Entain

Q4 Trading Update

1st February 2023

Transcript

Operator
Good morning and welcome to Entain's Q4 Trading Update and Analyst and Investor Call.

I will now pass to CEO, Jetta Nygaard-Anderson, to open today's call.

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Jette Nygaard-Andersen, Chief Executive Officer
Good morning, everyone and thank you for dialling in today. As always, I'm joined by Rob Wood and the IR team.

I'll kick off this morning with a brief summary of our performance and progress delivering our strategic objectives and ambitions and Rob will take you through Q4 trading in greater detail, then we'll open to Q&A.

I am pleased to say that we continue to make excellent progress on our strategy as a global leader in betting, gaming and interactive entertainment.

Through our growth and sustainability strategy we are delivering sustainable growth, while operating in a global industry with attractive dynamics.

We are focusing on the customer, delivering great products and engaging experiences to an ever increasingly recreational audience.

And we have clear evidence that our strategy is bearing fruit as evidenced in today's announcement.

Q4 was another record quarter for online actives, up 14%. Online NGR hit a new record in Q4, up 8%. In fact our group NGR was a record high too. And our Retail operations are going from strength to strength as we further improve the appeal of our shops for customers

M&A remains a core strategic growth driver for us with 5 acquisitions delivered since the start of 2022, including SuperSport via our newly created Entain CEE, as well as BetCity which completed last month.
These are businesses with leading positions in attractive, fast-growing and regulated markets; with strong brands and local management expertise.
They also clearly demonstrate the excellent M&A opportunities open to us and how well placed we are to deliver on them as we pursue regulated market growth opportunities across the globe.

And it's not just geographic expansion, I'm really excited we have now taken our first steps into the attractive adjacent markets of eSports and skill based wagering with Unikrn launching towards end of the quarter. It's still early days but we are happy with progress to date and are planning further launches over the coming months.

Our Q4 Online NGR was in-line with expectations, reflecting a number of moving parts across our global business during the quarter.

As I've already mentioned, Q4 saw us deliver yet another record number of online actives, and this is growing.

Customer engagement is visible across our Group, with Retail also continuing to exceed expectations.
Q4 NGR for Retail was +9% cc as our industry leading offering on our betting and gaming terminals in the UK drives increased footfall and broadens our audience.
As a result I am delighted to see that volumes in UK & Italy retail are ahead of pre-Covid levels and we continue to outperform the market.

We saw fantastic customer engagement during the World Cup, with many customer initiatives across our brands, all resonating well.
The World Cup captures the essence of a recreational sports-lover enjoying the thrill of an amazing global sporting event. Our focus on the recreational player has benefited from our data analytics, personalisation algorithms as well as our brand campaigns such as the Ladbrokes' Rocky and Bwin fan-led campaigns launched in October.
The Rocky campaign has been brilliant – driving Ladbrokes web traffic with existing customers up +30% and +75% for new customers.

Moving on to BetMGM in the US. As you heard from the team in the business update last week, BetMGM continues to go from strength to strength. 2022 revenues were ahead of expectations, and we are on track to deliver positive EBITDA in H2.

We retain our leadership position in iGaming and have cemented our position as a Top 3 operator of sports-betting and iGaming across the US, with a 19% share.

While this GGR share is slightly down on previous periods, our NGR share, which of course has a greater correlation with profitability, continues to be our focus as we concentrate on bonus optimisation.

While the US market is still in relatively early stages of growth, we are pleased with our position today and all key metrics are trending as we had hoped. As announced last week with the most recent $150m investment from the joint venture parents, we are extremely well positioned to continue to drive growth and profitability from our US operations.

Assuming no major changes to our environment and target markets, we expect financial support for BetMGM to come to an end, as we move into profitability in the US.
But our ongoing operational support from technology, to product, data analytics, CRM and people remains vital to BetMGM's ongoing success.

Our commitment to Sustainability is of course, core to our strategy. As announced last month, our pathway to 100% of our revenue coming from regulated markets, has been accelerated. As at the end of January, we have exited those unregulated markets with no clear route to regulation.

I'm therefore proud to say that we are the only major global operator to exclusively operate in domestically regulated or regulating markets – a new benchmark for our industry.

In October, Entain Sustain showcased our ESG initiatives and achievements so far. The international roll-out of our ARC programme has now reached 22 markets. We also launched the initiative alongside McLaren Racing to empower women for careers in tech, as well our ongoing support of grassroot sports which truly enables meaningful change.

We continue to set the pace for sustainability and player safety for our industry, across the group and across our the ESG landscape.

So, in summary from me, we are continuing to make excellent progress, both executing and delivering against our strategic ambitions.
The underlying strong momentum is visible across our markets, brands and products, with the unique Entain Platform capabilities driving growing market shares.

SuperSport and BetCity are the most recent joiners to our long list of compelling M&A transactions, both further expand our presence into highly attractive, regulated and fast-growing markets.

We have continued to innovate and invest in New Opportunities and with Unikrn's launch we embrace the exciting opportunity within eSports and skill based wagering.

We delivered record actives growth, record online NGR as well as outperformance from retail in Q4.

The final quarter rounded off a year where we not only delivered progress on our strategy, but further growth with NGR across the group, including our share of BetMGM up double digit at 15%.

All this sees us delivering EBITDA of between £985m to £995m for the Full Year 2022, approximately 12% up on last year and ahead of expectations.

So overall it has been a very successful year, so I'd like to take this opportunity to thank all our teams across the globe for all their efforts. Their excellence and dedication to delivering the best experience for our customers, are a core part of Entain's achievements and delivered another year of great progress.

On that note, I'll pass to Rob for more details on trading during the quarter.

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Rob Wood, Chief Financial Officer and Deputy CEO
Thanks Jette and Good Morning everyone.

As Jette has already outlined, I'm delighted that our business continues to perform well, delivering strong numbers in both Q4 and across 2022.

In Q4 we posted all-time record revenue for both our Online business and the wider Group. Group NGR was up 7% YoY in Q4, and for the full year, it was up 10%. Those numbers were both in constant currency, which I'll continue to use throughout.

Starting with Online, Q4 NGR growth of +8% was in-line with expectations and reflects the underlying growth in our online business, plus an anticipated boost from the men's World Cup and a softer margin comparative from the prior year.

As Jette said, we enjoyed a successful men's World Cup, with fantastic player engagement across our business. FTDs and actives both increased during the tournament by approximately 10% versus run-rates. And stakes and NGR on the tournament were as strong as we expected, up over 30% on the Euros in 2021, albeit helped by more matches.
Despite losing top tier football during the tournament, much of which shifts into this year, our best estimate is that the World Cup was still incremental, adding approximately 2ppts to Online NGR growth for the quarter.

Whilst the benefit to Online NGR growth from the World Cup and from a soft margin comparative was expected in Q4 guidance, there were a few ups and downs that were not expected, but which net out over the quarter.
On the plus side, our SuperSport acquisition completed prior to year-end adding 2ppts, but that was fully offset by delayed licensing in the Netherlands and extreme weather disruptions to racing calendars due to freezing conditions in the UK and floods in Australia.

Overall then, Online NGR growth was in line with expectation.

Looking more closely at Online, sports margin for Q4 was strong at 12.9%, in line with both H1 and Q3, supported by our increasing recreational mix.

By geography there were no surprises during the quarter. In the UK, the business was flat YoY, marginally better than Q3, as underlying growth was offset by ongoing absorption of affordability measures. Pleasingly we continue to take market share in the UK, whilst growing our actives base throughout the year

Australia returned to growth in Q4, after lapping lockdowns in Q3, as the team continues to lead the charge, providing customers with a fresh and engaging offering.

Italy and Brazil continued to grow, while the Baltics showed ongoing resilience despite the economic challenges in the region.

And in Germany, trading remained challenging with a lack of regulatory enforcement. Importantly however, we received our gaming licences in late November. So we are hopeful that much needed robust enforcement action will now be more evident in 2023.

In the Netherlands, we completed the acquisition of BetCity after the period end and we are at an advanced stage with licencing our bwin & party brands. We still hope to be licensed in Q1, if not Q2 this year.

In Croatia, SuperSport is performing strongly in the exciting CEE region, with double digit proforma NGR growth in Q4.

As you have often heard us say, Entain is the most geographically diversified and globally regulated operator in our industry. We also outgrow our markets year in year out. Our strategy to focus on the customer is broadening our customer base to more recreational audiences, and we now exclusively operate in regulated or regulating markets. This all gives us the most sustainable and highest quality of earnings.

Our growth is also actives led, and as Jette mentioned, our Online business delivered another record for active players in Q4, with Q4 monthly actives up 14% year on year, and up 10% vs Q3, of course helped by the World Cup.
Whilst a greater recreational shift has led to lower spend per head year on year, the run-rate on spend per head has remained flat since Q2.

Onto Retail and as you've heard throughout the year, our Retail business continues to exceed expectations, and Q4 was no different with NGR up 9% year on year.
In the UK, we have the best gaming and betting terminal offering on the high street. It is this in-store digital offering that is driving engagement, footfall, volumes and an evolving younger customer demographic.
LFL volumes have settled ahead of pre-Covid levels, and our market share has grown from 40% a few years ago to 45%.
And given UK Retail remains a £2.2bn revenue market place and every 1ppt is therefore worth over £20m, we continue to focus on driving further share gains, which ultimately benefits both our Retail and Online P&Ls.

In Italy, Retail revenue is also ahead of pre-covid levels, whilst our smaller estates in Belgium and ROI remain behind.

Before I turn to BetMGM, let me comment on Full Year 2022 EBITDA, which we now expect to be just shy of £1bn, in the range of £985m - £995m. At the mid-points EBITDA will therefore be up +12% year on year and 4% ahead of previous guidance.

Looking by segment, Online EBITDA finished in line with expectation, and pleasingly we ended the year with contribution margin in line with our original target at a little over 40%, which demonstrates the flexibility and resilience of our business that I talked about on our Q3 call.

The EBITDA outperformance versus guidance was therefore not driven by Online, but by 3 different areas. Firstly Retail and the revenue outperformance that I mentioned earlier. I'm not expecting analysts to increase Retail EBITDA for next year, given revenue outperformance

will cover the inflation headwinds previously flagged from absorbing higher wage & energy costs in the UK.
Secondly, lower investment into our New Opportunities segment as approximately £17m of the guided £50m investment has shifted from 2022 into 2023, primarily because Unikrn launches have been soft launches thus far.
And thirdly our previous guidance excluded the SuperSport acquisition, which added £8m of EBITDA to Q4 before year end.

Now on to BetMGM and a quick word on profitability. After growing it to a near $1.5 billion revenue business in just 4 years, we are now close to delivering profitability.
As you heard last week, through a combination of bonus optimisation and strong same-state revenue growth (which was up 51% in 2022), and lowering CPAs (which were down 21%), we expect to be EBITDA positive in H2 this year.
Whilst this represents an important and satisfying milestone, focus for BetMGM remains on delivering our longer term objectives of a 20-25% market share and a 30-35% EBITDA margin.

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. Ladies and gentlemen, if you would like to ask a question please press *1 on your telephone keypad. Thank you.

I'll take our first question from Ed Young at Morgan Stanley. Your line is open, please go ahead.

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Ed Young, Morgan Stanley
Good morning, thank you for taking my questions. I've got three if that's okay.
The first one is on your favourite subject, Jette, the UK White Paper and regulation. I guess it's perhaps more of a question for Rob. Could you perhaps quantify what the impact on your business has been over the course of 2022. I'm mindful this has been going on a long time in the background. As you say – you mention in your comments today that you've been absorbing the affordability impact within the sort of existing growth rate if you like. So are you still talking to the mid to high single digit percentage impact to Group EBITDA that you've sometimes talked to, given what you've already done – or is there any update there?

The second, you both mentioned Unikrn and the soft launch that has happened, I appreciate there has been the cost phasing into 2023, but I just wondered if you could talk a little bit more broadly around how we should think about success in that business as it starts to ramp this year. And if you can perhaps give a framework over what you're expecting in terms of revenue contribution, or what kind of milestones you're looking for that business as you think about whether you want to invest more or less into your sort of outer year period?

And then finally, Jette, you spoke of excellent M&A opportunities, I just wondered if either of you could comment on the pipeline and how you see public and private valuations of potential targets at the current moment? Thank you.
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Jette Nygaard-Andersen, Chief Executive Officer
Good morning, Ed, thank you very much for your questions.
Why don't I start with Unikrn and M&A and then for once it will be Rob's task to answer your questions around the White Paper, I'm sure we'll come back to that later on the call anyway.

So listen let me start off with Unikrn and you are right, we soft launched by the end of Q4. So we are now in two markets, so Brazil and Canada outside of Ontario. And I think it is important for me to just say that we are playing the long game here. So it is really important for us that we build almost a market around our business and we are going about this the right way.
In 2023 we are looking to expand into further markets. I am not going to line them all up here, but we are looking at markets such as for example Australia and New Zealand that has really firm regulation and a great eSports audience and probably around a further 10 markets here. And of course we learn as we go along and operate our product.
So I think we should stress that we are playing the long game here. We are really flexible on marketing, we want to make sure that we can follow our KPIs and they come out as we expect before we throw a lot of marketing investment into it.
But it is all looking good, we had a good start and we are really looking forward to the next couple of quarters where you have more and more tournaments also coming on. You know when we launched there hadn't been any tournaments and obviously, we had the World Cup. So we are following our KPIs, we want to build a market here, but the first year as such – we won't be expecting to see a lot of revenue and EBITDA will be in the outer years.

So that was on Unikrn. Now let me just turn to M&A before I hand over to Rob.
Listen, we are as active as ever when it comes to our pipeline. And as we have said many times the thing that we look at are really strategic fit and then of course the team and the product and the business in itself. And mainly we are looking at M&A in order to support our growth plans. So whether that's entering new markets as we saw with Enlabs, or deepening our presence in existing and core markets or expanding into new areas such as we did with Unikrn.
And I do think that in the current environment that could open up opportunities for us as we have a really strong balance sheet with our strong cash generation and also a successful model for doing this.

Now in terms of valuation, we are clearly not an operator that is buying distressed assets here, so we are buying really strong businesses and surely we've seen public valuations come down somewhat. But these are strong business, so I'd say private valuations are still holding up. But I still think that there are opportunities for us with our strong balance sheet and with the model that we have – that it can open up opportunities for us. So we are being as active as ever.

Rob, for once I will hand the White Paper question to you.

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Rob Wood, Chief Financial Officer and Deputy CEO
Okay, thank you, Jette. So look, Ed, we have always been cautious on quantifying impacts because it is really quite hard to do and particularly when you've got things like COVID rebound noise in the numbers.

But if you look at the second half of 2022 in the UK, we were almost flat, just a fraction under. Whereas ordinarily we would expect the market in the UK to be sort of mid to high single digits, and then we expect to outperform the market, as we have done throughout 2022, again in the UK.

So therefore logically there could be 10ppts of drag from absorbing these measures, which I'm sure all the larger operators are carrying as well, as customers ultimately get diverted to the black market and unlicensed operators. So if it's 10 percentage points in the UK on a weighted basis for Entain that would equate to about 3 percentage points.

And if you think we've been carrying that for some time, to answer part of your question, you can easily add up to already having taken a large part of the estimate GAR impact that we gave two or three years ago. So it does feel like we've absorbed the lion's share.

But as we look forward to 2023 there is an ongoing impact through the first half of the year and then we'll need to see what come out in the White Paper. So we're cautious on outlook for the UK for 2023 until we have that clarity. Hopefully that gives you some flavour of how we're thinking about the UK.

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Ed Young, Morgan Stanley
Yeah, very useful, thank you.

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Operator
Thank you. We'll now take our next question from Joe McNamara at Citi. Your line is open, please go ahead.

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Joe McNamara, Citi
Hi, morning thanks for taking my question, I've got two if that's alright?

For 2023 on growth it would be great to understand that puts and takes to growth. So kind of how much we expect from Germany and the Netherlands, obviously BetCity is a large part of the Netherlands given you're currently unlicensed for bwin and party.

Is there kind of any material detractors you're like to flag, perhaps Belgium? And also should we expect Germany and Netherlands to be broadly breakeven for 2023?

I'll ask my second question afterwards if that is alright?

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Jette Nygaard-Andersen, Chief Executive Officer
Okay, good morning, Joe and thank you for your question. So we're not going to give any detailed guidance on this call, but I'll hand you over to Rob for any indications on how to think about growth in the markets in 2023.

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Rob Wood, Chief Financial Officer and Deputy CEO
Let me share a few thoughts. So you know if you start by looking at Q4, we delivered +8% as we have announced this morning. You do need to back out a couple of points for the World Cup, plus maybe a little bit more for annualising soft margin comparatives to get to an underlying view. So let's say you're sort of low to mid-single digits underlying. I say underlying, but that is carrying the UK affordability impact that we have just mentioned, and there are still one or two territories such as the Baltics where the economic conditions are causing a drag as well. So if you assume that continues through next year then underlying is probably low to mid and then obviously acquisitions and market launches would be on top.

To touch on the countries that you called out, actually Belgium is trading really well. So despite the recent changes in spend limits, we're pleased with pushing out double digit growth there in Q4.
Germany has been a challenge, that's for sure, as we are waiting for enforcement action. It does feel like there is real momentum gathering now, so we hope that 2023 will be the year where Germany returns to growth. And some nice green shoots in Germany actually, even though NGR was still down a little bit in Q4, actives and FTDs were up strongly. So hopefully Germany is just starting to turn the corner now.

In terms of profitability though you are right, there will be an increased investment, particularly around German gaming now that we are permitted to do so. And in the Netherlands that inevitably will be a drag on contribution margin as well with new taxes and the launch period. I have said previously around profitability for the Netherlands that that first sort of 6-9 months is probably breakeven before you then get into profitability. So depending on exactly when we go live in 2023 that will answer your question as to whether we expect to make money from bwin and party in the Netherlands in 2023 or not.
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Joe McNamara, Citi
Excellent, thank you very much that's very clear. And then the second one I had was on online wagering growth in Q4. So online sports during the quarter seems to have become I guess a bit light, versus our numbers at least – remain negative year on year constant currency despite the World Cup and Australia comps. Could you help me understand what the main contributors were, was it I guess the UK and Australia racing that you pointed out and did I guess the strong win margin expansion have an impact on recycling year on year? Thank you.
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Jette Nygaard-Andersen, Chief Executive Officer
Sure, Rob, do you want to continue
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Rob Wood, Chief Financial Officer and Deputy CEO
Yes, yes of course. So yes the last point you mentioned is always valid, you always have to consider a recycling impact when there is margin movement year on year. So that is part of it.

You also mentioned racing cancellations, I mentioned earlier, that was about a 1% impact on total NGR for the quarter, but if you're just looking at sport it's more like 2ppts. So that is an impact.
It's also worth saying that with the World Cup, remember World Cup is more recreational activity, it's higher margin activity. We made I think it was around 18% GGR margin on the tournament, so what the means is from the relationship between stakes and NGR it's effectively lower stake per head;higher NGR, and that is course cannibalising top tier football that would otherwise have happened.
So there's a few reasons there why as you point out stakes was slightly negative even through sports NGR was +7% for the quarter.
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Joe McNamara, Citi
Excellent, alright, thank you very much for your time.
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Rob Wood, Chief Financial Officer and Deputy CEO
OK.
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Operator
Thank you. We will now take our next question from David Brohan, at Goodbody. Your line is open, please go ahead.
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David Brohan, Goodbody
Morning guys, thanks for taking my questions. I just have two. So firstly on Brazil, obviously a bit of a regulatory setback there in December. I'm wondering if you could give a kind of update on the outlook for regulation in that market now.
And then just also on BetCity any colour or commentary you can give around the performance in 2022 and maybe how the market share has been trending over recent quarters? Thank you.
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Jette Nygaard-Andersen, Chief Executive Officer
Sure, good morning, David, let me start off with Brazil.
Yes, you're right, we had expected that the sports betting legislation would come through and that Bolsonaro would sign that during his transition period. So now Lula has won, and he is setting up his government. But despite this delay, we still expect regulated sports betting in Brazil during 2023 with the new administration. So that means legislation probably towards the end of 2023 and then hopefully it will be regulated towards the end or into 2024. But then we are kind of waiting for the new administration to pick up the matter and we expect to have an update and a more detailed timeline probably through Q1 2023. So that's on sports betting.

And then of course the iGaming bill we will also be waiting to see what happens with that, but that should also be on the agenda later on. So all in all sports betting might be regulated through 2023, it might slip into 2024. And then on the online casino probably also the beginning of 2024. However that doesn't change to say our excitement about the Brazilian market and underlying trends there are strong. So certainly something that we are really looking forward to that happening.

And BetCity, listen they are trading well – so in line with expectation and both came out of last year well and the start of the year well and we are comfortable with the expectations that they have going into 2023. And as you know they have a strong market share, so around 20%. So we are excited to have completed that acquisition last month, January.
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David Brohan, Goodbody
Perfect, Jette, that's very clear, thank you.
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Jette Nygaard-Andersen, Chief Executive Officer
Thanks David.
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Operator
Thank you. We will now take our next question from Kiranjot Grewal, Bank of America. Your line is open, please go ahead.
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Kiranjot Grewal, Bank of America
Morning guys, just two from me. I think the current consensus for online suggests some margin pressures, once you account for all the announced acquisitions. What is behind this, is it further cost inflation that we're anticipating here?
And then secondly, I think in the past you've mentioned a macro impact from Eastern Europe, are you seeing any impact in other regions. I'm just curious if Q4 was a high cost period for customers with the holiday costs and energy costs? Thank you.
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Jette Nygaard-Andersen, Chief Executive Officer
Thanks. Rob, do you want to take both of them?
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Rob Wood, Chief Financial Officer and Deputy CEO
Yes, happy to, morning Kiranjot. So yes, we managed to achieve our contribution margin target in 2022 which we're pleased with. 2023 there is a little bit more downward pressure on that number for a few reasons, the increases in Australian point of consumption tax, you'll be aware of those. There is also a little bit pressure, I have already touched on it earlier on this call around market launches, for example the Netherlands, Germany gaming could have impact, 1 or 2 other territories that we're looking to launch in. So whilst we'll still be shooting for a contribution margin somewhere close to 40% as we do year in year out, there is a little bit of downward pressure on it in 2023.

From a cost inflation perspective, really just in line with run rates and what we've seen previously, so nothing to call out there. Obviously, acquisitions getting layered in on top.

Your question around macro – so the key answer is we haven't seen any change in spend per head since Q2, which is encouraging. And even when you drill into the areas where there have been challenges, for example we've talked about the Baltics, again, no change through Q3 and into Q4. So you know hopefully as we progress through 2023, we'll annualise again some of that impact and indeed start to recover from it.
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Kiranjot Grewal, Bank of America
And just the last question, which markets should be your biggest contributors for online growth in 2023? And alternatively which ones are you most excited about for the year ahead?
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Jette Nygaard-Andersen, Chief Executive Officer
I can start. So listen, I think all our core markets we are quite excited about the prospect of them in 2023. Obviously we have regulation happening in the UK. Germany – hopefully there will be enforcement from the regulators there and the body they set up, so we will start to see some good contribution. Netherlands is an interesting one for us. Brazil, we're waiting for regulation, but we're still really excited about the market. And of course Central and Eastern Europe, we're very excited of bringing SuperSport onboard. But really across the globe we are quite excited about the markets that we have there. I haven't mentioned Australia and Italy, I could do that as well.

Rob, do you have anything you want to add to that?
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Rob Wood, Chief Financial Officer and Deputy CEO
Yeah, Croatia, we're hopeful for strong growth from Croatia. I think the important answer to your question Kiranjot if probably other than the UK, we'll be shooting for growth in all our major territories.
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Kiranjot Grewal, Bank of America
Perfect, thank you.
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Operator
Thank you. Ladies and gentlemen, if you find that your question has been answered you may remove yourself from the queue by pressing *2.
We will now move on from our next question from Simon Davies at Deutsche Bank. Your line is open, please go ahead.
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Simon Davies, Deutsche Bank
Morning, just two from me please. Firstly, just on retail, a very strong performance there and you said driven primarily by gaming and betting machines. Can you just update us in terms of where you've got to in terms of the rollout of your latest generation machines and do you expect growth to flatten out in 2023?

And secondly, on the competitive situation in Australia obviously Betr have been coming out with some fairly aggressive promotions, you talked previously about Tabcorp raising its game. Are you seeing any shift in the competitive landscape in Australia? And do you expect that to impact 2023 performance?

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Jette Nygaard-Andersen, Chief Executive Officer

Good morning, Simon, let me start with Australia and then I will hand you over to Rob on the retail side. So the Australian business is doing really well, they had a good Q4 with high single digit NGR growth. And they have been, over the last year, really improving their market share. So it is ticking upwards and we continue to outperform the bigger competitors there, that's what we've seen in the prior quarters. So we are waiting for their new numbers of course. But really strong momentum in the Australian business after they have lapped the COVID lockdowns and from the quarters last year.

We saw the press yesterday from PointsBet which you allude to and they recorded a strong Q4, despite the different market rumours of them losing share to Betr and other – or new competitors in market. But yes, good performance from PointsBet, but our Australian business is doing really well and we're super pleased that they continue to innovate down-under. So happy for the Australian performance and looking forward to 2023 for them.

Rob - retail and the rollout.

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Rob Wood, Chief Financial Officer and Deputy CEO

Thank you. Morning Simon. So across all of the digital touchpoints in our shops in the UK we are continuing to enhance them. Whether you're looking at the gaming machine terminals at the moment around half of our shops have the most advanced machines. We are consistently progressing through the rollout of those. Our betstations and the self-service betting terminals, there's a lot more rollouts coming through 2023 as well. But also gantries is an area that we're focusing on in 2023. And then racing terminals as well.

One thing that we've noticed is that whilst I mentioned earlier, we've gained 5 points of market share in the UK, which we're really pleased with, and the average is 45% across all products, actually our market share of racing is sort of high 30s. So there is opportunity there and we will be focusing on that in particular during the course of 2023. And really touchpoints like gantries and racing terminals are the way to tap into those opportunities.

So in short it's the continued rollout of best in class technology across all the digital touchpoints. That is really our focus for 2023.

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Simon Davies, Deutsche Bank

Great, thank you.

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Operator

Thank you. We'll take our next question from Andrew Tam at Redburn. Your line is open, please go ahead.

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Andrew Tam, Redburn

Hi there. Thanks for taking my question. I just wanted to see if there was update in terms of your estimates around the net interest expense line. I think at the Q3 you mentioned, certainly for 2023, that the line should be north of £200m. Now that you've done a lot of your debt risk financings in December, do you still see that being the case between the high base rates?

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Rob Wood, Chief Financial Officer and Deputy CEO

I guess that's one for me.

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Jette Nygaard-Andersen, Chief Executive Officer

Andrew, your line was slightly unclear, but I guess that we'll hand this to Rob.

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Rob Wood, Chief Financial Officer and Deputy CEO

Yes, good morning. So, £200m, maybe just over, for the cash interest cost is as a guide as any at this stage. So, yes, no change to expectation on a P&L basis. We expect somewhere between 6.5% to 7% interest charge. Aand remember the majority of our debt is fixed for the next period of time, so limited exposure to moving interest rates through the year as well.

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Andrew Tam, Redburn

Got it, thanks for that, thanks for the update.

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Jette Nygaard-Andersen, Chief Executive Officer

Thanks, Andrew.

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Operator

Thank you. We'll now take our next question from Jemma Permalloo. Your line is open, please go ahead

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Jemma Permalloo, JP Morgan

Hi. Good morning, and thank you for the presentation. Maybe, just as a follow up to the previous question, so we see the recent debt refi as well was M&A. Just looking at your 2023 maturity, bond maturity, just wanted to get an update. I think, on the last call, you mentioned that you'll be still looking at the bond market, and potentially a combination of loan as well. Any update to that one?

And then my second question, as a follow-up to your M&A questions. There have been renewed headlines about some of the US peers probably looking to bid for the business again.

I understand that you probably wouldn't be able to comment on that, but just your general view on potential bids in the future.

And finally, my last question, obviously, one of your peers yesterday had big headlines, or the day before, around KYC and an internal investigation. Without getting into the details of that one. But can you remind us where you stand on your own KYC policies and whether you have the VIP accounts, which I presume would be a yes, but whether you have the VIP accounts in some of your jurisdictions? Thank you.
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Jette Nygaard-Andersen, Chief Executive Officer
Thanks. Well, I'll take the M&A and the comments that you made on the announcement out yesterday in the market, and then I'll hand you back to Rob for the bond question.

So, as you could probably imagine, I'm not going to comment on any speculations around MGM or bids here, and there is really no change to our previous comments here. I mean, when it comes to our US business, both parents are focused on maximising the success of BetMGM. We work very well together, and I hope the results that we showed last week proves that point. So, I would also say that neither parent would do anything to create disruption or distraction that jeopardises BetMGM's success.
So, our commitment and focus is really clear on Entain's own ambitions and incredible opportunities here, and then, of course, to continue to help BetMGM forwards through their success.

So, that was on your question on the bid, and then let me touch briefly on your other question relating to the announcement in the market yesterday, and let me make a couple of points here. First and foremost, as you've heard us talk about, and we had an announcement out a couple of weeks ago, we operate in regulated markets. So, from the end of January, we're 100% in markets that are regulated or are soon to be regulated, such as, for example, Brazil. So, we are not operating in any of the markets that were mentioned in the announcement yesterday. And we don't run the VIP schemes, in Entain we don't have the VIP customers. We've talked a lot about our strategy being focused on building our recreational base. And you've seen that we put out numbers as well which sums up how we are growing that base, and I think we showed, at the interims, certainly in the UK, 90% of our customers are lower recreational spend customers in the UK. So, that's a key strategic focus for us.

And when it comes to what we are doing in terms of protecting the business, obviously ARC is a key part of that, and it's providing cutting-edge technology solutions when it comes to player protection. And as part of everything we do here now, our responsibility strategy, we have reviewed and overhauled all our processes, including customer checks and AML processes, so that's something that is a top priority for us.
So, we have dedicated AML teams, of course, KYC checks, and those AML teams have grown year on year because this is a key priority for us and we have all the dedicated policies and procedures and oversights in place. So, everything we're doing is focused on protecting our customers, and I do think we are setting the standards in terms of operating only in regulated markets as we go forwards.

Sorry for that slightly long answer, and, with that, I will hand you over to Rob for the question around the bond.
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Rob Wood, Chief Financial Officer and Deputy CEO
Thank you, Jette, and just to set the context for a moment for everybody's benefit, the refinancing activity that we did in Q4 saw us push out the nearer-term maturities. So we now have no major maturities until 2026, just with the exception of the £400m Ladbrokes Coral bond which you referred to in your question.
So, as we're thinking about that bond, which matures in September this year, we could redeem it in cash. We continue to look at refinancing options though, both bonds and loans. So, no real update for you, but it's something that we'll certainly be looking at in the first half of this year.
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Jemma Permalloo, JP Morgan
Thank you
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Operator
Thank you. We'll now take our next question from Richard Stuber at Numis. Your line is open, please go ahead.
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Richard Stuber, Numis
Hi, good morning, Jette, morning, Rob. Just two quick questions from me, please.
The first one, could you just remind us again what percentage of your online revenue is for markets which are currently unregulated but with a near-term path to regulation? And presumably, the lion's share of that will be Brazil, but if there are any markets you could point out, that would be great.

And the second, I was wondering if could give more colour around the current trading in the year. If you can, sort of, quantify any sort of numbers there, and particularly around the customers you acquired during the World Cup and how sticky have they been? Thank you.
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Jette Nygaard-Andersen, Chief Executive Officer
Thanks. Good morning, Richard. Yeah, as we say, we now, from the end of January, as we accelerate closure on some the markets, the smaller markets where we didn't see any path to regulation any time soon. We are 100% now in regulating or regulated markets, and I would say it's approximately around 93% of the revenues that are from markets that are fully regulated, where we have domestic licences. And then there are a handful or so of markets that would be regulating shortly, and the bigger one of those are, as you say, Brazil.

Rob, over to you for the other question.
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Rob Wood, Chief Financial Officer and Deputy CEO

Sure. I mean, a little bit early to be talking about current trading in the year. But, as you say, we did see an uplift in activity in Q4. I mentioned it in the opening remarks that, compared to run rates, we saw actives lift about 10% during the tournament, and that really has maintained as we exited last year and into this year. So, we're pleased with our start to the year, obviously though, a long way to go.

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Richard Stuber, Numis

That's great. Thank you very much.

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Operator

Thank you. We'll now take our next question from Joe Thomas at HSBC. Your line is open, please go ahead.

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Joe Thomas, HSBC

Good morning, Jette, and good morning, Rob. Thanks for taking the questions.

Just a couple of small ones, please. The first one is on contribution margin. I don't think that there is any change on the outlook for this year from what you've said previously. But, since Q3, we've had Brazil not go forward with regulation, which would have meant a tax headwind, so I just wonder why, perhaps, the outlook isn't incrementally improving and why it is unchanged. Any help there would be useful.

And then, secondly, just on Germany, I think you've now lapped introduction of the regime there, and I just wondered what underlying trading looks like? It is, sort of, deteriorating or are you growing again in Germany? Thank you.

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Jette Nygaard-Andersen, Chief Executive Officer

Hi. Good morning, Joe. I think both of them are for Rob. Rob, do you want to take them both?

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Rob Wood, Chief Financial Officer and Deputy CEO

Yes, I can have a go. So, in Germany, the most recent change was a change to the way that spend limits are implemented from 1st July, so there is still an ongoing impact. The key aspect there though, we've talked about it a lot, is this requirement for enforcement because there is still a complete difference in offering for those that are compliant versus those that are not.

I think I touched on it earlier in this call, there are some green shoots in terms of our numbers. So, whilst NGR was down a little bit in Q4, actives, and FTDs in particular, were up very strongly. So, if we get the enforcement that's sort of long been expected during 2023, we do expect, but we've said it before, but we do expect 2023 to be the year that we return to growth in Germany.

And for context, it's worth saying, when, I think it was October 2020 when the new regime was announced, we gave our guidance at the time for the impact. We're only just below that guidance today. The difference is we would have expected to have been on the path to recovery by now, and we're not, but hopefully 2023 will be the start, as I say.

In terms of contribution margin guidance, so, you know, we hadn't factored in anything around Brazil. We'll wait to see exactly what that looks like and when. But one would hope that it isn't too much of an impact given, whilst new taxes will be introduced, there are benefits around things like payment supply fees and other parts of the cost of sales equation. So, it's not necessarily going to be a material drag to contribution margin as and when it regulates. And, in any event, if we can get an acceleration of NGR, you know, that's the best way to improve your contribution margin as well.
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Joe Thomas, HSBC
Got you. Thanks. Can I perhaps just pick up on Brazil also? You highlighted in the past competition there, is there any further update on that as well?
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Jette Nygaard-Andersen, Chief Executive Officer
I can take that briefly. So, there is a lot of noise in the market, no doubt about that. And it's really coming from some smaller operators, but, you know, we don't expect that to have a longer term impact in the market, but there will probably continue to be some noise in the market until we get regulation through.
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Joe Thomas, HSBC
Got you. Thanks very much, both of you.
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Jette Nygaard-Andersen, Chief Executive Officer
Thanks, Joe.
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Operator
Thank you. Once again, ladies and gentlemen, if you would like to ask a question, please press *1 on your telephone keypad. Thank you.

We'll now take our next question from James Rowland Clark at Barclays. Your line is open, please go ahead.
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James Rowland Clark, Barclays
Hi. Morning all. Thanks for taking my questions as well. You just, sort of, alluded to earlier that the 2023 contribution margin will be just below 40% as you see it. Could you help us as to whether that's the right sort of contribution margin to be thinking about longer term, or can you get back to the 40% to 42% you used to operate at?

And then, secondly, on the White Paper. Obviously the Gambling Minister's been out there talking about the White Paper coming in the next few weeks, but then Downing Street, kind of, stepping in, potentially, who knows really, but what's your expectation around the timing and I suppose also what's your expectation around implementation of any new measures on slots and affordability?

And then my final question is on the online NGR growth trends. So, you were saying that underlying is low to mid-single-digit online NGR growth. If you back out the World Cup and the soft comps for the margins, and potentially this is where expectations are for 2023, ex acquisitions. I'm just wondering why that's the right run rate given the shift of football fixtures out of Q4 for the World Cup and into 2023, and because you're now comping the measures you've done in the UK and you've got German licences and BetCity to come. So, I'm just wondering why that is the right expectation for 2023. Thank you.

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Jette Nygaard-Andersen, Chief Executive Officer
Thank you, James. Good morning to you and thank you for asking about the White Paper. I'll take that one, and then I will hand you over to Rob for the contribution margin question and the 2023 run rate.

What we've heard the last couple of weeks from the Government and also from the new minister is an approach and these comments that are, you know, somewhat pro-industry and advocating for freedom of choice. They also want to talk about frictionless checks instead of affordability checks and what comes with that, which I think is all positive. And the recent comments that you all heard is that they intend to have the paper out in the coming weeks, which I assume would point to end February, but at least some time during Q1. So, hopeful for Q1, however we should expect that this might slip into Q2, but we hope that it will be out during Q1.

And then, when it comes to the measures being implemented, I think, for a number of these measures, especially when we talk about the frictionless checks, you know, it's pretty unproven, right, so it will not only require consultation but also a few tests and trials and implementations. And we'll see what comes out and how much time we will need to test these things when it comes to the different consumer checks. But that doesn't change the fact that just having the White Paper out, for us and for the industry, will provide some clarity in terms of what are actually the expectations here, and then we can work with both DCMS and the GC on the implementation.
And I think also helpful that DCMS and the minister have been quite clear that he wants the GC to have more accountability and, therefore also that there needs to be some [slower side] and consistency in terms of the implementation of the Gambling Act review and the White Paper. So, in short, you know, hopefully Q1, or it slips into Q2, that might be the case.

Rob, over to you on contribution margin and run rate 2023.
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Rob Wood, Chief Financial Officer and Deputy CEO
Thank you. Morning, James. So, yeah, let's start with contribution margin. So, 40% has been the sort of long-term number for this business. You mentioned the 41%, 42%, but really that

was during the COVID period where NGR took an exceptional lift and we didn't increase marketing spend proportionately, and therefore that played through into contribution benefit. In 2022, of course, we've now unwound that as the first half of the year, as you know, was negative, lapping lockdowns. So 41%, 42% is not really the right benchmark. I'd suggest 40% is the long-term number. Can we get there in 2023? I've talked earlier in the call that the pressure's against that, but it's not to say we won't try.
When we look forward to 2024 and beyond, now, as I touched on in one of the earlier questions, really NGR growth is the best way. You know, we shouldn't need to grow our marketing investment at the same rate as we grow our NGR. And therefore you should get some positive forces behind your contribution margin, but you always need to allow for the possibility of a tax rate increase in a certain territory, and so on.
So, that's a long way of saying that 40% has, historically, been the number, and I think it's still the number going forward, just flagging a little bit of incremental pressure in 2023, and we've spoken around things like the launches of bwin back into the Netherlands as a reason for that.

Your question around online NGR, what the run rate going into 2023 is. Inevitably, there are always moving parts in this business, we're so globally diversified, as you know. You mentioned a few potential ups and downs – let me just comment on each of those.
You mention football fixtures; I would agree that there should be some benefit in 2023. Ordinarily, rule of thumb, tournaments add about 2 percentage points of benefit to a full year. We've already effectively had half a point of benefit, I mentioned 2ppt incremental to the quarter, that's therefore 0.5%. So, logically, there's still a percentage point or so to come in 2023 bearing in mind 2022 had some fixture benefit as well. So, yeah, maybe there's a point or so for rescheduled football fixtures.

Your comment around the UK, yes, the second half should be stronger than the first half if nothing else changes. But as we've seen in the UK, from recent years, you can expect that something might happen, and obviously we're waiting to see the outcome of the White Paper, as Jette's touched on, so, you know, we're trying to be conservative with our outlook for the UK.
In Germany, we've touched on that in this call as well. So, yes, there is some positive momentum around things like an improving slots product, ability to advertise, but we haven't yet lapped the change in spend limits from 1st July. So there are some opposing dynamics there. The big watch-out, as we've talked about, or the big catalyst will be enforcement.
The Netherlands you mention, that's not in the run rate, so that would be an incremental positive.
And another one to watch out for is markets like the Baltics, where we saw a drop in spend per head in Q2. As the run rates are trending, we should annualise against that, and potentially recover from it as well. So, that could be an upward catalyst to the run rates.

But a long way of saying there's always a lot of noise in the numbers. It feels like we're, sort of, low to mid-single-digit territory pre-acquisitions at the moment, and we'll monitor that closely as we progress through 2023.
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James Rowland Clark, Barclays
Thank you. That's really helpful colour on the underlying business, and could I just double

check the rough percentage point on an NGR growth impact from acquisitions you'd be expecting?

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Rob Wood, Chief Financial Officer and Deputy CEO
Yeah, it could be as much as ten percentage points, that sort of thing.

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James Rowland Clark, Barclays
Perfect. Thank you very much.

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Jette Nygaard-Andersen, Chief Executive Officer
Thank you.

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Operator
Thank you. There are no further questions in the queue. I will now hand it back to Jette for closing remarks. Thank you.

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Jette Nygaard-Andersen, Chief Executive Officer
Thank you, operator, and thank you all for listening today.
As Q4 results demonstrate Entain’s ongoing momentum is underpinned by the underlying strength of our business, and the final quarter rounds off 2022 as another year of strong performance across the Group.

Having just passed my two years anniversary as CEO, it's great to see our tremendous achievements that we've achieved and delivered over this short time, and there are still exciting times ahead of us as we continue to grow and embrace opportunities to deliver our strategic ambition.
And our relentless focus on the customer, our increasingly diversified reach and our powerful Entain platform sees us well-positioned for many years to come.

I look forward to speaking with you again when we report our full year results on 9th March and, in the meantime, if you have any other questions, do get in touch with David and the IR Team. Thank you and goodbye.

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Operator
Ladies and gentlemen, this concludes today's call. Thank you for your participation, stay safe. You may now disconnect.

Entain speakers:
Jette Nygaard-Andersen - Chief Executive Officer
Rob Wood - Chief Financial Officer and Deputy CEO

Questions asked by:
Ed Young - Morgan Stanley
Joe McNamara - Citi
David Brohan - Goodbody
Kiranjot Grewal - Bank of America
Simon Davies - Deutsche Bank
Andrew Tam – Redburn
Jemma Permalloo- JP Morgan
Richard Stuber – Numis
Joe Thomas – HSBC
James Rowland Clark - Barclays