Friday, 16 December 2011

Gala Coral Group Limited Annual Results 2011

Quarter 4 FY11

The key financial highlights in the 12 weeks ended 24 September 2011 were:

- Turnover of £249.0 million, 3% below last year, excluding the accounting effect of the removal of prize bingo.
- Group EBITDA (pre-exceptionals) of £55.0 million was £14.7 million lower than the prior year, mainly due to poor sports betting results in the quarter (against favourable results last year) and increased costs including VAT.
- The cash inflow for the quarter was £5.3 million, including the payment of £5.9 million in refinancing costs (total refinancing fees for the year were £41.0 million), £31.4 million to acquire fixed assets, which included the acquisition of two bingo clubs and a chain of thirty-one LBOs in the north-west of England, and receipt of £10.7 million from the sale of fixed assets.
- An impairment charge of £550.0 million against historic goodwill resulted in an operating loss of £537.8m (2010: £50.3m). This impairment represents a non-cash adjustment to the carrying value of intangible assets and does not have an impact on financial covenants.
- Continued positive trading momentum across all businesses, with encouraging trends carrying through into the start of the 2012 financial year.

Coral - Over the counter (OTC) amounts staked were 3% ahead of the prior year in total, and 1% ahead on a like-for-like basis. OTC margin of 14.9% was below the long term average, and 2.3% below the margin achieved in the fourth quarter of the prior year, primarily due to unfavourable football results. This resulted in OTC GW falling 11% below prior year. Gross win per machine was 2% ahead of the prior year at £870. Year on year cost increases including VAT also impacted EBITDA in the quarter, which reduced £11.6 million against last year.

Gala Bingo - Spend per head was 2% ahead of the prior year on admissions that were level. Overall gross profit was 4% ahead of the prior year. Bonus accruals and other cost increases resulted in fourth quarter EBITDA below that of the prior year by £1.9 million, however full year EBITDA was 5% up year on year. The acquisition of two bingo clubs was completed just prior to the year end. Both clubs enjoy high admissions and represent an excellent growth opportunity in the 2012 financial year.

Gala Casinos – Following a change in strategy to focus on higher value players in the second half of the year drop per head grew by 9% over prior year, with cash drop 2% ahead. A strong gaming margin of 17.1% resulted in year on year gross win growth of 6% in the quarter. However, increased investment in service delivery resulted in year in year EBITDA for the quarter being marginally down.

Remote Gambling – Turnover continues to fall below prior year levels, although recent trends in new depositors and active customer levels have been more positive. Tight margin and cost management resulted in growth in EBITDA (pre-exceptionals) of 16% over the same quarter in 2010.

Eurobet Italia - Sports betting amounts staked were 10% ahead of the prior year. However, adverse results in both European and English leagues led to the gross win margin falling below expected

levels, leading to a reduction in EBITDA of £1.5 million against the same quarter in 2010. An enhanced range of online gaming was finally permitted to launch in the final two months of the financial year. Early market share has been ahead of management expectations, although the size of the market is below projections.

Full year ended 24 September 2011

The key financial highlights for the Group for the year ended 24 September 2011 were:

- Turnover of £1,117.0 million, 2% below last year excluding the 2010 World Cup and the accounting effect of the removal of prize bingo (which has no gross profit impact)
- Group EBITDA (pre-exceptionals) of £261.0 million, 8% lower year on year on an underlying basis
- Unlevered cashflow of £230.1 million
    - 88% cash conversion
    - Cash outflow of £118.7 million, including the net repayment of £190.1 million of senior debt and refinancing costs of £41.0 million
- Year-end net debt of £1,323.0 million for covenant purposes.

The main drivers of the underlying EBITDA reduction were a poor OTC performance and increased costs in Coral, and a decline in Remote. The second half of the year saw a return to growth in OTC stakes, although margins have remained below the long term average. Cost increases in the Coral business were primarily driven by estate growth and property and content costs. Remote remains limited by uncompetitive technology, although trends in active customers were materially improved in H2. The project to re-platform all websites onto Playtech software is well progressed, with a re-launch of the new sites planned for spring and summer of 2012.

Current Trading

Trading to date in FY12 has been encouraging. Coral OTC amounts staked after two periods are 9% ahead of prior year levels, although poor results continue to impact margin such that gross profit is below the prior year. Machines have shown strong growth on the back of increased new content and improved margins, with gross win per machine per week currently averaging £945 in period 2. Gala Bingo has delivered strong growth in spend per head and gross profit, and EBITDA continues to outperform the prior year. Gala Casinos cash drop is 2% ahead of the prior year, with continued strong margins. Remote continues to trade below prior year levels, with EBITDA also impacted by increased costs associated with putting the new operational teams in place to support the re-launches in 2012. However, positive trends in the number of active customers have continued. Italy's EBITDA is significantly ahead of prior year levels due to very poor sports results at the start of the 2010 financial year.

Overall gross profit is in line with prior year levels. EBITDA is currently in line with management forecasts, but behind prior year levels as a result of increased year on year costs, including VAT. Management remains confident of a return to year on year growth in Q2/3.

Forward Looking Statements

This press release may include forward looking statements. All statements other than statements of historical facts included in this presentation, including those regarding Gala Coral's financial position, business and acquisition strategy, plans and objectives of management for future operations are forward looking statements. Such forward looking statements involve known and unkown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Gala Coral, or industry results, to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements.

Such forward looking statements are based on numerous assumptions regarding Gala Coral's present and future business strategies and the environment in which Gala Coral will operate in the future. Many factors could cause Gala Coral's actual results, performance or achievements to differ materially from those in the forward looking statements. Forward looking statements should, therefore, be construted in light of such risk factors and undue reliance should not be placed on forward looking statements. These forward-looking statements speak only as of the date of this press release. Gala Coral expressly disclaiims any obligations or undertaking, except as required by applicable law and applicable regulations to release publicly any updates or revisions to any forward looking statement contained herein to reflect any change in Gala Coral's expectations with regard thereto or any changes in events, conditions or circumstances on which any such statement is based.

Notice

The accounts for the 12 weeks ended 24 September 2011 and the full year ended 24 September 2011 have been prepared at the level of Gala Coral Group Limited. From a profit and loss account perspective, the difference between accounts consolidated at Gala Coral Group Limited and those at Gala Electric Casinos plc is an immaterial amount of group interest payable. The differences between balance sheets consolidated at Gala Coral Group Limited and Gala Electric Casinos plc are an immaterial difference in net assets relating to the amount due in respect of subordinated group debt and immaterial classification differences in capital and reserves.