Supergroup

1Q 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
Spencer McNally - Group Head of Data & Analytics

Other Participants

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

Lisa Kampf

Good morning everyone and thank you for joining our call today to discuss Super Group's results for the first quarter of 2022.

During this call, we may make comments of a forward-looking nature that are subject to risk, 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 forecasts. 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. The reconciliation of historical non-GAAP financial measures to the most comparable GAAP figures are included in the press release issued earlier today and available on the Investor Relations page of Super Group's website.

Also note that we have posted a supplemental presentation to the investor relations section of our company website along with the press release, the link to the replay of this webcast and filings with the SEC.

And now I would like to turn the call over to Neal Menashe, Super Group's Chief Executive Office.

Neal Menashe

Thank you Lisa. Good morning everyone and thank you for joining us on the call today to discuss our results and developments for Super Group's first quarter of 2022.

I am joined by Richard Hasson, our President and COO who will discuss how we are executing on our growth strategy and Alinda van Wyk, our CFO who will discuss our financial performance for the quarter.

Super Group began trading as a public company on January 28, 2022 following the business combination with Sports Entertainment Acquisition Corp. With the deal behind us, we have been focused on moving forward operating as a public company including appointing two additional independent Board members Natara Holloway and Jonathan Jossel.

We are thrilled that Natara and Jonathan have joined our board as they bring a wealth of experience relevant to our dynamic industry and they provide valuable perspectives as we continue to pursue our global growth strategy.

Moving on to our financial results for the quarter, Net Gaming Revenue was €315 million and Adjusted EBITDA was €63 million.

Alinda will discuss the results which are presented in a presentation posted to our website, however I want to add that Super Group continues to expand in both existing and new markets and continues to generate consistent cash flow. That said, we do have some specific industry, as well as general economic headwinds that showed up in our Q1 results. Specific to Super Group, we have had some regulatory changes in several European markets that make the year over year comparisons challenging. On a general basis, like others, we experienced a lower than normal hold in March. That condition has thus far been limited to March, and we experienced normal holds in April and May. Going forward we are also unsure as to how consumers react to higher inflation and to various worldwide events that may affect discretionary spending patterns. These headwinds crop up from time to time, so we will continue to operate the business with discipline with a focus on long-term growth, but we think it is going to be tough that we will meet or exceed our original 2022 forecast. Given the volatility we've seen and known uncertainties, we are working on a reforecast for 2022 and should be able to provide an update about our expectations when we release second quarter results in August.

I want to spend a moment on the Super Group balance sheet because we believe it is a competitive strength in a period of uncertainty. Our balance sheet was in good shape when we went public in January, and it continues to strengthen as we generate cash from operations. Our

balance sheet and our cash flow generation combine to place us in a very good position to remain oriented towards growth in this period of headwinds.

I will now turn the call over to Richard. Richard?

Richard Hasson

Thank you, Neal. During the first quarter of 2022 we remained focused on expanding our already substantial global footprint, which includes licenses in over 20 jurisdictions.

In Europe, Betway was launched in Bulgaria with both a sports betting and casino offering during the quarter

In the United States, through Digital Gaming Corporation (or DGC) the Betway brand was launched in Arizona during the first quarter and in Virginia just last week. The Betway brand is now live in 7 states in the U.S., with these 2 recently launched states being added to the existing U.S. footprint of Colorado, Indiana, Iowa, Pennsylvania and New Jersey. Our expected timing of the DGC acquisition hasn't changed and we still anticipate it to close towards the end of this year.

We continue to explore opportunities to expand into new markets and we still see lots of opportunities to grow both in the U.S. and across the globe. Earlier this month, we were excited to launch the Betway brand in Buenos Aires City.

In Canada, we are working through the final steps of the registration process with the Ontario regulator for both Betway and Spin. Betway has received its registration and has a confirmed date for switchover to the regulated environment. With respect to Spin, we expect to complete this same process for registration and switchover imminently. In the meanwhile, both Betway and Spin continue to operate in Ontario with the regulator's knowledge. Our current status is consistent with our prior guidance.

Operating as a public company has opened doors for greater expansion and allows for a smoother process to transact and operate in new markets. In particular, the greater transparency that comes with being listed on the NYSE has substantially improved our credibility in the eyes of financial institutions and regulators in jurisdictions where we are not yet licensed.

Turning to our marketing efforts. Our Betway brand partnership portfolio includes over 70 active partnerships in 17 different countries, spread across all the major international sports, including soccer, basketball, tennis, e-sports and golf.

During the first quarter we signed nine new Betway brand partnerships including the Milwaukee Bucks, the Stock Car Pro Series Brazil and the Ghana Women's Football League. This activity is in-line with our strategy to expand our partnership network in order to reinforce the Betway brand around the world, helping to support all of our other marketing activity and thereby the growth of the business.

Average monthly active customers for the first quarter increased by 10% to 2.6m from 2.4m during the prior year quarter. Year-on-year comparisons are complicated by the second wave of the worldwide Covid pandemic which no doubt positively affected the numbers in the prior year quarter, as well as the subsequent closure or restriction of business in Germany, the Netherlands and Uganda, which obviously hurt customer numbers in the most recent quarter. Excluding the effects of closed and restricted markets gives a year-on-year growth of 18%. In the long run, success in this business depends on adding new markets and growing the customer base in both existing and new markets. In the past quarter, our existing markets delivered a respectable increase in customers and in due course the several new markets that we have recently entered will help to power our customer growth further.

I will wrap up by addressing a key area of focus for the management team, which is capital allocation. Super Group continues to be a strong cash generator with consistent cash flow. We have a rigorous framework for allocating our cash, with our primary focus on investing in growth. As Neal alluded to in his earlier comments, we believe that recent conditions, while challenging in the short term, may, given the strength of our balance sheet, produce additional opportunities for Super Group.

In order of priority, the way we think about capital allocation is to be constantly looking at the following three general areas:

- Tuck in or bolt-on M&A to expand our geographic footprint in sports betting or gaming, or to enhance our technological capacity or marketing resources;
- Continued expansion into new markets based on projected relative return on capital; and
- Other appropriate uses of cash including various means of returning cash to shareholders

I will now turn the call over to Alinda

Alinda van Wyk

Thank you Richard. The numbers I will be referencing today are included in the presentation posted to the investor relations section of our website.

Starting with revenue …

Net gaming revenue for the first quarter, inclusive of both Betway and Spin increased by 5% year-on-year to €315 million. On a like for like basis, eliminating the material countries which were closed during 2021, NGR would have increased by 8%.

Sports revenue increased by €24 million or 28% mainly due to strong growth in key markets in the Africa and Asia-Pacific regions. Despite sports also bearing the brunt of the negative impacts from Germany, Austrian and the Netherlands headwinds, growth was achieved by continued expansion of the customer base, with monthly active sports betting customers increasing by a percentage in double digits. In addition, trading margins improved slightly as a result of product enhancements and increased event and market coverage.

For casino gaming only, we saw a year-on-year decrease of €8 million or 4%. This was in part due to regulatory changes in markets such as Germany, Austria and the Netherlands, which resulted in adverse impacts on casino revenues that we estimate to be approximately €4 million for the quarter.

With regards to the future of these markets, Super Group has submitted all of the necessary documentation for the Netherlands licensing and is assessing the viability of casino gaming in Germany given the current onerous tax regime there. The remainder of the decrease was largely due to the outperformance of the casino product in Q1 of 2021 during the peak of the Covid second wave in prominent markets, combined with relative weakness in acquiring new customers in Q1 of 2022 which has already shown an uplift in Q2 of this year.

Moving to EBITDA, we present adjusted EBITDA, which is EBITDA adjusted for transaction expenses relating to the listing, impairment of goodwill, share-based payments and deduction of some non-recurring or prior period expenses.

On that basis, Adjusted EBITDA for the first quarter decreased by 3% year-on-year to €63 million for the quarter.

Looking into the details of the year over year comparison:

- Betway's global brand sponsorships increased by 46% during the first quarter of 2022, representing an increase of €7 million. The majority of this was due to new partnerships with NBA and NHL teams as the Group expands into the US alongside its brand partner, DGC. Other marketing costs increased 7% year-on-year

- Operational expenditures were up by €10 million or 18% mainly due to increase of staff expenditure and infrastructure and technology costs. Staff costs rose mainly due to annual salary increases, the cost of aligning employee benefits policies across the group,

and an increase in headcount arising from additional corporate governance requirements following the Super Group listing in January. Infrastructure and technology costs increased due to additional cloud subscriptions as the group's off-premise infrastructure expands, and from licensing for additional compliance software.

We continue be very cost conscious and the increase in expenses this quarter was all broadly in line with the assumptions included in our guidance for the year.

Our free cash flow ratio remained strong, at 75% but was lower compared to the prior year quarter due to increases in taxes paid and capital expenditure. Super Group's effective tax rate remains below 8% thanks to a tax efficient structure. We remain debt free which is of course a significant contributor to our strong free cash flow ratio.

Cash on the balance sheet decreased from €294 million at year end to €273 million at the end of the quarter. The bulk of that decrease was driven by the use of cash in connection with closing of the business combination.

The full picture is better illustrated by cash and cash equivalents –which were €312 million at the end of Q1 compared to €342 million before the business combination closed in January. This decrease in cash and cash equivalents was driven by additional investments made, receivables outstanding not yet recognized in cash, and in part offset by free cash flow generation.

Our fully diluted share count will be slightly increased in the coming months due to the issuance of approximately 6.8 million Restricted Stock Units broadly distributed to over 3,000 staff members who are not currently shareholders in the business, further aligning employee interests with shareholders. The Restricted Stock Units will vest over three years.

In closing, online gaming and sports betting are by definition potentially volatile businesses, because our products are all built on top of random outcomes. Short-term ups and downs are therefore not easy to predict. Despite that, our team has built Super Group into a reliable cash generative business, one that is debt-free, built for scale, positioned for new market entry, and capable of creating meaningful operating leverage as it grows. We have an impressive long-term track record in delivering all of those things, and we're comfortable that we will continue to do so in the future.

Thank you for listening. Now I will turn the call back to Neal, for his final remarks.

Neal Menashe

Thank you Alinda

In conclusion, Super Group continues to grow its broad, global footprint and profitable, diversified revenue streams.

- We believe that there is still significant room to grow in the markets in which we already participate and in new markets.
- The company has been growing for over 20 years, generates reliable cash, operates at scale, is profitable and is debt free
- We control our technology stack and are empowered by sophisticated analytics and data systems
- We will continue to execute on our growth strategy and to ensure that we keep these value drivers intact

For over 20 years we have managed this business through many changes and challenges. There have been many bumps in the road but over time our growth trajectory has been consistent and strong. Our team has become accustomed to successfully navigating the business through changing and challenging environments, and we believe that the strategies that we are executing on will enable us to continue doing so as we take Super Group from strength to strength.

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

Operator

Thank you. At this time, we'll be conducting a question-and-answer session. Joining the management team today for Q&A is Spencer McNally, Group Head of Data and Analytics. [Operator Instructions] Our first questions come from the line of Michael Graham with Canaccord Genuity. Please proceed with your questions.

Michael Graham

Hi. Thank you and thanks for all the color on the call. I just wanted to ask two questions. The first one is, wondering, if you can maybe give us a little more depth in terms of the headwinds in Germany, Australia and Netherlands, sort of like rank ordering the magnitude between some

of the regulatory things and some of the fundamental things? And in particular, wondering if the Q1 weakness in adding customers was more a proactive decision around what you were seeing on the ROI front or something else going on? And then I have a follow-up after that. Thanks.

Neal Menashe

Okay. Hi, it's Neal here. So, I'll start with that, and then I'll let Spencer and everyone else jump in. So, in Germany, as you know there's no online casino, we don't have an online casino license, whereas a year ago, we did. And in Germany, the online casino licenses have a very high tax rate. So, we're still looking at it to understand if it's viable to be able to operate casino in Germany. Obviously, Betway is fully operational with sports betting, but no online casino.

And then Netherlands is basically that was full sports and casino a year ago. But as you know, only certain operators were given the licenses this year and then Betway and Spin are now waiting to get their licenses. So, it's more about a regulatory side in the Netherlands, just waiting to go live. But the product and the regulated product is all ready.

Michael Graham

Okay. Thank you for that. And then I just wanted to also shift and ask about Ontario and just maybe could you give us an update on, what you're seeing in terms of the roadmap in licensing there?

Richard Hasson

Hi, there, Richard speaking. So, specifically in Betway and Spin, on the Betway side, the registration has been awarded and we are expecting the similar registration to come shortly for Spin. On Betway, the date for the switchover to the regulated environment has been agreed with the regulator. Obviously, timing is still subject to that. It's in their hands at this point. And then – hopefully around the same time the switchover also for Spin.

Michael Graham

Okay. Great. Thank you very much.

Operator

Thank you. Our next questions come from the line of Jed Kelly with Oppenheimer. Please proceed with your questions.

Jed Kelly

Great. Thanks for taking my questions. Just going to the decision to wait and update the 2Q forecast, is any of that related to some of like the activity you're seeing in Ontario, or is this more some of the regulatory headwinds you called out earlier? And then, given just the overall environment, is this making you think about differently, like, any countries or any other geographies you're thinking to expanding into? Thank you.

Neal Menashe

Okay. So, Neal, I'll start and Richard can add in. So, obviously, we built this business market by market. So nothing's changed. It's just about going into each of these markets and affecting them and understanding the spend, if it's the OpEx spend, the marketing spend in those regions. So overall, obviously revenue for Q1 was difficult, especially with the hold in March, but the fundamentals of our business, nothing has changed.

We've got the model. It's all about now really being long-term growth versus short-term profits, and it's getting that mix right to be able to take this business to the next level. So it's not about Canada. It's still early days. We're still operating in Canada in Ontario. As Richard mentioned earlier, Canada, as we're all ready to go there, and we're just waiting for the regulator.

Jed Kelly

Got it. And then, just as you kind of think long term, can you talk about the -- I guess, we see the Betway branding all over in the NHL and even in some arenas in the NBA. Can you just give us an update, the ROI you're seeing on those sponsorships? And is that generating positive ROI and investment we want to continue to make. Thanks.

Richard Hasson

Yes. Richard here. I think, as we've mentioned before, this global brand spend, the partnerships that you referenced, those are part of the global portfolio, they're not measured specifically on the market in which those are present.

They're done more for the global audience and they're part of a multichannel coherent marketing strategy, where the branding and the global branding makes up one component of one channel of numerous channels. So we look at it in combination, looking at all the channels and the returns. And, yes, on that basis for the business as a whole, as a global brand, it still makes a lot of sense, yes.

Jed Kelly

Thank you.

Operator

Thank you. Our next questions come from the line of Bernie McTernan with Needham & Company. Please proceed with your questions.

Bernie McTernan

Great. Thanks for taking my questions. I was hoping to start -- I appreciate the comment of the €4 million impact to revenue in 1Q from regulatory. Is that a full quarter impact, or was that a partial quarter impact? What should we expect in 2Q, if it is a full impact? And is the right way to think about that Germany is probably going away and the Netherlands should come back at some point?

Alinda Van Wyk

Alinda here. It's just full quarter impact, but it has been considered in the remainder of the guidance for 2022. So you wouldn't see this similar impact in quarter two, three and four. And 100% right, we are working around casino in Germany to see what is beneficial and how to proceed with the way forward, but we do suspect that and hope that -- we do know that Netherlands is coming back, depending on the regulatory outline.

Neal Menashe

Yes. But after that,-- and this is Neal, so just for Germany, what I said earlier is, obviously, Betway is live and that's been live with sports.

Bernie McTernan

Understood.

Neal Menashe

Totally regulated product, yes. It's just the casino side.

Bernie McTernan

Understood. So, we should expect the regulatory impact in -- for the remainder of the year to be less than €4 million a quarter.

Neal Menashe

That assumes -- yes, that assumes that The Netherlands goes live in July, August, et cetera. But in the regulatory, the Dutch regulator and when we'll get permission to go live.

Bernie McTernan

Okay.

Spencer McNally

I just want to make sure that we're not talking past each other Bernie, it's Spencer here. The Netherlands started slowing down around about the middle of last year, and disappeared towards the end of last year. So, if by an impact, you mean versus the previous year's equivalent quarter, then there's still some level of showing up in the second and part of third quarter for 2021. Germany, I'm just looking at the same time, I think that went off, that we took the pedal off a lot earlier than that. Maybe -- hope that makes more sense?

Bernie McTernan

Yes. No, that's helpful color. Thank you. And I guess maybe more directly, what -- you called out the March hold so -- but you guys provided guidance six weeks -- six or seven weeks ago and now taking it off the board. So, I'm just trying to get a sense in terms of what's changed relative to then?

Spencer McNally

Bernie, I think if you go back to a year ago, when we were -- when we kicked out our first set of guidance, what you might remember from back then is we go into an intense amount of detail on this process. We don't just simply take the top line and roll it forward by a little bit.

We're also – we're quite an agglomeration of different markets. Some of them are very stable and produce great cash flows, and others are still quite fresh and growing, and are going to cost us some investments for a while to come. And what that means is that the process of simulating that guidance is a very, very detailed and robust and rigorous process.

And we're deep in the detail of that currently. As you stated already, March was difficult, but April and quarter two were looking better. So, it's, I think six weeks ago, eight weeks ago, it was a little bit harder to take a call on where it was going to go. We're still not in a position to be exact or more detailed with our guidance, but I think we're in a position to call out what we have called out at this point in time as to where we think the rest of the year is going to go.

Bernie McTernan

Yes. If I look at the press release, it shows that -- sorry, that North America revenue was up 1% year-over-year. I know that, there's some difficulties in terms of the year-over-year comparisons with looking at the press release. So, I just want to know, what the right organic

growth rate for North America was in 1Q? And if there's any color to provide on what we should be expecting with 2Q and beyond for the remainder of the year?

Spencer McNally

What was – it's interesting because of – we definitely in Q1 of last year got a very solid COVID bump, I think, is probably the best way to describe it. And then we have this yeah in 2021 year and we're still playing out where we think that goes for the remainder of the year. So, I'm not sure that I can give you much more than that. But Neal, if can give other thoughts on this?

Neal Menashe

I just think if you compare this year to last year, obviously, you had what we talked about Covid and now obviously, people coming out in their discretionary spend going to other industries. But from our point of view is, the software and the robustness of the customers coming in from those markets is still there. And for that, that's very important. And then of course the marketing ratio relative to each market that's what's key is in this business. So, if it's Canada and all the other countries, each of this is a separate business within itself. And we keep monitoring that on a market-by-market basis.

Bernie McTernan

Okay. Thanks for taking the questions.

Operator

Thank you. Our next questions come from the line of Mike Hickey with The Benchmark Company. Please proceed with your questions.

Mike Hickey

Hey, guys. Good morning. Good afternoon. Thanks for taking my questions. Just obviously, it's sort of a big surprise here given that you just gave guidance April 13 to sort of throw out your 2022 numbers here. And of course, we're going to be bumping into June here in a week or so. And so just curious, if you can – I know, you touched on it, but obviously, it's a pretty big change.

Can you just sort of walk us through philosophically how you think about guidance, your approach to it now? I mean, it's a little unusual to sort of rethink guidance versus just lowering it. And can you put some guardrails around it. I mean, obviously, if we annualize your first quarter here, you might be €100 million off your EBITDA guidance. I'm guessing that's not what

you're thinking, but if you can sort of set the stage a little bit for us in terms of materiality on what you expect in terms of lowering your numbers? Thanks, guys.

Richard Hasson

Okay. I'll start here, Richard speaking and then we can go into, say, some of the mechanics around the forecasting. I think just macro, obviously, as Neal just referenced now, the business is made up of a number of different markets, and all of those markets are at different stages. And for us, it's very much a balancing act between finding how best to invest in these markets for the long term and balancing that with say, the current or the short-term profitability. As Spencer mentioned earlier – Neal, may have referenced it. In terms of the environment that we find ourselves in now, it does make sense for us to relook at some of the forecast.

But the key point here is that, the model which has been tried and tested over many, many years is still very much intact. We look at the business, the business has run over the long-term and our view is to keep doing what we've been doing and striking that right balance between all the different markets and between the short-term and the investments for the longer term.

Neal Menashe

And then, I'll add. This is Neal. This business is -- we talk about market, but also about the product in each market. And it's enhancing that product, which is what's happening every day, new features coming out. And it's all about the customer experience and understanding how the return on marketing expenses in each market.

But again, we're not going to be a business, which is going to be spending a fortune of marketing if we're not getting the returns on that extra step. That's not how we wouldn't have been here and built a profitable business if that's what we have done over the last two decades.

But, yes, the world that we find ourselves in today is a very different world than it was 12 months ago. But business has gone through many of these changes. And because we've got so many countries, it gives us opportunities there. And we've got a strong balance sheet. We're still producing lots of cash. And then lots of opportunities will come our way.

Richard Hasson

I'll just add one more thing there. Over the last say, two-plus decades, what we have understood is how to adjust the levers that are within our control even when we find ourselves in the markets like we are in or if there are certain headwinds. And when I mention it was made, the reforecast will come with the next set of results, we'll be using that time to understand how exactly to adjust those levers and ultimately respond to the current scenario.

So that's where Spencer touched on, it's a market-by-market forecast. It's built up from the bottom up. But it will be a matter of combining that with understanding which levers we can change and ultimately responded.

Mike Hickey

Got it. I think the challenge here is when you throw out your numbers, I think in this environment that you may get over penalized here in the market. So can you talk about your progression here in 2Q from 1Q, at least again, help set some expectations in terms of should we be looking for flatness here? And then you're growing in second half, or any sort of color in terms of growth progression out of the first quarter? I realize, Canada is interesting but that opened early April. So you should have some data there. It looked like it was lining up in your favor given the marketing restrictions and conservative commentary from some of your peer set here in the US that was going in there. So that sounded good, but would love to hear a little bit more there in terms of what we should think on 2Q versus 1Q?

And then again, I think the question is, is this a little miss on revenue versus 2022 original expectations, or are we taking a big step down here. But any, sort of, setting the stage or giving us some guardrails here, coming out of first quarter that was clearly a disappointment versus consensus. And I think what you're thinking on your original guide would be very helpful? Thank you, guys.

Spencer McNally

Okay. I was just going to say that one of the interesting parts of this business is that you spend a lot of money upfront in investing in the growth of the market, and we've called that out in terms of some of the sponsorship deals that are underway and the significant increase in brand spend versus year-on-year.

And when all of your markets trade well then your margin holds up. You have a poor month like we called out in March, the catch-up on that takes a while. So if you, sort of, play out the rest of the year, if we carry on trading the way that we have been in April and May, then the top line, the revenue number is not looking particularly scary.

The issue is to catch up on the bottom-line, on the EBITDA line, thanks to, for example, the brand spend that we've put into growing the business worldwide and some of the operational expenses that come out of having listed the business, some of the additional compliance requirements, et cetera, et cetera.

But the point is that this business is made up of a lot of different parts with a lot of levers to pull, which we're reasonably comfortable we can do. In terms of the shape of the rest of the year, casino doesn't tend to be all that seasonal, whereas sports can be. So the June/July soccer

break is always interesting to watch what happens there. And then when the season picks up again later in the year, it gives us a chance at recovering.

But the really hard part is how much future growth do we want to sacrifice by pulling back on marketing if we really want to hit the EBITDA numbers? So it's a balancing act. And that's part of the process going forward. But we remain confident in the shape and style and structure and so on of the model of the business that we have. We are now doing for 20-plus years and really being listed introduces a new element of having to watch it on a quarter-by-quarter basis. But if we watch it on the long-term basis, we're not particularly concerned.

Neal Menashe

No. So I'll do that also you know, the – and it's Neal here – because we're a global business, you've got football, et cetera, there's the World Cup in November / December. So there's lots of sports events still to come in the second half of the year, plus -- the business, it's a strong business. We understand it, we built it from the bottom up. We understand the levers to pull and it's the balancing act as Spencer said and everyone is saying that short-term profit and long-term growth.

And so for us, we will continue to do that and continue to assess every single market as if it's its own business. And we've got the teams with the software in all these markets. We manage and control, we own the software from beginning to end and it's about return on investment on this marketing and we've got a very, very, very strong balance sheet. We don't owe the banks any money, we generate lots of free cash, and we'll be putting that to good use.

Mike Hickey

Okay. Thanks. Last question for me. You called out inflation I think, but sort of broadly speaking, you sort of called out the recession, maybe global slowdown. I think we all get that. What was sort of interesting, I know you've been a long-term operator here and have had a tremendous amount of success. But you mentioned sort of maybe a pullback in discretionary spend, which sort of is a bit in contrast with some of your peers that are sort of highlighting that spend in gaming tends to do well in good times and bad.

And so, just looking back on your wealth of experience here and operating in challenging markets, can you sort of double-click for us on how the consumer behaves, how the bettor behaves when you have more challenging economic scenarios that we're all dealing with now. Thank you, guys.

Spencer McNally

I was going to say that historically, over the last 20 to 25 years, I've always felt , sort of felt, that we're almost a defensive business in terms of economic cycles. It's almost like the -- one of the last guilty pleasures that consumers give up.

There -- which is maybe a good thing and maybe a bad thing, I'm not sure, depending on your perspective. But where I was going to go with that is that, we definitely do see an effect or have seen an effect in past business cycles, but it felt like it was little bit muted compared to how radically it can affect other verticals.

So, I mean, we are cautiously waving a flag there, just because we think, it's likely to have an impact. But if you think of us relative to other industries, I would argue for less of an impact. Exactly what that's going to be, really, really hard to call, because I think geopolitically, we find ourselves in a quite unique circumstance here, one which, I don't know that there's an analog in the last 25 years, with, really, global commerce upended the way that the current situation has. So, I don't really want to call it one way or another, but I do think we need to raise the possibility of it. And, again, I'll say that I think we will be less effected than others, but that's a very personal opinion.

Mike Hickey

Thank you.

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.