William Hill Trading Update

Wednesday, 11th May 2016

Transcript produced by Global Lingo
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Trading Update

James Henderson

CEO, William Hill

Opening remarks

Good morning, all, and thanks for joining us. As usual, Philip is with me, and will be available for Q&A after I have given a brief update on some key points. Clearly, the focus of these results will be the performance of Online, especially in the UK, where the results are disappointing. We have previously flagged the poor margin, which for the period in question was 6.3%, and that was 1.7 percentage points below the last normalised number. In the UK, the Sports book wagering was down 2%; however, if last year's tennis is excluded, turnover is up 2%. This represents the like-for-like figure and, as such, is much more representative of our underlying performance.

Gaming

Gaming in the UK was down 5%, with the Vegas product suite up 4%, but other products dragged the overall performance into negative territory. Clearly, both our Sports book and Gaming performance need to improve to allow us to regain market share. The position with regards to time-outs and self-exclusions remains in line with our previous guidance, as we continue to see the number of customers taking a break from our site remaining pretty consistent, although the actual number does vary from week to week.

Online

On a more positive note, I am delighted to announce that Crispin has been appointed MD of our Online division. In the three months he has been interim MD, he has already started to make good inroads in the priority areas of product range, user experience and marketing, with the objective of making sure our customer offer is optimised for both the Euros and the start of the next football season. What that means in practical terms is we are pushing ahead with our product pipeline, including expanding in-play with one-minute markets for football ahead of the Euros; continuously improving the UX, including the speed of the app and the ease of the customer journeys; and moving our marketing approach from a volume to value customer model.

Italy and Spain

In Online outside the UK, Italy and Spain together are still showing double-digit growth but non-core markets remain a drag, with net revenue down 23% due to closed markets, tennis, and a lower margin year on year. In order to expand our international footprint, we are looking to open or reopen in certain markets, and are now rolling out more language versions of our site. As you would expect, to expedite and support this approach, we are expanding our international team. Crispin is very clear on the priorities, and I am confident he is the right man to drive this turnaround forward in an accelerated fashion.

Retail

I said on the last call that the other divisions are showing positive signs: in Retail, Gaming is picking up, and our proprietary SSBT roll-out is on track.

Australia continues its turnaround, with the William Hill brand showing double-digit growth on wagering and new accounts, and rolling out new products like the Cash Card and Cash In.

The US continues to grow; Joe Asher's recent presentation will have given you a sense of our growth rates and what the potential of that market looks like.

We have announced the OpenBet deal since the last call, so I am happy to take questions on that too; it is certainly a great solution for our back-end needs and complements what we have already done through Trafalgar on the front end.

So with that, let me open up for questions.

Q&A

Patrick Coffey (Barclays): Two questions from me, if I may. The first one is just in terms of CAPEX and guidance there: can you give us some guidance around the potential step-up in CAPEX related to the new back-end system work with OpenBet, and how much higher CAPEX might be going forward for the next three years?

Then the second one is just, not talking about Online for a second, but in over-the-counter amounts wagered; it was down 4% against a pretty soft comp of minus 4%, as well. Obviously, I understand the inverse relationship between gross win margins and amounts wagered, but the trends look pretty soft, so can you give us any confidence that over-the-counter wagering levels might pick up, going forward? I know we have the Euros, but the underlying trends look pretty soft. Thanks.

Philip Bowcock: On CAPEX, we have to sit down and work through with NYX and OpenBet exactly what is going to happen in that three years around the plan. Sorry, I cannot give any specific numbers, but what I would say though is there will be a certain amount of diversion of CAPEX around what would have been our CAPEX, that we would have spent internally, over to OpenBet. We will be giving more guidance after the interims.

James Henderson: Just in regards to the OTC: I think it is important to note that we essentially had two black swans rolling into last year's performance. We had the Boxing Day from the previous year, and then week three last year, which obviously increased the turnover. Therefore, it is a different comp in that regard. The margin was again stronger as well, and net revenue was up 2% in the period, so I think the combination of those factors will have an impact. We have the Euros, we have a competitive set of games up there, 51 games, so I would expect to see turnover being healthy during that period.

Patrick Coffey: However, if we just look at the comp, it is actually a pretty soft comp on amounts wagered, and it has performed at minus 4%. I appreciate that Gaming is going well and gross win margin was good, meaning net revenue was high, but is there anything that we should read across that you have a bit of a fall-away in amounts wagered? Do you think competitors on the high street are putting a bit of pressure on you there, at all?

James Henderson: I think the other thing is that we have embarked upon our SSBT roll-out, and that is a huge opportunity for us in regards to improving turnover in totality. We are going to have 500 by the Euros and 2,000 by the year end, so I think that will give us a little bit of impetus as it brings all the rich breadth and depth of markets into the retail shops. I think that will be a catalyst as well.

Gavin Kelleher (Goodbody): Morning guys. Just on Australia, just the relationship between amounts wagered and net revenue, I know margin was down year on year. Is there anything happening on the bonusing and free bet side in Australia? Have you invested heavily this year in regards to that?

James Henderson: I think there is a correlation, but yes we have: to be able to capitalise on our Australian tennis asset, we did ramp up the FVAs to be able to encourage new accounts, and I think that is working, as new accounts were up 40% year on year. It was all about coming in and raising the brand awareness; we are now third in line after TAB and Sportsbet. So it did the job that it did, we have got them in. I think the thing that has come out in regards to the turnover, when you look at the digital brand, is that we have actually acquired some really solid accounts, as well. The first quarter was about promoting the brand, showing what products we have, and then accelerating throughout the rest of the year in regards to the Melbourne Cup being at the back end of the year. It will be more weighted towards H2.

Gavin Kelleher: Will we see the same level of bonusing activity in Australia for the entire year, or is it Q1-weighted, or how should we think about it?

James Henderson: Yes, we spent about 40% of our marketing budget so far this year, and FVAs will have now been relaxed a little bit, the free value adjustments. You will not see the same level of bonusing throughout the rest of the year.

Gavin Kelleher: Okay. Just on the international focus in Online, you mentioned that you were thinking of going back into some markets that you have left: could you give us an idea of what markets they are, and why you are going back into them? What has changed in terms of your regulatory view?

James Henderson: We review international markets on a regular basis. However, certainly something like Germany, for example: the licensing has changed, and therefore we believe there is an opportunity to go back into that. There are other markets that we watch very closely, like Greece for example, and we are now deciding which ones we are going to go in. We have ramped up the team, or Crispin has ramped up the team significantly, so that we can take opportunities. It is forever a moving piece, and where we believe it is right to go without changing our risk profile, then we will do that.

Vaughan Lewis (Morgan Stanley): Just a quick follow-up to that one. When you talk about new markets that you have not already been in, should we assume that those are all European markets or are you looking further afield?

James Henderson: We are necessarily looking at the world as an opportunity. So I mentioned obviously Germany and Greece, which are European markets, but looking further afield as well.

Vaughan Lewis: Would that include Asian markets?

James Henderson: Wherever we believe there is an opportunity that does not change our risk profile, and it is appropriate from a fiscal and regulatory point of view, then we will go in.

Vaughan Lewis: Secondly, on the Online business, on the self-exclusions: most other operators have said that the impact has been minimal, and there has not really been any change in process. Should we assume that your processes for self-exclusion were previously much more difficult, so it was much harder for these vulnerable players to self-exclude than it was from other operators? Is that the difference?

James Henderson: What I can say is the processes that we are adopting now are consistent across the sector, as you would expect, and we will make sure that it the case. There is no change to the guidance that we have previously given. There are a couple of little updates in as much as the people that have timed out that are returning, the percentages increased very slightly; and also since the first tranche of six months' self-excluded comes back in May, it is exactly in line with our model. There is no change to the overall guidance, but I am comfortable the processes that we have adopted are suitable to make sure that we have the appropriate interventions with those customers that might find themselves at risk.

Vaughan Lewis: Okay. So previously, you think it was much more difficult to self-exclude from William Hill than it was from other operators?

James Henderson: I am not saying that. At the end of the day, we had our processes, and clearly they became more automated at 31st October and the process is consistent.

Vaughan Lewis: Just one on pricing, if I can. You have talked about the run of results, but has there been any change in approach to pricing and margin management? The offers at Cheltenham seem to be very aggressive, so are you intentionally reducing the margin to drive volume?

James Henderson: There is no change of our trading strategy. In regards to Cheltenham, much as the perception might be that we were actually being more competitive than we have in the past, actually the offers that we had out at Cheltenham cost us less this year than they did in the previous five years. It is just the way that you structure the offers; clearly it is the best four days' racing, as you know, Vaughan, and therefore you want to be competitive, and that is what we have put ourselves out there for.

Vaughan Lewis: Last one, sorry, on Australia: if the planned changes in credit betting and in-play betting go through, what would be the impact on revenues and profit there? Thanks.

James Henderson: Just in regards to in-play, it is only 1% of our gross win, so that would not have a material impact. Credit betting would be slightly different, but we do not have any detail as to what that might look like. We should not forget that, three years ago, I think the government came out and said they were looking at credit betting at that point, and nothing then happened. So we just need a little bit more colour around what that actually means, whether we can grandfather over some accounts or not; I do not know.

James Letten (Jefferies): Just a quick one from me. On the Australian acquisitions and new customers, what are the lifetime values looking like for those acquired, particularly during the Australian Open? Thanks.

Philip Bowcock: The lifetime value, it is very early to say exactly, but what is encouraging is we are seeing a good proportion of those actually betting twice and then punting twice as well, so we are monitoring those customers to ensure they are continuously valuable customers, going forward.

James Henderson: I think just to add a little bit to that: if you look at the actives, actually they are 1%, because we were rolling over the brand launch this time last year, but turnover is up 22%, which would suggest therefore they are better quality without actually giving out the LTV.

James Letten: Is that more a story for next year as they ramp up online usage?

James Henderson: Yes, I think it is the story of the second half, to be honest. As I said earlier, it is weighted towards the second half; we have the Melbourne Cup, we have the Spring Carnival; and Tom and the team have been introducing a lot of products: we have the Cash Card and we have got Cash-In functionality coming. So he is delivering at speed, because we have got our own proprietary technology out there.

Chris Stevens (UBS): Just a few questions from me, please. Firstly, on the Online division, your wagering growth number is quite a bit below your competitors. Do you have a sense of whether that is due to the number of actives, or is it actually the share of wallet? Any colour you can provide around that would be very helpful.

Then a question on Australia. Clearly, the William Hill brand is performing better than the Centrebet brand. Could you give us some colour around that, your thoughts on shifting those customers onto the William Hill brand, in terms of timing, or if you are going to do it?

Then just in terms of Euros this year: do you expect you or the industry as a whole to actually make money during that period, or is it more about customer acquisition going into 2017? Thanks.

James Henderson: Just in regards to the online wagering, it is minus 2%. As I said, if you strip out the inflated tennis turnover that we had this time last year, that makes it plus 2%, and then obviously the impact of the timeouts and self-exclusions. Also, probably to a lesser degree, the volume-over-value approach that we have adopted around marketing means we have not got as good value out of those customers less than a year. The underlying is obviously a little bit better than that. It is anybody's guess as to what the market might be growing at, but we are not growing at market rate, and that is disappointing. Crispin has been appointed, he has clear goals to be able to work on in regards to the products, international marketing, so very, very clear he has a good team around him, and he is working hard on those.

In regards to Australia, Centrebet still has a slight drag on the business, but we are looking to incorporate that under the William Hill brand before the Spring Carnival, and we will be adopting an approach similar to the Tom Waterhouse migration that we did.

In regards to Euros: as a bookmaker, of course our primary goal is to make money but be competitive at the same time.

Philip Bowcock: I think the only thing I would add about the Euros is clearly it straddles the half one/half two, so the profitable matches will tend to be in H2 rather than H1.

James Henderson: Hopefully, both H1 and H2!

Alistair Ross (Investec): Can you just touch on the bonus abuser glitch due to the migration of players to Project Trafalgar?

Then on the self-exclusions, it seems like the 2,500 self-exclusions has not changed, that 2,500 per month. The average player lifetime value of those players that are self-excluding, has that changed?

Then can you also touch on the fourth anti-money laundering directive, and whether you guys are thinking about that and how you think that will affect the business, going forward?

James Henderson: Just in regards to the bonus abuse glitch that we had over the weekend, and apologies to anybody who was affected: we have tried to rectify that as quickly as we possibly can and have compensated those accounts that were impacted. There is nothing else to say other than it was a human error; apologies, but that is all the colour I can give on that.

In regards to self-exclusions, there has been no change other than the little update I have given around the returnees and time-outs, and the first tranche of self-exclusions, and no change in regards to the value of customers that are taking up that facility. I have previously reported that it is three or four times the average; it is at the top end.

In regards to the fourth anti-money laundering directive: obviously we are watching very closely as to how that will pan out, but clearly we believe that we have all the appropriate processes in place to be able to identify and take appropriate action for anywhere we think there could be money laundering.

David Jennings (Davy): I was just wondering, ahead of the European Championships, whether or not you have secured your television packages yet? Could you comment on marketing cost inflation versus either previous World Cups or European Championships?

James Henderson: Just in regards to the TV assets, these are the ones that we secured last year, which will run out post-Euros. In regards to the marketing, we are clearly obviously looking in a holistic fashion in regards to how we spend that money, to make it more efficient in regards to going from a volume to a value, but we are not changing the guidance in regards to that previously given, which will be double-digit above the previous year.

Simon French (Cenkos): Have you had any indication yet from DCMS, when they are going to launch the next triennial review of stakes and prizes for machines, please?

James Henderson: No indication as yet; there have been lots of rumours, but nothing definitive.

Okay, thank you all very much. Obviously, Lyndsay and Anastasia are available for the rest of the day if you have any other questions. Thank you all for joining.

[END OF TRANSCRIPT]