4Q 2022 Earnings Call Transcript

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, - 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 fourth quarter and full year of 2022. 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.

We suggest that all investors refer to the supplemental presentation posted to the IR section of our website, which includes the financial information that will be referring to during this call, and additional information for the quarter.

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.

Neal Menashe

Thank you, Lisa. Good morning, everyone, and thank you for joining us today. Welcome to our call to discuss the results for 2022's fourth quarter and the full year.

2022 was a very significant year for Super Group including becoming a publicly traded company in January. Total revenue for the year of €1.3bn exceeded our guidance range, and operational EBITDA came in at our mid-range at €208m.

During the year, we continued to grow and invest in many markets, focusing on the long term. Our 2022 revenues decreased 2% from 2021, but remain 25% above 2020 levels and we continue to generate profits and cash.

The 2022 financial results were impacted by a few factors:

- Comps and macro factors were difficult, because 2021 benefited from Covid lockdowns and because consumers began to feel the effects of inflation in certain markets
- We had a significant decrease in our contracted brand license fee
- Some key markets introduced new regulation
- And we incurred significant additional overhead costs due to being a public company

Despite these challenges, for the fourth quarter, average monthly active customers increased to 3.4m, from 2.9m in the prior year, a 21% increase, helped by the FIFA Soccer World Cup and T20 Cricket World Cup and the acquisition of Jumpman Gaming towards the end of Q3 2022. For the full year, we averaged 2.9m monthly active customers, up eleven percent 11% from 2.6m in 2021.

We are truly a global business with licenses in over 20 jurisdictions, on-the-ground teams in 22 countries, supporting 29 languages. We continue to optimise our global footprint – which means opening new markets where we see opportunity and being prepared to close existing markets that are no longer attractive.

Of course, in 2023, our global footprint will clearly grow overall, with Digital Gaming Corporation (DGC) now being part of Super Group with its eight live states and access in up to an additional five. On the back of Super Group being fully licensed in these states, I would like to welcome DGC to the Super Group family.

We believe the Company is uniquely positioned in the industry as we embark on 2023. Our strategic priorities for the year are aligned with how we allocate our cash.

Firstly, we are an online-only technology business, and we remain focused on improving the customer experience with ongoing enhancements to our global platforms, in order to optimize engagement, customer value and adapting and localising to each market in which we operate. Achieving this is only possible with control of both the front-end and the back-end of the product. Discussions with one of our key technology providers, Apricot, are therefore ongoing, as we look to ultimately take ownership of our sportsbook technology, which would give us full control over costs and even closer direction of product enhancements and deployments into new markets. Our conversations are progressing well and we will provide additional updates as soon as available.

Secondly, we are focused on optimising our global footprint. We are excited about entering the US market with $53bn TAM. We will be approaching the eight markets that we are active in, with a disciplined and measured approach. We will apply the same toolkit to these markets that we have successfully built and implemented across the globe over the last two decades.

To be clear, we see the US as an attractive opportunity, and we are going to invest, while constantly re-evaluating the spend and returns being generated on a state-by-state basis. From an investment perspective, the US entry is simply creating optionality for us – our global, ex-US business continues to grow and generate cash, and the US presents upside potential on top of that.

Keep in mind this is not a "growth at all costs" scenario. We have been disciplined in our spending since inception and we intend to manage this expansion in the same way. The US, over the next three to five years is going to require significant investment into a number of areas, including tech, marketing and customer service as we directly apply our proven strategies to the US markets the same way that we have in other markets worldwide.

The investment required for DGC will be funded by the consistent cash flow that the remainder of our business generates elsewhere around the globe.

Of the eight states that Betway is currently live in, three of those are operating on the Betway global tech, and while it is still very early days, Ohio, the latest state to launch on this technology is definitely showing some promising metrics and proof of concept. We are working on optimising our technology and customer journeys in the other markets, and look forward to further investment into these states once all the components are correctly aligned. We are planning on sharing more detail about the US in the coming months.

Moving on to non-US markets:

The transition to the regulated online casino and sports betting Ontario market and the German sports betting market continues. We've incurred development costs to optimize the customer experience and provide an easy transition, and both markets are tracking in-line with expectations.

Our majority stake of Jumpman Gaming is performing well, adding a sizable iGaming customer base from a more recreational segment of the UK market and contributing to our profit. We have taken this opportunity to learn about this segment with the possibility of using its proprietary tech stacks in other markets around the world.

Overall, our approach to our global footprint is strategic and selective, and we continually re-evaluate the markets that we should enter and the markets that we already operate in. We will never stay in a market only for the sake of a larger footprint – if a market doesn't continue to present us with a feasible case for long-term growth and profitability, then we will leave that market.

On the marketing front, we continue to invest in brand and other marketing channels to reinforce both the Betway and Spin brands around the world to ensure future growth. Spin, our portfolio of online casinos that now includes the Jumpman brands, focuses on targeted marketing campaigns with ongoing detailed and careful analysis of spend and ROI. Betway, our sports betting brand, allows for marketing at scale and boasts a portfolio of over 60 brand partnerships, continually reinforcing the Betway brand globally.

We are continually evaluating strategies in order to deliver meaningful shareholder returns.
Given our liquidity position, the board of directors approved a share repurchase program in January and we intend to be disciplined within the authorization provided.

In December last year, we successfully completed a warrant exchange, at a very modest cost, cleaning up our capital structure and eliminating all outstanding warrants and earn-out rights and therefore any potential future shareholder dilution from these instruments. I would like to point out that all of our pre-listing shareholders participated in that exchange at zero cost to the Company.

In addition, we continue to assess a number of strategic acquisition opportunities around the world.

In conclusion, on the back of a successful 2022, we are excited about the opportunities we have, to both strengthen and expand our business while remaining profitable, cash generative and debt free. We are running the business with a long-term outlook in continued pursuit of increased shareholder value.

I will now turn the call over to Alinda to talk about our profitable quarter and year, as well as discussing our 2023 guidance. Alinda?

Alinda Van Wyk

Thank you, Neal.

Today I will be referencing operational results included in the presentation posted on our website. I will also discuss the guidance for 2023 and the underlying assumptions driving our projections.

As Neal mentioned, 2022 total revenue was €1.3bn, above the upper range of our guidance of €1.28bn. EBITDA for 2022 was €208m, in line with the mid-point of our guidance.

In the fourth quarter of 2022, total revenue was €330m, 3% lower than in the fourth quarter of 2021. The decline was driven by lower brand license fee revenue and regulatory changes in some markets. Net Revenue, which excludes brand license income, increased 1% to €322m.

Let's break this down into the business segments.

Sportsbook revenue increased by €5m in the fourth quarter, 5%.

Sportsbook revenue includes revenue generated from sports as well as some other offerings under sports licenses in certain jurisdictions.

- Growth in Africa continued to be impressive and we are seeing strong growth in active customer numbers
- We also had strong growth in Europe and from Canada, excluding Ontario
- This growth was offset by lower revenue from Ontario, as Betway's transition to the regulated market progresses. We did however, experience month to month growth throughout the fourth quarter.
- This growth driven by our efforts to attract and retain customers was unfortunately negatively impacted by out of the ordinary sports margins predominantly in worldwide soccer, during November and December. As you know, any sportsbook can be volatile in the short term, thus potentially impacting revenues and profitability.

Customer numbers for sports book was up 11%, 2022 versus 2021 and 19% if you compare the quarter four results, with record numbers for new and monthly active customers.

Moving on to online Casino. Net revenue in quarter four decreased slightly by €3m or 1%, as compared to the prior year

- The business in Ontario faced short-term disruption due to the transitioning into the regulated market but is improving month-on-month.
- We also saw a decline in the APAC region

On the upside we had:

- Significant growth in the UK which included a full quarter of revenue from Jumpman Gaming
- Continued growth in Africa and
- Growth in Canada, excluding Ontario

Customer numbers for casino was up 12%, for 2022 versus 2021 and 41% if you compare the quarter four results.

Looking at the bottom line, we achieved Operational EBITDA of €42m for the fourth quarter of 2022.

This is a drop from quarter four last year, largely driven by:

- Lower brand license fees
- Higher cost of revenue due to the impact of a shift of business and country mix, with a higher percentage of net revenue coming from Betway, which historically had a lower profit margin
- An increase in general and administration costs due to being a public company,
- Further increase in the investment in technology; and
- A slight increase in marketing spend

Looking at our financial position - our balance sheet remains healthy with positive growth of unrestricted cash of €255m at the end of December, a balanced capital structure, with income generating assets and no debt.

Now, moving on to 2023, I want to give a quick overview as to how we will be disclosing our figures, including forecasts, going forward, given that DGC is now part of the group.

To recap, we closed on the DGC acquisition on January 1st of this year.

Going forward, we will be presenting our results and guidance split out between our global, ex-US business, the Super Group you know up until now – and the US business, being DGC.

DGC is at a very different stage of development to the rest of the Super Group business. Both the scale and the investment horizon of the US opportunity warrants us splitting these figures out, and also provides more helpful and insightful information to us and to our shareholders and potential investors.

We view the multiple markets in the United States as attractive upside investment opportunity, funded by the ample cash flows from the rest of our worldwide business.

Moving on to our expectations for 2023:

Excluding our US business, we project revenue for 2023 to be €1.35bn, which represents single digit growth from 2022. We are projecting stronger growth in Operational EBITDA of €220m driven by a combination of modest topline growth and better cost control.

Some of the material assumptions underpinning our 2023 guidance include:

- Net Revenue is expected to grow by approximately 5%, taking in to account the continued uncertainty in the macro environment affecting both our customers and the local currencies of the various markets in which we operate
- Brand license revenue for 2023 is expected to be, on average €2.3m per month
- Marketing is expected to be 25% of net revenue, reflecting continued investment into all channels of marketing including brand
- And finally, operating costs are expected to be €8m lower than 2022. We have identified cost efficiencies of €18m versus the 2022 cost base on a like for like basis. This is in part offset by Jumpman being included for the full year compared to four months in 2022, along with an additional investment earmarked for selected markets, which are expected to deliver strong revenue growth in the next financial year

The net effect is that we expect EBITDA margin to step up from the 16% EBITDA margin in 2022, part of our effort to eventually return to our target margins of closer to 20%. We remain focused on improving operating efficiencies across all of our businesses and therefore increasing EBITDA margins.

On to the US, or DGC. As noted previously, DGC is very much at the early stages of its development.

The business is live in eight states, where six states have a sports only offering and the remaining two have both sports and iGaming.

Some of these states are not yet operating on the Betway Global technology, and need to be migrated over. As this is successfully done, we will begin investing more in those markets, always focusing on areas that produce the best return on investment.

DGC's net revenue is thus expected to remain minimal for 2023, and we expect around €70m loss for the year on an operating EBITDA level.

This is a significant opportunity for us. Timing is dependent on the speed of regulation in new states but based on our current footprint we expect to breakeven within the next five years, with our investment in the US being easily funded by our operations from the rest of the world.

In conclusion, Super Group remains financially strong and we continue to run our business profitably while investing in technology and marketing to support future growth.

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

Neal Menashe

Thanks Alinda. I'm proud to say that for Super Group, 2022 was another year of consistent, healthy revenue and EBITDA, and that the business remains uniquely positioned in the global online gaming universe.

The key to our business model is investing in the short term for longer term scale and profitability. We could easily cut back on marketing and tech investment today in order to achieve an amazing extra profit but that won't help us down the road. We look to be efficient in our investment in technology and marketing spend to achieve higher margins in the future.

As we continue to grow our business, it's important to note, incremental revenue becomes more profitable from a margin perspective - operating leverage coming into effect.

I'm happy with the progress thus far in 2023, which includes a record number of unique customers and a new daily high of almost 1.35m unique customers.

We are however, still subject to the impact of worldwide currency fluctuations against the EURO and the volatility in the sportsbook which we saw again in February. But I want to remind everyone that 65% of our revenue comes from online casino, a continued focus area for us.

To summarize:

- We have a diverse global footprint across sports betting and iGaming
- We're an online-only business, with a high degree of control of our tech stack, and working on extending that even further

- We are profitable, debt free and highly cash generative, with a healthy balance sheet
- We will continue to go after long-term profitable growth with a highly experienced team
- We are excited about the prospects that 2023 brings including building a foundation and establishing our footprint in the US.

We will now turnover to the operator for questions.

Question and Answers

Operator

Thank you. At this time, we will now begin the question-and-answer session. And our first question here will come from Jed Kelly with Oppenheimer. Please go ahead.

Jed Kelly

Hey, great. Thanks for taking my questions. Just two, if I may. One, can you just help us, I think you mentioned the month to month over growth in Canada. Can you kind of give us any sense on how that's trending into 2023? And then just can you talk about your US strategy? I've seen the guidance, you're guiding for €70m losses. Can you talk about the strategy in terms of investing in that market when we continue to see new state launches? It's kind of – we're seeing two large players really consolidate a lot of the market share. So, can you talk about the strategy in the US with the market share dynamics? Thanks.

Neal Menashe

I'll go first. So, on Canada, we have seen month-on-month growth in Canada and in Ontario, month-on-month increasing in Ontario. As you know, when you go from a new regime with the regulatory changes we had to put in, it takes time to migrate to existing customer base over. But that is all in line with our expectations.

Alinda van Wyk

And continuing into 2023.

Neal Menashe

Yeah. And continue into 2023. Yeah.

Richard Hasson

And Jed, Richard here. So, on the US, I think Neal touched on it in a bit more detail, we're effectively going to be looking at the US the same way we have all the markets around the world. You're correct, for 2023, Alinda referred to €70m investment and at the same time, that investment will be assessed on ongoing basis in terms of finding which states are commercially feasible. And again, we're not going to be going off to states just for the sake of having a large footprint, we're going to be looking to have the brand live in states that makes sense and ultimately applying the same toolkit of which the technology is a very key part, applying that across the country.

Jed Kelly

Great. That's helpful. And then, can you just talk about sort of where you are in some of your US partnerships, on your media partnerships and how you look at those? And then, is there anything in your international markets in terms of the regulatory landscape that we should be aware of for this year? Thanks.

Richard Hasson

So, on the US again this in a similar way that we have significant investment into the brand, which is supported by all the other marketing channels, that same approach will be applied to the US. You will be aware of the number of brand partnerships that already exist in the US. But again, it's not just those, it's the global portfolio of the over 60 partnerships around the world. And then, it's reinforcing that brand with other return driven marketing nationally and also, of course, on a state by state basis.

Neal Menashe

Across the world you've got the UK, the white paper. Again we are waiting for when that will be published, but we've been very conservative in the UK/Betway for the last five years. So, for us, we look forward to seeing what the white paper says. Germany was the other one, significant one, remember we had to turn off casino a while back and now we had to move over to the regulated regime and getting the software compliant in that regime, so we're still there.

And in Netherlands, we're still waiting back from the regulator and a whole lot of foreign operators, so still waiting to hear back. But our business is made up of lots of these jurisdictions and we've learned how to, get the software, get the technology and get the marketing driven returns in those markets. And remember, this business is about market or country by country. And I keep telling everyone it's always about the extra revenue we get, it has a huge margin because you've got all the other costs already covered.

Operator

Thank you. And our next question will come from Bernie McTernan with Needham & Company. Please go ahead.

Bernie McTernan

Great. Thanks for taking the questions. Maybe just a follow up on the US. Do you think 2023 will be the peak investment year for the country? And then just any like early learnings that you've had from the US, what you've been successful, maybe what's been more challenging than you previously anticipated?

Richard Hasson

Hi Bernie. So, in terms of the investments in 2024, we expect probably the same ballpark figure. But beyond that, as Neal mentioned, this is not a kind of bottomless pit of investment while we look at 2024 at that level if we continue to assess each state on a state-by-state basis and make sure that we are investing in markets where the economics make sense and where we can generate the appropriate returns. In terms of learnings, again as Neal mentioned Ohio which went live earlier this year on the Betway Global technology. Here we're seeing some promising metrics coming out of that. And

fortunately, in that light, we are seeing that having the right technology in place is very beneficial to us and talks to the strategy that we're implementing. Again last point as mentioned also, we do plan to come out in the coming months with a bit more detail around the US and our plan.

Bernie McTernan

Understood. And apologies if I missed it. But was there any update on potential in-sourcing of the tech stacking relationship with Apricot?

Neal Menashe

So, as I mentioned, we're still in discussions with them. We're making good progress. So, we will come back to you on that. But yes, but remember for us the key here in this business, it's technology. It's your technology, your marketing and your people. And we can't get away from that you need the technology and as regulation changes, as new stuff comes available, we have to be investing in that. And that's why owning and controlling that path is super important to us.

Bernie McTernan

Thank you.

Neal Menashe

And it also allows you to differentiate yourself from the competitors.

Operator

Our next question here will come from Michael Graham with Canaccord. Please go ahead.

Michael Graham

Hey, thanks a lot. I just had two questions. The first one is on your guidance for €1.35bn in revenue. Could you maybe just talk a little bit about anything we should know about the seasonality as the year plays out? Anything to call out in terms of sort of which parts of the year might be heavier than others? And then you spent some time in your prepared remarks talking about closing markets that are become unattractive. And I just wonder if you could maybe add a layer of depth to that and talk about like how you kind of quantify that and do you think that this will be a more important part of sort of how 2023 and 2024 play out as we go forward? Thanks.

Alinda van Wyk

Yeah. Thanks, Michael. I'll take the first part, Alinda here. The seasonality is predominantly around the sports offerings. We, in the investor presentation on the website, we have given a quarterly breakdown. So, you can easily see how seasonality on a high level impacts the business. So, we don't break the guidance up in that format going forward. But as we've also said is interesting what happened in November and December that you can't really project for sports, the volatility of the outcomes of the results and the parlay sports. But our projections for 2023 on revenue is predominantly modest based on the macroeconomic impacts on our industry at this point in time, as well as due to the fact that we've seen such volatility in the currencies around the world and we are multinational company. We've just taken that into consideration on the revenue forecast for 2023.

Neal Menashe

And then, Neal here, and then I'll answer your question on any markets and how we consider exiting them. We actually have one in Africa and one in Europe, and that was based on either the tax regime there that basically still – your costs are more than revenue. And also one or two – the other one was more based on the technology stack, like, we've really seen that we need our own technology stack in all these markets that we operate because then you get your group stack across the world and all the benefits you've got from one country, you can then give into the next country. So, from us, we look at it based on how that country looks from an operating EBITDA per country. And then we see are we going to get to making money there or not. And that's how we've done it for the last two decades.

Michael Graham

Okay. Perfect. Thanks a lot for that extra color.

Operator

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.

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