

Rating Action: Moody's affirms Intralot's B1 ratings; negative outlook

Global Credit Research - 11 Sep 2017

Assigns (P)B1 rating to the proposed EUR450 million senior unsecured notes due 2024

London, 11 September 2017 -- Moody's Investors Service has today affirmed Greek gaming operator Intralot S.A. (Intralot or the "company")'s B1 corporate family rating (CFR) and B1-PD probability of default rating (PDR), as well as the B1 rating on the existing EUR250 million senior unsecured notes due September 2021 issued by Intralot Capital Luxembourg S.A. Concurrently, Moody's has assigned a (P)B1 rating to the proposed EUR450 million senior unsecured notes due 2024 also to be issued by Intralot Capital Luxembourg S.A. The outlook on all ratings remains negative.

The proceeds from the 2024 notes will be used to redeem the existing May 2021 notes, to re-pay EUR165 million of the outstanding syndicated bank facilities due December 2019, for general corporate purposes, and to pay the transaction fees. At completion, Moody's expects Intralot to have approximately EUR154 million cash on the balance sheet. The B1 rating of the May 2021 notes will be withdrawn upon their full redemption.

"Our decision to affirm Intralot's ratings balances its moderate like-for-like EBITDA growth in the first six months of fiscal year 2017, the improved liquidity profile with the proposed refinancing and potential further debt reduction from proceeds of prospective disposals, against ongoing changes in the company's strategy and business profile, and our expectations for negative free cash flow in 2017 and 2018 primarily to fund new projects, the renewal of existing licences and increased dividends to minorities", says Donatella Maso, a Moody's Vice President - Senior Analyst.

Moody's issues provisional ratings in advance of the final sale of securities and these ratings reflect Moody's preliminary credit opinion regarding the transaction only. Upon a conclusive review of the final documentation, Moody's will endeavour to assign a definitive rating to the facilities. A definitive rating may differ from a provisional rating.

RATINGS RATIONALE

-- AFFIRMATION OF B1 CFR

Today's affirmation reflects Intralot's modest like-for-like reported EBITDA growth of 3.6% (or no growth if adjusting for Eurobet and the Chilean contract) during the first six months of fiscal year (FY) 2017, the improvement in the debt maturity profile and overall liquidity with the proposed refinancing, while the leverage remains broadly neutral at approximately 3.9x and there are no material interest cost savings.

These positives are, however, counterbalanced by ongoing changes in the company's strategy and business profile and Moody's expectations that free cash flow will continue to be weak or negative in 2017 and 2018 due to increased dividends to minorities and capex from the renewal of licences and a potential new contract. The latter, which will be funded with additional debt estimated in the region of EUR70 million, will likely increase the leverage to above 4.0x if the proceeds from the sale of a portion of Gamenet's shares and/or of other prospective disposals (i.e. Jamaican operations) are not used for further debt reductions. Moody's however note that recent M&A activity have decreased the company's exposure to emerging markets shifting the earnings mix toward developed countries.

However, Intralot's B1 CFR continues to reflect (1) the company's significant presence in certain emerging markets including Argentina, Azerbaijan and Turkey, the latter contributing to 21% of last twelve months ended 30 June 2017 EBITDA; (2) limited historic growth track record combined with ongoing weak or negative free cash flow generation as a result of the capital expenditures required to grow the business and new contract wins, and dividends payments to minorities; (3) exposure to regulatory and fiscal headwinds inherent to the gaming industry; and (4) to foreign exchange fluctuations resulting from the discrepancy between the main currency of the debt and its cash flow generation. The existence of significant minority interests also results in pro-rata leverage being materially higher than reported (fully consolidated) leverage, as well as substantial group cash leakage through dividend outflows to the minorities.

Conversely, the B1 CFR takes into account (1) Intralot's leading market position as a global supplier of integrated gaming systems and services; (2) a diversified contract portfolio with 88 contracts and licences; (3) its broad geographical presence in 52 jurisdictions; (4) good revenue visibility as a result of a large number of long-term contracts; (5) a proven track record of renewing existing contracts and winning new business, with growth potential from further liberalisation of the gaming sector in less mature markets.

-- ASSIGNMENT OF (P)B1 RATING

The (P)B1 rating of the new senior unsecured notes due 2024 is in line with the B1 rating of the existing notes, as they rank pari passu (also with the syndicated bank facilities). New and existing notes and the bank facilities share the same guarantee package, set for a minimum of 70% of the consolidated EBITDA and total assets in the syndicated facilities agreement.

--LIQUIDITY

Moody's considers Intralot's liquidity profile as being adequate for its near-term requirements resulting from working capital needs, capital expenditures, dividend payments to minorities. Such liquidity is underpinned by approximately EUR154 million of cash balances at completion, full availability of the EUR86.1 million RCF and the EUR40 million stand-by facility, both due December 2019, and short-term local credit lines. Moody's also expects Intralot to generate negative free cash flow in 2017-2018 from increased capex primarily for new projects, which will be funded by debt. Moody's notes that the company needs at least EUR60 million of cash for basic operational needs and therefore continues to partially rely on being able to access cash and cash flow from certain emerging markets.

The current syndicated facilities agreement includes a maximum net leverage ratio of 3.0x, a minimum net interest cover ratio of 3.75x, maximum capex of EUR85 million and maximum amount of cash deposited in Greek banks as financial maintenance covenants. As of March 2017, the company was in compliance with the leverage and interest cover tests with tightening headroom of 3% and 11% respectively. Moody's expects Intralot to be able to renegotiate its covenants to fulfil its growth plan, if needed.

RATIONALE FOR NEGATIVE OUTLOOK

The negative outlook reflects the weak position of Intralot in its rating category due to ongoing changes in the company's business profile, weak or negative free cash flow generation, and the uncertainty related to the timing of intended disposals and the use of the sale proceeds for future debt reductions, which could hinder any positive movements in its credit metrics.

WHAT COULD CHANGE THE RATING UP/DOWN

Given the negative outlook, Moody's anticipates no upward pressure on the ratings. A stabilisation of the negative outlook could result if (1) Intralot delivers on its growth strategy for the remaining core business whilst demonstrating sustained positive free cash flow and an adequate liquidity profile; (2) it reduces its debt from the proceeds of expected disposals; and (3) it maintains an adjusted debt/EBITDA of around 3.5x.

Downward pressure on the ratings could result from (1) debt/EBITDA (as adjusted by Moody's) sustainably exceeding 4.0x in any year going forward; (2) interest coverage (measured as EBIT/interest expense, and as adjusted by Moody's) falling below 2.0x post refinancing; (3) deterioration of the underlying cash; (4) a weakening of the company's liquidity; and (5) materially adverse regulatory changes.

LIST OF AFFECTED RATINGS:

Affirmations:

..Issuer: Intralot S.A.

... Corporate Family Rating, Affirmed at B1

... Probability of Default Rating, Affirmed at B1-PD

..Issuer: Intralot Capital Luxembourg S.A.

...Backed Senior Unsecured Regular Bond/Debenture, Affirmed at B1

Assignments:

..Issuer: Intralot Capital Luxembourg S.A.

...Backed Senior Unsecured Regular Bond/Debenture, Assigned at (P)B1

Outlook Actions:

..Issuer: Intralot S.A.

...Outlook, Remains Negative

..Issuer: Intralot Capital Luxembourg S.A.

...Outlook, Remains Negative

PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Global Gaming Industry published in June 2014. Please see the Rating Methodologies page on www.moody's.com for a copy of this methodology.

Headquartered in Athens, Greece, Intralot, a publicly listed company, is a leading vendor in the gaming sector as well as a licensed gaming operator. Intralot designs, develops, operates and supports custom-made gaming solutions and provides innovative content, services and technology to lottery and gaming organisation on a global scale with presence across 52 jurisdictions worldwide, employing approximately 5,200 people.

For the last twelve month (LTM) ended 30 June 2017, Intralot generated revenues of approximately EUR1.4 billion and reported an EBITDA of EUR179 million pro forma for the 2016 disposals of the Italian and Peruvian operations.

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