

18 JAN 2021

## Fitch Downgrades Intralot's IDR to 'C' on Announcement of Debt Restructuring

Fitch Ratings - Paris - 18 Jan 2021: Fitch Ratings has downgraded Greek gaming group Intralot S.A.'s Long-Term Issuer Default Rating (IDR) to 'C' from 'CC'. It has also downgraded the senior unsecured rating on the bonds issued by Intralot Capital Luxembourg S.A., and guaranteed by Intralot's key subsidiaries, to 'C'/RR4' from 'CC'/RR4'.

The downgrade reflects the announcement on 14 January 2021 that Intralot has entered into a binding lock-up agreement with key noteholders that represent 75% of 2021 notes and 13% of 2024 notes in order to restructure the debt. Under Fitch's Distressed Debt Exchanged (DDE) Criteria, we deem this as a DDE proposal, which imposes a material reduction in terms compared with the original contractual terms, and with the intention to avoid a payment default on the notes due in September 2021.

If the transaction is successfully completed, Fitch will downgrade the IDR to 'RD' (Restricted Default) before re-assessing Intralot's restructured profile and assigning a rating consistent with our forward-looking assessment of the company's credit profile. Alternatively, if the transaction is unsuccessful, Fitch would downgrade the IDR to 'D' if a payment default takes place in March on the next coupon payment date or in September 2021 when the 2021 senior notes fall due.

### Key Rating Drivers

Announcement of DDE: Intralot has entered into a binding lock-up agreement with key noteholders, the execution of which would be treated as a DDE under Fitch's DDE criteria. The minimum acceptance level of 90% represents a 15% uplift to the current 75% notes that are part of the lock-up agreement, which leaves reasonable execution risk. In addition, Intralot announced that it has alternative plans to implement the 2021 note exchange if it does not reach the 90% minimum acceptance level.

The company has requested that the 2021 notes amount is reduced by around EUR45 million and maturity extended to September 2024 at the earliest, in exchange for security over Intralot's US subsidiary and higher coupon with a payment-in-kind feature at the company's election.

Success of 2024 Notes Exchange Uncertain: The company requests that 2024 noteholders tender their notes in exchange for up to 49% of the share capital of the indirect parent of Intralot Inc. The binding lock-up agreement only represents 13% of the 2024 notes, and there is uncertainty around Intralot's ability to materially increase the share of 2024 notes tendered. The share of 2024 notes that will actually be tendered will be key to Intralot's ability to conclude the debt restructuring. Failure to reach a debt restructuring agreement materially increases the risk of a payment default in September 2021,

when the 2021 senior unsecured notes become due.

## Derivation Summary

Intralot's current financial profile is not comparable with that of other gaming companies such as Flutter Entertainment plc (BBB-/Negative), Entain plc (BB/Negative), Sazka Group a.s. (BB-/Stable). Intralot has similar business profile characteristics as Inspired Entertainment, Inc. (CCC+), but the recent announcement of a debt restructuring plan is consistent with a 'C' rating.

Intralot has smaller size and lower profitability than gaming operator Codere S.A. (CCC), which has completed its debt restructuring.

## Key Assumptions

Fitch's Key Assumptions Within Our Rating Case for the Issuer

Once the debt restructuring completes, and Fitch has discussed the company's revised business plan with management and assessed its reasonableness, Fitch will establish new assumptions in support of our long-term forecasts for the company.

Key Recovery Rating Assumptions

In our bespoke going-concern recovery analysis we considered an estimated post-restructuring EBITDA available to creditors of around EUR55 million, which would allow Intralot to continue operating as a going concern. We applied a distressed enterprise value (EV)/ EBITDA multiple of 5x to Intralot's wholly-owned operations.

We also estimate approximately EUR10 million of additional value stemming from associates.

After deducting 10% for administrative claims, our principal waterfall analysis generated a ranked recovery in the 'RR4' band, indicating a 'C' instrument rating. The waterfall analysis output percentage on current metrics and assumptions is 32%. After completion of the restructuring process Fitch will reassess the new waterfall and instruments' ratings.

## RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

- A direct upgrade to 'CC' is unlikely at this point.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

- Successful completion of the proposed debt restructuring or similar transaction leading to the execution of the DDE, which would lead to a downgrade to 'RD';

- Unsuccessful completion of the debt restructuring leading to a payment default, bankruptcy filings, administration, liquidation or other formal winding-up procedure, which would lead to a downgrade to 'D'.

## **Best/Worst Case Rating Scenario**

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

## **Liquidity and Debt Structure**

**Sufficient Liquidity Until Debt Maturity:** As of 30 September 2020, we estimate that Intralot had around EUR65 million-EUR70 million readily available cash (excluding EUR30 million restricted cash for working capital, and around EUR10 million cash located in partnerships and not fully owned subsidiaries).

This cash position included a EUR18 million equivalent secured and fully drawn overdraft, the repayment of which can be requested at any time. We expect liquidity to tighten over the next few months due to negative free cash flow, although prudent cash management reduces the pace of liquidity utilisation until the implementation of the new financial structure. Intralot's current capital structure does not include any committed credit lines, even at operating companies, since the USD40 million revolving credit facility granted to the US subsidiary expired in August 2020.

## **REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING**

The principal sources of information used in the analysis are described in the Applicable Criteria.

## **ESG Considerations**

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit [www.fitchratings.com/esg](http://www.fitchratings.com/esg)

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**Rating Actions**

ENTITY/DEBT	RATING		RECOVERY	PRIOR
Intralot S.A.	LT IDR	C	Downgrade	CC
Intralot Capital Luxembourg SA				
• senior unsecured	LT	C	Downgrade	RR4 CC

**RATINGS KEY OUTLOOK WATCH**

<b>POSITIVE</b>	⊕	◊
<b>NEGATIVE</b>	⊖	◊
<b>EVOLVING</b>	⊙	◆

## RATINGS KEY OUTLOOK WATCH

STABLE



### Applicable Criteria

[Corporate Rating Criteria \(pub.21 Dec 2020\) \(including rating assumption sensitivity\)](#)

[Corporates Notching and Recovery Ratings Criteria \(pub.14 Oct 2019\) \(including rating assumption sensitivity\)](#)

[Distressed Debt Exchange Rating Criteria \(pub.06 Aug 2019\)](#)

### Applicable Models

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v7.9.0 (1)

### Additional Disclosures

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