

STILL PLENTY OF 'UPSIDE'

BY EVAN HAMMONDS

With any new idea comes skepticism. Several years ago Spendthrift Farm owner B. Wayne Hughes devised the “Share the Upside” program in an attempt to help fill the books of his stallions in the teeth of the Great Recession. While there were plenty of detractors, several other breeders and stallion operators embraced the program that basically delivers a lifetime breeding right to a breeder who purchases two consecutive breeding seasons in a young stallion’s career.

The ‘Share the Upside’ program is now a general business practice, but puts pressure on less-expensive stallions

Over time in Kentucky—and now in other regional markets—the “Share the Upside” idea has become an accepted business practice.

“It’s accomplished what we wanted it to accomplish,” said Ned Toffey, general manager of Spendthrift. “There are a lot of people who as soon as we announce a horse, they’re on the phone to us. We don’t have to go looking for them; they’re ready to take a breeding right.”

Hughes, who has been hugely successful in his businesses outside the Thoroughbred arena—he founded Public Storage, a publicly traded company with a market capitalization of \$38.4 billion—devised the “Share the Upside” model to develop longtime business partners in the industry.

“The guy’s brilliant,” said John Sikura of Hill ‘n’ Dale Farms near Lexington. “He put it together and everybody laughed at him, and now he’s got a critical mass and has more breeders.”

“Wayne has been an innovator his whole professional life and has found market opportunities to



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Into Mischief’s early success at stud helped launch the “Share the Upside” program

take advantage of in business when they present themselves,” said Dan Pride, COO of Darley near Lexington. “‘Share the Upside’ is another example of that.”

“It is brilliant marketing and marketing is what it is,” said Ric Waldman, an industry veteran who once managed the stallion books for leading sires Deputy Minister and Storm Cat. “It is a simple way to guarantee more customers’ mares on the stallions’ books in the important first, second, and, possibly, third books.”

Gerry Aschinger of War Horse Place near Lexington is offering incoming stallion Dramedy this year with a “Share the Upside” offer off one breeding to Dramedy.

“It requires a certain amount of risk if you want to get in on a stallion up front,” Aschinger said. “It gives the mare owners a chance to have some equity and adds another dimension to the game in terms of how you play it economically.”

With a shrinking foal crop and a flight to quality with increased sizes of the higher-end stallion books, Spendthrift needed a way to get more vans driving to the breeding shed for its growing stallion roster.

“It came about at a time when breeders were really struggling to make ends meet,” Toffey said. “The industry was in a real downturn, and we felt like we needed to do something to make it worthwhile for breeders or we weren’t going to have any breeders.”

The farm had only seven stallions on the roster in 2009 and 11

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for the 2013 breeding season. For 2016 it has 27 stallions listed on Blood-Horse's *Stallion Register*. Finding enough mares to support a growing stallion roster has always been a challenge—not just at Spendthrift.

"This (Share the Upside) does help hold people's attention a little bit longer," said Toffey. "That is one of the biggest challenges in the business—keeping stallions' books up after the first year. Some stallions who get off to great starts aren't able to maintain it statistically because they just don't have the numbers. This program helped with that some."

What also helped the program was the success of Into Mischief. The son of Harlan's Holiday, who just so happens to be a half brother to three-time champion Beholder, struck like a lightning bolt with his first crop of runners in 2012. As part of one of the original "Share the Upside" offerings, his stud fee went from \$12,500 to start in 2009 to as low as \$7,500 for 2012. He now stands for \$45,000, and his yearling average has advanced from \$22,793 his first year to \$90,193 for 2015.

With that success and the books filling at Spendthrift, others have embraced the practice and have even taken the "Share the Upside" name.

"A couple of farms approached us about borrowing the idea, wanting to know if we minded and if they could call it something else," said Toffey. "Mr. Hughes looked at it differently from the rest of us, which is what has made him so successful. His response was, 'Why don't you just use the same name? Then you don't have to explain it to people.'"

"Honestly, there were a lot of people that looked down their nose at it initially," Toffey continued. "Now there are plenty of people saying this is the way you need to do it. Not everybody is a believer; that makes the world go 'round, but it's worked for us."

George Isaacs, general manager of Bridlewood Farm near Ocala, is hoping it works in Central Florida as the program is being instituted with incoming stallion Chitu.

"It's gaining traction," Isaacs said of "Share the Upside." "Florida is the ideal climate for this type of program."

With every upside comes a downside.

Several in the industry see a fall in the market for lower-end stallions following the program's acceptance.

"Mr. Hughes changed the dynamic on a lot of the less expensive stud fees in Kentucky," Isaacs said. "The game has totally changed up there. At the end of the day, we all have to get enough mares to the stallions to make things work. Once you are successful, you can command the stud fee you want and handle yourself a little differently."

"There's a lot more semen available than



LOUISE E. REINAGEL

"Florida is the ideal climate for this type of program."

—GEORGE ISAACS, BRIDLEWOOD FARM



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Hill 'n' Dale Farms owner John Sikura said "Share the Upside" is brilliant but has consequences for stallions standing for less than \$10,000

there are mares, and you have to do what you can to get them," said Ben Taylor, vice president of Taylor Made Stallions.

"It used to be if a horse came off the track and was a grade II winner and had a pedigree and had shown brilliance, you'd have a shot to make it at a Kentucky farm," he said. "Now even if you are a lower-level grade I winner, there's no market for you in the stallion ranks if you don't tick off some pretty serious boxes."

"It has evolved from a 40-mare book to a 200-mare book, and when you get that escalation, the better horses suck up all the best mares. There are mares now getting to the top horses that wouldn't have had a chance 20 years ago. All those move up to the higher-level horses and it pulls everything out. The horses at the bottom of the market have to scramble to get enough mares to have a chance to hit."

"It's moved to a point where no horse under \$10,000 is viable to stand in Kentucky," Sikura said. "I have enormous respect for the business acumen of Wayne Hughes. I don't question anything that he's done, but the consequences are it makes breeders less likely to make great decisions because there is little risk. I believe we have a business that has inherent risk. I believe risk should always be a part of the equation. It makes you hone your decision-making."

"The guy with the most risk is the guy who buys the prospective racehorse. Statistics will show you they lose more money than anybody."

The risk is also inherent to the stallion owner. At Hill 'n' Dale, Sikura stands three stallions owned by Gary and Mary West, who also have a similar incentive plan.

"Gary West has seen this trend, and like Mr. Hughes is a very wealthy man," Sikura said. "He can afford to subsidize the opportunity for as long as it takes to see if they will or won't hit. The average guy can't do it. Gary West isn't the average guy."

The "Share the Upside" program, for better or worse, isn't going away anytime soon, nor is Hughes the first to stir up controversy with special stallion promotions.

"John Gaines and Leslie Combs were adding bonuses and all that and people said, 'they're destroying the industry,'" said Taylor. "It's just a reflection of the market." **BH**