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"First Quarter 2017 Financial Results" Conference Call

Thursday 25th May 2017, 17:00 (GR Time)

Conductors:

Antonios Kerastaris, Group CEO,
Georgios Koliastasis, Group CFO,
Nikolaos Pavlakis, Group Tax & Accounting Director,
Andreas Chrysos, Group Budgeting, Controlling & Finance Director &
Michail Tsagalakis, Head of Capital Markets

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 First Quarter 2017 Results Conference Call.

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

Sir, please go ahead.

CHRYSOS A: We would like to welcome all participants on this conference call for INTRALOT'S Q1 2017 Financial Results. Together with Mr. Kerastaris, the Group CEO of INTRALOT, Mr. Koliastasis, Group CFO, Mr. Pavlakis, Group Tax and Accounting Director and Mr. Michalis Tsagalakis, Head of Capital Markets, who will briefly review INTRALOT'S Financial Results and Operational Achievements for the First Three Months Ended on March 31st, 2017, following which we will be at your disposal for any questions you may have.

So we will start our presentation with the Segmental Sales Analysis in Page 2, and then we will expand the main operational achievements and how they have been reflected to the financial performance of Q1 2017.

Starting with the segmental year-on-year sales analysis per type of contract; licensed operations for the first three months of 2017 contributed 78% of total turnover, while management and technology contracts together contributed 22%. As a result of an almost stable management and technology contracts revenue and substantially growing licensed operations revenue versus last year.

Considerably better performance in the markets of Bulgaria, Azerbaijan and Jamaica, along with the consolidation of Eurobet, which was not part of the Group in Q1 2016 were the primary reasons for this outcome which was further supported by a contraction in management and technology contracts driven by the excessive Powerball jackpot effect in the US during Q1 2016. The improved recurring operational performance however of our licensed operations, fully absorbed last year's benefit from Powerball.

Moving on to the revenue breakdown per product type, lotteries and sports betting continue to represent the majority of our turnover, accounting for more than 85% of total sales for Q1 2017, almost similar to the respective contributions versus year ago.

With respect to the wagers, €6.8 billion of worldwide wagers were handled through INTRALOT systems, slightly higher compared to the respective period last year 1.1%, the majority of which in Asia 40%, in North America 24%, and in Western Europe with almost 20%.

And this brings us to the end of the segmental analysis, and at this point, I would like to introduce our CFO, Mr. Koliastasis, who will present briefly the financial results of Q1 2017. Following that, our CEO will make a brief comment for the year and then the Q&A session will follow.

Please Mr. Koliastasis, go ahead.

KOLIASTASIS G: Thank you, Andreas. Hello everybody, going to Slide 3, we see the summary, Consolidated Financial Position of the Group as of March 31st, 2017.

INTRALOT's performance improved in all key performance indicators apart from EBITDA margin that contracted from the quarter by 2 percentage points. Worth to mention is that, earnings before tax growth and subsequent earnings before tax margin improvement by 1.5 percentage points, as a result of the refinanced activity that took place last year on top of favorable FX movement, which led to an improvement to the net income of the shareholders to the parent. Last 12 months, March 2017, revenues are up by 4.8% at €1.38 billion and it's up by 1.1% at €177.8 million compared to full fiscal year 2016.

Going to the next slide, the key operational highlights for the quarter are; firstly, revenue improved by 20.6%, as already mentioned by Andreas, the countries contributed are Bulgaria with €27 million due to Eurobets consolidation and Eurofootball's operational performance, Azerbaijan with €14 million, driven by marketing activities in fixing the basics on the field, and Jamaica with €14 million, driven by the numerical games performance.

Secondly, EBITDA improved by 4.3% on the quarter due to the better turnover in gross profit. Though EBITDA margin contracted by 2 percentage points as the direct outcome of the gross profit margin reduction which was 2.1 percentage points.

The increase of the payout by 1.5 percentage points on the related business delivering 1 point on the margin deterioration on top of the higher weight of the licensed operations to the total business, 78 compared to 74 as Andreas mentioned, are the prime drivers for the gross profit margin erosion.

Bridging EBITDA margin of Q1, 2017 to Q1, 2016, the payout increase and the Q1, 2016 US Powerball, are the key drivers, having an effect on margin of 1 percentage points each of them.

Thirdly, operating cash flow posted a decrease of €2.1 million in Q1, 2017 compared to 2016. However, adjusting for the operating cash flow of Peru and Italy which were included in last year's operating cash flow figures, INTRALOT demonstrated a healthy operating cash flow increase, driven by strong organic growth close to 12%, and the first time incorporation of Eurobet and Chile, close to 2.3%.

Fourthly, there is a significant increase on the CAPEX for the quarter by €14 million. €12 million out of the €14 million are due to the strategic partnership with AMELCO, an investment which is frontloaded in Q1 and is not expected to affect the balance of the year significantly.

Slide #5, the page what we have already discussed, a very important performance, and three-year results. Please note, on the bottom left that operating cash flow minus CAPEX from Italy and Peru was around €7 million in Q1 2016 out of €10 million for the full year 2016. And on the bottom right, net debt to EBITDA stabilizes at 2.9 times.

Going to the next slide, Slide #6, we see that the Group demonstrated resilience in terms of profitability as it fully absorbed a payout ratio increase of 1.5 percentage points and managed to maintain an EBITDA margin on gross gaming revenue at 25.5%.

Deterioration of the EBITDA margin on gross gaming revenue by 1.7 percentage points for the respective period is due to the Powerball effect in US, 2.1 points. Turkey performance in general due to market conditions by 3 points, and better performance in the rest of the business. They have a positive effect of 3.4/3.5 percentage points.

Slide #7, as reflects, as the main reason of the net debt movement for Q1, the investment in the partnership with AMELCO. INTRALOT's cash position excludes a €9 million cash collateral reversal on April 6th, but in reality was triggered on March 28th.

Now, going to the next slide, Slide #8; Slide #8, reflects a partnership's contribution to the consolidated results. Partnerships participation in consolidated EBITDA was 66% in Q1 2017 compared to 65% in Q1 2016. From the consolidated EBITDA of the Group as of Q1 2017, 61% belongs to the shareholders of the Parent, compared to around 63% in Q1 2016, which gives a circa 1% increase in the absolute figure compared to the same period year ago.

If on top of that we take into consideration the EBITDA…that the EBITDA in Q1 2016 was positively affected by around €3.5 million additional profit due to US Powerball, and their like organic EBITDA grew on Q1 by 15% compared to the same period a year ago.

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

KERASTARIS A: Good afternoon, everybody. Welcome to the Q1 presentation, robust revenue growth and improved profits registered in Q1 2017 are driven by our strategic decision to focus on key markets, as well as, products and services portfolio diversification.

All the transformational initiatives undertaken over the last two years are depicted, both at profit and cash flow levels considerably improved from year ago. With a significantly improved financial structure and operational performance, we are also reaping the fruits of lower debt servicing costs and enhancing our credit grade outlook by rating agencies that boost both our and the markets confidence going forward.

And with that remark, I would like to welcome any questions to the Management team of INTRALOT.

Q&A

OPERATOR: The first question will come from the line of Mr. Draziotis Stamatis with Eurobank Equities. Please go ahead.

DRAZIOTIS S: Yes, hello there, and thank you very much for taking my questions. A few questions from my side, please. My first one has to do with Turkey. You had a relatively good performance into 2016, especially taking into account the FX volatility and the political situation there. Could you just provide an update on the business there, in the first quarter? I think you referred to some weakness and share some thoughts as to the extent to which you feel you can absorb in terms of profitability. There is the additional currency depreciation that you have faced with in 2017? So that's my first question.

Second question would be on some number details, I actually do not have the presentation in front of me, so maybe you already mentioned this. But, could you tell us how much the net gaming revenue was in Q1 this year and what the number was in the same period last year, please? And the third question is, if you have a rough split of the €46.5 million EBITDA by activity please, so that is license, technology and management contracts? Thank you.

KOLIASTASIS G: Okay. Let me cover Turkey first. The market in Turkey for the first year… time in many years is contracting in local currency in Q1 that is a mix of the business events and a mix of market conditions. We already see a reversal of this trend in Q2.

The idea is that we will be able to absorb through either cost savings or improved payouts, the negative effect within the year. So we think that the market is coming or has reached the plateau under the current conditions. And I think that in the next year when we will have all the news about the contract renewals and possibly some changes in the way the game and the business is structured, we will see again the market increasing significantly.

In terms of how the currency has affected, there has been a significant volatility in the currency during this period. This volatility also reflects political decisions for expectations. We see that long-term within the year there will be more stability in both the currency and the market in Turkey.

Now, in terms of nGGR, it is in Slide 6, it is €138 million Q1 2017 compared to €130 million the same period 2016 depicting a growth of 6.2%. In terms of the EBITDA for the technology contracts… from technology contracts was in Q1 close to €13 million compared to €11 million in 2016. In terms of management contracts close to €13 million compared to €18 million in 2016, and the rest is for the licensed operations.

DRAZIOTIS S: That's very helpful. Thank you very much.

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

KERASTARIS A: I would like to thank all of you for joining this call. And see you again next quarter. Thank you.