SuperGroup

3Q 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.
Bernie McTernan, Needham & Co.

Operator

Mr. Milotte, you may begin.

Brett Milotte

Thank you. Good morning, everyone, and thank you for joining us today to discuss Super Group's results for the third 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 and could cause its actual results to differ materially from historical results or the company's forecast. 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 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 financial results and metrics in two parts, highlighting Super Group's profitable and cash generative global business separately for its investments into the US. This aligns with the annual guidance 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 supplemental presentation posted on the website.

On this call, I'm joined by Neal Menashe, Chief Executive Officer. And during the Q&A session, we'll also be joined by Alinda van Wyk, Chief Financial Officer; and Richard Hasson, President and Chief Commercial Officer. And now I'll turn the call over to Neal.

Neal Menashe

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

Quarter three was a super quarter. Total revenues ex the US was an all-time high for a third quarter, growing 13% year-over-year to €395 million. Adjusted EBITDA ex the US also set a third quarter record, growing 52% year-over-year to €95 million.

We are successful in executing our strategy of growing key markets while realizing cost efficiencies, with a particular focus on optimizing our OpEx and marketing. These efforts are clearly reflected in our margin: 24% for the second quarter in a row, and that's well ahead of our 20% target.

Our casino business is experiencing super growth. Casino represents 83% of overall net revenue for the quarter. We expect continued growth as we utilize our decades of expertise to expand in key markets. This includes rolling out our Spin brand into existing markets, which aligns with our multi-brand strategy.

When it comes to key markets, we'd like to highlight the continent of Africa where we see success and significant opportunity. For the second quarter running, Africa provides the largest portion of our revenue. We have operated in Africa for more than a decade and have built a super strong competitive moat. Our footprint spans seven locally regulated markets and we hold podium positions in five of them.

And there's more to come. We have a healthy pipeline of new markets that will be viable in the next 12 months. Beyond that, the continent is expected to grow by 1 billion people, reaching 2.5 billion people by 2050. We are well positioned to capitalize on this growth with our purpose-built platform, local marketing expertise, fully dedicated teams and deep relationships with key stakeholders. We expect to perform very well in this growing market.

Second to Africa is Canada. We are experiencing strong year-over-year growth across both sports and casino. And I want to note that Jackpot City continues to be a leading brand across the entire country.

While we plan to continue growing our presence in Africa and Canada, the US has proven to be trickier. We've completed the shutdown of our US sportsbook operation. I'm pleased that the associated costs came in around €9 million less than our previous estimate of €45 million.

We continue to assess our iGaming business in New Jersey and Pennsylvania. We are closely tracking KPIs and if we can't reach our goals, we will take decisive action. As we've always said, in order to continue operating in the US, or any market, we must be able to see a sustainable path to profitability. We expect our quarter four investment to be less than what we invested in quarter three and we are pleased to be seeing some green shoots.

Moving on to the balance sheet, our financial position is robust and we finished the quarter with unrestricted cash of €297 million and no debt. This is after having paid the $0.10 per share initial dividend in July. We are exploring ways to return cash to our shareholders, including our plan to initiate a regular dividend of $0.025 per quarter to begin in the first quarter of 2025.

In the meantime, an option we are considering in the near-term is a further special dividend before the end of the year, a possibility we intend to discuss with our board at our next meeting at the beginning of December, and which may be assessed each year, subject to performance and market conditions.

Finally, given the strong performance to date, in particular, a spectacular October and assuming normalized sports results for November and December, we are revising our ex-US adjusted EBITDA guidance to exceed €345 million, representing a margin of 22%. We are seeing the operating leverage in our business kick in and we are really pleased to be above our long-term target margin of over 20%. We look forward to capitalizing on our momentum and closing out 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. Our first question comes from Jed Kelly of Oppenheimer. Please go ahead.

Jed Kelly

Hey, thanks for taking my questions. Just following up on your last comments, can you talk about sports results globally, how they're trending into 4Q? And then can you just give a view on how Super Group is sort of viewing Latin America? And then I have a follow-up.

Neal Menashe

Okay. Hi, Jed. It's Neal here. So, sports results, yes, October were really good. For us, and I keep telling everyone, when all the favorites win, that's not good for us, but we've had good results there. September, funnily enough, which was obviously the end of quarter three, didn't have such good results. So, we produced a really good third quarter without even having those. So, it's very important for us is that even with the sports, we are counteracting that with our casino, which now makes up 83% of the revenue.

Richard Hasson

Hey, Jed. It's Richard here coming to your question on Latin America. As you know, we are live there in a number of markets at present. Brazil is obviously being spoken about a lot across the industry at the moment. And that's a market where we are not currently proceeding in line with all markets that we look at. We want to ensure that we can identify a sustainable path to profitability once we go live. And as Neal mentioned earlier, we currently focus on optimizing our existing footprint and building on our current revenues.

Jed Kelly

And then just as a follow-up, you're obviously generating a fair bit of free cash flow. Can you just talk about how we should view your capital returns policy, another dividend or strategic M&A? Can you just give an update there? Thank you.

Alinda van Wyk

Hi, Jed. It's Alinda here. We'll mention now that we're definitely considering as a supplementary or a special dividend into the last part of quarter four this year. And for the other uses of cash, we still

maintain our strategy just to make sure we invest into our technology and finalizing that project, returning money in the way of marketing spend. That's why, especially in quarter four, where sports is back, we're spending a bit more in marketing. And on M&A, I will let Richard also confirm, but there's always assessments being done all the time, but nothing firm for quarter four.

Richard Hasson

Yeah. Jed, nothing that is worth mentioning on this call. But as Alinda says, constantly looking at potential strategic opportunities across the market that makes sense for us.

Operator

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

Bernie McTernan

Great. Thanks for taking the questions. Maybe just to start, Neal, you mentioned October, really strong month, but it seems like sport outcome might have gone the wrong way. So, can you just detail what you're seeing exactly, whether it's on the cost efficiency side or just better kind of like engagement and retention with your customers.

Neal Menashe

So, yes, obviously September sports wasn't as good, but we had great volumes in our system of customer base, et cetera. The same happened in October. So, really was a spectacular month on all fronts: customer numbers, volumes, revenue, et cetera. So, we're seeing it all come through. We're seeing the focus on the efficiencies in our marketing, the operating efficiencies within our different companies coming together. So, it's all coming together really well. And also, the focus - you can't be in every country. It goes in the countries we're in and the continents we aren't. And we are full on into those and becoming the best that we can in the markets in which we operate.

Bernie McTernan

Understood. And then just thinking about the topline still, I would love to just get any color in terms of what year to date growth has been, excluding India. And the reason why I ask is because the growth guide for this year's about 10% - there's some FX headwinds in there, you're comping the India

shutdown - so, as we start to sharpen our pencils on 2025 more, I think there's some reasons why reported revenue could accelerate next year, but would love to get your thoughts.

Neal Menashe

Okay. So, it's Neal again. Just to remind everyone, we closed down India in September of last year. So, you understand right. So, ex-India, we're up 24%.

Bernie McTernan

Wow. Okay. Really strong number. And then just two more for me. Kind of the same thing, longer-term, just all the cost efficiencies that are coming through, margins better than expected. Longer-term margins, you mentioned the longer-term target of 20%-plus, but how much more of a plus should we be thinking about, and maybe how quickly can you get there?

Alinda van Wyk

Hi, Bernie. Alinda here. Like we've reported now, the two consecutive quarters we had over 24% margin. The operating efficiencies are definitely now drilling down right to the bottom, which is a very good result for the 18 months we've been focusing on that. Second to that, we are really looking into our marketing efficiencies now. We're really unpacking every campaign and marketing investment to make sure there's a great return. So, on the long-term, when we put out that 20% target, we're happy to beat it, but, now we feel comfortable that we probably will lift that to 22% to 24% during 2025 as a standard.

Bernie McTernan

Got it. Perfect. That's great. And then lastly, just one quick modeling question. Should any of the US shutdown costs bleed into the fourth quarter? And also, just any color on the reconciliation in the press release, there's a US shutdown costs and then also just other market closures. What that other market closure was, the €5 million? Thank you.

Alinda van Wyk

Bernie, it's Alinda here. Happy to report there is nothing, no more to report in quarter four. That's obviously also why there's impact on the overall profitability that you see in the press release. But sportsbook closures now been accounted for in quarter three and two, so nothing in quarter four. And

then the other market closure is a spillover from India that we just had to report on. It was a process investment that we just had to impair. But it is just based on last year's closure of India.

Bernie McTernan

Understood. Thanks for taking the questions.

Operator

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

Michael Graham

Thank you and congrats on the improved profitability outlook. I wanted to ask about Africa. You have a podium position in five of the seven markets that you're live in. And I'm just wondering if you could talk about the difference between those top five versus the other two and just maybe share a little bit about how durable you think your position is in Africa.

Neal Menashe

Yeah. Hi, it's Neal here. So, basically, as I said, we've been going for 10 years with a dedicated team of over 1,000 people. The brand, the Betway brand in particular, resonates particularly well in Africa, maybe because of all the branding we do on the football, et cetera. Remember, football, or soccer, is the number one sport there.

So, in all the podium countries, in the five countries there, we win podium positions and South Africa, Zambia, Ghana, et cetera, we really, really saw it performing well. I think the other ones aren't performing as well as we should, but that's probably on it, and we've got a pipeline of a few others to come. But again, we have to take each one and make sure we can get it. And very exciting for us is in most of these countries where they offer online casino, we've been rolling out Jackpot City. So, we rolled it out already in South Africa and we're going to be rolling it out in Ghana, et cetera. So, it's getting the double - it's the Spin approach and the Betway approach for Super Group in these markets. So, it's there. We got a big marketing spend there, we've got big revenue there. So, we are very comfortable with the growth opportunities there we see coming out of that continent.

Michael Graham

And then I'd love to just get a little more color on iGaming in the US. Just maybe talk about the long-term view on how you're thinking about online casino for you in the US.

Neal Menashe

Okay. Hi, it's Neal. So, yes, we tried sports. It didn't work. But casino we're really good at. So, we are in New Jersey and Pennsylvania. We're seeing good revenue increase. We're seeing good green shoots. Again, we're not chasing revenue for revenue and never to make the profit. So, we have to make sure we can get to the revenue target that we've set the business, which so far, they are meeting. And then we want to be able to turn this into a profitable business. But if we feel that it gets too far away from being able to achieve profitability, then we have to change stance. But remember, the casino business is easier for us and this is what happened in brands across the world. So, America is no different.

Michael Graham

Okay. Thank you, Neal.

Operator

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

Mike Hickey

Hey, Neal, Richard and Alinda. Good morning or afternoon for you guys or evening. Congrats on a great quarter. Fantastic. Great year too. Kudos to all of you. Just following up maybe on Michael's question on the US market. Neal, appreciate the color there. You obviously size up your losses here considerably exiting the sports betting. On the iGaming front, it's early days here. Obviously, 2025 is going to be interesting. Just getting a better sense of your path to profitability. You said you're hitting your revenue targets into 2025 and thinking about sort of the political atmosphere and the change here, how you think that could impact potentially iGaming regulation in the US in 2025?

Neal Menashe

Yeah, and so from our point of view for 2025, we are not aiming to invest more money than you've seen in the last two quarters, right? But what's left to see is can we grow the revenue which it has been growing and make sure we do see a path to profitability. So then, with the new government and comes new regulations or not changing the existing regulation. So, hopefully, the new Republican government

sees that and understand that if you overtax, you get a worse result, part of which, for example, as you know, we have seen in Germany. They basically just created a black market in Germany, and it went out of business. So, from our point of view, let's see how it goes. I think they're pro-business, so, hopefully, that should be good.

Mike Hickey

Looking, I guess, north here in Canada you've got a great share position too. Can you just talk about your success in Canada, your market share position and the plus or minus of Alberta regulating here in 2025?

Neal Menashe

So, Canada really compared year-on-year growth overall has been very good. On Ontario's data, it's not where we need it to be, but, we are still in a good position there. So, we still have a decent share of the market.

And obviously, we learned the lessons on Ontario from going to the regulated regime. So, all the lessons we learned there will come in for Alberta looking towards the end of 2025, maybe 2026. So, we are all ready for that upper end resonate there. Remember, we've got Betway, we've got Jackpot City, Spin. So, we've learned, we know what we need to do and probably in Ontario, relatively, we're under-indexing marketing-wise relative to some of the bigger competitors.

But we are now looking at that, fixing that and I think the rest of Canada we've really dug deep and we've really sorted out where we were losing traffic with people with cybersquatting on our brand, especially Jackpot City. We've had lots of dealings with Google. We sorted that out and we're sorting out every little bit along the way. And I think it's showing in our numbers. And I think the distraction of too many countries means that when we're all in these countries and stuff, we can focus and get it right, which is what we're doing.

Mike Hickey

Hey, yeah. I guess moving to Africa, you touched on it a bit - you obviously got a huge head start - you've got a number one share position on the continent. Can you just frame for us maybe the market opportunity you see in Africa in terms of TAM and competition? It seems like some of the more

predominant online players aren't in Africa yet, just curious as to why. And on your market share, I know you're number one. Just curious how consolidated that share is, if you have a number in terms of where your total market share is in that market?

Neal Menashe

Yeah, we did have market share. But what I can say on that map we showed, we're in podium position. So, if you take the whole continent, remember, we only opened in seven of the countries, right? There's lots of countries we're not, which we're coming to. I think it's been a long time coming. We've been there for 10 years and, remember, the population is exploding. And on top of that, the use of mobile phones is exploding. And we have had the micro bets, we've got high-value customers, small customers. So, I think it's the product, it's the brand, it's everything. And as they open up more online casino that obviously helps us tremendously. And we know the product from Europe, we know the products from all the other markets we operate in and I think our key goal is that it's a great brand, great technology and a great, unbelievable dedicated team that literally every ounce of every country that we are in, we are working towards making the product better. I think that's where we got a huge head start. It's that our marketing budget is a global marketing budget has the brand in it, which obviously helped resonate and then we can counteract with all the country marketing that we do.

So now the question is which other markets we go in. Is the regulation fair in those markets? How the tax rates are? So that's why we assess them. So, we've got a team that can just do that and that's why because of the ring-fenced business, Africa is ring fenced, it's on its own take, obviously it uses our feeds and certain stuff like that we give them. But it can operate and grow by itself. And that I think is the key and the beautiful part is it's got the Betway brand, the Jackpot City brand, et cetera. So that's why we see good growth.

Mike Hickey

Do you have a sense of how big the TAM is or potential TAM is in Africa and what's been the sort of market growth rate or maybe even Europe, your growth rate in the region?

Neal Menashe

Yeah. So, we think that the TAM is about €5 billion and it's obviously been growing and growing. So again, as that opened up more of the regulation, I mean, the countries like Rwanda, et cetera,

thathaven't even got the rates yet, so there's Angola, there's lots of them and then there's Senegal which had (rates) already we're not even in. So, there are lots of them that we can go to, but we've got to find the ones. Remember, every one that we go to, Betway is already there. It had a presence in the brand. So, from our end, of course, the most important part is the population. It really is a growing population and it's got access to the Internet through mobile devices. So, we're super bullish on this.

Mike Hickey

The regulatory piece - how do you sort of give comfort to US investors that the regulatory situation in Africa is, how do you get comfortable there? I guess, Neal, would be the question.

Neal Menashe

Yeah. Okay. So, I mean we get this question all the time. We work with the regulators. We work with all the government bodies. We help draft the regulation. Actually, the question could be the other way - what happened in Germany, what happened in the Netherlands, what happened in Belgium? They've gone the other way, even what happens to the tax rates in New York.

So, we understand this. We work with them and that's a risk we have as a business all over the world. But putting up a bid in Africa, because we're working with them and we pay all the taxes in these markets. In some of these markets, we are one of the biggest tax payers. I think when you're doing that and we're giving up CSR, our BW Cares back into the local communities. We are working with them and saying that we are helping.

Mike Hickey

Do you have any sense of when you think you'll see some bigger online players like Flutter, Bet365, some of the global players in online gaming start to look at the market? Maybe they're there already, I don't think they are, but, do you have a sense of when they might be coming in?

Neal Menashe

The truth is, none of them are already there at all. Maybe they're all focusing on Brazil. They're basically focusing on Brazil, which is why we're not. I think we picked our battle. I think the only one that's there, it's really small, is 888. But there's no one else there really. There's local operators we find ourselves up against and different ones in different countries.

Mike Hickey

Okay. I appreciate the color, guys. Thank you. Good luck.

Neal Menashe

Okay. Thank you.

Operator

This concludes the question-and-answer session. The conference is adjourned. Thank you for attending today's presentation. You may now disconnect.