

13 May 2014 - Paddy Power plc - Interim Management Statement

Accelerated stakes growth; adverse sports results

The Chairman of Paddy Power plc, Nigel Northridge, will make the following statement at the Company's Annual General Meeting to be held in Dublin at 11am today. 2014 trading refers to the period from 1 January to 11 May versus the equivalent period last year on a consistent basis.¹

"In 2013, Paddy Power achieved record turnover of €6.2 billion and operating profit of €137 million. Net revenue increased by 17% in constant currency and earnings per share grew by 2%. The proposed final dividend makes for a total 2013 dividend of 135 cent per share, an increase of 13%. Last year was also a year of continued significant investment in product, marketing, technology and people, in line with our long term strategy, and we are further increasing that investment this year.

2014 TRADING

Summary

Accelerated Stakes Growth

The Group's strong growth in 2013 has accelerated in 2014 with sportsbook stakes up 20% (2013: 18%) in online and 5% like-for-like (2013: 3%) in retail. Accelerated new customer acquisition has been a key driver of online growth, with first-time bettors up 16% in the period, compared to an 8% increase last year.

We continue to lead the industry on mobile which accounted for 54% of our total online revenue last month.

Adverse Sports Results

Further to the unfavourable sports results in January which we already reported, results were once again poor across the sector in March. The adverse results in the period were concentrated in football resulting in our two worst weekends ever for football profitability. This contrasts with overall positive sports results in the equivalent period last year, which will unfavourably impact year-on-year first half results.

Overall

In the full year, we expect the impact of these adverse sports results to be largely offset by the impact of positive top-line momentum, the recycling of winnings by customers, favourable exchange rate movements and the later than expected introduction of the Irish online and phone betting tax.

Online

Total online net revenue grew by 1%, with 12% growth in eGaming/B2B net revenue offsetting the adverse impact of year-on-year sports results. Online stakes grew by 20%, 22% in Australia and 19% in Online (ex Australia).

Within Australia, we continue to take significant market share and also benefited from a higher gross win percentage, which drove a 38% increase in total Australian net revenue.

In our UK and Irish online business, *paddypower.com*, we are pleased with the impact of the additional investment we have made in marketing, product and value for customers since late 2013. This has driven sportsbook growth of 16% in stakes and 12% in active customers.

Our Italian online business, *paddypower.it*, achieved a 10% share of the sports betting market and an increased share of the casino market to 3% in the period. Overall market growth in active customers has been slower than we would like in recent months, resulting in less opportunity to win new customers and take share. With football accounting for over three quarters of sports betting in Italy, the forthcoming World Cup is a key opportunity for customer acquisition.

Retail

Like-for-like retail stakes grew by 5% in the period, 4% (2013: 3%) in Ireland and 8% (2013: 4%) in the UK. We opened 25 shops in the year to date, 14 in the UK (taking our estate to 280 units) and 11 in Ireland (taking our estate to 234 units). Including new shops, sportsbook stakes and total net revenue both increased by 15%.

In Irish Retail, the gross win percentage benefited from improved sports results at Cheltenham and also less football within its business mix compared to UK Retail. As a result, like-for-like sportsbook net revenue increased by 4% in Irish Retail, as compared to a reduction of 10% in UK Retail.

A very strong machine gaming performance in UK Retail, up 14% like-for-like, offset the impact of adverse sports results, with total like-for-like net revenue up 1%.

UK Regulation and Taxation

Since our Preliminary Results, there have been a series of announcements relating to regulation and taxation in the UK. In relation to UK Retail, which accounted for 10% of Group operating profit last year, these have included proposed new mechanisms affecting players wishing to stake over £50 on gaming machines and potential planning changes in relation to new betting shops. In addition, Machine Gaming Duty will increase from 20% to 25% of net revenue from March 2015. The Government will also consult on extending the horseracing betting levy to bookmakers based outside the UK. We hope the Government considers the proportionality of the cumulative impact of these measures on the industry.

Financial Position

As at 11 May, the Group had no debt and net cash of €264 million, or €197 million excluding customer balances. Notwithstanding the strength of the Group's balance sheet and ongoing cash generation, we believe the Group should maintain the flexibility that its current capital structure provides, given the opportunities that may arise during this period of industry change. The Board will continue to keep this position under review."

Detailed financial and operational performance measures for the year to date are set out below.

	Increase / (Decrease)
Group	
Sportsbook amounts staked	+15%
Total net revenue	+5%

	Increase / (Decrease)
Online (ex Australia)	
Sportsbook amounts staked	+19%
Sportsbook net revenue	(27%)
Gaming/B2B net revenue	+12%
Total net revenue	(14%)
Australia	
Online amounts staked	+22%
Online net revenue	+38%
Total net revenue	+38%
UK Retail	
Sportsbook amounts staked – like-for-like	+8%
Sportsbook net revenue – like-for-like	(10%)
Machine gaming net revenue – like-for-like	+14%
Total net revenue – like-for-like	+1%
<i>New shops year to date</i>	<i>14, including 4 acquired</i>
Irish Retail	
Amounts staked – like-for-like	+4%
Net revenue – like-for-like	+4%
<i>New shops year to date</i>	<i>11, including 10 acquired</i>
Telephone (ex Australia)	
Amounts staked	+9%
Net revenue	(15%)

¹ Comparisons with the equivalent period last year are in constant currency and with UK Retail machine net revenue on a consistent basis of taxation.

Analyst Briefing:

The Company will host a conference call for institutional investors and analysts this morning at 8.30am. To dial into the conference call, participants should dial 01 242 1075 from Ireland, 01296 480 104 from the UK and +44 1296 480 104 from elsewhere. The passcode is 104 055.

A call replay facility will be available for 21 days. To listen to the replay, callers from the UK should dial 0207 136 9233; all other callers should dial +44 207 136 9233. The passcode is 86340326.

ENDS

For reference:

Patrick Kennedy
Chief Executive
Paddy Power plc
Tel: + 353 1 905 1011

Cormac McCarthy
Chief Financial Officer
Paddy Power plc
Tel: + 353 1 905 1013

Jack Massey
Director of Finance & Company Secretary
Paddy Power plc
Tel: + 353 1 905 1013

Billy Murphy
Drury
Tel: + 353 1 260 5000
Mobile: + 353 87 231 3085

James Murgatroyd
RLM Finsbury
Tel: + 44 20 7251 3801
Mobile: + 44 7768 254 911