

# Paddy Power plc



The Sun, 14 June 2008

2008 Interim Results

- **Introduction**
- Financial Performance
- Operational Review
- Trading and Outlook

# Highlights

- 10% growth in operating profit
- 62% (CC) growth in online operating profit to 47% of group EBIT
- 28% (CC) growth in UK Retail EBITDA per shop
- Momentum and favourable sporting results offset FX headwind
- Slower H2 but strong outlook

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# Financial Highlights

€m	H1 '08	H1 '07	Change	CC*
Turnover	1,067	994	+7%	+12%
<b>Gross win</b>	<b>152</b>	<b>144</b>	<b>+6%</b>	<b>+11%</b>
Gross profit	136	125	+9%	+13%
<b>Operating profit</b>	<b>45.1</b>	<b>40.8</b>	<b>+10%</b>	<b>+18%</b>
Profit before tax	47.1	42.7	+10%	
Profit after tax	39.4	35.5	+11%	
Basic EPS	82.3c	70.6c	+17%	
<b>Interim dividend</b>	<b>18.6c</b>	<b>16.0c</b>	<b>+16%</b>	

- Double digit turnover growth in constant currency ('CC')
- Group sportsbook gross win percentage 11.8% versus 12.4% in H1 '07
- Gross win growth (CC) of 11% comprising sportsbook 5% and gaming/machines 43%
- Operating cost growth of 11% (CC) driven by new businesses and new shops
- Effective tax rate of 16.0%, 1.0% below 2007 rate
- 17% EPS growth boosted by share buyback

\* Percentage change presented in constant currency ('CC') i.e. change calculated with foreign currency component in H1 '07 translated at H1 '08 exchange rates  
 Note: Financials above and throughout this presentation exclude a 'once-off' exceptional gain in H1 '08 of €2.7m pre tax and €2.5m after tax

# Gross Win to Gross Profit

€m	H1 '08	H1 '07	Change	CC
<b>Gross win</b>	<b>151.8</b>	<b>143.8</b>	<b>6%</b>	<b>11%</b>
Betting and gaming taxes	(6.6)	(10.2)	(35%)	
Software supplier costs	(5.3)	(4.0)	33%	
Other	(4.3)	(4.7)	(10%)	
<b>Gross profit</b>	<b>135.6</b>	<b>124.9</b>	<b>9%</b>	<b>13%</b>

# Cash Flow

€m	H1 '08	H1 '07
<b>Operating profit</b>	<b>45.1</b>	<b>40.8</b>
Depreciation and disposals	8.5	10.9
Employee share schemes	3.9	2.4
Working capital	1.2	4.7
Maintenance capex	(3.0)	(2.2)
<b>Operating cashflow</b>	<b>55.7</b>	<b>56.6</b>
Enhancement capex	(5.5)	(5.3)
Acquisitions	(22.4)	(2.6)
Share issues, interest and disposals	2.2	2.4
Corporation tax	-	(0.6)
LTIP share purchases	(7.5)	(5.1)
Dividends	(17.1)	(11.7)
Purchase of own shares	(14.2)	(48.2)
<b>Net increase in cash</b>	<b>(8.8)</b>	<b>(14.5)</b>
<b>Cash at period end</b>	<b>79.1</b>	<b>72.6</b>

# Capital Expenditure

€m	'Maintenance'	'Enhancement'	Total
Irish Retail	2.1	3.4	5.5
UK Retail	0.4	0.2	0.6
Non Retail & HO	0.5	1.9	2.4
<b>Total</b>	<b>3.0</b>	<b>5.5</b>	<b>8.5</b>

*'Enhancement' includes new shop openings, relocations, extensions and refits of acquired shops; 'Maintenance' includes regular shop refits.*

# Cash Returns to Shareholders

## H1 (€m)

2007 final dividend (35 cent, +54%)	17.1
Share buyback (644k shares, €21.84 average price)	14.0
	<hr/>
	<b>31.1</b>
	<hr/>

## H2 to Date (€m)

2008 interim dividend (18.6 cent, +16%)	8.8
Share buyback 1 July-22 Aug (765k shares, €17.16 average price)	13.1

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# Divisional Summary

## Turnover

€m	H1 '08	H1 '07	CC
Online	350	297	+28%
Telephone	143	153	-1%
Retail	574	544	+8%
<b>Total</b>	<b>1,067</b>	<b>994</b>	<b>+12%</b>

## Gross Win

Online	55	46	+32%
Telephone	12	15	-16%
Retail	85	83	+4%
<b>Total</b>	<b>152</b>	<b>144</b>	<b>+11%</b>

## Operating Profit

Online	21.1	14.8	+62%
Telephone	3.0	4.1	-20%
Retail	21.0	22.0	-3%
<b>Total</b>	<b>45.1</b>	<b>40.8</b>	<b>+18%</b>

# Sportsbook Gross Win Percentages

## January to April



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The promotion is open to all UK 18+ of legal age. Applies to bets placed after 10am. Excludes all bets placed after 10am. Excludes all bets placed after 10am. Excludes all bets placed after 10am.



## May to June



€m	H1 '08	H1 '07	CC
Turnover	350	297	+28%
<b>Gross Win Sportsbook</b>	<b>31.1</b>	<b>27.2</b>	<b>+23%</b>
<i>Sportsbook Gross Win %</i>	<i>9.6%</i>	<i>9.8%</i>	
<b>Gross Win Gaming</b>	<b>23.9</b>	<b>18.4</b>	<b>+46%</b>
Total Gross Win	55.0	45.6	+32%
Gross Profit	46.9	35.4	+44%
<b>Operating Profit</b>	<b>21.1</b>	<b>14.8</b>	<b>+62%</b>
<i>Active Customers*</i>	<i>218,482</i>	<i>157,410</i>	<i>+39%</i>

- Sportsbook customers up 49% and bet volumes up 40%
- Average stake per bet down 10% (CC)
- Gaming gross win growth includes contribution from Financial Spread Betting and Bingo
- Gross profit growth boosted by tax and regulatory changes effective Sep '07
- Opex cost growth with new business investment
- Market continues to be competitive particularly evidenced by sportsbook margin contraction and Poker
- Good Sports Risk Management gross win percentage and operating profit

\* Active customers defined as those who have bet in the last 3 months

# Our Online Assets

## Product

- Leading racing and football offering
- Full range of betting and gaming products

## Brand

- High brand recognition/trust, supported by retail presence
- Fun graphic design and copy

## Specials

- Guaranteed Prices, Money-Back Specials, Early Payouts, Double Result Payouts
- Supported by lower tax and related costs

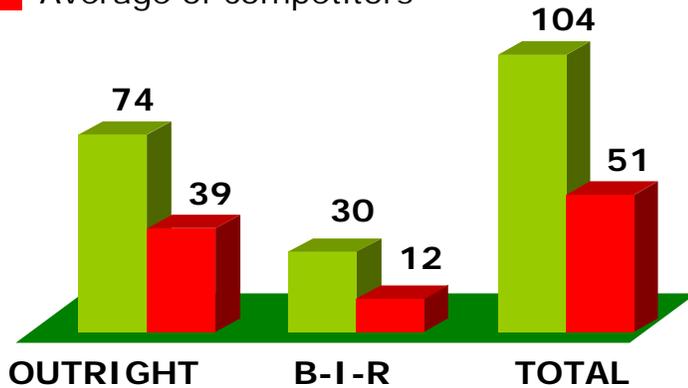
## Expertise

- Continuous technology enhancement
- Marketing, traditional and online
- Risk management
- Customer service

# Online Assets: Examples

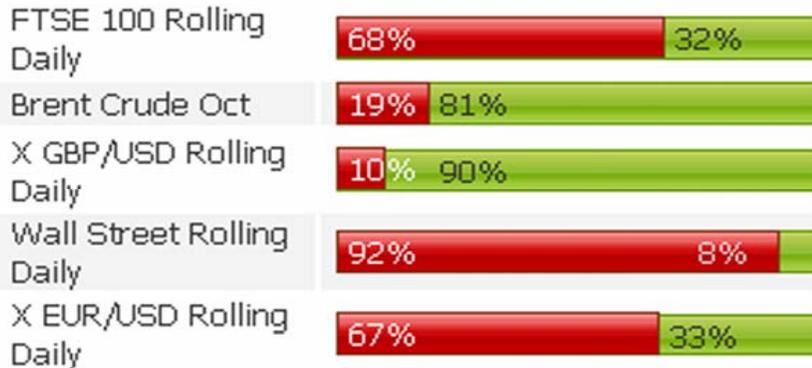
## Champions League Final Markets

- Paddy Power
- Average of competitors



## OPEN POSITIONS

Key: ■ Short ■ Long

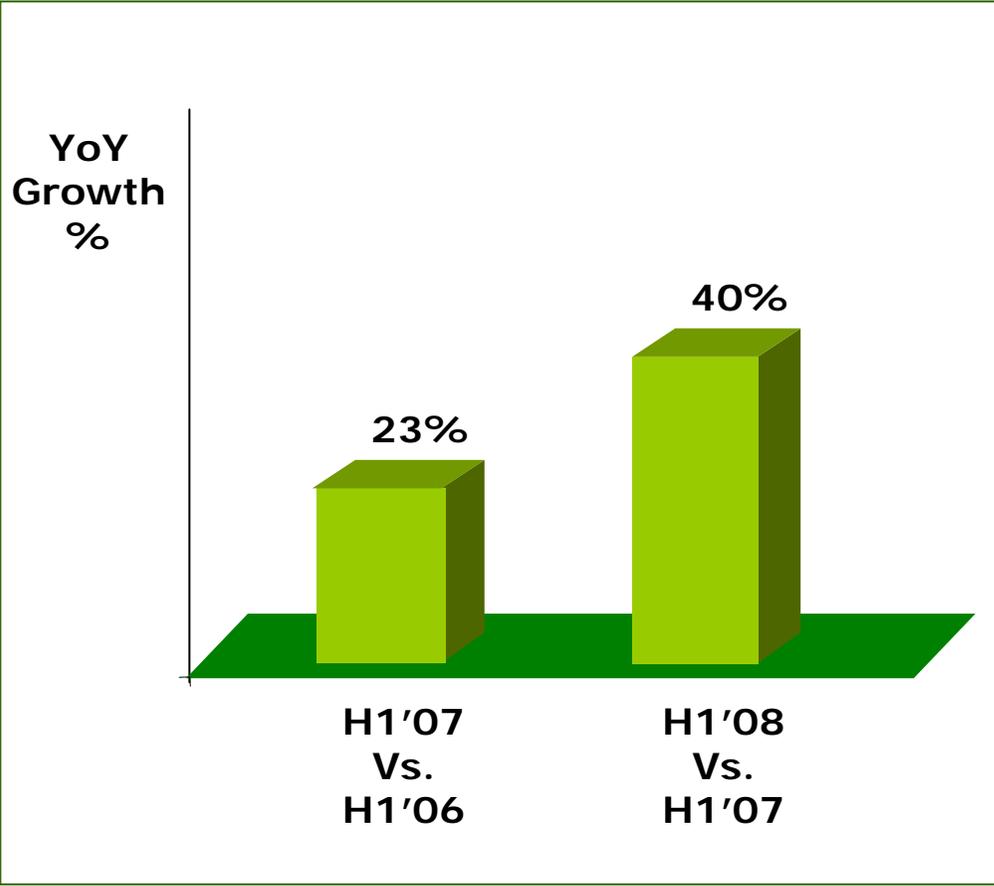


\* Percentages based on current positions

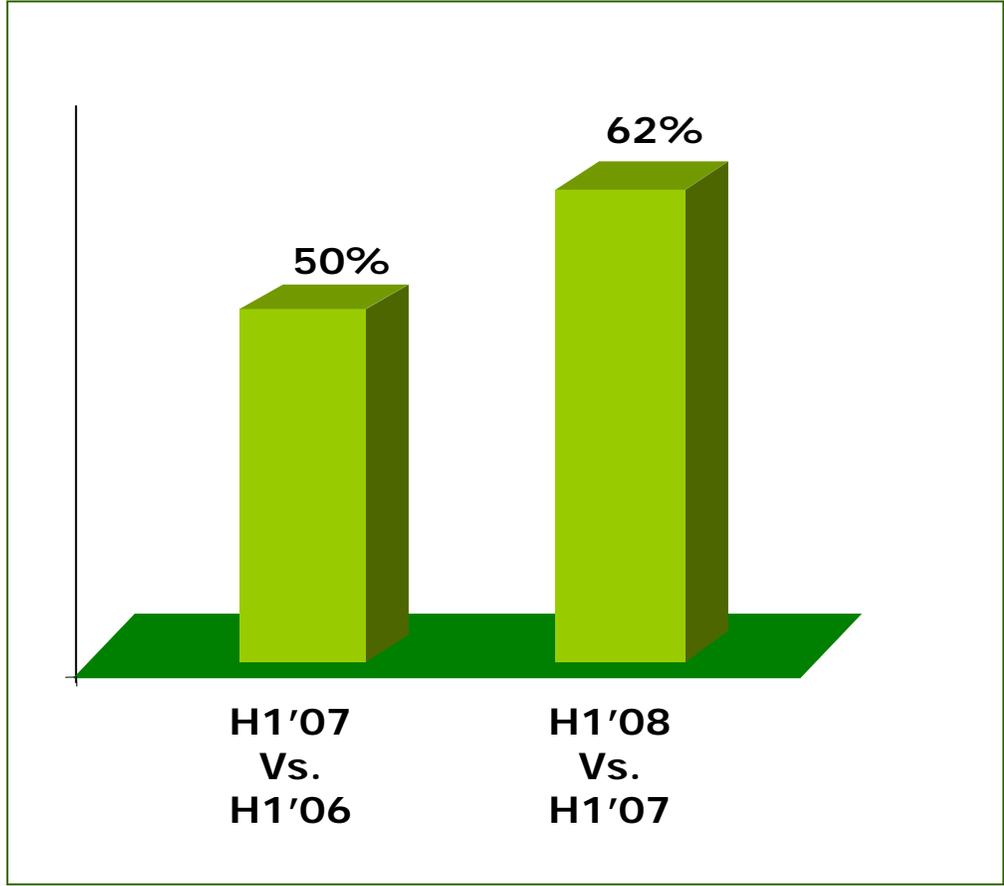


# Online Assets: Benefits

### Online Active Customer Growth\*



### Online Profit Growth (CC)



\* Growth in active customers who bet in the respective 6 month period

# Telephone

€m	H1 '08	H1 '07	CC
Turnover	143	152	-1%
<b>Gross Win</b>	<b>12.4</b>	<b>15.3</b>	<b>-16%</b>
<i>Sportsbook Gross Win %</i>	<i>8.6%</i>	<i>10.1%</i>	
Gross Profit	12.3	13.9	-8%
<b>Operating Profit</b>	<b>3.0</b>	<b>4.1</b>	<b>-20%</b>
<i>Active Customers*</i>	<i>28,234</i>	<i>25,196</i>	<i>+12%</i>

\* Active customers defined as those who have bet in the last 3 months

- Customers up 12% and bet volumes up 4%
- Average stake per bet down 4% (CC)
- Performance influenced by migration online, competition and economy
- Operating profit reduction driven by 1.4% lower gross win percentage (impact -€2.0m)
- Ground work laid for new High Stake Unit

# Irish Retail

€m	H1 '08	H1 '07	Change
Turnover	490	461	+6%
<b>Gross Win</b>	<b>68.7</b>	<b>67.7</b>	<b>+1%</b>
<i>Sportsbook Gross Win %</i>	<i>14.0%</i>	<i>14.7%</i>	
<b>Operating Profit</b>	<b>20.5</b>	<b>22.5</b>	<b>-9%</b>
<i>Shops at period end</i>	<i>186</i>	<i>168</i>	

- LFL: turnover flat, gross win down 5%
- Significant competitor openings and slower May-June
- Favourable results but not as strong as H1'07 (impact -€3.4m)
- Operating cost growth of 6% despite 10% increase in average number of shops
- Eight new shops opened

# UK Retail

€m	H1 '08	H1 '07	CC
Turnover	84	83	+16%
Gross Win OTC	9.7	9.8	+14%
<i>Sportsbook Gross Win %</i>	<i>12.4%</i>	<i>12.6%</i>	
Gross Win Machines	6.1	5.3	+32%
<b>Total Gross Win</b>	<b>15.8</b>	<b>15.1</b>	<b>+20%</b>
<b>Shop estate EBITDA</b>	4.4	3.8	+33%
Estate Depreciation	(2.0)	(2.1)	-5%
<b>Estate Operating Profit</b>	<b>2.4</b>	<b>1.7</b>	<b>+99%</b>
Central Overheads	(1.9)	(1.6)	+33%
Trading Profit	0.5	0.1	
<i>Shops at period end</i>	<i>67</i>	<i>59</i>	

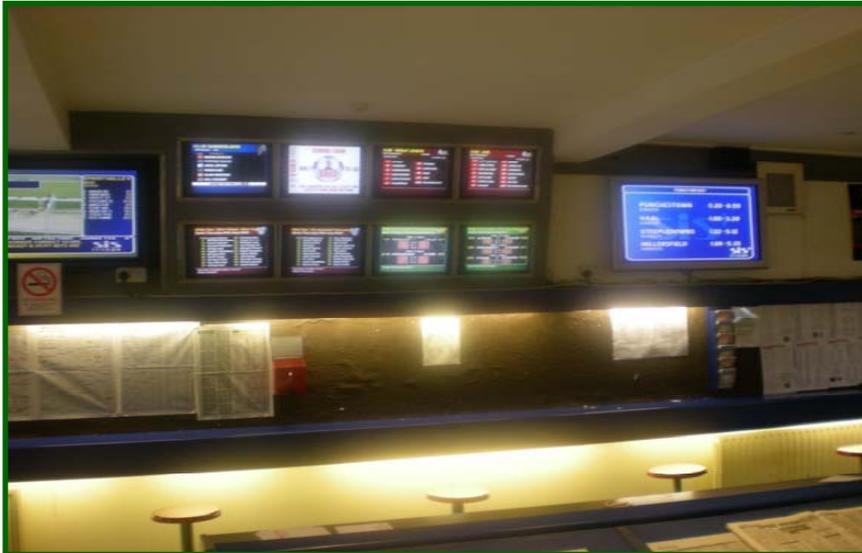
- LFL gross win growth (CC): 16%, OTC 8%, machines 30%
- Average drop per machine per week £925, up 29% helped by longer opening hours and new content
- EBITDA per shop up 28% (CC) to €74K
- Opportunities to reduce capital cost of new openings and leverage central overhead investment

## UK Retail Expansion

- Development teams in place in Glasgow, Manchester and Northern Ireland
- Will facilitate expansion throughout Scotland and North West of England
- Increasing target for estate by 2011 from 120 to 150 shops

## Acquisition of McGranaghan Racing in Northern Ireland for £19m

Before



After



# Brand & PR: Gay Rugby World Cup Sponsorship



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IRISH TIMES

Irish Examiner

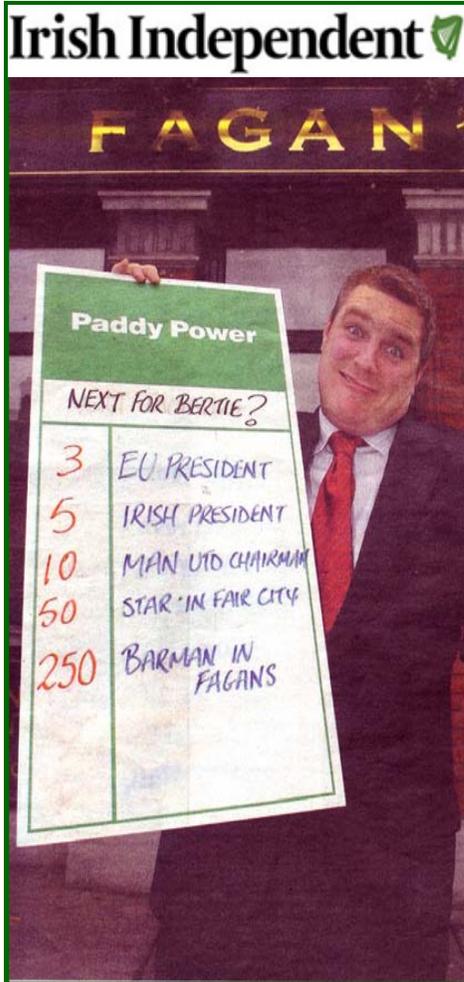
Marketing Age

SundayTribune

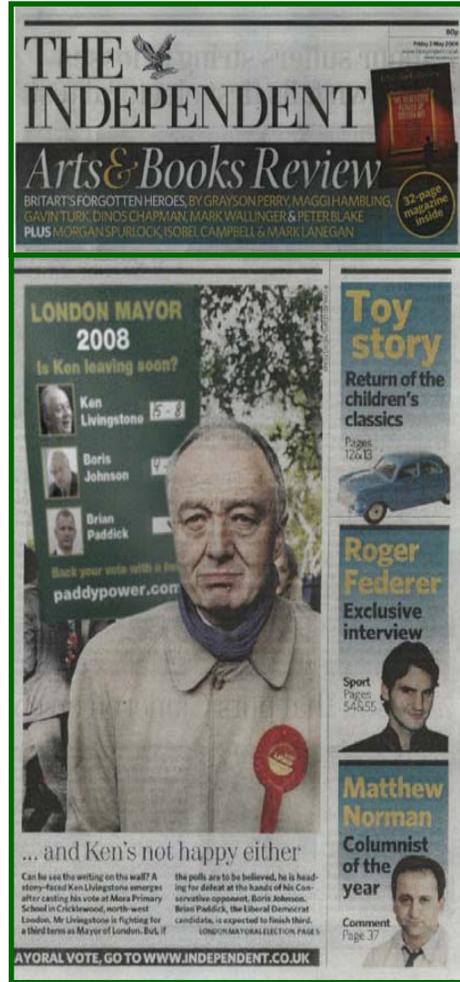


# Brand & PR: Politics

## Bertie Ahern Steps Down



## London Mayoral Election

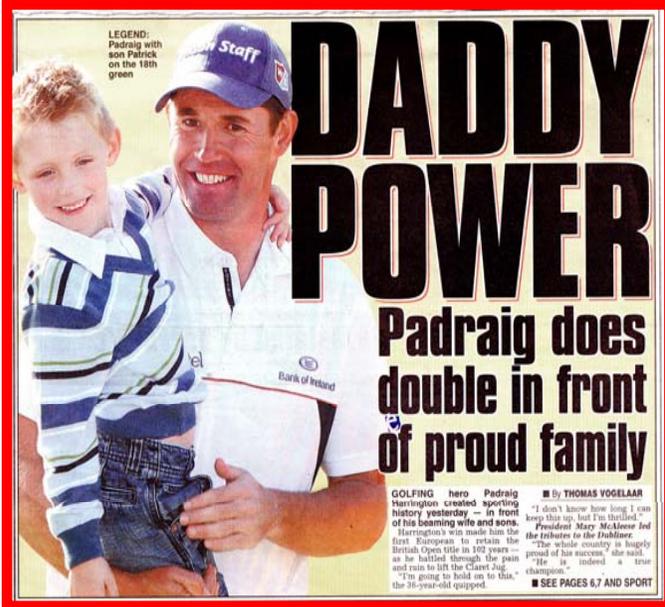


## Lisbon Referendum



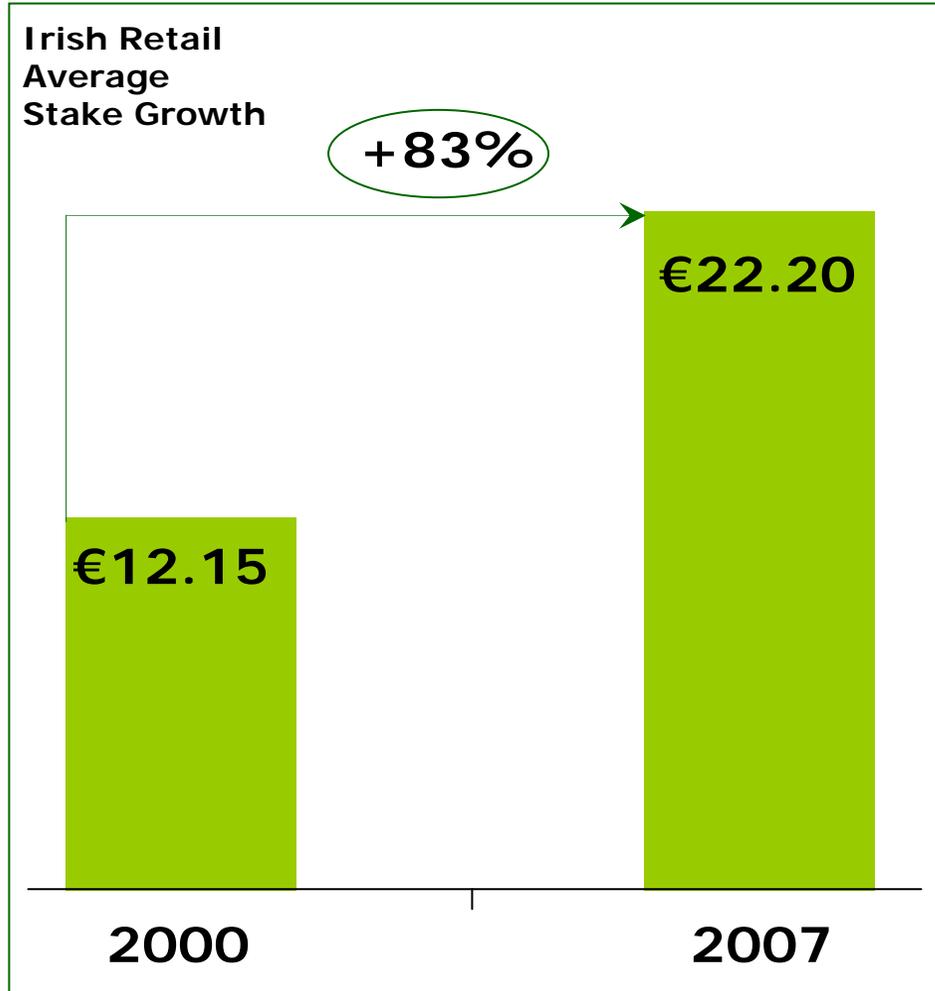
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# Sporting Results Update

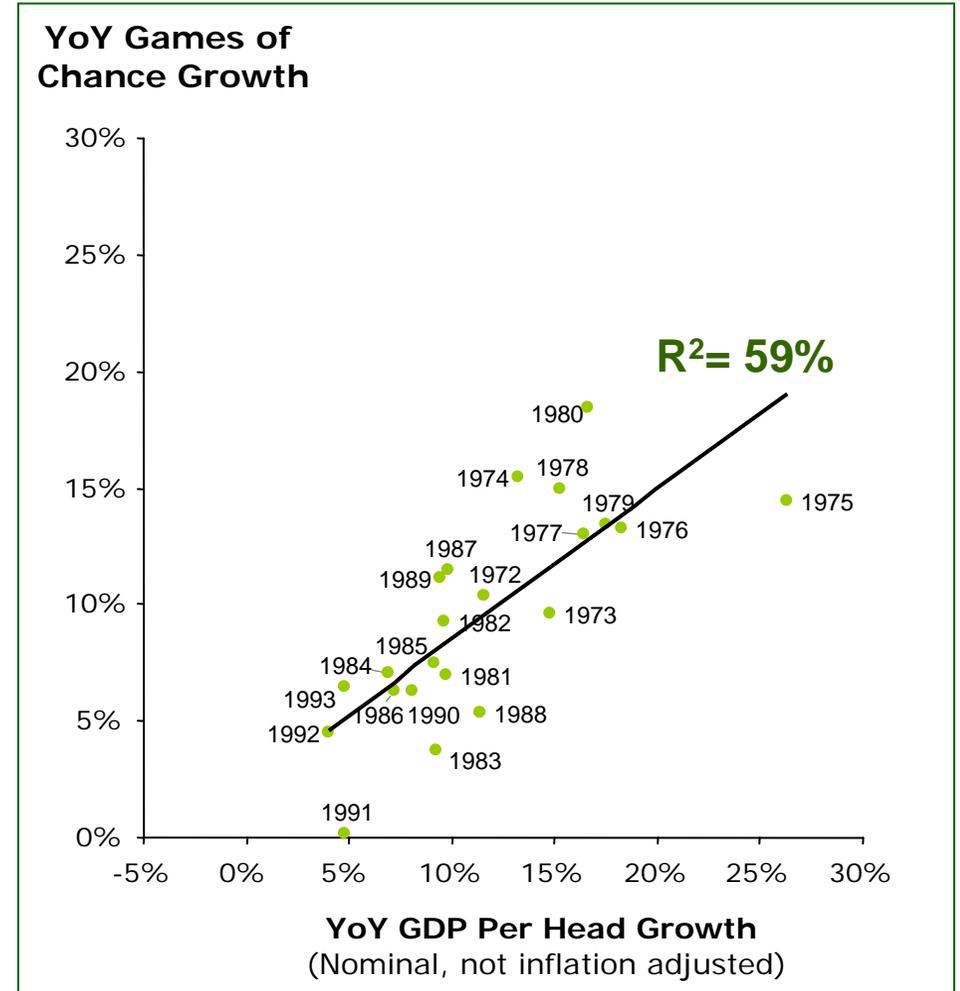


# Economy

## Strong Stake Growth in Irish Retail



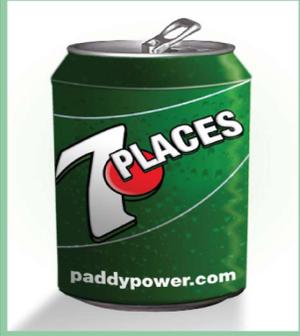
## Correlation between UK Economy and Total Gambling Spend



Source: UK Office of National Statistics 'Games of Chance' time series 1972-1993

# Trading Strategy

## 1. Standout Value on High Profile Events



**PAYING 7 PLACES**

on each-way bets in The British Open  
Paying 1/4 odds 1,2,3,4,5,6,7

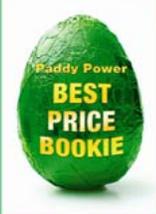
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### WHERE DO YOU BACK YOURS?

Premiership 2008/2009, Starts Today



	Paddy Power	Boylesports	Ladbrokes	William Hill
Man United (to beat Newcastle)	3/10	1/4	2/7	2/7
Chelsea (to beat Portsmouth)	4/11	3/10	1/3	1/3
Arsenal (to beat West Brom)	1/4	1/5	1/5	2/9
Liverpool (to beat Sunderland)	3/4	7/10	8/11	4/6
€100 accum on The Big 4 pays you...	<b>€387.78</b>	<b>€331.50</b>	<b>€355.32</b>	<b>€349.21</b>

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TEXT SERVICES: Airtel p288; Sky p370; Setanta p665  
See paddy.com for full conditions of this offer. Prices correct at 1pm 17th August.  
\*New phone customers only. Terms and conditions apply, but not too many!  
Phone lines open from 8.30am  
Please bet responsibly - and have fun!

## 2. Lock-in Racing Customers

# Paddy Power

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**€150** Up to €150 and we'll match it. Place a further 10 phone bets and get a free bet worth your average stake up to €100\*

TELETEXT: Airtel p288; Sky p370; Setanta p665  
See paddy.com for full conditions of this offer. Prices correct at 1pm 17th August.  
\*New phone customers only. Terms and conditions apply, but not too many!  
Please bet responsibly - and have fun!

## 3. Leverage Scale

# LAST MAN STANDING

## REWARD

### €250,000



**FREE TO PLAY**  
ENTER BEFORE AUGUST 16TH

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# Cost Reductions Throughout Profit & Loss

## Costs of Winning Bets



- Investment in EPOS and Risk processes delivering above expected return

## Costs between Gross Win & Gross Profit



- Non Retail tax & related benefits
- Revenue share renegotiations
- Costs of credit card fraud

## Operating Costs



- Re-tendering/renegotiating on increased volumes
- Process improvements

## Corporation Tax



- Effective tax rate reduced to 16.0% from 17.0%

# Trading Update

## Growth in Sportsbook Amounts Staked (CC)



- H1: Non Retail +17%, Retail +7%
- 1 Jul-24 Aug: Non Retail +12%, Retail +2%

## Gross Win Percentage Guidance



- Retail: 11%-13% (no change)
- Non Retail: 7-8% (0.5% lower)

## 2008 Profit Guidance



- EBIT c.€75m, +€3m over '07 despite €5m FX hit
- EPS\* of c.€1.37, +10% year on year

\* Adjusted diluted

# Opportunities

## Online



- EBIT up 62% (CC) to 47% of Group EBIT
- Overall market projected to grow well

## Irish Retail



- Only c.15% of shops in Irish market
- Attractive RoI on openings/acquisitions

## UK Retail



- <1% market share
- Development teams in place in 3 regions

## New Businesses



- Financial Spread Betting
- Sports Risk Management
- Phone High Stake Unit