William Hill Trading Update

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Overview

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Introduction

Good morning, everyone, and thanks for joining us. As usual, I will kick off with a few high-level takeaways from this morning's statement, and then we will open up to Q&A.

Overall picture

Overall, we have had a positive start to 2017, with wagering and revenue growth across all four divisions. It is encouraging to see online continue to improve; from 8% on wagering, we are now plus 9%, and from plus 5% on gaming we are now plus 8%.

Online

It has been a busy period. We have launched the Android app, the desktop rollout, the games app, the Vegas app and the single wallet. The Playtech casino is our fastest-growing gaming vertical as a result. Not only do customers now no longer have to transfer funds, they can jump straight into their last game, track their bonus progress and personalise their content and promotion pages.

At sportsbook, I would highlight #YourOdds, which is delivering a truly personalised service. Our Central Services team have enhanced the registration process, age verification, account recovery, deposit and the bet slip. We have had 75 new developers, mainly into Krakow.

Retail

At the same time, we have continued to focus on product improvements for retail. We have put more content into the SSBTs, and we have launched the Bet Tracker app to bring cash-in to our retail customers. It is good to see retail showing growth, with gaming up 4% and wagering up 2%, benefiting from more racing fixtures in the last year and our additional broadcast content.

Margins

We have seen the same gross win margin trends as others: good results up to March, including a very favourable Cheltenham, and then customer-friendly results in April, including the least profitable Grand National in the last five years. As a result, both online and retail margins are behind what we would have expected them for the period.

International

Australia wagering is up 29% in spite of reduced in-play volumes. The margin is poor at 8.2%, because the percentage of winning favourites has been higher than normal. We are continuing to release new products faster than anyone else in the market, including a rewards programme for all customers and personalised enhanced odds through Price Pump. The US continues to grow, although it too was affected by weaker margins in the period.

Overall, we are comfortable with market expectations for the year as a whole. So, a good start to 2017.

Regulation

In regulatory terms, as you will have seen, the levy is now being applied to online. That will cost us about £5 million this year. The tax on gaming free bets is delayed, but we are still expecting that to come in 2017.

Strategy

We are staying very focused on delivering a good operational performance this year, including the £40 million of annualised efficiencies, which we are on track to deliver before the year end. That is all I wanted to cover this morning, so over to you for Q&A.

Q&A

Ed Young (Morgan Stanley): Good morning, and thank you for taking my questions. The first one is on online gaming growth. You mentioned a benefit from forex; could you just say what that was on a constant currency basis?

Also, can you talk a little bit about the competitive environment? If and how it has changed recently, and how you see competition from casino-only and soft casino brands?

The next question is on retail: could you just give a little bit of colour on what you are seeing there, in terms of the relatively positive performance in terms of the staking growth?

Also, the omnichannel initiatives: how do you see them progressing throughout the year? Just from a higher level, how do you see the balance between the potential boost that could give to online, and the drag on retail? How do you see that balance going forward?

Philip Bowcock: Right Ed, I will try and work my way through them. Online gaming growth, it is about 1% impact, so online gaming about 6% up to the foreign exchange on that.

If we think about the competitor environment, I think we are now playing a part more than we were before. I think we are now more willing to engage in making sure we have a competitive product. I think the key for me is about being rational. We should compete where we can, but actually we have to remain profitable. So, I do not think there is anybody at the moment being totally irrational. Clearly, we only see numbers from those in the public domain, we do not see those private company numbers. However, for those we see at the moment, I think people are being relatively rational.

When we think about retail, I think what we are doing is just delivering a really good operational performance. I think there have been more race meetings this year. There has been about 7% year-on-year growth in race meetings, there were about 429 this year. So, I think for us it is about delivering that operational performance.

When we think about omnichannel, we intend to have a wallet across retail and online by the end of this year. I think that will clearly help us. We have launched the Bet Tracker, which has been successful, and we are seeing some encouraging signs there. So, it is clear that our retail customers do want to engage in having a multi-channel offering. We will have to wait and see just how quickly that develops. For me, it is about making sure that, when we deliver that multi-channel offering to our customers, we are delivering the best we possibly can, so we do not lose them in the process.

Ed Young: Thanks very much.

Tim Ramskill (Credit Suisse): Morning, two from me please. I think, actually, to be fair to Ed, he just asked the question; I was going to ask it as well, around the softer casino brands that are out there, and perhaps some of Paddy's comments about how the market is evolving. Where do you see yourselves in terms of ability to attract casino customers across all parts of the market?

Then the second question, Philip: you had talked about being prepared to compete more. I know it is always difficult to disaggregate performance versus others, but your win margins in retail are down in the period, whilst Ladbrokes Coral's have been up a little bit. Is it within retail specifically where you feel you have heightened the value, and that is what we are seeing in those differences?

Philip Bowcock: If I do the second one first, we have done nothing to change how we price. So, we are going on exactly the same lines that we have always gone on. So, there has been no change in trading activities and changing trading policies. I clearly cannot comment on how others have adjusted theirs as they go through an integration process. So, there is nothing there.

When it comes to casino in online, I think the thing for us is we want to always have the best products, and I think we have a very good product suite. I think the other things that have helped us in this period are two things: one is putting the single wallet across the Playtech stack; that clearly has a benefit, because customers do not have to transfer money from our wallet to another wallet. So, that has helped. Also, our cross-sell from sports has improved. So, we have been doing a lot of work on the customer experience and the user journey. So, we are seeing some improved cross-sell metrics as well.

Tim Ramskill: Okay, thank you.

Jeffrey Harwood (Stifel): Yes, good morning, just a couple of questions. First of all, UK gaming revenues: I am not sure if they were up 6% too?

Secondly, in Australia, how should we think about the conversion of the strong revenue growth into profit?

Thirdly, can you give some comments on the machine review, and particularly confidence that your message is getting through to government on this issue?

Philip Bowcock: Okay. The UK gaming revenues are broadly similar, so there is no change there.

Australia conversion, there are a couple of things. One, I think there was quite a considerable push in the beginning of the year, certainly around the Australian Open; we have significant customer acquisition process there, so we would expect to see revenues higher in the first period. Also, of course, the margin is not as good as we would like, either. So, I think what you can expect to see is probably higher revenue growth in the first half, but also profit weighted in a way to the second half, because of that level of investment and also the lower margins that we have seen in the first period.

When it comes to machines, are we confident our message is getting through? We are doing everything we can to make sure our message is being heard. Quite how that is landing, you just do not know, but we are doing everything we possibly can to make sure as many people as possible hear a consistent message. I think that is not just a message from us, but it is a message throughout the industry as well.

Jeffrey Harwood: Sure. Okay, thank you.

Chris Stevens (UBS): Morning, three from me please. The first one is on your outlook commentary, which says you expect to achieve market expectations, assuming gross win margins normalise. Could you just give us some kind of guidance in terms of what you need them to get to in order to hit current expectations?

The second question is on Australia: could you comment how much of your marketing is done on TV, and how do you expect that to change with the ban on advertising during live sport?

The third one is on UK online. Clearly, the improvements in products and customer experience are now coming through, and showing in the numbers. Could you just remind us when those improvements started to be implemented? Do you have any visibility on the trajectory of online growth for the remainder of the year? To put it another way, do you expect to start winning back some of the market share you have lost over the last couple of years, or is the aim to grow in line with the market? Thanks.

Philip Bowcock: If we just go through those: if we look at margins, if you look back over the last two or three years, certainly Lyndsay can spend some time with you going through what the margins are on average. So, I am not going to go in detail across each of our parts of the business with the margins, but we can cover that off separately.

In Australia, the TV marketing: we do not do a significant amount of TV advertising, so I would not expect it to impact us materially. We do most of our marketing, actually, on digital.

On UK online, effectively a lot of the sportsbook effort was done for the Euros last year. I think we did most of our gaming during the second half of last year. I think there is still a little bit of work to do. I think the user experience piece about registration process, getting account verification work done, password resets and all of that has been done over about the last three or four months. So, we are on a good track to get ourselves really where we want to be.

When I think about market growth and where we are, it is always difficult to know exactly where the market is growing, because not everybody clearly is in the public domain so gives their numbers out. However, I would say we are growing there or thereabouts with market levels at the moment, and I would hope that we are starting to take some market share by the end of the year.

Chris Stevens: That is very clear, thanks.

Patrick Coffey (Barclays): Morning, guys, just a couple from me. On the over-the-counter wagering in retail, clearly you are taking share from Ladbrokes Coral now. How much of that is down to racing picture issues at peers, versus more broadcast content from yourselves? If it is not down to that, can you maybe just give us a bit of colour as to why there is such a divergence between yourselves and Ladbrokes Coral?

Also, part B of that first question: can you just discuss the over-the-counter wagering trends in April? Did you also see a slow-down in April after Q1?

Secondly, in terms of the market growth: you previously commented, Philip, that it was growing at about 10%. Do you still maintain that view in terms of the online market growth?

Finally, are you seeing any improvements in products from the big private companies in this space: Sky Bet, Bet365? Are you seeing any improvements in products that concern you going into the summer? Thanks.

Philip Bowcock: OTC wagering: clearly, I do not have detail of anybody else, and what is going on anywhere else. I think we did benefit from, as I said earlier, the increase in the number of race meetings. The number of race meetings went up by about 7% in the period, so that clearly has an impact. I do not know whether our access to content is having a difference. I have to believe it has to have a small impact, but I do not know how material that is or is not. I think, more importantly, it is about Nicola and the team's real drive for operational excellence. So, we are really having hard, post the restructure in our retail division, and making sure we are as operationally efficient as we can be. I think that has to have a large part of that.

OTC wagering trends have continued into April, so there has been no real change in the trends. We have not seen a fall off.

Market growth, I think I said 10–12%. There is nothing at the moment to suppose that anything is different to that. It is not a massively long period that we are talking about, so I think we need to see what happens over a longer period of time.

Improvements in product from our competitors: we have not seen anything materially come out. Nobody has flagged anything to me. I have to say, I do not sit on them every day. Otherwise, we are not seeing anything happening. We are seeing pretty rational behaviour when it comes to products at the moment.

Patrick Coffey: Thanks. If I could just follow up: if you were to strip out those additional horse-racing events in the period, what would the over-the-counter wagering growth be?

Philip Bowcock: We have not done the analysis. It is difficult to get to, because it is how much recycling goes on, etc.

Patrick Coffey: Okay, thanks.

Gavin Kelleher (Goodbody): Good morning, guys. Just on OTC staking trends, can you give us some commentary around SSBTs, how much of the benefit they are having?

I know Patrick asked to strip out the racing fixtures, but can you give some colour on how much horse racing is up in the period in terms of staking in retail?

Also, just on machines: can you give any sort of colour on the B2/B3 split at the moment? Thanks.

Philip Bowcock: B2/B3 split, I am not going to give any details. Suffice to say it has not materially changed from where it was.

Going back to the first one, OTC staking: the 7% that I said, horse racing is up slightly lower than that. UK horse racing is up just below 5%, when we look at is on a staking position. We are not seeing any material trends, any ups and downs during the period.

Where we put SSBTs into shops, they are representing approximately 7% of OTC turnover. So, we are encouraged by what we are doing. As we are adding more product in – we should get horseracing in during the year – that will again add to that number. So, we are doing things in a very controlled way, to make sure what we are delivering is exactly what the customer wants. We are just doing a UX upgrade at the moment, to make the look and feel even better. So, we will continue to work on that. Of course, work is going on, on the single wallet at the moment as well, so the online and retail customer can have the same experience.

Gavin Kelleher: Perfect. Just one question on Australia: can you just remind us the live betting headwind in the quarter? Roughly how much of staking did that take out?

Philip Bowcock: I cannot remember. I think it is roughly about 6–10% of staking growth.

Gavin Kelleher: Perfect, thanks a million.

Richard Stuber (Numis): Good morning, just a couple of questions left from me, please. The first one is in Australia: are there any differences in trend growth between the different brands? So, is Centrebet performing better than the William Hill core brand?

The second question: there have been reports of quite a few changes in management in the online space; have these now largely finished, or do you expect any other changes there? Thank you.

Philip Bowcock: I think when we think about changes in management, we have had one departure from our senior team there; that is all. That is the first change we have had in a number of years. I think changes in management have happened in our competitors more than in our environment, I have to say.

When we think about differences in trends in the brands, I think the Centrebet brand is such a new brand, it is difficult to say whether there are any differences in trends. The Centrebet brand clearly was launched just before Christmas, so it is growing percentage-wise very quickly, but obviously from a very low base. So, I do not think it is fair to say that we can differentiate between the two at the moment.

Richard Stuber: Right, thank you.

Joe Thomas (HSBC): Morning. There has clearly been an improvement in staking trends in the last ten weeks in the online business, both sportsbook and gaming. Can you just give some sort of idea of what the comps were for the prior year? It is my recollection that in that ten-week period, that was when things got very weak at William Hill. Maybe I am mistaken there, so if you could give some visibility.

Second thing, I think you quantified the FX benefit in the gaming business: could you perhaps give it for the sportsbook as well?

Finally, in Australia, the win margin is obviously quite weak: how much of that is just results, and how much of that is any change in the approach to trading in order to regain the position there? Clearly, staking is very strong.

Philip Bowcock: We will do those in reverse order, just to keep me on my toes. In Australia, the win margin is all results-driven; we have made no changes to our trading policy.

The foreign exchange impact on our international sportsbook is about a 2% impact. So, we are two percentage points better off due to foreign exchange.

For the year-on-year performance in the UK, there was no discernible move in the last ten weeks, this time last year. If anything, we had Cheltenham, which was very strong. So, there was a significant amount of recycling going through Cheltenham. So, actually, in a way, that specific comparator period was more difficult.

Joe Thomas: So, the self-exclusions and time-outs were prior to the ten-week comp period, is what you are saying?

Philip Bowcock: They were starting to run off, yes.

Joe Thomas: Okay, thanks.

James Wheatcroft (Deutsche Bank): Morning, two questions please. Are we likely to see any benefit from the £40 million cost savings in terms of accelerated growth in the current year, or is that really a story for next year?

Secondly, could you just remind us what the profile of the marketing spend is likely to be through the current year?

Philip Bowcock: The benefit of the £40 million is going to be almost entirely into next year. So, we are not going to going to see very much benefit into this year.

The profile of the marketing spend is probably going to be a little bit second-half weighted, but not too much, as we come into programmatic marketing and so on and so forth, that we are going to launch during the second half.

James Wheatcroft: Thanks.

Alistair Ross (Investec): Morning guys. Philip, just a quick one on federal point-of-consumption tax in Australia. I know they have got their budget speech at 10.30 this morning; I do not know if you can comment on that, whether you have an inkling as to whether something might be announced? Yes, I guess anything on that.

Philip Bowcock: No, is the answer, because I cannot foresee the future when it comes to what they are going to do. What I have learnt in my short time is things happen very quickly in Australia, and they come up with some new ideas every other week sometimes. So, no, I cannot comment on what it may or may not be, to be honest. Sorry.

Alistair Ross: Okay. Just in terms of core and non-core gaming growth, post the launch of the single wallet, can you comment on that? I know you said both gaming growth metrics are positive.

Philip Bowcock: No, I am not going to go into detail on that, Alistair. It is a level of detail we are not going to do.

Alistair Ross: Okay. Can you give us the Group FX tailwind?

Philip Bowcock: No, I have not got the overall Group number. It is not going to be material. It will be the end of the first half.

Alistair Ross: Can you tell us how profitable Cheltenham was this year, given it was £6.4 million lost last year?

Philip Bowcock: It was about £15 million in gross win. I can give you that one.

Alistair Ross: Just in terms of bonus abuse, self-exclusion time-outs and the 4th AMLD: bonus abuse, is that now sorted?

Philip Bowcock: Yes, you will always have a little bit, but we have done all the material hard work, heavy lifting. So, we are in a good position, and really we start to roll off that in the next few weeks, actually. We really started the work this time last year.

Alistair Ross: Self-exclusion time-outs, I take it those have slowed down dramatically?

Philip Bowcock: Yes, very much slowed down. So, we keep an eye on it, but there is nothing material to say on that.

Alistair Ross: Transposition of the 4th AMLD on 26th June, are you guys fully in line with that?

Philip Bowcock: Yes, we are.

Alistair Ross: Okay, lovely. Thanks very much.

David Jennings (Davy): Morning, guys, just one question from me. I was wondering if you could provide us with an update in terms of what you are hearing about the possible restriction to credit betting in Australia, and anything further on that side of things?

Philip Bowcock: We are hearing that there is likely to be something; quite exactly when it happens, we do not know. We do not know whether there is going to be any grandfathering clauses, and we do not know if there is going to be any exclusions for more high-roller[?]-type business. So, we are obviously talking to all the authorities that we can, and we are in dialogue. It is a bit of a wait-and-see game.

David Jennings: It still accounts for about 20% of staking, is that right?

Philip Bowcock: Approximately, yes.

David Jennings: Thanks very much.

Simon French (Cenkos Securities): Morning, Phil, three from me please. Firstly, just going back to online: can you just give us a breakdown in the split of revenue growth between core and non-core markets please?

Secondly, just on UK retail, going back to some of the questions there. Your gross win margin was lower than Ladbrokes Coral, for the first time of either of those two companies that I can remember. Do you think that is partly a reflection of your increased horse-racing volumes? Can you just confirm some of those numbers you mentioned earlier? I think you said it was a 5% increase in horse-racing amounts wagered.

Thirdly, can you just remind us what your average lease length to expiry is in your retail estate, please?

Philip Bowcock: Average lease length is 3.3 years.

With regards to the number of horse race meetings, there has been about a 7% increase up to 429 race meetings in 2017.

When we talk about margins, we have not done anything differently. I do not know whether anybody else has changed their trading patterns or not; all I can say is we are continuing on the same vein that we have always undertaken. Could it be because there is more weighting to horse racing? We have not seen a demonstrable increase in horse racing. Interestingly enough, UK horse racing has increased broadly the same amount as football. So, there has not been a discernible weighting one way or another in horse racing or football across the period in wagering.

We are not going to give a split between core and non-core.

Simon French: Okay. If we just go back to those margins: I think in terms of your long-term guidance for retail, 17–18%, you have come in at the top there. Then online, your gross win margin is 7.5%, which was in line with my expectations. Are you really just saying the margin weakness in the period is solely in Australia?

Philip Bowcock: No, I think in retail, we would normally expect to see a slightly higher margin in quarter one, because of the higher weighting to football. So, we would expect to see a margin of broadly a percentage point or so higher, would be the historical norms. Online, it is just a little bit higher than 7.5%; we would normally expect to see closer to 8%.

Simon French: Okay, that is great. Many thanks.

Philip Bowcock: Okay, thank you very much indeed everybody, for your time. The team, Lyndsay and Anastasia, are around for the rest of the day. Should any of you have any further questions, please pick them up with them. Thanks very much indeed, and have a good day. Cheers.

[END OF TRANSCRIPT]