

Intralot

Improved growth in Q224

Intralot reported better year-on-year growth in revenue and EBITDA in Q224 than Q124, although foreign currency headwinds – notably from Argentina and Turkey – continued to dampen reported growth rates. Post period end, Intralot signed three-year contract extensions in the Netherlands and Ireland, highlighting the strength of its offering. In addition to retaining clients, the company is proactive in attempting to win a number of new contracts in North America and Australia.

Year end	GGR* (€m)	EBITDA** (€m)	PBT** (€m)	EPS** (€)	EV/EBITDA (x)	P/E (x)
12/22	343.9	122.9	16.3	(0.01)	8.1	N/A
12/23	348.6	129.5	26.1	0.01	7.6	166.5
12/24e	352.2	132.1	37.4	0.02	7.5	66.3
12/25e	365.8	142.6	51.8	0.03	6.9	34.2

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

Q224 better than Q124

On a reported basis, revenue increased by c 3% y-o-y in Q224 and EBITDA increased by 1%, a good step-up versus Q124's declines of c 5% and c 11%, respectively. The currencies of most countries in which Intralot operates depreciated versus the euro in Q224, beyond the quantified negative impact from the Argentine peso in the period, suggesting good underlying growth of c 6%. From a profitability perspective, North America and Croatia stood out on the positive side. On the negative side, marketing investment in Turkey to drive market share gains and depreciation of the Argentine currency weighed on profitability.

Marketing investment tempers profit growth

We have updated our forecasts to include the new contract wins in Ireland and the Netherlands, a more prudent forecast for profitability in Turkey and changes in foreign exchange rates. These result in low- to mid-single-digit downgrades in EBITDA for FY24–25 (see Exhibit 4). In recent months, Intralot has submitted proposals for lottery contracts in Australia, Quebec and Ontario and video lottery terminal (VLT) monitoring in Illinois. In the next few months, it is likely to submit proposals for lottery contracts in Missouri, West Canada and Maryland, and a small VLT project in Nebraska. Success in any of these contracts would naturally be helpful for forecasts.

Valuation: Attractive versus DCF-based valuation

The changes to our estimates and a lower estimated WACC of 8% versus 8.5% previously have led to an increase in our DCF-based valuation to €1.70 per share, from €1.60 per share previously, suggesting attractive upside in the absence of any new contract wins. Relative to its gaming technology peers, Intralot's prospective EV/EBITDA multiple is broadly in line with the average multiples, but at a premium to the median multiple.

Q224 results

Travel and leisure

16 September 2024

Price €1.11
Market cap €671m

Net debt (€m) at 30 June 2024 (excluding IFRS 16 liabilities) 362.2

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	1.8	(0.2)	77.1
Rel (local)	1.2	3.0	57.0

52-week high/low €1.29 €0.56

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

Q324 results	November 2024
FY24 results	March 2025

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Income statement: Better momentum in Q224

Intralot enjoyed better momentum in its Q224 results from the revenue line down to the EBITDA line versus the prior quarter, albeit a slightly easier comparative from the prior year than Q124.

Group revenue grew by c 3% y-o-y to €88.5m (following the c 5% decline in Q124), GGR increased by c 4% to €83.6m (vs a 2% decline in Q124), gross profit increased by c 8% to €32.7m (vs 1% growth in Q124) and EBITDA increased by 1% to €29.4m (vs an 11% decline in Q124). These took H124 revenue to a marginal decline of c 1% and an EBITDA decline of c 5%. The c 15% y-o-y decline in operating income to €11.4m in Q224 includes a higher depreciation and amortisation charge due to timing effects from hyperinflation in Turkey.

Exhibit 1: Summary income statement

€m	Q123	Q223	H123	Q124	Q224	H124
Revenue	89.5	85.8	175.3	85.1	88.5	173.6
Growth y-o-y	(8.4%)	(20.0%)	(14.4%)	(4.8%)	3.1%	(0.9%)
– Technology & Support Services	61.4	62.1	123.5	60.4	61.2	121.7
Growth y-o-y	11.4%	(1.2%)	4.7%	(1.6%)	(1.4%)	(1.5%)
– Management Contracts	16.9	12.9	29.8	18.3	19.0	37.3
Growth y-o-y	54.2%	19.2%	36.7%	8.8%	47.1%	25.4%
– Licensed Operations	11.2	10.8	22.0	6.4	8.2	14.6
Growth y-o-y	(64.5%)	(67.8%)	(66.2%)	(43.2%)	(23.6%)	(33.6%)
Gross gaming revenue (GGR)	83.4	80.2	163.6	81.7	83.6	165.3
Growth y-o-y	4.5%	(9.6%)	(2.9%)	(2.0%)	4.2%	1.1%
Gross profit	32.5	30.4	62.9	32.9	32.7	65.6
Gross margin on GGR	39.0%	37.9%	38.5%	40.3%	39.1%	39.7%
Growth y-o-y	29.3%	(2.4%)	11.8%	1.0%	7.6%	4.2%
EBITDA	33.7	29.1	62.8	30.1	29.4	59.5
Growth y-o-y	29.2%	0.4%	14.0%	(10.7%)	1.0%	(5.3%)
Margin on revenue	37.7%	33.9%	35.8%	35.4%	33.2%	34.3%
Margin on GGR	40.5%	36.3%	38.4%	36.9%	35.2%	36.0%
Operating income	17.6	13.3	30.9	11.7	11.4	23.0
Growth y-o-y	102.6%	39.5%	69.6%	(33.8%)	(14.6%)	(25.6%)
Margin on revenue	19.7%	15.5%	17.7%	13.7%	12.8%	13.3%
Margin on GGR	21.1%	16.6%	18.9%	14.3%	13.6%	13.9%

Source: Intralot accounts, Edison Investment Research

From a revenue perspective, management highlighted a specific drag of c 3.4% in Q224 (€10.7m in H124 after €6.7m in Q124) from the depreciation of the Argentine peso versus the euro (ARS977/€ at end H124 vs ARS280/€ at end H123). Eliminating this negative suggests Intralot's revenue grew by c 6% on an underlying basis. While management identifies only the negative impact from the depreciation of the Argentine currency, we highlight that the majority of the currencies of the other countries in which Intralot operates were also weaker versus the euro in Q224 than Q223. For example, the Turkish lira depreciated against the euro by c 20% in Q224. Only the Moroccan dirham and US dollar appreciated versus the euro in Q224, by relatively small percentages. On an underlying basis, Intralot performed well in the markets with the most severe currency depreciation, with local currency revenue growth of c 131% in Argentina and 108% in Turkey and market share gains in the latter. For H124 as a whole, all countries in which Intralot operates, except Morocco, saw their currencies depreciate versus the euro.

For the individual types of contracts or revenue streams that Intralot reports, there were quite different trends, which naturally reflect the results of the varying countries in which Intralot operates.

On the more positive side, growth in US sports betting and market share gains in Turkey (highlighted above) offset the anticipated lower contribution from the renewed contract in Morocco and drove the 47% y-o-y increase in Management Contracts (MC) revenue in Q224. Management has been actively targeting market share gains in Turkey with a significant investment in marketing

to grow market share, which has driven strong revenue growth, as highlighted above, but has negatively affected its EBITDA margin (see Exhibit 2).

On the more negative side, Technology & Support Services (TSS) revenue declined at a similar rate to Q124 and Licensed Operations declined but at a lower rate than Q124. In both cases, the significant depreciation of the Argentine peso versus the euro was the prime cause of the revenue decline. Outside of this currency depreciation, TSS saw good growth in Oceania.

Exhibit 2 summarises the financial results for Intralot's most important countries for the most recent six-month periods. In aggregate, these represented c 88% of group GGR and just over 100% of group EBITDA in H124. The main standouts on the positive side were higher profitability in North America, as costs were managed in the absence of jackpots, and Croatia. The main contributors to the c 5% (ie €3.3m) decline in group EBITDA in H124 versus H123 were the depreciation of the Argentine peso (€2.4m), marketing investment in Turkey to drive market share gains (€1.6m) and a lower contribution from Morocco. With respect to the outlook, management is optimistic about a strong second half of the year in Turkey and Argentina given the typical seasonality of the businesses and the market share gains made in Turkey in H124.

Exhibit 2: Intralot's main geographies

€m	H123	H223	FY23	H124
North America:				
GGR	80.9	83.3	164.2	80.4
Growth y-o-y	7.4%	(5.4%)	0.5%	(0.6%)
EBITDA	34.2	35.5	69.7	34.8
Margin	42.3%	42.6%	42.4%	43.3%
Turkey:				
GGR	19.8	31.0	50.8	33.1
Growth y-o-y	65.0%	76.1%	71.6%	67.2%
EBITDA	10.5	10.1	20.6	8.9
Margin	53.0%	32.6%	40.6%	26.9%
Oceania:				
GGR	12.3	12.6	24.9	12.7
Growth y-o-y	1.7%	(3.1%)	(0.8%)	3.3%
EBITDA	8.9	9.0	17.9	9.1
Margin	72.4%	71.4%	71.9%	71.7%
Croatia:				
GGR	4.2	11.1	15.3	8.1
Growth y-o-y	16.7%	44.2%	35.4%	92.9%
EBITDA	2.1	8.8	10.9	5.5
Margin	50.0%	79.3%	71.2%	67.9%
Argentina:				
GGR	18.7	4.9	23.6	11.8
Growth y-o-y	(3.5%)	(73.3%)	(39.0%)	(33.9%)
EBITDA	6.0	1.4	7.4	3.6
Margin	32.1%	28.6%	31.4%	30.5%

Source: Intralot accounts

Cash flow and balance sheet

Intralot's free cash generation pre interest (versus GGR) was relatively stable through H124 with slightly lower profitability between Q1 and Q2 compensated for by the investment in capex.

Exhibit 3: Summary cash flow

Relative to GGR	Q123	Q223	H123	Q124	Q224	H124
Operating cash flow pre-interest	45%	16%	30%	33%	21%	27%
PBT	13%	7%	10%	7%	1%	4%
Depreciation and amortisation	19%	20%	19%	21%	21%	21%
Working capital	4%	(15%)	(5%)	(5%)	(10%)	(8%)
Tax paid	(2%)	(2%)	(2%)	(0%)	(3%)	(2%)
Investing cash flow	(7%)	(7%)	(7%)	(7%)	(8%)	(8%)
Capex	(9%)	(9%)	(9%)	(8%)	(6%)	(7%)
Minority dividends	(5%)	0%	(3%)	(7%)	(0%)	(4%)
Repayment of lease liabilities	(2%)	(1%)	(2%)	(3%)	(1%)	(2%)
Free cash flow before interest	30%	6%	18%	15%	14%	15%
Net interest	(16%)	(3%)	(10%)	(12%)	(7%)	(9%)
Net debt including leases (€m)	471.6	480.5	480.5	353.6	362.2	362.2
Net debt EBITDA (x)	3.6		3.7	2.8		2.9

Source: Intralot accounts, Edison Investment Research

In absolute terms, H124's free cash flow of c €24m was c €5m lower than H123, mainly due to the change in profitability and higher working capital investment, which is due to investment in machines to be deployed in the US in the second half of the year. As these machines are deployed, the working capital investment will reverse.

In absolute terms, the net debt position was relatively unchanged at c €362m at the end of H124 versus Q124.

Forecasts

In our revised estimates, we have taken a more prudent outlook on Intralot's expected profitability in Turkey. We have incorporated the renewed contracts in Ireland and the Netherlands and updated for changes in exchange rates. The changes to revenue, GGR and EBITDA estimates are summarised as follows:

Exhibit 4: Changes to estimates

€m	FY24e new	FY25e new	FY24e old	FY25e old	Change FY24e	Change FY25e
Revenue	369.4	381.7	363.6	388.5	2%	(2%)
Growth y-o-y	1.5%	3.3%	(0.1%)	6.8%		
Gross gaming revenue	352.2	365.8	354.0	378.9	(1%)	(3%)
Growth y-o-y	1.0%	3.9%	1.6%	7.0%		
EBITDA	132.1	142.6	138.1	151.5	(4%)	(6%)
Margin	37.5%	39.0%	39.0%	40.0%		
Growth y-o-y	2.0%	8.0%	6.6%	9.8%		

Source: Edison Investment Research

Valuation

DCF-based valuation suggests Intralot is attractively valued

Despite the slight reduction in our estimates, a lower estimated WACC of 8% (from 8.5% previously) to reflect a lower risk-free rate (3.2%) and equity market risk premium of 7.2% (source: Damodaran) leads to our DCF-based valuation increasing to €1.70 per share from €1.60 per share

previously. The sensitivity of the valuation to changes in the WACC and terminal growth rate are as follows:

Exhibit 5: DCF sensitivity (€ per share)

		WACC				
		7.0%	7.5%	8.0%	8.5%	9.0%
Terminal growth rate	0%	1.63	1.47	1.33	1.21	1.10
	1%	1.86	1.66	1.49	1.34	1.22
	2%	2.18	1.92	1.70	1.52	1.36
	3%	2.66	2.29	2.00	1.76	1.56
	4%	3.47	2.88	2.45	2.11	1.83

Source: Edison Investment Research

Peer valuations

We typically compare Intralot's multiples with two sets of peers: gaming technology companies, which are the most appropriate, and lottery operators. Intralot's prospective EV/EBITDA multiples of 7.6x in FY24 and 7.1x in FY25 are broadly in line with the averages for the gaming technology companies of 7.9x and 7.1x, respectively, but at a premium to the median multiples of 5.8x and 5.3x. Its profitability is comparable with the gaming technology peers, while consensus expects higher revenue growth rates for its peers.

Exhibit 6: Peer valuations

	Share price	CCY	Market value (local m)	Market value (€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	21.57	USD	4,314	3,910	9,796	1	3	8	10	38.8	41.3	2.2	2.2	5.8	5.3
Aristocrat Leisure	54.95	AUD	34,642	20,910	34,594	7	6	12	8	36.3	36.8	5.1	4.8	14.0	13.0
Evolution AB	1009.5	SEK	213,846	18,691	18,095	16	16	14	17	69.1	70.1	8.7	7.5	12.6	10.7
Gaming Innovation Group	30.8	NOK	4,197	351	420	63	18	6	29	41.4	45.2	2.9	2.5	7.0	5.5
Inspired Entertainment	8.47	USD	225	204	517	(7)	4	15	8	33.6	35.0	1.7	1.6	5.1	4.7
Kambi	120.1	SEK	3,754	328	286	3	2	2	(4)	33.6	31.6	1.6	1.6	4.7	5.0
Light & Wonder	105.94	USD	9,399	8,519	12,949	11	7	25	11	38.5	39.6	4.0	3.7	10.5	9.5
Play AGS	11.29	USD	454	412	947	9	4	27	5	45.0	45.5	2.4	2.3	5.4	5.1
Playtech	645	GBP	1,995	2,363	2,580	4	4	14	7	25.6	26.4	1.5	1.4	5.7	5.3
Average – gaming technology						12	7	14	10	40.2	41.3	3.3	3.1	7.9	7.1
Median – gaming technology						7	4	14	8	38.5	39.6	2.4	2.3	5.8	5.3
La Francaise des Jeux	38.3	EUR	7,127	7,127	6,763	9	4	9	6	24.6	25.0	2.4	2.3	9.6	9.0
Lottomatica Group	11.34	EUR	2,853	2,853	4,797	20	17	17	17	36.0	36.0	2.5	2.1	6.8	5.8
OPAP	15.98	EUR	5,940	5,940	6,168	5	4	6	4	35.1	35.1	2.8	2.7	8.0	7.7
Zeal Networks	33	EUR	742	742	701	30	17	28	30	27.8	31.0	4.6	4.0	16.6	12.8
Average – lottery operators						16	10	15	14	30.9	31.8	3.1	2.8	10.3	8.8
Median – lottery operators						15	10	13	12	31.5	33.0	2.6	2.5	8.8	8.4
Intralot	1.14	EUR	689	689	1,008	1	4	2	8	37.5	39.0	2.9	2.8	7.6	7.1

Source: LSEG Data & Analytics, Edison Investment Research. Note: Priced at 9 September 2024.

Exhibit 7: Financial summary

	€m	2019	2020	2021	2022	2023	2024e	2025e
Year end 31 December		IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
INCOME STATEMENT								
GGR		409.2	292.9	335.3	343.9	348.6	352.2	365.8
Costs		(314.6)	(226.7)	(224.9)	(221.1)	(219.1)	(220.1)	(223.2)
EBITDA		94.5	66.2	110.4	122.9	129.5	132.1	142.6
Operating profit (before amort. and excepts.)		11.9	(2.3)	39.4	52.8	61.6	65.9	72.8
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	(1.3)	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	61.6	64.6	72.8
Net Interest		(48.0)	(48.4)	(13.6)	(36.7)	(35.7)	(28.5)	(21.0)
JVS and associates		(17.5)	(1.5)	0.2	0.3	0.2	0.0	0.0
Exceptionals		(10.2)	(35.1)	28.2	14.6	7.4	0.0	0.0
Profit Before Tax (norm)		(53.6)	(52.2)	26.0	16.3	26.1	37.4	51.8
Profit Before Tax (reported)		(70.6)	(94.1)	37.1	29.8	33.6	34.8	51.8
Reported tax		(19.2)	(7.2)	(4.4)	(10.8)	(19.7)	(15.5)	(20.5)
Profit After Tax (norm)		(68.2)	(56.2)	23.0	10.4	10.8	20.8	31.3
Profit After Tax (reported)		(89.8)	(101.3)	32.7	19.0	13.8	19.3	31.3
Minority interests		(22.1)	(3.1)	(6.0)	(12.6)	(8.0)	(10.6)	(11.7)
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)	2.8	10.1	19.6
Net income (reported)		(104.2)	(106.3)	17.5	11.9	5.8	8.7	19.6
Average Number of Shares Outstanding (m)		147.8	147.8	148.3	249.5	416.0	604.1	604.1
EPS – normalised (c)		(61.10)	(40.19)	11.42	(0.89)	0.67	1.67	3.25
EPS – normalised fully diluted (c)		(61.10)	(40.19)	11.42	(0.89)	0.67	1.67	3.25
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
BALANCE SHEET								
Fixed Assets		459.0	371.7	376.5	381.0	332.5	315.3	299.5
Intangible Assets		242.9	202.0	204.3	208.6	182.3	170.2	159.1
Tangible Assets		168.7	134.3	123.2	113.8	91.6	86.5	81.7
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	256.2	271.9	288.5
Stocks		35.6	25.7	18.7	23.9	24.4	24.6	25.6
Debtors		131.7	151.4	105.0	109.8	119.9	121.2	125.9
Cash & cash equivalents		171.1	100.0	107.3	102.4	111.9	126.1	137.1
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)	(320.7)	(320.9)	(321.8)
Creditors		(91.8)	(89.5)	(89.2)	(78.3)	(61.5)	(61.7)	(62.6)
Tax and social security		(3.1)	(3.4)	(5.6)	(0.8)	(3.9)	(3.9)	(3.9)
Short term borrowings and leases		(37.9)	(274.9)	(16.5)	(22.5)	(251.9)	(251.9)	(251.9)
Other		(2.9)	(2.6)	(4.6)	(4.2)	(3.4)	(3.4)	(3.4)
Long-Term Liabilities		(754.9)	(497.6)	(607.1)	(599.1)	(225.9)	(215.4)	(195.7)
Long-term borrowings and leases		(727.4)	(476.2)	(588.0)	(570.4)	(193.2)	(175.0)	(149.2)
Other long-term liabilities		(27.6)	(21.5)	(19.2)	(28.8)	(32.7)	(40.4)	(46.5)
Net Assets		(93.2)	(219.1)	(115.5)	(87.7)	42.1	50.8	70.4
Minority interests		0.2	3.7	8.0	20.2	17.8	17.8	17.8
Shareholders' equity		(93.0)	(215.4)	(107.5)	(67.5)	59.9	68.6	88.3
CASH FLOW								
Operating Cash Flow		19.8	(27.1)	100.4	105.4	101.5	101.0	121.6
Working capital		(12.1)	(8.1)	(12.3)	(16.7)	(11.2)	(1.2)	(4.8)
Exceptional & other		67.9	87.4	15.6	19.8	29.5	28.5	21.0
Tax		(14.3)	(14.5)	3.8	(12.2)	(7.2)	(7.8)	(14.3)
Net operating cash flow		61.3	37.7	107.6	96.3	112.5	120.6	123.5
Capex		(55.0)	(35.9)	(22.9)	(26.5)	(29.7)	(45.0)	(50.0)
Acquisitions/disposals		98.4	(3.5)	10.3	(125.1)	(2.2)	0.0	0.0
Net interest		(44.0)	(43.8)	(54.4)	(38.5)	(35.1)	(26.5)	(19.0)
Equity financing		(10.6)	0.0	0.1	128.9	130.1	0.0	0.0
Dividends		(41.7)	(8.5)	(6.5)	(3.7)	(4.5)	(10.6)	(11.7)
Other		(1.7)	(11.9)	(23.1)	(32.6)	(148.5)	(24.3)	(31.8)
Net Cash Flow		6.8	(65.8)	11.1	(1.3)	22.5	14.2	11.0
Opening net debt/(cash) including leases		615.3	594.1	651.1	497.2	490.5	333.2	300.8
FX		1.9	(5.3)	(3.8)	(3.7)	(12.9)	0.0	0.0
Other non-cash movements		(29.8)	128.1	(161.3)	(1.8)	(166.8)	(46.6)	(47.8)
Closing net debt/(cash)		594.1	651.1	497.2	490.5	333.2	300.8	264.0

Source: Intralot accounts, Edison Investment Research

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