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LAD.L - Half Year 2015 Ladbrokes PLC Earnings Call

EVENT DATE/TIME: AUGUST 11, 2015 / 8:00AM GMT



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PRESENTATION

Operator

Good day and welcome to the interim results 2015 conference call. This call is being recorded. Today Jim and Ian will be referring to a presentation that can be found on the Ladbrokes PLC Investors website. I will now hand the call over to Mr. Jim Mullen.

Jim Mullen - Ladbrokes PLC - CEO

Good morning, everyone, and thank you for joining us today for our H1 interim results. While today's results contain little to you that is news to you following our announcement 18 days ago, they do mark a significant point in the Ladbrokes journey. They mark the end of a need to look back at the issues in our past that created the necessity of our plan and explain the consequences on our short term performance.

Our performance in recent years has been poor and H1 is no different. The results are a function of the journey the business has been on, writ large in our impairment figures and will reflect in H2 the direction we need to take as our investments are rolled out. All of this is something which has to be done to build a better Ladbrokes, to reset our company and provide a viable future and an investable business over the next 900 days.

So the past is done. We will and must move on. Our organic plan may lack a silver bullet or series of gimmicks, but it is realistic and achievable. We also have signs that the customer is there to be convinced by our offer. Underlying OTC staking trends are improving. SSBTs are performing well and machines continue to perform strongly, importantly, driven by lower-stake games.

Mobile goes from strength to strength, as does Australia, where we now have staking at 65% of the number two player, having been just under 30% one year ago. In gaming we saw net revenue growth, as well as a rise in the number of actives. That gives us the fourth sequential quarter of gaming growth since we fully launched on PlayTech IMS. The plan has a clear focus on long-term growth with clear KPIs that create value for us to be judged on.



After our recent set of announcements, we quickly got back to the business and the plans are now being implemented. Close observers will have seen them in action.

Our new desktop offer, launched 14 days ago, is now consistent with our mobile product, and like our successful mobile offering it is fast, functional and fun for our customers. It was deliberately targeted to launch just ahead of our sponsorship of the Scottish Premier Football League and the start of EPL, because football is now a priority for our company.

It also provides -- it also arrives as we boost our presence across all media channels. We are aiming to be front of mind for the recreational customer in places where they look for sports information. We have rolled out new product to support recent successes, Top Prices, Top Teams, so popular in retail will be joined by a five-team ACCA. One team falls down and you get your money back. We will continue to promote happy hours and best odds guaranteed because our shop teams and their numbers tell us that we are making us more attractive to our customers.

To go along with the value offer we will improve the customer experience. Our multichannel proposition, One Ladbrokes, was on offer in over 300 shops this weekend. It's early days and too soon to be getting excited but initial on-the-ground feedback has been good. What's not to like to the customers about following your retail bet on your phone, and for loyal customers being able to cash out? It's convenient, easy and customer friendly. The challenge for us is to get it out to more and more of our customers.

Finally, Australia, our team over there continues to drive innovation with the recently launched Mega Margin offer on ASL and NFL selected matches. Predict the correct margin on six matches and have a chance of winning AUD1m, all of this with a cash out option.

So as you can see, there is already a lot happening, but we're not getting carried away. We are confident that the results will be seen in customer metrics before profit and then seen in both over time.

While I've said that today's not about the past but about the future, I realize that you'll be interested in the numbers, so I'll shortly hand over to Ian and he will take you through our half-one figures that show, while we have encouraging signs that the customer is there to be convinced by our offer, the financial performance reflects the reset needed in our expectations, and the cost of the investment and resources to fully capitalize on opportunities for the business. Over to you, Ian.

Ian Bull - Ladbrokes PLC - CFO

Well, thanks, Jim, and good morning, everyone. I hope that you can see the presentation online, so I'll try and give you little pointers as to which slides we're on as we go through. So let me quickly run through the key financials before we come back to a Q&A with Jim.

On page 6, looking at our results overall, as you can see, we've delivered 1.3% net revenue growth in the first half, or actually 4.2% if we exclude the World Cup. Operating profits for the Group were impacted by MGD, POC and grey market withdrawals, as you're all aware. But if we adjust 2014 for these factors, as you can see here, operating profit was broadly flat, and that was after taking a significant hit for sportsbook margins in H1, and the good results we posted for the World Cup in H1 2014. Group tax, at 10%, was in line with our medium term guidance. Our net debt was a little lower than 2014 December, despite the significant dividend outflow.

Okay, so let's move on to the key divisions, and starting in the UK, where our retail team delivered well in H1. Total net revenue was up 1.2%, and as you can see, operating profit was flat year on year, despite incurring a GBP9m increased tax from MGD and a good retail World Cup in last year's comparator. We have really benefited from strong momentum in machines, where our team has done a good job around the new GBP50 staking regulations and with a good contribution of SSBTs where net revenue grew by 98%.

In OTC, the Q2 trends on a like-for-like basis improved somewhat and were better than recent quarters, with broadly stable margins year on year, even after a difficult football result in Q1. Cost performance was in line with our expectations and in the back of this deck I've set out a more detailed cost schedule so you can see line-by-line performance. And finally, you will have seen that we've closed 40 of the 60 shops target for the full year in the first half.



If we now look at machines, I hope you can see that our machines growth has continued in the period, where we have, of course, applied the government's new GBP50 and above staking regulations. As you can see here, gross win per terminal per week grew again in Q2 to GBP1,011, a little below our recent record in Q1 of GBP1,033.

This performance reflects the comparative strength of our product on the high street. This is being enhanced by regular new product launches and our continued focus on driving lower-staking, non-roulette games. This has resulted in the further migration of business to lower-staking slots which now represent nearly 40% of gross wins, up from 30% in Q2 last year. Machines have performed better than we expected and we would hope now to deliver at least 3% to 4% net revenue growth for full-year 2015.

Let me look next at digital, which is on slide 9. As you can see here, in H1 we generated strong revenue growth in Australia and growth in gaming in Ladbrokes.com, where we delivered our third consecutive quarter of growth in revenue and actives. As you are aware, in Q1, we were impacted to the tune around GBP10m of HVC losses and on football.

Looking at the sportsbook staking in H1 it was up 20% unadjusted though results-driven margins were again below our target range and the predominant driver here over the half is larger-staking players. Underlying growth was nearer GBP3.3m, which is supported by strong growth in staking with mobile up to 65%. So you can see the margin impact of our HVC segment is a great illustration of why our strategy to focus on recreational customers, and why that's so important.

On page 10 we've analyzed the drivers of digital operating profit, and on the left you can see the underlying EBIT, if we acknowledge the impact of POC, grey market exits, the Q1 HVC loss in H1 margins. So removing these factors from our profit the underlying benefit of our sportsbook staking growth is positive and the gaming [19%] (corrected by company after the call) net revenue growth in Q2 is the third consecutive quarter of growth. Plus, as I've already mentioned, the H1 profitability from Australia.

And staying with Australia, you can see how strongly active growth is driving staking. With better margins in H1 from more recreational players, and carefully controlled costs, Australia delivered a first-half EBIT of, in Aussie dollars, AUD5.2m. Our business is now generating staking around 65% of its next corporate bookmaking competitor, up from less than 30% in H1 last year. We believe Australia is well positioned to drive the growth, as Jim outlined last month.

Moving on to European retail, and in Belgium our strategy of launching SSBTs and virtual product last year continues to drive increased activity, with staking up 58% and gross win by 20%. Increased content cost and the evening opening meant this 20% turned into 5% growth in operating profits.

In Spain we continued to grow with gross win up 35% year over year, as we roll out across new regions. The profit is broadly flat, reflecting the continued investment of the regional rollout.

And finally, in Ireland, it was good to see the Company emerge from examinership in a smaller but more viable form. We are targeting to get back to a small loss, or perhaps even breakeven PBIT in H2.

Importantly, we can take a look at cash flow now and net debt and exceptionals and as you will have seen, net debt was broadly stable on the year-end position, with operating free cash flow covering dividends and exceptional cash flows. Looking at exceptionals, we've recorded impairments in the retail shop estate of GBP53m, GBP11m for the UK shop closure program and some of the initial costs of the Coral merger and the Republic of Ireland examinership.

Importantly, around 80% of these items are non-cash, so the H1 exceptional cash flow is relatively small, at around GBP5m. In H2 we are already aware of a number of exceptional items, which will be predominantly cash, so to help you model the cash flows, including the examinership, completing this year's UK closure program -- shop closure program, and the expected cost of the Coral merger relevant to H2, we expect these cash costs to be between GBP25m and GBP30m. I see the remaining unknown to that will be the merger-related refinancing fee, which will impact H2, and we will of course provide an update when the circular is published.



Importantly, much of this outflow has been helpfully offset by the working capital inflow in H1, which can be seen on the chart. This is the benefit of moving to a quarterly payment basis for betting duty, and is not expected to recur or reverse.

And finally, we also note the merger-related placing, which raised net proceeds of almost GBP113m, bringing total shares in issue to 1,016b.

On page 14 I'm not going to dwell on, but I've included the full-year technical guidance slide. The only point I would like to draw your attention to is our expectation of the Q3, Q4 phasing of 40%, 60% split.

Okay, so thank you, and back to Jim, to sum up before we take your questions.

Jim Mullen - *Ladbrokes PLC - CEO*

Thank you Ian. So before we hand over to questions I would just like to say a final few words. The financial results reflect the reality of the situation we are in. We need to account for the past and set realistic targets and plans for our future, based on the strengths and opportunities that we have seen in the business.

The ambition is simple, to have Ladbrokes back as the sports betting expert of choice for the recreational customer, to create a more sustainable and valuable business, less impacted by unfavorable results, that plays to our strengths and delivers for our shareholders. Our organic plan does this, and as I said, it does it better than the plan that I inherited.

We do also of course, have a proposed merger with Coral as part of the plan, but you'll appreciate that is not today's focus, not because it's not a key objective, it is, but because expected completion is still next year. So there's no more to say, but we are working hard to prepare the circular for shareholders to consider in late autumn. So while we look forward to its potential, we must focus on the here and now of delivering on our organic plan, building a better Ladbrokes, and driving performance towards our 2017 targets.

Over to you for questions. Thanks.

QUESTIONS AND ANSWERS

Operator

(operator instructions). (technical difficulty)

Richard Stuber - *Nomura - Analyst*

The first question's on machines. Your 3% to 4% net revenue growth guidance for the full year, on my numbers that implies no growth in the second half. Isn't that a little bit too conservative, given your good momentum that you've already delivered?

And that second question is on the talks with the competition authorities on Coral. Could you give any indication whether you've started talks with them, or any color around how the early talks are going? Thank you.

Ian Bull - *Ladbrokes PLC - CFO*

So, Richard, I'll take the first and then Jim will come back on the CMA talks. On machines I think you'll find we've always tried to be sensible and careful about the machines guidance. I think you've seen we've had a good performance in the front half of the year. Current trading is on track where we are, so I think we're happy to sit with the 3% to 4% guidance for the full year, and if it works out better then so much the better.

Jim Mullen - *Ladbrokes PLC - CEO*

Thank you, Richard. Just on the CMA, we of course have now formally been in touch with the CMA with regarding the merger. Well, just to give you some background, we would not have gone ahead with it if we did not think it was achievable, and we're confident that it will be cleared; however, that requires formal approval from them. It's a different dynamic now since it was in 1998. I think I said a couple of weeks ago that in my personal position I was looking for finalization of the process by the first half of next year, and personally that's still the view I hold.

Richard Stuber - *Nomura - Analyst*

Thank you.

Operator

James Letten, Jefferies.

James Letten - *Jefferies - Analyst*

Good morning. One quick question from me. I'm wondering if you could give us some indication of the opportunity for multichannel growth in the retail estate into online actives. I believe you mentioned 11% of retail customers use Ladbrokes' online products. So, what do you see this rising to? Is this likely to be driven more by the gaming or sportsbook customers? Thank you.

Jim Mullen - *Ladbrokes PLC - CEO*

Thanks, James. We think that multichannel is a huge opportunity for our business. We have 2,200 shops, gives us a significant distribution network. We also have 13,500 colleagues who will be promoting our products in the shops, and as I said in the presentation, that was live in over 300 shops at the weekend.

I think the 11% number, we under-indexed there with regard to our customer base who use our online products. With regard to a specific number I'm not prepared, at this moment, to give you specifics, but we're hoping that it will be considerably more.

Why am I so confident? Well, the confidence level is because we have seen the success with the roll out of PlayTech platform with Coral. I think you heard a couple of weeks ago that they recruited over 250,000 customers and it now accounts roughly 40% of their digital business. I see no reason why we can't match and better that.

James Letten - *Jefferies - Analyst*

Great. Thank you.

Jim Mullen - *Ladbrokes PLC - CEO*

Thanks, James.

Operator

Jarrod Castle, UBS.

Jarrold Castle - UBS - Analyst

Good morning, Jim. Two, if I may. Just in terms of further exceptionals, Ian, you've clearly highlighted you'll update in terms of the fees relating to refinancing etc. Can you maybe just give a little bit of color in terms of magnitude relative to the GBP25m to GBP30m, which are the known exceptionals for H2? Would we expect a number higher than this, potentially, or lower than this?

And then just secondly, just on the sportsbook margin in online, the 5.2% versus, I guess, a 7.5% target, how has the trading been at the moment? Thanks.

Ian Bull - Ladbrokes PLC - CFO

Okay. Morning, Jarrod. So the GBP25m to GBP30m is -- what we expect is the cash impact for known exceptionals in the second half. Now, clearly, I hopefully indicated, if there are fees in relation to refinancing, those would sit on top of that. I can't give you a more precise number at the moment, because those are fairly early in the conversations, but those would sit on top of that.

And potentially there could be the accounting exceptionals in the second half from the remaining closure of shops as well, for the 20 shops, so it may be a little bit more than that one. We will update the market as soon as we have any more information on that, but hopefully we've given you the best information we have in terms of visibility on the second half.

I think in terms of margin, Jarrod, 5.2% versus 7.5%, I think there are a couple of things just to try and profile H1 there, really. If we can take a look back, the HVC losses that we talked about, principally in Q1 but a little bit in Q2, it probably accounts for 1% of margin over the half, and the Q1 football loss that everybody reported in Q1, is probably also worth about 1% over the half, and then the remainder is a little bit of HVC dilution we talked about.

So you can get to 2%, 2.5% type of territory, which really is the difference between 5.2% as reported and our target of 7.5 to 8 times, really, so that's the main difference we've seen, really, in the front half of the year.

And current trading -- well, and clearly last weekend was a good weekend for the -- a very enjoyable and good weekend for the opening of the Premier League, perhaps a little more in the bookies' favor for the weekend rather than the customers' favor this time. But it's only week one of what will no doubt be a very enjoyable season.

Jim Mullen - Ladbrokes PLC - CEO

Yes, and Jarrod, the sportsbook margin also supports a push for greater depth in recreational customer, which is the basis of our organic plan.

Jarrold Castle - UBS - Analyst

Thanks very much, gents.

Ian Bull - Ladbrokes PLC - CFO

Thank you.

Operator

(Operator instructions). Joe Thomas, HSBC.



Joe Thomas - HSBC - Analyst

Morning, gents. I've got three questions please. First thing with respect to your multi-channel strategy, just wondering what the impact on margins in the retail business will be as you push more online type pricing through the retail channel, whether that could impact negatively the retail margins?

Second thing was the new machines and whether you're able to give -- now whether you're able to give a clear view on the up-tick in gross win per machine per week from the relatively new machines compared to the old ones?

And then finally, Australia you've got some pretty aggressive growth targets there, can you just confirm just how much you're expecting to spend on marketing there as a percentage of revenue over the course of the next couple of years to achieve that?

Jim Mullen - Ladbrokes PLC - CEO

Hi, Joe, I'll take the multi-channel, just on the margin -- I think the point you're making is margin dilution the risk of margin dilution. I have to say we already have call over in the retail estate, so if you're an informed customer you can actually ask for the online price. So that's already been there and that's been present for some time. With regard to will multi-channel also dilute the margin? The multi-channel opportunity is about gaining share of wallet. So we know that a number of our customers are engaging online with some of our competitors. We want to make it more attractive, so the principle's not about diluting the current margin; it's about stealing market share which is essentially a driver.

Ian, do you want to take machines?

Ian Bull - Ladbrokes PLC - CFO

Yes, Joe, are you talking about FOBTs or are you talking about SSBTs?

Joe Thomas - HSBC - Analyst

I was thinking FOBTs.

Ian Bull - Ladbrokes PLC - CFO

Well, the current machine estate we've had in for nearly a year now, so I'm not quite sure I understand the point in terms of any differential performance.

Joe Thomas - HSBC - Analyst

Really it was just the scale of the up-tick. We heard some figures from William Hill last week which sounded as though they were relatively small. I was just wondering if in hindsight you could give a sense of what your machines have been doing now they've been in place for a year.

Ian Bull - Ladbrokes PLC - CFO

Well, I can only say that comes back to the overall guidance we've given, Joe, we've given you numbers for -- by quarter really over quite a prolonged period now, in the recent two quarters. And gross win growth has seen a 12% in Q1 and 4% in -- nearly 5% in Q2. So you can see what we're looking at positive growth even on anniversary on the estate really. So I'm not sure we can give any more granular guidance than that.

Richard Snow - *Ladbrokes PLC - Director of Investor Relations*

Then Australia, Jim?

Jim Mullen - *Ladbrokes PLC - CEO*

Yes, on Australia, Joe, it's roughly about the same; we are up-weighting marketing to circa 30% of NGR. So there's a considerable investment in marketing. But it's not just the marketing in Australia, Joe, we -- bearing in mind we own our IP in that country, so there's less revenue leakage so that will increase the overall position. And I keep having to say this, but it's all about people and we've a very, very accomplished management team out there being led by Dean Shannon who are serial entrepreneurs. And I may add again, which is a nice thing for Ladbrokes to say, this is a team that has delivered on all of the planning and the forecasting, so that's why we have a lot of confidence in that business.

Joe Thomas - *HSBC - Analyst*

Thanks.

Richard Snow - *Ladbrokes PLC - Director of Investor Relations*

So, operator, I think last question from Ivor Jones.

Operator

Ivor Jones, Numis.

Ivor Jones - *Numis - Analyst*

Morning, thanks very much. Jim, could we just come back to that question of margin, you've announced on your first slide some interesting products like the five team ACCA that pays out if one leg falls and a couple of other things that seem like they have an impact on margin. When you said that you weren't expecting these things to impact on the sportsbook margin you just announced, are you saying that you would aim to be at 5% or it could fall to 4% because investments in growth? Where are we going to see investment in margin and where are we going to see investment in marketing to grow this business?

Jim Mullen - *Ladbrokes PLC - CEO*

I just think, Ivor, on the -- the key to the margin management is our recreational customers. We have a long history at Ladbrokes of informed HVC activity and we don't have the depth from the recreational base. If we can grow, which we are confident that we can that depth of high frequency customers then that should, according to our models, basically support additional product that may have a lower margin but we're just too shallow at the moment. So that's the reason why we're confident, a good product which is attractive to our recreational base will build that depth for us.

That is not to say, Ivor, that we need to be very, very forensically focused on the margin that these products are delivering particularly on an accumulator product which we will be doing. But it's essentially about increasing the depth of the recreational base which currently at the moment is not big enough.

Richard Snow - *Ladbrokes PLC - Director of Investor Relations*

So operator, it looks like we've got Ivor, it looks like we've got some more people who want to ask questions, the systems aren't working today. So we're just going to carry on with some more questions, but, Ivor, please finish up, I think you still had something.

Ivor Jones - *Numis - Analyst*

Just to be clear on that point, Jim, you're saying that there could be a degree of investment in margin, just like you're investing in marketing to grow the business. So in due course you'll have a bigger recreational customer base which will be supportive of margin, but in the short term you're investing in products that are dilutive of margin on the face of it?

Jim Mullen - *Ladbrokes PLC - CEO*

Yes, and I think that's reflective on -- if you look at the phasing and the trend line of our business plan into 2017 we've obviously re-based our profits. At the moment you'll see the growth coming through in 2017 because you're right, Ivor, it's a mixture of investing in products and promotions, it's a bit investing in additional marketing. We don't use the terminology of investing in margin but if what you mean by investing in attractive product which may have a lower margin to grow our recreational base, then that is correct.

Ivor Jones - *Numis - Analyst*

Fine, thank you and just two quick ones. Can you talk about the interaction of over-the-counter and SSBT? And where you are in terms of the product development of SSBT? How much better will they get and how?

And just finally, what's happened to Betdaq? Is there any point to it within the Ladbrokes Group? Is it a risk management tool? Does it really make money on a standalone basis? Will you exercise the option?

Ian Bull - *Ladbrokes PLC - CFO*

Ivor, so thanks for the question. SSBT, so we have around about 2,800 SSBTs at the half year, just under -- just about 3,000 now actually as we sit. I think what we've seen so far from an interaction with OTC is and very positively a lot of incremental customer and behavior. Broadly speaking we're seeing something like 60% of the gross win off SSBT's as incremental gross win to what we'd normally have, so I think really quite encouraging.

Jim Mullen - *Ladbrokes PLC - CEO*

And, Ivor, just on Betdaq, a very good question, because it's obviously --

Ivor Jones - *Numis - Analyst*

Sorry, Jim, to interrupt you, sorry, on SSBT what about the product quality, is it done, is it mature or what will it look like in a year's time?

Jim Mullen - *Ladbrokes PLC - CEO*

It's continually improving. We've got a rollout plan to support -- I mean, Ivor, we wouldn't roll out a maximum of 6,500 machines if we didn't have the product roadmap behind it. So there's an ongoing product rollout and competitive review of our SSBT software.



Ivor Jones - *Numis - Analyst*

Brilliant, thank you, sorry I interrupted you.

Jim Mullen - *Ladbrokes PLC - CEO*

That's no problem and then just a good question, Ivor, on Betdaq firstly like all parts of the business we've had a realistic re-forecasting of what is achievable on Betdaq and that product is motoring along under the freedom for the team to forecast based on the actual run rate, so that's an improvement. But more importantly, Betdaq now allows us to hedge and manage the liability of some of our higher value clients that we didn't have previously. So it supports the recreational strategy where we don't want to turn away high value business and Betdaq is an important tool for managing the margin of those types of clients.

Ivor Jones - *Numis - Analyst*

And exercising the option to buy the technology?

Jim Mullen - *Ladbrokes PLC - CEO*

Not one for the moment, Ivor, but genuinely it's maybe one for the future, but it's not on the horizon at the moment.

Ivor Jones - *Numis - Analyst*

Great, thank you very much.

Operator

Nick Edelman, Goldman Sachs.

Nick Edelman - *Goldman Sachs - Analyst*

Thank you very much, morning, everyone. I've got three questions please. First is on the desktop 19% decline in the first half that you mention. Can you just give a feel for how much of that is just the natural shift towards mobile, or perhaps the extent to which that's just product driven and so you're actually seeing those customers have migrated to competitors or loss of share of wallet there?

Second question is, in the organic plan released a couple of weeks ago, you described UK retail, dot com and Australia as your core businesses. Were you implicitly saying that the remainder of the businesses are non-core, or should I not read that from that?

And then third, just one on depreciation, can you just give an indication on retail, just how much the impairment will change the depreciation charge going forwards? Thank you.

Jim Mullen - *Ladbrokes PLC - CEO*

Hi, Nick, it's Jim, I'll take one and two. On desktop there is obviously -- there is a clear migration to mobile and I think that it's -- again, speaking honestly, our previous desktop product was not competitive. We now have one that we believe that it is and it's in line with the look and feel of our overall product. I have said before, Nick, that I -- we believe, because it's based on our own modeling that by the end of 2017 between 75% and 80% of the share will have moved to a mobile product. However, there are a number of long-time loyal Ladbrokes customers who prefer to



access and place their bets on a desktop product and it's important that we still service them. So we are committed to maintaining a competitive desktop product and there will be some future offers to ensure that that product remains front of mind.

Good question on organic plan, I believe just for clarity, are you referencing Belgium and Spain?

Nick Edelman - *Goldman Sachs - Analyst*

Yes, exactly, yes.

Jim Mullen - *Ladbrokes PLC - CEO*

Belgium and Spain both those territories have two very mature management teams and the plan for Belgium and Spain has been implemented 12, 18 months ago there was no need for a revised plan. You know that we took out a middle-management layer; that was basically a vote of confidence in the leadership team in Brussels and in Barcelona. So it is not that they're not central to the strategy, they are moving along with a plan that was implemented 12 months ago. The other three pillars were the revised plan which we're going to take the Group the next step forward.

Ian Bull - *Ladbrokes PLC - CFO*

Nick, on your question on depreciation actually the majority of the impairment charge is around goodwill and license, so there is no depreciation affect on that. The only really one that does drive any depreciation there's a GBP5m write-off of digital assets, so that should feed through to the digital P&L but that's the only one, very small.

Nick Edelman - *Goldman Sachs - Analyst*

Thanks.

Operator

Nick Batram, Peel Hunt.

Nick Batram - *Peel Hunt - Analyst*

Morning, chaps, a number of questions. If I could follow up on Ivor's question on SSBTs, Hill's are obviously going along their own road now and I think everyone else in the industry has got the same supplier. So I think part of Ivor's question was, have you got any intention of sort of developing more of your own IP around that as Hill's are doing?

And then if I look at Australia the margin in H1 was obviously a lot stronger than the historic margin in that business but still sort of a point or so, or maybe a point and a half behind both Paddy's and Hill's. Do you think your -- do you think 11% gross win margin is a realistic target in that business?

Then if I sort of hop back to retail, apologies if it's in the announcement and I haven't seen it, but could you tell me what percentage of stakes in OTC was represented by horse racing in H1? And clearly I know there's a huge focus on football, but some of your peers have talked about going after horse racing in retail a lot more aggressively than they have been? And do you risk losing what has historically been quite a good market for you?



Jim Mullen - *Ladbrokes PLC - CEO*

Hi, Nick, it's Jim here, I'll take the first one, regarding SSBTs I assume that you're basically inferring about the IP ownership etc, would that be right?

Nick Batram - *Peel Hunt - Analyst*

That's correct, yes.

Jim Mullen - *Ladbrokes PLC - CEO*

Yes, we're very happy with the arrangements we have with BGT and Playtech. We have some of the -- we have some market leading product and we're seeing growth there. And as long as that product continues to come through and it's competitive then we are -- we're happy to share the benefits. You quite rightly mention, well, if you had your own IP then the rev share would be less or even zero. All I will say is that we've been very, very careful on our strategy going forwards that we don't make some of the mistakes that we made with regards to the ecom platform and see the big picture and try and get the benefits of that. We have structured the plan to recognize that if we can deliver market leading product that is attractive to a consumer base then we are happy to share that success with our partners. That is still the plan, Nick, and long may it continue.

Ian Bull - *Ladbrokes PLC - CFO*

Nick, it's Ian, so in Australia if you're comparing the H1 margin with H2 of last year then I just remind you that H2 last year had a particularly customer-friendly spring carnival set of results in there. So H2 is quite a low margin Australia for last year, I think everyone reported that. So I think if you're looking to profile H1 in terms of Australia, I think we've had some good weeks and bad weeks there, so not a bad benchmark I think for the margin in H1. I think other companies are talking about much higher margin goals for their businesses. I think we're quite confident on the guidance we've given in terms of where we are, Oz margin.

On retail I think the horse percentage of OTC staking is around 55% also for H1.

Nick Edelman - *Goldman Sachs - Analyst*

And just on that, obviously you've been talking an awful lot about football and I notice some of your competitors have been talking about they think that they're being more aggressive in horse racing and potentially seeing Ladbrokes as a soft touch for market share gains. I just wondered what your thoughts were on that.

Jim Mullen - *Ladbrokes PLC - CEO*

I'll take that one. On horses I think that -- I think our offer is extremely competitive. I think I'm happy our promotion is attractive to customers; it's bringing them into the retail estate. We're finding once they're in there we are seeing them staying. We looked at underlying staking levels over Ascot and Goodwood and they increased year on year, so I don't know if I accept that position, Nick. I'm encouraged by the interest that our customers have in the Ladbrokes racing product.

Ian Bull - *Ladbrokes PLC - CFO*

Just a fact to add in here, Nick, racing staking is down about 3% in Q1 and Q2 and that probably, Jim, shows the benefits of best odds guarantees and the focus on the product. So actually compared to where we were in Q3 minus 15% if I remember the trends have been better for a couple of quarters, okay?



Nick Edelman - *Goldman Sachs - Analyst*

Okay, thanks a lot.

Operator

Gavin Kelleher, Goodbody Capital Markets.

Gavin Kelleher - *Goodbody Capital Markets - Analyst*

Morning, guys, a few from me please. You said, Ian, that SSBTs you had 2,800 in H1, was that an average number of SSBTs?

And just on machines, could you give us some color on what the utilization rates are? Is there much -- are peak times running a lot higher than they were previously to the DCMS measures? Has that growth in B3 content kind of filled machines to the maximum capacity and is there much extra capacity there?

Ian Bull - *Ladbrokes PLC - CFO*

Hi, Gavin, so the number I gave, so the average for H1 was 1,932 and we ended up at the end of June with 2,810 terminals, so I think those are the two numbers you're after for H1. And if it helps as we sit at week 30 we're 3,300.

Gavin Kelleher - *Goodbody Capital Markets - Analyst*

Cool.

Jim Mullen - *Ladbrokes PLC - CEO*

I think your point on -- it's a good question, Gavin, I think it's relating to machine session times, yes?

Gavin Kelleher - *Goodbody Capital Markets - Analyst*

Yes.

Jim Mullen - *Ladbrokes PLC - CEO*

Could we -- we'll get back to you on that one after the meeting just to make sure we've got the right data.

Gavin Kelleher - *Goodbody Capital Markets - Analyst*

Okay, cool and I just have a few other questions. Just on your fair value adjustments from a Group perspective, I see in the back of the release that you had GBP36m I think that's mainly in relation to free bets and bonusing, promotions, etc. and last year they were at GBP44m, so it seems like there's an GBP8m drop year on year. That drop in free bet cost from a Group perspective is that World Cup driven, platform migration driven last year or has there been any change in strategy around those costs?



Ian Bull - *Ladbrokes PLC - CFO*

Well spotted, Gavin, I'm glad you've read through that far in today, you've got the prize so far for getting furthest in. The major change is all around World Cup really if you think about we're in another year, so I don't think there's anything more significant to report.

Gavin Kelleher - *Goodbody Capital Markets - Analyst*

Okay and just one follow-up -- two follow-ups on Australia, just the New South Wales tax change recently, can you give any sort of guidance on how much that's going to cost you the increased taxes there? And just on the exceptionals I see a GBP2.9m affiliate contract one-off payment to get out of that, it seems quite big for the size or scale of the Australian business, can you just give us some extra detail on that please?

Ian Bull - *Ladbrokes PLC - CFO*

Yes, so on the affiliate one I can't give you too much detail because it's a bit commercially sensitive, but what I can say is this is a fairly longstanding contract that was inherited on acquisition really. So we just need to find a way of normalizing that to extent, so it's not a one-year number it's over a multi-year, so that's what we're just trying to deal with for that one.

In terms of the specific product fees, I don't want to -- I don't know the number off the top of my head, I'm not going to try and guess it, so maybe we can get back to you on that one this afternoon.

Richard Snow - *Ladbrokes PLC - Director of Investor Relations*

Yes.

Gavin Kelleher - *Goodbody Capital Markets - Analyst*

Thanks a million, guys.

Jim Mullen - *Ladbrokes PLC - CEO*

Thanks, Gavin.

Operator

Vaughan Lewis, Morgan Stanley.

Vaughan Lewis - *Morgan Stanley - Analyst*

Hi, morning. First one on retail if I can, can you just give us a bit more detail about what you're doing on B3 games to get such strong growth there? Is that all coming from new content and where's that content coming from?

Secondly on Australia, the target to double NGR from 2014, it looks like you've already doubled that in H1 2015. So does that target make sense, should that be updated at all?

And then thirdly on the desktop re-launch, is there anything that the new desktop site doesn't do that the old site did? So it's obviously cleaner and more simpler, but is it any harder to cross-sell or is there less product depths, or are there any disadvantages to having it on a mobile platform? Thanks.



Jim Mullen - *Ladbrokes PLC - CEO*

Vaughan, I'll take the content on machines and the desktop. On content, yes, you're right, we have a very healthy throughput of new content coming onto the machines which we are promoting very well in the shop. The two main reasons for its attractiveness is the machines team negotiated the content deal very early on and we're very confident that that stream of content will continue. But the other element as well is the in-shop promotion. I think some credit has to be given to our internal machines' team who very, very quickly implement the promotions of the content by the shop colleagues to our customers, which is one of the reasons why we're seeing the growth.

On desktop what we're doing differently, well, it works, Vaughan, that's the first thing, and secondly, regarding functionality we don't have. There was a lot of heavy functionality on our old desktop platform. When you did the analysis we were sometimes accounting for less than 1% of customer interactions and with a very logical approach by the new digital team and with Playtech's support in analyzing where the usage was we now have a desktop platform which is -- the functionality which is there is what the customers want. And because we got rid of the old functionality it performs much quicker and is far more reliable.

Ian Bull - *Ladbrokes PLC - CFO*

Vaughan, on Australia, if you go back to, on the slides we used, I think you say you're near doubling, I think that's on a kind of statutory basis. If you go for the pro forma it's more like 66% growth on a net revenue point of view, so I think very encouraging growth. We've still got some ways to go to double that on a full-year basis on a like-for-like basis. But we're happy to maintain the guidance that we said just three weeks ago.

Vaughan Lewis - *Morgan Stanley - Analyst*

I mean, even if you're looking at pro forma it's still not much growth beyond this year, I guess, and you're spending a lot more money to do that, but fair enough. Thanks.

Ian Bull - *Ladbrokes PLC - CFO*

Well, I'd like to think if it was going much, much better than that then we'll update the market accordingly.

Vaughan Lewis - *Morgan Stanley - Analyst*

Okay, thank you.

Operator

Jeffrey Harwood, Stifel.

Jeffrey Harwood - *Stifel Nicolaus - Analyst*

Yes good morning, just two questions. First of all on the issue of a racing right, do you think that's a realistic threat to the industry? And what is your response likely to be?

And then secondly on the sports book, could you just say what your definition of a high-value customer is, please?



Jim Mullen - *Ladbrokes PLC - CEO*

Good question on the racing right, firstly, I have to say I'm looking forward to seeing Nick Rust again. But the levy has a lot of merit and it has stood the test of time for quite some time. But our view is that racing it really must avoid chasing a quick buck here. We need to grow the share of the market for everyone and not just carve it up.

We also believe that racing must compete with football. We think that football with the support of Sky's packaging the product has really seen some real growth. Now that's not to say that racing isn't an important product for our business but it is in decline. So that's all I can say at the moment, Jeffrey, until matters change, but it is actually on the strategic review of the business.

Jeffrey Harwood - *Stifel Nicolaus - Analyst*

Sure.

Ian Bull - *Ladbrokes PLC - CFO*

Morning, Jeffrey, on HVCs I don't think we publicly split out how we define the segmentation, I think all companies have their own segmentation. So I don't think I'm about to be frontiering in terms of doing that. Suffice to say we do segment customers around kind of staking levels and frequency of play really, so that's how we do it internally. But I'm not sure I can go too much further.

Jeffrey Harwood - *Stifel Nicolaus - Analyst*

No, okay, thanks.

Operator

David Jennings, Davy.

David Jennings - *Davy - Analyst*

Good morning guys, just one question from me. Jim, you've spoken about what a good job the Australian management team have done since the acquisition and clearly you've set these growth targets out to 2017. I was just wondering have the incentives or the earn outs for that team been extended out to 2017 to ensure that Ladbrokes secures the teams' services long-term?

Jim Mullen - *Ladbrokes PLC - CEO*

That's a very good question, David, that's all in hand. I'll be going out to Brisbane in late September basically just to -- basically nail that point. But the management team there are completely committed, very encouraged by the support and the growth. And also I may add that it's the first time that the Australian business has really been the vanguard front of mind for us when we speak about it here with the analysts and our investors, so that's encouraging for them. But that will be dealt with by the time I return from Brisbane in late September, David.

David Jennings - *Davy - Analyst*

Thank you.



Richard Snow - *Ladbrokes PLC - Director of Investor Relations*

Okay, operator, can you tell us if we have any more questions yet, because our system isn't working?

Operator

There are no questions at this time.

Richard Snow - *Ladbrokes PLC - Director of Investor Relations*

Very good, well on that basis, Jim and Ian, thank you. Thank you all for your patience with our technical challenges today and thank you very much for your questions. Operator, we'll stop now.

Jim Mullen - *Ladbrokes PLC - CEO*

Thank you all.

Ian Bull - *Ladbrokes PLC - CFO*

Thank you.

Operator

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

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