PRESS RELEASE

APRIL 11, 2024

Morningstar DBRS Assigns Issuer Rating of B With a Stable Trend to Intralot S.A

SERVICES

DBRS Ratings GmbH (Morningstar DBRS) assigned an Issuer Rating of B to Intralot S.A. with a Stable Trend. Incorporated in Greece, Intralot S.A. is the parent company of the Intralot Group (the Group). The Group has about 50 active contracts in which it supports the operations of licensed gaming and lottery organisations, through the provision of integrated gaming systems and services supported by its proprietary technology solutions and management services.

KEY CREDIT RATING CONSIDERATIONS

The assigned credit rating reflects the Group's credit strengths, which include (i) over 30 years of operating experience in a regulated industry benefitting from high barriers to entry; (ii) a proven ability to win long-term contracts from incumbent market players and retain clients; (iii) a suite of proprietary technology solutions, supported by 191 patents; and (iv) an increasing proportion of revenue and earnings in developed markets from a largely institutional client base. Conversely, the analysis also considers certain rating constraints, including (i) the Group's relatively small size in comparison to larger market players and the concentration risk arising from a limited number of contracts; (ii) a long sales cycle indicative of the industry, requiring upfront investment to support growth; (iii) potential execution risk and timing uncertainties resulting from the Group's growth strategy; and (iv) foreign exchange risk exposure due to the Group's global operations without a formal hedging policy, particularly in respect to its 50.01% stake in its partnership subsidiaries in Turkey and Argentina.

The Group has recently completed a significant refinancing and financial restructuring exercise, which included a partial debt prepayment following a EUR 135 million share capital increase completed in November 2023. Subsequent to the application of these proceeds, the Group's credit metrics as at 31 December 2023 (F2023) strengthened from historical levels with adjusted cash-flow-to-debt of 19%, debt-to-proportionate EBITDA of 4.1 times (x), and proportionate EBITDA-to-interest of 2.7x (proportionate EBITDA equals Morningstar DBRS-adjusted EBITDA net of EBITDA attributable to noncontrolling interests of non-wholly owned subsidiaries). The Stable trend reflects Morningstar DBRS' expectation that the Group's key credit metrics will remain within a range supportive of the rating assignment.

The assigned credit rating also considers the material secured indebtedness of the Group's U.S. operating subsidiary group (the U.S. subgroup) which accounted for about 49% of the Group's F2023 consolidated EBITDA and around 45% of its consolidated financial debt. Morningstar DBRS assesses that the current and future debt obligations of Intralot S.A. are structurally subordinate to the debt of the U.S. subgroup because of the stand-alone nature of the U.S. facilities and the absence of an upstream guarantee from the U.S. subgroup to Intralot S.A. Further, it is noted that while a limited flow of dividends is permitted from the U.S. subgroup, subject to certain covenant requirements, Morningstar DBRS expects the majority of cash flow from U.S. operations to be maintained in the U.S. subgroup to service debt obligations and fund growth capex, which may place a degree of pressure on the cash flow available to service to debt obligations of Intralot S.A.

CREDIT RATING DRIVERS

Morningstar DBRS may consider a positive rating action if, all else being equal, there is sustainable improvement in the Group's business profile such as a noted reduction in its contract/customer concentration risk, along with continued expansion of profitability margins and ongoing debt repayments, which support improvement of key financial metrics from current levels, including debt-to-proportionate EBITDA of less than 4x on a sustainable basis. Morningstar DBRS may consider a negative rating action if, all else being equal, the Group's credit metrics deteriorate below the forecast assumptions, such as adjusted cash flow-to-debt trending below 10% and/or debt-to-proportionate EBITDA trending above 5x. Morningstar DBRS may also consider a negative rating action should the Group take on incremental debt and/or should there be negative events affecting the Intralot Group's business risk profile such as the loss of a major customer contract or other adverse business developments.

EARNINGS OUTLOOK

The Morningstar DBRS forecast assumes that the Group will maintain its steady track record of renewing its expiring contracts, though provides limited benefit to new business wins due to the lead time involved in the onboarding process. The forecast also considers a number of contract renewal dates in F2024 as well as the Group's targeted focus on higher margin contracts. Morningstar DBRS expects a revenue contraction in F2024 by a low-single-digit percentage, followed by low-single-digit growth in F2025, with revenue (including rental income) trending towards EUR 390 million by F2025 (F2023: EUR 385 million). Notwithstanding, Morningstar DBRS forecasts that the Group will benefit from increased consolidated EBITDA margins, which will trend toward 33% in the forecast period (as compared with circa 31% in F2023), which will support modest year-over-year growth in consolidated EBITDA. The forecast estimates that the portion of EBITDA attributable to noncontrolling interests will increase to about 15% of consolidated EBITDA (F2023: approximately 11%) due to anticipated growth in the Turkish non-wholly owned subsidiary, while reported growth in Argentina will be limited by the unfavourable foreign exchange conversion.

FINANCIAL OUTLOOK

Morningstar DBRS expects the Group's cash flow from operations (net of dividends paid to noncontrolling interests) to trend down due to increased distributions to noncontrolling interests of its Turkish subsidiary, offset by some positive impact from lower overall borrowing costs due to its lower debt balances following the share capital increase. Morningstar DBRS expects the Group's adjusted cash flow from operations to reduce from EUR 85 million in F2023 to annual levels of about EUR 70 to 75 million in the forecast period. Free cash flow (after capital expenditures and working capital) is anticipated to be moderately positive, and thus the Group may potentially require the use of its available liquidity reserves to assist in servicing principal debt repayments. The Intralot Group's foreign exchange exposure may also result in potential negative cash translation impacts. Overall, for the period to F2025, Morningstar DBRS expects the Intralot Group's credit metrics to continue to support the assigned credit rating, including adjusted cash flow-to-debt greater than 15%, debt-to-proportionate EBITDA less than 4.5x, and proportionate EBITDA-to-interest of at least 2.7x.

CREDIT RATING RATIONALE

The Intralot Group is exposed to a degree of concentration risk arising from its limited number of contracts; however its operations are moderately diversified by geography including the United States and Canada (49% of F2023 EBITDA), Europe (15%), Turkey (14%), Oceania (13%), South America (6%), and others (3%).

As a proportion of F2023 revenue, the Intralot Group estimates that approximately 35% was generated through multi-year contracts or renewable licences that extend to 2028 (excluding extension options), and 47% with consideration of extension options. Due to the Group's limited number of contracts and the maturities over the near-to-medium term, the continuation of its track record in renewing these agreements with similar terms is critical to maintaining its current levels of revenue and earnings, particularly with consideration of the lead time required for new business to become operational due to the technologically integrated nature of the Group's services with its customers' systems.

The Intralot Group has recently completed a significant refinancing and financial restructuring transaction, which resulted in the paydown and refinance of the outstanding Facility B Senior Notes issued by Intralot Capital Luxembourg SA (a subsidiary of Intralot S.A.), which were due to mature 15 September 2024. The repayment and refinancing of these notes were executed by way of financial instruments issued by Intralot S.A., which included (i) a share capital increase of EUR 135 million completed in November 2023; (ii) the Issuance of a EUR 130 million in common bonds in February 2024; and (iii) a EUR 100 million syndicated loan agreement with five Greek banks, which funded on 28 March 2024. The Group fully repaid the remaining balance of the Facility B Notes of EUR 99.6 million on 9 April 2024. This refinancing exercise extended and distributed the Group's debt maturities, as the EUR 100 million syndicated loan will mature 30 June 2025, while the EUR 130 million in common bonds were issued with a five-year term maturing in February 2029.

In March 2024, the Group announced that it has also extended the existing debt of the U.S. subgroup by one year to 27 July 2026 with no change to the existing lending terms. As of F2023, the U.S. subgroup's debt included an amortising term loan with an outstanding balance of about EUR 194 million equivalent and an undrawn USD 50 million revolving credit facility (RCF) limit.

The share capital increase and the refinancing activities have been beneficial in terms of reducing the Group's total debt and diversifying its financing sources and associated maturities. However, there remains two significant loan maturities within the next two to three years, which will continue to pose refinancing risks, albeit to a lesser degree than prior to this most recent refinancing initiative. The Intralot Group's ability to maintain its portfolio of contracts and execute its growth strategy remain imperative to securing future financing as its respective debt maturities approach.

The Group's available liquidity as at F2023 was approximately EUR 158 million, inclusive of EUR 112 million of consolidated cash and cash equivalents, and circa EUR 46 million equivalent available under the U.S. subgroup's undrawn RCF. Morningstar DBRS notes that reported F2023 consolidated cash balances are inclusive of circa EUR 35 million equivalent held in the U.S. subgroup and about EUR 14 million equivalent held in 50.01% owned partnership subsidiaries.

The Intralot Group's consolidated results include the full contribution of its 50.01% stakes in partnership subsidiaries in Turkey and Argentina, which together represented 22% of the Group's consolidated F2023 EBITDA. Due to the materiality of these non-wholly owned subsidiaries, Morningstar DBRS calculates the Group's key credit metrics using a proportionate approach to better reflect this economic relationship. Within the key credit metrics, adjusted proportionate EBITDA is net of EBITDA attributable noncontrolling interests of non-wholly owned subsidiaries, while adjusted cash flow from operations is net of dividends paid to non-controlling interests of non-wholly owned subsidiaries.

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE CONSIDERATIONS

ESG Considerations had a relevant effect on the credit analysis.

Environmental (E) Factors
There were no Environmental factor(s) that had a relevant or significant effect on the credit analysis.

Social (S) Factors
The following Social factor had a relevant effect on the credit analysis:

Morningstar DBRS considers the Social Impact of Products and Services as a relevant Social factor. The Intralot Group is exposed to potential regulatory risk resulting from its exposure to the gambling industry, which is subject to an increasing rate of safeguards and regulation to uphold responsible gaming practices and to protect vulnerable populations. The Group's main revenues comes from the U.S. and are concentrated among a relatively few number of contracts. Each U.S. state is free to regulate and prohibit gambling practices in light of their social impact, and potential new regulations aiming at reducing or prohibiting gambling could have an impact on the Intralot Group's financial position. Morningstar DBRS considered this factor as Relevant (as opposed to Significant) due to the nature of the Intralot Group's technology services, which facilitate its customers' regulatory reporting obligations, the Group's industry certifications, including the World Lottery Association Responsible Gaming Framework Certification, and the Group's operating track record of over 30 years in the sector.

Governance (G) Factors
There were no Governance factor(s) that had a relevant or significant effect on the credit analysis.

A description of how Morningstar DBRS considers ESG factors within the Morningstar DBRS analytical framework can be found in the Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Risk Factors in Credit Ratings (23 January 2024) https://dbrs.morningstar.com/research/427030

BUSINESS RISK ASSESSMENT (BRA) AND FINANCIAL RISK ASSESSMENT (FRA)

(A) Weighting of BRA Factors
In the analysis of Intralot S.A., the relative weighting of the BRA factors was approximately equal.

(B) Weighting of FRA Factors
In the analysis of Intralot S.A., the relative weighting of the FRA factors was approximately equal.

(C) Weighting of the BRA and the FRA
In the analysis of Intralot S.A., the BRA and the FRA carry approximately equal weight.

Notes:
All figures are in Euros unless otherwise noted.

Morningstar DBRS applied the following principal methodology:

Global Methodology for Rating Companies in the Services Industry (20 February 2024)
https://dbrs.morningstar.com/research/428396

The following methodology has also been applied:

DBRS Morningstar Global Criteria: Rating Corporate Holding Companies and Parent/Subsidiary Rating Relationships (27 September 2023) - https://dbrs.morningstar.com/research/421119

The credit rating methodologies used in the analysis of this transaction can be found at: https://dbrs.morningstar.com/about/methodologies.

A description of how Morningstar DBRS analyses corporate finance transactions and how the methodologies are collectively applied can be found at: https://dbrs.morningstar.com/research/397223.

The primary sources of information used for this credit rating include the Intralot Group's audited consolidated financial statements and annual reports from 2018 to 2023, detailed business plans and supporting information obtained from Intralot Management, documentation and legal agreements relating to the debt instruments of the Intralot Group, public information and enclosures available on the Intralot Group's website, and other information and correspondence provided by the Intralot Group to Morningstar DBRS as of 4 April 2024. Morningstar DBRS considers the information available to it for the purposes of providing this credit rating to be of satisfactory quality.

This credit rating concerns a newly rated issuer. This is the first Morningstar DBRS credit rating on this issuer.

Morningstar DBRS does not audit the information it receives in connection with the credit rating process, and it does not and cannot independently verify that information in every instance.

The conditions that lead to the assignment of a Negative or Positive trend are generally resolved within a 12-month period. Morningstar DBRS trends and credit ratings are under regular surveillance.

For further information on Morningstar DBRS historical default rates published by the European Securities and Markets Authority (ESMA) in a central repository, see: https://registers.esma.europa.eu/cerep-publication. For further information on Morningstar DBRS historical default rates published by the Financial Conduct Authority (FCA) in a central repository, see https://data.fca.org.uk/#/ceres/craStats.

The sensitivity analysis of the relevant key credit rating assumptions can be found at: https://www.dbrsmorningstar.com/research/431040.

This credit rating is endorsed by DBRS Ratings Limited for use in the United Kingdom.

Lead Analyst: Edoardo Danieli, Assistant Vice President
Rating Committee Chair: Timothy O'Brien, Managing Director
Initial Rating Date: 11 April, 2024
Last Rating Date: Not applicable as there is no last rating date.

Information regarding Morningstar DBRS ratings, including definitions, policies, and methodologies, is available on dbrs.morningstar.com or contact us at info@dbrsmorningstar.com.

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Ratings

Intralot S.A.

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
11-Apr-24	Issuer Rating	New Rating	B	Stb	EU U

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