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Transcript – IMS for 4 months ended 30th April 2009

**Chris Bell:** Good morning to you all. I'm sure you've had chance to read the IMS that was put out this morning, covering the first four months. Just before Brian and I take your questions, I'd just like to make a few introductory comments.

This first four months has been a rollercoaster ride. And I'd like to cover some of the highs and the lows of that period for you.

If we cast our minds back to January, February, I know it seems a long time ago now, but record number of horse race abandonments in January, February; 61, which is the worst since 1991. In March, the horse margin for us was a 3 whole percentage points below the three-year average, and nearly 6% below the prior year. And, of course, that was somewhat exacerbated by Cheltenham, that you will all recall.

Then the good times. April saw a great Grand National race. But on the very same day, our football results didn't help. And they took the gloss off what had been a very good day.

In summary, across that period, we were on track at the end of February, we had a tough March and we've returned to normalized trends in April and May. In fact, you will see that gross win since then has been at plus 5%, which is where we would expect it to be.

So the sum of all this, as you've seen, is a significant fall in profits for the first four months. But we have to say this is not at all representative of how we, management, see the full year.

In addition to the highs and lows I've just reviewed, another major contributory factor to the reduction in profits has been our investment in customer recruitment via free bets in both our UK shops and on all of our eGaming platforms, where we took the decision to invest upfront. This rate of investment will reduce through the remainder of this year.

I'd also like to make a few comments on our UK machine performance and progress in eGaming. Let me turn to machines first.

We took action late last year to fill the gaps in our machine B3 software customer offering. And that is underway. We've been adding new B3 games, all exclusive to Ladbrokes. And recent figures show a reinvigorated performance. Over the coming months, we'll be adding more B3 games and commence our planned test of two new hardware formats.

In eGaming, assisted by our free bet and chip investment, we recruited nearly 200,000 new players to our sites in the first quarter, which provides us with a good platform from which to grow during the remainder of the year.

Although player recruitment costs have increased and gaming yields have declined, given that we plan to reduce our marketing expenditure as the year progresses, we remain confident with the expected outturn for the current year.

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However, it is fair to say that due to the trajectory of both recruitment costs and yield metrics, and given the general economic environment, we're unlikely to achieve our previously stated profit target of GBP80 million to GBP90 million in the 2010 timeframe.

However, finally, our business does remain resilient in these economic conditions. And we would now be happy to take any questions you might have.

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**Vaughan Lewis:** Morning. It's Vaughan Lewis here. It's clearly been quite volatile. Can you just give us a feeling as to whether that was just results in March and have betting volumes been fairly consistent across the period? Or has it been -- have you seen underlying volatility as well?

**Chris Bell:** It's largely results, Vaughan. Because if you think, as I've just said, at the end of February, we were absolutely bang on track. And in March, results across the piece and the horse margin at nearly 6% lower than the prior year; 6% is a huge amount for us. So that was obviously results and that's affected all of our retail businesses. And, of course, the eGaming Sportsbook, which equally was on track at the end of February.

And then, when you move into April and May, which of course does include a good Grand National, but some very difficult football results. For example, Manchester United have just won their last seven matches. That goal by Tevez in the last five minutes is typical of what we've had this year. So in the round, it is results as well as the investment we've made on free bets, as a combination.

**Brian Wallace:** Another view of that, maybe just on the eGaming Sportsbook, as an example, the staking levels were up double-digit. So that's not a bad performance in an economy like this. So as Chris said, the margin was what hurt us.

**Vaughan Lewis:** And are you doing anything differently there in terms of your risk appetite? A 6 point swing at Cheltenham seems huge. Were you being the most aggressive on prices? Is that what --?

**Chris Bell:** No, not at all. If you think about it, Ruby Walsh rode seven winners. A lot of the really fancied horses won the big races. That's what happens. I'm not saying that in a flippant way at all. And that's what we do. We just play the averages. But that's why, addressing your comment specifically, is there something structural or underlying? No. This is a results pattern.

Vaughan Lewis: Sure.

**Chris Bell:** And gross win is back to where you would expect it to be.

**Vaughan Lewis:** And just a quick one for Brian. If we don't see the pick-up that you're expecting in the rest of the year, will you have to review the dividend policy? Because you'd get pretty close to covenants with the level of profits decline we're looking at this year, I guess.

**Brian Wallace:** No. Our covenant position is very comfortable indeed, certainly as we sit here today. June's only a couple of months away. So we've got a lot of headroom and indeed for the full year. And that's whether you include high rollers or not. Our covenants give us the benefit of

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high rollers and you can see that, that provides an extra cushion. But even absent high rollers, very comfortable covenants.

And you've seen, Vaughan, that debt came down from GBP987 million at the end of the year to GBP900 million just yesterday. So useful debt reduction. The business throws out a lot of cash anyway and the high rollers, we've always said, are just a bonus.

**Vaughan Lewis:** Okay.

**Brian Wallace:** Well not just. A bonus.

**Vaughan Lewis:** Thank you.

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**Frederic Jeanmaire:** Good morning. Three questions please. First of all, could you clarify in eGaming if you're seeing lower spends per player or just poor results?

The second thing is how do you get to this minus 34% profit versus the growth in decline? What's the [push] there? And maybe, what would be the underlying trend undisturbed?

And finally, when are you going to see more benefit from your loyalty card and not just more spend? Thank you very much.

**Chris Bell:** Let me start with the loyalty card. It's not even a year old and we've got nearly 700,000 out of them in issue now. Over the next 12 months, using that data [is a time] when we'll become much crisper about how we use it. But what we've been in a phase of is why you've seen so many free bets in this first quarter, the first four months, is because we've been building that franchise, which we're very pleased with; the rate of growth has been quite phenomenal.

So you're not going to really see significant benefit, other than membership, until 2010. So that starts with that.

Brian, did you want to take the one in the middle?

**Brian Wallace:** Yes. The middle one, I think, was about how we get to minus 34% from a flat gross win. First of all, to say for the Group gross win, that includes things like Italy, which is obviously a new business. Adding gross win but not profit. So there's that mix effect. Chris has talked upfront about the free bets. So between gross win and the Group profits, there are significantly higher free bets year-on-year. Not least, of course, because the OddsOn! program hadn't started last year. And we also look to the fact that the phasing of marketing spend in eGaming is starting high in the year and will trend down as we go through the year, so that's another aspect. And then finally, the reality of the March results in UK retail, which Chris described upfront.

So if you take all of those together, that bridges that 34%. And you can see that quite a lot of those are things that we expect to reverse trends as we go through the year.

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**Chris Bell:** And Frederic, your first question about stakes in eGaming. On the Sportsbook, marginally up. And there's some lower yields in Casino. You'd expect that, either as a function of results and/or the people we're recruiting. But if you remember, we have recruited another 200,000 players in this, the first four months. So we're in quite a good position as we move ahead.

**Frederic Jeanmaire:** Thank you.

**Chris Bell:** Thank you.

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**Tim Ramskill:** Thanks, good morning. I just want to really follow-up on the gaming point, specifically in regards to your approach to marketing and customer acquisition there. And if you could possibly put some numbers on how your level of marketing spend might move across the year and then I guess, into next year as well?

And then really also on the eGaming side, are you seeing any trends within it, within the particular gaming area, Poker, Casino, that does suggest any pull-back as a consequence of the economic situation?

**Chris Bell:** If we look at -- take marketing spend first. As we said in the beginning, we had a plan that's invested free chips and free bets on Sportsbook to increase customer numbers and we've given those. That's been very successful. And Brian talked about the staking level or the level of turnover on the Sportsbook. So in that side, marketing spend was always intended to be front-end loaded.

Are we being more targeted about how we spend it because of the cost of recruitment? Yes we are. That was partly intended. And also as we always do, we read the tea leaves as we go through the year, take action and manage appropriately. So that was always part of what we intended and part of how we read current circumstances.

In terms of trends. In Poker; Poker is -- was trending down and as you know, we took action late 2008 and that actually became fact in February 2009 when we joined the Microgaming Network. That's helped stabilize that product; it's still competitive within Poker.

And within Casino, that is a competitive market where some of the yields are softening as a lot of people fight in that space.

**Tim Ramskill:** Can I just follow-up on that? In terms of obviously you've said that the previous 2010 target obviously now moves to one side. Are you prepared to state where you think you can get that business to by 2010?

**Brian Wallace:** No, I think once bitten, twice shy really. What we're saying is we'll reach GBP80 million to GBP90 million. The issue is only a matter of timing, not whether we get to GBP80 million to GBP90 million.

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**Tim Ramskill:** Okay, thanks.

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**Patrick Hargreaves:** Yes, good morning. Two quick questions if I may. Firstly on the retail estate. Are there any plans, as we currently stand, to close down any more loss-making or marginal shops?

And then secondly just following up on eGaming again. You've said you're confident for the outturn for 2009 in eGaming. Does that mean you're still expecting profit growth in that division as per your previous guidance? Or do you think that's going to be a stretch, given where net revenues are at the moment?

**Chris Bell:** Fortunately simple answers to both of those, Patrick. To your latter one, will we get to where we think -- we thought we'd be, yes.

Your first question about retail closures, no; we will open 25 new licenses.

**Patrick Hargreaves:** Perfect, thank you.

**Brian Wallace:** There might be the odd closure in Ireland, just to add.

Patrick Hargreaves: Thanks.

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**Jeffrey Harwood:** Yes, good morning. Two questions. First of all can you say how much the Poker rake is down?

And secondly on the machine income, it looks a little soft there but I wasn't quite clear at the beginning. Have there been some technical problems there?

**Brian Wallace:** No, on the second one, on machines, what we said is that we've only very recently taken delivery of some new B3 games. Those are the games that you play GBP1 for GBP500 and it's literally two weeks. We've got a number of these games coming up over the next seven to eight to nine weeks, and based on a very short period of two weeks, we're very pleased with the take-up. So we think that's going to give us some extra momentum.

On top of that, we are trialing different machine arrangements completely, so there are two facets to our machines.

I think it's worth saying as well, that the machines, comparing ourselves to William Hill's, which obviously we do and so do you, this time last year our machines were up 26 and Hill's were up 16; so one gets ahead and the other chases so I'm delighted Hill's did well this four months. Something for us to go at.

**Chris Bell:** And on your other question Jeffrey, on Poker rake; it's about stable this year now. You're going to get some weeks it's up, some weeks it's down, but it's there or thereabouts. But it's slightly up if you were to really put a figure on it.

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**Jeffrey Harwood:** Okay, thank you.

**Chris Bell:** Thank you.

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**Nigel Hicks:** Morning. Can you just say what average number of shops in the UK retail you had in the period '09 and what '08 was? And how many machines, the average number of machines in the two periods?

**Brian Wallace:** Yes, well at least on the second one I can do it straight off. We might have to come back on the first one. The machine average was 8,140 last year and just over 7,900 this year.

**Chris Bell:** And we'll check for you Nigel, but I think the average in '08 was -- wait a minute, here we are, we're getting it for you. What do you want?

**Nigel Hicks:** The average shops in the period to April in the UK?

**Chris Bell:** Average --

**Brian Wallace:** Nigel, we'll get back to you.

**Chris Bell:** We'll get back to you.

**Nigel Hicks:** Okay. Can I just say, when you get down to gross win, that obviously I think takes into account low margin, does it?

**Chris Bell:** Yes.

**Nigel Hicks:** What -- I didn't really follow what Brian said about why profit was down 34% because you talked about significantly higher free bets, phasing of marketing, but also the margin? I would have thought the margin is taken out at the gross win level?

**Brian Wallace:** Right, but sorry, if one's to understand what's in the Group profit fall of 34%, then obviously that encompasses everything including the UK margin. If you're interested only in how we get from gross win to Group profit, then the key ingredients are certainly -- free bets, is an important part of that.

**Nigel Hicks:** Okay.

**Brian Wallace:** And Nigel, I don't know if I was clear earlier. I always personally find that Group gross win a bit, not misleading but complex, because as I said earlier, it's got Italian gross win growing fast but there's nothing on the profit line and that obviously skews that conversion.

**Nigel Hicks:** Okay. Can you say what's happened to profit per shop in Ireland in euros and what the market is like there?

And also, what your costs are up by in retail? UK retail, sorry.

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**Brian Wallace:** Well in UK retail our costs are growing well and we're maintaining the guidance of 4%. There's a lot going on there and let's see how we do through the year but so far, very pleased with where we are (inaudible).

**Nigel Hicks:** Is that like-for-like or absolute -- 4%?

**Brian Wallace:** 4% would be absolute.

**Nigel Hicks:** Thank you.

**Brian Wallace:** I'm sorry, the other question?

**Nigel Hicks:** Ireland. Average profit per shop in Ireland in euros and what the market's like there?

**Brian Wallace:** Kate can get back to you with that detail if you want it. Yes, the market is tough. We know what's happening in Southern Ireland to the economy in general. We have seen a number of shops close already. As you all know Nigel, the industry is predicting that up to 300 shops might close and what we have seen with the shops that have closed is that our neighboring shops have picked up significantly. So from where we sit, we hope that the contraction in that marketplace will (inaudible).

**Nigel Hicks:** Okay. What are you doing about the World Cup build-up? I know it's a year away but you're talking about phasing downwards in the second half your online marketing and you've obviously put a lot of money into free bets this first half. Will you have another step-up in the first half next year?

**Chris Bell:** I think -- I've been around for about -- since the 1966 World Cup I think. Yes every year Nigel, because of the experience, we start planning two years out and we will have a very active program that will kick in once you get into 2010.

One last thing and then we'll take another question, is Kate will ring you after this with the average shop numbers.

And thank you, can we take the next question please?

**Chris Bell:** Thanks Nigel.

Operator: We currently have no further questions in queue. (Operator Instructions).

**Chris Bell:** We'll call it a day then at that point which would be great. We've got to go and rush off and do the AGM now. Thanks for all listening in. If you need anything, speak to Kate.

**Brian Wallace:** We'll be available, not during the AGM, but afterwards, certainly Kate and myself, to answer any calls or questions you've got. Thanks very much.

**Chris Bell:** Thanks very much.