2Q 2023 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

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

Operator

Good morning and welcome to the Super Group's Second Quarter of 2023 Earnings Conference Call. All participants will be in listen-only mode. Following managements prepared remarks, we will open the call for Q&A. Please note this event is being recorded. I would now like to turn the call over to Lisa Kampf, Vice President of Investor Relations. Please go ahead.

Lisa Kampf

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

During this call, we may make comments of a forward-looking nature that are subject to risks, uncertainties, and other factors discussed further in our SEC filings that could cause our actual results to differ materially from our historical results or from our forecast. We assume no responsibility to update forward-looking statements other than as required by law.

On today's call, we may refer to certain non-GAAP financial measures. These non-GAAP financial measures are in addition to and not a substitute for measures of financial performance prepared in accordance with GAAP. We have provided a reconciliation of the non-GAAP financial measures to the most comparable GAAP figures in the press release issued earlier today and available on the Investor Relations page of Super Group's website.

In addition, we will speak to our financial results and metrics for Q2 2023 in two parts, highlighting our profitable and cash-generative global business separately from our investment into the US. This aligns with the annual guidance that we have provided for 2023 and is consistent with both how we view our

business internally and how we will report going forward. We recommend that investors refer to our supplementary presentation posted to our website.

On this call I am joined by Neal Menashe, Chief Executive Officer and Alinda Van Wyk, Chief Financial Officer. During the Q&A session we will also be joined by Richard Hasson, President and Chief Operating Officer.

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

Neal Menashe

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

Today, we are delighted to report a strong set of financial results for quarter two 2023. Total revenue for the quarter, ex-US, was €374 million, an increase 16% year-on-year. Ex-US Operational EBITDA grew even more strongly, to 83 million, a 54% year-on-year. Separately for the US, our net EBITDA investment for the quarter was 13 million.

We experienced continued growth of our customer base, with strong momentum continuing on from where quarter one left off. April was really good, with a new monthly record of 3.9 million active customers in the month. For the full quarter, we achieved a new record of three point 3.7 million average active customers per month, compared to 2.7 million in the prior year quarter - a 40% increase.

Our strategy of investing into markets where we see the greatest returns is reflected in our strong quarterly results. We achieved EBITDA margins of at least 20% in three of the last four months up to June, with the EBITDA margin for the second quarter averaging a solid 22%.

Our quarterly results further demonstrate the market-by-market economies of scale that we are achieving. I want to reiterate that operating leverage is at the core of our business model which when combined with additional cost synergies is ultimately the key to sustaining an EBITDA margin of greater than 20% over the longer term.

As a business, we remain committed to investing for the long-term. Central to this strategy is our marketing spend, which was 22% of Net Revenue for the quarter. While this is slightly lower than last quarter, it does not reflect any change in our marketing strategy but rather some specific market factors in the quarter, that we do not expect to prevent us from achieving our target level of investment for the full year.

In recent weeks we further strengthened our already impressive brand partnership portfolio, becoming the official partner of US Major League Cricket and also the official betting partner of Toronto's National Bank Open. These partnerships will further expand Betway's international Cricket and Tennis audiences and enhance global brand recognition.

Now turning to some of our key markets.

Africa continues to be a strong performer, setting new records for customer numbers, net revenue and EBITDA despite some adverse currency fluctuations during the quarter. We continue to refine our proprietary technology platform, while also increasing brand awareness through a combination of global and localized marketing efforts, an approach that continues to generate impressive results.

In Europe, we saw continued momentum, driven largely by the UK and Spain. In the UK, casino benefited from the inclusion of Jumpman Gaming, but we also saw strength in the sports product - an encouraging sign following the recent regulatory pressures faced in this market.

Canada remains an important region for us. Canada, ex-Ontario, performed well with year-over-year growth despite adverse movement of the Canadian dollar against the Euro last year. In Ontario we remain encouraged, and despite tough comparatives this quarter, our performance is tracking well and is in line with our expectations.

Moving to the US, we are now live in nine states, with Louisiana having gone live earlier this month. Our priority remains migrating all states onto the Betway Global Technology before we begin ramping up marketing spend. Optimizing the tech in all of these states is a big undertaking and we know that it will take time and investment. But this is something that we have done successfully for the last two decades, and we remain confident with our approach.

Looking at our balance sheet, we continue to show a strong cash position, with €229 million of unrestricted cash and no debt.

Our priorities for using our cash remain unchanged from what we have discussed in previous earnings calls. To that end, we are pleased to announce that earlier this month Super Group bought a majority stake in Sport.cc, a data-enabled provider of sports media content. We believe that this acquisition will be a great help in driving improvements in our sporting content and will ultimately serve as a strong customer acquisition tool.

On the same front, we are making good progress in our discussions with our sports software provider Apricot and are advancing towards completion of the acquisition of our dedicated sportsbook from them.

I will now turn the call over to Alinda to discuss the financial results in greater detail.

Alinda Van Wyk
Thank you, Neal.

I will now take you through our financial results for the quarter, where we have materially exceeded our performance compared to last year and the first quarter of 2023.

Excluding US results, total revenue for the quarter was an all-time record of €374 million. Net revenue, which doesn't include brand license fees, strengthened to €364 million, a 15% increase from last year.

Looking at the results by segment.

Sportsbook revenue increased by €33 million in the second quarter, growing 30%, while casino net revenue increased by €15 million or 7%.

Net Revenue growth in both sportsbook and casino is consistent with prior periods and was driven by: Record growth in African markets; Robust revenue expansion in European markets, led by the UK and Spain; and an increase in revenue in Canada outside of Ontario.

This growth was partially offset by: a decline in APAC regions; Lower revenue in Ontario, due to the ongoing transition to the regulated market; and the devaluation of certain currencies against the Euro.

Moving on to customers, we saw substantial growth in both the sportsbook and casino segments, driven largely by consistent investment in new customer acquisition and strong retention strategies. Customer numbers increased 40% year-on-year for the sportsbook and 39% for casino.

Despite the quieter seasonal sporting calendar, customers remained active and we experienced positive momentum from continued improvements in our overall customer experience, thanks to ongoing roll outs of new gaming content and further enhancements to our gaming platforms.

Looking at the bottom line for the quarter, we achieved Operational EBITDA of €83 million for the ex-US business. This is an increase of 54% year-on-year.

EBITDA margin came in strong for the quarter at 22%.

As Neal alluded to earlier....we remain laser focused on overall margin improvement from a combination of the inherent operating leverage in our business and the rationalization of our cost base, but this will not come at the cost of reduced investment into areas which drive long-term growth.

Now looking at our cost base. For the quarter, marketing as a percentage of net revenue, was 22%. This ratio is not reflective of our run-rate marketing spend, and was lower compared to quarter one 2023, due to a quieter sporting schedule which resulted in a lower spend, along with strong revenue growth. We continue to work diligently in assessing where we can best invest our marketing spend for the highest return on investment and long-term growth, and expect this ratio to be normalized over the full year.

Turning to operating costs, the expected synergies that we outlined in our guidance assumptions are now starting to come through. We appreciate that this may not be one hundred percent clear in the quarterly results as we now have Jumpman Gaming consolidated into our numbers, and more importantly we continue to invest in our key growth markets. Nevertheless, I am very happy with the progress that we have made and we remain on track to realize our expected 2023 operating cost savings.

With reference to guidance for our ex-US business, we had a strong start to the year, generating year-to-date total revenue of €705m. We feel comfortable reaffirming our outlook for 2023 total revenue of 1.35 billion taking into consideration the volatility of sportsbook margins and currency fluctuations in some of our key markets.

Moving on to Operational EBITDA ex-US, we have generated €134 million during the first six months of this year. This gives us confidence in our ability to exceed our previously stated guidance of €220 million, so we are raising our expectations for Operational EBITDA ex-US to at least €240 million, implying an EBITDA margin for the year of around 18%.

For the remainder of the year, we anticipate continued year-on-year revenue growth in line with our projections and the realization of cost efficiencies without any fundamental degradation in our overall performance. Our projected EBITDA guidance accounts for incremental marketing spend expected during the second half of the year, making up for the lower spend this quarter.

In the US, our net EBITDA investment to date now totals €29 million, and we remain on track for a net EBITDA investment of €70 million for the year.

Finally, our balance sheet remains strong and our ex-US business continues to generate a healthy level of cash. As discussed in last quarter's call, we used restricted cash of €138 million to pay off DGC's equivalent value debt this quarter. As of June 30th, Super Group is again debt-free, and we concluded the quarter with an unrestricted cash balance of €229 million. To conclude, here are my thoughts on the quarter:

We set multiple new records, including our highest ever total revenue in a quarter; Our customer numbers are stronger than ever and will be a key driver of future revenue growth in our business; We are not slowing down when it comes to investing for the long-term; and Achieving scale in each of our markets and realizing cost efficiencies remains a key focus, as we continue our journey in getting back to consistent EBITDA margins of greater than 20%.

I will now turn the call back to Neal.

Neal Menashe

Thanks, Alinda

Super Group has delivered an outstanding quarter demonstrating the benefits of our business model.

Revenue growth combined with operating leverage and continued focus on costs delivered an EBITDA margin of 22%. This was a quarter to be proud of, and we're happy to say that our positive momentum continues, with July closing ahead of the previous year.

We are excited about our performance for the quarter and our prospects for the remainder of the year. We've raised our Operational EBITDA guidance and are committed to delivering long term growth for our shareholders.

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

Question and Answers

Operator

Thank you. At this time, we'll be conducting a question-and-answer session. The first question comes from Bernie McTernan with Needham & Company. Please go ahead.

Bernie McTernan

Great. Thank you very much for taking for taking the questions. Maybe just to start in the US alone just to hear some of the success that you're seeing in acquiring players and what types of players, if any states are doing better. Just any kind of early indication that you can provide in terms of how the US opportunities flying out on the top line?

Richard Hasson

Yeah. Hi, Bernie. Richard, here. So just on the US, I think, as you know, we are currently live in nine states there. Four of the states on the Betway Global Technology and the other five we have the plan in place for that migration. You know, high level without going into state-by-state detail, we are seeing some very encouraging numbers on the new technology and the plan there is, like I say, once we have all the technology in place to begin ramping up the marketing across the states.

Bernie McTernan

Understood. Okay. And so maybe on that point you mentioned good progress in discussion of Apricot. But these discussions have been going on for a while. Any major sticking points or timeframes, we should be thinking about a potential deal?

Neal Menashe

No, we are hoping by quarter three, quarter three by quarter four, beginning of quarter four, we are all done. It is quite complicated with the IP and everything is to make sure that everything's in place, but it's on track and it's been a big process to do. But we are getting there and we are very excited to be able to bring the IP of this all of this technology.

Bernie McTernan

Great. And maybe just lastly for me, any additional information you can provide on Sport.cc and why you think it could be helpful in customer acquisition.

Richard Hasson

So, so it's a business which we've known for a long time. It's effectively a business that's going to help us enhance our content, our sporting content specifically. It's not in any way a change in strategy of obviously what we're doing, but another way of how we can look to improve the customer experience and the customer offering.

Bernie McTernan

Got it. Thank you both.

Operator

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

Michael Graham

Hey. Good morning. Could you just talk a little bit about, what markets are driving the biggest user growth? I know you just talked about the US, but is there anything you have done differently over recent quarters that you think, you know, you can attribute the acceleration of user growth to? And then I just wanted to ask, for a little more color around the decision to leave the revenue guidance unchanged, but, you know, raise the profitability outlook and maybe just highlight what went into that decision.

Neal Menashe

Okay so I'll talk about the countries. Effectively North America, remember the ex-US business, North America is predominantly Canada. And then that we've seen with material growth and that I would say even after the devaluation of the Canadian dollar to the euro compared to a year ago and in Ontario, we're in line with expectations - that's going well. And then and as you said Africa seeing good user growth across with all record numbers, Europe as well as especially Spain and the UK. Germany is still a bit difficult only because of the transition to the new regulatory regime there and all the controls and systems you have to put in place. And we still do not have a casino offering in Germany. And Netherlands we are still waiting on our license application there. So, for us across the world we've seen stuff. Our biggest impact ,which Alinda can add, comes with the revenue it is just the currency movement, so we have to bear that in mind because on a constant currency, these markets are doing really well.

Alinda van Wyk

Thanks, Michael. Just to reiterate what Neal just said so our operational EBITDA, we definitely see that the impact of the improved operating leverage coming, dropping straight to the bottom line and that's why we feel comfortable to raise guidance but like Neal alluded to, on the revenue side, we're just a bit more conservative due to mainly two reasons the currency effect we are growing in countries that does see this effect as well as a part of the obviously is back on this – on the sporting calendars, we've got sporting events and we just make sure that we take into consideration the volatility of the sportsbook margins. And that's why we're not raising the revenue guidance.

Michael Graham

Okay. Perfect. Thanks a lot.

Operator

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

Jed Kelly

Great thanks for taking my question. Just looking at your North America revenue, particularly in iGaming, it increased sequentially, so, can you just talk about some of the stabilized trends you're seeing in that area? And then just circling back to the US, I know you get this question all the time, but, you know, given some of the recent competitive dynamics that's going on, another larger player entering the space or a larger brand, can you just talk about how you're thinking about that market

strategically and have any of your profitability targets that you gave out at the beginning of the year? Have they changed? Thank you.

Neal Menashe

Okay I guess so I'll do the North America. So, I think across the globe, not only North America, we have been focusing on our iGaming offerings and the promotions around that and all the that the targeted marketing digital campaigns we're doing and our retention techniques in those markets. And I think we are bearing fruit there. I mean, the fruits would have been even better if they didn't have devaluation of these currencies. And so, we're excited about that. We've got obviously our Jackpot City casino, which is our major brand and that's been launched across the globe as well. So, we think big economy their same way we've got the one Betway brand, we've also got that and we just working as I said, this business is all about step by step with customer by customer and we keep enhancing. And that's why the investment in tech and everything goes towards this total ecosystem, whether it's a sports customer or igaming customer. So, we've been really been working a lot on that to get that right.

Richard Hasson

Hey, Jed. So just touching on the US then and I note your points about another operator entering the market. And for us, you know, it doesn't really affect our strategy. That remains the same for us. Because it's a big market. It's obviously a competitive market, but competition is what we see all over the world. And for us, it remains a very attractive opportunity applying that same toolkit as we have to the rest of the world, applying that on the state-by-state basis to the US and like anywhere else while we have a multi-year plan, is not necessarily a multi-year commitment right now, and we'll continue assessing everything on an ROI driven basis as we progress on a state-by-state basis.

Neal Menashe

Yeah, and then and then asking about something that, you know, having a casino. With a casino within our sportsbook is also resonating and adding to the attractiveness of our offerings across the globe as well. So, all of that together is coming to them working well and we are pushing on all these offerings across all the countries that we operate in. And we taking that into the US is obviously a key part of our strategy.

Jed Kelly

Thank you. And just to follow up, just on the back half revenue guidance. Just around the conservatism is that being driven more by sort of some, you know, the FX or copying last year's World Cup? Can you just touch on some of the critical factors around the conservative back half relative to the 2Q growth? Thank you.

Alinda van Wyk

You know, thanks. It is – it might be on the back, there is some relevance of the sporting calendar towards the end of last year. And then remember in quarter one in February, we have this worst sports margins ever, unprecedented, like we've never seen before. So, I think based on, just the risk around that. But Jed I don't think you understand it, because we've got so much currencies involved in our offering across the world. You know, this multinational company, especially currencies out of Africa and from some North America regions. But it really had an impact this year on our growth.

So, if you track these countries on the local currencies, the growth has been exceptional even more than what we are seeing. But we knew they have to obviously be stated in euros, which is our reporting guarantee. We do see the impact and we just want to make sure we feel comfortable around that with our guidance.

Jed Kelly

Right. And then are you just exposed to any of the geopolitical risks coming out of Africa recently? And that's my final question.

Neal Menashe

Listen, our view is we are in lots of countries across Africa, lots of countries in Europe, you know, so that's just the business, right? So, we've always been there. So, we've got new countries, et cetera. So, it's no different, you know, Europe's the same, you know so that's the business model, to be efficient in as many of these countries as you can to basically spread your wings across rest of the globe.

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.

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