Entain

Q4 Trading Update

20th January 2022

Transcript

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Operator
Good day, and welcome to the Entain Plc Q4 2021 Trading Update Call and Webcast. (Operator Instructions)

For now, I would like to hand the call over to Chief Executive Officer, Jette Nygaard-Andersen. Please go ahead.

Jette Nygaard-Andersen
Thank you, and good morning, everyone, and thank you for dialling in today. As always, I'm joined by our Group CFO and Deputy CEO, Rob Wood and our IR team.

Now let me start with a summary and some highlights of our performance. And then thereafter, I'll pass to Rob for some details on our trading during the fourth quarter.

Entain is a consumer-focused growth business, and we continue to make progress on our ambition as a global leader in betting, gaming and interactive entertainment. Our online revenues are 40% larger than 2 years ago. And by focusing on the consumer, delivering great products as well as new exciting experiences, we have seen our actives grow by 25% in 2021.

The 4 acquisitions we did during 2021 saw us not only further expand our global footprint, but also take the first steps into the exciting world of eSports and skill-based wagering. Our retail business is emerging from the COVID restrictions from a position of strength, and we continue to make excellent progress on our ESG agenda. So I'm delighted that our Entain platform has delivered an excellent 2021 performance, with the group NGR up 8% and online NGR up 13% across the year on a constant currency basis.

As you know, the fourth quarter lapped very strong growth numbers last year. However, our online performance was better than expected. While this represents a pause in our quarterly consecutive double-digit growth, our 2-year compound growth rate online was a strong 14% in the final quarter. This growth is consistently coming from across all our major markets with our core businesses outperforming their underlying markets.

As you heard from the BetMGM team yesterday, BetMGM continues to go from strength to strength. Revenues for the year were well ahead of expectations earlier in the year, gaining excellent traction in both iGaming and sports betting and we have cemented our position as the #2 operator with a 24% share for 3 months to November in the markets in which we operate.

2021 has been fantastic for BetMGM, and I am very pleased with what the team has achieved. And yet we are still only in the early stages of the market's growth journey. The underlying customer dynamics are better than expected and acquisition costs remain in line with our long-term expectations.

We continue to anticipate that the business will be EBITDA positive in 2023. And together with the latest estimated parent investment of USD 450 million for 2022, the Entain technology and capabilities continue to provide BetMGM the engine for growth to win in this exciting market. And if we include our 50% share of BetMGM's revenue, our total revenues for the group this year would be up 15% on a constant currency basis.

Underpinning Entain's secular growth dynamics and the opportunity to more than triple the size of the business is our drive and focus on our customers. We are adapting our business to not simply meet their changing needs, but to evolve alongside them as strengths and ecosystems of the future emerge. By expanding their experience with us, we can leverage the powerful flywheel effect that will widen our appeal to a broader customer base, lower acquisition costs and increase revenues. And sitting at the heart of that exciting future but also spearheading it is innovation. We have committed to invest GBP 100 million into innovation to drive the development of products and experiences for our customers of the future. And we'll be sharing some more news on this in the coming weeks.

And in addition, we are investing further in esports with plans to launch our first esports products later this year. Our commitment to sustainability is core to our strategy and we made significant progress across our numerous ESG initiatives during the year, many of which we highlighted at our first Entain Sustain event in November.

Globally, we lead the industry on responsibility with revolutionising player protection at the core of our approach. And we continue to make great progress with that with both the real-time customer interaction trials and the international rollout well underway. And I am delighted that our efforts have been recognised with Entain awarded Operator of the Year by EGR and Socially Responsible Operator of the Year at the SBC Awards North America.

With that, I'll hand over to Rob.

Rob Wood
Thank you, Jette, and morning, everyone. As Jette said, I'm delighted to reiterate that our business continues to perform strongly. The consistent momentum seen through 2021 continued in Q4 with the quarter coming in ahead of our expectations.

Starting with retail. NGR for Q4 was up over 60% year-on-year but more tellingly, retail demonstrated its incredible resilience by achieving our target of getting to within 10% of pre-COVID levels by the end of the year. Italy and the U.K., 2 of our largest retail estates, they were both down around 5% like-for-like in Q4 compared to Q4 of 2019, so down only 5% versus pre-COVID numbers, which is a fantastic result.

Turning to the online business. As we flagged previously, the strong Q4 comparable from 2020 was always going to be tough. And pleasingly, the minus 6% that we delivered was better than expected. For context, that minus 6% equates to 14% growth on a 2-year CAGR basis. So Q4 was still in double digits growth on an underlying basis. And that 14% CAGR rises to 19% CAGR if you adjust out Germany.

Back to year-on-year now, and the volumes were broadly flat in the quarter with both Sports Wagers and gaming revenue holding up well against the lockdown boosted prior year and as expected, sports margin was down against a tough comparative. However, our Q4 sports margin was still good at 11.9%, which is at the top end of our 11% to 12% expected range. So whilst there were some customer-friendly results, particularly at the start of the quarter, as was well aired in the market, we're a global business with geographic diversity and results tend to balance out for us over a quarter, as was the case here.

As you consistently hear us say the growth in our business comes from all around the world, and in Q4, we saw excellent performances in particular across Australia, Latam and the Baltics. In Australia, we delivered another strong performance in Q4, 2021 saw the fruits of its reinvigoration really start to drive the business forward as its high-quality and differentiated offer continues to gain market share whilst also maintaining margin discipline.

Our business in Brazil continues to be market leader. Ahead of new regulation expected later this year, the market has become increasingly competitive and crowded. However, we continue to believe that we outperform other operators in particular, due to the strength of our brands and operational expertise. In the Baltics, Enlabs has ended its first year as part of the Entain group on a high. It's performing really well, rolling out new products and new games and expanding into new local markets as well.

Over the full year 2021, all of our territories saw double-digit growth with the exception of Germany and The Netherlands where new regulations are in force. In Germany, we have now lapped the tolerance policy and trading continues much as I've described it before with outperformance versus our original expectations in sports, but still suffering from a lack of enforcement within gaming.

We continue to be excited by the long-term prospects for the German market, and we look forward to gaming licenses being issued and accompanied by better policing of the market in due course. As well as being geographically diverse, the quality of our growth continues to be high with actives across our business up 25% year-on-year, and FTDs also ahead by a similar level.

I'm not going to go into more detail on BetMGM now, as Jette has touched on it already, and you heard from Adam and Gary yesterday. But of course, we'd be happy to pick up anything during Q&A.

So in summary, a robust performance in Q4, saw the group deliver another strong year in 2021, and we've been able to narrow the range on expected EBITDA for the year to GBP 875 million to GBP 885 million, which puts us ahead of expectations.

With that, I'd like to hand the call over to Q&A.

Operator
We will now take our first question from James Rowland Clark from Barclays.

James Rowland Clark - *Barclays Bank*
I've a few questions, please. Just firstly, on the sort of well-discussed topic of inflation across the leisure and retail space. I just wondered if you're seeing inflationary pressures in your online and retail labour force and whether you think that might be a drag on profitability in 2022.

Secondly, just on your online actives that were up 25% during the year, I wondered if you could perhaps give a little bit of shape of that during the year and also how U.K. actives trended in Q4.

And then my final question is just on the additional GBP 25 million of spend on new investment opportunities. Could you maybe provide a little bit of colour on where that spend is going and how you're targeting that spend in that space? Further out, should we be thinking of a higher investment in new opportunities? Or do you think that would perhaps pay back quite quickly?

Jette Nygaard-Andersen
Thank you and good morning to you, James. Let me take the last question first, talk a little bit about our new opportunities in esports and then hand you back to Rob for the actives during the year and talk a little bit about inflation and retail. So the way to look at the GBP 25 million that we are talking about investing into our new opportunities, that's really start-up costs for our esports investments. So as you heard talked about, we expect to launch our first products in esports during this year. So it's really investment into building a new market where we see significant growth opportunities. So that's how you should think about the GBP 25 million. Rob, can I hand over with the actives and give a little bit more flavour on that and any inflationary comments?

Rob Wood
Yes, absolutely. And maybe I could just add one point of clarification on the new opportunities. This is investment as Jette has said, but because it represents start-up losses as we're launching Unikrn, which we're hugely excited about. You've heard us talk about the esports opportunity and the value we think we can create there. But because it's start-up losses, we do have to account for it as EBITDA. But when it comes to valuation, we're reporting it separately because clearly, that has a different methodology attached to it than the rest of the group.

To answer inflationary pressures, and we're mostly talking about the U.K. here because of the franchise model elsewhere. In the U.K., we've got -- our business model is quite well protected. So most of our material contracts, they're either linked to revenue share, particularly in the case of content costs and hence are immune or they're long term in nature, so rent would be an example of that. Wage inflation is a big area. But actually, we're -- whilst national living wage is rising at a high level, we've taken the decision this year to go beyond national living wage. And we've announced to our colleagues from April, we're going to be paying GBP 10 an hour, which is a great result for our colleagues.

What that means, though, is that inflation is fully controlled. It's within our forecasts, and we don't expect any surprises. And the retail team have got a great history of cost control. So we don't expect any additional pressures that -- or any surprises.

When it comes to actives for the year, we still exited the year with a good run rate. I mentioned it was 25% across the full year. It was 20% in Q4 and good numbers throughout really. You asked specifically about U.K. If I look at the U.K. sports brands, it was over 30% actives growth in Q4 as we continue to focus on the mass market, the broader audience and that's -- those strategies [claimed fruit] when it comes to actives growth.

James Rowland Clark - *Barclays Bank*
There was one sort of additional small question in that new investment opportunities, which was how to think of it beyond the start-up losses in terms of payback?

Rob Wood
Should I take that?

Jette Nygaard-Andersen
Yes.

Rob Wood
Thanks. Thanks for the reminder, James. So the way we're thinking about it is this is a soft launch. We're handpicking a few territories. It's a trial, learn and iterate, and we would envisage then launching into new territories as we head through 2023 and beyond. Really what the shape of the P&L looks like, it's a little bit akin to what we're seeing in the U.S. at the moment as we go into more and more states. There may well be a curve until the first launch territories start to become profitable. But really, the shape of that curve is going to depend entirely on how successful the product is. If it's going fantastically well right from the beginning, you may well see us accelerate the launch and hence, a sort of a steeper curve, if you like. Otherwise, it might be more gentle and therefore, it's a bit of a drag across the 25 for the next couple of years. So really too early to tell on that one, James. But we'll update more on our plans for Unikrn in particular in March. And no doubt we'll keep updating on progress on future results calls.

Operator
We will now take our next question from Ed Young from Morgan Stanley.

Edward Young - *Morgan Stanley*
Three for me, please. First, perhaps for Rob on online growth. Obviously, a very good result in Q4, and I note what you said about the 2-year stack as well. Could you perhaps just give some general thoughts and colour on your view at this stage and what we should expect for online growth next year, perhaps some of the puts and takes?

And then the other 2 are both on market. So first of all, on Canada, do you have any view on timing? And then obviously, bwin is already active in that market as you've flagged before, should growth there accelerate, perhaps, EBITDA less so with marketing? Just any thoughts on what we should expect from Canada in terms of timing and quantum?

And then finally, you touched on it in your remarks, Rob, about Germany. Do you have any views that in due course, do you have any view on when sports licenses might be granted or when North Rhine-Westphalia might decide upon license -- its licenses?

Jette Nygaard-Andersen
Thanks, Ed, and good morning to you, Ed. Let me take Canada first and then hand back to Rob. Listen, as you said, we're already in Canada, and we're waiting to get a license there and speaking to the regulator. But we don't have a date yet. So hopefully, it will be soon that we can go ahead there. Nothing really more on Canada. But as you said, we're already there. We're waiting for us to be able to get the license and invest into that market. Rob, for you on -- a little more flavour on the online growth this year. And I forgot the last one. I hope you've taken a note on that.

Rob Wood
Yes, I did, Jette, on licensing -- and on Canada, I'd just add, it's not just bwin, of course, bwin there from a sports brand perspective, but also parties, casino party, poker are also brands that we think will do well in the new environment there. So on to online expectations next year. So we'll guide more fully in our March results, 3rd of March. But to give a flavour for it, we've just come out of Q4 a really tough comparative because of lockdowns in the prior year because of strong margins in the prior year. Actually, if you look, Q1 is really quite a similar story. Q2 should improve as some territories were coming out of lockdown, but it's still very strong margins in Q2. So what we've seen in Q4 just gone. I can expect more of the same in Q1 and Q2, obviously, lots of Netherlands as well for the first half of the year. So I would anticipate a similar story through the first half of this year.

But then as we get to the second half of this year, hopefully, we'll have The Netherlands back, we'll be fully lapped all lockdowns or materially so anyway, let's hope we're back to some form of normality. And what does normality mean for Entain online, it means double-digit growth. So in summary, I would expect a continuation of single-digit decline in H1, followed by such double-digit growth in H2.

And then -- hopefully, that answers the question, on to Germany. So I haven't had a chance to read your note this morning, yet, Ed. So maybe I'll learn more in that note from a gaming license perspective. I'm not aware that there's a timing on it, but it is we hope first half of this year, we hope it will become soon. And therefore, as I said in the opening commentary, we hope that enforcement will gradually improve from there. I'm not aware of any change to the regulations around sports. And I think your note this morning, actually, I read the summary concluded much the same. Did that answer the question on Germany and is there something else?

Operator
We will now take our next question from Kiranjot Grewal from Bank of America.

Kiranjot Grewal - *BofA*
Just a couple from me. Firstly, you were saying that bar a couple of special cases all territories booked double-digit growth, which is a great result, how did this growth compare to market growth. I am essentially trying to understand the split between underlying market growth and you winning market share?

Just secondly, on the U.S., we've had a ton of money being thrown at free bets by some of your peers. In the states, where we've seen that step-up of spend and potentially a subsequent pullback, how has that impacted the BetMGM business?

And then just lastly on M&A, there's still a lot of M&A happening in the market, including by some of your peers. Surprised not to be involved in the last few months, but in some of these deals. But could you perhaps talk through what the key attributes are for your M&A targets, and whether you're happy with the current leverage position to look at more opportunities?

Jette Nygaard-Andersen
Thanks and good morning. Let me kick that off, and then maybe, Rob, you end off talking a little bit about our leverage and our ability to fund our M&A. But your first question was around growth in our markets. And you're right, we're very pleased that the growth that we saw basically came from all our major markets, as Rob said in his introduction. And in those markets, we are growing ahead of the competition there. So quite pleasing. And obviously, that also runs into our active numbers that Rob just talked about.

Now when it comes to spend and what we've seen in the market in the U.S. recently, in terms of, let's say, a spending blitz from a number of the operators there, I think the team talked about that yesterday on the BetMGM call. We are seeing it stabilise somewhat. So when it comes to our long-term expectations on where the CPA will go. We remain of the view that we'll see it trend towards the target that we've set in our predictions around the USD 250. But listen, we've seen a lot of other operators spend a lot of money. I'm sure you've seen some of the offers and the promos that are out there in the market right now. And what we constantly say is that we invest in the markets, we are definitely in there for the growth now, but we're also doing it with a return in mind. So we're investing smartly. And we are very pleased to see that, for example, in Arizona that we're actually performing extremely well and some of the other operators that we are really holding fort there.

So we do expect, and we have seen in the last couple of weeks that it has stabilised somewhat and come down a bit. So we will see how that plays out going forward. But we should expect -- I mean, it's all as expected, and we should expect that every time you have a big state coming online, as for example, in New York, you will see somewhat of a spending blitz. But all as expected, really, and that's what we have in our model when we laid out the guidance yesterday.

Now when it comes to M&A, we did 4 M&A -- sorry, 4 acquisitions this year and have a very healthy pipeline. So we also expect to do a number of acquisitions this year. And we're focusing on a couple of bigger ones, supported probably with a number of rollouts. So this is a big focus for us. we have proven that we are both good at acquiring. We're good at finding good teams. We're good at intervening and we're good at buying at the right time and at the right price. So that's top of our agenda. But you should certainly see us continue to invest in this year also.

Rob, do you want to comment a little bit about our ability to invest and leverage overall.

Rob Wood
Yes, happy to. I mean, I think you hit all the key points on all of those questions. But our balance sheet remains healthy. The year-end leverage number is broadly as expected in the mid-2s, so no surprises there, which means we've got a lot of capacity to do material M&A. As Jette said, we did 4 deals last year. We've, before that, been averaging around one a year. So it is a step-up, albeit they were smaller deals. And we hope to do similar numbers potentially with some bigger deals during 2022.

The only thing I'd add on U.S., if I may, it's highly competitive and intense, as Jette said, all as expected. We're pleased with how sports betting market shares are holding up. When I look at the 3 months to November, our market share in online sports betting was 18%. And when we last reported the 3 months to August, it was 17%. So we actually gained 1 point. And as always, if you -- the 18%, if you take out the states where we were late, New Jersey and Pennsylvania, the 18% grows by 5 points to 23%. So I think the message is so far so good in terms of absorbing the intensive environment and maintaining market share.

Jette Nygaard-Andersen
Yes. And maybe just add to that, that obviously we're all seeing the promotions in the market and talking about the CPAs. But equally important is, of course, how the cohorts develop and how churn rates turn out. And there, we've also been pleased with the gaming churn rates being better than expected. And on the sports side, pretty much in line with expectations. So yes, while we are seeing hefty competitive pressures, it is really as expected, and we will continue to probably see this when we have bigger states coming live. I hope that answers your question.

Kiranjot Grewal - *BofA*
Yes. Just a very quick follow-up. You've been talking a lot about high competition in the U.S. Is it similar in iGaming as well as OSB? Or is it slightly less? Is this the differential bet?

Jette Nygaard-Andersen
Yes. So I think, listen, just to see effect of more states coming online in sports, more operators there, there's a lot of money being thrown after that and especially, of course, in the NFL season. So we are seeing competitive pressure there. And if you go to iGaming, and we're, of course, very proud of our share there of 30% for the last 3 months to November. So in general, yes, I would say that. But listen, we're still seeing a lot of promotions and spend, of course, in iGaming. But there is a lot of attention on the sports side and not the least on the NFL season.

Operator
We will now take our next question from Monique Pollard from Citi.

Monique Pollard - *Citigroup*
Three for me, please. The first one is whether you could give an update on a potential for a final dividend that your -- for your results on March 3. And just more broadly, how we should think about the trade-offs between cash returns to shareholders versus cash investment and M&A given the growth stage you're at in the business.

Secondly, obviously, BetMGM update yesterday highlighted significant upside to consensus U.S. forecast on revenue. Just wondered if you could give some thoughts on whether those higher revenue assumptions are largely being driven by just the market size being bigger than you expected, and you mentioned there iGaming churn being better, or whether that's more -- share gains have been better than you had all expected?

And then finally, just retail performance, obviously, strong in the fourth quarter. Rob, you mentioned, we're in 5 -- within 5% of pre-COVID levels in the U.K. and Italy. So I just wanted to understand what we should expect ongoing in terms of any estate rationalisation into 2022. Would it be reasonable to think about sort of 200 shops reduction year-on-year?

Jette Nygaard-Andersen
Yes, good morning Monique. Let me take the 2 first ones on dividend and BetMGM and hand back to Rob for retail. So what we've said on dividend is that the Board will discuss the dividend now coming up. So we can update at our full year results call in March. So that's being reviewed now by the Board. And we do understand and appreciate the importance of a dividend to our shareholders.

When it comes, in general, to your question about capital allocation, I mean we have a number of areas where we want to invest in, and we have such a strong opportunity in our underlying growth. So as long as we have opportunities where we believe we can allocate the money with a great return, that is in general what we will focus on. But of course, we keep it under review constantly and discuss our capital allocation, how we do that in the best way. But I think if you look back to September where we laid out our new strategy and growth plans, that is really what we are focusing on right now to allocate money into these great growth opportunities that we see ahead.

So that was on dividend. Now when it comes to BetMGM, there's a number of factors, of course, going into our update. Mostly, I would say that we look at our different player economics, and I think the team spoke about yesterday how our player economics were stronger than we had expected. And that, obviously, drives an upgrade in the model. But to your second point, it's certainly also about expectation around states coming online. So that drives, you could say, our expectations for the year to come. We talked about probably 4 states that we expect to go live in during the next month. Illinois is a big state, I think there's 9.5 million adult players, it's a state that's the same size of Pennsylvania. So it's player economics and then, of course, it's the market and the total addressable market and then when we look ahead. And of course, it's also a function of how the model works. So in terms of how the cohorts develop when we look at the cohorts developing over time. So all these factors basically play into how we look at revenues going forward. Rob, retail.

Rob Wood
Yes, let me do retail in a moment. And if I could just add on U.S., where is the outperformance coming from, to build on Jette's comments. From a market perspective, it's higher in terms of both volume of players and value of players. I mean that's important. When we look at the likes of Arizona, it's far more FTDs than we could have possibly previously anticipated. And that's what gives confidence to invest more into 2022, for example, through capital, but equally upgrade the revenue expectations because we think there are more players to go after.

And then player values, when I think back to the $32 billion TAM that we set last April, we had underlying assumptions in there of 150 spend per head for gaming and 90 for sports. We're already at the 150, for gaming, and these are meant to be, these are meant to be sort of maturity assumptions. And clearly, there's a long way to go. And Sports is well along the curve to 90 as well. So both volume of players and value of players is ahead of expectations and market shares, as Jette said. We've been pleased we've not seen much impact from the new entrants, if you like, over the last few months, early days. But pleased with where we are on a share perspective.

Retail, estate rationalisation going forward. So We did -- particularly in the U.K., we did close a material number of shops during 2021, all as expected, including around 200 in Q4, which was in line with the guidance we gave earlier on in the year. From this point forward, given as you said in your question, the numbers are not too far off pre-COVID levels within 5% now. We revert to BAU, so you can expect low to mid-single-digit closures going forward as -- in line with where we were previously.

Operator
We will now take our next question from Gavin Kelleher from Goodbody Capital Markets.

Gavin Kelleher - *Goodbody*
Just on ARC. I seen the statement this morning you say that you're rolling real-time customer trials there. Can you give us any sort of insight into that? And was there any impact on U.K. growth rates in Q4 because of any sort of responsible gambling measures or ARC measures that you introduced? And how ARC will evolve this year? And will that have any impact on your growth rates?

Jette Nygaard-Andersen
Sure. Good morning, Gavin. Yes, that' right. So you'll -- as you'll remember, we rolled out the first part of ARC to all our U.K. brands during which is now last year. And now we are progressing with the live testing on the real-time model, which is really in the beginning, focusing on what we call unusual deposits. So that's now in live testing. And it's early days, but the results are pretty much consistent with what the initial testing was showing. So that's really pleasing, and we continue basically to roll out that model.

And the second thing that we are doing is that we started to roll out internationally. And the first step here is just like it was the first step in the U.K. to roll out our international markers of protection model for all the major markets and most of the smaller countries also. And that needs to be adjusted for every single market, so both adjusted to local regulations, but also to local player patterns and segmentation and so forth. And by the way, we continue to add multiple languages also into the model. So we're progressing fully as expected. The initial results are pretty much aligned with what we saw in the initial testing.

Now when it comes to impact, I think we said it a couple of times, 2 points here. Firstly, it's simply too early to say anything. And secondly, you should, of course, also be confident that we are doing this very carefully. And that's why we're doing so much testing here because it's just crucial that we get these models right, so we target where we are supposed to targeting. So overall, proceeding as planned. The initial results are very pleasing, too early to say anything about impact on growth as such.

Gavin Kelleher - *Goodbody*
That's great. And just one other question for me. Just on actives, the 25% growth you saw in active users last year. Was there any M&A benefits within that, that boosted slightly from Enlabs and Bet.pt, for example?

Jette Nygaard-Andersen
So on the -- I can start and then Rob, you can jump in if you want to add anything. So on the 25%, that includes the Baltics -- no, sorry, that doesn't include the Baltics. I think, Rob, you better take that one. As I recall, it doesn't include the Baltics, doesn't include the Africa either.

Rob Wood
No. They are in there. The pro forma number would be nearer 20, Gavin.

Operator
We will now take our next question from Michael Mitchell from Davy.

Michael Mitchell - *Davy*
Two, if I could. One just on BetMGM and the guidance yesterday on the 2022 incremental investment of $450 million. I wonder if you could just help us with what that equates to in terms of EBITDA losses in 2022 versus what we saw in 2021?

And then second, if I could, another question on your impressive actives growth of 25%. Just wondering does that include BetMGM or not.

Jette Nygaard-Andersen
Yes. So to the last question, it doesn't include BetMGM. These are for, let's call them, rest of markets. So BetMGM comes in addition to that. Now when it comes to the $450 million that the parents are investing this year, because we can basically look at the numbers and it makes total sense that we invest more into these new states, what we said is that expected losses for 2022, you should see them probably similar as the losses in 2021.

Operator
We will now take our next question from Simon Davies from Deutsche Bank.

Simon Davies - *Deutsche Bank*
Three from me, please. Firstly, very quickly. When do you think that the BetMGM business hits cash flow breakeven? Do you also think that will happen at some stage during 2023?

Secondly, in Australia, obviously, in 2021, you benefited strongly from extended COVID restrictions and the struggling retail monopoly. As lockdowns lift, do you think you should -- or we should expect to see some kind of reversal in 2022? Or do you think Australia can still grow?

And thirdly, slightly obscurely on the market of Georgia. Obviously, they've announced increases in taxation and also a number of potential restrictions around age restrictions, deposit limits, et cetera. How do you think that's going to play out? And what kind of impact could we see in 2022 on EBITDA?

Jette Nygaard-Andersen
Thanks, and good morning, Simon. Rob, do you want to take all of them? It's Georgia, Australia from trading and into next year and then a specific cash flow question on BetMGM.

Rob Wood
Happy to. So let's do them in order. So BetMGM cash flow much the same as EBITDA. So yes, we do expect to reach cash flow positive at some point during 2023. On Australia, you're quite right in the sense that Q3, in particular, had the sort of the normal lockdown benefits that we've seen around the rest of the world. So partly around channel shift, partly around the lack of alternative leisure activities. We did see good momentum -- really good momentum into Q4 and it helped with the sporting programs, Spring Carnival, et cetera. So we would expect growth in 2022. Will it be double-digit growth, though, given lapping lockdowns? I think that's probably tough. But I think it will be single-digit growth in Australia would be my guess.

And then on to Georgia, so you're right, there are some changes. There's a new gaming tax as you say, potentially restrictions around marketing, age limits and so on. The gaming tax in terms of EBITDA impact around 10 million we anticipate. Now if you're using the 40% contribution margin in your models, you won't need to adjust that, the 10 million can be absorbed within that.

In terms of marketing restrictions, they tend to be EBITDA positive for the large incumbent operators and we're a market leader in Georgia. So that's probably a small positive, which would offset any potential impact around age restrictions, as I understand it, but the rules around that are not clear yet. So I'd probably focus on the 10 for gaming taxes. Although note elsewhere in the world, it looks like the Italian turnover that increased tax as a result of COVID is being unwound now. So that's sort of an offset there for us. And also for what it's worth in Georgia. We also get an offset through corporation tax because we no longer have to pay corporation tax because we're playing gaming tax that doesn't help EBITDA, but from a cash flow perspective, it's actually neutral.

Operator
We will now take our next question from Jemma Permalloo from JPMorgan.

Jemma Permalloo - JPMorgan
I had a follow-up on the earlier questions about leverage, and I just wanted to check if there's any leverage target that you wouldn't want to go over, if you were to consider some more significant debt-funded acquisitions? And then as a second part to that question. Is getting to investment-grade a priority for you? And just thinking more broadly about rating agencies, would you be comfortable pursuing more acquisitions at the risk of not maybe having an upgrade in the medium term?

And then my second question, and apologies if you've already touched on this, but I just wanted to check in on the U.K. gambling review. There were headlines this morning about online casinos being fined for social responsibility failures. So just thinking longer term, any sort of impact or concern if you were to see the U.K. Gambling Commission get stricter.

Jette Nygaard-Andersen
Thanks. Rob, do you want to start off with the leverage and investment grade and then I will return on the gambling after you?

Rob Wood
Sure, will do. We are conscious that the leverage is a topic, which for some shareholders and clearly certainly for debt holders is a really important metric. So we absolutely have targets and ambitions around that. I mentioned earlier, we'll end 2021 around 2.5x. That is up year-on-year, but of course, we've invested quite materially in M&A through the 4 acquisitions that Jette alluded to earlier. In terms of target, we said that we want to get to 2x and below over the mid to long term. We've also said that we don't ideally want to go above 3x.

So from an M&A perspective, we can take it up to 3x. Would we go a little bit beyond that if there was an immediate return to getting back down sub-3x? We'd certainly look at that. And most importantly, on leverage, absent M&A, I've said it many times, the numbers keep proving it out, absent M&A, we delever around half a turn per annum. So if we didn't do any M&A during 2022, we'd actually reach our target of 2x by the end of 2022. So the growth dynamics in the business dropping through to accelerated cash flow profile are so strong that the model delevers at half a turn per annum anyway absent M&A. I hope that gives some clarity on that one.

Jette Nygaard-Andersen
Good. And let me come back to the U.K. Gambling Act review question. Listen, I'm sorry, it feels like I'm slightly repeating myself here every time we have a call. But yes, we are waiting basically for the white paper to come out. And as far as we understand, it's expected here in Q1. So we'll have to see. And that means that likely any impact from the review would be late 2022 at the earliest with

implementation following legislation.

And to your question -- so we don't have anything specific yet, but we continue to have really good engagement. And to the earlier questions on this call around our ARC technology, which is in progress. So I would say that the conversations that we have are constructive, and I remain cautiously optimistic, as I have said on many calls, I think the most important thing here to notice is that some of the comments that we are getting back is still that DCMS will take a holistic approach and the minister in the area has said publicly that the review will have to ensure that regulation provides the right protection and its fit for the digital age, which we fully support. So listen, overall, we'll just have to see. I think, the commentary that we are getting back sounds like that the DCMS and the minister is taking an approach where they'll put in place regulation, which is a coherent package, which is timely for the ages that we're in now. But we really don't have any new insights to that I am afraid.

Jemma Permalloo - *JPMorgan*
That's very clear. And if I may just squeeze in one last one. Based on the bid that you did on Olympic last -- I think there were headlines around November, December time, were there any further developments into it? Or is that still under discussion?

Jette Nygaard-Andersen
So when it comes to any rumours and speculations in the market around M&A, as I'm sure you would expect me to say, we basically don't comment on that. I mean this is -- as we've talked about earlier on this call, we are -- we have a very live M&A pipeline, and we're just not commenting on anything that is in the press around that.

Operator
We will now take our next question from Joe Stauff from Susquehanna.

Joseph Stauff - *Susquehanna*
Two questions, please, on North America. I guess the first question, maybe a little bit detailed on Canada. But I was wondering, you are -- you'll be a licensed operator there. Correct me if I'm wrong. And what I'm asking basically is, would you expect to kind of flip the switch in terms of being a great market operator today and a licensed operator certainly in Ontario first at some point, when those licenses are issued. It seems like it's a different analogue versus maybe some of the European countries that are relicensing. So I was wondering how just the mechanics of that work. That's number one.

Number two, outside of the capital contribution you'll make to BetMGM, the JV, just wondering if there are any more details that you could provide on notable initiatives that you guys are contributing to that JV in 2022, whether it be -- anything specific to your AdTech or product development or anything like that?

Jette Nygaard-Andersen
Thanks for your question, and good morning to you also. If I start with the last one, so I would say that the parents are contributing probably on a 24-hour basis. And just when it comes to the contribution from Entain and basically BetMGM runs on the Entain platform, every time we have a new product feature, every time, we're developing a new in-house game, which is exclusive for the U.S. market, every time we go into a new state, that is basically something that we are developing together based on our technology and our platform. The same is true when we have new marketing and BI models that we put in place or when we develop our in-play products or our parlay products. I think Adam alluded to a number of exciting features and products we should expect being launched

this year. So that's from the Entain side.

And obviously, from the other parent MGM, they have properties in a number of states, also in a couple of states where we hope to be able to launch this year as well as, of course, contributing the very live M life loyalty database. So you should almost think about it as these contributions are very operational, and they go on every single day. And especially, we are very excited about a number of launches that we expect -- and future launches that we expect to do during this year on the product side, which Adam alluded to yesterday. So stay tuned on that.

When it comes to Canada, I'm not sure I fully understand your question correctly. But we do expect that we'll be able to continue to operate. So it's not, let's say, a new launch, so to speak, but I'm not sure if that's what you mean we'll flip the switch there.

Joseph Stauff - *Susquehanna*
Yes. Yes. Sorry, let me see if I can clarify. So I guess the question is, if you're a grey market operator today, right, with, say, Bet365, Betway as well, with more notable market share in the grey market, will -- would you expect Ontario to force your grey market operations off for some period of time before you can yet switch on, say, the license operations that you would expect to have? Is there -- would there be a period of time that you would expect the mechanics to work like that? Hopefully, that is more clear.

Jette Nygaard-Andersen
Yes. No. So we expect that we will be able to pretty seamlessly continue operations. But we are expecting -- we are awaiting, you could say, the last license details. But that's our expectation that we wouldn't have to stop operation and then turn it on again, is that what you're thinking about.

Operator
It appears there are no further questions. I would like to turn the conference back to Ms. Nygaard-Andersen for any additional or closing remarks.

Jette Nygaard-Andersen
Thank you very much, and thank you all for dialling in and listening in today. I'm sure you will agree that Entain has delivered another strong performance throughout 2021, and our business is in great shape. The Entain platform is powering growth in more and more markets, enabling us to diversify our revenues and drive secular growth dynamics, seeing us well positioned for further growth in the many years ahead. I look forward to speaking again at our full year results on 3rd of March. And in the meantime, if you have any other questions, do get in touch with David and the IR team. Thank you, and goodbye.

Operator
This concludes today's call. Thank you for your participation. You may now disconnect.