WILLIAM HILL

2013 FINAL RESULTS

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Ralph Topping *- Chief Executive*

Good morning. Thanks for joining us. As ever, I've got Neil with me on the platform. I'll kick things off, then Neil's going to come in and talk through the numbers. Then after that, I'll cover how we're actually performing.

Today, this is the day I actually started as Chief Executive six years ago. Let me give you an idea of where we were then. Actually, when I took over, I take great consolation in the fact that the Guardian, I think at the time, wrote I was going to be a safe pair of hands and no more than that. Ever since then, the Guardian has been consistently good in getting every story associated with William Hill and gambling wrong. So we've had six years of getting it wrong.

The first set of results I presented our revenue was GBP984 million. Retail accounted for 82% of that and for 80% of the profit. Today, all the 50s.

Our revenue is 50% bigger, our profit is around GBP50 million higher, and our online businesses account for around 50% of our profit. So we're a multichannel international business in 2014. We're not reliant on retail like we were back then. We're still making the best part of GBP200 million at retail. And all this despite the consumer having so much more choice than he or she did have six years ago.

Retail and online are complementary businesses and retail has held up well when the rise of the Internet and mobile has been huge. And we've done that against the backdrop of a very challenging economic period. I'd like to think that you'd say we've done in that time. I certainly say that to my management team. And there's more to come.

We've got a fantastic Sportsbook platform in online, and we're delivering against our plan to make mobile gaming just as strong. Internationally, we're gaining share in Italy and Spain. The US businesses we bought and combined into one, the US business is now profitable. We've got a leading position in Australia. And there's upside to come from the transformation of that business into much more of a digital business.

It's already showing in our operational performance. If you look at the underlying numbers in key areas, Sportsbook growth accelerated from half 1 into half 2. Mobile gaming net revenue was up almost 200% on a 52-week basis. Retail remains resilient, even though it's carried the extra indirect tax costs.

Our improvements in the US are driving staking levels up strongly there, and Australia is doing well. And again, I wouldn't be a bookmaker if we didn't stand up here and complain about results. But if it hadn't been for Spring Carnival results we would have done even better in Australia.

Regardless, Australia has delivered growth in revenue and profit and we're putting in place the product, the user experience and the marketing, all of which are extremely crucial and driving more growth.

Now I'm going to hand you over to Neil to run through the numbers. So over to you, Neil.

Neil Cooper *- Group Finance Director*

Thank you, Ralph, and good morning, everybody. Before I pitch into the slide detail, I just want to remind you of the following points that you need to have in mind when assessing our performance.

Firstly, the prior year was a 53 week year. We will provide you with the underlying 52-week comparison in the presentation, where relevant. Secondly, we have a major change in indirect tax rate and accounting treatment, following the migration from VAT and AMLD to machine games duty.

In total, we estimate that this cost is an additional GBP10 million in income statement terms. But, more pertinently, net revenue progression was flattered by the change and both cost of sale and operating cost progression were impacted.

You will set net revenue disclosed both on a reported basis and with the prior year adjusted to give an underlying and more meaningful comparison. There's a slide in the appendix laying out the basis on which we've done that adjustment.

And finally, given the rights issue during 2013, certain prior-year metrics, such as dividend per share and earnings per share, have been reinstated. Again, there is a slide in the appendix laying this out.

Now, moving on to the numbers. Revenue grew 16% to GBP1.486 billion, 18% on a 52-week basis. Underlying growth, adjusting for machine games duty, was 10%, 12% on a 52-week basis.

Net revenue growth, before the acquisitions made in the last two years, adjusting for machine games duty and for the 53rd week, was up 5%, driven primarily for the continued good performance of online Sportsbook.

Operating profit for the Group, which we define as pretty exceptional profit before tax interest and defined amortization, was GBP335 million, up 1% on the prior year, 3% on a 52-week basis. This is after absorbing the additional GBP10 million of indirect tax increases I alluded to earlier. And growth in defined amortization reflects both the full year impact of our US acquisitions last year, and the part-year impact of our Australian acquisitions this year.

Net finance costs have grown by 35%, reflecting the increased levels, and changing mix of debt, following the corporate activity in H1. Tax shows a 33% decline, with an effective tax rate of 11.5%, as we benefited from a non-cash deferred tax credit arising as a result of the enacted corporation tax rate reductions from 23% to 20% in the first half of 2013. And we also benefited from the onset of the new CFC regime as it pertained to online.

The non-controlling interested deduction also falls, following our purchase of Playtech's stake in online.

Taking all this together, pre-exceptional retained earnings grew by 15% to GBP232.3 million, and basic adjusted earnings per share was 28.8p, 6% up on the prior restated year. This key metric is calculated by adjusting basic earnings per share for exceptional items, and for defined amortization. And the difference in growth rates between our pre-exceptional retained earnings and the basic adjusted EPS is, of course, driven by the impact of the additional shares in issue following the rights issue in April 2013.

The Group has announced a 7.9p per share final divi, taking the total 2013 dividend to 11.6p per share, covered 2.5 times by basic adjusted earnings per share, and up 12% on the prior restated year.

Pre-tax exceptional items totaled GBP22.8 million. Firstly, we have expensed GBP13.5 million in 2013 relating to the Sportingbet acquisition. With the GBP4.6 million expensed last year, this totals GBP18.1 million on the project.
Secondly, we incurred GBP2 million on the tomwaterhouse.com acquisition in 2013, and we expect to incur an additional circa GBP2 million to GBP3 million in 2014 as we fully technically integrate this business.

Thirdly, we took a GBP1.7 million write-off of unamortized arrangement fees relating to the financing completed in the first half.

And finally, we had a GBP5.6 million exceptional gain in 2010 relating to VAT repaid by HMRC to us, in relation to judgments in an ongoing legal case between them and Rank. In late 2013, an appeal went the way of the Revenue in that case and, as a result, we have provided for this item accordingly, on the assumption that HMRC will seek repayment from us in due course.

I should also note, just for the record, that we flagged at our trading update in January that there may an additional GBP1.4 million exceptional impairment item relating to our investment property portfolio. After further review, we cannot be sure that this will be a non-recurring item, given our expected disposal timeframe, so we've reclassified that out of exceptional back into ordinary.

The retail business made GBP196.3 million of operating profit in 2013. Over the counter wagering fell 6%, or 3% on a 52-week basis. The first half saw a 5% decline, with the first quarter seeing weather-related fixture disruption, and with the second quarter seeing year-over-year declines in football staking.

The third quarter saw a 2% decline, in part impacted by the weather in July, and the fourth quarter was down only 2% on a 13-week basis.

I should also note that we saw the rollover of Euro 2012 during the year, the impact of which would have fallen in both Q2 and in Q3.

Over the counter gross win grew 1%, or 2% on a 52-week basis, benefitting from an improved margin, and more on this in a moment. Machine gross win fell 1%, up 1% on a 52-week basis. Again, more on this in a moment.

Total gross win grew 2% on a 52-week basis. Reported net revenue growth was up 10% on a 52-week basis, or 2% on the same basis after adjusting for machine games duty.

Cost of sales grew substantially, reflecting the inclusion of machine games duty, and operating costs grew 4%, or 6% on a 52-week basis.

Retail gross win margin grew, as I said, in 2013 from 18.2% to 19.4%. The waterfall chart shows the major drivers of this, which were results from football and UK horse racing.

Looking at horse racing in a little bit more detail, in terms of our tier 1 festivals, whilst Cheltenham disappointed, the Grand National, as you will recall, was excellent. And we also saw an improved return from our tier 2 fixtures.

The chart to the right shows our margins have moved by period in the year, with a strong start to the year followed by a good second and fourth quarter, but as you can see, offset by weakness in quarter 3, which was linked to football.

We saw around, as I said, 1% gross win growth in the machine category on a 52-week basis. This comes from the combination of a 2% decline in gross win per machine per week, and the addition of 3% more machines; partly density derived, and partly as a result of the 1% growth in average shop numbers.

A couple of points to note from this chart. Firstly, the chart to the top right shows that quarter 4 reflects our strongest performance of the year, in terms of year-over-year growth, bouncing back from a weaker quarter 3. And secondly, the chart to the bottom right reflects the strength of our B3 performance over the last 24 months, relative to B2.

Our retail cost base grew 4% on a reported basis, 6% on a 52-week comparable basis. The major single item driving this growth is the impact of the transition to machine games duty, with input VAT credits falling away as a result. And this change drove 40% of the 52-week cost growth, leaving an underlying base cost growth of somewhere around 3.5%.

By key line on this 52-week basis, labor grew 2%, or by around GBP4 million. Within labor, we saw a 2% hourly pay inflation, a 4% increase in hours worked, and incremental pension costs driven by auto enrolment. This was offset, in part, by a reduction in staff incentives.

Repairs and maintenance grew by GBP3.6 million, impacted by one-off repairs in the year, and other property costs grew by around GBP1 million.
Content grew by more than GBP4 million, or 7%.

Looking ahead to 2014, we're expecting around 3% to 4% of cost inflation again. Staff incentives we expect to see rise year over year, but we expect to benefit from the implementation of single manning into the evening on a risk-assessed basis.

Online delivered 12% net revenue growth on a 52-week basis, driven by strong performance from our Sportsbook. On that same basis, Sportsbook grew its net revenue 29% from wagering growth of 33%, with growth stronger in the second half at 40% than we saw in the first half, which, I'll remind you, was 26%.

Gaming net revenue was flat on a 52-week basis. Adjusting for market closures, gaming net revenue was around 3% on a 52-week basis. Within the gaming category, we're seeing strong growth in our mobile gaming performance, which, in December, made up 25% of our gaming net revenue, up from 9% in December 2012.

Year-over-year growth in mobile gaming was strong at 175% on a 52-week basis. And, as you'll hear from Ralph later, this remained a key area of investment focus for us.

Cost of sales growth was largely driven by increases in taxes, and the cost base grew 17% on a 52-week basis. Overall, operating profit grew 2%, or 4% on that 52-week basis, to GBP147.8 million.

Both casino and Sportsbook saw good growth in unique actives over the year, driving a total 32% growth. The Sportsbook performance was further bolstered by a 6% increase in net revenue per unique active, which was offset, at the business level, by a reduction in gaming net revenue per unique active.

Growth in new customer acquisitions were largely seen in Sportsbook, although bingo also saw good levels of customer acquisition, compared to the prior year. Sportsbook wagering saw strong growth in both pre-match and in-play, as the data shows. The pace of growth in mobile wagering underpinned this, with mobile wagering growing by 99% on a 53-week basis, over 100% on a 52-week basis.

Gross win margin improved slightly in the year, albeit that this was driven by modest improvement in in-play margins, with pre-match margins broadly in line.

Moving down the income statement from gross win, we saw an increase in free bets and other fair value adjustments in 2013. This slide lays this out for clarity. The increase came largely as a result of an acceleration in the second half of 2013. As the chart shows, 2012 saw a ratio of around 0.5% of free bets for wagering, with H1 2013 at around 0.6%, and H2 at 1%, so 0.8% in total for 2013.

Looking ahead, we've planned a reduction in the marketing to net revenue ratio to 25%, offset, in part, by an increase in free bets year over year to 0.9% of wagering. I have to stress this is not an exact science, given that both net revenue and wagering may not, of course, run to plan, but it gives you a sense of how we see free bets and offers as an integrated component of our marketing activity.

Given the positive impact of mobile on our gross win margins, we expect now to see an uptick in our expected gross win margin guidance, going forward. But the increase in free bets will offset some of this, hence our circa 0.5% guidance change for net revenue margins.

I'd remind you previously we talked about gross win margins. With the change in our approach on free bets, we just wanted to make sure that you're working through the P&L in a clear way.

Online operating costs grew 14%, 17% on a 52-week basis. Marketing increased by 15% to GBP122.5 million, or 27% of net revenue, versus 26% of net revenue in 2012.

Other costs grew 14% with increases driven by growth in staffing, bank charges, IT costs, content costs, and in depreciation as capital investment levels increased. Total CapEx for the business was GBP32 million, versus GBP20 million in 2012.

Our Australian business has contributed GBP86.7 million in net revenue and GBP12 million of operating profit in the year to date. Sportingbet was owned for 42 weeks, and tomwaterhouse.com for 21 weeks of this year. The comparatives on the chart are pro forma, having been converted from Aussie dollars at a constant exchange rate, to allow for a meaningful comparison.

Looking at the key metrics below the P&L, new accounts were down 6% through the ownership period. This compares to a 30% decline in the ownership period to the end of the first half.
The addition of the strongly performing tomwaterhouse.com brand has improved our performance in this key metric, as has the improvement in trend in the Sportingbet business. Together with new accounts, the business has also increased its focus on reactivation marketing to its existing customer base. And this has benefited with unique active players in growth by 14%, versus a 4% decline at the half year.

At the half year, you'll recall we laid out our thinking on Australia, together with the key metrics we would be focusing on to gauge our progress. As well as improved acquisition trends, now bolstered, as I indicated, by successful reactivation activity, we also flagged the need to see the marketing mix evolve and, in doing so, reduce our cost per acquisition, which stood at GBP630 at the half year.

The full-year picture shows an improvement, with cost per acquisition of around GBP299 across the ownership period, although this also benefits from the inclusion of the Aussie spring period, which traditionally is the strongest acquisition period in the year.

The table shows how we've moved the marketing mix in our ownership period, increasing our ratio of online marketing between the 2012 and 2013 ownership period, and also gives you a sense of our aspirations for 2014.

The chart on the right shows you how we anticipate that this will continue to benefit our cost per acquisition, which we see trending down, on a rolling 12-month basis, towards AUD400 by the end of 2014, if all goes to plan.

The US business has made good progress in 2013. Total wagering growth shows the impact of a full year in 2013, versus a part year in 2012. That said, same-period wagering was up an impressive 47%, with mobile wagering during that period in growth by 263%. Margin improved in 2013, largely as a result of an improved regular NFL season, and the business contributed GBP4.9 million of operating profit.

CapEx was GBP84.6 million for the year, in the middle point of our GBP80 million to GBP90 million range. Versus 2012, the major changes reflect increased investment in online, following the removal of a contractual cap, and increased investment in our newly acquired businesses.

We expect to spend around GBP90 million in 2014, with further improvements in online and Australia offset by a reduction in retail. And I don't expect a further working capital outflow in 2014, given the factors that drove the outflow in 2013.

Our effective income statement tax rate was 11.5% in 2013, broadly in line with our 12% guidance, and our effective cash tax rate was 20%. The income statement tax rate benefited from, as I've already mentioned, the deferred tax benefit we saw arising on the inactive reduction of corporation tax rates, and also the change in CFC regime, as it relates to online.

Looking ahead to 2014, I expect the effective income statement tax rate to be around 17%, and the effective cash tax rate to be 18%. That said, there are a number of moving parts to it and we'll update you over the year, if our expectations change.

I'm pleased to be able to highlight a 12% increase in full-year dividend to 10.4p per share in 2012, following restatement, to 11.6p per share in 2013. And this is covered by basic adjusted EPS at 2.5 times.

I should note, for the record, that we're discussing the latest actuarial triennial revaluation -- I wish I got paid by the syllable when I'm reading out these presentations -- of the pension fund. This may give rise to a change in our current agreement on funding levels. And, again, once we're in a position to talk to you about that, we'll obviously update you at the first opportunity.

And finally for me, balance sheet debt levels reflect, I think, the strategic evolution of the business, with debt levels increased following the acquisitions we undertook in the year. Net debt over EBITDA for covenant purposes is 2 times, up from 1 times at the end of 2012.

Our refinancing activity in the year is in line with our longer-term aspirations in the balance sheet to see our debt maturity profiles extend and to diversify our sources of funding. And we now have the bulk of our debt on fixed rates.

We also enjoyed the support of our shareholders during the year, in regards to our successful equity raise.

That's all I want to say, and I'd like to hand over to Ralph.

Ralph Topping *- Chief Executive*

Thanks, Neil. You'll recall our public targets. The first two we ticked off as achieved during the year, and you can see where we got to for the year as a whole. On the mobile Sportsbook stakes, we were at 39% for the year as a whole, but we crested our target in December, as we hit 42%.

The fourth is a new target. I said during the year for 40% of our gaming revenues to come from mobile. We went from 6% to 17% in 2013 and, in December, we were at 25%, so good progress on that front.

Looking ahead over the next three or four years, I think we should be setting ourselves another target. That is for the international markets, and our business to be contributing at least 35% to 40% of our revenues by the end of 2017/beginning of 2018, up from the 15% today.

Now I truly recognize diversifying internationally isn't easy. We've got to be careful, but we are doing it well. We've invested in building in a management team who are more than capable of managing internationally diverse businesses.

We've also got an operating infrastructure that can allow us to support our international businesses effectively. For instance, by way of example, we've started the transfer of certain Australian back office functions to a lower cost operation center in Manila. And we're structuring our technology solutions so they can be reused in different jurisdictions.

Now, UK regulatory update; there's been a lot of noise, and there's been a lot of speculation written, so I'm going to just spend a couple of minutes today giving you the facts.

The CEOs of the big five retail operators have now met twice with the sports minister, Helen Grant; once in December and once in January. The meetings themselves were constructive, they were cordial, and the industry set out its commitment to assist problem gamblers.

This commitment takes the form of player controls, which are contained within the ABB Code, and the technical changes are to be delivered tomorrow. The minister did seek reassurance that the industry was prepared to provide data to NatCen in relation to the recently commissioned RGT research. This commitment was provided and the data is in the process of being provided -- data, plural, are in the process are being provided.

A dialog is also being maintained within the DCMS and the Gambling Commission, more generally about the code and how it might be developed over time.

Now some other facts. The prevalence of problem gambling in the UK was always low, by international standards and, based upon the recent health surveys in both Scotland and England is reducing. That is good news. That is positive news, and it shows that we are getting the issue of problem gambling better solved within the UK. And if you look at where America is, for instance, on this and keep this figure very firmly in mind, it's at 3.5%; we're at 0.5% in the UK.

Successive DCMS ministers have repeatedly said that government policy will be formulated, based on and driven by data. Now when the government considered stakes and prizes last year, no changes were made because there was no data to suggest that changes were necessary.

Through the RGT and NatCen, the major industry operators have agreed to provide full access to machines' data so that a better understanding can be gained as to how gamblers interact with gaming content.

NatCen's report will emerge in the autumn this year and, not until that stage, can a data-informed decision be made. I want to be very, very clear. The experts say problem gamblers typically use six to seven different products. The issue is very much about player behavior and it is not, as some would have you believe, product centric.

No-one in the drinks industry blames Smirnoff for causing alcoholism. The six or seven products problem gamblers play is specific to the player, not to the product, and that's where the ABB Code comes in. Stage 1 was, in fact, launched last year on our estate, last October, and the new technical standards, as I say, come into effect tomorrow.

We've put a lot into staff training; our staff have been extensively trained. And these new technical changes, amongst other things, enable players to set limits; how long they play and how much they spend and, thereby, have better control of their gambling.

We spent many months developing the code and I'm confident that it's going to assist. With frontline staff trained to spot many of the signs of problem gambling, more interventions with our customers will occur, are already occurring. And, coupled with the technology changes I've already mentioned, our customers will be better able to stay in control. It's the right approach, because it's about tackling customer behavior.
NatCen will review the code as part of the ongoing research and, I'll tell you this, if the data indicates it needs to be further strengthened, then this Company and the other four key operators in the UK, will support it.

Now this is a tough area to get your head around. There's a lot of emotion; there's inevitably a lot of politics; surprise, surprise, there's a lot of people who don't like bookmakers, but decisions have to come from ongoing research, an absolute, ongoing research, fact-based, data-led.

So let's get back to the strategy. More revenues from online, more revenues from international; that means more product and that means more mobile. I've plenty of examples for you here and I'll talk through some of them as we go through the presentation.

Retail is the cornerstone of our business. It's a more complex business than many believe, and I think my management team don't always get the credit they deserve. I'll focus on a few areas and, hopefully, head off some potential questions upfront. These potential questions are questions that keep on coming up at these presentations.

So learning from my six years' experience, I've now taken the opportunity to get my retaliation in first before you ask me at the end of the presentation.

We're still expanding; we've still got new licenses; we've got 59 openers in 2013. More importantly, we continue to exceed our anticipated return hurdles on our new opening portfolio. So we know we're making the right decisions.

Machines; we've seen better growth in Q4, and so far this year, and we'll have the Eclipse cabinet rolled out across half the estate by the end of March. Are you going to roll out any more, Ralph? Yes, we're reviewing Eclipse's performance and then we'll make our decision about the other half in due course.

Over the counter; I believe we're taking market share. Why? Well, amongst other things, we've got the broadest range of football coupons out there; some of the best frontline staff in the sector and we continue -- best frontline staff and best trained staff in this sector, and we continue to drive performance through improvement across the piece.

On football; the Gambling Commission statistics show that we have a 35% market share, so we're punching well above our weight. If you look at what we're doing in terms of broadcast -- if anybody's out in Leeds at any point, then go along and take a look at our broadcast facility.

It's state of the art; it cost GBP1 million; you'll be impressed, but more importantly, it will enhance the in-shop environment in terms of our production, and it's also building on our investment in video walls.

Now let me take the opportunity to dispel a couple of myths, and definitely to avoid some further perennial questions. Sky TV. We won't be installing it across the William Hill estate and why? Because it doesn't create incremental revenue. It's as simple as that.

It doesn't make money for the business. It costs a lot of money to put it in. It looks wonderful in a shop which has no audience in it. You can listen to it, but when there's punters in the shop, nobody pays it any attention.

It is, inevitably, turned to by those who have no ideas about how to build their business, and I'm not going to say any more about that in case I'm drawn.

SSBTs, another wonderful set of letters. It's a useful production to the product offering, but no more than that. We've no present intention of dramatically ramping up the numbers. Why is that, Ralph? Because they cannibalized the OTC business; they can cannibalize it. And the introduction of a third-party supplier with his hand out, comes at a cost. I don't like giving money away. So SSBTs, we've got the number we want; any more than that, you're just making a cat flap.

Just a quick word on the staffing model. After a well-managed risk-based trial, we are no longer insisting that shops are dual manned in the evening, where we believe that it's safe.

Now, please, this is not a blanket approach; it is not wholesale. It's based on very strong risk assessment. And as I'm sure you will have gathered, we only pursue what is right for the William Hill business. We don't pursue anything we think is wrong for the William Hill business.

So I'm going to end my thoughts on retail by saying that William Hill, I think, has the best management team, who have consistently proven that they can deliver through what has been challenging economic and competitive times.

After all, they delivered the same operating profit last year as they did in 2011, others didn't, despite increases across the product cost base, and the imposition of MGD.
Let's go on to online. Now, you've heard me say it before, online is about product, it's about user experience, and it's about marketing. You've got to focus on all three; two out of three is not enough, and you've got to move all three forward. Getting just one of these right in isolation doesn't do. You have to invest in all of them.

So we're still focused on product. We've got new feeds, we've got new models, we've got five minute markets, for instance. The Vegas app was a key launch for mobile gaming. We launched 196 games for online last year, 99 of them in quarter 4. We've improved the customer experience for mobile gaming; one sign-on for everything, except the Playtech casino, and a quick balance transfer for that product. Plus numerous different payment methods.

We've refreshed the marketing and promotion. We're using Opta stats to make in-play more engaging; AccaInsurance to motivate multiple betting on football; and push notifications to get the offers and the odds to the customers at the right moment.

Driving online growth, and you can see that in the numbers. New basketball feeds' turnover up 59%; new tennis feeds' turnover up 27%. American football, we expanded with a new college football model, gross win up 126%. A new cricket model, I believe that's a game that's played down here quite a lot, the gross wins up 50%. Sportsbook staking was more than GBP70 million a week, 3 times on half 2. In the first eight weeks of the period, first seven weeks of the period, we averaged GBP70 million over those seven to eight weeks.

It's not so long ago people, internally, were barracking me when I said we've got to get to GBP40 million; we were at GBP25 million. We're now getting GBP70 million. I'll say it here and now, and it's not because I'm not going to be around in three years' time, but I fully expect, in two years' time, to be seeing us setting GBP100 million turnover in Sportsbook. And there's lots of reasons that underpin that.

We're getting more accumulator betting. So far this year, accumulators have been 64% of our 90 minute pre-match football business. Just think about that, 64%. That's up from the mid-50%s in 2012, and that's clearly good for the margin, and short term, medium term and long term.

Is there more to do? Of course, there is. We want to make it easier for gaming developers to plug into our systems. We want a better bonus engine for mobile gaming. We want more mobile products for Italy and Spain. And taking the enablers, that's one of Andy's favorite words, I now know what it means, into the mobile products outside the UK, too.

Online is now a mobile business. In no time, mobile will be bigger than desktops, so we're taking the mobile team, and we're integrating them into all the product teams. That puts the emphasis on user experience, away from divided Chinese walls, and puts it on to cross sellers, with everyone thinking about mobile, as well as desktop.

And it's the same with IT, or, as we call it, business systems now; the right people sitting in the right teams. And we're adding more expertise, with a the Shoreditch development office in place, and getting up to capacity.

We're well positioned ahead of the point of consumption. I said we'd talk more about point of consumption this time around, so this is broad brush. Remember, we've still got nine months to go, that could be a pregnant pause there, we've got nine months until point of consumption comes into action. And possibly, we're years away from this market settling back down.

We can't predict, at this point in time, I have no way of predicting how our competitors are going to react. I've no way of knowing what our competitors are going to do at any point in time. What's worse, I don't think they know what they're going to do at any point in time.

So we have our view. We also have to be ready, and we've also got to be flexible. We don't expect everything to change overnight. It could take a year or two to shake out the weaker operators. So we're going to invest and we'll focus on costs. We've never been profligate in this business, but this is perhaps a time to take some tough decisions. We've nine months to go.

We believe, at this point, we can save GBP15 million to GBP20 million against what we would otherwise have spent in 2015. And still, very importantly, drive our competitiveness.

I'm definitely not going to stand here today, so don't ask me the question, tell you how much market share we're going to take, but I do believe there's a big opportunity. We've built a very competitive business in the last five years; competitive enough to be taking market share today, even without point of consumption.

Its success is built on the back of mix, product user experience and marketing, and we're going to invest in all three, going forward. It's also important that we've got scale, because it gives us flexibility; flexibility in our profit margins, in our marketing, and in our operations.
We want to keep investing, because this is actually a once in a lifetime opportunity, when others are going to find it hard to invest.

Let's go to the Italians. Of course, this type of single market tax hike is exactly why we're diversifying, and why I'm saying it's important that our earnings are more international, going forward.

How are we doing in Italy and Spain? Well, Italy's a good size market, GBP235 million of casino gross win; GBP191 million in sports. And it's expected to grow at around 9% a year.

We're halfway through our four-year plan, and the numbers look good. We've got 8% market share in casino; 7% in sports, up from 3% at the beginning of the year. And remember, mobile, we don't have mobile in Italy right now, but we will have it this year.

If you're saying why's that, I'm going to be quite truthful and say it was a cock up, previously bad planning. Put our hands up, it's getting addressed this year. We're doing well without it; therefore, we'll be even better when we've got it.

We increased online CapEx to deliver that. Sportsbook mobile is live; mobile casino comes shortly. We've got strong growth in net revenue, we've strong growth in new accounts and in active accounts. And how much did you lose last year, Ralph? We made a loss of GBP4 million. Well, we're getting up to scale. We're on track, and we'll keep updating you on that progress. It's a question that comes up every time. We've been evasive about it; we're upfront today.

In terms of regulation, we're engaged in discussions about possible advertising restrictions, but don't believe they'll be extreme. We've got virtual betting on the roadmap now, it's permitted, and there's talk of it moving to gross profits' tax for sports betting, which could be positive, as the turnover tax is equivalent to 40% gross profits' tax.

Turning to Spain and the Miapuesta migration. The market in Spain is also growing; there's potential for slots to be regulated at some point this year, which is a positive. We've reinforced our position as the number three operator in sports, again without mobile; that's coming this half plus mobile casino.

We did the Miapuesta migration well; around one-third of the lower value customers migrated. Our target was -- they weren'] really our target, and we got 90% of our target customers signed up and we've retained a very high proportion of them.

Losses in 2013 were around GBP5 million, but again, we're on track and the numbers show good growth rates in all the key metrics.

We now go to US; it's good to see the US making a good profit this year. We're bringing nice improvements to this business, there's more product, there's more in-play. And the in-play revolution has begun with William Hill in the US; it's up 700% in the football season. You get a good experience from us inside the sportsbooks and a good offer on mobile.

What's our view on the US? Well, parts of this market are going to be interesting, but we're not going to run after every opportunity at any cost. Didn't go into New Jersey, why, the economics didn't stack up. It's as simple as that, but we keep working on opportunities and there will be some that stick.

In the meantime, we're 100% behind Governor Christie; not many people are at the moment. He's challenged the federal sports betting ban. We're behind Governor Christie; we hope he crosses that bridge, boom-boom. (laughter) Because if that ever changes, there's no-one better placed than William Hill in land-based sports betting in the US, given our presence in Nevada and Delaware.

Turning now to Australia, as Neil said earlier, we're making good progress in Oz; we're already one of the leading corporate bookmakers. We've got a really strong focus for improvement, making the business more digital, improving the user experience, and making the marketing investment more effective. This is what will make us even more competitive.

The KPIs are all going the right way, some of the heavy lifting work is slotting into place and, before the end of March, we'll have integrated tomwaterhouse.com and launched our new website.

You had a sneak preview of the website at the Sportsbook day; this will be live very shortly. It's right at the cutting edge; responsive design right across the different platforms. Some people have done it just from mobile or tablets before, but this is for everything; that's what responsive design means. It means a consistent user experience whether you're sitting on your desktop, tablet or mobile.
Now you can bet from the homepage, get to match coupons in one click and place a multi more -- I can't believe it, you can place a multiple bet in Australia easily. You need a degree from Harvard, Yale and some other, Stamford, to be able to get a multi placed on this site. We've made it very, very easy.

Registration was a nightmare; we've sorted the registration blockages, and we've implemented tracking to keep it running smoothly. So better content display on the race cards with almost half of the racing bets placed within 30 minutes of the off. We've got better display and navigation for the next races. We've got better mobile navigation, quicker access to sports prices.

Priority display of the most popular coupons is a must. You get that on our own site at the moment, where you get the opportunity to bet quick singles and easy multis from mobile coupons. In other words, the kind of high-end betting experience you expect from a William Hill business. We've taken it and we're putting it into Australia -- put it into Australia and it all happens in March.

We're also improving marketing. We said we'd review the brand approach, well, here's the outcome. It's not going to be William Hill at the moment; we're keeping all the brands but using them in different ways. We already know if tomwaterhouse stays through the earn-out, Centrebet stays because we've got good loyalty to the brand and limited crossover into the other customer bases.

But we can't go on diluting the marketing pot, so where's the priority going to be? The priority's going to be around Sportingbet; that's going to be the focus for high-profile campaigns.

And here's our first one, with a face many of you who have watched this guy thump England over the years and brought great joy to the Scottish nation as he did it (laughter). So we're going to roll it.

(video playing)

Was that it? There's only one, okay. There's about five adverts with Shane Warne in there and they've already gone down well. I know he's an incredibly popular character and lots of people find him attractive. I won't go any further on that. (laughter) We find him effective rather than attractive, but there's lots of people who find him attractive.

You've already heard about the GBP13 million loss in week two; brought a tear to a glass eye. But it wasn't just about week two; results in January were challenging, but February has been much better. Of course, we were already up against what was a very strong margin in quarter 1 last year; I'll ask you to bear that in mind.

But the football margin in the seven weeks last year was 40% and, against a pretty poor start, we're at 16% already, which I think's an achievement. I think it's an achievement, given where we were at the very beginning of January and weeks three and four in January as well.

But on the plus side, we've been seeing absolutely fantastic staking levels, both in retail, and particularly in Sportsbook which is up 46%. In retail football, stakes are up 19%, and underlying gaming machine net revenues up 5%.

The mobile gaming numbers are looking very encouraging. They're up 21%, so Andy's only getting mild abuse now rather than heavy abuse. It's still early in the year and we've got the World Cup to look forward to, so we're still feeling confident.

So in summary, it continues to be a strong story. I'm absolutely proud of that fact. We're doing the right things in retail; we're growing mobile; we're growing internationally; we've delivered good 2013 results, and the underlying metrics for the start of 2014 area very, very strong.

Now, I hope I have anticipated a lot of your questions. I'm sure you've still got plenty more, so let's get started. I'm going to sit down next to Neil and take the questions from up here. Thank you very much.

QUESTION AND ANSWER

Patrick Coffey ***- Barclays - Analyst***

Patrick Coffey, Barclays. Just three from me, if that's okay? First one is in-play margin. So 5.3% and 4.8% year on year, is this a trend we should be considering to continue to improve, and what's the split there between mobile and online?

Ralph Topping ***- Chief Executive***

Well, we've had that question before and we've always guided to around 5% as being the target for us. I don't think you should anticipate -- you should anticipate a little bit in marginal improvement, but no more than that. It's around a 5% product. And what's encouraging is the growth in turnover.

Patrick Coffey ***- Barclays - Analyst***

Okay. Secondly, just following on from this then, given the growth in mobile, do you have a target for the mobile percentage of Sportsbook over the next three years and where that could get to?

Ralph Topping ***- Chief Executive***

Yes, we've got an internal one, but I'll publish it in August, if you don't mind. It's going to be more than it is today. If you can work out your numbers on that basis, that will be fine. (laughter)

Patrick Coffey ***- Barclays - Analyst***

Fair enough. And then just finally on gaming, maybe another short response. It's been a --

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Ralph Topping ***- Chief Executive***

Yes, next question. (laughter)

Patrick Coffey ***- Barclays - Analyst***

It's been a strong start to the year obviously, albeit up against a soft comp, but --

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Ralph Topping ***- Chief Executive***

Who says, who says that?

Neil Cooper ***- Group Finance Director***

We do.

Ralph Topping ***- Chief Executive***

Do we? (laughter) You're absolutely right.

Patrick Coffey ***- Barclays - Analyst***

Thanks a lot. But what's really driving this trend and do you think that it can continue healthy double-digit percentage growth throughout the year?

Ralph Topping ***- Chief Executive***

Neil, you might come in on that one.

Neil Cooper ***- Group Finance Director***

Yes, sure. As we've said for a while, it's clear that mobile gaming is going to be a strong source of growth in the sector, just as we've seen the wave come through sports betting and mobile sports betting grow strongly.

Part of our challenge was to get the investment in to give us the technical infrastructure, both in terms of the breadth of product and also the enablers, or the points of friction, smoothed out. A number of those have dropped in quite late on in 2013, so in October and November. And I think what we're seeing is, hopefully, what we're starting to see, the benefit of some of that investment yielding a platform that is now much more competitive than it would have been in quarter 1 last year.

Will we continue to grow at these rates? Who knows. I wouldn't want to put a forecast out, but certainly we'd be disappointed if we went back to the performance we were seeing in 2013, yes, given the investment we've put it.

Ralph Topping ***- Chief Executive***

I think on the mobile side of things, the suppliers were slow to waking up. Everybody looked at mobile and thought about sports betting initially, and I don't think anybody on the supplier side actually thought that mobile gaming would transfer to the smaller screen as successfully as it is on a larger desktop.

So part of the late spurt, if you like, has been put down to that. Part of it has been down to getting ourselves ready for it. And what we've said, mobile will be about 40% of our business levels and I think mobile's not going to go away. I would anticipate being well north of that in the next three years, so it's an exciting time. Nor do I think desktop's going to go away either.

I keep saying to everybody in the team, we don't think purely about retail, we don't think purely about online. We haven't dropped our telephone business because -- and we're not going to focus purely on mobile. That's why we've got responsive design.

We want any customer to access us by any means and get a good service, and so you've got to be prepared to care for the customer well, across platforms and across channels.

Neil Cooper ***- Group Finance Director***

I think just one more thing to say in this area. If you go back five years, it was much more difficult to be competitive in sports than it was in gaming, because you had to really develop capacity that you couldn't really buy in terms of competitive algorithms.

But whilst it's heavy lifting to get your mobile gaming platform up to that same level, actually because it's heavy lifting, I think increasingly we'll be a more structural differentiator. Because it's very hard work getting a mobile gaming platform in an integrated way, just because of the nature of the software challenge versus a sports betting challenge. So the fact that it's cost us some investment to get there, it may be a little bit more defendable once you're there.

Nick Edelman ***- Goldman Sachs & Co. - Analyst***

Nick Edelman, Goldman Sachs. First of all, just on retail; could you say roughly what your intention is on shop openings? And also just tied into that, is the cost guidance like for like or not?

Neil Cooper *- Group Finance Director*

Yes, we are expecting to open around 1% a year. We haven't changed that guidance in that area. In terms of the cost, we're talking about 3% to 4%. If we open 1% it will be at the higher end of that 3% to 4% range.

Nick Edelman *- Goldman Sachs & Co. - Analyst*

And in terms of the single manning, does the changes you're making this year move you as far as you can go on that, based on your risk assessment? Or are you only making parts of it -- i.e., is there a cost headwind in future years from that as well?

Ralph Topping *- Chief Executive*

We've taken a long look at it and taking our time on the whole issue. Done a very strong and robust risk assessment. We're happy were we are at the moment on it. If there's going to be any flex in it, I would think it would be around the margins; I don't think it will be core. And there is, obviously, some savings in that, but we want to pass a lot of that savings on to the workforce as well.

Neil Cooper *- Group Finance Director*

Can I just add, we're not anticipating starting now until second quarter. So you've only got roughly, three quarters of the year benefit in.

Nick Edelman *- Goldman Sachs & Co. - Analyst*

Maybe just one last one, on online. Just in terms of operational gearing, I'm conscious that you've had some extra costs come in this year for tax changes, and then also because you stepped up CapEx and had a quite high depreciation charge. But as you look forward, do you think there is scope for operational leverage in the online business, or do you expect profit to grow in line with revenue?

Neil Cooper *- Group Finance Director*

I expect my next major shift in operational margin to be down, given the implementation of the point of consumption tax. So I think, to be fair, that will rebase the business, and let's see where we are after that.

Ralph Topping *- Chief Executive*

I think it's fair to say, when you've grown as quickly as we have done and it's been five years of phenomenal growth and investment, I think there's -- and with nine months to go to point of consumption, we've got early identified GBP15 million to GBP20 million. Across the business there's very strong bottom up examination of costs and headcount taking place over the course of the next two months. We'll see what that yields.

I just want the guys to go through the justification of every job, every head in large employment areas like business systems and make sure that we are organized the way we should be organized, catering for the future. And if there's any alterations we've got to make in those areas, i.e., we've got unnecessary man count or whatever, then we'll take action.

But I think every business should go through that health check just before they get to the point of consumption tax, where you're justifying every job; you're justifying how you're organized. Initial GBP15 million to GBP20 million; don't know what else will flow from that.

Vaughan Lewis - ***Morgan Stanley - Analyst***

Vaughan Lewis, Morgan Stanley. On current trading in William Hill online, can you give us the details on active customers and deposits?

Neil Cooper - ***Group Finance Director***

No, it's a seven week current trading statement and it is what it is. We're not going to do a full yearend rollout for seven weeks.

Ralph Topping - ***Chief Executive***

We'll not disappoint you.

Vaughan Lewis - ***Morgan Stanley - Analyst***

Normally, you give some sort of flavor on active customers.

Neil Cooper - ***Group Finance Director***

What, on trading updates? Well, not in the last four years when I've been here. But anyway, if that's your definition of normal, fine. (laughter)

Vaughan Lewis - ***Morgan Stanley - Analyst***

(inaudible). On Italy and Spain then, the losses of GBP9 million, when will that get to break-even and into profit?

Neil Cooper - ***Group Finance Director***

I think what we've said, pretty clearly, is we expect Italy to be a four-year cycle and we launched in 2011, so we're about half way through. And Spain, three years, we launched in 2012, so we're about half way through, so we should be getting into profit territory in 2015.

Vaughan Lewis - ***Morgan Stanley - Analyst***

They will lose about the same this year and ---?

Neil Cooper - ***Group Finance Director***

No, I would hope they'd lose less. The issue you have in these markets is you're investing in marketing at a given pace, and your net revenue's growing very quickly. But you've got to get to the point where net revenue exceeds, obviously, what is a big lump of costs below net revenue. So we should expect to see an improvement on those loss figures.

Ralph Topping - ***Chief Executive***

Like owning a racehorse. You have to put a lot of money up front to buy the nag and a lot of money to feed the nag, train the nag, and you're hoping it's going to win a few races for you. We share your optimism about Spain and Italy, as well as you're horse, Vaughan; we're very confident. (laughter)

Vaughan Lewis - ***Morgan Stanley - Analyst***

Last one, if I can? Your new target that you've given today of 35% to 40% of revenues from international markets, presumably that will include some acquisitions to get up to that sort of level?

Ralph Topping ***- Chief Executive***

No comment.

Vaughan Lewis ***- Morgan Stanley - Analyst***

Where are you looking, though?

Ralph Topping ***- Chief Executive***

Well, I think what we've previously said is we've -- I think a figure that I'm hoping someone casts up to me later on, as I said we get probably the US producing GBP100 million profit for us at some point. I think you need to look at the US and, obviously, Australia we're very hopeful and Australia there's a lot to go for down there. But there's other markets in Europe. I think, if anybody is not excited about the prospects for the William Hill business, then they're dead, I think, because -- I am talking internally; externally I don't know what gets you excited.

But from our point of view internally, we see great opportunity to take that what is a big, big brand and make it even bigger, and the opportunities are internationally. So US, Australia and some interesting opportunities in Europe as well. That's the way our thinking is, so three or four years to realize that is, I think, a reasonable timescale.

Vaughan Lewis ***- Morgan Stanley - Analyst***

Thanks.

Richard Stuber ***- Nomura - Analyst***

Richard Stuber, Nomura. A couple of questions, please. First of all, in terms of your machines' performance year to date; obviously, you've got only half of your estate has the new machines in, versus the old. Could you give us the metrics in terms of how the new ones are comparing, versus the old ones, so we get an idea if you fully rollout your estate where things could be?

And secondly, you gave the operating losses for Spain and Italy of GBP9 million this year; can you tell me what it was last year so I can see the delta on that? Thank you.

Neil Cooper ***- Group Finance Director***

Off the top of my head, I can't tell you what the delta is actually because I don't have that information to hand, you mean 2012?

Richard Stuber ***- Nomura - Analyst***

Yes.

Neil Cooper ***- Group Finance Director***

Spain went backwards 2012 on 2013 because we were obviously trading in the market prior to the license regime. Italy would have been larger losses. Directionally, it would be maybe GBP3 million/GBP4 million more losses, I would imagine, but generally, if you haven't worked it out already.

Ralph Topping *- Chief Executive*

We'll give you a bit of guidance maybe after the meeting.

Neil Cooper *- Group Finance Director*

In terms of Eclipse, we're not commenting on Eclipse in detail today. As you no doubt are aware, there will always be a slough period as you replace machines, and we just want to make sure that we have a reasonable period of time for the machine past that transition phase before we start commenting on it in public.

Ralph Topping *- Chief Executive*

In the next update we'll give you more information.

Richard Stuber *- Nomura - Analyst*

Can you just confirm, when you rolled out the first half of the machine when did that --?

Neil Cooper *- Group Finance Director*

We haven't finished yet quite, I think we finish in the end of March. Yes.

Richard Stuber *- Nomura - Analyst*

Okay. Thank you.

Neil Cooper *- Group Finance Director*

So some of our machines have matured; others are still in that maturity, in that transition phase.

Ralph Topping *- Chief Executive*

The encouraging number was the 5%, which I think a reasonable assumption would be a lot of that would be -- a fair proportion of that would be down to the new machines; it always happens. You go back the way after a period of time, you've got to reinvest in new machines.

Richard Stuber *- Nomura - Analyst*

Thank you.

Ed Birkin *- Credit Suisse - Analyst*

Ed Birkin, Credit Suisse. Firstly, just on your depreciation, going forward; obviously CapEx is running ahead of it. Can we get some guidance and maybe even the split between online and retail?

Neil Cooper *- Group Finance Director*

We'll come back to you outside the meeting on that.

Ed Birkin *- Credit Suisse - Analyst*

Secondly, CapEx on a slightly longer-term view, going up to GBP90 million is this the kind of investment needed to keep this business growing now, or are we at a place of higher CapEx just really ramp up the mobile side?

Neil Cooper ***- Group Finance Director***

There's certainly some CapEx in online that you won't need to spend, on an ongoing basis. I wouldn't like to hazard a guess as to whether GBP20 million or GBP21 million or whatever is the right long-term run rate. What is far to say is we are, clearly, showing that we can invest higher than the GBP20 million rate that we were running at, and then you can see, hopefully, from the numbers that we're getting benefit from that.

So whilst we can still continue to invest and drive growth, if we're not capital constrained we'll still continue to do that. I don't think we're in a position where steady state is the alternative, at the moment.

Ed Birkin ***- Credit Suisse - Analyst***

And just a second one on the CapEx, how much does it cost, roughly, to increase your stake by 1%, say if there's restrictions on shop openings what would we be looking at the saving?

Neil Cooper ***- Group Finance Director***

We're putting in somewhere between GBP200,000 to GBP250,000 for a new license. So if you got 25 new licenses by GBP250,000, you're the analyst. I haven't got a calculator here, look.

Ralph Topping ***- Chief Executive***

21 at GBP250,000 is about GBP12.5 million.

Neil Cooper ***- Group Finance Director***

Yes, it's going to be somewhere around -- including --

Ralph Topping ***- Chief Executive***

I'm not the finance director by the way (laughter).

Neil Cooper ***- Group Finance Director***

If you look at GBP250,000 by 25 shops, plus some aggressive CapEx in things like videos walls, you're probably looking at somewhere around GBP10 million.

Ed Birkin ***- Credit Suisse - Analyst***

And then just finally on your online revenues, so excluding Australia, can you give us roughly what proportion came from UK and Ireland and then what proportion if you include the regulated Italy and Spain in that?

Neil Cooper ***- Group Finance Director***

When you say Ireland, you mean Northern Ireland?

Ed Birkin - ***Credit Suisse - Analyst***

Yes.

Neil Cooper - ***Group Finance Director***

Our UK business, which would include Northern Ireland is about 75% of revenues in 2013; including Spain and Italy it's 81%.

Ed Birkin - ***Credit Suisse - Analyst***

Thanks very much.

James Hollins - ***Investec Bank UK Plc - Analyst***

James Hollins, Investec. Just two from me. Further on the online gaming product, in terms of the mobile development, obviously excluding ongoing incremental product improvements, are there any big fundamental step change product improvements that needs to be put through to, the change in terms of the product quality and the consumers' mindset or is it just an ongoing momentum?

Neil Cooper - ***Group Finance Director***

I think the last piece of the jigsaw for us, around that technical infrastructure in mobile gaming, is going back to look at our bonus engine, whether there's improvements we can make to the bonus engine. But I think the bulk of the improvements have gone in. So in terms of shared wallet, we have effectively two wallets in the system, as we did for desktop now, with an open bet platform wallet, which covers sports betting, the Vegas tab, live casino from Evolution, bingo and then we have a Playtech wallet, which is obviously poker and Playtech casino, poker not being relevant on mobile yet.

People talk about a single shared wallet across the whole system as being the answer. I'd remind you that we managed to get to market leadership in casino in the UK with two wallets on our desktop. So it's certainly helpful, but it's only one part of the jigsaw. So I think --

Ralph Topping - ***Chief Executive***

Sorry, the other point I'd like to make is about Shoreditch and what Shoreditch does for us because we've two teams working down there, one on gaming and one on Vegas innovation, so there's a big emphasis on innovation. It's a big advantage for us being there in terms of the quality of person that we can recruit and the skill sets that we can recruit, because we just couldn't recruit them in Gibraltar.

But the keyword is innovation Gaming is very much in our DNA and we are looking at particular ways in which we can interact with clients in innovative ways, and more on that later on.

James Hollins - ***Investec Bank UK Plc - Analyst***

My second question was just on the level of pre-match wagering has increased as a proportion, relative to in-play, which I think reverses a historic trend. I just wanted to check, is that really down to the interest in the pre-match accas, or is it something else at play?

Ralph Topping - ***Chief Executive***

I think pre-match acca 5 and acca 6 offers has driven a lot of that. And we've made significant improvements in what we do pre-match. We're happy with growth in both, actually, but it's good to see the pre-match getting a lift; certainly, I think hit a chord with punters on the acca 5 and acca 6.

And we have, as you know, one of the most creative thinkers around the punter in our business, in fact, two, in Jamie and Terry, both long-term committed to the organization, which is a massive boost for this business. But they look at things from a punter's point of view.

The good thing about William Hill, actually, when you step back from it, is that, within the business, there's a lot of people who think punter, punter, punter because they are punters. Right now the Chief Executive's a punter; the Group Director of Operations, Jamie Henderson, is a punter. Jamie, certainly, anybody who's been out with him knows he's a punter.

But they think creatively and they think laterally about what the punter might be looking for. And I think that's a fantastic asset to have. Not relying on one guy, because Jamie's built up a good team, and Terry's built up a good team; put a lot of insurance around the business now, in terms of strength of our teams. And that's really important, because we never want to rely on just one or two individuals.

So you can expect more; there's more being looked at. And some of the frustration that the guys have is around delivery times, because they can think faster than it takes BS to deliver. And that's no criticism of BS. It's easy to think of an idea; it's much harder to get all the elements of the idea out of Jamie's head, onto paper and into the system, and make it work, all right, so plenty to come.

Neil Cooper ***- Group Finance Director***

Just a couple of data points. Probably prior to 2013, you are right, we had seen in-play growing faster than pre-match. And I think that was largely a feature of where product proliferation was driving new content and, therefore, driving use.

The first half of 2013, actually we were bang in line, 26% I think it was on both in-play. Now that, to me, was about a mobile tide lifting both boats. That has shifted in the second half, so that pre-match accelerated a little bit ahead of in-play. So hence our view that some of this is related to the change in free bet stance we've had.

Ivor Jones ***- Numis Securities - Analyst***

Ivor Jones, Numis. The dividend seems a bit mean, or at least very well covered. Is that because you're targeting a particular capital structure?

Neil Cooper ***- Group Finance Director***

The dividend is exactly in line with the Board's policy. So whether you think it's mean or not is a perception, I guess. But we're paying out around 2.5 times, in line with our stated policy.

Ivor Jones ***- Numis Securities - Analyst***

And now you've been through this heavy period of CapEx and done your rights issue, when might that policy be reviewed?

Neil Cooper ***- Group Finance Director***

Well, look, what the policy actually says is we have an intention to be around 2.5 times, with an eye to move it down to 2 times, if conditions are right. Certainly, looking ahead, it's one of the debating points for the Board is where the right point on that 2.5 times metric is. And that's where we've landed.

I think, against an EPS growth of 6%, a dividend growth of -- well, basically, just an EPS growth of 6% and dividend growth of 12%, if you phrase it that way, may not appear as mean as that.

Ivor Jones ***- Numis Securities - Analyst***

Playtech is, clearly, more incentivized for Ladbrokes to drive online than William Hill. Could you just talk about your dependence on Playtech, and how that might change, and whether we should be concerned about that conflict of interest?

Ralph Topping ***- Chief Executive***

It's quite interesting, I had two meetings in the last couple of weeks with the Playtech guys; regular meetings with Playtech management. Gareth and I have got dinner in the diary next week with Playtech directors. So the relationships between the two organizations continue to be progressive.

We don't think we're getting a lack of attention from Playtech; don't see that at all. And you've got to look and see how much Playtech are benefiting still from the association with William Hill. To their credit, they're paying us a lot of attention, so we're happy with that.

Ivor Jones ***- Numis Securities - Analyst***

But it sounds, from what you've been saying about your own investment in your own people, I'm just trying to judge what is left that comes from them, that you are dependent on.

Neil Cooper ***- Group Finance Director***

They're a software provider; one of our biggest -- one of our top two external software providers. It's an important commercial relationship for us both.

Ivor Jones ***- Numis Securities - Analyst***

But marketing, bonusing, the other stuff you're talking about is William Hill stuff?

Neil Cooper ***- Group Finance Director***

Yes, sure.

Ivor Jones ***- Numis Securities - Analyst***

And then, lastly, can you just talk about your attitude to smoothing profits, versus growing the business? It was interesting, you talked about finding GBP15 million to GBP20 million of cost savings, when you've always talked about the business being run tightly for costs previously. So you're trying to give a signal that you don't want profits to dip.

We get to next year, it may be a different competitive environment. Can we see marketing go to 35% in online, because you want to grow the business, or is it more important to keep the bottom line?

Ralph Topping ***- Chief Executive***

Well, I think that's the main question for us. You've got to put it into context of where we see competitors going. I joked about it earlier, but I'm dead serious about it. You have to evaluate what's going on in the next nine months.

Now, one of the things I'm really interested in is converting all this good growth we're seeing into stronger bottom line, and challenging a lot more about the cost increases that we've seen, and whether or not I want to see them rack up the way they have been doing, particularly in online.

I think retail has been a very strongly, well run business, in terms of costs. But online, because it's exciting, the top line moves ahead. I think the real test for the online management is how you convert more of the money that you take in, into bottom line profit, without damaging the growth prospects of your business.

And hence, the reason for this, justify every job, justify every department, every organization where the money's being sent; real bottom up justification on costs.

To me, I'm highly pleased with the way the business has gone, but I think this is the right time to actually just challenge a lot more on costs. Because I think we should be converting a wee bit more, I think, what we're taking top line into bottom line.

Ivor Jones ***- Numis Securities - Analyst***

Thank you.

Nigel Hicks ***- Agency Partners - Analyst***

Nigel Hicks, Agency Partners. I think POC looks about GBP75 million gross, or thereabouts, I'm not sure. So you're basically saying GBP15 million to GBP20 million is to ameliorate or mitigate something?

Ralph Topping ***- Chief Executive***

At the moment.

Nigel Hicks ***- Agency Partners - Analyst***

Is the GBP15 million to GBP20 million all in online? And if so, which cost lines are the main beneficiaries of that?

Can I just also just ask one --

Ralph Topping ***- Chief Executive***

The answer to that is, the biggest proportion so far is online, yes.

Nigel Hicks ***- Agency Partners - Analyst***

With any specific lines within --?

Neil Cooper ***- Group Finance Director***

Well, we're going to be looking at our marketing monies, partly reflecting the fact that, whilst we've endeavored to maintain our net revenue to ratio, the reality is that that is a linear relationship that is not necessarily all the way up. So if we have the leading package on Channel 4 racing, it doesn't get any more leading because we're bigger, if you follow me.

So these are some of the areas we're looking at in our marketing spend. There will be areas of cost sharing through the profit share type arrangements we have with some software suppliers and affiliates and so on. Those are in the mix. There's some business growth that we would have otherwise put in that we wouldn't want to put in, in the context of this.

So there's a range of different areas, predominantly in online. To Ralph's point about retail being run tightly, yes, that suggests that there's not a lot you can go and do there which wouldn't damage business in and of itself.

Ralph Topping *- Chief Executive*

By the by, we need to be careful of this and why we're being it. But no question about looking at what we're doing in the business.

In Australia we've got a data team we've inherited from tomwaterhouse business, led by the guy that ran the Paddy Power business, and I'm pretty excited about what went on in Paddy Power, shared those big compliments to them in terms of what they - the proper use of data extracted from that business. I'm excited that we've got this lad leading our team in Australia. He's going to be taking responsibility for doing the same within the William Hill business.
Building on what we've done with CRM, we're bringing a new look at data, fresher look at data for us. Now, we think that can yield quite significant huge benefits for us as well. Huge in my terms; GBP10 million is huge to me.

So we have to be very careful about our guidance, at the moment, until we have that project up, because then we can firm up on a number that we're seeking it delivers from that. We're going through quite a period of time, at the moment, where there's a bit of movement around the place, lacking certainty about what politicians are going to be doing.

I've told you where we are with the politicians, but you wouldn't be surprised, at any point in time, if in the near future, the next couple of years, they're going to look at online advertising, for instance, instead of TV advertising because Maria Miller, in particular, has commented upon the amount of advertising that children are exposed to during the day and during live events.

Now, with that in mind, I could defray my point of consumption tax costs if we had an adjustment on advertising. I don't think it would be too radical, but there may be some savings come from that.

We've just got to be careful that we don't say, there's a number on that, so that's nine months out, because a lot is happening within the business. A lot is happening externally and we've just got to keep our heads at the moment. The closer we get to that, when the starting gun gets fired, the more granular the detail will be.

Nigel Hicks *- Agency Partners - Analyst*

Can I just ask, on POC, what you're doing or what progress you're making in terms of making sure it is a level playing field?

Ralph Topping *- Chief Executive*

Other than repeating our conviction, unless the gambling commission's right, and I've no reason to believe when they tell me that they're going to be strongly focused on it that they are not, we'll be strongly focused on what's going on in that space and what the commission are doing to ensure that we do have that level playing field. It's not started, so we've just got to wait until it begins.

Nigel Hicks *- Agency Partners - Analyst*

Can I just ask why the tax charge was 11% and it was 16%, 17% and it will be 16%, 17% again? I think earnings would have been fairly flat without. So actually, the dividend was probably quite generous.

Neil Cooper *- Group Finance Director*

I'm glad to see someone thinks it's generous. The major shift upwards is because there have been deferred tax, or crystallizations of benefits on the deferred tax liability as our forward-looking corporation tax rate declines.

Nigel Hicks *- Agency Partners - Analyst*

It's more about deferred from 16% to 11%.

Neil Cooper ***- Group Finance Director***

Because there were 3 percentage points of gain in the one year. So that drove quite a big crystallization of value in terms of the deferred tax liability reducing. It's just a facet of when the tax rate changes get enacted.

What you do on deferred tax, you don't book it when the tax rate actually changes, you book it when the government enact the change. So if they put legislation through saying, in 2015 it will be 20%, so in effect that reflects the benefit of the move from going from 23% to 20%.
Now, we're not aware of any more enacted tax changes in 2014 and beyond so we don't get any more crystallization of benefit from that.

Nigel Hicks ***- Agency Partners - Analyst***

Can I just ask what sort of EBIT level you expect from Australia when you can say you've got -- when you're creating value for shareholders, based on what you've spent and will have spent by then?

Neil Cooper ***- Group Finance Director***

I think if you go back to what we said when we bought the business, we expected, by the end of the third full year, to be in a position where we were covering our then cost of capital. The business performance that we had in mind then, we've clearly got out of the blocks in a slightly different shape, but we've got no reason to think that we won't be where we hope to be by then.

Nigel Hicks ***- Agency Partners - Analyst***

What was the number, the cost of capital number that you would use for that?

Neil Cooper ***- Group Finance Director***

At the point we made that, I think it was around 7.5% post tax, at the time. I'll have to remind myself; it feels it's a long time ago.

Nigel Hicks ***- Agency Partners - Analyst***

If Scotland vote yes, will you move William Hill to Scotland? (laughter).

Ralph Topping ***- Chief Executive***

Next question, please.

Richard Carter ***- Deutsche Bank - Analyst***

Richard Carter, Deutsche Bank. Couple on retail. If the minimum wage was to increase by roughly 3%, what sort of impact do you think that will have?

Ralph Topping ***- Chief Executive***

GBP400,000.

Richard Carter ***- Deutsche Bank - Analyst***

GBP400?

Neil Cooper ***- Group Finance Director***

We think GBP50.

Richard Carter ***- Deutsche Bank - Analyst***

It would only have a GBP400,000 impact, okay. Secondly, in terms of content costs, when is the next renegotiation and what sort of inflation --?

Ralph Topping ***- William Hill Plc - Chief Executive***

Four years hence.

Richard Carter ***- Deutsche Bank - Analyst***

You haven't any content cost increase in UK retail for four years?

Neil Cooper ***- Group Finance Director***

No. This is the last year of the above inflation; we're now on to an RPI mechanism for the remainder of the contract which covers us up to the end of 2017.

Richard Carter ***- Deutsche Bank - Analyst***

And then in terms of the technical changes you're making on machines --?

Ralph Topping ***- Chief Executive***

Just on that, levy and data costs are aligned around the 2017, and I think that's important for any negotiation with racing, going forward.

Richard Carter ***- Deutsche Bank - Analyst***

And on the technical changes you're making to machines, how should we think about what sort of impact that will have on player spend, if any? Have you had time to think about if that will have a negative impact?

Ralph Topping ***- Chief Executive***

I think we're doing it for the right reasons and, I think time alone will tell. Certainly, it will lead to more interventions. I think it's a good thing that players are educated and are given every opportunity to take more responsibility themselves, but time alone will tell. I wouldn't like to give a prediction at this point in time.

Richard Carter ***- Deutsche Bank - Analyst***

And if you have it, do you have the percentage of machine players that are using the bonus card?

Ralph Topping *- Chief Executive*

10%, around about 10%.

Richard Carter *- Deutsche Bank - Analyst*

I understand. And then just finally, on the guidance, on the GBP15 million to GBP20 million cost mitigation in 2015, that's lying outside of the improvement in profitability in Italy and Spain?

Neil Cooper *- Group Finance Director*

Yes. I think the way that it's phrased is very clearly meant to get you guys to think through where we would have been if this tax hadn't come in, in 2015, and then adjusting the cost base by GBP15 million to GBP20 million at that point. So it may be as much about avoiding future cost increases as it is about ripping the existing costs out, if you follow me.

Richard Carter *- Deutsche Bank - Analyst*

Yes. And sorry, just one final one, just so we can understand a little bit clearer the mobile enablers. Playtech is obviously sat outside that slightly, so in terms of the growth rate so far this year, has that been primarily driven by your own Vegas casino rather than the Playtech, so we've got an idea of how important it actually is, the majority of the growth is all driven from William Hill? Thanks.

Neil Cooper *- Group Finance Director*

Yes.

Jeffrey Harwood *- Oriel Securities - Analyst*

Jeffrey Harwood, Oriel. Two questions on regulation. First of all, what progress are you making in terms of engaging and educating the opposition MPs?

And secondly, on the information that's being supplied to RGT, broadly, what does that show please? Can you --?

Ralph Topping *- Chief Executive*

The interpretation of the data is going to be down to NatCen, so we've given them data dump and we'll help them put it into a coordinated order, if you like. So that will be down to NatCen to do the interpretation and for us to give feedback on their interpretation, so it's a wait and see.

As for engaging with opposition MPs, we've a full team working through the ABB and William Hill, trying to understand various positions. I think the one thing I would say without, and I'm not being at all flippant on this, I'm just looking at my hair and the fact that I've lived for about 63 years, I defy anybody who says anything when they're opposition, invariable when they get into power, if they get into power, then they're faced with the stark reality which is different from that which they face when they're in opposition.

And I think we are going through a bit of -- there's a bit of politics in here. Some of what is said, I think is justifiable, I think around the planning and the clustering and other activities; I think that's entirely justifiable. I think it would be a good time to take a timeout and take a look at where we've gone since the Gambling Act came in, perhaps around advertising.

But when you look at things like the National Lottery for instance, I think there's almost -- I wouldn't say there's a conspiracy of silence there. But if you look at what the National Lottery has in number of outlets, the amount of training that those outlets, the staff in those outlets get, the fact that 16 year olds go into those outlets and can begin gambling at the age of 16, the fact that there's a recognized problem with scratch cards which is greater, in some respects, than machines, there's a need for a level playing field in terms of attention given to other businesses, other products and, especially, the National Lottery.

I'd say, here and now, I don't think it's a good thing that 16 year olds go and learn how to gamble, and I don't think it's a good thing that money from 16 year olds gets ploughed into good causes. I think the National Lottery, in some ways, could be taken as a breeding ground for further gambling later on. And I think it's very important that a timeout is taken, that rational people look at this sensibly and, if any decisions are going to be made, don't genuflect about one sector but look across all sectors.

Jeffrey Harwood ***- Oriel Securities - Analyst***

OKAY.

Ralph Topping ***- Chief Executive***

I think we're going to call it a day at that. So thank you very much.

Operator

Ladies and gentlemen, this concludes the William Hill Plc 2013 final results presentation. If you would like to hear any part of this call again, a recording will be available shortly. Thank you for joining, you may now replace your handsets.