1Q 2023 Earnings Call Transcript
May 24, 2023

Super Group Participants

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

Other Participants

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

Lisa Kampf

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

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.

In addition, we will speak to our financial results and metrics for Q1 of 2023 in two parts, highlighting our profitable and cash-generative global business separately from our investment into the US. This aligns with the annual guidance that we have provided for 2023 and is consistent with both how we view our business internally and how we will report going forward. We recommend that investors refer to our supplementary presentation posted to our website.

On this call I am joined by Neal Menashe, Chief Executive Officer, Richard Hasson, President and COO and Alinda Van Wyk, Chief Financial Officer.

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

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Neal Menashe

Thank you, Lisa. Good morning, everyone, and thank you for joining us.

Earlier today we reported strong first quarter financial results with net revenue, excluding the US, of €332 million and operational EBITDA of €51 million. Separately for the US, our net investment for the quarter was €17 million.

Year over year comparisons for our non-US business are difficult this quarter for three reasons. Firstly, our business in Canada in quarter one 2022 was still benefiting from COVID lockdowns, secondly, in 2023 many of the local currencies in which we trade, including the Canadian Dollar, depreciated meaningfully against the Euro, our reporting currency, and thirdly, our brand fee has materially reduced.

So, it's helpful to look at our results sequentially to appreciate the progress we have made. Net revenue for the fourth quarter of 2022 was boosted by the FIFA and Cricket world Cups, so it's an achievement that Q1 of 2023 managed to have additional net revenue growth on top of that. Even more impressive, our operational EBITDA increased significantly, up 21% from the fourth quarter of 2022.

Alinda will go through our financial results for the first quarter in greater detail in a moment and Richard is here with us today to provide you with an update on the US.

Our efforts to strengthen the company continue, as evidenced by ongoing discussions with our software partner Apricot towards bringing even more of our tech stack in house, and our continuous evaluation of growth opportunities in current and new markets around the world.

Operationally, we remain focused on achieving economies of scale in a targeted manner, towards our goal of a medium-term Operational EBITDA margin in excess of 20%.

Our largest expense line item is marketing. Currently we are spending 27% of net revenue to support the long-term growth of the business. This is a conscious decision to spend more than the sector average, and I am watching this very carefully to ensure we are seeing returns.

On economies of scale, I want to point out that this is a market-by-market objective. Key costs such as regulatory, staffing and technology do not generally rise directly in line with revenue. Therefore, as revenue grows, disciplined spending ensures that operating leverage kicks in - this is key to our business model. Once our fixed costs are covered then incremental revenue is far more profitable and significantly improves our EBITDA margin. I am pleased to say this was well illustrated in the month of March, where record numbers for customers, hold and net revenue resulted in Operational EBITDA margin of over 20% for the month.

So far this year we have set multiple records one after the other for daily active customers, with March comfortably breaking the monthly record when it exceeded 3.8 million for the month. For the quarter, average active customers significantly increased to 3.5 million per month from 2.6 million in the prior year quarter - a 34% increase.

Financially we remain strong and flexible. There is €246 million of unrestricted cash on our balance sheet which we are using to support the expansion of our US footprint and other markets, as well as for gaining further control of our tech stack in support of the continued growth of our business. In addition to this, our consistent profitability and cash generation also allows us to explore potential M&A opportunities, as well as flexibility in returning capital to shareholders.

Now turning to some of our key markets.

Firstly, after much anticipation, the UK's proposed gambling reforms were released at the end of April. We are pleased that this will result in further clarity for the industry and a level playing field for all operators. Super Group took steps early on to proactively prepare for this, so we expect that the proposed reforms will have minimal impact on our UK business.

Overall for Super Group, European markets are looking up. The UK in particular has seen strong growth, in Betway as well as Spin, which has benefited from the inclusion of Jumpman Gaming.

In Canada, revenue has reduced year-on-year due to unfavorable currency fluctuations and the short-term impacts of Ontario's regulatory transition. Trends in Ontario are encouraging and our Canada business remains robust and profitable, including in Ontario.

Africa continues to perform very well. The African markets are a great example of where we have quickly realized marketing spend efficiencies led by our worldwide global brand awareness for Betway, complemented by targeted localized marketing. This has resulted in multiple new records in customer numbers in both sports betting and casino, and record net revenue and EBITDA, despite negative currency fluctuations.

Africa's strong performance highlights how our business continues to evolve and diversify. Together with growth in Europe, this has given us an improved global geographic balance.

Overall, I am very happy with our competitive progress globally, and am proud of the record results that we achieved in March, all of which, I am very pleased to say, were exceeded in the month of April, even with one day less in the month.

I will now turn the call over to Richard to discuss our progress in the US.

Richard Hasson

Thank you, Neal, good day everyone.

The acquisition of DGC closed at the beginning of quarter one and we are very excited about the opportunity that the US presents.

To recap, the Betway brand is currently operating in eight states, with market access secured in up to a further five. The size of the US market – a TAM of $54 billion – is of course very attractive, and one that is way too big to be ignored.

With DGC still in its early stages, the next three to five years are going to require significant investment, including an estimated €70 million for this year and around €80 million for next year. Some of you will look at this investment and ask if we have ever spent that much in a single market. But we don't look at it that way. For us, each state is a market, and in that context, this is quite normal and exciting for us.

Why? Because...

- This investment is very manageable for us and easily funded by our existing cash flow
- This sort of expansion on a market-by-market, state-by-state basis is how we have grown this business for more than 20 years; and
- We see it as a great opportunity for upside on top of our highly profitable existing global business

We will only enter states where we see a realistic path to growth and profitability. States that offer both online sports betting and gaming are more attractive to us, and we continue to bias towards those. Same as we do everywhere else around the world, we will continuously evaluate our returns and will not be afraid to pull out of markets where this path is not clear.

Around the globe, casino is a key focus for us – it makes up over 60% of our revenues – and we will maintain this focus in the US, implementing this same dual-offering strategy wherever we can. We have therefore secured second iGaming skins in both New Jersey and Pennsylvania, where we aim to launch our leading Spin brand, Jackpot City, later this year.

For now, within DGC, the focus is very much internal, and on our existing states, with a key priority being migration onto the Betway Global Technology platform. During this time, we expect to keep localized marketing relatively small, and ensure that the per-state unit economics stack up.

On a state by state basis, from the date when we roll out our Betway global tech, we expect that we'll need about 18 months of significant investment into marketing in order to fully assess viability for that state, after which we aim to reach break-even within another 18 months.

Overall, as of now, we expect our first EBITDA positive quarter for the US to be in 2026, and we expect 2027 to be our first EBITDA positive year. Of course, should the footprint of live or accessible states expand, then these numbers will change accordingly.

And that takes me to our investment thesis: in our view, the best way to see DGC is essentially as a call option on the US. Our global business will continue to run as before. We expect it to continue to grow and to generate cash and the DGC acquisition is an opportunity for upside on top of that.

We've shown all over the world that we do not require significant market share to achieve profitability, and the US is no different. We look forward to updating you through our journey.

I will now turn the call over to Alinda, who will discuss our financial results in more detail.

Alinda Van Wyk

Thank you, Richard.

I will now take you through our financial results for the quarter, where we have seen continued momentum from quarter four last year.

I will start by discussing our global financial results separate from our investment into the US.

Excluding US results, total revenue for the quarter was €332 million. Net revenue, which doesn't include brand license fees, grew to €321 million, a 2% from last year.

As Neal mentioned, the current quarter is not directly comparable to the first quarter of 2022 due to COVID, currency fluctuations and the change in our brand fee.

Sportsbook revenue increased by €9 million in the first quarter, growing 8%. In casino, net revenue decreased by €3 million or 1%.

The key drivers behind the overall increase in net revenue include:

- A strong hold, boosted by a record month in March, following the worst sports hold during February
- Strong customer acquisition and retention in Africa and
- Continued positive growth in most European markets including the UK which was positively impacted by the addition of Jumpman Gaming

This growth was partially offset by:

- Lower revenue from Canada, due to the Canadian Dollar weakening against the Euro, as well as Ontario's ongoing transition to a regulated market
- The impact of the Euro strengthening against other local currencies that we trade in; and
- Lower revenue from the APAC region

Customer numbers for sports book increased by 33% compared to Q1 of 2022. We are pleased to see this continued momentum of strong customer numbers from the fourth quarter of 2022, with month-on-month growth during the first quarter of this year. This was largely due to effective marketing strategies, strong payback results, and good retention initiatives.

Even though we saw a slight decline in the casino revenue numbers, our customer growth remained impressive, up over 45% in the first quarter compared to last year. The increase in customer numbers was due to strong acquisition of new customers which grew 29% year on year, helped by solid retention marketing and a good uplift in Canada, including Ontario.

Looking at the bottom line, we achieved Operational EBITDA for the ex-US business of €51 million for the first quarter of 2023.

Compared to the first quarter last year, Operational EBITDA was impacted by:

- Lower brand license fees

- Higher cost of revenue, which includes regulatory fees and taxes, as well as agency fees in Ontario; and
- An increase in general and administration costs, which was mainly due to inflationary increases and higher infrastructure expenses

This was offset by lower and more effective level of investment in marketing. Our total marketing spend sits at 27% of Net Revenue, which is as a result of the conscious decision that we have made, to invest in the long-term growth of the business. While we could reduce this marketing by 5% to 7% of net revenue, which would result in our EBITDA increasing substantially in the short term, and align us more closely with what our competitors are spending, we don't believe that this is in the best interests of the business long term. To contextualize this, if we had reduced our marketing in quarter one by an amount equivalent to 5% of net revenue, then an additional €16 million would have dropped to our bottom line.

EBITDA margin was over 15% for the quarter. We remain focused on both growth and cost saving strategies to drive margins back to higher levels in 2023 and beyond. Our EBITDA margin has already improved sequentially from 13% in the fourth quarter of last year, despite some customer friendly sports results and early days in the delivery of our expected cost efficiencies. In March we comfortably proved how operating leverage works in our business, reaching a level of scale that resulted in an EBITDA margin of greater than 20% for the month.

Turning now to our US business, our net investment for the quarter was €17 million. Funding our US expansion from internal reserves remains very manageable for us and we ended the quarter with an unrestricted cash balance of €246 million.

Our balance sheet continues to remain strong following the acquisition of DGC. The acquisition resulted in DGC's debt of one hundred and $129 million coming on to Super Group's consolidated balance sheet, which is directly offset with the restricted cash balance of the same value, and has been accounted for separately since we announced the DGC acquisition. We are in the process of settling this debt with the restricted cash, and the balance sheet will therefore remain debt free.

To conclude, here's how I think about it:

- Our record-breaking number of customers is one of our key engines for revenue
- We continue to invest for growth in the business around the world; and
- Driving cost efficiencies throughout the business remains a key focus

We are therefore confident in our outlook for the year and we are re-affirming our guidance for both the US and non-US business for 2023.

I will now turn the call back to Neal.

Neal Menashe

Thanks, Alinda

Super Group has delivered another solid quarter and remains profitable and financially strong. We have many avenues of future growth across the globe to be excited about.

To wrap up, let me summarize where we are.

- March was a record month, and April was even better
- Key global markets such as Canada, Africa and Europe are growing well in their local currencies, some of them really strongly
- Our US business is developing according to plan. It's a marathon, not a sprint, and we've got the legs for it.
- We've got a firm hand on our cost synergies and operating leverage benefits are coming through strongly, as we saw in March and again in April
- We're continuing to optimize our tech, which will add to our upside in the long-run as we take better control of product and cost

Overall, we have done well in this quarter and I'm optimistic for the future. But I'm a glass-half-empty kind of CEO. I don't waste any time looking back at what we've achieved, I'm far more interested in all the work that we still have to do and the great opportunities that lie ahead of us.

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

Question and Answers

Operator

The first question comes from Jed Kelly with Oppenheimer. Please go ahead.

Jed Kelly

Hey, great. Thanks for taking my question. Just first one on the outlook, on the guidance. So, you're reaffirming your guidance. If I understand you correctly, April was a record month. You kind of tell us how May is trending and – I mean, do you expect to see sequential growth into 2Q? And then on the US, just, we are seeing sort of market access. As the cost for market access go down, we are seeing some consolidation. Just when you think about the US, I guess the one thing to highlight, while there are 50 different regulations with all the states, how do you think about competing against the players that can actually leverage brand advertising and amortize that spend across 50 states as you think about it?

Alinda van Wyk

Thanks, Jed. I'll start off and then I'll hand over to Richard for the US question. Yes, so April 100% looks really good and promising as a good start for quarter two. May is not looking bad either. But I mean, regarding our guidance, we feel comfortable that obviously these targets that we set for ourselves is going to be reached. But it's really only four months into the year. So very early to say, to make a projection about quarter two and three results and then beyond. But it's looking promising.

Richard Hasson

Thanks, Alinda. Hi, Jed. So, coming on to the US. The way we look at it is applying the same toolkit that we have applied to other markets across the world. In terms of our branding, we have, as you know, the single global online sports betting brand, Betway, where we have the ability to spend for global eyeballs and then actually amortize that spend across the world, so not just in the US. And then, of course, similar to other markets, complementing that global spend with very localized marketing.

Jed Kelly

Got it. And then I had follow-up, just on the regulatory front. I know last year, there was some regulatory headwinds with Germany and the Netherlands. I mean, as we think about this year in terms of like they're comping – are the regulatory comps – you have what's going on in the UK, but will the regulatory comps be easier or tougher this year? Thanks.

Neal Menashe

Okay. Well, firstly, Germany obviously has been dealt with and they still offer casino licenses, which you can now apply for. Netherlands, we are still waiting for our license there, but compared to the other markets, with the UK whitepaper and the other markets, it's no different we have been before. I think actually, this year, it's got a brighter outlook. As for the UK, as I mentioned on earlier, we just have to wait for the final legislation to come, but we are in a very good position. Question

Jed Kelly

Thank you.

Operator

The next question comes from Bernie McTernan with Needham and Company. Please go ahead.

Bernie McTernan

Great. Thank you for taking the questions. Maybe just to start following-up on Jed's last question, the really strong results in March and into April. Anything to peel back the onion in terms of what – from either geographic standpoint or product standpoint in terms of what's driving the strong results?

Neal Menashe

Well, as Alinda mentioned, it's good customer numbers. It's obviously good sports hold and our continued focus on casino. And what happens in this business is when all of these things come together, your revenue obviously increases and then you get this huge operating leverage. And that is key to what we saw in March and I think in April. And for us, it's about every country making up our global portfolio, quarter one global revenue. And it's about each country now being operating the most – vast majority of them being operationally profitable per region. So, it means every extra bit of revenue we get is at very high margins. And this is the key to our business, and its key to each of the countries.

Bernie McTernan

Understood. And then following up on the comments on the medium-term operational EBITDA getting to 20% or above, is that – how much of that is just sales and marketing coming down versus revenue growth versus US investment coming down? Just trying to think about some of the large moving pieces of being able to get there, especially in the context of March being above 20%.

Alinda van Wyk

Yeah. Thanks, Bernie. That is why I tried to put in an illustrative kind of scenario to say if we cut, potentially 5% that will go down straight to the bottom line. That's not how we run our business and that's what we're trying to illustrate. We are – we don't want to cut marketing for short-term gain. We want to really make sure that we hone this marketing spend and reinvest, like Neal just said, in countries where we can see the returns, reinvest in those countries for the long-term gain.

Bernie McTernan

Understood. And then just last one for me, the comment of getting to first quarter profitability in the US in 2026 and a full year basis in 2027, what does that contemplate from a regulatory standpoint or market access in terms of new states coming online?

Richard Hasson

Hi, Bernie. So those timelines are based on our current geographic footprint, plus an additional states to be launched in the next three months. And then, as we said, as additional markets come online, we will reassess that again very much on a state-by-state basis and finding the path to profitability in each of those states.

Bernie McTernan

Understood. Thank you all.

Operator

The next question comes from Michael Graham with Canaccord Genuity. Please go ahead.

Michael Graham

Hey, thanks. Just on the customer growth, it was a really strong growth, sort of unseasonably, I guess. And so, I know you mentioned that you had some more efficient marketing, but can you just maybe go a level deeper there? Were there geographies where you saw good customer growth and what did you unlock on the on the marketing front? And did the customers come sort of in a linear fashion during the quarter, or just how should we think about what you were able to accomplish there?

Alinda van Wyk

Hi, Michael. It's Alinda. Yes. So obviously, we share the high-level geography growth on the website, which you can just go and review them as well. But it's predominantly the customer – I mean, the marketing strategies is starting to work because I've also mentioned like the newly acquired customers is also growing, which is a good element for us, up to 29% casino. But the growth is in jurisdictions where there is as the market is changing and the world is changing, it's a higher volume customer but with lower value input. We've seen it in Europe and Africa predominantly. UK, obviously, as part of Europe, and that is mainly due to the responsible gaming measures. We've also added Jumpman, which has a whole different business model with more recreational, lower value kind of customer base. And then just a bit comparative between quarter one 2022 to 2023 is remember in quarter one, we had Ontario as a non-regulated part of our business, which is obviously transitioning, had impact also on the numbers, but the growth is forthcoming in the customer base.

Michael Graham

Okay. Thank you. And actually, wanted to ask about Ontario, just you're sort of a year into it. Can you comment on like how that's going, in particular, how the competitive landscape is shaping up for you there?

Neal Menashe

Yeah. This is Neal, yeah. So, again, it's optimization of our customer experience. We're still making good money in Ontario. We are very happy with how we we've got vision there. It's been since August and September last year six to eight or nine months, ten months. So, it's making good progress and we are – and for us, all about similar to other markets. We understand regulation. We understand what the product has to do in these regulated markets. And we compete with everyone across the globe, so Ontario is no different for us.

Michael Graham

All right. Thanks a lot.

Operator

This concludes our question-and-answer session and the Super Group results for the First Quarter of 2023. Thank you for attending today's presentation.

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