

# 2013 INTERIM RESULTS

# PADDYPOWER.



Paddy Power turns Farnborough FC into the greatest team of all time, August 2013



# HIGHLIGHTS

FINANCIAL & OPERATIONAL REVIEW

STRATEGY & OUTLOOK

# HIGHLIGHTS



- Net revenue up 22% (CC), growth in every division
- Record earnings per share, up 13%
- 15% increase in interim dividend
- H2 so far: turnover very good, sports results favouring punters
- Outlook strong



HIGHLIGHTS

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# FINANCIAL HIGHLIGHTS



€M	H1'13	H1'12	CHANGE	CC CHANGE*
Amounts Staked**	3,077	2,745	+12%	+15%
<b>Net Revenue**</b>	<b>380</b>	<b>315</b>	<b>+21%</b>	<b>+22%</b>
EBITDA	95.2	81.9	+16%	+15%
<b>Operating Profit</b>	<b>75.4</b>	<b>67.1</b>	<b>+12%</b>	<b>+11%</b>
Profit Before Tax	77.0	68.7	+12%	+11%
<b>Diluted EPS</b>	<b>137.1c</b>	<b>121.5c</b>	<b>+13%</b>	<b>+11%</b>
Dividend	45.0c	39.0c	+15%	

H1'12 includes Euro 2012 stakes of €70m

Net revenue +22%\*/\*\*

- Sportsbook +24%\*
- Gaming, Machines & B2B +17%\*/\*\*

Sportsbook gross win margin +0.8% to 10.1% driven by structural improvements

H1'13 headwinds of €8m (Italy, MGD, Australian product fees)

Effective tax rate 13.0%, as per 2012

Interim dividend up 15%

\* Change in constant currency ('CC') with foreign currency component in H1'12 translated at H1'13 exchange rates

\*\* For consistency following the change to the Machine Gaming Duty ('MGD') taxation regime, VAT on machines in February-June 2012 has been added back to amounts staked/net revenue and deducted within cost of sales, throughout this presentation

# DIVISIONAL OVERVIEW



DIVISION	AMOUNTS STAKED (€M)		NET REVENUE (€M)		OPERATING PROFIT (€M)	
	H1'13	CHANGE *	H1'13	CHANGE *	H1'13	CHANGE *
Online (ex Australia)	1,168	+14%	161	+26%	42.0	+13%
Online Australia**	935	+26%	86	+33%	16.5	+30%
UK Retail	302	+20%	62	+23%	7.8	+4%
Irish Retail	493	+4%	58	+2%	7.6	(17%)
Telephone	179	(7%)	12	+9%	1.5	+9%
<b>Total</b>	<b>3,077</b>	<b>+15%</b>	<b>380</b>	<b>+22%</b>	<b>75.4</b>	<b>+11%</b>

\* In constant currency

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

# ONLINE (EX AUSTRALIA)



€M	H1'13	H1'12	CHANGE *
Amounts Staked	1,168	1,050	+14%
<b>Net Revenue Sportsbook</b>	<b>100.0</b>	<b>76.3</b>	<b>+31%</b>
<i>Sportsbook Gross Win %</i>	9.7%	8.4%	
<b>Net Revenue Gaming/B2B</b>	<b>61.4</b>	<b>51.7</b>	<b>+19%</b>
<b>Operating Profit</b>	<b>42.0</b>	<b>35.9</b>	<b>+13%</b>
<i>Active Customers**</i>	1,198,000	997,000	+20%

Strong sportsbook growth, off higher base:

- Bet volumes +20%
- Active customers +18%

Increased gross win % from structural improvements and favourable football results

Mobile sportsbetting 49% of total stakes; 63% of actives using mobile in Jun'13

Mobile gaming boosted by proprietary; 36% of actives using mobile in Jun'13

Ex Italy, operating profit up 25%\* and operating profit margin expanded 2% to 33%

\* In constant currency

\*\* Active customers throughout are defined as those who have deposited real money and have bet in the reporting period, excluding indirect B2B customers

# AUSTRALIA



€M	H1'13	H1'12	CHANGE *
Amounts Staked	935	763	+26%
<b>Net Revenue</b>	<b>86.5</b>	<b>67.2</b>	<b>+33%</b>
<i>Sportsbook Gross Win %</i>	9.5%	9.1%	
Gross Profit	65.2	51.8	+30%
<b>Operating Profit</b>	<b>16.5</b>	<b>13.2</b>	<b>+30%</b>
<i>Active Customers</i>	241,000	178,000	+35%

Accelerated net revenue growth of 33%\*:

- Online amounts staked +25%\*
- Online net revenue +34%\*
- Structural increase in gross win percentage
- Telephone amounts staked +33%\* with popularity of betting-in-play

Mobile stakes more than doubled to €274m or 35% of online stakes; 65% of actives using mobile in Jun '13

Revenue growth outpaced cost growth

Note: Australia also includes telephone operations accounting for less than 10% of its gross and operating profit

\* In constant currency

# UK RETAIL



€M	H1'13	H1'12	CHANGE <sup>*</sup>
Amounts Staked	302	261	+20%
<b>Net Revenue Sportsbook</b>	<b>32.5</b>	<b>25.2</b>	<b>+33%</b>
<i>Sportsbook Gross Win %</i>	12.1%	10.8%	
<b>Net Revenue Machine Gaming</b>	<b>29.1</b>	<b>26.4**</b>	<b>+14%</b>
Total Net Revenue	61.6	51.6**	+23%
<b>Operating Profit</b>	<b>7.8</b>	<b>7.6</b>	<b>+4%</b>
<i>Shops at Period End</i>	228	185	+23%

\* In constant currency

\*\* For consistency following the change to the Machine Gaming Duty ('MGD') taxation regime, VAT on machines in February-June 2012 has been added back to amounts staked/net revenue and deducted within cost of sales

Profit growth despite €0.9m tax headwind

Like-for-like KPIs:

- Sportsbook amounts staked +2%
- Sportsbook net revenue +14%
- Machine net revenue (8%)\*\*
- Total net revenue +3%\*\*
- Direct shop opex +2%

New terminals, optimisation of loyalty programme and new cabinet bays to improve machine performance

Positive outlook for Retail gross win percentages within 11%-13% range

19 shops opened, including 2 acquired

# IRISH RETAIL



€M	H1'13	H1'12	CHANGE
Amounts Staked	493	474	+4%
<b>Net Revenue</b>	<b>58.0</b>	<b>57.0</b>	<b>+2%</b>
<i>Sportsbook Gross Win %</i>	<i>11.8%</i>	<i>12.2%</i>	
<b>Operating Profit</b>	<b>7.6</b>	<b>9.0</b>	<b>(16%)</b>
<i>Shops at Period End</i>	<i>220</i>	<i>211</i>	<i>+4%</i>

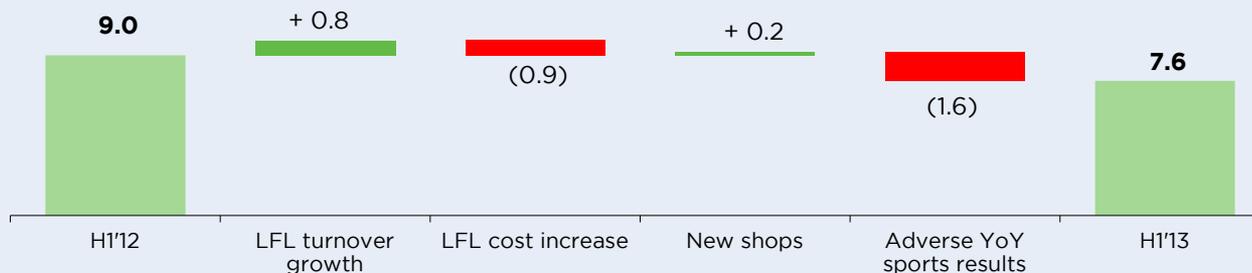
Adverse sports results, particularly at Cheltenham, reduced profits

Like-for-like KPIs:

- Bet volumes +13%
- Amounts staked +2%
- Net revenue +0%
- Direct shop opex +1%

7 new shops opened, including 5 acquired  
38% market share in H1'13 (2012: 35%)

## OPERATING PROFIT BRIDGE H1'12 TO H1'13 (€'M)



# TELEPHONE



€M	H1'13	H1'12	CHANGE *
Amounts Staked	179	196	(7%)
<b>Net Revenue</b>	<b>12.3</b>	<b>11.4</b>	<b>+9%</b>
<i>Sportsbook Gross Win %</i>	<i>7.5%</i>	<i>6.2%</i>	
<b>Operating Profit</b>	<b>1.5</b>	<b>1.3</b>	<b>+9%</b>
<i>Active Customers</i>	<i>56,000</i>	<i>57,000</i>	<i>(2%)</i>

Increased market share, consolidating leading position in UK and Irish market

Bet volumes up 8%; up 128% since H1'07

Higher gross win percentage offset lower stakes with weaker football programme

Future tax headwinds, but expect continued positive contribution to Group's overall product offering and central costs

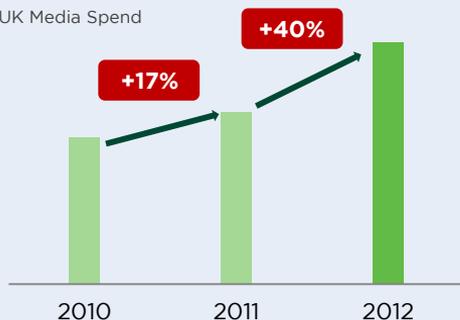
\* In constant currency

# OPERATING COST DYNAMICS



## 1. Marketing Media Inflation

UK Media Spend



Source: Nielsen; excludes event and TV sponsorships

## 2. Additional Mobile Channels

## 3. Media/Picture Rights Inflation

## 1. Significant Recent Investment

Online & Technology Headcount, ex. Aus



## 2. Leading Marketing Efficiency

## 3. Other Efficiency Initiatives

## YoY Opex Growth Slowing



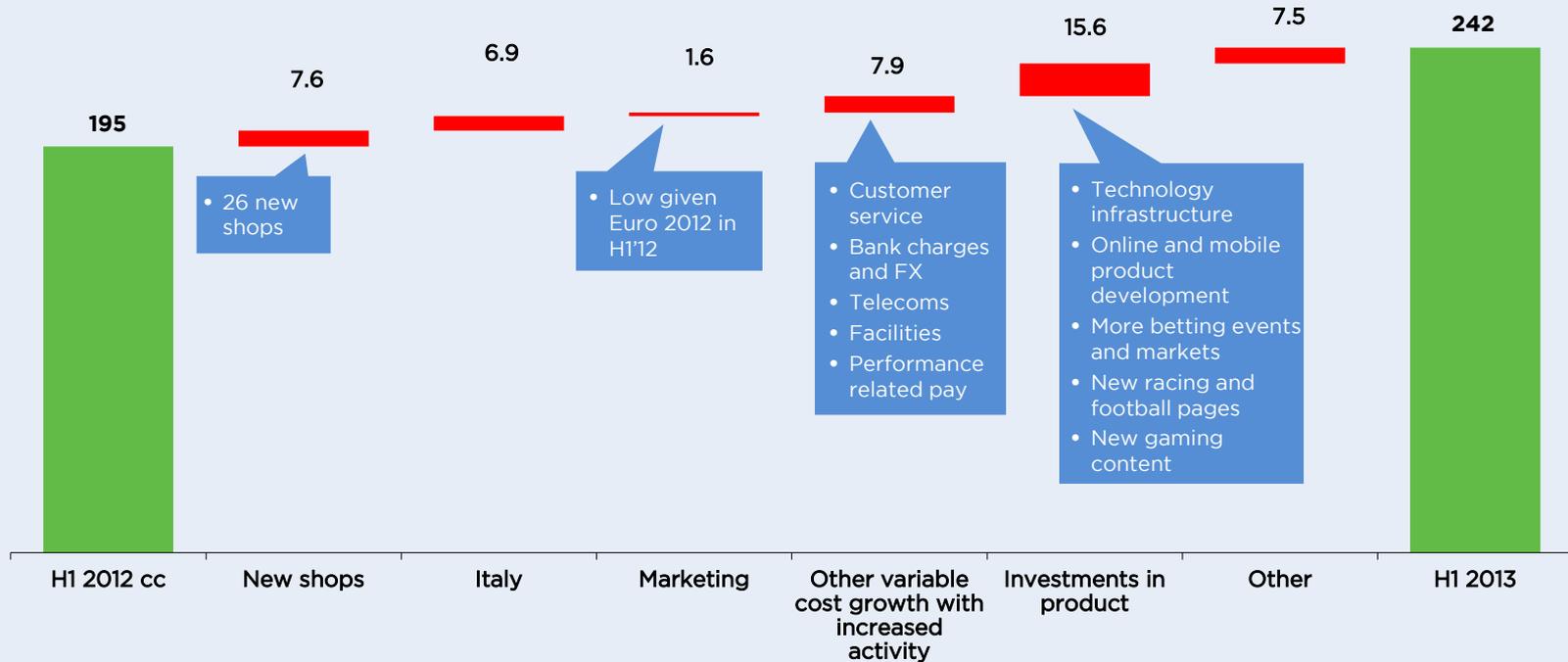
UPWARD DRIVERS

DOWNWARD LEVERS

# OPERATING COST GROWTH



## BRIDGE H1'12 TO H1'13 (€M CC)



# CASH FLOW



€M	H1'13
EBITDA	95.2
Maintenance capex	(9.5)
Working capital and other	(9.8)
<b>Operating cashflow after tax</b>	<b>75.9</b>
<b>Investing and financing activities:</b>	
Acquisitions	(2.5)
Enhancement capex	(19.0)
Dividends	(39.8)
Other	(9.5)
<b>Increase in net cash</b>	<b>5.1</b>

Includes positive working capital inflow as online grows

New shop openings and technology for product improvements and new businesses

Includes €1m FX translation impact on cash balances

**H1'13 operating cashflow 113% of profit after tax (5 years 2008-2012: 133%)**

**Closing cash €214m (€157m excluding customer balances)**

“BOARD REMAINS COMMITTED TO CAPITAL DISCIPLINE...WHILST MAINTAINING FLEXIBILITY FOR FUTURE GROWTH”

# TAX AND REGULATORY DEVELOPMENTS



## UK

- Online/phones 'point of consumption' tax:
  - Government progressing a 15% rate and December 2014 implementation
  - If applied to H1'13, extra tax payable €20m
  - Mitigation from lower costs and potential market share gains
- Voluntary Code of Conduct on machine gaming

## IRELAND

- Betting (Amendment) Bill 2013 published
  - 1% online/phones turnover tax (if applied to H1'13, extra tax payable €3.5m)
  - Year round retail evening opening
- Broader update of gambling law planned - Gambling Control Bill

## AUSTRALIA

- Final Report of Review of Interactive Gambling Act published in March 2013
- Advertising around live TV sports coverage restricted

## ITALY

- Significant expansion of sports betting markets

## OTHER

- Ongoing review of new market opportunities, via B2B or B2C

# H2 TRADING UPDATE



## TURNOVER\*

- Online sportsbook stakes +25%
- Retail like-for-like sportsbook stakes +4%

## SPORTS RESULTS

- In the punters' favour
- Reduced gross win by €15m

## CURRENCY

- AUD weaker since May trading update reducing 2013 operating profit by €4m

## 2013 OUTLOOK

- FX to lower reported profit growth by 4% YoY
- "...on track to achieve low to mid double digit operating profit growth in constant currency"

\* Growth comparisons above are 1 July to 25 August versus equivalent period last year in constant currency



# HIGHLIGHTS

FINANCIAL & OPERATIONAL REVIEW

STRATEGY & OUTLOOK



# GROUP STRATEGY

## 1. ATTRACTIVE MARKETS



- Regulated
- Substantial
- Fast-growing
- Where we have an edge

## 2. STRONG POSITIONS



- Aspire to be:
- Biggest
  - Fastest-growing

## 3. INVEST HEAVILY



- Building scale for the long term:
- People
  - Product
  - Value
  - Brand

## 4. STRONG PAYBACK

In Existing  
Markets  
+  
Optionality  
for  
Future Markets

30% COMPOUND ANNUAL EPS GROWTH SINCE FLOTATION (2000-2012)

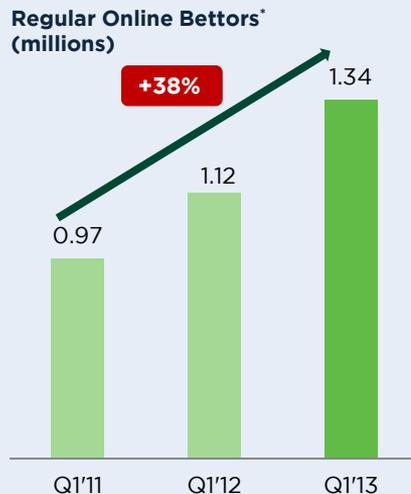
# UK ONLINE



## 1. ATTRACTIVE MARKET

### STRONG MARKET GROWTH

- Growth in total gambling market (retail + online) driven by consumer spending growth
- Online further boosted by migration:
  - New consumers disproportionately online
  - More retail consumers becoming multichannel
  - Increased tablet penetration



\*Source: Kantar Media Online Gambling Research

Base: c.10,000 during Q1 of each year

## 2. STRONG POSITION

### OVER INDEXING ON GROWTH 'HOT SPOTS'

- **Online:** c.75% of Group Profits
- **Mobile:**
  - 45% of Total Online Revenues (Peer Average\*\* 22%)
  - 55% of Sports Revenues (Peer Average\*\* 40%)
  - 29% of eGaming Revenues (Peer Average\*\* 14%)
- **Multi-channel uplift:**
  - Material online revenue uplift per shop and 2.25 times that of competitors\*\*\*

\*\* Average of available publicly quoted UK competitors' disclosures

\*\*\* Competitor set: William Hill, Ladbrokes and Coral

# UK ONLINE

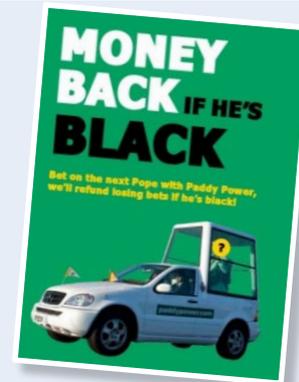
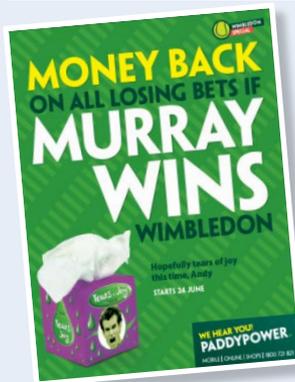


## 3. INVESTING HEAVILY

### MOBILE PRODUCT DEVELOPMENT



### VALUE & BRAND / PR

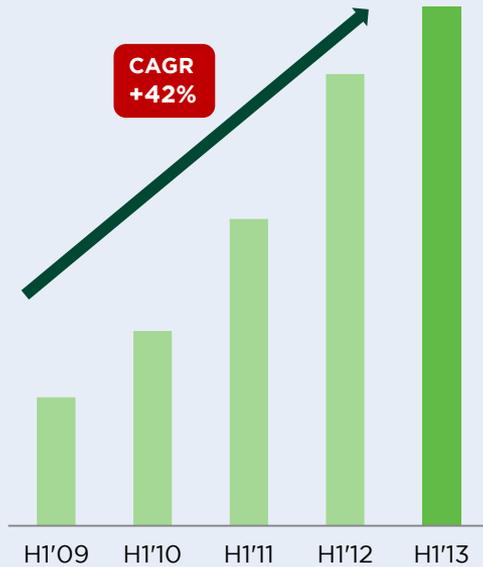


# UK ONLINE



## 4. STRONG PAYBACK

### ACTIVE CUSTOMERS



### NET REVENUE



Significant growth into  
mass market

AND

Growth in revenue per active  
(H1'09 to H1'13: +1% CAGR)

=

Strong net revenue growth

# AUSTRALIA

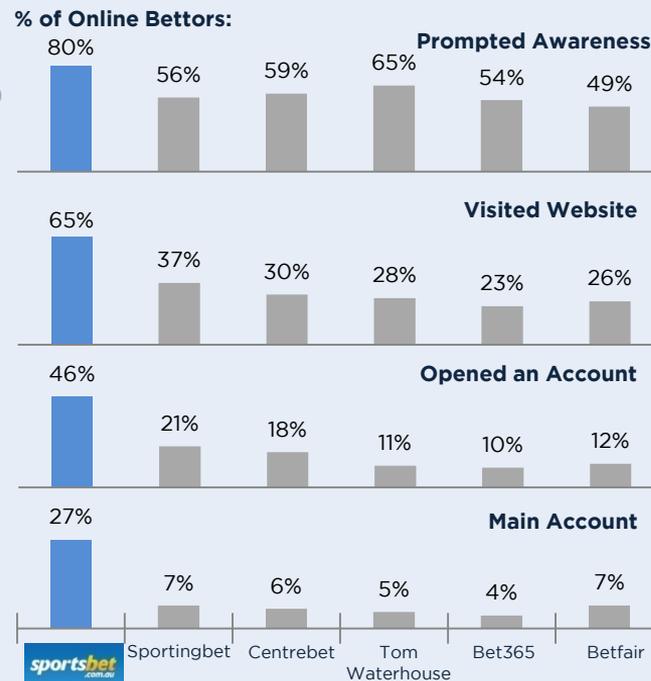


## 1. ATTRACTIVE MARKET

- Online stakes A\$12.5bn, larger than retail; 18% CAGR FY'08-'12
- Double-digit growth driven by:
  - Consumer spending growth
  - More consumers becoming multi-channel
  - New consumers disproportionately online
- Australian tablet penetration highest in world at 31% and expected to rise to 50% next year
- Phones increasingly a BIR channel

## 2. STRONG POSITION

### OUTPERFORMING OTHER CORPORATES AT MULTIPLE LEVELS



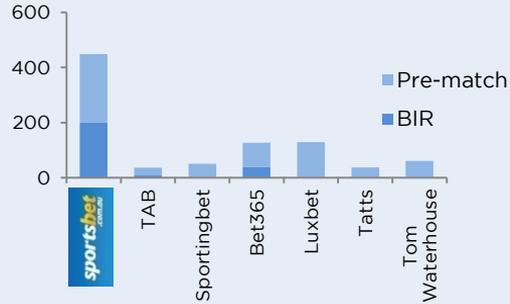
Source: Surveys Q4 2012; Base 2.5k customers

# AUSTRALIA



## PRODUCT & PEOPLE

Product: AFL Betting Markets



Online & Technology Headcount



## 3. INVESTING HEAVILY

### VALUE & BRAND / PR



Melbourne Airport, 20 June 2013

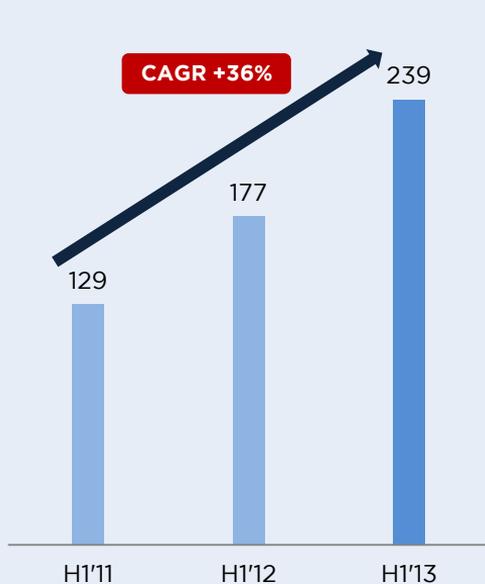
# AUSTRALIA ONLINE



## 4. STRONG PAYBACK

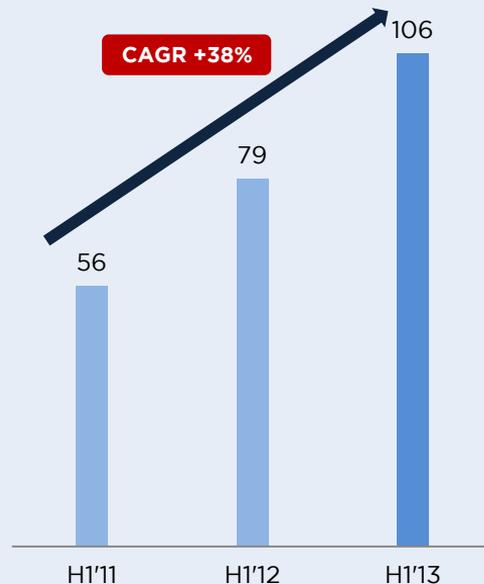
### ACTIVE CUSTOMERS

'000



### NET REVENUE

AUD millions



### OPERATING PROFIT

AUD millions

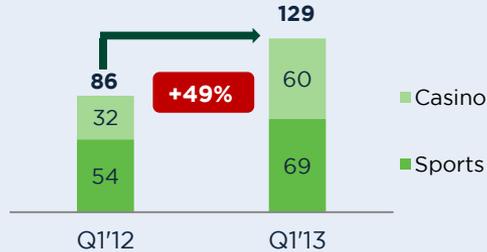




## 1. ATTRACTIVE MARKET

### STRONG ONLINE GROWTH

Market Revenue (€m)

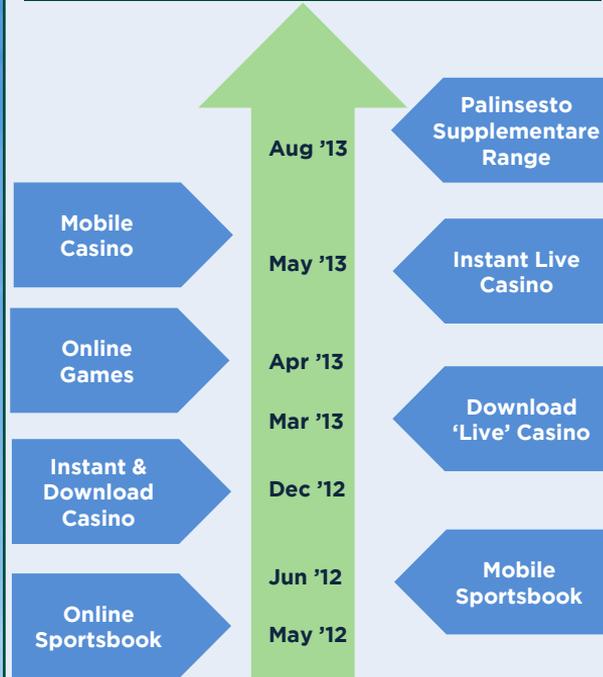


Source: AAMS

- E-commerce growth rates highest in Western Europe
- Each 1% migration from retail implies >10% online growth

## 2. INVESTING HEAVILY

### EXTENSIVE PRODUCT ROLLOUT



## 3. POSITION/PAYBACK DEVELOPING

### GROWING MARKET SHARE

Online Sportsbook Market Share



- Mobile 40% of mix in June for sportsbook versus c.20% industry average
- Rated No.1 brand for 'Fun' & 'Mischief'\*
- Highest Facebook fans in industry (348K)

\* Toluna Market Research, Mar-Jun'13

# RETAIL



## 1. ATTRACTIVE MARKETS

- Excellent return on capital

UK 2008-2011, Averages for 107 Openings

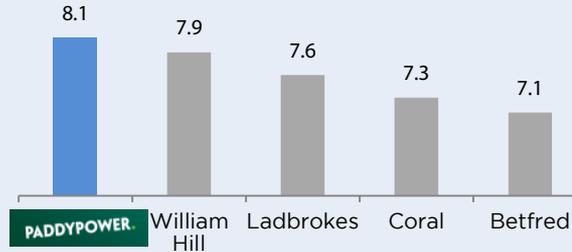


- Some sports betting migration online but:
  - New product growth e.g. SSBT's
  - Retail stores boost online, particularly for Paddy Power
- Adds scale for marketing, product and other investment

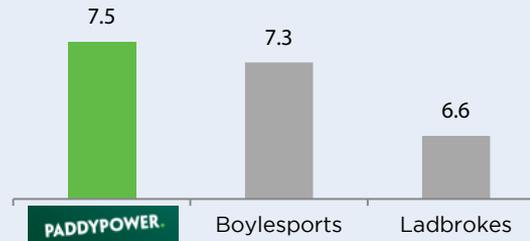
## 2. STRONG POSITION

### AVERAGE RATING OF SHOP'S ATTRIBUTES BY EACH BRAND'S CUSTOMERS

UK



Ireland

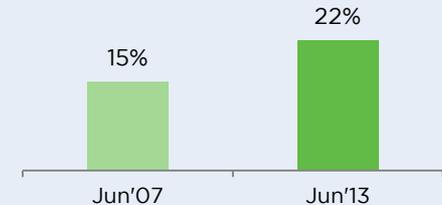


### SHARE OF SHOPS IN MARKET

UK



Ireland



Source: c.2,500 customers surveyed during 2013

# RETAIL

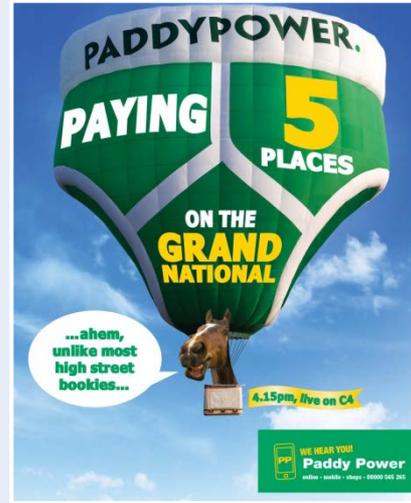


## 3. INVESTING HEAVILY

### NEW OPENINGS



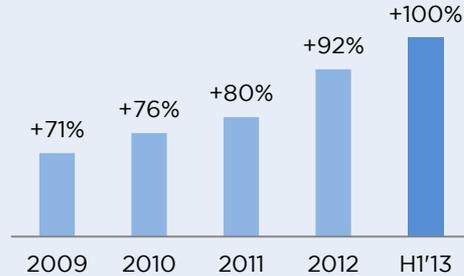
### PRODUCT AND VALUE



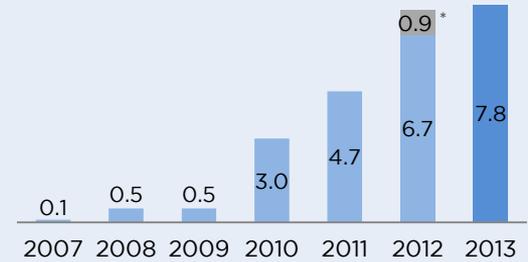


## 4. STRONG PAYBACK

Sports Stakes per Shop vs. Quoted Competitors

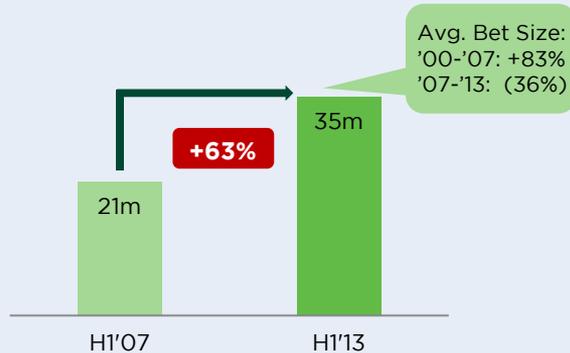


H1 Retail Operating Profit

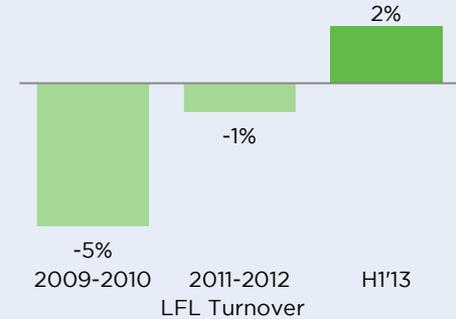


UK Retail

Paddy Power Betting Slips



Top Line Improving



Irish Retail

\* €0.9m impact of new MGD tax regime

# SOCIAL MEDIA



## 1. ATTRACTIVE MARKET

- Tomorrow's marketing mix:
  - 'Beta Partner' of Facebook
  - 'Up Front Partner' of Twitter
- Globally >1bn on Facebook
- Adult males on Facebook platform and % connected to PP via friends:
  - UK: c.15.4m; 100%
  - Australia: c.5.0m; 72%
  - Italy: c.12.2m; 67%

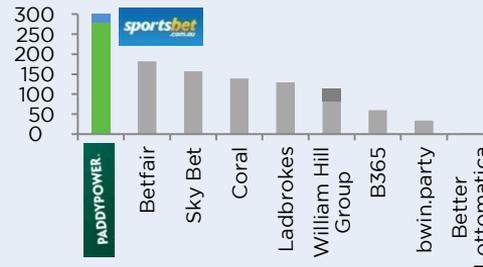
## 2/3. STRONG POSITION & INVESTING HEAVILY

### SOCIAL MEDIA LEADER

Facebook Fans Aug'13 ('000)



Twitter Followers Aug'13 ('000)



- Leading Fans and Followers
- Leading engagement:
  -  5 times as many retweets as nearest competitor
  -  Regularly reach >1m people with Facebook posts
- Fans twice as valuable as non-fans



40k 'likes'; 3k retweets; Reach >1m people

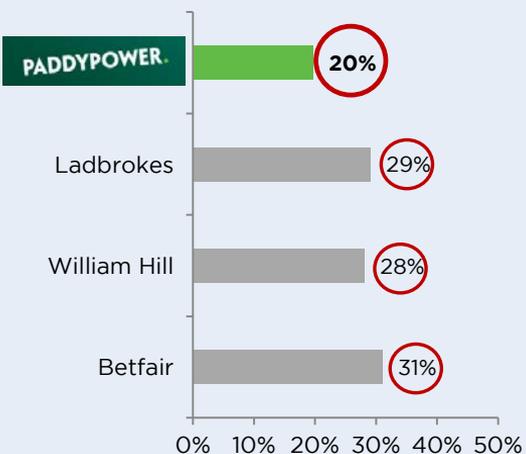
# SOCIAL MEDIA



## 4. PAYBACK

### CONTRIBUTES TO LEADING MARKETING EFFICIENCY

Online Marketing as % of H1 2013 total online net revenues\*



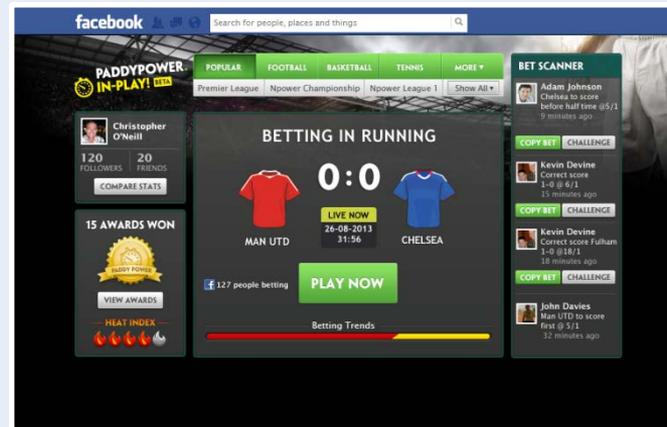
Highest ever spontaneous brand awareness\*\*



\* Competitor data sourced from public filings; Betfair is Nov'12 to Apr'13; William Hill excludes Australia

\*\* Source: Kantar Media Online Gambling Research  
Base: c.1,600 UK regular gamblers each date

### PADDY POWER IN-PLAY!



- First real money sports betting product on Facebook
- Developed in-house in Bulgaria and Dublin
- Facebook app for desktop customers in the UK

# CONCLUSION



## ONLINE (76% OF H1 PROFIT): IN THE HOTSPOT

Sources of UK Retail & Online Market Growth, 2012-2018F  
(Gross Win, €m)



Source: Internal analysis utilising H2GC, Kantar, company accounts, Euromonitor, Datamonitor and consumer surveys



## RETAIL: UNIQUELY POSITIONED

- Substantial, resilient market
- Excellent returns
- Growing share

“THE BOARD IS CONFIDENT OF THE GROUP’S PROSPECTS”