

2017

Kentucky Thoroughbred Horse Farm Operations Survey



DEANDORTON
equine



INTRODUCTION

We are pleased to provide you with the summary results of our July 2017 survey. This survey focuses on operational matters for Kentucky Thoroughbred horse farms. We hope that these compiled results will be a helpful tool for you to use in conducting your business throughout the year.

A total of 53 farms participated in the survey. Please let us know if you did not receive a survey invite but would like to participate in future surveys.

We thank those who responded for participating, as it is these responses that continue to make this survey useful.

As always, we welcome your feedback and suggestions for future survey topics.

Sincerely,

Jen Shah and Melissa Hicks
Dean Dorton Equine Team





DEMOGRAPHICS

The responding farms, all primarily located in Kentucky, range in size from 10 acres to over 6,000 acres.



49% of farms have fewer than 500 acres.

These farms use an average of 94% of total acreage.

25% of farms have 1,000 or more acres.

These farms use an average of 89% of total acreage.

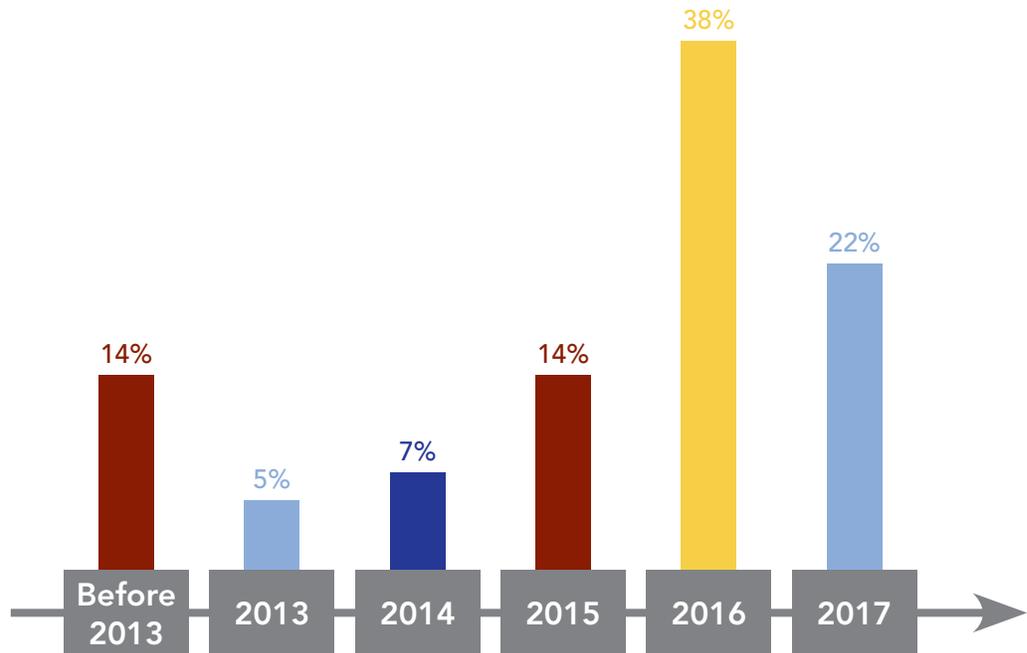
81%

of responding farms board horses. Of those, no respondents require board clients to maintain a deposit or retainer.



BOARD RATES

When asked when respondents last adjusted standard daily board rates, the dates varied from 2017 to before 2013:



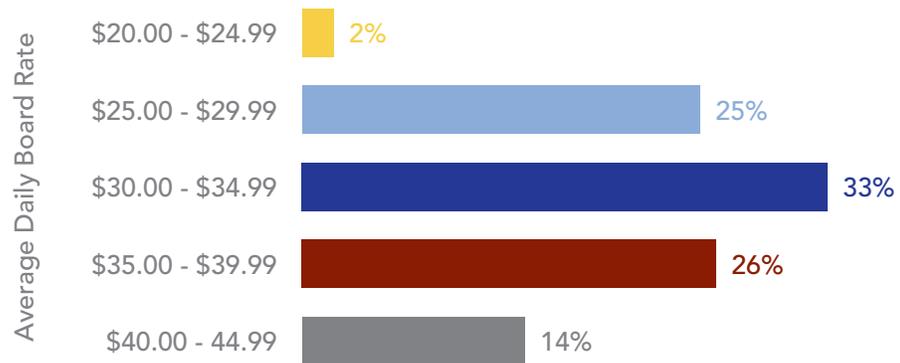
Most of the responding farms (93%) adjust board rates as needed. Only 2% of the respondents adjust rates annually, while the remaining 5% adjust them bi-annually.

62% of the farms' 2017 board rates are the same as 2016 rates. For the remaining 38%, 2017 board rates are higher.

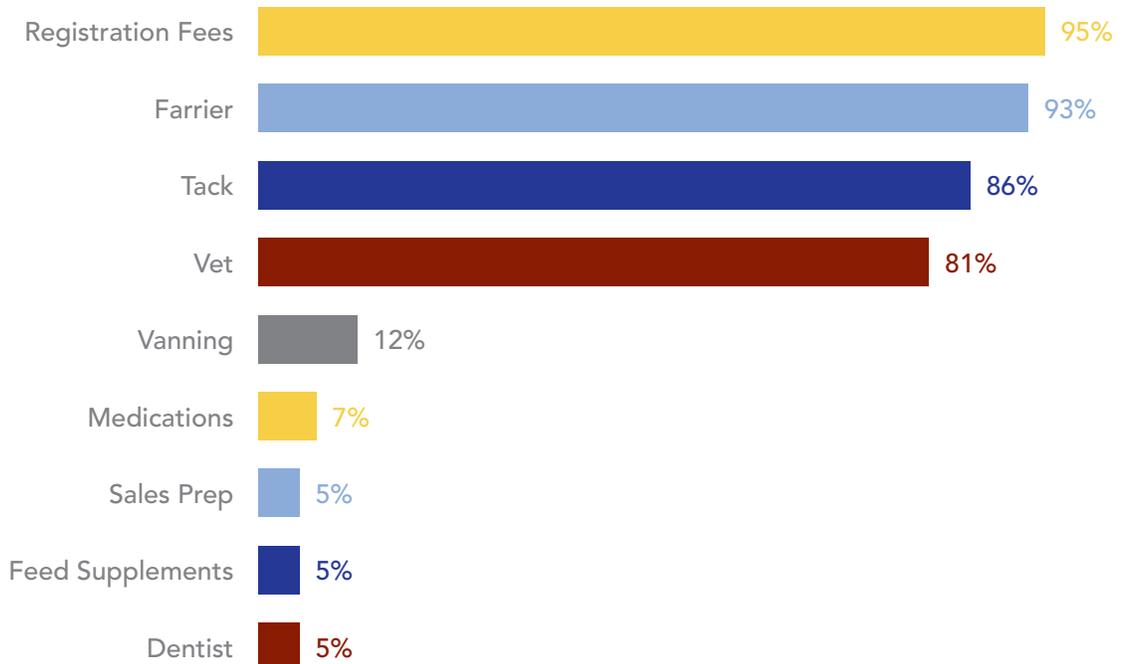


BOARD RATES

Most responding farms have an average daily board rate of \$25.00 to \$39.99, with one-third of the farms charging an average of \$30.00 to \$34.99 per day.



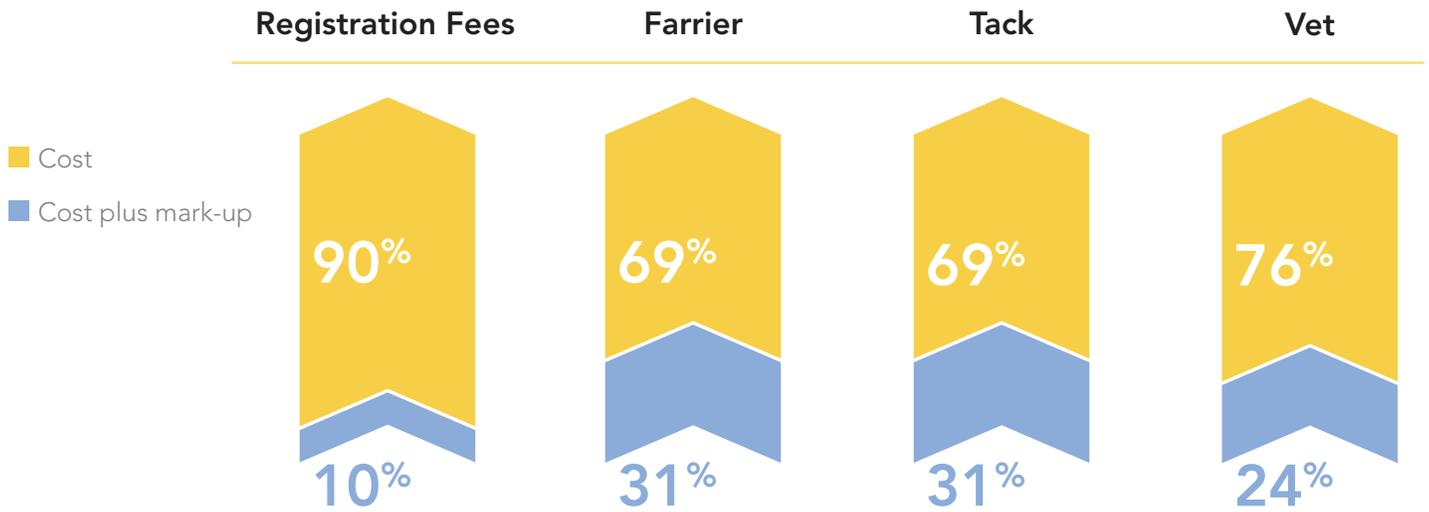
The following are routinely billed in addition to standard board rates:





BOARD RATES

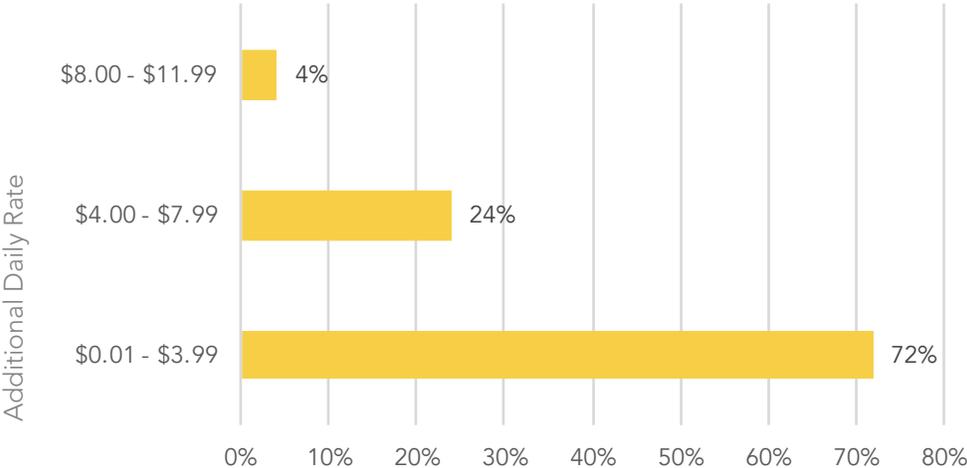
Most responding farms bill registration fees, farrier, tack, and vet at cost. For those who bill at cost plus mark-up, the mark-up ranges from 3% to 20%, with an average of 15% mark-up.



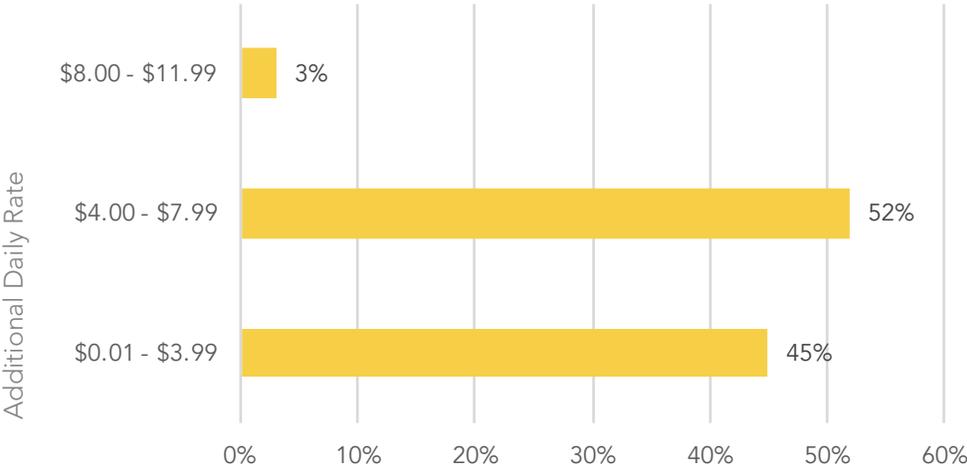
PREMIUM BOARD RATES

Some farms charge an additional premium daily board rate for seasonal or temporary boarding, mares with foals at their sides, stallions, and more. The following charts illustrate these additional premium daily board rates.

Seasonal or Temporary Boarding



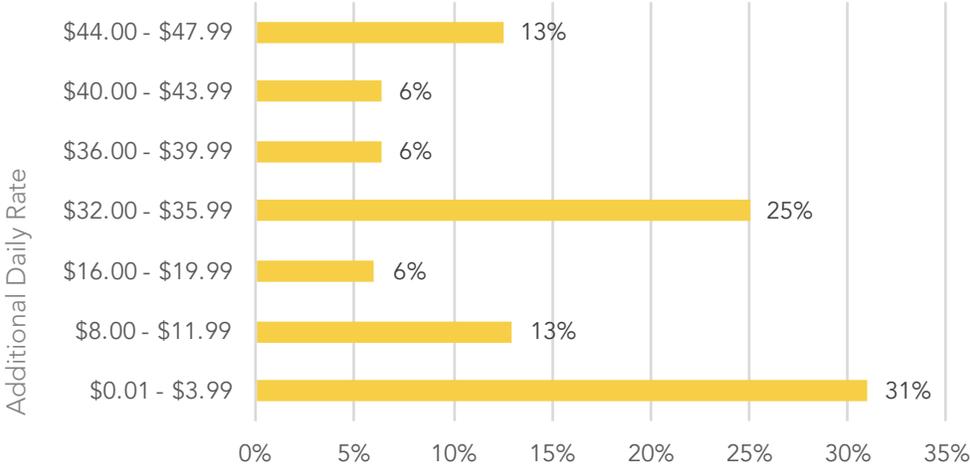
Mares with Foal at Side



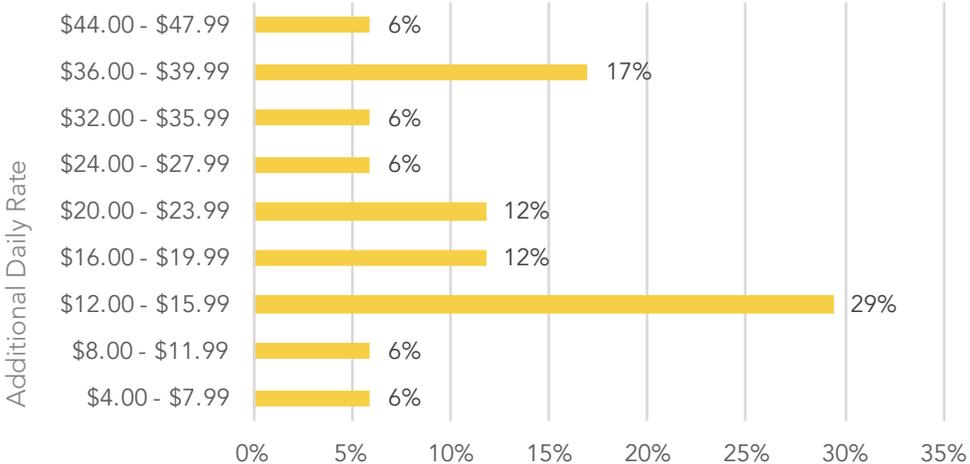


PREMIUM BOARD RATES

Stallions



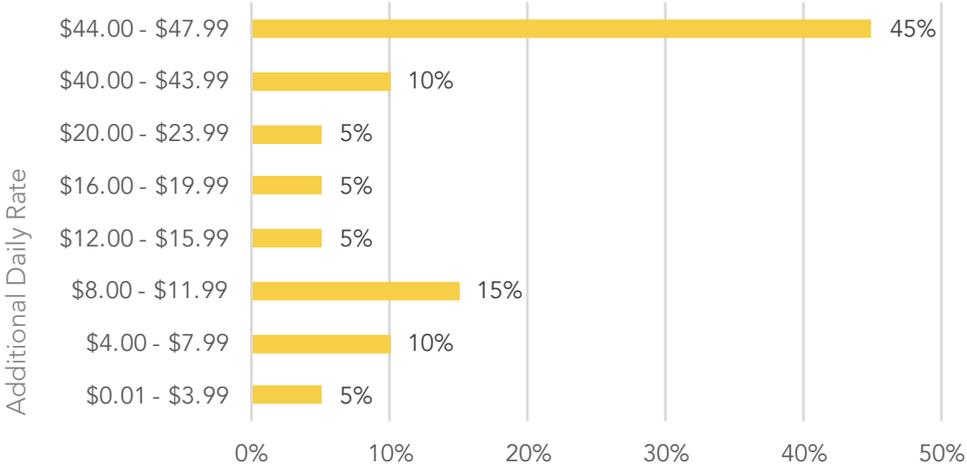
Breaking and Training



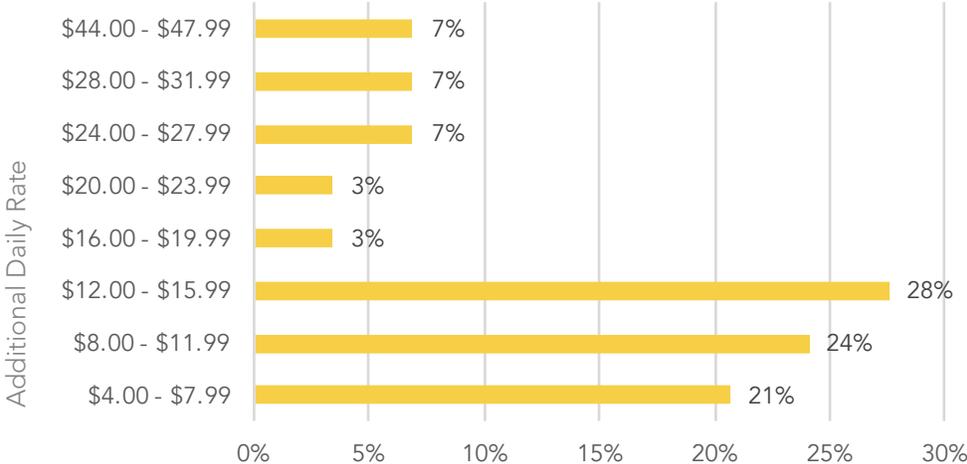


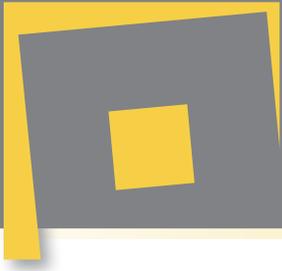
PREMIUM BOARD RATES

Caring for Horse While at Sale

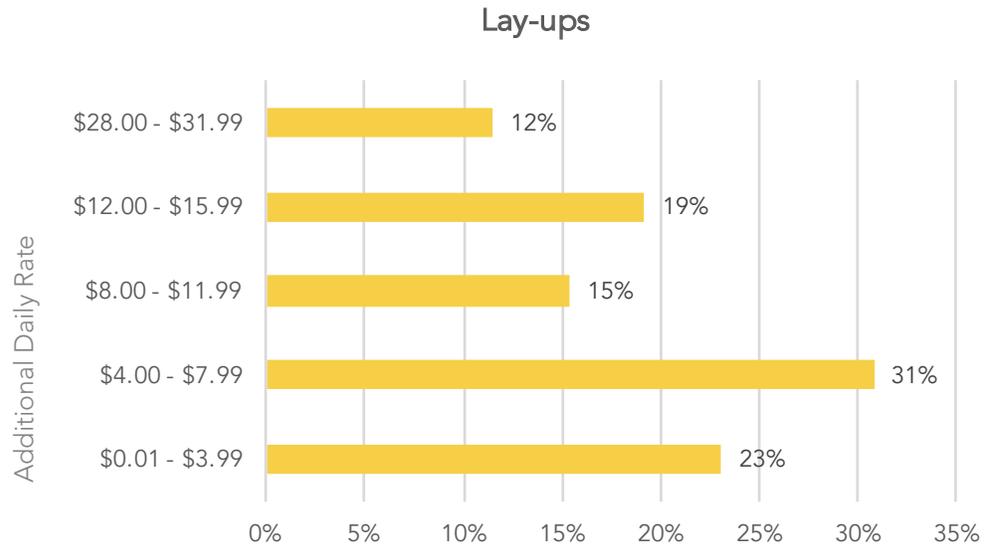


Sales Preparation





PREMIUM BOARD RATES



Other services in which farms charge premium board rates include:



Mares under lights



Quarantine



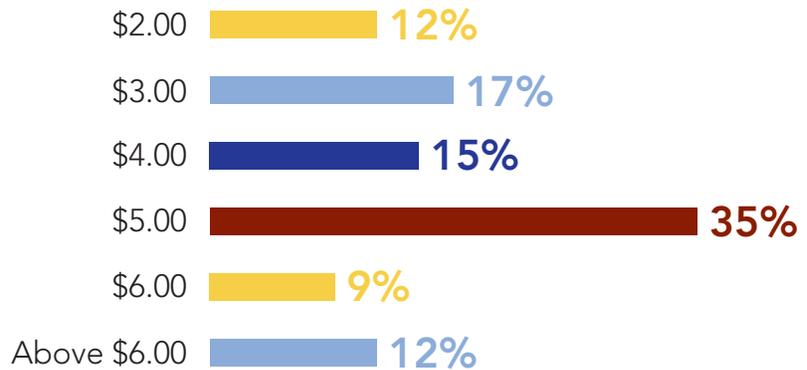
Hospital care while at farm



PREMIUM BOARD RATES

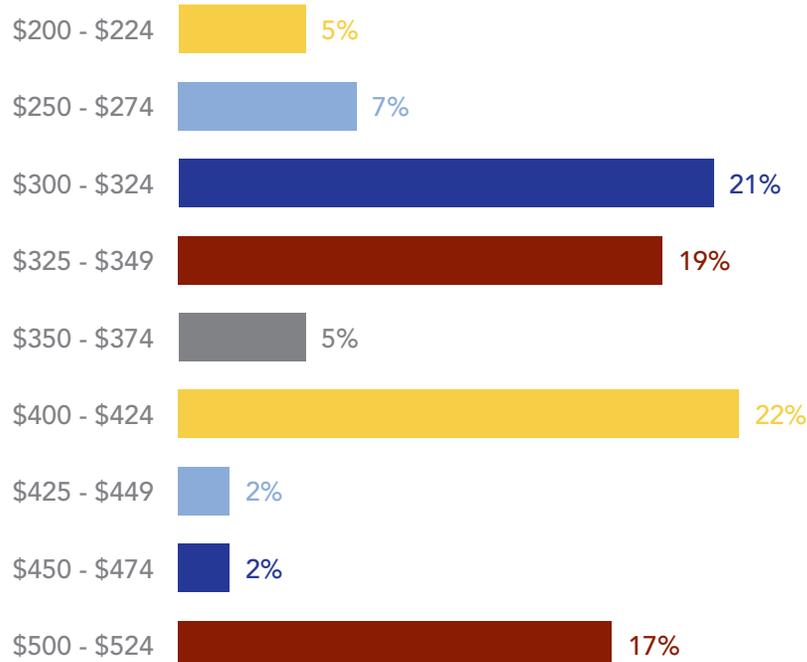
79% of responding farms charge board for foals not yet weaned.

Stand-alone rates for foals not yet weaned:



All of the farms who do **not** charge board for foals not yet weaned begin charging board once the foals are weaned.

Standard foaling rates vary significantly. The most common ranges are \$300 to \$324 and \$400 to \$424.



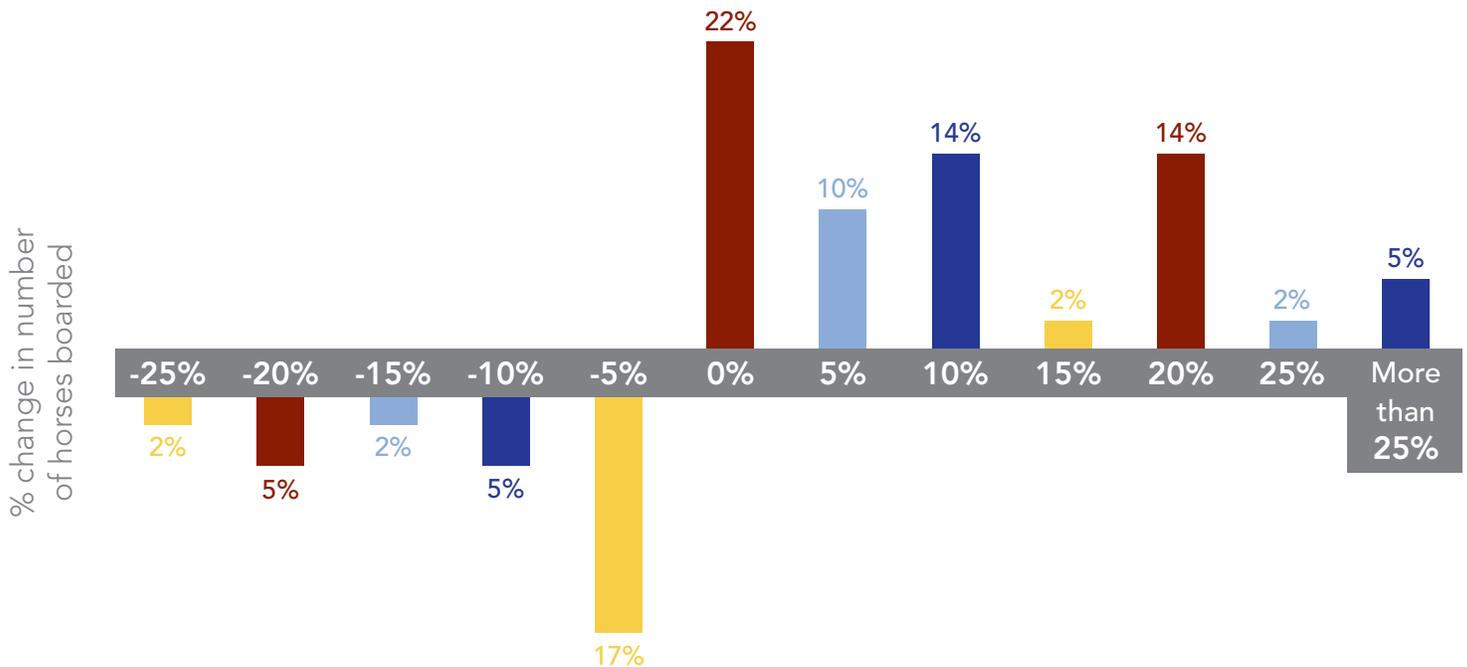


BOARDING

24% of the respondents think boarding is profitable as a stand-alone business.

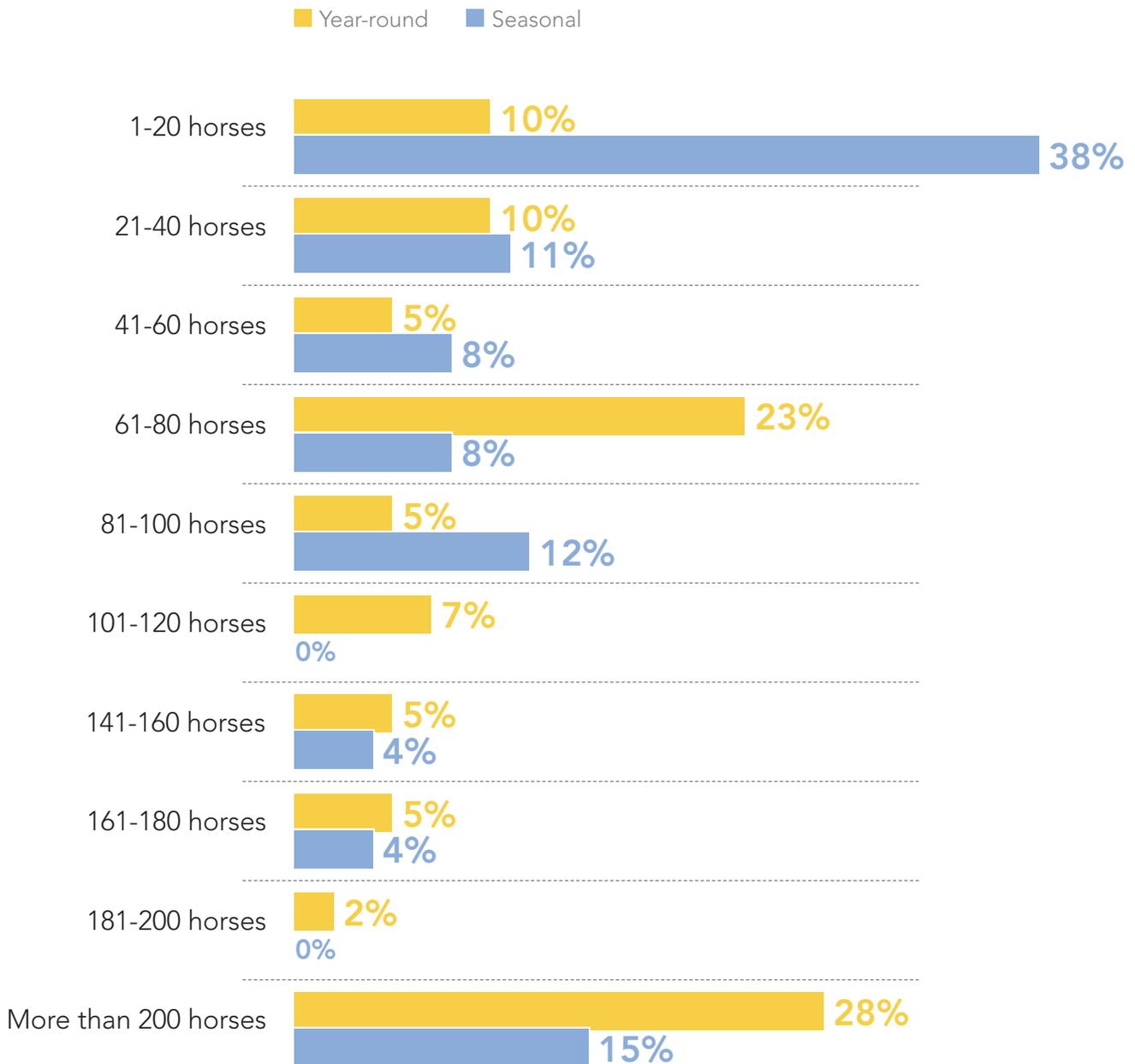
40% of the respondents generally have excess boarding capacity.

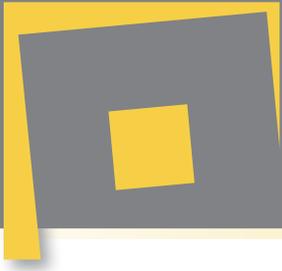
The majority of our survey respondents remained flat or experienced an increase in the number of horses boarded since last year.



BOARDING

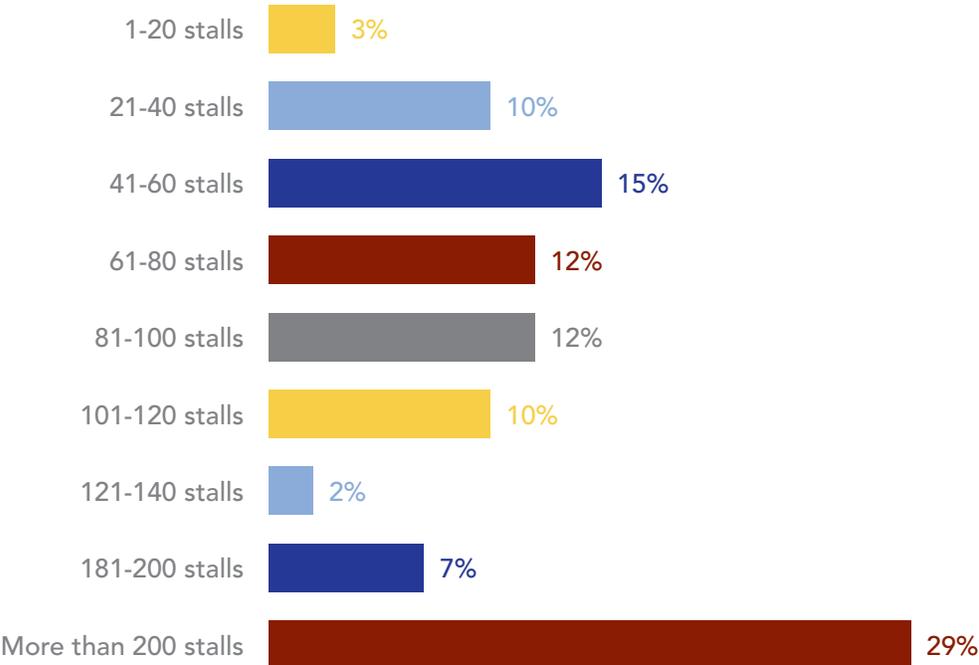
Most of the respondents have an average of 200 or more horses boarded year-round and up to 20 horses boarded per day seasonally. The following chart illustrates the average number of horses boarded per day (including self-owned horses).





BOARDING

Most of the responding farms have between 21 and 120 stalls for boarding purposes; however, nearly one-third of the respondents have more than 200 boarding stalls.





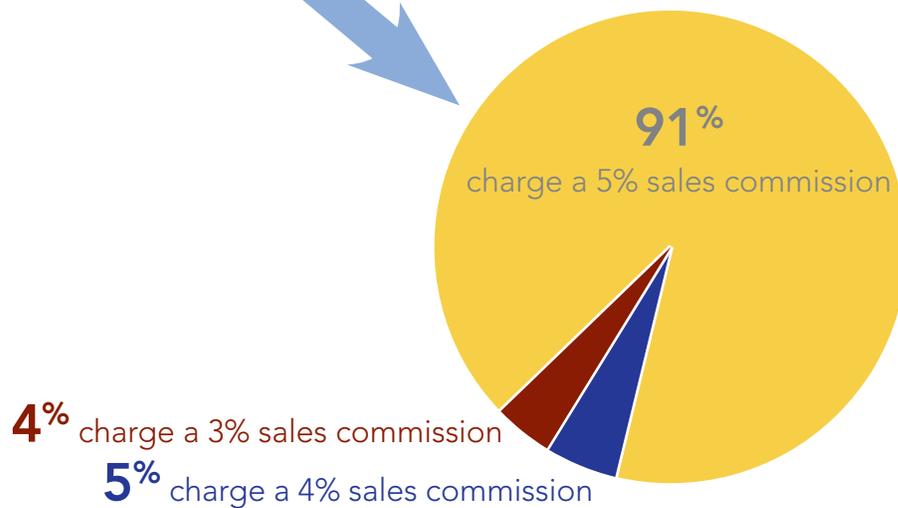
SALES COMMISSIONS

Nearly half of the respondents charge sales commission based upon a flat rate. Of those, nearly all (91%) charge a 5% commission. The remaining 9% of respondents charge a 3% to 4% sales commission.

49% of the respondents charge a sales commission based upon a flat rate.

Of the farms who charge a sales commission based upon a flat rate...

Sales commission rates:



33% of the responding farms apply a sliding scale once a horse's sale price exceeds a certain dollar amount.

Most of these farms apply a lesser rate if sales proceeds exceed a certain dollar amount. This dollar amount threshold varies from farm to farm, and can range from \$100,000 to \$400,000. The lesser rate charged ranges from 2% to 4% for these farms.

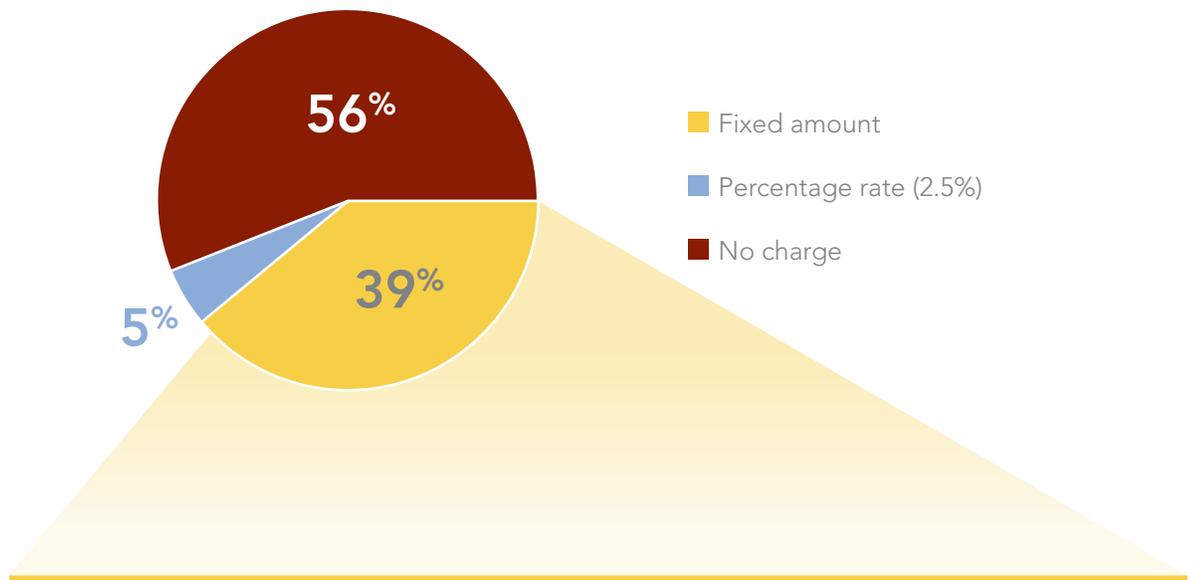


SALES COMMISSIONS

5% of the responding farms charge a different commission rate to boarding clients for sales of horses. Some farms charge a 3% commission, while other farms charge on a case-by-case basis.

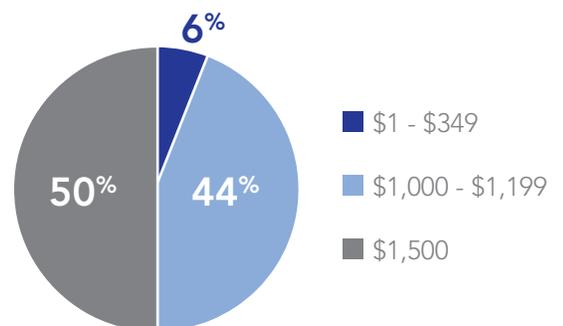
57% of respondents charge separately for advertising for horses they are commissioned to sell.

Less than half of the respondents charge either a fixed amount or percentage rate for horses brought back from the sales not sold.



Of the respondents who charge a fixed amount, the most common rates were \$1,000 to \$1,199 and \$1,500.

Only 6% of respondents charge a fixed rate up to \$349 for horses not sold, while none of the responding farms charge between \$350 and \$999.



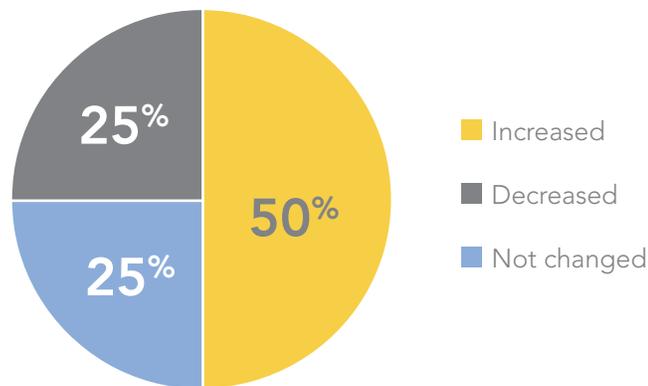


STALLIONS

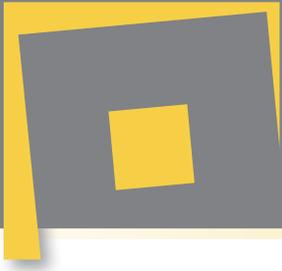
31% of the responding farms stand stallions.

The most popular contract for responding farms continues to be the standard stand and nurse contracts. Out of sales proceeds and foal share contracts follow. Compared to our 2015 survey, there has been an increase in special breeding program contracts issued by the responding stallion farms, but these contracts still lag in popularity compared to the above three.

Half of the respondents indicated that the number of stallions standing in 2017 versus 2016 has increased.

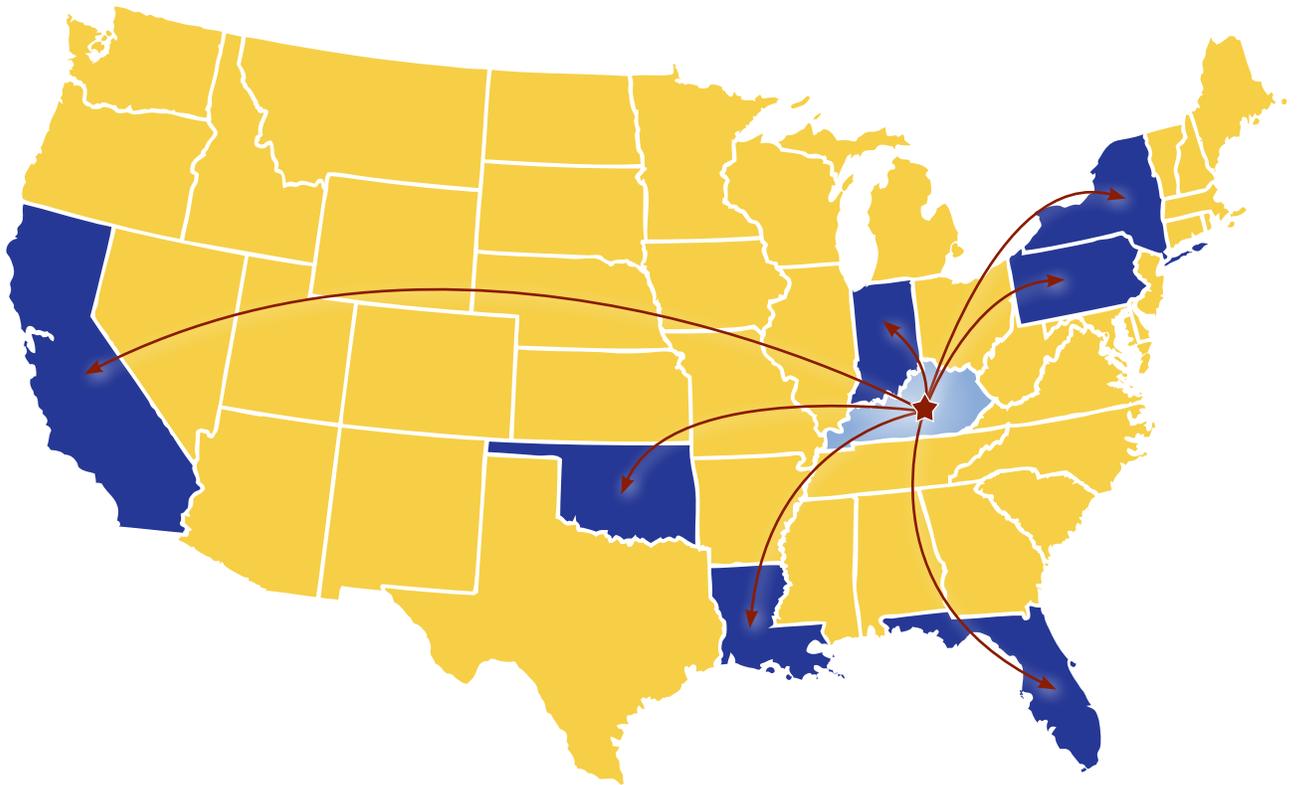


25% of the responding farms with stallions indicated that one to two stallions moved to other states within the past year. Of these, half of the farms moved just one stallion and the other half moved two. None of the respondents moved more than two stallions to other states within the past year.

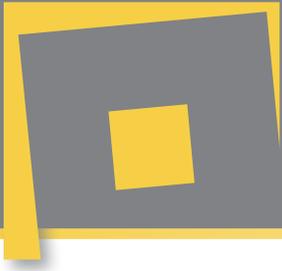


STALLIONS

46% of the farms moving stallions sent the horses to New York. The other destination states — split evenly at 9% each — are Florida, Indiana, Louisiana, Pennsylvania, California, and Oklahoma.

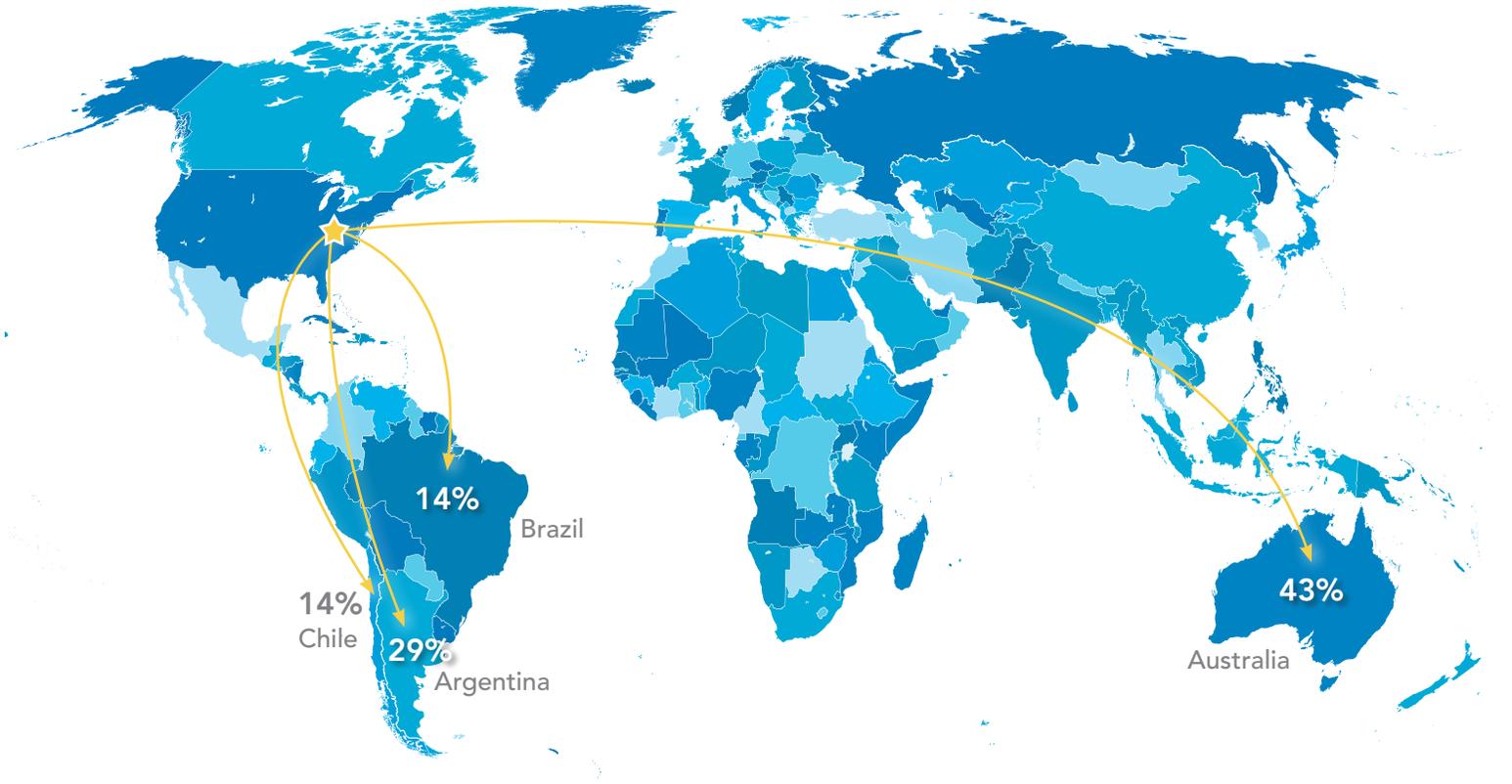


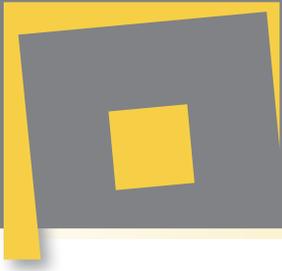
Respondents who moved stallions out of Kentucky to another state provided a variety of reasons for doing so. The most common reason is that the stallion was not commercially viable in Kentucky and was relocated to another market to increase bookings. Another reason mentioned by multiple respondents is breeders' incentive programs offered by other states.



STALLIONS

42% of the responding farms ship stallions to stand in the Southern Hemisphere. Nearly half of those stallions (43%) are shipped to Australia, while the remaining 57% go to South America.

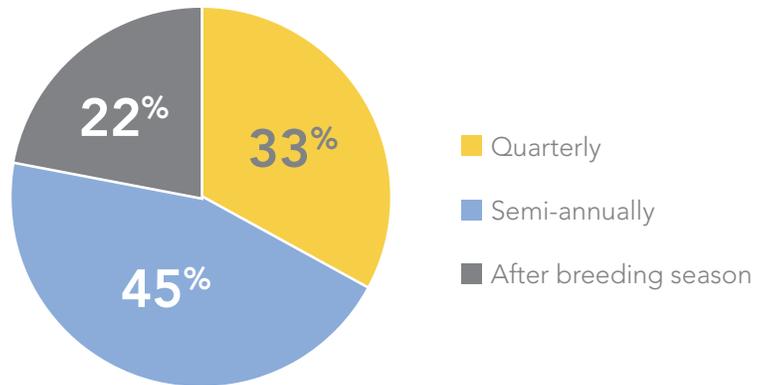


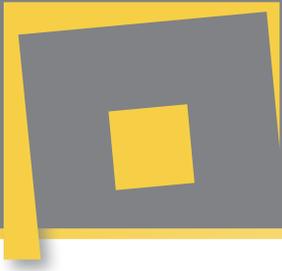


SYNDICATED STALLIONS

64% of the farms with stallions have syndicated stallions.

The timing of distributions to owners varies:

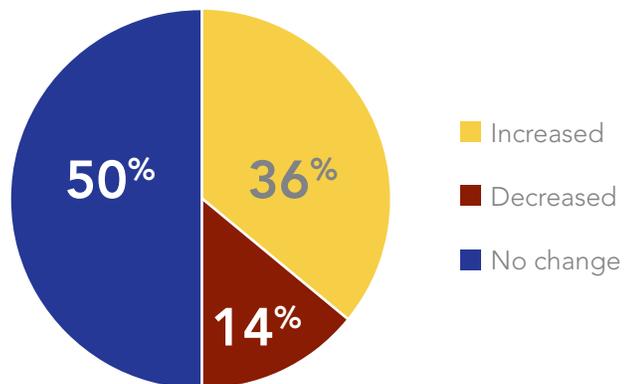




STUD FEES & FINANCING

15% of responding farms with stallions offer discounts for prepayments of stud fees.

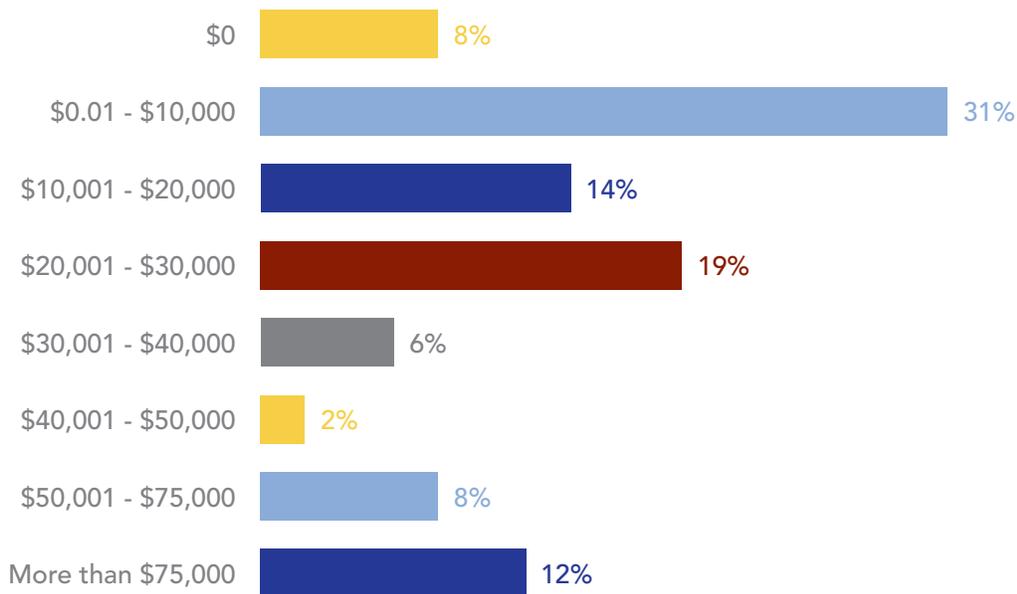
Half of the responding stallion farms did not experience a change in receiving payment for stud fees this year. Of the remaining half, the majority noticed an increase in the time it took to collect stud fees due.



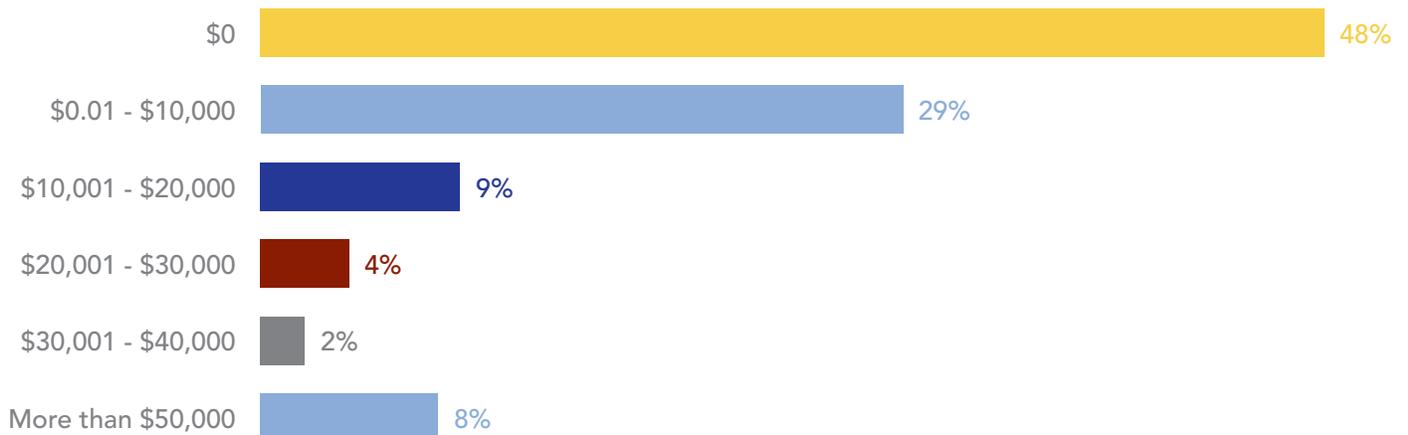


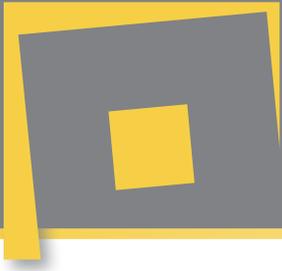
INCENTIVE FUNDS

92% of the responding farms have received money in the past year from the Kentucky Breeders' Incentive Fund. The following chart illustrates the various amounts of money received:



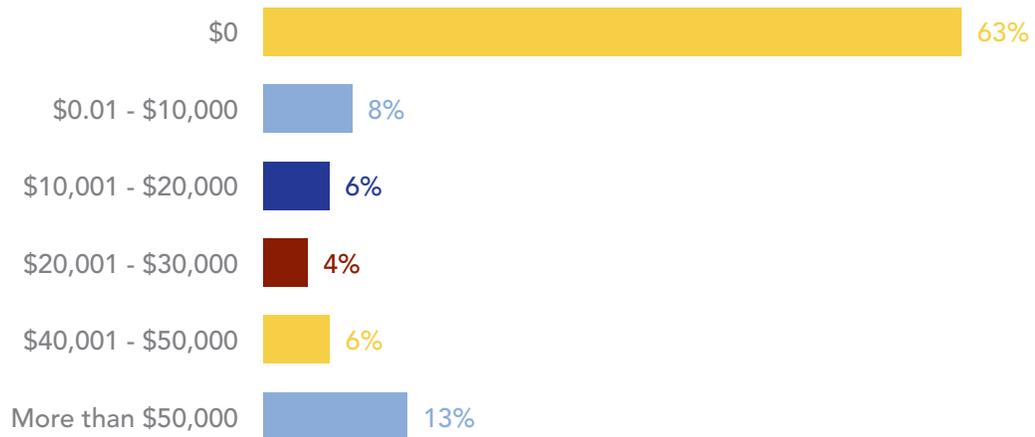
52% of the responding farms have received money in the past year from other states' breeders' incentive funds. The following chart illustrates the various amounts of money received:





INCENTIVE FUNDS

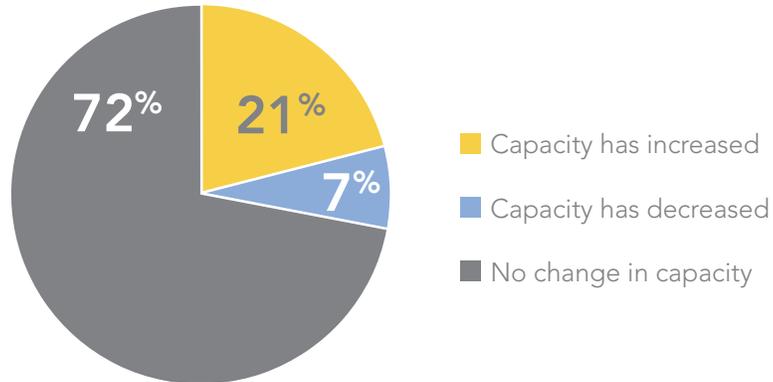
37% of the responding farms have received money in the past year from Breeders' Cup nominator awards. The following chart illustrates the various amounts of money received:



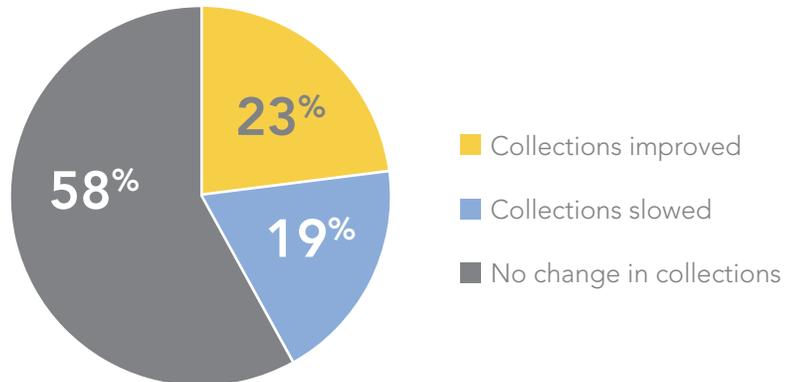


FINANCES

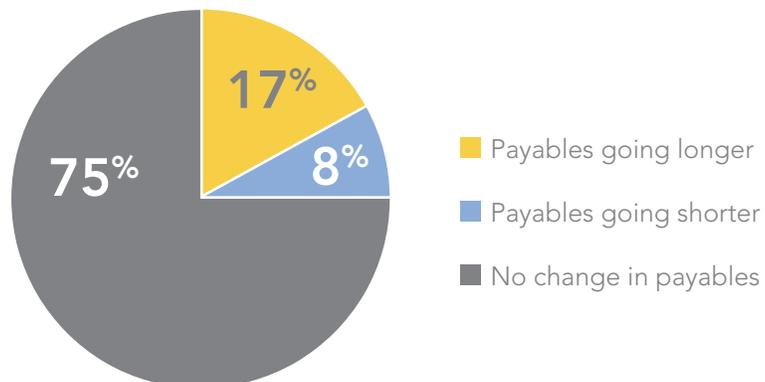
Most of the responding farms experienced no change in **borrowing capacity** with their current financial lender since last year.



Most of the responding farms experienced no change in **collections** since last year.



Most of the responding farms experienced no change in **payables** since last year.

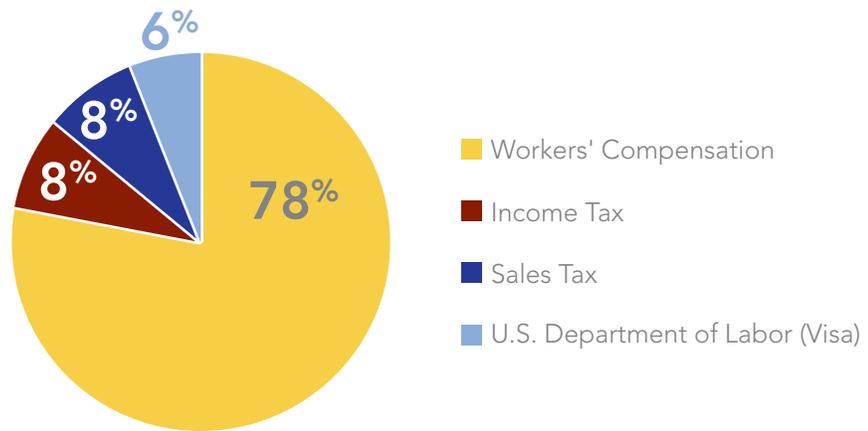


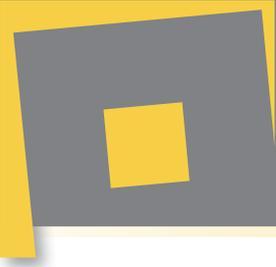


AUDITS

69% of responding farms have been audited within the past three years, with an overwhelming majority experiencing a workers' compensation audit.

The chart below illustrates the breakdown of areas in which the audits have focused.





ABOUT DEAN DORTON

Located in Kentucky, known for its world-class horse farms, racing, and sales, our firm has provided accounting, tax, and business consulting services to the horse industry for over 35 years. Our clients cover a broad spectrum of organizations involved in the horse industry, from small boarding farms to large multi-departmental farms involved in boarding, breeding, selling, and stallion management; from racing stables to a racetrack; from bloodstock agents to equine veterinary firms; and from industry associations to equine insurance agencies.

Not all of our clients are based in Kentucky; horse industry clients from other parts of the country and from outside the United States also gain comfort from having our industry specialists work with them. As a firm, we endeavor to know the business of horses, not just accounting and tax rules relating to the industry. We accomplish this in a number of ways, including, most usefully, by working with our many clients in the industry on their business matters.

We perform a variety of services for our clients involved in the equine industry. And, we welcome inquiries, whether from new participants in the industry who want assistance in properly structuring and administering their stables or farms or from longtime industry participants seeking to improve the performance and administration of their operations.





DEAN DORTON TEAM

The Dean Dorton equine team is available to assist you with your needs throughout the year.



Jen Shah, CPA
Director of Tax Services
jshah@deandorton.com
859.425.7651



Doug Dean, CPA
Director of Tax Services
ddean@deandorton.com
859.425.7608



Leigh McKee, CPA
Director of Tax Services
lmckee@deandorton.com
859.425.7617



David Smith, CPA
Director of Tax Services
dsmith@deandorton.com
859.425.7773



Melissa Hicks, CPA
Associate Director of Tax Services
mhicks@deandorton.com
502.566.1093



Bill Kohm, CPA, MBA
Director of Assurance Services
bkohm@deandorton.com
859.425.7625



Jason Miller
Director of Technology Consulting
jmiller@ddafttech.com
859.425.7626



David Sorrell
Associate Director of Accounting
and Financial Outsourcing
dsorrell@deandorton.com
859.425.7654



Nick Lynch, CPA/CFF, CFE
Associate Director of Forensic Accounting
and Litigation Support Services
nlynch@deandorton.com
859.425.7635



David Angelucci, CPA/ABV
Associate Director of Business
Valuation Services
dangelucci@deandorton.com
859.425.7695



DEAN DORTON ALLEN FORD, PLLC

BUSINESS ADVISORS CPAs CONSULTANTS

Lexington

106 West Vine Street, Suite 600
Lexington, KY 40507
859.255.2341

Louisville

500 West Jefferson Street, Suite 1400
Louisville, KY 40202
502.589.6050

deandorton.com

Dean Dorton is a full-service accounting and business consulting firm which provides services to clients of all sizes in a variety of industries. The firm has grown to be one of the largest Certified Public Accounting firms based in the Commonwealth of Kentucky.

At Dean Dorton, our philosophy centers on an unyielding commitment to provide services that exceed our clients' expectations and are consistently superior to our competitors in quality and timeliness. Further, we strive to do so in a setting that is satisfying professionally and personally for firm employees.