

14 May 2015 - Paddy Power plc - Interim Management Statement

Strong Top-Line Growth Offsets Unfavourable Sports Results; Review of Italian Business Completed

The Chairman of Paddy Power plc, Nigel Northridge, will make the following trading statement at the Company's Annual General Meeting to be held in Dublin at 11am today. Trading refers to the period from 1 January to 11 May 2015 versus the equivalent period last year in constant currency, except where otherwise indicated. Mr. Northridge will also announce that he will step down as Chairman on 30 June 2015, after which he will be succeeded by Gary McGann.

Summary

Overall

2015 has started well. While sports results have been unfavourable across the sector, this has been offset for Paddy Power by strong top-line growth, particularly in Australia.

We have completed a strategic review of the Group's Italian business. We have identified substantial operational improvements and we see the market as attractive over the medium to long term. Accordingly, we are confident with the expected returns from further investment.

Separately, we will realise a number of opportunities to improve efficiency across the Group this year.

Top-Line Growth

In Online, sports betting stakes grew by 24% and total net revenue by 36%. In Retail, sports betting stakes grew by 14% and total net revenue by 21% (or 7% and 11% respectively excluding the impact of new shops). While sports results have improved relative to the comparative period, they were below our normal expectations, most particularly in our Telephone channel. Total Group sports betting stakes increased by 21%, with net revenue up 28% for sports betting and 26% overall.

Weakness in the Euro relative to the comparative period continues to help offset the impact of new taxes and regulations this year, with Group net revenue up 35% on a non-constant currency basis.

Product & Brand

Differentiated product alongside distinctive brands and marketing capability, are at the core of our strategy to win. Product releases in the period for *paddypower.com* included partial cash-out and mobile usability enhancements, while in Australia we launched cash-out, fingerprint log-in and live Victorian racing streaming. We have appointed a new Chief Marketing Officer, Gav Thompson, and we will launch a new marketing campaign later this year. In Australia, we have increased our brand investment to target the current state of flux amongst competing brands.

Online

The benefit of our substantial and targeted investment in product and brand is most evident in our Australian business where total stakes grew by 39% and net revenue by 43%, driving continued market share gains.

In our UK and Irish online business, sports betting net revenue grew 43%, helped by the largest year-on-year gross win percentage rebound amongst our divisions. Notwithstanding this level of increased winnings from customers, sportsbook stakes were up 13%. Continued strong performance from mobile and proprietary games drove eGaming net revenue growth of 17%.

Following a strategic review of our Italian business, a number of substantial operational improvements are in progress. These include cost efficiencies, increasing brand awareness and specific sportsbook and eGaming product improvements. With the execution of this plan, we expect to achieve some year-on-year reduction in Italian losses this year and again next year, before substantially eliminating losses and moving to profitability thereafter. Italian net revenue increased by 23% in the period.

Retail

In UK Retail, on a like-for-like basis, sports betting stakes grew by 7%, sports betting net revenue by 15% and machine gaming net revenue by 10%.

In Irish Retail, new legislation has allowed betting shops to open in the evening throughout the year, contributing in part to our like-for-like growth of 7% in stakes and 10% in net revenue.

We have opened 8 shops in the UK and acquired 2 shops in Ireland in the period.

Financial Position

As at 11 May, the Group had no debt and net cash of €347 million, or €265 million excluding customer balances. Assuming the related resolutions are approved at today's AGM, the Group will distribute approximately €442 million to shareholders by 5 June by way of a €1.02 regular final dividend per share and an €8 per share B share scheme. The Group has arranged a related €300 million committed five year revolving credit facility with a syndicate of banks. As part of the B share scheme, a 9 for 10 share consolidation is scheduled to take place on 15 May 2015.

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

	Increase / (Decrease)	
	Nominal	Constant Currency
Group		
Sportsbook amounts staked	+29%	+21%
Sportsbook net revenue	+36%	+28%
Total net revenue	+35%	+26%

	Increase / (Decrease)	
	Nominal	Constant Currency
Online (ex Australia)		
Sportsbook amounts staked	+23%	+13%
Sportsbook net revenue	+55%	+41%
Gaming/B2B net revenue	+27%	+18%
Total net revenue	+42%	+31%
Australia		
Online amounts staked	+52%	+42%
Online net revenue	+53%	+44%
Total net revenue	+52%	+43%
UK Retail		
Sportsbook amounts staked – like-for-like	+20%	+7%
Sportsbook net revenue – like-for-like	+29%	+15%
Machine gaming net revenue – like-for-like	+23%	+10%
Total net revenue – like-for-like	+26%	+12%
<i>New shops year to date</i>	<i>8, including 1 acquired</i>	
Irish Retail		
Amounts staked – like-for-like	+7%	+7%
Net revenue – like-for-like	+10%	+10%
<i>New shops year to date</i>	<i>2, both acquired</i>	

Finally, I would like to announce that I will stand down as Chairman and as a non-executive director of Paddy Power plc at the end of the first half, now that the appointment and transition to a new CEO has been concluded and I have completed two three-year terms as Chairman. I am delighted to announce that Gary McGann, who joined the Board last year as a non-executive director, has agreed to assume the post of Chairman when I step down. It has been a pleasure to have had the opportunity to serve on the Board over the past 11 years. The Group has made great strides in that time due in no small part to the endeavour and commitment of my Board colleagues and of management, present and past, for which I thank them.

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 1074 from Ireland, 01296 480 100 or 0800 783 0906 from the UK and +44 1296 480 100 from elsewhere. The passcode is 605 001.

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 44040108.

ENDS

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