

Entain plc

Numis interview with Shay Segev

20 November 2020

Transcript

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Ulick:

Afternoon everybody, and thank you all for dialling in. And I'm delighted to have on the call from GVC, which we'll still call it GVC at the moment, until shareholders approve Entain, CEO Shay Segev, IRO David Lloyd-Seed. And I guess we all know how these calls work. I mean we'll keep phones on mute. The call will take 45 to 50 minutes. I mean amazingly some people have sent in some brilliant questions, so thank you very much for that. And keep sending them in if you want to during the call. And without further ado, I'll hand over to Shay. And Shay, maybe just give a brief summary of what you talked about last Thursday at your CMD before we get into a bit more detail and any questions.

Shay Segev:

Last week I announced a new corporate identity for the business. We're launching the business under a new name, Entain, which reflects the journey that we believe we've been on. But it is better and much more important than that. It is something that is embedding the future journey that we are on as well as we are becoming leaders and revolutionising the entertainment sector in the space of gambling. And we believe that we are already the leader. As such, we have further responsibilities as well, like continually innovating and investing in the industry and take it to an even better place. And we believe this new and fresh start would give us this momentum. And if you want to get a bit more meat on the bone, we have then put two big concepts out there.

The first is to look into a long-term sustainable business. The second is about growth potential. And if I look into the sustainable business, then I think we've been quite bold. I'm very bold about it as well. The idea is for us to create long-term value for our shareholders, for our employees, and for our customers. Even if we need to make a short-term sacrifice in order to make a long-term better value creation opportunity. Our strategy is to maximise long-term value (in the next 10 to 20 years), or even midterm. This means that our focus is going to be on regulated markets only. It might be something trivial today to say, but it is important to express it clearly. The opportunity today in the markets are mostly in regulated ones, it is where the industry is moving towards as well.

Secondly, we want to make sure that we're doing what is right for this industry as well, meaning investing whatever it takes into player safety and responsible gambling. As a technology business we use all of our great technology and know-how to protect customers. We launched a new concept, a new tech, which it's more than tech, it's a program, it is a commitment, which is called ARC. It stands for Advanced Responsibility and Care. This program is putting a lot of our know-how and our technology in terms of AI, BI, to try to predict problem gambling before it really happens, and thus protecting customers. I believe that this is something which will become very, very valuable in the future. We can even share it with competitors and with others in the markets as well. We do not want to compete on player protection. As a leader, I believe we should be working closely with regulators as well.

In regards to our first pillar, sustainability, our objective is to make sure that this industry continues to grow in a safe way, protecting what needs to be protected, and focusing on regulated markets. And the second pillar is about growth. There are many, many opportunities out there for us. I've been very bold on this and still am. I believe that we can double or triple our business in the next five years. There are so many opportunities to double or triple our business in the next five years. It is very, very realistic. We have identified four categories of growth opportunities.

Shay Segev:

Clearly number one is in the US. The US is a massive opportunity. It's going to probably be the biggest online iGaming and sports betting market in the next 5 to 10 years. New Jersey is a good example. Only a single market. It's probably going to be a \$2 billion market. Out of that iGaming only is going to be \$1 billion.

Some estimations of the US market believe that it will reach a size of \$20 billion by 2025 others \$50 billion. I believe as well that it will be a \$50 billion market in the long-term at least. We are very bold on this. We believe that our US market share will be at least 15 to 20%. 15 to 20% of these estimated market size numbers over the next three to five years; that is a massive growth opportunity by itself. We have the best partnership in the US, with MGM. So clearly our number one growth opportunity is the US.

The second one is continuing to grow our core business. We have shown in the last 19 quarters that we will be growing our online business double digits. Our online business is now nearly £3 billion a year. If you apply 10, 15% growth on that, then you will see the potential, just in the core business, to continue growing double digit. It's massive.

Our second focus is to operate in regulated or regulating markets only. Besides the US, we currently operate in 20 other regulated markets. There are probably another 60 regulated markets where we are not represented. The opportunity for us to penetrate these other 60 regulated markets is definitely a priority as well. There are markets where our brands are very relevant. I mean people know the Bwin and the PartyPoker brands. We have global brands. Our technology and our marketing reach are very relevant. There's really no real reason why we wouldn't take all of our assets and deploy them into these other regulated markets. These are for example Latin America, Africa, Europe, et cetera. We've already made a step in that direction a few weeks ago with the acquisition of a business in Portugal. We, as a business, have a proven track record of acquiring or entering into new markets and becoming a market leader quite quickly. We did so in Georgia as well, three years ago, and we are doing it now in Portugal. I am looking forward to doing it in another 30, 40, 50 markets in the next three to five years.

The last point I wanted to make on growth is new audiences. I spoke last week about the fact that we already have all of these assets, and we see other consumer trends happening, external to our industry. These are now converging. One of the other examples I gave is e-sport, which I believe is a very interesting trend. More and more people are spending their personal time on gaming. It is probably the fastest growing consumer trend in the world today. There are two billion gamers and this demographic is growing very fast. It's a massive industry. And from this perspective, it's also becoming more and more popular. E-sport is where people compete with each other on computer games. We want to dominate this industry as well as a wagering business in the e-gaming or e-sport business. We want to take you to exciting places for e.g. VR, AR, 5G, all of these trends. I believe that this will all happen. We will have a lot to offer there with our technology and know-how.

So, to summarise in terms of growth opportunities, if you take into consideration our growth in the US, and our organic growth, which we're growing, plus the fact that we will enter another 30 or 40 regulate markets and penetrate to new audiences; this is why I'm so confident that we are going to double or triple our business the next five years

Ulick:

Wow, Shay, that's fantastic and a great intro. I've got a lot of questions then on technology. So, I suppose almost cutting to the chase, I mean what sets your technology apart from the others? And is your technology that the best out there, the best in the US?

Shay Segev:

It's a good question. And I think, again, not a surprising one. Many people ask me the same thing. The clear answer is yes. We are leading in technology and I will try to break down the reasons why. First, I mean take me as an example. It's symbolic, but these symbolic things show a lot. I'm a technology guy. I don't think you see in any other businesses with a CEO, whose background is technology. I used to be CTO and I love technology. If you ask me to sit and write some code, I can do it. Clearly as a CEO, it's not my role to write code, but again, I love technology. I spend a lot of my time in tech. And we, as a business, are very tech driven as well. We have created a lot of value for our shareholders in the last five years through technology. We've been able to acquire businesses like bwin.party, like Ladbrokes Coral, and improve them through technology. It has driven synergies and create better products for our customers.

Now, to throw one more idea out there, a subject that has a lot of angles to it: we are the only business that owns its full technology stack. None of our competitors own their full technology stack. Some of them are talking about technology and they do own technology to be fair. But no-one really owns their full technology stack. Because we have our own sports platform, which is the trading tool, and the co-engine of the betting as well. We have the casino platform, bingo platform, poker platform, CRM platform, BI platform, website and the mobile platform. We have all of it.

When we go to a new market or penetrate a new state in the US, we don't need anybody to do anything externally. It's all done internally. We don't rely on any providers. We do everything internally. We have more than 3,000 IT people who work for us and develop our products every year, which is massive. It put us pretty much at the same level as a Tier One technology company. It gave us the flexibility to go and to prioritise internally as well as the ability to go and grow this team.

And over the long-term, it gives us agility. Which means that if we decided that something was important, like if we want to launch Tennessee or develop new content, we just go and do it. By the time our competitors are thinking about doing something; we've already done it. And we have seen this in a few markets. I think that we are the only ones who are able to do so many things at the same time. When we bought a business-like Ladbrokes Coral, we migrated it to our own tech platform and extracted £160 million of cost and capex synergies. During this time, we launched 10 states in the US, went through changes in German regulation, launched in Columbia. We also continually lead in products development. I mean, no other business would be able to do all of these things at the same time. The only reason we can do all of it at the same time, is because we are very tech driven and technology enables us to do all of that.

Ulick:

Wow, that's pretty impressive. Now Shay, I've got a lot of questions on the US, and I'll do my best to get through most of them before we go on to the rest. What do you see as a bigger opportunity for the industry in the US, iGaming, which I think people talk about an \$8 billion market today, or sports betting, which is a \$12 billion market today, by '24, '25?

Shay Segev:

Just to understand, the question is about the opportunity in the US?

Ulick:

I guess what's a bigger opportunity, iGaming or sports betting? I suppose both.

Shay Segev:

I don't think there is a conflict. I think these are clearly both big opportunities. It all depends on how fast the regulation will go. I think we'll end up with both anyways in most of the states, if not all of them. It's just a matter of timing. Clearly sport is currently more of a front runner, but I think iGaming is catching up. Most states are now coming with gaming as well. What we're seeing in other markets is that iGaming is a better economic model than sport. I believe that the US will be similar as well. New Jersey is probably a good example. It's much easier to drive ROI in iGaming than in sport, but again, sport is very lucrative. So, both of them are very relevant. Ideally, we want to dominate both, and I think we will dominate both. iGaming is probably an easy one, because again, the BetMGM brand and BetMGM Mlife, which are the base, are adding to our strong products in iGaming. It is placing us already as a very strong front runner. The leader in iGaming. We have the number one market share in New Jersey. And actually, it's amazing what we did in the last 12 months. We now have 23% of the market share in New Jersey. It is the largest market in the US, and we are the largest in this market in iGaming. And we just achieved this in in the last 12 months. We almost doubled our share in the last 12 months in iGaming in New Jersey. The evidence is our capability in terms of the tech, products, and operational capabilities. iGaming will become massive and I believe that we will dominate this category. Sport is more competitive. There will be in a bit more in store for us, but I think we are making a really good progress. We are now at 10% market share in New Jersey, for example. In Colorado, we are probably at double digits there, which would represent about 15, 17, 18% market share. And it's growing. Nevada, I believe, will be a very big state for us with MGM's presence there. Michigan would be a great state for us as well. We are about to launch in Pennsylvania hopefully in two weeks' time. We are aiming for Michigan to launch online before the end of the year.

Ulick:

Thank you. Well, just a couple of questions have come in about what lessons have you learned as you've launched in new states, are you sort of more aggressive customer acquisition strategy? And also, what are the main differences or similarities between the US and the UK customer? I guess I'm thinking of stickiness and spend per head there, and loyalty.

Shay Segev:

I'll start with the lessons. So, what have we learned? We've only launched 12 months ago, to be honest. We must give some credit to DraftKings and FanDuel, they have probably understood the game. We have 20 years of experience outside the US, but we have been focusing on the US only for the past 12 months. We should give ourselves some credit for the massive progress that we have achieved during those 12 months. We are now clearly number three. I hope that in 12 months, we will be higher than just number three or number two. Our objective is to be number one.

Shay Segev:

What we've learned is how important it is to be present on day one in every market. Tennessee is probably a good example. I'm looking forward to seeing Tennessee's result once the first market share report comes up. I think it's going to be really positive, surprisingly, for everybody, and us. We learned that it's crucial to be there on day one.

Other than that, I think that we will just continue to localise the product. I believe that our products, where they are today versus 12 months ago, are in a much better place, I think that we have pretty much the best products today. In sport, the product is getting very competitive. We just launched a few products on Parlay for example which gives us a really good edge. The integration we made with our partner Yahoo is coming out well. The market opened, and suddenly everybody went through. I think the capabilities are now starting to play a big part. You saw businesses, like ourselves, coming with all of these capabilities and experience. The market is beginning to catch up.

And what do we bring from Europe and from other markets? We bring a lot. The old CRM digital marketing product execution capabilities that we have are very similar in the UK. You can leverage them in the US as well. I mean, trading, all of this. We've been operating in sports and iGaming for 20 years in other markets. We have a massive tech and depth that we can leverage. Let me give you two examples.

Ulick:

Yes, give me a couple, that's great.

Shay Segev:

As an example, real-time marketing is something that we've been doing for four or five years now in the UK. One of the technologies we own is the ability to support real-time marketing. We have been able to understand, through our BI data, who are the people, who are watching this match or engaging now with bets. Based on the events, we are sending them real-time promotions or real-time offers to engage them continually. So, say you bet on a team, and your team is not leading. We will offer you to change your bet or to place another bet. Let's say you place a bet on an NBA game, and you say, "I bet my team will be leading in the first quarter of the game." And let's say the first quarter is over, but you haven't placed a bet for the rest of the game. We will engage with you over time. This is what real-time marketing is. It sounds trivial, but it's not very trivial. These real-time capabilities need to process hundreds, thousands, or even tens of thousands of customers. These need to be segmented, and you need to be able to communicate with them in real-time. It is essential. And again, this is a capability that competitors will take years to build. We have built-in capabilities, which we already use in other markets. All you have to do is just take it, plugin, press the button, and run it.

Another example is CRM automation. Our CRM is today, 95% automated. And it probably took us a good ten years to build it properly. What does it mean, CRM automated? It means that today when you engage in our website, 90% of the communication you will have offline, online, will be automated. Meaning, if you came in and you didn't deposit, you'll get a message. If you deposited, but you didn't place the bet, you'll get a notification. You place a bet, but you never came back; you'll get a message. These different scenarios are not as simple as they sound. Let's say you lost your bet four times in a row, and as your result of losing your bet four times in a row, you are feeling unlucky. We will make you an offer to come back, right?

Shay Segev:

So, we understand the different scenarios around customers' behaviour. And based on that, the CRM tailors communication. We probably have more than 10,000 various CRM tools in our system.

Shay Segev:

Bringing them in and leveraging them is a massive endeavour. It is an IP that it will take years for others to build. And I think this is why we are able to now start getting the market share that we are showing every month.

Ulick:

Wow. That's very clear Shay. I've got quite a few questions that come in just on the joint venture with MGM, and you've kind of touched on it. Can you, or do you need to go toe to toe on marketing dollars with the likes of FanDuel and DraftKings? How can you take in so much market share from the leader, which obviously is FanDuel, and would it be mainly through the likes of either Yahoo Sports, or MLife, or through better products?

Shay Segev:

Financially, there are two strong parents here, MGM and GVC (soon to be called Entain). We are two very big and profitable businesses, and I don't think we have any issues making financial commitments for this business. We are both very committed to this, so I don't see a problem. And if we need funding, then we will get it. So, I'm not worried at all. We will do whatever is right for the business. If we need to spend more, we will. We are fully committed to being a leader in the US, and we will spend whatever it takes to reach that goal. And we demonstrated it as well. In terms of our capabilities out there, how do we get going to get market share? We are already showing that we're getting market share. We are number one in New Jersey. I think that we will gain market share in every market in which we operate as well. In markets that are already up and running, we will gain another half percent to a percent every month. You are starting to see how we are gradually grabbing more market share. If you look at today's data versus six months ago, you will see that this is exactly what we did. I would expect it to continue. And this is because of better products, more aggressive marketing that we were doing as well.

The crown jewel here, as you mentioned, is Yahoo. And then probably the biggest one is MLife. MLife is the jackpot. And let me explain what I mean by that. There are more than 30 million customer names in the MLife database. We know that these are customers who are very, very relevant. They are very relevant because of their preferences in gaming and sports. MGM has a relationship with them because they are a part of the MLife database. And even if you take just the big tier, the gold and the platinum tiers, in terms of numbers, you are still talking about good few millions there. These are very, very valuable customers. And these people are already loyal to MGM and all of the things we've been doing and have done, is to create the BetMGM journey as part of the whole MGM experience. And this is what we've been doing probably for the last few months. So today, if you are a MLife customer, then you're getting MLife tier points as you spend with BetMGM, you are feeling that it's part of the journey. I believe that we are launching this week a new feature that gives you the ability to redeem points on the BetMGM app as well. It is all part of the same ecosystem. We would want to see all of those who are with MLife, who like sport betting and iGaming, becoming loyal BetMGM customers. Then, as I said last week, we have already seen it through this journey. I'm amazed that we have made progress so quickly. In the last few weeks, out of all the new customers that we have been onboarding into BetMGM, 25% of them are MLife customers.

Shay Segev:

It just shows you the power of this relationship. We know that these customers are very loyal and that they will stay with us for longer. We also know that their value is at least double. These are millions of customers, which I believe, over time, would be more loyal to us. They will stay with us longer and they are more valuable. This has a massive value for us. It will become be a great competitive advantage.

Ulick:

Thanks very much. And just related. I mean, you've obviously got some great partners, but are you seeking more partners to add to your proposition?

Shay Segev:

Yes, it is not something that you would always stop looking for. I mean, we're doing it in our core business as well. You're always looking for partnerships that can create value. I wouldn't say that we are currently missing anything. We have all the ingredients for success. We have 100% of the tech internally, and we have market access. MGM and partners, which we already have. We have market access to everywhere we need to go. We also have the products and the brands and access to players through MLife and Yahoo. We have access to a big DFS database through Yahoo Sport. So, we have everything, we don't need anything else. If we are given the opportunity to accelerate some of this stuff through other partners, we'll explore it. We are always opened to opportunities that can create value.

Ulick:

That's great. Just two more questions on the US before we move on, Shay, if that's okay. Somebody's just asked, "Could the election of Joe Biden change anything in regulation in the US or not?"

Shay Segev:

I don't think so. I mean, again, I'm not probably the best person to comment on politics. I do enjoy watching it from time to time, but I don't think so. My personal view is that the train has left the station in terms of sport betting and iGaming in the US. I believe that, if anything, we actually see it accelerating. More and more states definitely through the pandemic actually want to accelerate legislation into online gaming. And I think we just continue in one direction. I think, for now also, you think about it, there's no one else who is lobbying against it. There's no one really left to lobby against it, I mean, because the casino wants it, the leagues wants it, so there's no one, I think, left to object it, so I think it just moving to one direction.

Ulick:

Great. Another question coming in here is, somebody's asking, "Curious to know what IAC are bringing to the table at an operational level in MGM, because the joint venture. At IAC's recent earnings call, management brought up GVC as a key reason for the \$1 billion investment into MGM."

Shay Segev:

It's clearly very flattering for us. A business, like IAC, which is well respected, that has a track record of value creation and digital environments and internet consumer brands.

Shay Segev:

It's impressive how they built their business. If they've identified GVC as a technology leader, entering the US market and partnering with MGM was a safe bet in terms of becoming one of leaders in this market, then it's great. It's what we've been saying this for some time. It's great to see someone like IAC understand it quite quickly. They are a massive shareholder in MGM and their voice is being heard through our relationship with MGM. They are very valuable people. Their experience and opinion are very valuable to us. I wouldn't say that a lot of it is currently landing yet, but I think we expect to see them more and more active. I would definitely welcome that.

Ulick:

That's great. Again, almost the last question. Until recently Kenny Alexander spoke of Brazil as the biggest potential market for GVC. Now, it's obviously the US. I guess the question from this person is why has this changed? I think we know the answer, but if you could just talk about a bit more.

Shay Segev:

It's all about market growth. The numbers are there. Brazil has a very strong potential. We are the leading brand there. We are working very closely with authorities to get Brazil fully regulated. It's been regulating for some time. I believe that we will continue to be a leader in that market. There is a massive opportunity in Latin America as well. We're just about to launch in Columbia any day now. Columbia is another country in Latin America, which will become fully regulated. It represents a massive opportunity. We are working to enter into Mexico as well. So, Latin America, is an emerging market that has massive opportunities. I mentioned Africa as well. I personally believe that a lot of growth will be coming from emerging markets. And then the US is the biggest economy. I think we have to be there; we want to be there. We have great partner. If you look at five or ten years from now, it will be the largest market. We have to prioritise this as the biggest opportunity for us in the next five years in terms of value creation; and we're doing it. But again, our strategy is more than just three years or five years. I'm looking at the long term. We will become a leader in the US; we are leaders in Europe as well as in Australia already. I want to see how we can also lead in places like Africa, Latin America, and in more countries in Europe, whilst continuing to expand in the US. It may sound like we're trying to do a lot, but we actually do have these capabilities. We've been proven that we can do all these things and excel in them. I see Brazil and the US as massive opportunities.

Ulick:

Thanks Shay. Again, you mentioned the 20 regulated markets you're in but the 60 that you're not are 45 billion of NGR. Just a bit more detail and could you be a bit more precise with which markets you think are most interesting and maybe what's holding you back entering these markets. Are they too competitive, lack of regulatory enforcement, payment solutions, technology?

Shay Segev:

Part of the growth strategy is entering into what you could call organic ++. Meaning, entering into further regulated markets besides the US. If you look in Europe you can talk about Czech Republic, Poland, Slovakia, Estonia, Lithuania, Latvia, Romania, Bulgaria. These are all markets where there are opportunities, and I can go on. I probably can give you 20, 25 countries in Europe which are regulated and where you can get a license and operate, like Serbia for example.

Shay Segev:

Markets where the Bwin or PartyPoker are well-known brands. We probably have monetised the Bwin party acquisition in the last five years. We have as well, been able to make sure to integrate them by creating this platform which we have. Moving forward we will be focusing on these 20 core markets, which have been the largest ones to be honest. Now we can expand this even further. If you take about Africa for example. Kenya is a big market: Tanzania, Uganda, these are all regulated markets online.

Shay Segev:

There are more than 20 regulated markets in Africa. In Latin America, I did mention Columbia and Mexico as another example; but there are other countries as well. Paraguay is another good example of regulated countries. You can get a license, you can launch. Now, how do we prioritise that? Clearly, we would like to focus more on the bigger markets that still have a lot of growth's prospects, which all of them have. They are far from being mature markets, which is attractive by itself.

Then, it depends on the opportunity as well. Let's take Portugal as an example. The ideal formula for us is actually to acquire the number four, number five in the market. If you take an operator, who is number four or five, that already has a license as well as some presence in the market. We can, within two years, make it number one. Again, we did it in Georgia. We bought a business which makes €10 million EBITDA and within two, three years and we made it into a €40 million EBITDA business. So, we can grow a business four times within two to three years. This is done by deploying our marketing know-how, our technology, all of these things basically.

A few weeks ago, we announced that we were acquiring a business in Portugal. This is a fully regulated country, which makes €6 million EBITDA. I'm very confident to say that this business will make €20 million EBITDA in the next two years, basically tripling it. If you think about it, it's an amazing model. Because we paid say €60 million for this business which makes six. So, you pay 10 times multiples, which are a bit expensive or normal to buy a digital business for. But then within three years we make it into a €20 million business. It's a massive formula for us to create value for our shareholders and accelerate earning as well. And if we can make another 10, 15 Portugal acquisitions like this one; just shows you the opportunity. And this is what we are planning to do around the expansion.

Ulick:

Really simplistically with integrating, is it just basic plug and play with your technology platform?

Shay Segev:

Yes, it's as simple as that. It's a bit more than that, but it is as simple as that. Then again, after we did the Bwin party acquisition, which is a massive business with about 20 countries, we did Ladbrokes Coral which is another massive migration. At the moment we do mostly bolt on ones. Again, launching 20 states in the US, after we have been doing all of these changes is almost becoming natural, a BAU work. For other businesses, maybe who don't have the expertise or the experience internally to buy businesses, integrate them, extract value, move technology, integrate cultures. It's not just about technology, it's a lot more than that. Then it will clearly be a challenge for others. But we have been done probably already about 20 of these already. It's almost exactly like a formula. We have been doing it really well. We haven't failed on any acquisition we've done so far. We have extracted all the value from all of them, so it's great.

Ulick:

Shay, you talked earlier on about 2 billion gamers and you being a gamer yourself also. Can you talk a bit more about how exciting the opportunity is within esports, what the trends are telling you? And also, just from a category, how does it tick the ESG box too i.e. young players and stuff like that just from a concern people have?

Shay Segev:

Yes, of course. I'm very excited about it. As I mentioned to you, it's all about future trends. The idea is not necessarily to try to monetise this in the next year, two years or three years, but to create a long term sustainable big business and a big value opportunity for us. So gaming is a massive trend. There are probably, as you mentioned, 2 billion gamers. And we know that it's only going to grow. Gaming is becoming more and more popular. I see what my kids are doing, I see what I'm doing as well. You probably see what your children are doing too. Also, the time they're spending on Fortnite, Call of Duty, League of Legends, PUBG, all of these different cool games.

It's quite interesting, in general, if you look into different consumer trends in general. I just read actually last week a recent report and it was explaining how much time the average person spends per day and on what. So, on average, people usually spend five hours a day on video. They watch Netflix, Amazon Prime, news, linear TV as well, sports channels, et cetera, on average five hours a day. They spend another two hours a day on social networks; WhatsApp, Facebook, Instagram, et cetera. Then they spend about four to five hours a day on work; that's probably for the average person. And they finally spend one and a half hours on gaming.

If you look how this trend is going to change over the next three to four years; the only sector that is really going to grow fast in terms of time consuming for people, is actually gaming. Gaming is growing more and more. The interesting part is that gaming is actually growing at the expense of social networks. You will see social networks starting to reduce and gaming increasing. The reason for that is, by the way, that gaming is becoming the best social network. People who are going to the computer games, to Fortnite and to others, they start becoming communities. They are becoming communities more in terms of meeting their friends there. They are sharing experiences within the game itself. So, gaming is a massive potential consumer trend. For example, they are watching concerts, like that Fortnite monthly concert. There is an eCommerce aspect within gaming as well. Everything is pretty much starting to evolve around this ecosystem. Gaming becomes an advertisement platform. If you take all of this into consideration, then you are basically looking into the ability to monetise this ad. Wagering becomes a really powerful thing as well. There isn't currently a proposition which feels natural.

We want to be there, we want to again and leverage our experience in terms of protecting people. Again, this is coming back to the point you made earlier. Protecting customers and using our technologies and experience from other sectors as well making sure that we are doing that in a safe way. Deploying this into these communities as well. You will be also be amazed that a lot of 25 to 34 years old as well are playing more and more computer games. It is becoming a big trend also. So, it's not just young audiences but it's also very much about older audiences as well. These people are getting older. I see this evolving as a very responsible recreation.

We are offering to create even more excitement for people who enjoy spending time on them. I wouldn't see this if you were gambling or something like that. I see this as a more recreational engagement. This journey is pretty much starting, and we want to be leading it.

Ulick:

Just a follow on from that, could you build or acquire assets in e-sports or will you just stay outside and manage the bets?

Shay Segev:

I believe that probably the best place for us is to start with some acquisition in this space. I think this will probably be my preference. We need to look at different options. But ideally, we will do some acquisition in this space. Again, when you're saying acquisition, I just want to make sure that I am not giving you the wrong impression. I don't see us, at least at this point, becoming a content provider. We do not intend to start competing with the likes of Activision or Epic or EA. I don't see us becoming the one creating computer games. I see us as a platform integrating with these guys and allowing them to provide to their consumers the ability to wager. It can be in two different ways. It can be there is a very big tournament, again, I gave you the example last week, in League of Legend finals last year there are 100 million people watching that, which is more than the Super Bowl.

There is clearly demand in this space. We know that there's already quite a lot of people using it on the traditional brands. If you look at the Bet365 or Ladbrokes or Bwin brands, people are betting on them. These are being taken from their natural environment to a different environment. And the other thing which I think is quite exciting as well, is the ability to allow people to also bet on themselves. And I think this is another one that I would like to explore. If you liked your game, let's say you're playing a lot, PUBG or you playing a lot Fortnite and you want to bet on yourself to win the next game. You can put a £1 bet and play, it makes the game much more exciting for you as well, because not only now are you playing, but you are also putting £1 that you're going to win in the next round.

Ulick:

That's great. I suspect I will be asking you over the next couple of years a lot of questions about e-sports, but that's really clear. And you touched earlier on about regulation and, and through technology, protecting your customers. Just one quick one here is where are we as regards the timetable of this Gambling Act review? When do you expect it to come in force and what do you expect will be the major changes when you're taking limits, marketing, ongoing consultation?

Shay Segev:

Our current expectation is that the government will be launching this process probably somewhere in December. Clearly, I cannot speak on behalf of the government, but we believe that it will happen during December. There will be a review period. We we will be taking an active part in it, together with the BGC, which is a combination of the leading operators in the UK. And we're working very closely with Flutter, William Hill, Bet365 and others, who are very active in the UK in terms of providing evidence.

We believe that this process will take probably three to four months. After this, the government will digest the inputs and interview people. It might come up with a revised act towards the end of next year. This is what we believe to be the most optimistic timeline. It can be delayed by another year due to the uncertainty the pandemic has brought. Let's say the most optimistic delivery timing is probably the end of next year.

We'll have some clarity in terms of these potential changes in legislation, and the topics of discussion that you mentioned earlier.

Shay Segev:

I think they are all valid and again, we as an industry, did a call about it earlier this week. We are welcoming it. I think that the government is doing a good review. It's important that it be done based on evidence, based on facts. And again, player protection is something that is key for us. We want to lead on that. We want to make sure that it's done in the best way possible. We are being fully transparent through this process. We as a business are quite advanced on it.

Shay Segev:

We believe that we'll be doing even a lot of the things that would probably be required or discussed already as well. We are proactively doing the things that make sense. Wherever we can identify potential changes that need to be made, then we don't wait for any legislation. As a business, we need to protect our customers. I'm not really worried about the outcome of this. I believe that it is a positive thing. Even if the regulation becomes stricter than expected; we take one step back and three step forwards. We've proven time and time again that we are very good at adapting to regulations. We have been growing through our systems and operational expertise. Even when the regulation gets stricter, we'll be growing faster than others. This will probably mostly put stress on smaller operators. Some of them actually might exit the market; meaning, even if the pie becomes a bit smaller, we might take a bigger piece of it.

Ulick:

No, that's really, really clear. I'm also conscious that it's a Friday afternoon. If it's okay, I've got a couple more questions, shall I?

Shay Segev:

Yes, go.

Ulick:

Because there's still more questions coming in, which is great. But listen, you've reported 19 consecutive quarters of double-digit online growth, which has been incredible. Given the headwinds from Germany, the UK, and increasingly tough comps, do you think this can continue? And related to that, given the acceleration to online, will you re-evaluate the opportunities for your real estates in the UK and obviously in Italy?

Shay Segev:

Our retail business is doing great and better than our competitors. If you put the pandemic aside, we probably own 40% of the market share in the UK. Remember that the UK betting shops business in the UK, is still a two and a half billion pounds market a year. It is a big market. We have 40% of the market share there. I believe that through our different initiatives, we will be gaining more and more market share. I'll won't be surprised if a year or two from now, we will be at 50% market share in the UK. This is because we are the only ones investing in these shops. And clearly, now with the William Hill sale to Caesars, it's probably going to get less focused. It's clearly not as attractive as digital, because we cannot talk about the UK retail business doubling or tripling. It is still nonetheless a very solid business. It will make more than a hundred twenty million pounds of free cash flow for our business in the years to come. It's a very solid business which is creating a lot of cash.

Shay Segev:

We are running it very efficiently.

The deployment of technology into our retail shops is clearly helping us also in terms of our digital strategy. A lot of the customers that actually come into our shops are the same customer who come into our online business. And we are very good, we've demonstrated that we are able to own this omni channel conversion from shop to online. And again, this is exactly what we are replicating in the US.

Shay Segev:

European retail, which is Italy and Belgium, it's actually a growth business. It's growing very well, it will continue to grow. It's more a franchise model, so it doesn't have this whole cost base. So, yeah, it's a solid business. I will not look to exit that. On the other hand, I am not looking to expand our retail presence unless it has a strategic value. And in some places, retail does have a strategic value. It depends on the countries, and some countries actually do want to have some presence in retail. That is because it's enabling you to grow faster and give you some other competitive advantages as well. Italy actually is a good example. Italy now, to own retail, it's an advantage, especially with the new marketing ban requirements. So, you cannot do any digital marketing anymore on gambling, and actually owning the shops and with the Eurobet brand, it's becoming a big competitive advantage for us. And I believe that the UK might go there at some point as well. Us owning the high streets in term of the banning shops will only make our brands stronger.

Ulick:

That's really helpful, actually, Shay, and almost having your Rob Wood hat on now, I'm going to ask, the optimal capital structure, is it the one to two times net debt to EBITDA. And on the assumption that you will resume dividends, will they go back to, or do you expect to return to pre-COVID policy, which I think was to grow double digits?

Shay Segev:

The simple answer is yes. I think the board needs to make a decision about this. Again, we didn't discuss our dividend policy for next year, but I think we clearly have the incentive to resume dividends as soon as we can. We do want to do it, we want to grow it, we want to generate as much cash as we can. We also need to look into the growth opportunities of the business going forward and the investment, the capital investment we want to do, to continue do acquisitions, to invest in the US. Once we have something to update, we'll update, but again, we've been very efficient, we've been going very well and I'm quite confident that we will return value to our shareholders in the best way.

Ulick:

Thank you very much, Shay, and I know I said to call would be 45 to 50 minutes, and we've gone way above it, but it's for all the right reasons because there's been so many interesting things that you've touched on. Just before we finish up, is there anything else that you'd like to touch on or another message to give, or I think we've covered most bases.

Shay Segev:

Yeah, I can summarise. I think that we covered all of it. You did very well, you did your homework as well.

Ulick:

I have a very good analyst

Shay Segev:

Yes, very good, exactly. I mean, it's an exciting new era for our business. There is an exciting journey for us. Again, clearly, we as a technology-driven business, have a big competitive advantage. It's been demonstrated again and again in every market and in every sector. It's not even in the gambling sector, that is the long-term winner, it's the one with the best technology and the best product. In the short-term, some brands or some businesses can win on better marketing or better brand or spend more on marketing. It has always been proven, in the long term, that the winner in every sector is the one who brings the best value for the customer. And we believe that we are the one because we invest exactly what you need to invest. That is, the product offering, the technology. Therefore, our consumer engage with our brands and our products. They get more value, they stay with us longer. This enables us to spend over time more and more on marketing, and then bring even more. It becomes like a cycle that builds itself. It's happening pretty much in every market that we operate in. I will expect it to happen in the US and in any other market that we penetrate as well.

Clearly, we are here not just to create next year, '21 or '22 as the most profitable year. We are able to create the best value in the long-term for the business. So again, if you talk to me about regulation in the UK or Germany, et cetera, I think it's positive. I'm very welcoming of this regulation, it creates certainty. Certainty to our employees, certainty to the shareholders. Once we have a base, we can start to grow again through all of the things that I mentioned. We launched recently a strategy focusing only on regulated markets, same go for player protection and player safety. Again, we do whatever it takes to protect our customers, even if it's going to hit us in the short term in terms of earning. We can actually see that it has improved the quality of our earning. And I'm not worried about any of this because as I mentioned, there are so many growth opportunities in our business. For example, in the US, in our organic business, in new markets, we're going to penetrate, and even expand to new audiences. You just put all of this together. I think it's a proposition that is very hard to ignore.

Ulick:

That is a phenomenal, a brilliant way of finishing up, and Shay, listen, I can't thank you enough for your time this afternoon, especially on a Friday, and David, thank you very much for all your help in organising this call. And also, for everyone dialling in, thank you very much. I didn't get to everyone's questions, but I will go back through David with those questions, so I'm going to just wish everyone a superb weekend and again, Shay, David, thank you very much.

Shay Segev:

Bye. Great weekend everybody. Thank you.