Entain

Q3 Trading Update

13th October 2022

Transcript

Operator
Hello and welcome to the Trading Update and Analyst and Investor Call. Please note that this call is being recorded and for the duration of the call your lines will be on listen only. However, you'll have the opportunity to ask questions. This can be done by pressing *1 on your telephone keypad to register your question. If you require assistance at any point, please press *0 and you will you be connected to an operator.

I will now hand over to your host, Jetta Nygaard-Anderson, Chief Executive Officer, to begin today's conference. Thank you.

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Jette Nygaard-Andersen, Chief Executive Officer
Thank you, operator, and good morning, everyone and thank you for dialling in today.

As always, I'm joined by Rob Wood as well as the IR team. And it's great to be speaking to you all again. And as usual I will start with a brief overview of our progress delivering on our strategic objectives and ambitions, and then Rob will take you through our Q3 trading in greater detail, and then we'll open to Q&A

So I am pleased to say that we have delivered a robust performance across the Group with NGR up 12% for the year to date. Online NGR in Q3 was broadly in-line with expectations, 2% lower on constant currency basis which largely reflects of the headwinds included in the prior year comparators.

What is fantastic to see is that more and more customers are choosing to play with us - Q3 delivered another record number of actives.

We aren't just creating a great experience Online, our digitalised offering in our shops is the best on the high street, with Retail delivering another strong quarter of growth, up 10% year on year.

As a result, our underlying momentum is good. In the first half we outperformed our main competitors in key markets, and we expect that to continue.

It is this underlying momentum that demonstrates the strength and resilience of our business as our customer focus continues to drive a broader and more recreational player base.

We continue to take great strides in delivering an even better offer. In sports, our new Fanzone for both Coral and Ladbrokes brands is proving very popular, delivering an exclusive matchday experience to customers in the UK.

And in gaming, three of our top five games this year are new in-house releases, whilst five of BetMGM's top 10 games are Entain in-house creations.

In Retail, our industry-leading gaming machines and betting terminals in the UK are driving revenue growth and a broader demographic of customer. It's the entire cabinet experience, the menu journey, as well as the greatest content range, much of it exclusive, that is providing customers with what they want, in a format they enjoy.

The insights that our data and analytics provide is a powerful tool for both marketing and player protection. With over 160 million profiles we have an exceptional understanding of our customers. It is a significant differentiator and it enables us to lead our industry in digital marketing and of course player protection.

We are constantly improving the way we engage with our customers, evolving alongside them. But there is still so much more we can do. And we are developing new performance marketing skills and centres of excellence to ensure all of our brands benefit from our customer insights.

Our focus on brand marketing continues, and I hope you have all seen our iconic Rocky campaign with Ladbrokes, and Bwin's fan-led creative. Both were launched recently and have been hugely successful.

Over in Australia, the Ladbrokes Cox Plate race will be centre stage of the Spring Carnival and as we announced last week, we are taking the Ladbrokes brand into Retail through our partnership with AHA.

But it's not just sports, Partypoker launched its first Ontario Poker series, as well as an exciting new tournament leaning on our partnership with McLaren racing.

Moving to BetMGM; we continue to power ahead in the US. We are the clear number 2 in our markets with a share of 25% excluding New York.

We remain the leader in iGaming with 31% share, with gains in both New Jersey and Pennsylvania.

In sports betting, we focus on those markets where we see strong returns. This strength is most evident where we were live on day 1 of a state regulating. Most recently we launched in Kansas, and we are delighted with the customer activity and engagement levels we have seen so far.

BetMGM's Q3 NGR was just over US$400m, up approximately 90% vs last year, as the market continues to open up. On a same state basis Q3 NGR was up around 50% year on year.

Whilst July and August are seasonally quiet, BetMGM's strong financial performance over those months reiterates the long-term profitability of our business model, which is seasonally quiet on the marketing front.

As we continue to build scale and momentum this reinforces our confidence in reaching sustainable profitability during 2023.

During Q3 BetMGM started rolling-out its refreshed Sportsbook app. This has a reimagined design, improved navigation and enhanced personalisation to optimise discovery and the end-to-end betting journey.

The app revamp has landed really well, and we'll be launching single app, single wallet before the end of the year.

The NFL season has started strongly, volumes have been fantastic with strong performance across all metrics, actives, handle, bet count, reactivations, margins – all really positive.

Of course, the start of the fall season sports kicked off with its usual flurry of promotional and bonusing excitement, however, so far, the market has been relatively rational and in-line with our expectations.

Timed for the NFL build up BetMGM launched its latest star-studded advertising campaign with Jamie Foxx and Vanessa Hudgens joined by a number of sports stars.

Alongside the US, we continue to see growth across our other strategic pillars. Our core online markets are expected to grow at around 7 to 8% CAGR over the next five years, with some of our newer markets growing at double digit rates.

We have announced nine transactions in the last 18 months, five this year, taking us into new markets, as well as deepening our presence in growing markets.

And in new opportunities, Unikrn is getting ready to launch our skill based wagering product, opening-up an exciting and potentially significant new opportunity.

Looking across our business we estimate that the markets we are in are worth around US$70bn today and we aim to drive meaningful and profitable market share as the opportunity continues to expand.

Critically, across the Group we continue to set the pace for sustainability and player safety for our industry. ARC is leading the way and we couldn't be more pleased with how it is demonstrating ground-breaking levels of player protection and we look forward to sharing more with you at our Entain Sustain event next week.

But this isn't just across core UK and International markets. As you know, the ARC programme has been rolled out internationally, and in the US, Entain and BetMGM led our operator peers to create the industry's 12 Principles of Responsible Online Gaming.

Let me finish by saying as we look forward, we remain mindful of the shifting macro environment, but Entain has a healthy underlying momentum and is making great strides in broadening our customer appeal.

Our diversification across geography, product and broader customer base underpins our Group's sustainable high-quality earnings.

Therefore, we remain confident and are well positioned to deliver on our strategic pillars of growth and sustainability over the medium term.

With that I'll hand you over to Rob.

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Rob Wood, Chief Financial Officer and Deputy CEO
Thanks Jette and Good Morning everyone. As Jette has already outlined, our underlying performance remains healthy, with good positive momentum.

Group NGR was up 2% year on year in Q3, broadly in-line with expectations, and year to date NGR is up 12% year on year.

In Online, NGR was up 1%, helped a little by FX, as on a constant currency basis NGR was down 2% versus last year.

The enforced temporary closure of the Netherlands, while we await licencing took three percentage points off growth, so stripping that out Online NGR was up 1% in constant currency.

Q3 last year also saw the benefit of the end of the Euros tournament as well as lockdowns in Australia. If we adjust for those too, NGR would have been up mid-single digits in Q3 this year, so that's our underlying run rate.

Additionally with further growth in our actives base, which is up 65% on 2019 and up 6% year on year, and with ongoing momentum delivering market share gains, you can see why we are confident in the underlying performance of the business.

Our strategic focus to broaden our recreational base, coupled with the ongoing implementation of RG measures in the UK, does mean spend per head continues to track lower year on year. However, importantly we have not seen any further deterioration due to macro conditions than we highlighted in Q2.

Looking at some of our key Online geographies. In the UK, year on year trends improved significantly versus H1, despite the ongoing affordability measures being implemented by leading operators.

In Australia we continue to go from strength to strength, but as anticipated was down in Q3 as it lapped lockdowns in the major states and a 30% growth performance last year.

Brazil delivered further growth with Sportingbet leading the market. However, this growth is more moderate versus our expectations due to the market over-crowding ahead of its regulation.

Over in Italy, we bounced back to strong growth as lockdowns wash out of the prior year numbers and omnichannel operators continue to outperform.

And in Germany, trading remains challenging as we still await robust policing and the issuance of gaming licences.

A quick note on win margin, Online continues to benefit from strong sports margins with Q3 this year at 12.9%, a fraction ahead of last year.

In Retail, we continue to see encouraging performance across our shops with NGR 8% ahead of 2019 levels.

In the UK, this has been led by the strength of our digital offering with both the gaming machines and Betstation cabinets doing very well.

Whilst in Italy volumes have also recovered to ahead of pre COVID levels and the growth trajectory that we enjoyed pre COVID has now resumed.

BetMGM in the US continues to grow rapidly as Jette has discussed. The NGR of just over $400m for the quarter, sees NGR year to date up to $1bn, meaning we are well on track for our NGR target of over $1.3bn for the year.

It's also good to see that whilst we remain the outright market leader in iGaming with 31% market share, our Online Sport Betting offer continues to perform well. In particular when you look at states where we were live on the first day that the state opened, our market share is around 25%, which is a good reflection of our capabilities, and it points to future Online sports betting share gains as more states open up.

Before I wrap up, let me share some colour as to how we are thinking about Online growth next year. Recognising the increasingly challenging economic environments around the world, I think it is prudent to model a range of revenue growth assumptions for the year ahead. And our range of growth scenarios are aligned with analysts' thinking and consensus for 2023.

Importantly, let me also remind people of the excellent resilience and flexibility that we have in our business model. Most importantly, around 80% of our cost base in Online is variable. Variable either because it's formulaic as a percentage of revenue like gaming duties or content royalties, or variable because it's uncommitted and can be flexibly controlled as appropriate, for example our marketing spend.

Almost all of that variable cost sits above contribution margin and that is why you hear me say we that we can manage our business to contribution margin, which for us is approximately 40%, without affecting the medium to long term growth of the business.

The circa 20% of cost base which is less variable typically sits between our contribution margin and our EBITDA margin of mid to high twenties.

That control and flexibility above contribution provides both comfort and sufficient visibility on profitability for us to plan with confidence and continue investing in the future. So, whilst we remain vigilant and disciplined, our growth strategy continues.

Coming back to the present and in summary for Q3, the performance was broadly in line with expectations, and excluding the Netherlands, we exited the period with a return to growth in Online. Retail continues to trade well. And BetMGM is going from strength to strength and firmly on track to deliver guidance.

Looking to Q4, we anticipate strong growth in Online, as we annualise both the temporary loss of the Netherlands and the last remaining lockdowns in Australia from late October. And we also look forward to benefiting from an exciting World Cup.

Therefore, we reiterate our full year EBITDA guidance of £925m to £975m.

With that I'll hand the call over to our operator, who will open up the lines for Q&A.

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Questions and Answers

Operator
Thank you. As a reminder to ask a question please press *1. To withdraw your question, please press *2.

The first question comes from the line of Ed Young of Morgan Stanley. Please go ahead.

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Ed Young, Morgan Stanley
Hello, good morning, Jette, good morning, Rob. My first question is on the Online growth expectations. Rob, you talked about scenario planning, you said it was aligned with analysts' thinking as well, I wonder if you could just dig into that a little bit more to help us frame the debate, your three year CAGR at the moment is 11% in Online, Jette, you also mentioned market growth expectations are maybe 7 to 8%, but there was also some talk about market share gains in there. So perhaps could you talk a little bit about how you see the scenarios for Online growth going forwards?

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Jette Nygaard-Andersen, Chief Executive Officer

Yes, good morning, Ed. Yes, absolutely. Let me just kick off and I'll hand over to Rob also for further comments. I mean let me just start off by saying that when we look at Q3 we are very pleased with what we are seeing and especially the underlying growth and the underlying momentum going into Q4. So there is a lot here that is really great for the business, and we continue to grow our monthly actives, which is really what it's all about.

Now, looking ahead we of course are mindful of the environment in which we operate in, and we remain vigilant. And that is really why when we look ahead, we think it's prudent to, instead of modelling out one growth scenario, we're modelling out several growth scenarios. So that is what Rob talked about in the introduction here.

However, I want to stress that as our business is not the bellwether of discretionary spend here and we have this diversity around geography and products, that is why we keep on executing our strategy. And that leads me to the comment that I made in my introductory remarks, was that if we look longer term, so outside of rest of year and 2023, we are expecting that our core markets will grow at 7 to 8%, whereas the newer markets, so some of the emerging markets will grow double digit. And that is why when we look ahead, we expect us to go back to potentially double-digit growth across the territories here.

So there is a rest of year and there is how we look at 2023 and we are not here to predict how the macro, or the economic environment develops, which is why we're looking at scenarios. And then we look longer term where we believe our markets are going and how we expect us to perform in those markets.

So that was a little bit the overriding comments here, Rob, do you want to talk a little bit more about 2023 and the scenarios?

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Rob Wood, Chief Financial Officer and Deputy CEO
Yes, I'm happy to do that. So as I said in my opening comments, Q3 run rate feels like mid-single digits on an underlying basis for Online. Q4, we anticipate higher than that, high single digits. Why? Primarily because of the World Cup, that therefore doesn't carry through into 2023. So back to mid-single digits as an underlying run rate, that's you know the best view as we see it today.

When it comes to scenario planning, as Jette has alluded to, you know clearly, we have to be mindful of the environment, we study the numbers every week, it feels like a low single digit to a high single digit range is appropriate for scenario planning. The good news with our business, as I outlined earlier on, is that when you apply a 40% contribution margin to that the range of outcomes from an EBITDA perspective is tight and therefore, we can manage the business accordingly and continue to invest in growth, whilst of course, remaining vigilant all the time.

I should say that none of those numbers include SuperSport or BetCity, that is all incremental growth on top of those scenarios that I've mentioned.

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Ed Young, Morgan Stanley
Very useful, thank you. My second one was – there is a line in the statement about greater confidence in sustainable EBITDA in the US for next year, because it's a slightly different formulation on the existing guidance. Is that just a strong revenue progression for BetMGM that you can see that NGR progression coming through, so you can sort of look forward to next year? Or are you seeing signs of operational gearing and improved profitability within the quarter as well?

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Jette Nygaard-Andersen, Chief Executive Officer
Let me take that. So first of all when it comes to the NGR you are right that with year to date now we're around $1bn, so Q4 was US$400m that's up 90%, as I recall H1 was up 65%. So that just shows that we continue to build both the customer base, we're very pleased on how we retain customers and how we are managing marketing, as well as bonusing. So that goes into the operational. And then our models just become stronger and stronger on marketing. And our cohorts, as they develop there is of course an inbuilt multiplier here.

Now, when it comes to then July and August, we are very pleased also with the strong financial metrics that we saw during those months. And that then gives us confidence that the model is basically making great progress in delivering the sustainable positive EBITDA during 2023, which we have talked about before and the longer-term profitability of the business, which we have said all along is why we're here, we are building a sustainable business for the future.

So both the traction on the top line, but certainly also what we saw through July and August, which I should say are more quiet months seasonally when it comes to marketing. But it still is a proof point for how our model works.

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Ed Young, Morgan Stanley
Thank you. My final one, just the interest rate environment has changed a lot this year, does that change your attitude towards M&A and use of balance sheet at all? There were some recent reports that the company was a bidder for the Western Australian TAB for instance. So any thoughts about interest costs and the sort of trade off on leverage there? Thanks.

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Jette Nygaard-Andersen, Chief Executive Officer
Yes, let me start off and Rob please jump in afterwards. So as we've said a couple of times, we of course remain vigilant and very prudent when we plan our business given the uncertainty. But the health of the business is good so we continue to deliver, and we still have a strong pipeline on M&A, and we continue to also look at those opportunities which we can because of the strength of the business and our strong balance sheet.

So you know while interest rates are not helpful it doesn't prohibit us to continue M&A here. And in the current environment I would say it might even open up new doors for us and new opportunities where we are looking at things where others are pulling back. So really our M&A strategy is unchanged here, we start with the strategic fit, the importance to the business, look at the business on its merits and then of course we look at the financing in the current environment.

Rob, do you want to comment on leverage and interest rates further?

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Rob Wood, Chief Financial Officer and Deputy CEO
Yeah, I mean I'll add a little bit more, but I think you hit the key points there Jette. I think the important point with M&A is to remember the returns that we generate through M&A are so compelling typically because synergies are such a large portion of existing EBITDA that we're buying. What that means is that whilst rising interest rates are unhelpful to the model, they don't – they just mean the returns slightly lower than they would otherwise be. So for the right deal, the right terms, it's still a compelling growth opportunity for us. But of course we remain disciplined, and we have that factored into our models as we are assessing deals.

As Jette said, the other important context here is our balance sheet is healthy. We are still forecasting to end this year a little under three times levered, despite five acquisitions this year or nine over the last year and a half. So you know we feel good that for the right deals, the right terms, then there is capacity and desire to carry on with M&A.

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Ed Young, Morgan Stanley
Thank you both.

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Telephone Operator
The next question comes from James Rowland Clark of Barclays. Please go ahead.

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James Rowland Clark, Barclays
Good morning, everyone. My first question is on BetMGM, again, as you said you stated that you're even more confident about delivering sustainable EBITDA at some point in 2023, and you said at Q2 that once you'd broken even in the US that would trigger and appraisal of how you might crystalise value in the JV. Could you talk a little bit about the different scenarios under consideration to achieve that?

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Jette Nygaard-Andersen, Chief Executive Officer

Sure, and good morning to you James. Yeah, I think – well I'm pretty sure what I said was that the main focus now is to make sure that we build a fantastic business for today and for the future and that we were confident in becoming profitable during 2023, probably to the latter part of the year. And that is really the first milestone for us. So you know there is no real hurry for us or our partners to do further – to crystallise the value here.

And then when we reach that point, that could open up further opportunities for us, so whether it's through dividend, or whether we at some point could look at an IPO. But I just want to reinforce, again, that right now our focus is on building the best business here, supporting BetMGM, we do that 24/7, every single day. The team is doing a fantastic job, whether it's in the US, or whether it's all the Entain people across the world. So that is really what we are focusing on, and I think we are very happy to see that it is paying off. So you shouldn't expect us to have a plan for the minute that we hit profitability next year, but it is certainly a main milestone for us.

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James Rowland Clark, Barclays
Thank you, that's great. My second question is just following up on M&A and you know the reasonably high levels of leverage today in the rising interest rate environment. You stated that the returns on deals you're looking at remain incredibly compelling. Are they still more compelling than buying back your own shares at this share price?

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Jette Nygaard-Andersen, Chief Executive Officer
Let me start on the overall M&A picture and Rob if you want to comment on share buyback. So listen, you know prices are where they are, we have certainly seen that public traded companies have come down quite a bit and that could open up some attractive opportunities. I think privately held companies; they are still – they still have expectations of being paid a fair value for the price.

I do think there are opportunities for us though if I look at this strategically, because others might be holding back, whereas we just discussed for the right company, for the right terms, and for the right price we are still confident in executing on our strategy around growth, in particular, but certainly also around M&A. And as Rob has just said, it's just in our industry that M&A is just such a compelling opportunity for us to grow the business.

But again, in this environment, I keep repeating myself, you know we're looking at the companies on a standalone basis, on its own merit and it needs to be the right company, the right brand, the right team and at the right price and terms. And then we of course look at financing and also compare it to how else could we deploy our capital, which is obviously something that Rob and I are very focused on.

Rob, do you want to comment further and around share buybacks?

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Rob Wood, Chief Financial Officer and Deputy CEO
Yes, happy to, I can add a little bit more colour. And actually SuperSport was a very real example of that exact consideration, should we be executing on SuperSport as we did in August, or looking at a share buyback alternative. And as you'd expect we studied both very carefully and discussed it as a Board. And what it comes down to, two main considerations really, what's best for the business strategically and what is best for the business economically. And when you study the numbers, we found that on an economic basis SuperSport and M&A still came out on top relative to the largest share buyback that we could realistically do.

So M&A was still more compelling. And then obviously from a strategic perspective there is no doubt that investing into Central and Eastern Europe and creating a platform for further growth through that region was preferable from a strategic perspective.

So I think the simple answer to your question James is we will look at a share buyback alternative every time we pull the trigger on another piece of M&A. but even in the current environment, as was still the case in August, if you remember, the M&A opportunity came out on top.

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James Rowland Clark, Barclays
Brilliant, thank you, that's really helpful. And my final one is just could you help us with the UK year on year growth rate, it was down 15% in H1, but you said it improved in Q3. I know the comps were easier, so I'm just wondering if that goes nearer flat in Q3?

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Jette Nygaard-Andersen, Chief Executive Officer
Sure, Rob – do you want to take that one?

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Rob Wood, Chief Financial Officer and Deputy CEO
Yeah, happy to. It did get much nearer flat, it was still negative, but only marginally so. So we're really pleased with that progression as you say, minus 15% in H1 which was easily the strongest performance across the market, much closer to flat in Q3, the difference of course is moving away from lapping lockdowns in the prior year.

The question then is, well okay – it's still marginally negative in Q3, what's the underlying story there, given ordinarily you'd expect at least mid-single digit growth out of the UK market and really it is two things. One, it's the ongoing implementation of measures, particularly around affordability. And then secondly, in our view as we talked about in Q2, there is some impact on the consumer from the macro environment.

So we still remain confident that the UK will return to growth and we're particularly pleased to see such a step change from H1 into Q3, as expected.

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James Rowland Clark, Barclays
Brilliant, thank you very much.

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Telephone Operator
Next is Michael Mitchell of Davy. Please go ahead.

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Michael Mitchell, Davy
Good morning, Jette, good morning, Rob, thanks for taking my questions, three if I could. Firstly on the US clearly a strong quarter, Rob I think you used the term well on track to get to the guidance, I think if you look at the H2, Q3 and Q4 cadence of revenue last year it suggests that you could be comfortably ahead of that you know $1.3bn plus. I just wonder if you comment on the upside risk to that guidance and whether you gave any consideration to raising the guidance formally at this stage? Question one.

Question two, in terms of Online win margins, you referenced 12.9% in the quarter, I just wondered if you could comment on how much sports results benefit to get a sense of what the underlying expected margin has reached at this point?

And then thirdly, back to balance sheet again, and I appreciate you're in the market raising debt in relation to SuperSport at present, but I wondered if you could help us in terms of thinking about interest charge for 2023. Thank you.

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Jette Nygaard-Andersen, Chief Executive Officer
Thank you and good morning, Michael. Let me take the first one and then I'll hand you over to Rob for Online win margins on sport and balance sheet and interest rates.

So listen, very, very pleased with how the business is performing in the US. And as we said Q3 up 90% to $400m, which means that year to date we are around $1bn. But we are not at this point changing our outlook. As we have said, we have said more than $1.3bn for the year, so that still stands.

Rob, Online win margins on sports, and balance sheet and interest rates, please?

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Rob Wood, Chief Financial Officer and Deputy CEO
Sure. Morning, Michael. So, yeah, another solid quarter for win margin, 12.9%. I still feel that that's a good margin for us. I think I said on the last call that it feels like we start with a 12% now in terms of what we would expect, so to hit 12.9% is a good quarter for us.

No massive call outs from a geographical perspective. If anything, probably worth mentioning that Australia had a tough margin quarter whereas Italy, in contrast, had a very good margin quarter, and the UK broadly in line. So, no particular stories from a territory perspective other than those three.

Then, from a debt perspective and interest rates, so, this year, we gave guidance in March, 3.6%, give or take £80m from a cash perspective. That still feels about right for this year, but, inevitably, there will be increases next year, particularly as we look to refinance the March 2024 term loan maturity at some point during the year.   What does that mean? It's too early to say really. It'll be interesting to see how the SuperSport financing prices – we'll know more on that next week, but we have to anticipate interests going up from where it is this year, somewhere between 5%, 6%, 7% is probably a good estimate for the gross debt across the year.

And then, in cash terms, inevitably that will see a more than doubling once you layer in the SuperSport new facility as well. So, in cash terms, nearer £200m as opposed to £80m this year would be my steer at this stage, but we'll know more next week.

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Michael Mitchell, Davy
Got it. That's great, thank you.

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Telephone Operator
The next question comes from the line of Joseph McNamara of Citi. Please go ahead.

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Joseph McNamara, Citi
Hi there. Thank you for taking my questions. I'll ask them one at a time if that's okay. Excluding the US, are there any geographies that you can call out that are unique or strong? In particular, it would be great if you could touch on Australian trading given relatively good comps there and phasing into Q4, as well as an update on Brazil, mainly competition, which you touched on briefly before. Thank you.

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Jette Nygaard-Andersen, Chief Executive Officer
Sure. Good morning, Joe. Why don't I just kick off with Brazil and give a little bit of flavour of what we're seeing on the ground and, Rob, if you want to talk about the trading in Australia, Brazil and any other geographies you want to call out after that.

So, on Brazil, you're absolutely right. I mean, we're still delivering strong growth in Brazil – year to date, 21%, although Q3 eased off a bit from H2 – and we are seeing increasingly competitive pressures there ahead of regulation. So, growth is healthy, but the competition is really gearing up ahead of the expectation that, hopefully, after the presidential election, that the President will sign off the regulation and then we'll be able to get licenced in 2023.

We are also still seeing strong average monthly actives in Brazil where that tips up 15% year on year in Q3.

And when it comes to competition, I think I touched upon it last time, I mean, we see more than 200 operator sites that are live at the moment, but they're all small, local, low quality, so we don't expect that to proceed once the market becomes regulated and we get into a licenced regime.

Rob, should I hand over to you with some colour on trading, please?

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Rob Wood, Chief Financial Officer and Deputy CEO
Yeah, let me touch on some of the other territories for you. So, I mentioned in the opening comments, Italy had a very strong quarter but margin-led, nonetheless helpful for growth. Germany still something of a struggle, really hoping the gaming licences are issued soon. That is the expectation. That means, as a reminder, that we can start marketing again, we can start bonusing, we can start cross-selling from sports customers and so on, and really it should mark the start of a growth period in Germany, but not yet. So, that's still, sort of, limping along until those licences come through.

Australia is an interesting call out in Q3. You'll know our H1 growth was excellent, market-leading, up around 20%. Then, in Q3, it swung to negative. Why negative? Because it's annualising against lockdowns in Australia in the prior year, so both Sydney and Melbourne, if you remember, fell into lockdown from, sort of, June/July through to October.

And really interesting, if you look at the performance of the states which are not lapping a lockdown in the prior year, the H1 growth rate continued through Q3 but, for those states that did lap a lockdown, they were down quite significantly, as you'd expect and, because of the weighting, it pulled the average down as well. So, once we get past late-October, I think it was 21st October when Melbourne came out of lockdown, then we expect Australia to return to the similar growth trajectories as to where it was. I think those are the main call outs really from a geography perspective.

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Joseph McNamara, Citi
Excellent. No, that's really helpful, thank you very much. And my last one, could you give us sense of how much growth in the fourth quarter you might expect from recent M&A to, kind of, contribute above and beyond the high single-digit underlying growth that you've pointed out?

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Jette Nygaard-Andersen, Chief Executive Officer
Yeah, so the BetCity and SuperSport, we expect them to close during Q4, but that will be towards to the end of the year. So, Rob, I don't know if you want to say something more about that, but it's not going to be substantial for this year.

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Rob Wood, Chief Financial Officer and Deputy CEO
No, that's right. I wouldn't assume a material contribution to the current calendar year. Once they do arrive, from a revenue perspective, between them, they should be adding high single-digits to our Online growth for the following 12 months. So, it will be a material contributor for us when they complete but, as Jette said, you know, it's safe to assume they complete later on in Q4 and, therefore, not a material contributor to the calendar year.

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Joseph McNamara, Citi
Excellent. Very clear. Thank you very much.

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Telephone Operator
The next question comes from the line of Jemma Permalloo of JP Morgan. Please go ahead.

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Jemma Permalloo, JP Morgan
Hi, good morning, Jette and Rob. Thank for you taking my questions. I've got three questions. I think, just going back to the bonds' maturity, you had a smaller £100m that matured just recently. I appreciate you use cash and balance sheet towards that. I just wanted to check what's your broader strategy for the maturity next year? Do you intend to stay in the bond markets or are you looking at a loan as well other than the term loan towards the SuperSport acquisition?

My second question is on the white paper – if you could provide us an update now that we've had the new PM elected, are you hearing of anything in terms of timeline or in terms of maybe reconsideration of priorities there?

And then, just finally, on Germany, you mention the sort of, licensing risk. Apologies, I may be not up to date on that one, if you could give us some extra colour on that one that would be helpful. Thank you.

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Jette Nygaard-Andersen, Chief Executive Officer
Yeah, sure. Good morning. Why don't I start out with the white paper and then, Rob, I'll hand over to you around the bonds and the German market.

On the white paper, so aside from the recent turmoil around the new government, I think they have a lot of pressing issues facing them, and they're just back from annual party conference. So, now we do expect to hear more in the coming weeks as they lay out the legislative agenda.

That said, we are cognisant that it might be slipping down the list of priorities but, of course, we would want to get the white paper out and get it into publication. So, we do expect to hear something soon.

Now, when it comes to what we are hearing, I think, overall, in general terms, the new government's approach and comments have very much been pro-industry, so advocates of freedom of choice and talking about not having nanny state regulation in place. So, from our perspective, that's all sensible sounding so far, and hopefully that will lead to a balance and proportionate type of regulation when it comes out in the white paper.

The only other thing I would say around timing is that, when it comes out, and even with some minor amendments to it, it would require what is called a write-round, and that will typically take around three weeks' time.

So, I'm conscious that I'm not saying anything very precise here but, in short, we do hope to hear more from the Government in the coming weeks. We hope that we'll get the white paper out soon, whether it will slip, we don't know, but we really hope that we can get it out soon, and the soundings that we're hearing are sensible and then we will see later this year or whether it slips even further. Hope that's a little bit helpful at least. Rob, bonds and Germany licence?

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Rob Wood, Chief Financial Officer and Deputy CEO
Sure. Good morning, Jemma. So, from a debt perspective, as you say, we took out the £100m bond maturity this year in cash. We can do the same for the £400m that's maturing next year in September as well. So, really, our next major maturity is March '24 with a term loan.

The answer to your question is we'll continue to look at a mix of bonds and term loans, and we'll get the SuperSport financing done first and then we'll assess the market and we'll keep monitoring it and, when it feels like the right time, we'll move forwards with likely a mix of bonds and term loans in the future. So, we have flexibility there.

From Germany and the licensing situation, so we can absolutely follow up with more detail for you, but the big picture here is going back two years now, there was some major regulatory reform in Germany which has seen our German revenues come off quite significantly, and those revenues, effectively, have gone to operators who are not complying with the new regime.

So, if you like, all the rebasing is already in the numbers, so it's only now upside from here. And the big catalyst for change is having gaming licences issued which then means that you can distinguish between the licenced operators and the unlicenced operators. And we expect to see a clampdown on non-compliant operators and, hence, start to win back the business that we've lost over the last two years. So, the key point for Germany is that it should be upside only from here – the pain is already in the run rates.

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Jemma Permalloo, JP Morgan
Thank you. That's helpful. And I'm just going back to the bond question, is it safe assume that you still plan on being in the bonds market but you're probably just looking at the right combination or mix of loans and bonds? Is that a fair assessment?

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Rob Wood, Chief Financial Officer and Deputy CEO
I think that's the most likely outcome, yes.

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Jemma Permalloo, JP Morgan
Got it. Thank you very much.

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Telephone Operator
The next question comes from Kiranjot Grewal of Bank of America. Please go ahead.

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Kiranjot Grewal, Bank of America
Good morning. Just a couple of questions from me. Firstly, on macro, I think you mentioned there was no incremental impact on Q2 to Q3 that you've seen on the macro front. Can you maybe talk about where you're seeing an impact so far?

And then, on California, it feels like it might not go through. Would a potential pullback in marketing maybe helpful for your, you know, US losses expectations for the year?

And could we just touch on the UK, please? Realise that H1 was a tough period due to the comps and it's improving now, but you're rolling out the affordability measures. What are you seeing in terms of market share development? Thank you.

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Jette Nygaard-Andersen, Chief Executive Officer
Okay. Good morning, Kiranjot. Why don't I start with US and talk a little bit about California, and then I'll hand over to Rob for the macro Q2 to Q3 and UK?

So, on the US and California, I mean, it's still on for the ballot on 8th November, but you're right, that the recent polling suggests that neither proposition 27 or 26 will get sufficient votes to pass. And, while that is, you know, disappointing in itself, we still have another go at it potentially in two years' time.

And, before I talk about marketing and impact there, just on the wider outlook, I mean, over time, we do expect legislation in sports betting in California to happen. I think it's difficult to imagine that a state like California with more than 21 major professional sports franchises and a population that loves their teams will not, at some point, legislate around sports betting. But, if it doesn't happen in November this year, then we remain excited about it, and we'll look at it again next year.

So, I think you shouldn't expect any impact in terms of particular marketing savings here, but, of course, when it comes to what we would otherwise have invested next year, had California came online, while that is, of course, disappointing that we'll not go online, that will, of course, be a positive overall for EBITDA and on our journey for profitability as, otherwise, if California did come online, we, and everyone else, would have invested significantly into growing that market. I'm not sure if that answered your question, before I hand you over to Rob?

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Kiranjot Grewal, Bank of America
That's perfect. Thank you.

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Jette Nygaard-Andersen, Chief Executive Officer
Okay, thanks. Rob, macro Q2 to Q3 and UK, please.

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Rob Wood, Chief Financial Officer and Deputy CEO
Absolutely. Morning, Kiranjot. So, as we said in Q2, when we were discussing the macro impacts that we're seeing, it really is a mixed bag, and by geography. Some territories absolutely reporting an impact, other territories quite the opposite, saying that they're not seeing it at all. And I suspect that's why you're seeing a range of views from operators in the industry, because we've all got slightly geographical mixes.

So, for example, for ourselves, where we're number one in the Baltics, inflation now at over 20%, you know, we have seen a double-digit drop off in spend per head, and that's a good datapoint to suggest that there is a macro impact because nothing else had happened in the business. Crucially though, actives numbers are still great in the Baltics. So, we know it's cyclical, we will come out of it at some point.

So, I think the answer to your question, Kiranjot, is it really is a mixed bag – Baltics the most extreme with a double-digit impact, others with no impact. And then, what's really important, and encouraging, is that, when you study the numbers, as we do, week by week, no real change in trajectory in any of our territories. So, you know, there's always noise, and you always have to keep an eye on it and, sort of, smooth out the noise, but we don't see a deterioration, don't see an improvement either, but we don't see a deterioration.

So, really, we assume an ongoing, sort of, low to mid-single-digit impact of macro in our numbers. And that really explains why we're mid-single-digits at the moment, or at least it's a key driver, why we're mid-single-digits at the moment as opposed to the double-digits that we'd like to be and expect to be as we look further forward.

To the UK and market shares, so, absolutely, we believe we took share in the first half of the year. We reported minus 15. The next closest competitor was minus 19, and the next two after that were well into 20s negative. Do we expect that to continue? Yes, I think we do. There's no doubt that the measures that we're all taking, the direction of the Gambling Commission, are having a material impact, but we believe everybody's doing it, or at least the leading operators are doing it. So, you know, I don't think that there's likely to be much disparity between operators as a result of that.

And so, you know, we look forward to continued market share gains and credit the team out in Gibraltar for the great work that they're doing. I hope you've seen the Rocky ads – we like them – and they seem to be resonating well for the Ladbrokes brand.

So, look, our expectation is continued market outperformance in the UK, just as we did in the first half of the year.

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Kiranjot Grewal, Bank of America
Super, thank you. Thanks a lot.

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Telephone Operator
The next question comes from David Brohan of Goodbody. Please go ahead.

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David Brohan, Goodbody
Morning, guys. Just three questions from me. Firstly, in the Netherlands, I mean, any update on the licencing for the Entain brands there?

And, secondly, in the US, how do you view the legislative environment for iGaming? It looks like Illinois might be next to go, New York's also a possibility. What do you see as the catalyst for the next wave of iGaming legislation in the US?

And then, just finally, I mean, in the past, you've mentioned that a major soccer tournament adds a couple of points to online growth. You know, how do you see that playing out this year given both the macro environment but also the fact that you're comping at Q4 rather than a Q2 sporting calendar? Thanks.

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Jette Nygaard-Andersen, Chief Executive Officer
Yeah, good morning, David. Let me take the first two and then, Rob, you could take the last one.

So, on the Netherlands, and you asked about the licence there, there's no change on the approval. We do expect it to complete, hopefully sooner rather than later, but during Q4.

So, we remain on track there to receive the licence, and that's for the Entain brands, so bwin and Party brands and, of course, BetCity is already licenced there. So, on completion with that deal also in Q4, that provides us immediate access to the market, which is really important as the market continues to develop and grow post the regulatory changes there. And BetCity is doing really well, which we're really pleased with.

And then, of course, when it comes to the Entain brands, as soon as we get licensed, we'll start to rebuild from there, and we have, in prior calls, talked about a six-month rebuild from there. So, that's now likely into 2023.

When it comes to iGaming, I mean, there's no real new share, if your question was around new states regulating iGaming. I mean, the last states we just launched in was Kansas, which is doing great, really pleased with the conversions from pre-registration to registered players. And then next up are states like Maryland, which suddenly seems to have accelerated their potential launch. We're already there on Retail sports betting, but, for the Online sports betting, now hopefully it can come online later this year. There was news out, I think, a week ago or the beginning of this week, that they've accelerated that process.

And then, further to that, we have Ohio coming around the beginning of January, which is an exciting state for us, MGM has a property there. We just, this week, announced a partnership with the Cincinnati Reds, and we'll also have a sports book at the stadium there when licensed next year.

And then, of course, we're waiting for Massachusetts. I think the latest news I heard yesterday, it's a little bit back and forth on the process, but that should, hopefully, also be online beginning of next year. And those states are then all sports states.

So when we look ahead, as you say it's really - New York was discussing potentially progressing on registration around iGaming. We'll have to see what happens there. And then we have Indiana, we've talked about, and Illinois. Hopefully, they will have it and discuss legislation during 2023. We know also that Iowa is considering. That's probably a little further ahead.

So, I come back to the three I's and then New York, but the immediate states that we know about, that would be online sports betting. Rob, the last one for you, please.

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Rob Wood, Chief Financial Officer and Deputy CEO
Sure, the World Cup?

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Jette Nygaard-Andersen, Chief Executive Officer
Yeah.

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Rob Wood, Chief Financial Officer and Deputy CEO
I love talking about the World Cup. We are really excited about it. To your comment around two percentage points, you know, that's typically across a full year. So, if you're just thinking about Q4 – and, of course, unusually, the whole tournament falls within one quarter this year – you know, I think you'll get to a bigger number for the expected impacted on Q4.

You know, yes, time of year wise, it's not going to be as fully incremental as an ordinary tournament, but there's lots of reasons why we are pretty positive on it despite that. So, you know, places like Brazil, for instance, it is incremental to what the calendar would otherwise be. We like the fact that there will be less Europeans on holidays and more people at home during a winter tournament.

Worth remembering that lower leagues do carry on, so, you know, it's only the topflight leagues that pause during the tournament, so there'll still be packed football fixture lists across Europe even during the tournament. The time of day is pretty favourable. You know, some past World Cups have been unhelpful from that perspective. And this time around, we've got a more congested fixture list either side of the tournament as well.

So, you know, typically, there's quite a lag between the World Cup Final and then the start of the new season, and it always feels like you lose a little bit of momentum, you've built up this new active space, you've signed up a load of customers, you've reactivated a load of customers and then there's a gap before the topflight football resumes. That's not the case this time around.

So, a long way of saying that we are excited about the prospects from the World Cup and can't wait for it to start.

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David Brohan, Goodbody
Perfect. Thanks, guys. Really appreciate the colour.

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Jette Nygaard-Andersen, Chief Executive Officer
Thanks.

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Telephone Operator
The next question comes from the line of Richard Stuber of Numis. Please go ahead.

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Richard Stuber, Numis
Hi. Morning, Jette. Morning, Rob. Just two quick ones from me, please. First of all, thank you very much for quantifying the UK online performance in Q3, but I was wondering, could you, sort of, quantify the split between, sort of, gaming and betting, simply because one is perceived as slightly more, sort of, macro-sensitive than the other?

And the second question, on the US, given what's happening in California, do you think that that may have any repercussions on any other, sort of, large state openings, i.e., are the tribes perceived to be, sort of, stronger now than they were before? Thank you.

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Jette Nygaard-Andersen, Chief Executive Officer
Thank you. Good morning to you, Richard. Let me continue with California and then, Rob, if you want to continue with more colour on the UK.

So, we're not seeing any implications on, you know, where the tribes are now with California. I mean, we did see the tribes coming out around Florida, so that was an example where the tribes also, of course, have a prominent position, but we're not seeing it in any other states.

And, as I said, you know, let's see where it goes in November. If not, we have another shot to put it back on the ballot in two years' time. I think that states like California, with sports, will legislate at some point, so it's not something we're seeing, no. Rob, UK, Q3.

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Rob Wood, Chief Financial Officer and Deputy CEO
Yeah. Morning, Richard. No particular story to share from a product perspective. I mean, remember the bigger shift from H1 into Q3 was annualising lockdowns in the prior year, and lockdowns were a benefit to both sides given sport continued throughout and people were at home with less activity to spend money on. So, you know, pretty consistent performance across products I would say.

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Richard Stuber, Numis
That's great. Thank you very much.

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Telephone Operator
The last question comes from the line of Simon Davies of Deutsche Bank. Please go ahead.

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Simon Davies, Deutsche Bank
Morning. Just a couple from me. Just return to the white paper and affordability checks, you talked about the incremental costs that you've absorbed over the period. Do you think it's realistic to think now that the recommendations that come out in the white paper will have little incremental additional cost for you?

And, secondly, you mentioned the success of your in-house games and iGaming. Does that, in any way, encourage you to look at the possibility of launching your own in-house live casino given that that's the real growth opportunity in iGaming, or the biggest growth opportunity in iGaming?

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Jette Nygaard-Andersen, Chief Executive Officer
Sure. Hi. Good morning, Simon. On the white paper, listen, we will basically have to see what comes out, but with the last, almost two years now, beginning of 2021, and I've spoken about his before, the GC, so the Gambling Commission, have become much more clearer on their guidance. So, we, and probably everyone on the bigger operators in the industries, have put in place a number of changes, not least around affordability through the year of 2021 and into 2022, and that is, sort of, ongoing.

But what comes out with the white paper, we'll have to see. I don't think I want to speculate if there's anything more there. But listen, we're confident in where we are, and we're prepared for the white paper coming out.

Now, I forgot your second question. What was that? Sorry.

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Simon Davies, Deutsche Bank
On live casino and whether you would consider launching your own in-house project.

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Jette Nygaard-Andersen, Chief Executive Officer
Live casino, exactly, yeah. Sorry about that, Simon. Yes, so I talked about this, I think, on the first half call. Especially, we've seen great success around one of the latest games categories that we've launched which we call Live Game Show, and here we're very focused on developing exclusive or bespoke content.

And, as I've said before, we want to have the best content and the best games, so we will always look at how do we make sure that provide this for our customers? And, if there is an opportunity where we see that there is a niche that we should go into around live gameshows, that's something that we'll consider.

But, right now, we're really satisfied with the first couple of games that we've got out there, and we have a couple more coming. So, we'll learning as we go, but as always, we're looking at opportunities here and very pleased with the performance of the gameshows.

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Simon Davies, Deutsche Bank
Great. Thank you very much.

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Telephone Operator

There are no further questions, so I'll hand back to you, Jette, to conclude today's conference. Thank you.

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Jette Nygaard-Andersen, Chief Executive Officer
Thank you very much, operator, and thank you all for dialling in and listening today. So, Entain continues not only to deliver ongoing positive momentum but also our performance demonstrates the underlying strength of the business. And, as you also heard on this call today, very pleased with the strong performance in the US, not least in the last quarter.

And our customer focus, coupled with our diversified and industry-leading platform, sees us well-positioned to drive further growth and deliver on our strategic opportunities, not only for this year but for many years to come.

I hope you can all join us for this year's Entain Sustain event, and that takes place next week, on 19th October. In the meantime, if you have any other questions, please do get in touch with David and the IR Team. Thank you and goodbye.

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Telephone Operator
Thank you for joining today's call. You may now disconnect.