GVC Holdings plc

Further investment in BetMGM

8 July 2020

Transcript

Operator:

Good afternoon, ladies and gentlemen, and welcome to this GVC conference call. Speaking to you this afternoon, we have GVC CEO Kenny Alexander, and also GVC CFO Rob Wood. Before I hand you over, can we just remind you that this call is being recorded. During the call, all participants will be in listen-only mode, and afterwards there'll be an opportunity for questions and answers. I'm now delighted to hand you over to Kenny Alexander. Please begin your presentation.

Kenny Alexander:

Hi there, good afternoon all. Obviously we've just put out the announcement about the additional investment both ourselves and MGM have put into our US joint venture. I've always said that ... I've said it from the day we did the deal with MGM, that this would be potentially one of the best deals we've done in terms of value creation. As of today, I remain as convinced that the US opportunity is huge. We have an aspiration to be a market leader, and it is quite clear where the market is opening up, by the amount of investment that is required in marketing et cetera, that we will require additional investment in order to achieve the aspiration of being the market leader.

Adam Greenblatt went to US, and he and his team have done an excellent job over the last couple of years. The business over there is a properly independent company from GVC and MGM, with a proper management team, good technology provided by GVC, and all of the big assets and strengths that come from partnering up with MGM.

But now is the time to inject more capital to set MGM firmly on the path to market leadership. We've taken our combined investment now to $450 million, and just to pre-empt no doubt some of the questions, people will look at what ammunition DraftKing’s and FanDuel got from their recent raisings. Do we have enough to be the market leader? Possibly, and if not, then we will put more money in. The bottom line is this is an additional investment to keep us competitive and make that aspiration realistic. But if we really need to put more money in, then we're quite prepared to do so, and we've got the balance sheet, as has MGM, in order to facilitate that.

This underpins BetMGM on its four key strategic enablers that are set out in the press release. There's three I'd like to pick up on - in terms of the market access, we've got access to 19 states, which addresses 50% of the population, and can expect to be present in 11 by the year end, with a leading market share in i-gaming in New Jersey. We aim to replicate that in sports in pretty quick order.

In terms of the customer reach, we've really yet to the leverage the Yahoo player base, so over 64 million monthly users, which will start soon. We're particularly excited about what we can do with M life through the retail properties and the M life program, and obviously Omnichannel, which we've executed very well in the UK and in other European territories, we're hoping to do that with the BetMGM assets, obviously, in Vegas and elsewhere in the US.

In terms of our market-leading technology, BetMGM has access to 2,000 technologists. Without a doubt they're a collection of the brightest minds in technology in our industry, continually developing improvements and new products every day. GVC does over 200 improvements every single week to our products. It also gives BetMGM access to our skills in gaming and sports products, as well as our industry-leading marketing skills. We're already the number one operator in New Jersey in i-gaming. That is testament to our marketing skills in terms of casino, and also to the product that we have. So therefore BetMGM has a number of unique attributes, and that ultimately places it in a very strong position.

We're absolutely committed to do whatever it takes to be the market leader. I think it's fair to say we have done so far. We will win in the US, it will take place over a number of years. It's done well to date; we're in a good position. The stakes are getting higher. Other people have got ammunition in order to really go to grab market share, and we've put this investment in there as a sign that the kid gloves are coming off, and our aspiration to be the market leader is real. We shall aim to display it over the coming years, and it'll require more investment. We'll put in what it takes in order to achieve that.

And now I will hand you over to Rob, CFO, and he can give you a bit of flavour around the numbers.

Rob Wood:

Just a little bit more detail from me firstly, around timing of this additional commitment for 2020. I'm expecting the equity injections per parent to be somewhere around $50 to $60 million, something like that. So that's a little bit higher than the guidance we gave earlier this year of around $40 million. And then for the next two years, I think you can expect around $75 million per annum per parent. If you add those numbers to the $25 million that had already been injected as at 2019 year end, you'll get to the total per parent of $225 million.

Just on accounting, GVC will carry on showing those equity contributions via the cash flow, and from a P&L perspective because it's a JV, we'll be reporting the loss below EBITDA. In terms of what might that loss look like in 2020, obviously an exceptional year with COVID-19. Our best forecast at the moment is somewhere around the £40 million mark, £40 million sterling for GVC, whereas in March we guided to £20 to £30 million. So in both cases, both equity injections and loss for 2020, we're expecting a small increase to both of those numbers. But obviously we're delighted with that increased investment, given that there really isn't a better investment opportunity out there in terms of ROI, and of course we remain 100% committed to the US market for exactly that reason. So that's it by way of introductory comments. Let's go straight over to Q&A, please.

Operator:

Thank you. Ladies and gentlemen, if you would now like to ask a question, please can you press star two on your telephone keypad. That's star two on your telephone keypad. We will only be able to take questions from people who have provided contact details, and there will be a brief pause now while questions are being registered. Lovely. Our first question is from the line of Stuart Gordon. Stuart, your line's now open. Please go ahead.

Stuart Gordon:

Thank you. A couple of questions from me. You said in the release that BetMGM is on track for $130 million of revenue in 2020, the bulk from i-gaming. Just wondering what your assumptions are behind the resumption of sports in the US through the second half of this year, and then to 2021, just to better understand how you see the trajectory of the sports business. And the second one is obviously this makes BetMGM incredibly well-capitalized, and you said that there would be more to come. But at what point would you consider raising external debt rather than shareholder equity?

Kenny Alexander:

Okay. I'll take the first one, and Rob can take the second one. I think that the sports programs look ... I don't have any firm information, but our best feel for the moment is that it's going to start opening up reasonably soon in a similar fashion to what we're seeing in Europe, where now you've pretty much all the main European football leagues open, admittedly behind closed doors.

Quite frankly, that doesn't really bother us. So...NFL season start. I think obviously it will start. I think it's going to start late. I think it's going to be behind closed doors, but in terms of generating volume, I don't think it really affects us, the fact that it's empty stadiums instead of full stadiums. So I can't give you anything firm. I think the NFL season will definitely start, maybe delayed. And the other sports I think will follow shortly during the coming months. I think it's fair to say it will all probably be behind closed doors for some period of time. But as I said, that really in terms of the business model, doesn't really bother us. I mean, what we're seeing in our business at the moment over here, is as long as the sports are on, people are going to bet pretty much comparable volumes to what they would if there were the stadiums full. And on the raising money, I'll hand you to Rob. Fire away, mate.

Rob Wood:

Okay. Hi, Stuart. The simple answer is there's no requirement for external funding. We have two very well capitalised, profitable cash generative parents with strong balance sheets and we have the means to invest as much as is required going forward. As I mentioned earlier, the ROI on the investment is second to nothing. And therefore, we have absolutely the desire and the logic for investment, and we will continue to invest whatever is needed, as Kenny's alluded to. So in terms of that there were requirements to do that.

Kenny Alexander:

Okay. It's a bit of a no brainer really. I mean if you look, you see the Draft King's value is through the roof, quite frankly. If you look at that value, we are a competitor of Draft Kings'. We expect over a year or 2,to beat Draft Kings. I don't know what it's probably at today. I don't know, $12, $13 billion, whatever that may be. I don't know. You know, the fact that undoubtedly, as Rob has said and I probably said it myself, there is no bigger catalyst for shareholder, shareholder value than the US JV or GVC. I see MGM pretty much the same for them actually.

Operator:

Lovely. Our next question is from the line of Kiran Grewal in the Bank of America. Please go ahead, your line is open.

Kiranjot Grewal:

Hi. Hi guys. I've got 2 questions. Firstly, could you perhaps talk a little bit more about your customer-capture strategy? Have you used MLife before and, actually going forward, how do you expect to use that? Or are you planning to sort of match peers on bonuses and feedback? And secondly, we've seen a lot of the big sporting brands do really well in their sell through, into, ideally in the US. Are you similarly doing well on sell through, or are you seeing a lot more success through customers coming direct? And is that really because that MGM brand is much more associated with casinos. So a bit more on that please. Thank you.

Kenny Alexander:

Okay. In terms of the leveraging off them, like a database, is something that we have really only touched the surface of up to now, the initial results are encouraging. We will definitely be exploiting that more during the rest of this year. You know, in fact it's a big, big database of people who obviously can gamble in some capacity. And if we do know the expertise in cross-selling from players, from those who enjoy the retail experience that we do in the UK and that we do in Italy et cetera, onto a digital platform, and we will use those skill sets to explore their MLife database in the rest of the year. In terms of our success in i-gaming, is it because of the MGM brand associated with casinos and locations such as that? I think the reason we've seen such good results so far is a testament to our product, which I think is market-leading. And I think it's also a testament to our marketing expertise around casino and poker, which I consider market-leading and all of the skillsets we bought in the JV are the skillsets that we've used to exploit in Europe, for example, where we completely transformed bwin's Casino revenues where we've significantly upgraded the revenues on the Ladbrokes and Coral brands.

I think it's a combination of very good technology, very good products, and very good people and very good experience within the GVC organisation exploiting the casino opportunity. I expect this to get similar results on sports. And I think in due course, I don't think that MGM brand is any hindrance whatsoever growing sports revenues.

Kiranjot Grewal:

Oh, that was to do with the first question. It was whether you're going to try and sort of capture customers through offering a lot of more extensive free bets or bonuses or whether it's going to be more of a focus on the M life scheme. I suppose that will change how fast you become profitable.

Kenny Alexander:

I think it's both really. I mean, we use free bets and things like that. Like, quite frankly, everybody offers free bets. So you can't really build up. You win in a market just because you throw free bets around like confetti. The only way you win a free market is if you'd get the strongest brand, strongest technology, the best people, best product, best marketing expertise, those are the sort of big ticket items that will win, not how much or how quickly you can throw bonuses around. Sure, we use them, but we don't think that's going to win in this market long-term. It certainly hasn't won in other markets. We are the market-leader. So, there you go.

Operator:

Lovely, and for our next question, we will go through the line of Gavin from Goodbody Capital Markets. Gavin, your line is open. Please ask your question.

Gavin Kelleher:

Good evening Kenny. Good evening Rob. Just a few from me, just on the investments, but very granular on kind of timing all of this, can you give any sort of flavour of this? Well, this may be marketing or is it mainly product, which will see the bulk of this? That's my first question. If there's any sort of colour you can give us on that, but just you've given us a sense of the scale of the business in revenue terms this year. Could you just give us an idea of how many people are actually in the US JV now, how many kind of FTEs there is in that business at the moment? That's the first thing for me, please.

Kenny Alexander:

Okay. I'll say the first one and Rob can take a second one. In terms of the first one, the vast majority of it is marketing. You know, we're all about trying to grab market share in the coming months, as it possibly can come in use, etc. And then we just have to be realistic. Another point, others have raised money or they're spending materially more than us. And as I said to someone, if they're going to be spending a few times more than we are, they either have to be absolutely useless and we have to be absolute geniuses. We are not absolute genius and I'm pretty sure they're not absolutely useless. So, you know, we are going to have to walk with them or as close as possible in terms of level of investment. And this amount allows us to be very competitive and have no excuses in the coming years in terms of becoming a market-leader. And as we've said, if we had to put more money in BetMGM we're quite prepared to do it.

Rob Wood:

In terms of number of FTEs, i's over 200 people now with an expectation of around 300 by year end, which if you think was, was more like 30 at the beginning of last year, so rapid expansion, and we would expect that to continue into 2021 as well.

Gavin Kelleher:

Perfect. Just one follow-up question for me on the marketing side, if I may. I'm not going to ask you for your specific CPAs at the moment, but can you get any sense on how your CPAs have started out? Not in the absolute terms, but how they've trended so far. And then, I presume, you're really cranking off M Life and the Yahoo database. I don't know if that's the best way of thinking about it, or how should we think about it?

Rob Wood:

So, in terms of trends they were coming down already in pre-COVID period. During this period, as you'd expect, they've dropped significantly, given marketing dollar and marketing investment has dropped with the absence of live sport. So, it is a bit too early to predict what will happen in the second half of the year and I think that will be much more important for considering what 2021 and beyond might look like. So, I think that's the key message for trend. It is down. You would expect it to be down and we really need to wait and see what happens in the second half of the year.

Operator:

Thanks. We'll take our next question from Richard Stuber, Numis. Richard, your line is open. Please go ahead and ask your question.

Richard Stuber:

Hi, just a quick question. You mentioned you have an 18% market share in i-gaming in New Jersey, and you're expect sports betting to get to that level. Is that compatible with being the market-leader? Because, obviously, FanDuel or Draft Kings have a much greater percentage market share. So, if there's any indication in terms of what multi-state you should get in, what you should get in gaming, and over what period of time?

Then what you should get in gaming and over what period of time, that would be very helpful. The second question is, have you had a bit of a U-turn in strategy where before you were leaning towards profitability of the USJV, now it's much more market share. Is that how we should look into your success or not, ie market share percentage as opposed to profitability? Thank you.

Kenny Alexander:

Okay. I'll take the second one. Rob, you can do the first one then?

Yeah. Look, I wouldn't say up to now it's been all about profitability. That's not to say we're going to go crazy, but we have to be realistic. We signed the JV, nobody really knew. I think the prize is far greater than we even thought when we did the JV. Things have obviously developed, markets have opened up, the levels of investment we've seen obviously a little bit up from the value that the market puts when somebody is seen as a potential leader in the US market, are you drafting $12 billion whatever it is? The only way you're going to become the market leader in five years and yeah, that stuff helps. That valuation or credit, which will create significant shareholder value is by going head to head with these operators and the next few years and grabbing market share. So yeah, Rockwell doesn't have that. Though, quite frankly, at the immediate future, it's all about grabbing market share and winning that battle and if you do, then the profitability will come and the valuation will come with it as well. If you do that the shareholders should be very, very pleased. That's where we are at the moment.

Rob Wood:

Yeah, I'll just add that 18% is the New Jersey gaming market share. I think we're pretty optimistic that that can be replicated in other States, potentially more. Given other States, some MGM might consider themselves to be home States with a stronger brand than New Jersey. New Jersey is very competitive as well. So I think 18% market share is more than achievable in gaming in other States. Actually FanDuel, Draft Kings lower than those numbers. I think you're referring to sports spending market share to begin with, you would expect their share to come down as others rise, but can we get to 18 plus percent in the fullness of time then absolutely. I think that the market size is not going to be known this year or next year. I think it's several years to go for that position. My guess is the market leaders' market share will fall a little bit too, and that's what we are aspiring to achieve.

Operator:

Next in line is Michael Mitchell of Davy Global Fund Management. Michael, your line is open, please ask your question.

Michael Mitchell:

Yes. Good evening. Thanks for taking my questions. First of all, just in terms of market size estimates, I appreciate they are only estimates, but the internet casino market seemed particularly strong. The question, I guess, is to what degree do you think the market size will now be greater as a result of post-COVID? Do you expect acceleration in legislation in both the number of states on sports betting and on the internet casino side? Then the second question, you mentioned New Jersey, Rob, I think competitive position and more to come. I appreciate this is early but could you give us a sense in terms of the different experience for BetMGM in places like Colorado versus New Jersey? Where else do you think at the outline at an earlier point? Thank you.

Rob Wood:

So in terms of market size, yeah. As you say, we've not put forward our own estimates, we're happy to leave others to do that. We just do think that casino will be a very material part of the US market. I'm certainly no expert, but you hear and read that the impact of the virus is likely to be a positive, based on timing of legislation, but also the number of States that choose to legislate as well. Clearly, we expect to be a dominant player for the online gaming market and therefore that's a positive. This also talks to the increase investments that we're announcing today to say that States have some online parts there. Forward looking, we expect more to come online than originally envisaged, which is clearly a massive positive to us. But hence comes with extra investment up front. It tends to be a different experience in Colorado and other States, yet you'd have to say it's too early to answer that question, given the environment programs being completely decimated. It's a great question. It's something that we're asking all the time, but I think in fairness to the local team it's too early to agree on that.

Operator:

Okay, thank you. For our next question, we'll go to the line of James Rowland-Clark from Barclays. James, your line is now open, please go ahead.

James Rowland-Clark:

Hi, good afternoon. I've got two questions please. So having completed the integration of Ladbrokes and Coral, and obviously given your earlier comments about really wanting to invest hard into the US can we expect you to now step away from M&A to really prioritize the US, or are you going to try and do the two in conjunction? Secondly, in terms of sports betting market share in New Jersey, I think earlier last year you said you'd like to achieve 10 to 15% by the middle of this year. You were on track not to quite get there. What would you say that's down to, and are there any particular learning's you've developed in New Jersey as a result of that? Thank you.

Kenny Alexander:

Okay, I'll take them both, actually, since I think I stated Rob, so I'd better answer. On the first one, no, I don't think this puts the brakes on M&A. I think that the USJV is undoubtedly, the biggest catalyst for GVC, and in general, shareholder value. It really takes the highest priority within the group over the next few years, without any shadow of a doubt. Does that mean though that you can't do M&A or you shouldn't look at M&A? No, of course not. Absolutely not. But the fact is that the big deals like Ladbrokes/Coral or bwin, big transformational deals were as the industry took big steps in consolidation.

There's not that many big, big deals left that we could do, but there are plenty of bolt-ons, and there's plenty of bolt-ons that we're looking at, at the moment. We'll continue to look at them. If everything is aligned, it fits the bill of what we're looking for, and the price is right, and we think it's right, then sure we'll do them. So no, there's no brakes on the M&A. On the other one, yeah look. What are the learning's that we expect to get to 10% market share for the end of the year? I think that's realistic. That's what we said. I think we've got the products in good shape, and I think it will be materially improved. I'm talking here about sport and the next three to six, next couple of months, maybe a little more than what we had anticipated.

I think in terms of the level of marketing investments, we were probably a little bit shy. That's criticism at the end of the day of my decision. I think we've invested quite a bit less than some of our competitors. If you don't invest and go toe to toe with them in terms of level of marketing investment, then the fact that you're just not going to be able to grab the market share that you had probably anticipated. So, yeah, perhaps a little bit slower, nothing disastrous, and it's in hand, but it will be addressed in the next couple of months just to get there. I think we were probably taken aback a little bit by the level of investment by some others compared to ourselves, which has resulted in my target market share not being delivered in time. They expect to get at least 10% by the end of the year.

Rob Wood:

And I would just add to the first one around competing priorities, US versus M&A, and bolts-on. As Kenny said, there really is no competition. As in, we can do both in parallel. Really, that's one of the big advantages of owning your own technology stack. We don't have pipeline constraints or have to work to third party technology providers' timetables. It's easy for us to flex up and flex down workloads so we can absorb more activity as required.

Also, from a resourcing perspective, we're already a global business with regional structure, so it's straightforward for us to absorb new businesses into our structure. It's designed that way. As Kenny said, no reason why we can't prioritise both in parallel.

Operator:

We'll now move on to the line of Thomas Allen from Morgan Stanley. Thomas your line is open, so please go ahead and ask your question.

Thomas Allen:

All right. Thank you. Can you just give an update on what your latest thinking is on first, your long-term, EBITDA targets to the JV, and then second, when you expect the JV to turn profitable? And how have both changed since initial investment? Thank you.

Rob Wood:

Clearly, it's a moving piece and it's moving more than anything because of the pace and the way in which states regulate. To answer your question, did the time horizon for profitability change? You could certainly argue that it looks like it might be further out now, given more states are coming online sooner. The moment you reached profitability is therefore later, but clearly that's enterprise value positively. It's just one of timing. I think the best way to answer that question is if you look at a state in isolation, just pick a large state, our view remains that year one will definitely be loss making. Year two should be more around break even and into profitability by year three. The way we think about when we hit profitability, it really is contingent upon the way that that states open up. If they do open up sooner, there might get third round of capital requirement, but it'll all be enterprise value positive if that's the case.

Thomas Allen:

Then as a follow up on this question, I think there's some concern among investors that margins won't be realised in the US markets, just given the number of players and the incremental costs with market access and other forms of cost. Can you give us an update on your latest thinking on long-term margins? Thank you.

Rob Wood:

Sure. I'd take that, Kenny, certainly. We said previously, and we'd continue to say that there's no reason why that MGM shouldn't have market leading operating margins. We've talked in the past around low cost market access through MGM. We've talked about the fact that we own and control our technology and our products through what GVC brings to the table, so therefore there's far less leakage versus most of our competitors. And of course, in MGM itself, we have a brand that seems to be recognizable for pretty much the whole population of every state in the country. Again, we haven't had to invest as much as others in terms of brand building.

For these reasons, we continue to expect to have market leading margin in the fullness of time, to your first question. It's a bit hard to say what year that will be, because that depends on the pace that the states open up.

Thomas Allen:

Do you mean by market leading margin something in the range of 35 to 40% or do you think it'll be lower than that?

Rob Wood:

I would get lower. I think if we look at GVC's business across the rest of the globe, we're approaching 30% and something similar is probably sensible to assume at this stage for the US.

Operator:

Okay, so the next question will go to the line of Joe Graff from JP Morgan. Joe, your line's open, please go ahead and ask your question.

Joe Graff:

Hello, everyone. You talked about, maintaining close to those 18% share in the online gaming market longer-term in US sports spending. In order to achieve a share that's close to that in a stabilised $8 billion market in 2025that you printed in the press release, what is the level of total investible capital at the joint venture level that you need to get there? And of that incremental amount above the $370 million investment capital that you had after this deal, how much of that would be funded by the two joint venture partners versus being self-funded at the joint venture level?

Rob Wood:

Again, it is difficult to answer that precisely, again, because we don't know exactly the pace at which states open up. If California were to come online earlier, then the capital requirement goes up. The $450 million that we've committed to now between both parents, that ought to suffice for the current pipeline of expected state openings. If it goes beyond that or goes sooner than that, there might be further requirements. But to the question of where that funding comes from, I mean clearly we'll always evaluate options. But as I mentioned at the start of this call, there's no requirement for us to go to third parties. Both MGM and ourselves are committed to this opportunity. We'll invest whatever it takes, and we have more than enough cash flow generation from our global operations in order to fund it.

Joe Graff:

That £40 million joint venture loss, would you expect 2022 to revert to breakeven that you just mentioned in the prior question?

Rob Wood:

To break even? Not in 2021, no, I will absolutely expect 2021 to be loss making again. Continuing that path at best the state being breakeven in year two. If you look at the timing of states coming online, 2021 will surely be a loss making year. I think 2022 will be closer. 2023 onwards, that's more likely a point for profitability. But again, if California comes online in 2022, it might be different picture.

Operator:

Let's see. We currently have no questions, but before I pass the call back to the speakers, can I remind anyone still wishing for a few questions, please press star two on their telephone keypad. That's start two on the telephone keypad. I guess that was our last question. I will now hand this back to Kenny and Rob for closing comments.

Kenny Alexander:

Okay, just to reiterate what we've said, we believe it's self-explanatory really; this US joint venture is undoubtedly the biggest opportunity for creating shareholder value. You're only going to create shareholder value if you're a market leader, and you only become a market leader if you can be competitive in terms of marketing level of investment in order to grab market share. This is a statement of intent today. As I said, the kid gloves are coming off. This shows us that we are very, very serious about it, both ourselves and MGM. If we need to put more money in to achieve the objective of becoming the market leader, then we will do so. That we're not going to settle for second or third place. Enjoy your evenings or afternoons; depending where you are in the world, I'll be off. Thank you very much, cheers, all right.

Rob Wood:

Thanks everybody.

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