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LAD.L - Q3 2014 Ladbrokes PLC Interim Management Statement Call

EVENT DATE/TIME: OCTOBER 23, 2014 / 7:30AM GMT

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PRESENTATION

Operator

Good day, and welcome to the 2014 Q3 Ladbrokes IMS conference call. Today's conference is being recorded.

At this time, I would like to turn the conference over to Richard Glynn, CEO. Please go ahead, sir.

Richard Glynn - *Ladbrokes plc - CEO*

Good morning, everybody. Good evening to those of you joining us from Australia. Thank you for joining us. I'm here with Ian Bull and Richard Snow from IR.

Before we open up for Q&A, I thought I'd spend a few minutes running through some points from today's announcement. The key takeaway is that our operational changes have made us competitive and are now driving growth.

These results underpin our confidence in delivering a 2014 performance consistent with our current consensus. Looking at UK retail, our over-the-counter business has benefited from better football results, giving an OTC margin of 17%. That's a 2.1 percentage point improvement on last year.

And as you all know, growing our share of football in the UK retail market is a key area of focus for us. We've had increased staking of 5% in the new season, and that's even at a time when gross win has grown by 109%, and we'll continue with this focus.

Overall, over-the-counter staking was down just less than 8% year on year, explained principally by the continuation of the downward horseracing trends we told you about in August. These industry-wide trends have continued throughout the quarter, with weakened customer interest in the product exacerbated particularly through and because of the weather in September by smaller fields and a higher percentage of winning favorites. We're going to watch these trends carefully, especially as the jump season begins now in earnest.

But to add some balance, even given the growth of our mobile usage and even given the win margin recently for football, OTC staking for the first nine months of this year is up 0.5%, and this shows the long-term stability and resilience of the retail product.

The new Clarity machine estate has performed well in Q3, with machine gross win increased by nearly 5%. This is encouraging because it indicates that we can both benefit from the new cabinet, the better operations and the better product, at the same time as introducing and maintaining enhanced social responsibility, and that will be important for next year.

Good cost control has continued. We'll deliver a performance in line with our guidance for 2014. Before moving to retail, though, let me talk briefly about regulation. In September, we established a new wholly independent standards body, as you know, the Senet Group. This is an important and necessary move in response to some public concerns.

You'll have read about the steps it will require us to take, primarily around advertising sign-up incentives over the next few months. The Senet Group has been well received. It represents a new beginning, and that's hopefully for a wider industry.

We expect that we'll hear from DCMS on advertising, the ABB Code, planning and machine staking by early December. As you would expect, we're focused intently on ensuring we continue to mitigate the inevitable impact of any changes, but in a manner entirely consistent with the spirit and the requirements of the new regulations.

Increasing regulation and increasing taxation continue to have a direct impact on the viability of the UK shop portfolio, so we've taken the decision to close a further 40 shops this year. Further shop closures appear inevitable, but we'll talk more about this when things become clearer in February. The key now is for the industry to embed responsible gaming at its very core, helping those customers identified as potentially at risk to help themselves.

In return, we need a period of stability so that we can simultaneously grow the industry whilst monitoring the efficacy of targeted interventions.

Turning to digital now, we've built on our competitiveness at the World Cup and on our operational transformation over the past 18 months. In Q3 we're now benefiting financially from the integrated Playtech Games, digital IMS, Ladbrokes Israel's marketing capability and our repositioned brand.

Sportsbook growth is continuing; margins improved by 220 basis points year on year, driven primarily by football. Overall, we generated good staking growth of about 22% on a like-for-like performance. Our strong mobile performance continued as well. Even in a highly competitive marketplace staking was up 113% and actives 80%.

Gaming revenue returned to growth for the first time in six quarters. This represents a significant event and much improved from the mere 20% decline in the past two quarters. We see this as offering real further opportunity for upside growth.

Looking at the drivers behind overall gaming growth, we delivered another good quarter of growth for games, up 34%, and despite paying a couple of material customer losses at the end of Q3, casino was sequentially ahead of Q2 by 7%. Most pleasingly, though, we also delivered improved underlying casino operating metrics, with active customers growing, improved sign-ups, much better conversion and cross-sell, all the prerequisites to further financial acceleration.

Overall in gaming there still remains much to do, and there's a big opportunity for us, but we're increasingly confident that we've assembled the right assets to compete and drive meaningful growth through 2015. From a cost perspective, digital costs are on track with our marketing spend within our 25% to 30% target range.

In our international business, you'll have seen that Australia continues to deliver strong growth, with pro forma revenue up 172%, staking up 43% and actives up 124%, and these stats include the integrated Betstar business in both periods, so are a good measure of performance.

In Belgium, where we continue to diversify our product offering with the roll-out of self-service betting terminals and virtual product, we recorded a revenue increase of 21%, with a good contribution from the World Cup.

Looking at Ireland, trends in Northern Ireland are very much like the UK. However, we can and need to do better to perform better in a highly competitive Republic in and through 2015.

Through Q4, therefore, we're going to remain focused on delivering good year-end results, and by doing so, set Ladbrokes up for what we fully expect to be a very competitive 2015. Our focus in digital remains to build on the momentum in digital sportsbook and accelerate growth in gaming. In UK retail, we'll keep pushing the football product, growing self-service betting terminals, delivering attractive levels of machine growth, keeping costs under control. We'll continue to involve the traditional UK retail customer proposition into a more digitally enabled retail proposition.

In international, we're looking to Australia in particular to deliver a good improvement on last year, although, as for everyone, results at the Spring Carnival over the next few weeks will again be a key factor.

So, overall, our Q3 performance underpins our confidence, given all the usual caveats about sporting results, in delivering an outcome for 2014 consistent with expectations. So a lot achieved operationally so far this year. It is translating into financial growth. Q4 has started well, but we've a lot more to do, with lots of opportunities to exploit and still a lot to play for.

I hope that helps. Ian and I will now be happy to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Patrick Coffey, Barclays.

Patrick Coffey - *Barclays - Analyst*

Good morning, everyone. A few questions from me, if I may. Firstly, on gross win margins in online, they were down 20 basis points in Q3 versus Q2. The Q2 gross win margin always seems somewhat strange in the context of peers. Why was it that that Q2 gross win margin was so high? Was it an anomalous result, and if not, why was Q3 down versus Q2?

Secondly, just on the dividends, consensus now expects a dividend cut in 2015. Is that a fair thing to assume, and if not, why not?

Two more if I may. You previously guided to a 40/60% split between Q3 and Q4 in terms of EBIT this year, which implies GBP44m of EBIT in Q4. Does that guidance of GBP44m still remain?

And then just finally, on the marketing percentage, you've given a range this time. Normally, you're more specific. Can you just tell us exactly what the marketing as a percentage of net revenue was in Q3? Thanks a lot.

Ian Bull - *Ladbrokes plc - CFO*

Good morning, Patrick. I'll try and rattle through those. I think I've written them down in the right order. So gross win margins, we achieved 8.9% in Q3, and it was 9.1% in Q2. I think you're referring to specifically the digital margin.

Actually, the 9.1% really benefited I think from strong football because of the World Cup, and I think it was pretty consistent with the obvious comparators in the sector, really. So I don't think there's too much anomalous in that.

If you look at the 8.9% in Q3, again that's seeing two things, which is also true in retail, of course. It's seeing continued good results from a bookie's point of view in terms of football and some fairly weak horseracing results at the same time. So you've got the two opposing trends in that respect. But I think really, if you look at year to date, I think the margin is showing the kind of progress we expected to see in digital.

I think if I join that up with your full-year question, I will come back to specifically your full-year question, I think what we've seen both in retail margin and digital margin is that Q3 has been probably stronger margins than trend would suggest. We're not expecting to deliver those kind of margins. If it happens then fabulous, but we're expecting more normalized margins in Q4.

I think the second, the dividend, look, I think we believe the business is performing well. The 2014 dividend is comfortably covered. Of course we recognize the importance of dividend to shareholders. But I know you wouldn't expect us to comment on 2015. This is a Q3 2014 update, and we're not even at the end of 2014 yet. So I think we're pleased with progress. We're getting back to normal territory, and we of course as a Board will address the 2015 dividend in 2015, as you'd expect.

I think on your 40/60 split, yes, GBP33m in Q3. I think what we're seeing is we guided what we expect to be a rough shape. I think everything we can see is that we're confident in delivering the current consensus number, so a tiny bit ahead in Q3. There are the gods of results to look forward to in Q4, aren't there? So I don't think that's implying that do the math and lock in the original Q4 number. I think we should just concentrate on the full-year number.

And finally, on marketing, I think overall we saw marketing in the range -- we've always said 25% to 30%. I think in Q3 it was 29%, so you're well within the range. And year to date is 30%, I think; it was a tiny bit ahead at H1.

Patrick Coffey - *Barclays - Analyst*

Okay, thanks so much. And just a reminder, what are normalized margins now? What do you define as a normal margin for retail and online?

Ian Bull - *Ladbrokes plc - CFO*

Well I think our retail -- we trade in a fairly broad range. I think we would expect retail to be in the kind of 16% to 17% range. So you can see Q3 was a little bit ahead of that. And digital, 8.9% is at the upper end. I think we'd normally expect 7.5% to 8.5% on digital. So again, Q3 was helpfully on the right-hand side of the line from a margin point of view.

Patrick Coffey - *Barclays - Analyst*

Great. Okay, have a nice day, guys. Cheers.

Ian Bull - *Ladbrokes plc - CFO*

Thanks, Patrick.

Operator

Vaughan Lewis, Morgan Stanley.

Vaughan Lewis - *Morgan Stanley - Analyst*

Hi. Morning. The first one on Australia. Can you just explain what you think's going on there with the very strong growth, and given the higher margins and the good revenue growth, should we assume that that's profitable now?

And then a second one on UK retail. Looking at the quarters this year, you've grown 9% in Q1, 2% in Q2 and a drop of 8% in Q3. What is going on there? What is that trend, and do you think you're losing market share? Is it a weak economy? Is it tough comps? What's driving that sharp deterioration in trend? Thanks.

Richard Glynn - *Ladbrokes plc - CEO*

Good morning, Vaughan, or evening. I'll take the Australia. Ian will take UK retail. And in Australia I think we bought in at a good price. We bought in a very strong management team, and we bought in deliberately to a digital challenger brand. The heritage of that business is in innovative digital marketing.

I think that the growth that you're seeing is due to innovations such as the payment back onto the credit card, which is the first and the only one in the industry. I believe the feedback we're getting from your trip is that the Ladbrokes brand is actually getting some resonance down there.

I think there's an awful lot to play for. We've got a very strong team, and it's about digital innovation. That's why you're seeing the growth down there.

Ian Bull - *Ladbrokes plc - CFO*

Hi, Vaughan, or evening, Vaughan, actually. I think yours is an amount of stake question on retail, isn't it? I think if you look at it, we have seen a profile through the year. Year to date, we are up 0.5%. There's a very clear and obvious comparator in the sector, isn't there? And if you look to that comparator, I think that's about plus 1%, so not much difference between the two.

I think the salient point on it is -- well, two salient points. One is we were quite public I think back in August, and remain the case, that horseracing staking has been weaker than expected. And secondly, there is a comparator difference between the benchmark in the sector. If you look at Q3 last year, I think we were up 5% and others were down. So there's a comparator difference as well in Q3.

So we're clearly acknowledging there is a weakness from a horseracing staking point of view, in part compensated by good growth in football and year to date is 0.5%.

Vaughan Lewis - *Morgan Stanley - Analyst*

Just if I can be clear on Australia, is that profitable now then, or is that still in investment phase?

Ian Bull - *Ladbrokes plc - CFO*

Yes, year to date it's now profitable. It made a profit in Q3, which is not a big -- I think what does come clear, it's not a big quarter, either.

Vaughan Lewis - *Morgan Stanley - Analyst*

And then just on that retail one, you think it's just funny comps from last year then, because just ignoring the competitors and looking at the trend in isolation, it's obviously a very sharp deterioration throughout the year. You think that's just comps then, do you? It's not something that we should be extrapolating or be more concerned about?

Richard Glynn - *Ladbrokes plc - CEO*

Well, I think for me, the key is to look at the overall growth, nine months versus nine months. And we're 0.5% and others are 1%. I look at it very, very carefully and I believe that when you put that together with different comparators from last year that you get a more sensible picture of what's going on.

The final thing that I would add, Vaughan, in Australia, as I'm sure you're all aware, the next two weeks are make or break for Australia. Last year, a lot of people saw a loss in profitability through a bad result for us in the Melbourne Cup. We've got a couple of weekends, big weekends, ahead of us. That will determine the profitability for many of us of Australia. But the key for us is that the underlying metrics are very, very strong there.

Vaughan Lewis - *Morgan Stanley - Analyst*

Great, thank you.

Richard Glynn - *Ladbrokes plc - CEO*

Thank you.

Operator

Victoria Greer, JPMorgan.

Victoria Greer - *JPMorgan - Analyst*

Morning. Just a couple, please. Firstly, in digital, you gave us the sportsbook active numbers, up 80%. Can you give us a feel for roughly where that was for gaming in the quarter?

And then secondly, on UK retail, and you talked about more shop closures in 2015 being inevitable. I know you said that you'd tell us more about that at the full year, but I just wanted to get a feel for whether that's a view on the impact of the 25% MGD rate, or whether you're more taking the view that something like the GBP50 staking restrictions could have a negative impact on revenue there.

Richard Glynn - *Ladbrokes plc - CEO*

Good morning, Victoria, or evening. I'll take the second question, UK retail. I'm afraid, yes, I do think that the word is inevitable. I think it's a combination of the MGD rate and the impact of the GBP50 staking.

From our point of view, I think that we developed the ABB code, one, across the estate in a manner which was consistent with both the spirit and the intent. I think you see now that we've returned to decent machine growth, having maintained the social responsibility ethos that we demand and the industry demands. And I think that, if we look at further interventions, it's clear that you can do both. You can get growth and you can maintain social responsibility. That's what we will be focusing on for the GBP50-plus intervention going into 2015.

Having said that, I think it's inevitable, but we've managed to close 66 shops this year without a single redundancy. One of my overriding requirements is to make sure that we look after our staff, so what I'm not going to do is to give figures as to how many shops we're going to do, which worries our staff, until such time as we have greater certainty, which is why we say we think it's inevitable. But we're not going to be clearer on that until we actually know the impact.

So I hope that answers the question on that. I'll hand over to Ian for the digital sportsbook actives.

Ian Bull - *Ladbrokes plc - CFO*

Vicky, hi. I think your question was around gaming actives, was it?

Victoria Greer - *JPMorgan - Analyst*

Yes.

Ian Bull - *Ladbrokes plc - CFO*

Look, this is a Q3 update, so I don't think we're going to try and give a full disclosure of every part of the business at the moment. That's more relevant for February. I think what is fair to say, though, is on digital, and particularly on gaming, what you've seen is now is gaming return to growth, and in particular, casino getting back to broadly flat.

Now, that's come about from, obviously, as you know, we moved from Microgaming onto Playtech during Q2, so Q2 itself didn't have a full quarter on casino in particular. So I think again growth of Q3, and that is coming from a combination of things. I think it's coming from performance on actives; I think performance on signups, performance on conversion. We're starting to put in place all of the attributes in terms of asset and brand and capability with Ladbrokes Israel on the Playtech platform.

So I think for me that's the encouraging trend, returning to growth, and it's coming from a number of parts at the same time.

And I think as Richard said in his opener really, we have but started on that journey now. I think it's an encouraging first step in terms of what we're seeing in Q3, and particularly if you look at casino now, which is the one that we were behind on and was the latest onto the platform. On a sequential basis, that's up nearly 7% on Q2 in terms of revenue. So I think we're seeing return to growth and some encouraging patterns then. And that's why we've always said Q3 has been hopefully back to flat, and then Q4 you really see the growth coming through on gaming.

Victoria Greer - *JPMorgan - Analyst*

Great. That's helpful. Thank you.

Ian Bull - *Ladbrokes plc - CFO*

Thank you.

Operator

Ed Birkin, Credit Suisse.

Ed Birkin - *Credit Suisse - Analyst*

Hi. Morning. Just a couple things. On the football retail, can you just clarify that 109% you said since the start of the new season. Does that mean that's excluding the World Cup, or does that include the World Cup benefit? And if so, can you give a rough indication of a like-for-like growth?

Secondly, can you just expand a little bit when you talked about the promotional-led competition in Ireland, what you're seeing there.

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And then finally, you talked about the continued trends in horseracing, that this is an industry-wide issue. I'd imagine you're suggesting horseracing stake is down 10% plus in Q3. Is that something we should therefore extrapolate, but with the offset being continued growth in football, or do you expect horseracing staking decline to kind of come back to flat? Thank you.

Richard Glynn - *Ladbrokes plc - CEO*

Good morning, Ed. Evening, Ed. World Cup was excluded from the 109%. I think in Ireland, the truth is that we probably got our strategy wrong. There's very strong promotion-led competition there. We know we have still an incredibly resilient retail place, and we backed away from some of the promotional-led offers there. We got that wrong. We can reverse it. We're doing much better with segmentation there. We will be taking a very much more active approach in Ireland through 2015.

Horseracing staking, I think I was clear pointing out there that we need to watch the impact of the start of the jump season. September on record was one of the driest and warmest Septembers ever on record. Field sizes were down by some 20%. Favorites were increased by about 2%, up to just under 40%.

I think that has an impact on the attractiveness of the racing for customers. We have commented on the trend. We believe it's an industry-wide trend. We're working with the industry to reverse that trend. We'll monitor this very carefully through Q4.

Ed Birkin - *Credit Suisse - Analyst*

Great, and so just on that football then, that 109% obviously extraordinarily good growth. Can you maybe just expand a bit on what you've done to drive that? Because I assume it hasn't just happened on its own overnight.

Richard Glynn - *Ladbrokes plc - CEO*

We've focused on it. It's an area of focus for us. I think that a couple of years ago we were behind the pace in that. It's something that we know our customers want, and there's still quite a few more initiatives to make sure that we can keep driving that through to the 2018 World Cup. Of course, don't forget that the 109% has got very favorable results in it.

Ed Birkin - *Credit Suisse - Analyst*

Okay, thanks. And just finally, I know you may not be able to answer this, but do you think that having implemented Sky, has that helped, or is it too difficult to say?

Richard Glynn - *Ladbrokes plc - CEO*

I think it's too early and too complex to say it's helped or not helped. I think that our evidence suggests that it's certainly helped in certain shops and it's had less impact in other shops. I think that we will be, as we're continuing to do, segmenting not only the customer base but also the impact of different initiatives across the estate. We'll be looking at the Sky arrangement over the next period.

I think it does also have a very close correlation with the growth of self-service betting terminals, so you need to factor that into the Sky equation as well. But it's certainly something where over this football season and the next football season we'll be looking to optimize self-service betting terminals, Sky football products to keep focusing on football as an area of growth.

Ed Birkin - *Credit Suisse - Analyst*

Okay, thanks very much.

Richard Glynn - *Ladbrokes plc - CEO*

Pleasure.

Operator

(Operator Instructions). Gavin Kelleher, Goodbody.

Gavin Kelleher - *Goodbody - Analyst*

Morning guys. On the 90 shops that you'll close this year in UK retail, can you give us some color, are those shops loss-making now? Or is it the case that they would be loss-making after the change that's coming into place next year? That's the first one.

And the second one is, I believe you're doing happy hour in the UK between 12:00 to 1:00, where you're giving better prices. Can you just say what the impact of that has been, both on a revenue basis and also in terms of how much it's costing?

Richard Glynn - *Ladbrokes plc - CEO*

I'll take the second question first, Gavin. I think the happy hour is part of our continued drive to segment and serve certain customers in a certain way, as you know obviously, so quite well clued up on our marketing behaviors in the shops. As you know, that's only come in relatively recently, so it's a bit early to tell you what the impact on that has been, but it is part of our focus on serving certain customer segments better and more appropriately.

Gavin Kelleher - *Goodbody - Analyst*

Okay.

Ian Bull - *Ladbrokes plc - CFO*

Hi, Gavin. On your shops point, so I think what we've done is we've looked at the current and known MGD changes on the portfolio and looking at the likely trajectory of those into 2015. So these are -- there's a mixture of shops in there, some very low-contribution ones and some loss makers, really.

So the quantum of that, that's probably in the GBP0.5m to GBP1m type of PBIT impact on a full-year basis really. So it's not going to swing the numbers around, but I think it's just an ongoing process for us of looking at the bottom end of the estate.

Gavin Kelleher - *Goodbody - Analyst*

Okay, perfect. And one other question. Just does Ladbrokes Exchange get reported in the sportsbook numbers, and is it significant? Can you give us any update on that, or is it in the Betdaq numbers?

Richard Glynn - *Ladbrokes plc - CEO*

Ladbrokes Exchange is in the Betdaq numbers. I think it's going to be a differentiator. It's going to be more closely intertwined with Ladbrokes. As we said in the August, going forward in the 2015, I think it's going to become an important product for our customers.

Gavin Kelleher - *Goodbody - Analyst*

Okay, perfect. Thanks a million, Richard. Thanks, Ian.

Ian Bull - *Ladbrokes plc - CFO*

Thanks, Gavin.

Operator

Nick Edelman, Goldman Sachs.

Nick Edelman - *Goldman Sachs - Analyst*

Thank you. Morning, everyone. Just got a few short ones, please. Firstly, just on machines, obviously, the comp moved around quite a bit last year. Could you give any color perhaps on the exit rate or how it performed later in the quarter?

Secondly, just on digital, clearly, the gaming growth -- sorry, games growth was very strong. Could you possibly add a bit of color there, please?

Just following up then on Ed's question on retail and football growth, is there any promotions included in that gross win growth?

And then lastly, just in terms of shop closures next year, will you be opening any shops next year? Thank you.

Richard Glynn - *Ladbrokes plc - CEO*

Let me take digital. I think that we've got to keep on stressing the fact that digital casino only transferred just prior to the World Cup with the IMS full capability. Sportsbook was the focus during the World Cup, so casino growth has really only been the focus since then. I think that the turning point in the business is a return of gaming to growth, and that's after six sequential quarters and also a circa 7% growth quarter on quarter in casino.

When you look at games, games was a product set which was capable of having segmentation and the marketing initiatives apply in advance of casino. I think that proves that when you get the brands, the products and the capabilities working together, you're getting good growth. And that's had growth, again, of 20%, 30%. So the difference was the timing when you could focus on the games product versus the timing when we can focus on the casino product.

The casino product now, which of course is the biggest product, is returning to growth, and that gives us a real upside opportunity on that. I wasn't quite sure I understood your question on football growth including promotions. All products have promotions on it. Are you -- if you're asking whether there was anything exceptional in that, the answer is no. These are normal trading promotions that have been well received, but we have had the benefit of very good results there.

Shops, we will certainly be net closing next year. There is a possibility between certain isolated locations we will continue to open. We may relocate, and we will certainly refurbish, but overall, you will see further inevitable shop closures next year.

Ian Bull - *Ladbrokes plc - CFO*

Nick, it's Ian. On your question on machines, so I think there's a couple of points to make. If you look at the disclosure, you can see the quarterly trend, so you can see machine growth win up 5% in Q3, and on a gross win per shop basis, up 6.5%.

Those are good numbers. I think the first thing to be mindful of is that obviously they're anniversarying on a very weak quarter last year. If look across the table, as we talked about this time last year, it was a very hot summer, we saw a minus 5% on a gross win per shop basis. So there is a kind of anniversary effect there, really.

That said, I think it's fair to say that we're pleased with the progress on machines, and we guided on 1% to 2% on the full year, and we're probably seeing something a little bit ahead of that as a run rate out of the year. So I think it's setting Q4 up for a good performance on machines.

I think equally it's important to think about it is we're not trying to get consensus or expectations around the individual lines on retail business. Think about retail as a whole, really. I think it's perhaps a little bit on the helpful side from a machines point of view, and we've got -- as I said before, we've got the gods of betting to contend with both horses and football in Q4, as well. So in the round, I think it's overall good for retail.

Nick Edelman - *Goldman Sachs - Analyst*

Great, thanks. Thank you. That was exactly what I meant on the football question. Thank you.

Richard Glynn - *Ladbrokes plc - CEO*

Oh, good, good. Thank you.

Operator

Jeff Harwood, Oriel.

Jeffrey Harwood - *Oriel - Analyst*

Yes, good morning. Just on digital, are you planning any particular cost initiatives next year to mitigate the point of consumption tax?

Richard Glynn - *Ladbrokes plc - CEO*

Good morning, Jeffrey, or good evening, Jeffrey. I'm not sure which. What we're doing very carefully next year is I think we're focusing on costs, as you would expect. But there's no initiative determined as we sit here today, until such time as we see the market reaction to things. We've got a number of things prepared if certain scenarios play out, and we will press the button at the appropriate time. The wonderful thing about digital is that you can respond pretty much instantaneously to what we see.

So there's nothing on the stocks as we speak, but there are three or four things actively planned to respond to whatever way the market competition goes.

Jeffrey Harwood - *Oriel - Analyst*

Okay, thank you.

Operator

(Operator Instructions). Richard Stuber, Nomura.

Richard Stuber - *Nomura - Analyst*

Yes, hi, good morning. Just two questions on digital, please. The first one is, are there any other milestones we can expect from digital, or is it now just pretty much all about marketing efforts to drive future growth?

And the second question on digital is has there been any impacts from exiting various markets over the last few months? There have been some press headlines. You've exited some places in Eastern Europe and Canada. Just wondered what impact that has on your growth numbers. Thank you.

Richard Glynn - *Ladbrokes plc - CEO*

The milestones in digital, Richard, I think the really heavy operational lifting has now been done, but that doesn't mean that by any means we've stopped. We've got a full plan now through to September next year of innovations and technical improvements and further refinements, some with Playtech, some with OpenBet, some with Mobenga, that we will be rolling out, others which are just innovations. So the heavy lifting that we laid out 18 months ago has now been completed on time, on spec and on expectation, but there is still a huge amount of innovation and further underpinning that is going on.

As for the exit markets, I think we said very, very clearly, we review these on a quarterly basis. We've pulled out of certain markets that we've made you aware of. The financial impact has been --

Ian Bull - *Ladbrokes plc - CFO*

Richard, the most notable being Canada, I think. And Canada for us is -- I think it's under 0.3% of NGR for the full year, really. So it's important that we're doing the right thing in terms of compliance and where we take business from. In a material sense, it's not relevant.

Richard Stuber - *Nomura - Analyst*

That's clear. Thank you.

Richard Glynn - *Ladbrokes plc - CEO*

Thank you, Richard.

Operator

Ivor Jones, Numis.

Ivor Jones - *Numis - Analyst*

Good morning. Can we come back to that question -- the question you had about casino growth. There are two things on my mind. One is, you make it sound like there's a kind of limiting factor that meant it was sports first and casino second. But from the time that it was known that you would change supplier and set up Ladbrokes Israel to implementation was quite a long time. And so I'm not sure why the plans for casino weren't ready to go at the point of transition and we're not seeing stronger growth.

And the second and related point is, why not seeing stronger growth when sports growth is so strong? So why is there not at least a cross-sell from the people that you are picking up and encouraging to spend on sports? What is it that happens now that makes casino grow when it wasn't growing particularly rapidly in the third quarter? Thanks.

Richard Glynn - *Ladbrokes plc - CEO*

Good morning, Ivor. I think we tried to explain last year that, yes, when you know things, you can make certain preparations, but under most well-constructed contracts, you are restricted from doing things with data, with technology, until the restrictions are ended. So let's assume that a contract finished on May 1. You can make preparations, but you can't start doing anything until May 1.

You then have integration, you have migration, you have cutting data, you have testing, you have trialing. All that takes a period of time, following the date that you are allowed access to the data and the product set. I think that explains why casino has come on later than something like games, which wasn't an exclusive contract with Microgaming, where you're seeing circa 30% growth.

And you're quite right on the cross-selling, but you can only cross-sell when you have two products in parallel. During the World Cup, the focus was on the World Cup because we had sportsbook there. We were still doing the crossover to gaming, and in particular, casino.

Now that we have both, as you know, the main crossover is between sportsbook and casino. We've got good growth in sportsbook; we're back to growth in casino, and the opportunity for us is now for continued growth in casino, and cross-sell from sportsbook is where we're really focusing.

So I agree with the thrust of your question. I hope I've explained why we couldn't do it quicker, but why you can now see it's such a turning point for the business to go back to growth, and therefore what there is for us to play for going into 2015.

I think we've got time probably guys for one, maybe two, if we're quick, questions.

Operator

Simon French, Cenkos.

Simon French - *Cenkos - Analyst*

Yes, morning, everyone. I will try and be quick, then. A couple of clarification ones. Can you take the SSBT revenue through the OTC line just in terms of understanding the moving parts there?

Unidentified Company Representative

Yes.

Simon French - *Cenkos - Analyst*

Yes, okay, good. And on the cost guidance, can you just reiterate what that is for the second half in retail, please?

Ian Bull - *Ladbrokes plc - CFO*

Well, the cost guidance remains the same as we gave at the interim, Simon. It's 4.4% for the full year.

Simon French - *Cenkos - Analyst*

Okay, and then just on the casino then, following up from Ivor's question, would it be not unreasonable to assume that the trajectory in casino growth could be the same as that you've achieved in games i.e., up 30% year on year, as we move through the next 12 to 18 months?

Richard Glynn - *Ladbrokes plc - CEO*

Well, I think that what we said was that we would get back to flat in Q3, we would see growth in Q4. I think that's what we're still aiming towards, and that's what underpins our confidence for meeting consensus for the year.

Simon French - *Cenkos - Analyst*

Okay, thank you very much.

Richard Glynn - *Ladbrokes plc - CEO*

Thank you.

Operator

Jarrod Castle.

Richard Glynn - *Ladbrokes plc - CEO*

If we can take this as the last question, please. Morning, Jarrod.

Jarrod Castle - *UBS - Analyst*

Yes, good morning or evening.

Richard Glynn - *Ladbrokes plc - CEO*

Evening, sorry.

Jarrod Castle - *UBS - Analyst*

Yes, just a quick one on POC. Have you seen any competitors exiting the market and any changing competitive behavior?

Richard Glynn - *Ladbrokes plc - CEO*

Well we've seen a lot of stimulation of competitive behavior. I suspect that we won't -- excuse me -- I suspect that we won't know fully how competitors are going to behave until you've gone through a period of time after POC comes into effect, which is why we're planning for a number of different scenarios, and we have different responses accordingly. I think it is inevitable that some of the smaller brands will struggle and there will be a flight to quality and a flight to brand. But I think there's going to be disturbance and turmoil in the interim, and we have to be very nimble and prepared to respond accordingly, and that's what we are planning for now.

Jarrod Castle - *UBS - Analyst*

Yes, thanks. And sorry, if I can be cheeky and ask one last one, just in terms of Senet Group, would you let other people join beyond the current membership?

Richard Glynn - *Ladbrokes plc - CEO*

The Senet Group was always set up to be a cross-industry group. It is not a bookmakers' group. Not only would we let them, we are actively encouraging them, and we welcome them. This sets up the highest standards that there are across the industry, and we would implore and appeal to others to come and join us so that we can act in unity for social responsibility.

Jarrod Castle - *UBS - Analyst*

Thanks very much.

Richard Glynn - *Ladbrokes plc - CEO*

Listen, guys, thank you all very much indeed. I hope we haven't delayed dinner too much for those of you down in Australia. Thank you very much indeed for taking the time to join us.

Operator

That will conclude today's conference call. Thank you for your participation, ladies and gentlemen. You may now disconnect.
