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"Nine Month 2016 Financial Results" Conference Call

Thursday 1st December 2016, 17:00 (GR Time)

Conductors:

Antonios Kerastaris, Group CEO,
Georgios Koliastasis, Group CFO,
Nikolaos Pavlakis, Group Tax & Accounting Director
& Elias Athanasiou, Group IR Director

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 2016 Financial 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, thank you very much. Hello everyone. We would like to welcome all the participants on this conference call to INTRALOT's presentation of its Nine Months 2016 Financial Results. Together with Mr. Kerastaris, our Group CEO, Mr. Koliastasis, our Group CFO, and Mr. Pavlakis, Group Tax and Accounting Director, who will briefly review INTRALOT's Financial Results and Operating Achievements for the Nine Months Period Ended September 30th, 2016. Following this brief presentation, we will be at your disposal for any questions you may have. Please, Mr. Koliastasis…

KOLIASTASIS G: Thank you, Elias, good afternoon, everybody. We have sent you a presentation deck, if you go please on Slide #2; there are five points worth mentioning on Slide #2, which reflects the Consolidated Financial Reports of the INTRALOT Group as of September 2016.

The first point is that revenue has improved by 7% topping up at €960 million almost, EBITDA…second point EBITDA at €124 million improving by 2.4%. For these two figures we will come back at later… some later slides. The third point is that Net

Income after Minorities is positive for the period for the nine months ended in September by €2 million, improved by €52 million compared to the same period a year ago. This is mainly driven by the transaction in Italy.

The fourth point is that earnings before tax have been contracted by around €13 million. This is the combination of a couple of items. One has to do with the refinancing exercise that we did in September, so part of this refinancing exercise is reflected at the nine month results. The other part will be reflected in the yearly results which is around €5 million are there. On top of that, it is foreign exchange rate fluctuation for €3 million and less interest income by around €3 million.

The fifth point that we have to remember from these nine months results is that Italy has been discontinued and all the results have been fully reflected in our reported financial statements. However, for the Peru transaction, EBITDA is not included; it is included in the discontinued business. The cash proceeds and the profit from the transaction, the capital gain is not reflected, because the transaction has been completed at the end of November.

Now, if we go on Slide #3, where we see the Performance, the Third Quarter Performance for the Group, we see that revenue has improved by 7%. The 7% on the nine months is driven by better performance in Bulgaria and Turkey and US business which has been counterbalanced, slightly counterbalanced by the deterioration of performance in Azerbaijan, Argentina, Jamaica and Brazil.

If we see the numbers on a constant foreign exchange, the improvement on the nine months is almost 20%. On the three months ending in September, we have been…our performance; our revenue performance has improved by 16% which again, which is mainly driven by the performance in Bulgaria.

Now, the third point has to do with the EBITDA. The EBITDA has… though has been improved in the nine months ended in September, has been contracted for the quarter by around 14%. This is mainly driven by a deterioration in performance in the parent company, which is explained by the M&A transactions that have incurred extra expenses at the parent company level. The extra effort that the Company is putting because in the parent company, it's the biggest also a technological hub for the Group and there is an extra effort for the various projects implemented in the globe, we have various projects currently under development. And the third one, the third reason for this contraction has to do with one-off item in the Q3 of last year.

However, if we go on the Operating Cash Flow, you will see that there was almost double in the nine months ended in September compared to the same period a year ago. And this, the number is €121 million of operating cash flow, compared to around €65 million in the nine months ended in 2015 which has to do in a big portion with the fact that we had been discussing last year that the working capital changes was one-off item and was not recurring. And on top of that, the net CAPEX has been less in the nine months in 2016 compared to 2015 by circa €9 million.

Now, if we go on Slide #4, what you will see here on the top left is the fact that even though the two major companies, the Peruvian one and the Italian one is not included in our results, we are a €1.3 billion company. So the last 12 months figure for the revenue is at almost €1.3 billion which is 3.6% better than the same period year ago. And you will see also the effect of these transactions in the EBITDA margin. Our EBITDA margin though a little bit lower, if we see apples-to-apples with the nine months ended in September 2015, it is in the area of 13% significant higher than the 9.3% that it was in 2015 or 9.5% that it was in 2014.

On the bottom left, you will see the tremendous improvement in the cash generation of the business. So the operating cash flow minus CAPEX for the nine months is €74 million which is more than in 2015. In 2015 it was €57 million and close to what we had annually delivered in 2014 or '13.

And the net debt on the bottom right, you will see net debt increased to €534 million. If you recall the respective figure of the first semester is close to €510 million. The deterioration in the net debt is driven by the dividend distribution to joint venture partners of €10 million…close to €10 million, and €10 million due to the M&A activities.

However, if we take into consideration, the cash proceeds from the Peru and the residual redemption premium that we paid to the bondholders in October, the net debt to EBITDA is 2.9 times significantly better than the reported figure of 3.2 times.

Going on the next slide, Slide #5, we have for first time reflect… demonstrated our GGR figures, we have been replying in the query sessions, but as you have been asking we decided to reflect the figures in our presentation deck. So our GGR is €0.5 billion for the nine months, improved 4.3% year-over-year. If you see the numbers on top of this, you will see that we are benefiting from the contracts that are technological or management contracts, which have been improving by 13%...13.6% compared to the licensed operations where payout is related. And the 13.6% improvement in the nine months is mainly driven by the US performance and the Australia performance.

Now, the other element that you have to see in this…from our point of view in this slide; is that our EBITDA margin on the GGR is 25%, which is from the best…. 24.8%, which is from the best in the industry. And we have…and I will pass you to Elias after the Refinancing slide, which is Slide #6.

In September 2016, we have completed a refinancing exercise, we have refinanced our €335 million senior unsecured bond expiring maturity in 2018, with a new one of €250 million or five years or maturing in 2021.

What we have done with this…this refinancing effort was completed in anticipation of expected increase volatility in the marketplace. So we feel that the timing was excellent in terms of going to the market for refinancing, and we have managed to secure annual savings of around €12 million per annum, by reducing significantly the interest expense from around 10% which was the [technical difficulty]of the 10:20 current one.

Our book, we had on top of that, international investors have fully demonstrated their belief in the Company. So our book is, at least, when we issued the new bond, 60 out of 65 investors, were international investors and international investors have taken or have acquired 95% of our book.

On top of that, we have managed to get commitment; committed lines for a three year period, so it will be for the next three year bid… to refinance also our revolving facility, and we have managed to take €40 million more in terms of committed lines.

Now, I am passing to Elias for the segmental analysis.

ATHANASIOU E: Yes. Thank you very much. Going on to Slide 8, the Contract type Sales Breakdown, license operation still contributed a bulk of our revenues approaching 75%. Management contracts 8.6% and technology close to 17% compared to 76% on a like-for-like basis for license contracts of last year. If this is…this drop in license operations, the percentage is due to the M&A activity that took place recently in Peru and in Italy. The number for last year was 82%, so we have dropped 6 percentage points lower than what we were at last year.

Going on to Slide 9, the Revenue per Product Analysis. Sports-betting sales increased by 2.4%, in the nine-month period ending 2016. Practically, we grew in all jurisdictions with the exception of Azerbaijan that posted a significant contraction in the local business there. Just to try to add some more color here, if we exclude Azerbaijan from our calculation on the performance of sports-betting, the 2.4% growth becomes 22.2%, so the Azerbaijan held back, sports-betting as a total for the nine-month period.

Going on to Numerical Games, they grew by slightly more than 11%. The major driver here was Bulgaria with the introduction of the new games there in late Q3 last year, which contributed a significant amount to this growth, and the second largest growth driver was….were our operations in the United States.

Going on to the next game, VLTs/AWPs**;** the growth was a significant 70% here. The bulk of the growth came from our Australian operations, the monitoring system there, and also from the US, which is a relatively new contract and was not in our numbers in the respected period of last year.

Racing was down by 27.7%, again this was held back mainly by Azerbaijan that posted a significant contraction there. Bulgaria grew a bit, but did not manage to counterbalance the strong effect of Azer .

IT Product and Services grew by 5.8%>. The major growth came from the US, which was in the region of 4.5% for the local business there, and also Jamaica, leading the consolidated growth…consolidated revenue growth to 7%.

Going on to the next slide, Slide 10, as we said before, following the M&A activity in numerical games now are the largest contributor in our product portfolio. They are almost 49%, followed by sports-betting 34%. IT products…pure IT is slightly more than 11, racing and VLTs are both represent of 3%.

Going on to Slide 11, Wagers on a Regional Basis. Eastern Europe posted a growth of 3.2%. The amount increased by €80 million, this was… the bulk of the growth came from

Bulgarian operations, as I mentioned before, the numerical games offered in the country. Western Europe was…grew by 1.4%, practically flat.

North America had a very big increase; the handling went from €4.2 million to €4.7 billion. Growth was across all our operations in all states in the US. We cannot pick a single state that was an outlier there.

South America, contracted by 13%, Argentina and Jamaica were the primary drivers of this contraction. Africa grew by 22%, Morocco**,** led the growth there. We are established there for many years. And also our operations in Kenya which are relatively new, bringing the total growth of our total wagers handed to plus 1%.

On the next slide, Slide 12, we see the contribution on handling by region. As we said before, North America… no sorry Asia is the largest market for us in terms of handling of wagers €5.5 billion, followed by North America €4.7 billion, Western Europe €3.7 billion, Eastern Europe €2.5 billion, South America €612 million, and Africa €190 million, bringing the total amount of wagers handled €17.3 billion, growing by 1% on a year-on-year basis.

I will now pass you on to our CEO, Mr. Kerastaris, for his remarks. Please Mr. Kerastaris**.**

KERASTARIS A: Good afternoon, ladies and gentlemen. We feel that by enlarge we are on track with all of our main business objectives going forward, refinancing the debt at the time that it happened, and with the terms was in our opinion a major achievement. It is going to give us the right financing structure and the right financing cost to continue pursuing business objectives.

We have continued with our restructuring of the group, finalizing the Peru transaction at a price that is north of seven times EBITDA, which is a very clear indication of the underlying value of our Group, especially if we compare it with the multiples that our shares are trading in Athens Stock Exchange.

We are on track with the major new projects and the new products that are coming online. This month we are launching… so in December, we are launching two major projects with our new CRM platform, and we recently signed an agreement with a sports-betting platform, that will be the new INTRALOT offering going forward. More details…and the detailed press release will follow during the course of next week.

So we are continuing to invest in the business by growing in new geographies and in new product categories. We are continuing to invest in the products and services going forward. And we think that the set of results for the quarter and the nine months of the year are a very good proof of the Company being on the right track and executing against objectives. I would like to thank you, and myself and the team are at your disposal for any questions you may have.

Q&A

OPERATOR: The first question comes from Mr. Draziotis Stamatis with Eurobank Equities. Please go ahead.

DRAZIOTIS S: Yes, hi, there and thank you very much my questions. Three questions, if I may please, the first one would be on gross margins. You made a reference to this 8% increase in gross gaming revenues in the quarter. Yet, we see that gross profit was down about 6%, so it appears that there are other cost categories in gross profit, which increased quite substantially in the quarter. What were those categories, please and what drove the increase, if you could help us understand that please. Second question would be again on the…regarding the cost base. You refer to these one-off factors that impacted profitability in Q3. Could you just quantify this bit, in particular M&A costs, what you refer as investment in product development, what level of costs were one-off in nature in the third quarter. Could you also remind us the one-off item that had boosted performance in the same quarter last year, please? And the last question would be regarding the capital gain associated with the disposal of the Peruvian operations in the fourth quarter, if you could tell us what this will be, please? Thank you.

KOLIASTASIS G: The gross profit deterioration has to do mainly…so in terms of GGR, in GRR we do not reflect gross profit, if you see the gross profit margin deterioration; this has to do with the increase on the payout. So, the payout has increased by 374 basis points and this is the main driver for the gross profit deterioration in the quarter.

DRAZIOTIS S: Sorry, can I… just say that looking at our gross gaming revenue which was up, as we have seen in the quarter, but in order to get to gross profit from the gross gaming revenue, you basically take out several other costs items which are, you know, of various categories. So these cost items seems to have increased in the quarter, what were those categories? So excluding payout basically, because payout is already included in the gross gaming revenue?

KOLIASTASIS G: The gross gaming revenue has increased in nine months, not in the quarter. In that quarter it more or less slightly improved versus of same period last year. If you see the Slide #5, it is nine months figure, it is not three month figure.

DRAZIOTIS S: So, I thought that the press release was suggesting that the GGR in Q3 was up 7.6%, is that a typo?

KOLIASTASIS G: We will come back on this item, I haven't seen that the GGR has 7% up in the…

DRAZIOTIS S: In Q3?

KOLIASTASIS G: In Q3, in the press release… it is in the revenue perhaps. Now in terms of the cost…., there are…, they will come…., we are looking into this and we are reverting back. In terms of the cost base, there is…there are at least three elements that we have mentioned, one with increased M&A activities this is close to €1.5 million, and extra consultancy expenses, extra increased expenses. But, last year it has do with the dividend received from Hellenic Lottery plus a Malaysia income, from Malaysian operations income in the INTRALOT SA, that was…all of this was booked in the Q3, and which is in the range of €3 million. And the extra project that we are doing which is therefore the rest of the difference there are projects in Chile, in Lotterywest in Netherlands, and in several other places across the globe that we have putting increased effort in terms of projects, and there are a lot of projects that we are currently under development. So these are the elements, in terms of profit from the Peruvian transaction, it will be as we have not finalized the entries, but it will be more than €50 million.

DRAZIOTIS S: So that €50 million is going to be the capital gain to be booked in the fourth quarter roughly?

KOLIASTASIS G: Roughly, yes.

DRAZIOTIS S: Okay. That's useful. Thank you very much.

OPERATOR: The next question comes from the line of Ding, Haiyan with Oddo Meriten Asset Management. Please go ahead.

DING H: Good afternoon. Thank you for taking my questions. With regard to the one-off costs; my question is, are you expecting, for example, the project throughout to continue in Q4 this year or next year? So can we expect kind of run rate, quarterly EBITDA of €40 million? And the other question is, whether you can give us an update with your potential disposals elsewhere, such as in Oceania, Oceania in Australia and New Zealand? Thanks.

KERASTARIS A: We expect that costs will be normalized, so these were one-off costs. On the project with the disposal of our VLT monitoring business, in both New Zealand and Australia, it is still pretty much work in progress, so the transaction is still underway, there have been delays, ideally we would have liked to have closed this transaction by now. There have been delays that are related to the supposed merger or the planned merger between Tatts and Tabcorp so normal for a transaction of this size, but we are very much on track to finalize this transaction as well.

DING H: Okay and you said, you expect these one-offs to be normalized, when? Is it in Q4 this year or is it like in the next year in the second half?

KERASTARIS A: After, we complete the transaction all of those costs will be normalized. So there is still some spillover in Q4, but that's the end of the extraordinary costs, including also the residual of the call premium and the other financing expenses that will be booked in Q4 as well.

DING H: Okay, good. Thanks.

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

DRAZIOTIS S: Yes, hi again. Sorry just a follow-up on M&A, so, as far as, I understand you…because the line was somewhat bad while you were talking about this, the Oceania business. So as far as I understand, you are…this will most likely conclude at some point soon, right?

KOLIASTASIS G: God willing.

DRAZIOTIS S: Okay. And are you actually looking to dispose other subsidiaries too?

KOLIASTASIS G: No other plans currently.

DRAZIOTIS S: No other plans. Okay. Thank you very much.

OPERATOR: We have a follow-up question from Ding, Haiyan with Oddo Meriten Asset Management. Please go ahead.

DING H: Yes. Hi, I am wondering, if you can provide a full year EBITDA guidance and CAPEX or has there been any changes since your last bond issuance?

KOLIASTASIS G: EBITDA is expected in the range of €170 million for the year, and CAPEX is expected at close to €70 million.

DING H: Okay. Thanks.

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

KERASTARIS A: Thank you very much for joining us. Our best wishes for the festive season. And see you with… we will talk again with the New Year and the full year results. Thank you very much.