William Hill

H1 2019 Results

Friday, 9 August 2019

Philip Bowcock, CEO

Right! Good morning, everyone and thank you for joining our Half Year 2019 Results Presentation. Ruth and Nicola are with me this morning to present the financials and update you on our Retail business following the £2 stake limit, but I will start by briefly setting the scene.

This is the first year of our new strategy. We made it clear it's a year of transition for all parts of the group and the results reflect that and are very much in line with our expectations. We are making good progress against the plan we set out in our Capital Markets Day last year and are rapidly moving towards a business that is more digital, more international and has a more sustainable future.

H1 2019 highlights

In Online, Mr Green and our existing International business now represent a third of our total Online business. In the UK Online has seen its performance improve as we've gone through the period with net revenue up 7% in the second quarter. We have now rolled over the period impacted by our enhanced due diligence measures. We are completing the heavy lifting on some key projects that improve our long-term competitiveness while also improving our customer metrics, as you will see shortly.

We are seeing positive momentum with Mr Green. The integration is progressing well and is on track to deliver about £4m of annualised cost synergies this year and £6m thereafter.

In the US we are building a business with meaningful scale, handling of $1bn of amounts wagered in the first half alone. Our market share was 27% in the first half. We are now live in eight states and we will be launching in two more shortly. We are giving ourselves the best possible platform of serving all new states with the imminent launch of our new proprietary technology stack, the first solution designed and built for the very specific needs of this market.

We are excited by the potential of the El Dorado Caesars combination which would immediately allow us to expand a cash-generative Retail business and offer significant digital and marketing opportunities.

In UK Retail, we now know how customers are responding to the £2 stake. Nicola will tell you how we have taken decisive actions to right-shape the estate to leave a sustainable, cash-generative business. So far the changes are very much in line with our expectations and what we set out as our plan.

And finally, we are making real progress on proactively tackling the regulatory agenda and rebuilding public trust. We are getting on the front foot on key issues, on advertising, on funding for treatment, on encouraging safer gambling for all customers. We have made a strong start but need to do more to keep going.

We will talk more about all of these areas shortly, but first, here's Ruth with the numbers.

Financial Review

Ruth Prior, CFO

Good morning. Thank you, Philip. As Philip said, we laid out our strategy in November and this is the first half of year one. This is a complex set of numbers with a lot of moving parts as we transition the business, but my overall message is that we are where we expected to be.

Group income statement – in line with expectations

Starting with the group income statement on a statutory reporting basis, net revenue of £812 million was up 1% with growth in the US and the addition of Mr Green from February offsetting steep declines in Retail from Quarter 1 with the impact of the new £2 stake limit and weaker Online UK revenues while we transition through the period affected by the enhanced customer due diligence measures.

Cost of sales were flat with one quarter of the change in remote gaming duty and additional Mr Green costs offset by lower costs in Retail linked to the net revenue drop.

Net operating costs were 9% higher including Mr Green but without the benefit of the principal cost mitigation measures for Retail as these will come through from Quarter 4 onwards.

As a result, adjusted operating profit was £76 million, 33% lower than last year but it includes a £10 million loss from the US expansion business.

We have also recorded an exceptional charge of £114.3 million. Now, of this £97.1 million relates to costs we are incurring for the Retail mitigation strategy. In P&L terms, for the 700 shops we propose to close, we have to account for the full cost of the lease obligations through to a break clause under IFRS 16, and without any impact from mitigation measures, plus the costs of redundancies and dilapidations.

In cash terms, our guidance was originally £40-60 million and we are expecting to be at the upper end of that range but, based on prior experience, we are confident that there are a number of mitigation measures which drives the difference between the P&L number and the cash impact. The other exceptional charges relate to the Mr Green acquisition and the tail of the transformation programme.

We have applied the new IFRS 16 accounting standard for leases for the first time, which we have adopted for H1 2019, but we are not adjusting the 2018 comparator. The impact is this: depreciation increased by £22.1 million; interest expense increased by £2.3 million, and other admin expenses reduced by £23.2 million. Therefore, the net effect is an increase in PBIT of £1.1 million and a decrease in profit after tax of £1.2 million in the half.

Moving to net finance costs, which are £8.1 million higher, with additional interest in the new £350 million corporate bond, early interest payments on the early repurchase of part of the outstanding 2020 notes, and the change to IFRS 16.

On a statutory basis, there was also a tax credit of £2.3 million on the losses. On an adjusted basis, the tax charge was £3.8 million on adjusted pre-tax profits of £50.8 million, giving an effective tax rate of 7.5%. This is a big change from last year because more of our profits are coming from outside the UK, and also our provision was released following the sale of Australia. I now expect our full-year tax rate to be around 8%, because of that tax provision release, moving back to our medium-term guidance of 12% next year.

Basic adjusted earnings per share were 5.3p. It is worth noting that the average number of shares increased to 871.8 million because of the shares issued to our US partner, Eldorado.

The Board have announced an interim dividend of 2.66 pence per share, which is in line with our previous commitment to an 8p underpin of the dividend during this period of transition and based on our usual practice of paying one-third of the anticipated full-year dividend at the half year.

Online KPIs – period of transition

Moving to the divisions, starting with online on a proforma basis. Clearly, this is a year of transition and diversification, as we have described previously.

In the UK, net revenue is down as we rolled over the closure of customer accounts starting in mid-2018. New accounts and actors are down against strong acquisition during the World Cup period last year. Average revenue per use and on cost per acquisition are both better than a year ago, with no World Cup spend and a continued focus on expanding our mass market customer base.

Going forward, we are optimising the balance between acquisition and yield, particularly with slower UK market growth and the improvements we are making to our data and marketing technology, which Philip will talk about shortly.

Online – revenue growth with the addition of Mr Green

Turning to International, as a reminder, our International business now consists of Mr Green and the existing William Hill International business, which is now managed by the International Team based in our Malta hub. Since we acquired the business, Mr Green has traded strongly in all key markets, with the exception of Sweden, where new regulations disrupted the whole market in the early months of the year. We are now seeing Swedish performance improve, month on month.

During the first half, the new Malta-based team were very focused on the integration of Mr Green, whereas in the second half they were focused more on other international markets, including Italy and Spain, with product improvements and marketing investment to come. So the ingredients are now there for the team to significantly improve our market position.

Retail – performance since 1 April as expected

The online P&L: these numbers for online only include Mr Green from the date of acquisition. Here, we have balanced growth from the addition of Mr Green offset by our customer diligence measures. In the half, the impact of last year's enhanced customer due diligence measures was £16 million on revenue and £11 million on profit – and that is following the £23 million and £17 million impact recorded in the second half of 2018. That year-on-year impact is now at an end.

Sportsbook amounts wagered were down 3%, principally because of these measures. You will also remember that gross win margin was above average last year and that has come back within our normal 7% to 8% range in this period, resulting in Sportsbook net revenue being down 7%.

Gaming fared better, up 37%, with the due diligence impact offset by the addition of Mr Green which, you will remember, derived more than 90% of its revenues from gaming.

Overall then, revenue was up 14%. Within this, UK was down 1% but performance improved as we went through the half and, in Q2, growth was 7% with underlying growth of 12%, excluding the impact of customer diligence measures.

Cost of sales and operating cost increases also reflect the consolidation of Mr Green, and we saw the increase in remote gaming duty from 15% to 21% in April which cost £5 million in the period.

This has resulted in an adjusted operating profit for the half of £54.3 million, down 9%.

In the second half, we will be rolling over the due diligence impact from H2 last year and we expect Mr Green to deliver strong growth, partly because we only completed the acquisition in February, Sweden trends have been encouraging and the business traditionally has a Q4 skew in addition of course to the delivery of synergies.

Other international markets will also benefit from the focus of the new Malta Team, new product and marketing investment.

Retail – performance since 1 April as expected

Retail; Nicola will talk to you about our 'Do it once, do it right' approach to remodelling our Retail estate which will lead to a smaller but sustainable business with strong cash generation and an engaged team focussed on gaining market share.

Our confidence to do this comes from the results to date and our deep analysis of the betting shop market. Gaming has obviously been impacted by the new £2 stake limit which came into effect from 1 April. As a result, the changing mix has resulted in a higher gross win margin. Q2 Sportsbook was in 7% like-for-like growth with substitution from gaming from April onwards. The underlying costs have been well managed with a £2 million increase from National Living Wage increases in April being offset in other categories.

And you can see the impact of IFRS 16 in the 2019 numbers with the shifts between property costs and depreciation. Depreciation and amortisation also came down £4.4 million in the first half as a result of the impairment last year.

As I said at the Capital Markets Day, we are looking at one quarter of normal profit from Retail this year and three quarters of disruption as we work through the mitigation measures with more benefit accruing as we progress through Q4, closing loss-making shops and moving towards our new operating structure and our expectation is the market will act rationally. To date there have been around 350 shop closures across the sector.

US update – leading market share across US

On to the very pleasing picture in the US - here we have strong momentum with 27% market share across all states that have regulated so far against our long-term ambition of 15%.

In Nevada, amounts wagered grew 16% on a local currency basis, continuing to be driven by mobile growth in a market that has been regulated for some time. Mobile now accounts for 69% of Nevada wagering. Now of course it was an impossible task to match last year's unusually high gross win margin and we reverted to a much more typical level of 6.5%, meaning net revenue was down 2%. Our market share remains at 32%.

In New Jersey, we are the number one non-fantasy brand. Our margins across mobile and Retail are market-leading in the state, early signs of the benefit of our experience in this market. Market share for digital was 10% in the period, 16% as we exited the half. This is ahead of having the technology in place and ahead of significantly pushing on marketing or committing to a media partnership, so a good outcome so far with further building blocks to come.

Other things to note, that's $1 billion of amounts directly wagered in the period and 23% of our total amounts wagered is coming from states other than Nevada and New Jersey, so please don't underestimate the value of those smaller states, particularly when they also contribute early profit.

Our aim is to be in every state that regulates. We are not represented yet in Arkansas and New York, the other two states that were regulated in the half. We are capital disciplined in our approach to our US investment and decided the access fees being sought by New York casinos would not allow a sufficient return.

If the El Dorado-Caesar's deal completes, we will have access to New York.

We have launched in New Mexico and we will be launching in Iowa and Indiana in the coming weeks, access coming primarily from our partnership with El Dorado.

William Hill US (local currency) – strong watering growth across business

In terms of the US numbers and giving you again the transparency of what is coming from the US Existing, digital expansion and Retail expansion. As anticipated, Nevada and Expansion Retail profits are underpinning digital investment with the division in a small profit for the first half.

Direct wagering growth of 51%; if you include the service provider wagering, growth is over 90%. This shows we are able to serve customers across a portfolio of business models.

Our US Expansion business directly handled $241 million in the period, making it already equivalent to nearly a third of what we do in Nevada. Gross win margins were in line with our expectations across the piece.

We recorded a loss from the Expansion business of $13.1 million, down from last year when we were carrying a lot of start-up costs ahead of starting to generate significant revenues and we have invested capex of $26 million, around £90 million in our US business in the half, with around $18 million going into the digital expansion, predominantly the technology platform.

Cash Flow

Let's move to cash flow, which is a primary focus for the Group. EBITDA was £12.3 million lower, with Group depreciation £24.8 million higher following the IFRS 16 change.

The acquisition of Mr Green results in a net cash outflow of £170 million and we invested £60 million in capex, which includes work on the new US technology platform.

We issued a new £350 million corporate bond and used £170 million to repurchase part of the outstanding 2020 notes. With dividends of £67.7 million, that gives us a net cash outflow of £77.2 million.

Balance sheet and revised guidance update

Let me try to pull all of this together for you. We have a net debt EBITDA for covenant purposes of two-times. The covenant calculations continue to be done on a pre-IFRS 16 basis, so we will continue to focus on this metric.

As I have said before, we expect the leverage to increase in the second half, above our medium-term one to two times range, because of the capital we are investing in the US expansion opportunity and the reduction in retail EBITDA.

In terms of guidance, the Group is in line with what we laid out at the Capital Markets Day and reiterated at the final results in March.

As I have said before, Retail's steady state profit range is £50-£70 million. Given the timing of the mitigation measures, we should be around the middle of the range this year, moving to the top of the range in 2020. The shape of that in 2019 is one quarter of normal profit, then the change on 1 April and mitigation kicking in towards the end of the year, and exceptionals will be at the top of the £40-£60 million cash range.

Online, to reiterate, we are assuming mid-single digit revenue growth in Online during this year of transition, on a 52-week proforma basis. That is in line with our expectations for our markets.

The UK is absolutely where we expect it to be. Mr Green is showing good momentum and we are focused on marketing and product to drive over international growth in the second half. Remember, the impact of RGD for the full year is £15 million.

In the US, we have launched recently in New Mexico and we are planning additional launches in Indiana and Iowa soon. We will track any additional states coming through. The good performance overall means that even with these additional states, we are still within our previously guided range for the loss of $0 to minus-$20 million this year. That will of course play into 2020 and I will update you later in the year on 2020 guidance for the US. We have a number of moving parts that need to be clarified first, including the number of states and type of regulation; possible media partnerships and further access deals; the positive implications for us of the Eldorado Caesar's deal, and our view of ongoing investment levels.

We have reshaped our divisional recharges in the period to more accurately reflect the shape of the business going forward, resulting in lower charges to Retail and increases to Online and the US. Our commitment to fund safer gambling measures, including investment in treatment, will increase that spend from about £1 million this year, to around £10 million in 2023. In the first instance, we will go from 0.1% of GDR this year, to 0.25% in 2020.

With that, Nicola – Retail.

Retail Update

Nicola Frampton, MD, UK Retail

Thank you, Ruth, and thank you, Philip, for volunteering me to be here today, because he knows how much I like presenting at these events, but never mind!

It is fair to say that a good deal has happened since I updated many of you at our Capital Markets Day in November. I know that there were a lot of questions at the year-end in March.

Impact of £2 stake limit

At the time when I last updated you, we were expecting a time of implementation of October 2019 but this was brought forward a fourth time, just a week or so after we met, this time to April 2019. That revised timeframe put significant pressure on everyone concerned to ensure that we were Triennial-ready and a substantial amount of work was required to make the machines and their content compliant, alongside which we also had to develop and implement a really strong customer-centric approach to make sure that we could support our customers through the impact of the changes, and also ensure that they were aware of alternative products available in the shops, with support from colleagues.

I am really proud of what my team has achieved, given all of these challenges, and I am also really grateful for the support we had from Inspired, during what was a really tough period for the business and everyone involved.

However, I am sure it is not the inputs but the outputs that most of you will be interested in. In terms of outcomes, our gaming revenues, year-to-date, are down 45% post-Triennial, or 25% down, year-on-year. Given our starting point in Casino Mix was relatively high in the industry, at 63% of our gaming revenues, I am really pleased that we have performed marginally ahead of our expectations but also – and I think this is really important – in line with the industry overall.

Customer adoption of the B3 content has been in line with our models and it is slowly continuing to improve, which is reassuring. We are also seeing increases in Sportsbook takings of around 7% on a like-for-like basis post Triennial as some customers have discovered our return to sports betting.

Substitution has been seen across a wide range of the sports, horse racing, greyhounds and virtual have been performing particularly well and it goes without saying that my lovely proprietary SSBTs continue to deliver. We have growth coming from a combination of still increasing customer adoption and the continuous optimisation of our SSBT estate to satisfy the demand.

We currently have around 3,800 machines and they have been delivering around 17% growth in machine weekly average performance year to date, so they continue with their stellar performance.

Decisive action to mitigate

All that said, on 4 July we announced we had commenced a period of consultation on the potential closure of around 700 of our shops. This should not have been a surprise to you, given that I had previously guided the impact of the £2 maximum stake could result in up to 900 of our shops becoming loss-making.

This has been a really difficult decision, particularly for me, and it’s not been made lightly. However, I think given that the overall Triennial impact has been in line with our expectations and the harsh economic reality of the high street, decisive action is absolutely necessary.

You may wonder why we are taking a proactive approach, a one-off approach, rather than the creeping death option, although I presume my definition of the latter might provide a little bit of insight into that, but the impact of Triennial on parts of our estate will not be addressed through waiting for someone to blink first and doing it once and doing it right has some significant benefits, certainly to William Hill.

Firstly, it enables myself and the team to simultaneously align the retail management and support structures. Secondly, and I think this is really important, it provides much-needed transparency and certainty for our employees. Importantly, in a relatively short space of time it will enable us to refocus on the future and it will send a really strong message to the market that the William Hill estate that is there is there to stay.

But ultimately, it achieves the optimum outcome from an EBIT perspective and ensures that we will have a sustainable and profitable future for the Retail channel in line with our guidance.

The majority of the closures will take place in Q4, however there will be leases which expire in advance of this and obviously we are pending consultation with colleagues, but some shops may therefore close a bit earlier. Ruth has already covered the exceptional costs with you, but rest assured, we are focussed on minimising those and the impact that has. We have created a dedicated team focussed on maximising things like rent reductions, early exits, sub-lets, etc.

A resilient business

Our remodelled estate will be smaller, as Ruth said, but perfectly formed. Taking this 'Do it once, do it right' approach will leave me with a remodelled estate that will be profitable in line with our guidance and deliver on my objective to have all the right shops in all the right places.

The picture on the chart there highlights the reach of our estate. The dots on there represent the William Hill shops where customers who place bets in Cheltenham during Cheltenham Week went to collect their winnings. My point actually isn't about Cheltenham reach, but reinforces the benefits of scale and geographic diversity and what that will have in our Retail estate because convenience is still one of the primary drivers of betting shop choice and we will still have that reach and that scale.

In terms of sustainability as part of the closure programme, we will be redeploying preloved assets from the closed shops but most importantly our SSBTs and that will result in an increase in average density from 1.7 to 2.5 across the rest of the estate.

We already have one eye back on the future. We have resumed trials of a number of gaming and Sportsbook innovations as well as some broader customer experience initiatives and always with a focus on our 'Nobody harmed' ambition, as Philip has said.

We have never stopped focussing on our operating costs, so you can expect that our average profit per shop will remain at the top end of the industry, but as a lot of this mitigation and development activity was assumed in our models, I can confirm that Retail remains in line with our previous EBIT guidance.

Whilst I have lost count of the number of occasions Retail has been described as resilient by my boss, I have yet to find a better alternative to describe it because that's exactly what it is.

I will now hand you back to Philip.

Philip Bowcock: And it's not very often I get called 'boss'! Seriously, before I move on to Online and Retail, I would just like to specifically call out the very professional nature that Nicola and the entire Retail Team, all of our Retail colleagues have shown during the very difficult times that they are going through at the moment. It has been very professional, thank you.

Operating review

I do like this picture as well! Let's move on to Online and then to the US.

Digital strategy

You will remember the strategy Ulrik outlined last year. It focuses on both incremental improvements in a number of areas and some heavy lifting projects to enhance our competitiveness for the long-term and we are progressing on all of these.

Online UK – transition year with strong progress in key customer metrics

Let's start with the UK. Let me give you some examples of what we have been doing in the half. We have made multiple improvements to our Sportsbook and gaming and customer experience touchpoints, we have improved our live casino product, for example by enabling in-game quick deposits. We have improved the navigation in our gaming app and we have upgraded our live scores, including live score push messaging for cricket and the addition of basketball. We have also enhanced our account recovery, age verification and registration processes, and accelerated the release of the in-play offers in app.

In terms of longer-term projects, we are further improving our marketing efficiency, with ROI up 10% in the period. That is through new marketing technology and that went live in the first half of this year, with a series of new marketing models and enhanced analytics, thereby improving our marketing mix.

We are implementing our new data platform, which will land at the end of the year and support customer yield measures as we go into 2020. At the same time, we are staying focused on customer protection. In the second quarter, the industry implemented enhanced age verification measures at registration and a lower threshold for know-your-customer checks. On top of that, we have introduced a new multi-factor algorithm, built in-house, to identify behavioural changes and risk behaviours in customers we need to interact with. We are embedding a new case management system to ensure that those customer interactions are integrated across compliance, safer gambling, CRM, and VIP teams.

Online UK – strong progress in key customer markets

All of this is driving improvements in our key customer metrics across the board. Customer satisfaction is at an all-time high. NPS is up 42% since the turn of the year. Our usability score is up three percentage points. Contacts to customer services are down on a 12 month trend, all of which shows the effect of our relentless focus on product and we will continue to drive these underlying KPIs into the second half.

Delivering a clear William Hill brand proposition

One of the biggest projects from Ulrik's list was to deliver a clear William Hill brand proposition and we have done that in two stages this year. William Hill has never been about shock value or laddishness: we are a grown-up betting brand, known for integrity, that already stands apart from many of our competitors. We started by wanting to drive brand reappraisal and Anthony Joshua, our Global Brand Ambassador, was the right guy to do that. That campaign lifted brand consideration by six percentage points and substantially boosted all our brand attributes. AJ's 'Control is Everything' messages gave us a 40% uplift in customers interacting with our Safer Gambling measures on social media.

UK regulation: positive collaboration among leading operators

Now, we are taking it to the second stage. Today, the freedom to use certain forms of advertising is reducing. With the whistle-to-whistle ban having just begun, we are thinking more and more about how our brand can continue to support the business. We are shifting marketing spend from calls to action, to investment in brand.

Our research tells us that time spent betting on sport is an important moment for individuals: it is when they connect with friends. This combination of betting and sociability is something you would clearly recognise from Retail, and it is key as we grow the number of recreational and occasional betters who bet with William Hill. It also gives a unified proposition that can work in non-UK markets and across sports and gaming. You will see new brand, sports and gaming adds in August and September and then the brand will roll out across all of our channels.

Now, to regulation. I hope you will also have seen how William Hill and some of the other largest operators are proactively tackling public concerns. For us, there are two big lessons to learn from the Triennial process: first, we have to understand and address areas of concern and mistrust and, second, we have to work together as an industry. We have started by collaborating on two of the most talked about areas, advertising and funding for treatment.

On 1 August, we implemented the voluntary whistle-to-whistle TV advertising ban: while we will still advertise pre-watershed around live sports, there was just too much of it and that had to change. For a football match, about two-thirds of the viewership of a typical English premier league programme is recorded from five minutes before to five minutes after the game. With this change, we are significantly reducing the volume of gambling advertising being seen pre-watershed.

At the start of July, we were one of five companies that took a further step and committed to a 10-fold increase in spend on safer gambling. We want to quadruple the number of problem gamblers receiving formal treatment by 2023. It was announced by the Secretary of State in the Commons, and received support from DCMS, the Labour Party and the Gambling Commission. These are good steps, in the right direction, and more is happening in other areas, like sharing data on at-risk customers. Our new industry body, the Betting and Gaming Council, will further cement this when it comes into effect in the autumn: one body, with one industry voice, on all the critical issues.

Online international – diversifying our business

Turning to online international, the trends in the UK market make it obvious why we need to diversify. The acquisition of Mr Green has driven a step change in this, as Ruth has said, and its faster growth will build on that further. The integration is going well. Our existing non-UK business has been merged with Mr Green to establish Online International, based out of Malta, with about 350 people.

As I have said, we have delivered £4 million of annualised cost synergies as expected and we are on track for the £6 million target. We have seen good growth in Mr

Green's major markets, except Sweden where – after a few months we are now seeing month-on-month revenue growth. We have also launched William Hill in Sweden in May. That's the first Sportsbook launch we have done in Europe since 2012 and by Q2 International was back into growth.

In recent years, William Hill's international markets had to take a back seat to the UK. After integrating Mr Green in the first half, the Malta Team will be focussing more on these markets in the second.

We are making some key structural changes. For instance, Spain and Italy are still sitting on the old Playtech Mobenga front end. We will move to our proprietary front end in Spain in the second half and in Italy, in early next year. Spain is also getting a single wallet in the second half, creating a more seamless sports and gaming experience.

These are pivotal to increasing our competitiveness in these key markets.

Overall, we are delivering key changes quickly and giving ourselves a strong platform for double digit growth in International Online.

US strategy

That's Online. Let's finish by focussing on the US. You will remember our strategy; to secure market access, to rapidly deliver the technology and team we need and to build our brand profile and customer database and I will talk about each of these areas.

US – building a business of scale

A lot has happened in the first half. The market is now moving fast and so are we. We have hit a good milestone on our road to building a scale business. William Hill US handled $1 billion of amounts waged in the first half. You can see from public data that we are outperforming on gross win margins and mobile is a big part of our business. It's 67% in the first half.

When the technology stack goes live, it will be the first in the market designed specifically for the US and we have a great combination of retail and mobile with 24 Sportsbooks live outside of Nevada which is giving us profitability, cash and brand awareness to support our digital expansion and by this time next year our US partner could be the number one casino company in the US. I will come back to that in a moment.

The legalisation of sports betting is accelerating

We have seen meaningful acceleration in states regulating and you will see from this map that the initial focus in the North East is now spreading to the mid West and beyond. We have already gone live in New Mexico in this half and we expect to go live in Iowa and Indiana within a few weeks.

Looking further out, there is a long line of states preparing to open up. The direction of regulation is all pointing towards more opportunities as states seek to regulate in order to take advantage of tax revenues and avoid revenues leaking into neighbouring states that legislate ahead of them.

Strongest market access, potential population of 175 million people

With regard to market access, last year we looked very carefully at who to partner with and the associated economics. Today our access is the strongest in the market with the widest reach and the most direct access.

When it comes to mobile markets, we have primary skins so we are less reliant on how each state decides to regulate, meaning we are guaranteed access if states choose to allow mobile.

And Caesars adds another five states on top of Eldorado's footprint, including New York which went live on 1 August for Retail. For mobile in New York, we may have to wait until 2021 or later.

The markets live today give William Hill access to 34 million people. The addition of the next wave of states could increase that five-fold to 175 million.

Growth opportunities

As announced, the Eldorado-Caesars transaction is expected to complete in the first half of next year, more likely closer to January than June. If it goes ahead, then we can expect substantial benefits for William Hill. Under our existing agreement we have the right to operate the Sportsbooks in Caesars' 34 casinos and estimate that could generate $20-35 million of EBITDA within three years.

At the Capital Markets Day we said we expect to see $65 of EBITDA this year from Nevada land-based and mobile and from the US Expansion Retail business, so adding in Caesars' casinos already gets you close to the $100 of EBITDA to support the digital investment. These are good, early stepping stones towards our $300 million EBITDA target.

Beyond that, as I said, we gain access to the pivotal state of New York.

We have seen our first benefit from skins deals in the form of our £7 million share of the initial equity payment from the deal that William Hill US and Eldorado agreed with Stars.

When Stars opens in states using Eldorado second skins, we can look forward to also receiving revenue share payments.

Operational excellence: proprietary tech platform

In terms of building our operational excellence, the pivotal focus to date has been the work on our proprietary technology platform, drawing on the best-in-class systems from across the group.

It is designed to meet the very specific, very complex needs of the US market. We need a solution that is cost effective and quick to deploy in multiple states and able to cope with different, often complex regulatory, partner and customer requirements state by state.

The new platform is in its final sign-off stage by the DGE, the regulator in New Jersey and will be up and running in time for the beginning of this year's NFL season.

This technology platform will give more tools for competing in New Jersey Digital in the second half of the year.

The strong progress we have made over the last year, and the rapid progress in state legislation, means we are now in a good position to explore options for national media partnerships. This is about the right partner to give us a strong database and media integration. As with Eldorado, we want a partner that shares our vision of what this opportunity looks like and we will want to ensure that our interests are closely aligned with the right economics to generate long-term value for our US business.

This is also an area where the Eldorado Caesar's deal can add value, with a combined rewards programme reaching 65 million customers, and sports partnerships with the likes of the SPN, Turner and the NFL, plus a very well-recognised gaming brand in the Caesar's name. We have already had preliminary discussions with Eldorado as to how we maximise the value of our respective Sportsbook and online gaming assets.

As you can see, 2019 is a year of transition and performance, as we have said, is very much in line with expectations. We are making strong progress measured against the strategy we laid out, with diversification happening in Online, decisive action taken in Retail, and the evolution of a very compelling opportunity in the US.

Thank you for listening. We will now take questions. I would add that Ulrik is here for any follow-up questions you may have in Online afterwards.

Question & Answer Session

Ed Young (Morgan Stanley): My first question is on Online. You talk about an improvement in both the UK in Q2 and Mr Green looks like it is about proforma, about 10% growth, in the half. Could you give some more colour on the shape of what you are seeing there? Obviously, everyone appreciates that there has been disruption in Sweden but what does the growth look like, ex-that disruption? What is the split between perhaps Mr Green and the rest of that international business?

Philip Bowcock: I will not go into specific countries. Suffice it to say that Sweden, as others in the industry have said, was difficult, certainly in the first quarter but, as I said, subsequently, we are starting to see month-on-month revenue growth. We are seeing positive growth from a number of other Mr Green countries and that shows the benefit of having the diversified nature of the Mr Green business.

It is probably fair to say that William Hill International, the William Hill brand, has suffered a bit more, and we are looking to the team, as we have said, to really push the growth in that business in the second half.

Ed Young: Thanks. My second question is on the US: you mentioned the Retail upside and you quantified that. There are many other opportunities and you very briefly touched on database brand, media and so on. I notice you also didn't mention – in relation to Tom Reed's comments – about potentially spinning off that Caesar's digital business. Is that also something that you have had in discussion? Is there any more colour around the other digital opportunities?

Philip Bowcock: No. We have had a very good and long-term partnership with Eldorado. Don't forget, our partnership with Eldorado isn't just over the last 12 months but we have been running our Sportsbook in their casinos for a number of years. That relationship is long and deep. As I said, we are having some very preliminary discussions about utilising both of our assets to maximise value and we will continue to do so. Beyond that, it is really too difficult to comment.

Ed Young: Understood. Then finally, you mentioned Online Casino very briefly. I wondered whether that is something we could perhaps touch upon a little more in terms of the plans and, connected with that, Retail. I think you said you were going to give a little more shape on US guidance for next year, but I may have missed it. Could you just talk a little about where you see numbers for next year? Thanks.

Ruth Prior: In terms of US guidance, I said that I wasn't going to do it today but that I would do it later in the year. We really need a number of pieces to fall – we need to do a little more work on the real opportunity we see with the Caesar's Eldorado deal. We are looking at media partnerships and other key access that we need. We obviously need to know which states are going to regulate and under what sort of model. I see that happening over the next few months and then, once we have all of that, we will give you the whole picture.

Philip Bowcock: With regard to Casino, the technology stack has been built with the ability to plug in a Casino, so that will be forthcoming.

Bridie Barrett (Stifel): I have just two questions, firstly on Retail. You have guided to mid of your 50–70 range this year. With all of the closures coming in Q4, and looking forward to next year, is it logical to assume that you will be at the top end of that range?

Then secondly, just coming back to the US and Nevada, here there is the fact that there was a very strong comp there. Looking at the cost side, it seems that there was quite a big increase in staff costs. Could you just flesh out a little the strategy around Nevada and perhaps talk about leakage to other states, and so on? Thank you.

Ruth Prior: Yes, we are at the top end of the range for next year. Philip has committed to it!

In terms of the Nevada costs, as we expand – particularly the Retail part of the business – there is additional cost in Nevada around compliance and technology, and that sort of thing. It won't go up much from where it is now.

Gavin Kelleher (Goodbody): I have just a few from me. Just on Online, you've obviously guided for revenue growth in the second half. Could you just give us a bit of a flavour for within that how the UK is performing, how you expect the UK to perform and International? And then into next year, how do you expect Online to perform? Is there anything we should be aware of there? Obviously you are now lapping the enhanced due diligence impacts. I know it's always difficult to say, but do you see anything else from a regulatory perspective that we should be aware of headwind-wise in Online in terms of the measures you are taking?

Philip Bowcock: If we think about the UK first, clearly there is a lot of work going on around affordability to ensure we are monitoring our customers. I spoke about the behavioural analytics processes we go through and that will continue. I think that at the moment the market is growing at we should expect broadly mid single digits growth this year and that would continue into next year as well. International will be higher than that and we should be looking for double digit growth in International.

Gavin Kelleher: Perfect, and just on the US, obviously great to get a target of $20-35 million; can you just give us a bit of a flavour, you said within three years. Those retail properties, I presume they mature quite quickly because a lot of them obviously are in Nevada so would that be front end weighted or back end weighted in terms of when we get that?

Philip Bowcock: We have to have the conversations with Eldorado and the management team there but in effect we can go in pretty quickly but there will be a degree of branding and we need to obviously work out exactly how it's going to work. I think you should assume that it's going to be a bit more front end loaded than back end loaded.

Gavin Kelleher: Perfect and just one final one; what sort of impact do you think the Caesars partnership will have on your Nevada mobile business? That's not included in the profit guidance?

Philip Bowcock: No, it's not included in the profit guidance. Again, we need to work through the implications of that, but it has to be a potential upside.

Gavin Kelleher: Perfect, thanks now.

Monique Pollard (Citi): Morning, everyone. I have three questions if I could. Just on the Retail, the comments that the majority of the shops will be closed in the 4Q, should we expect then by the end of 2019 all the 700 shops to have been closed?

And then in terms of the Mr Green, the £4 million of synergies on an annualised basis, are they all delivered in the second half of this year rather than any having been delivered in the first half?

And then Ruth and Philip, comments about the potential for a media partnership; what could that mean and what could we expect to be the benefits of a material media deal in the US?

Ruth Prior: Yes, 700 by the end of the year. £4 million will be in the second half and it's an annualised number and we also at the time of the acquisition said we would have a £6 million run rate number and we would anticipate that that would be achieved next year.

Philip Bowcock: On the media partnership, we don't believe this is about going out and finding a different brand. This is about access to database, so those media companies that have quite significant databases and they understand what those customers actually view on television and consume, but also giving access to media channels as well, be that by pay-per-view or other media channels, social media channels that they use. We will be exploring all the options and making, as I said, the right commercial decision for the long-term business, the value of the business.

Ruth Prior: The key thing around the media partnerships is we have real confidence about getting a really good one. We have waited this last year to see how the market matured. We have a really great reputation in the US and we will have a media partnership that really takes us forward.

Ivor Jones (Peel Hunt): Now that Nicola has nailed on a better profit performance from the Retail business, how does it grow after 2019? I wondered if you might talk about different formats, moving the licences to bigger shops, becoming arcades. What are the prospects from 2020 onwards?

Nicola Frampton: It's still difficult to say. 2019 is still a transition year. We still haven't seen what is going to happen in the football season so that will obviously inform what the future performance of the Retail estate looks like in 2020.

We have undertaken a number of trials in the short-term, Ivor, looking at different options. Certainly there is some evolution work that's going on at the moment around our SSBTs that I think will be potentially very interesting and I think ultimately the shop experience is going to have to evolve around experience, so what you are seeing in Retail generally is that the successful ones are the ones that are not just a transactional retailer anymore, but they are more experiential, so that's definitely the direction of travel. But it's really hard to say at this moment in time exactly what 2020, 2021 will look like, so the guidance that we have given you is based on what we know at the moment and running a 1,568 shop estate as it broadly is at the moment.

Ivor Jones: But you are looking at trials now that you might be able to talk about later in the year?

Nicola Frampton: Possibly, yes.

Ivor Jones: And on SSBTs, will the UK ones be rolled out to the US. I think that may have been something that you have talked about in the past and will it matter?

Ruth Prior: I'll take that one. We are looking at using our SSBTs and also EPOS and the sort of Retail front ends in the US because obviously there is a great synergy between the two. We are trying to align the front ends across the UK and the US. That's obviously how we'll get great synergy benefits.

Ivor Jones: Do you think it will matter at the revenue line? Are they better performing than - ?

Ruth Prior: They are definitely better than what is in the US currently. They would be market leading. Whether they would take the numbers massively forward, I am not so sure, but they would absolutely underpin our retail credentials.

Ivor Jones: Okay. Lastly, you talked about the media partnership, Philip. Your slide said 'exclusive media integration': what does that mean?

Philip Bowcock: What it effectively means is that we will do a deal with one media partner and that will allow the integration to take place, where we actually integrate some of our technology into their database, so that we can actually feed straight off their database, where we are allowed to.

Ivor Jones: But do you have to be their only betting partner? Or are they your only media partner? Which way is the exclusivity?

Philip Bowcock: The way it will probably work is that we will be exclusive to them – *probably*, but we will just have to wait and see. We need to play it through.

Ruth Prior: We are still structuring different options and so it is too early to tell.

Ivor Jones: But you put the word 'exclusivity' in the slide, so that is important.

Philip Bowcock: It is important to a degree but I think we will just have to wait and see how it plays through.

Ivor Jones: Thanks.

Simon Davies (Deutsche Bank): There are two questions from me, please. First, you referred to introducing a reduced threshold for KYC. Is that UK or international, or both? Is there any cost, or can you put a cost related to that?

Secondly, on Mr Green, can you confirm that you expect to deliver a positive return on invested capital from that deal in 2020?

Philip Bowcock: The answer to the second question is yes, we are in line with our targets.

When it comes to thresholds, there has been no material impact at the moment. This is about actually understanding players' behaviour and looking at how people act: one person's £10 could be another person's £1000. This is about actually monitoring people's and players' behaviour and, when they change behavioural patterns – such as multiple credit card deposits or different types of withdrawal behaviours – we start to interact with them. At the moment, we are interacting or touching base with about 6,000 customers a week, in various guises, so this is just about trying to make sure that we are monitoring those as closely as possible.

Simon Davies: Is that UK and International?

Philip Bowcock: That is UK.

Richard Stuber (Numis): I have just one question, please. US capex obviously went up a good deal ahead of your launch of your proprietary technology. How much capex is there left? Is that a step-up change, a one-off change, or should we expect further capex as new states are rolled out?

Ruth Prior: This year, at the Capital Markets Day, we guided for £120 million capex for the whole company and it is still at that level. The US would require around $50 million, if you recall.

One of the points I raised earlier was around future guidance. Obviously, as we grow more quickly, and particularly if we have more Sportsbooks from Caesar's, we will need to look at that capex number. Again, I will come back to you in the round.

James Rowland Clark (Barclays): In your release, you talk about a new brand proposition that you are rolling out at the moment, which will improve the customer experience between betting and gaming. Should we be right in thinking that that is about improving cross-sell between betting and gaming? What is cross-sell at the moment, and should we be thinking at all about changes to pricing in the future?

A second question is just on your marketing models. What are they doing differently now, that they were not doing before? Are the improvements in marketing efficiency sustainable in the future?

Philip Bowcock: The piece about the brand is that it is about having a unified brand proposition across both sports and gaming. This is not about particularly driving cross-sell so much, and I am afraid that I won't be giving the cross-sell number. This is as I said when I presented it: it is about having a responsible attitude and giving a single view of William Hill to our customers.

From the random marketing efficiency piece, this is just about data, and it is about interrogating data more. It is about getting down to a smaller group of individuals and targeting them more effectively.

Julian Easthope (RBC): You have breached your covenants, or the debt to EBITDA of two times, which is the upper limit of where you wanted to go to, and yet you said that you are likely to go through that. Could you give some indication as to how far you are likely to go through that, and were the actual covenants –

Philip Bowcock: We haven't broken our covenants!

Julian Easthope: - yes, where your covenants come into play. Does that actually limit you in terms of your potential international expansion?

Ruth Prior: Our covenant is three and a half times, and it is only on our RCF, and the RCF is not drawn.

Our medium-term guidance was one to two times and, in our industry, we think that that is probably a sensible place to be. We have also guided that we will be above that this year because of the investment in the US and the decline in Retail.

Clearly, the return to growth will help that. We have clearly said that we will underpin the dividend because we've said that we can afford that. We probably will not be doing any bolt-on acquisitions until we are back closer to that range, and all of our capital will be focused on the US. Clearly there are a number of moving parts that I described earlier that we need to understand and we need to clarify in the next period, but our intention and the Board as well is to commit to that long term guidance of one to two times, but I'm not going to slavishly get to under two if it means that I can't invest in the US if the opportunity is there. But I think we would never want to see something with a three. If that helps!

Philip Bowcock: I'm not adding anything. Are we done? [*No further questions*]

Ladies and gentlemen, thank you very much and we'll see you in a few months' time.

[*Ends*]