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LAD.L - Full Year 2016 Ladbrokes Coral Group PLC Earnings Call

EVENT DATE/TIME: MARCH 28, 2017 / 10:30AM BST

CORPORATE PARTICIPANTS

Paul Bowtell *Ladbrokes Coral Group plc - CFO and Director*

Jim Mullen *Ladbrokes Coral Group plc - CEO and Director*

John Kelly *Ladbrokes Coral Group plc - Chairman*

CONFERENCE CALL PARTICIPANTS

Alistair Ross *Investec Bank plc, Research Division - Research Analyst*

David Jennings *Davy, Research Division - Gaming and Leisure Analyst*

Edward Young *Morgan Stanley, Research Division - Equity Analyst*

Gavin Kelleher *Goodbody Stockbrokers, Research Division - Investment Analyst*

Ivor Jones *Peel Hunt LLP, Research Division - Analyst*

James Ainley *Citigroup Inc, Research Division - Director and European Hotels and Leisure Analyst*

Jeffrey Harwood *Stifel, Nicolaus & Company, Incorporated, Research Division - Analyst*

Patrick Coffey *Barclays PLC, Research Division - Director*

Phillip Bagguley, *BNP Paribas*

Richard Stuber *Numis Securities Ltd., Research Division - Analyst*

Roberta Ciaccia *Berenberg, Research Division - Analyst*

PRESENTATION

John Kelly - ***Ladbrokes Coral Group plc - Chairman***

Well, good morning, ladies and gentlemen. My name is John Kelly, I'm the Chairman of the Ladbrokes Coral Group, and I felt it was important for me to stand up and say a few words today to recognize that these are the first formal results of the Ladbrokes Coral Group. I'll just hold on for one second until some people find some seats.

Okay. Good morning. As Chairman, it's pleasing to be able to say the results demonstrate the good progress that we've made in bringing these 2 businesses together. Integration in this scale is never easy, but it's a testament to the executive team that they can report encouraging progress on synergies, on integration and on performance. However, to the board, I have to tell you, this is not a surprise. The businesses have come together well. The leadership has seamlessly gone on with the job in hand and united behind the task of delivering on the promises made to shareholders in supporting the merger. The results also show that in tackling integration, there's been no distraction on delivering the operating business, in line with the commitment we made that delivering our numbers and delivering the merger have to go hand-in-hand. The board will continue to encourage pace in the integration but not at the expense of the day job. We're encouraged by the progress, but we are very alive to the potential challenges that remain. Nonetheless, and despite this caution, what has been achieved so far has reinforced our confidence in the ability of this business and in this leadership team to deliver on the opportunities which are opened up by this merger. As a board, we are very much as one and focused on the future. We support the executive team's plan to build on the scale we now have and in the areas of focus to deliver shareholder value. But I'm pleased to say, and as Jim will outline in his presentation, the commitment to responsible gambling and health and safety remains at the core of all that we do, and the foundations upon which we've tasked the executive to build this business.

So as a short introduction, ladies and gentlemen, thank you for being here. I'd now like to pass over to Jim and Paul. Thank you.

Jim Mullen - ***Ladbrokes Coral Group plc - CEO and Director***

Thank you, John. Good morning, everyone. Nice to see so many friendly faces. Just before we start, for Q&A, you'll find the microphones, for those who are in the auditorium, in the arms of the seats. So just press the button, you can ask the question, so just bear that in mind.

So I'm delighted to be presenting not only the first-ever preliminary results but a strong set of results for Ladbrokes Coral plc today. And that while it may be a first for Ladbrokes Coral, I know it won't be the first time you see this disclaimer slide, so I'll move on quickly. But shortly, I'll be handing over to Paul to take you through the detailed financials of the results. And after a bit more detail from me on the key priorities I had for the group and in the business, I will tell you how we intend to build on the opportunity that the merger presents us, so I'll hand you over to some Q&A then.

So before we do, a small nod to the past. When I last stood here, I talked you through the Ladbrokes' plan based on the 4 pillars and set some clear targets, which should culminate this year. And while we're not updating on those today, I want to reassure you that the numbers reported and the momentum we had in the business would have showed us continuing to make excellent progress against them. So let's turn to the main business of today and the results of now Ladbrokes Coral.

The numbers reflect the reality that back in November at merger, both Ladbrokes and Coral had real trading momentum. We delivered revenue growth, up 11% to GBP 2.3 billion. We delivered operating profit, up 22% at GBP 264 million. And importantly, in the key area of Digital, we saw 33% growth. This performance is more satisfying when you consider that we both traded with 10 months of CMA negotiations to get through. And while we had 2 management teams living with the increased workloads and, frankly, potential clear implications of the merger, we were determined not to let those potential distractions materialize into a negative effect on results, and it is satisfying to say to our shareholders we kept our word. Since day one, it's also pleasing to be able to report the integration continues to move largely to plan. And we've had a few bumps along the way, but that is the reality of any merger. The key is that is on plan, and we are able to announce the deliverable synergies are now estimated to be at GBP 100 million per annum from the end of 2019, with GBP 90 million of those delivered by the end of 2018. All this leaves us well positioned and confident in the ability of the Ladbrokes Coral Group to deliver on the promises we made at the merger announcement.

Now to remind you of what those priorities were, this is the merger rationale we spoke about back in July 2015. The good news is that all of these are relevant today 5 months into the merger as they were back then. There's a focus on faster online growth; using our scale in retail to grow our multichannel and make the estate more sustainable while enjoying the cash that it generates; growing our international portfolio of businesses; and delivering significant cost synergies. In fact, as these results show, we probably underplayed the opportunities we now see and the potential for the group going forward.

Now this slide was recently used when we gathered our top 120 managers together for the first time. They brought home to the team just how big we were, how big we'll become and the size of the opportunity we now have. And make no mistake, as I've said before, scale is important. It helps explain why the market is consolidating, and why in a regulated and heavily taxed sector, the merger was so important. The task for us now is to match that revenue with efficiency, apply the best of each business across our brands and make our size count in the vital online market. And today, as the numbers show, we've got off to a good start.

So where does this confidence come from? Well, it's 150 days since we've been together. The merger saw 2 stand-alone businesses join together. We were actually operating well, performing to a high standard with real momentum in both customer, financial and operational metrics. And since November, we have not seen any discernible impact on trading. And personally, I've spent 150 days really getting to know my colleagues at all levels, the management team and working with them in the business. We have things to do and many priorities to address, such as the transition of the management team in Australia, but our focus has really been just in getting to know the business and getting on with work. As this slide shows, we are well placed in the markets we are in. The businesses are performing well, and that's across all sectors and divisions. And everywhere we operate, we are seeing encouraging signs of momentum.

Now this slide outlines the progress to date with both people and processes. And I won't go through the details at the moment because you'll hear about them later in the presentation. However, some benefits have been immediate, such as the savings and better operations we see on a daily basis through having our retail and trading teams located together. In Stratford we now have one trading team running a dual-brand strategy and competing hard.

In retail, we have an operational management team running 2 brands with all the operational field positions filled, and they were running by the 1st of January, just 8 weeks after the merger. Some of it has been close to realized, particularly the integration of our Digital platform, due once the festivals are out of the way and others more intangible at present, but we expect to come through as we implement new operating procedures and practices. Now is an exciting time to be in this business, and we've been able to manage this while focusing on the day-to-day performance, which I know is top-of-mind of our shareholders.

This has been through a simple division of labor. My task since day one is to be out and about, run the business and learn about that with working with Paul to formulate the strategy which myself, Paul and then the team can take forward. Carl Leaver has been similarly focused. He has been leading on the integration. He has working for him a separate but accountable team who are solely there to deliver the synergy opportunity. And they have made good progress, as the GBP 100 million per annum saving demonstrates. And this is all done in line with our cost at 1.25x as we outlined back in July 2015.

This division of labor means that we are also now operating with a new management team, which is largely settled. We have most of the organization in place or very few are soon to be appointed. And importantly, we are moving from a natural us and them to an us and we, which is important to the esprit de corps and the culture of our company.

Now obviously, whenever we talk about opportunities, we have to acknowledge that this sector also contains risk. Part of the rationale behind the merger was to generate the scale necessary to be better able to withstand the shocks and uncertainties we face, particularly those brought about by regulation. So before I hand over to Paul, I'll just briefly update you on the current regulatory position. It is very clear to everyone in this room that the triennial review is probably a pivotal moment for this industry. The government has called for evidence on matters as diverse as stakes, numbers and locations of machines, impact on social responsibility and measures in the influence of advertising. The industry was given only 6 weeks to submit evidence, and we did. We have not been given any formal guidance yet and above that which was issued in December, but we are still awaiting the publication of the government's proposals around consultation. On the horse racing levy, the government have indicated that they will set a 10% levy across all channels effective from next month, although it yet is unclear if European approval has been given. Our stance is simple: we had already accepted the principle that we should pay the levy offshore, and we will pay the rate that we are legally obliged to do. On AML, it was pleasing to hear in the midst of Cheltenham that the Treasury proposed that LBOs will be exempt from this directive. And most of you will be aware, there is a CMA review of customer offers, terms and conditions. This is an ongoing process, and our view is that regardless of who's singled out for action, there will be an impact for the whole sector. And finally, internationally, we see ongoing activity in Italy and Australia. But as ever, timings around this regulation on some of these coming in remain fluid and to be confirmed.

So now feels like the right time to ask Paul to go through today's numbers.

Paul Bowtell *- Ladbrokes Coral Group plc - CFO and Director*

Thanks, Jim. Good morning, everybody. I'm going to briefly run you through the financial highlights of our first set of numbers.

So let me start by explaining what's on the P&L slide, which is, I'm afraid, not entirely straightforward. On the left-hand side, you have the statutory reported numbers, which represent the results for Ladbrokes plc for 10 months and the results for Ladbrokes Coral Group plc for 2 months. Now those numbers are stated before any nontrading items and also include the results from the 360 shops that we were required to dispose of by the CMA.

On the right-hand side of the chart, you have the pro forma results, which reflect a full 12 months' trading of both businesses for 2016 and 2015. Again, these are before the impact of any nontrading items, and this time, the numbers exclude the results from the 360 disposal shops. The commentary in these slides is primarily based on the pro formas. So as Jim mentioned, net revenue was GBP 2.35 billion, up 11%, driven primarily by the very strong performances in European Retail and Digital. Cost of sales grew marginally ahead of the net revenue growth at 13.5%, reflecting the full year impact of the MGD increase and a higher mix of sports net revenue in Digital than in the prior year, which obviously leads to higher point of consumption tax. Operating costs were 9% up, but that includes an increase in marketing costs of 35% to drive the Digital businesses, leaving operating profit up a very healthy 22%. It's probably easier to see the underlying performance of the pro forma business on the bridge on this slide. On this bridge, we've taken the pro forma FY '15 operating profit of GBP 216.8 million, and we've adjusted it for the impact of regulatory adjustments that have impacted 2016. This reduces the 2015 pro forma number by GBP 15.6 million to GBP 201.2 million.

On the right-hand side of the chart, we've also split out the Euros, which net of marketing costs was worth GBP 15.1 million to the group. This leaves in the middle underlying growth of GBP 48 million or just shy of 24%, which then split by key segments, shows retail down GBP 8.5 million, but very strong growth in European Retail, up 22.1; and Digital, up 33.4.

So let's now have a look at the divisions in a little bit more detail, starting with U.K. Retail. OTC stakes were down 4% as horse racing and greyhounds continue to decline. The Ladbrokes brand, however, posted a better performance than Coral, buoyed by a strong performance on the SSBTs that were rolled out across the estate during 2016. OTC gross win was up 0.7 percentage points at 17.3%, with Coral at 18.2% and Ladbrokes at 16.9%, leaving OTC gross win at flat on the prior year. Now we've now identified the key areas where the Ladbrokes gross win margin has been lower than Coral for the last few years, which primarily revolves around horse racing, and we're already starting to address some of those issues providing a revenue synergy opportunity later this year.

Machines performance was good across both brands, with gross win up 4% and slots now account for 41% of machines' gross win. Cost of sales was up 4% with half of that increase coming from the incremental MGD rate and also the higher machines mix. Operating costs ran at around 3% ahead, slightly more than inflation, primarily as a result of reversing single-manning in the Ladbrokes estate, and this additional cost will annualize in 2017. Overall, retail was down 7%. And whilst the retail environment is no doubt challenging, a combination of cost synergies and our ability to accelerate digital growth through multichannel sign-ups means that U.K. Retail has a vital role to play for the group going forwards.

Turning to European Retail, which I'll remind you consists of Italy, Belgium, the Republic of Ireland and our JV in Spain. We saw a strong performance in each territory, with operating profit up nearly GBP 24 million. Eurobet had a terrific year, with sports stake up 40% or 24% on a constant currency basis, and a very strong sports gross win margin of 18%, up 0.9 percentage points. Now we do expect that margin to normalize this year, and it's fair to say, as we announced in the press release this morning, that the first 12 weeks of this year have been difficult, with gross margin down 14 percentage points across the period. But that will normalize.

Ladbrokes Belgium saw staking levels up 23% or 12% on a constant currency basis, with a strong performance from the Euros and, indeed, SSBTs. Margin, however, was down just under 1 percentage point at 24.4%. We also grew the estate in Belgium from 439 units to 461 by acquiring a number of small independent operators at low multiples but also extending our kiosk business in newsagents.

The Republic of Ireland returned to health after 2015's Examinership process and reported a profit for the first time in a number of years. And the JV in Spain enjoyed its best year ever as a result of expansion into new regions as sports betting continues to regulate.

Depreciation in European Retail reduced by GBP 5 million in the year as we finished depreciating the Eurobet Italian retail licenses, as they expired at the end of June. They are now being rolled over on a 6-monthly basis by the government. And as Jim's already pointed out, it's not clear when the license tender will take place. But in the meantime, the return on the original investment continues to improve.

Looking at Digital. Across our Digital businesses, we saw strong growth, with EBITDA up 68% to GBP 112.8 million, as strong active growth across the main sports-led sites led to stakes up 37%. Multichannel continue to be a key driver of Digital growth. Connect customers in Coral contributed over 50% of coral.co.uk's sports book net revenue, and the group's customers contributed over 30% of ladbrokes.com's net revenue.

In Italy, over 35% of first-time depositors were acquired through Eurobet Retail. And in Australia, ladbrokes.com.au's offer allows customers to deposit and withdraw cash directly in and out of their online account in over 1,800 convenience stores. The evidence for multichannel accelerating Digital growth is overwhelming, and Jim will pick up more on this key strategic priority shortly.

Gross win margins were up 1 percentage point to 8.5%, particularly as a result of favorable football results, giving net revenue at GBP 666 million, up 33%. Again, there's an opportunity to drive another revenue synergy here by improving the Ladbrokes margin up to the level of Coral. Of the net revenue, sportsbook was GBP 310 million, which was 51% ahead of last year, with the U.K. up 44%; Australia up 67%; and Italy up 54%. Gaming net revenue of GBP 356 million was 21% ahead, with the U.K. up 20% and Italy, 42%.

Operating costs were up 27% as we grow our businesses, with marketing up 35% or GBP 45 million to GBP 175 million, which represented just over 26% of NGR. I'll give you some guidance on the direction of marketing as a percentage of NGR later on in the presentation.

Now turning to the synergies. And of course, today, we've increased the cost synergy number by GBP 35 million to GBP 100 million from GBP 65 million. We still expect this phasing of the synergies to be 35% in the current year but off the higher target number. Although it's fair to say, the market had anticipated an increase in synergies and was already expecting around GBP 30 million to land in 2017. We now think that 90% of the synergies will be realized in 2018, up from 85%; and the full realization complete in 2019. The split across the divisions is 45% Retail, 45% Digital and 10% Corporate. And this divisional split will be consistent across each of the years.

On the cost to deliver the synergies, as Jim said, we're forecasting GBP 125 million, so within the range we set in July 2015, of which GBP 54 million [sic][GBP 45 million] is CapEx. The phasing of OpEx and CapEx can be seen in the chart on the right-hand side. Of the 2016 spend, we've incurred GBP 39 million and, therefore, we have GBP 27 million of the '16 spend that will come through the cash flow in 2017. We've also touched on several areas where revenue synergies can be delivered, such as margin equalization in U.K. Retail and Digital as well as improving the efficiency of marketing spend in both U.K. sportsbook brands. However, as yet, it's too early to say exactly what those revenue synergies will be worth, and we'll come back to that later in the year.

So how does this all impact the cash flow? Well, the cash flow is based on the pro forma numbers and, as such, I'm afraid it doesn't contain any information on interest, tax or dividends as it wouldn't make a lot of sense on a pro forma basis. However, the cash flow is representative of the underlying operational cash flows going forwards, and I'll provide you with some guidance of the cash impact of the excluded items for 2017 later on. Depreciation was broadly flat and should continue at around these levels. It may be slightly higher in 2017 as, obviously, we invest CapEx in the integration.

Working capital last year benefited from the timing of duty changes in 2015; and in 2016, from various items associated with the transaction itself. But going forwards, we would expect working capital to be broadly neutral. We have a level of underlying exceptionals year in, year out, and I would expect that this sort of level would continue as we go forwards. That's obviously excluding the exceptionals from integration.

CapEx was GBP 15 million lower year-on-year, and there are also some small finance lease payments on SSBT cabinets. The pro forma net debt was just under GBP 1.1 billion, and the net-debt-to-EBITDA ratio was 2.86x. Now we're still very comfortable with our medium-term target of 1.5 to 2x net debt-to-EBITDA by the end of 2018, and we would anticipate net debt-to-EBITDA of around 2.5 by the end of this year as we spend to complete the integration during 2017.

On this slide, I've added as a memo some other cash flow items that are included in the reported numbers, such as costs incurred in completing the transaction, the integration OpEx and CapEx as well as the proceeds from the sale of the disposal shops received in 2016. Some of these cash flow numbers form part of the nontrading items we have reported today. And given the scale of that number, it's worth spending just a minute running through the cash and noncash elements of the GBP 323.6 million we booked in 2016. Now of the total amount of GBP 323 million, less than 1/3 were cash items, and these included the cost of integration of GBP 46.8 million, GBP 35 million relates to the payment to be made to Playtech in 2017 under the agreement struck at the time of the merger and GBP 22.5 million were the costs of actually completing the merger. Now with the exception of the residual integration costs, none of these cash items will recur in 2017. Partly offsetting this was the one-off receipt of a VAT repayment in respect of the Spot the Ball cases finalized by the courts in December last year. The noncash items, which have been excluded from the underlying numbers given their materiality or indeed their nature, consisted primarily of a noncash impairment loss of GBP 192.2 million. Of this amount, GBP 111.6 million has arisen as a result of the decision postmerger to adjust the useful economic life of the Ladbrokes U.K. Retail licenses to 15 years rather than an indefinite life, and this more appropriately aligns the accounting policies of Ladbrokes with Coral. The residual value on the Ladbrokes U.K. Retail licenses is around GBP 300 million, and the ongoing annual charge will continue to be treated as a nontrading item. Assets that are no longer in use or will shortly become redundant as a result of the merger were also written off, amounting to GBP 76.8 million. And furthermore, we incurred an amortization charge of GBP 23.1 million on intangible assets reflected as part of the fair value exercise carried out on the acquisition of the Coral Group. Again, this charge will recur but will be reflected as a nontrading item.

On the next slide, I've set out some key stats for the new group, which I hope you find helpful. The U.K. Retail estate is obviously the biggest in the market, and as I've said, it's playing a key role in helping us establish market-leading Digital growth. That said, this portfolio has exceptional flexibility, helping us ensure that if we do struggle with the regulatory environment over the coming months, with an average lease length of only 3.6 years, we can act quickly if we need to. Both businesses have been rigorous premerger at lease renewals to ensure that that flexibility for the future is built into the operating model. The rent roll in the U.K. is GBP 86 million, and the rates, another GBP 33 million, and it's worth saying that the impact of the new business rates from the 1st of April will be neutral to the business. We employ over 19,000 colleagues in the U.K., with 30% of that workforce being under 25, 48% who work part time, and we have a majority of women working in our U.K. Retail estate, all factors that should not be lost on government.

In Digital, we incurred significant marketing spend, and we are focused on delivering efficiencies to align the effectiveness of that Digital marketing across the U.K. brands, as I've mentioned, and Jim will pick up on this theme in his next section. It's also worth noting that within that spend, we spend GBP 35 million currently in the U.K. on above-the-line TV advertising. And we await the outcome of the triennial review to understand whether any limitations will be placed on that spend. And overall in the U.K., we pay tax of over GBP 550 million, which equates to a tax burden of 75%. That's quite eye-watering when you actually see it in black and white.

A quick update on current trading, which is to the end of the 12th week of the current year, so the week ending the 19th of March. The key highlight was Digital net revenue, up 20%, with sportsbook pleasingly up 34%, which has got to be up there with the best of the market. The sportsbook-led brands had gaming net revenue that was up 12%. But a couple of big winners in Gala meant that overall net revenue for gaming was up 8%. It's fair to say margins have been a bit of a rollercoaster in the U.K. This year, so far, January's football results were very favorable to us, but February and the beginning of March were extremely customer friendly. That said, as has been widely reported, the Cheltenham Festival was one of the best in memory, and that helped pull U.K. margins back into positive territory, being 1 percentage point ahead of last year for Retail and Digital.

U.K. Retail net revenue, however, is 1% behind last year, and that's a function of the continuing decline we see in OTC staking trends of around about 5% to 6%, which is the trend that we've observed really since post the Euros in H2 last year. And the toughest environment, as I've already alluded to, however, has been in Italy, where margins, especially football margins, have been poor against very strong comps this time last year. And that, therefore, leaves the group 2% ahead for the period at net revenue. And without the poor Italy numbers, that would have been nearer 4%.

Now to finish with a few points of guidance that may help you build the models, now that you've got the full year pro formas for 2016. Digital marketing, I'd expect that to be in the range of around 24% to 25%. Obviously, it varies depending on where a particular website is in its evolution. And we won't necessarily be bound by that range if we see certain digital channels that are working really well for us in delivering target or above ROIs. CapEx, I've split that into 4 areas. Underlying base CapEx will be somewhere between GBP 100 million and GBP 110 million. Integration CapEx will be GBP 36 million in 2017, giving GBP 45 million in total. I did say GBP 54 million earlier. That was an error. So it's GBP 45 million of integration CapEx in total as part of the GBP 125 million I discussed on the synergy chart.

The Italian license renewal will cost us somewhere between GBP 30 million and GBP 40 million. But as every day passes, it's more likely that this cost will now fall into 2018. And we're also going to invest in EPOS 2, which Jim will talk about in a moment. This will cost GBP 40 million in total, half of which will fall in '17 and half in '18. Interest costs will be circa 5.5% of our net debt, plus the finance lease cost of around about GBP 5 million. And the tax rate will be 15% for the ETR in the

P&L on an underlying basis, with a corporation tax cash payment of circa GBP 20 million in 2017, plus a GBP 9 million one-off payment reflecting the corporation tax on the VAT repayment we will receive in 2017. On leverage, as I've said, our target remains at a ratio of net debt-to-EBITDA of around 1.5 to 2x by the end of 2018. And we would seek to increase the dividend progressively in the medium term to around 2x dividend cover, but there's no fixed time line on this progression yet.

Finally, we expect the levy to cost us an extra GBP 6 million in 2017, which will annualize to GBP 7.5 million in 2018. And point of consumption on gaming gross win, as a result of free spins no longer being deductible, will impact 2017 by GBP 3.6 million; and 2018 by GBP 10 million to GBP 15 million, depending on the level of mitigation that we're able to deliver.

I'll now hand you back to Jim, who'll talk to you about strategy.

Jim Mullen - ***Ladbrokes Coral Group plc - CEO and Director***

Thank you, Paul. Now I'd like to focus on the future of Ladbrokes Coral and what we see as the key drivers that are going to help us make the most of the opportunity that the merger presents.

But firstly, let's be clear about what Ladbrokes Coral is. We are bookmakers. We are bookmakers allied with an unparalleled expertise in gaming, and they are our core strengths, the ones that sit well with the heritage of Cyril Stein and Joseph Coral. And in building on these strengths, we've identified 5 areas that we'll be aiming our resources and expertise in order for us to grow our business.

The first is tech, as without it, we have no customer proposition. Our marketing expertise allows us to get the product to the right people at the right time and build on our already growing customer base. And as I've said before, marketing without product to back it up is just noise, so we must invest to keep the product relevant and customer- friendly. We have the leading multichannel offer in the sector and also in the wider retail. And it's our international presence and the opportunity we have in expanding and existing in new markets to build a more diversified business. So if we get these right, we'll be giving our customers a great experience, building loyalty and sustainable revenue. And through that, we'll be delivering shareholder value. Now in delivering our business, we have 3 principles which underpin our attitudes. There is a passion for sports. It's in our blood and it's in our heritage and it's in our people, and should not be underestimated when building a group with a strong morale and esprit de corps. And there is a commitment to having a core focus, responsible gambling and health and safety. Again, we have a duty to our people and to our customers, and this is core for our business. So there's no shortcuts in delivering our plans, and these principles must run through everything that we do. So what can you expect from the group as part of our journey?

Now hopefully, there's not too many slides like this, but it does serve a useful purpose today. This picture shows just how our technology structure -- and basically, if I had to sum it up, we control the bits of the tech we want to control, and we use the best third-party technology, when we feel our tech is not as good and theirs is better. And this reason is simple: we're a bookmaker with an expertise in gaming, and we should not be afraid to use the best of other experts in this sector. We are well aware of the perils of trying to play catch-up in this area and the risk that comes with implementation of major technology upgrades, which is why we are happy to partner with experts and share this risk. This slide recognizes the fact that we also recognize that technology is vitally important to the business. So while it explains the principle and the organization, what about the here and now?

Our immediate priority is to move to one digital platform. We're trading in sportsbook in the next few weeks, and we have deliberately avoided the festivals, but we're ready to begin the transition post the Grand National. Hot on the heels of this, there'll be a move to single wallet -- full single wallet for Ladbrokes, allowing the Grid Card to connect to all products, and that gives our customers the ability and the convenience to better experience the benefits that they have, allows us to market to those customers by cross-selling more effectively. This will then be made even more effective when we plug into our Salesforce CRM solution in H2, which will enhance our already marketing expertise. And finally, we are ready with significant upgrades in our retail till systems.

Now this is a prime example of us using tech to deliver competitive advantage. The system was already in development by Coral, but we will step up to get a pilot in H2 and then roll out through 2018. So what is the competitive advantage that this offers? Whilst some are now only just turning into multichannel, we are already at this stage within our till replacements. We are looking to reverse engineer our digital expertise into retail. That means that we can look at improving our capability to have a single view of every customer through the retail estate and enable applications and advance the Digital CRM. It should also help us with the sport customer offers and loyalty, accelerate an already high momentum in our multichannel sign-ups and increase product cross-sell with better customer services. There also is a more immediate benefit of allowing how we can use this technology to help identify customers, even anonymous ones, and their playing patterns with regard to responsible gambling and compliance.

Now a second area of focus is marketing. Now somebody who's cleverer than me said that marketing, obviously, is a tax from having an unremarkable product, and I tend to agree with that. Anyone can spend the money, and there are many ways to do it. The skill really is delivering the marketing smarter and better than your competitors. And again, I make no apologies for saying that while I had to spend my first few years at Ladbrokes, improving our Digital product, Gala and Coral had been rebuilding basic tech systems on their data warehouse. That meant with the added analytics, such as lifetime value predictors and churn prediction, we were able to much more lead on data-led marketing decisions. That allowed us to get better returns on the marketing investment and quantify that across all channels. Now the chart on the left shows the accuracy of this approach in predicting the value of customers recruited through numerous marketing channels. And these models will now be rolled out across the estate, both brands in H2. And because it's plug-and-play, these techniques are tried and tested. We expect the benefits to arrive quickly.

Now the chart on the right explains the optimum marketing mix model. And although it may look like a management consulting chart, which is unlike me, this is particularly exciting. Simply put, it moves us to the next level of analyzing where our spend on marketing should go. And factors regarding data on spend, acquisition and retention, this allows our brand teams to see what channels are offering the best value to reach our most profitable customers. Now this has only just been launched, but we expect it to be in full operation in H2.

Now I suspect that every results presentation you've been to this season will have something like this slide up here. It should basically highlight the importance of product to our sports offer. Now I don't believe in the approach of developing for developing's sake, of loading customers with extra functionality just because we can. Our focus should be on having a great and easy-to-use product. The merger uncertainty meant that some product development slowed. And although our products are good, we need to get the natural cadence back in our product improvement and management. And we have to get that back quickly, because you cannot afford to stand still for long. So once the festivals are over, we intend to actually embed these ideas and eager to get on with implementation. And the first sign will be the functionality of the Grid app brought to you by the Connect account. A perfect example of what the merger offers us in this area: we develop once, we develop quickly and we deploy across both brands.

In gaming, the principle is actually quite simple. We want a wide range of games. We want to be able to offer the best games, ideally with exclusivity, and we want them to have a strong pipeline of development coming through. So we are absolutely agnostic about where we get our games from, but we will look to develop our own. We do have this in-house capability, and we know the customer values and it also brings better margins. However, our scale with the biggest machine estates, our multichannel approach and our sizable online presence also makes us extremely attractive to the best supplier for exclusive deals.

Now if we have a good product, we reason through demonstrable evidence that we can cross-sell. So we'll be harnessing the ability of Coral to cross-sell sportsbook customers into gaming into the Ladbrokes brand. And we will continue to use the internally developed games resource across both brands. We will seek more exclusive content and make it multichannel to attract more players and keep them longer and drive better gross win. As I've said in previous presentations, the yield for those multichannel customers is between 1 and 2x the value of a normal Digital drifted [ph] customer. We will set out to be #1 for any customer to go to in this business for both customers and content partners.

Now as the technology slide, the product slide and the marketing slide all hinted at multichannel as a key strategic advantage for our business, and we are in a clear belief that in Ladbrokes Coral, we are the leading retailers in multichannel not just in this sector. As we said at the time we announced the merger, we thought Coral were probably 12 months ahead with regard to developing the multichannel offer, and Ladbrokes was playing catch-up. So I stand here today with both our retail brands fully committed to the benefit that multichannel brings.

Now this slide is just a way of showing how multichannel works and where the brands are on their respective journeys. Coral enjoy the benefits of a seamless single wallet and Grid Cards in gray shown in H2, the Ladbrokes offer will also be fully accessible on all products and till functionality. So whatever the base, however people want to play, they can use their Connect or Grid Card to deposit, to play and withdraw money, all with a seamless user experience.

Now the key to this slide, as we all know from bookmaking, is to follow the money. And it doesn't take much imagination to work out that if a customer wins GBP 50 and walks out with 0 in his pocket, then when it comes to that evening of televised football, his first choice for a bet will be any app that's on his phone with a positive balance on it. It may even be one of ours. It's simple customer research. However, if he walks out with GBP 50 winnings in his account, as he does on the right, when he comes to his evening football bet, he's more likely to select the account he remembers topping up earlier in the day, and that will be one of ours. This is important as it helps explain why the multichannel performance is so good and why we deliver the yield per player. Now because our experience shows that these customers value the convenience and become more valuable to us, we have already --- we have an already-made affiliate in our front door. We've already made acquisitions too in our colleagues who, for a GBP 20 incentive, deliver us a multichannel customer. We know this works because we have over 1 million customers signed up to date, with nearly 0.5 million of those recruited last year. And when you factor in that these cheaply recruited interested customers are worth 2x more than the average customer, are more loyal, and regularly use the retail estate, you can see why we place such a value on multichannel. It's why we're moving fast to get the Grid Card-enabled machines and SSBTs. It's why we're moving fast to get customer-friendly apps like the Acca tracker on the Coral Connect card and it is why our technological scale and product development mean we can keep this offer fresh.

This also feels like the right time to tackle an elephant that may be in the room, the sustainability of a large retail estate on the U.K. High Street. In reality, the future of the retail estate lies in multichannel. Nobody knows how big the retail estate will be in the future, but no one should be in any doubt that there will be a place for retail. The shops are still popular, our

customers like them, and we generate a lot of cash. The costs, however, are going up. And the High Street is a tough place to do business, with some High Street operators may not make it. As they leave, there will be valuable gross win to be picked up. Linking back to Paul's slide on the rental leases, we have the ability to be agile and shrink the estate, but we also have the skill to survive and pick up when others falter. Now, International has to be a key focus for us. Currently, about 15% of our net revenue comes from outside the U.K., and we would like to see that grow. We have multiple operational models across our international businesses, so we have many different experiences we can export into the market. So while new opportunities may take time to emerge, we will focus on growing the business we have. Australia and Italy are 2 examples of what a local management team can achieve. In Australia, we continue to knock it out of the park, staking up 68%, with net revenue up 67%. And we will continue with a challenge of brand main sets. Constantly, we're looking at innovation and new ways to engage the customer. In Italy, Eurobet as the #2 has a well-established multi-channel offering and a very good market. It's a business model, which is very agile and can respond to rapid changes. We have a great multi-channel business, as shown by Retail net revenue, they are up 36% in constant currency, and Digital, up 48%. The immediate plan for all of our international businesses is simply business as usual. But we will keep looking at new markets, keep refining our operating models and be ready for and when opportunities arise.

So it was a quick overview of where we're focusing our attention and how we look to build this business and deliver sustainable value to shareholders. The merger has got off to a good start. Despite the natural distractions of integration, the business has maintained its momentum. And the opportunities we saw in the merger are still very much there and achievable. We have a simple plan. We will use the best tech available and are agnostic over ownership. Our marketing will be data-driven based on the best returns, not on gut feel or lacking inspired campaigns. And while our multiple brands will continue to offer points of difference to the customers, the engine driving them all will be singular and the same. Our product strategy was to develop once and deploy quickly, and we'll use our scale to secure exclusivity with our partners on content. Multichannel will deliver more valuable customers and drive more value to our Digital business. It will also help protect the High Street presence of our brands. And finally, International will offer up opportunities as and when we are ready to take them. This merger was the start of a journey, and the commitment to deliver against our promises is still central to what we do, as is the belief that we aim to set the standard as a responsible operator and create a good future for our shareholders and our colleagues.

So let me end simply by stating that the value opportunity is still clear, and the management team, now together for over 5 months, are confident in its delivery. Thank you very much.

QUESTION AND ANSWER

Jim Mullen - ***Ladbrokes Coral Group plc - CEO and Director***

We'll start with Q&A. First, again, Ivor. Press on the button.

Ivor Jones - ***Peel Hunt LLP, Research Division - Analyst***

Ivor Jones from Peel Hunt. Apologies, if you've said this already. But if there -- when you have worked out the revenue synergies, are they likely to drop through to the bottom line? Or are they likely to be reinvested in the business? And maybe give us a flavor where they might come from.

Jim Mullen - ***Ladbrokes Coral Group plc - CEO and Director***

We haven't really taken a view on that one yet, Ivor. And so, we still have to work through that as a management team.

Ivor Jones - ***Peel Hunt LLP, Research Division - Analyst***

Should we expect it is a number that you will make some statement about in the future? Or will you just stay, there have been some revenue synergies and they'll be unquantified?

Jim Mullen - ***Ladbrokes Coral Group plc - CEO and Director***

I hope we can be a little bit more transparent than that, but the level of detail we'll go into I think is still up for debate. It's early days. We know where we're pointing at, in terms of revenue synergies. Actions, as I said, are starting to take place, particularly around margin management. But until we've got the evidence really coming through that's starting to have an impact as we get into the latter half of '17 and into '18, it's quite difficult to be definitive at this time.

Ivor Jones - ***Peel Hunt LLP, Research Division - Analyst***

And can we get back to what you said about EPOS? In some ways, GBP 10,000 a shop doesn't sound like you would get much for that, and yet you seem to be saying that it might deliver quite a lot of change. Could you just talk a bit about how the shop might be different after that has been spent in terms of customer experience to your ability to interact with them?

Jim Mullen - ***Ladbrokes Coral Group plc - CEO and Director***

Well, I think, I mean a lot of this technology is actually fairly cost-effective and efficient. When you have an estate of 3,600 shops, then obviously it multiplies. But when we put the new tech in, we will be able to engage in customer behaviors. So we'll be able to recognize behaviors, which are not yet being recorded. Now the 2 benefits of that are, one is, we can offer the right offer and product to those customers, which previously would have been in the domain of the shop manager or the CSA, and also makes us the leading proponent of responsible gambling and responsible operations in the U.K. sector. And I think as an investor, you should be looking at an operation which is setting the standard for responsibility, which should be driving up the value of the business. The third thing I would say is that the implementation of the EPOS platform is the extension now of our multi-channel, where we can now take the digital experience, i.e. offers which are pertinent to user behaviors actually into the retail estate, which is why I make the bold claim that I think we actually lead the sector and retail in multi-channel.

Ivor Jones - ***Peel Hunt LLP, Research Division - Analyst***

If the FOBTs, the SSBTs and the tills are already connected to a system and they recognize Connect cards or Grid Cards, then you already have the data to track player behavior and make offers to them, what's missing in the current plan?

Jim Mullen - ***Ladbrokes Coral Group plc - CEO and Director***

They're not yet overtly connected up to give the full single view, and that's coming in the EPOS system. And then the other main EPOS system is like the central ledger, where all that information is collected. So the new EPOS till system will allow us to do that and Coral, which will then move into Ladbrokes system.

Paul Bowtell - ***Ladbrokes Coral Group plc - CFO and Director***

I mean, we don't know how many retail customers we have because we don't count them. But our best estimate is that we are probably somewhere at around a 40% mark penetration in terms of Connect and the Grid. Connect, obviously, slightly higher because it's been going a bit longer, and the Grid fast -- catching up fast. And just to your point on cost, I had a similar concern when we went through the CapEx, but actually apparently you can buy facial recognition cameras for GBP 8, if you fancy one.

Ivor Jones - ***Peel Hunt LLP, Research Division - Analyst***

A camera lens. And sorry, last one. Again, apologies if you mentioned it. How much revenue on the machines is coming from B3 content? What was the dynamic there through the -- because it's hard to see with the merger?

Paul Bowtell - ***Ladbrokes Coral Group plc - CFO and Director***

So slots content in total is around 41%, as I think I mentioned in one of my slides. And B3 of that would be around mid-30s, 35%, 36%, something on that order.

Ivor Jones - ***Peel Hunt LLP, Research Division - Analyst***

Was that growing after the...

Paul Bowtell *- Ladbrokes Coral Group plc - CFO and Director*

Yes, that's growing. Yes.

Jim Mullen *- Ladbrokes Coral Group plc - CEO and Director*

Gentleman over there.

James Ainley *- Citigroup Inc, Research Division - Director and European Hotels and Leisure Analyst*

James Ainley from Citi. In the interim and ahead of giving us some more color on those revenue synergies, how should we think about normalized margins for the combined group in 2017? And then secondly, what's your sort of strategy on free bets post the tax changes?

Jim Mullen *- Ladbrokes Coral Group plc - CEO and Director*

Is this free bets in relation to machines?

James Ainley *- Citigroup Inc, Research Division - Director and European Hotels and Leisure Analyst*

In Gaming.

Jim Mullen *- Ladbrokes Coral Group plc - CEO and Director*

In Gaming.

Paul Bowtell *- Ladbrokes Coral Group plc - CFO and Director*

Shall I do the first one?

Jim Mullen *- Ladbrokes Coral Group plc - CEO and Director*

Yes.

Paul Bowtell *- Ladbrokes Coral Group plc - CFO and Director*

A smart way, James, to try and get me to give you a revenue synergy number, so I'm going to resist that temptation. But look, you can see the gaps in between margins. It's quite dangerous just taking a single point in time because, obviously, there's volatility in both Coral margins and Ladbrokes margins. So just looking at the delta, it's a starting point, but I wouldn't say that's necessarily how you would try and get to an answer. Clearly, though, there's no reason. What we have learned between the 2 retail estates and the digital businesses, they are fundamentally very, very similar, in terms of customer profile, in terms of spend per head. I mean, there are some differences and that's good because we can learn from both brands. But fundamentally, there's no reason why the gross win margins, unless we choose to make them different by different market positionings, can't equalize over time.

Jim Mullen *- Ladbrokes Coral Group plc - CEO and Director*

On the Gaming free bets, which, obviously, I think Paul may have referenced in the model, until we actually work it through, we should not look at it as a binary impact because there's much you can do with regard to product and offers, particularly if you're offering better value through multichannel. So the free bet impact, we think we're probably in one of the better positions to manage that with regard to the overall product that we can offer.

Paul Bowtell - ***Ladbrokes Coral Group plc - CFO and Director***

We've got a lot of focus. We talked for some time now on both the Coral side and the Ladbrokes side about exclusive and differentiated content that tends to ensure that you don't necessarily need free bets so much because you get a longer lifetime play anyway because customers can't get those products elsewhere, and we'll look to continue to grow that differentiated content. We focus very hard on the CRM, on tracking how players move around the site and try to enhance what we offer them next. You remember, we talked about predictive lifetime models and churn models. So we have a lot of information about when a customer might be about to lapse, and that enables us to then offer a game that might be very relevant to them than just offering some sort of blanket offer. So I think it's about becoming more sophisticated around the CRM, a next best action, and very much about trying to ensure that we increase the level of differentiated and exclusive content to keep them longer with us and not rely so much on free bets.

Jim Mullen - ***Ladbrokes Coral Group plc - CEO and Director***

I think that I was actually 14 references to multichannel in my presentation, which should demonstrate its importance. I mean, if you want to actually translate multichannel, there's a method of recording data for customers' behaviors. And at the moment, there may be games where there's a yield opportunity that we're not aware of, multichannel presents that to us. Gentleman, over there.

Edward Young - ***Morgan Stanley, Research Division - Equity Analyst***

It's Ed Young from Morgan Stanley. I'm going to give you 15 opportunities about multichannel. You signed up 1 million customers. You said that may ballpark 40% penetration, ballpark 500,000 a year. Is it fair to say it's sort of at least it's sort of a couple of more years to run at the kind of rate you were going, because you spoke about the long-term benefits in terms of churn, in terms of everything else, but clearly it's also in the short-term a very cheap digital acquisition tool so that should fuel digital growth. But is that how you see the multichannel side going forward for the next year or 2?

Jim Mullen - ***Ladbrokes Coral Group plc - CEO and Director***

Yes, actually, I'm glad you asked the question, because I wanted to make the point. I mean, a million multichannel customers, the retail estate is a lot. And sometimes you would look at it and think, well, how could we reach the ceiling. If you look at the Coral Connect sign ups, which has been a huge success, there are over 600,000 signed up multichannel customers, I think. And if you look at Ladbrokes, I don't think the Ladbrokes brand has yet hit 0.25 million. If you then couple that with the exit rates of 2016, where Connect was signing up 5,000 per week, and the yield is still above 1x, then there's still some way to go with regard to the opportunity that multichannel can to be a catalyst for Digital, which is one of the reasons why the EPOS is so important because we feel we have stolen a march on our competitors in multichannel. EPOS allows us to circle the retail to the digital experience.

Edward Young - ***Morgan Stanley, Research Division - Equity Analyst***

And the second question, if I might, on Australia. You talked about briefly saying, obviously, you're very happy with the performance there this year. Can you talk a little bit about how you see this year and the years ahead? Obviously, there's been some management change there. There's potential regulatory headwinds in terms of POCT, everything else. Can you just talk about how you see the growth in that market and where you see it going?

Jim Mullen - ***Ladbrokes Coral Group plc - CEO and Director***

Yes, we're not long back from Australia, we've just spent just a little over a week over there with the new management team and appointing the Chief Executive. A lot of those days the new Chief Executive has been with us. Jason Scott has been with the steering team for the 6 years since we did the deal -- 5 years since we did the deal, and the management team have been there for the medium to long term as well. With regard to the strategy for Australia, I mean, frankly, we have been delighted with the growth rates that we have there and we didn't see as an executive any reason to change that. Now we might get to a point if we are seeing a slowdown in that growth in stakes that we may decide to change the approach. But we decided that, that wasn't the case at the moment. With regard to POCT, obviously, with, in Australia you're seeing in one of the territories a 3% impact on POCT. And it's been announced that that might spread across the estate. If that happens, we'll deal with it. We have some mitigating plans in place to address that, but we're just waiting for the regulators to give us some more information.

Alistair Ross - ***Investec Bank plc, Research Division - Research Analyst***

Alistair from Investec. Just in terms of your footfall, it looks like you've managed to get 40% of your footfall across into omni-channel. It looks like after synergies, your profit per shop is going to be the highest in the High Street. And in terms of your mix of machine gaming, it looks like B3 41% is higher than your peers. Can you just talk about competitive advantage versus William Hill in terms of triennial review?

Jim Mullen - ***Ladbrokes Coral Group plc - CEO and Director***

In terms of triennial review? Quite right, Alistair. So I think if you look at the B3, which is around 35%, which is the number which is there, and I keep going back to this base strategy of multichannel, if you are coming into a Ladbrokes Coral shop, then there are advantages through customer loyalty of actually playing the B3 slots for those growth rates to continue, and we expect them to do so against the competitors, which is why multichannel is so core. So I wouldn't want to comment on other competitors, but we feel we have a reason why we can continue with the growth rates of our Coral machines estate.

Paul Bowtell - ***Ladbrokes Coral Group plc - CFO and Director***

I think also given that number of multichannel customers -- and remember, they're not all active at any one point in time, just to keep it a little bit measured, but they have the capability of playing as a monitored customer already. And so whatever happens, if there's a hard limit, then fine, won't help. But if it's a soft limit that requires monitored play above the soft limit, then clearly it has to be an advantage to already having 40% potential of your retail customers who already have the ability to play above whatever level might get set, if that's the way it goes. So yes, I do think it's an advantage.

Alistair Ross - ***Investec Bank plc, Research Division - Research Analyst***

And just on your profit per shop. Is your strategy, let's say the outcome is very punitive and there are shop closures. Is your strategy to wait that out, and basically let your competitors close shops and you mop up market share?

Jim Mullen - ***Ladbrokes Coral Group plc - CEO and Director***

Well, firstly on your triennial, it's entirely speculative. But we've obviously prepared of what might happen in certain scenarios. I think the benefit of having scale and so many multichannel customers where we know the yield per customer, then have the data available to us, basically, which we believe to back up gross win, where some of our competitors may have to get that up. So we feel we have an opportunity to do so.

Alistair Ross - ***Investec Bank plc, Research Division - Research Analyst***

And then my last one, just quickly, and apology if you mentioned this during the presentation. Just if your Eurobet growth in margins were normal, what current trading would group be seeing?

Paul Bowtell - ***Ladbrokes Coral Group plc - CFO and Director***

It's worth, it's hit us for about 2 percentage points, so it will be 4. Gav?

Gavin Kelleher - ***Goodbody Stockbrokers, Research Division - Investment Analyst***

Sorry. Gavin from Goodbody. Just a few for me, please. Just on the Retail estate. Let's assume that the status quo remains in Retail. How many shops would be, let's say, unprofitable or marginally profitable at the moment? And how would the estate grow or decline over the next few years, so absent of the triennial review?

Paul Bowtell - ***Ladbrokes Coral Group plc - CFO and Director***

So currently, we've got around about 200-or-so shops that are unprofitable at the moment, so less than 10%. Obviously, the synergies will change that dynamic, which again has to be a competitive advantage. But it's fair to say, as penetration of multichannel both through the Connect card and the Grid Card increases, will we have 3,664 shops in 5 years, 10 years? Well, no, I think that's probably unlikely. And that's why I emphasized the importance of having very -- a lot of flexibility in the lease portfolio. There'll be certain shops that will be in for 15, 25 years, of course there will be, where we see high footfall, and we have some very profitable shops. But those shops that are more marginal, we can trade our way out of pretty quickly.

Gavin Kelleher - ***Goodbody Stockbrokers, Research Division - Investment Analyst***

And so just on the gross win margin point, do you see any impact on amounts wagered from bringing the Ladbrokes gross win margin up?

Paul Bowtell - ***Ladbrokes Coral Group plc - CFO and Director***

I mean, there might be some small impact. I think one of the areas that we're looking at is how the 2 brands differ in terms of monitoring customers, trying to ensure that we weed out that business. So there might be a small impact, Gav, yes.

Gavin Kelleher - ***Goodbody Stockbrokers, Research Division - Investment Analyst***

Just finally, on the 5% to 6% decline in retail OTC stakes like-for-like, do you think there's a cannibalization there from the success you're seeing in multichannel that's driving a bit of it. How is underlying horseracing doing? Is it still quite weak here today, I presume, and greyhounds as well. So could you just -- what is driving that 5% to 6%? And when will we kind of see an improvement or a leveling-off?

Jim Mullen - ***Ladbrokes Coral Group plc - CEO and Director***

I think everyone's aware the horseracing and the greyhound product is in decline anyway, we know that, which we're supporting by SSBTs in football. Is there a cannibalization, yes, there will be. It's hard to put a number on it, and that's why we keep talking about the yield points. As long as the yields of those customers is about what we're normally expecting, then there will be a level of cannibalization there.

David Jennings - ***Davy, Research Division - Gaming and Leisure Analyst***

David Jennings, Davy. Just one question, please. I was just wondering what your view is on the scope for further M&A? And what your strategic priorities would be? And any deals that you might look at from here?

Jim Mullen - ***Ladbrokes Coral Group plc - CEO and Director***

Good question, David. With regard to M&A, we are entirely focused on delivering the merger, so we have the great momentum at the moment. The whole Executive team is really about delivering on the promises. Been a ninth [ph] 5 months ago, we have to go down to shareholders and make all these promises, and we believe that we've delivered so far. However, that does not stop us keeping our eyes and ears open to what's out there in the market, and we will continue to do that because we have a gist it [ph], but the focus is on the integration.

Paul Bowtell - ***Ladbrokes Coral Group plc - CFO and Director***

I think I'd just add one thing as well, David. I mean, it's also important to demonstrate the delevering characteristics of this model. We're very confident. I've reiterated the targets around net debt-to-EBITDA this morning. But I think we need to demonstrate that before we start casting our eyes onto rounds of M&A.

Roberta Ciaccia *- Berenberg, Research Division - Analyst*

It's Roberta from Berenberg. Just one question from me on the point of deleveraging. Have you taken into account -- have you looked at what the deleveraging potential would be? And are you comfortable with your 1.5x, 2x net debt-to-EBITDA, even assuming a negative regulatory scenario?

Paul Bowtell *- Ladbrokes Coral Group plc - CFO and Director*

Well, it's quite a wide range, so we've given ourselves a little bit of wriggle room there. And I think, we feel that the model should delever, probably, over half a turn a year once we've got through the integration. I mean, it's a little bit of a difficult question to answer because we don't know what will happen, but we've got enormous headroom in our covenants, and I think we are in a better place to handle anything the government chooses to throw at us than the competition, given the synergies that we've got available to us, given our scale, as Jim has talked about, and the fact that maybe we can take a slightly bolder view as and when --- if we have to close shops, we can do that, maybe a little bit slower than others, given our scale and our profitability per shop. So it's not something that concerns me.

Jim Mullen *- Ladbrokes Coral Group plc - CEO and Director*

Richard?

Jeffrey Harwood *- Stifel, Nicolaus & Company, Incorporated, Research Division - Analyst*

Jeffrey Harwood from Stifel. 2 questions. First of all, looking at the increase in the synergy figure, that's obviously focused on the Digital division. Could you give some further details? And secondly, on the equalization of the gross margin, that presumably must be a bit more than just horseracing margins?

Jim Mullen *- Ladbrokes Coral Group plc - CEO and Director*

Just on the gross margin, yes. It is more than just horseracing margins. It's a mixture of product mix and, of course, bet and play, et cetera. And so it's a good question because it's not entirely binary. What I will say on the gross margin, though, is that obviously with both brands, we reserve the right to, if we wish to invest margin in other product in a particular brand, we can do that. Bear in mind there are 2 shops in the local High Street. And one of the reasons for the merger was to get that differentiation in the local market, so we will be doing that one in the margin. Synergies?

Paul Bowtell *- Ladbrokes Coral Group plc - CFO and Director*

Yes. I mean, it's no one single thing, Jeffrey. I mean, as we've got under the bonnet, I mean, just looking at the list I've got in front of me here, it's primarily nonpeople cost synergies. Procurement plays a big part in bringing contracts together, combining properties. We've both got property, for example, in Manila doing customer service, price feeds, licenses. We had 5 licenses in Gibraltar between us, we don't need 5. So it is right across the patch. But as you rightly say, originally, I think we said 60% of the 65% would come from Retail and 30% from Digital. And we're now saying 45% of the 100% will come from Digital. So that's been the area where we've been able to get a lot more granularity than we could have done before we merged.

Jim Mullen *- Ladbrokes Coral Group plc - CEO and Director*

Richard?

Richard Stuber *- Numis Securities Ltd., Research Division - Analyst*

Richard Stuber from Numis. A couple of questions, please. One on Italy. Could you just give a bit more color in terms of how the license renewals work? Are you expecting the same number of licenses to be issued by the regulator as before? Anything, anything around that? And the second question, just really with regards to the content feeds in shops. Obviously, you're not having to put horseracing content on a lot of the --- several of your racings, are you expecting that to change anytime soon?

Jim Mullen - ***Ladbrokes Coral Group plc - CEO and Director***

Good question on Italy. Obviously, there is an internal government movement in Italy, which basically means that all of the other bodies within that government department have to be formed together. So it's probably going to wait until election and then the new bodies will come together. So it's a long way of saying, we are keeping in touch with the government. We are still waiting for some direction of when the regulation will come through to deliver the tender, which is why Paul referenced that it would be late in the year and into 2018 on Italy. And then on the content cost, I assume that you're talking in relation to the art content in general. We are -- I've spoken with the Chief Executive about -- both our chairmen have spoken together. The relationships are good, but we have a commercial dispute. And we are all acting like gentlemen, I think that by the end of this year without giving any time lines, I think we need to get that resolved. The impact has been de minimis on the business. But obviously, the main point is customers are coming into the shops, and some racing they want to see which is not on. So I'm sure that when sensible minds come together, we will get that resolved.

Paul Bowtell - ***Ladbrokes Coral Group plc - CFO and Director***

Currently, for us it is profit-enhancing. James?

James Ainley - ***Citigroup Inc, Research Division - Director and European Hotels and Leisure Analyst***

Just one more, please. On the European Retail businesses. Can you talk about how you plan to grow the number of licenses across the piece? And can you maybe elaborate a bit more on the multichannel offering in those European markets?

Jim Mullen - ***Ladbrokes Coral Group plc - CEO and Director***

Well, obviously, the Italy tender process is June, so that will be one of the main reasons why we can increase the licenses there. And also, both in Italy and Belgium, our MDs there are quite aggressive in opportunities. And numerous other small estates come out with private owners, which they participate in. And over a period of time, a number of them, that can be quite a large estate. So we intend to do that. We're also seeing, quite encouraging, that the stakes in both the Belgian and Italian business, obviously subject to margins in Italy, the stakes are growing. So we're encouraged by the underlying performance. So we think that allied to more licenses we will see an improvement and a growth in our European businesses.

James Ainley - ***Citigroup Inc, Research Division - Director and European Hotels and Leisure Analyst***

The second part was just on multichannel, if you can elaborate on that, in the European businesses?

Jim Mullen - ***Ladbrokes Coral Group plc - CEO and Director***

Well, in Italy, the multichannel approach is actually -- has been there from the beginning with our models, our franchisee model, which is delivering value. And we've just started the multichannel approach in Belgium from the learnings that we have here in the U.K., so we're implementing that this year. There is no reason why, because of the Italian experience and success in U.K., that the Belgian multichannel offer should fail. So we're encouraged by the early signs. One more? Are we done? Anyone on calls? Two? Okay.

Operator

Yes. We'll take our first question from Patrick Coffey from Barclays.

THOMSON REUTERS

Patrick Coffey *- Barclays PLC, Research Division - Director*

Yes. I've got 3 questions, I'm afraid. Firstly, I think just following up on the question on M&A, that International is 15% of the business. What do you think International will be in the next 5 years? And what's the strategy for diversifying risk away from the U.K? Second question on multichannel. I appreciate that all the benefits of lower churn, higher value, greater loyalty, et cetera. But again, if we take a 5-year view, is it really sustainable to have retail margins more than 2x the gross win margins in online? And then finally, on properties. I assume you all have a press release ready in press for the triennial review. Is it possible at all to provide any guidance on the impact of a change in the max stake to say, GBP 50, GBP 10 or GBP 2?

Paul Bowtell *- Ladbrokes Coral Group plc - CFO and Director*

Thank you, Patrick. Congratulations as well on your new arrival. Yes, I mean, Patrick, we don't have a specific target in mind. All we do have across our 4 territories at the moment is different models. So as Jim said, Italy is a multichannel-led franchisee model, so we don't have the fixed cost. We've found Italy to be hugely successful. And to be #2 in the market, I think, actually it's testament to the multichannel strategy. And you're seeing lots of competitors who've just gone in with an online offer and have really failed to make any inroads whatsoever. So I think that model has done us well and could be a model that we could use, whether that's in Eastern Europe, whether that's in Latin America. That's all under investigation. We'll keep that moving along. Equally, the Belgian model is slightly different, but very successful. As Jim has alluded to, we have a good JV in Spain with a partner, and that's another model we could look at. So I think we have flexibility in approach. But as yet, I mean, it's early days. We are focused on delivering the benefits of the integration, demonstrating that the model delevers. And so work at the moment is kind of limited to desktop analysis. As and when we've got a clearer sense of where we might head, that would really be the time to start putting any sort of targets out there, if they're appropriate. I'm not convinced yet that having a target of revenue from International in the U.K. is necessarily appropriate, but we'll see in time.

Jim Mullen *- Ladbrokes Coral Group plc - CEO and Director*

And Patrick, just on multichannel, I mean, there is still significant way to go with regard to the opportunity for multichannel and retail. I mean, the Q4 '16 run rates are still 5,000 per week. In the Coral estate, we have over 600,000 sign-ups. In the Ladbrokes estate, less than 230,000. There is still some way to go. And the point you made about the gross win and the gross win margins, it's actually interesting to look back at the CME process, we went and we asked our customers what was the reason why they would win some estate, and it's not usually margins or price, it's location. And one of the other benefits I keep talking about is that we have 3,600 locations where people can actually go, place a bet, pick up their cash or their winnings through the multichannel. So it gives convenience which again, probably 18th time I've mentioned multichannel, but is important. On FOBTs, you make an excellent point on what post a triennial result will come out with, the impact on stakes at different levels and spend speeds. However, it is entirely speculative of what the triennial will come out as, and I don't want to entertain anything that would change the status quo. As I've said before, this was a call for evidence, and based on the evidence, then the status quo should remain, because that does not impact problem behavior. We are assuming that position. If that changes, we'll be asking why.

Operator

We take our next question from Phillip Bagguley from BNP Paribas.

Phillip Bagguley

I just wanted to ask you about your statement earlier that the triennial review doesn't concern you with respect to your leverage target for 2018? On the numbers we got today, it looks like B2 gross win is about GBP 530 million in the U.K. retail estate. And at a 65% margin, that contributes about GBP 350 million to annual EBITDA. So with net debt looking to stay more or less the same, I guess the cash outflows in the coming months to sort of stay 2x levered on GBP 1.1 billion of net debt, you'd have to do about GBP 500 million EBITDA? So how can you --- how can we sort of bridge that GBP 465 million of incremental EBITDA to get to that target?

Paul Bowtell *- Ladbrokes Coral Group plc - CFO and Director*

I know this is your favorite topic, and it's quite interesting...ish. I think, look, I mean, the reality is that when stakes were effectively reduced from GBP 100 to GBP 50, it cost the Coral business about GBP 12 million. So combined, it would've cost us GBP 25 million, so I just don't get the maths. Our covenant comes down to 3.5x mid-2018. It's 4.25x before that. We've just announced an increase in synergies. Our Digital business is growing 33%. I mean, it's just poppycock, frankly.

Phillip Bagguley

I guess, on the GBP 50, the GBP 50 stake, I guess there were only about 8% of B2 stakes that were about GBP 50, whereas now I think it's 73% of B2 stakes that are above GBP 20? So I was just asking to understand how you can mitigate or migrate some of that revenue and...

Paul Bowtell - ***Ladbrokes Coral Group plc - CFO and Director***

Why don't we take it offline because every single figure you just quoted is wrong.

Jim Mullen - ***Ladbrokes Coral Group plc - CEO and Director***

Yes. I think that's one for a conference or a meeting.

Paul Bowtell - ***Ladbrokes Coral Group plc - CFO and Director***

Pop around, and we'll go through the maths.

Jim Mullen - ***Ladbrokes Coral Group plc - CEO and Director***

Any more on -- any more calls? Any more in the audience? Folks, we're happy to close. Thank you very much. Cheers.