

INTRALOT Group

# MANAGEMENT'S DISCUSSION & ANALYSIS

**of our financial condition and results of operations  
for the period 1/1-31/03/2023**

***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 March 31, 2023, we had revenue of €384.6 million and EBITDA of €130.5 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 March 31, 2023, our revenue from Greece, Rest of Europe, the Americas and the Rest of the World represented 2.0%, 15.6%, 62.6% and 19.8% of total revenue, respectively.

## Results of Operations of the INTRALOT Group

Comparison of the three months period ended March 31, 2022, with the three months period ended March 31, 2023.

### Overview

Income Statement Information (€ in million)	Three months ended March 31,		% change
	2022	2023	
Revenue	97.7	89.5	-8.4%
Less: Cost of sales	-72.5	-56.9	-21.5%
Gross profit	25.2	32.5	29.3%
Other operating income	5.7	7.8	37.0%
Selling expenses	-4.7	-4.8	3.4%
Administrative expenses	-16.6	-17.4	4.8%
Research and development expenses	-0.4	-0.4	-15.8%
Reorganization expenses	-0.3	0.0	-100.0%
Other operating expenses	-0.1	-0.1	-29.8%
EBIT	8.7	17.6	102.6%
EBITDA	26.1	33.7	29.2%
Income/(expenses) from participations and investments	-0.4	1.1	n/a
Gain/(loss) from assets disposal, impairment, and write-off	0.5	-0.1	n/a
Interest and similar expenses	-10.3	-10.7	3.8%
Interest and related income	0.5	0.8	51.5%
Exchange differences	-0.5	-0.7	30.2%
Profit/(loss) equity method consolidation	0.1	0.0	-35.8%
Gain/(loss) on net monetary position	-1.0	2.7	n/a
Operating profit/(loss) before tax	-2.3	10.9	n/a
Less: taxes	-2.6	-5.1	92.2%
Net profit/(loss) from continuing operations (a)	-4.9	5.9	n/a
Net Profit / (loss) from discontinued operations (b) <sup>1</sup>	0.0	0.0	n/a

<b>Net Profit /(Loss) after taxes (Continuing and Discontinued Operations) (a) + (b)</b>	<b>-4.9</b>	<b>5.9</b>	<b>n/a</b>
Attributable to:			
Equity holders of parent			
-Profit/(loss) from continuing operations	-5.7	3.1	n/a
-Profit/(loss) from discontinued operations	0.0	0.0	n/a
	<b>-5.7</b>	<b>3.1</b>	<b>n/a</b>
Non-Controlling Interest			
-Profit/(loss) from continuing operations	0.7	2.7	287.0%
-Profit/(loss) from discontinued operations	0.0	0.0	n/a
	<b>0.7</b>	<b>2.7</b>	<b>287.0%</b>

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 €8.2 million, or -8.4%, from €97.7 million in the three months period ended March 31, 2022, to 89.5 million in the three months period ended March 31, 2023.

## Revenue by Business Activity

The following table sets forth our revenue for each business activity for the three months period ended March 31, 2022, and 2023.

Revenue by Business Activity (€ in million)	three months period ended March 31,		% change
	2022	2023	
Licensed operations	31.6	11.2	-64.5%
Management contracts	10.9	16.9	54.2%
Technology and support services	55.1	61.4	11.4%
<b>Total</b>	<b>97.7</b>	<b>89.5</b>	<b>-8.4%</b>

- €-20.4m (-64.5%) from our **Licensed Operations (B2C) activity** line with the variance driven by: lower revenue in Malta (€-21.5m) due to the license expiration early July 2022 and higher revenue in Argentina (€+1.1m or +10.9% y-o-y), driven by local market growth. In local currency, current year results posted a +104.5% y-o-y increase.
- €+6.3m (+11.4%) from our **Technology and Support Services (B2B/ B2G) activity** line, with the variance driven by: US operations' increased revenue (€+4.6m or +13.1% y-o-y), mostly driven by the growth in Numerical and Instant games, further affected by the EUR depreciation (-4.3% versus a year ago – in average terms) and higher revenue from rest jurisdictions (€+1.7m or +8.6%).
- €+5.9m (+54.2%) from our **Management (B2B/ B2G) contracts** activity line with the variance driven by: strong momentum of our Turkish<sup>2</sup> operations (€+5.8m), driven by Bilyoner's improved performance, favored by the growth of the online market. In 1Q23, the local Sports Betting market expanded close to 2.2 times y-o-y. Performance in Euro terms was partially mitigated by the headwinds in Turkish lira (+28.1% Euro appreciation versus a year ago), higher revenue from our US Sports Betting contracts in Montana and Washington, D.C. (€+0.1m) and steady performance in Morocco.

<sup>2</sup> Turkish figures have been restated based on IAS 29 (Financial Reporting in Hyperinflationary Economies) to reflect current purchasing power.

The following table sets forth our Gross Gaming Revenue for each business activity for the three months period ended March 31, 2022, and 2023.

GGR by Business Activity (€ in million)	three months period ended March 31,		% change
	2022	2023	
Licensed operations	13.8	5.1	-62.9%
Management contracts	10.9	16.9	54.2%
Technology and support services	55.1	61.4	11.4%
<b>Total</b>	<b>79.8</b>	<b>83.4</b>	<b>4.5%</b>

**Gross Gaming Revenue** (GGR) from continuing operations concluded at €83.4m in 1Q23, posting an increase of 4.5% (or €+3.6m) year over year. The improved performance across most key regions managed to absorb the loss of sales from Malta and the higher payout ratio in Argentina (-67.7% y-o-y on wagers from licensed operations<sup>3</sup>). 1Q23 Payout Ratio<sup>4</sup> was higher by 3.5pps vs. 1Q22 (62.4% vs. 58.9%).

### Gross Profit Margin

The Gross profit margin in the three months period ended March 31, 2023, was 36.4% from 25.8% in the three months period ended March 31, 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 €7.8 million presenting an increase of 37.0% y-o-y (or €+2.1m).

### Selling Expenses

Selling expenses increased by €0.2 million, or +3.4% from €4.7 million in the three months period ended March 31, 2022, to €4.8 million in the three months period ended March 31, 2023.

### Administrative Expenses

Administrative expenses increased by €0.8 million, or +4.8%, from €16.6 million in the three months period ended March 31, 2022, to €17.4 in the three months period ended March 31, 2023, mainly affected by the improved top-line performance in USA.

### Research and Development Expenses

Research and development expenses remained unchanged at €0.4 million for the three months period ended March 31, 2023, vs. the three months period ended March 31, 2022.

### Reorganization expenses

In the three months period ended March 31, 2023, there was no reorganization expenses accrued, while the relevant cost in 1Q22 amounted to €0.3 million.

<sup>3</sup> Licensed Operations Revenue also include a small portion of non-Payout related revenue, i.e., value-added services, which totaled €1.4m and €1.3m for 1Q23 and 1Q22 respectively.

<sup>4</sup> Payout ratio calculation excludes the IFRS 15 impact for payments to customers.

## Other Operating Expenses

Total Operating Expenses in the three months period ended March 31, 2023, remained at the same levels (€0.1m) with the three months period ended March 31, 2022.

## EBITDA

**EBITDA** amounted to €33.7m in 1Q23, posting an increase of 29.2% (or €+7.6m) compared to 1Q22. The main drivers underpinning this performance are attributed to the strong growth in our US operations and the boosted performance in Turkey.

## Income/ (expenses) from participations and investments

Higher income from participations and investments (€1.5m vs. 1Q22) 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 three months period ended March 31, 2023, from net gain of €0.5 million in the three months period ended March 31, 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 €0.4 million or +3.8%, from €10.3 million in the three months period ended March 31, 2022, to €10.7 million in the three months period ended March 31, 2023.

## Interest and Related Income

Interest and related income increased by €0.3m, from €0.5 million in the three months period ended March 31, 2022, to €0.8 million in the three months period ended March 21, 2023. This increase was primarily affected by the higher income in Bilyoner.

## Exchange Differences

The negative impact from FX results (€0.2 million vs. 1Q22), 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

No material change in Consolidation of associates and joint ventures through the equity method. Specifically, in the period 1/1/1-31/3/2022 the corresponding amount was €0.1 million, in contrast to zero in the current period 1/1-31/3/2023.

## Operating Profit/(Loss) before Tax

**Operating Profit/(Loss) before Tax** in 1Q23 totaled €10.9 million, compared to €-2.3 million in 1Q22, with the variance driven by:

- the impact of the increased EBITDA (€7.6m vs. 1Q22),
- the gains on net monetary position (€3.8m vs. 1Q22) arising mostly from Turkey due to IAS 29 (considered a hyperinflationary economy since June 2022),
- the higher income from participations and investments (€1.5m vs. 1Q22),
- the lower D&A (€1.0m vs. 1Q22),
- the lower reorganization expenses (€0.3m vs. 1Q22) and
- the higher interest income (€0.3m vs. 1Q22).

With the increase at EBT level being partially counterbalanced by:

- the reversed impairments that took place in 2022 (€0.6m vs. 1Q22),
- the lower interest expenses (€0.4m vs. 1Q22) and
- the negative impact from FX results (€0.2m vs 1Q22).

### **Taxes**

Taxes in the three months period ended March 31, 2023, amounted to expense €5.1 million, versus expense €2.6 million in the three months period ended March 31, 2022. This increase was mainly affected from deferred taxation in Turkey and Australia.

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

As a result of the above, net profit from continuing operations increased by €10.8 million, from a loss of €4.9 million in the three months period ended March 31, 2022, to a profit of €5.9 million in the three months period ended March 31, 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 €8.8 million, from a loss of €5.7 million in the three months period ended March 31, 2022, to a profit of €3.1 million in the three months period ended March 31, 2023.

## Net Cash Flows from Total Operations (continuing and discontinued)

Cash Flow Statement (€ in million)	Three months period ended March 31,	
	2022	2023
<b>Operating activities</b>		
Profit / (loss) before tax from continuing operations	-2.3	10.9
Profit / (loss) before tax from discontinued operations	0.0	0.0
<b>Profit / (loss) before Taxation</b>	<b>-2.3</b>	<b>10.9</b>
Plus / Less adjustments for:		
Depreciation and Amortization	17.1	16.1
Provisions	-0.7	0.3
Results (income, expenses, gain and loss) from Investing Activities	-0.1	0.8
Interest and similar expenses	10.3	10.7
Interest and similar Income	-0.5	-0.8
(Gain) / loss on net monetary position	1.1	-2.7
Reorganization expenses	0.3	0.0
Plus / Less adjustments for changes in working capital:		
Decrease / (increase) of Inventories	-2.3	-0.9
Decrease / (increase) of Receivable Accounts	5.8	11.3
(Decrease) / increase of Payable Accounts (except Banks)	-10.5	-6.9
Income Tax Paid	-0.8	-1.4
<b>Total inflows / (outflows) from operating activities (a)</b>	<b>17.3</b>	<b>37.2</b>
<b>Investing Activities</b>		
(Purchases) / Sales of subsidiaries, associates, joint ventures and other investments	-0.3	-0.5
Purchases of tangible and intangible assets	-4.3	-7.2
Proceeds from sales of tangible and intangible assets	0.0	0.0
Interest received	0.7	1.0
Dividends received	0.0	1.0
<b>Total inflows / (outflows) from investing activities (b)</b>	<b>-3.9</b>	<b>-5.7</b>
<b>Financing Activities</b>		
Proceeds from issues of shares and other equity securities	0.0	0.0
Sale of own shares	0.0	0.0
Proceeds from loans	0.0	0.0
Repayment of loans	-0.4	-2.9
Repayments of lease liabilities	-0.8	-1.5
Interest and similar expenses paid	-19.3	-14.3
Dividends paid	-2.0	-4.5
Reorganization expenses paid	-0.1	0.0
<b>Total inflows / (outflows) from financing activities (c)</b>	<b>-22.7</b>	<b>-23.2</b>
<b>Net increase / (decrease) in cash and cash equivalents for the period (a) + (b) + (c)</b>	<b>-9.3</b>	<b>8.3</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>107.3</b>	<b>102.4</b>
Net foreign exchange difference	0.0	-1.5
<b>Cash and cash equivalents at the end of the period from total operations</b>	<b>98.0</b>	<b>109.2</b>

### 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 1Q23 amounted to €37.2 million, higher by €19.9 million, compared to 1Q22. This increase was primarily driven by the following:

- Net result before taxation from total operations (continuing and discontinued) increased by €13.2 million, from a loss of €2.3 million in the three months period ended March 31, 2022, to a profit of €10.9 million in the three months period ended March 31, 2023;
- Depreciation and amortization from total operations decreased by 5.9% from €17.1 million in the three months period ended March 31, 2022 to €16.1 million in the three months period ended March 31, 2023;
- The effect of provisions on cash flow, was negative €0.7 million in the three months period ended March 31, 2022, to a positive effect of €0.3 million in the three months period ended March 31, 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 €0.1 million in the three months period ended March 31, 2022, versus a positive effect of €0.8 million in the three months period ended March 31, 2023, mainly due to the higher income from dividends (€1.0m) in the three months period ended March 31, 2023, the higher net FX loss (€0.6m y-o-y) in 2023, the higher net loss from investments disposals (€1.1m y-o-y) in 2023 and the lower net losses from associates (€0.1m y-o-y) in 2023;
- Net interest expenses in the three months period ended March 31, 2023, was €9.8 million (1Q22: €9.7m);
- In the three months period ended March 31, 2023 there was no reorganization expenses accrued, while the relevant cost in 1Q22 was €0.3 million
- Changes in our working capital, which led to a cash inflow of €3.5 million in the three months period ended March 31, 2023, compared with a cash outflow of €7.0 million in the three months period ended March 31, 2022;
  - In particular, there was an increase of €0.9 million in inventories in the three months period ended March 31, 2023, compared to an increase of €2.3 million in the three months period ended March 31, 2022, mainly due to the timing of roll out of new the projects under construction;
  - also, there was a decrease of €11.3 million in receivables in the three months period ended March 31, 2023, compared to a decrease of €5.8 million in the three months period ended March 31, 2022, mainly due to the receipts of receivables of USA in 2023;
  - also, there was a decrease of €6.9 million in payables towards our suppliers in the three months period ended March 31, 2023, compared to a decrease of €10.5 million in the three months period ended March 31, 2022, mainly due to the timing of payments in various projects and
  - there was a payment from income tax of €1.4 million in the three months period ended March 31, 2023 (mainly from Australia, Argentina and other entities) compared to a payment of €0.8 in the three months period ended March 31, 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 three months period ended March 31, 2023, net cash outflows from investing activities were €5.7 million, which was an increase of €1.8 million, from net outflows of €3.9 million in the three months period ended March 31, 2022. This increase is mainly attributable to the net investment outflow of €0.5 million in the three months period ended March 31, 2023, versus lower net outflows of €0.3 million in the three months period ended March 31, 2022, mainly coming from Restricted bank deposits and the higher outflow of €2.9 million in the three months period ended March 31, 2023 for capital expenditure. Our capital expenditure in the three months period ended March 31, 2023, reached €7.2 million, while in the three months period ended March 31, 2022, reached €4.3 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 three months period ended March 31, 2023, net cash outflows from financing activities were €23.2 million, compared to net cash outflows of €22.7 million in the three months period ended March 31, 2022. The increase of net cash outflows consisted of net cash repayments of loans and lease liabilities of €4.3 million in the three months period ended March 31, 2023, compared to net cash outflows of €1.3 million in the three months period ended March 31, 2022 (mainly due to the repayment of US Debt €2.9 million in 2023), lower interest payments by €5.0 million in the three months period ended March 31, 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 €2.5 million in the three months period ended March 31, 2023 and lower payments towards capital restructuring expenses by €0.1 million in the three months period ended March 31, 2023.



## Cash & Cash Equivalents

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

Cash & Cash Equivalents (€ in million)	December 31, 2022	March 31, 2023	% change
Partnerships (Operations in Turkey and Argentina)	19.5	18.4	-5.8%
All other Operating Entities (with revenue contracts) & HQ	82.8	90.8	9.6%
<b>Total</b>	<b>102.4</b>	<b>109.2</b>	<b>6.6%</b>

Cash and cash equivalents at the end of the 1Q23 period increased by €6.8 million vs. FY22.

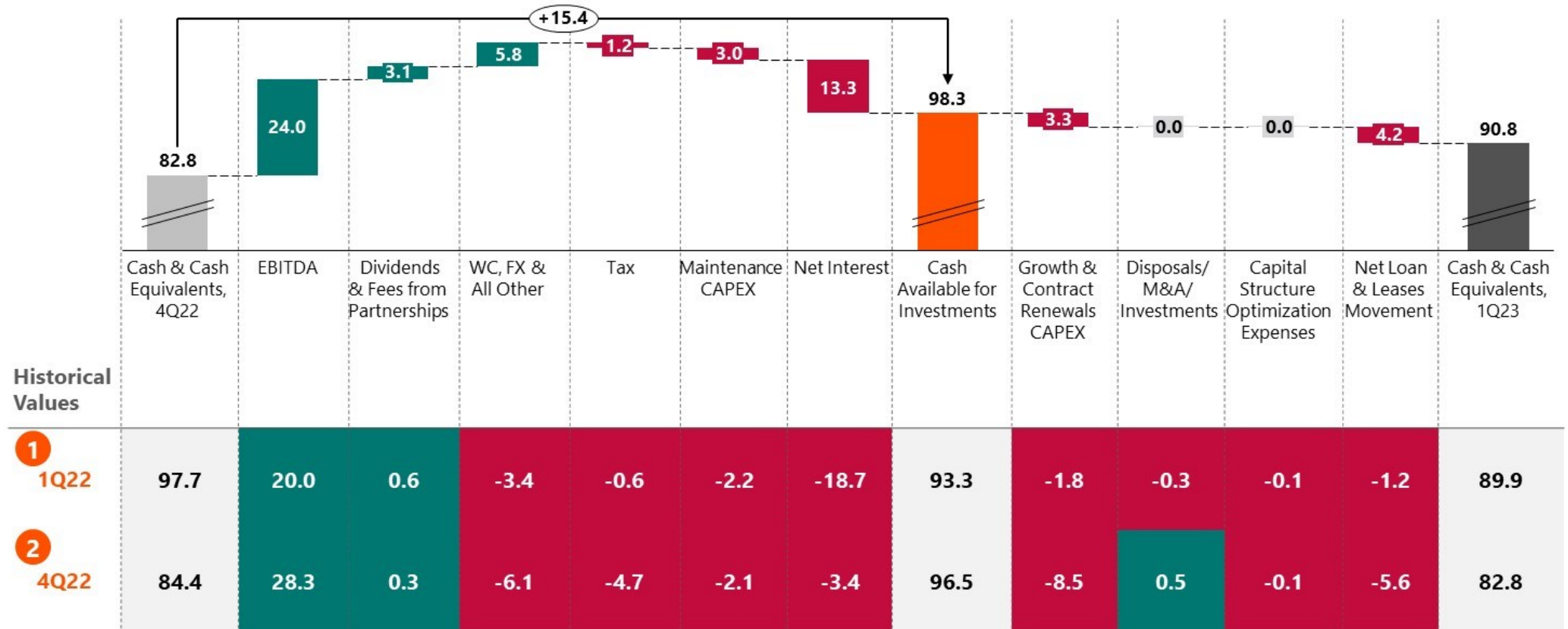
## Pro Forma Results of Operations of the INTRALOT Group

### 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 three-months period ended March 31, 2023, as well as the historical values of 1Q22 and 4Q22.

#### Pro-Forma Cash Flow – Shareholders of the Parent View, 1Q23

€m



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

Shareholders of the Parent View	YoY Variances Explained <span style="border: 1px solid black; border-radius: 50%; padding: 2px 6px;">1</span>	QoQ Variances Explained <span style="border: 1px solid black; border-radius: 50%; padding: 2px 6px;">2</span>
<b>EBITDA</b>	<ul style="list-style-type: none"> <li>EBITDA positive variance driven mainly by better performance in US and most of the key regions, offsetting the lower contribution from Malta following contract expiration</li> </ul>	<ul style="list-style-type: none"> <li>Negative variance mostly driven by strong performance of USA in 4Q22 (more jackpots occurrence), offsetting the lower expenditure in HQ in 1Q23</li> </ul>
<b>Net Dividends, and Fees from Partnerships</b>	<ul style="list-style-type: none"> <li>Positive variance mainly driven by dividends distribution from Turkey</li> </ul>	<ul style="list-style-type: none"> <li>Same driver as described in YoY variance</li> </ul>
<b>WC, FX &amp; All Other</b>	<ul style="list-style-type: none"> <li>Positive variance relates to timing differences mostly coming from WC swing in US, Malta and Ireland</li> </ul>	<ul style="list-style-type: none"> <li>Positive difference is mostly driven by timing difference coming from WC swing in US, Croatia and Morocco</li> </ul>
<b>Tax</b>	<ul style="list-style-type: none"> <li>At similar level with 1Q22</li> </ul>	<ul style="list-style-type: none"> <li>Negative variance comes mainly from tax paid in US in 4Q22</li> </ul>
<b>Maintenance CAPEX</b>	<ul style="list-style-type: none"> <li>At similar levels with 1Q22</li> </ul>	<ul style="list-style-type: none"> <li>At similar levels with 4Q22</li> </ul>
<b>Net Interest</b>	<ul style="list-style-type: none"> <li>Variance driven by accrued interest paid for US PIK Toggle Notes in 1Q22</li> </ul>	<ul style="list-style-type: none"> <li>Variance stemming from coupon payments in 1Q23</li> </ul>
<b>Growth &amp; Contract Renewals CAPEX</b>	<ul style="list-style-type: none"> <li>Increase is driven by Capital expenditures in US</li> </ul>	<ul style="list-style-type: none"> <li>Variance is driven by higher Capital expenditures in US in 4Q22</li> </ul>
<b>Disposals/ M&amp;A/ Investments</b>	<ul style="list-style-type: none"> <li>At similar levels vs 1Q22</li> </ul>	<ul style="list-style-type: none"> <li>At similar levels vs 4Q22</li> </ul>
<b>Capital Structure Optimization Expenses</b>	<ul style="list-style-type: none"> <li>At similar levels vs 1Q22</li> </ul>	<ul style="list-style-type: none"> <li>At similar levels vs 4Q22</li> </ul>
<b>Net Loan &amp; Leases Movement</b>	<ul style="list-style-type: none"> <li>Variance is driven by loan principal payment in US in 1Q23</li> </ul>	<ul style="list-style-type: none"> <li>Lower operating leases payments vs 4Q22</li> </ul>

## 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 March 31, 2023, as well as the historical values of LTM 4Q22 and LTM 3Q22.

### Pro-Forma Cash Flow – Shareholders of the Parent View, LTM 1Q23

€m

