William Hill 2017 Final Results

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2017 Highlights

Philip Bowcock

CEO, William Hill

Welcome

Good morning, everyone, and thank you for joining us. Ruth is with me to present the numbers for the first time, and I am glad to see that most of you have managed to navigate your way here successfully. I am going to start today by saying a quick thank-you to Gareth Davis, who is with us in the front row as usual. I know most of you have got to know Gareth well over the last seven and a half years as chairman. I have worked with him for nearly two and a half of those. Gareth, we have had some tough times, and we have had to work hard, but it has been a real pleasure working with you. Thank you. And also, welcome to Roger Devlin, who becomes chairman at the beginning of April, and I am sure you will take the time to say hello to him also at the end of this. So, to business. As ever, I will cover the overview and then hand over to Ruth, then I will come back to update on progress.

2017 Financial Highlights

We have delivered a strong performance in 2017, reflecting our focus on rejuvenating online, building our omni-channel proposition and growing in the US. That success has been underpinned by the transformation programme, which has not only delivered the cost-efficiency targets we set but is also materially improving our ways of working. At the headline level, net revenue was up 7%, and adjusted operating profit up 11%, with profit growth in online, the US and Australia, and with retail holding steady.

There is a big exceptional charge, which Ruth will talk through in detail. It reflects the changes the business is going through – both the impact of tax and regulation in the case of Australia, and the ways we have been strengthening the organisation for the long term.

The balance sheet remains strong, which is a good position to be in ahead of getting clarity on both the triennial review and the Supreme Court's decision on PASPA. Adjusted EPS growth was up 24%. We have increased the full-year dividend 6% and brought it in line with our policy of paying approximately 50% of adjusted EPS.

2017 Operating Highlights

Online continues to see positive momentum. Growth for the year as a whole was double-digit in both sportsbook and gaming, which puts it at or above what we're seeing in the UK market. Many of you saw for yourselves in Leeds the strong progress retail is making with the omni-channel platform, which is becoming a real competitive differentiator.

The US has delivered another good year, driven by mobile betting. As we flagged in November, Australia's numbers are now being impacted by the credit ban, which is causing turnover and revenue to decline. In January, we confirmed we are undertaking a strategic review, and we are protecting profits in the meantime through careful marketing investment. As I said, the transformation programme has hit its cost-efficiency targets: £25 million during the year, with a £40 million benefit rolling into 2018. We will continue to reinvest where we believe we can deliver profitable growth.

Regulatory Update

UK

On the triennial review, we made our submission to the consultation on 23rd January, and we await the Government's response, which we expect to be based on evidence. You will have seen our statements about the review by the CMA and the regulatory settlement with the Gambling Commission. We are very supportive of the standards and principles the CMA has outlined, and we are fulfilling a number of undertakings now. This is the right thing for customers, and naturally, therefore, the right thing for William Hill. The regulatory settlement is because we failed to meet our regulatory responsibilities on some specific cases. It is clearly not good enough. We have already introduced improved policies and procedures, and we are committed to an independent review of processes. We are investing in resource to make sure we staff the teams properly. We will never be perfect, but we need to do better.

US

On PASPA in the US, the Supreme Court heard the oral argument on 4th December. For anyone who is not familiar with the process, we have outlined that on the slide. The Supreme Court can release their opinion on the case at any time, with cases taking, on average, three months, but we will know the outcome before the recess at the end of June.

Australia

The credit betting ban came in on 17th February this year, and we have been making changes ahead of that. The noise around point of consumption tax continues unabated. Victoria, New South Wales and Queensland have all announced their intention to follow South Australia's lead, and Western Australia intends to implement a 15% rate on 1st January 2019, so our review assumes point of consumption is coming. And regulations are getting tougher, with the National Consumer Protection Framework likely to implement a national self-exclusion register, bans on signup inducements and a reduced verification period.

On that positive note, let me hand over to Ruth.

Financial Review

Ruth Prior

CFO, William Hill

Preamble

Good morning. Now, as this is my first time in front of you, having joined in October, I thought I would give you a little colour around my approach. When I announced my move to William Hill, I was asked by many, why that sector and why that company. Much muttering about headwinds, particularly as I was Chief Operating Officer of WorldPay, which had become a FTSE 100 darling. I like working with businesses that are prepared to write the next chapter of their history. William Hill is clearly going through a period of transition, but you cannot cost-cut your way out of this situation. My experience is that you need to face into historic issues, reshape your cost base, transform your talent pool and invest in marketing and technology. You also need to accept the regulatory changes and embrace them. Regulation is there for a reason.

This sort of change does not happen overnight, but with focus it will be achieved. Since joining, I have been hugely encouraged by the focus of our transformation programme. Although we have made cost savings, these have been reinvested in talent, marketing and technology. And over two-thirds of the initiatives are revenue-generating, much to the credit of Philip and the team. As CFO, as well as championing transformation, I will champion the work Philip is doing to drive a sustainability agenda as we strive to get the right balance between the hard and the soft measures of success.

And one final observation as a fresh pair of eyes. As a CFO in this sector, I will not be focusing on daily or even quarterly sporting results. My job is to build value over the medium to the long term, although I was quite pleased when 10-man Leicester beat Man U over the Christmas period. So my focus will be on the indicators that measure long-term progress and performance.

I will finish by stating that, with the continued uncertainty around the triennial and the inherent margin volatility, I can confirm my support of a 1x-2x debt position for the business and our current dividend policy. Let us go to the numbers.

Group Income Statement

I am pleased to say we saw revenue growth in the second half accelerate to 11% to give us a 7% year-on-year growth. Adjusted operating profit also came back strongly in the second half, driven by online growth and an increasing meaningful US contribution. Net operating expenses increased 5% overall, including 9% for staff and 5% for marketing, as we invested in growth. Now, £20 million of the total £33 million increase in staff costs came from bonus payments for performance. This business has not paid out under its bonus arrangements since 2015, a situation that is unsustainable if we are to attract and retain the best talent, so I was very pleased we achieved our targets.

Reduced marketing spend in Australia in the second half masked an increased spend of 14% in online marketing. Net finance costs are lower on an adjusted basis following the bond refinancing we completed in 2016, with net finance costs down by £11 million. I will deal with the substantial exceptional items on the next slide.

Tax fell a little. However, our guidance rate of 14% remains for 2018. The final dividend increased by over 6% to take the full-year dividend for 2017 to 13.2p. This takes the dividend to adjusted earnings ratio to a little under the target of approximately 50%. This level reflects the underlying good performance of the business, but it also takes account of our desire to be cautious, given the uncertainties around the triennial review and the possibilities that could arise if the US market, in particular, opens up.

Net debt to EBITDA is now under 1.4x as a result of a net cash inflow during the year of £103.7 million. This is well within our target range of 1x-2x EBITDA, and a good place to be at this moment as we await triennial and PASPA outcomes. Overall, adjusted EPS was up 24% at 27.6p. So, £30 million from improved earnings, £11 million finance charge improvement, £2 million for tax, and we also had 2% fewer shares.

Exceptional Items and Adjustments

Exceptional costs this year are on the high side. They can be divided into those which deal with historic issues and those about reshaping the business to grow sustainably in the long term.

Historical issues

Our Australian business was bought in 2013 for just under £500 million. We are impairing by £238 million to reflect the credit betting ban and to reflect the level of risk of further point-of-consumption taxes at state level. On VAT on our gaming activities, we have carried out a thorough review, and the provision here takes account of the position, principally in Germany, where local tax authorities assert that VAT is due on a point-of-consumption basis. As a result, there is a historic liability. These figures are based on our past activities over several years. Note, we have, since year-end, received in total around £100 million from the disposal of our investment in NYX. The compliance charge relates to the regulatory settlement agreed with the Gambling Commission that was announced earlier this week, covering the period 2014-2016.

Reshaping our future

The transformation programme incurred exceptional costs last year of £54 million, and it is generating run-rate annual savings of £40 million and a reshaping of key areas of the business, with particular focus on driving revenues. During 2018 we expect the programme to incur some additional costs, but for total operational costs to be no more than twice the expected annual savings that result. Of the £335 million total, the cash impact was £94 million and non-cash £240 million.

Gross win margin

Now, there has been much talk about the exceptional margin in the last quarter, and indeed, since I joined we have had the longest unbroken run of bookie-friendly results. However, the last couple of weeks have seen this pendulum swing the other way. So despite changes from period to period, you can see that there is stability of margin over the medium term. Retail margin has stayed high, but has a decreasing share of group revenue. This has a dampening effect on group margin. Online has shown virtually no change in margin over the last five years, in spite of the mix shift to in-play and mobile. The US margin over the period has been lower but stable, and of course revenues are growing strongly. So overall it seems that margin is not a long-term driver of the business, and indeed in 2017 it did not contribute to our overall improved year-over-year group performance.

Online

KPIs

Let me move to the KPIs for online; the measures we track on a daily and weekly basis. We can see that delivering improvements in these areas means we are establishing longer-lasting, higher-value customer relationships, and therefore a healthier long-term business. Looking at the four key metrics, unique active accounts have returned to growth and are up 6%, with new accounts also back in growth and up 3%. ARPU was up 6% in the full year, still growing despite new accounts tending to bring down this figure. Average cost per acquisition, up 10%, in line with expectations and reflecting 2017 not being a major football tournament year. Cross-sell percentage was also up 5% across the UK and other markets. These measures have a compounding positive impact, so it is important to make progress in all areas, as well as in long-term retention of customers. Clearly there is more to do, but these KPIs point towards the online business having recovered from the problems it experienced in 2016.

Strong performance in both sportsbook and gaming

Let us look at how these metrics have driven the online results. Wagering in core markets was up 12%, while it was flat in other markets. The transformation programme has so far focused on increased investment in the UK, but not yet in other geographic markets. Gross win margin was in line with historic averages, though much stronger at year-end than at the beginning of 2017. Cost of sales increased faster than net revenue as the horseracing levy was extended to online in April, and remote gaming duty was applied to gaming free bets from October. The costs of these changes, on a full-year basis, are approximately £7 million and £8 million respectively. There was also investment in increased headcount and marketing to support growth, funded by savings generated by the transformation programme. In gaming, net revenue was up 12%, with 13% growth in core markets and 10% growth in other markets. As costs increased more slowly than revenues, adjusted operating profit grew at a faster rate of 32%.

Retail

For a non-tournament year, sportsbook wagering was resilient, at just a 1% decline. And that will have been impacted by lower recycling in quarter 4, as the gross win margin was strong. The gross win margin was up 0.4 percentage points, at the top end of our 17%-18% historic range, so net revenue was up 2%. Sportsbook football margin rose to 25.1% from 24% in 2016 as a result of more favourable results. The retail restructuring mitigated rising wage costs from the above-inflation increase in national living wage of 4%. Content costs rose as we had more live and international horseracing content in shops. SSBT wagering has increased to 12% of total sportsbook wagering by the year-end. And then in gaming, B3 increased to 36.5% of revenues, up from 34% in 2016, benefiting from regular content releases.

International

The numbers I will talk to both for the US and Australia are in local currency.

US

In the US, strong growth in amounts wagered continued throughout the year, with mobile growth at 36% particularly strong. The gross win margin was up a little at 6.3%, which is in line with what is expected in that market. Costs grew faster even than revenues, but this reflects an investment in property and, particularly, in people that is needed for future growth.

Australia

In Australia there was strong wagering growth in the first half of 28%, but a decline of 15% in the second half as we responded to the anticipated impact of the credit betting ban. Gross win margin improved from 8% in the first half to 11.7% in the second half, giving 9.3% in the full year as some of the lower-margin credit-related turnover was removed. A reduction in marketing spend was judged prudent to protect operating profit, and while we conduct a strategic review of our options for the Australian business. As a result, adjusted operating profit rose by 11% in local currency.

Cash Flow

Cash generation remained strong. EBITDA was up 9% to £379 million, and free cash flow was up 15%. The working capital movement relates to indirect tax provisions and bonus provision, and we also spent £93 million on CAPEX during the year and therefore achieved a reduction in net debt to £515 million. In summary, a good year.

Strategic Priorities

Philip Bowcock

CEO, William Hill

These are the three strategic priorities I outlined last year, and I will talk to you about the progress we have made on each one.

Grow UK Market Share

As I have said already, we believe both online and retail are growing at or above market rates. That is based on competitor announcements and Gambling Commission data. Online is strong in both product verticals. It is encouraging to see retail revenues in positive territory, even without a major international football tournament. That is not an easy ask in a market that we would consider to be in structural decline, albeit very slightly.

We are increasingly thinking about online and retail in terms of one UK customer base, so we wanted to show you how growth looks overall. Altogether, we are delivering almost £1.4 billion of revenue, and growth was 6%, which is good in a relatively mature market. You can see on this slide the strong momentum we have been building in online through the substantial changes we have made over the last 18 months. The top chart shows revenue for both sports and gaming, and the bottom one shows sportsbook wagering. You can see the effect the strong Q4 margin has had; a flattening curve for slower wagering growth, but very strong revenue. There has been a lot of heavy lifting to get this kind of growth in a market as competitive as the UK.

Online

Clearly, online is now a much stronger business. Sportsbook is now into a rhythm of continuous improvement which is all about ongoing product innovations that engage the customer, like BetBoost and #YourOdds, and the rigorous discipline that surrounds trading and offers. Gaming's growth is being driven by multiple changes in many areas. We have redesigned all the gaming verticals, run successful reactivation campaigns around major events, brought in innovative new content, including daily drop jackpots, and increased our UK cross-sell rates by 4 percentage points though launching the single wallet. We have seen a 34% increase in UK gaming actives, and the average number of products being used by customers has increased. As Ruth has said, that is compounding the benefit we have from the stronger sportsbook customer base.

We have talked a lot about UX improvements during the year. That work continues, constantly optimising the journeys for the heaviest traffic flows, such as password reset, age verification, registration and acquisition, to maximise the value of each. We started migrating to the new desktop site in Quarter 4. New customers are now being directed to the new site, and we are seeing some favourable comparisons against the control group.

Retail

In retail the new operating structure has embedded well. Our first line of management are closer to the shops, which is improving our efficiency and our customer focus, and the changes are helping to soften the impact of national living wage increases. The omni-channel proposition is now very competitive and effectively joined up between the SSBTs, the Plus account and the single wallet for online customers. I will talk more about that in a moment. For gaming, a trial of the new Flex gaming cabinet from Inspired is under way in 50 shops.

Online UK KPIs

Ruth has already talked about online KPIs for the year. I also wanted to show you those KPIs for the UK in the second half, by which time we had rolled over most of the major changes. These are the underlying drivers of revenue growth, and we are now seeing strong improvements across the board, in acquisition, retention and yield. Our social media network has been particularly strong. We have increased our spend with Facebook by 32% in the UK, and we are reaching 88% of the available target audience. Our share of voice has increased 4 percentage points, and we have delivered over 75 million video views, 3x the number in 2016. Over all our social media, we have seen a 46% increase in new accounts, while delivering a 4% reduction in CPA. These are strong lead indicators that give us confidence for continued growth into 2018.

Reshaping the Marketing Organisation

We have also been changing our marketing organisation under the transformation programme. Tel Aviv will close in Quarter 2, and we have recruited 80% of the target headcount in our new London hub in Tottenham Court Road. We have focused on attracting the right talent, embedding performance-related marketing, a more strategic approach to CRM and an integrated view across omni-channel marketing. There will be further marketing improvements from here, such as attribution modelling, and this will be underpinned by the quality of our data so we are continuing to migrate more systems under our proprietary UNO platform.

Omni Approach

It is good to see so many of you were able to see the Omni progress for yourself in Leeds. Our approach here is differentiated. We are thinking about our customers as UK customers, not retail versus online versus Omni, and giving them great products and a great service wherever they are.

Proprietary SSBTs

With our own SSBT, we are in control of our product range and roadmap. We have added horseracing, cricket and favourite football coupons. Boxing, rugby league, golf and snooker are coming, and in-play horseracing goes live very shortly. There are now 3,147 of our SSBTs out there, 1.3 per shop on average, and at least one in every shop. Quarter 3 was a pivotal moment when we replaced the 800 BGT terminals with our own SSBTs and saw a double-digit improvement in performance in those shops. That reinforces our confidence in the competitiveness of what we have created.

Plus card and Bet Tracker

The Plus card and Bet Tracker app are doing well. From a standing start, we had 137,000 customers who signed up by the year-end, and a further 20,000 have been added so far in 2018. The level of active customers each month ranges from 9% to 21% of the total. These customers benefit from products like Cash In, access to William Hill TV and radio outside the shop, and these are getting high redemption rates. It is also helping our responsible gambling measures through better monitoring of trends and improved safe gambling warnings.

Omni wallet

The Omni wallet went live at the end of November, and since then we have had nearly 24,000 Omni customers, around 11,000 of whom were new-to-online or reactivated accounts. This is ahead of our expectations.

International

US

The US has had another good year. Joe has not quite hit his 30% market share target yet, but we have made very strong progress, up to 29% by revenues, and we now have 57% of sports books in the state. Mobile has been the main driver. New signups are 17% higher year on year, and the new app is proving popular. Customers can also now deposit into their account remotely using a prepaid card. We have been expanding outside Nevada this year. In addition to the Iowa race book we opened for Caesars, we have taken on the sports book at the new Baha Mar casino in the Bahamas, which is not a bad location for the next analyst trip, I have been told.

We are investing to be ready for the decision on PASPA, working with external advisers to address what we might need in terms of people, products, marketing and technology. 13 states have passed or are drafting sports betting legislation, so there is clear appetite to move ahead if the Supreme Court decision is favourable, particularly from New Jersey. We have given ourselves a head start, and we are determined to be in the first wave of companies if the opportunity comes.

Australia

In Australia, we are facing into the tough conditions in the market. We have continued to evolve the customer offering. The personalised products we launched early in the year, like Price Pump and Rewards, are helping retention rates. As we have announced, we are undertaking a strategic review of both organic and inorganic options. While that is ongoing, we are protecting profits by focusing marketing on near-term returns, and we will make a decision by mid-year.

Transformation Programme Driving Fundamental Change

The transformation programme has been a real success story. When we first talked to you about this, we focused on the cost efficiencies, but it has been much broader than that, and it is substantially changing how and where the business functions, driving faster revenue growth as well as cost savings. What it is building is a much more sustainable business for the long term, with much stronger core capabilities.

There are 250 initiatives in total. The cost efficiencies are largely done, from external spend and optimisation of IT to back office and customer services, and we have embedded that thinking into the business so efficiency becomes business as usual. The revenue growth initiatives are much more wide-ranging. The priorities have been about getting online up to the kind of momentum we are now seeing, delivering the right kind of omni-channel strategy and enhancing our digital marketing. You can see the main examples on the right, and how they relate to the achievements I have walked through on the earlier slides around online and omni-channel.

There has been a lot of change, and more to come. If you have not seen our new offices in Bedford Avenue, come along and see for yourself. We have got 250 people in marketing, tech and corporate functions working side by side. Lyndsay is very happy to act as tour guide, should any of you wish to visit.

Technology Enhancements Foundation of Growth

Tech is one of the areas being most transformed. We are building out London and Krakow as hey hubs for development, and we are embedding agile processes to accelerate our product delivery. It is pretty disruptive dealing with that much change, but in spite of that we have delivered a lot in the year.

You will recognise our tech stack diagram. At the front end, the desktop is transitioning to our in-house front-end platform, and we have got the proprietary SSBTs for the shops and, who knows, perhaps also for the US. We have upgraded our in-house trading platform, further automating the systems, which improves our risk management and product range, and a new gaming machine is being trialled. We have embedded the single wallet for online, and the Omni wallet between online and retail. We have got commitment from Scientific Games to our ongoing work, with OpenBet on the back end and in the US, and we are transitioning our proprietary data platform for a single view of the customer.

Summary

It has been a busy year. We are in a very different place from a year ago, delivering well on the pieces we are in control of. While we are awaiting the triennial review outcome, we are now doing well in the UK, and online is building momentum. Operational execution has improved materially under the transformation programme, and we are investing in further improvements to product, marketing and technology. We have good flexibility in our balance sheet and have further expanded the skill set of the executive team.

So, the building blocks are in place and we have an exciting year ahead. There is still much to do, and we are not resting on our laurels by any means. We are well placed for the World Cup, with online and Omni driving growth, and we are prepared to change our approach to ensure that what we are building is sustainable for the long term.

Q&A

Alistair Ross (Investec): Can you just give us a flavour for current trading? I know that is not something you generally provide, but just a flavour of gross margins for the early part of 2018.

Philip Bowcock: I think it has been quite widely said that football results, certainly in the first few weeks of the year, were favourable for us. That did change, and we gave some of that back more recently, however last night certainly the Arsenal and Celtic results were favourable for us.

Alistair Ross: Just quickly on the efficiency programme, does that include the SSBT saving that you are not paying away to BGT, to Playtech?

Philip Bowcock: No, it does not.

Alistair Ross: Can you give us a flavour for how much that is?

Philip Bowcock: No, we do not go into details on the commercial agreements we have, but clearly we are benefiting from the revenue share which we are now no longer paying.

Alistair Ross: Fair enough. It seems in the US you have a 10 million increase in costs, which seems quite high. One could read into that and think that there is a US repeal of PASPA possibly coming, or that is at least your view. Can you just give us a flavour? Property costs and headcount seems like a lot and certainly not the operational gearing I expected to come through this year, given the increase in revenue.

Ruth Prior: Yes. As well as property costs, we also have some additional management charges in there, but we should see some more PASPA-related costs coming through this year as we prepare. We have to be prepared. We are not certain what the outcome will be, but not to be prepared would be a bad thing.

Alistair Ross: Finally, in terms of the exceptionals, the VAT provision in Germany, do you want to give us a bit more flavour around that and how that arose?

Ruth Prior: This is around point-of-consumption tax. The German tax authorities believe that it is payable and it relates to previous years. We have been paying since we agreed with them in 2016, but this relates to previous years and is the same as the 888 provision that was made by them last year.

Patrick Coffey (Barclays): Three from me, I am afraid. You saw better operational gearing in FY17 in the online business than perhaps was expected. Should we continue to expect to see margin progression in 2018, or should we be thinking there is going to be better reinvestment into marketing costs there?

Ruth Prior: Similar to this year. We will be investing more in marketing, obviously. It is a football tournament year and we want to start looking at some of our other countries as well.

Patrick Coffey: On SSBTs in the US, Playtech were certainly talking up their SSBT potential in the US. You have your proprietary machines in the US. Perhaps you could give us a flavour of how many you have over there, and is it fair to assume that an SSBT rollout would be a key part of a US strategy post-PASPA?

Philip Bowcock: I do not know exactly how many we have over there, but I think we clearly understand the US market and how the US customer interacts with an SSBT from having been in the US market. We have our proprietary platform over here, so we can take the best of both worlds. When it comes to numbers and roll out, I think it depends on how the US decides it is going to regulate, because we cannot think of the US as one country, we must think of it as individual states because each individual state will be different in the regulation it brings forward, so whether it is purely betting in a retail environment, maybe for some, whereas others might allow remote registration and mobile. We will wait and see what happens.

Patrick Coffey: Final question to Ruth on cash flow. If we put in the disposal proceeds, normalise cash conversion, maybe even assume some CAPEX creep, would it not already look like you are sub 1x leverage on a rolling 12-month basis?

Then, thinking ahead to your guidance of 1x-2x, obviously you have got the triennial and PASPA to wait for. The big picture; presumably investing in M&A will generate better returns for shareholders than cash returns. So, is that the strategy going forward once the triennial and PASPA are –

Ruth Prior: I think that is a question for the CEO, actually.

Philip Bowcock: I think you have hit the nail on the head and I think until we understand where both the triennial and PASPA come out, it would not be appropriate for us to comment on exactly what is going to happen. We are thinking about all eventualities, but once we know where we are with those two, then it will be clearer. I think it is fair to say, if you take the US as an example, I do not think that anybody should envisage that the US will be profitable, initially.

Ivor Jones (Peel Hunt): What US future are you planning for? Is it one where William Hill invests the marketing money behind whatever opportunity there is? Or just the technology assistance?

Philip Bowcock: I think we are planning for all eventualities, because I do not think we can be certain on where this is going to end up. I refer to the statement I made earlier; if we end up in a primarily retail-focused environment, it will be very different from a mobile and registration. If you look at the two numbers I can give you in the US, our investment and marketing is single digits of revenue. In the UK, it is around 22.5-23%. That shows you the difference in the level of marketing that may have to take place. That is why I think we need to maintain the flexibility that we have in the balance sheet at the moment, so we can capture the opportunities as and when, or if, they arise.

Ivor Jones: I am struggling a bit with valuing your Australian business. What was the basis for the Australian write-down? What are the assumptions that underpin the values now in the balance sheet?

Ruth Prior: We obviously looked at the Australian business, looked at the credit betting ban and the impact on that, and also the point-of-consumption taxes. It is an accounting evaluation, as you can imagine. We must look at what we know, and then take some probability weighting for what we anticipate. That's how we came to the number.

Ivor Jones: So, it is not steady state. There is some assumption about the future, based on what you said earlier, Philip, about –

Philip Bowcock: [Inaudible] adjusted for that.

Ruth Prior: Yes.

Philip Bowcock: I think the important thing is that if anybody buys any other company in this space, they get significant synergies. Any benefit of any synergies cannot be built into any underlying valuation in our balance sheet.

Ivan Jones: I am just trying to understand what it might cost to close retail shops, should that be required. Could you explain the 7 million of exceptionals for the closures last year? I cannot work out if it relates to that. I think you closed 41 but, oddly enough to me, 25 were part of the transformation project, and the balance were not. Where does the 7 million come from? What does it tell us about closing shops?

Philip Bowcock: The 7 million primarily relates to onerous leases. We closed about 112 three or four years ago, and I think that is probably a better place to look if you want a comparison to the cost of closured of shops. These were more exceptional closures than we did three or four years ago.

Ivan Jones: I thought you had quite a favourable lease life within the retail estate, so I am surprised they were onerous leases.

Philip Bowcock: We do on average, but of course within certain places you have onerous leases. The average lease life is good. It is quite low; 3.2, I think.

Ruth Prior: Three years.

Ivan Jones: Why are some shop closures transformational and some normal cause?

Philip Bowcock: It was a specific project to close a number of shops. On average, we will close 20 shops a year, and those will go through ordinary closures which tend to be at end of lease life. These were ones that we specifically picked out and said were out of the ordinary.

Tal Grant (Credit Suisse): First question is on the US. Some of your competitors have been that they are having discussions already with casinos in other states. I assume you guys are as well. Are the economics similar to the economics in Nevada? Or, because there are less states[?], do you have less bargaining power in other states?

Philip Bowcock: I think it is fair to say that everybody is talking to everybody. I think we have established a strong market position in Nevada. It will be different when we go outside Nevada, but I think our experience of dealing with the US regulators is important. The licencing process is not easy. What the Australian[?] customer likes is obviously different from the UK product. This is important and gives us a degree of competitive advantage.

Tal Grant: Okay, but the economics…

Philip Bowcock: We do not quite know how the economics will work out because, as I said, there are three ways this could potentially go. It could either go purely retail, only taking sports bets in a retail environment. It could be the Nevada model, which is retail plus a mobile app signed up for in the retail environment. Or it could go completely remote registration, which is as we have in the UK. I do not expect every state in the US to regulate, and if they do, to go for that end model. I think each one is going to be different, and that is going to decide where we are as to what the economics are going to be.

Tal Grant: On the dividend, you mention there is a risk of that being cut depending on what happens at the triennial review. If it is a £20 outcome, would you commit to keeping the dividend? Or not necessarily?

Philip Bowcock: I am not going to commit to what we would or would not do because we do not know the outcome. If it is a £20, we do not know exactly how it is going to end up, because it will take some time to unwind. We have a policy at the moment which we will keep to, as things are.

Tal Grant: Finally, on Australia, if we could just get an idea of what the core business there is doing, ex the credit bettors who have left, and maybe just give an impression of what credit bettors are doing. Have they given up betting with you guys? Have they found someone else? Or are they shifting to non-credit betting?

Philip Bowcock: It is early days, so I am not going to comment in too much detail, suffice to say that we are encouraged that people are moving away from credit betting, probably a bit better than we thought they would do.

Tal Grant: If you exclude the impact of the credit bettors, could you give us an idea of staking or revenue growth in Australia in H2?

Philip Bowcock: Not at the moment, no.

Brian Dell[?] (Goodbody): The release this morning mentions you intend to take a number of sustainability measures over the coming months. Could you comment on that in more detail? Are there measures likely to impact growth rates going forward?

Philip Bowcock: I think sustainability is a hot topic at the moment, not just in our sector but across many other sectors. I think it is important that as part of the transformation programme we look at not just our costs, marketing spend and other areas that we have spoken a lot about today, but how we interact with various stakeholders, be they around government, regulators, employees, customers; I think we are looking at all areas. It will take time. I think there is a lot of history to tidy up, some of which we have done, some of which we still need to do. I think we need to make sure that specifically the customer understands what they are doing and what they are getting so that the sign-up process is as clear as it could be, the terms and conditions we have on the marketing are as clear as they could be. Many of those will not have a commercial impact, but some may, yes.

Ed Young (Morgan Stanley): Firstly, on your second priority of growing international revenues. The US is now bigger in profit terms than Australia, but outside of those two markets, online wagering was flat in international markets. Is there any other market that particularly interests you? Is there any other drive outside of the regulator markets and online that we can maybe look forward to this year?

Secondly, connected to that. In the statement there is some detail on leadership changes, with Crispin having a slightly different role, and bringing in Ulrik and some changes in online. I just wondered if you might be able to comment on the reasons behind those changes and how you see the shape of that affecting international growth?

Philip Bowcock: I will deal with the second one, which will lead into the first. Crispin, who is sitting at the front, has done a fantastic job in driving the online business. Most of these numbers you see today are because of his drive and determination in the online business, to make it happen. He has got a background in city and corporate development, so it only seemed natural for him to come back into the centre and help drive our international development. His focus, certainly initially, is on how we maximise opportunities in the US.

Ulrik joins us from Betsson, where he had a very successful career operating in the wider European market. I think that gives you an idea of where we are thinking about. I am not going to go into any specific countries or regions where we would look, but I will reiterate: we need to understand where we are with the triennial and the US. Once we know where we are with that, we will then decide whether we go into other countries or regions. Suffice to say that we clearly are scenario planning.

David Jennings (Davy): Firstly, setting aside the triennial, I was wondering what your medium-term expectations are for over-the-counter staking at this point?

Secondly, in relation to the German VAT cost item, I was wondering if you could give us a little more detail? How many years of activity did it cover? What was the effective rate at the time? Were there any penalties involved?

Philip Bowcock: I think if we look at OTC staking levels, I said structural decline; I think there is a decline. Whether it is -1 or -2, if it is there or thereabouts, I think depends on whether it is a tournament year, where you might see a bit of a rebound. It depends on margins to a degree as well, but I think there is a slight decline.

Ruth Prior: I actually know this one. It covers the years 2011-2016. We have been paying VAT since 2016. It was a result of a letter we received from the German VAT office. The way we are handling it, there should not be a fine. In this provision, there is not a provision for a fine. We believe that we will get this resolved with the authorities correctly.

David Jennings: Over the five years, what was the effective rate?

Ruth Prior: It is 15%.

Simon Davies (Canaccord): Firstly, you talked about a step-up in online marketing ahead of the World Cup. Can you give any guidance in terms of where marketing might settle for the full year percentage of NGR?

Secondly, on SSBTs, can you give any indication of what your average gross win-margin was on your machines last year, and where you think store densities could get to?

Philip Bowcock: On SSBT margins, they are slightly ahead of the normal run rate, because there is higher level of football on there. When it comes to the step-up in marketing, there will be step-up because of the World Cup. Our planning is to spend as appropriate, and where we see opportunities to spend, and where we can get returns, we will do. I am not going to land on a number, suffice to say that I think you can see an increase. For us, it is about how we spend, not so much how much we spend.

Simon Davies: Do you think it will increase as a percentage of revenues?

Philip Bowcock: It may be, but not material.

Ruth Prior: A small amount.

Jeffrey Harwood (Stifel): First of all, there is reference to flexibility in the balance sheet. Was that perhaps a hint that acquisitions are more on the agenda again?

Secondly, on the US, under what scenario might you wish to enter into a partnership with an American company? Is that likely?

Philip Bowcock: I think flexibility covers all eventualities, but I think the first point we need to know is where we are, both with the triennial and with the US.

Regarding terms, I think licences in the US is the key area we need to focus on. Without a licence, you cannot operate. It is likely the casinos will have the licences. What commercial terms you enter in on, we are still discussing the opportunities. I am not going to get into detail.

Michael Campbell (Whitman Howard): Could you give us some guidance on capital expenditure for 2018? How might that split between online and retail?

Ruth Prior: I think this business is around 100 million, with more and more focused on online.

Michael Campbell: More and more being 50, 60%?

Ruth Prior: I think it will change gradually this year and more in latter years.

Michael Campbell: Just on the back of that, OpenBet, basically supporting the back end. Do you still really need them? Could you develop your own back end and do away with OpenBet?

Philip Bowcock: You could always develop your own, but for me what is important is the customer-facing piece. That is the piece that we do own, and that has obviously been instrumental in helping drive the numbers we are seeing at the moment. I think the back end is the wallet, the betting engine, and so on. We have a very good working relationship with OpenBet, and at the moment we see no need to change.

Richard Stuber (Numis): Just a question on Spain and Italy. You had some further growth there. Are they both now profitable? If so, could you give a number?

Ruth Prior: They are profitable, and no, we will not.

Brian Dell[?]: Your licence in New Jersey, how is that going?

Philip Bowcock: It is in process.

Brian Dell: It is in process?

Philip Bowcock: I do not see it as a hindrance to operating in New Jersey.

Brian Dell: I am trying to work through the numbers here. I am trying to work through your non-core and Playtech casino. As far as I understand, Playtech casinos or[?] non-core. Playtech casino is 95.2 million. Other markets is 72.5 million. Playtech was up 18%, non-core was up 7. Can you explain?

Philip Bowcock: Can we take it offline? I think it needs more detail.

Brian Dell: The last question is a bit of a cheeky one. Have you been approached by any land-based casino in the US? Do you see yourselves as a likely take-up target?

Philip Bowcock: It is a cheeky question and I am not answering it.

Brian Dell: I thought I would try my luck.

Philip Bowcock: Okay, thank you, everybody, very much for coming, listening and asking questions. I just finally want to say a big thank you to everybody in the team and the organisation who have helped delivered the numbers and where we are today, which bodes well for 2018. Thank you very much.

[END OF TRANSCRIPT]