William Hill Trading Update

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Trading Update

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Highlights

Good morning, everyone, and thanks for joining us. As you will understand, it has been a busy few months, but let me kick off with a few high-level takeaways from this morning's statement. Then we will open up to the usual Q&A.

Overall, we have had an encouraging second half so far. Online is showing early signs of improved performance. Retail's revenues are steady. We have completed the SSBT roll-out and we are on track to make the organisational structure changes in January.

Australia is showing more positive trends, and has had a decent Spring Carnival. The US continues to go strongly.

In terms of Online, it is still early days, but Sportsbook wagering is growing again. In the statement, we reported that UK wagering growth rate is plus 4%.

I will give you a couple other data points. First, if we split out telephone, growth is up 6%. Secondly, if we look at growth in mobile Sportsbook overall, we are up 19% in H2, up from 11% in H1; a clear indication we are getting good traction.

There are also some other encouraging signs. The quality of our actives is improving, with ARPU and average wagering for Sportsbook active up double digits. New accounts and actives will be down for a while, as we have addressed the unprofitable business during Q2 and Q3, but the quality of acquisition is improving, with new sign-ups generating 65% more in revenue in their first month, and a 42% improvement in the retention rate within one month of a new customer joining.

We have delivered more Sportsbook enhancements like expanded streaming, more football markets, and a faster, easier to use cash-in, which is driving in-play growth.

Work on Gaming is going as planned. We have got a fast-loading gaming lobby within Sportsbook for cross-sell. The live casino and game sites have been redesigned, and we have incorporated our proprietary bonus wallet into live casino in games. The Grand Parade team are also integrating well, and working with Online to deliver the Vegas lobby redesign before the end of the year.

Efficiency work

You will also have seen that we are moving ahead with our efficiencies work. Earlier in the year, KPMG scoped out the areas we should address. We have identified opportunities for approximately £30 million of efficiencies on an annualised basis. The scoping exercise has been turned into detailed analysis on each area, plus implementation plans.

The first of these was a review of our digital marketing spend. There is about £15 million of annual spend that can be optimised, and we are going to put that straight back into Online to drive faster digital net revenue growth. The payback will not be quick, but we expect to see an improved run rate as next year progresses, so we will keep you updated with that.

New board members

It is also pleasing to see three new board members joining with very relevant experience, covering the industry, digital growth and omnichannel strategies.

That is all I wanted to cover this morning. Now, I will hand you back to Chris for Q&A.

Q&A

James Ainley (Citi): Good morning, Philip. Two questions please. Can you give us maybe some early evidence on how the SSBTs are performing, and what impact they are having on shops where they have reached a degree of maturity?

Second, can you comment on how much of the share buyback has now been completed?

Philip Bowcock: If we talk about SSBTs, the current run rate in shops where SSBTs are, they are representing about 6% of OTC growth. I think you will have seen that some competitors have indicated that it can be up to 10% of OTC growth. I would concur that that is where we think this is heading towards.

From a share buyback, I think we are up to about £65 million at the moment, and we will continue with that now that we are out of the close period, which we have been in for the last few weeks.

James Ainley: Good. That £65 million is what, year-to-date?

Philip Bowcock: Yes, year-to-date.

James Ainley: Thank you.

Vaughan Lewis (Morgan Stanley): Hi, good morning. First one on retail, please. On the SSBTs, can you just give us how your proprietary ones are performing relative to the BGT ones now? I guess given the order, you are still confident that it is right to in-source those rather than use BGT.

Secondly, with overall revenues stable in retail, should we assume that profits are down a bit given cost inflation, or are the efficiency gains coming through to offset that and keep retail profits stable?

Philip Bowcock: Sorry, can you ask that second one again?

Vaughan Lewis: Sure. Overall revenue is flat in retail: should we assume that profits are down a bit in the period, or are the efficiency gains offsetting normal cost inflation?

Finally, on the Online, the £15 million of marketing efficiencies to be reinvested: what gives you confidence that they will be reinvested more efficiently? Thanks.

Philip Bowcock: Okay. If we go through these: on the SSBTs, the adoption curve we are seeing is as we would expect; I think we are still slightly behind the BGT machines, but that is due to maturity more than anything else. Are we comfortable we have done the right by doing it in-house? Yes, we certainly are.

From a profitability of Retail: yes, we are slightly behind with revenue flat, we are slightly behind at the moment, during the period.

If we look at the reinvestment of these marketing efficiencies: we have gone through a very detailed exercise to understand around digital marketing, if you look at search engine optimisation or pay per click, to actually track through the profitability of the investment we make. By redirecting that spend in the right place and the right way, then we anticipate we will get a return on that investment.

Vaughan Lewis: Great, thank you.

Patrick Coffey (Barclays): Good morning, everyone. I have got two questions please. One is: apart from the online efficiencies you have talked about, there is additional £15 million of efficiencies for next year. Should we assume that that is also reinvested as marketing in Online? Or if not, what would happen with that £15 million? Would it drop through to the bottom line?

Second question is: within the Retail, specifically within omnichannel, some of your competitors have obviously seen making big strides with their omnichannel offering. Can you talk us through how you are going to start closing the gap with those competitors? Thanks.

Philip Bowcock: Okay. If we take the second lot of £15 million, I think the key for me is to make sure we get the business back to market levels of growth. We will reinvest any additional savings over and above the digital marketing in top-line growth, providing we can make sure that top-line growth is profitable. We need to continue to make sure that we are reinvesting top-line growth in a profitable way.

When it comes to the omnichannel piece, I think at the moment the priority is just about making sure we get those SSBTs working optimally. We need to get more product on to them, so we are looking to get horse racing onto those SSBTs in the first quarter next year. Once we have got the optimal product, then I think we will see a drive on the omnichannel going forward.

Patrick Coffey: Sorry, just a follow-up: do you not worry that, in the meantime, your competitors will be taking significant market share from you within Retail as they are pushing their omnichannel?

Philip Bowcock: We do not see any decline in people coming through in our retail environment. Do I have concern? Yes, I have concern; I do not have massive concern. What I am concerned about is making sure we have got the best product for our customers, in Retail but also more importantly in Online, to make sure we have the best Online product.

Patrick Coffey: Great, thank you.

Philip Bowcock: Thanks.

Brian Devitt (Goodbody): Good morning, guys. Could you give the figure of how much B3 content accounted for, in machines?

Also, secondly: could you comment on the wagering performance in Retail?

Philip Bowcock: The machines number is about 35%. Wagering: did you say wagering in OTC?

Brian Devitt: I did, yes.

Philip Bowcock: A lot of moving parts have been going on in wagering in OTC. I think, encouragingly, football wagering is up in the 17-week period we are talking about, so that is encouraging, although margin is down. We are seeing a lot of people betting on both teams to score in OTC, so that has had a negative effect on the margin because a lot of teams have been scoring. We have seen high levels of turnover, and continue to see a high level of turnover in tier three horse racing. In those areas, we have had a good margin. Actually, as a result of the lack of recycling, or reduced recycling, we have got a lower turnover in horse racing, especially in tier three. Also, greyhound has been affected by wagering as well; we have had lower wagering in greyhounds.

Brian Devitt: Okay, thanks, guys.

Philip Bowcock: Cheers.

Joe Thomas (HSBC): Good morning. Just a couple of things, please. Firstly, Australian in-play betting: can you perhaps give a sense of how much that has been contributing, and how much it will affect you next year as it comes out?

Secondly, marketing as a percentage of net revenue: can you give us a sense of where that was in the quarter?

Finally, I appreciate this update only goes to the 25th October, but since then you have had the DDoS attack. I was wondering if you could quantify what the impact of that has been?

Philip Bowcock: I will do it in reverse order, just to keep myself occupied. The DDoS attack: we had a couple of outages on the Tuesday and the Wednesday. We saw a return to wagering growth at the weekend; certainly on the Sunday, when actually it was the bigger English Premier League day. It is always difficult and concerning when you have these sorts of events, but we have done everything we can to keep our customers abreast of the situation. At the moment, we do not see it is likely to have any material impact on the business going forward.

With regards to marketing, I am not going to give individual percentages for marketing spends during periods. Suffice to say that I think we have continued to spend as we see fit during this 17-week period.

In-play betting in Australia: it has certainly had an effect, as you would understand. We have what we think is the probably the most efficient telephone-based process, voice-activated process out there at the moment. We are constantly monitoring to see how that flows through, and to see what substitution there is from in-play to normal betting levels. I think, for me, the most important thing in Australia is to make sure we have a very good product, and that Australia becomes a product-led business more than anything else.

Joe Thomas: Do you know what Australia in-play is, as a percentage of stakes or revenue?

Philip Bowcock: It is around 11%.

Joe Thomas: Of revenue?

Philip Bowcock: Year-to-date turnover.

Joe Thomas: Okay. Thanks.

Richard Stuber (Numis): Hi, good morning. Just one question from me actually. Regarding the abortive M&A attempts so far this year, could you say what the cash exceptional costs may be, or what we could expect in the full year?

Philip Bowcock: I am not going to go into any level of detail. Suffice to say, we will have one and it will clearly be higher than it was at half year. We are currently working through the exact numbers. We know broadly where we are, but I do not want to give it to you yet.

Richard Stuber: Okay, thank you.

David Jennings (Davy): Hi, good morning, Philip. Two questions, please. Firstly, I am just following up on James' question regarding SSBTs. I believe you said that SSBTs are accounting for about 6% of growth. Given that OTC is not growing, I am just wondering: did you actually mean 6% of OTC revenues at this stage?

Philip Bowcock: Yes, sorry. If I said growth, I meant to say OTC revenues, 6% of.

David Jennings: That is fine, thank you. Secondly, I was just wondering what is your latest expectation regarding the timing of the regulatory review once the consultation period concludes?

Philip Bowcock: I think the regulatory review to due to report back sometime in the end of the first quarter. Thereafter, I imagine there will be another period of consultation, and then after that there will be a period of implementation. We can all speculate as to where it is, but I think implementation, depending on how significant that implementation needs to be, could be towards the back end of year until it takes effect.

David Jennings: Thank you very much.

Alistair Ross (Investec): Good morning, guys.

Philip Bowcock: Good morning.

Alistair Ross: Just a very quick one. In terms of Retail, I see your gaming machine net revenue is up 6%: do you have any idea how much of that is due to a mix change in B2 and B3 content? Just given that B3s run on a much higher gross margin?

Philip Bowcock: I think it is immaterial. I think this is all to do with our better ways of working, more games, being more proactive in delivering what the customer is looking for.

Alistair Ross: Okay. Thanks.

Simon French (Cenkos): Good morning, Phil.

Philip Bowcock: Good morning.

Simon French: Just a quick one on the Retail restructure. Can you just give us some colour on exactly what is going there and the quantum of cost savings, and what that will do to offset cost inflation in Retail next year, please?

Philip Bowcock: This is not so much about cost savings; this is more about cost mitigation as well, around the national living wage. This is about changing the way we organise, making it a more efficient structure for the Retail organisation. So, this is putting in regional managers – clusters, in effect – and just operating in a more efficient way: actually taking out more people at the top and putting more in at the bottom end.

Simon French: Are you able to give a view on what cost inflation will be in Retail next year, at the current time?

Philip Bowcock: No, I think it is going to be about 2–3%. That is probably broadly where I would be.

Simon French: Okay. That is great, thanks very much.

Jeffrey Harwood (Stifel): Good morning. Just a few questions. First of all, the timeout self-exclusion: is that panning out as expected?

Secondly, of the £15 million non-marketing savings, could you give some details on where they accrue?

Thirdly, is there anything to say on progress in appointing a new Chief Executive?

Philip Bowcock: I will leave the last one to others bigger and greater than I am; I am sure Gareth will comment at some point on that. Suffice to say that the recruitment is ongoing.

With regards to this additional £15 million, it is going to accrue from a number of areas. If I point out a couple: I think general procurement is one area of focus, as is general marketing spend as well, outside of digital marketing.

On timeouts and self-exclusions, we have not seen any material change since we updated the market at the half year.

Jeffrey Harwood: Okay, thank you.

Philip Bowcock: Okay. Listen, thank you very much everybody for dialling in, and thank you for the questions. The team will be around for the rest of the day should you have any additional questions. Otherwise, have a good day. Thanks very much indeed.

[END OF TRANSCRIPT]