

H1 2018 results

26 weeks ended 26 June 2018

3 August 2018



William **HILL**

Good H1 performance - financial

- Group net revenue up 3% to £802.6m
- Adjusted operating profit from existing operations up 1% to £130.8m
- Exceptional charge and adjustments of £915.9m, principally non-cash impairment to Retail following Triennial Review decision
- Strong cash generation with operating cash flow of £110.0m
- Investing in growth with cash capex of £43.1m, and start-up losses of £17.2m for launch in new states in the US
- Strong balance sheet with net debt for covenant purposes of £272.4m, 0.8x EBITDA
- Adjusted EPS down 18% to 9.1p
- Interim dividend maintained at 4.26p per share

Good H1 performance - operational

- Continued momentum in Online with strong double-digit Sportsbook net revenue growth
- Retail net revenues down by 3% in a difficult high street environment but costs well controlled
- Strong US growth in Nevada, continuing to be driven by mobile betting
- Responding rapidly to new US opportunities
- Good World Cup performance
 - Wagering and gross win margins in line with expectations
 - Strong awareness from day one
 - Good levels of customer engagement with innovative products
 - Strong Online actives of over 1 million

H1 2018: A momentous period

Changing regulatory environment in key markets

- Triennial Review decision in the UK
- Supreme Court decision on sports betting law in the US
- Point of consumption taxes in Australia
- Gambling Commission settlement

Facing into these challenges

- Exited Australian market
- Remodelling the Retail estate
- Potential to grow a business of scale in the US
- Driving cultural change internally, stated ambition that nobody is harmed by gambling



Financial review

Ruth Prior, CFO

The Vegas Golden Knights' second season will be starting in September 2018

Group income statement

	H1 2018 excluding US Expansion £m	H1 2018 US Expansion ¹ £m	H1 2018 Including US Expansion £m	H1 2017 £m	% change	
Net revenue	802.0	0.6	802.6	778.5	+3%	→ Strong Online, US growth, weaker trends in Retail
Cost of sales	(196.5)	(0.1)	(196.6)	(190.0)	+3%	
Gross profit	605.5	0.5	606.0	588.5	+3%	→ Increased marketing spend offset by staff cost savings
Net operating expenses	(474.7)	(17.7)	(492.4)	(459.6)	+7%	
Adjusted operating profit	130.8	(17.2)	113.6	128.9	-12%	→ +1% for existing business, -12% including US Expansion
Exceptional items and adjustments	(915.9)		(915.9)	(20.3)		
Profit/(loss) before interest and tax	(785.1)	(17.2)	(802.3)	108.6		
Net finance costs	(17.3)		(17.3)	(15.5)	+12%	
Profit/(loss) before tax	(802.4)	(17.2)	(819.6)	93.1		→ Tax credit on statutory results given exceptionals. 19% ETR on adjusted results, expect c14% for FY18 adjusted results
Tax	16.3		16.3	(12.1)		
Profit/(loss) from continuing ops	(786.1)	(17.2)	(803.3)	81.0		→ William Hill Australia, sold in April
Profit/(loss) from discontinued ops	3.8		3.8	0.4		
Profit/(loss) for the period	(782.3)	(17.2)	(799.5)	81.4		
Earnings/(loss) per share (p)			(93.5)	9.4		
Adjusted EPS (p)			9.1	11.1	-18%	
Dividend per share (p)			4.26	4.26		
Net debt for covenant purposes			272.4	604.6	-55%	→ Net debt to EBITDA of 0.8x

This slide provides an overview of results with both adjusted and statutory measures. The following slides on divisional performance reflect adjusted results, since that is how performance is managed and reported internally.

1. Set-up costs incurred before and after PASPA decision in May

Online – continued strong growth in Sportsbook net revenue

	H1 2018 £m	H1 2017 £m	% change	
Sportsbook amounts wagered	2,352.7	2,485.0	-5%	→ Client management reduced wagering but improved gross win margin
- Sportsbook gross win margin	8.3%	6.9%	+1.4 pts	→ Significant margin improvement (+1.4 pts) driving 18% growth in Sportsbook net revenue
Sportsbook net revenue	164.5	139.1	+18%	
Gaming net revenue	156.4	150.9	+4%	→ Gaming broadening customer base with mass market acquisition, higher free bets in H1
Net revenue	320.9	290.0	+11%	
Cost of sales	(80.6)	(69.2)	+16%	→ £8m increment from horseracing levy and Remote Gaming Duty on gaming free bets
Gross profit	240.3	220.8	+9%	
Operating costs	(180.4)	(163.6)	+10%	
- Employee costs	(30.8)	(37.5)	-18%	
- Marketing	(82.5)	(67.4)	+22%	→ Marketing investment in World Cup, weighted towards H1
- Finance charges	(9.3)	(11.0)	-15%	
- Depreciation and amortisation	(18.4)	(17.4)	+6%	
- Other costs incl. recharges	(39.4)	(30.3)	+30%	
Adjusted operating profit	59.9	57.2	+5%	

Online – positive momentum in lead indicators

Key performance indicators	H1 2018	H1 2017	%
Unique actives ('000)	2,221.0	1,705.6	+30%
Average revenue per unique active (£)	145	170	-15%
New accounts ('000)	646.2	557.2	+16%
Average cost per acquisition (£)	128	121	+6%

- Acceleration in growth in actives and new accounts
- ARPU reflects increased acquisition and changing mix of gaming customers
- Higher CPA with increased marketing investment during FIFA World Cup

Retail income statement – good cost control partially mitigating revenue decline

	H1 2018 £m	H1 2017 £m	% change
Sportsbook amounts wagered	1,071.7	1,204.2	-11%
- Sportsbook gross win margin	18.4%	17.4%	+1.0 ppt
Sportsbook net revenue	197.0	210.0	-6%
Gaming net revenue	247.1	250.1	-1%
Net revenue	444.1	460.1	-3%
Cost of sales	(112.6)	(118.5)	-5%
Gross profit	331.5	341.6	-3%
Operating costs	(256.4)	(260.7)	-2%
- Employee costs	(92.8)	(100.1)	-7%
- Property costs	(51.1)	(52.5)	-3%
- Content costs	(41.2)	(38.6)	+7%
- Depreciation and amortisation	(17.9)	(16.6)	+8%
- Other costs incl. recharges	(53.4)	(52.9)	+1%
Adjusted operating profit	75.1	80.9	-7%

Racing fixture cancellations, lower recycling on high margins, wider high street weakness

Favourable gross win margin +1.0 ppt, strong football margin 4.7 ppts favourable to 2017

Strong control of staff costs

	H1 2018	H1 2017	% change
Average no. of LBOs	2,339	2,376	-2%
Average no. of machines	9,244	9,370	-1%
Machine density	3.95	3.94	+0%
Gross win / machine / week ¹	£1,028	£1,027	+0%
Machine gross win margin	3.8%	3.6%	+0.2 ppts

1. Excludes free bets

William Hill US (local currency) - strong growth in Nevada, start-up costs in new states

	H1 2018 Existing \$m	H1 2018 Expansion \$m	H1 2018 Total \$m	H1 2017 \$m	% change Existing vs H1 2017	
Sportsbook amounts wagered	660.3	6.2	666.5	526.3	+25%	Continued strong growth in mobile wagering, now 64% of US Existing
- Sportsbook gross win margin	7.7%	11.9%	7.7%	5.9%	+1.8 ppts	Favourable results in baseball, basketball and American football
Net revenue	50.7	0.7	51.4	30.9	+64%	
Cost of sales	(4.5)	(0.1)	(4.6)	(2.5)	+80%	
Gross profit	46.2	0.6	46.8	28.4	+63%	Increased costs driven by staff and property costs
Operating costs	(21.9)	(23.4)	(45.3)	(18.9)	+16%	Expansion costs include consulting fees, staff costs, property expenses and technology
Adjusted operating profit in \$m	24.3	(22.8)	1.5	9.5	+156%	
Adjusted operating profit in £m	17.6	(17.2)	0.4	7.6	+132%	

US: rapidly responding to growth opportunities in new states

- Good wagering levels in early weeks of trading in New Jersey, equivalent to c25% of the total wagering recorded in Nevada in the same period
- Gross win margin in US Expansion states is expected to be broadly consistent with the 6-8% historical range seen in Nevada
- Set-up losses of \$22.8m in H1 2018
 - Incurred up to and after Supreme Court decision in May
 - Investment in people, strategic planning and technology
 - Assume set-up costs in H2 of c\$50-60m
- Expected capex
 - \$1m to \$1.5m per land-based sports book
 - \$10m additional spend for mobile technology hub in H2 2018
- Position in future years will depend on rate of expansion, driven by mobile and land based split, number of states that permit sports betting, taxes and other factors

Exceptional items

- £915.9m exceptional charge and adjustments
- £882.8m non-cash impairment relating to Retail estate
 - £832.2 impairment to intangible assets (goodwill and licences), £50.6m to tangible assets
 - Follows Triennial Review decision to limit staking on gaming machines in shops to £2
 - In line with guidance of potential c£70-100m EBITA impact
- £29.9m relates to the transformation programme
 - Bulk of transformation programme activities completed in 2017 and 2018
 - Remaining activities continue into 2019

Cash flow remains strong

	H1 2018 £m	H1 2017 £m
Cash generation		
Adjusted operating profit	113.6	128.9
Depreciation and amortisation	39.4	38.5
Non-cash share remuneration charge	3.0	2.2
EBITDA¹	156.0	169.6
Cash restructuring costs	(29.9)	(14.7)
Working capital/other	12.8	(15.1)
Interest and tax	(24.0)	(23.6)
Pension scheme deficit funding	(4.9)	(4.8)
Capital and investing receipts (inc. disposal of Australia and NYX)	239.7	0.6
Capital expenditure	(43.1)	(27.1)
Net cash flow from discontinued operations	(2.0)	(1.2)
Free cash flow	304.6	83.7
Dividend	(76.8)	(71.6)
Other	1.1	0.0
Net cash flow	228.9	12.1

	H1 2018 £m	H1 2017 £m
Cash capex		
Online	22.9	15.4
Retail	6.4	5.6
US	4.9	1.0
IT and other	8.9	5.1
Total cash capex	43.1	27.1

1. EBITDA for covenant purposes



Operating review and strategy update

Philip Bowcock, CEO

Frankie Dettori celebrates winning the Gold Cup at Royal Ascot on Stradivarius



Online: strong World Cup delivery

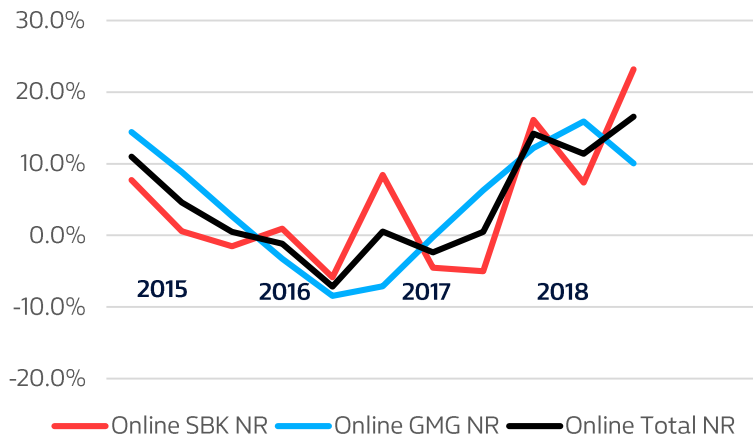


- Over 1 million actives during tournament, 354k tournament sign-ups
- Strong marketing approach
 - Early launch led to market-leading awareness on day one
 - Strong acquisition from PPC and social media
- Innovative Scratch of the Day product drove high levels of customer engagement
 - Used by 62% of tournament customers
 - Strong cross-sell between sports and gaming
 - Higher average player days among users
- Tailored products proved popular
 - YourOdds adapted for Live Odds and multi-match
 - Contributed c25% of tournament gross win



Online: continuing to benefit from digital transformation

Online YoY net revenue growth (UK only)
(rolling 12-month average)



- Continuing benefit of digital transformation
 - Product improvements, e.g., reducing app load time by 25%
 - Marketing support shift from Tel Aviv to London
- UK KPIs continue to be strong
- Double-digit growth in Italy and Spain
 - But growth recently behind market
 - Now moving back into focus
- Regulatory and compliance improvements
 - Joined GAMSTOP in July for cross-operator self-exclusion
 - Addressing higher spending customers for responsible gambling and sources of funds

UK KPIs continue to be strong

+29%
Unique actives

-16%
Average revenue per user

+17%
New accounts

+7%
Average cost per acquisition



Retail: engaging World Cup, continued investment



- Focused delivery against backdrop of high street weakness
- Good World Cup customer engagement
 - 580k Perfect Hat Trick entries
 - Today's Great Offers accounted for 20% of gross win
- Proprietary SSBTs now core to the LBO experience
 - Handled >50% of football turnover during World Cup period
 - One-minute-markets added for World Cup in-play
 - Expanded product range: boxing, golf, snooker, rugby league
 - 500 further SSBTs being added during 2018
- Evolving gaming
 - Dedicated gaming zones in 700 shops, further roll-out during H2
 - Lucky 6 launched as first game, further games in H2
- Second channel investment to enhance in-shop experience



US: strong underlying growth driving market share gains in Nevada



- Nevada market share by revenue up to 31% (H1 2017: 26%)¹
- Continued strong mobile performance
 - Now 64% of amounts wagered
 - 36% increase in new mobile sign-ups
- World Cup wagering up by >60% against 2014
- Increasing diversity of sports: ice hockey +86%, tennis +367%
- Operational expertise, risk management, and trading data provided to Delaware's state lottery run sports betting, with offering expanded since 5 June

1. Cumulative last 12 months' market share by sports betting hold, derived from Nevada Gaming Control Board data, Jul 2017 to Jun 2018



Our sustainability strategy



- Sustainability review initiated in Q4 17
- Long-term success relies on customers gambling only what they can afford
- Changing how we operate when it comes to gambling-related harm
- Wider focus on cultural change including new values and leadership 'vitals'
- Publicly putting our weight behind a far-reaching and long-term ambition that nobody is harmed by gambling
- Four focus areas:
 - Helping all customers stay informed and in control
 - Forging new ways to identify people at risk and to intervene
 - Strengthening the system of support
 - Empowering all colleagues
- www.williamhillplc.com/nobodyharmmed

Our strategy is focused on three key business areas, underpinned by our new approach to sustainability



Driving digital growth in the UK and internationally



Remodelling Retail



Growing a business of scale in the US



Delivering on our ambition that nobody is harmed by gambling



Driving digital growth

- Continue to gain UK market share
 - Programmatic and attribution modelling
 - Product roadmap
- Pursuing opportunities to expand outside the UK
 - Regulated markets – increased focus on Italy and Spain
 - Grey market potential
- New Malta office in readiness for Brexit
- Ulrik Bengtsson joined in April to support wider digital expansion strategy



Remodelling Retail



- Review of estate, format and proposition
- Evolving technology: new operating system
- New and innovative products
 - Further SSBT enhancements
 - New Plus functionality
 - Attractive customer offers
 - Gantry games
- Looking after customers
 - Knowledgeable colleagues in shops
 - Great customer service
 - Quality interactions
 - Deeper customer relationships



US: rapidly responding to growth opportunities in new states



State Lottery Delaware



Governor Murphy at Monmouth Park NJ



Mark Wahlberg at Ocean Resort NJ



Growing a US business of scale

State	Regulation	WMH status	WMH agreements and properties
Nevada	Land-based and mobile	Operating Operating	<ul style="list-style-type: none"> • 107 sports books with 31% market share • Mobile 64% of amounts wagered
Delaware	Land-based	Operating	<ul style="list-style-type: none"> • Exclusive risk manager to state sports lottery • Expanded product range post-PASPA
New Jersey	Land-based and mobile	Operating Operating In preparation	<ul style="list-style-type: none"> • Sports book at Monmouth Park Racetrack • Sports book at Ocean Resort Casino • Ready for mobile launch
Mississippi	Land-based, mobile on premises only	11 contracts signed	Properties include: <ul style="list-style-type: none"> • Hard Rock Hotel & Casino, Biloxi • Island View Casino Resort, Gulfport • Palace Casino, Biloxi • Treasure Bay Casino, Biloxi • WaterView Casino, Vicksburg
West Virginia	Land-based and mobile	Contract signed	<ul style="list-style-type: none"> • One casino
14 further states	TBD	In negotiation	<ul style="list-style-type: none"> • Discussions ongoing

Summary

- Clarity about future challenges and opportunities
- Adapting to regulatory change
- Enhancing UK competitiveness and targeting international growth in Online
- Existing business on track for 2018
- Investing for growth in the US

Q&A



Appendices

Adjusted results	Adjusted results means results before exceptional items and adjustments, as described in note 3 to the financial statements
Amortisation	Where operating expenses, operating profit or EPS are adjusted for amortisation, this pertains to amortisation of intangibles recognised on acquisition
Amounts wagered	This is an industry term that represents the gross takings on sports betting
ARPU	Average net revenue per user
Adjusted earnings per share (EPS)	Adjusted EPS is based upon adjusted profits after tax. Further detail on adjusted measures is provided in note 3 to the financial statements
Basic EPS	Basic EPS is based on an average of 858.7 million shares for 2018 and an average of 856.8 million shares for 2017
Cost per acquisition (CPA)	Marketing costs (including affiliates but excluding FVAs) divided by the number of new accounts recorded in the period
EBITDA	Earnings before interest, tax, depreciation and amortisation. EBITDA for covenant purposes is adjusted earnings before depreciation and amortisation, and share remuneration charges
FVAs	Fair value adjustments. These are principally free bets, which are recorded as a cost between gross win and net revenue
Gross win	Gross win is an industry measure calculated as total customer stakes less customer winnings. It differs from net revenue in that it is stated prior to deductions for free bets and customer bonuses
Gross win margin / net revenue margin	This is a measure, inter alia, of the effect of sporting results on the business. The margin is defined as gross win/net revenue as a percentage of amounts wagered. The margin is also affected by the mix of products with different margins and the amount of concessions or free bets offered to customers
Adjusted operating profit	Adjusted operating profit is defined as profit before interest and tax, excluding exceptional items and other defined adjustments. Further detail on adjusted measures is provided in note 3 to the financial statements
Net debt for covenant purposes	Borrowings plus counter-indemnity obligations under bank guarantees less cash adjusted for customer funds and other restricted balances. Further detail is provided in note 23 to the financial statements
Net revenue	This is an industry term equivalent to 'Revenue' as described in the notes to the financial statements. It is equivalent to gross win less fair value adjustments, which are principally free bets
New accounts	Customers who registered and deposited within the reporting period
PBIT	Profit before interest and tax
Sportsbook	Bets placed and accepted by Online on sporting and other events, or via OTC and SSBTs in Retail
SSBT	Self-service betting terminal
Unique actives	Customers who placed a bet within the reporting period

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