THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

LAD.L - Half Year 2017 Ladbrokes Coral Group PLC Earnings Call

EVENT DATE/TIME: AUGUST 31, 2017 / 9:00AM GMT

CORPORATE PARTICIPANTS

Jim Mullen *Ladbrokes Coral Group plc - CEO and Executive Director*

John M. Kelly *Ladbrokes Coral Group plc - Chairman*

Paul Bowtell *Ladbrokes Coral Group plc - CFO and Executive Director*

CONFERENCE CALL PARTICIPANTS

Alistair Guy Ross *Investec Bank plc, Research Division - Research Analyst*

Chris Stevens *UBS Investment Bank, Research Division - Director and Leisure Analyst*

David Jennings *Davy, Research Division - Gaming and Leisure Analyst*

Edward Young *Morgan Stanley, Research Division - Equity Analyst*

Gavin Kelleher *Goodbody Stockbrokers, Research Division - Investment Analyst*

Ivor Griffith Rees Jones *Peel Hunt LLP, Research Division - Analyst*

Jaafar Mestari *JP Morgan Chase & Co, Research Division - Research Analyst*

Jeffrey Harwood *Stifel, Nicolaus & Company, Incorporated, Research Division - Analyst*

Patrick Coffey *Barclays PLC, Research Division - Director*

Simon John Davies *Canaccord Genuity Limited, Research Division - Head of European Research*

Tal Grant *Credit Suisse, Research Division - Research Analyst*

PRESENTATION

John M. Kelly *- Ladbrokes Coral Group plc - Chairman*

All right, good morning, ladies and gentlemen, and welcome to Ladbrokes Coral's Interim Results. I know most of you will have seen our announcement today and I'd like to spend a moment before Jim and Paul speak to give you a board perspective, if I may.

To us, they reinforce what was said in March that it was the board's opinion that the businesses of Ladbrokes and Coral have come together well. That the leadership got on with the job in hand and were united behind the task of delivering on the promises made to shareholders in supporting the merger that show that Ladbrokes Coral has achieved or exceeded all its first half targets we set ourselves around integration, efficiency and performance. And all of this whilst Jim and his team have set about building a new culture, one based on taking the best of both, on having responsible gambling and health and safety at its heart, and one focused on making Ladbrokes Coral the best betting and gaming business in the world.

The success of the merger integration and the good performance of the business explain why we are pleased to be increasing the interim dividend. The significance of this is important. It underlines that after just 10 months as Ladbrokes Coral, we have confidence in what has been achieved, we're confident on meeting our aim to reduce our leverage in line with our target and we believe in the ability of the business to deliver for our shareholders.

This really would not be a Chairman's introduction without some mention of regulation, responsible gambling and, in particular, the triennial review. It feels impossible to pick up a paper these days without some mention of these issues and be evidenced as recently as this morning. As I said earlier, we're building a culture with responsible gambling at its heart. We're investing time and resources into the area and we genuinely believe that others in this sector could learn from us.

So against that backdrop, it is a source of frustration to the board that our efforts in this and the positive operational and financial performance outlined today is overshadowed by the ongoing delay over the triennial review. There is little, unfortunately, that I can update you on. All we know is what the Minister of Sport said in the house, but nothing is expected until October at the earliest, and I stress at the earliest.

As for other recent news regarding talks of a tie-up with GVC, I'm sure I don't need to remind an audience of this caliber that we never comment on stories such as this. However, it would be remiss not to say that, as a board, we have a duty to consider proposals that come in where we feel there may be merit for the business and for its shareholders. So I'm sure you'll understand with the greatest of respect that we will not be commenting or answering any questions on the GVC story that ran last week.

So with that, I'm going to hand over to Jim and Paul to take you through our results and the significant progress we've made as a business. Jim?

Jim Mullen - *Ladbrokes Coral Group plc - CEO and Executive Director*

Thank you, John. Good morning, everyone, and welcome to the Ladbrokes Coral 2017 Interim Results, which I'm pleased to see represent good progress in our business. As ever, we have the required and important disclaimer slide, but I'll move on.

Very shortly, I'll be handing over to Paul to take you through the detailed financials of the results. And after a bit more detail from me on the key priorities that we see ahead for the business, I'll hand you over for some Q&A.

So today's results, as John has said and as Paul will shortly show, the results tell a positive story for Ladbrokes Coral. We show a business performing well in key markets and against the key metrics that we've set ourselves. We also demonstrate our commitment to deliver against the promises made at the merger and to the determination not to let integration materially impact business as usual.

When you go into the detail of the performance of the business, you can see the demonstrable benefits of the merger throughout our performance. We've come a long way in a short space of time; and today, we are a business that is more efficient, sustainable and more competitive and making the best of the opportunities presented when we made the promises at merger.

Now that progress is not just theoretical. Tangible benefits are being delivered to shareholders here and now, as seen in our increase of interim dividend, which reflects not only our achievements in 10 months as Ladbrokes Coral but also our confidence in the future and the opportunities that we see.

So before I hand you over to Paul for our plans in the second half, Paul, please, could you take us through the numbers?

Paul Bowtell - *Ladbrokes Coral Group plc - CFO and Executive Director*

Thanks, Jim. Morning, everybody. I'm going to run you through the financial highlights briefly of the first half. Now as at the full year, we've shown reported and pro forma numbers on this slide, but my commentary will be very much focused on the pro forma numbers.

So net revenue was GBP 1.2 billion, up 1%, with very strong growth in Digital, offset by the U.K. Retail business, where we saw some weakness; and in European Retail, where strong stakes growth was more than offset by unusually weak sports results in Italy.

Gross profit was flat and operating costs were also flat, as we started to see the synergies and tighter cost control come through to offset underlying inflation with significant savings in U.K. Retail.

Depreciation and amortization was significantly lower year-on-year as a result of the full year fair value exercise that was carried out on the Coral group, together with other asset write-offs at the year-end, meaning that operating profit for the first half was 7% up in a year when the synergies will really start to come through in the second half. So this leaves us well on track to meet our internal expectations.

Net debt was GBP 1.065 billion, an improvement on the year-end position of GBP 1.089 billion despite incurring the cost of integration in the first half. I'll talk about net debt and leverage in more detail later on.

We've increased the interim dividend to 2p from 1p, reflecting the excellent progress we have made with the merger to date, but we'd still anticipate a final dividend of 2p, giving 4p in total for the year.

Now it's probably easier to understand the true underlying performance of the business on the bridge on the next slide. So here we've taken the FY '16 H1 operating profit of GBP 147.9 million and adjusted it for the impacts of the Euros. This reduces the 2016 operating profit number by just over GBP 9 million to GBP 138.8 million. This then leaves underlying growth of GBP 19.5 million or 14% ahead, with Retail down GBP 5.2 million, European Retail down just over GBP 1 million, but very strong growth in Digital, up GBP 24.2 million.

Now as the Chairman and Jim have said previously, one of the key rationales for the merger was about driving additional scale in our Digital business. And in the first half, we can definitely see this being evidenced.

So let's turn to the divisions in some more detail, starting with U.K. Retail. OTC stakes were down 9.6% in the first half, I'll go through that in some more detail on the next slide.

Gross win margin was 0.3 percentage points lower than in 2016, primarily as a result of poor results in Q2. Now there's still a margin differential between the 2 brands of 0.9 percentage points, but we have started to implement some changes to improve the Ladbrokes horseracing gross win margin.

In H1, the Ladbrokes horseracing margin was 14.4%, so up 0.9 percentage points on the prior year, and is now only 0.4 percentage points lower than that of Coral. This revenue synergy contributed GBP 1.5 million in the first half, and we'd anticipate it would be worth GBP 5 million for the full year.

Machines' performance has undoubtedly been affected by the lack of horseracing content in the first half, with net revenue down 1%. But since the pictures came back on right at the end of July, we have seen a slight improvement in this run rate and would expect it to be at least flat year-on-year in the second half.

Cost of sales is reduced in line with gross win, and operating costs were 4% better than the same period last year. Now you may remember from the full year, the operating costs were running 3% higher for the full year 2016, so we are starting to see the benefit of the synergies come through around GBP 4 million in H1. But importantly, scale is also giving us the opportunity to drive down some underlying costs and tackle inflation more effectively.

I said I'd come back to the OTC stakes in U.K. Retail, and essentially, there are 2 sets of adjustments in H1. There are 3 that are quite mechanical in nature to adjust for different shop numbers, the Euros and aligning the calendars to ensure each year has the equivalent days in it. This accounts for 2.4 percentage points of the decline.

There's then the impact of the actions that we've taken as a management team to give us a stronger platform to move forwards from. I doubt either Ladbrokes or Coral on their own would have held out for quite so long in the negotiations with TRP for the new rev share content deal that we've now struck. But our scale post-merger means we can weather the impact of such actions, and, in this instance, while stakes were impacted to the tune of 1.5%, it was a profit-enhancing action.

And secondly, as we improve those horseracing gross win margins in the Ladbrokes brand, we've obviously seen an impact on recycling and, of course, therefore, stakes.

Looking forwards, now that we've got the content back in the shops, I would expect the OTC run rate to improve from the run rate we experienced in H1. And the early signs, particularly in August, are encouraging.

Turning to European Retail, it was a mixed bag in H1, with good staking performances in Italy, where we grew market share by 1 percentage point, but weaker margin across all the European Retail businesses as a consequence of more punter-friendly football results.

As we've flagged since our 2016 prelim announcements in March, Eurobet suffered the worst of those margins, and I'll explode that out on the next slide for you. These results left net revenue down 1%, albeit 10% on a constant currency basis, and cost of sales was down 8%. The increase in cost of sales is a direct result of the way the franchisee payments work in Italy, whereby the franchisee gets protection against loss-making months to ensure that they can continue to operate.

Whilst operating costs were 4% higher in absolute terms, on a constant currency basis, they were actually 6% lower year-on-year as a result of our content savings in the Republic of Ireland; some phasing savings in Italy, which will reverse in H2; and a one-off legal costs incurred in Belgium in 2016.

Depreciation reduced significantly year-on-year as we wrote off assets last year in Ireland, you'll remember, and we also finished depreciating the Italian Eurobet licenses during 2016 as they were due to expire at the end of June last year. This meant that operating profit was only GBP 2.1 million down in absolute terms. But again, I should point out, the favorable movement from a translation perspective means that the underlying operating profit was actually GBP 4.6 million worse.

Now I said I'd break out the Italian margin issue a little bit further; and on this slide, I've set out 4 charts that highlight the issue. The top left chart, we've shown the absolute retail pre-match sport gross win margin percentage for H1 2017 and H1 2016. And we've compared those margins to the average H1 margins over both the last 5 years of 19.8% and the last 3 years at 19%. This highlights just how extreme the margins were in the first half of 2017 at 12.4%.

The chart on the top right is the same information for the online channel, but the delta to the average was less severe than it was in Retail. Now clearly, in online, the absolute margin is lower than in retail, obviously driven by Bet in Play margins. However, the impact of the football results has had a much more profound impact on the Retail business as a result of the bet tight mix, where pre-match multiples and accumulators account for a significantly higher proportion of the mix than in the online business, as you can see in the bottom left-hand chart.

Finally on the bottom right, I've also included a comparison of Eurobet's margin versus the market for both Retail and online. And you can see that the LTM in both channels is ahead of the market, demonstrating that we haven't got anything structurally wrong with either our pricing or our promotions. Hopefully, it will be a one-off.

The Digital business was the driver of the operating profit in the first half, up GBP 22 million as you can see on this slide, or GBP 24.2 million if we strip out the impact of the Euros. These numbers for the first half clearly demonstrate, however, our shift of focus from 2016 in the U.K. online sports market from volume to value.

As a result, actives were down in both ladbrokes.com and coral.co.uk, but this reduction was more than compensated for by a significant increase in net revenue per active in both these brands. This was driven by a focus on the multichannel players we've signed up and also as a result of starting to change our marketing mix to focus on higher returning channels, and Jim will come back to this a little bit later on.

The same strategy is being adopted in Italy, where eurobet.it consolidated its the #2 position in the marketplace in the first half, but saw a decline in actives of 14%, but an increase in net revenue per active of 30%. However, we continue to drive volume as well as value, both in the Gala websites and particularly in Australia, where actives were up 54%.

Gross win margin was up 40 basis points to 9%, with the U.K. sports brands broadly flat year-on-year; a 1% increase in Australia, driven by good horse racing results; and as we've already discussed, a 2.4% decline in Eurobet as a result of those dreadful football results.

Of the net revenues, sportsbook represented GBP 181 million, which was 25% ahead of last year, with the U.K. up 19%; and on a constant currency basis Australia up 50% and Italy up 12%.

Gaming net revenue of GBP 194 million was 11% ahead, with the U.K. sports brands up 15% and Italy up 42%. We certainly feel we outperformed the market in gaming during the first half and particularly in Q2 off the back of some program sponsorship we introduced. But this has now come back in line with the market during the last 7 weeks.

Operating costs were up 7% or GBP 12.8 million as we continue to invest to grow our businesses, with an increase of GBP 10 million in marketing, leaving EBITDA up GBP 22 million.

Now as we continue to normalize marketing spend in ladbrokes.com, EBITDA growth will be strong, but will be accompanied by a slightly subdued revenue line. As we optimize our marketing strategy, we expect that revenue growth will progressively improve through to the first half of next year when the change in approach annualizes. And as I said, Jim will focus on this in his section.

Turning now to the synergies. And as you know, we increased the synergy number by GBP 50 million to GBP 150 million last month. On the left-hand chart, you'll see the buildup of that GBP 150 million by year. We expect the phasing to deliver GBP 45 million this year. And on the bottom right-hand chart, we've broken that GBP 45 million out between Retail and Digital, revenue and cost synergies and also split it between H1 in H2. So I hope that helps your modeling.

We anticipate reaching GBP 130 million by the end of next year and GBP 150 million by 2019. The cost of integration we now forecast to be GBP 172.5 million, split GBP 55 million CapEx and GBP 117.5 million OpEx. So 1.15x ratio to the synergy benefits, which is well inside the guidance we've previously given of 1.25x.

The cash flow is based on the pro forma numbers and as such does not contain any information on interest, tax or dividends as there is no true comparator in 2016. Depreciation for the half was just under GBP 55 million. However, when we look to the second half, I would expect the charge to be higher than in the first half as we deploy and start to depreciate the integration CapEx we've spent and, indeed, our BAU CapEx. I therefore expect a number of around GBP 120 million to GBP 125 million for the full year.

Working capital in the first half did see a significant outflow, of which GBP 15 million to GBP 20 million is pretty normal at this time of year and the remainder is down to aligning the bonus years between Coral and Ladbrokes and what was accrued this year compared to last year. We'd still expect this to be broadly flat for the full year.

The nontrading inflow of GBP 11.9 million reflects the VAT receipt from the Spot the Ball case, net of some residual costs of doing the merger. BAU CapEx in the first half was nearly GBP 7.6 million lower year-on-year, reflecting the higher level of spend that was being incurred in the first half in 2016 in the Ladbrokes business as it completed the rollout of SSBTs across the Retail estate.

Now the pro forma does not capture the integration CapEx or indeed the OpEx. The CapEx, GBP 21.1 million; and integration costs of OpEx of GBP 28.5 million, which we have again split out in the table below. That left BAU cash flow conversion at over 80%. And this cash has been utilized as follows on the next slide.

GBP 15 million was spent on tax, with a further GBP 15 million-or-so to come in the second half. The nontrading interest was a one-off receipt in respect to the Spot the Ball VAT recovery. You can then see the integration costs of GBP 49.6 million that I referenced on the previous slide. We also used GBP 36 million of our cash to part repay the 2017 bond that matured at the end of March this year.

We then have the interest cost on our ongoing net debt and then the final 2016 dividend of 2p. Net debt in the half is reduced by GBP 24 million, which was pleasing, and we're very comfortable with our medium-term target of 1.5x to 2x net debt-to-EBITDA by the end of 2018.

Turning to the nontrading items. Of the total nontrading items of GBP 106.6 million booked to the P&L in the first half, less than 50% of this will impact the cash flow either in H1 or H2, of which the largest number is obviously the cost of integration at GBP 37.2 million, with onerous lease cost of GBP 9.9 million. We've reconciled the P&L charge with the H1 cash flow, which is made up of the integration costs that have already been paid out in H1 of GBP 28.5 million, under VAT receipt net of some merger costs of GBP 11.9 million that was credited to the P&L in 2016.

You'll remember from the full year, the large noncash item is the amortization of acquired intangibles, such as customer lists and brands as part of the acquisition accounting for Coral. And the full year charge for these items will be GBP 111 million. This level of noncash charge will arise for approximately the next 3 to 4 years until we've effectively amortized those customer lists, and it will then reduce to a much lower number. But I should stress, it's a noncash accounting number.

Now I'll finish up with a quick look at current trading and guidance on certain P&L and cash flow items. Trading remained strong in the 7 weeks to the 20th of August, with group net revenue up 6%. Within that, Digital was 15% ahead, with the sportsbook up 29%; with strong gross win margins in the U.K. and Italy, but a little bit softer in Australia. Gaming net revenue, as I alluded to, did slow down in the period to around 4%, which we feel is probably more in line with the market.

U.K. Retail net revenue was 1% down, which compares very favorably to the 6% down we saw in the first 6 months of the year, and has shown some real recovery in the last 3 to 4 weeks since we've had the ARC content back in the shops and the football season has started again.

From an outlook perspective, I'd still expect marketing to be between 24% and 25% of NGR in the Digital businesses. Our CapEx guidance is broadly as it was at the full year, with a slight increase in the integration CapEx to GBP 42 million from GBP 36 million last time as we've lifted the synergy target to GBP 150 million.

And as I mentioned earlier, depreciation will be around GBP 65 million to GBP 70 million in the second half as we start to depreciate the integration CapEx. So a full year charge of GBP 120 million to GBP 125 million. All other items, bar the dividend, are consistent with where we guided in March.

So with that, I'll now hand you back to Jim.

Jim Mullen - *Ladbrokes Coral Group plc - CEO and Executive Director*

All right. Thank you, Paul. Now back in March, I outlined the key drivers that are going to help us make the most of the opportunities that the merger presents us.

This is a slide I talked to you through then, and it remains the key driver of our plan. The business is united behind it, and I'm pleased to say we are delivering against it. I will take you through the areas of focus in a little more detail shortly. But before I do, I'd like to spend a moment on the principles on which underpin our attitudes.

At Ladbrokes Coral, we have a genuine passion for sports and gaming, and it's been our heritage and is in our people. But there is also a commitment to having, at our heart, a focus on responsible gambling and health and safety. This sits at the core of our governance structure and how we have set out the business to ensure that this is the case. There are no shortcuts in delivering our plans and these principles will continue to run through everything that we do.

As John has said, it would not be a results presentation without an update on regulatory developments. John has already covered the latest on the triennial review, and at the risk of repetition, there is actually no formal update. We have made a case, a very strong case, and we want an evidence-based review with evidence-based conclusions. We don't want a reaction to a media storm, not a reaction to a subjective point of view held by decision-makers. And may I, once again, remind everyone that this was originally a call for evidence.

The CMA review is ongoing, and as most of you will know, the Ladbrokes brand was one of the 5 CMA have engaged in further discussions with. While we have always sought to keep the Ladbrokes brand competitive, we never sought to step over the line, and we are clear that we will cooperate and learn any lessons.

However, it remains our view there will be wider implications for the industry and the changes that will be necessary for Ladbrokes will mean changes for everybody. The CMA have also begun an industry-wide review into the issue of customer funds and withdrawal conditions. And as I said previously, we will cooperate fully.

In Italy, we now expect the Italian license renewal in 2018 rather than the possibility of it being at the end of the year. And in Australia, the credit legislation will come into force in February 2018. As we have outlined before, credit base account for circa 9% of our bets, so we expect to see limited impact.

The Point of Consumption Tax in South Australia has come in as expected, and there remains talk about wider rollout, but we keep making the point that any rollout should take into account the other taxes paid by the sector and there is nothing firm to update today. It should be noted that any change in the Australian regulatory environment will affect all operators, and with the mitigation already considered allied to our strong performance in Australia mean that we are in a good and strong position to compete.

So to the business and the implementation of our plans. Now I don't intend to take you through every detail of what we're doing, but I do want to give you a flavor of what's helped drive our performance and what you can expect in the coming months. As I said earlier, we set out at the start of the year with some ambitious integration targets, particularly around people and technology, with over 90% of colleagues now in role or their future confirmed. We have seen the benefits of teams working together and adopting new working practices. That has allowed us to move quickly on the office rationalization, with the customer services teams currently migrating onto 1 team serving both Ladbrokes and Coral. And we are on track of the closure of Rayners Lane by the end of the year.

In Retail, we are currently undertaking a major piece of work in aligning working patterns across the estate, and this is largely to improve the efficiency of Retail scheduling and will help to substantially reduce structural cost of our Retail offer.

Perhaps the most ambitious targets we set ourselves for the year is the plan to quickly migrate our U.K. Digital systems to one unified platform, thus unlocking the benefits of developing one product and rolling out across brands. Now I won't bore you with all the technical complexity, but needless to say, this was substantial. And for those of you who may be inclined to brush this over, it's probably worth reminding yourselves that very few have achieved such a feat in such a short space of time.

Now going forward, as we speak, we are in the process of moving to one customer service platform to allow the consolidation of the aforementioned teams. And we're also working hard to deliver the single wallet functionality for Ladbrokes across Retail and Digital and better connectivity for the Grid Cards. This will allow customers to play their balance on SSBTs and machines. Progress also continues on EPOS 2, and this work in integration of BI and CRM.

Now while this may be a whistle-stop tour of all the activity, please do not underestimate the hard work involved and importance of delivering against these targets. What we are doing here has been instrumental in identifying the opportunities that we see for our business going forward.

Now as we said back in March, we took a specific approach to delivering synergies and integration. Our original estimates were based on high-level assumptions and their initial upgrade results was only because of a few months of working together, and therefore, getting to know a respect of operations.

Carl has been leading on integration, working with a separate but accountable team who are solely there to deliver on the synergy opportunities. We liaise regularly and we ensure that the drive for synergies is not at risk as business as usual, and we ensure that people are clear on their accountabilities to deliver. This management structure and the operational benefits of integrating teams and tech quickly has helped us to identify synergies now a level of over 2x our original estimate. This slide gives a view on some of the key areas driving GBP 150 million synergy numbers, and I know there will be some questions in Q&A.

So we continue to place a demand on the business to be efficient and to ensure that this drive for efficiency is not at the expense of performance. And so far, we are pleased with the progress that's been made.

One of the benefits of the merger was always going to be taking the best practice of one brand and applying it to another. The most obvious example in these results has been what to improve, the Ladbrokes OTC horse margin. As the CEO of the then-standalone Ladbrokes, we planned to invest margin to drive recreational scale. However, we also had traditionally operated with a lower margin in Coral.

So as the chart shows, there were some targeted actions, none of which is actually rocket science, they're really sensible improvements to back-office processes and systems. We have significantly improved our position. Importantly, it has not come at the expense of our competitiveness, and we continue to offer value and we continue to be black type leaders.

As I said earlier, our skill has given us many advantages in the areas of addressing the significant cost escalation in U.K. horseracing as that has played a significant role.

Now this is a very important slide, this is not here to attack horseracing. And as I've said many times before, we are bookmakers, we are passionate about racing and we need to showcase the product. However, it does highlight the point that racing via staple over-shops offer is clearly in decline. While U.K. Retail gross win has dropped from 25% in 2008 to 14% in 2016, the actual direct costs of racing have increased by 70%.

Now I recognize that racing is entitled to look to monetize the product and extract value, but we were concerned that the escalation of demands was in danger of damaging the overall offer, that is why we took the considered decision not to rush to sign the picture deal that covered some tracks from the start of this year.

Now this was not without risk. We knew that, over time, it may impact our customer proposition on both OTC and machines. However, it was the right thing to do. We believe that we can manage the stakes impact through cost savings of not having the product and that it would be profit-positive. Our belief was a deal done in a hurry would be unsustainable and would have made our Retail estate more vulnerable to the long-term trend affecting retail.

That's why we are delighted that The Racing Partnership were willing to sit down and debate this issue, sensible minds on both sides were able to see that our interests are locked together and that we all need to be able to prosper. The revenue share deal agreed at the end of last month is a significant step forward, it aligns our interest and importantly comes at a price that allows us to promote the product and mutually benefit from it. And if I go off script for one time, I would like to thank the Retail team, and who delivered best deal for business. I think it's important for the sector and for Racing. So we believe that such thinking and engagement bode well for the sport, and intend to continue to work with Racing to grow this product.

Sportsbook product is another area where we take a considered decision that meant we accepted some short-term pain for the longer-term benefit. In this case, our decision was to move to one single platform for the U.K. Digital business, and it meant that product development slowed in the first half. That meant, until April this year, we were relatively light in rolling out new product. But as this slide shows, now that the integration of the platform is complete, we have been quick to get back into the game.

It also highlights why making this transition early was so important, because with the football season now upon us, our priority had to be to ensure that the product was fit for the season, ready to compete and delivering what the customer wanted. I said in March that once we had integrated the platforms, the key for us was to get the natural cadence of product improvement back and build that rhythm of continuous improvement. This slide shows that we have.

We have Ladbrokes OddsBoost giving customers an opportunity to take enhanced odds in their bets, given them the power to back their judgment and take us on. This was imported from Australia, and it will make its first appearance in the red brand, but then move on to blue. And it's a real example of what the merger can offer us in this area. We develop once, we develop quickly and we deploy across brands.

We have the #yourcall and #getaprice products for the Ladbrokes and Coral brands, respectively, where we are putting the control of bet back into the customers' hands. Those of you who haven't used it in the room, you should. We're delighted and quite excited about this product.

There'll be more product. There'll be increased visualization interaction. But for us, it's all about personalization and loyalty based in convenience and enjoyment. That is essentially how you deliver to youth.

Now gaming has been one of our success stories. The principle is simple: We have a wide range of games with a good mix of exclusive and proprietary content and a strong pipeline. Exclusive games are obviously popular for longer, and proprietary games have exclusivity and run at a higher margin. You can see the appeal of having the mix. And about 20% of our online slots games are now proprietary, from a 0 base only a few years ago.

Here you can see this approach in action. Recent product launches, which are packaged in ways to appeal to our customers presented in an easy-to-use format. And in this example, the Gala Bingo-Chase sponsorship, which was exclusive product content and marketing.

New releases which we know drive growth have been very much part of the business as usual since merger, with 38 across both brands in the first half, and there is more planned for the rest of the year.

These 2 charts reflect the journey that both brands were on premerger. In Ladbrokes, the plan, as you may remember, was clearly to grow scale through the acquisition of recreational customers and then peel back that spend to focus on retention and yield management. Deploying the Coral data-driven analytical tools post our merger, marketing spend was reduced as planned, and the focus shifted to ROI and the value of those acquired customers.

The same analytics and the value predictors were applied to the Coral brand with a reduction in marketing as a percentage of NGR was less as Coral was further advanced in this journey of growing its relative player base that allowed us to focus on the most profitable marketing channels and customer cohorts.

Now again, the same analytical approach but a different customer base and mix. And across all 3 brands, we now have a significant player base, with some common and some differing customer cohorts. This may require a different approach to acquisition retention. However, what is common is that there is a clear benefit of the merger. The analytical and optimization tools that are applied are consistent. But of course, the recommended outputs differ according to brand, customer cohort and type.

So the data is providing insight to allow us to determine not only which channel spend should be applied to, but also where the best value and yield is to found by channel and customer cohort. On this basis, it provides us with the opportunity to benefit even further when we apply what we believe is a competitive advantage in driving yield and retention, and that is our dual-brand approach.

This is perhaps my favorite slide on the deck. It shows what multibrands operating over a single engine can do, the flexibility, the options that we have and the value that we can offer. The slide shows how in the open we use the scale around a dual-brand approach. And you will be aware of the growing rates that offer more and more places to customer as the battle has raged to attract the recreation pounds.

In our opinion, some of the offers that were being pushed push the boundaries of common sense. Traditionally, the options for us was to either walk away or sit there and fight out, take upon an outcome of an event and move from bookmaker to gambler. And most of you know I'm not a fan of that. I prefer us to fulfill a role as a bookmaker, the risk manager and when the offers get too extreme, we will easily walk away from what is essentially bad business.

However, with 2 brands, we can look at this slightly differently and segment our appeal when appropriate. So Coral can offer 8 places and look for the each-way punter -- the customer who wants to have a shot and place a premium and gain something back even if the prices are slightly skinnier.

Ladbrokes can offer 6 places to offer real value at the ante-post market, applying to those customers driven by price. During the open, this is what we did. But none of this is rocket science, but a real benefit of the dual-brand approach and how we can actually take on our competitors in competitive markets.

This slide also shows how we adapt it to other sports, and in this case, football again. But we only do it when we wish to. So please don't expect to see this all of the time, but take it as a benefit of what scale can allow us to do and how the dual-brand approach can help us manage risk and still do what bookmakers do best, which is appeal to customers and run a sensible, balanced book.

Most of you have heard before our passion for multichannel, and this slide shows of the good progress and the rationale for aggressively pursuing this opportunity. We now have over 1.3 million multichannel customers, and we continue to demonstrate loyalty and value above the normal customer behavior.

With an average lifetime value of 2x higher than non-multichannel customers, we continue to help drive our Digital growth. And the discrepancy in the proportion of H1 Digital revenues provided by multichannel customers to the Ladbrokes brand compared to Coral, in my mind, reflects what I said at the merger, Coral were 12 months ahead of Ladbrokes in multichannel, so I don't look at this as a gap, but a clear opportunity.

This slide also shows that we are constantly learning about the preferences of our customers and the necessity of constantly giving them an easy-to-use product, which helps drive loyalty and, therefore, retention. And it remains my firm belief that utilizing the retail brand loyalty of a customer to when they're online custom is the right long-term approach for our business.

As we've always said, international has to be a key focus for us. Our experience in Australia shows what can be achieved. From very small beginnings, we have grown into the #2 online corporate bookmaker. The journey has the been driven by a management team, now led by Jason Scott as Chief Executive, with a clear commitment to the best and most innovative product. And as an aside, all of those enhancements to the product are now beginning to appear across continents in other parts of the group.

As we've always said, international has to be a key focus for us. Our experience in Australia shows what can be achieved. From very small beginnings, we have grown into the #2 online corporate bookmaker. The journey has been driven by our management team, now led by Jason Scott as Chief Executive, with a clear commitment to the best and most innovative product. And as an aside, all of those enhancements to the product are now beginning to appear across continents and other parts of the group. This is working. Brand awareness from a standing start in 2013 is now at 70%, 3rd only behind Sportsbet and TAB. The team and the performance in Australia is the evidence of why our areas of focus are the right ones. In that market, it is all about, in our view, customer preference, getting the product right and getting it in front of the right customers to ensure that it works reliably. The numbers speak for themselves. Actives are up 54%. Bets struck are up 81%. And FTDs, first-time deposits, are up a remarkable 52%. Now where we flag growing regulatory agenda in Australia, hopefully, this slide shows that we are well positioned, maybe better than most, to meet the challenges that may arise.

So as a quick summary, an overview of where we are and focusing attention. We are building this business and delivering sustainable value for our shareholders. We show a company that is not struggling to digest a merger but one executing a planned integration, working to build on a scale created and seeking to deliver on those opportunities presented. The results reflect a good performance in a period of intense activity. Our Digital performance, the key driver for our merger rationale, is good. And as we maximize the merger opportunity offered by one platform, the best of both and multichannel, there is more to aim for. In Retail, we have taken some pain in terms of addressing some historic cost issues, but I'm confident these were the right thing to do for the long-term sustainability of our business.

We've identified extra synergies. We're going to tackle our net debt, as Paul has spoken about; and been able to share some of the success with shareholders through an interim dividend rise. Now we know that there remains what to do, and integration will continue. The market will remain competitive. And as ever, we face ready for the challenges. However, this is business as normal for Ladbrokes Coral. What we now have is the scale and the opportunities to meet these challenges.

So with that, Paul and I will be happy to take any questions. Thank you.

QUESTIONS AND ANSWERS

Patrick Coffey - *Barclays PLC, Research Division - Director*

Patrick Coffey from Barclays. Two questions, please. So very short term, but over the last 7 weeks, you've obviously talked about net revenues. Can you give us any sense of what the gross win margin has been in Digital and Retail over that period of time? Maybe kind of how it compares with the average margins. And also, any data on wagering levels over that period of time? And then second, kind of bigger picture question on shop rationalization over the next 3 to 5 years. Putting aside any regulatory developments, where do you think the right kind of number of total number of shops for Ladbrokes Coral combined group would be in the U.K.?

Jim Mullen - *Ladbrokes Coral Group plc - CEO and Executive Director*

Do you want to do gross win margins? And I'll...

Paul Bowtell - *Ladbrokes Coral Group plc - CFO and Executive Director*

Yes, Patrick, I'll start with the gross win margins. I mean, look, it's 7 weeks, so it's not a significant period, but in Retail gross win margins were about 1%, just over 1% higher than the same period last year; and in Digital, 1.2 percentage points higher. So we saw about 8.5% in Digital; and around about 16.5%, something like that, in Retail.

Jim Mullen - *Ladbrokes Coral Group plc - CEO and Executive Director*

Patrick, on the shop rationalization, it's a good question. It's practically impossible to answer when you are sitting on the eve of the triennial review and impact that, that we have. So the way I'll try and answer it is that the Retail team, the team here, have put together an estate which is quite balanced. So in the event that we have a poor outcome of the triennial, which influences whether or not we have to close shops and people lose their jobs, I think we are in a probably a better position in most things in our peers...

Paul Bowtell - *Ladbrokes Coral Group plc - CFO and Executive Director*

Yes. Average lease has been 3.5 years, so there's a lot of flexibility within that.

Jim Mullen - *Ladbrokes Coral Group plc - CEO and Executive Director*

So it's not the direct answer, but it's based on the mitigation that we have in the event of a poor TR, which we hope isn't the case.

Paul Bowtell - *Ladbrokes Coral Group plc - CFO and Executive Director*

And we review quarterly the performance of the estate. And that's led to the 90 or so closures that we've undertaken in July and August. And as soon as a shop becomes marginal, then clearly, depending on where that shop is in terms of its lease left to go, we will take a decision quarter-on-quarter as to whether we would put something up for closure or not. So it's difficult to come up with an exact number, but I guess you could see circa, I don't know, 75 to 100 per annum, something of that order. Question?

Chris Stevens - *UBS Investment Bank, Research Division - Director and Leisure Analyst*

Chris Stevens from UBS. One even more short term than Patrick's, I'm afraid, but just on gaming current trading. Are you able to comment on how July was versus August and the kind of momentum there and perhaps how it looks for the rest of the year?

Jim Mullen - *Ladbrokes Coral Group plc - CEO and Executive Director*

On the gaming, Paul will comment on this. I think we got off to an extremely good start just at the start of the year. And it's quite a good question because we spoke about it last night when you see, obviously, the comment on gaming run rate. I think we're coming back to where the market is. And so rather than looking at it in a decline in gaming, there has been significant momentum in Q1 and...

Paul Bowtell - *Ladbrokes Coral Group plc - CFO and Executive Director*

But Q2 in particular.

Jim Mullen - *Ladbrokes Coral Group plc - CEO and Executive Director*

Q1, Q2, sorry; and then getting back to where the normalized market position is. So on both counts, it's a positive story, but when you compare it on Q1, Q2, to current trading, you might look at it differently. But as in the case, it's more of a normalization to where the market is.

Paul Bowtell - *Ladbrokes Coral Group plc - CFO and Executive Director*

I mean we absolutely had a great Q2. Jim referenced the sponsorship of The Chase. That was really successful. July was much weaker, I think, for a whole host of reasons. I think there was a market phenomenon. We have seen a pickup back in August. August has been better than July. And you tend to find in Gala Bingo in particular that it takes until about September. You do get a lull in the summer, particularly when the kids are off school, but once -- it's a much more female-orientated brand. Once the kids are back at school, we definitely tend to see a pickup, anyway, cyclically going into Q4. I still think -- I mean I know, 4%, we'd rather still be at the higher numbers we were, but I mean we've seen from our peers lower numbers than that. So we're doing okay.

Chris Stevens - *UBS Investment Bank, Research Division - Director and Leisure Analyst*

And just a couple on the triennial review, if I may. Could you comment on the kind of spread of staking regionally? Like in London, are there more people betting over GBP 50 or close to GBP 50 versus elsewhere in the country...

Jim Mullen - *Ladbrokes Coral Group plc - CEO and Executive Director*

Yes, I could. I mean you have pockets. I mean you have pockets in London which -- London is an outlier, anyway. So you have pockets in London that you'll see higher stakes. But also some of the other areas such as Glasgow, which is all public and reported by the media. You have strong staking on machines. So there are pockets of outstanding areas where we are seeing higher stakes than normal.

Chris Stevens - *UBS Investment Bank, Research Division - Director and Leisure Analyst*

Okay. And just one final follow-up then. Previously there was a lot of talk around maximum stakes but also restrictions of number of machines, spin speeds, session length, et cetera, whereas the commentary now seems to be focused purely on maximum states. Has the kind of dialogue changed there?

Jim Mullen - *Ladbrokes Coral Group plc - CEO and Executive Director*

No. I mean I think you have -- the thing you have to remember what the triennial review was, which was talking about machines as well as stakes. That actually hasn't changed. The media having focused on the spin speeds and the number of machines because they have going for quite a binary reduction or a ban, which is too simplistic. Internally we have modeled on spin speeds and number of machines. And what I will say, those sensible minds both in the media and in government do talk to us about the impact of stakes and machines and product. So those who are clever and want to try and get a solution are talking with that narrative rather than public narrative which is simplifying it.

Jaafar Mestari - *JP Morgan Chase & Co, Research Division - Research Analyst*

It's Jaafar Mestari from JPMorgan. On the slide where you gave us a couple of examples underpinning the GBP 150 million synergy targets, one of the big chunks is from organization. Could you maybe help us understand what part of that GBP 27 million group number actually falls into Retail and give us a bit more detail on the perfect organization structure for Retail? Some of your peers have been saying, for example, "We're going to review the structure. We don't need individual shop managers. We can have 1 cluster manager for 7 shops, et cetera." So is this something that you're doing?

Jim Mullen - *Ladbrokes Coral Group plc - CEO and Executive Director*

I think that, if you look at it, the big picture, around 50% of the synergies is in Retail. And then you have Digital, which is 30% to 40%. And 10% is corporate. What we'll have -- want to see is that most of them are nonpeople. So it's IT, procurement structure and processes. There is some margin improvement. And remember there is nonpeople in the guidance that Paul and I gave. At the beginning of the process, around 700 people will be impacted. It's still the case. So the lion's share of that is back-office system and assets and IT, procurement.

Jeffrey Harwood - *Stifel, Nicolaus & Company, Incorporated, Research Division - Analyst*

So Jeffrey Harwood from Stifel. Two questions. First of all, on regulation, the company and its predecessors have taken a very clean attitude towards unregulated markets. Is the company committed to that approach, or might it there'd be a shortcut? And secondly, on Australia, it's quite difficult to know what's going on there, but is the business now making a decent profit?

Jim Mullen - *Ladbrokes Coral Group plc - CEO and Executive Director*

Jeff, you're absolutely right on regulated markets; nonregulated or grays, as were often called. It's quite a binary approach to it. Nonregulated markets are -- it's quite a catch-all definition because you have some markets which are progressively regulated and looking to get to regulated position. And I think that we always keep an eye on where those markets are. Obviously, white markets are legal markets. And the dark side of gray we wouldn't go near, but the company policy at the moment is still that we operate in regulated markets. That is not to say we have a radar of those markets who are progressively regulating, which we may keep an eye on, such as the Netherlands, but don't take that is a lead into them moving in there. But we have a radar on those markets.

Paul Bowtell - *Ladbrokes Coral Group plc - CFO and Executive Director*

And on Australia, I mean, we don't give an EBITDA number by territory because it's just too difficult to break out the costs because, particularly with the IT infrastructure, we are trying more and more to use a common infrastructure across all our businesses. Why wouldn't we? It's much more efficient, but yes. I mean, look, I mean, we've seen fantastic growth in gross win in Australia, and net revenue. I gave you the stats for net revenue, up 50% on a constant currency basis. That means that GP is very strong. And yes, that business is turning out a decent profit now.

Gavin Kelleher - *Goodbody Stockbrokers, Research Division - Investment Analyst*

Gavin Kelleher from Goodbody. Just 3 for me, please. Just on online competition, Jim, in the U.K., you hinted at irrational behavior around pricing at certain times. Has it got any more irrational or less irrational in terms of pricing more recently? Where do you think your pricing stands? Do you think you maybe have to be a bit more aggressive around your gross win margins just given some competitor activity? Maybe that to start out with, and I can ask the two later.

Jim Mullen - *Ladbrokes Coral Group plc - CEO and Executive Director*

Okay, on irrational behavior, Gavin, I think it's got better. The -- our sector continues to surprise itself. If you looked at the boxing at the weekend and some of the prices that were being offered, where -- for our perspective, we're not about risk management. So I think that it's got better, particularly since Cheltenham 2 years ago, 2, 3 years ago, when...

Paul Bowtell - *Ladbrokes Coral Group plc - CFO and Executive Director*

Yes, about 2 years ago, yes. 2016.

Jim Mullen - *Ladbrokes Coral Group plc - CEO and Executive Director*

Yes. I think I said -- I think the sector lost its mind. And we've seen, I think, so many firms are so badly burned. That has improved, but we do now and again surprise ourselves. With regard to competitiveness: And we are as competitive as anyone else when it comes to black tape. And you'll see that every weekend. It doesn't mean that, if you are managing a well-balanced book and managing your risk properly, that does not mean that you're uncompetitive. And I'm sure, as you pick up the recent posts or some of the papers last weekend, you will see that we are as competitive as others, but for example, we would not go out in the (inaudible) to vet an event post the Grand National of the boxing. And this is something which is irresponsible and irrational.

Gavin Kelleher - *Goodbody Stockbrokers, Research Division - Investment Analyst*

Just on the actives in online, just the year-on-year decline. There's obviously a couple of things happening. You obviously have great sign-ups from retail, from omnichannel obviously. You've also got the difficult European comparative in terms of actives. What should we think about there? I know you're going from this value from volume. When will we lap that? And how should we think about actives into 2018?

Paul Bowtell - *Ladbrokes Coral Group plc - CFO and Executive Director*

So I think I referenced that in what I said, Gav. We've started to use slightly more sophisticated tools around the marketing channel mix. And we can, in quite a detailed fashion, now measure the incremental actives we're getting. We can then predict their value, so we can very quickly establish the return on investment from marketing through each different channel. And that's led to some changes that we made in the ladbrokes.com business and indeed Gala and Coral. We'll start to lap that probably around May next year. So I think I said we really expect to annualize that as we get through the first half next year. I think both sports-led businesses in the U.K. probably overcooked it around the Euros. And whilst those customers didn't disappear straight after the Euro tournament, they were pretty much gone by around September, October time; and frankly, were not value enhancing. I don't think we were probably alone in the industry in that, but I think we've now got the tools to be much more targeted around that type of activity, that type of tournament activity to make sure we get the biggest bang for our buck. And that's what we're trying to do.

Jim Mullen - *Ladbrokes Coral Group plc - CEO and Executive Director*

I think -- Gavin, I think the other important point to remember is that -- I think the last data that I've seen, that it was still 4.2 accounts for most sports-betting users in the U.K. So you assume that's 4.2 apps. In a lot of cases, we have 2 of them. So that helps with our loyalty and retention. And again, don't underestimate the value of those multichannel customers. They're between 1.5x to 2-and-a-bit times more valuable. So therefore, the absolute active number may reduce, but the value is still there.

Gavin Kelleher - *Goodbody Stockbrokers, Research Division - Investment Analyst*

Just one final question, just on the OTC staking trends. Obviously, you've hinted at an improvement more recently. Just with the Racing content, is that a gradual return to shop from people? And how should we think about that more likely into Q4 and into next year? Would we think 2% to 3% decline is likely in OTC trends going forward? Or...

Paul Bowtell - *Ladbrokes Coral Group plc - CFO and Executive Director*

Well, look, you're absolutely right. I mean it's a gradual return. Just because we flip the content back on overnight, it didn't mean that everybody rushed back into the shops. Although, clearly we're doing everything in the shop frontage to encourage people to do that. And where it's been VIP customers who may have wandered from us because they can't watch all the content, in the first half, obviously shop managers are doing what they can to encourage those customers to come back to the shops that they left. So that will take a bit of time and will run through probably into Q4. I mean, when we've been putting forwards the bridge from what we've reported, the 9.6, down to more of an underlying run rate of 4 to 5, I don't see that underlying run rate really changing, frankly. And that's partly our own doing because we're accelerating migration to online for the right reasons, because it's value enhancing, through the multichannel effort and the Connect card and indeed the Grid in Ladbrokes. So we're probably running at a slightly higher level than, I suspect, some of our competitors who simply don't have a proper multichannel offering at the moment. So I wouldn't expect it to go any improvement on that, but we should start to bridge the gap between what we have seen in H1 and that sort of rate.

Simon John Davies - *Canaccord Genuity Limited, Research Division - Head of European Research*

Simon Davies from Canaccord. Firstly, just on multichannel. 53% of Coral revenue is coming from multichannel customers. Do you think that is a reasonable target for the Ladbrokes brand? And can you also give us a feel for the relative cost of average customer acquisition? And secondly, just on Retail, roughly how many loss-making stores did you have in the first half?

Jim Mullen - *Ladbrokes Coral Group plc - CEO and Executive Director*

With regard to the target, yes, I think it probably is a reasonable target. When we think about Ladbrokes, has naturally got most -- more shops. So I think -- as I said earlier, Simon, I think that's an opportunity that we should aim for. And yes, I would accept that, that is reasonable as a target to go for. CPAs, I don't -- we don't share CPAs.

Paul Bowtell - *Ladbrokes Coral Group plc - CFO and Executive Director*

Well, with multichannel, I mean, it's GBP 20, depending on the level of information that the shop colleague gets from a customer. So if it's just an email, then it's x amount. And the maximum for all, if they could get them to fill-in all the boxes, is GBP 20. So that probably compares to a market average of somewhere around GBP 80 for a Digital channel customer. So it's clearly hugely efficient, and that's why we continue to put so much emphasis on it. The loss-making stores, I haven't got an exact number, but I would hazard a guess at around about 200, something of that order, of which obviously we've closed 90. And we'll look to improve the contribution certainly to fixed costs in those others and may, over time, look to close those as well. I mean it's a relatively small tail, I guess, is my point.

Jim Mullen - *Ladbrokes Coral Group plc - CEO and Executive Director*

Ivor? You're usually first.

Ivor Griffith Rees Jones - *Peel Hunt LLP, Research Division - Analyst*

Jim, all the sensible questions have been asked. And I should think about the underlying trends a bit in the Digital side because, obviously, there's the benefit of the synergies. Particularly in terms of marketing costs, marketing assets, do you have control of all assets that you'd want? And what are you seeing in terms of cost inflation?

Jim Mullen - *Ladbrokes Coral Group plc - CEO and Executive Director*

When you mean assets, what do you mean?

Ivor Griffith Rees Jones - *Peel Hunt LLP, Research Division - Analyst*

Slots on Sky, slots on ITV, particularly cost of Google clicks, if we could see through the synergy benefits in the group and the greater marketing efficiencies. Is there a underlying cost growth trend we ought to be thinking about?

Jim Mullen - *Ladbrokes Coral Group plc - CEO and Executive Director*

We have control of our marketing assets. And we have benefited from the merger and with the amount of cash that we can bring to media owners and which, obviously, the team are leveraging. So we're seeing a benefit there, and -- but we're also seeing that there's a much more competitive market as well. And so we are focusing more -- even though the NGR is sitting around 24%, 25%, we are forcing more on below the line and the retention element and which is what Paul alluded to when he speaks about the optimizations. So I think that that's where the focus where we're going. And I think it's one of the benefits that we have, the analytical data we can deliver. So I think we have control. And I think the benefits are really much more below the line rather than the usual off-line spend.

Paul Bowtell - *Ladbrokes Coral Group plc - CFO and Executive Director*

I think I mean just to add to that. I mean synergies were GBP 4 million in the first half, so not significant in Digital. They'll grow, obviously, as we get through the second half. A lot of that is about scale. It's about procurement. It's about streaming costs. I mean it's every line in the P&L. Just because we now have scale, does that mean that we can push down the costs of a Sky Premier League slot or an ITV slot or -- well, no, it doesn't. Of course, it doesn't. What it does mean is that we can split that between brands. And therefore, we have some flexibility through the dual-brand strategy, but we're not -- it doesn't mean that we can beat up Sky and get kind of a more favorable deal. But on other content streaming costs and other areas of procurement, as I think it breaks out in that synergy slide that Jim put up, those are the areas where we're making efficiencies.

Ivor Griffith Rees Jones - *Peel Hunt LLP, Research Division - Analyst*

And why is gaming growing at a low rate? Is it to do with market saturation and specifically to do with Ladbrokes Coral? Is it to do with behavioral changes in anticipation of the final CMA indications of how the behavior should change?

Jim Mullen - *Ladbrokes Coral Group plc - CEO and Executive Director*

First, I would challenge the growing at a low rate. I think we have come out -- really come out the -- with great momentum on it, but I think the point is a good question about what other influences are on that current gaming growth rate. I mean there could be a number of factors, absolutely. And I think it's much more competitive. I think some of the sign-up offers are competitive as well. We are focusing on retaining the base that we have. And so I think there are a number of factors at play. We value the point that whether it's growing slowly, I'm not entirely sure that I agree with that actually. I think our gaming has been very exceptional at the start and we'll move that along. We'll see.

Ivor Griffith Rees Jones - *Peel Hunt LLP, Research Division - Analyst*

But sorry. 1H '17 on 1H '16, are Ladbrokes Coral's sign-up offers less competitive because of the interest in CMA? Or have they changed year-over-year?

Jim Mullen - *Ladbrokes Coral Group plc - CEO and Executive Director*

No, no, no.

Paul Bowtell - *Ladbrokes Coral Group plc - CFO and Executive Director*

No, not really. We're still using the same techniques. I think the CMA inquiry is really focused on are these offers intelligible. Do people understand that you have to play through a certain number of times before you can actually then get the free offer or whatever it might be? So I don't think the mechanics have changed particularly. I do think the whole AML piece; and source of funds; and the level of rigor that is now being applied in the business compared to 2, 3, 4 years ago. And therefore, I'm assuming, the industry as a whole, although I suspect some are slightly further behind that than, say, some of the bigger brands might be, that is undoubtedly on a 2- to 3-year view. Yes, it definitely had an impact, for sure, which will have resulted in some of that market slowdown.

Jim Mullen - *Ladbrokes Coral Group plc - CEO and Executive Director*

And Ivor, I understand your question better now. It's a very good question because a lot of it is down to affiliates; and how we express through our affiliates our terms and conditions, where maybe 3 or 4 years ago you'd have quite an aggressive affiliate approach to acquiring customers. That is not now the case. We are all wholly responsible for our affiliates' communications. It's taken a while to get there, but it's -- that is a very good question. That has changed. You are right.

Ivor Griffith Rees Jones - *Peel Hunt LLP, Research Division - Analyst*

And on Italy, it seems a bit gray market-y to be operating without explicit licenses. Should we be -- and we've heard reports that...

Paul Bowtell - *Ladbrokes Coral Group plc - CFO and Executive Director*

No, they're being renewed every 6 months, so they're just -- it's just on a continual extension.

Ivor Griffith Rees Jones - *Peel Hunt LLP, Research Division - Analyst*

So there's -- we should (inaudible) there's no (inaudible) for that.

Paul Bowtell - *Ladbrokes Coral Group plc - CFO and Executive Director*

No, no....

Jim Mullen - *Ladbrokes Coral Group plc - CEO and Executive Director*

(inaudible) no, no, no.

Paul Bowtell - *Ladbrokes Coral Group plc - CFO and Executive Director*

(inaudible) underlying. And definitely not gray.

Jim Mullen - *Ladbrokes Coral Group plc - CEO and Executive Director*

It's not gray.

Ivor Griffith Rees Jones - *Peel Hunt LLP, Research Division - Analyst*

And then finally, just how -- when I'm thinking about the possibility of shop closures, perhaps a few hundred or more if there's a regulatory change that causes it, how should I think about, how should I model the impact on multichannel customer revenue? When you say they're a multichannel customer, are they acquired in the shop in the same way they're acquired by a TV advert? And then their revenue is unrelated to their relationship with the shop. Or is there a significant amount of depositing and withdrawing in the shop, and if the shop were not there, you'd expect to lose that multichannel customer?

Paul Bowtell - *Ladbrokes Coral Group plc - CFO and Executive Director*

Again, it's a good question. I mean there is a significant amount of depositing and withdrawal in shop, and that is one of the key competitive advantages that we have through our multichannel capability in both Ladbrokes and Coral. I mean I think -- shop closures, I mean, regular shop closures, given the size of the estate, I mean, it's not a big thing, I don't think...

Jim Mullen - *Ladbrokes Coral Group plc - CEO and Executive Director*

Gross wins have more or less remained...

Paul Bowtell - *Ladbrokes Coral Group plc - CFO and Executive Director*

Yes, the gross win, we did a lot of research. It's part of the CMA competition process. And a lot of gross win transfers. And therefore clearly, where we have another shop in a location and we're closing one, we would hope to capture a significant proportion of that gross win. And we take that into account when we look at potential closures. I think the other point to bear in mind is that, post triennial, yes, there will undoubtedly be industry disclosures. And Jim is on record about just how extensive that could be, depending on the severity of any state reduction and all the collateral damage that, that causes in terms of lost income tax revenue, lost revenues from machines, job losses, et cetera, et cetera. But it's not going to happen instantly. It will happen over a period of time. And I think we feel that we probably will have, post the synergies, higher EBITDA per shop than the rest of the competition. I mean you could argue some of Paddy's shops, in the locations they are, may still be higher, but I'm kind of discounting them for the purposes of this. But we should have the highest-EBITDA shop. And to the extent we've still got a multichannel opportunity, so if we've got relatively low penetration, given that delta between the CPAs of a retail customer being signed up and an online customer, that gives us another reason to keep that shop open for longer. And if the competition then close, well, we should pick up some of that gross win. So I mean it's not a straightforward kind of equation, right? That's the answer. It's x on stakes. Ergo, that happens. It'll happen over a period of time.

Jim Mullen - *Ladbrokes Coral Group plc - CEO and Executive Director*

But I mean I would be slightly more bullish and say that the ability to deposit and withdraw within either a Ladbrokes or a Coral shop, with the gross win demand being as it is; and one of those shops closing as with maybe our competitors -- and if that customer is used to withdrawing and depositing or all of the functionality that we currently offer in the multichannel, then we would expect that customer to participate and engage in our shop compared to maybe a competitor who hasn't invested in multichannel functionality over a period of time. And I think I've sort of alluded to that during the implications of any negative triennial, that we believe that we are probably in a very good place to take that gross win back into our estate.

Paul Bowtell - *Ladbrokes Coral Group plc - CFO and Executive Director*

There's David at the back who's had his hand up for a long time. Go on, [Richard]. You go.

Unidentified Participant

Just one question from me. Talking about the profitability of shops. You mentioned in your release about SSBTs and the potential rebalancing into the second half. How much uplift do you think that could give?

Paul Bowtell - *Ladbrokes Coral Group plc - CFO and Executive Director*

Well, we're not going to put a figure on it. I mean it's really we've got some under-weighting in Coral. I think, when we were premerger looking at what Ladbrokes achieved from the actions that they took on SSBTs, which was we thought at the time was pretty aggressive but actually it's worked very well -- but the numbers, I mean, there's 6,750 in Ladbrokes and 2,500 in Coral, we were probably underweight in Coral. So it's a rebalancing. Yes, it should have a positive impact, but it's too early to put a number on it at the moment.

Unidentified Participant

And it's more rebalancing, as opposed to increasing the number of SSBTs...

Paul Bowtell - *Ladbrokes Coral Group plc - CFO and Executive Director*

Yes, rebalancing, exactly.

Jim Mullen - *Ladbrokes Coral Group plc - CEO and Executive Director*

Yes.

David Jennings - *Davy, Research Division - Gaming and Leisure Analyst*

David Jennings from Davy. One question on multichannel, please. Should we expect to see the rate of customer migration from retail to online to slow from here? And then related to that, how much do you think your intentional efforts to push your retail customers online have contributed to your OTC staking trends?

Jim Mullen - *Ladbrokes Coral Group plc - CEO and Executive Director*

I think, David, to answer that: Yes, you will. Naturally you will because obviously we're quite aggressive within acquisitions within the estate. But there is a gap, I think it's around 15%, between Coral and Ladbrokes. And Ladbrokes has the larger estate, so there should be an acceleration to get to the maturity of the other Coral estate. And so I think that's why we're out talking, we still feel there is a wee bit to go to get to that point. And then -- and whilst we still speak about beyond the front foot, that's a message that it's still a payment acquisition driver for us. So we're not there yet, but that will happen.

David Jennings - *Davy, Research Division - Gaming and Leisure Analyst*

I'm sorry, the contribution to your staking trends as a result of shops?

Paul Bowtell - *Ladbrokes Coral Group plc - CFO and Executive Director*

It's really -- it's a really difficult thing to estimate. And the best we can say is probably 1% to 2%, something of that order, I think, probably wouldn't be a mile away. I think, just to build on the point that Jim just made and actually, Ivor, to your question as well: The penetration of the Retail customer base in Coral is further advanced because it's probably 12 months ahead. Now roll that forwards 1 to 2 years, and I suspect we've exhausted those customers in the Coral estate who would ever sign up to multichannel. So when it comes to closures, we'll obviously bear that in mind, whereas Ladbrokes being 12 months behind, we do need to get to that same level of penetration. And maybe that takes a little bit longer, but to your question earlier, Ivor, I think, by the time we're starting to think about shop closures post triennial, we'll probably pretty much be at saturation point for multichannel in Coral.

Alistair Guy Ross - *Investec Bank plc, Research Division - Research Analyst*

Alistair Ross from Investec. Three from me. I'll take them one at a time, if that's okay. Just in terms of Patrick Coffey's question in terms of gross win margin, Paul, you mentioned retail and online gross win margins in the first 7 weeks of the second half being 1% and 1.2% higher. Is that in relation to the same period in the prior year, or Q3?

Paul Bowtell - *Ladbrokes Coral Group plc - CFO and Executive Director*

No, same 7 weeks.

Alistair Guy Ross - *Investec Bank plc, Research Division - Research Analyst*

Same 7 weeks, so it includes the Euros in the prior year.

Paul Bowtell - *Ladbrokes Coral Group plc - CFO and Executive Director*

It would include the Euros in the prior year.

Alistair Guy Ross - *Investec Bank plc, Research Division - Research Analyst*

It's pretty impressive. And then just in terms...

Paul Bowtell - *Ladbrokes Coral Group plc - CFO and Executive Director*

Although actually, I mean, the Euros -- yes, it -- there wasn't a lot of Euros.

Alistair Guy Ross - *Investec Bank plc, Research Division - Research Analyst*

35% of Euros...

Paul Bowtell - *Ladbrokes Coral Group plc - CFO and Executive Director*

There was 5 matches, I think, in the -- fell into July.

Alistair Guy Ross - *Investec Bank plc, Research Division - Research Analyst*

Well, industry-wide, 65-35 split net revenue wise.

Paul Bowtell - *Ladbrokes Coral Group plc - CFO and Executive Director*

Yes, but it was only about -- it was about 5 matches that fell into July, so I wouldn't [reinforce that].

Alistair Guy Ross - *Investec Bank plc, Research Division - Research Analyst*

Fair enough. Any commentary around the fight this weekend -- or last weekend? In terms of my Google Alerts, it seems like the take for the bookmakers was huge. And obviously, we didn't see that in the prior year...

Paul Bowtell - *Ladbrokes Coral Group plc - CFO and Executive Director*

Well, it's not in the 7-week numbers obviously...

Alistair Guy Ross - *Investec Bank plc, Research Division - Research Analyst*

I know. So this is the 28th of August, correct.

Paul Bowtell - *Ladbrokes Coral Group plc - CFO and Executive Director*

Look, it was an okay weekend, yes.

Jim Mullen - *Ladbrokes Coral Group plc - CEO and Executive Director*

Yes. They've only hit the money coming in...

Paul Bowtell - *Ladbrokes Coral Group plc - CFO and Executive Director*

I think football was good. I mean there was some -- I think Burnley pulled it out in the back. That was good.

Jim Mullen - *Ladbrokes Coral Group plc - CEO and Executive Director*

The cash coming in, I would say that the Grand National was an unprecedented betting event. And I think that, obviously, the amount of low-value, high-frequency bets that came with McGregor if he had won there would probably be a few tears for Paul and I there over the weekend. But it was -- but we run -- again, we ran a balanced book, and the trading team hedged it well. But yes, it was probably -- in fact, it wasn't probably. It was the biggest betting event, I would say.

Alistair Guy Ross - *Investec Bank plc, Research Division - Research Analyst*

And then third question, just in terms of the chat around triennial. It seems like tax or tax take as a risk mitigant against the punitive outcome seems to be increasing. Have you guys done any sort of calculations as to what you think the industry-wide tax take loss would be if -- at the most punitive level at a GBP 2 outcome?

Jim Mullen - *Ladbrokes Coral Group plc - CEO and Executive Director*

Yes, I mean it's GBP 0.25 billion with regard to -- for the tax treasury a year. So cumulatively it will be obviously a higher amount, close to GBP 1 billion over 4, 4.5 years. But you have to look at whether or not if they're looking to replace that elsewhere. The problem is we don't just pay tax on the machines. We pay tax on jobs. We pay tax on business rates and...

Alistair Guy Ross - *Investec Bank plc, Research Division - Research Analyst*

So that is just machines...

Paul Bowtell - *Ladbrokes Coral Group plc - CFO and Executive Director*

That's just the machines...

Jim Mullen - *Ladbrokes Coral Group plc - CEO and Executive Director*

That's just the machines. So there's business rates. There's the jobs. And there was the impact on Racing. And therefore, Racing will see a reduction in net income, which will impact their tax contribution to the ex-chequer. And that's the bigger picture that has to be looked at, which is a very good question because there isn't. And that's why we wanted a sensible conversation with treasury.

Alistair Guy Ross - *Investec Bank plc, Research Division - Research Analyst*

And have you done your calculations around that bigger number?

Jim Mullen - *Ladbrokes Coral Group plc - CEO and Executive Director*

Yes, we have. It's not for discussion today, but we have grossed it with treasury. So we'll have a number of meetings with them. And we have put -- and -- the sensible minds, we hope, have influence on the decision because it is not simply a machines issue. It's a wider issue.

Alistair Guy Ross - *Investec Bank plc, Research Division - Research Analyst*

And then so just in terms of point-of-consumption tax, there seems to be some -- an increase in chat around a possible increase in point-of-consumption tax rate so as to offset any tax losses. So if I were to say the loss was a GBP 100 million tax loss in Retail as a result of a low staking element, do you have any calculation as to what that would mean in terms of an increase in point-of-consumption tax to offset that? I'm sorry to put you on the spot in terms of your numbers.

Jim Mullen - *Ladbrokes Coral Group plc - CEO and Executive Director*

We do, we do. The tax team have done that with -- that's a very good question, as always. We don't have it here, though. Yes, we do know the overall impact, which we will be taking to treasury.

Paul Bowtell - *Ladbrokes Coral Group plc - CFO and Executive Director*

I mean I think one of the issues, however, with that line of thought is that you do run a risk of having therefore different taxation rates in online and offline. And therefore, you're favoring one channel over another channel, which is quite a difficult thing, yes. Competition perspective, that's quite difficult.

Jim Mullen - *Ladbrokes Coral Group plc - CEO and Executive Director*

Yes, I mean the -- I've got it here. The loss of the MGD revenue from, say it was, GBP 2, does not in any way whatsoever make up by additional POC revenue. And these are draft numbers, so even with a POC increase it would not make up for the MGD loss through a GBP 2 reduction in stakes.

Alistair Guy Ross - *Investec Bank plc, Research Division - Research Analyst*

(inaudible)

Paul Bowtell - *Ladbrokes Coral Group plc - CFO and Executive Director*

No, we're not giving the numbers...

Jim Mullen - *Ladbrokes Coral Group plc - CEO and Executive Director*

No, I'm not giving the numbers, but if you take a GBP 2 stake with a POC revenue off a particular rate, there is a long way to go before you make up that difference. So we have to look at the whole taxation and receipts for treasury, which we will go in and say, "Look, if you make these decisions, this is the overall impact."

Paul Bowtell - *Ladbrokes Coral Group plc - CFO and Executive Director*

There's one over there. Ed?

Edward Young - *Morgan Stanley, Research Division - Equity Analyst*

Ed Young from Morgan Stanley. Just one question. In the -- in a shop closure scenario of any form in post triennial or whenever else, can you just give us a feeling for what percentage of the revenues if -- of the synergies, rather, if any, would be at risk? And how high up the sort of group structure base? Are there any of those that would be at risk?

Paul Bowtell - *Ladbrokes Coral Group plc - CFO and Executive Director*

Well, again, I mean, Ed, as I said, the answer to Ivor's question. I mean, the shop, it wouldn't be instant. It would happen over a period of time. I mean, as we saw actually when MGD went up to 25%, for example, there were shop closures, quite significant shop closures, but it didn't happen overnight. So those synergy savings would be embedded within our run rates. And as we shut the shops, then we obviously have to scale our fixed costs. So I think, net-net, I don't see it as a risk. It's not something I'm worrying about.

Jim Mullen - *Ladbrokes Coral Group plc - CEO and Executive Director*

Any more? There's -- well, on the -- people on the phone, online?

Operator

(Operator Instructions) We do have a question in the queue. We will now take our first question from Tal Grant, Credit Suisse.

Tal Grant - *Credit Suisse, Research Division - Research Analyst*

Just 2 questions from me, please. Firstly, you said that, of your machine gross win in the Retail estate, 33% came from B3 slots. Just wondering if you can give us the number coming from B3-only sessions, so not combined with B3 and B2 slot games, if you know what I mean. And secondly, just wondered, of the 1.3 million multichannel customers you've signed up, how many were active in each of online and Retail in the first half?

Paul Bowtell - *Ladbrokes Coral Group plc - CFO and Executive Director*

Well, the -- I haven't got the number on the B3-only sessions. I'm afraid that's a level of detail that, one, I haven't got in my huge file I've got here. And secondly, I'm not sure we'd give that out, anyway, but I mean I understand the question. So I'm afraid I can't help you with that. And the multichannel...

Jim Mullen - *Ladbrokes Coral Group plc - CEO and Executive Director*

Well, we do know that number in that huge file there, but again, we're giving an overall value of the 1.3 rather than the active rates for each one. But we can get back to you on that because that is in there -- or whether or not we share that.

Paul Bowtell - *Ladbrokes Coral Group plc - CFO and Executive Director*

I -- yes, okay, I'll...

Jim Mullen - *Ladbrokes Coral Group plc - CEO and Executive Director*

We'll get back...

Paul Bowtell - *Ladbrokes Coral Group plc - CFO and Executive Director*

We'll get back and we'll put it on the website or something so that everybody can see the answer. Top marks for detailed questions.

Operator

There are currently no further questions in the queue on the phone.

Jim Mullen - *Ladbrokes Coral Group plc - CEO and Executive Director*

Last chance, everyone. No?

Paul Bowtell - *Ladbrokes Coral Group plc - CFO and Executive Director*

Thanks very much.

Jim Mullen - *Ladbrokes Coral Group plc - CEO and Executive Director*

Thank you very much indeed.