





## IS INVESTING IN A RACEHORSE A WISE INVESTMENT?

Nope. Not if your goal is a secure, reliable, and predictable investment. Ownership is fun, exciting, educational, and full of ups and downs. If by wise investment, you mean thrilling, then yes, but if this is being done through the lens of fiscal responsibility, you should look elsewhere. We would never recommend investing in racehorses as an alternative asset class; treat it as a high beta use of discretionary income, and you will be in for the ride of your life.



#### IF IT IS NOT A WISE INVESTMENT, WHY DO SO MANY PEOPLE BUY A FRACTIONAL INTEREST IN RACEHORSES WITH MYRACEHORSE?

The financial advisors may not love it due to its extreme volatility and the high percentages of horses that lose money, but for many owning a racehorse is one of the most thrilling "investments" they will make in their lives. Thoroughbred ownership can take you on a journey unlike anything you have ever experienced. Seeing your horse compete on race day, receiving frequent updates through the MyRacehorse app, and building camaraderie amongst fellow partners is priceless. Plus, despite the odds being low, there is still a chance that you could make money. Buying interest in a Thoroughbred with MyRacehorse gives you a true ownership experience for a fraction of the cost.



#### OK, THE ODD'S ARE LOW, BUT IS IT POSSIBLE TO MAKE MONEY OWNING A RACEHORSE?

It is a high-risk, high-reward business. The big wins are infrequent, but the returns can be extremely significant when they hit. Most horses will lose, and most will lose almost all of their value. Most horses do not even earn enough money on the racetrack to cover their training expenses. This is the harsh reality of the game we all love.

However, if you are lucky enough with MyRacehorse to select a profitable one, we have structured your investment in a manner that allows us to distribute the profits with you on a pro-rata basis. Many alternative ownership concepts have to cap their returns based on the amount you invested in abiding by securities laws and regulations, but at MyRacehorse, we are offering qualified securities governed by the Securities Exchange Commission, allowing us to share the profits with our partners fully.



## CAN I LOSE ANY MORE THAN MY INITIAL INVESTMENT?

Nope, and this is one of the most popular attributes of the MyRacehorse ownership model. We try to collect enough cash upfront to get your horse to the races and have cash available for the early stages of his or her career. We then use horse earnings to help pay for future training, care, and administrative expenses. We take the risk. If the cash gets depleted, we pay the bills out of our pocket. We are only paid back through future earnings or, in very rare cases, a secondary stock offering. If there is a negative amount in the cash reserve at the end of the career/series, MyRacehorse takes the loss. If there is money left, we distribute it back to our partners on a pro-rata basis.





MyRacehorse will buy a variety of horses.

We classify them into three categories, each with its own return on investment risk profiles.

#### **STALLION PROSPECTS:**

These are colts with pedigree and physical characteristics that are attractive to Breeders. If these colts perform well on the racetrack and win Graded Stakes Races, they may have the opportunity to become stallions. Stallions vary tremendously in value based on a variety of factors. In the United States, the top stallions are worth tens of millions of dollars. An example is MyRacehorse's own Authentic. Our Kentucky Derby winner retired to stud with a first year stud fee of \$75,000. In his first year he bred 229 mares. If all 229 mares were to produce healthy foals, Authentic has generated revenue of over \$17 million in the first year of his stallion career alone. Now, most stallions never achieve the level of success to generate these valuations, but since it's possible, these prospects, even as UNRACED horses, will fetch a pretty penny in the sales ring. The median price MyRacehorse has paid in the past two years for a well-bred unraced colt with a stallion-making physical and pedigree is \$400,000. If you buy into this type of horse, you wouldn't expect to see significant returns on the racetrack, but if he performs well enough to stand as a stallion, you could be looking at high returns at the end of his career.

#### **WELL BRED FILLIES:**

These offerings are becoming more and more popular on MyRacehorse due to their inherent residual value. An unraced filly is valued on a few attributes: her physical, athletic prowess, and pedigree. These characteristics are used to assess her value as a racehorse, and once her career is over will be used to assess her value as a Broodmare prospect (a potential mama). Even if the filly is unsuccessful

on the racetrack, she can retain a substantial percentage of her value as a broodmare prospect. An example of the retention of value can be found in two prior MyRacehorse fillies, Joyful Addiction and Moonlight d'Oro. Joyful Addiction was purchased for \$385,000 as a yearling, and despite never racing, she retained value and was sold for \$150,000 as a 4-year-old. Moonlight d'Oro was a \$620,000 yearling purchase, won a Grade 3 stakes race, and was sold as a 4-year-old for a total valuation of \$850,000. If these fillies can add Graded Stakes placings and wins to their resume their potential resale value can range from their initial purchase price to millions of dollars. Similar to a stallion prospect, if you buy into this type of horse, and she is good enough to win in Graded Stakes company, you wouldn't expect to see significant returns until the end of her career.

#### **VALUE PLAYS "THE ATHLETE":**

MyRacehorse will purchase horses at valuations between \$50,000 - \$150,000 that may have less pedigree and conformation but demonstrate strong athletic prowess. Due to the limitation or perceived limitations of their pedigree or conformation at the time of purchase, they can often be purchased for a modest price. These horses have a chance to earn their money back on the racetrack, but often, especially with colts, have a lower probability of being highly sought-after stallion prospects, regardless of their on-track success. If you buy into this type of horse, and he or she performs well on track, expect to see modest returns from their racing career.

The key is to appreciate what type of horse you are buying and match it to racehorse ownership's risk/reward profile.



#### I SEE WE GET PAYOUTS FROM THE RACES, HOW ARE THOSE DETERMINED, AND HOW MUCH SHOULD I EXPECT?

To ensure there are never any out-of-pocket costs, MyRacehorse uses the concept of a reserve. When you make your initial investment, you are not just buying the horse, but you are pre-funding a cash account that will allow us to care and train for the horse, purchase the necessary insurances (e.g., mortality insurance), pay applicable sales and use taxes, and cover the legal and administrative cost of managing the qualified security. From the day after we acquire the horse, we, as the manager, will use this cash to pay all applicable expenses and deduct those expenses from the "reserve." Once your horse begins racing, we, the manager, will set a target reserve to ensure we have money for future expenses. Anytime after a race in which your horse finishes in the top three and the reserve exceeds the target reserve, a payout will be issued on a pro-rata basis.

## LET'S DO AN EXAMPLE: (IT'S A LITTLE COMPLEX, BUT WORTH THE READ)

You purchased a horse as a yearling for \$500,000, and there was \$100,000 also raised for the reserve. The horse prepares for the races by attending a training facility in Ocala, Florida, for 6 months for a cost of \$25,000. The horse then spends 4 months with your trainer for a cost of \$20,000. There are \$10,000 in legal, admin, transportation, and insurance costs. Your total cost to bring this horse to its first start is \$55,000. Your horse's reserve account starts with a balance of \$100,000, then deduct the \$55,000 in expenses, and your horse will enter the race with a reserve of \$45,000.

Let's say we target 9 months of training at an expected monthly cost of \$5,000 per month for this horse. The target reserve is \$45,000. Since the target reserve is \$45,000 and the reserve is \$45,000, all net proceeds from the first race are eligible for distribution. Okay, we're off to the races now; the example on the right, breaks it down for you.

Now let's assume your horse is entered in a Maiden Special Weight in California. The average purse for a Maiden Special Weight is \$55,000, with 60% going to first place.

#### IN OUR SCENARIO, YOUR HORSE WINS!

As the winning owner, you will receive about 70% of the purse money (10% jockey, 10% trainer, 10% manager).

\$55,000 X 60% for First Place = \$33,000 GROSS EARNINGS

To calculate Net Earnings it is \$33,000 x 70%

= \$23,100 NET EARNINGS

There were 10,000 shares available at the time of offering, so each share is .01% of the horse,

In this case, let's assume you bought 10 shares.

.01% X \$23,100 = **\$2.31 PER SHARE** 

\$2.31 per share X 10 Shares = **\$23.10 PAYOUT** 

to your MyRacehorse Wallet.

We know it's a lot of math, but it is important to highlight the calculus when arriving at owner payouts. As you can see from the math, winning a maiden race, even with a fully topped off-reserve, will only have modest returns.

It is not until you start running in stakes and the purses are \$100,000 or greater that you will start really seeing significant returns relative to your basis.







#### WE HIT THE JACKPOT, AND WE HAVE A GRADE 1-WINNING COLT, AND A STALLION FARM MAKES A PRIVATE PURCHASE, WILL I RECEIVE MY SHARE OF THE PROFIT?

This is the dream, and if it happens, you will be financially rewarded.

For example, let's assume you bought a horse for \$400,000, and with sales tax, training and care, management fees, and various other expenses, the total series cost you \$650,000. The share price was \$65.00, and 10,000 shares were offered. You purchased 10 shares for a total of \$650.

Your horse won \$1 million on the racetrack and the stallion farm purchased the horse for \$15,000,000; your estimated return would be as follows (see chart below).

So for your \$650 investment you would have received a profit of \$13,500 or a 2076% ROI. It does not happen often, but it can be quite substantial when it does. Don't count on it happening, but don't completely toss the possibility. At MyRacehorse, we buy well-bred horses intending to find superstars.





WHAT HAPPENS IF I BUY A \$500,000 YEARLING THAT GETS INJURED DURING TRAINING BEFORE THE HORSE EVER RACES AND NEEDS TO BE RETIRED?

If it is a colt, you will most likely lose the entire \$500,000 and only have the remaining balance in reserve returned on a pro-rata basis. The scary part is that this happens more than in the previous example. Only a few stallion prospects are bought/sold each year, but thousands of horses are retired before ever making a start. However, if it is a well-bred filly, they can retain some of their value as a broodmare. We have seen unraced horses retain as much as 50% of their value and as little as 5%.

INVESTMENT	GROSS EARNINGS	NET EARNINGS	STALLION PURCHASE PRICE	NET PURCHASE PRICE
\$650,000	\$1,000,000	\$700,000	\$15,000,000	\$13,500,000

SHARE VALUE	NET	INCREMENTAL	NET	10 SHARE
	PROCEEDS	TRAINING	EARNINGS	RETURN
.01%	\$14,200,000	\$50,000	\$1,415 per share	\$14,150





#### DOES INVESTING MORE MONEY GIVE ME A BETTER CHANCE AT ROI?

No, Return on Investment is a percentage of your profit relative to your investment. Profit varies by investment amount but not Return on Investment (ROI).

HORSE VALUE \$100,000	INVESTMENT	TRAINING EXPENSES \$80,000	TOTAL INVESTMENT	NET REVENUE \$200,000
User A Buys 25%	\$25,000	\$20,000	\$45,000	\$50,000
User B Buys .01%	\$10	\$8	\$18	\$20

	PROFIT	ROI	
User A Buys 25%	(\$50,000 - \$45,000) = \$5,000	\$5,000 / \$50,000 = 10% ROI	
User B Buys .01%	(\$20 - \$18) = \$2	\$2 / \$20 = 10% ROI	



#### IF I INCUR LOSSES, CAN I WRITE THEM OFF?

We are not CPAs, so you must consult your tax advisor. We can say that since you are investing in a qualified security, you may be able to offset losses incurred against other investments you make within your portfolio.

QUESTION Twelve

## I AM READY, I GET IT, I AM REALISTIC, AND I WANT IN, HOW MUCH CAN I INVEST?

Start with half of what you are thinking, and by law, it cannot exceed 10% of your income or net worth.

# QUESTION Thirteen

#### KNOWING ALL OF THE RISKS INVOLVED IN OWNERSHIP, IS THERE ANY ADVICE ON HOW TO PURCHASE A RACEHORSE WITH MYRACEHORSE?

Diversification is the key. We have a team of experts with decades of experience picking and managing some of the industry's best horses, and still, we fail more often than we win when it comes to picking profitable horses. The key to our success has been not to put all our eggs in one basket. Spread your money across multiple horses instead of going all-in on one horse to give yourself the best chance at better returns and a better overall experience.

If you are a risk-taker, of course, you can pick your favorite and roll with it, just do it with eyes wide open. It is risky.

## QUESTION Fourteen

#### CAN YOU SUMMARIZE ALL OF THIS FOR ME?

Sure, the first rule of owning racehorses is only to spend what you can afford to lose. If you invest more than you are willing to lose, the stress will be more than it's worth, and this is exactly why we created the MyRacehorse platform. We can't change the economics of racing, but we can make it easier and less stressful to get involved.

Now, with a full understanding of the economics, let's go back to Question #2:

"If it is not a wise investment, why do so many people buy a fractional interest in racehorses with MyRacehorse?"

It's hard to explain the magic these athletics bring into our lives. You root for them when they are the underdog and you bask in shared glory when they enter that coveted winner's circle. The race itself may only last a few minutes, but the journey building up to that moment can take months, even years. Every gallop, every work, every minute spent reading updates, watching trainer interviews and chatting with co-owners about your horse's progress, it all leads up to the moment your horse breaks from the starting gate and the possibility of victory is within reach. Like we said, Thoroughbred ownership is a lifestyle, an experience, a journey unlike any other. If you're ready, let's go.



