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"First Quarter 2023 Financial Results Conference Call"

Tuesday, 30th May 2023, 17:00 (GR Time)

Conductors:

Mr. Chrysostomos Sfatos, Deputy Group Chief Executive Officer

Mr. Andreas Chrysos, Group Chief Financial Officer

Mr. Vasileios Vasdaris, Group Tax & Accounting Director

Mr. Antonis Skiadas, Group Finance, Controlling & Budgeting Director

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OPERATOR: Ladies and Gentlemen, thank you for standing by. I am Gelly your Chorus Call operator. Welcome and thank you for joining the Intralot conference call and Live Webcast to present and discuss the First Quarter 2023 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: Thank you very much. Welcome to our First Quarter Results Investor Call. We have a very good First Quarter, as you have just seen. I'm happy to ask Group CFO, Andreas Chrysos, to proceed with his presentation.

CHRYSOS A: Good afternoon, ladies and gentlemen. The first quarter of 2023 has been characterized by an outstanding performance on all operational metrics continuing on the same path that we have followed for the last two years. More importantly, from quarter-to-quarter, the company shows continuous growth in its outlook, as indicated also by the LTM EBITDA for the first quarter period that was over €130 million, and we expect to improve further during the year. It is clear now that the Group is in a period that it reaps the fruits of its strategic choice to exit from markets with lower margin and engage further in higher profit margin contracts and markets accompanied also by the cost optimization initiatives.

On the operational end, INTRALOT is now moving on solid grounds and is ready to further capitalize on the maturity of its technological capabilities offered through next-generation solutions for lottery digital transformation to enter more promising and cost-efficient markets, such as the online segment. Equally important, regarding our financial position with a healthy operational and financial basis, and after the initiatives undertaken in the last two years towards deleveraging, we are now ready to address timely our upcoming maturities of our 2024 bond notes and undertake further initiatives towards an improved and more efficient capital structure.

The first quarter of 2023 key takeaways are, the strong EBITDA growth of 29% year-over-year, positive earnings after tax, a further decrease in leverage ratios as well as strong cash flow generation resulting in a significantly improved financial position with a cash balance increasing by around €7 million. This is particularly important because the first quarter was burdened by the coupon payment in March and in recent years this outflow was creating a shortfall in cash, if compared against the previous reporting period.

We are now moving to the three months of 2023 financial presentation. So we'll go directly to Page number 5. We see the results of our Licensed Operation, which have contracted by around 65% or minus €20.4 million, due to the license expiration in Malta in July 2022, affecting negatively the first quarter of 2023 revenues by €21.5 million negatively, in part counterbalanced by the better performance in Argentina, driven by a considerable local market growth.

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 three-month period, organically driven by the growth in numerical and instant games, but also positively affected by the US dollar appreciation versus euro. And a better performance in all other jurisdictions.

Finally, turning to Page number 7, we see a significantly improved performance of our Management Contracts, primarily driven by the strong momentum of our online business in Turkey and the growth of the respective Sports Betting segment by 2.2x year-over-year in the country.

Turning to Page number 8, we see the overall profit and loss performance metrics for the three months versus a year ago. Takeaways from the operational front are: first of all, a lower performance in the revenue line year-over-year analysed in detail in previous slides, but primarily affected by the license expiration in Malta. Two, although payout ratio was higher by 3.5 percentage points, the part of revenue that is affected by it, is relatively small compared to the line of activities that are not affected by the payout, primarily in the US and in Turkey, resulting to a gross gaming revenue line better by 4.5%.

Three, apart from the gross gaming revenue line, the gross profit was also affected by the shift of the business to more profitable lines of activities and was better by 29.3% or €7.3 million, accompanied by a better margin of 10.6 percentage points versus respective quarter in 2022.

Half of this improvement is attributed to the better GGR, and the rest comes from the cost line as a direct effect of this shift, but also due to the cost optimization measures which is always in the spotlight of our operations where possible.

Fourth, the opex line was slightly higher by €0.9 million due to the increased needs to support the growth in the US primarily and in Turkey, but in any case disproportionately lower compared to the top line growth.

All the above less to an EBITDA performance of €33.7 million in the first quarter of 2023, 29.2% better compared to the respective period of last year, and in line with the gross profit margin, EBITDA margin over sales presented a double-digit growth versus last year. As a result of all of the above metrics, but also due to the lower depreciation and amortization result of €1 million, earnings before tax was strongly positive at €10.9 million versus negative result of €2.3 million last year and bottom line results, continuing in positive trajectory for one more reporting period indicating the improvement on the operational as well as on the financing front.

A major highlight of the P&L is also the continuous improvement of the LTM metrics with EBITDA reaching €130 million trajectory, and EBT and earnings lines being also strongly positive, which is one more indication of the positive outlook of our performance.

Turning to Page number 9, the upper graphs have already been analysed in detail in the previous slides. Focusing on the bottom left of the slide, the operating cash flow stood at €37 million for the first quarter of 2023, higher by €20 million compared to the respective period of 2022, with the main drivers of this performance being the higher EBITDA, but also the positive working capital. Net capex, higher by €2.9 million versus a year ago, mainly due to the higher CAPEX needs in the US.

On the bottom right of the slide, we see the implications of the continuously improved performance on the financing and on the operating front with the net debt and the net debt-to-EBITDA ratio standing at €472 million and 3.6x, respectively, at the end of March 2023, considerably improved not only versus a year ago, but also compared to the respective performance three months ago at the end of 2022.

Turning to Page number 10, we see the net debt movement bridge for the three months from December 2022 through March 2023, indicating a strong free cash flow generation of €23 million and an overall improvement of net debt by around €19 million in the three-month period. This metric was also positively affected by a gross debt movement of €12 million, which includes the capital payments towards the term loan in the US, the lower interest accrued in comparison with December 2022 and the positive FX impact of our USD denominated debt.

Lastly, on Page number 11, we see the contributions by region in our revenues and EBITDA. 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 47% of the revenues and 52% of our EBITDA comes from North America, with the rest coming from the rest of the world.

And at this stage, the presentation of the results for the first quarter of 2023 is finished, and the INTRALOT executive team is at your disposal for any questions you may have. Thank you.

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

FELIX W: Yes. Thank you very much. Just quickly, could you give us an outlook for Q2 and maybe sort of the rest of the year? And congratulations certainly on having other things as far as they are now. It's a very different call, it about a year ago. And could you maybe one more time update me on the Ohio contract? You've entered into a new contract there, including sports betting that was entirely, I believe, success driven. Have you got any sort of experience for that contract? And I don't quite recall, I believe, you've also obviously prolonged your lottery contract there. Is that in the same shape, or is there any change to it? Thank you.

SFATOS C: Yes. Thank you for your questions. Indeed, we have a very, very strong first quarter, especially compared to the first quarter of 2022. We do expect our performance to continue to be strong. In fact, we expect for the rest of the year, good performance and overall, we think that we will have double-digit growth at the end of 2023. What we see already in the second quarter is very good results, and it continues along the trends that we have seen already, strong performance both in the US and in Turkey.

Regarding the Ohio contract, as you probably know, we have the lottery contract, which is up, which is renewed every two years according to the legislation on a framework of a 10-year contract that expires in 2027. And there is a renewal now in June 2023 for another two years, which is on track for the lottery contract. And as we have announced back in December, we have started a five-year contract for the sports betting network that's served through the lottery network. Does that answer your question?

FELIX W: It does. Thank you actually. So, with respect to the lottery contract, you cannot actually know any more than you do right now, and I suppose having received the gaming contract you're in a very good position, is that right?

SFATOS C: Sorry, the lottery contract continues as it is. We signed the two-year renewal that we sign every two years. So structurally, it will be expiring in June 2025. There's no other current development about that contract. Same terms and continues.

FELIX W: Okay. Thank you.

OPERATOR: The next question is from the line of Salcedo Mateo with Spread Research. Please go ahead.

SALCEDO M: Yes. Thanks for taking my question. I got two, if I may. The first one is on the performance in South America and EBITDA, saw that the revenues are increasing, but EBITDA is going down. Could you explain what is driving this decrease in the bottom line, please?

SFATOS C: So, you're asking, why EBITDA in South America is smaller?

SALCEDO M: Yes, indeed.

SFATOS C: It's a small difference. And I can't really explain that it's a particular trend. It may be affected by the exchange rates and some macro factors, like inflation.

SALCEDO M: Okay. And then my last question would be on the refinancing of the '24 bond. I know in the past, you said that you will let's say, drop the option of doing a bond through loan refinancing. Is there any update on that regard?

SFATOS C: Yes. That's clearly a priority, as you can see also from our comments in the presentation and the announcements. It's clearly a priority as we approach the 12-month mark from the maturity date. We are doing a lot of work on the background and exploring our options. We are quite optimistic. As you know, the markets right now are tight, but as our results have improved and our metrics now have normalized, we are quite confident that we will be reaching some conclusion and we'll be announcing, but we would like to keep all our options open for the moment and announce when we have a binding and conclusive results to announce.

SALCEDO M: Okay. So just to follow up on that. Is it safe to assume that you will be refinancing, let’s say that the probability of the financing before it become a recurring debt, I mean, you're trying to be refinancing before it becomes recurrent debt, right?

SFATOS C: Yes, that's the idea. But we still have some time.

SALCEDO M: Okay. Thanks.

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 the call, and we look forward to our next first half results. Thank you very much.