William Hill 2016 Final Results

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Introduction

Philip Bowcock

Interim CEO, William Hill

Overview

Good morning, ladies and gentlemen. I have to say, it seems like a long six months since I was last standing here presenting to you. Thank you for joining us. I will do a quick intro first and then hand over to Mark Summerfield, our interim CFO, for the numbers. I will then update on our progress and our priorities.

Looking back over 2016, we have achieved a huge amount, and made good progress across the four priority areas I set out six months ago. With all the heavy lifting that has been done, we are set up to be in a far better position in 2017. We have had an encouraging start to the year. Sports results have been good; much more importantly, in the UK we have made good progress during the second half of 2016, and both sports wagering and gaming net revenue are showing sustained improvements into this year. In financial terms, we ended the year with a strong balance sheet, at 1.8 times net debt to EBITDA. Though EPS was lower, the board believes the actions we have taken will deliver an improved performance, and have therefore maintained the dividend flat at 12.5p per share.

A busy year for all four divisions

The teams have stayed focused, and delivered a huge amount, as you can see from this list. In my view, Online has turned a corner, thanks to all the work on product, UX and marketing. There is more we want to do, but the signs are increasingly positive. We are now attracting top quality hires from inside and outside the sector into Crispin's leadership team, including three senior people in marketing, gaming and technology.

For Retail, what I would call out is the modernisation programme, and I will not spare Nicola's blushes. It has been a top-to-bottom restructuring of Retail's management, in a way that increases management attention on the shops and the customer experience, as well as mitigating the national living wage in the coming years. It is one of the most significant changes Retail has undergone in the last decade, and has been delivered with minimal disruption; no mean feat. So, thank you, Nicola, and any of her team who are listening in to today's presentation.

Australia is now going well, and the US continues to perform strongly. So, everyone in the business is feeling considerably more confident after the hard work over the last few months. Now, I will hand over to Mark for the numbers.

Financial Review

Mark Summerfield

Interim CFO, William Hill

Group income statement

Good morning, everyone. I will start with the Group income statement. As Philip said, we were tracking at the top end of our guided profit range, until we were hit by sports results in December, after a weak November as well. This hurt all four divisions, and in December alone reduced profits by about £18 million.

Overall, while net revenue and profits before interest and tax both ended the year up 1%, adjusted operating profit is a much better way of looking at our true performance, and this was down 10%. Across the Group, reporting at a constant currency basis would have had no significant impact.

Exceptional items included just under £10 million of corporate transaction costs, and just over £10 million of reorganisation costs, including the Retail modernisation programme. Operating and non-operating adjustments, differing quantum from last year, mainly due to the financial instrument used for the investment in NYX. A £9.9 million loss arose on fair valuing the derivatives related to our investment, and £3.2 million of interest income arose on the loan element, derived using an effective interest rate.

Net finance costs were higher, as we incurred the cost of the new £350 million bond from May, ahead of paying off the existing £300 million bond in November. As the coupon on the new bond of 4.875% is considerably lower, net finance costs will come down by around £11 million in 2017.

Our effective tax rate on adjusted profits is 9.3%. That is lower than the 15% guided, due to a range of small reasons, such as the impact of tax rate changes that were announced in the Budget but enacted in September, prior period adjustments, and the movement on provisions for our uncertain tax positions. We expect the effective tax rate to be 14% in 2017.

Overall then, adjusted EPS was down 10%, but the dividend for the year remained flat at 12.5p per share; a pay-out of 56% of adjusted EPS.

Online

Turning now to the divisions, Online saw a 2% growth in amounts wagered. The core markets of the UK, Italy and Spain were up 5%, and other markets were down 11%. For reference, the UK was up 2%.

In gaming, net revenue was down 4%, with core markets down 5%, and the UK was down 8%. However, there was good growth in Italy and Spain. We launched Vegas-style content in Italy, and had a part-year benefit from the launch of slots in Spain in June 2015. Other markets were up 2%.

At the gross win margin, you can really see the impact of the sports results in the last two months. We reported a gross win margin of 7.7% for the first ten months, and yet December delivered the margin of only 3.6%.

Looking at costs, employee costs are up 21%. This reflects our ongoing investment in technology, customer experience, business intelligence and the international teams. Marketing was lower in H2, as we had the Euros in H1, and then we started to optimise spend and address the customer experience issues.

FVAs were 0.9% of amounts wagered overall, down from 1.1% in H1, as we tackled bonus abuse.

The KPIs highlighted show the profile we were expecting, given the actions we were taking. By focusing on profitable business, we lowered the number of actives but improved the average revenue per user. New accounts are lower, as we are not recruiting customers who give a negative return, and so the CPA can be higher. However, as we start 2017, the top-line trends are now very encouraging, and Philip will talk to these in a moment.

Looking ahead, from August we will be charged point-of-consumption tax on gaming free bets. That is likely to cost us around £3.5 million this year, and around £8 million on a full-year basis. The government has no[?] plans to extend the horseracing levy to online operators, and to charge a rate of 10% of gross win from April. On current levels, that would cost Online around £6–7 million on a full-year basis, with a small benefit flowing through to Retail. The main hurdle for the government is EU state aid clearance, and we are awaiting the outcome of that stage of the process.

Retail

Turning to Retail now. As previously highlighted, Retail wagering was down, with declines in horseracing and greyhound is not sufficiently offset by football. In horseracing, one factor in the fall in wagering was the high gross win margins on tier three horseracing in the first three quarters, which reduced recycling. Margin normalised in Q4. We also now have pictures and South African racing back in the shops, and this is improving performance. Racing is a big focus for our sports book strategy in 2017.

The SSBTs are now performing really well, with 2,000 of our machines and 800 of BGT's across over 80% of the estate. In Q4, where shops had SSBTs, they accounted for about 7% of total wagering and nearly 30% of football wagering.

The proprietary route is absolutely the right one to support our omni-channel strategy. However, given the number of SSBTs in the market, it is likely that we saw less growth in football during the roll-out period.

More importantly, recent trends show we are getting our offering spot on, and performance has improved throughout the adoption curve. The machine-week average gross win in 2016 was around £600, but in Q4 it was over £720, and there have been further improvements in 2017.

So, while superficially the gross win margin at 17.6% looks normal, please remember we were at 19% in H1. So, you can see the second half was significantly below par. In fact, our margin was just 15.9% in Q4, which is normally one of our biggest quarters. Gaming, however, was good all year, up 6%. We launched 50 new games, and increased the yield with B3 increasing from 31% to 34% of the mix. In Q4, growth was around 4%, which I think seems a reasonable run rate for the coming year. Overall, costs were up 2%. The employee costs include some bonus payments this year, plus £1.5 million of national living wage costs, in addition to an underlying increase of just under 2%. Going forwards, I would expect employee costs to increase around 2–3% per year, as the modernisation programme is largely offsetting the substantial additional national living wage increases we are otherwise facing.

Underlying property costs were broadly flat, but the reported number benefited from utility, rent and rate adjustments that arose in the year. Property costs in 2017 are expected to increase some 2%.

Content cost continues to rise, through both contracted increases and our decision to take more fixtures. We anticipate content costs increasing 3–4% in 2017.

William Hill Australia

Turning to Australia; the numbers I will talk to for Australia and the US will be in local currency. Australia saw an 18% growth in amounts wagered. Within that, in-play accounted for about half of the growth, contributing 11% to wagering, but that was before the regulations changed in October. We have moved from our Click to Call product to our Quidco products, and actually, as a result we have retained more of the betting than we expected. Currently, in-play accounts for about 6% of wagering levels. Gross win margins were impacted by horseracing results, and came in slightly below our normal range. Looking ahead, the margin may change, as the product mix shifts, but for now we believe normalised margins remain somewhere between 10–11%.

Marketing investment was $9 million higher, including free bets. Now, we have invested significantly in the team supporting product and technology during the year, but we have offset these cost increases by offshoring back-office activities to Manila. As a result, overall costs were actually down 1%. In 2017, we are increasing marketing, and also investing $1 million in additional streaming, with exclusive rights to New South Wales racing being a key part of our racing strategy.

So, looking at the KPIs, we have seen strong growth in acquisition, up 19% year on year. That initially seems at odds with the lower number of actives we have seen, however the fall in actives reflects the migration of the Tom Waterhouse and Centrebet customers over to the William Hill brand. The migration means that some customers moved to using a single William Hill account rather than up to three accounts that they may have been using previously, across all three brands. So, post-migration we have seen an improvement in average revenue from retained customers, as they have enjoyed a much broader product range and better UX than before.

Just to flag, South Australia's point-of-consumption tax will apply from July, and this will cost us $1–2 million in 2017.

William Hill US

Turning to the US, the US continues to grow strongly. We launched a new app during the year, which has been very well received. Mobile wagering grew 33% in the year, and now accounts for 52% of overall wagering. We have added yet another way for customers to deposit into their mobile accounts, with the launch of prepay cards, and have rolled this out to all users of the new app.

Gross win margins reflect some very poor American football results in Q4, but the underlying volumes meant we grew our way through that. With costs well controlled, we saw a 39% increase in operating profit.

Cash flow and net debt

Turning lastly to cash flow and net debt. Looking at the cash flow, the major items during the year have been well flagged: investments in CAPEX, NYX OpenBet and Grand Parade. We launched a new bond, paid off an old one, and we returned £109 million in dividends and £95 million through a share buyback programme. Major items within CAPEX included £17 million to develop our SSBTs and our omni-channel strategy; £17 million and £10 million on products and trading in Online and Australia respectively; and £4 million on data management. In 2017, CAPEX will be in the £90–110 million range, as we accelerate investment to support the transformation. That is it from me, thank you.

Operating Review

Philip Bowcock

Interim CEO, William Hill

Regulatory update

Before we go into the more interesting stuff about what has happened and what we are going to do next, let us do a quick regulatory update.

Triennial

On the triennial, we made a submission to the government in December. Currently, we expect to hear back in late spring, and indications are that there will be a further consultation on their proposals, taking us through to late summer or early autumn. We continue to engage constructively, and we are focused on ensuring government clearly understands the growing evidence base as it makes its decisions.

Fourth EU Money Laundering Directive

On the fourth EU Money Laundering Directive, we are still waiting to hear from the government whether LBOs will be included. This is due to be implemented in June.

Australia National Consumer Protection Framework

In Australia, the revisions to the Interactive Gambling Act are not material to us, because we have already changed our in-play approach under our Northern Territory license provisions. However, the National Consumer Protection Framework is likely to address the question of credit betting, plus consumer protection measures, so we are keeping close to that process.

US legislation of sports betting

In the US, there are a number of states now looking to challenge PASPA, including New Jersey appealing the ruling last July. The Supreme Court has asked the incoming Solicitor General for their views on the appeal, materially increasing the likelihood of the case being heard.

It is also interesting to hear more positive comments from the commissioner of Major League Baseball recently, recognising that betting on games is a form of fan engagement and can fuel the popularity of the sport. We are actively engaged in the various routes that are being pursued at state or federal level to drive towards regulatory or legislative change.

Good progress against our four focus areas

So, moving on to what we have been up to. As I outlined that the interims, we have been focused on four focus areas. I will update on our progress, and talk about what is coming next.

Maintain the pace of Online's turnaround

Starting with Online. We said we would deliver sports book improvements in H1 and gaming in H2, with UX enhancements and a refocusing of marketing spend in the second half as well. Crispin gave many of you a good overview in October, so I will update on what has happened since then.

For sports book, trends have further improved since our November update. You will remember UK wagering was down 0.7% in H1. We were plus 4% in November, and so far in 2017 it is up 10%. The number of sports book actives on a Saturday is looking particularly encouraging, and right now we are working on the last pieces of the front-end transition for the UK, releasing our Android app and gradually moving our desktop traffic.

On gaming, we have redesigned the Live Casino website and app, which led to a good increase in actives. The new Vegas app, built by our new team in Kraków, has been well received since its release in January, and cross sell is progressing. There is more to do. Since the beginning of the year, we are back into growth.

UK gaming net revenue was down 8% in 2016, but it is currently up 8% so far this year. So, sports book is looking good, and gaming is getting better.

The customer funnel is about continuous improvement. It is the 0.1% changes that, with our scale, have a hugely disproportionate benefit. Sports book conversion improved sharply during Q4, as several key initiatives landed, such as the new targeted landing page and improved registration form. Just to give you one statistic, our registration conversion rate improved 17% between H1 and H2. We will apply the same on-boarding experience to gaming during Q2 this year.

On marketing, we have seen some encouraging early results from programmatic. Our new offers are doing well, particularly our high-five racing offer, which is our first headline omni-channel offer across Online and Retail. We also ran some successful gaming campaigns. We are seeing a sustained improvement in the quality of our new accounts across key acquisition channels, in terms of both revenue contribution and retention rates. The value of new accounts in Q4 was 29% higher than it was in Q4 2015.

Drive increased efficiencies across the Group

We have made real progress in our efficiencies review. We did a top-down review before the year-end to determine the size of the prize, and are in the final stages of the detailed bottom-up validation with execution plans. We originally said we were targeting £30 million; that is now at least £40 million of efficiencies that we can achieve by the end of this year. We will make most of the changes in 2017 but, given the scale of the programme, and to ensure that we are able to focus on growth at the same time, some changes will be made in 2018.

Deliver the technology roadmap

Turning to technology. I think you have seen a version of this technology stack diagram before. What you can see is that we have now got in place what we need for the UK market. That is the product platforms, control of our front end and extensive customer data. Our front-end platform has enabled the rapid changes we have made to sports book, gaming and the customer funnel, and the proprietary SSBTs were only possible because of the front-end control we now have. At the same time, adding the Grand Parade team has substantially improved our capability and increased our capacity, and we are really pleased with the products they are producing for us.

Our strategy is either to own or have control of our technology roadmap, particularly in the area of sports book, where we have a USP. We own the elements that most differentiate what we give our customers. While we do not have to build it all in-house, we need to control the direction we are taking, and that is what we are achieving with OpenBet.

Refocus the international growth and expansion

Outside the UK, we are growing well now in Australia, the US, Italy and Spain. We are delivering great product innovations faster than anyone in Australia, and we have completed the migration of Centrebet customers to the William Hill brand. Australia is, however, a tough space: highly competitive with increasing costs, especially media. So, while we are investing heavily in William Hill as our core mass market proposition, we are also testing the niche price-led strategy under the Centrebet banner, targeted at our higher-staking customers.

In the US, we are rapidly gaining market share. We have opened five new sports books to take us up to 56% of the market, or two thirds of books outside the Strip. Our share of sports handled is up from 18% to 21%, and our share of hold is up from 21% to 26%, as we operate at a higher margin. So, we are on track to get to the 30% market share that Joe said was our target when he presented to you last April. Our new app has gone down well, and mobile is now 52% of our wagering levels, up from 48% in 2015. The global trading platform continues to give us more in-play product. We have brought virtual racing to Nevada, which is now in 12 of our locations, and we are getting ready to expand into a third state with a new deal to run a race book in Iowa for Caesar's, and to add our 109th sports book in Nevada.

In Italy and Spain, we have had further growth, with Spain in particular benefiting from the addition of slots. The two markets together made £1.8 million profit in the year.

That is what we have delivered. Turning now to what is ahead.

2017 Priorities

Focus on what is important to our customers

Everything starts with what is important to our customers. Although much improved, our Online customer experience is not yet where we want it to be. If I take three soundbites from research we have done recently, it is very clear what customers are looking for. They tell us, 'Save me time and effort,' because we are all used to one-click ordering now; 'Make everything enjoyable,' as this is supposed to be fun, as well; and 'Make it personal,' make me feel valued and rewarded, not just one among millions.

Investing for growth: our approach

Keeping this really simple, we will invest in three enablers: our product, our marketing and our technology. This means a relentless focus in all three to give customers a quick, easy, fun and personal experience, both in Retail and Online. It is then about reaching as many customers as possible. The UK remains our absolute priority, given our scale and sophistication in the market. It is the biggest market, and because of the strength of our brand, it gives us our biggest near-term return. However, what we do in the UK, we need to be able to leverage across multiple markets, and we need to find a way to do that economically in markets that are much smaller than the UK.

The measures of that are also very simple: we want to grow our market share in the UK, and we want to increase our revenues from international markets. That is underpinned by reinvestment from our transformation programme.

So, we are investing in our three enablers. For product, we are increasing our technology headcount further, with another 100 people in product development, and focusing on data-led prioritisation. For marketing, we have already committed to reinvesting the efficiencies from digital marking optimisation back into digital marketing. At the same time, we are going to increase Online's budget. For technology, we are getting underway with a three-year programme to build one technology platform that the whole business can use.

In marketing, we have not had product launches to support while the front-end platform was being built. So right now, we have the product and we will invest. I anticipate Online's marketing spend will be £20 million more in absolute terms. However, if you include the approximately £10 million in 2017 of the digital marketing benefit we get this year, and the £9 million that went into the Euros that is staying this year, there is a real increase of about £40 million.

The global platform benefits both the UK and international growth. It will enable us to bring our innovations to every market we are in; it will give us a flexible platform that works with smaller markets; and it will make us more efficient, because we will not have to maintain multiple platforms across multiple territories. It will be flexible by being broken down into components, and it will be a collaborative project between William Hill and OpenBet. Remember, we can ultimately bring the platform in-house if we want to. The cost is about £30 million over three years. It is not 'big bang', so some benefits will start to come through in 2018.

Which gives us three strategic priorities…

So, what this will mean in the UK and internationally: growing UK market share, growing international revenues and delivering the technology and transformation projects.

Grow UK market share

First it is about the UK, which remains our primary one. This is about what Retail and Online are delivering, both individually and together: getting the basics right, delivering great product and UX, and using what we know about our customers to give them an ever more personalised experience.

Here is an insight into what we are currently delivering. We have a big push in H1 on player funnel optimisation. We will transform the quality of the service customers get, and get more efficient at the same time. In product terms, we will finish our gaming upgrade, and we have already taken a big step there by rolling out the single wallet on 7th February. Now, all aspects of the OpenBet and Playtech wallets are joined up; a seamless customer experience.

We have got more sports products to roll out, like #YourOdds, which gives customers a great personal experience. We are now pushing fast on the omni strategy. We have 2,000 proprietary SSBTs out there, but that is just the start of the journey. We will add more product with some very exciting additions. We are trialling a new, smaller format, which some of you may have seen at ICE two weeks ago. We have got the Bet Tracker app, and we will have an omni-wallet before the end of the year, so customers can access their Online accounts to deposit, withdraw and transact through the SSBTs. So, the first priority is the UK.

Grow international revenues

Australia

The second is international. In Australia, we have an opportunity to be a seriously disruptive challenger brand, with good traction and rapid delivery of new products. I was down there last month with Tom and the team. We have got the product and the decent technology for the near term. We are going to invest more in marketing to grow market share further and faster, increasing the budget by about one third. This is a tough market, but it is a good one, and we are going to fight for market share.

US

The US is a great business. Joe and his team have done a brilliant job of building our brand presence, growing market share and getting our voice heard, and he has more plans for mobile. Joe is actively involved in the conversations from the federal to the state level about how sports betting could be legalised. Clearly, the US political environment is in a state of flux, but we are as well placed as we could ask to be.

Italy and Spain

In Italy and Spain, the markets are growing well, but clearly our focus short-term has to be in the UK, so we will ride the growth by continuing to invest in marketing.

Rest of world

For the rest of the world, the optimal solution is to have a global platform, but while we are building that, there are near-term opportunities we can pursue without diverting away from the UK focus. We will move to a global technology platform when it is ready.

Deliver key projects: technology and transformation

Third are the two key projects underpinning these two strategies: having the right technology, and transforming the organisation.

Deliver key projects: technology

For technology, as I said earlier, we have got the tech we need for the UK. The key project is the global technology platform with OpenBet. That will take is even further in the UK, making our existing international businesses more efficient and enabling us to move on to other international markets.

Deliver key projects: transformation

The transformation programme is a near-term project that will make us more efficient, and provide capital for us to reinvest. It is about making sure our organisation is fit for purpose in delivering these goals. William Hill has grown in the UK rapidly and organically for eight years, and the Online and Group functions have never been reviewed in that time.

As I said, we are looking to deliver £40 million of efficiencies. Let me give you a concrete example of what will be changing. We have highlighted digital marketing before, because it was the most advanced area of the programme. We said we would deliver £15 million; we are now targeting £18 million. PPC and affiliates have been our key areas so far. We have taken away marginal and unprofitable campaigns, and removed unprofitable keywords. Overall, we have removed around 1,000 loss-making affiliates, and we have moved away from CPA to a rev-share basis.

External spend is a key focus, and will benefit from a more co-ordinated approach across the Group. In IT terms, it is about getting efficiencies out of our supply contracts, and we will reduce the number of data centres. For the UK, we have currently got six where we should have two or possibly three. The customer service experience is continuing to improve, as we fix the areas that currently cause most pain. We will keep simplifying the journeys to reduce the volume we have to handle. We are also increasing our organisation effectiveness, including focusing on resourcing on our key growth areas.

Summary

Thank you all for listening. We have covered a lot of ground, but what I would like you to take away is this: we are growing in the UK again; we will start taking market share this year; we are clear about where we want to invest in our product, our marketing and our technology; we will leverage our strengths to grow digital and international revenues; and we have a clear plan to transform how we operate.

After that, I am sure there are some questions, so over to you. Crispin and Nicola are also in the front row if there are any difficult ones.

Q&A

Timothy Ramskill (Credit Suisse): Three questions, please. Obviously, with the triennial review underway, what are your thoughts on how effective roulette can be as a product if we do see a significant reduction in stakes? Is there a level where the product becomes much less attractive fundamentally?

Second question: to what extent do you see SSBTs as a potential mitigating factor in a world where regulation goes against you?

Then the final question is maybe a bit stupid, but in terms of national living wage, how do the plans you have put in place this year help to mitigate the changes in living wage that we expect over the next four or five years?

Philip Bowcock: I will take those in reverse order, if that is all right. With the national living wage, it was about streamlining the management structure that we had across the whole of the Retail estate. So, effectively, you are making sure that we have people closer to the customers, and ultimately that streamlining has enabled us to make sure that we operate in a more efficient way, and therefore the cost effect means we have a benefit against the national living wage, so we can mitigate. In subsequent years[?], what we have done is we have taken the base down, so actually the effect of national living wage comes through, it is mitigated.

With regards to SSBTs, clearly we have rolled out 2,000 of our own now. We have 800 BGTs still in place; those will roll out during this year, and we will make sure that during the year we have an SSBT in every shop. That will enable us to get better returns from those. We also have more product to roll out on our SSBTs, so for example horseracing should come through sometime in the first half of this year. So, yes, that will be a mitigating factor.

When it comes to roulette, I think we have to wait and see exactly what the triennial review says before we understand the potential benefits or not of substitution effects.

James Ainley (Citi): Two questions, please. To the extent that you are upweighting the marketing, can you talk about the returns you are expecting to get on that marketing spend?

Secondly, on SSBTs, you said that gross win per machine was up to £720 a week. How does that compared to the BGT machines? As you enhance the product going forward, where do you think that £720 can go?

Philip Bowcock: Again, let me do them in reverse order. It might be a theme. So, the SSBTs were exactly where we want to be. I think we are slightly behind the BGT performance at the moment, but again, it is due to product more than anything else. When we get the right product in there, I think we will have performance at least as good as our existing BGT machines.

Returns on marketing: clearly, we have to make sure that we achieve profitable growth at the top line. Those returns should start to come through into next year. Typically, you would look for a 12-month payback on marketing investment.

Patrick Coffey (Barclays): Three questions, please. On the FOBT debate: Philip, when you are going into Number 10 or 11 to have these discussions, what are the three key points that you are making to the government around FOBTs?

Secondly, given how competitive the market is at the moment from a pricing perspective and from a marketing perspective, can you still grow significantly in the UK market without increasing your scale via M&A? A similar question also in Australia.

Then finally, can you just talk us through the trends in terms of share of voice: how has this changed over the last year, and how should we think about William Hill's share of voice? Thanks.

Philip Bowcock: When we are going into Number 10, and now I do frequently go, it is all about two things. It is firstly about empirical evidence, and making sure that the government understands the empirical evidence that surrounds the nature of individuals gaming on machines. So, they understand the level of problem gambling that there is. The second point, which that leads into, is that we do operate a very good, regulated environment. To give you an idea, we have over 50,000 customer interactions a year in our Retail estate. So, the view that I certainly hold is that it is better to let people who want to game on game machines operate in a regulated environment, where there is some oversight, than allow the whole thing to go underground and into an illegal area. So, those are probably the two things we focus on, when we go in and talk to the necessary representatives.

When it comes to market growth and whether we can continue, I think we need to get back to market growth. Clearly, we were not at market growth in the UK last year, so our first target has to be to make sure we get the businesses, both in Online sports book and Online gaming, back to consistent levels of market growth, and then clearly the objective is to take market share. So, that has to be the objective before any M&A ideas come along.

When we look at share of voice, share of voice to me is clearly targeted at television, and television advertising. I think if you actually look at the 18–24-year-olds today, they consume probably more advertising on their phones than they do on television, so share of voice as one number is not so important to me. It is about, overall, whether we are getting the eyeballs across both TV and online.

Patrick Coffey: Just following up on the market growth: UK sports is up 10% in the first seven weeks. What do you think the UK market is growing at?

Philip Bowcock: We think it is somewhere between 10% and 14%.

Jeffrey Harwood (Stifel): Two questions. First of all: it all sounds very positive, but the shares are at a low point, the £200 million share buyback programme has been suspended. Does this indicate that you are more concerned about the regulatory outlook than you were 12 months ago?

Secondly: looking at Online gaming, can you outline your exposure to higher-stake players there? What sort of vulnerability is there on Online if there were some sort of restriction introduced?

Philip Bowcock: We do not see any significant exposure to any high-rollers at all. Clearly, like everybody we have a range, but we have no significant exposure at the top end.

When it comes to the shares and the share buyback, I think we clearly stated that our target net debt to EBITDA was one to two times; we are sitting at 1.8 times at the moment. There is clearly the uncertainty about the triennial review at the moment, so therefore I think it would be inappropriate at the moment, when we are within those unknown circumstances, to continue any further share buybacks, given the level of gearing we have got.

Jeffrey Harwood: So, is it more on pause rather than having been suspended?

Philip Bowcock: I think the board will review it on an ongoing basis, and continues to do so.

Monique Pollard (Goldman Sachs): Two questions from me. So, I see that you are introducing an omni-wallet by the end of the year. Could you give just a quick update on how that will look, and whether all the costs for that are included in your CAPEX guidance?

Then secondly, is there any update on progress being made in terms of management, a new CEO?

Philip Bowcock: I assume you are meaning me. All I would do is I would refer back to the quote from Gareth, who is here in the front row and who you can talk to at any time later on. I am not going to say anything else on that matter, if anybody else wants to ask.

On the omni-wallet, effectively what it means is if you have an Online account, if you create an Online account, you can bet on the SSBT. It will then appear on your Online, on your phone, and you can either cash out or you can deposit the funds into your Online account. So, it means that it is interchangeable between your Online account and what you do in the shop. Totally interchangeable.

Monique Pollard: Are all the costs in the CAPEX?

Philip Bowcock: The cost sits in the CAPEX, yes.

Gareth Davis: If I could just add to that: at the outset of the CEO succession process, I did make it clear that we would carry out a thorough search, and that the process could take some time. I think I did say the process could take up to 12 months.

I am pleased to say that we are now approaching the final stages, and expect to complete an announcement in a few weeks' time. Obviously, very pleased in the meantime that we continue, as you have seen this morning, to make good progress. You have seen these results, and Philip and the leadership team should be highly commended, because they remain very focused on those key priorities, as you have seen this morning. So, we are entering the final phase.

Gavin Kelleher (Goodbody): Good morning, just three from me, please. Just on OTC wagering, in the year to date, you said it is up. Can you give any sort of quantum? How much do you think you are benefiting from competitors' actions there around pictures?

Just on current trading in general: I know it is a short period, but can you quantify if recycling from Q4 has had any benefit there?

Just on Australia, can you just refresh how much credit betting is of the business? Is it around 20%?

Philip Bowcock: Yes, it is 20%.

Gavin Kelleher: I have one final one on that: if it was restricted, do you think those customers would just go to normal payment processes?

Philip Bowcock: I think on that – let me just pick up the credit betting in Australia – it is still unclear as to effectively how that is going to be enacted; whether there is going to be a grandfathering of existing accounts, and/or whether VIPs are going to be allowed through credit betting. So, I think the impact is potentially going to be minimal.

OTC wagering: I am not going to give a number on wagering performance for the first seven weeks.

With regards to the situation regarding pictures and content, I think it is too early to say. We have done what we think is the right thing for the business. Nicola is driving the business very hard, the team are working very well in maximising any opportunities, but I think it is too early to say at the moment.

In recycling, I think this is swings and roundabouts. I think yes, we did benefit in the first couple of weeks of the year, because people have clearly won a lot at the end of the last financial year, but I think that the sporting results have again been favourable to us over the recent weeks, so clearly we have continued to see the momentum grow, as Crispin and the team continue to make the changes necessary.

David Jennings (Davy): Good morning. Two questions please. Firstly, in Online, can you comment on what scope, if any, there is to deliver positive operational gearing in 2017 and beyond?

Then secondly, in relation to Retail, and it relates to Patrick's question: in your submission to government, did you comment on what sensitivities there are in terms of the size of your shop estate, depending on what they do with maximum stake?

Philip Bowcock: With regards to operational gearing, I think you can expect the majority of any benefit to be ploughed back into marketing at the top line, to drive the top line through profitable growth. So, we have to be getting back to those levels of market share. Beyond 2017, I think you can then start to see the benefits flow through. The only caveat to that is, if we really start to see that real momentum going, there is no reason why we should not just continue to plough into the top line to drive profitable growth. That is where we have to be.

I think when it comes to Retail, around sensitivities, both ourselves and the Association of British Bookmakers, the ABB, have presented potential numbers. There is a KPMG report that has been done which indicates that, at a £2 staking level, there could be 3,500 shop closures, which clearly has a significant impact on our colleagues as well.

David Jennings: Do you think that that report is accurate?

Philip Bowcock: It is unclear, because you just do not know what the substitution effect will be, either of people just staking less or people substituting into OTC.

Joe Thomas (HSBC): Hello, three questions, please. The first one: you talked about TV advertising; can you give us a sense of what the split is of your advertising spend, or marketing spend, within the context of the overall business?

The second thing is: are there any more market withdrawals going on in the Online business, and if there are, how big are they?

The third thing is Australia: any sense of what the market is growing at there?

Philip Bowcock: We are not going to give the split of our advertising. Suffice to say that TV advertising is certainly in double-digit numbers, millions of pounds, so we are not going to give any detail of that.

Market withdrawals: I mean, market withdrawals are always difficult. There is nothing immediately on the horizon, but who knows what happens. Russia is always a tricky one, but we do not anticipate anything at the moment.

When it comes to the Australian market, I think the view is it is probably growing at somewhere around 15% at the moment.

Richard Stuber (Numis): Three questions, please. The first one is on OTC wagering. You said horseracing and dogs are down, and football is up: can you quantify what that number is over the year?

The second is particularly regarding Online growth. You said that year-to-date it is up about 10%; could you give what the comp was in January 2016 as well, so we can see: is it against an easier comp, or is it genuinely much improved?

Thirdly, on the point-of-consumption tax, which comes in in August: do you have any ideas about how you will mitigate some of that in terms of your strategy around bonusing? Thank you.

Philip Bowcock: On the point-of-consumption tax, there are some ideas that we have. I am not going to tell you, for obvious commercial reasons.

Online growth: I am not going to go into individual months, but I think the first half of last year was down 5%. So, if you take January for a proxy for that as well.

OTC wagering, horseracing: I think I will ask Nicola to come back with the exact detail of what horseracing was later on, if you catch up with her later.

No hands? Excellent. Well, thank you very much indeed everybody for listening. I hope it has been informative, and I will see you hopefully in six months' time. Thank you.

[END OF TRANSCRIPT]