A FAVOURITE WITH INVESTORS

AT A TIME WHEN ALL BETS ARE OFF IN THE CAPITAL MARKETS, **TOM SINGER** OF WILLIAM HILL HAS ROMPED HOME WITH A SUCCESSFUL IPO. SHEELAGH KILLEN ASKS HIM ABOUT HIS WINNING STREAK.

In today's troublesome initial public offering (IPO) environment, a number of high profile deals, including Yell and Focus DIY, have had to be postponed, as investor demand remains as uncertain as France's World Cup form. Yet against this backdrop, William Hill has beaten the odds by raising £734m in an IPO deal which was 10 times oversubscribed and strongly supported by both institutional and retail investors. So what factors have allowed William Hill to stretch ahead of the field?

DEFENSIVE APPEAL. Tom Singer, the company's Finance Director, highlights several aspects in which the William Hill offering was differentiated from other proposed IPOs. First, in a market where institutions are looking for income stocks, William Hill is highly cash generative and can demonstrate a dividend yield of close to 4%. Moreover, not only does the company enjoy a well-established retail brand but the gaming business itself is also both generally resilient against the cyclical effects of recession and firmly founded in the 'old economy'. While the company has built a significant internet presence, this still accounts for only around 7% of its revenue, with the balance of sales coming from telephone betting (10%), amusement machines (7%) and licensed betting (76%).

GROWTH PROSPECTS. Although a reliable income stream was welcomed, the William Hill offering did not merit attention purely as a defensive gambit. Earnings growth has topped 20% over the past three years and Singer is keen to point out the continuing growth potential for a company which is strongly positioned in today's rapidly changing gaming industry. He believes that the de-regulation expected to follow from a recent government review of the gaming laws, coupled with tax changes which allow bookmakers to pay tax on gross profits, rather than the General Betting Levy on turnover, is likely to lead to a shake-out in the gaming world. As smaller companies look to sell out of the business, William Hill is now excellently placed to pursue an acquisitive growth strategy to further enhance its presence in the market. The company has over a £100m of headroom under its debt facilities and, following the IPO, now has greater flexibility to pursue paper-based acquisitions. Singer explains that: "It was the right time for the business to come to the market and we needed to do so in order to finance our expansion plans." This positioning for growth proved an inviting prospect for investors.

INVESTOR DIVERSIFICATION. The overall William Hill income and growth proposition tempted not only major institutions but also retail investors, who took up some 15% of the shares on offer, wresting allocation from the hands of larger fund managers. Singer hopes that the retail take-up of the share offer has satisfied the many hundreds of William Hill customers who expressed disappointment at not being able to acquire shares in the company

Corporate milestones

1971 Mr William Hill dies aged 68. Sears Holding Group purchases the William Hill Organization.

1988 William Hill Organization is acquired by Grand Metropolitan and merged with Mecca Bookmakers to create the second largest off-course retail bookmaker in the UK.

1989 WHG Limited, an investment vehicle of Brent Walker, acquires William Hill Organization.

1997 Nomura International plc buys William Hill Organization.

1999 William Hill Organization is acquired by Cinven and CVC Venture Capital.

2002 William Hill Plc was admitted to the Official List of the UK Listing Authority and to trading on the London Stock Exchange.

'SINGER SEES THE DEAL AS THE "STARTING GUN RATHER THAN THE FINISH LINE" OF THE WILLIAM HILL ADVENTURE'

when a previous float attempt launched by former owners Nomura had to be shelved. He also contends that having a portion of ownership lodged with the company's clientele can only have a positive impact on customer loyalty. From an indicative price range of 190p-240p, William Hill was able to narrow the price corridor to 220p-230p before sealing the issue at 225p (see *Figure 1*).

ON THE ROAD. While the fundamentals of the William Hill IPO undoubtedly captured the mood of the markets, the management at the company also seems to have hit the right note during the issue roadshows. The team went on the road for two and a half weeks, making some 150 'pitches' comprising mainly one-to-one meetings with institutional investors but also including some presentations to groups of analysts and smaller investors. Singer admits to feeling the "momentum" of the deal building from the first week of the roadshow and his instinct was proved correct, as sufficient orders to ensure the issue would be fully subscribed at the lower end of the price range were taken within days.

From then on, it was a matter of "talking up" the deal pricing, both to achieve a more beneficial issue price and to ensure that "enough unsatisfied demand was left" so that investors saw an immediate paper profit as the shares traded at a 10%-15% premium after issue. Singer attributes the success of the company's presentations to "being clear what our story was and about how we were going to tell it" as well as to the fact that the company has "fundamentally a very strong story".

MANAGEMENT TEAM. An additional observation (which Singer modestly neglects to mention) is that the quality of the management team must also have contributed to credibility in front of investors. Key executive appointments since the 1999 buy-out by venture capitalists CVC and Cinven include Chief Executive David Harding, who joined William Hill in 2000, and Singer himself, who came on board in 2001. In contrast to the enduring image of the camel-hair-coated bookie, Singer's background could not be more blue-chip. He trained as an accountant (strictly of the chartered rather than the turf variety) with Price Waterhouse, spending seven years with the firm before branching out to notch up five years with top strategy consulting firm McKinsey and three years as Finance Director of Moss Bros.

FOCUS ON CONTINUITY. Turning towards the other side of the management partnership, a positive message was also sent to the markets by the decision of the Cinven and CVC to retain a significant stake in the business post-IPO. In other recent deals such as the HMV and Punch sell-offs (and indeed at the time of Nomura's earlier abortive attempt to dispose of its interest in William Hill), private equity firms have been subjected to criticism by investors for their seeming determination to 'off-load' their entire stakes in the floating businesses. In the William Hill IPO, the original proposal was to bring only £109m of the venture capitalists' secondary holdings to the market, alongside £23m of employee shares. This was set against £340m of primary share issuance. As a result of over-subscription, the venture capitalists took the decision to increase their portion sold, although Singer stresses that "they remain fairly substantial shareholders and are committed to supporting the business."

LOOKING FORWARD. The sense of continuity offered by the continued interest of the venture capitalists in William Hill is also reflected in Singer's attitude to the impressive IPO. He sees the deal

FIGURE 1
IPO DETAILS.

ISSUER	AMOUNT	TYPE	NUMBER OF SHARES	OFFER PRICE	PRICING DATE	EXCHANGE LISTING	FEES	BOOKRUNNER
WILLIAM HILL	£734m[1]	IPO	326.5m[2]	225p	14 June 2002	LSE	3%	Citi/SSSB[3], Deutsche Bank

[1]Primary £340M, secondary £394m. [2]Primary 151.1m, secondary 175.4m. [3]Global co-ordinators.

FIGURE 2
FINANCING DETAILS.

BORROWER	TYPE	AMOUNT	TERM	MARGIN LIBOR+	FEES CO-ARRANGER/LEAD MANAGER MANAGER			ARRANGER(S)
					(BP)	(BP)	(BP)	
WILLIAM HILL	Amortising Term	£210m	4yrs 6m	145[1]	27.5	Senior lead Lead mgr	25 20	Barclays Capital, Royal Bank of Scotland, Deutsche Bank
	Bullet RC	£450m	5yrs					

[1]With reduction down to minimum of 70bps based on ratio of borrowers net debt to Ebitda.

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as the "starting gun rather than the finish line" of the William Hill adventure. And this is not just idle talk – the company has moved to complement its equity financing with the arrangement of long-term debt financing to the tune of £660m. The new facility, which is presently being syndicated, will take out existing high-yield bonds and refinance £394m of deep discounted bonds.

FINANCING STRATEGIES. The facility has been arranged on a floating rate basis but Singer is looking to fix a significant portion of the debt, in the very short term up to 90%, with a likely split of 70:30 in the medium term. He is quick to point out that this strategy is based not on any perceived ability in predicting future interest rates (or indeed a detailed study of the odds!) but rather because he would "rather fix the costs which we can't control and then worry about the ones which we can". To back up this conservative rate strategy, he has taken a proactive stance in managing down the company's costs of debt. Obviously confident of William Hill's ability to continue to grow, he has negotiated a ratchet into the new facility. Both the £210m amortising term credit (four years six months maturity) and the £450m bullet revolver (five-year maturity) are priced at 145bps over Libor, with the spread decreasing to 70bps based on the ratio of borrowers net debt to Ebitda (see *Figure 2*). With recent negative comment on the use of 'triggers' linked to creditworthiness in the Enron affair, this pricing basis underlines the positive aspects of performance-linked funding arrangements. Under this deal, funding is secured at present levels of credit performance without sacrificing the ability to benefit from downward shifts in gearing levels.

BANKING PARTNERS. The growth aspirations of William Hill apparent in this funding structure are also reflected in the company's choice of banking partners. Barclays Capital, Royal Bank of Scotland and Deutsche Bank were mandated to lead arrange the refinancing and Singer is not afraid to cite the strength of the balance sheets among these players as a key factor in William Hill's selection of bank providers. Although Deutsche Bank also sat alongside global co-ordinator Schroder Salomon Smith Barney as joint bookrunners on the IPO, Singer puts no special significance on the bank's presence on both the equity and debt sides. He emphasises that the company's advisers on both transactions were selected (appropriately enough) "as horses for courses" on the basis of their skills and capabilities, rather than any overriding relationship considerations.

TREASURY AT WILLIAM HILL. Singer is not only concerned with consolidating William Hill's financial future through external relationships. He is also looking to cement his in-house treasury team. Although treasury activities are covered by Singer's remit as Finance Director, and he has been personally instrumental in the setting and implementing of corporate finance strategy, he is supported by two managerial staff members in treasury roles. On the funding side, a Corporate Finance Manager has provided input on planning for the IPO and the associated refinancing and also on implementing a suitable hedging strategy for the new funding.

The treasurer takes responsibility for all treasury operational matters including managing the 'back office' for the all betting income channels, day-to-day banking relationships, account reconciliation and cash management. This treasury area also manages the company's exposures on bets received in foreign currency, although, in accordance with the company's 'risk adverse' financial risk strategy, policy is that only small positions should be taken, with non-sterling revenues regularly sold down into base currency.

FUTURES AND OPTIONS. Over the past few months, Singer has been working to formalise the allocation of treasury responsibilities within the company to ensure that the business's needs can continue to be met and to provide a foundation for corporate growth. The effective use of technology is likely to be a key success factor in the gaming industry of the future and this will no doubt impact on the company's treasury processes. Singer and his team have already played an important role in establishing shareholder and debt funding for William Hill and they now face the challenge of driving the business forward through a combination of organic growth and acquisition. And with the success of the William Hill IPO already in the form-book, who would bet against them?

Tom Singer is Finance Director of high street bookmakers William Hill. He was talking here to Sheelagh Killen of the ACT.
www.willhill.com