

Codere Online Luxembourg, S.A.

Transcript of Fourth Quarter 2023 Earnings Call

February 29, 2024

8:30 AM US Eastern Time

Executives:

Aviv Sher – Chief Executive Officer
Moshe Edree – Executive Vice Chairman
Oscar Iglesias – Chief Financial Officer
Guillermo Lancha – Director, Investor Relations & Communications

Conference Call Participants:

Aidan Youngs – Stifel Financial Corp.
Pat McCann – Noble Capital Markets

Operator: Good morning, my name is Audra and I will be your conference operator today. At this time I would like to welcome everyone to the Codere Online Fourth Quarter and Full Year 2023 Financial Results Conference Call. Today's conference is being recorded.

At this time I would like to turn the conference over to Guillermo Lancha, head of investor relations. Please go ahead.

Guillermo Lancha: Thanks, operator, and welcome everyone to Codere Online's earnings call for the fourth quarter and full year 2023. Today you will hear from our CEO, Aviv Sher, and CFO, Oscar Iglesias. Our Executive Vice Chairman, Moshe Edree, will also join us in the Q&A section.

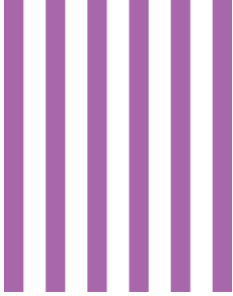
Before turning the call over to Aviv, I'd like to remind everyone that during this call we will be referring to a presentation we uploaded to our website earlier today which includes non-GAAP financial metrics such as Net Gaming Revenue or Adj. EBITDA, for which you can find reconciliations in the appendix of the presentation. Please note that all growth rates discussed during this call are year on year comparisons, unless noted otherwise.

Let me also remind you that our accounting information is prepared under IFRS accounting standards and that, throughout this presentation, all monetary figures will be in Euro unless expressed otherwise.

Finally, please note that a replay and transcript of this call will be available on our website at codereonline.com where you can also sign up for our investor email alerts.

With that, I will go ahead and pass the call on to Aviv.

Aviv Sher: Thanks Guillermo and thanks to everyone for joining us today. I'm very excited to present our fourth-quarter 2023 earnings and discuss another record setting quarter for our company, which has allowed us to end the year well ahead of our expectations and continue delivering upon our commitment to investors. These results also lay the groundwork for achieving our 2024 profitability target which we will discuss later.



So jumping straight into the highlights of the fourth quarter of 2023 on page 8, we delivered 50 million euros in net gaming revenue, 33% above Q4 2022 despite a tough comp with the World Cup in the prior year period.

This was partially driven by the increasing contribution from our casino segment which for the second consecutive quarter accounted for 58% of our net gaming revenue, as we continue to focus not only on acquiring casino first players (given the attractive CPAs and strong player values we see across this segment), but also on crossing sports betting customers over to casino to maximize overall player yield.

The growth in net gaming revenue was driven by a significant 35% increase in average monthly spend per customer to 120 euros. At the consolidated level, our active customers dropped slightly to 139 thousand due to mix effect, with both Spain and Mexico increasing over 15% but offset by Colombia and to a lesser extent Argentina, markets in which we have been rationalizing the customer portfolio.

In terms of customer acquisitions, first-time deposits increased on a sequential basis by 17% and our core Spanish and Mexican markets together acquired over 5 thousand more FTDs than in Q4 last year, which benefited from higher levels of activity around the World Cup.

Something else we are bringing to your attention this quarter is the significant uplift in projections for target addressable market across Latam, which we believe are directionally consistent with what we are seeing on the ground. A substantial part of this increase is due to Brazil transitioning to a regulated market, but also with significant increases in Mexico, Argentina and other markets in Latam. These views further reinforce our conviction about the substantial opportunity that lies ahead in a region in which Codere Online is especially well positioned.

With this, I will now turn the call over to Oscar to cover the financial highlights of the quarter and the 2024 outlook.

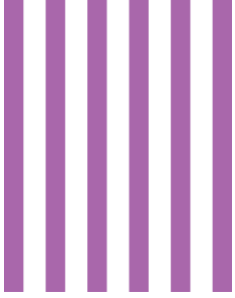
Oscar Iglesias:

Thanks Aviv. Turning now to the financial performance for the quarter on page 10, consolidated net gaming revenue grew by 33% to over 50 million. This growth was driven primarily by our Mexican business, which grew by 54% to 25 million, together with 17% growth in Spain to nearly 20 million. This is the third consecutive quarter in which Mexico is our largest business by revenue, and with no signs of slowing down.

Adj. EBITDA was negative 4 million in the fourth quarter, almost 11 million better than in Q4 2022, and included a contribution of nearly 8 million euros from Spain, more than double that of the prior year quarter.

Mexico also contributed to this improvement with an Adj. EBITDA loss of 2 million versus the negative 8 million in the prior year period. Colombia was roughly breakeven and together with the rest of our markets contributed more than 2 million to the overall improvement.

Looking now at our P&L on page 11, the nearly 11 million improvement in Adj. EBITDA in the fourth quarter was driven by the combination of a 12 million improvement in net gaming revenue together with a reduction of more than 6 million in marketing investment, along with the slower growth relative to revenue in most of our other operating expenses ... evidence that the significant investment in brand building and customer acquisition in the first two years post de-SPAC is starting to bear real fruit.



Turning to the Spanish operating and financial metrics, net gaming revenue in the fourth quarter increased 17% versus the prior year driven by a 15% increase in the number of active customers. Our casino business accounted for 57% of our revenue in the quarter, its highest ever quarterly contribution.

In Mexico, net gaming revenue was 25 million in the fourth quarter, an increase of 54% year on year and 19% sequentially. This strong performance was driven by a 16% increase in the number of active customers and a 32% higher spend per active customer.

Moving to Colombia on page 15, net gaming revenue was flat versus the prior year quarter at just over 2 million and up 32% sequentially despite the 41% decrease in active customers, reflecting the improved quality of our customer acquisitions and, as a result, portfolio of active customers.

Please note that now that Colombia represents less than 5% of our total net gaming revenue ... as such, starting with Q1-24 earnings we will report its results within the Other segment, together with Argentina and Panama.

Turning to the balance sheet on page 16, as of December 31st we had 41 million euros of total cash on the balance sheet of which approximately 36 million was available.

In terms of our net working capital position, we ended the quarter with negative 22 million or around 13% of our full year 2023 net gaming revenue, which we believe overall reflects a normalized level of working capital for our business.

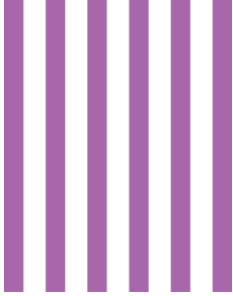
Looking at our cash flow on page 17, in 2023 we have utilized approximately 11 million of available cash, and the FX impact on cash balances in the year has reduced our position by another 2 million.

Turning to our 2024 outlook on page 18, and taking a look back for perspective, 2022 was the year in which we deployed a significant portion of the proceeds raised in our public listing and a year in which we prioritized revenue growth and customer acquisitions through a higher levels of marketing investment.

In 2023, however, we began shifting our focus towards sustainable growth and started taking our foot off the pedal somewhat in terms of marketing investment, giving priority to Spain and Mexico over other geographies. Despite this lower level of marketing investment, we were still able to grow revenue by 40% and reduce our Adj. EBITDA losses by almost 80%.

And while we expect the overall marketing investment in 2024 will largely be in line with 2023, we expect that 2024 will be the year in which we pivot to profitability, generating positive Adj. EBITDA and cash flow on the back of between 185 and 200 million of net gaming revenue.

In terms of giving specific guidance for Adj. EBITDA, we would like to get a few more months under our belts before doing so, in addition to better visibility over the marketing investment we will be making in and around the Euro Cup, Copa America and the Olympics, all of which are taking place this summer, which normally has a lower level of activity in terms of sports betting. As was the case with the World Cup in 2022, these events present a great opportunity to acquire customers, and we will be defining our campaigns and promotional strategy over the coming months.



With this, we expect to deliver upon our original commitment to investors to be a profitable company in this now third year after de-SPAC and are more committed than ever to creating value for our shareholders.

That's all from my end. I will now hand it back over to Aviv for closing remarks.

Aviv Sher:

Thanks Oscar. Before we turn to Q&A, I would like to thank the Codere Online team as always for their hard work and commitment to the business and their contribution to achieving these results. We all feel encouraged by what we have accomplished over the last couple years and the potential of this company going forward.

As always, thanks to the analysts, investors and other market participants for your interest and support ... we look forward to speaking with you again soon.

With that said, will turn it back to the operator to open up the call to Q&A.

Operator:

Thank you. We'll take our first question from Jeffrey Stantial at Stifel.

Aidan Youngs:

Good morning, everyone. Thanks for taking our question. This is Aidan Youngs on for Jeff Stantial. So on the full year guidance, Oscar, you reiterated a profitability target with NGR well above where we were previously forecasting. So I guess philosophically, can you sort of talk about more about where you're weighting focus on driving margin expansion relative to sort of the returns that you're seeing on user acquisition and the growth that's still left in particular within Mexico?

Oscar Iglesias:

Sorry, could you repeat the question? I missed the second half of the question. I know you're asking about the guidance for 2024, but I missed the second half of the question, if you could repeat that.

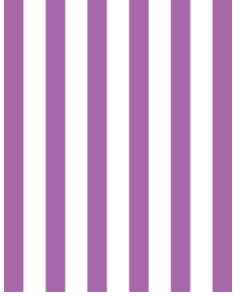
Aidan Youngs:

Yeah, just talking about more where you're weighing focus on driving margin expansion to the returns that you've been seeing on user acquisition and the growth that's still left in Mexico.

Oscar Iglesias:

Right. Well, maybe I can just kick it off by saying I think a number of things can happen over 2024. Of course, Argentina is still a market that's of interest to us and to the extent that there's greater stability as the year progresses and we have an opportunity to step into a license in the province of Buenos Aires, I think that'll be a market that increasingly, but cautiously, we'd be looking to step into. But that said, I think the focus will continue to be our two core markets that we've been investing and focusing in over the large part of the last two years, Spain and Mexico. That's where we're seeing strength.

We're starting to see some of the momentum over, you know, build based on some of the investments we've made over the last few years, especially some of the brand building and the teams are starting to, the CRM function as well is starting to work in a way that we expected. But it's nice to see it working in practice. So I think that's going to continue to be our focus. Aviv, I don't know if you have any other comments you want to make in terms of our focus geographically or otherwise.



Aviv Sher: No, I think you covered it well. Again, we are focusing on our core markets. I think we see very good CPAs in terms of the cost of new FTDs that we are bringing in. And we see the return quite fast or even faster than expected. We are always with this dilemma of continuing to invest or doing the EBITDA. But as you can see through the revenues, we are growing faster than expected. So I think we will continue with growth. As I said, in achieving EBITDA positive and cash flow positive during the year.

Aidan Youngs: Great, thanks. And then Brazil is targeted to launch this summer. It seems like most large global operators are looking to establish a foothold there one day. So ahead of this, I'm just curious if you guys have seen any incremental competitive interest in any of your Latin American markets, in particular Mexico. And sort of as a corollary, how do you guys think about long-term value maximizing strategic outcomes here? And whether that's continuing to build and scale and expand out geographically or else monetizing the business to global operators, rolling up high quality local leaders? Thanks.

Aviv Sher: I will take it, Oscar. I think regarding Brazil, it's a very interesting market. Also for us, we are looking into it. Obviously, I've commented on that in the past. So we continue to look into that. Regarding our core markets, we still see a huge opportunity for growth for us and good investment opportunities in terms of media. So we will continue to focus there. And as you said, trying to be local heroes or local leaders with a global brand. So we continue this strategy and continue our focus in those two markets where we see very, very good ROI and continue to make investments there until we reach our targets.

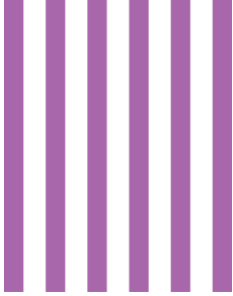
Aidan Youngs: Great. Thank you. And if we could just squeeze in another. It looks like cost per acquisition was a touch higher than recent quarterly trends. Is there anything going on there that's worth calling out?.

Aviv Sher: Yes. It's mainly the cost of acquisition going up. It's mainly because we are shifting more to casino segment players. And those players, let's call it, they are more expensive than the sports player. So it makes sense that on a mixed basis, consolidated mixed basis, you will see the CPA goes up. But those player values are higher.

Oscar Iglesias: Yes. It's also a mix effect, just given that we've de-emphasized, for example, acquisition over the past year in a market like Colombia, where you're acquiring it at much lower price points. So some of that is also a mix effect with the higher CPAs in both Spain and Mexico.

Operator: We'll move next to Pat McCann at Noble Capital Markets.

Pat McCann: Hey, guys. Thanks for taking my question. My first question had to do with something you guys mentioned last call about Q4. And I believe you said that was a good time around the holidays and whatnot to step up marketing spend. And then, of course, today you mentioned the Olympics, Copa America, World Cup. As we look ahead, I guess I'm wondering how marketing spend, what that will look like in 2024 and which events we should really keep our eye on as the biggest marketing events for your markets. And how long, how long of a runway do those events sort of extend to as far as when you start ramping up, maybe marketing around those events and then when you kind of start to pull back on it? And maybe I'm not thinking of it correctly, but just wanted to get your thoughts on that.



Oscar Iglesias:

Yes. Yes, I can take that question. Look, I think in terms of just a directional guide for total marketing investment in 2024, I think as we commented in the prepared remarks, similar levels of what we did in 2023. Obviously, as a percentage of NGR with the NGR continuing to grow, it'll from a relative standpoint as a percentage of sales will continue to decline the same way it declined from 80% of revenue in 2022 to something around a little bit below 50% of revenue in 2023. You'll probably see a similar trend in 2024, but nominally a similar level of overall nominal investment in terms of some of these bigger events.

And obviously what you saw in Q4 as well is similar to last year, similar to the prior year period where we had the World Cup. We invested into some of the strength we were seeing in Spain and Mexico going into year end. So that's why you see a similar if we were tracking 20 million a quarter in terms of marketing investment. I think we did something like 25 in Q4 and we're starting to see some of the benefit of that in terms of some strength we're seeing opening the New Year here over the first two months of 2024. Around these specific events, what's interesting is they take place during our seasonally slower summer months, at least from a sports betting standpoint.

So the start times of these events are a little bit different. I think Euro Cup is mid-June to mid-July. Copa America, which obviously is happening in Central Latin America, is more like June 20 to mid-July. And then the Olympics start a little bit later, end of July into the second week of August. So it's interesting because it gives us something to keep our customers engaged in terms of the sequencing of that investment. I think typically there is a lot of pre-work that's done in terms of making sure we have the inventory that we want going into those events and around those events, leading up to those events. But I think mostly the consumption is happening during the events themselves. But I'll defer to Aviv on that, in terms of any other comments he wants to make around these, let's say, special sporting events.

Aviv Sher:

Yeah, I will just add a few bullets to what Oscar summarized pretty well. First of all, Copa America, Mexico is back playing. It hasn't happened for years. So of course, there is a lot of hype around this event. We are looking into that. And Spain always leads the Euro and a very interesting team to follow. So those kind of lead us. The more they are advanced in those sport events, the better that we are doing and the more money that we need to spend into marketing. So we are following those two groups or teams closely and how they perform.

Olympics, I think it will be an interesting event. I think it's less a sporting betting event, at least based on the past. But we were surprised with results from Formula and UFC that are getting traction. So maybe the Olympics this time will also get traction. So we are looking into that closely.

Oscar Iglesias:

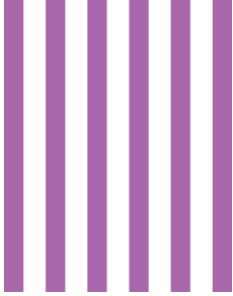
Speaking of UFC, I think we have a Spanish featherweight champion these days, don't we?

Aviv Sher:

Yes, UFC becomes very interesting. We see a lot of attraction in the social networks as well as in the betting. So I think UFC becomes an interesting process.

Pat McCann:

Great. And then my other question had to do with how you mentioned strength in the casino revenue. And I guess, how do the dynamics between the performance of sports betting revenue versus casino revenue affect your marketing strategy? And do the



customer demographics change in a significant enough way that you would pivot? You know, pivot between different acquisition strategies based on the performance trends of those two revenue categories

Aviv Sher:

Yes. So basically, those are two different products in general. Of course, there are some synergies and some overlaps. And we can post some of the players maybe to a specific casino game such as roulette because of course, the demographic and the gender changes between casino and sport betting. So we treat it like two different products. We do the marketing differently a little bit per product. Of course, the retention and the CRM efforts are totally different. In terms of revenue, we see more stability on the casino front. And this helps us, let's say, balance out the sports marketing that can be quite unstable or with high volatility.

And this way, we are able to stabilize our revenues across the year. So I think the strategy will continue to be as much as we can as a sport group, trying to cross the players that we can into casino. And separately, we continue our efforts to market the casino to different demographic and different segments.

Oscar Iglesias:

I would just add to that, in addition to always looking for ways to harness, to further harness the omni-channel opportunity for us in certain markets, in terms of product offering, trying to get those retail customers also to cross and be playing in both channels. So that's also something that's always a work in progress. And technologically, it's not always simple to do, but there's also an opportunity for us going forward.

Operator:

I will hand the call over to Guillermo for a webcast question.

Guillermo Lancha:

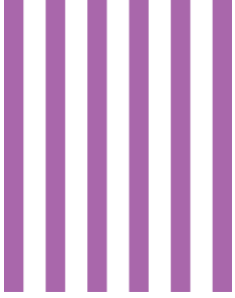
Thanks. So it looks like we don't have any questions coming in through the webcast at the moment. So maybe a final reminder, if anyone wants to ask, go for it. And otherwise, we will end it here... Okay. So it looks like we have no further questions. If anybody wants to follow up on any of the topics we discussed, feel free to reach out. And if not, we will speak again with our Q1 earnings in mid-May, the beginning of May. Thank you, everyone, for joining.

Oscar Iglesias:

Great. Thanks, everybody. Thanks for the questions.

Operator:

Thank you. And this concludes today's conference call. Again, thank you for your participation.



About Codere Online

Codere Online refers, collectively, to Codere Online Luxembourg, S.A. and its subsidiaries. Codere Online launched in 2014 as part of the renowned casino operator Codere Group. Codere Online offers online sports betting and online casino through its state-of-the-art website and mobile applications. Codere currently operates in its core markets of Spain, Mexico, Colombia, Panama and the City of Buenos Aires (Argentina). Codere Online's online business is complemented by Codere Group's physical presence in Spain and throughout Latin America, forming the foundation of the leading omnichannel gaming and casino presence.

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Codere Group is a multinational group devoted to entertainment and leisure. It is a leading player in the private gaming industry, with four decades of experience and with presence in seven countries in Europe (Spain and Italy) and Latin America (Argentina, Colombia, Mexico, Panama, and Uruguay).

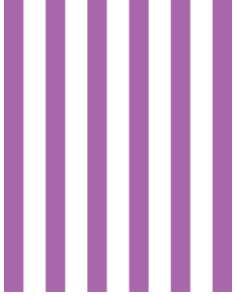
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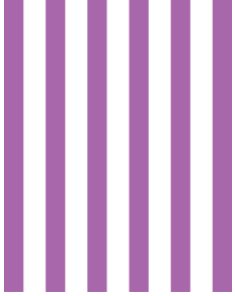
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This document includes certain financial measures not presented in accordance with U.S. GAAP or IFRS ("non-GAAP"), such as, without limitation, net gaming revenue and Adjusted EBITDA. These non-GAAP financial measures are not measures of financial performance in accordance with U.S. GAAP or IFRS and may exclude items that are significant in understanding and assessing Codere Online's financial results. Therefore, these measures should not be considered in isolation or as an alternative to revenue, net income, cash flows from operations or other measures of profitability, liquidity or performance under U.S. GAAP or IFRS. You should be aware that Codere Online's presentation of these measures may not be comparable to similarly-titled measures used by other companies. In addition, the audit of Codere Online's financial statements in accordance with PCAOB standards, may impact how Codere Online currently calculates its non-GAAP financial measures, and we cannot assure you that there would not be differences, and such differences could be material.

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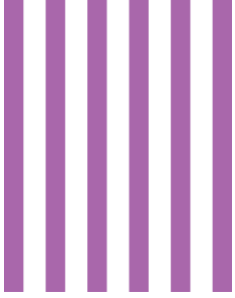
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