

Entain

STS announcement

13th June 2023



Transcript

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Jette Nygaard-Andersen, Chief Executive Officer

Thank you and good afternoon. Thank you for taking the time to join today's presentation and doing so on this short notice.

So, we are delighted to announce the offer for STS, the leading sports-betting operator in Poland, and the associated equity placing. We'll take you through some slides covering some of the detail, and there will be an opportunity for questions at the end. And I should say that I'm joined on this call by Rob and David.

This acquisition of STS builds on the initial step we made into Central and Eastern Europe with the formation of Entain CEE and the acquisition of SuperSport, which has been a great success.

First and foremost, this is an opportunity to acquire a very attractive asset in CEE. As we said at the time of the SuperSport deal, this is an exciting, regulated and growing region.

You may remember that we said at the time of creating Entain CEE in August last year that we wanted to create a platform that would enable us to grow across the region leveraging the capabilities of all the parties involved and also a platform that would allow selected partners, so founders, owners, management of leading regional players, the opportunity to participate in the Entain CEE opportunity.

It's a region that is relatively unconsolidated and this is exactly why we entered into the partnership with EMMA Capital.

Like SuperSport, STS is the number one player in its market – in this case Poland – with Poland being the largest economy in the CEE region. This acquisition is therefore directly in line with our strategy of having leading market positions and brands in the markets in which we operate.

This means that less than a year on from establishing Entain CEE, we are on track to own the number one asset in two key CEE markets.

Thirdly, we expect that adding another leading business to the Entain CEE vehicle will allow us to start driving attractive synergies from the platform. And we estimate we can achieve over £10m of run-rate synergies across the Entain CEE platform over the medium term from this deal, starting in 2024.

Importantly, we also expect the acquisition, including the associated equity raise for the acquisition, to be earnings accretive in the first full year of ownership.

We are delighted that Mateusz Juroszek, CEO of STS, will join the Entain CEE board and continue as STS CEO. He and the team at STS bring more industry-leading talent into the

Entain CEE fold, joining the best-in-class team we already have there and will work with Radim on further value creating opportunities.

And finally, it should be noted that the Polish online casino market is regulated, but it is run by a state monopoly. As such, STS does not offer an online casino product in Poland. We expect this market to fully liberalise in the future and we will be well positioned for this when it does occur.

As you will have read in our release, we are launching a tender offer to all STS shareholders at an attractive premium to STS' recent trading,

We are delighted that, as well as joining the Board of Entain CEE, Mateusz has, together with his father, through their respective family foundations, committed to tender the 70% STS shareholding they control into our offer. This ensures we will be able to take control of the business and satisfy the acceptance condition of the offer.

Similarly, Mateusz and his father will re-invest a portion of their proceeds into a 10% economic stake in Entain CEE following completion, reinvesting approximately 30% of their proceeds from the sale. A great sign of the confidence they have both in the prospect of the STS business and in Entain CEE more broadly, and we are incredibly excited to have them onboard.

We currently expect the acquisition to complete in Q3, with the receipt of antitrust approval being the main milestone that we will need to meet.

We will be financing the acquisition by way of a £600m equity raise, which has been launched post market close today, approximately £450m of which will be used to fund Entain's cash component of the STS consideration.

The balance we'll use to support our pipeline of acquisitions we expect in the near term.

The important point is that STS is a high-quality asset. We believe we are paying a good price for it and, including the equity raise for the acquisition, it will be earnings accretive in the first full year of ownership.

As we said at the time of creating Entain CEE, we're creating a joint venture to unlock the significant opportunities across this regulated and growing region. Poland is an exciting market and so has been high on our list for all the reasons set out on this page.

The Polish gaming market has a total addressable market value of US\$1.6bn, including the casino opportunity, with that TAM growing by at least 12% CAGR over the next few years.

Poland itself is also a large and increasingly affluent economy, being the largest economy in Central and Eastern Europe with GDP per capita continuing to grow at a double-digit rate. This is resulting in an increasing gambling spend per adult which has grown at a CAGR of 24% over the last 3 years.

If you could choose any way for Entain to enter this attractive market, it would be with the market leader and that is STS. They're the number one sports betting operator in Poland, and have seen strong financial growth, with NGR up 24% in the last couple of years. Importantly for us, they are also growing their actives base.

STS has its own proprietary tech platform and operates its sportsbook in house. Their growth is driven by their innovation and great range of products, for example, STS was the first bookmaker in Poland to introduce betting on e-sports as well as offering traditional sports betting, exclusive live dealer content, and virtual sports betting.

STS has a great omnichannel offering with around 400 stores across Poland, making it the largest retail player in Poland. But it is very much an online first business, as you can see, with 82% of NGR coming from Online, and active users growing at a 23% CAGR over the last 5 years. Importantly, STS also shares Entain's commitment to responsible and safe gaming.

The result of STS' innovative product offering and strong operational KPIs can be seen its high-growth and strong financial profile, on which, over to you, Rob.

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Rob Wood, Chief Financial Officer and Deputy CEO

Thanks Jette. I have to say we're really excited by this acquisition. STS is a great business and we're thrilled to be joining forces under Entain CEE.

STS is the leading sports betting operator in the Polish market with very strong NGR growth of 24% CAGR since 2020, and EBITDA growth of 34% CAGR over the same period. Its NGR growth is online led, as the chart demonstrates, and strong growth has continued into Q1 with EBITDA up another 12% year on year, putting STS very much on track in 2023 to outstrip the success of 2022.

One point to note on accounting, STS report NGR net of gaming taxes, and so reported NGR under Entain accounting would be higher, as illustrated on the slide.

The next slide helps to emphasise that it's not just us who believe in this opportunity, we're delighted that, alongside us, EMMA Capital is investing, and of course they know the CEE markets and CEE gaming assets very well, and Mateusz and his father are investing by re-investing approximately 30% of their sale proceeds into Entain CEE.

That does dilute our economic stake, but as we have said before, we are comfortable with that because we have a pathway to full ownership over time, and Entain has sole control of Entain CEE.

This slide also shows that we estimate that CEE today has a large TAM of around \$8.6bn, so whilst we're delighted to have announced 2 CEE transactions thus far, there's more that we can do.

On to financing, and as you will have seen in our announcements released this afternoon, we have launched an equity placing and a retail offer to fund our portion of the consideration for the STS acquisition. We'll be looking to raise approximately £600m, with £450m for the acquisition of STS, and an additional amount of around £150m to fund further near-term acquisitions.

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Jette Nygaard-Andersen, Chief Executive Officer

Thank you, Rob. So, to summarise, we are extremely pleased to be announcing both the acquisition of STS and the associated equity raise. And as a reminder, it is earnings accretive, including the associated equity raise for the acquisition, in the first full year.

We are doing exactly what we set out to do last year with Entain CEE and executing on our growth strategy by acquiring a number one player and creating value for our shareholders.

We expect that adding STS, as well as Mateusz, to Entain CEE will also allow us to begin driving incremental synergies from the platform, utilising both the best-in-class offering at STS and Mateusz's knowledge of the business and the Polish gaming market.

We think Poland, and Central and Eastern Europe more broadly, is a really exciting place and we are delighted that Entain CEE gives us and our shareholders the opportunity to be leading these two markets going forward.

With this said, we would be happy to take any questions from anyone on the line. Thank you very much again for your time at this short notice.

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Questions and Answers

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Ed Young, Morgan Stanley

Yeah, so my first question, I just wanted to get my head around the drivers of growth in the business. So, I think, in the slides, you say it's a 24% revenue CAGR, and I think, Jette, you said it was a 24% spend per head CAGR, but you've also got a 23% actives CAGR on Slide 5, and I can't quite get those altogether.

And just on the actives, maybe it's a definitional thing, but the yearly actives you've got there are growing very strongly, and that's, sort of, saving the Q1 debt for STS, but on their Slide 6 they've got the quarterly actives of basically very flat to about 350 for the last 12 quarters or so, so perhaps you could just help on the actives definition or if there's something I need to be aware of there?

And then, more broadly, how do you understand what's been driving the business growth? Is it actives or spend per head or both, because I think those numbers would mean it should be high revenue if they're both correct?

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Jette Nygaard-Andersen, Chief Executive Officer

Right, thank you, Ed. Let me give it a go and then, on Page 6, I'll turn you over to Rob.

So, on Page 3, you rightly refer to the market has grown 23% and spend per adult 24%. So spend per adult, over three years, has grown 24%, but that is for the full market. So, remember STS operates only in sports betting, so when we look at that through the GGR lens, we need to break the 23% down into sports betting and iGaming, and sports betting has been growing slightly less than that, around 17%, whereas the iGaming market has been growing 28%.

So, slide 3 is really key here where you have the split in the total addressable market with online sports betting being the 52% of the market and iGaming the 44% of the market.

In terms of actives, we are using 2 different numbers here, but if you have a comparable 3-year period, actives have been growing for STS 19% CAGR and also 19% in 2022.

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Rob Wood, Chief Financial Officer and Deputy CEO

Yeah, if I can jump in at the end there, so, yeah, the NGR has grown 24% CAGR over the last 2 years, the equivalent figure for actives is 19%, so you can see three-quarters of the growth is actives led.

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Ed Young, Morgan Stanley

Okay, and that's a CAGR. Sorry, I still can't reconcile maybe I need to have it in front of you. If we need to follow up separately that's fine, but the quarterly actives, which are very flat, but the yearly actives have gone up a lot. I'm just trying to understand that that's all.

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Jette Nygaard-Andersen, Chief Executive Officer

Where do you see the quarterly actives?

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Ed Young, Morgan Stanley

On STS' own Q1 debt, slide 6, but perhaps we can come to back to that.

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Jette Nygaard-Andersen, Chief Executive Officer

Okay.

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Ed Young, Morgan Stanley

But useful to have a follow up if possible.

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Jette Nygaard-Andersen, Chief Executive Officer

We'll follow up on that.
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Ed Young, Morgan Stanley

Thank you. Appreciate it. The second question a bit more broad, you sound excited by the opportunity for online casino to legalise, you said it's under state monopoly at the moment. What gives that you that optimism that it would do, and is there anything concrete there or anything concrete around the timing that might happen upon?

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Jette Nygaard-Andersen, Chief Executive Officer

Yeah, so we are looking at this in the medium term, so Poland really stands out in Central and Eastern Europe as being the only major market without casino liberalisation. And we know there are pressures which will mostly come from them, the government looking at lost taxes and the fact that the state operator has a product which is not fully up to what other commercial operators could provide.

So, just a little bit of background again on that on Page 3, you see 44% of the total addressable market, that is really with the state-owned monopoly on iGaming. And at the same time, there has recently been some research done in terms of the size of the grey market, or offshore operators, and that being pretty high. So, there's research out that 42% of the casino market is being grey.

So, we do expect there being some movements around this, but we don't have a timeline for it. The important thing here is that the opportunity is there, and when we look at our Croatian markets that went for liberalisation of the online casino market within the last years, we can see how they have built their online casino share of the P&L, which is attractive, but we put it in there as a potential. And just to be very clear, it's not something we have in our financial modelling.

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Ed Young, Morgan Stanley

Understood. And then, finally, just on the synergy number, could you talk about how that £10m of synergies is going to be generated? What buckets is it coming from? Is that a conservative number? Is there upside to that later on or is that sort of, an all-in number? Can you, sort of, give us a feel for where that's coming from?

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Jette Nygaard-Andersen, Chief Executive Officer

Yes, so the synergy number of £10m in the medium term related to this acquisition, most of that is opex. So we want to unify the STS and the SuperSport technology platform in CEE, and they both have really good technology. So, the idea here is that we'll take the best from

these platforms in terms of the sports book and the trading and so forth. So, that's the majority of it, and that's, of course, for the medium term.

There are synergies as well in the shorter term that we expect to realise from 2024 and onwards, mostly sitting around the crux, so, for example, around the sports content, so the affiliates operational around third-party content as well. And even when we get to a stage where we can delist STS, there also be a smaller amount of some company costs there saved. But the majority of this is opex, and it's related specifically to the STS acquisition.

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Ed Young, Morgan Stanley

Very clear. Thank you.

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Telephone Operator

Again, it's *1 if you'd like to ask a question or make a comment. We'll now hear from Richard Stuber of Numis.

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Richard Stuber, Numis

Hi. Good afternoon and congratulations. Three questions if I can. The first one is does Entain already have any exposure to Poland already? So, do you have any, sort of, of your existing brands there? And a follow on from there is do you expect to launch any other brands in Poland, or will it just have to be just the STS?

The second question is could you give us a little bit more colour around the competitive landscape in Poland, who the sort of, number two, number three players are, how quickly they are growing?

And the third question is could you give us some indication about the timing of buying out the minority? So, when do you think you'll be able to have 100% of Entain CEE? Thank you.

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Jette Nygaard-Andersen, Chief Executive Officer

Great, and hi, Richard. Let me take the two first questions and then I'll hand you over to Rob for the third one.

So, as you might recall, last year, we acquired a very small business called Totolotek, and it was really a licence acquisition that we did at that time. It is de minimis, so we don't expect it to be a challenge for the regulatory approval, but we'll look at that down the road, but that is the only you would say operational exposure that we have to the Polish market at the moment.

Do we expect to launch further brands? I mean, really, that's for a discussion with Mateusz, but there are no plans there at the moment, but that's something we will discuss with Mateusz and Radim within Entain CEE of what makes sense here.

In terms of the competitive landscape, so STS is the number one player in the market. They have previously put out some numbers of their estimated market share around 40%. There is a couple of other operators. So, Fortuna is the closest competitor, so the Czech business, and we estimate they sit with a market share around 20% to 25%. And then, following from there, the next operator will be below 10%, and that would be Betclac or FL Entertainment from France. A couple of years ago, Superbet, so the Romanian player, entered the market and tried to build some share there, and then you have a number of smaller operators.

So, as you can see, whereas in other mature markets when we talk about sports betting, we talk about the top five players consolidating the majority of the market share, it's even more consolidated when it comes to Poland.

Rob, do you want to talk about the path to delisting and the timing?

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Rob Wood, Chief Financial Officer and Deputy CEO

Yes, good afternoon, Richard. Quite straightforward, we expect to launch the offer in about mid-July, and we anticipate it being a 30-day initial period. So, we should know by mid-August where we sit.

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Richard Stuber, Numis

Thank you. So, just on that final question, in terms of when will you be able to get the 100% of Entain CEE, in terms of the buying out the other – buying them out?

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Rob Wood, Chief Financial Officer and Deputy CEO

Entain CEE?

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Richard Stuber, Numis

Yes.

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Rob Wood, Chief Financial Officer and Deputy CEO

I see. We have an option that's four years after close.

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Richard Stuber, Numis

Clear, and it's something similar which you have with the STS owners as well?

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Rob Wood, Chief Financial Officer and Deputy CEO

It's the same for both, yes.

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Richard Stuber, Numis

Right, great. Thank you.
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Rob Wood, Chief Financial Officer and Deputy CEO

It's the same. Thanks, Rob.
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Telephone Operator

And as a reminder, it is *1 if you would like to ask a question or make a comment. We'll pause for a moment. [pause]

Again, *1 to ask a question or make a comment. [Pause]

It appears there are no further questions at this time. I'll turn the call over to our presenters for any additional or closing comments.
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Jette Nygaard-Andersen, Chief Executive Officer

Thank you very much, and, again, thank you so much for taking the time and calling on such short notice. I hope you can see from the material we've sent out and our presentation that we think this is a really exciting opportunity, one that delivers on our CE strategy that we set out last year and is earnings accretive in the first full year.

So, if you have any further questions, please do get hold of David and the IR Team, and otherwise, have a nice evening.
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Telephone Operator

That does conclude today's call. Thank you all for your participation. You may now disconnect.
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