Europe or the US, then are shuttled to the New South Wales farm in the Hunter Valley to cover mares on Southern Hemisphere time. This arrangement allows them a larger income stream compared to standing a stallion exclusively on Northern or Southern hemisphere time. Proof positive of this business model is their recent acquisition of American Kentucky Derby and Triple Crown winner American Pharoah who is the most desirable stud prospect without fail of the past thirty plus years who was purchased for several tens of millions of dollars. Coolmore is usually able to offer the highest purchase price for the most commercially desirable prospects that come on the market because of their ability to attract the best customers with the best mares in the Northern as well as the Southern hemisphere, commanding premium stallion service fees. This is only part of the equation. Their long term viability is predicated on the ability to attract those very top notch breeders with the best mares who will raise the most commercially desirable prospects at the sales who will end up in the hands of the world's leading trainers. By attracting a select breeding clientele, they maximize the chances that their stallions will be successful because of the quality of the product (foals) they and their clients produce. Coolmore has established centers of excellence around the world, having purchased the most desirable stud farms located in the epicenters of breeding hubs attracting the best mares and clients. The competition to attract these mares and owners has become ever more competitive and ever more challenging.

It is critical to understand that the cornerstone of their reputation and brand story and the key driver of the brand experience is the farm itself. Like a championship golf course capable of hosting a pro tournament or a five star luxury property which is capable of attracting the most valuable discerning customers, a world class thoroughbred breeding farm is no different. There are expectations attendant to a world class premium property capable of producing elite athletes and delivering a world class experience.

In no marketing campaign anywhere in the world would it be appropriate to feature a premium property of any sort within eyeshot or earshot of the impacts of an open cut coal mine. To the contrary, if a premium property or stud farm featured images of a coal mine in proximity to their property in its marketing, it would demonstrate that they are completely out of touch with what their market is looking for.

Coolmore's Hunter Valley property is among the finest in the world and is manicured and maintained in a meticulous manner. The physical beauty of the surroundings represent a dedication to detail and a commitment to their customer which loudly communicates that Coolmore is paying attention to every detail. There are significant risks associated with breeding racehorses. Mitigation of risk is extremely important to every horse breeder. The maintenance of the fields, fences, and flowers, are a window into how well a farm is paying attention to all the other vital details that impact the perception of breeding and raising a Champion racehorse. If a farm falls short on fertility with their stallions, if they have a wave foal pneumonia, if their breeding records are flawed or the follow through overall is lacking, word spreads fast, very fast. Reputation is paramount in the horse business because of the inherent risks. Those risks include but are not limited to risk of a mare not getting pregnant, risk of a mare aborting, risk of a foal getting hurt, risk of developmental problems related to lung and bone development, and the list goes on. Farms are constantly vigilant to listen to the voices in the market to obviate or prevent concerns, real or perceived, on the part of their customers that could affect their bottom line.

At the committee meeting, I had heard mention of the farm Edinglassie as an example of how the presence of the coal mines does not affect the business of a horse farm. As a result, I visited Edinglassie to understand the argument. I can absolutely assure you that a world class stud farm of the caliber of Coolmore, which is typical of the type of stud farm we represent, could never be promoted as a world class center of excellence being located next to a coal mine as is Edinglassie. To purport that such a farm could be deemed comparable to Coolmore or capable of capturing a discerning clientele such as Coolmore's demonstrates a lack of understanding of the actual workings of the commercial thoroughbred horse business.

Imagery that is incompatible with a World Class Stud Farm

NOTE: The images below are computer-generated simulated montage images created for the purpose of demonstration.



In conclusion, it is my professional opinion that the presence of the effects of an open cut coal mine, such as is proposed in the Drayton South Coal Project, being in either eyeshot or earshot of the Coolmore Jerrys Plains NSW farm would represent a definite threat to the commercial viability of the operation. The same fact pattern would hold true for Darley who would suffer the same threats.



The marketing at a horse farm begins on the first note. As such, the statue that greets visitors to the NSW stud farm is a reminder of the enormous impact that Coolmore has had on Australian breeding and racing. The statue is of the mighty import Danehill who is a product of their successful New South Wales breeding program. Perhaps no horse of the modern era has had as much influence on the breed as Danehill. His progeny have earned in excess of A\$375,000,000, with no fewer 114 sons and 56 grandsons at stud. Counted among them are Champion sires, Fastnet Rock, Encosta de Lago and Redoute's Choice. Incidentally, Redoute's Choice, a colonial sire sensation, was bred and foaled at Coolmore. Putting such a legacy to Australian breeding in such severe peril gives true cause for pause.

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