

4Q & Full Year 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

Michael Graham, Canaccord Genuity

Bernie McTernan, Needham & Co.

Jed Kelly - Analyst, Oppenheimer & Co.

Mike Hickey, The Benchmark Co.

Operator

Good morning, everyone, and thank you for joining us today to discuss Super Group's results for the fourth quarter and full year 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 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 both 2023 and 2024 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 4 and year-end 2023 earnings call.

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We have made tremendous strides in 2023. We are cementing our position as a profitable and geographically diverse online sports betting and iGaming operator. We have a clear and sustainable path to future long-term growth. I'm so proud of what we achieved in the last year, and I'm really excited by the outlook for 2024. We feel like we are just getting started as we head into our third year as a New York listed business. We are determined to deliver meaningful long-term shareholder returns. Let's take a quick look at our 2023 numbers excluding the US. For the full year, we set a new annual record for total revenue of €1.406 billion. And for operational EBITDA, we achieved a total of €255 million, meaning that we easily surpassed guidance on both fronts.

Moving onto Q4. Total revenue came in at €352 million, with operational EBITDA of €54 million. The fourth quarter had its challenges, with October's unprecedented low sports margin driven by soccer results and the closure of the Indian market. However, we made a strong recovery, and set some new records - total revenue was the highest ever for a fourth quarter and December was our best ever EBITDA month.

The ability to navigate these bumps in the road is a testament to our diverse and loyal customer base. Our customers are active across both sports betting and casino. Over 85% of our net revenue in the fourth quarter came from casino, proving that even when the sports results go against us, we still have the ability to deliver record-breaking results.

In the US, our net EBITDA loss for the quarter was €18 million, taking our full year-investment to €57 million. Worldwide, our customer growth is impressive. Even without India, our customer numbers grew to an average of 4.7 million unique, active-monthly customers – that is 1.2 million more customers than we had at the same point last year. And 700,000 more customers than last quarter. Our customer retention remains strong, and this along with new customer acquisitions drove us to new highs for daily customers and daily deposits. Each quarter this year we set records on each of those fronts and consistently surpassed them.

We are a technology-driven business with customers being at the centre of our universe. And it is great to see continuous engagement from both new and existing customers, some of which have been playing with us for over 20 years. These strong metrics make us confident that we will achieve the double-digit top-line growth that we are projecting for 2024.

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Now to provide an update on some of our key jurisdictions. Starting with Africa, we had another quarter of strong revenue growth. We accomplished this even though the African market was a key driver behind the negative sports margin for the business in October. Moving forward, we continue to explore the introduction of new products and brands into both new and existing markets. Just last month, we successfully launched our Jackpot City brand into our first African market, and we are super excited by the prospects that a casino-specific brand presents for us across the continent.

In Europe, we are encouraged to see strong growth in markets which we would typically define as more mature and established. In particular, Italy and Spain were stand-out performers. Both regions grew their casino segments significantly year-on-year by offering new localized gaming content.

In the UK, Betway delivered strong growth. Jumpman delivered its most profitable quarter ever. And, similar to Africa, we rolled out the Jackpot City brand. We are well positioned to handle the UK gambling commission's plan to introduce a cap per spin for online slot games later this year. We expect this to have a limited impact on revenue because of the nature of our UK business and the composition of the customer base.

In Canada, casino grew well and overall, this remains a strong market for us. In Ontario, industry regulation prompted an initial dip. But our customer retention is now exceeding what it was before the new rules took effect. Customer values are as good as they ever were. And revenues, which initially stabilized, and are now growing.

In the US, while we continue with our previously communicated technology migration and marketing plan, we are not pleased with the status quo. Given the size of the investment required, the competitive landscape, and the relatively small number of states that are currently regulated for iGaming, we are actively evaluating our US strategy on a state-by-state basis and will make changes, as required.

We announced in February that we completed the sale of DGC's B2B assets to Games Global. The B2B division of DGC is in great hands and we wish all parties the best of luck moving forward. The completion of the transaction aligns with our goals which is the growth of our world-wide B2C business.

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Finally, I am pleased to let you know that we are very close to finalizing commercial terms and agreements with Apricot to assume full control of our Betway global sportsbook technology. This includes a favourable, risk-sharing deal structure, which comprises an upfront consideration and an earnout. Once completed, this will be a monumental milestone for our business and will allow the global rollout of this software to new and existing markets, whether built organically or through M&A. We look forward to getting this wrapped up and will provide an update before the end of the month. I will now hand the call over to Alinda to discuss the financials in greater detail. Alinda...?

Alinda Van Wyk

Thank you, Neal.

Reflecting on 2023, I am pleased with how the teams have navigated various challenges to deliver strong growth across both the top and bottom line. Our business model remains adaptable, resilient and primed for future growth.

Let's get straight into the numbers. For 2023, we set a new record for ex-US total revenue, which came in at €1.406 billion, up 8% year-on-year and 19% in constant currency, and therefore comfortably beating our total revenue guidance of €1.35 billion.

We also delivered the highest ever total revenue for a fourth quarter of €352 million, up 7% year-on-year and 15% in constant currency.

As we touched on in the last earnings call, sportsbook revenue was impacted in the fourth quarter due to October's customer friendly results in soccer.

We rebounded in November and performed even better in December, but sportsbook revenue still declined for the quarter, to €53m, a decrease of (39%) year-on-year or (34)% in constant currency. This decline was further impacted by the closure of the Indian market, which of course is included in the comparative quarter.

Moving on to casino.

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Net revenue came in at €289m, an increase of 22% year-on-year or 32% in constant currency. This growth was driven by strong performance in Africa, Canada and some of our European markets. Despite the strong performance in this segment, growth was offset by the closure of India.

I'm very pleased with the progress we have made in optimizing costs in the right areas. We are not cutting costs for the sake of improved margins. Instead, we continuously analyze our costs and understand the areas where we can operate more efficiently.

We are investing in technology, AI and enhanced processes to drive long-term efficiencies and innovation. All of this allowed us to reduce our headcount over the last year by more than 11%. This focus has led to our total operating costs as a percentage of net revenue in the fourth quarter falling to 19%, compared to 22% in the same quarter of last year. That is a huge saving of 3% of net revenue!

Another area where we will continue to invest is our marketing.

We spent 29% of net revenue on marketing during the fourth quarter. We scrutinize the return on investment per market and per channel, to ensure optimal delivery of our revenue targets and to deliver top line growth. We never want to sacrifice long-term growth for the sake of short-term margin improvement.

Our operational EBITDA ex-US for the full year came in at €255 million, being 22% year-on-year growth, comfortably beating our 2023 guidance of at least €240m. Our EBITDA margin for the year was 18% - an improvement of 200 basis points, as compared to 2022. This is a positive step in the direction of our long-term target of maintaining EBITDA margins of above 20%.

For the quarter, operational EBITDA grew 29% year-on-year to €54 million, resulting in a margin of 15%. The margin for the quarter was impacted by October's sports results which actually resulted in negative EBITDA for the month. However, in December and November, we achieved EBITDA margins of around 22% and 24% respectively, demonstrating the strong end to the year and our operating leverage kicking in.

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The US EBITDA loss for the quarter was €18 million, resulting in negative operational EBITDA for 2023 of €57 million, being slightly less than our forecasted spend of €60 to €65m.

Moving to 2024 ex-US guidance. We estimate that our top-line will continue to grow strongly, with year-on-year growth of just over 10% to €1.55 billion. Going forward, and to ensure that we are in-line with best practice, we will now report on Adjusted EBITDA instead of Operational EBITDA. The difference in 2023 between these two metrics was immaterial. Our 2024 guidance for ex-US adjusted EBITDA is a minimum of €280m.

In the US, we have started the year spending at a similar rate to last year. As expected, we are constantly evaluating this spend and the returns being generated. And while we are still in the process of assessing various options for the US market, I do not think that it is likely that our 2024 adjusted EBITDA loss will exceed what we spent last year.

Lastly, we ended the year with a strong balance sheet, which includes unrestricted cash of €242 million and no debt.

I will now turn the call back to Neal.

Neal Menashe

Thanks, Alinda.

Despite customer friendly results in October, we recovered extremely well to set the highest ever total revenue for a fourth quarter and for a full-year. I thank our entire Super Group team for their dedication and commitment this past year.

Our business model puts us in a good position to overcome adversity. When sports betting results go against us, we can rely on our casino segment. Casino proves to be a great anchor. Over 78% of our net revenue came from casino in 2023, with the ratio in the fourth quarter growing to 85% - we are confident that this area of our business will continue to trend upwards.

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2023 was a fantastic year for Super Group. We are a customer-centric business and our customer base continues to break records. This is very encouraging for future growth. We have a clear, very clear game plan for 2024. We are focused on a number of areas including:

- The continued optimization of our global footprint, including the US
- Ongoing investment into marketing channels which yield the highest return on investment
- Fine tuning our product and technology
- Realization of further cost efficiencies in the right areas
- The roll-out of our Jackpot City casino brand across new and existing markets

...the delivery of these objectives will help us achieve our projections of double-digit growth on the top line, continued increase in our EBITDA, and meaningful free cash flow. We have high expectations for 2024 and look forward to continued success.

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

Operator

We will now begin the question-and-answer session. [Operator Instructions] The first question comes from Michael Graham with Canaccord. Please go ahead.

Michael Graham

Hey. Thanks very much. Thanks for all the detail. I just wanted to ask for a little more depth on your plans for the US business in 2024. You mentioned assessing a range of options on a state-by-state basis. Could you just maybe comment on, I guess, number one, are there any states you're sort of happy with your competitive position? And number two, just what can you say about the range of options in each state? What can you say about the timing of some of these decisions?

Richard Hasson

Hey. Michael, it's Richard here. So as Neal pointed out, we are looking at a number of options and obviously going through them all in extensive detail. At this point, we are assessing them all and they range from relooking at our current geographic footprint to potentially looking just at casino states and, of course, alongside that, also any possibility of M&A. But this is very much front of mind and getting a lot of focus. And of course, we'll update you with more details as soon as we can.

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Michael Graham

Okay. Thank you. And then maybe just a quick one on Brazil. Just wondering how you're thinking about your strategy in Brazil and any update you can give us on your thinking there?

Neal Menashe

Yeah. Hi. This is Neal here. Brazil, like all other countries, we operate there currently. So, we are waiting for the regulatory regime with what it means for our products, for the taxes, et cetera. So, of course, it's an important market and we are waiting for the final regs to come up there.

Michael Graham

Okay. Thanks, Neal and Richard.

Operator

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

Jed Kelly

Hey. Great. Thanks for taking my question. Just given your outlook, can you talk about what regions you're baking in, probably, maybe like the most upside from? And then, just can you talk about how your tech migration is coming and what percentage of your technology is vertically integrated and do you own? Thanks.

Alinda van Wyk

Jed, on tech migration, I think Richard will just – you're referring to the tech migration in the USA. I mean, you'll get an update on the acquisition of Apricot software. Can you just repeat your first question, again? You want to know more...

Jed Kelly

Yeah. Just can you – yeah. Just on your outlook, like could you tell us what regions you're baked – where you're seeing the best growth?

Alinda van Wyk

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Yeah. And as we called out, Neal also went into quite a few details on our countries that really stood out. But Africa is always on top of the list, is really doing very well, and a couple of African countries. And also, some of the Central European, Neal called out Spain and Italy doing very well. And then, rest of Canada has really lifted its head as well with really, really strong growth this year. And there was also a good overview of Ontario that we say is getting back to the standards we saw before.

Richard Hasson

Hey, Jed. Touching on the US, on the technology migration, seven of the nine states that we're live in have currently migrated, with the two large states expected within the next month or so. But, of course, that migration is being considered as part of our wider assessment of the various options that we're currently looking at.

Jed Kelly

Thank you.

Operator

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

Bernie McTernan

Great. Thank you. Maybe just to start to stay on the US, you mentioned M&A. What kind of assets could be interesting in M&A? And then a follow-up there as well. Has iGaming legislation, has your outlook changed or has it just been slower than expected? You mentioned it on a state-by-state basis, assuming that has to do with iGaming legislation. But just interested in your thoughts there?

Richard Hasson

All right. Yeah. On the iGaming point, as Neal mentioned, there's a relatively small number of states that are currently regulated. And I think – yeah, I think the pace of the rollout of this regulation has been slower than the industry has expected. Within our global business, of course, a large number – a large amount of our revenue comes from gaming, so that's obviously important for us.

In terms of M&A, we're looking at a range of options. And again, it's one of the numerous options as we assess the overall strategy for the US and risk of stating the obvious any M&A, we look at has to be done at the right price for both parties and make sure that it makes sense for our shareholders.

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Bernie McTernan

Got it. Makes sense. And then if I just look at slide 16 and the constant currency growth and appreciate that you guys are providing it, but just the difference in performance between sports betting that happened in 2023 versus online casino, should we expect them to kind of meet the middle in 2024 to get to about the 10% revenue growth? Or how should we be thinking about each product? Thank you.

Neal Menashe

Yeah. I mean, listen, just from my – it's Neal here. Just from my side is, obviously, sports betting, over time, you've been got to set margin, but it can be a bit volatile as we saw in October. But then, obviously, November, December was great. So yes, based on that, I would say, it's still 75%, 80% casinos where I probably would...

Alinda van Wyk

End up.

Neal Menashe

... set our targets up.

Bernie McTernan

Got it. Thank you.

Operator

[Operator Instructions] And we have a question from Mike Hickey from The Benchmark Company. Please go ahead.

Mike Hickey

Hey, Neal, Richard. Good morning, guys. Thanks for taking our question. Just – sorry, I got in the call late, guys. But just curious, Latin America, obviously, looks like it's getting some heat here. Just curious the opportunity you see there in terms of your longer-term growth? And then just on the US, obviously, you put a lot of energy and capital into the market and maybe this year hasn't spread as we thought it would? But just curious, I know it's a challenging environment, but your motivation here really to try to drive the business, because it seems like you put the right pieces of the puzzle together. The optionality

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in the US market alone seems to be a value, but maybe that's not the case anymore. But thanks, guys, for any color there.

Neal Menashe

Okay. Hi, Mike. It's Neal here. Because this is all about LatAm. Listen, we – obviously, LatAm is starting to regulate. So, from our point of view, we see it very similar to the African continent. We've been there a long time. We are likely to see what the regs mean in each of the countries, if it is Chile, Brazil, Peru, et cetera. So, for us, it's, of course, an important market. And it goes – and the software we use, et cetera, is very similar to Africa. So, it all bodes well for that. And we're just going to see how the regs fall. And then that's part of our journey. And Richard will address your US question.

Richard Hasson

Hey, Mike. Yeah. So, as you point out and as it's becoming clear, the US is proving tough. And while we have spent time and put investment to work in the market, similar to all of our other markets around the world, it's important to us that we are constantly evaluating and re-evaluating what we invest in the market and ultimately, how we can get to a profitable, sustainable business. And that's what we're currently doing in the US. It's getting a lot of attention internally. We're very much on top of it and assessing these options in detail. That's what we're going through now very actively and we will update as soon as we have a response to that.

Neal Menashe

Yeah. And then I just wanted to update one of the questions was also an uptake on our new tech stack. So, listen, obviously, with Apricot almost there, it means for sportsbook is simple. We've got a one sportsbook bet that we can use across the globe including Africa. Jumpman has own proprietary tech stack. Betway Global and Africa, we'll then own it from beginning to end. And that means that we can then deliver all our product and all our pricing, et cetera, across the globe. So, we're super excited about that. It has taken long, but we almost there now.

Mike Hickey

Yeah. One quick follow-up, gentlemen. The – when you look at the US market, I mean, does it make sense to sort of narrow your approach in terms of focus? I think some of the smaller operators that have also kind of suffered near-term from share, sort of focus more on states that offer both iGaming

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and sports betting. And I think this sounds like to be a profitable business. And so, obviously, you guys are respected operators. You have the brand, the tech. I mean, how far off the mark do you feel you are at this point? Does it have to be something transformative in your mind to sort of get the business? We obviously saw PENN do their deal with ESPN, TBD, but maybe not the result they wanted out of the gate. But needless to say, does it have to be something transformative, Neal or Richard? Or is it something you can kind of just narrow your focus on states that matter in terms of the combined LTV and then just sort of innovate and build from there? Thanks, guys.

Richard Hasson

Hey, Mike. So, it's very much a work in progress and the type of option that you're speaking to there, those are exactly the type of options that we're assessing across a broad spectrum. But one of those is looking at the geographic footprint, let's call it, inclusive of sports betting and gaming. Another one of those potentially is just looking at the iGaming states. And as I've said earlier, there's also always the possibility of M&A. So, we really are going through the full range of options and going to work out what is best for the business and for the shareholders.

Mike Hickey

Thanks, guys.

Operator

This concludes our question-and-answer session, and Super Group's results for the fourth quarter and full year 2023 Conference Call. Thank you for attending today's presentation. You may now disconnect.