Q1 results announcement for the 13 weeks ended 1 April 2014
25 April 2014

Strong underlying growth but football results impact margins

Key highlights

- Continued outstanding growth in Online Sportsbook turnover, up 39% with mobile up 78%
- Gross win margin performance hit by two substantial loss-making weeks driven by football results
- Strong Online gaming net revenue growth, up 16%, benefiting from 142% growth in mobile
- Largely completed roll-out of Eclipse gaming machines into half the Retail estate
- Improving Australia KPIs with unique actives +22%, new accounts +8% and cost per acquisition -11%
- Strong US performance with wagering +23% and Operating profit[4] up 188%
- Mobile Sportsbook and Casino launched in Italy

	Statutory percentage change Q1 2014 vs Q1 2013[1]			
	Retail	**Online**	**Australia[2]**	**Group total**
Sports betting amounts wagered	**+3%**	**+39%**	**+484%**	
Gross win margin	17.6%	7.1%	8.7%	
Net revenue[3]	**-2%**	**+4%**	**+499%**	**+7%**
- OTC / Sportsbook	-13%	-7%		
- Machines / Gaming	+11%	+16%		
Operating profit[4]	**-25%**	**-6%**	**+359%**	**-14%**

Ralph Topping, Chief Executive, commented:

"Our focus on combining a broad and deep product range with outstanding user experiences and scale investment in marketing continues to deliver tangible benefits across the Group: Sportsbook betting continues to grow rapidly, mobile gaming is much improved and we're seeing positive trends in the key performance indicators for Australia and the US.

"Whilst the outstanding gross win margin in Q1 2013 sets a very high bar, meaning we are facing tough comparative figures, two substantial loss making weeks in this quarter (weeks 2 and 12) – with major wins for the football punters – impacted profit progression despite good growth in wagering in both Online and Retail and significantly improved gaming performance in both channels. As ever, it is important to look through short-term sporting results to the underlying strength of the business. Mobile, for instance, continues to go from strength to strength, increasing to 45% of Online Sportsbook amounts wagered and 27% of Online gaming net revenue in the period.

"We are also progressing successful diversification of the business both online and internationally, including delivering further good growth in Italy, Spain and the US. With most of the major components of the digital Australian platform now in place, we will be driving further improvements in that business's performance as well.

"As regards UK Retail, we have now successfully implemented the ABB's voluntary Code for Responsible Gambling and are pleased with the progress to date. However, as a direct result of the Government's unexpected announcement about an increase in Machine Games Duty to 25%, we have reviewed shop profitability and will be closing a portfolio of 109 shops this year, putting c420 shop employees at risk of redundancy. This is particularly disappointing as, through the economic downturn, we have worked hard to grow our Retail base but this further planned increase in indirect taxation makes this action necessary.

"Looking ahead to the rest of 2014, it is positive to note Online had recouped much of its shortfall against internal expectations following week 2 before we were hit again in week 12. While there is no guarantee we can make up the difference, we continue to believe the increased customer confidence from such wins should be good for business, especially in this World Cup year. We are very well placed to take advantage of the World Cup opportunity, coming in the second quarter, with an unrivalled football product range, the most downloaded Sportsbook app in the UK and a leading mobile gaming offer for cross-sell."

Group performance

Group net revenue[3], adjusting for the additional month of Machine Games Duty (MGD) in 2014, grew 5% in Q1 and Operating profit[4] was down 14%. Performance was impacted by highly unfavourable football results in weeks 2 and 12 of the period with an unusually high number of odds-on favourites winning in each of those weeks.

Online (32% of Group revenue)

	% change
Sportsbook amounts wagered	**+39%**
Gross win margin movement	-2.9 ppts
Online net revenue	**+4%**
- Sportsbook net revenue	-7%
- Gaming net revenue	+16%
Operating costs	+8%
Operating profit[4]	**-6%**

Sportsbook amounts wagered continued to grow strongly, with 78% growth in mobile Sportsbook turnover. Mobile accounted for 45% of the total Sportsbook turnover in the period. In-play and pre-match turnover grew at 37% and 41%, respectively. Given the customer-friendly football results, the Sportsbook gross win margin at 7.1% was both lower than our long-term expectation and 2.9 percentage points below the unusually high Q1 2013 gross win margin of 10.0%. Within this, in-play gross win margin was broadly in line year-on-year at 5.6% (Q1 2013: 5.9%) but pre-match gross win margin was 5.1 percentage points lower at 8.1% (Q1 2013: 13.2%). Mobile gross win margin was 3.9 percentage points lower than the comparable period at 8.2%. We see no reason why results should not revert to the mean over time.

The cost of free bets and other fair value promotions accounted for 0.9% of amounts wagered (Q1 2013: 0.7%), resulting in a Sportsbook net revenue margin of 6.2% (Q1 2013: 9.3%). Sportsbook accounted for 46% of Online's net revenue in the period.

Gaming net revenue grew strongly following our focused investment in mobile gaming and benefiting from customer recycling of winnings. Total gaming net revenue was up 16% and Casino net revenue (46% of Online's net revenue in the period) was up 22%. Mobile gaming net revenue grew 142% and increased to 27% of Online gaming net revenues (Q1 2013: 13%). This followed our investments in 2013, with a number of key improvements having been launched in the final quarter. We have continued in 2014 to expand content, particularly for Vegas and Games, enabled by the supplier integrations we have completed. In addition, we launched a Bingo iPad app and an Android version of the Sportsbook app in the period and a Live Casino iPhone app in April. Bingo net revenue was 5% lower and Poker was down 15%.

We continued to invest in enhancing a strong offer in Italy and Spain, launching mobile Sportsbook and Casino in Italy and our AccaInsurance offer in both markets, which is having a positive effect on the proportion of accumulator betting on pre-match football markets. Further mobile products will be released ahead of the World Cup.

Retail (57% of Group revenue)

	% change
Over-the-counter (OTC) amounts wagered	**+3%**
Gross win margin movement	-3.1 ppts
Underlying Retail net revenue[3]	**-4%**
- OTC net revenue	-13%
- Underlying gaming machine net revenue	+5%
Operating costs	+5%
Operating profit[4]	**-25%**

Retail saw strong growth in football staking in the quarter, up 20%, and flat UK horse racing staking. Overall staking was up 3%, also benefiting from a 4% increase in the number of horse race fixtures against the comparable weather-affected period. Offsetting this, there was an adverse 3.1 percentage point swing in the gross win margin against Q1 2013 to 17.6% (Q1 2013: 20.7%), the majority of which related to the highly unusual football results. Cheltenham results were better than in Q1 2013. The Grand National, which was held after the period end, delivered a good result, albeit below the record result in 2013.

We have largely completed the roll out of the new Eclipse gaming machine to half the estate, including the new time and spend limits established under the new Code for Responsible Gambling. Gross win per machine per week was 2% higher at £926 (Q1 2013: £904).

Operating costs are in line with expectations. We opened ten shops and closed eight in the period, giving an average of 2,431 shops and 2,434 at the period end.

As a result of HM Treasury's announcement of an increase in MGD from 20% to 25% from 1 March 2015, we have completed a wide-ranging review of shop profitability trends. Whilst historically we have taken a measured 'wait and see' approach to loss-making shops, the impact of the announced increase in MGD makes it less likely that the performance of current and expected loss-making shops can realistically be turned around, and as a result, we intend to close a portfolio of 109 shops before the end of the year. As a result of the closure of this loss-making portfolio, the Group currently estimates it will incur around £23-24m of exceptional costs, of which it expects c£6m non-cash asset write-offs and up to £17-18m against future cash expenses, including rent, rates and redundancies. There are c420 affected employees in this portfolio and whilst every effort will be made to redeploy individuals this may not be possible in every location.

William Hill Australia (8% of Group revenue)

	% change on a pro forma basis in local currency
Amounts wagered	**+11%**
Gross win margin movement	-0.5 ppts
Net revenue	**+3%**
Operating costs	+7%
Operating profit[4]	**-9%**

William Hill Australia's Q1 performance shows very positive signs of improvement, benefiting from the changes we have made to enhance the user experience, to increase the effectiveness of the marketing investment and to strengthen the digital expertise of the management team.

We are seeing good growth in unique actives, up 22% on the comparable period. New account growth is now positive, up 8%, and this is running alongside the benefit of the reactivation and retention programmes we started in 2013. Furthermore, the ongoing reshaping of the marketing investment has contributed to an 11% reduction in cost per acquisition. On a pro-forma basis, Operating profit[4] fell in local currency terms on the prior year comparable, with gross win margin at 8.7% (Q1 2013: 9.2%).

We have completed three major milestones since the start of the year: the launch of the new Sportingbet.com.au responsive design website in March; the concurrent launch of a high-profile Sportingbet brand advertising campaign using Australian cricket hero Shane Warne; and, since the period end, the migration of tomwaterhouse.com onto the enhanced technology platform. We have now fully integrated the tomwaterhouse.com business into William Hill Australia allowing us to deliver the planned operational synergies going forward.

In the coming months, we will progress the brand campaign, further evolve the marketing mix with more online marketing initiatives and address the breadth and depth of the product range.

Other channels (3% of Group revenue)

William Hill US continues to perform strongly with amounts wagered up 23%. Gross win was 35% higher with a strong gross win margin of 8.7% (Q1 2013: 7.9%) benefiting from a positive Super Bowl result. Operating costs were only 3% higher and Operating profit[4] increased by 188%.

Telephone made a very small Operating loss[4] in the period. Amounts wagered were down 13% and gross win was down 28% on a reduced margin of 6.6% (Q1 2013: 8.0%). Operating costs reduced 15%.

Fiscal and regulatory developments

On 1 March 2014, the major UK retail bookmakers completed implementation of their voluntary Code for Responsible Gambling and we are pleased with progress made to date. The Code has seen the introduction of pop-up alerts on gaming machines that appear after either customer-defined or Code-imposed time and spend limits have elapsed. In addition, we continue to encourage increased responsible gambling interactions with customers and have heightened the profile of responsible gambling messages in and around the shops.

The Prime Minister has indicated that the Government would provide a statement on gambling policy in April. A number of activities are already underway. Planning measures are under review, with the announcement in the Budget statement that the Department for Communities and Local Government would consult on introducing a wider 'retail' use class that would not include betting shops. In addition, the Department of Culture, Media and Sport has requested a review by the Advertising Standards Authority in conjunction with the Remote Gambling Association of gambling advertising and the Gambling Commission is reviewing harm minimisation measures, including the voluntary ABB Code for Responsible Gambling. At the same time, the Responsible Gambling Trust and NatCen are continuing with their two-year research project around gaming machines which is expected to report in the autumn.

The Gambling (Licensing and Advertising) Bill has been amended to include a provision to give the Secretary of State the power to extend the UK Horseracing Levy to licensed online operators based outside the UK. Formal consultation will follow. The Bill is currently awaiting Royal Assent for which a date has not yet been set but which is anticipated shortly. In addition, there is to be a further consultation considering alternatives to the Levy.

Separately from this, in March the UK Government announced that MGD would increase from 20% to 25% from 1 March 2015.

Given current expectations of business mix in 2014, and our latest view on a number of tax matters, we now expect our effective income tax rate to be 18% in 2014 versus the previously guided 17%. This change will also impact cash tax rates.

Material events, transactions and financial position

Movements in the financial position, including levels of borrowings, of the Group since the last balance sheet date of 31 December 2013 are reflective of the trading performance outlined above. Net debt for covenant purposes decreased to £710m at the period end (31 December 2013: £796m). Other than this, there have been no significant changes in the financial position of the Group.

Notes

1 Results are unaudited. All comparisons are with the 13-week period ended 2 April 2013 (Q1 2013).
2 William Hill Australia numbers are presented on page 1 on statutory basis, with the comparator period including Sportingbet results from 19 March 2013. Pro forma comparisons in local currency are provided in the divisional review as if Sportingbet Australia and tomwaterhouse.com had been owned throughout 2013.
3 Group and Retail net revenue percentage movements are flattered by the transition from VAT and Amusement Machine Licence Duty to Machine Games Duty (MGD) on 1 February 2013. Underlying growth rates are provided in the narrative.
4 Operating profit/loss is defined as pre-exceptional profit/loss before interest and tax, before the amortisation of specifically identified intangible assets recognised on acquisitions.

Enquiries

William Hill PLC	Ralph Topping, Chief Executive Neil Cooper, Group Finance Director Lyndsay Wright, Director of IR	Tel: +44 (0) 20 8918 3614
Brunswick	Simon Sporborg / Fiona Micallef-Eynaud / Oliver Hughes	Tel: +44 (0) 20 7404 5959

Analyst conference call

Ralph Topping, Chief Executive, and Neil Cooper, Group Finance Director, will be hosting a conference call for analysts at 8.30 a.m. BST. Dial-in details for the call are:

Telephone: +44 (0) 20 3059 8125
Password: William Hill

An archive of the call will be available after the call until Thursday, 8 May. Dial-in details for the archive call are:

Telephone: +44 (0) 121 260 4861
Passcode: 3444982#

An audio webcast of the call will be available at www.williamhillplc.com.

Notes to editors

William Hill, The Home of Betting, is one of the world's leading betting and gaming companies, employing more than 17,000 people. Founded in 1934, it is now the UK's largest bookmaker with around 2,430 licensed betting offices that provide betting opportunities on a wide range of sporting and non-sporting events, gaming on machines and numbers-based products including lotteries. The Group's Online business (www.williamhill.com) is one of world's leading online betting and gaming businesses, providing customers with the opportunity to access William Hill's products online, through their smartphone or tablet, by telephone and by text services. William Hill US was established in June 2012 and provides land-based and mobile sports betting services in Nevada, and is the exclusive risk manager for the State of Delaware's sports lottery. William Hill Australia is one of the largest online betting businesses in Australia after the Group acquired the Sportingbet Australia business in March 2013 and tomwaterhouse.com in August 2013, two of the leading online corporate bookmakers in Australia, offering sports betting products online, by telephone and via mobile devices. William Hill PLC is listed on the London Stock Exchange and became part of the FTSE100 in May 2013. The Group generates revenues of c£1.5bn a year.