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"Third Quarter 2023 Financial Results Conference Call"

Friday, 24th November 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

Mr. Michail Tsagkalakis, Capital Markets Director

Conference Call Conducted by Chorus Call Hellas

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

Welcome and thank you for joining the Intralot conference call and Live Webcast to present and discuss the Third 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: Hello. Good afternoon. Welcome to the earnings call for the third quarter of Intralot. I'm happy to welcome you all. And I would like to pass on the microphone to the Group CFO, Mr. Andreas Chrysos for his comments.

CHRYSOS A: Ladies and gentlemen, good afternoon. The first nine months of the year and particularly the third quarter have been characterized not only by an outstanding performance, as indicated by operational metrics depicted in the P&L and in the cash flow statement, but also by a continuous improvement.

In terms of operating profitability, the nine-month EBITDA grew by around 15%, which was also the growth of the last quarter versus respective period last year, while the last 12 months EBITDA reached around €136 million, better by €13 million compared to the full year of 2022 performance.

In addition to this, it is clear now that the Group is reaping the fruits of the strategic choice to exit from markets with lower margins and engage further in higher profit margin contracts and markets since the EBITDA growth has been accompanied by a continuously improved EBITDA margin, which was in the vicinity of 36% to 36.5% both for the nine month and the third quarter periods.

Apart from the P&L metrics, the performance of the operating cash flow also marked the operational improvement reaching €97.6 million, a 44% better performance compared to last year's respective period’s performance and a much better cash position, which was higher by €20 million standing at €122 million compared to the end of 2022.

The successful completion of the Share Capital Increase in October 2023 marked an important step in the sequence of strategic initiatives planned and executed by the management to reinforce the capital profile of the company and the Group. The raising of €135 million signalled the investment community's confidence in INTRALOT’s results and prospects, while the strong interest was evident also in the execution process, as the Increase was fully subscribed by rights holders and pre-subscriptions, leaving no shares available for private placement.

Immediately following the completion of the Share Capital Increase with the introduction and commencement of trading of the new shares on the Main Market of the Athens Stock Exchange, the Listings and Market Operation Committee proceeded to the lifting of the decision of company’s shares to be traded in the Surveillance segment, which have now returned and are traded, alongside with the new shares, on the Main Market of the Athens Stock Exchange.

This development was based on the fact that following the successful completion of the Share Capital Increase, the Group's equity returned to positive territory, and consequently, there are no longer grounds for the company's shares to remain in the aforementioned category. Furthermore, as the company committed in the prospectus in relation to the use of the raised capital, €126 million of the proceeds were directed towards the partial repayment on November 14, 2023, of the bonds maturing in September 2024.

Subsequently, the outstanding balance of these bonds is approximately, €230 million, while net debt after the completion of the Share Capital Increase stands at €328 million, and the consolidated net leverage ratio is at 2.4x. For the next sort-term period, we are focused on the execution of our next refinancing plans, which will allow the Group to fully redeem the remaining outstanding Notes maturing on September 2024.

These plans are two-folded and will include the issuance of a Retail Bond and Syndicated Bank Loan. More specifically, the process of preparing a prospectus for the issuance of a Retail Bond that will be traded on the Athens Stock Exchange has commenced and is expected to be submitted to the Hellenic Capital Markets Commission for approval in December.

As for the Bank Loan, we have been in discussions with a syndication of five Greek banks and all prerequisites set by the banks have been completed, and the terms and the agreement are in the final step of the approval process. The total amount to be raised by these two financial products will be sufficient to fully repay the outstanding Bonds maturing on September 15, 2024.

And after this introduction, we are now moving to the nine-month of 2023 financials presentation. In page number 5, we see the results of our licensed operations which have contracted by around 60% or €49.2 million due to the license expiration in Malta in July 2022 affecting negatively nine months of 2023 revenue by €43 million, as a result of our transition from B2C to B2B contracts with higher margins. In Argentina, although in local currency terms, there was a substantial increase, headwinds in the FX resulted to a lower performance in euro terms by €5.3 million.

Turning to page number 6, we will notice a material improvement in the performance of our technology contracts, which have been improved by around 6%, and the key takeaways in this activity line are the following: First, the higher revenue in the US for the nine-month period organically driven by the growth in the numerical, i-Lottery and instant games.

And secondly, a better performance of our business in Croatia due to the local market growth. This new contract, which commercially commenced its operation in April 2021, but unfolded its potential in the next two years is now performing very well, exceeding our budget expectations for this year.

Finally, turning to page number 7, we see a significantly improved performance of our management contracts, which have improved by €16.6 million or 46.9%, attributed mainly to the momentum of our online business in Turkey and the growth of the respective sports betting segment by 2x year-over-year in the country. Strong performance has been partially mitigated by the headwinds in the local currency, mainly in the second quarter.

Turning to page number 8, we see the overall P&L performance metrics for the nine months and the last quarter versus a year ago. Takeaways from the operational front are: first of all the lower performance in the revenue line, which has been analyzed in detail in the previous slides, primarily affected by the license expiration in Malta, but better quarter-on-quarter by 8%. This indicates the improved performance of the top line on an apples-to-apples comparison of the two quarters without the Maltese contract, which has ended its operation at the end of the first half of 2022.

Secondly, the gross profit line, as already mentioned, was strongly affected by the shift of the business to more profitable line of activities and therefore was better by 24% or €20.6 million, accompanied by a better margin by 9.6 percentage points versus respective period of 2022. The last quarter also presented a much better performance compared to previous year, while the gross profit margin for the last 12 months period reached 40%.

Thirdly, the opex line, it was higher by 9% or €6.3 million and around €9 million higher quarter-on-quarter. The reason behind this increase relates to the necessary adjustments on the cost side, in order to support the top line growth as well as future business developments in areas that drive the growth.

Fourth, as a result of all the above, we have a healthy EBITDA improvement, which landed at €101 million, almost 15% higher compared to last year with a similar percentage growth in the last quarter too.

Last 12 months EBITDA, as mentioned in the introduction, also improved compared to the previous periods, standing at €135.8 million, indicating a good trend and a positive outlook of our performance. In line with the gross profit margin, the EBITDA margin over sales was higher by 6.9 percentage points versus last year, standing in the vicinity of 36% to 37%.

As a result of all the above metrics, but also due to the lower depreciation and amortization result of €5.2 million, the EBT line was strongly positive and much better compared to previous year, standing at €32.1 million versus €19.4 million in 2022 and €42.5 million on last 12 months basis, and the bottom line result was €9 million for the period and over €20 million on a last 12-month basis, indicating the improvement on the operational as well as on the financing front.

Turning to page number 9, the upper two graphs have already been analysed in detail in the previous slides. Focusing on the bottom left of the slide, as commented in the introduction, the operating cash flow stood at €98 million for the nine months of 2023, which was higher by 44% compared to the respective period of 2022, as a direct effect of the higher EBITDA and above better working capital. Capex was higher by €7 million versus a year ago, mainly due to higher capex needs in the US and the payment partially of the license in Bilyoner, in Turkey.

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 for the nine-month period of 2023 standing at €458 million and 3.4x, respectively, at the end of September, considerably improved not only versus a year ago, but also compared to the respective performance nine months ago at the end of 2022. On a pro forma basis, after the execution of the Share Capital Increase, net debt stands at €328 million and net debt to EBITDA below 2.5x at 2.4x.

Turning to page number 10, we see the net debt movement bridge for the nine months from December 2022 through September 2023 indicating a strong free cash flow generation of €56.3 million and an overall improvement of the net debt by €32 million in the nine months period. This metric was also positively affected by a gross debt movement of €12.6 million, that includes the capital repayments towards the term loan in the US and the benefit from the lower interest accrued in comparison to December 2022, fully offsetting the slight adverse FX impact on our US denominated debt.

Lastly, moving to page number 11, we see the contributions per region in our revenues and EBITDA and the key takeaway from this slide is that there is a balanced contribution on basic operational metrics between the North America and the rest of the world since around 44% of the revenues and 51% of our EBITDA comes from North America, with the rest coming from the rest of the world.

The better performance in North America and in the rest of the world areas come from our businesses in the US and in Turkey, counterbalancing fully the loss in Europe region due to the Maltese contract with the Croatian contract counterbalancing partly the deficit in this part of the world, especially as well as the loss in South America, mainly attributed to the FX headwinds in Argentina.

And at this stage, the presentation of the results for the nine months 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 comes from the line of Memisoglu Osman with Ambrosia Capital. Please go ahead.

MEMISOGLU O: Hello, many thanks for your time and congrats on a strong quarter. I have three questions, if I may. Firstly, the expectations after a strong Q3, I was wondering if you could give us any color on Q4 EBITDA performance, whether we should expect a strong similar figure?

Second question is, over the medium term, particularly for the US market, what kind of EBITDA should we expect?

And third one is if there's any update on the talks with TLC in Australia? Thank you.

SFATOS C: Thank you. On the Q4, it still were not even in the middle. So, we only have a view of October, and it seems to be going according to the budget forecast. So, I guess people should be wondering more about how the full year 2023 is going to close. And I cannot tell you now because we don't have the forecast on the FX, for example, which is very important, and we see a lot of movement there, Turkish lira, Argentine peso and the US dollar. But it all looks good, and we are meeting the targets. So, now you see an LTM EBITDA very strong at around €136 million. Except for any FX movement, we expect to meet the targets that we have set out. So, nothing unusual or adverse happening in Q4 of 2023.

Regarding the US market, we are expecting an EBITDA in euro terms for year-end, of course, north of €70 million, probably around €73 million or €74 million depending on the FX.

And finally, your question was about Australia?

MEMISOGLU O: Yes.

SFATOS C: So, you mean about the new contract there?

MEMISOGLU O: Exactly.

SFATOS C: Yes, there will be a tender going out, we are in contact with them. I don't have anything to share specific at this point, it's a significant opportunity there. There are other significant opportunities in other parts of the world. We are bidding in South Africa and in the United States we intend to bid every contract that will come to tender in the next couple of years. There are other significant opportunities, some very sizable ones where we would need to bid with the partnership, but a lot are in a range that we can bid, and we feel confident that we can win some of these contracts coming into bid in the next two to three years.

MEMISOGLU O: Great, thank you.

OPERATOR: The next question is from the line of Carlis Konstantinos with Euroxx Securities. Please go ahead.

CARLIS K: Yes. Hello everybody. Just a strategic question. Have you examined in the past, or are you looking for the next one year or two years any kind of expansion to the Asian markets? I mean they are very let's say, I don't know if the Indian or the Chinese market. I think they have an increased propensity to bet and all these? Thank you.

SFATOS C: Sure. As you know, this year we won a tender in Taiwan, and we also have a tender that we are looking to renew in Malaysia. But to your question, we operate in an environment which we call the WLA environment, the World Lottery Association environment. So, we work with state lotteries and

I'm sure there are a lot of opportunities in Asia in the areas that you mentioned, but these are not the kind of opportunities that fit to our portfolio.

But definitely, these are areas where we've been active before. And we are looking into all opportunities that fit within this WLA environment. And definitely in Australia, which we just mentioned, we have a lot of activity there, we're looking to renew the existing contracts and we are looking into new opportunities there. Again, our focus will be mostly in developed markets. And US is one of them.

OPERATOR: Mr. Carlis, are you done with your question?

CARLIS K: Thank you very much. Have a great weekend and all the best for the rest of the year.

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: Ladies and gentlemen, thank you very much for attending this call. I would like to close by conveying the thanks from our Chairman and the Board to all the shareholders who participated in the Share Capital Increase recently.

As you know, all of you who follow our company closely all these years, we've come a long way. Now the company has a very improved set of financial metrics and that's been reflected in the investor interest in the share price, and we are confident about developments in the near future, as the company is now at a position to bid for new projects and the situation has been stabilized. And we have the new technologies that we've developed in the past years to compete and face all the challenges and tackle the opportunities.

Thank you very much. I'm looking forward to the next call for the full year results in March.