William Hill Q3 Results

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Overview

James Henderson

CEO, William Hill

Welcome

Good morning all and thank you for joining us. Neil is with me for his very last set of results with us. He will give you the detail on the numbers shortly, but let me start with a few comments.

Adverse changes

We all knew these Q3 results were going to be tough in comparison to last year. Not only we are paying significantly more gambling tax this year but we are also up against really tough comps from last year's outstanding gross win margin. This tax impact and the gross win margin swing are by far the biggest adverse year-on-year changes in today's numbers.

Online

Beyond that there are a few key points I would like to make. First in Online: I know the top line numbers look soft, but the core markets of the UK, Italy and Spain are still performing strongly. In the UK, turnover is up 7%, or 10% if you strip out the two World Cups. In Italy, it is up 24% on local currency basis, and for Spain that's plus 13%.

Gaming products

Our core gaming products are strong too. Net revenue for the Vegas product suite is up 19% and in the UK it is up 23%, with overall UK gaming net revenue up 15%. This gross is before we see the benefits of the projects landing throughout this year, like Trafalgar, the Bonus Engine and the Priority Access Card.

Trafalgar

I am very pleased with the progress on Project Trafalgar. We have launched Trafalgar across all iOS devices on both apps and mobile web. Android and desktop will follow shortly, so we are on track to complete the dot-com rollout by the end of this year. And if you have not tried the new apps yet, I would encourage you to do so to experience the improvements for yourself.

Australia

We have also upgraded the mobile experience in Australia ahead of the Spring Carnival and that has been positively received too. We are expanding the product range and we were best-in-class by some distance on the number of markets for both the AFL and NRL finals in October. And I am delighted that William Hill is the first ever official betting partner for the Australian Tennis Open.

Brand Awareness

Our William Hill brand awareness numbers continue to grow strongly. Prompted awareness is up from 46% to 60%, and spontaneous awareness has increased massively from 12% to 26% to overtake Bet365.

So yes, the Australian wagering numbers continue to reflect the trading and client management activities, as well as the brand transition. Yes, there is a little way to go on that, but I was with the team last week in Sydney and I can certainly see the pieces are really coming together to make this a highly competitive business in a highly competitive market.

Retail

In Retail, I have been encouraged by stronger gaming machine performance during September, benefiting from our strategy to improve our content. We have been launching new B3 games every two weeks and we have also widened our net for good content. We have signed agreements with five new gaming content suppliers in recent weeks to ensure a consistent pipeline of content, and exclusive omni-channel games as well.

USA

And finally, the US continues to go from strength to strength, and it is good to see that NeoGames has secured a second online lottery contract in the US.

The noise around both daily fantasy sports and sports betting more widely is very interesting at the moment. We will keep a close eye on the next hearing in New Jersey, which could be as early as February.

Overview

So whilst today's headlines look tough, we are delivering good initiatives that will drive further growth as we move into next year.

Now let me hand over to Neil.

Financial results

Neil Cooper

Group Finance Director, William Hill

Factors affecting year-over-year progression

Thanks James. Before I dive into the key numbers for the quarter, I wanted to remind you of a number of structural elements that will have a bearing on year-over-year progression.

World Cup

Firstly, we have the final two weeks of the World Cup in the prior year quarter, benefiting both wagering levels and gross win margin in that quarter. We made, to remind you, 45% in Retail and 19% in Online on the World Cup during those two weeks.

UK gambling taxes

Secondly, we are still rolling over the financial impact of new or increased rates of UK gambling duties for Online and Retail. These extra duty costs were £23 million in the quarter, prior to any mitigation.

Site closures

Finally, we closed the tranche of 108 sites last year, predominantly from August. Unless otherwise indicated, any comparisons I am about to give you will be to the comparable reported quarter in 2014.

Net revenue

So moving to focus on the numbers: the year-over-year net revenue and profit progression has been impacted by these additional duties, as well as by an unfavourable margin swing. This is partly due to very strong results in Q3 2014, but also due to weaker results than we had hoped to see in Retail, Australia and the US this quarter.

Good cost control has helped to mitigate some of the impact. Overall group net revenue fell 9%, and operating profits fell 39%.

Retail

Looking at each major business in turn, Retail OTC wagering grew 2%, or 3% after adjusting to the exceptional closures.

Wagering trends

Wagering trends in July reflected some softness from the World Cup rollover, but August benefited from the earlier Premier League start this year. September was also strong. However, with gross win margin at 16.6% versus 19.7% in the prior quarter, OTC net revenue fell 14%. Whilst Q3 is typically a lower than average gross win margin quarter, this year was well below the 18.1% Q3 average for the proceeding five years, or 17.6% for the last three non-World-Cup years.

The key driver of this weaker margin versus expectation was in horseracing. But football also fell on a year-over-year basis, given the strong prior year number.

Machines

Machines gross win fell 2%, or by 0.6% after adjusting for closures. This follows on from a minus 0.8% performance in Q2 on a similar basis, and which suggests that the impact of consumer behaviour change arising from the £50 journey has not yet unwound.

On the positive, September's performance was better than that seen in July or August, with gross win after adjusting for closures in positive territory. Gross win per machine per week for the quarter was £911. With the combination of a weaker OTC margin and the modest reported gaming machine decline, Retail net revenue fell 8%.

Cost of sales

Cost of sales grew by 3% despite that fall in net revenue, as the MGD rate hike more than offset margin-driven GPT declines. Whilst operating costs reduced by 4%, benefiting from – amongst other things – a swing on staff incentive payments and the rollover of the prior year exceptional estate closure, this was not sufficient to mitigate the other factors. Operating profit fell 31%, or 17% on a year-to-date basis.

Looking ahead to 2016, we advised at the half that we expect to discuss at the preliminary results, in more detail, our thinking on the National Living Wage and what plans we have to mitigate its longer term impact. However, I can say that given our current structures we expect retail labour cost inflation, ignoring bonus, for 2016 to be 3%. This takes into account estate growth, National Living Wage, national minimum wage and other expected pay inflation

Shop openings and closures

There were three shops openings and three closures, with a closing shop count of 2,364.

Online

Moving to Online, sports betting grew 2% in the quarter, or 5% ignoring the first two weeks in the quarter, rolling over the World Cup.

In-play slowdown

Whilst this reflected a reduction in the growth rate seen in H1, which was 16% excluding the World Cup period, this was entirely driven by a slowdown in the rate of growth of in-play wagering. Following a first half in which in-play grew strongly, as a result of enhancements to the lower-margin tennis product, client management activities have seen a switching off of loss-making or marginally profitable tennis business. As a result, H1 in-play margin of 5.1% grew to 5.8% in Q3, in line with the prior year, but in-play wagering grew only 2% versus 22% growth in H1. Tennis margin was 4.3% in Q3 versus 3.2% in H1. Please note that there will potentially be an adverse rollover impact on in-play wagering in H1 next year as a result of this change.

Wagering

Overall pre-match wagering grew 3%, versus 1% in H1. Total UK wagering grew 7% in Q3 which was in line with H1 performance, and of course our non-core-market performance has diluted overall wagering growth.

Gross win margin

Gross win margin for the period was 8.6%, short of the outstanding 9.4% margin seen in Q3 last year. As a result, Sportsbook net revenue fell 9% versus the prior year. Of the year-over-year win margin decline the football gross win margin fell, despite being ahead of H1 this year, whereas the racing gross win margin fell versus both prior year and H1.

Online gaming

Online gaming grew modestly by 2%. The pattern in this category was similar to that seen in the first half: good growth in the UK, Spain and Italy, and declines in non-core markets. Our core regulated markets made up 87% of net revenue from gaming in this quarter. The combination of a margin-led sports net revenue decline and modest growth in net revenue from gaming led to a 3% decline in net revenue in the quarter; 3% up on a year-to-date basis.

Cost of sales

Cost of sales growth reflected the large cost increase driven by the £18 million increase in UK gambling duties. However, this was partially offset by a 6% decrease in operating costs. That in turn was part driven by a reduction in marketing, and in part through reductions in labour costs and other operating costs such as bank charges.

The main factor in reducing marketing costs was a fall in online affiliate marketing, following the non-core revenue decline. The marketing to net revenue ratio in the quarter was 19%. The decline in net revenue and large increases in cost of sales led to a 37% profit decline in the quarter; 27% year-to-date.

Australia

In local currency terms, the rates of wagering decline slowed in Australia, down 23% in H1 and 18% in Q3. This decline continues to show the impact of both client management and trading changes, as well as the impact of the withdrawal of marketing support from the non-William Hill brands. The metrics for the William Hill digital brands continue to show good progress.

Profits

Further impacting profit progression, the margin at 10.2% was below where we expect it to be, only in line with the prior year in spite of the various positive margin-enhancing actions taken since then. To illustrate this, 32% of favourites won metro races in the quarter where above AU$100 were staked, as compared to 24% in Q3 2014, which I think illustrates the good underlying progress we have made on margin.

Despite good cost control, profits fell very sharply as a result of the wagering decline allied to this margin movement. We do not expect to make up the Q3 shortfall in Q4, given normalised margins, but our longer-range confidence remains strong with product innovation, improvements in user experience through our mobile wagering product, and with the expected completion of our rebranding exercise to come.

William Hill US

Finally, whilst William Hill US continues to make good progress on wagering growth, we have seen a disappointing margin, which at 4.7% was substantially lower than the 7.6% seen last year. This was largely driven by weak American football results in September. As a result, we have posted a modest loss in the quarter.

Summary

To recap: whilst strategic progress continues, quarter three has been a tough fiscal quarter for us; some of the year-over-year impact being driven by increased duties, and some through what has been a big swing in sports betting margins. We have done what we can to mitigate this through strong cost control in the quarter, but as a result of the quarterly out-turn we now expect to complete the year around the bottom of the current range of analyst expectations for operating profit.

That is everything I wanted to cover. Now I will hand back to James.

Q&A

James Henderson: Thanks Neil. I would now like to hand over to the moderator for some questions.

Gavin Kelleher (Goodbody): Firstly from me guys: just on non-core sports markets, you said gaming, non-core, was 13%. How much in Q3 were non-core sports accounted for, of the online business?

James Henderson: Overall, both gaming and sports for non-core is around 10% of the online business, of revenue that is.

Neil Cooper: Gavin, it is more relevant to talk about wagering than net revenue, but wagering was about 18% for non-core in the quarter.

Gavin Kelleher: Okay. In terms of the market exits – the currency impact we can work out ourselves, but market exits under regulatory change: can you just talk through when we start to lap the impact of those, and when non-core should stop becoming an issue?

James Henderson: We made a couple of closures in the quarter, or in this half. I would expect to come back in lapping that around about the early part of next year, which is probably where we saw the biggest IP blocking and regulatory change and then the closures that I have just mentioned. However, if you are coming around about March or April of next year, that is probably when you are coming to lap it.

Gavin Kelleher: Okay, perfect. Just in terms of the tennis impact next year that you mentioned, Neil: how much of amounts wagered did this in-play tennis account for? Just so we can adjust our amounts wagered assumption.

Neil Cooper: We have not disclosed that in detail, but I think if you look at the in-play growth rate in H1 and compare it to the in-play growth rate in Q3, you can get a sense for what has gone on, in effect. The UK in-play growth rate has been much less marked. In fact, in H1 we did about 14% and we did about 12% on in-play between H1 and Q3. So the bulk of the in-play change is this tennis change.

Gavin Kelleher: Okay, perfect. And just marketing as a percentage of net revenue, down at 19%: how should we think about that in Q4 and into next year?

James Henderson: If I can just explain the marketing: I mean, we are still going to be spending, for the year, around about £120 million. Some of the moving parts in that is obviously we do not have a World Cup this year. Also, as a consequence of the decline in the non-core business we reduced some of our marketing spend in those territories. In addition to that, we made some efficiencies around PPC, FCO, so it is still a big number. Actually, when you look at the UK and some of assets that we have secured this year – we're on the TV – actually we are spending a little bit more in the UK. However, rolling forward for next year, probably with the Euro 2016 coming up, you would expect the market spend to go up a little bit.

Gavin Kelleher: Can you give us any sort of idea? Will be it be mid-20s or...?

Neil Cooper: Yeah, it is a bit – I mean, we have not finalised the detail planning for next year, Gavin. However, as James has said, with the Euro in to support, we are expecting to be spending more next year. Clearly things like online affiliate costs and so on will depend to an extent on the activity levels. However, we are expecting to be spending more, in absolute terms, on marketing.

Also, you will recall that we made an active decision a couple of years ago to try to break away from this view that there was a magic percentage of net revenue that you needed to spend; largely because, given the scale of the business – our marketing budget is one of the largest in the sector – once you have got a leading package on one of the mainstream UK TV channels, you do not need two, as you get bigger. So this is why we have moved to a view, focusing much more on the absolute spend than on the relative percentage to net revenue. You would hope that we could see some efficiencies as we got larger, and that is indeed what we are seeing.

Gavin Kelleher: Okay, perfect. Thanks Neil.

Ed Birkin (Credit Suisse): Hi, morning. Just a quick one on horseracing. Can you just maybe give a bit more colour around what you have seen in Q3 in terms of staking in OTC?

Secondly: any comments on sponsorship around racetracks, and thoughts about bookmakers who do not pay online levies being essentially excluded from this, going forward?

James Henderson: Yeah, morning Ed. Just in regards with horseracing; rather than just focusing on the wagering, if I can just talk about the margin that we have experienced during the quarter. The horseracing results have been the worst that we have experienced in Retail for the last three years, and in Online it is a similar story. However, in regards to the margin, it is not structural in as much as the book percentage has stayed the same, the over-rounds have stayed the same, the percentage of winning favourites has stayed the same. It is more to do with the sort of tier two racing; so not the big meetings, but the secondary meetings, and that has had a big impact on our horseracing margin over the quarter. So it is unprecedented. As you know, one of the biggest impacts today is the margin swing, and we had a good margin this time last year.

In regards to the announcement that BHA or racing made last week: it is an interesting announcement. Until the full details are available, I cannot really comment. However, it is interesting, and when the full details are available obviously then we will come out and make a comment.

Ed Birkin: I know you touched on the daily fantasy sport in the US, and there is probably little more you can say, but I assume you would take that investigation into the daily fantasy sports as positive for sports betting, rather than potentially people looking at it as a negative?

James Henderson: Yeah, I mean, the Nevada Gaming Board came out last week and said that it was gambling. So I mean, I think first and foremost, we want it to be clarified. Therefore, I welcome the investigation and support the findings.

Ed Birkin: Okay, great. Thank you very much.

Vaughan Lewis (Morgan Stanley): Hi, morning. The first one just in Retail, on machines: can you just give us the reasons why you think your machine productivity is so much lower than Ladbrokes at the moment please, and what your machine week[?] mix is?

James Henderson: We do declare it slightly differently in regards to the machine week average. If we did it on a like-for-like basis, i.e. with regards to Northern Ireland pre-bets, we would have been around about £945 compared the Ladbrokes number. However, there are a couple of factors in regards to our machine performance. Yes, it is slightly disappointing, but we do have a content strategy that I am very pleased is starting to show big benefits; certainly at the back end of September, as Neil has already said. So yes, it is not as good as it could be, but I am comfortable that the new content strategy, as well as now we are winding out the eclipse new terminals which finished in May, then I am confident that we will see good progress in Q4.

Vaughan Lewis: Okay, thanks. And then in Online, the priority access card: can you comment on the success of that? Is that driving new player sign-ups, or is it more about loyalty for existing players?

James Henderson: It is that, in as much as also it is a saving in regards to people making withdrawals as well. We have got around about 1,500 at the moment with the priority access card, and we have now made a change that they will be able to use it in the shops. So it is proper omni-channel opportunity to be able to use your funds in the shop and anywhere else if you like, in the high street. So it is still early days, but it is getting traction. We are getting round about 300–400 queries a day. Not everybody can qualify, because there are certain criteria that we need to do, but it is gaining traction. And we are already working on enhancements for next year, where it will certainly be an industry leader in regards to the functionality of the card.

Vaughan Lewis: Great, thanks. Just one last one: whereabouts is net debt now? You normally put that in the statement. Also, are you looking at buybacks? Thanks.

Neil Cooper: Yeah, net debt is just under £500 – £500 million; we have not had that good a quarter! So around 1.3 times net debt over EBITDA on a rolling twelve-months basis. That is a little bit lower than it was at the end of the half.

I shall hand back to the Chief Exec on the comment on buybacks, because frankly, as you know, Vaughan, I am only around for another week or so, and if we have not announced anything today, there is not much more I am going to personally add. James?

James Henderson: Yeah, just in regards to the balance sheet: as Neil said, it is at 1.3. We are reviewing what is an efficient or an inefficient balance sheet. For the prelims we are going to give guidances as to what that looks like. So that is what we will do at the prelims.

Vaughan Lewis: Got it. Thank you.

Patrick Coffey (Barclays): Yeah, morning guys. Three from me; two straightforward ones and one that is a bit complicated. First of all, on in-play: can you discuss the percentage of the Sportsbook amounts turnover which was in-play in Q3, and how that compares to H1?

Secondly, on Australia, and becoming the official betting partner for the Aussie Open: is that cost of that partnership already reflected in guidance, or is it an incremental new cost?

Then finally on recycling trends, and this is just related to the Online division: obviously there are loads of moving parts, but can you just give us a view on the recycling trends you are seeing in the UK? So gross win margins have improved, but in part that is because you are switching off less profitable in-play tennis customers. So if we focus maybe on pre-match bets where there have been relatively favourable sports results for customers, should we not have expected an improvement in amounts wagered as people recycle their winnings? Thanks.

James Henderson: In regards to in-play, H1 versus H2: notwithstanding the change in the tennis it was 46% in H1 and 46% in H2. So pretty much the same. So I think actually you have to look further back into the previous year, and look at the comparison against the World Cup. But actually, in-play has stayed static for Online.

Patrick Coffey: Does that imply that football in-play has accelerated quite a bit in Q3, year-on-year?

Neil Cooper: I do not think you can draw that inference from it. Actually, when you look at 2014, our in-play share of mix was something like 42% in H1 and 46% in H2. So I think there is an element of seasonality as well around when some of the tennis tournaments are, for example, that drive up in-play a little bit in the mix in H2. So I would not necessarily draw that inference from it, Patrick.

Patrick Coffey: Okay.

James Henderson: And the Australian tennis, that is within guidance so it is not incremental.

Neil Cooper: Your third question was just in regard to recycling. Within our retail numbers, we certainly saw staking growth in retail for horseracing in Q3. Obviously we did not see football growth because we had a World Cup in the base last year. I am sure some of that will be linked to what has been a very punter-friendly horseracing margin in Retail. I mean, trying to analyse it in a very dependable or statistically acceptable way is quite hard. I mean, I would remind you that our football has been very punter-friendly as well – sorry, very positive for us in Online, albeit it was not as good as last year. However, it was still quite a good football margin for us, in absolute terms. We did 8.6% gross win margin in Online despite what were punter-friendly racing results. So I am not sure we have seen great results that would promote recycling in football in the quarter on football. It has been good for us.

James Henderson: Yeah, just to finish on that: we had a margin in retail last year of 41%, which is exceptional. The margin for the quarter was around about 29%; so still incredibly strong, above historical norms, but nowhere near as good as the 41% last year. If you look at the margin swing, which has quite significant, that is also because of the number of accas that we take as well. So it is just a very, very difficult comparison when you look at 41% versus 29%, because I would take 29% any time.

Neil Cooper: Yeah, and I think that is the one thing; the racing has not been great, and you can see that. If we did 16.6% off the back of decent football margin, you can see that the racing was bad, quite a bit worse than last year.

Patrick Coffey: Okay, but just in the Online, if we ex-out the impact of the in-play, moving away from the less profitable in-play tennis customers, Online gross win margins would have been lower than 8.6%. So for the pre-match betting, are you saying that in Online you are seeing completely normal recycling trends in the UK?

Neil Cooper: I do not think it has been a major feature of our margin or wagering in the quarter, to be fair.

Patrick Coffey: Okay, thank you.

Neil Cooper: We might have benefited a little bit on horseracing, but I do not think it has been a major feature.

Patrick Coffey: Thanks.

Nick Edelman (Goldman Sachs): Thank you. Morning everyone. Two questions please. One sort of similar to the last one actually. Just looking at online Sportsbook staking in the UK, I think it has been 7% across the nine months. Obviously there is some World Cup impact in the middle, and you had talked about overall staking in online having been sort of 16–17% in the first couple of quarters, without the World Cup. I just wondered what you would say the overall profile is of UK Sportsbook staking, if you take out the World Cup and if you factor in a bit of that impact of recycling when win margins have moved?

The second question is back on marketing costs. Just given the increase in marketing costs, marketing expenditure of your competitors, does that not change the game slightly? Does that not mean you are losing relative share of voice if you either maintain or reduce your marketing expenditure? Thanks.

James Henderson: Yeah, I mean, just taking the marketing costs per stake[?], if you strip out all the variables and the efficiencies we have made, we are actually increasing the marketing spend. We have got the assets, we have got a number of assets for next year, but we will spend as we consider appropriate. We have been able to get the top Channel 4 horseracing package. As you know, we have got the BT, ITV and Sky Sports package as well. So we have made efficiencies. We will continue to spend and it is still a big number. As we have already talked about, it will be more next year so that we will capitalise on the Euro 2016.

In regards to the Online and the staking levels: yes, it is run through, as you said, nine months at 7%. It is 10% excluding the World Cup. It is still a very strong number, which is good. One of the great things, now that we have rolled Trafalgar out, is that we can release those resources to work on the backlog, if you like, of product innovation that we have got. So I am glad it stayed at 7% but I am confident that, going forward, notwithstanding recycling, the new products and the enhancements to the UX – and indeed Trafalgar – will drive that turnover level further forward.

Nick Edelman: Thanks. How long do you think – what is the time lag in terms of starting to see some of the benefits of that redeployment of staff?

James Henderson: Well, it is happening now. As I said, we will finish rolling out the dot-coms by the end of the year in regards to Trafalgar. We will keep 50% on to improve the experience with Trafalgar. As you have seen, we have had a few hiccups as we launched it, but we have rectified those already. We have already made a number of changes. So it is really from here on in. We know what we want to do, it is now deploying or redeploying those resources to deliver that.

Nick Edelman: Thank you very much.

Jeffrey Harwood (Stifel): Yes, good morning. Just following on from Nick's question. So amounts wagered on the Sportsbook were running 16–17% up in the first five months. More recently, it is plus 10%. Some of that is tennis, but are you concerned by the slowdown that is implied by that?

Secondly, just on Italy and Spain: are those two countries still expected to reach a breakeven position by the end of the year?

James Henderson: Yeah, just to not repeat what I just said, Jeffrey, in regards to the performances: I do not think it is a slowdown. It has consistently been 7% over the nine months. We have launched Trafalgar, which is a huge improvement on the UX. And as I said, as we now introduce new products and enhanced products, I am comfortable that the wagering level will be improved. So I do not really know what else I can say in regards to that.

Jeffrey Harwood: Sure. Okay.

Neil Cooper: You will note that the pre-match wagering growth for us was very slightly stronger in Q3 than in H1, and that is arguably with more pressure on non-core markets. So our UK wagering pre-match grew in Q3 over H1 in terms of the growth rate. I fully accept that we are seeing some choppiness around non-core, but I think we are not seeing a marked decline in run rates in pre-match sports betting or in the UK's pre-match.

Jeffrey Harwood: Okay, thank you.

James Henderson: In Italy and Spain, Jeffrey: I am pleased with the performance of Italy and Spain in local currency; Italy is up 24% wagering, Spain is up 13%. Gaming is plus 27% for Italy and Spain is plus 54%, as we introduced the slots in June. However, there is no change to guidance. Italy will be in profitability by the end of the year and Spain will be slightly behind that. Overall I am pleased with those performance, but as I say, there is no change in guidance.

Jeffrey Harwood: Thank you.

Nick Bartram (Peel Hunt): Morning chaps. I have got three questions, if I may. First of all, can you actually detail what your strategy is in non-core Online; exactly what you are doing there, given the sort of events over the past sort of few months?

Secondly, in Australia: can you give us some idea for the proportionality of the legacy brands and the William Hill brand? I realise that you do not want all those customers from the legacy brands, but how are you actually doing in converting those customers that you do want?

Finally, just on the machine side: can you give me some idea what percentage B3 content is of revenues?

James Henderson: I will take the last one first. B3 is around about 32%, which is up from 31% at the half year; 31% of the overall gaming revenues.

In regards to strategy in non-core: it is still a profitable business and we would still like to take it. I mean, we have always said that we would never have anything above 3% of our total revenues. The biggest account we have now is around about 1.5%. So it is still important to us, and we still are working on ensuring that we can get that business, but it is very, very difficult to compete with IP blocking, regulatory change and obviously FOREX movement, which we have seen quite significantly over the course of the year.

So it is an important part of our business. We will continue to look for opportunities within that. We will enhance the experience that we are doing, and we are just moving some of the gaming brands onto a new platform. So hopefully that will give us an uptick in regards to revenues as well. So, important part of business.

Australia legacy brands: first and foremost, the transition to the William Hill brand has gone very successfully. The actives and the new accounts are better than expectations. Albeit very, very early days, we are starting to see those come through in the numbers. Because although the currency decline, in absolute terms, is actually is getting worse, when you actually look at it in local currency basis, it is getting better. I am confident that that is going to flow through to Q4.

In regards to TW, we are looking to migrate those customers over at the end of the year and have that complete for the Australian Open. We will then take a view on Centrebet; that will probably be in the middle part of next year as well.

Nick Bartram: And just in terms of the proportionality of the legacy brands compared to the William Hill brand, in terms of revenues?

Neil Cooper: We have not published any detailed numbers in what is an interim management statement. However, if you look at the half-year pack, we did do a customer by brand chart. It will have changed, but it is not going to have changed so substantially that you cannot get a sense from that chart.

Nick Bartram: Okay, cheers.

David Jennings (Davy): Good morning guys. A quick question on Australia please. I was just wondering if you could bring us up to date on in-play in Australia, and the expected timeline for any review of your product there, from a regulatory standpoint?

James Henderson: Yes. First and foremost, we are 100% sure it is compliant and can be accepted by the current regulation. As you would expect, we have had a whole host of advice which has confirmed that, so we are comfortable with that. There is an IGA review going on. Submissions are due in the next couple of weeks and the findings are due on 18th December. However, let me just be clear about the review. It is not necessarily about in-play, it is about looking at the illegal offshore operators, which is their main focus. So I do not expect any change in regards to that. However, we will submit that into the consultation, as I said. The results will due on 18th December.

David Jennings: Thank you very much.

Chris Stevens (UBS): Morning, guys. Just a couple of questions please. In terms of consolidation, how do you think the recently announced mergers change the competitive landscape, and following 888 earlier in the year, are you still looking at anything? Then on a longer-term view, what do you think the market will look like in two to three years? Do you think it will be dominated by lots of sort of newly merged entities?

And then, are you seeing sort of smaller online operators drop out of the market yet, as a result of the POC tax?

Then finally, coming back to the merger point: you will have some very big competitors, I guess, in terms of competing for the key marketing slots. Do you think those packages will cost more and more as there's more consolidation in the industry? Thanks.

James Henderson: Okay, if I can just sort of reiterate our strategy which I am sure you are all aware of, which really takes over the consolidation and the 888 point of view. I mean, we are a big scale player, even when the consolidation happens; whether it be Betfair, Paddy's or Ladbrokes or Corals, we are still a big player. We will still be a number one or two, whichever metric you want to look at. The strategy for me is very clear: if there are opportunities that present themselves from an M&A point of view, whether it be a bolt-on, technology or a big opportunity, and can accelerate our strategy, then we will look at it; of course we would. However, I am very aware that there is a consolidation going on, and arguably that presents us with an opportunity if they do go ahead. So our strategy is very clear; very confident it is the right thing to do. So there is no movement in that area.

Small online operators disappearing? You have seen some over the last 6–12 months disappear. Not particularly, but I think your point is right in as much as the big will get bigger, it will become more competitive. Whether that will then translate into marketing costs or other costs, who knows? But scale is important; we do have scale, and we will look at opportunities to increase that if there is a need.

Chris Stevens: Okay.

Richard Stuber (Nomura): Hi, good morning. Just two from me. Quite simple questions, hopefully. The first one: can you just remind us what the Q4 gross win margin was last year in Online and Retail, and what the average has been for the last, say, five years, just so we get an idea how easy or difficult the comp is?

Neil Cooper: The average of the Q4 over the last five years? Okay, well, we will look at that. Why don't you ask your next question?

Richard Stuber: Or even just last year. The other question is just in Australia in terms of the annualisation of the reshaping of turnover: could you say when that comes up, please?

James Henderson: Just with regards reshaping the turnover: it is an iterative process. I mean, we did do a large chunk in August of last year, and then we probably did another chunk at sort of March time. So I suppose those are the big two points where we made significant changes, but it is an iterative process. However, as I said, going out of the quarter we were very strong in regards to the wagering levels, and I would expect that to continue in Q4.

Richard Stuber: Great. Thank you.

Neil Cooper: Yeah, sorry, just in terms of the Q4 margins: Q4 2014 we did 17.7% in Retail, we did 6.8% in Online and we did 9.9% in Australia. I cannot remember what we did in the US, to be fair.

Richard Stuber: That is great, just the Online and Retail. Great.

Neil Cooper: A good quarter, as I recall, I just cannot remember the exact metrics.

James Henderson: Can I just remind you, we were heavily influenced by the football results on Boxing Day; that would have impacted that margin.

Neil Cooper: Boxing Day, right.

James Henderson: That would have impacted that margin.

Richard Stuber: That's great, thank you.

Richard Carter (Deutsche Bank): Hi, good morning. Just on Online: I mean, over the last few years William Hill used to be a company online that used to significantly outperform the market. It now looks like you are growing in line or maybe slightly below; guidance is adjusting in line market growth. Could you just talk a little bit about what has changed? I mean, is it a case of the company – is it just because of the scale and size, it is just getting more difficult to grow? I remember last year you were talking about the POC, and that was a big opportunity to gain market share, and it just does not look like that is happening. So could you just talk a little bit around that, and just how you are seeing the competitive environment and how much that has changed during 2015?

James Henderson: Yeah, I mean, I think you are right, Richard. I mean, it is off a high base, so we do have absolute numbers that are big, and therefore the percentages sometimes can look a little bit low. However, I think the main point, which I tried to make earlier, is we have been focused on delivering Trafalgar. It is a complex project, but it does allow us to take control of the front end. It does allow us to make changes. It does allow us to improve the experience. It does allow us to have a fully tagged, responsive [inaudible]. So we have had a lot of resource tied up with that. Maybe that has impacted the wagering level, but the good thing for me is it was 7% at the half year; it is still 7%. So now there is the opportunity to build on that platform and give our customers a much better user experience, which hopefully will translate into wagering increases.

Neil Cooper: Just to support James' view: if you strip the five World Cup weeks out of that 7% run rate, we are still in double-digit growth in sports betting in the UK. Now, it is clearly slower than we have seen, I accept that, but I think drawing a conclusion that that is well below market growth is a bit of a stretch at this stage. And of course, we have all of that technology-enabled benefit from projects like Trafalgar that have been in the making for a couple of years ahead of us. So we are not downhearted here yet, that is for sure.

James Henderson: If I could just talk about the gaming percentage as well. I mean, we were 13% at the half year – this is UK – we are now 15%, and arguably we are gaining market share. That is because we have introduced the Vegas Bonus Engine; our Vegas proprietary platform is now 60% of gaming, 23% in the UK. So we have really strong gaming numbers, and now we have got the sports platform to be able to capitalise on I am confident of the future.

Richard Carter: Okay. And then just maybe say a little bit about – I mean, Coral and Ladbrokes are really pushing this omni-channel, and recruiting customers from Retail. Can you just tell us where you are in terms of this and where you stand in terms of that type of strategy?

James Henderson: Yeah, I mean, omni-channel is incredibly important for us. I mean, it is key pillar of our strategy; not least because we have got a footprint of 2,350 shops: number one in Retail and number one in Online, at the last count. So it is a huge opportunity for us. SSBTs will be the cornerstone of that strategy and we will be launching our – well, we will be putting an SSBT, our proprietary SSBT, into a shop in the next month or so. All being well, then we will expect to roll out as many as we see fit. The hardware supplier can provide us with 150 a week. The SSBT will have all our rich data from the Online fed straight into that machine, and it will be without a rev share as well. So that is the cornerstone of the omni-channel, so that you are going to get the same experience Online as in shops.

We have done lots of product swaps as well in regards to the US racing that we have in Retail in now Online. The Mayfair product has been Online, and now in Retail. The shop radio and so on and so forth, the gantry design is looking – you are starting to see a lot more crossover of products, so that it will be difficult for our customers to know the difference between Online and Retail. Obviously the physical elements are clear, but in regards to product range and the look and feel, they will be very, very similar. So we have done a lot of work, we will continue to do a lot of work, and already we are starting to see the benefit of those customers that we have not yet captured that use Online in one way or another from the shops.

Richard Carter: Do you have an active strategy though of Retail employees trying to sign up customers for digital business?

James Henderson: Yeah, we are absolutely looking at that, as acting affiliates. We are looking at that opportunity now, because obviously we have got 30,000 people out there in

Retail, and an opportunity to demonstrate what is available Online. So we are working on that plan as we speak.

Richard Carter: Okay, so just to clear: that is something that you have not pushed before, and that is something you are looking at?

James Henderson: No, we have not actually done it yet. In fact, we might already have commenced a small trial, but there are plans, if that pans out, to be able to extend that to the rest of the estate.

Richard Carter: Okay, great. Thanks James.

Ed Birkin (Credit Suisse): Hi, just a quick one following on from that SSBT, the proprietary SSBT, which brings an Online product into shops, no rev share: what are the barriers towards moving on and getting proprietary gaming machines? I know that Ladbrokes used to do it a few years ago, but it seems that with the rich content of the Vegas product, if you were to therefore get your own cabinets and bring the Vegas product directly into the shops, it would give you a much better omni-channel approach without any revenue share, potentially richer content and it would just round off the whole proprietary process.

James Henderson: Yeah, whether it would be that the back end platform or whatever, sometimes bespoke, where you are taking the best of what is available, as opposed to proprietary, is probably the best way. Yes, we design some great games for Online, but also you want to be able to cherry-pick some of the others. As I said earlier, we have just agreed contracts with five content suppliers, because you need a wide and varied mix of gaming products. So in regards to content, I think it is good to keep your options in regards to that. In regards to hardware, the hardware is forever changing and I would not want to commit and purchase that, whereas you can keep upgrading it, working with the supplier.

Richard Carter: Okay. And then secondly just on the National Living Wage: I know you have given guidance next year that the impact will be probably about £1–2 million more than you had previously anticipated from the existing wage increases you are putting through your numbers. Can you just give us a scale of what that total will be so, that we can get an idea of the increase in National Living Wage and what your total increase in wage bill is going to be? So I suppose what you'd already anticipated?

Neil Cooper: Yeah, I did comment on this in my comments, Ed, that we are expecting total labour inflation in retail to be about 3%, if you ignore bonus movements, which includes the impact of the National Living Wage.

Richard Carter: Okay. Great. Must have missed that, thank you.

Simon French (Cenkos): Yeah, morning everybody. Can we go back to Australia? Clearly the narrative around Australia appears much more positive than the numbers are suggesting. So what can you point to us to look towards over the fourth quarter and into H1 next year, for us to be able to share your confidence that Australia is moving in the right direction, please?

James Henderson: Yeah, I mean, it was 18% decline, I think, the wagering level at the quarter, Q3. I am certainly looking for a significant improvement on that, with the traction we got coming out of the quarter. I would be expecting certainly low single digits, something along those lines.

Simon French: That is into the fourth quarter, is it? And once we start lapping, sort of reshaping the customer base, what kind of wages growth should we be thinking about into 2016?

James Henderson: Yeah, it is very difficult to gauge. We are certainly moving in the right direction, as I said. I mean, we have the Australian Open coming up, we have got our in-play products, we will have transitioned Tom by then, so we will be able to get all the marketing spend targeted towards the William Hill brand. I would expect the trajectory to be positive, rather than be absolutely specific as to what percentage that might be. However, I am very confident, as I said. I have been down there in the last couple of weeks; they are doing all the right things, they are incredibly focused and I am confident in the Australian business going forward.

Simon French: Okay, thanks a lot.

James Henderson: Okay, thank you all. Neil and Lyndsay, as always, will be available if you have any further questions. Thank you very much.

[END OF TRANSCRIPT]