

# Q1 2014 Interim Management Statement

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Ladbrokes plc

30 April 2014

## LADBROKES PLC

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### Q1: OPERATIONAL OBJECTIVES ACHIEVED TO DELIVER PLATFORM FOR GROWTH, FINANCIAL PERFORMANCE IN LINE

Ladbrokes PLC (LSE: LAD) (Ladbrokes or the Group) announces its Interim Management Statement for the 3 months ended 31 March 2014 (the period or Q1).

#### Digital operational achievements:

- Gaming products transitioned to Playtech Casino on 27 March
- Digital integration onto Playtech IMS/ single wallet platform completed on 29 April
- Positive Q1 mobile sportsbook KPIs: mobile actives +32%, stakes +95%
- Post Q1: Grand National sportsbook and mobile digital operational performance strong

#### Retail operational achievements:

- Self service betting terminals (SSBTs) roll out on track, driving incremental football activity (c.75% amounts staked)
- Machines: now over 5,500 of 9,000 new Clarity machines deployed - on track for pre-World Cup delivery
- Estate optimisation underway - 24 UK stores closed, c.50 closure target for 2014 confirmed

#### International operational achievements:

- Spain: retail launch in Catalunya on track, confirmed for May
- Belgium: SSBTs trial successful, roll-out from May; Digital launched on 28 April
- Australia: Ladbrokes Card launched; trading in line with plan; acquisition of Betstar, earnings accretive

#### Q1 financial performance in line with our expectations<sup>(1)(3)</sup>

- Group operating profit<sup>(2)</sup> £18.4m, consistent with FY14 guidance issued in February
- Group net revenue -£6.5m or -2.3% (-5.1% exc. Betdaq and Aus.) - impacted by industry-wide results
- Digital: net revenue +1.1% on Q4 2013 (-4.4% exc. Betdaq and Australia.); strong mobile operational performance
- UK Retail: net revenue -2.3%; OTC amounts staked up 8.5%
- High Rollers net revenue: £13.0m, up 80.6%
- Board confirms 2014 dividend commitment of at least 8.9p per share

#### Richard Glynn, Chief Executive, commented:

"In Q1 we delivered all of our stated operational targets on track or ahead of plan and our financial performance remains consistent with our expectations at the time of our annual results announcement in February.

Retail competed well demonstrating its continued appeal to the customer. In particular, it was pleasing to see OTC staking grow, driven by a strong performance in football. In Digital, the early encouraging customer response to our more competitive mobile and sportsbook offer has continued and our Grand National performance, particularly on mobile, shows that our product and platform improvements are starting to gain traction.

The unexpected recent tax increases and ongoing uncertainty surrounding regulation are unwelcome. We continue to advocate an evidence based debate and to demonstrate our commitment to social responsibility. The significant economic impact of excessive regulation on the business and in terms of jobs, is clear. However, we are heartened by the strong support we have received from customers who continue to enjoy using our products, with one million people recently signing an industry petition in support of their local betting shop.

Looking ahead, the build up to the World Cup will see heightened competition. We are now in position to compete hard, targeting customers through our brand and improved products along with aggressive but sensible offers and promotions. In Digital, with the move to IMS and single wallet capability, we now have in place all of the operational infrastructure from which to drive growth in H2 and beyond."

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## Divisional Overview

### UK RETAIL<sup>(1)</sup>

As previously reported, in January, the industry suffered heavy losses on football and horses. The industry again experienced material losses on football on 22/23 March with significant payouts particularly on accumulator bets. Despite the benefit of a better Cheltenham Festival and stronger football results in February, gross win margin in Q1 was 16.2%, 2.7 percentage points down on last year's strong comparative of 18.9%. We benefitted from recycling and saw good growth in OTC staking at +8.5% with growth across all major sports.

We have now deployed over 1,500 SSBTs across our estate. We saw a steady improvement in amounts staked per terminal during the quarter and evidence that SSBTs are driving incremental staking into our shops, with around 75% coming from football betting. This supports strong overall OTC football staking which rose by 34% year on year.

Machine gross win was ahead by 2.2% for the quarter. Machine gross win per shop per week was slightly down year on year. Early results from the installation of our new Clarity cabinet have been in line with our deployment plans with uplifts in gross win around 5%.

On 1 March, we introduced the ABB code across the estate which has had a measurable, adverse impact on machine gross win since its adoption. This is currently running in the low single digit percentage range which may vary in the medium-term as customers become familiar with the current Code and

implementation procedures standardise across the different businesses affected.

The estate optimisation plan is on track with 24 store closures in Q1 out of our 2014 target of c.50. Retail operating costs in the period have increased in line with our expectations.

## DIGITAL<sup>(1)</sup>

During Q1 we made continued operational progress to ensure Ladbrokes is in a stronger competitive position going into the World Cup and delivered financial performance consistent with our guidance in February, where we targeted a sequential improvement in net revenue in H1 2014 on H2 2013 with similar EBITDA.

On 27 March, we launched Playtech Casino products, completing our transition of gaming products onto the new platform. On 29 April, we completed the integration of our Digital products onto the Playtech IMS platform giving our customers a single wallet across all of our betting and gaming products. Ladbrokes now has the ability to deliver more personalised CRM based on an individual's entire activity.

We have continued to develop our new mobile sportsbook product alongside the Chelsea Apps Factory on the Mobenga platform. Mobile actives were up 32% and mobile amounts staked up by 95%, growth rates achieved before the benefit of the Playtech IMS platform is realised. We also integrated the Ladbrokes Exchange into our Digital offer and see this as an exciting product differentiator going forward. Desktop sportsbook showed continued signs of stabilisation in staking vs. Q4 2013.

In Q1, amounts staked in Sportsbook increased by 59.8% or 24.2% excluding Betdaq and Australia. Sportsbook gross win margin at 6.4%<sup>(4)</sup> was 3.2ppts lower as the result of industry-wide results referred to above and against a strong prior year comparable. Lower, results-driven margins more than offset the positive contribution from Ladbrokes Australia (acquired in Q3) with Digital net revenue down, as a consequence, 1.3% (-17.8% exc. Betdaq and Australia). Looking sequentially, net revenue grew by 1.1% over Q4 2013 consistent with our guidance.

Throughout Q1 we competed aggressively but sensibly, continuing our policy of focusing on acquiring customers on an economically sustainable basis. We intend to remain within our guidance range of 25-30% of NGR for Digital marketing spend.

On 5<sup>th</sup> April, at The Grand National, our upgraded Digital platform showed materially improved resilience and performance in its biggest fit-for-purpose test in advance of the World Cup. Sportsbook actives were up 35% with mobile up over 100% and Sportsbook signups up 107%.

Looking at the Grand National which happened after Q1, as a whole, we saw increased staking across all platforms and delivered a good result, albeit lower than last year's record result.

Overall trading and profit in Australia and Betdaq is in line with our expectations.

Digital operating costs remain in line with our expectations.

## EUROPEAN RETAIL<sup>(1)</sup>

In Ireland OTC amounts staked fell by 2.9% and net revenue fell by 12.8% with football results being the main driver. Overall we recorded a positive performance from the Cheltenham Festival with YoY increases in both gross win and slip numbers.

In Belgium amounts staked were down 2.6% and net revenue was broadly flat. We launched our new Digital offering on the Playtech platform on 28 April as planned. Our recent trial of SSBTs has gone well and we will push ahead with a roll-out across the estate which will be completed before the World Cup.

In Spain where we have continued our expansion plans, we saw good growth in amounts staked and gross win on both a like-for-like and reported basis. Our plans to launch in Catalunya, the next largest region in Spain after Madrid are on track for May. During Q1 we closed the LBapuestas site and transitioned all of our Spanish Digital activities to the Sportium joint venture.

## TELEPHONE<sup>(1)</sup> AND HIGH ROLLERS

Telephone net revenue was up £1.1m or 34.4%. High Rollers net revenue grew by 80.6% and generated an operating profit of £12.4m (Q1 2013: £7.2m).

## REGULATORY AND TAXATION DEVELOPMENTS

There have been a series of regulatory and taxation developments initiated by the UK Government as part of its review of gambling policy. This has led to speculation on further measures and a period of regulatory uncertainty for the industry that has been unhelpful.

Measures already announced include strengthening the ABB Voluntary Code of Player Protection and making it mandatory; a review of the voluntary codes on gambling advertising by the Advertising Standards Authority; and a Government consultation on a new retail use class.

The Government has signalled an announcement by the Minister for Sport, Tourism and Equalities later today to detail these and any other potential measures impacting the industry.

The 2014 Budget also announced a totally unexpected increase in Machine Games Duty from 20% to 25% from 1 March 2015 - equivalent to a full year impact of approximately £19.5 million, net, based on 2013 machine revenues and relevant supplier agreements. Following these measures Ladbrokes will inevitably review further shop closures for 2015, although where possible will seek to mitigate the profit and employment impact through cost savings and staff redeployment.

## MATERIAL EVENTS, TRANSACTIONS AND FINANCIAL POSITION

Net debt reduced by £12.5m to £386.1m at 31 March 2014 (31 December 2013: £398.6m).

The Board has, today, re-iterated its commitment to a full year dividend of at least 8.9p per share for the current financial year.

On 25 April we completed the acquisition of the private Australian bookmaker Betstar for A\$22.0m (£12.4m). Betstar has approximately 40,000 registered customers and, in the year to 31 March 2014 it generated gross win of c.A\$12.9m (£7.5m) on A\$214m (£124.9m) amounts staked and was approximately break-even on an EBITDA level. Annualised cost synergies of approximately A\$5m (£2.8m) will be realised from the migration of Betstar's operations to Ladbrokes' digital platform and the acquisition is expected to be earnings accretive in its first year of acquisition before any exceptional items and acquisition related amortisation. The acquisition builds on the presence in the Australian market started last year following the acquisition of Bookmaker.com.au and the creation of Ladbrokes.com.au.

There were no other material events or transactions that impacted the Group's financial position during the period.

## QUARTERLY TRENDS TABLE

YoY (except where stated)	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014
Group PBIT <sup>(2)</sup> ex High Rollers	£37.4m	£48.3m	£17.0m	£35.6m	£18.4m

<b>UK Retail</b>					
OTC stakes	(11.2)%	(5.8)%	+5.1%	+4.6%	+8.5%
OTC GW margin	<b>18.9%</b> +1.7pp	<b>16.9%</b> +1.6pp	<b>14.9%</b> (2.0)pp	<b>17.1%</b> (0.4)pp	<b>16.2%</b> (2.7)pp
Machine gross win growth	+3.2%	+3.2%	+0.7%	+2.5%	+2.2%
Machine Gross Win per Shop per week	+0.3%	(1.9)%	(5.0)%	(2.4)%	(1.1)%
Total Net Revenue YoY (Restated)	(0.8)%	2.1%	(3.9)%	+1.6%	(2.3)%
<b>Digital<sup>(4)</sup></b>					
Sportsbook Net Revenue	+13.2%	+5.7%	(23.0)%	(15.9)%	(17.9)%
Gaming Net Revenue	(11.4)%	(8.6)%	(13.6)%	(17.2)%	(17.7)%
Sportsbook Gross Win Margin	<b>9.6%</b> +2.2pp	<b>7.5%</b> +2.2pp	<b>6.6%</b> (1.0)pp	<b>8.0%</b> (0.3)pp	<b>6.4%</b> (3.2)pp
Sportsbook Net Revenue - vs. prior quarter	+4.7%	(17.0)%	(21.0)%	+22.4%	+2.2%
Gaming Net Revenue- vs. prior quarter	(9.6)%	+3.1%	(9.9)%	(1.4)%	(10.1)%

**Notes:**

The figures in this trading update are unaudited.

- (1) Continuing operations excluding High Rollers, year on year performance except where stated
- (2) Profit before tax, net finance expense and exceptional items. Stated after amortisation of customer relationships and other acquisition related intangible assets
- (3) In order to provide relevant comparative trends, 2013 net revenue has been adjusted to reflect the change from VAT to MGD on 1 February 2013
- (4) Excludes Betdaq and Australia

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A conference call for analysts and investors will be held at 8:30am (BST).

To participate in the conference call dial, +44 (0)20 3427 1937 or 0800 279 4842 confirmation code 1335560

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