



William Hill Trading Update

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Philip Bowcock

CEO, William Hill Plc

Continued momentum in 2017 for William Hill

Good morning everyone. I have Ruth with me on her first official call. I will cover a few high-level points from this morning's statement, and then we will open up to the usual Q&A.

So, progress has been good so far in the second half, both financially and operationally. Online's momentum is building, and in Sportsbook wagering we have gone from plus 11% in the first half to plus 13% in the second half so far. If you exclude the Euro weeks, it has gone from plus 13% to plus 16%, and the UK is plus 16% in the second half excluding the Euros. That has also bolstered as well, helped us with our gaming net revenue, which has accelerated from 10% in the first half to 14% in the second half.

Strategic priorities

Grow UK market share

Our new Bet Boost product was launched ahead of the football season, and is proving very popular. In-play is out there for #YourOdds, and I know that when most of you visited Leeds earlier this month, Terry talked to you about our new trading platform that is delivering even more automation. Retail is also still outperforming the competition in both Sportsbook and gaming. You saw the great work the omni team is doing, and where our SSBTs have replaced BGT ones we have seen double-digit growth, reinforcing our view that we are delivering a superior product. We will have at least one SSBT per shop by the end of the year, and we are getting ready to launch the 'single wallet' and in-play horseracing.

Grow international revenues

Australia is starting to manage the credit ban transition, which is impacting wagering levels, but it is low-margin volumes that are being tackled first, so the margin is at a more normal level than we saw in the first half. We are working on the assumption that point of consumption is coming in 2019, so we are still being very careful about investment at this time. In profit terms, we are ahead of last year.

The US continues to grow very strongly, led by mobile growth. The Supreme Court's hearing is happening on 4th December; they will hear the arguments then, and we look forward to a decision in probably the second quarter of next year.

Deliver key projects: technology and transformation

We are also on track with the transformation programme, with the heaviest volume of work happening right now, and we are on target for the £40 million of annualised efficiencies we want to deliver before the year end to support reinvestment into the business.

Summary

So, overall, we have seen a positive second half so far, and we remain in line with market expectations. As I keep on saying to Ruth, we just need to hope for a decent Boxing Day result. That is all I wanted to cover this morning, so I am going to hand over now to Q&A.

Q&A

Ed Young (Morgan Stanley): Good morning. I have three questions, if that is okay? The first is on online Sportsbook; obviously, very good volume growth there. Can you give a bit of colour on the drivers there? Also, are you growing activity? You previously said you were in growth ex-Euros in Q2; has that continued? Are you seeing that, or is it all increase in revenue per user?

Secondly, online gaming; clearly, some benefit from very good volumes in Sportsbook there, but you said you were in growth core and non-core. Could you give a bit of colour on what that split looks like and, equally, across Playtech casino and Vegas?

Then third, on Australia, you spoke about dealing with the credit betting issue: how much of the work is done there, do you think, and do you have any updated views on being able to mitigate around a third of the gross impact? Thanks.

Philip Bowcock: Ed, I will go through those. There is quite a lot of detail you have asked for; I am not going to give huge amounts of detail in the answer, so I apologise for that in advance. On the online Sportsbook, it is just a continuation of what we have been doing, everything from the in-play #YourOdds that I spoke about; the Bet Boost product is working well; we are doing more around marketing and programmatic marketing, so really targeting the customers we believe want to bet on certain sporting events. So, it is not one silver bullet, it is around everything.

I think on online gaming, we are seeing significant benefits in our cross-sell; so, to give you an idea, we had our best cross-sell week ever last week, so we are seeing some good cross-sell coming through. We are seeing some non-core growth as well as core growth, so we are comfortable with where we are, and we are thinking we are making the right moves in the right way.

With regard to the credit betting in Australia: to be honest, we have started on a number of higher-volume, lower-margin customers, so I would not say we are significantly on our way through that process at the moment, but we are monitoring things very carefully and we will continue to do so as things come through. We are not going to give any more detail around exactly the number of people who are going to drop off, or are potentially going to drop off, as a result of credit betting any more than we have given previously.

Ed Young: Okay, thank you. Cheers.

Chris Stevens (UBS): Morning. In terms of your UK wagering trends, do you still get the sense that you are recovering a lot of the market share that you lost over the last two years, or is it going to get tougher from here, do you think?

Secondly, in retail, on SSBT: I think you said that after the switch, you saw double-digit growth in the volumes going through those machines. Could you give us a sense of how those were performing under BGT? So, were they growing double-digit then and they are still growing double-digit, or are you seeing a step-change in the growth rate? If possible, could you give us the gross win per SSBT?

Then just lastly, on Australia, are you able to share your long-term vision for that division in terms of whether you will stay in the market, given the changing landscape? Thank you.

Philip Bowcock: I will go in reverse order, if it is all right, and I will try and remember the first one by the time I get to it. Australia: listen, I am not going to go into any detail; suffice to say that we are monitoring the situation very carefully. Clearly, things have moved quite quickly around regulation in Australia, so we are spending quite a lot of time really focusing in Australia and we will give you more of an update when we come to preliminary announcements end of February.

SSBTs, I am certainly not going to give you the gross win margin. I think what I would say generally, though, is we have been encouraged by the performance that our SSBTs, once we have put them in, have delivered over and above the BGT ones. Do not forget, the BGT ones were in our better shops, so we would anticipate those to have been the better-performing BGT ones, and it is very encouraging that our SSBTs have been performing better than they did.

UK wagering, have we been recovering lost share? Listen, I think it is always difficult to say which customers you are getting back, but we are comfortable with where we are, and we will continue to aim to grow at the sorts of rates we are growing at at the moment; we do not see any decline of that from where we are. So, that is all I am going to say on that.

Chris Stevens: Okay, thanks very much.

Philip Bowcock: Thanks.

Gavin Kelleher (Goodbody): Sorry, Philip, just one question on Australia: when did you actually start, during the H2 period, the transition management of credit betting customers? Was it right at the start or only recently, post the Spring Carnival? How should we think about that?

Philip Bowcock: I would say it was prior to the Spring Carnival.

Gavin Kelleher: Okay. In terms of the OpEx growth in online, the 8%, I presume marketing is growing significantly year on year, and then other costs outside marketing are quite low, in terms of that 8%? Is that fair enough to look at it, and how should we think about that into 2018?

Philip Bowcock: I think 2018 is a bit more difficult because, obviously, we have the World Cup, so at the moment we are considering exactly what our marketing spend and our marketing effort is going to be; we are going to do that with the guys at the moment as we go through the budgeting process. I do not have the exact numbers, but I would anticipate that of the growth in costs, clearly the large slug of it is going to be marketing.

Gavin Kelleher: Okay, cool. Thanks for the info.

David Jennings (Davy): Morning, guys. Just one question from me, please. I was just wondering, with the development of your new SSBT product, what is your expectation now for OTC staking growth in 2018, particularly given that there is a World Cup?

Philip Bowcock: Listen, it is a difficult answer. If you think about OTC staking as to what has happened this year, clearly the first half benefited from the additional number of horseracing meetings that came through. We have seen 1% decline in the second half so far. I think it is going to be somewhere around a zero; whether it is plus or minus 1% from zero, that is where I would expect it to be.

David Jennings: Okay.

Alistair Ross (Investec): Morning Philip, morning Ruth. A couple from me. Philip, I do not know if you can comment on the RGSB report and the initial DCMS report, and the call for further evidence; and also the timing, your latest expectation of timing in regards the triennial review?

Then if you can give us the SSBT percentage of OTC at the moment; we were told it was more than 10%, but I am not sure where it stands.

Are you guys still guiding to marketing of £140 million in online?

Then can you give us an update in terms of NYX; I know it is a bit of a touchy subject, but if you can comment on that? Thanks.

Philip Bowcock: I will let Ruth talk about the marketing at the end. NYX, I think clearly, as a general statement, we have to protect our IT roadmap as well as we can; we are making sure we continue to protect that. Clearly, there are legal actions taking place and I am not going to say anything more than that because, clearly, those are ongoing and I do not want to prejudice any positions there.

With regard to SSBTs, clearly it is still quite early days as we have just had another raft of roll-out, but I think you can expect it to be something around the 10% position.

With regard to the triennial on timing: listen, it is a 12-week consultation process; they will then have to do a write-around, gather views from within government. I think it is going to be sometime around March, I would expect, April time, but who knows? Your guess is probably as good as mine. As far as I am concerned, I thought the RGSB report was actually quite balanced and quite factually based, and said actually, there is not a real correlation between problem gambling and staking levels. I think that, to a degree, has resonated in government. So, we will just have to wait and see what happens, but as we always say, we are working with both the institute bodies and government along the consultation process.

Ruth, I do not know if you want to comment on marketing?

Ruth Prior: Yes, marketing we are still guiding as £140 million for online.

Alistair Ross: Lovely. Okay, thanks guys.

Patrick Coffey (Barclays): Hi, everyone. Just two questions from me. First of all, just on hiring: are there any major hires that you still need to make to get William Hill back on track for 2018?

I guess the second thing is just with regards to the second part of your strategy of growing international revenues. Clearly, the future of the Australian business you talked about a little bit, but you could see a scenario where William Hill is very much a little bit of US, mainly just UK. So, is the strategy going forward to do more M&A internationally in 2018, or do you think a bigger deal is needed for you to materially deliver against that strategic priority? Thanks.

Philip Bowcock: I do not think a big deal is needed. I come back to the principle that if you look at our business, we are still predominantly UK-based and with UK revenues. If you think that regulation is only going in one direction, therefore by default you need to start thinking about diversification outside the UK, and I think that still holds true. Exactly how that is achieved, we will work on over time.

When it comes to hiring, I am very comfortable with the team I have; I think we are well set, and I think the evidence of the last 12 months has proven that.

Patrick Coffey: Thanks.

Tal Grant (Credit Suisse): Hi, good morning. Thank you for taking my questions. Just two actually. So, on Australia, I was just wondering: it sounds like you stopped marketing, essentially, to some of your bigger credit customers. So, could you maybe give us the numbers, the increase in stakes and revenue for non-credit customers?

Then secondly, you talked just now about expanding internationally, potentially. Italy is obviously going through a sports betting tender in the next couple of years, it seems; would that be of interest to you guys?

Philip Bowcock: To take those in reverse order: as with most things, we will look at anything and consider it on its merits; that would include Italy.

When it comes to Australia, I am not going to give you the detailed breakdown, but what I would say is, given the point of consumption tax is likely to come in, I think to go out and market for a 24-month or greater than 24-month payback is debatable, and so we are starting to focus on 12-month-type payback levels. That is all I am going to say on that.

Joe Thomas (HSBC): Morning, Philip and Ruth. Sorry, could you just explain a little bit further what you meant by your last response Philip, about the payback levels?

Philip Bowcock: So, when we spend marketing money, we have target levels of payback on that marketing spend. So, you could look at a 24-month payback level, but actually in Australia, we are starting to focus more and more on a 12-month payback, on the basis that we do not exactly know what the marketplace is going to look like in 18 or 24 months, given the point of consumption tax is coming.

Joe Thomas: Okay. Just allied to that, you have sort of answered it there, but you did say that you are working on the assumption that the POC tax comes in 2019; what is your latest intelligence on that, on a state-by-state basis?

Philip Bowcock: I think the issue there is it is on a state-by-state basis, therefore it is uncertain as to exactly what each state is going to do with point of consumption tax, and whether they are going to put point of consumption tax in in the place of other taxes. It is just unclear at the moment.

Joe Thomas: Okay. Then just two other questions. One, your retail estate size, has it moved year on year?

Then finally, the US growth which was very, very strong: what is that down to? Are there any one-off events in there – I am thinking perhaps the Mayweather fight – and what should that be doing on an underlying basis?

Philip Bowcock: Clearly, the Mayweather fight did help in the US; it did not make a huge difference, but it did help. We are just seeing some good, solid growth coming out of the US from good operational execution, that is what I would say. I think that growth, whilst it may not continue at the level it is continuing at, it certainly is going to be up towards that level.

The retail estate: we have recently closed a few shops, but I would see the retail estate, absent the triennial review, as being broadly static.

Joe Thomas: Okay, thank you. Sorry, just one final one. In Australia, as the win margin normalises as you get rid of some of those credit betting punters, what should we be thinking of as being a sensible win margin to be making in Australia, excluding those high-value customers?

Philip Bowcock: Somewhere around 10–11%.

Joe Thomas: Right, thank you.

Jeffrey Harwood (Stifel): Yes, good morning. So, all looks good, apart from Australia. On these gaming-related products in Australia, which quite a lot was said on that in June, have they gone?

Then it sounds as though there is some sort of strategic review underway; is Australia a market that you would need to be in?

Philip Bowcock: It is too early to tell about the gaming products, but we are monitoring them very closely, that is all I would say; they are not making a material difference to the numbers, I think it is fair to say.

Jeffrey Harwood: Okay.

Philip Bowcock: When it comes to Australia, is it a market? It is a market we are in, so we are monitoring it closely and we will come back later with probably a firmer view. It is a country where they bet more than anywhere else in the world, so it is, in that stretch, an interesting place to be.

Jeffrey Harwood: Okay, thank you.

Philip Bowcock: Okay, thank you very much, and thank you very much everybody for dialling in. It has been good to be able to present a positive set of results, and if you had told me at the beginning of the year this is where we would be now, I would certainly have taken it. Lyndsay and Anastasia are around for any further questions as normal during the day, so please feel free to contact them. Have a good day, thanks very much, bye.

[END OF TRANSCRIPT]