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"First Quarter 2024 Financial Results Conference Call"

Friday, 31st May 2024, 17:00 (GR Time)

Conductors:

Mr. Nikolaos Nikolakopoulos, Group CEO

Mr. Chrysostomos Sfatos, Deputy Group Chief Executive Officer

Mr. Andreas Chrysos, Group Chief Financial Officer

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

Welcome and thank you for joining the Intralot conference call and Live Webcast to present and discuss the First Quarter 2024 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. Welcome to the conference call of the First Quarter Results for 2024. I will run the meeting as always, but I would like also to mention that today, the company announced Nikos Nikolakopoulos as the new Group CEO who is joining this meeting. And of course, during the course of the call, he will refer to the Commercial issues, but he will also make a closing statement.

At this point, I would like to pass the microphone to our Group CFO, Andreas Chrysos, for his remarks.

CHRYSOS A: Ladies and Gentlemen, good afternoon. We'll start with our presentation. Before that, we have a short introduction.

So, 2024 started with the finalization of all financing activities that had commenced in late 2023. The last one was completed on the 9th of April with the full redemption of the last portion of the 2024 Senior Notes amounting to EUR99.6 million in principal amount, ending a journey that started in the last quarter of 2023 targeting to the early payment of the outstanding 2024 Notes.

During the same period, the First Quarter of 2024 could be characterized as a stabilization quarter on the operational front. Our most important subsidiaries and projects continued their operations on a pretty stable performance, earmarked mainly in our Company in the U.S. In the case of Bilyoner in Turkey, our subsidiary invested heavier to increase its market share that reached 19.4% in April 2024 from 17.9% in the end of 2023, strengthening its position in the market and building the firepower to exploit financially the opportunities that this booming market offers.

Headwinds on the FX front in Argentina that hit our numbers in the last month of 2023 and were discussed in the previous call, continues to impact our numbers if compared against the same period of last year. The stable performance was also depicted on the net debt and leverage ratio.

Adjusted these two metrics for the guaranteed deposit of EUR24 million relating to the servicing and repayment of the new debt products, meaning the retail bond and the syndicated loan, that were issued early in 2024, net debt stands in the order of EUR329 million, from EUR333 million at the end of 2023, and the leverage ratio was stable at 2.6 times. It is important to note that gross debt on the 31st of March includes the EUR100 million of the syndicated loan, which was drawn on the 28th of this month and was used to fully repay the outstanding amount of the 2024 Notes on the 9th of April. Therefore, gross debt was increased by this amount at the end of March and subsequently was decreased in April after the final repayment of the 2024 notes.

We believe that the current state on the financing and also on the business front, in accordance with our technological capabilities, provides our Group with a very solid grounds to pursue future growth that, through new opportunities, we see ahead in the mid-term horizon. And with this small introduction, we are now moving to the First Quarter of 2024 financials presentation.

Going directly to Page number 5, we see the revenue analysis per business activity, our management contract activity line, including our projects in Turkey and Morocco, performed better by EUR1.5 million year-over-year with a very good performance from Bilyoner in Turkey, boosted by the increased market share in the growing Turkish online sports betting market; managing to fully counterbalance the negative effect of the FX headwinds of the Turkish lira.

This positive effect was partly counterbalanced by the lower revenue in Morocco, attributed to the lower scale contract that we have now in the country compared to the old contract that was in effect last year.

Licensed operations were lower by EUR4.8 million compared to the respective period of last year, affected by the steep devaluation of peso in December 2023, which also affected the technology line of business. Performance in major markets, such as the U.S. and Australia, included also in the technology activity line, was stable.

Turning to Page 6, we have the Overall P&L Performance for the First Quarter of 2024 compared against 2023's respective period. On the Revenue line, there was a deficit of EUR4.3 million, including the negative impact from the currency devaluation in Argentina, which was EUR6.7 million in total, although in local currency in Argentina, this year's revenue presented a 132.8% growth. Same reasons for the GGR line variance.

And then moving down to the OPEX line, the year-over-year increase is entirely related to Bilyoner, which invested significant amounts to increase its market share and strengthen its presence in the local market. As a result, EBITDA for the period was lower by EUR3.6 million. Analyzing this variance further, it all comes from Argentina and Turkey, with Argentina being down by EUR1.3 million and Turkey by EUR2.2 million. All other projects' performance net off each other.

EBITDA margin in the region of 35% to 36% at the same level as of at the end of 2023. Higher depreciation and amortization in Q1 2024 versus Q1 2023 because of hyperinflation impact year-over-year related to the Bilyoner license and the EBIT line lower by 5.5 million due to EBITDA and the depreciation and amortization lines variance. Net income after tax and minority interests was positively affected by a reversal of a deferred tax liability coming from Bilyoner following the harmonization of inflation accounting treatment under IFRS with the local accounting tax principles.

Turning to Page 7, the upper two graphs have been analyzed already in the previous slides. On the bottom left graph, the Operating Cash Flow was lower by EUR10 million, attributed mainly to the negative swing of working capital of EUR7.4 million year-over-year, consisting primarily of impact on inventories, the majority of which coming from the U.S., referring to equipment building that will be installed to clients in the next period. Overall, the movement in the working capital is seasonal, and we expect that it will be smoothed out throughout the year. CAPEX for the period, same as in the previous year.

On the bottom right of the slide, we see that the Net Debt and leverage ratio adjusted for the restricted cash, to which we referred already before for the debt servicing and repayments, remained at the same levels as at the end of 2023 in the order of EUR330 million and 2.6 times, respectively.

And then moving on to Page 8, we see the movement of the Net Debt, we have a bridge there. From December 2023 through March 2024, the free cash flow generation at EUR11.2 million and the net interest payments at EUR9.8 million. Here, it should be highlighted that the First Quarter Cash Flow movements include items that will not be repeated in the rest of the year, and therefore, we expect that the remaining of 2024, the free cash flow generation will be strengthened.

These items indicatively refer to positive working capital movements, dividends to minorities that will not be repeated and interest amounts that burdened the First Quarter payments from the Notes of 2024 that were fully repaid in April this year. Loan receipts include the 100 million syndicated loan that fully repaid the outstanding 2024 Notes in April, which is also the reason why we see the gross debt increase at the end of March.

The EUR24 million restricted cash, again, we referred to it already, so adjusting the net debt, we see also here, for this amount, it is marginally lower by EUR3.7 million at EUR329.5 million, mainly due to the capital repayments in the US loan.

Lastly, on Page number 9, we see the Contributions per region in our Revenues and EBITDA. In terms of EBITDA, the North America had a stable performance, while Europe partly counterbalanced the lower performance in South America, due to Argentina primarily, and the rest of the world attributed to Bilyoner and Morocco.

And at this stage, the presentation of the Results of the First Quarter of 2024 is finished, and the INTRALOT Executive team is at your disposal for any comments that you may have. Thank you.

OPERATOR: The first question comes from the line of Pointon Russell with Edison Group. Please go ahead.

POINTON R: Good afternoon Gentlemen. Thank you for the presentation. A couple of questions from me. First of all, could you talk about the US in a bit more detail? You talk about divergent trends. And on the last call, we spoke about poor weather at the start of the year. Can you talk about what's happened with the jackpots? So, talk about how those things progressed and you talked about the strong growth in iLottery.

Second question is on Turkey. There's obviously quite a good dip in the profitability of Turkey as you stepped up that marketing. Do you think the profitability in Turkey has reached a trough now? Or do you think you will continue to invest in marketing in the near term to continue gaining market share?

And my third question, I guess, is probably quite a big question. Just you talked quite a bit of detail on the last call about where you are with respect to the major contracts that are coming up this year? I appreciate it's always difficult to talk about these things ahead of any resolution, but just give us some idea of what progress has been made. Thanks very much.

NIKOLAKOPOULOS N: Good evening and good morning from my side also, I'm Nikolaos Nikolakopoulos. I will start with the first question about the US. The First Quarter, give or take, was the expected growth in terms of sales. There was just one big jackpot, both a trend in parallel, both in Mega Millions and in Powerball. So even though we had a slow start in January and February in sales, much compensated. That's why, give or take, we were in the same size and level of sales on the First Quarter of 2023.

And I believe that the trend, the good trend is continuing on the last two months. So, all in all, in terms of jackpots, there was just one, which is something normal in both, in those five months, and the performance of the instance, which is the majority of the sales in the lottery business in the US is following a normal growth trend.

In terms of Turkey, we do not believe that we have reached the profitability. What practically we are doing is that we are investing in marketing in order to grow our market share because we do believe that there is an opportunity to consolidate position and start growing also there.

In the last, I think, five or six months, we are having a very steady month-on-month growth of the market share. Now we are close to 19.5%, so we will continue this aggressive strategy and because the benefits that we are reaping make sense regarding the investment, especially for the long run.

And the third question was about, if I'm not mistaken, the RFP, the upcoming bids and stuff like that, correct? Okay, in general, there are some RFPs that they are already been issued like the North Dakota, the two in Ohio – the monitoring and the central system - Missouri has been issued, TLC is in Australia, it has been issued.

So, we are participating, we are expecting another 10 to 12 RFPs, including also some in Latin America like Brazil that are going to be issued throughout the year. So, for the time being, it is very difficult to have some specific news, what I can tell you is that there is an opportunity, and we are following almost every one of them.

POINTON R: Thank you. Can I just have a follow-up on the Turkey question, please?

NIKOLAKOPOULOS N: Sure. Yes.

POINTON R: Sorry. So, the gain in market share in Turkey are you gaining new players or spend per player or a combination of both?

NIKOLAKOPOULOS N: It is a combination of both, but mainly we are gaining market share in a growing market. So practically the average spending per player is growing, but the main thing is that we are gaining also more players.

POINTON R: Thank you very much Nikolaos.

OPERATOR: The next question comes from the line of Memisoglu Osman with Ambrosia Capital. Please go ahead.

MEMISOGLU O: Many thanks for your time. Just on the trends the evolution of EBITDA looks like it's mainly FX headwinds and Turkey marketing spend. With the addition of Malaysia, for example, should we see an improvement in year-over-year EBITDA performance in Q2? And also related to that Argentina EBITDA performance should that normalize going forward throughout the quarter this year?

SFATOS C: Thank you, Osman. As we've mentioned before, we expect most of the growth to come from the U.S., but the big chunks of growth will come eventually from the new contracts we are aiming for. Of course, Malaysia we're happy to continue the cooperation there. This contract will not come online this year, but all the other areas we've mentioned, including good performance in Croatia, in The Netherlands and particularly in the United States, but also in Turkey of course. We're expecting growth in Turkey, the plan is to ramp up in the second half of the year.

So, the numbers will ramp up and that's precisely what’s happening now with the gain of the market share. So, this is going according to plan. And now in Argentina, of course, we see some signs of stabilization, but we have already absorbed the shock. So, we consider that given some time the situation will stabilize there.

MEMISOGLU O: Thank you for that. Any color on where you expect EBITDA to come in for the year? How it's looking so far?

SFATOS C: Typically, we don't give such forecasts in these updates. But we expect to continue to have this good performance of the company. Take in mind that we have delivered very significant growth in recent years like this, we are already delivering a lot of growth. And we believe that we don't see any negative events ahead of us.

MEMISOGLU O: Understood. Thank you.

OPERATOR: The next question comes from the line of Tzioukalia Fani with Euroxx Securities. Please go ahead.

TZIOUKALIA F: Hi, Hello from my side and thank you for the presentation. Just a quick question and congratulations to your appointment of Mr. Nikolakopoulos, as the new CEO of the Group. I was wondering if Mr. Nikolakopoulos will also retain his responsibilities as the CEO of U.S.A., that's all. And maybe you could provide CAPEX for the year, I mean, for the remaining 3 quarters?

NIKOLAKOPOULOS N: For the time being, there's no announcement that I'm going to leave my post in the U.S. In fact, I'm flying after the call there but we are having some discussions both with the Board and with the management to see what would be the best way forward. One thing I can tell you for sure is that I will remain Chairman on the Board executives there whatever happens and also I have to spent most of my time there because the majority of the business on the opportunity that the market represents, is there. So, some things that are going to change, but not that significant, at least for the focus of the company. The second question was about CAPEX.

SFATOS C: Yes. CAPEX will remain at the same levels as last year, maybe a small increase because we don't have any major new developments this year, so we are holding the maintenance CAPEX under control.

TZIOUKALIA F: Okay. And just one follow-up question, please. You mentioned that working, we saw some one-offs on a cash flow basis. And I was wondering also on the working capital, can you please explain again the main reason of the working capital charge? For the quarter, you said it was mostly one-off. So, which among the three was, let's say, the biggest burden on working capital?

CHRYSOS A: The biggest burden was in the inventories because we have some building infrastructure, especially in the US. It relates to terminals that we are currently manufacturing, building, in order to be installed in the clientele base. And of course, this will have a positive impact on the revenues as well in the near future.

TZIOUKALIA F: Brilliant. And we expect, as you said, working capital enhancement in the following quarters, right?

CHRYSOS A: We expect that the working capital will be smoothed out. I mean, this negative impact will be smooth out within this year.

TZIOUKALIA F: Ok, brilliant, thank you so much all.

OPERATOR: We have a follow-up question from the line of Pointon Russell with Edison Group.

POINTON R: A follow-up question on Argentina, if that's okay. Previously, I mean, I think your working assumption is that when there's a currency hit, ultimately, inflation picks up and offsets that. It hasn't done so far, so could you just talk about what's happening on the ground? Are there fewer players, are there fewer customers? Or are they spending less because of the macroeconomic issue there?

NIKOLAKOPOULOS N: I do not believe that we can provide those level of detail because keep in mind, in Argentina, we do have technology contracts. So practically, we do not have the data from the players in order to do all the analytics that we are having in other jurisdictions like even in the US that we are managing on behalf of the lottery in some cases, the Bilyoner in Turkey. So, I think it's going to be a little bit risky to have some, to put some colour on this.

POINTON R: Okay. But the working assumption is that, ultimately, inflation picks up that slack?

SFATOS C: Not fully because there was a big change last year. But what we see now is, in recent weeks, I'm sure you've noticed that the repo's rates from the Central Bank have gone down dramatically, like 1/3 of what they were earlier in the year. And that's a good sign of stabilization in the macro situation. Of course, in Argentina, it's too early to say. But this change in the monetary policy, we find it encouraging in terms of stabilization for the rest of the economy.

POINTON R: Thank you for the answers.

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 your attendance. I will pass now the microphone to Nikos for his closing statement.

NIKOLAKOPOULOS N: Thank you for the attendance, for the participation. We do remain positive for the rest of the year, and we're really looking forward to have some good news in our next call in 3 months or so. Thank you.