Super Group

3Q 2022 Earnings Call Transcript

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Super Group Participants

Lisa Kampf - Vice President, Investor Relations
Neal Menashe - Chief Executive Officer & Director
Richard Hasson - President, Chief Operating Officer & Director
Alinda van Wyk - Chief Financial Officer & Director

Other Participants

Jed Kelly Analyst, - Analyst, Oppenheimer & Co., Inc.
Bernie McTernan - Analyst, Needham & Co. LLC
Michael Graham - Analyst, Canaccord Genuity LLC

Lisa Kampf

Good morning, everyone, and thank you for joining our call today to discuss Super Group's results for the third quarter of 2022. During this call, we may make comments of a forward-looking nature that are subject to risks, uncertainties, and other factors discussed further in our SEC filings that could cause our actual results to differ materially from our historical results or from our forecast. We assume no responsibility to update forward-looking statements other than as required by law.

Additionally, on today's call, we may refer to certain non-GAAP financial measures. These non-GAAP financial measures are in addition to and not a substitute for measures of financial performance prepared in accordance with GAAP. We have provided a reconciliation of the non-GAAP financial measures to the most comparable GAAP figures in the press release issued earlier today and available on the Investor Relations page of Super Group's website.

We suggest that all investors refer to the supplemental presentation posted to the IR section of our website, which includes the financial information that will be referred to during this call, and additional information for the quarter.

Today, I am joined by Neal Menashe, Chief Executive Officer; and Alinda Van Wyk, Chief Financial Officer. After our prepared remarks, we will open the call up for questions, when we will also be joined by Richard Hasson, President, and Chief Operating Officer.

And now, I would like to turn the call over to Neal.

Neal Menashe

Thank you, Lisa. Good morning, everyone, and thank you for joining us today. Our results for the third quarter of 2022 demonstrate the benefits of our global footprint and our positioning of the company for the longer term. Total revenue was EUR308 million and operational EBITDA was EUR50 million. On a like-for-like basis, meaning, not including Jumpman Gaming, which we acquired on September 1st, we entertained on average 2.7 million customers per month this quarter, up 6% from the prior year quarter.

Alinda will discuss the financial results in greater detail in a moment. I will first elaborate on the progress we have made this quarter. In Canada, we successfully transitioned Betway and Spin to Ontario's regulated environment. Performance since then has been in line with our expectations, including the activation and engagement of historic Ontario customers with the new Ontario-specific platforms. Overall, Canada continues to perform and remains profitable for us.

Our African business continues to operate at scale on our proprietary technology and we recently launched in our eighth regulated market on the continent.

In the United States, we hope to close the DGC acquisition in January. Betway is currently live in seven states through DGC, with Louisiana and Ohio expected to launch in the first quarter of next year. Both will be launching on Betway's global tech, taking the total number of states using this platform up to four.

I want to now talk about three ways we invest in our business. One, investment in technology. Two, investment in our brand. Three, investment in expanding our product offering through M&A.

Firstly, in line with who we are, an online-only technology business, we remain focused on improving the customer experience with ongoing enhancements to our global platforms in order to optimize engagement and customer value.

As a result, our demand for dedicated tech resources are high and our requirements have increased over time. Consistent with these requirements, we've entered into an arrangement with Apricot, our major Sportsbook provider outside of Africa, to increase the resources dedicated to Betway's platform. To cover this spending, we have provided a funding facility to Apricot in the amount of EUR43 million, which can be drawn down until March 2023, and we have started discussions with Apricot to explore the possibility of obtaining full ownership of the sportsbook technology for our Betway global product. We are in the early days of these talks so I can't say how long they will go on for or the eventual outcome.

Next, we are investing to reinforce the Betway and Spin brands around the world. Spin's best-known brand, Jackpot City enjoyed its first sports sponsorships with the Toronto Maple Leafs and the Toronto Raptors during Q3 and went live in October. On the Betway side, following the quieter sports calendar in Q3, marketing has picked up as planned in the fourth quarter to leverage the international audiences of the T20 Cricket World Cup which ended last weekend and the FIFA World Cup which kicked off on Sunday.

The third way we expect to invest in the growth of our business is through M&A. As we previously announced, we acquired a majority stake in Jumpman Gaming during the third quarter, a profitable UK-focused online casino business in an all-cash transaction. In addition to the opportunity that we see for Jumpman in the UK, given its focus on a more recreational segment of the online casino market, we are also excited about the future expansion of the business into other markets with its proprietary technology platform.

Turning now to our capital structure. Just under two weeks ago, we launched a SEC-registered exchange offer for our publicly held warrants and are also seeking consent of the warrant holders to amend the agreement to cancel the outstanding private warrants. If the exchange and consent solicitation are successfully completed, then the SPAC sponsor and their affiliates and the pre-merger Super Group shareholders will cancel their warrants and their rights to receive shares as part of the earnout. The purpose of the exchange offer is to simplify our capital structure and reduce the potential dilutive impact of the warrants and earnout rights. We also expect that eliminating the outstanding warrants and earnout rights will increase our free float and result in less overall

volatility in our quarterly results, since we will no longer have to revalue those liabilities each quarter.
We are pleased with the progress we made during the third quarter and so far in the fourth quarter of this year. Our monthly average customers number has picked up materially from August. During October, even excluding Jumpman Gaming customers, we recorded a daily record in excess of 1.2 million customers and reached 3.2 million customers for the month.

Super Group is a global, online only sports betting and online gaming business with continuing opportunity for growth, strong financial fundamentals and an exciting future ahead. I will now turn the call over to Alinda for a detailed discussion of our financial results.

Alinda Van Wyk

Thank you, Neal. Today I will provide the financial highlights for the third quarter of 2022 compared to the prior year quarter, referencing the adjusted numbers included in the presentation posted on our website.

In the third quarter, our net revenue increased by 2% to EUR302 million euro. Taking our brand license income into account, our Total revenue was EUR308 million euro.

With reference to EBITDA, we continue to present Operational EBITDA, which is EBITDA adjusted for fair value adjustments on warrant and earnout liabilities, associated and unrealized foreign exchange movements and non-recurring items. For the third quarter, we achieved Operational EBITDA of EUR50 million.

Looking at results by business segment, our Sportsbook performed very well this quarter, even with the unforeseen postponed matches in the English soccer calendar. Overall sportsbook revenue increased by EUR13 million or 14%, primarily driven by:

- Strong customer acquisition and retention in Africa and APAC
- Overall growth in Europe
- Growth in Canada excluding Ontario
- Offset by a modest decline in Ontario, driven by Betway's transition to the regulated market

Moving on to Casino. Net revenue decreased by EUR8 million or 4%. The decline was driven by:

- Inflationary pressures on spending especially in the Canadian and APAC markets
- Short-term disruptions in Ontario, from customers transitioning into the regulated market

These declines were partially offset by:

- Growth in Canada excluding Ontario, despite some competitive pressures
- Overall growth in the UK, which included Jumpman Gaming as of September 1st; and
- Positive momentum in Africa

As it relates to EBITDA margin, business mix had a downward influence, with Betway increasing to 54% of net revenue compared to 49% last year. As you know, the Betway segment has a lower profit margin than Spin. EBITDA margin for the quarter was 16%. That is not where we want to be. We remain focused on growth and cost saving strategies to push margins back to higher levels in 2023.

Diving deeper into expenses. General & administrative costs increased by EUR22 million, due to similar drivers experienced in previous quarters. The key ones were:

- Higher staff costs
- Public company costs; and
- Increased investment in technology

As it relates to marketing costs, we saw a decrease in variable marketing and an increased investment in brand spend. This resulted in a net decline of EUR8 million.

Looking at our financial position - our balance sheet remains strong with unrestricted cash and cash equivalents of EUR266 million at the end of September, with no debt.

In conclusion, results for the third quarter are in line with our expectations and we are reaffirming our 2022 full-year guidance of Total Revenue between EUR1.15 and EUR1.28 billion and Operational EBITDA between EUR200 and EUR215 million.

I will now turn the call back to Neal, for his final remarks.

Neal Menashe

Thank you, Alinda. In summary, Super Group remains financially strong with solid growth prospects. We continue to explore ways to optimize our global footprint and operate more efficiently to leverage our scale. We remain focused on investing in technology and marketing as well as other opportunities that will provide us with long-term growth and profitability.

I'll now turn the call over to the operator to open the call up for questions.

Questions and Answers

Jed Kelly

Hey, great, thanks. Thanks for taking my question. Just a couple if I may. Just first on the 4Q guidance, it looks like it's a pretty wide range of revenue outcomes and we are more than halfway through the quarter. So, can you just give us an update on the visibility into 4Q, and then can you provide an update just on how we should be thinking around 2023 with sort of the economy macro pressures, and then I have a follow-up? Thanks.

Alinda Van Wyk

Thanks, Jed. Thanks for your question. As we are all aware, we're very excited about the World Cup that is now ongoing in quarter four. Even though there is some fluctuating results usually in the Sportsbook, we feel optimistic. Especially, our casino is usually very strong during the fourth quarter as well. October had some promising numbers like Neal just made reference to a good customer increase to about 3.2 million customers for the month so far, which is a good result. Albeit there is some volatilities in the sports, as we all know, especially around the parlay results, and we've seen some of that volatility is coming through in November already but we have a very strong customer base and we keep on engaging our customers.

Jed Kelly

Got it. Okay. And then just on -- just in North America, it looks like the North American casino, the impact, it seems like you get your footing around some of the Ontario regulations. The growth was --

the growth decline was less. So, can you kind of give us an outlook on Ontario and in Canada? And can you just talk about anything you're seeing in the macro? Thanks.

Neal Menashe

Thanks. It's Neal here. So, Betway and Spin are obviously now live on the Ontario respective platforms, and obviously switching to regulated markets, has its costs in the short term, but has long-term benefits, we've seen a high percentage of the historic.com customers activated and continue to engage on the new platform, and early signs are positive any lines of our projections included within our guidance. And then obviously outside of Ontario in Canada, we obviously see competitive pressures in all the markets we operate in, and Canada is no exception. But we've got our platform, we got our customers and all our tech, and we constantly working to enhance our marketing return.

Michael Graham

Hey, thanks a lot. I had a couple. The first one is just on the US market. You mentioned some of the states, but you've been up and running on your global tech stack in Arizona and Virginia for a decent period now. Just be curious how you characterize performance there relative to others that are on still on third-party tech and maybe just talk about how those states are sort of trending on growth curves? And then I have a follow-up. Thanks.

Richard Hasson

Thanks, Michael. Richard here. As Neal mentioned, DGC we're anticipating that coming into the Group in January. At that point, we'll obviously be able to do a much deeper dive into the DGC's business plan and their forecast for growth. At this point, as you correctly point out, two of the states are running on that Betway global technology, but it's still early days for them as a business and it's something which we look forward to getting more stuck into once they become part of the group.

Michael Graham

Okay. Thank you for that. And then sort of a big-picture question. You have – you outperformed in the quarter, you had some revenue declines because of regulatory changes. And just wondering at a high level, when you think about the regulatory landscape and the impact on your business for next year, do you see sort of the setup being similar or do you see things being different?

Neal Menashe

It is normal, we operate in so many countries across the globe. That's been our business for the last two decades. So, it's basically navigating each of those countries. And as you know we've got teams looking after each of those countries so each one is its own business within its own right. So, it's again navigating it, getting the software and the tech right, getting the marketing returns right, but that's what we do and that's what this business is about.

Bernie McTernan

Great. Thank you for taking the questions. To start, I'd love to -- if there is any added colour on the 3.2 million MAUs in October that number has been pretty consistent over the past year in terms of

2.6 million 2.7 million. So, any way to dive deeper in terms of what was driving the strong results in October?

Neal Menashe

Basically, it's all about the engagement on our platforms across casinos, and sports. And obviously, lots of sports events happened in October. So, to gain the customers being re-engaged into it. And it's about these are high-quality customers, and our aim is obviously to keep bringing them back and then keep increasing that. And with that, and obviously, as Alinda mentioned, dealing with increasing our margin and getting the operational leverage back in to the business.

Bernie McTernan

Understood. And then maybe just a follow-up to the first question on the guidance for the fourth quarter. Is there a way to think about maybe drivers in terms of what would cause you guys to hit the high end of the range versus the middle or versus the low end?

Alinda Van Wyk

Yeah. Thank you, Bernie. Like I said, the volatility of the Sportsbook, obviously, is not so easy to plan towards the end of the quarter, but we remain -- we feel comfortable with the casino is strong. And then it will -- the results should speak for itself by the end of the World Cup, and you've just realized in the -- I mean a couple of matches have now been finished in the World Cup and it is so volatile, you never know it -- the results fluctuate without beyond our control. So, we just have to make sure that we keep on engaging the customers, and luckily, our customer base is strong. So, it marginalizes out the volatility in the results.

Bernie McTernan

Got it. And then just lastly, the Jumpman transaction, we'd love just to get your thoughts on the rationale for the deal. And then if you're able to size, how big of a revenue generator that asset is?

Richard Hasson

Sure. Hi, Bernie. Richard here. So, the rationale for the transaction, Jumpman it runs proprietary technologies built a great platform over the last many years. And while it is a UK-focused business, it's an opportunity for us, one we're very excited about helping them expand into additional markets. They appeal to a different segment of the market and much more recreational segment to our existing customers. In terms of size of revenues, we disclosed before that in the month of September, they did around EUR7 million of net gaming revenue. And at this point, that's all we'll be disclosing about the transaction.

Operator

Thank you. Ladies and gentlemen, this concludes our question-and-answer session, and thus concludes our call today. We thank you for your interest and participation. You may now disconnect your lines