

William Hill PLC

Trading Update

20 July 2010

Duration: 00:31:13

Operator: Welcome to the William Hill Plc Q2 Trading Update conference call. At this time all participants are in a listen-only mode. I would now like to turn the call over to your host.

Ralph Topping: Good morning everybody and greetings from Sofia; in Bulgarian that's [*Bulgarian*]. You know we're becoming an international company when I'm calling in from our office in Bulgaria while Neil Cooper mans the office back in Wood Green.

I, of course, would like to start the call by welcoming Neil to his first conference call with the analysts who follow William Hill. Neil is just two months into the job as Group Finance Director and I trust you will all give him as much of a hard time as you gave his predecessor, Simon.

We're going to do a quick update on the numbers and then we're going to come to you for questions. The numbers we've published today aren't intended to be a detailed update, but we wanted to give you a snapshot of performance as soon as we could after the call. We're going to flesh out the detail when we publish the full interim figures on 26th August. Our last performance update was the Q1 numbers in April and at that point we'd seen very good momentum in Online, particularly in Sports Book and turnover growth in retail underpinned by a strong Machines' performance. We've seen a continuation of loose trends through the Second Quarter.

Group net revenue for the six months as a whole comes out at a 3% ahead of prior year and we expect EBITDA to be around 135 million, slightly ahead of last year. This is a positive performance in a market with ongoing consumer uncertainty. I'm going to hand over to Neil to give you a bit more detail.

Neil Cooper: Thanks Ralph, good morning everyone. First of all, I'd like to say I'm very pleased to be here two months into the job and I'm looking to seeing you all at the analyst presentation in August.

Let's take a look at the numbers on a divisional level. Within William Hill Online net revenue was up 25% in the First Quarter and is now up circa 24% in the first half as a whole. Operating profit for the six months is up approximately 43%, which means Playtech's minority interest for the

period was £12.9 million. Online is particularly benefitting from a stronger Sports Book. In terms of gaming, as we flagged in May, we have withdrawn from France, which has had an effect on our Casino revenues from June and will continue to do so in the second half.

In Retail you'll remember that in the First Quarter turnover was up 4%, net revenue was down 4% and operating profit was down 13%. For the half as a whole now, turnover was up 7%, net revenue was down 1% and operating profit was down only 8%. The World Cup has distorted the OTC turnover trends in the half, but to give you some indication of the underlying trends, to period 5, which obviously excludes the World Cup impact, total retail turnover was up 5%. Within this number OTC Retail turnover was down 4% and Machine turnover is up a very positive 7%. In general, of that Machine turnover growth rates against prior year have strengthened in the second half as the 'Storm' cabinet rollout has been completed in March 2010.

Margin-wise we had a good World Cup as many of you will have realised from the match results, but what games we had from Cheltenham in Quarter One were more than reversed in Quarter Two with a poor horseracing performance. Of course, the Grand National was never going to be as good as last year, but this was exacerbated by the great AP McCoy, who won his first Grand National together with the placed horse results, which hurt us also. To count this, the Royal Ascot results were the worst in living memory with a £4 million loss driving a larger year-over-year in profitability.

In Telephone, adverse results hit the Telephone margin with net revenue falling 33%. In fact, if it hadn't been for the World Cup, the full impact of the horseracing results would have driven a gross loss in the Telephone business in the half. Good cost control mitigated some of that impact leaving us with a small operating loss in the first half.

That's all on the numbers for today. I'd be happy to take questions shortly and I look forward to seeing you all at the results in August. I'll hand back to Ralph.

Ralph Topping: Overall we're very pleased with our Online performance, particularly the World Cup, which was driven by deeper markets and continued in-play innovation and of course supported by relevant TV advertising and helped by some favourable results that not even an octopus could have predicted. We even saw a game in the tournament where online in-play betting stakes were higher than online pre-match stakes, so online in-play betting stakes on a game were higher than online pre-match stakes.

In Retail, the underlying OTC trend is still showing weakness, although the downward trend is moderating. Clearly the consumer environment is still tough and we expect that it will continue to be so. Machines are still performing well and helped, of course, by Storm. With Telephone we are continuing to review our options for returning our business to profitability, countering the impact of our betting exchanges and Irish telebetting operators all of whom benefit from a much favourable tax position than our own. We're going to update you on that in due course.

That's all I want to cover. I'd like to hand the call back to the moderator for questions and I'd really like it if we didn't have multiple questions, that we took questions one at a time, please.

Operator: We will now begin the question and answer session. If you have a question, please press *1 on your touchtone phone. If you wish to be removed from the queue, please press the # key. If you're using a speakerphone, you may need to pick up the handset first before pressing the numbers. Ted Randhawl from Citi is online with a question.

Ted Randhawl: Just a quick question on the World Cup. I wonder if you can give any tangible information in terms of what that impact is. I think you've said in the past that your contribution to OTC retail in the last World Cup was around about 5 to 6 million net of marketing costs; can you give an indication as to where that sits in the World Cup just gone? I imagine it will be a lot higher.

Ralph Topping: Yes, it is, but we don't want to really spoil the presentation on 26th August when we'll be dedicating a large part of that to the World Cup analysis, so I think your guess is a good one; it's substantially better than last time.

Operator: Richard Parter with Deutsche Bank is online with a question.

Richard Parter: I've got quite a few questions. Firstly, talking about the Retail weakness and especially the over-the-counter weakness, can you give a bit more detail on the underlying trends there? Operating profit was down 13%, I think, at your last update; if we exclude out the World Cup, is operating profit trending down at that level and also could you say in terms of underlying spend and slip volume growth recently, give us an idea of the trend there?

Ralph Topping: I think Neil's statement around horseracing, Richard, goes a long way to explain what happened in the Second Quarter with underlying profit in Retail. What we're seeing, and I've said it before, we shouldn't really look at our betting shop in any other way than one entity now and not split out. From an operational point of view OTC and Machines both

come together, it's both the same group in context. In terms of the underlying performance, I think some of the...we're seeing the consumer caution, not reflected in necessarily the volume of transactions, but certainly in the over-the-counter betting and a little bit more caution in the pence per slip. I've said before, I'd be really worried if volumes, if slips fell of a cliff, but these held up. Transactions from our betting shops on average are pretty good, but I think we've seen a wee bit of caution on the pence per slips. Where some of the impact on the pence per slips is coming from is the man in the street's caution, but also with people who maybe had a little bit more money to spend on betting a couple of years ago, so we're not seeing the larger stake inclined to maybe being affected – businessmen going out of business, etcetera. Actually, that's the trend. The slips are holding up and the pence per slip is reducing slightly, but, overall, volumes are very good.

Richard Parter: Second question on the Online division, could you recap in terms of what the strategy is in regulating markets? I know you pulled out of France, but are you looking to get back into France, just from the perspective of obviously if the same thing happens in Greece, would you be looking to close down your Casino and Sports there depending on regulation?

Ralph Topping: I think on regulated markets we want to be in regulating markets. I think we're going to see in Europe over the next three years for all businesses moving three steps forward Online, two steps back as we adjust to Governments and their thinking on the regulation of gambling. France is still under active consideration as to whether we go back in or not. I think we're having a really serious discussion on that, but when you look at it, we've taken a bet that actually the French Government are going to perhaps introduce Casino betting at some point and you won't make a lot of money at Poker betting, never mind what people are saying at the moment about how wonderful it all is in France and you wouldn't be making a lot of money in sports betting with the kind of margins that [corporates] are having to operate to. You'd be taking a view of where the French Government is going to go and that's a great hazard for this occupation predicting where the French Government's going to go. On the Greek market we'd be keen in getting out of Greece, that would be the case, but there are other regulated markets we'd take an interest in as well, established and otherwise.

Operator: Vaughan Lewis from Morgan Stanley is online with a question.

Vaughan Lewis: I wonder if you could explain a bit more about how you're looking at overall sports margins. They're in line with your normal range and your target range, but you're saying Royal Ascot was loss-making and the World Cup was very good, so should we think about it as a weak

sports margin for the period with an extra big benefit from the World Cup or should we just look at it as you win some, you lose some and overall the picture is pretty consistent?

Ralph Topping: I think the last point you're making's a good one is overall it's consistent, always comes to [down to average]. I you look at it through sports, then horseracing is clearly going to show a decline in margin brought about by 100:1 winner Grand National last year, fantastic result for us and extremely poor result this year and we've really suffered at Royal Ascot. Normally you'd expect to win £1 million a day at Royal Ascot; you don't expect to lose £1 million a day. If you look at football results in April, we had a very good season for football results and we [saw] a lot of that in the run-in to the end of the season, so I'm not worried about margin and I'll go into a wee bit more detail and give you a bit more granularity in August, Vaughan.

Vaughan Lewis: One more on Online, if I can; what sort of trends are you seeing in Poker and Bingo? You talked about very strong growth in Q1; has that continued and is Poker too small to worry about now and Online is the focus very much on casino sports and then Bingo is the growth area?

Ralph Topping: You know where Bingo is in the overall market with US facing [serious coining in] the money there, which we're not involved in anything to do with the US, plus we've seen some growth year-on-year in Bingo in recent weeks, but it's not a trend, and again I'll go into it in August, sorry, we're seeing that growth in Poker in the last few weeks, so is that a trend? I'm going to say in August. Bingo is shaping up quite nicely.

Vaughan Lewis: One last one if I might, actually. You mentioned things you're working on against betting exchanges and not through operators; is that just lobbying the Government on taxes and how the various pieces are taxed or is there something else going on?

Ralph Topping: No, I think Newton's apple has actually fallen on racing's head and they've finally woken up to the fact that betting exchanges are not the great salvation for racing – exactly the opposite. I think they've woken up to the fact that, as we have over the last three years, [unclear] especially while the rest of the industry went into, oh well, we have just got to accept that the exchanges are there. Actually, then exchanges, the more you find out about them, the more you realise that for that liquidity of [unclear] we think only a very small of people [unclear] will never reveal what that small number of people are, but essentially we believe, and it will always be a strong belief until it's shown to be otherwise, that there are a limited number of people on bets there who are acting as big

bookmakers. We look at ourselves as big bookmakers. We pay our levy, we don't pay a percentage of our levy through a commissioning scheme, so I think the apple's falling out of the tree and hit racing on the head and Paul Roy is walking around as if he's just discovered the Holy Grail. The Holy Grail was always there first three years, and I've got to say, Paul, you've been a wee bit late in coming to it. That to me, you know my views on racing, guys, I'm not going to change them going forward. I think they've woken up is a great result. Let's wait and see where we go on...I think the Levy Boards have an enquiry into the levy payments, so we welcome that.

Operator: Ed Birkin with Barclays Capital is online with a question.

Ed Birkin: A quick question, Online with the operating profit growth falling from Q1; is that just something to do with the phasing of costs or World Cup marketing spend or is that something you'd expect to happen throughout the year, if that is dropping significantly.

Ralph Topping: I'm going to pass that along to Neil since you've used the word cost.

Neil Cooper: I think the thing you need to just think through in terms of Online is that certainly in Q-on-Q is that we saw the French Casino closure as from the end of May. That will start to bite obviously both in terms of June and in terms of the second half of the year. The Casino market in France for us was a good market and therefore we just have to take that on the chin for the time being whilst we, as Ralph has said, work through what our options are. We have also seen obviously the impact of the relatively poor horseracing results coming through the Sports Book, so you need to look at the Sports Book performance particularly on margin in that light. We had a great World Cup across the business, but equally the horseracing is impacted; it's in both Retail and Online as well.

Ed Birkin: With regards to the Online in France getting a bit...so you talk about closing down the Casino, but Ralph was talking about he's not sure whether to go back in, in Sports and Poker; can you explain exactly...you haven't pulled out in Sports and Poker yet?

Neil Cooper: No, we've closed our services to French consumers. We still maintain a French language website for use by non-French consumers, French-speaking markets like French Canada and so on, but we have closed our entire business to French consumers. Ralph's point is simply that when you look at the legislation that's been enacted in France, you can legally take Sports Book betting, for instance, as long as on horseracing is pari-mutuel if you take a licence, but you cannot get a licence for casinos.

Ed Birkin: I take it that the majority of your French business was casinos.

Neil Cooper: Yes, the majority of the French business was a casino business, yes.

Ed Birkin: Finally, on the Sports Book, are you able to give anything of...sign-up numbers for the World Cup.

Neil Cooper: I think that is the level of...I was going to say that is a level of detail which we will share with you at the Interims. I would remind you this is a Trading Update and therefore it won't be as comprehensive as a normal Interim presentation. Hopefully we'll have all that for you in August.

Ed Birkin: Thanks Neil.

Ralph Topping: Back to the moderator.

Moderator: Ivor Jones of Numis is on line with a question.

Ivor Jones: Continuing with Online, could you say what online profits would have looked like ex-France in the first half, or what growth would have looked like at least, if you excluded France from both periods?

Ralph Topping: Yes, I could, but I am going to give you that in August.

Ivor Jones: I can't be there in August; everyone is on holiday.

Ralph Topping: I'm not; I tell you I'm there. If I've got to talk to myself I'm talking to myself then.

Ivor Jones: I was going to speak to one question, but as you won't answer that one can I ask a second one and ask what the current mix of UK/non-UK is in online and whether it is important to you that you should grow the non-UK part of online strategically?

Ralph Topping: Again we'll come back and give you those figures; I am not going to give any hard facts at the minute, but if you are looking in the general view of the world, I think it is always important to grow your business internationally. We said that that is what we are attempting to do and that is what we'll go on attempting to do. Are we happy with where the numbers are at the moment? Yes. The UK remains a very significant market for us and always will; and I believe that we are gaining market share in the UK and we will put a lot more effort into gaining market share next year in the UK. It is still going to be central to our thinking going

forward across a diverse range of products, but especially sports betting and especially football betting.

Ivor Jones: Should we continue to expect to see Sports Book growth much higher than non-Sports Book growth; is that part of the plan?

Ralph Topping: I think you will see Sports Book growth in the second half holding up compared with the first half, would be my prediction. I would expect, because we're coming from way back on the mark on sports betting; if you remember, it sounds like a dirge now about what we were confronted with technology wise. That held us back for a while, and the recovery on the sports betting side I think is continuing, yes.

Neil Cooper: Ivor, just to be clear, you will start to see the impact of the French casino closure on the relative growth rates between the two, the Gaming and the Sports Book. For the avoidance of doubt, I don't think we are going to continue growing at 100% a year in pre-match betting into infinity.

Ralph Topping: I did say for the rest of the year, so to clarify that in terms of sports betting I see us having that continuing.

Ivor Jones: That's great; thank you.

Ralph Topping: Okay, Ivor.

Moderator: Roohi Siddiqui with Merrill Lynch is on line with a question.

Ralph Topping: Yes, Jo.

Roohi Siddiqui: I have a couple of questions, if I may: the first one is one the on line Sports Book. Going through the numbers, it looks like growth was up 80% in the first half, if you just confirm that is right. If you could give a split between the pre-match and the in-play margins, as you gave in the Q1 Trading Update that would be really helpful.

Ralph Topping: I intend giving you the split and the margins in August; Neil do you want to come back...?

Neil Cooper: Yes, it is not quite 80, but it is certainly not 70, so it is a pretty good number; we are pleased with it.

Roohi Siddiqui: One more question; on Machines, I don't quite follow; when you say the turnover was up 7%, are you referring to H1 or is that net revenue or what is that exactly or just weighted...?

Neil Cooper: Where did you...just direct me where you...

Roohi Siddiqui: I thought that earlier when you were speaking you mentioned something about the machine turnover; I wanted to understand...

Neil Cooper: To position that, I was giving you the P1-5 trends, because they are a better guide to the underlying performance on turnover than P1-6, because you obviously have this big one-off event in the World Cup in P6. Turnover is what it sounds like; it is the cash we take on Machines, as distinct from gross win, which is the...or net revenue, which is gross win after taking account of the relevant trading costs of that channel.

Roohi Siddiqui: But the average machine gross win per week that you saw in Q1 was £814...

Neil Cooper: Yes, we haven't disclosed that level of detail, partly because as we have already said, this is a Trading Update not a full set of interim announcements. To the extent that I've already said that growth rates in the second half were stronger for us in terms of turnover than growth rates in the first half. We've had a good trading period in the second quarter for Machines.

Roohi Siddiqui: Okay that's great thank you.

Ralph Topping: Just to give you a little bit of colour on the Machines, because we don't want to give you the full flight of figures at the moment, but we expected to see, and during the World Cup Machines' income drop year-on-year, or be level year-on-year was the best we felt we could look for, because there would be more interest in World Cup and everybody going out to watch the games in pubs and whatever else, but actually in terms of growth year-on-year, that was our strongest – one of our strongest months of the year, so we're very positive on Machines in the first half, so we'll flesh it, and there's a little bit more for you in August.

Roohi Siddiqui: Okay, thanks very much, that's helpful.

Operator: Matthew Gerard from Credit Suisse.

Matthew Gerard: Hi good morning guys, a couple from me. First off, just following on from that last question actually in the retail business where you seemed to imply there was a traffic benefit from the World Cup draw onto the Machines business. I know you've not given a number for net revenue like you did in Q1 for the online gaming business, but can you provide a bit of commentary as to whether you saw, or you felt you saw any cannibalisation in the gaming business, given what was happening in

the sports book, or actually you benefited from the increased traffic through the online site?

Ralph Topping: I think, Matthew, it's pretty damn hard to get out of the cannibalisation question. Just from looking at the number though from my reading of the runes there is that we saw Ascot more reinvestments through Machines than across-the-counter betting, because I think the support programme for Horse Racing at Ascot is pretty poor, and I think the punters took their Ascot winnings and stuck them in Machines, a lot of them did anyway, so there wasn't the level of horse race reinvestment you may have anticipated in years gone by, so I think that's the only discernable trend I would have picked out Machines-wise as far as cannibalisation goes. You saw much more reinvestment in Machines during June. I can't add anymore to it than that, Matthew, I'm afraid.

Matthew Gerard: Okay and secondly, can you just let us know what Ascot actually contributed last year so we can have a look at the year-over-year change trying to isolate that impact?

Ralph Topping: Well I'll give you my average year. I'm going to go to the Ascot figures in front me, because [unclear] want to go down to that specific level of detail, but it's a five-day meeting; it's Tuesday through Saturday. You would expect the volumes to be high which they always are and you would expect to win a million a day would be the kind of baseline figure. Given normal results, given a fair rub of the game, over the five individual days, and last years was from memory just off that kind of mark, but that's from memory, and this year to lose roughly a million quid a day near as damn it was not what I think the octopus would have predicted that there.

Matthew Gerard: Okay thank you.

Ralph Topping: Alright.

Operator: Just a reminder if you have a question, please press * and 1.

Ralph Topping: Well I think we can wrap it up there then, if the guys have run out of questions. Thank you very much. I think that's all I really would say to everybody, thanks for joining us this morning. If you can think of anything more you want to ask us, Neil and Lindsay in London, they're available throughout the day. I'll be in transit right from Sofia at some point and again echoing the point we made right through this brief phone call is I look forward to seeing you, as does Neil, at the end of August for our Interim presentation. Thank you everybody.