

William Hill PLC

Good growth in key areas but sporting results less favourable

3 October 2013

William Hill PLC (LSE: WMH) (William Hill or the Group) announces its unaudited Interim Management Statement for the 13 weeks ended 1 October 2013 (the period or Q3). References to the year-to-date relate to the 39 weeks to 1 October 2013. All comparisons are with the 13-week period ended 25 September 2012 (Q3 2012) or the equivalent 39-week period in 2012 unless otherwise stated.

Key operational highlights for the quarter

- Strong growth continues in Sportsbook amounts wagered, up 42%, with football Sportsbook wagering up 49% and mobile wagering on Sportsbook up 115%
- Mobile gaming net revenue increased 126%, with mobile accounting for 18% of gaming net revenue
- Retail football staking increased 27% in the quarter
- Commenced roll-out of Eclipse gaming machines into half the Retail estate
- Further developed William Hill Australia with the £20m acquisition of tomwaterhouse.com, extending our Australian presence into a wider recreational customer base
- Good progress on William Hill Australia growth strategies with improved first time deposit trends and actions taken to reduce average cost per acquisition by the year end
- 47% growth in wagering in William Hill US as product proliferation and mobile expansion drive strong growth
- Exercised call option over the Spanish Miapuesta brand and commenced integration into the William Hill brand in that market

Key financial outcomes for the quarter

- Overall quarterly performance impacted by quiet July trading in Retail together with lower results-linked gross win margin in the quarter
- Retail over-the-counter (OTC) gross win margin down 0.8 percentage points and Online Sportsbook gross win margin down 1.5 percentage points versus Q3 2012
- Group net revenue¹ grew by 10% in Q3, up 4% on the comparable quarter after adjusting for Machine Games Duty (MGD), and is up 17% on a year-to-date basis, up 10% on an underlying basis after adjusting for MGD
- Group Operating profit² was down c£24m or 31% in the period, down 4% year-to-date

Ralph Topping, Chief Executive, commented:

"I am pleased with the progress we have made in our strategic development during the third quarter. Online Sportsbook staking growth goes from strength to strength, with growth in football wagering accelerating at the start of the new season driven by increased products, successful marketing and a strong focus on our prices and offers ahead of a World Cup year in 2014.

"Our intensive attention to the development of Mobile Online continues to yield results, generating 41% of wagering in Sportsbook. Mobile gaming is developing well, too, with net revenue growing by 126% in the quarter.

"During this quarter, results were not as favourable as in the comparable period, with outcomes – particularly in football – going the punters' way. Consequently, gross win margins are below the prior year in both major channels, and below normalised expectations in Sportsbook. It is of course important in our business to look through the impact of short-term results on trading.

"Additionally, we saw a disappointing Retail performance in July. However, football wagering in Retail has grown in Q3 and the rollout of our new Eclipse gaming machine has begun.

"In Australia, we are making good progress with our strategy to expand the business into a wider, more recreational customer base. We are establishing a very strong team with the right digital experience to

take the business forward. The acquisition of tomwaterhouse.com is an important building block for us in this regard.

“Given trading in the quarter, operating profit was around £20m below our expectations for this period. While the fundamental performance of the Group remains good and there is time for the Group’s shortfall versus internal expectation to be recouped should results turn in our favour, there can be no certainty that we will make up this shortfall before the end of the year.

“Staking levels and machine performance in our shops picked up in August and September from their July lows and Sportsbook wagering levels generally across the quarter give us continued confidence in the underlying strength of the business, when allied to the improved trends in Australia and the strong wagering growth being generated in the US. Therefore, we remain confident in the business and are encouraged to see signs that we are benefitting from our investments.”

Trading overview

(a) Group performance

Group net revenue increased 10% in Q3 and 17% in the year-to-date (4% in Q3 and 10% year-to-date on an underlying basis)¹. Operating profit² was down 31% in the period and is down 4% year-to-date.

(b) Online

Overall Online net revenue was 2% lower in the period but remains up 11% year-to-date.

Sportsbook turnover growth accelerated in Q3, up 42%, with in-play up c30% and pre-match up c50%. Sportsbook gross win margin was 6.3% (Q3 2012: 7.8%). Sportsbook net revenue was 1% lower. Mobile Sportsbook turnover grew 115% and accounted for 41% of the total Sportsbook turnover in the period. Mobile Sportsbook margin was 7.4%.

Gaming net revenue was down 3% in Q3. The quarter remained affected by market closure in 2012 but we also saw a c£2.5m loss to a customer during August. Excluding these factors, underlying gaming net revenue was up 5%. Casino net revenue was down 2%. Bingo and Poker net revenues were down 6% and 11%, respectively. We are continuing to invest in enabling the business to take advantage of the trend towards mobile gaming and have seen mobile gaming net revenues increase 126% in the period, representing 18% of total gaming net revenues.

Online operating costs were 12% higher, better than internal expectations. Marketing costs represented 26% of Online’s total net revenue.

Operating profit² was down 28% against Q3 2012 and is up 1% year-to-date.

We exercised our call option over the Spanish miapuesta brand during the quarter and are integrating the existing miapuesta customer base into the William Hill brand in that market. There will be additional exceptional costs of c£2m incurred as a result of this option exercise and its associated integration.

(c) Retail

Retail net revenue grew 5% in Q3 and fell 4% on an underlying basis¹. In the year-to-date, net revenue was up 9% or flat on an underlying basis.

OTC amounts wagered were down 2% in the period, primarily as a result of a quiet July, with amounts wagered up 1% since then, benefitting from good trading in August. There was a year-on-year negative swing of 0.8 percentage points in the OTC gross win margin, from 18.5% in Q3 2012 to 17.7% in Q3 2013. As a result, OTC net revenue was down 6%.

Gaming machine net revenue was up 18% in the period or down 2% on an underlying basis¹. Gross win per machine per week was £848 (Q3 2012: £888). We have rolled out the new Eclipse machine to 207 shops to date and aim to complete the roll-out to 1,228 shops by the end of February 2014. Again, performance was weaker in July than in either August or September.

Operating costs were up 6% and are in line with full-year expectations. Operating profit² fell 27% in Q3 and is down 10% year-to-date.

(d) William Hill Australia

We continued to progress our strategy to expand William Hill Australia's footprint with the acquisition of tomwaterhouse.com in August 2013, giving us an increased exposure to a wider, more recreational customer base. We have also strengthened William Hill Australia's management team with the appointment of a new Marketing Director, Chief Technology Officer and Head of Digital Operations, increasing the levels of digital expertise in these key areas.

We are making good progress in refocusing marketing activities from offline to online as we roll off existing sponsorship contracts. Positively the rate of decline in Sportingbet first time deposits has reduced, at -18% for Q3 versus the prior year as compared to -41% in our first period of ownership. Including the tomwaterhouse.com brand, total first time deposits for the period were 10% ahead of the comparable period on a pro forma basis. We expect that a combination of increases in first time deposits and the changes being made to marketing will lead to a substantial fall in cost per acquisition by the year end and this trend is already apparent. A review of the brand strategy for the marketplace is ongoing.

We made an Operating profit² of c£2m for Sportingbet in the typically quieter Q3 with net revenue 17% ahead of the prior year in Australian dollars for the period.

To recap on the acquisition of Tom Waterhouse N.T. Pty Limited (tomwaterhouse.com) which took place during the quarter, there was an upfront cash consideration of A\$34m (£20m), together with the assumption of up to \$6m (£3m) of balance sheet liabilities. A potential additional earn-out on a sliding scale of up to A\$70m in cash is payable, subject to tomwaterhouse.com achieving incremental operating profit on a sliding scale between A\$10m and A\$30m in the year to 31 December 2015. The acquisition brings William Hill additional scale in the regulated and rapidly growing Australian online betting market, exclusive access to key media deals and a complementary customer base with limited cross-over into our existing customer base. tomwaterhouse.com will continue to be run as a separate brand through the earn-out period. As previously indicated, the impact of this transaction is expected to be marginally negative in 2013 with an Operating loss² of up to £2m together with \$7m (£4m) of exceptional costs.

(e) Other channels

Telephone made an Operating loss² of £1.3m in the period with gross win down 25% on a reduced margin of 5.5% (Q3 2012: 7.1%).

William Hill US continues to benefit from the product and operational improvements we have made during the last year. Amounts wagered were up 47% in the period, with strong growth in mobile wagering and arising from the expansion of in-play product expansion. Net revenue was down 32% year-on-year on a gross win margin of 5.4% (Q3 2012: 11.6%).

Fiscal and regulatory developments

In the UK, submissions have been made to the Department of Culture, Media and Sport on its consultation on gaming machine stakes and prizes. Publication of the Department's response is expected in due course but no timeline has been specified.

Material events, transactions and financial position

Movements in the financial position, including levels of borrowings, of the Group since the last balance sheet date of 2 July 2013 are reflective of the trading performance and transactions outlined above. Other than this, there have been no significant changes in the financial position of the Group.

Outlook

While the fundamental performance of the Group remains good and there is time for the Group's shortfall versus internal expectation to be recouped should results turn in our favour, there can be no certainty that we will make up this shortfall before the end of the year.

Staking levels and machine performance in our shops picked up in August and September from their July lows and Sportsbook wagering levels generally across the quarter give us continued confidence in the underlying strength of the business, when allied to the improved trends in Australia and the strong wagering growth being generated in the US. Therefore, we remain confident in the business and are encouraged to see signs that we are benefitting from our investments.

Notes

¹ Group and Retail net revenue performance numbers are flattered by the transition from VAT and Amusement Machine Licence Duty to MGD on 1 February 2013. Underlying numbers are provided in the narrative.

² Operating profit/loss is defined as pre-exceptional profit/loss before interest and tax, before the amortisation of specifically identified intangible assets recognised on acquisitions.

Enquiries		
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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 8.30 a.m. BST. Dial-in details for the call are:

UK telephone: 0800 368 0649
International: +44 20 3059 8125
Password: William Hill

An archive of the call will be available after the call until Thursday, 17 October. Dial-in details for the archive call are:

Telephone: +44 (0) 121 260 4861
Passcode: 9896231#

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

Notes to editors

William Hill, The Home of Betting, is one of the world's leading betting and gaming companies, employing more than 17,000 people. Founded in 1934, it is now the UK's largest bookmaker with around 2,400 licensed betting offices that provide betting opportunities on a wide range of sporting and non-sporting events, gaming on machines and numbers-based products including lotteries. William Hill Online (www.williamhill.com) is one of Europe's leading online betting and gaming businesses, providing customers with the opportunity to access William Hill's products online, through their mobile, by telephone and by text services. William Hill US was established in June 2012 and provides land-based and mobile sports betting services in Nevada, and is the exclusive risk manager for the State of Delaware's sports lottery. The Group acquired the Sportingbet Australia business in March 2013, which is one of the leading online corporate bookmakers in Australia, offering sports betting products online, by telephone and via mobile devices. William Hill PLC is listed on the London Stock Exchange and became part of the FTSE100 in May 2013. The Group generates revenues of over £1.2bn a year.