

CREDIT OPINION

25 May 2020

Update

 Rate this Research

RATINGS

Intralot S.A.

Domicile	Athens, Greece
Long Term Rating	Caa2
Type	LT Corporate Family Ratings
Outlook	Negative

Please see the [ratings section](#) at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Intralot S.A.

Update of key credit factors following downgrade to Caa2

Summary

On 9th March, we downgraded [Intralot S.A.](#) ("Intralot") to Caa2 from Caa1 CFR following the continued deterioration in earnings in 2019 and the increased likelihood of a distressed exchange and potential losses to creditors in the next 12-18 months.

Intralot continued to see a deterioration in earnings in 2019. The company saw a 25% decline in EBITDA on a proportionate basis ¹ to €59 million, €6 million below the revised guidance given on the 2nd December 2019, mainly explained by weaker than anticipated performance in Morocco and Bulgaria. This underperformance in operations contributed to free cash flow remaining largely negative at €69 million on a Moody's adjusted basis. This underperformance led to a rise in Moody's adjusted leverage to 7.6x as of 31 December 2019 from 5.6x a year before. On a proportionate basis, this corresponds to a reported net leverage of 10.2x as of 31 December 2019.

In 2019 Intralot began to shift its operation from emerging to developed countries where the US is expected to become the main contributor to profit going forward. However, 2020 started with the termination of three out of its six licenses in Bulgaria in February, representing a €6 million loss to consolidated annual EBITDA. Moreover, the rapid and widening spread of the coronavirus outbreak created a severe and extensive credit shock across many sectors, regions and markets, with the gaming industry being one of the most significantly affected due to its sensitivity to consumer demand. Intralot estimates the coronavirus impact for 2020 in the range of €25-30 million at Group EBITDA level.

In this context, we consider Intralot's capital structure to be unsustainable and we expect a restructuring in the next 12-18 months. Our view is reinforced by Intralot's announcement on the 23rd April that it has hired Evercore Partners and Allen & Overy as financial and legal advisors to assess financial and strategic options to optimize the capital structure.

Pending completion of the rating review please refer to the Credit Opinion we published in [March 2019](#) for a detailed overview and discussion of the key credit and other ESG considerations related to Intralot S.A..

Rating Outlook

The negative outlook reflects the uncertainty of Intralot's operations amid the continued negative trend in earnings and cash flows and the impact of the coronavirus outbreak, which puts further pressure on the sustainability of the capital structure. It also reflects the uncertainty related to the final recovery for bondholders in the event of default, mainly driven by the recent change in business profile and the lack of visibility on the run-rate level of EBITDA going forward.

Factors that Could Lead to an Upgrade

In view of the negative rating outlook and the current context, we do not currently anticipate upward rating pressure in the near term. However, it could occur if the company is able to refinance its debt at par.

Factors that Could Lead to a Downgrade

We would consider a downgrade of the current ratings if recoveries are expected to be lower than those assumed in the Caa2 CFR and Caa2 bond ratings.

Key Indicators

Exhibit 1

Key indicators

Intralot S.A.

	12/31/2016	12/31/2017	12/31/2018	12/30/2019	12 to 18 months view
Net Revenues (USD Billion)	\$1.1	\$1.1	\$1.0	\$0.8	\$0.8
Debt / EBITDA	3.8x	4.8x	5.6x	7.6x	8.0x - 10.0x
EBIT / Interest	1.3x	1.5x	1.4x	0.3x	0.2x - 0.5x
RCF / Debt	8.0%	10.1%	7.9%	-0.3%	0% - 5%

All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjustments for Non-Financial Corporations
Source: Moody's Financial Metrics™

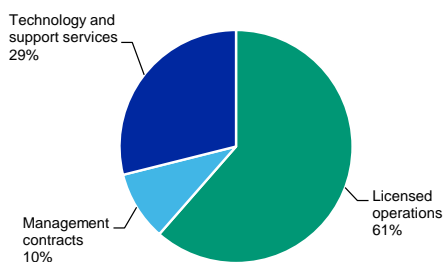
Profile

Headquartered in Athens, Intralot is a global supplier of integrated gaming systems and services. Intralot designs, develops, operates and supports customized software and hardware for the gaming industry and provides technology and services to state and state licensed lottery and gaming organizations worldwide. Intralot operates a portfolio of contracts and licences across 44 jurisdictions. Intralot generated revenues of approximately €721 million and reported consolidated EBITDA of €88 million in 2019.

The company operates three business activities: (i) Licensed operations (61% of 2019 revenues); (ii) Technology contracts (29%); and (iii) Game management contracts (10%).

Exhibit 2

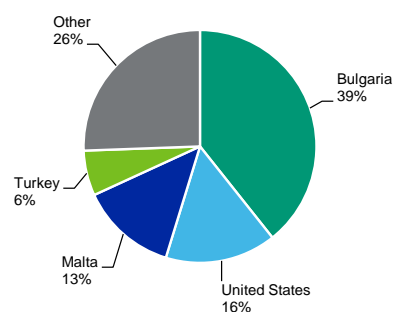
Licensed operations represent the largest share of revenue Split of 2019 revenue per segment



Source: Intralot 2019 annual report

Exhibit 3

Intralot's geographical exposure is expected to shift materially towards the US in the next 12 to 18 months Split of 2019 revenue per geography



Source: Intralot 2019 annual report

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Liquidity Analysis

We believe that Intralot's liquidity is weak due to the maturity of its €250 million bonds in September 2021 and our expectation that free cash flow will remain negative in 2020. This is despite the successful completion of its non-core asset disposal program that bolstered Intralot's cash position by €105 million, of which €78 million received in December 2019 from the sale of its stake in [Gamenet Group S.p.A.](#) (B1, review for downgrade). As of December 2019, the company reported €153 million of non-restricted cash on its balance sheet. The company also has access to a revolving credit facility ("RCF") of \$40 million through its Intralot Inc. subsidiary, of which \$17 million was drawn as of December 2019. Intralot signed an €18 million RCF, of which €8 million was drawn as of March 2020.

Structural Considerations

The €250 million Senior Notes due 2021 and €500 million 5.250% Senior notes due 2024 rank pari passu. The notes and bank facilities share the same guarantee package, set for a minimum of 70% of the consolidated EBITDA and total assets in the facilities agreements. The presence of minorities in certain guarantor subsidiaries significantly reduces the potential support available from such entities.

Rating Methodology and Scorecard Factors

The principal methodology used in these ratings was the Gaming Industry published in December 2017. Please see the Rating Methodologies page on www.moody's.com for a copy of this methodology. The forward looking scorecard-indicated outcome for Codere is Caa1, one notch higher than the assigned Caa2 CFR. The difference is explained by the increased risk of a default in the next 12 months and uncertainties related to the final recoveries for bondholders in the event of default.

Exhibit 4

Scorecard factors Intralot S.A.

Gaming Industry Grid [1][2]			Current LTM 12/30/2019		Moody's 12-18 Month Forward View	
Factor 1 : Scale (10%)	Measure	Score	Measure	Score	Measure	Score
a) Net Revenues (USD Billion)	\$0.8	B	\$0.8	B	\$0.8	B
Factor 2 : Business Profile (30%)						
a) Business Profile	B	B	B	B	B	B
Factor 3 : Financial Policy (20%)						
a) Financial Policy	B	B	B	B	B	B
Factor 4 : Leverage & Coverage (40%)						
a) Debt / EBITDA	7.6x	Caa	8x - 10x	Ca	8x - 10x	Ca
b) EBIT / Interest	0.3x	Ca	0.2x - 0.5x	Ca	0.2x - 0.5x	Ca
c) RCF / Debt	-0.3%	Ca	0% - 5%	Caa	0% - 5%	Caa
Rating:						
a) Indicated Rating from Grid		Caa1				Caa1
b) Actual Rating Assigned		Caa2				Caa2

[1] All ratios are based on 'Adjusted' financial data and incorporate Moody's Global Standard Adjust

[2] This represents Moody's forward view; not the view of the issuer; and unless noted in the text, does not incorporate significant acquisitions and divestitures.

Source: Moody's Financial Metrics™

Ratings

Exhibit 5

Category	Moody's Rating
INTRALOT S.A.	
Outlook	Negative
Corporate Family Rating	Caa2
INTRALOT CAPITAL LUXEMBOURG S.A.	
Outlook	Negative

Bkd Senior Unsecured -Dom Curr Caa2/LGD4
Source: Moody's Investors Service

Endnotes

¹ sum of the EBITDA contributed by each subsidiary multiplied by the company's participation percentage

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