Entain

H1 trading update

12th August 2021

Transcript

Disclaimer

Jette Nygaard-Andersen:

Good morning everyone and thank you for joining us for our interim results presentation today.

We have our investor event later today, and so this morning we will focus on our performance in the first half of our financial year.

I'll talk through a brief overview, then Rob will talk through the numbers in more detail and then we'll have some time for questions on these results.

Jette Nygaard-Andersen:

Entain is a business with a unique, leading platform and great momentum.

We have a business with a diversified revenue base and with almost all of our revenue now in regulated or regulating markets we deliver the highest quality of earnings in the sector.

Those factors have all contributed to a strong performance in our first half results, with NGR across the group up 11%, in spite of the fluid Covid-19 backdrop.

Online revenues continue to be strong; helped by extended lockdowns but also reflecting the strength of our position in our markets. If we strip out Germany as it goes through regulatory changes, online NGR was up 38% in constant currency.

Double digit growth in online every quarter for the last 5 ½ years, is a performance to be extremely proud of. That is a 20% CAGR quarterly over 3 years.

I know we say it a lot, but there aren't many businesses of our scale that have such a strong track record. And as you will hear this afternoon, we have plenty of runway within our existing markets, as well as new opportunities for further growth.

Our shops in the UK started to open during the latter part of the first half of our financial year and the early trends are encouraging. Whereas, our shops and outlets in Europe saw longer closures, only opening right at the end of the first half.

BetMGM continues to go from strength to strength, now firmly established as the no.2 operator in the exciting and growing US sports betting and iGaming market.

The Group's EBITDA in the first half of the year was £401m, contributing to the upgraded full year EBITDA range of £850m to £900m which we gave with our Q2 trading update. The middle of that range represented around a £50m upgrade to prior consensus.

The acquisitions of Enlabs and Bet.pt completed at the start of the second quarter and have been performing extremely well.

With the strong performance in Q2 online in addition to these acquisitions we are currently expecting around 10% of Online NGR growth in the full year, an upgrade to our expectations earlier in the year.

Rob will run through our financial performance in more detail as well as our investment in innovation and growth, alongside our new efficiency programme which will reduce underlying costs by £100m by 2023.

Sustainability remains one of our core strategic pillars and we continue to lead the industry on player protection and sustainability. Trials of our innovative ARC player protection programme continue and promise to bring in a new era of proactive protection.

During this half we committed to be carbon net zero by 2035 based on Science Based Targets, well ahead of the target date of 2050 set by the UN.

Our Pitching In programme continues to support grass roots sports and the next generation of athletes. A new cohort of young aspiring athletes have been welcomed into the Sports Aid programme and it has been exciting to see some of the alumni of this initiative perform so well at the Olympics.

With so much more going on our Sustainability efforts are being recognised by our MSCI rating recently achieving a double A rating, and as most recent testament of the progress we have made in this important area, we are delighted to have been included in Bloomberg's 50 global leaders in ESG.

Let's now have a look at some of our key businesses in a little more detail

Jette Nygaard-Andersen:

As demonstrated at the Capital Markets Day BetMGM held in April, we have an extremely talented team in the United States, and combined with the assets from Entain and MGM Resorts we have built a powerful model for success.

We are now firmly established as the number two operator in the market and remain the clear leader in iGaming across the US.

Our market share in the states in which we are active across both sports betting and iGaming is 24% for the three months to June, and in the states where we are currently offering iGaming our share is 30% for the three months to June.

NGR in the first half of the year was $357m and we can see that more than doubling for the year.

This reinforces the targets we laid out in April: to deliver over $1bn of NGR next year along with our long-term market share expectation of 20-25% in a market worth $32bn.

Jette Nygaard-Andersen:

Turning to the performance in some of our larger markets.

In the UK, online NGR was up 31% across the first half. All our brands performed strongly. Our sports brands saw strong growth in FTDs, and actives were 39% higher than last year. These reflect the repositioning of our brands to create wider appeal, and Dom Grounsell, our MD of UK Digital will talk more about that this afternoon. Our gaming brands are also reaping the benefits of last year's migration to the Entain technology platform with FTD's up 42% and actives 35% higher versus 2019.

Retail in the UK opened in a phased programme across the second quarter. For the majority of our shops, restrictions were only materially relaxed at the last few weeks of the first half of our financial year. However, while there is some element of pent up demand, it's clear customers want to come back to our shops. Volumes are around 90% of where they were pre-Covid.

Dean Shannon and his team are doing a great job with Ladbrokes and Neds in Australia. Across the first half of the year revenues were up 11% in constant currency. The patterns across the two quarters reflect the eased restrictions, but also the lapping of last year comparatives, which included broad lockdowns, and Horse racing, Entain Australia's core market, was pretty much the only sport running.

The reinvigoration of the business there continues at pace, with strong margins enabling marketing to be done from a much stronger position. This has been reflected in their growth in actives which are up around 24% and customer acquisitions up 16% year on year supported by the new advertising campaign for Ladbrokes with Mark Wahlberg.

In Italy we continue perform strongly. With the retail estate closed, the strength of the omni-channel approach was reinforced with the Omni-channel operators being favoured by customers. Our brands in Italy are seeing higher deposits and higher spend per active.

In both Italy and Belgium, retail restrictions are only just lifting, so it's too early to call any clear trends, but assuming re-openings continue, we are confident that we'll get volumes back to around 90% of pre-Covid levels by the end of the year.

In Germany, the much awaited introduction of regulation has, as we have said before, been impacting the market. We have seen the biggest impact on gaming with the lack of policing of the market creating an uneven playing field. However, indications are that this will improve and settle down over time, particularly with the introduction of the turnover tax on 1 July. The more impactful sports betting conditions still have yet to come into effect, but we expect them to do so later this year. We remain positive on the long term prospects of the German market and expect to strengthen our position there even further while the new regulations bed in.

Elsewhere across the Group, we are encouraged to see the Government in Brazil is steadily progressing towards regulation. Our Sportingbet brand is the clear leader in the market, as evidenced by the very strong NGR growth of 153% in constant currency seen during the first half and with actives more than doubling year on year. This puts us in a great position for when the market regulates, which we currently expect to come into effect in mid-2022.

With operations in Colombia and opportunities elsewhere in the region, we see LatAm as an exciting market.

Crystalbet grew by 52% in constant currency, across the first half of the year and again confirmed its position as the leading operator in Georgia. Crystalbet clearly demonstrates how Entain buys well, integrates well and creates real value for shareholders through M&A. This is being repeated with Enlabs and Bet.pt.

Enlabs goes from strength to strength in its key markets of Latvia, Estonia and Lithuania as well as providing the platform to grow our presence across the Baltics, Nordics and Eastern Europe. Bet.pt has had a good first half and we expect to migrate its operations onto the Entain tech platform later this year.

The strength of our performance across the first half of our financial year reflects our diversified earnings base and our high quality revenue streams. We are winning in all major markets, we are winning in the United States, and our acquisitions are performing strongly. We have delivered a stellar track record of growth and we have built a platform that provides a unique engine for further growth. I'll talk more about that this afternoon, but it's clear the Entain platform is built to deliver significant growth for our shareholders.

We go into the second half with confidence; we are encouraged by the outlook for our core business and are well positioned for future opportunities.

With that I'll hand over to Rob

Rob Wood:

Thanks Jette and good morning everyone. I have the pleasure of presenting another set of strong results from Entain this morning. I'll be taking you through the highlights using summary slides and, as usual, I'll include some comments on full year guidance and you'll find more detailed financials in the appendix which you can review at your leisure

Rob Wood:

So let's start with slide 9 which sets out the key highlights of the half. Group NGR was up 11% vs the prior year, and not surprisingly, this was driven by our strong Online performance. Online NGR was up by 27% on a cc basis and as Jette just said, if we strip out Germany, our online NGR growth was up 38% in constant currency. That growth clearly reflects the effects of Covid lockdowns around the world and an elevated sports margin. But that growth also reflects the very healthy underlying strength of our business. The momentum from 22 consecutive quarters of double-digit online growth continues, with strong numbers in all markets bar Germany.

And customer KPIs are strong too. Our growth was actives driven, not spend per head. We saw good retention and excellent new customer acquisition, with FTDs up around 40% YoY in the half. And we achieved that whilst improving marketing ROIs as well.

These results are all testament to the power and robustness of our platform, and you'll be hearing more about that this afternoon. And when you combine the power of our platform with the most diversified and regulated revenues in our sector, you can see how we deliver both high growth and highest quality of earnings.

Moving across the page; Group EBITDA came in at £401 million, up 12% on last year. As we mentioned with our trading update in July, this was better than we expected at the start of the period, principally due to extended lockdowns helping our online performance in Q2.

As you know, our retail estate was closed or under restrictions for much of H1, but our shops are pretty much all open now. And, so far, returning customer trends are encouraging, with the UK currently ahead of Europe having reopened earlier.

In the US, BetMGM continues to go from strength to strength, firmly establishing us as the #2 operator. Our market share gains have come from both iGaming and Sports Betting and Q2 NGR was ahead of Q1, despite the seasonality in the quieter quarter. In total, H1 NGR for BetMGM was $357m, more than 5x bigger than H1 last year.

As a reminder we said in April that, together with MGM Resorts, we expect to invest around $450m between us this year, which will take our combined total investment to $660m by year end, and those estimates continue to look about right.

Given how well the business is performing, I'll repeat what I've said before, investing in BetMGM will probably be the best investment we ever make.

But as the business grows and invests in the future, our share of losses for the half expanded to £78M. And we've excluded that loss from both the Operating profit and Adjusted EPS figures here to give a clean number for comparatives.

Just on Operating profit, that came in at £284m excluding the US, which was up 17% YoY

And our headline EPS figure is 31.7p per share, which is in line YoY due to phasing of the tax charge impacting this half, which should normalise to the guided 16% effective tax rate for the full year.

We continue to have a strong balance sheet to support our growth, with leverage now at 2.2x. and we have great demand for our recent refinancing, which I'll come onto shortly.

To finish this slide, I'll also introduce our new cost savings programme, which we call Evolve. This is the efficiency programme we've hinted about on past calls and in total we're targeting £100m of annualised cash savings by 2023. Importantly, these savings will support our new innovation plans, which I'll come onto in a few moments.

Rob Wood:

Turning now to EBITDA and slide 10 shows the usual bridge walking from EBITDA in H1 last year on the left hand side to H1 EBITDA this year on the right.

As I've mentioned, Group EBITDA was up 12% and Online EBITDA grew by 35%, or by £127m, to just shy of £500M, reflecting our strong organic results and also contributions from our acquisitions of Enlabs and Bet.pt which completed at the beginning of the second quarter.

Retail was of course impacted by enforced closures and we talked about the impacts with our trading update in July. That left Retail EBITDA for the half significantly down YoY and loss-making at *negative* £-63m.

And Corporate costs were £13m higher than last year, partly reflecting our increased commitment to responsible gambling.

So overall, 12% growth for the Group, as excellent online growth of 35% was pulled back by Retail closures, hopefully for the last time.

Rob Wood:

Coming back to cash now and like at our FY results, I've set out a simplified cashflow on slide 11, which reiterates our strong underlying cashflow conversion before BetMGM investment.

I highlighted in March that 2021 would be a year of investment as we completed Bet.pt, Enlabs and the Crystalbet earnout, as well as continuing to invest in BetMGM.

But with strong EBITDA and FCF conversion at 49%, leverage ended the half at a pleasing 2.2x, which is down from 2.9x 12 months ago

Liquidity is strong too with accessible cash of just under £400m. And if you add the undrawn RCF and additional funds raised later in July, available cash is now well over £1 billion

And that all means the group still retains the flexibility to pursue our growth strategy, whilst also reaching our medium term leverage target of 1-2x, and, when appropriate, resume returning capital to shareholders.

Just on dividends, the Board are not proposing an interim dividend with these results, recognising that risks still remain, particularly around further lockdowns of our retail estates.

However, we understand and appreciate the importance of dividends to our shareholders, and in our statement this morning we *said* that, assuming the world continues to open up, we expect to be in a position to recommence a dividend with our Full Year results in March next year.

Rob Wood:

Now alongside our Q2 trading statement, we also announced updates to our debt arrangements.

The new 5year Revolving Credit Facility of £590M replaced a £535m RCF agreement which was due to expire in March 2023.

And we announced a new dollar term loan, which pleasingly attracted strong global demand. The new $1.125bn term loan B: matures 3 years later in 2027, it delivers a 25bp saving on the interest rate, and, after refinancing the previous loan, it leaves us with an additional $351m to support corporate development and future growth opportunities.

So together with this larger RCF, this refinancing has provided us with extended maturities, increased liquidity and a lower rate of interest.

Rob Wood:

Moving on now and this morning we are announcing our plans for investment in innovation.

Innovation is important to ensure we remain ahead of consumer trends, deliver fresh and engaging products for our customers, and stay in front of the competition.

Over the next 3 years, we will invest around an incremental £100M.

Investment will go towards setting up an innovation lab, hiring innovation teams and funding research & development into new products, consumer trends, new technologies and so on.

You'll hear a little more on this from our COO Sandeep Tiku this afternoon, and you'll also hear from Jette and Dom Grounsell on how important innovation is for our customer offer, and in particular as we grow into new interactive entertainment categories.

We'll talk more about innovation spend with future results but for now, I expect it to be split over both capex and EBITDA, and, starting with our Full Year results in March, I expect we'll report this activity under a New Opportunities segment.

The key thing to note for now is that this investment will be more than funded by our new efficiency programme, Evolve, which I'll move onto now.

Rob Wood:

We've mentioned a couple of times before that we've been working on a programme of cost saving initiatives across the business.

Some of these initiatives are built out of learnings from previous integrations, particularly the Ladbrokes Coral merger, and some come from efficiencies as we leverage our increasing global scale, and look to harness the many and varied advantages of our technology.

We expect to deliver sustainable and recurring annual cash cost savings totalling around £100M by the end of 2023.

The chart on this slide illustrates 3 things: The phasing of these savings as we build up to £100m, the split between capex and EBITDA, which is broadly 25% capex/75% EBITDA, and also how EBITDA breaks down between Online and Retail

And there's also an appendix slide with the numbers so you don't have to get your rulers out on this chart. And it breaks down EBITDA savings between Opex and Cost of Sales too.

To give you some flavour of where these cost savings are coming from let me share a couple of examples: we're developing our own in-house Self Service Betting Terminals and we expect to roll them out across the UK estate by 2023, we're in-housing more content, and we're leveraging our global scale to reduce 3rd party costs and drive out efficiencies in our operating model.

Now importantly, this programme of efficiencies will pay for the innovation plan I outlined on the previous slide. And, if we assume our ongoing innovation investment settles at say £25m per annum from 2023, we could have net savings of as much as £75M per annum flowing through to the bottom line.

However, before banking that number, it's worth checking what levels of underlying Opex inflation for online you currently reflect in your models. As we flag on this slide, we expect underlying online opex inflation of mid to high single digits given the level of growth we're seeing in the business and now that Ladbrokes Coral synergies have flushed through. So if in your models you're currently growing our online cost base by a lower number than that, you'll probably find that some of the £75m is offset by BAU cost growth. And 2021 costs also step up as we absorb Enlabs and Bet.pt into our numbers, so I'll guide on that clearly on the next slide.

The key message to leave you with here is that whilst the first 2 or 3 years of savings will be consumed by initial investment in innovation and the usual one-time cost of delivering savings, we do expect ongoing sustainable cash savings, potentially as high as £75M per annum.

Rob Wood:

The usual slide from me now on guidance before I sum up.

Perhaps most importantly, in the top left of this slide, the uplift to EBITDA in Q2 from lock-down assisted Online revenues meant that we were able last month to upgrade EBITDA expectations for the year to a range of £850M to £900M pounds, which at the mid-point was around an increase of £50m vs consensus

Looking at Online, I said last month that our revised NGR growth target for 2021 is now 10% including acquisitions, which is a few percentage points stronger than our March guidance, and that uplift is entirely driven by the Q2 outperformance.

As a reminder our expectations for H2 are unchanged from earlier this year and, inevitably, our run of consecutive quarters of double digit growth will pause as we lap very tough comparatives, but our 2-year growth will continue to be strong.

I also said on the last call that I expect our absolute marketing costs to be broadly unchanged from expectations earlier this year, but the increase in NGR expectation delivers a reduction in marketing rate to around 20%, before it then goes back up next year to more like 21% again.

Online contribution margin will benefit from both the lower marketing rate and Evolve, which should mean we end the year with an excellent contribution margin of around 42%, which is 1-2ppts higher than our guidance in March.

Online Operating cost growth has now risen from March guidance of low to mid-single digit inflation to low teens, as we absorb Enlabs and bet.pt into the group, and reflect increased investment in growth, particularly around in-house product development.

And as a result of all that, Online EBITDA margin expectations, really pleasingly, have nudged up to 29-30% for 2021, which is up from 28% in March, and that means we're now not far from achieving our long term target of 30%

Onto Cashflow guidance on the right hand side and the items here should all be familiar with no surprises in there. I haven't yet included a placeholder for new acquisitions because we'll talk more about that this afternoon.

Just on net debt quickly, it's worth noting that our lease liabilities renew at a similar rate to lease payments, so effectively IFRS 16 debt remains broadly static, rather than reducing in line with payments.

And dividends, I've already covered those.

Rob Wood:

So by way of summary, we've delivered another strong performance during the first half with: excellent momentum in all major geographies bar Germany, BetMGM firmly #2 in the US, and recent acquisitions trading ahead of expectations

The Entain platform continues to deliver resilient and high quality earnings growth.

We upgraded EBITDA expectations last month and we've announced today project Evolve, which delivers savings net of reinvestment from 2023 onwards.

And we remain as confident and as excited over Entain's longer term strategic opportunities, which you'll hear more about this afternoon.

With that I'll hand over now to Q&A and I'd ask that you please focus your questions on our H1 results this morning. We'll have plenty of time for questions on strategy and growth opportunities with our Investor Event this afternoon.

Operator:

And we'll take our first question. It comes from Ed Young of Morgan Stanley. Please go ahead.

Ed Young:

Good morning. I've got two, please. First of all, on retail, you spoke about the UK getting back to pretty similar levels of footfall. Obviously, Europe, a bit further behind, because of the reopening later. Excluding Evolve, which I understand some of the savings will land there, how should we think about profitability of that business? It's obviously managed tight for cost. What should we think in terms of revenue recovery and margin for H2? So i.e. what can that delivery for the full year number?

And the second one is on Germany. Obviously, it was down 34%, but within that, sports was more than 50% up, which means, I guess, the casino revenues have been very severely impacted. Can you just let us know exactly what the gaming decline was in Germany? And more broadly you spoke about potentially Jette you spoke about the market becoming a bit more benign once the turnover tax comes in. I guess that's to do with enforcement. Can you just give it a bit of thought about how you see that changing? And then more broadly, what kind of access you expect the market? There was positive news from a few of the states recently, but there's been some negative news before that. So what kind of proportion of the population do you think you can address? If you can just give us the sort of thought process over the next couple of years in Germany, that would be very helpful. Thank you.

Jette Nygaard-Andersen:

Thank you. And good morning, Ed. So, on retail, before I hand you over to Rob with a little more detail on profitability, let me just reinforce what we have said before around our long-term view on retail, because I think it's important. So, it remains an important market for our customers and we really do see it as part of the overall customer experience, an important part of the omnichannel journey for our customers. And also remember, it generates significant EBITDA and cash for the group. So, for us, this is long-term and we see it as part of our overall proposal and proposition for our customers. And we are being encouraged by what we see after the opening from lockdown. So, I think I'll hand you over to Rob on the details on profitability on retail for that. And then, Rob, you can start on Germany and I can take over from that.

Rob Wood:

Yep. Okay. Morning, Ed. So retail, if we think about the continental Europe retail separately to the UK for a moment, so Italy, Belgium, they were in growth pre-COVID. And once we get through this period where, as we've guided, we do expect a step-down of, say, around 10% versus pre-COVID levels, we expect to resume growth. So, a one-time step backwards, but then back onto the path of growth. Remembering that in Italy, for example, even if you just look at our online activity, around 50% of the deposits and withdrawals for online take place through the shops. So, there's lots of reasons to continue engaging with retail and we do expect to return to growth. In the UK, the growth environment is better now that we have a real focus on slots through the terminals and also SSBTs. So, we're still sort of quietly confident of a return to like for like growth in UK.

But also, worth remembering that from an EBITDA perspective, you have this nice model whereby as shops close, revenue gets redistributed on the high street but all the costs comes out. So, what that means is whilst like for like revenues could tick down over time, actually we expect to maintain EBITDA broadly at consistent levels over the next period of time, which means that the cash coming out of the business is still healthy. And of course, it means we're still supporting the online growth as well through omnichannel propositions.

On Germany, I'll make a couple of points and then hand back to you, Jette. So casino has been severely impacted, as we all know. Somewhere around 70 to 80% down. That is all the while that there's no enforcement of non-compliant operators and things like gaming content suppliers and PSP suppliers are not differentiating yet between the compliant and the non-compliant. So, we do hope that there will be some recovery once more enforcement happens. But you also touch on another potential route to recovery around things like table games potentially coming back. It's too early to say what percentage of the population that might look like, but I have seen some suggestions that somewhere around 50% of the population could be viable to return. So, if it gives you a feel for it, I would go with 50% for now. Jette, back to you.

Jette Nygaard-Andersen:

Yes. Yeah. And maybe just comment on Germany, we remain positive, of course, on Germany for the long-term. I mean, typically, regulation and impacts are a negative short-term and longer term will be positive when, as new conditions and taxes, while they might result in a smaller market and one that's more concentrated, we also expect it to be better policed. And that is also what we talked about in the introduction. So we expect the strongest brands and the best operators, like Bwin, in the longer term be beneficiary and gain market share. Does that answer your question, sir?

Ed Young:

Perfect. Thanks very much.

Jette Nygaard-Andersen:

Thanks.

Ed Young:

It does. Thank you.

Operator:

And we'll now take our next question. It comes from Michael Mitchell of Davy. Please go ahead.

Michael Mitchell:

Yes. Good morning, Jette. Morning, Rob. Thanks for taking my questions. Three, if I could. First of all, I was interested in your comments in terms of how actives growth in the UK at 39% outpaced your revenue growth at 31%. Clearly, the shift towards recreational in the market is something that you and your peers have discussed for a while. But I wonder if you could just comment on how, you expect UK online ARPU to trend going forward. And secondly, I wonder, could you shed some colour on your growth and actives in Brazil? I think you said they were up more than 2 times. Obviously, very encouraging given the outlook there for regulation. Could you just comment again in terms of what's driving that and how that compares to your understanding of the underlying markets? And then thirdly, just in terms of back to online, the EBITDA margin, as you said, Rob, very much now approaching, if not already at, your 30% EBITDA margin target before the net benefits of Evolve are considered. I wonder what you now view to be achievable kind of medium-term margin target for that division. Thank you.

Jette Nygaard-Andersen:

Thanks, and good morning, Michael. Why don't we start off with Rob and actives and EBITDA margin? And then if you hand back to me, I will talk a little bit about Brazil and what we are seeing there.

Rob Wood:

Sure. Okay. So, I think that the first question was focused on the UK. So firstly, on UK growth, 31% combined with sports brands ahead of that, nearer 40%, and gaming brands slower because, of course, gaming brands are lapping the Q2 spike that we saw. So, when I say gaming brands, I mean Gala and Foxy in the main. In terms of actives versus ARPU, the trend very much is a focus on actives. That is the driver of growth at the moment. And as we become ever more recreational, which is the big picture strategy here, we do expect the actives' growth to be the driver of growth going forwards. That's logical as we become ever more mass market. And you'll see with all the brand positioning of Ladbrokes for instance, we're very much targeting the mass market. So growth to be actives driven going forward, I think is the short answer there.

In terms of EBITDA margin, when we set that target, I think it was our Capital Markets Day in 2019, I didn't envisage us getting to 30% as soon as 2021. Could we go beyond there? Well, there is potential. I think the one thing that I would encourage folks to do is when they're looking at their models, I wouldn't play with contribution margin too much. I think contribution margin will benefit from our marketing rate ticking down over time, which I'm very confident we'll deliver. I've talked previously about something like half a turn per annum. We're very much seeing that and expect that to continue, but inevitably, there'll be some cost of sales increases, whether it's taxes, duties somewhere. So, keeping contribution margin broadly flat would make sense to me.

But can we deliver ever more EBITDA margin? Well yes we can, because I would expect contribution to growth to outstrip OPEX growth. We talked earlier in the presentation about OPEX underlying growth of somewhere between mid to high single digits. Well, if we're targeting double digits at the NGR and the contribution level, then mathematically, that leads to further EBITDA growth as well. But too early to put a number on what that might look like. I'm sure we'll look at our medium to long-term targets again once we've hit that number. Back to you, Jette, on Brazil.

Jette Nygaard-Andersen:

You are absolutely right, the performance in Brazil is just outstanding. So we saw for the first half NGR growth of 153%. And actually, if you look at Q2, it was 245%. So really picking up during Q2. And actives were doubling during H1. So really, really strong results in Brazil.

And I think we've said before that this is a market that we're really excited about. It's a market that could be worth around one to 2 billion US dollars within the next two or three years. And we still believe that the Brazilian federal authorities will regulate sports betting probably around mid next year.

So, really excited about Brazil. The underlying trends remain strong. We continue to invest in TV, both open TV, or free TV versus paid TV. So, we're looking forward to regulation there. And extremely encouraged by the trends that we are seeing.

Ed Young:

Thank you, very helpful. Thanks a lot.

Jette Nygaard-Andersen:

Thanks.

Operator:

I'm going to now take our next question. It comes from Ivor Jones of Peel Hunt.

Ivor Jones:

Good morning. Can I ask three things? On Germany and casino since the start of this month, is it possible to offer slots? Because I can't work out the economics of the permitted margin and the duty unless you charge some sort of fee to play. That was the first thing. Are there slots at the moment?

And secondly, and again, I may have misunderstood, but why borrow in dollars when you're some time away from having US inflow? Or have you just swapped the dollars because they were cheap and it is part of normal treasury operations?

And thirdly, and the way I have read this morning's announcement is, and I'm sure you don't intend this, the innovation doesn't pay off because there's 100 million of cost savings, off which we're taking 25 million of ongoing innovation costs. But which if I carried on with that assumption would mean that the innovation is not an investment. It's just a cost.

Is it that the innovation is expected to pay off much later? So, could just talk about the expected payback on that to square that circle. Thank you.

Jette Nygaard-Andersen:

Thanks. And good morning, Ivor. Let me start by the innovation and what we're doing there. And then, hand over to Rob for Germany and casino, and what's going on on slots as well as borrowing in US dollars.

I mean, you should see our innovation as us investing into future growth. We are investing both in terms of new technology, new products. We're also investing into R&D. So, we are allocating £100 million over the next three years, really into future growth.

And what we are saying is that the Evolve program is supporting that. So, you shouldn't see it as a direct that we're leveraging off our scale and efficiency program only to invest into innovation. Innovation is really something we do to drive future growth going forward. Rob, over to you on Germany, casino slots, and US dollar borrowing.

Rob Wood:

Yeah. Sure. And perhaps if I could just touch on the residual innovation costs as well. We'll talk more about it this afternoon, but part of what we're doing here, opening a new lab, hiring teams, forming new partnerships, that cost doesn't just disappear after three years. We are assuming an ongoing cost.

We really don't know yet what that ongoing cost will look like. But as I said in the presentation, let's assume it's somewhere around £25 million. And therefore, out of the £100 million of annualised benefits, £75m should drop to the bottom line. And of that £75m, you'll find around if you work the maths through, you'll find around £60m, just over, of that is EBITDA. And the balance is CapEx. Material savings dropping through to the bottom line from 2023 onwards.

On your other questions, Ivor. Yeah, firstly, the US dollar loan, that's entirely swapped to euros. So, it's economically beneficial to do that. And as you say, our hedging strategy, our focus, is to match the revenues and the cash generated by the business with our liability. And hence, that's why that swap took place.

On Germany. Yes, we are still able to offer slots games. Because of the new tax, what it means is that high RTP games, so games that pay out at a higher ratio, have become unviable. And hence, we have a lot of our own in-house games. We've been redeveloping those and selecting a portfolio of games, which are a lower RTP.

To some degree that will impact customer performance and NGR. But nonetheless, we think that that's the best strategy and that's what we're doing. So we do still offer slots, but the mix or the blended RTP, if you like, is now lower than it was previously, to make sure that they are profitable to the bottom line.

Ivor Jones:

Thank you very much. Can I just come back on the innovation? I think what you're saying is that it is a necessary ongoing cost of the business within the general platform to continue to grow. Not going to deliver additional growth beyond what you were expecting.

Rob Wood:

No, I wouldn't say that. So, I think what I really encourage you to do, Ivor, is tune into this afternoon's presentation and perhaps the answer to the question will become a little clearer there.

What we'll essentially saying is that, yes, we target growth in our existing markets, but we also target growth in new markets, and new and interesting forms of interactive entertainment. And some of this innovation targets new opportunities.

So, the market size is going up and therefore, this innovation, it's not just about continuing with the trajectory that we have now. It's about accelerating the top line. But you'll hear more about that this afternoon.

Jette Nygaard-Andersen:

Yeah. And as Rob said, a number of the things that we will be talking about this afternoon is how we are going to drive growth from, let's say our fourth growth pillar, which is all about interactive entertainment. And to do that, we are investing into some of the underlying technologies there. So, for example, VR and AR. We're looking more into 5G and immersive experiences and so forth. A number of the things that we'll be doing through these further investments into innovation, is really to drive new products going forward.

Ivor Jones:

That's very helpful. Thank you.

Jette Nygaard-Andersen:

Thanks.

Operator:

Our next question comes from Kiranjot Grewal of Bank of America.

Kiranjot Grewal:

Hey, morning guys. Couple of questions from me. Brazil, you've got an amazing performance. I'm just wondering what's happening with the competition in Brazil. I know they're going through the legalisation motion. So, wondering if that could step up.

Secondly, we saw DraftKings buy Golden Nugget a few days ago. You guys already have several brands active in the US. Just wondering how you're thinking about investing in some of the non-BetMGM brands as well in the US.

And then in terms of the products you're looking to invest into, in terms of your innovation plan, is that more slot games, live casino, or really, is it focused on brand new products, like maybe aimed at esports market, et cetera? Thank you.

Jette Nygaard-Andersen:

Thank you. Let me see if I can remember all of them when I get to the third one. Firstly, on Brazil. We've been in Brazil for some time we have two brands there and including our Bwin brand. And as you know, currently, we cannot advertise real money betting and gaming. We advertise free to play and the brand there. And post-regulation, then we, and everyone will be paying taxes there. But we do expect that our marketing cost will be much more efficient going forward after the market growth and as it's regulated.

In terms of competition, we see ourselves in a really strong position. And we are really looking forward to the market regulating because it gives us more opportunities. And we believe that we can be more efficient on our marketing costs going forward. Now then to US and investments and competition.

I mean, there is a lot of investments going on in the US markets and both in terms of some consolidation and so forth. And we are looking at a number of different partnerships there. So, whether we partner or whether we acquire, that's really something that we do discuss ongoingly.

But I mean, when it comes to specifically to our iGaming product, we are very confident in the product we have in the market. We are number one with a 30% share. In terms of investing into casino and iGaming specifically, we're doing that all the time with our product innovation and don't feel there's anything specifically there that we need to add. But in general, we are looking at different partnerships. We are constantly investing into our products and into our features there.

And the last thing, I'm just about to say, you need to tune in this afternoon, because that's exactly what we are going to talk about this afternoon. And really, what we are going to talk about is types of interactive advertisement that align well with our core strategy.

So you should think about it as us looking at our current business and our core business, which is betting and iGaming, and thinking about what are the potential adjacent games areas that sit well with that business and how that will enable us to drive further engagement, both from our existing customers, but also attract new customers. But I hope you will tune in this afternoon, and then we'll talk a little bit more about that.

Kiranjot Grewal:

Of course. Look forward to it.

Rob Wood:

I just had a few more thoughts on the US question, if that's okay. What we're seeing is operators trying to make sure that they have the brands to attack both the sports betting and gaming side of the market. And clearly, as Jette has talked about, we're already number one in iGaming, and we have the Party Poker brand to support the MGM heritage.

But I also want to say, on the sports side, we're really pleased with our performance on online sports betting as well. I know our headline market share of 17% in Q2 on sports is lower than iGaming at 30%, but firstly, that's massive progress, but secondly, it's also interesting if you get under the skin of the 17% and you look at market share on states where we were there at the starting line versus states where we were late.

And actually, if you allow yourself to just take out New Jersey, where we were late, of course, and Pennsylvania, where we only launched around the turn of the year, that 17% goes up to 22%. So, we're really pleased with where we are, and the strength of the BetMGM brand is both a gaming proposition, but really also as a sports proposition. So therefore, we're comfortable with the complement of brands that we have at our disposal.

Kiranjot Grewal:

Perfect. Thank you very much both.

Operator:

Our next question comes from Simon Davies of Deutsche Bank.

Simon Davies:

Morning. Three from me, if I may. Firstly, with the re-fi you've now got, as you said, £1.2 billion of available cash. Can you talk a bit about the M&A pipeline in terms of what you're seeing out there? What are you seeing in terms of pricing, given that we seem to be seeing increased interest from private equity in the industry?

Second, can you talk a bit about your aspirations for Africa? In the statement you talk about investment in a discrete platform for the African markets. What do you think in terms of the scale of the opportunity and where you might push there? And finally, on retail, can you give us a feel for the timing in terms of the phasing in of your in-house SSBTs, and is it all about cost savings, or do you see this as a revenue opportunity as well?

Jette Nygaard-Andersen:

Okay. Good morning, Simon. I don't know if that was actually four questions, but let me touch upon Africa, and maybe I'll say a few words around M&A and M&A pipeline, and then hand over to Rob for re-fi / M&A, and also retail and the self-service betting machines, on your question there.

Yes, you're right on Africa. We've acquired a technology and product platform which really allows us now to build out our product in Africa. Africa is a little bit different because it's very mobile driven. It's based on 2G and 3G. So, we're acquiring technology and platform that will enable us to fast build products that's relevant for that market. And then we are applying for licensing there and we're building the organisation.

We'll look at the different countries as we go forward. We do expect to be entering at least one market by the end of this year. So, it's still early days for us, but now we have the technology and we have the platform there. And as we've said before, I think back in November, Africa is a market that we are interested in and see some very strong trends there. So, that's on Africa.

On M&A in general, we have a very strong pipeline. And in terms of countries, we're looking at the usual suspects, which we mentioned also during Q2. So, we're looking at building out in Central Eastern Europe, potentially on the back of our position there with Enlabs, which gives us a strong position also into Russian speaking markets.

We're looking, as I said, at Africa. We're certainly also looking at opportunities in LatAm. And this afternoon, you will also be hearing us talking about potential opportunities in adjacent areas, which really gives us access to new audiences. I would say, though, that every time that we consider M&A, and to your questions on price pressures, we are really disciplined, and we are good at M&A, so we buy really smart.

I think that the key thing for us here is looking at the market opportunity and then really looking at whether we find a good team or a good platform and technology. When we can tick those two boxes, we then apply our financial discipline here. So, our pipeline is not impacted on any pressures that we're seeing in the markets. And with that, I'll hand over to you, Rob, on re-fi and retail and the self-service betting terminals.

Rob Wood:

Thank you, Jette. I think the re-fi question was really around, so we've got this £1.2 billion, what are we going to do with it? So, I think you've touched on that. Retail. So, I guess SSBTs, the golden rule that we have as a group, whether online or retail, is that the priority is always customers and revenue over cost. So, the priority is revenue not cost.

So, we wouldn't deploy new betting terminals just because it was cheaper and we were saving third party costs. We do it because we think we can enhance both the top line, as well as the cost base. We are in trials at the moment. So it's still early days. We've got, I think it's around 100 shops are trialing at the moment. That's moving to 200 soon.

The intent on phasing is that rollout would start most likely second half of next year. So therefore, 2023 is the first year of full benefit. But to be clear, the numbers are really predicated on the cost saving, but that's not the going in intent. The going in intent is to give a better customer experience, as well as, of course, the cost savings.

Just also on retail costs, it's worth mentioning, when you look at evolve, there's the material amount of benefit coming through in 2021. A lot of that's because we've been going through a right-sizing of the central office space, following the triannual review. All these actions that are actually complete now, and the benefits are flowing through in the numbers, which is terrific. So that's another big driver of the evolve savings into retail.

Simon Davies:

Great, thanks.

Operator:

Once again, if you would like to ask a question, please signal by pressing star one on your telephone keypad. And our next question comes from Gavin Kelleher of Goodbody Capital Markets.

Gavin Kelleher:

Hi. Morning, Jette. Morning, Rob. Just to follow on on retail for me, obviously you've given a lot of guidance and insight there to the cost savings. I've just seen the slide 21, that the cost of sales savings are £17 and a half million. Is that all SSBTs? Are you doing anything else on content and shops that you're reducing around maybe pictures or anything like that?

Rob Wood:

It is SSBTs. Yeah.

Jette Nygaard-Andersen:

Rob, Sorry. I interrupted you. Over to you.

Rob Wood:

No, no. It is almost all that. There's certainly the big number.

Gavin Kelleher:

Perfect. Thanks. Just on marketing, you've talked about a 50 basis point saving or reduction in marketing as a percent of net revenue every year. Is that all efficiencies driving that, Rob, and just the scaling of the model, or is there any assumption there around regulatory changes making it more difficult to TV advertise or anything like that, or is it all efficiencies?

Rob Wood:

It's both. It's both. We have seen a tightening in regulation. We've seen it in Italy, Spain, and it is a general trend. We'll all wait and see how the UK government's review of the Gambling Act comes out, but it wouldn't surprise if there's more tightening on marketing in the UK as well.

So partly enforced, partly efficiency in the sense of scale, but partly also efficiency in the sense of just getting better and better returns on investment as we become ever stronger at performance marketing, digital marketing, and therefore the mix sort of evolves more towards higher ROI marketing.

So my view is that we become ever more potent at it, and we can leverage our scale. As we have a lot of centralised MarTech teams, and marketing technology teams, performance marketing teams. And then add in the regulatory aspect as well. All that points towards a trend downwards. And we have seen that if you look at our actuals and our guidance now, compared to a guidance a couple of years ago, you'll see that, that half a point per annum is broadly consistent with the run rate that we're on.

Gavin Kelleher:

Perfect. Thanks a million Rob. It's very clear.

Rob Wood:

Okay.

Operator:

And our next question comes from James Rowland Clark of Barclays. Please go ahead.

James Rowland Clark:

Hi, morning everyone. I've got three questions please. Two on the U.S. and one on retail. Firstly, on the U.S., one of your key competitors in the sports betting U.S. markets was talking earlier about the strength of their product offering, and the volume of parlay bets that they offer, driving the gross win essentially well ahead of the market. Could you just talk about your product offering in the U.S. on sports, and whether you think that gross margin deficit is something you can essentially catch up on, and ultimately grow market share? Secondly on the U.S., can you comment a little bit about the advertising and bonusing environment that you're seeing at the moment ahead of the NFL season launch? Obviously there’s lots of your peers that are looking to launch new products and platforms.

And then finally on retail, I think your Q2 trading update, you mentioned that volumes were 10% to pre-COVID levels, at that point. And you're saying the same again today. So, I just wondered what's missing in the last five weeks, and whether you're essentially concerned that those volumes might never get back to pre-COVID levels, and how that makes you feel about the retail estate from here? Thank you.

Jette Nygaard-Andersen:

Thank you, James. Let me start with the two U.S. questions on sports products, advertising bonusing, and Rob, then I'll hand over to you for retail. I'm not going to speculate which competitor you're referring to, but as Rob mentioned early on, we are seeing our sports product, and that's actually since Q3, Q4 last year, performing very strongly. And in terms of the different in-play bet products that we have, we have a number of them in the markets that we're offering to our customers. And some of them are different and commercially, and so what we're seeing, a lot of upticks around them. So, we certainly believe that our products, including the in-play bet products are competitive in the market, and we're seeing strong demand for them. And also, if you look at the numbers on our market share in 'sports betting-only states', and especially the sports betting states that we launched in recently, there are really some outstanding performances, for example, in Tennessee and Colorado. So, remain very confident on our overall sports product there. And we see that reflected into our market shares.

When it comes to the NFL, you are right that we are, like anyone else, looking forward to the NFL season starting here next month. Overall, if you look at H1 and you look at the development from Q1 to Q2 in terms of bonusing, that was broadly flat on bonusing from our side. So, we saw a quite healthy promotion environment there, as it was a quieter sports season there. We're looking at a number of things going into to the NFL season there, and have some interesting plans going forward. But we will remain, as we've always been, super smart on how we spend our marketing money. But NFL is of course a big season for us. So that's certainly something where we are investing into taking market share there. Rob I'll hand over to you on retail.

Rob Wood:

Thank you Jette. And if I could just add one more point, and I think that the same competitor made this point as well. You have to look at CPAs in respect to player values. And inevitably CPAs will go up during the NFL launch period as every game becomes highly competitive. And of course, we're going to defend our patch as firmly as we can. But player values also go up. If you look at the seasonality of value of new recruits, that period is when the highest player values come through as well. So, it's all profitable investment, which is a key point to make.

Right, onto retail. So, if I think about U.K. separately to Europe, in the U.K., Q2 we said that we'd already reached our target as you referred to of being within 10%. And that's still the case today. So great from a U.K. perspective. We're there, and we expect to stay there. European retail, we're not there yet. It did open later, progressively through June. The key thing to appreciate in European retail, in particularly Italy, football is a much higher portion of the mix than in the U.K. And in the U.K., you have things like horse racing, whereas Italy is very heavily football dominated. And we're in the off season right now and everyone's on holiday. So, the key message for European retail is, we need to see how September trades, and therefore when we update our Q3s in early October, that will be a really good time to see how European retail is doing. But no reason for us to think that we won't still hit that target of getting to within 10% of pre-COVID levels.

James Rowland Clark:

Can I just, my question was really in reference to U.K. retail. So, I just wondered what it is that's missing to that 10%, and how that makes you think about the U.K. retail estate specifically?

Rob Wood:

So, given that 10% was our target, and therefore when we re-evaluate strategy and look at all aspects of what we want to do with the retail business, none of that changes because we we've hit the target. And of course we're hopeful that we can push on a little bit from where we are. But I think the key point for your question is, that there's no change to strategy. Inevitably, as we talked about it earlier, if you look at the whole U.K. market, then shop numbers will, you'd expect tick down over time. But then revenue redistributes, and cost come out. So, it's quite a healthy structure for the market. I'm not sure if that still hits your question or not, but I think the key message is, we are where we thought we would be, potentially with an opportunity to improve a bit. And that therefore means that our strategy is fully still in place.

James Rowland Clark:

That's great. Thank you very much.

Rob Wood:

Okay.

Operator:

It appears we have no further questions at this time. I'd like to pass the call back to Jette for any additional comments or closing remarks.

Jette Nygaard-Andersen:

Okay. Thank you, operator. And thank you everyone for dialling in and listening in this morning. We will look forward to speaking to you all again at 2:00 PM U.K. time for our investor event. And as I said, during some of the questions here, we will share more about our exciting growth opportunities for Entain going forward. And in the meanwhile, if you have any other questions, do get in touch with David and the IR team. Thank you for today.