



## 2Q 2022 Earnings Call Transcript

August 11, 2022

### Super Group Participants

Lisa Kampf - Vice President, Investor Relations

Neal Menashe - Chief Executive Officer & Director

Richard Hasson - President, Chief Operating Officer & Director

Alinda van Wyk - Chief Financial Officer & Director

### Other Participants

Jed Kelly Analyst, - Analyst, Oppenheimer & Co., Inc.

Bernie McTernan - Analyst, Needham & Co. LLC

Jason Tilchen - 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 second quarter of 2022 and outlook for the year.

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, please 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. The presentation includes the financial information that will be referred to during this call.

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

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

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### Neal Menashe

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

Super Group is and continues to be uniquely positioned to take full advantage of the projected growth in the global online betting and gaming market, a sector expected to exceed \$145 billion by 2025. Our Betway and Spin brands enjoy world-wide reach and recognition, and we are actively working on a number of geographic opportunities that will allow us to deliver future growth, and most importantly, our business is diversified, profitable and highly cash generative.

This quarter, we again demonstrated the benefits of our global model and recently formed a holding company structure, with good progress made in a number of areas:

- We grew average Monthly Active Customers to 2.7 million, up 3% from the second quarter of 2021
- We saw good growth in key markets such as Africa and Asia-Pacific
- Our sports betting continued to deliver positive growth
- We capped a smooth Ontario licensing process with the transition of Betway into the regulated regime, with Spin to follow next week
- And we have progressed the US state by state licensing of Super Group that is a prerequisite for the acquisition of Digital Gaming Corporation (“DGC”)

Our results for this quarter of Net Gaming Revenue of €316 million and Adjusted EBITDA of €54 million, and for the half-year of Net Gaming Revenue of €631 million and Adjusted EBITDA of €117 million, remain resilient despite the impact of a normalization of entertainment spending patterns post-Covid and the current headwind effects of general economic uncertainty on discretionary spending. We expect that these effects will continue to be felt for the remainder of the year and have updated our guidance accordingly.

Alinda will discuss both our results and our guidance in more detail shortly, but I want to emphasize two things first:

- One: I believe that our year over year results do not properly reflect our achievements over the last 12 months. Our continued progress across the globe is better reflected by our growing global TAM and ongoing growth in active customer numbers
- Two: ongoing regulatory change plus post-Covid normalization will ultimately benefit Super Group because we have an efficient cost structure and over 20 years track record of trading profitably through thick and thin

Importantly, our control over marketing, our products and our operating costs gives us a number of levers to optimize with. Here is what we are doing:

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- First, efficient brand spend to maintain global awareness, where we will continue to optimize our portfolio of over 60 worldwide partnerships by focusing on profit
- Second, we will enter new markets and expand in existing markets, particularly where regulatory changes provide opportunity. In the absence of a path to attractive ROI, we will reduce or delay spending
- Third, over the next 18 months we will extract cost efficiencies arising from the formation of the holding company, with significant savings to be delivered in 2023

Turning now to some specific market related updates:

In Canada, we are pleased to report the smooth transition last week of Betway to Ontario's regulated environment, and we expect Spin to migrate next week. Given the regulatory restrictions on public advertising of bonuses in Ontario we don't expect to see the same level of unsustainable price competition that happened in the United States. We remain confident from past experience that regulation will be favorable for us in the medium and long run, and we hope to see regulation introduced to Canada's other provinces in due course. In the meantime, we will continue to trade as before, and we expect that Canada will continue to underpin our 20-year track record of consistent profitability and cash generation.

Some of our historically key Western European markets continue to be on hold. We are still awaiting licensing in the Netherlands in anticipation of launch, and we have not yet concluded the assessment of the ongoing viability of casino gaming in Germany post the new regulations.

In the United States, our goal of completing the acquisition of DGC remains the end of this year. This is of course subject to the various regulatory timelines. To recap, DGC is a brand licensee of Betway, currently live in 7 states and with secured market access in up to 12. DGC will be a tremendous addition to Super Group and the fastest and most efficient way for us to enter the US. We look forward to completing the regulatory approvals and having DGC become part of Super Group as soon as possible.

Moving on to the Balance Sheet. Consistent cash generation has built a strong Balance Sheet that is an asset to Super Group. For cash on hand, we are considering various opportunities, including:

- Investing in brand and other marketing channels to generate profitable long-term growth
- M&A for expansion into new and existing markets or the acquisition of useful skills or technology, DGC is a good example of this
- And returning cash to shareholders

On returning cash, at our first annual general meeting in September we are asking for authorization to buy back shares. This is a typical and standard step for Guernsey companies and we want that authorization to be able to act if it's in the company's best interests. However, we

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are paying close attention to the low float, so any use of this authorization would keep that in mind.

In conclusion, let me sum this up for you. We believe that online gaming businesses are resilient, but they are not immune to macroeconomic pressures.

What Super Group has, is a global footprint and a competitive cost structure that we intend to keep and improve.

We are experiencing these pressures, but our underlying business is healthy and will continue to grow over time. Our Balance Sheet remains strong, our business fundamentals are sound, and we are staying focused on long-term opportunities around the world.

Thank you. I will now turn the call over to Alinda for a detailed discussion of our financial results. Alinda?

**Alinda van Wyk**

Thank you, Neal.

As you are well aware 2022 has been a difficult year for many industries, including the global digital gaming industry. With changes in consumer behavior, driven by economic uncertainty, revenue growth has slowed down.

In the second quarter, Super Group's Net Gaming Revenue was €316 million, down by 7% versus the prior year quarter.

However, on a consistent basis, excluding European markets that were closed for us this year due to regulatory changes, Net Gaming Revenues in the second quarter would have decreased by 5%.

Looking at the first half of this year, Super Group's Net Gaming Revenue is down by only 1% from 2021, to €631 million.

Back to this quarter's results, we also experienced a shift in revenue mix. In Q2-2021, our Net Gaming Revenue was split 50/50 between Betway and Spin. This year, during the second quarter, Betway grew to 55% against Spin's 45% as sports betting grew while casino gaming declined. The shift in revenue mix negatively impacts our EBITDA margin owing to Betway's lower operating margin as compared to Spin.

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Starting with our sportsbook revenue – compared with Q2 last year, sportsbook revenue increased by €6 million or 6%, mainly due to good growth in key markets in Africa and APAC regions, despite being partially offset by declines in Europe and Canada. Growth in sports-betting Net Gaming Revenue from Africa and APAC markets represents positive momentum, resulting from continued good growth on the customer base and retention rates in some of the few markets where it would appear that Covid lockdowns had relatively limited impact.

The growth in APAC was also due to a full IPL season during 2022, after the cancellation of the IPL season in 2021 due to Covid. The decline in Europe was mostly due to regulatory changes in Germany and the Netherlands, and fewer sports offerings in 2022, in particular with limited soccer in June this year. On that note, the English Premier League and France's Ligue 1 kicked off again last weekend and we are seeing an encouraging increase in activity. We look forward to the other major European leagues starting this weekend. In conjunction with our EPL brand partnerships, over half of the 380 games will feature some of Betway's branding, including our sponsorship of West Ham. Other upcoming events include the T20 Cricket World Cup in October and November, followed by the FIFA soccer World Cup in November and December.

Moving over to casino – casino Net Gaming Revenue decreased by €29 million or 12% compared with the same quarter in 2021, of which €4 million can be attributed to the closure of the Netherlands, with the remainder primarily due to a decline in iGaming revenue in Canada.

We believe that the decline in Canada is due to a combination of two things:

- People are getting back to normal behaviors, post-Covid
- And inflation is putting pressure on spending

Similar factors can be seen in several of our markets across the globe, but the impact is felt most in Canada as that is our largest market.

Despite this, our total average Monthly Active Customers increased over 3% to 2.7 million compared to 2.6 million in the prior year quarter. Super Group is well on its way to achieving a diversified mass-market business.

On to EBITDA, we continue to present Adjusted EBITDA, which is EBITDA adjusted for fair value adjustments on warrant and earnout liabilities, associated foreign exchange movements and non-recurring expenses.

On that basis, Adjusted EBITDA for the second quarter was down 36% or €30 million to €54 million compared to €84 million in the prior year period. Looking at the half-year, Adjusted EBITDA for the 6-month period was €117 million, a decrease of only 21% from 2021.

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This quarter, the steeper decline in EBITDA compared to the decline in Net Gaming Revenue resulted from several factors:

- Brand licensing revenue declined by €12 million in the second quarter of 2022
- On the expense side, variable or direct expenses decreased by 2% as compared to the prior year quarter. Gaming taxes and product costs fell in line with revenues, but this was offset by an increase in payment processing and related foreign exchange costs due to growth in markets where those costs are structurally higher
- Super Group's marketing costs went down by €7 million or 8% on a net basis. A reduction of our variable marketing was offset by continued marketing investments in partnership deals for long-term brand and revenue growth
- General and administrative costs, which are largely fixed in nature, increased by €6 million or 10%. Reasons for this increase include nominal annual salary increases, increased technology and infrastructure costs, and the costs of additional corporate governance requirements following our public listing back in January

Looking at our financial position – our Balance Sheet remains strong with unrestricted cash and cash equivalents of €220 million at the end of June, with no debt. Our cash flow ratio for the year so far is 74%.

On to guidance. In addition to revising guidance to take into account the current conditions, we will be reporting revenue, as opposed to Net Gaming Revenue, going forward. This is because the structure in Ontario as well as certain other jurisdictions has a company like Super Group operating as an agent of the authorities or the license holder.

What that means in simple terms is that our reported revenue will include:

- Net Gaming Revenue in some jurisdictions
- Agency revenue (net of fees) in other jurisdictions
- And other revenue such as brand license income

Back to the numbers, for the full year, we project revenue for 2022 under this new definition to range between €1.150 billion and €1.280 billion and Adjusted EBITDA to range between €200 million and €215 million. For the EBITDA bridge to the original guidance, please refer to the presentation on the website. I want to emphasize that our new revenue projection is not a pure NGR because of the change I just mentioned; however, NGR still remains at our core.

Some of the material assumptions underpinning our revised guidance.

Sorry, I'm just going to go back to the numbers. I just want to reiterate the guidance. The definition for guidance has changed to revenue as noted. The revenue guidance, will be

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between €1.150 billion and €1.280 billion and Adjusted EBITDA to range between €200 million and €215 million.

Some of the material assumptions underpinning our revised guidance include:

- Firstly, projected revenue has been reduced from prior guidance after taking into consideration expected ongoing pressures from multiple economic and regulatory headwinds, together with some further degree of post-Covid normalization
- Brand license revenue for the remainder of 2022 is expected to remain lower at approximately €2 million per month
- Brand marketing being kept at a level consistent with our earlier forecast, because of our focus on investing for the long-term
- And finally, operating costs are expected to be higher in 2022 due to inflation and the additional costs of being a public company

The net effect is that we expect EBITDA margin to be approximately 17% to 19%.

This is not a margin that we consider acceptable in the long-term and we are actively reviewing and carefully optimizing all of our costs, while working to extract the benefits of the holding company structure that we implemented in connection with becoming a public company just over six months ago.

We expect some of the benefits from this to accrue this year, but meaningful impacts will be noticed in 2023, when we expect to realize a €20-25 million decrease in annual overhead due to these efficiencies.

I also want to briefly touch on our projections.

We received some entirely justified critical feedback following our withdrawal of estimates, coupled with a lack of specific detail at the time of our last quarter. We run our global business with a long-term mindset.

Making and then possibly adjusting projections in the short term is something that is new to us, and we have taken steps to improve our ability and comfort in providing more transparency, while still protecting our competitive interests.

In conclusion, results for the second quarter of 2022 are evidence of the difficulties of dealing with regulatory changes, post-Covid normalization and economic uncertainties.

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We are focused on implementing a leaner cost structure carefully balanced against future growth prospects in order to preserve our financial strength as we seek to continue to expand our global footprint and grow new and existing revenues wherever possible, regardless of challenges.

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

### Neal

Thank you Alinda.

In summary, we generated a healthy level of revenue and EBITDA for this quarter, and we remain uniquely positioned in the global online gaming universe:

- We are digital only
- We have a diverse global footprint across sports betting and iGaming
- We are in control of our tech stack, our data and our algorithms
- We are profitable, debt free and highly cash-generative
- And we have a team that's been weathering these types of challenges for over two decades

Some of these challenges may be around for a few quarters, but Super Group is a strong company with a healthy Balance Sheet and we will continue to go after profitable growth.

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

### Operator

Thank you. At this time, we will be conducting a question-and-answer session. Also joining the management team today for our question-and-answer is Richard Hasson, President and Chief Operating Officer of Super Group.

Our first question comes from the line of Jason Tilchen with Canaccord Genuity. Please go ahead.

### Jason Tilchen

Yes. Good morning. Thanks for taking the question. I just wanted to focus on Canada a bit. You mentioned both inflationary pressures and sort of normalizing behavior, compared to the Covid impacts from last year, for the declines there. I'm just wondering if the read-through there, that competition from sort of more operators in the market was not a factor there or just less of a



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factor. Then maybe you can just, as a follow-up, also touch on the delay in the licensing for Spin and whether -- last quarter, you talked about you're still able to operate as you were previously with regulator knowledge. I'm wondering if that took place throughout the entire period from last quarter through now or if there's any change to that. Thanks. Thanks a lot.

**Neal Menashe**

Okay. So I'll take that. So yes, with Canada as with all other markets we operate in, there is competition, there's competition in all our markets. So for us, in Canada we are the same company as we were a year ago. Canada is all about, obviously, going now regulated in Ontario with Betway went last week and then Spin is going next week. So up to now they've been operating on the old software and they've now moved over. And Betway in the last seven to eight days is in line with our expectations. So Spin's going next week. So we've learned a lot from Betway and then we can implement that into Spin.

**Operator**

Thank you. Our next question comes from the line of Bernie McTernan with Needham & Co. Please go ahead.

**Bernie McTernan**

Great. Thank you for taking the questions. Maybe to start. If you could talk about the 20 million to 25 million of cost reductions, just to be clear on the timing, are those all happening in '22, so you'll receive the full benefit in '23? And then given the cost reductions, is 25% EBITDA margin something that's achievable in '23?

**Alinda van Wyk**

Thanks, Bernie. Alinda here. We started the process and we've -- this was a continuous process anyway since our listing to look at our cost base. In my presentation, I make reference to 2022 as where we really started the focus. We will see it in the last quarter coming to fruition. But the impact of the 20 million to 25 million is in 2023, and that will obviously be visible on the margins. And to your question regarding the 25% margin, I mean, obviously like I've said, the 17% to 19% margin is not where we would like to be. We're aiming for 20% and continued growth in that margin by getting all our ratios back intact, with a focus on our top line growth.

**Bernie McTernan**

Understood. And then would just love some commentary in terms of what you're seeing from the customer LTVs and -- because of the macro and the Covid comparisons, whether it's players

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turning off altogether, whether people are playing less and engaging less, if it's smaller bet size, less handle. Would just like to see what's actually happening underneath the hood.

### Neal Menashe

First of all, listen, it's across the globe, because we're global. It's not just one country, it's across the globe. So you see different effects in different markets. But definitely from our point of view, it's just that the discretionary spend of our customer -- has come down. But in other markets, they -- we've got more customers. So maybe their spend is slightly down, but then they are spending more over time with us because we got more customers. So it's definitely a macroeconomic headwind. But that's why I said, it's as this levels out, then -- and post-Covid as I said, we still got 2.7 million users using our software. And that's going up.

### Bernie McTernan

Thank you.

### Operator

Thank you. Our next question comes from the line of Mike Hickey with the Benchmark Company. Please go ahead.

### Mike Hickey

Hey, Neal, Richard, Alinda. Thanks, guys. Good morning or afternoon, wherever you guys are. Thanks for taking my questions. I guess just to double-click on the macro again. It seemed like the online casino player has historically been fairly resilient in times of sort of economic distress and while we have inflation, we also have strong employment. And of course, your global and I'm looking from a US lens. So I guess, if we could again sort of understand, why it's different this time? And I think you mentioned that perhaps your sports betting client was doing better than your gaming. I think I've heard that. I'm just curious if that's true and why that is?

### Neal Menashe

First of all, gaming is not immune, it's resilient. But again, we've never seen inflation like this in 40 to 50 years. For now 20 years, we haven't seen it yet. Yes, we've seen downturns in 2008 with the financial crisis, but not something that's affected our customers' discretionary spend. So because we're global, different markets and including sports have different customer values, et cetera. But from our point of view, again, it's about what's happening in each of these countries, each of these markets and how the customers are engaging on our platforms.

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### Mike Hickey

Fair enough. Inflation is brutal. I agree with you. I guess so when your players are strained, how do you adjust your playbook or your app to sort of account for that weakness? I mean, how does that change your hold targets, how does that change your promotional activity? What adjustments have you made or do you plan to make for a player that is dealing with macro issues that could extend for another 6 to 18 months.

### Neal Menashe

I guess that comes to your customer counts again. And it's having more customer spending slightly less, but in different markets, there are different player baskets, et cetera, for that. So from our point of view -- remember, this business is a mass market business. This is not a business of high-value customers. This is a business across the spectrum. So it's about the numbers of customers and your software being able to be superior in those markets, and giving them the customer entertainment experience that they want and offering them the right casino games that they like. If it's lower, lower bet size games -- and remember, our algorithms and everything that we do is based on the -- it is individualized to the customers. And then same with sports betting. It's offering them all the different sports events that they would like to bet on. And that's why we're saying is when you've got lots of these competitions, for example, last year this -- or in June last year, we had the Euro, and now we didn't have the World Cup this year, but the World Cup's coming in November and December. So when you compare this June to last June, it isn't a fair comparison. So all of this helps with bringing the customers into the software and then, of course, the bet size.

### Mike Hickey

Okay. Fair enough. The last question for me is on US market. I'm sorry if I missed this. Are you -- just sort of the timeline I guess on DGC. It seems like it's been hanging out there for a while. Curious -- sorry again, Neal, if you mentioned this. But just where you are in closing that transaction? And then maybe just re-examine, given everything that's changed so fast in terms of the macro conditions, how you're thinking about entering the US market today versus six months or a year ago? And how you think about the impact to year '23 numbers? I think Alinda originally, you were saying it was sort of a -- these are my numbers. Maybe it was 8 million to 13 million in annual negative, Adjusted EBITDA impact. Just curious if that's still the same range you're thinking and if your intent or your playbook or design of going to the US market is the same, given all the volatility. Thanks, guys.

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### Richard Hasson

Hi, there. Richard here. So the closing of the DGC acquisition, it is still on track for our target, our goal of having that done by the end of the year. As we mentioned before, there are a number of licenses that Super Group needs to be granted before that time. So we're obviously working through the timelines of the regulators in those various states. So that remains our goal. In terms of the US, our plan remains very much the same. In terms of the 2023 targets -- in terms of the 2023 numbers, we expect the range of impact to EBITDA assuming that DGC was in the Super Group for the whole year to be between €50 million and €70 million with our target breakeven for the end of 2024, beginning of 2025.

### Mike Hickey

Thank you, guys.

### Operator

Thank you. Our next question comes from the line of Jed Kelly with Oppenheimer. Please go ahead.

### Jed Kelly

Hey. Great. Thanks for taking my question. Just two if I may. Circling back to the macro. Can you talk about what regions you're sort of seeing an impact and is that due to the higher dollar? Because -- just trying to reconcile with what you're seeing, and I know you're global, versus what we heard last week from some of the North American operators where they're not seeing an impact, and you also heard that in travel as well, particularly Europe and travel in Europe is stronger. So are you seeing more of an impact in APAC, in Africa? And then just on the change in the revenue. Can you talk about, like is that a benefit? Or can you talk about how that impacts the financials and the growth rates? Thank you.

### Neal Menashe

Okay. So I'll just say, because we -- listen, we're the same company as we always have been. So because we're in the global marketplace across the world, of course, we have currency fluctuations, if it's coming out of Africa, APAC, et cetera, right? So from us, those currencies are always swinging against the dollars or the euros, right? So that we've had anyway. And we continue to grow the revenues in those markets, despite even if it is offset slightly by some currency losses in those markets. But that's the global nature of Super Group, from that point of view. So for us is yes, we -- I can't comment on our competitors, but remember, we are not in

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the US, we are across the world. So we have global factors across the world in the markets that we operate in.

**Alinda van Wyk**

And then just on your question regarding the guidance for revenue. The guidance is high-quality revenue. I'm being very precise in the re-forecast, because -- to make sure that it's a strong achievable target for all our businesses and to make sure that it's the high quality revenue that comes through and that our teams are very focused on now achieving for the remainder of the year.

**Jed Kelly**

And then -- it seems that you're getting live in Ontario this week. Is there a margin drag or anything we should be thinking about from paying like a higher tax rate or anything now that you're going to be on the legalized -- or not legalized but regulated, you'll be a regulated operator in Ontario? How should we think about the back half on the margins?

**Alinda van Wyk**

Yes. So, I mean -- like previously stated as well, the initial introduction into the regulatory environment is always a bit of an impact on the margin, but we've got all systems in place to make sure that margins recover towards the end of the year. With the most important impact is that even though you've got -- I refer to it as agency fee, which is the tax that you're implying about, the most important thing is that we -- that the cost associated should theoretically come down as well, like better processing capabilities, so your variable cost is in line, then will be reduced. But also, our cost base is intact for the Ontario transfer and to make sure that our margin for Ontario is as per expectation of our guidance.

**Jed Kelly**

Got it. And then just one more for me. Just as we look out in next year, sort of the countries, the Netherlands, Germany, where you're having the regulatory headwinds, do you expect to be operating in those countries next year? And can that actually become a tailwind? Or how should we think about that? Thank you.

**Neal Menashe**

Well, Germany, we're still operating in Germany. So just there's no iCasino in Germany. But Netherlands, we're still working with the regulator, but it's not in any of our guidance for 2022.

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**Jed Kelly**

What about '23, would you be expecting to be operating there?

**Neal Menashe**

Yes. So Germany, yes. And Netherlands, we hope so. It all depends on the regulator in that market.

**Jed Kelly**

Okay. So that would be an additional market you're live in for next year?

**Neal Menashe**

Yes. But Germany, we're currently live with now. We just don't have iCasino. So it depends on the iCasino and the taxes that they want in Germany, will then depend if it's feasible for us to do iCasino/iGaming in Germany.

**Jed Kelly**

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.