

William Hill PLC

Continuation of key first half trends in Q3 leaves William Hill on track for full-year expectations

27 October 2011

William Hill PLC (LSE: WMH) (William Hill or the Group) announces its Interim Management Statement for the 13 weeks ended 27 September 2011 (the period or Q3). All comparisons are with the equivalent 13-week period in 2010 (Q3 2010).

The key financial highlights of the period were as follows:

- Group net revenue grew by 2% and was up 5% in the year to date;
- Retail net revenue decreased by 3% and was flat in the year to date;
- Online net revenue grew by 28% and was 25% up in the year to date; and
- Group Operating profit⁽¹⁾ was 22% lower in the period, 3% lower in the year to date.

Ralph Topping, Chief Executive, commented:

“We have delivered a solid performance in Q3, in spite of a highly competitive market place and a tough consumer environment. We continue to invest in product, pricing and innovation, bringing customers the best high street and online betting and gaming experience.

“Pleasingly, Online net revenue growth accelerated in the quarter, as did underlying amounts staked over-the-counter in Retail, and our long-term track record of growth in machines continued in Q3. Internationally, the initial performance of William Hill Online’s new Italian casino website is beating expectations having taken around 8-9% market share and we are the most successful of the non-domestic new entrants.

“The Q3 margin is broadly in line with our long-term average for this quarter but is below the unusually high margin seen in Q3 2010, driven up by football results. Accordingly, Group profits are lower year-on-year, primarily as a result of this and the planned significant increase in Online investment.

“With our leading brand, strong technology, differentiated products and understanding of our consumer, we have a unique opportunity right now to invest to take market share. In the UK, we will be trialling second-generation Storm gaming machines, new self-service betting terminals and high-definition video walls in the shops before the end of the year. Across Europe, we are now investing in a highly focused way in key territories such as Italy and Spain for the long-term benefit of the business.”

Trading overview

(a) Group performance

Group net revenue was 2% higher than in Q3 2010. Although this was a lower growth rate than seen in the first half, the comparator period in 2010 benefitted from a particularly strong margin performance driven by the World Cup and a strong early domestic football season.

The combined effect of the weaker year-on-year margin, planned increases in Online investment levels and a loss-making performance from the Group’s Telephone channel has led to a 22% decline in Group Operating profit⁽¹⁾ in the period, although this results in only a 3% decline year-to-date.

The Group’s net debt for covenant purposes fell to £426.8m at the end of the period (£460.1m as at 28 June 2011).

(b) William Hill Online

William Hill Online’s net revenue growth remains strong, up 28% compared with Q3 2010.

Sportsbook continues to perform strongly with amounts staked 51% higher than in the same period of 2010, including growth of 61% in in-play turnover and more than 250% in mobile betting amounts staked. The

Sportsbook gross win margin was 6.9%, which was 200 basis points lower than in the same period in 2010. As a result, net revenue grew 17%.

On the gaming side, Casino growth has been excellent, up 41%, including 40% growth from products designed for cross-sell from Sportsbook. Overall, gaming net revenue grew 34%, including 14% growth from Poker and 9% from Bingo.

William Hill Online launched a licensed Casino site in Italy at the start of the quarter. Initial performance has been above expectation, with early figures from the Italian regulator, AAMS, indicating William Hill Online is the strongest performing of the non-domestic new Casino entrants to the Italian market.

Mobile continues to grow strongly following the launch of the new mobile Sportsbook. Sports-betting turnover was up more than 250% in the quarter and total net revenue from mobile betting and gaming increased by more than 300%.

Costs overall are higher as William Hill Online is paying gaming duty in Italy and accruing payments for Spain and Greece and, as planned, is making significant marketing investments, primarily in the UK and Italy.

The Online business delivered £24.5m of Operating profit⁽¹⁾ in the period, down 7% on the prior year. Playtech's non-controlling interest was £7.4m.

On 25 October, the Group confirmed that, following discussions, the disruption in a number of William Hill Online locations had been resolved and normal business activity had been resumed. As part of the discussions, agreement was reached with seven senior William Hill Online managers who have now left the business. The Board is confident William Hill Online has tightened its control of the operation as a result of this change.

(c) Retail

Retail has delivered a good OTC amounts staked performance against a period that included a World Cup in 2010. OTC amounts staked were flat in absolute terms and grew 1.6% on an underlying basis, excluding the two World Cup weeks. Retail has particularly benefitted from further improvements to its football offering, a 24% increase in football amounts staked since the start of the English domestic season in August.

OTC gross win margin was below the prior year at 16.6% (2010: 18.2%), driven by less good football results, although the horse racing margin held up well during the quarter. This is broadly in line with long-term averages for this quarter. As a result, Retail net revenue was down 3%, with OTC net revenue down 9%.

Sustained growth continued to be seen from gaming machines, with net revenue up 6% and gross win up 8%, which shows the underlying performance before accounting for the increased VAT costs. Gross win per machine per week increased year-on-year to £890 (Q3 2010 - £844).

The Group continues to invest in expanding and enhancing the estate, and to innovate to improve the customer offering. Twenty-four new licences have been opened in the year-to-date and the number of shops open at the end of the period was just under 1% higher at 2,375. Trials of the second-generation Storm multi-screen cabinet, new self-service betting terminals and 'video wall' gantry systems are starting before the end of the year.

Operating costs increased by 4%, in line with the Group's expectations. Operating profit⁽¹⁾ for the channel fell by 18% year-on-year.

(d) Telephone

The Telephone channel saw a weak gross win margin of 4.1% in the quarter (Q3 2010: 10.1%) driven by high roller activity, which led to an Operating loss⁽¹⁾ in the quarter. The Group views this as an important channel, which also offers a niche service for certain high value customers. We are investing in offers such as Best Odds Guaranteed which, while impacting the business in the short term, are necessary to remain competitive.

US acquisitions

The Group is applying for a Nevada Gaming Commission Licence. The acquisition of three land-based sports-betting businesses in the US is conditional on the granting of local regulatory licences. Initial reviews of the business have been undertaken and further meetings with the Nevada Gaming Commission are planned for the coming months. The process is expected to complete in 2012.

Discussions with Probability plc

On 20 September, the Group confirmed that it is in preliminary discussions with Probability plc (AIM: PBTY) that may or may not lead to an offer for Probability. On 17 October, it was announced that an extension had been granted under which William Hill must, by no later than 14 November 2011, announce a firm intention to make an offer or announce that it does not intend to make an offer for Probability. This deadline can be extended with the consent of the Takeover Panel. Discussions between William Hill and Probability are continuing. There can be no certainty that an offer will be made nor as to the terms on which any offer would be made.

Fiscal and regulatory developments

In July, the Department of Culture, Media and Sport (DCMS) in the UK announced its intention to establish a new licensing regime for offshore online operators in order to provide enhanced protection for UK consumers. In the Group's view, there is no public protection risk in the current regime and, therefore, no real justification for the proposed dual regulation. However, should the DCMS pursue this route, the Group is well placed as William Hill Online already operates to UK standards. The Group intends to be fully involved in shaping a proportionate and effective regime, including appropriate enforcement measures.

Arising from this announcement, HM Treasury announced that they would review the current legislation and framework of taxation as it relates to offshore companies targeting UK consumers. The Group's Online and Telephone businesses are currently based in Gibraltar and, as such, the Group could be affected by any changes but it is too early to assess the impact as HM Treasury has not yet advocated any specific proposal.

Discussions are currently ongoing to agree the 51st Levy for the period from 1 April 2012 to 31 March 2013. If the bookmaking and racing industries are unable to reach agreement by 31 October, the matter will be referred to the Secretary of State for determination. In parallel, discussions are continuing about possible approaches for the future funding of UK horseracing.

Outlook

The Board remains confident in its expectations for the full year and is encouraged by the underlying trends and excellent growth in the Online business, a robust performance from Retail and good initial results from our international investments.

Notes

(1) Operating profit/loss is defined as pre-exceptional profit/loss including associates and excluding interest, tax and amortisation relating to Online trade names, affiliate relationships and non-competition agreements.

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Analyst conference call

Ralph Topping, Chief Executive, and Neil Cooper, Group Finance Director, will be hosting a conference call for analysts at 8.15 a.m. BST. Dial-in details for the call are:

UK telephone: 0845 634 0041
International: +44 (0) 20 8817 9301
Passcode: 5870 685

An archive of the call will be available after the call until Wednesday, 2 November 2011. Dial-in details for the archive call are:

UK telephone: 020 7769 6425
Telephone: +44 (0) 20 7769 6425
Passcode: 5870 685#

An audio webcast of the call will be available at www.williamhillplc.co.uk

Notes to editors

William Hill is a leading betting and gaming company. It is one of the UK's largest bookmakers with over 2,350 LBOs in the UK and Ireland that provide betting opportunities on a wide range of sporting and non-sporting events and, in the UK, gaming machines are offered in every LBO. The Group's online business, William Hill Online, is one of the leading European online betting and gaming businesses by profitability, providing sports betting, casino games, poker, bingo, numbers betting and skill games.