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"OPAP 2017 Financial Results Conference Call"

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Conference Call Conducted by Chorus Call Hellas

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OPERATOR: Good afternoon Ladies and Gentlemen, this is the Chorus Call Conference Operator.

Welcome and thank you for joining the OPAP 2017 Financial Results Conference Call.

Please note that a PDF presentation for the Results is now available on OPAP's website www.opap.gr under the section for Investor Relations.

At this time, I would like to turn the conference over to Mr. Damian Cope CEO of OPAP.

Mr. Cope, please proceed.

COPE D: Thank you very much, operator. Good morning or good afternoon to everyone, and welcome to OPAP's FY 2017 Investor Conference Call.

As always, our CFO, Michal Houst will start by commenting on both the domestic economic outlook as well as our financials. I will then provide you with an update on our strategic priorities, and we will then answer any questions you may have. Michal, over to you.

HOUST M: Thank you, Damian and good afternoon, everybody. Q4 economic data provided with no major surprises, as the economy made one more step towards its recovery, albeit staying a bit lower than official expectations. In a nutshell Q4 GDP increased by 1.8% year-on-year shaping full year's performance at 1.4% versus the budgetary projections of 1.6%.

As anticipated, tourism and exports were the main drivers behind the reported growth, while decent progress has also been reported in areas like unemployment, industrial production and manufacturing. Going forward, leading indicators have stalled in the short term, but there is enough data to suggest that modest growth will probably persist this year as well. On the negative side, private consumption which as a reminder is OPAP business closest proxy, remained subdued at only 0.1% for the year, and it is not, in our eyes expected to improve decisively in the short term.

In this kind of environment, OPAP managed to outperform. Our GGR for the full year increased by 4.1% while also moving higher by 2.5% for the quarter on the back of the gradual performance ramp up of the new projects.

Profitability wise, starting from this quarter, we started to report Gross profit from gaming operations as a separate line derived from GGR minus GGR tax minus agents' commission annually, minus direct gaming related cost, which mostly are revenue sharing agreements with vendors. We believe that this line is a clearer KPI of our core operating revenue contribution.

Reported EBITDA remains sluggish for the year, reaching €306.5 million, while the Q4 figure increased by just 1.0% at

€82.9 million, despite the occurrence of €7.1 million of one-off expenses, related mostly to IT system implementation. After adjusting for the aforementioned costs, Q4 2017 EBITDA came in at €90.0 million, up by 7.5%, while the full year's figure reached €330.6 million, higher by 2.3%.

Below the EBITDA line, D&A was adjusted towards significantly higher levels on the back of our auditors' decision to change the VLT amortization method to 18-years straight line versus machine deployment method which we used previously. This carried a retroactively one-off depreciation charges €22 million impacting led by €16 million in Q4 net income, while the total amortization charge from the VLT license stood at €33 million for the year. As a result, adjusted net profit for the quarter came in at €40 millions declining by 27.5%, while the full year figure came in at €133.2 million, lower by 21.7%.

Analyzing a bit more our expenses, our major line items moved in line with our budgetary expectations in our calls, let's say previous calls. Staff cost for the year was on the rise, up by 13.5%, however, Q4 trends depicted a clear deceleration versus the one demonstrated in the previous quarters. Going forward, hiring needs still remain so as to implement and support our new projects. However, the relevant growth will be material lower versus 2017.

As mentioned earlier, we also started this quarter to report separately costs directly linked with revenues. Set aside the well known agents' commissions, we also include there all of our revenue sharing agreements which reached a total of further €38.3 million and €12.8 million respectively in the full year and Q4, and it will naturally carry more weight in the following quarters.

IT cost increased by 13.4%, up 27% in the full year and Q4, respectively. Note that following the implementation of our new system, cost savings will definitely materialize on the IT expense line; the first result should be evident within 2018, more precisely in the second half of 2018.

Finally, when it comes to marketing, our expectations for normalization towards the end of the year proved correct; although the relevant line increased for the full year, just a reminder, the H1 figures had increased by 17%, Q3 rose by 8%, but in Q4 they declined, the cost declined by 7.7%.

Going through our investment program, we ended the year with €124 million of investments. Setting aside the increase of our stake in Neurosoft and the payment of the last tranche on the horse racing license, the CAPEX related to virtuals, SSBTs, VLTs and IT transformation reached €76 million. Expansionary CAPEX will continue in 2018, and should all things being equal, come closer to maintenance levels from 2019 onwards.

The aforementioned investments together with the general dividend distributions led our net debt position to reach a comfortable €436 million or 1.4 times EBITDA at the end of the year. As already communicated and understood by the market, the distribution of €0.70 per share in Q4 was a one-off and included a part of the full year distribution. However, in line with our long term commitment of distributing the bulk of the free cash flow set aside new investments, we will propose to the AGM the distribution of an additional €0.30 per share.

When it comes to our product performance, let me start with betting which increased materially for the second consecutive quarter up by 6.0% and 11.3% for the year and the quarter respectively.

It is clear that most of the growth came as a result of the virtual games which as it seems have developed deep roots across players not to mention the attraction different audiences in our agencies, which has in turn led to a significant incrementality. Note that these games became fully operational in Q2 2017, and as such our Q1 results will still carry a positive impact, while going forward we would expect that current revenue trends would persist.

Set aside virtuals, the introduction of SSBTs has also helped overall betting performance. Although our overall SSBTs numbers are still relatively small, so as to draw concrete conclusions on exact impact levels, initial evidence is getting closer to what has been achieved in international markets. As Damian will tell you later on, we plan to expand our SSBTs numbers ahead of the World Cup in June, so as to further improve our products offering to our customers.

Lottery wise, full year figures reflected the already indicated during our previous call, weak jackpot rollover, which is continuing unfortunately in Q1, 2018 as well. As a result, Q4, 2017 lottery GGR dropped by 12.8% which essentially led the full year to decline by 2.8%. Aside from jackpots seasonality which is obviously affected JOKER, the introduction of the VLTs and to a lesser extent Virtuals, has been carrying a gradually increasing impact on KINO which in terms although explain a part of the overall lottery drops. That said, cannibalization rates have definitely stayed within our previously assumed range, causing no material changes in our assumptions going forward.

When it comes to Hellenic Lotteries, GGR stayed flat at €159 million while declining by 5.7% for the quarter. As indicated in the past, comparison is now on against tougher comparables and as such, we have already taken rejuvenation actions like on Laiko in Q1, at the same time constantly innovating Scratch, both in terms of pricing, introducing €10 scratch, as well as, new ticket series.

Finally, with regards to the VLTs, our progress during the last quarter of the year was clearly evident both in terms of the rollout as well of the machines performance. Damian, will tell you everything about the rollout that we managed to have 10,000 machines in place by the end of the year, at the same time increasing the GGR of the fully operating machines for the quarter to €53 per day. Both numbers demonstrate quite an achievement, but we don't have much time to celebrate. Lessons learned from Q4, includes that December is a really strong month, which is rather not really indicative for the months to come. On top the rollout of 4.700 VLTs in Q4, out of which roughly half were installed just in December implies that a large part of that is now operational for a very, very limited time. And given the required ramp-up of 6 months to 18 months on a shop level, this will carry an impact on Q1 KPIs and performance figures.

With that, I am passing you over to Damian, who will comment on our business progress over the quarter and our plans going forward.

COPE D: Thank you, Michal. I will now take you through our business progress in Q4 and also provide you with an update on key initiatives and strategic priorities.

As an initial overview, I would say that 2017 was indeed an historic year for OPAP – the first full year in the delivery of our 2020 Vision. The arrival of VLTs, the transformation of OPAP's relationship with our agent network and the significant improvements in our technology and shop infrastructure, have all contributed to advancing the overall quality of our business.

We made good progress across all of the eight strategic priorities that drive our long-term objectives. And today, I will give most of my attention to the key areas of our Retail Network Products and Technology.

Our retail network is very much the heart of our business, and in 2017, we made a number of significant improvements, notably the change in the relationship with our agents.

You will remember that in line with the agreement we signed last year, the commission we pay to our agents was adjusted from the 1st of January, 2018 to be 37% of NGR down from 39%. It is important to note that the average commission of an agent has been growing on the back of our new products introduction. We intend to further support our agents by compensating them in relation to the activities of our online players too, as well as providing cost assistance to any services that could be more effectively procured centrally by OPAP. As part of our steady development to performance management improvements, we also hosted earlier this year our first ever Agents Awards event as we formerly recognized for the first time our highest performing agents.

Please also note that although our agents did choose by an overwhelming majority to sign a new agreement at the start of last year, those that did not wish to remain part of the OPAP network were given 12 months' notice period. As a result, in the last four to five weeks around 10% of our shops, the majority of which were lower performing, have now closed. We have already identified those locations in which we intend to re-open an OPAP shop and have also initiated for the first time in OPAP's history a new recruitment program advertising for entrepreneurs who wish to join our network. We expect these new locations to open over the course of the rest of the year in turn leading to an improved estate profile.

Turning now to our products and first to VLTs, as you all remember, OPAP started its journey into the new arena of VLTs in the first few weeks of January 2017. By the end of 2017, thanks to a very strong performance in Q4, we finished the year with an installed base of just over 10,000 machines with 278 brand new Player Gaming Halls opened and in operation.

We therefore managed to install more than 4,700 machines in just three months' time and this achievement is very much testament to the hard work of many within OPAP and our partners.

It will not surprise you to hear that the intensive pace of Q4 has not been maintained in Q1 2018 and as a result we have naturally had a declaration in the installation rate in the first three months of this year. As of today, we have a total of 11,143 VLTs installed across our shops and Gaming Halls. Looking forward to the rest of the year, our targets have not changed. We remain confident in achieving our objective of at least 20,000 VLT machines by the end of 2018, so that we can conclude the full rollout of 25,000 machines during 2019.

It's worth remembering that aside from additional new gaming halls that we will open during the year the new law allows us to add additional machines in both shops and Gaming Halls up to 15 VLTs in any one shop, and up to 50 in any Gaming Hall. Our Retail network in Gaming Halls teams are working closely together in their development plans, in order to assess the appropriate balance within a particular region of VLTs, between Gaming Halls and Shop locations along with the allocated number of machines within each. Realistically the process of optimizing the number of VLTs that we allocate between Gaming Halls and Shops within an overall area will continue for some years to come.

In terms of VLT performance, Q4 was certainly the strongest quarter since the beginning of the rollout and like our other products have benefitted from the strong seasonal boost, along with extended opening hours for many gaming halls during the holiday period. As a remainder we started in Q1 with GGR per VLT per day of €35 and ended the year with €53. As Michal pointed out, the December rollout weighed heavily on the machines performance, so Q4 performance is unlikely to be replicated in the short-term, but overall we remain confident in our ongoing performance progress.

We are also encouraged to see good growth in our VLT customer base. As you will remember we had a registered customer base of around 100,000 customers in late November, and this reached around a 150,000 by yearend which in turn led machines utilization to increase materially versus the previous quarters. We now have around 190,000 registered customers, and we believe that this increase in such a short period of time demonstrates that customers are gradually getting familiar with the "PLAY" concept. Again and as before, the male-female split remains remarkably consistent at 75%-25%.

Our VLT product portfolio continues to develop as our vendors add more content and we have now placed cabinet orders for almost all of our 25,000 licenses. In addition we remain hopeful of introducing a linked VLT jackpot offering by the end of 2018, subject to final technical implementation.

In Q4, our Betting category of product shone again for a second consecutive quarter. We believe that the numbers are indicative of what can be achieved through a deeper understanding of our customers and by broadening the range of high quality products that we can offer. Virtuals continues to perform solidly, and we plan to enrich the offering with new content later this year.

As for sports betting, the introduction of SSBT is managed to reduce the pace of revenue decline. By the end of 2017, we have installed around 1,400 machines across 676 shops, and as of today, we've increased those numbers further to almost 2,000 machines across 1,000 shops. We find that both our customers and agents are very positive towards the introduction of these devices and so far we are seeing encouraging incremental revenue growth on an individual shop level. Over the last 12 months, we've seen a particularly positive response to the SSBT tabletop tablets within our sports betting operations in Cyprus, and as a result we intend to focus on rolling out more of these types of devices in Greece rather than the traditional bigger cabinet-type solutions. We are also investigating the option of extending the ability of these products to act as bet placement devices to other products too and betting on our virtual product is already possible via this method. Our target to have an extra, at least 1,000 tablet devices, between 3,000 to 3,500 machines in total in place by the World Cup.

Within our lottery products, we have ourselves been rather unlucky with the lack of JOKER rollovers during the past couple of months, but as you all know this is ordinary course for the lottery business. With regards to the rest of our products, KINO numbers were once again solid and despite the natural attrition relative to VLTs, we are reviewing plans to add further product improvements by the end of the year which we hope will follow the success of KINO Bonus two years ago.

Finally, with our overall range of products, it's worth touching on our Tora business. You will already be aware that Tora Wallet has secured its license to operate as an electronic money institution by the Bank of Greece, and thus allowing the provision of financial services and transactions via both OPAPs Retail Network and electronic channels. The first new service – Bill payments which allows us our customers to play a wide range of utility and other bills in an agency is currently being piloted in the network with the first agents offering the service already. We intend to leverage our retail network further by extending the number of services that our agents will be able to offer to our customers, making an OPAP shop, a convenient local destination for more than just gaming services.

Turning now to technology, I can confirm that our various transformational activities continue to proceed as planned. In Q4, we successfully deployed over 4300 new shop tills, which enabled us to migrate our live betting services to our new supplier Playtech BGT Sports, who also provide their platform within our SSBT devices. The migration of our over-the-counter sports betting platform is also proceeding as per our plan.

Our long-term partner INTRALOT will continue as our lottery platform provider under new commercial terms, at the same time minimizing any transition risk for the most profitable part of our business.

By the end of 2017, we had also implemented the first phase of the new digital signage and began the process of bringing in-house our player account management system. Overall, we feel that the successful conclusion of our technology transformation will offer greater operational capabilities and more strategy control. In addition, we expect to deliver meaningful cost savings that will materialize upon the successful conclusion of the implementation.

Our other major technological change will be our new digital sports betting platform which we intent to launch in Q2 ahead of the World Cup in June. The new platform will allow us to improve the overall competitiveness of our offering and appeal to our large base of retail sport betting customers many of whom are already playing online with our competitors.

Turning now to other notable highlights from 2017.

As part of our desire to deepen our understanding about customers we ran over 80 research studies reaching 43,000 customers in 2017. We also won the award of the best team in customer service in Greece by the Hellenic Institute of Customer Service.

In parallel, we continue to build our investment in the OPAP brand, trigging significant customer engagement through our campaigns and turning the Athens Marathon to an OPAP "owned" event. The latter success is also evident from the 200,000 CSR app installations of which around 60% were female and 70% under the age of 34.

OPAP's hardworking team expanded further in Q4, 2017, in line with the trends depicted during the course of the year reaching a total of 1,422 people. This also takes account of the full consolidation of Neurosoft recent addition to the OPAP group.

As Michal indicated, the rate of headcount increase will decelerate materially this year, while we will continue our efforts to improve our working environment and further increase our employees' already positive levels of engagement.

Within CRS, we continue to support 20 SMEs within our new employment growth program. We also implemented the OPAP contribution squad during the Athens Marathon with an overall contribution of €3.6 million to the two largest children's hospitals. Overall, OPAP still holds the first position, in terms of top of mind awareness amongst leading companies active in the area of CSR in Greece.

In respect of our relationship with the Hellenic Gaming Commission, we continue our fruitful and efficient cooperation on a regular basis, and also share our views on different methods, including online legislation developments and the illegal VLTs market.

When it comes to the latter, it's worth noting that we ended 2017 having received an enormous figure of 528 complaints regarding illegal gaming locations allover Greece. Tackling the illegal market will require sometime that we feel that the steps have begun to be taken in the second half of 2017 are definitely heading in the right direction.

Overall, we are pleased with our Q4 performance and are confident that it will provide a solid foundation for further revenue growth in the future. 2018 will be another busy and challenging year for OPAP with a number of key transformational activities proceeding at full pace, all helping to move us closer to the delivery of our 2020 Vision.

Finally, I would just like to thank every member of the OPAP team, our partners, supporters and suppliers for their hard work and support in the successful delivery of our 2017 results.

With that, I am concluding my opening statement, and Michal and I are now ready to answer any questions you may have. Thank you for your patience and your attention.

Q&A

OPERATOR: The first question comes from Mr. Kourtesis Iakovos from Piraeus Securities. Please go ahead.

KOURTESIS I: Good afternoon, gentlemen. If I may ask, I would like if… to ask if you can provide us some outlook about the performance of your main business lines during first Q until now. And if you could let us know of the reported net drop per VLT per day for VLTs for the Full Year of 2017. I would also like to ask about the estimated CAPEX for 2018, and if you could break it per project? Thank you very much.

HOUST M: Hi, it is Michal, I will take this. So Q1, just indicatively the Q1 is more or less in line with Q4, and there is… I think you need to remember there was quite a high jackpot last Q1 in 2017. So it's quite a difficult comparison. But basically there is a growth in the GGR; a little bit slightly better than in Q4, I don't want to be too much specific.

So, on the net drop, I cannot answer you now, because I don't know. We are basically measuring from month-to-month and quarter-to-quarter, and we don't care too much about what is the overall number. So probably, we would need to do the math to answer this question. So I think, just the only thing that we mentioned on the call really the €53 that we reported for the Q4 is something, which would not be repeated in Q1.

Because as me and Damian mentioned, basically Q4 was quite strong seasonality, and as well, we put a lot of machines, almost half of the machines just in the last three weeks of the year. So they will be basically starting the ramping up; they are just starting ramping up now. So that's why you cannot expect that this would continue into… right in the same pace. So there will be some, let's say normalization of that. But I cannot give you the answer for the full year; I really don't know honestly, it's not a good metrics to track on the yearly basis. But I think, our team will… can do the calculation and then they can get back to you.

And on the CAPEX, in 2018, we don't want to break it down per projects. So I think, we kind of announce all the time that the CAPEX plan is around €120 million for the 2017 and 2018. We spent around €76 million in 2017, so just expect the leftover of this to be spent in 2018; probably it will be a bit lower. So we would not go to that total extent of €120 million in those two years' period. So we can expect it will be slightly lower than the remainder, but I don't want to… basically it's more or less the same. SSBTs and the systems and VLTs in like SSBTs maybe 20% and the rest 80% and so, I don't want to go into the details there.

KOURTESIS I: Okay. Thank you very much.

OPERATOR: The next question comes from Mr. Draziotis Stamatios from Eurobank Equities. Please go ahead.

DRAZIOTIS S: Yes, hi there. Just a follow-up on VLTs, you mentioned this €53 GGR per day number, but suggesting this takes into account machines fully operational at the first week of the quarter which I presume refers to the… about 5,500 machines. Could you just comment on what the performance of the initially deployed machines was, i.e., the roughly 1,400, 1,500 machines operating since Q1 '17?

Is it safe to assume that these machines generated daily GGR higher than €53? So that's the first question.

And a cost related question for Michal; what is the amount of IT related savings that you expect in 2019, please?

HOUST M: Yes, thank you. So continuation… so on the VLTs, yes, that is absolutely safe to basically estimate or assume that let's say the €53 consisting of let's say 5,300 machines, let's say out of which let's say the 3,000 were already there for longer than the quarter, were on the higher end, so they are basically well above this €53 and the machines, they were basically just in the quarter. They were just loaded before the quarter started, they were basically on the lower end, so significantly below the €53. And this basically is not so much related to the machines but to the venues maturity, as we basically said that the maturity of the venues is let's say from 6 to 18 months.

So definitely we see some very encouraging I would say trends in terms of the maturity and performance profile based on the maturity of the venues there. So, we see a steady improvement of the performance of the more let's say matured stores. So it's not something that we ramp up and in 12 months we kind of reach the… we reach the potential, but there is still steady improvement based on the maturity of the venues. But unfortunately, nothing is less than 12 months. I think it's more than 12 months, so it's still early to draw some conclusion where it could be in 18 months or 24 months, but let's say this is absolute safe assumption that you are saying.

And then on the IT related cost, I think I already mentioned on the last call. I would let's say, the full year cost savings on OPEX coming from IT is around €15 million on annual basis kicking-in basically in the second quarter, second half of this year.

DRAZIOTIS S: That's very helpful. Thank you and just a quick question on plastic money. Could you update us on the use of plastic money and the extent to which this is now available to your network?

HOUST M: Yes, basically, it's by law mandatory for every shop in Greece. So it's basically in the 100% of all stores, so we have POS device in 100% of our stores and Gaming Halls, accepting only debit cards because credit cards are not allowed for betting let's say so far. And the usage is around let's say up to 10% of our turnover is going from the plastic, so we would say it's quite a good ramp up because basically we rolled it out in the first half of the last year, so it's quite new in the shops and it already takes quite… quite a portion of our turnover is coming from debit cards.

DRAZIOTIS S: That's very helpful. Thank you.

OPERATOR: The next question comes from Mr. Klahr Michael from Citibank, Israel. Please go ahead.

KLAHR M: Hi, thanks for taking my questions. Firstly, the decline in telecoms and the e-money revenues is there anything in particular? And secondly, could you give us an update on what's going on the online, in terms of regulations, whether you are expecting anything to happen there? Thanks.

HOUST M: Yes, thank you. I will take the first one and the second will take… Damian will take it. So on the e-money, I think maybe some of you are aware there was a lot of back-and-forth with allowing of the payment vehicles like e-money let's say basically like Paysafe and PayPal and these things in Greece. And it was even more constrained during the capital controls.

So in 2017, in the beginning of the year, there was basically almost like a full ban for a few months and the basic product. So that basically, seriously impacted the revenues of Tora because it's the biggest Paysafe distributor in Greece. And this then was somehow resolved, so there was some discussion with the Central Bank, Paysafe is allowed in the market but this will result in let's say after few months of this distraction, when there was effectively a ban on that. So that's the biggest and major driver of the decrease.

But with regards to Tora, I think Damian mentioned we get the e-money institutionalized only just recently, and we are focusing on coming into the market with the services, payment services, money transfer services that should be of an appeal for our customers and players. And then this should definitely bring, let's say, Tora as a company to the whole different level, so we are spending lot of time and effort and investment on that. And we will see whether this will materialize in 2019, let's say and ongoing. And Damian…

COPE D: And just on the online, our position hasn't changed. We've said we welcome introduction of some online gaming legislation to clarify the overall environment. The government has made a number of statements about this recently, and so we are hopeful that there will be some progress in 2018.

KLAHR M: Okay, thanks.

OPERATOR: Mr. Cope, gentlemen, there are no more questions registered at this time. You may now proceed with your closing statements.

COPE D: Thank you very much, operator. Thank you very much to everybody for joining us for today's call and I look forward to talk with you again soon. Thank you.