1Q 2024 Earnings Call Transcript

Super Group Participants
Neal Menashe - Chief Executive Officer
Richard Hasson – President & Chief Commercial Officer
Alinda van Wyk - Chief Financial Officer

Other Participants
Jake Pisano, ICR
Michael Graham, Canaccord Genuity
Stefanos Crist, Needham & Co.
Jed Kelly - Analyst, Oppenheimer & Co.
Mike Hickey, The Benchmark Co.

Jake Pisano

Good morning, everyone and thank you for joining us today to discuss Super Group's results for the first quarter of 2024. My name is Jake Pisano Vice President of ICR. During this call, Super Group may make comments of a forward-looking nature that are subject to risks, uncertainties and other factors discussed further in its SEC filings that could cause actual results to differ materially from historical results or from the company's forecast. Super Group assumes no responsibility to update forward-looking statements other than as required by law. On today's call, Super Group may refer to certain non-GAAP financial measures. These non-GAAP financial measures are in addition to and not a substitute for measures of financial performance prepared in accordance with GAAP. Super Group has provided a reconciliation of the non-GAAP financial measures to the most comparable GAAP figures in the press release issued earlier today and available on the Investor Relations page of Super Group's website. In addition, Super Group will speak to its financial results and metrics in two parts, highlighting Super Group's profitable and cash generative global business separately from its investment into the US. This aligns with the annual guidance that Super Group has provided for 2024, and it's consistent with both how Super Group used its business internally and how Super Group will report going forward. Super Group recommends that investors refer to a supplementary presentation posted to their website.

On this call, I am joined by Neal Menashe, Chief Executive Officer. And during the Q&A session, we will be joined by Alinda van Wyk, Chief Financial Officer and Richard Hasson, President and Chief Commercial Officer.

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

Neal Menashe

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Thank you. Good morning, everyone, and welcome to Super Group's first quarter 2024 earnings call. Before I discuss the quarter, I'd like to quickly touch on a change to the format of our earnings calls. Starting today, our prepared remarks will be shorter than before. But we are posting a more detailed investor presentation to our website. We hope to use this time each quarter for greater dialogue with the sell-side community and to answer as many questions as possible.

Let's now dive in to the quarter. We are off to a phenomenal start for Q1. Total revenue Ex-US was the highest ever for a first quarter, at €374m. This represents growth of 13%, which in constant currency is even more impressive at 17%. Adjusted EBITDA Ex-US also set a first quarter record at €69m. That's 29% growth from last year, and a healthy margin of over 18%.

The strong performance this quarter can be largely attributed to our focus and continued investment into core markets. We continue to invest in marketing and, as a % of net revenue was 27%. This ratio is always higher in the first half of the year and we expect this to trend back towards 25% for the full year. The approach here is simple: we enhance our future growth profile by ongoing reinvestment into areas that are yielding the highest ROI.

We are pleased with the progress we have made on the realization of cost efficiencies. Our operating expenses as a percentage of net revenue fell to below 19% for the quarter, as compared to 22% in Q1 2023. This is an ongoing process, and while we continue to invest into high-growth areas of the business, we remain focused on streamlining our expenses, creating a leaner, more efficient operating model.

This further enhances the operating leverage that is inherent in our business, with every bit of incremental revenue meaningfully contributing to our EBITDA margin.
Across the globe, we continue to optimize our footprint. Outside the US, we have identified a handful of smaller markets where we do not see a long-term path to profitability and are in the process of shutting them down.

Within the U.S, the review of our strategy continues. We are in the midst of analysing our broad range of options and look forward to updating you in the near future.

I'm glad to inform you that we have entered into definitive agreements to assume full control of the sportsbook software technology. As highlighted in today's press release, we have agreed on a favourable, risk-sharing deal structure, which includes an upfront consideration and a contingent earn-out. Pending the necessary regulatory approvals, we are excited to put this deal to bed and will be working closely with our dedicated Apricot team to further integrate the technology into our business.

As for our Balance Sheet, our financial position remains really strong, with no debt and unrestricted cash of €289m at the end of the quarter. We continue to assess the best use of this balance, including the possibility of returning cash to our shareholders.
And a final note, our terrific Q1 momentum extended right into April.
I will now turn the call over to the operator to open the call up for questions. Operator?

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Jake Pisano
Thanks, Neal. We'll now begin the question-and-answer session. [Operator Instructions] Please give us a moment to compile the queue. Our first question comes from the line of Jed Kelly of Oppenheimer. Jed, please go ahead.

Jed Kelly
Hey, great. Thanks. Thanks, guys for taking my question. Can you just talk about, you know, the decision to bring your tech stack in-house and then how we should potentially view that accelerating your sports betting? And then also, as we think about the balance of the year, can you talk about any -- any comps we should be aware of in the back half? And then given that you did beat -- I think you beat1Q EBITDA, €10 million above our estimate. Any reason you didn't feel the need to raise guidance? Thanks.

Neal Menashe
Okay. Hi. It's Neal. Yes. So, listen, we've talked about this for a long time. We've been in long negotiations to sort out how to get our Betway global and tech stack. We've now got it for the sports and I think it's super important for us because it allows us to manage the teams together as one. We -- we can obviously decide more on, on the roadmaps, decide exactly what we want. And remember, we are a tech company. The base of these everything lies in the customer, the software we deliver and the

experience we deliver to our customers. So, for us has been a long time in the making and we super excited about this.

Regarding the raising of guidance. Thank you for your question. As we said, we ecstatic that Q1 has started off with such a good momentum continuing into April, but it's still very early days for the year and we will consider our position towards the end of Q2.

Jed Kelly

Got it. And then just as a follow up, can you just give us how we should view your success of a Casino in Canada? You know, where is that coming from? And then can you speak to any potential impact if Alberta legalizes betting?

Neal Menashe

Okay, this is Neal here. So obviously we've seen good growth in Canada year-on-year and remains a good market for us. In Ontario, we are very pleased. We are pleased with our performance. Our customer retention in Ontario is now better than it was before regulation and our customer values are as good as they ever were. And so, for us, remember, we see Canada province by province. So, the same way as regulated in Ontario, we've obviously learned what -- what we did well, then what we didn't. And we'll just apply that to any other provinces that -- that come about.

Jake Pisano

Our next question comes from Jason Tilchen of Canaccord. Jason, please go ahead.

Jason Tilchen

Good morning and thanks for taking the question. First thing I wanted to ask about is Africa. There's been really strong momentum there for several quarters now. Your revenue mix is up significantly year-over-year in that market. I'm just wondering if there's anything additional you could provide in terms of what's working there from a product perspective and sort of what does the roadmap look like for additional markets that you could enter in Africa over the next year or two?

Neal Menashe

Hi, I'm -- it's Neal again. So, Africa is really doing well for us. Remember, across Africa, we've only just recently launched our Jackpot City pure play casino. So, so that's got lots of growth ahead of it. We -- we, we are seeing obviously great customer acquisition, great -- great customer retention. We in seven markets across Africa, there's still more growth in those individual markets. One or two of them are obviously excelling more than the others. So, the work there is to make sure that every market can -- can be as good as the other as -- as our two largest ones. But again, I think our product offering is unique. We own our own tech stack there. And -- and -- and we are super localized for -- for the region.

Jason Tilchen

Great. That's really helpful. One or two other quick follow ups. In terms of the Apricot deal, wondering if there's a way you can quantify sort of the cost savings that you expect to generate on an annual basis by having the sort of full ownership rather than having to sort of pay as -- as a licensor.

Alinda van Wyk

Hi Jason. Alinda here. We are very excited about that possibility because you have now previously two significant teams on different sides now working together. And we are quite far ahead with planning around resourcing and integrating the teams to work more effectively together and to have a better output as well as, you know, just tracking against one set of expectations. The teams just effectively work better together. So that was definitely on the forefront of doing this deal, is to make it more cost efficient for us as a company.

Neal Menashe

And then I'll just add. Neal here. And another that also with the tech stack, we -- we can then offer that in -- in to Africa business when -- when we feel the need to plus, we could really if any M&A comes available, we've got the tech stack too to be able to deliver on that. So, it's been a long time in negotiations, but we are finally done.

Jason Tilchen

Okay, great. That's really helpful. And just one one quick final clean-up question here. In terms of the US, the loss sort of expanded year-over-year. Just wondering if there's anything to call out or was there anything one time in the quarter and any sort of additional colour you can provide on that strategic review? Thank you.

Richard Hasson

Hey, Jason. So, you're looking at quarter one, it was the end of the completion of the migration onto the Betway global technologies that happened during March, some investment into marketing during the quarter. And then as we look to Q2, we expect the investment to be lower than it was during quarter one.

Jason Tilchen

Great. Thank you very much.

Jake Pisano

The next question comes from Mike Hickey of Benchmark. Mike, please go ahead.

Mike Hickey

Hey Neal, Richard, Alinda and Jake. Congrats, guys. Great quarter. Thanks for taking our questions. Just again on Apricot, the rather unique earn out there, Neal, I'm sort of curious on that piece if you have any incremental looks like some longevity there to maybe a payment. And then you talk about flexibility for organic growth and M&A opportunity is curious on that. And if there's any sort of potential benefit to the US East, you're obviously trying to figure out.

Neal Menashe

Okay. So, I'll go first. So -- so on the -- on the Apricot, as you can see, it's -- it's got a contingent earnout. And that's obviously I mean, we have to more than double the revenue that it's currently on. So, I think it's a risk sharing approach then. And then the earnouts based on different thresholds, all of them enjoy net gaming revenue that the sportsbook itself delivers. So, I think it's all incentivized long-term. But -- but I think for -- for the initial payment of, of, of €100 million plus in the €40 million, I think that's a really good deal based on the tech stack that we're getting and that it comes under our stuff. So, I think overall, it's we managed to find a good ground between them and us to be able to, to deliver on this deal. And I think going forward, it allows us to -- as Alinda said integrate the teams, get going, understand the priorities and add on any other new businesses or African business if we see that on our trading platform to -- to -- to be able to integrated that. So long term, I think this makes great sense and give us a great foundation now. And then on M&A, Richard.

Richard Hasson

So, I think the point that Neal was making about is our ability now that we own the sportsbook technology is to apply that. Should we proceed with any M&A, we're able to apply it to those businesses that we may acquire.

Mike Hickey

Yeah, I guess the -- I guess the question was, is this M&A and organic growth with your own tech stack? Is that help your US businesses as part of sort of the thinking about the broad brushstrokes and how you sort of reshape the US business, does that play into that potentially?

Richard Hasson

Yeah. So, the technology definitely forms part of our evaluation. As we said before, we're going through a detailed analysis of our options in the US and the technology will be something which we consider as part of that process.

Mike Hickey

And I guess is its worth sort of just laying out the, you know, thinking about just, again, broad brushstrokes here, guys, in terms of some of the options you're considering on your US business.

Richard Hasson

So as a high level, you know, we're evaluating everything apart from the status quo. All right. So, it's as we told you in the last release, we are not happy with the status quo. Nothing's off the table at this stage. And it ranges from, say, a complete exit all the way to status quo and everything in between. So, so we're going through extensive analysis at this point with the intent of coming back to you as soon as we can.

Mike Hickey

Okay, fair enough. The -- I guess on the -- the regulatory environment in the US, you guys have quite the background running a global business for as long as you have. Just sort of curious, any updates here on the US regulatory environment, the sort of pressure that's sort of early innings here and how that sort of could impact your business and how that plays into sort of how you're, again, looking to sort of reshape your approach to the US.

Neal Menashe

Yeah. So, I think -- this is Neal. Yeah, absolutely. You know, we've seen regulation and regulation becomes harder, then they come less hard, et cetera. And we've seen a problem from -- from the UK, which is now relaxed some of its -- some of those restrictions, the same as Spain. So, I think the US is still early days in that journey and, and you know, it's also dependent on the regulations, the tax rates, obviously we are taking that all into account. But we've seen it. We're not in the best shape through that. And -- and -- and for us, really, the US states are no different to the countries. If we can see the way to profitability, we will then do them. And if we can't, then we have to take -- take other action. But again, it's all about the extra revenue, the margins we can achieve in these states and then in each country and again at operating leverage worldwide is really at maximum potential here because every bit of the state of it, every bit of extra revenue, we deliver much higher EBITDA margins and that's what this business is about. And what we have to do is take those margins, take the fitness of our marketing, the investment we're making in marketing and into these countries and, and make sure we're getting the best returns we can. And that's what we've been working for the last two years. That and getting our cost structures right.

Mike Hickey

You know, when you're in states in the US that has casino and in sportsbooks you've got your Betway instance and sort of -- sort of working together. What's the profitability of those particular states?

Neal Menashe

I think they probably beta any state that's called casino in it is -- is is a much more profitable state for us and -¬and that's why because you know, even if you look today overall, we make up 80% of the revenue between Betway and Spin is made up of Casinos. I think it's quite obvious where the money is and that's what we'll be targeting. You know, we all target that more and that's why we super excited about Africa and JackpotCity that we've launched all or trying to launch more across the world because that's added casino revenue into the mix.

Mike Hickey

I guess, Neal, you know, there is sort of, I think the view that US is a sportsbook market, but it seems like, you know, with only 6% of the population here legalized on casino that the feeling is that, that maybe the second stage of growth is the legalization of casino, which is sort of your sweet spot. So, I'm sort of curious, do you believe that the US is in a position to sort of accelerate legalization and the

casino over time? And do you think that that, in fact, would be maybe the inflection point where you have both of those vehicles, your Betway and Spin working together, that you could sort of elevate your profitability potential and grow?

Neal Menashe

I think absolutely. But obviously, casino regulation, sometimes these take much longer than the sports, right. So, and different countries and different states have different views on the sports and casino. But -- but for us across the globe is whenever there's sports and casino, that's our sweet spot. So -- so and my biggest thing with all these markets is and we've talked about it before is -- is the black-market operators in those markets and the regulators having to regulate well and action the black-market operators, because we've seen some European countries where they've regulated us, but then the black-market operators continue and then you get a total misalignment between what -- what the regulated people can do and what -- what -- what the unregulated. So -¬so there's that and that with the regulations. But again, for us is we've got a great brand in -- in sports being Betway and of course we've -- we've -- we and that's got a big casino business within it. And then of course we've got Spin so, so we are perfectly poised to be able to take on these opportunities, but we've got to take on the right opportunities and give us the right profitability and the right returns.

Mike Hickey

Yes, Neal, last question for me. You've been gracious. Thank you. I mean, given sort of how crucial the US market is and given the opportunity to sort of awaken the casino side and really get your sweet spot running both those assets together, I mean, how would you weigh the probability, I guess, of a full exit in the US versus maybe just a recalibration of the states where you can concentrate and minimize your losses and or potential M&A, which I don't know your appetite for a transformational deal, but I think there out there, it just seems like the idea of exiting, given how much potential there is particular in casino, like you said, maybe it takes some time. But the upside here could be tremendous. So, could you just sort of help us work through that?

Neal Menashe

Yeah. So, I think the way you explained it is perfectly correct. Of course, when it comes to transformational M&A, you can't do a deal if it -- if the other parties well over value. That's number one, you only got one chance at a transformational deal and you've got to get it right and it's got to be

fair valued both sides. That's the first point. The second point when it comes to you is absolutely what you say. We you know, we looking at all the options. We understand all the options. And we got to make a decision that is long-term in the best interests of it. And again, has -- as you pointed out, casino is our bread and butter. So, we don't want to and we want to be able to make find a way to profitability in those markets. And that's absolutely endless. And this is a waiting game, you know, game over time. Different states can regulate and you got to be -- you got to be in play to have a chance of -- of success. And we fully understand that. But there's a cost to being in play, and we just got to make sure what that cost is and whether to up.

Mike Hickey

Thanks, guys. Great job on the quarter.

Neal Menashe

Thank you.

Jake Pisano

Our next question comes from Bernie McTernan of Needham. Bernie, please go ahead.

Stefanos Crist

Hey, this is Stefanos Crist calling in for Bernie. Thanks for taking our questions. First on Africa, kind of a nit-picky question, but the wording so the transaction brings Super Group closer to its goal of fully owning and controlling its tech. Are there other parts of the tech stack that you're looking to acquire or maybe build in-house just -- just your thoughts there? Thanks.

Neal Menashe

Yeah. Yeah. So -- so just on that, remember different parts of our business, some of them on [indiscernible] and some and some don't. So, I suppose let's see, the sportsbook is now -- will -- is now completely owned once we get regulatory approval. So -- so that's why so -- so travel that was referring to. So, they are some of the Penn that we don't own but there was businesses that, that do and so we've actually got everything now in the tech stack that we need.

Stefanos Crist

Got it. Thanks. And then the migration on to the -- that way global technology completed at the end of March is anything you could speak to since that integration? I guess it's been a little over a month now.

Richard Hasson

Yeah, just that it has been a relatively short period of time and all of that data which we're now getting, post migration is the exact data that we're using and analysing in order to make the best decision about exactly what the right strategy is for the US. So, it's still a matter of weeks and that process obviously is being prioritized at the highest level. But we're going through that data from this new platform and that's what's going to feed into the ultimate decision about the best way forward.

Neal Menashe

I mean, I'll just add in there, but it definitely is much better than what we were on before, a lot significantly.

Stefanos Crist

Got it. Thanks. And then just last one for me. Are there any updates on Brazil regulation or anything you're looking to come in the near term?

Richard Hasson

I guess like many others, we are actively looking at the market, understanding the process through -- through licensing and going through the process, which you would any market that's regulating about, you know, forming a view about the ability to make long-term profits and then we'll apply for a license there if we see fit.

Stefanos Crist

Got it. Thank you.

Jake Pisano

At this time, there are no more questions. Thank you again for joining today's call. The conference call has now ended.