

07 Nov 2019 | Downgrade

## Fitch Downgrades Intralot to 'CCC', Senior Unsecured Rating off RWN

---

Fitch Ratings-Paris-07 November 2019:

Fitch Ratings has downgraded Greek gaming group Intralot S.A.'s (Intralot) Long-Term Issuer Default Rating (IDR) to 'CCC' from 'CCC+'.

Fitch has also downgraded the senior unsecured rating on the bonds issued by Intralot Capital Luxembourg S.A., guaranteed by Intralot's key subsidiaries, to 'CCC'/'RR4' from 'CCC+'/'RR4', and removed it from Rating Watch Negative (RWN) where it was placed on 15 May 2019.

The downgrade of the IDR reflects higher leverage than our expectations, difficulties in renewing contracts amid increasing competition, and our expectation of continuing negative free cash flow (FCF). All these factors materially increase refinancing risk on Intralot's EUR250 million unsecured 2021 bond.

The removal of the Rating Watch reflects improved liquidity following the announced disposal of Gamenet, reducing the risk that secured debt would need to be raised in the next six months. Nevertheless, secured debt issuance remains likely, with potential adverse impact on expected recoveries for unsecured creditors.

### Key Rating Drivers

**Leverage Remains High:** Fitch believes that Intralot's funds from operations (FFO) adjusted net leverage will remain high at around 8.5x up until 2021. The gradual ramp-up of US operations will somewhat offset the recently reduced operations scope and contracts renewals signed at less favourable terms. However, the company will cease to receive dividends from Gamenet (estimated around EUR4 million-EUR5 million p.a.), reducing FFO.

**Increasing Refinancing Risk, Secured Debt Likely:** Despite the recent asset disposals, which remove the immediate need for additional financing, Fitch sees a high risk that Intralot would need to raise secured debt to refinance its EUR250 million bond due in 2021. Issuing secured debt would erode the recovery prospects for Intralot's unsecured debt, and could lead to a downgrade of the instrument rating.

In our view, if Intralot is unable to significantly improve its operating profile and reduce gross debt and leverage over the next 12 to 18 months it will find it difficult to refinance its EUR250 million bond due in September 2021 on an unsecured basis. Moreover, the terms of this bond prevent its refinancing for the full amount on a secured basis.

**Difficult Contract Renewals:** Since the beginning of 2019, Intralot has experienced severe setbacks on its contract portfolio. The company lost the tender to extend its Inteltek contract, which was terminated in August 2019. This represented 15% of Intralot's 2018 consolidated EBITDA. The extension of its Bilyoner contract in Turkey (11% of 2018 consolidated EBITDA) - which is now on a three-month extension period ending in December 2019 - remains uncertain and we believe any renewal would be subject to lower margins. In Morocco, Intralot extended its sport-betting licence for another 10 years, albeit at weaker margins. Apart from Bilyoner, the next material contract renewal is in 2022 in Malta, which is subject to execution risk as associated capex may need to be debt-funded.

**Geographic Concentration; FX Risk:** We expect Intralot to generate around 40% of consolidated EBITDA from the US. We also estimate that Argentina (CC) and Turkey (BB-/Stable) would represent around 15%-20% of consolidated EBITDA up to 2022. Although we see some growth prospects in emerging countries and in Bulgaria (BBB/Positive) that would generate around 15%-20% of EBITDA, Intralot's significant exposure to Turkey and Argentina can result in material foreign exchange challenges, and could impair Intralot's foreign-currency debt service capability through weaker revenues and profits when translated into euros.

**Contract Portfolio Lacks Scale:** Intralot has established itself in the international gaming sector as a reputable provider of products, including systems to manage lotteries through software platforms and hardware terminals, and in betting via a large algorithm-based sportsbook. This has enabled Intralot to win important contracts for the supply of technology and the management of lotteries in the US and Greece and for sports-betting in Germany. However, we believe the company lacks scale relative to larger competitors such as IGT or Scientific Games. The recent change in strategy towards asset-light contracts - dictated by lack of access to capex funding - means Intralot is unlikely to win large contracts and to materially gain on size in the medium-term.

**High Execution Risk:** A newly appointed management team is working on many fronts to turn around the company. Fitch sees material execution risk despite some progress made and recent asset disposals providing flexibility to the implementation of the company's new strategy. Intralot is in the midst of a restructuring process to reduce its cost structure and capex that aim to generate annualised savings of around EUR10 million. Also the recent legal issues around the award of the sport betting contract in Washington DC in a no-bid process highlights another source of increasing execution risk for Intralot.

Asset Disposals Completed, Liquidity Improved: Intralot successfully disposed of its non-core assets, notably its announced sale of equity stake in Gamenet for EUR75 million and completed disposal of Hellenic Lotteries for EUR20 million, providing a liquidity buffer. We deem execution risk around the closing of the Gamenet disposal as low, and consider the transaction could be completed by end-2019. However, we continue to view interest payments of about EUR50 million per year as high for Intralot's current EBITDA, which will result in weak FFO fixed charge cover of around 1.5x-1.6x.

Growth Prospects: The gradual liberalisation of gaming markets, governments' keenness on finding ways to raise tax proceeds and an increasing supply of new games should all provide increasing opportunities for Intralot. The company should be able to leverage on its track record and technical reputation and benefit from a limited number of reputable suppliers in the industry, allowing it to expand into new countries, although now limited to asset-light contracts. We believe that Intralot could also benefit from some opportunities in the US in the wave of recent legislative changes in many states, although possible arbitrary changes in legislation remain a typical risk in this sector, while competition is intense.

#### Derivation Summary

Intralot has smaller revenue and EBITDA than GVC Holdings Plc (BB+/Stable), International Game Technology and Scientific Games Corporation. Intralot is similar in size to Net Holding A.S. (B/Stable) and in business profile characteristics to Inspired Entertainment, Inc. (B/Stable). Leverage, however, is significantly higher than these peers', which is consistent with a 'CCC' category rating, and liquidity is also tighter.

#### Key Assumptions

##### Fitch's Key Assumptions within our Rating Case for the Issuer

- Revenue declining in 2019 following the disposal of Totolotek. For 2019-2022 the ramp-up of US operations would offset weaker economics of renewed contracts and smaller scope of operations
- EBITDA margin improving in 2019 as a consequence of the disposal of unprofitable Polish operations and ramp-up of US operations. Afterwards, this would be offset by lower margins under renewed contracts and continued weak economic conditions in Argentina and Turkey
- Dividends paid to minority interests in the range of EUR18 million-EUR21 million from 2020 onwards

- Capex gradually declining towards EUR40 million in 2021, before increasing in 2022 to renew its license in Malta
- No common dividends
- Disposal of Gamenet for EUR75 million by end-2019

#### Key Recovery Assumptions

In our bespoke going-concern recovery analysis we considered an estimated post-restructuring EBITDA available to creditors of around EUR65 million (vs.EUR58 million previously), to reflect the effective implementation of the Illinois contract, and the disposal of Gamenet that would provide some room to implement cost cutting and / or bid for new contracts. 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. This is a material contraction from EUR50 million previously, since we assumed Gamenet equity stake is sold.

After deducting 10% for administrative claims, our principal waterfall analysis generated a ranked recovery in the 'RR4' band, indicating a 'CCC' instrument rating. The waterfall analysis output percentage on current metrics and assumptions was 33%.

#### RATING SENSITIVITIES

##### Developments That May, Individually or Collectively, Lead to Positive Rating Action

- Steady improvement in operating liquidity, driven by neutral-to-positive FCF
- Sustained improvement in operating performance, for example through winning new contracts or improving performance of existing ones, combined with efficient cost-cutting measures, leading to growing EBITDA and FFO, and alleviating risks around near- to medium-term financing needs
- FFO lease adjusted gross leverage sustainably below 8.5x (2018: 8.3x)
- FFO fixed charge cover sustainably above 1.4x (2018: 1.8x)

##### Developments That May, Individually or Collectively, Lead to Negative Rating Action

- Lack of sufficient operational liquidity cushion

- Continued operating underperformance and/or loss of existing contracts leading to further shrinking of operations, in particular, EBITDA and continuing negative FCF, and lack of progress on refinancing by mid-2020

- FFO fixed charge cover below 1.0x

## Liquidity and Debt Structure

Liquidity Improved: As of 30 June 2019, Intralot had around EUR47 million readily cash available. We view the EUR48.4 million cash located within partnerships, as well as the EUR30 million required for working capital purposes, as restricted. Additionally, we restrict the portion of the cash located within the Maltese subsidiary that does not belong to Intralot (27% of EUR9.9 million).

The company recently improved its liquidity through the disposal of its equity stake in Hellenic Lotteries (EUR20 million) and Gamenet (EUR75 million, to be completed by end-2019). However, we estimate that the upside of the revolving credit facility available at Intralot Inc. (USA) to USD40 million from USD20 million does not materially enhance overall liquidity, since it is only available to this specific operating company.

Intralot's EUR250 million bond matures in September 2021, The second bond (with a face value of EUR500 million, of which EUR495 million remains due) matures in 2024. Refinancing of the 2021 bond may be challenging, if leverage remains high, even on a secured basis as the bond documentation currently prevents a secured refinancing for the full amount.

## ESG Considerations

Unless otherwise disclosed in this sector, the highest level of 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 to the way in which they are managed by the entity.

For more information on our ESG Relevance Scores visit: [www.fitchratings.com/esg](http://www.fitchratings.com/esg).

Intralot S.A.; Long Term Issuer Default Rating; Downgrade; CCC

Intralot Capital Luxembourg SA

---senior unsecured; Long Term Rating; Downgrade; CCC; RW: Off

Contacts:

Primary Rating Analyst

Sophie Coutaux,

Senior Director

+33 1 44 29 91 32

Fitch France S.A.S.

60 rue de Monceau

Paris 75008

Secondary Rating Analyst

Maxence Chappron,

Senior Analyst

+33 1 44 29 91 26

Committee Chairperson

Giulio Lombardi,

Senior Director

+39 02 879087 214

Media Relations: Adrian Simpson, London, Tel: +44 20 3530 1010, Email:  
adrian.simpson@thefitchgroup.com

Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

**Applicable Criteria**

[Corporate Rating Criteria \(pub. 19 Feb 2019\)](#)

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

[Country-Specific Treatment of Recovery Ratings Criteria \(pub. 18 Jan 2019\)](#)

**Additional Disclosures**

[Dodd-Frank Rating Information Disclosure Form](#)

[Solicitation Status](#)

[Endorsement Policy](#)

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK:

[HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS](https://www.fitchratings.com/understandingcreditratings). IN ADDITION, RATING DEFINITIONS AND THE TERMS OF USE OF SUCH RATINGS ARE AVAILABLE ON THE AGENCY'S

PUBLIC WEB SITE AT [WWW.FITCHRATINGS.COM](http://WWW.FITCHRATINGS.COM). PUBLISHED RATINGS, CRITERIA, AND METHODOLOGIES ARE AVAILABLE FROM THIS SITE AT ALL TIMES. FITCH'S CODE OF CONDUCT, CONFIDENTIALITY, CONFLICTS OF INTEREST, AFFILIATE FIREWALL, COMPLIANCE, AND OTHER RELEVANT POLICIES AND PROCEDURES ARE ALSO AVAILABLE FROM THE CODE OF CONDUCT SECTION OF THIS SITE. DIRECTORS AND SHAREHOLDERS RELEVANT INTERESTS ARE AVAILABLE AT [HTTPS://WWW.FITCHRATINGS.COM/SITE/REGULATORY](https://WWW.FITCHRATINGS.COM/SITE/REGULATORY). FITCH MAY HAVE PROVIDED ANOTHER PERMISSIBLE SERVICE TO THE RATED ENTITY OR ITS RELATED THIRD PARTIES. DETAILS OF THIS SERVICE FOR RATINGS FOR WHICH THE LEAD ANALYST IS BASED IN AN EU-REGISTERED ENTITY CAN BE FOUND ON THE ENTITY SUMMARY PAGE FOR THIS ISSUER ON THE FITCH WEBSITE.

Copyright © 2019 by Fitch Ratings, Inc., Fitch Ratings Ltd. and its subsidiaries. 33 Whitehall Street, NY, NY 10004. Telephone: 1-800-753-4824, (212) 908-0500. Fax: (212) 480-4435. Reproduction or retransmission in whole or in part is prohibited except by permission. All rights reserved. In issuing and maintaining its ratings and in making other reports (including forecast information), Fitch relies on factual information it receives from issuers and underwriters and from other sources Fitch believes to be credible. Fitch conducts a reasonable investigation of the factual information relied upon by it in accordance with its ratings methodology, and obtains reasonable verification of that information from independent sources, to the extent such sources are available for a given security or in a given jurisdiction. The manner of Fitch's factual investigation and the scope of the third-party verification it obtains will vary depending on the nature of the rated security and its issuer, the requirements and practices in the jurisdiction in which the rated security is offered and sold and/or the issuer is located, the availability and nature of relevant public information, access to the management of the issuer and its advisers, the availability of pre-existing third-party verifications such as audit reports, agreed-upon procedures letters, appraisals, actuarial reports, engineering reports, legal opinions and other reports provided by third parties, the availability of independent and competent third-party verification sources with respect to the particular security or in the particular jurisdiction of the issuer, and a variety of other factors. Users of Fitch's ratings and reports should understand that neither an enhanced factual investigation nor any third-party verification can ensure that all of the information Fitch relies on in connection with a rating or a report will be accurate and complete. Ultimately, the issuer and its advisers are responsible for the accuracy of the information they provide to Fitch and to the market in offering documents and other reports. In issuing its ratings and its reports, Fitch must rely on the work of experts, including independent auditors with respect to financial statements and attorneys with respect to legal and tax matters. Further, ratings and forecasts of financial and other information are inherently forward-looking and embody assumptions and predictions about future events that by their nature cannot be verified as facts. As a result, despite any verification of current facts, ratings and forecasts can be affected by future events or conditions that were not anticipated at the time a rating or forecast was issued or affirmed.

The information in this report is provided "as is" without any representation or warranty of any kind, and Fitch does not represent or warrant that the report or any of its contents will meet any of the requirements of a recipient of the report. A Fitch rating is an opinion as to the creditworthiness of a security. This opinion and reports made by Fitch are based on established criteria and methodologies that Fitch is continuously evaluating and updating. Therefore, ratings and reports are the collective work product of Fitch and no individual, or group of individuals, is solely responsible for a rating or a report. The rating does not address the risk of loss due to risks other than credit risk, unless such risk is specifically mentioned. Fitch is not engaged in the offer or sale of any security. All Fitch reports have shared authorship. Individuals identified in a Fitch report were involved in, but are not solely responsible for, the opinions stated therein. The individuals are named for contact purposes only. A report providing a Fitch rating is neither a prospectus nor a substitute for the information assembled, verified and presented to investors by the issuer and its agents in connection with the sale of the securities. Ratings may be changed or withdrawn at any time for any reason in the sole discretion of Fitch. Fitch does not provide investment advice of any sort. Ratings are not a recommendation to buy, sell, or hold any security. Ratings do not comment on the adequacy of market price, the suitability of any security for a particular investor, or the tax-exempt nature or taxability of payments made in respect to any security. Fitch receives fees from issuers, insurers, guarantors, other obligors, and underwriters for rating securities. Such fees generally vary from US\$1,000 to US\$750,000 (or the applicable currency equivalent) per issue. In certain cases, Fitch will rate all or a number of issues issued by a particular issuer, or insured or guaranteed by a particular insurer or guarantor, for a single annual fee. Such fees are expected to vary from US\$10,000 to US\$1,500,000 (or the applicable currency equivalent). The assignment, publication, or dissemination of a rating by Fitch shall not constitute a consent by Fitch to use its name as an expert in connection with any registration statement filed under the United States securities laws, the Financial Services and Markets Act of 2000 of the United Kingdom, or the securities laws of any particular jurisdiction. Due to the relative efficiency of electronic publishing and distribution, Fitch research may be available to electronic subscribers up to three days earlier than to print subscribers.

For Australia, New Zealand, Taiwan and South Korea only: Fitch Australia Pty Ltd holds an Australian financial services license (AFS license no. 337123) which authorizes it to provide credit ratings to wholesale clients only. Credit ratings information published by Fitch is not intended to be used by persons who are retail clients within the meaning of the Corporations Act 2001. Fitch Ratings, Inc. is registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization (the "NRSRO"). While certain of the NRSRO's credit rating subsidiaries are listed on Item 3 of Form NRSRO and as such are authorized to issue credit ratings on behalf of the NRSRO (see <https://www.fitchratings.com/site/regulatory>), other credit rating subsidiaries are not listed on Form NRSRO (the "non-NRSROs") and therefore credit ratings issued by those subsidiaries are not issued on behalf of the NRSRO. However, non-NRSRO



personnel may participate in determining credit ratings issued by or on behalf of the NRSRO.

---

**ENDORSEMENT POLICY** - Fitch's approach to ratings endorsement so that ratings produced outside the EU may be used by regulated entities within the EU for regulatory purposes, pursuant to the terms of the EU Regulation with respect to credit rating agencies, can be found on the [EU Regulatory Disclosures](#) page. The endorsement status of all International ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for all structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.