

INTRALOT Group

MANAGEMENT'S DISCUSSION & ANALYSIS

**of our financial condition and results of operations
for the period 1/1-30/06/2023**

intralot

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Overview

We are a global leader in the supply of integrated gaming systems and services. We design, develop, operate, and support customized software and hardware for the gaming industry and provide innovative technology and services to state and state licensed lottery and gaming organizations worldwide. Since our establishment more than 20 years ago, we have developed innovative technological and operating know-how and experience, which are central to maintaining our existing customer relationships as well as winning new contracts. Our long-standing relationships with our customers give us valuable insight into their strategic and other business needs. We operate a diversified and stable portfolio in 39 jurisdictions worldwide. Our business activities range from the provision of customized gaming platforms to full management of end-to-end gaming operations either for our own or other licensed operations, depending upon the market in which we operate. In the twelve months period ended June 30, 2023, we had revenue of €363.2 million and EBITDA of €130.6 million on continuing basis for entities that we consolidate, though we have minority ownership in some of such subsidiaries. In addition, in the twelve months ended June 30, 2023, our revenue from Greece, Rest of Europe, the Americas and the Rest of the World represented 2.1%, 10.7%, 65.7% and 21.4% of total revenue, respectively.

Results of Operations of the INTRALOT Group

Comparison of the six months period ended June 30, 2022, with the six months period ended June 30, 2023.

Overview

Income Statement Information (€ in million)	Six months ended June 30,		% change
	2022	2023	
Revenue	204.8	175.3	-14.4%
Less: Cost of sales	-148.5	-112.2	-24.4%
Gross profit	56.3	63.0	12.0%
Other operating income	11.7	14.8	26.2%
Selling expenses	-10.2	-9.2	-10.1%
Administrative expenses	-36.2	-36.6	0.9%
Research and development expenses	-0.9	-0.6	-29.2%
Reorganization expenses	-0.3	0.0	-100.0%
Other operating expenses	-2.1	-0.5	-76.0%
EBIT	18.2	30.9	69.6%
EBITDA	55.1	62.8	14.0%
Income/(expenses) from participations and investments	-0.2	1.2	n/a
Gain/(loss) from assets disposal, impairment, and write-off	0.5	-0.1	n/a
Interest and similar expenses	-20.5	-20.9	1.6%
Interest and related income	1.0	1.7	68.0%
Exchange differences	-0.5	-0.4	-26.6%
Profit/(loss) equity method consolidation	0.1	0.1	-42.5%
Gain/(loss) on net monetary position	9.4	3.8	-59.7%
Operating profit/(loss) before tax	8.0	16.3	103.3%
Less: taxes	-7.8	-7.2	-7.9%
Net profit/(loss) from continuing operations (a)	0.2	9.1	3889.0%
Net Profit / (loss) from discontinued operations (b) ¹	5.6	0.0	n/a

Net Profit /(Loss) after taxes (Continuing and Discontinued Operations) (a) + (b)	5.8	9.1	57.4%
Attributable to:			
Equity holders of parent			
-Profit/(loss) from continuing operations	-6.1	4.4	n/a
-Profit/(loss) from discontinued operations ¹	5.6	0.0	n/a
	-0.5	4.4	n/a
Non-Controlling Interest			
-Profit/(loss) from continuing operations	6.3	4.7	-25.3%
-Profit/(loss) from discontinued operations ¹	0.0	0.0	n/a
	6.3	4.7	-25.3%

¹The activities of Group associate in Taiwan (Goreward) is presented as discontinued operations pursuant to IFRS 5.

Note: Due to rounding, numbers presented throughout this, and other documents may not add up precisely to the totals.

Sales Overview

Total revenue decreased by €29.6 million, or -14.4%, from €204.8 million in the six months period ended June 30, 2022, to €175.3 million in the six months period ended June 30, 2023.

Revenue by Business Activity

The following table sets forth our revenue for each business activity for the six months period ended June 30, 2022, and 2023.

Revenue by Business Activity (€ in million)	six months period ended June 30,		% change
	2022	2023	
Licensed operations	65.2	22.0	-66.2%
Management contracts	21.8	29.8	36.7%
Technology and support services	117.9	123.5	4.7%
Total	204.8	175.3	-14.4%

- €-43.2m (-66.2%) from our **Licensed Operations (B2C) activity** line with the variance driven by: revenue absence in Malta (€-43,0m; license expiration early July 2022) and the slightly lower revenue in Argentina (€-0,2m). In local currency, current year results posted a +111,8% y-o-y increase.
- €+8.0m (+36.7%) from our **Management (B2B/ B2G) contracts activity** line with the variance driven by: strong momentum of our Turkish operations (€+7.8m or +64.6%), driven by Bilyoner's improved performance, favored by the growth of the online market. In 1H23, the local Sports Betting market expanded close to 2.1 times y-o-y. Performance in Euro terms was partially mitigated by the headwinds in Turkish lira (+63.5% Euro appreciation versus a year ago) and higher revenue from our US Sports Betting contracts in Montana and Washington, D.C. (€+0.2m or +8.6%).
- €+5.6m (+4.7%) from our **Technology and Support Services (B2B/ B2G) activity** line, with the variance driven by: US operations' increased revenue (€+5.4m or +7.4% y-o-y), mostly driven by the growth in the categories of Numerical and Instant games and lower revenue from rest jurisdictions (€-0.4m or -1.3%), higher revenue in Croatia (€+0.7m or +18.9%) as a result of the local market growth and lower revenue from rest jurisdictions (€-0.4m or -1.3%).

The following table sets forth our Gross Gaming Revenue for each business activity for the six months period ended June 30, 2022, and 2023.

GGR by Business Activity (€ in million)	six months period ended June 30,		% change
	2022	2023	
Licensed operations	28.8	10.3	-64.2%
Management contracts	21.8	29.8	36.7%
Technology and support services	117.9	123.5	4.7%
Total	168.5	163.6	-2.9%

Gross Gaming Revenue (GGR) from continuing operations concluded at €163.6m in 1H23, posting a decrease of 2.9% (or €-4.9m) year over year. The improved performance across most key regions did not manage to fully absorb the loss of sales from Malta and the higher payout ratio in Argentina (-69.3% y-o-y on wagers from licensed operations²). 1H23 Payout Ratio³ was higher by 2.7pps vs. 1H22 (61.2% vs. 58.4%).

Gross Profit Margin

The Gross profit margin in the six months period ended June 30, 2023, was 36.0% from 27.5% in the six months period ended June 30, 2022. Increased margin is the result of our operations performance growth along with the increased contribution of technology and managements contracts to the total mix.

Other Operating Income

Other Operating Income from continuing operations ended at €14.8 million presenting an increase of 26.2% y-o-y (or €+3.1m).

Selling Expenses

Selling expenses decreased by €1.0 million, or -10.1% from €10.2 million in the six months period ended June 30, 2022, to €9.2 million in the six months period ended June 30, 2023. This decrease was mainly driven by the OPEX savings due to the license termination in Malta.

Administrative Expenses

Administrative expenses increased by €0.3 million, or +0.9%, from €36.2 million in the six months period ended June 30, 2022, to €36.6 in the six months period ended June 30, 2023.

Research and Development Expenses

Research and development expenses decreased by €0.3 million or -29.2%, from €0.9 million in the six months period ended June 30, 2022, to €0.6 million in the six months period ended June 30, 2023.

Reorganization expenses

In the six months period ended June 30, 2023, there was no reorganization expenses accrued, while the relevant cost in 1H22 amounted to €0.3 million.

² Licensed Operations Revenue also include a small portion of non-Payout related revenue, i.e., value-added services, which totaled €2.9m and €3.0m for 1H23 and 1H22 respectively.

³ Payout ratio calculation excludes the IFRS 15 impact for payments to customers.

Other Operating Expenses

Total Operating Expenses decrease by €1.6 million (or -76.0%) from €2.1 million in the six months period ended June 30, 2022, to €0.5 million in the six months period ended June 30, 2023. The variance is attributed to the license expiration in Malta.

EBITDA

EBITDA amounted to €62.8m in 1H23, posting an increase of 14.0% (or €+7.7m) compared to 1H22. In the first half of 2023, organic growth was supported by the significant contribution of our US operations combined with Bilyoner's improved performance, fully offsetting the impact from Malta license expiration.

Income/ (expenses) from participations and investments

Higher income from participations and investments (€1.4m vs. 1H22) mainly due to the tax refund in 1Q23 related to dividend distribution from Malta subsidiary.

Gain/ (loss) from assets disposal, impairment loss & write-off of assets

Gain/ (loss) from assets disposal, impairment loss & write-off of assets came up to net loss of €0.1 million in the six months period ended June 30, 2023, from net gain of €0.5 million in the six months period ended June 30, 2022. The variance is mainly attributed to the income from reversed impairments of tangible assets in Intralot SA.

Interest and Similar Expenses

Interest and similar expenses increased by €0.3 million or +1.6%, from €20.5 million in the six months period ended June 30, 2022, to €20.9 million in the six months period ended June 30, 2023.

Interest and Related Income

Interest and related income increased by €0.7m, from €1.0 million in the six months period ended June 30, 2022, to €1.7 million in the six months period ended June 30, 2023. This increase was primarily affected by the higher income in Bilyoner.

Exchange Differences

The positive impact from FX results (€0.1 million vs. 1H22), as a result of the valuation of cash balances in foreign currency other than the functional currency of each entity, and the valuation of commercial and borrowing liabilities of various subsidiaries abroad in EUR.

Profit/ (loss) from equity method consolidation

Consolidation of associates and joint ventures through the equity method remained unchanged, exhibiting a profit of €0.1 million (mainly coming from the Group's associate in Taiwan).

Gain/ (loss) on net monetary position

Net monetary position of the Group resulted to gains of €3.8 million in the period 1/1-30/6/2023 vs. gains of €9.4 million in the period 1/1-30/6/2022, significantly impacted by the first-time application of IAS 29 in Turkey in 2Q22.

Operating Profit/(Loss) before Tax

Operating Profit/(Loss) before Tax in 1H23 totaled €16.3 million, compared to €8.0 million in 1H22, with the variance driven by:

- the impact of the increased EBITDA (€7.7m vs. 1H22),
- the lower D&A (€4.7m vs. 1H22),
- the higher income from participations and investments (€1.4m vs. 1H22),
- the higher interest income (€0.7m vs. 1H22),
- the lower reorganization expenses (€0.3m vs. 1H22) and
- the positive impact from FX results (€0.1m vs 1H22).

With the increase at EBT level being partially counterbalanced by:

- the lower gains on net monetary position (€5.6m vs. 1H22) arising mostly from Turkey due to IAS 29 (considered a hyperinflationary economy since June 2022),
- the reversed impairments that took place in 2022 (€0.7m vs. 1H22) and
- the higher interest expenses (€0.3m vs. 1H22).

Taxes

Taxes in the six months period ended June 30, 2023, amounted to expense €7.2 million, versus expense €7.8 million in the six months period ended June 30, 2022.

Net Profit/(Loss) from Continuing Operations (a)

As a result of the above, net profit from continuing operations increased by €8.9 million, from a profit of €0.2 million in the six months period ended June 30, 2022, to a profit of €9.1 million in the six months period ended June 30, 2023.

Net Profit/(Loss) from Continuing Operations (b)

No material impact from Discontinued operations in the six months period ended June 30, 2023. At the same time, in the six months period ended June 30, 2022, Taiwan (Goreward) resulted in a profit of €5.6 million.

Analysis of discontinued operations:

Goreward – Discontinued Operations June 30, 2022: On April 2022, the Group proceeded with the sale of the GoReward LTD group through its subsidiaries in Cyprus, INTRALOT INTERNATIONAL LTD and INTRALOT HOLDINGS INTERNATIONAL LTD, which held the Group's entire shareholding (38.84%). The total price from the sale of the participation amounts to €170 thousand and has been collected entirely within June 2022.

Net Profit/(Loss) from Continuing Operations (a) + (b)

As a result of the above, net gain/loss from total operations (continuing and discontinued) improved by €3.3 million, from a profit of €5.8 million in the six months period ended June 30, 2022, to a gain of €9.1 million in the six months period ended June 30, 2023.

Net Income Attributable to Owners of the Parent

After deducting non-controlling interests, total operations net gain/loss attributable to the owners of the parent increased by €4.9 million, from a loss of €0.5 million in the six months period ended June 30, 2022, to a profit of €4.4 million in the six months period ended June 30, 2023.

Net gain/loss from continuing operations attributable to the owners of the parent improved by €10.5 million, from a loss of €6.1 million in the six months period ended June 30, 2022, to a gain of €4.4 million in the six months period ended June 30, 2023.

Net Cash Flows from Total Operations (continuing and discontinued)

Cash Flow Statement (€ in million)	Six months period ended June 30,	
	2022	2023
Operating activities		
Profit / (loss) before tax from continuing operations	8.0	16.3
Profit / (loss) before tax from discontinued operations	5.6	0.0
Profit / (loss) before Taxation	13.6	16.3
Plus / Less adjustments for:		
Depreciation and Amortization	36.5	31.9
Provisions	0.2	-0.8
Results (income, expenses, gain and loss) from Investing Activities	-6.7	-0.8
Interest and similar expenses	20.5	20.9
Interest and similar Income	-1.0	-1.7
(Gain) / loss on net monetary position	-9.4	-3.8
Reorganization expenses	0.3	0.0
Plus / Less adjustments for changes in working capital:		
Decrease / (increase) of Inventories	-6.2	-0.9
Decrease / (increase) of Receivable Accounts	7.8	2.7
(Decrease) / increase of Payable Accounts (except Banks)	-11.8	-10.8
Income Tax Paid	-2.5	-3.1
Total inflows / (outflows) from operating activities (a)	41.4	49.8
Investing Activities		
(Purchases) / Sales of subsidiaries, associates, joint ventures and other investments	-0.1	-0.5
Purchases of tangible and intangible assets	-10.5	-14.1
Proceeds from sales of tangible and intangible assets	0.0	0.0
Interest received	1.4	2.6
Dividends received	0.0	1.0
Total inflows / (outflows) from investing activities (b)	-9.2	-11.0
Financing Activities		
Proceeds from issues of shares and other equity securities	0.0	0.0
Return of Capital to minority shareholders of subsidiary	0.0	-1.5
Sale of own shares	0.0	0.0
Proceeds from loans	0.0	0.0
Repayment of loans	-0.9	-5.7
Repayments of lease liabilities	-1.9	-2.5
Interest and similar expenses paid	-20.6	-18.4
Dividends paid	-2.6	-4.5
Reorganization expenses paid	-0.1	0.0
Total inflows / (outflows) from financing activities (c)	-26.0	-32.7
Net increase / (decrease) in cash and cash equivalents for the period (a) + (b) + (c)	6.2	6.1
Cash and cash equivalents at the beginning of the period	107.3	102.4
Net foreign exchange difference	2.8	-7.0
Cash and cash equivalents at the end of the period from total operations	116.4	101.5

Net Cash from Operating Activities

Net cash from operating activities comprises net profit before tax adjusted for working capital, cash taxes as well as certain non-cash items such as provisions and depreciation.

Operating Cash-flow in 1H23 amounted to €49.8 million, higher by €8.4 million, compared to 1H22. This increase was primarily driven by the following:

- Net result before taxation from total operations (continuing and discontinued) increased by €2.7 million, from a gain of €13.6 million in the six months period ended June 30, 2022, to a profit of €16.3 million in the six months period ended June 30, 2023;
- Depreciation and amortization from total operations decreased by 12.7% from €36.5 million in the six months period ended June 30, 2022 to €31.9 million in the six months period ended June 30, 2023;
- The effect of provisions on cash flow, was positive €0.2 million in the six months period ended June 30, 2022, to a negative effect of €-0.8 million in the six months period ended June 30, 2023, mainly due to the income from reversed impairment of tangible assets in Intralot SA within 2022.
- The effect of results from investing activities on cash flow was negative €6.7 million in the six months period ended June 30, 2022, versus a negative effect of €0.8 million in the six months period ended June 30, 2023, mainly due to the higher income from dividends (€1.0m) in the six months period ended June 30, 2023, the higher net FX loss (€5.4m y-o-y) in 2023, the higher net loss from investments disposals (€1.4m y-o-y) in 2023 and the lower net gains from associates (€0.2m y-o-y) in 2023;
- Net interest expenses in the six months period ended June 30, 2023, was €19.1 million (1H22: €19.5m);
- In the six months period ended June 30, 2023 there was no reorganization expenses accrued, while the relevant cost in 1H22 was €0.3 million
- Changes in our working capital, which led to a cash outflow of €9.0 million in the six months period ended June 30, 2023, compared with a cash outflow of €10.1 million in the six months period ended June 30, 2022;
 - In particular, there was an increase of €0.9 million in inventories in the six months period ended June 30, 2023, compared to an increase of €6.2 million in the six months period ended June 30, 2022, mainly due to the timing of roll out of new the projects under construction;
 - also, there was a decrease of €2.7 million in receivables in the six months period ended June 30, 2023, compared to a decrease of €7.8 million in the six months period ended June 30, 2022, mainly due to the receipts of receivables of USA in 2023;
 - also, there was a decrease of €10.8 million in payables towards our suppliers in the six months period ended June 30, 2023, compared to a decrease of €11.8 million in the six months period ended June 30, 2022, mainly due to the timing of payments in various projects and
 - there was a payment from income tax of €3.1 million in the six months period ended June 30, 2023 (mainly from Australia, Argentina and other entities) compared to a payment of €2.5 in the six months period ended June 30, 2022.

Net Cash from Investing Activities

Cash flow from investing activities generally consists of cash outflows for Purchases of Investments, for investments in tangible and intangible assets, interest and dividends received, as well as inflows/(outflows) from (Purchases) / Sales of subsidiaries, associates, joint ventures and other investments.

In the six months period ended June 30, 2023, net cash outflows from investing activities were €11.0 million, which was an increase of €1.8 million, from net outflows of €9.2 million in the six months period ended June 30, 2022. This increase is mainly attributable to the net investment outflow of €0.5 million in the six months period ended June 30, 2023, versus lower net outflows of €0.1 million in the six months period ended June 30, 2022, mainly coming from Restricted bank deposits, the higher inflow of €1.2 million for interest received, the higher inflow €1.0 million for dividend received and the higher outflow of €3.6 million in the six months period ended June 30, 2023 for capital expenditure. Our capital expenditure in the six months period ended June 30, 2023, reached €14.1 million, while in the six months period ended June 30, 2022, reached €10.5 million.

Net Cash from Financing Activities

Net cash from financing activities comprises net cash proceeds from Cash received from Share Capital increase, financing arrangements as well as payment of cash interest and the payment of dividends to our shareholders or to minority interests. In the six months period ended June 30, 2023, net cash outflows from financing activities were €32.7 million, compared to net cash outflows of €26.0 million in the six months period ended June 30, 2022. The increase of net cash outflows consisted of net cash repayments of loans and lease liabilities of €8.3 million in the six months period ended June 30, 2023, compared to net cash outflows of €2.7 million in the six months period ended June 30, 2022 (mainly due to the repayment of US Debt €2.9 million in 2023), lower interest payments by €2.2 million in the six months period ended June 20, 2023 (mainly due to accrued interest paid in the last year related to 2021 Interest Expense of US Debt), higher dividends distribution to minority interests by €2.0 million in the six months period ended June 30, 2023 and lower payments towards capital restructuring expenses by €0.1 million in the six months period ended June 30, 2023.

Cash & Cash Equivalents

The following table sets forth our Cash & Cash Equivalents as of December 31, 2022, and June 30, 2023.

Cash & Cash Equivalents (€ in million)	December 31, 2022	June 30, 2023	% change
Partnerships (Operations in Turkey and Argentina)	19.5	13.9	-28.6%
All other Operating Entities (with revenue contracts) & HQ	82.8	87.6	5.7%
Total	102.4	101.5	-0.9%

Cash and cash equivalents at the end of the 1H23 period decreased by €0.9 million vs. FY22.

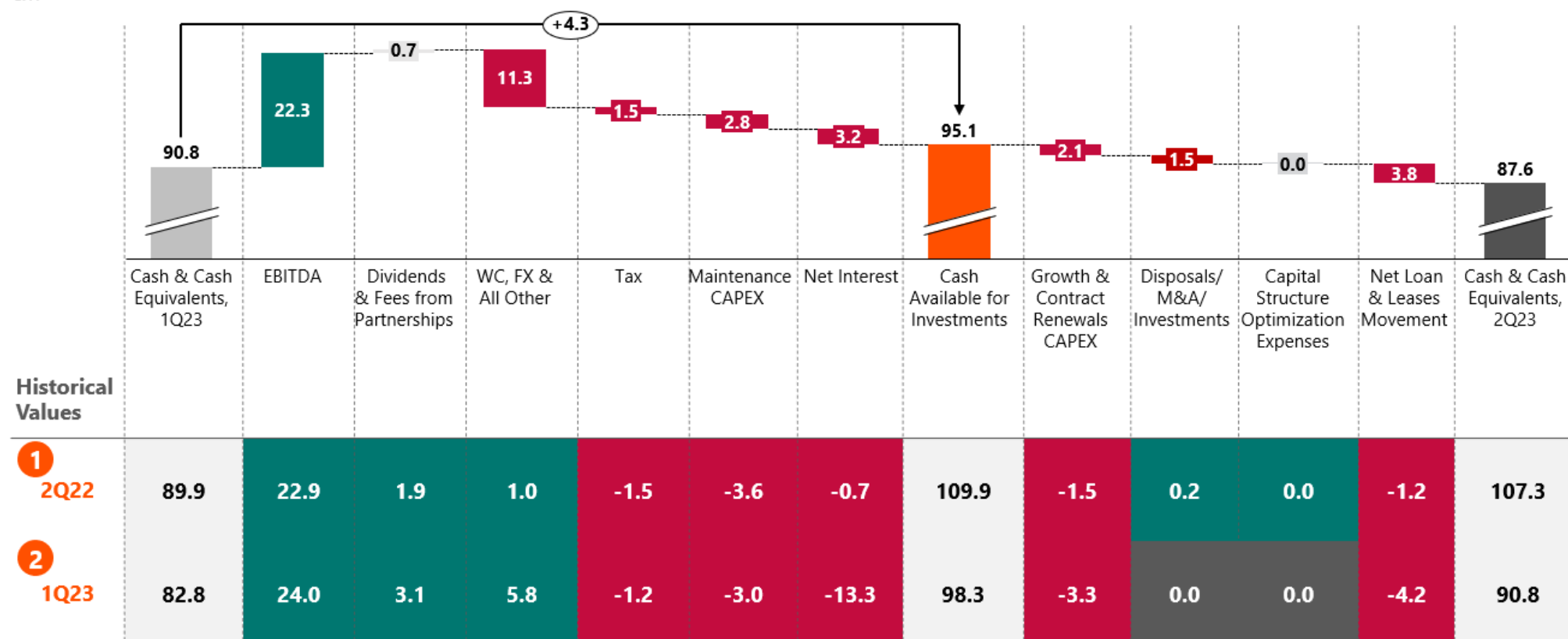
Pro Forma Results of Operations of the INTRALOT Group

Pro-Forma Cash Flow – Shareholders of the Parent View (1/2)

The following chart portrays the Shareholders of the Parent View of the Cash Flow Movement (Pro-Forma) for the six-months period ended Jun 30, 2023, as well as the historical values of 2Q22 and 1Q23.

Pro-Forma Cash Flow – Shareholders of the Parent View, 2Q23

€m



The main variance (YoY and QoQ) drivers are described in the table below:

Shareholders of the Parent View	YoY Variances Explained 1	QoQ Variances Explained 2
EBITDA	<ul style="list-style-type: none"> EBITDA on similar level, lower contribution from Malta (following contract expiration) and Chile, partially offset by better performance in HQ 	<ul style="list-style-type: none"> Negative variance mostly driven by one-off income in Marocco in 1Q23 and better performance of USA in 1Q23 (more jackpots occurrence), offsetting better EBITDA in HQ in 2Q23.
Net Dividends, and Fees from Partnerships	<ul style="list-style-type: none"> Negative variance mainly driven by tax return inflow in prior year related to Malta's dividend distribution 	<ul style="list-style-type: none"> Negative variance mainly driven by dividends distribution from Turkey in 1Q23
WC, FX & All Other	<ul style="list-style-type: none"> Negative variance relates to timing differences mostly coming from WC swing in US 	<ul style="list-style-type: none"> Same driver as described in YoY variance
Tax	<ul style="list-style-type: none"> At similar level with 2Q22 	<ul style="list-style-type: none"> At similar level with 1Q23
Maintenance CAPEX	<ul style="list-style-type: none"> At similar levels with 2Q22 	<ul style="list-style-type: none"> At similar levels with 1Q23
Net Interest	<ul style="list-style-type: none"> Variance driven by interest paid in US for Key Bank loan in 2Q23 	<ul style="list-style-type: none"> Variance stemming from coupon payments in 1Q23
Growth & Contract Renewals CAPEX	<ul style="list-style-type: none"> At similar levels with 2Q22 	<ul style="list-style-type: none"> Variance is driven by higher Capital expenditures in US in 1Q23
Disposals/ M&A/ Investments	<ul style="list-style-type: none"> Variance driven by return of Capital to minority shareholder in Malta in 2Q23 	<ul style="list-style-type: none"> Same driver as described in YoY variance
Capital Structure Optimization Expenses	<ul style="list-style-type: none"> At similar levels vs. 2Q22 	<ul style="list-style-type: none"> At similar levels vs 1Q23
Net Loan & Leases Movement	<ul style="list-style-type: none"> Variance is driven by loan principal payment in US in 2Q23 	<ul style="list-style-type: none"> At similar levels with 1Q23

Pro-Forma Cash Flow – Shareholders of the Parent View (2/2)

The following chart portrays the Shareholders of the Parent View of the Cash Flow Movement (Pro-Forma) for the last twelve months ended Jun 30, 2023, as well as the historical values of LTM 1Q23 and LTM 4Q22.

Pro-Forma Cash Flow – Shareholders of the Parent View, LTM 2Q23

€m

