William Hill Trading Update and Q&A

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JAMES HENDERSON, CHIEF EXECUTIVE OFFICER

Thank you. Good morning, everyone. As usual, Neil is with me and will cover off the numbers shortly.

For me, the results are a straightforward story today.

- We've delivered our highest ever profit result;
- We're well positioned competitively under the new Point of Consumption regime; and
- We're continuing to diversify the business with 18% of revenues now coming from outside the UK.

In terms of Q4 and closing out the picture for the year: as I'm sure you've gathered by now, we paid out around £19m on Boxing Day in Retail and Online, mostly thanks to Premier League favourites winning. In Online, we saw nine of our ten most backed matches go to the favourite and that extended to 17 of the top 20. It was very much about the accas paying out, across more than 700,000 bets, which is great news for our customers. Racing, including the King George, was also bad that day.

Results for the next two days were more favourable and we still came in slightly ahead of market expectations for operating profit on a full-year basis. Since the start of the new year, results have been mixed, with extremely unfavourable football results this last weekend being the biggest feature of the year so far.

Looking beyond results, other trends in Q4 remain positive. Online saw double-digit growth on sports betting turnover again. And gaming revenue continued to grow in both Online and Retail. Eclipse is now in 70% of our estate with full roll-out due to be completed in Q2.

The US continues to perform ahead of expectations. Margin was broadly in line in the quarter but revenue was driven by good turnover growth, up 20% in Q4 and 21% in the full year.

In Australia, the margin and gross win have improved benefiting from the reshaping of our client base after the race field fee increases. Spring Carnival was also much better than in 2013 with 40% of favourites winning the group races against 54% the year before.

We've also announced today that we're moving to the William Hill brand in Australia. We'll start with the Sportingbet website, ahead of the start of the rugby season and the autumn carnival, then we'll migrate Centrebet later in the year and Tom Waterhouse in 2016. I'm confident this is exactly the right move to make this business as competitive as we possibly can.

- We now have a great management team who completely understand our digital vision
- We've reshaped the operations and marketing focus
- We've improved the desktop user experience
- We've a number of mobile improvements planned
- We're delivering a vastly expanded product range
- And now we're rebranding

These kind of changes were behind Online's strong growth and I'm confident they will have a similar impact in Australia too. Putting our full weight behind one brand is critical and we've increased the marketing to ensure a positive launch. But, much more importantly, by focusing in this way William Hill will, in effect, have substantially more marketing behind it than any one of the three brands has had so far. And Tom and his team are very excited about the opportunity ahead of them.

We're also still moving ahead positively on responsible gambling. The Senet Group's advertising campaign is underway and we'll be getting behind an industry-wide Responsible Gambling Week at the end of this month to increase awareness. We're making good progress towards introducing the £50 journey, with the three journeys for those staking £50 to £100 now well-defined and the technical changes are on track for an

April launch. We've also made it mandatory for customers to decide whether or not to set their limits at the start of play, which will apply from the end of January. Finally, the data from the Responsible Gambling Trust's two-year research programme means we're now in a much better position to achieve data-led decisions.

Now let me hand over to Neil to run through the numbers.

NEIL COOPER

Thanks, James

Quarter 4 operating profit fell 7% on the prior year comparable, with weaker sports gross win margins impacting profit progression in both Retail and Online. However, we continue to show positive momentum in gaming across both Online and Retail, with Retail profit performance further benefiting from strong cost control. The US saw continued top line growth and a consistent margin, leading to good profit growth and Australia benefited from an improved run of results through the Spring Carnival.

Focusing on Retail, whilst OTC wagering fell 1% in the quarter against the comparable period, this was impacted by the closure of a portfolio of 108 shops during the second half. Adjusting for the impact of this, wagering was up 1% during the quarter. Slip count was down consistently but pence per slip strengthened through the quarter. Gross win margin was 17.7% versus the 20.3% comparable, hence OTC net revenue fell 14%. The main driver of this weaker performance was football but horse racing margin also fell. Machines net revenue grew 3% in the quarter, or 6% after adjusting for the impact of the closure portfolio. Gross win per machine per week was up 6% from £920 in 2013 to £974 in 2014.

Operating profit fell by 13%, with strong cost control helping to mitigate the impact of falling sports margins, as Retail operating costs fell by 4%. Staff costs fell as a result of single manning, and other costs benefited from – amongst other things – the impact of the portfolio of site closures and favourable rent negotiations. Full year operating costs were broadly flat on the prior year.

52 shops were opened in 2014, 108 were closed in our exceptional portfolio exercise and 14 other shops were closed. This meant that the estate reduced in size by 3%, falling from 2,432 units at the end of 2013 to 2,362 units at the end of 2014.

As sports results impacted Retail progression, so it did Online. Online gross win margin fell from 8.1% in quarter 4 2013 to 6.8% in 2014. The margin weakened across the quarter, with marked weakness in December. In particular, we saw a Boxing Day wipeout, with both Retail and Online suffering their worst single day loss of the year. In Online, the results of 9 of the top 10 and 17 of the top 20 staked teams went to the favourite. This was worsened by a heavy concentration of betting, given the lack of European football on that day. Wagering trends in Online improved across the quarter: wagering grew 16% for the quarter as a whole, but 26% in December.

Online gaming net revenue was up 11% in Q4 versus the comparable period. Both October and November saw 15% growth, but growth rates slowed in December, impacted by a high roller loss and by a less favourable daily comparative across the holiday period.

The quarterly marketing to net revenue ratio was 25% and the full year marketing to net revenue ratio for Online is expected to be around 25%, with free bets accounting for 0.8% of wagering. The comparable full year figures in 2013 were 27% and 0.8% of wagering respectively. As previously guided, we expect that 2015 marketing costs will be broadly flat in absolute terms and therefore that the marketing to net revenue ratio will fall further, as we reduce the marketing ratio run-rate as a response to the onset of Point of Consumption (POC) tax.

Versus the comparative, other operating costs grew 11% in Q4 and cost of sales grew 43%, with POC costs in December pushing this up.

The US saw 20% wagering growth in Q4. With a gross win margin of 8.1%, versus 8.3% in 2013, the business saw operating profit grow by 14%.

Australia benefited in the quarter from a stronger Spring Carnival. Gross win margin was 9.9%, versus 7.6% in the prior year fourth quarter. Wagering fell 19% in sterling, or 13% in local currency, in part continuing to reflect the changes being made as a result of race field fee increases, changes which also benefited margin progression. Underlying progress continues to be made, with unique actives up 9% in the quarter. Operating costs fell 6% in sterling, and operating profit grew 59% in sterling.

You'll note from our announcement this morning our intention to rebrand the Australian operations to William Hill over a phased timetable next year. This has given rise to a shortening of the useful economic life of the intangible brand assets we hold for Centrebet and Sportingbet, the resulting acceleration of amortisation and, as a consequence, an exceptional non-cash charge.

Moving to the full year, on an un-audited basis, we expect Group net revenue to be up circa 8% and Operating profit to be up circa 11%, with Operating profit of around £371m and EBIT of £362m, after c£9m of pre-exceptional defined amortisation. I expect the full year pre-exceptional tax rate to be 20%, with 2015 remaining at 19%.

In regards to exceptional costs, the Group saw £26m of exceptional pre-tax costs in the first half of 2014, relating to our shop closure portfolio, the finalisation of the tomwaterhouse.com acquisition and resolution of its buyout together with Australian re-structuring costs and other items.

As flagged at the Q3 IMS, we've incurred a further £3m in relation to the finalisation of the closure portfolio in the second half. As well as this, the Group has resolved ongoing discussions on a specific matter with HMRC which has allowed the release of c£15m of corporation tax provisions no longer deemed necessary and has booked a £10m charge relating to a provision for potential European indirect taxes. Both items will be treated as exceptional given their scale and non-recurring nature.

I should also flag the onset of the EU VAT directive which obliges us to provide for VAT in certain European markets on a 'point-of-consumption' basis. The impact of this, together with other European indirect tax changes going forward, will be c£5m per year.

From a balance sheet perspective, we expect around £603m of net debt for covenant purposes at the year end which reflects around 1.4 times cover versus EBITDA.

That's all I want to cover today. We will, as ever, go into more detail when we see you at the final results presentation on 27 February. For now, I'll hand back to James.

JAMES HENDERSON, CHIEF EXECUTIVE OFFICER

Thanks, Neil.

Now let's hand over for Q&A. As ever, we'll do more detail when we get to the final results at the end of February but we'll cover what we can for you today.

Q&A

Chris Stevens (UBS): Hi guys, I have two questions please. Firstly, are you able to quantify just how bad week three was? You said Boxing Day it was a 19 million loss; is that worse than any of the weeks you saw last year? And then on that, how do you think about this volatility in results going forward?

And then the second question is on the point of consumption tax. We are about two months in since it was introduced now. Have you seen any changes in competitive behaviour? Thanks.

James Henderson: If I can just take week three first, I talked about nine out of the top ten spots winning, which then translated into 17 of the top 20. That was pretty similar in regards to what happened in 2014; I cannot go any further than that, however it was a pretty similar experience.

In regards to volatility going forward, there is certainly more volatility. I think what I can say is that we had three instances in 2014 – two, 12 and week 52 – yet we still came out at the end of the year 11% up on operating profit, which would suggest on the other side there were some very positive weekends as well. And also we are not looking to change our margin guidance, as it stands at the moment.

In regards to POCT, it is probably very early, too early to say at this stage. Obviously the licence started from November and the tax from December, so it is still very early days.

Patrick Coffey (Barclays): Morning guys. Three questions from me, please. The first two are on that theme of competition that Chris mentioned there, and the third is on Australia.

So firstly: what was driving the slight slowdown in online amounts wagered? I would have thought that the punter-friendly results in Q4 might have led to a higher level of recycling? Is that a kind of lag effect, because Boxing Day was near the end of the quarter, so should there be some higher recycling at the start of Q1 2015?

Secondly, the momentum in gaming net revenue has slowed in Q4 having seen some good momentum throughout the year. Are both of these trends down to heightened competition in the UK online sector in Q4, or is it something else that you can explain?

And just finally, then, on Australia, we saw on the slides from the Australia Investor Day that prompted brand awareness of the William Hill brand was 21%, versus competitors like SportsBet who were more like 80%. How quickly do you think that the William Hill brand can close that gap, and in the short-term how do you protect against customer migration? Thanks.

James Henderson: Okay, in regards to your first point around Q4 wagering, you are right: there probably is a lag effect. Boxing Day was probably three days before our year-end and therefore you can expect that to be recycled back in January, and obviously week three would go into that mix as well. In regards to gaming net revenue in the quarter, which was 11%, that was impacted by a high-roller impact at the time, so that is in the numbers there. And in regards to Australia, yes brand awareness was 21%, and that was because we were only Powered By, at that stage. However, obviously in regards to closing that gap, when we are fully behind one brand with all the additional marketing spend that that will encompass, then you would expect us to narrow the gap quicker than through Powered By.

Neil Cooper: If I could just add one more thing on the wagering, Patrick. Obviously what I said this morning was that our December numbers were much stronger than the quarterly average, so you can infer from that that the earlier part of the quarter was worse, and frankly we were rolling over what had been a very successful and big step up in our wagering trends in 2013.

You will recall that we changed our bonus policy, or free fair-value adjustment policy for the start of the 2013/2014 season. It was very successful, so in part we were already rolling over that in the earlier part of Q4. I would remind you that Boxing Day was our third most popular day of the year in terms of betting volumes, and whilst the results were unfavourable, you cannot look at the wagering on Boxing Day and say that that was driven by the Boxing Day results. It is cause and effect the wrong way around.

So I think our trend picked up on wagering towards the end of the year.

Patrick Coffey: Okay, that is really clear, thank you. Just finally following on with Australia, for James perhaps: on the marketing you are comfortable with the level of marketing costs that the market is now expecting, with that additional 5 million in 2015? Is there not a risk that marketing costs have to keep going up by 5 million a year just to push that brand?

James Henderson: No, I do not think so, and I think the other point that I would like to make is that actually we will be spending 40% more on that brand than any other brands have been subject to since we acquired the businesses. So I think that the marketing level with the additional 5 million is exactly at the right level.

Richard Carter (Deutsche Bank): Firstly, is it possible to give just a little bit more colour around these other indirect tax changes in Europe, please? Secondly, on the gaming machines, we are up 6% on a weekly basis. Could you also maybe split that between B2 and B3 stakes growth, just to give us a flavour ahead of the £50 journey? Finally, can you just talk a little bit about what you have to do technically from this Set Your Limits, and just explain the journey to us from a customer perspective please?

Neil Cooper: Let me just start. Yes, in terms of the indirect tax change, our view on a particular market or a couple of particular markets we are trading into has changed slightly, and we have made a provision just to reflect the risk that that may come back and bite us. I am not going to comment any further or in any more detail on the call on that, I am afraid.

In terms of the gaming machines question, this is a trading statement as opposed to a full set of prelims so we are not going to comment on the call. I will take a look at that as perhaps something we should be disclosing when we get to our full prelim set of disclosures, and obviously that will be again ahead of the April change. So we will have a look at that particular item for then.

James Henderson: Historically it has been around 70/30, so that is where it has been historically.

In regards to Set Your Limits, which is going to be launched on 26th January, essentially when a player logs on they will see a screen that says, ‘Do you want to set your own limits? Yes/No,’ and therefore if you do then the grid will come up to be able to set your own limits. If you do not set any limits then the mandatory limit of £250 spend or half an hour will be invoked anyway. So there will be limits incurred for all play.

Victoria Greer (JP Morgan): Good morning. Just two please; firstly, I think you talked a bit about the shop closures affecting the OTC amounts staked in Q4. Is that also affecting machines? Looking at the Q4 revenue growth number it looks lower again than the nine-month 2014 trend.

The second question is just on the migration or Australia. Could you talk a bit about what is required to migrate those customers over the next year from the three brands? Should we think of that as a similar migration process to a new acquisition, or is there anything more straightforward about that because you already are operating those brands?

Neil Cooper: Let me just take the first one on the numbers, Vicky. We disclosed I think 3% growth in machines. If you adjust out for the change in the exceptional portfolio it was 6%, which is slightly lower than we saw in Q3, which I think the equivalent adjusted number was about 8%. However, I would remind you that we said at the time we saw some World Cup football benefit in Q3 which pushed that up a little bit. So those are the broad metrics.

Victoria Greer: Great, thanks.

James Henderson: Fine. In regards to the migration going from each brand to William Hill, we will start re-skinning the website in time for the rugby season, as I said. But in regards to the migration, we have a very accomplished CRM team who will do everything within their power to make sure that the migration is as easy as possible. So yes, there will be a migration, but I do not expect there to be a significant impact from that because of the way that the teams work.

Victoria Greer: Okay, and then the ID verification process I think is a bit cumbersome in Australia. Will customers have to go though that again as part of the migration, or because they are currently your customers is that not needed?

Neil Cooper: No, we are not going to be changing some of the fundamental processes of the system when the rebranding occurs. It is not a root-and-branch move onto a new system. I would remind you that when we acquired Tom Waterhouse, one of the challenges for us was to migrate Tom's business onto our existing system, which also hosted Centrebet and Sportingbet. So in terms of consumer changes, I would not say this is a cosmetic change in that sense, but it will not alter the functionality of the existing operation.

Joe Thomas (HSBC): Morning. A couple of questions on the numbers, and then one on the FOBTs please. First thing: the net debt number looks extremely low, certainly versus where consensus was. Could you just give a sense of whether there are any exceptional moves in there, and whether that is a permanent benefit that you are expecting to hold onto?

Secondly, James, you said that I think you were not expecting any change in margin guidance. There had been some talk that your gross win margin guidance could be going up; could you just clarify what your expectations now are?

Finally, back on the FOBTs and this Set Your Limits: is there any sense that you have had about the sort of impact that that could have on the performance of the new machines?

James Henderson: Okay, just taking the net debt to EBITDAR, yes it is coming down, but as I have said before, this gives us or gives me flexibility to be able to consider anything in regards to improving our strategy. So that is nothing material in regards to where we are at the moment. I will hand you over to Neil, who might want to add a little bit to that.

Neil Cooper: Yes, just in terms of the consensus movement, we have not finalised the balance sheet yet. This is only a trading statement, so we do not have a full breakdown. The right answer is in effect some-and-some. It looks like we are going to undershoot our capex a little bit, which will be a permanent benefit in terms of this year, but there will also be a working capital component to this as well, and until we have finalised the balance sheet I am not going to be able to give you a more sensible view as to whether that working capital benefit will swing back.

James Henderson: In regard to margin guidance, yes: at the last update we did say, or I did say, that it would be under review. It is still under review, but I can just say that, certainly from a retail perspective, the normalised range is between 17 and 18 and for Q4 it came in at 17.7. So it is still within the range, so it still remains under review. I think that is probably the best way to describe that.

In regards to gaming machines and set limits, yes, as I said it will be introduced on 26th January. Obviously I do not know what the impact will be, but we will be able to give a better update or a little bit more colour around about 27th February.

Joe Thomas: Could I just ask one follow-on regarding FOBTs? There has been some speculation that the £50 sort of soft limit that is being imposed may not actually materialise. Do you have any more visibility on that, and is this definitely going to be in place by April?

James Henderson: Well, we are working very definitely to it taking place. I have not heard that, so I think it gets launched on 6th April and all our technical work is set up for that date. So no, I do not expect it not to happen at all.

Jeffrey Harwood (Oriel Securities): Yes, good morning. Just in terms of Manila, I imagine the problems there cost you a few million last year. Could you just update us on the current position there, and the plans going forward?

James Henderson: Okay. In regards to the current position, we are still invoking our BCP. We have 80% of our staff back in work in Manila, and our SLAs are back to expected levels. In regards to going forward, that is still under review as to how we are going to manage that. However, there was minimal cost incurred as a consequence of the changes in Manila.

Jeffrey Harwood: Okay, thank you.

Richard Stuber (Nomura): Good morning. I was wondering whether you could give some colour on Spain and Italy, and whether you still expect them to be profitable possibly this year, in terms of the profile of improving profitability please? Thank you.

James Henderson: Yes, in regards to Italy and Spain we still expect to achieve profitability by the end of this year.

Richard Stuber: Great, and is there any guidance in terms of how they did in FY14 please?

James Henderson: We do not have that information at the moment.

Neil Cooper: Yes, we will give you a full breakdown of that in the prelims, Richard.

Ivor Jones (Numis Securities): Good morning. James, you said it was too early to talk about the impact of POC on competition, but you did say that you were expecting to keep your marketing spend flat, which is either a signal to us or competitors about your intentions. Could you talk about when you make the decisions on spending big lumps of money on marketing? So if you did have to spend more, when would you have to pay up for a new television contract or new soccer rights, etc.? So when would we know if you are going to stick to keeping marketing flat 2015 over 2014?

James Henderson: Well, as it stands at the moment, we are looking in absolute terms to keep it flat and there is no immediate view to change that. As I have always said in regards to Point of Consumption and in regards to the market and how that will react, I think it will really take 12 to 18 months to come out. So I would expect over the course of that time to be able to continue reviewing the marketing, but I have got no immediate plans to raise it at the moment.

Neil Cooper: Ivor, just to be clear, the Sky and English Premier League contracts, so for example BT Sports and Sky, tend to run along with the season. So it is unlikely that any material would shift in the first half. Clearly James has laid out the company position to you very clearly, but from a technical perspective, you would be talking about impacting in the second half more likely than the first if you decided you wanted to change your mind.

Horseracing runs closer to the full year calendar in terms of Channel 4.

James Henderson: Yes, on horseracing, as you might have read recently, I have reviewed our sponsorship package and streamlined it to make sure we get best value for money in that regard.

Ivor Jones: Okay, that is helpful, thank you. Neil, in relation to the indirect tax provision, I know you do not want to talk about the details, but can you talk about how far back it relates to?

Neil Cooper: Yes, broadly, it is a period running from 2010 through to 2014.

Ivor Jones: And was there a debate about whether it should have gone back further, given the uncertainty of some of the issues?

Neil Cooper: No.

Ivor Jones : Okay. When you were talking about paying VAT under the new regime for now and for the future, you said you would have to provide for VAT. I assume you used that phrase advisedly, but when did it become clear whether you actually have to pay it or not, and when you pay VAT in the new regime?

Neil Cooper: Without getting into too much detail – not because I do not want to, but because it is extremely complex – you may be aware that, under EU law, gaming and betting is supposed to be exempt from VAT. Now, there is leeway given to individual markets to decide how they implement that exemption, and lo and behold, certain markets have implemented it in a way that means gaming and betting is not exempt.

We are taking a prudent view, in terms of our commentary here, but we are aware that there are some discussions around challenging some of these impositions and therefore until we are absolutely clear where that goes we are just talking about it as a provision. I think to the extent that we believe it is probable that we will pay, that is the basis on which we are providing. So I would not get too excited about the technical difference, if I am honest.

Ivor Jones: The provision of on-going VAT relates to the market to which the historical provision relates?

Neil Cooper: No, those are different things.

Ivor Jones: So you do not expect the forward-looking number to increase? So you have covered all of the markets that you might have to pay VAT in?

Neil Cooper: Yes, that is right; to our knowledge, yes.

Ivor Jones: Okay, thank you.

Neil Cooper: And our knowledge is fairly good.

Ivor Jones: Thank you. Last one: James, you talked about the balance sheet being in good shape. Does that signal ambition for you to make a large acquisition?

James Henderson: It gives me flexibility.

Ivor Jones: Is that something that William Hill needs to do?

James Henderson: You know the three strands of the strategy: we are looking at technology, international diversification and omni-channels. Anything that can accelerate that, we would look at.

Chris Stevens: Hi, just another question, on Russia. I think there were talks a couple of weeks ago about a change in legality of betting there? What is your view on that? Has it changed, and what is your exposure there please? Thanks.

Neil Cooper: We do not comment on the breakdown of our non-regulated markets, other than to give people a general sense of the scale, which is to say that none of our individual non-locally regulated markets is greater than around 3% of our net revenue.

Chris Stevens: Okay, and your view on whether the regulation has changed there?

Neil Cooper: Well, I do not want to get into commenting on something that I have just said I am not going to comment on.

James Henderson: Right, thank you all for joining us. Neil and Lyndsay are around if you have any further questions, otherwise I look forward to seeing you on 27th February. Thank you.

[END OF TRANSCRIPT]