**2 November 2018**

## Paddy Power Betfair plc – Q3 2018 Trading Update

Paddy Power Betfair (the "Group") announces a trading update for the three months ended 30 September 2018.

| *Unaudited* | Revenue | | | | Underlying EBITDA[1] | | | |
|---|---|---|---|---|---|---|---|---|
| £m | Q3 2018 | Q3 2017 | YoY % | CC[3] YoY % | Q3 2018 | Q3 2017 | YoY % | CC[3] YoY % |
| **Reported** | **483** | **440** | **+10%** | **+12%** | **101** | **121** | **-16%** | **-15%** |
| Inclusion of pre-acquisition FanDuel results[2] | 2 | 15 | | | (1) | (18) | | |
| **Proforma[2]** | **485** | **455** | **+6%** | **+8%** | **100** | **103** | **-3%** | **Flat** |
| *YoY adjustments:* | | | | | | | | |
| Exclude US sports betting EBITDA losses | | | | | 4 | - | | |
| Include YoY betting tax & product fees changes[4] | | | | | - | (2) | | |
| **Proforma[2] EBITDA[1] adjusted for US sports betting & tax changes** | | | | | **104** | **101** | **+3%** | **+6%** |

- Q3 revenue up 12% in constant currency ("cc"[3]) and up 8% on a proforma[2] basis:
  - Online +15% (sportsbook +17%; exchange +1%; gaming +26%): momentum accelerated in Q3 in both Paddy Power & Betfair
  - Australia -2%: continued good underlying customer activity (stakes +25%) driven by ongoing strategic investment in value; revenue growth adversely affected by sports results
  - USA +22% proforma[2]: strong momentum in existing products (revenue +14% pre-sports betting), supplemented by New Jersey sports betting revenues
  - Retail -4%: UK shops -1%; Irish shops -6% with sports revenues impacted by weaker margin
- Q3 proforma[2] EBITDA[1] was flat year-on-year (cc) and up 6% excluding the impact of US sports betting losses and betting tax increases
- Guidance: full year EBITDA[1], pre-US sports betting, now expected to be between £465m and £480m (previous guidance: £460-480m); 2018 US sports betting investment currently expected to be around £25m

### Peter Jackson, Chief Executive, commented:

*"Q3 was a good quarter for the Group. In Europe, the encouraging momentum that we saw in Q2 accelerated further, with online revenue up 15%. This momentum, which was evident in both Paddy Power and Betfair, is driven by enhancements in product and good execution in promotions and marketing.*

*In Australia, we continue to see very good scope to enhance Sportsbet's leading customer proposition and target additional market share gains. Strategically, Q3 was a key period for increased investment in promotional generosity given both the sporting calendar and the changing brand landscape and this investment is driving increased customer activity.*

*In the US, the exciting potential of the sports betting opportunity and the strength of our strategic positioning has been evidenced by our experience to date in New Jersey. FanDuel recorded a 30% share of the sports-betting market in September, driven by a market-leading customer proposition, our strong brand presence and the ability to cross-sell from our fantasy sports player base.*

*Overall, we are pleased with the substantial progress we continue to make against our strategic priorities. Our continued investment in brands and customer proposition means that all our businesses will exit the year with enhanced competitive positioning. Together with our scale and strong balance sheet this means we are better positioned to face the significant regulatory and fiscal headwinds that apply next year and to capitalise on the long-term industry growth opportunity."*

## Revenue

Reported group revenue was up 10% to £483m, benefitting from the FanDuel acquisition in July 2018 but adversely affected by foreign exchange translation. Group revenue was up 8% on a proforma[2], constant currency[3] basis. While revenue in July benefitted from a good conclusion to the World Cup (which contributed £22m revenue to the quarter), Q3 growth was adversely affected by customer friendly sports results, primarily in Australia (approximately £9m gross impact to revenue, before any benefit from customer re-cycling of winnings).

*Online*

Revenue in Q3 was up 15% to £248m. In the period post the World Cup, revenue was up 13%, a clear acceleration on the 7% growth that we reported in the Q2 period prior to the World Cup. While both our brands have experienced this improved trading momentum, the acceleration has been most evident in Paddy Power where an enhanced customer proposition combined with better marketing execution has seen the brand begin to once again win market share in the UK.

Sports revenue was up 11% in Q3, with sportsbook up 17% and exchange up 1%.

In sportsbook, sports results were in line with our expectations for the quarter, and growth was driven by increased customer activity on both our brands. Key initiatives driving the Q3 performance included extending our market-leading '*Same Game Multis'* product to all key football competitions; highlighting the feature in marketing campaigns; and continuing to offer innovative promotional products, such as '*Beat the Drop'*, to acquire recreational customers at lower costs. Since the quarter end we have continued to improve our products, including the launch in recent weeks of '*Power Up'*, a feature that brings personalised price boosts to Paddy Power customers and which has already proven to be very popular in our Australian business.

Q3 exchange revenue grew in line with our expectations, reflecting good ongoing growth in football commissions and an improved performance in racing. The exchange remains a key differentiated product for Betfair and, when combined with our sportsbook, offers customers an unparalleled sports-betting experience. The combined Betfair proposition positions us well in the UK and is a key differentiator when targeting international markets.

Gaming revenue was up 26%. Strong growth in Paddy Power continues to be driven by the better cross-sell rates that we have enjoyed since migrating customers to a significantly enhanced product in January. This has been supported by improved direct gaming customer acquisition. Over the summer months, we significantly enhanced the gaming product embedded within our sports apps and this contributed to accelerated revenue growth in Q3 across both Paddy Power and Betfair.

*Australia[5]*

Revenue declined 2% in Q3 due to adverse sports results in August (driven by racing, AFL and NRL), which we estimate accounted for 90bps of the 230bps year-on-year decline in the net revenue margin. The balance of the margin decrease reflects strategic investment in promotional generosity as we seek to further consolidate our market leading customer proposition.

Q3 was a key period for this increased investment due to the customer acquisition and retention opportunity presented by both the conclusion of the AFL and NRL season and by the changing competitor brand landscape. Investment included enhancing the generosity of AFL/NRL '*Up*' promotions for the concluding weeks of the season, expanding our racing money-back offers and increasing the level of targeted customer bonuses.

This increased generosity is enhancing our competitive positioning and we are encouraged by the initial returns we are seeing on the investment, including strong underlying customer activity in Q3 (in part indicated by the 25% stakes growth). We continue to believe that the imminent tax increases and regulatory changes already introduced provide us with a further opportunity to win market share.

*US*[5]

Following the merger of Betfair US with FanDuel (completed 10 July) and subsequent sport betting launch, our US business now comprises revenues from the following: FanDuel fantasy sports (across 41 states); TVG horseracing (across 33 states); the FanDuel sportsbook (currently operating in New Jersey and West Virginia); and the Betfair Casino and Exchange in New Jersey.

Revenue was up 22%, with good underlying growth in each of our existing businesses supplemented by $5m of sports betting net revenue. Excluding sports betting, revenue was up 14%, comprising of 18% growth in fantasy sports, 7% growth in TVG and 40% growth in the Betfair Casino.

The fantasy sports performance, notwithstanding the benefit from a soft comparative period, has been good in recent months driven by product enhancements and good execution in promotions and marketing for the new NFL season. New game formats, coupled with retention promotions, are driving growth with core fantasy players. In addition, we are expanding the recreational player base through a combination of increased marketing investment, use of free-to-play content, and new product initiatives, including single-entry contests and a '*Guru*' tool (which helps a user create a competitive contest line-up more quickly). It should be noted that the seasonality of US marketing spend, with significant investment around the start of the NFL season, means that losses from fantasy sports predominantly arise in the third quarter.

While it is still very early in the evolution of US sports betting, we are encouraged by both the indicative demand for regulated sports betting products and by the initial market share that FanDuel has obtained. In retail, our FanDuel sportsbook at the Meadowlands in New Jersey (launched on 14 July) generated over $1.5m of stakes per day in October, making it one of the biggest sports betting outlets in the world. This performance reflects the property's prominent location (we estimate that approximately 30% of bets are coming from New York residents), customer proposition and the strength of the FanDuel brand. That said, we continue to believe that the key US market opportunity lies online. This is evident in New Jersey where, in October, our online stakes were 40% higher than our retail operation.

Our objective for sports betting in the USA is to launch within key regulated states and quickly achieve online scale. Our strategy is to achieve this by offering a leading customer proposition, leveraging our significant existing customer database and supporting this with disciplined marketing and promotional spend. In New Jersey, we are successfully executing on this strategy:

- **Value**: leading proposition which combines generous promotions and competitive pricing
- **Product**: market-leading app and materially more betting markets available
- **Leveraging fantasy sports**: significant percentage of customer activations are from our existing customer base (with almost half of these from previously inactive customers). To date, there has been no indication of cannibalisation of fantasy revenues with continued good customer acquisition and New Jersey player activity levels performing in line with national trends
- **Disciplined marketing & promotional investment**: encouraging customer acquisition economics and customer values to date indicate good returns on investment.

*Retail*

Revenue was down 4% to £82m, with 2% machine gaming growth offset by a 6% decrease in sports revenues (primarily due to a strong net revenue margin comparative; stakes were up 1%). Sports results were marginally behind expectations with good football results offset by adverse horseracing results in July. This had a disproportionate impact on our Irish estate where revenues were down 6%cc versus a 1% decline in our UK estate. During the quarter, we opened one shop in Ireland and closed two in the UK, taking our total estate to 628 shops (UK 363, Ireland 265).

## Profitability

Reported EBITDA[1] decreased by 16% to £101m, due to the inclusion of FanDuel fantasy sports losses. Proforma[2] EBITDA[1] was flat on a constant currency basis. Within this, total operating costs increased by 8%cc, driven by a 13% increase in sales and marketing spend. This sales and marketing growth in part reflected US sports betting spend but also the increased marketing investment that we are making in Online and Australia which was deliberately weighted to Q2 and Q3. Other operating costs, pre-US sports betting, were up 2%cc on a proforma[2] basis.

EBITDA losses from US sports betting in Q3 were £4m. Excluding these start-up losses and the £2m impact from increased betting taxes & product fees, proforma[2] EBITDA[1] was up 6% on a constant currency basis.

## Regulatory update

On 9 October 2018, the Irish Government announced that it is increasing the rate of betting duty payable, with effect from 1 January 2019. The rate of betting duty is to increase from 1% to 2% of sports betting stakes from Irish customers (applies to retail, online and telephone sportsbooks) and from 15% to 25% of betting exchange revenues from Irish customers. If these increased rates had applied to the Group's Irish sportsbook stakes and exchange revenues in the 12 months ended 30 June 2018 we would have paid an additional £20 million of betting duty.

On 16 October 2018, we confirmed that we had entered into a regulatory settlement with the UK Gambling Commission regarding five cases from 2016, where previous policies were not sufficiently effective in addressing responsible gambling and anti-money laundering requirements. As part of the settlement, we are returning £0.5m to the affected parties and will make a £1.7 million payment to GambleAware, the independent charity which commissions research, education and treatment services to reduce gambling related harm in Great Britain. In recent years, we have invested in an extensive programme of work to strengthen our resources and systems in responsible gambling and customer protection. This work is continuous and we are committed to working in partnership with other operators, and with the Gambling Commission, to become better and better at protecting customers.

On 29 October 2018, the UK Government announced further details on the implementation date for a reduced stake limit for gaming machines. The new £2 stakes limit, which was previously announced in May, will come into effect from October 2019. We continue to estimate that the direct, pre-mitigation, impact of this new stake limit would be a 33% to 43% decrease in our total machine gaming revenue. In the 12 months ended 30 June 2018, this would have equated to a £36m to £46m revenue impact, representing 2.0% to 2.6% of Group revenue. Potential mitigation factors include reduced direct variable costs, product development, substitution to other betting products and market consolidation.

The UK Government also confirmed that the rate of remote gaming duty will increase from the current rate of 15% to 21% (payable on gross online gaming revenues from UK customers) with effect from October 2019. For the Group, based on our H1 2018 gaming revenues, this increased rate would result in an additional £15m of duty being payable on an annualised basis.

These announcements mean that we now have better visibility on the significant regulatory and tax changes facing our industry within our key markets. Had they applied throughout 2018, we estimate that the gross impact on EBITDA from the combination of regulatory, tax & product fee changes in the UK, Australia and Ireland would have been approximately £115m.

## Financial position and capital structure

The Group had net debt of £96m at 30 September 2018, excluding customer balances. During the quarter, a total of £234m was returned to shareholders via dividends and our ongoing share buyback programmes, taking the total cash returned in the year to 30 September to £435m.

## Outlook

Notwithstanding adverse sports results in Australia, in both Q3 and in October, we now expect full year underlying[1] EBITDA, pre-US sports betting, to be between £465m and £480m (previous guidance: £460m to £480m). We currently expect US sports betting EBITDA losses to be around £25m in 2018, reflecting marketing and promotional investment in New Jersey.

**Appendix: Q3 2018 Divisional Key Performance Indicators**
*Unaudited*

| | Reported basis | | | | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **£m** | **Online** | | | **Australia** | | | | **Retail** | | | **US** | | | | **Group** | | | |
| | **Q3 2018** | **Q3 2017** | **% Change** | **Q3 2018** | **Q3 2017** | **% Change** | **A$ % Change** | **Q3 2018** | **Q3 2017** | **% Change** | **Q3 2018** | **Q3 2017** | **% Change** | **US$ % Change** | **Q3 2018** | **Q3 2017** | **% Change** | **CC[3] % Change** |
| Sportsbook stakes | 1,432 | 1,377 | +4% | 1,185 | 1,019 | +16% | +25% | 463 | 459 | +1% | 84 | - | - | - | 3,164 | 2,856 | +11% | +14% |
| *Sportsbook net revenue %* | *7.5%* | *6.6%* | *+0.9%* | *8.5%* | *10.8%* | *-2.3%* | *-2.3%* | *11.8%* | *12.7%* | *-0.9%* | *4.4%* | - | - | - | *8.4%* | *9.1%* | *-0.7%* | *-0.7%* |
| Sports revenue | 173 | 156 | +11% | 101 | 111 | -9% | -2% | 55 | 58 | -6% | 46 | 25 | +87% | +87% | 375 | 350 | +7% | +10% |
| Gaming revenue | 75 | 60 | +26% | - | - | - | - | 27 | 27 | +2% | 5 | 4 | +41% | +40% | 107 | 90 | +19% | +20% |
| **Total revenue** | **248** | **216** | **+15%** | **101** | **111** | **-9%** | **-2%** | **82** | **85** | **-4%** | **52** | **28** | **+82%** | **+81%** | **483** | **440** | **+10%** | **+12%** |
| | | | | | | | | | | | | | | | | | | |
| Regulated markets | 227 | 196 | +16% | 101 | 111 | -9% | -2% | 82 | 85 | -4% | 52 | 28 | +82% | +81% | 462 | 420 | +10% | +12% |
| Unregulated markets | 21 | 20 | +6% | - | - | - | - | - | - | - | - | - | - | - | 21 | 20 | +6% | +7% |
| **Total revenue** | **248** | **216** | **+15%** | **101** | **111** | **-9%** | **-2%** | **82** | **85** | **-4%** | **52** | **28** | **+82%** | **+81%** | **483** | **440** | **+10%** | **+12%** |
| | | | | | | | | | | | | | | | | | | |
| **Underlying EBITDA[1]** | | | | | | | | | | | | | | | **101** | **121** | **-16%** | **-15%** |

| | Proforma[2] basis | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **£m** | **US** | | | | **Group** | | | |
| | **Q3 2018** | **Q3 2017** | **% Change** | **US$ % Change** | **Q3 2018** | **Q3 2017** | **% Change** | **CC[3] % Change** |
| Sportsbook stakes | 84 | - | - | - | 3,164 | 2,856 | +11% | +14% |
| *Sportsbook net revenue %* | *4.4%* | - | - | - | *8.4%* | *9.1%* | *-0.7%* | *-0.7%* |
| Sports revenue | 48 | 40 | +21% | +21% | 377 | 365 | +3% | +6% |
| Gaming revenue | 5 | 4 | +41% | +40% | 107 | 90 | +19% | +20% |
| **Total revenue** | **53** | **43** | **+23%** | **+22%** | **485** | **455** | **+6%** | **+8%** |
| | | | | | | | | |
| Regulated markets | 53 | 43 | +23% | +22% | 464 | 435 | +6% | +9% |
| Unregulated markets | - | - | - | - | 21 | 20 | +6% | +7% |
| **Total revenue** | **53** | **43** | **+23%** | **+22%** | **485** | **455** | **+6%** | **+8%** |
| | | | | | | | | |
| **Underlying EBITDA[1]** | | | | | **100** | **103** | **-3%** | **Flat** |

Notes:

[1] EBITDA throughout this trading update is on an underlying basis and excludes exceptional or separately disclosed items

[2] The FanDuel transaction completed on 10 July 2018 and therefore the reported results for Q3 2018 only include the FanDuel fantasy sports business from that date and do not include the business within the comparative period. The 'Proforma' results include the FanDuel fantasy sports business as if it always had been part of the Group, incorporating in addition to the reported results, results from 1 July to 9 July within the Q32018 results and trading for the full quarter within the comparative period

[3] Constant currency ("cc") growth throughout this trading update is calculated by retranslating non-sterling denominated component of Q3 2017 at Q3 2018 exchange rates

[4] Cost of sales growth in Q3 2018 was adversely affected by approximately £2m from changes to UK gaming point of consumption taxes (applied from Q4 2017) and increased product fee rates in Australia on Victorian racing (from 1 July 2018) and Western Australian racing (from 1 August 2018)

[5] Growth rates in the narrative for Australia and US are in local currency (with all US growth rates on a 'Proforma' basis)

**Analyst Call:**

The Group will host a conference call for institutional investors and analysts this morning at 8:30am (GMT). To dial into the conference call, participants should dial 0800 783 0906 or 01296 480 100 from the UK, (01) 242 1074 from Ireland and +44 1296 480 100 from elsewhere. The passcode is 966 099 66.

A replay of the call will be available later today on our corporate website:
https://www.paddypowerbetfair.com/investor-relations/results-centre

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