



## 2015 Final Results

### Interview with James Henderson, CEO and Philip Bowcock, CFO

#### Results

**Q: Today you're publishing your final results for 2015, so how would you summarise performance?**

James Henderson (JH): I think I'd sum it up as a very solid performance. We achieved a £291.4m, so a very solid performance, but you've also got to remember we had £87m worth of additional taxes, so if you strip them out actually our profit increased by 2% year-on-year.

Across the divisions: Retail another resilient performance, still my most profitable channel.

America again continues to go from strength-to-strength, mobile now accounts for over 50% of the revenues. Australia, a huge year for Australia, big turnaround, exited year with turnover growth in single-digits which is very, very pleasing.

Online... it's probably best to sum that up as good growth in the core product, in all of the core territories but slightly dragged by the Rest of the World, but all-in-all a really solid performance.

**Q: Philip, turning to the financials, revenues, profits and EPS were all down, so shouldn't that be a cause for concern?**

Philip Bowcock (PB): No, because I think you need to look at it in two distinct parts. Revenue was down, primarily because it was a non-football tournament year. Also we had slightly lower gross win margins, so that accounted for a decline as well. But when we look at the profit and the EPS numbers, without the £87m of additional taxes coming through that James has spoken about, both profit and EPS would have been up, again showing the resilience of the business. So actually it was a solid year, as James has said.

## Acquisitions and Consolidation

**Q: James, there's obviously been a lot of coverage about the consolidation in the industry with the Betfair and Paddy Power deal and Ladbrokes/Coral. Where does that leave William Hill?**

JH: Well we are a scale player. If you just look at the online market penetration; we have 15% of that. Ladbrokes and Coral combined (even if two and two make four) will have 11%. So we're still significantly above that. And Betfair and Paddy's; they'll have 18%. So we're a huge scale player and if you look at any of the metrics, whether they be revenues, EBIT, enterprise value, we're still number one or two in pretty much every metric. So we're still a big scale player. So lots of consolidation going on but we don't need to change anything that we're doing.

## Online

**Q: Philip looking at Online, growth there has been slower than in previous years, so are you concerned about losing market share?**

PB: No, I think you need to look at Online on two distinct parts. We've recently announced that we'll split the reporting between 'core' and 'other', so core being our UK, Italy and Spain markets, and in those markets we saw double-digit growth.

In our other markets, the other international markets in which we operate, we unfortunately had to close in five markets due to regulation and, yes, we saw revenue decline as a result. But in those core market in which we operate growth was good.

**Q: And could you give us an update on your planned marketing spend? Have you got big plans for the forthcoming European Championships?**

PB: We expect marketing to go up by double-digits in 2016 over 2015, for me it's about spending the money in the right way. We're not constrained by how much we spend, for me it's about spending it in the right way, that's the most important thing as far as I'm concerned.

JH: And I think it's also important to note that the collateral for the Euros was acquired last year so the BT, Sky and ITV assets were acquired last year and they'll run through for Euro 2016, so we're in a good place to be able to capitalize and make sure that we get our share of voice.

**Q: And James you've now launched the Sportsbook mobile site, and the new iOS app, both developments to come out of Project Trafalgar. What in real terms does this mean for William Hill?**

JH: Huge strategic important to start with. The whole point is to be able to reduce your reliance on third parties and having Trafalgar means we take charge of our frontend and what that allows us to do is to move at pace, so we can innovative and release new product on a regular basis. So since we launched

Trafalgar we've been making 20 releases a week and we've actually also released five native apps since then as well. So that allows us to bring product through much quicker and therefore provide our customers with a differentiated and exclusive product range.

## **Retail**

**Q: And Philip, looking at Retail, what are the major trends that you're seeing there? Are you concerned that the performance of your gaming machines hasn't been quite as strong as that of your competitors?**

PB: When I look at Retail I look at the overall, so I look at the overall shop performance. Yes, the gaming machines did not perform as well as we would have liked in the first half, we were putting new machines out, we had a content freeze while we did that, but subsequently into quarter four of last year we actually had some content coming out and we saw good growth in our machines. I like to look to look at it as the whole estate, so the shop performance, and if we look at shop performance we are market leading. Whether the consumer spend is over the counter or it's on machines, for me it's about maximising the opportunity of those shops.

**Q: And James you've often spoken about your omni-channel strategy, where exactly does Retail fit within that and your self-service betting terminals?**

JH: Yes, omni-channel is a key part of the strategy because we are number one in Retail, we're now number two in Online, and that's a huge opportunity to leverage that customer base. Only 28% of our retail customers use online, but only 45% of those use William Hill, so we have a huge opportunity to do that. The more familiar we can make the content, the more familiar we can make the experience then the more likely we are to capture that in William Hill, whether it be online to retail or retail to online.

And a key part of that strategy is the SSBT, because if we're able to bring that rich breadth and depth of content from online that people are familiar with through our SSBT, which will be the only proprietary SSBT on the high street, then we have a better opportunity of catching those cross-channel customers which we know are more profitable.

PB: And from a financial perspective when we're looking at the SSBT, as James said, our SSBT is proprietary to us therefore we don't pay a revenue share to a third party unlike our competitors do, which enables us clearly to be more profitable. So from that perspective for us it doesn't matter whether the customer spends it over the counter or on the SSBT.

## International

**Q: And what progress have you made in Australia since you launched the brand there last year?**

JH: We launched the brand in February of last year, and we started by migrating the Sportingbet customers over. And actually within a month, 98% of the customers we'd migrated over had had a bet under the William Hill brand. So, we then pioneered In-Play under the William Hill brand, and that gained great traction we also launched an App at the same time in September. So the combination of the William Hill brand, the In-Play product and the new App really saw us accelerate at the back-end of the year and saw the whole business growing in a single-digit fashion, bearing in mind in Q3 we were declining by 31%. So it's a real turnaround story and we were the betting partner, or the sponsor, with Australian Tennis and we saw that traction continue in the month of January. So huge progress, huge turnaround story and Tom and the team down there have done a great job.

**Q: And Philip, looking beyond Australia, how have the other international businesses perform in 2015?**

PB: Well we have three other international businesses outside the UK, being Italy, Spain and the US. The US has performed well, we've seen good turnover growth, margin was slightly down but overall for me it's great small business with great opportunity, depending on what happens in the US gaming industry.

Elsewhere in Italy and Spain, Italy turned positive in 2015 which was a major move for us, and Spain again saw good growth and we would expect Spain to be positive in 2016.

**Q: And James looking across your international footprint, how easy is it for you to roll out your technical innovations across the international portfolio?**

JH: If I can just look domestically first. The SSBT [changes] that I talked about earlier that we're going to be rolling before the Euros, we've been able to do that off the Trafalgar platform. So it makes any new innovation or new product much easier and if we go internationally then there's no reason we can't replicate that.

In regards to the global trading platform and the feeds, and Australia was a beneficiary of that during the Australian tennis, we have many more markets than anybody else so it means we can have a one-stop-shop where we take all that rich product from Online and distribute it around the world.

So being in charge of your own destiny, whether it be the frontend or indeed your feeds, you're going to have a much better opportunity to be able to expand internationally and domestically.

## **Responsible Gambling**

**Q: And what progress have you made with responsible gambling this year and does William Hill really do enough in this area?**

JH: Yes, I think William Hill does but I think the sector does as well. We have joined forces to create Senet which we've done for around about 12 to 18 months, and there are a range of measures under Senet. I think as an industry we focused on two elements really which is the national self-exclusion and the algorithms, working with those customers that might find themselves at risk.

In regards to self-exclusion we had a trial in Chatham, we had a trial in Glasgow, but as of April we will be rolling out a national self-exclusion process which essentially means if you self-exclude from any shop you will be excluded from all the competitors as well which I think is really helpful to be able to help people that do find themselves in problems.

In regards to the algorithms we use that ground-breaking RGT [Responsible Gambling Trust] research to be able to use those markers to harm to be able to intervene for those customers that might find themselves at risk. Although it's very, very early days, the results have been incredibly insightful and I think we've already demonstrated that we can intervene at the right time and help those customers that might find themselves at risk.

So we've done a lot of work and we'll continue to do a lot of work because we are a very responsible company and sector.

## **Financials**

**Q: Philip, you've been in the role since November, so what are your first impressions of this business?**

PB: I think the first impressions of the business are that it's a group of individuals – a team – who are very passionate, they're very knowledgeable, and they are very loyal to William Hill. So the team is there and it's together, which for me is very important. Also, I think it's the opportunities that are available; whether it's opportunities from having control of our own technology, or wanting to gain control of our own technology and then roll that out; it's the opportunity to grow internationally. And it's also about the Retail business, which is incredibly resilient. If you look at the performance over the last six years, the cashflow that that business has generated, again, has been amazingly resilient. And so that is an opportunity again to utilise that cash to then spend in our online businesses.

**Q: Net debt is significantly lower than it was this time last year, so what's behind that?**

PB: I think it's the cash generation of the business, I think whether it's Online, which clearly generates cash, or Retail which is incredibly resilient, the cash generated by both parts of our business mean that overall we've seen net debt come down.

**Q: You're announcing an increase to the full-year dividend, is that really prudent given that EPS is down?**

PB: It shows the Board's confidence in the business going forward. In that we're going to generate, and to continue to generate the cash in order to pay dividends to our shareholders.

**Q: You've also announced a £200m share buyback scheme over the next 12 months, so what does that tell us about William Hill's thinking about the shape of the balance sheet and the use of capital?**

PB: I think the key for me about the balance sheet is about being flexible and having flexibility. Clearly the important thing is that we do pay a dividend to our shareholders, as I've just said the confidence that the Board has means that we can increase that.

It's then about investment. Organic investment where we can. If not, where there is M&A opportunity then we will pursue that. If those are not open to us, then we will look when we've got excess cash, a giving cash back to shareholders.

## **Outlook**

**Q: James, there's been a fair amount of management change at William Hill over the last twelve months', so are you happy now that you've got the right team in place to drive this business forwards?**

JH: Yes, I'm delighted with the people that I've brought into the executive team, and I think it puts us in the perfect position to capitalise on all the operational efficiencies and developments that we've made to have a great 2016.

**Q: And with England, Wales and both Irish teams qualified for the European Championships, are you anticipating a bumper summer of sports bettings?**

JH: I love tournament years, obviously, whether it be a World Cup or Euros, it's a huge opportunity for us. It's a pity Scotland aren't there to get a full suite of home nations but I'm looking forward to a really good, competitive tournament. There are more teams this time than there were last, so there'll be more matches, and with all the innovation and the Trafalgar platform that we've got in place we're really in a position to capitalize on the tournament. So I'm really looking forward to it.

**Q: And looking more broadly, what is the outlook for the year ahead?**

JH: 2015, let's be fair, was a difficult year with the significant tax headwinds that we had, a lot of changes made in the Australian business and the Online business with Trafalgar, but we are now in the perfect position to be able to capitalise on the opportunities that 2016 presents to ourselves. We've already talked about

the Euros, but I'm very confident about the future. We're in a very good position.

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