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"Nine Months 2020 Financial Results Conference Call"

Tuesday 8th December 2020, 17:00 (GR Time)

Conductors:

Mr. Chrysostomos Sfatos, Group Deputy CEO

Mr. Nikolaos Nikolakopoulos, Executive VP & Group CCO

Mr. Fotis Konstantellos, Group CTO

Mr. Andreas Chrysos, Group CFO

Mr. Nikolaos Pavlakis, Group Tax & Accounting Director

Mr. Vassilios Sotiropoulos, Group Finance, Controlling & Budgeting Director

Conference Call Conducted by Chorus Call Hellas

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

Welcome and thank you for joining the INTRALOT Conference Call to present and discuss the Nine Months 2020 Financial Results.

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

Mr. Sfatos, you may now proceed.

SFATOS CH: Thank you. Good afternoon, I am Chrysostomos Sfatos, Deputy CEO of INTRALOT, and I am joined here by my colleagues, Mr. Nikolakopoulos, the Chief Commercial Officer and Mr. Konstantellos, the Chief Technology Officer, and of course by the Chief Financial Officer, Mr. Chrysos who will do the presentation today. I am also joined by Group Tax and Accounting Director, Mr. Pavlakis and Mr. Sotiropoulos, Group Finance, Controlling and Budgeting Director. At the open, I am going to read a statement by our Chairman and CEO, Mr. Sokratis Kokkalis.

In the third quarter of 2020, INTRALOT continued its effort to mitigate the effects of COVID-19, and the impact from adverse developments in certain jurisdictions, through consistent implementation of its business plan and operational improvements. Strong commercial performance in the U.S. in combination with OPEX reductions worldwide, and postponement of CAPEX, have limited the expected COVID impact of full year EBITDA in the area of €25 million to €28 million.

The reopening of the Australian market and the smoother operations in sports betting activities create a more positive picture for the fourth quarter of 2020. INTRALOT has also made significant progress in its discussions with its creditors to address the September 2021 notes maturity and the overall capital structure and will provide an update in that respect very soon.

With these introductory remarks, I now pass the microphone to Mr. Chrysos for the presentation.

CHRYSOS A: Thank you, Chris. Good afternoon, ladies and gentlemen. Before starting our presentation for the third quarter and nine months of 2020 results, I would like to provide some guidance in relation to the current outlook for the year-end closing against the targets we have set at the beginning of the year.

The main targets for 2020 were the following; 1) Maintain the same operational metrics as in 2019, depending also on the impact of the pandemic, by replacing the lost EBITDA from Bulgaria with new EBITDA, mainly from the U.S., and other projects, and assisted also by the savings in the OPEX. 2) Reduce the CAPEX by at least 10% to 15%, again depending also on the COVID-19 impact. 3) Try to maintain our strong liquidity to the maximum possible extent as a cushion to the hard period due to the pandemic.

And lastly, to reach the $50 million EBITDA trajectory for the U.S. Lottery business and the successful launch of our first Sports Betting contracts in that market.

Today, we are in a position to say that, as regards to the first target, the full year EBITDA outlook will be in the region of €60 million to €62 million, already evident from the 9-month period and we are heading towards this target. The COVID-19 impact is estimated to reach €25 million to €28 million for the full year, therefore if excluding this impact, EBITDA would be in the range of €85 million to €90 million, as it was the 2019 one. EBITDA was strongly supported by the strong performance of the U.S. in addition also to the OPEX savings of 26%.

2) The CAPEX of the 9 months period was €28 million, and the outlook is that it will not exceed €40 million, being close to 30% lower than targeted in an effort also to mitigate the COVID-19 impact.

As regards the third target, the cash position stood at €107 million at consolidated level versus €137 million in June 2020, two-third of the reduced amount referring to the coupon payment in September.

Lastly the U.S. EBITDA for the 9 months period was above $40 million heading for a full year performance in excess of the $50 million target while the Sports Betting projects with the Washington DC one, which has commenced first to deliver encouraging results, already making us fairly optimistic for 2021.

After a tough second quarter heavily affected by the pandemic in all geographies, we saw a much better third quarter performance. What needs to be highlighted is that, although our numbers versus last year continue to be impacted by the discontinued contracts in Bulgaria and Turkey, depicted in the top line metrics revenue and GGR, EBITDA of Q3 was positively affected by a substantially lower OPEX, therefore mitigating to a large extent the negative impact of the loss of these contracts.

More importantly, our U.S. business continue to present an outstanding resilience in this Quarter too, making us confident that the targets we have set for this part of the world will be achieved. In relation to the pandemic impact, we can confirm that the amount that we have assumed from the very beginning of the outbreak is confirmed and will be in the region of €25 million to €28 million until year end.

In accordance with our strategy though, our primary target was to minimize or partially offset the negative impact of the pandemic supported by our strong liquidity, while preserving it to the extent possible. Our cash position excluding partnerships, at the end of September was in the region of €100 million from €152 million when we entered 2020, having paid already 2 bond coupons of around €42 million since the beginning of the year. If excluding the capital structure exercise costs so far, the cash burn for the 9-month period is less than €10 million, much less than the impact from the pandemic indicating the prudent handling of our liquidity.

In relation to the U.S. business, the two major highlights are: First of all, the performance of our U.S. lottery operation, which has largely replaced the lost EBITDA from the Bulgarian and Turkish businesses. And secondly, the encouraging evolution of the newly introduced Sports Betting contracts, which after its difficult start due to the pandemic and the non- existence of sporting events before the summer have gradually started to perform better and especially for the Washington D.C one, we are almost at the performance levels we had assumed in our Business Plan.

As an overall outlook we are fairly optimistic, because we see that, after a difficult second and to a less extent third quarter, the fourth one has started from a much better position, because the second wave of the pandemic is not hitting our numbers as the first one and the primary reasons for this is because our main markets, such as Malta, are not in a lockdown and also the sporting events continue uninterrupted therefore the sports betting activity is continued normally. Furthermore, after a prolonged lockdown of the venues, Australia is now open and operating normally.

And after this short introduction we will start with the presentation. So, moving on to the 9 month financials, our results on the revenues line presented in detail in Slides #6 to 8, have been heavily affected by the Bulgarian and the Turkish entities' development, the Moroccan business, but also by the COVID-19 pandemic in all geographies.

More specifically, the change in the consolidation methods in Eurofootball accompanied also by the negative developments in the market affected the revenue line by €213 million out of the €290 million overall deficit. As regards the impact from the

Turkish market, we had a negative variance of €26 million primarily from Inteltek contract discontinuation.

What needs to be highlighted here is that in Q3, our electronic agent Bilyoner, showed a total recovery from the second quarter turbulence performing even better compared to the respective quarter of last year by 12%, showcasing the potential of this business after the difficult period it had as a result of the pandemic impact, but also from the new era in that market since August 2019 onwards.

The rest markets, such as Malta, Australia, South America, Morocco, and Greece were largely impacted by the pandemic resulting to an overall deficit of €63 million versus a year ago. Focusing however, only on Q3 performance we observe that the revenue deficit comes mainly from the discontinued businesses in Bulgaria and Turkey representing €77 million of the €80 million deficit for the quarter, being assisted by an equipment sale and services in The Netherlands and the performance of the U.S., but also from the partial recovery of the main markets due to the pandemic impact.

Positive contributors during the 9-month period are the U.S. performance, which showed an outstanding resilience as already mentioned during this difficult period growing by 13% year-over-year as well as The Netherlands performance assisted by the equipment and services sale in Q3 of current year.

Now, moving on to Page #9, and in accordance with the revenue drop, we see the GGR line also declining by €108 million collectively from the same reasons mentioned in the revenue analysis. Continuing with the analysis on this page, EBITDA for the 9-month period developed to €45.2 million, lower by €33.6 million versus a year ago. What needs to be highlighted though is the EBITDA performance of Q3, which has landed at €18.5 million or €1.6 million less than a year ago and more importantly 74% higher compared to the EBITDA of the second quarter of 2020. If comparing against the previous quarter, the swing was attributed to the partial rebound of the negative COVID-19 effect in the markets that were hit in the second quarter.

And more specifically, Australia, Morocco, Malta and Bilyoner in Turkey, which performed Q-on-Q better by €7 million, and South America, mainly Chile and Argentina, which performed Q-on-Q better by €3 million. If comparing against the respective quarter of 2019, the main contributor has been the adjustment in the OPEX line that has been reduced by 26% year-over-year for the third quarter, therefore mitigating the 45% reduced revenue of the third quarter to a large extent, which has been the result of the lost contracts in Bulgaria and Turkey. And of course, the outstanding performance of the U.S., which has been assisting the financials throughout the whole year. Bilyoner also presented a positive swing versus previous year's respective quarter showing the dynamics in this market for the future as well.

All-in-all, the negative impact from the lost contracts and COVID-19 effect of minus €9.5 million in total, has been recovered by more than 80% from the performance of the U.S. entity and Bilyoner in Q3. The OPEX adjustment, as well as, the improved margin in the U.S. market has been reflected in the

EBITDA margin on sales also, been 7.6 percentage points better compared to the third quarter of previous year.

Moving on to the EBT line, the result for the 9 months period was minus €56.8 million from minus €6.9 million lower by around €50 million versus a year ago. Apart from the EBITDA negative contribution of €33.6 million, EBT was also negatively affected by the following reasons: First, the worse results from participations and investments, lower by €15.7 million, mainly due to higher impairments of investments in associates, which has been largely as a result of the COVID-19, the decreased dividends income from associates in 2020 and the higher net income from a sale of participations and investments back in Q3 of 2019, due to the Hellenic Lotteries share disposal and the bond buybacks of the respective period last year.

Secondly, the worse FX results by €11 million versus respective period of 2019, largely driven by the impact of the favorable U.S. dollar movement against other currencies in the 9-month period of 2019. By the way, high portion of cash in our Turkish entities were held in U.S. dollar in that period.

And lastly, the capital structure optimization expenses in current year being around €3 million… €2.9 to be precise in the amount. The negative effect was partially counterbalanced by the following reasons: First, the lower impairment of assets for the period by €3.9 million versus the 9 months of 2019, mainly due to the impairments recorded for Inteltek's contract last year. And secondly, the decreased depreciation and amortization by €9.8 million, due to the increased impairments and entities liquidation, the change of consolidation method, and the end of useful life of older assets.

On the bottom left of Slide #10, we see that the net CAPEX for the 9-month period landed at €27.7 million lower by €16.5 million versus year ago, as a result of the absence of major contract implementations compared to previous year, mainly in the U.S. Operating cash flow decreased by €49 million and stood at €25.5 million and is largely driven by the lower recorded EBITDA year-over-year, the higher tax payments by €3.8 million, and the adverse working capital movement of €9.4 million.

The reasons for this negative working capital are firstly a time lag in the revenue receipts impacted also by COVID-19. Secondly, an unfavorable movement of liabilities, partly offset by a favorable inventories movement, which resulted to this €9.4 million already mentioned. Last year's movement also was positively affected by an advance payment received for our projects in Canada and in The Netherlands.

Turning on to Page #11 and focusing on the net debt, it stood at €642 million at the end of September, up by €47.5 million versus December 2019. The main reasons for this increase were the renewal and growth CAPEX, mainly in the U.S. and in Croatia, which was €10.7 million, Inteltek's license continuation impact of €6.1 million, including also the dividends that have been paid to our partners in Inteltek, as a result of the contracts discontinuation, tax payments at parent level by €7.7 million, the capital structure optimization costs of €2.9 million and the negative impact in the normal course of business of around €26 million affected also by COVID, but primarily, reflecting the coupon payments in March and in September. Respective metric one year ago was €634 million.

Lastly in Page #12, we see the main contributors to our revenues and EBITDA being the U.S. operations primarily, but also the markets of Oceania, Malta, and the Netherlands, contributing substantially and the partnerships representing only a small part of our activity after the recent developments in Turkey and in Bulgaria. The latter is also depicted in the next Slide #13, where we see that the EBITDA contribution of the partnerships is substantially lower if comparing against last year respective period, since it is only Bilyoner and Argentina that contribute in Group's consolidated metrics.

And at this stage, the presentation of the 9 months results of 2020 is finished, and the INTRALOT executive team is at your disposal for any questions you may have.

Q&A

OPERATOR: The first question is from the line of Wolfgang Felix with Sarria Asset Management. Please go ahead.

WOLFGANG F: Yes, hi. Good afternoon. Thank you for taking my questions. May those be the only ones, perhaps. I was wondering, first of all, with respect to the ongoing negotiations, what sort of time plan should we be thinking of as bondholders?

SFATOS CH: As we have announced in our press release yesterday, we feel that we have made a lot of progress in our discussions with the creditor groups. Unfortunately, I wouldn't like to commit to a specific timeframe at this point. However, we feel comfortable that we are very close to an agreement, and we will make these announcements when we are able to make something specific known to the investment community, when it's something binding and committed.

But we have said that, there's already…if that's an indication for the timeline, we already have restricted creditors, who are not trading anymore, who have access to nonpublic information, which means that we are discussing very, very specifically with them, and the creditors themselves are directly involved, and this group represent substantial percentages of the issues, especially the 2021 issue, which is the immediate maturity, which will allow us to implement a transaction in the timeframe that is required.

WOLFGANG F: Okay. Thank you very much. And in its current permit, I know last year you felt your minimum cash balance that you were comfortable with at sort of central corporate level was around €55 million, I think was sort of the mark. But then, in light of the sort of somewhat reduced perimeter of the group has that cash level somehow changed or would you still be looking for a minimum of that?

CHRYSOS A: Okay, let me take this one. I think this was a point, which was misinterpreted in the previous discussion we had. So the minimum level that is required for our companies to operate is in the region of €18 million to €20 million, not €55 million, not €80 million as it was mentioned the other day it's around €18 million to €20 million. So, the cash position that we are currently sitting on is far more on that.

So, we feel pretty comfortable with the cash reserves that we are currently having and offering us the ability to move on with all the discussions that we're having and also running our business uninterrupted without any problems.

OPERATOR: Unfortunately, Mr. Wolfgang's line has been dropped. We're moving on to the next question. And the next question is from the line of Tan Joey with CQS. Please go ahead.

TAN J: Hello. Thank you so much for taking my questions. I have 4 quick questions. The first one is relating to your Gamenet stake. So, in your bond document there was a clause relating to the sale of certain assets where it… were saying that any net proceeds from sales would have to be used within 360 days, either towards CAPEX or redeeming your notes. So, if what I understand you completed the sale on the 16th of December, so that 360-day mark should be coming soon. So, I was wondering what your plans were in terms of that? And then, maybe I'll go on to the next question after this one.

SFATOS CH: Well, as you know, there is a period in which these 360 days where there are some permitted uses of this asset proceeds. So, when the time comes and when the question is asked by the potential beneficiaries of the excess cash, we will give the full account. We don't have a specific plan about allocated excess cash at this point if that's what you are asking.

TAN T: Okay. So, you are saying that the €78 million of net proceeds out of that there wasn't much excess cash, is that?

SFATOS CH: No, this is not what I am saying. I am saying that when we are asked, we will make a full account of this cash that we received.

TAN J: Okay. So…but am I right to say to think that the timing should be around now in terms of the 360 day?

SFATOS CH: Yes, of course.

TAN J: Okay, understood. So, we will… we might see some information on that in your next reporting? Okay. So, I can jump on to my next question. So just in terms of your headquarters cost reduction of €7 million to €8 million that you mentioned in your previous call. Can I just get a sense on how that's going in terms of implementation?

CHRYSOS A: Yes. This is a number that we are already there as of the 9 months period, which was our commitment when the year started. We are already, excluding, of course, the extraordinary costs that related to the capital optimization exercise if excluding these costs, because they are extraordinary on the normal course of business. We are already around €7.5 million less, so we have already succeeded this target, and until year end, we expect it maybe to increase slightly, but the answer is, yes, we are already there. This target is already succeeded.

TAN J: Understand. Thank you. And my next question was in terms of CAPEX, you did mention you spent €9.6 million towards research and development, as well as, project pipeline delivery. I was wondering if you could elaborate more on that.

CHRYSOS A: Which one, CAPEX?

TAN J: Yes, CAPEX, so you mentioned, there was a €9.6 million CAPEX that was spent in R&D, as well as, project pipeline delivery. So, I was wondering, if you could elaborate more on that?

CHRYSOS A: Yes, this relates to the development of our main products which by the way has been reduced substantially, and we have said that, this will be declining due to the maturity of our products and also to a less extent refers also to some smaller scale renewals in the U.S. Again here, this is something that we have said many times that ahead of us we do not have any material renewals in the U.S. allowing us to maintain, well, quite small amount of CAPEX, overall it has been €28 million for the 9 month period.

And as for the future, we have said already that we do not have any major renewals, so we shall be able to save some money on the CAPEX as well. But in R&D in the region of around €8 million to €10 million is something that we shall be spending on a continuing basis taking also the nature of our business.

TAN J: Okay. I understand. So that's on top of the maintenance CAPEX that you will also incur?

CHRYSOS A: Yes, of course.

TAN J: Okay. And I just had one more last question. Do you have any significant contracts that are in the pipeline for the 2021 period?

NIKOLAKOPOULOS N: We are looking quite a few contracts that could materialize in terms of, you know, we are progressing in terms of business development, in contract, so we have a pipeline that we are looking, some of them to materialize in 2021. But we are remaining very focused on what we are looking and the bids we are following and the investments we are planning. So yes, there is a solid pipeline, which is focused on5 to 6 major projects that we are looking at, both in the U.S. and Canada but also in Europe.

TAN J: Okay. That's very helpful. Thank you so much for taking the time to answer my questions.

OPERATOR: The next question is from the line of Le Youdec Erwan with SC LOWY. Please go ahead.

LE YOUDEC E: Good afternoon. Thank you very much for your time and thank you for the presentation. I have 2 questions, if you may. I apologies if those questions have been asked in your previous earning call. The first one is in relation to the state fees with Eurofootball and Eurobet. You have any update on the appeals and the amount, if it has changed and how you plan to pay those fines if the appeal is lost. And then I will reserve my second question. Thank you.

SFATOS CH: Yes, we have said also in previous calls that first of all these state fees are not executable penalties, still they are debated in the courts, but also there is no recourse between the limited liability company to which these penalties have been presented and the investment company which is our company in Bulgaria or furthermore the group.

So, we don't anticipate that these penalties will be traced back to the group. But they have not been paid; no portion of it has been paid.

LE YOUDEC E: Understood. Thank you very much. And then, my second question in line with CQS, for FY'21, I know its early stage with COVID, but do you have run estimate or range of what you will try to achieve at an EBITDA target, please?

CHRYSOS A: Actually, currently we are in the process of preparing our budgets, we are in discussion with all our local GMs and Teams. So, I would refrain from providing any guidance regarding 2021. We would rather do this in our next call when we present the financial results of 2020, at that point we shall be able to share some more info and shed some light on the target of 2021.

LE YOUDEC E: That's very clear. Thank you very much for taking my question and stay safe.

CHRYSOS A: Thank you.

OPERATOR: The next question is a follow-up question from the line of Wolfgang Felix with Sarria Asset Management. Please go ahead.

WOLFGANG F: Yes, hi, sorry. I dropped out earlier on in the middle of asking my question. It was on minimum cash, I don't know, if you've answered it at all.

CHRYSOS A: Yes.

WOLFGANG F: Can you just repeat the number?

CHRYSOS A: Yes, of course, it's okay. So, we said that, this was a question around which there was a turbulence also in our previous call. So, the minimum cash necessary for our companies to operate is €18 million to €20 million, not €55 million, not €80 million, as it was wrongly mentioned in the previous call, it's €18 million to €20 million. So, our current cash reserves are more than enough, as I said, in order to execute our Business Plan, as well as, run the big exercise that we are running currently with the bondholders.

WOLFGANG F: Okay, terrific. And I am sorry to have you repeat this. And on The Netherland one-off, can you just tell me a little bit more about that I wasn't quite prepared for it?

CHRYSOS A: Okay. In The Netherlands this one-off during Q3 it was €8.5 million, I think this is something that we are saying, I wouldn't like to provide more info in relation to EBITDA, because it is commercially sensitive, but it refers to the implementation of our new contract, which will be on from next year onwards.

WOLFGANG F: Okay, wonderful. And that's largely it, thank you. Thanks very much, I will be back in line.

CHRYSOS A: You're welcome.

OPERATOR: The next question is from the line of Kanadalam Jayanth with Lucror. Please go ahead.

KANDALAM J: Hi, thanks. Thanks for your time. And thanks for taking the questions. Actually, I am not very sure if… because, you earlier mentioned you wouldn't talk much about 2021, until the next call. But maybe if you could just give a little bit of an idea in terms of what is the run rate EBITDA, rather the full period EBITDA that you are expecting from some of the new contracts in the U.S. for 2021. The contracts you have already entered into, but probably in 2020 there will be only a very small impact.

CHRYSOS A: Okay. The new contracts in the U.S. primarily are the sports betting ones. We have given some color already that although at the beginning of this year we were expecting them to start unwinding before the summer. The COVID-19 pandemic created turbulence there, so we saw the ramp up being slower than originally anticipated. Having said that, the first one which is the Washington DC one, this is something that I already said, is performing very well, actually it is more or less on the targets that we have set when we were preparing the Business Plan. The Montana one, this has a small ramp up, but again this is gradually winning ground.

We have said already in the past that these contracts during the maturity will be in the region of €10 million of EBITDA, of course, this is not something that we can expect in 2021. In 2021 we will have a much smaller amount than this. But we would like to focus on this in our next call, please allow us.

KANDALAM J: Okay. That's alright. Thank you very much. That's all I had.

CHRYSOS A: You're welcome.

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

SFATOS CH: Ladies and gentlemen; thank you very much for your time for your questions and really hope that we will be able to provide substantial news really soon. Thank you.