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"Nine Month 2015 Financial Results" Conference Call

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Conductor:

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Conference Call Conducted by Chorus Call Hellas

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OPERATOR: Good afternoon ladies and gentlemen, this is the Chorus Call Conference operator.

Welcome and thank you for joining Intralot's Nine Month 2015 Results Conference Call.

At this time, I would like to turn the conference over to Mr. Elias Athanasiou, Group IR Director.

Sir, please go ahead.

ATHANASIOU E: Yes, hello, everyone. We would like to welcome for one more time to the Conference Call for INTRALOT's Nine Month 2015 Results, together with Mr. Kerastaris, our Group CEO, Mr. Vassiliou, our Group CFO, and Mr. Pavlakis, our Group Tax and Accounting Director. We will briefly review INTRALOT'S financial results and operating achievements for the Nine Months ended September 30, 2015. Following the very short presentation, we will be at your disposal for any questions you may have.

I will now pass you on to our CFO for a very brief presentation of the results. Please Mr. Vassiliou.

VASSILIOU D: Thank you, Elias. Starting from the second page of our presentation, our revenue in the Third Quarter of 2015 was almost flat versus last year reaching €421 million. Comparing on a like-for-like basis our revenue versus last year i.e. excluding the revenues from the Victoria Instant Tickets and Keno license that we sold in February 2015 as well as the revenues from the facilities management contract in Romania and the profitable new business we developed in 2015 in Wyoming Georgia and Hellenic Lotteries, our revenue increased by 2% year-on-year at €419 million.

In the Third Quarter, the most noticeable revenue growth was contributed by our businesses in Jamaica, Italy, Argentina and Peru, while we have seen a drop in the business from Azerbaijan of which about one third is attributed to FX.

Overall, total revenue in the Third Quarter benefited from a positive FX impact of €6 million. Therefore, in the first Nine Months of the year, our revenue increased by almost 4% to €1.4 billion, the major countries of growth were the same as mentioned previously in my comment for the quarter.

On a comparable basis, adjusting for OPAP in addition to Romania, Australia and the new business, revenues increased by €92 million or 7.2% reaching €1,368 million. Considering the FX contribution of the First Half of the year, revenues in the nine months included a positive FX impact of €47 million.

Moving onto Page 4, consistently with the previous two quarters, we continue to pay attention to generating further efficiencies in our operating structure and risk management initiatives. Despite the abnormal industry-wide increase in the payout ratio of the Italian sports betting business in the First and Third quarters of the year, our overall payout ratio remain stable below 67%.

After adjusting for the non-recurring contracts that we mentioned before, on a comparable basis the gross profit margin of our continuing business increased from 12.9% to 13.6%. Noticeably in the Third Quarter, our continuing business margin increased from 11.3% to 13.8%.

Further to this, over the last Nine Months we continue to grow the instant ticket services in the U.S. leading to an increase of €4.5 million in other operating income.

Overall, reported OPEX for the Nine Month period increased by €7 million versus last year, developing at approximately 78% of gross profit compared to 73% last year. Following the Group-wide initiatives we applied particularly in the Third Quarter, OPEX developed almost at the same level as last year at around 74% of gross profit.

On a like-for-like basis, the continuing business OPEX developed substantially less than last year from 81% to 76% of gross profit. Part of the OPEX growth mentioned above is attributed to the higher investment in selling and marketing initiatives to support the growth in revenue, particularly in our online sport betting operations in Turkey.

Moving onto Page 5, as a result of the above, EBITDA in Third Quarter 2015 continued to grow for a second consecutive quarter posting an increase of approximately 6% year-on-year at almost €45 million. On a comparable basis EBITDA in this Quarter increased by 29% to €42.7 million.

Steady growth has continued to derive from our operations in Turkey, Bulgaria and Jamaica in parallel to the Q3 growth that has been contributed from Malta, Morocco and Argentina, which was counterbalanced by the drop in profitability of Azerbaijan and Italian operations. After the first two Quarters of the year, that contributed approximately €5 million of positive FX impacts on EBITDA. The Third Quarter was neutral from an FX perspective with the gains in USA and Jamaica operations being matched by the currency losses in Turkey and Azerbaijan.

Overall, EBITDA for the Nine Months remained relatively stable at €132 million since the growth in the last two Quarters of the year has covered the shortfall caused by the discontinued business in Romania and the change in OPAP contract which contributed approximately €28 million last year. The above results include a favourable FX impact of €5 million. On a comparable basis, EBITDA for the Nine Months increased by €12 million versus last year reaching €128 million, representing a strong growth of approximately 16%.

Looking at Page 6, net interest expense in the Nine Months of this year dropped to €41 million from €44 million last year, mainly due to the savings from bond buybacks, renegotiated letter of credit costs and cash management. After considering the increase in depreciation of approximately €7 million and the loss caused by FX of approximately €5 million, the net impact on the Nine Months earnings before tax was a drop of €9 million versus last year. However, on a comparable basis, earnings before tax for the Nine Months period increased by €11 million to approximately €14 million versus 2014.

Moving to Page 7, please. After deducting income taxes and minority interest, attributable net income after tax for the first Nine Months of the year shaped at a negative €50 million from a negative €32 in the nine months of 2014. This includes a positive FX impact of €2 million. On a comparable basis and excluding the FX impact, net income after tax and minority interest improved versus last year by €3 million. New business in the US, Wyoming Ohio and Georgia, as well as in Greece from the Hellenic Lotteries in this period contributed an additional of €2 million to reported net income after tax and minorities.

Looking at Page 8, positive operating cash flow in the Third Quarter developed around the average of the previous two quarters similarly to last year. Following a series of items that are primarily expected to be non-recurring and which mostly relates to the First Half of the year the operating cash flow in the first nine months totalled approximately €65 million compared to approximately €94 million in 2014.

This drop is largely attributed to increased working capital requirements in the First and Second Quarters of the year and most notably is due to the normalization of the suppliers, credit in Greece, the acceleration of payments to international suppliers in Azerbaijan in anticipation of FX volatility, the payment on behalf of our agents of VLTs and AWP's stability law gaming taxes in Italy which we expect to recover from our network in due course, the payment of all the outstanding winners to players in Jamaica and the outstanding balance for the sale of the license in Australia.

To a smaller extent the increase mentioned before has been caused by the one-off payment of all outstanding winnings to players in Victoria, Australia in the Third Quarter and an increase in receivables from OPAP Group of approximately €4.5 million due to timing differences which were settled in the current Quarter.

Further contribution to cash flow was made by the €11 million capital retained from Hellenic Lotteries in the Second Quarter whereas cash flow from investing activities was reduced by the outflow of €2.4 million as partial payment for the acquisition of the 35% stake in Bit8 in the Second Quarter and an additional €4.6 million for the acquisition of a 5% minority stake in INTRALOT Inc. in the U.S.

Net CAPEX in the Nine Months period reached approximately €54 million compared to approximately €43 million last year. A substantial part of this increase is attributed to the new business in the U.S. product development costs and about €5 million of one-off restructuring and relocation costs. The balance is covered by normal maintenance CAPEX.

Net CAPEX also includes an inflow of €1.4 million received as progress payment against the sale of our Victoria license in Australia. Maintaining a healthy level of maintenance

CAPEX as well as investing in product R&D is important for facilitating our technological innovation, operational efficiencies and for supporting our leading position in the sector overall.

Moving onto Page 9, please. Other noticeable movements in our cash balance for the Nine Months of 2015 included bond buybacks of €41.4 million that took place almost entirely in the First and the Second Quarter of the year with €1.6 million of purchases taking place in Q3. Out of these purchases, approximately two third relates to the 2018 bond. As of September 2015, the book value of bonds purchased by the Group was approximately €48 million versus €6 million as at the end of last year.

The payment of the two semi-annual coupons of the €325 million bond in February and August, €30 million in total, the May semi-annual coupon of the €250 million bond, €7.3 million, and the monthly interest expense for the €200 million syndicated facility that was fully drawn for financial prudency reasons as we have discussed with you previously of €9.2 million in total were additional changes in our cash flow. Obviously, the drawdown of the syndicated facility did not have any further impact on net debt as it remains unutilized.

Additional factors included a negative currency translation impact of €19 million of which approximately €14 million relate to our operations in Turkey and approximately €3 million to Azerbaijan. And finally, following a decision of the respective Board of Directors in 2015, we have paid approximately €56 million of minority dividends out of our subsidiaries. Out of this, around €36 million relates to operations in Turkey, about €8 million in Bulgaria, €5 million in Jamaica and €2 million in Azerbaijan and Argentina.

The majority of these dividends have been paid out of retained profits of previous years. Most notably in 2015, we have declared a dividend of about €36 million in Turkey whereas last year, we had declared only €4 million of dividends until the same quarter. About €32 million of this dividend was declared as an interim dividend…as an interim dividend coming from prior year results in Q3.

Overall, in the first Nine Months of this year, we had paid approximately €22 million of dividends in excess of the current year share of profit after tax to non-controlling minorities. As a result of the above, net debt as at the end of September developed at approximately €484 million compared to €381 million as at December 2014.

I will now pass you on to Elias for the segmental analysis of our results.

ATHANASIOU E: Thank you very much, Diomedes. We will directly go to Slide 15 of the presentation. As for the previous slides, Diomedes has already made a reference in his various comments. So on this slide, we present the…an analysis of sales breakdown per contract type. Our licensed operations in the Nine Months of 2015 contributed slightly more than 82% to our revenue line, up from 81.4% in the respective period of 2014. Management contracts were almost 7% and technology was approximately 11%, more or less the numbers are stable compared to last year, no major changes here.

On the next Slide 16, we present the revenue per product, sports betting sales were a bit softer, minus 1.6% compared to last year. This is reasonable giving you know the tough comparison with the previous nine month period of 2014 due to the effect of the World Cup.

Numerical games grew by almost 13%, mainly because of new projects in the US, the increased contribution of Argentina and the increased contribution of numerical games operated in Jamaica. VLTs AWPs grew by almost 12% approximately, exact....to be exact 11.6%. The major contributor was the operation the relative operation in Italy because this is starting to mature. Racing was down by almost 3%, IT products were down by almost 4% leading to a growth of the Group of almost 4%.

Going onto the next slide, Slide 17, we present the revenue contribution per product. Sports betting continues to be our biggest contributor to the top-line with 46% followed by numerical games, slightly more than 32%. VLTs and AWPs 11%, Plain Vanilla IT products and services something more than 7% and racing approximately 3%.

On the next slide, Slide 18, we present the wages that we handled that go through our systems on a global basis. In Eastern Europe, we had a growth of more than 12%.

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Western Europe was a bit softer, minus 6%. Total Europe was practically flat, plus 0.5%. North America grew by almost 30%, as I said before, because of the new projects we have there. South America, again as we mentioned, Argentina and Jamaica being the largest growth drivers there. Australasia grew by 21%, Africa almost 13% leading to the global growth of more than 14%.

The total wagers handling on Page 19 of the presentation, we handle more than €18 billion of wagers in the Nine Months period of 2015, Australasia being the biggest one with almost €6 billion, Western Europe and North America €4.2 billion, €4.3 billion each, followed by Eastern Europe €2.8 billion, South America €850 million and Africa €160 million.

This is the end of the presentation. We would like to thank you for your patience. We are ready to take…sorry, we have the CEOs comment, Mr. Kerastaris, please. And then we will have questions, Q&A session.

KERASTARIS A: Good afternoon from myself as well. I'm almost pleased with 3Q results and most of the geographies were in line with our expectations for stable growth.

Italy and Azerbaijan for the Nine Months cost us more than €16 million, €17 million of EBITDA due to very specific factors, the payout in Italy has increased versus last year by almost 7%, 8% and that's an industry problem, it's not just an INTRALOT problem. And the Azeri market has not recovered from the sharp devaluation of the manat in the beginning of the year. These are of course, one-off events that have seriously affected our performance and are diluting the picture for the Group in the Nine Months.

I gave you an indication of the €16 million to €17 million of EBITDA difference that comes just for those geographies. Other than that, we are very pleased to say that we are progressing according to plan. The majority of our subsidiaries have reported strong results coupled with our new contracts in Wyoming, Ohio, and Georgia in the U.S. plus an increase in our EBITDA on a like-for-like basis by 15.8%.

During the Third Quarter, we continued streamlining our global operations and unfold our selective expansion plans. We renewed our presence in New Mexico, US, for 8 years, where we have an excellent cooperation with the state lottery since 2006, and signed a 10 year contract in Nigeria.

We think that this is the beginning of our involvement in this part of the world. It is a very dynamic African market and one that present a serious opportunity for operators like INTRALOT. Our focus on licensed operations remains strong, as we proceed with the integration of Bit8 CRM platform that will be a valuable asset in the B2C front of our business going forward.

Finally, it is important to note that we ratified our commitment to sustainable growth, as we have recently been awarded with the WLA Responsible Gaming certification as a gaming vendor.

A few more projects in the pipeline, we hope to be able to make one or two announcements this Quarter. We will have to wait for the Year-End results. But, we are working on a number of projects that will have a significant effect on both the structure and the performance of the Group.

So with that, I'd like to end this presentation and open the floor to you for questions.

Q&A

OPERATOR: The first question comes from the line of Mr. Draziotis Stamatios of Eurobank Equities. Please go ahead.

DRAZIOTIS S: Yes, hi there and thank you very much for taking my questions. May I start with a question on the payout, please? You mentioned in the presentation that in the Nine Month period the payout was kind of stable year-on-year. I remember that in the Six Months the payout was up by 0.5 percentage point, so this points to a decline in the payout actually in Q3 which comes as kind of a surprise given the high payouts in Italy. So I am just wondering, you know, it seems that the payouts were significantly lower elsewhere. Could you please elaborate a bit on this please? And the second question would be on the cash flow front, net cash flow after interest expenses and minority dividends remains negative, and I understand that you mentioned some seasonal or one-off factors related to working capital minorities, CAPEX et cetera, but could you give us a rough guide as to when you believe this will turn positive, so that your net debt can start coming down again, please. And related to that, what sort of CAPEX levels including maintenance and expansionary CAPEX we should be looking for in the Full Year and in 2016, please?

KERASTARIS A: Let me start with the payout question. The payout average is obviously a mix from the various businesses. There are markets where we operate like Turkey which is our biggest sports group, where we operate with a fixed payout of 50%. My comment was specifically for the market of Italy, where 12 operators have licenses for the retail world. There we have seen payout moving from the 78%-79% mark to the 83% mark, which is a significant increase affecting directly our EBITDA in that market. So my comment on the payout was specific Italian market not the average.

Diomedes is going to handle the question on the working capital. Just a general comment from me, like we have said time and time again in this call, we feel that the normalized CAPEX for this operation is in the range of €60 million. Our Q3 CAPEX has a lot of Q4 contribution in it. So by the end of the year, we will be in the range of the €60 million like we were last year probably north of 60, but in that range, and we expect that a normalized working capital for INTRALOT is in the range of €15 to €20 million. The GAAP analysis will be made by Diomedes now.

VASSILIOU D: Yes, you know, our CAPEX definitely depends on the timing of certain events, for example, the timing of when we incur new business, as well as, the development of some products et cetera. So this is causing a difference when you look at it from a quarterly perspective. However, looking at the big picture from an overall year perspective, we do expect that our normal levels of CAPEX should be around the €60 million level.

The working capital is similar, as I described before we had a series of events that we are adding to the large outflow in working capital, and this is something that normally we do not expect to be a part of the business going forward. If I were to make normalization of the Nine Months cash flow so far obviously starting with the outflow of 126, then adding back the bonds of €41 million buybacks. Then adding back also the excess dividend we paid due to the catch-up distributions of previous years, that's another €30 million.

And then as Antonios said adding the abnormal what I consider to be the excess working capital of around also €25 million to €30 million. And normalizing along these lines on a more straight line basis, our CAPEX then what you would see is that the cash flow for the Nine Months would have been around a negative of 10, which is obviously a target for us going forward to convert quickly into a positive number.

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DRAZIOTIS S: Okay, does this mean that that you are targeting a positive number as soon as next year or is it something that is going to be a 2017 issue do you think?

VASSILIOU D: We are targeting to have a positive cash flow from next year onwards.

DRAZIOTIS D: Okay, thank you very much. And just a quick follow-up on the first question…on the first question, regarding the payout, if we exclude Italy and obviously Turkey with a fixed payout on a like-for-like basis, let's say if you compare apples-to-apples, was the payout lower for the same operations in Q3 versus the same Quarter last year?

ATHANASIOU E: Yes, Stamatios in a couple of operations, we had lower payout that drove, you know, the average you know to the same levels of last year. One case was Malta, but the most important one was Jamaica, SVL, which is also large contributor to the top-line, and drove you know, the average to what we had almost last year, so….

DRAZIOTIS S: That's very helpful. Thank you very much, Elias.

ATHANASIOU E: Yes, that were below last year's levels.

DRAZIOTIS S: Thank you.

OPERATOR: The next question comes from Mrs. Chang Lisa of Bank of America, Merrill Lynch. Please go ahead.

CHANG L: Hi, thanks for taking my question. My first question is on margin, it seems like it isn't doing better Quarter-on-Quarter, and your EBITDA margin is now about 10%, again. Could you talk about, is there any cost saving actions that are implemented and is this is expected to continue? And then my second question was regarding the dividends to minorities, it seems like through adjust that dividends for a number of previous year not just last year, I was wondering if you could walk us through how this is calculated, and if this is a recurring thing?

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KERASTARIS A: Hi, yes, I mean this is also consistent with what we've been saying previously. We have embarked on a number of cost saving actions ever since we have seen in the First Quarter results; we have intensified our actions in the Second and Third quarter. These are specific initiatives that involve operational efficiencies in order to bring down the cost of operations, the cost of sales as well as managing the administration costs. These are initiatives that we are expecting to have their full annualized results being fully reflected in next year's results and it is a commitment from our part to continue controlling this area of the business and improving the result and the margin to the maximum possible.

CHANG L: So is any part of it just winning more profitable contracts?

KERASTARIS A: Obviously, part of what we do is any contract that we win to get them at the highest possible margin and contracts that we also renew, to renew them at better margins that we had before.

VASSILIOU D: Going a little bit to the dividend exercise, the major difference in the dividends is Turkey and Azerbaijan. Now, in Turkey and Azerbaijan…in Turkey, we did not distribute any dividend for three years. So the decision of the Company was to keep the dividends as retained earnings, and use them for any project mainly Milli Piyango in Turkey. As this project did not materialize, and as the currency fluctuation became a bit more dangerous in this part of the world, we decided to distribute the dividend and it was a dividend of three years. We decided that it is a better thing to reduce our net cash position by the amount of the minorities, than to take the risk of keeping retained earnings in a country where the sliding of the currency started becoming uncontrollable. Similar situation in Azerbaijan, where a 35% devaluation of the Manat, and a possible further devaluation that is under discussion made keeping any amount on the balance sheet, not a very prudent exercise.

CHANG L: Okay, great. Thank you.

OPERATOR: The next question comes from the line of Mr. Cowie Simon of Société Générale. Please go ahead.

COWIE S: Good afternoon. I've got three questions if I may. And the first is, can I ask the remaining availability under the credit facilities ?

VASSILIOU D: Sorry, if you are referring to the unutilized part of our loan facilities as I mentioned earlier on, the €200 million of the syndicated loan is still available and unutilized.

COWIE S: So the full amount.

VASSILIOU D: Yes.

COWIE S: Okay. Thank you. Second question is, working capital for Q4, it is relatively strongly positive last year. I just like to try and gage how positive I ought to be (for this year's working capital in terms of some slow back. And you've found some pretty big numbers as to exceptional working capital moves, which I think total about sort of €80 million. And I just wonder, you know how much we should expect back in a very near term?

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VASSILIOU D: Well, we are not in a position right now to make an estimate of how the 4Q working capital will turnout. Obviously, we do not expect to have these abnormal and quite high as you said working capital requirements that we had in the first two Quarters of the year. Our working capital will depend on how the overall business will be delivered on the payouts et cetera. We do not have major CAPEX projects being expected that would also impact cash flow. At this point, we should be expecting a more normalized 4Q of working capital.

KERASTARIS A: What Diomides is saying is that we've seen the worst of it. So I gave you an indication of what the normal working capital deployment should be. So from now on it should be a normalized working capital.

COWIE S: Okay. Is it reasonable to pencil in something positive to Q4?

VASSILIOU D: As I said to you, it's quite difficult to make this prediction. It would be more safe to say that the way the business has been growing in the beginning of the Fourth Quarter; I would expect the working capital to be worse than the same period last year. So it could…I would be most probably looking for a closer to a breakeven or a smaller negative number rather than the big plus of last year.

COWIE S: Okay. Perfect. Thank you. My last question is on EBITDA, I know there have been some negative developments this last quarter. But you previously guided to, you know, 10% plus EBITDA increase for the year. And I wonder now with three quarters way through the year, and obviously we are some way from that is that going to be guided down?

VASSILIOU D: What I said previously was that we suffered a hit in the range of €16 million to €17 million in the nine months from those two geographies. We are trying to recover this. Definitely, we will not be able to recover the full amount. So yes, we will be higher than 2014 performance. We are struggling to make what we promised or what our indication was three months ago. Hopefully, we will get as close to that as possible, you can understand that €16 million, €17 million in Q3 are not very easy to recover in 1Q.

COWIE S: Absolutely. I just wanted to check where you are, because last time around…guidance and I wasn't quite sure, if there is anything exceptionally positive which would come in Q4. So thank you.

OPERATOR: Gentlemen, there are no more questions registered this time. You may now proceed with your closing statements.

ATHANASIOU E: Thank you. Thank you all for this. Talk to you again in three months. Thank you.