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"First Half 2017 Financial Results"

Conference Call

Thursday 31st August 2017, 17:00 (GR Time)

Conductors:

Antonios Kerastaris, Group CEO,

Georgios Koliastasis, Group CFO,

Nikolaos Pavlakis, Group Tax & Accounting Director,

Andreas Chrysos, Group Budgeting, Controlling & Finance Director &

Michail Tsagalakis, Capital Markets Director

Conference Call Conducted by Chorus Call Hellas

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

Welcome and thank you for joining Intralot's First Half 2017 Results Conference Call.

At this time, I would like to turn the conference over to Mr. Andreas Chrysos, Group Budgeting, Controlling & Finance Director.

Sir, please go ahead.

CHRYSOS A: We would like to welcome all participants on this conference call for INTRALOT's H1 2017 Financial Results.

I am here with Mr. Kerastaris, Group CEO of INTRALOT, Mr. Koliastasis, Group CFO, Mr. Pavlakis, Group Tax and Accounting Director and Mr. Michalis Tsagalakis, Head of Capital Markets. And we will briefly review INTRALOT's financial results and operating achievements for the six months that ended on June 30th 2017, following which we will be at your disposal for any questions you may have.

We will start with a presentation, and if we go to Page #4 to 7, we will go through the segmental analysis first, then we will expand to the main operational achievements and how they have been affected the financial performance of H1 2017.

Going to Slide #4, on the top left of the slide, we see that €12.4 billion of worldwide wagers were handled through INTRALOT's systems, higher by 2.4% compared to the respective period last year, primarily driven by a year-on-year increase in Asia of 9.8% which accounted for the 35% of the overall pie**,** while Western Europe with a year-on-year increase of 3.7% and a contribution of 21% and North America with a year-on-year decrease of 3.4% and a contribution of 26%, were the major geographies of the handled wagers.

Going to the top right of the slide, we see a high level view of our revenue split per geographical region, which indicates that Europe and Americas are the main contributors of INTRALOT's top line performance accounting for 80% of the total turnover. A more detailed analysis per contract type accounting will follow in the next few slides.

Moving on to the revenue breakdown per game type on the bottom of the slide, lotteries and sports betting continue to represent the majority of our turnover accounting for more than 83% of our total sales for H1 2017, almost similar to the respective contributions versus a year ago.

Moving on to the next slide, Slide #5, we see that the licensed operations have increased their contribution in the overall turnover by 5 percentage points year-over-year, fueled mainly by the markets of Azerbaijan, primarily attributed to product enhancements and illegal gambling fight activities, Jamaica partially related to the introduction of horse racing following the recent racetrack acquisition along with the consolidation of Eurobet in Bulgaria which was not part of INTRALOT Group in H1 2016, as well as the recent regulatory developments in the Polish market. Overall, year-over-year increase in the licensed operations contracts reached 22%.

In the next slide, we see that revenues from game management contracts decreased by 8% year-over-year mainly due to softer sales in Turkey attributed both to market conditions, increase in grey market competition and lower payout being the reason, but also to adverse exchange rate of the Turkish lira against euro being devaluated by 20%.

Finishing with the segmental analysis per contract type in the next slide, Slide #7, we see the contraction of our US business in H1 2017 attributed mainly to a timing variance of multi-play self service lottery terminal sale in Ohio in the order of €13 million as well as the effect of record high Powerball jackpot in Q1 2016 which contributed almost €4 million additional revenues counterbalanced however, partially by organic growth of €2 million year-over-year.

However the recent renewal of Ohio contract with a provision of 750 new multi-play self service terminals to be delivered during H2 of 2017 as well as additional services to be offered in this important contract but also the recent Powerball jackpot within August are expected to substantially boost H2 revenues and EBITDA in our US company compared to H1, but also versus year ago respective periods.

However, the positive contribution of all other technology contracts including among others the newly introduced contract in Chile and the sale of a software license in Australia supported also by the enhanced performance of INTRALOT SA due to the introduction of our new technology contract in Peru following the recent M&A activities and our new contract in Kenya managed to fully counterbalance the revenue deficit in our US business.

So this brings us to the end of the segmental analysis and at this point, I would like to introduce our CFO, who will present briefly the financial results of H1 2017. Following that our CEO will make a brief comment for the year and then the Q&A session will follow. Please Mr. Koliastasis, go ahead.

KOLIASTASIS G: Thank you, Andreas. Hello everybody, it's much appreciated to have you all in our result presentation for the 1st segment and the second quarter of 2017. Revenues by incorporating all the mentioned trends by Andreas reached €733.2 million in H1 or 15.1% higher than the same period year ago. The respective figure for the quarter is €365.3 million, 10.1% higher than same period year ago, bringing alast 12 months figure of €1.4 billion which is 7.3% versus prior period.

Gross profit margin contracted in the period by 140 basis points, driven by the higher weight 78% versus 73% of the licensed operations to the total revenues. In absolute terms, gross profit reached €127 million which is 6.5% better than same period in H1, 2016.

EBITDA margin for the H1 eroded by the same percentage points and the reasons as gross profit bringing the headline figure to €92.2 million which is up 3.6% and the last 12 months figure to €179.1 million, 1.8% higher versus prior period.

Please note, however, that the underlying EBITDA performance is much stronger in the first semester, as sales of the self-service terminals, the sales that Andreas mentioned in the US are contracted and ordered in the first semester, but will be delivered and invoiced in the second, whereas we are fully incorporated in the first semester of 2016 results.

Earnings before tax grow by €6 million, driven by the reduction of the financial expenses as an aftermath of the activities that we did last year and the EBITDA improvement resulting into a figure of €26.6 million.

Net income after tax the shareholders of the parent absorbed higher taxes in minorities and improved, but still are on a negative territory.

By going now on Slide #9, we see the trajectory of our key financial metrics. On the top, strong performance of revenue was not fully reflected on headline EBITDA improvement. On the bottom, the company has managed and has created €77 million of operating cash flows, the same as in the same period year ago. However, invested a higher portion to CAPEX for the acquisition of IP Rights, directed to the development of its new platform and to Eurobet.

Please note, I am mentioning that it is the same because the €86 million of the first semester in 2016 incorporate around €9 million from Peru and Italy which are divested.

Now turning to maintenance CAPEX, as a note, in…H1 2017 is at €11.9 million which is around 29% of the overall investments.

Turning now to Slide #10, we see that the gross gaming revenue grew by 7% and developed to €363.4 million. On top of that the EBITDA margin on gross gaming revenue maintained at higher than 25% levels, it is 25.4% for the semester.

In Slide 11, IP Right acquisition and the Eurobet installment payments in H1, brings net debt position of June 30 with December 31st. No material acquisitions are contemplated in the medium term. Net debt is expected to reduce significantly by the value of the announced divestments and strategic developments. While, only material new contracts with significant lift in EBITDA would require external financing.

Slide 12, gives an overview of the key country contributions in revenue and EBITDA. The attributable EBITDA flows from a sovereign perspective reflect the rating in the area of low A's or triple B's.

And please turn now to Slide 13, the acquisition of Eurobet has increased the contribution of partners to the consolidated EBITDA. Proportionate EBITDA for the shareholder of the parent was 59% in H1, 2017 compared to 63% in 2016. Last twelve months proportionate EBITDA to the shareholders of the parent adding the proportionate EBITDA of the associates is close to €130 million.

Now, I am passing to Mr. Antonios Kerastaris our Group CEO for his final remarks.

KERASTARIS A: Good afternoon, everybody. It is with great pleasure that myself and the team stand here before you today to announce the results for the first half of 2017. As you can see the results for this period make clear that this year represents a turning point for INTRALOT's financial performance.

All of the things that we have put together in the last couple of years have started to translate into a solid performance and results. We continue to deliver double-digit revenue growth and improve the profitability and this is directly linked to all of the reforms implemented in the previous years and more specifically, our new M&A and partnership strategy.

We have strong local partnerships that help us offer portfolio diversification, meaning new products, new services in the existing markets, deeper local market understanding and an asset-light structure in addition to our economies of scale and new revenue streams. Significant progress and strong trust from our clients have registered in mature and very competitive markets such as the United States.

Recent renewals of flagship contracts in Ohio, Arkansas and Vermont secure our operational profitability and income visibility for the next 10 years. In other words, we have grown our EBITDA performance in our subsidiary in the United States from €15 million to €40 million of annual EBITDA-based business and this number is guaranteed, contracted for the next 10 years.

This gives a very clear indication in terms of the value that is underlying in the operation of INTRALOT and in a market that is by far the most competitive and the highest valued at least in our industry. With all those actions our US subsidiary has become by far our strongest EBITDA contributor. Our

Company's ability to renew the contracts on top of our track record of renewing contracts in other countries outside the US gives us fresh confidence for the extension of all of the remaining contracts maturing in the next couple of years.

A recent filing for eligibility to float our shares in the Italian Stock Exchange by our local joint venture Gamenet also creates the prospects to capture and monetize the value of a key Company asset. Why are we referring to that? You know that our 20% stake in Gamenet, our 20% stake in our Peruvian subsidiary and our 16.6% stake in Hellenic lotteries are not consolidated in the EBITDA. Therefore, anybody trying to assign either an EBITDA multiple in terms of the valuation or a net debt to EBITDA ratio needs to take into consideration that there is an underlying…significant underlying value in excess of €120 million that is our non EBITDA contributing partnerships and assets.

So in that context, if our Company is able to monetize our 20% stake in Gamenet in a very liquid Stock Exchange, one needs to revise probably value estimations and multiples when it comes to the INTRALOT Group.

With that, I would like to thank you again for showing up for this conference call today, and I would like to handover the floor to you for questions for myself and all the team.

Q&A

OPERATOR: The first question comes from Draziotis Stamatios from Eurobank Equities.

DRAZIOTIS S: Hi there. Thank you very much for taking my questions. Three questions, if I may, please, the first one has to do with the performance in Turkey which seems to have dragged down performance in Q2. Could you tell us how the business is performing there on a constant currency basis? You made a brief comment about the grey market there. If you could provide some more granularity and also tell us what the outlook is for the remainder of the year. So that's the first question. Second question would be with regard to your intentions with respect to the 20% stake in Gamenet in view of the IPO, if you could share some thoughts with us please. And lastly, I am just wondering or just looking at your…the gaming duties and agent fees as percentage of revenues which seem to have come down in the second quarter. Could you explain what drove this saving please? Was there any regulatory change that took place in the quarter? Thank you.

KERASTARIS A.: First of all, Stamati, you are always asking the first question from the last two or three calls…….also you are now officially awarded the title of our good luck charm, please try to have the first question from now on.

DRAZIOTIS S: Excellent, that's a good title.

KERASTARIS A.: In terms of Turkey, year-on-year performance in Turkish Lira, in terms of revenue is down 1%, year-on-year EBITDA is up 7%. So the business in the country is even in local currency at best stable, this has to do with, firstly the very low payout…by low payout in Turkey of 50% which encourages illegal activity, so that's one thing.

The second thing is that, because of the changes happening in the Turkish market and you are obviously aware that the Turkish government is passing all of the money producing assets that were belonging to all different authorities and ministries within the Turkish government. They are passing them over to a newly established sovereign fund that is going to manage, going forward the most significant Turkish assets.

So, in view of those changes there has been very limited activity on the base business, and mainly on giving us new repay licenses to grow the network. So because of the turmoil in the shareholding structure within the Turkish government, for the last one year we have not been able to grow our retail network with new agents. So this had an effect in the business.

In terms of where the Turkish market is going, I think that this new change represents a huge opportunity for a company like Inteltek, which is a subsidiary in Turkey. With this change, and with all of the three assets meaning, Jockey Club, Milli Piyango lottery and sports betting, Spor Toto under the same ownership it will become far easier to have one instead of three contracts.

And as you probably know our company our Turkey subsidiary is the only experienced company to manage a gaming network in the country. So I think we are uniquely positioned to take advantage of the new shareholding structure for the gaming industry in Turkey. And if anything we are far more optimistic about not just renewing our Spor Toto contract, but taking on more business in the neighboring country.

So I think that in the next 6 to 12 months, we will see significant changes in this market. And I think we are uniquely positioned to take advantage of that.

Now, in terms of our intensions for Gamenet, we will be selling as part of the IPO a significant part of our stake at the IPO phase, depending on the success of the IPO. And depending on the demand in the market, we will decide what to do with our minority stake in this company. But just to give an indication, we at the IPO stage we should divest something around 60% of our stake in Gamenet, just for you to run the numbers…just to help you run the numbers a bit more effectively. Gamenet is a €85 – €90 million EBITDA company.

DRAZIOTIS S: Excellent, that was actually very thorough. And the last question was with respect to this…the cost basically gaming duties and agent fees?

KOLIASTASIS G.: This, Stamati has to do mainly with product mix variance, it has to do with product sold, I think if im not mistaking in Bulgaria, which is a different mix, but the same final outcome. So higher payout, but lower fees and agencies and taxes.

DRAZIOTIS S: Okay. I see, and so just a follow-up in Poland, there were some nice regulatory changes that were introduced in April. Just wondering, is there…are you aware of any plan for the…of the government to change the taxation on gambling?

KERASTARIS A: There have been discussions on how to change the taxations. The government understands that currently the tax structure in the country is benefitting illegal sports books only. And this matter has also been addressed with the European Union by local players…local I mean, in the Polish market. Is that going to have an effect anytime soon on the taxation policy? You know…

DRAZIOTIS S: Okay.

KERASTARIS A: Is not an easy thing to say, the problem has been identified and it has been identified to the European Union as well as a factor that dilutes competition on the one hand and encourages illegal gaming on the other.

DRAZIOTIS S: Okay. That's very clear. Thank you.

OPERATOR: The next question is from Mr. Bory Charles, Pictet Asset Management. Please go ahead, sir.

BORY C: I'm going to…hi, thank you for taking the question and I was wondering if you could comment on the recurring dividend payments and provide a guidance on the dividend payments for the full year? And second question, could you also please comment on the consolidation of your business in Azerbaijan. If I'm reading correctly you have a stake of 22.9% and it represents 10% of EBITDA, so I'm wondering about how do you consolidate at this EBITDA level, please. Thank you.

KOLIASTASIS G: Will you please repeat that, it's a little bit noisy, the second question…the second one.

BORY C: The second one, I'm just wondering what is the law or the reason to consolidate the EBITDA generated from your business in Azerbaijan, given that you have such a low stake in the company?

KERASTARIS A.: Okay. Let me start on the second one because that's an easy one. We are as INTELTEK are consolidating Azeri INTELTEK, so our Azeri subsidiary because we own 51% of it and we control the Board and the management. As we are fully consolidating INTELTEK, this falls under the INTELTEK consolidation.

So technically speaking, we have control over the management, the Board of Directors and the technology and the product of the Azeri subsidiary and in that context although our direct "contribution" is in the range of 25%, we consolidate fully when it comes to the numbers, but if you go to Slide…hang on a second, if you go to Slide 13, you will see why and how this effects our attributable EBITDA. So that at the end of the day in Slide 13, we are taking away all of the non-current holdings and the fact…and we give an indication of what would the 100% attributable to parent numbers look like. Now, this is a bit of a distortion also because all of the CAPEX, all of the technology, all of the cost to develop the technology and the product is born by the parent. So even the 65% is misleading to an extent, but we are trying to give to the investors an as accurate as possible picture about the operating element which is 100% Group, the shareholding element and the CAPEX and the cost associated to develop the products and the technology in the country.

KOLIASTASIS G.: Now, for the guidance for the dividends, it's €40 million for the year.

BORY C: Okay. Thank you very much.

KOLIASTASIS G: You are welcome.

OPERATOR: The next question is from Mr. Kiran, Senan from Muzinich & Co. Please go ahead, sir.

KIRAN S: Hi, I just wanted to ask you about the Gamenet IPO, I don't know if Gamenet already disclosed what percentage they are planning to IPO but from what you are saying you own 20% and 60% of that is possibly might be sold as part of the IPO, so that's 12% of the whole thing actually will belong to your stake, is that right?

KERASTARIS A.: Correct.

KIRAN S: Okay. And then, in terms of timing, do you have a view obviously it depends on the market conditions, but a view when this might be completed?

KERASTARIS A.: Within the fiscal year. Now you know that there are a lot of approvals that need to be taken. There is obviously an exchange of documents with the Italian Stock Exchange, but the view of the Company is that the process, the IPO process, will be completed by the end of 2017.

KIRAN S: Okay. And then, on your capital structure, your 6% bonds actually become callable in May, any thoughts around your capital structure or are you looking at opportunities on markets to refinance these bonds, now that they are callable?

KERASTARIS A.: Listen, we have now two bonds in the markets, we have been relatively active during the last three years. We are continuing to monitor the market, you know, and we know that the markets are very strong currently; they have been for the last months.

KOLIASTASIS G.: So you know, as active issuers, we are looking at the market and we are looking to the feasibility to extend maturities.

KIRAN S: Okay. And lastly, if I can combine my first and the second question, in terms of you know, these proceeds you might get from the Gamenet IPO and looking to do something on your capital structure, are these like tied to one another or would you use the proceeds from the Gamenet IPO to reduce the total debt or that would be slated for growth activities?

KERASTARIS A.: First of all, the reason why I put our total debt and Gamenet in the same discussion is because if someone is looking at INTRALOT Group as a whole, this person should take into consideration that both in terms of equity value, EBITDA market tools [ph], all when talking about net debt does not include a value that is there, meaning what is included in the assets of the INTRALOT Group but not reflected in the EBITDA performance. So that is why I made this comment. Now, in terms of whatever proceeds from the sale of a percent of Gamenet for any other activity, this will either be used as CAPEX to grow the business, and you know, that for a number of months, we are discussing with the state of Illinois to take over their business in terms of technology. This is now at the final stages prior to the signature. So we think that this is at the stage of maturity that by the end of the year we will have a new business in the US or it will be used to reduce the net debt. So the use of the proceeds from any disposal of a stake in Gamenet will be evaluated if and when we come to that.

KIRAN S: Okay. Thank you very much.

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

KERASTARIS A: I would like to thank you all for joining us on this August afternoon and we will see you and talk to you hopefully very soon. Thank you all.