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"First Quarter 2020 Financial Results Conference Call"

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OPERATOR: Ladies and Gentlemen thank you for standing by. I am Myrto your Chorus Call operator.

Welcome and thank you for joining the INTRALOT Conference Call to present and discuss the First Quarter 2020 Financial Results.

At this time, I would like to turn the conference over to Mr. Christos Dimitriadis, CEO of INTRALOT.

Mr. Dimitriadis, please go ahead.

DIMITRIADIS C: Thank you. I would like to welcome everybody on this call in which we will be discussing INTRALOT's Financial Results for the First Quarter of 2020. The agenda of this call consists of 3 parts. First of all, I will start with the business review of Q1 2020, and I will briefly present INTRALOT's strategy as presented in detail during our Annual General Meeting that took place a week ago. I will also present the first results of the execution of the new strategy. The second part of the agenda will have our CFO, who will proceed to a more detailed presentation of the financial figures for Q1 2020. And the final part is about Q&A, where INTRALOT Executive team will be at your disposal for answering questions.

Starting with the financial results of Q1 2020, we saw our business in the United States performing very well and according to our expectations, excluding the COVID-19 impact in the second half of March.

A second positive highlight relates to the adaptability of our Group as showcased during the pandemic and as it relates to the handling of our expenses. This is demonstrated by the low level of CAPEX compared to any other recent period.

A third and certainly most important qualitative highlight has to do with the resilience that our organization presented in this difficult period that we navigate through, and I'm referring to the pandemic. Our people continue to work hard and uninterrupted despite the unpleasant situation we were all facing resulting to a significant number of launches during the period of the pandemic.

There were 2 main factors that affected Q1 results. The first one is, the continuation of the after-math effect of the change of regulation in Bulgaria, as well as, the developments in Turkey. The second one was the pandemic itself which impacted INTRALOT mainly in the second half of March where most of the countries took restriction measures to protect their citizens from COVID-19.

Now, going beyond Q1, INTRALOT has refreshed its strategy defining 5 objectives. The first one to introduce business innovation, attract new customers and optimize cost with digital technology as an enabler in the industries that we serve. The second one is about quality improvement in service provisions and the achievement of economies of scale. The third objective is about achieving growth through business to government and business-to-business sales in targeted geographies, and this refers to technology and game management contracts. The fourth objective is to establish partnerships towards increasing licensed operations or what we call business to customer. And the final objective is about the optimization of our capital structure.

Now the implementation of this strategy has already started to provide positive results which are fully aligned with the operational focus area that I have referenced in our previous call. As a reminder, last time we have promised the successful start of our sports betting contracts in the United States, the control of the OPEX as to return to the €50 million EBITDA trajectory for US lottery business. The second wave of cost containment at HQ perimeter to support liquidity from the bottom line and to the preparation of a fertile ground for several identified opportunities in North America and worldwide as well.

Today, I am in the pleasant position to say that we have made good progress on all those areas. More specifically, we have announced the successful launch of our sports betting solution in Montana and Washington D.C. USA OPEX for the lottery business has been restricted at lower levels in relation to 2019, thus leading the business towards a target of €50 million EBITDA trajectory excluding COVID-19 impact.

HQ perimeter recurring costs have been reduced by more than 10% compared to the same period of 2019, while CAPEX overall remained at very low levels demonstrating that the Group manages to handle its finances effectively during the pandemic. On top of the above, we have also managed to bring results by executing our fresh strategy as follows.

The Company managed to deliver new digital solutions within a very short time period, like the eSports betting solution at INTRALOT de Peru. We have also made 2 agreements for introducing eSports, one in Asia and one in the European Union. We have developed a brand-new product called LOTOS Xi for internet lottery. We have made 4 agreements to implement LOTOS Xi, 3 in the United States and one in the European Union. We have also made an agreement to implement KINO in one U.S. state.

Finally, we have come to an agreement to renew our sports betting contract in the Netherlands. The above are just the first signs of the effectiveness of our new strategy, and most importantly the effectiveness of our new organizational structure as our teams have managed to deliver digital solutions very rapidly and have also signed new agreements with customers in record time as well.

With this final point, I would like to ask our CFO to present more details on the financial figures of the first quarter.

CHRYSOS A: Thank you, Chris. Good afternoon, ladies and gentlemen. Before presenting the numbers, I would like to give a short brief in relation to the guidance we have given one month ago considering, of course, that the pandemic situation is still here and continues to affect the performance of our companies worldwide.

Our primary target is to minimize or partially offset the negative impact of the pandemic supported by our strong liquidity while preserving it to the maximum possible extent. Having this in mind, our cash position excluding partnerships landed at €135 million from €152.5 million at the end of 2019, lower by €17.5 million and higher by €4 million, if excluding the coupon payment of €21.5 million in March. The respective number as of the end of May is in the vicinity of €130 million indicating the prudent handling of our liquidity.

On the operational front, the performance of our U.S. operation will gradually replace the lost EBITDA from the Bulgarian business although it is difficult to have this shift already in 2020 because mainly of 2 reasons. The first one is the impact of the pandemic either in the existing lottery business or in the commencement of the newly introduced sports betting contracts which will require some more time to unwind given the postponement of sporting events and the overall hold of the sports betting activity.

Secondly, it is the inherent nature of all new contracts that require some time to mature. In addition, all other major projects that we are currently implementing such as the new lottery contract to be served through our Company in Croatia are progressing well and are also expected to start contributing positively in our revenues within current year. The important thing that we need to keep is that all projects in our pipeline are progressing as per schedule and will contribute positively short to medium-term. Of course, part of our liquidity support measures also include the second wave of OPEX control either in the U.S. or at the HQ level as already mentioned by our CEO in his opening statement.

On the investing front, we have already said that part of our CAPEX will be either deferred or even waved if we assess that this will not have a substantial negative impact in our growth in the medium-term as part of our strategy to support our liquidity. To this end, CAPEX was kept at minimum levels within the examined period and we will continue to handle our CAPEX spending in a prudent way having always in mind the cost benefit analysis in relation to the difficult period that we are currently facing.

This strategy is feasible given the fact that the major spending in the U.S. for the new projects or renewals have been performed already and there are no such major requirements moving forward. For the U.S. especially apart from the actions on the cost side related to the lottery segment, our strong focus remains the sports betting activity contribution in the top line after the successful launch of the 2 projects in Montana and Washington D.C. and of course, the support of our liquidity and generation of positive cash flows even in 2020 depending, however, on the pandemic evolution in the market. The latter will be succeeded both from the top line contributions but also from the cost containment in the OPEX and CAPEX lines.

Having said that, the Bank of America facility for the time being is zero and the intention is to keep it at the lowest levels and use it only for working capital purposes.

So, after this short introduction, moving on to the Q1 2020 financials, our results on the revenue line presented in detail in Slide 6 to 8 of the presentation have been heavily impacted by the Bulgarian and Turkish entities developments as well as the Moroccan business. More specifically, the change in the consolidation method in Eurofootball accompanied also by the negative developments in the market affected the revenue line by €71.4 million out of the €91 million overall deficit.

The other important impact comes from the Turkish market where we have a negative variance of the €11.9 million primarily from Inteltek €9 million but also from Bilyoner by €2.9 million. These impacts are attributed both to the new sports betting era in the country but also from the COVID-19 since the absence of sports betting events affected the performance of our electronic agent in the market, Bilyoner. A smaller scale impact due to COVID-19 primarily in the markets of Malta, Chile and Morocco, the latter accompanied also by the revised commercial terms of the new contract, also affected the revenue line by €10.5 million.

On the positive side, U.S. performance performed better by €5.1 million, positively affected by the full impact of the Illinois contract versus respective period last year, when the contract was running only for 45 days. But also from the revenue recognition related to our new contract in Canada with BCLC, fully absorbing the negative variance from the expiration of the Ohio CSP contract that ended in June 2019, but was running for the respective period last year, as well as, a Powerball Jackpot that affected positively last year Q1 revenues. The same 3 regions, namely Bulgaria, Turkey and Morocco, were also the main contributors that affected the GGR line collectively by minus €33 million, since all other variances counterbalanced each other.

EBITDA for the quarter landed at €15.8 million lower by €16 million versus a year ago, €17.2 million was the negative contribution of the 3 regions, and more specifically Bulgaria was negative by €6.3 million, Turkey by €7.8 million and Morocco by €3.1 million, while the positive U.S. by €2 million only partly managed to counterbalance the deficit.

EBITDA margin on sales decreased by 1 percentage point, affected by the loss of the high margin contract of Inteltek accounting in last year's numbers and the lower top line performance of Bilyoner and the new contract in Morocco.

Moving on to the EBT line, the result for the quarter was minus €14.8 million from plus €2 million lower by €16.8 million versus a year ago. Apart from the EBITDA negative contribution of €16 million, EBT was also affected by worst FX results by €4.2 million, largely driven by the impact of the favorable U.S. dollar movement against other currencies in Q1 2019, since high portion of cash in our Turkish entity was held in dollars. And the worst net interest results by €1 million versus Q1 '19 with the effect partially counterbalanced by the lower impairment of assets for the period by €2.4 million versus Q1 2019, mainly due to the impairments recorded in Q1 2019 for Inteltek's contract, and the decreased D&A depreciation and amortization by €1.1 million due to the increased impairments last year improving, depreciation and amortization of current year.

On the bottom left of Slide #10, we see that the net CAPEX for the quarter stood at around €6 million lower by €11 million versus a year ago, as a result of the absence of major contract implementations compared to the previous year, mainly in the U.S. Operating cash flow decreased by €10 million…around €10 million and stood at €9.5 million, impacted mainly by the lower EBITDA, the higher tax payments, counterbalanced partly by improved working capital versus last year, driven by favorable receivables balance position mainly in the U.S., due to the negative effect last year by the Illinois starting Q1.

Net debt stood at €611 million, up by €17 million versus December 2019 affected by the dividends of €6.5 million paid to our partners in Inteltek, as a result of the contract discontinuation and tax payments at the parent level by €5 million, but €36.5 million better compared to the respective period of 2019 when this metric was €647.5 million.

Lastly, in Page #12, we see that the main contributors to our revenues and EBITDA are the U.S. operations primarily, but also the markets of Oceania, Malta and the Netherlands contributing substantially and the partnerships being only a small part of our activity after the recent developments in Turkey and Bulgaria. The latter is also depicted in the next Slide 13, where we see that the EBITDA contribution of the partnerships is substantially lower if comparing against last year respective period.

And at this stage, the presentation of Q1 2020 result is finished and the INTRALOT Executive Team is at your disposal for any questions you may have.

Q&A

OPERATOR: The first question comes from the line of Felix Wolfgang with Sarria. Please go ahead.

FELIX W: Yes, hi. Thank you very much for taking my question. I meant to ask about your savings programs. I've, over the last year earmarked a number of places where you were looking to save costs. First of all, there were €10 million earmarked in the U.S. on OPEX you said something about that already. There were another €6 million presumably coming from…up to 6 new contracts, we've spoken about a few of them. Illinois, was supposed to bring another €6 million in the first 2 months…here €5 million to €6 million, which you've also spoken about, and you had identified cost reductions…other cost reductions of €10 million, so altogether more or less €30 million? And could you summarize, where you are perhaps with respect to these 4 areas, the U.S., OPEX, the new contracts, Illinois, I guess, we've got that now the annualization, but then also the other cost reduction program, and how much you think of that might be coming in this year, away from COVID, away from everything else, purely execution of what you are working on?

CHRYSOS A: Okay. First of all, thank you for the question. It is the €10 million that you referred at the beginning of the question was not for the U.S., the €10 million was the expenses that we were targeting and succeeded at the headquarters perimeter in 2019, this is something that we succeeded already. Having said that, we have already communicated that there were some expenses in the U.S., related to the beginning of the contract in Illinois as you correctly stated, but also in… from the Ohio renewal.

This OPEX was in the vicinity of €6 million to €7 million, and actually this is the target for this year, we are expecting, and up to now we are successfully executing in the U.S., let me tell you that the U.S. currently on the OPEX side is performing exceptionally well, and as per our expectations.

Having said that, we have also announced that there will be a second wave of expenses containment at the headquarters perimeter, this is something that again we are on track. The target for this year is around 10%, which is translated into another €5 million to €6 million, we are progressing really well on this front as well. And of course, this is a process, you know, a never-ending process. As our products mature and you know, it's always a thing that is in our spotlight, but the targets for this year, if summarizing, what I just said is around U.S., $6 million to $7 million, and around €5 million to €6 million at HQ perimeters. So, we are looking to another €10 million to €11 million savings. Adding up to the €10 million that we had last year.

FELIX W: Okay. Alright. Thank you. And that brings me sort of to the next question, your current central costs being approximately, I believe, €50 million or so. Obviously, that now looks relatively large versus the remaining business in its current size. And I don't suppose you could share with us what you know, you are looking to save another 10%. But, I guess, that would be…is there a sort of minimum size beyond, which you wouldn't be competitive out there, if you try to shrink it any further?

DIMITRIADIS C: Sir, thank you for the question. This is Chris Dimitriadis. So… we prefer to see this more as an investment and less as a cost, and this is because INTRALOT is in a growth trajectory with many opportunities ahead. I had a chance to present those opportunities during the Annual General Meeting of the Company a week ago, and what we currently do is to make sure that INTRALOT has the capability and the capacity in order to target at very optimistic growth targets that we are setting.

Having said that, we always have in mind cost optimization, but we prefer to call this as an investment optimization in terms of redirecting our resources to opportunities, which bring…are strictly related to profitability. Just to give you a few ideas or a few examples. During the AGM, I have presented the fact that we are currently discussing about 6 big projects in the internet lottery sector worldwide. We are discussing about 5 big projects, as far as, sports betting is concerned in the United States, we are discussing about a JV with the Greek telecommunications operator as I have also described during the previous call, we are discussing with customers about 6 big projects in the lottery sector, about the further penetration of our video lottery solutions in the market, about the e-sports establishment at a very great extent and at an international level and about the evolution of our technology contracts together with opportunities to obtain licenses in the B2C sector.

So, having said that, we are setup for growth. And we want to make sure that we have the appropriate settings in terms of investments, in order to achieve that rather than try and see this as... purely as a cost issue to resolve.

FELIX W: I appreciate that. Thank you. Yes. And maybe one more question with respect to any state aid or so, I mean INTRALOT should surely be a very attractive Company for Greece overall in the technology sector. Is there any chance or how far are you at this point with attracting any cash and at what level would that be any sort of COVID-19 related cash? And what level would that potentially be able to enter your legal structure?

DIMITRIADIS C: You mean in terms of bail-out programs from the government as far as COVID is concerned?

FELIX W: Yes, something like that. Bailout or however aid programs from government?

DIMITRIADIS C: Aid is a more appropriate term, absolutely. So, we are in the process of starting this at the global level not just Greece. We are looking into all of the aid programs in the United States very closely through our subsidiary INTRALOT Inc. in the United States. We are also monitoring the evolution of aid programs in Greece as well. And we are also looking into aid programs in the...in Australia and in Malta as well. Those are just a few examples. So, what I am trying to say is that we are trying to take advantage to benefit from this aid provided by the governments at a global level, on top of Greece, of course.

FELIX W: And have you established a sort of overall basket size that you think you can use here or fill with these kinds of lines?

DIMITRIADIS C: So far, we are using those programs in order to support a number of operations in terms of having the ability to cover labor cost for our employees. Nevertheless, in terms of the baskets, the truth is that, the industry we operate in is still under discussions by several governmental authorities around the world. And we are also trying to conclude on the size of those baskets.

But, this strictly is not in our control, it relates to the governmental initiatives and we are still putting the effort in order to analyze this without having a final conclusion yet.

FELIX W: Okay. And then, final question, thank you. Final question, CAPEX for 2020, did you...I didn’t ultimately hear name a target figure or anything that you maybe loosely aiming at for this year. It used to be... I mean you've come in lower than expected, is €40 million, €45 million now a reasonable target for the year or do you think it may be lower than that?

CHRYSOS A.: CAPEX you said?

FELIX W: Yes, just CAPEX.

CHRYSOS A.: Yes, actually the target we have said already is 10% to 15% lower compared to the number of 2019, which was €55 million. So, yes, this is in the area of €45 million to €50 million. However, since a big part of this is not contracted, we have the liberty, especially in the U.S., we have the liberty, you know, to adjust the levels of this CAPEX depending also on the development of the pandemic. So, in a normal course of business, a €45 million to €50 million would be fair under those circumstances that we are currently facing. We have the ability to go lower and this is why you see such a small level of CAPEX within Q1, which was not more than €6 million.

FELIX W: Okay. Thank you very much. I will let someone else ask. Thank you very much, sir.

OPERATOR: The next question comes from the line of Mezzadri Nicola with Barclays. Please go ahead.

MEZZADRI N: Sorry, it was actually a mistake. Thank you, though.

OPERATOR: Thank you. We'll move to the next question from O'Sullivan Brian with NatWest. Please go ahead.

O'SULLIVAN B: Hi, gentlemen. Thank you for taking my questions. So, just one clarification, did I hear you correctly, you said the cash at the end of May was €130 million? Is that correct?

CHRYSOS A: 130. 1-3-0.

O'SULLIVAN B: And is there any draw, as you mentioned regarding the BAML facility, which I think was undrawn at that time. What about the other facility in Europe? Was that drawn at all over the course of April and May or where did it stand at the end of May? Or is that a clean cash number?

CHRYSOS A: This number includes… first of all, the U.S. facility is fully undrawn still and nothing has changed in the EFG compared to what we have said in our previous call. It is €18 million which was and is still fully drawn, so it's a purely like-for-like comparison compared to the end of March.

O'SULLIVAN B: Okay. And just on that facility, is there… I think you mentioned it's unsecured, so there is no recourse anywhere basically, just to clarify there is no recourse back to anything in the Group or is there guarantees or anything for that facility.

CHRYSOS A: Which facility?

O'SULLIVAN B: EFG.

CHRYSOS A: The EFG facility?

O'SULLIVAN B: Yes.

CHRYSOS A: It's…it has a basket of securities, liquid securities, mainly shares, bonds and cash.

O'SULLIVAN B: Shares, bonds and cash presumably outside of the restricted Group of the bond? Or is it with...inside but utilizing the baskets that are existing?

TSAGALAKIS M.: It's under IGH. The borrower is INTRALOT Global Holdings.

O'SULLIVAN B: Sorry, I didn't hear any of that.

CHRYSOS A.: It is under IGH. The borrower is INTRALOT Global Holdings.

O'SULLIVAN B: Okay. And then just very quickly regarding the U.S. Things are… maybe I'm just trying to get ascertain in terms of one-offs for the U.S. for this year, so there was I think €10 million or €12 million or something last year, aside from the delayed start in Ohio. What do you anticipate or what have you incurred today than what you anticipate for the rest of the year regarding kind of one-off costs would be that's legal or unexpected CAPEX or other restructuring costs or anything like that?

CHRYSOS A: Now, in the U.S., currently, we are done with all the unexpected items that affected the performance of the business in 2019. The only impact of course that is currently running in the U.S. as well is the COVID impact. So, there are, you know, no extraordinary elements on the cost side that we were referring to last year in the 2020. However, there is an impact from the COVID and also the riots in Washington D.C. for instance, currently.

I mean there are such elements that we do not control that are affecting the business both from the lottery side and of course, an important thing also is the sports betting because we are also targeting at the sports betting segment and of course current circumstances do not allow a quick, let's say, ramp-up of this activity. So, this is the unexpected element of this year, no other unexpected elements like in 2019 in the U.S.

O'SULLIVAN B: Okay. That's very clear. And then very quickly lastly from me, you mentioned in your prepared remarks and also on your full-year call regarding engaging with the bondholders regarding a capital structure solution. Perhaps, you might give us a bit more of an update in terms of how that is progressing, and I guess more importantly, when we can expect to see a plan regarding a way forward?

DIMITRIADIS C: As far as the optimization of the capital structure is concerned, we have, as you very well know, we have engaged our advisors... with our advisors, Evercore and A&O. Our advisors subsequently are in discussions with the advisors of the bondholders and we gradually see progress in those discussions. So far, we cannot commit on a date. However, what we can commit on is that the strategy that we are following is about finding a solution that will serve the interests of all parties involved. And this is why this requires a very thorough analysis and a very diligent job to be done in that space in order to come into a result that will be satisfactory for all sides.

O'SULLIVAN B: Okay. That's fine. Thank you.

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

DIMITRIADIS C: Thank you. I would like to say thank you to all of you that participated in this call. I hope that you have found the information that we have shared with you useful. And we are looking into forward updates and to talking with you soon during the announcement of our results for the next quarter. So, thank you very much.