

William Hill PLC

Strong first quarter performance from William Hill

21 April 2011

William Hill PLC (LSE: WMH) (William Hill or the Group) announces its Interim Management Statement for the 13 weeks ended 29 March 2011 (the period or Q1). All comparisons are with the equivalent period in 2010 (Q1 2010).

Group overview

The first quarter of 2011 saw good year-on-year growth in both Retail and Online net revenue and Operating profit⁽¹⁾.

In addition to the William Hill Online Sportsbook continuing to deliver a particularly strong performance, all online gaming verticals also delivered good growth in the period.

In Retail, growth was underpinned by increased amounts wagered in over-the-counter (OTC) business, the performance of gaming machines and an OTC gross win margin above the top end of the expected trading range of 17-18%. Whilst the quarter's year-on-year comparison was helped by two weather-affected weeks in 2010, the underlying performance remained good even after allowing for this.

The key financial highlights of the period were as follows:

- Group net revenue grew by 11%;
- Retail net revenue increased by 8%;
- Online net revenue grew by 26%; and
- Group Operating profit⁽¹⁾ advanced by 21%.

Ralph Topping, Chief Executive, commented:

"We have seen excellent growth across our business in the first quarter, enabling us to remain confident in our expectations for the full year. It is particularly pleasing that, alongside a continuing strong performance from William Hill Online, we have seen growth in both net revenue and Operating profit⁽¹⁾ in Retail. We have much to look forward to in the existing business and are also excited by the land-based opportunity in the US, where we recently made our first significant investment."

Trading overview

(a) Group performance

Versus the prior year, Group net revenue for the period was up 11% with Group Operating profit⁽¹⁾ up 21%. The Group's net debt for covenant purposes stood at £458m at the end of the period (£499m as at 28 December 2010).

(b) William Hill Online

Net revenue in the period from William Hill Online was up 26% compared with Q1 2010.

Sportsbook is performing strongly with net revenue up 54%. This was driven by a 62% increase in amounts wagered, including growth of 138% in in-play amounts wagered and 786% in mobile betting amounts wagered. The Sportsbook gross win margin for the period was 7.3%, in line with the expected range of 7-8% (Q1 2010: 8.1%).

Gaming net revenue grew 15%, with strong growth in all three verticals despite Q1 2010 including income from the Group's French business prior to its closure in June 2010. At +30%, Bingo continues to deliver the fastest growth in gaming but Poker and Casino are also growing well, up 16% and 13%, respectively. Underlying gaming net revenue, excluding French revenue in 2010, grew by 30%.

The Online business delivered £29.8m of Operating profit⁽¹⁾ in the period, up 28% on the prior year. Playtech's non-controlling interest was £8.7m.

(c) Retail

The Group saw over-the-counter (OTC) amounts wagered grow 4% in the period. On an underlying basis, excluding the two weeks where bad weather affected performance in Q1 2010, OTC amounts wagered were up 1%, with growth shown in the number of slips and a stable average bet size maintained.

OTC gross win margin was slightly above the top end of the Group's expected 17-18% range, at 18.1% for the quarter (Q1 2010:17.5%). A strong margin in the last five weeks of the period offset the weaker margin highlighted in the eight-week current trading update reported at the end of February.

The combination of amounts wagered growth and a strong margin led to an 8% increase in Retail net revenue, with OTC up 8% and gaming machines up 9%. On a gross win basis, which gives an underlying performance before accounting for the increased VAT costs, gaming machines were up 11%. Gross win per machine per week increased to £885 (Q1 2010 - £814).

Benefiting from this performance, Operating profit⁽¹⁾ for the channel grew by 24%.

Acquisition of two US land-based sports-betting businesses

After the end of the period, the Group announced that it had signed an agreement to acquire two US land-based sports-betting businesses, American Wagering, Inc. and the Club Cal Neva Satellite Race and Sportsbook Division.

The total cost of the acquisitions is approximately \$39m. Before completing the acquisitions, William Hill and a small number of William Hill senior managers are required to be licensed by the Nevada Gaming Commission. It plans to submit applications shortly for a full gaming licence and the licensing process is expected to complete during 2012, after which point the transactions would legally complete.

The acquisitions will be funded in cash from William Hill's reserves and together are expected to add to William Hill's earnings per share from the first full year after completion (before transaction and integration costs and the amortisation of intangible assets associated with these acquisitions).

Playtech injunction

On 22 February 2011, the Group announced that it had secured an interim injunction against Playtech Limited to ensure that its legal rights under the William Hill Online joint venture agreements are maintained. Following a return court hearing on 17 March 2011, an injunction is in place preventing Playtech from selling its stake in William Hill Online. This injunction will remain in place at least until a further court hearing, which is expected to occur in mid-May.

Fiscal and regulatory developments

In the March 2011 budget, the UK Government announced an additional 1% cut in the corporation tax rate for the tax year 2011/12. As a result, the Group's 2011 effective tax rate is expected to reduce from 22% to approximately 18%, reflecting partly the additional change in the corporation tax rate in the year but primarily the positive effect of this change on the Group's deferred tax liabilities.

In February 2011, the Secretary of State announced his determination on the 50th Levy scheme, which came into effect on 1 April 2011. As a result of changes in the Levy headline rate and the threshold level, the Group's costs are anticipated to increase by around £3-4m on an annualised basis.

In April 2011, a Liberal Democrat report on the possibility of using the proceeds of uncollected winnings for the benefit of grass roots sport or a community fund was submitted to the Secretary of State. No formal consultation has been held. In the Group's view, there is no link between betting and grass-roots sport, such an approach would be discriminatory and it would present very difficult structural and legal definitional challenges as well as requiring primary legislation.

Risks

The key risks for 2011 are as follows:

- Failure to manage effectively the William Hill Online joint venture could inhibit the Group's ability to executive the Online growth strategy;
- Changes to online regulation, particularly in Europe, could inhibit growth or access to key markets;

- The business is reliant on a number of third-party suppliers for key operations and systems and could be negatively impacted if the suppliers should fail;
- International growth is a key part of William Hill's strategy and failure to maximise such opportunities could inhibit the Group's growth;
- adverse changes to taxes and hypothecated taxes such as the horseracing levy could result in increased costs to the business that it is not otherwise able to mitigate; and
- the current economic climate could reduce the Group's revenue as it may constrain consumer spending, particularly in areas of discretionary spend such as gambling.

For a discussion of these risks and how we are addressing them, please refer to our 2010 Annual Report and Accounts. For a more comprehensive summary of the principal risks and uncertainties for the Group, please refer to the investor relations section of the corporate website at www.williamhillplc.co.uk.

Outlook

The Group has seen excellent growth across the business in the first quarter, enabling the Board to remain confident in its expectations for the full year. It is particularly pleasing that, alongside a continuing strong performance from William Hill Online, the Group has seen growth in both net revenue and Operating profit⁽¹⁾ in Retail. There is much to look forward to in the existing business and the Board is also excited by the land-based opportunity in the US, where the Group recently made its first significant investment.

Notes

(1) Operating profit is defined as pre-exceptional profit including associates and excluding interest, tax and amortisation relating to Online trade names, affiliate relationships and non-competition agreements.

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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:

Telephone: +44 (0) 20 8817 9301
Passcode: 465 9238#

An archive of the call will be available after the call until Thursday, 28 April 2011. Dial-in details for the archive call are:

Telephone: +44 (0) 20 7769 6425
Passcode: 465 9238#

An audio webcast of the call will be available at www.williamhillplc.co.uk

Notes to editors

William Hill is a leading betting and gaming company. It is one of the UK's largest bookmakers with over 2,350 LBOs in the UK and Ireland that provide betting opportunities on a wide range of sporting and non-sporting events and, in the UK, gaming machines are offered in every LBO. The Group's online business, William Hill Online, is one of the leading European online betting and gaming businesses by profitability, providing sports betting, casino games, poker, bingo, numbers betting and skill games.