William Hill 2015 Final Results

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Welcome and Overview

James Henderson

Chief Executive Officer, William Hill

Right, good morning, thank you for joining us. Philip has joined me today and will run through the numbers shortly, but first let me give you an overview.

We have made really good progress on our strategic priorities. In omni-channel our proprietary SSBT is in-shop and ready for roll-out. In technology, Project Trafalgar is live and gives us a great platform to deliver rapid innovation, and in international, Australia is now showing really encouraging growth.

In regard to our numbers, Group profit would have been 2% higher excluding the £87 million of additional UK gambling duties. Cash generation is still strong, with £300 million from operating cash flows. We have increased our dividend pay-out ratio to 50% and the full-year dividend by 2.5%, and we plan to return up to £200 million to shareholders over the next 12 months.

So I will now hand over to Philip.

2015 Financial Results

Philip Bowcock

Chief Financial Officer, William Hill

Initial impressions

Thank you James, good morning everybody. I am now just under four months into the role of CFO, and I thought it might be appropriate to say a few words on my initial impressions. In my view, the business has great people with lots of passion and experience. Retail is incredibly resilient. The strategy around technology is right; we need to be in control of our own destiny. There are plenty of opportunities internationally, and in the US we have great optionality.

On the subject of what might be different under my watch, I believe in getting the numbers to you as quickly as possible, as evidenced in January. However, they also need to be useful numbers, so the timing of our interim trading announcements may change to include more relevant periods. As James and I have agreed, we will also be giving you more access to senior management for specific topics during the course of the year.

Group income statement

With that, let me turn to the results of 2015, starting with the Group income statement. As previously announced, net revenue of £1.59 billion was 1% down on the prior year, primarily due to lower revenue in Australia and lower average number of shops and lower OTC margins in Retail. Operating profit was £291.4 million, down versus last year but up 2% after taking the tax deductions James mentioned into account. Amortisation of £8.1 million and lower net finance costs on lower debt meant the profit before tax was £243.7 million, 23% or £73.6 million lower than the prior year. The tax charge of £32.1 million represents an effective tax rate of 13.2%. This includes a deferred tax credit of £12.2 million following enacted reductions in the UK corporation tax rate. Pre-exceptional items of £59 million predominantly relates to the accelerated amortisation of the Sportingbet and tomwaterhouse.com brands, as a result of the decision to move to the William Hill brand in Australia. This amortisation is now complete.

Post-tax, this translates into £21.7 million, including a one-off credit of £19.4 million following the release of tax provisions, having reached agreement on an open matter with a tax authority. This agreement results in a lowering of the effective tax rate in 2016 to 16%. Basic adjusted EPS was 24.7 pence, a decline of 17% versus last year. However, as James has commented, the Board's confidence in the ongoing business is shown by an increase in the final dividend to 8.4 pence, which means the full-year dividend will increase by 2.5% to 12.5 pence. Net debt, for covenant purposes, was £488.2 million, which equates to a net debt to EBITA of 1.3 times. More on the balance sheet later.

Online

Moving on to Online. As you aware, the single most significant impact on the business has been the introduction of point-of-consumption tax, the effect of which was to reduce profits by £66.4 million. Without this, operating profit would have risen by £15.2 million, or 9%. Amounts wagered grew by 5% to just under £4 billion, with core markets up 7% and other markets down 1%, reflecting both the closure of a number of markets, including Poland, Romania and Portugal, and foreign exchange headwinds. Gross win margin of 7.8% was in line with historical averages, and the resultant Sportsbook net revenue was £263.9 million, up 4%. Fair value adjustments for Sportsbook were 1.1% of amounts wagered, up from 0.8% in 2014, and are expected to continue at that higher level for 2016 as a whole.

Gaming net revenue grew 5% to £286.8 million. Our proprietary Vegas product suite saw continued strong growth at 20% but was partially offset by declines in Playtech products, reflected in the decline in other markets. The increase in cost of sales is primarily the point-of-consumption tax, which I have already mentioned.

Within the cost lines, marketing saw a decline of 9%, or £11.5 million. This was primarily in the other markets, where the net revenue decline drove lower affiliate marketing spend. More importantly, UK marketing spend was up 3%, in spite of the lack of a major international football tournament. For guidance, I would expect 2016 marketing investment to return to around 2014 levels to support a strong Euro 2016 campaign. Also to note is the increase in depreciation and amortisation, reflecting our increased investment in Trafalgar and technology.

When looking at the KPIs, it is encouraging to see a good retention, with unique actives up 9%, while new accounts grew 1%. Revenue per unique active fell by 4% and cost per acquisition was 9% lower, reflecting the lower marketing spend year on year. You can also see the growth for the UK specifically, with actives up 11% and new accounts up 5%, in spite of rolling over a World Cup year.

Online by geography

I thought it would be helpful to provide some geographical granularity on the Online business. The table on the left gives you to the top-line picture for our core markets in the UK, Italy and Spain. As you can see, amounts wagered in the UK was up 6%, below where we would want to see growth levels but not surprising given the focus on Trafalgar this year and the consequent lack of product releases. Italy and Spain continue to grow strongly, as the local currency figures demonstrate, though the reported growth was adversely affected by the strength of sterling against the euro. The two markets together made a loss of €0.4 million, with Italy profitable in 2015 and Spain expected to become so in 2016.

Online core markets continue to grow

The pie chart gives you the usual net revenue split between core and other markets. We have further broken down ‘Other’ by our review of the current regulatory risk to those markets. The high-risk revenues are those we believe could disappear in the coming year. Medium risk is those where regulatory or government changes could take effect in 2017. The lower-risk category is everything else.

Online wagering trends and point-of-consumption tax

This line graph on this slide shows you how wagering trended during the year. The UK grew 12% in quarter one. Quarter two and quarter three were impacted by the rollover of the World Cup, with quarter four down to 4%, including the impact of the Trafalgar roll-out. In quarter four, we also implemented regulatory changes required by the Gambling Commission, including automatic self-exclusion and time-out facilities. These are having an impact on both our UK wagering and gaming net revenue, particularly among some higher-value customers, but is still early days so we will update on the expected long-term impact, if any, later in the year.

Italy and Spain showed good underlying growth. In the other markets, as I said before, the overall decline in the year was 1%. What this masks, though, is different trends in H1 and H2. In H1, certain markets were already declining, but this was more than offset by the growth of in-play tennis. When we restructured mid-year to address unprofitable turnover, the underlying decline became dominant and other market wagering was down 17% in H2. I would expect that to continue at least into H1 2016 as we roll over the tennis effect. Just to complete the picture for you on other markets, gaming declined 34% in H2 and I expect it to continue to decline in H1.

Turning to the profit bridge, you can clearly see the point-of-consumption tax was our biggest challenge in the year. Core markets showed good growth, driven by the Vegas product suite, growing 24%, and Sportsbook growing 7%. That was partially offset by the 27% decline in other markets’ revenue, as I have already mentioned, the two main components being regulatory change and FX. The lower marketing costs were offset by the growth in other costs and cost of sales.

Retail

A lower gross win margin, the closure of 108 shops in the second half of 2014 and the roll-over of the World Cup contributed to overall net revenue decline of 2% to £889.5 million. OTC gross win of 17.8% was 0.5 percentage points below last year but in line with the historical average, with the decline on the prior year predominantly due to horse racing margins.

Gaming machines’ gross win fell 1%, reflecting the impact of the £50 journey, the content freeze in the first half and the closure of 108 shops in 2014. Adjusting for these shop closures, machine gross win was up 1% on the prior year.

As you can see from the KPIs, the gross win per machine per week was also up 1%. The content strategy is now working well and delivering, on average, a new game every two weeks. The cost of sales of £222.8 million includes £19.1 million of additional machine games duty, following the rate increase on 1st March. Operating costs were down 3% year on year, primarily reflecting the lower average number of shops. Within this, property costs saw rent review accrual releases in 2014 and lower staff incentive costs in 2015. Operating profit was down 11% but would have been down 1% without the MGD increase.

Profit resilience

This brings me onto this next slide to talk about the profit resilience and cash generation of the Retail business. The blue line is the profit we have reported, the red line shows actual cash after capital expenditure. As you can see, the business remains highly cash-generative for one that has been described as being in decline, showing why we consider this business to be resilient. That is without taking into account other cost increases, such as taxes, levies and content. As you can see, Retail has had to absorb £77 million a year in additional cost, compared to 2009.

William Hill Australia

Turning to our international businesses, you should note that the Australia and US numbers to follow are in local currency, demonstrating their underlying performance. Firstly, Australia. James will talk in more detail around the activities that are underway to build on the foundations of the management team, the improved technology, expanded product range and the William Hill brand. Suffice to say that 2015 was clearly a year of rebuilding, with client base restructuring contributing to a 20% decline in amounts wagered and a structural improvement in the gross win margin, where we are now guiding to 11%. Fair value adjustments increased from 0.5% of wagering to 1.3%. Cost of sales was lower, as the client base restructuring offset the increased race field fees.

In terms of operating costs, we invested more in marketing to support the William Hill brand launch. In Q4 we restructured part of the Darwin operations, which delivered savings of about A$7 million, and are reinvesting that in expanding our product and IT team, which will enable us to make use of our proprietary product platform to deliver product launches faster and more frequently than competitors. All of the above led to a decline in operating profit of 41% but, as you will see, provided a platform for growth.

Wagering trends

This slide provides some context around the wagering trends in Australia over the last two years. The graph on the left shows how turnover has moved as we restructure the client base that migrated to the William Hill brand. We will roll over the last significant part of that change in Q2 this year. You can also see the structural upwards shift in gross win margin that is the benefit of the client-based restructuring. The right-hand graph splits that out a bit further for visibility on the William Hill brand versus the legacy brands.

For ease of comparison, tomwaterhouse.com is included in ‘Other’, along with Centrebet. You can see the progression of the blue line, as the William Hill brand has gained traction and for the business as a whole, which moved into positive year-on-year territory at the turn of the year.

William Hill US

The US business continues to perform strongly. 2015 saw continued growth in amounts wagered, up 26%, with gross win up 5% as results were not as favourable as in 2014, where we had good NFL results. Operating profit was down 11%, primarily due to an increase in operating expenses from expanding the business, with increases to employee, marketing and property costs. This slide provides the detail behind the movement in net debt during the year. Overall net debt fell by US$114.6 million to US$488.2 million. To pick out a couple of numbers for you, the working capital movement of US$17.3 million is primarily due to the timing of gambling tax payments. The US$50 million repayment of bank loans is repaying the amount that was drawn down under our RCF in December 2014, and the US$17.4 million acquisition is a US$25-million investment we made in NeoGames.

Capital structure

We previously committed to give you the Board's view on capital structure. The business priorities for capital allocation remain, in order of priority: investment in organic growth, payment of a dividend, acquisitions and returning cash to shareholders. With regards to dividend, the Board will target a 50% pay-out ratio of adjusted EPS, an improvement from our previous position of around 40%. After payment of the dividend, the intention is to provide flexibility for the business, be it for growth and/or the ability to ride out unknown changes in regulation that may occur, whilst recognising that too much flexibility is not efficient. The Board believes that this can be achieved by targeting a net debt to EBITDA ratio of one to two times, depending upon circumstances. In the current environment, the year-end position of 1.3 times provides an opportunity to improve efficiency and return cash to shareholders. This will be effected via a share buy-back programme of up to £200 million over the next 12 months.

Guidance

Other than the change to the 11% for Australia that I guided to at the trading statement, we are not expecting any changes from current guidance on gross win margin. We will keep Australia under review, as both in-play and sports wagering are increasing as a percentage of turnover, which operate at lower gross win margins than racing. We have announced to our colleagues that we will become a National Living Wage employer from 1st April this year, irrespective of age. We have previously guided to an incremental impact of £1–2 million in 2016, and that remains the case. We are currently, however, exploring ways to increase efficiency. As that work is ongoing, we will update you on the likely impact beyond this year at the interims.

I have commented that we expect the effective tax rate to reduce to 16% for 2016, and capital expenditure for 2016 should be in the £80–90 million range.

Thank you, now I will hand you back to James.

Performance Overview

James Henderson
Chief Executive Officer, William Hill

Key achievements of 2015

Thank you, Philip. I will now cover what we have achieved in the last year and give you an update on our strategic priorities, starting with what we have delivered over the last year. There is a lot on this slide, so let me pick out a few key points.

Online

In Online, we launched the mobile front end, which I will talk a bit more about later. We have launched Destination gaming, products under the Macau, Vegas and Mayfair brands, and significantly enhanced our live casino offering, which I believe is now industry-leading. We have 24 destination tables, 39 general William Hill tables and a dedicated William Hill team of around 200 people working in Riga, and that is why Live Casino is the fastest-growing element of our gaming portfolio.

Retail

In Retail we launched 23 games in the second half, and our SSBT is now live in-shop and ready for a large-scale roll-out this year.

Australia

In Australia, we launched the William Hill brand in February, we launched a new app, we are first to market with in-play, restructured the client base and, as Philip has already mentioned, restructured part of the business that delivered A$8 million of savings which we have reinvested in scaling up the product and IT team from 38 people to 150.

US

In the US, we have had five mobile releases and developed our kiosks to make it easier to top up and open a mobile account. In fact, 80% of our new accounts are now opened via a kiosk. Both mobile and Sportsbook turnover are significantly up, with mobile accounting for circa 50% of total turnover in quarter four.

Other

I am also pleased to report that NeoGames won a second contract in the US and also launched a draw-based games solution, which is a significant strengthening of its product offering and makes it one of only four companies in the US with this capability.

Omni

A clear opportunity

I will now turn to the three pillars for our strategy, which are omni-channel, international and technology, starting with omni. Let me give you a picture of what this looks like for our customer base. Today, of Retail's regular customers, about 28% have an online account; 13% have a William Hill account, so we are only capturing 45% of those customers who bet online; a massive opportunity. As you can see from this chart, the appetite for multi-channel usage is increasing, with the number of multi-channel customers up 24% over 12 months.

Spend in a second channel, whether that is in-shop or online, is heavily weighted towards retail customers, and for that reason retail omni-channel customers are our key focus for the time being.

Delivering what the omni-channel customer wants

We have extensively researched what our customers want from an omni-channel experience, and they have told us that they would like more ways to bet and easy ways to transfer cash or funds between channels. So that is why we are focusing on two big priorities: an SSBT and a single wallet. We will of course still look at other areas, such as customer service and a consistent look and feel, but in the main we are focusing on these two big priorities.

In regard to our SSBT, the trial is ongoing. So far, all has gone well: customer feedback and performance have both been positive, so we are in a good position to extend the trial. The goal is to be 100% confident in the product before rolling out in earnest. I want us to learn from Trafalgar; I want to be as sure as I can that the platform is stable and will be easy to use by those customers who are familiar with an SSBT's functionality.

Our omni-channel priorities

You can see on this slide the areas the customers tell us they particularly like in our SSBT, such as access to statistics, in-play and cash-in functionality. By using our Trafalgar platform for our SSBT, we can not only provide this functionality but also make the football range much broader, the UX easier and provide access to popular functionality, like top bets. I really believe that we have done all the heavy lifting, and therefore have put ourselves in a perfect position to be able to accelerate our roll-out schedule prior to the commencement of the Euros in June.

In regard to the single wallet, we already know there is a big demand for this type of facility, as last year we processed £40 million-worth of transactions through Cash Direct, our vehicle for allowing customers to deposit and withdraw online funds in-shop. We also have our priority access card, which can be used like a debit card linked to your online account, and which currently has around 7,000 users.

If we are going to do this, it needs to be industry-leading and be joined up across as many different technologies as possible: online, OTC, SSBT and gaming. Both Cash Direct and priority access gives us the opportunity to assess what appeals to our customers and therefore help shape this complex project, which I believe will be well advanced by the start of the Euros.

International

Strong brand established in Australia

Turning to international, I want to focus on Australia as that has been a key priority for us. During the last 12 months, it has been all about the brand, product and user experience. The chart on this slide shows that our brand awareness has grown faster than we could possibly have expected. We are now in the top three and well on our way to challenging TAB and Sportsbet. The launch of the William Hill brand has clearly worked.

Competitive product and user experience

We have also expanded the product range and are now market leading for many of the key events, partly due to the introduction of our Global Trading Platform which has started to provide feeds across the business, and will be used in other territories, going forward.

Our new mobile app, which we launched in September, is consistently one of the highest-rated betting apps in the Australian App Store, and ranks in the top three of all sports apps.

The charts on this slide show that around 77% of turnover is now under the William Hill brand, with both sports and mobile becoming a higher proportion of our turnover, which are key areas for the more mass-market, recreational customer.

Growth has continued in the early part of this year, with new accounts, actives and wagering significantly up on last year. There is more to come, with the team planning a further 20 product releases in the first quarter.

Successful Australian Open campaign

Finally for Australia, this slide shows, at a high level, just how successful partnering with the Australian Open tennis was at the beginning of the year. Brand awareness was equivalent to what we would see during the peak Spring Carnival period. Tennis turnover was up 200%, albeit from a small base, as was in-play turnover, which was up more than 680%. We had about 1,000 new customers sign up a day; and good quality they were too, with 75% going on to bet on other products.

Technology

Delivering a better mobile experience

On technology, I have previously talked a lot about Trafalgar, so I have one brief update and then I want to focus on why we did it and how we can maximise and leverage this platform. Just to remind you, the main issues were fixed in November; by the end of December, UK turnover was broadly back at pre-launch growth rates, and so were new accounts by the middle of January.

In terms of mobile experience, we are leading the market with things like touch login, better messaging and top bets, and there are other tangible benefits such as load times coming down from three seconds to 1.5 seconds; the bet acceptance delay being reduced to one second for top European leagues versus three seconds for key competitors; an improved mobile registration process resulting in a 10% better conversion rate; and cross-sell from the Trafalgar Sportsbook into gaming now 7% higher.

We have also been able to launch Virtual on Android for the very first time and will increase the number of languages available, which will make our mobile Sportsbook much more viable in other markets going forward. So the customer experience is clearly getting better, and it is good to see the app rating has consistently been around 4.5 stars since our second release.

Delivering rapid innovation

Just as important, we have been able to massively accelerate our release schedules. We have done five iOS app releases since October and we are averaging 20 web releases a week. Even though we have done all these releases, there are still areas that require more work. Yes, the gaming cross-sell is up 7%, benefiting from more visibility, but the user journey is still far too slow. Although improved, high-traffic areas like registration and the bet receipt can be optimised further. Also, the journey for low-staking customers to build their accas needs to be easier.

I am pleased with how Crispin has hit the ground running. However, as always, there is a lot to do. In essence, it is back to basics for the team to make sure that we have the fastest and easiest-to-use mobile experience by the Euros. So that means desktop migration can wait. Clearly, growing at or around UK market growth rate is not good enough for our Online business, so I will ensure that Crispin and his team have all the help he needs to get us growing ahead of the market again. For instance, we have already committed to hiring another 10–15 heads in UX to speed up delivery.

Regulatory update

As always in a heavily-regulated business, there is lots of constructive activity, both government-led and industry-led, as evidenced by this slide. I will address any of the detail on this in Q&A, but let me just remind you that we are very committed to responsible gambling and will continue to work with others in this industry to make real progress in this area. We regularly engage with government and the Gambling Commission to update on our progress, as we believe evidence should continue to be the basis for effective policy-making in this area.

Summary

To sum up, we have always had a strong track record of being first to market with some key innovations, like Cash In My Bet and Acca Insurance, and we have built significant scale in Online and Retail over the last few years. As you would expect, we will continue to leverage our significant scale by differentiating ourselves through product, user experience and, increasingly, personalisation. We have continued to evolve the leadership team, with Philip joining along with Kevin O'Connor, our new Group CIO. I am therefore confident that William Hill is well placed to use its scale and expertise to execute effectively on the strategy.

My final message: my priority in every part of the business is getting the basics right. For me, it will always be about the people, rapid product innovation, a great user experience and effective marketing. We were prepared to take the Australia business backwards in order to do the right thing and have the right platform for growth. Rest assured, I will continue in that vein, making the difficult decisions that are right for all parts of our business over the long term.

Thank you for listening, now over to you for the Q&A.

Q&A

Vaughan Lewis (Morgan Stanley): I have three questions. The first one is on omni-channel. If I was an omni-channel customer – actually, I am – when I bet on my mobile, I get best odds guaranteed on my horse bets and then I get acca insurance and better prices on my football accumulator, so why would I ever go back to Retail?

James Henderson: Well, I think the cornerstone of the omni-channel strategy is the SSBT. As I said, because we use the Trafalgar platform, a lot of the functionality that you are talking about will be introduced into the SSBT. So whenever, wherever you want to place a bet, you are going to get a similar experience, and I think certainly with the approach that we have taken for the SSBT, that puts us ahead of the competition; not in numbers at the moment, but certainly in the functionality going forward. So that is the reason for you to go into shop and use your mobile.

Vaughan Lewis: So they will have online prices and acca insurance?

James Henderson: Yeah, I mean we are using the same platform. So in regards to the incentives or the bonuses, the other thing is to look at what prices you are going to use in the SSBT. However, because we do not have a rev share, we can have much more flexibility as to the offers that we have out there, and indeed the prices that we might offer, and of course we will be embarking on a number of different trials in all those areas.

Vaughan Lewis: Okay. Secondly, on OpenBet: you probably cannot comment on it specifically but can you comment on what would be the rationale for supporting someone else to make an acquisition of a related business?

James Henderson: You are right, I cannot comment on market rumour. You know, I have said many times we are embarking on developing our back-end platform and have been doing that for the last 12 months, and if there was any opportunity, notwithstanding that market rumour, in regards to accelerating that strategy, then of course we would look at it. I would not speculate as to who might end up owning OpenBet, if indeed those market rumours are true.

Vaughan Lewis: Thanks. Then a final one on Online. You said marketing should go back to 2014 sort of levels. Why would it not be significantly higher? Are you not getting sufficient returns on marketing now? That seems like a very low increase for what is a high-growth segment.

James Henderson: Just in marketing, the absolute number is a significant number; I mean, it is over £130 million. Just if you look back in last year's marketing spend, we made a number of efficiencies around PPC, and actually the UK market spend was up 3%. I would also remind you about the TV assets that we secured, whether that be ITV, BT Sport and Sky, last year for the Euros, so therefore we do not need to up-weight spend in that area. Correct me if I am wrong here, Philip, but we are flexible enough to be able to use the marketing spend to make it the most efficient. That can be reviewed over the course of the year, but as we start at the moment, the absolute spend will be around about £130 million, which is a big number.

Philip Bowcock: I think, with the finance hat on, it is not so much the absolute spend but, as I think James alluded to, it is about how you spend it and making sure your spend is as efficient as possible, and I think that has to be the focus as well.

Vaughan Lewis: You are confident that that sort of relatively modest increase will be enough for you to compete?

James Henderson: Modest? I mean, it is double-digit. I think also the way the marketing spend is used is changing. 60% of ours is below the line or digital spend, and I think we are moving more into that area, around PPC, SCO. I read somewhere the other day that actually more people watch on-demand TV than actually live TV so we are moving into, probably, a different phase of marketing. However, I would reiterate: a double-digit increase from last year and a big absolute number.

Vaughan Lewis: Thank you.

Patrick Coffey (Barclays): Hi, just one question from me is on operational gearing in Online. So, even if you strip out the point-of-consumption tax, the operational gearing has been much lower than other online competitors for the last three years, so when should we start to see some operational gearing improvements here, or is there something structurally different between William Hill Online and other leading online operators? Thanks.

Philip Bowcock: I do not believe there is anything structurally different between ourselves and other operators. I think, if I can just sort of back up a little bit, as the incoming CFO it is my obligation to look at the cost base; however, that cannot be at the detriment of revenue growth, so revenue growth is obviously paramount in the business. If you look at our cost base, nearly 50% of it is fixed and that is if you assume marketing sits in a variable element. So we will continue to operate with a degree of fixed cost within the business. Whether those fixed costs come down over the next two or three years, I will have a look at it over the next few months and see where we end up. There is nothing else really to say apart from that; I mean, you can work out the gearing on that basis.

Brian Devitt (Goodbody): Morning. Just two questions from me, please: could you give us an update on the Centrebet brand migration in Australia?

James Henderson: Yes. As I said there, we currently have 77% of the client base migrated under the William Hill brand. Centrebet is slightly different; it is an incredibly resilient client base and currently operates off a different platform, so the migration is slightly different. We are not spending very much, if any, marketing money on that brand and it has continued to be resilient, but we are regularly reviewing it. There are no immediate plans to bring that client base across but, as I say, that is regularly reviewed.

Brian Devitt: Okay, thanks. Could you give us some guidance on free bet spend for this year, please, in William Hill Online?

Philip Bowcock: Free bet spend – I think I pointed to it earlier – it is about 1.1% of the FVAs in Online in the UK; in Australia it will be probably have been a little bit higher, nearer 1.5%.

James Henderson: Yes, and that is slightly above historical averages; I think we were guiding towards 0.8% or 0.9% last year.

Jeffrey Harwood (Stifel): I have two questions. First of all, looking at the machine income, what percentage is now from B3 machines and is that an opportunity?

Secondly, on the tax charge that it is going to be 16% this year: is that the long-term rate, or should we expect that to move up, going forward?

James Henderson: I will let Philip do the tax charge; I will start at the machine one. We are currently at 34% for B3, which is up from 29% last year. As you are all aware, we had a content freeze at the beginning of last year; we have now released, as I said, 23 games in the second half, and as Philip said, we are releasing two or three games a month. So I would expect that percentage to go up. It is a big focus for us but we are currently at 34%.

Philip Bowcock: With regards to the tax charge, for modelling purposes you can keep the tax charge at 16%. For information also, the cash tax would be a similar amount.

Richard Stuber (Nomura): Hi. On SSBTs, you say you are trying to roll out 500 before the World Cup: do you have any sort of longer-term growth targets for SSBTs? Clearly some of your competitors are really pushing that channel.

James Henderson: Yes; 500 for the Euros. I wish it was a World Cup, but it is actually Euros this year. My plan by the end of the year is to have one in every shop. Clearly business will dictate as to the actual density, but we have the ability through our hardware supplier to be able to create 150 on an every-week basis. So I am very confident that we have the right platform to deliver a competition-leading SSBT. So, yes, we are in a position to accelerate that roll-out: 500 and probably one in every shop by the end of the year.

Philip Bowcock: Clearly, financially we do not have any constraints as to how many we can put out, and obviously because we do not have the rev share, that helps in the financials as well.

Richard Stuber: Thanks. The second question is: could you just give an update on discussions with the British Horse Racing Association regarding approved betting partner, and also how that affects your marketing spend between horse racing and other sports?

James Henderson: In regards to the discussions: first off, it was very disappointing that Racing were unable to accept the bookmaker's offer of 5% of our online profit, so the Secretary of State determined that it would be a roll-over. We are still in discussions and hopefully we can come to some compromise. It was still as disappointing that they were unable to look at the blended rate that was offered by one of the competitors at 7.5%, but as I say, discussions are ongoing.

In regards to sponsorship, we are very keen to sponsor horse racing and obviously have a long, rich history of being able to do that, but unfortunately that ball is no longer in our court: that sits with Racing, as they have introduced the authorised betting partner status. We still have four years to run on our Ayr contract but in regards to any future sponsorships, or continuing some current sponsorships, that is really outwith our control at the present time.

Richard Stuber: Sorry, and just to follow up: of that £130 million, how much typically goes into horse racing sponsorship, or can you not split that out?

James Henderson: Yes, I can. I mean, it is not a big number. We sponsor the King George, which we like doing, which is the two-day festival; we sponsor the Ayr Gold Cup. However, our portfolio is not wide-ranging. We have started to go into boxing; we have covered a couple of boxing fights over the last two or three months, we will continue to do that. We went into the Australian tennis and you saw the impact of that. So we have money to spend and we will spend it where we are going to get good bang for our money, and also where people want us to sponsor.

Nick Edelman (Goldman Sachs): Morning, a couple of questions please. First, just on the buy-back of up to £200 million: can you just talk about the contingencies around what would stop you spending that on the buy-back, please?

Philip Bowcock: I mean, I think as I said in my speech, the Board considered all options when looking at the buy-back, and thought of what could happen in the future. As we sit now, we are confident with the £200 million. Clearly, if things were to change – so if, for example, there was some dramatic regulatory change which we cannot foresee at the moment – then that may have an impact. I mean, clearly if some M&A came through in the next 6–12 months that could have an impact. However, as we sit here today, we see giving the £200 million back through our share buy-back is the right thing to do.

Nick Edelman: Understood. Then in terms of the ambition to grow at least in line with the UK market Online: what kind of timescale would you put on that, in terms of when you want to be achieving that?

James Henderson: Well, from now.

Nick Edelman: From sort of right now.

James Henderson: We have obviously launched the Trafalgar platform and that gives us the perfect opportunity to innovate and deliver at speed. As I said, our real ambition is to be the quickest, the fastest and the best app out there for the Euros. So we are not going to wait to start kicking in that activity; it is about making sure we can grow as fast as we can, as soon as we can.

Joe Thomas (HSBC): Just following on from that question: what sort of rate do you think the UK market is currently growing at?

James Henderson: I am not sure there are any definitive statistics around that, but I think if you say anything between 8–10% would probably be my best guess in regards to what the market is growing at, and that is what I am basing those assumptions on when I talk about growing above the market.

Joe Thomas: That is across both sports and gaming?

James Henderson: Yes. As you can see, in our core markets we grew gaming at 15%, which I believe is above the market rate. Bearing in mind, we are a massive-scale player and therefore double-digit percentage growth is a little bit harder to achieve than some of our competitors. However, that is what I want to do, even though we are off a very high base.

Joe Thomas: Thanks. Just on a point of detail: the tax rate dropped this year. Can you just explain the reasons behind that, please?

Philip Bowcock: The main reason was because of the change in the corporation tax rate, so that changed our deferred tax balance on the balance sheet, so the reduction in that balance flows through to the P&L. That is the main reason, and that is obviously going to be an ongoing rate as well.

Joe Thomas: Thanks.

Ivor Jones (Numis): Thank you. What is it that the SSBTs are delivering that means you want to roll out 500-plus of them? What is the metric that they have achieved that means they are a success and you want more of them?

James Henderson: Essentially, what the SSBT will allow is the sort of breadth and depth of product that is online. It is very difficult to display, or make known, what kind of depth of products you have. The SSBT allows all that, so you can use it much like a price finder, or looking to see what is available, being able to access that as well. If you take the rev share out, then we can really use that as an opportunity to be able to grow, try different things at different rates, different incentives, as Vaughan has already talked about. It really is ours, if you like, and therefore it really does not matter if it comes over the counter or into the machine: it is all going to be part of our profit, if you like. So I think it is a massive opportunity for us. We have been spending the last year building it, I am very excited about out opportunity to do that, and it is the cornerstone of our omni-channel approach.

Just in regards to margin, the ones that we have – because we already have 800 terminals out there – it is in the mid-twenties. So it is not only going to be incremental in regards to the take but also it is going to be at a better margin. I know we achieve a very health in-play margin for our Online business around about 6%, but actually the in-play margin is around 20% on the SSBTs as well. So, yes, the others might have more numbers, but we are going to have what I believe is a better terminal and opportunity to roll it out. So I talk about 500 but I think business will demonstrate that actually you need to get to at least one per shop and see where we get to an overall density over the next 12–18 months.

Ivor Jones: When you account for the additional product margin and lack of rev share, how much more money do the new ones make than the old ones?

James Henderson: We have not got a great amount in there, but they are actually performing significantly above. Now, that might mean because we are introducing a new product into a shop, so actually being able to compare and contrast on a like-for-like basis has not really been possible, but I certainly am delighted with the numbers that we are producing. So good margin and healthy turnover rates which are above the estate that we have currently got out there.

Ivor Jones: Is that an accountant's 'significantly'? Is that more than 'materially'?

James Henderson: Significantly materially.

Philip Bowcock: Good enough.

James Henderson: It is more, anyway.

Ivor Jones: Looking at the Australian numbers for last year, it struck me that the marketing spend was flat, I think, in Aussie dollars in a business that you were trying to grow. So, kind of following on from Vaughan's point about the rest of the Online business: why was it flat and more importantly, I suppose, where does it go this year?

James Henderson: I think there are two things in regards to that. Bear in mind, we were supporting three brands previously, so by being able to go under one brand we essentially increased our marketing spend by around about 45% for the main brand, which obviously was William Hill. Also, the other thing that you had to bear in mind is I suppose it all depends, and I think we are coming more into this kind of culture: when you look at your actual marketing spend and your FVAs, as Philip has already talked about, that has increased over the course of the year. So, when you combine those two, we are looking at an £80-90 million spend, which is a significant amount for the business that we have in Australia. You can see some of the stats that we got from the tennis partnership: it really is starting to work and pay dividends. If there is a need to up that spend, or indeed FVAs, then we will do that, but getting 1,000 sign-ups a day, I think, demonstrates that it is working at this current level.

Ivor Jones: Sorry, did you just say what the Australian marketing budget was for this year?

James Henderson: It is around about A$60 million.

Ivor Jones: Dollars, okay.

James Henderson: Then if you add the A$30 million FVAs in there as well, you are talking about an overall promotional budget of around about A$90 million.

Ivor Jones: Right. Last one, coming back to acquisitions. You seem pleased with NeoGames: would you want to acquire more content businesses in order to fulfil your content strategy, or how else will you add more content into the business?

James Henderson: Yeah, I mean I am not going to talk about any specific M&A.

Ivor Jones: Nor would I ask you.

James Henderson: However, very pleased with NeoGames; it gives us huge optionality. I mean it is online lottery, essentially, which allows us to go into circa 40 states in America. They have won another one in regards to Virginia. The financial performance is as per expectations and, as I said, they have introduced a draw-based games solution, which is one of only four in America. So, really pleased with that progress, as the RFPs are out there at the moment, we are looking for more activity in that regard?

Ivor Jones: Sorry, more content or more corporate acquisitions?

James Henderson: At the end of the day, as I have always said, if there is anything there that would accelerate our strategy, whether it be technology, whether it be omni-channel or indeed anything else, international diversification, then we will look at that. So it could be content, it could be corporate acquisitions.

Ivor Jones: Thanks.

Patrick Coffey: It is kind of remiss of us not to ask on current trading: can you talk us through that? Obviously Ladbrokes were very positive on current trading, but I think they were talking about before last weekend. Can you just kind of give us a sense of how things are going at the moment, and also just maybe the likely shape of the amounts wagered growth through the year, whether it is kind of H1/H2 split? Thanks.

James Henderson: Interesting current trading, obviously; we are only in week eight. The football results: UK domestic football results have been good; European results have been a little bit more difficult, and in fact the leaders of each of the main leagues in Europe have won 91% of their games, which has had a slight drag on the margin. However, as the EGR said yesterday, pretty much, bookmakers had a poor week in week eight; you might look at the results and think they were stonking but the Arsenal–Hull draw was at 12.00 on a Saturday, which is not our best game because then people reinvest for the later games in the weekend and they were difficult, as were Tuesday evening's games. So certainly not a black swan, but certainly bordering on a grey swan in regards to week eight. I do not know whether you want to add anything?

Philip Bowcock: Yeah, I mean if you think about the H1/H2 split, the current view is H2 will probably be stronger. One of the key reasons is around the Euros, so the Euros straddles the half-year. The initial rounds of the Euros will probably have more predictable results, as opposed to the knock-out rounds which clearly, by their own default, will be a little bit more unpredictable. Those knock-out rounds are in the second half, where those initial rounds are in the first half, so I think you will see a difference in the split, slightly.

James Wheatcroft (Jefferies): Morning, just back to omni-channel: are you incentivising your staff to encourage sign-ups, as well as focusing on SSBTs?

Also, could you give us some colour on the state of in-play in Australia?

James Henderson: Yeah, in regards to incentives or affiliate schemes, as you might call them, in regards to the shop scheme, we have trialled a couple of options. However, it is all going to be geared to the SSBT and being able to put that in and making sure that one can leverage the other. So that is a little bit on hold at the moment but we will be using that as leverage.

In regards to in-play, the O'Farrell report was submitted at the back end of last year. It was meant to be published in January; I think it is now going to be published in March. Clearly, obviously, I do not know what the report says, but the early intel is that it could be looking favourably on in-play. Obviously we cannot say anything until that comes out, but the latest intel is that it will be around about the middle of March.

Alistair Ross (Investec): Just one from me: if you assume that Playtech buys OpenBet, do you guys have some sort of a back-up plan and have you thought of that sort of strategy, change of control clause, etc.? Do you have another platform that you could use, or would you mind staying on that platform?

James Henderson: I mean, as I said earlier, I am not going to speculate on market rumour in regards to what is happening, or indeed who might end up owning it, if indeed that is the case. Just in regards to Playtech, because I think it is important to mention: obviously they are a key supplier of us, and we have worked very well in the past and continue to work with them.

In regards to a back-up plan, if indeed that is what you believe: we did the front end through Trafalgar, and we have been working on the components of the back-end platform. Kevin O'Connor, who has landed as our new CIO, is reviewing the progress in regards to that. So we are well on with that and we will continue to do that, irrespective of whatever happens in the marketplace.

Alistair Ross: How long do you think that would take for you to build out?

James Henderson: That is something that Kevin is reviewing, to make sure that our plans are fit for purpose, which I am sure they are. However, we have set a timeline, or I have set the team a timeline, of certainly around about two to three years.

Thank you all very much.

[END OF TRANSCRIPT]