Entain

Full Year Results 2021

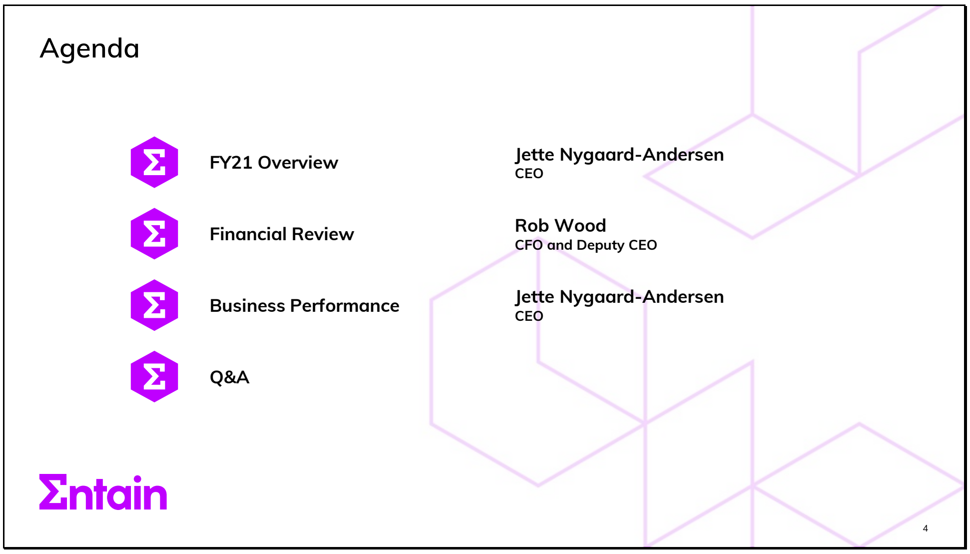
3rd March 2022

Transcript

Jette Nygaard-Andersen

Good morning everyone and thank you for joining our Full Year 2021 results presentation.

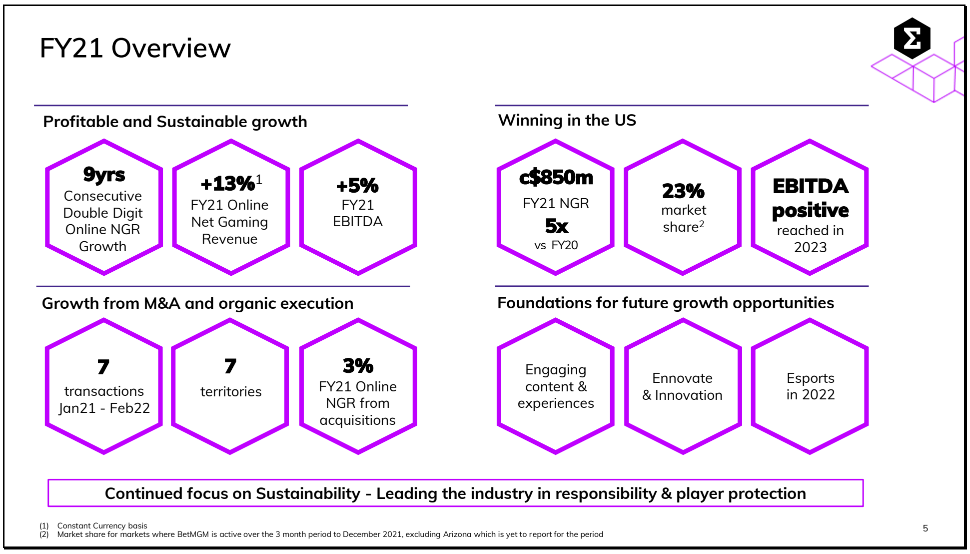
<u>Slide 4</u>



Jette Nygaard-Andersen

I'll start with a short summary, Rob will take you through the numbers and guidance, and I'll then give you an update on how we are delivering against our growth and sustainability strategy before going to Q&A.

Slide 5



Jette Nygaard-Andersen

Entain is a growth business. We have been delivering consecutive double digit growth online for the last nine years.

In 2021 our online NGR grew by 13%, and that has driven a two year compound annual growth rate of 20%, both in constant currency.

This growth is profitable. Our EBITDA of approximately £882m was towards the top end of our recent guidance, up 5% year on year.

In the US, we are delivering on our strategy of creating a leading betting and gaming operator, with 2021 revenues up five times and a market share of 23%. BetMGM has firmly established its position as number 2 operator delivering share in line with our 20-25% ambition, and is ready to challenge for number 1 position in the markets in which we operate.

Our growth across the rest of the world continues as we execute on our highly successful M&A agenda. In 2021 we completed four acquisitions and have made a good start to 2022 with three transactions already, including deepening our presence in Canada through Avid Gaming.

In 2021 our acquisitions and organic market entries added 3% to our online NGR in the year.

At our Capital Market Day in August we talked about how we are able to respond to evolving customer behaviours, wants and needs. We have made great strides, laying many of the foundations for future growth. I'll talk more later about how we are building engaging content, exclusive products and adding richer media, to drive customer engagement.

Unikrn is getting ready to launch its first products later this year and our Ennovate lab will be opening shortly in London.

Sustainability sits firmly alongside growth as one of our strategic pillars, and we have continued our unwavering focus on being the most sustainable business in our industry. We shared many of our actions and targets at our Entain Sustain event in November and we look forward to updating you again at this year's Entain Sustain event in the second half.

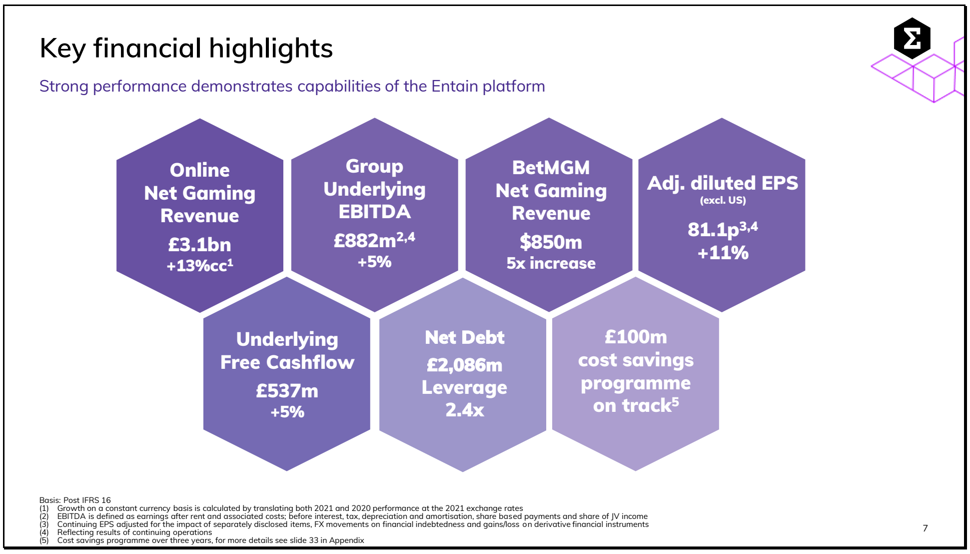
ARC progress and trials continue to go extremely well as we develop our ground-breaking approach to player protection.

So, 2021 was both a busy and successful year for Entain, as well as being my first year as CEO.

We are a very successful business and as we continue to grow we are evolving our operational structures, processes and capabilities around the Entain Platform that will see us drive an even better customer experience and ensure that we are able to deliver on the significant growth opportunities open to us. As we do that I am confident that we will deliver on our ambition to at least treble the size of our business and continue to be a very successful and growing business for many years to come.

I'll now hand you over to Rob, to take you through the details of our performance.

Slide 7



Rob Wood

So let's start with slide 7

We delivered another strong performance during 2021 which demonstrates once again the powerful growth dynamics of our platform and our business as a whole.

The ongoing momentum in Online throughout the year drove Group NGR up 8% vs 2020, which is in constant currency, like all revenue numbers will be as I run through the slides.

Online NGR was up by 13%, with H2 coming in ahead of expectations.

This consistency of performance is underpinned by our business' geographic diversity, providing an in-built hedge against local regulatory, economic and other effects.

Over the full year, all of our major territories saw double-digit growth with the exception of Germany and The Netherlands, where new regulatory regimes are coming into force.

Stripping out Germany and Netherlands sees our online NGR growth up to 21%, or up 17% if you exclude acquisitions as well.

This strong performance in Online also underpinned our solid EBITDA numbers this year. Despite our shops being closed or restricted for much of the year, we delivered Group EBITDA of £882m, up +5% on the prior year, or up 7% on a constant currency basis, demonstrating the strength and sustainability of our business model.

£882m was towards the top end of our recent guidance and also the top end of our £850-900m guidance from the interims, despite the disruption that followed in the Netherlands in Q4.

BetMGM is another highlight of the year. As you heard from Adam and Gary in January, BetMGM NGR for the year was $850m, which is a five-times increase YoY, and ahead of both guidance and consensus. BetMGM is firmly established as the #2 operator with a 23% market share in Q4 in the markets where it operates.

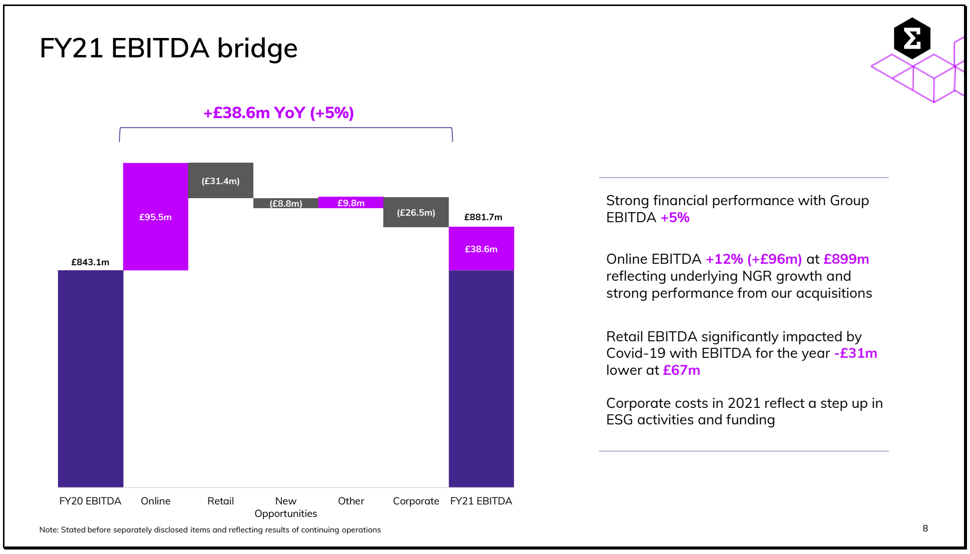
Moving to EPS, and Adjusted EPS pre-BetMGM was 81.1p, up 11% YoY, so growing faster than EBITDA, benefitting from operating leverage further down the P&L.

Turning to cash for a moment. Entain is a highly cash generative business. We generated £537m in underlying free cash flow in the year, enabling us to invest in our growth opportunities, which includes M&A transactions, as well as investment in BetMGM, whilst also strengthening our balance sheet. We ended the year with Net Debt at a little over £2bn, leaving leverage at 2.4x.

And to finish this slide, we are making good progress against the cost savings programme that we laid out with our interims in August, and we're on track for £100m of annualised savings by 2023.

So in summary; we've delivered strong financial results and our cash generation and balance sheet flexibility has enabled us to invest in growth opportunities to support our growth strategy.

Slide 8



Rob Wood

On slide 8, I've set out our EBITDA bridge which walks through the components of our +5% growth for the year.

Our Online business saw EBITDA up +12% during the year reflecting both underlying organic revenue growth, as well as strong performances from our acquisitions, which provided an uplift of around 3% in the year.

Retail continued to be impacted by the enforced shop closures and various Covid-19 restrictions. However, as we've mentioned before, we were really encouraged by the recovery in retail activity as restrictions eased and customers returned to the high street and our shops. Very pleasingly, Retail EBITDA in H2 finished marginally ahead of H2 2019 pre-covid. However, that strong performance through the second half wasn't enough to offset covid-driven losses in the first half, and so the resulting EBITDA was £31m lower YoY.

As we highlighted, with our Q4 update in January, our Retail business exited 2021 with like-for-like revenues within just 5% of pre-Covid levels in the UK and Italy, so assuming there aren't further restrictions, we remain confident in the long term prospects for retail.

During the year we invested £9m into our segment called New Opportunities, which currently comprises of esports and innovation.

And Corporate costs were up £26m year over year, predominately reflecting a step up in our commitment to responsible gambling, player protection and other ESG initiatives. And we don't expect to see a similar step up in 2022.

Slide 9

Online key metrics

2021	Results	Comments	2022 Expectations
NGR growth	+13%[1]	• Strong performances in Australia, Brazil, Italy & the Baltics • Double digit growth in all key markets excluding Germany and the Netherlands given recent regulatory changes • Strong performance from current year acquisitions which have contributed 3% of Online NGR	Mid to high single digit growth
Marketing rate	18.8%	• Lower than normal due to strong revenue growth & geographic mix	c21%
Contribution margin	42.2%	• Contribution margin +0.4pp YoY due to marketing rate improvement • Offset by Gross Profit margin -1.2pp YoY due to new German gaming tax and geographic & product mix	40%-41%
Operating costs	15% inflation	• Mid to high single digit inflation with investment in our people, product and technology • 7pp of operating cost increase due to acquisitions	Mid to high single digit inflation
EBITDA margin	29.3%	• Benefitting from lower marketing rate	27-28%

(1) Constant currency basis

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Rob Wood

So let's dig a little more into the Online KPI's and what sits behind that 13% NGR growth for the year.

Our online growth was global, coming from all of our major territories other than Netherlands and Germany, with particularly strong performances from Australia, Brazil, Italy and the Baltics.

From a product perspective, both Sports and Gaming performed very well, although the YoY figures are of course somewhat distorted by the Covid impact on comparators.

Having been up +30% in 2020, Gaming was up +6% during 2021, so encouragingly still in positive YoY growth, and that's a 2yr CAGR of 17%.

On the Sports side, NGR growth was +22% during the year, which reflects both a normalisation of sports fixtures over the year, as well as demonstrating the work we've done in brand repositioning, alongside providing better and more engaging content and other improvements to our offering and experiences.

And as we saw last year, 2021 also benefited from favourable results and retail-type betting activity Online, so full year margin again came in at a high 12.7%, well ahead of our 'normalised' levels of an 11-12% range.

On a 2yr CAGR basis, Sports betting is up 24%, and so total NGR was up a very pleasing 20% on a 2 year CAGR basis.

Looking to 2022, we haven't changed our view on any of our major markets, including the UK, and we see it as a tale of 2 halves.

We continue to expect NGR growth for the year as a whole, with improving growth as the year progresses. We expect H1 to be slightly negative as it faces into tough comparatives from last year, particularly in Q1. But in the second half we should see a return to normal double-digit growth. Across the year, that puts us at around mid-to-high single digit growth.

Our marketing rate at 18.8% was 1ppt lower than guided at the interims due to NGR outperformance as well as mix impacts.

For 2022, we expect the marketing rate to return to a normalised level of around 21%, which pleasingly represents a steady reduction versus a few years ago, benefitting from: increasing scale as we continue to grow, ever more potent marketing techniques, and also advertising restrictions in some territories.

Contribution margin ended the year at 42.2%, in line with our interims guidance, as the lower marketing rate was offset by a lower gross profit margin due to geographic mix and disruption in the Netherlands in the final quarter.

For 2022, we expect contribution to return in line with our normalised 40% to 41% range.

As we highlighted at the interims, Opex inflation for our Online business was going to be into the teens in 2021, reflecting: our growth, investment in the business, and acquisitions.

For 2022, excluding any M&A, we expect our Online business to see continued mid-to-high single digit inflation.

And finally, EBITDA margin was in-line with our guided range.

Medium term, we continue to expect our EBITDA margin to trend towards 30%, but 2022 will see a lower margin than 2021, as regulation brings new taxes and the marketing rate goes back up as I just mentioned.

Slide 10

Cashflow and net debt

Strong underlying free cashflow and committed financing facilities provide flexibility to support our growth strategy

	As at 31 December	
Key metrics	2021	2020
EBITDA[1]	**£882m**	£843m
Underlying free cashflow[2] (before investment in BetMGM/acquisitions)	**£537m**	£513m
Net investment in acquisitions/BetMGM	**£675m**	£62m
Net debt	**£2,086m**	£1,767m
Leverage	**2.4x**	2.1x
Accessible cash[3]	**£412m**	£697m

Adding undrawn RCF to accessible cash gives over £900m of available cash

(1) Reflecting results of continuing operations
(2) Underlying free cashflow is EBITDA less working capital, capital expenditure, finance lease and corporate taxes
(3) Accessible cash reflects cash plus PSP balances less cash held on behalf of customers and excludes cash available under the RCF

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Rob Wood

Moving onto the cashflow now. As I highlighted at the start of the year, 2021 was a year of investment, with £675m deployed across M&A and BetMGM.

Before this investment, our underlying FCF conversion remained strong again at 61% of EBITDA. We closed the year with net debt at just over £2bn, and leverage at 2.4x, which was up year on year as a result of M&A. As a reminder, excluding M&A, our growth and cash profile means we rapidly de-lever by around half a point per annum.

Liquidity also remains strong with accessible cash of over £400m at year end. And this becomes over £900m when you add in our undrawn RCF that we refinanced during the year.

Slide 11

Rob Wood

On this next slide I wanted to clarify how we think about M&A in the context of our strategic growth ambitions.

M&A is a key part of our business model. We continue to have a full pipeline of opportunities which vary in size, region, product or capability, and we look for transactions that can support our growth in three ways.

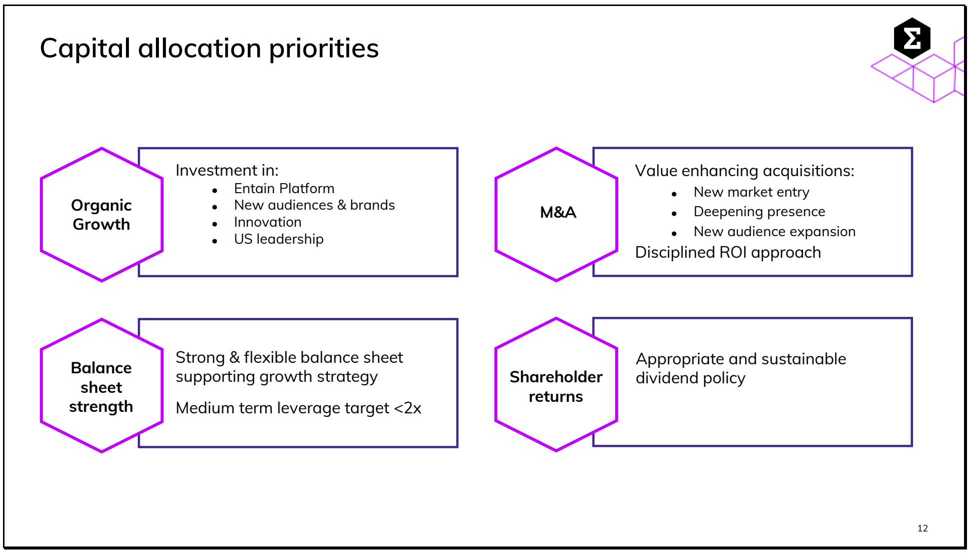
Firstly, access to one or more of the 50 or so regulated markets that we are not in today, such as the acquisitions of Enlabs and Bet.pt.

Secondly, to deepen our presence in one of our existing markets to help us deliver market leadership. A good example here is the acquisition of the Sports Interactive brand that is part of Avid gaming in Canada.

And finally, to enable us to expand into new interactive entertainment experiences, and the obvious example here is the expertise and capabilities that Unirkn brings, which will enable us to grow into the esports market and skill based wagering.

2021 was busy year for M&A, and we've also completed 3 transactions already in 2022, including the acquisition of Klondaika to strengthen our position in Latvia, and Totolotek which takes us into Poland.

Slide 12



Rob Wood

Underpinning M&A is of course our capital allocation policy, which is a question we are often asked, so I thought it would be helpful to reiterate our priorities today

We are a growth business.

Given our growing profitability and strong cash generation, we're in a great position to support that growth, and manage our balance sheet, and drive returns for shareholders. And so our capital allocation policy, is clearly built around that.

Firstly, we invest in the core business to drive organic growth. Be that capex to support our technology platform or keeping our offering fresh and relevant for customers through innovation and product development. And included in this, of course, is investing in BetMGM.

Secondly, we invest in further growth through M&A, which I've already touched upon.

Thirdly, maintaining a strong balance sheet, that enables us to continue to invest in growth. Our medium term leverage target is 2x or less, and as I just mentioned, our business model allows us to de-lever by around half a turn per annum naturally before M&A.

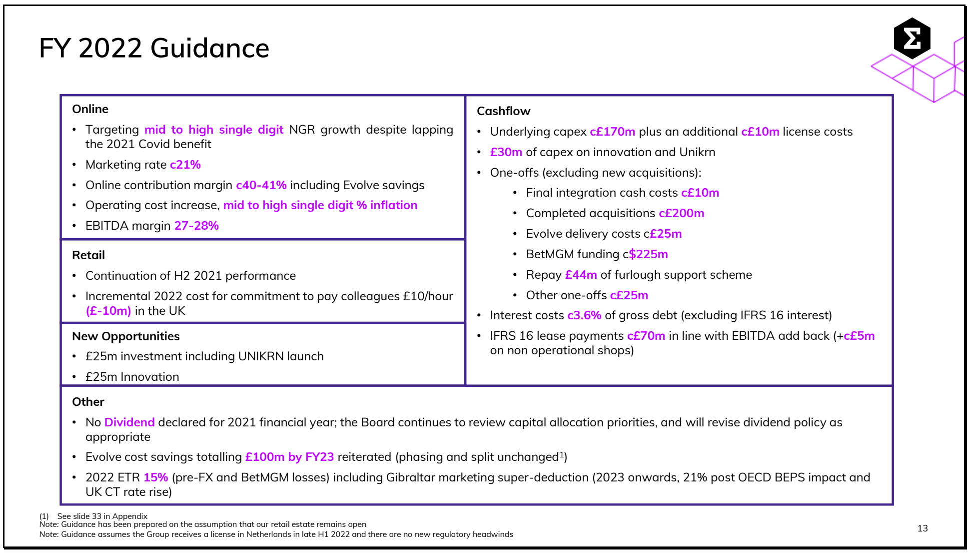
Of course, we look at financing for M&A on merit, but we are happy to take leverage up to around 3x to support M&A, before we would look at other forms of financing.

And finally, we will return capital to shareholders through a dividend.

As you will have seen this morning, the Board are not proposing a final dividend for 2021. As the statement says, the board is cognisant of balancing the importance of dividends alongside balance sheet flexibility to enable M&A and investment opportunities which drive our growth strategy.

We discuss the timing of a return to dividends regularly in the Board, and also what level would be appropriate to return at for a growth business like Entain. It is therefore unlikely that we return at the same pay-out levels as previously, but it will be appropriate and sustainable for a growth business that we are today. We will update you again with future results.

Slide 13



Rob Wood

The usual slide from me now on guidance to end with.

The Online guidance, I've covered off through the earlier slide.

For Retail, following the strong recovery post-reopening last year, we expect EBITDA levels in 2022 to broadly reflect twice what we delivered in the second half of 2021, albeit lowered to reflect an exceptional cost commitment to pay all of our UK shop colleagues no less than £10 per hour from April.

The new opportunities guidance here is a repeat of previous guidance.

Turning to the cashflow items.

Underlying capex is expected to be broadly consistent with 2021.

New opportunities capex totals £30m, so that's £25m innovation as we've previously guided to, and an additional £5m for Unikrn.

The £200m here for acquisitions here is mostly Avid Gaming, and the balance is Klondaika, Totolotek and some final payables from historic acquisitions.

Interest costs are expected to be 3.6% which is very slightly up YoY.

And you're familiar with the IFRS-16 lease payments, by now.

In the other section:

Dividends and efficiency savings, we've covered

On tax, we're expecting an effective tax rate for 2022 of 15%, with 2023 then reflecting the expected adoption of the global tax reform framework.

And finally, a quick comment on Greek Tax. We recently heard that we were successful in our case with the Greek Tax Authorities relating to the 2010/2011 Greek tax assessment. This means we are due around €220m, however the Greek Authorities have appealed the ruling.

It's therefore uncertain when or even if we will receive the monies, and the appeal is not expected to be heard in the near future. So from a guidance perspective, it would be safer to not include this €220m in your models until we have further clarity, and hence it's not included yet on this guidance slide.

With that I'll hand back to Jette.

Slide 15

Jette Nygaard-Andersen

Thank you Rob.

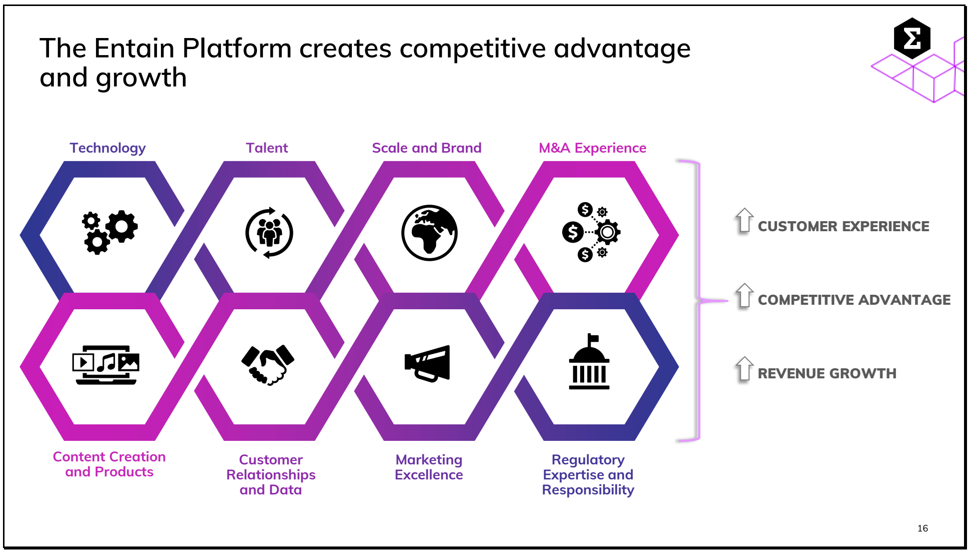
Just as a reminder our purpose is to bring moments of excitement into people's lives.

And therefore, ultimately we are an entertainment company, which means that we must provide customers with a great experience that is relevant to, and anticipates, their needs while providing a safe and trusted experience.

As I say in my introductory comments, Entain is a growth business. But we also know that the most sustainable business will be the most successful business in our industry.

So we deliver on our purpose, through our well established growth and sustainability strategy.

Slide 16



Jette Nygaard-Andersen

We can do this through the Entain platform, which you have heard us talk about many times before.

It comprises not just our industry leading technology and enviable scale benefits, but all the other capabilities that combine to create a significant competitive advantage for us.

These include our incredible pool of talent, our data analytics, our leading digital marketing capabilities, our ability to drive value through accretive M&A and so on.

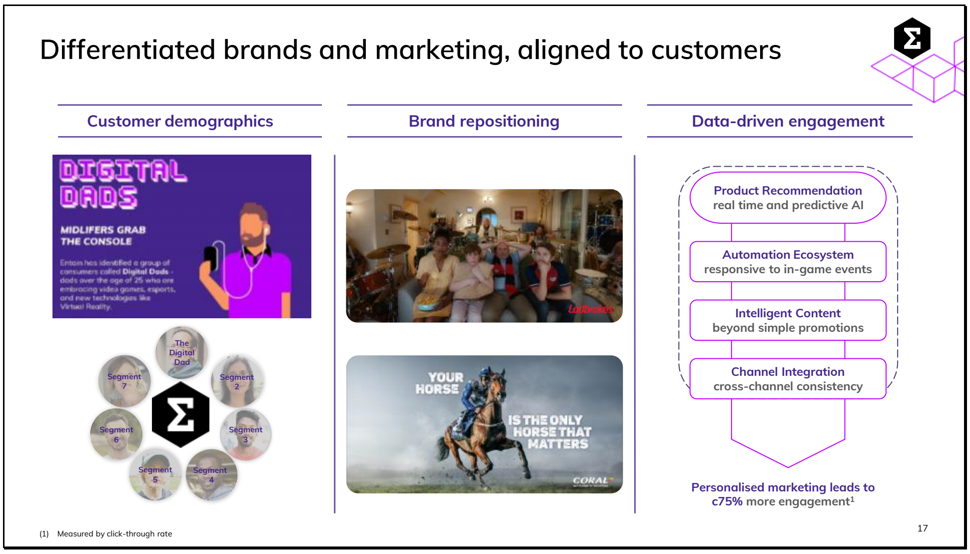
This platform enables us to not only deliver a great customer experience, but also evolve, adapt and flex as we grow, as regulations inevitably change and certainly as customer behaviours and preferences change.

At our capital markets update in August, I not only set out the $160bn TAM potential we can look to, but also explained how we can widen our appeal to a broader customer base, provide richer, more engaging content, expand our product verticals and drive engagement.

By doing this, and being even more focused on our customers, we can lean into powerful flywheel effects that increase our audience, increase customer loyalty and reduce our acquisition costs.

While it’s only a few months since that capital markets day I wanted to talk through some of the things we are already doing and how we are driving the customer experience forward

Slide 17



Jette Nygaard-Andersen

We have done a significant amount of work to understand the demographics of our customers and of our potential customers. Looking at what drives their behaviours, what their likes and dislikes are and what we can do to deepen our engagement with them. For example the emergence of digital dads, who grew up with some of the first computer games, and are now the pioneers of the new ecosystems we see emerging, as well as being engaged real sports fans. This helps us in focusing on how our brands position themselves, how we use our deep lake of data and how we serve them up with relevant product and offers to them either on a segmental or personalised basis.

We have a number of leading brands across our markets, that have significant brand recognition. And during the year, we evolved our marketing to not only differentiate it from our competition, but also to broaden our appeal to our customer demographics, but also to a more recreational customer base.

In the UK you have seen us start to reposition the Ladbrokes brand with our balloon and drummers adverts. These adverts based around the theme of “we play together” lean into that broader mass market appeal, as well as the idea of collective experience aligned with the general social media trend, that we see across all customer segments.

The soundtrack from the Subways, an indie band, was the initial step into creating Ladbrokes Amplify which supports up and coming independent bands whilst also enabling us to provide access to concerts and music venues for customers. This creates a whole experience around the brand that brings customers in for a broader experience, in this case, around music.

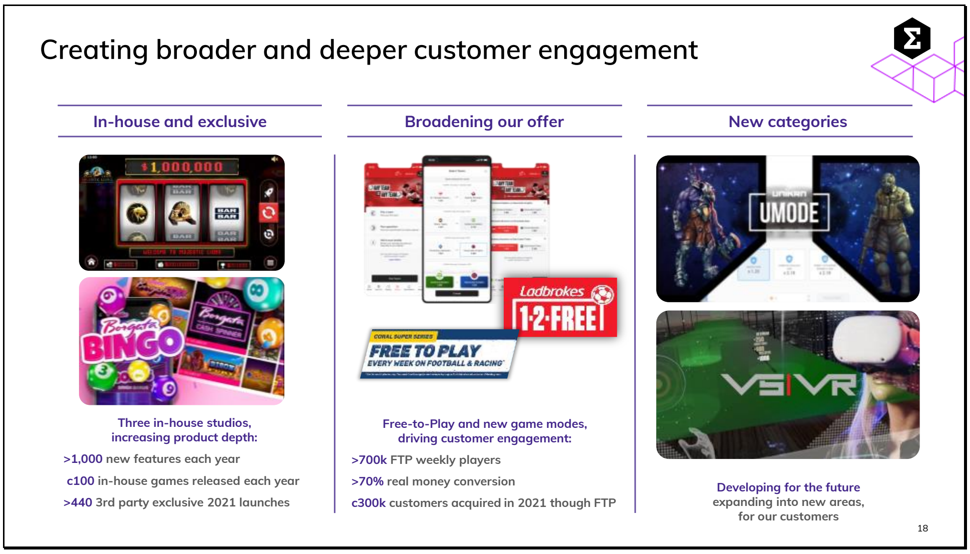
This brand repositioning is one of the factors that has helped drive the actives into a more recreational customer base which is up by 56% from 2019 in our UK sports brands.

With Cheltenham next week, you will see us start to position Coral more around the sports fan and particularly horse racing.

Our intelligent data driven engagement through recommendation based on learned experience is still relatively early stage, but results so far have been very positive with up to 75% more engagement from customers.

What's worth noting about these actions on this slide is that we start to move to a more direct consumer engagement model that reduces the reliance on third parties and affiliation engines.

Slide 18



Jette Nygaard-Andersen

Our three in-house studios enable us to deliver innovative and exclusive games and content which we can leverage across all our brands globally. We have over 550 in-house games, with 100 games launched last year. BetMGM not only benefits from this large portfolio of games, but also from bespoke products including the incredibly popular MGM Grand Millions, with another exclusive MGM branded product coming shortly. These are part of what has given us a competitive edge in the US, integrating the brand with a product that's both fresh and high quality. In fact, over 70% of our customers in the US engage with our exclusive products and 5 of BetMGM's top 10 titles were developed in house.

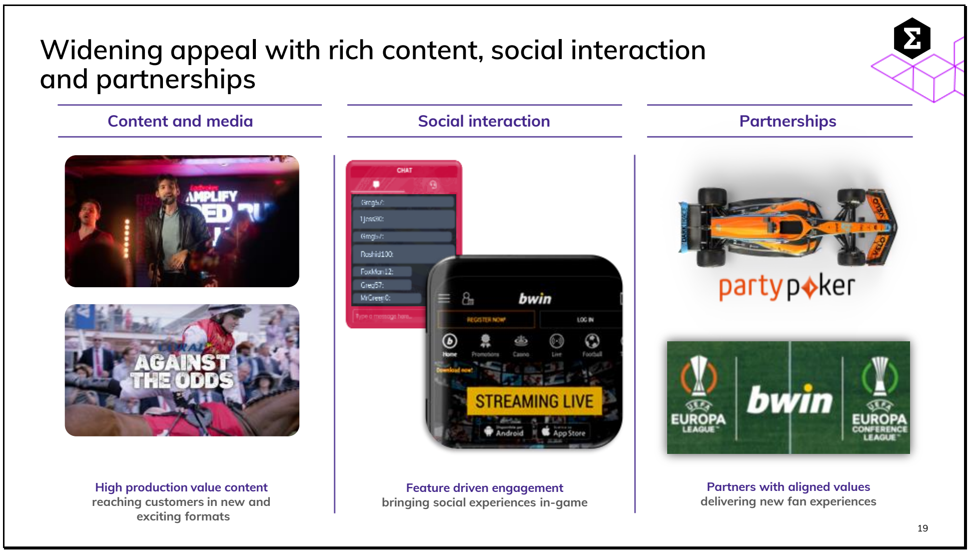
Having these development capabilities in our own studios gives us greater flexibility and control over our development pipeline. We can also better align products and features with our own customer insights to drive further engagement. As an example, our free to play games in the UK have seen a 70% cross-sell with these games with our traditional betting and gaming products. This makes customer acquisition cost virtually free, while also increasing loyalty, benefits for the customer equals benefits for us. Given the significant competitive advantage these bring, this is clearly an area of strategic focus going forward and we will invest more in our in-house production going forward.

We have also started to develop products for the emerging ecosystem around video gaming. Under Justin Dellario, Unikrn has been developing products around skill base wagering which will be launching later this year. We think this market has the potential to be huge as the hyper-trend of increased engagement with and through video gaming evolves through generational shift. We will be the only global operator in this market bringing the benefits of first mover advantage, as well as for shaping the opportunity for years to come.

Our Innovation lab ‘Ennovate’ will be the centre of our development of new products, experiences and services that leverage AI and VR. We’ll be trialling VR arcades on the high street later this year and look forward to updating you on their progress.

So, keeping product fresh and relevant for customers, innovating to create new moments of excitement and providing products and experiences that customers can’t get anywhere else drives loyalty and player value.

Slide 19



Jette Nygaard-Andersen

We are broadening our appeal and deepening our engagement with customers. Our interesting and engaging video content, focused around sport, is gaining fantastic traction with customers.

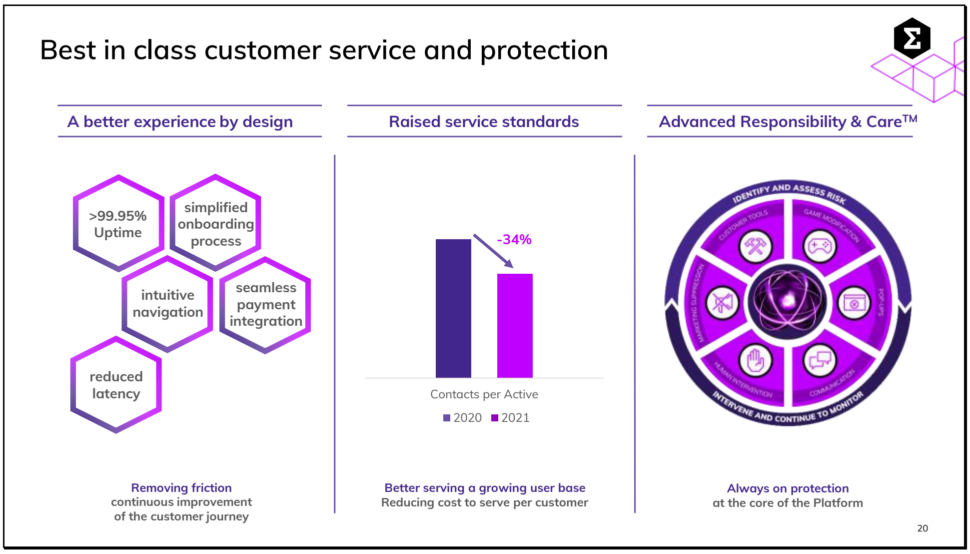
I mentioned Amplify earlier as part of the brand refresh of Ladbrokes. This is engaging customers around a unique music experience, and it's getting a great response from customers.

We've also talked about the brilliant videos Ladbrokes in Australia produce around horse racing. In the UK, Coral's partnership with ITV has launched the 4th in the series around inspiring stories in sports. Each of these "Against the Odds" episodes was viewed by an average of 800k people as well as reaching over 5m on social channels. Our 5th instalment features Desert Orchid, which we will air on the eve of the Cheltenham Festival in a couple of weeks.

Over the year we have also developed products that connect customers through social engagement, such as in-game chat for Ladbrokes and bwin is streaming matchday football in conjunction with '433' which has seen our Instagram followers jump by 40%.

Partnerships provide fantastic opportunities to connect with customers across different ecosystems and fan bases. Our McLaren partnership with Party is the first such partnership. Not only do we get our brand on one of the leading manufacturers of iconic cars, but we provide our customers with unique access to behind the scenes content, connecting the experiences with our F1 related products.

Slide 20



Jette Nygaard-Andersen

However, best in class experience and service is not just about the offering. We continually improve how we serve our customers to reduce friction, improve usability and effectively make the experience of being an Entain customer as seamless as possible.

Because we have such a breadth and depth in our operational and technology teams, we have thousands of technicians as well as teams across our customer experience, data analysis and so on, all dedicated to improving the customer experience. And we can share these developments and learnings across all our brands, for example simplifying the customer journey by reducing the number of process steps for our customers and using AI to do analysis in the background to speed up checks and improve the efficiency of our on-boarding process.

Using root cause analysis we remove friction points, reduce frustrations, and aim to eliminate reasons for customers to have to contact us.

You have heard us say before, that in the UK, every Saturday, we process seven times more transactions than Amazon on a Black Friday, and every minute we generate 70,000 trading events. So, by simply reducing reasons for customers to contact us we can reduce costs on a relative basis, that frees up both capital as well as capacity that can be better deployed elsewhere to drive growth.

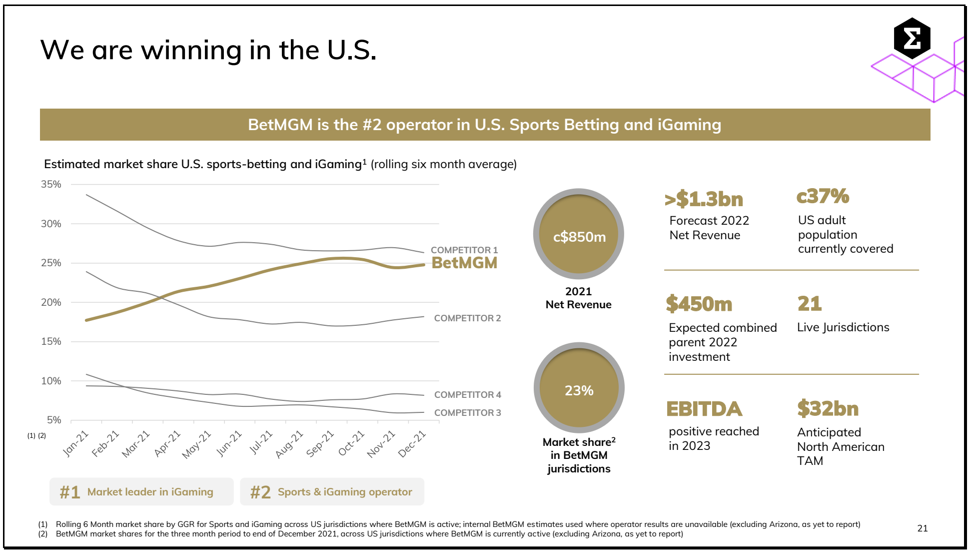
In the last year we reduced contacts per user by 34% whilst our actives grew by 25%. That's a win-win for Entain and customers.

As Adam Greenblatt talked about on the conference call on 19 Jan our launch in New York broke all sorts of records for the business. Our platform flawlessly supported more transactions and first time deposits than any previous live launch. Despite the record breaking volumes, we answered all chats and calls within an average of 29 seconds. This is a standout performance in the market.

Trust is the cornerstone of any customer relationships. And for our industry, that extends beyond data security, ease of use and so on. It encompasses player safety. This is one of the reasons we are developing ARC, to provide an ever present safety net where our customers feel protected.

We continue to make great progress with ARC with both the real-time customer interaction trials and the international rollout well underway. Our initial trials have been very encouraging, with results showing a risk assessment accuracy of over 80%, a 120% uplift in the use of safer gambling tools, by those most at risk, and a 30% overall reduction in customers increasing their risk levels.

Slide 21



Jette Nygaard-Andersen

All these capabilities and focus on the customer underpins our success in the US.

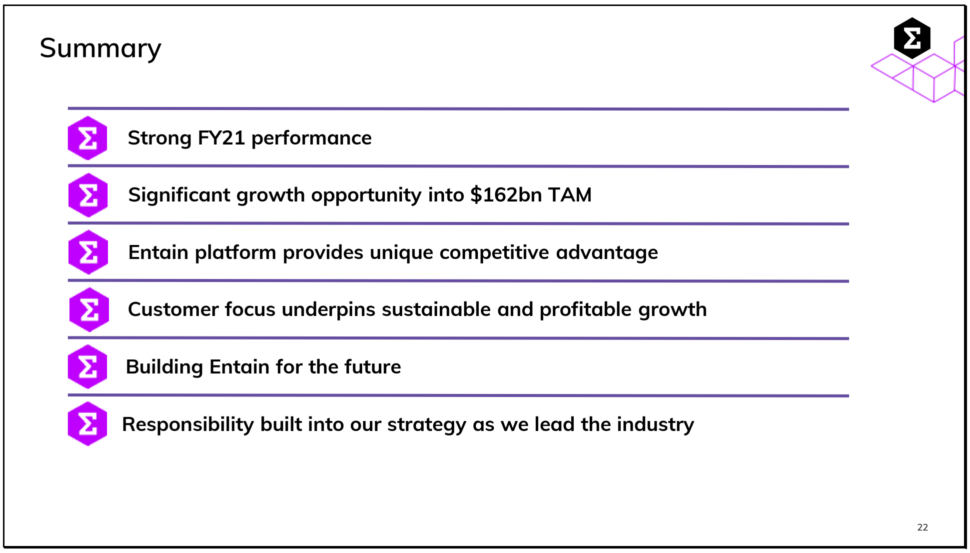
In the last 3 years we have grown rapidly in the US to deliver a market share of 23% in our markets in the final quarter of 2021, in line with our long term objective of 20-25%.

We continue to lead in iGaming but we've also seen great momentum and success on the sports side too. In fact, looking at market share on a rolling 6 month basis to smooth out seasonality you can see that we are clearly ready to challenge for the number one position across sports betting and gaming in the markets where we operate.

Where we bring the capabilities of our industry leading platform together with a day one launch we really demonstrate the strength of our proposition.

This approach differentiates us from the pack. While others aggressively try and spend their way into this market, they lose sight of what is important for customers, they focus on short term acquisition rather than establishing a successful long term relationship as we do. Our disciplined returns driven, and customer centred approach, means that we anticipate BetMGM reaching positive EBITDA in 2023.

Slide 22



Jette Nygaard-Andersen

So in summary, we've had a successful year, delivering strong results building on our successful track record. At the same time, we have started to lay out the foundation for our success for many years to come.

Our strategic intent and ambition is clear, as we deliver into the significant TAM opportunity we have ahead of us, that enables us to at least triple the size of our business.

Our Entain Platform is our competitive advantage and enables us to grow into this TAM across regulated and regulating markets. It empowers us to evolve into changing consumer behaviours which helps future proof our business and drives more sustainable revenues.

But it also taps into the powerful flywheel effects that broadens our customer appeal, drives cross sell and loyalty, and reduces acquisition costs.

As Entain grows into this opportunity, we are building the right operational structures, processes and capabilities around the Entain Platform, to ensure our continued success for many years to come.

And we will of course continue to lead across ESG and player safety.

Let me just finish by thanking all my colleagues across the business. They are the core part of the Entain Platform that enables us to keep delivering great performances and the resilience and aptitude they have shown in navigating the challenges of the last couple of years demonstrates the high quality of talent we have across Entain: so, a huge thank you to them.

With that I'll hand over now to Q&A.

Slide 23

QUESTIONS AND ANSWERS

Ed Young (Morgan Stanley)

I've got 3, if that's okay. The first is on the U.K., you took share in that market, clearly. Can you just talk a little bit about the sustainability of that growth? What's driving it? And are you happy that you're doing as much or more than others in terms of your safer gambling with obviously regulation on the horizon? The second is: there's clearly opportunities in new markets, you mentioned sports interaction in Canada. Obviously, Brazil is going well. But for both of those and perhaps also for Germany where you do need to get a license back in gaming, can you just talk about whether we should expect some sort of investment or J-curve there? Or you think you'll be able to sort of grow from current levels in terms of profitability? And the third question is on the U.S. there was some press overnight around Yahoo potentially being spun out into a betting company. Can you just talk about your breadth of cost of acquisition across BetMGM? And if you can, any detail around your contract length or contract terms for the Yahoo Sports side of things?

Jette Nygaard-Andersen

Thank you for your questions. So why don't I start from the back and talk a little bit about U.S., in general, about new markets and then hand you over to Rob to talk about U.K. and our growth there. So just starting with the U.S., and we talked about this many times before. We have a wide range of partners there. So we partner with affiliates. We partner with media. We partner with leagues, and we partner with clubs and especially in the United States, sorry, in New York. You've seen us doing some partnerships there with Madison Square Gardens and a couple of the clubs there. So that's basically part of the portfolio and what we continue to do. So when it comes to the news overnight around Yahoo, well, listen, this is, I think, pretty much old news. So Yahoo is a value partner for us. It's an affiliate partner. And we have a multiyear agreement in place with them. I'm not going to go into any detail there. So Yahoo is one of the routes that we have to market as part of the affiliate partner and we continue to work with them there. When it comes to new markets, so listen, it will be a little bit of both. So for example, in Canada, you saw us do the acquisition of Avid. We also have Party and bwin there. So as we've said before, we will also apply for a license in Ontario for Party and we continue to invest into that market, which is a significant market, which we're really excited about. Same thing in Brazil. We have sporting bet there, which is a strong brand. So when that market opens up through regulation later this year, as far as we see we're obviously going to continue to invest into that brand there when we can actually do investment into marketing. So you'll see us do a little bit of both. You also saw us last year, sorry, this year, do a roll up into Enlabs with Klondaika. So we basically assess the opportunities as we go along and whether it makes sense to do organic or inorganic. So investing into the markets or doing roll-ups or doing larger acquisitions to enter into a market. And to your final question, Rob, can I hand over to you?

Rob Wood

Absolutely. So a question about the U.K. performance, the drivers of that in particular. So look, we are pleased with our numbers in U.K. online. That's for sure. Momentum has been good through the year, and that good momentum has carried on into the start of this year. We saw market share gains throughout last year, and they did accelerate into the latter part of the year. Are we doing the same degree of measures as others from a player protection perspective? Absolutely. We work closely with the Gambling Commission as do others, constantly refining our approaches, as do others. And so, where has that acceleration in market share come from? I think it's down to the very good work that our teams are doing with the U.K. You heard Jette talk earlier about some of the initiatives, the real focus on recreational actives growth, products like 5-A-Side. It's a great recreational bet, free-to-play content. You heard Jette talk about Ladbrokes Amplify and the drummer ads and the balloon ads. This is all trying to drive a more recreational audience. I'm pleased to see that active numbers are still up for both Ladbrokes and Coral in Q1 despite, of course, lapping against the COVID boosted numbers from the prior year. So we are very pleased with our U.K. performance and all pretty much as expected. I would just add one more build on Jette's comments. You asked about a J-curve in Canada, in particular. And I think it's worth focusing on Canada in two halves. So, we do expect different trends and different shapes of curves, if you like, in Ontario versus non-Ontario, and the strategy is different in each. And it's worth saying that outside of Ontario, that's where the majority of revenues are and this feels like an acquisition, like many others, outside of Ontario. So real focus on revenue synergies as we help support product and capabilities. Within Ontario, inevitably, there'll be some investment. I wouldn't expect the J curve to be as deep as when a U.S. state launches, for instance, for sports interaction, because it's an established brand, a strong brand, and it has an existing customer base. But there will be more investment into Canada that would ordinarily be the case as a result of Ontario licensing for sure.

Monique Pollard (Citi)

Three questions as well from me, if I can. The first one, just following up on the U.K. online performance. Obviously, you've delivered double-digit growth in that market in 2021. I was just wondering whether you could comment on whether you have seen any breakdown in the relationship between customer-friendly results and recycling in 2021. The second question I had was on Brazil. Clearly, a really exciting market. You're saying that you're expecting sports to regulate this year, gaming next year. If you could just give some details on sort of what helped you to achieve that kind of phenomenal 111% constant currency revenue growth in 2021? That would be really helpful. And then finally, just on Georgia, given your #1 position in that market via Crystalbet, just hoping you could give us some guidance on what the overall group impact would be of the potential regulatory changes that are being discussed there?

Jette Nygaard-Andersen

Monique, so may I suggest, Rob, you continue with U.K. and also Georgia, and then I can come back and talk a little bit about Brazil.

Rob Wood

Happy to. Monique, so a question in the U.K. around recycling and have we seen different trends. And no, I wouldn't say we have. Well documented that margins were weak in Q4 in the U.K., very much football driven and very much Acca-driven and recycling is always low on football multiples. So, I wouldn't suggest that we've seen any difference in trends versus what we would ordinarily expect in that situation. Georgia, I think I was asked about this in the January call. So, the impact of the new gaming tax we estimated around £10 million EBITDA per annum. There are some further restrictions around age and marketing, probably more neutral, particularly as we have a market-leading brand. As you've touched upon. So, I would stick with £10 million per annum, albeit there's then an offset through corporation tax. So, an impact to EBITDA, but on a net cash basis, it's pretty neutral.

Jette Nygaard-Andersen

And should I comment on, let me continue and comment on Brazil. So Sportingbet continues to perform really strongly in Brazil and really strengthening their #1 position, which is, of course, pleasing as we look towards regulation. And we've seen really strong momentum in the brand, partly also helped by Copa America which helped drive awareness. And that's also important as others are arriving in the market, and we are benefiting from that. So that puts us in a really great position that we look to regulation. And the first thing is, as you said, of course, regulations on sports, which we look towards the second half of the year before the World Cup.

Monique Pollard (Citi)

Sorry, just following up quickly on Brazil. Could you see further growth in 2022 despite a really tough comp, obviously, of 2021?

Jette Nygaard-Andersen

So, I think one of the main things in the market regulating is that we'll be able to do marketing. We can't do that today. So that's, of course, one of the big opportunities for us. So, it's a really interesting market, for us, and there's clearly a demand for a large variety of products in the market. And then the Brazilians are avid sports fans. So just by the fact that the market is opening up, we have the strongest brand in the market, and we will then be able to leverage our partnerships with the different broadcasters and media in the country even further, it's a really strong opportunity for us.

Gavin Kelleher (Goodbody)

Just a few for me. Just maybe I might have missed this, but Rob, one for Rob on the guidance on online. The mid to high single-digit growth this year in online revenues, can you just tell us how much of that is the three acquisitions? What percentage points they are adding? And then on the area of responsible gambling, I think Jette, you mentioned that there's been a 120% increase in people using problem gambling tools or player protection tools. Can you just give us an idea of what percentage of the database in the U.K. is using those tools? And then the final question I have, just following on from my first question, Holland and Germany, what do you expect from them this year in terms of return to growth or kind of return to revenue in Holland and which time of the year at this stage?

Jette Nygaard-Andersen

Rob, let me start by handing over to you on the guidance, on online and Netherlands and Germany, and then I can come back and talk about responsible gambling and ARC™.

Rob Wood

Gavin, yes. Let me say a few words. So, acquisitions, 2 components so far, one would be the annualisation of 2021 acquisitions, and there's probably 1 point, maybe a little more to go from that given Enlabs and Bet.pt were both around end of March last year. And then the latest material acquisition, Avid, and that's probably adding a little over 1 point as well. So somewhere between 2 and 3 would be my best guess against that. In terms of Netherlands expectations, Germany expectations. So, Netherlands, no particular update versus our Q4s in January. The application is in, we hope to get our license around the middle of the year and are planning as such. And then we'll really have to wait and see how the performance goes from there. It might depend on a few things, which operators are getting licensed and in what order and so on. And when it comes to Germany, so German sports had a great year in 2021. Clearly, gaming, very different as we adopted the new regime. As we look forward in Germany, and sort of mixed developments on the regulatory front, one positive is that the new regulator nationwide in Saxony-Anhalt has said that they will look to start enforcement from 1st of July this year. So that will be a positive for us. Otherwise, in terms of regulating of table games, that's probably less optimistic than where we were previously. Previously, we hoped that we might get access to around half of the population. It feels like it will be more like quarter now with North-West and Bavaria being the one that's most likely to offer licenses, and that's around 1/4 of the country. Does that help, Gav?

Gavin Kelleher (Goodbody)

Yes

Jette Nygaard-Andersen

Good. And let me just round it up by adding a little bit more comments on ARC™ as you referred to. So I said in my introductory comments, I gave a couple of stats. So our initial trials are extremely encouraging. And we, as you said, we're showing risk assessment accuracy of over 80% and 120% uplift in those that use the safer gambling tools and then a 30% overall reduction in customers increasing, reduction in customers that has increased their risk levels. And right now, it's rolled out to all our U.K. brands. So, that's really the most important thing that we make sure that it's available for all customers and then we drive the use of it. And next step for us is now rolling it out to our European brands and next rollout is, I think, taking place now or over the next couple of months.

Kiranjot Grewal (Bank of America)

Just two from me. Firstly, we've seen some of your U.S. competitors signal plans to reduce marketing spend. Is this a surprise for you? And does this give you more or less confidence on your 2023 positive EBITDA guide? And then secondly, I think a lot of us are still focused on the U.K. gambling act review that's upcoming work. You've spoken about online slot limits and those have been analysed. The deposit limits, them limits are a little bit trickier to get a handle on. Are you able to comment on how your customer exposure might have changed in the U.K. over the last few years, potentially proportion of high rollers, VIPs versus recreational?

Jette Nygaard-Andersen

So let me start off with your question on U.S. So listen, I think in general, we've said from our side all along that we are rational players in the market. And when it comes to 2021 levels in general in the market on bonusing and promos, both when it comes to customer acquisition and retention for that matter, they have been quite high. But I think that environment is not really a surprise given the TAM opportunity and NFL and we have New York come up here in January. So we were anticipating that pickup, and it was factored into our go-to-market approach. Now what we've said from our side, we'll continue to be a rational player here. So we continue to focus on acquisition efficiency and ROI. We are in the U.S. market to build a sustainable business and make a profit. So it's all baked to our model. And our expectation is that we will see the average or the blended CPAs tick down. But listen, you will have these swings and seasonalities, so we have March Madness coming up, but everything is pretty baked into our models and underpinning what we have assumed there. When it comes to U.K. regulation and the review, I don't have anything new to say. We are still awaiting the white paper. We expect it to come in Q2. There has been some delays, as we all know, but we are expecting it to come, and that means that any resulting impact of that will earliest be later in the year. And we are supportive of that. We are looking forward to get that review. But before it lands, we don't really want to speculate on how it will play out. So we'll wait and see, and we'll take it when it comes, hopefully, later in this quarter -- sorry, next quarter.

Joe Thomas (HSBC)

Just a couple of questions left on my side. Firstly, just on a point of detail. The, in the past, you've quantified what the responsible gambling measures would cost you. And I just wondered if there was any update on that, if they are being tightened further? And what sort of a drag that's likely to have on this year's numbers? And then secondly, you've not really talked much about Australia today. I was just wondering if you could give some detail there, given that simply comps are pretty challenging. And I think there was a bit of luck in Australia last year. So how are you seeing Australia trending in 2022, please?

Jette Nygaard-Andersen

Thank you, Joe. Let me start by talking about impact of responsible gaming. And Rob, I'll hand over to you for Australia. So listen, when we set out our new sustainability charter back in November 2021, we talked about an impact for, sorry, in 2020, we talked about an impact in 2021 of around £20 million. And since then, everything that we've done, we really incorporate that into our models. So when we look to 2022, all the things that we have implemented through 2021, we baked that into our numbers going forward. So we put it into our forecast. And now the next thing is, of course, the Gambling Act review. But as I just said in the earlier question, we're not second guessing on what will be in the Gambling Act review. Rob, Australia?

Rob Wood

Yes, let me talk about Australia, where momentum is really strong. I'm delighted with the performance of Australia. It really shows that the reinvigoration of the business that Dean and Lachlan and the team over there are delivering around brand repositioning, refreshing advertising, the product development, personalisation, lots of really interesting and innovative stuff coming out of Australia. And it's bearing fruit in the numbers. So, the second half of the year, easily the fastest-growing operator gaining share and momentum is carried onto the start of this year as well. So, despite the tough comparatives that you alluded to, we're into double-digit territory year-to-date for NGR growth.

Joe Thomas (HSBC)

Can I just come back, I guess, on the point about responsible gambling that, so I take it the £20 million hasn't moved subsequent to that guidance being put out. I just want to confirm that I understood that correctly. And just sort of relating to that, is that because, what is driving what here? Are you sort of budgeting for £20 million and you are setting responsible gambling measures to hit that £20 million? Or are you, or is the £20 million in output of the responsible gambling measures, kind of conceptually?

Jette Nygaard-Andersen

No. So we comment this differently. So when we set out the sustainability charter in November 2020, we looked forward to the year 2021 and forecasted that the impact of those measures at that time would be around £20 million into 2021. Now as we learned through the year 2021, every time we put something in place, we basically update our models. We look at what is the impact here, how can we mitigate this. And that's basically then built into every single forecast we do going forward. So I'm not saying it's £20 million for this year. I'm basically saying we look at this every single month, and then we update our models. We look at how we can mitigate any impact there is, and then we go from there.

Simon Davies (Deutsche Bank)

Two from me, please. Firstly, on the U.K., you talked a lot about your shift towards a recreational player base. What are you seeing in terms of the high-value player base? Flutter were talking about halving contribution numbers over the last 2 years. Are you seeing a similar experience? And secondly, you talked of success in AI-driven personalised marketing and how that should reduce your reliance on affiliate networks going forward. How material do you think that could be? I mean, do you have a sort of potential impact in long-term marketing spend as a percentage of revenues?

Jette Nygaard-Andersen

Rob, do you want to talk about player base? And then I can talk a little bit about marketing and how we look at that?

Rob Wood

Yes, I can. Simon, so we don't have any KPIs to give out, but I can certainly talk about the trend and the trend, as you well know, is ever more recreational. And that's partly very deliberate in terms of our customer proposition, our brand proposition products and promotions, etc. And it's partly also a reflection of the ongoing RG measures. And so, the trend is clear, quite whether we've got exactly the same trends as Flutter or not, we'd have to have a look at that.

Jette Nygaard-Andersen

And just on the marketing. So what I talked about in my introduction about the personalised marketing going forward is really exciting, but it's also still early days for us as we implement this. So I'd say in general, we are seeing our marketing spend as a percentage of NGR ticking down over time, and that's a consequence of you say, efficiencies and scale and so forth. So this is really the next step for us. We haven't set a target on it or we don't have a number on it what we expect it will gain. But it's, of course, both about marketing efficiency, but it's also about a better experience for the customer as we market towards them. So the general trend, we talked about that before. We see the same thing, and this is something that we're just starting to work on now, and we will follow up on our later calls.

James Rowland Clark (Barclays)

Just on the 2 small acquisitions that you've done in Latvia and Poland. I wondered if you could shed a little bit of light on the size of those acquisitions in terms of the multiple you paid and also the EBITDA tailwind that they offer through the year. I know you've already mentioned NGR tailwind as well. Secondly, on Lithuania, I'm under the impression that there are potential tax changes there, and that's a market that Enlabs operates in. So is there any light you can shed on the headwind for that in 2022. That would also be very helpful. And then finally, on New York, there's, it looks like iGaming has been added to the legislative bill for this year. Any comments that you might have on that would be helpful. And also the tax rate proposed is considerably lower than the sports betting tax rate. So I wondered if you had any thoughts on the outlook for tax in New York in future, I mean the draft, you've mentioned, was being looked at. So any comments there would be great.

Jette Nygaard-Andersen

Thanks, James. Let me start with the last one, which is a quick one, and then I'll hand you over to Rob for the two other questions. So yes, that's true. There's news out that there's a potential tax bill coming up on iGaming in New York. Listen, it's not something that we see happening in this cycle. But of course, it's directionally positive. So we'll see where that goes, but not something that we're looking at right now. And then I think, in general, in terms of New York tax and what will happen there, so I think what will happen is, of course, that over time, States look at the neighbouring States and between each other they'll figure out what is the best model going forward. So I'm sure that there will be some adjustments over time in terms of tax, but we don't have anything on New York tax and how that will move for now, so we'll just have to see. Rob, over to you, if there's anything you want to add on the two acquisitions in Poland and Latvia and then Lithuanian tax?

Rob Wood

I will do. I can certainly do the first part of that. I'm not familiar with any change in tax regime in Lithuania, so I'll have to pass on that one, James. In terms of the two acquisitions that we mentioned, they're both very small. So I wouldn't be changing your numbers for them. Klondaika is a roll-up in Latvia. It has around 8% of the Online market share. So it's materially complementary to our existing offer in Enlabs, but we're talking likely single-digit millions of revenue and obviously reflected in the acquisition cost as well. And then Poland, this is more of a license acquisition that will then be followed by organic entry of bwin into that market. So again, not expecting any material impact on 2022 numbers. But clearly, we hope to build a material presence in that market over the coming years.

Richard Stuber (Numis)

Two for me, please, one on the U.S. and one in the U.K. On the U.S., I still, I see that you're still sort of aiming for the 30% to 35% long-term EBITDA margin. Clearly, this is going to be a blend across all the different states. So could you just give an indication how, what do you think the range would be on a state by, on different states because, obviously, New York is going to be quite more considerably lower than potentially New Jersey. And the second question is, I know you've, we've, asked a lot about the U.K. gambling review. But are you seeing any consensus appearing across operators for stake sizes or deposit limits? And anything in terms of sort of collaboration with other operators on that would be very helpful.

Jette Nygaard-Andersen

Thank you for your questions, Richard. Let me start with the U.S. So that's right. First of all, we reiterated that we anticipate BetMGM to reach positive EBITDA in 2023. And we also confirmed our range on the margin of 30% to 35%. So listen, this is, of course, a moving target as states come online all the time. And we have positive contribution rate in several states already. So New Jersey delivered a strong positive contribution in the full year of 2021. Michigan, which is a really strong state for us and continues to be, from start-up to positive contribution within the month of 2021. We also were pleased with the progress in Arizona, which is on fast track for contribution positive. So what we've said in general is that we see sports states reaching contribution positive in 12 to 24 months and iGaming states in 10 to 14 months. So obviously, the more states that legalises with iGaming, the faster you will see the contribution rates going to positive. And then we're also saying when it comes to EBITDA and pay back that sports states, so we are in general seeing, looking at a 3-year payback time for sports states and 2 years for iGaming and those assumptions still hold when we look at our numbers. When it comes to U.K. and the Gambling Act review, I mean, we are, we have an industry body where we work together, and we discuss these things. And that's a body that we used to also address the gambling commission and the GCMS and so forth. So that's really helpful, and this is where we try to bring forward different proposals and so forth. And then, of course, we ourselves are also spending a lot of time, as I've talked to in the future in just discussing, you could say, our technology, our technology solution and also the impact on the results that we're seeing from the measures that we are putting in place. So I think that was the question, right? We are seeing some trends in terms of what's being put in place, and I think some of the things we put in place, affordability checks, affordability limits and so forth. That's also something you've seen other operators pick up. But to your question, in general, we have a body where we discuss these things and discuss them with the GCMS and the Gambling Commission.

Ivor Jones (Peel Hunt)

I wonder if you could talk a bit about Retail. Firstly, short term, secondly, long term. 2019 Retail was about £200 million of IAS 17 EBITDA. How much of the CapEx is going to go into retail? So I can think about cash flow. And the 2019 number only had a partial year of £2 stake limits. So are we heading back to £200 million? What do you think about in terms of cash flow? And then in terms of innovation, you're obviously focused on the much bigger Online business. But you talked a bit in the statement about Omnia and BetStation and you mentioned VR Arcade. So are those just things that hold Retail steady? Or is there innovation coming in 4,000-plus shops that actually could deliver some growth in that business? So I'd just be interested to hear you talk about cash flow shorter term and then the potential longer term.

Jette Nygaard-Andersen

Thanks, Ivor. Good questions. Let me hand you over to Rob. Rob, do you want to talk about Retail for both questions?

Rob Wood

I can certainly do my best. So Retail, I think I mentioned in the introductory comments, really astounded at how good EBITDA was in the second half of 2021, actually coming in slightly ahead of 2019 pre-COVID. And if you take the EBITDA that we delivered in the second half of the year, you annualize that and then adjust for things like the initiative to move all U.K. based colleagues onto a minimum of £10 an hour you're probably coming out somewhere around the £250 million mark for retail EBITDA going forward, which is a fantastic number and there might be a little bit of pressure on that. H2 was good for a number of reasons, but that's the right ballpark. In terms of CapEx...

Ivor Jones (Peel Hunt)

Well that £250 million is in new money, isn't that, for IFRS 16?

Rob Wood

That is new money, yes. But obviously, the comparison to pre-COVID is...

Ivor Jones (Peel Hunt)

Minus £70 million of leases?

Rob Wood

Correct.

Ivor Jones (Peel Hunt)

Sorry, minus £70 million for leases?

Rob Wood

Correct, and then from a CapEx perspective, I would say Retail is around £50 million to £60 million out of the guided number. So you can see still materially cash generative as a business in its own right. And of course, none of those numbers, EBITDA or cash in any way en-capture the contribution than it makes towards our online platforms in those territories. So, and it's still a strategically significant and profitable asset for us. In terms of innovation, there are aspects of the agenda, which are omnichannel focused. And you'll have heard, that we've converted a couple of former shops into VR labs so that we can bring these experiences to Retail customers as well. And then, of course, there's the ongoing investment into digitalisation of the Retail estate and we're spending tens of millions every year on things like the new till systems, new in-house SSBTs, the digital marketing screens, upgrading gantries, pricing screens and so on as we try and bring the Online experience closer to shop colleagues to really reinforce the omni-proposition. So we are pleased with Retail, and it's made a good start to the year as well, even though we lost Belgium shops up until the 27th of January I think it was when they reopened numbers are still the right side of expectations year-to-date. So all things strong for the, on the retail front.

Ivor Jones

The shops, I guess, are mostly too small to be VR arcades in a significant way. Would you spend money on repositioning to bigger premises? Is that part of the plan?

Rob Wood

At this stage, no. But it's very much an experimental phase, I would say. So we'll keep it under review and look forward to seeing the results of the early stages.

Operator

This will conclude today's question-and-answer session. I'd now like to turn the conference back over to Jette Nygaard-Andersen for any additional or closing remarks.

Jette Nygaard-Andersen

Thank you very much, operator. So if I may wrap up, Entain is a growth business. And as you heard today, we are excited about the significant opportunities we have ahead of us as we deliver on our sustainability and growth strategy. Our Q1 update is scheduled for the 7th of April. But for now, thank you very much for joining us this morning, and thank you for your questions.