GVC Holdings plc

H1 Post Close Trading Update

16 July 2020

Transcript

Kenny Alexander :

Hi there all. Hope you're having a good morning. I'd like to kick off about the news regarding me this morning and retiring from GVC. This is something that I've been thinking about for quite some time. I don't know if people realise my personal situation. My family are in Scotland. I come down to London every week, Monday to Friday, well most times, and sometimes it's a bit shorter than that. I've been doing it for a long, long time. My youngest daughter is now just going to university. And I have decided that this moment was coming for quite some time, that it is time to get back to Scotland, stay there and spend time with my family, rather than do this crazy commute, which I've been doing now for nearly 20 years.

I recruited Shay about four years ago I think, just after we acquired bwin, or just about the same time as we acquired bwin. And I said to him at that time that the intention even then was that he would hopefully be my successor. And I'm glad to say that today that plan that was put in motion four years ago has been successful and he is taking over from me as of today. I've worked with Shay for four years and there's probably a handful of people that have been absolutely critical to the success of GVC. And nobody has been as critical as Shay, so he is a first-class operator. He's been taking on more and more responsibilities. I saw this moment becoming more imminent over the last couple of years, he's been taking over more and more responsibility and he is absolutely ready to take on this role, as of today.

He's also supported by Rob Wood, who was fairly new to the role, young. I don't know if even many of you even heard of him when he it took on about a year ago. And I have to say that he is by some considerable way, the best CFO that I've ever worked with. And I've been fortunate to have worked with quite a few good ones. So between the two of them, the business is in excellent hands and there's absolutely no reason why it can't continue to kick on as it has done in the last few years and beyond that. I'm very proud of the business that I've managed to build with the team. We've got great people, great technology, great brands, it's a great culture and it's been a great story. But it has to end sometime and I felt, after my time up in Scotland during lockdown, it really just rammed it home. I just don't want to keep coming down and battering myself down to London. It's time for Shay to take it over.

As for the results, they are stellar. The results we've announced in the first half of the year, are testaments - and I've mentioned a couple of people here, obviously Shay and Rob, but it's very much a team effort. People that work for GVC, I repeated many, many times, as far as I'm concerned, are the leaders in the industry. We've got an absolutely fabulous team, right from the executive level down to senior leadership team. And right through to all the people who work within GVC globally, all over the world, including Manila, Australia, Tel Aviv, Gibraltar and those in our retail estates in Italy or the in UK. Absolutely first class and these numbers are testament to them.

And you can look at the numbers and yes, the digital growth is stunning, despite lockdown and limited sports fixtures, et cetera, et cetera. I can tell you that the strength of the business has to be seen beyond the numbers. Which is, during lockdown, the whole business came together. Plans that were put in place, and I must remember our HR director planned along with Shay and his teams, for the worst case scenario around COVID. And I must remember, I must admit, I said that I didn't believe it could be as bad as it was going to be in terms of lock downs. I was wrong. They were right. And thankfully they had plans in place. So that the business, including all our retail estates were closed down in an orderly manner, were then reopened quicker than any of our competitors. And more importantly, in an orderly manner, where health and safety to our customers was absolutely paramount.

And our digital business was fully operational from the first day of lockdown, and of course the lockdown is pretty much still here. The ride throughout and keeping the volumes going, are as stated in the numbers. So I said at the time when we went into COVID, that if we were to cope with this crisis effectively, it would serve us well for many, many years, help with the culture, help bringing the business even closer together, the various parts round the world. And I have to say, that teams have absolutely nailed it. And that can't be seen in the numbers, but I can tell you, the business has coped with probably an unprecedented crisis better than I could have ever expected.

As for what I'm going to do in the future, as I said, I'm in Scotland now. I've been in Scotland for four months and I'm going to remain here, take some time off and see what I might do in the future. Probably undoubtedly not going to be gaming, undoubtedly probably will not be in PLC land, but I'll probably do something to keep myself busy. But I've enjoyed my time in PLC land. I've enjoyed myself in online gaming. I've enjoyed myself in GVC. But all things need to come to an end. And as I say, the time was right for me. And I am delighted to hand it over to Shay in good shape and I'm sure he'll do a stellar job in the coming years. So on that note, it's all yours Shay.

Shay Segev:

Many thanks, Kenny. First of all I would like to say big thank you, Kenny for having built this incredible company, from a modest beginning to a global FTSE 100. I am excited taking on the role. We've got exciting times ahead of us, with many opportunities. For those who don't know me, I've been COO for four years, working very closely with Kenny. Over that time I've been responsible for a number of key areas, including the US joint venture, our tech platform as well our M&A strategy. In addition, I drove the successful integration of both bwin party and Ladbrokes Coral.

I've been in this industry for 15 years previously worked at Gala Coral and Playtech. GVC is in an incredibly strong position, as demonstrated by the remarkable performance we have delivered the first half, despite the uncertain world we are currently in.

That means we can look forward with optimism. And my initial five key areas of focus are. Firstly, the US, probably our biggest opportunity to create value in a new dynamic market. Our ambition is to be the leader in that market. We will do whatever it takes as we demonstrated last week with the increased investment.

Secondly, organic growth. Our year on year double digit growth over the last 18 quarters reflects the opportunity we have. We have a proven track record of building and rebuilding strong brands and growing market share. We operate in markets that are growing. Around 94% of our revenues last year came from markets that are growing over 10% per annum. We are the best in the industry for digital marketing and our operations are supported by the best tech platform and products.

Thirdly, M&A. I've been looking after our M&A strategy for a while, and we are focused on bolt-on deals in regulated markets, where we can leverage our expertise. We had an exciting M&A pipeline going into the COVID-19 crisis that we put on hold until we are back to normality. Yet, the pipeline is no less exciting, and we will continue on that.

Next operational execution. We have excellent track record, excelling and the best team of people across the industry. This excellence has been demonstrated through the current COVID-19 crisis. Our team across the business stood up and I'm so proud of them. We do things well, we never fail on any objectives we aim for. Yet I am keen we always look for continuous improvement. Having led the successful integration of building Ladbrokes Coral, I can see further opportunities across the group.

Finally, responsibility. We provide exciting entertainment for our customers every day, but we do need to ensure that we have a robust safety net in place for those customers who show behavioural problems. We have done much so far in putting the safety net in place with algorithms, checks and interventions. There is always more we can do and will do. It's essential that responsibility is part of our DNA. We have regulatory changes ahead, and we will continue to work with regulators and other parties to ensure that we get a good outcome.

I'm extremely excited about the roadmap ahead and look forward to talking to you more about that at our interim results in August. I'll now handover to Rob to talk about the result this morning.

Rob Wood:

Great, thanks very much Shay. Good morning, everyone. So overall, you've seen the headlines. We're very pleased with the performance of the business through the first half of the year. And that very much applies to both the pre COVID period to mid-March and the post COVID period as well. Just as a reminder, we had excellent momentum in the business coming into the COVID period. We reported revenue growth across all channels of plus 11% in constant currency for the 15th of March. And that was made after online NGR being up double digits again at 19%. UK retail was also performing well at only minus 5%, despite Q1 being the last quarter before we annualised against the triennial review. And European retail was performing strongly as well, at plus 24%.

Then of course, all our shops closed and sporting events were cancelled. And so Q2 had a very different shape to it, but the strength of our business model and the diversification of our business through our brands, our products and our geographical spread, meant that overall we've been able to deliver a relatively good performance across the first half. I think the benefits of diversification were clear to see in several different ways. So geographically, in Australia horse racing survived throughout the period. And our Ladbrokes and Neds businesses over there performed exceptionally well. They grew at around 76% in Q2. And at one point, Australia during Q2 accounted for half of our global sports business.

Product diversification was also paramount during the quarter, whether that's shifting volumes to minor sports like table tennis and e-sport, or to gaming products like bingo, casino, and of course poker, which performed very well. And also having diverse and strong brands, I think helped us.

Gaming brands like Party Poker, Foxy, Gala Bingo, they've all grown exceptionally well as customers were already familiar with them as lockdown kicked in. So I think that strength in diversity is reflected in our very strong online numbers. As you've seen NGR up 23% in Q2 in constant currency. And within that, gaming was up 46% in the quarter. Now, of course, we're seeing a steady increase in top flight sport. And thankfully it's clear that our customers are pleased to see the return of sports as much as we are, because betting activity is back to pretty close to pre COVID levels already.

Just on retail, clearly revenues of both UK and European retail were down significantly in H1 as shops were closed. But our teams have worked extremely hard, as you heard earlier from Kenny to get all of our shops open. In the UK, we opened on the first possible day in each jurisdiction, and we've done it in a fully compliant manner with social distancing measures in place, as you'd expect. All of our shops across the UK and Ireland are now open. And thankfully those initial onerous restrictions in Scotland are going to be lifted next week. We have to say, early signs on trading are encouraging and ahead of where we might have expected to be. It is early days, of course, but we're less than 20% down on pre COVID levels already, which is a good result given restrictions are still in place. And it also means we're immediately back to profitability, which of course is important. So we're EBITDA positive, right from week one.

Demographic data is also encouraging. We can see that our older customers have come back to shops in the same proportion as pre COVID levels. So the older customers haven't chosen to stay away so far. In Europe, European retail, it's a similar picture to the UK actually. We're almost entirely open, just a handful of shops in Belgium left to go. And again, volumes are within 20% of pre COVID levels. And that's despite again, on-going restrictions, there's no football in Belgium for instance, and there are some other product gaps as well. But crucially, we're already profitable in European retail as well.

So all in all, even though Group NGR is down 10% for the half, because of retail closures, we're very happy with our performance and especially with our online growth. You might remember in our full year results in March, I talked about our record of consecutive quarters of double digit, year on year growth in constant currency. And now with Q2 delivering 23%, we're up to 18 consecutive quarters of double digit online growth, which is some record. And pleasingly, that growth came from all our major territories in H1. Every area was at double digits. So again, demonstrating the strength of our business.

But let me add a quick note of caution on revenues. You've got to imagine, as we move into the second half of the year, that there'll be increased macro pressures on discretionary spend, as local government support unwinds, recessionary pressures may kick in. And also as lockdowns ease around the world, there'll clearly be more competition for leisure spend, and that will have an impact on us. I should point out as well, we have benefited from unusually good gross margins in H1, especially in the UK and Australia.

Heading into H2, I'd say we can be absolutely confident on our relative performance, but we should also be cautious that there are some market headwinds as well.

Moving down the P&L, we expect first half EBITDA to be in the range of 340 million to 350 million on a post-IFRS 16 basis, which clearly is a reflection of the strength of our online performance, but also do remember lower levels of marketing spend in there, in particular in April and May.

And looking forward, it's a bit too early for us to give clear guidance on the full year outcome, but we would expect, of course, stronger EBITDA from our retail divisions in H2, compared to H1. But we could be lower in online as you can't assume those margins will continue into the second half of the year, and we'll more than likely increase our marketing spend in H2, as we push to continue our strong market share growth in all territories into 2021 as well.

Just lastly from me, a quick word on cash. Really pleased to be able to confirm that we achieved our target of getting through the period of cancellations and retail closures with zero cash burn, which is no mean feat and is thanks mostly to the cost and cash management measures we put in place, but as well, of course, the stronger than expected revenues in our online business. So in summary, a highly unusual shape to the first half of the year, but as usual GVC delivered another strong performance, and we look forward to the second half with some caution, but with confidence as well.

So with that, I think we can open it up now to Q&A.

Call co-ordinator:

We'll take our first question today from Ed Young of Morgan Stanley. Please go ahead. Your line is open.

Ed Young:

Good morning. Thanks for taking my questions. I've got two, if that's okay?

Ed Young:

The first of all, Rob, you gave some very helpful detail there on some of the aspects of where the growth come from, but I wondered if it was possible to give a bit more on the drivers of the organic growth in online, beyond the sports gaming split that's been disclosed. Were they any particularly outstanding geographies outside of Australia? I appreciate you said it was broad based, can you just talk a little bit about what the growth has been in new customers or actives, compared to higher spend as a result of pent up demand and good results.

And then my second question is on M&A. So Shay, you referred to the strong pipeline, you think it's exciting. Has COVID changed your view on M&A targets at all? Obviously you've seen the benefits from diversification in both product and geography and online, or seen retail be impacted severely during that period. So has any of this shaped what you think you'll be looking for, in terms of target profile or size? Thanks.

Rob Wood:

So in terms of where has the growth come from - If we think about it in pound note terms rather than percentage terms, I would say four key areas. You called out one, Australia. Sport's undoubtedly strong during Q2. Another area, the UK sports brand gaming businesses contributed significantly as well. And then UK gaming brands. So both Gala and Foxy performing particularly well helped, in particular, by retail migration we think in gaming brands. Far less retail migration in sports brands, but it's been clear to see that for bingo in particular. And then the last one I would call out is Party Poker, where all around the world, we have seen, frankly, a doubling of activity, which has been great to see. Clearly other areas as well, but less so I would say, Europe and LATAM. Europe, because we're still down on tennis and basketball content. And LATAM it's a predominantly sports business, predominantly football and local football is not yet up and running.

So those are the four areas I would call out in terms of spend per head versus FTD [first time deposits]. And we have seen acquisition rates double, which has been great. But remember though that our brands around the world are very well established and so the pound note contribution from FTD is helpful, but it's not as material as the spend per head aspect. So most of the strength that we've seen has been from existing customers, rather than new customers. In areas like bingo, a little bit more from new customers. In sports brands, much more so from existing customers.

Shay, do you want to take the M&A one?

Shay Segev:

Yes. So our appetite for M&A did not change. And then clearly the trend from GVC's proven track records of acquiring businesses, and then integrating them. We just concluded the Ladbrokes Coral integration, which was a great success for us and delivers a lot of value. As I mentioned, there is a pipeline of a few bolts and things we were looking. I mean, the focus is literally on regulated markets, buying things for the right price, which matches our strategy. Entering new markets and going out with our expertise. And we will continue doing that. And there's no real timeline. Once we find something which makes sense, we will do it.

And clearly it become more complex to do larger transactions because there are less around, but clearly we are looking now and we will continue doing it, once things go back to normality.

Ed Young:

Perfect. Thank you. Just one quick follow-up on that, Shay. So no change, would you still be looking at online and retail targets? Retail only? Online-led? Or what's your view of what the right target profile would look like ideally?

Shay Segev:

I mean I wouldn't eliminate any options and clearly digital is something we want to grow. I mean, in general, in the world, the eCommerce and digital is growing faster and so that is what we want to focus on, we want to be a double digit growth business. We do see value in retail. I mean, in some regulated markets, retail is essential. It's part of the overall offering. So I wouldn't eliminate retail, but digital is the focus. We might acquire something which has some retail element in order to accelerate our digital business. Tthe UK is a good example it's a very strong enabler for omni-channel, also for our digital growth and the numbers that you've seen today.

Ed Young:

Perfect. Thanks very much.

Call co-ordinator Thank you. We will take our next question from Stuart Gordon of Berenberg. Please go ahead. Your line is now open.

Stuart Gordon:

Morning guys. Three from me, and obviously first of all, Kenny, all the best with your retirement. Can't think of a better place in the world than Scotland to spend it and congrats obviously Shay congratulations on your new appointment. You spoke about your five pillars that you're going to move forward with as a CEO and obviously the fifth one being responsibility, which is currently the subject of a lot of regulatory scrutiny and is of great interest to investors. So I'm wondering if you could expand a little on your own thinking here and how you propose or expect taking forward the regulatory debates in key territories.

Secondly, I was wondering if you could talk a little bit about the extent to which you feel having your top brands has really helped through the lockdown. In particular, in helping lower marketing costs versus the competition and how perhaps that might unfold as we come out of lockdown.

And finally, is there any form of lockup on Kenny's shares following his retirement? Thanks.

Shay Segev:

Okay. So I will start with the responsible gaming. I mean, GVC for a long time... Good responsible gaming is something which is clear in our DNA with multiple initiatives in the business. And then Kenny has been clearly the face of that as CEO. But there's been a lot going on underneath. I personally, as the person who was responsible for, let's say, 80% of the underlying operation in the business, was involved in driving many of these activities, which touches many things we do in terms of our products, our interface with our customers, our CRM, our interventions.

Our marketing approach, we have an open dialogue with regulators. We welcome that. I think a good dialogue and clear regulation and positive dialogue with regulators is a positive. It's great certainty and it's good for everybody, for us, as an operator and for the regulators. And something which is within our DNA. And we've continued doing that. So we will leverage what's already been going forward for some time now and we'll continue doing it. And then GVC is and will be the most responsible brand and operation in the industry.

What was the second question?

Stuart Gordon:

Second one was just about how you feel having had top brands may have helped in terms of obviously there was lower marketing money being spent and how you see that evolving post lockdown?

Shay Segev:

I mean, clearly the fact that we have one brand with a heritage of years of hundreds of millions of marketing is an advantage. And it's one of the key brands like BWin, Gala Bingo, international brands as well partypoker of course, as well. It's recognised within customers and it's clearly an advantage. It's an advantage that you could say it's the last period when we cut some of the standards, there was no sport events. So it makes sense to do it. And people recognise this brand and it's a clear, competitive advantage for the future. I think what happened during this lockdown period is many other operators cut spend. We cut spend, but clearly our brand is more recognised, and it attracts more players.

I think as the lockdown and the sport event is coming back, you will see marketing spend increasing, both for us and competitors. Through our efficiencies, both of marketing and technology as I have mentioned. And our strong marketing teams. I mean, I'm confident that we'll continue to do better than others. I mean, as we're showing for the last 18 quarters. So I'm confident about that.

Rob Wood:

I was just going to add, Shay, that we've said for some time that we expect that rate of marketing to kick down over time, and I think this, the latest period reinforces that that can happen. But by the same token, we're not going to be shy in investing, going forward to keep up that double digit growth, that increase is incredibly important for us. We want to carry on gaining share, and so inevitably marketing spend will be higher in the second half of the year as we seek to be opportunistic.

And I think the last question was on share lock up. Kenny, if you can touch on that.

Kenny Alexander :

Yeah, yeah. I'll take that one there. Yeah, there are some lock-ins. I mean, I think it's the condition of my LTIPS and bonus shares that I took and bought and attained shares. I had to get from the bonuses I've had in the last few years. But look, I mean, I think it's like four times my salary or something like that. But look, I won't be selling any shares for the foreseeable future. As I said, this is not a one man show. It's never been that. Repeatedly said it to yourselves and the shareholders for many, many, years. And it was as a result of very fortunate to very, very good teams, people around me. Team that I've got now is undoubtedly the best we've ever had, and we've operated all the time. Business is in good shape. And I think, as I said in the call last week about US opportunity, it's definitely the biggest catalyst for our share price. And if we deliver on it or even close to it, there's massive upside in the share price. So I will be holding onto them. And I've got complete faith that Shay will nail it.

If he doesn't, I'll hunt him down. No. No. Business is in great shape, great opportunities. The US is a big one, excellent team and I'll be holding onto them for indefinitely and expect to make some good money on them. So hopefully I've answered your question there.

Call co-ordinator:

Thank you. We will take our next question from Gavin Kelleher, of Goodbody Capital. Please go ahead. Your line is now open.

Gavin Kelleher:

Good Morning, Kenny, Rob, Shay. Just a few for me please. Just on growth and margin, you've obviously hinted they were very good in the periods. Can you just give any sense for how much of it is favourable results driven? How much of it was structural? How much of it was product mix, people betting on the stuff they didn't know as much about, etc.? If there's any insight on that. Just on retail, I know it's a very short period, can you give any insights into how sports are doing, how machines are doing.

And then as well as that, significant benefits just given how sport has come back and the staggering of it on live TV, etc., and more sport content year on year just in the initial performance from retail. And then just finally, any comments on dividends?

Rob Wood:

Sure. I'll have a go at those? On GGR margin, firstly Australia, given its relative size during Q2 it was the biggest driver. Why margins were strongly up year on year? Undoubtedly favourable results, key racing events like the Sydney Carnival went our way. Also a little bit of product mix within the Australian margin as well. So sports is typically significantly lower margin than racing just in normal times. And clearly racing was the dominant mix during Q2. So there's a bit of product mix there.

There's also a host of management initiatives which are on-going. So a degree of structural improvement. So Australia, the number one driver. Outside of that, football results generally have been positive in June. And that's helped us everywhere, UK in particular, not racing but football in the UK. And the only other thing I would add is that there are, as volumes drifted to other sports like US racing, the familiarity point I think is partly relevant, but actually really it's just because over rounds are generally higher on things like US racing. It's less competitive and there are fewer concessions around it, things like EPG. So it's not so much familiarity in my view. It's more the way that these products are traded. But I think that's the third point. I think number one is Australia. Number two is football margins. And then number three, a little bit around minor sports being higher margin than the mainstream sports. So, that's on margin. Why don't I touch on retail and then Shay, feel free to chip in. Let's take UK first.

UK, the stronger element has been the machines. Really interesting to see volumes get back to pretty much where they were very quickly, which is encouraging to see. Sports lagging that somewhat. But I'd say that's not surprising given the program. It's good, but it's not as full as where it would ordinarily be. And therefore, with that in mind, when you think about European retail, that was a little slower to get up to full pace because it's much more a sports business. So it didn't have the machines aspects driving revenues. So it was slower during early June. And then there's sport in particular, football has ramped up. It's back up to somewhere close to pre COVID level. It is difficult to make comparisons year on year, given we're now in the summer with loads of football and we didn't have that last year. It's also difficult to make comparisons against budget because budget every year is in it. So typically we measure our activity versus the Q1 levels. And as I said earlier, where we're inside of 20% down now across our retail estates and trending in the right direction.

Shay Segev:

Yeah, just to add few things on retail. The team has been doing amazing work on retail opening. I think we've been more pessimistic thinking that when retail is back, numbers will be negative but we actually were positively surprised with volumes coming back and it's moving to the right direction. You still have a social distancing and the schedule of the sport is still a big moving target. But I think overall, as Rob mentioned, it's very positive.

Gavin Kelleher:

Sorry, my last question was on any comment on dividend going forward?

Rob Wood:

Ah yes, dividends. So it's too early to have a firm view on the second half of the year. We'll, revisit this topic at our interim. I think you'd have to say given we still have uncertain times in front of us, it's more likely that dividends would resume in the first part of 2021, rather than second half of this year, but we will come back to that point at the interim.

Gavin Kelleher:

Perfect. Thank you for the comments, and best of luck on the retirement, Kenny.

Kenny Alexander :

Cheers, mate.

Call co-ordinator:

Thank you. We will take our next question, from Simon Davies of Deutsche Bank. Please go ahead. Your line is open.

Simon Davies:

Morning guys. Three from me, please. Firstly, just on Australia, obviously particularly strong and you highlighted the margin performance. Can you give us a bit more detail about quite how strong it was? How significant were other factors in particular, the closure of Tabcorp shops during the second quarter? Secondly, just on UK retail, there's been some pretty alarming numbers out there in terms of high street footfall, are you significantly outperforming that in terms of footfall or is this all about increased spend per head? And lastly, just on UK online, any impact in the period or notable from the credit card ban?

Rob Wood:

Sure. Thank you Simon, let me have a go at those. So Australia margin, it was up over two points stronger year on year, so very material. In terms of the impact of retail closing, you'd have to say there's very little evidence of that benefiting. I know the guys did some analysis recently, which showed that only 2% of active in the last couple of weeks were customers acquired in the three weeks following the retail closures in Australia. So it doesn't appear to have been material. Nonetheless, the guys still introduced some new features, new promotions, which replicate retail betting so that we're ready to welcome those customers and hopefully retain those customers.

But all the data suggests that the vast majority of that 76% Q2 that I referenced is coming from existing customers. But I would add reactivated customers as well. Two more questions, one on retail footfall, it does feel like footfall in our shops is stronger than what you read for the market in general. It is quite hard to measure that, though. Of course we don't have footfall counters in retail. We have, for instance, seen that bet size, bet per slip if you like, is up materially. But we think that is reflection of partly product mix and partly SSBT mix, which is stronger as people keep a distance from others.

And also just adding more bets to the slip. So we don't think there's too much to read into that, but bet per slip is up. What else? In terms of UK online credit card impact, we have to say it appears to be negligible. We did anticipate that, as I talked about in March, given that it's such a high mix of customers who used credit cards also had debit cards registered. So we didn't expect there to be a material impact and we haven't been able to quantify one. So it does look like the impact is negligible.

Call co-ordinator:

Thank you. As a reminder, if you wish to ask a question, please signal by pressing "*1" on your telephone keypad. Our next question comes from Monique Pollard of Citi. Please go ahead. Your line is open.

Monique Pollard:

Morning, everyone. Congrats on the good results and congrats on the new role, Shay. We'll be sad to see you leave, Kenny. Just two remaining for me, please. The first is whether you could give some update on the US? Shay, obviously that's one of your key priorities and you were clear that you'll do whatever it takes to be the leader in that market. Just wondering how quickly we could expect to see market share ramp up in markets like New Jersey and Pennsylvania, particularly as we go into September and in the fourth quarter of year?

And then the second question was just on the betting on minor sports. So, I know there's been increased betting on esports, but also other minor sports. As the main sports have started to come back, have you seen that betting on minor sports drop-off or has that continued to be strong much in the same way that online gaming has sort of continued from strength to strength?

Shay Segev:

Yeah. I'll start with the US. We mentioned it two times. I am very, very involved with how we're doing in our US business. And we were working very closely with the team and with MGM putting all the building blocks in place. And I truly believe that we are in a position to be the leader in this market. Because we have all of these ingredients and we talked about it in the past as well. We have market access and now we actually set up in a place I think pretty much for the last two or three months that we will continue to be first to market in every new state opening.

We're now first to market in Michigan and in Colorado. And this is key to be early and basically to grab market share very early. We have very unique technology and products. I think Kenny has talked about it last time as well, is that we localise our products and we are in a very, very good place now in terms of taking time to tune the funnel and to localise the core products to the US, and we are in a very good place there as well. We started to work in terms of tuning of both our marketing technology, both in terms of traditional marketing, but also working with MGM, the demo for converting playing for players from M life, which is again, amazing database.

And also the Yahoo partnership is now going to a new level. And again, and the main thing is that also, I think the only thing we're missing until now, and we announced it as well, is to be more aggressive with marketing. We couldn't be able to grab as much market shares as DraftKings or others as we are spending much, much less than them and this is one thing that we're now ramping up. We feel that we are ready because the product is ready.

And I believe to your question is that in the next few months, we should see increase in our market share pretty much in all the states that we're active. And so it will be interesting. And we'll see progress from now through the end of the year and early next year.

Rob Wood:

And given from what I've seen, and Shay, if you can add anymore colour. Esports, and table tennis, and virtual to a degree would probably be the main beneficiaries during that period of reduced sporting activity. From what I've seen esports has carried on, whereas table tennis has tailed off. But you've got to say, they're still relatively small components of the larger offerings. So, I don't think we're going to see a massive amount of uplift as a result of these sports gaining popularity during the COVID period. That's my view. I think they're quickly dwarfed by the mainstream sports coming back online. Shay, is that what you've seen as well?

Shay Segev:

Yes, exactly. During the lockdown, we worked with the product and the content team to try to put other alternative sports content and other minor sports which has been the focus. We have actually been surprised with the acceptance of players for this content and as football and other sports, major sports come back, clearly customers went back to the major, but actually this is still, I mean, some of the customers still like this. Clearly become a smaller portion, not that significant, but it's more than what it used to be in the past. I think there is a potential there. I mean, don't expect it to become a major, but there is a potential for this to grow over the future.

Call co-ordinator:

Thank you. We will take our next question from Kiranjot Grewal of Bank of America. Please go ahead. Your line is open.

Kiranjot Grewal:

Hi, a few questions from me. Back in the retail side. I see benefits from winning new customers as not all of your competitors sort of opened, and are you expecting that the retail market could fundamentally changed as a result of COVID in the longer run? And the second one comes back to marketing spend. I know the marketing spend should sort of tail down over the next few years, but should we expect a notable ramp up in H2 year on year as you attempt to retain some of the customers you've won during the lockdown period?

Rob Wood:

So from what I've seen on retail, yes, we have benefited from not, not being fully open. Really, that's only one though in William Hill, Betfred and Paddy Power have opened all of their estate. I think William Hill at last count still had 196 not yet open, and I wouldn't expect that they will all open. So therefore there will be some benefit for us. We also, I would have expected to have some benefit from things like AGC not being open until 4th of July. So some benefits, but not particularly material in the grand scheme of things.

In terms of what does retail look like going forward? It is a little too early to say, I'm not expecting revenues to be so far adrift of where they once were, that there'll be a fundamental restructure of the retail estate. I really don't think that will happen. And our expectation is we continue with our BAU, two to three percent trimming of the estate going forward, but let's reserve judgment on that for a few more months, until we can fully assess the impact.

In terms of marketing spend, in the second half of the year, I would expect somewhere in line with our original guidance of 22% to 23%. That would be a couple of points up year on year. Normally you spend more in the first half than the second half. So I think in terms of year on year, we'll spend more in the second half of this year, but overall, across the full year, I'd be surprised if we're anything other than below the guided range of 22%, 23% back in March. Not massively below, but a little bit below.

Remember it's only really April and May where we saw significant savings in marketing, given sport was ramping up, well, from late May with the Bundesliga then UK racing, 1st of June, and then football sort of mid June onwards, June was still a full month of marketing expenses. Only two months out of 12, where we saw significant reduction.

Call co-ordinator:

Our next question will come from Ted Nyhan of JP Morgan, please go ahead, your line is open.

Ted Nyhan:

Good morning guys, thank you for taking my questions. Are you able to give an indication of what online EBITDA done on H1 and potentially the marketing ratio H1 and what that contributed to

EBITDA in H1? And secondly, the surging gaming NGR during the first to third Q2 in particular, how much of that do you see sticking? Because it just created top base or the next year in terms of that activity subsiding. And then finally, I suppose, is there any update on German regulations, and how do you anticipate that impact of the business over the next year or two? Thank you.

Rob Wood:

Okay. Should I have a go at the trading ones? So you'll see our divisional EBITDA breakdown in the interim in a few weeks time. And I can say, as I've already said, margin was high as you've seen that. Marketing rate was low, you know, potentially even sub 20% in two out of six months, it's said we're low. So online EBITDA is strong in H1, and we wouldn't necessarily assume the same in H2 as I said in my opening comments. In terms of levels of online gaming, it's almost a million dollar question for us as we move into the second half of the year. Clearly they peaked during Q2, before sports returned, and sports have come back. We have seen tailing off, particularly in the sports brands, as you have said, but in general as well, key question is, is how far do they fall right now?

They're still comfortably ahead of pre-COVID levels, which is fantastic. And our hope and expectation is that they settle ahead of pre-COVID levels as well, but I would anticipate them falling further from where they are today. In terms of German regulations, Kenny, we haven't heard much from you. Do you want to take that one? Otherwise I'm happy to do it.

Kenny Alexander :

Well, I'm officially retired from German regulation. No, I'll just give the grand finale. I've been talking about it for how long? 13 years, so I may as well just keep talking about it. No look, the German regulatory situation is pretty much not much really has developed since the last updated year. I think it's pretty much in limbo, to be honest with you. We expect the new licensing regime to be put in place, I think our best time scale is now Q2 of next year, where we will have sports betting licenses.

As we've previously communicated, really expect to be able to get some sort of gaming licenses as well and we expect there will be some sort of restrictions on the product we're able to offer. Maybe even some sort of restrictions on limits. There will be some sort of haircut on the EBITDA and on Germany; Bwin as a result. Don't expect it to be particularly material and it certainly won't outweigh the benefits of being able to say that we are 100% fully regulated and taxed in Germany rather than at the moment where we have this cloud, not a cloud, but uncertainty around the casino and the poker part of our German business.

If I could, I'd love to be able to be more specific, or have more clarity. Unfortunately for the last 13 years, I've not been able to, but I do say, I've said over the last years, a couple of years, we definitely in the next 12 and 18 months, we will have clarity. We will have fully licensed for all products. There will be some limitations on product offering. There will be some, probably some limitations stake limits and possibly on both sports and on gaming. There will be some sort of haircut to the EBITDA as a result. It will certainly not outweigh the benefits and the rerating that we should get on our German earnings.

It should also open up additional marketing channels, particularly around gaming, which we're not really able to exploit at the moment apart from cross-selling. So it's looking positive. It's still a little unclear. It should be. It should be cleared up within about 18 months. The million dollar question is will we ever have to close down all casino and poker? Absolutely not. It will be regulated. It will be taxed. It's taxed at the moment actually, in terms of VAT. There will be a haircut, but it's all plus for the business in terms of market valuation.

Call co-ordinator:

Thank you. And my last question today will come from James Rowland Clark from Barclays. Please go ahead. Your line is now open.

James Rowland Clark:

Good morning, everyone. Most of my questions have been asked. I've just got three short ones. There was a noticeable increase in the pricing. You are pricing the Premier League on Coral and Ladbrokes brands. I just wondered if that's a significant change in strategy to sort of target more recreational customers? Any colour that would be helpful.

Rob, you mentioned discretionary spend risk for the latter part of this year. I just wonder where you think you would see the greatest risk from that to your business? Is that online or retail, and is that online gaming or sports betting? And finally, just on the US, I wonder if you would, will report US separately going forwards? Thank you.

Rob Wood:

Okay. Shall I take the discretionary spend one? I'm thinking about competing leisure activities, I think it's both online and retail. Retail in the sense that more and more restaurants, for instance, open up, cinemas et cetera. There's more competing spend. Likewise, online if people are out and about more. So it really, it was a general comment, James, nothing particularly in mind, but I would say all products, all channels, must have some exposure.

On US reporting, we will certainly get more granularity over time. I think quite when we do that, it's not been planned through as of yet, but I think, rest assured just because it's a JV and it therefore only appears as one line in our P and L, it doesn't mean you're only going to get one line of detail. We will do more and more, progressively, more and more detail on US going forwards.

And on pricing strategy in the Premier League, Shay, I don't know if you're aware of any deliberate attempt to price more....

Shay Segev:

No, I'm not aware of any change of strategy for our pricing. I mean, clearly we said it a few times that we are more and more aiming to acquire these recreational players. This is the focus, but I'm not aware of any pricing, I mean, again, from time to time, we might do a different ad hoc specific pricing changes based on specific campaign or strategy, but there's nothing strategic that we're planning to change in terms of the pricing that I'm aware of.

Call co-ordinator:

Thank you. That will conclude today's question and answer session. I would like to turn the conference back to our hosts for any additional or closing remarks.

Shay Segev:

Okay. Thank you all for the questions and joining the call today. Overall, it's been a strong performance, and the first half demonstrating the strength of our business model and our diversification by product, brand, channel and market. As before, it is demonstrates the quality of all people. While there remain some uncertainties across the world, we can look forward with confidence. Many thanks for your time and I look forward meeting you all in due course.

Thank you. Bye.

Kenny Alexander :

Yes. Yep. I'd just like to say before being switched off. Look, I enjoyed sparring with you, answering your questions over the last 13 years. You've always been very, very fair as far as I'm concerned and I've tried to answer them as honestly as I could -most of the time, anyway, and I've thoroughly enjoyed working with all of you, and I wish you all the very best in the future. Stay safe and healthy, and don't give Rob and Shay too much of a hard time. So goodbye, god bless. See you later.

Shay Segev:

Thank you, Kenny. Thank you.