

## William Hill PLC (WIMHF) CEO Philip Bowcock on Trading Update - (Transcript)

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William Hill PLC (OTCPK:WIMHF) Trading Update Call November 6, 2018 4:30 AM ET

### Executives

Philip Bowcock - CEO & Executive Director

Ruth Prior - CFO & Executive Director

### Analysts

Ed Young - Morgan Stanley

David Holmes - Bank of America Merrill Lynch

Patrick Coffey - Barclays Capital

Simon Davies - Canaccord

Tal Grant - Credit Suisse

Richard Stuber - Numis

Gavin Kelleher - Goodbody

Ivor Jones - Peel Hunt

Daria Fomina - Goldman Sachs

### Philip Bowcock

Good morning everyone and thanks for joining Ruth and I. We are looking forward to seeing you later at our Capital Markets Day. So this morning's call is to focus on the trading statement and we will focus on strategy this afternoon.

It's been another busy period, particularly in the U.S. We are now taking sports bets in five states and have signed deals to secure access in a total of 17, accepting the sports lottery market as well as retail and mobile operation -- opportunities. It's still early days, but we're

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very encouraged by the volumes we're seeing in the new states. So far, we've taken in excess of \$200 million in handle since the PASPA was overturned, very much in line with what we would hope to see.

In New Jersey, where mobile is allowed in full, we are live with iOS and android apps. We are pleased by the speed of take up by customers and their interest in betting with a pure sports betting brand, which William Hill is. It's fair to say these first few months of reinforced our view on the great potential of the U.S. sports betting market.

The existing Nevada business continues to grow strongly with wagering up 17% in sterling in the second half to date. Sports results have been less bookmaker friendly than this time last year, but with a still healthy gross win margin of 7.3%. The net revenue growth in the period is as a result of 6%.

In our online division, underlying KPIs are still good. We are continuing to focus on mass-market customers and I think good growth in new accounts at 11% year-to-date. And within that mass-market actives are up 28% year-to-date. As previously mentioned, the changing regulatory environment lead to enhanced customer due diligence checks. That's holding back revenues, which were down 5% in the second half and we will continue to flow through into 2019.

We estimate that underlying revenue growth excluding the impact is flat. Last week, the Chancellor also confirmed the increase in RGD to 21% on the same timing of the triennial implementation. On a full-year basis, that will reduce Online's profits by approximately £20 million. Overall, these adversely -- adverse regulatory and tax changes will reduce profit by £20 million in 2018 and a further £25 million in 2019.

But as I've previously indicated, the net effect will be lower given the offsetting positive impact of Online's otherwise strong underlying performance. What all of this reinforces, of course, is the importance of diversifying Online outside the U.K., hence last week's offer for Mr. Green.

Turning to Retail. The government has given us a date for triennial implementation, confirming 2019. Some of the sports results haven't been great in the period, particularly around horseracing in the summer when we have three loss-making weeks. Although the football results have been a little more customer friendly.

So Retail's gross win margins are down 0.3 percentage points to 17.3%. Gaming is also weaker though it is difficult to disaggregate how much is the effect of wider high street weakness and how much maybe customers already reacting because of its triennial

decision.

Later today, Ruth will talk more about how implementing the triennial decision in October will impact 2019 expectations. Overall then our expectation for operating profit in 2018 is in the range of £225 million to £245 million. That assumes normalized gross win margins in the remaining weeks of the year.

At the Capital Markets Day this afternoon, we will discuss our goals for at least double group operating profit in the next 5 years. This will come from substantially growing our U.S business, doubling online profitability and reshaping our retail business.

Having considered our future growth plans and appropriate capital allocation, we've also clarified the position on the dividend. We will maintain our dividend of paying out half of underlying earnings. As already discussed -- disclosed, for 2018 the calculation of earnings will not include the losses incurred from the U.S expansion.

But as we move forward and with our U.S ambitions now clearer, it's appropriate to pay dividends after true underlying earnings. The U.S expansion will be included in the calculation in 2019 onwards. However, the Board's confidence in our strategy, our strong capital position and huge cash generation means that it has committed to underpin the annual dividend of not less than 8p per share in 2019, regardless of underlying earnings.

That's all we want to cover this morning. So I will now hand over back to Jake to taking questions.

## **Question-and-Answer Session**

### **Operator**

[Operator Instructions] Our first question comes from Ed Young from Morgan Stanley. Ed, please go ahead.

### **Ed Young**

Hello, thanks for taking my question. The first question which is on Online gaming. Can you talk about the weaker trends? In H1 you flagged higher than usual free bets. And at that point, it was the plus 4 in H1. It's obviously got worse in H2. Could you sort of talk through what was the moving parts there and what led to that, much weaker trend as we went into the second half of the year.

### **Philip Bowcock**

Ed, this is -- it's not about free bets so much as actually us having enhanced customer due diligence checks. So this is about having to ask our customer base to prove they have the sort of funds in order to undertake the betting gaming they want to. And this is something that is prevalent throughout the industry at the moment. And as and when we are asking these questions, whether it's around sort of income or ownership of property or ownership of other asset, people are deciding they don't want to give that source of information, and therefore were not expecting that business.

**Ed Young**

Okay. Just -- again just a follow-up on that. The possible figure in H1 at the time you said that was including these sort of due diligence measures. And then it was further depressed in net revenue based as far as sort of free bets, but you expect it to like in an H2. So can I read from that -- and this is perhaps the sort of second more broader question, can I read that sort of nature of the due diligence checks or the kind of levels which that being conducted is being increased incrementally sort of H2 and H1 or are you just happen to be seeing sort of a larger impact now, but you've done ...

**Philip Bowcock**

No, there has been no change to processes at all. This is just an accumulative effect.

**Ed Young**

Okay. And then final question, if that's okay, was on the U.S target. I'm sure you will talk more about it this afternoon, but how do you -- how are you going to give investors confidence that, that target is credible, because obviously the \$300 million EBITDA in the U.S is a very large number. How are you going to sort of signpost or sort of give confidence about that's a realistic target going forward?

**Philip Bowcock**

I will save it's a realistic target. And I think better leave that one until this afternoon when Ruth is very prime to take you through the numbers.

**Ed Young**

Okay. Thanks very much.

**Operator**

Our next question comes from David Holmes with Bank of America. David, please go ahead.

**David Holmes**

Hi. Morning guys. Just on the Online sports side, obviously, you're focusing more on this mass market customer. Can you just again highlight the logic of doing that as it does appear to be having a slight drag in the lower yield with these customers?

**Philip Bowcock**

No, I think we just have to understand the environment in which we're at the moment where regulatory concerns are becoming more prevalent and we're having to do more and more checks on the higher staking customers. But I think at the same time this is also a natural evolution as our products has improved over the last 18 months to two years, as our direct marketing has improved, as our social marketing has improved. What we're seeing is we're seeing more and more people coming and betting and gaming with William Hill.

**David Holmes**

Okay. Thank you.

**Operator**

The next question comes from Patrick Coffey from Barclays. Patrick, please go ahead.

**Patrick Coffey**

Yes, hi. I don't want to ask too many questions that will come up this afternoon, so just two, please. First question, I asked this one last week on the Mr. Green deal, but with the shares now lower and with your confidence in your ability to double profits, including, as Ed said, very ambitious U.S EBITDA target, will a share buyback makes sense, given your reimburses covenants and given the earnings accretion on that share buyback? And at what point would you potentially pull the trigger if the share price stays low? And then just second question on growth on new accounts is still in double-digit territory and strong, but has slowed since the H1s. Is that just the impact of the World Cup inflation in H1 number or is there any kind of underlying slowdown that you're seeing in your account growth?

**Philip Bowcock**

No, we are not actually seeing any slowdown in new account growth or actives as it happen and it is correct that it was the World Cup in the first half sort of give those a boost [ph]. When it comes to share buyback, I mean, this is clearly a Board decision, but I think what we have to think about not -- and not just where we are now, but where we get into. And we've got to and I think that two and I think that two points that I would look to, one, is clearly the continued investments in the U.S. And how quickly that's going to take place, we are unsure. We will talk in more detail this afternoon. But I would give the New York example and where will New York go. And I think also we're facing headwinds from our retail and retail we know against the reduction in profit in retail. And I think if you take those two at the moment, I like the idea of flexibility and I'm sure Ruth does as well.

**Patrick Coffey**

Thanks. Do you mind if I just follow-up on one question on the U.S. EBITDA target? You've obviously given a number rather than a range. Why don't give a range, given the number of uncertainties in the U.S?

**Philip Bowcock**

I think can we do with the U.S this afternoon. We can take you through the rationale as to why we get that. But clearly there are a number of assumptions built into that. But I think the key that I would point to is that that number is conservative and others have gone out with higher numbers, but our number I think is sensibly -- that is a sensible number.

**Patrick Coffey**

Okay. Thanks. Look forward to that. Cheers.

**Operator**

The next question comes from Simon Davies from Canaccord. Simon, please go ahead.

**Simon Davies**

Yes, morning. Reversing to Online gaming, can you give us some kind of a feel for the breakdown in that business between VIP and non-VIP cards, sort of what kind of percentage of revenue are coming from VIP? What percentage of customers they represent? And what kind of impact you've seen on that VIP business over the last six months or so?

**Philip Bowcock**

We don't give the breakdown of that level. I mean, all we said is that without the impact we would be about 5 percentage points better.

**Simon Davies**

Can you not give some kind of breakdown in terms of where that VIP business has gone to in terms of percentage of revenue, so we can think about feel for the impact going forward?

**Philip Bowcock**

I mean, I think what we're seeing is, we are seeing it more normalize and that VIP revenue where that's gone, I mean is a question for others and not necessarily for ourselves, because they certainly won't stop doing what they enjoy doing. I think that is a broader question and sort of probably fits into more the Gambling Commission as much as anything else. But as far as we are concerned, we're focusing on is just having a more normalized business.

**Simon Davies**

So you can't give any data in terms of percentage of customers that have been turned off over that [technical difficulty] period?

**Philip Bowcock**

No, we are not going to give any numbers.

**Operator**

The next question comes from Tal Grant from Credit Suisse. Tal, please go ahead.

**Tal Grant**

Hi, guys. Thanks for taking the question. Just three questions actually. First of all, the 0 to \$20 million EBITDA loss guidance for 2019 in the U.S., that's based on the current states that you're in or entering in 2018. What about based on the states that you think you might enter in 2019? Or if we just say if you enter New York, what is that 0 to \$20 million go to? Second question on the enhanced due diligence stuff, clearly this is very good if regulation changes in the future and VIPs and sort of like match stake change or something like that. So could you maybe give us the average stake size for roulette or average bet in sports in

Q3 '18 versus Q3 '17? And then finally on Retail. Just wondering the £70 million to £100 million, is it going to be -- could it be worse than that in the first year of implementation or is £100 million as bad as you see it getting even in the first year? Thanks.

**Philip Bowcock**

I mean, I think when we think about the Retail number, I think we would like to cover that this afternoon and take you through the logic of the mitigating actions that are going to be put in place. So actually what we see the number being not just into next year, but more importantly into 2020. As I think, I said to Simon in the previous answer, we are not going to give any specific details around average bet size, average roulette and etcetera, etcetera. That's just a level of granularity we're not going to go into. And I don't know if Ruth wants to comment on the loss in the U.S and what New York impact might be? Fairly easy question.

**Ruth Prior**

So I think, I'm going to be very clear this afternoon that when we give guidance on the U.S, it will only be for those states that have legislated and that we're in because we can't sort of predict when other states will go. Having said that, if a large mobile state were to go, like New York, and New York is a potential for '19 or '20, then we would end up spending quite a bit more marketing in that state. So it would change guidance as and when it happens.

**Tal Grant**

Got it. But the \$200 million presumably is not just the states that you're currently in?

**Ruth Prior**

No, no. it assumes then, we will go this afternoon, it assumes that the states that we think will open up by 2020 do, that we're in every single one of them. And then we have worked through bottom up what we think we will do [technical difficulty] those things.

**Tal Grant**

Okay. [Indiscernible].

**Philip Bowcock**



We take -- what we do is we take you through the size of the prize which states we're in, how are we going to get in those other states; and then the assumptions of how much of that the business in each of those states we will need in order to get through the number we're talking about.

**Tal Grant**

Okay. Thanks a lot.

**Operator**

The next question comes from Richard Stuber from Numis. Richard, please go ahead?

**Richard Stuber**

Hi. Good morning. Just two quick questions for me. The first of all is on your sort of Online revenue decline 5% year-to-date. Could you give -- sorry, 5% in the second half to date. Could you give any sort of granularity in terms of U.K. versus international? And I presume that U.K. would be sort of worse than that. And the second question is just to be sort of crystal clear on your 1 billion of digital revenue forecast for 2023. Does that -- is the U.S. entirely separate, or does that include some of the sort of Online U.S. business? Thank you.

**Philip Bowcock**

Can you ask the second question again?

**Richard Stuber**

Yes. I think you said you are guiding to 1 billion of revenues of Online by 2023. Does that include any Online U.S. revenues, or is the U.S. division entirely separate from that?

**Philip Bowcock**

The U.S is separate.

**Richard Stuber**

Okay.

**Philip Bowcock**

What it does include that was Mr. Green. It assumes Mr. Green acquisition goes ahead. When we think about U.K versus international split, I'm just having a quick look, I mean it's broadly similar, that's what I would say.

**Richard Stuber**

Okay. Thank you.

**Operator**

[Operator Instructions] We also have a question from Gavin Kelleher from Goodbody. Kevin, please go ahead.

**Gavin Kelleher**

Good morning, Phil. Good morning, Ruth. Just in terms of mass markets Online players, how do you define those? I'm just -- I know you talk about them being up significantly year-to-date. Can you give us any sort of sense on what your feel for your share of wallet of those customers is?

**Philip Bowcock**

I think the share of wallet is very difficult. I think the fact thought that we're getting an increased number of not just new accounts, but also actives coming through is very encouraging. I think we had our largest ever active base on a Sunday recently outside of a major sporting event, which -- and it's those sorts [indiscernible], for me, are very important. When we think about sort of mass market, we take out all sort of highest couple of levels of VIPs. So we take out the top sort of couple of layers of customers groups.

**Gavin Kelleher**

Perfect. Thanks. And just one follow-up on the gross margin in Online. Obviously, this is for a different period to other people have kind of done Q3. Can you just talk about -- you obviously, you kind of note October results being bad. How should we think about -- how did the margin kind of perform throughout the period and its 7.4, how much below expectations is that, just so we kind of have a sense?

**Philip Bowcock**

I mean, it is clearly a little bit below expectations. I think we normally guide through approximately 8%, and getting close to 8% on an ongoing basis. I mean, clearly, I -- look I called out horseracing in the summer was particularly poor. The weather was too good,

the ground was too hard, all the favorites won. Football had we better. We had a quite a difficult weekend, three or four weekends ago. So football has been quite tough. I mean, you just have to look some of those sort of the demand cities and performance, so on and so forth.

**Gavin Kelleher**

Perfect. No problem. Thanks, Philip.

**Philip Bowcock**

Thanks, Gavin. Cheers.

**Operator**

Our next question comes from Ivor Jones from Peel Hunt. Ivor, please go ahead.

**Ivor Jones**

Good morning. Can we just talk, could you just kindly talk about the guidance range? There's eight weeks to go and a 20 million spread in the range. Is there anything other than sporting results that you will be talking about next year to explain why you were at the top or the bottom of that range? I'm just wondering if there's a big, lump promotional activity that might or might not pay off or some element of consolidation that might or might not fall in 2018.

**Philip Bowcock**

No, there's nothing in there that is outside normal activities, normal trading. There's no big lumpy investments in advertising or bonusing or anything else. This is just giving it sufficient flexibility more than anything else.

**Ivor Jones**

Based on expected sporting results mostly, I guess.

**Philip Bowcock**

Yes.

**Ivor Jones**

Yes, okay. And the other thing is could you just talk through the dividend policy. I get that you would not want to over-distribute given where the balance sheet is now and plans for the U.S., but I don't get why you wouldn't implement the policy in relation to the 2018 final if you're sensibly trying to preserve cash.

**Philip Bowcock**

I think because we previously announced that this year we would exclude U.S expansion costs that we've previously told the city shareholders as to other policy is for this year than it would exclude U.S expansion costs to give certainty into the market for this year and what we're doing now is we're putting certainty for 2019 and beyond.

**Ivor Jones**

Great. Thank you.

**Philip Bowcock**

Thanks.

**Operator**

The next question comes from Daria Fomina from Goldman Sachs. Daria, please go ahead.

**Daria Fomina**

Yes, hello. Thank you. I have two questions, if I may. First one is on dividends. You gave us a minimum dividend that you plan to pay, but not a payout ratio. Can we talk -- can you please talk a little bit about the leverage in 2020 post the FOBT cut? Obviously, you discussed before two times net-debt-to-EBITDA range. I assume you also stress your estimate before giving that target on the minimum dividends. How far up the leverage your EBITDA to go? And how much wiggle room do you think you're going to have in -- again in 2021. You already got a -- have a full-year post FOBT cut. And my second question and tell me if you're going to talk about it at Capital Markets Day, your growth target for Online of \$1 billion. Can you split into the Mr. Green growth, but I'm actually more interested in the growth ex that business for your current scope of the business of Online. Thank you.

**Philip Bowcock**

The second one we will take at the Capital Markets Day and Ulrik will give you some feedback on that. When we think about the dividend, I think we clearly have flexibility in our covenants so we can go up to 3.5x. So if you like, that is obviously the upper end of where we can go to. We've guided to 1 to 2x. It's our target policy. Clearly, however, as we see going forward, we got a number of moving parts whereby those are quantitative investments into the U.S. and the impact of the triennial and how quickly the mitigating factors come through. Clearly as a result, leverage will tend up over the next two to three years or two years. But we -- and we have stress tested it, so we're comfortable with the guidance we've given at the moment.

**Ruth Prior**

I would put one nuance to it, that the guidance that you will hear this afternoon is 1 to 2x. Simply take [technical difficulty] 3.5x and we mainly go above the guidance range for a short period, but it will come down within [technical difficulty] months.

**Daria Fomina**

Thank you.

**Operator**

[Operator Instructions] We currently have no further questions. [Technical difficulty].

**Philip Bowcock**

Ladies and gentlemen, thank you very, very much for listening this morning and questions. Clearly, we will be reconvening at 1 o'clock this afternoon for our Capital Markets Day presentation, and looking forward to taking you through our plans for the next five years. See you then. Thanks very much.

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