



2 May 2018

Paddy Power Betfair plc – Q1 2018 Trading Update

Paddy Power Betfair plc (the “Group”) today announces a trading update for the three-month period ended 31 March 2018 (“Q1 2018”).

<i>Unaudited</i> £m	Q1 2018	Q1 2017	YoY %	Constant currency² YoY %
Revenue	408	416	-2%	<i>Flat</i>
Underlying ¹ EBITDA	102	111	-8%	-6%
<i>Underlying¹ EBITDA margin %</i>	<i>24.9%</i>	<i>26.6%</i>	<i>-1.7%</i>	<i>-1.5%</i>
Underlying ¹ operating profit	80	91	-12%	-9%

- Q1 revenue flat in constant currency (“cc”²):
 - Customer activity in the UK&I adversely affected by the sustained period of bookmaker friendly sports results from November to February and a high level of racing fixture cancellations
 - Good underlying growth in Australia partially offset by adverse sports results
- Q1 underlying¹ EBITDA down 6% in cc due to the annualisation of new betting taxes & levies and start-up losses in our US businesses. Excluding these items, underlying¹ EBITDA was flat
- Full year underlying¹ EBITDA currently expected to be between £470m and £495m
- Net cash of £330m at 31 March 2018
- Planning to return £500m of cash to shareholders over the next 12 to 18 months; share buyback programme to be initiated shortly

Peter Jackson, Chief Executive, commented:

“We have made good progress against our strategic priorities. In Europe, the successful completion of our platform integration has resulted in a meaningful improvement to the Paddy Power product. This has seen the brand’s gaming revenue returning to growth from February and a significant uplift in Cash Out usage and in-running betting during the Cheltenham Festival.

In Australia, Sportsbet continues to perform well and is targeting further market share growth, with additional investment planned to take advantage of any disruption arising from market consolidation and the introduction of increased taxes.

In the USA, TVG and Betfaircasino.com have good momentum and we are continuing to make preparations for any positive regulatory changes.

Notwithstanding lower profits in the first quarter, we expect full year underlying EBITDA of between £470m and £495m.

We are today announcing that we intend to return £500m of cash to shareholders, representing a step towards a more efficient capital structure, whilst retaining substantial strategic flexibility.”

Revenue

Group revenue at £408m was 2% lower than the prior year or flat on a constant currency² basis. Overall, sports results were in line with our expectations for the quarter, with favourable sports margins in the first half of the period offset by customer friendly results in March.

Online

Revenue was down 2% to £219m. Sports revenue was down 1%, with football growth offset by weakness in horseracing, which was adversely impacted by the high level of weather-related cancellations (14% of total UK/Irish races were cancelled versus 4% last year).

Sportsbook revenue was up 3%, with growth in the Betfair brand offset by lower revenues in the Paddy Power brand. As well as the racing cancellations, Q1 revenue was adversely affected by the very strong gross win margins in Q4 2017 compared to Q4 2016 (four percentage point swing year-on-year), which affected customer activity, including reduced re-cycling of customer winnings. This adverse re-cycling impact was compounded by bookmaker friendly results in January and February.

Exchange revenue was down 7% year on year, with growth in commissions from football and other sports offset by lower horseracing commissions and a reduction in other high-value customer charges (due to year-on-year changes in net winnings from these customers). The revenue model of the exchange, which is particularly driven by volume of fixtures, means horseracing commissions were materially affected by the number of racing cancellations.

Gaming revenue was down 4% in the quarter with growth in Betfair offset by a decline in revenues on the Paddy Power brand. The migration of Paddy Power customers to the integrated technology platform in January has improved the brand's gaming product and improved cross-sell from sports. Since the migration, Paddy Power gaming revenues have returned to growth and overall gaming revenues for February and March were up 4% year-on-year.

Australia

Revenue increased by 6% in local currency, with continued good growth in underlying customer activity partially offset by adverse sports results.

Ahead of the expected introduction of new taxes, competition remains intense and market consolidation has commenced. We have reviewed our investment plans and see an opportunity to compete more aggressively to take advantage of the potential disruption to competitors. As a result, we are increasing investment in promotional generosity and marketing activity.

Retail

Revenue was down 4% to £79m. Excluding the impact of new shops and currency movements, like-for-like revenue was down 6%. This was comprised of 3% machine gaming growth offset by a 10% decline in sportsbook revenues. Sportsbook revenues were affected by weather-related shop closures in Ireland, where our shops were closed for two full days, and the racing cancellations. We opened three shops in the UK and two in Ireland during the quarter, taking our total estate to 631 shops.

US

Revenue increased by 23% in local currency, with sports revenue up 24% and gaming revenue up 19%. Sports revenue growth was driven by TVG where handle increased by 17%, supplemented by revenues from DRAFT.

Profitability

Underlying¹ EBITDA decreased by 8% to £102m, or by 6% on a constant currency basis excluding a £3m adverse impact from foreign exchange translation. Cost of sales were adversely impacted by approximately £5m from the annualisation of new betting taxes and levies implemented during 2017. Total operating costs increased by 1% in constant currency with sales and marketing spend up 4% and other operating costs flat year-on-year.

Excluding the impact of the foreign exchange translation, and the annualisation of new betting taxes, levies and start-up losses in our existing USA businesses, on a like-for-like basis, underlying¹ EBITDA was flat year-on-year.

Financial position and capital structure

The Group had £330m of net cash at 31 March 2018, excluding customer balances.

At our preliminary results, we outlined the Board's medium-term leverage target of between 1x and 2x net debt to EBITDA. As a step towards that target, we are announcing our intention to return £500m of cash to shareholders over the next 12 to 18 months. Our current preference is to fulfil this through a series of share buyback programmes, which will commence shortly with an initial £200m tranche.

This is in addition to our existing dividend payout policy, which is unchanged at 50% of profit after tax.

Outlook

We currently expect 2018 full year underlying¹ EBITDA to be between £470m and £495m. This expectation reflects the increased investment in Australia and assumes no new taxes become payable in Australia in 2018. It is also before any potential additional investment which may arise in the event of positive regulatory changes in the USA.

¹ In this trading update reported profitability, including EBITDA and operating profit, is on an underlying basis and excludes exceptional items and amortisation of intangible assets relating to the merger

² Constant currency ("cc") growth throughout this trading update is calculated by retranslating non-sterling denominated component of Q1 2017 at Q1 2018 exchange rates

Appendix: Q1 2018 Divisional Key Performance Indicators

Unaudited

£m	Online			Australia				Retail			US				Group			
	Q1 2018	Q1 2017	% Change	Q1 2018	Q1 2017	% Change	A\$ % Change	Q1 2018	Q1 2017	% Change	Q1 2018	Q1 2017	% Change	US\$ % Change	Q1 2018	Q1 2017	% Change	CC² % Change
Sportsbook stakes	1,277	1,424	-10%	917	819	+12%	+21%	415	456	-9%					2,609	2,699	-3%	-2%
Sportsbook net revenue %	7.6%	6.7%	+0.9%	9.0%	10.4%	-1.4%	-1.4%	12.5%	12.4%	+0.1%					8.9%	8.8%	+0.1%	+0.1%
Sports revenue	161	163	-1%	83	85	-2%	+6%	52	57	-8%	23	21	+10%	+24%	319	326	-2%	Flat
Gaming revenue	58	61	-4%	-	-	-	-	27	25	+5%	5	4	+6%	+19%	90	90	Flat	Flat
Total revenue	219	224	-2%	83	85	-2%	+6%	79	82	-4%	28	25	+10%	+23%	408	416	-2%	Flat
Regulated markets	200	205	-2%	83	85	-2%	+6%	79	82	-4%	28	25	+10%	+23%	389	397	-2%	Flat
Unregulated markets	19	19	-1%	-	-	-	-	-	-	-	-	-	-	-	19	19	-1%	+2%
Total revenue	219	224	-2%	83	85	-2%	+6%	79	82	-4%	28	25	+10%	+23%	408	416	-2%	Flat
Underlying EBITDA															102	111	-8%	-6%
Underlying operating profit															80	91	-12%	-9%

Analyst Call:

The Group will host a conference call for institutional investors and analysts this morning at 8:30am (IST/BST). To dial into the conference call, participants should dial 0800 783 0906 or 01296 480 100 from the UK, (01) 242 1074 from Ireland and +44 1296 480 100 from elsewhere. The passcode is 233 772 76.

A replay of the call will be available later today on our corporate website:
<https://www.paddypowerbetfair.com/investor-relations/results-centre>

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