

**Rating Action: Moody's assigns a Caa1 rating to Gamma Bondco's new PIK Toggle notes and downgrades Lottomatica's CFR to B2; outlook stable**

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Paris, November 02, 2021 -- Moody's Investors Service ("Moody's") has today assigned a Caa1 instrument rating to the proposed new EUR400 million PIK Toggle notes due 2026 to be issued by Gamma Bondco S.a r.l. ("Gamma Bondco"), a holding company of Lottomatica S.p.A. ("Lottomatica"), an Italian gaming company. Concurrently, Moody's has downgraded Lottomatica's Corporate Family Rating ("CFR") to B2 from B1 and its probability of default rating (PDR) to B2-PD from B1-PD. In parallel, Moody's has affirmed the B1 instrument ratings on the existing EUR340 million senior secured notes, the EUR300 million floating rate notes and the EUR575 million senior secured notes all due 2025, issued by Gamma Bidco S.p.A. ("Gamma Bidco"). The outlook on the ratings for Gamma Bidco and Lottomatica remains stable and the outlook for Gamma Bondco is stable.

Net proceeds from the issuance of the Notes will be used to pay a dividend distribution of EUR375 million. The remaining proceeds will be used to fund fees, expenses and to pay the first interest coupon in cash.

The assigned ratings are subject to review of final documentation and no material change to the size, terms and conditions of the transaction as communicated to Moody's.

#### RATINGS RATIONALE

The downgrade of Lottomatica's CFR to B2 reflects the unexpected and aggressive nature of the dividend recapitalization transaction which is indicative of a financial policy prioritizing short-term shareholder returns over containing credit risk. The transaction and its timing are demonstrating the group's shareholders tolerance for financial risk and increase in leverage. The transaction follows by only a few months the gradual lifting of Covid-19 related restrictions and the completion of a major acquisition, of the Italian online sports betting and gaming machines businesses of International Game Technology PLC (IGT). In addition, the transaction is expected to increase leverage based on pre-Covid 2019 pro forma EBITDA by around 1.1 times from close to 4x to close to 5x. The additional leverage will weigh on the group's credit metrics and reduce financial flexibility as the group is looking for further external growth and international expansion.

Overall, the B2 CFR continues to positively reflect Lottomatica's: (i) leading market position in the Italian betting and gaming markets; (ii) product diversification and increasing presence in the fast-growing online segment; (iii) favourable position in the gaming value chain, underpinning the company's resilience to adverse regulatory developments and the coronavirus pandemic; (iv) good liquidity, supported by strong free cash flow (FCF) generation when the retail network is fully open; and (v) proven ability to integrate large targets and achieve synergies.

At the same time, the B2 CFR is constrained by: (i) Lottomatica's geographical concentration in Italy, which exposes the company to a single regulatory and fiscal regime; (ii) its exposure to concession renewal risks and the related cash outflow; (iii) its presence in the mature retail gaming machine segment with limited growth prospects and lower margins than the betting and online segments; and (iv) the event risk related to its debt-funded acquisitions and financial policy.

Lottomatica's B2 CFR reflects governance considerations given the group's sponsor-led shareholding structure, which Moody's expects to tend to prioritise more aggressive growth plans and strategies, including a tolerance for higher leverage.

#### STRUCTURAL CONSIDERATIONS

Using Moody's Loss Given Default for Speculative-Grade Companies methodology, Lottomatica's PDR is in line with the CFR and Gamma Bidco's senior secured notes are rated one notch above the CFR. In addition, Gamma Bondco's proposed new PIK Toggle notes are rated two notches below the CFR. This is based on a 50% recovery rate, as is typical for a debt capital structure that consists of super senior bank debt and secured bonds. The B1 ratings on Gamma Bidco's senior secured notes and floating rate notes are weakly positioned because of the limited extent of guarantees from subsidiary companies.

## LIQUIDITY

Moody's expects the company's liquidity profile to be good over the next 12-18 months. In addition to consolidated cash balances of around EUR224 million in the end of June 2021, further liquidity cushion is provided by access to the undrawn EUR222 million revolving credit facility ("RCF") and Moody's expectations of free cash flows in the range of EUR30-50 million in 2022 after the EUR125 million cash outflow of deferred consideration payment.

The super senior RCF documentation contains a springing financial covenant based on net leverage set at 8.3x and tested when the RCF is drawn by more than 40%. Moody's expects that Lottomatica will maintain good headroom under this covenant if it is tested.

## RATIONALE FOR STABLE OUTLOOK

The stable outlook on the ratings reflects Moody's expectation that the group will exhibit a good recovery to above pre-pandemic level of activity in 2022 resulting in an EBITDA growth allowing the group's debt/EBITDA (as adjusted by Moody's) to return to between 4x and 4.5x in the next 12-18 months.

## FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Upward pressure on the ratings would materialize if: (i) Lottomatica significantly diversifies its product offering beyond the gaming market or its geographical presence outside Italy, (ii) the company demonstrates that the group is able to maintain Moody's-adjusted leverage below 4x on a sustainable basis while exhibiting a good liquidity and generating positive free cash flow, (iii) the company exhibits a more conservative financial policy and builds a track record of sustainable deleveraging.

Negative pressure on the rating could occur if: (i) Lottomatica's operating performance weakens or is hurt by a changing regulatory and fiscal regime, including the terms of concession renewal, (ii) Moody's-adjusted leverage increases to above 5.5x, (iii) free cash flow deteriorates and liquidity weakens, (iv) the company engages in large transformative acquisitions that could lead to further integration risk and increase in leverage, or undertakes further sizeable shareholder distribution transactions.

## PRINCIPAL METHODOLOGY

The principal methodology used in these ratings was Gaming published in June 2021 and available at [https://www.moody.com/research/Rating-Methodology-Gaming--PBC\\_1276316](https://www.moody.com/research/Rating-Methodology-Gaming--PBC_1276316). Alternatively, please see the Rating Methodologies page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

## COMPANY PROFILE

Founded in 2006 and headquartered in Rome (Italy), Lottomatica (formerly Gamenet Group S.P.A.) is a leading Italian gaming company. In May 2021, Lottomatica completed the acquisition of the Italian online sports betting and gaming machines businesses of International Game Technology PLC (IGT). At the time of the acquisition, Gamenet was renamed Lottomatica. Post-acquisition the group became the leader in the Italian gaming market. The company operates in five operating segments: (i) Retail betting consisting of sports betting and gaming through the retail network; (ii) Online consisting of sports betting and gaming; (iii) Amusement with prize machines ("AWP"); (iv) Video lottery terminals ("VLT"); and (v) Retail & street operations consisting of the management of owned gaming halls and AWP's. In 2020, the company reported net revenue of EUR897 million and EBITDA of EUR209 million pro forma for the acquisition of IGT's assets.

## REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: [https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC\\_79004](https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004).

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At least one ESG consideration was material to the credit rating action(s) announced and described above.

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Lola Tyl  
Analyst  
Corporate Finance Group  
Moody's France SAS  
96 Boulevard Haussmann  
Paris 75008  
France  
JOURNALISTS: 44 20 7772 5456  
Client Service: 44 20 7772 5454

Jeanine Arnold  
Associate Managing Director  
Corporate Finance Group  
JOURNALISTS: 44 20 7772 5456  
Client Service: 44 20 7772 5454

Releasing Office:  
Moody's France SAS  
96 Boulevard Haussmann  
Paris 75008  
France  
JOURNALISTS: 44 20 7772 5456  
Client Service: 44 20 7772 5454

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