

Σntain

Q1 Trading Update
15 April 2021

Transcript

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Jette Nygaard-Andersen:

Good morning everyone and thank you for dialing in today.

I'm joined by our Group CFO and Deputy CEO, Rob Wood, and our Group Director of IR, David Lloyd-Seed. We'll give you a short overview of our Q1 trading update and then move on to your questions. We won't be giving much detail today on BetMGM, as you will hear directly from them at the business update session next Wednesday, 21st of April.

So, I will first hand you over to Rob to talk a little bit about our trading performance, and then I'll be back with additional updates from the business. Rob.

Rob Wood:

Thank you, Jette. Good morning, everyone.

I'm pleased to report another positive trading update this morning. The strong momentum that we exited last year with, in online, has continued into the first quarter this year, and we grew online by 32% in constant currency.

That makes it over five years of consecutive quarters of double digit growth. And I think that proves that we have a winning business model, driven in particular by our proprietary technology. Of course, that growth has benefited from ongoing lockdowns around the world. So we did expect to grow very well in Q1, but nonetheless, it's pleasing to see the strong growth come through, and we're therefore on track to deliver the guidance that we gave on the 4th of March.

Rob Wood:

Pleasingly, the strong growth in Q1 was seen across all our major markets, and we grew double digits everywhere, just with the exception of Germany, where we're adopting the new regulatory regimes. Interestingly, if we strip out Germany, our online NGR growth in the quarter was a very strong 44%.

We did see another quarter of elevated sports margins. Margin was up slightly versus a strong quarter last year, so still one or two percentage points higher than we would ordinarily expect. But growth was primarily volume driven in both sports and gaming, as our customer-focused, market-leading product carries on delivering.

And as always, we believe that the strength in our product and technology means we're well-placed to continue growing strongly for many years to come, particularly as we benefit from the ongoing offline to online channel shift around the world, and from new regulated markets coming online.

Rob Wood:

Onto retail now, and as expected, our retail operations across the UK and Europe were impacted entirely by forced closures due to COVID in Q1.

The timetable for easing restrictions is fluid and varies by geography, so some uncertainty remains. However, we were able to welcome customers back into our shops in England and Wales on Monday, with measures in place to keep all of our people and our customers safe. There are some additional restrictions for the next few weeks as well, which will limit the ability to get back to normal trading in the short-term, but the first few days this week have been encouraging and we look forward to getting more of our shops open as we progress through Q2.

Rob Wood:

Turning now to our growth strategy into new markets, and Q1 saw the completion of both the Bet.pt and Enlabs deals on the 31st of March.

With Bet.pt, Entain enters the rapidly growing Portuguese market, where we'll leverage Bet.pt's strength in sports betting, alongside our technology, gaming, content, marketing and CRM capabilities. With significant revenue and technology cost synergies to come, Bet.pt, is a great addition to the Entain group.

Rob Wood:

And similarly, with Enlabs, we enter the fast-growing Baltics region. As a reminder, Enlabs is the market leader in Latvia, it's the second largest in Estonia, and a top five operator in Lithuania. And following its acquisition of Global Gaming last November, Enlabs is also expanding into the Nordics, and it provides us with a platform to launch into new Russian speaking territories, as these markets regulate as well.

Rob Wood:

So these two acquisitions, and our organic entry into Colombia last year, mean we now operate in 27 locally regulated markets, and we continue to deliver high quality revenue streams.

Of all the global operators in our sector, Entain's online revenue has the strongest blend of geographic diversification, high regulated mixed, and fast growth. And it's underpinned by proprietary market-leading technology.

With that, I'll hand you back to Jette.

Jette Nygaard-Andersen:

Many thanks, Rob.

As mentioned, we'll provide more details on BetMGM next week, but I am very pleased to see that BetMGM continues to build momentum, with our market share now at 19% for the rolling three months to the end of February, for the markets in which it operates.

We have a very strong number one position on igaming, and are ready to challenge for the number two position for sports betting and igaming across the US.

Jette Nygaard-Andersen:

On Sustainability and ESG; Sustainability is one of our core strategic pillars, alongside growth, and we continue to make further progress in all areas of our Sustainability charter.

As well as further strengthening and diversifying our board, committing to be carbon net zero by 2035, we were very pleased to see all that hard work and commitment bear fruit with MSCI upgrading our ESG rating to AA recently.

I'm also delighted that this month we launched our ShareSave plan, which will enable our people across our international operations to share in the success of our business.

Jette Nygaard-Andersen:

As you know, we believe that technology has the ability to be a game changer in terms of player protection, and to deliver customer focused, personalized levels of protection, while also preserving customer's freedoms.

During the period, we started trials of our advanced responsibility and care program, or ARC, as we call it, in the UK. Assuming these go as planned, we expect to be able to roll out ARC from the summer.

As we've said many times, this really does change the game in terms of player protection, moving it from the industry-wide reactive approach today, to one that pre-empts players at risk, averting problems before they even occur.

Jette Nygaard-Andersen:

With UK Gambling Act submissions completed at the end of March, we remain very encouraged that the government is taking an evidence-led approach to the review. And we still firmly believe that the use of technology is the best way of solving these complex challenges. Along with other inputs, embracing ARC's data and powerful analytics will, we believe, be instrumental to player protection, as the DCMS looks to make the Gambling Act relevant for the digital age.

Jette Nygaard-Andersen:

So, in summary, I am very pleased with our performance and continuing momentum.

Q1 results further demonstrate the underlying strength, the resilience, and the quality of earnings of our business, which is underpinned by the group's increasingly diversified geographic and product portfolio.

Whilst we see COVID restrictions starting to ease, it is still relatively early days, particularly in many of our international markets. But in spite of this, we remain excited and as confident as ever in Entain's longer-term prospects of success.

Jette Nygaard-Andersen:

With that, I will now like to hand the call over to Q&A.

Moderator:

Thank you. If you wish to ask a question, please press star two on your telephone keypad, that is star two on your telephone keypad. If you wish to retract a question, please press star three on your telephone keypad. There will be a short pause whilst questions are registered.

Moderator:

The first question is from Simon Davies from Deutsche Bank. Please go ahead, your line is now open.

Simon Davies:

Yeah, morning. Two from me, if I may. Can I start off with Germany? It looks like your revenues in Germany were down about 45%, do you think that is broadly in line with the overall market? And can you talk a bit about the splits you're seeing between casino and sports, and also your expectations in terms of the potential outcome of a legal challenge to deposit limits? And secondly, can you just give us some commentary around first time depositor numbers and reactivations, and the extent to which they've been driving growth across your core markets?

Jette Nygaard-Andersen:

Thank you, Simon, and good morning. Let me hand you over to Rob to talk about Germany and our first time deposits.

Simon Davies:

Thanks.

Rob Wood:

Sure. Good morning, Simon. I think your first question was how are we trading in Germany? I get a slightly different number to you, but ballpark, it's in the right zone. How does that compare with the market? We really don't know. And I think it depends whether you're talking to an operator who is compliant, versus an operator who isn't.

When we look at the gaming mix versus sports, which you also asked about, as we've said previously, we put out our guidance last autumn, you'll remember, we are trading adverse to that guidance on gaming, but we're favourable to that guidance on sports. And really, what we think is happening there is the gaming measures have not been so well adopted, and therefore, until we enter a phase of enforcement, or operators withdrawing the market, we think we're going to be the wrong side of guidance on gaming until that happens.

On the sports side, though, we are comfortably ahead. And one of the main reasons for that is that, whilst many of the sports restrictions are in play, so things like the deuce market, esports, bet in play markets, no live streaming, KYC measures, that's all in play. The restriction around monthly wagering limits is not yet in play, as that's subject to challenge.

So there's a bit more to come in terms of regulatory impact on sports, but on the gaming side, we think there's benefit to come as enforcement steps up, particularly if the new gaming tax lands on the 1st of July, as expected.

So overall, Germany, in line with expectations, albeit, as I say, gaming currently worse than sports.

Rob Wood:

In terms of our view on the legal challenges, I mean, we just have to wait and see. As I understand it, there's two areas at the moment, one is the challenge around the level of the new gaming tax, and another is around the wagering limits on sports. Hopefully we'll get a resolution on each of those in the coming months.

Rob Wood:

Your other question, I think, was around the shape of digital growth, things like FTDs and reactivations. I can certainly share that, as I mentioned in the beginning, the growth was very much volume driven. If we look at actives versus spend per head, around three quarters of the growth was actives driven. And if I just look at March, we had our best ever month for FTDs in March, and for actives in March. So the health of the business continues to be very strong.

Simon Davies:

Great. Thank you very much.

Moderator:

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

Kiranjot Grewal:

Okay, thank you. Just couple of questions from me. Firstly, on Australia, could you potentially offer us more colour on the performance? How did the performance hold up there as the shops reopened? Could

you give us some more detail around how much of your online revenue came from the UK in Q1? And then, could you potentially give us any updates on your thoughts on the German regulation development from here? I think we'd originally anticipated in H2 we might start to see some return of gaming. Has that changed at all in your mind? Thank you.

Jette Nygaard-Andersen:

Thank you. And good morning. I think that's three questions for you, Rob. Australia, shops opening, online revenue, UK share. And if any update from German regulation?

Rob Wood:

Yes. Okay. Yep. Let me take those. So, Australia has continued to trade well during Q1, the level of growth we're seeing is broadly similar to what we achieved across the whole of 2020. And then, they had some challenges with some lost racing fixtures due to weather, but nonetheless, continue to be pleased with Australian results.

Some pressures over the year to go. Obviously, they're out of COVID now, but nonetheless lapping things like government stimulus last year, will be interesting to see how that impacts the numbers, but we continue to be happy with the performance in Australia.

Rob Wood:

UK mix. Well, UK in Q1 grew at a similar level to the whole of Entain. So therefore, mix of UK unchanged; likely to be around 35%, something like that.

Rob Wood:

And German regulation, as I mentioned in the last question, we are optimistic around enforcement. We think that's a really important next phase, whether it's by the sports gaming authorities or the tax authorities or payment service providers, or content providers.

There has to come a point where the compliant operators start to see some benefit as those that are currently making hay while the sun shines, either depart the market voluntarily or are instructed to do so. So, that's really to be seen. And we'd hope to see some progress on that front over the second half of the year, but we'll just have to wait and see.

Kiranjot Grewal:

Okay. Super. Thank you.

Moderator:

Thank you. The next question is from Edward Donahue from One Investments. Please go ahead.

Edward Donoghue:

Morning everybody. A couple from my side, if possible. Just going back to Germany. Is the tax allowed to be introduced if an appeal is in process? As of July with regard to a comment you made earlier.

Jette Nygaard-Andersen:

Rob, do you want to continue with Germany?

Rob Wood:

I can try. I mean, my understanding is that we're working on the basis that the tax will come in on the 1st of July and it'll come in at the 5% level on turnovers. So we're gearing our operation to be ready and fully compliant with those measures. Is there some risk that it doesn't come in? I would've thought unlikely, but we do expect it to come in, yes.

Edward Donoghue:

Right. And obviously, you probably don't want to say anything on BetMGM. but it was more the phrasing with regard to, I think it you said "ready to challenge for the number two position for sports betting and iGaming across the US". Does that imply a material change in the battle approach?

Jette Nygaard-Andersen:

No. So, right now we're waiting for the March numbers to come in and it looks very encouraging. If you look to our February numbers and the last three months rolling, we have a very strong number one position on iGaming. Three months rolling on sport is also picked up a little bit from January.

So we're very encouraged that we are getting close to number two, but we'll have to see when we have all the March numbers. There's been some analysis out there that expects that we might hit the number two. So that's how you should interpretate that sentence.

Edward Donoghue:

Splendid. And my last question was, and excuse my ignorance here, but on the guidance for this year, that was including the football events and potentially the Olympics, or not?

Rob Wood:

Yep, yep. That's guidance.

Jette Nygaard-Andersen:

Rob, you want to comment on that one? Yep.

Rob Wood:

Sure. Yep. So guidance really, is based on everything that we expect the fixture program to look like for the year. So yes, it includes the Euros. I should say though, the Olympics is a virtual non-event from a betting perspective. It always has been and I wouldn't expect it to be any different this time around.

Edward Donoghue:

Okay. I thought that. And my last question, apology. It's just with regard to your commentary on the UK estate. How much of that is open and just what does the restrictions in place at the moment imply?

Jette Nygaard-Andersen:

Rob, you taking this one?

Rob Wood:

Yes. Let me. So all shops in England and Wales are open, which is the vast majority in the UK. There's still a few hundred across Scotland and Northern Ireland not yet open. The restrictions are more impactful on

the sports side. Something... If you think that we can't screen live events and there's no furniture and customers are not allowed to stay beyond 15 minutes, the whole idea of these restrictions is to discourage dwell time. And that's what they do.

So we're only a few days in, of course. But sports has started slowly, as we expected. Gaming on down the hand, even though two machines have to be turned off, so that there's sufficient gap between two machines that are on, the gaming numbers have recovered really pleasingly. Probably an element of pent-up demand there.

So early days, but we're pleased with what we've seen so far and hopefully, the restrictions will be lifted on the 17th of May in the UK and Wales. And the Scottish shops are due to open later this month.

Edward Donoghue:

Great. Thank you very much.

Moderator:

Thank you. The next question is from Joe Thomas from HSBC. Please go ahead, your line is now open.

Joe Thomas:

Good morning. I was just wanting to ask a couple of things. One was on the margin, the sports gross win margin. Which has obviously remained strong and it has been consistently strong.

And I know you said, Rob, that it's one to two percentage points ahead of where you'd expect it to be, but I mean, there's been a lot of news around the starting price and so on. And I'm just wondering to what extent you started to see a structural tailwind because of some of these things now. And is there a little bit more visibility around there?

Joe Thomas:

Second thing, it was just on ARC and whether you could spell out the extent to which you're expecting it to be a drag on revenues and profits? And forgive me, but is that to be rolled out beyond the UK? So it's an Entain-wide initiative? Or is it just focused in the UK at the moment?

Joe Thomas:

And then finally, I was meant to spelling out the restrictions in retail. I've not had the joys of the betting shops since lockdown has been lifted. But is the estate running... Is it profitable at the moment, under these restrictions?

Jette Nygaard-Andersen:

Yeah. And good morning Joe. Let me take the second one on ARC first, and then I'll hand over to Rob to speak about sports margins and retail.

So, ARC you could say, it's an advanced program and that's about the way that we go about player protection in general. So, what we'll be doing now is we'll be trialing the program over the next couple of months. And then we expect to roll it out with a focus on UK and our UK brands during this year. But then certainly, it's an international program. So, we'll be rolling out to other markets thereafter.

Jette Nygaard-Andersen:

And listen, it's still early days. As I said, we're going to trial it. So we don't expect this to have any material impact. What we did say in November, is that when we launched our sustainability charter, we would be looking at potentially a £40 million EBITDA impact analyzed. And half of that will be from closure of the markets that are not regulating anytime soon. And the other 20 would be for various RG (Responsible Gambling) initiatives.

But of course, when I looked at ARC long-term and our strategy here, this is really something that should drive quality of earnings. So, if you're better at protecting your customers, if you can be proactive, making sure that you actually help them with a good way of using our product, that should turn into lifetime value and there by quality of earnings.

Jette Nygaard-Andersen:

But what we have in our models is the £40 million we talked about last year of which 20 relates to various RG initiatives on an annualized basis.

Rob, you want to talk about sports margins and a little bit more detail on retail opening?

Rob Wood:

Yes. Happy to. So, a good question, specifically, are we benefiting from structural tailwinds? The answer there is, no, we don't think so. There have been some changes in the UK racing around things like the SP mechanic, you're right. But that's pretty minor in itself when you're just looking at UK and you're just looking at racing. When you aggregate across the whole group, it's immaterial.

The main drivers, we think of the elevated margins that we've seen during the COVID period, one has been favorable results. So, just more volatility in the results and less favorites winning. And that typically favors the bookies. And the other is this concept of more retail type betting in the online environment. So, the lower stake, higher multiple type bet, that's higher margin. And that's therefore, changing the mix of online.

Rob Wood:

Interestingly, if you look at the UK and Italy, where channel shift is at its greatest for us, given we have such a strong retail presence, those are the territories where the margin increases has been higher. So, we're pretty confident that that retail type mix of betting in the online environment is the driver of elevated margins. And therefore, as retail reopen and sports results normalize, we would expect margin to trend back to broadly where it was.

There are some minor structural upsides. You've mentioned one. There are several others, but generally speaking, we expect to moderate back to where we were.

Rob Wood:

And to your question around retail profitability, the answer is, while we're trading with these restrictions, then no, it's not profitable. It's better than it would be if we were shut. So it's an improvement, but it's not profitable.

In the UK, breakeven for profitability is somewhere close to 80% of where we would otherwise be. So, we do have to get to that sort of level before the UK is profitable. You might remember last summer, we got back to within single digits. So, well in excess of that threshold. And we fully expect to get well in excess of that threshold as well this time around.

But right now, when we have these restrictions, then it's not profitable. Just for interest, the threshold for profitability then drops in Belgium and drops again in Italy, as you move away from a fully owned model

in the UK, to a fully franchised model in Italy. So, the threshold for profitability is much much lower in Italy. But again, we do expect retail to get back to somewhere close to where it was pre-COVID, maybe 10% adrift, something like that.

Joe Thomas:

Thanks a lot.

Rob Wood:

And therefore highly profitable still.

Joe Thomas:

Thanks.

Moderator:

A reminder before taking the next question, if anyone else would like to ask a question, please press star two on the telephone keypad. That's star two on the telephone keypad.

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

Gavin Kelleher:

Hello, good morning. Just one from me. I'm just following up from your answer, Rob, in relation to the UK and Italy, I think you noted that the UK growth was about 35% in Q1, have you any kind of insight into how much of that growth was driven by retail closure? Given you've seen the margin benefits from retail type betting or what you're seeing from your omni-channel listed customers. Do you have any sort of clue on how much of the 35% or thereabouts growth in the UK came because retail was closed?

Jette Nygaard-Andersen:

Thank you, Gavin. And good morning to you also. Rob, you want to continue with comments on potential channel shifts, retail, digital.

Rob Wood:

Yeah, I can try. Morning, Gavin. It's a really tough question though. And I wish I could give you something more precise. It is hard to measure. But we would guess that around 20 to 30% of what we would ordinarily expect to take in retail has found its way into our online platform. So in aggregate materially down, of course. And what does that equate to in terms of online boost? Because it's not a million miles off 50-50, it's a similar sort of number in terms of benefits to online. And of that uplift, online see a 20 to 30% benefit. It'll be interesting to see where it settles back to, but we would expect there to be a degree of permanent channel shift, or accelerated channel shift if you like, as a result of COVID.

So not all of that revenue will go back to retail. In the UK it would broadly break even therefore from that perspective, maybe slightly adverse, but given that Entain globally is predominantly online. We're most definitely net beneficiaries of accelerated channel shift.

It's not as specific as you'd like, but it is hard to measure the answer to the question you're asking.

Gavin Kelleher:

No, no, that's helpful. Just on the ARC rollout. Just so I'm clear, have you started to trial that with customers or is that starting now? And when will the mass market in the UK, let's say, see the ARC tools being implemented at a customer level? When will it be fully rolled out across the UK?

Jette Nygaard-Andersen:

So for ARC program, we are trialing it over the summer and yeah, we're waiting for the results, but that will take a couple of months and if the results are as we expect them to be, we'll start rolling out all of the UK brands after summer. So this is something that will happen this year, and then we are looking to international markets thereafter.

We have, as, you know, rolled out our affordability checks starting in November and they are now live across the 14 UK online brands. And of course, ARC has an element to that also in terms of advancing our approach to our affordability checks also.

Gavin Kelleher:

That's perfect, thanks a million.

Jette Nygaard-Andersen:

You're Welcome.

Moderator:

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 question, two, if I could. First of all, Rob, just to follow up on your comment from your answer to an earlier question in terms of record first-time depositors in March. I'd be interested in your view as to why is that? Given the 12 months we've come through in terms of online activity, that was kind of a surprising comment to me. And for how long would you have to see kind of those levels of FTDs continuing before there's upside risk to your thoughts in terms of 2021 revenue growth for the online division? That's the first question.

And then second of all, if I could go back to ARC again, please, excuse me if I'm thinking about this wrongly, but do you have any sense of what the DCMS, or that the regulator thinks of ARC in terms of how comprehensive or rigorous it is? I guess an understanding really of how far along of pathway to more owners regulation or change regulation does ARC bring you in terms of addressing that. Thank you.

Jette Nygaard-Andersen:

Yeah. Thanks Michael. Good questions. Let me start with a little bit more detail on ARC and DCMS and then hand you back to Rob for the FTD.

So listen, we continue to be encouraged by DCMS looking at this from an evidence-led approach, because that's really what we need to do. As you know, the submission for the UK gambling act review closed at the 31st of March. And at some point we expect the submission to be made public. And we put ours in also with our recommendation and that included a very thorough run-through of our approach to both affordability checks and to player protection, really going from a reactive approach to proactive approach.

So we're having ongoing discussions and I think after the government and DCMS have said they want to take an evidence-led approach to this, I feel very encouraged by this. And I think this is really the way that the industry needs to move. And honestly, I think that the UK has an opportunity to lead here globally.

So, to answer your questions, we are having good discussions. We are doing what we can to both explain what we can do and give examples of how this could work in the industry.

Jette Nygaard-Andersen:

Rob, do you want to comment a bit on the FTDs for March?

Rob Wood:

Yeah, happy to. Morning, Michael. So FTD is very strong in March and really strong through Q1, just record March. And we're seeing strong FTDs pretty much everywhere, which is the really pleasing thing. So clearly COVID lockdown, lack of alternative things to spend your leisure money on, is continued main drivers of it. If we look at different territories, UK and Italy continue to be above average. And we suspect that's because of the strength of our retail brands. So an element of channel shift happening there. So when you get things like Cheltenham, for instance, in March, a lot of customers to come out to bet on Cheltenham, but they can't do it in the retail environment this year. And hence that helps FTDs as well. Plus the strength of the offering that we packaged up for Cheltenham, we think is typically successful of the Ladbrokes brand but we see strong FTDs everywhere.

Rob Wood:

Look at Brazil, for instance, LatAm was one of the strongest performing areas, I read a stat that Brazil FTDs in March accounted for a quarter of all the actives. That's phenomenal. And that's just a sign that Brazil just keeps going and keeps going, which is fantastic for us.

Australia, are seeing strength in FTDs right now, potentially thanks to the Mark Wahlberg-led campaign over there, but there's no areas of weakness. So that leads you to think that the general environment and COVID impact on retail is likely to be, and lockdown, that lack of alternative things to spend money on, those are still likely to be the main drivers for strength in FTDs I would suggest.

Rob Wood:

And I think you also asked around guidance and whether this strength lends us to a different conclusion for the outlook for the year. No, I don't think so.

As I said in my opening comments that whilst we were really pleased with our Q1 growth, we did expect Q1 to be strong in absolute terms. Revenue per day in Q1 is pretty similar to Q4. So a continuation and we expected that. And of course we all know as we progress through the year that we'll have headwinds in the online environment as lockdowns ease, and we'll lose that margin halo effect that we were talking about earlier in the call and tough fixture programs to annualize against from the prior year etc. So we continue to be cautious about online trading as we move out of lockdown, but a strong start to the year, as we expected.

Michael Mitchell:

Okay. That's great. Thanks for colour.

Moderator:

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

James Rowland Clark:

Hi, good morning everyone. I know there's only been a few days of pubs and restaurants re-open, and UK betting shops re-open, but do you have any stats or colour that you can share about online gambling activity in the last few days?

Secondly, just on UK regulation, you said that you'd expect the DCMS to share their findings from these submissions soon. Do you have any timing that you can share with us on that?

And then finally, just on ARC again, is ARC going to be rolled out to BetMGM as well as the UK and the rest of the online divisions? Thank you.

Jette Nygaard-Andersen:

Good morning, James and thank you. Let me start with the UK and ARC. And then Rob can think about the last two days of retail opening in the meanwhile.

So on UK regulation, no, we don't have a date for that. I think it's in due course and then we are expecting that there will be some sort of white paper coming out, potentially in the Autumn, maybe by the end of the year. So any impact will likely be on legislation for next year. So I think probably typical summer, or the closest we can get to that.

On ARC, with the US, it's still in early stages. We talk about it a lot and there's fantastic momentum, but it's still early stages. States have different approaches to regulation here around each and around checks and so forth. So we'll have to see when and how that becomes relevant.

So I think right now the focus is really on UK, which is the more mature market and then our international markets. And then as the US mature, we'll look at what is the best approach here. And that will, as I said, likely also have to be on a state-by-state basis.

Rob, any future colour of the last two days of retail, last digital share?

Rob Wood:

Well, while you were talking, I did have the chance to open up our UK digital report, and I can see the first three days of the week, we're slightly ahead of forecast. So there's nothing in the numbers that suggest it's been positive or negative versus expectations. So nothing that we're seeing so far to draw any insights on. No, sorry, James.

James Rowland Clark:

It was a big ask. But, I guess, what's the forecast is presumably for a drop in online activity, versus March?

Rob Wood:

Yes, but not materially so. As I say, these are of three days of trading. So I'm comfortable with what I'm seeing so far, but obviously we'll be monitoring it closely in the weeks to come.

James Rowland Clark:

Great. Thank you.

Moderator:

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

Ivor Jones:

Good morning. Can I ask you to talk about the countries that are getting organic investment and which are going to be important in these discussions in 12 months' time. You mentioned Brazil briefly, but Netherlands? other Latin American countries? What are the emerging markets that are going to pop up above the parapet?

Secondly, I'm kind of looking for you to try and give me an easy sound bite to crystallize something very complicated. You said previously that responsibility measures are a £20 million of EBITDA drag. How will you want outsiders to pick up the change in what the company is doing in terms of responsibility? Is it that we don't take spending over a certain level every month? We don't take spending until we've done a particular type of affordability check that demonstrates how responsible we are? How can we crystallize that into a way of describing a change in responsibility?

Then the last thing, when we last spoke, I think you'd said that the company had had around £60 million plus of aggregate government support, I guess that's gone up with another few months, the furlough scheme, and you were considering whether to repay it. Have those considerations reached a conclusion yet? Thank you.

Jette Nygaard-Andersen:

Thank you and good morning to you also. Let me start off and then hand over to Rob.

So, in terms of countries and organic, I mean, there are several regions that we are looking at. You mentioned Brazil, certainly LATAM is a focus area for us. Brazil is very encouraging. We're waiting here for the next step from registration, we are already number one in the market, so we're following this closely. We took a license in Colombia, that's another interesting market for us. Certainly not as big as Brazil, which we expect to be similar to any US state. Colombia is much smaller, but it's also part of a very exciting region here. There are other markets in LATAM where we are expecting progress.

Jette Nygaard-Andersen:

Then of course, we closed our Enlabs acquisition, which will see us into the Baltic states, or is seeing us into the Baltic states, which are seeing high growth there. They have opportunities also to relaunch in Sweden and potentially further into the Nordics. So that's another area.

Then of course we have the different countries that are in for regulatory processes that we are looking at. For Enlabs we're also looking at potentially new Russia speaking markets. So certainly many opportunities where we have launched or are gearing up and expecting regulation to happen very soon. Canada, we also mentioned when we spoke to the full year results early on, and here we are in close contact with the regulators in the Ontario region.

So many new organic growth areas for us to look at throughout the year and into 2022.

Jette Nygaard-Andersen:

In terms of responsibility measures, I mean, we hadn't been specific, and as I said, for example, with the affordability checks and putting ARC on top of that, which is really a personalized approach to it, this is very early days. We're trialing it now. So in terms of how that would play out, and if we can split it up, we don't really have any insights to that as of yet. So what we've said is that the £40 million that we talked about in November, the way that we approach this is around 50/50. So £20 million is around closure of the markets that are not regulating. The other £20 million is really a pool of the different RG measures.

I don't know, I'll hand it over to Rob now on furlough and Rob, of course, if you have other comments...

Rob Wood:

No, nothing further for me to add on there. On furlough, the board continue to keep the situation under review. The virus is improving of course, but it's still with us, so no updates on that, no conclusions reached.

Ivor Jones:

Thank you very much.

Moderator:

Thank you. The next question is from Edward Donoghue from One Investments, please go ahead, your line is now open.

Edward Donoghue:

Apologies, back in. It's just with regard to comments you made with regard to the submission on the UK regulatory dialogue. Is there a fully joined up approach from the industry? You were talking very much we, as in reference to Entain, is there any divergence with regard to the industry per se?

Jette Nygaard-Andersen:

So on the gambling act review on the industry, you know we had an industry body, BCG, where we work together on, sorry, BGC, where we work together on different approaches both to affordability, sponsorships and so forth. We are coming together on a number of these areas. I think most of us also agree that a coverage approach, a one fit all model is certainly not the best way forward. So we have a number of areas where we are cooperating and bringing one message to the regulators.

I mean, obviously the different companies also have different areas that they focus very much on. There are some differences here, but we are trying to coordinate and we are trying to bring, you could say, coordinated approaches to the DCMS where it's possible.

Edward Donoghue:

Okay. Thanks for that.

Then the last question, I promise, is just back to the US. Since you last talked, the new administration has actually passed another stimulus bill, which actually sees a significant amount being paid to state treasuries. Has that changed in any way the level of dialogue or the pace of potential opening of some of those states as they've had a level of funding that, towards the end of last year, certainly wasn't expected?

Jette Nygaard-Andersen:

That's a state-by-state approach. I think in most states they are certainly looking to see how they can improve their budgets. So I think there is a move that the need for funding is something that the legislature has taken into account when they are also looking at the different bills.

I should say that, for example, in Texas, they had the flooding, so now it looks like in Texas, there will be a little bit of a delay as they focus on making sure that the budgets and the bills that are approved there really goes into those types of areas.

I would say in general, no, the process is ongoing in many states, and we have seen bills being put forward as part of the budget processes.

Edward Donoghue:

Brilliant. Thank you very much, and I will go away.

Moderator:

Thank you. The next question is from Richard Stuber from Numis. Please go ahead, the line is now open.

Richard Stuber:

Hi, good morning everyone, just one question from me, obviously very strong online growth this quarter, and also for the last five years. Do you have any comments on the reliability of the tech stack, either across the group or in particular markets? Whether it's all sort of held up as expected?

Secondly gets in terms of operating leverage online and how we think about it, are there any step-up investments in the likes of customer services, as people move online or is it largely automated now and therefore your platforms are so far, highly scalable? Thank you.

Jette Nygaard-Andersen:

Yeah. We had a, good morning, Richard, good morning to you.

Richard Stuber:

Morning.

Jette Nygaard-Andersen:

We had a very good proof point on our tech stack with the Grand National, because this was really the first time where we had both Ladbrokes and Coral on the Entain platform for that big an event. It helped out beautifully. It was very, very strong, we had no issues and the performance was very good, whereas I was shown in the press that some of our competitors had some challenges with the performance.

Up times are good. We can take even further transactions and so forth. So certainly very encouraged with the migration that I think was finalized here before summer, and we're now seeing the benefits of that.

Then you asked about operational leverage, was that also pertaining to the tech platform?

Richard Stuber:

Yeah, I guess just online generally, I guess a small marginal increase in top online just briefly down to the earnings line, but as [18 seconds of inaudible] the operating leverage guidance, I guess is the question.

Jette Nygaard-Andersen:

You were breaking up a little bit on my end, Rob, I don't know if you want to take a shot at that on operational leverage on the online business, if you could hear the question?

Rob Wood:

Yeah. I think I heard enough first time around, we just lost you second time around there, Richard.

So the answer is, yeah, absolutely we continue to invest in our tech stack it's our crown jewel. So don't expect OPEX to decrease, but OPEX is not going to increase at the same rate as contribution, we don't think, and therefore we do get positive operating leverage and EBITDA margin accretion as a result.

When it comes to investment in technology, part of it is about things like innovation, making sure that we're consistently at the forefront and preserving our future relevance and pursuing new opportunities. Part of it's also around ARC, you've heard a lot of talk this morning around the importance of ARC and

what we want to do with that. Not just for Entain's benefit, but for the industry's benefit. That requires investment as well.

But by the same token, we also, I touched on it last autumn, we also see further opportunities for efficiencies, particularly within technology, as we conclude the synergy program from the Ladbrokes Coral acquisition and we move into the next phase and synergistic and efficiency opportunities, which will help fund investment into things like innovation and ARC.

I think that the key point is whilst we will always invest in our technology stack and grow our capabilities, I wouldn't expect cost growth to inflate at the same level as our contribution and hence, we have a positive model from an operating leverage perspective.

Richard Stuber:

That's great. Thank you very much. Thank you.

Moderator:

Thank you, there are no further questions so I will hand back to Jette for closing comments.

Jette Nygaard-Andersen:

Okay. Thank you all for dialing in and listening in this morning.

As you've heard, Entain continues to go from strength to strength.

There's excellent momentum in both our core business and the US through BetMGM. Our pillars of growth from new markets also continue to progress, and we have an exciting future ahead of us.

By now, most of you don't need reminding, but the BetMGM business update is next week on the 21st of April, which will provide more color and details around our success in the US.

Meanwhile, if you have any other questions, do get in touch with David and the IR team.

Thank you and goodbye.