



William Hill PLC

AWI and Cal Neva acquisition conference call

14 APRIL 2011

Ralph Topping - Chief Executive

Hi. Welcome, everybody, and thanks for joining us at what's turned out to be short notice. As usual, Neil Cooper is here with me today.

It's an interesting day for William Hill. I'm used to letting our numbers speak for themselves, but today, it's not about the headline numbers, but about the strategic importance of this move to establish a presence in the US land-based betting market.

You're used to me closing down international-based businesses. We had Italy in 2008, Spain in 2009. And, as you know, I've got very high standards in this area, so you could conclude I must be very confident that this is a good opportunity.

Why so? Right now, sports betting in Nevada is a bolt-on to gaming. The sportsbook hold what we'd class in this country as revenues, about \$151 million. That compares with \$3.5 billion of hold in gaming. Sports betting has been the poor cousin until now.

In the US, sports betting is legal in only four states; and in Nevada, it's only available in casinos. But there are moves in various other states; and, of course, we all have an eye on the long term opportunities should sports betting be widely regulated in the US.

In Nevada, there are about 190 sportsbooks operating in casinos. At the moment, the largest strip chains and local chains are doing it for themselves, and account for at least half of the handle, or the amounts wagered.

The two businesses we've targeted, American Wagering and Cal Neva Sportsbook, have about 10% market share between them. AWI also has the advantage of proprietary systems, and it supplies software and hardware, including self service terminals to more than 75% of the major casinos; including those operated by MGM Resorts, the legendary Steve Wynn, and Las Vegas Sands.

Both businesses have a nice setup. The sports books are sites with large square footage, offering relaxed and comfortable environments in which to watch the game and have a bet at the same time. But you would hardly recognize the product offering, not because it's different sports, but because it hasn't been developed and expanded in the way we've done in the UK.

And this is where William Hill comes in. I've talked a lot about our trading capability recently and what a differentiator it can be. I believe we can play to that strength here by combining our product range with these existing operations to offer the customer a vastly improved betting opportunity. Like us, Americans love their sport; and like us, Americans also love to bet. We can offer a great way to bring the two together.

Let me tell you a bit about the companies, and then the deal. AWI is the longest standing sportsbook operator in Nevada, and has about 200 employees. Its 72 sports books and kiosks operate under the Leroy's brand, which has been around since 1978.

AWI is the innovator in the space with the first approved computerized bookmaking system in Nevada, and the first approved self-service cash betting terminals. And as I said, it's leveraged that technology, both hardware and software, by licensing it to major casinos who want to run the sports books for themselves, which give it some great relationships with the biggest players in Nevada.

We're paying \$0.90 a share, and already have written consent from shareholders representing more than half of the share capital. So under the law of Nevada, we're not reliant on an approval vote from the rest of AWI's shareholders.

At \$0.90 a share, we're paying \$9.5 million for the existing shares. We're also settling approximately \$4 million of existing debt, and making available a convertible loan of \$4.3 million, which AWI will use for working capital and general corporate purposes ahead of completion of the deal.

Turning now to Cal Neva Sportsbook. It's been going for 22 years and it has 31 sports books, mainly based in North Nevada around Reno, where they employ 120 people. Cal Neva is a great operator, and as a result, has a strong track record of profitable operation.

The total cost to us of the two deals combined is about \$39 million, or bucks as we're now calling it, most of it payable as and when we get licensed, at which point, these deals complete. We expect this to occur in 2012.

Together, the two businesses generated about \$26 million of revenues in the last financial year. But this deal isn't really about the existing revenues or profits, it's about the potential. What we're gaining here is a good footprint, not only in the US, but also in the state that sets the gold standard in the US.

We're gaining good operations, and we're gaining good management teams. We're gaining well-established relationships with both the major and minor casino operators, and with the Nevada regulator. And we're gaining a route to apply for a Nevada license, which, believe me, is both a lengthy process, and very restricted in terms of who can apply. Successfully getting that license will leave us very well positioned for the US market as it develops over the next few years.

So operational strength, management strength, regulatory strength. It sounds a familiar story, and that's why this is such a good fit with William Hill. And these businesses can benefit from that unique addition that we bring to the mix; an outstanding breadth and depth of products, something that Nevada hasn't yet come close to.

I hope you can tell that I'm excited about this opportunity, and my view is this is just the start of where we're going in the US.

Thanks for listening. I'm sure you have questions, so let's get started.

QUESTION AND ANSWER

Operator

Thank you. We will now begin the question and answer session. (Operator Instructions). Gavin Kelleher, Goodbody Stockbrokers.

Gavin Kelleher - Goodbody Stockbrokers - Analyst

One question maybe that you can expand upon. You mentioned there at the end about this is only the start of investments in the US market. Could you just give a bit of color on what other investments could be, and what areas they're likely to be in? Is it a continuation of this, or can you give us any other examples?

Ralph Topping - Chief Executive

No.

Gavin Kelleher - Goodbody Stockbrokers - Analyst

Okay. And just in terms of if we assume -- another quick question. If we were to assume -- obviously, the key potential here relies on changes to regulation in the US market. Even in their own right with your management of

these businesses, where do you see the potential? Do you integrate the two businesses together, or is it winning new customers? Or what is it, if we assume that there's no major change in US regulation?

Ralph Topping - *Chief Executive*

I think there's a number of ways you can look at it, and what excites us is the way in which we can develop the business through a variety of ways. And we referred in the -- in my couple of minutes online earlier that we see the increase in betting opportunities as being a way forward. I think there would be a lot of confidence in an internationally recognized sportsbook, and more importantly, a UK-based sports betting business like William Hill, which at times with being over in Nevada has surprised me how well recognized and respected the name has over there; and not only with the guys who are involved in this deal, but by others in that marketplace. And believe me, we've been up and down the strip a few times.

So I think there's the opportunity to develop in terms of outlets, and there's the opportunity to develop in terms of product, and there's an opportunity to develop in terms of marketing and whatever else.

So I think there's a good opportunity within the [brand] itself, and we see that as being a springboard to activity in the US. And also remember that we'll have a US-based management team who are very familiar with not only North America, but they're familiar with Central America and South America. So all in all, an exciting opportunity for us.

Gavin Kelleher - *Goodbody Stockbrokers - Analyst*

Okay, that's great. Thanks, guys.

Ralph Topping - *Chief Executive*

No problem, Gavin.

Operator

(Operator Instructions). Nigel Hicks, Liberum Capital.

Nigel Hicks - *Liberum Capital - Analyst*

Are you going to do anything with the brand? You said that you're reasonably well known, or you're surprised by how well known the William Hill brand is. Does Leroy stay, or do you put Leroy on -- I don't know what the other brand is for the other business; Cal Neva.

Ralph Topping - *Chief Executive*

Well, no decisions have been made on that, and we're a business with 75 year old brand, and we know the importance of brands; and we know they have to be treated with respect. And we think there's tremendous value in the Leroy and Cal Neva brands.

We believe the William Hill brand will be a valuable addition and we'll work with the management teams to divine the right branding strategy. So once that's been worked out, we'll come back on that, Nigel.

Neil Cooper - *Group Finance Director*

Nigel, it's Neil here. Hi. Just to be absolutely clear, I suppose for you and the other guys listening, we do not own these businesses as yet, and we won't own them until we've successfully got through licensing. We expect that to be

12 months to 18 months. So we're not in control of these businesses at the moment, and won't be until we successfully complete following licensing.

So we have got quite a bit of time ahead of us to sit and think these things through, and it would actually be a little bit remiss of us to be sitting here today talking about all the things that we may or may not do to a business that we don't own yet; and indeed, without pre-judging the US regulators, we may not own. But obviously, we don't anticipate that will be the case.

But we need to be clear about that. This is something that we'll complete in '12, and most likely later '12, and so there is quite a bit of water to go under the bridge from here to there.

Ralph Topping - *Chief Executive*

But you're quite right; you'd expect us to think about these things, Nigel, and we'll take a bit of time to think about them.

Nigel Hicks - *Liberum Capital - Analyst*

And who's the biggest competitor? Can you consolidate the industry? And also, was anyone else looking? Did you get signs that anyone else was looking at these sorts of businesses while you were negotiating or talking?

Ralph Topping - *Chief Executive*

Well, even though I was in Nevada, I didn't have a cowboy scout looking for signs of anybody out there for me, Nigel, so I don't know. But is that industry capable of being consolidated? I think it is. The biggest competitor out there at the minute is Cantor.

Nigel Hicks - *Liberum Capital - Analyst*

Sorry, Cantor's?

Ralph Topping - *Chief Executive*

Cantor's, yes.

Neil Cooper - *Group Finance Director*

Yes, Cantor Gaming, Nigel, which I think is an arm of Cantor Fitzgerald.

Nigel Hicks - *Liberum Capital - Analyst*

Okay. What sort of scale are they within that, do you know?

Ralph Topping - *Chief Executive*

10%

Neil Cooper - *Group Finance Director*

I think they're about 10%.

Ralph Topping - *Chief Executive*

10 sportsbooks, sorry. 10 sportsbooks, yes.

Neil Cooper - *Group Finance Director*

Yes. But don't forget, Nigel, that a number of the very large casinos run their own book as well.

Nigel Hicks - *Liberum Capital - Analyst*

So that's included within the \$2.7 billion and \$151 billion of win or revenue?

Neil Cooper - *Group Finance Director*

Yes.

Nigel Hicks - *Liberum Capital - Analyst*

The casinos run (multiple speakers).

Neil Cooper - *Group Finance Director*

Yes, absolutely.

Nigel Hicks - *Liberum Capital - Analyst*

So in your bit that isn't casinos, you have a high market share of stuff that isn't self-[populated].

Neil Cooper - *Group Finance Director*

Yes. Sorry, Nigel, just to be clear, the legislation in Nevada means that you can only run a sportsbook in a casino, okay? So where it is branded Leroy's, for example, under AWI, that is an agreement between the casino and AWI to co-locate, okay? There are some casinos who run their own book using AWI technology, and then there will be other casinos who run their own book using their own technology or other people's.

So this is not at the moment, and turning from a legislative perspective, these sportsbooks are co-located with casinos across the Nevada marketplace.

Nigel Hicks - *Liberum Capital - Analyst*

Right, but in terms of third party providers to casinos, you're buying two of them.

Neil Cooper - *Group Finance Director*

Yes.

Nigel Hicks - *Liberum Capital - Analyst*

But what percentage of \$151 billion or \$2.7 billion are the third party operators rather than the casino operators themselves?

Ralph Topping - *Chief Executive*

Well, more than half is the major operators.

Nigel Hicks - *Liberum Capital - Analyst*

Okay, and that \$151 billion includes casino operators doing it themselves?

Ralph Topping - *Chief Executive*

Yes.

Nigel Hicks - *Liberum Capital - Analyst*

Right, okay. Fine. You see, it's not Carl Neither, is it, sportsbook division?

Ralph Topping - *Chief Executive*

No, no.

Neil Cooper - *Group Finance Director*

Carl Neither.

Ralph Topping - *Chief Executive*

No, it isn't. Carl Neither, yes. Very droll, Nigel.

Neil Cooper - *Group Finance Director*

Yes, come on, Nigel; leave the jokes to me, will you?

Ralph Topping - *Chief Executive*

Thank you.

Nigel Hicks - *Liberum Capital - Analyst*

Thank you.

Ralph Topping - *Chief Executive*

Thanks, Nigel.

Operator

Richard Stuber, JPMorgan.

Richard Stuber - JPMorgan - Analyst

Yes, just a couple of questions, please. One is on the -- you said AWI has licenses [with] MGM and Wynn, Boyd, etc. Do you know how long these licenses are for, and --? Just to get a feel of how secure those earnings are.

Second quick question is on --

Ralph Topping - Chief Executive

I'm not going to give out specifics on that because that's very much a commercial -- it's not (inaudible) [phone call]. We may emerge with some of the detail on that later.

Richard Stuber - JPMorgan - Analyst

All right, okay. And secondly, could you give an idea what the gross win margin is of sportsbooks in Nevada? Just trying to compare it to where you are here and if there's a potential upside in that.

Ralph Topping - Chief Executive

Same as you would get online, in a sportsbook online, so it's about 6% or 7%. But that is a feature of what they bet on and how they bet in the States. And again, over the fullness of time, we'll give a wee bit of insight into betting patterns, but not at the minute.

Richard Stuber - JPMorgan - Analyst

Okay, right. And just finally, I was wondering, have you actually spoken yet to the Nevada Gaming Commission, and so are you still pretty confident you should be able to get these licenses? Also, have you spoken to politicians in Nevada, and where do you think they there are heading?

Ralph Topping - Chief Executive

I think we're running ahead of ourselves here. I think we've met with the regulator previously in general terms, and the regulator was very welcoming of William Hill, and we were very respectful of the regulator and have a greater understanding of the processes going forward.

So we're -- you can never be totally confident in life, but as an organization with people in it like William Hill have, we should go into this feeling confident.

Richard Stuber - JPMorgan - Analyst

Thank you very much.

Ralph Topping - Chief Executive

No problem.

Operator

Richard Carter, Deutsche Bank.

Richard Carter - Deutsche Bank Research - Analyst

I'm just interested in terms of why you think there are significant opportunities for growth in this business?

And secondly, could you talk about what type of licensing this is? Because these -- this is actually based in casinos, so it's obviously a completely different license from being a casino operator.

Neil Cooper - Group Finance Director

In terms of the first point, Ralph's already touched on a couple of the areas where we hope to be able to drive growth, partly sportsbook backed by the liquidity and balance sheet of a large and international sportsbook operator like --

Richard Carter - Deutsche Bank Research - Analyst

But you've seen the stats in Vegas and in Nevada. They've not been pretty good for the last 12 months, or forecast to be great going forwards, so --

Neil Cooper - Group Finance Director

In terms of turnover or revenue?

Richard Carter - Deutsche Bank Research - Analyst

In terms of the whole of Nevada and Florida.

Neil Cooper - Group Finance Director

Sure. Listen, this is -- Ralph started this discussion off right at the very start by saying that this is not about the very short term numbers, and whilst we -- first and foremost, it's a land-based opportunity for us in the peak sports betting state in the US.

Now where the opportunities unfold from here, assuming that we're able to get in and make a success of it following a successful licensing process, depends to an extent on the regulatory processes that are ongoing in the US. Now I wouldn't like to get called on my view of how they're going to go.

Richard Carter - Deutsche Bank Research - Analyst

Well, I wouldn't mind you expanding on this, because what regulatory processes from a land-based sports betting perspective are you aware of?

Neil Cooper - Group Finance Director

Well, listen; I think if you have a -- let me put it another way. If you have a very strong land-based sports betting brand in the peak sports betting market in the US, if and when online became more attractive, it gives you a very strong leverage to go into that market. Now where --

Richard Carter - *Deutsche Bank Research - Analyst*

Online what? Online sports betting?

Neil Cooper - *Group Finance Director*

Sports betting. Now, we are -- and let me finish what I say before you tell me that I'm talking rubbish --

Richard Carter - *Deutsche Bank Research - Analyst*

(Inaudible).

Neil Cooper - *Group Finance Director*

Okay, before you think it, then. We are healthily skeptical about online sports betting in the US in terms of regulation, so this is not something that's been dialed into the models. Clearly, if it happens, and we're in place, and it's a success, we'll be well-placed to take advantage of that, which is an upside, but it is remote at the moment, no pun intended. So we are first and foremost seeing this as a land-based opportunity.

Richard Carter - *Deutsche Bank Research - Analyst*

Okay. And could you explain to me what license you're going to get here?

Neil Cooper - *Group Finance Director*

Yes, well, we need to be licensed by the Nevada Gaming Board. It is a corporate license and it will be -- there's some personal licenses for key senior managers.

Richard Carter - *Deutsche Bank Research - Analyst*

So it's not a gaming license? What is it, a supplier license? I just want to know of a license it is?

Neil Cooper - *Group Finance Director*

It's a supplier license, because we're supplying -- AWI is supplying software into a number of the casinos that are operating their own sportsbook, and it is a -- it's mainly the supplier license.

Richard Carter - *Deutsche Bank Research - Analyst*

Okay, that's what I wanted to know. And do you think there are opportunities then in other states from a land-based perspective that this business maybe hasn't had the resources to execute?

Neil Cooper - *Group Finance Director*

Look, I don't -- I think in terms of growth prospects, Nevada is the tent pole for sports betting. When you look at the other states where it's legal, it's Delaware, it's Washington state, and it's Oregon, which are in terms of population, not huge.

And, therefore, I think we've got to crack Nevada. We can make a successful business out of Nevada. And then we've got to see.

I think the improvement of the organic offer in Nevada is probably a higher priority for us, given the sports betting heritage and the breadth and depth of betting opportunities we can bring to bear in the UK through retail, rather than further geographic expansion.

But, look, we've got to get it right first in Nevada, before you can get to --

Ralph Topping - *Chief Executive*

I'll tell you, Richard, the word of the day yesterday was Gordian, right? And one of the things that has been facing betting companies and others about getting into the US is unraveling the Gordian knot. And I think what we've -- what we're attempting to do is go in there using our own DNA, no moving away from that, and looking at something which we're good at doing, which is offering service; we're good operators, we offer good service; and we're also very good when it comes down to trading.

So we're happy to go in on that basis, and we're also happy to have -- and please don't anybody take this as an insult, we're also happy to have people on the ground, or will have people on the ground, who will be close to the market, close to the big shakers in the market, and will be not based in London wondering what the hell is going on in Nevada. We'll be very, very close to it. And I think that's a great position to be in.

Richard Carter - *Deutsche Bank Research - Analyst*

No, no; I understand that strategic rationale. I agree.

Ralph Topping - *Chief Executive*

Nobody can predict how the market is going to go with any degree of certainty, but I think we're in a good position to be in there.

Richard Carter - *Deutsche Bank Research - Analyst*

Cool, okay. Thank you.

Ralph Topping - *Chief Executive*

Thank you.

Operator

We have no further questions at this time.

Ralph Topping - *Chief Executive*

Thank you very much. I think we'll call an end to the call now. Thanks, guys.

Neil Cooper - *Group Finance Director*

Cheers, bye.

Operator

Thank you, ladies and gentlemen. This concludes today's conference. Thank you for participating. You may now disconnect.