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LAD.L - Q3 2015 Ladbrokes PLC Interim Management Statement Call

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PRESENTATION

Operator

Good day and welcome to the Ladbrokes Q3 Trading Statement call. Today's conference is being recorded. At this time I would like to turn the conference over to Jim Mullen, Chief Executive Officer of Ladbrokes and Ian Bull, Chief Financial Officer. Gentlemen, please go ahead.

Jim Mullen - Ladbrokes Plc - CEO

Thank you. Good morning, everyone, and thank you for joining us today for our Q3 IMS statement. I'm joined by Ian Bull and Richard Snow from Investor Relations. And after some words from us, it will go over to you for questions.

As ever, I assume most of you have read the documents so we won't plow through all the details, but we'll try and highlight the things that we feel are important in the statement.

Let me first address what isn't in this statement, and that is any extra detail or insight on the merger. I'm afraid there's little for us to update you other than we're working hard on both the CMA process and on the shareholder circular, having completed the financing process, which Ian will talk about in a minute. We are progressing to plan. And we expect to post the circular convening the shareholder meeting shortly.

So on to the results. Obviously at PBIT level, Q3 and 2015 sits against a very different Q3 in 2014 and is, as you all anticipated, significantly down on last year. With point of consumption, MGD and no World Cup, we would encourage everyone to be mindful that straight comparisons on profit may not be quite as simple or help unpick what's happening in our business. But these results are in line with our expectations. So I would describe these as a par score and we are not changing our expectations for the full year in either direction.

The key thing is that we have been doing to drive our strategy across the business. Since we last spoke, we have continued to invest in increased marketing to bring our offer to the customers' attention, to maintain our value and we have continued to launch new products to meet and exceed customer expectations when they come to us.



What the numbers today suggest is that whilst early days, there is traction. As I said before, we are targeting the recreational customer and we are basing it on our sportsbook offer. So it's pleasing to see over the counter and ladbrokes.com sportsbook staking up 1.6% and 34% respectively, driven by both football and racing products and mobile, in particular, sportsbook up nearly 70%.

Margins are a bit softer than our plan, largely due to racing results in September. But let's also be frank; we are investing some margin in the value offer because the customer demands value, especially when you're trying to win them back. In UK retail you can see some of the benefits of this where our Happy Hour is undoubtedly delivering better horse race staking and customer activity.

Looking at ladbrokes.com, where we are targeting actives growth, Q3 actives were up about 6% against a World Cup quarter last year where we undertook significant promotional activity. But looking at the weeks after strategy launch, actives were actually up 15% to 20% week on week, showing how our increased spend is driving customer growth.

The story behind the recruitment of these customers is also evidence of a key change we are pushing through the business and that key competitive advantage we have at Ladbrokes that is multi-channel. In August we started the football season, still trialing our bet slip tracking technology and our multi-channel incentive and training program for UK retail staff across a small group of shops. These trials are accelerated so we can roll them out across the UK during August.

Our multi-channel program has already recruited well over 20,000 digital customers across gaming and sportsbook. The fact that these customers have used our bet slip tracker over 330,000 times suggests our technology works and it is popular. I would like to add, our approach to innovation is not blue sky; it's innovation, it's practical, it is live and is in operation.

This rollout and the drive and enthusiasm in our retail estate to sell the benefits of multi-channel is one of the highlights itself in this quarter.

It is also worth noting that the SSBT rollout is happening to plan and its staking growth is encouraging. With a further 1,350 rolled out by the end of Q3, they now account for 5% of the total OTC staking, up from 2% in Q3 last year.

Also in these results is the fourth sequential quarter of growth in gaming at Ladbrokes Israel, with the fully functional IMS and Single Wallet are able to cross-sell and recruit even more effectively.

Finally, Australia. Here the team continued to market and innovate to compete. The numbers are good, with staking up over 60% and actives up nearly 90%. Revenue is up over 25%, despite weaker margins and higher promotional activity. So a good result from the team down there.

So, in summary, we have started as we planned. And these results are where we wanted to be. Perhaps the most exciting aspect of these results is what is not seen in the numbers, but in the attitude I see in our teams when I'm out and about in the regions and in the estate. From Brisbane to Brighton, Brussels and Tel Aviv there is a belief in the quality of our offer and a confidence driven from our commitment to aggressively market it. The numbers today will encourage our teams to give them momentum to push on towards our 2017 targets.

Thank you and over to you, Ian,

Ian Bull - Ladbrokes Plc - CFO

Thanks, Jim, and morning, everyone. So I'm just going to cover three things and then we'll move on to your Q&A. The three things are the drivers year over year on our Q3 EBIT, merger financing and net debt movement.

So let's first of all, look at the EBIT at GBP14.3m which, of course, is down around GBP19m year on year. It is in line with the guidance we gave at the interims, back at the beginning of August. So, if you look at the drivers of this, on the one hand, there are year-on-year headwinds that are, of course, a feature of 2015. So MGD, POC and gray markets withdrawal. We would estimate that has an aggregate effect of around about GBP11m in Q3. And, for you to note, that will probably lessen to around about GBP9m in Q4.



Secondly, margins overall were on the softer side of normal, with better football being offset by weak racing in September. But in an absolute sense, they are well down on a very strong Q3 last year. In retail they were 15.5%, down 150 basis points on Q3 last year. And, in .com, sportsbook margins were down 210 basis points to 6.8%. Overall that would probably equate to around about GBP12m or so on 2014's staking level net of tax in .com and UK retail.

Equally, we have increased our marketing spend, as we said, and marketing intensity as we implement our strategy to grow our recreational customer base.

So when I look back at Q3 overall, we are on cue on PBIT expectation, as we guided back in August. We've got good staking and, frankly, a little bit better than we'd planned. Those are covering the weaker margins, but at GBP14.3m there is no getting away from the fact that it also shows how much we still have to do to increase profits to a sustainable level.

Let me turn now briefly to merger financing. And I was very pleased with the positive response we received from our relationship banks in putting together the new relationship -- the new financing facility. The enlarged Group will have debt facilities of GBP1.35b on attractive terms and, in our view, sufficient for the enlarged Group's working capital requirements, following completion.

Getting this financing done means that we can now move to posting the circular and the notice of meeting to shareholders requesting approval for the proposed merger. And I expect this will go out in the very near future.

And finally, looking at the net debt movement, you will see that the decrease to GBP311m reflects almost exactly the net proceeds of the 10% share placing we did in July.

Nothing unusual really to report at all in the quarter from the working capital and the cash point of view.

And looking at net debt to a trailing 12-month EBITDA, I think we're probably at around about 1.9 times at the moment.

So thank you for listening and over to you for the Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Gavin Kelleher, Goodbody Capital Markets.

Gavin Kelleher - Goodbody Capital Markets - Analyst

Morning, guys. Just firstly from me, just the gross win margin in retail, down a 150 basis points year on year. Could you strip out how much of that was results driven, that decline, and how much have you invested in this value you're talking about? And is that going to remain in place that you'll continue to invest in value? Just trying to get a sense for how much that is actually costing in terms of margin, please, firstly. That question for retail.

And then if there's any kind of value investment in online, how much of the 210 basis point reduction year on year that was driving?

Ian Bull - Ladbrokes Plc - CFO

Morning, Gavin. By far and away the lion's share of the year-on-year movement is we're comping against the World Cup last year. So if you look at World Cup last year, for example, we were seeing, in sport in OTC, a very decent 30 type of number as a gross win margin last year. And clearly this

year has been a much more normal type of football margin, so a huge, huge swing year over year from a football point of view. So that is by far and away the largest driver of gross win year over year. And that's true in both the over the counter margin and the digital margin.

Secondly, I think horse racing for everyone -- and it started really with the St. Leger festival -- has been pretty customer friendly in September. So that's cranked down the margin a bit further in Q3 of this year.

And on the promotional base, now I'll ask Jim to say a few things. It's a relatively small bit. With Best Odds Guarantee and margin investment, it's something we're quite controlled about. We're trying a few things about, but it's a relatively small part of any margin movement.

Jim Mullen - *Ladbrokes Plc - CEO*

And, Gavin, just to be clear, I want to move the narrative on to margin as lever to promote value within the Company, because that is what it's there for. It is important that we get our recreational customers back. We will use margin where we think is appropriate, and judiciously. We will do it in a controlled way, and it will be measured. But a good use of margin is one of the levers that we use as part of our marketing mix to attract the right type of recreational customers back to Ladbrokes.

Gavin Kelleher - *Goodbody Capital Markets - Analyst*

Okay. And is there any value -- are you using value in online to the same extent, or how should we think about that?

Jim Mullen - *Ladbrokes Plc - CEO*

Yes, we use it to different extents, depending upon the product and the yield of customers online and retail. And I don't want to remove the narrative that margin is not there to attract the right type of recreational customers, so applied across both channels.

Gavin Kelleher - *Goodbody Capital Markets - Analyst*

Okay. Just on the amounts wagered increase you saw on over the counter staking. It was at 1.6%, 4% if you exclude the World Cup. Obviously football a key driver of that. Can you give us a sense of what's happened to racing on an underlying basis in the period and how much of that do you think was driven by recycling?

Ian Bull - *Ladbrokes Plc - CFO*

So I think in Q3 actually, for the first time, I think we were pleased to see that horse staking in Q3 over Q3 was slightly positive. Now I'd quickly acknowledge it's got a weak comp from Q3 last year, so in no way are we trying to say everything is going hugely but, yes, I think it's notable that it's positive. Clearly we have to acknowledge equally that some of that has to come from a weaker margin as well. So I don't think that scientifically we can isolate it and point precisely at what's recycling, what isn't. But I think it is worth noting that, with the emphasis particularly the team has done on retail, on shops, and what we're doing, that staking is positive on horse in the quarter.

Gavin Kelleher - *Goodbody Capital Markets - Analyst*

Thanks Ian, thanks Jim.

Jim Mullen - *Ladbrokes Plc - CEO*

Thank you.

Operator

Nick Edelman, Goldman Sachs.

Nick Edelman - Goldman Sachs - Analyst

Thanks very much. Morning, everyone. Just a couple of questions please. Firstly, just in terms of the online investment, can you just talk about your CPAs and if you're happy with how they've moved.

And then, secondly, in terms of the SSBTs, can you give an idea of how much you think in that's incremental; maybe how much of the volume on SSBTs is bets in play would be an indication of that. Thank you.

Jim Mullen - Ladbrokes Plc - CEO

Hi, Nick. I'll take the CPA point. I'm not going to give you the exact or share the exact CPA cost. I will give you some guidance on the important inflows in CPA. The -- we should not underestimate the importance of multi-channel to our strategy. The reason why we do that is that the cost of acquiring a recreational bettor via a retail estate is about 20% to 25% of the cost of acquiring the same qualified bettor online.

What are the two key factors? The first one is every time, or in the main, a customer walks through the door of our retail shop, they are qualified as a sports bettor. We're also finding, encouragingly, that the yield of those customers who we're acquiring at a much cheaper rate is higher, roughly by about 1.5% -- 1.5 times higher than an online customer. So with the growth of multi-channel, which I have said will be tens of thousands by the end of the year, that will have a positive impact in overall CPA and yield of our customers.

Ian Bull - Ladbrokes Plc - CFO

Nick, I'll take your question on SSBTs then, shall I? I think there are a couple of things to say. One is, I think we're encouraged by the performance of SSBTs is the headline on that one. It's now in the quarter is just over 5% of total staking. So I think that's -- I think it's demonstrating how popular these are with customers.

Certainly we've studied this quite hard to the extent you can create control groups. And I think we're pretty convinced that there is a meaningful proportion that is truly incremental, both in staking and margin. I'm not going to put precise numbers out into the market, but I think you can take some assurance that where we've been able to have control groups, we can show that this is incremental. And it's incremental net of all the direct costs at the same time.

So I think we're encouraged by the performance of SSBT. It's showing that customers like it and it's helping our business.

Nick Edelman - Goldman Sachs - Analyst

That's great. Thanks very much.

Operator

Vaughan Lewis, Morgan Stanley.

Vaughan Lewis - Morgan Stanley - Analyst

Hi, morning. Just on the multi-channel stuff and the bet slip tracker, would you anticipate that you'll need to offer retail customers the same prices and offers and value as they're getting on their mobiles? At some point it seems odd that a retail customer with a bet slip tracker will be having different prices than if they actually place the bet on the mobile.

Secondly, for online overall, you talked about the CPA there a bit. Can you just give us some flavor on the trends for new customer sign-ups; what sort of growth we've seen there given the additional investment? And within ladbrokes.com, its flat sportsbook actives, is that a bit disappointing given the extra investment and does that reflect any disruption from moving the platform, or is that just World Cup comps?

And then, thirdly, just following on from Gavin's question on OTC trends, is it just recycling and easy comps then that's driving that staking growth, or do you think there's some extra consumer confidence and consumer spending coming through as well? Thanks.

Jim Mullen - Ladbrokes Plc - CEO

Morning, Vaughan. I'll take the first one on prices. It's a good question actually. Look, you walk into one of our shops, you can get the retail price. You can get the online price on your phone. We even find some of our customers are online multi-channel customers and now adding in the shop. We used to worry and fear about it. We shouldn't. Choices are available. It's about making sure the product is right. We have seen the run rate, that 330,000 run-rate usage of the bet slips tracker being maintained.

I'll be absolutely frank with you, Vaughan, we were surprised about how successful it's been. We haven't yet had any issues with regard to price differentials in the shop. Some customers are very, very finely attuned to the price and will ask for an online price and we will serve them. Other customers are just happy with the product and ability can actually use the products. So at the moment we are not seeing a particular barrier for our bet slip tracker.

Ian Bull - Ladbrokes Plc - CFO

Vaughan, I'll come on to your other questions. I think you had one on sportsbook actives and whether we were pleased with them or not. So I think we're reporting them at 1.7% growth on the quarter. Actually if you ex-out the World Cup, it's probably more like 18% or 19% growth. And let's bear in mind that Q3 last year that was on the back of 33% growth.

So I think sportsbook activity has got some underlying progress to it. And I think it is responding to the type of promotional work we're doing, so I think that's encouraging.

OTC trends, to just go back, I think you had a question on the back of Gavin's question. So I don't think we are trying to say that the positive performance is all recycling. I think it's difficult to disaggregate into the main point, is what I was trying to say. Clearly we are seeing benefit from the Best Odds Guaranteed and we are seeing benefits from focusing on the products and we are seeing benefits from our marketing process. It's an aggregate effect of all three, really. So I think really, overall, to see horse staking growth in OTC is a good step forwards for us.

Vaughan Lewis - Morgan Stanley - Analyst

And new customer sign-ups online?

Jim Mullen - Ladbrokes Plc - CEO

New customer sign-ups online have been encouraging. I think the important point to make, Vaughan, is that even though it's roughly 5% like for like, if you look at the period after the World Cup, we're looking at 15% to 20% uplift on actives. And we're extremely encouraged by that. So we

think that the product is there. Most of that is coming through our mobile products, where most of our investment is going into. However, not to say that we've launched a new Mobenga desktop the desktop. So we are extremely happy and encouraged with where we've been so far.

Vaughan Lewis - *Morgan Stanley - Analyst*

Great, thank you.

Jim Mullen - *Ladbrokes Plc - CEO*

Thanks Vaughan.

Operator

Patrick Coffey, Barclays.

Patrick Coffey - *Barclays Capital - Analyst*

Yes, hi, everyone. Just three from me, if that's okay. Can you just remind us the percentage of sportsbook bets online that were from mobile. And within your organic growth strategy, what percentage of online bets do you expect to be from mobile in the next three-years time, given your investment there?

Also, following on from Vaughan's question, ex-World Cup, obviously unique actives up 18.5% and amounts staked up 40%, both ahead of the market. Which operators do you think you're winning these recreational customers from? Or, less specifically, do you think you're winning these customers from big operators or small operators?

And then, finally, again no mention of Betdaq in the statement. Is it a core part of your proposition? And you can you remind us the profit contribution from Betdaq in Q3? Thanks.

Jim Mullen - *Ladbrokes Plc - CEO*

Hi Patrick. Three very good questions. Just on the mobile breakdown of stakes, it's roughly about 55 -- sorry --

Ian Bull - *Ladbrokes Plc - CFO*

In the quarter about 70%. Just over 70% in the quarter.

Jim Mullen - *Ladbrokes Plc - CEO*

70% and by the time we get to full year, 70%. Then I'm looking consistently north of 80% to 85% which I think I've said previously. That's why the investment in mobile and staking trends on mobile are extremely important.

With regard to big operators, to be honest, Patrick, I don't care as long as they are recreational, high-yielding operators. So we are hopefully taking from all of our competitors. I think the only thing to basically highlight, in multi-channel we are clearly targeting retail customers. So I would be looking for it to index across the size of the estates of William Hill, Coral and Paddy Power so a fair cross section of share of wallet from those retail customers is what we would expect.



And with regard to Betdaq, Betdaq is an important portfolio product for us. It wasn't there in there pillars because it's running well; it's found its rhythm now. And with regard to profitability, Ian, do you have that?

Ian Bull - *Ladbrokes Plc - CFO*

It's profitable but it's at quite a small level in a Group sense.

Jim Mullen - *Ladbrokes Plc - CEO*

Yes. So it's a minimal impact here, Patrick.

Patrick Coffey - *Barclays Capital - Analyst*

Great, thank you very much. Can I just ask, is it possible to strip out your growth in unique actives, ex the multi-channel customers in Q3?

Ian Bull - *Ladbrokes Plc - CFO*

Yes, of course, we can, but I'm not sure it's something we want to put into the public market for the moment.

Patrick Coffey - *Barclays Capital - Analyst*

Fair enough. Cheers.

Ian Bull - *Ladbrokes Plc - CFO*

Thank you.

Operator

Nick Batram, Peel Hunt.

Nick Batram - *Peel Hunt - Analyst*

Hi, good morning, guys. A couple of questions. One, a follow up on SSBTs, I just wonder how the new machines are performing compared to the earlier ones that you'd put in and whether actually you're learning from that experience in terms of driving volume through those machines?

Secondly, actually on the other machines, the performance looks pretty good, given it's post a GBP50 journey and you've already got positive momentum in that business so the comps are quite tough. I assume the performance is probably largely driven by the B3 content and I just wonder, one is am I right, and two is what does B3 now account for in terms of machine revenues?

Ian Bull - *Ladbrokes Plc - CFO*

Okay. Nick, morning to you. So SSBTs, and we are now up to something like just over 4,000 is the total of the machine installed estate as at the end of Q3. So there are still shops where we are putting machines into for the first or the second time, really. So it's a very interesting question you have, and there are a number of different cohorts now in the machines group.



What I can say is we continue to be encouraged by what we're seeing in terms of the older cohorts and, indeed, the new cohorts. I think it's -- as I said, we've been quite bold in terms of usage of SSBTs. And it's certainly responding -- getting good response by customers. So I can't break it down any further with any more certainty at the moment because some of these are relatively new. And I think it's unreliable trying to do it on a relatively short number of weeks today. But what we're not seeing is any major change in what we expected, so I think that's good.

Secondly on machines, I think again we've been pleasantly surprised by the performance of machines in the last quarter. Kind of you to note the year-over-year growth. I think the real thing that we are most encouraged behind that is it's a continuation of an existing strategy because what we've done is concentrate on slots, low-staking products. That is still growing.

So I think we talked in Q2 that slots were growing by just over 30%. In Q3 they've grown by just under 30% and that's coming on decent numbers. And they are now up to 40% of the entire gross win. So I think that's really important because it's a good, sustainable and responsible income flow as part of machines.

I think the second thing behind that is that we've been very consistently thinking about new products and new product development and the frequency of that. And I think our machines team remain confident that we have good products there. We have a good relationship and they want to keep progressing out our machines in front of customers.

Nick Batram - *Peel Hunt - Analyst*

That's great. Thanks. Just on SSBTs, is there much product evolution, or is it just simply about getting more volume out?

Jim Mullen - *Ladbrokes Plc - CEO*

I think it's both Nick I think we need to look at the scope of end-play markets that we offer. I think we need to look at the scope of different sporting events that we offer. Obviously we're focused on football, but we know that tennis is a growing in-play market. It's ensuring that we have the widest range of events and markets possible, as well as a maturing, growing SSBT market.

Bear in mind that when we put one of these terminals in, there is a pick-up period where it gets to a level of maturity. And as we grow the scale of that, we expect that to continue to grow as well.

Nick Batram - *Peel Hunt - Analyst*

That's great. Thanks a lot.

Jim Mullen - *Ladbrokes Plc - CEO*

Thanks, Nick.

Operator

Joe Thomas, HSBC.



Joe Thomas - HSBC - Analyst

Good morning. A couple from me please. Firstly, I was just thinking about your risk management. Previously part of the narrative at Ladbrokes was weeding out some of the sharper customers and that would deliver a benefit to your win margin. I just wonder where we are on that and whether you think that job is now done.

And then, secondly, back on to the point on Betdaq, interestingly you say it has now found its rhythm and it's performing quite well. Could you just add a little bit more color to what it is now doing differently to what it was doing in the past and to what extent it's going to be integrated more closely into the wider Ladbrokes business.

Jim Mullen - Ladbrokes Plc - CEO

Okay. Just on risk-hi Joe, just on risk managing, I think our risk management and liability management stakes factoring has improved significantly over the last 12 to 18 months. My view on this, part of liability management is that it never stops because different types of customers come in. We've already focused on -- we've already mentioned the recreational customer base. So we are -- the appetite for encouraging the higher-value, informed customers at Ladbrokes is changing to a larger-scale recreational base. So we think that that's improved some way, but we'll continue to do so.

Regarding Betdaq, Joe, I don't know what more to say. It's found its rhythm. It's hitting its plan. More and more of our customers see it as a portfolio product to cross-sell into. Our exchanges are a really good offer actually. And will we be investing the millions to compete with the likes of the Betfair of this world? Probably not, but for our Ladbrokes recreational customer, it's a great portfolio product which is the reason why it wasn't a pillar on the organic plan.

Joe Thomas - HSBC - Analyst

Okay, thanks. The reason I asked the question about risk management is there are various things going on the win margin this time. We have the negatives of sports results and also the investment in the product, but also a positive presumably from better risk management. I just wonder to what extent that has been offsetting the underlying margin weakness in the business.

Jim Mullen - Ladbrokes Plc - CEO

That would have been very, very small, Joe. I wouldn't say that it's a significant factor in the outlook.

Joe Thomas - HSBC - Analyst

Thanks. And just very finally, I know you don't disclose freebets, but free betting online, can you give any sense at least of where you are running now versus your competitors?

Ian Bull - Ladbrokes Plc - CFO

Well, I think Joe -- Joe, it's Ian. I think freebets are one of the components we'll use in recruiting recreational customers. So I'm not sure we can give a much more precise answer than that, really.

Jim Mullen - Ladbrokes Plc - CEO

Joe, free bets, above the line, below the line and margin are all part of the marketing mix. So we use it where appropriate and we use it where we think we get high-yielding recreational customers. Not be able to give you the number, but it's a lever that we have.

Joe Thomas - HSBC - Analyst

Okay, thanks.

Jim Mullen - Ladbrokes Plc - CEO

Okay.

Operator

Ed Birkin, Credit Suisse.

Ed Birkin - Credit Suisse - Analyst

Hi, morning. Just on the SSBTs, can you confirm that that's the same margin as, or similar margin to OTCs? And, therefore, given the majority is football, that would actually be above the merged OTC margin.

Secondly, can I clarify -- have you changed -- earlier in the year, did you change the B3 payouts and, if so, when did that happen so I can get an idea of when the comps change?

And then finally, just comments on the BHA, looking at racecourses and saying that operators who or bookmakers who don't pay the levy online, may be precluded from new sponsorship deals with racetracks. I don't know if you've got any thoughts on that. Or, if not, can you give me an idea of how long a typical, existing sponsorship contract would be with a racetrack? And then would this be coming up for renewal in 12 months, two years, three years? Thanks.

Ian Bull - Ladbrokes Plc - CFO

Ed, morning. So you're quite correct in your thoughts on SSBT margin. It is, on average, higher than the average OTC margin because of the football and multiple bias, so that's correct.

Secondly, I'm not aware of any significant changes we've made on B3 margin. It's probably more a question of what you see as a mix of products. Slots do vary by product. So if you are detecting margin movement, I think it's more of a mix change rather than a rate change.

Jim Mullen - Ladbrokes Plc - CEO

And product rollout, continuous product rollout. On that, just on the BHA, we are willing to work with the BHA. We want to secure a deal for 2016. We think it's important. We like sponsoring racing. It would be a shame if we couldn't. I think that if we do work together, I think the racing product can improve and I am sitting in a positive position. Obviously there's -- some negotiations are ongoing, but all I can say is that -- I can't speak for the rest of the sector, but as far as Ladbrokes is concerned, we are very, very keen to get a solution on this.

Ed Birkin - Credit Suisse - Analyst

Okay. But in terms of when this might bite if you're doing this sponsorship, do the deals look to be running out in 12 months? Just an idea of how long a typical race course sponsorship deal would be.



Jim Mullen - *Ladbrokes Plc - CEO*

Well, it depends. It can be 12 months to three years. The deadline is actually the end of October, so it's not long, it's days to actually get to some agreement between ourselves and the BHA. All I can say, just on record, is that we are committed to racing. And we want to have a deal for 2016. So if we can work well with the BHA, then I'm sure that can happen. It won't be through any sort of trying on our side.

Ed Birkin - *Credit Suisse - Analyst*

Okay, great. And then just following up on the margin, if you're looking out to 2017 where you've got the financial targets that we're modeling there, clearly you said you've invested some margin in getting a more competitive proposition. But at the same time you're trying to get more retail customers and football is growing quickly. Horse racing's been flat. Should we therefore see some margin expansion, given the football, SSBT, recreational customer dynamics, so a high gross win margin in 2017 on a normalized level?

Ian Bull - *Ladbrokes Plc - CFO*

It's a brilliant question, Ed, and there is a multi-faceted answer to it. Of course, the more we move to engage customers on a recreational basis, then that will have a slightly different margin profile perhaps than existing. And the more we move to football, one might mathematically expect the margin to be, on average, higher. But, of course, we're going to be driving staking as well as margins at the same time.

So actually what counts to us is number of quality customers and what the pounds millions in the bottom right-hand corner of the spreadsheet looks like, really. So margin per se I don't think is the only metric to look at. I think number of customers is --

Jim Mullen - *Ladbrokes Plc - CEO*

It's one lever that we have available to us.

Ed Birkin - *Credit Suisse - Analyst*

Okay, thank you.

Jim Mullen - *Ladbrokes Plc - CEO*

Thank you.

Operator

Ivor Jones, Numis.

Ivor Jones - *Numis Securities - Analyst*

Good morning. I was looking at gaming growth. I see it has revenue growth of 11.5%. Is that it? Is that because they didn't get much money to spend on marketing, because it was the summer? I wondered if, given the growth in the sportsbetting side of the business, gaming should have been growing faster. That was the first thing.

Secondly, Jim, I don't know if I should know what you mean, but when you say that the cost of acquiring a customer through retail for online multichannel is 20% to 25% direct acquisition cost, I don't know what that is. Is that an internal recharge from retail to online? Or is it actually money flowing out of the business in a way I haven't thought about when somebody walks into a shop and signs up for Ladbrokes online?



And finally, I guess these numbers you're presenting relate to the ongoing trading of the business. So what are the fees that been paid or will have been -- will you expect to pay in relation to the Gala/Coral transaction? So what should we be thinking about knocking off the cash, whether or not the deal goes ahead?

Ian Bull - *Ladbrokes Plc - CFO*

Okay. Morning, Ivor. So on gaming growth, yes, I mean, it is, just for everyone's benefit, I mean, it's in the notes though, the gaming revenue growth 11.5%. I'd make a couple of points with that one. Number one is we did quite a lot of promotional support in the front half of the quarter on gaming. So actually, it's slightly subdued for that. Actually, if I look at how we've traded in the early weeks of October, we're actually looking more like a 2 -- a number starting with a 2 rather than starting with a 1, which is more consistent with what you see, you get 19% growth in Q2 and 13% growth in Q1, really.

So I'm not worried about that. That's actually something we've been on the case on, really. So I think the gaming net revenue growth is in decent shape, and the gaming actives likewise, 29% growth coming on the back of a flattish Q3. So a decent growth and slightly weaker comps at 29% versus 13% in Q2. So I think gaming is going in the right direction, exactly as we planned, really.

Shall I -- I'll let Jim go on the retail side. On your exceptionals for Gala/Coral, I think we've given quite a lot of guidance already in terms of what we expect by way of fees. It's low single digit for the banks in this year from a cash point of view in this quarter, yes.

Jim Mullen - *Ladbrokes Plc - CEO*

Hi, Ivor. Ivor, you're very polite. What you actually meant was, Jim, you're not clear. So I do apologize. Let me explain -- the CPA for a multi-channel customer, if we assume, and this isn't the number, that it would be GBP100 to acquire a customer on one of our online affiliate sites, what we're basically saying is around GBP10 to GBP20 to acquire via our retail estate. Where is that money paid to? It's paid to staff and colleagues through an internal incentive scheme, which helps them drive the signups.

And we have been very, very clear on the governance of those signups and how they are actually acquired. That's why we spent a period of three -- two to three months in retraining. So what we're finding is that those customers who are not just Sky Sports News customers who are passing through, but qualified sports bettors walk in, and it may be costing us now GBP20 to acquire them, which is why we are delivering a greater yield. And also, we have the further benefit that we are incentivizing the staff, supplementing their income by signing up customers, which gives us a fully rounded training program of why we can now boast 13,500 advocates in the Ladbrokes retail estate. Is that a bit clearer, Ivor?

Ivor Jones - *Numis Securities - Analyst*

Yes, thank you. So that is a real marginal outflow of money from the Group?

Jim Mullen - *Ladbrokes Plc - CEO*

Yes, yes, there's obviously some operating cost actually to have that sale being governed, and there's training costs, and we have a team who monitor and govern it and keep the training up-to-date. So that's a real operating cost of it.

Ivor Jones - *Numis Securities - Analyst*

Great, thank you. And Ian, can I just go back to the question about gaming? Growth 11%, the heavy investment in promotional activity and the run rate's more like 20%. You're not saying the difference between 11% and 20% is the degree of investment in promotional activity?



Ian Bull - *Ladbrokes Plc - CFO*

No, no, I'm not trying to explain it entirely by promotional activity. All I'm saying is, in August -- in July and August, we were a little bit stronger on promotion than we were before. So you get an aggregate over -- and don't forget it's a little bit cyclical anyway. So all I'm trying to suggest is that 11% is an average over three months, and the months weren't exactly equal, it's a little bit cyclical, but the run rate coming through in September into October is more like a 2 than a 1.

Ivor Jones - *Numis Securities - Analyst*

And why isn't there more of a correlation with the 34% growth in the Sportsbook stake? Am I thinking of this too much as an integrated business that's trying to cross-sell to Sportsbook customers?

Ian Bull - *Ladbrokes Plc - CFO*

Well, don't forget, if you're looking at Sportsbook staking and 34%, clearly some of that will be margin, won't it? We've all tried, and there are many, many different theories in terms of what degree of recycling you get. So I don't think it's as straightforward to correlate Sportsbook staking with gaming staking.

Jim Mullen - *Ladbrokes Plc - CEO*

And Ivor, just to add to that, just to revert back to the organic plan, we are wholly focused on Sportsbook as a business now. That is what it's all about. So all of our marketing spend, all of our call to action, is sports-led, then the gaming team come in behind that to on-board the cross-selling to gaming. That is why you will probably see -- well, that is why you are seeing a focus on the Sportsbook side of the business.

Ivor Jones - *Numis Securities - Analyst*

And just to be clear, then, the GBP75m payment that saw Playtech buy out the performance-related deal, there's no question of flexing that in the context of the performance of the online side of the business now? That's a fixed amount?

Jim Mullen - *Ladbrokes Plc - CEO*

No, that deal's done, so that's been the subject of a merger. So that's the number that's been agreed, and we don't expect that to change. Sorry.

Ivor Jones - *Numis Securities - Analyst*

Thank you.

Ian Bull - *Ladbrokes Plc - CFO*

Thanks, Ivor.

Ivor Jones - *Numis Securities - Analyst*

Crystal clear. Thank you very much.

Jim Mullen - *Ladbrokes Plc - CEO*

Thanks very much. You're very polite.

Operator

Simon French, Cenkos.

Simon French - *Cenkos - Analyst*

Yes, morning, guys. Just a few questions from me, please. If we go back to the gross win margin again, both in retail and online, we've had sort of four previous points in quarters of win margin. Should we start to think that maybe there's some structural pressure that's going to be pushing that downwards and we should start factoring into our models?

And secondly, just on Playtech, are there any more releases from Playtech or enhanced usage of the IMF to come over the next quarter or two that we should think about to boost yield?

And then I think the last question, Ian, you kindly gave a little bit of color on the net gaming revenue trends for gaming in the first few weeks of the fourth quarter. Is there anything else you can share about trading in the first few weeks of Q4? I know Betsson have said this morning that win margins have been a bit weak in the first few weeks. Thanks.

Ian Bull - *Ladbrokes Plc - CFO*

So -- hi, Simon. So on gross win, look, I think what we've seen is quite a lot of volatility. I'm talking we as a sector more than we as Ladbrokes. I'm sure you'll get more color on this from our colleagues in different companies tomorrow and in the next couple of weeks.

I think we've seen quite a degree of volatility in terms of football margins and results as we've gone over the quarter, I mean, beyond horseracing. So I think it's quite early to try and start having discussions and draw conclusions about structural changes in it. It's been following the results, as far as we can see. I don't think there's anything we can detect as structural changes.

Jim Mullen - *Ladbrokes Plc - CEO*

As I said earlier, Simon, I wouldn't draw any conclusions at the moment. We are obviously continuing to monitor. But there's no real evidential data from our [VI] to suggest that.

And just on Playtech, I just want to revert back to one of the statements that I made at the beginning. We are releasing real, physical innovation. So the Bet Tracker was part of a [banger] release. We will continue to improve on that. We have other, small, innovative releases that we'll put out there, throw out there, and if it works, we'll continue with them and promote it, and otherwise, we'll take it back. But there is no significant single wallet style release that we can speak of at the moment, other than a long tailed trickle of real, small innovation that hopefully will gain traction, which is the strategy ongoing. On current trading, it's been fine. But we're 22 days in, okay?

Simon French - *Cenkos - Analyst*

Okay, thanks very much.



Operator

Richard Carter, Deutsche Bank.

Richard Carter - Deutsche Bank - Analyst

Good morning. Three questions, please. Firstly, on Australia. The market's looking obviously extremely competitive, and potentially unsustainably so. So Jim, how do you guard against the race to the bottom line in Australia? And what oversight do you have there, please?

Jim Mullen - Ladbrokes Plc - CEO

Do you want to do that just now, Richard?

Richard Carter - Deutsche Bank - Analyst

Yes, please.

Jim Mullen - Ladbrokes Plc - CEO

You're absolutely right. It's firstly a very competitive market, but it's also a growing market. To your point about any racing to the bottom line, it's exactly why we've reversed the multi-channel strategy in Australia. We have realized that -- I mean, the 90% of [Western] actives is fantastic. Is it sustainable? That's a big number. A stake in over 60% is good. We expect that to grow, but it's still a big number.

We need to look at new channels for promoting our product, which is why we've done the deal with the National Newsagents Association. So you walk down any main conurbation in Australia, you will see a red Ladbrokes flag outside of newsagents. So in the UK we've moved from retail to digital, and even through innovation have moved from digital into retail. And exactly for those reasons, to ensure that there isn't a race to the bottom and we can increase the distribution network. We are very, very encouraged by that, Richard, and we intend to extend it even more.

Richard Carter - Deutsche Bank - Analyst

Okay. And then just one on UK online marketing. You've mentioned in the release this morning that the incremental spend has been going down at pay per click and at the affiliate channels. I'm just interested in understanding, is that really differentiated enough to grow the recreational base? That seems like it's quite a competitive area and quite cookie-cutter. So could you just talk a little bit about the marketing strategy and how you see that potentially evolving? I know it's just (multiple speakers).

Jim Mullen - Ladbrokes Plc - CEO

Richard, yes, so yes, I completely agree with you, Richard. If you're looking at just PPC or affiliates or SEO, then on an individual basis it won't make a difference, which is essentially why you need to look at it in the round. So the uplift on 30% of NGR, as we said we would do, we are doing. But we're also doing that in multi-channel. We are also doing that in product development.

We are also increasing retention, because we've a product that our customers like to use. So I could not justify on any one marketing channel that is seeing growth. We have to look at it in the round and in the whole. And I think, if you look at the post the two weeks after World Cup on a quarter-by-quarter analysis, when you say 15% to 20% uplift in actives, where traditionally Ladbrokes used to be lambasted for having a product that wasn't steady or competitive. I think that's in the past now.



I also think if you look at the mobile staking, and again, I want to highlight this, because it's so important for strategy going forward, nearly 70% uplift in stakes is a fantastic achievement which will actually augur well for us going into 2017. So we believe now we have the product with Playtech, we can let the guys in Tel Aviv at it and long may it continue.

Richard Carter - *Deutsche Bank - Analyst*

I know obviously retention is incredibly important. So you're obviously focusing on that. Have you started to see some real traction on the retention side over the last few quarters?

Jim Mullen - *Ladbrokes Plc - CEO*

Well, I want to use this phrase again, it's a par performance, right? And what I mean by that is we still have to make improvements across the business. We are encouraged by the key metrics that have come through. We are encouraged by retention rates, Richard, but we need to do more. If I was wanting to take away any message, it's basically we are in control of our strategy, but there's still some way to go.

Richard Carter - *Deutsche Bank - Analyst*

Okay, and then just one final one, just so I understand this. On the product, you obviously investing a lot, and it's obviously improved significantly over the last 12 months. But William Hill in their recent announcement have talked about moving off [Mabanga] to try and gain control of the front end, and they talked about in their statement they're only really able to update their app 12 times a year. And now moving onto their control system, they'll be able to do it on an hourly basis. Do you think you'll have those same issues with the Mabanga MBENGA? Or will you have -- will it be easier for you to update on a more regular basis?

Jim Mullen - *Ladbrokes Plc - CEO*

It might be a pretty boring answer, Richard, but we, our mobile development and product releases has actually went to plan since 2014. I personally am delighted by the partnership with Mabanga. We supplemented that with some of the design extra piece in Chelsea [are satisfactory]. And we have a product life cycle now of every two weeks.

That's been sufficient for us to actually release product and test it. And the ones that really gain real traction and stickiness we immediately, and I'm talking in 24 hours, can put promotions out online. The example of that is Bet Tracker, where, as I said, we've seen over 300,000 instances of usage. So I won't comment on the competitors. All I'll say is, we are delighted with the mobile product development.

Richard Carter - *Deutsche Bank - Analyst*

Okay. Thank you very much.

Jim Mullen - *Ladbrokes Plc - CEO*

Thanks, Richard.

Operator

Thank you. As there are now no further questions in the queue, I would like to hand back to our speakers today for any additional or closing remarks. Thank you.

Jim Mullen - *Ladbrokes Plc - CEO*

I would just like to thank everyone for your time today, some good questions there, and I also see a politeness when I'm unclear. I will want to say that this is a par performance for Ladbrokes. We talked about the profit investment, we talked about the customer metrics, and those customer metrics we think are coming through. Could it be better? Yes, if we had better racing results then that would be the case. However, it is early days. We look forward to speaking to you closer to the end of the year. And hopefully these metrics will continue up until full year. Thank you very much.

Operator

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

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