

Entain

Q1 Trading Update

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Transcript

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Operator: Good morning and welcome to Entain's Q1 Trading Update Analyst and Investor call. I will now pass over to CEO Jette to open today's call.

Jette Nygaard-Anderson: Thank you, and good morning everyone. And thank you for dialling into our Q1 update. I'm joined on this call by Robert Wood, CFO and deputy CEO, and the IR team. As usual, I'll give a brief overview of our performance, Rob will talk through our Q1 trading performance in more detail, and then we'll open up to Q&A.

Jette Nygaard-Anderson: I'm pleased to tell you that Entain has seen a strong start to 2022. Our online business has traded in line with expectations, lapping the very strong comparables from last year, and I'm pleased to see Retail rebounded strongly with volume settling around 5-10% below pre-covid levels. We continue to deliver on our strategy with our focus on the customer at the core and we continue to expand and grow by attracting broader audiences with great products, engaging content, and new, exciting experiences. This has seen our actives grow by 34% over the last two years as we engage with customers across geographies and products.

Jette Nygaard-Anderson: Our campaign for Coral around Cheltenham included an industry-first 3D advert in Piccadilly Circus that really caught customers' imagination. What was particularly encouraging about Cheltenham was that we led with our refreshed brands and great customer engagement. This saw our actives for our UK sports brands increase by over 40% on Cheltenham 2020, which demonstrates the power of providing customers with a great offering supported by great experiences.

Jette Nygaard-Anderson: Continuing this momentum ahead of Aintree, Coral is kicking off an immersive VR jockey experience at racecourses around the UK, further widening our engagement activities to reach both new and

existing customers in interesting, fresh, and engaging ways. And similarly, refreshed campaigns in Australia for both Ladbrokes and Neds brand launching shortly will continue to create more social and engaging experiences for customers.

Jette Nygaard-Anderson: BetMGM continues to deliver as it reinforces its leadership across North America. The Super Bowl was a huge event and drew to a close a busy NFL season. The baton quickly passed to March Madness, which, likewise, saw successful player engagement, delivering impressive KPIs across the board. Volumes, actives, and FTDs were all more than double last year and cross-sell has been really encouraging. Just this week, the newly regulated Ontario market went live, and I am delighted that BetMGM as well as Party and Bwin received licenses. You'll hear a lot more from BetMGM at the Capital Markets Update on May 12th.

Jette Nygaard-Anderson: We also continue to make progress on our sustainability strategy. Having seen the very encouraging results from ARC in the UK, we are rolling out trials across a number of our international markets and look forward to sharing further results at our next Entain Sustain event in November. As with ARC's expansion, we recognise player protection must be addressed at a global scale. Therefore, I am extremely proud for Entain to be a founding partner of the Global Gaming Alliance alongside others in our industry and tech champions such as Meta. This is collaboration of global gaming and technology companies with the combined purpose of promoting higher standards and safeguards in our rapidly evolving industry.

Jette Nygaard-Anderson: As we continue to grow, we are developing the structures and processes to ensure our business is fit for our future. Data analytics, product development, customer experience, marketing and culture are all core to our Entain platform, alongside our industry-leading

technology. They are also vital disciplines that drive a truly customer-centric business. We are excellent at data analytics and our single, vast data lake gives us a significant and powerful competitive advantage. But we want to do more, more with data to inform decisions in both our traditional and widening offering, which will drive significant value for our business in the future. You'll see us enhance and reinforce our investments and teams around all the core elements of our platform. We'll update you as we go, but all of us in the leadership team see very exciting opportunities ahead. With that, I'll hand you over to Rob.

Rob Wood: Thank you, Jette. Morning, all. I'm pleased to say we've started the year well with group NGR up 34% in constant currency, which is in line with our expectations. Our business has returned to a more normalised shape this year, but of course there's noise in the year-on-year growth numbers because of what was happening with lockdowns in the prior year. So let me try to give a little more colour on underlying performance.

Rob Wood: Starting with Online, as expected, Online NGR growth for Q1 came in at -6% in constant currency. To give this context, this laps, the 32% NGR growth we reported in Q1 last year. So over two years, we were up 25% or up 12% on a CAGR basis. And on a three-year CAGR basis, Q1 was up an equally strong 14%. And those growth numbers are all despite absorbing regulatory impacts in Germany and the Netherlands. So on an underlying basis, our track record of double-digit online growth continues. This growth continues to be delivered across our geographies.

Rob Wood: And actually, despite the strong comparators last year, several of our top countries, Australia, the Baltics, and Brazil, all achieved strong, double-digit year on year growth in Q1. Our performance continues to

be actives led. Q1 saw 34% growth in actives over two years, which pleasingly includes 8% growth versus last year, which is no mean feat given lockdowns in the prior year.

Rob Wood: Let me now touch on the UK and Germany, where regulatory impacts are ongoing. In the UK, like many operators. We implemented tighter checks on affordability last year, and they continue to have an impact. However, the impact has been in line with forecasts, and hence, we see no change to the outlook. Pleasingly, through the great work from Dom and his team, we've seen UK actives in Q1 grow by 22% over the last two years. And that includes 4% growth versus the lockdown-boosted prior year. We're therefore well-placed to continue to take further share in the UK in 2022.

Rob Wood: In Germany, the playing field remains uneven while we wait for enforcement. However, encouragingly, we expect gaming licenses to be issued shortly, which should then be a catalyst for clamping down on non-compliance and unlicensed operators. Gaming licenses will also then further strengthen our position as the most-regulated global operator with 99% of our revenues already coming from regulated or regulating territories.

Rob Wood: Another one of Entain's key differentiators is that our online revenue has the strongest blend of geographic diversification and product diversification.

Rob Wood: If we include half of BetMGM, our largest market, the UK, will only be around 20% of the total pie this year. M&A is a key part of our growth strategy and it helps to further our geographic spread. We've already been busy this year with new acquisitions in Canada, Latvia and Poland, and we have a healthy pipeline of opportunities ahead.

Rob Wood: To retail now, where we've been delighted to see our customers return in volumes to engage with a very different in-store experience versus Online. This is particularly evident with strength in gaming machines and self-service betting terminals.

Rob Wood: Retail trading remains at around 5 to 10% of pre-covid levels on a like for like basis led by the UK and Italy. And now, the challenge is to find like for like growth from here as we continue to invest in the digitalisation of our estates and continue to drive significant value through our omni-channel expertise.

Rob Wood: Moving now to the US, where BetMGM continues to deliver a consistent and strong performance in line with our expectations. Our market share for the last three months to February, where we operate, was 24%, which continues to see us challenging for the number one spot. During Q1, we launched in New York, Louisiana, Puerto Rico, and Illinois, taking our count to 22 markets and giving us access to over 41% of the US adult population. And the team are now busy with the Ontario launch this week.

Rob Wood: As expected, promotional behaviours have eased since the initial excitement around the New York launch and the Superbowl. And as Jette just touched on, activity levels were very strong for both the Superbowl and into March Madness.

Rob Wood: In summary from me, we are pleased with our performance and continuing momentum as evidenced by the 34% increase in our group NGR in Q1. This growth is entirely in line with our expectations as we laid out with our full year results last month and therefore, our outlook for 2022 remains the same. With that, I'd like to turn the call to Molly, who will moderate the Q&A.

Call Operator: Thank you. If you would like to ask a telephone question, please signal by pressing \*1 on your telephone keypad. That is the star or asterisk key followed by the number one. As a reminder, please ensure that your mute function is turned off to allow your signal to reach our equipment. We will take our first question today from Ed Young of Morgan Stanley. Please go ahead.

Ed Young: Good morning. Just two questions for me, please. Rob, you mentioned the actives numbers in the UK, which seem very promising. Could you also maybe give us some colour on the revenue performance there in context, please? And then second of all, you mentioned Germany licensing sounds promising. Are there any other updates, Netherlands or Brazil, in terms of your expectation in those markets? Thanks.

Jette Nygaard-Anderson: Hey, good morning, Ed. Rob, can I hand both to you, NGR UK and Germany license, Netherlands?

Rob Wood: Absolutely. Morning, Ed. So NGR in the UK was down 15% in the UK in Q1. That is off the back of, I think I'm right I in saying 41% growth in the prior year. So very strong growth over the two years in NGR, but particularly pleasing that it's actives led as you allude to.

Rob Wood: In terms of licensing in Germany and Netherlands, the only update really I would suggest is it does feel that German gaming licenses are getting close now. We had expected it to be the first half of this year that they would be issued, and I understand that that is hopefully coming fairly soon. And of course, that's one of the important catalysts to start creating an environment of enforcement against non-compliant operators and indeed, hopefully increasing pressure on suppliers to the industry to stop supplying non-compliant and unlicensed operators. So that's a positive development.

Ed Young: And on Netherlands, sorry, any updated view on when that might be possible?

Rob Wood: No. We were told to expect six months when we put our application in in December, so continue to expect to be live in the second half of the year.

Ed Young: Thank you.

Call Operator: Thank you. As a reminder, it is \*1 to queue for a question. We will take our next question from Monique Pollard of Citi. Please go ahead.

Monique Pollard: Oh, morning, everyone. Thanks for taking my questions. Just two from me, please. Just firstly, in terms of the win margin, obviously a strong online win margin at 20 basis points despite last year also being strong, just wanted to have an update on whether 12% Online win margin is still the right one long term. And then secondly, on the US, could you give any update that you're seeing in terms of competitive intensity in key states from operators? Obviously, as you alluded to, New York, we've seen some pullback given the very high tax rate in that state. But whether you're noticing any other differences in other states?

Jette Nygaard-Anderson: Sure. Good morning, Monique. Rob, do you want to continue with win margins and then I'll talk about US and competitive environment?

Rob Wood: Yep. Happy too. Morning, Monique. So during the course of last year, I did say I expect our win margins to revert to the usual 11 to 12% range. It does feel that we're at the higher end of that range for sure. And of course, we've just put out a quarter at just over 13%. So I think there is upward pressure on that number, but let's see how we go

through 2022 and then I'll decide whether we need to uplift expectations beyond that.

Jette Nygaard-Anderson: Yeah. And on the US BetMGM, so it's right. I think we are seeing that, specifically when it comes to the promotional environment, that it has cooled off a bit. And also, as we all registered over the last couple of months, we see more and more operators start to talk about building a sustainable business and targeting break even over the next years, which of course, we welcome and I think that's a really positive development. When it comes to the CPAs, I mean, obviously the CPAs, they continue to vary with seasonality and launches into new, bigger states and depending on how the competitive environment is there. And we do expect to see that CPA levels will still be higher and probably, as we go through the next cycle of the NFL season, we will continue to see the CPA level being elevated. But we still remain our focus and commitment around 250 being an average blended CPA when we look forward.

Jette Nygaard-Anderson: And then I think also encouragingly for us, as Rob mentioned in his introductory remarks, that we are now in 22 states, which means that we are basically reaching 41% of the market. And that means that for us, things like national marketing becomes more and more important in effective marketing. So still a competitive environment. Differences from state to state, specifically now entering Ontario, I mean, we are only four days in, but for sure that will be a very competitive environment we'll see in Ontario. But the good thing from our side is that we're also seeing that we are ramping up faster. So we remain a rational player in the markets. The team has full flexibility to deploy their marketing money, where they get the best ROI. And therefore, we are very happy to continue to invest on that basis into the new markets.

Monique Pollard: Understood. Thank you very much.

Call Operator: We will take our next question from Michael Mitchell of Davy. Please go ahead.

Michael Mitchell: Yes. Good morning. Thanks for taking my questions, two if I could. The first on actives, and thanks for the colour in terms of the two-year performance. You mentioned the UK contribution or UK performance within that, but I just wonder what else you call out by key product and key geography as a standout driver of your 34% two-year growth in actives. That's the first question. And then the second question, any concerns about the impact of any kind of UK macro softness offline or online division? I guess I'm just thinking about consumer demand, one, and maybe cost inflation, two. Thank you.

Jette Nygaard-Anderson: Good morning to you as well, Michael. Just a general comment on macro, and then I'll hand you over to Rob on actives and maybe more detail. Macro environment is not something that plays a big part when we do our forecasting and re-forecasting. It's not something that we see immediately impact on our businesses, and I guess part of the reason is that if you look at the average bet size, it's around 10 pounds. So it's not the first thing that impacts households, but of course, we follow this very closely every time we re-forecast and we have the different assumptions in our models. But overall, macroeconomics is not a big theme when we do our different forecasting sessions. Rob, over to you on actives and if you want to say anything more around macro.

Rob Wood: Yeah. Let me add a few comments on actives. Morning, Michael. From a product perspective, no great difference, really, between sports and gaming, I'd suggest. Geographically, generally speaking as a rule of thumb, NGR growth is similar to actives growth. There are one or two

exceptions, but that's generally the case. Therefore, where we've grown in places like Brazil and Australia, it's actives-led. We're seeing strong actives growth there. There are one or two exceptions. Italy, for instance, in Q1 had a really strong margin. Therefore, whilst actives were backwards, NGR held up more favourably. But generally speaking, actives is the main driver for NGR, and therefore, what you see from an NGR performance perspective for revenue is similar for actives.

Michael Mitchell: Great. Thanks for the colour.

Call Operator: We will take our next question from Kiranjot Grewal of Bank of America. Please go ahead.

Kiranjot Grewal: Hey. Morning, guys. Just two questions from me. Firstly, there's been a lot of noise in the run-up to the UK regulatory review. Could you perhaps remind us if you've made any changes in the run-up to this, because I know some of your peers have commented on it, and perhaps what the impact could look like? And then secondly, could we talk about New York? It's of course a unique state given the tax structure, and we've seen quite a big change in strategy for some of the competitors since the launch. Could you potentially comment on how you've changed anything, if anything, and where you see your market share trading there eventually? Thank you.

Jette Nygaard-Anderson: Sure. Good morning to you as well. Let me start with UK. I think we talked about this quite a bit also in our full-year results. During 2021, we have made a number of implementations around our whole approach to responsible gaming. And as you know, from our side, it's about affordability schemes. It's about safer gambling initiatives, self-certifications. It's about AML and SOF checks. And then of course, in addition to all this, we also have our ARC technology, which allows us

to do, first of all, much more research and scientific approach around the markers of protection that we use in these models. And secondly, of course, predictor models and real-time intervention.

Jette Nygaard-Anderson: This is something that through the years, we, as well as other operators have worked diligently on, and the GC has been much more clear during 2021 in what they were expecting. Therefore, the different, you could say communication and discussions we've had there has been much more clear. So from our side, it's something that we've implemented as we went along 2021. And this is also, when we talk about the impact, this is something that is now in our model, so we don't call anything out as some other operators do. We don't call out affordability impact, as this tightening, that's basically the world we operate in. So for us, it's business as usual, you could say. It's part of doing business, and every time we re-forecast, we look at the prior quarter and then we update our forecasting.

Jette Nygaard-Anderson: Just to be clear, it's incorrect, any views that we have not taken actions and that others has lesser pain to come. We work diligently on all our different measures and have very, very strong protection schemes in place, whether it comes to affordability or safer gambling, self-certification, AML and SOF. Then, of course, I would say on ARC, which is really encouraging, and we've, as you know, rolled it out to our UK brands and the results there are really encouraging. And we continue to see good results, which will be important when we go forward, because it gives us an interactive model with the customer so you don't have to wait to interact with them.

Jette Nygaard-Anderson: For example, asking them to call or send an email, we do this in an interactive manner real-time, which means that we can bring customers onto a safer player level. Therefore, we will also be able to have much more sustainable relationship with the customers going

forward. We work on this all the time. We constantly operate our models, so it's not something that we are only doing now, just because we are expecting the Gambling Act Review to come out soon. That's on UK and the different initiatives going on there in terms of responsible gaming.

Jette Nygaard-Anderson: When it comes to New York, I think we have said from the beginning that we have the same approach to New York that we have to any other state. We are here to build a sustainable business for the future, so we are being rational around our spend when it comes to marketing. Therefore, when we look at our performance there, it's really in line with expectation. We launched a couple of weeks later than a couple of the other operators, so therefore, there's a little bit of noise in the first month of the market shares that we are looking at. That's why when you pull out the New York numbers, you will also see our market shares tick up a percentage or so.

Jette Nygaard-Anderson: But overall, we are committed to New York. We are determined on building a sustainable business here, and we also believe that we can do that. By the end of the day, the way the team operates, as I just mentioned in my other remark, is that they basically allocate their marketing spent where it has the best return on investment. But having said that, I think it's a really good sign that we are seeing some of the other operators being open about them dialling down their promotional spend here after the first couple of months in New York.

Kiranjot Grewal: Super. Thank you.

Call Operator: We will take our next question from Joe Thomas of HSBC. Please go ahead.

Joe Thomas: Good morning Jette. Good morning, Rob. A couple of things, please. First thing, I'm just interested in your comments Jette about the

development of the international trade body, one of the words for the Association for Responsible Gambling, and just wondered what practically that might mean you have to do in your international business and whether we can expect that to impact the pace of revenue growth, I suppose would be the end, and useful to have an end view there. Second thing is anti-money laundering. You've just mentioned it.

Joe Thomas: We've been swept up in a debate around responsible gambling in the UK. I wonder if there's anything new to come on anti-money laundering or source of funds at all? If I could just ask one final one on the Netherlands. Just how long do you think it will take to get previous levels of profit in the Netherlands? Is that going to be a quick turnaround or is it going to take a long time? Thanks.

Jette Nygaard-Anderson: Hey, good morning, Joe. Let me touch on the first two ones AML, GGA and then I'll hand to Rob for Netherlands. So, just when it comes to AML, no, there is nothing new here as we expected. We haven't heard any new news coming out around AML and SOF. So, we don't expect it to be something that's a headline in the GRA. The reason I mentioned it is that there's been a lot of focus on affordability and I think it's important to recognise that actually, when you look at the toolbox as an operator, we do a number of things. Affordability is one thing, but certainly anything we do on self-certification and safer gambling is equally important, as is, of course, all the different other checks that we have and our ARC program. So, that was why I called it out. We don't expect any news there.

Jette Nygaard-Anderson: When it comes to the GGA ... So, really this is an international organisation that goes beyond our current industry. So, that's important. And, I think it is really important that we gather, let's say, every single operator that wants to be part of making sure that we

have the proper, safe parts around the industry in general. So it's not only about gambling, it's also about gaming and it's about the different international technology platforms.

Jette Nygaard-Anderson: So, that's really a corporation there where we try to have a dialogue around what is the appropriate safeguards that operators in the industry should have. And then, of course, there's the other element of what we are doing internationally, which is ARC, which we've started now trialing in our international markets. And here you will see us when trials are done. And trial will be done in a localised space, but of course, we need to adjust them to different local regulations. And you'll see us start rolling out ARC internationally.

Jette Nygaard-Anderson: So, everything that we are doing here is really making sure that we engage everyone in the industry around building a sustainable industry, both for gambling, but certainly also for other areas, other gaming. So you have Draftkings and Meta and so forth also joining these efforts. Rob, over to you on The Netherlands.

Rob Wood: Thank you. Morning, Joe. So, on Netherlands, I think we'll see a reasonable recovery in NGR as we progress through the second half of the year. But, we do need to wait to see just exactly which operators are licensed in what order, what the timetable of licensing and launching looks like, before we can have a better view. So, really need to wait to see. But, we do benefit from a strong brand in Bwin. That's the key point. So, whilst you can't use your previous customer database we, of course, start with one of the strongest brands in the Dutch market. So, that's encouraging that's NGR, EBITDA would take longer of course, because there's a new tax and they'll be marketing investments to go with it as well. So, from an EBITDA perspective, a longer rebuild. NGR, quicker.

Joe Thomas: Thanks a lot.

Call Operator: We will take our last question today from James Roland Clark of Barclays. Please go ahead.

James Rowland Clark: Morning. Morning, everyone. Most of my questions have been asked already, but I just wanted to ask on your M&A pipeline. You said at the last update, you were very happy to go above the three times leverage for the right kind of deals. I wondered if, as you look across the landscape in valuations privately and matching public valuations. And, whether that presents more or less opportunities for you at the moment? And perhaps, also, you could provide a steer on timings of bolt-on deals. Thank you.

Jette Nygaard-Anderson: Hey James. Good morning. So, I can't give you a specific steer on our M&A pipeline, but we are, as always, working with a very strong M&A pipeline and looking both at bigger type deals, as well as roll ups and bolt-on deals. And, we look at this every single time on its right merits, when it comes to evaluation. So there's nothing at the moment to your question around the different valuation levels. There's nothing at the moment that we believe we couldn't pursue if we wanted to. So, that's the key thing here.

Jette Nygaard-Anderson: Other than that, I would say you should, you should stay tuned. But, we continue to look at opportunities that we have in different M&A areas. And, as you know, we are looking at it from a lens of three perspectives, both when it comes to entering new markets, if it allows, us to go into markets faster than organically and take a top-three position. And then, of course, deepening our presence in core and existing markets, which would typically be the smaller roll ups. And then, of course, in expanding into new areas that we're also looking at. So, we continue to have the price discipline that is always core to what

we do. But, there is nothing that limits us in terms of pursuing targets at the moment. Did that answer your question?

James Rowland Clark: Thanks very much.

Jette Nygaard-Anderson: Good.

James Rowland Clark: Yeah. That's great. Thank you.

Call Operator: Thank you. I would now like to turn the conference back to Jette for any additional or closing remarks.

Jette Nygaard-Anderson: Great. Thank you, Molly. So, thank you all for dialling in and listening in today. As our Q1 results demonstrate Entain continues to deliver strong, sustainable and diversified growth. This year to date, performance is in line with our expectation and we remain well-positioned to deliver on our strategic opportunities as we look to the rest of 2022 and beyond. If you have any other questions, do get in touch with David and the IR team. And from us, thank you and goodbye.