
MARYLAND LOTTERY and GAMING CONTROL COMMISSION

1800 Washington Blvd., Suite 330, Baltimore, Maryland 21230

COMMISSION REPORT



Interblock d.d. and Interblock USA L.C.

MANUFACTURER LICENSE RENEWAL APPLICANT

Report Date: October 16, 2017

“PUBLIC REPORT”

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Introduction

As a prerequisite to being eligible for the renewal of a video lottery facility manufacturer license (“manufacturer license”), a manufacturer of a video lottery terminal (“VLT”), table game, or associated equipment must submit a Manufacturer License Renewal Application to the Maryland Lottery and Gaming Control Commission (“the Commission”). The applicant must prove to the Commission that it meets the qualification criteria set forth in the Annotated Code of Maryland, State Gov’t Article (“SG”), § 9-1A-01, *et seq.* (“the Gaming Law”). Specifically, an applicant for a manufacturer license must prove, by clear and convincing evidence, that it is qualified under SG § 9-1A-07(c)(7)(i) through (v), and not disqualified under SG § 9-1A-08(d). SG § 9-1A-15. An applicant must provide all information to the Commission that is necessary for a qualification determination as to the applicant, its principals, and its principal entities.

The Maryland Lottery and Gaming Control Agency (“MLGCA,” “we” or “our”), conducted a suitability background license investigation of Interblock d.d. and Interblock USA L.C. (“the Applicants” or “the Companies”) in connection with the application for renewal of their manufacturer licenses. The Companies were initially approved for a manufacturer license by the Commission on February 23, 2012. The Companies have maintained their

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initial five-year manufacturer license in good standing and have not been subject to any disciplinary sanctions by the Commission.

Background

Interblock d.d. (the “Company” or “Group”) is a Slovenian joint stock company formed in December, 1989 with its headquarters located in Menges, Slovenia. Interblock d.d. does business under the name of Interblock Luxury Gaming Products, d.d. and is primarily a developer and supplier of electronic table gaming products, including fully and semi-automated electronic gaming tables and video gaming solutions. Additionally, Interblock d.d. owns and operates the Kongo Hotel and Casino located in Grosuplje, Slovenia. The Company and its subsidiaries are currently licensed by eight state regulatory gaming authorities, approximately 31 tribal gaming commission and agencies, and gaming authorities in twelve countries worldwide. Interblock d.d. is the controlling entity and parent company of the following subsidiaries:

- Interblock Asia & Pacific PTY LTD
- Interblock Casino Products Canada, Inc.
- Interblock USA L.C.
- Interblock Spain SLU

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- Kongo Hotel & Casino d.d.
- Kongo Gostinstvo d.o.o.
- Elektrina d.o.o.
- Interblock Gaming Mexico S de R.L. de C.V.
- Interblock Colombia S.A.S.
- Interblock Peru S.A.C.
- Interblock Chile SPA
- Interblock Latin America, Inc.
- Nevtrin d.o.o.

Ownership of Interblock d.d. and its Affiliates

As of June 30, 2017, Interblock d.d had 1,000,000 shares of common stock issued and outstanding, with 97% of its stock held by Elektroncek Group B.V. Elektroncek was formed in The Netherlands in June, 2004 and is a privately held holding company. As of June 30, 2017, it had 48,152 shares of its common stock issued and outstanding. The shareholders of record with 5% or more of Elektroncek Group B.V.'s outstanding common stock are as follows:

- Joze Pececnik – 43,337 shares (90%)

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- Tomaz Zvipelj – 4,815 shares (10%)

By virtue of their ownership interest in Elektroncek Group B.V., the following individuals have a 5% or greater ownership interest in Interblock d.d. and Interblock USA L.C.:

- Joze Pececnik – (87.3%)
- Tomaz Zvipelj – (9.7%)

Elektroncek Group B.V. has submitted a Principal Entity Disclosure Form to the Maryland Lottery and Gaming Control Commission. Both Interblock d.d. and Interblock USA L.C. have submitted Manufacturer License Renewal Applications to the Commission. Joze Pececnik and Tomaz Zvipelj have submitted Principal Employee Renewal Applications to the Commission.

Discussion of Recent Financial Performance

Interblock d.d. Group's annual consolidated financial statements include the results of operations of Interblock USA L.C. We performed a detailed analysis of the Interblock d.d. Group's consolidated financial statements over the five-year period from January 1, 2012 to December 31, 2016, and we offer the following comments. Note that the Company's consolidated financial

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statements were prepared in Slovenia. The financial statement figures presented in this report have been converted from Euros to U.S. dollars using the Federal Reserve Bank of New York's foreign currency exchange rates. We reviewed the following:

Revenues and Expenses

Balance Sheet

Liquidity and Cash Flow

Long-Term Debt

Short-Term Borrowings

Trend Analysis and Comparative Performance

We conducted a trend analysis of Interblock d.d.'s operating performance and financial strength over the past five years, and compared its recent performance to industry benchmarks:

- **Current Ratio and Quick Ratio**
- **Operating Profit Margin and Net Profit Margin**
- **Return on Equity and Assets**
- **Debt to Equity Ratio and Debt Ratio**
- **Interest Coverage Ratio**

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Interblock USA L.C.

We performed a supplemental review of Interblock USA L.C.'s audited unconsolidated financial results for the period January 1, 2013 through December 31, 2016. We reviewed the following:

Operating Results

Assets, Liabilities, and Stockholder Equity

Cash Flows

Independent Audit of Annual Financial Statements

Dun & Bradstreet

Litigation

Tax Returns

Financial Analysis

Interblock d.d.'s operating performance and financial strength has generally been positive but has been impacted in the recent past by the Company's investment in its business and changes to its capital structure. Specifically, Interblock has made substantial investments in fixed assets and effectively expanded its business footprint. This investment strategy has provided consistent revenue growth and profits each year, along with positive operating cash flows. However, the impact of considerable market growth and capital investments has increased operating costs and long-term borrowing

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from banks. Consequently, the Company is fairly highly leveraged and has used long-term debt to refinance or replace existing debt during periods of growth. The bulk of the Company's long-term debt is held by Interblock USA L.C. and the associated credit facility contains financial covenants that require Interblock USA to maintain certain financial ratios, such as a maximum leverage ratio, and place an annual limit on capital expenditures. The facility also imposes a maximum leverage ratio on Interblock d.d. The Company is currently in compliance with all financial covenants but failure to comply with these covenants in the future could result in limiting the Company's ability to incur future indebtedness, or cause an event of default. Interblock has also relied on short-term borrowing for liquidity needs as operating cash flows were used extensively for capital investments and to satisfy debt obligations.

Despite its high degree of leverage, the Company has been successful in refinancing its long-term debt at lower interest rates and as such, its interest expense does not have an overwhelmingly adverse impact on its operating results. Additionally, Interblock has borrowing capacity available to service its short-term obligations, if needed. The Company anticipates revenue growth to continue and anticipates positive returns on this growth after two years. The Company's auditors have not expressed any concerns with Interblock d.d. or Interblock USA L.C.'s financial condition, and there are no factors that would

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lead us to conclude that Interblock d.d. or Interblock USA L.C. are financially unsuitable for re-licensure as Manufacturers, or with Elektroneck Group B.V.'s suitability as a Principal Entity.

FINDINGS

The MLGCA conducted a complete and thorough background investigation as authorized under the Gaming Law by analyzing corporate records and documents, scrutinizing the business operations, practices, and transactions of Interblock d.d. and Interblock USA L.C. and conducting interviews of key personnel, focusing on required qualification criteria involving integrity and financial stability. MLGCA adhered to well-defined and approved investigative protocols in assembling the factual information incorporated in this report. The results of the investigation for the specific qualification criteria enunciated in SG §§ 9-1A-07(c)(7), 9-1A-08(d), and 9-1A-15 are summarized as follows:

1) Financial stability, integrity and responsibility

A comprehensive review was conducted of all of the consolidated financial statements for the last five years. The Applicants satisfy the standards for financial stability, integrity and responsibility. MLGCA also concludes that

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the individual qualifiers (principals) satisfy the Gaming Law's qualification criteria in connection with the Manufacturer License Renewal Applications.

**2) Integrity of financial backers, investors, mortgages, bondholders,
and other holders of indebtedness**

Based on our review, there are no material issues involving the known financial backers of the Applicant.

3) Good character, honesty, and integrity

MLGCA found that the Applicant possesses the requisite good character, honesty and integrity. No significant issues surfaced concerning the qualifications of the Applicants or its individual qualifiers. There were no material issues discovered pertaining to the Applicants' record of regulatory compliance or litigation matters.

4) Sufficient business ability and experience

The Applicants primarily develop and supply electronic table gaming products, including fully and semi-automated electronic gaming tables and video gaming solutions. Additionally, Interblock d.d. owns and operates the Kongo Hotel and Casino located in Grosuplje, Slovenia.

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The Applicant clearly possesses the requisite business ability and experience.

5) Potential Disqualifying factors

The Applicant is not disqualified from being issued a manufacturer license based on any of the criteria listed in SG § 9-1A-08(d). The Applicant is qualified to be awarded a license by the Commission.

APPLICANT and PRINCIPAL ENTITIES

The Applicants and its principal entity satisfy the applicable qualification criteria under SG § 9-1A-07(c)(7), and is not disqualified under SG § 9-1A-08(d).

PRINCIPAL QUALIFIERS

We identified the following natural person qualifiers (“principals”) who are associated with the Applicants. We are conducting an extensive due diligence investigation on each qualifier. When the background investigations are complete, they will be reviewed.

1. Joze Pececnik – Advisor to Director / Elektronek D.O.O.
2. Tomaz Zvipelj – President-CEO / Interblock d.d.

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3. Rok Uhan – CFO / Interblock d.d.

CONCLUSIONS and OPINION

MLGCA's investigation has confirmed that the Applicants have sufficient financial resources and found no derogatory information regarding the Applicants' qualifications. Based on the criteria in SG §§ 9-1A-07(c)(7) and 9-1A-08(d), we conclude that the Applicants have established by clear and convincing evidence their qualifications for the renewal of their manufacturer licenses.