

ISSUER COMMENT

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Intralot S.A.

Proposed share capital increase to purchase the 34% in Intralot US Securities is credit positive

On 26 April 2022, [Intralot SA](#) (Caa1 stable, "Intralot", "the company") announced an upcoming shareholders meeting to request the authorization for a capital increase. This will be done through a rights issue with a maximum nominal amount of around €66.84 million, which is equivalent to around 150% of the company's current paid-up share capital. The proceeds will be used to repurchase the c.34% stake in "Intralot US Securities B.V." (Intralot US, currently owned by holders of the 2024 notes) that was exchanged during the August 2021 debt restructuring and issuance of the 2025 notes. This will therefore lead to Intralot owning 100% of Intralot US, as was the case before the recent restructuring. The shareholders meeting will be held in May and the repurchase will close in July.

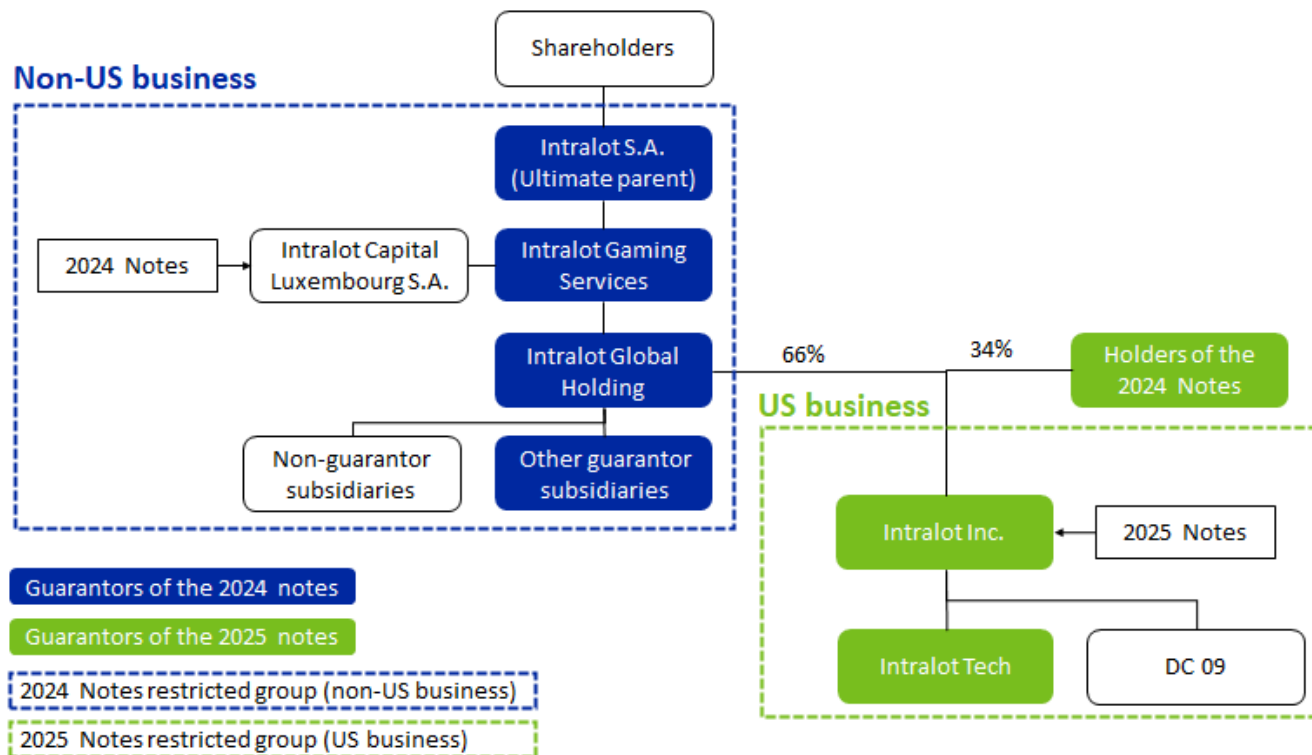
If executed as planned, we view the expected transaction as credit positive because it simplifies the group and capital structure and provides Intralot with full access to the cash flows of the US business - the cash generator of the group. In particular, the transaction will eliminate the imbalance in the current structure, which has two restricted groups (the 2024 notes and the 2025 notes) with materially different credit profiles in terms of cash generation, guarantors, as well as debt and EBITDA allocation. Under the current structure, besides the equity valuation of the US business, the repayment of the 2024 notes is highly dependent on the cash generation and namely dividends it receives from the US business.

Intralot expects to repurchase the 34% stake in Intralot US without increasing debt nor using cash on balance sheet because the share purchase is conditional on the share capital issue. The price per share of the rights issue is yet to be determined, but we understand from the company that it intends to raise about €130 million. This amount would cover the acquisition price, which has been already defined. The capital increase will occur before the company purchases the 34% stake in Intralot US in July. In the event that not all pre-emption rights are exercised by the Company's shareholders, Intralot has entered into a binding Memorandum of Understanding (MoU) with Standard General Master Fund II L.P., a US (Delaware) limited partnership (SG), which agrees that they will acquire all unallocated shares against a price not exceeding €0.58 per share and up to a number of shares not exceeding 1/3 of the Company's total voting shares (notional value of c.€38 million). This MOU increases the likelihood that Intralot will raise sufficient proceeds to enable the repurchase of the 34% in Intralot US.

In terms of financial policy, the company has previously announced its plan to refinance the 2025 notes which carry a relatively high cash interest coupon of 7%. We will continue to monitor for any changes in strategy or financial policy, but a refinancing of these notes at a potentially lower coupon would be a further credit positive.

Intralot reported 2021 revenue of €414 million, a 20% increase over 2020 revenue of €345 million, mostly due to a recovery in the Licensed Operations division and the ramp up in the Technology Contract business in the US. Reported EBITDA increased from €66 to €110 million over the same period due to higher revenue, stronger US performance, while operating expenses remained broadly stable.

Exhibit 1
Existing capital structure

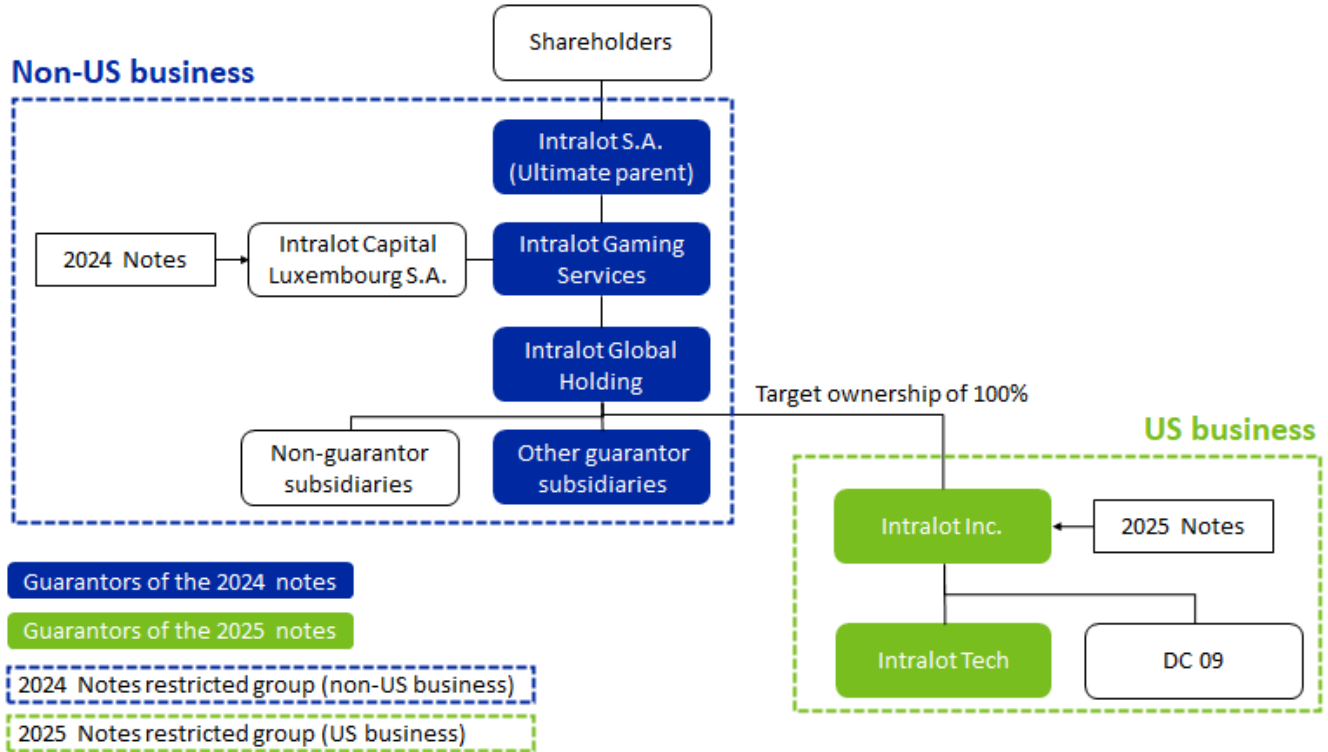


DC09 is a 49% subsidiary of Intralot, Inc. implementing the DC Lottery contract
Source: Company

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Exhibit 2

Target capital structure post-transaction



DC09 is a 49% subsidiary of Intralot, Inc. implementing the DC Lottery contract
 Source: Company

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