William Hill 2016
Half-Year Results

Friday, 5th August 2016

Transcript produced by Global Lingo
London - 020 7870 7100
www.global-lingo.com

Welcome

Gareth Davis

Chairman, William Hill

Good morning everyone, and thank you very much for joining us. Given recent developments with the change of Chief Executive and William Hill entering an offer period, I wanted to say a few words before I hand over to Philip – by the way, I am the only person other than his mother that calls him Philip – then I will hand over to Philip and the team for the operating and financial update.

As I am sure you appreciate, I cannot comment on the offer period, but let me talk about the CEO position. You will have seen from the press coverage that the process to bring in a new CEO could, I believe, take as much as 12 months. I hope to be able to announce an appointment within two or three months but, from my recent experience, executives are increasingly being held for some or all of their notice periods. So the Board and I felt it was right to plan for it being up to a year before the new CEO is in post.

We are very pleased that Phil has stepped up to be the interim CEO. Without sparing his brushes, he has massively impressed the Board since he joined last November in how quickly he has come to understand the industry, in his strategic insight and, most importantly, in the leadership skills that he has demonstrated already. He is working with a team of talented people and has rapidly built good relationships with the Executive team, both the longstanding executives and those who have joined us more recently. It has been very interesting for me over the last week or so to see the mood of optimism that exists across that team now.

It is easy to forget at times like this what a good business William Hill really is, but we have a lot of strengths. We are facing head-on the improvements we need to make, and we have got some very good people in place. So the Board has every confidence that Phil and the Executive team, many of whom are in the audience today, will deliver the priorities that Philip will be presenting this morning.

If you have any questions for me, I will be around after the meeting, but for now let me hand you over to Phil to take you through the presentation. Thank you.

Operating and Financial Review

Philip Bowcock

Interim CEO, William Hill

Performance overview

Thank you Gareth, thank you for those kind words. Good morning everyone. As Gareth said, I will go through the operating and financial review and then talk about our focus areas.

The key message for me about trading today is that, although it has been a challenging first half, we remain on track to deliver our overall profit target of £260–280 million for the full year. You would already be aware that the Euros were better than expected, and helped to offset the £6.4 million loss we had on Cheltenham in March, which was effectively a £13 million year-on-year delta. I will talk a lot about Online's turnaround strategy as we go through.

We are making good progress in certain areas, most noticeably Sportsbook, but there is a lot to do in other areas as well. Retail has had a good period, with both revenue and profit up 4%. Nicola and the team are certainly of the view that retail is more resilient, and the results in the first half prove that. With the SSBT roll-out, there is more to come.

As we said before, Australia was starting to show signs of good growth and that is continuing, giving us a 12% turnover growth. Profit was low in H1 because gross win margins were weak and free bets were higher, but we expect a better financial performance in the second half.

The US continues to grow nicely with profit up 49%. We invested about £90 million in NYX OpenBet deal in the period, and we have acquired Grand Parade this week, showing our focus on controlling our technology strategy.

We have also put £60 million into share buybacks during the period, but the offer period means that is currently on hold. Overall, net debt increased to £586 million or 1.7 times EBITDA. The Board has maintained the interim dividend at 4.1p per share.

Euro 2016

Turning to the Euro 2016 tournament, we generated about £14 million more gross win than we expected. As ever, England attracted a lot of bets, clearly still without justification. The group stages were much less predictable than expected. 31% of games were drawn as compared to about 20% in previous tournaments. The games were also light on goals, with an average of 1.9 per match, and only 36% of games saw both teams scoring, well below average.

In the knockout stages we had big returns from Iceland beating England, Portugal beating Wales and France beating Germany. Of course, 0–0 at 90 minutes in the final made for great bookmaking, if not for great viewing.

In terms of the outright market, neither Portugal nor France was a popular choice, so we had a seven-figure profit on either side before a bet was laid on the final. So a dream tournament in many ways.

Group income statement

Let me now go through the P&Ls for the Group, and then the four divisions. Group net revenue was up 1%, with growth in Retail offset by a decline in Online. Operating costs were 6% higher, so operating profit declined 16%.

Some minor points for your models. We successfully completed a seven-year, £350 million corporate bond in May to replace the one that matures in November. The dual running costs of these add about £8 million to interest costs this year, but we will benefit from lower coupon next year by about £5 million per annum.

The effective tax rate on adjusted results is 15.4%, broadly in line with previous guidance. The basic adjusted EPS decline reflects the broader profit picture. However, the growth in basic EPS is skewed by the high level of exceptional items recorded in 2015; those were around the move to the William Hill brand in Australia.

Online income statement and other KPIs

Moving onto Online. Within Sportsbook's 1% wagering decline, the UK was down 0.7%. Italy and Spain were up 22% and other markets were down 15%. I will talk about underlying performance shortly. You can see the gross win margin increased from the 6.3% we reported in May to 7.3% overall, so May and June were good.

Staff costs are up, as we are increasing headcount in some key areas, particularly UX – that is user experience – business intelligence also, as we enhance our data capability. Marketing costs at almost £70 million are slightly H1 weighted because of the Euros. So you can see we are still prepared to invest, particularly now we are getting competitive product and UX in place again.

In terms of KPIs, these will move around as we shift from the old land grab model to more targeted acquisition plus retention.

Actives are down slightly. New accounts are down more as we eliminate the kind of account abuse we were seeing this time last year. CPA is up because of the marketing increase and the more selective acquisition model. It is early days, but I am much more interested in ARPU, and it is positive to see that is slightly up.

Online update

Underlying wagering performance

So let us pick apart wagering trends. Changing the tennis turnover was the biggest hit, taking effectively two percentage points off our growth. However, the tennis margin is back to normal at 4.4%. So although tennis turnover was down 13%, tennis gross win was up 19%, therefore justifying the decision. Market closures represented around a percentage point. To put this another way, decisions we took ourselves reduced turnover by more than £100 million. To complete the picture, timeouts and automatic self-exclusions were effectively another percentage point.

So from a 1% decline, our underlying growth is about 3%. However, that is clearly not good enough if the market is growing at a higher rate. So how are we doing in terms of actives? The chart on the right shows we lost customers through the Trafalgar launch last October. However, we are now getting back to better numbers so that is a more encouraging position.

Other operating updates

Turning to Gaming. A 6% decline is not good, and there is a clear focus on returning Gaming to growth. There are a lot of excuses here; fewer content releases than normal, market closures, regularity impact, jackpot wins and so on. However, for me it is about how we turn this around, so we will come back to that as one of my four priorities later on.

Finally, a quick update on timeouts and automatic self-exclusions, which is just to say that we are seeing slight changes in the average weekly account number and the return rates are improving slightly.

Retail income statement and KPIs

Retail is a much easier story to tell. Wagering is down but the margin is up, and has been for much of the half. The primary driver is tier-three racing results, where the margin has been high so recycling has been low. Am I concerned about this? Clearly a decline catches the attention, but I would be much more concerned if gross win was declining as well.

Gaming machines continue to grow. Just to pre-empt a question, this is not about adjusting RTPs, it is about more slots content and good operational discipline after Nicola restructured

Retail's Gaming team. In costs, we are factoring a potential bonus in employee costs so that is the main shift there.

What is really interesting to me is that this is the first time in years that Retail has not faced a significant tax or regulatory change. So I know some people are ready to write off Retail, but I think this shows what this cash-generative business is capable of, given a clear run.

Proprietary self-service betting terminal rolling out

The key deliverable for Retail in the period was getting our proprietary SSBTs into the shops. Before the Euros we put 800 in 600 shops, ahead of our 500 target. Early results are in line with expectations, so we are moving ahead with the next 1,200 before the year end. The team is also now looking at bringing in more content, and it was great to have one-minute markets on the SSBTs as well as online for the Euros.

Australia income statement and KPIs

On to Australia. As I said before, we are now into double-digit turnover growth rates, which is good to see. That is not to translate it into profit growth just yet, partly because horseracing results have been very poor and partly because marketing, particularly FVAs, was weighted to H1 for the Australian sponsorship, for the Open tennis and the brand migration work.

Looking at the KPIs, the actives decline reflects the legacy Centrebet brand and the tomwaterhouse.com migration. ARPU is lower because of the gross win margin, and because FVAs were AU$10 million higher in H1 this year compared to last. New accounts look good, and the move in CPA is marketing spend.

Australian update

Rapid product delivery

Those of you who were present at Tom's presentation in June will know Australia is delivering a lot: 31 product initiatives launched in H1. There is more coming in H2, especially for the Spring Carnival.

Focus on William Hill brand

The William Hill brand, which was 83% of actives in H1, had new accounts up 38% and turnover up 28%. The tomwaterhouse.com migration was completed successfully. VIP retention was very good, and their revenues are now higher as they are enjoying a better UX and have more product to bet on. That has given us the confidence to bring forward the Centrebet migration, which is now underway and will complete in the second half.

Market share gains

What we are looking for is market share gains. We assume the market is growing at around 15%. We are ahead of that for the William Hill brand, and our exit rate for the half was also ahead of that for the business as a whole.

Regulatory risks

The counter to this progress is regulatory risk. In-play and credit betting bans are on the table; greyhound racing has been banned by two states and we do not know if others will follow; and South Australia is talking about point of consumption tax. For me, this just goes to reinforce the need for scale as a regulated market operator.

US income statement

The US is a strong story. There is still excellent growth in wagering from both the Sportsbooks and from Mobile. The margin was a bit weaker as we had some poor baseball results, but it is still dropping through to a very good profit growth. We are still innovating: we have brought virtual racing to Nevada this year, and we are leveraging what Retail has done on SSBTs to enhance our kiosks. Overall, this is becoming more than just a nice little business with optionality. As the market leader in Nevada by the number of Sportsbooks, we remained well positioned if the US market opens up.

William Hill today

Which brings me onto the second part of my presentation, the focus areas. Let me start by giving you my view of William Hill today. We have an iconic brand that is not only the most trusted bookmaking brand in the UK, but is also proving successful in other markets. Retail is still demonstrating its strength, it is generating cash and it fits well with Online. Online is a big UK business. It is still very profitable, it delivers high quality revenues from regulated markets and it is getting faster and slicker now we control our technology.

Internationally, Australia is now delivering profitable growth and we have a leading position in Italy and Spain. The US is also profitable and has a great optionality. We also have opportunities for self-help, which I will come onto.

Our focus areas

That said, we are not without our issues. So let me take you through my four areas of focus right now; these being Online's turnaround, the technology roadmap, operational efficiencies and international.

Online UX and product

H1 delivery

Starting with Online. So far this year, Q1 was all about Crispin putting his team in place and Q2 was all about our Mobile Sportsbook, where we have massively overhauled our user experience. I am not going to go through all these examples, but let me sum it up. We have delivered faster than ever before. Whereas last year saw only two app releases, this year has seen seven, and also multiple web-based updates every week. We have significantly improved the app loading time, closing the gap on key products like cash-in and fixed problems like the football acca journey.

We are also innovating again, giving customers an experience they cannot get elsewhere. We are making it easy to surf for different bets with a search function, encouraging customers to stay on the app longer with TV and engaging scoreboards, pushing relevant and interesting bets to them and then giving them longer than our competitors to decide to cash in. We have launched four language sites with four fully translated Sportsbook apps, and the app has gone live in the German App Store.

Q2 Sportsbook redesign

This is the difference in black and white, or rather, full technicolour: what our app looked like last October and what it looks like now after a complete overall of the design before the Euros. So Sportsbook is now competitive and fit for purpose.

Next priorities

So in order of priority, H2 is about the customer experience, Gaming and then further Sportsbook innovations. We have to get the journey of how customers navigate around the site right. That is about the landing pages, the registration process and the deposit systems, for a start. For some customers, it is easier to re-register than it is to reset your password. As Crispin will tell you, it is about making navigation as quick and easy as possible. Just to give you one example: we have just launched an automatic address look-up facility for the registration process. In the first few days we have seen the drop-off rate fall from 4.4% to 1.8%, which will translate into thousands more registration processes each month being successfully completed.

Gaming needs to have significant focus. We need to be getting content out there. The lobbies are all over the place with no consistency, so they need to be redesigned. The cross-sell journey from Sports to Gaming is still too slow, and the lack of a single wallet between OpenBet and Playtech has been a friction point for years. The target to put the key customers' touchpoints right is the end of this year. For those of you who use the app – and I hope many of you do – you should start to see progress sooner rather than later.

On Sportsbook, the product team has a long list of what they want to achieve, and we are now getting through that at pace and getting back on the front foot competitively.

Digital marketing

In marketing, we have also been fixing the basics, progressively removing the bonus abuse. We have put in process fixes, we have removed loss-leading campaigns and we are realigning our affiliate spend. FVAs have naturally come down from that artificially high level we saw in Q1, and we are implementing a new data platform that is giving us better reporting, better ROI management and better customer insight.

As I have said before, the first question for me is not whether we should be spending more or spending less; it is whether what we are actually spending is efficient. The chart on the right shows you what I mean. This is research from McKinsey, and it shows we are the biggest spender on paid search but have one of the lowest click-through rates in our industry; we are not efficient.

What I want from marketing in the second half is all about efficiency; more account management improvements, more optimisation of FVAs and optimisation of our PPC spend. Also ensuring we have the right marketing mix; competitors are already ahead of us on programmatic marketing, but our new data systems can now support that. We can buy our media more effectively, targeting customers who download the app but do not register, those who register but do not deposit, and driving CRM to dormant customers through media rather than relying on email and push notifications. Because now we need to encourage retrial by customers, and that is the target for our campaign during the early months of the football season.

The majority of the product and marketing work will be complete this year, and then I expect to see benefit progressively come through next year. We will monitor progress primarily through our actives and our average revenue per user. Internally, we are closely tracking ROI for marketing.

Delivering our technology roadmap

Delivering the best UX in the market.

My second priority area is technology. For me, this is all about getting on the front foot. We spent a lot of time doing Trafalgar and took our eye off the ball in other areas. We built a good technological platform that means we can change at speed, but we delivered a poor UX. Therefore, we have reassessed and bought in the right expertise. The level of activity and the ability to turn around ideas and requests from the Sportsbook team have massively improved under Crispin and Kevin. Now we have put two further pieces in place: the means to build a new back-end platform, and the resource to support both the front-end development and the back-end project.

We announced the Grand Parade acquisition on Tuesday. I think of this team as a large technology cell, and they already do a lot of work for others in our space so can hit the ground running, with around 200 people that can backfill our 75 or so IT vacancies, plus another 85 roles currently outsourced to third parties, and in addition catch up on the backlog of innovations Online want to deliver. They bring proven expertise to the UX, will help us realise the potential of Trafalgar and support other projects across the Group, including the omni-wallet for retail.

Delivering our new, flexible platform

The OpenBet deal will give us a bespoke platform tailored to our needs. It is likely to take around three years from the time we start to deliver all the pieces, but it will be a platform that supports our long-term needs. When we come off OpenBet 1 to OpenBet 2, it needs to be as seamless as possible, and the approach we have taken will help us achieve that. With many of our customers also using the OpenBet platform, it means we get there before others and with a degree of exclusivity.

Drive increased efficiencies across the Group

Modernising Retail's operating model

In terms of the Retail reorganisation, I will leave the detail to Nicola in Q&A. However, the main driver here is to focus on customer experience and to get management closer to the shop teams, with better spans of control across the management structure and cluster management more focused on the commercial environments for their shops.

The added benefit is that this will keep staff cost increases within manageable levels for the medium term. There are consultations ongoing with employees right now, and our goal is to implement on 1st January. So the exceptional charge of around £12 million for this activity will be split across 2016 and 2017.

Other opportunities

Now turning our attention to other parts of the Group. You will have read previous media coverage about KPMG work. What this is about is that we have grown rapidly and organically as a Group for several years. Having built four separate divisions and a large-scale Group infrastructure, it is the right moment to step back and assess whether we are being as efficient as we can be. As an example, I am no HR expert but something tells me having 23 different HR systems is not the right way to manage 16,000 people.

There is a lot of work ongoing right now, and I am sure you appreciate some of the outputs have to be handled sensitively for our employees. You can, however, see from the pie chart on the right-hand side the scale of our cost base for our UK businesses. This excludes either the shop costs or the marketing costs that were addressed elsewhere.

From what I have seen so far, I have to believe that there are decent cost savings to be achieved. That said, it is about more than costs; it is about having a more effective operating model, a better customer focus and more support for many of the plans I have already laid out here.

Refocus the international growth and expansion

Turning to international: this is a key pillar of our strategy so we must ensure that we are on the right path. First, we are reviewing our current markets to ensure they have the appropriate level of focus and resources in terms of product, marketing and people. Next, we need to make clear decisions about which markets we are going to invest in. We also need to be more creative in thinking opportunistically about earlier-stage markets, whether organically or through M&A. It is still a risk-based approach, and we will still be very disciplined on how we use our capital, but we should be more flexible in our approach to markets and to the means by which we target them. Yes, that could mean bolt-on acquisitions in certain cases.

Summary

Finally, let me leave you with my key takeaways. In William Hill there are four profitable divisions, all with strong fundamentals and at various stages of the gambling maturity curve, from the mature but highly cash-generative Retail business, to the US where there is huge optionality and where we are optimally placed. In between these is Online, where we understand the issues and the team has specific plans to address them, and is working hard to resolve them. Behind this we have secured financing for the medium term with a new bond, and operate with a robust balance sheet benefiting from strong cash generation.

I have set clear priorities for the Group: to accelerate the recovery of the online business, the deliver our technology platform which will enhance the user experience, to increase operational efficiencies throughout the Group and to refocus our international growth. I have a very motivated team that is not only determined to put things right but also become market leading again. Nicola and Crispin will join me shortly, but several others are also in the room and will be available to answer your questions afterwards.

Finally, I am pleased that Mark Summerfield has joined us on secondment from KPMG to fill the interim CFO position. He is also with us today, though I think it would be pretty unfair to expect him to answer questions just yet.

Thank you for listening. Nicola and Crispin are on their way, so we will open things up for Q&A.

Q&A

Ivor Jones (Peel Hunt): It is a quite sharp increase in employee costs in Online: why now, given that Trafalgar is rolling off? Should we expect that continued high growth in cost when revenue is not doing so well?

Bonuses you highlighted as a problem, but they have been an issue for the industry since the early days. So again, why now is this a problem that is being addressed? Can you quantify what you think the cost is that can be eliminated?

At the full year you quantified progress with omni-channel; people who were solely Retail users and people who were Online and Retail. I just wonder if you would put some numbers on that, or an indication of how that is progressing? Thank you.

Philip Bowcock: I will let Crispin talk about bonus, Nicola can talk about omni. With regards to the employee cost line in Online, that really is being generated by our UX and our investment in making sure we get the UX experience right. So we do not see it accelerating any further from where it is at the moment.

Ivor Jones: Will all the Grand Parade people go into that line?

Philip Bowcock: They will eventually, yes. Some of them will, some will go into IT as well, so some will sit in Group.

Crispin Nieboer: On bonus abuse, in terms of why now: well, we did experience some increased bonus abuse last year. Bonus abuse is a factor of life in the gaming and betting industry. It can be managed well or less well, and I think there are some areas where we can make some improvements and we are doing so.

In terms of quantifying that amount, I do not want to go into details but I would say that the saving opportunities for us are in the millions rather than in the thousands, and I have a very clear plan on how we do that. It is really around having a single customer view with our new data platform, UNO. It is around fixing the tech, fixing the processes and fixing the roles and responsibilities, and we are well on our way in doing that in the second half.

Nicola Frampton: We have just done an eight-week focus campaign across the Euros to encourage customers to sign up to Online from Retail. That was actually very successful for us. We delivered around about 10% of Online's new first-time deposits in that period, and we achieved a 71% conversion rate from the sign-up through to deposit. So we are actually now evaluating the benefits of that, but actually it is not just about pushing customers out of Retail into Online; there is an awful lot more work that we need to do from an omni-channel perspective to facilitate the journey for customers in both directions.

Our industry research – and it is done collectively across the industry – actually suggests that the number of omni-channel customers is actually quite steady. So it implies that it is effectively a holding pattern. So customers go in, try omni for a while and then either decide to go back into Retail or probably stay more in Online. We are not seeing any massive growth in omni-channel customers. So at the moment, for William Hill, we are still roughly 70% Retail solely[?] and 30% omni-channel, broadly. Our main focus is to ensure that we increase the capture rate within the William Hill family.

Ivor Jones: Thank you.

Vaughan Lewis (Morgan Stanley): I have one for each of you, if that is okay? You have said the self-exclusions are slightly better and the sports results were obviously quite good overall, so you made up the losses earlier on but you are not changing your guidance. So underlying, are things a little bit worse or in line?

For Nicola, on SSBTs: how many BGT ones have you got, and how do the new ones perform versus the SSBT ones?

Then on Online, can you just talk about that data that you just mentioned a bit more, and how good your view is of the customer? With all the different systems and all the different channels, how quickly can you assess lifetime values and are you still seeing disappointing trends from the 2015 sign-ups that were mentioned in February or May, I think it was? Thanks.

Philip Bowcock: Let me talk about the guidance piece. I am sure you will understand, Vaughan, that like you I am straitjacketed by what I can say by the lawyers and everybody else, because of the offer period. So I cannot say anything else other than that we are going to maintain the guidance as it was previously.

Nicola Frampton: Shall I take the SSBT one?

Philip Bowcock: Yeah.

Nicola Frampton: We have got 800 William Hill SSBTs and we have 793 BGT machines. The roll-out of the William Hill ones predominantly did not really land until week 23, so the bulk of them would have been out less than five weeks before the Euros started. So it is early days, and it is not necessarily the right time to give you a real lot of detail. However, what we did see over the Euros, Vaughan, is that at peak betting periods on the Euros, the William Hill SSBTs achieved 77% of the BGT machines in our estate. So I think that is quite a credible and positive performance considering that they were still very young in the adoption curve that we would typically see. So very happy with how they have gone so far but, as I say, it is early days.

Crispin Nieboer: On the data platform, which we are calling UNO: it is at MPV level, minimum viable proposition level, at the moment. The great thing about UNO is, for the first time, we do have all of the data about our customers in one place. The next step is for us to look at moving it to a real-time system. At the moment the data is not real-time, it is slightly delayed. However, UNO is a positive step. One of the issues we have with bonus abuse – for instance, last year – is that the bonus data is on a different system to a lot of the other core customer data we have. So piecing it together was quite time consuming and painful.

We also take your point on LTV forecasting. We have introduced, from the BI team in Gibraltar, LTV forecasting algorithm models into the teams in Tel Aviv, the marketing teams, in the way they go about their marketing in Tel Aviv to ensure that they are looking very carefully at LTV modelling, looking at player values at month one, month two and so on. However, there is a lot more to do on improving our efficiencies there. So it is progress, but still lots of hard work ahead.

Chris Stevens (UBS): Three questions from me please. Firstly, on retail staking levels: down 4%, obviously explained by the stronger margins. Ladbrokes came out yesterday with a higher number. I guess my question is, do you think you are losing any market share and what can we expect to see for the full year, assuming margins normalise?

Secondly in Online: the gross win improvement was quite small compared to the improvement we saw in Retail; is there a kind of mix of sports reason within that? Or if you can just give us some more colour, that will be helpful.

Lastly, on free bets in Australia: I know it was quite high, particularly in Q1, around the Open, but how does Q2 compare to Q1 and what can we expect for the full year in terms of free bets? Thanks.

Philip Bowcock: I think if I take the Australian one first, I think the highest quarter will be quarter one. You will not see those levels in the second half that we saw in quarter one.

I think if we talk about Retail and staking levels, I think that for me, as I said, the important thing is the gross win, what falls through. I think for me the important thing is about bottom-line profit and about shop profitability. If I look at our estate we have, by quite a significant margin, the most profitable shop estate in the UK. So that is where I am focusing, and what Nicola and the Retail team focus on is the overall shop profitability.

Do you want to talk about margins in Online?

Crispin Nieboer: Sorry, yeah, can you just repeat your question? I was not quite sure what you were looking for.

Chris Stevens: Sports results were good in the half; Retail saw a greater uptick in gross win margin than Online, so I was just wondering.

Crispin Nieboer: The main difference between Online and Retail on margin has been the overweighting in Online with regard to European football, and the European football results were pretty painful in the first half. That is the main point of difference.

Alistair Ross (Investec): Just one from me. In terms of total gross win on slide six, the drop through to operating profit of that additional gross win: can you just give us some clarity as to drop through, or the costs that are associated with both the £24 million and the £36 million? So that which fell into H1, and also that which fell into current trading.

Philip Bowcock: I have not got the detail here, but I suggest we pick it up later. I will pick it up later with you.

Patrick Coffey (Barclays): Just one for Crispin, actually. Obviously a lot has gone wrong with the Online division over the last three years. You have been in the business for around six months or so. There are lot of different issues, but if you could just boil it down to one thing that went wrong in Online and how you are changing that going forward?

Crispin Nieboer: Sure, yeah. There are lots of contributors to the decline we have seen in Online over the last 12 months. If I was to pick one – and hindsight is obviously a great thing – it would probably be the execution of Project Trafalgar; not the strategy, I think the strategy was spot on, but from an execution point of view I think there are some lessons learned there.

I would put it into three buckets really. The first is around UX. I think we focused very much on the not insignificant technical challenge of Project Trafalgar, particularly when you are looking at the very high traffic levels that we deal with. I think the team took a view that the UX was something that could be dealt with second to that, which I think was a mistake. The second issue is that in terms of insight, the old site was not tagged properly. It meant that we did not have really strong data on how customers were using our previous mobile product, and therefore the way that they would use our new one. Then I suppose a third area is on prioritisation. Whilst we were working on Trafalgar, and Trafalgar took slightly longer than we all hoped, it meant that other things were deprioritised; things that we are working now, things like the player journey top end of the funnel, things like Gaming and things like desktop.

So those are the three areas of pain that we took as a result of Trafalgar. However, having said that, we now have this fantastic platform that is enabling us to go at very high speed and very high quality of releases, and the team and Stu Weston leading that team, who I put in when I started as Director of Sports P&L, have done a really great job. If you look at the Sports app, I think it is clear to see.

David Jennings (Davy): Just one question. Just in relation to Australia, I was wondering what measures are you taking to de-risk that business in terms of exposure to credit betting, given the possible restrictions that may come into place?

Philip Bowcock: When it comes to credit betting, we do not know exactly how and when any regulations around credit betting comes in. So we do not know if anything is going to grandfathered or not. About 20% of our business comes through credit betting. Clearly if credit betting were to be banned in totality, we would not see a 20% decline because credit betting has been a way of life in Australia probably since betting started. So at the moment we are not actively doing anything; we are monitoring the situation very closely, and clearly there will be some lead-up time between when a decision is made and actual enactment. So at the moment we are just watching the position, as we are with all regulatory changes in Australia, very closely.

David Jennings: Thanks.

James Ainley (Citi): A question for Nicola: could you talk about the key elements of the restructure you are putting through Retail, and what particularly are the benefits you are seeking from that?

Nicola Frampton: Sure. The objective of the modernisation is really about having an operating structure that is both fit for purpose and fit for the future, and it currently is not. We have had the structure in place now for over ten years, and in that time it has been stretched to breaking point with all the layers and layers of incremental changes that have occurred over that decade. It effectively stops me from progressing and moving around the organisation; it has effectively created a straitjacket.

What we have also ended up with is a bit of an hourglass organisation structure. So the first level of line management, the DOMs[?] in particular, are really stretched because we have constantly layered up the responsibilities as the Retail estate has grown. So clearly I want and need the Retail business to be relevant for our customers, but I also need to make sure that it is sustainable for both employees and investors. I want to make sure that we also secure our position as the UK market leader.

So we needed a new structure to take us forward. The key outcome really is that we are moving to a cluster model, and that will effectively insert a new layer of line management into the organisation. There will be 359 new roles at that level. That role is going to play a really crucial part in how we improve our operational performance in Retail and really get focus back on what is important, which are the customers, the customer experience. So the role will be very much around coaching and developing and growing the performance of the shops, improving that.

When I have met some of you before, I commented regularly that everyone in my structure currently in Retail Ops has got ‘Operations’ in their title. So everyone is focusing on the same thing. There is not clarity around roles and responsibilities. There are variances and differences within the organisation and how things are done. So we lack consistency. So that will be addressed through the structure, and will actually ensure that we now have roles that are focused on business development, on market share growth, on what the competition are doing and so on, which is something that we have lacked formality around previously.

So our new structure effectively addresses all of these points, and if it goes as well as the Gaming structure did last year, then I do expect it will also be revenue enhancing.

Brian Devitt (Goodbody): Just one question please. Just given the technology roadmap and the deals with Grand Parade and NYX, is there any change to CPAEX guidance for the full year?

Philip Bowcock: Not at this time, no, we are not changing CAPEX guidance.

Simon French (Cenkos): Morning, three from me please. Firstly, on the cash flow: Phil, you did not pay much tax in the first half, and there was a working capital inflow of about £25 million. Is that going to normalise over the full year?

Then on cross-sell, you said it is below average; can you just tell us how many Sportsbook customers do cross-sell into Online Gaming?

Then thirdly: Nicola, what is the policy on single-manning of shops in the evening, please?

Philip Bowcock: On the cash flow, we had a small tax rebate, so that will normalise. The working capital was due to payments around the Euros of marketing cost, which clearly get delayed into the second half. So again, that will normalise over time.

We will not give exact numbers on the cross-sell, but you can give an indication of what is going on, Crispin.

Crispin Nieboer: Yeah, I would not want to disclose the number because it is sensitive, but what I would say is the cross-sell number, the percentage of our Sportsbook customers that go on to play Gaming, is steady but I think there is room for improvement.

Nicola Frampton: Just on the single-manning point, our policy is unchanged. We take very much a risk-based approach. We have no plans to change that, or indeed extend or increase that, as a result of the restructure. Our current single-manning policy is proving effective. We have not seen any material change or increase in serious incidents since we originally introduced it, so we are pretty happy with where we are at.

Richard Stuber (Numis): Morning. Three questions, the first two on retail please. The 359 new positions, are they going to be additional, so new jobs, or will they be coming out of other parts of the management hierarchy? Just if you could clarify that.

The second one is on Retail: SSBTs are what proportion now of OTC turnover? How has that changed, and where do you expect that to get to?

The final question is on the share buybacks. Clearly you had to hold them back during the offer period: are you still looking to buy back up to £200 million? Your appetite for M&As and bolt-ons seem to have increased.

Philip Bowcock: I will take the share buyback, and then Nicola can take the other two. She has been kept busy. The position on share buybacks is clear: as you said, currently we are in a place when we cannot continue. Previous guidance has been we will operate between one and two times; we exited the half year at 1.7 times. The Board will review the position as and when we come out of the offer period.

Nicola Frampton: So just in regards to the new roles, the new BPM role will effectively mean that we will see a reduction in the number of district managers and area managers in the organisation structure moving upwards, so there will a few redundancies but not a significant number. There will still be over 300 new roles in the organisation. From a shop perspective, we expect the majority of the workforce will either be unaffected or better off under the proposals.

Sorry, you had another question?

Richard Stuber: SSBTs.

Nicola Frampton: SSBTs. Yeah, it is currently running at 3%. I think at the end of the day what we do going forward will really depend on how they perform. They need to earn their keep, so we have not set a target. We know what we need to achieve per terminal in order for them to be successful for us, and the extent to which we roll them out and grow the business will be very much determined by the value they deliver.

Philip Bowcock: I think for me the piece on SSBT is that we know we have 800; competitors have got far more. For us also, do not forget they are proprietary to us. So we do not have any revenue share with anybody else, so we keep it within the William Hill family, for want of a better expression. Also, our SSBTs are our own product and we can mirror what we are doing online on our SSBTs. So for us it is a great opportunity going forward.

Nicola Frampton: Considering we generated 3% from the total estate with the machines that we had, if you look that is actually broadly in line with what Ladbrokes effectively had across their estate. They have four times as many SSBT terminals, and we are talking around the region of about 10%.

Richard Stuber: Just to clarify: the 3% is the average for the half, not the exit rate?

Nicola Frampton: It is just predominately for the moment through the Euros period because we have had such a short amount of time for them being out there.

Philip Bowcock: It is the exit rate.

Nicola Frampton: Yeah, it is.

Jeffrey Harwood (Stifel): Two questions. First of all, Online: the company has had a pretty strict policy towards grey markets or illegal markets; are you still committed to that approach?

Then secondly, just on the Retail reorganisation: I am not sure, is it cost neutral or is there some cost coming out of the business?

Philip Bowcock: With regards to the Online and the policy around grey markets, we will continue to monitor the position closely with countries and we will not go into a grey market unless we have the appropriate legal advice. That is the position.

With regards to the Retail reorganisation, I think what you can expect to see is normal wage inflation coming through in the Retail environment as a result.

Joe Thomas (HSBC): A couple again on Retail, please. Just on the Retail reorganisation and the cost inflation: what is actually driving that up and prompting you to do what you are doing? Is that minimum wage knock-on effect, or is there something else going on there?

Then just also on Retail, potential money laundering regulation and changes: can you tell what your thinking is on that, and perhaps how you are trying to position the business ahead of regulations being introduced?

Philip Bowcock: On the money laundering, we are waiting for the final outcome of the fourth Money Laundering Directive. As and when that comes out, we will act appropriately. I think that is probably due out some time next year.

With regards to the Retail organisation, I think Nicola has outlined it: this is about putting the right organisation structure in place to get people closer to the business. We have been able to create the 350-odd jobs, but it also provides a clear progression structure for our colleagues through the organisation. It is at the same time that we are able to also minimise the impact of the National Minimum Wage as well. So the two things go very much hand in hand.

Alistair Ross: Sorry, just one more for me. Crispin, you talked about Trafalgar execution being a big risk, and obviously that was a problem in Q3 2015. Can you talk about what else needs to be done for the remainder of this year? Do you see that as a major risk going forward for the remainder of 2016?

Crispin Nieboer: No, I do not see that as a risk at all. I suppose if I start with what I have done in the four or five months I have been in the role: initially the absolute focus, as you say, has been around Sportsbook Mobile. We have also done some good work in areas such as bonus abuse improvements, focusing on the team structure, bringing innovation from being outside the P&L divisions to within them, and also hopefully, I believe, clarifying the vision.

Second half, the focus is really across four or five areas. Priorities for me are gaming; the player funnel – so that is the top end, where we focus on each stage of customer visiting the site, registering, depositing, KYC, all of the customer touchpoints we want to excel in the conversion that we achieve. Thirdly, it is around marketing, particularly on digital marketing, and international is my fourth. So those are the areas that I will be focusing on.

In terms of completing Project Trafalgar, we are not far off doing that. Mobile is pretty much there. We are close to 100% on Android devices. Of course, there is a long tail there, some of which the cost benefit is not that attractive to carry on working on. Desktop will be done in second half of this year. We will run the new desktop site concurrently with the old, and we will have learnt our lessons on UX from last year.

Alistair Ross: So just on desktop, are you including mobile web in that? So in other words, desktops are roughly 55% of total still to do, or what are we talking in terms of percentage yet to do, yet to transition?

Crispin Nieboer: So the desktop site is the only area left to do. So iOS is done, Android is 95–96% done, so the only outstanding platform is desktop for Trafalgar.

Ivor Jones: I think I heard the phrase, 'building systems in Retail to be UK market leader.' You probably will not be by the end of the year; is that important? Would you expand in Retail bookmaking or would the business support the expansion into other Retail gambling businesses?

Philip Bowcock: I think it is how you define 'leader'. We are unlikely to be leader by number of shops, but we will be leader by profitability of shop. For me, this is all about profitability and making sure we are the most profitable retail estate out there. We will continue to look at opportunities. We have spoken about SSBTs, and we have great optionality there to roll those out and we will continue to roll those out. If we can cross-sell Gaming across both Gaming in Retail and Gaming in Online, we will do. I think we already have about 30% crossover of games, so we will continue to look at the options of that. We will continue to do what we think is the right thing to drive profitable growth.

Ivor Jones: Thank you.

Philip Bowcock: I think that is it. Thank you very much, ladies and gentlemen, for your time this morning.

[END OF TRANSCRIPT]