
Paddy Power Betfair plc

2016 Prelim Results

THE RIDE OF YOUR LIFE

MONEY BACK
AS A
FREE BET
IF YOUR HORSE FINISHES
2ND
AT CHELTENHAM

FIRST 5 RACES EVERY DAY
MAX €20 REFUND PER RACE

ONLINE, MOBILE AND PHONES EXCLUSIVE

#CHELTMENTAL

PADDYPOWER
YOU BEAUTY!

MOBILE | ONLINE | 1800 721 821



CHELTENHAM

FREE BET
WITH EVERY WINNER YOU BACK AT
3/1
SP OR MORE

ON ALL LIVE ITV RACES

Ready?
betfair

AUTHORISED BETTING PARTNER



Financial &
Operating Review



Financial highlights

£m, Proforma ¹	2016	2015	YOY %	YOY % CC ²
Revenue	1,551	1,318	+18%	+11%
Cost of sales	(357)	(311)	+15%	+9%
Gross profit	1,194	1,007	+19%	+12%
Operating costs	(794)	(711)	+12%	+4%
EBITDA	400	296	+35%	+31%
<i>EBITDA margin %</i>	25.8%	22.4%	+3.4%	+3.8%
Depreciation & amortisation	(70)	(67)	+4%	+5%
Underlying operating profit	330	229	+44%	+42%
Separately disclosed items	(318)	(9)	n/a	n/a
Operating profit	12	219	-94%	-95%
Underlying earnings per share	330.9p	229.8p	+44%	+43%
Dividends per share	165p	n/a		
Net cash at end of year	£36m	£84m		

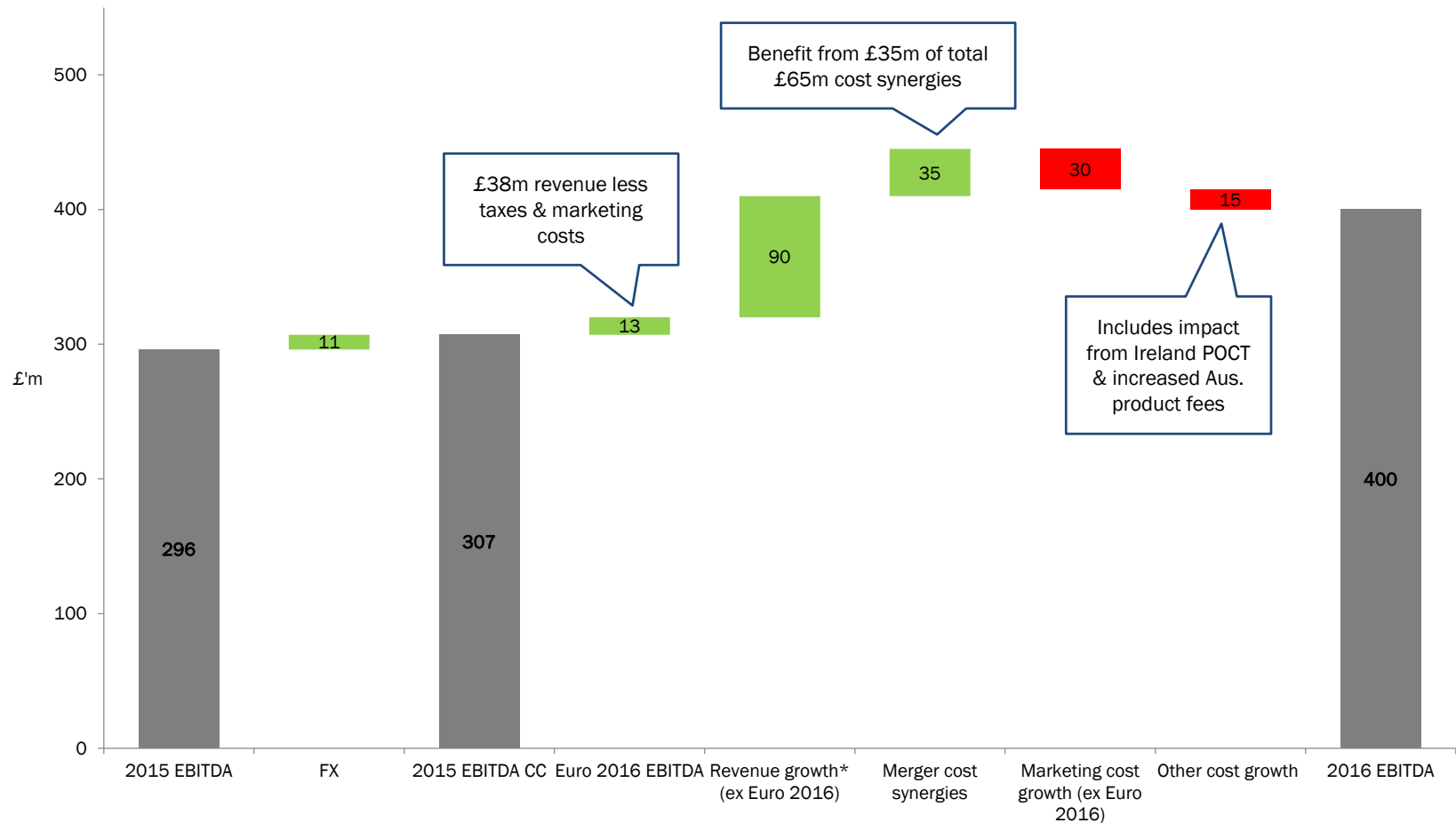
- 18% revenue growth (Sports +19%, Gaming +14%)
- Operating costs up 12% (cc +4%):
 - 27% increase in sales & marketing (cc +21%)
 - 4% increase in other costs (cc -3%)
- Operating leverage led to 35% increase in EBITDA vs 18% revenue growth
- Final dividend of 113p per share results in total dividends for the year of 165p per share
- Cash position of £36m after merger related exceptional payments of £104m and dividends of £179m

¹ Note throughout this presentation results are shown prepared on a “Proforma” basis for the Group as if the merger completed on 1 January 2015

² Constant currency (“cc”) growth throughout this presentation is calculated by retranslating non-sterling denominated component of 2015 at 2016 exchange rates

Group EBITDA bridge

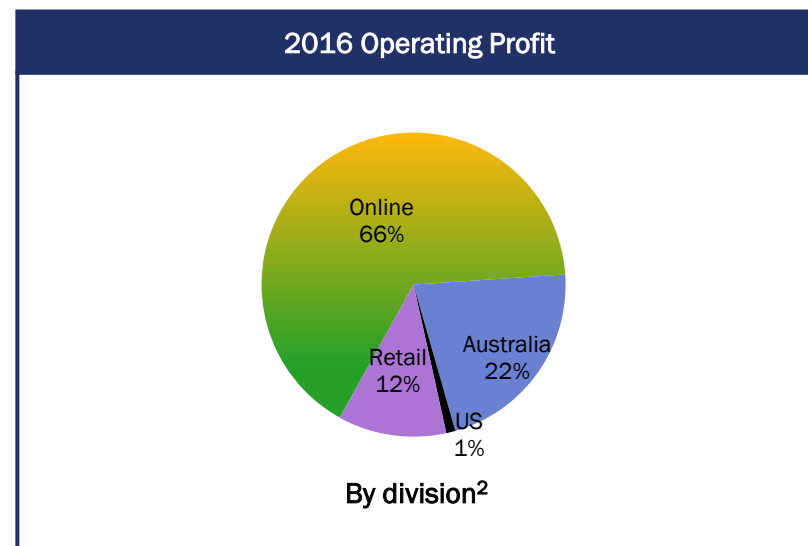
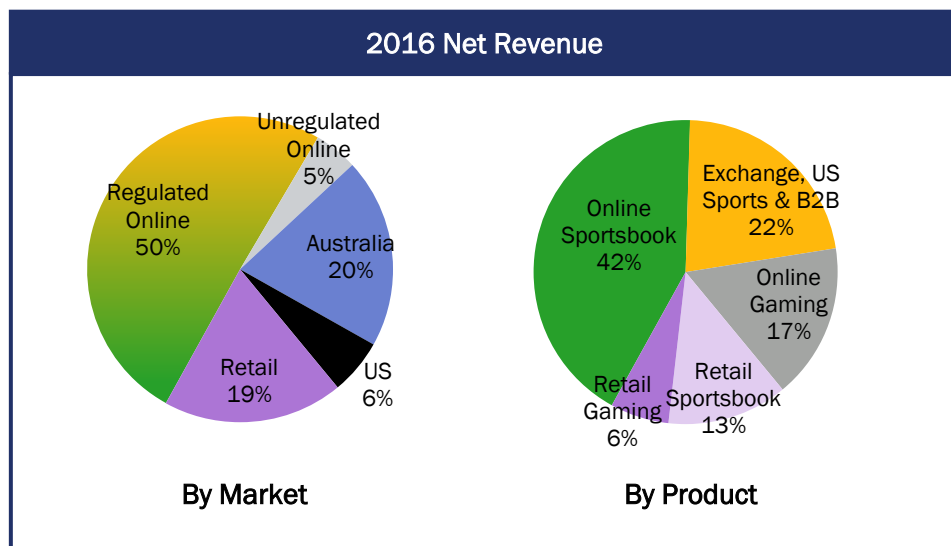
EBITDA +£104m / +35% (cc +31%)



* EBITDA impact of revenue growth estimated using average 2016 cost of sales %

Divisional overview

£m, Proforma Underlying	ONLINE		AUSTRALIA		RETAIL		US		GROUP ¹	
	2016	YOY %	2016	YOY %	2016	YOY %	2016	YOY %	2016	YOY %
Sportsbook stakes	5,266	+19%	2,911	+42%	1,713	+12%	-	-	9,890	+24%
Sportsbook net rev %	6.6%	Flat	10.7%	-0.6%	11.6%	-0.1%	-	-	8.7%	-0.1%
Sports revenue	609	+14%	312	+34%	198	+11%	79	+24%	1,198	+19%
Gaming revenue	245	+14%	-	-	97	+10%	12	+56%	353	+14%
Total revenue	853	+14%	312	+34%	295	+11%	91	+28%	1,551	+18%
EBITDA	289	+27%	94	+35%	62	+21%	12	+25%	400	+35%
Operating profit	255	+34%	84	+38%	45	+23%	4	+39%	330	+44%



¹ Group EBITDA and operating profit includes unallocated central costs

² Before unallocated central costs of £58m

Online

£m, Proforma	2016	2015	YOY %	CC YOY %
Sportsbook stakes	5,266	4,416	+19%	+16%
Sportsbook net revenue %	6.6%	6.6%	Flat	Flat
Sports revenue	609	534	+14%	+10%
Gaming revenue	245	214	+14%	+12%
Total revenue	853	748	+14%	+11%
Cost of sales	(193)	(178)	+8%	+5%
Gross Profit	661	570	+16%	+12%
Sales & marketing	(195)	(159)	+23%	+19%
Product & technology	(111)	(117)	-6%	-13%
Operations	(65)	(66)	-2%	-8%
Total operating costs	(371)	(343)	+8%	+3%
Underlying EBITDA	289	227	+27%	+28%
Depreciation & amortisation	(34)	(36)	-6%	-13%
Underlying operating profit	255	191	+34%	+36%
Active customers (000's)*	3,904	3,511	+11%	

- Regulated revenues up 16% (cc +13%) with unregulated -2% (cc -11%), primarily due to exiting Portugal in July 2015
- Exchange & B2B revenue +7% (cc +3%)
- Gaming growth slowed in Q4
- Sales & marketing costs increase includes continued asset inflation and Euro 2016
- Decrease in other operating costs reflects benefit of merger synergies & underlying operating efficiencies

Online division includes the UK/Ireland telephone business

* Active customers throughout are defined as those who have deposited real money and have bet in the reporting period, excluding indirect B2B customers. Note that the active customer numbers have not been adjusted for customers who were active on both the Paddy Power and Betfair brands.

Australia

£m, Proforma	2016	2015	YOY %	A\$ YOY %
Sportsbook stakes	2,911	2,053	+42%	+25%
<i>Sportsbook net revenue %</i>	<i>10.7%</i>	<i>11.3%</i>	<i>-0.6%</i>	<i>-0.6%</i>
Revenue	312	232	+34%	+18%
Cost of sales	(80)	(58)	+38%	+20%
Gross Profit	231	174	+33%	+17%
Sales & marketing	(72)	(51)	+41%	+28%
Product & technology	(24)	(19)	+24%	+11%
Operations	(41)	(34)	+22%	+4%
Total operating costs	(137)	(104)	+32%	+17%
Underlying EBITDA	94	70	+35%	+18%
Depreciation & amortisation	(10)	(9)	+11%	-2%
Underlying operating profit	84	61	+38%	+21%
Active customers (000's)	956	767	+25%	

- Growth benefited from 'Bet Live' before its switch off on 4 October 2016
 - in-play betting contributed 12% of stakes & 6% of revenues in FY2016 versus 6% & 3% in the prior year
- 18% EBITDA growth (H1: -10%, H2: +39%)
- H2 opex growth reduced to +7% from +30% in H1 due to both lapping of significant operational expansion during H2 2015 and an increased focus on operating efficiencies

Retail

£m, Proforma	2016	2015	YOY %	CC YOY %
Sportsbook stakes	1,713	1,530	+12%	+4%
<i>Sportsbook net revenue %</i>	<i>11.6%</i>	<i>11.7%</i>	<i>-0.1%</i>	<i>-0.1%</i>
Sportsbook revenue	198	178	+11%	+3%
Machine gaming revenue	97	88	+10%	+10%
Total revenue	295	266	+11%	+6%
Cost of sales	(63)	(58)	+7%	+4%
Gross Profit	233	208	+12%	+6%
Operating costs	(170)	(156)	+9%	+5%
Underlying EBITDA	62	52	+21%	+10%
Depreciation & amortisation	(18)	(15)	+16%	+10%
Underlying operating profit	45	36	+23%	+10%
Shops at year end	613	598	+3%	

- Good revenue growth in both estates:
 - UK +8%
 - Ireland +15% (+2% in constant currency)
- Like-for-like KPIs in constant currency:
 - Sportsbook stakes +1%
 - Sportsbook revenue +1%
 - Machine gaming revenue +7%
 - Total revenue +3%
 - Opex +2%
- 16 new shops opened in 2016 (12 in the UK & 4 in Ireland) & 1 UK closure

US

£m, Proforma	2016	2015	YOY %	US\$ YOY %
TVG stakes	883	750	+18%	+4%
Sports revenue	79	64	+24%	+10%
Gaming revenue	12	7	+56%	+39%
Total revenue	91	71	+28%	+13%
Cost of sales	(21)	(16)	+34%	+18%
Gross Profit	70	55	+26%	+11%
Operating costs	(57)	(45)	+26%	+12%
Underlying EBITDA	12	10	+25%	+6%
Depreciation & amortisation	(9)	(7)	+20%	+5%
Underlying operating profit	4	3	+39%	+9%
Active customers (000's)	139	131	+6%	

- Sports revenue driven by 9% growth (constant currency) in TVG supplemented by the launch of the Betfair horseracing exchange in New Jersey in May
- New Jersey casino now operating at breakeven EBITDA

Separately disclosed items

£m, Proforma	2016	2015	
Merger deal expenses	50	6	Includes stamp duty & advisor fees
Merger integration costs	66	-	One-off costs to achieve the cost synergy savings
Restructuring costs (pre-merger)	-	3	
Non-cash merger related items:			
Business combination intangible asset amortisation	174	-	IFRS3 acquisition accounting
Fair value adjustment for share-based payments	22	-	Revaluation of existing plans
Impairment of assets	6	-	Obsolete assets resulting from the merger
Total separately disclosed items	318	9	

- All 2016 items result from the merger
- Merger deal expenses & integration costs now fully incurred
- Further details of non-cash items included in the Appendix

Cash flow

£m, Proforma	2016	2015	YOY %
Underlying EBITDA	400	296	+35%
Capex ¹	(85)	(92)	-8%
Working capital	(15)	62	n/a
Corporation tax paid	(48)	(30)	+58%
Underlying free cash flow	252	236	+7%
Cash flow from separately disclosed items	(104)	(9)	n/a
Free cash flow	148	227	-35%
Dividends paid	(179)	(88)	+103%
Return of capital (incl. fees)	-	(484)	n/a
Interest & other borrowing costs	(2)	(1)	+33%
Other	2	(11)	n/a
Net decrease in cash	(31)	(357)	n/a
Net cash at start of year	84	453	-81%
Movement to restricted cash	(8)	-	n/a
FX translation impact	(9)	(12)	n/a
Net cash at end of year	36	84	-57%

Working capital:

- 2016 was adversely affected by one-off timing impacts including historical international tax payments and harmonisation of UK POCT payments
- 2015 included a one-off benefit from the introduction of UK POCT

¹ Includes retail and HRTV acquisitions

Financial guidance & regulatory update

Financial guidance

Cost synergies	<ul style="list-style-type: none"> • 2017 benefits from £30m cost synergies versus 2016 (£65m vs £35m) • One-off cash costs to achieve synergies all fully incurred in 2016
Capex	<ul style="list-style-type: none"> • Full-year 2017 capex expected to be £80m to £90m
Effective tax rate	<ul style="list-style-type: none"> • Full-year 2017 underlying effective tax rate expected to be approximately 15%
FX	<ul style="list-style-type: none"> • c.70% of Group EBITDA is GBP denominated with c.30% AUD, USD & other currencies (Euro currency EBITDA is circa nil with Euro denominated costs offsetting Euro revenues)

Regulatory update

UK	<ul style="list-style-type: none"> • Online gaming POCT change from Aug 2017 (c.£6m annual impact) • Horse Betting Levy extension to online from April 2017 (c. £10m annual impact) • Government's Review of Gaming Machines & Social Responsibility Measures ongoing • CMA investigation into online gaming operators • EU 4th Directive on AML to be implemented by June 2017
Australia	<ul style="list-style-type: none"> • Government's credit betting ban & series of consumer protection measures to be implemented (impact on PPB not expected to be material) • South Australian POCT effective from July 2017 (impacts 7% of Australian revenues)

24 hours to go
WHO WILL YOU BACK?

83% CHANCE OF
CLINTON VICTORY

17% CHANCE OF
TRUMP VICTORY

£110.5m matched to date

 **betfair**
EXCHANGE

Business Review

A GOLDEN SHOWER OF TRUMP ODDS

IMPEACHMENT



DONALD J TRUMP

TRUMP TO BE IMPEACHED

ODDS **6/4**

MELANIA



MELANIA TRUMP

TRUMP'S MARRIAGE TO END BEFORE HIS PRESIDENCY

ODDS **5/1**

RUSSIA




VLADIMIR PUTIN

TRUMP AND PUTIN TO RECEIVE JOINT NOBEL PEACE PRIZE

ODDS **50/1**

IMMIGRATION



MEXICO

MEXICO TO DIRECTLY FUND BUILDING OF THE BORDER WALL

ODDS **50/1**

PADDYPOWER
YOU BEAUTY!

1005 MORE BETS HERE
PUSH THE BUTTON - BEFORE DONALD DOES

Key priorities

1

Capitalising on our enhanced scale

2

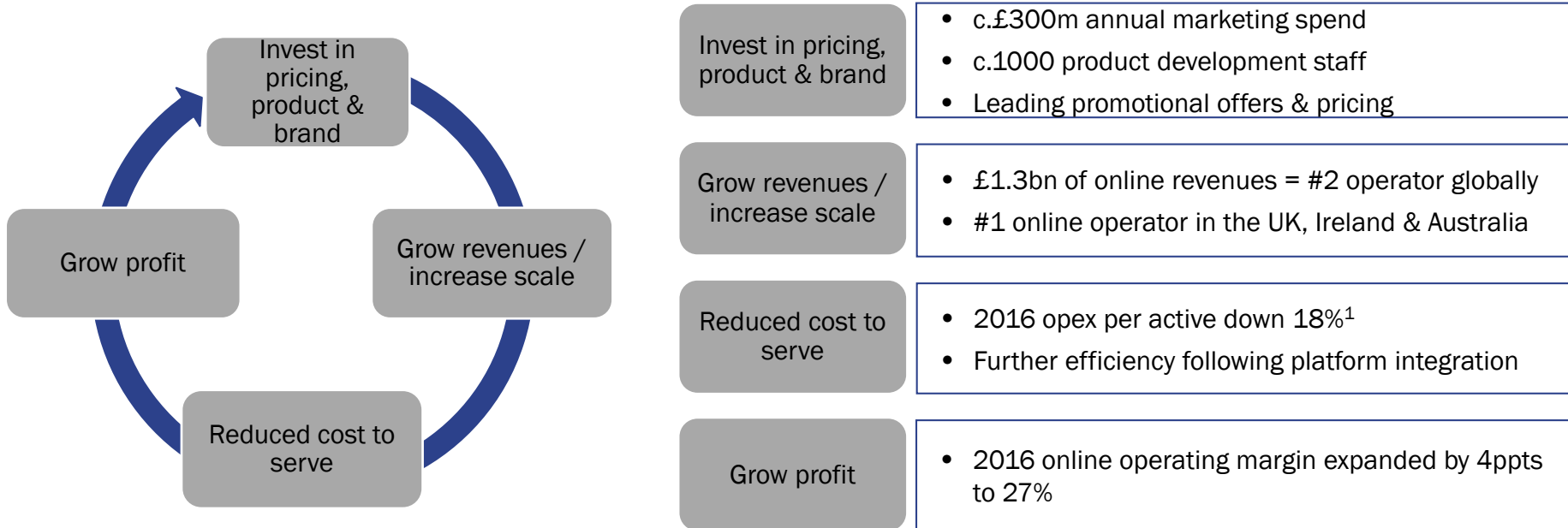
Combining the best assets and capabilities of each legacy business

3

Optimising our brand positioning

1 Capitalising on our enhanced scale

Online scale drives value

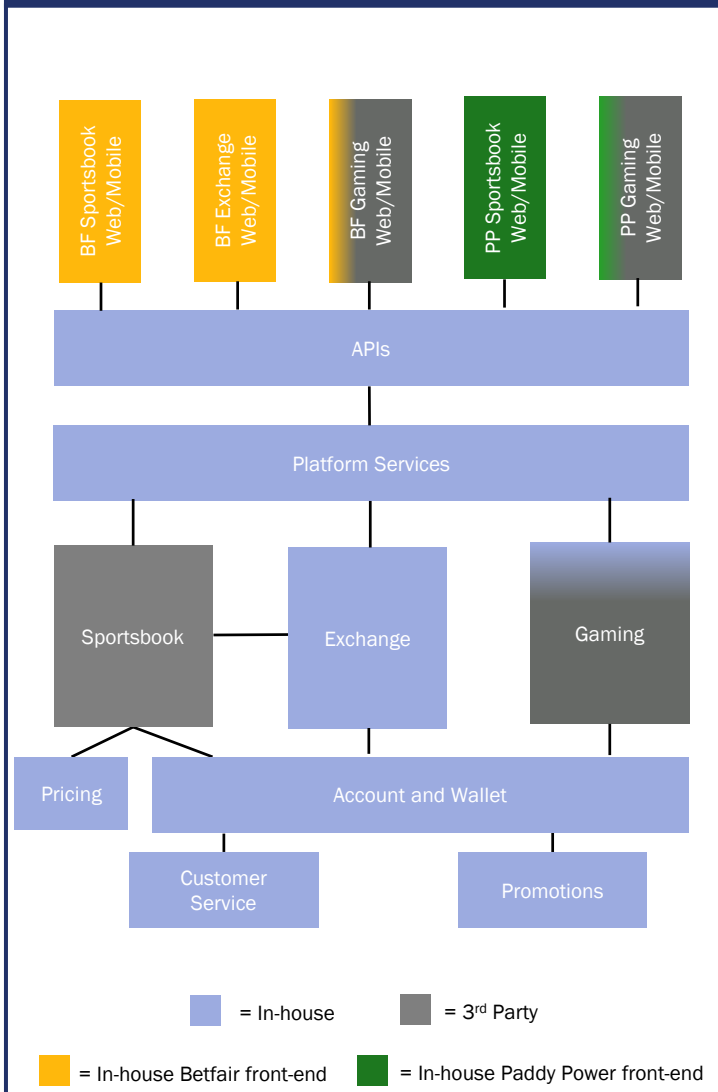


- Virtuous cycle of profitable growth within existing markets
- Better positioned to withstand regulatory headwinds
- Enhanced ability to enter new markets

¹ Online operating costs, excluding marketing spend. YoY in constant currency

Technology – platform integration on track

Integrated European online platform



Key benefits

- Efficient, scalable platform
- Supports multiple brands, channels and jurisdictions
- Increased pace & efficiency of development
- Reduced investment required to enter new markets

Integration process

Incorporate key PP functionality into BF platform

- Pricing & risk management
- Proprietary gaming content
- Customer verification & payment processes

Substantially complete

Enhance existing platform's capabilities, flexibility & scalability

- Cyber security
- Data capacity
- Multi-brand capabilities

Good progress

Migrate PP customers to platform

- Limited product releases on Paddy Power prior to migration
- Customers will see immediate product benefits post-migration

On track for end of 2017

Product – investing in our proposition

EACH WAY EDGE

ADD OR REMOVE PLACES ON YOUR EW BETS

NEW AND EXCLUSIVE TO BETFAIR

T&C's Apply

NEW

ACCA EDGE

Get your stake back in cash if one leg of your accumulator lets you down

T&C's apply

betfair

Bet Slip

Stoke v Chelsea		
Chelsea 21:20	£0.00	
ATP World Tour Finals		
Andy Murray 19:2	£0.00	
Haydock 14:00		
Silvinoaco Conti 7:4	£0.00	
Treble(1)	£520.10	

Apply Acca Edge

PREDICT 8 ANYTIME GOALSCORERS TO WIN £250,000 FREE TO PLAY!

HOTSHOT JACKPOT

CHECK OUT THE NEW

MULTI BUILDER

MORE INFO

POWER PLAY

Power up your odds with Sportsbet Power Play

14.00
11:00

Powered!

Power your odds!
You have 1 Power Play today

Win | Fixed | \$20.00

Bonus Bet | Est. Returns: \$280.00

Just hit the Power Play button and watch your odds get bigger!

NEW AND EXCLUSIVE

KICKER

ENJOY A GOOD SPANKING?

ADD A KICKER TO YOUR BET AND THE MORE THEY WIN BY THE MORE YOU WIN

ALL CUSTOMER OFFER

MONEY BACK AS A FREE BET IF YOUR FIRST KICKER BET ON THE PREMIER LEAGUE LOSES

MAX £10

ADD A KICKER TO YOUR BET

£10 KICKER ON CHELSEA V SWANSEA

RETURNS:

WIN BY:	£15
3 GOALS	£31
4 GOALS	£62
5+ GOALS	

PADDYPOWER YOU BEAUTY!

NOW STREAMING

OVER 60,000 EVENTS INCLUDING FA CUP, LA LIGA, SERIE A & ATP/WTA TENNIS

WATCH NOW

Risk & trading

Benefitting from integrated operations

Improved pricing & risk management capability:

- Sharing of data & processes between brands
- Increased volume of bets
- Pooled risk management data
- Use of Exchange

Improved efficiency:

- Enhanced scale driving lower average cost to serve
- Greater automation
- Reduced use of third-party suppliers
- Flexibility to price once and offer different odds across brands / jurisdictions

**Improved capability facilitates
our pricing strategy**

Continuing to invest in proprietary models

Next Generation football model launched Jan 2017

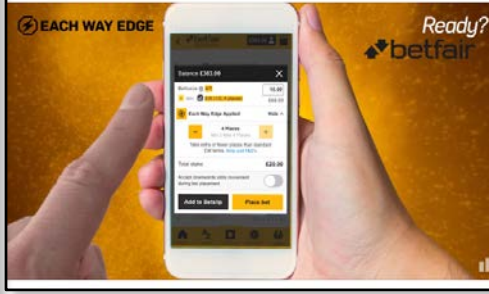
- More accurate pricing with greater automation
- Reduced in-play market suspension (<1 minute per match vs c.5 minutes previously)
- Greater range of markets (e.g. 1/5/10 min betting, next set piece betting)
- Addresses some key customer pain points:
 - ✓ Industry leading bet delay time reduces failed bets
 - ✓ Industry leading post goal suspension times
 - ✓ Greater cash-out availability
 - ✓ Faster bet settlement

Typical football in-play betting stats

	Bet delay time (seconds)	Post goal suspension time (seconds)
PPB new model	<1	<1
Previous PP model	3	45
Previous BF 3 rd Party model	5	42
Major UK competitors average ¹	6	33

¹ Includes Bet365, Ladbrokes, William Hill and Sky Bet

Communicating differently

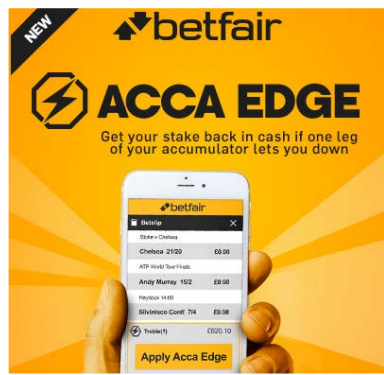
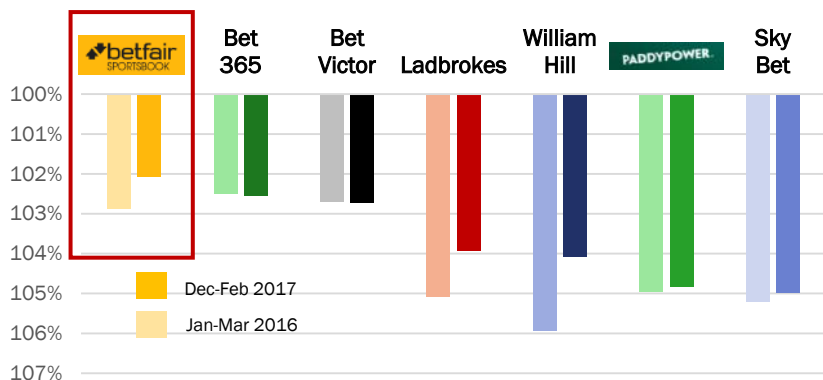


Distinct value propositions



Consistently strong pricing, supported by the Exchange & innovative product features

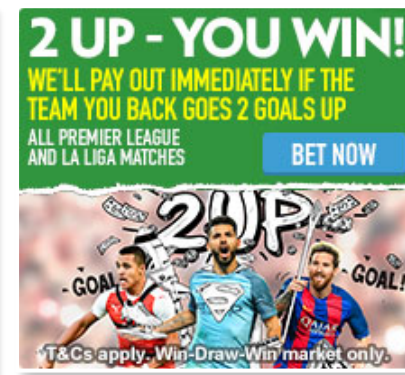
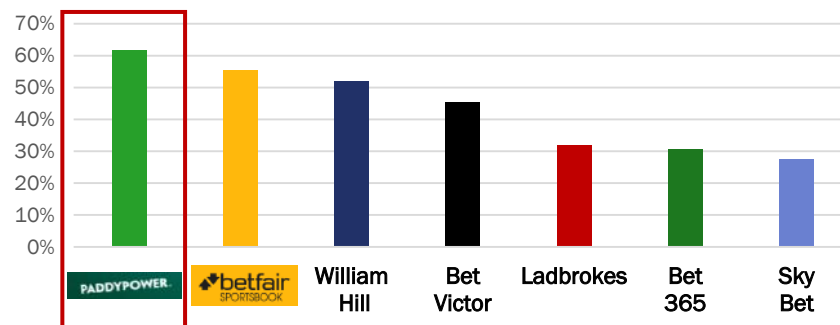
Market leading sportsbook overrounds¹



Best odds on popular bets, supported by attractive promotions

Market leading odds on most-backed favourites

% Best / Joint Best Price on Favourite - 2016/17 Season²

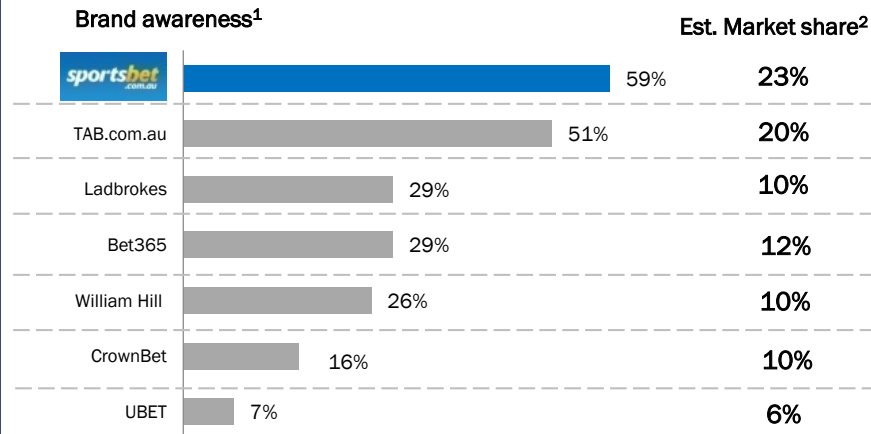


¹ Premier League average overrounds (W-D-W, all matches, taken 30mins pre kick-off)

² Favourite to win in W-D-W market, matches involving big 6 clubs (Chelsea, Man City, Liverpool, Man Utd, Arsenal and Spurs), taken 30 mins pre kick-off

Australia

Leading brand in the market

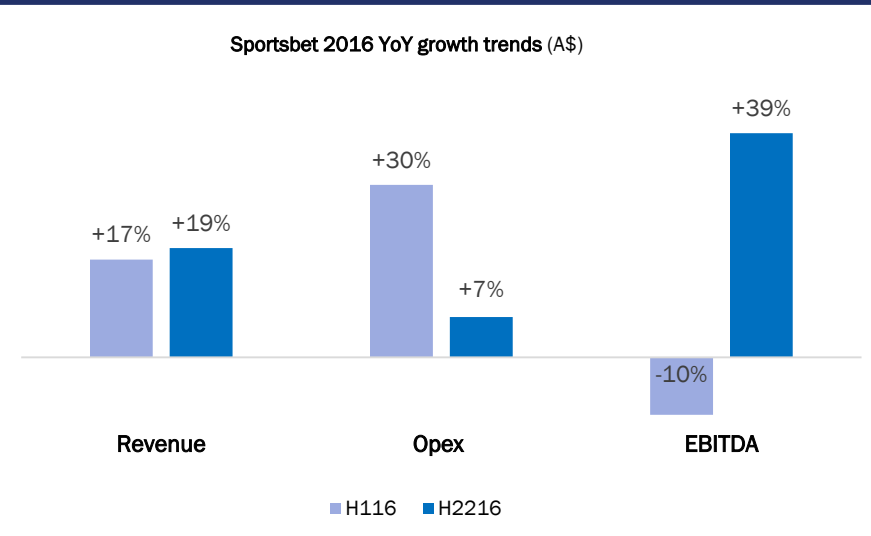


¹ Spontaneous brand awareness for 2016, source: Brand & Advertising Toluna Tracking Report
² Internal estimate of non-retail sportsbook stakes market share for year ended 31 Dec 2016

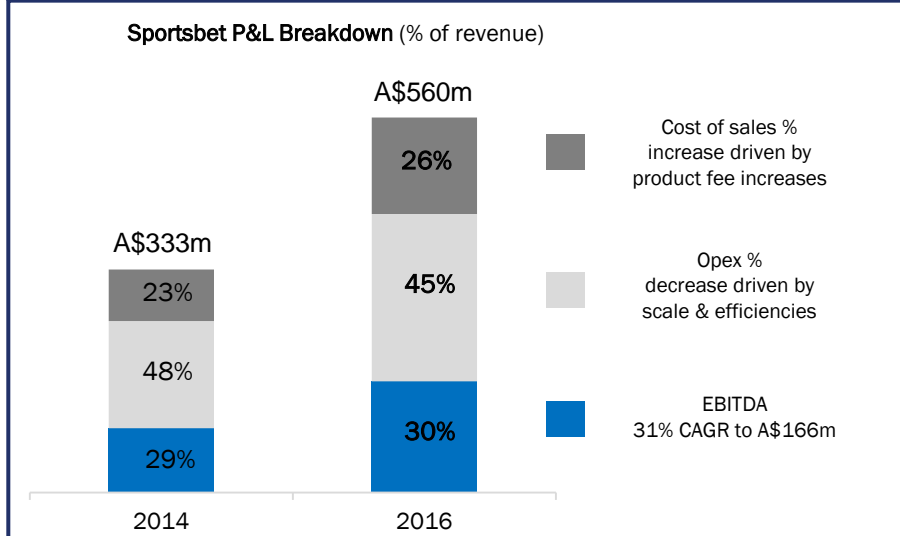
Innovating in product & investing in marketing



Increased focus on operating efficiency

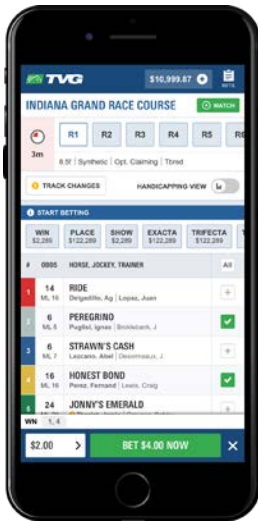


Scale & profitability position us relatively well



US

TVG



- Market leader in low growth market (c.35% share)
- New distribution deal from Nov 2016 with AT&T, for HD TV & streaming
- Launched re-designed desktop & mobile products in 2016

Betfair New Jersey Casino



- Launched in 2013
- c.12% share of NJ online casino market
- New ad campaign driving good customer growth
- Now operating at breakeven EBITDA after two years of start-up losses

Betfair New Jersey Exchange



- Launched in May 2016; first online exchange wagering platform in US market
- 70% of revenues from non-ADW customers

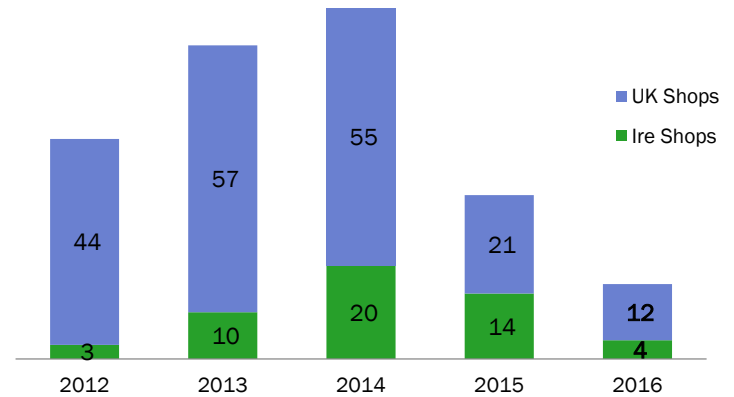
Retail

Investing in customer experience



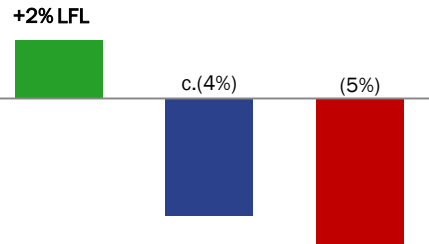
High quality openings still being identified

Paddy Power new shop openings (includes acquisitions)

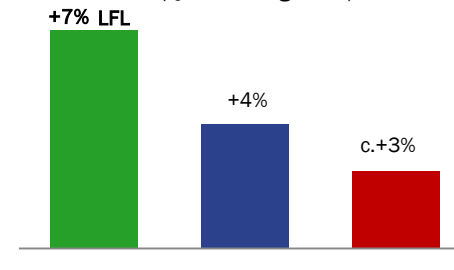


PP estate continues to deliver leading top-line growth

UK sports stakes (Q4'16 YoY growth)

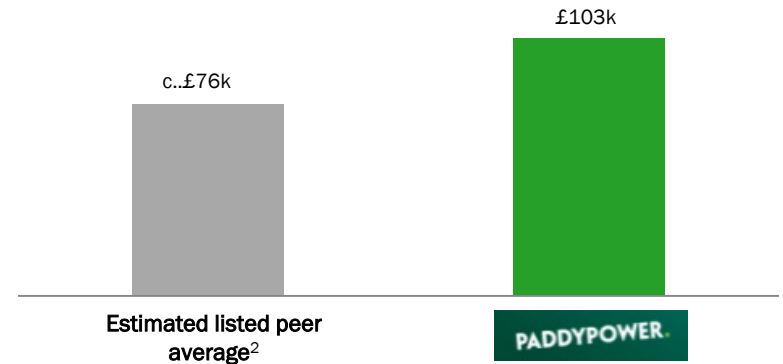


UK machines revenue (Q4'16 YoY growth)



Sector leading shop profitability

Average EBITDA per shop, last 12 months reported



¹ William Hill is H2 2016 YoY growth as Q4 stakes growth not disclosed

² Listed peer average is estimated based on William Hill's full year 2016 disclosures, Ladbrokes disclosures for the 12 months ended 30 June 2016 and Coral disclosures for 12 months ended 2 July 2016

Summary

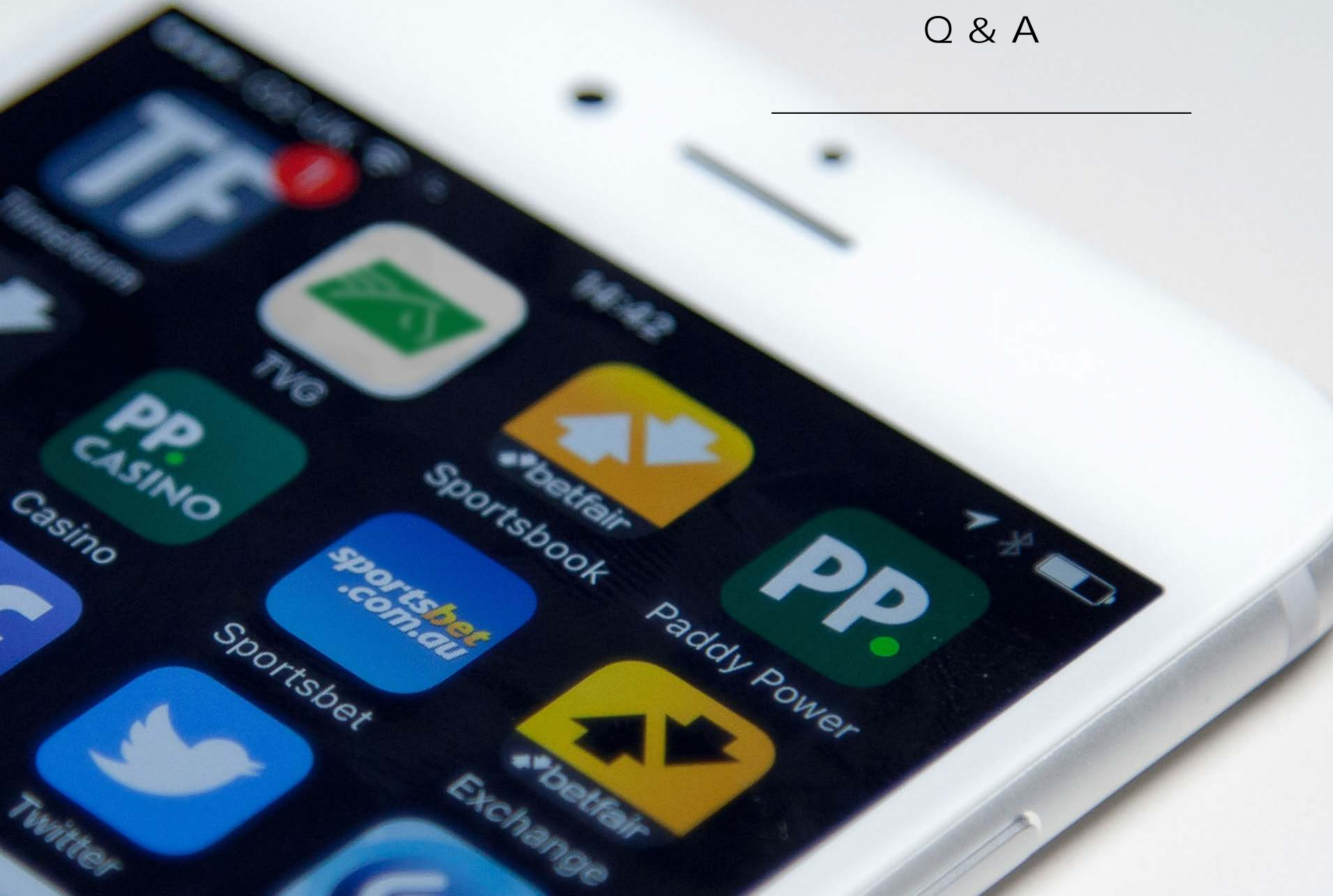
Good strategic progress

- Key integration actions and operational changes required to realise cost synergies completed in 2016
- Now focused on fully unlocking the combined operations potential
- Platform integration on track for Q4'17

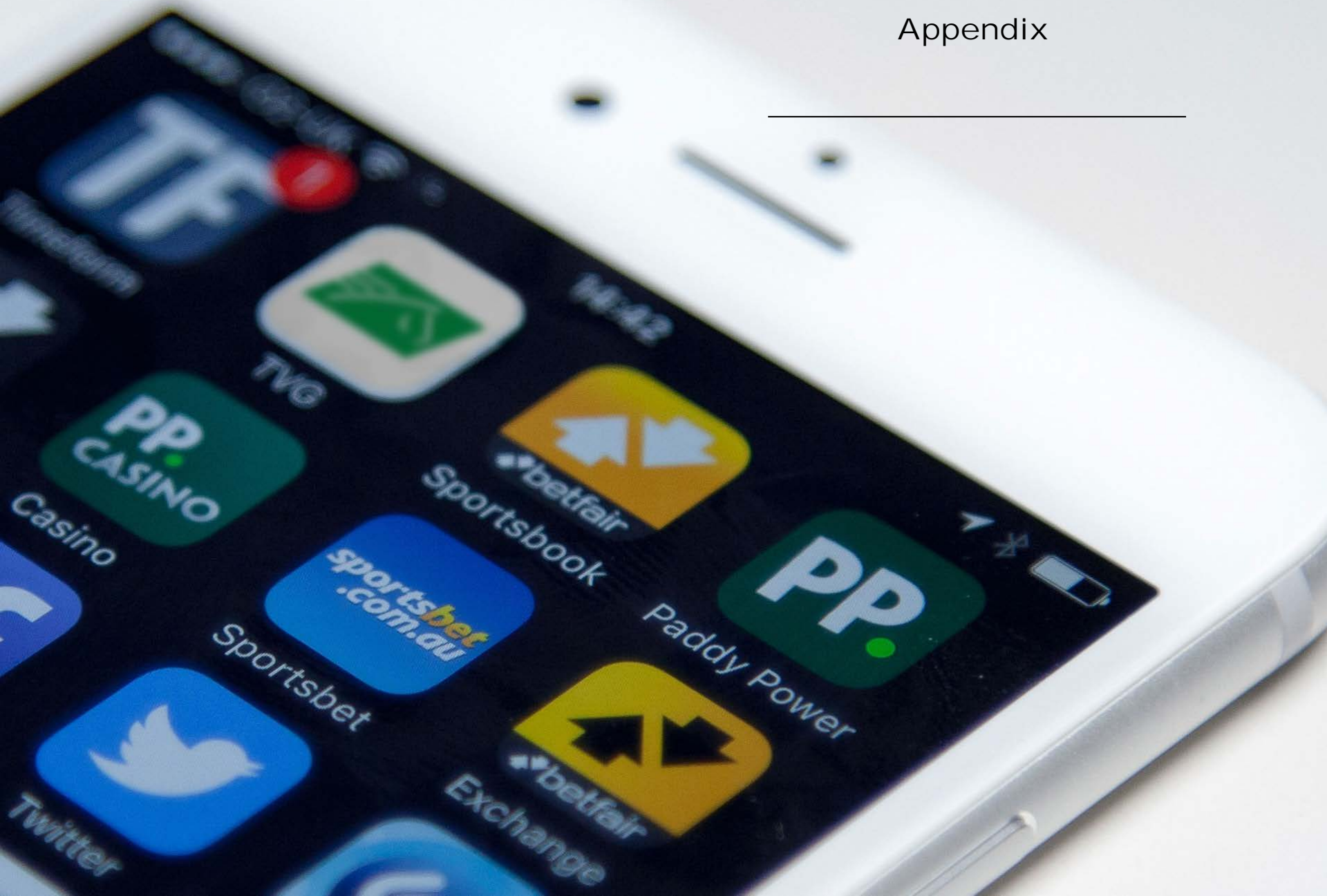
Outlook

- 2017 trading to date in line with our expectations
- Scale, market positions and leading capabilities; well placed for sustainable, profitable growth

Q & A



Appendix



Separately disclosed items

MERGER ACQUISITION ACCOUNTING		£m					
Consideration	4,314	Market value at completion of shares issued plus fair value of replacement share options issued					
<i>Less:</i>							
Betfair net assets on completion	36	Net of fair value adjustments					
Amortised to income statement over useful lives of up to 8 years:							
Identified intangible assets (comprising brands, customer relationships, technology & licences)	628	FY16	FY17	FY18	FY19	FY20 - FY23	
		174	132	83	67	43 p.a.	
Deferred tax on identified intangible assets	<u>(95)</u>	(23)	(18)	(12)	(10)	(8) p.a.	
<i>Equals</i>							
Goodwill	3,745	Not amortised, reviewed annually for impairment					

OTHER FAIR VALUE ADJUSTMENTS		£m				
		Revaluation of existing plans required on completion, additional charge to income statement over vesting period reflecting increased market value of shares:				
Fair value adjustment for share-based payments		FY16	FY17	FY18	Total P&L impact	
		22	11	2	35	