William Hill interim results 2015

Interviews with James Henderson, CEO, and Neil Cooper, Group Finance Director

Results

Q: The interim results that you're reporting today do look challenging. So could you give us some context to what you're reporting?

James Henderson: Revenues are flat, and profits down 12%. However, we've had significant changes this year, not least there was the World Cup last year. We closed 108 shops. And of course the increase in MGD and Point of Consumption Tax.

In fact, the tax is worth £44m increase, in regards to Point of Consumption, which was £36m, and machine game duty, which was £8m.

Now, with profits down £21m, that would suggest that the underlying metrics are quite strong.

Acquisitions and consolidation

Q: There's lots of talk about consolidation in the sector. For instance, Ladbrokes and Coral, or bwin.party and 888 or GVC. So, where does that leave William Hill?

JH: Well, you're right. There is a lot of consolidation going on in our sector. And that's why we looked at 888 to be able to accelerate our strategy, because there were many elements of the 888 opportunity that allowed us to do that. Unfortunately, we weren't able to agree a price at the time, but it does mean that we can focus on organic growth, and there's a lot of that in both retail and online.

Retail, particularly, as we focus on the omni-channel strategy, and more importantly around the SSBT, and online around technology in regards to Project Trafalgar, and to the bonus engine that we're doing for our Vegas platform. So lots of opportunity of organic growth, which will allow us to differentiate ourselves from a customer experience perspective.

Q: You've announced an acquisition today in the Online-Lotteries market. So what can you tell us about that? And why is it an attractive space for you to be entering?

JH: Well, we've taken a minority holding in NeoGames for $25m. It's exciting for us because we're entering a product range, in the lottery, that we haven't been in before. That market which NeoGames operates in in America is $60bn worth of opportunity there in America. Four states have one online with an iLottery product, one of which NeoGames has got in Michigan. And already the penetration in Michigan is above any of the other states. So a very exciting opportunity.

In regards to finances, we've got options in three and five years, and we look forward to working with NeoGames to develop and grow that product over the next few years.

Retail and Online

Q: So, Neil, if we could start by looking at how retail and online performed during half, how have profits in the retail business been impacted by the MGD increase and the onset of the £50 journey for gaming machines?

Neil Cooper: Retail profits fell around £10m, but there are a number of key factors that underpin that. Firstly, we didn't have a World Cup in the first half of this year. Secondly, we closed around 108 shops, or around 4% of the estate in the second half of last year, following the Chancellor's announcement that he was going to increase the MGD rate. That increase in rate itself has cost us around £8m in the first half, which, given a £10m profit fall, is a big chunk of that.

And finally, the implementation of the £50 journey has led to a shortfall in run rate, versus where we were tracking in the first quarter. And we expect actually in the second half that to impact us by around £5m to £10m. So, a number of moving parts, almost all of which were externally driven.

Q: What impact will the increase in the national living wage from 2016 have on your retail cost base?

NC: Well, I think the general comment to make is that the impact it has will depend, to a great degree on our actions. And we're currently looking the impact of that on things like organisational structure, on things like our wage differentials. The minimum impact we think we're going to see is around a couple of million pounds next year.

Q: You closed over 100 shops in 2014. Is your retail estate now the right size?

NC: Well, back then what we'd just seen was the Chancellor announcing an increase in Machine Games Duty rate to take place from 2015. So we looked ahead a little bit at where we thought we might be, and the cuts that we announced that point reflected, I think, the market conditions that we expect to see this year. So yes, I think we did our best effort.

We are of course continuing to open shops, so over the short- and mid-term, I would expect to see our estate increase by around a percent a year, and we continue to find opportunities to open new shops.

Q: And turning now to online, what impact did the Point of Consumption Tax have on what you're reporting during the half?

NC: Well, if you look at our reported numbers, we fell from £81m last year to around £65m this year, so around a £16m difference. That is after paying for £35m worth of Point of Consumption Tax. So as you can see, had we not seen that tax, I think it's fair to say our profit would have been higher.

Q: And so what do the challenging market conditions mean for your marketing spend?

NC: I think the first thing to remind you of is last year, when we reflected on the likely impact of Point of Consumption Tax, we chose to rein in our marketing a little bit, in terms of cutting the automatic link between our revenue and the amount of growth that we'd spend on marketing.

Now, we could do that because we're spending a lot of money on marketing, as we're one of the large-scale players. So, year over year, we benefitted from that and also from the fact that we had a lot marketing in the first half of last year because of the World Cup, which obviously we don't have in this year.

Looking ahead, I'm happy that we're both spending at the same levels relatively as we were spending in the second half of 2014. And more importantly, we've been able to secure at the price that we want to pay the key media deals for football in BT, in Sky and of course ITV with the European 2016 Tournament coming up.

Strategy

Q: So can you tell us what you've been doing to drive the omni-channel strategy for this year?

JH: Yes, omni-channel is very important to us, not least because we've got 2,350 shops with a very strong online business. So we need to leverage those two businesses and make sure that, wherever our customers bet, there is a degree of familiarity. To be able to enhance that familiarity, we are bringing things like US racing over to online. We're trying Cash in my Bet in retail, which is very popular online. And we're also introducing betting shop TV into online, with all the products that that has. And also, we're creating a bespoke SSBT. So, lots of activity around our omni-channel strategy.

Q: So what advantages do they bring to William Hill?

JH: Well, good advantages. I mean, we're working with scientific games from a hardware perspective. But the idea is always to bring the breadth and depth of product that online has into the retail shop. And we've found that the best way to do that is through the SSBT.

So there is no rev share. We will have a design that looks very much like a web platform, as well, and also, we've developed it on a technology which allows us at a later date to develop it into an iPad app or indeed a phone, so huge opportunity for us, very excited about it. And we're looking to roll out our SSBTs in the course of 2016.

International

Q: Turnover declined steeply in Australia during the half, so what's been going on there?

NC: Well, there's a number of things going on. The major factor has been the changes we've made following indirect tax changes in Australia, which have moved to a turnover tax, and that means that for customers who perhaps were larger customers and were getting a slightly better rate, we're no longer able to trade those comfortably and be happy that we're going to make a profit.

So we've made some changes. Some of those customers have gone elsewhere. Some are betting less, and therefore, a big chunk of the change has been driven by that. Some of those changes have also then impacted what we call our BDM business in Sportingbet, which is, again, the slightly higher-roller group.

And finally, as we're rebranding from Sportingbet to William Hill Australia, the two other brands, Centrebet and Tom Waterhouse, that we operate, with marketing being pulled away from those, they're starting to suffer. Now, obviously, we have plans to migrate those across to William Hill Australia, and we're in the process of accelerating those plans to make sure that the short-term impact is minimized as quickly as we can.

Q: And what about your other international businesses? How have they performed?

NC: Generally, it's been a very strong first half for our other locally licenced international businesses. Italy, arguably, has been a standout with very strong wagering growth, 85% in local currency terms. Obviously, the impact in sterling has been less strong because of the euro devaluation, but we've seen good gaming growth in Italy.

In Spain, we've also seen good growth in wagering. The margin in Spain went against us, the sports betting margin, so we've made a little bit less money there. And finally, in the US, where we've seen good growth since we've owned that business, that good growth has continued both in terms of wagering, in terms of revenue, and obviously happily, in terms of operating profit.

Australian market

Q: So are you satisfied with the progress that's been made with the reshaping of the Australian business, and how's the brand launch gone?

JH: We've made very good progress with the Australian business. Last year, we did a lot of changes, which I've already talked about, but this year is all about the brand launch and the mobile. Brand launch, in particular, we launched William Hill in March, and the early signs are very positive.

Both spontaneous and prompted awareness are up, the actives are good, and the new accounts, as well. But it has had a slight impact on our legacy brands, Tom Waterhouse and Centrebet, so we're looking to bring those forward from the earlier plan. We're going to be looking to do Tom later on this year and Centrebet early next year.

Technology and innovation

Q: And can you give us an update on the progress of Project Trafalgar, your front-end technology platform?

JH: Project Trafalgar, as you know, has been in the making for two years, and we're probably now entering the most interesting phase, because it is live. Trafalgar allows us to take control of the front end and also allows us to make changes like we've never done before. In the old regime, we had to make changes 6 to 10 changes a year. We're now able to make changes as many times as we like on any given day.

On the site, which gives the clients an option to go onto at the moment, we've got 2,000 people per day, and we've had around about 144,000 on it since we launched the beta site. The metrics are very strong. We're getting more selections per bet. We're getting more bets, and the site is 50% quicker than the old site, so really encouraging start to the launch of Trafalgar.

Q: So what's the potential of all this for William Hill?

JH: Well, first and foremost, it's a responsive design, which will make for a much better experience in mobile and tablet. And also, it will enhance in-play betting. Currently, we have five-minute markets. With push technology, it will allow those prices to come much quicker and therefore make it a much better experience than five-minute markets.

We also currently do 10 changes a year, and we will be able to make as many changes as we want going forward, and in fact, if we wanted to make three or four changes by 10:00 a.m., we could do so. So it's not only a better experience, but it allows us to react to any consumer feedback in a much more expedient fashion.

Q: Innovation has always been essential for William Hill, so what are you hoping to achieve with the accelerator program that you're launching?

JH: Well, what we're trying to achieve with the accelerator programs is encouraging start-ups to come and work with us, to join and combine our innovation teams with theirs to be able to work on some industry-leading initiatives. It's been very encouraging with a number that have entered. We've had 240 entrants, and now the really hard job is trying to whittle those down within each of the categories we've identified.

We'll do that with a team of people internally at Shoreditch, and then we'll work with the selected teams, or the eight selected teams, between now and the end of the year. We will co-fund it with a company called L Marks, and we're really excited about some of the things that may come out.

And in January, it will be an even harder time to be able to pick the overall winner, which we look forward to working with beyond that date.

Responsible Gaming

Q: Is William Hill doing enough to promote responsible gambling?

JH: Well, we've been very busy this year, and we've been building on what we've been doing for the last two or three years. Already this year, we've introduced mandatory limits on the machines. We've had two responsible gambling weeks. We've been working on the self-exclusion trial in Chatham and in Glasgow, and also we've been using the RGT research that was published in December to be able to work on algorithms for at-risk gamblers.

So we've been very busy, and we'll continue to work on those and also work with the government in regards to how to communicate what we've done and what we're going to be doing in the future.

Returns to shareholders

Q: You've increased the dividend, but given today's results, is that prudent?

NC: Well, I think the first thing to say is although earnings have fallen, and a lot of that has been about the extra tax that we're now paying, we're still making in absolute terms a very healthy profit. So you have to look at the dividend in the context of that profit.

Secondly, we're very pleased to be able to show some growth in the dividend, and I think it's reflective of the Board's confidence in our plans and the implementation of those.

Q: And in the absence of any attractive takeover targets, would you consider increasing your returns to shareholders?

NC: Well, of course, a 2.5% increase in the dividend is an increased return to shareholders. More widely, we do like to have flexibility in our financial arrangements. That allows us to do the sort of acquisitions that you'll have heard James talk about around the NeoGames acquisition, and secondly, we're in a process at the moment of dealing with the tax, dealing with some of the regulatory changes that have led to an impact on our revenues, such as the £50 journey.

So I think there's a number of moving parts, but as a general comment, this is something that we do keep very actively under review.

Outlook

Q: What progress has been made in the hunt for a new CFO after it was announced in June that Neil would be leaving the business?

JH: First and foremost, I'd just like to think Neil for the contribution to William Hill over the last six years, and certainly, for me, over the last year as I've transitioned to CEO. I fully understand the reasons for him joining Barratt, and I wish him well in his new role.

In regards to the progression that we've made, we have appointed a headhunter. I'm now at the long-list situation, so it's about being able to bring that down to an acceptable short list and then start interviewing candidates.

Q: So looking ahead now, what's the outlook for the second half and beyond?

JH: I'm very encouraged by what's upcoming. We've got the Trafalgar front-end platform that we're going to be introducing this coming football season. We've got the bonus engine for Vegas, our proprietary gaming platform. We've got our bespoke SSBT coming, and we've obviously announced the going into iLotteries or the lottery product with NeoGames. So lots of exciting things coming up, which I think bodes well and will support the underlying metrics which are reported in the half year.

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