H1 2015 Results Presentation

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London - 020 7870 7100
www.global-lingo.com

H1 Overview

James Henderson

CEO, William Hill

Farewells

Good morning everyone, and thank you for joining us. As ever, Neil is with me. It is probably the last time we will be presenting together at Lincoln's Inn. As we all know, he has decided to embark upon a new venture, so let me take this opportunity to thank him for his support over the last 12 months for me as CEO and congratulate him on his new role at Barratt.

Moving parts

I have been CEO for a year now, and it is probably a good time to show you what progress we have made on delivering on our strategic priorities, and for Neil and I to demonstrate how we have navigated through quite a bit of disruption, including: rolling over a World Cup, shop closures, the introduction of Point of Consumption, an increased MGD rate, and most recently implementing the '£50 journey' on gaming machines.

Overall I am pleased that since the introduction of POCT we have achieved good UK online growth, and secured the right TV contracts at the price we expected to pay. We have also seen our international divisions make good operational progress, and today we have announced that we are entering a new and emerging market in online lotteries. Before I get into my stride, I will hand over to Neil to cover off the numbers.

H1 2015 Financial Results

Neil Cooper

Chief Finance Director, William Hill

Thank you James. For the avoidance of doubt, for those of you who do know I am a keen cyclist, that is not me out with the 7-0's chain gang on a Sunday morning; it is some other bloke in yellow.

Impact of structural items

I will reiterate the structural items that have impacted the year-over-year progression. These include the onset of the Point of Consumption Tax from December 2014, which has affected both online and, to a small degree, the telephone channel; the increase in machines games duty from 20% to 25% at the beginning of March this year; we closed an exceptional tranche of 180 retail shops in the second of 2014; and finally, we are rolling over the 2014 World Cup, which largely fell in weeks 24 through 26 in H1 and 27 and 28 in H2. I will reference the gross impact of some of these later in the presentation.

Profit progression

Net revenue

The group saw net revenue of £808.1 million, up marginally on the prior year. Following a first quarter impacted by a record loss-making week, the second quarter improved in absolute operating profit terms, albeit with a World Cup commencing in Q2 last year, which now makes some of our year-over-year metrics look less positive.

The group made a £155.7 million of operating profit, £21 million or 12% down on the prior year. Amortisation of acquired intangibles was £4.5 million in line with the comparable. Pre-exceptional net finance costs fell by £4.3 million or 18%, from £24.2 million to £19.9 million, which was driven by lower average net debt in the half.

The half year end net debt for covenant purposes was £539 million versus £720 million at the end of H1 2014, and the group's net debt over EBITDA was 1.3 times at the half-year end.

The group's effective pre-exceptional tax rate was 19%, in line with both the prior year and with our guidance. In absolute terms the charge was £25 million, a fall of 12% on the comparable.

Retained profit for the year was £106.3 million, down £13.4 million or 11%, and basic adjusted earnings per share also declined 11% from 14.1p to 12.5p.

Gambling duties

Given the impact of the various structural items, this chart just helps to highlight that, whilst operating profit has fallen half-over-half, the increase in gambling duties has been a major factor. In the first half we incurred £36 million of POCT cost, and £8 million of additional MGD cost arising from the rate increase; £44 million in total. This is, of course, without factoring in the impact of the change in retail machines' run rate arising from the commencement of the new £50 journey.

Recovery and savings

All other movements combined recovered £22.9 million, a total which includes the benefit of our POCT mitigation activities. These included greater marketing efficiencies, which I will outline later, and savings in other areas such as the renegotiation of profit deals with suppliers. We will give you a full progress update on this versus our previous expectation at the end of the year.

Tax

There were £52.6 million of pre-tax exceptional charges in the period, offset by a £15.8 million tax credit. Of the three items making up the charge, all relate to activities commenced and advised in previous years. Firstly, we have released £700,000 of the provision taken last year, in relation to the exceptional shop closure portfolio. This release largely relates to early lease surrenders.

VAT repayment

Secondly, we have incurred an extra £200,000 of cost relating to the VAT repayment we expensed with the exceptional line in 2013. The underlying legal actions relating to this between Rank and HMRC are continuing.

Australian operations rebranding

Finally, and most material, I will remind you that we previously announced the rebranding of our Australian operations to the William Hill brand, and have carried out the Sportingbet rebranding, with both Centrebet and TomWaterhouse.com to come. As a result we accelerated the amortisation of these brands, with £44.5 million being taken in 2014. We have now taken a further £53 million in the first half of 2015, and expect a further £7-8 million in the second half, which should complete the full amortisation of the relevant assets.

Individual businesses

Retail estate

Moving to focus on the individual businesses. The retail estate was on average 3% smaller, following the exceptional closure of 108 shops or around 4% of the estate, offset by ongoing ordinary growth of around 1%. OTC wagering declined 4%, or 2% excluding the exceptional shop closure portfolio. Gross win margin was 17.9%, slightly below the prior year. Football margin grew from 21% to 22.8%, but it also fell in the wagering mix with the resulting dilution to the blended margin offsetting by more.

Horseracing

For tier three, which is our bread and butter horseracing product, the margin grew from 13.5% to 14.7%, but the tier-one headline festivals declined in margin. Whilst the Grand National was a decent result in isolation, it was not as strong as the bumper 2014 outturn, and Cheltenham margin also came in below the prior year. The net impact of a small overall margin decline, taken with the wagering decline, was a 5% OTC gross win decline; 3% on an adjusted basis.

Gross win margin

The second quarter saw some marquee events go the punters' way – it does happen – with the Epsom Derby going to the favourite and with both Arsenal and Barcelona winning cups with very well favoured scores. I think the only saving grace was that Messi did not score, otherwise it might have been a little bit worse. However, as a result our Q2 gross win margin declined by 0.3 percentage points from 18.4% to 18.1%, following on from an in-line Q1.

Machines

Trends have slowed since the onset of the £50 journey. Total gross win was down 1%, which together with the OTC gross win decline left overall gross win down 3%, or 1% after adjusting for the exceptional closures.

Cost of sales grew by 4%, with an initial fall driven by the gross win decline and the closure of the exceptional sites, offset by an additional £7.7 million of MGD following the rate hike.

Overhead costs came in 3% below prior year, and I will talk to that in a moment. Finally operating profit at £90.5 million was £10 million or 10% below prior year, circa £7 million of which was the netted impact of the MGD rate hike.

OTC wagering trends

2014 World Cup

OTC wagering trends have been impacted by both exceptional shop closures and the presence of the World Cup in the second quarter last year. This slide shows the wagering trends for the first quarter; the second quarter to the end of week 23, which was before the commencement of the World Cup; and weeks 24 through 26, with the World Cup comparison. We prefer to show it this way as it avoids having to make judgements about the degree to which the World Cup wagering is substituted, versus incremental. As you can see, we have also put some comparative data on reflecting an adjustment for the exceptional closures. On this latter basis, the Q2 performance prior to the World Cup was actually positive in wagering terms, but that did benefit from a later end to the Premier League this year.

Pence per slip growth

What has also helped wagering this year has been a strengthening in pence per slip, which has partially offset transaction declines. This chart is based on the metrics after adjusting for the exceptional closures, and clearly demonstrates the improving spend trends. Retail pence per slip is now just under £8, at around £7.87. Data from other sources we have looked at, such as the Greene King Leisure Tracker for June, would tend to confirm that we are seeing an improved environment, post-election.

£50 journey impact on machines

Other than the World Cup rollover, the key emerging trading feature of the second quarter for us in machines has been the negative impact of the £50 journey on revenues. The first point to note has been the large swing in behaviour immediately following the introduction of the change. The percentage of stakes over £50 in the 13 weeks post the change fell by 71% compared to the six weeks running up to the change, with the percentage of stakes between £40 and £50 going up by 280%, so we have seen a big shift in consumer behaviour. The length of session play has not materially shifted, although it has increased a tad. As James will mention later, we have also seen an uptick in our B3 play.

Net impact

Taking all this together, the overall net impact has been negative, with an adverse swing against previous run rates of somewhere between 3–4%. Looking ahead, we now expect to see a £5–10 million reduction in operating profit terms in the second half versus our previous plans. However, we are working hard to limit that impact, and James will again cover that off in some more detail.

Operating costs

Retail costs fell 3% versus the comparable period or were flat, excluding the benefit arising from the exceptional site closure. We saw a 2% decline in labour costs on this basis, with benefits from both the final quarter of rollover of our extension of single manning, which you will recall was April 2014, and from a reduced bonus accrual.

Property costs grew on this basis by 4% and content by 2%; other costs fell, benefiting from a reduced central recharge of this year. Looking ahead to the full year, we continue to expect minimal cost inflation on a full-year basis, including the impact of the average estate movement.

Online growth

Net revenues

Net revenues grew 7% or £18.8 million in H1, with gaming in growth by 4% and sportsbook in growth by 11%. Sportsbook net revenue grew 11% in both Q1 and Q2, despite the World Cup in the comparative. Gaming net revenue slowed in Q2 to 2% from 7% in Q1. We saw a first half net gaming revenue decline of 26%, from our non-core, other markets. On the other hand, gaming in our core markets grew strongly, with 13% in the UK for the half, 16% growth in Italy and 6% in the nascent Spanish gaming market. Partly as a result of this trend net revenue by geographic source moved sharply in the half, with the UK growing from 74%

of online net revenues in H1 2014 to 79% in H1 2015, and with the non-core markets falling from 18% in the half last year to 13% in the half this year. As well as from the gaming trends I have outlined above, this has been exacerbated by differential sports betting margin trends by geography.

Cost of sales

Cost of sales grew by 38%, of which POCT amounted to £35 million. Total operating costs on the other hand fell by £3 million, largely driven by the reduction in marketing in 2015 versus 2014, with 2014 boosted by World Cup spending and 2015 reflecting some greater marketing efficiencies as our post POCT mitigation activities start to take effect.

Operating profit

Impacted by the major hiking cost of sales, and despite the growth in net revenue, operating profit fell by £16 million or 20%, from £81 million to £65 million.

Unique actives

Unique actives grew 8% for the year to date, with growth in sports betting and casino, but with declines in poker and bingo. New account growth was flat, albeit rolling over a period of strong customer acquisition in June 2014 driven by the World Cup. Average cost of acquisition is falling, with increased efficiency as a result of the lower marketing net revenue ratio, driven by the group's response to the onset of POCT.

Sportsbook Growth

Sportsbook wagering grew 10% for the half, with Q1 growth of 16% and Q2 growth of 4%. UK wagering grew 7% for the half. The Q2 growth rate was adversely impacted by the presence of the World Cup, and if you strip out weeks 24 to 26, growth for the Q2 was 17%.

In-play

In-play wagering grew 22%, which shows the benefit of content expansion, with in-play tennis growing by 43%. Pre-match grew 1%, with football wagering showing the year-on-year decline.

Gross win margins

Gross win margins grew by 0.2 percentage points, with pre-match improving by 0.8 and in-play falling by 0.1. The main driver of the pre-match improvement was a good uptick in horseracing margin, which was partially offset by a pre-match football decline. This was offset in the blended margin by an increase in the wagering mix of in-play betting and a fall in tennis in-play margin. I should also flag that if the current relative growth rates of in-play and pre-match wagering persist, it is likely to put downward pressure on our blended gross win margin guidance. However, we will comment on this again at the end of the year.

Italy and Spain

Wagering

Italy has frankly been a standout performer for us in the first half, with sportsbook wagering growing 85% on a local currency basis, 65% on a reported basis. Spain also grew, with 16% local currency wagering, 3% on a reported basis. Both markets saw gross win margins declines, primarily impacted by in-play tennis, and in the case of Spain with Barcelona winning the Champions League, also pre-match football.

Gaming growth

As outlined earlier, gaming growth on a reported basis for these markets was also good: 16% for Italy and 6% for Spain. Italian net revenue growth has now led to a near break-even position in operating profit, and we expect the business to be profitable at the end of the year, with a further benefit in due course from changes we expect that the Italians are making to indirect tax regimes.

Spanish net revenue decline reflects the impact of the fall in sports gross win margin in a business which remains predominantly focused on sports betting. I expect this business to lag behind Italy in terms of reaching profitability.

Marketing

Marketing fell by £11 million, from £73 million in H1 2014 in £61 million in H1 2015, at a marketing to net revenue ratio of 22%. As I indicated at this point last year, the first half/second half split in 2014 reflected a first half weighting driven by the World Cup.

The current marketing to net revenue ratio in the half is consistent with that which we saw in H2 2014. Looking ahead, we now expect the marketing cost will fall slightly below the prior year in absolute terms for the year as a whole, although this will be, in effect, an increase after we adjust out the World Cup spend from 2014.

The sportsbook free bets to amounts wagered ratio was 1%, which is broadly in line with our guidance. Other costs grew 10%, with depreciation – which reflects recent increases in capital spending – growing by 29% or £3.5 million, and all other costs up by 6% or £4.5 million. The major line items of growth in H1 2015 includes staff costs, bank charges and IT costs.

Australia

Operating profit

Our Australian business continues to see a combination of declining turnover levels, improving gross win margins and the benefit from overhead costs from the combination of TomWaterhouse.com with Sportingbet last year. The combination of these three things has helped us deliver an operating profit marginally behind prior year on a reported basis, although this performance was worsened by the weakening of the Aussie dollar. On a local currency basis, operating profit was flat year-over-year.

Net revenue

Despite the gross win margin improving from 8.6% to 11.2%, which leaves gross win only down 1% on a local currency basis, net revenue fell by around A$5 million or 4%, with that decline being exacerbated by the additional bonus spend linked to the brand launch. This was offset by A$3 million saving in cost of sales, which is benefited in part from the falling unprofitable turnover and a circa A$2 million overhead saving.

Unique actives

Whilst wagering trends have worsened in Q2, we continue to estimate that around three quarters, or slightly more, of the local currency decline across the half arose from the client management and trading policy activities we have undertaken to ensure that the business is in a position to grow off the profitable base, given the impact of the turnover-related race field fees on lower margin and loss-making customers. This should be evident from the combination of declining turnover but modest growth in unique actives. However, we are also seeing greater reduction of activity from Centrebet and TomWaterhouse.com actives than we had anticipated, following the focusing of brand activity on William Hill, at a point where competitiveness is certainly ramping up in the Australian market.

United States

The US acquisitions are now really motoring, showing the benefits of the superior products that we are now offering in both our mobile products and in our casino-based sportsbooks. Wagering growth continues apace, as does net revenue growth, and this leads to good profit growth, despite a Super Bowl-impacted gross win margin.

CAPEX

The Group spent £28 million of CAPEX in H1, with an increase in online CAPEX but a slowdown in retail CAPEX, as our new shop openings slow, following the change in planning regulations. We now expect to be spending around £75–80 million of CAPEX in 2015, of which around £3-4 million more will be allocated to Australia than we previously anticipated.

Cash flow

Net cash inflow from operations was £159 million, down £16 million on the prior year comparable. The major driver of this change obviously was the reduction in pre-exceptional EBIT, but we also saw increased amortisation addbacks and reduced cash exceptionals, offset by an adverse movement on ante post bets following the World Cup.

Working capital

We saw a working capital inflow of £13 million in the first half, driven by increased gaming tax accruals, partly offset by lower bonus accruals. We expect full-year working capital movements to be broadly neutral.

Summary

National Living Wage

Three points to note from the recent summer budget. Firstly, the announcement of the National Living Wage, which will increase our labour costs above previous internal forecasts. The scale of the impact will depend on our response on retail organisational structures and other matters, including policy on maintaining wage differentials. The short-term impact in 2016 could be as minimal as around £1–2 million above current expectations, but more work is being done to assess what our appropriate long-term response should be.

Corporation Tax

Secondly, the Corporation Tax reduction announced will benefit, both in terms of a deferred tax credit on enactment and in cash terms, when the rate reduction actually kicks in in 2017 and 2020.

VAT rules on advertising

Finally, one issue that may have escaped your attention as it is a pretty technical issue: the government has announced a review in the VAT treatment of advertising brought for use and consumption in the UK by companies in certain jurisdictions outside the UK. The announced review suggests a target date of 2017. Given that William Hill online is based in Gibraltar, this may impact the purchase price of our UK media and other marketing in due course.

Other Finance Matters

Tax rate

Finally our pre-exceptional affective tax rate was 19% versus 19.2% in H1 2014. Our full-year guidance remains unchanged, but I should note that we have a number of tax items moving forward so this may alter. However, we will obviously update you at the appropriate point, if that happens.

Additionally to this existing guidance, we now expect a £10 million deferred tax credit, as I mentioned, arising as a result of the enactment of the 2% corporation tax rate reduction announced by the Chancellor in the summer budget. On previous experience, this is likely to fall into H2 this year.

Pension scheme

We have also maintained a surplus on our defined benefit pension scheme, on an accounting basis, although it has fallen slightly from the year-end. James will go on to talk in more detail about our latest investment around NeoGames; from the financial perspective, as this is only a minority stake, we intend to account for this as an associate or a joint venture. Our current expectation is that our share on consolidation will likely be a £2–3 million per annum loss run rate for the remainder of 2015 and for 2016.

Interim dividend

Finally, I am very pleased to be able to highlight, despite a fall in basic adjusted earnings per share, a modest increase in our interim dividend per share, up 2.5% on the prior year.

Performance and Strategy Update

James Henderson

CEO, William Hill

Introduction

Let me start this section with an overview of Point of Consumption and the £50 journey, and then I have a couple of slides on each of our three strategic priorities.

UK Performance

Let us look at online UK performance in isolation, bearing in mind Point of Consumption was introduced last December.

Net revenue growth

We are still delivering strong net revenue growth at +16%. Importantly, sportsbook is ahead of that, up 18%, benefitting from a stronger margin and with wagering up 7%. Our Vegas product suite is up 23%. Significantly, new accounts, unique actives and revenue per active are also up, and CPA is down. That is a strong performance without a World Cup.

Voice

While marketing is very competitive, our scale means we have secured the key assets we wanted. In the critical arena of live football, as you can see from this pie chart, William Hill and Bet365 were dominant last season, with nearly 50% share of voice. However, for overall share of voice we were third, as Paddy Power and Betfair increased their spend.

Key contracts

This year, as well as the Sky and BT Sports deals, we have secured a top ITV bookmaker package for 18 months, including the Euros and the Rugby World Cup, plus perimeter packages for exposure to the EPL, the Championship, Cup games, La Liga and Copa del Rey. Our share of voice is projected to be 19–20% overall and 20–21% for live football, making us, we believe, top two.

Run rate

As Neil said, the run rate on the £50 journey looks like having a £5–10 million impact in the second half of this year. That's probably a realistic place to start but we are working, as you would expect, to redress that shortfall.

Linked card

In order to provide a seamless customer journey, we are encouraging our customers to use the Linked card for gaming above £50. We have gone from around 9,000 weekly actives to around 25–30,000 weekly actives, with total signups increasing to around 93,000. We have gone from 11% to circa 14% of machine gross win, derived from this Linked card, and with continued promotions and messaging we are aiming to build on these numbers.

Improving content

We are also addressing content, which is the lifeblood of gaming. During Q4 last year and Q1 of this year, we undertook an extensive review of our return to player, or RTP stats on all B3 gaming machine content, which meant no B3 content releases during that time. We wanted to be certain that the theoretical RTP was being delivered in practice; I am now happy that it is robust, and also that now we have an industry-leading approach to RTP measurement. Now we have also accelerated to release a new B3 slot game every other week, and we have finished the rollout of our new Eclipse terminal in Q2, so we should soon be through that adoption curve of customers familiarising themselves with a new terminal.

B3 trends

Lastly, it is worth noting that the higher margin B3 continues to grow, and in H1 accounted for around 30% of machine net revenue, up from 27% last year, with a combined yield up to 3.47% from 3.44%.

Three Pillars

Last August, I laid out my three strategies pillars: Omni-Channel, international diversification and technology. There has been progress on each, and this slide gives you a snapshot of some of the bigger items we are delivering.

Omni-channel

Priority access

We continue to focus on creating a more consistent feel between retail and online to benefit those customers who use both channels. A good proportion of our customers are multi-channel; however, they are not always crossing from William Hill online into William Hill retail or vice versa. So to ensure that our customers consistently use William Hill, our online and retail teams collaborated so that wherever appropriate, the user experience, product innovation and technology benefits both businesses.

So far, some of the key initiatives have been: extending the betting day by taking the popular horseracing content into online; trialled Cash In My Bet in selected shops; introduced betting shop TV to online; and designing the shops' TV content to reflect online's for greater familiarity; and finally, embarking on creating a bespoke SSBT designed, driven and managed by us.

SSBT

The SSBT is a pivotal part of our Omni-channel strategy, and we are deliberately taking a different stance on this. What we want is the best-of-breed solution; one that gives our customers a different experience from the rest of the high street. We have been working on this since the beginning of the year, and recently appointed Scientific Games as our strategic hardware partner.

In Q3, we will be putting a working prototype into our model shop to help us evolve the key functionality. We have already engaged with our customer base to test the product at each checkpoint, so our terminal and the functionality has been designed by our customers with our own online team working alongside them.

Expanded product range

As it stands, we are working towards a stage roll-out through next year. The benefits of this bespoke terminal could be substantial. First off, it will provide an expanded product range for retail, including features such as TopBets and Cash In My Bet. More importantly, retail will able to access online's future developments, benefiting from its speed and agility to bring through new innovations. We will do that without a revenue share, and we will cover next year's CAPEX requirement with an existing group spend guidance.

Linux

While it is a cabinet now, we are building this on a Linux platform which means we can use other technologies, like tablets, going forward. For me, this is the most exciting piece of the Omni-channel strategy today: properly delivering online products for retail customers with a technology approach that others are not matching.

Australia

Moving onto Australia, and international: as you all know, we have been working hard over the last two years. This year is about the William Hill brand, the mobile experience and margin improvement, which Neil has already talked about.

Brand launch

The brand launch has gone well. The chart on the left shows we have seen significant increases in prompted awareness from 16% last May to 46% this May. Spontaneous awareness has also increased from 2% to 12%, and that is better than we expected at this stage. This has been achieved during a crowded period of the market, with BetEasy rebranding as CrownBet and Tatts moving to UBET at the same time. It is early days, but we are encouraged by the growth in actives and new accounts during H1.

The picture is being slightly distorted by the impact on the other brands of focusing the above the line spend on William Hill. The right-hand chart shows that William Hill has grown well, Centrebet has been fairly resilient but Tom Waterhouse is suffering more. Our plan therefore, is to migrate Tom Waterhouse customers first, post the Spring Carnival, and Centrebet thereafter.

Mobile app

We are also improving the mobile experience. It is fair to say our app has not been refreshed for some time, and is a key reason for customer churn. Therefore, we are addressing that before the Spring Carnival; we are recoding the entire app, improving the registration, deposit, betting processes and information layout.

Click to Call

We have had a very positive response to Click to Call since April. The Australian Communications and Media Authority has referred the product for review, but we have every confidence in our product, so we have made it available across all our platforms, including iPhone. The bottom right-hand chart shows how live bets have more than trebled in a very short period of time. We are the lead innovator on this, and we want to capitalise on its popularity. Therefore, we are accelerating our technology CAPEX for Australia to build APIs connecting the core platform to group central feeds, further expanding the product range and accessing other key products, such as Cash In My Bet. At the same time, we are increasing bonusing, recognising that the market is getting more competitive, while bringing those innovations through.

That CAPEX is around £10 million over the next three years, but still comes within group guidance of £75–80 million for this year, and £80–90 million further out.

Staffing

The staffing changes you may have heard about in the media also reflects these changes, and delivers some further operational efficiencies. We are no doubt becoming more competitive in a tough market. It does take time for operational improvements to show in the numbers, but I still expect to achieve our returns target in 2018.

Other core international markets

Italy

Turning to the other core international markets, Neil has talked about the revenues so I will touch on other points of interest. In Italy we are looking forward to the planned decommissioning of the original Palinsesto schedule in Q1 2016. That will be particularly positive as it will allow us to significantly expand our sports product range, providing popular markets like point-to-point betting on tennis and a move from manual to automated trading on outright markets.

Spain

In Spain we launched Slots on 2nd June, and already we have seen a good uplift in actives.

US

William Hill US keeps getting stronger and stronger. We are rapidly getting market share in Nevada with our percentage of state-wide handle going from 11% to 17%, and our share of sports gross win going from 12% to 21% in the last three years.

Since we created the business, we have increased the number of sportsbooks by around 6%, our handle by 93% and our win by 148%.

Mobile

Mobile is becoming ever more popular, now accounting for circa 50% of turnover and growing 75% in H1. It is also now easier for customers to deposit funds into their mobile account, as we have added another 200 locations by teaming up with 7-Eleven.

Based on what I have seen from the moving parts with our international business, I feel now is the right time to set a target for our international growth. I am looking to increase the revenues coming from international locally licensed markets by 50% over four years. Last year, that was around 12% of Group net revenue.

NeoGames

US lotteries

The acquisition of stake in NeoGames now today is bang in line with our international strategy, taking us into the emerging online lotteries market with a particular focus on the US. US lotteries are worth $60 billion a year overall. Michigan, Kentucky, Georgia and Illinois have awarded online lottery contracts, and another eight are in the pipeline. They are still in their infancy, typically at around 10–40% of lottery markets, but mobile appears to be broadening their appeal, particularly to a younger demographic, and state lotteries are looking for innovation from their suppliers.

Market penetration

NeoGames has developed a full solution, providing its proprietary technology and operating services. It is a disruptive player competing well against the incumbents, and won Michigan's iLottery contract with Pollard Banknote in 2013. Already, together they have achieved the highest market penetration rate of the four states.

Other markets

NeoGames supplies other markets, including Sisal in Italy and Santa Casa in Portugal. It is a small but highly effective team. Their customer focus is good, judging by their game portfolio and user-friendly interface, and they have strong systems around CRM and payment processing.

Investment

Our $25 million investment gives us 29.4%, with call options to buy the rest after three and five years. This investment stays within the business to support its expansion, and we are providing a $15 million working capital facility as well.

Board positions

We get two board positions to keep close to the business, and we are very interested in supporting the team in the next stages of its evolution.

Technology

The next two slides are on our third strategic pillar, technology. As I said before, Trafalgar is about the front end, but we are also continuing to develop our priorities and schedule for evolving the back-end platform, putting the components in place to reduce our third party reliance and increase our flexibility. We will talk about that more in the first half of next year.

Trafalgar

Implementation

We are now into the really interesting phase for project Trafalgar. It is a step change that will take us to the next level, and exactly what we need to maintain our number one market position in the UK. Most of the development was complete at the end of July. We have been in hidden live since May, with around 2,000 customers a day on the site, and in total we have had around 144,000 visits to the site. We are getting some really positive feedback. We are also getting more selections added per page view, more bet slips summited and more bets placed. Independent testing shows that pages are loading up to 50% quicker than the current site. So, really pleasing start on all fronts.

Implementation is gradual. Most of the products will be in for the early part of the football season, and then we will rollout device by device. It is certainly going to be much smoother than the big bang we used in December 2008, for the OpenBet sportsbook.

Responsive design

Trafalgar is a responsive design, but much more than that it is adapted to each specific device. Customers will get a far better mobile and tablet experience, using native functionality like sideswipes and thumbprint to access their account.

Mobile in-play

The mobile in-play experience improves, with Trafalgar's push pricing, meaning much quicker price changes to your device. This will create more betting opportunity for mobile, like five-minute markets and Cash In My Bet.

Enhanced testing

The level of testing and data capability is well beyond what we have done before. We can now split the customer base, show them different customer journeys and instantly know which derives the most value. It is our ability to react quickly that makes this data so valuable.

Releases per year

Controlling the front end means we move from around ten releases a year with downtime, to doing as many as we like, by 10.00 each day. That can mean thousands of releases every year, in real time.

Improvements

Post-deployment, around half of the 140-strong development team will go over to continuous improvements, releasing the rest to support other development, including a long list of product innovations we are keen to bring through.

There is so much more going on than we have time to talk about today, so later in the year we are planning a separate session on this and some of the other exciting changes happening in our online business.

Vegas Products

Unique gaming experience

Trafalgar is primarily about the sports betting experience but we have been working on gaming at the same time. This pie chart shows that our Vegas product suite now accounts for

30% of online's revenues. That growth is coming from our investment and innovation to bring our customers a unique gaming experience.

Bonus capability

Vegas's key relative weakness until now had been acquisition bonusing. So we built an in-house bonus engine and hybrid wallet, accessible to suppliers through our Rigour[?[] interface. We have already integrated some of our key slot developers, and are testing the system with a selected group of customers. For the first time, we will have a bonus capability equivalent to the very best in the business.

WH Labs Accelerator Programme

Online's Shoreditch team were very much behind this work on the hybrid wallet. This small team is focused on delivering rapid innovation. They have also built a portal to give developers access to our APIs, and delivered the industry's first Apple Watch app.

They are leading our William Hill Labs Accelerator programme, the first of its kind in our industry. 240 start-ups applied during July, and we are working towards a shortlist of eight over the next couple of weeks. Each start-up will get £25,000 to develop their idea, access to mentors and office space in Shoreditch and Tel Aviv. The winner, to be announced in January, will receive a further £150,000 in funding and the chance to see their innovation delivered at William Hill.

Summary

So, there is lots of good stuff going on. Our strategy is clear, we are continuing to diversify both digitally and internationally, and our scale means we can continue to be innovative and to invest in both marketing and technology. Our strong balance sheet gives us the flexibility to take advantage of this period of change in a highly competitive sector. So thank you very much for listening, we will now take questions.

Q&A

Vaughan Lewis (Morgan Stanley): First one on online: I am surprised that you have cut marketing so much, and given how competitive the market is and with the squeeze on profit margins from the POC, would it be a better time to be cranking out marketing and going for market share and investing for growth?

James Henderson: I think in regards to marketing; we guided to spending the same as we did last year, which was around £132 million. We spent probably about £11 million less than we did this time last year because there was a World Cup, but we also have had operational efficiencies in that as well, which rolled through. We will actually get to back to the mitigation that we said we would do. I think it is fair to say that we are incredibly competitive. We have the right BT Sport package, we have the right Sky package and the right ITV package. So we are getting the assets that we wanted within the expenditure that we needed to do. It is always flexible; if we feel as though we are not remaining competitive, then we will do something about it, but I believe we are absolutely where we want to be.

Vaughan Lewis: Then a second one on online: when does the main Playtech contract expire, and what are your plans for that when it does?

James Henderson: Playtech are a key supplier with us, so we enjoy an ongoing relationship with them.

Vaughan Lewis: But when does the master contract expire, and what are your plans for the rolling over?

James Henderson: As I said, Playtech are a key supplier to us. There is an ongoing relationship with them, and therefore the contract will continue on that basis. About reducing reliance: when I say that about our key suppliers, it is not about getting rid of them, it is about working well with them to be able to grow revenues. Playtech are definitely in that category.

Neil Cooper: The existing contract I think is 2018. However, as James has said, obviously there is no intention of not contracting them after that period.

Vaughan Lewis: Got it. Then a final one on SSBTs: will that basically be giving the whole online product, and will it therefore be online prices and bonuses as well?

James Henderson: Yes, it will be the whole online product. The great thing is, because it is on a platform that will be connected to online, you are going to get all the top bets, tip advisor and all the associated benefits of online. In regards to the pricing: we currently run at retail prices, but when we see the performance of the machines when we roll them out, then we can have a look to see whether we will maintain retail prices or indeed look at a different margin for football.

Vaughan Lewis: Okay, thanks.

Neil Cooper: Just to clarify: we are taking our own prices through the SSBTs at the moment but they are just coming through somebody else's technology. However, they are not online prices in retail; they are retail prices for retail.

Vaughan Lewis: So that there will still be different prices and you will not have best odds guaranteed?

James Henderson: They will, yes. The beauty of this deal of going with our own proprietary SSBT is that we currently have a revenue share which makes it very difficult to get incremental gross win. So by having a fixed fee for our hardware supplier, we are in a much better position to be able to have more SSBTs in the estate.

Neil Cooper: As regards the pricing, the new machine will give us the optionality. At this stage we are not guiding to a margin change as a result of the new machines, but we do have optionality. If it is the right thing to do, we will obviously change it.

Vaughan Lewis: Great, thank you.

Ed Birkin (Credit Suisse): In terms of online, can you give your proportion of mobile spend coming through apps as opposed to mobile web, please?

Neil Cooper: Off the top of my head, no. Our Online Head says half. So if he is wrong, blame him.

Ed Birkin: Thank you. In terms of project Trafalgar: that is currently just focused on the web pages as opposed to apps, is that correct?

James Henderson: It will be. It is going to be rolled out across all devices later in the year.

Ed Birkin: But via the native app, or accessing it through the webpage, to your iPhone?

Neil Cooper: We will get our experts to talk to you.

James Henderson: Andy will tell you.

Ed Birkin: Okay. Then international target: is that an organic growth rate?

James Henderson: Yes, it is, absolutely.

Ed Birkin: Finally, can you just give a quick update on what is happening with the New Jersey Sports? Is it still in appeal?

James Henderson: Yes, the last oral discussion was around March. They say that the decision should be imminent. This is the New Jersey version of the sporting bodies. We have not heard anything. So it could be tomorrow, it could be any time. There is no defined period for the outcome of that.

Ed Birkin: Thank you very much.

Patrick Coffey (Barclays Capital): In terms of Australia and investment there, you talked previously about £5 million of marketing costs this year. Going forward, can you talk through about the investment cost that you are going to be putting through, and whether there is risks that you will have to invest more in marketing to get the brand awareness up, closer to where Paddy Power are? Thanks.

James Henderson: Neil referred to it, about spending additional CAPEX in Australia over the next three and a half years. It is around A$19 million, which is around about £10 million, and that is essentially to be able to improve the platform to be able to capitalise on the Click to Call functionality that we talked about. We are spending the additional money on marketing to be able to get the brand away, which has gone very well in regard to prompted and spontaneous awareness. If indeed, as I expect, Click to Call takes off, and the platform can then take the breadth and depth of content from online, then we can review the marketing budget of that time to see whether we can maximise that.

Neil Cooper: I would add to that and say that, as a result of that increased marketing, there will obviously be an extra depreciation cost, and there may be some ancillary IT as well. So we are looking at handfuls of extra millions of cost as a result of that in the short run. However, to echo James's point, we are not uncomfortable that on our current projections we get back to the 2108 expectation.

Patrick Coffey: Thanks. On the international: obviously you have given the target of growing net revenue 50% by 2018. Can you give us a target for profits?

James Henderson: Essentially that will roll through at an appropriate margin. To give you a little more colour on the revenues, it was around about £200 million at the end of last year.

Patrick Coffey: Thanks. On the Q1 call we talked a bit about recycling in online, and how you were seeing some trends differ there over the last six months up to Q1 versus historical recycling trends. What have you seen since then in terms of recycling, in UK online particularly? Thanks.

James Henderson: Rather than looking at it as a recycling rate, if I can look at it in a net revenue: the net revenue for UK in isolation, as I said, was up 16%. Our sportsbook was up

18%, and if you assume that the current growth is around 10%, then that is a good recycling rate. Yes, our turnover or our wagering level was 7%, but the net revenue has shown good growth and our Vegas platform is 23% as well. However, if you look at gaming overall in the UK, it is 13%. So some really strong numbers in regards to growth in the UK, which essentially demonstrates recycling.

Neil Cooper: Our Q1 comments were more in the context of the series of black swans. Now, touch wood, we did not have a black swan in Q2. Obviously this weekend is the first weekend of the football season, so hope springs eternal.

I would also say that our best margin performance in Q2 has been horseracing in online, which has seen a good growth. Now, whatever else is true, there will be a stronger relationship on recycling and margin in racing than in football, because people tend to sit there and bet race by race. So if we have seen a recycling impact it is more likely to have been in horseracing; and actually, the pre-match football margin fell in Q2. Some of that around some of the big marquee events: obviously Barcelona winning 4–0, Villa getting done over 4–1. These are bad results for bookies when the favourite wins. I can sense you are feeling sorry for me already.

Nick Edelman (Goldman Sachs): First one is on retail and machines. You have obviously set out how your expectations now differ from where they were in terms of the £50 journey. In terms of the Eclipse machines, are you expectations there also different? Are they performing less well than you had anticipated?

James Henderson: It is very difficult to gauge how the Eclipse terminal is performing, because obviously we had no comparative group. Once we started to roll it out for the rest of the estate, prior rolling it out to the second tranche, it was performing about 1% better than the older terminals. I think it is important to note, in regards to the machine performance, we did not release any B3 content for two quarters, which is really the lifeblood of the FOBTs. Then we were also rolling out the Eclipse terminal as well. So the combination of that, plus the £50 journey, probably slightly has impacted the performance of that. That is why we re guiding to a £5–10 million impact for the second half.

Nick Edelman: Thank you. You talked a bit about multi-channel. I do not know if you are willing to give the number in terms of overlap currently between your retail and online divisions?

James Henderson: Regarding regular users of the retail business, we have around about 27% that go online, of which we believe we capture around about 45% of those customers, which equates to around about 12% of our regular customer base. So that is the kind of capture rate. We also have around about 54% of our online customers regularly use retail as well.

Nick Edelman: Thank you. Last question: in terms of online, I think on the Q1 call you said that you thought market growth was around 14%. I just wanted to check: is that wagering or gross win growth? I am conscious that you are talking about the mix shift in margins towards in-play.

Neil Cooper: Since our wagering grew 7% and our net revenue grew 16%, it was clearly net revenue.

James Henderson: We do not have any up to date stats on the growth of the market.

Neil Cooper: Nick, what I would say: whatever that 14% number was in Q1, with all due respect, with the World Cup in the base in Q2, I would be exceptionally surprised if the wagering market grew 14% in Q2. I have not seen any external data actually for Q2, but with World Cup in the base that would seem to be surprising to me. Because that would imply maybe a 40–50% underlying run rate, which is not happening. So it is difficult to know, but I certainly do not think Q2 would be at those levels. I do not know; if anyone has any better data, you guys are the experts, so shout up.

Nick Edelman: I guess what I was driving at, in terms of the mix shift: up to the World Cup I think you had seen around 17% stake in growth, which if you had constant margins, because of your shift towards in-play, would mean that you would probably be doing something like 13% or 14% gross win growth. Do you think you are still exceeding market growth rates there?

Neil Cooper: I am pretty confident that we are growing in-play faster than the market. Whether we are growing pre-match faster than the market, I am not sure actually.

Nick Edelman: Thank you.

James Henderson: We do not have a definitive number for growth rates, but taking Neil's point, if you say it is 14% at Q1 and then the softening in regards the World Cup, then you would be looking at about 10%. However, net revenue or gross win will have an impact on that, and the higher that is then essentially that can depress the wagering levels. I think, when you look at the UK in isolation, when you are looking at growing 18% net revenue, that is a strong number off a high base. As you said, with regards to the wagering levels, it was 16% Q1, 17% up to week 23 which was the World Cup and then 4% overall in the quarter.

Neil Cooper: I would make the point: in Q2 we obviously we talked about the World Cup disbenefit, but I think we had an extra week or so of Premier League in Q2 as well, which will have helped. So the 17% Q1 versus the 17% Q2 is probably not a strictly comparable number because of that extra week or so of the Premier League.

Richard Stuber (Nomura): The first one is: in your online, your non-core markets were a bit disappointing. Do you have plans to resurrect them, or do you plan to exit them and focus on those three main geographies?

James Henderson: No, we have plans to invest on them and we are ongoing with that at the moment. So yes, the non-core markets have been disappointing, but we are certainly not going to walk away from them. We will continue to invest and to make sure that they start growing again, and certainly around the mobile.

Neil Cooper: We had a big currency impact in there as well, to be fair. The euro has been a big factor, but it is not just the euro.

Richard Stuber: Thanks. So the second question is: Neil, you have been renegotiating some of the revenue shares with suppliers. I know you touched upon Playtech, but could you give any more colour in terms of other suppliers you are negotiating with, and the timescales, and what sort of savings you expect to achieve?

Neil Cooper: If you look back this time last year, we were talking about an estimated £15-20 million mitigation around the Point of Consumption Tax, of which I think we said the majority of that would be marketing, but then there would be clearly a minority from these other areas. We will update on a full year basis at the end of the year on this. We are getting broadly what we hoped we would get from suppliers, but it is a smaller component of that number. Obviously I do not want to tell you the details, just in case we have done a better deal than everybody else.

Richard Stuber: Thanks. The final question: in terms of NeoGames, it is loss-making at the moment. Could you give any idea when you expect it to become profitable? Any top line growth rates, any metrics around that? Thank you.

James Henderson: It is a start-up business. As Neil said, it is going to potentially lose for the rest of this year and 2016. However, there are eight ongoing discussions; and it is dependent on the number of contracts that we might win, but obviously we want to get it in profitability as quickly as possible. It is a disruptor: Michigan has landed really well in regards to double digit penetration. The future growth is dependent upon winning some existing RFPs.

Neil Cooper: We have guided to ongoing losses in 2015 and 2016. We have an option in 2018, so it is only quite a narrow window of guidance you are looking for here. Because if it is perpetually lossmaking – not that we think it will be – we will not trigger the option.

Richard Stuber: Is it a business model of revenue share on amounts wagered, or amounts bet on lotteries?

James Henderson: Yes, there is a supplier fee. You win a contract and then you are a supplier for the state, if you like, so there is a fee. It is around about 4% in regards to the fee paid.

Richard Stuber: Thank you.

Gavin Kelleher (Goodbody): On the non-core markets, could you give us some colour on how big the currency impact was, Neil? How much of it it drove?

James, can you confirm: you have said you plan on trying to grow those markets again?

James Henderson: Before Neil talks about the FOREX: yes, we are trying to grow the markets. We are enhancing the experience for that, and specifically working around the mobile. There have been some big currency movements in some of those non-core markets, so it is not all about the experience. However, to reiterate: we are not walking away from them. They are important. They are not performing as well as they are now, but we certainly want to make sure they do in the future.

Neil Cooper: To be fair, where James is focusing very much is on operational improvements as opposed to a strategic reassessment, and we have not had a strategic reassessment of those markets. However, obviously we do not want it to get even worse. Off the top of my head, given the basket of countries we are talking about, I do not have a number in my mind on currency. The euro, even in itself, must be low teens this year, around 12–14? That would be low teens. However, I cannot give you a packaged answer because I do not know what it is.

Gavin Kelleher: Okay. Just in terms of Australia, the amounts wagered decline: you are still restructuring the amounts wagered and high staking players in response to the tax changes. Did we not lap that account management in July of this year?

James Henderson: It is very difficult to work out exactly when you lap it because our client management changes and trading policy changes have been ongoing for the whole year, if you like. However, you are right: this was probably the point in time last year when the fees were introduced, and there was probably the biggest tranche of client management and trading policy. It is very difficult to see when it actually laps, but you are right, this is probably the time of year when it was introduced.

Neil Cooper: The bulk of the changes came in during Q3, so we certainly should be seeing the bulk of the impact through by the end of Q3 into Q4. I would also just flag, for those of you who follow this closely, we had seen another hike in race field fees in New South Wales, either the end of last week or start of this week. Now, we have not guided to any impact on that, because we think there are some things we can tweak to mitigate. However, that is why this is an ongoing – I am not suggesting the vast bulk of it will carry on, but it is not going to cut off cleanly on 15th July or whatever.

James Henderson: To add, we are rapidly moving from a high-staking low margin to a recreational base, and that is why the margins have improved by 2.6 percentage points. So that is the transition we are making. As we have already talked about, the lion's share of the drop in turnover is around about these changes we have made, but also some of the drop in the Tom Waterhouse legacy brand.

Neil Cooper: Look, you can see the numbers on a local currency basis. It is an eye-watering decline in wagering, but gross win has gone down 1%; and actually, we do not think the gross win was particularly benefiting from sports results, we think it was reasonable gross win – structural, I should say. So this is not just, 'Trust us;' you can see in the P&L the logical consequences of what we are trying to do. It may be painful on the top line, but the bottom line makes sense in the context of the strategy that we are talking to you about.

James Henderson: Also, Click to Call gives us another opportunity to be able to have an exclusive products out in the market place, which is a real positive. You are going to see lots of that over the media between now and the year-end.

Gavin Kelleher: Finally, can you update us on the balance sheet? Obviously you have done a small deal today. Your net debt EBITDA is down to 1.3 times. Any update you can give us on potential?

James Henderson: Yeah, it is a strong balance sheet at 1.3 times. I think it is a good time to have a strong balance sheet. There has been lots of taxes coming in which we have obviously talked about – Point of Consumption, MGD – and we are obviously still seeing how the £50 journey pans out. So I think it is absolutely the right time to have a strong balance sheet, but as you would expect, us and the Board are regularly reviewing it.

Gavin Kelleher: Should we read anything into the fact you have bought a B2B business as opposed to B2C? Are B2C acquisitions less likely now or just as likely as they were?

James Henderson: In regards to the NeoGames acquisition, it is a new vertical for us. It is a really exciting opportunity to be able to go in there, in America, predominantly, but there are other opportunities going forward with that acquisition as well. Anything that will accelerate our strategy, we will look at, but I think it is a really good acquisition that we have made this time.

Neil Cooper: I think the B2B element is more an artefact of the market and the category. You just cannot do B2C in that way, because of the regulation and the markets. So that is why. It is not because we have a particularly yen for B2B.

Ian Rennardson (Jefferies): The first question is: you are talking about an extra £5-10 million EBIT from the £50 journey in the second half of your original expectation. What was your original expectation?

James Henderson: There was not an expectation, because there was no way we could guide to behaviour or introduce something that had never happened before. So we really were not in a position to know that. So that is where it is at the moment. It is still unwinding. We are trying to mitigate that as best as possible, but it is only appropriate for us to guide at this present time. As soon as we can come back and give you update on that, we will.

Neil Cooper: I think it is fair to say: regardless of the economic impact, I do not think that anybody thought the absolute change in consumer behaviour would be as big as it has been. Now I do not know what our competitors have said when you have asked them that question, and I would be interested actually. We do all sorts of scenarios, and none of them had that scale of behaviour changing, and that was in part why we did not want a guide. We did not know and we just did not want to make something up.

Ian Rennardson: Okay, thanks. Second question related to competition: what effect on the industry competitive dynamics do you think that the Ladbrokes/Coral merger may have? Also, would you be interested in any tranche of shops that may come onto the market?

James Henderson: There is lots going on in our sector; not just Ladbrokes and Coral, but obviously with Bwin, so there is a lot going on. However, we are very committed to what we are doing, we are very clear in how we want to do it. Our strategy is laid out, looking at organic growth, looking at everything we want to do. So very, very clear in what we want to do.

In regards to the tranche of shops, we have got a fantastic geographic spread. We have 2,360 shops pretty much everywhere. However, if there were some shops that would fit our geographic spread and were profitable, then we would look at it.

Ian Rennardson: Most importantly, unlike your competitor, are you still taking bets on the Great British Bake Off?

James Henderson: It is a pre-recorded programme, so the situation occurs where actually people know more than you do, and as a bookmaker that is not territory you can go into. However, we are betting on it to be the most watched programme this year, which is 1–2, so if you are interested and you want a Bake Off bet.

Ian Rennardson: Thank you.

Joe Thomas (HSBC): First thing: you said that minimum wage impact would be £1–2 million at the minimum. I guess that is if you assume that there is no ripple effect over and above the people that are taking the minimum wage. Could you give a sense of how much bigger than that the impact of minimum wage could be, and whether there is any mitigation with that through shop rostering or anything that could upset that?

Neil Cooper: Sure. To be fair, you can get to that number yourself because you know what our labour is and you can times that by 11%. So if you maintain differentials and give your base workforce an 11% pay rise, it is not actually rocket science, which is one of the reasons why we are looking at wage differentials. Because five years of +10% gets to be a big number on our labour base. We have gone to single manning, where we think it is safe and appropriate to do so; there is no zero manning opportunity for us. So I think we are running out of – not to say there are not opportunities around the margins in this area. So we have to look at this very seriously, because the consequences of having no differentials have an operational challenge in themselves, but equally giving everyone an 11% pay rise for five years is unpalatable. So we are going to have to work it through. The good news is that the shorter term impact will be less than the longer term impact, which is why we have got more clarity on our 2016 guidance than we do further out.

Joe Thomas: Then moving on from that, but still on retail: there has been an improvement in staking trends, I think 2.5% you reported in Q2 up until the World Cup; is that reflective of what you think the outlook might be? Are we now in a period where you are more optimistic about retail staking?

James Henderson: Retail has been incredibly resilient over the years, and if you look at the half year as a whole: there has been £8 million worth of MGD gone in, and it has only had profit drop by £10 million. If you look at the consumer index and some of the leisure indexes, they are showing positive growth, pence per slips is looking good, so perhaps the economy is coming in. Performance over the last five years, in the height of a recession, has been strong, and the expectation is that the economy will pick up and that will filter through to our shops.

Ivor Jones (Numis): How should we think about the long term drivers of the online business, thinking about Vaughan's question about marketing? It is hard to distinguish the World Cup effect, but with 8% growth in actives, is that the key driver of the business going forward? Is it going to be around 10% and that is all that marketing needs to do, or can marketing drop off and is there some model where spend per head increases dramatically? So what should we watch for mostly: new actives or spend per head as an indicator of the business

James Henderson: New actives is obviously a key metric in regards to success. The exciting part for me is that we have spent two years building Trafalgar; it really is a step change for us. That, coupled with the bonus engine we are introducing, will give us an opportunity to grow actives and grow share of wallet through the actives, but also acquire through the Vegas platform. So there is a fantastic opportunity for us to be able to capitalise on those two assets, and now also as we are freeing up that great technologies staff to be able to go and do the product innovation as well. So yes, active is key, new accounts is good as well so I want to be able to grow both those with a new product range.

Ivor Jones: So it is product and technology that has got to drive that up? You do not expect to be saying you are pushing marketing up as a percentage of revenue to drive that up?

James Henderson: Obviously the more revenues go up, then you can keep your marketing at the same level. It is a flexible thing; yes, we guided to absolute £132 million last year, but it is being able to see, if we have got exclusive differentiated product, to be able to drive that through a marketing engine.

Ivor Jones: Thank you.

Nick Batram (Peel Hunt): On Neo: was that primarily driven by desire to have more in the US, or was it driven by the desire to get into a new vertical? Depending on your answer to that, does that mean that is where we should look for future acquisitions spend?

James Henderson: Both. The answer is the very fact it gives you better distribution; to let you know, there are lottery products land-based in 44 states, and online can have access to 41 of those states. So there is a huge opportunity to do that and therefore get further distribution. However, also going into a new vertical is a fantastic opportunity; not least, as we talked about, the Santa Casa and the Sisal opportunity in Europe. Sometimes these things can lead to using that technology platform to introduce some sports in regards to those jurisdictions. It might be a gateway to other products as well as just lottery. So when you combine all that, it is a very exciting opportunity for us.

Nick Batram: I take it that you are still keen to scale up the US opportunity further?

James Henderson: We have got good representation in the States at the moment. We have Nevada, we have the Delaware B2B opportunity where we work with Scientific Games, we have the interest in Monmouth Park, we have now the NeoGames distribution in the online lottery space. So we have good presence as and when they reregulate, or regulate in a different way, to be able to open up the States. So it gives us a good presence out there in the States. Does it mean it is the end of it? Who knows what might come up in the future.

Nick Batram: On the advertising issue that you highlighted: should we be thinking about this that 80% of your online business is UK, therefore 80% of the marketing spend is UK-based, of which you are not paying any VAT on that? It is possible that you might pay VAT on all of that, in which case you will probably struggle to offset it. I am trying to think about what the potential damage could be.

Neil Cooper: The short answer is 'no'. First of all, you have to look at the mix of online and offline marketing, because a lot of our offline marketing is not – people are going to our online sales and marketing operation in Tel Aviv, for example. So I am not sure that would caught, depending on what the review says. So I think it is more likely to be our UK media share, which is going to be a much smaller number than the 80% you quote.

Nick Batram: Do you have any idea about the scale?

Neil Cooper: Historically we have spent 40/60 or 60/40 of our spend on offline and online. Then probably, off the top of my head, more than half of our offline is going to be UK TV, so to give you a sense of scale. Listen: if I wanted you to put a hard number in your models as guidance, we would have quoted it. We do not even know whether the consultation is going to form a view that this needs to be done yet. I am just flagging to you that there is a consultation due to commence and it puts that risk to us. We can always offset it by not spending the marketing, which is the FD's answer, obviously. Whether that is the sensible thing to do, time will tell.

James Henderson: It is some way out too; it is 2017. So it certainly needs to be worked through.

Nick Batram: Thank you.

[END OF TRANSCRIPT]