

IFRS 16

17 July 2019

Overview / Basis

The new financial reporting standard for leases, IFRS 16, applies to financial periods commencing on or after 1 January 2019. For leases previously classified as operating leases, a right of use asset and lease liability will be recognised going forward.

Following a detailed review, the Group intends to adopt the modified retrospective approach. This will mean that the Group will not restate comparative periods. In applying the modified retrospective approach, the Group has elected to use the following practical expedients proposed by the standard:

- The right of use asset for all leases is recognised at an amount equal to the liability plus prepaid lease payments immediately before the date of initial application;
- The application of a single discount rate to a portfolio of leases with reasonably similar characteristics. The key differential considered in determining the discount rate will be the length of the lease;
- The use of hindsight when determining the lease term, if the lease contains an option to extend or terminate the lease; and
- On initial application, initial direct costs are excluded from the measurement of the right of use asset.

IFRS 16 will have a material effect on the Group's reporting, primarily in the UK Retail and European Retail segments. In addition, due to the nature of the Group's Retail estate and lease renewal profile, the adoption of IFRS 16 is expected to cause volatility in underlying EBITDA and operating profit, the key profit measures used by the Group historically.

As such, in order to assist in understanding the underlying profitability of the Group, EBITDAR¹ will also be used going forward. EBITDAR, unlike operating profit and EBITDA, is unaffected by the change in leasing standards, and therefore removes the volatility likely to arise under IFRS 16. The additional disclosure of EBITDAR is intended to compliment the use of EBITDA and operating profit and not replace them.

Whilst comparative information has not been restated under the modified retrospective application of IFRS 16, EBITDAR remains unaffected and, therefore, in order to aid comparison with previous years, the proforma information for 2016 to 2018 has been reissued to include the disclosure of EBITDAR.

[1] Earnings before interest, tax, depreciation, amortisation and rental costs

Guidance

IFRS 16 will have a material effect on the Group's existing profit metrics. Based on our current anticipated response to the Triennial Review, the expected impacts are as follows:

- Online EBITDA c£10m higher
- UK Retail EBITDA c£70m higher with certain rent related costs remaining in the Income Statement
- European Retail EBITDA c£10m higher
- Group Depreciation and Amortisation c£60m higher
- Group Finance costs c£15m higher
- Group Profit before Tax c£15m higher

Balance sheet anticipated impact:

- Net debt c£380m higher (The banking definition of net debt is not impacted by IFRS 16)

Cashflow is not impacted.

Any changes to current expectations on closures and / or a change in the proportion of expired leases would result in a different impact to that stated above.

The full impact of IFRS 16 on the Group, which is in line with the amounts disclosed in the 2018 Annual Report, will be disclosed as part of our interim accounts, which will be released on 15 August 2019.

Total Group

	Proforma ¹ £m								
	2018			2017			2016		
	H1	H2	FY	H1	H2	FY	H1	H2	FY
NGR	1,717.0	1,854.4	3,571.4	1,591.0	1,697.1	3,288.1	1,502.9	1,495.9	2,998.8
Revenue	1,694.3	1,829.3	3,523.6	1,572.8	1,674.8	3,247.6	1,490.9	1,481.8	2,972.7
Gross profit	1,163.4	1,241.0	2,404.4	1,098.2	1,158.1	2,256.3	1,049.6	1,028.8	2,078.4
Contribution	923.0	1,016.8	1,939.8	908.9	963.9	1,872.8	884.8	880.2	1,765.0
<i>Contribution margin</i>	<i>53.8%</i>	<i>54.8%</i>	<i>54.3%</i>	<i>57.1%</i>	<i>56.8%</i>	<i>57.0%</i>	<i>58.9%</i>	<i>58.8%</i>	<i>58.9%</i>
Operating costs ²	(516.6)	(558.9)	(1,075.5)	(538.6)	(556.1)	(1,094.7)	(544.3)	(579.9)	(1,124.2)
Underlying EBITDAR	406.4	457.9	864.3	370.3	407.8	778.1	340.5	300.3	640.8
Rent	(56.9)	(52.1)	(109.0)	(56.2)	(55.4)	(111.6)	(58.5)	(58.9)	(117.4)
Underlying EBITDA³	349.5	405.8	755.3	314.1	352.4	666.5	282.0	241.4	523.4
Share based payments	(6.0)	(5.7)	(11.7)	(11.5)	(9.2)	(20.7)	(9.2)	(22.6)	(31.8)
Depreciation & amortisation	(66.1)	(75.6)	(141.7)	(67.6)	(69.4)	(137.0)	(77.9)	(69.1)	(147.0)
Share of JV income	0.5	7.7	8.2	1.9	3.4	5.3	2.0	3.9	5.9
Operating profit	277.9	332.2	610.1	236.9	277.2	514.1	196.9	153.6	350.5

[1] The Group's proforma results are presented as if the current Group, post the acquisition of Ladbrokes Coral plc, had existed since 1 January 2016. As such, it excludes the results of the Turkish business which was discontinued during 2017 and the 360 shops that the Ladbrokes Coral Group plc was required to divest on the merger of Ladbrokes PLC and the Coral Group. The results of Crystalbet and Neds are included from the dates of acquisition (11 April 2018 and 28 November 2018 respectively) and the results of Kalixa are excluded from the date of disposal (31 May 2017)

[2] Operating costs exclude Rent (as defined by IFRS 16)

[3] Stated pre separately disclosed items and share based payments

	Proforma ¹ £m								
	2018			2017			2016		
	H1	H2	FY	H1	H2	FY	H1	H2	FY
Sports wagers	4,905.6	5,345.8	10,251.4	4,533.8	4,563.2	9,097.0	3,828.4	4,065.7	7,894.1
Sports margin	10.4%	10.7%	10.5%	9.2%	11.0%	10.1%	8.8%	9.0%	8.9%
Sports NGR	393.1	442.3	835.4	317.2	395.3	712.5	260.5	285.1	545.6
Gaming NGR	489.7	566.0	1,055.7	432.1	437.8	869.9	362.5	372.7	735.2
B2B NGR	12.6	11.4	24.0	9.4	11.0	20.4	7.2	8.3	15.5
NGR	895.4	1,019.7	1,915.1	758.7	844.1	1,602.8	630.2	666.1	1,296.3
VAT/GST	(22.7)	(25.1)	(47.8)	(18.2)	(22.3)	(40.5)	(12.0)	(14.1)	(26.1)
Revenue	872.7	994.6	1,867.3	740.5	821.8	1,562.3	618.2	652.0	1,270.2
Gross profit	597.1	667.9	1,265.0	518.7	565.1	1,083.8	435.8	451.7	887.5
Contribution	364.2	452.2	816.4	339.2	378.7	717.9	289.6	317.2	606.8
<i>Contribution margin</i>	<i>40.7%</i>	<i>44.3%</i>	<i>42.6%</i>	<i>44.7%</i>	<i>44.9%</i>	<i>44.8%</i>	<i>46.0%</i>	<i>47.6%</i>	<i>46.8%</i>
Operating costs ²	(147.5)	(171.8)	(319.3)	(146.4)	(154.6)	(301.0)	(142.2)	(168.7)	(310.9)
Underlying EBITDAR	216.7	280.4	497.1	192.8	224.1	416.9	147.4	148.5	295.9
Rent	(5.8)	(5.6)	(11.4)	(5.1)	(4.9)	(10.0)	(4.9)	(4.8)	(9.7)
Underlying EBITDA³	210.9	274.8	485.7	187.7	219.2	406.9	142.5	143.7	286.2
Share based payments	(2.1)	(0.7)	(2.8)	(4.0)	(2.2)	(6.2)	(1.3)	(16.5)	(17.8)
Depreciation & amortisation	(38.2)	(44.0)	(82.2)	(33.7)	(34.2)	(67.9)	(34.5)	(32.8)	(67.3)
Share of JV income	(0.3)	0.8	0.5	(0.4)	0.5	0.1	(0.7)	(1.7)	(2.4)
Operating profit	170.3	230.9	401.2	149.6	183.3	332.9	106.0	92.7	198.7

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[3] Stated pre separately disclosed items and share based payments

UK Retail

	Proforma ¹ £m								
	2018			2017			2016		
	H1	H2	FY	H1	H2	FY	H1	H2	FY
OTC wagers	1,562.9	1,521.6	3,084.5	1,702.9	1,641.2	3,344.1	1,884.3	1,791.6	3,675.9
OTC margin	17.9%	18.0%	17.9%	17.9%	18.5%	18.2%	18.2%	16.5%	17.3%
OTC NGR/Revenue	277.1	270.2	547.3	299.7	302.1	601.8	336.5	292.2	628.7
Machines NGR/Revenue	387.5	393.2	780.7	397.5	391.8	789.3	402.0	400.4	802.4
NGR/Revenue	664.6	663.4	1,328.0	697.2	693.9	1,391.1	738.5	692.6	1,431.1
Gross profit	476.9	475.3	952.2	507.7	499.7	1,007.4	539.0	503.3	1,042.3
Contribution	474.4	473.9	948.3	501.9	495.7	997.6	524.2	492.1	1,016.3
<i>Contribution margin</i>	<i>71.4%</i>	<i>71.4%</i>	<i>71.4%</i>	<i>72.0%</i>	<i>71.4%</i>	<i>71.7%</i>	<i>71.0%</i>	<i>71.1%</i>	<i>71.0%</i>
Operating costs ²	(302.0)	(305.9)	(607.9)	(324.2)	(324.3)	(648.5)	(327.1)	(335.8)	(662.9)
Underlying EBITDAR	172.4	168.0	340.4	177.7	171.4	349.1	197.1	156.3	353.4
Rent	(46.6)	(42.1)	(88.7)	(46.7)	(45.8)	(92.5)	(50.0)	(50.1)	(100.1)
Underlying EBITDA³	125.8	125.9	251.7	131.0	125.6	256.6	147.1	106.2	253.3
Share based payments	(0.4)	0.1	(0.3)	(0.7)	(0.9)	(1.6)	(0.7)	(0.6)	(1.3)
Depreciation & amortisation	(18.5)	(21.7)	(40.2)	(27.6)	(27.6)	(55.2)	(32.5)	(29.6)	(62.1)
Share of JV income	-	-	-	-	-	-	-	-	-
Operating profit	106.9	104.3	211.2	102.7	97.1	199.8	113.9	76.0	189.9

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[3] Stated pre separately disclosed items and share based payments

European Retail

	Proforma ¹ £m								
	2018			2017			2016		
	H1	H2	FY	H1	H2	FY	H1	H2	FY
OTC wagers	753.1	818.3	1,571.4	703.5	716.2	1,419.7	602.9	655.3	1,258.2
OTC margin	17.8%	17.6%	17.7%	14.8%	19.3%	17.1%	17.5%	16.5%	17.0%
OTC NGR/Revenue	103.4	106.8	210.2	75.1	107.6	182.7	80.4	81.6	162.0
Other OTC NGR/Revenue	29.5	36.5	66.0	27.2	28.6	55.8	23.2	24.6	47.8
Machines NGR/Revenue	1.2	1.4	2.6	1.3	1.1	2.4	1.0	1.2	2.2
NGR/Revenue	134.1	144.7	278.8	103.6	137.3	240.9	104.6	107.4	212.0
Gross profit	69.9	75.8	145.7	52.1	73.0	125.1	56.8	56.2	113.0
Contribution	67.1	70.9	138.0	50.1	70.7	120.8	54.8	54.9	109.7
<i>Contribution margin</i>	<i>50.0%</i>	<i>49.0%</i>	<i>49.5%</i>	<i>48.4%</i>	<i>51.5%</i>	<i>50.1%</i>	<i>52.4%</i>	<i>51.1%</i>	<i>51.7%</i>
Operating costs ²	(34.0)	(29.9)	(63.9)	(30.3)	(33.4)	(63.7)	(29.4)	(31.5)	(60.9)
Underlying EBITDAR	33.1	41.0	74.1	19.8	37.3	57.1	25.4	23.4	48.8
Rent	(4.3)	(4.4)	(8.7)	(4.1)	(4.4)	(8.5)	(3.5)	(3.8)	(7.3)
Underlying EBITDA³	28.8	36.6	65.4	15.7	32.9	48.6	21.9	19.6	41.5
Share based payments	(0.1)	-	(0.1)	(0.1)	-	(0.1)	-	-	-
Depreciation & amortisation	(8.7)	(9.6)	(18.3)	(5.5)	(6.7)	(12.2)	(9.7)	(5.5)	(15.2)
Share of JV income	0.2	2.4	2.6	1.0	1.1	2.1	1.0	3.1	4.1
Operating profit	20.2	29.4	49.6	11.1	27.3	38.4	13.2	17.2	30.4

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[3] Stated pre separately disclosed items and share based payments

Other

	Proforma ¹ £m								
	2018			2017			2016		
	H1	H2	FY	H1	H2	FY	H1	H2	FY
NGR/Revenue	24.6	28.5	53.1	31.5	25.2	56.7	29.6	29.8	59.4
Gross profit	19.5	22.0	41.5	19.7	20.3	40.0	18.0	17.6	35.6
Contribution	17.3	19.8	37.1	17.7	18.8	36.5	16.2	16.0	32.2
Operating costs ²	(15.3)	(18.7)	(34.0)	(20.5)	(16.3)	(36.8)	(20.5)	(24.3)	(44.8)
Underlying EBITDAR	2.0	1.1	3.1	(2.8)	2.5	(0.3)	(4.3)	(8.3)	(12.6)
Rent	-	-	-	-	-	-	-	-	-
Underlying EBITDA³	2.0	1.1	3.1	(2.8)	2.5	(0.3)	(4.3)	(8.3)	(12.6)
Share based payments	-	-	-	-	(0.1)	(0.1)	-	-	-
Depreciation & amortisation	(0.3)	(0.3)	(0.6)	(0.4)	(0.1)	(0.5)	(0.8)	(0.8)	(1.6)
Share of JV income	0.6	4.5	5.1	1.3	1.8	3.1	1.7	2.5	4.2
Operating profit	2.3	5.3	7.6	(1.9)	4.1	2.2	(3.4)	(6.6)	(10.0)

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[3] Stated pre separately disclosed items and share based payments

Corporate

	Proforma ¹ £m								
	2018			2017			2016		
	H1	H2	FY	H1	H2	FY	H1	H2	FY
Operating costs ²	(17.8)	(32.6)	(50.4)	(17.2)	(27.5)	(44.7)	(25.1)	(19.6)	(44.7)
Underlying EBITDAR	(17.8)	(32.6)	(50.4)	(17.2)	(27.5)	(44.7)	(25.1)	(19.6)	(44.7)
Rent	(0.2)	-	(0.2)	(0.3)	(0.3)	(0.6)	(0.1)	(0.2)	(0.3)
Underlying EBITDA³	(18.0)	(32.6)	(50.6)	(17.5)	(27.8)	(45.3)	(25.2)	(19.8)	(45.0)
Share based payments	(3.4)	(5.1)	(8.5)	(6.7)	(6.0)	(12.7)	(7.2)	(5.5)	(12.7)
Depreciation & amortisation	(0.4)	-	(0.4)	(0.4)	(0.8)	(1.2)	(0.4)	(0.4)	(0.8)
Share of JV income	-	-	-	-	-	-	-	-	-
Operating profit	(21.8)	(37.7)	(59.5)	(24.6)	(34.6)	(59.2)	(32.8)	(25.7)	(58.5)

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