2014 Final Results

Interview with Neil Cooper, Group Finance Director

Digital revenues

Q: Digital now represents 40% of net revenues. So do you see that overtaking Retail any time soon?

A: The pace of growth in Digital generally and Mobile specifically was impressive. Online Mobile Gaming net revenue grew 117% and Mobile Sports revenues grew 48%. And in fact, Mobile Wagering was higher for us in the World Cup than desktop. So a very strong year for Digital revenues.

Retail revenues were flat in the year. So I would anticipate that if these trends continue, we should see Digital revenues overtake Retail revenues in the mid-term.

Margins

Q: What's behind the margin decline in Retail over the period?

A: You might expect that with the huge volatility we've seen in football, and some high-profile loss-making weekends across the industry, that it's been the football element of the Retail margin that's gone backwards. But actually, although football did go backwards marginally, because it is a higher margin product, and we saw more of the football with the World Cup in the year, actually the net impact of those was not material. The major driver of the Retail decline has been horseracing.

Q: And so what does the growth of Online mean for your gross win margins?

A: Typically Online has been lower than Retail. In the recent past we've flagged that we expect to see Online improve as Mobile grows as a percentage of the mix. The strength of Mobile has been very good in 2014, and indeed, not only has that grown faster than desktop, but we're also starting to see mobile customers behaving slightly differently, betting in a greater degree on the higher football accumulator-type products. So our previous expectation appears to have been justified.

Capex

Q: Given your focus on investment and technology, will capex be maintained at current levels going forwards?

A: Yes, we don't anticipate that we'll see a material shift outside of our current expected range, which is around £80m to £90m. What I think we may see is that in Retail in particular, we may tilt away from the property type capex and towards the more technology-driven capex. But the overall picture, we expect to stay broadly the same.

Cost savings

Q: So where are you against your £15m to £20m cost saving target to help mitigate the effects of point of consumption taxation? Which areas in particular are you targeting?

A: Okay, I think the first thing is just to remind you that our £15m to £20m saving was against our expected run rate. Secondly, whilst we do expect to see some savings in areas such as cost of software support on profit share deals, the major saving against run rate we expect to come from marketing. In fact, in that light, we've already flagged that we expect our marketing to be broadly the same in absolute terms in 2015 as it was in 2014.

Now that said, we do believe that it's important to continue investing in our products, investing in our user experience, and in doing so, we anticipate that'll help us be one of the winners through the point of consumption tax arena. So don't expect cutbacks in those areas.

International financials

Q: What's your target for the percentage of international revenues by the end of 2015?

A: Well, we don't have an absolute target, because obviously, whilst we do want and expect to see international growth, and we have markets in Australia, in the US, in Italy, in Spain, that are progressing well, the bulk of our business is UK, and clearly, we want to continue to take business and grow in the UK as well. So we haven't set an individual number, but we do anticipate strong growth outside of the UK over the short term.

Q: Can you explain the cost implications and anticipated return on investment for the rebrand in Australia?

A: Yes. We'd said to the market that as a result of the rebrand, we expect to see additional marketing spend in 2015 of around £5m a year. You know, I think we'll probably see a little bit more cost in 2016 against what we would have otherwise done. And of course, we're doing this because we believe in the mid-term the results for William Hill Australia will be better than leaving the business trading with the existing three brands. We believe that we'll see

greater marketing efficiency as we get behind a single brand instead of spreading that cost. And we'll have in effect a more efficient business because we're really servicing one brand instead of three.

Dividend and balance sheet

Q: Your dividend's up again. Can you remind us what the dividend policy is?

A: Yes, our dividend policy is that we intend to pay somewhere around 2 to 2.5 times dividend cover, which put another way, means somewhere between 40% and 50% of our basic adjusted earnings per share will be paid out in dividends.

Q: Given the potential for M&A, how strong do you feel the balance sheet of William Hill is currently?

A: We've had a very successful year in 2014, as we've seen debt levels fall. And in terms of the net debt to EBITDA, which is a measure that indicates how much profit we're making against how much debt we have, we've seen that fall from around 2 times at the start of 2014 to around 1.4 times at the end of 2014. What that means in practice is that we have headroom both in terms of the covenants that we're aiming to stay inside of, and also in terms of the facilities that we have.

So yes, I think we have got strength on our balance sheet. We're not over-geared at those levels, and that gives us the platform to drive our strategic agenda forwards.

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