





William Hill PLC (WIMHF) CEO Philip Bowcock on Q2 2018 Results - Earnings Call Transcript

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1H: 07-29-18 Earnings Summary

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William Hill PLC (OTCPK:WIMHF) Q2 2018 Earnings Conference Call August 3, 2018
4:00 AM ET

Executives

Philip Bowcock - CEO & Executive Director

Ruth Prior - CFO & Executive Director

Analysts

Patrick Coffey - Barclays Bank

Gavin Kelleher - Goodbody Stockbrokers

Tal Grant - Crédit Suisse

Alistair Ross - Investec Bank

Jeffrey Harwood - Stifel, Nicolaus & Company

Joseph Thomas - HSBC

David Holmes - Bank of America Merrill Lynch

Richard Stuber - Numis Securities Limited

Simon Davies - Canaccord Genuity Limited

Ivor Jones - Peel Hunt

Edward Young - Morgan Stanley

Monique Pollard - Citigroup

Philip Bowcock

I think we're all assembled. Good morning, everyone, and thank you for joining us. The photo on the screen probably captures the tone of the first half. It's been a combination of high and lows. Onto a more serious note, we certainly have a lot more clarity about the future now than the last time I stood here. As usual, I'll go through an introductory overview and then hand over to Ruth. Then I'll come back to update on our operational and strategic progress.

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IPR2019-00319

So against the backdrop of a lot of regulatory change, our financial and operational performance has stayed strong. Net revenues across the group was up 3% with Online continuing to see double-digit growth. Adjusted operating profit for the existing business has increased even after substantial marketing spend on the World Cup, which, as usual, was weighted towards the initial stages of the tournament.

You've seen the impairment we've had to record today as a result of the Triennial Review decision. This should not come as a surprise to anyone, and it's based on the profit impact guidance we gave you on the day of the government announcement. Cash generation remains strong with operating cash flow of £110 million, and we're continuing to invest, particularly in digital and in the U.S.

The balance sheet is also strong with net debt-to-EBITDA down to 0.8x. EPS is down, a result of the investment we are making in the U.S. However, we have maintained the interim dividend in line with last year, given the underlying performance of the existing business. Operationally, Online continues to see good momentum, particularly in Sportsbook, where net revenue was up 18%. Retail is experiencing the same difficulties seen elsewhere among betting shop operators and other retailers on the high street, which resulted in revenues declining by 3%.

In the U.S., we've delivered yet another period of very strong growth from our existing business with net revenue up 64% in local currency and profit up 156%. I'm also pleased with what we delivered for the World Cup. Wagering and margins were in line with our expectations, but that's only at a part of the story, more important to the strong KPIs such as more than 1 million active customers in Online during the tournament. I'll give you more on that shortly.

The big picture is that we've been through arguably one of our most momentous periods in William Hill's 84-year history. The ramifications of all this may not be fully felt for years, but I think we can all sense the importance of what's changed. You're all very well versed in the Triennial and PASPA decisions. What's important is that we now have clarity, and with that, how we're facing in today -- these changes and responding. It was important to move quickly on Australia, a tough decision, but the right one. On the Triennial, we're waiting on the government with regard to the timing of implementation and any specific regulatory requirements. The current expectation is that we will hear towards the end of this year, but we're not standing still in the meantime. We have to think innovatively about how we manage our way through this change and what it means for the shape of the business.

In the U.S., from a small but highly successful business, we're now looking at a significant opportunity to grow business of scale in that market. It's important to think of this expansion as effectively a starter, albeit with strong capabilities and a proven track record. And there are many unknowns, including the number of states that legislate, the speed of regulation, the nature of the market state-by-state, the route to market and the product offering in each state. Some of these will not be known for some time, but there is no doubt that this presents a material opportunity for us to deliver significant shareholder value over the medium and long term. Underpinning this is our new approach to sustainability. That's about how we deliver growth by doing what's right for the customer. I'll come back to all this shortly, but for now let me hand over to Ruth for the financials.

Ruth Prior

Good morning. Thank you, Philip. Firstly, can I reiterate what Philip has said about the last six months being a busy time. Now we're going to spend a little longer on my section than normal as there are many moving pieces to explain as a result. We've written a new chapter. The disposal of Australia, launching nobody harmed, taking the first bets in New Jersey and Delaware after PASPA was overturned, ready to take mobile bets in New Jersey by the start of the NFL season. We're on the late stages of the digital transformation, and of course, we're now planning for the £2 FOBTs.

So starting with the group income statement. You'll see additional detail this time. The first column shows you the core existing business as usual. So Online, Retail and the existing U.S. operations. The second column is the U.S. expansion segment. Then you can see the total of the 2 and the year-on-year change for that total. We thought it would be helpful to separate out what we are investing in these new states from the profitability of our Nevada operations during this start-up phase. I will say more on this in a few minutes.

So we saw net revenue growth is the period of 3%. That includes strong performances from Online and the U.S., up 11% and 50%, respectively. But weaker trends in Retail, down 3%. So 3 different businesses with different dynamics at work. Net operating expenses were up by 7%. This largely explained by the investment in the U.S. expansion and the increase in Online's marketing, up 22% to £82.5 million in the period in support of our World Cup campaign.

Bear in mind that the marketing cost is weighted to the first half of the year because of the World Cup while the benefit from the marketing comes thereafter. And before you start looking for the slide, I won't be giving you divisional detail today on the World Cup in the way that we have in the past. I said earlier in the year, my job is to focus on the long term. These events create a lot of short-term noise, but they're not material in their own right, particularly when you take substitution into account. In this half, the World Cup, pre-substitution, was just 1.5% of group revenue.

What they are is great opportunities to engage with customers, new and existing. Our main aim was to drive new improvements in lead indicators for growth, actives and new accounts, and that's what we'll look at shortly. What I will say set the World Cup financials were absolutely in line with our expectations. So adjusted operating profit was 1% ahead at £130.8 million for the existing business. Adding in the £17.2 million loss for the year's expansion, it was down 12% at £113.6 million.

Philip's already mentioned the exceptional items and I'll come on to those in more detail in a bit. There was a tax credit of £16.3 million in the period because of the statutory loss we recorded. On adjusted results, the effective tax rate for the first half was 19% and is expected to be 14% for the full year. Adjusted EPS is down 18%, including the losses from U.S. expansion. Our net debt-to-EBITDA ratio has reduced to 0.8x as net debt for covenant purposes has fallen by £332 million. This is below our targeted range of 1 to 2x EBITDA, but this provides flexibility for investment, particularly growth in the U.S.

Note that we received proceeds of £242 million from selling our investment in NYX and our Australian business, and we also paid out £77 million as a dividend during the period. Turning to Online. Sportsbook amounts wagered was down 5%. Some client management work reduced volumes, but improved margins, giving a better gross win result. And there

was less recycling on strong margins. The gross win margin was 1.4 percentage points ahead, which is not only a significant year-on-year swing, but is also ahead of historical margin ranges.

As a result, Sportsbook net revenue showed a healthy 18% increase. Gaming net revenue was up 4% having being up 8% earlier in the year. We've been broadening our customer base through greater mass market acquisition, which is more sustainable over the long term. It's driven strong customer growth with new accounts up 1% that required a high level of free bets in the period. That will return to a more normal level in the second half when we should also see the benefits flow through. We've also flagged we're closing some customer accounts as part of our strengthened approach on compliance matters, including verifying sources of funds. This is minor in this period. It could impact our performance in the second half, though through the Digital transformation and the strengthening of Online, we're now in a better place to tackle these issues in the right way.

For those interested in geographical splits, net revenue in Online's core markets of the U.K., Italy and Spain was up 10%. These represent 88% of Online's revenues. In other markets, it was up 15%. Cost of sales included about £8 million more for the horseracing levy introduced last April, and remote gaming duty on gaming free bets introduced last October.

Operating costs were up 10% with the main increase being marketing, weighted, as I have said, to the first half of the World Cup. That's almost 26% of net revenue. On a full year basis, we will return to our historical range of 22% to 24%.

Overall then, adjusted operating profit for the period grew 5%. Now looking at the online KPIs and to answer the question of whether we've achieved our aim of improving the lead indicators of growth utilizing the World Cup campaign. Looking at the 4 key metrics, you can see further strong growth. Unique actives are up 30% to 2.2 million, and it's been a strong acquisition period with new accounts up 16% with Sportsbook and gaming, both delivering similar growth rates. Average revenue per user is down 15%, partly reflecting the large increase in new actives and partly the fact that the more mass-market gaming customers will naturally deliver lower ARPU though still with a good return on investment.

CPA was up 6%, again not -- was up, yes, 6%. Again, not surprising given the World Cup investment in the period. These KPIs point to continued momentum from the Online business and good delivery around the World Cup, in line with our expectations. Turning to Retail. Sportsbook wagering fell 11%. Now we talked about much of this earlier in the year, the racing fixture cancellations, the impact of the high gross win margins on recycling and the racing content we had that competitors didn't have in the first half of 2017. There were also 2% fewer shops in this half. Now clearly, this is a number which has had some focus internally. Reviewing the last two years to look through the impact of these factors, I've concluded that our performance remains better than key competitors.

Also, the second quarter was better than quarter 1., and throughout football, net revenue has been positive. But we're keeping a watching eye on the health of the high street, which we are assuming is contributing to this decline to some degree. The gross win margin was above average at 18.4% and 1 percentage point ahead of last year, with gaming down 1%. Overall retail net revenue was down 3%. Operating costs have been well controlled and were 2% lower year-on-year with lower employee and property costs. This had the effect of keeping the reduction in operating profit to 7%.

So moving on to the U.S., which I'll talk in local currency. You will see on the slide, we've broken out performance for the existing U.S. business alongside the U.S. expansion segment. We've done this so that you can separate out the performance of the more established Nevada and Delaware business from the start-up in New Jersey and elsewhere. Having said that, the existing business is more established. It has still generated 25% wagering growth, 64% net revenue growth and 156% operating profit growth. Now some of this has come from favorable sports results, which drove the higher gross win margin of 7.7%. But there's also strong underlying growth, particularly in mobile, which is now 64% of wagering.

Operating costs increased by 16%, principally with increased staff cost and property payments, but that was far outstripped by the top line growth and the operating leverage of the business drove the very strong profit growth. So let's talk about the expansion. As Philip said at the beginning, this is a fabulous opportunity but with lots of variables. We recognize we're only a few weeks in, but to be helpful to you, we want to give you a sense of the next six months. In half one, in the first half, Sportsbook wagering of \$6.2 million came from within a very short period of 12 days, between the opening of the Monmouth Park racetrack sports book on the 14th of June and the end of the period on the 26th of June.

Our second Sportsbook in New Jersey at the Ocean Resort, opened on the 28th of June, so after the first half had ended. But to give you a sense of scale, what New Jersey has generated since we started is wagering levels equivalent to about 1/4 of what our total Nevada did in the same period. Going forward, that will change, obviously, with mobile openings in more states but will assume competition also increases. So for now, we're assuming the U.S. expansion business can deliver between 1/4 and 1/3 of the volumes Nevada does at the moment for the full year. We would assume that New Jersey and other states will generate similar gross win margins to those we see in Nevada, somewhere in the range of 6% to 8%.

In the period, we incurred losses in setting up the U.S. expansion business of £17.2 million or \$22 million. This includes setup costs, the people, recruitment, planning and technology. The costs were incurred both before and after the Supreme Court decision to overturn PASPA in May and the vast bulk of the cost came before there were any revenues. The best way to see most of the costs incurred to date is the cost to enter the overall U.S. market for states legislating. Futures costs are going to be more state-specific, meaning that they will be incrementally increased as we enter more states. There will be a high level of costs where we enter states that allow mobile sports betting, where a much higher proportion of revenue will be spent on marketing. In the states that only allow land-based betting, there will be greater focus on the CapEx requirements as we fit out physical sportsbooks in casinos and racetracks.

Currently, based on our assumptions on the timing of regulation in different states, coming to anticipated contracts and our rollout plans, we would expect operating costs in the second half to be around \$50 million to \$60 million. And we're looking at around \$1 million to \$1.5 million for each new land-based sports book and potentially \$10 million for further mobile technology investment. So what you can see is that we have an existing business performing significantly ahead of expectations and a start-up business that will generate losses this year, giving an overall position that could be broadly breakeven in 2018, depending upon the rate at which new states allow sports betting. A slower rate of

openings will decrease the losses this year, but clearly, we would prefer to move faster if regulations allow. We will hold a Capital Markets Day in the autumn. By when, we'll be able to share more information with you on how the U.S. is evolving and what it might look like next year.

So let's move on to exceptionals in more detail. The very large impairment of the value of our Retail business reflects the substantial impact of the government's Triennial Review decision. We will seek to mitigate the impact of the 2 past staking limit on Retail where we can and when we are working to remodel the retail business. But this £882.8 million noncash charge shows you the scale of the expected impact on our Retail business. We had guided in May that we could see an annualized hit to retail profits of £70 million to £100 million and up to 900 shops that could become loss-making. And we also explained assessing the impact from a reduction to £2 is uncharted territory. But we have taken our best use of customer behaviors, product substitution, new products and competitor shop closures.

That said, the impairment is based on the upper end of that range because a salami slice approach would not be the right thing for this business and our colleagues. It leaves the net book value of the retail business about £500 million. We expect to put in place a 2- to 3-year restructuring program by the end of this year. Any shop closures will incur additional cash exceptional charges, probably in the range of £50,000 to £60,000 per shop.

Also in this period, the transformation program incurred exceptional costs of £29.9 million. There's about £15 million more to come across the second half and into the early part of 2019 when activities under the program complete. So finally, let's talk about cash. Operating cash generation continues to be good even with the investment in the U.S. Free cash flow benefited from the receipt of £240 million from the sale of the Australian business and the investment in NYX. Cash capital expenditure increased in the growth areas of Online technology and the U.S. That will increase in the second half, taking into account the CapEx guidance I've just given for U.S. expansion.

After the payment of £77 million as a dividend, the net cash flow for the period was £229 million. So we've strengthened the balance sheet, which puts us in a good position to be able to invest in the U.S., while managing the cost of reshaping Retail over the next few years.

And with that, Philip.

Philip Bowcock

Thank you, Ruth. Now I'll summarize our operational progress before I touch on the strategic priorities I outlined earlier. Turning first to Online and the World Cup. As I said earlier, the tournament is not just important in itself, it also provides a launch pad into the domestic football season, particularly with such a short gap between the 2 this time. The campaign was focused on acquisition, of course, but also on strong day-to-day engagement with all our customers.

In marketing, we deliberately went out early with strong ante post offers and our unique Scratch of the Day product. On day 1, we had the number one share of voice on Google, which we've never achieved before, and we were number two in the app store trends.

Across the tournament as a whole, we had #1 share of voice on Facebook and number

two share on the Oddschecker. We focus on social media more than ever before, and together with PPC, that drove 40% of the 354,000 sign-ups online delivered. I'm particularly pleased with this performance so quickly after transitioning digital marketing support out of Tel Aviv and into London. The online team have handled that disruption very well.

Scratch of the Day gave us a distinct proposition in a noisy marketplace, and it gave customers a good reason to come back every day. We saw very good levels of engagement. Of the 1 million customers active with us during the tournament, 62% used Scratch of the Day, and they were also significantly above average on important KPIs like cross-sell and player days. We continue to leverage our tailored YourOdds products to give customers a personalized experience, including adapting them as Live Odds during the games.

And the multi-match YourOdds were popular, helping drive a strong margin, which meant that YourOdds peaked at 25% of Online's total tournament gross win. Online continues to benefit from the digital transformation we began 18 months ago. The graph shows you the turnaround in the performance. That comes from very detailed focus on every aspect of the business, from product to marketing, from organization structure to culture. That work continues in seemingly small ways like reducing the app load time by 25%, and in more structural ways, like the closure of Tel Aviv.

What it's continuing to deliver is good KPIs in the U.K. Acquisition has been strong in both sports and gaming and is up 17% overall. Actives are even stronger, up 29%. ARPU is down, but that's unsurprising in a tournament period. And gaming is delivering strong acquisition amongst mass-market customers, which is a healthier mix albeit at a lower ARPU. In Italy and Spain, we've still had double-digit growth, though not at market rates. Now that the business is stronger in the U.K., we have the bandwidth to focus more on these markets and expect to drive faster growth.

Also, we're addressing regulatory and compliance improvements. We went live with GAMSTOP for cross-operator self-exclusion in July. All licensed U.K. operators will have to be live with this by the year-end. Turning to Retail. As Ruth said, Retail's had a tough time in the first half. We're seeing an impact from wider trends on the U.K. high street. Quite how much is hard to quantify, particularly in a period when volumes are being impacted by other factors such as fixed account installations, but we'd be naïve to think we would be immune when the British Retail Consortium is reporting 7 consecutive periods of footfall decline.

Against that backdrop, it's important we continue to stay relevant to our customers. For the World Cup, as with Online, that meant a campaign that gave customers a reason to engage each day of the tournament. The Perfect Hat Trick coupon was free-to-play for anyone who had placed a £5 bet that day. And that gave them the chance of a big price with between £250,000 and £1 million up for grabs. And we saw 580,000 entries, including good footfall levels.

Today's great offers, which I know many of your saw working in Leeds last year, were Retail's equivalent of YourOdds and drove a similar proportion of its World Cup gross win, given the strong margins that come from that product. The World Cup also demonstrated

the importance of our proprietary SSBTs, which accounted for more than half of our football turnover in the period. We continue to expand the product range, adding four more sports in the first half.

We brought one-minute markets as a World Cup in-play option. The format isn't ideal yet, but it's part of how we're thinking about the evolution of our shop experience over time. A total of 500 further SSBTs are going into the shops this year. In the same way, we're evolving gaming, adding Lucky 6 as a new experience in 700 shops, which we're now rolling out to a further 700. Further game launches will follow quickly in the second half.

And we're also adding a second channel so we can broadcast more content simultaneously, further enhancing the in-shop experience. So in the U.S., Joe and the team have delivered another half of very strong growth, ahead of our expectations. In Nevada, market share has gone up from 26% a year ago to 31% in the first half. Mobile remains key to that growth, now up to 64% of turnover, and with a 36% increase in mobile sign-ups.

It was interesting to see how strong the World Cup was in volumes, up more than 60% on the 2014 tournament, in spite of the fact that the time zones worked against us and the U.S. team wasn't competing. I think this speaks to the appetite among American bettors for more sports and more betting opportunities throughout the day. We've certainly seen that as we've expanded our product portfolio with ice hockey up 86% in the half and tennis quadrupling. And we shouldn't forget Delaware, which we continue to report in the segment as a predated PASPA being overturned, albeit we're now able to offer a much wider range of sports since the 5th of June, technically beating New Jersey to be our first post-PASPA bet.

With the exclusive risk manager for Delaware sports lottery working in partnership with the lottery provider, in this case Scientific Games, which is another string to our bow as we look at expansion opportunities. Before I turn to strategy, let me touch on sustainability. We've been working on our new approach since quarter 4 last year. It's important not only that we grow but we grow in the right way, which means our long-term success relies on customers gambling only what they can afford. It plays into a wider cultural change we're driving across William Hill. That's about the type of business we want to be in the long term. And it has to underpin the individual strategies of each of our 3 divisions.

In July, we publicly put our weight behind a far-reaching and long-term ambition that nobody is harmed by gambling. Delivering that isn't only about what we do for customers experiencing gambling-related harm, it's also about at-risk customers, and it's about helping all our customers stay informed and in control, which means we have to empower all William Hill colleagues to make the right decisions. We'll be collaborative in our approach. We'll learn as we go and we'll share what we learn. And if you want to know more, have a look at our website.

So now we have answers to the key regulatory questions. We have much more clarity about our strategic goals and how to achieve them. It won't be easy, but it's much more down to us than it was. Online is driving our digital growth in the near term and beyond. Through the digital transformation, we're growing well in the U.K. and we remain focused on gaining market share. That's about continually improving our product and customer experience and investing in good ROI-driven marketing. Now that the business is more robust and with Ulrik bringing more international experience, we're ready to turn our

attention to growth outside the U.K. That will come from regulated markets like Italy and Spain, where we've not kept pace with the markets in recent years. And we'll deliver more growth from gray markets, which can generate good cash flows, if carefully managed, which means ensuring they don't impact our licenses elsewhere, that we don't become reliant on any individual gray market and that gray doesn't become an unmanageable proportion of our group profile.

To deliver this, we will consider both organic growth and bolt-on opportunities where they can deliver the right returns. We have some challenges to face, such as Brexit, but we're readying ourselves for that by adding a small Malta office. And Ulrik has brought strong insights since he arrived in April, and we've enhanced the breadth and depth of experience in the group by recruiting key hires in data and product.

Turning to Retail. The outcome of the Triennial Review represents a serious challenge to the LBO sector and our Retail business, but I've been very impressed by how the retail team, from the leadership all the way through to shop colleagues, have resolved to rise to meet the challenge. I firmly believe that there's a future for the high street betting shop, but we have to face into the fact that a £2 stake will lead to change. We've talked before about the likelihood of some changes to the estate. What we're doing now is a detailed analysis looking at each individual market where our shops operate to work out how we remodel the estate.

At the same time, we're continuing to evolve our technology. It might seem odd to invest in retail, given what we're facing, but it's right -- it's the right thing for that business. And what we're building has applicability for the wider group, particularly the U.S. That includes a new operating system to tie together Retail's technology from SSBTs through to EPOS. We'll continue to deliver enhancements to the SSBTs and new and innovative products in sports and gambling. And encouraging customer offers taking forward the success that we saw with the Perfect Hat Trick. All these so that Retail remains a valuable part of our business and offers a service that customers value.

And finally, U.S. expansion. So this is a very exciting time, but let's be clear, it's not going to be without its challenges. However, having an established business in the U.S. is a clear advantage and it's enabled us to move very quickly in response to certain states' clear appetite to regulate fast. And so we've been at the forefront of those state openings. As I've said, Delaware took the first bet in a post-PASPA world and we were the risk manager for that bet. New Jersey's Governor Murphy placed their first bet and he did so at a William Hill sports book in Monmouth Park. Within weeks, we were live in Atlantic City, opening a new sports book in the new Ocean Resort Casino. We're also planning to launch our mobile app for New Jersey later this month. The New Jersey team, as you can tell, have been busy.

And this table gives you a view of how fast and far we have progressed. We are already live in three states and two more are imminent. We've announced today that we've signed contracts for 11 sports book in Mississippi and 1 in West Virginia, which ties to Ruth's earlier guidance for the next six months. William Hill and IGT have also combined forces for the Rhode Island Lottery Sports Betting RFP. And there are discussions ongoing in a further 14 states.

And this demonstrates the strength of an organic expansion strategy given our well-established position. So strategically, that's the base case. Taking the approach we have in Nevada, where we've built relationships with multiple casino companies, leveraging those relationships where relevant and building new ones where we need to and investing for ourselves to deliver more significant long-term value. As a group, we're financially strong and cash generative, so we have the scope to invest where we need to, whether that's in land-based operations, brand development, digital marketing or product and technology. And that means we will only do strategic partnerships in the U.S. if they deliver material value above and beyond our already successful organic rollout strategy.

The one clear thing that we have learned from our experience of the last 6 weeks is that there is a very healthy consumer appetite for sports betting in the U.S. But remember, the evolution of the market will take time. For William Hill, it is essential we retain control during the evolution and retain as much of the economics as we can. So far, we've barely scratched the surface. So it should be a very exciting time ahead. And as I've said, I believe we are well positioned and that we've made a very good start.

So in summary. We're on track with the existing business. We've got clarity about our future challenges and opportunities. We've got 3 businesses at very different stages, one driving near-term growth; one managing structural change; and one to start getting exciting new markets. Very importantly, I also believe that we have the teams now that are capable of rising to the challenges, which is essential given the many moving parts we are facing as a business. So overall, we're adapting to the regulatory changes. We're making good progress, and we once again feel more in control of our own destiny.

Thank you for listening. Now I'll hand over for Q&A. That was quick.

Ruth Prior

Didn't like you to stop.

Philip Bowcock

Can I sit down?

Question-and-Answer Session

A - Philip Bowcock

Can we get Patrick in the front, since he's so keen.

Patrick Coffey

It's Patrick Coffey from Barclays. Three questions, please. First, on -- so being very short term, but if we look at the 9-week trends from when you last reported, wagering was flat over that period, which included the World Cup and net gaming was about minus 5%. So is that a timing issue? Are you losing share? And maybe could you reassure us that trading has accelerated after the 26th? So kind of some sense of what happened in current trading would be very helpful. Second question relates to the U.S. expansion strategy. So I think based on your guidance, your implication for H2 expansion wagering would be about 450 million to 500 million, which is about 60% of Nevada wagering as a total. That's a rapid growth for a business in start-up mode. So maybe could you give us a sense of the shape of that business going forward? And how should we think about OpEx

and growth of the top line for 2019, 2020 onwards because there'll be a big focus on that impact going forward? And then finally, on a different tack, self-regulation is, obviously, a key theme and it's good to see you taking a stand here. Have you got any feedback on the nobody's harmed campaign so far? Has it had any impact on wagering trends as well?

Philip Bowcock

Can I start with the last one and then we'll go backwards? The feedback has been -- on the nobody's harmed campaign has been generally positive. And it's been generally positive throughout both our organization where colleagues feel that we're doing the right thing. And they now feel empowered to be able to speak in a slightly different way, all the way through to the regulator. I spoke to the regulator about it. So they are very encouraged by the stand that we're taking and the progress that we have to make all the way through. There's been no material impact there. If we think about U.S. expansion, I mean, I think before Ruth talks about specific figures around the U.S. expansion, I think we are entering the unknown a little bit here and that we don't know how fast and how quickly things are going to go. But I think we have been quite clear around guidance for the second -- for the overall period and that we think it's going to be broadly breakeven for the U.S. as a whole. And I think we'll have to see how we go.

Ruth Prior

Yes. So in terms of -- just New Jersey on its own is at 25% of our Nevada. So during equivalent period of time, it's achieved 25% of the Nevada wagering. We -- obviously, Philip showed you the pipeline that's coming on very quickly. So you can see in our view, this business, just by the end of the year, being at that sort of level. It's all retail based as well and we know retail. So we know the source of margins you get. We know the source of cost to get. And we are reasonably clear where we think the wagering will be. And that's really why we can -- we're confident for this year. I think the reason we're not giving any guidance yet around 2019 and 2020 because it really does then depend on states opening up and whether -- and when mobile comes online. And I think -- we've already had one example of New York saying that it would be mobile, then it was tethered mobile. And so we're not clear. And until we're clear, I think putting guidance out would be unwise. What we would like to do is, as I said in my section, is have a Capital Markets Day in the autumn, hopefully, with a bit more clarity so that we can give you, as we learn more, we can share that with you.

Philip Bowcock

And if you think about the nine-week period, I think the 9-week period was a short period, obviously, by its nature, it was a short period of time. In that period, we actually saw very good margins, especially net revenue was above the average for the period as a whole. So I don't think you should just think about this in wagering terms as you should also think about -- you should look probably more at net revenue. We're very comfortable with trends in the beginning of the second half, but clearly, we start the football season with the championship tomorrow, probably. And gaming, again, we had quite a lot of offers going out in gaming to begin with. So I mean, that nine week leading up to the World Cup. So we're not overly concerned.

Patrick Coffey

Just to follow up on the U.S. piece. If you didn't grow into more casinos in 2019 onwards, presumably you've put enough OpEx into the business, that you'll be generating a profit in 2019?

Ruth Prior

If we just kept the casinos that we have, we don't go mobile and we don't go into any other states, yes, those would be profitable casinos on their own.

Gavin Kelleher

Gavin Kelleher from Goodbody. Just one question from me. Just in Online, the account closures that you said was immaterial in the first half. You've guided it could be an impact in H2. Can you just give us an idea of kind of size of those accounts and how much it could be when we're thinking about the second half?

Philip Bowcock

We're not going to guide to quantum. What I will say is they tend to be the higher-value customers. I think the important thing though is that we have -- we're filling the half cup from the top, as you've seen by the new actives, the new accounts coming in. So we're just -- we now think we've got more flexibility to be able to take those closures through the P&L.

Gavin Kelleher

Okay. And just one final question. I know you've guided on marketing for H2 effectively. Is there anything else happening with other operating costs in Online? Is it pretty normal? So we should see positive operational gearing in Online in H2.

Philip Bowcock

There is nothing abnormal going through in the second half.

Tal Grant

Tal Grant, Crédit Suisse. Just 2 questions. For H2, in your assumptions for the U.S. breakeven, what are you assuming for gross win margin? Is that similar to the rate observed so far or closer to the 6% to 8% average? And secondly, the \$50 million to \$60 million of start-up costs, what percentage of that is one-off start-up costs? And what percentage is ongoing?

Ruth Prior

So assume 6% to 8%, which is the range that we see in Nevada. These are all online. These are all casinos, 6% to 8%. I would say 2/3 are ongoing and 1/3 is start-up.

Tal Grant

Okay. And just one quick follow-up. You said it's all retail. New Jersey, obviously, launched mobile this week. So is that incremental to your guidance? And also, I know it's a very early, but have you seen any cannibalization since mobile was allowed? Or is it incremental fee?

Philip Bowcock

We haven't seen any.

Ruth Prior

We haven't seen any.

Tal Grant

Okay. And is it in the guidance or would be that incremental to what you've announced?

Ruth Prior

I think you should assume it's in for the time being.

Alistair Ross

Alistair Ross from Investec. Philip, you said before that on average, and this might not apply to yourselves, but on average, the license issuers probably keep roughly 50% of the economics. In regards to that statement, I mean, do you think it's better to tie up with the sort of smaller casinos or tie up with one big brand? And can you just sort of perhaps talk about some of your competitors and what they've done?

Philip Bowcock

I'd rather talk about ourselves, actually, to be honest.

Ruth Prior

Keep to yourselves.

Philip Bowcock

I think if we just take a step back for a moment, I mean, William Hill bought into the U.S. 6 years ago when we made the acquisitions in Nevada. And what we've done in Nevada, we've got 107 contracts with individual casinos. Some of those just happened to be owned by a number of people. But that prevented -- provided 31% of the market size there. The initial view is and the current thinking is, market access is key. So you have to think about how do you achieve market access. What we've announced today gives us certainty of market access into 6 states. And we're also talking to a further 14 states -- casinos in 14 states actively. So that would, in theory, give us 20 states of market access. And that doesn't tie us exclusively to one casino operator. So I think anything that we do, as I said, strategically, from a joint venture or a strategic alliance with anybody will have to give us additive to that strategy. Now when you talk about individual, so it's commercial terms, I think they're all going to be different.

Alistair Ross

I was expecting, and perhaps mistakenly so, but I was expecting some further guidance on perhaps the Triennial effect and possibly substitution and how we should think about the sort of the evolution of substitution, possible mitigation in regards to the £70 million to £100 million? So if we assume that the imposition of the Triennial Review starts in the 1st of Jan '20, how should we think about the sort of the impact to bottom line? Obviously, maybe starting at the upper end of your guidance and drifting downwards?

Philip Bowcock

I mean, I just think it's too early to say. We don't understand how the consumer, how our customers will react from going from the current -- where we are now to £2. So I think we've put some assumptions in it. We've given you guidance. And I think now we have to wait and see what happens.

Jeffrey Harwood

Jeffrey Harwood from Stifel. Two questions. First of all, looking at Nevada, how do you see the risk of increased competition in that market? And secondly, on the dividend policy, should we take that to be before or after the start-up costs in North America?

Philip Bowcock

With regard to the dividend policy, I think you should it before start-up costs in North America certainly for this year. But clearly, the board evaluate this on an ongoing basis. So we've got visibility for this year and so I would assume that for this year. Nevada competition. I think if you look at our geographic footprint across Nevada, we don't tend to do very much on The Strip in Las Vegas. But outside The Strip and certainly in some counties, we have market dominance. So I think from a retail perspective, I don't see much competition. I think online, it may be a little bit less.

Monique Pollard

Monique Pollard from Citi. Just a couple of questions from me. The first is on your lower ARPU in the half, obviously, you mentioned some of that might have been World Cup. Do you have some sense of sort of where the ARPU would have been ex sort of the World Cup sign-ups, which would naturally be lower ARPU? And then secondly, when I'm looking at your retention rate year-on-year of existing accounts, it looks very strong when I'm sort of considering your overall accounts versus the new account signed up. Could you give some update on sort of what you've done to drive that strong retention rate?

Philip Bowcock

I think with regards to the retention rate, I think it's about not one specific thing, but it's adding a lot of little things as well. So it's about monitoring our customers. It's about making sure we are giving them the office that they would like. So that's what it's about. It's about giving them cross-sell opportunities as and when to cross-sell. So this is about also having an app that's easier to navigate around, having an app that is easier to deposit money into and withdraw money from. So it's all those sorts of areas. When it comes to ARPU, we haven't split out the difference between pre-World Cup and during the World Cup. I don't think -- is there anything you want to say on that?

Ruth Prior

No.

Philip Bowcock

No.

Joseph Thomas

It's Joe Thomas from HSBC. Can you talk a little bit more about these potential account closures in the gaming side of it. Are these problem gamblers? Or are these -- is this some sort of anti-money laundering?

Ruth Prior

This is a source of funds closures in the main, yes.

Joseph Thomas

So would you expect that pressure to remain as we think out into probably gambling issues that the Gambling Commission's been talking about?

Philip Bowcock

I think we have to monitor it very closely. And I think we have the responsibility to make sure people can afford to gamble responsibly.

Joseph Thomas

Can you talk also about the gray market acquisitions that -- if I understood you correctly, you might be willing to spend a bit of capital. I would just be interested to get the bit more color on...

Philip Bowcock

No, I think this is an evolution as we went through the transformation, that now we've got a U.K. business which is continuing with the momentum. We can now start to look a little bit further afield. Now whether that's organically or through bolt-on acquisitions, we'll have to wait and see, but I think we are sort of casting our eyes outside the U.K. and to Europe.

Joseph Thomas

Okay. And just finally, there's been a bit of debate about international -- about a levy on international horse racing. Any comments that you can give there? I mean, is that sustainable, do you believe?

Philip Bowcock

I mean, I'm not going to comment on that. I mean -- it is -- there is a talk about it. I mean, that's all we're hearing at the moment.

David Holmes

It's Dave Holmes from Merrill Lynch. Firstly, that 64% mobile split in Nevada, just wondering how that's developed over time. And then secondly, understand you're kind of looking to grow more aggressively in some Continental Europe peer areas. With regards to Italy, there seems to be an advertising ban on the agenda. How do you envisage managing that?

Philip Bowcock

The 64% mobile in Nevada has just been a continual increase in the proportion coming through mobile as opposed to retail over a period of years. So it's just seeing a sort of a steady growth. When it comes to Italy, I mean, I think the jury still out as to whether this is

going to be a blanket advertising ban, whether there's going to be an advertising on casino and not sports, whether it's going to come in or not at all and whether there's going to be a legal challenge to it. So I think that we are in a little bit of wait and see.

Richard Stuber

Richard Stuber from Numis. Just a couple of follow-ups. The first one is on machines. Machine's down sort of 1% in the first half and it's a split between B2 and B3. Are you seeing more of an impact on the higher states coming down? And the second question in terms of gaming, it's down. But can you -- I think, normally, you split out sort of casino, poker, bingo. Is there any trends you can see between those 3 products?

Ruth Prior

So machines were about the same as they've always been.

Philip Bowcock

Same, yes.

Ruth Prior

And casino, I think, was growing 18% from memory.

Philip Bowcock

Any more? Somebody at the back.

Simon Davies

Simon Davies from Canaccord. You talked about review of the Retail estate ahead of Triennial Review. Should we expect to see a step-up in the number of shop closures in 2019 ahead of that? Can you give us guidance on terms of likely shop numbers?

Philip Bowcock

I think when it comes to shop closures what we will do is we will look at our release as they come up for renewal between now and the period of time to which we have to move to £2 and we'll make an assessment of those. So I think we saw, what, 2% closures in terms of shop closures?

Ruth Prior

Yes. I mean, our average lease lent is three years. So it would be incumbent upon us to think about some of the leases that come up next year, whether we should keep them even if we haven't seen the £2 come in. So yes, you should see some next year, I think.

Simon Davies

And just in terms of the softness in gaming, how much of that do you think was a World Cup effect? I.e. have you seen a step-up in activity since the World Cup?

Philip Bowcock

I don't necessarily think it was directly correlated to the World Cup.

Ruth Prior

Hello, Ivor.

Ivor Jones

Really following on from Simon's question. Can I make sure I understood the phasing of change in the Retail business? Could you say if you have any greater clarity on the data when you're expecting the change to £2? And is that the date on which you start to make changes in the Retail estate and incur the restructuring charges? And how do you -- I think you said have a restructuring plan in place quite soon. So you'll have a team that knows about changes, potentially anywhere in the future. How will you manage and incentivize that team? And last question will be, will we see William Hill AGCs to replace the betting shops?

Philip Bowcock

You go ahead.

Ruth Prior

So we are putting a plan together. It will be a 2 to 3 year program. Some of the shops, because their leases will come up before the -- we're resuming before the £2 comes in, we will have to take a view on whether we should continue the lease or we'll actually shut it at that moment. So you will start to see, I believe, once we've done all the analysis, some of this happening potentially before the £2 comes in for those shops that are clearly in the closed bucket. Those that are more marginal, I think the decision will be much harder for us, but that's the process we're going to have to go through.

Philip Bowcock

And there is a team in place. And I think just to build on what Ruth said, is I think you should think of predominantly things happening from the date that we actually have to move to £2.

Ivor Jones

Just the way that the shop's shut, they don't become AGCs?

Philip Bowcock

I think you should assume that the majority is shut.

Ruth Prior

No. I mean, we're not -- we have looked at AGCs. Most of our shops aren't in places where they would work.

Edward Young

Ed Young from Morgan Stanley. Just one question for Ruth, please, on the transformation program. You talked about extra £15 million of cost in that and into '19. I mean, that will be the fourth year that the transformation program has been going on. So first of all, could you clarify what the costs have been this year? You very helpfully broken out the full year. So what have the costs really been this year? And how should we think about future costs? Is there going to be a potential to increase number of costs that go into that in '19 as well? Is this going to sort of carry on rolling through next year as well?

Ruth Prior

Yes. So most of the cost to date for this year is around redundancy costs, particularly around Tel Aviv closures, and obviously, the move to London. Just the back end of that program. The rest of the year, the £15 million is really the transformation of the back office that we still need to do. It was always intended that the back office would be the last thing that we did. So HR and finance is quite a bit that we need to do there, and then we will be complete. And most of that is systems related.

Philip Bowcock

Any more questions? One at the back.

Tal Grant

Sorry, just one last one. Tal Grant from Crédit Suisse. Just to follow up on Alistair's question because I think it's quite important. The £70 million to £100 million impact, could you maybe just give us an idea? I mean, what does that include because GBCs stood out quite nicely? Does that include an uplift to online for example?

Ruth Prior

No.

Philip Bowcock

No.

Tal Grant

Okay. Could actually be better of that? Because a big chunk of that is an uplift to online.

Philip Bowcock

You could see an uplift to online, yes, but we're not assuming anything in those numbers. Okay.

Alistair Ross

Last one from me, sorry. Philip, are you guys afraid of possible staking limits online, et cetera? So it's a rollout of what you've seen in Retail, which is, I guess, a more established product to -- into online in the U.K.?

Philip Bowcock

I don't think we're afraid of it, no, because I think we have to rise to any challenges that come along. I think the online environment is different because it's clearly all account based. And I think for us, we have to -- when we go back to what we talked about earlier about the nobody's harmed, I think we have to act responsively to make sure that everybody can afford what they do.

Alistair Ross

And do you see likelihood of that -- of a change?

Philip Bowcock

I don't see any -- I mean, I have not heard of anything from -- coming -- anything out of government at the moment, no.

Philip Bowcock

Okay. Thank you very much, everybody. We'll be around for a few minutes. Lyndsay and Tom will be around all during the day and into next week as normal to take any further questions. Thank you.