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LAD.L - Interim 2014 Ladbrokes PLC Earnings Call

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## PRESENTATION

**Peter Erskine** - *Ladbrokes plc - Chairman*

Well, good morning, ladies and gentlemen. Thank you very much for joining us today for the results of the first six months of the year. As you all know we are under no illusion that 2014 is a critical year for Ladbrokes. Regardless of a tough trading environment, half one profits were always going to be down on half one last year albeit it up on half two.

The team is fully aware of its task, make Ladbrokes more competitive. That translated to a first half where the management team had to deliver a series of technical and operational improvements so that the business could compete in the World Cup. So it is pleasing to be able to report that those objectives were all achieved and the plan is on track. The executive team delivered on all the operational improvements.

The Playtech integration is complete. Ladbrokes Israel is fully established. The mobile product is delivering good customer numbers. The retail estate has rolled out new machine cabinets, more SSBTs and driven growth in football, and our international footprint is growing.

The World Cup was a fierce battle ground, and we responded to the challenge and most importantly the customer responded to us. We've had a good World Cup with our technology, our customer service and our products all performing well. The task now is to build on that success.

So as a Board, we are pleased to report on the progress delivered in the last six months. We do feel that our performance gives us a platform for the next six months and beyond. But we are realistic that there remains much to do. Now you will hear that phrase much to do a number of times today, and its meaning is simple, turning our operational delivery into financial performance.

While we will always be exposed to the vagaries of results and Westminster, we are confident that the business is fundamentally stronger and more competitive than before and is well positioned to deliver growth. This belief underlies our dividend commitment for the year.

So I will now hand over to Ian and Richard for the results presentation. Ian, over to you.

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**Ian Bull** - *Ladbrokes plc - CFO*

Thanks, Peter, and good morning, everyone. I am going to start then with an overview of this morning's results, then move into looking at the performance of each of our operating divisions in more detail.

As a summary, looking back to the objectives we set ourselves in February we've seen a fundamental transition finalized in this half and very much on track both operationally and also financially after adjusting for some of the extreme results we saw in the first half.

So looking at the Group numbers, net revenue grew by 1.6%, driven by 4.4% staking growth, that's excluding the World Cup, Australia and High Rollers, but with lower margins from results. Operating profit at GBP56.8m is well down on last year, as expected, though equally is ahead of the second half last year as we guided in February.

Finance costs are broadly in line. And I'll cover net debt and our debt structure later on in the presentation, so altogether a PBT of GBP44m and underlying earnings per share of 4.3p per share. Our corporation tax rate of 10% is at a similar level to our guidance. And I don't expect it to be higher than this 10% level for the full year and for some time.

You will have seen the Board has declared an interim dividend of 4.3p, flat on last year and consistent with our commitment to pay dividends of no less than 8.9p per share for the 2014 financial year. High Rollers provided another strong contribution in the half at GBP10.7m.

So turning now to slide 6 and you can see the drivers by division in Group operating profit from 2013 to 2014. In October we said that the business transition would mean that half-one PBIT would be down year over year, and in February we reconfirmed this and said that we expected the half-one PBIT would be ahead of H2 last year.

So, as you're aware, in the first half the industry incurred unusually high losses in football in Q1, notably in weeks two, four and 12 and then losses at Ascot and Epsom in June, as others have already commented on. In total these hit Ladbrokes by GBP29.3m year on year. We did also, of course, benefit from a strong World Cup, generating GBP18.5m gross win in H1. So in aggregate these events reduced profits by around GBP11m in H1, which together with the increased depreciation and amortization reflects two-thirds of the year-on-year reduction.

We guided the first-half EBIT would be down year over year, the results have therefore made this impact somewhat more pronounced. It is worth bearing this in mind to see the true underlying results. So when I look at the retail and digital performance in a moment, I will take out those results and the World Cup to get an underlying view of each division.

Corporate costs are on track including a small change in share-based payments, and I expect the corporate costs to be towards the upper end of our no more than GBP25m guidance.

So let's look at the main underlying trends by operating division, starting with UK Retail. And before I look at the detailed graph, on staking we saw increases of 5% OTC driven by a 54% increase in football with strong contributions from SSBTs and of course the World Cup. These together completely offset the continuing decline in both horse and greyhound betting, which in H1 was down around 2%, very much in line with recent history, but noticeably sharper towards the end of the first half, reflecting probably some substitution into the World Cup.

UK Retail EBIT was GBP57.6m, down GBP15.6m on 2013. And you can see from the left of the chart that the poor horse results and the World Cup benefit explain around GBP8.5m or just over half of this change. Looking at the remaining drivers, on the revenue side OTC gross win is broadly stable, backed up by 1,750 SSBTs. And machines have started to deliver growth, aided by around 9,000 new Clarity cabinet machines.

And on the cost side you can see that we've delivered a performance better than we guided you to in February with an increase of 4.3%. We have continued to push on costs, and specifically in H1 we've seen a continued focus on staff cost efficiencies through scheduling which delivered a net reduction and that's despite a pay review.

We've seen property, rent and rate renewals achieved on better terms than we expected. And we've seen procurement savings too, with new contracts on distribution, IT costs and shop controllables.

Looking ahead, we've identified further cost savings of GBP3m to GBP4m in the second half, which should result in UK Retail delivering an overall increase in costs of 4.4% for the year, an improvement on our 5% guidance in February. So a pretty determined job from Nick and the retail team.

And our 2014 estate optimization is also progressing well. In the first half we closed 29 shops, and to date we have closed 46. And we continue to address the weaker performing shops within the portfolio.

As we await the final implementation plans from DCMS I will refrain from further guidance on higher levels of closures until the position is clearer and the financial impact better understood. This is likely to be in February, given the October deadlines and the subsequent implementation. The closures have given rise to exceptional costs of GBP13.9m in the half with a cash impact of GBP1.5m in H1.

Let me turn now to gross win trends where we are seeing continued resilience, underlying stability and some signs of growth. Top left you can see our regular slide, which shows gross win per shop for the last 14 quarters with OTC in grey and machines in red. As you can see, Q1 was impacted by the football results and Q2 benefited from the World Cup which offset the poor year-on-year results from Epsom and Ascot.

Looking at machines the lower chart show that we have delivered machine growth in each of the past four quarters, and importantly, we have returned to gross win per shop per week growth which continued to improve out of 2013 and in Q2 became positive again.

As Richard will show in a moment, this is a good result, with the implementation of the ABB Code causing a significant decline as we advised in Q1. This has been offset by the rollout of our new Clarity gaming machine which we completed just before the World Cup in June. So net growth coming out of Q2, and we expect the second half machine revenue to grow at 1% to 2% like-for-like growth subject to any further DCMS changes of course.

And free cash flow generation remains strong and similar to the first half of 2013 despite the results this year. CapEx, as you can see, is lower reflecting the completion of the 2012/2013 expansion program.

I'd now like to turn to our digital business where again I'm going to concentrate on the underlying and our .com business so you can see the true underlying position and the early benefits of our significant operational changes.

As before, I've adjusted for the World Cup and for results to show the underlying position. Digital delivered a strong sportsbook NGR performance, powered particularly by mobile which went live on the Mobenga platform in late December last year. The mobile digital performance has been good throughout the year as Richard will discuss in a moment.

Gaming was down, driven primarily by casino. This was as expected and I'll come back to this. D&A is as guided and digital operating costs have been well controlled during this key migration period, again as expected. I think given the huge increase in activity and capability Jim and the digital team have performed well.

In February we'd said that we were targeting digital for NGR sequential growth on H2 of last year. Overall, in H1 we delivered a 14% increase in revenue versus H2 and we beat our target of holding EBITDA on the same period.

Looking at our other digital operations, Australia and Betdaq delivered broadly flat EBIT performance on H1 last year. And the startup costs of our digital operations in both Belgium and Spain explain the final GBP2m to GBP2.5m of the change in EBIT, and more on those territories in a moment.

Over on slide 10 then we can now show you the early signs of how we see our Ladbrokes .com business is progressing, and in H1 it's been all about sportsbook. Top left you can see the sportsbook staking trends going back to Q3 of last year with mobile staking rising rapidly post the launch of Mobenga last December and delivering growth of 95% in Q1 and 114% in Q2, benefiting from a really strong World Cup performance.

With mobile growing to around 50% of sportsbook staking in Q2, this represents some of the strongest digital growth rates that we have delivered for some time. This is underpinned by good customer engagement, and demonstrated by strong growth in actives. So sportsbook digital actives were up 21% in the first half to 598,000. And real money signups were up 52% to 326,000. Mobile performance was even stronger with actives up 74% and signups by 176%.

In the bottom-left chart you can see how the sportsbook performance is starting to feed through into NGR where Q1 margins were weak so NGR was suppressed. The continued growth in Q2 with more scalable margins and the World Cup delivered over 50% revenue growth in Q2.

As I noted, the gaming business does contrast sharply with sports betting and is down again in Q2, although revenue is stable and sequentially on Q1. Looking at the specific products we saw a 20% decline in casino revenue, we saw stable games revenue and declines in our much smaller poker and bingo businesses. Now given that we migrated off MGS casino products at the end of March, and then completed the IMS back office conversion by the end of April, this performance was as expected.

In terms of marketing spend we incurred 31% marketing as a percentage of NGR as we invested in customer acquisition around the World Cup. As you can see, CPA was much lower at GBP70, reflecting the opportunity that the World Cup provided to acquire new relationships plus the benefit of Ladbrokes Israel with our much improved sportsbook products. We continue to expect the full year to be in our 25% to 30% range for marketing.

And before I leave the digital business I would just note that following the review we have decided to stop taking digital business from a number of markets, and we'll have completed this withdrawal over the next month or so. The pro forma impact in H2 is around about GBP2m PBIT, reflecting the lost NGR and the benefit of closing the supporting call centers and related back office and processing facilities.

Let me now turn to give you a financial overview of the World Cup shown on slide 11. Across the Group we recorded an overall 24% gross win margin on a 22% increase in staking, adjusted for comparable markets, a pleasing outcome, given the early few days of the tournament.

And looking at our key businesses, digital staking grew by 43% and powered by mobile, retail staking increased and almost exactly the same as the increase in the estate since 2010. And slippage was well ahead, up 27% reflecting the increased range of football products we are now offering to customers as we develop our football betting over the counter business.

We have three additional important territories for digital business where we have also made good progress leveraging the brand and diversifying our business. In Australia, you'll recall we've invested around about GBP25m so far on acquiring the Bookmaker business, and most recent GBP12m on Betstar in Q2 of this year. This has established Ladbrokes as a strong digital operator.

In the top-left table you can see substantial organic and inorganic growth that the team is delivering down under, with staking up 60% and a very large increase in the customer base. On a pro forma basis, net revenue is up around 200% and a EBITDA positive business.

Overall, Australian revenue is running ahead of our acquisition plan, and following a very rapid 28-day integration, the expected cost synergies have been taken. We have noted that we expect the racing content fees in both Victoria and Queensland to cost around GBP1m in the second half.

In H1 we also saw the first six months trading of our Sportium digital brand and the launch of the Belgium digital business at the end of April. They are both making good progress albeit it early days in Belgium. And we expect to record a further combined development loss in the second half of GBP2m to GBP3m. Finally, Betdaq is now positive PBIT in the half with good growth in commissions.

Now turning to European retail, which is on slide 13, and we have continued the pleasing progress with our sporting JV with Cirsa. The core regions together are now EBITDA positive with like-for-like growth.

And as regulation allows we will expand into even more regions, most recently Catalunya with Barcelona. The P&L is showing that year-over-year improvement in spite of the investment in the expansion, so expect a further development loss of around GBP1m in the second half.

Our Belgium business showed broadly flat staking with the World Cup offsetting poor industry-wide horse racing delivering net EBIT growth, so a productive and busy period for Damian and the International team.

And looking at our Irish business, Northern Ireland saw similar trends to the UK particularly football impacted in Q1. And in the Republic, in a tough economy, we have seen continued and aggressive competition impact us despite a good cost performance by our US -- by our Irish retail teams, excuse me. We will review whether our change in trading approach is having the desired effect over the coming few months.

I'd now like to spend a few moments on free cash flow and our balance sheet. On slide 14 you can see CapEx in the first half remains well controlled at GBP27m, and split across the Group. Spend is down year over year, the primary reduction being the reduction in UK CapEx as we have moved from the expansionary phase in our portfolio to one of optimization. Investment CapEx is targeting comfortably returns in excess of our WACC.

There are a few one-offs to point out to you, business combinations reflect the Betstar acquisition in Q2 and other items include payment of the 2013 exceptionals of GBP14m, and a VAT-related tax settlement covers most of the remainder. And I expect the full year to show stronger free cash flow generation and stronger dividend cover from the expected growth in the second half. And therefore, I expect to remain within our 1.5 to 2 times net debt to EBITDA guidance for the full year.

We have also made significant progress in making our balance sheet more robust, and in the first half we completed a refinancing of the Group's balance sheet completing a long-dated retail bond which was over-subscribed and extending bank facility maturities including cancelling surplus facilities. This gives an extended average maturity to over 4.5 years with a blended interest rate in the 7% range depending on drawn facilities. And as importantly, our banking covenants remain unchanged. So we have substantially improved our liquidity position.

In February we gave you quite some specific guidance on how we saw 2014. And as hopefully you can see from this chart we are on track with our core guidance, and I have indicated on this slide any updates where relevant in order for you to -- to make it easier for you to track.

So in summary for H1, a good operational performance in a tough trading environment, we delivered a good World Cup financially, and adjusting for results, the underlying trends are very much where we expected them to be. Digital sportsbook was good, and we've continued to drive our diversification in Spain, Belgium and Australia. We continue to generate strong free cash flow, and have greatly improved the Group's liquidity position following the refinancing.

Let me say a few words on current trading over the last five weeks. Net revenue has grown by 6.6% and that's excluding the World Cup in Australia. Machines and sportsbook are on trend. OTC staking has declined modestly with football staking up of course because of the World Cup, and racing staking has shown further declines as we saw at the end of Q2.

We have recorded growth in casino and the gaming segment overall. This is very early, though the recent trend is encouraging. And for those of you who are already thinking on the phasing of the Q3/Q4 EBIT split I am expecting broadly something like a 40%/60% split of H2 EBIT in Q3 and Q4. This is given the casino profile, US cost phasing and the racing festival in Q4 in Australia.

So, still lots to play for with the new EPL starting in a few days. We are on track to deliver results with our expectations, subject of course, to a more usual level of results and margins.

So, thank you for listening, I'll hand over to Richard.

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**Richard Glynn** - *Ladbrokes plc - Chief Executive*

Thank you, Ian, and good morning, ladies and gentlemen. We entered this year with a clearly articulated plan for operational delivery in half one, to be competitive in the World Cup and to position the business for growth in the second half and beyond, understanding what that would mean for our figures in the first half of the year.

I am going to talk first therefore about how we've laid some solid foundations before I explain how these foundations were the platform for a really competitive performance at the World Cup. And finally, I'll outline for you the steps that we will take to maintain our momentum and deliver growth into 2015.

A lot has been delivered over the last six months. A high degree of execution risk in the business has been removed. We've worked hard to ensure that all our capabilities across all channels were in place, ready to compete in what we knew would be the toughest of markets.

The World Cup validated our belief that the strong Ladbrokes brand, supported by competitive products and technology, with coordinated campaigns all executed by experts remains really compelling for customers. We are now positioned to move the business from operational delivery to growth

But it's mobile that's proving to be the real consumer battleground.

Now as you all know, mobile consumers are really discerning, so our product has to evolve to continually engage this new audience. And over the last six months we've delivered seven new application releases. And that's with 40 new features delivered.

We've created special event modules such as the very successful online World Cup center. We've enhanced our capability for cross-sell. We've made the mobile platform available over more platforms and most notably Windows 8.1. We became the first major app for sports betting in the Windows Apps Store.

We've added multiple ways to pay, and now PayPal accounts for 30% of first-time deposits. Perhaps most importantly, we've seen reliability that now matches customer expectation. The Grand National saw us satisfy over 54,000 concurrent mobile users with 100% availability. And the World Cup Final saw 334,000 bets placed just on the final itself without a hiccup.

These are good, but changes such as these don't sell themselves to our customers. So we've focused on giving customers a reason to visit or to return to the site and to trial the product. And the customer has responded. Mobile staking is up 105%, signups up 176%, actives up 74% and conversion increased by 14 percentage points. We've recorded month-on-month growth since we launched. Tellingly, mobile turnover is now larger than desktop having been nearly half its size only eight months ago.

In parallel with that, we've also overhauled our desktop product. We've improved reliability, provided a far more intuitive journey for our customers. And added new products such as Perform live streaming and the Ladbrokes Exchange, with incidentally, a far more aggressive and centralized promotion of the overall Exchange capabilities planned for the second half and into 2015. Our offer is now a match for others in the market and perhaps for the first time supports rather than detracts from the mobile offer, and therefore our customers' overall digital experience.

Just to remind you Ladbrokes Israel only became fully operational towards the end of Q1. Games were the first products to which we could apply this new-found digital marketing expertise because we didn't have to wait for either a platform transition or technical enhancements. And the results were encouraging, games NGR was up 10% in Q2, actives up 27% and signups up 25%.

Now it's only one quarter and it's only a relative small part of the product set, so we are not by any means getting carried away. But it does give an indication of how effective Ladbrokes Israel can be when we can bring that expertise to bear.

Again to remind you IMS, the back office platform, only came into operation in May. So as soon as that was available we began to lay the data foundations to support enhanced and targeted CRM. Casino and cross-sell are therefore our next areas of real focus. They present us with a material opportunity.

The real discipline for our teams is to acquire customers profitably and then stimulate activity based on the customer's expected play profile. And we are confident that now the product is strong with the underlying technology embedded we can apply the sophisticated marketing behind the resurgent brand and deliver growth, particularly in digital gaming, through H2 and into 2015.

And it's these marketing disciplines that will be important in the post-point of consumption tax era where only by lowering the cost per acquisition, increasing the conversion percentages, increasing the cross-sell and increasing the retention rates will we be able to mitigate the impact of this tax. Cost reduction and contract renegotiation per se and by themselves will be insufficient and rather blunt tools to defray this addition cost.

Before I talk about Retail, let me just address for a few minutes UK regulation, and the ongoing uncertainty that's proven such a drag on the industry. The lightning rod has clearly been machines but no one should be under any illusion whatsoever, enhanced regulation will apply across the whole betting and gaming industry.

The Ladbrokes ethos is relatively simple. We should be there to support and to help people at risk to help themselves and we've been proactive in this respect. It's why we ran the first ever television advert promoting responsible gambling. We linked responsible gambling to executive remuneration. We are a leading advocate of the ABB Code implementation, and we are using our proprietary data to develop algorithmic predictors for problem gambling.

Alongside the industry we are in discussions with DCMS and the Gambling Commission about the recent decision to change machine regulation. If you remember, these changes will only allow machine stakes above GBP50 where customers can be identified. For us, that's via an account such as the Odds On. Or for people who don't have account capability or loyalty cards, via interaction behind the counter.

We expect the details and the timing of the implementation to be finalized in the autumn of this year, so at that time we'll look at the inevitable implications. And once we know more we can comment particularly in regard to shop closures.

I believe that the regulators are encouraged by Ladbrokes approach, and I think that they appreciate that we have helped to shape the debate. But our message to government is clear and consistent. This industry now desperately needs a period of fiscal and regulatory stability if it's to remain vibrant and if it's to be allowed to grow.

Now we've worked hard to ensure that retail remains a viable, attractive, cash-generative and profitable channel. Our key areas of focus were improving machine performance, driving football through enhanced pricing and through the SSBTs, improving margins and keeping costs tightly controlled. And we've made progress in each of these areas.

We entered the year knowing that our machine estate needed upgrading. We completed the rollout of the new Clarity machines ahead of the World Cup as planned. That rollout coincided with the introduction of the ABB Code of Conduct.

Responsible implementation of the code in accordance with both the spirit and the letter inevitably had an adverse impact on turnover. But as the new machines have started to be enjoyed by our customers and the customers' behavior has normalized in response to the code, we've seen machine performance improve. And we're now targeting 1% to 2% net like-for-like growth year on year.

We've also achieved record weekly performance from the new SSBT estate during the World Cup, reinforcing our view that the younger customer is increasingly comfortable using digital style products, such as the SSBTs and such as the machines within the retail estate. Turnover from SSBTs is growing week on week with 70% of the revenue delivered from football betting, of which 40% of that is bet-in-play. And the significant proportion incremental to traditional OTC turnover.

But notwithstanding this progress, there's still room for improvement in the SSBTs. And therefore we believe there's further opportunities for growth through H2 and into 2015.

Our goal has, and always remains to improve the quality and mix of our trading earnings. An important element of this was to target football, and in particular the higher margin multiple bets that are increasingly popular. Again, Ladbrokes needed to give its customers a compelling reason to choose us. So we revamped the entire coupon range, offering more bets at better prices in a more attractive coupon dispenser with enhanced promotions all rolled out in time for the World Cup.

And the response was pleasing with amounts staked, and this is excluding the World Cup, up 27% in the first half and 25% season on season with 60% of these stakes derived from multiple products.

So we're going to continue this approach into the new football season. It's football and these other sports which are helping to counter the ongoing decline in attractiveness the industry's seeing in the dog and in particular horse racing markets. Whereas both of them continue currently to be important, if turnover trends do not improve and if the current cost structures are maintained for horse betting in particular, it may rapidly reach the point where it becomes unsustainable as a product.

Now we've understood for some while that retail needs to be both a destination in its own right and an integral part of a multi-channel proposition. By offering benefits to our customers such as showing more sports, free Wi-Fi, counter-less shops, cash-out facilities and really great customer service, we can ensure that the retail channel remains vibrant in its own right.

But in parallel, we're introducing into the stores, tablets. We're deploying bonuses to customers based on their cross-channel activity. We're facilitating the transfer of funds between online and offline products to ensure that a vibrant high street presence is increasingly an integral part of the wider customer proposition.

But we always said that it was only when we had the right products with the appropriate technology, supported by CRM in the hands of experts that the Ladbrokes brand strength would start coming to the fore. So consequently, recently, we refreshed our brand under the banner, the Ladbrokes Life. The campaign's young and the metrics are encouraging, particularly with the 18 to 34 year olds.

With our brand awareness now surpassing that of our major competitors, and our share of voice rising to 14% during the World Cup, despite materially lower advertising spend than some others. The opportunities for further exploitation of this new brand proposition, especially in social media, are really exciting.

Moving outside the UK, our approach remains to enter regulated markets and grow dominant positions with tight cost disciplines. In Spain, our performance in Madrid where we achieved positive EBITDA last year and again in H1 demonstrates the attractiveness of continued expansion into regions such as Catalunya where we already have a market-leading position with 322 outlets taking our total presence in Spain now to 1075 outlets with amounts staked up 40% year on year, NGR up 45% year on year, with Sportium digital coming on stream and beginning to gain traction.

In Belgium, Ladbrokes is the dominant retail brain. And we're now evolving that to a multi-channel proposition. The rollout of SSBTs across the estate is already driving encouraging growth and the launch of the virtual products are imminent.

Finally, looking at Australia. Well, Australia is a mature market where it's very expensive to buy scale. Last year, we acquired the Bookmaker business. The appeal there was slightly different. It was an experienced, innovative management team heralding from an affiliate marketing background who were really excited about creating Australia's digital challenger brand.

Within weeks of the acquisition, the Ladbrokes brand was launched into the Australian market, from scratch, onto an existing platform. And we now have 34% brand recognition in that market. We're continually giving customers reason to open an account with us with innovations such as the unique loyalty card which allows customers to withdraw winnings from ATMs all the way across the country the minute a bet is settled.

The Betstar business was then acquired and integrated within 28 days. Underlying performance is really strong with stakes increasing by 60%, net revenue by 216% and actives by 380%. And the team there is now poised for a really competitive spring carnival.

So, so far, I've deliberately concentrated on what we delivered operationally. Right back at the start of the year, we set ourselves a challenge. That was to be genuinely competitive across all channels during what we knew would be an intensely competitive World Cup. The market was indeed hugely competitive with both new brands and old brands spending millions above the line and offering unsustainable bonuses online. But we planned for this event for many months and the results were pleasing.

Overall, digital amounts staked compared with 2010 were up 29%, with mobile stakes up 1,100%, albeit from an admittedly low base. Digital actives were up 28%, with mobile actives up 700%. UK Retail OTC rose 8%, with a 27% improvement in slippage. Overall, gross win margin was 22.7% with a digital margin a healthy 24.3%. And our sites had an uptime of 99.9%. And the international businesses recorded impressive growth.

We were competitive and that's despite some of our digital capabilities, particularly cross-sell, yet to come fully on stream.

I just would like to acknowledge at this time publically the red team's endeavors in delivering these results. While satisfying, we all appreciate this is just the beginning, we've much more to do. We've more innovations to land and we've more growth to deliver. But this performance sets us up well to deliver that growth, with more customers, more actives, playing more often. And when we acquired new customers, acquired at a price we feel happy to have paid. The key now is to keep them playing and to keep them satisfied.

I'm now going to set out for you, if I may once again, what we will do to maintain momentum and deliver growth through the second half and into 2015.

Looking at retail, we'll focus on driving growth through the machines and driving growth through the SSBT estate, pushing the football product further, driving enhanced quality of earnings whilst maintaining a really tight control over costs.

In digital, CRM is now going to be increasingly influential for both Sportsbook and across the different gaming products with actives, acquisition, conversion and cross-sell the key metrics. We'll maintain an effective but a very disciplined approach to marketing to win new customers only at the right price and to keep them playing with us for longer.

Internationally, we'll build on the actions we've taken in the first half, particularly in the key regulated markets of Spain, Belgium and Australia where we think they offer opportunities for growth.

And overall, we'll continue to manage the Group costs very tightly and to strengthen the balance sheet further.

We've worked hard over the last 12 months to support our brand with products that meet customer expectations. Operationally, we've upgraded the business substantially. A large chunk of the heavy lifting is now complete and the execution risk substantially reduced.

We set ourselves a major task. That was to be fighting fit in time for the World Cup. And we're pleased with our performance, particularly in mobile. We're encouraged but by no means taking anything for granted.

We're not getting carried away and we're certainly not losing our focus. Big challenges still await us. There's plenty more to do, there are plenty more innovations to deliver. All needed to turn our newly competitive position into sustainable growth and importantly grow shareholder value.

But Ladbrokes is today a materially different business compared with 12 months ago, stronger, agile, more robust and far more competitive. We remain confident about the direction we're taking and are well positioned for growth in the second half and into 2015. Thank you very much.

## QUESTIONS AND ANSWERS

**Peter Erskine** - *Ladbrokes plc - Chairman*

Thanks, Richard. We'll now move to questions and answers. Ian and Richard will join me. If you would be kind enough to, as you ask your question, say which firm you're from. We have also got the members of the team in the audience if you ask a particularly detailed question. So let's start over there, the gentleman at the end. Thanks.

**Patrick Coffey** - *Barclays Capital - Analyst*

Thanks, hi, it's Patrick Coffey from Barclays. Three questions, if I may. Just on the marketing spend in digital in the first half. You guided to 25% to 30%, it's come in at 31% of net revenue. For the full year, is it still expected to be in the 25 to 30% range or should we be expected that you're going to need to spend a bit more to gain the scale there? So just keen to hear your guidance for the full year and also into next year, please, on that one.

In terms of slide 26, on machine gaming gross win. How much of the growth from weeks 22 to 26 is really all about the football World Cup rather than the impact of new machines and customers getting back to normality, as you say? Isn't it just simply a spike on the back of the World Cup? So I'm interested in why you have confidence to guide to like-for-like of 1% to 2% for the full year?

And then just finally on the dividends, how do you think about the dividend payments? What I mean is, do you think about dividend cover or is it about the deleveraging schedule which you appear to be on a deleveraging schedule at the moment. What would be the trigger for a cut in the dividend? Thanks.

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**Peter Erskine** - *Ladbrokes plc - Chairman*

Okay. Ian, if you could take the marketing spend and slide 26 on the World Cup and start to talk about dividend. And I'll build on that if we need to.

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**Ian Bull** - *Ladbrokes plc - CFO*

Morning, Patrick. So, yes, the full-year guidance is 25% to 30%. So it was 31% in Q2 as we pushed a little bit harder going into the World Cup. But we're still comfortable in a range for 25% to 30% for the full year on marketing.

I think on slide 26, and I don't know if you want to put it on the screen, if that's helpful to see, or you want to flick to it. But I think you can see from that slide the shape of it where I think the reality is we started the year, the calendar year with probably the weaker cabinet estate in the business. The code came in, as you can see on the slide, in the beginning of March. And then it was only really out of March and into the World Cup where we completed the rollout of 9,000 cabinets. So you get three competing effects there.

I think what's encouraging, I think, is the heart of your question, if I understand it, is what's the confidence in the 1% to 2% like-for-like growth. What we've seen through the World Cup period, but also subsequent in the current trading, is we've seen a very stable period of around about 1.5% to 2% growth in like-for-like machines. So that gives us the confidence in trading we've seen coming out of the World Cup in the five weeks' recent trading to give that guidance for the full year.

And your final part on dividend, I think -- well we think about the cash flows of the business in three ways. How do we invest in the business, how do we get the right kind of leverage and how do we support a dividend because we're quite conscious that dividend is important to our shareholders. So it's getting the balance of the three correct rather than overemphasize one or the other, really.

I think you've seen -- we're repeatedly said that we want to make sure that the dividend this year is maintained, 8.9p in the full year. That's at least flat on last year. And if you look at our cash flows and the expectations of the full year, the cash flow is eminently able of supporting a dividend of that level and keeping the leverage in the 1.5 to 2 times and continuing to invest in the business. So it's three things simultaneously.

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**Peter Erskine** - *Ladbrokes plc - Chairman*

Gentleman, there in the middle of the row, or towards the end. Thank you.

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**Jarrod Castle** - *UBS - Analyst*

Thank you, good morning. It's Jarrod Castle from UBS. Three questions if I may. Two on regulations. Firstly, you mentioned that you're a bit concerned about POC being poorly enforced. What around POC enforcement do you see as a possible difficulty? Just given what the US government does, they seem to be very good at that.

Secondly, what would you want the government to do in relation to dogs and horses to be more beneficial to the bookies?

And then lastly, just on potential shop closures, I know you're going to reevaluate, given what happens with government regulation on the machines. But when you look at the estate, what, post the 50 closures, would you consider as underperforming?

And I terms of under-performing, is that based on ROIC versus WACC or indeed loss-making? Thanks.

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**Richard Glynn** - *Ladbrokes plc - Chief Executive*

I'll take this first, Jarrod. And actually I don't remember saying anything about POC being poorly enforced, but I'm happy to take the question anyhow. I think POC is coming in. I think we've mentioned quite clearly that cost and contract renegotiations are only part of it, that I think that you have to apply the marketing disciplines which are going to defray that.

As you quite rightly say, the Americans have been pretty good at enforcing things in the post-UIGEA era. The government said that they'll start arresting people who don't have licenses if they enter European territory, I'd like to see that. I'd certainly like to see working with the credit card providers to make sure that people who don't have licensing don't get the due code and therefore passes the responsibilities too. I think that will fundamentally change the basis by which people can enter the UK and market into the UK.

Once that happens then I think that you will see a flight to brand and a flight to quality. And at this moment in time, we used the World Cup as our testing bed for competing in that environment post-POC. I think we performed well during the World Cup and we're well positioned to drive our brand into that world.

So those are the things that I'd like to see on enforcement. The question about dogs and horses, in particular horses, I think is a two-part question. The government really only has a role to play in levy and I think we've said quite clearly that we're happy with the levy continuing. The levy is something there that is to support the needs of racing, how much racing needs to keep going. It isn't something that racing wants. It's actually a formula how much they need. So until something better comes on, we're happy to work with the government on the levy.

The other side of the question is that I think across the industry you're seeing that turnover in horse racing is declining. I think you're seeing the fixtures less appealing with the average number of riders -- average number of horses down, more favorites winning.

We have a structural problem in the product. We want to work really closely with racing. Personally, I love it as a product. The customers love it as a product. But we need to work really closely with racing over the next few years to make sure that the interest of the 18 to 24s, 18 to 34 year old males increases in that product and also, to make sure that the costs are sustainable because at this moment in time, we have more people trying to take more of a pie out of horse racing -- out of betting rather than looking at the product and making that grow.

I'll just move onto shop closures. I don't actually -- when you use terms like ROIC and WACC, I look at Ian because he understands those acronyms better than I do. What we look at is things that are non-contributory. The shops that are non-contributory, we've taken it down from just under 3% when we started to less than 1% of the estate is now non-contributory. We look at that, we continue to drive that through. We will continue to look at that. And when we see regulation, we will continue to look at the impact that has and to say, what do we have to do to mitigate that.

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**Peter Erskine** - *Ladbrokes plc - Chairman*

Sir?

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**Jarrod Castle** - *UBS - Analyst*

No, that's it. Thank you.

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**Peter Erskine** - *Ladbrokes plc - Chairman*

And then the gentleman in front.

**Vaughan Lewis** - *Morgan Stanley - Analyst*

Sure, thanks. Vaughan Lewis from Morgan Stanley. Just looking at retail in aggregate, there's a very wide profitability gap with your peers. Is there anything you can do to close that? And is that the idea behind the GBP3m to GBP4m of cost savings? And what would the full-year benefit of that be in 2015?

The second one, could you just give us what the pro-forma point of consumption tax hit would have been in the first half for the digital business?

And then thirdly, Richard, you talk a lot about profit growth returning in the second half and into next year. Are you expecting profits to be up in 2015 then? Even with all the moving parts and all the extra duties and so on?

**Peter Erskine** - *Ladbrokes plc - Chairman*

Well, Ian, take the first two parts, if you will, and then --

**Ian Bull** - *Ladbrokes plc - CFO*

Yes, I think on shop profitability, Vaughan, I think obviously the closest comparator would be William Hill, I think if you look at that, if that was your point. I think we look at it in different ways. If you look on a per-shop basis, from a staking level, actually we stand up very well against Hill's, in fact, we're slightly ahead on a per-shop basis. I think where we see -- and obviously with a focus on football, which counters the horse staking, we expect to make more progress there.

I think where we can see the gap is on OTC gross win margin. I think we've seen a gap historically between ourselves and Hill's, which Nick and the team have done a lot of focus on, really, in starting to close that gap. So more to do. But there is a bit of gap there.

Machines growth, I think we're pretty much neck and neck with our friends in terms of performance on a per-shop basis. And costs, I think we've taken a slightly different approach to Hill's, if I'm honest. Because I think we have invested to grow. And you see that in the OTC performance. Now clearly we'll keep that under review, but we've invested in Wi-Fi, we've invested in Sky, we've invested in the customer experience and obviously multi-channel plays a role in that one.

So we've invested to grow and we'll see how that performs and we'll keep that under review. Finally, from an estate optimization point of view, we're going to keep on optimizing.

So I don't think it's as simple as just cost. I think there's a number of facets and we want to keep focusing on in retail but fundamentally, a belief in the strong, sustainable business.

**Peter Erskine** - *Ladbrokes plc - Chairman*

And point of consumption on digital?

**Ian Bull** - *Ladbrokes plc - CFO*

It's probably -- if you take the front half, it's probably around about GBP11m, is the POC impact pro forma. Just for the front half.

**Vaughan Lewis** - *Morgan Stanley - Analyst*

And just the full-year annualization of the retail cost savings in next --?

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**Ian Bull** - *Ladbrokes plc - CFO*

Oh, well are you looking for next year? I'll give you stronger guidance on cost impact next year. We've lowered the guidance to 4.4% for this year. So in February give you the guidance for next year.

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**Peter Erskine** - *Ladbrokes plc - Chairman*

I think your point on profit, we've always said the first half was about operational delivery and the profit wouldn't be very special. We've always said the second half would be better. We're comfortable with the consensus that's out there. And we're really not in the position where we will be giving any guidance for next year as yet. But we're very confident that the machine will start to deliver in the second half of the year and continue.

Thank you.

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**Richard Stuber** - *Nomura - Analyst*

Hi, Richard Stuber from Nomura, please. Just a couple of questions. The first one is, I know you've exited some more grey market places, could you say what percentage of your revenues will still be coming from grey markets after you've exited the ones you've announced?

The second question is on the horse racing versus other sports. Could you say what the split is by, say, net revenue for both the retail division and the online division is?

And the final question is, I see in your announcement, you mentioned you have a license in Nevada which you got a few months ago. Could you tell us -- can you give us more color around that and what you hope to do in the US? Thank you.

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**Peter Erskine** - *Ladbrokes plc - Chairman*

The first two parts for you, Ian.

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**Ian Bull** - *Ladbrokes plc - CFO*

Hi, Richard. So grey markets, as you noted, we've exited a few. We keep these things under constant review because we have to look at regulation and legal framework in each of those. I think if you're looking for where or how many more, if you look at our .com business, we're still over 90% is the UK. So it's a pretty small proportion of what's outside the UK.

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**Peter Erskine** - *Ladbrokes plc - Chairman*

Nevada, Richard?

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**Richard Glynn** - *Ladbrokes plc - Chief Executive*

Nevada, yes. As we said, Nevada, we own a business out there. It's a technology platform. We're very pleased with the licensing program. We're now an open and unrestricted -- Ladbrokes is an open and unrestricted licensee in Nevada, allows us to do everything.

We're rolling out a mobile platform in Nevada now which is going through regulatory approval as we speak. We provide the platform to a number of the casinos out there. In fact, I think if you look closely enough, we provide the platform to one of our major competitors out there, which is always sweet.

But it's very much just a stake in the ground. I think that as you find regulation evolving in the US, we want to be out there and we want to be very well positioned to compete, particularly in sports betting, as and when this opens up. And particularly now that we have a pretty damn good exchange platform which may well play quite a part in the US going forward.

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**Peter Erskine** - *Ladbrokes plc - Chairman*

Next.

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**Richard Stuber** - *Nomura - Analyst*

Sorry, can I just follow up on a question which wasn't answered? Do you have --

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**Peter Erskine** - *Ladbrokes plc - Chairman*

The split, you're right.

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**Richard Stuber** - *Nomura - Analyst*

(Multiple speakers) splits between horse racing and other?

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**Ian Bull** - *Ladbrokes plc - CFO*

Yes, so if we start with retail, we're -- actually, what's very interesting if you look at the last set of results, ourselves and Hill's are pretty much an identical proportion, which is horse racing and dogs, which together are about two-thirds of OTC staking. And in digital, the proportion -- I can't remember -- is probably about 30%. It's a much lower proportion in digital than it is in retail.

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**Peter Erskine** - *Ladbrokes plc - Chairman*

Another gentleman a couple back, a couple of rows back. Thanks.

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**Ian Rennardson** - *Jefferies International - Analyst*

Yes, it's Ian Rennardson from Jefferies. In the digital business, what's your absolute ambitions? You've made GBP3m of EBIT this year, Hill's made GBP81m in the first half. Where do you think you can take that business?

And secondly, are you seeing any pressure from Playtech to renegotiate the terms of the deal because they're way off getting paid?

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**Richard Glynn** - *Ladbrokes plc - Chief Executive*

I'll take those. I don't think we've made any secrets about our ambition. First of all, the ambition rather glibly is to grow quite dramatically. If I look at the UK, we have about a 22%, 23% market share in retail. Of course, there are more competitors in the online space. But I don't see any reason why over the next couple of years, we can't get back to our representative proportion of the digital space and grow outside the UK quite noticeably in digital.

So that is our -- the scale of our ambition. I think if you look at the fact that casino's just coming on stream for us now, that cross-sells are only just starting for us, the scale of the opportunity for the Ladbrokes brand is really quite exciting.

A lot of focus, still an awful lot to deliver, still people really, really keen to make sure that we take nice steps. But there's some good opportunities there for us.

If I look at the Playtech deal, we're one year into a four, four and a half with an option for a fifth, sixth year on that deal. There's still a minimum of four years to go on that. There's an awful lot left to play for. I don't think that anyone would have anticipated that we would have integrated the products, the platform, the technology, the people, set up Ladbrokes Israel, migrated all the customers, segmented the database in much less than a year.

We had a target -- they weren't moving the first match of the World Cup for us, so we had to get it all done in time there. We've now got four, four and a half years to actually capitalize on that.

All of our goals are absolutely aligned. The congruent goals all based on growing EBITDA. We'll talk about how much money they're going to make at it at the end of the five-year deal, not one year into it.

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**Ian Rennardson** - *Jefferies International - Analyst*

Thank you.

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**Peter Erskine** - *Ladbrokes plc - Chairman*

Gentleman on the end of the row.

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**Ed Birkin** - *Credit Suisse - Analyst*

Morning, it's Ed Birkin from Credit Suisse. Just on UK Retail, can you give us an idea of the contribution of the SSBTs, even in terms of absolute revenues or perhaps to the growth in OTC?

Secondly, can you tell us when your contracts for SIS and Turf TV are up for renewal?

And then finally, in digital, can you give us an idea of what your CPA was, cost per acquisition in actual terms and then compared to last year?

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**Peter Erskine** - *Ladbrokes plc - Chairman*

Mainly for you, Ian.

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**Ian Bull** - *Ladbrokes plc - CFO*

Yes, it sounds like me. Morning, Ed. So SSBTs are -- they're an interesting but not an -- the major -- not a significant proportion of OTC in terms of over-the-counter turnover yet but they're an interesting proportion. I'm not going to give you the exact split. I think that's quite relevant for us to keep that as a commercial secret.

I'd love to tell you about the depths and details of the Turf and SIS contract but I'm afraid we're commercially not permitted to do that but they're multi-year contracts.

And digital CPA, we were GBP70 for the front half of CPA. I think last year we were --

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**Richard Glynn** - *Ladbrokes plc - Chief Executive*

GBP91.

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**Ian Bull** - *Ladbrokes plc - CFO*

-- GBP91, GBP92. So a big step forward for the Ladbrokes team -- Ladbrokes Israel team.

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**Richard Glynn** - *Ladbrokes plc - Chief Executive*

I'd just add two things on that, Ed. That the CPA was pleasing because this is a time when you have Cheltenham and the World Cup in there when actually competition for customers is intense and you would expect pressure on the CPA. So the discipline was really good there.

And the SSBTs, the key about the SSBTs is if your focus is on driving football and 70% of it's football, 40% is bet-in-play and a lot of it is incremental, it builds the football relevance in the estate and it binds the 18 to 34 year olds into a more digitally-based experience in the retail estate. So that I think is the key, rather than the absolute number at this moment in time.

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**Ed Birkin** - *Credit Suisse - Analyst*

Okay, thank you. Can you give us an idea of what the growth contribution was then? Out of the -- the turnover growth?

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**Peter Erskine** - *Ladbrokes plc - Chairman*

What, on SSBT? I suspect, without knowing, he won't. But let's try.

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**Ian Bull** - *Ladbrokes plc - CFO*

I promise, off the top of my head, I don't know what it is anyway. Leave it with me and then we'll have a look it and

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**Peter Erskine** - *Ladbrokes plc - Chairman*

give you more clues outside.

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**Ed Birkin** - *Credit Suisse - Analyst*

Thank you very much.

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**Peter Erskine** - *Ladbrokes plc - Chairman*

Any other questions? Gentleman on the end.

**Patrick Coffey** - *Barclays Capital - Analyst*

Sorry, another one from me, Patrick Coffey at Barclays. Just a question on shop staff and how they're incentivized. So obviously we've got the regulatory changes and staff are now encouraged to interact with the customer, potentially asking them to stop betting on the machines.

In terms of their incentivization, are they incentivized on a sales per shop basis? And therefore is that likely to change if they're going and effectively telling customers to potentially consider spending less in the shop? Thanks?

**Richard Glynn** - *Ladbrokes plc - Chief Executive*

I think we've got to be really precise on what staff are doing. Staff are intervening with a customer when a customer goes beyond their preset personal limits or where they're exhibiting any signs of distress. They're not telling customer to stop betting, the goal is socially responsible betting; it isn't no betting. So what the customer is doing is helping -- what the staff are doing is intervening in a very well-trained way to help a customer to help themselves.

There is an inevitable downturn on turnover as a consequence of that. Staff are incentivized on many facets, the quality of care, compliance with the Think 21 regulations, the overall performance of the shop, the overall performance of the estate, their personal scores from their managers.

There is no contradiction whatsoever between the absolute application of the spirit and the law of the code with making more money in a shop and the customers -- and the staff are really trained to make sure that actually by interacting with customers, they get a better experience, a better long-term experience.

The vast majority of customers enjoy their betting without any problems at all. It's from those customers that we'll get the growth. Our job, as well, is to help customers who need to help themselves. There's no conflict between the two.

**Peter Erskine** - *Ladbrokes plc - Chairman*

Any final questions. I don't see any.

Thanks for coming. Just so that everybody's completely clear, because always the risk at these things is what you think you said isn't what people have heard.

We are encouraged by the World Cup and frankly why, because we've kind of proved that the machine we've built in digital now works, it can cope with the scale, our cost of acquisition was very sensible and we were very encouraged with the growth. But there is absolutely, amongst the executive, no sense of complacency and we very much recognize as a business that it's all to deliver in the second half and ongoing in getting this machine we've built to work in the financials.

We've very encouraged that we can continue to improve retail but we're also very pleased with where we've outturned the first half year operationally on digital.

So thank you for listening, we look forward to seeing you all in six months' time. Thank you very much.