

Rating Action: Moody's upgrades Intralot's CFR to Caa1; outlook stable

Global Credit Research - 09 Sep 2021

Paris, September 09, 2021 -- Moody's Investors Service ("Moody's") has upgraded Intralot S.A.'s (Intralot) corporate family rating (CFR) to Caa1 from Ca and its probability of default rating (PDR) to Caa1-PD from Ca-PD. At the same time, Moody's upgraded the guaranteed 2024 senior unsecured notes (SUNs) issued by Intralot Capital Luxembourg S.A. to Caa2 from Ca. The instrument rating of the 2021 senior unsecured notes issued by Intralot Capital Luxembourg S.A. has been withdrawn following the completion of the exchange offer into the 2025 senior secured PIK toggle notes (PIKs) issued by Intralot Inc. Moody's has also changed the outlook to stable from ratings under review for Intralot S.A. and Intralot Capital Luxembourg S.A.

RATINGS RATIONALE

The rating action reflects the restructuring of the capital structure, which reduces debt by c.EUR165 million and interest by around EUR9 million. The exchange offer for the 2021 notes removes the short-term refinancing risk, while the restructuring also increases the company's options to refinance or repay the next debt maturity in 2024.

The company's recent results were further evidence of a positive trajectory in the company's operating performance in the last six to nine months following a decline in performance in the last several

years. Moody's positively views the company's significant exposure to the US, which is more profitable and has higher growth potential than its operations in the rest of the world. The absence of material contract renewal until 2024 will also improve earnings stability.

However, the rating remains constrained by the complexity of the structure with a high reliance on the cash flows from the company's US operations and reliance on the operating services that the company's Rest of the World business provides. Furthermore, consolidated credit metrics remain weak, with an expected pro-forma Moody's-adjusted gross leverage of more than 6.5x and close to 10x on a proportionate basis. Moody's forecasts that Moody's-adjusted free cash-flow will only turn positive in 2023 (mostly due to the renewal cost of Malta contract in 2022). Interest cover, despite the debt reduction, is also forecast by Moody's to stay weak at around 0.5x EBIT/interest expense.

LIQUIDITY

Moody's considers Intralot's liquidity to be adequate. The company reported EUR91 million of cash and cash equivalents as of March 2021, which includes EUR22 million at the Intralot Inc level, and there are no significant debt maturities before September 2024.

Cash will be primarily generated by Intralot Inc as Moody's projects that the company's rest of the world restricted group will continue to burn cash in 2021 and 2022. Therefore, Moody's estimates that the servicing of the 2024 SUNs will be heavily reliant on cash being upstreamed to Intralot Global Holdings B.V., which is allowed by the 2025 PIKs documentation and subject to a 3.75x net leverage test

and a USD20 million minimum liquidity test.

Intralot S.A. also has access to an alternative source of liquidity thanks to the distribution put option, which was agreed with the minority shareholders of Intralot Inc. Intralot S.A. can keep control of the board with ownership of only 30% and therefore Moody's estimates that the company could raise EUR150-250 million in proceeds from the sale of a 35% stake in its US subsidiary.

Moody's notes the absence of revolving credit facility and financial covenants.

STRUCTURAL CONSIDERATIONS

Intralot's PDR is Caa1-PD and in line with the CFR, reflecting our assumption of a 50% family recovery rate as is customary for a capital structure comprising of bonds with no financial covenants. The Caa2 rating on the 2024 SUNs is one notch below the CFR and reflects the structural subordination to the 2025 PIKs and the reliance on cash up-stream from Intralot Inc to service its debt and equity valuation to partially repay it.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Positive rating pressure could arise if:

- The company successfully refinances or repays its 2024 SUNs debt maturity, while keeping adequate liquidity;
- Moody's-adjusted gross leverage remains sustainably below 6.0x and leverage on a proportionate basis declines below 8.0x;

-Moody's-adjusted FCF returns to being sustainably positive across the two restricted groups.

Negative rating pressure could arise if:

-Operating performance is weaker than our expectations such that free cash flow remains negative and liquidity becomes weak.

-The company looks unlikely to be able to refinance or repay the 2024 SUNs and there are concerns about the sustainability of the capital structure or a further restructuring;

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Gaming published in June 2021 and available at

https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1276316. Alternatively, please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

COMPANY PROFILE

Headquartered in Athens, Intralot is a global supplier of integrated gaming systems and services. The company designs, develops, operates and supports customized software and hardware for the gaming industry and provides technology and services and state licensed lottery and gaming organizations worldwide. It operates a diversified portfolio across 41 jurisdictions and is listed on the Athens stock exchange.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at:

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At least one ESG consideration was material to the credit rating action(s) announced and described above.

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