Intralot

In it to win it

Initiation of coverage

Travel and leisure

Intralot Integrated Lottery Systems and Services (Intralot) is a leading developer and supplier of integrated gaming systems and services that cover the entire value chain of select gaming markets. Its core global markets are forecast to produce steady growth, which is likely to be further boosted by new revenue opportunities as adjacent markets regulate and/or open up. The industry enjoys high barriers to entry and the long-term nature of client relationships provides attractive financial dynamics such as high revenue visibility and levels of profitability. Management believes the company's competitive advantages of superior technology and service will provide many opportunities to outpace market growth in the next few years, which will further drive profitability, cash generation and returns. We believe these are not reflected in the current valuation.

Year end	GGR* (€m)	EBITDA** (€m)	PBT** (€m)	EPS** (€)	EV/EBITDA (x)	P/E (x)
12/21	335.3	110.4	26.0	0.11	9.3	10.2
12/22	343.9	122.9	16.3	(0.01)	8.4	N/A
12/23e	357.9	133.1	29.3	0.01	7.8	203.8
12/24e	366.4	142.9	45.1	0.01	7.2	93.9

Note: *GGR, gross gaming revenue. **EBITDA, PBT and EPS are normalised, excluding amortisation of acquired intangibles, exceptional items and share-based payments.

High barriers to entry, attractive financial dynamics

Both the industry and the company enjoy very attractive financial characteristics as a result of the market structure and high barriers to entry. High barriers to entry include: 1) high levels of state and/or federal regulations for the provision of lotteries and other games; 2) significant costs to build the technology platform and win contracts; 3) the customers, ie states and governments, are risk averse and value the reputation of established providers; and 4) the high costs and risks of switching operators once established. Contracts with customers can be for up to 10 years, often with multi-year renewal options thereafter, and provide a high level of revenue visibility. In addition to its traditional area of focus (lottery), new parts of the market are opening up or becoming regulated, which provide further growth opportunities.

Margin, cash generation and returns improving

Intralot is emerging from an internal reorganisation, during which it continued to retain existing clients and win new ones, which is testimony to management's stated competitive advantages. Management believes profit growth should exceed revenue growth as the mix towards higher-margin contracts increases and applies a more stringent focus on required returns than previously.

Valuation: Share price discounting limited growth

Intralot has a lot of potential to create incremental value in the next few years as non-client contracts are retendered and revenue streams emerge from new games that are likely to be regulated. Our base case DCF valuation of €1.62 per share conservatively incorporates below industry growth rates, in itself good upside from the current share price, before considering potential value creation from new contracts.

8 February 2024

Price	**€1.17**
Market cap	**€707m**
Net debt (€m) at 30 September 2023 (excluding IFRS 16 liabilities of €12.9m)	445
Shares in issue	604.1m
Free float	45.5%
Code	INLOT
Primary exchange	ASE
Secondary exchange	N/A

Share price performance

%	1m	3m	12m
Abs	6.7	63.1	86.1
Rel (local)	0.2	43.4	38.7
52-week high/low		€1.22	€0.57

Business description

Intralot Integrated Lottery Systems and Services is a leading global supplier of integrated systems and services for the worldwide gaming, lottery, sports betting and digital gaming industries.

Next events

FY23 results	end March 2024

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Edison profile page

Intralot is a research client of Edison Investment Research Limited

Investment summary

Company description: Modernising lotteries by innovating

Intralot serves as a private partner to the public sector, enabling gaming and lottery operators to establish a responsible gaming environment and contribute to good causes for local communities. Intralot's strategy can be summarised broadly as seeking to use its perceived technological leadership to grow its market share while only deploying capital to prospective contracts that meet strict returns criteria and recognising its social responsibilities, such as championing responsible gaming. The company is focused on serving customers in regulated gaming markets, notably lottery, iLottery (digital lottery offerings), with its main focus on states where it already has a lottery footprint, monitoring systems for video lottery terminals (VLTs) and sports betting. From a geographic perspective, its primary focus for growth has shifted to the US, where it already has long-established and stable relationships since entering the market in 2001, and away from emerging markets. The US offers exciting growth potential as a large number of non-client contracts are due to be renewed in the next three years, and more US states are expected to regulate the non-lottery games that Intralot already services with some of its clients. With respect to responsible gaming, it has been awarded the World Lottery Association's Responsible Gaming Framework certificate and it collaborates with the many international industry associations to help contribute to the future development of the gaming industry.

Valuation: Share price discounting below market growth

The company's valuation is naturally sensitive to the size of its contract base, which is dependent on both its ability to retain existing clients (which looks strong given a renewal rate of 89% since 2008) and its ability to win new clients, which also looks very promising given what it has achieved in the US in the last 20+ years, ie by migrating a number of contracts away from the incumbents, which were much better capitalised than Intralot. Our DCF-based approach, which includes growth rates that are below the projected industry growth rates of 4%+ and includes no benefit from new contract wins, suggests a valuation of €1.62 per share. Therefore, the current share price appears to be discounting too pessimistic a level of growth or worse profitability and cash conversion than we forecast.

Financials: Improving margins and cash generation

While refocusing the business on regulated markets in developed countries in recent years, the company has undergone a significant cost and financial restructuring. This has led to a significant improvement in profitability (its EBITDA margin of 35.7% in FY22 and 38.5% in the first nine months of FY23 (9M23) compare with 22.6% in FY20) and a reduction in its net debt/EBITDA to more normal levels of 3.4x at the end of September 2023 following a spike to 9.8x net debt/EBITDA in FY20 at the height of the COVID-19 pandemic. The company is therefore in a much better financial position than it has been for many years. Management is confident of further improvement in profitability as contracts mature and free cash flow will bring down its net debt position even further.

Sensitivities: Contracts, regulation and international exposure

Intralot operates across many geographies with a number of key long-term contracts in a highly regulated industry. It has good opportunities to increase market share in the US and win new contracts in new geographies as it has emerged from a focus on managing its financial position. Therefore the main risks we see are around its ability to retain existing clients and win new clients, regulation changes, technological developments, changes in the level of competition, geographic expansion and its foreign currency exposure.

Driving lottery digital transformation

Based and listed in Greece and founded in 1992 by Chairman and CEO Sokratis Kokkalis, Intralot is a leading developer and supplier of integrated gaming systems and services to a global client base consisting mainly of gaming licence owners and operators. Its products and services cover the entire value chain of select gaming markets, which enables it to address the different needs of the many types of market participants. Its offering includes everything from the provision of a state-of-the-art central gaming system and gaming terminals through risk management and marketing for its customers. Its customers include corporates (business to business, or B2B) and governmental (business to government, or B2G) holders of gaming licences, as well as operating its own gaming licence with direct access to retail (business to consumer, or B2C) customers.

Focused strategy

The company's strategy has evolved to one that is focused on serving customers in regulated gaming markets, notably lottery, iLottery, monitoring systems for VLTs and sports betting. Management is also more focused on developing B2B and B2G customers versus B2C customers than previously. From a geographic perspective, its primary focus has shifted to developed countries, particularly the US and Europe. Although Intralot is primarily focused on developed markets, it retains some exposure to developing markets, notably Argentina and Turkey, and will consider specific opportunities in international markets in the future. Its focus on regulated markets is important as they are more predictable because the gaming operators have clarity on the market structure and rules of engagement with retail customers, compared with unregulated markets. At end FY22, Intralot had a broad geographic exposure, with 52 individual contracts in 39 regulated jurisdictions (ie individual countries or states in the case of its activities in the US and Argentina).

Lotteries offer structural growth

The industry has good structural growth drivers, 4%+ CAGR in 2022–28 (see Exhibits 7 and 8) due to the liberalisation of lotteries as governments seek to raise revenue without increasing other direct taxes and privatisation, as states or governments naturally lack the know-how or technology skills to run lotteries. As lottery markets open up, operators typically enhance their offer by introducing new games, which further stimulate growth. In addition to what most may think of as a lottery (ie draw-based weekly jackpots), lotteries may consist of a range of other games including sports betting, high-frequency monitor-based games and casino-style games via retail and internet.

Contracts have attractive financial characteristics

The financial characteristics of the industry are very attractive as contracts with customers are typically long term (ie up to 10 years), often with multi-year renewal options thereafter (management quotes a contract renewal rate of 89% since 2008), suggesting a high level of customer satisfaction, which should provide good revenue visibility and enable proactive management of profitability and cash flow. The industry enjoys high barriers to entry: it is highly regulated and requires strict compliance with state and federal government regulations; significant costs to build the technology platform and win contracts; state/governments are risk averse and value the reputation of established providers; and there are high costs and risks of switching operators once established. These factors have led to the US lottery industry being dominated by three players: Intralot, International Game Technology (NYSE:IGT) and Scientific Games (privately owned). That said, Intralot's success in building a strong market presence in the US, as well as contract wins elsewhere, suggests government and states will switch provider if a better or more flexible service, or price are available. Indeed, Intralot has proved to be very successful at migrating contracts away from its two largest competitors and retaining them. It currently has 12 contracts in the US and Canada since it entered the market in 2001, and became the first non-US company to win a tender for a new contract when it won Nebraska in 2003. Management believes its competitive advantages include its state-of-the-art gaming system, which offers stability, scalability, parametrisation (the ability to make quick changes across a whole network) and seamless third-party integration through a unique microservice architecture.

A potted history of fast expansion and refocus

Before we focus on the outlook for Intralot, it is useful to understand where the company has come from, why its strategy has changed and the actions management has taken to improve the company's financial position following its challenging recent past.

Coincident with the gradual arrival of the current executive team from 2018, the company's strategy has evolved somewhat, from what was a landgrab for new contracts across a wide range of gaming categories in many geographies. The previous strategy generated strong growth in revenue through the mid-2010s, although profitability declined and, having been a well-liked stock with a market value of more than €2bn in 2008, its valuation never recovered after the global financial crisis.

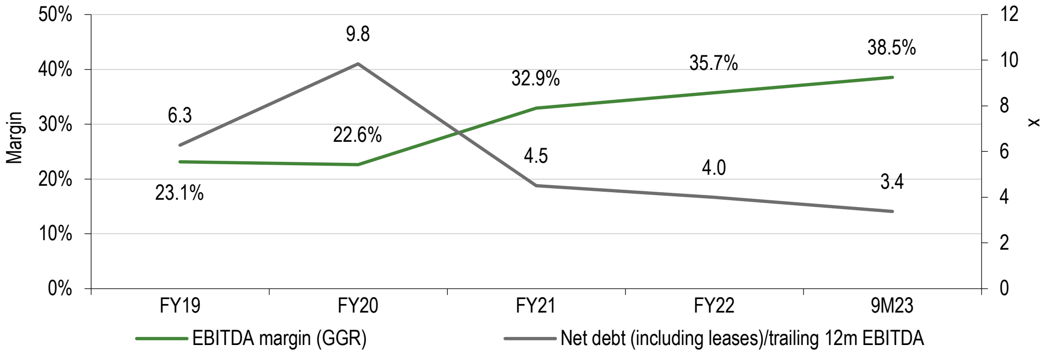
Intralot's geographic expansion led to peak revenue of c €1.9bn from more than 80 contracts in 57 jurisdictions in FY15. In addition to its current geographic exposure, see Exhibit 2, Intralot had clients in countries including Azerbaijan, Italy, Jamaica, Nigeria, Russia and South Korea. Subsequently, a combination of macro and foreign exchange issues in specific countries, as well as operational issues and changes to licence terms in some countries, led to management having to reappraise the outlook for its existing contracts, which led to the decision to exit a number of countries. These issues were compounded by the outbreak of the COVID-19 pandemic in FY20, by which stage the company's reported revenue had fallen to €364m from 57 contracts in 41 jurisdictions, and EBITDA from c €184m (margin on GGR of c 26%) in FY15 to €66m (margin on GGR of c 23%) in FY20. Intralot reported a loss after tax in every year from FY14 through FY20, before minority interests further reduced the attributable losses to shareholders. Cash flow was worse than profitability; the company generated negative free cash flow after interest payments from FY08 to FY12 and from FY15 to FY20. The combination of lower profitability and ongoing capital investment requirements ensured that net debt including leases increased to a peak of €651m in FY20, an uncomfortable 9.8x EBITDA.

These factors obviously necessitated a significant change in strategy, as highlighted above and which we discuss further in the next section. In addition to the evolution of the strategy to focus on more predictable and more profitable revenue streams, there has been a radical overhaul of the cost base and the company's financial position has improved significantly. From a cost perspective, Intralot has realised c €130m in cost savings, including a reduction in Greek headquarter costs of €50m to €30m, and management continues to focus on containing costs and capital. From a financial perspective, the company has paid down debt, helped by two equity raises (€129m in July 2022 and €135m in November 2023) and continues to refinance its debt. As part of the refinancing process, it gained a new strategic shareholder, Standard General Management, via its wholly owned subsidiary, CQ Holding Company, and the founder of that firm, Soohyung Kim, is a non-executive member of the board of directors.

Intralot is now a significantly more profitable business, with better relative free cash generation, and its financial position is much less of a concern. Management expects further improvements in the level of profitability and indebtedness.

As an aside, due to the changes in Intralot's activities over the long term, financial statements for the prior financial year are often restated when reporting the next financial year to reflect the reporting of continuing and discontinued activities. In this report, we use the first set of results reported for each period rather than the restated results, unless 'R' is used as a suffix.

Exhibit 1: Financial turnaround



Source: Intralot, Edison Investment Research

Intralot's strategy to grow

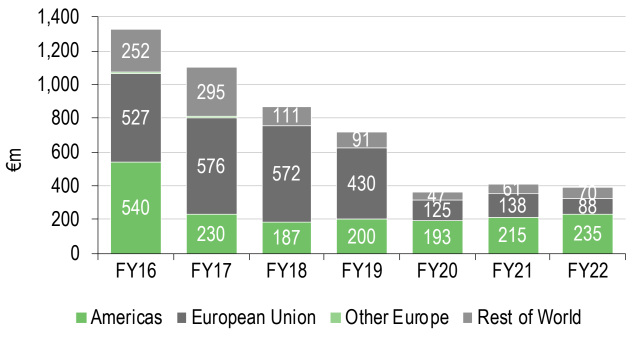
Intralot's five-point strategy (below) can be summarised broadly as seeking to exploit its perceived technological leadership by growing its market share with a more stringent capital allocation policy than previously, which should improve profitability and returns, while recognising its social commitments:

- Deliver best-in-class technology solutions and maintain leadership in technology. As we discuss in the technology section later, management believes Intralot leads the industry in its technology capabilities and innovation.
- Expand the footprint in strategic markets and maintain portfolio diversification. Intralot's core focus for new clients has shifted from emerging markets to developed markets. Its main geography of focus now is the US, where a number of lottery contract renewals for its competitors are due in the next few years. In addition to expanding the lottery base in the US, the company has the potential to partner with state lotteries to further develop its sports betting offer (which was present in 12 markets, including four in the US and Europe, at the end of FY22). New segments of the market are opening up (eg iLottery and the monitoring of VLTs). Outside of the US, growth will be more selective than it once was.
- Value creation driven by increased cash flow generation, margin expansion and improving longer-term revenue visibility. The anticipated extension of existing contracts, the addition of new contracts that meet the company's return criteria and a greater focus on higher-margin services should provide a good opportunity to improve profitability, cash flow generation and returns over the long term.
- Disciplined capital allocation aimed at optimising the capital structure. In part, Intralot's ability to deploy capital has been restricted by its recent financial woes, but this is improving and there is a greater focus on returns on investment than historically.
- A commitment to responsible gaming, social responsibility and integrity. Management's efforts to ensure responsible gaming and provide player protection are in keeping with the requirements of its customers and regulations.

Evolution in Intralot's gaming and geographic focus

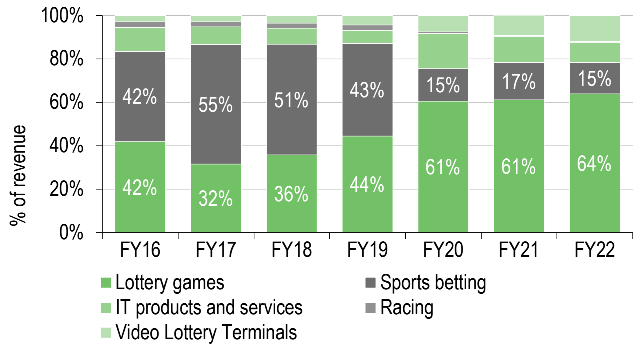
The scale of the changes already made can be seen by the evolution in Intralot's geographic mix of revenue and the gaming verticals it serves.

Exhibit 2: Revenue by geography



Source: Intralot

Exhibit 3: Revenue mix by gaming vertical



Source: Intralot

We have already highlighted that the number of jurisdictions that Intralot serves has reduced from 57 in FY15 to 39 in FY22. The Americas have grown in importance to the group, representing 60% of revenue in FY22 versus 41% in FY16, while the whole of Europe has fallen to 22% of revenue from 40%. In addition to underlying operating performances and the effects of COVID-19, the reduction in European revenues reflects Intralot's exit from a number of its previous licensed operations contracts where licence terms became less favourable including Bulgaria, Cyprus, Greece, Italy and Poland, and more latterly Malta as the licence expired in July 2022.

Intralot's products and services support customers in five key verticals: lottery games, IT products and services, sports betting, VLTs/amusement with prize machines and racing. The increasing importance of lottery at the expense of other gaming verticals is clear. It does not have a presence in casino-based games.

In the following video, Chris Sfatos, Intralot's deputy CEO, introduces the company, the core dynamics of the markets, the outlook for the next few years and the restructuring undertaken.

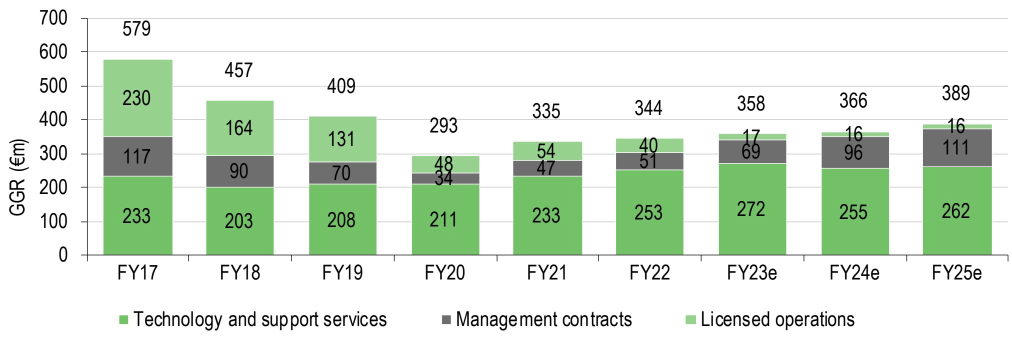
Exhibit 4: Video interview with deputy CEO, Chris Sfatos

Source: Edison Investment Research

Products and services

Intralot provides its products and services under three different types of contractual arrangement, which form the basis for its financial reporting: technology and support services (TSS), management contracts (MC) and licensed operations (LO).

Exhibit 5: Gross gaming revenue by contract type



Source: Intralot, Edison Investment Research

The key differences between the contracts are as follows:

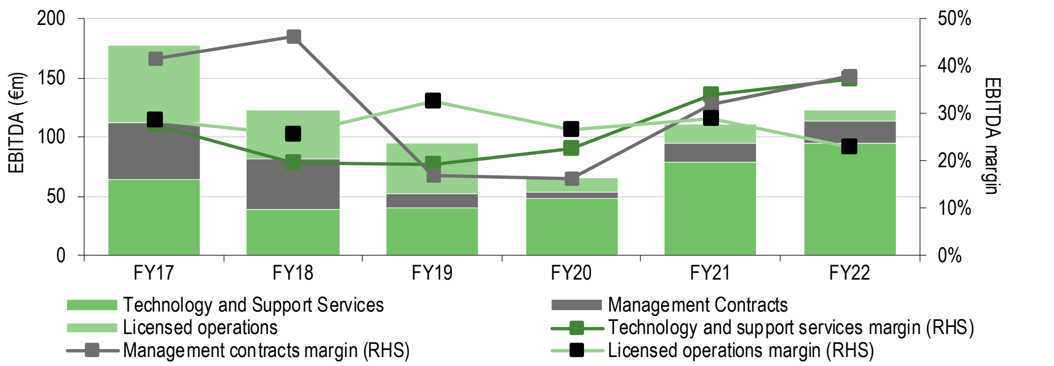
- For a TSS client, Intralot provides the technology and infrastructure to run a lottery/game and the licence holder manages the operations. The scope of what Intralot provides includes everything from a central gaming system, lottery terminals, telecommunication systems, related peripheral equipment and software, implementation services, and/or maintenance and support services/monitoring systems for VLT operations. For these contracts, Intralot's revenue is typically based on either a predetermined fixed percentage of the amounts wagered by the retail customers of the operator or a fixed payment over the life of the contract. Intralot's gross gaming revenue (GGR) from TSS has increased from FY17 to FY22, despite a good reduction in the number of contracts/jurisdictions from 62/43 in FY17 to 49/36 in FY22. At the end of FY22, Intralot's geographic coverage included the US, Greece, Australia, New Zealand, Canada, Argentina, Croatia, Chile, the Netherlands, Ireland, Germany, Malaysia, Taiwan, the Philippines and Peru, having exited countries such as Azerbaijan, Nigeria, South Korea and Italy since FY17.
- An MC includes all aspects of managing gaming operations for a client, so is more extensive than a TSS. In addition to the services listed above for a TSS, an MC includes managing the day-to-day operations, marketing services, sales network development and management and/or risk management/odds setting for sports betting games. The client base for an MC is the same as for a TSS, but the fee is typically a fixed percentage of wages placed by the retail customer, with no fixed fee over the length of the contract, as for a TSS above. The number of MCs has been relatively stable at two to three over the last few years. Intralot currently has four MC clients in the US (renewals due in September 2024 and June 2027), Morocco (which was extended again in January 2024 until the end of 2025) and Turkey (to December 2029 at the earliest).
- For LO, Intralot or one of its associates maintains ownership of a gaming licence that has been awarded by a government or state and is responsible for all or most of the activities in TSS and MC contracts identified above to fulfil the terms of the licence. Intralot's revenue from LO is the amounts wagered by retail customers, from which it has to pay out the winnings on those wagers. Therefore, revenue after winners' payout can be a little more variable than for the first two types of contracts given its dependence on the wagering success of its retail customers. Intralot's only LO is the operation of the state lottery for the province of Salta in Argentina, as

the vertical has been deprioritised following exits/licence terminations from Azerbaijan, Bulgaria, Cyprus, Greece, Italy, Malta, Peru, Poland and Brazil since FY17. The profitability of LO has been quite variable, ranging between c 23% and 33% in FY17–22, is lower than the group average and dilutive to overall group profitability.

For each type of contract Intralot discloses: 1) revenue (ie revenue before winners' payout); 2) GGR (revenue after winners' payout); and 3) EBITDA. As winners' payout is deductible from only LO revenue, revenue and GGR are the same for TSS and MC. The lower contribution from LO means this greater variability of revenue is less of a concern for investors than it once was. It is conventional to focus on GGR when looking at and comparing gaming companies.

We discuss Intralot's financial performance in the financials section below. Here we highlight that the increasing contribution of high-margin GGR from TSS, as well as an improvement in the TSS EBITDA margin at the expense of fewer LO contracts, which have a lower than group average margin, have been helpful for the recovery in Intralot's profitability.

Exhibit 6: Profitability by contract types

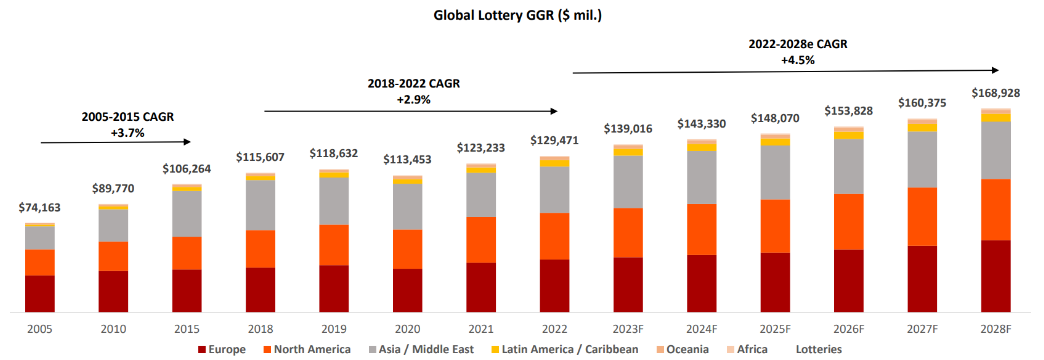


Source: Intralot, Edison Investment Research

Structural growth markets, little economic sensitivity

The global lottery market is forecast to grow at a CAGR of 4.5% from 2022 to 2028, following a CAGR of 2.9% from 2018 to 2022 and 3.7% from 2005 to 2015.

Exhibit 7: Acceleration in global lottery GGR



Source: Intralot AGM 2023 presentation

A number of important trends have combined to drive the historical and prospective growth of the global lottery markets:

- The liberalisation and privatisation of lotteries enables states and governments to maximise revenue to fund public services and good causes without raising other taxes, which is obviously appealing from a political perspective. Most lotteries frequently designate that the revenue earned from a lottery should be used for particular purposes such as education, healthcare, sports facilities and cultural activities. Naturally, states and governments do not have the skill sets, technology or infrastructure to operate lotteries, so they are outsourced.

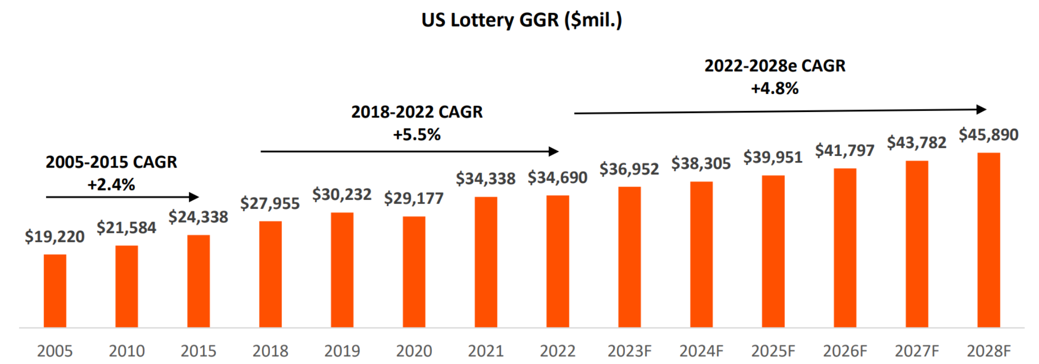
- Lotteries operate with a small stake size versus other forms of gaming and are not typically associated with problem (ie addictive) gaming, making them socially acceptable to these politically sensitive institutions.
- The legalisation of lottery games brings them within the scope of taxation, which would otherwise be lost. In addition, as for all forms of regulated gaming, it ensures that market participants understand the market structure, mitigating against the operation of black markets.
- The development of the internet enables enhanced marketing and distribution of more lottery products to a greater number of customers and the offer of hybrid or omnichannel products.

United States

The United States, and more widely North America, has become the key jurisdiction for Intralot's future growth strategy.

The growth of the US lottery market has been an important contributor to the overall global lottery industry, helped by an increase in the number of authorised individual state lotteries, the games offered by those states and rising disposable income. The market is expected to grow at a CAGR of c 5% in 2022–28 as a result of further innovation and the development of iLottery.

Exhibit 8: US lottery GGR



Source: Intralot AGM 2023 presentation

The first US jurisdiction to authorise a lottery was Puerto Rico in 1934 and the most recent state to authorise a lottery was Mississippi in 2019, taking the number of lotteries to 48 (including the District of Columbia, Puerto Rico and the US Virgin Islands). The five states that do not authorise lotteries include Alabama, Utah and Nevada due to either religious concerns, a ban on all gaming, or lobbying by other forms of gaming, and Alaska and Hawaii.

Individual states regulate their own lotteries, with regulations varying state by state, while federal regulation is restricted to interstate advertising and the distribution of tickets.

In addition to physical or retail lotteries in the US, the iLottery market is developing rapidly, with a great deal of latent potential as approximately one-fifth currently have an iLottery solution. Management believes that a significant number of states are expected to legalise iLottery by 2028.

The iLottery industry is less exposed to new market entrants than other gaming markets due to the higher barriers to entry imposed by government regulations and the need for unique or tailored technology solutions. However, competition has increased from the dominance of the three main competitors in the US, including from companies such as NeoGames, which was acquired by Aristocrat Leisure in 2023.

Intralot's management is very excited about the potential of the US market as the contracts of 12 non-client states are due to be renewed before the end of 2026, with an estimated annual contract value of c US$500m. The states include smaller ones like Maine and Oregon through to the much larger states of Texas and New York. Ahead of the commencement date of a new contract, Intralot will typically need to invest in local infrastructure like offices and people, customisation of software, as well as hardware, which is either capitalised on the balance sheet and depreciated over the life of the contract or treated as a one-off sale and recognised in cost of goods sold.

Intralot's main competitors in the US, and globally, are International Game Technology (IGT) and Scientific Games. The former is publicly listed and the lottery business Scientific Games went private in 2022, taking with it the name of the larger corporation, which has been renamed Light & Wonder and is still publicly traded. Other competitors in iLottery include NeoGames.

In addition to lotteries, management is optimistic about further growth opportunities in the VLT market, where a high number of unregulated machines are operating, in addition to those that are regulated by certain states. Intralot already has a presence in this market via its lottery contracts in Ohio and Georgia, monitoring c 46k machines. A VLT is a game machine that offers a number of games and is either standalone or connected to a central gaming system. In some states, VLTs are restricted to existing wagering locations but others permit them to be located in licensed places such as bars, restaurants and racetracks. VLTs are currently regulated in 14 states. Management believes the majority of states will regulate the use of VLTs over the next three to five years.

Rest of the world

Management is clear that the US is its priority for expansion. However, there is interest in selected opportunities in other countries like Belgium, Brazil and South Africa (bidding due in February 2024).

Technology

The core of Intralot's investment case is how competitive it will be in winning new clients in an industry that is resistant to change. Management believes its core competitive advantage stems from its technology and level of support and services. At the end of December 2022, the company held 191 granted patents and there were six additional active patent applications pending in various stages.

With respect to its lottery solution, which has been deployed since 2018, management believes Intralot was the first vendor to move towards a highly modular platform and data architecture, and it remains the most modular, stable, safe and streamlined lottery solution on the market. The omnichannel solution, which serves retail and online, uses microservices-based technology. This enables fast testing and deployment of software, simpler integration of third-party services and allows operators to configure and make changes to games through the entire network more quickly and effectively. The solution is infrastructure agnostic, so each operator can choose either a full-cloud, on-premise or hybrid infrastructure. At the end of FY22, Intralot's lottery solution was deployed in 37 operations.

Intralot's sport betting solution is an all-in-one solution that fully meets the needs of managing an online and retail sportsbook, from setting odds to risk management. At the end of FY22, the betting solutions were active in 11 different operations. In addition to its focus on gaining market share in lotteries, management is committed to expanding its activities in the US sports betting market, albeit in a restrained manner given the high level of competition in the market.

In addition to software and platforms, Intralot supplies physical touchpoints to its customers (ie retailer terminals) and its ultimate end-customers (ie self-service terminals and vending machines).

Intralot is not involved in manufacturing hardware, just the sourcing of components from third-party suppliers.

The proof of the pudding is in the eating so below we list a selection of Intralot's successes since 2019 in retaining clients and winning new ones. The list of renewals and wins is even more impressive when we consider the operational and financial challenges the company has faced. Since the start of FY19, Intralot has renewed lottery contracts in North America including Louisiana, Montana, Ohio and Washington DC and won contracts in British Columbia (lottery and sportsbook), Illinois (lottery) and Ohio (sportsbook). In other countries, Intralot has renewed contracts in Argentina, Australia, Greece and Germany, and won new contracts in the Netherlands and Taiwan, among others.

Overview of Intralot's main geographic exposure

As already highlighted, at the end of FY22, Intralot had 52 individual contracts in 39 regulated jurisdictions. Its financial statements provide detailed financials for a few of its key geographies but not all. However, it provides detailed disclosure on what has happened to key contracts.

North America

Since entering the market in 2001, North America has quickly become Intralot's most important market, representing almost half of group GGR and EBITDA in FY22. Revenue has grown in most of the years shown below except FY17 (a tough comparative due to a high jackpot) and FY18 (discontinuation of a contract in South Carolina). The improvement in its EBITDA margin to 45.2% in FY22 has been helpful to the overall group margin given its significance. Noth American activities are reported predominantly within TSS, with some in MC.

Exhibit 9: North American summary financials

€m	FY16R	FY17	FY18	FY19	FY20	FY21	FY22
GGR	97.8	93.4	86.0	108.6	132.8	152.3	163.4
Growth y-o-y %	N/A	(4%)	(8%)	26%	22%	15%	6%
As % of total group GGR	19%	16%	19%	27%	45%	45%	48%
EBITDA	36.8	33.0	25.0	31.7	51.4	74.6	73.9
Margin	37.6%	35.3%	29.1%	29.2%	38.7%	49.0%	45.2%
As % of total group EBITDA	38%	35%	29%	29%	39%	49%	45%

Source: Intralot, Edison Investment Research

In the US, Intralot operates 11 contracts in 11 states, holding contracts for the supply and operation of lottery gaming systems in Arkansas, Georgia, Idaho, Illinois, Louisiana, Montana, New Hampshire, New Mexico, Ohio, Washington DC and Wyoming. It also holds a contract for the provision of central monitoring services for more than 29,000 Coin Operated Amusement Machines in Georgia. In Ohio, in addition to providing central systems, terminals, equipment, vending machines and retailer network communications, it provides central monitoring services for seven racinos operating VLTs. In May 2019, Intralot entered the Canadian market through a new contract with the British Columbia Lottery Corporation, which operates lottery on behalf of the Government of British Columbia for the provision of software, hardware and support services. FY20 marked the year when Intralot broke ground in the newly regulated and prominent US sports betting market in Montana, with the new Orion sports betting platform, followed by another solution to Washington DC in 2022.

The most significant contracts that are due to finish in the next two years include: British Columbia (May 2024 with a six-year extension option); New Hampshire (June 2025, with potential to extend), which has been a client since 2009 and renewed a number of times since then; New Mexico (November 2025, with potential to extend), which has been a client since 2007 and renewed since then; and Ohio (June 2025 with an option to extend), which has been a client since 2009 and has renewed on a number of occasions since then. After public procurement processes, contracts were not renewed in Nebraska, South Carolina and Vermont.

Australia and New Zealand

On a combined basis, Australia and New Zealand are Intralot's second most important geography from a profit perspective.

Exhibit 10: Oceania summary financials

€m	FY16R	FY17	FY18	FY19	FY20	FY21	FY22
GGR	22.8	26.3	21.0	21.3	15.3	18.9	25.1
Growth y-o-y %	N/A	15%	(20%)	1%	(28%)	24%	33%
As % of total group GGR	4%	5%	5%	5%	5%	6%	7%
EBITDA	19.9	18.7	13.0	14.1	8.9	12.6	18.1
Margin	87.3%	71.1%	61.9%	66.2%	58.2%	66.7%	72.1%
As % of total group EBITDA	12%	10%	11%	15%	13%	11%	15%

Source: Intralot, Edison Investment Research

Intralot entered the Australian market in 2006, where it continues to provide technology and support services in two jurisdictions. In Victoria, it supplies a remote monitoring system to control more than 26,000 gaming machines under a 15-year contract signed in September 2011 with the State of Victoria. In Western Australia, Intralot has provided information technology and systems support for the Lotteries Commission of Western Australia (Lotterywest). Since 2014, it has provided support services for Lotterywest in its Retail Transformation Program and secured an extension of the contract to 2026. In New Zealand, Intralot provides technology and support services, having been awarded the government contract in 2005. The contract was extended in 2016 to 2022 and in 2020 was further extended to 2025 with a one-year extension option.

Argentina

At 12% of group revenue and EBITDA in FY22, Argentina is Intralot's second most important geography from a revenue perspective and third with respect to EBITDA. With financials split between TSS and LO, it is the company's only LO contract.

Exhibit 11: Argentina summary financials

€m	FY16R	FY17	FY18	FY19	FY20	FY21	FY22
GGR	48.8	53.1	34.3	29.4	20.8	34.5	40.3
Growth y-o-y %	N/A	9%	(35%)	(14%)	(29%)	66%	17%
As % of total group GGR	9%	9%	8%	7%	7%	10%	12%
EBITDA	15.5	17.7	11.1	10.3	7.9	13.3	14.9
Margin	31.8%	33.3%	32.4%	35.0%	38.0%	38.6%	37.0%
As % of total group EBITDA	9%	10%	9%	11%	12%	12%	12%

Source: Intralot, Edison Investment Research

In Argentina, Intralot provides TSS mainly for the operation of lottery games and sports betting in 10 out of the 23 jurisdictions in the country, and LO for the province of Salta. Intralot entered the market when it acquired a majority stake (50.01%) in the subsidiary Tecno Acción, in 2007. The partners in Tecno Acción are HAPSA, which operates horse racing (and CASINO HAPSA) in Buenos Aires, and the Inverclub, which manages casinos. The TSS contracts have multiple end dates up to 2031 (there are no known operating issues) and the LO licence extends to early 2034.

The depreciation of the Argentine peso versus the euro has mostly been a negative for translation purposes. In our estimates, we assume some mitigation to currency depreciation from inflation on revenue.

Turkey

Turkey is Intralot's third most important country from a revenue perspective and fourth with respect to EBITDA.

Exhibit 12: Turkey summary financials

€m	FY16R	FY17	FY18	FY19	FY20	FY21	FY22
GGR	91.7	92.0	61.2	45.2	20.7	27.8	29.6
Growth y-o-y %	N/A	0%	(18%)	(26%)	(15%)	34%	6%
As % of total group GGR	0%	0%	13%	11%	7%	8%	9%
EBITDA	41.5	39.2	31.0	14.1	7.8	12.7	14.0
Margin	45.3%	42.6%	50.7%	31.2%	37.7%	45.7%	47.3%
As % of total group EBITDA	25%	22%	25%	15%	12%	11%	11%

Source: Intralot, Edison Investment Research

In Turkey, Intralot owns 50.01% of Bilyoner, one of the leading online distributors of sports betting games. Along with five other online providers, Bilyoner distributes the games of Spor Toto. Bilyoner was established in 2003 and its licence was renewed until the end of 2029. Following the revision of commercial terms in FY19 and the outbreak of COVID, the sports betting market has grown quickly, but results have been negatively affected by the deprecation of the Turkish lira versus the euro. Intralot used to own another subsidiary in the country, Inteltek, which was founded in 2002 as part of a consortium that managed sports betting operations. The terms of the licence renewal were unfavourable, so Intralot decided to exit it in FY19.

Management

The board of directors consists of three executive directors, including the chairman and CEO, deputy CEO and chief technology officer, as well as nine non-executive members, including the second largest shareholder, Mr Soohyung Kim.

Chairman and group CEO, Sokratis Kokkalis: Mr Kokkalis is the founder of Intralot and majority shareholder of the Intracom Group, and a significant shareholder in the company. He launched the first advanced technology hub in Greece in 1977. A leading member of the Greek business community, he is an active sponsor of leading educational, cultural and athletic initiatives in South-East Europe. With degrees in physics and electronics, he became a John Harvard Fellow in 1997 after establishing the Kokkalis Program at Harvard University’s Kennedy School of Government. In 1998 he founded the non-profit Kokkalis Foundation, a public benefit institution focusing on educational and regional development. For many years he was the president and major shareholder of Olympiacos FC, Greece’s leading football club.

Deputy CEO, Chrysostomos Sfatos: Mr Sfatos’s main areas of expertise are in strategy, communication, international relations and corporate affairs. He was appointed deputy CEO of Intralot in January 2019. Prior to that, he served as group director of corporate affairs at Intralot, chief communications officer at Intracom Holdings, executive director of the Kokkalis Foundation and member of the board of directors of Athens Information Technology Center. He holds a PhD in chemistry from Harvard University and a bachelor's degree from the University of Athens.

Group CFO, Andreas Chrysos: Mr Chrysos has been Intralot’s CFO since 2019, having previously served as group’s budgeting and controlling director. Prior to joining Intralot, he held senior management positions in major telecom companies including Vodafone and Hellas Online. He holds a bachelor's degree in economics from the National & Kapodistrian University of Athens, as well as an MSc in international business & finance from the University of Reading.

Sensitivities

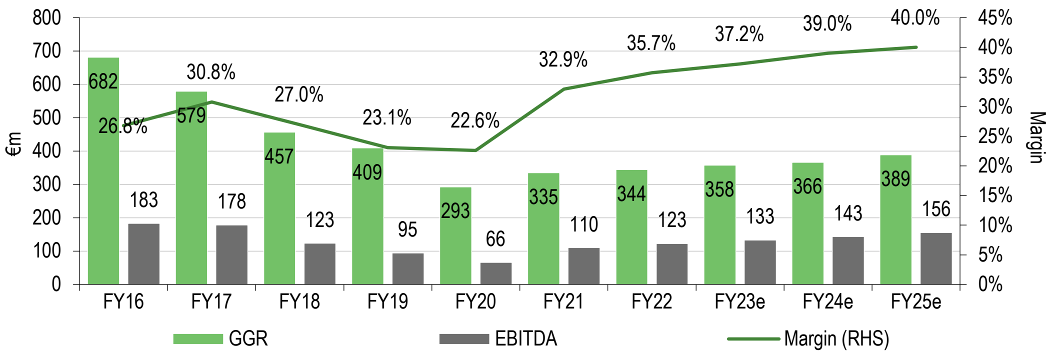
Intralot operates across many geographies with a number of key long-term contracts. It has good opportunities to increase market share in the US and win new contracts in new geographies as it has emerged from a focus on managing its financial position. We see the main risks that face the company as:

- **Retaining and winning new contracts:** Intralot has a relatively concentrated customer base, therefore failure to renew contracts with existing customers would negatively affect profitability. Similarly, the growth of the business depends on its ability to procure new contracts.
- **Regulation compliance and changes:** the lottery and gaming industries are heavily regulated and are vulnerable to changes in the regulatory framework, including changes in taxes and levies in the countries in which Intralot operates. Failure to comply with regulatory changes may result in the revocation or suspension of licences.
- **Competition:** Intralot's most significant competitors for US lottery contracts have a much greater market capitalisation and therefore potentially have more firepower to deploy. We would observe that Intralot has proved to be very successful at taking market share over the long term from its larger competitors. The introduction of iLottery services presents the opportunity for new competition to enter the market with lower investment requirements.
- **Technology changes and security:** the competitive positions of the companies in the sector are driven by technological improvements. A heavy reliance on technology means Intralot is vulnerable to cyberattacks, outages and data breaches etc, which could be harmful for its reputation.
- **Foreign currency exposure:** the majority of Intralot's revenues are earned outside Greece and the European Union, and it is therefore exposed to changes in foreign exchange rates versus the euro. In FY22, the European Union represented c 22% of revenue, while the Americas accounted for 60% of revenue. Although Intralot is required to have a local presence where it has contracts, which provides some natural hedging to changes in exchange rates, its head office and development and therefore greater cost is located in Greece. Argentina and Turkey, countries with higher-than-average currency volatility, represented 10% and 9% of group EBITDA in FY22, respectively.
- **Geographic expansion:** the potential expansion into new countries presents new execution, regulation, political and economic risks.
- **Exposure to consumer expenditure and preferences:** a reduction in discretionary consumer spending, including as a result of local or global pandemics, or changes in consumer preferences to other forms of entertainment or gaming, could adversely affect Intralot's revenues, albeit lottery revenue has proved relatively resilient to changes in economic conditions.
- **Failure to perform to contract service levels:** Intralot is subject to penalties for failure to meet the required performance levels of its contracts.
- **Significant shareholders and limited free float:** Intralot has a number of significant shareholders: the chairman and group CEO, Sokratis Kokkalis (20.5%); Intracom Holdings, (7.1%), which is majority owned by Sokratis Kokkalis; and a strategic investor, CQ Lottery, a company ultimately controlled by Standard General Management, a fund specialising in the gaming sector, and led by Soohyung Kim Lottery (26.9%). Mr Kim is a non-executive member of the board of directors and the managing partner and chief investment officer of Standard General. He has worked in the hedge fund industry since 1997, specialising in distressed and special situations investing. Prior to founding Standard General in 2007, he was one of the founding partners and director of research of Cyrus Capital Partners, a principal at Och-Ziff Capital Management and an analyst at the Bankers Trust Company. Mr Kim currently serves as chairman of the board of directors of Bally's Corporation (NYSE: BALY). He also serves as a director of Pursuit Transformation Company, a director and treasurer of the Cary Institute of Ecosystem Studies and president of the Stuyvesant High School Alumni Association.

Financials

Income statement: Revenue recovery, margin at new highs

Exhibit 13: Key financials



Source: Intralot

We have already highlighted the benefits of the long-term contracts to Intralot's revenue visibility and the long-term growth potential of the global core lottery markets. We have taken a cautious stance in our financial projections, assuming c 2% growth in mature markets through 2024 and 2025, and slightly higher growth in markets such as Turkey, before increasing the estimated growth rates for the US to 4% thereafter, which are conservative versus the projected 4–5% market growth rates we saw earlier.

With c 78% of FY22 revenue generated outside the European Union, Intralot's financial results are naturally exposed to changes in foreign exchange rates. For most countries, a required local presence and cost base mitigates some of the foreign currency exposure, but there is some mismatch in costs, ie the company's headquarters and development are in Greece, where it believes it has a cost advantage relative to its competitors. Intralot's segmental disclosure indicates that Greece is loss-making at the EBITDA level given it bears the central costs. Its exposure to Argentina (12% of FY22 GGR) and Turkey (c 9% of FY22 GGR) present some variability to the income statement, which is difficult to estimate. The currency depreciation in Argentina has been nothing short of eyewatering from the end of 2023; there are currently c 895 Argentine pesos to the euro versus c 400 in November 2023. We assume that price inflation will mitigate some of the expected currency weakness.

In addition to the above, we highlight that FY23 GGR will be affected by the termination of the Maltese LO (c €44m) and FY24 will see the loss of revenue from a one-off equipment sale in Taiwan. The TSS contract in Morocco was renewed again in January 2024 and has been extended until the end of December 2025. The company entered Morocco in 2010 and supports the operation of all games of the Moroccan lottery. The Moroccan contact provided c €14m in GGR in FY22 and EBITDA of €3m, making it a relatively small (and below-average EBITDA margin) relationship for Intralot.

As a result, we forecast growth in GGR of c 2% in FY24 to €366m and 6% growth in FY25 to €389m. Beyond these known new contracts and the end of existing contracts, the next two years (ie FY24 and FY25) will see the end of contracts with options to extend in most of the following countries: Australia (part of the contract from January 2025), Ireland (November 2024), Malaysia (December 2024), the Netherlands (from June 2024 and December 2025), New Hampshire (June 2025), New Mexico (November 2025), New Zealand (from May 2025), Ohio (June 2025 with an option to extend), Peru (November 2024) and the Philippines (September 2024), which represent just under one-quarter of Intralot revenue and other operating income.

We assume continued growth in the EBITDA margin, as management continues to keep a tight control on costs, and Intralot should enjoy some operating leverage as the mix of contracts improves. We forecast that the EBITDA margin (on GGR) will increase to 39% in FY24 and 40% in FY25, giving y-o-y EBITDA growth of c 7 and 9%, respectively.

We forecast an improvement in Intralot's financial position (see below), which should enable it to refinance debt at more favourable interest rates and lead to lower net financial charges over time.

The high effective tax rate (36% in FY22) reflects the differing levels of profitability in the various countries in which it operates and is high versus the Greek effective corporate tax rate of 22%. We assume a gradual moderation of the effective tax rate in our forecasts, but that it will remain higher than the Greek standard rate.

Improved cash generation and financial position

The operational refocus and cost savings achieved by management since the COVID pandemic have produced the required improvement in profitability and free cash generation, the latter to significantly higher levels, relative to GGR, than previously.

Exhibit 14: Summary cash flow

	FY17	FY18	FY19	FY20	FY21	FY22	FY23e	FY24e	FY25e
Relative to GGR:									
Operating cash flow pre-interest	27%	19%	15%	13%	32%	28%	34%	35%	34%
PBT	4%	11%	(15%)	(33%)	9%	10%	8%	12%	16%
Depreciation and amortisation	11%	14%	20%	23%	21%	20%	18%	17%	16%
Working capital	0%	(7%)	(3%)	(3%)	(4%)	(5%)	(1%)	(1%)	(1%)
Tax paid	(6%)	(5%)	(3%)	(5%)	1%	(4%)	(2%)	(3%)	(4%)
Investing cash flow	(8%)	(18%)	14%	(12%)	(3%)	(43%)	(10%)	(11%)	(11%)
Capex	(13%)	(23%)	(14%)	(12%)	(7%)	(8%)	(11%)	(12%)	(13%)
Free cash flow before interest	8%	(9%)	(6%)	(1%)	24%	20%	19%	18%	16%
Net interest	(8%)	(9%)	(11%)	(15%)	(16%)	(11%)	(10%)	(9%)	(8%)
Net debt including leases (€m)	510.7	615.3	594.1	651.1	497.2	490.5	333.6	304.0	274.6
Net debt EBITDA (x)	2.9	5.0	6.3	9.8	4.5	4.0	2.5	2.1	1.8

Source: Intralot, Edison investment Research

Management believes its technology base is well invested, but major new contracts would be accompanied by an increase in capex ahead of the contracts beginning. With respect to working capital, all customers are invoiced monthly and collections from customers are typically received within 30–60 days. Bad debts should not be a big issue given the nature of its client base.

The company's net debt position has been further helped by equity raises in July 2022 (€129m gross) and November 2023 (€135m gross) as well as repaying outstanding debt, helping to reduce net debt significantly from the uncomfortable levels of 9.8x EBITDA at the end of FY20 to 4.0x by the end of FY22.

By the end of Q323, continued good free cash generation had helped to further improve Intralot's net debt including leases position to c €458m from €491m at the end of FY22, which included gross financial debt (excluding leases) as follows:

Exhibit 15: Gross debt at 30 September 2023

	€m
Facility B – 5.25% due September 2024	354.4
Bank loan	12.1
Revolving credit facility	0.0
Other	1.1
Less than one year	**367.6**
Supplemental indenture	2.1
Bank loan – due July 2025	193.4
Revolving credit facility	4.3
Other	0.0
Greater than one year	**199.7**
Total debt	**567.3**

Source: Intralot

In the final quarter of 2023, Intralot completed its second equity raise (€135m mentioned above) and redeemed c €126m of the senior notes that were due in 2024. In December 2023 it announced a binding agreement for a syndicated bond loan of up to €100m with a consortium of five Greek banks, whereby two will act as lead arrangers under the main condition of a successful issuance of a retail bond of a minimum amount of €130m to be listed on the Athens Stock Exchange. The proceeds will be used to repay the outstanding amount of the senior notes due in September 2024. At the end of Q323, the company had cash resources of €122m, equivalent to c 17% of Intralot's current market capitalisation.

From a balance sheet perspective, the cumulative net attributable losses that were suffered from FY17 through FY20 took Intralot's net assets into negative territory from FY19 to FY22. We estimate the November 2023 equity raise should contribute to moving shareholders' equity back into positive territory by the end of FY23, but retained earnings remain firmly negative, with a loss of €234m at the end of Q323.

In addition to the strong cash position, the most significant assets on the balance sheet are intangibles, mainly licences and capitalised development costs, and tangible assets.

Valuation

Conservative valuation suggests at least 38% upside

We look at Intralot's valuation from three perspectives. Our discounted cash flow (DCF)-based valuation would suggest good upside from the current share price even with conservative assumptions. Relative to its own history, Intralot is trading at a deserved premium given its high profitability and free cash generation. A comparison with the peer group is a little more challenging given the wide range of multiples for the companies, likely reflecting their different industry exposures.

Discount to conservatively struck DCF

In order to capture the potential long-term growth of the business and test the sensitivity of Intralot's valuation to potential contract wins we use a DCF-based valuation model. Our 'base case' valuation is cautiously struck, with no potential new contracts included and capex at a normalised level of €50m pa with a CAGR for revenue of c 2.5%, which is below the estimated growth rates for the global and US lottery markets, through to our terminal year of 2033. These assumptions along with an estimated WACC of 8.5% and a terminal growth rate of 2% indicate a valuation of €1.62/share, suggesting attractive upside to the share price before considering the upside opportunity from winning new contracts. Our WACC includes a cost of equity of 10.4% (Greek bond yield of 3.4%, beta of 0.85 (source: Refinitiv) and an equity risk premium of 8.3% (source: Damodaran)) and a pre-tax cost of debt 6.5%. The sensitivity of the valuation to changes in the WACC and terminal growth are shown below:

Exhibit 16: Base case DCF sensitivity (€ per share)

		WACC				
		7.5%	8.0%	**8.5%**	9.0%	9.5%
Terminal growth rate	0%	1.58	1.43	1.30	1.19	1.08
	1%	1.77	1.59	1.44	1.30	1.18
	2%	2.04	1.81	**1.62**	1.45	1.31
	3%	2.43	2.12	1.87	1.66	1.48
	4%	3.04	2.58	2.22	1.94	1.71

Source: Edison Investment Research

Determining the upside from potential new contract wins obviously comes with a health warning. First, there is no visibility as to whether Intralot will be successful at all, but its long-term success in the US and other markets suggests the assumption of new wins is likely to be too pessimistic. Secondly, there is a significant difference in the annual values of the individual contracts that are due to renew before the end of 2026. The 12 contracts that are due to renew in the next three years range in value from a few million dollars per year to well over US$200m pa, although the majority are in the range of US$10–20m pa. The addition of €25–40m of revenue in the US (remember the company is targeting more than just new lottery contracts in the US), in each year from FY25–28 (on an FY22 base of €163m in North America) and €5–10m pa in international markets, along with a necessary increase in capex, would provide a meaningful boost in the valuation to €2.40 per share.

Exhibit 17: Optimistic DCF sensitivity (€ per share)

		WACC				
		7.5%	8.0%	**8.5%**	9.0%	9.5%
Terminal growth rate	0%	2.34	2.14	1.96	1.80	1.66
	1%	2.62	2.37	2.15	1.96	1.80
	2%	2.99	2.67	**2.40**	2.17	1.97
	3%	3.53	3.10	2.75	2.45	2.21
	4%	4.38	3.74	3.24	2.85	2.52

Source: Edison Investment Research

Peer valuations

Intralot does not have a high number of directly comparable peers (ie whose primary business focus is lotteries). Its closest direct peer is IGT following the sale by the newly named Light & Wonder of its lottery business, now named Scientific Games, to a private company, but IGT also operates in a number of other gaming-related areas where Intralot does not have a presence. There are a number of other technology providers to the wider gaming sector, with different geographic exposures and client relationships.

Exhibit 18: Peer valuation table

	Share price	Ccy	Market value (local m)	MV (€m)	EV (local m)	Revenue growth (%)		EBITDA growth (%)		EBITDA margin (%)		EV/Sales (x)		EV/EBITDA (x)	
						2024e	2025e	2024e	2025e	2024e	2025e	2024e	2025e	2024e	2025e
International Game Technology	25.86	USD	5,184	4,821	10,932	3	3	5	5	42.1	42.8	2.5	2.4	5.9	5.6
Aristocrat Leisure	43.86	AUD	28,015	16,993	27,538	6	6	6	7	33.9	34.5	4.1	3.8	12.0	11.1
Evolution AB	1285.4	SEK	277,138	24,547	23,654	17	16	18	17	70.4	70.9	11.2	9.6	15.9	13.5
Gaming Innovation Group	29.95	NOK	3,833	337	362	33	17	40	14	49.1	47.9	2.2	1.9	4.4	3.9
Inspired Entertainment Inc	9.29	USD	245	228	498	(4)	4	3	2	35.7	35.2	1.6	1.6	4.6	4.5
Kambi	137.8	SEK	4,261	377	328	9	6	13	7	34.0	34.2	1.7	1.6	5.0	4.7
Light & Wonder	82.3	USD	7,411	6,891	10,584	8	8	10	11	39.0	40.1	3.4	3.2	8.8	7.9
Play AGS	8.83	USD	342	318	853	3	4	4	5	45.0	45.2	2.3	2.2	5.2	5.0
Playtech	455.8	GBP	1,402	1,643	1,834	5	5	8	7	25.7	26.2	1.0	1.0	4.0	3.7
Average - gaming technology						**9**	**8**	**12**	**8**	**41.7**	**41.9**	**3.3**	**3.0**	**7.3**	**6.7**
Median - gaming technology						**6**	**6**	**8**	**7**	**39.0**	**40.1**	**2.3**	**2.2**	**5.2**	**5.0**
La Francaise des Jeux	38.56	EUR	7,356	7,356	7,030	8	9	9	6	24.6	23.8	2.5	2.3	10.2	9.6
Lottomatica Group	11.048	EUR	2,780	2,780	4,109	11	8	13	12	36.1	37.2	2.3	2.1	6.3	5.6
OPAP	16.42	EUR	6,076	6,076	6,022	5	4	5	3	35.9	35.6	2.8	2.7	7.8	7.5
Zeal Networks	31	EUR	693	693	651	11	10	27	21	32.7	36.0	5.1	4.7	15.6	12.9
Average - lottery operators						**9**	**8**	**14**	**10**	**32.3**	**33.2**	**3.2**	**2.9**	**10.0**	**8.9**
Median - lottery operators						**9**	**9**	**11**	**9**	**34.3**	**35.8**	**2.6**	**2.5**	**9.0**	**8.6**
Intralot	1.17	EUR	707	707	1,033	2	6	7	9	39.0	40.0	2.8	2.7	7.2	6.6

Source: Edison Investment Research, Refinitiv. Note: Priced at 7 February 2024

The gaming technology and lottery operator peers all enjoy high levels of profitability, with EBITDA margins typically 30% and over. Intralot's prospective EV/EBITDA multiples of 7.2x and 6.6x are broadly in line with the average multiples for the gaming technology peers but below the lottery operators, which both have a wide range of multiples. Stripping out the more extreme multiples from each peer group, Intralot's EV/EBITDA multiples for FY24 and FY25 are at a premium to the median of the gaming technology companies, but below the median multiple for the operators.

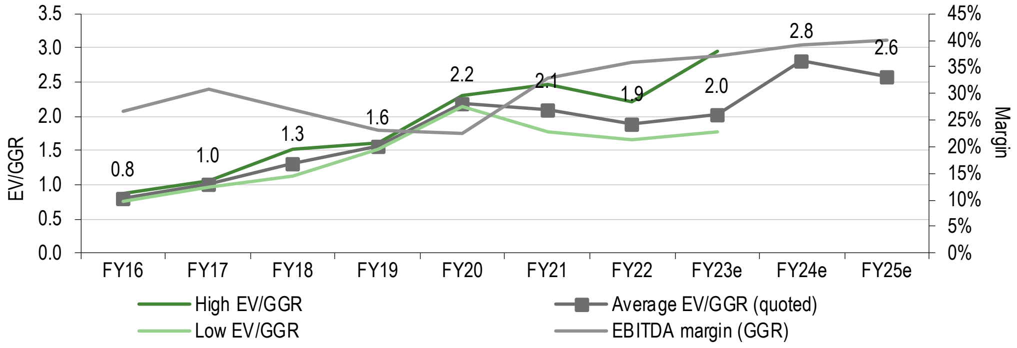
There has been a high level of M&A in the sector in the gaming technology space in recent years at a good premium to uninterrupted share prices. In January 2024, La Française des Jeux announced the acquisition of Kindred Group for a multiple of 10.9x underlying EBITDA. In May 2023, Aristocrat Leisure announced the acquisition of NeoGames for a multiple of c 15x adjusted EBITDA for the 12 months ended December 2023. In April 2022 Light & Wonder completed the sale of its lottery business to Brookfield Business Partners for US$5.7bn gross cash proceeds (11.4x) or c U$5bn after tax for US$0.5bn of adjusted EBITDA in the year ended December 2021.

Deserved premium to its own historical multiples

Over the long term, there has been a huge swing in Intralot's valuation, which reflected a high level of optimism for its prior geographic expansion before a more recent high level of pessimism as its financial performance declined and gearing increased. We would argue the company deserves a higher multiple than historically given the much higher expected profitability and cash conversion.

Below we show Intralot's historical high, average (figure quoted) and low EV/GGR multiples along with its prospective multiples for FY23, FY24 and FY25. The chart only goes back to FY16 as the company did not disclose winners' payout prior to that, so it is not possible to calculate GGR before FY16. We estimate that Intralot's EBITDA margin will increase towards 40% in FY24 and FY25 versus its historical margins, which reached as low as c 23% in FY19 and FY20.

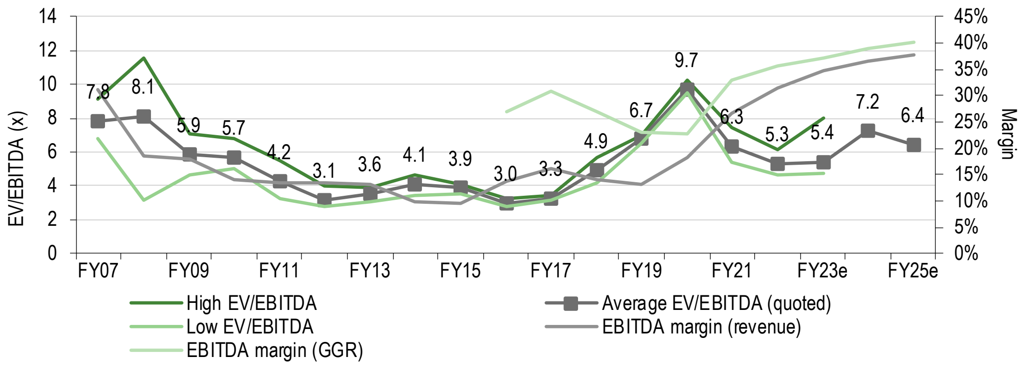
Exhibit 19: EV/GGR multiple versus EBITDA margin



Source: Intralot, Edison Investment Research, Refinitiv. Note: Priced 7 February 2024.

We can take a much longer-term view when looking at Intralot's EV/EBITDA multiple as the disclosure is more helpful. The prospective multiples for FY24 and FY25 of 7.2x and 6.4x are at rightful premium to its historical average since FY07 of 5.1x, after excluding FY20 when the valuation was heavily skewed by the outbreak of COVID-19. While we mostly ignore reported revenue in this report, we would highlight that Intralot's EBITDA margin on revenue, not GGR, of c 37% is significantly higher than the low- to mid-teens margins reported since FY08, and as we showed earlier, its free cash generation relative to GGR is higher, which is supportive of a higher valuation than historically.

Exhibit 20: EV/EBITDA multiple versus EBITDA margin

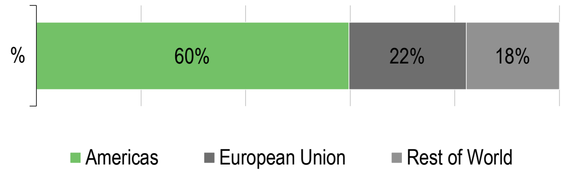


Source: Intralot, Edison Investment Research, Refinitiv. Note: Priced 7 February 2024.

Exhibit 21: Financial summary

€m	2019	2020	2021	2022	2023e	2024e	2025e
Year end 31 December	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT							
Gross gaming revenue	409.2	292.9	335.3	343.9	357.9	366.4	389.0
Costs	(314.6)	(226.7)	(224.9)	(221.1)	(224.8)	(223.5)	(233.4)
EBITDA	94.5	66.2	110.4	122.9	133.1	142.9	155.6
Normalised operating profit	11.9	(2.3)	39.4	52.8	68.3	79.1	93.5
Amortisation of acquired intangibles	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Exceptionals	(6.8)	(6.8)	(17.2)	(1.2)	0.0	0.0	0.0
Share-based payments	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reported operating profit	5.1	(9.1)	22.2	51.6	68.3	79.1	93.5
Net Interest	(48.0)	(48.4)	(13.6)	(36.7)	(39.0)	(34.0)	(32.0)
JVS and associates	(17.5)	(1.5)	0.2	0.3	0.0	0.0	0.0
Exceptionals	(10.2)	(35.1)	28.2	14.6	0.0	0.0	0.0
Profit Before Tax (norm)	(53.6)	(52.2)	26.0	16.3	29.3	45.1	61.5
Profit Before Tax (reported)	(70.6)	(94.1)	37.1	29.8	29.3	45.1	61.5
Reported tax	(19.2)	(7.2)	(4.4)	(10.8)	(13.6)	(20.1)	(24.3)
Profit After Tax (norm)	(68.2)	(56.2)	23.0	10.4	15.7	25.0	37.2
Profit After Tax (reported)	(89.8)	(101.3)	32.7	19.0	15.7	25.0	37.2
Minority interests	(22.1)	(3.1)	(6.0)	(12.6)	(13.3)	(17.5)	(19.9)
Discontinued operations	7.7	(1.8)	(9.2)	5.6	0.0	0.0	0.0
Net income (normalised)	(90.3)	(59.4)	16.9	(2.2)	2.4	7.5	17.3
Net income (reported)	(104.2)	(106.3)	17.5	11.9	2.4	7.5	17.3
Basic average number of shares outstanding (m)	147.8	147.8	148.3	244.0	410.1	604.1	604.1
EPS - normalised (c)	(61.10)	(40.19)	11.42	(0.91)	0.57	1.25	2.87
EPS - normalised fully diluted (c)	(61.10)	(40.19)	11.42	(0.91)	0.57	1.25	2.87
EPS - basic reported (€)	(0.71)	(0.72)	0.12	0.05	0.01	0.01	0.03
Dividend (€)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Revenue growth (%)	(10.5)	(28.4)	14.5	2.6	4.1	2.4	6.2
EBITDA Margin (%)	23.1	22.6	32.9	35.7	37.2	39.0	40.0
Normalised Operating Margin	2.9	(0.8)	11.7	15.4	19.1	21.6	24.0
BALANCE SHEET							
Fixed Assets	459.0	371.7	376.5	381.0	359.1	343.3	333.2
Intangible Assets	242.9	202.0	204.3	208.6	193.9	180.5	168.1
Tangible Assets	168.7	134.3	123.2	113.8	106.6	104.2	106.5
Investments & other	47.4	35.4	49.0	58.6	58.6	58.6	58.6
Current Assets	338.5	277.1	231.1	236.1	263.5	296.4	334.6
Stocks	35.6	25.7	18.7	23.9	24.9	25.5	27.1
Debtors	131.7	151.4	105.0	109.8	114.3	117.0	124.2
Cash & cash equivalents	171.1	100.0	107.3	102.4	124.3	153.9	183.3
Other	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Current Liabilities	(135.7)	(370.4)	(115.9)	(105.7)	(107.0)	(106.5)	(110.0)
Creditors	(91.8)	(89.5)	(89.2)	(78.3)	(79.6)	(79.1)	(82.6)
Tax and social security	(3.1)	(3.4)	(5.6)	(0.8)	(0.8)	(0.8)	(0.8)
Short term borrowings and leases	(37.9)	(274.9)	(16.5)	(22.5)	(22.5)	(22.5)	(22.5)
Other	(2.9)	(2.6)	(4.6)	(4.2)	(4.2)	(4.2)	(4.2)
Long Term Liabilities	(754.9)	(497.6)	(607.1)	(599.1)	(470.9)	(481.0)	(488.3)
Long term borrowings and leases	(727.4)	(476.2)	(588.0)	(570.4)	(435.4)	(435.4)	(435.4)
Other long term liabilities	(27.6)	(21.5)	(19.2)	(28.8)	(35.6)	(45.6)	(52.9)
Net Assets	(93.2)	(219.1)	(115.5)	(87.7)	44.6	52.2	69.5
Minority interests	0.2	3.7	8.0	20.2	20.2	20.2	20.2
Shareholders' equity	(93.0)	(215.4)	(107.5)	(67.5)	64.8	72.4	89.7
CASH FLOW							
Op Cash Flow before WC and tax	19.8	(27.1)	100.4	105.4	94.1	108.9	123.6
Working capital	(12.1)	(8.1)	(12.3)	(16.7)	(4.1)	(3.7)	(5.3)
Exceptional & other	67.9	87.4	15.6	19.8	39.0	34.0	32.0
Tax	(14.3)	(14.5)	3.8	(12.2)	(6.8)	(10.0)	(17.0)
Net operating cash flow	61.3	37.7	107.6	96.3	122.2	129.1	133.3
Capex	(55.0)	(35.9)	(22.9)	(26.5)	(40.0)	(45.0)	(50.0)
Acquisitions/disposals	98.4	(3.5)	10.3	(125.1)	0.0	0.0	0.0
Net interest	(44.0)	(43.8)	(54.4)	(38.5)	(37.0)	(32.0)	(30.0)
Equity financing	(10.6)	0.0	0.1	128.9	130.0	0.0	0.0
Dividends	(41.7)	(8.5)	(6.5)	(3.7)	(13.3)	(17.5)	(19.9)
Other	(1.7)	(11.9)	(23.1)	(32.6)	(140.0)	(5.0)	(4.0)
Net Cash Flow	6.8	(65.8)	11.1	(1.3)	21.9	29.6	29.4
Opening net debt/(cash) including leases	615.3	594.1	651.1	497.2	490.5	333.6	304.0
FX	1.9	(5.3)	(3.8)	(3.7)	0.0	0.0	0.0
Other non-cash movements	(29.8)	128.1	(161.3)	(1.8)	(178.8)	(59.2)	(58.8)
Closing net debt/(cash) including leases	594.1	651.1	497.2	490.5	333.6	304.0	274.6

Source: Intralot accounts, Edison Investment Research

Contact details	Revenue by geography (FY22)
19 km, Markapoulou Avenue Peania Attica, Greece, 19002 +30 210 615 6000, +30 213 039 7000 www.Intralot.com	

Management team

Chairman and Group Chief Executive Officer: Sokratis P Kokkalis

Mr Kokkalis is the founder of Intralot and majority shareholder of the Intracom Group, a significant shareholder in the company. He launched the first advanced technology hub in Greece in 1977. A leading member of the Greek business community, he is an active sponsor of leading educational, cultural and athletic initiatives in South-East Europe. With degrees in physics and electronics, he became a John Harvard Fellow in 1997 after establishing the Kokkalis Program at Harvard University's Kennedy School of Government. In 1998 he founded the non-profit Kokkalis Foundation, a public benefit institution focusing on educational and regional development. For many years he was the president and major shareholder of Olympiacos FC, Greece's leading football club.

Deputy Chief Executive Officer: Chrysostomos Sfatos

Mr Sfatos's main areas of expertise are in strategy, communication, international relations and corporate affairs. He was appointed deputy CEO of Intralot in January 2019. Prior to that, he served as group director of corporate affairs at Intralot, chief communications officer at Intracom Holdings, executive director of the Kokkalis Foundation and member of the board of directors of Athens Information Technology Center. He holds a PhD in chemistry from Harvard University and a bachelor's degree from the University of Athens.

Group Chief Financial Officer: Andreas Chrysos

Mr Chrysos has been Intralot's CFO since 2019, having served previously as the group's budgeting and controlling director. Prior to joining Intralot he held senior management positions in major telecom companies including Vodafone and Hellas Online. He holds a bachelor's degree in economics from the National and Kapodistrian University of Athens as well as an MSc in international business and finance from the University of Reading.

Principal shareholders	(%)
Sokratis P Kokkalis (20.5%) and Intracom Holdings (controlled by Mr Kokkalis) (7.1%)	27.6
CQ Lottery	26.9
EFG Bank	1.4
State Street Global Advisors	0.5
Norges Bank Investment Management	0.4

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