



19Km Markopoulou Ave., 19 002, Peania – Attica, Greece

Phone: (+30) 210 615 6000

Fax: (+30) 210 610 6800

“First Half 2021 Financial Results Conference Call”

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Conductors:

Mr. Sokratis Kokkalis, Chairman & CEO

Mr. Chrysostomos Sfatos, Deputy Group CEO

Mr. Nikolaos Nikolakopoulos, Deputy Group CEO

Mr. Fotis Konstantellos, Deputy Group CEO

Mr. Andreas Chrysos, Group CFO

Mr. Nikolaos Pavlakis, Group Tax & Accounting Director

& Mr. Michail Tsagalakis, Capital Markets Director

Conference Call Conducted by Chorus Call Hellas



CHORUS CALL HELLAS

PROVIDER OF TELECONFERENCING SERVICES

TEL: +30 210 94 27 300FAX: + 30 210 94 27 330

web: www.choruscall.com

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 and Live Webcast to present and discuss the First Half 2021 Financial Results.

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

Mr. Sfatos, you may now proceed.

SFATOS C: Good afternoon. Welcome to the First Half of 2021 Earnings Call for INTRALOT. I will pass now the microphone to the Group CFO, Mr. Andreas Chrysos for his presentation.

CHRYSOS A: Good afternoon, ladies and gentlemen. As you have seen already from the results that we announced last week, the performance of the first half of 2021 was very good for our Group, and the indications are that the same trend will continue as we move forward. Before presenting our H1 2021 financial results in detail, I would like to make an overall assessment of the performance of the Group against the commitments that we have undertaken over the last couple of years.

In summary, the 4 major areas of interest over the last couple of years were: the first one was the restoration of the lost EBITDA from Bulgaria and Turkey, by focusing more on developed markets, and mainly in the U.S. The second area was the focus on the operational efficiency through

development of synergies and cost optimization measures in support of our financial metrics. The third one was the handling of the maturity of the bond of September 2021, considering the interest of all involved parties, namely Noteholders and Shareholders. And fourth was the prudent handling of our liquidity, despite the challenges that we were facing primarily due to the pandemic.

Today, and if looking at the performance metrics and achievements of the first half of 2021, we can say that: In relation to our first target, our EBITDA outlook for 2021 is heading for a level in the vicinity of €100 million, when respective metric in 2019 with Turkey and Bulgaria included, was €88 million, strongly supported by the performance of our U.S. subsidiary, but fueled also by the strong top line rebound globally.

Secondly, the OPEX outlook for the year for the whole Group, which is in the vicinity of €90 million to €92 million, when respective metric in 2019 was more than €130 million and in 2020, it was slightly above €100 million. The effects both on top and bottom line resulted to an operating cash flow of €51 million, already in the 6 months of 2021, when respective metric in the 12 months of 2020 was €44 million, and in 2019, it was €61 million.

The maturity of our products, as well as the optimum handling of our projects' renewals also resulted to a much lower investment requirement, so CAPEX expected to be in the order of €20 million to €25 million from €55 million in 2019, and €36 million in 2020.

As regards to the third area of interest, during August, we completed successfully the two exchange offers that resulted to a deleveraged capital structure by €163 million, while extending maturities at least until 2024. Last but not least, our liquidity stood at €83 million from €100 million in the beginning of 2021, including however around €10 million of costs that were one-off and related to the capital structure reorganization.

One important indication is that the operating performance after the gradual rebound of COVID-19 hit in the first half of 2020, is continuously improving in each quarter. This is depicted in the last 12 months EBITDA being in the vicinity of €95 million, when respective metric at the end of 2020 was €66 million and in the first quarter of 2021, it was €75 million, showing a clear upward trend and a stabilization on the level that we have targeted.

However, the uncertainty of COVID-19 evolution obliges us to stay alert, adapt our strategy to the continuously uncertain environment, and be quickly responsive to the messages that we are getting from the market. Considering all these and having always the health and safety of our team as a top priority for our organization, we believe that we are well prepared to overcome this turbulence efficiently, minimize the effects of this wave as well, and do not deviate materially from the positive trend that we are currently having. So, after this introduction, we will move to the half 1 2021 financials.

So, our results on the revenues line are presented in detail in the slides 5 to 7, and we see a clear upward trend in all activity lines, compared to the respective period of 2020, fueled mainly by the strong recovery of the pandemic impact, as well as the strong momentum in the U.S. in the lottery segment, but also the gradual uptake of our sports betting projects in the country.

More specifically, in the licensed operations presented in Slide #5, we see an increase of €21 million from both markets in this activity line, with a major part of it referring to the performance of the second quarter of 2021, since respective quarter last year was heavily affected by the lockdowns and the restrictions due to the pandemic.

In Page #6, we see the revenue results in our technology contracts. Major highlights here are the strong performance of the U.S. operation, which continued its positive trend in the lottery segment in the first half of the year. Although the first quarter was supported by a significant jackpot, this positive trend was continued also in the second quarter as well, although there was no jackpot, indicating a shift towards more traditional playing habits such as lotteries in that market, which is also encouraging for the future as well. Australia also marked a turnaround this year following last year's COVID-19 implications, but it's currently hit by a new wave of lockdown restrictions, however at a lower scale.

Lastly, but very important, the second quarter of 2021 was positively affected by the successful launch of the new project in Croatia, indicating the new era for the Group in

this market. In the last page of revenue analysis, #7, we see the performance of our Game Management activity line which also showed an outstanding growth versus last year's respective period. Here also it was the rebound of the markets due to last year's impact from the pandemic, mainly in Turkey and Morocco, the latter in the second quarter of 2020 mainly, but also from the contribution of our sports betting contracts in the U.S., which after the turbulence in their commencement, mainly due to COVID-19 implications, finally went live in late 2020 and have started gradually to pick up.

Turning to Page #8, we see the overall P&L performance metrics for the first half of 2021 and for the second quarter versus a year ago. In relation to the first half metrics versus last year, the highlights are: First, the growth in the revenue line year-over-year being overall higher by 34.4% analyzed in detail in the previous slides.

Second, the GGR line, which follow the same trend of the revenues being higher by 28.5% year-over-year due to the same reasons mentioned in the revenue analysis. Third, also very important, the gross profit line which was higher by more than 100% year-over-year. This metric shows that a large portion of our activity, mainly the technology and game management lines, do not incur directly related costs and therefore have higher gross profit margins that go straight down to the EBITDA. Fourth, is the slightly better OPEX performance that also supported the EBITDA line increase.

What needs to be highlighted here though is that there was a shift in the OPEX from the headquarter entities that was reduced by 20% towards entities that produced directly incremental EBITDA, and to this end, this is a reallocation of costs towards more efficient activities, in line with our commitment for a cost optimized and a leaner operating model.

Fifth, all the above that were reflected to the higher EBITDA margin over sales by 9.3 percentage points, which indicates a much more efficient operation. Sixth, the better operating performance also in addition to the lower D&A, the depreciation and amortization line, due to the increase in impairments of assets in 2020, but also the non-existence of burdens that hit our P&L in 2020 from participations in associates, mainly from the COVID-19, resulted to a much better performance at earnings before tax and net income after tax and minority interest level, both being better by 74% and 58%, respectively.

In relation to the second quarter of 2021 metrics versus a year ago, financial figures are even better since the second quarter of 2020 was the quarter with the biggest hit from COVID-19 in 2020. More specifically, the revenue and GGR lines presented an almost double percentage growth compared to the 6-month metrics, while gross profit was 3 times higher.

Secondly, the slightly higher OPEX line year-over-year that was directed towards more productive activities only partly affected EBITDA that was also close to 3 times higher versus

last year's respective period. And thirdly, the improvement in the operational performance that went down also to the EBT and net income after tax and minority interest lines, that also followed the same trend presenting significantly better result versus the second quarter of 2020.

As a last comment in this slide, we see a clear upward trend depicted in the operational metrics in the last 12 months column, which we believe is representative for what we expect for the full year results, but a further improvement in the lines below EBITDA is also expected due to the non-existence of high impairment and losses levels that occurred in previous year mainly driven by COVID-19 implications to associates and investments.

Turning to Page #9, the two upper graphs have already been analyzed in detail. On the bottom left of the slide, we see that the net CAPEX for the first half of 2021 period was €9 million, substantially lower compared to the respective period of last year, but also indicating the downward trend compared to the last two years. This, as already mentioned, has been the result of our products maturity, the lower requirements in CAPEX globally, but also the non-existence of renewals in our projects, especially in the U.S., where we have a clear horizon of around 7 years after the intense renewal program in the last few years.

In the same graph, we see the operational improvement depicted in operating cash flow performance, which for the 6 months was €51 million, much better than 2020 respective period, which was heavily affected by COVID-19 restrictions,

but also a much more improved performance indicated in the LTM last 12-month metric, clearly showing an upward trend compared to the last two years' performance.

In the graph on the bottom right of this page, we should highlight on the net debt to EBITDA ratio, which as a result of the EBITDA improvement has been reduced substantially compared to the first half of 2020, but also from the 2020 year-end performance. Please note that the effect of the recently completed capital structure optimization of €163 million, deleverage is not yet incorporated in the ratio because it occurred after the 6-month reporting period but will be included in the results of the third quarter. This said, we expect a leverage ratio level in the order of 5 times EBITDA moving forward.

Lastly, in Page #11, we see the contributions per region in our revenues and EBITDA, where we see that almost 80% of our revenues and 85% of our EBITDA being produced in the more developed parts of the world, namely North America, Europe, and Oceania, as part of our strategy in the last few years to shift our activity towards more developed markets.

And at this stage, the presentation of the first half of 2021 results 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 Felix Wolfgang with Sarria. Please go ahead.

WOLFGANG F: Yes, hello, thank you for taking my question. And first of all, congratulations to I think a solid set of results. And I think stronger than many including us thought that would be, so that's very good. Forgive me if I'm digging a little bit into the performance in the rest of the world. You've given us a figure, a proportionate EBITDA figure of about €47 million for the first half. And I'm trying to reconcile that with the pieces that I know of, if I... first of all, if I may ask, are you in the €47 million, I suppose you're using about €27 million from the U.S. is that correct?

SFATOS C: Sorry, how do you get to the 47? We don't recognize this number.

WOLFGANG F: I'm sorry, that was EBITDA figure, and maybe I'm wrong about this. Adjusted EBITDA, you call it adjusted EBITDA; you say you calculated as proportionate EBITDA fully consolidated entities, including EBITDA from equity investments in Taiwan.

SFATOS C: For the Group, the whole Group? Yes.

WOLFGANG F: Yes. As opposed to the 54.3, so within that figure, I suspect you have about €27 million for allocation effectively for the U.S., is that correct?

SFATOS C: So, the question is, how do you go from the 54 to 47?

WOLFGANG F: No, the question is, I'm really trying to understand the bits and pieces that go into the 47. So, the way I've traced it

there should be about €27 million from the U.S., 7 from Oceania, 3 maybe from Malta, 2 from Morocco, negative 14 from Greece. And that would approximately get me to maybe €25 million. And so I'd been looking for another 22, of which I think Germany and Croatia might be 2.8 and the Netherlands and Taiwan and the Philippines possibly, I'm not sure that, how strongly they might feature in here, but obviously, I'm still looking for a lot of value here. I may have made a mistake in some.

CHRYSOS A: I guess in the decomposition that you just did, you said 27 the U.S. which I suppose you get only...

WOLFGANG F: 65%?

CHRYSOS A: No, this is not the case here yet, because please take into account that the capital structure optimization happened in August, so the 6-month period includes U.S.A. by 100%.

WOLFGANG F: Okay. That plugs my gap. Therefore, thank you. Then, I have a second question, if I may. And that's going back to the budget that you gave us earlier this year, where you were looking for about €33 million in EBITDA in the rest of the world segment, before taking into account partnerships. And so far, we are about flat, I believe, or maybe at plus €5 million. How do you think about the second half of the year and is the €33 million you were looking for, they're still within grasp?

SFATOS C: Yes. That number when provided, first of all, you will recall included a fair amount of opportunities, future opportunities,

which did not materialize and there remains some COVID impact for the rest of the world, which is much stronger than the U.S. So, we still have some remaining impact, we had some delay in the ramp-up of certain new projects which some of it was COVID-related. So, there is a delay in that number.

WOLFGANG F: Okay, right. Well, thank you very much.

OPERATOR: The next question is from the line of Walther Daniel with Morgan Stanley. Please go ahead.

WALTHER D: Hi, good afternoon, everyone, and congratulations to a strong set of results. I wanted to ask you, you talked about your U.S. operations where you're potentially exploring options to sell a stake or list the business. Is there any update on that or is that something you're currently considering?

SFATOS C: Well, we just completed the capital structure and transaction, so I guess it's premature to give any further feedback on that. But we obviously now have increased our options, and we're definitely interested to leverage our equity at INTRALOT Inc.

WALTHER D: Okay, excellent. And going a bit deeper on the U.S., do you actually break out how much you make in sports betting versus lottery?

CHRYSOS A: The sports betting you can see it clearly from the presentation. We mentioned it already. For the first half of

2021, it was at €2.5 million, but please take into account that it was the commencement of this type of activity in the country during the first half of 2021. And of course, we expect those contracts to ramp-up materially over the next few months.

WALTHER D: That's great. Very helpful. And then just my last question, can you sort of highlight some of the larger projects that you have in the pipeline that you are monitoring, you mentioned Croatia just ramped-up, maybe what are some of the other countries that are ramping up and what do you expect from them? Thank you very much.

NIKOLAKOPOULOS N: In Croatia, we are live as we have said since the beginning of May. So, practically, the project now is on track, we are ramping up and we are taking as a revenue in the last couple of months, according to our projections, and we do expect this trend to continue smoothly; As we have already been there for 4 months now, so we don't expect any surprises. So, Croatia is on track.

The second thing is that we do have a pipeline of projects. There is the U.K. fourth license that we cannot disclose more, but this is something that is going to be a big issue on the next years, and somehow, we're going to be part of this process. There are also some other big projects that are going to come in the lottery sector, like the renewal of the New Zealand.

The National Lottery of New Zealand is going to start the process of the RFP, as the Singapore pools and in general on

the lottery side, we are monitoring very closely the activities like in the South Africa, we're waiting, or we have already been engaged in these processes, and we are going to follow specific three, four projects that I mentioned in the lottery space.

In the sports book, we are more focused on the U.S., where we expect by the end of the year to go live in New Hampshire with the retail sports book. And there are a couple of other opportunities like Louisiana that are going to come early next year and we're going to start the activity in Louisiana, the lottery has been awarded one of the licenses and most probably we are going to be the technology and the operational partner. So, in a nutshell, we are monitoring 3 or 4 and we have been engaged in these processes, big projects in the rest of the world in the lottery, plus the one in the sports book in the U.S. that I mentioned.

WALTHER D: Okay. Thank you, very much and good luck with those.

OPERATOR: The next question is from the line of Doerane Thomas with Oak Hill Advisors. Please go ahead.

DOERANE T: Hi, good afternoon. First of all, congrats on the impressive results and good recovery. I had a few questions on the U.S. My first question, there was reference in the materials of higher merchandise sales in the current period, which state is this for and are you able to disclose the ballpark of the sale?

NIKOLAKOPOULOS N: If I understood correctly, the question is about the merchandise, the self-service machine you're talking.

DOERANE T: Correct.

NIKOLAKOPOULOS N: Yes. Practically, we have deployed with a combination of either straight sale or leasing or revenue share, most of the 1,200 machines in the sports betting area, mainly in Montana and we have deployed in the rest of the 6 months also in other jurisdictions, like in Illinois and Ohio. So, the straight sale of the 1,200 machines in Ohio didn't materialize on its own but with various ways as I said in Montana, Illinois and Ohio, we had deployed almost all of those machines.

DOERANE T: And was this for Q2 or Q1?

NIKOLAKOPOULOS N: Some of those was in Montana I think Q1, there was in Q2, and there are also...we are going to deploy also in Q4, if I'm not mistaken, but as I said, it is a combination, there was a straight sales for some of those and there are revenue share or leasing for the next year in the majority of those machines.

DOERANE T: Okay. And can you share some color on the ballpark of this sale and how much will be recurring versus one-offs.

NIKOLAKOPOULOS N: We need to get back on this because I am not privy right now to tell you for that. But give or take the straight sales should be close to 25%, 30%, but I need to get back on this.

DOERANE T: No worries. Thank you. The second question was to my calculation last 12-month EBITDA in the U.S. is around €70 million or 80 million U.S. dollars? Can you help me

understand how much of that comes from one-offs, so exceptional jackpot, non-recurring equipment sales, revenue recognition from start of new contract et cetera?

CHRYOSOS A: Actually, it's a small part of this which relates to the BCLC contract but it's only a small part of it. Mostly it's structural because we saw an upward trend from the top line after the first quarter of 2020, so from the amount that you just mentioned, only a small part is one-off activity. It's more of recurring nature, the rest.

DOERANE T: Okay. That's good news. My last question is on sports betting. You know growth has been, I would say, a bit underwhelming so far starting with 2 million in Q4 in DC and Montana, and now we are around 1.2, 1.3 per quarter. You know, you mentioned as well that it should ramp in maturity over the next few months, but do you have any target you can share with us?

SFATOS C: Well, we can just refer you to the Business Plan, but everything in the sports betting area, understand that in the U.S. it's happening with a delay, so at this point, there is an uncertainty on how this is going to play out. Maybe, we need to take this offline to give you some more specific insight on the parameters that will determine the outcome.

DOERANE T: Okay. Perfect, thank you and congrats again on the results.

OPERATOR: The next question is from the line of Thomopoulos Antonios with Alpha Trust. Please go ahead.

THOMOPOULOS A: Hello, good afternoon from my side. I would like to ask you a few questions; although, please accept my apologies because maybe I've already mentioned them and I couldn't clearly hear. So maybe, you can repeat your target for 5 times net debt to EBITDA, is this for the next year or is it for the future years to come?

CHRYOSOS A: We expect this leverage ratio when the deleverage effect is incorporated in our figure, so in the next quarter, and considering also the EBITDA that we are targeting which as I said previously when presenting the figures, is in the vicinity of €100 million already there. So, we see this level of leverage ratio as moving forward as well.

THOMOPOULOS A: Okay. So, it's in the near future. And one last question, have you mentioned that you are considering any type of restructuring for the U.S. business like selling any kind of... part of it and receiving any kind of cash or I have understood something wrongly?

SFATOS C: I have mentioned that this is a consideration and definitely we are looking first of all operationally to do whatever is necessary in order to create more upside in the equity that we hold in this key asset.

THOMOPOULOS A: Okay. Understood. Thank you, a lot.

OPERATOR: The next question is from the line of Kawada Peter with KNG Securities. Please go ahead.

KAWADA P: Hi, good afternoon. I just have a question regarding Malta. I believe the contract expires in the third quarter of 2022. When does the tendering process begin for that contract and what probability would you assign in terms of successfully extending it or renewing it? Thank you.

NIKOLAKOPOULOS N: The process has already started. The submission date for the financial offers is October the 8th, and regarding the probabilities we are the incumbent, we will bid, we will present a decent proposal and we will see as in every bid there. I don't think it is prudent to give probabilities, what I can say is that is something that we are following obviously, and we are going to submit a proposal with the aim to be in Malta for the next 10 years.

KAWADA P: Thank you. Do you have a sense of you know, how many people you are competing against for the contract, is it 2, 3 or...?

NIKOLAKOPOULOS N: Listen, we cannot know because there are a lot of companies that they showed interest. But, at the end of the day, who will be able to put together a consortium or put together the necessary resources to submit the proposal, we don't know, we definitely believe that there is going to bid 2 to 3 contesters at least.

KAWADA P: Okay. Thanks very much, thank you.

OPERATOR: The next question is from the line of Manchanda Sachin with UBS. Please go ahead.

SACHIN M: Good afternoon. Thanks for taking my questions, I have 3, please? Firstly, I was wondering, I mean, you mentioned €100 million EBITDA target, just to clarify that is on a fully consolidated basis ignoring the impact of the capital structure optimization undertaken in August this year, and that's for 2021?

CHRYSOS A: Yes, correct. Everything you said is correct.

SACHIN M: Okay. And so, are you expecting any big changes to the run rate that you have in the first half on let's say the U.S. business in that €100 million number?

CHRYSOS A: We expect that the U.S. will continue as per trend that we see already, and it's confirmed during the last 3 months that it is recurring. So practically it's a continuation of the current trend, which seems it is recurring.

SACHIN M: Okay. That's clear. My second question is regarding the process in Malta, you just mentioned that the submission date is October the 8th, by when do you expect to know the results of the tender?

NIKOLAKOPOULOS N: Normally it should be in a period of 30 to 45 days, because you need to take into consideration that after the winner is going to be declared, there is going to be a period of at least one month, in order to sign a contract for the concession and then there is going to be the transition period. So, I think the government of Malta needs at least to have 6 months period. So, taking into consideration that beginning of July

the contract comes to an end, I presume that the process is going to be pretty fast.

But again, this is my estimation on a rational basis, I really don't know when this is or the whole evaluation process is going to take place. But give or take, this should be the timeline.

SACHIN M: Okay. That's clear. And then finally, my last question is regarding the 2024 bonds, do you have any... I mean what is sort of your thought process there, are you considering any options for those bonds at the moment. Should we expect something to happen on that front eminently?

SFATOS C: Well, we think it's too early to make such statements. For the moment, we are paying the interest when due on the 15th of September and we have adequate funds to serve this, and we will explore our options as we go ahead.

SACHIN M: Okay. That's understood. Thank you very much. That's all from me and congrats on a great set of results.

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

SFATOS C: We would like to thank you all for attending this call. Obviously, as you have seen in the results, we have had very strong performance. We are very happy to be in this position with the restructuring process over, no immediate maturities

for the next 3 years, and having achieved also significant deleverage.

I would just close this by referring to the statement by our Chairmen and CEO, Mr. Kokkalis: «INTRALOT's strong performance continued into the second quarter, resulting in 106.5% growth of EBITDA in the first 6 months of 2021, and 34.4% growth in revenue. These financial results, in combination with the completion of INTRALOT's debt restructuring in the beginning of August, set the company in a stable course to fulfill its potential in its key markets, build new partnerships and tap on new opportunities under its new, significantly deleveraged capital structure with a leaner operating model».

Thank you all very much. And we look forward to the next call.