

## William Hill PLC

### Strong profit growth continues in third quarter

19 October 2012

William Hill PLC (LSE: WMH) (William Hill or the Group) announces its Interim Management Statement for the 13 weeks ended 25 September 2012 (the period or Q3). All comparisons are with the equivalent 13-week period in 2011 (Q3 2011).

#### Key financial highlights

- Group Operating profit<sup>1</sup> was up 26% in the period, 17% higher in the year to date
- Online Operating profit<sup>1</sup> was up 42% and Retail Operating profit<sup>1</sup> was 8% higher in the period
- Group net revenue grew by 9% and was up 10% in the year to date
- Retail net revenue grew by 3% and was up 4% in the year to date
- Online net revenue grew by 18% and was 26% up in the year to date

#### Key operational highlights for the quarter

- Mobile was 27% of Sportsbook turnover and averaged £10.7m of weekly Sportsbook turnover in Q3
- Strong Retail over-the-counter (OTC) gross win margin, up by 1.9 percentage points
- William Hill US integration activities completed on schedule in September

Ralph Topping, Chief Executive, commented:

“We saw strong Operating profit growth in the third quarter. Group net revenue remains well ahead of last year, with quarterly growth continuing broadly in line with that seen in the first half. Operating profit growth in the quarter further benefitted from favourable timing on Online marketing costs. The initial performance in the US is encouraging, with integration successfully completed and trading in line with expectations.

“The Olympics and Paralympics captured the public’s attention but appear to have reduced customer visits in Retail. However, there were compensating factors, particularly the strong margin growth across all channels. We’ve had a good performance in football, including a strong Euro 2012 in July. It’s also pleasing to see signs of improvement in horseracing margin trends.

“We look forward to another busy period ahead, including trialling a new machine cabinet in the estate in the last quarter. We have announced today a number of senior management appointments at William Hill Online, reshaping the management team to support the business’s continued development and to increase the focus on our customers.

“As we announced on 16 October, we are progressing a potential offer in relation to Sportingbet. We are also announcing today that we intend to commence the valuation process relating to the minority share in William Hill Online prior to making a decision on this by the end of the first quarter of 2013.

“The Board remains confident in its expectations for the full year and focused on the Group’s strategic opportunities to generate further value for shareholders.”

#### Trading overview

##### *(a) Group performance*

Group net revenue advanced 9% and Operating profit<sup>1</sup> was up 26% helped by good sporting results across all channels.

Our net debt for covenant purposes reduced by £12m to £343m by the end of the period (£355m as at 26 June 2012). The period included £26m of payments (net of cash acquired) to acquire the three US

sports betting businesses. Given expected adverse working capital and other outflows in the fourth quarter, year-end net debt is expected to be slightly higher than this.

*(b) William Hill Online*

William Hill Online continued to perform strongly and delivered 18% growth in net revenue and Online Operating profit<sup>1</sup> was £34.8m, 42% higher than the prior year. Playtech's non-controlling interest was £10.2m.

Sportsbook turnover overall was up 27%, with in-play up 47% and pre-match up 14%. Sportsbook gross win margin was 7.8% (Q3 2011: 6.9%) and as a result, Sportsbook net revenue grew by 43% in the period. Whilst the country enjoyed the Olympics and Paralympics in London, their profit contribution was not material.

Gaming net revenue was up 5% in Q3. Vegas Casino grew by 16%. Following the successful soft launch of our innovative Live Casino in April, we reinforced this with television advertising in September. To date, since the soft launch, net revenues from this product are up 33%.

Net revenue growth in Playtech Casino was softer, at 2%. In particular, August, coinciding with the Olympic and Paralympic period, was slow and our September comparative was impacted by the rollover of high roller losses in 2011. Market closures also impacted year-on-year growth in the period. Bingo net revenue was up 6% and Poker fell 24%.

Mobile Sportsbook turnover grew 331% and accounted for 27% of the total Sportsbook turnover in the period. Mobile gaming also saw substantial net revenue growth of 533% following the launch of mobile Casino and Bingo sites earlier this year.

Online operating costs were only 6% higher. Marketing costs in the period were lower than anticipated, driven by timing factors, and represented just 23% of William Hill Online's total net revenue. We expect to see this reverse in the fourth quarter, and the full year marketing cost to net revenue ratio to remain around 28%.

*(c) Retail*

Retail net revenue grew 3%, primarily driven by a strong OTC gross win margin (Q3 2012: 18.5% versus Q3 2011: 16.6%). Operating costs were up 2% and Operating profit<sup>1</sup> increased by 8%.

Impacted by a number of factors including water-logging in July, which led to 4% fewer horseracing fixtures in the quarter, and reduced stakes recycling as a result of the high gross win margin, OTC amounts wagered fell 6%. Wagering levels were particularly weak in August, coinciding with the Olympics and Paralympics but with a near 5 percentage point OTC gross win margin improvement reducing stakes recycling.

OTC net revenue increased by 5% and gaming machine net revenues grew 2% with August again being the weakest month. Gross win per machine per week was £888 (Q3 2011: £890).

We continue to invest in expanding and enhancing the estate, and to innovate to improve the customer offering. We have opened 16 new shops in the year-to-date and the total number of shops at the end of this period was 2,379. Video wall systems have been introduced successfully in a number of shops and we have selected a partner for a wider rollout of self-service betting terminals (SSBTs). Further to the c300 SSBTs currently in place, we will be adding 350 more before the year end, with the total number set to rise to 750-1,000 by this time next year.

*(d) Other channels*

Telephone made a small Operating profit<sup>1</sup> in the period with gross win up 8% on a margin of 7.1% (Q3 2011: 4.1%).

Following the award of Nevada Gaming Commission licences in June, William Hill US commenced operations in July after the acquisition of three Nevada based businesses. Integration was completed on schedule in September. All sports book units have been successfully rebranded and we started a

television advertising campaign in September to increase brand awareness. The business is trading in line with expectations at this early stage.

### **Fiscal and regulatory developments**

The period has seen a number of marketplace developments for William Hill Online. Following the enactment of the new intrastate treaty in Germany on 1 July signed by the 15 German Länder, we closed our sports betting website to German customers. We believe the new treaty, which introduces a 5% turnover tax on sports betting and bans online casino and poker, is not compliant with the fundamental principles under the EU Treaties to allow services to be provided free of unnecessary restrictions. While the German regulatory and fiscal situation remains unclear, we will continue to monitor developments closely and continue to take gaming business, totalling c£6m Operating profit<sup>1</sup> per annum on current trends. Following a decision by the Belgian government to include William Hill Online websites on a list of websites allegedly violating Belgian law, we have closed to business from this market, despite the actions of the Belgian government also being inconsistent with EU principles referred to above. The total adverse impact of these two closure decisions is c£1-2m Operating profit<sup>1</sup> per annum.

We note the proposals by the all-party Culture, Media and Sport Select Committee in regards to regulation of gaming machines. The Government is yet to respond to this report or to media speculation regarding a consultation on gaming machine stakes and prizes. There can be no certainty that any changes will occur as a result of these developments.

### **William Hill Online senior management changes**

We are announcing today a number of senior management appointments at William Hill Online to support its continued development (see notes to editors for biographies).

- Henry Birch is stepping down as Chief Executive Officer. Andrew Lee is appointed Managing Director with immediate effect, responsible for leading William Hill Online.
- Jamie Hart is appointed to the new role of Director of Customer Experience and Innovation with responsibility for the development of Sportsbook and Gaming platforms, and for innovation.
- Jürgen Reutter assumes the Head of Mobile role vacated by Andrew Lee, who had held it on an interim basis since April 2011. Jürgen brings valuable and extensive mobile-specific expertise.

Having successfully grown the operational scale and product offering since 2008, the focus for William Hill Online is now intensifying around the customer, including personalisation, customer insight and customer services. This is a significant priority given the high proportion of UK betting and gaming customers who already have a William Hill account.

We would like to thank Henry Birch for his contribution to the business over the last four years, throughout which William Hill Online has substantially grown in both scale and profitability. We are delighted that Andrew Lee is taking the lead role at William Hill Online. He has the financial background and strategic insight ideally suited to this leadership role.

### **Playtech call option**

The Board has advised Playtech Limited of its intention to commence the contractual valuation process ahead of the potential exercise of its option to acquire the minority stake in William Hill Online. This valuation process will commence in November and end in February 2013, after which time William Hill has a short period to determine whether it will exercise its option at the value determined by the process. There can be no certainty that the option will be exercised. If not exercised, we have a further option right in two years' time.

Throughout this process, we will continue the dialogue that has been ongoing during the last year. In addition, Playtech is a key software partner for William Hill Online and, on this basis, we look forward to continuing a long-term relationship with Playtech, regardless of the outcome of this valuation process.

## Sportingbet

On 16 October 2012, the Boards of Sportingbet plc, William Hill plc and GVC Holdings plc announced that they had reached agreement regarding a proposal (the "Proposal") to acquire the entire issued and to be issued share capital of Sportingbet. The Proposal values each Sportingbet share at 61.1 pence per share, including the recently announced proposed final dividend of 1.1 pence per Sportingbet share, based on a closing middle-market GVC Holdings share price of 233.5 pence on 15 October 2012. The Proposal comprises 48.9 pence in cash, 1.1 pence dividend in cash and 0.0475 new GVC Holdings shares per Sportingbet share. The Proposal implies a fully diluted equity valuation (including the Sportingbet Convertible Bonds due 2016 and existing options and LTIP in accordance with Rule 15 of the Code) for Sportingbet of approximately GBP530 million. The Proposal includes a 'mix and match' facility under which Sportingbet shareholders will have the opportunity to apply to receive proportionately more cash or more shares.

Subject to reaching agreement upon its detailed terms and conditions, the Board of Sportingbet has confirmed to William Hill and GVC Holdings that if such an offer were to be made, the Board of Sportingbet would expect to unanimously recommend it to Sportingbet shareholders and has therefore agreed to work with William Hill and GVC Holdings to facilitate the making of a formal offer for Sportingbet pursuant to Rule 2.7 of the Code, including the provision of due diligence. As set out in the announcement on the 16 October, the consideration and the form of the consideration may be varied in certain circumstances.

Following the announcement on 19 September 2012 and in accordance with Rule 2.6(a) of the Code, William Hill and GVC Holdings were required, by not later than 5.00 p.m. on 16 October 2012, to either announce a firm intention to make an offer for Sportingbet in accordance with Rule 2.7 of the Code or announce they do not intend to make an offer. At the request of Sportingbet, the Panel has consented to an extension of this deadline until 5.00 p.m. on 13 November 2012. There is no certainty that at the end of this period, an offer for Sportingbet will be made, nor as to the terms of any such offer (if made). This deadline may be extended further with the consent of the Panel, at Sportingbet's request, in accordance with Rule 2.6(c) of the Code.

## Outlook

The strong profit growth across the business in Q3 is pleasing, albeit benefitting from gross win margins above the normalised and expected ranges as well as from favourable timing on costs. Our continuing marketing investment and further innovations underpin progress across the business and the Board remains confident in its expectations for the full year.

## Notes

<sup>1</sup> Operating profit is defined as pre-exceptional profit/loss including associates and excluding interest, tax and amortisation relating to specifically identified intangible assets arising from acquisitions as specified under IFRS3.

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## Analyst conference call

Ralph Topping, Chief Executive, and Neil Cooper, Group Finance Director, will be hosting a conference call for analysts at 8.30 a.m. BST. Dial-in details for the call are:

UK telephone: 0845 634 0041  
International: +44 208 817 9301  
Passcode: 8958703

An archive of the call will be available after the call until Friday, 26 October. Dial-in details for the archive call are:

Telephone: +44 (0) 207 769 6425  
Passcode: 8958703#

An audio webcast of the call will be available at [www.williamhillplc.com](http://www.williamhillplc.com).

#### **Notes to editors**

William Hill, The Home of Betting, is one of the world's leading betting and gaming companies, employing more than 16,000 people. Founded in 1934, it is now the UK's largest bookmaker with around 2,370 licensed betting offices that provide betting opportunities on a wide range of sporting and non-sporting events, gaming on machines and numbers-based products including lotteries. William Hill Online ([www.williamhill.com](http://www.williamhill.com)) is one of Europe's leading online betting and gaming businesses, providing customers with the opportunity to access William Hill's products online, through their mobile, by telephone and by text services. William Hill PLC is listed on the London Stock Exchange and generates revenues of over £1.1bn a year.

#### **Background on the William Hill Online appointments**

##### **Andrew Lee, Managing Director, William Hill Online**

Andrew Lee joined William Hill's Corporate Development Office in March 2012 as Head of Business Integration and took on the role of interim Head of Mobile shortly thereafter. He has extensive experience of the leisure sector and a strong network in the gambling industry as a result of over 10 years working as a gambling analyst, primarily at Dresdner Kleinwort, where he was Head of the Travel and Leisure Research Team. Andrew qualified as a Chartered Accountant at PricewaterhouseCoopers. In his new role, he will be based at Online's headquarters in Gibraltar.

##### **Jamie Hart, Director of Customer Experience and Innovation, William Hill Online**

Jamie Hart was part of the team that developed William Hill's first betting website, having joined William Hill in 1999 after eight years working in Ladbrokes' Retail business and three years in Darwin, Australia, setting up one of the first interactive betting sites in the world. He left the Group for a stint as Trading Director at Coral before returning as Sportsbook and Trading Director of William Hill Online. He has been a pivotal part of the William Hill Online management team since 2008, with a strong focus on innovations such as Tip Advisor. Jamie's role will focus on product innovation and development of a new website over the next two years.

##### **Jürgen Reutter, Head of Mobile, William Hill Online**

Mobile remains a key focus for William Hill Online and Jürgen's appointment to the team brings valuable experience in this area, with 12 years' experience in the mobile industry. He joined at the end of August from Buongiorno Group, the entertainment app developer and mobile services supplier. As Managing Director UK and International, he had strategic and operational responsibility for 200 employees in London, Munich, Madrid, Cape Town, Sydney, Moscow and Delhi. Previously, he held roles at Telefonica O2 Germany, T-Info, a T-Mobile/Deutsche Telekom company and Brokat Technologies AG, a global leader in mobile payment and mobile banking solutions.