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"Full Year 2016 Financial Results"
Conference Call

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Conductors:

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Georgios Koliastasis, Group CFO,
Nikolaos Pavlakis, Group Tax & Accounting Director,
Andreas Chrysos, Group Budgeting, Controlling & Finance Director &
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Conference Call Conducted by Chorus Call Hellas

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

Welcome and thank you for joining Intralot's Full Year 2016 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: Good afternoon. We would like to welcome all participants on this conference call for INTRALOT's 2016 Financial Results. Together 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, we will briefly review INTRALOT's financial results and operating achievements for the twelve months ended on December 31st, 2016, following which, we will be at your disposal for any questions you may have.

We will start our presentation with the segmental sales analysis on Page 2, and then we will see how these have been reflected to the financial results of 2016. Regarding segmental sales per contract type, licensed operations for the twelve months of 2016 contributed almost 75% of total turnover while management and technology contracts together contributed around 25%, posting a small shift of 1% from licensed operations towards the management and technology contract versus a year ago.

The shift was the combined effect of the very strong performance of the Bulgarian operations boosted also by the first time consolidation of Eurobet counterbalanced partially by lower sales in Azerbaijan, Argentina and Jamaica primarily affected by FX negative movements in all three markets from the operators end which overall increased by 5.8% year-over-year, and, also disproportionately increased sales in Turkey, Morocco; but primarily in Australia and in the US on management and technology contracts which year-over-year increased by 17.1% and 8.7% respectively.

So moving on to the Revenue Breakdown Per Product, to the Product Type, lotteries and sports betting continue to represent the majority of our turnover, accounting for more than 83% of our total sales for the year ending on December 2016, with sports betting showcasing a year-on-year increase of 19.3% while lotteries decreased slightly by 1.4%.

With respect to wagers, €23.4 billion of worldwide wagers were handled through INTRALOT systems, the majority of which in Asia 31%, in North America 26.5% and in Western Europe with more than 22%.

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 2016. And 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. Going to Slide 4… hello, everybody. Let's start, going to Slide 4, we see on the top left, revenue from continued operations to grow by a healthy 7% for the full year in the last quarter driven by the performance as mentioned in Bulgaria, Turkey and in North America that more than counterbalanced the shortfalls of Azerbaijan and South America.

INTRALOT's EBITDA margin reached 13.3%, the same as in prior year. Q4 margin improvement is mainly attributed to the other operating income increase. Operating cash flow topped €168 million, 47.4% up from 2015, while CAPEX was almost 9% less than prior year.

Going to the next slide, we would like to point that the two graphs on the top incorporate until 2015 the businesses that are considered as discontinued in 2016. These are separated with a dotted line by revenues and the EBITDA volume of the continuing business.

Looking at the two graphs on the top, we see that though we lost €680 million of EBITDA, apples to apples, turnover, sorry not EBITDA, turnover, apples to apples for 2015, we only lost around €12 million of EBITDA as the result of the transactions in Peru and Italy. 11 out of the 12 as depicted on that top right graph were recovered through last year's better operational performance.

However, we feel that the most important delivery of last year is depicted on the bottom left graph where operating cash flow minus CAPEX reached €103 million in 2016; much bigger than any prior year, even years where the EBITDA was much higher.

On the bottom right graph, we see that net debt reaching €495 million and net debt to EBITDA at 2.8 times, we will come back a little bit later for the net debt evolution.

Going to the next slide, Slide 6, we see that GGR and nGGR are improved in 2016 by 3.5% and 3.2% respectively while absorbing a 3.5 percentage points of payout increase. Q4 payout increase is much softer which gives us the hope that this will be stabilization in the market for the 2017 results.

As 2016 was a year of significant extraordinary items that may distort the picture, in Slide 7, we try to depict, to bridge the net debt of 2016 to the net debt of 2015. Starting from the €478 million of net debt position in 2015 and excluding the net cash effect of the refinancing activity and the M&A effect transaction; the effect of the M&A transactions, we see that the net debt for the year increased by €5 million, 10 of them is normal course of business net debt increase, where 5 of these, half of this was mitigated by our working capital actions within the year.

Next slide, it is mainly to address the question that usually is coming to us in this call, which is the minority… which is the contribution of the minority partners in INTRALOT's consolidated results. You see we have in detail the major contribution the major minority partners and the EBITDA contribution for the full year and the nine months. If you do the calculations, 37% of the consolidated EBITDA it belongs to the minority partners.

Now if we go back to Slide 3, Slide 3 summarizes the performance of INTRALOT in 2016. What has not been stated as of now is the significant improvement in the net income after-tax and minority interest. We have a positive net income after tax and minority interest of €1 million compared to €65 million shortfall in the prior year.

We would like… because this figure consist of two element, one is continuing operations and discontinued operations. Please bear in mind that in the respective figure for the continuing operations, there are the €22 million of the refinancing expense as negative effect there, plus another €24 million of impairments which we took in 2016, which if taken into consideration reflects a significant improvement compared to 2015. Please also take in mind that in 2017, we will see the benefits from the refinancing activities that we calculate to be in the range of €12 million to €14 million per annum.

So prior to passing to our CEO, Antonios Kerastaris, the last, summary of last year’s financial performance is the following according to me. A) healthy revenue and EBITDA growth. B) net debt reflects strong signs of stabilization and C) net income after tax and minority interest from continued operation is a loss, but significantly improved compared to prior year.

And now, I am passing to Antonios for his remarks.

KERASTARIS A: Afternoon, ladies and gentlemen. As analyzed by both George and Andreas previously, 2016 was a year of positive results; strong positive results in both growth and profitability that reflect important transformations that have taken place over the past couple of years across all fields, meaning operational capabilities, project management, execution that is, cost structure, products and services portfolio investments. So

2016 is a year where all of the things we have put in place have started finding their way into the P&L of the Group.

On top of that, a series of M&A transaction greatly enhanced our business development potential through strong local partnerships and diversified portfolio offering.

This past year was also marked by tremendous improvements in our financial structure in a way that secure future savings and a clear funding horizon until 2021, while affirming international investors' confidence in the value creations for the future. We see 2016 as the first year where we can clearly see what's the result of all of the projects that we have initiated in the past couple of years is, and I think it is the basis for what we will present in 2017 and onwards.

With that last remark, I would like to thank you again for joining this conference and myself and the team are available for any questions.

Q&A

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

DRAZIOTIS S: Yes, hello to everyone and thank you very much for taking my questions. Few questions actually from my side, please. Firstly, you referred to a boost from non-recurring other income relating to the settlement of the Victoria State Lawsuit. Could you please give us some color on this and explain what the non-recurring contribution was exactly in the fourth quarter, please?

Second question, you refer… you well, basically I am just wondering if you could help us reconcile the net debt movement in the fourth quarter because your net debt was about €534 million in Q3? You received your… the proceeds from the disposal of Peru in Q4 which if I remember correct was… were about more than €60 million. I am just wondering if you could help us reconcile the €495 million of end year net debt basically. So, were there any other figures diluting the proceeds from this disposal? Any, such as the amount earlier in the year relating to the discontinuing operations in Italy?

And third question would be again on cash flow. In 2016, your net debt actually increased year-on-year. You talked about the refinancing costs and the minority dividends as factors that drove this development. I was just wondering looking ahead to 2017. Do you actually see net debt declining year-on-year without taking into account any further M&A; so, on an underlying basis, and if this is the case, what will drive this improvement? Thank you.

KERASTARIS A: So very quickly, let me cover the first question about Australia. When we were awarded a lottery license in Australia there was a dispute between ourselves and the state as to the quality and the number of retail outlets that we would acquire along with the license. We had filed a lawsuit years ago, which we settled in 2016, and that's why it is a one off affect. As, you know, we have sold this license already since 2015, so the proceeds from the settling of the lawsuit is an one-off-item in Australia, size is 6 million.

KOLIASTASIS G: Okay, and I will try to explain, but we are going to provide information also tomorrow if you like on the M&A. The net proceeds of Peru is 54 and this compared with the price of 64 as following. There are taxes in the transaction in Peru. There is cash that remains in the company that will be dividend up to us within 2017. There are also consulting and other fees, so the net proceeds from where Peru in last year was 54, and it is also is Page 7 of our presentation.

The temporarily restricted cash due to Italy happened in Q4 2016, and has to do with letters of guarantee that are released today or tomorrow, as we expect, from the partners because we had an operation in Italy, and we had letters of guarantees of around €9 million, which because the activity has been transferred to Gamenet, to our partners there, that was through… for the remaining period with a cash collateral that has been, is expected to be released by tomorrow as we speak. So these are the two major effects in Q4.

Apart from that, the rest is more or less we can consider operational. Obviously, all the refinancing expenses, I mean the call premium, plus the double interest, I mean the interest for two months has been booked in 2016 Q4, plus any other minor items. If I am, okay… what is in Q4 compared Q3 is €13 million out of the €22 million of the refinancing expenses.

DRAZIOTIS S: Okay, that's very helpful.

KOLIASTASIS G: Okay? Now the net debt evolution, will you please repeat the question?

DRAZIOTIS S: Yes. I am just wondering looking ahead to 2017, if you actually do expect…?

KOLIASTASIS G: Okay, excluding, IP acquisition or increasing associates or subsidiaries, I mean we feel that net debt will be more or less stable year-over-year. Without taken the IP acquisition or the… I mean AMELCO, the AMELCO IP acquisition or the, an increase in Bit8 or some residuals that has to do with the M&A activity.

DRAZIOTIS S: Okay, thank you.

KERASTARIS A: You're welcome.

OPERATOR: The next question comes from line of Mr. Lienert Stephen of Jefferies. Please go ahead.

LIENERT S: Yes, good afternoon. Greece is obviously a major part of your technology and support service contract. Could you tell me what percent the OPAP contract represents to you?

KERASTARIS A: The OPAP contract is approximately 2% of our total revenues.

LIENERT S: Okay, and today, OPAP was suggesting that contract is going to go away next year. Is there anything you can do on that or do you have other mitigates to replace that contract?

KERASTARIS A: We… first of all, the decision on whether to renew or not renew the contract is the decision of OPAP, so it is the customers' prerogative. We, as management of INTRALOT, already have a number of options to replace the contribution of this contract going forward.

LIENERT S: Okay, thank you.

OPERATOR: The next question comes from the line of Mr. Ponte Julio of UBS. Please go ahead.

PONTE J: Hello, hi, congratulations on the good quarter. I want to ask you if you could roughly understand, your increase in EBITDA margins. I mean, it's quite impressive considering the adverse payout in the Q4 I am referring. So, I was wondering if you could expand on that and if going forward, we should expect any similar improvements? Thanks.

KERASTARIS A: The margin, the EBITDA margin of a Company like ours that has different operations, meaning license and technology operations is to a great extent the result of the mix of the various businesses to the total. The currencies according to the type of operation, what we have said is that, the target for the Group is to reshape the operations in a way that we can expect an EBITDA margin in the range of 15%. So, for the Group the target going forward, is a number in the range of 15%, which we think would be a best-in-class performance. We are not there yet, but we are clearly on the way there.

In our business payout does affect the performance in terms of the EBITDA margin. But, at the end of the day, payout is a fact of life and in competitive markets, you have to live with the market. So you can have a good quarter, or you can have a bad quarter in terms of payout, and that's a random result, not one you can influence. What we do as management is manage our margin, our EBITDA margins, to the level of 15%.

PONTE J.: Thank you.

OPERATOR: The next question comes from the line of Mr. Mittleman Chris of Mittleman Brothers. Please go ahead.

MITTLEMAN C: Hi, guys. Nice quarter. I wanted to ask you a couple of questions. First of… you don't report this and I wish you would make it a part of your presentations, so we could have more clarity. But, in the past, you have been willing to mention it in the calls. What was the proportional ownership to our equity interest in your EBITDA? Because I noted that ranged at times from, you know, 60% or two, a little bit higher than that. Where do you guys see that at the moment?

KERASTARIS A: Well, if you look at Page 8, of the presentation…

MITTLEMAN C: Right…

KERASTARIS A: You will see the countries where we have minorities, what is our stake in the business and what is the contribution of this country in the overall EBITDA. So, by working the numbers our, meaning INTRALOT's attributable EBITDA is 65%...

MULTIPLE SPEAKERS: 63 to 65 depended on the quarter…

KERASTARIS A: …of reported.

MITTLEMAN C: Okay. That's fine. Yes, I guess, I was obviously saying is that in the, you know, some companies that have, you know, a heavy kind of minority interest report, you know, proportional numbers just kind of, you know, on the summary basis to make it easier for everybody to see, you know, what we… what the actual proportional EBITDA is supporting that the debt to, you know, the holding company has.

But, you know, it's only… it's there, I can take it through, I actually didn't see the presentation. I guess, it must be buried in my email somewhere. The second question I have is something I saw a news story in one of the trade journals about the couple of the major betting companies withdrawing from Poland, because of the new tax there, I think like a 20% tax on wagers is coming. Are you guys still going to stay in Poland or is that a meaningful part of your business? I am wondering if you would expand on that a little.

KERASTARIS A: It's a very small part of the business. We are looking to exit Poland. We have been looking for the last six months. It is the P&L structure of the market with the 12% tax on turnover is a no go for any company that is doing legal wagering. So with the 12% tax on the income, on the top line, you cannot sustain a wagering business in any part of the world. So it is our decision to...

MITTLEMAN C: Okay. That makes sense.

KERASTARIS A: …exit the market. We are now also appointing an investment bank to assist us in that move. This said, it's less than 1% of our business.

MITTLEMAN C: Okay. That's good to know. Lastly, I wanted to ask you about the AMELCO partnership. There is, I guess there is a going to be a cost to this for you guys, right. Have you specified what that would be, the actual amount of money being invested?

KERASTARIS A: We have paid AMELCO for the right to use, reproduce and sell the IP rights an amount in the range of 15 million pounds Sterling.

MITTLEMAN C: Okay. Alright and the…

KERASTARIS A: This will include transfer of ownership of the IP rights.

MITTLEMAN C: Okay. And will that be in conjunction with what you are doing with Bit8 or are you going to be you know, kind of walking away from the Bit8 partnership?

KERASTARIS A: No, Bit8 is a CRM tool. So Bit8 would be an add-on to the betting platform of the joint betting platform of INTRALOT and AMELCO. So AMELCO is going to be used as the online solution of our betting platform. So we will integrate our current retail platform with the online platform of AMELCO, so we are having for the first time an integrated globally retail and online gaming platform.

To this platform, we will add a CRM and loyalty system that is Bit8 and a number of other platforms and games that are part of the INTRALOT universe. So in actual point of fact Bit8 is complementary to our sports betting platform.

MITTLEMAN C: Okay. I didn't understand that dynamic. Thank you. And lastly, the… you had mentioned some time ago about or the Company had announced some time ago the possibility of a transaction, whereby your remaining Australia and New Zealand operations might be sold to Tatts. And I know that that has been put on hold while Tatts is you know, potentially going to be brought up by Tab in Australia. I'm just wondering, is there any prospect for that you know, kind of going through down the road or do you think it's something where it's just been you know, kind of indefinitely postponed?

KERASTARIS A: There are… currently the situation in Australia is rather complicated both Tatts and Tabcorp… and you probably know that also there was a second offer to buy out Tatts business by a group of banks and investors. So the situation in Australia has become a bit complicated both on the regulatory front and on the business front. I think they have more serious problems to tackle; in that context we are progressing with the business as usual scenario currently for our Australian operations.

Now, the nature of the business there is that it's VLT monitoring business. So practically, it is a business where cash flows are related with the number of machines that we monitor, so we have steady cash flows, zero CAPEX and a relatively easy operations. So, on that context continuing with our business in both Australia and New Zealand, is the decision for the time being at least, until the environment, the regulatory and business environment, clears in Australia.

MITTLEMAN C: Okay. That's makes sense. I was just, I was hopeful that the transaction might at some point happen just because as you said, it's probably a high margin business and you could probably get a good multiple for that and when you see you know, you know, your own stock trading in the open market at you know, five times you know, proportional EBITDA and you know, transactions possibly you know.

I mean in Australia they are trading it you know, 10, 12 times something like that, 13 times EBITDA, so I was thinking you know, you guys might be able to do better than seven times EBITDA on a sale of that business, but you know, that's as long as it's generating cash that's fine, and thank you for the color on that.

KERASTARIS A: Thank you.

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

KERASTARIS A: I would like to thank you all for participating in this call and looking forward to talking to you soon with our Q1 results. Thank you again and have a nice afternoon. Thank you.