William Hill Trading Update

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Trading Update

James Henderson

CEO, William Hill

Key points

Morning all, and thank you for joining us. Philip joins me for the first time, and as you can see from today's statement, he has already started to change how we report. He will give you the detail on the numbers shortly, but let me start with a few key points.

As expected, gaming machines are growing again in retail, with a four-percentage-point swing in performance between Q3 and Q4, since we started delivering on our content strategy. In December, for instance, we released four new games.

In Australia, the focus on the William Hill brand is really starting to bear fruit. As expected, we saw single-digit growth in turnover by the end of the year in local currency, and in Q4 both actives and new accounts were up strongly. The Tom Waterhouse migration is underway, and as of today we are around 80% complete.

During Q4, Online launched our Macau gaming experience, which is the most extensive and exclusive destination casino offering on the market. There are 30 games, combining some of the most popular land-based ones with our industry's first Macau live casino.

Under Project Trafalgar, Online launched a new mobile web and iOS app in October, and it would be fair to say that the user experience at launch was not right. However, we have moved very quickly to address that; we have done four app releases, including the launch, in the last three months. That is as many as we had done in the previous nine months, and averaged around 20 web releases a week, which also feed into the app. Our App Store rating has gone from 1.5 starts at launch to 4.5 stars, and we were the number one free sports app over the busy Christmas period. We had a dip, but growth rates in the UK are broadly back at pre-release levels. We are now turning our attention to the Android release, and then we will focus on desktop.

Personnel changes

The focus for Online now shifts to product delivery, and following a comprehensive internal review I have decided to make some management changes to support our next phase of growth. Crispin Nieboer is stepping up as interim MD to replace Andy, who will be leaving the business. Crispin knows the business well from having built the Shoreditch innovation team, and he has worked on a lot of the key projects, including the bonus engine and the SSBT. Search for a permanent candidate is underway.

The appointment of Kevin O'Connor as Group CIO is also a key one. He has a track record of delivering large-scale technology projects and he understands Open Bet from his time with Paddy Power. This is helpful, as we continue to move our focus away from our front-end to back-end technology.

Summary

So I am getting the right team around me, and that is key to getting this business growing strongly again. We know what needs to be done: it is about good operational delivery, new product releases, rolling out our SSBT, introducing an enhanced omni-channel card, pushing the William Hill brand in Australia, investing the right amount of marketing and making sure we are best placed to capitalise on this year's European Championships.

I will now hand over to Philip for the numbers, and then we will do Q&A.

Financial Update

Philip Bowcock

CFO, William Hill

Introduction

Thank you, James. Good morning everybody. Before I run through the financial aspect of today's announcement, it is probably appropriate that I say a few words about the length and level of detail that we provided. As you will have noticed, it is somewhat slimmed down from previous updates, but the level of detail is broadly what you can expect going forward for trading statements. These announcements will be used to provide an overview on business performance, and we will concentrate on those areas of management focus or where variations from expected performance have occurred. We will, of course, provide the normal level of detail at both preliminary and interim results.

So if I move onto the financials, we expect Group operating profit of around £290 million, which is in line with market expectations following our Q3 update.

Online

Going through the divisions: in Online we split our core regulated markets, being the UK, Spain and Italy, from other markets, as the two segments have been evolving and will continue to evolve in differing ways. This segmentation split will aid understanding of the business.

Overall, full-year net revenue was up 4%, with core up 11% and other down 27%. Looking at the core markets first: in Sports Book, wagering for the full year was up 7%, and in Q4 performance was up 5%; affected, as James mentioned, by the issues immediately after the release of the new app. Overall, gross win margin improved in the fourth quarter, with horse racing slightly lower than average and football slightly up, after a number of volatile weeks. Gaming continued to perform well, with Q4 net revenue growth of 18%, meaning that the full year was up 15%.

In other markets, the full-year net revenue decline reflects the additional regulatory barriers in some of our larger non-regulated markets, along with a handful of market closures. These affected both Sports Book and Gaming.

Retail

In Retail, full-year total net revenue was down 2%. For OTC, lower rate wagering down 1% and slightly weaker margins resulted in net revenue being down 4%. In Gaming, full-year Machines net revenue was down 1%, helped by an encouraging performance in Q4 which saw growth of 2%.

In Australia, it's the story of watching the green shoots start to show, whether it be the increase in actives, new accounts or amounts wagered in the William Hill brand. To give you a flavour, the exit rate for the year for the business as a whole saw positive year-on-year net revenue growth in December in local currency terms. This is as the net effect of improving wagering levels and an upward shift in gross win margin took effect. For guidance, following the structural work we've done on the client base, we're now looking at an underlying gross win margin of about 11% for both the William Hill brand and business as a whole. This is nearly two percentage points higher than previously.

Elsewhere, the US goes from strength to strength with turnover growth of 24% in Q4, albeit at a slightly lower margin.

Telephone and debt

The Telephone business performed in a similar vein to online. The complementary nature and crossover of business between the two means that we will, from 2016, consolidate Telephone into Online.

Net debt at the year end was about £500 million, which means that gearing at year end will be approximately 1.3 times.

Q&A

Gavin Kelleher (Goodbody): Good morning guys. Just on the competition in the market at the moment, could you give a bit of flavour in terms of marketing spend and how that is tracking as a percentage of net revenue?

Maybe on bonusing as well; how was bonusing in Q4? Did you do a lot of bonusing around the new mobile app launches?

James Henderson: In regards to the marketing spend, certainly for this year with the Euro tournament we are going to be increasing our marketing spend by double digits based on 2015, which will put us in a good position to be able to capitalise on the Euros.

In regards to bonuses, we did. Historically, we have a 0.9% of turnover in regards to SBAs, but we did increase that over the course December.

Gavin Kelleher: Okay, and is there any change in your view on bonusing as a percentage of amounts wagered?

Philip Bowcock: No; obviously we look at it on an ongoing basis, but we do not see there being any movement from the level of bonusing we have currently seen during 2015.

Gavin Kelleher: Just non-core markets as a percentage of total: what exit rate did they account for, non-core markets and Online? How much was the revenue?

Philip Bowcock: Well, if I answer it the other way around, in Q4 core represented about 87% of revenue.

Gavin Kelleher: Cool, thanks a million for that guys.

Vaughan Lewis (Morgan Stanley): Morning. I have a couple of questions. Firstly, can you give us any figures on the disruption from the Trafalgar app migration, and are you confident that you will not see a repeat of that when the desktop is migrated, and when that will be?

Secondly, on Retail: what new content have you brought in on the machines, and what is the mix of B3 content on the machines now?

Finally, a very general one. The H2 EBIT run rate has annualised at £270 million. It looks like quite strong growth to get to £310 million of consensus, but it sounds like you are very happy with that, you say you are well placed for the year. So can you just give us what sort of positive levers you are seeing that give you confidence in the outlook for this year?

James Henderson: If I can just give you the story around Trafalgar and the launch. Clearly I was disappointed with the launch of Trafalgar, and I think that is best described by the fact that it was only 1.5 stars on the App Store when we launched it. However, we have worked very, very hard to be able to rectify those, whether it be the navigation or the UX. We have done three releases since launch in regards to app releases; we have also done 20 releases on the web, through the desktop, which feed into the app, as I have already said. I think the summary of all that is, when we came to December, our rating on the App Store increased to 4.5 stars, and actually we were the number one free app over the Christmas period.

So we did have issues, there is no doubt about that; we worked hard to get through them. I suppose if you look from a trading perspective, we are very much now broadly in line with the turnover levels in the UK that we were pre-launch. So we have got back to where we wanted to be, and it is now about building on that platform and allowing us to take it where we want to in 2016 and therefore capitalise on the Euros.

Some of the reasons why we did Trafalgar in the first place: the mobile registration has increased at double digits; the cross-sell ratio has increased; the download speed has increased; and we now have market-leading in-bet acceptance, which is what the platform has allowed us to do. So yes, a little bit of disruption, but we have certainly got back to where we wanted to be, and it is now about building on that.

In regards to Retail: as I said, we launched four new games. We have launched the Macau in the Online estate with 30 games. We have the Macau product in Retail as well, but to a much lesser degree. There are other games being introduced, and we are on target. The pipeline is to do at least two games a month. As I said, we did four in December. The split between B3 and B2 has gone up to 32–33%, so that is growing. I think around about last year we were in the 20s, so the proportion of B3 is growing.

Philip Bowcock: If we talk about run rate, and the H3 bit running into 2016, like everything in life it is never one thing. However, if I pick three, I think it is continued online growth; we think, as James has described, at Trafalgar we are now back on track. I think, again, James has touched on Retail gaming; we are back on track there. Also I think it is Australia coming back, and the positive signs we are seeing out of Australia. So I think if you take those three as the three key areas, that is where we see the opportunities coming through into 2016.

Vaughan Lewis: Great, thank you.

Patrick Coffey (Barclays): Hi, two from me. James, I appreciate it is a sensitive topic, but just for clarity: on the call you mentioned you embarked on a comprehensive review of the Online, so did Andy leave of his own accord or did you make that change?

The second question is, good to see the improvement in Machines in Q4 versus Q3; still behind some of your competitors. I was wondering if any of your competitors had changed their pay-out ratios on FOBTs this year, and whether you would consider doing the same? Thanks.

James Henderson: Specifically on Andy: Andy will be leaving the business and is currently on gardening leave. However, as you would expect, I cannot really go into any more detail than that. The point I would like to make is I have been in place for 15 months, and it is very important that I build my team for the next phase of William Hill's growth and development, and a lot of great people have joined. I am now in a position to have a team that is my team and that can take us forward. I cannot really say any more than that.

I would just like to say Crispin is going to come along as the interim MD of Online; he has done some great stuff in the Shoreditch innovation hub. He is an expert around personalisation, UX and product innovation, and he is absolutely the right person to lead Online to take us to a new phase, and capitalise on the platform that we have out there.

In regards to Kevin, Kevin has huge experience in the technology world, most recently with S&P Capital which is, as you know, a big financial group. So he has delivered a lot of technology projects and, again, he is absolutely the right person to be able to take us as we move away from the front end to the back end. So I have got my team around me, which I am very pleased with.

With regard to the Machines and the percentage swing, very pleased that we have gone from a negative to a positive. Yet to see how that compares with our competition, but we have not done anything with the pay-out ratios you allude to. So it is a like-for-like in regards to the margin from each of the games.

Patrick Coffey: Okay, thanks very much.

Ivor Jones (Numis): Good morning. I do not think you have said what the Online revenue growth overall was in Q4; you split out the core.

Philip Bowcock: Online revenue growth in Q4 was up 8%.

Ivor Jones: Great, thank you. Since you are splitting out revenue from core and other with Online, when we get to the results, are we going to see profit contribution split in the same way so we can see the profit significance?

Philip Bowcock: No, we will not be showing that.

Ivor Jones: So can you give some guidance about how much more or less profitable that revenue line is than the core?

Philip Bowcock: I do not think we are going to go into that level of detail on the profits at the moment.

Ivor Jones: So it is going to be more difficult to judge the exposure of the business to shifts in the other markets' revenue then.

Philip Bowcock: Potentially, yes, but that is the level of information we are giving at the moment.

Ivor Jones: You mentioned, James, the omni-channel card; could you just talk a bit more about how that is going to progress through the year? Is that Priority Access, or is that not Priority Access?

James Henderson: It may well not be called Priority Access, but that is what it is called at the moment, that is the online wallet at the moment. As you know, that provides the facility to be able to use it in the high street similar to a debit card. As of this month you will be able to use it in Retail as well. However, it is about expanding that. It is making sure that you can use your online wallet across all products. So that will be the SSBT, when we have rolled out our proprietary SSBT; around FOBTs and over the counter. So the expectation is, by the end of the year, that we will have an industry-leading card that allows you to carry your online wallet.

Ivor Jones: Is the product at the moment capturing player data about what they are doing, or is it just a payment wallet useful in multiple places?

James Henderson: It does actually capture data, yes.

Ivor Jones: So you are already able to analyse the data?

James Henderson: Yes. As you know, we obviously do a lot of data warehousing in regards the analysis of data, but that provides an additional opportunity to do that.

Ivor Jones: Thank you. What are the plans for the shop estate? Just in terms of number of shops for this year. Has that changed in the last few months?

James Henderson: Yes, I mean you have the consolidation going on in regards to Ladbrokes and Coral, so we will see what comes out of that. However, if we are able to, and the opportunities present themselves, then we are still looking to grow the estate.

Ivor Jones: Organically? Without anything to do with structural changes elsewhere, what would the plans be?

James Henderson: Organically. I mean, I have guided previously to growing the estate around about 1%. It does become more difficult as opportunities decrease, but that is the guidance that I have given before. We will look to do that, and probably give a further update at prelims if the situation has changed.

Ivor Jones: Thank you. Last one: you said a moment ago that William Hill is market leading in bet acceptance, and that was not a phrase I recognised. What does that mean?

James Henderson: The market leading, or the bet acceptance?

Ivor Jones: No, in this sector, I recognise market leading!

James Henderson: Thank you, Ivor. No, what I meant by that was, because of the speed of the platform, you are now able to place a bet in play within a second, which is actually the fastest bet acceptance. That was the idea, whether it be cash in bet or in play, to allow the platform to facilitate an increase in bets. We have actually seen an increase of 40% more bets accepted in play since we have had the new platform, because of the speed at which you are able to do that.

Ivor Jones: With no impact on margin implicit in that improvement in speed? It is not because you are offering different kinds of bets?

James Henderson: No.

Ivor Jones: Brilliant. Thank you very much, that is all I wanted to ask.

James Letten (Jefferies): Morning guys. Two questions from me, if I may. Firstly, could you give us some colour on Project Trafalgar, and how the Online strategy will evolve in

2016? Maybe something on business intelligence and big data, and where you think this could go in terms of KPIs next year.

Secondly, on regulation: in light of the Scottish Parliament inquiry into FOBTs, do you think public sentiment has deteriorated at all? Or has your outlook changed? Thank you.

James Henderson: Okay, Project Trafalgar. I will not go into the problems we experienced on launch, but now we are in a position where we are seeing registration increases, cross-sale increases and speed of site increases; just touching on the bit Ivor asked about bet acceptance, these are all the opportunities to build on. This is Crispin's expertise, having worked in Shoreditch, and it is about making sure that we capitalise on that. We can differentiate ourselves through product and speed, so it bodes well for us in the course of 2016.

In regards to Scottish regulation, there have been no changes as such. I do not think public sentiment has changed materially; we continue to work very hard around the national self-exclusion that we have, and also the algorithms where we are able to intervene for those customers that might fall at risk. So we are doing a lot of work around that, and we are using the RGT research that came out last December to be able to facilitate that. So we will continue to do that. We will continue to enhance that and we will make it more public over the coming months.

James Letten: Thanks, James, very helpful.

Nick Edelman (Goldman Sachs): Thanks, morning everyone. Just a couple of questions, please. First was on those non-core online markets: I was just wondering if you could give any colour around that decline rate, just in terms of how much is FX or closures? Or just an indication of what the underlying exit rate is there into 2016?

The second question is on the wagering growth. You have mentioned a couple of times about the UK tracking pre-release levels: is that back to around the 7% you were doing in the third quarter in the UK, or is that a different number? Thank you.

Philip Bowcock: Nick, we will give more detail on the non-core at the time of the prelims. With regards to the exit rate, yes, that is heading back towards the 7% mark that you saw pre the release of Trafalgar.

Nick Edelman: Lovely, thanks very much.

Jeffrey Harwood (Stifel): Good morning. I have two questions. First of all, I wondered if Philip could give his views on the leverage of the Group?

Secondly, on regulation. There is no reference to regulation in the statement this time; is the company more confident that we have reached stability?

Also, could you touch on the issue of the racing rights please?

Philip Bowcock: If we talk about leverage, I was given the hospital pass by my predecessor to update the market as to where we were going to be on balance sheet structure. That statement is going to come out at the preliminary announcement, so I will defer that comment until then, Jeffrey, if you do not mind.

Jeffrey Harwood: Okay, thank you.

James Henderson: Regulation, Jeffrey, my confidence is in stability. I think what we can do, which is what we have done for the last 18 to 24 months, is work very hard, as I touched on previously, in regards to working with those customers that might find themselves at risk: using the markers of harm, as we do, and also making sure that the national cross-operator self-exclusion trial extends and works. I think if we can continue to do that and demonstrate to the right people that those are working, then that can give us a degree of stability.

In regard to the racing rights, very frustrating that racing did not feel it appropriate to accept the 5% online number that we gave. That is very, very disappointing. It is really now about taking stock and deciding what I want to do as a Group for the next move in regards to the levy. Racing rights in itself, there is no further detail on that, we will wait and see. However, very disappointed they did not accept the 5% that we offered for Online.

Jeffrey Harwood: Thank you.

Ed Birkin (Credit Suisse): Morning, just a couple. On that online racing levy, I have heard the incremental cost of that 5%, when taking into account other adjustments, would have been pretty minimal to the business. Therefore, is it that much of a surprise that racing did not accept it?

James Henderson: I think you have to look at it holistically, Ed, in as much as the media rights have increased significantly over the years. We still pay 10.75% for our Retail business, which unfortunately has declined over the last few years. So I think it is just about bringing it all in and, as you saw probably over the course of the week, one of the competitors put in a blended rate of 7.5%, which racing did not accept. So it is about getting a fair and equitable rate. It is very disappointing that we, as the largest contributor to the levy, are essentially frozen out from sponsoring where some of the pure online operators are allowed to operate at a more favourable rate. So it is frustrating, but hopefully we can work our way through it.

Ed Birkin: Okay, thanks. Following on from Patrick's earlier question, I understand it is sensitive, but the change in management of Online: it is obviously a very big portion of your business, and the core business has actually grown pretty well this year. So is it fair to say it is a direct result of the issues of Project Trafalgar, or should I be reading anything into your statement about saying you wanted your team versus, perhaps, people that were put in place across the business by your predecessor?

James Henderson: Ed, very simply, this is about us moving to our next phase of development and utilising the Trafalgar platform to be able to grow the business in that way. That is a new phase, and it is no different from moving from the front end to the back end for Kevin to come in and do the technology as well.

Ed Birkin: Okay. Then finally – and I think Vaughan asked this, apologies if I missed the response – in terms of the re-launch of the Project Trafalgar side on the desktop site, do you have a timeframe for that and is that going to be delayed by the change in management?

James Henderson: Well, I think it might not be delayed but I think that is something that Crispin will want to review. As I said, just to reiterate if you missed it, we are doing the Android or looking to do the Android. We have done 25% now, so rolling out that to completion and then taking a rain check to see whether we do the desktop; probably the

Sports first and then horse racing. However, that is something for Crispin to have a look at to see whether that is the timetable he wants to stick to.

Ed Birkin: Okay. Will we hear from Crispin at full-year results?

James Henderson: No, not planning to at the moment.

Ed Birkin: Okay. Great, thank you very much.

Joe Thomas (HSBC): Morning. Most of them have been answered, but a couple remaining on Australia please. Firstly, can you explain why you are revising up the Australian gross win margin? Structurally, what is happening there?

Secondly, you are growing staking, I think you said, at 1%, you exited the year at. How should we expect that to develop over the course of this year? Presumably we see a major acceleration at some point as you start lapping easier comps; can you just remind me when that might be?

James Henderson: Okay. In regards to Australia we have, as much through necessity as anything else, when the race field fees were increased about 18 months ago, reviewed our whole client base to be able to make sure that we are maximising that. Essentially, in summary, taking it from a high-staking low-margin basis to a recreational business. By the very nature of that we have seen an uptick in the margin. As I think Philip said in his statement, it has gone up a good two percentage points. We are guiding towards 11% as the margin; there is no reason we cannot even enhance that more, but that is the guidance at the moment. A lot of work has been undertaken, and it is a very strong margin that I think will be carried forward.

With regard to Retail: yes, it was a 1% increase in wagering. It is very difficult to look at Q3, Q4, because the comps were counter to each other. In Q3 in 2014 there was a very big margin, and therefore we were landing that and therefore the rating came down. In regards to December or in Q4, we did not have the carnage that was Boxing Day, and all the recycling that was part of that as well. So that was part of that as well, so that had an impact on it. It is good to be in positive territory for a business that is mature as the Retail estate, and hopefully if the economy were to pick up then the Retail business would be a beneficiary of that.

In regards to lapping, I think it is more the Machines that are lapping and the problems we experienced there, rather than OTC]. However, we have Euro 2016, a massive opportunity. Timings are right. 2,350 shops, big opportunity for us.

Joe Thomas: How should we think about Australian staking growth for the year? I mean, you are saying December was single-digit growth: how much of a guide is that for the full-year outlook?

James Henderson: Without being specific, I would expect single digits to go into double digits. We have real momentum in the Australian business, and we will give you more of an update at the prelims.

Philip Bowcock: We roll over in Q2, so I think that should really start during Q2. However, as James said, there will be more details coming out in the prelims.

Joe Thomas: Thanks.

Richard Stuber (Nomura): Good morning. Just one question, on Australia as well. Q4 was an improvement; could you say how much of that is due to your in-play product? Also, given some of your competitors are now also starting their own in-play product, how are you finding that product now? Is it becoming tougher? Thanks.

James Henderson: I think it is absolutely a catalyst. As you know, we pioneered the in-play product. We have had an opportunity to enhance it. We have our global trading platform, which is now providing all the rich prices, certainly from a tennis perspective, into Australia. So we have a great product, we have a fast in-play, and I think when you look at the actives and the new accounts that I have talked about, that is probably one of the key drivers.

However, there are lots of other moving parts as well. We introduced a new app in the course of the quarter, and the management team are incredibly focused, so there is real momentum in Australia. I am absolutely delighted, and I am delighted for Tom and the team as well, because they have worked so hard to get into this position. The exit rate was something I am really proud of and expect to carry through to 2016.

Richard Stuber: Thank you.

James Henderson: Okay, thanks everyone for today's call.

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