



William Hill teach-in: William Hill US

Presenter: Joe Asher, CEO, William Hill US
20 April 2016

Slide 1: title slide

Hello, thank you for joining us.

Slide 2: US business overview – strong and growing

Let me start by giving you an overview of where the business has got to in the almost four years since we started.

In the US, there aren't freestanding betting shops like there are in the UK; they're located instead in a casino, varying from the Strip locations to smaller venues. We operate 105 sports books currently, which represents 55% of the market, and they're spread across the state from Las Vegas and Reno to outlying communities.

As of the end of 2015, William Hill handled about 18% of the amount bet on sports in Nevada, which translated into 21% of the win. Our handle is roughly half retail, half mobile. For mobile, you have to open an account within a sports book but can then bet on our mobile app anywhere within the state of Nevada and we verify your location. A number of competitors now have mobile apps but we are leading in mobile, in part driven by availability of locations to deposit funds into your mobile account. You can't fund your account with a credit card in the US because the banks won't process the transactions, but we have the advantage of 105 locations where you can fund in our sports books and via kiosks in a chain of pubs. Originally, you could also bet via the kiosks in the pubs but the law changed to prevent that so we left the kiosks there to take mobile deposits. You can also fund your mobile account in about 200 7-Eleven stores across Nevada.

When we established William Hill US in 2012, in-play was basically non-existent; now it's approaching 20% of turnover and continues to grow significantly.

Virtual racing is expected to launch soon and we had to get the regulations changed to permit virtual betting. We've done a deal with Inspired Gaming and hope to roll out within the next couple of months. This is largely a 'filler' product, particularly for when there's not a lot of horseracing product available earlier in the week.

The only sports betting of any scale outside Nevada is in Delaware, where we are the risk manager for the state lottery. We've recently extended that deal for another four years.

The William Hill brand has gone from having no presence – in fact, if people had heard of William Hill, it was because there is a winery by that name in California! – to now having people regularly recognising the name. In fact, at the court hearings held in February, William Hill was mentioned twice in the arguments.

Overall, then, we're in a good spot to take advantage of the opportunities that arise in the US.

Slide 3: William Hill US – then and now...

It's pretty impressive how the business has grown.

The number of locations has grown a little, from 100 to 105. When we first put the three companies together, there was some discussion about whether we would consolidate the sports books but we've kept them even where they're across the street from each other. That allows the customers to continue to go to their usual place. There aren't a lot of additional locations to come but we have just signed contracts for a couple of good properties in downtown Reno.

We started with 12% of the win in Nevada and by the end of last year we had increased that to 21% market share; clearly there's room to grow further in that as well. In time, I would hope to get to 30% as a reasonable target. There's always a segment of the market that's not attainable, for instance if, as a customer, you're staying at the Wynn, you probably will bet at the Wynn, but there's room to grow from here.

Mobile has tripled over the four years – it's gone from 16% to about half of our handle. It's largely incremental, it's not cannibalised retail, which has been very resilient throughout. A lot of that growth is about content, including most recently from William Hill's Global Trading Platform.

In Delaware, the product is limited to NFL parlays of three or more games by a court decision in 2009 but the business has increased substantially, largely because of increased distribution, going from three racetracks to upwards of 100 lottery retailers. Legislatively, it will remain relatively small absent a change in federal law.

In headcount terms, our staff levels tend to be around 400 to 425, fluctuating for the football season.

In profit terms, our EBITA has gone from a \$2m loss in 2012 to almost \$15m profit in 2015.

Slides 4 and 5: William Hill US has grown Nevada market share by 72% since 2012

The next two slides show how our share of the market has steadily grown over time, in handle, revenue and profits.

The market has grown as well: total handle on sports exceeded \$4bn for first time in 2015. State-wide, the gross win margin is roughly 5.5%.

We saw a slight dip in our EBITA last year with a one-off settlement of old litigation inherited by the company and some growth in staff and property costs. And we're off to a pretty good start this year.

Slide 6: Virtual racing launching soon

Turning to virtual racing. We led the move to change Nevada regulations to allow for virtual sports and have a deal with Inspired Gaming for content. But we wanted to make the product proper for the market so we've localised it by using one of the most famous U.S. track announcers over the last 25 years - Tom Durkin - to provide the commentary. We're hoping to get into a field trial shortly and bring the first virtual product into the US.

Slide 7: Delaware Sports Lottery

As you can see, in Delaware we're on a similar sort of trajectory. Margin fluctuates around football results but it's a higher margin because the product is limited to three or more team parlays during the NFL season. Sports betting was reauthorized in Delaware in 2009 and we've just extended our contract with the Lottery in partnership with Scientific Games.

Slide 8: New Jersey sports betting rights

In New Jersey, the debate around sports betting has been driven largely by three individuals: Dennis Draizin of Monmouth Park, State Senator Lesniack and Governor Christie. New Jersey has been at the forefront of trying to legalise sports betting outside Nevada.

We've signed an agreement with Monmouth Park in northern/central New Jersey, and we have the sports betting rights there for 50 years from whenever it becomes legal. In my view, there's no doubt there will be sports betting in Monmouth Park; it's just a question of when. We've built out a nice sports bar, very similar to a Nevada sports book format but serving food and alcohol, and providing horse racing bets. That would be converted into a sports book in the short term if betting became legal, but it would clearly be way too small for what the business would need if betting was legal in New Jersey.

We also sponsored Monmouth Park's premier race, the Haskell. We renewed our sponsorship last year, which was great timing as the first Triple Crown winner in 37 years – American Pharoah – made his first start after winning the Triple Crown in the Haskell and drew the biggest crowd ever for a New Jersey horse race.

I'm on record previously as predicting the New Jersey market could be roughly three times the size of the Nevada market (which is currently \$4.2bn) and I believe Monmouth Park could be 10% of that market.

Slide 9: Legal framework - PASPA

PASPA – the Professional and Amateur Sports Protection Act – prohibits state-sponsored sports betting. It was passed at the behest of the sports leagues in 1992 but it's been a failed policy and created a massive black market for sports betting in the US.

There are four states that were grandfathered in under PASPA. You've seen what Nevada does. As I said, Delaware is limited by an adverse court decision to what they had before PASPA was passed. Montana has a limited fantasy sports product run by the lottery. Oregon has no sports betting under state law.

New Jersey has challenged PASPA on constitutional grounds, arguing that, under the tenth amendment, a decision on gambling should be left to the state, not imposed by the federal government.

Initially, there was a referendum in New Jersey that Governor Christie supported. Enabling legislation was passed, then challenged by the sports leagues in the district court. The district court upheld PASPA and the Third Circuit Court of Appeals voted 2-1 that PASPA was constitutional but made the point that New Jersey was free to repeal the sports betting ban in whole or in part.

So, New Jersey then passed another law: as PASPA prevents state-sponsored sports betting, they decriminalised it at racetracks, former racetracks and casinos, attempting to conform to the court of appeals decision. Litigation was again brought by the sports leagues and the District Court ruled against the state. The Court of Appeals, by another 2-1 vote, also ruled against New Jersey. However, the Court of Appeals subsequently withdrew that decision and granted a rare 'en banc' hearing - rather than being heard by three judges, all available judges would hear the case. The twelve judges heard the case in February but there's no timetable for their decision. Some press reports suggested that a decision could come in the next three to four weeks, but that's just speculation.

The first decision upholding the constitutionality of PASPA is also back on the table as part of that en banc review.

There could also be challenges to PASPA in other states and there's clearly a legislative aspect to this as well. The American Gaming Association – of which we are a board member – has made it a priority to try to overturn PASPA in the near term, pointing out the size of the illegal market and how it funds crime.

Public support for sports betting has never been higher: polls show two-thirds are in favour of legalised sports betting. In some part, that has been supported by the rise of Daily Fantasy Sports Betting, but how that translates into legislative action remains to be seen.

Historically the major sports leagues were opposed were sports betting. However, the NBA Commissioner, Adam Silver wrote an op-ed in the New York Times advocating legalisation. Other sports' commissioners haven't been as vocal but there's a sense of a loosening in long-held views.

Slide 10 – Overview of Daily Fantasy Sports Betting

Let me just touch on the topical issue of Daily Fantasy Sports Betting (DFSB).

Season-long fantasy has been in the US for years. In fact, I've been in the same season-long fantasy league for 20 years. Then came DraftKings and FanDuel – the two largest operators – who have raised hundreds of millions from private equity. They made it a daily product.

DFSB flew under the radar screen until the start of the NFL football season last September. Fuelled by funding from private equity, they went on a massive advertising blitz – they were the number one

advertisers in the US at that point – more than Budweiser, Chevrolet, AT&T - The advertising was over the top and incessant and caught the attention of regulators.

The argument is that daily fantasy is skill and, therefore, not gambling. The problem with that logic is that the conclusion doesn't follow from the predicate. There is skill in poker, in blackjack, and in traditional sports betting, but those are all recognized as gambling. Daily fantasy is unequivocally a gambling product in our view.

So now it's the focus of a number of states' Attorneys General and regulators.

The Nevada Gaming Control Board said it's gambling and that DFSB operators have to get licensed. Both the major sites pulled out of Nevada pretty quickly. Subsequently, a number of other states Attorneys General have similarly concluded daily fantasy is gambling under their laws. Most notably, perhaps, New York followed; litigation followed and ultimately Draft Kings and Fan Duel settled and pulled out of New York pending a court decision and legislative efforts.

Now, Indiana and Virginia have passed bills that legalise DFSB under state law. That may violate PASPA and that issue has not yet been litigated. These state proceedings will continue to play out.

Last week, Congress decided to hold a hearing, focused on not only DFSB but also sports betting. That will come before a House subcommittee in May, the first sports betting discussion in quite some time. Our view is it should be legal, taxed and regulated just like sports betting.

The timing over which this plays out is unclear and it's a rapidly and continually evolving position around sports betting. People ask if we view DFSB as competition. The answer is no; if anything, it's helped our business by focusing people on sports betting – just look at how the Nevada market grew last year.

Thank you for listening. I'm happy to answer your questions.

Q&A session

What's your share in just mobile in Nevada? How do you grow mobile from here? Is it all your own technology?

The Gaming Control Board doesn't split out mobile in their public reports, but we clearly have the dominant share in mobile – I would think north of 50% or 60% just based on distribution and ease of depositing, given we've got 400 places where you can deposit.

In terms of driving it forward, it's about continuous investment. We're working on new version of the app which we'll hopefully fully deploy by the upcoming football season.

Yes, we've done it in-house. In fact, we've recently taken more space in our office for IT staff. In-play is promoted through the app so there's more room to grow. We see customers betting both in retail and on mobile. They're very complementary products.

Why does anyone bother depositing cash given it's easy to bet offshore?

There will be some illegal sports betting in Nevada but it's not as prevalent because it's legal in the state so you don't have problems with not getting paid and we try to make it relatively easy to fund your account. You just don't see people betting illegal in Nevada like you do elsewhere in the U.S. Offshore prospers where there isn't a legal alternative.

It was notable in Delaware when we first opened in 2009 that, during the first several weeks of the football season, the illegal bookmakers were coming in and stealing our parlay cards! They were trying to save money by using us as their printer! But the illegal parlay card market in Delaware appears to have largely dried up since because the legal market is relatively convenient and we're offering a better price than the illegal alternative.

Assuming the Third Circuit rules against, what's the next step? Is Senator Lesniak pulling away?

He's been the guy who's been most committed to this, alongside Dennis Drazin. If New Jersey loses – and it's tough to win with 12 judges because you need 7-5 in favour – it could decriminalise sports betting across the board. But I think there will be litigation elsewhere. The decision coming out of the Third Circuit won't be unanimous. There's also a continued push by the American Gaming Association (AGA), teeing up the issue for the next Congressional session in 2017. The idea is to build public support ahead of pushing for a bill potentially in 2017 or more likely 2018.

Where does Sheldon Adelson sit on sports betting?

He's not opposed to retail sports betting as I understand it and has a casino in Pennsylvania, which falls within the Third Circuit. It's a question of how you deal with intra-state sports betting, which could be impacted if RAWA is passed. Certainly there's no significant opposition from him on retail; it's principally an online-focused issue for him.

Will DFSB view you as competition because people will go onto sports betting? Would the leagues oppose sports betting?

They're very focused on emphasising that DFSB isn't gambling. The two leading DFSB companies together lost \$400m last year. Is there room in the market for both? That's a question. Would the Justice Department let them merge? If they lose the case in New York, that's a big loss, and Texas is a big market to lose. So the viability of the business model is still an open question. For the sports leagues, their support isn't a question of either/or; it can be both.

What's the racing and sports split? And is your racing fixed odds?

We're 95% sports. It's very different in the US market – racing is a tough business. Sports is increasing in popularity as we make distribution easier and the product better, but racing is hard work. Our racing product is principally pari-mutuel, betting into the tracks' pools, though we offer a limited amount of fixed odds ante post.

Why would a customer choose you over a competitor? Your gross win margin is higher than the average, would you see pricing pressure if the market legalised?

Our margin differential is driven by the bets on higher margin products, not different pricing. We have a higher proportion of parlay betting. Why they bet with us is all about location, the breadth of our product and our technology. Our mobile app today is very easy to get a bet on and the speed of transaction is very good. It doesn't yet have as many bells and whistles as you're used to with the European product. Convenience drives behaviour. It's about marketing as well – getting the brand out there.

What's your approach if regulation of the US market happens? How much are you prepared to invest / lose?

Initially, sports betting won't be one national product; it's likely to open up state-by-state through either existing licence holders or state lotteries. We're operating in both those models. The deal with Monmouth Park was very much focused on that. It will be like the early days of Atlantic City, the first casino market outside Nevada – the big question was 'where do we put all the money'?

I don't think it opens with a need for a massive advertising spend. I view it as the licence holders being the existing casinos or race tracks, and we would partner with them as we have with Monmouth Park. We've already had numerous discussions.

What's the competitive environment with other operators following William Hill?

We're the leader in the US sports betting market today. Whether others in Nevada will seek to expand out remains to be seen. For instance, MGM has casinos outside Nevada and would likely provide sports betting in those markets. It's open to competition. Betfair is operating TVG in California, so

that's one entity around the marketplace. Ultimately it will be a competitive market but a pretty big one, so a good problem to have.

Do the illegal online businesses have a chance of participating?

They'll be shut out – they're criminals. The PokerStars decision in New Jersey was fairly controversial but there was always some ambiguity under the Wire Act as it relates to poker and casino games. But there's zero ambiguity under the Wire Act for sports betting so I can't see how they would get in.

Is there much staff turnover in the US?

At the senior levels, no. There's always turnover in the books. We instituted pay raises to try to stem that churn but it's the nature of the business.

If 95% of your business is sports, what are the major sports contributing?

NFL comes first at c20% of turnover, then NCAA another 20%, basketball – both pro and college – is next, then baseball and other sports, including hockey, NASCAR, golf, tennis, and European and Mexican soccer.

Are payments a significant cost line? Is there a risk of that cost increasing?

We pay around a relatively small percentage of the amount deposited to PTs or 7-Eleven. In New Jersey, I've heard folks are paying more like 5-6% for online gaming. But, we drive a substantial number of visits to PTs' pubs and 7-Eleven so they get additional trade. We don't share in the beer revenue at PT's or the cigarettes and Slurpee revenue at 7-Eleven. It's a risk that costs could change but we're providing a big benefit to them.

Will it be that way in other states? And will it be cash-based?

Eventually the banks will get into processing. They were doing payment processing for DFSB until the major payment processor pulled out and made the banks belatedly skittish about the issue. There is a merchant code it falls into but the market is still small enough they haven't taken it on.

Would you expand into other states through horseracing? Would it make sense to buy Churchill Downs?

It comes up for discussion over time. That business is pretty competitive. Churchill Downs is largely a social / gaming company now, tracks are a tough business. You either have slot machines or you're hoping to get them.

If you're positive, surely getting a racetrack is valuable while they're cheap?

It depends. Buying racetracks is a complicated valuation process; it includes a real estate aspect. Many have casinos already. Are you better off buying now or doing a deal later?

What happens to the margin as you get more in-play and mobile?

Retail margin is c8% and it's 4% on mobile. That's a function of less parlays, more straight bets in mobile.

Have you introduced cash out yet?

Not yet, but we plan to do so; we don't see any regulatory issue with getting it approved.

What proportion of the market is not available to you? Can you get into many of the strips casinos?

Fundamentally it's a control issue for many of them, but some of them have outsourced. The Las Vegas Strip is about 50% of the sports handle in Nevada.

Why have the sports leagues endorsed DFSB but tried to block sports betting? Can you get them on side with the right deal?

To some extent, they may not have fully appreciated that DFSB was a sports betting product when it went from season-long to daily. I testified last month during the Nevada Gaming Policy Committee meeting that they look like the same game but are entirely different – it's like comparing pee wee football and the NFL. It was about the money, the sponsorship opportunity they saw. The networks, the leagues and a handful of successful players are the only ones who have made money from DFSB so far. It's an unproven product in my mind.

Has it weakened the leagues' position on sports betting?

In the context of the NBA, yes but they've now endorsed legalising sports betting anyway. They are fully supportive. The other leagues now understand better and it's crystallised more what's at stake. I'd think the NHL is likely to support. The NFL is what really matters but it hasn't shifted its position in spite of 27 of the teams taking DFSB money. There are different views among the ownership base. But a few months ago, their chief lobbyist in Washington said maybe it was time to reassess. When and how that translates into legislative action remains to be seen.

What's the lottery opportunity and thinking behind the NeoGames investment?

It's about optionality as well. As online lottery expands, hopefully it's through NeoGames, and we've got acquisition rights under the deal. Online lotteries are pretty small today. Online gambling generally in the US is an interesting issue. Mr. Adelson is supporting RAWA, the bill to make online gambling illegal but the last Congressional hearing did not go well for the proponents of the bill. There's some opposition among Republicans on states' rights issues but it doesn't have a lot of momentum at this time.

Is there any way to leverage the existing four states across other states to take money from out of state with bet placement inside the state?

Not really. There was an entity wagering bill that passed in Nevada last year to permit sports betting funds, but we'll see how it plays out. The proponent was Cantor, the only company looking to take bets from the funds. We've taken a wait-and-see approach because there are significant regulatory issues and it's also a question of whether that's business we want to take, from professional sports bettors. Beyond that, there's some sort of regulatory change that needs to happen, through the courts or Congress.

What timelines are we looking out for?

The Congressional hearing on 11 May is pretty significant. I'll be there to see how it goes. Then there's the decision in the New Jersey sports betting case, whenever that happens. The Court will just post the decision on its website. I don't see a whole lot being driven by the election *per se*. Clinton is fine on gambling issues, Trump has owned casinos and Cruz is pro states' rights. I see litigation happening elsewhere, either in another circuit or around the DFSB laws, potentially this calendar year.

Who are your next largest competitors in Nevada?

In B2B terms, I guess it's Cantor, Station Casinos (who have two outsourced sports books) and South Point Casino in the market, however, Cantor has not added any books since it's major regulatory issues emerged. And remember we're also the leading system provider to the market.

There are alternatives for funding your mobile account, perhaps using pre-paid accounts from a credit card. Stations has it, and we're getting ready to do it. That's helpful to have on top of the retail distribution base.

We signed a couple of new sports books on Friday: two former MGM casinos in Reno that were sold and we're taking over the sports books this summer.

What's the growth and profit potential of the current footprint over the next three years?

I've said I think we have 30% market share potential. The underlying market growth rate is about 7-8%, going from \$3.9bn to \$4.2bn last year. I've been asked if I see DFSB as competitive. The answer is no: the market grew last year in the face of all that advertising. I'd argue it's been beneficial by focusing people on sports betting.

Do you need more staff to get to that level of business?

There's staffing in the books that trickles up with new books, and we'd need to add some folks, perhaps to trading, compliance and the like, but we don't require a doubling of the staff or anything of that sort. There's a degree of operational gearing that flows through.

Apart from the brand, are there other synergies from being part of WMH?

The most material has been in-play. We get the pricing feeds from Leeds. Virtual is another product through William Hill's relationship with Inspired, with some of the operational know-how. We've introduced video walls in a number of sports books with technology from the UK. Group has been looking at a new kiosk that we've been looking to launch, potentially in the fall. Operationally, we share best practices. I talk to Terry Pattinson [Group Trading Director] on a regular basis, particularly around the Super Bowl since that's a material game in itself. His Trading department also generates our daily reports that I have been known to obsess over. I read them 365 days and get itchy if they are delayed! On a product level, the guy who heads our product development came over from Gibraltar and another in IT also came from Gib. It's good to have someone to bounce questions off when they come up, so I'll call James when I have something to run by him; it's good to have someone who understands the language you speak!

If the outcome is positive from the Congressional hearing, what happens?

It's a discussion, not a decision. Any legislation in Congress is on a 2017/2018 time horizon at best. The agenda in Congress will be driven by litigation to some extent, so I'm a great believer in this dual path approach. The outcome of litigation could drive what happens in Congress; for instance, what's the response if New Jersey loses the court case and decides as a response to completely decriminalise sports betting throughout the state? It's undisputed that they have the right to do that. They tried to decriminalise just for racetracks and casinos and former racetracks. That might spur Congress to do something but the state hasn't resorted to pursuing that yet.

Chris Christie has been the biggest proponent - other than Senator Lesniak - of sports betting. He became a supporter of Trump as soon as he ended his presidential campaign and has been cited as a possible Attorney General in a Trump administration. Governor Christie speaks intelligently about the issue and suggests it should be legal and regulated.

What's the size of the black market?

Nobody knows. It could be \$200-400bn in handle but there's no way to measure it.

Are you the only one offering in-play and virtual?

Several others offer a limited in-play product, such as for major sports' TV games only. No-one has the scope of product we do, and I expect we will be first to market with virtual.