

Rating Action: Moody's assigns B2 instrument rating to the new senior secured PIK toggle notes issued by Intralot, Inc.

28 Sep 2021

Paris, September 28, 2021 -- Moody's Investors Service ("Moody's") assigned a B2 instrument rating to the new USD242 million guaranteed senior secured PIK toggle notes due 2025 and issued by Intralot, Inc.. The notes have been issued as part of the exchange offer of the outstanding EUR250 million backed senior unsecured notes due 2021 and issued by Intralot Capital Luxembourg S.A.. The outlook is stable.

RATINGS RATIONALE

The new USD242 million guaranteed senior secured PIK toggle notes due 2025 are at the Intralot, Inc. level, the US subsidiary of the consolidated group, and part of a restricted group, which is ring-fenced from the Rest of the World group.

Intralot, Inc. is the largest EBITDA contributor of the consolidated group and will generate most of the group's consolidated cash flow. The company's North American subsidiaries reported EUR51 million of EBITDA in 2020 and EUR41 million in H1 21, representing around two thirds of consolidated EBITDA. At the same time, Intralot, Inc. will only have issued the USD242 million guaranteed senior secured PIK toggle notes, which roughly represent a third of the group's consolidated debt.

The rating action therefore reflects the higher credit quality of Intralot, Inc. on a standalone basis with a Moody's-adjusted leverage forecast below 4.0x in December 2021 and a positive free cash flow generation of EUR25-30 million in 2021.

The company's recent results evidence the positive trajectory in the company's underlying business as it almost doubled EBITDA in North America in the first half of 2021, compared to the same period last year. Furthermore, there are no contracts up for renewal until 2024, which gives a certain degree of revenue visibility and will improve earnings stability.

Intralot S.A.'s rating remains constrained by the complexity of its capital structure with a high reliance on the cash flows from the company's US operations and reliance on the operating services that the company's Rest of the World business provides.

LIQUIDITY

Moody's considers Intralot, Inc.'s liquidity to be adequate. The company reported EUR19 million of cash and cash equivalents as of June 2021 and we expect EUR25-30 million of free cash flow generation in 2021.

Intralot S.A.'s cash flow will be primarily generated by Intralot, Inc. as Moody's projects that the company's Rest of the World restricted group will continue to burn cash in 2021 and 2022. Therefore, Moody's estimates that the servicing of the 2024 backed senior unsecured notes will be heavily reliant on cash being upstreamed from Intralot, Inc. to Intralot Global Holdings B.V.. This is allowed by the 2025 PIKs documentation and is subject to a 3.75x net leverage test and a USD20 million minimum liquidity test.

Moody's notes that there is no revolving credit facility nor financial covenants.

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

Positive rating pressure on the corporate family rating (CFR) could arise if:

- The company successfully refinances or repays its 2024 SUNs debt maturity, while keeping adequate liquidity;
- Moody's-adjusted gross leverage remains sustainably below 6.0x and leverage on a proportionate basis declines below 8.0x;
- Moody's-adjusted FCF returns to being sustainably positive across the two restricted groups.

Negative rating pressure on the CFR could arise if:

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

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

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was Gaming published in June 2021 and available at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1276316 . Alternatively, please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

COMPANY PROFILE

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

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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