SuperGroup

2Q 2024 Earnings Call Transcript

Super Group Participants
Neal Menashe, Chief Executive Officer
Richard Hasson, President & Chief Operating Officer
Alinda van Wyk, Chief Financial Officer

Other Participants
Brett Milotte, ICR
Jed Kelly, Oppenheimer & Co.
Michael Graham, Canaccord Genuity
Mike Hickey, The Benchmark Co.
Stefanos Crist, Needham & Co.

Operator

Good day and welcome to the Super Group Second Quarter 2024 Earnings Conference Call. All participants will be in a listen-only mode. After today's presentation, there will be an opportunity to ask questions. Please note this event is being recorded.

I would now like to turn the conference over to Brett Milotte, ICR. Please go ahead.

Brett Milotte

Good morning, everyone, and thank you for joining us today to discuss Super Group's results for the second quarter of 2024.

During this call, Super Group may make comments in the forward-looking nature that are subject to risks, uncertainties, and other factors discussed further in its SEC filings that could cause its actual results to differ materially from historical results or from the company's forecasts. Super Group assumes no responsibility to update forward-looking statements other than 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 measures 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 investments in the US. This aligns with the annual guidance that Super Group has provided for 2024 and is consistent with both how Super Group views

its business internally and how Super Group will report going forward. Super Group recommends that investors refer to its supplementary presentation posted to their website.

On this call, I'm 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.

I will now turn the call over to Neal.

Neal Menashe

Thank you. Good morning, everyone, and welcome to Super Group's second quarter 2024 earnings call.

Q2 was exceptional, our strongest quarter ever and one in which we set a new record. Total revenue ex the US hit a quarterly record of €408 million, reflecting 9% year-on-year growth. Adjusted EBITDA ex the US also set a record of €98 million, representing growth of 11% year-on-year and a very strong margin of 24%.

This year, we have been prioritizing operational efficiency, including the successful integration of Apricot sportsbook. During quarter two, we incurred redundancy costs of €3.3 million. Adjusting for these costs and the associated salaries, our margin would have been 26%.

Our strategy of being nimble and decisive is paying off, and we are well on our way to consistent EBITDA margins of over 20%. We continually assess and optimize our footprint, ensuring that capital is deployed into markets that generate the highest returns. And this is leading to further investment into core markets across the globe. We obsessively tailor our offerings to each local market, which includes the continued rollout of our leading casino brand, Jackpot City, into new and existing markets.

In markets where we don't see a path forward, we pivot. We weren’t happy with the status quo in the US. And after an extensive review, we announced last month that we plan to exit the US sports betting market. We aren’t, however, only divesting from the US. We are maintaining our iGaming presence in New Jersey and Pennsylvania where we plan to operate two brands, including Jackpot City from our Spin portfolio. Our focus on iGaming aligns with our non-US business, in which about 80% of our

revenue is from iGaming. Like any other parts of the world, we are open to expanding our US footprint for the right opportunities.

In terms of costs, we estimate that the cash costs of shutting down our US sportsbook business will not exceed €45 million, the bulk of which comprises existing contract obligations and redundancy costs. This figure is easily manageable within our existing financial resources. We are just beginning with exit process and will provide an updated figure of the shutdown costs in Q3. To date, in 2024, the US business as an incurred and adjusted EBITDA loss of €39 million across both sports and iGaming. And looking ahead to the rest of the year, we expect to incur an adjusted EBITDA loss of €20 million for iGaming-only operations.

We have recently announced two new and exciting brand marketing deals I'd like to highlight. Betway is becoming the official title sponsor for South Africa's Premier Soccer League, which is now known as the Betway Premiership. And in the English Premier League, teaming up with the current champions Manchester City to become their official global betting partner. Adding this iconic team to our brand portfolio further solidifies Betway's global recognition across the world's most popular sport.

Branding is only one part of our multi-channel marketing strategy. A key driver of growth across the business. This quarter, we spent 23% of our net revenue on marketing, a figure which is higher than industry average and reflects our long-term approach to the business. However, we also focused on this number to ensure that we are extracting the appropriate returns from every euro spent.

Moving on to the balance sheet, our financial position remains strong. We ended the quarter with unrestricted cash of €307 million and no debt. In June, we announced our first cash dividend of $0.10 per share paid in July. We intend to maintain this dividend, and we'll consider paying a larger dividend if business conditions allow.

Finally, given our strong performance for the first part of the year, we are raising our 2024 ex-US adjusted EBITDA guidance to greater than €300 million, representing a margin of over 90%. We feel confident about the remainder of the year and look forward to making 2024 a super year for Super Group.

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

Operator

We will now begin the question-and-answer session. The first question comes from Jed Kelly from Oppenheimer. Please go ahead.

Jed Kelly

Hey. Great. Great. Thanks for taking my question and good quarter. Couple of things. Can you just talk about where you are globally with sports betting and just interpreting some of the results? I know you exited India, but how is that trending ex-India and then just with your sport results? And then there is some chatter about Alberta potentially legalizing sports betting. Can you just talk about how we should be thinking about if that market goes legal and just given your experience in Ontario? Thanks.

Neal Menashe

Hi, Jed. Neal here. Yeah. So, listen, sports betting is going well across the globe. Obviously, our casino part within our business is still consistent – over 80% of our business is iGaming. But we think sports results have been fair to us. So, that's really good there.

In Canada, obviously there is regulation coming in Alberta We are super ready for it. Everything we did in Ontario, we've learned how to do it even better. So, the teams are ready and waiting when Alberta regulates. And then across the board in all these markets, we are optimizing everywhere. So, Canada, Alberta, would be no different than Ontario. Same as our business in Africa.

So, listen, from this quarter, we are super happy of our results and how our cost efficiencies are dropping down to the bottom line.

Jed Kelly

Okay. And then just as a follow-up, obviously record EBITDA ex-US, you're generating a decent amount of cash flow, implementing the dividend, can you just think broadly how we should be thinking about just your capital allocation policies? Do you want to do more acquisitions like Jumpman? Target international markets? Just can you give us just overall update on your capital allocation strategy? Thank you.

Richard Hasson

Hey, Jed. Richard here. So, like we've said previously, we are constantly looking for potential opportunities for acquisitions, and we keep doing that across potentially new markets and also within existing markets. On the broader capital allocation, as you would have seen, the dividend that was announced and paid, we mentioned there that it would best gross margin, our intention to maintain at least that dividend going forward and that's all part of it. As we generate cash, we'll look for the best uses of that cash. If there is nothing more advantageous, we'll continue to look at ways of returning that to shareholders.

Jed Kelly

Okay. And then just my final question. Just as we think about the back half, anything we should be thinking about in terms of comps, in terms of some markets opening, some markets closing? And I think in October last year or maybe it was September, you had favorable outcomes in European football. So just anything you can talk about there and how we should be thinking about the whole comps? Thanks.

Neal Menashe

Okay. So, I think for the second half, obviously, we had, as I mentioned, quite a bit of redundancy costs in quarter two and some in quarter one. So, obviously, those were once off, so we should get good optimization in the second half. Again, the second half just depends on sometimes in some of the months that we had last year, you can have a bad sports market, but we're hoping with a bigger customer base, we should be able to even that out.

But I think from our point of view, even into July, July continued the momentum of April, May and June. And for us and the very important part of it is we have got a large marketing budget of €400 million. We are optimizing that. We are looking at that. We are turning over every campaign there to make sure that we can make that as effective as possible. And with that, with all the rest of optimization, we hope to even bring more to the bottom line, hence why we increased our EBITDA also.

Alinda van Wyk

And in the end, just to add to that your question on new markets, we're continuously assessing the markets and investing always back into markets which has high margins on the long run. There are a

few movements, extra markets in Africa, but we've also looked at one or two smaller markets that have now profitability for us that was eliminated. But this is a continuous assessment of marketing spend like Neal said, and we will have the highest return on our investments.

Jed Kelly

Thank you.

Operator

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

Michael Graham

Thank you. Couple of questions, if I could. The first is on just talk about the decision that you made to keep your iGaming presence in the US and maybe just frame it out, if you could, in terms of the unit economics that your cost of acquisition is different for iGaming compared to some of the other markets you operate in? And related to that, do you think we could see your iGaming footprint expand to more states over time if what you have currently goes well?

Richard Hasson

Hi, Michael. Richard here. Yeah. As Neal mentioned, we completed a very extensive review of the full footprint and ended with the view of remaining with iGaming in New Jersey and Pennsylvania. Like we said before, it will not be applied to all markets. We need to obviously see appropriate returns being generated in those markets. And so far, July running according to what we were expecting in the budget, in the forecast. But, of course, we will track that on a continuous basis going forward. So, no difference but just to focus on iGaming, and that's also very much aligned with the rest of the business where about 80% of the revenue is generated in iGaming.

In terms of the footprint across the rest of the country, for sure, yeah, if we see appropriate opportunities to expand the footprint within iGaming within the US then we will look at those as and when other states regulate.

Michael Graham

Okay. That sounds good. And then can I just ask for a comment on the competitive environment in – over the recent quarters, we've seen some of your mature markets, some regulatory changes like UK, Canada and Netherlands? I'm just wondering if you can comment on generally how the competitive environment is evolving in some of those markets?

Neal Menashe

So, I think the competitive environment is always there and we have to keep and that's where it comes in your marketing and your product. Right? And we keep on honing in on that. I think probably in the past, we had too many countries that we were honing in and so we closed the field in and that allows us to focus on the other ones. And that was the same process we took in the US sportsbook. If we do not see a path to profitability, we'd rather go in other markets where we are seeing returns. Again, in these markets, the regulations make a big part of it. And in the UK, they seem to be easing up a little bit where in the Netherlands, it was far worse. So, in the Netherlands, we decided not to go for, right. It's just not going to build your product.

I mean, the one that's probably been the worst and our results would even be better if it hadn't been would be Germany. There they've got this regime. We've done all the work, but it's literally so onerous that the black market is just the customer just goes to the black market. So, we can't compete as we could in the past. But I think over time, the regulator will get on to that, understand that they're losing the customers to the black market and be more reasonable with the people who are regulated. And that's always going to be a battle and that's going to be the -- and that's been the story of our industry for the last 25 years.

Michael Graham

Okay. Sounds good. Thanks so much for the additional information.

Operator

The next question comes from Mike Hickey from The Benchmark Company. Please go ahead.

Mike Hickey

Hey, Neal, Richard, Alinda. Great quarter, guys. Thanks for taking our questions. First, just on the US exit, Neal. It looks like just running two states on iGaming. You're saying you're expecting a €20 million loss for the second half of 2024. You compare that to last year with sportsbook, it looked like you lost €28 million. So, you said an incremental maybe €8 million here. Just I guess one, I thought the savings would be a bit more and two, with just the incremental €8 million, is it worth losing the optionality, I guess, on the sportsbook side?

Neal Menashe

Okay. Hi. Hi. Neal here. And, you know, so a couple of things there. The €20 million is only for the next six months, but that's for iGaming including the marketing spend in it. But of course, as I said is we have to be getting the target in each month. So, if we do not get our net win target, then we have to reassess that those goes to market. So, as we confirm those two markets, New Jersey and Pennsylvania are larger than Ontario and we're going to give it a go there and then try and compete because we think that product can compete.

We did say last year that overall it would be around €80 million or €90 million for the year. So, that investment is coming down. We just had the redundancy costs now for the sportsbook. And then in the US, we've literally halved our workforce. So, I think we've got the right number of people to give it a good shot in the next six months. But again, like every other, every other country we're in, which in each one, New Jersey and Pennsylvania by themselves as a country and we can see their path to profitability or not.

Mike Hickey

Thanks. I hope I can just clarify then. So, should we think an annualized investment in the US of €40 million-ish here moving forward.

Neal Menashe

Yeah, for 2025, it is -- yes, yes. For 2025, yes.

Mike Hickey

Still feels like a big number, I guess, can you sort of dig in on the path?

Neal Menashe

Well, you won't actually get to that number if you're not hitting your monthly targets. So, we set monthly targets, monthly net win, monthly EBITDA losses. And if it's not, then we would scale back. So, €40 million would be the maximum.

Richard Hasson

Yeah. Just to add there, Mike. So, after 2025 when the forecast is just less than €40 million investment, in 2026, it would be significantly less than that. So, that would be the max spend over the next three years.

Mike Hickey

And you said that in the US, you're going to continue to operate two brands on the iGaming side. Can you walk us through the rationale? It seems like running two brands would be more expensive than just sort of focusing on one brand in just two states.

Neal Menashe

Okay. So, no, we've listened. I mean, we've been a casino business, iGaming business for 25 years. You need more than one brand. So -- and also running a second one isn't really expensive because of the same teams who run them. It's just the look and feel are slightly different. And in our same portfolio, we have Jackpot City Spin Casino and a few others and, remember, three or four of the brands make up the bulk of it. So, it's that same strategy. And so, from our point of view, that's how we've always done it. And then you always need two in the race that's basically to optimize your CPAs, etcetera.

But I think, to be quite clear, if you look at this in the US, so I'll just give you one other point - if that €40 million would be the most we would invest next year, just to put it in perspective, the month of June, we almost made that profit in our existing business. So, we are optimizing. We are careful. We are looking at the ways to bring this business to profitability. And if it cannot come to profitability, then we will have to pivot away. But we obviously are optimistic that we can make it work.

Mike Hickey

I guess last question on that topic. Pennsylvania and New Jersey, these are not new states here, right, Neal, I mean, they're fairly mature relative to US expansion, which obviously is pretty new. I mean, given the maturity of these states, how do you expect to sort of take share in this environment?

Richard Hasson

So, Mike, I think a lot of the revenue that we were seeing from those states while live with sports and gaming will come from gaming. So that's obviously informed our decision and was part of our full review.

The other thing is a lot of our internal forecasts have assumed improvement in a number of KPIs from where we were at the beginning of this year. And we also are – we're reporting – we've seen those come through at the moment. So, we're tracking in line with those forecasts, which we're seeing improvements in KPIs. And that's obviously, from where we stand today from the previous operations of sports and gaming, now just focusing on the gaming part of that.

Neal Menashe

And it's Neal here. I just want to add, we compete in all the markets. We play within all the markets, there is not really any market that's new for us, right, and if it's Canada or Ontario, everywhere, we are competing everywhere. And remember, we do that to take extra revenue from other operators, which we see. And then in most of the countries we operate, that extra revenue is bringing operating leverage and that's why you see such good results for April, May and June.

Mike Hickey

What is your market share in New Jersey, Pennsylvania in iGaming?

Neal Menashe

No, I mean, time because we just started. So, let me have a look at the market share. All I care is – we're not 80% to 90% of the market. So, we just go for have to get to a few million of revenue in each market to start making sure that that market is working. But if you're not going to get to a few million revenue - five, six, eight, ten - eventually your targets, then you're never going to get to profitability. But in other

markets, if you take Spain, etcetera, actually you can be at a few million a month and we are making good margins.

Mike Hickey

A follow-up on the capital allocation topic. Sorry if you said this, Richard. I think you have a buyback authorized. You're obviously driving cash flow. Your business is expanding you're confident on growth. Doesn't it make sense here to be buying back stock given where you're trading today?

Neal Menashe

There's something that we considered as part of the return of capital to shareholders. We leaned away from it given the relatively low float that we have in the business and ended up proceeding with the dividend route.

Mike Hickey

Yeah. Okay. That makes sense. The last question or topic, you expanded the margin guide here to 19%. It sounds like, Neal, you've got some room here to move that higher. Can you give us a maybe more medium-term perspective on your growth opportunity and maybe on your progression in margin over the next few years? Thanks, guys.

Alinda van Wyk

Hi. It's Alinda here. See, what we've realized in the last couple of months was everything that Neal referred to about the operating leverage coming into first plan is that we're really seeing that margin consistently being the EBITDA margin being consistently over 20% month-on-month and more than 20%, you know, so larger than. So, what we've realized is that even at 90%, our target has been always 20% and we're reaching that much quicker. We're just looking around the – as you note, we also haven't. We feel comfortable with the guidance for revenue. So, we're just tracking that in the remainder of H2 as well.

Neal Menashe

And I'll just add, Neal here, another point is we've still got 25%, 26% marketing ratio although marketing to net win, so for the year. So – and that's in there and that's in there to make sure that that's efficient and stuff. So, of course, if we had to drop back down, then the margin would go up, which is I know

most of our competitors do. They come in at 18%, 19% marketing budget. So, we are looking at that and just – and but we feel comfortable that the investments we're making in marketing is retaining long term and that's how you see the same investment from last year is not paying off this year. So, we're just trying to balance those two. But Alinda said we're going to get to that 20% and that's what we're pushing for. And I think that these cost efficiencies and more efficiencies come through in our business, we -- that then should be a target we can easily exceed.

Mike Hickey

Right. Thank you, Neal. Good luck, guys.

Neal Menashe

Thank you.

Operator

The next question comes from Bernie McTernan from Needham. Please go ahead.

Stefanos Crist

Hi. This is Stefanos Crist calling in for Bernie. Thanks for taking our questions. So recently we've seen some other players sell their OSB licenses in certain states. Are there any opportunities for that across the US business?

Richard Hasson

Hey. Richard here. So, we are looking at the possibility of that, again, very much on a state-by-state basis and depending on number of access points, depending on who's active there. But it is something that we are considering. Part of the numbers that you've mentioned was the sportsbook shutdown cost and that, yeah, those are still in early days and aided contract negotiations going on. There would be the possibility of recouping some of the investments. And we'll update on that when we on the Q3 numbers.

Stefanos Crist

Got it. Thanks. And then just wanted to ask on Latin America, can you remind us what markets you participate in and maybe your expectations there?

Richard Hasson

So, we don't normally give country-by-country breakdowns. I'll give you – Mexico is one example. Of course, Brazil is something which we're looking at and we're going through the application process. But like any other parts of the world, if there's markets there that we think make commercial sense, we will look to apply for licenses and launch it. As part of the geographic – the footprint optimization that we're going through at the moment, we're considering these a lot more carefully and making sure that wherever we do go live, there is a path there and a sustainable path to profitability.

Neal Menashe

So, like a market like Buenos Aires, there just wasn't a path to profitability and the rates we just met and the only route way that the software has to work only in the one city as opposed to the province, we've decided that's not a market for us. So that's another side. So, we're hoping the regulations come in that are favorable to regulated end players and then so we are in that process. But if they're not that they're not, well then, we won't do it.

Stefanos Crist

Got it. Thank you.

Operator

This concludes our question-and-answer session, and the conference has now concluded. Thank you for attending today's presentation. You may now disconnect.