Q4 Trading Update

21 January 2021

Transcript

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Shay Segev:

Good morning, everybody. Thank you for dialling in this morning for our full year and fourth quarter trading update. I hope you are all keeping safe and well.

I'm joined on this call by Jette Nygaard-Andersen, my successor as CEO, Rob Wood, and David Lloyd-Seed.

Let me start with a few comments about my recent decision. Then I will hand over to Jette to say a few words, after which Rob will take you through the business performance. This business has been my home for the past five years, and I'm proud of what we have achieved in this time. It has been an incredible journey transforming Entain into a leader in our space and a company driven by a commitment to sustainability and player protection. The timing was never going to be good. It is never easy to leave, but I am reassured knowing that I will be leaving the business in the best shape it has ever been. It has a clear strategy and a superb leadership team that are delivering and driving shareholder value. I have no doubt that the current positive trends will continue. I remain convinced that Entain will double or triple its size within the next three years. Entain delivers product diversification, geographical mix, entrepreneurial culture, as well as a quality of people combined with technology and a commitment to player safety. All of this ensures that we continue to deliver great performance.

Why am I leaving then? It is simple. I was presented with an opportunity that perfectly matches my skill set and my passion to transform the consumer experience in one of the oldest sectors, using disruptive technologies. The potential is phenomenal. I will be sad to say goodbye, but I remain passionate about the business and its potential. I will watch its development with a keen interest. Indeed, a significant amount of my personal wealth is tied up in Entain and I'm confident about that.

On that note, I will hand you over to Jette.

Jette Nygaard-Andersen:

Thank you, Shay. And good morning, everybody. It's great to talk to you all and I look forward to meeting you in the not too distant future.

Now, let me start by saying that I'm incredibly excited to be taking on this role and leading what is a global entertainment and technology company. It's a true leader in sports betting and gaming entertainment.

I've been on the Entain Board for just over a year now. My experience is very much in the media and entertainment as well as digital business, as well as working with companies to use technology, to transform and disrupt industries. It's these experiences that led me to being asked to join the board in the first place. I bring a different, but very related perspective. One that reflects Entain’s direction of the travel.

As a board member, I was involved in shaping the strategy set up in November, which has set us firmly on the path for future growth, as well as continuing to lead in innovation and safety and responsibility through the two strategic pillars of growth and sustainability.

But, we must also recognise that consumer behaviour is changing, and that change is technology driven. My view is that, we will be successful by putting customers at the centre of everything we do, with superior user experiences, great customer service, safety, and the right procedures.

The strategy we laid out in November will provide us with tremendous growth opportunities. Today we are in a little over 20 regulated or regulating markets. However, there are 50 or more such markets where we see growth opportunities. We can do this by leveraging our tech, our scale and our expertise. For example, when the process of acquiring Bet.pt, and last week, we announced our offer to acquire Enlabs, which would give us access to an additional five to seven regulated markets.

The US offers huge potential. We already are in 11 states delivering a market share of 18% across those states. We are planning to be operational in 20 states by the end of the year. And there's more to come after that. This is a tremendous opportunity, and I'm very excited about us bringing all our expertise and technology to the US market via our joint venture with MGM.

Thirdly, as consumer behaviour changes, a lot of it driven by technology, we can see opportunities for new audiences. My experience includes operating in and around sports, recreational, interactive, entertainment and skill-based gaming. And so, I see some exciting opportunities in this direction as we evolve our business and our offering to attract this large and growing customer base. But these are also developing markets, so, we'll take a step-by-step approach. Finally, we've shown over the last 20 quarters that we know how to deliver growth, and we will see plenty of growth opportunities in our existing markets.

Sustainability is at the core of our strategy and something that is very important to me and core for a customer centric company. I'm especially excited about using our technology to develop even safer products for our customers. Our new sustainability charter demonstrates our commitment to leading in this.

Regulation is part of doing business for us and so, we must work closely with the regulators. Fundamentally, we want to only offer products that are safe, entertaining, and fun, and we can use our technology, our research and expertise to put a safety net around the vulnerable.

It's been said many times before, and it's something that I entirely agree with, that we have the best technology in the industry, and it is all our own. That provides us with a significant competitive advantage. It enables us to deliver a great service and product for our customers. This is done while ensuring that, through programs like ARC, we provide an enjoyable environment where our customers will be protected from harm. But because it's ours, the power is in our hands to ensure that every part of our technology is delivering the best customer experience.

One thing that I've been really impressed with in my time in being involved with Entain is the strength and capabilities of our people. The clearest evidence of that to me, has been how the business responded to the COVID-19 pandemic. What has been delivered over the last 10 months has been truly remarkable. I'm really looking forward to working with such a great team. The thing that stands out in my mind about the team at Entain is the entrepreneurialism and the constant desire to innovate and disrupt. That is as much part of Entain's DNA as anything that's led us to be so successful. I'm keen that we maintain that and our operational excellence and invest whatever it takes so we can continue to deliver fantastic growth as well as continue to outpace, outmanoeuvre and outperform our competitors.

I want to see us grow Entain as a global customer-centric entertainment and technology company, and a world leader in sports betting and gaming entertainment. I'm really excited to be taking on this role at such a fantastic point in Entain's evolution. We have a lot of great opportunities to create significant value for our stakeholders. I look forward to talking and engaging with you all over the coming months and years as we deliver on that.

With that, I will now hand you over to Rob, who will take you through our trading statement in a bit more detail. Rob.

Rob Wood:

Thank you, Jette. Good morning, everyone.

Let me just start by saying that I'm sorry to see that Shay is leaving us. He's been such an integral part of the Entain story, and I really enjoyed working with him. But I'm also incredibly excited to be working more closely with Jette. I've seen first-hand the big contribution she's made on the board. I know that she'll lead our business well and with energy and dynamism going forward.

Also, it's exciting to be taking on the role of Deputy CEO as well as CFO and working more closely with our M&A and retail teams.

Now let's focus on our business performance in Q4 and more broadly across 2020. We gave quite a lot of details in our release this morning, so, I'll touch on the key points now, and then we can move to Q&A. Overall, I think it's clear that Entain has delivered another very strong performance. When you consider that back in March, all elite sports were cancelled, our shops were closed, and the outlook was looking very uncertain.

As we've said already, our diversification, our product offering, our technology, our digital marketing expertise, has all enabled us to deliver double-digit online revenue growth every quarter again. And across the full year, we grew online 28% in constant currency.

In Q4, our online business was up 41%, which makes it our 20th consecutive quarter of double-digit online growth. Now that 41% growth was undoubtedly helped by favourable sports margins and channel shift from retail closures, but underlying volumes were pleasing as well.

Just on sports margin, you'll see that we were up 1.6 percentage points over the full year and we estimate that around half of that was favourable results. While the other half we attribute largely to mixed impacts, which we think will unwind through 2021. So, things like product mix and increased retail style betting, which is lower stake in the high-end margin; that will move back to retail as we get past COVID. This will therefore cause online margins to fall back in 2021.

But one mix point, which will permanently impact 2021 and beyond, is the effect that our changing geographical mix has on our corporation tax rates, our ETR. We expect it to rise to around 16% from 2021 onwards. It was around 13%. We think it'll go to around 16% and that's because territories like Australia and Italy have outgrown others during 2020 and they attract higher corporation tax rates. So, there's nothing we can do about it and it's not particularly material, but it is worth tweaking ETR to 16% in new models going forward.

Back to trading, retail has of course been heavily impacted through the year by closures due to COVID. Retail EBITDA has been hit particularly hard and I expect it will fall by up to 70% year-on-year in 2020. But our very strong online performance has more than compensated for it.

As a group, we ended the year with EBITDA in the range of £825 million to £845 million, which remarkably is up on 2019 by around 10%. And that strong trading, together with the VAT refund before Christmas means we ended the year with leverage around 2.1 times.

Moving on to the US now; BetMGM has delivered a fantastic year. It started the year with around 150 employees and live in only three states. It now has over 400 employees, it's live in 11 states and performing exceptionally well.

Over the three months to November its market share is up to 18% in the states where we're live, which is a reminder that we are in line with our long-term expectations of a market share in the range of 15 to 20%. It is particularly pleasingly that we're achieving this in both sports and gaming. If you look at the states which came online during the year, our share of online sports over the last three months was 21%. So, this is both in sports and gaming. Across the whole US market, not just markets where we're live, we're now up to 12.5% share. We are firmly positioned as a top three operator in the US market.

Operationally, our new state launches through the year have been successful, which is a credit to all of our teams working well together, across BetMGM, Entain and MGM Resorts. Looking at the most recent launches, we started exceptionally well in Tennessee, which has a very high market share. We saw on Tuesday that our first month in the established Pennsylvania iGaming market came straight in with an 8% share in December.

Thanks to the successful launches and a strong growth in New Jersey, we saw our active weekly digital sports bettors at the end of the year were more than triple the actives that we saw during the Superbowl week earlier in the year. Our Q4 actives are nearly double the actives that we saw in Q3. Momentum is certainly building.

Player value and CPAs have also progressed in line with expectations and we can continue to expect CPAs to trend down from over $500 earlier in the year to around $250 over time.

As a result of all of that progress, total NGR for BetMGM should end the year between $175 and $180 million. This is comfortably ahead of our previous guidance of $150 to $160 million in October, and also the $130 million that we guided to back in the summer.

A few more updates for you on regulation and new markets and then we'll go to Q&A. During October, we were pleased to receive sports betting licenses in Germany, which together with the tolerance policy is bringing greater clarity and certainty to the German market.

Our bwin brand remains exceptionally strong in Germany. And whilst it's early days as the restrictions bed in and the market dynamics play out, the impact of revenue remains on track with our guidance. In November, we committed to only operating in nationally regulated markets. By the end of last year, 99% of our NGR was from regulated or regulating markets.

On new markets, in October, we announced the acquisition of bet.pt in Portugal, which restarted our M&A program. In November, we received licenses to operate in Colombia as we grow our footprint in Latin America. Since the year end, we announced an offer for Enlabs, and the offer documents were issued yesterday.

So, in summary, thanks to excellent trading on our core digital platforms through the year, we were able to deliver EBITDA in the range of £825 million to £845 million, which is up 10% year-on-year. And it's around 7% ahead of our guidance in October, despite the retail lockdowns that followed. BetMGM is now firmly on track to deliver our target market share of 15% to 20%

So, with growth in our core markets, growth in the US and growth into new markets, we're delivering on the key tenets of our growth strategy and we go into 2021 with good momentum. I'll leave it there, let's hand the call back to the operator, please for Q&A.

Operator:

Thank you. If you wish to ask a question, please press *2 on your telephone keypad, that is *2 on your telephone keypad. This first question, is from Simon Davies from Deutsche Bank. Please go ahead, your line is now open.

Simon Davies:

Morning. Firstly, on the US, can you talk a bit about the percentage of new customers that are now coming through from M life and Yahoo and the momentum that you're seeing from that? Also, given the strength in terms of customer acquisition, what should we think of in terms of potential start-up losses for the JV in 2021?

Secondly, just on Enlabs, the deal is conditional on 90% approval from shareholders, and we've had comments in the press that hedge funds represent over 10% and that they are saying they're going to block the deal. Are you concerned, and could you potentially reduce the 90% threshold?

And lastly, just on retail, back in November, I think you were talking about around £40 million per month of losses from retail closures across the whole estate, and that assumed furloughing, but it did not assume significant capture of retail spending online? What do you think the monthly impact is now, including that online capture? Are you expecting to furlough staff during the first half of 2021?

Shay Segev:

Morning, Simon. Let me give some flavour about the US M life and Yahoo, and maybe, Rob, you take the rest of the questions about Enlabs and about the retail.

Aligning our strategy, clearly M life is a key part of the value proposition of BetMGM, with omni-channel. We mentioned last year that we are om track to make this integration even tighter, where M life customers now have more value. They feel that they're part of the same journey when they are with BetMGM. It's currently at a high single digit of our acquisition that is coming through the M life program, but we see this even increasing. This will increase further and further as we continue progressing, for both M life and Yahoo, as we penetrate to more States and continue to integrate the journeys.

So, we're actually very pleased with the progress of both of them, and this is part of the story that Rob mentioned, the $500 CPAs would go down to $250, and we see this continually reducing. Rob, do you want to touch in the data points?

Rob Wood:

Sure, happy to. So, I think the second question was start-up losses for 2021. We will guide with more details, either on the 4th of March or on a separate event for BetMGM. It's safe to say that we're expecting significant growth in NGR. You would imagine comfortably more than doubling, but that also will mean a more than doubling of marketing spend and simply losses; you can expect it to trend in the same direction. The losses will be far greater than they are in 2021 as more and more states come online, with the annualisation of the states that came online towards the end of 2020 as well.

The third question was on Enlabs, are we concerned? Not at this stage. We're very clear that we offered a full price, we offered 12 times EBITDA, we think that's a full valuation, the board supported it, they had a fairness opinion done and had an independent valuation committee. I know on the overnight premium, it looks very skinny, but on a 90-day basis, it was nearer 20%, on a 100-day basis, it was 40%, so the share price just ran away a little bit. This obviously makes the overnight premium look slimmer. But the key point is the valuation was full, we have 42% irrevocables, and let's say there aren't too many shareholders that get left stuck in what would otherwise be a pretty illiquid stock on the secondary Swedish market. So, a bit early to say. The offer letters only went out yesterday, but we were absolutely hopeful that our valuation is considered full and we're able to progress.

Onto the fourth question, that was around retail furlough net impacts with online migration. So yes, Simon, you're right, we put out £43 million as being the impact of retail closures per month back in November, that number is still good. That number is on the assumption that we claim furlough. If we don't, then furlough equates to around £13 million per month. So, if we don't claim furlough, it would be more like, say, £56 million for every month that we're in complete lockdown. The question as to whether we will or not, is an open question, and constantly under consideration by the board. In terms of net impacts, clearly, it's really hard to measure the channel shift with any degree of precision. I think what Q4 showed us was that with a partial lockdown during Q4, we were still able outperform expectations and therefore positive. If we're fully locked down throughout Q1, I don't think the online benefit will be enough to offset during the quarter, but I would expect over the fullness of 2021 that we would get back to where we started. So, it's very much a partial offset, but a very material one at that.

Simon Davies:

Thank you.

Operator:

Thank you. The next question is from Monique Pollard. The line is now open, please go ahead.

Monique Pollard:

Hello. Morning, everyone. Just three questions for me, if I can. A couple on the US and one just on trading.

On the US, the first question is just around whether the losses will still be, for 2020, £60 million, given obviously the 15% upgrade to the revenue guidance versus the last time we had an update on the US losses for this year.

The second was around Michigan, obviously launching tomorrow, just after legalisation in the state. Just interested to know how many of your peers will also be launching then. What are you expecting the competitive landscape to look like?

And then finally, just in terms of the current trading, obviously, as you said, you're still seeing that benefit from retail migration you did in the fourth quarter, UK lockdown to continue into Q1. I'm just interested to understand what you see in terms of Europe. So, in Italy and Belgium, are the stores opened or closed, or partially opened, and do you see that same retail migration in those countries as well?

Shay Segev:

Morning. Let me take the Michigan question, Rob, you can comment about the US expected losses this year and about the return there in Europe.

So yes, in Michigan, as you rightly stated, we expect to launch tomorrow together with the other operators. I think there was a press release by the Michigan Control Board. It will be probably be a single digit number of operators who launch. We clearly expect us to be a dominant player in this market, with the MGM property in Michigan, which is well-recognized in the M life program. And also, as Rob mentioned earlier, we demonstrated last year, for the new launches, that we managed to find the formula, which gives us a great start for new markets that we launch. The product came out quite strong as well. The marketing machine works quite well. So again, we see great progress in all the new states we launched recently, such as Tennessee and others, and I would expect Michigan to be a very strong. I'll be very surprised if not, this is a very strong state for BetMGM. I would expect us even to lead there. I think it will be a great start for us in Michigan. Rob, over to you.

Rob Wood:

Sure. So, the first question, Monique, morning, on losses for 2020. So, we're still, only 21st of Jan, we're still closing the books. But directionally, as you suggest, we guided to £60 million back in October and the business has outperformed since then on the revenue front. I would expect losses to be a little bit greater than that, but nothing too material.

Onto your third question, which is around trading in European retail in particular. All the shops are shut across Belgium and Italy at the moment. It’s a slightly different dynamics in those two territories. In Italy, the channel shift is very clear and offers a full offset, frankly. So, Italy, in Q4, our online NGR was almost exactly doubled, so 100% year on year. We have seen other omni-channel operators in Italy perform exceptionally well during lockdown periods, far better than the online only operators. And one of the reasons for that, why the dynamic is a little different in Italy, is that customers use shops to deposit and withdraw for their online business. An awful lot of the online traffic comes via shops. In fact, around half of all deposits into our online environment comes via the shops, so that omni-channel journey is very familiar in Italy. Essentially, we've had full mitigation of retail closure in Italy. Belgium is a different story though, more similar to the UK. In fact, lower mitigation in Belgium is the lowest of the three. And that's primarily because our retail estate is Ladbrokes, whereas our strongest online business in Belgium is the bwin brand, and so you don't get that same omni-channel benefit as you do in the UK and Italy. So, a bit of a mixed bag, but Italy is full mitigation, Belgium the least, UK in the middle.

Monique:

Understood. Okay, thank you.

Operator:

The next question is from Ed Young from Morgan Stanley. Please go ahead, your line is now open.

Ed Young:

Morning. Thanks for taking my questions, I've also got three.

First one on trading. You mentioned Italy doubling in Q4. Could you give us a little bit more geographical colour, to give us some idea of where the growth come from in the mix? The second one is just trying to think through COVID, and you've mentioned benefit from mix in terms of products. You mentioned the retail online, some of which will reverse. You've obviously got a lot of different moving parts here. Can you give us a broad view about how you think the business could trade through the COVID comps of next year, to understand where the online number could land?

And the final one, obviously, there's been news around the First Circuit reversing the judgment on the Wire Acts no longer applying to gaming. It could potentially have an impact on a number of segments but includes poker. It's not something you've really spoken about very much; can you briefly touch on what you think partypoker's and your thinking could be in the States and its positioning there? Thanks.

Shay Segev:

Hey there. Morning, Ed. Let me take the 3rd question about the Wire Act. Yes, we see an opportunity, clearly the legislation needs to change as well. Poker, with partypoker and with the unique technology that BetMGM has access to with Entain for poker technology, is another massive potential. Definitely, with M Life program and the relevant database, with the great progress we're making with iGaming, we definitely see poker as an opportunity for us to lead in the US through BetMGM. Clearly, the biggest barrier so far is just liquidity, the path is now hopefully open for that. So yes, it's very exciting, and we definitely see ourselves there as a potential leader in this space. Rob, you want to take the two others?

Rob Wood:

Sure. So, the first one was around geographical mix in Q4. So yes, Italy, standout performers, UK also strong, again, the omni-channel presence playing through other areas. Australia was very strong again in Q4, albeit very margin help, so excellent spring carnivals there. The stakes volumes were more normal, but NGR was very strong again in Q4 for Australia. Frankly, every area performed well in Q4, with just one exemption. For the first time, one of our top territory didn't achieve double digits on online market and geography and that was Germany, obviously due to the restrictions. Germany was negative in Q4 as expected. But as I said in my opening remarks, impacts were broadly in line with our original guidance on Germany.

In terms of NGR expectations online in 2021, we'll guide a little bit more fully on 4th of March, but I think a few broad comments that might help. On the margin point, as I said earlier, I wouldn't expect margin benefit to remain into 2021. It may in Q1, as that retail-type betting continues to benefit the online environment, but that will recede somewhat. There are one or two structural benefits to margin that I can point to. Things like UK horse margin as a result of changes to the way the pricing takes place now, following COVID back in Q2 last year. That has played through to stronger UK horse margins, but that is fairly negligible in the grand schemes of the group, so assume that margin recedes. But that said, in terms of NGR prospects for next year, on an underlying basis at least, we'll continue to shoot for double digits as we always do.

But then from that, you do have to deduct the impact of Germany, which we know about, and also the impact of the £40 million odd regulatory impacts, which we talked about on November the 12th. If you add these two together, you've probably got a drag of somewhere around seven points. So, we'd be looking at low single digit growth, we hope, for online in 2021.

The last thing I'll say, is that that low single digit growth is a lot better than I would have said three or four months ago, and really that's because three or four months ago, I assumed that we would be lapping against the very COVID-benefiting 2020. We would therefore have a drag on growth in 2021. The way it's turning out, with all the lockdowns in Q4, we come into this new year with such strong momentum in our online business. That ought to offset the benefit in 2020 and would broadly be a wash. Therefore, I get back to underlying growth, double digits, or probably low single digits after you back out Germany and the regulatory impacts.

Ed Young

Great. Thanks very much.

Operator:

Thank you. The next question is from Gavin Kelleher from Goodbody Capital Markets. Please go ahead. Your line is now open.

Gavin Kelleher:

Good morning. Just firstly, for me, just on marketing, is there anything you can say on marketing spending online? Is it as we expect it, or is there any savings you're seeing there, or any kind of better efficiencies you're seeing there on the marketing and online side of how we should think about that in 2021?

My second question on Germany. "In line with expectations," is what you've said so far. Is there any positive surprises there in terms of how the performance is, and is there anything that's kind of weighing on it negatively that is a bit worse than you would have thought?

Shay Segev:

Morning, Gavin. Rob, do you want to take this too?

Rob Wood:

Yes, no problem. Marketing, firstly. Sticking to 2020 for a moment, it's interesting. When we guided at the interims to expect in marketing spend in the second half of the year. I did say expect us to spend fully, to ensure that we keep that momentum going. That's exactly what we did in terms of pound notes. So, on the absolute marketing spend, we actually spent more than we envisaged back at the interims. Probably £10 to £20 million more, that sort of order of magnitude, but because NGR performed so well, particularly in Q4, as a percentage marketing spend. As a percentage of NGR, it is lower than we otherwise would have expected. We'll probably end the year somewhere around 20% for marketing spend. It's not about spending being lower in absolute terms. It's simply about being lower in percentage terms. When it comes to 2021, as I said to the last question, we'll guide more fully on 4th of March, but I would expect a higher percentage than 20 in 2021. So that's marketing on Germany.

On Germany Any surprises? I guess two points to make. The surprise, if you like, on the gaming side is that we would have expected more operators to have adhered to the tolerance policy than is the case. That includes operators that you would ordinarily expect to comply with these kinds of regulations. Now, some are catching up, and perhaps it's technology developments that's taken a while for them to catch up with. You would expect that many will have a difficult time getting issued licenses when the new regime comes into place. What that all means, is that the gaming side has probably been a little bit worse in terms of impact, than our original thinking. But on the sports side, it's been better, partly because the new licenses have not yet been issued. There is therefore a delay to some of the restrictions coming in. In a nutshell, broadly in line in aggregate. Gaming, a bit worse. Sports, a bit better.

Gavin Kelleher:

Perfect. Thank you.

Operator:

Thank you. The next question is from Michael Mitchell from Davy. Please go ahead. Your line is now open.

Michael Mitchell:

Yes, good morning. Thanks for taking my questions. A couple, if I could. First of all, on the U.S., and just digging into the momentum of the JV in recent months, both really from a share perspective, but also in terms of new state launches. Can you help us understand what you think the annualised revenue base of the JV is at present? Clearly, it's significantly above the £175 million to £180 million that you report for the full year of 2020. In addition to that, in terms of that point around acceleration momentum: do you envisage any kind of scenario where you might have to inject additional capital into the business over and above what you've currently guided for '21 and '22? And then my second question, is back to online and your core online geographies, namely the U.K. and Australia. I wonder if you could just talk about active growth versus ARPU. Thank you.

Shay Segev:

Morning, Michael. For the U.S, I don't know, Rob, if in March we want to share some more insights, and including, also, prospect of capital injection. Rob, do you want to take these questions?

Rob Wood:

Yes. We're not in the position yet to give forward-looking guidance for the BetMGM, but it's not too hard to take the public data and realise that our sort of November, December NGR is far greater than in Q3, which is greater than Q2. You can get to a pretty big number if you analyse that, and that's before these states coming online. As I said, in a couple of questions previously, we've got to be looking at more than doubling, but we'll give more precise guidance at the right time in the future. Just on additional capital, that's certainly a reasonable question. Since we announced our commitment with MGM Resorts in July, I think it was, last year, the pace of states coming online has been great, so the performance has been greater.

Rob Wood:

Player values have been better and, it all points to additional investment equals greater return. I would suggest there's pressure to increase that investment more so than decrease. We'll give more forward-looking guidance later in the half.

And last question on the under-core business. How do we think about the growth in terms of actives versus ARPU? It's still very much actives-growth driven, as it has been through the year. Those actives are both reactivated customers and new customers. The FTD rates continue to be very good We attribute that more than anything to retail lock downs, as you'd expect. We're still seeing, even in 2021, in the U.K. And Italy, for instance, our FTD rates are tremendously high. They're not quite doubling, but they're not too far off, as well. So FTD, then reactivations contributing to higher actives, and that's the driver far more so than ARPU.

Michael Mitchell:

Great. Thank you. Congratulations, and best of luck to you all in your new roles.

Shay Segev:

Thank you. Maybe to add something, Michael, on what's Rob saying. We do see the U.S. as our largest opportunity. As we've said it in the past, we are fully committed to put whatever it takes in order to continue grow the U.S. Both MGM and Entain are in a great position to inject even further cash if we need to. We see, also, for probably the fastest growing business in the U.S. So, it's actually a great opportunity for us as state openings accelerates, to have the option even to inject further funds and accelerate this journey. It's very exciting.

Michael Mitchell:

Super. Great to hear. Thank you.

Operator:

Thank you. The next question is from Virendra Chauhan from Alpha Value. Please go ahead. Your line is now open.

Virendra Chauhan:

I have a couple of questions. Firstly, In the U.S., what kind of an overlap do you see between the M life and Yahoo subscriber base? Given that you're somewhere deeper into the integration right now with that. Would you be in a position to provide us with some kind of guidance on that? And then just in with that, what kind of monthly unique user base would you be looking at in aggregate? That's one on the U.S.

Secondly, to the incoming CEO, Jette, one for you. In terms of strategy and operational direction, are there any things you'd like to do differently in order to accelerate momentum?

Probably from your observations as an outsider, because so far both Kenny, as well as Shay, had been with the firm for a pretty long while, even before Shay also got promoted to the CEO role. Apart from that, Jette, any specific parts on retail and its relevance to the group would be really helpful. Thank you.

Shay Segev:

Right. Let me take the first two. In terms of again, M life and Yahoo, I think someone asked before, we do see a great momentum in the conversion from M life, which has started to pick up probably a few months ago, through the deeper integration and journey. Clearly, we're in pandemic time, so again, some of the journey's not fully tuned yet. We do have a lot of digital work with them. With M life, it's still new. Both of them are working much better. We mentioned in the past that Yahoo is now our largest affiliate in M life. We see a really strong conversion. Interestingly enough, not only do we see people coming directly from the M life program and becoming part of BetMGM brand, but we also see a lot of people who have an M life account reaching directly to BetMGM. This probably puts a big strength on the MGM brand in the U.S. And again, we are very confident about it.

Another thing in the U.S, we've always been quite conservative in what we're saying, but actually, what we would prefer to, when we have more confidence in the numbers, is to come and commit to specific numbers. But as I said, M life and Yahoo are working very well for us. In term of the future strategy, again, I think the strategy is set very well. And again, Jette was part of it. Jette, are you on the line? You want to take it?

Jette Nygaard-Andersen:

Yes, absolutely. Thanks for the question. To answer your question, I've been on the board for more than a year, and I was involved in shaping the strategy that we set up in November with the two strategic pillars and the four growth areas, so we communicated. During that process, I was also able to bring my experience, as you say, from entertainment, and leading digital businesses into the work that we did. I'm very much behind the strategy. I believe it's the right strategy at the right time. For me, at this point, my first priority, and our first priority, is really to execute on that strategy and set the priority to deliver that. As part of that, of course, we also recognise that consumer behaviour is changing, and a lot of this is driven by technology.

I really believe that we can lean into this and these changes to access new audiences and new customers. I think this is where my experience comes in, as it includes operating in and around many different digital consumer businesses, as well as areas like e-sports and recreational interactive entertainment, and also skill-based gaming. I can certainly see some exciting opportunities here. I would, however, also like to stress, knowing these markets well, that it's developing markets, so I'm also keen that we take a step-by-step approach here. On the strategy, very much behind it. I think it's a great strategy and it will set us forward for the growth opportunities.

Now, then you asked about retail. Let me just also comment on my view here. Retail is an important part of our offer to the customer. For example, the U.K. retail market is worth more than two billion pounds. As our business is customer-centric, what that really means is that, to go where the customer wants you to go, and we can see that there's a clear demand for retail and that our customers enjoy retail. Thereby, through the omnichannel strategy that we have, retail has actually proven to be pretty resilient. This brings us a number of benefits. We can also use this in our overall strategy through our omnichannel experiences, and really aid online sign-ups and interaction. We can also use retail as a point of contact for online customers. That's really where I see retail, as a part of our offering to customers.

Virendra Chauhan:

Okay. Thank you.

Operator:

The next question is from James Rowland- Clark from Barclays. Please go ahead. Your line is now open.

James Rowland- Clark:

Hi, everyone. Good morning. I've got a few questions, please. The first two, really, on the U.S. Given you're already seeing 18% market share in your active markets and your target's 15 to 20%, you've obviously stepped up a lot this year. Do you think you could maybe look for a slightly higher target than that 15 to 20% in active markets, and would you, in fact, look to achieve that?

And then on CPAs, you've spoken about reducing CPAs from over $500 to about $250. Can you give us a sense of the sort of timeline in achieving that reduction on CPAs, and is this reliance on a certain proportion of customers coming from the Yahoo Sports database and M life database, and how much? Finally, on Canada, you said that you would look to get a license there, if and when it legalises. What would your target market share be in Canada? Thank you.

Shay Segev:

Morning, James. U.S. market share, yes, we're aiming 15 to 20%. We're already at 18%. Clearly, we are not going to stop at 20% when we reach that point. We'll do our best to maximise opportunity. We believe that we have all the ingredients to lead this market, and if we get to more than 20%, that’s great. The Entain DNA is to be conservative, and then surprise for the best. I believe we have a great momentum. There are still a lot of states to open up. We're making progress. I hope that we can do more than 20%. Again, we are clearly making progress, and we're not going to stop. We're going to continue to invest and to maximise the opportunity.

In term of CPAs, we see this as a journey. It's very hard giving a timing, but again, just give you a small idea, it would probably be like a two-year journey. It depends, clearly, how fast they're doing, what will happen with the competition, what will happened in the new states that are opening, et cetera. But again, just to give you some concept, I would think that it will probably take us a journey of around two years to drive the CPAs down for $500 to $250, or something around that.

Clearly, this depends on M life and Yahoo continuing to pick up. We are very pleased. If anything, it actually works even better than what we thought. In term of Canada, I think it's very hard to say anything about market share. We will clearly have all the plans to work with the Canadians to apply for license when the time is right. Ontario probably will be the first one. We have experience in this market. We have all the ingredients and I believe that we'll be a leader in this market as well. I hope that answers your question.

James Rowland- Clark:

Excellent. Yes, that's great. Thanks very much.

Operator:

Thank you. The next question is from Ivor Jones from Peel Hunt. Please go ahead, your line is now open.

Ivor Jones:

Good morning. Could we come back to Germany. Could you give us a sense of where we are in terms of run rate, revenue and profit contribution? I think it's de-minimis, but I just wanted to check that. But what about a three-year view? It seems like it's almost been written off in the discussion, but can you get back to the profit contribution that it once made to the group? And what does that mean about your marketing strategy now? Will you be spending marketing ahead of revenue? Or are you just assuming that business is flat lining? But it seems like a big opportunity you're not talking about.

Secondly, in relation to the UK and affordability and the other remote customer interactions, if one just read the press, you'd get the impression that companies like Entain don't do anything about affordability particularly. Could you just talk about the measures that the company already takes to check about affordability? So, it's slightly easier to get a sense of the risk.

And then finally, in relation to the US, you're gaining market share strongly, I'm trying to think of risks to that. Is it that you have very strong product relative to the competitors? Do you think that DraftKings' and FanDuel's products are materially weaker than yours and that they can catch up and recover some of the market share gain? But I'm trying to think of threats to the success that you've had in 2020 particularly. Thank you.

Shay Segev:

Morning. So, let me maybe take the UK for affordability. Rob, you can take Germany and I can talk about the product in the US as well.

One thing we mentioned a number of times, and I think we've made big progress on this front, is our investment in player protection. And clearly affordability is a big piece of that. The whole management team, including myself, spend a lot of time to better understand the data and we do whatever we can in order to protect our customers. We have also launched ARC, which stands for advanced responsibility and care, trying to leverage as much as we can the data and technology we have, in order to protect customers. I said it number of times, and I will say it again, we do whatever it takes to protect customers. We don't have any incentive to take one penny from people that cannot afford it. If anything, we have all the incentives to protect our customers and make sure that our products are being used for entertainment only. This is something that's been going on probably for the last two years. And if anything, we're accelerating. We put a lot of markers of harm, especially also in discovery time, and a lot of interventions with customers. We track customers' behaviour. If we see someone is spending more time, more money than usually, then we interfere with them. We launch, even now, a check with a third-party database where customers make the deposit. We check the background and understand, based on some KPIs, what is the affordability level for them. We are coming up with much more proactive interventions as well. There is actually a very big momentum, in term of checking customer in the background in terms to protect customers and the work around affordability. So, you have that answer.

In term of the US, one of the things that I believe is that, in the long-term, BetMGM we will continue lead and be the winner, because of the fact that we own the full technology. And we believe that, at the end of the day, we will end up with a brand which gives customers the best value and the best product proposition.

Because we have all of the tech in-house, we have the flexibility and the ability to innovate faster, to develop faster, to better understand our customers and to tailor the products to their needs. And we already see some of it happening through iGaming as well as in sports now.

At this point in time our products are as good as DraftKings' and FanDuel's. I would say that we are all probably at the same level in terms of product and proposition. You could always say that they offer another two features and that we offer another two features. But I think the exciting part is arriving now. Because we are in a place now, where we are accelerating our development. If you look at two, three or five years from now, access to Entain technology, for Entain as well as BetMGM, gives us the ability to create an even further gap and accelerate development, as we are already doing. And I believe that in over two to three years, it will become clearer and clearer that our products, our customer experience, our innovation, the mix of content that we provide customers in the US, will be best. And will continue to drive further growth for BetMGM. Rob, you want to take Germany?

Rob Wood:

Sure. Yes. Morning Ivor. And you raised a really good point on Germany. So, typically regulation and new impacts dictated by regulation, they're a negative in the short-term, but they're a long-term positive if you are one of the more established operators with the strongest brands and the strongest product. So, to answer your question, will we get back? Absolutely. It might take three years. But in three years, we'll get back to where we were. And actually, our market share will be stronger as a result. And therefore, to the question of strategy, you've already guessed it, but we are continuing to invest in the bwin brand. It's a fantastic brand. We would be crazy to pull back from that. To give a feel for the numbers, you can work it out from publicly available information, but our contribution from Germany is a little over £200 million before these regulations. So, if we lose, £110 million was our guidance, you're losing half of it. You're still at around a £100 million. And of course, because it's leveraging our group's technology, you're talking about, give or take, a £100 million EBITDA business.

So absolutely, we will continue to invest. Absolutely, we expect to get back. Germany is still a relatively immature online gaming market as well. And so, three years from now I think is probably a sensible timeframe for when we will be back to where we were. And then our market share will be even stronger as a result.

Ivor Jones:

And you guidance about marketing overall, Rob, covers that push of marketing a bit ahead of revenue in Germany? There's not some extra boost to come to deliver that strategy.

Rob Wood:

That's right. So, I haven't given a figure for the 2021 yet, other than to say it'll be up on 2020, which is around 20%. And then what we typically do, is manage sort of geography by geography within that. And there are some areas where we'll be spending less, whether that's as a result of competitive dynamics or new restrictions, for instance. But there'll be other areas where we invest more and more. And Germany, you would imagine, would be one of those where we really get behind the Bwin brand and make sure we're a long-term winner.

Ivor Jones:

Great. Thank you very much.

Operator:

Thank you. A reminder before taking the last question. If anyone else wishes to ask a question, please press star two on your telephone keypad. The next question is from Richard Stuber from Numis. Please go ahead your line is now open.

Richard Stuber:

Hi, morning, everyone. Just one question for me, please. Clearly, you're getting better at launching in new states in the US. In terms of tomorrow, in Michigan, are you doing anything differently in Michigan? What sort of lessons have you learned? Are you being more proactive in marketing pre-launch? Is there any sort of lessons for learning and what are you doing better? Thank you.

Shay Segev:

Hey, Richard, morning. Yes, I think, yes, we are getting better. We feel much more confident as well. If anything, probably over the last 12 months, we've learned a lot through launches, and we reached a very good form. We are relatively confident about launching new states. If it's related to some marketing or some customers proposition that we're doing in pre-launch. And that's we did in Michigan, we did it in Tennessee as well. It worked very well for us. This put us ahead of the market. And again, especially in Michigan, can be very attractive because, as I mentioned, because MGS has a property there and we believe that the brand will become very, very strong.

The product also has become very strong as well over the last 12 months. Again, we had a very big focus tailoring the product to the US and creating even further exciting products around Parlay and other things we discussed. The integration with M Life, deeper integration with Yahoo, the marketing team works better now. Again, it takes time to recruit 300 people and train them on the tools, which are now really up to date. And we have all of the marketing channels working properly. Again, checking the database, checking the CPAs, which campaign works, which campaign doesn't work and tailoring the product, the content, et cetera. And this brings us to a very strong, confident place, definitely in Michigan, but also in any other new state that will come up. Again, one of the things that sets us apart in our US strategy, is to be first to market in every new state. Take early market share, have the best product, and push stronger marketing. And again, we see this formula working very well for us. And if anything, as I mentioned before, I expect BetMGM to accelerate our growth this year.

Richard Stuber:

Thank you.

Operator:

The next question is from Kiranjot Grewal from the Bank of America. Please go ahead, your line is now open.

Kiranjot Grewal:

Hi, I've just got two questions. Firstly, on the US, do you have any visibility on the types of customers you're capturing? So, are they more casual gamers or more focused gamers? Or alternatively put, how is the frequency and spend per customer in the US versus what you might have originally been expecting?

Kiranjot Grewal:

And then the second question is on LATAM and Brazil, I think both were flagged in the past as a key growth focus for Entain potentially. Could you update us on where you see the opportunity and potential timing going forward? Thank you.

Shay Segev:

So, in term of US, I don't think that we are sharing anything specifically about the customer mix. I wouldn't expect it to be very different from any other operators in the US. Clearly, you have a variety of mix, some customers who are more frequent players and some of them that are less. Clearly, we have our CRM and product mix for both the casual and recreational players. In terms of Latin America, maybe Rob you want to touch on it. I will only say that Latin America is a key part of our growth strategy of new markets. We mentioned it a few times when we launched Colombia. Specifically, on Brazil, Rob, you want to touch on it?

Rob Wood:

Only to add that, as you say, we launched in Colombia, it's Latin America, it is a market that we are really interested in. We think the bwin brand resonates particularly well in that part of the world. People still remember the Real Madrid sponsorship. And it's fast growing, Brazil in Q4, a bit like Italy, was a near doubling for NGR. So, I'm not going to talk too much about which territories and which partnerships we might be looking at. But safe to say, it's a continent that we continue to be interested in. And of course, when we think forward to the prospect of Brazil becoming fully regulated, and what that might do in terms of growing the market. We continue to be really excited about it. I know various analysts have had a go at estimating what could happen to that market. And most are coming away with a multiple of three, four, five times in terms of growth, once the market completely opens up, products are fully available, and you can freely market, as we do in other territories, et cetera. So, there are lots of reasons to look at Latin America as a region where we see material growth for the group over the next five years.

Kiranjot Grewal:

Perfect. Thank you.

Operator:

Thank you. There are no further questions. So, I'll hand back to Jette for closing comments.

Jette Nygaard-Andersen:

Thank you, operator. And thank you all for dialling in today and listening. As you heard, Entain continues to go from strength to strength, and we have an exciting future ahead of us. I look forward to sharing more on that journey with you and to meet with you all soon. In the meantime, if you have any further questions, do get in touch with David.

Thank you and goodbye.

ENDS