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"Nine Month 2014 Financial Results"

Conference Call

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Conductor:

Elias Athanasiou, Group Strategic Planning 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 Nine Month 2014 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: Hello, everyone. Welcome to this Nine Month 2014 Conference Call. Together with Mr. Antonopolos, our Group CEO are Mr. Kerastaris our Group CFO and Mr. Pavlakis, Group Tax and Accounting Director, we will briefly review Intralot's financial results and operating achievements for the nine months ended September 30, 2014. Following a very short presentation, we will be at your disposal for any questions you may have.

Okay in the nine- month period of 2014, revenues exceeded €1.3 billion posting an increase of slightly more than 23% in euro terms. On constant currency basis, this number would have exceeded €1.4 billion, posting a more than 30% increase. The total FX impact on the top line was in the vicinity of €81 million for these nine months. EBITDA decreased by 8% to €132 million, on a constant currency basis this would have been flattish at €143 million, thus, the negative impact was slightly more than €11 million for the period.

EBIT, operating profit decreased by 13%, €6 million, again on a constant currency basis this would have been flattish compared to last year at €76 million, thus the FX impact for the operating profit was something less than €10 million. Profit before tax was shapped at €27 million, posting a decrease of 32%, on a constant currency basis this would have been slightly below last year's number of approximately minus 5% at €38 million. The negative impact on this line of the P&L was something less than €11 million. Net profit was shaped at a negative €32 million for the period.

Cash flow from operations was more or less the same compared to last year at €45 million. Net debt remained at the levels of the six month 2014 levels at €401 million. This was accomplished despite the payment of €16 million of the same annual compete… coupon of our big bond of €325 million bond that was issued in August 2013; this is a five-year bond. And also a €3 million deterioration in working capital for the period compared to six months 2014 period.

This, the working capital change, was attributed to a small increase in inventories, approximately €5 million decrease in payables, which is in line with the Company's strategy to reduce payables in exchange of more favorable in pricing and commercial terms from suppliers, and partially counterbalanced by €4.6 million decrease of receivables.

Finally, we had a positive impact on our cash position in Q3 exceeding slightly €3 million, that partially counterbalanced the above mentioned €19.1 million negative impact on the Group's net debt position. CAPEX for the nine month 2014 period reached €42.8 million.

Okay, going on to Slide 5, the revenues bridge, how we went from the €1.08 billion to €1.3 billion in the nine months period. Eastern Europe contributed €32 million to this growth, Western Europe which was the biggest contributor was plus €136 million, also, the Australasian region contributed €25 million, North America some…more than €5 million, South plus €50 million and Africa plus €1 million.

Page 6, I think that the key takeaway here is the total cash flow number; the plus €1.9 million. This is the change of the net debt position in the nine months compared to the full year of 2013. As we mentioned before, operating cash flow was €45 million, CAPEX was less than €43 million, dividends flowing to minorities something less than €20 million and other posted cash flow were plus €19 million for the period.

Going on to Slide 8 of the presentation, licensed operations continued to contribute the biggest part to the top line exceeding 81% of our total revenues followed by technology and facilities management contracts which exceed some… were somehow above the 11% mark, and management contracts contributing something more than 7% to this line.

Going on to Slide 9, the per product analysis, sports betting grew by 34% mainly due to the impact of the World Cup in Q2 and to a lesser extent in Q3, and numerical games grew by 7%, VLTs and AWP business was… grew almost by a 180%, racing products plus 12% IT products and services dropped by 23%, leading to the total Group turnover number to increase by something more than 23%.

Revenue per product contribution; sports betting continued to be the biggest contributor to our top line with 48.5%, followed very closely by numerical games at 30%, VLTs increasing their participation to more than 10% followed by the ITproducts, which contributed 8% and racing 3.3%.

Looking at the wagers that we handled on our regional basis in the nine months period on Page 11 of the presentation, Eastern Europe dropped by 4%, Western Europe increased by 10% leaving the total European number to increase by 4.5%. North America dropped by 2.6%; South America by 9.4% and the Australasian region grew by 14%; Africa dropped by something more than 10% leading to the total wagers handled to increase by almost 5% in this period.

The biggest contributor in terms of wagers handled is the Australasian region with almost €5 billion in the nine month period, followed by Western Europe €4.4 billion, North America third with €3.2 billion, Eastern Europe €2.5 billion, South America €600 million and Africa almost €370 million.

This completes very short the presentation of the results. I will now hand you over to Mr. Kerastaris, our Group CFO for his comments from his side. Thank you very much.

KERASTARIS A: Good afternoon on my part as well. On a more general comment before we go into the specifics, we have been consistent in this quarter as well with growing the business organically. Each and every one of our major geographies, excluding Greece and the Greek entities has outperformed last year. There is no one single subsidiary that is not, in terms of operating performance, better than last year which gives us the right signal and builds on what we were saying that we will recover or we will try to recover the losses in Greece from increased organic growth in the rest of the geographies.

And the second thing is that, our cash management efforts are already starting to pay a dividend, whereby we see that that we can grow business with considerably less CAPEX on the one hand and manage our working capital in a way that offsets significantly increased interest expenses.

Going to the specifics and to the market update; the recent developments in our portfolio. Starting from Australia, as you probably know, we sold our lottery license in Victoria to the Tatts Group. The financial benefit related to the transaction, which includes the upfront fees, the ongoing payments that Tatts will perform to us and cost savings from the operation of the license are estimated to reach up to 20 million Australian dollars.

Intralot due to the fact that it was unequally treated during the awarding process of this license was underperforming and operating basically with losses for this specific license. For that,, apart from giving over the license to Tatts, we are also actively pursuing legal remedies before court.

Intralot will continue to operate and focus on the very successful monitoring operation of the 27,000 VLTs in Victoria. The recently awarded pre-commitment, responsible gaming project in the same state and it's successfully recently updated partnership with Lotterywest in Western Australia and the new opportunities that will arise in the other jurisdictions of Australia and the wider region of Oceania.

Concerning the recent technological advances, Intralot was the first company in the sector to introduce universal gaming and has now taken its holistic approach to gaming a step further, placing personal gaming at the center of its customer focus strategy.

In the World Lottery Summit that took place last week in Rome, Intralot presented its complete mobile solutions, including the pioneering MobileLottery, its proposal for the retail 2.0 with the first presentation of the new camera-based ICON technology terminal, Proton.

The new gaming station DreamTouch Compact, the i-Self Gablet Android terminals and its variations as well as its rich content in sports, lottery, gaming solutions and race.

The Company's leading position in the sports-betting arena will be further enriched with a cutting-edge i-FlexSportsBook Platform and the related i-FlexServices, i-FlexContent and i-FlexTrader.

In lotteries we will focus on enhance, we will enhance our offering with a new InstantWinGames and the RetailSportsMotion. The Company's flagship Gaming Solution i-GEM Suite and Gaming Licensing System was also presented, as well as the superior Racing Solutions, Racing for Lotteries, TrackBet and Racing Poker.

ATHANASIOU E: Okay. Thank you very much. I will now hand you over to Mr. Antonopoulos, our Group CEO for his comment, from his side.

ANTONOPOULOS C: Hello everyone participating in this conference call. In the first nine months of this year, we have succeeded to extent projects in United States of America, Australia and Asia, and we have been successfully implemented some of them. While the gaming industry undergoes consolidation, Intralot keeps focusing strongly on the lottery sector, its technological superiority and of course, on our organic growth as we have done over the past years.

The Group is making great technological leaps in order to offer innovative products and services to its customers, both on a B2B and B2C basis. Moreover we are in the process of taking actions in certain projects around the world, in order to improve the Group's financial performance in the near future.

From a financial stand point, the Group continued to grow its sales, maintained its EBITDA profit before any foreign exchange impact and stabilized its net debt position."

Now, we are ready to accept any questions you may have.

Q&A

OPERATOR: Thank you. The first question comes from the line of Mr. Draziotis Stamatis of Eurobank Equities. Please go ahead, sir.

DRAZIOTIS S: Yes, hi there and thank you very much for taking my questions. I have three questions actually; first one, I think Elias you touched upon the particular issue earlier in the presentation. You mentioned in the release a strategy to reduce pay-outs in exchange for more favorable terms. Could you elaborate a bit on this issue please and which contracts, regions this relates to?

Second question would be on Europe, I can see that your gross profit in the third quarter was… it seems to have to be significantly lower year-on-year. Could you tell us what the main contributors of this drop were, please?

And a third question would be with regard to the FX impact. Could you maybe elaborate a bit on the FX headwind year-to-date, and I am mainly referring to the impact on EBITDA because this seems to be about 9% of EBITDA. Why has the impact been so pronounced and where does it mainly come from and what actions do you, you know intend to take to maybe mitigate this impact? Thank you.

KERASTARIS A: On the payables question, as part of our working capital management strategy. We are trying to implement starting from the parent company in Greece, but expanding to the rest of the Group, a central procurement function that will try to first of all decrease the cost of operation i.e. bring the cost savings to the bottom line and actively manage suppliers. So what you saw in this Q is probably the beginning of how we would like to manage our payables and receivables going forward.

On the question of the Western… on the Western Europe, I think Elias will touch later on. On the FX, you need to understand that most of our FX differences come from translation only. So, we have taken the view of our advisors as to the major currencies in countries of operation. We have analyzed trends to the extent possible and we are taking those in our forecasts and where possible, meaning we are not only talking about translation, we are also trying to actively manage with hedging.

But major, the major effect of what you see reported is pure translation of our operations and the big operations where we manage our business in foreign currency are of course, US, Turkey, South America, Oceania; these are the major geographies that are effecting our FX results.

DRAZIOTIS S: Thank you.

ATHANASIOU E: Okay. If I understood, well, the question was why there is a dilution in the margins in the European Union business, Stamatis.

DRAZIOTIS S: That's correct, Elias. Yes, because I can see that in the third quarter the margin has, you know, has fallen quite a lot compared to the previous year in the EU?

ATHANASIOU E: Yes, okay. This is because of mainly two reasons for Western Europe… for the European Union, one is the Greek business, as we mentioned before. And the other is the new business that we have in Italy, that started to contribute late…in the late nine month period last year which is the AWP/VLT business that as we have said is high turnover and relatively lower margin than the average business that we have in the country.

And overall this somehow is bringing down the gross profit margin there.

DRAZIOTIS S: Thank you. Thank you very much.

OPERATOR: The next question comes from the line of Mrs. Rodriguez Helen of BNP Paribas. Please go ahead.

RODRIQUEZ H: Yes, hi. I have a couple of questions. One is what happened in your technology side since it's down a little bit. The second thing is, actually I'm trying sync through exactly what is the physical nature of your inventory and exactly what that is, with payables and all that, so you know, if you can give some color on what your big chunky payables are. And lastly, am I right in thinking that the 8% decline is purely FX translation or is there any underlying businesses that is also underperforming?

KERASTARIS A: Okay. Starting with the technology… technology is in some of the cases one-off sales, where we are starting new contracts and we are selling either IP rights or we are selling service to a new jurisdiction. So you will see that our technology contract could vary from year-to-year and that is the major effect.

In terms of inventory, our main inventory is equipment; meaning our terminals, various terminals including VLTs and AWPs, but also the terminals for the lotteries and the sports-betting, and this is the bulk of our inventory. So you could see seasonally, in cases where we are starting a new project, that inventories could increase or the other way around.

In most of our operations, we keep… in some of our operations we keep the ownership of the terminals after we start the business. In other cases, we sell them, so, they are out of our balance sheet. So it is a mix contribution in our balance sheet. Does that answer your questions?

RODRIQUEZ H: Yes and just finally; the first, yes, but the last one… so, the 8% decline in EBITDA is translation, there was no underlying hold on EBITDA on any of your business?

KERASTARIS A: Like I said in my opening statement, if we… our businesses apart from Greek entities are growing in EBITDA, each and everyone of them is growing in EBITDA, and offsetting the negative effect of Greece. Now, in constant currency, the picture is that EBITDA is flat. So in that sense, yes, the 8% comes from translation.

RODRIQUEZ H: And sorry, what percentage is Greece, again, of what you do?

KERASTARIS A: What percentage is Greece, and what we do, in what terms, in terms of revenue or in terms of EBITDA? Greece was the major EBITDA contributor historically; in terms of revenue the contribution is not that considerable.

RODRIQUEZ H: But in terms of EBITDA it is how much?

KERASTARIS A: In terms of EBITDA it was in the Top 5 countries historically for this Company.

RODRIQUEZ H: Okay, thanks.

OPERATOR: The next question comes from the line of Mr. Rentsch Thomas (of Meriten Investment Management. Please go ahead.

RENTSCH T: Hello, year-to-date you have these 2 million free cash flow, I was wondering when and how will that improve?

KERASTARIS A: Obviously, as part of our business plan, as part of our strategy, the generation of free cash flow is a key element. So the target for this year is to go back to the positive figures. So starting from a minus 19 of last year to go to a figure with a positive prefix, I think we will consider in delivering that. Now, going forward, obviously cash flow generation is a key element of our business plan.

RENTSCH T: And that's coming from EBITDA growth or CAPEX reduction?

KERASTARIS A: That is coming from… for this year,, as EBITDA is constant,, it is a mix of lower CAPEX with higher cost of interest. So going forward, like we said, our plan is to grow organically, mainly, to grow our operational profitability and scrutinize our costs and CAPEX spending, thus generating free cash flow for the Group.

RENTSCH T: Okay.

KERASTARIS A: The reason why I am not being more specific is because if I wanted to be more specific, I'd have to give a guidance which is not what we would like to do at this stage.

RENTSCH T: Okay, and maybe one follow-up on this, on the topic of sales growing and EBITDA just flat in constant currency. So is it basically that you are growing revenues in a very low margin business, while a high margin business is declining or how does it fit together? I am still a bit confused.

KERASTARIS A: Unfortunately, the high yielding contracts in this industry are becoming scarce few and far between. So you need to manage your business with smaller margins and from a larger operation in general. We don't see that only in our business. We see that in the sector as a whole and we are adjusting our operation in that new modus operandi.

So it is an industry trend you will see that in our competitors as well. But it's not an easy transition, like you will see, if you are following the industry in general, you will see that that most of our competitors have a hard time adjusting to an operation with a lower operating margin. So you know, going from lucrative contracts, say Italy, for example, for our competitors et cetera, it's not going to be an easy exercise.

I think, we are a bit more flexible and a bit more agile in adjusting our operation to a lower margin; that looks a bit like the dotcom world, and is a completely different ballgame. And I think part of our success or less success in that field will be how fast we can adjust our operations.

RENTSCH T: Okay. Thank you very much.

OPERATOR: The next question comes from Mr. Gold Jeremy of Alesia Asset Management. Please go ahead.

GOLD J: Hi, guys. Thanks for taking my question. So I was you know, in response to the one person you were mentioning free cash flow so far, I would calculate a little differently and say that after minority dividends it was actually negative, so far for this year. And I was wondering, you know, as you are saying that, it's declining because one FOREX, and one because these high margin contracts are declining. Is there any hope in the immediate future or next year of that changing, and do you expect to be free cash flow positive this year still after minority interest dividends?

KERASTARIS A: Okay, so going back to the comparison between 2013 full year of minus $14 million to be on a comparable basis and a plus $1.9 million in the nine months, this is already a nine months give or take $15 million turnaround, of course, net of minorities. This gives the signal and this gives the direction that we are working on. It is our view that you need to be able to generate strong cash flows, if you need to go anywhere in this industry and that's obviously where we are going to. And I think that the first nine months of 2014 is a very strong indication that we are on the right track.

GOLD J: Sorry, I'm just not understand it here;, you have cash flow for operations, minus your CAPEX, minus your minority interest dividends?

KERASTARIS A: You are referring to Slide 6, correct?

GOLD J: I'm just looking at your statement of cash flows.

ATHANASIOU E: Yes, this is the slide. What we have tried to present here is that you know, in the last line, we will see total cash flow, in order… the change of plus $1.9 million in the nine month 2014 period is actually the change of the net debt. So this is a catch-all number trying to avoid you know, any confusing on you know, how everyone defines you know, a cash flow generation.

So what Antonis was just was trying to point out before is that we have a plus, you know, a €16 million from last year in the change of the net debt trend. So okay, we take out CAPEX, we take out the minorities and other you know, plus or minus cash flow items in order to arrive to this catch-all number just to make things a bit more clear.

GOLD J: Okay. So regarding the minority interest dividend, so why is it that the business is declining? And I know you are saying that this is mostly a FOREX impact, so why is it that the profitability seems to be declining, yet the dividends to minorities remain stable, are those based on revenue, or are those based on profits of subsidiaries?

KERASTARIS A: This is a mix-up of the performance of countries where we do have minority partners. So this is simply an… the tax and the dividends that is being paid where we have a minority partner, so the growth and the performance of its subsidiary is added to the whole; what that gives you an indication is that the subsidiaries where we do have a minority partner are continuing to operate and perform in terms of profitability ahead of the rest of the Group slightly; that's the signal.

GOLD J: Okay. Is that the reason where… is that the reason taxes as a percentage of the tax rate is going up this year as well?

KERASTARIS A: Yes. But you will see just for everybody to understand, the main effect from Greece where it is a 100% owned subsidiary, if the profitability of Greece goes down, then obviously all of the minorities go up as a percent because they are not affected at all by that. And obviously, when you have the same EBITDA, but less contribution from and a 100% operated entity, obviously this dilutes the picture in terms of the income tax and in terms of minorities.

GOLD J: Okay. Thank you. And so for the cash position, you know, are you guys seeing… what kind of opportunities are you seeing to use that now which is just really growing on the balance sheet?

ANTONOPOULOS C: The opportunities for the Group are global, we see opportunities in United States, we see opportunities in Asia, and we see opportunities in Latin-America. So we do not intend to have major acquisitions, although as I mentioned in my presentation and the speech is that this… so this is running now with a big consolidation between the lottery and the gaming industry. And we do not intend to follow this.

We have decided to concentrate on our lottery sector and we are building up the confidence on the technology and the service we can provide to our customers and to ourselves because in certain jurisdictions we are operating for the government the licenses. So I think that, the CAPEX and the investments we have foreseen, is to have spread around the globe, not to be concentrated in a place.

GOLD J: Okay. And do you think, is there a reason you've been excluded from this consolidation or you have actively wanted to be excluded from that?

ANTONOPOULOS C: We do not see much opportunities; between the casinos and the lotteries.

GOLD J: Okay. And so, in the recent months, we've seen a, you know, huge volatility in your stock price, do that… just been included on the exchange in Greece? And…?

ANTONOPOULOS C: I'm sorry, please…

GOLD J: And so, it seems like that volatility just provides you with the real opportunity to buyback your stock at really great returns given that you guys, you seem bullish on it over the long-term and in that next year, it seems like the cash flow generation should improve. So is this volatility just giving you an opportunity to buyback your stock at a cheap level?

KERASTARIS A: What the management has decided not to be is: traders. So I cannot see very much of a reason to buy the stock of the Company or to have a decision at Board level. And the next day it tries to go further down and make losses that are attributed to a decision that was not associated much on a very volatile stock exchange which is driven not by the stock or the performance of the Company, but maybe the country. So this is the answer we have given in the last years on the stock which is listed Athens stock exchange.

GOLD J: So, I'm not saying to trade it, I'm saying to… you when the market gives you an opportunity, it's coming at you every day and giving you a price on your company. One week, it's 40% lower than it was the week before, you are not trading at that point, you are just taking this volatility and using that to your advantage to buyback your stock at a cheap level. I am not saying to trade the stock. I am saying to view it opportunistically.

So you know the internal level, you know or some level that your company is worth, and if the market is coming to you with a greatly reduced price, it provides you with an opportunity to buyback your stock. And it seems like that rate of return is much higher than payback the dept let's say or even the return on capital of the business right now.

ANTONOPOULOS C: Do you suggest that we buy stocks and do we keep them or sell them again?

GOLD J: I am suggesting you just buyback stock and cancel the shares. It seems like a way to increase the cash flow per share without any operational risk. It's almost one of the easiest ways to increase the value per share, when your Company is undervalued, which it seems like you guys fall into that latter category right now.

ANTONOPOULOS C: This cannot be more than 10% according to the Greek Law first of all and…

GOLD J: 10% would be a great amount though, I think.

ANTONOPOULOS C: Ad hoc, you know, 10% per year or 10% for…you know it's maximum 10% which maybe the drop of the next day or maybe the increase of one day. So this is a very volatile stock exchange, and I don't… you know, anybody can blame, anybody has the decision that it has not been a wise decision, I understand to your points, but this is not been shared by the Board.

GOLD J: Okay. So I get the fear that it may become even cheaper due to being on the Greek exchange. But say someone comes to me and offers me a dollar for $0.75 or buy it for $0.75, if they offered the next person for $0.50, you know, I still made a good decision buying the dollar at $0.75 even though it was cheaper, you know, for the next person. And I feel like this is the situation you guys are in, it's still the right decision to buy back the stock now. Although, I do understand your fear about it being cheaper, but it seems like it is the right decision to still buy it cheap when you can?

ANTONOPOULOS C: I have no other comment than that I haven't done already.

GOLD J: Okay, alright. Well, thanks for taking my call.

ANTONOPOULOS C: Thank you very much for participating.

OPERATOR: We have a follow-up question from the line of Mr. Draziotis Stamatios of Eurobank Equities. Thank you.

DRAZIOTIS S: Yes, hi again. Yes, just a follow-up actually on the minorities because you said, you know, you said that subsidiaries perform basically ahead of the rest of the Group, are you considering, you know, maybe increasing your effective stake in countries where you have minorities?

ANTONOPOULOS C.: In most cases we would love to, but this is, you know, the consent of our partners, which are also happy. So you know, it's difficult to convince somebody who is very happy with operation.

DRAZIOTIS S: Okay, thank you.

KERASTARIS A: Thank you.

OPERATOR: We have a final question from Mr. Phanos Theo, Trafalgar Asset Management. Please go ahead.

PHANOS T: Hi, could you say a little bit more about the… Italy, the Italian environment which is as we all know, is very, very competitive, actions of government with respect to licenses and so on? How concerned are you about the development in Italy?

ANTONOPOULOS C: Until today, we have successfully been becoming a very good operator in Italy. And we have increased our portfolio of games from betting to VLTs and AWPs, in monitor games and on the internet. Of course, Italy as a country is facing a financial situation which affects all the financials in every sector, and that's a one question we have going forward.

The second is that there is a tendency of the government, of the Italian government to increase taxation, that's an intention, I do not know if it will happen and materialize or not, but this is a second concern. Other than that, the Intralot Italia is a very good performing Company and that's a positive. So we have increased versus our market share from 6% to almost 12% in the last 3, 4 years. So the good news is that we have a very good operating Company. The bad news is that we may have some troubles on the financial situation of the country and the taxation regime.

PHANOS T: Okay, thank you. And a last question on going back to Greece, I mean how hopeful are you that you will get one of the licenses on… agent licenses on the VLTs, and are you concerned that the economics for the agents may actually be quite poor in which case, well maybe it's not so important to get one of those agencies?

ANTONOPOULOS C: I cannot answer on something that it is going to be an international tender because according to the law, the sub-licensees, not the agencies… it's going to be sub-licensees will be chosen by an international tender. So we have to look first to the tender terms and then answer that. As a matter of principal, we are interested on this business because these are our core business in every part of the world.

And of course, in Greece, we have more resources than in every other country. That said,, we take into consideration the financial situation of the country. And of course, the whole business criteria and the business environment that the tender will possess is going to be very important for us to finally decide on whether we exploit this business or not.

PHANOS T: Okay, thank you.

ANTONOPOULOS C: You're welcome.

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

ANTONOPOULOS C: Thank you very much for participating in this conference call. We have successfully completed a good nine months' results. We are concentrating on our cash flows and the organic growth of the Company. And that said, we are optimistic about the future of our businesses all around the globe. Thank you very much.