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"Full Year 2022 Financial Results Conference Call"

Tuesday, 11th April 2023, 17:00 (GR Time)

Conductors:

Mr. Chrysostomos Sfatos, Deputy Group CEO

Mr. Andreas Chrysos, Group CFO

Mr. Vasileios Vasdaris, Group Tax & Accounting Director

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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 Full Year 2022 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.: Welcome to the Financial Year 2022 Annual Earnings Call. I would like to turn the microphone over to Group CFO, Mr. Andreas Chrysos, to proceed with his presentation.

CHRYSOS A.: Good afternoon, ladies and gentlemen. Full year of 2022 results were characterized by strong EBITDA growth of 11%, positive earnings and a decrease in leverage ratios, resulting in a significantly improved financial position. In the past year, INTRALOT has focused on measures, aimed at creating efficiencies in its existing operation, strengthening its cash flows, and ramping up performance in new projects such as with the Croatian State Lottery.

In addition, the cost reduction program, mainly at headquarters level, which has been carefully planned and monitored over the last three years, delivered the desired benefits that were incorporated in the strategic plan relating to the improvement of the Group's operating profitability. In parallel, we performed a series of transactions, most notably a Share Capital Increase at parent level, which proceeds were mainly used to regain control of 100% of our US subsidiary, INTRALOT Inc., and the refinancing of the US issued notes.

In line with its commitment to expand its activities in the US sports betting market, INTRALOT, through its subsidiary INTRALOT Inc., has signed a five-year contract with the Ohio Lottery to implement its INTRALOT Orion Sportsbook solution. In particular, INTRALOT is already utilizing the current lottery equipment and infrastructure to facilitate the sports betting journey for retailers and customers throughout the state of Ohio and more recently the retail sports betting contract with British Columbia Lottery Corporation in Canada.

In terms of contract renewals in 2022, INTRALOT extended its existing contract with Marocaine Des Jeux in Morocco for one additional year with the contract now expiring at the end of 2023, while also the contract with Magnum Corporation in Malaysia, which was extended for two additional years and the contract is now expiring in June 2024. In addition, INTRALOT Inc. has signed a five-year extension of its contract with the Wyoming Lottery Corporation, whereby the company will continue to provide its lottery operating system and services for the operation of the Wyoming Lottery through to August 2029.

Finally, INTRALOT's cooperation with OPAP S.A. in the field of numerical lottery products and services was extended for one additional year, until the end of July 2025, with the possibility of further extension of such cooperation for one additional year. In terms of Group's financial position, following the balance sheet optimization completed in 2021, 2022 could be characterized as a period of intense efforts to further optimize the capital structure and create value for all shareholders in line with the commitments of the company's management.

To this end, the Share Capital Increase of approximately €129 million by payment in cash and with pre-emption rights in favor of the existing shareholders of the company was successfully planned and executed during the summer, in July. As part of this process, a new strategic investor joined the Group's shareholders' base, Standard General, through its wholly owned subsidiary, CQ Lottery, acquired 32.9% of the total voting rights of INTRALOT S.A. for a consideration of approximately €71 million.

With the US market being a key driver of our financial performance, the Group has strengthened its presence by using the Share Capital Increase proceeds mainly to buyback from the minority shareholders the percentage offered to the 2024 Noteholders through the Debt-to-Equity offering completed back in 2021, acquiring control of 100% of the shares of INTRALOT Inc. and consequently, full control of the cash flow of the subsidiary.

In addition, INTRALOT Inc. entered into a Credit Agreement with KeyBank National Association acting as an Administrative Agent and Issuing Lender in a syndicate of 6 US financial institutions for a three-year term loan of $230 million, plus a committed Revolving Credit Facility of

$50 million, the proceeds of which were used for the full repayment of the PIK Toggle 2025 Notes, which were subsequently canceled. In addition to the repayment of the 2025 notes, the Revolving Credit Facility provides the company with flexibility to meet its liquidity needs.

Finally, the successful completion of the capital restructuring process in 2022 has already strengthened INTRALOT's capital profile and the company shall undertake further initiatives for the refinancing of 2024 notes.

And after this small introduction, we are now moving to the 12 months of 2022 financial presentation. So, moving on directly to page number 5, we see that the results of our licensed operations which have contracted by around 33% or around €44 million, which has been the result of the license expiration in Malta in early July, affecting full-year revenues negatively by around €52 million, in part however, counter-balanced by the much better performance in Argentina, driven by a considerable local market growth.

Then turning to page number 6 we will notice a material improvement in the performance of our technology contracts. Key takeaways in this activity line are: first of all, the higher revenues in the US for the 12-month period positively affected by the US dollar appreciation versus the euro, counterbalancing fully the negative variance due to lower merchandise sale versus a year ago.

Second, the high revenues in Australia, which has been the result of the return to pre-COVID period performance levels that affected the 2021 first months. Third, the strong performance due to the ramp-up of our new lottery contract in Croatia, following the go-live that commenced in April 2021. And fourth, a slightly lower performance in all other jurisdictions.

Finally turning to page number 7, we see a better performance of our management contracts by €3 million year-over-year, fueled by slightly improved revenue in all parts of the world with this type of activity.

And then if we move on to page number 8, we see the overall P&L performance metrics for the 12 months that ended in 2022 and the fourth quarter of 2022 compared to previous year. Takeaways on the operational front are: First, the lower performance in the revenue year-over-year and on the fourth quarter, which have been analyzed in previous slides, but primarily affected by the license expiration in Malta. Secondly, the GGR line, which was better by 2.6% due to a lower average payout ratio versus respective period of last year for payout related activities and a much better performance on technology and management contracts that are not affected directly by the payout.

Third, the Gross Profit, better by 12.2% or around €14 million, accompanied by a better margin of 5 percentage points versus 2021. Part of this improvement is attributed to the better GGR, but also to the cost optimization measures, new efficiencies, as well as redundancies due to the discontinued operations.

Fourth, the OPEX line performance slightly worse by €3.7 million year-over-year, negatively affected by the FX, primarily in the US. And fifth, all the above resulted to a better EBITDA performance of €122.9 million in 2022, 11.3% better compared to previous year and also in line with the Gross Profit margin, EBITDA margin over sales considerably improved versus last year.

If we move on to the EBT line, it stood at around €30 million, significantly and positively affected by the improved EBITDA and lower interest expenses as a result of the debt optimization initiatives undertaken during the summer and if comparing with last year, it is lower by €7.3 million because last year's result was positively affected by the one-off positive impact of the debt restructuring process of the summer 2021. Net Income after tax and minority interest in positive trajectory for second consecutive year, indicating the improvement on the operational as well as on the financing front.

Turning to page number nine, the upper two graphs have already been analyzed in detail in the previous slides and now focusing on the bottom left of the slide, the Operating Cash Flow stood at €96 million for the year of 2022, lower by around €12 million compared to previous year. The main drivers here were the unfavorable impact of the working capital, which is the timing issue and the one-off income tax returns received by the parent company in the first quarter of previous year.

Net Capex, slightly higher by €3.6 million versus a year ago, mainly due to CAPEX needs in the United States of America.
On the bottom right of the slide, we see the Net Debt and the Net Debt to EBITDA ratio, standing at €490 million and 4 times, respectively at the end of 2022, considerably improved versus a year ago. The substantially better Net Debt to EBITDA ratio is also an indicator of the results of the good work that took place on the financing and operating front over the last few years.

Then turning to page number 10, we see the Net Debt movement bridge that depicts the elements that affected this ratio in 2022. Strong free cash flow generation and completion of restructuring actions, namely the buyback of minority shares of the US subsidiary through latest share capital increase and the US debt refinancing, had a positive impact on Net Debt. However, the gross debt movement was adversely impacted by the weakening EURO that fully offset the benefit from the reduction in our US-denominated gross debt.

Lastly, on page number 11, we see the contributions per region in our Revenues and EBITDA. The key takeaway from this slide is that there is a balanced contribution on basic operational metrics between North America and the rest of the world, since around 40% of the revenues and 60% of our EBITDA comes from North America, with the rest coming from the rest activities around the world, while respective metric of last year was 67%. And at this stage, the presentation of the results of 2022 is finished and the

INTRALOT executive team is at your disposal for any questions you may have.

OPERATOR: The first question is from the line of Schaus, Lino PSquared Asset Management. Please go ahead.

SCHAUS L.: Hi, thank you very much for taking the question. And just a quick question regarding the 2024 maturity. Maybe share kind of what your plans are and how to address it? And then what kind of initiatives you're looking to do or kind of how do you think about the refinancing in general? Thank you very much.

SFATOS C.: Yes, thank you. Obviously, the refinancing of the 2024 notes is a priority for the company and we have been doing some work in preparation. The publication of the financial results is certainly an important milestone that we wanted to cross first, so that there is a level playing field for all the information that's available. And certainly, there is a wide spectrum of options, given the improved financial position of the company from bank syndicated loans to issues of notes. We're examining the entire spectrum and you should expect some initiatives from us in the coming months. But this is something that's clearly a priority for the company, given the timeframe.

SCHAUS L.: Thank you. Was it right to understand, as you said within the coming months, you will have a refinancing ready or just an update on the process?

SFATOS C.: An update on the process. Maybe hopefully, it will be a quick process that we will be able to conclude.

SCHAUS L.: Great. Thanks very much.

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

WALTHER D.: Yes. Good afternoon, everyone, and congratulations on the strong results. Question, which are some of the big expiries in terms of contracts that we should be keeping an eye out for?

SFATOS C.: Expiries. Well, fortunately, we don't have expirations in the next two, three years of significant contracts. In fact, some of the smaller contracts that are expiring in the next years, they are being in the process of being extended. Soon, we will have some news to share with you about three contracts in the Asia Pacific and hold on, let me take a look at the list. Yes, the most substantial contract that's expiring is in 2025, in New Hampshire but the big contracts expire after 2027.

WALTHER D.: Okay. Great. And then you had some positive announcements with the sports betting gains, one in Canada and one in the US. What type of EBITDA contribution should we be expecting from those?

SFATOS C.: Yes. In Canada, we have also the lottery business. So, I would say ballpark between $2 million to $4 million EBITDA recurring annually for the whole contract, for both legs, lottery and sports betting. The sports betting should be north of $2 million.

And regarding Ohio, it's already a big contract. We have to see how the numbers are going, the competition is intense, I can't really give you a number right now. We still have some way to go. The Canadian contract is different, it's differently structured, so we can have already some visibility about the EBITDA contribution. The Ohio contract is completely performance-based. So, we need some time to see how it's performing.

WALTHER D.: Okay. Great. And when you take all of this together, it feels like you've, over the last few years, made nice progress in growing your EBITDA. How do you see 2023 shaping up?

SFATOS C.: Already, the first quarter of '23 is better than the first quarter of '22. And according to our predictions, '23 will be a stronger year than '22.

WALTHER D.: Okay. Great. And maybe a last question. Turkey continues to be quite strong. I thought two years ago, you were quite worried that it would almost go away, what has actually changed there?

SFATOS C.: Actually Turkey, what we lost was the retail contract in sports betting. What we currently have in Turkey is Bilyoner, which is an online agent. So, our business is in the online sports betting and that's a booming business. And actually, the market has changed completely in favor of online in Turkey. So, our Bilyoner businesses in the online betting and that was not affected by the loss of the contract with Sport Toto with the retail and the entire sportsbook in Turkey that you remember in 2019.

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

OPERATOR: The next question is from the line of Sykes John with Nomura. Please go ahead.

SYKES J.: Yeah. Hi. Thanks for taking our questions. You had a nice increase in the EBITDA margin for 2022. Can you just walk us through what was the biggest contributor? Was it all volume driven? I mean, I know here, your operating expenses were kept pretty tight. And then my question would be, do you expect some margin improvement in 2023?

SFATOS C.: Yes, the margin improvement is also due to the fact that through the operation from which we lost revenue is an operation like Malta, where the conversion of revenue to EBITDA is much smaller margin. So, the mix this year contains less of the Malta income and therefore, that's one structural change in the EBITDA margin.

On the other hand, one of the things we're very proud of is that, usually, when you lose a contract, companies don't adjust to the expense side so fast, which we were able to do. If you look at the total cost of sales, it's down €35 million in 2022 compared to 2021, while the income reduction is only €21 million, that leads dramatically to a higher gross profit and that's another factor that contributes.

But basically, we are replacing loss of EBITDA from one contract with gain of EBITDA in another contract, such as Croatia. Obviously, we had a positive impact from the FX in the United States compared to the year before. So, these are some of the key drivers that I hope answer your question.

SYKES J.: Yes. I mean, I guess, Q4, therefore, you had a bigger impact from Malta on the revenue base as well. So, it wasn't anything fundamental with the remaining mix of your business that was really Malta for Q4, right?

SFATOS C.: Yes, if you compare EBITDA margin '21 with EBITDA margin of '22, what I'm saying is that there's more of Malta conversion of revenue to EBITDA, which has a smaller EBITDA margin compared to this year, which only had six months of Malta.

SYKES J.: Right, right. Okay. Okay. I got it. And then just 2023, do you see some additional margin expansion?

SFATOS C.: We see better revenue in '23. I'm not sure about the margin, the EBITDA margin right now. But what's important, yes, if you take into account the fact that this year, we had six months of Malta, yes, in that sense, next year, it will be a full year without Malta and that's actual margin. So, the margin will improve next year. But the important thing is that we see a great deal of good opportunities in the United States now. And I think we will be able to tap significant growth in the US. We are also bidding for two new contracts in Denmark and in the lottery of New Zealand.

And as I said, we are renewing three existing contracts in the Asia-Pacific that soon, we will be able to share the news. So we are expecting a revenue growth, more. But yes, indeed, the rest of the six months of Malta will play a role in increasing the EBITDA margin.

SYKES J.: Okay. And then just the last one for me. It piggybacks on the questions about the refinancing and the maturity of the existing bond. And really, you did mention some banks that you -- have you entered discussions with banks regarding a syndicated deal and how far along are those discussions, I guess, I would ask?

SFATOS C.: No, there is nothing that I can say so specifically about this right now. I would ask you to be a little bit more patient on that, on the specifics.

SYKES J.: Okay. But yes, okay. I mean, we've seen a lot of issuers also do exchanges or opportunistically come to the bond market again, so I imagine you're considering all those options?

SFATOS C.: Yes, yes. We have seen all the amends and extends, we have seen all the market conditions, we are aware of the various trends. What we want to achieve is the optimal debt servicing costs compared to when we have the loss, then compared to how the market looks? The market is extremely volatile, obviously.

SYKES J.: Okay. Great. All right, thank you very much. I appreciate it.

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 for attending this conference call. We look forward to talking to you again in the first quarter results very soon.