MOODY'S
INVESTORS SERVICE

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Rating Action: **Moody's downgrades Intralot to B3; outlook remains negative**

19 Dec 2018

London, 19 December 2018 -- Moody's Investors Service ("Moody's") has today downgraded Intralot S.A.'s ("Intralot" or "the company") corporate family rating (CFR) to B3 from B2 and probability of default rating (PDR) to B3-PD from B2-PD. Concurrently, Moody's has downgraded to B3 from B2 the instrument ratings on the EUR250 million Senior Notes due 2021 and EUR500 million Senior Notes due 2024, both issued by Intralot Capital Luxemburg S.A. The outlook on the ratings is negative.

RATINGS RATIONALE

The downgrade of Intralot's CFR to B3 was primarily prompted by continued liquidity concerns, reflecting the continuing negative free cash-flow which Moody's expects to persist for at least the next 12 months as well as increasing concerns about the company's ability to access its revolving credit facilities (RCFs) due to the high likelihood that the financial maintenance covenants attached to these facilities will be breached. Additionally, the company may have to repay a €15m term loan in the event that this loan's financial maintenance covenant is also breached. Although Moody's understands that the company has made some progress in negotiating new terms, no documented agreement to amend financial covenants has yet been finalized. Current market conditions also decrease the likelihood of the company achieving profitable asset sales (eg its 20% stake in Gamenet) to support liquidity. The downgrade is also due to the increasingly muted outlooks for global growth in 2019, for example in Intralot's markets in Argentina (B2 stable) and Turkey (Ba3 negative) which together comprise around 30% of EBITDA. Accordingly, Moody's considers that the potential for under-performance of the core business in 2019 and 2020 has increased, which coupled with the continuing absence of positive free cash-flow generation, results, in Moody's opinion, in the expectation that there will be a heavier reliance on external funding sources than previously anticipated.

In addition to the persistent negative free cash flow generation since 2015 which is expected to continue into 2020 as a result of the capital expenditures required to grow the business as well as dividend payments to minorities, the B3 rating is constrained by (i) the potential deleveraging and/or improvement in liquidity being predominantly dependent on asset disposals (ii) the existence of significant minority interests which results in pro-rata leverage being materially higher than reported (fully consolidated) leverage, as well as substantial cash leakage through dividend outflows to the minorities as mentioned above; (iii) limited historic growth track record; and (iv) exposure to regulatory and fiscal risks inherent to the gaming industry.

More positively, Intralot's B3 CFR takes into account (i) its leading market position as a global supplier of integrated gaming systems and services; (ii) a diversified contract portfolio with 87 contracts and licences; (iii) its broad geographical presence in 50 jurisdictions with a foothold in the US which has significant growth potential following the invalidation of the US federal sports betting ban, although with dependency on certain countries in emerging markets such as Turkey and Argentina; (iv) some revenue visibility as a result of a large number of long-term contracts, although this credit positive is mitigated by frequent changes to the core business through disposals; (v) a proven track record of renewing existing contracts and winning new business, although Moody's notes the increase in competition resulting in loss of a contract in Morocco in 2018 (accounting for close to 20% of the country's revenue) and the renewal of the Greek OPAP contract under a limited scope and a smaller contract value; and (vi) growth potential from further liberalization of the gaming sectors in less mature markets.

LIQUIDITY

Moody's considers Intralot's liquidity profile to be weak. The company's significant near-term cash requirements to support working capital, capital expenditures and dividend payments to minorities are expected to drive negative free cash flow into 2020 and cash on hand is declining. The significant cash balance of EUR195 million on balance sheet as of 30 June 2018 reduced to EUR151 million as of 30 September and is expected to be c. EUR148 million by the end of this year. It could also be further reduced to around EUR132 million if the company is unable to renegotiate the covenants on a EUR15 million term loan which will otherwise be in breach in Q4 2018. Consolidated cash is also not fully available since around 45% resides in partnerships and belongs to minorities according their relevant stakes. Moody's also notes the requirement for around EUR60 million of cash for basic operational needs and expects the company to need access to external sources of cash to fund capex over the next 18 months. The company's existing RCFs amounting in aggregate to EUR80 million both maturing on 30 June 2021 contain leverage and interest coverage covenants that are currently in the process of being renegotiated but would be breached if tested from Q4 2018. The company has stated that its 20% stake in Gamenet Group S.p.A. (B1, stable) which is valued at EUR45 million based on Gamenet's market capitalization as at 17 December 2018 will be sold at an appropriate time, and there is also a plan to dispose of Polish operations. However, the timing of either potential disposal remains uncertain.

RATIONALE FOR NEGATIVE OUTLOOK

The negative outlook reflects Moody's expectation that free cash flow will remain negative until at least the first half of 2020, in conjunction with the absence of available access to external sources of cash. There is considerable uncertainty related to the timing of intended disposals and the use of the potential sale proceeds for debt reductions and/or to improve liquidity, which could hinder any positive movements in its credit metrics.

WHAT COULD CHANGE THE RATING UP/DOWN

Given the negative outlook, Moody's anticipates no upward pressure on the ratings. A stabilization of the negative outlook could result if the company obtained access to external liquidity facilities, with covenants that, in Moody's view, allow comfortable headroom considering the potential for deteriorating financial metrics, and if the company achieved improvements in underlying cash flow.

Downward pressure on the ratings could result from any further deterioration of underlying cash or other source of a weakening in the company's liquidity; or a materially adverse regulatory change or loss of key contract.

STRUCTURAL CONSIDERATIONS

The EUR500 million 5.250% Senior notes due 2024 and EUR250 million Senior Notes due 2021 rank pari passu. The notes and bank facilities share the same guarantee package, set for a minimum of 70% of the consolidated EBITDA and total assets in the facilities agreements. Moody's notes that the presence of minorities in certain guarantor subsidiaries significantly reduces the potential support available from such entities.

The principal methodology used in these ratings was Gaming Industry published in December 2017. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

PROFILE

Headquartered in Athens, Intralot, is a global supplier of integrated gaming systems and services. Intralot designs, develops, operates and supports customized software and hardware for the gaming industry and provide technology and services to state and state licensed lottery and gaming organizations worldwide. Intralot operates a portfolio of 87 contracts and licences across 50 jurisdictions employing approximately 5,100 people. Intralot is listed on the Athens stock exchange and has a market capitalization of c. EUR74 million as of 17 December 2018.

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Related Issuers

Intralot Capital Luxembourg S.A.

Intralot S.A.

Related Research

Credit Opinion: Intralot S.A.: Update of key credit factors following downgrade to B2

Credit Opinion: Intralot S.A.: Update following September 2017 refinancing

LGD Assessment: Intralot S.A.

Rating Action: Moody's downgrades Intralot to B2 and maintains a negative outlook

Announcement: Moody's: EMEA gaming sector outlook stable into 2019 on steady earnings growth rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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