2014
Final Results Presentation

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London - 020 7870 7100
www.global-lingo.com

Welcome

James Henderson

CEO, William Hill

Introductory remarks

Morning all, and welcome. You will see pictures in today's presentation of the great AP McCoy, our small tribute to the 19 times champion jockey who has made such a fantastic contribution to horse racing and more recently as one of our brand ambassadors. There is only eight on there. There are not two eights underneath his riding boot just in case you were wondering.

Of course, it is only eleven days to the start of Cheltenham and we have announced one of our lead offers today. That is money back if you lose on the Supreme Novices Hurdle which is the first race on day one. Everybody betting with William Hill will at least guarantee a return from the first race of the Festival.

2014: A record year

I am extremely pleased to report a record profit for 2014 of £372 million. During the year we have continued to diversify the Group, as outlined in our strategy. Online and Australia together have increased to 40% of revenue from 36% in 2013 and international markets have increased to 18% of revenue from 15% in 2013.

I will now hand over to Neil to cover the numbers in a bit more detail.

2014 Financial Results

Neil Cooper

Group Finance Director, William Hill

A year of record operating growth

Good morning to you all. 2014 has been a successful year for the Group with a record operating profit and good net revenue growth despite less favourable sporting results in the UK-facing businesses. Gaming growth was strong, benefitting from both mobile innovation in online and from an improved retail performance. All sports betting channels, with the exclusion of telephone saw wagering growth, with a successful World Cup which was facilitated by our mobile capability. Retail also enjoyed strong cost control measures, particularly around the extension of single manning.

Moving into the numbers on the slide, net revenue grew 8% to £1.609 billion. Underlying net revenue growth, which adjusts for the one period of VAT in Gaming Machines in the prior year for the part-year ownership of the Australian operation, was 6%.

The Group delivered 11% growth in operating profit from £335 million last year to £372.2 million this year in 2014. This is a non-statutory measure which we define as pre-exceptional profit before tax, interest and specified amortisation of intangibles. Defined amortisation fell slightly from £10.9 million to £9 million as the assets acquired in the 2008 Playtech transaction reached the end of their useful economic life.

Pre-exceptional net finance costs grew by 4% or £1.6 million to £45.9 million, with the full year cost impact of the bond we issued last year being largely offset by reduced levels of bank borrowing. The pre-exceptional tax charge grew sharply, partly as a result of a 13% increase in pre-exceptional profit before tax, but also because of the non-cash deferred tax credit which arose in 2013 as a result of the enacted corporation tax reductions in that year. This [BREAK IN AUDIO] rate by 7.4 percentage points which is the bulk of the differential between the prior year effective rate of 11.5% and this year's at 19.9%.

Following the completion of the minority interest purchase in 2013 that deduction has now fallen away, which benefits pre-exceptional retained profit which grew 9% to £254.2 million. Our basic adjusted EPS metric is calculated by taking basic earnings and adjusting for exceptional items and for the post-tax impact of the defined amortisation. The number of issues we had in issue grew by 4% which largely reflects the full year impact of the equity raised last year and as a result basic adjusted EPS was up 4% on the prior year at 29.9p.

Finally the Group has announced an 8.2p final dividend which taken together with the 4p interim dividend reflects a 12.2p full 2014 dividend, which is up 5% on the prior year and is covered 2.5 times by basic adjusted earnings per share.

Exceptional items

The Group saw £83.4 million of exceptional costs in the year, which is £47.9 million after tax. The largest item expensed was a £44.5 million non-cash charge relating to the accelerated amortisation of the acquired Australian brands, arising as a result of the decision to move to William Hill Australia in that market. The remainder of these assets will be expensed in 2015 running up to the planned cut over dates for those brands. In the case of Sportingbet that has already happened. We expect that this will give rise to an exceptional charge of around £60 million in 2015. In both years the exceptional charge relates only to the incremental amortisation of above what would have otherwise been charged to the income statement.

Other exceptional costs relating to Australia including £3.3 million, which relates to the finalisation of the tomwaterhouse.com integration which together with the £2 million last year made £5.3 million on this project in total. Further, we restructured Australia management during the first half, incurring an additional £1.8 million, and finally we settled the tomwaterhouse.com earn-out ahead of schedule for AUD$5 million or £2.6 million, which gave rise to a £2.2 million exceptional charge. There are no further obligations relating to that particular acquisition.

As announced during the year, we cancelled our existing revolving credit facility ahead of schedule given the new facility we entered into. That gave rise to £2 million unamortised fee write-down. The Group closed a tranche of 108 sites during the year following the announcement of a planned increase in machine games duty in early 2015. The cost of closure-related provisions is £19.4 million.

Finally we incurred an additional £0.5 million of cost in the year relating to the Machines-driven VAT refund we returned to HMRC last year and are providing £9.7 million provision for a potential liability for European indirect taxes. Exceptional tax credits of £35.5 million were recognised, of which £20.1 million relates to the exceptional items and £15.4 million relates to a tax provision which we released following the finalisation of a tax matter with HMRC.

Retail gaming growth and strong cost control mitigate OTC margin decline

Retail profit fell 3% to £193.2 million. Over-the-counter wagering grew 1% with OTC net revenue falling by 5% as the impact of a decline in gross win margin was seen. Of this wagering growth around £7 million was additional SSBT wagering. Machine gross win grew 5% with a combination of this and the OTC movement leading to gross win in line with the prior year. Cost of sales grew by £6.6 million to £209.9 million, which is up 3%. Of this growth £5.2 million was the impact was the one additional period of machine games duty in 2014. A key feature of the year has been the strong operating cost control exhibited during the year in this business with operating costs broadly flat on a year-over-year basis.

Retail OTC wagering and margin trends

The charts on the left show us OTC wagering progression by half. In the first half we saw softness in both racing and greyhound wagering which was offset by a strong performance on football, driven both by the presence of the World Cup – or at least three weeks of it – as well as some good staking growth through the second half of the 2013/14 season. Clearly recycling played a part in that.

The second half football performance has benefitted from two weeks of the World Cup but has been weaker through the 2014/15 season, albeit with a slight improving trend towards the end of the year.

Horse racing staking trends also improved towards the end of the year, as the charts show, with H2 less weak than H1. That is on the basis of a number of fixtures in each half which were broadly in line with the prior year comparable. Greyhound staking has been soft all year but we have seen growth in virtual staking following a review of our event scheduling.

As the chart to the right shows, gross win margin was weaker in 2014 with declines in both football and in horse racing. In terms of the impact on the overall retail gross win percentage the football category weakness was partially offset by its positive impact on mix as it grew to 17% of wagering from 15%.

Retail gross win per machine shows good growth

The machines category was a key source of net revenue growth during the year. Gross win grew 5% as did gross win per machine per week. Gross win by quarter showed consistent growth through Q1 and Q2, followed by acceleration in Q3 and a slowdown in Q4. I would remind you that the Q4 statistic was impacted by the closure of the 108 shops which were all closed by the end of that quarter. Underlying growth in gross win for that quarter was 6%.

Retail demonstrates good cost control

We saw minimal retail cost growth during the year with the extension of single-manning being key to this, together with the year-over-year decline in repairs and maintenance following a spike in 2013. The closure programme in the second half has also benefitted cost progression although that has largely been offset or has been offset by cost growth from new units.

On the flip side we saw growth in staff incentive costs and we saw growth in pictures and data costs, as well as other items including depreciation and the loss of VAT credits. Looking ahead to 2015, we expect to see around 1% cost inflation with a quarter of benefits still to come from signal-manning and with a more moderate inflation regime on picture costs.

Online revenue growth from both Sportsbook and Casino

Online net revenue grew 18% in 2014 to £527.4 million. Gaming net revenue within this grew 17% with Sportsbook net revenue up 19%. Gaming net revenue growth accelerated in 2014 following a year of no growth in 2013. The key to this successful resurgence has been investment made by online in mobile gaming which grew 117% and now represents 32% of gaming net revenue. The desktop gaming net revenue fell slightly by 3%.

Cost of sales grew 27% or by £10.8 million to £51 million. The main driver of this increase was additional indirect taxes, including those arising from Point of Consumption Tax from December and which amounted to circa £4 million in the year. Operating expenses grew 16%, and operating profit grew 20% to £177.7 million.

Online wagering increased, pre-match margins weaker

Despite a decline in gross win margins, driven by pre-match results, Sportsbook net revenue grew 19%. Obviously, that benefits from a 28% increase in wagering, which I would remind you follows on from a 30% increase in wagering in 2013.

In play wagering growth was strong and James will outline some key statistics on the growth in products which have help contribute to this wagering growth. Pre-match wagering grew 23%. Both categories benefitted from the presence of the World Cup. If the entire World Cup wagering was removed Sportsbook wagering would have grown 23%, and if you take the view that 50% of that wagering was incremental as opposed to substitution, wagering would have grown 25%.

Gross win margins fell by 0.5% despite substantial volatility during the period. Football gross win margins only declined 0.1 point from 9.7% in 2013 to 9.6% in 2014. Pre-match horse racing fell 1.9 percentage points.

Business expansion drives cost base expansion

The relative performance of desktop margin at 6.2%, versus our mobile margin at 9%, also widened in 2014. It appears to us at least that mobile customers are increasingly likely to be betting on football accumulators than their desktop peers, which is driving up achieved mobile gross win margins. Mobile wagering grew 55% and desktop wagering was up 11%.

Unique actives grew 5% with strong growth in Sportsbook and Vegas Casino, although that was offset by declines in other verticals. Online costs grew 16% to £298.7 million. Of this, marketing grew 8% to £132 million, which now represents 25% of net revenue. The remainder of the cost base growth arose from increases in headcount, additional staff incentive costs and IT costs. This includes both direct IT and the amortisation of intangible IT assets, which has grown as IT capex for online has grown.

Doubling of Australian profit

Australia contributed £121.9 million of net revenue and £24.7 million of operating profit in its first full year of ownership. On a proforma local currency basis wagering was flat in the year. This reflected a 10% growth in H1 offset by a 9% decline in the second half, with the second half in part impacted by measures taken by us to mitigate increases in race field fees but also by an underlying decline driven by a number of factors which include a stronger Spring Carnival margin.

Margins grew on this proforma basis from 8.3 points to 9.3 points. Cost of sales increased by 19% as race field fees grow but operating costs were 8% down reflecting lower marketing and the realisation of synergies following the integration of tomwaterhouse.com. Key commercial networks continued to move forward, with pro forma local currency. I should stress that whether it is local currency or sterling the unique activity is the same number, 15% up. New accounts were up 4% and CPA on a local currency basis was down 25%.

Good progress but Australian returns lag expectation

It has been a busy year for us in Australia. As well as digitalising the website we acquired with Sportingbet we have released a responsive design IT architecture and have brought more products to the market. At the same time we have completed the integration of the tomwaterhouse.com business, brought forward the earn out settlement of that business, settling for an additional £2.2 million, have continued to drive increased marketing efficiency and have restructured senior management to ensure that the business has the right blend of local insight and digital savvy at the top.

Despite this a number of headwinds have become evident since we acquired the business in 2013. Firstly, currency has moved against us and secondly, the impact of race field fee hikes has led to a reassessment of our trading strategy and at least £10 million of additional costs on a per annum basis.

More recently our decision to rebrand will lead to an increase of marketing in the short term. The combination of race field fees and currency means that we are unlikely to achieve our previous goal of delivering a return in excess of WACC by 2016.

Our strong view is that this acquisition has been and remains an important strategic move forward for William Hill and we now anticipate that we will deliver on that and return to target by 2018. We are confident that the acquisition was earnings enhancing in 2014.

William Hill US

Following a good year of growth in 2013 in the US the business has again made progress in growing wagering by 21%, which follows 47% growth in 2013 on a same-period basis. Given 0.6 percentage points of gross win margin growth, the result has been net revenue growth of 31%. Operating profit rose by 98%.

As well as performing well in absolute terms, the business has also made good progress relatively. Whilst wagering in Nevada as a whole grew 9% in 2014, our wagering grew 27% on a local currency basis and our gross win grew 36% on a local currency basis, as compared to 12% growth in sports at the state level. This has led to our share of revenue on sports in the state growing from 13% to 16%.

Strong cash inflows

The Group generated £368 million of cash inflow from operating activities in the year, which is up £100 million or £101 million on the prior year. There were a number of factors behind the increase. Firstly, EBITDA increased by £48 million. Cash tax payments reduced by £21 million which was driven by the timing of payments relating to the 2013 tax year. The Group benefitted from a very favourable working capital swing of £60 million, partly as a result of an atypical working capital outflow in 2013 and partly as a result of the larger than typical working capital inflows in 2014, which substantial increases in exceptional provisions and as a result of increased staff payment accruals. There was also an increased exceptional cash outflow of £19 million which in part offset these positive movements.

The £368 million inflow from operating activities was applied to the payment of £104 million in dividends, £75 million in capex and with £180 million being used to reduce gross borrowings. Looking forward we expected modest working capital inflow in 2015, although this does depend on a number of things including the timing of exceptional cash outflows.

CAPEX

As indicated, capital expenditure in the year was £75 million, slightly below our guided £80-90 million range. We again expect to spend around £80-90 million in 2015 with a re-tilting in retail slightly away from property towards more IT-related investments.

Balance sheet supportive of strategic agenda

Net debt for covenant purposes fell by £193 million from £796 million to £603 million and this of course meant that a fall in our ratio of net debt to EBITDA for covenant purposes from 2.0x down to 1.4x. Separately we were successful in refinancing our revolving credit facility during the year, achieving £540 million of committed five-year facilities at a cheaper rate than the facilities that it was replacing.

Other finance matters

In terms of my final slide, the effective income statement tax rate was 19.9% in 2014. Looking ahead to 2015, I expect the effective income statement tax rate to be at 19% with the cash tax rate to be at 20%. Although I should flag that this is liable to change, obviously not just dependent on business mix but a couple of other tax matters that we are progressing.

Secondly, I should remind you that we agreed a long term funding plan with the pension scheme in 2014 with an annual £9.4 million payment through to 2019. Finally, I am pleased to be able to highlight the 5% increase in our full year dividend from 11.6p per share last year to 12.2p per share this year.

Performance and Strategy Update

James Henderson

CEO, William Hill

2014 achievements in a record year

There is a lot to talk about today as it has been an extremely busy year. I will talk about performance first and then I will come on to strategy. It has been another resilient performance from retail. We have had good gaming growth and good cost control. However, over-the-counter revenue has been affected by a weaker margin. In online we continue to deliver strong growth in spite of the sporting results, partly as a consequence of our innovations and focus on enhancing our customers' experience.

As this bar chart shows, mobile increased to 43% of online net revenue in the year with sports up 48% and gaming up 117%. Mobile made up 56% of online sports revenue and 32% of gaming. Our target was for mobile to be 40% of gaming by mid-2015 and we hit that target in December.

The US continues to go from strength to strength, almost doubling its profits. Australia more than doubled its profit in a period of huge structural changes Neil has already outlined. We have made the difficult but absolutely right decision on the brand. Profit growth is great but we need to drive revenue growth and market share gains.

There will be 40% more marketing investment behind William Hill than any of the individual brands today and we are putting an extra £5 million marketing spend behind the launch. There has been a huge effort too to get on the front foot around responsible gambling and to address concerns about regulation and gaming machines.

Assessing the 'black swan' effect

As I said, we have been affected by the gross win margins so let us talk about football results. The obvious question is whether something is structurally changing in football. In my opinion the two charts on the left answer that. Looking at the last three years' average margin on all pre-match betting is consistently between 12-13%. Looking on a season basis the betting on singles, which ultimately reflects the price for any accumulator, shows a very consistent margin at around 5%.

The issue is unusual results multiplied by the impact of accumulators, which might lead you to ask why we would want to increase accumulator betting given that kind of volatility. First, the margin is more attractive. Second, accas appeal to the mass market recreational customer. That is our core mobile customer. The chart on the right shows the importance of accas to those customers.

That is a strong trend that we have been playing into with offers like Accainsurance. The betting population is expanding from 6 million in 2010 to almost 8 million last year. Mobile is key to that. There are now more than 2.5 million people gambling on smart devices.

The message is you absolutely need to get your football experience right. We have done that for a long time in retail which is why we have got 38% market share of football by gross win versus 26% of shops. Football is by far online's biggest product at 43% of turnover and 54% of gross win.

Substantial progress on responsible gambling

Now let us turn to responsible gambling and regulation. There has been a lot of activity in a short period of time. In terms of responsible gambling we have already moved from voluntary to mandatory for customers to decide whether or not to set a limited before play.

In terms of advertising, the ASA, CAP and BCAP reviews all included the current approach is not creating a problem. Nevertheless the industry has made a series of voluntary changes at the same time as establishing The Senet Group. We have also held our first Responsible Gambling Week to increase awareness in late January.

Finally, the RGT research was published in December and is a key step towards evidence-based decision making. The research showed it is possible to identify markers of harm and that changing staking is not the answer to problem gambling. It emphasised that this is a very complex subject and that no one change is likely to address the problem. Our focus then is quite rightly on at risk customers and providing tools to assist with control.

Regulatory update

That brings me on to the £50 journey which will give us even more valuable data. We have undertaken a lot of preparation with a strong focus on staff training and a segmented approach to the shops and customers to manage the customer journey. Our roll-out starts next week, ahead of the April 6th deadline. We are already using our online algorithms to identify people we believe could be at risk and are proactively reaching out to them. In time we can apply that kind of approach to the £50 journey data too.

Turning to Point of Consumption and what we are seeing so far, first let me reiterate it is very early days because we expect it to take 12-18 months for the market to settle down. In marketing terms very little has changed, certainly around the offers from the top sports operators. Some small players have dropped out including Betsson's[?] main UK brand, SBOBET, Mansion 12Bet and Pinnacle. However, we are also seeing the likes of Betway ploughing £20 million into West Ham over the next three years.

Importantly, we are on track with our cost savings target and our H2 UK numbers were also strong. Net revenue was up 29%. New accounts were up 7% and actives were up 17%. CPA was up 4% and revenue per unique active was up 10%. Very strong numbers, I am sure you will agree, as we enter the Point of Consumption regime.

To close out on regulation there are three consultations on the levy, around the mechanic, offshore payments and a racing right. We are waiting for government response on advertising planning and for the outcome of the Treasury risk assessment relating to the draft EU Fourth Money Laundering Directive.

The main message for me is that it is great to see data and evidence being used as the basis for decision making. We have heard both the Secretary of State and the Shadow Minister say they want to see how all this activity beds down before considering anything else. I can assure you we have been working very closely with the government, the regulator and other CEOs to ensure responsible gambling remains at the heart of everything we do.

Retail remains resilient

Turning to operations, I am still passionate about retail. We have had six years of consumer squeeze, additional indirect tax burden and huge digital growth. Yet it has remained incredibly resilient. An interesting stat, our retail business has seen £80 million of additional cost in the last five years but profit has come down by only £11 million.

We continue to bring technology into the estate. We were first with video walls and in my view are still the best.

We have continued the evolution of our product. I talked about the importance of football earlier and that turnover has increased 5% a year over the last five years. Our SSBTs have seen 25% growth in staking, part driven by introducing our online football feed. However, the jury is out on whether SSBT income is incremental so we continue to assess our approach and will only roll-out more terminals if it makes financial sense. Gaming continues to grow. Eclipse has driven faster growth and we have shortened the adoption curve in the second half of the roll-out which will be completed around the middle of May.

Looking ahead we all know there is a hit to profit this year with increased MGD from March, but we are benefitting from good cost control in key areas, with significant savings on staffing from single-manning. Content has been a big cost impact in recent years but we are now moving to inflation-linked increases for the next three years.

Online leadership through innovation

Apps

The next few slides are a rapid counter through some of our online innovations starting with our apps. In the last year we have launched Sportsbook and Casino OIS apps in both Italy and Spain, a Darts app alongside our World Darts Championship, a Vegas iPad app and a Live Casino iPhone app. If you had not seen any of these yet, James and Jamie who are just sitting there will be happy to demo them in the coffee area after this presentation.

Priority Access card

We are also launching our Priority Access card shortly, the first of its kind in the UK sector. It will give you instant access to your online account funds and can be used in exactly the same way as a debit card. Right now it is going out by invitation only with a focus on the higher value customer segment.

Product expansion

We are also continuing with our product expansion. For horse racing we are playing our part in making the product more interesting and relevant to customers with our wide range of daily meeting markets. We covered over 60,000 football events in 2014, up 6% on last year. Tennis was almost 40,000 events which was up 19%. Basketball had 17% more events. Average turnover per event has also gone up on those with strong turnover growth overall as shown in this bar chart.

Cash In My Bet and Accainsurance

You can see from this slide how popular Accainsurance and Cash In My Bet are proving therefore it is easy to understand why we are extending Cash In My Bet. Cricket is now live and we have just launched basketball. Snooker, boxing and golf are coming in the next month. From March you will also be able to cash in your political bets too.

Gaming

Gaming innovation has continued. Vegas games and Live Casino are now 59% of our overall casino revenues, with 36% of that revenue coming from mobile. Vegas Live Casino Tables launched a couple of weeks ago and already proving to be our highest revenue generating roulette tables. Vegas alone grew 68% last year, benefitting from proprietary content and our changes to the mobile experience and products. We have also brought in new innovations like electronic scratch cards and we are on track to have the Bonus Engine for Vegas in the later part of this year.

Strategic priorities: omni-channel

I am going to finish by returning to our three strategic priorities, starting with omni-channel where retail and online come together. Of our regular customers 54% of onlines bet regularly in LBOs and 34% of retails regularly use online. Our primary focus is on maximising our share of wallet of those customers.

We are using technology to take online innovations into retail. HTML functionality on video walls helps, effectively turning them into a large browser. That means we can bring in innovations like Tip Advisor and gradually adapt the gantry content to have more consistency between it and any other digital device. Obviously this flows both ways: with our new tri-caster system we can supply the great TV content we have generated for shops, like US Racing, to online.

Strategic priorities: international

US

Turning to international, as this chart shows, we have driven strong turnover growth in the US that has led to us moving rapidly from a loss-making position in our first year to significant profit growth in 2013 and 2014. More importantly, mobile turnover has grown 65% in the last year to become 40% of overall total turnover.

We continue to track the developments around a possible legal change at the Federal level and follow with interest comments made by the NBA Commissioner Adam Silver in which he advocated for the legislation of sports betting and by Rob Manfred the new Commissioner of Major League Baseball in which he said baseball needs to reassess its long-standing opposition to sports betting.

We have also recently joined the Board of the American Gaming Association and intend to continue to participate in the dialogue in this important area.

Australia

In Australia we have achieved synergies of around AUD 7 million from integrating the tomwaterhouse.com acquisition. We have doubled profits in a period of substantial change even with an increase in race field fees.

Italy and Spain

We are also proving our ability to peak in Italy and Spain. Net revenue was up 39% in Italy and 64% in Spain, benefitting from mobile launches in both those countries, the Miapuesta migration in Spain and the Palinsesto sports product expansion in Italy.

In both countries mobile is 47% of sports net revenue and we have gained market share in sports and continue to have strong brand awareness. We are looking for slots to be regulated in Spain later this year and to expand our gaming offer in Italy. Overall that puts us on track to break even on the two markets together by the end of the year.

Strategic priorities: technology

Finally, and arguably most importantly, technology. Our technology approach has grown organically which means we are currently running from four different platforms across retail, online, Australia and the US. What we need to support our strategy is greater flexibility. We want to enable all parts of the Group to benefit from our innovations. We want to be able to bolt-on acquisitions quickly and easily. We want to keep our options open for routes to international expansion. We are looking at what that means in more detail, as you would expect, at present.

The schematic on this slide focuses on online and is a very simplified version of our core technology. There are 22 components within our core systems including some of our proprietary capabilities around product, scoreboards, Vegas and trading.

On that point we are continuing to develop our central feeds platform. We will launch pre-match first and then on to in-play. The engine is OpenBet whose core capability is in backend development. We are moving to take control of the frontend which is not their strategic focus. The approach we have taken is inserting an API layer is key.

Project Trafalgar is the frontend framework and we are building on top of our API layer. That will give us control over the display for web, for mobile and ultimately for areas such as retail display, thereby allowing us to ring fence the backend which gives us more options, control and flexibility.

We are rolling that out during the course of this year. It will give us a fully-responsive site, as previously mentioned, but importantly, a site that is also quicker and more stable. The team will be able to make daily releases and changes based on consumer testing.

The overall system is underpinned by our own data warehousing development which will amalgamate all our online databases to give a single online customer view which, amongst other things, will give us greater access to data for the kind of responsible gambling analytics I talked about earlier.

As I have said before, our approach is to mix the best-of-breed third party systems with our own proprietary systems, thereby allowing us to differentiate and provide a unique customer experience.

Summary

In summary, 2014 was a record year with strong online growth and good cash generation from retail. Looking ahead we are facing into some headwinds in 2015 with pointed consumption and MGD. However, we continue to believe that we are well-placed for online market evolution. With the benefit of our rebranding ahead of us we are looking to drive top line growth in Australia to start gaining market share and to strengthen our position within the top three in that market. In the US we are keeping an eye on potential changes. Our strategy is clear. We are taking a long term view to ensure we remain highly competitive during what is likely to be a period of significant change in industry over the next five years.

Finally, there is a lot of talk about the election and I know a lot of people are watching us to get some insight into the outcome. I am not here, certainly, to show any political bias but here at least are the odds on the potential outcomes as things stand today. Thanks for listening and I am happy to take questions.

Q&A

Ivor Jones (Numis): James, when you are looking at acquisitions, what is your attitude to the regulatory risk that you might take on in terms of the territories that targets might be operating in? If we are trying to think about how much you might spend on marketing for online this year, can you make significant changes to the budget all the way through the year or are there significant points at which you commit significant parts of it if we thought it might go up or might go down from the current guidance? Or are you stuck with that number and it will not change through the year?

Finally, when you were talking about the data in relation to people who were playing machines, you said you could now identify people who you thought might be at risk. Could you talk about what proportion of players they represent and what proportion of revenue they might represent? How can we extrapolate something from what you have said? Thank you.

James Henderson: The M&A one: our strategy is very clear, in that we will enter into appropriately-regulated markets and be a top three player. That is our strategy in regard to M&A.

Ivor Jones: What is the cost of that you accept entering markets which are not so clearly regulated as the ones you have already talked about?

James Henderson: Sorry, can you say that again?

Ivor Jones: If you bought a business that had exposure to a non-regulated...

James Henderson: Oh, I see what you mean. Just talking generally, our guidance on regulated markets has not changed at all, whether we go into a territory or acquire through M&A.

Neil Cooper: Our attitude relates to our board's risk-assessed and legally advised view on where we should and should not be trading. That view is unlikely to change unless a legal or regulatory development happens in a particular market. Any potential M&A will have to fall in line with our board's view.

James Henderson: So yes, there is no change to our approach in that regard. In regard to the RGT research and the identifiers of markers of harm, the public gambling statistics are less than 0.5%, so in regard to being able to identify them, it is having the evidence and the data to be able to work on, which is what we are going to build up over time, so we will be able to do that.

Neil Cooper: Are they a similarly small proportion of revenue, now you can identify the people who have markers of harm?

James Henderson: Now, as I say, we are in a position to be able to identify the markers of harm and then provide the tools to prevent, for those people at risk, and therefore, there is the opportunity to do that over a period of time. As I said, we are laying the algorithms over the online, and we are therefore reaching out to those customers. In addition, we will do that in retail, as well.

Neil Cooper: In terms of the marketing, more than half our marketing is online, and is broadly efficiency-led, so if we do not get a return, we do not pay for it, or we stop it. Less than half is offline. Clearly, there are some contracts that are season-long, be that Channel 4 Racing or Sky TV, so I think we are unlikely to be able to spend a lot less than we think we are going to spend, in the short run. My long experience tells me that if you tell a marketing director they can spend more, they will find a way to do it. They are highly ingenious people. So I think we can always spend more at short notice, but I think we are unlikely to be able to spend an awful lot less at short notice, if that is what you are asking.

Ivor Jones: Yes.

Neil Cooper: Yes.

Victoria Greer (JP Morgan): Three, please. The first one on current trading: you have commented, obviously, on the weak sports results, which we have heard about from peers. Could you give us an idea, at least directionally, where online games and machines were versus the Q4 trends? Are you seeing any impact from the compulsory offer of limit-setting on machine revenue growth?

The second one, on machines and the changes to the stakes over £50 coming from April: your peers are now mostly guiding to an impact from that £50 change. Are you still of the view that that does not have to be the case?

The final one, on Australia: how do you think the industry's relationship with the racing industry is now, and do you think we could see further race field fee increases at the reviews in July?

James Henderson: Okay, if I can just take current trading first. The machines, as you know – or as I mentioned in my presentation – that we are rolling out the second tranche of Eclipse, so it is very difficult to gauge what the true run rate is in regard to the machines. As you know, there is an adoption curve when we rolled out machines. What I can say is that prior to rolling out the second tranche of Eclipse, on a mature basis they were showing a 1% improvement versus the old estate.

That is in regard to machine; in regard to online, we had, in December, 11% growth going in gaming going into the year, and I think it is fair to say that current trading is showing some good weeks and bad weeks in regard to how we have performed since the beginning of the year.

In regard to Australia race field fees, we are in constant dialogue with the regulatory authorities in regard to the administration of racing, and, as we have no evidence at the moment that the fees will go up – it does not mean that they will not – but they are set at the moment.

The £50 journey: I know some people have indicated single-digit impact. The point I would like to make is that the average stake for a B2 player is around about £12, so therefore, obviously, a lot of them under the £50, and for those – I think it is 8% – that do bet over £50, already 40% of those are loading at the counter. So that is the statistic.

Notwithstanding that, we are doing a lot of training in regard to making sure the customer experience is seamless when it is introduced on 6th April, and we have also done a number of communications to customers to explain the change, and how best to be able to overcome that. It is not without risk, there is no doubt about that, but we believe that, if we are able to communicate and provide a seamless customer journey, then hopefully we can, if there is any impact, mitigate it.

Neil Cooper: Sorry, just one extra point. You can see from our outlook statement this morning that we have talked about excluding what was a truly jet-black swan. We are going to have to think of some new terminology, but the seven weeks was in line with our expectation, but that did benefit from a good margin through that period. Therefore you can infer from that, I think, that the underlying wagering trends and so on were a bit less than the expectation, but we saw a soft January and that has improved a little bit into February.

James Henderson: Week 3 was our worst week over the last two years.

Vaughan Lewis (Morgan Stanley): On acquisitions, can we have an update on your view on leverage and what is the maximum level you would be happy to go to for a strategic deal, and what would you expect the cost of any incremental debt to be?

Related to that, on your technology stack, is the idea that you have become a fully vertically-integrated operator at some point, with full control of the technology? Is that what you are looking for with acquisitions?

Finally, on retail, some of your peers have got some quite smart-looking in-play terminals in their shops. Have you got anything similar in development?

Neil Cooper: I think our covenant levels are all well-publicised. 3.5x is the bank covenant. Certainly, whenever we have done an equity raise in the last five or six years, we have ended up at around 2.5, which may give you a sense for where we think a reasonable start point is. We are at 1.4, so we have some headroom, both in terms of physical facilities not used and headroom against the banking covenant. That provides us the platform for James, and the business, to look at the strategy around M&A. We have not changed our views on leverage, particularly over the last four or five years.

James Henderson: Technology: I think you questioned whether we wanted to get full control of technology. As I have stated before, it is very difficult to differentiate yourself, technology-wise, in our sector, because one way or another, a lot of our competitors use the same technology stack. It is not about getting rid of third-party supplies; it is essentially reducing their reliance. When I put the schematic up there earlier, there are 22 elements of a technology platform, and the more supplies you can use within that, then, obviously, you are providing a more unique experience. So it is not about taking full ownership of it, but it is about reducing the reliance on third parties.

In regard to SSBTs, we have about 750 in the estate, and we analyse it every which way you can to be able to understand whether that income is incremental. It is very difficult for us to identify whether it is incremental, and therefore we have kept our estate at 750 terminals. However, should that change over time, and it makes financial sense, then we will increase the rollout.

Vaughan Lewis: Sorry, the question was more about the in-play tablet-type terminals that seem to be the new innovation that is coming.

James Henderson: I have not seen too many of those. In-play is very successful in the current SSBT. We are watching this space and we are looking at the options around it, but, as I said, based on the revenue share, it is very difficult to see whether it is actually incremental. So if that plays out in a different type of hardware, then we will look at that.

Neil Cooper: I would add to James's point, if you can service that market through one machine, then having two machines is going to be more expensive. In a retail environment we are not just trying to win the top line battle, there is a bottom line battle to be won as well, so you have to be cognisant of that, too.

Ed Birkin (Credit Suisse): Just on the first one, in the retail, the repair and maintenance costs decreased year-on-year. You have talked more about investing in technology rather than the estate itself. Is your danger that it is going to start getting a bit more worn and perhaps with some of your competition having lower CAPEX, this would be a good opportunity to invest in the estate more?

Neil Cooper: We should perhaps not see falling costs as an issue. We spent more than we normally do in 2013 on repairs and maintenance, as opposed to 2014 being materially less than the long-term average. It is about a spike in 2013 as opposed to a particular decline in our R&M in 2014.

Ed Birkin: And the guidance about spending more on technology rather than the estate in 2015?

James Henderson: It is not material, inasmuch as the spending on technology, but it is just slanting it slightly towards that. We will continue to refurbish the estate and take new licensing opportunities when they present themselves. It is just having an awareness of the technology spend within that CAPEX.

Ed Birkin: Just a second, on financing costs. I notice you have a £300 million bond, which has an over 7% yield. Would it be difficult to refinance that?

Neil Cooper: Would it be difficult to refinance that? At 7%? No. I have been pretty straightforward.

Ed Birkin: Is that something that we should expect you to do, and reduce the effective cost of finance?

Neil Cooper: The first thing to say is, given the terms and conditions of that bond, there would be a may call[?] charge if we took it out, so we cannot just simply take it out early and benefit. There would be an economic cost of doing that. Putting aside M&A for a moment, we have a £540 million revolver that is largely undrawn. I do not want to have two bonds running for a year, so I think our likelihood is, assuming we are not using our revolver for something else, we are likely to leave the bond refinancing till early 2016. However, of course, that is contingent on what else happens. Do I think I can refinance that bond? Yes. Do I think we will get a better rate than seven? I hope so, because the last bond we did, we got away well short of that. There will not be an immediate cash saving out of refinancing that bond, because there will be may call costs that will need to pay to get out, so it is trading well below seven in terms of the secondary market.

Ed Birkin: Okay, great. Finally, in M&A, on the technology stack you showed. I suppose looking at 888, you have seen the potential in maybe three benefits, one of which would have been just the positioning in certain markets/a revenue stream you are buying; second would have been the technology in terms of poker, casino platform, bingo, that you shared on the technology stack; and thirdly, perhaps some of the back-end, better digital marketing capabilities, CRM. Where shall we think of you as being focused going forward in terms of potential strategic acquisitions out of those three different areas?

James Henderson: I think the strategy is very clear, and anything that we are able to [inaudible] a perspective that has been able to accelerate that, whether it be technology in general terms, or omni-channel, or international diversification, so it is a very general thing; anything that can accelerate that.

Ed Birkin: Thank you.

Nick Edelman (Goldman Sachs): Three questions, please. First, on retail, Could you just give the cost guidance on a per shop basis, please?

Secondly, could you give some guidance on shop openings and closures?

Thirdly, in terms of your marketing cost online, could you just talk about whether that is changing in terms of that 60% spend online, given your customer values are down, post Point of Consumption tax? Is the cost of bidding online also down?

James Henderson: Cost guidance is increased by 1% for the year for retail. Shops opening and closing: we will continue to pursue new licences where there is an opportunity, and I think we have previously guidanced there is no change to it in increasing our estate about 1% year-on-year, which is around 40-500 openers and maybe 10-15 closures.

In regard to marketing costs, we have held our marketing in absolute terms, as Neil has already said, but we continue to invest in the business. I think our numbers are good and we have an opportunity in a point of consumption environment to make sure we continue to invest in product and content, so that we can maintain our UK number one position, so we will continue to do that.

Neil Cooper: You are right. If lifetime value drops 15%, because tax has come in at 15%, then marginal single decisions that are less than 15% return has been factored into the assessment, so you are right. However, as I have said earlier, the marketing guys are normally a little bit more hopeful than that.

Patrick Coffey (Barclays): Just two questions. One is just following on from Vicky's question on current trading. In Q4, you saw amounts wagered fall quarter-on-quarter, and gaming was down quarter-on-quarter. Surely, with lower gross win margins at the back end of Q4, and at the start of this year, would we not see much higher recycling and cross-selling into gaming, so should we not see quite a strong trend coming out of the back end of Q1?

The second one is just on Australia. How much more investment in staff is required there to become competitive with peers like Sportsbet?

James Henderson: If I could take the Q4 trading in regards to gaming, as I said on a call in January, there was, to a degree, some high-roller activity in the course of December, which had an impact on the overall net revenue. It is probably fair to say we probably did not get the kind of uptake that we would have expected over the festive period, as well. However, the high-roller was an impact in that, and, as I said, rolling through to current trading, we have had some very good weeks and we have had some difficult weeks, but it has certainly picked up in the later part of February.

Patrick Coffey: The pick-up is both recycling and gaming as well?

Neil Cooper: It has been very choppy, actually. It has been quite difficult to read the underlying trends. As I said, we have crafted our guidance statement very clearly, or very carefully, I should say; I hope that people are drawing the right inferences from it. It has been a slow start to the year. There is no doubt about that. As James has said, January, in particular; we have seen an improved trend in February, but January was not as good as that. You are going to have to wait till Q1 IMS, to be fair, to get the detail.

Patrick Coffey: In regards to what, sorry?

Neil Cooper: By the way, we do not know what is going to happen at the tail end of Q1, because it has not happened yet, so we will find out.

James Henderson: On Australia, as we both said, there has been a whole host of changes in Australia over the course of the year, and now we have the bedrock to be able to build on that, so in regard to your specific question around headcount, then I do not expect to see any increases in there. We have done the changes that we want to do.

Patrick Coffey: So you feel, in terms of headcount, you are completely comparable or all set to?

James Henderson: Yes. We have the appropriate headcount to be able to gain market share and go after Sportsbet. I am very comfortable with that.

Neil Cooper: I would just remind you that one of the benefits of moving from three brands, in due course, to one, is that you do not have to change the headcount to get a higher concentration on the key economic driver of value.

Richard Carter (Deutsche Bank): A question on horse racing staking. Obviously, it declined in H1 and H2. Your competitor yesterday was talking about it. They were giving a view on the outlook in terms of 2015. You obviously significantly outperformed them, but could you give us your take on horse racing in terms of what is going on, and maybe some guidance in terms of staking declines this year?

Then secondly, on the technology, talking about being more responsive, daily changes, single view; that seems quite transformational, so could you just tell us where you are today and the step up that that would give you, once you move on to that later on in the year, and also, where we are in terms of a seamless wallet and if you will be able to offer that at some stage?

James Henderson: Okay. Horse racing. As Neil said, we have seen that, predominantly, the margin decline has been in horse racing with the back in Quarter 4, and that is really as a result of fewer runners per race.

Richard Carter: I am more interested in staking, to be honest. The staking line.

James Henderson: Horse racing is an incredibly important product. Let me make that very, very clear. At the end of the day it is our biggest product in retail and therefore it is incredibly important. It has come under pressure. Not only there are few runners per race but the attractiveness of those races, with odds-on favourites, has not really encouraged the each-way punter, which is the typical retail customer, and therefore, the stakes and the margin have suffered as a consequence of that. I am delighted to see the BHA, under Nick Rust, are starting to try to address that problem by increasing prize money to sixth place and beyond that. So let’s hope that will drive out the number of runners, which will then encourage people to make it more of an attractive placement and do each-way betting, so it is under pressure at the moment, but let me just stress, it is an incredibly important product to us.

Richard Carter: So, no guidance on where you think staking trends will...?

James Henderson: Flat racing is slightly different from jump racing. Over the last few Saturdays, the top races have had four or five runners, so it has not been a really attractive betting product. However, over the course of the summer, with flat racing and bigger fields, hopefully, then, that will return to its previous levels. It is something that we are monitoring, and hopefully going to work with the BHA over the coming months and years, to be able to continue to make it an attractive product for our customers.

In regard to technology, you are right. Going fully responsive is a huge improvement on where we are at the moment. It does not matter what device you are; it will configure in the way. I was over in Gibraltar last week and the guys were taking me through exactly what that means. We have them all in what they call 'hidden live' at the moment, so all the things are there, being tested, and making sure that it is fit for purpose when it rolls out in the middle of the summer period. So it is going to be a huge change. It does make it faster; does make sure we can, as you say, make changes on any basis based on AB testing, so it is really going to be a fantastic technology improvement. Anything like that is not without risk, but I am confident the testing will have been done by the time it gets put out into live.

Richard Carter: And on a seamless wallet?

James Henderson: Seamless wallet? We have a seamless wallet in regard to OpenBet. You can access all our products with one wallet, but the stand-alones, as I understand it, is a different wallet. So you can do the majority of our stuff on a single wallet.

Richard Carter: Okay. Thanks.

James Henderson: That has been responsible for some of the improvements that we have seen over the course of the last 12 months.

Jeffrey Harwood (Oriel): I have a question on the dividend: the interim, up 8%; the second half was stronger than expected; final was up 4%. Looking forward, earnings are going to fall this year. How important is it to have a progressive dividend policy?

Neil Cooper: I will restate the board's policy, which is that we think that payout levels of between 2.5x and 2x are the levels we should be aiming at. Now, the reason we have done that is because it also enables us to have cash to invest in the business, in CAPEX and so on. We are at the top of that range right now at 2.5. We clearly have flexibility as we roll forward in, as you say, an environment where earnings are expected to drop. I am not going to give you either an earnings or a dividend forecast, if you do not mind, but our stated policy gives us some flexibility and I can assure you the board understands the importance of dividends to investors. Do not read that as a progressive dividend pledge, please, but we understand the importance of dividends.

Joe Thomas (HSBC): A question on Australia. You talked about a 9% wagering decline, of which about half was mitigation of the high race field fees. Could you give a sense of how underlying staking has continued into the early part of this year, and whether we are seeing anything untoward, because it sounds as though the explanation is entirely down to recycling on higher margins for last year?

Secondly, is there any update that we can get on the indirect taxation provision, what territories they relate to, and if there is any ongoing liability there?

James Henderson: Australia staking, you are right, was up 10% the first half and then it was down because of race field fees. How has that progressed into this year? I think it would be fair to say that it is predominantly down to race field fees. The margin has been incredibly strong, which, of course, will have affected wagering levels; certainly in a couple of weeks in the last month, it has been double the margin of previous years, so that will have had an impact as well, but it is predominantly race field fees. I do not know whether you want to add anything on to that?

Neil Cooper: What, in terms of the Australian thing?

James Henderson: Yes.

Neil Cooper: No, I think everyone recognises Melbourne Cup in 2013 was a shocker for us; great news for the punters. That has certainly switched around this year, which will have an impact. There are a number of factors and, to be blunt, we would not be rebranding if we did not feel that we really wanted to further drive, efficiency and effectiveness of our marketing spend in the market. What was the second question?

James Henderson: The tax provision.

Neil Cooper: I am not going to comment in any more detail on that, other than to say that the go forward impact of that particular matter, or those particular matters, has been communicated in terms of the consensus updates we have given people. I may be able to tell you a bit more in due course, but not at the moment.

Chris Stephens (UBS): Just on acquisitions, is there a point in time at which, if you have not found any attractive acquisitions by then, you would consider increasing leverage and returning cash to shareholders instead?

James Henderson: Obviously, the primary objective for the group is to give the best possible return that we can. We are looking at M&A. We are acquisitive. The strategy is laid out very bare, but if we are not in a position to have identified M&A, then that would be a consideration, sure.

Chris Stephens: Thanks.

Ed Birkin: Just a couple more. On the retail cost guidance you gave at the interims, which was pretty clear, and then it came in significantly below. Where was the surprise in that? Or were you just being overly conservative?

Neil Cooper: 'Overly conservative.' Is there such a thing?

Ed Birkin: Secondly, can you disclose what percent of your machine revenues are B3 versus B2, please? Thank you.

James Henderson: In retail cost guidance, the majority of the saving was from single-manning, the introduction of which we have rolled out on 1st April. I think the employee costs, year over year, were £5 million, and that was because we also paid a bonus to the retail staff, which we did not pay in in the previous years, so the overall employee savings were £50 million. I think the guidance was pretty much about that.

In regards to B3 staking, it is about a 70/30 split in favour of B2. So, B2: 70, B3: 30.

Ed Birkin: Is that for revenue or stakings[?]?

James Henderson: Sorry?

Ed Birkin: Revenue or stakings.

James Henderson: Revenue.

Neil Cooper: I should add, too, you are absolutely right. We did undershoot our guidance. I am sure there will be a degree of conservatism in there, but I cannot remember for the life of me, just on the spot, whether we had included the practical benefit we saw from shop closures. I will take a look at it after the meeting and if there is anything significant to report back, I will let you know. I certainly remember we did better, which is surely good news, but why, I will have to refresh my memory on that particular guidance point.

David Jones (Davy): Just one question. You have talked about the benefits of an omni-channel approach. I am just wondering whether you think there would be a benefit in having a retail presence in either Italy or Spain.

Neil Cooper: I will remind you, we used to and we closed it.

James Henderson: I was going to say that, yes.

Neil Cooper: So we have been there and done that.

James Henderson: Yes. Neil is absolutely right. We did have a Spanish presence and an Italian presence from which we withdrew about five or six years ago.

Neil Cooper: I think the point to make, and actually, whatever else you take from this, when we entered Australia, and when we entered the US, we felt that getting scale early was important, and we felt that because we had experience of starting at low scale and trying to do something with it in Italy and Spain. We certainly would not want to mess around with low scale stuff. That is not where we want to be.

Ivor Jones: Is there going to be a racing right, and if it were at, say, at 30%, how much smaller would the shop estate be? How many more shops would it knock off the profitability curve?

Neil Cooper: Why not 50%? Why stop at 30%?

Ivor Jones: Is that your recommendation? That is a surprising trajectory, Neil.

James Henderson: As I have said, there are three consultations out there at the moment. One is on the mechanica[?] one is on offshore and one is on a potential racing right. I think it is far too early to speculate as to what that percentage might be, but racing is an expensive product for us. There is no doubt about that, based on the current mechanisms. It is based on needs and ability to pay at the moment, so whatever the mechanism is going forward, it needs to be at the appropriate level to make sure that racing can flourish.

Ivor Jones: We have seen what consultants say. I just wonder what your view of what racing's view is.

James Henderson: As I said, I would not speculate. The closing date is not until 12th March anyway, so we are in the middle of formulating that, in regards to what the quantum looks like.

Neil Cooper: To be fair, I am sure you know, there are a number of practical and legal hurdles to overcome, should any such racing right be introduced, just as there have been around levy extensions, so those are not for us to worry about, in that sense, but it is by no means a done deal.

Ivor Jones: Thanks.

James Henderson: Thank you all very much.

[END OF TRANSCRIPT]