

Morningstar DBRS Confirms Issuer Rating on Intralot S.A. at B, Stable Trend

SERVICES

DBRS Ratings GmbH (Morningstar DBRS) confirmed its Issuer Rating on Intralot S.A. (Intralot or the Issuer) at B with a Stable trend.

KEY CREDIT RATING CONSIDERATIONS

The credit rating confirmation reflects Intralot's relatively stable performance in F2024 compared with F2023, with broadly stable financial metrics year over year, and Morningstar DBRS' expectation that, over the next few months, Intralot will come to a refinancing agreement for its upcoming EUR 90 million in loans maturing in January 2026 and USD 230 million in credit facilities maturing in July 2026.

The announced termination of the Ohio State Lottery concession, one of the largest among Intralot's 50 total contracts, by mid-2027 will have a material impact on profits as the concession constituted around 13% of the Issuer's total revenue and 20% of adjusted EBITDA as of F2024. Nevertheless, based on Intralot's track record of securing new contracts from incumbent players in the market, Morningstar DBRS expects the Issuer to win contracts in the U.S. and Canada over the next two years to partially offset missing profits from the Ohio State Lottery. The current credit rating of B reflects the contract concentration risk and the execution risk of Intralot's strategy.

The credit rating also considers the material secured indebtedness of Intralot's U.S. operating subsidiary group (the U.S. subgroup), which accounted for about 55% of the Issuer's consolidated EBITDA and around 45% of its consolidated financial debt in F2024. Morningstar DBRS assesses that Intralot's current and future debt obligations are structurally subordinate to the U.S. subgroup's debt because of the standalone nature of the U.S. facilities and the absence of an upstream guarantee from the U.S. subgroup to Intralot. Furthermore, while a limited flow of dividends is permitted from the U.S. subgroup, subject to certain covenant requirements, Morningstar DBRS expects Intralot to retain the majority of cash flow from its U.S. operations in the U.S. subgroup to service debt obligations and fund growth capital expenditures (capex), which may place some pressure on the cash flow available to service Intralot's debt obligations.

CREDIT RATING DRIVERS

Morningstar DBRS may consider a positive credit rating action if, all else equal, there is a sustainable improvement in the Issuer's business risk profile, such as a noted reduction in contract/customer concentration risk and a continued expansion of profitability margins and ongoing debt repayments that improve key financial metrics from current levels, including debt-to-proportionate EBITDA of less than 4.0 times (x) on a sustainable basis.

Morningstar DBRS may consider a negative credit rating action if, all else equal, Intralot's credit metrics deteriorate below the forecasted assumptions, such as adjusted cash flow-to-debt trending below 10% and/or debt-to-proportionate EBITDA trending higher than 5.0x. Morningstar DBRS may also consider a negative credit rating action if the Issuer takes on incremental debt and/or if negative events affect its business risk profile, such as the loss of a major customer contract or other adverse business developments.

EARNINGS OUTLOOK

Morningstar DBRS anticipates low single revenue growth in F2025 and F2026 followed by a 3% drop in F2027 with the loss of the Ohio State Lottery concession. Morningstar DBRS expects overall revenues to reach EUR 426 million in F2026 from EUR 401 million in F2024 (Including income from rents from third parties). Morningstar DBRS also expects Intralot to renew most of its existing concessions and secure new ones in the U.S. and Canada over the next years. EBITDA margins should remain stable in F2025 at around 30% compared with 30% in F2024, and subsequently grow toward 31% on the back of improving scale and a mostly favourable contract mix.

FINANCIAL OUTLOOK

Intralot's consolidated results include the full contribution of its 50.01% stakes in partnership subsidiaries in Turkey and Argentina, which together represented 26% of the Issuer's consolidated EBITDA in F2024, up from 22% in F2023. Because these non-wholly owned subsidiaries are material to the overall business, Morningstar DBRS calculates Intralot's key credit metrics using a proportionate approach to better reflect this economic relationship. Within the key credit metrics, adjusted proportionate EBITDA of EUR 17.1 million in F2024 was net of EBITDA attributable to noncontrolling interests in non-wholly owned subsidiaries while adjusted cash flow from operations of EUR 5.9 million in F2024 was net of dividends paid to noncontrolling interests in non-wholly owned subsidiaries.

Morningstar DBRS expects Intralot's gross leverage to remain below 4.5x in F2025 and F2026 which, though slightly up from 4.3x in F2024, remains consistent with the current credit rating. While Morningstar DBRS expects total debt to increase by around EUR 40 million by F2026 to sustain capex related to new concessions with higher investments in the first few years, Morningstar DBRS-adjusted EBITDA growth to EUR 125 million by F2026 from EUR 103 million in F2024 should offset the debt increase.

CREDIT RATING RATIONALE

Comprehensive Business Risk Assessment: B

The credit rating reflects Intralot's credit strengths, including (1) over 30 years of operating experience in a regulated industry benefitting from high barriers to entry; (2) a proven ability to win long-term contracts from incumbent market players and retain clients with an 89% contract renewal rate; (3) a suite of proprietary technology solutions, supported by 186 patents; and (4) an increasing proportion of revenue and earnings in developed markets from a largely institutional client base. Conversely, the credit rating also reflects certain constraints, including (1) the Issuer's relatively small size in comparison with larger market players and the concentration risk arising from a limited number of contracts; (2) a long sales cycle that is typical in the industry, averaging 15 years and requiring upfront investment to support growth; (3) potential execution risk and timing uncertainties resulting from Intralot's growth strategy; and (4) foreign-exchange risk exposure, given that the Issuer has global operations without a formal hedging policy, particularly with respect to its 50.01% stake in its partnership subsidiaries in Turkey and Argentina.

Comprehensive Financial Risk Assessment: BB

Intralot's financial metrics are consistent with a BB credit rating range, and Morningstar DBRS expects them to remain at this level at least for the next two years. Morningstar DBRS also expects that gross debt will only increase slightly in F2026, and that the Issuer will refinance upcoming EUR 90 million in loans maturing in January 2026 and USD 230 million in credit facilities maturing in July 2026 at similar amounts.

Intrinsic Assessment: BH

The Intrinsic Assessment (IA) is based on the Comprehensive Business Risk Assessment and Comprehensive Financial Risk Assessment. Taking into consideration peer comparisons, among other factors, Morningstar DBRS placed the IA in the middle of the IA Range.

Additional Considerations

Morningstar DBRS applied a one-notch negative adjustment for Parent-Subsidiary Relationships because Intralot's financial obligations are structurally subordinate to those of the U.S. subgroup.

ENVIRONMENTAL, SOCIAL, AND GOVERNANCE CONSIDERATIONS

Social (S) Factors

Morningstar DBRS considered the Social Impact of Products and Services as a relevant Social factor for Intralot. Morningstar DBRS included this factor in its analysis because of the Issuer's exposure to the lottery and gaming industry, which is subject to safeguards and regulation to uphold responsible gaming practices and to protect vulnerable populations. The increasing regulatory requirements in the regions in which Intralot operates could pose a financial or reputational risk to the Issuer. Morningstar DBRS considered this factor as Relevant (as opposed to Significant) because of the nature of Intralot's technology services, which facilitate its customers' regulatory reporting obligations; its industry certifications, including the World Lottery Association Responsible Gaming Framework Certification, and its operating track record of over 30 years in the sector.

There were no Environmental/Governance factor(s) that had a significant or relevant 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 Factors in Credit Ratings (13 August 2024) at <https://dbrs.morningstar.com/research/437781>.

Further details on the Issuer's Intrinsic Assessment can be found at <https://dbrs.morningstar.com/research/451834/>.

Notes:

All figures are in euros unless otherwise noted.

Morningstar DBRS applied the following principal methodology:

-- Global Methodology for Rating Companies in Services Industries (3 February 2025), <https://dbrs.morningstar.com/research/447184>

Morningstar DBRS credit ratings may use one or more sections of the Morningstar DBRS Global Corporate Criteria (3 February 2024; <https://dbrs.morningstar.com/research/447186>), which covers, for example, topics such as holding companies and parent/subsidiary relationships, guarantees, recovery, and common adjustments to financial ratios.

The following methodologies have also been applied:

-- Morningstar DBRS Criteria: Approach to Environmental, Social, and Governance Factors in Credit Ratings (13 August 2024), <https://dbrs.morningstar.com/research/437781>

-- Morningstar DBRS Global Corporate Criteria (3 February 2025), <https://dbrs.morningstar.com/research/447186>

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/431153>.

The primary sources of information used for this credit rating include Intralot's audited consolidated financial statements and annual reports, detailed business plans, and supporting information obtained from Intralot's management; documentation, and legal agreements relating to Intralot's debt instruments, public information, and enclosures available on Intralot's website; and other

information and correspondence provided by Intralot to Morningstar DBRS as of 9 April 2025. Morningstar DBRS considers the information available to it for the purposes of providing this credit rating to be of satisfactory quality.

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://dbrs.morningstar.com/research/451828/>.

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

Lead Analyst: Edoardo Danieli, Vice President
Rating Committee Chair: Robert Streda, Senior Vice President
Initial Rating Date: 11 April 2024
Last Rating Date: 11 April 2024

Information regarding Morningstar DBRS credit ratings, including definitions, policies, and methodologies, is available on <https://dbrs.morningstar.com> or contact us at info-DBRS@morningstar.com.

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Ratings

Intralot S.A.

Date Issued	Debt Rated	Action	Rating	Trend	Attributes
11-Apr-25	Issuer Rating	Confirmed	B	Stb	<div><div>EU</div><div>U</div></div>

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