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EDITED TRANSCRIPT

LAD.L - Half Year 2016 Ladbrokes PLC Earnings Call

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PRESENTATION

John Kelly *- Ladbrokes PLC - Chairman*

Good morning, everybody and welcome. Thank you for coming. Welcome to the Ladbrokes interim results presentation for the six months up until the end of June.

Just over a year ago, Jim Mullen introduced both our planned merger and his action plan for building a better Ladbrokes. In unveiling his plan to build a better Ladbrokes, Jim asked you to understand that he needed to cut back on profits and the dividend to help much funded -- much needed investment in the business. He outlined the key pillars of his growth strategy, set clear longer-term targets and set about winning back the recreational customer to the most recognized brand in the market.

The results today show that, on every key customer metric outlined 12 months ago, Jim and his team have made significant progress. The operational focus and improvements made in the last year have begun to draw recreational customers back to Ladbrokes.

We've seen good underlying performance and the plan has delivered staking growth, which is one of the key KPIs in this business, despite the higher-than-average margins. The actions taken by the business have been well received by the customer and the execution of the plan remains the focus of our management team.

Jim gave the Ladbrokes team a clear vision for what was needed and they have responded. We always believed in the talent we had and these results show that confidence was well placed.

The encouraging customer metrics allied to general bookmaker-friendly results mean we're in a position today where we are slightly ahead of our expectations. It's been some while since a chairman of Ladbrokes has been in this position but I and my Board are not getting carried away.

Results have played a part, but you all know Jim well enough to know that he has a fatalistic view on results; they will turn. This prudence is supported by the Board.

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Before I hand over to Jim I should take this opportunity to update you if I could, please, on the merger.

We received welcome news last week and the confirmation of the CMA's final conclusions. It's now set before us a clear timetable to completion. We're already out there talking to potential interested parties for the shops that need to be divested. We hope to complete or largely complete a sale over the summer with a view to merging at some point in the Autumn.

That would then lead to a period of heavy lifting, where we would aim to undertake the majority of the integration activities almost immediately so that we can give certainty to our people and start to build the new business.

Key in this period will be the need to ensure the focus on integration should not be at the expense of business as usual and that we hit the ground running in utilizing what will be our suite of household names with a scale and efficiency of our merged operations.

It's our aim that we would have most of this work done by the end of Q1 2017 at the latest, with some of the projected benefits coming through somewhat earlier.

The Board remain excited by the opportunities offered by the merger, but we are aware that the challenge of bringing together two businesses is not to be underestimated. However, we have a plan and we have the talent to minimize disruption. It is something we will be vigilant on and determined to avoid.

So one year on from Jim first standing up and talking about the opportunities he saw for the business, we're encouraged by the significant progress made in building a better Ladbrokes and in progressing the merger.

With that, I will now pass you over to Jim and Richard. They'll take you through the numbers and answer any questions that you may have following the presentation. Thank you.

Jim Mullen - *Ladbrokes PLC - CEO*

Thank you, John. Good morning, everybody. As John has just said, I am pleased today that we are reporting a business moving faster than originally planned. Customers are responding to the actions we are taking and profits are following. The Ladbrokes brand has always been recognized, but now it's becoming a favored one.

We have undoubtedly been helped by results which, on the whole, have been bookie-friendly, although Cheltenham and Ascot were not times to be enjoyed as our satchels were seriously assaulted. But to focus on these would be to misrepresent the year.

As margins are ahead of expectations for the first six months and the Euros delivered a margin of 28.5% for retail and just over 22% for digital. Now some of you may say that this is just luck, but I would say that it's a statistical blip. And those of you who have been listening to me before will have heard me say that in the long term the probability curve will always return to the norm. As we say, things will even out.

So I echo John's comments that in looking ahead for the rest of the year, we should be prudent about what results will do. That said, traditionally, in the past, when margins have been favorable the industry struggles to deliver staking growth. But in these six months we have grown staking as our investment in the business through product improvements and promotions have delivered us more recreational customers. Things are encouraging and we are pleased with our progress. And we have the exciting opportunities offered by the merger to look forward to.

But, and I'm not going to apologize for this, we are not getting carried away. There does remain much to do.

Now this slide needs no introduction as it's the basis of the strategy as I laid out last July, and it is what the 14,000 colleagues of Ladbrokes set out to deliver every single day. The key was to attract the recreational customer so that we could grow our retail and dotcom customer base and convert the power of our retail estate into a multichannel offer, all the while building the success that we are seeing in Australia.

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Underpinning all of this was a commitment that health and safety and responsible gambling were to be non-negotiables in how we ran and executed our business. And also important to me when I spoke last year was the need to set clear metrics to be judged against and break away from the cycle of short-term fixes taking priority over long-term achievements.

So how are we doing? Showing progress for the first six months probably clouds the picture slightly. Margins have been favorable and may well even out in the second half. And crucially the results include a Euros tournament, when next year there will no major summer sporting event to boost our numbers. However, we still actually remain encouraged. Three targets are ahead and digital is making good progress towards being 30% of Group net revenue.

The challenge on all the targets is to keep this momentum going for the next 18 months. So with a first-half performance and the opportunity on the horizon of the merger, you will understand why I'm pleased with where we are, the opportunities ahead and the position we are in.

I'll take you through some of the detail of the last six months that underpin my confidence in the business shortly. But first, I'll hand you over to Richard Snow, our Chief Financial Officer, to take you through the numbers in more detail. Richard.

Richard Snow - *Ladbrokes PLC - CFO*

Thank you, Jim, and good morning, everyone. H1 2016 was the Group's third and fourth quarter after launching our new strategy in July 2015. And I'm pleased to report that net revenue has grown by 13.1% as our increased marketing, strong products, coupled with favorable results have come together to deliver growth across all our key areas of focus.

Looking on this page at the Group's full profit and loss account for H1, Group EBIT was up 34% to GBP52.3 million, ahead of our expectations in February. Finance costs reduced, reflecting the benefit of the 2015 share placing and GBP35 million of cash tax receipts from the action we took last year. Our underlying rate in H1 was around 12% and for the full year is expected to be broadly in line with our guidance of mid teens.

EPS increased by 41.7% and we've announced an interim dividend of 1p per share, in line with our policy. Net debt has fallen substantially and I'll discuss the factors behind this a little later.

Let's move on to operating profit, which increased by 34% year on year. As you can see, all of our major operating divisions showed a material improvement year on year. And although it's difficult to be precise, of this outperformance looking across the entire Group, favorable results in H1 probably accounted for GBP8 million, maybe GBP9 million at an EBIT level. You can see that our underlying performance was ahead too.

Corporate costs were a little lower than H1 2015, as we planned, because H1 2015 carried the costs of the central international team which has since been closed.

So let's look at the financial performance of our key operations, starting with UK retail. Despite the worst Cheltenham in living memory and the headwinds of increased MGD, UK Retail has had a strong half year and delivered a result ahead of our internal expectation. OTC stakes were flat year on year but up 1.3% on a like-for-like basis. Within OTC, BetStation performance was strong and they now account for 14% of gross win, with about 87% of that coming from football, our key focus for growth in UK retail.

OTC gross win margin was 17.4%, up 1.4 percentage points on the back of strong football and the Euros, which, in UK retail, generated GBP7.8 million of net revenue in H1.

Now normally significant increases and gross win margin year on year do not result in increased staking. However, this is what the UK retail team has delivered and delivered now for three quarter since we launched the new strategy. We don't yet have all the data, but it does look like we're gaining OTC market share.

Our content-led machine strategy continues to deliver growth and we also benefited in H1 from the weaker comparative due to the launch of the GBP50 journey, which you are all familiar with, which was done last July.

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Revenue taxes increased GBP9.3 million year-on-year, reflecting the increased average rate of MGD and partly and understandably due to revenue outperformance. Operating costs rates slightly higher than the 3% guidance we gave you in February and I'll go through that in some more detail in a moment.

First looking at revenue in UK retail, at our per-shop revenue performance and machines growth. As Jim said a moment ago, in July he set a public target for Ladbrokes delivering higher net revenue and PBIT per shop in FY17 than in FY14. The top chart shows the progress we've made with this target in H1, where we delivered GBP201,000 per shop, well ahead of the levels achieved, as you can see, in the past three or four years.

But we saw strong margins in H1 so I've normalized this performance back to those we saw in H2 2015, 16.4%. And on that basis you can see a revenue per shop at GBP196,000 is still 10% higher than the levels we achieved throughout the 2012-to-2014 period, so good progress in UK retail.

Looking at the lower half page on machines, you can see the strong performance and the benefit of the weaker Q2 comparable I mentioned earlier. Our machine strategy overall has delivered slightly ahead of our plans and H2 has started well. Accordingly, we now expect machine revenue growth of 4% to 5% for the current financial year, up from our guidance of low single digits in February.

Lastly, let me look at costs in UK retail. In February, as I said, we guided you to 3% increases in costs in the UK retail business for FY16. This reflected our plans and of course the national living wage and the move to voluntary single scheduling. However, with stronger outperformance in multichannel, BetStations and machines, marketing of revenue share payments will be higher than we expected in February and we've also increased our bonus provision in UK retail as they're ahead of their targets.

Add to this some refinement about our plans for voluntary single scheduling and we now see costs in the UK rising 4% to 5% in the full year 2016, having risen 3.8% in H1. Please note that much of this cost is variable and driven by growth. So if revenue weakens and, in the UK team, if plans are not delivered, much of this cost is not incurred.

Now turning to digital. After the strong performance in Q1, it was good to see trends in customer acquisition staking and actives continue into into Q2. Total digital NGR was up 41% to GBP158.1 million, with strong performance in Ladbrokes.com and Australia.

Looking first at Ladbrokes.com. Sportsbook NGR grew by GBP23.8 million or 69% year on year, and this was driven by Sportsbook actives up 38%, staking up 30% adjusted for the HVC impact last year. And of course, Sportsbook margin at 7.7% was up 1.4 percentage points, driven again by football.

Gaming revenue increased GBP11.6 million or 27% supported by actives growth of 48%. And this in a period where we've implemented all the regulatory changes required by the Gambling Commission and further reduced our exposure to HVC play.

Let's look at the profit performance in Ladbrokes.com and Exchanges. As you can see on this chart, Ladbrokes.com and Exchanges has improved its bottom line by about GBP1.4 million, and that is at the same time making a significant investment in marketing, where we increased our spend by GBP18.4 million year on year. Revenues net of tax and variable costs more than funded this increased spend. And fixed costs, which have increased by GBP4 million, have done so primarily as a result of investing in streaming, content, staff costs, where we're investing in skills to improve products and customer experience.

Marketing as a percentage of NGR was 35% in H1. Please remember this year we phased marketing towards Q2 for the Euros and H2 marketing intensity may well be a little lower than that.

Okay, Australia. In Australia we increased marketing to 32% of NGR, which, combined with continued product innovation, has generated another half year of strong growth in actives, staking and revenue. There's not much one can add to a set of figures like these, so perhaps the target outlined in the strategy in July of more than doubling NGR in FY17 versus FY14 looks to be on track to be delivered, and perhaps delivered earlier. Operating profit is low single digits, as we expected.

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Finally, let me just look at some of the points on European retail. In Belgium, our investment in SSBTs and virtual products generated a 14% increase in staking and an 18% increase in revenue, showing the popularity of those products, the Belgium customer base.

In the Republic of Ireland, post examinership, it was good to see them post a profit and also generate like-for-like staking growth of 9.7% as we pursue a more aggressive promotion-led strategy for our customers.

Sportium in retail has now risen to just under 1,700 outlets, up from [GBP1,500] at the end of last year. And NGR there has grown by 39%. We launched in three smaller regions during the half year and we continue to invest aggressively in growth in the launched regions. This ongoing investment means Spain will run at small operating losses for the time being.

Okay. Let me return back to cash flow, net debt and exceptional items. In a period focused on investment in the business and significantly increased marketing spend, it was good to see us convert higher profitability into a GBP77 million reduction in net debt, assisted of course by the cash tax inflow of GBP35 million. Dividends are comfortably covered and the balance sheet is at a good place, with net debt to EBITDA at 1.3 times.

Please don't forget when modeling our interest charge for the remainder of this year, that our balance sheet is funded by two bonds, with an average interest rate cost of 7%. And obviously the significant cash balance we have is generating very little yield. Therefore ignoring the merger, our effective interest rate will remain high until we refinance the GBP225 million bond in Q1 next year. Exceptional items of GBP14.5 million are primarily deal and merger planning costs, as you would expect.

On slide 18, I've updated the various bits of technical guidance we give you, most of which I've covered already. Remember this is for the standalone Ladbrokes Group and does not assume or take into account the benefits of the merger. And importantly, and in case it was not already clear to you, given the strength of the results in H1 and our outperformance, the 40/60 split we gave you in February around operating profits H1/H2 split is obviously no longer applicable.

So in summary, Ladbrokes is well set as we now look forward to getting the merger over the line. We're generating strong returns and growth from our investment in marketing and products. Cash generation has been good and the balance sheet is strong. And the current level of dividend is well covered.

H2 started much like H1 did. Net revenue for the five weeks to August 2 is up 14.5% on the comparable period last your, benefiting from a strong finish in football with the Euros and once again hugely customer-friendly results working against us in the festivals at Goodwood and Galway. I should also say that at this stage we have seen no evidence of any impact on customer behavior from the EU referendum at the end of June.

So based on our strong H1 performance, we have slightly increased our expectations for the current financial year. Remember this is a year of investment in recreational growth and we may well choose to invest in incremental marketing where returns justify this as we focus on delivering the business in good shape for 2017. I should also remind you that results in H1 were strong and results will, at some point, normalize.

Thank you for listening, and now back to Jim.

Jim Mullen - *Ladbrokes PLC - CEO*

Thank you, Richard. Now I'd like to give you a quick overview of how our plan to rebuild the business and make ourselves relevant to the recreational customer has helped drive the results that you're seeing today.

So let's look at retail. The results are a stark reminder that shops are far from a dead or dying activity for the British public. While some continue to call shops outdated and a thing of the past, millions of customers are continuing to use them and enjoy the offer.

With our recent leading multichannel performance, we are proving that with the right product and platform and with 13,000 motivated retail colleagues, essentially a small army, we are the leading example of how retail and digital can work together, particularly in a transactional consumer business like ours.

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Our shops not only remain a relevant and important force, but we have redefined their purpose when looking at our performance and future opportunities. Now that's not to say that this is not without challenges to stay safe, relevant and profitable, as Richard has previously highlighted. However, the attractiveness of retail remains. True retail scale provides us with huge opportunities, which we are now beginning to realize.

We set about on our strategy to attract the recreational customer, learning that important lesson handed to me by a shop manager 20-odd years ago that in a successful shop you could not build it around a few wealthy local businessmen. It needed the smaller staking and therefore less volatile clientele to build a solid and continuous base.

So 2016 has seen continued investment in the brands. Its presence in key media continues to be high. And through the use of ambassadors like Frankie Dettori, Kammy and Ally McCoist, we continue to seek the appeal of our recreational customer base.

Football has continued to be at the forefront of our efforts. And we have been consistent in our pricing and promotion to ensure customers build a relationship with us. As part of the football push, we took a big decision on the adoption and growth of the self-service betting terminal as a product. We have been very successful. And now rebranded by our own colleagues as BetStation, they still continue to appeal.

The power of a shop front door, which I spoke about before, is our largest and most valuable affiliate tool, providing a steady stream of sports-loving and Ladbrokes-friendly potential online players shows no sign of being diminished. And our machine estate continues to benefit from a focus on lower-staking games.

All of these initiatives mean that on a like-for-like basis we have seen no decline in our UK Retail staking. And this is despite the margin performance which we would normally have expected to take a toll on customer wagering.

They say that imitation is the sincerest form of flattery and so I am flattered that much of our plan is now being seen across the UK High Street. Not only does it suggest that we are doing something right, but it means that the wider retail environment is kept fresh and competitive. And we welcome it; it keeps us on our toes.

Ladies and gentlemen, since I've locked you in this room, I am once again going to tell you that retail has a promising and bright future.

Football has been a key product in our drive for growth. In the half we have invested more in visible press advertising and offers, and that provides a compelling reason to come into our shops around the football product.

We have supported that through the SPFL sponsorship. And I'm delighted to say that we recently became the official partner and bookmaker of the Football Association. These have contributed to an increase in staking year on year for the football season of 15% and gross win, which I'm delighted by, 38%. These exclude the Euros, and I'll touch on these later.

We have of course benefited from the unpredictably of the football season, the Leicester City success story, the travails of Chelsea and Manchester United, the collapse of Tottenham at the end of the season and the ongoing inconsistency of Arsenal. That may make fans hearts ache, but as a betting proposition it creates excitement and buzz and, to be frank, it's good for business.

It helps explains why, despite the favorable results, we have grown in the football business. Including the Euros, football accounted for 19% of our retail business in H1, up 4 percentage points year on year. And I have to say, going off script, that I'm delighted since the strategy was based on building that football product and position.

Now BetStations, formerly known as SSBTs, have continued their rise into a staple of UK betting culture. We took the market leadership position in numerical terms. And as we saw, it was pivotal to delivering the whole football offer. Our customer research told us that accumulator bets via a screen device were attractive to a younger male demographic, exactly the demographic we need back in our retail shops.

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The appeal is obvious, so where else can you make your own multiple and pick Panama, Argentina and Greece, Bosnia and Canada to win and both teams to score, stick on a fiver and win GBP74,000, as one of our customers did recently. So I'm not going to stand here and say that all of our big brains ran the models that got us to this strategy decision; it was down to big ears and we simply just listened to our customers.

We have regularly recorded GBP3 million and GBP4 million weeks. And as you can see, we have generated significant increases in BetStation staking per shop per week. BetStations are most commonly used for multiple bets. And despite my highlighting the large payout to show their appeal, they ultimately drive a higher margin for our retail business.

Our data still suggests that the staking growth of BetStation is generating circa 30% of incremental business. But our competitors have not stood still. More SSBTs are appearing, as are newer versions, and we have to respond. We have already begun to tweak the onscreen presentation and promotion. And we have begun to introduce new sports and markets to our coverage, with horse racing recently being rolled out, and I'll give you more on that later in the year.

In multichannel, our UK retail team have basically knocked it straight out of the park and hit target after target. Internally we thought we were being ambitious in looking for 100,000 customers, and yet we are already above that at Ladbrokes.

It has been a fantastic year seeing the response of my retail colleagues across the UK in selling and getting people to engage in this digital product. And it is clear to us that this is the experience others in the industry have seen, that our retail shops and our retail colleagues are the most effective sales people for our digital product and the value and offer that that can bring.

Over 9,000 colleagues have been rewarded so far, with over 170 individuals earning an extra GBP1,000 for their hard work. Now this is important because not only is the cost of the signup fee a fraction of that paid to our usual affiliates, but it builds a digital awareness in our retail teams and it creates a multichannel view internally, which can only help our culture in the future. This is a genuine cultural change within the Firm.

We believe the multichannel initiative is also key in attracting the recreational customer. They tend to be dominated by the younger and more sports-orientated demographic, who demonstrate longer retention in Ladbrokes than a pure dotcom player. They are more valuable and their margins are higher.

As part of our Project Nelson, the multichannel product set is based on delivering real innovation into our retail estate. So while we have matched the market in deposit and withdrawal in shops, we've delivered innovative product to enhance the customer experience. We've extended bet tracking to horse racing, greyhound and Lottos, and we've also made things much faster and simpler. Features like the Betslip Tracker continue to be popular, with over 2.8 million checks so far. And our aim is to look for a more customer-driven product.

Looking forward to the next six months, we will be integrating our customer product into BetStation also and to gaming machines. Project Nelson has delivered its objectives of integrating our digital product into our retail estate. And the signups, actives and NGR are coming through ahead of targets.

It's also delivered the required cultural change within Ladbrokes of uniting and integrating the retail and the digital business. I would like to thank the Project Nelson team for a job well done and it's now time to continue and drive a multichannel thinking and to continue to deliver and operate the most innovative and integrated retail offering in the sector.

In machines, we have continued to pursue our strategy started 12 months ago of utilizing our modern cabinet estate and improving the content of our machines offering, with a particular focus on slots to encourage customer play, particularly in a lower-staking product. This strategy allied to the introduction of the GBP50 stake journey has meant that over 90% of machine gross win now comes from stakes at or below GBP50. And circa 40% of gross win comes from lower-staking slots and B3. Please note my point and importance of recreational customers.

The drive for better and more engaging content has gone hand in hand with our responsible gambling commitment. Along with industry, we have implemented new mandatory alerts at 20 minutes and GBP150. And our responsible gambling team in Gateshead has grown as we further refine our algorithms. We have recently had them independently reviewed, with further improvements to be made.

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We have also started to roll out a multichannel view of our customer, with our team looking across customers' play online, over the counter and machines. This work will continue to develop and we've already begun to look at what we can do further to interact with those customers who prefer to play anonymously.

In H1 this year, we have grown somewhat faster in machines than we expected, driven by the activity already outlined. We don't believe that we are driving new machine customers but that we are probably gaining market share from others.

Finally I'd like to point to a few stats on customer behavior, which are there to ensure that while opponents will point to extremes, the average customer experience is nothing like that you may hear or read.

Now let's have a look at Ladbrokes.com and the drive for digital growth. As we stated last year, the key to growth would be positive customer metrics and then profits would follow. So it's pleasing to stand here today and say we have had a record six months. Again results have been helpful but the customer metrics have remained strong and that is why I am encouraged.

In the past, the focus on days like this would be of a need to build a new product platform and other significant developments to seek parity with the market. Indeed, when I joined the business just under three years ago, my task was to improve the product. But now as Chief Executive, my task is to get that product in front to as many customers as often as we can.

The difference being that Project Nelson has given us a product on desktop, tablet and mobile that is as competitive, if not better than the market. What we have been doing in the last year is continuing to innovate and invest in marketing to drive growth and, as the results show, the customer is responding.

Ladbrokes.com is about incremental improvements and products. It's about a targeted focus on investment and marketing. And it's about improving operational performance, minimizing disruption and again, most importantly, being customer-driven and not technology-obsessed. And now we have a product that is putting the customer first.

Sportsbook is the digital home of the recreational customer. And it's pleasing to report a 10th consecutive quarter of staking growth, which many of you will know is, for me at least, the key measurement of customer engagement. Across all my key metrics on the screen, you can see that we are growing. And I remain of the belief that we are attracting more customers to the Ladbrokes brand, keeping them longer and getting more share from them.

Even outside of mobile, we have seen encouraging metrics in a declining desktop sector. And it has given us confidence that our strategy is the correct one. We have invested heavily in marketing, but also streamed more content than before. And outside of football and racing, we've actually seen growth in other sports too.

It's particularly pleasing for me, this aspect of the performance, because as I said in February that this has been driven by an effective and efficient marketing program, which continues to deliver the right sort of customer at the right sort of price.

In gaming the strategy is similar. In the past we have had good results, with HVC activity sometimes taking the shine off the quarter. Now while we still have high-value customers, we have consciously looked to attract more recreational players. Similar to our machine strategy, we have built our growth on investing in new games. And over the last month we have delivered 20 on average, and ensuring the appeal to all the players, particularly those in the growing mobile sector.

We are of course aided by Ladbrokes Israel's expertise. And it's no accident that the gaming turnaround at Ladbrokes really started when we completed the IMS migration during the second quarter of 2014.

In Ladbrokes.com, I set the digital team the challenge in January to build on the growth rates we were seeing towards the end of 2015, where we ended Q4 up over 25%, and keep the momentum strong, as we had in the business. I'm pleased to say that Nick and his team have delivered and the new challenge is now to continue for the rest of the year.

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Turning to Australia, where the business continues to grow from strength to strength, although, like the UK, sometimes the story is obscured by the regulatory complexity and activity which crops up every so often. There remains little to say about Australia that is new. The team over there continue to focus on building the brand and making Ladbrokes stand out.

For instance, while the market generally follows the money-back principle if you lose, we offer you more money with odds boost, so if you win, your odds will be boosted, which 80% of our daily customers' use. We put the customer at the heart of the business. We develop products like InfoHub to keep them loyal. And innovation is in Dean and the team's blood there. It's working. Brand awareness is up. Staking is up. Actives are up. And NGR is up. This business continues to grow.

Now briefly we'll look at our European operations. Belgium continues to see success based on a differentiated product focus, with virtuals and a consistent SSBT strategy proving popular and helping taking us away from the mature and declining horse racing product in that market. Although virtual still face a regulatory threat, we are confident that this will not materialize this year.

In the Republic of Ireland, we have returned to profitability. The examinership process last year has left us with a more agile business, able to compete hard on local value and win. And we are able to look forward with a degree of confidence that has, in the past, been difficult to envisage.

Sportium continues to expand its presence and delivering encouraging growth once established in a region. Our plans remain to expand within the regulation, but with a focus on driving profit from the more established regions. The digital business there is very much on track and is generating good growth.

So in February I tried to bring to life the difference we felt in the business by comparing our Boxing Day performance from 2014 to 2015 and with the four Saturdays of January 2016 against 2015 as well. So what does our business look like if we do it again with the half just completed?

Now it's not in my nature to compare the performance of this summer against the far distant 2012. But it does simply show how far the Company has travelled. I am sure that some of you may think that, particularly in the dotcom comparison, it may be too easy. I'm tempted to agree, but I'll come on to that later. But in retail, 2012 performed well and the retail like-for-like would suggest that we're doing something right and that our focus on football, BetStations and the recreational customer is bearing fruit.

If we then move to look at the last four Saturdays of the EPL a year apart, again take heart from the customer metrics. All customer metrics are performing well and at a time when results are very much in our favor, providing evidence of winning more recreational customers both online and through the retail door and of the loyalty and enjoyment of our new product set.

So in summary, while we stand on the cusp of the excitement of the merger and the opportunity that it offers, Ladbrokes is now much more than a business living on the glory of its highly recognized brand. It's beginning to have a feel of real relevance with our customers and gradually winning back its pride and belief. However we know that momentum can be fragile so nothing has been taken for granted.

As Richard has said, we will continue to invest in marketing because we can see the benefits coming through. We will continue to focus on the customer and delivery of what they want and not what our boffins tell us they can deliver. And we will continue to seek to grow our customer metrics because that will drive long-term sustainable profits.

We are still a business in transition, but one that is heading in a positive direction. We have an offer that is once again highly relevant to our recreational customer base and the customer is responding. We don't take anything for granted, but we do take heart from the progress so far and opportunities that lie ahead.

Thank you very much.

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QUESTIONS AND ANSWERS

Richard Snow - *Ladbrokes PLC - CFO*

Yes. We're open for questions. Ivor?

Ivor Jones - *Peel Hunt - Analyst*

Morning. Thank you. Ivor Jones from Peel Hunt. Looking at Coral's half-year numbers, I know we're not comparing the same time period, but on a number of measures you've outperformed and in terms of profit you could argue you've almost caught up. Why is it going to be a good thing to have a much bigger business? How is that going to still be a fast growing thing? Why should we still be excited about there being a much bigger online business in Ladbrokes and Coral? How will you run it so it can still be fast-growing, although bigger and not diluted by adding Coral?

And then on a narrower point, you talked about marketing being irrational around some race meetings. But you and your competitors have never yet, I think, talked about that in relation to football marketing, but that's where all your effort is going. So should we worry that that's coming in the future, where there will be football events where you simply can't invest in marketing because the returns won't be adequate? Thank you.

Jim Mullen - *Ladbrokes PLC - CEO*

Thanks, Ivor. Just on the Coral point, I think that if you look at our multichannel strategy, I think that even Coral were first to market with that, and credit to them for getting there. They have an excellent product. I think we came about six or seven months behind them.

I am delighted that both the thinking of the management teams at Ladbrokes and Coral is the same, is that you have this significant distribution network and the economics of basically understanding the sports customers in the retail environment are between 1.7 and 2.4 more valuable. And I think that will be maintained, particularly if you have the view that the retail estate is still attractive to the customers.

So the main reason why that scale gives us the hope that we can continue with that is because both Coral and ourselves are delivering. Actually I think their numbers are slightly higher than ours, but we saw a significant growth rate. So the scale of the retail business in Ladbrokes and Coral is particularly strong.

The other thing about the business, I think we're entirely complementary. Coral have, as well as us, a fantastic gaming, but also a significant online bingo business. Not a lot of people speak about the female pound, but there are women out there who like to bet and bingo's their main product. That brings a fantastic product to our portfolio. So I think with a management strategy that's aligned and our comparable product portfolio, I think it augurs well for the future.

Marketing football's a good question. Yes, it may happen, but it won't happen with us. It will not happen with us. I think we have shown in the last six months that if we run a book the way it should be run, with a managed over round and a trading margin that's sustainable, then over the longer term your customers will be attractive for the consistent offer. I think it's also clear to note that since the Cheltenham customer-friendly odds and trading strategy, they went back to normal platform.

If that does happen in football, it won't be happening at Ladbrokes. We'll continue to manage our book appropriately. And we hope and the last six months show that customers like a consistent product offer.

Vaughan Lewis - *Morgan Stanley - Analyst*

Hi. Vaughan Lewis from Morgan Stanley. First one on online. The customer number growth obviously very strong. Can you comment on how the lifetime values are playing out versus your models and expectations? And what gives you confidence to continue increasing the marketing given that it's still loss-making?

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Secondly on the multichannel customers, of those 100,000, how many are new to online or how many were existing customers and how should we think about that? And then related to that, I think you said the staff costs were up because of that. But surely those costs are paid by digital because that's a marketing cost.

And then thirdly on Belgium, what's going on with VAT and what could be the impact of that, please?

Jim Mullen - *Ladbrokes PLC - CEO*

Well, Richard, do you want to the LTV and I'll take the last three points?

Richard Snow - *Ladbrokes PLC - CFO*

Yes, certainly. The LTV, I won't give you the specific number, but I was chatting with Nick this morning about it. Looking at the recent acquisitions and adjusting for margins, but not putting something back for higher staking, the cohort of customers we've acquired in the last quarter have been more valuable than those we've seen before. So we're looking at the activity. So we've been pretty happy with it.

CPAs have risen a little bit, but lower than any sense of the increase in value we've seen. But I'm not going to give you the percentage elements of, but it helps us justify that we don't think we're overheating our marketing spend at this stage.

Jim Mullen - *Ladbrokes PLC - CEO*

Vaughan, on multichannel, what I will say, I'll give you a direction and I'll give you one number. The vast majority of the multichannel customers were new to Ladbrokes. Okay? The vast majority. But the retention rate of those customers on multichannel is 65%, which we have never seen in our gaming environment, which shows you if they're coming in, they're already prequalified.

Now part of that 65% are engaging via retail, but they are still cashing out and using their Grid cards, so we're encouraged that the multichannel product is working.

With regard to where the cost is allocated, I actually think it's right that it should be allocated in retail, because it's the retail staff who are managing these customers. And because a significant number of those multichannel customers are coming back into the shop, we are seeing an uptake in stakes. Now I'm not going to give you what that uplift will be, but they're also still using their card and still betting on the products that they used to bet on. So it's a cost that I think sits -- it does sit there. I think it is where it should sit.

I think the biggest point to make is credit to Lee in the retail team for seeing the benefits that returning multichannel customers can bring to their estate.

VAT in Belgium. The Belgium team have done a terrific job. We have a very close relationship with the Belgian Government. I recently met their Finance Minister with the most recent tax scare there. They know that we are committed to the Belgian High Street. Also we have a number of franchisees, so they look favorably upon us with regard to VAT and tax and regulatory position. The only real concern I have with Belgium is the virtuals, but shouldn't be a worry for this year at least.

Alistair Ross - *Investec - Analyst*

Hi. Alistair Ross from Investec. Just three from me. Just in terms of self-exclusion timeouts, obviously we've seen a huge impact there for William Hill. There is clearly zero impact for you guys given the growth in actives. Can you just comment on that?

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And then CapEx guidance GBP90 million to GBP95 million, GBP32 million for the first half. Payable seems to have gone up roughly GBP50 million. Just wondering if there's any CapEx within that payables number, in other words CapEx for H1 in terms of actual CapEx spend that's gone through payables?

And then lastly, marketing as a percentage of NGR, obviously you alluded to a lower rate in the second half from 35%. If you could just, I don't know, give us some clarity on that, if possible.

Jim Mullen - *Ladbrokes PLC - CEO*

Okay. Well I'll take the self-exclusion timeouts. It's quite a brief question. We planned it in to our model in Q4 last year when we launched, so it was already built into the numbers that you see there. It has had an impact, but it's completely planned and absorbed into the current numbers. I know that it's quite a relevant conversation to have of what's going on in the sector, but we have no concerns that we got the numbers wrong on the timeouts and the self-exclusions. Okay?

Richard, do you want to take CapEx?

Richard Snow - *Ladbrokes PLC - CFO*

Yes. In terms of the payables movement, which is what you're really focusing on, and if you look you see the benefit in the free cash flow statement, a whole mix of things. There's a GBP25 million movement broadly in working capital favorable. Duty is higher rate of MGD growth of the business. The payroll is higher because we now pay on lunar pay and it varies depending on where that four-week cycle is relative to the period end. Marketing is bigger. You've seen a very big increase in marketing, so the accrual for that's bigger.

I think technically the CapEx credit is up by GBP4 million. And snehal here has told me that, but it's a small part of the move. It's really to do with the growth of the business.

Alistair Ross - *Investec - Analyst*

So are you still expecting to spend that amount in H2?

Richard Snow - *Ladbrokes PLC - CFO*

We still have plans to spend that in H2, yes.

And then finally in terms of marketing, we gave you guidance on page 18, quite broad guidance, circa 30% we said, and that's plus or minus but where I expect it will be.

Brian Davis - *Goodbody - Analyst*

Morning, guys. Brian Davis from Goodbody. Just three questions from me. Just on retail cost guidance, Richard, could you give us some clarification, is that a like-for-like growth number, the 4% to 5% for the full year?

And then on this the contract with Sky Sports, when does that expire and will it be renewed beyond that?

And then lastly, on Australia, I noticed gross win margins were up in the period but Tabcorp overnight said the opposite and results were quite customer-friendly. So if you could just give us some color on that. Thanks.

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Richard Snow - *Ladbrokes PLC - CFO*

Okay. So in terms of like-for-like, no, we just guide you on the actuals. So there may be some impact in terms of shop closures, and obviously the complication of any disposal comes around the CMA process. This is all standalone.

Jim Mullen - *Ladbrokes PLC - CEO*

With Sky, I've said before, Brian, I wouldn't have done that deal so you know my views on it. It expires in 2016. I'm not saying any more. The reason why I publically said I wouldn't have done that deal is because the team are currently negotiating with Sky. So Sky know our position on that and leave it at that for the moment. But it does expire in 2016 and it will unless those terms change.

Australia and gross win. It's been quite a tumultuous gross win margins in Australia. You're absolutely right in your point that Tab said, but as long as you are acquiring the right type of players, I think we've shown Dean can actually manage those gross wins peaks and troughs. So you're right on your point, but we don't see any issue with the players that we're attracting.

Joe Thomas - *HSBC - Analyst*

Joe Thomas from HSBC. Can you hear me? Joe Thomas here from HSBC. Just take a couple of things. Firstly you alluded twice to taking market share in retail. Just relating to that, where do you think it's coming from and what do you think is driving it? Is it the SSBTs? Is it pricing? Or is - probably the easy answer is it's a combination of everything. But if you could give a little bit of a flavor as to what you think's driving that, that would be good.

Jim Mullen - *Ladbrokes PLC - CEO*

Right. How long have you got? How long? Right, on that, on market share it's a bit of everything really. We think a machines product and the contents team delivery is delivering outstanding growth in machine play responsibly. I think our football product, is in my view, at least the best in the market. And I think we've seen that through our sponsorships. I think people are coming back.

I think our BOG and our BOG-plus offers, where I said -- I think I said in February that we were prepared to invest margin in the right type of customer. We think that right type of customer is coming through. Not only are they coming for the BOG period, but they're also staying on in the shop afterwards.

I also think that the multichannel offer and how our staff now engage with our customers has improved retention in the shops. And all of that, we believe, is helping give us that 1.3 stakes like-for-like position, which, in our view is that market share is coming back into the retail estate.

Joe Thomas - *HSBC - Analyst*

Any hints of where that's coming from?

Jim Mullen - *Ladbrokes PLC - CEO*

I think it's probably coming from all of our competitors. I couldn't honestly say. I don't have the data to say where in particular. But I think it's coming from across the board in our retail-comparable competitor base.

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Joe Thomas - *HSBC - Analyst*

And just one other thing on the voluntary single manning. I'd like to get to sense of how voluntary voluntary is and to what extent you've agreed your plans with employee representative bodies, trade unions and what have you and therefore what the risk is into the future that you might have to have mandatory.

Jim Mullen - *Ladbrokes PLC - CEO*

Okay. Not to labor it, it is voluntary. So after seven o'clock, if you don't wish to work alone then you won't. I met with some of my colleagues outside of London last week, just to make sure that that was the case. We are not getting any pushback from the area of the regional managers that the colleagues don't believe that to be the case.

Both myself and Lee Drabwell speak to regional and area management teams to make sure that, whether or not they're driving targets hard or whether or not they've got a big promotion, then the voluntary single schedule policy is what it says, particularly with our renewed commitment to health and safety.

Richard Snow - *Ladbrokes PLC - CFO*

Yes. You can see that, Joe, in some of the cost guidance we've given today. So we've given effectively Lee a bit more budget, a few more hours to ensure the take-up rate is consistent with what people want to do to ensure it's voluntary.

Jim Mullen - *Ladbrokes PLC - CEO*

Patrick?

Patrick Coffey - *Barclays - Analyst*

It's Patrick Coffey from Barclays, just one quick one. Revenue from Betdaq and Exchanges was down 6% year on year despite the Euros, and obviously we didn't talk about it much today. Is that a business that you should be selling?

Jim Mullen - *Ladbrokes PLC - CEO*

No, I don't think it is a business we should be selling. I think it's a product that we have in our portfolio, with all of our other portfolio products. We have some loyal customers in that business. And I think the interesting thing about Exchanges, it does give us some intelligence in some of the big race meetings. We see some of the money that's coming in. I would like to look at it as a marketing cost. Richard won't let me. But it does actually pay for some intelligence so it has a value in the whole portfolio.

Simon Davies - *Canaccord - Analyst*

Morning. Simon Davies from Canaccord. Three from me, please. Firstly on SSBTs, obviously a strong performance. How many units do you actually now have instore? And given the strength of performance, are you now looking at expanding your rollout plans?

Secondly, just on the working capital point, significant inflow in the first half. Are there any timing issues there that we should expect to reverse out in the second half?

And finally, just on dotcom, what percentage of revenues came from overseas and how has the overseas markets performed in the first half?

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Jim Mullen - *Ladbrokes PLC - CEO*

On SSBTs, it's circa about 7,000 cabinets. There are no plans to bring in any more. The focus now is looking at those areas where football accumulator betting is positive. So frankly there is a number of Ladbrokes vans running around the UK, moving cabinets to areas where we see high SSBT use. And we think we're getting there with regard to optimizing the estate.

Could you just repeat your second question?

Richard Snow - *Ladbrokes PLC - CFO*

Yes, because I was going to say about the inflow reversing, but I wasn't sure to what you were referring.

Simon Davies - *Canaccord - Analyst*

Just I think there was working capital inflow of GBP35 plus million. How much -- and is there timing issues in there which will reverse out in the second half?

Richard Snow - *Ladbrokes PLC - CFO*

There will always be around the lunar pay. It will depend on where that four-weekly cycle is versus the year end because we've got a big wage bill. So that piece will move around.

And some of them, they're essentially permanent subject to the growth. So as you grow your duty payable, your marketing payable, your rev share payables rise. So there is the benefit of this business and model so we don't have debtors as it grows, you are part funded through a shift in working capital. Some of it may reverse in H2, particularly to payroll, Simon.

Jim Mullen - *Ladbrokes PLC - CEO*

With regard to your dotcom share international, it's circa 90% is UK-based. It's the lion's share, but it doesn't dilute the importance of Australia or Spain and Belgium, which essentially have a retail estate which is connected to that dotcom play.

Gentleman in the blue tie.

James Wheatcroft - *Deutsche Bank - Analyst*

Morning. It's James Wheatcroft from Deutsche Bank. Two questions, please. Firstly, I was looking through the CMA report. It suggests that of online-only customers, more than 50% of them had come from the multichannel area. Of the ones that you've signed from retail into the online channel, what proportion are just going purely online in the end? What's your experience so far? And what's the implication of that for retail in due course?

Secondly, just on the Coral merger prospect, can you give us some comfort in terms of the level of interest in terms of buyers for the shops to be disposed?

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Jim Mullen - *Ladbrokes PLC - CEO*

Yes. On the split between the players, we said we had about 65% retention rate. About 35% are going back into retail only, but they're still using their Grid card so there's still a way of engaging with them. The rest of them are online players. And still, if you look at it that way, the retention rate is still higher than a normal dotcom player.

The other fact is that they're coming back to a Ladbrokes shop rather than going somewhere else, which is the whole point of multichannel. And to the other question that was made, our retail teams are now finding that the multichannel player does create loyalty for the shop.

With regards to your second question, it's a very delicate question, that, because obviously there's negotiations ongoing. But one of the things that I can say that I am pleased about and justifies my view that retail has a future, we have seen significant demand for 350 to 400 shops. It wouldn't be right for me to comment on what that is at the moment.

Jeffrey Harwood - *Stifel - Analyst*

Jeffrey Harwood from Stifel. Two questions. First of all, if we look at the retail business, one of the issues has been the lower-than-normal gross margin. But for the last three quarters you've consistently been above 17%. How much of that improvement is systematic?

And then secondly, on the Coral merger, it was indicated that the cost savings would come through faster than expected. So how much of the GBP65 million do we now expect to come through in 2017? I don't know if there's any update on that.

Richard Snow - *Ladbrokes PLC - CFO*

Okay. In terms of the margin, we've guided quite widely to 16% to 17%. But if you look over the last four or five years, the average at Ladbrokes has been 16.5%. But if I adjust that for the mix shift because of the big football growth that we've been delivering, it's probably, spuriously accurate, Jeffrey, but 16.7%, 16.8%, the long-term average, and obviously BetStations are key in that.

In terms of the Coral merger, we're not going to give any update in terms of synergy, realization or trends; that is for a later date when we have news on the deal.

Richard Stuber - *Numis - Analyst*

Richard Stuber from Numis. Just one question. In terms of -- could you split out net revenue in retail in terms of how much now is anonymous and how much you know about in terms of on Grid cards or other loyalty schemes?

Richard Snow - *Ladbrokes PLC - CFO*

I can get that for you.

Jim Mullen - *Ladbrokes PLC - CEO*

I don't have that with us, Richard, but I think that's something we can share with you.

Richard Snow - *Ladbrokes PLC - CFO*

But a lot of the machine play is GBP50 and below, so it is around the machines that you can say.

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Jim Mullen - *Ladbrokes PLC - CEO*

It's a good question and we can get back to you on that one.

Take a few more. Any more? Is that a good thing? Vaughan, another idea?

Vaughan Lewis - *Morgan Stanley - Analyst*

It's a couple of quick follow-ups. You've got more shops in Europe now than you've got in the UK. Do you think Europe could start to be a more significant profit contributor at some point?

And then secondly just on all these marketing deals and sponsorships that you've been announcing, what sort of returns do you think you'll get on those? It doesn't seem like you need to build the brand given that it comes out well in all the surveys.

Jim Mullen - *Ladbrokes PLC - CEO*

I'll do that in reverse order. Our view on the marketing and sponsorship deals is that they're more effective because of the prices that have now been charged with most of the media owners. So in the 30- and 60-second spots that you would normally see between Sky Sports and BT Sports, frankly they're through the roof. We think we get longevity in the sponsorship deals we were getting to.

I would like to say, Vaughan, that with the test that we did in SPFL, I'll say once again, it's not because I'm Scottish, the SPFL deal was a nice test to see whether we could keep the marketing CPAs effective. And that's came through, which is one the reasons why it encouraged us to go to the English FA.

On the retail point, it's a great question. We believe retail has a great future and we are one of the few in the sector who believe that you can build a growing business in digital through the retail estate. So will a larger European and non-UK retail estate help grow our business overall? Yes. Yes, we believe that it does. And we're also seeing some of the effect of yield and CPAs coming through in Spain to prove that point. So the answer's yes.

Can we take one more, if there is one more?

Excellent. Thank you very much indeed.

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