

# Paddy Power plc 2011 Results



**Introduction**

**Financial Performance**

**Operational Review**

**Strategy & Outlook**

# Highlights

- Record profit before tax, up 16% to €121m
- 79% of profits from internet and mobile
- 40% increase in final dividend
- Increased investment and international expansion

**Introduction**

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# Financial Highlights

€m	2011	2010	Change
Amounts Staked	4,555	3,834	+19%
<b>Net Revenue</b>	<b>499</b>	<b>427</b>	<b>+17%</b>
EBITDA	146.7	128.0	+15%
<b>Operating Profit</b>	<b>119.5</b>	<b>103.8</b>	<b>+15%</b>
Profit Before Tax	121.2	104.2	+16%
<b>Diluted EPS</b>	<b>212.3c</b>	<b>168.9c</b>	<b>+26%</b>
Dividends	100.0c	75.0c	+33%

2010 included World Cup stakes of €86m

Sportsbook gross win margin -0.4% with normalisation of sports results

Net revenue +17% comprises:

- Sportsbook +13%
- Gaming, Machines & B2B +33%

Effective tax rate reduced to 13.5% from 15.7%

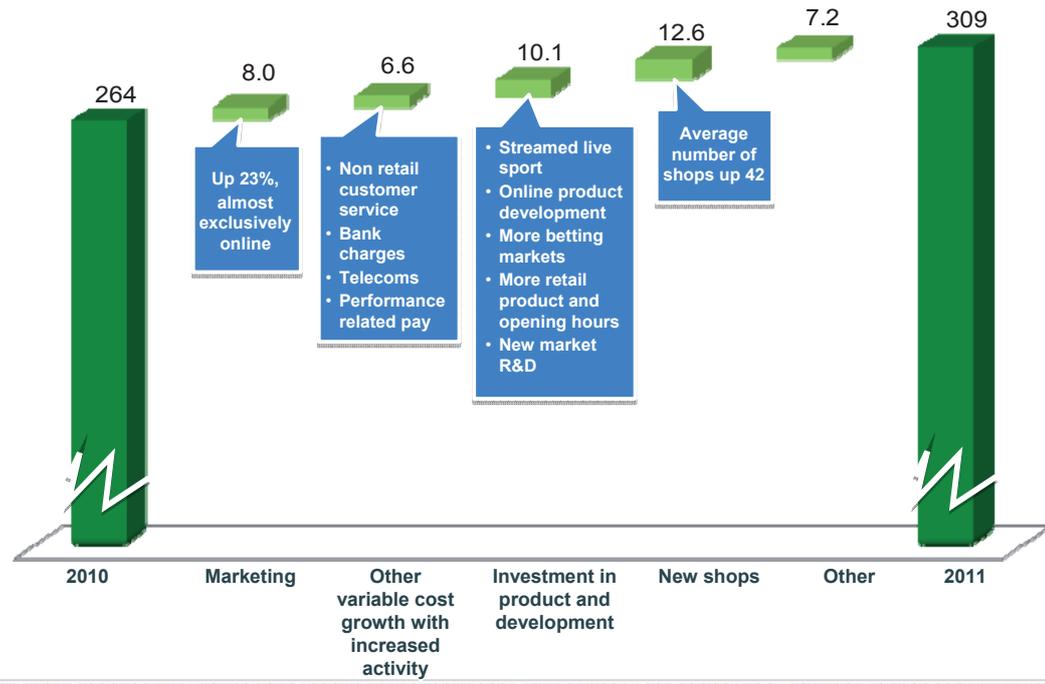
40% increase in proposed final dividend, resulting in 33% growth in full year dividend

*Note 1: For consistency with online industry practice, the Group now deducts free bets, promotions and bonuses from Gross Win and reports the resulting Net Revenue amount. Profit is not affected, just the classification of costs. 2010 is shown on the same basis*

*Note 2: Results above and throughout this presentation exclude net after-tax exceptional or one-off gains of €18m in 2011 and €9m in 2010*

# Operating Cost Growth

€m



# Financial Highlights - Divisional

## Amounts Staked

€m	2011	2010	Change
Online (ex Australia)	1,561	1,126	+39%
Online Australia*	1,370	1,230	+11%
Irish Retail	935	908	+3%
UK Retail	377	276	+36%
Telephone (ex Australia)	312	293	+6%
<b>Total</b>	<b>4,555</b>	<b>3,834</b>	<b>+19%</b>

## Net Revenue

Online (ex Australia)	199	154	+30%
Online Australia*	107	93	+16%
Irish Retail	103	109	(6%)
UK Retail	72	54	+34%
Telephone (ex Australia)	18	17	+3%
<b>Total</b>	<b>499</b>	<b>427</b>	<b>+17%</b>

## Operating Profit

Online (ex Australia)	74.3	57.5	+29%
Online Australia*	22.8	19.5	+17%
Irish Retail	10.9	17.6	(38%)
UK Retail	10.5	7.4	+43%
Telephone (ex Australia)	1.1	1.8	(40%)
<b>Total</b>	<b>119.5</b>	<b>103.8</b>	<b>+15%</b>

\* Australia also includes legacy telephone operations accounting for less than 10% of its gross and operating profit

# Cash Flow

€m	2011
Profit after tax and minority interest	103.5
<b>Operating cashflow after tax*</b>	<b>124.0</b>
<b>Investing and financing activities:</b>	
Acquisitions	(102.3)
Enhancement capex	(29.2)
Dividends	(38.9)
Exceptional gain: GST tax refund	15.5
Other	7.7
<b>Decrease in net cash</b>	<b>(23.2)</b>

2011 operating cashflow  
120% of earnings (5 years  
2007-2011: 134%)

€94.6m buyout of 39.2%  
minority in Australia

Closing cash €136m (€86m  
excluding customer balances)

*\* After deduction of maintenance capex of approximately €12.0m and LTIP trust purchases of €9.6m*

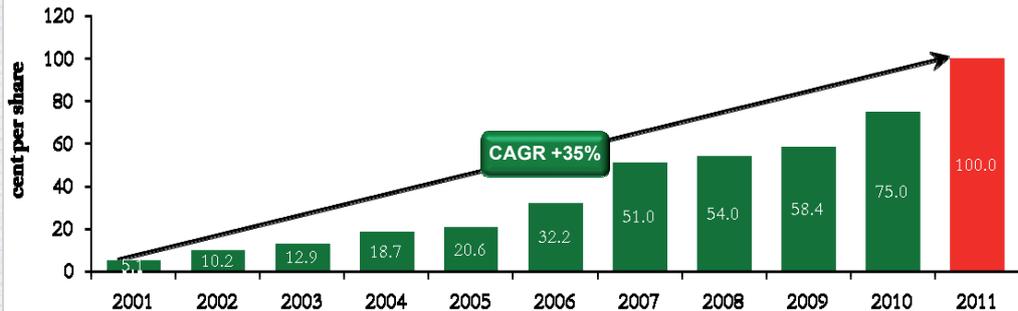
# Cash Flow

## Enhancement Capex

Enhancement capex: €29m, including one-off c.€10m:

- New Australian technology platform
- Ongoing online, mobile and retail product development
- New data centre investments
- New organic shop openings (39) and acquired shops refitted (5)
- New head office in Dublin

## Dividend History



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# Online (ex Australia)

€m	2011	2010	Change
Amounts Staked	1,561	1,126	+39%
<b>Net Revenue Sportsbook</b>	<b>114.2</b>	<b>87.6</b>	<b>+30%</b>
<i>Sportsbook Gross Win %</i>	8.2%	8.6%	
<b>Net Revenue Gaming / B2B</b>	<b>85.0</b>	<b>66.0</b>	<b>+29%</b>
<b>Operating Profit</b>	<b>74.3</b>	<b>57.5</b>	<b>+29%</b>
<i>Active Customers*</i>	907,000	642,000	+41%

Strong sportsbook growth:

- Active customers +42%
- Bet volumes +51%
- Average stake per bet -7%\*\*

Mobile sportsbetting stakes up 225% to 25% of total stakes; mobile 49% of actives by Feb '12

Gross win % above expected 7-8% range

Continued investment in product and marketing drove record gaming profits and active customers (+37%)

Within B2B, PMU doubled market share to c.20%

Opex growth in line with 'top line' growth

\*Active customers defined as those who have bet in the year, excluding indirect B2B customers

\*\* In constant currency

# Australia

€m	2011	2010	Change*
Amounts Staked	1,370	1,230	+4%
<b>Net Revenue</b>	<b>107.4</b>	<b>92.6</b>	<b>+9%</b>
<i>Sportsbook Gross Win %</i>	<i>8.1%</i>	<i>7.9%</i>	
Gross Profit	81.1	70.8	+8%
<b>Operating Profit</b>	<b>22.8</b>	<b>19.5</b>	<b>+8%</b>
<i>Active Customers**</i>	<i>227,000</i>	<i>198,000</i>	<i>+14%</i>

Following buyout, substantial investment made for future:

- Common technology platform
- Increased recruitment
- New marketing deals
- Mobile product rollout

Strong and accelerated growth:

- Online amounts staked +15% (+7% H1 and +23% H2)\*
- Online net revenue +11% (+9% H1 and +12% H2)\*
- Increased customers transacting via mobile (May '11: 5%, Feb '12: 40%)
- Online active customers +15%

\*In constant currency

\*\* Active customers defined as those who have bet in the year

# Irish Retail

€m	2011	2010	Change
Amounts Staked	935	908	+3%
<b>Net Revenue</b>	<b>102.8</b>	<b>109.2</b>	<b>(6%)</b>
Sportsbook Gross Win %	11.0%	12.1%	
<b>Operating Profit</b>	<b>10.9</b>	<b>17.6</b>	<b>(38%)</b>
Shops at year end	210	207	+1%

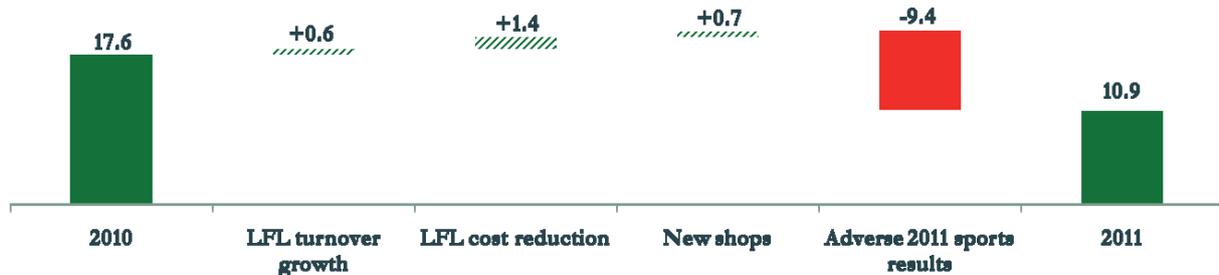
Like-for-like ('LFL') KPIs:

- Bet volumes +9%
- Amounts staked +1%
- Net revenue -8%
- Direct shop opex -4%

Gross win percentage at lower end of normal 11-13% range

Three new shops opened

Irish Retail – Operating Profit Bridge 2011 vs. 2010 (€m)



# UK Retail

€m	2011	2010	Change
Amounts Staked	377	276	+36%
Net Revenue Sportsbook**	37.5	30.0	+25%
Sportsbook Gross Win %	11.0%	11.9%	
Net Revenue Machine Gaming***	34.6	24.0	+44%
<b>Total Net Revenue</b>	<b>72.2</b>	<b>54.0</b>	<b>+34%</b>
<b>Operating Profit</b>	<b>10.5</b>	<b>7.4</b>	<b>+43%</b>
Shops at year end	165	124	+33%

## Like-for-like KPIs\*:

- Sportsbook amounts staked +10%\*\*
- Sportsbook net revenue +3%\*\*
- Machine net revenue +10%\*\*\*
- Total net revenue +6%
- Direct shop opex +2%

Gross win percentage at lower end of normal range 11-13%

Product leadership with SSBTs and FOBT games choice

41 shops opened, including 5 acquired

\* In constant currency

\*\* Sportsbook includes sports betting over-the-counter and via Self Service Betting Terminals ('SSBTs')

\*\*\* Gaming machine net revenue is after VAT at 20% in 2011 and 17.5% in 2010

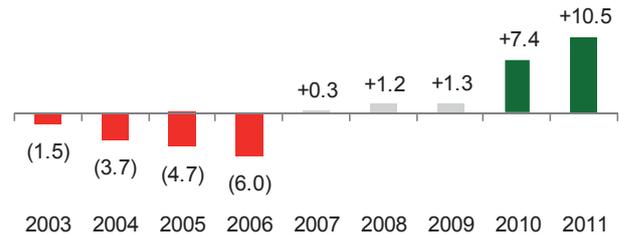
# UK Retail: Significant Returns and Opportunity

## 1. Shop Performance – Never Better

	2011	Average 2009-2010
LFL Net Revenue*	+8%	+7%
EBITDA Per Shop	£140K	£125K
Capital Cost Per New Shop**	£282K	£266K
EBITDA / Capex	49%	47%

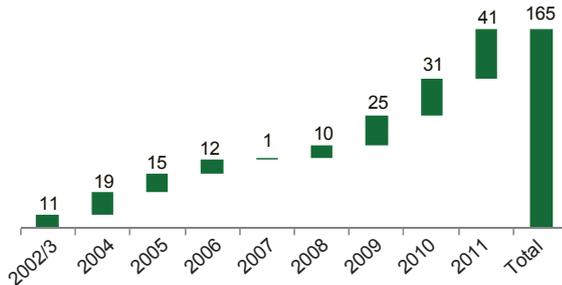
## 2. Strong Delivery to Bottom-Line

Operating Profit (€m)



## 3. Accelerating Rollout

Shops Opened by Year



## 4. Significant Scope for Future Growth



\* Including VAT for comparability across years

\*\* Includes acquisition costs, fit-out costs and lease premia, where applicable

# Telephone

€m	2011	2010	Change
Amounts Staked	312	293	+6%
<b>Net Revenue</b>	<b>17.8</b>	<b>17.3</b>	<b>+3%</b>
<i>Sportsbook Gross Win %</i>	6.2%	6.5%	
<b>Operating Profit</b>	<b>1.1</b>	<b>1.8</b>	<b>(40%)</b>
<i>Active Customers**</i>	76,000	73,000	+4%

UK growth offset decline in Ireland:

	UK	IRL	Total
Turnover*	+17%	(6%)	<b>+7%</b>
Customers	+6%	+2%	<b>+4%</b>
Bets	+13%	+15%	<b>+14%</b>

Operating costs +7% driven by:

- Growth in volumes
- UK customer acquisition

Operating profit decline driven by reduced gross win percentage

Note: This division excludes legacy Australia telephone operations included within "Online Australia" Division

\* In constant currency

\*\* Active customers defined as those who have bet in the year

# Online: Tax & Regulatory Developments

- UK**
- DCMS licence and HM Treasury online/phones tax review
    - Timing
    - Rate
    - Enforcement
    - Mitigation

- Ireland**
- 1% online/phones turnover tax expected

- Australia**
- RNSW case decision expected H1'12
  - Review of Interactive Gambling Act
  - Planned measures to reduce problem gambling

- Other**
- Potential removal of Canadian restriction on 'singles'
  - Ongoing review of regulating markets

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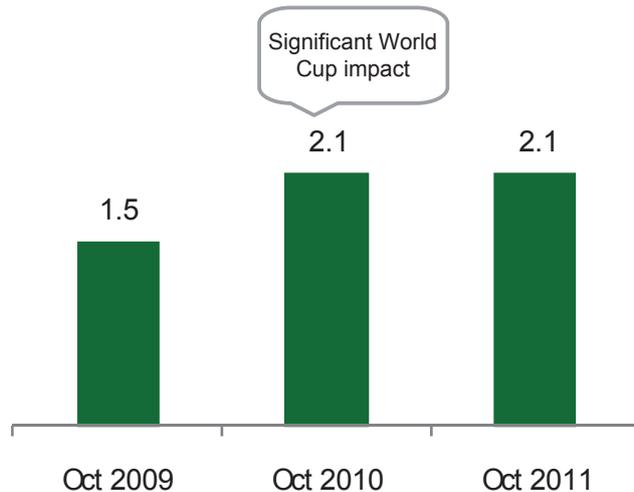
# Strategy & Outlook

1. Market Dynamics
2. Investment
3. Payback
4. Conclusion

# Market Dynamics – UK Online Sportsbook

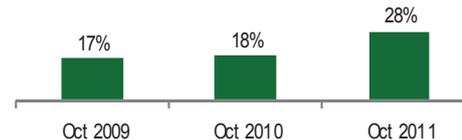
## 1. Overall Market

*Bettors (million)*



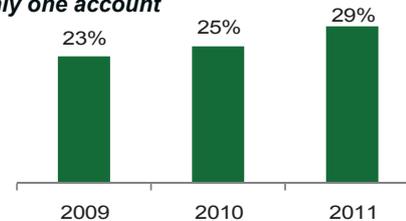
## 2. Paddy Power Share

*% of market active on paddy.com*



## 3. Paddy Power Loyalty

*% of paddy.com customers that have only one account*

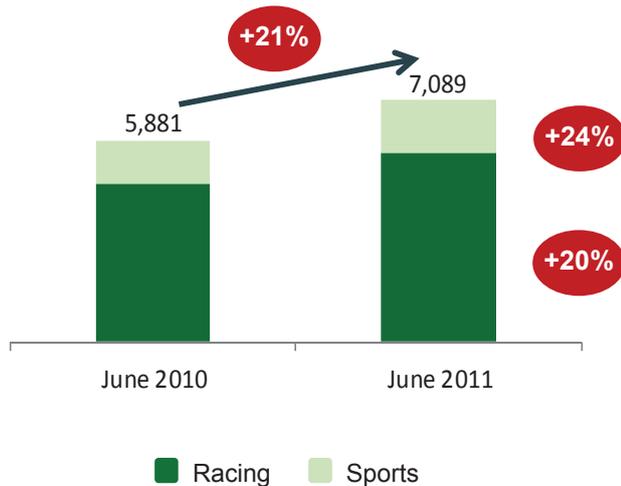


Source: Kantar Market Research  
Base: c.9,000 each date

# Market Dynamics – Australia Online

## 1. Market Growth

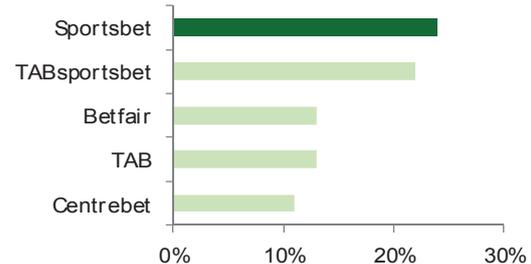
Internet Turnover (AUD\$m, Y/E)



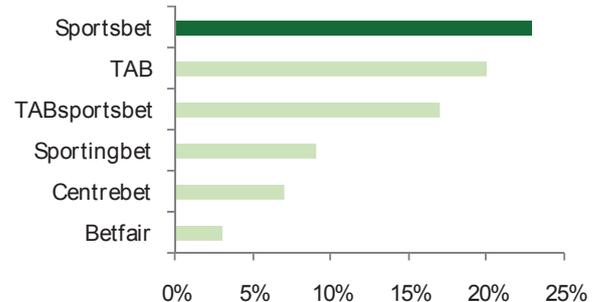
Source: Australian Racing Fact Books

## 2. Sportsbet performance

**Sports – Rated as market leader\***



**Mobile – Most often used brand\*\***



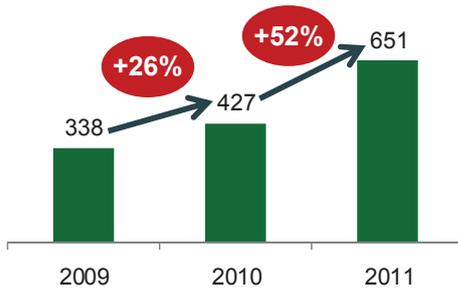
\* Source: Kantar Market Research (Base: c.400 regular sports bettors; Sep 2011)

\*\* Source: Toluna Market Research (Base: 350 adults; Jan 2012)

# Investment: People

## Growth in Absolute Number of Staff

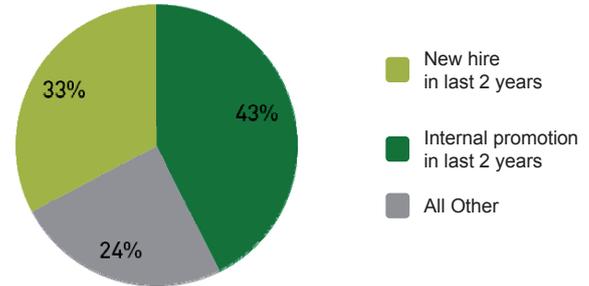
### Online & Technology Headcount



New teams added focussing on:

- Social media
- Customer lifecycle analysis
- Mobile marketing
- 24/7 network operations

## Dynamic Senior Management Structure<sup>1</sup>



## Source of New Hires



<sup>1</sup> 61 most senior managers (CEO plus two reporting layers)

# Investment: Operations

- Largest advertiser on Sky Sports, of any sector
- TV campaigns for all major online businesses
- Largest ever Money-Back Special
- Largest number of followers on social media
- Trebled BIR football match coverage Jan'10 to Dec'11
- *sportsbet.com.au* now streams 3,000 live events per annum
- *paddypower.com* 3<sup>rd</sup> party development days 4x 2008



 *Mobile Betting*  
The *Greatest Invention* Since Betting



**CALM DOWN!**

**WE'VE PAID OUT!**

Paddy Power have paid out **£600,000**  
on the All Blacks as winners of  
the World Cup.

We think the final's a foregone conclusion,  
so Paddy Power customers can collect their winnings early!

# Investment: New Geographies

## Bulgaria: New Operating Base

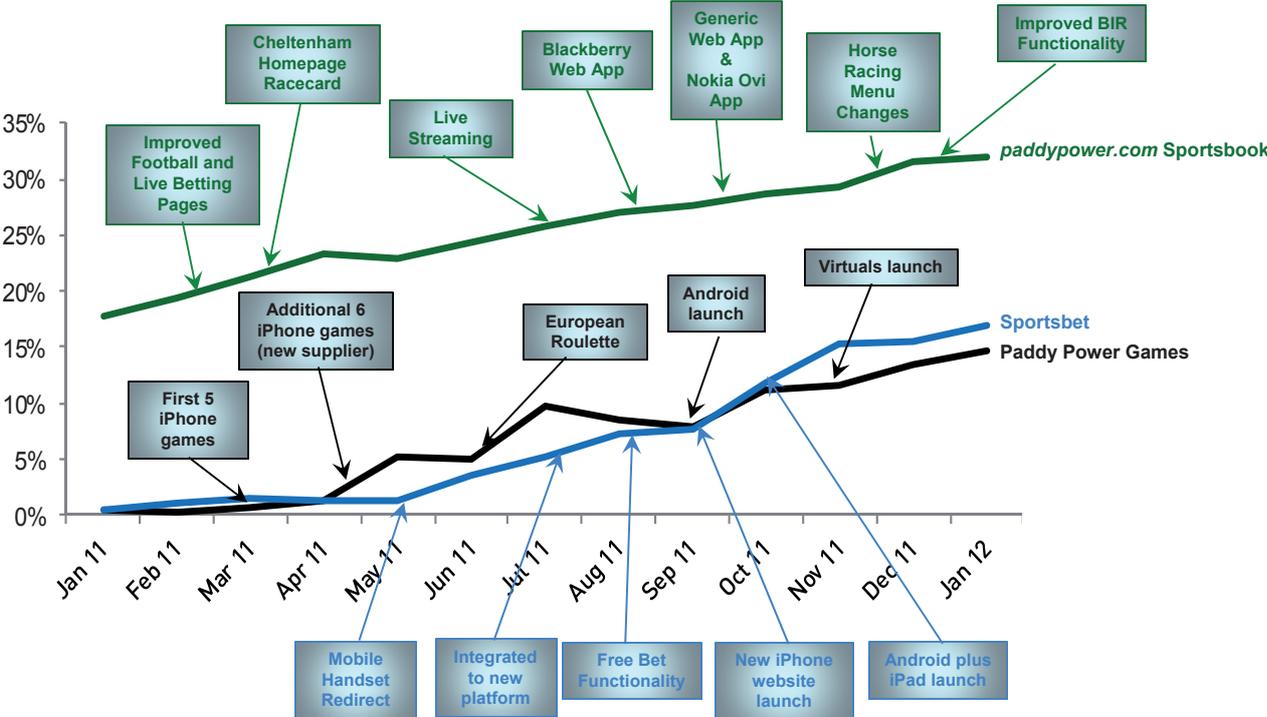
- **Proprietary Product**
  - 17 games completed/ in development
  - Online & mobile roadmaps
- **People**
  - 39 staff
  - Strong gaming and graphic development capabilities
- **Location**
  - Bulgaria ranked 3<sup>rd</sup> in the world for IT professionals per capita

## New Markets

- **Canada**
  - BCLC, lottery operator in British Columbia
  - Product, pricing and risk management services
- **Italy**
  - Organic launch scheduled in advance of Euro 2012
  - Attractive sizeable market
- **United States**
  - Dedicated resource
  - Legislative advances

# Payback: Mobile

Mobile Turnover as % Total



# Payback: Customers

*paddypower.com* sportsbook customers: last two years

## Acquisition Growth



- Brand Awareness
- Specialist Acquisition Team
- Risk Management
- Customer Journey Optimisation

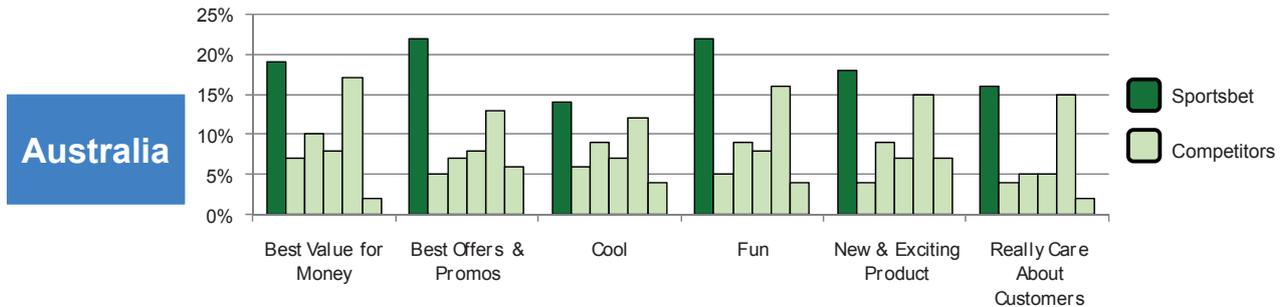
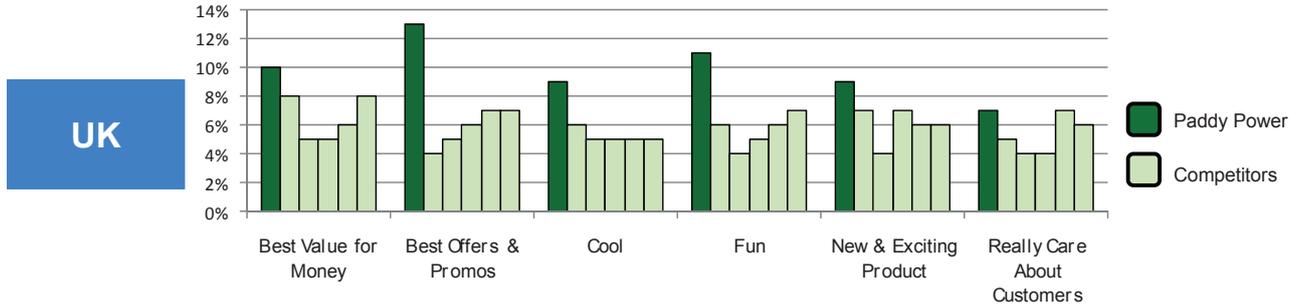
## Churn Reduction

**31% improvement**  
in new customer  
retention rate in  
last 2 years

- Lifecycle Management
- Product Development
- Customer Service
- Social Media

# Payback: Brand Strength

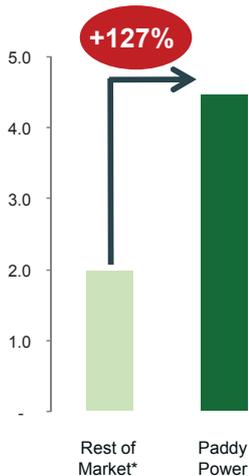
Which brand do you think these attributes most apply to?



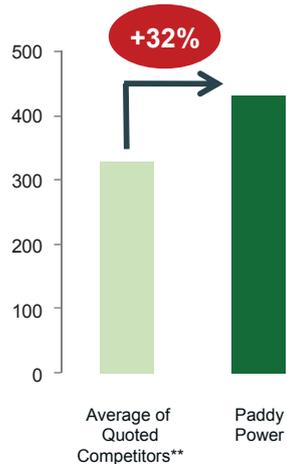
# Payback: Retail

## Outperforming the Competition

**Irish Retail**  
2011 Turnover per Shop (€m)



**UK Retail**  
2011 Revenue per Shop (£k)



## Growing Market Share

**Performance of Irish & UK Retail**



\* Sourced from Irish Revenue Betting Duty tax returns

\*\* Sourced from competitors' public filings

# Strong Momentum Leading into 2012

H1'11

H2'11

## Group

- Sportsbook amounts staked +14% +19%
- Total net revenue +16% +16%

## Online (ex Australia)

- Sportsbook amounts staked +44% +38%
- Gaming/ B2B net revenue +27% +34%

## Australia

- Online amounts staked +7% +23%
- Online net revenue +9% +12%

## UK Retail

- LFL sportsbook stakes +6% +15%
- LFL machine net revenue +15% +6%

## Irish Retail

- LFL sportsbook amounts staked (1%) +2%
- LFL OTC slips +8% +9%

## Net Revenue Growth

H1'11	+16%
H2'11	+16%
Jan-Feb 2012	+16%

Note: Growth comparisons are versus 2010 and in constant currency (where applicable)

# Conclusion

**Growing markets**



**Strong market positions**



**Track record of investment and payback**



**Positive Momentum**



**Financial Flexibility**



“Trading in the first two months of the year has been satisfactory... net revenue is up 16%...”

We also continue to invest substantially for new opportunities.

The Board remains confident of the Group’s prospects...”