

THOMSON REUTERS STREETEVENETS

# EDITED TRANSCRIPT

LAD.L - Q1 2015 Ladbrokes PLC Interim Management Statement Call

EVENT DATE/TIME: APRIL 22, 2015 / 8:00AM GMT



## CORPORATE PARTICIPANTS

**Jim Mullen** *Ladbrokes plc - CEO*

**Ian Bull** *Ladbrokes plc - CFO*

**Richard Snow** *Ladbrokes plc - IR Director*

## CONFERENCE CALL PARTICIPANTS

**Jarrold Castle** *UBS - Analyst*

**Patrick Coffey** *Barclays - Analyst*

**Nick Edelman** *Goldman Sachs - Analyst*

**Jeffrey Harwood** *Oriel Securities - Analyst*

**Ed Birkin** *Credit Suisse - Analyst*

**Gavin Kelleher** *Goodbody - Analyst*

**Vaughan Lewis** *Morgan Stanley - Analyst*

**Richard Stuber** *Nomura - Analyst*

**Joe Thomas** *HSBC - Analyst*

**David Jennings** *Davy - Analyst*

## PRESENTATION

### Operator

Good day and welcome to the first quarter IMS conference call. (Operator Instructions).

---

**Jim Mullen** - *Ladbrokes plc - CEO*

Thank you. Good morning everyone and thanks for joining us. I'm here with Ian Bull, our CFO, and Richard Snow from Investor Relations. As you're all aware, this is my first trading update as Chief Executive so you won't be surprised to know I don't regard these numbers as an ideal debut. Before you hear my views in a wee bit more detail, I'll ask Ian to take you through the numbers. Ian.

---

**Ian Bull** - *Ladbrokes plc - CFO*

Thanks Jim. As you can see, Group PBIT of GBP14.3m was well down on last year's GBP18.4m. I think there are four points to bear in mind as I run through these results. We are generating revenue growth. The underlying metrics are good. Sporting results and a single digit loss to a small group of customers in Q1 have really hit us. And we do face significant headwinds in 2015, which I'll come back to later.

So, okay, let me run through the numbers then, and in Q1 we generated Group revenue growth of 3.3%, somewhat better than we said in our current trading statement in February, where we reported around about 1.5% growth. We've seen a good performance in Australia, another step forward in gaming, and UK machines have been strong, but our key sports betting businesses in UK retail and .com in this quarter have been impacted significantly by sporting results.

In the UK net revenue increased by 4.3%. Poor football results in weeks 3, 8 and 12, and the week at Cheltenham, resulted in OTC gross win margins falling 50 basis points to 15.7%, well below our target margin range of 16.5% to 17%. I expect you will see this trend across the industry in Q1.



OTC staking was down 4.8%, somewhat better on a relative basis than we saw in Q3 and Q4 of last year, and only down 3.2% adjusted for shop closures, but still leaving us more to do.

Traditional products, racing and dogs, were down around 5%, again, somewhat better on a relative basis than the recent past, and benefiting from good staking growth across the Cheltenham festival, where retail was up over 4% on last year.

SSBTs continue to perform well, with staking up 138%, underpinning our decision to roll out a further 2,000 machines across the estate before the start of the next football season.

Machines growth increased again. Machine growth win was at 12.2%, or 16.4% growth on a per shop basis. Lower staking slots, where we saw 40% growth in gross win, was the key driver, much as we saw in H2 of last year. And machine trends in Q1 were quite a lot better than we had expected, but please remember we did expect a good outcome in this quarter as we were competing against the old machine estate and the early part of the ABB code rollout in Q1 of last year.

Now you'll be aware of the introduction of the new DCMS procedures round GBP50 staking, which started on April 6. In terms of impact it's very early days as we're only two to three weeks in. And due to the timing, which is different in both years, we've not had a long enough period to do any true comparable estimates to understand the overall effect across the estates. So very short term the trends are broadly as we expected, so we have no reason to change the guidance that we gave to the market in February from the very short trends that we've seen so far.

Now let me turn to digital, where as a division we generated 9.5% revenue growth with a strong Australia performance, further improvements in gaming, and with sportsbook revenue held back by results. Overall, our digital sportsbook KPIs were good. We delivered another good quarter of staking growth, up 28.8%, with actives up 18.5%. Mobile was again very strong, with staking up 62.7%, and desktop staking declining, very much as we saw last year.

But with a margin of around 4%, sportsbook revenue has been heavily impacted by the results. And, as we said with the full-year results in mid February, we lost a mid single digit sum to a small number of larger staking customers in sportsbook. This position has not reversed, and if I was a prudent soul I would recommend that you reflect this in your numbers for the full year.

These types of customers are a key part of any digital business, both gaming and sportsbook, and are profitable over the medium term, but, as Jim will make clear in a moment, the disproportionate impact of this loss on Q1 shows why we need to grow our core customer base. After adjusting for this loss the sportsbook margin would have been 6.4%, still well down on our target range of 8%.

Gaming trends improved again and you can see we've converted strong 35% actives growth into revenue growth around 13%.

Overall, marketing costs were in the high, mid-to-high 20% range of net revenue after adjusting for the losses for HVCs.

In Australia we had another good quarter and on a reported basis actives, staking and revenue increased by 137%, 78% and 132% respectively, benefiting also from the Betstar deal, which we closed in Q2 of last year.

And finally, looking at European Retail, overall net revenue declined by 1% on a reported basis. Behind that Belgium was up 11.3% on constant currency basis, Northern Ireland was up about 3% and the Republic of Ireland declining by 8% on a reported basis.

You will see in the trend table at the back of the release that we've presented you with 2014 quarterly EBIT adjusted for POC, MGD and grey markets withdrawal, as if these factors had applied in those quarters last year. On this basis Q1 2014 would have been GBP11.8m, and so on an underlying basis you can see that the trends we're seeing from a customer point of view generated around about GBP2.5m growth beyond the impact of the large tax headwinds applied to the business in 2015.

So, overall, I would say that Q1 was not the quarter we would have wanted and, as you can see, delivering a decent result for 2015 will require margins improving towards our target ranges, as we have seen in the period after Q1.

And now I'd like to hand back to Jim.

---

**Jim Mullen** - *Ladbrokes plc - CEO*

Thank you Ian. As I've said in my intro, this is my first trading update as Chief Executive and my first opportunity to share some of my views. In my experience the numbers don't lie and the underlying message from our Q1 results is blunt.

Although results have favored our customers and many of our operating metrics are encouraging, we do need to change the way we run our business. We need to respond faster to the customer and operate with a longer term outlook. We do have real strength in the business and there are strong foundations to build on. We have a cash generative retail business, we have improving digital products, and a solid brand with dedicated people at all levels who all want the same thing - that is a successful and competitive and growing Ladbrokes.

But what we do not yet have is the necessary volume of core customers, recreational customers, to withstand the unfavorable sporting results or successful higher value customers that we have in our business. So growing and diversifying our customer base is essential.

The Board appointed me to build on the foundations laid. That will allow us to compete even more effectively, deliver a robust growing business and importantly build scale. Now I'm not naive to think that it will be straightforward, but I am confident that it can be done.

What today's results demonstrate is that we do not have the luxury of time. So instead of waiting until August to take you through my plans, my aim is to present some of the principal changes I intend to make in the business in June. There is nothing set in stone, but expect the following themes, building a consistent and effective competitive position, once again building scale and developing resilience over the medium term.

Now I understand that you will all want more detail in what this might entail, but please note that I am only 22 days into the role. I'm still reviewing the wider business so today is too early to talk about the detail. As you can hopefully tell, I believe in the opportunities for Ladbrokes. I can assure you of our intention and our focus, and also the speed of our execution.

Now over to you for questions please.

---

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions). Jarrod Castle, UBS.

---

**Jarrod Castle** - *UBS - Analyst*

Good morning gentlemen. Just, Jim, just in terms of your comments that you have made, and obviously not preempting the completion of your review or your June presentation, but just around developing scale itself, can you say just whether or not that would encompass from an organic side and a buy side or a mix side in terms of organic and buy potential opportunities that are out there in principle?

And then just in terms of digital, clearly you've been looking after that business, if there is in terms of your thinking some further changes that need to be made, going forward that you weren't conveying with the full-year results that potentially you could share with us now?

And then just secondly, just any thoughts that you may have in terms of the manifestos that have come out from the different parties for the election and any initial thoughts on that would be useful. Thank you.

**Jim Mullen** - *Ladbrokes plc - CEO*

Okay. Thank you. Just on the first question, I don't want this to be circular, but the essential message today is about developing scale for our business. I think that I did on my appointment say that I would be bringing my plan to markets and observers in August and I think it should be welcomed that that's been brought forward until June, so I'm not going to get into the detail. I don't think it'll be long until you see how we're going to develop that scale, so I'll leave that question essentially where it is for the moment.

I can't build on any strategy in M&A, but obviously we'll review anything that comes to our attention. But, again, there's no more detail to basically explain.

On digital, it's actually fairly straightforward. We have to increase the mix of recreational customers that we have in our customer portfolio to give us the depth. And it follows straight back to the scale point that I made earlier, so we should be looking at a more resilient and a larger depth and a resilient customer base.

Regarding the manifesto, to be frank, we'll need to wait until post election, because then we'll be absolutely clear in what we're dealing with. And it won't just be what the government will be, but it will be individuals who we'll be personally dealing with, as well. So any further details on our position with regard to the outcome of the election will probably have to wait until then.

---

**Jarrold Castle** - *UBS - Analyst*

Okay. Thanks very much.

---

**Operator**

Patrick Coffey, Barclays.

---

**Patrick Coffey** - *Barclays - Analyst*

Yes, hi everyone. Just three questions from me, if that's okay. The first two are quite straightforward. Marketing as a percentage of sales in online in Q1, could you just give us that number?

Second one is, just given the low gross win margins in Q1, can you give us a flavor of the recycling levels in Q1? And have you had any momentum in terms of recycling into the second quarter so far?

Jim, again, sorry for asking this one about your June update now, but you didn't mention or you don't seem to have mentioned much around the retail estate in your key themes that you're going to discuss. When you're talking about greater scale in customer depth, does that translate into retail too? And should we be expecting that you're going to present a plan to close the EBITDA per shop gap with your closest rivals in June as well? Thanks.

---

**Jim Mullen** - *Ladbrokes plc - CEO*

Thank you Patrick. Just on the first one on marketing, I think it was the mid to high 20s in Q1 on net revenue, I think after adjusting for the one off losses. So it's higher as a percentage of the results. The numbers are very much in line with our plan for the start of the quarter.

Ian will take the second point on margin.

---



**Ian Bull** - *Ladbrokes plc - CFO*

I think, Patrick, on -- recycling, as we all know, is clearly there, but it's difficult to evidence specifically in the absolute numbers. I think if you look at the way football results fell, and particularly the week-12, week-13 impact, I think we have seen some helpful trends coming through in football staking. And equally interesting is if you look at Cheltenham. I think we were quite pleased with the staking growth we saw in Cheltenham, particularly when -- with the way the results have gone. So I think evidence would suggest that there has been a bit of recycling.

---

**Jim Mullen** - *Ladbrokes plc - CEO*

And, Patrick, just on your final question about retail, that will be included in the principal plans that will be presented in June. When I speak about recreational customers, you should be noted that that's across both digital and retail. We've mentioned multi-channel before and the size of our estate will support a strong multi-channel offering from Ladbrokes, with the principal message in June and probably some further details as we commence through the summer.

---

**Patrick Coffey** - *Barclays - Analyst*

Okay. Thanks very much.

---

**Operator**

Nick Edelman, Goldman Sachs.

---

**Nick Edelman** - *Goldman Sachs - Analyst*

Thanks very much. Morning everyone. I've got three questions, please. Firstly, just on retail, obviously margin's down and stakes are down again in OTC. Can you just give a bit more color on why you think over the last few quarters, aside from shop numbers, you have just seen that change in momentum in OTC staking?

The second question's on SSBTs, so staking up very strong, but football stakes flat. I think you said that 80% of staking on SSBTs is football, so what's the drive to continue to roll these out, if your football staking is still flat?

And then thirdly, just in terms of online, the comps obviously become quite a bit more difficult through the second and third quarters, both in sportsbook and gaming. In terms of the absolute level of -- and thinking about this from an actives point of view, is there anything you can say just about where you are in absolute terms as to what your expectations are for growth in sportsbook and gaming actives from here? Thank you.

---

**Ian Bull** - *Ladbrokes plc - CFO*

Morning Nick. So on -- let's do them in the order you asked them. So retail staking, actually if you look, if you've got the quarter trends behind, available to you, you can look actually. In a relative sense you see OTC staking improve from negative 8%, negative 6.8%, negative 4.8%, so I think in a relative sense it's improving. And what we're seeing behind that, if you remember, and this is particularly driven by horseracing staking, that we saw coming out of the World Cup into Q3, pretty seriously negative horseracing staking declines, yes.

And I think what we've seen is the work that we've done on our business has seen that improve relatively but, as I've equally acknowledged, there's more for us to do there really. So I think staking is on an improving trend, but still negative of course.

And don't forget, we're quoting reported numbers here. If you adjust the shop numbers it's possibly like for like about, round numbers, 2 percentage points better really, so your 4.8% is probably more like a 3.5%-type number -- sorry, I should say 2.5%-type number, yes.



So I think that, hopefully that answers your point in terms of staking on retail.

---

**Nick Edelman** - *Goldman Sachs - Analyst*

Yes, very clear. Yes.

---

**Ian Bull** - *Ladbrokes plc - CFO*

From a margin point of view, look, I think -- I'm sure others will report when, later on this week, really. I think if you look at the combination of the Cheltenham results and three poor weekends on football, in part balanced by some decent weekends on football of course -- let's acknowledge both sides -- have been particularly difficult to deal with in Q1 really. So I don't think there's a much more complicated way of answering the question in terms of why the margin's a little bit down in Q1.

Yes. And, as an example, on Tuesday of Cheltenham we lost GBP1.5m on the Tuesday, and I don't think we're alone in funding some very, very happy customers on the first day of Cheltenham, so I don't think it's much more complicated than that, Nick.

And SSBTs, look, I think what we're seeing is incremental business coming through SSBTs. So it's not just football; it's driving other sports business. And I think there's a decent margin structure sits behind them because these are also driving multiple businesses as well as single bets business. So I think underlying we are seeing that.

On your specific point, Nick, on football staking, well, it's a very difficult quarter, if you look at the volatility on football results, to try and pick out the real trends on staking on football. So personally I'm not going to get too excited one way or another on the staking of football based on Q1 given how volatile it's been.

---

**Jim Mullen** - *Ladbrokes plc - CEO*

And Nick, just on your third question, it's a very good one actually. But I just want to, I want to draw a line under, but it's all the gems is to come, because if you look at the comps in digital on the actives, now, firstly, there's two parts to this response. One is they're very encouraging. Stakes in actives are up considerably, as you'll see from the trends table, and even in gaming we're seeing our actives and net revenue coming through, so it's back to that point that we've got a strong foundation.

But you've heard too much before from Ladbrokes on that it's all going to be blue sky. We need to see that trend continuing. So we are comfortable with these quarterly trends. I accept to the point, the good point that you made, that some of the comps quarter on quarter are light. You should expect those trends to continue. You will hear back in June how we're going to grow that scale, which will support the ongoing trend growth in those comp KPIs.

---

**Nick Edelman** - *Goldman Sachs - Analyst*

Very helpful. Thank you very much.

---

**Operator**

Jeffrey Harwood, Oriel.

---



**Jeffrey Harwood** - *Oriel Securities - Analyst*

Yes, good morning. I've got two questions. First of all, on Ireland, could you give some details as to the timetable and the upside there? It was my understanding that the issue in Ireland was more to do with the way the business was being run than any onerous lease items.

And then secondly, on the strategic review in June, presumably that will include some sort of update on the dividend policy.

---

**Jim Mullen** - *Ladbrokes plc - CEO*

Well, just on Ireland, just one of the things to note is that we're actually in interim examinership in Ireland, so any future conversations about the business and the planning of where it's going would be, would probably be a bit too early to talk about.

What I can say though, the main driver for the restructuring in Ireland was due to the leasing structure that we had with some of the shops, which just made the business unsustainable. The restructure should be taken as a positive step by us because it would allow us to grow the potential. And the potential we still think is in Ireland, but a very, very different size and structured business. So I won't give you any more regarding in Ireland. Just, again, the key point that we are in interim examinership.

On the strategy, I can't give you any more than the fact that we need to build a resilient base and larger scale in recreational customers across both channels. I would ask you though that this was expected in August. I have landed in the business now for 18 months so a lot of the points and the plans that I have are actually fairly well formed. The reason we're pulling it into June is that I'm just testing these with some of the key individuals we have in the business. So in June I think is a fairly accelerated communication of the strat' plan and I would ask for your patience until that point.

---

**Jeffrey Harwood** - *Oriel Securities - Analyst*

Okay. Thank you.

---

**Operator**

Ed Birkin, Credit Suisse.

---

**Ed Birkin** - *Credit Suisse - Analyst*

Hi. Morning. Just a few. Just first of all, Ian, can you clarify that 5% figure for horse/dogs turnover decline, that was overall, and you said on a per-shop basis that would be nearer 3%?

Secondly, is it possible to get an idea of the, roughly the underlying growth in Australia if you stripped out the Betstar acquisition from those numbers?

And then finally, I know on Ireland it's too early to say much and it all depends on the courts etc., but can you give us an idea what the potential ballpark or maximum exceptional cash cost could be? So if you were, for instance, looking at closing half of your shops and you've got an idea of what the exceptional cash costs would be per shop, just so we can have an idea what may happen to the cash flow. Are we looking at GBP10m or GBP50m?

---

**Ian Bull** - *Ladbrokes plc - CFO*

Okay, Ed. So, just to clarify then, so the negative 4.8% is a reported number and that's total OTC staking. And net of shop closures probably looks more like 3%, round numbers.

---

**Ed Birkin** - *Credit Suisse - Analyst*

Sorry, in the horses' and dogs' part you said, you talked about earlier --

---

**Ian Bull** - *Ladbrokes plc - CFO*

No, that's total staking.

---

**Ed Birkin** - *Credit Suisse - Analyst*

Yes, but don't you give a figure about horses and dogs was down about 5%?

---

**Ian Bull** - *Ladbrokes plc - CFO*

Yes, and, again, you can adjust that by about 2% for shop closures.

---

**Ed Birkin** - *Credit Suisse - Analyst*

Okay.

---

**Ian Bull** - *Ladbrokes plc - CFO*

All right?

---

**Ed Birkin** - *Credit Suisse - Analyst*

Yes.

---

**Ian Bull** - *Ladbrokes plc - CFO*

Your second question, Australia underlying, yes, I've given you the reported numbers. If you want the pro forma numbers as if we'd had Betstar from the start of the year, amount staked would be 37% growth, actives would be 83% growth and net revenue would be 75% growth. So I think whether you look at a reported basis or a pro forma basis, I think we were very pleased with the performance in Australia.

And then on your final point on likely impacts of examinership, look, this is a legal process and we're subject to the court process and how that works really. So I think it would be wholly improper and mildly foolish to try and predict an outcome of that. It's a 100-day process. There's an interim step that's coming up. So we're very keen to work through to get a stronger business emerge from this process. It's a 100-day process. So I think the likelihood, whatever changes, Ed, we'll have a decent view by the time we get to our August reporting really and whatever comes out will be featured in that.

I think you used a GBP50m cash number. I think that would be astronomically high for an impact of this process. I can't predict what the examiner will do, but I think that'd be way, way beyond the court of -- that I would expect. Okay?



**Ed Birkin** - *Credit Suisse - Analyst*

Okay. Yes. Just going back to the staking bit, so I may have misinterpreted, but total OTC stakes are down 4.8% and football's broadly flat, and you said that horses are down about 5%. Where's the -- what am I missing there?

---

**Ian Bull** - *Ladbrokes plc - CFO*

Well, we have other products, don't we? We have virtual, there's dogs -- sorry, there's virtual, there's other sports, so --

---

**Ed Birkin** - *Credit Suisse - Analyst*

So virtual and stuff is down, therefore implied high single digit, is that fair?

---

**Ian Bull** - *Ladbrokes plc - CFO*

Yes, broadly right. Yes.

---

**Ed Birkin** - *Credit Suisse - Analyst*

Okay. Great. Thanks very much.

---

**Operator**

Gavin Kelleher, Goodbody Capital Markets.

---

**Gavin Kelleher** - *Goodbody - Analyst*

Hi guys. Just a few from me. Just on the Irish shops, the figure for GBP5m profit after tax you gave yesterday in the release, is that pre or post exceptionals? Can you just confirm because I believe there was some exceptionals for Ireland last year?

And just on the Irish estate, is there any leases that have guarantees that relate to the plc or are they all held within the subsidiary -- subsidiaries?

---

**Ian Bull** - *Ladbrokes plc - CFO*

Gavin, so the number we used yesterday in the press release is pre any exceptional costs.

---

**Richard Snow** - *Ladbrokes plc - IR Director*

A small number of freeholds, very small.

---

**Ian Bull** - *Ladbrokes plc - CFO*

And the number of freeholds is absolutely insignificant in the scheme of things.

---



**Gavin Kelleher** - *Goodbody - Analyst*

And is there any guarantees to the plc, is there, for Irish shops?

---

**Ian Bull** - *Ladbrokes plc - CFO*

On the freeholds and leaseholds?

---

**Gavin Kelleher** - *Goodbody - Analyst*

On the leases in Ireland?

---

**Ian Bull** - *Ladbrokes plc - CFO*

I don't think so. No.

---

**Gavin Kelleher** - *Goodbody - Analyst*

Okay. Cool. So everything lies within the subsidiaries in Ireland?

---

**Ian Bull** - *Ladbrokes plc - CFO*

Well, exactly so, and that's the process, the examiner process.

---

**Gavin Kelleher** - *Goodbody - Analyst*

Okay. No. And just in terms of the, just on the statement you note that withdrawal from some unregulated digital markets in line with guidelines of the UK Gambling Commission. You note it as a thing you, if you adjust EBIT for, EBIT would have grown. Just the guidelines from the UK Gambling Commission, was that the 3% rule or was it anything else or was it just the 3% condition that they brought in?

---

**Jim Mullen** - *Ladbrokes plc - CEO*

I can't recall the tone of the guidelines from the UK Commission, but it did follow clearly the recommendations that were made. And so I can't tell you what the detail is, but we did follow that as being the framework for exit.

---

**Gavin Kelleher** - *Goodbody - Analyst*

Okay. And just can you just remind us how much of an impact is there from that between now and the rest of the year, from those market exits?

---

**Ian Bull** - *Ladbrokes plc - CFO*

Yes. So in aggregate, Ed, it's around about -- sorry, Gavin. Excuse me. I think it's around about GBP3m of PBIT, that kind of territory, on a full year.

---



**Gavin Kelleher** - *Goodbody - Analyst*

Okay. Cool. Thanks a mil'.

---

**Operator**

Vaughan Lewis, Morgan Stanley.

---

**Vaughan Lewis** - *Morgan Stanley - Analyst*

Hi. Morning. On the losses to the higher staking customers, presumably you know those customers and normally they would make a profit, as you said. So what sort of margin do they normally make and why would you expect those losses not to reverse? Have they stopped playing or are you just being cautious?

Secondly, on retail, machines look exceptionally strong. Do you have any idea what's really driving that? Is that increased consumer confidence, disposable income or something like that or is it more an internal factor, taking market share, do you think?

And then finally, following on from that, has the GBP50 journey had any significant impact on that rate of growth in machines? Thanks.

---

**Jim Mullen** - *Ladbrokes plc - CEO*

I'll take the first one, Vaughan. Hi there. Just on the high-value customers, they are -- they operate more or less to the margin as a normal recreational base. The issue has been that some of them have actually just banked their money and withdrawn. They may come back, but Ian gave guidance today that that may not be the case. And we've just had the unfortunate position where we don't have the depth in the recreational core to absorb those players.

Now I don't think it's any different from any of our other competitors in the sector. But essentially after weeks 3, 8 and 12, some of our high-value customers recognized how well they'd done from Ladbrokes, they've taken their money and they may well be spending it elsewhere.

---

**Ian Bull** - *Ladbrokes plc - CFO*

Vaughan, hi. So on your point on the GBP50 journey, as I said, it is -- I'm just repeating what I said before, so apologies for that -- it's very difficult to show any material trend really, given it's 2.5, 3 weeks and we've got Easter in different parts of the year. So I don't really want to go much further than that because I think I'd be -- we wouldn't be precise about it.

So I think what we can comfortably say is so far, very short term, it's pretty consistent with the guidance we gave back in February in terms of what we expected the shape to be. I think, that said, if you look at the Q1, acknowledging it's a soft comp, I think it's been a good performance on machines. So I think overall I think we're comforted on where machines are, but we're not getting carried away.

I think the other thing as well, the B3 growth is coming from a number of areas, including lots of new games. So I think our machines team are doing an excellent job with our partners in providing new games. So part of the machines offer is having -- and is particularly on the lower slots products -- is having regularly, games regularly launched, which is interesting for customers. So that's what's really driving I think the lower-stakes performance.

---

**Vaughan Lewis** - *Morgan Stanley - Analyst*

So just to be clear, you do think you are taking market share in machines then? And the implementation of the GBP50 journey, machines revenue is still growing, it's just the rate of growth has been impacted?

---

**Ian Bull** - *Ladbrokes plc - CFO*

I think it's very difficult to ascertain market share, if I'm brutally honest, Vaughan, in terms of machines, particularly in this period of the DCMS code really. So I couldn't give you an honest answer to market share at all, quite frankly.

---

**Jim Mullen** - *Ladbrokes plc - CEO*

Not at the moment.

---

**Ian Bull** - *Ladbrokes plc - CFO*

Yes, too early.

---

**Vaughan Lewis** - *Morgan Stanley - Analyst*

And the second one, so machines are still growing, but just at a moderated rate?

---

**Ian Bull** - *Ladbrokes plc - CFO*

I think we've said it. I don't think we can say much more about machines' performance than we've already said really.

---

**Vaughan Lewis** - *Morgan Stanley - Analyst*

Okay. Fair enough. Thank you.

---

**Ian Bull** - *Ladbrokes plc - CFO*

It's all right.

---

**Operator**

Richard Stuber, Nomura.

---

**Richard Stuber** - *Nomura - Analyst*

Hi. Good morning. Just two questions from me. The first one, at this full-year results you said on UK retail you'll be continuing focus on the growth of football. Given that stakes were broadly flat in Q1, do you expect there to be absolute growth in Q2 to Q4?

And the second question is could you say what the impact, any currency impact of translating your international revenues to sterling, what would that be in millions please? Thank you.

**Ian Bull** - *Ladbrokes plc - CFO*

I think the currency impact, Richard, is pretty small in terms of Q1. I don't really think that's a significant driver of our business. No. I don't know what it is off the top of my head. The fact that I don't know what it is off the top of my head tells you it's not really a driving number for the business. So if that's really important to you I can get that back to you offline.

---

**Jim Mullen** - *Ladbrokes plc - CEO*

Just, sorry, Richard, just repeat your first question again please.

---

**Richard Stuber** - *Nomura - Analyst*

Yes. It's just really on the football stakes in retail. Do you expect them to actually to grow in absolute terms over the rest of the year because that was one of the focuses I think for this year? You said on your full-year results you were looking to grow the football offer and, given the flat stakes so far, how and why do you expect that to ramp up?

---

**Jim Mullen** - *Ladbrokes plc - CEO*

Well, look, as part of the principal plans in June, we'll be explaining our long-term strategy. Obviously the aim is to improve our football stakes and it must do better. But the details I don't really want to get into in the call this morning, but in June there'll be a fuller picture of that, Richard.

---

**Richard Stuber** - *Nomura - Analyst*

Okay. Thank you.

---

**Operator**

Joe Thomas, HSBC.

---

**Joe Thomas** - *HSBC - Analyst*

Morning. A couple of questions from me please. Firstly, new customer sign-ups or the growth in actives in the online business, presumably you're getting a sense of why these people are joining up. Can you just shed, give us a little bit of color as to why you think that they are joining Ladbrokes and what's driving that growth?

And then secondly, when you've got them, are there any different characteristics between these new signups and the people that you would have had typically? I just wonder where, for example, stake per customer might lie versus people that you had in the past.

And then just moving on, Ian, I think you said that since the end of the quarter you'd seen margins normalize and staking strengthen in the retail business. I'm just not sure if I heard that correctly. Could you clarify that please?

---

**Jim Mullen** - *Ladbrokes plc - CEO*

Just on the first question, Joe, I think on the growth in actives is essentially, just to simplify it, is down to a far better product that we have than we had before. If you look at our mobile sportsbook actives it's over 60%. And our gaming actives are coming through again. We have, we would say,

a strong product in our mobile gaming, a strong Playtech product. And just to support that, we monitor our conversion rates fairly tightly and we're seeing that with new customers the conversion rates have been higher over the last 6 to 12 months, so product is a primary driver there.

Also, we are seeing an improved yield, which is a mixture of good offers, strong product and better marketing and retention. The details of that yield will form some of the basis of the KPIs that we're going to share with you in June about where our scale is going to come from. So basically product conversion rates and retentions are all leading into a stronger growth in actives.

---

**Ian Bull** - *Ladbrokes plc - CFO*

Joe, on your other point, so just to be dead clear, what I said was what we've seen is margins, since Q1 we've seen margins improving back towards our target range. And I think the point about staking was in relation to recycling. And I think what we've seen, just to be clear, is certainly with the way results went in Cheltenham, we've probably seen some recycling during Cheltenham, given the way the results were. And I think on football, given the results hit us fairly late on, in week 12, I think football has helpfully seen some positive on trending as well. But I was talking on football there, not overall.

---

**Joe Thomas** - *HSBC - Analyst*

Okay. Thanks.

---

**Ian Bull** - *Ladbrokes plc - CFO*

Okay?

---

**Operator**

David Jennings, Davy.

---

**David Jennings** - *Davy - Analyst*

I was wondering if you could just comment as to whether or not you'd seen any change in the cost of marketing assets since the introduction of POC, either online or offline. Thank you.

---

**Jim Mullen** - *Ladbrokes plc - CEO*

Well, let me, I'm not avoiding that question, but let me just give you my view on this. I don't think the question is about the change in cost. I think the question is in the change in what we are prepared to pay for a customer. So my view is that it is still as aggressive as it was pre point of consumption, though the way we operate now is that we will only actually acquire the customer at the price that we think we can deliver a yield on. And that's primarily been the change in our approach over the last eight, six to eight months, so I think that's where the focus will be.

And, again, just based on the question that I answered previously, the yields per active and what we get from players will be a key component to the, obviously the strategy in June, so we'll be able to give you a bit more detail on it then.

---

**David Jennings** - *Davy - Analyst*

Thank you very much.

**Richard Snow** - *Ladbrokes plc - IR Director*

Okay, guys. I think we've got time for one more question. So operator, I don't -- do we have anyone else left in the queue?

---

**Operator**

Patrick Coffey.

---

**Patrick Coffey** - *Barclays - Analyst*

Hi. Sorry, follow-up ones. Jim, is BETDAQ growing and is it a core part of the business?

And secondly, Betfair has obviously been growing rapidly over the last year. How much of a threat is Betfair to Ladbrokes digital in terms of taking recreational customers? And don't you need to massively increase the marketing cost to compete? Thanks.

---

**Ian Bull** - *Ladbrokes plc - CFO*

The active base in BETDAQ is growing. It's an important portfolio product for Ladbrokes. And their ability to do manage and hedge liability through the exchange is something which is part of trading strategy. So it is -- we're glad we have it and it's a very useful product with more players.

With regards to specifics about Betfair, we're not looking at individual better operators. We're looking at how we grow our recreational base. And a number of them will be from Betfair or others, but essentially we're not actually going to hook ourselves onto a particular operator who is stealing or losing market share at all. We really need to start focusing on the medium- to long-term growth of the recreational base. That isn't an avoidance question; it's just how we approach our strategy now and I think it's probably the most intelligent and the wisest thing, Patrick.

---

**Patrick Coffey** - *Barclays - Analyst*

Okay. Thanks.

---

**Jim Mullen** - *Ladbrokes plc - CEO*

So I think that -- I don't think there's any more time for questions. Yes. I think it -- I just want to thank everyone. And hopefully when you get the update in June we'll be able to give you more informed and detailed answers. But I hope you do accept that we did say we would come back in August and the fact that we're bringing it into June is obviously a demonstration of how quickly we intend to execute going forward.

Thank you very much.

---

**Operator**

That will conclude today's conference call. Thank you for your participation ladies and gentlemen. You may now disconnect.

---



**DISCLAIMER**

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2015, Thomson Reuters. All Rights Reserved.