

3Q 2023 Earnings Call Transcript

Super Group Participants

Neal Menashe - Chief Executive Officer

Richard Hasson – President & Chief Operating Officer

Alinda van Wyk - Chief Financial Officer

Other Participants

Jed Kelly - Analyst, Oppenheimer & Co.

Operator

Good morning, everyone, and thank you for joining us today to discuss Super Group's results for the third quarter of 2023.

During this call, Super Group may make comments of a forward-looking nature that are subject to risks, uncertainties, and other factors discussed further in its SEC filings that could cause its actual results to differ materially from historical results or from the Company's forecast. Super Group assumes no responsibility to update forward-looking statements other than as required by law.

On today's call, Super Group 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. Super Group has 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.

In addition, Super Group will speak to its financial results and metrics for 3Q 2023 in two parts, highlighting Super Group's profitable and cash-generative global business separately from its investment into the US. This aligns with the annual guidance that Super Group has provided for 2023 and is consistent with both how Super Group views its business internally and how Super Group will report going forward. Super Group recommends that investors refer to its supplementary presentation posted to their website.

On this call I am joined by Neal Menashe, Chief Executive Officer and Alinda Van Wyk, Chief Financial Officer. During the Q&A session 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. Good morning everyone, and welcome to Super Group's quarter 3, 2023 earnings call.

We are delighted to follow up a terrific first half of the year with yet another quarter of solid results. Ex the US, Total Revenue was €349 million, an all-time record for a third quarter.

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Our customer numbers continue to show tremendous growth, so much so, we've set some other records this quarter. For starters, we reached an average of about 4.0 million unique, active-monthly customers. And, during the month of September, we saw a new daily high of 1.7 million customers using our platform. In September, we also set new records for highest depositing day and highest depositing month. These records demonstrate our success in attracting and retaining high quality customers with sustainable deposit values over the long-term. And that's important in achieving consistent top line growth moving forward.

For the quarter, our operational EBITDA Ex-US was €64 million, resulting in an EBITDA margin of 18%. The combination of increased scale and the realization of cost efficiencies in the right areas is having a positive impact, and we continue to press toward our goal of a long-term margin of over 20%. Alinda will dive into the financials in further detail but first I want to provide an update on some other achievements and changes.

A key contributor to customer growth is our portfolio of sports partnerships, which continues to attract fresh eyeballs to the Betway brand. We have just become the Global Betting Partner for one of the leading English Premier League teams: Arsenal. Arsenal has a massive worldwide following, and we are incredibly proud to partner with them, and look forward to bringing the best content and experiences to fans all over the world.

Super Group has a global footprint and this diversity provides a natural mitigation against market-specific headwinds. We take a nimble approach with our existing territories and we are not afraid to make difficult decisions. About a month ago, we announced that we will no longer be operating in India effective October 1st, due to a newly imposed General Sales Tax which significantly limits the achievable returns in this market. We have seen this type of closure before. We have over two decades of experience in navigating these types of challenges, and we remain focused on our existing markets as well as new opportunities around the world.

Now to provide an update on some of our key jurisdictions.

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Africa continues to be an exciting region for us, as we build scale in our footprint of seven regulated countries. Year-on-year, we saw an increase in our African customer base of over 55%, with this growth translating into strong revenue numbers for the region.

In Europe, the UK was the standout performer similar to previous quarters. It has now been over a year since we brought Jumpman Gaming into the group, and we are very pleased with the added contribution this acquisition has made to our UK casino product. The Jumpman team members have been working hard to identify new territories for expansion, and just last month they went live in Ontario.

For Canada overall, we saw growth in both the sports and casino products. In Ontario, we saw year-on-year growth in the sports product for the first time since the transition to the regulated market - a really promising sign heading into the next quarter and beyond.

In the US, four out of nine states are operating on Betway Global Technology, with the remaining states expected to come on board by early next year. We anticipate the roll out of this technology to have a big impact in the US, and we will be able to give more specifics at a later date. For now, we continue to follow the plan that we outlined at the beginning of the year. Our next steps are as follows:

We will first complete the planned migration of our systems to the five remaining states

Then, we will begin a more targeted marketing campaign, keeping a close eye on the returns generated on a state by state basis.

We are aware the US market requires a significant investment to succeed. We are not afraid to invest. That's always been part of our strategy. We do this everywhere else around the world, on a calculated, risk-adjusted basis to achieve a suitable level of certainty about the return that we can generate. The DGC investment will be undertaken so long as we believe that there is an attractive ROI, and we actively evaluate this potential.

We have said before that one of our main priorities and uses of cash will be bringing our sportsbook technology in-house. We continue to engage with Apricot about this, and look forward to updating you further during our next call.

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Finally, before I hand over to Alinda, I'd like to point out how well we overcame some obstacles this past quarter. As you know, our sports betting segment can be subject to a volatile margin. Across the industry September did not have a great sports margin, in particular for English and European football. Despite this, our revenue performance was really robust. And a glimpse into the fourth quarter, shows that last two weeks of October also resulted in an unprecedented number of customer- friendly results in football. Football is our most popular sport to bet on. And all those wins for our customers meant a negative sports margin for October. And yet, we navigated through that. We also know that winning customers are happy customers. They remain loyal, satisfied and engaged customers. Our data shows this.

And on the 28th of October, we set a new daily customer record of just under 1.9 million customers, surpassing the record of 1.7 million customers which we set in September. So despite the challenges, I remain encouraged. Big picture, we can't control all of the sports margin, but our diverse offerings make for a robust, resilient business, and in the third quarter, more than 80% of our net revenue was generated from online casino, as we continue to expand our 24/7 iGaming customer base.

I will now hand the call over to Alinda to discuss the financials in greater detail. Alinda...?

Alinda Van Wyk

Thank you, Neal.

Before we begin, I would like to mention a small change we made to the way that we will be reporting during these quarterly updates. Due to the global nature of our business, we interact with many different currencies around the world. Therefore, moving forward we think it will be helpful to reference revenue growth on both a reported basis and in constant currency.

Overall, I'm pleased with the progress and results that we have delivered this quarter. Our ability to deliver growth despite numerous challenges demonstrates the resilience of our business model.

Quarter three delivered total revenue of €349 million, up 13% year-on-year and 27% in constant currency. We believe much of this growth is due to our exceptional team acquiring and retaining high-quality customers in all markets. Customer numbers increased forty five percent (45%)

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year-on-year for the sportsbook and thirty seven percent (37%) for casino. Of course, there are other factors which impacted the growth profile of each of these segments, so let's take a closer look.

As Neal mentioned, sportsbook revenue remained under pressure this year due to an unprecedented sports margin. To better illustrate this impact we are splitting out our pure sports revenue from fixed odds contingencies revenue, which is essentially casino-style games accepted under sports licenses in certain jurisdictions. We will continue using this disclosure moving forward. Overall, the sports betting results declined for the quarter to €65m, a decrease of (28%) year-on-year or (19)% in constant currency. This decline in sports revenue was due to customer friendly results, mainly on football, as well as regulatory headwinds in both India and Germany.

Moving on to casino, which now includes, as mentioned, revenue from the fixed odds contingencies. Total casino revenue increased to €274m, growth of 29% year-on-year or 46% in constant currency. Growth was driven by strong performance in Africa and the UK, with the latter being bolstered by the inclusion of Jumpman Gaming. Other markets which are worth mentioning are Spain and Canada excluding Ontario, which both delivered a solid performance in the casino segment. When analyzing casino results against the comparable quarter of last year, we must also mention the regulatory changes that we faced in both Ontario and India.

Moving on to our cost base. Our mindset around marketing spend has not changed - we must continue to invest today to achieve growth in the future. Marketing spend as a percentage of net revenue was 24% for the third quarter. This ratio was higher sequentially and in-line with quarter three of last year.

Operating costs as a percentage of net revenue equaled 20% for the quarter, compared to 23% in the same quarter of last year. We are working hard to deliver further cost synergies in order to get this ratio even lower.

Our operational EBITDA for the quarter grew 29% year-on-year to €64 million, resulting in a strong margin of 18%. We feel positive about the trajectory of our business but need to keep investing in our markets. This combined with realizing further cost efficiencies will ultimately drive us towards our long-term EBITDA margin target of over 20%.

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Let's now turn to our Ex-US guidance. We are three quarters of the way through the year and have achieved year-to-date total revenue of one-point zero five four billion euro (€1,054bn) and operational EBITDA of €201 million.

Last month, following the closure of India, we reaffirmed our guidance for both revenue and EBITDA. October saw an unprecedented industry wide low sports margin.

However, as a consequence of strong customer growth and a high percentage of our revenue coming from casino we still expect to meet our guidance for the full year of 2023, being total revenue of €1.350bn and operational EBITDA of at least €240m. While it is statistically unlikely for November and December to also have such a poor industry margin, we can't rule this out. It does look tight right now, but we remain comfortable with the guidance.

In the US, our third quarter Net EBITDA investment was €10m, taking our year-to-date investment to €41 million. We previously expected the total investment to be €70 million for the year, but we are pleased this is now coming in €5m - €10m (5 to 10 million Euros) less than anticipated.

Lastly, our balance sheet remains strong. This includes unrestricted cash of €245 million and we have no debt.

I will now turn the call back to Neal.

Neal Menashe

Thanks, Alinda.

Super Group set yet another new record this quarter for customer numbers. We reached the significant milestone of an average of about four million unique active customers per month. More impressively, we have now set a record for this metric in each of the last four consecutive quarters. Our deposit values also reached new heights, demonstrating the quality of customers that we are acquiring and retaining - this is a key component in achieving future growth.

In addition to this, we have a global footprint which we will always look to optimize for the highest returns on investment. Market-specific headwinds exist in every global business, but we have an experienced team that is able to navigate these challenges and drive the business forward.

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Finally, we are reaffirming the guidance targets for the year that we provided in our last earnings call. Our revenue is robust. Our customers are loyal and we have more of them than ever before. We have a healthy pathway for growth, and with a normalized sports margin, our growth should be really strong. Overall, we are winning!

I will now turn the call over to the operator to open the call up for questions. Operator?

Operator

Our first question today comes from Jed Kelly from Oppenheimer. Please go ahead with your question.

Jed Kelly

Hey. Great. Thanks for taking my question. Just a couple. Can you just talk about how the October holds are trending? And I guess the guidance does imply a decent deceleration versus 4Q I think you're I mean, on a revenue comp, it looks like it's a point easier. So can you just talk and I know you're comping last year's World Cup, so can you just talk about the guide? And then and then I have a follow-up.

Neal Menashe

Hi. This is Neal here. Yeah, so it's obviously October and the last two weeks had unprecedented negative margin. But as you know, is that because a lot of the favorites were winning and so we've taken that into reaffirming our guidance and going forward, our metrics are growing deposit values, customer numbers are all at record levels and our casino is over 80% of our business. So – and we comfortable with our targets.

Jed Kelly

Got it. And then can you just talk about the progress of the tech migration. And then just circling back to the US, you kind of measured how you're going to closely look at our ROI when you sort of decide on how to go after the US market. Does just the whole complexity of the US media market and the advertising the amount of brands you see, does that make it different than going into other countries where you had maybe a later start but were successful so can you talk about that where we are with the US? Thanks.

Richard Hasson

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Hi, there. Richard speaking. So just to follow-up on what Neal said of the nine states, four of those are already operating on the Betway global technology, and the other five are still to be migrated. We're expecting that to be completed in quarter one of next year. That's in terms of the technology. In terms of the US more generally, as Neal said, we're going to look at it very much on a returns driven basis once we've completed the migration and proceeded with the more targeted marketing campaigns. And, yes, it is competitive, the number of brands, as you say. But we do have the track record of being successful in other markets around the world. And we will continue to evaluate the returns on a state-by-state basis as we proceed with the marketing. I think to make clear we have a multi-year plan, but there's not necessarily multiyear commitments and we'll make decisions as we see and evaluate the returns in each of these states.

Jed Kelly

Thank you.

Operator

And ladies and gentlemen, at this time, I'm showing no additional questions. I'd like to turn the floor over for closing remarks.

Neal Menashe

Thank you, everyone, for joining us today. And all of our information has all been published on our website. And we will see you again at the end of quarter four. Thank you.

Operator

Ladies and gentlemen, with that will conclude today's question-and-answer session as well as today's presentation. We thank you for joining. You may now disconnect your lines.