WILLIAM HILL

2014 INTERIM RESULTS

1 AUGUST 2014

Neil Cooper - *Group Finance Director*

To recap, the first quarter saw a difficult set of sports results, particularly given the strong comparable period margin, more than offsetting good underlying progress across our businesses. But that positive progress has continued into the second quarter, shrugging off further gross win margin pressure versus the comparable period, of which more later.

The second quarter has seen good profit growth, allowing us to exit the half only marginally below the comparable period in operating profit terms, despite being 14% behind at the end of Q1.

Looking at the key numbers in turn: Group net revenue grew 7% versus the comparable period, or 4% excluding Australia from both periods. Operating profit was only GBP4.5 million, or 2% behind.

Net finance costs grew 22%, or by GBP4.4 million, reflecting the increase in debt and change in financing structure following the acquisitions undertaken in 2013. This was more than offset by the lack of a non-controlling interest deduction, also following those acquisitions.

The half saw an effective tax rate of 19.2%, slightly ahead of our previous guidance. This is substantially higher than the prior year effective tax rate of 6.6%, which you'll recall benefited from a one-off non-cash deferred tax credit which arose as a result of the Chancellor's enacted corporation tax reductions.

Retained profit before exceptional items fell by 8% to GBP119.7 million, with the decline driven by the swing in effective tax rates. And prior to tax, this would have grown by around 5%.

Basic adjusted earnings per share declined 16%, from 16.7p to 14.1p. Of this, around half was driven by the fall in retained profit and half by the increase in the average number of shares in issue, following our rights issue in H1 last year.

There were a number of exceptional items in the period to update you about. Firstly, relating to Australia, we incurred GBP3.3 million completing the tomwaterhouse.com integration. Together with the GBP2 million incurred in 2013, this makes GBP5.3 million in total.

Further, we restructured Australian management during the half, incurring an additional GBP1.8 million. And finally in relation to Australia, we settled the tomwaterhouse.com earn out ahead of schedule, for AUD5 million or GBP2.8 million. This is GBP2.2 million ahead of the earn-out valuation at the end of last year, hence the exceptional item. There are no further obligations relating to this acquisition.

Secondly, and as announced, we canceled our existing revolving credit facility ahead of schedule, given the new facility we entered into during this half. The unamortized fees were written off and amounted to GBP2 million.

Thirdly, we've now closed, or have firm plans to close, 82 of the 109 shops we indicated at the Q1 we anticipated closing, as a result of the government's planned increase in machine games duty. The related provision, which include allowances for rent, rates, dilapidations and so on, is GBP16.6 million. A decision will be made on the remaining sites in the portfolio in the second half.

Finally, we've incurred an extra GBP0.5 million cost relating to the VAT repayment we expensed through the exceptional line last year. The legal actions relating to this between Rank and HMRC are continuing.

The Group has seen World Cup wagering increase by nearly 100% since 2010, or 80% if you exclude businesses we've acquired since 2010. Online wagering grew over 200%. On a per game basis, online took an average of GBP700,000 in wagering in World Cup 2010, GBP1.6 million in Euro 2012, and GBP2.3 million in World Cup 2014.

Profit-wise, the tournament was a bit of nail biter for bookmakers, given the early run of favorites winning, together with the dearth of draws. In fact, it took seven days and 18 games before we broke even in online. The results in the latter part of the tournament ensured that we had a good result overall, even if the margins were not quite as high as 2010.

Most profitable gaming online, the final. You cannot beat a normal time nil all draw for entertainment. And the biggest loser was the opener, Brazil, Croatia. So literally started in a hole, ended up in a good place.

Retail net revenue, moving on to look at retail, was flat in the half with machines gross win growth of 5% and OTC wagering growth of 2%, being more than offset by the impact of the year-over-year OTC margin decline from 19.7% in 2013 to 18% in 2014.

Cost of sales grew 5% driven by growth in the machines category, as well as an additional month of machines games duty. Operating expenses grew by only 1%. Stripping out non-like-for-like cost growth, underlying costs fell by 1%. And operating profit fell by GBP7.3 million, or 7%.

Focusing on OTC wagering in more detail, the chart shows the percentage movement by major line by quarter. Quarter 1, as we have already disclosed, saw 3% growth driven by football with horseracing largely flat.

The quarter benefited particularly in racing from a favorable weather comparison, and football wagering saw strong growth with recycling playing a part.

Quarter 2 was up 1%; undoubtedly the strong football performance benefited from the World Cup. The number of horserace fixtures was slightly below the prior year by 2%, which contributed to a 5% decline in horserace wagering in the quarter.

The horserace wagering actually fell more in the major tier 1 festivals within the tier 2 and tier 3 bread-and-butter racing, which saw a 3% decline over the half.

The key adverse feature of the half-over-half performance, in terms of OTC revenues, has been the decline in those revenues as a result of the margin decline, from an exceptional, as I said, 19.7% in H1 to 18% this year.

The bulk of this margin fall was seen in the first quarter. Q2 saw a more modest decline from 18.8% in 2013 to 18.4% in 2014.

As the chart to the left shows, Q1 saw a large and now well-reported football margin decline. Positively, Q2 football margins were broadly in line through the quarter.

Racing margins in quarter 2 fell by around 1 percentage point with a worse year-over-year outcome in the major tier 1 festivals that fell in the quarter, those being the Grand National and Royal Ascot, as well as loss-making performance at a number tier 2 festivals

Whilst the Grand National result this year was still an excellent outcome in absolute terms, both Royal Ascot and the Epsom Derby festival in particular were loss-making.
Machine gross win was consistently positive through the half with 5% growth. Gross win per machine per week, as the chart shows, was up 2%, and there were circa 2% more machines on average throughout the half.

Total gross win growth in quarter 1 of 4.8% was largely matched by growth in quarter 2 of 4.3%. We did also see some footfall benefit from the World Cup in June's machines performance.

Retail costs have only grown, as we've said, by 1% against the comparable period. And if we adjust for new openings, again as we said, like-for-like costs declined by around 1%.

A major factor in this strong performance was a reduction in total staff costs which fell 2% following the rollout at the end of the first quarter of an extension of single manning to evenings, where appropriate.

We also spent less in repairs and maintenance in 2014 following a burst of activity in 2013.

Costs showing growth include depreciation, driven by CapEx increases in recent years, and as ever, content. We also have one month of VAT input credit in the prior year, 2013. Looking ahead to the full year, we now expect no more than circa 2% cost inflation for the full year, and that would include both the impact of MGD and the average estate growth over the period.

Moving to online: online net revenue grew 12% in the first half. Within this, Sportsbook grew 5% and gaming grew 18%. The gaming vertical has seen growth accelerate in 2014, driven by casino which, in total, grew net revenue 25%.

The key enabler to growth in this product has been the developments made to both improve and expand mobile gaming content, and to enhance the user experience, allowing for a seamless transition from sports to Vegas gaming content and, in doing so, facilitating cross-sell, as we saw in June, during the World Cup.

Cost of sales grew 23%, predominantly driven by the additional tax costs arising from the strong net revenue growth in our Spanish and Italian markets. Following operating cost growth of 16%, profit grew slightly in the half.

We saw 41% wagering growth in the first half, building on the 39% figure in Q1. The improving trend in Q2 has clearly benefited from the presence of the World Cup. Pre-match wagering grew at broadly the same rate as in-play, 40% and 42% respectively.

Despite this outstanding wagering growth, net revenue only grew 5% following the reduction in gross win margins. And again, whilst the bulk of the damage was done in the first quarter at 7.1 points versus 10 points, the second quarter was also below its comparable at 7.1% versus 8.1%.

Unlike the first quarter, which is largely football-driven, the second quarter decline was driven by the performance of horseracing, following a less good Grand National and, again, losses at both the Epsom Derby Festival and Royal Ascot.

Football margin in Q2 started badly in April, but recovered through May, and has also benefited from the World Cup results at the end of the quarter. And just to recap, the bulk of the half-over-half margin decline was seen in pre-match, where margins fell from 11.6% to 8.4%. In-play margins were broadly in line, 5.2% versus 5.4% in the comparable period.

In terms of KPIs, the first half saw an 18% increase in unique actives, with positive trends in both Vegas and Sportsbook. And this growth was driven by successful new accounts' acquisition, particularly through the World Cup period in June. For the half as a whole, average cost per acquisition held broadly static.

Looking at the online cost base, marketing grew 11%, 72.6% in the first half, at a marketing to net revenue ratio of 28%. We continue to expect that the full-year ratio will be around 25%. But the first half/second half split reflects a first half with some weighting driven by the World Cup, and the impact of the first half margin on actual Sportsbook net revenue in the first half.

The Sportsbook free bets to amounts wagered ratio was 0.9%, in line with our guidance. Other costs grew 22% in total.

The key challenge of online management as point of consumption tax introduction comes closer, is to ensure the capital and revenue investment into products and user experience continue, so as to allow the business to differentiate and gain share.

Accordingly, staff costs and depreciation have continued to increase, as have IT and content costs. The business also saw an increase in other costs, such as financing charges, given the increasing volume of activity in the period.

Rather than focusing on the reported results comparison for the Australian business, which we felt would be flattered by the part-year ownership period last year, we thought it would be more insightful to give you a pro forma constant currency comparison.

And on this basis, wagering shows 10% growth; margin was broadly in line, leading to a 7% growth in net revenue; and operating costs have fallen. The combination has led to a near doubling of profit on this basis.

Underpinning this has been the ongoing improvements in key operating metrics, such as cost per acquisition, which has declined 36%, and new account growth, which has grown 14%. Unique actives grew 21%, which I think demonstrates the success of our reactivation program on top of new customer acquisition. The successful integration of tomwaterhouse.com has also contributed to falling operational costs.

Looking ahead, both Victoria and Queensland have increased race field fees, and we estimate the annualized net impact of this will be around AUD10 million. We have plans to mitigate this, but there is no certainty that those plans will work, particularly as a number of their changes depend on a consumer response. If it does prove successful in profit terms, it may have an adverse impact on wagering levels, but we will update you by Q3 on progress there.

The US business showed good growth in wagering, up 22%. Allied to a favorable margin, which benefited from the Super Bowl result, this has contributed to strong profit growth.

Regulation remains a key focus in regards to the long-term development of this business. Most recent developments around sports betting regulation in New Jersey are being followed very closely, given the potential upside should this prove to be lawful.

And finally, not on this slide but in the appendix, our telephone business made a modest loss in the half, with the impact of declining revenues being partially mitigated by cost reductions, particularly central recharges, as the scale of the business reduces and as key services are outsourced.

The Group saw around GBP34 million of CapEx in the half, which is broadly in line with the prior year. We continue to expect around GBP80 million to GBP90 million of CapEx for the full year, although there is still a bit to do, particularly in online.

Working capital swung in our favor in the first half, with an GBP11 million inflow. And I would expect that this will be similar, if not slightly better, at the full year.

With positive cash flow from operations benefiting from the working capital swing, we've seen net debt for covenant purposes fall from GBP796 million to GBP720 million. Our key banking covenant ratio, net debt over EBITDA, has also fallen from 2 times at the end of 2013 to 1.8 times.

In terms of our retail estate, we saw a net growth of 11 shops in the first half, with 20 shops opening and nine shops closing. Separately, as we've already indicated, we have now closed 70 of the 82 shops that were expected to close as a result of the announced machine games duty, but that happened just after the yearend.

Moving on finally to other finance matters: just to recap, our pre-exceptional effective tax rate was 19.2% for the half, and we now expect this to be 19% for the year, assuming no change in our tax position. Our previous guidance was 18% for this year, so a modest increase.

I will also note that we do have a number of tax items moving forward, so this may change, but we will update you at the appropriate point, if that happens.

We've also moved into surplus on our defined benefit pension scheme on an accounting basis; I know how you analysts look forward to the discussions on the defined benefit pension scheme deficits and surpluses. Separately, we've completed discussions with the pension scheme trustees in regard to the most recent actuarial valuation, which, unlike the accounting valuation, remains in deficit.

Accordingly, we've agreed to continue funding the scheme at existing levels through to 2019, and I'd remind you that the current deficit repair contributions are around GBP9.4 million per annum.

And finally, at least from me, I'm pleased to be able to highlight a 4p interim dividend per share, which is up 8% on the prior year.

Thank you for listening, and I'd now like to hand over to our new Chief Executive Officer, James.

James Henderson - *CEO*

Thank you, Neil. Good morning to you all, and thanks to Ralph for those very kind words earlier. It's not only been a privilege working with you for so many years, it's been great fun, and we've certainly come a very long, long way together.

Obviously, it's my first day; I'm delighted to be here, but please do go easy on me. Let me start by running through some of the highlights from the first half, and then I'll cover off my future priorities.

Before I go through our progress, I just want to remind everyone of our strategy. We're all about using our strengths in both land-based and digital operations in regulated markets. However, our focus on regulated markets does bring the risk of regulatory and fiscal headwinds.

The resolution is simple: to build a diversified business by growing digital and international revenues. We've already strengthened our global reach with two home markets and evolving opportunities in Spain, Italy and the US.

As you can see from this slide, digital has increased from 35% to 39% of revenues, and international has increased from 13% to 17% of our revenues. Now that's not straight-line growth, because we're also getting good growth inside the UK.

I absolutely believe this is the right strategy, and I will be looking hard at how we can build on this strong foundation to continue to develop this focused, international gambling Group.

Let's look at our priorities in the first half, starting with mobile, gaming and, lastly, the World Cup. We've now rolled out Eclipse to around 1,200 shops, and we've reached agreement with Inspired to roll out to the rest of the estate, starting this October.

As we know, there's an adoption curve when rolling out a new terminal. However, we learned a lot from the first rollout, so we can expect a much reduced adoption curve this time round.

On mobile, as a consequence of our improvements to product and the customer journey last year, mobile has increased from 14% to 28% of gaming. Still way short of our 40% target and Sportsbook's 53% of revenues, but you can see where it could go.

However, during the World Cup, we did manage to achieve the dizzy heights of 33%. And we're still developing more content to drive growth like our proprietary roulette product that's helping cross-sell as well. Mobile's also very strong in the US at 36% of turnover, and in Australia, where it's 38% of turnover.

So now looking at the World Cup, it was always going to be a mobile World Cup, particularly given the variety of kick-off times. And for us, it was more than 60% of our online business or our online bets.

In regard to new accounts from the World Cup, we were well ahead of our target, and that's with us being careful what we go for. Whether it's the World Cup or the Grand National, we know the lifetime value of a new customer and, therefore, we shape our offers to fit.

For us, first and foremost, it's about securing profitable customers. It's also about engaging our customers. We went even money Brazil to beat Croatia in the opening game, effectively giving customers a GBP20 winner to reinvest for the remainder of the tournament. The offer lasted 72 minutes online.

We saw reactivations, new accounts, good cross-sell from racing and, more importantly, business from these customers for the rest of the tournament. In addition to the offer on Brazil, we gave a further GBP1 million away on offers like our bore draw acca insurance of first goal scorer, second chance.

And as you saw from Neil's slides, we had a pretty good World Cup. And that was predominantly because the fancy teams went through to the later stages, getting through either in extra time or after penalties. And again, as Neil said, a nil-nil draw in the final, for a bookmaker, is as probably as good as it can get.

Performance in Italy and Spain has also been really encouraging. We launched the mobile products as planned, sports and casino for both markets. Mobile is already generating 21% of revenue in Italy and 46% in Spain.

We're also continuing to improve our brand awareness. According to a European brand survey, we're now number one in Italy for spontaneous awareness, and we're joint second in Spain behind Bwin, but in line with Bet365.

As you can see how mobile and the brand are having a positive impact on our strong market share gains. For sports, Spain has gone from 15% to 19% and Italy has gone from 7% to 10%. And as it stands at the moment, we're on track to break even in both territories next year.

Now let's look at our recent acquisitions in the US and in Australia. The US had a great Super Bowl result with the Seahawks routing the Broncos. But the underlying growth is also good, coming mostly from mobile which is up 82%. We're also increasing our footprint and we're just about to open up a Sportsbook at the new SLS casino opening on the strip this August.

Looking at Australia, I think it would be fair to say our key KPIs are now going in the right direction. We've got a great business, with three great brands in Sportingbet, Centrebet and Tom Waterhouse. We've made a series of fundamental important steps and are very confident we now have an ideal platform to increase our market share.

It was definitely more work than we anticipated when we first went into Australia, but that's what William Hill is good about, or is very good at; buying businesses in need of improvement and making them stronger. We did it with Stanley, we did it in the US, and we're doing it now in Australia.

And a lot of the profit growth so far has been about doing things better. We've improved the operating structure, the cost base, the quality of marketing investment and our data analytics.

To give you a bit more color, we've launched the new site, we're much better at SEO and we've introduced a proper affiliate scheme. We've now integrated the tomwaterhouse.com and, because of the richness of the data we are now getting, we are able to manage our clients much better, which, of course, we will use to mitigate as best we can, the AUD10 million increase in race field fees.

Incidentally, the operating costs of these combined businesses are lower today than they were this time last year.

We've also reshaped the management team which is now lead by Tom Waterhouse. Tom absolutely gets digital and also the recreational customer, just like we do, so he's a perfect fit. And better still, he's got a great team to support him as well.

Now we've looked at the first half priorities, I'd like to look at how we are getting ready for point of consumption tax and give you also a regulatory update.

Online is in very good shape, competitively. You all know about the strength of our product range, the quality of our mobile offer and user experience.

So let me talk about marketing. As you can see from this chart, despite more players, our share in voice in advertising remained number one in the season just gone. And we were the second largest advertiser during the World Cup behind only Bet365.

We tied up what we want for TV advertising on football too. For the second year running we've secured a top tier package with Sky, which runs through until July of next year. And we're sponsoring BT Sports Premier League coverage. At the same time, we're optimizing our other offline spend, particularly around sponsorships.

I believe our online and mobile marketing techniques remain best in class. We're making continued gains in SEO and out of store rankings too. In fact, we almost had as many new accounts from SEO as we did from affiliates in the World Cup, and I think we'll see more of this as mobile increases. And we're also using social media more to drive our acquisition.

In addition, as you would expect, the team has also been looking at further efficiencies that will still keep us strong in a competitive position. This includes detailed analysis to determine the best approach to some of our key offers, saving from supplier contracts, and optimizing our headcount.

So we're on track to deliver the GBP15 million to GBP20 million savings we targeted, and we're in pretty good shape ahead of the tax coming in.

On the regulatory side, we're on track for the government's online licensing deadline of October 1. We'll monitor how the GBGA challenge progresses, but we assume we'll either be paying the tax, or accruing for it from December. The Act includes a provision to extend the levy to online; there's a consultation ongoing with a deadline for responses of August 21.

On staking over GBP50 on gaming machines, work is ongoing with the DCMS on the customer journey. We believe legislation will be in, in the autumn, and implementation before the general election. As to whether it will have an impact on numbers, it's really too early for me to say. As yet, the customer journey hasn't been agreed with the DCMS.
As you know, the RGT has commissioned NatCen to carry out some research around the use of gaming machines by problem gamblers. But let me be clear on this point. This isn't about identifying harmful patterns of play and finding ways to -- it's harmful patterns of play and finding ways to address that without impacting the vast majority who play without any problem whatsoever. And we're expecting that output in this October.

Now I've covered up H1, as I said at the beginning, I'm going to give you a brief overview of what my priorities as CEO of William Hill.

Starting with multichannel: for us to be truly multichannel, it's ultimately about getting to a one-customer proposition. Which means that a William Hill customer getting the same experience and the same level of product through technology wherever and whenever they bet.

As with other industries, there's clear evidence that multichannel customers are inclined to spend more and, if we get this right, it'll mean higher yields, higher retention, lower CPA, right across our customer base.

And we've certainly got more to aim for in the UK as the addressable market has grown from 6 million customers to 7.4 million customers in the last four years, which clearly demonstrates that online and mobile are attracting a new type of customer.

The developing trend is for customer use more than one channel. Four years ago, 13% were multichannel; today that's 20%. And as the bar chart shows, it's particularly important for the younger generation coming through. That's a big advantage for William Hill. We've got a UK retail footprint that is bigger than anyone else's, which will be increasingly difficult to replicate. And we're also number one in online with a broad product range, which makes the perfect combination.

We've made a good start with gaming. Of our top 10 games, seven were released simultaneously across all our channels. But we can ramp it up further with the use of technology.

We've already brought our own football feed into the SSBTs, which means that a large chunk of that online football product is now available to the retail customer, and tennis will follow before the end of the year.

It's not just about the UK. The US has benefited hugely from our central feed, piping more product into the Sportsbooks and onto the mobile app. Australia has benefited to a lesser degree so far, but that will ramp up shortly.

And we're expecting a multichannel advantage in the US. Mobile is a big growth driver for Nevada and we've successfully turned our kiosks from self-service betting terminals into deposit terminals for mobile customers. 64% of new accounts in the half-year came through that route, increasing to 87% in June.

So you can see how we're starting to use technology to drive multichannel, but this is only scraping the surface. That's where there's now an innovation dev cell, a dedicated R&D team whose job it is to look at innovations across the Group, because I truly believe technology needs to be at the center of everything that we do. It's what will set us apart. It's what will give our customer something different.

That's why technology is my next priority. I know a lot of people won't think of William Hill as having any great strength in technology; however, let me take you through some of what we've developed over the last six years under Ralph's leadership.

Our trading platform is largely proprietary and has been a key driver of Sportsbook revenues, growing 50% a year over the last five years.

In due course, pricing will be global. All our pricing on all our products are available anywhere in the William Hill business. And we've already started on that journey, as I covered in the multichannel section.

Our Vegas platform has been outstanding too. We built this prior to the Playtech deal, because there was nothing off the shelf at the time to deliver what we wanted. Today, it's generating as much revenue for us as Playtech's casino.

And now that Vegas is on mobile you can see how it's proven revenues in the first half. Next, we're building a tailored bonus engine so we can expand the range of Vegas bonuses which, in time, could let the customer choose their preferred bonuses.

This chart shows how we've moved towards greater self-reliance. Now we're getting the best of both worlds, great external expertise plus in-house development to drive proprietary innovations that give our customer something they just can't get anywhere else.

We embarked on this technology drive because we know we rely on the same systems as our competitors. All our customers will get the same experience. If you want to differentiate, you've got to reduce reliance on shared third-party technology. So we're not saying we're planning to go it alone. Key suppliers will remain key suppliers. But we need to have more flexibility and we want to be more fleet of foot.

Other work in progress is Project Trafalgar. We're changing how we manage the front end of our websites. It will give us flexibility and speed. We can make quicker changes, giving our customers what they want, when they want. And it's responsive, so we publish changes once and the customer gets a consistent experience, regardless of the device they're using. Nor is responsive just about laptops, tables, or smartphones; think about the same information presented on a video wall, or even an SSBT.

It also gives us a much better understanding of customers' usage of the site. And the more data we have, the more we can personalize the service. The future is all about giving customers personalized prompts based on what they want, and what we learn about them.

So let's look at international. With all this great capability, we're very well placed to compete internationally and to leverage our competitive strengths in other markets. Today, our focus is on the five regulated markets I've already talked about: the UK, Italy, Spain, the US and Australia, and we've made good progress in all.

Italy and Spain are heading to break even; the US is profitable; and I've already talked about all the good progress in Australia. The corporate development team has been tied up with Australia for the best part of two years, first constructing that very innovative deal, then buying tomwaterhouse.com, and then working with management to integrate and develop the business.

But now is a good time to lift our heads and look at other opportunities. We're redeploying that team to ensure that William Hill is best placed to take advantage of opportunities, as and when they arise.

This chart shows the top 10 gambling markets in the world and their principal products. That's our framework; think of this as our starter for 10. And we'll certainly be flexible in our approach. We'll consider B2B, B2G, or acquiring a complementary capability. We're already doing B2B in Nevada, and B2G in Delaware, and the majority of the strip operators use our proprietary betting platform. That's in addition to William Hill US running 100 of the 181 Sportsbooks directly.

And as in the US, we wouldn't rule out investment in retail in international markets in order to benefit from multichannel. In some cases, like the US, we just don't know what regulation would look like, but we need to position for whatever happens, not to get caught flat footed. What's important is to have flexibility in our technology, and to have a team of experts looking for those right opportunities.

So in summary, we've had a strong start to the year, with the underlying numbers showing very good growth. Regulation is clearer with this government and we're making good progress there. And we've got a clear strategy to continue to drive growth.

We've cut our teeth on some of the toughest gambling markets in the world. And I believe that we've proven that we can deliver. We've got the capability in products, in technology, and in marketing, and we've got the best team in the business too. And we're perfectly placed to bite off a little bit more.

As our CEO, I'm truly excited by the opportunity ahead of us, and have every confidence we can continue to build a focused, and increasingly international, gambling group that will deliver strong shareholder returns.

Thank you for your attention, and now over to you for questions.

QUESTION AND ANSWER

James Ainley ***- Citi - Analyst***

James Ainley, Citi. One for James, and then another for Neil. James, first of all, could you talk about the competitive intensity you see in the market? You talked about that you're keeping your foot flat to the floor in terms of investment and marketing and so on, but what do you see your competitors doing?

James Henderson ***- CEO***

I think with point of consumption coming up, I think already some of our competitors have made a few tweaks. As we know, Rank and Blue Square came out of the business around about 18 months ago. Stan James, I think, are looking to outsource their trading platform, and another bookmaker is looking to withdraw from Gibraltar. So there have been a few operational changes. I think certainly, from our point, we're best placed, as I said, in regards to the upcoming point of consumption.

We've secured a couple of top tier marketing packages in regards to sponsorship of BT's Premier League, and also Sky. So we're well placed. I think the numbers are strong. The underlying growth, even if you strip out the World Cup, is strong. So I think we're best placed to be able to go into a point of consumption environment.

James Ainley ***- Citi - Analyst***

I guess my follow-up to Neil was, can you say what the underlying wagering growth is in online if you stripped out the World Cup?

Neil Cooper ***- Group Finance Director***

I think the first thing I'd say is, it's probably lower than our published numbers, because you've got a World Cup in the numbers. I would also just flag that, in quarter 2, we had one less Premier League round as well this year than last. So that would go a little bit the other way. Quarter 1 was, again, better than underlying because we had a soft weather comp on quarter 1. So I think the answer is somewhere south of where we are. I wouldn't want to put a single number on it because there's a number of moving parts. As ever, we'll get a better view as we run through the second half. What have you got in your model?

James Ainley ***- Citi - Analyst***

30.

Neil Cooper ***- Group Finance Director***

30, okay. Just one point to build on, James, if I may, just on the competitive situation. We've see some bonusing for new customers, not around the World Cup, but a little earlier in the half around some of the big race events that we chose not to match. But that seems to have dissipated a bit around the World Cup. So whether that was just some people having a go at something and then back to normal we'll see.

I think the level of bonusing around new customer acquisition got a bit hot through the end of the first quarter and into some of the big racing events. But that seems to have lessened a little bit, actually, round the World Cup, so we'll just have to see on that.

Ivor Jones ***- Numis Securities - Analyst***

Ivor Jones, Numis. You talked about the benefits of single manning in the shops; some critics of the industry say that's not responsible. Could you just talk about how it is responsible?

James Henderson ***- CEO***

Okay. When we embarked on extending lone working, we did a risk-based approach. So we risked assessed every shop in the estate. We have three tiers of risk. And then, as a consequence of that, we decided to extend lone working in, just shy of, about 2,000 shops across the estate. In regards to was the risk-based approach appropriate, the statistics that we've been monitoring, on a weekly and a monthly basis, have shown that there is no variation to all the statistics that we monitor, all around security and what have you. So it demonstrates that the risk-based approach was exactly the right thing to do.

Ivor Jones ***- Numis Securities - Analyst***

You mean there's no more problems in single manned and --

James Henderson ***- CEO***

Yes, exactly. The statistics are consistent whether that be incidences or robberies or whatever. They are all consistent whether it's two or whether it's one, as it showed before we embarked into the risk assessment.

Ivor Jones ***- Numis Securities - Analyst***

Okay. And some banks, some even represented in this room, are prepared to lend gambling businesses 6.5 times net debt to EBITDA like in the case of Amaya and PokerStars. Doesn't that make 1.8 times net debt and falling look a bit miserly and cautious?

James Henderson ***- CEO***

I don't think it looks miserly or cautious; I think what it allows us to do is to have a little bit of headroom, should an opportunity arise. So I'm very comfortable where it is at the moment; I don't know whether you want to comment?

Neil Cooper ***- Group Finance Director***

No, I would obviously just add that the wisdom of gearing is generally assessed in hindsight, rather than the start of a deal. And I would probably echo James' comment that where we are now gives us headroom to move further up, should we want to do so; absolutely in support of what James has said.

Ivor Jones ***- Numis Securities - Analyst***

Thank you. And lastly, just a detail on the retail. Are the number for all shops that were subsequently closed included in the first half numbers for retail?

James Henderson ***- CEO***

You're talking about the 70? Well, the exceptions are --

Ivor Jones ***- Numis Securities - Analyst***

Yes. All the operating costs are in the retail reported figures, so the exceptional relates to stuff after the period.

Neil Cooper ***- Group Finance Director***

They're trading shops until the point they're closed, so we haven't held a group of shops as an available for sale or as a non-operating group; they're just in the base numbers until the point they've closed. And 70 have closed, I think --

James Henderson ***- CEO***

28/29 with 70 have closed.

Ivor Jones ***- Numis Securities - Analyst***

Okay. Thank you.

Vaughan Lewis ***- Morgan Stanley - Analyst***

Vaughan Lewis, Morgan Stanley. One on retail, please. With the cost cuts and the closures, how's the staff morale, and is there any risk that you start to see an impact on service levels and productivity at the shops?

And then looking into next year with the increase in MGD, is there any more that you can do on the costs base to try and mitigate that, or should we expect that that will drop through to profit then?

James Henderson ***- CEO***

If I can just take the service levels? Similar to when we look at a risk-based approach and then monitor the impact that we have, a thing that we call Net Promoter Score, the NPS. And in fact the last survey they did, the measure of service was the highest we'd ever had. So I don't think that's had really any impact on the service; in fact, it's improved, which is very encouraging.

In regards to MGD, as you heard when Neil went through the numbers, actually on a like-for-like basis, retail's costs are 1% less than they were. Obviously, as I ran retail for a number of years, regular reviews of the costs base. So it doesn't mean we won't stop reviewing it, going forward, and we'll take any opportunity we can, but I think we've proven to be very good, historically, in regards to managing the costs base.

Vaughan Lewis ***- Morgan Stanley - Analyst***

And then just a quick one on current trading. I know you don't like to say too much, but with GBP13-odd-million of gross win from the World Cup in the second half and most of the costs in the first half, should we assume that's pretty much all profit, after duties obviously?

Neil Cooper ***- Group Finance Director***

Yes, you're right. We haven't said anything on current trading (laughter).

Victoria Greer ***- JPMorgan - Analyst***

Victoria Greer, JPMorgan. Firstly, on costs in online, you talked about up 22% in H1 ex-marketing. Could you talk us through a bit more what's that getting you in terms of capability and new products and so on? Does some of that relate presumably to the mobile, the development hub that you've opened in London?

James Henderson ***- CEO***

Yes. Some of it does relate to that. As Neil talked about it in regards to marketing spend, it was weighted towards the first half because of the World Cup, and then we're not going to change the guidance for the rest of the year. I don't know whether you want to add anything else on that aspect?

Neil Cooper ***- Group Finance Director***

Sure. The costs growth has come in a range of different categories; some are directly linked to volume. So if you take bank charges, for example, the fact that Sportsbook net revenue grew 5% is irrelevant for bank charges; wagering grew 40%, and that's what's driving bank charges. It's the cash handling not the amount that we're left with, because you're paying it in, you're paying it out.

I would be cautious in trying to extrapolate 22% versus, say, 5% because it's really, in some areas, 22% plays 40%. That's the first comment.

In terms of costs growth around staffing, we have and we are beefing up areas like customer service, because again, customer service is not about the 5% Sportsbook growth; it's about the 40% and the 18%, the volume drivers. In our operations, and I think we've mentioned this previously, we have restructured our development efforts, so we're now sitting our IT developers alongside our operators in development cells. That's increased our costs base to a degree. But what it also does is improve our speed of delivery and, clearly, improve our operational focus around getting the right product to the customers at the right time.

And in general, our IS costs are going up because we are driving innovation areas like mobile gaming; we're driving investment into our Vegas platform; Project Trafalgar, as James has talked about at length, is driving our costs. Some of the benefit of that is not yet here, but it will be.

And some of this is about enabling costs. It's about putting the conditions into the infrastructure that allow us to get innovation quicker, that allow us to use the platforms elsewhere. There's not an immediately day one payoff, but it does structure us to be able to drive the engine harder, going forwards.

The other obvious point to make with the growth in CapEx, in part driven by the deliberate growth in CapEx following the exit of Playtech, we will see depreciation continue to go up as well.

Victoria Greer ***- JPMorgan - Analyst***

Thanks. And then just a second one, James please, on Australia. Australia's really turned a corner in Q2, but revenue up 7% in H1 is still below the 10% market growth rate that you talked about at the time of the acquisition, your having worked in the Australian business. What gives you confidence to say this is fixed and we can now move on to another opportunity?

James Henderson ***- CEO***

Well, I think we've done a number of changes which I alluded to earlier. First and foremost, we've now got a set management in there led by Tom. Tom's a fourth-generation bookmaker; he worked on the course for four years, then he created his own digital business, so he's very tech savvy. So in regards to making sure that we drive digital, I'm very, very comfortable.

We've also put responsive websites in there so that we can get a much better user experience for the customers. And we've also done a lot of work around targeting the marketing spend to be appropriate; we had Shane Warne promotion for the beginning of the year.

And lastly, we've done a lot of work in regards to the customer base as well in making sure that we give the customers what they want. We've done a lot of work and, as I said, there's probably a little bit more than we expected, but it's almost like we've cleaned the slate now. We've got a good management team in place, we've done a number of good changes, and now it's about going after Sportsbet so I'm confident of the future.

Richard Stuber ***- Nomura - Analyst***

Richard Stuber, Nomura. Just one quick question, please. With the rollout of the Eclipse machines in the retail estate, to half of it, could you give an indication of the difference in profitability between the new generation machines and the old ones?

James Henderson ***- CEO***

If I could just start saying they're both growing, both the Eclipse and the Storm. But if you want me to put a number to that, it's around about 1% increase over the Storm.

Richard Stuber ***- Nomura - Analyst***

Thank you.

Ed Birkin ***- Credit Suisse - Analyst***

Ed Birkin, Credit Suisse. In Australia, can you tell us the percentage of stakes that come from Victoria and Queensland, please?

James Henderson ***- CEO***

I haven't got a specific, but I can tell you -- no, I don't have a specific. I don't know whether you --?

Neil Cooper ***- Group Finance Director***

We'll come back to you on that, if you don't mind?

Ed Birkin ***- Credit Suisse - Analyst***

On the online business --

James Henderson ***- CEO***

Can I just say that Victoria is a large proportion of our staking obviously, because it's where the best racing is really held.

Ed Birkin ***- Credit Suisse - Analyst***

On the online business, I'm just trying to work out the potential hit from if the levy got moved across, and tell us the percent of revenues from horseracing, please?

Neil Cooper ***- Group Finance Director***

The horseracing, in terms of wagering, is about 30% to 40% of wagering in online. James will make a couple of comments about this as well, but I think in connection with offshore horserace levy, the point that we're making is that the levy is assessed around the horseracing industry's needs. Now if the government subsequently determines that there should be more people paying, that doesn't, in our view, alter the view that the levy is designed to raise what horseracing needs.

So I think our presumption is, look, we would not presume that that means necessarily more money for horseracing, because the current levy is set around horseracing needs. It may lead to different people paying it.

James, I don't know whether you --?

James Henderson ***- CEO***

I absolutely agree, that's how it's based and the consultation doesn't finish until August 21, so we won't be able to see that. But I think Neil's point's valid in regards to actually it might be a nil cost to us as a sector.

Ed Birkin ***- Credit Suisse - Analyst***

You don't pay anything voluntarily online at the moment do you?

James Henderson ***- CEO***

On the horseracing levy.

Ed Birkin ***- Credit Suisse - Analyst***

On the horse racing levy? Okay, and then just --

Neil Cooper ***- Group Finance Director***

We pay enough tax involuntarily.

Ed Birkin ***- Credit Suisse - Analyst***

And just a final one a bit more longer-term view on retail. How shall we be thinking about this do you think longer term, especially more on the cost side of things? Obviously, there's a bit of a decrease this year with single staffing. I assume then you're largely beholden to minimum wage increases as that brings up everyone's wages, property costs and a price taker when it comes to content? Or do you view it differently in the fact that you can proactively manage costs better?

James Henderson ***- CEO***

I think retail is an extremely resilient channel. It's still our most profitable channel and still 79% of people who place a bet use a retail outlet.

So online's been around for 15 years; retail has been very resilient within that time. Lots of regulatory and fiscal headwinds, lots of costs going into the business, but we have, notwithstanding this year, we have maintained profitability the same as three of four years ago as well. So it has been very resilient. And, as I said earlier in regards to looking at the cost base, it's regularly reviewed, and if there are any opportunities within that we will do.

But the expectation is if we do come out -- a little bit of the economy picks up, then I would expect retail to pick up too. So, as I said, it's still the most profitable channel and I don't see the demise of retail any time soon.

Neil Cooper ***- Group Finance Director***

Sorry, having just taken the moment to do the math, horseracing in H1 was 27%. I think my first guess was 30%, so --

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Ed Birkin ***- Credit Suisse - Analyst***

Turnover or revenue?

Neil Cooper ***- Group Finance Director***

Wagering.

Ed Birkin ***- Credit Suisse - Analyst***

Wagering. Okay. Thank you very much.

Neil Cooper ***- Group Finance Director***

That may be slightly disbenefited because of the World Cup this year but --

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Joe Thomas ***- HSBC Global Research - Analyst***

Joe Thomas, HSBC. Couple of questions, please. The first one is about mitigation generally. You talk quite cryptically about potential mitigation strategies in Australia; is there any more granularity you can give us on that? What sort of percentage?

James Henderson ***- CEO***

Specifically about mitigation in regards to the race field fees?

Joe Thomas ***- HSBC Global Research - Analyst***

Yes.

James Henderson ***- CEO***

We've just looked at a number of efficiencies, as you would with any business. And I think the main thing is in regards to making sure that we monitor clients -- we have profitable clients and I think we've gone through the whole client base to make sure that we're able to do that.

Obviously, the fees were introduced on July 1, so it's probably too early to say. And, as Neil said earlier, it's about the way that the clients may react to some of those changes, but we haven't seen any impact as of it yet.

Joe Thomas ***- HSBC Global Research - Analyst***

And then in the UK as well, is there any more granularity you're able to give around the GBP20 million to GBP25 million, exactly where that's going to come from.

James Henderson ***- CEO***

I think I would say it's predominantly marketing in regards to that GBP15 million to GBP20 million, by the way.

Joe Thomas ***- HSBC Global Research - Analyst***

And then just finally, I think the answer is no, but any impact from the voluntary code on machines?

James Henderson ***- CEO***

We've not experienced any.

Joe Thomas ***- HSBC Global Research - Analyst***

Thanks.

Nick Edelman ***- Goldman Sachs & Co. - Analyst***

Nick Edelman, Goldman Sachs. Just one on capital allocation, please. Given what you spoke about in terms of your focus on technology, does that mean that CapEx is likely to increase progressively, perhaps significantly, over the next couple of years? Or will you be reallocating some of your capital from retail, given the regulatory and cost headwinds you face there, please?

James Henderson ***- CEO***

Yes, probably. The overall amount won't, but the capital may be reduced slightly in retail; you're absolutely right.

Nick Edelman ***- Goldman Sachs & Co. - Analyst***

Perhaps just to be more specific, in terms of shop openings net estate growth, do you continue to pursue that?

James Henderson ***- CEO***

Yes, we do. As I said, because of the MGD, at the bottom end of the estate we've had to close, or will close, 109 shops, but at the front end of the estate, we will take new license opportunities as and when they present themselves.

Neil Cooper ***- Group Finance Director***

Just to build on that, that process isn't starting today, to be fair. Firstly, as I've already mentioned, part of the rationale for taking Playtech out was to unlock the headroom on CapEx. And we've guided to a growth from GBP20 million in 2012 to GBP40 million this year and Project Trafalgar again didn't start -- Project Trafalgar's been running for six to 12 months.

So some of this is just, I suppose, a better articulation of what's been going on. So you shouldn't automatically assume that the change starts here; I think the change has already started, looking back a way. So you can also imply from that that the change, going forward, won't be as material as you perhaps fear.

We were guiding to GBP40 million on retail two years ago; we're now looking at GBP30 million this year, so some of that is already in train.

Patrick Coffey ***- Barclays - Analyst***

Patrick Coffey, Barclays. Just one question with two parts. On the gaming side of things, clearly there's been a big acceleration there in online gaming this year and a further acceleration in Q2 versus Q1, but poker and bingo still in negative territory. You may be just to talk us through the path to poker and bingo returning flat and potentially growth and when we should expect that?

And the second part, which is seamless; James, can you give us an idea of your view on the cyclicality of gambling within the retail estate, clearly, with your experience in retail, to get a sense of in the upswing you just mentioned how much could over-the-counter wagering grow? So would be great to hear your views on that. Thanks.

James Henderson *- CEO*

I think, in regards to the gaming and bingo and poker, I look at it as one. We've made a number of new exchanges to the gaming and introduced a number of products. So I look at it as one and overall gaming is up 18% at the half year.

I don't know whether you want to add anything on poker and bingo specifically?

Neil Cooper *- Group Finance Director*

Poker's been tough for everyone actually for a couple of years, so I'm resisting the temptation to feel bad about it or just about ourselves. We haven't done well in poker, but we wouldn't be the only ones.

I think it's fair to say, bingo, we're not doing as well as we might have otherwise expected, so a bit of focus there is needed. At these rates, eventually when you get to zero you will bottom out in growth rates, but I don't want to sound too pessimistic. I appreciate Ralph's comments earlier.

But I think bingo's an area of more focus. Poker's a tough old market actually, and nothing that's gone on with Amaya and PokerStars is probably going to make that any easier.

James Henderson *- CEO*

In regards to retail and what we can expect, going forward, I think when you've got such a mature market like retail, notwithstanding there's been a World Cup, when you see a growth of 61% of our football product, which was obviously on the back of a lot of growth over the last few years as well, demonstrate that there's still a demand for that.

So I certainly wouldn't put a number to anything, going forward, but, as I said, I still believe it's a resilient business. Football's going up, net revenue was up 2% -- sorry the wagering was up 2%. So if the economy does pick up, which you'd expect it to do, then I would expect retail to benefit from that.

Neil Cooper *- Group Finance Director*

If I could just add one thing to what James has said, the macro -- oligarchs although there will be less of that clearly, but oligarchs squabbling over houses in Chelsea doesn't really equate to plumbers getting paid more in Birmingham. And what I mean by that is some of the macro benefits to the economy, some of the London centric capital markets stuff, may not trickle down to the C2DE working man, who is the heartland of the retail customer base.

Unemployment, or employment has been good, which has helped, but we're not actually really seeing wage growth, and since discretional income is where people gamble from, with cost inflation, over the last four or five years, and wage inflation flat, I personally am still not absolutely convinced that the conditions for retail growth fiscally, on an individual consumer basis, the data is not really suggesting that we're there yet, to be fair. Well, that's my view anyway. I don't know what other people think.

The Brummie plumber, he's not seeing huge wage -- the bricklayer might be, because that's a slightly different thing, but the average working guy is not seeing wage inflation. And I think all the statistics will confirm that wage pressure is flat, and of course, being in the EU, there is always the ability to fly in labor from other parts of the EU to maintain that pressure as well.

Ivor Jones ***- Numis Securities - Analyst***

Ivor Jones, Numis. James, sorry, didn't quite get your answer to Richard, in relation to the machines, did you say Eclipse machines generated only 1% more gross win?

James Henderson ***- CEO***

1% above the Storm terminal, which is in the rest of the estate.

Ivor Jones ***- Numis Securities - Analyst***

1% more growth, rather than --?

James Henderson ***- CEO***

Stronger growth, yes.

Ivor Jones ***- Numis Securities - Analyst***

What's the revenue differential, not the growth differential?

James Henderson ***- CEO***

Well, it's around about 1,200 shops, but that was in the south, in the London region. So it will be the better performing of the estate.

Neil Cooper ***- Group Finance Director***

Because we've rolled it out on operational lines, and we've taken the two southern regions which, historically, are higher per machine anyway, London's always been the highest revenue per machine. So I don't think we can give you a sensible answer. It's not like we've taken half of London with and half of London without.

Ivor Jones ***- Numis Securities - Analyst***

But you must be planning for more revenue, post the replacement --?

Neil Cooper ***- Group Finance Director***

We always plan for more revenue, yes that's right.

James Henderson ***- CEO***

Well, if you take a straight line, if you take a straight line from that, then you'd expect a 1% uplift.

Ivor Jones ***- Numis Securities - Analyst***

Okay. And the other thing was, you were talking about what racing needs, and I just wondered what you will be saying in the consultation about how racing spends the money that it already gets.

James Henderson ***- CEO***

It was interesting to read a release from the Levy Board the other day, saying that prize money up -- a lot of the statistics were up, which is in pretty healthy position. So I'm not part of that consultation, but I'm sure that's one of the points that will be made in our representation.

Neil Cooper *- Group Finance Director*

Because racing doesn't just get money from the levy. Clearly, one of the major sources of funding is also media rights. To the extent that I've been whinging on about media inflation for four years, no doubt my counterparts in racing must be feeling chuffed about media income, right?

Nigel Hicks *- Agency Partners - Analyst*

Nigel Hicks, Agency Partners. How are you sorting out staff bonusing, in the light of MGD and POC coming?

And I suppose a semi follow-on from that, can you just talk about your dividend cover thoughts with the impact of POC in 2015?

James Henderson *- CEO*

In regards to staff bonuses, so the MGD, albeit it's in here this year, doesn't come in until March of next year. So I'm sure we'll make a provision in the plans for next year, in regards to that. Clearly, obviously it was a surprise to get an uplift this year. But once you set your plan and your bonuses are attached to that, that's in.

In regards to your point of consumption one, I didn't --?

Nigel Hicks *- Agency Partners - Analyst*

Well, actually, sorry, just on how your -- are you looking at bonusing before --?

Neil Cooper *- Group Finance Director*

We've got annual plans which drive annual bonus, and then we've got the long-term incentive plans which is a three or four year cycle. Now as James has said, if you look at next year's budget it will contain our estimate of the impact of the hike on tax, and, therefore, that is allowed for.

As long as you know about it in advance, to be able to plan for it, then you're giving the staff the benefit of that deduction in their plan, otherwise you're going to miss your plan.

Nigel Hicks *- Agency Partners - Analyst*

And sorry, the second point is, just what sort of level of dividend cover you're happy to come down to, depending on the impact of POC, and obviously no World Cup?

Neil Cooper *- Group Finance Director*

Do you want me to take that?

James Henderson *- CEO*

Yes.

Neil Cooper *- Group Finance Director*

Okay, our Board policy on dividend is public. We seek to pay out around 2.5 times, with an ability to move down to 2, when the time is right.

What does that time is right look like? There's a whole bunch of things that dictate that absolute level of gearing, alternative use of capital, and clearly we haven't changed that as a Board, otherwise we would have updated the market.

So that I think if you project, depending on your own projections, you can see that there is opportunity to flex up and down within that range, which gives us some flexibility.

James Henderson - *CEO*

Okay. Thank you very much.