



SAZKA GROUP Third Quarter 2019 Earnings Results

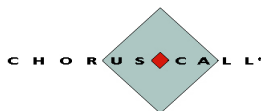
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Conductors:

Mr. Robert Chvátal, CEO

Mr. Peter Stöhr, CFO

Conference Call Conducted by Chorus Call Hellas



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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 SAZKA Group conference call to present and discuss the Third Quarter 2019 Earnings Results.

At this time, I would like to turn the conference over to Mr. Radek Němeček, IR & PR Manager of SAZKA Group.

Mr. Němeček you may now proceed.

NĚMEČEK R: Thank you, operator. Ladies and gentlemen, thank you for joining this call on SAZKA Group Nine Months Results. We will have 2 presenters today, Mr. Robert Chvátal, the CEO and Peter Stohr, the CFO of the company who will walk you through the result highlights.

Please note that there are three pieces of information on our website, sazkagroup.com available to you: the press release, the full financial statements with notes and the presentation. So you can follow the slides of the presentation during this call. Please go to the Investor Section and you will find the presentation under Annual and Interim reports.

We will keep the presentation on our website only for the duration of this call. If you need the presentation later, please contact our IR department. After the presentation, we will open the floor for your questions. Now without any further delay, let me hand over to Robert.

CHVÁTAL R: Thank you, Radek. Good, pre-Christmas afternoon from Prague to everyone, thank you for joining today's Q3 2019 SAZKA Group results call. Let me start by saying that I am very pleased to report; it's been another period of strong growth for SAZKA Group with consolidated gross gaming revenues increasing 6% and consolidated EBITDA growth of 19%.

We are particularly pleased that we have seen strong revenue and profit growth, as well as, excellent cash flow generation at all of our businesses and across all product segments. It's been eventful Nine Months with KKCG become our sole owner back in April. KKCG's continued commitment to the group is a strong endorsement of our long-term strategy which is centered around giving our customers a best-in-class gaming experience with lotteries i.e. draw-based games and scratch cards at our core.

The strength of our business was further demonstrated when we issued our 6 billion Czech crowns retail bond in the Czech Republic in September. I'm proud that our business was able to successfully complete one of the largest private debt issuances in the Czech market's history.

We have also proven our ability to deliver against our growth strategy this year including via our voluntary tender offer for our Greek business, OPAP. Through the tender offer which closed at the end of October, we have been able to increase the size of SAZKA Group shareholding in OPAP to 40% which is 32% on a pro-rata basis. This is a business we are really committed to and we are pleased to have increased the size of our shareholding.

Following the completion of the tender offer, we raised 300 million in our debut Eurobond issuance, further diversifying our sources of funding. We were very pleased with the investor response to the offering and some of the holders of these notes are on this very call today and we thank you for your trust and support.

As you know, the proceeds were used to effectively finance the purchase of OPAP shares in the tender offer and to refinance some of our shorter tenure mid-call level debt.

Following the end of the reporting period, about two weeks ago, we reached an agreement to acquire an additional 17% stake in Casinos Austria from Novomatic, as well as, amicably settle the arbitration proceedings which we had initiated in relation to our shareholders agreement. Although, the completion of this purchase remains subject to several conditions including various regulatory approvals and pre-empted rights of our shareholders', we see this as a very positive development and this should be the further step towards strong SAZKA Group and Austrian state alliance as the two strong shareholders.

During this busy period of corporate activity, we have of course, also continued to focus on the day-to-day operations demonstrated by our financial results at both top line and the bottom line, and we have done it in a responsible way. I am pleased that we have further demonstrated our commitment to responsible gaming by signing up to the global lottery monitoring system in January of this year.

Responsible gaming is at the heart of everything we do and has underpinned our successful path and we are unwavering in this commitment as we believe it will only become more important in the future. And we continue to share the group's fortunes with the society one of the prime examples being the extensive modernization of Greece's two largest children hospitals which we have progressed according to plan this year.

With that, I will pass now to Peter Stöhr, our Chief Financial Officer, who will give you more detail on the numbers.

STÖHR P : Thank you, Robert. As Radek has already mentioned, we have included on our website within the investor relations section, the full Nine Months IFRS financial statements with notes, as well as, a press release and presentation, which include additional non-IFRS information such as the pro-rata information.

I will start my section of the call by telling you a bit about our consolidated IFRS Nine Month results. I will then move on to highlight the results of our underlying businesses, followed by pro-rata information before moving on to conclude with some color on a couple of our subsequent events. At the end of my section, we will open the call up for questions.

Regarding the IFRS consolidated results, you will see that consolidated gross gaming revenues increased by 6% to reach almost €1.4 billion. Consolidated EBITDA increased by 19% to €430 million with growth in all key geographies and major business segments. The share of profit from equity method investees, which primarily includes the Casinos Austria and LOTTOITALIA businesses, grew by 20% during the period.

On this point, I will note that within the cash flow statement, you will see that dividends and other equity distributions from the equity method investees was €121 million for the Nine Months period, an increase of 24% when compared to the same period last year.

In note 3 of the financial statements, you will see exactly which entities these distributions came from. And you will see that the distributions came from each of the key equity method investee entities of LOTTOITALIA, Casinos Austria, as well as, our direct stake in Austrian lotteries.

Back to the income statement, the consolidated profit from continuing operations increased by 28% to €217 million. We do have an IFRS gain generated from the sale of the Croatian SUPER SPORT business; technically this is the SAZKA Group Adriatic entity, the sale of that business to EMMA Capital, which generated a gain of €277 million. The net profit for the period was €510 million, with €400 million being attributable to SAZKA Group's shareholder KKCG.

Regarding the underlying businesses, in the SAZKA A.S. Czech business, we will note that GGR and NGR both increased by 10% during the Nine Month period, driven by 29% amount stake growth in instant lotteries, over 130% growth in online games, these are games which are only offered online such as e-casino games, and 18% amount stake growth in the sports book segment. With operating expenses increasing by 5%, which is largely attributable to variable costs driven by the top line growth, the EBITDA grew by 16% during the Nine Month period.

In the OPAP business, GGR and NGR both increased by 6%, mainly driven by growth in the VLTs and numerical lotteries segments. In the OPAP business, our operating expenses actually decreased during the Nine Month period as a result of more favorable terms with primarily IT supplier providers, and EBITDA grew by 20% in comparison to the same period last year. This 20% is actually a little bit lower than what you will see OPAP reporting because we adjust for the impact of IFRS 16.

Our equity method investees on a EBITDA basis and on a combined basis increased by 11% as all... as Casinos Austria, LOTTOITALIA, as well as Stoiximan which is a small component here, but it is a component all grew during the Nine Month period.

Regarding the pro-rata figures, the pro-rata pro-forma which exclude the SUPER SPORT Croatian business, as well as, when adjusting for IFRS 16, the adjusted EBITDA was €265 million in the Nine Month period versus €244 million during the same period last year for a growth of 9%. It is important to note that this growth during the Nine Month time period was impacted by larger overhead expenses, which totaled €28 million this year versus €15 million last year.

The reason for the increase this year is because of a number of one-off expenses related to the tender offer on the OPAP shares. There will be additional expenses that will hit the P&L in the fourth quarter when the actual tender offer occurred and there will also be some expenses especially on the legal side related...

and as well as on the financing side related to the notes offering.

The pro-rata pro-forma net debt-to-EBITDA as of September, this is pre-tender offer as well as the offering of the notes was 2.4 times, when we... pro-forma the tender offer, the senior notes as well as certain other items, the pro-rata, pro-forma net debt-to-EBITDA leverage level is 3.3 times with the priority net debt level being 1.5 times. Again, we do not adjust the EBITDA at all for any of the expenses which one could very strongly argue are one time in nature.

Regarding subsequent events, there are two particular developments which I would like to provide some color on. The first one being the transaction with Novomatic that Robert had already mentioned. I'd like to note that, you know, this is a 17.2% additional stake in Casinos Austria. The transaction is subject to various conditions precedent including without any limitation applicable, regulatory approvals and notifications.

Furthermore, the completion is also subject to preemptive rights of other Casinos Austria shareholders, the result of which the company may acquire a lower shareholding than the 17.2%. As a result of this transaction, the company may need to raise up to €100 million of additional financing. The terms of this transaction are not being disclosed in part due to regulatory reasons. However, we did get some questions from some of the holders of the notes, asking whether the transaction value was in €200 to €300 million range.

And I would just like to point out that while this transaction is a negotiated transaction, we did provide in the offering memorandum a call option that Novomatic had at €85 million. And I'm here to report that the actual amount of the transaction is closer to the €85 million than to the €200 or €300 million amount.

The second major subsequent event development was from last week where the Czech parliament approved several amendments to the various tax laws, and the key one being that they increased the lottery tax from 23% of GGR currently to 35% of GGR with the effective date being the 1st of January, 2020.

We have in the past couple of weeks renegotiated a number of contracts with suppliers that are based on NGR. So after this tax is implemented in the numbers versus being on a GGR basis before and with these renegotiated contracts, as well as, given the projected continued top line growth of the business; we see the impact on the SAZKA business of being a couple of years of last EBITDA growth. We believe the 2020 EBITDA will land somewhere between the 2017 EBITDA of €61 million and the 2018 EBITDA of €80 million.

And with that, I thank you for your time for your support of our business. And I open the call up to questions.

Q&A

OPERATOR: Ladies and gentlemen. There are no questions at this time. I will now turn the conference over to Mr. Chvátal, for any closing comments. Thank you.

CHVÁTAL R: Thank you. I would like to finish this call by quickly looking into the future. As you heard in Peter's remarks, revenues from digital gaming have continued to grow very strongly this year. We recognize that digital technology is an important theme in our markets and we will continue to invest in our digital platforms to both, grow our offering and give the best experience for our customers; this is what we strongly believe in.

And thank you very much all for taking the time to join today's call and I look forward to speaking to you again in the future. I wish you happy holidays and thank you again.