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"Nine Month 2021 Financial Results Conference Call"

Monday, 6th December 2021, 17:00 (GR Time)

Conductors:

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Mr. Nikolaos Nikolakopoulos, Deputy Group CEO

Mr. Fotis Konstantellos, Deputy Group CEO

Mr. Andreas Chrysos, Group CFO

Mr. Antonios Skiadas, Group Finance Controlling & Budgeting Director

& Mr. Georgios Xanthos, Consolidation Accounting Director

Conference Call Conducted by Chorus Call Hellas

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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 Nine Month 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, thank you for joining us for the Third Quarter Results, and the Nine Month Results of 2021. The whole management team is joining me, our colleagues, Mr. Nikolakopoulos and Mr. Konstantellos, together with Group CFO, Mr. Chrysos, Budget and Financing Controller, Director Mr. Skiadas and Director of our Consolidation Department, Mr. Xanthos. Welcome and I turn the floor to Mr. Chrysos for his presentation.

CHRYSOS A: Good afternoon, ladies and gentlemen. Our results announcement for the Third Quarter last week confirmed the trend that we saw in the first Six Months of 2021 and makes us confident that we will end the year according to the guidance we have been giving throughout 2021, consistent with the main areas of focus in the last few years.

Before presenting the Nine Months 2021 financial results in detail, I would like to make an overall assessment of the performance of the Group against the targets that we have set. There are two areas of focus for our Group, and more specifically, it's the operational performance enhancement, and secondly, the improvement of our capital structure. Moreover, down the road towards these two strategies achievement, we wanted to maintain our liquidity strong.

With regards to the first target, our main focus, is the strengthening of our EBITDA to restore the lost profitability that affected our results in the last few years, both on the top line and the bottom line by targeting mostly on strengthening our performance in developed markets, and by optimizing our cost base through development of synergies and continuous runs of cost adjustments on all expenses lines.

Secondly, we had to handle the maturity of September 2021 bond, considering the interest of all involved parties, noteholders, and shareholders. Both these targets should be accompanied by a strong liquidity position of the Group to the extent possible.

The performance metrics and achievements of the Nine Months of 2021, show that: number 1, our EBITDA outlook for 2021 is heading for a level of over €100 million, when the respective metric in 2019 with Turkey and Bulgaria included, was €88 million, strongly supported by the performance of our US subsidiary, and fueled by the strong top line rebound globally.

Secondly, OPEX outlook for the year for the whole Group is in the vicinity of €90 million to €92 million, when respective reporting 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 a strong operating cash flow performance of €84 million already in the Nine Months of 2021, which is almost 200% better compared to the respective metric of last year.

It is worth mentioning here, that operating cash flow in the Nine Months is already close to the level it was for the whole year of 2018 before this difficult period for the Group started, with the two following years of 2019 and 2020 being at much lower levels, €61 million and €44 million, respectively.

CAPEX also in line with our expectations, heading for a €20 million to €25 million level for the year, as a result of the maturity of our products as well as the optimum handling of our projects renewals from €55 million in 2019 and €36 million in 2020.

Third, during August, we completed successfully the two exchange offers that resulted to a deleverage capital structure by €163 million, while extending maturities at least until 2024. This effect has partially passed through the income statement supporting strongly the EBIT line. And fourth the liquidity, which stood at €90 million from €100 million at the beginning of 2021, including however, €17 million of one-off cost related to the capital structured exercise.

Moving on to the Nine Months 2021 financials, our results on the revenues line presented in detail in Slides #5 to 7 of the presentation that we have in front of you, we see an 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 US, in the lottery segment, and 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 €26 million coming from both markets in this activity line. The rebound of the markets in both geographies after the strong hit last year, mainly in the Second Quarter, due to the lockdowns and restrictions. was the main contributor.

Turning to the next Page #6, we see the revenue results in our technology contracts and the major highlights here are the strong performance of our US operation, which continued its positive trend in the lottery segment for one more quarter after the first two quarters of the year. Although, the First Quarter was supported by a significant jackpot, this positive trend was continued in the Second and Third quarters as well, although there was no jackpot indicating a shift towards more traditional playing habits such as the lotteries in that market, which is very encouraging for the performance of the market and the new reality in the US.

Australia, although it continued to experience some turbulence from COVID-19, as a result of the new wave of the pandemic, which hit this part of the world in wintertime was certainly affected less than previous year, and lockdown restrictions were at lower scale, therefore, managing to reduce the impact to a large extent.

Lastly, in rest jurisdictions, the successful Go-Live of our contract in Croatia, and the better performance in Argentina, only partly managed to mitigate the lower merchandise sale in Q3 2021, compared to the respective quarter of last year that was impacted by such a sale in the market of the Netherlands.

In the last page of the revenue analysis, Page #7, we see that the performance of our Game Management activity line, with the Third Quarter, indicating a stabilization of performance in Turkey and Morocco, landing at the same levels where it was in the Third Quarter of 2020 when the pandemic impacted in these markets had been contained to a large extent.

Finally, the U.S. Sports Betting market continued to grow, which after the turbulence in their commencement, mainly due to COVID-19 implications, finally went live in late 2020 and continued to pick up.

Turning to the next Page #8, we see the overall P&L performance metrics for the Nine Months of 2021 and for the Third Quarter versus a year ago. Highlights on the operational front are; #1, the growth in the revenue line year-over-year being overall higher by 24.4% and 8.2% quarter-on-quarter, which has been analysed in detail in the previous slides. #2, the GGR line, which followed the same trend as the revenue, and which was higher by 21.2% year-over-year and 8.4% quarter-on-quarter. Thirdly, the gross profit line which was higher by 76% year-over-year and 38% quarter-on-quarter.

Equivalently important, that the gross profit margin was higher by 8.3 and 6.2 percentage points year-over-year and quarter-on-quarter respectively, since a large part of our activity, mainly in technology and management activity lines, does not incur proportionately increased costs with the revenue increase, resulting to higher gross profit margins that go straight down to the EBITDA.

Fourth, the OPEX line performance, which was at the same level on a like-for-like basis with a much higher revenue though indicating efficiency, as a result of the efforts undertaken by management in the last few years and in 2021 as well for a streamlined business and a lower cost base that also supported the EBITDA line increase.

And fifth, all the above that were reflected to the higher EBITDA margin over sales by 8.7 and 7.8 percentage points year-over-year and quarter-on-quarter respectively, which clearly indicates a much more efficient operation.

The Third Quarter of 2021 was also to a large extent positively affected by the capital structure optimization exercise that was completed during the summer and heavily affected the metrics below to the EBITDA. Therefore, the better operating performance as described above, in addition to the lower depreciation and amortization, the non-existence of burdens that hit our P&L in 2020 from participations in associates mainly due to COVID-19 And all this in combination with the benefits of the capital structure optimization exercise of €88.5 million hitting positively the income statement, resulted to a positive trajectory performance at the EBIT and Net Income after tax and minority interest level.

As a last comment in this slide, we see a clear upward trend depicted in the operational and the financial metrics in the last twelve months column, which is representative for what to expect for the full year results.

Turning to Page #9, the upper graphs have been analyzed in detail already. Focusing on the bottom left of the slide we see the mirroring of the operating performance, analyzed in detail in previous slides being reflected on the Operating Cash Flow, which reached €100 million in September LTM and €84 million in the Nine Month period, where LTM is last twelve months.

Net CAPEX on the other hand, has been substantially reduced and has landed at €18 million in line with our commitment for a substantially reduced CAPEX following optimization of our spending, post investments and important renewals, especially in the U.S.

On the bottom right of the slide, we see the result of our capital structure optimization exercise with the Net Debt materially reduced to €500 million after the deleveraging effect of €163 million in nominal value. The reduction of the Net Debt in combination with the operational improvement reflected in the EBITDA, has led to a Net Debt to EBITDA ratio below five times, showcasing the success of the Group in the actions it has undertaken in the last two years to adapt its capital structure to the new reality that has been shaped for our Group in the last few years.

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, are produced in the more developed parts of the world mainly in North America, Europe and Oceania as part of our strategy in the last few years to shift our activity towards more developed markets.

For more details, I would like to mention at this point that after the presentation, the management and discussion analysis will be available in our website. And with this final comment, our presentation 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 Asset Management. Please go ahead.

FELIX W: Hi, thank you very much for the presentation that obviously spoken not too long ago. I just have one question, what is your proportionate EBITDA from the point of view of the parent?

CHRYSOS A: The proportion EBITDA that you will see in the MD&A which will be uploaded shortly for the Nine Month period it’s €66 million.

FELIX W: Okay. Thank you very much and that's all from me. Thank you.

OPERATOR: The next question is from the line of Permalloo Jemma with JP Morgan. Please go ahead.

PERMALLOO J: Hi, good afternoon. Thank you very much for the presentation. I have three questions. So, the first one, thank you for confirming your EBITDA guidance for the Full Year, can I just check if you have any adjustments over your cost that you are thinking of booking in Q4.

And then my second question is on the 2025 notes that are callable, any sort of guidance or maybe color there in terms of re-financing or calling them back.

And then just finally, you mentioned for the potential update on the US business on the last call. I was just hoping for some color or an update on this. Thank you.

CHRYSOS A: In relation to the EBITDA guidance, first of all let me tell you that the EBITDA excludes any reorg costs, also these amounts are on the EBIT line, so they are not in the EBITDA line, and as I said during the presentation, the LTM figure of the EBITDA is very representative of what we expect more or less for the year end metric. So, an amount in the vicinity of 105 and maybe slightly better is safe to assume.

SFATOS C: On the issue of the '25 notes, your question was about the company considering refinancing it, of course, it is an option that we have and definitely we believe that we can achieve a better rate because this rate was the result of the restructuring process and now the company is very solid.

It already has a B2 rating for this instrument and under these circumstances, we believe that we can improve within the time that we have available. We can improve on the rate, and we can re-finance these notes earlier. And what was the third question please?

PERMALLOO J: My third question was on your US business. I think you had some commentary on you last call. I was just hoping for some color there in terms of potential plan or maybe sort of partial sale of that business.

SFATOS C: I think we are on the same pages as in our last call, we intend to leverage the US business in the best possible way in terms of improving the Group's financial position in the best possible way. So absolutely, it is an option for us to seek various ways either through listing, or either through partnerships. Certainly, our main strategic element is that we intend to grow through partnerships.

PERMALLOO J: Okay. That's very clear. Thank you.

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

WALTHER D: Yeah. Hi, good afternoon, everyone. Two quick questions, one, could you talk a little bit about your pipeline in terms of new projects with the sort of EBITDA potential and CAPEX requirement is? And then the second question, you just mentioned partnerships for the US. Just wondering what…how such a partnership could look? Thank you very much.

SFATOS C: On the second question, it means business partnership in cooperation with various areas that we need, different kind of technology and other opportunities or, going into the area of sports betting licenses, etc. On the first question….

NIKOLAKOPOULOS N.: On the first question, I think we do have built a strong pipeline, especially in the US, but also in the rest of the world and we are evaluating every opportunity in order to make sure that we are going to deploy our capital in the best possible way. So, there is both in the sports betting and in the lottery sectors a series of opportunities that we are looking and when we find that practically this is going to be a lucrative case, we are going to bid or go after this opportunity.

WALTHER D: Any particular contracts that stick out that are sort of up for tender?

NIKOLAKOPOULOS N.: We have already bid, for example for the U.K., we are waiting for that, we don't know yet when this is going to be announced. At least for the time being, it seems that we are going to have news on this on March next year. This is something that could be a game changer, and this is something that we are focusing on. The other thing is that also in the US, there are a couple of strong business in the pipeline on the sports book mainly that we are waiting either to negotiate or to see if and when we are going to start in the First Quarter of 2022, again, a couple of projects from the sports book area.

WALTHER D: Okay. Good luck with that. Thank you.

OPERATOR: The next question is from the line of Kogge Maxime with ODDO BHF. Please go ahead.

KOGGE M: Good afternoon. I had a first question regarding the contract in Malta that you… finally it appears you didn't submit any bid for the renewal of this contract. And this was won by your competitor. So, you did tell us in the previous call that you can't submit a bid, so can you provide us perhaps with more color on that?

And then the Business Plan for 2022, notably already incorporate the discontinuation of this contract, the

Business Plan that you had submit, that you had presented to bondholders in January.

And second question is about your contract in Vermont, I understand that this was also last to a competitor and what's the impact of this one on your EBITDA? Thank you.

SFATOS C: On Malta, you have seen the outcome of the tender. We thought that the CAPEX required for that, so the license in particular was not going to be repaid and given the strong interest in the competition, eventually the bid went up to €105 million.

Now how this bidder intends to generate this money, they have probably another business model and there our business model there was no way that we could follow up on that, but that being said, our company in Malta is a very strong trademark and brand name. Up until now only half of our EBITDA was coming from the licenses that we didn't bid for, and we're currently in the process of evaluating our future presence in the country with the rest of our activities or maybe some more if that proves to be economical. So, on the other hand, cash flow-wise and debt-wise, the profile will look better without this contract.

On Vermont, it's a small contract, it's gotten already a couple of extensions, it seems that it will be with us until almost the whole year 2022. Yes, it's a small contract, some contracts we lose, some contracts we gain, it's not going to hugely affect the EBITDA, especially under the current conditions and the strong growth that we have seen in instance, in place big markets like Ohio and Illinois, and the growth in the US speaks for itself. So, Vermont does not really substantially affect or make a dent in our US EBITDA. So, the last question was about the Business Plan of 2022? What was the last?

KOGGE M: Yes, actually I wondered whether…because you are planning for… you had previously guided to around €107 million of EBITDA for 2021. I wondered whether we should deduct around €10 million from that amount coming from the Malta contract or is it…if that was already incorporated at that time the probability that you will not…?

SFATOS C: We will need to revise our model regarding Malta, but we will also need to revise in comparison to the better performance in the US. So, overall, we would not make any dramatic change, the possibility is for an upward move certainly not for a downward move, in concern to the Malta contract.

KOGGE M: Okay. So, I mean basically the €107 million figure still stands more or less yeah?

SFATOS C: More or less, there are a lot of headwinds in the market. It's an area of high unpredictability due to COVID, due to FOREX movements, due to many parameters. We will see how all this plays out.

KOGGE M: Okay. Thank you.

OPERATOR: We have a follow-up question from the line of Permalloo Jemma with JP Morgan. Please go ahead.

PERMALLOO J: Hi, thank you for that. Just had a follow-up question and I thought I'd just ask if you see with the new variants, it's a bit of early days just the research ongoing. I just wanted to check in for your forts here given that, if they were to be.

And again, I appreciate this is still early days. But, if they were to be further lock down or even restrictions, how do you see that planning out for your business especially going into Q1 2022? Do you see any concern there, or do you think you have enough contingency and liquidity as well in place to sort of navigate any further restrictions?

SFATOS C: Right now, we are not particularly alarmed especially because the biggest part of the impact in the past waves has been from Australia which is now entering in the summer months and doesn't seem any sign of high alert there vis-à-vis the new variants.

Otherwise, in the rest of the territories and especially in the US, the way the model works it doesn't depend on lockdowns, because the network remains open, the shift to self-service machines and all of that helps, I mean, it doesn't impact our top line in the US. So, US works in a completely different phase vis-à-vis COVID. So, we don't expect any picture dramatically different than this year and hopefully we will not have even the minimal impact that we had this year.

PERMALLOO J: 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.

SFATOS C: Thank you very much everyone for your attendance. And our best wishes for the holidays and stay safe.