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"First Quarter 2022 Financial Results Conference Call"

Monday, 30th May 2022, 17:00 (GR Time)

Conductors:

Mr. Sokratis Kokkalis, Chairman & CEO

Mr. Chrysostomos Sfatos, Deputy Group CEO

Mr. Nikolaos Nikolakopoulos, Deputy Group CEO

Mr. Fotis Konstantellos, Deputy Group CEO

Mr. Andreas Chrysos, Group CFO

Mr. Nikolaos Pavlakis, Group Tax & Accounting Director

Mr. Antonis Skiadas, Group Finance, Controlling & Budgeting Director

& Mr. Michail Tsagkalakis, Capital Markets Director

Conference Call Conducted by Chorus Call Hellas

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OPERATOR: Ladies and Gentlemen thank you for standing by. I am Popi your Chorus Call operator.

Welcome and thank you for joining the INTRALOT Conference Call and Live Webcast to present and discuss the First Quarter 2022 Financial Results.

At this time, I would like to turn the conference over to Mr. Chrysostomos Sfatos, Deputy Group CEO of INTRALOT.

Mr. Sfatos, you may now proceed.

SFATOS C: Ladies and gentlemen, welcome to the earnings call for the First Quarter Results of 2022. I would like to ask the Group CFO, Mr. Andreas Chrysos to go ahead with his presentation.

CHRYSOS A: Good afternoon, Ladies and Gentlemen. The first quarter of 2022 was characterized by the stabilization of the business as evidenced by the stable top line performance compared to the respective period of last year. The accumulated effects of the efforts that the management has undertaken on the cost front in the last few years, especially at the headquarters perimeter, supported the operating results depicted at EBITDA level compared to a year ago.

On the financing front, the effect of the recent restructuring exercise that was completed successfully in August, 2021, also affected positively the profit and loss with the debt servicing costs being materially lower versus one year ago, while the leverage ratio of the group was also materially improved as a result of both better net debt but also EBITDA metrics.

Our efforts however for the strengthening of our balance sheet and our group's position are continued in current year as well. We recently announced that INTRALOT is planning to proceed to a share capital increase of the company via a rights issue up to an amount not exceeding the 150% of the paid-up share capital. The proceeds will be used to purchase the shares in Intralot Inc., currently not controlled by the parent group.

INTRALOT announced that it has signed a binding memorandum of understanding with Standard General, according to which Standard General will purchase all unallocated shares in the share capital increase, up to a number not exceeding 1/3rd of the total voting shares of the parent company for up to €0.58 per share.

The decision that authorizes the Board of Directors of Intralot SA to determine the terms of this share capital increase and undertake all necessary actions was approved by an Extraordinary Shareholders' Meeting last Monday, the 23rd.

And with this said, we're moving on to the first quarter of 2022 financial presentation. In Page #5, we see the results of our licensed operation, which have been improved by 6.1% or €1.8 million, performance attributed to our business in Argentina.

Turning to Page #6, we see a slight increase in the revenues generated by our technology contracts, which have been improved marginally by 1.3% or 700k. Key takeaways in this is line are the higher revenue in Australia since last year's respective quarter was still affected by the lockdown restrictions that were fully lifted in the next months of 2021, and the same trend in Croatia, following the go-live of a lottery contract solution that commenced after the first quarter of 2021, and ramped up throughout the remaining months of 2021. In the United States, we had a deficit of €1.9 million or 5.1%.

The first quarter of 2021 was largely impacted by a jackpot of around €4 million and a higher merchandise sale, which was around €1 million higher last year. By nature, the frequency and magnitude of the jackpots cannot be predicted. So, this is the main reason for the seasonality and peaks of the lottery top line movements. If isolating these two effects, the performance in the first quarter of 2022 managed to counterbalance the deficit to a large extent.

Lastly, in Page #7, we see the performance of our management contracts activity, which was reduced by 18.3% or €2.4 million, solely, an effect coming from the Turkish market attributed to the FX implication.

Turning to Page #8, we see the overall P&L performance for the first quarter of 2022 versus a year ago. Takeaways on the operational front are: the stable performance in the top line year-over-year, which has been analyzed in detail in the previous slides, the GGR line which was slightly better due to the lower average payout ratio versus respective quarter of 2021,the gross profit line, slightly lower compared to previous year performance and stable if excluding the depreciation, the OPEX line performance better by €0.3 million, and if excluding the depreciation, by around €1 million, primarily attributed to the cost optimization effort at the headquarters perimeter.

All the above resulted to an EBITDA of €26.1 million in the first quarter of 2022, posting an increase of 4.9% or €1.25 million compared to the respective period of last year.

Despite the absence of jackpot that boosted significantly in the first quarter of 2021 performance in the US, the group has managed to improve its EBITDA via the combined effect of the lower payout from our licensed operations and from the lower operating expenses, mainly at the headquarters perimeter. EBITDA margin over sales remain at the same high levels as it was in 2021, at around 27%.

Moving down to the EBT line, and taking into account the better EBITDA performance described previously, the none-existence of the reorganization expenses that hit the first quarter of 2021, as well as, the lower interest expense, which was a direct effect of the debt restructuring that took place last August, on the one hand this, however, combined with the negative effects and a slightly higher depreciation and amortization, the accounting loss due to IAS 29 in Argentina and the recognition of expenses versus income from participations and investments, which has to do with an income that we had last year from withholding tax in Malta, resulted to a better EBT and net income after tax and minority interest lines by €0.5 million and €1.2 million, respectively.

Turning to Page #9, upper graphs have already been analyzed in the previous slides. Focusing on the bottom left of the slide, we see the operating cash flow that ended at €17 million in the first quarter of 2022, because the 2021 respective quarter was positively affected by an one-off tax return at the headquarter perimeter companies versus payments in 2022.

Net CAPEX at slightly higher levels in absolute figures versus a year ago. On the bottom right of the slide, we see the result of our debt restructuring exercise with the net debt and leverage ratio at €500 million and 4.5 times, respectively, similar with 2021 year-end levels.

Turning to Page #11, we see the contributions per region in our revenues and EBITDA where we see that almost 80% of our revenues and EBITDA are produced in the more developed parts of the world, North America, Europe and Oceania.

And at this stage, the presentation of the first quarter of 2022 results is finished. And the Intralot Executive Team is at your disposal for any questions you may have.

Q&A

OPERATOR: The first question comes from the line of Walther Daniel with Morgan Stanley. Please go ahead.

WALTHER D: Yes, hello and good afternoon everyone. Congratulations on the nice results. Question you know, your EBITDA was sort of flat year-over-year, the US, seems to be slightly down and the rest of world slightly up. Maybe you can give us a bit more colour on the drivers in the two regions?

SFATOS C: Yes, you're correct, US was a bit down, and the rest of the world has been recovering from the COVID year. As you know, the COVID impact was kind of opposite in the US, compared to the rest of the world, at least in our line of business in the US. The lotteries have benefited from the closure of other venues during the lockdowns, and we have seen an increase in the top line. Also, there was a seasonal effect last year compared to this year in the United States. In other words, we didn't have the two big jackpots of January 2021. By contrast, in the rest of the world we saw a return to the normality to the pre-COVID era. So that explains the two trends basically.

WALTHER D: Thank you very much. A quick follow-up question, if I may ask. Your capital raise...equity capital raise, when is this supposed to go ahead? And secondly, you talk about capturing opportunities in the US, post the capital raise. Can you give us some more colour on that? Thank you very much.

SFATOS C: Yes. The capital raise just received an approval from the Shareholders Meeting, the shareholders gave authorization to the board to determine the details. Our anticipation is that we're already communicating with the Hellenic Capital Markets Commission. So, it basically depends upon receiving the approval from the regulator about when we will launch, and we anticipate that we will be able to launch in the middle of June. This is kind of our time line.

About opportunities in the United States, as you know, there are still a lot of developments in the area of sports betting in the United States, more states are coming on stream with legalizing the sports betting and that's where we see significant opportunities lying ahead. We will become more specific as we have something more definitive in our negotiation in several states. Right now, we are in discussions in two states about this prospect.

WALTHER D: Okay. Thank you very much. That's from my side.

OPERATOR: The next question comes from the line of Felix Wolfgang with Sarria. Please go ahead.

FELIX W: Yes. Hello. Can you hear me?

SFATOS C: Yes. We can hear you.

FELIX W: Thank you. Just a quick question on Standard General. What would be your agreement with respect to influence they would have on board decisions going forward, you indicated that they would take a maximum of 1/3rd of voting shares. How are you planning on integrating Standard General into your corporate governance in the future, in terms of directors, in terms of board decisions as well?

SFATOS C: Sure. The only agreement that we have with Standard General is what we have already announced. Standard General participates in a public process of the share capital increase just the way we have announced and there are no further agreements with Standard General.

FELIX W: Okay. And would the cash proceeds from such a share issuance be used entirely to buy back the shares in Inc.? Would it be all the shares in Inc.? And would there be any remaining cash on balance sheet afterwards?

SFATOS C: Well, up until now, we have not determined the size of the share capital increase precisely. So there maybe or maybe not be an excess, we hope that there will be. But so far, we have not determined anything further, but mostly, for the most considerable part, it will be consumed for the repurchase and the expenses of the repurchase.

And you also asked about the percentage? Yes, we intend to buy back 100%.

FELIX W: Okay. Alright, and would that have any subsequent consequences on how you're financing the Inc. in the future?

SFATOS C: What do you mean, Inc., is a cash-generating business. What do you mean by that?

FELIX W: No, I was talking about the 26 bonds. I don't suppose that there was any further sort of agreement or has any other bearing that wouldn't immediately be evident on the documentation?

SFATOS C: You mean the new notes. Yes, we've said in the past that we are actively looking into ways to refinance them. But right now, we don't have anything definitive to announce.

FELIX W: Okay, thank you.

OPERATOR: Ladies and gentlemen, there are no further questions at this time. I will now turn the conference over to management for any closing comments. Thank you.

SFATOS C: Thank you very much for your participation and attention.