



IMS conference Call – 13th November 2008

Operator

Good morning ladies and gentlemen, and welcome to the Ladbrokes Trading Update conference call, hosted by Chris Bell, Chief Executive. I'm now handing over to Chris to begin today's call.

Chris Bell - Ladbrokes Plc - CEO

Morning to you all. Thanks for joining us. We were just waiting for the queue to clear, which is why we're a couple of minutes late. Brian and I are here to take you through the key elements of our trading update, and we'll take your questions at the end. Before that I'd just like to make a few introductory remarks if I may.

We don't need telling at all that we're in a difficult and increasingly fragile economic backdrop. I think Ladbrokes has shown very good gross win growth in this period, being up 12%. And we're keeping costs very much under tight control, as you would expect, and consequently profits are up 3%. The first two weeks of November have been okay. So whilst we've gone beyond the trading period we're talking on, we're continuing to move along nicely.

We've also recognized in the period GBP17m worth of profit relating to High Rollers.

Let me cover the UK first, the highlights there. Our machines continue to perform very well, with growth of 14%.

UK OTC figures suffered in the last two weeks of October, when gross win was down 27% due to football and horse results. That was the UEFA Cup, when 14 out of 16 favorites won, and the Breeders Cup races, of which seven of the nine races were losing. But hey, that's what we do. But it was unfortunate it was in the last two weeks that we were reporting.

As I mentioned prior too, on costs in Retail, we continue to manage them extremely tightly. We're operating well within our guidance of 8%, which just to remind you, includes the total costs of Turf TV for the year, and the incremental spell of winter evening opening for shops.

In the rest of Europe, Ireland remains challenging, and that's the combination of a more tough economic climate plus some extremely high horse racing cancellations at the beginning of the period, when we lost 26 meetings in total. And I'd just like to remind you as well, because it's worth remembering, that the shops in the Republic of Ireland have no machines. So if there's no racing, there's not a great deal to do in those shops.

In Italy, we continued to make good progress in opening our Bersani licenses, which are made up of course of shops and corners. And like all operators in Italy, we're running somewhat behind schedule, and largely that's due to the localized issues of opening shops in Italy. But we do expect all of our Bersani licenses to be open and fully operational by the end of this year.

Meanwhile in Madrid, we're making good progress in Madrid, and we've opened another 20 units, outlets in and around Madrid. And we now have a total of 34 operating. We're moving along well there.

Moving to e-gaming, our strategy that we announced earlier this year continues to go very well, where we're investing in customer acquisition. And you will have seen our net gaming revenues have continued yet again to increase by more than 20%. We've seen very good growth across the sports book, casino and games, particularly bingo. Poker remains stagnant, and we've covered that before. And we're awaiting our joining of the Microgaming network early in 2009.

On our Telephone business, the core business, it continued to struggle. There's huge competition. We're one of the three bookmakers I think now based in the UK paying full tax and levies and everything. And of course this is making this business particularly competitive, when you've got such a price disadvantage against other operators.

On the plus side, as I've already said, we've recognized GBP17m of profit from high rolling customers' collections. And I think very encouragingly in these times of recession, we've started to see some return of these customers in the last few weeks, which is encouraging.

And lastly on two industry milestones that have been covered in the period, we settled [at 48] the Horseracing Betting Levy scheme and we won quite clearly the collusion claim by Turf TV against bookmakers.

Just the highlights of the levy are, I think it's very important that we reached a settlement, and didn't go to the Secretary of State for determination. And on a very positive point we've got the four blank Sundays of horse racing they had taken away filled again, and an extra 104 races on Monday and Tuesday afternoons and some other days, where we'll have extended cards, which again will help our business.

On Turf TV, as I say, the case that Amalgamated Racing brought against several bookmakers and BAGS was totally dismissed, and we're very pleased about that. And we are considering our right to leave for appeal on the other case, which we will progress within the next week. I'd now like to pass over to Brian for a few more comments and then we'll take your questions.

Brian Wallace - Ladbrokes Plc - Group Finance Director

Morning everyone. I just wanted very briefly to try and make crystal clear our financial situation. It's obviously important at times like these, and particularly since I think it's been inaccurately reported in some quarters.

With the benefit of the GBP60m of new facilities that we signed since June, we've now added a total of GBP185m of new facilities during this year. So at the end of October, we had GBP536m of undrawn, committed facilities, which is greater than the bond maturities that we have in 2009, of GBP378m. It's actually EUR500m swapped. And also, quite importantly, as we look into 2010, we only have maturities of GBP15m.

So I think our longstanding policy of spreading maturities over a number of years is serving us well in these current difficult markets. And just one other comment, clearly as we head into 2009, we'll expect to see the benefit of the interest rate cuts, and I think we'll be heading towards 6% in 2009.

So with that I guess I'll pass back to Louise and we can start the Q&A.

QUESTION AND ANSWERS

Simon Champion - Deutsche Bank - Analyst

Yes, morning, just a couple of questions.

The first one is in terms of the online gaming space. You've obviously seen a deterioration in macro conditions as well as quite a lot of competition, increasing around various players. Are you still confident further out of making your profit targets in terms of your online gaming business?

And the second question is, I know we are now lapping in the anniversary of winter opening hours. But this time last year I think a lot of punters weren't aware that your shops were open late. So are you seeing some kind of momentum in terms of longer opening hours at this moment in time? And have you changed your strategy at all in terms of opening your shops for longer periods of time? Thanks.

Chris Bell - Ladbrokes Plc - CEO

Hi Simon, it's Chris. Let me do them in reverse order.

There's no change to the strategy of opening shops other than running the estate as a normal retailer, i.e. if we don't see good commercial prospects then we have no qualms about closing a shop. Or if we find what we've got costs us a few units, then we can satisfy it that way. But it is rigorously looked at. There is no change to strategy in terms of being Ladbrokes are open from these hours to this hour. So I think that's a very important [start up] proposition.

In terms of how we're seeing business, it is literally in its first year. I think I said many times, I'm the only person around who's been through Sunday opening, summer opening, (inaudible) evening opening and now all year round opening. This will take three to four years, because it -- people do not realize for quite some time that you're open. But we're encouraged with what we see. So no real change there.

In terms of e-gaming, are we on track? Well, you've seen the figures we put out today. They're exactly in line with what we've built our earning till and modeling on. And therefore, we don't have any reason to change what we predicted. We live in uncertain times for sure, you're quite right. The e-gaming space is increasingly competitive, and we're very mindful of that. But where we sit today, we're comfortable with what we thought six, seven months ago.

Simon Champion - Deutsche Bank - Analyst

Okay, thanks a lot.

Chris Bell - Ladbrokes Plc - CEO

Thank you.

Vaughan Lewis - Morgan Stanley - Analyst

Hi there. Could you comment on margins in Ireland please, operating profit margins as opposed to sports margins, and how you cope with an 11% gross win drop? Is there anything that suggests that you could see something similar in the UK next year?

And then the second one is just on the dividends. You had a progressive dividend at the interims. Given the strong financing there, should we expect something similar for the final dividend as well?

Chris Bell - *Ladbrokes Plc - CEO*

Let me deal with margins first, then Brian can cover dividends.

I think the simple answer, Vaughan, is no. Do we see anything in the UK? No. Is there anything untoward happening in Ireland? No, we know the economy is tighter over there and we lost 26 horse race meetings and we've obviously had a tax change.

Other than that, the business is operating in the way that it would. They are, but there's nothing that's intrinsically changed in that business. I'll let Brian talk about dividend.

Brian Wallace - *Ladbrokes Plc - Group Finance Director*

Vaughan, I don't really like giving stock answers as you know, but really on the dividends, nothing new to say. Our Board will consider it in the end of January as they do every year. But you're absolutely right. We have a very good, robust financing situation.

Vaughan Lewis - *Morgan Stanley - Analyst*

Can I just come back on the Ireland one? So are you actually cutting costs in Ireland then, or what have margins done in the four month period? An 11% drop is a third of your profits roughly, in Ireland.

Chris Bell - *Ladbrokes Plc - CEO*

Yes, of course. With the tax change, like any business share, there's 6m of tax.. goes with a tax rate in euros. So we're in a position whereby we've got to look to the position of cutting costs where we can. But at the end of the day, it's not a change to the way that the business actually is performing or succeeding.

So I think as any manager, you want to keep all the good things, and where you can, mitigate these cost increases without damaging what is a very good business.

Vaughan Lewis - *Morgan Stanley - Analyst*

Okay, thank you.

Mark Reed - *Teathers - Analyst*

Oh, good morning, two quick questions. Firstly, you've given cost guidance for 2008. Given you're going into uncharted territory and we've got the annualization coming through of winter opening and Turf TV, could you give us any guidance for what you'd be aiming for, for 2009 for cost inflation? And again, given the uncertain environment, are you likely to change your CapEx plans for '09 from previous guidance?

Brian Wallace - *Ladbrokes Plc - Group Finance Director*

If I could just pick up on those, on cost inflation for next year, we gave guidance this time last year because it was quite complex with Turf TV and opening hours and what have

you. And we're going into a like-for-like period next year. The business in the UK Retail is extremely focused on costs, which has done a great job. I don't want to be hung to a number now.

But you can be quite sure that it's going to be a good number. There's a lot of focus. There's a lot of activity going on in different areas to reduce costs, and I think we're in good shape. I don't want to give a number.

Mark Reed - Teathers - Analyst

Okay.

Brian Wallace - Ladbroke's Plc - Group Finance Director

On cap -- oh, sorry.

Mark Reed - Teathers - Analyst

Sorry, can I just? On cost inflation, in more normalized years it seems to look -- targeted at about 4%. Would you be able to say if you're targeting a number lower than that?

Brian Wallace - Ladbroke's Plc - Group Finance Director

If you want to target 4, no problem.

Mark Reed - Teathers - Analyst

Okay.

Brian Wallace - Ladbroke's Plc - Group Finance Director

And listen, it will be what it will be. I think the actions are more important than the forecasts, and we'll keep you updated as we go through the year. Suffice to say, there's plenty of action going on.

Mark Reed - Teathers - Analyst

Okay.

Brian Wallace - Ladbroke's Plc - Group Finance Director

On CapEx, I think two years ago I said that I expected CapEx to come down naturally, that we've gone through the cycle of peak CapEx. We've replaced machines and those sort of things. So I think in the UK next year we'd look at CapEx of somewhere between GBP30m to GBP35m, and as you go back two or three years, it's probably GBP70m to GBP80m. So I think everything we said we'd do on that front is happening. The shops are in good condition. And that's the story at the moment.

Mark Reed - Teathers - Analyst

Thank you.

Adam Cochrane - JP Morgan - Analyst

Morning guys. Can you just quantify how much of the High Rollers receivables there is still remaining after this payment you've received in, and whether you're more confident of realizing it, given the fact that some of them are coming back to play?

Brian Wallace - Ladbrokes Plc - Group Finance Director

I can't go into detail. Those are sensitive areas, you know. Suffice to say, a substantial part of what was outstanding at June in respect of High Rollers has flowed through, and combined with the bad debt provisioning policy we have, that's why you have seen the figure you have seen this morning.

I think the other thing we would say is to re-emphasize what Chris mentioned, is separate from that, and on top of that in recent days and a couple of weeks, we have seen a resumption of activity. That's very welcome. It's welcome for many reasons, not least the cash effect as we roll forward. But as I always say, please don't try and forecast for us, because we can't so I really don't think you should. It's an upside and it's very, very nice to have, and we're very happy with the business.

Adam Cochrane - JP Morgan - Analyst

But there is some potential that some further receivables may come in as they get paid though?

Brian Wallace - Ladbrokes Plc - Group Finance Director

Yes.

Adam Cochrane - JP Morgan - Analyst

Yes?

Nick Edelman - Cazenove - Analyst

Morning, just two quick ones from me.

Just coming back to the operating profit margins in Ireland, I was just wondering, along the lines of what Vaughan was asking, where they'd gone just over the past four months, rather than looking ahead?

And then the second question was just whether you've now resolved your disputes with your staff on pay increases in the call centers?

Chris Bell - Ladbrokes Plc - CEO

I'll take the last one. It wasn't call centers, because we've got three. It was only in Liverpool. And that was resolved several months ago to everybody's satisfaction. So that is gone.

And just touching on the Ireland operating margin, I think really just to say what I said before, which is we see nothing of concern or that we're worried about, or anything that we'd add, the circumstances being what they've been. We lost some races. The rest of the business is chugging along well, bar the economic climate in Ireland, and by that I mean Eire as a republic.

Nick Edelman - Cazenove - Analyst

Yes. Okay, thank you.

Ivor Jones - Evolution - Analyst

Hello, it's Ivor Jones, actually, morning.

Can I just ask about advertising and the change in cost, period over period, and what your attitude is going to be to advertising spend, as this seems to be getting cheaper?

And secondly, in relation to the contingent and non balance sheet liability relating to Hilton International, how should we think about what would be on balance sheet at the 2008 year end? Thanks.

Chris Bell - Ladbrokes Plc - CEO

Can I start with attitude to advertising, as a marketing man? We will advertise where we believe we get a fair commercial return, and there are real examples of that, rather than just sounding like marketing speak. Our bingo campaigns have paid back remarkably well. We've just been in the middle of the latest campaign.

Our casino advertising has worked very well. If we expect that we'll get similar commercial returns, we would continue to advertise in 2009. But like anything, we'll have to look to how 2009 pans out. But we'd be silly not if we could get the returns that we're seeking. So it's as simple as that, to be honest. I'll now pass to Brian to handle all the more difficult questions.

Brian Wallace - Ladbrokes Plc - Group Finance Director

Yes, that's not really a fair split there, because marketing might be guaranteed, but there we are. On the Hilton guarantees, let me just make a couple of comments. Those of you have looked at the notes, you'll see that last year we had a liability of about GBP10m on the balance sheet.

That's an audited figure. It was a figure that was calculated initially when we'd actually made the sale, and is then updated each year. It's worth saying that over time, we try and reduce that liability by (inaudible) some of these guarantees back to HHC. So it has been a diminishing number in that sense in terms of number of hotels, and that will continue. What we'll do at the end of the year is simply reassess the calculation. I think it may go up a little, but it won't go up a lot, would be my short answer.

Ivor Jones - Evolution - Analyst

Okay, thanks very much.

Jeffrey Harwood - Oriel Securities - Analyst

Yes, good morning. Just on the level of cost inflation in the second half, would I be right in saying that that's currently running at 5% to 6%?

And then secondly, the average cost of the debt, can you say what it is at the moment please?

Brian Wallace - Ladbrokes Plc - Group Finance Director

Yes, on costs, your 5% to 6% is probably about right, or maybe actually slightly less. I think the important thing, rather than trying to micromanage this month by month and period by period is that at this time last year we said that we'd be at 8%. And we're reconfirming now, we'll be within that 8% for the whole year, which of course takes account of Turf and opening, so I think 4% underlying. We've held that absolutely rigorously through the whole period. Sorry, what was the second bit?

Jeffrey Harwood - Oriel Securities - Analyst

Cost of debt, yes.

Brian Wallace - Ladbrokes Plc - Group Finance Director

Oh, cost of debt? Yes, currently it's running somewhere between 7 and 7.25. And as I said earlier, I see that drifting down, subject to all the usual caveats with what's happening in the banking system, somewhere around about 6%, maybe slightly higher as we head into next year. So I see it as a material interest benefit as we go into 2009.

Jeffrey Harwood - Oriel Securities - Analyst

Okay, thank you.

Brian Wallace - Ladbrokes Plc - Group Finance Director

About the only bright spot, I think, as one looks forward.

Andrew Lee - Dresdner Kleinwort - Analyst

Thanks, two questions if I can. Just -- I understand that stakes per slip in retail are actually up during the period, year-on-year. Can you give us a feel for how much that is, if that is indeed the case?

Linked to that as well, there are rumors going around the markets surrounding yields per player online falling. Can you just give us a feel for whether that's the case with you guys, or whether that's lesser operators that are feeling that?

And the second question is just are there any cost benefits for more efficient winter opening hours in this remaining -- or the last four months of the year? Thanks.

Brian Wallace - Ladbrokes Plc - Group Finance Director

About stake per slip, it is up slightly, but it's very slight, so nothing to write home about. And then what was your first question, Andy, I'm trying to --

Andrew Lee - Dresdner Kleinwort - Analyst

On the online as well, so the online yields per player.

Chris Bell - Ladbrokes Plc - CEO

Yields are down in some areas but nothing that would give us a great deal of panic at all. In fact, from the NGR growth that we've seen, we're quite pleased with how we're investing and getting yield. There is some recycling and cost to acquisition is slightly up. But it's always going to be a bit cheaper for us, because being this is a Ladbrokes portal coming through the sports book, which is always handy. So largely nothing that we've seen that gives us great concern. But there is some effect on yield by definition. As you recruit lower staking players with volume, the maths just dictates that it would be less.

Brian Wallace - Ladbrokes Plc - Group Finance Director

It's variable Andy but overall it's slightly up in stake as a whole. There's some parts in there that we're pretty pleased with it actually.

Chris Bell - Ladbrokes Plc - CEO

Yes, we are.

Andrew Lee - Dresdner Kleinwort - Analyst

Thanks, and then the last one was just any cost benefits for the more efficient winter opening hours?

Brian Wallace - Ladbrokes Plc - Group Finance Director

I don't think so I think it's just one of the many, many components that enable us to do what we've done this year, and I think it'll be what you'll see when we get the next year. There are a lot of things Richard's working on, and there's lots of small things that get us there.

Nigel Hicks - Liberum - Analyst

Morning. Coming back to the amount outstanding of doubtful debts on High Rollers, can you say what sort of proportion the GBP17m is of what's now left, or what was left?

Brian Wallace - Ladbrokes Plc - Group Finance Director

No, I think, Nigel -- it's only a trading statement. By the time we get to year end it will -- we'll still glory in (inaudible) or whatever we produced. But I said it's a substantial portion. I don't think I need to refrain that any further. But there are two things happening. One is collection of -- or let's say it's prudently providing past (inaudible). And now what's really new, almost since the end of the period, is a resumption of activity. Let's see what that particular cocktail produces by the time we get to the end of the year.

Nigel Hicks - Liberum - Analyst

Okay. Can I ask, do you think that the GBP17m was in people's numbers in the second half?

Brian Wallace - Ladbrokes Plc - Group Finance Director

Definitely not, because most people accept our view that it's best just to take this as it comes through.

Nigel Hicks - Liberum - Analyst

Right.

Brian Wallace - Ladbrokes Plc - Group Finance Director

So absolutely not, I would say.

Nigel Hicks - Liberum - Analyst

Right, so can I imply then that your guidance for the full year being in line with expectations, if you strip out the GBP17m is down whatever the percentage is?

Brian Wallace - Ladbrokes Plc - Group Finance Director

I would say our guidance -- the easiest way to look at is that ex big High Rollers, which is what we consistently always do, and I'd say that the guidance of full year is in line. And therefore whatever happens on the Telephone High Rollers is a separate number.

Nigel Hicks - Liberum - Analyst

All right, okay.

Brian Wallace - Ladbrokes Plc - Group Finance Director

[But sorry] Nigel, but whenever we look at our guidance, analysts forecast, because different analysts approach this High Roller situation differently, so most don't try and forecast, but some do. We always strip out the High Roller telephone number, and then look at the Group as is.

Nigel Hicks - Liberum - Analyst

Right, okay. My mistake. Can you just talk through on the machine gross win per week? It looks like it's flat-lining now, compared with the year so far in the first four months and the first half (inaudible).

Brian Wallace - Ladbrokes Plc - Group Finance Director

No, I think if you look at the number we gave in August from memory, and don't hold me to this, I think it was 676 (inaudible) or 677. So yes, it has been broadly flat. We're

obviously still trying to gross year-on-year. The key, which you'll quite rightly be alluding to, is where do we go from here? And again, we're not going to give guidance on this, but we would expect it to show some growth next year. That's all I will say.

Nigel Hicks - *Liberum - Analyst*

Alright, okay. Great, thank you very much.

David Jennings - *Davy Stockbrokers - Analyst*

Morning guys. Two quick questions please.

I was wondering, could you tell me what the over the counter gross win margins have been in the period, and how they differ between the UK and Ireland?

Chris Bell - *Ladbrokes Plc - CEO*

Well, let me just answer that as a principle. Obviously OTC margins in the UK are higher as a percentage than they are in Ireland, because the mix of business is completely different.

We have a much bigger proportion of football, for example, in the UK, which operates at a higher margin, than you do in Ireland. So there is quite a difference, even though in Ireland we do operate it in higher gross win OTC percentage than many of our competitors, because it's just the way that we run our businesses. So largely, they're the differences.

David Jennings - *Davy Stockbrokers - Analyst*

No, but sorry, can you just tell me what the absolute levels of over the counter gross win margins are?

Chris Bell - *Ladbrokes Plc - CEO*

No, because there's no point declaring those for short week periods. You'll get them at the end of the year, but otherwise we'd have to report everything every time we did one of these. I'm not hiding from them but it's just that we don't at this stage.

Patrick Hughes - *Citigroup - Analyst*

Yes, hi there.

I just wanted to follow up on the Hilton, based on your comments. Moody's has obviously put you -- your Ba2 rating on review for downgrade. How are your discussions going with them? Do you think you'll be able to convince them that it's a mature liability? But if they do downgrade, does that have any impact on pricing or anything on your banking facilities?

Brian Wallace - *Ladbrokes Plc - Group Finance Director*

It's Brian. I think I'm far too long in the tooth to predict how discussions with rating agencies will turn out. It's absolutely right that they must form their own view. What I would say is that when this issue came up with S&P they reviewed it, and then had

discussions with us, and we didn't lose anything at all. They were completely relaxed about it.

We're going to enter into similar discussions with Moody's, and clearly our own perspective is that we would like to get rid of the negative outlook. It is just reiterating again that the measurement, audited measurement of this liability is currently about GBP10m before we get the benefit of the HHC parental guarantee. So in pure numbers, it really is completely and utterly immaterial.

But I do understand why Moody's would want to look at it. As far as downgrades, whereas if they downgrade, not if they don't then has no bearing whatsoever on our cost of funding.

Patrick Hughes - Citigroup - Analyst

Thank you.

Chris Bell - Ladbrokes Plc - CEO

Okay, thank you very much everybody. Speak to you in February.

Brian Wallace - Ladbrokes Plc - Group Finance Director

Thank you.