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LAD.L - Ladbrokes plc Q3 Interim Management Statement Conference Call

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PRESENTATION

Operator

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

At this time, I would like to turn the conference over to Mr. Richard Glynn, Chief Executive.

Richard Glynn *- Ladbrokes plc - CEO*

Morning, everybody. I'm sure you've all read our statement and understand the reason why we've brought forward our IMS.

Before addressing, clearly the digital performance, I think it's worth noting that in retail we have seen performance stabilizing machines; we've seen footfall return to normal levels; and we've got healthy turnover. And I know Ian is going to cover some of the key trends later.

Turning to digital, clearly the performance has been disappointing. You will already be aware, we're probably not alone in seeing our margin impacted as the trend of hard grounds and smaller field sizes in horse racing, with a higher proportion of winning favorites, continued into August. This has been followed by a difficult start to the football season. But there are two operational reasons for the digital performance.

We're experiencing underperformance in our sports book for a variety of reasons. This has been exacerbated by the deliberate step we took to decide to move to the highly competitive Mobenga mobile platform, which we will launch by the end of the year.

And also, although I'm pleased at the necessary steps to complete the integration and the transition of the digital business are on track, what is clear, that although we took clear steps we underestimated the impact some of the changes would have on the business. We've had to adapt to managing dual suppliers in certain areas of the digital business, as well as until recently having over 200 people under consultation, but still working as a business as we went through due process.

So while we remain confident that the changes being made to the digital business will ensure Ladbrokes' digital business is competitive moving forward, the 2013 profit level in digital will be below the market's current expectations and in a range of GBP10 million to GBP14 million.

Clearly, we're disappointed at the performance of the digital business. And we don't feel that this reflects the underlying improvements and were disappointed that the business hasn't returned to growth as swiftly as we'd hoped.

We are, however, on track to complete fully the integration process in early 2014. The keys to this continue to be the migration to Playtech's IMS back office system, and that will be completed for sport book in Q1 2014; and the migration to the IMS back office system for gaming, which will be completed in Q2 latest, once we migrate to a principal primary supplier.

Ladbrokes remain a very strong brand. Ladbrokes has a robust retail business and a strong balance sheet.

The foundations are in place for the digital business to compete and to grow revenues during 2014. And we remain resolutely focused on delivering the clear actions during the next few months to ensure that long-term digital revenue growth.

I'm going to hand you over to Ian now to give you a little more detail on retail, and then we'll happily take your questions.

Ian Bull - *Ladbrokes plc - CFO*

Thanks, Richard, and good morning. Just before moving on to take your questions, I'd like to specifically update you on UK retail, following the turbulence we saw during July.

In August and September to date we've seen footfall return to a more normalized position with average numbers broadly in line with last year.

Amounts staked were up strongly in August and are up in September to date, although the gross win margin for the quarter is expected to be significantly lower than the 17.8% we saw in H1. We haven't, of course, finished the quarter yet, but we estimate Q3 to be around about 15% gross win margin.

Horse racing results in July and August, and footfall in September in particular, as I'm sure you're all aware, have proven to be great for customers. And as we said in the statement, we see much less volatility in machines, which have recovered from the impact of the prolonged hot weather in July.

For our machines, we are seeing low single-digit growth in overall gross win, though at a level slightly lower than in H1, with August and September more consistent as compared to July.

On a gross win per shot basis for machines, we suggested at the interim that we did not expect to see growth for the remainder of the year. What we have seen in August and September confirms that with machines gross win per shop down in most of the weeks since July, though clearly not on the scale of July.

And on costs, I'd like to reiterate the guidance we gave in August on retail operating costs, which is we still expect to be 7% higher for the year from a base of GBP502.5 million in 2012, thus restating in the guidance we made in August.

And finally, at our interims we committed to holding the 2013 final dividend on top of the interim dividend, flexing the cover whilst we go through this transition. We are today confirming that we will at least hold the 2014 dividend, again flexing the cover whilst earnings recover.

I'd now like Richard and I to hand over to you to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Patrick Coffey, Barclays.

Patrick Coffey - *Barclays - Analyst*

It's just on the dividend side; just want to push you on this one a little bit. Post today's downgrade, if we expect an EBIT of GBP145 million, that leaves cover at about 1.82 times. How many years would you be happy to maintain the cover significantly lower than 2 times, for you to maintain the dividend? Thanks.

Ian Bull - *Ladbrokes plc - CFO*

Well, Patrick, I think, unusually, we've given quite advanced guidance on dividend. We're giving dividend advice now 18 months ahead. So I think that gives you some sense of confidence that the Board has in the cash flow of the Company.

Patrick Coffey - *Barclays - Analyst*

So the dividend is absolutely not under pressure, if there is, say, a further wobble in terms of trading in FY 2014?

Ian Bull - *Ladbrokes plc - CFO*

I think you can safely take that comfort, yes.

Patrick Coffey - *Barclays - Analyst*

Thanks.

Operator

Vaughan Lewis, Morgan Stanley.

Vaughan Lewis - *Morgan Stanley - Analyst*

The interims were only five or six weeks ago. And at the time, you sounded confident about nearly GBP20 million of EBIT in the second half for digital. And now, you're talking about around zero. So what's changed so much in such a short space of time? Is it a revenue issue or a cost issue, or is it both?

And then a second one, can you give us a rough estimate of the Group net revenue and EBIT for Q3? Thanks.

Ian Bull - *Ladbrokes plc - CFO*

I think there are three things in relation to what's changed in digital. The first is results. And I think, as we said at the time in August, the results had been particularly poor in July, and we expected to trade some of those back.

Now, in fact, as we've seen from others that have actually published this morning, all [conceptor] results have been worse. So not only haven't we traded back, it's been worse. And that probably accounts for about one-third of where we're indicating the difference in digital.

Secondly, operational deliverables are broadly on track, but the disruption, as Richard said, during this transition is still impacting us. So for example, 200 people on notice, yet are still working, and dual running on two platforms.

That disruption is deeper than we thought and particularly affects gaming and casino. And that's probably about one-third also of the impact of digital, as we've seen in Q3. And the subset of that is clear, that gives us a lower run rate, which is going to drive through into Q4.

So those are the three components, really, of what's changed. And they're all things that have materialized and then covered during the previous -- the period since the half-year.

And finally, I think it's worth noting is, we are no longer planning for migration to -- from -- of Microgaming until our contract ends in 2014. Now, it's a small financial effect; we didn't plan on having that big financial effect in 2013, but it is a material effect for 2014.

Vaughan Lewis - *Morgan Stanley - Analyst*

Sorry, can you give us a rough estimate of revenue growth and EBIT growth for Q3?

Ian Bull - *Ladbrokes plc - CFO*

For the overall Group, net revenue is around -- clearly, we haven't finished the quarter yet, so this is -- let me emphasize, this is an estimate. So net rev's around about GBP260 million, and PBIT will be around the GBP18 million to GBP20 million level.

Vaughan Lewis - *Morgan Stanley - Analyst*

Sorry, GBP18 million to GBP20 million for the quarter?

Ian Bull - *Ladbrokes plc - CFO*

Yes.

Vaughan Lewis - *Morgan Stanley - Analyst*

Okay. And if I can just follow up with one; there's no real comments on retail in the statement. So should we assume that European retail, UK retail and corporate costs are in line with consensus, or --?

Richard Glynn - *Ladbrokes plc - CEO*

I think, Vaughan, what you have to do is, you can assume they're in line with consensus, so long as you take into account, primarily, the impact of results which also hit retail and European retail.

Vaughan Lewis - *Morgan Stanley - Analyst*

And can you give us a rough amount of that results hit then?

Ian Bull - *Ladbrokes plc - CFO*

Low single-digit; very low single-digit. On the other side, you can probably expect us to slightly beat consensus at GBP20 million on corporate costs.

Vaughan Lewis - *Morgan Stanley - Analyst*

Okay. Great, thank you.

Operator

Ivor Jones, Numis.

Ivor Jones - *Numis Securities - Analyst*

There was one phrase that caught my attention. You said, in digital, we've yet to see discernible improvements. You wouldn't have expected to see any at this stage, would you, in the business, as it was a time of transition? Or was there something that you were expecting, in terms of an improvement in the business, that hasn't happened?

Richard Glynn - *Ladbrokes plc - CEO*

I think that what we were expecting, Ivor, was to see a quicker impact into some of the areas where you didn't need technology to assist us. And we haven't had that delivered yet. We have seen some small improvements, but not of the scale that we anticipated.

It was only those areas where we thought we would get some kick on, but we haven't. I think we did underestimate the impact on the other areas, with the scale of disruption.

Ivor Jones - *Numis Securities - Analyst*

Do you mean you hoped that the new people would start to affect the business?

Richard Glynn - *Ladbrokes plc - CEO*

Yes.

Ivor Jones - *Numis Securities - Analyst*

Not technology; it must mean that, I suppose.

Richard Glynn - *Ladbrokes plc - CEO*

Yes.

Ivor Jones - *Numis Securities - Analyst*

So they haven't yet. Do you think they're going to? Why didn't they?

Richard Glynn - *Ladbrokes plc - CEO*

Well, I've no doubt that they will. I think that the -- when you have 200 people under risk and you're integrating people, and you're moving people between here and Tel Aviv, it hasn't had the impact that we anticipated yet, because of the flux.

Ivor Jones - *Numis Securities - Analyst*

But you knew there was going to be flux, and yet you expected to see an improvement. So why should you expect any --?

Richard Glynn - *Ladbrokes plc - CEO*

We knew there was going to be flux, and we anticipated that there was going to be an improvement, and it hasn't come through.

Ivor Jones - *Numis Securities - Analyst*

So what will make it different now then?

Richard Glynn - *Ladbrokes plc - CEO*

Well, I think as things start -- as you know, we have a 90-day consultation period and we're coming through to the end of that. People are starting to bed down. There's very clear operating structures in place now, lines of accountability and responsibility, and things are starting to bed down.

Ivor Jones - *Numis Securities - Analyst*

Okay. This might help answer the next question, because I didn't fully understand Ian's comments about the digital numbers. One-third of the downgrade to do with the results, that's nice and clear. And then, you said that another third may be -- did you say it was to do with people being on notice; that they just weren't physically present or they weren't doing what you thought they were going to be doing? I didn't quite get that part of your statement.

Richard Glynn - *Ladbrokes plc - CEO*

I think it's tied in, Ivor, with what I just said, is that it isn't -- this isn't like the City, where, as you know, someone's made redundant and they leave. We have over 220 people on notice. We planned for this. We have -- obviously, we treat them very fairly. Most of them still work within the business during the consultation period.

We had planned for disruption, but I think that the level of that disruption, and the impact it's had on the focus people have brought to bear on things, has been greater than we believed.

We also have dual running, which has disrupted things. And the overall impact on that has materially hit, primarily, the casino.

There's no doubt about it as well that we were running dual strategies for if we migrated to a single product, or if we continued with dual products. And quite clearly, at this moment in time, we haven't managed to migrate to a single product.

Ivor Jones - *Numis Securities - Analyst*

Okay. I guess, again, continuing on if digital, as Vaughan said, makes zero in the second half, how much of that is coming from duplicated headcount cost that drops out, once you've got through this period of consultation? Or does the headcount cost stay flat, it just moves from place to place?

Richard Glynn - *Ladbrokes plc - CEO*

I think it's primarily duplication of operations rather than cost. So, it's an efficiency thing rather than a cost. We're not -- there's 220 people on notice, but there's 100-odd people who are going to be made redundant, but we already have 70-odd people in our Ladbrokes Israel office working. So it isn't a cost issue.

Ivor Jones - *Numis Securities - Analyst*

Okay and digital, do you expect digital to make a positive contribution in the third quarter? I guess not.

Ian Bull - *Ladbrokes plc - CFO*

In the third quarter, Ivor, I don't think digital is going to make a positive contribution. And, therefore, by definition, Q4 we expect a positive contribution, as we build up momentum.

Ivor Jones - *Numis Securities - Analyst*

So, could you just -- going back then to Vaughan's question, so roughly you're looking for a doubling of contribution from the Group, fourth quarter versus third quarter. So some of that's the turnaround in digital and you must be then, what, expecting just a normalization of margin in the fourth quarter? So that's got to happen for you to deliver GBP40-odd-million of operating profit in the fourth quarter.

Ian Bull - *Ladbrokes plc - CFO*

Correct, yes.

Ivor Jones - *Numis Securities - Analyst*

Okay, so it's still quite a big ask then? You're not assuming a continuation of particularly poor sporting results in the guidance you're talking about today?

Richard Glynn - *Ladbrokes plc - CEO*

Well, I think it's reasonable to have estimated what we think an average sports margin is going to be for us in Q4.

And history would tell you that the same as we had an extremely good run in football for two or three months in January, February, March, we've now had a really tough period in horses and football for June, July -- for July, August and September. I don't think it's unreasonable to assume that we will be able to deliver our average margin. Of course, this industry is results dependent.

Ivor Jones - *Numis Securities - Analyst*

And you have said that you think you've got a substandard product at the moment.

Richard Glynn - *Ladbrokes plc - CEO*

We were saying sportsbook exacerbated particularly by the step to move to Mobenga, so we're not getting the drive on in the mobile growth, which is where the sportsbook really drives itself through.

Ivor Jones - *Numis Securities - Analyst*

Brilliant, lovely, thank you very much.

Richard Glynn - *Ladbrokes plc - CEO*

Thank you, Ivor.

Operator

Gavin Kelleher, Goodbody Capital Markets.

Gavin Kelleher - *Goodbody Stockbrokers - Analyst*

Just three from me please, two on online first. When will the mobile sportsbook be launched? Is that Q1 next year as well?

What percentage of net revenue will be spent in online on marketing at the moment?

And can you just reiterate what you said around machines and the performance in September versus July and August?

Ian Bull - *Ladbrokes plc - CFO*

Sure. Gavin, the mobile sportsbook will be launched on the Mobenga platform by the end of the year. We've already gone past our first milestone on that, which is the foundation release. Just to make it clear to everybody, that will, of course, until we move to a printable primary supplier, be sportsbook plus Vegas. It will not have the full suite of the Playtech products on it.

Machines, just to reiterate, we've normalized back to where we were. We're through the July impact on that. And overall, I think we'll see small growth in the machine estate, that's including the new shops towards the end of the year, so that has stabilized back again.

As to the percentage of net revenue on marketing, I think we're still running at about 27%/28%.

Gavin Kelleher - *Goodbody Stockbrokers - Analyst*

Okay, and just in terms of next year, given the delay in launching the new suite of online products, do you have any decision to be made whether you have to overspend on marketing to gain back UK market share? Or when can we make -- when will a decision on that be made?

Richard Glynn - *Ladbrokes plc - CEO*

No, just so we're clear, we always had a dual strategy running; one, if we could accelerate and, two, if we couldn't. So, there is an anticipation that we will be putting the gaming products on the Playtech and IMS platform through Q2, sportsbook (inaudible).

The marketing decision at this moment in time is we need to see an upturn in the returns we're getting on marketing. Once we see that, we have the cash capability to put more fuel on the fire but until we see that, we'll be holding at about the 27%/28% level.

Gavin Kelleher - *Goodbody Stockbrokers - Analyst*

Okay, thanks.

Operator

(Operator Instructions).

Unidentified Participant

Just one from me, I think you may have talked about this earlier but I've been a bit distracted. It's effectively what are we looking at for full-year 2014 digital?

And in the context of that, I think, Ian, you mentioned that the Microgaming change won't happen 'til next year and I think you said that will be a significant disruption. You're looking at virtually zero profit H2 this year, obviously a World Cup year and stuff.

And obviously related to Gavin's question about marketing, any guidance we have on versus consensus of GBP40 million would be useful. Thank you.

Ian Bull - *Ladbrokes plc - CFO*

Morning, James. I think the first thing to say is it's way too early to tell what 2014's going to look like. We've much to do on delivering the five big operational things that Richard's already outlined.

I think what is fair to say is 2013 is a much lower base than we expected on gaming.

So versus -- I think, current market content to 2014 is GBP41 million. That's a very, very large leap from GBP10 million to GBP14 million this year, which itself is GBP14 million to GBP17 million down on consensus.

So, I think you should expect that consensus is going to come down, but we're not guiding on a specific number at the minute. But I would just re-emphasize a very, very large leap now from GBP10 million to GBP14 million this year.

Unidentified Participant

Would you consider me nuts to halve that?

Ian Bull - *Ladbrokes plc - CFO*

Look, I don't think we're going to try and give guidance on 2014 [again], but I think you're -- yes.

Unidentified Participant

Think on what?

Ian Bull - *Ladbrokes plc - CFO*

That's 2014.

Unidentified Participant

Okay, all right, thanks.

Ian Bull - *Ladbrokes plc - CFO*

Thanks.

Operator

Simon French, Panmure.

Simon French - *Panmure Gordon & Co. Limited - Analyst*

I guess following on from James' question, given the admission that a GBP30 million profit increase is a big leap it eliminates any payout for Playtech next year and obviously, (inaudible) and to try and renegotiate the deal now?

Richard Glynn - *Ladbrokes plc - CEO*

Let's be really clear on this, this was always a 5.5-year deal. I've absolute confidence from speaking to them that everyone is really aligned behind the same goals. Their payout happens at the end of the five years and they can make an awful lot of money with uplift over five years. That's what we're all focused on, not next year. Next year is clearly a very important year, but their payout is over five years.

Simon French - *Panmure Gordon & Co. Limited - Analyst*

Sure, but they're not going to be able to hit any of the initial milestones for at least three years. So I don't really understand why they've put much incentivization of their own staff or affiliates behind the deal.

Richard Glynn - *Ladbrokes plc - CEO*

Well, affiliates get paid for delivering revenues. And the Ladbrokes Israel staff are our staff; they're 100% Ladbrokes' employees. And I can tell you from the conversations I've had, the Ladbrokes Israel employees, who are the marketing services business are 100% resolved to deliver as much as possible uplift in 2014.

Simon French - *Panmure Gordon & Co. Limited - Analyst*

Okay, thanks very much.

Operator

Richard Stuber, Nomura.

Richard Stuber - *Nomura - Analyst*

Could you just give a bit more detail about how the negotiations with the Microgaming contract are going, because I was under the impression that you might be able to exit earlier this year? Is it just simply about costs? Or if you just give us a little bit more color on what's going on there, please.

Richard Glynn - *Ladbrokes plc - CEO*

Well, Richard, obviously I'm not going to tell you the tenor of the negotiations. There are multiple factors at work here. One of them, of course, is the amount that they would accept for early release.

The second one is their biggest rival, irrespective of the fact that they could make money for it and there is a history of competition between Playtech and Microgaming, which doesn't assist us in these negotiations.

We continue to talk to them on a weekly basis. I think that we will move our thinking now to seeing -- continuing to see if we can resolve this and move to a prime supplier, but focusing on delivering everything through Q1 2014.

Richard Stuber - *Nomura - Analyst*

Sorry, can I check, so your contract ends at the beginning of Q1 2014 or the end of Q1 2014 for Microgaming?

Richard Glynn - *Ladbrokes plc - CEO*

We've never ever disclosed the terms of the contract and we're not entitled to.

Richard Stuber - *Nomura - Analyst*

Right, okay, thank you.

Operator

(Operator Instructions). Jeffrey Harwood, Oriel.

Jeffrey Harwood - *Oriel Securities - Analyst*

I've got two questions, first of all is there any change to the guidance in terms of the exceptional reorganization costs in digital?

And secondly, when you refer to a lack of competitiveness in the sportsbook are you referring to the pricing there or the fact that there are technology problems?

Richard Glynn - *Ladbrokes plc - CEO*

I'll take the second one, for -- Jeffrey, I think there's a couple of issues on the sportsbook, and then Ian will answer the exceptionals. The principal thing on that is the mobile product that we have attached to the sportsbook simply is not being driven forward until we get the Mobenga platform out this year. And that is the biggest area of sportsbook growth at the moment and we're getting a decent growth, but certainly not at the sort of levels that one can expect.

The new sportsbook, I think the pricing on it is actually robust, I think it was more to do with two things. One, the customer experience at the beginning of the football season was not as good as it had to be and we have made some material strides recently to correct that.

And secondly, until you get the IMS platform plugged into it you can't do proper CRM on it, and the customers are not getting the levels of promotions that they can get elsewhere in the market. That makes it a less than competitive offering at this moment.

Ian Bull - *Ladbrokes plc - CFO*

Jeffrey, it's Ian, hi. On the exceptionals, no, I don't think at this point there is any change in guiding exceptions. We clearly allowed for some settlement with MGS, which may or may not be required, we'll see how it goes.

I think on the other side if it goes into 2014 then we'll have longer dual running costs than we planned for. So, I would expect one could cover the other really, so no change in guidance on exceptions at the minute.

Jeffrey Harwood - *Oriel Securities - Analyst*

Sure, okay, thank you.

Operator

Vaughan Lewis, Morgan Stanley.

Vaughan Lewis - *Morgan Stanley - Analyst*

It's just a follow-up on that one please, Ian. Are you exceptionalizing the dual operating cost then? So there's not a -- in digital to come in 2014, there's just a potential change in the exceptional cost? Is that how we should think about it? Thanks.

Ian Bull - *Ladbrokes plc - CFO*

Yes, that's about right, Vaughan. This is something that is particular to 2013 as we're doing the big transition, that we're running two organizations side by side, so that's what the dual running costs are. 2014 will be business as normal in that respect.

Vaughan Lewis - *Morgan Stanley - Analyst*

But the GBP10 million of digital profit this year is on the basis of the future operating cost base and then the dual running costs are in exceptionals, is that right?

Ian Bull - *Ladbrokes plc - CFO*

That's correct, yes.

Vaughan Lewis - *Morgan Stanley - Analyst*

So the actual operating profit for the year is probably zero or something like that in cash terms?

Ian Bull - *Ladbrokes plc - CFO*

Yes, you could think about it that way if you wish, but accounting-wise is as we've outlined, really.

Vaughan Lewis - *Morgan Stanley - Analyst*

Okay, but it's not -- yes, okay, thanks.

Operator

Nick Edelman, Goldman Sachs.

Nick Edelman - *Goldman Sachs & Co. - Analyst*

Just had one very quick follow-up please. Could you just outline then the changes just on the front end, in terms of what the customer expects to see over the next say six months, nine months, 12 months. I guess aside from the back office changes in terms of what they actually see change, in terms of software dropping off or shifts on the mobile platform that would just be helpful? Thanks.

Richard Glynn - *Ladbrokes plc - CEO*

Yes, the mobile platform will be a pretty fundamental change; the whole operating system will change. The exciting thing about that, Nick, is that we'll be able to change our customers from one to the other by an app upload. So it will be seamless, there'll be no account changes.

On the sports book you're already seeing some fairly dramatic changes in terms of the journey time for customers to get through; the clarity on the site; the positioning of sportsbook.

What you'll get when we can bring all the products into one place is you'll get repositioning of the Playtech casino products etc., which will make a material difference to the cross-selling and the ability to drive customers to that. And, of course, by the end of the year you're going to have the first iteration of the Ladbrokes exchange tab on there.

So there's multiple changes happening. A lot of the customer experience changes have already taken place and are continuing over the next month or two. The product changes will happen as and when we can migrate and the mobile platform will be out by the end of this year.

Nick Edelman - *Goldman Sachs & Co. - Analyst*

Okay, that's great, thank you.

Operator

Ivor Jones, Numis.

Ivor Jones - *Numis Securities - Analyst*

Can I just follow up on Vaughan's question, Ian? Could you -- you said that you're going to treat as exceptional some of the operating costs of the business and how -- did you say how much, sorry I was a bit distracted?

Ian Bull - *Ladbrokes plc - CFO*

No, we haven't said exactly how much, it's within the overall exceptionals number, but that is correct. If you want me to re-explain it I'll happily do that.

If you go back -- I don't know if you've got it to hand, it's on slide 15 in the interims pack if you want the detailed breakdown. But the exceptional costs are split between business integration cost -- loss of GBP9.2 million, which was principally around our mobile platform, which is write-off. If you like the Playtech related element of exceptionals is GBP15.6 million at the half-year.

And then there are other, what you might say exceptional costs, which you always see in a company like ours, are about GBP6 million in the front half of the year, are at GBP33 million.

So GBP22 million at the half-year, GBP33 million on the full year; and the remaining in the second half of the year was the completion of the transition, which is dual running costs and duplication between London and Israel, and an expectation of timing on MGS. That's broadly how it works. Does that make sense, Ivor? Does that answer your question?

Ivor Jones - *Numis Securities - Analyst*

It does make sense. And so, because it was the interims then the auditors have agreed to that treatment already have they?

Ian Bull - *Ladbrokes plc - CFO*

They have yes, yes. There's nothing particularly unusual in that audit treatment.

Ivor Jones - *Numis Securities - Analyst*

Fine. And why then -- sorry, and that cost drops away next year and demonstrates itself to be exceptional, because -- what I'm confused about is Richard's earlier answer to my question about is there a cost benefit swing into 2014 was not really, because we're employing -- the total headcount isn't dropping dramatically, it is moving from one place to another.

So I would get how the cost was exceptional in terms of running two platforms if you had half the costs in 2014 versus 2013, but you're essentially saying you have the same costs in 2014 versus 2013? If you [can just enlighten] --?

Ian Bull - *Ladbrokes plc - CFO*

Think of it this way Ivor, if -- I'll just use some example numbers, if you had 100 people doing a number of jobs and operations in Rayners Lane and you had 90 people in Tel Aviv doing the same jobs then effectively you've got 190 people doing the same job. So the accounting allows you to exceptionalize that dual running cost, and that really is a description of what you might say 2013 looks like.

In 2014 you won't have the 100 people in Rayners Lane any more and you will have 90 to 100 people in Tel Aviv. So your normal operating cost in 2014 represent 90 to 100 people in Tel Aviv. And then the normalized operating costs in 2013 are 190 people less what you exceptionalize out at the dual running cost.

So therefore, you're broadly comparing a net 100 people or so in Rayners Lane and a net 100 -- 90 to 100 in Tel Aviv. So the operating cost looks broadly equal year to year.

Ivor Jones - *Numis Securities - Analyst*

And if you'd just chosen to expand the business by opening a development center in Estonia with 100 people then you just have to take that on the chin as additional operating cost?

Ian Bull - *Ladbrokes plc - CFO*

Yes, the accounting treat things differently, whether it's expansion or whether it's dual running, so.

Ivor Jones - *Numis Securities - Analyst*

But in both cases it's real cash being spent on real people?

Ian Bull - *Ladbrokes plc - CFO*

There's no getting away this is real cash, which you can see why -- when you come to our cash flow statement, you'll see that the cash flow this year has got to suffer the burden of the exceptional cost, which was again going back to the statement we gave at the interims, is around about GBP26 million of cash burden in 2013. Cash doesn't lie, as we well know.

Ivor Jones - *Numis Securities - Analyst*

The other side of you having said that, Ian, is an implication that perhaps the income statement isn't as clear as it might be, which I think is the case, isn't it?

Ian Bull - *Ladbrokes plc - CFO*

I'm not sure we --

Ivor Jones - *Numis Securities - Analyst*

Thank you for that.

Ian Bull - *Ladbrokes plc - CFO*

Okay.

Ivor Jones - *Numis Securities - Analyst*

Great, thank you.

Richard Glynn - *Ladbrokes plc - CEO*

All right, guys, thank you very much indeed.

Operator

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