Codere Cleansing Materials

September 2023

codere

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Introduction

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01. Introduction

Management Team Update and Adverse Halls Closures and Restrictions

During H1 2023, the business made a number of positive transformation steps, including:

- People / Leadership:
  - Exit of incumbent CEOs, interim CEO onboarded, new permanent CEO, Gonzaga Higuero, started on 30th June. Execution deliverables and culture of accountability established within leadership team
  - Replacement of CFO with a new permanent CFO, Luis Villalba, who started on 17th July and has meaningful turnaround experience
  - Hired a new Transformation Officer with more than 14 years sector experience at Cirsa to drive operational efficiencies and cost reduction, onboarded on 3rd July
- Governance and controls: Strengthening controls around cash and liquidity including cashflow forecasting, cash committees, capex approval process, delegation of authorities
- Cost Focus: Cost reduction initiatives across headcount and non-staff OPEX, ongoing review of further opportunities

Adverse Halls Closures and Restrictions

- Following inspections of the relevant premises, several halls in Mexico and Argentina have been subject to temporary closure or restrictions by public authorities due to alleged non-compliance with certain regulations
- The first of such closures occurred in April 2023. Codere has since promptly acted to address the matters raised by the different authorities and has successfully reopened and lifted restrictions on several halls in Argentina and Mexico
- As of the date of this announcement, there are 45 halls in Mexico subject to partial restrictions and 5 halls closed, whilst in Argentina 2 halls remain closed and none are subject to restrictions. Codere continues to work expeditiously to understand the actions of the authorities and remedy the situation, and has successfully reopened closed halls and lifted restrictions, improving revenues since the beginning of the closures, and assumes to resume full operations in all restricted halls by the end of the year, although there can be no assurance as to when the full operations will resume
- **As of week commencing 11th September 2023, the year-to-date impact of the above-mentioned closures and restrictions led to a reduction of Mexico and Argentina Gross Win of c.€18m and c.€33m, respectively, representing 7.0% and 9.0% of full year FY2023 Budget, a reduction of Operating Revenues of c.€17m and €32m, respectively, representing c.7% and 9% of full year FY2023 Budget, and a reduction of pre-IFRS-16 Adj. EBITDA of c. €13m and €17m, respectively, representing c.35% and 23% of full year FY2023 Budget. Other jurisdictions not subject to any restrictions are performing broadly in line with Budget**
- In addition to implementing all the available measures to remedy this situation and recover the normal course of activity in both countries as soon as possible, the Group has implemented several measures to preserve liquidity, namely, supplier and capex deferrals, working capital optimization initiatives, and cost savings. These measures have resulted in an additional liquidity to date of c.€15m, of which c.€3m are expected to be unwound from September to December 2023
- **Assuming current restrictions remain in place until the end of FY2023**, the Group expects a downward revision of its 2023B pre-IFRS-16 Adj. EBITDA to c.€120m to €130m from c.€181.8m(1) and a decrease in total EoP Cash Balance as of Dec-23, excluding any New Money, to c.€10m to €15m from Adjusted EoP Cash balance of c.€21m(2)
  - Downwards revision in Operating Revenues and EBITDA is a result of the impact of closures and restrictions on two of the main countries where the Codere Group operates, Mexico and Argentina, with FY2023 Operating Revenues expected to be lower by c.€20-25m and €62-66m, respectively, and pre-IFRS Adj. EBITDA expected to be lower by €18-23m and c.€30-35m(3), respectively
  - This impact has been partially offset by the liquidity measures aforementioned as well as a net reduction in capex investment for FY2023 of c.€10m
  - Furthermore, as a result of the restrictions and subsequent reduction in revenues, the Group forecasts a total cash benefit in FY2023, namely from a reduction in Corporate Income Tax, Argentina cash repatriation costs and Bonus and Short Term Retention Plans and other adjustments of c.€30-35m which will further offset the EBITDA impact of the restrictions on liquidity
- As of week commencing 11th September, total liquidity stood at c.€64m

(1) Difference with Mar-23 Cleansing Presentation of €4.2m due to change in accounting adjustment in Uruguay for FY23.
(2) Mar-23 Cleansing Presentation Dec-23 EoP Cash of €113m adjusted to remove €100m FPNs, related cash interest and NSSNs and SSNs coupon payments under locked-up new terms (c.€8.6m).
(3) EBITDA impact includes the variance of the actual figures until July and takes into consideration the current restrictions in place, the seasonality of the business, gradual recovery of income, inflation, FX movements and other cost reduction and efficiency measures.

01. Introduction

Interim New Financing and LUA Amendments	

Interim New Financing and LUA Amendments

- As announced on the 31st July, considering the current restrictions and hall closures, the Company agreed with the Ad Hoc Committee of Noteholders ("AHC") and certain other holders to extend the Long-Stop Date as defined in the Lock-Up Agreement from 31 July 2023 to 27 October to provide further time for the parties and in particular the new management team to evaluate the impact of the restrictions and hall closures on the Group's business and to consider whether any amendments to the Transaction may be appropriate
- Whilst the Group is still not able at this stage to provide an exact timeline for the reopening of the remaining closed / restricted halls, it is crucial that it secures an immediate liquidity injection to allow for (i) operational funding needs, (ii) de minimis Capex needs, and (iii) to avoid minimum liquidity covenant breach in September 2023
- Considering the current situation, in order to provide appropriate liquidity cushion, while the Company continues to pursue mitigating actions against the public authorities' restrictions, the AHC and certain other holders have agreed to provide €50m interim new financing to support the business
- The interim financing has the support of the AHC and certain other holders that represent c.66% of the New Super Senior Notes, c.62% of the EUR Senior Secured Notes ("EUR SSNs"), c.65% of the USD Senior Secured Notes ("USD SSNs"), c.70% of the Subordinated HoldCo PIK / Class A shares and 66% of the ordinary Equity (Class A plus Class B Shares)
- The LUA has also been amended and restated to reflect the creation of the Interim Notes. It is expected that the Interim Notes will be refinanced by the FPNs which will be provided as part of the Transaction and in which all eligible NSSN holders will be entitled to participate. The LUA has also been amended to reflect that the terms of the FPNs (including pricing) shall be reconfirmed when the Company is ready to launch the Transaction (and each FPN Backstop Provider's (as defined in the LUA) agreement to backstop the FPNs is now conditional on its agreement to such revised FPN terms)
- Detailed terms of the Interim Notes can be found in section 4

Updated Short Term Cash Flow Forecast

02

Corporate presentation

02. Updated STCFF

Operations have been impacted by closures and restrictions, with 45 halls restricted and 5 halls closed in Mexico (c.59%) and 2 halls closed in Argentina (c. 15%) and with a total Gross Win impact as of w/c 11th September of c.€51m, and estimated cash impact[1] of c.€36m.

Retail Consolidated Cash Flow Outlook (€m)

Week Commencing	11-Sep	18-Sep	25-Sep	02-Oct	09-Oct	16-Oct	23-Oct	30-Oct	06-Nov	13-Nov	20-Nov	27-Nov	04-Dec	Total
Operating Cash Flow	**(4.2)**	**6.5**	**(22.3)**	**8.0**	**(9.8)**	**8.5**	**2.6**	**1.7**	**11.5**	**2.8**	**2.0**	**(14.1)**	**5.6**	**(1.2)**
Investment Cash Flow	**(0.8)**	**(0.9)**	**(1.9)**	**(0.4)**	**(1.3)**	**(0.4)**	**(1.8)**	**(1.4)**	**(1.5)**	**(0.4)**	**(0.9)**	**(2.0)**	**(1.0)**	**(14.7)**
Financial Cash Flow	**(0.4)**	**(1.3)**	**(0.9)**	**(0.8)**	**(0.7)**	**(0.2)**	**(1.2)**	**1.1**	**(1.2)**	**(0.2)**	**(1.0)**	**0.8**	**(1.0)**	**(6.9)**
Total Cash Flow	**(5.4)**	**4.3**	**(25.1)**	**6.8**	**(11.8)**	**8.0**	**(0.4)**	**1.4**	**8.8**	**2.3**	**0.1**	**(15.3)**	**3.6**	**(22.7)**
Minority Partners CF / Interco & Cash Pool	(0.5)	1.0	(1.2)	1.1	(0.9)	1.1	(0.9)	1.3	(1.0)	1.0	(1.0)	(0.2)	(1.2)	(1.1)
Net Cash Flow	**(5.9)**	**5.4**	**(26.3)**	**8.0**	**(12.7)**	**9.1**	**(1.3)**	**2.7**	**7.8**	**3.3**	**(0.9)**	**(15.5)**	**2.4**	**(23.9)**
Cash Balance BoP	**63.7**	**57.8**	**63.2**	**37.0**	**44.9**	**32.3**	**41.4**	**40.1**	**42.7**	**50.6**	**53.9**	**53.0**	**37.4**	**63.7**
Cash Balance EoP (A)	**57.8**	**63.2**	**37.0**	**44.9**	**32.3**	**41.4**	**40.1**	**42.7**	**50.6**	**53.9**	**53.0**	**37.4**	**39.8**	**39.8**
Non available cash (B)	28.5	30.3	30.0	30.0	30.0	30.0	30.0	30.0	29.2	29.2	29.2	29.2	28.5	28.5
Available Cash (A-B)	**29.4**	**32.9**	**7.0**	**15.0**	**2.3**	**11.4**	**10.1**	**12.8**	**21.3**	**24.6**	**23.7**	**8.2**	**11.3**	**11.3**

Key Commentary

Revenues assumptions:

- Base Case assumes normal operations in all the countries except for Argentina and Mexico, where it assumes current hall closures and restrictions remain in place throughout the forecast period:
  - Argentina: Total Closure San Martin and Lomas de Zamora and negative impact on collection due to non-updating machine prices ("ABM")
  - Mexico: Total closure of Gran Sur, Ecatepec, Cuauhtémoc, Alameda and Las Animas halls and additional 45 halls subject to restrictions
  - Cash closure impact is calculated as loss of estimated Gross Win less direct gaming taxes (34% for Argentina and 30% for Mexico). Other direct costs are not reduced

Other assumptions:

- Excludes interim new financing
- Total restriction on new investments, excluding Commercial CAPEX in Spain, in Italy, Licenses in Argentina, capex payments from the previous year and capex to maintain current operations
- Included legal advisors' payments in September of €1.7m. An additional €12.5m legal advisors' expense is not included in the forecast, assumed to be paid once interim financing is funded

Potential risks not included:

- Uruguay - €1.9m ITAU loan with maturity on 05/11/2023: risk of non-renewal of credit line due to lack of audited financial statements

(1) Revenues minus gaming taxes.

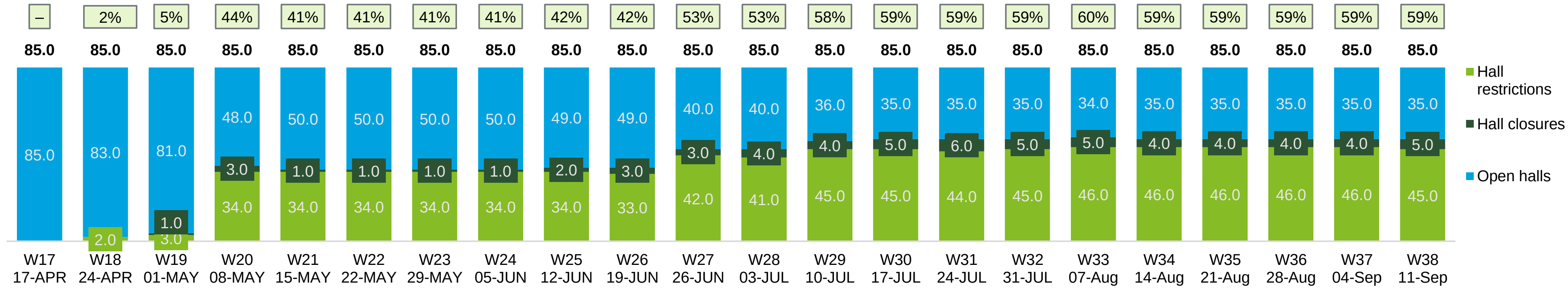
02. Updated STCFF | Mexico

Operations in Mexico with c.59% of halls affected by restrictions (45 halls) and/or closures (5 halls), with a total Gross Win impact as of w/c 11th September of c.€18m, compared to FY23B of c.€241m, and estimated cash impact(1) of c. €13m. Base case assumes current restrictions remain throughout the forecasted period.

Mexico STCFF – Base Case

Week Commencing	11-Sep	18-Sep	25-Sep	02-Oct	09-Oct	16-Oct	23-Oct	30-Oct	06-Nov	13-Nov	20-Nov	27-Nov	04-Dec	Total
Operating Cash Flow	(0.9)	(0.7)	(3.5)	1.7	(3.5)	2.1	(2.8)	2.9	1.7	(2.3)	3.0	(2.3)	(0.2)	(4.8)
Investment Cash Flow	–	–	0.5	–	–	–	(0.2)	–	–	–	–	0.5	–	0.9
Financial Cash Flow	(0.1)	(0.5)	(0.0)	(0.2)	(0.6)	(0.1)	(0.7)	–	(0.6)	(0.1)	(0.5)	(0.2)	(0.6)	(4.3)
Total Cash Flow	(1.0)	(1.1)	(3.0)	1.5	(4.2)	2.0	(3.6)	2.9	1.1	(2.4)	2.5	(2.0)	(0.9)	(8.2)
Net Cash Flow	(1.0)	(1.1)	(3.0)	1.5	(4.2)	2.0	(3.6)	2.9	1.1	(2.4)	2.5	(2.0)	(0.9)	(8.2)
Cash Balance BoP	3.5	2.6	1.4	(1.6)	(0.1)	(4.2)	(2.3)	(5.9)	(3.1)	(2.0)	(4.4)	(1.9)	(3.9)	3.5
Cash Balance EoP (A)	2.6	1.4	(1.6)	(0.1)	(4.2)	(2.3)	(5.9)	(3.1)	(2.0)	(4.4)	(1.9)	(3.9)	(4.7)	(4.7)
Non available cash (B)	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Available Cash (A-B)	1.8	0.6	(2.4)	(0.9)	(5.1)	(3.1)	(6.7)	(3.9)	(2.8)	(5.2)	(2.7)	(4.7)	(5.5)	(5.5)

Restrictions Evolution



Key Commentary

- Daily run-rate of c.€145-155k lost Gross Win as of w/c 11th September, driven by Gran Sur (since 24-Jun), Ecatepec (since 14-Jul), Cuauhtémoc (since 28-Jul), Alameda (since 28-Jul) and Las Animas (since 18-Sep) halls closures and restrictions in 45 halls
- Operating Revenues YTD reduction of c.€17m
- Daily EBITDA loss run-rate as of w/c 11th September of c.€105-110k, with cumulative EBITDA impact as of w/c 11th September of c.€13m
- The Company forecasts a maximum cash need of €6.7m in the w/c 23rd of October

(1) Revenues minus gaming taxes.

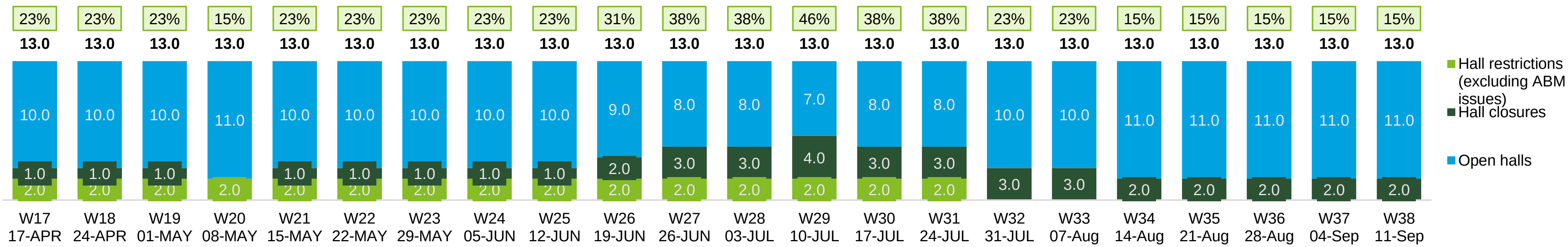
02. Updated STCFF | Argentina

Operations in Argentina currently see only 2 halls subject to closures, with a total Gross Win impact as of w/c 11th September of c.€33m, compared to FY23B of c.€359m and estimated cash impact(1) of c.€23m. Base case assumes current restrictions remain throughout the forecasted period.

Argentina STCFF – Base Case

Week Commencing	11-Sep	18-Sep	25-Sep	02-Oct	09-Oct	16-Oct	23-Oct	30-Oct	06-Nov	13-Nov	20-Nov	27-Nov	04-Dec	Total
Operating Cash Flow	(0.3)	0.4	(0.3)	0.5	0.4	1.5	0.6	(1.4)	0.7	1.0	1.2	(2.2)	0.0	2.1
Investment Cash Flow	(0.0)	–	(0.0)	(0.0)	(0.9)	–	(0.4)	–	(0.9)	–	–	(1.6)	(0.6)	(4.5)
Financial Cash Flow	(0.1)	–	–	–	–	(0.1)	–	–	–	–	–	–	–	(0.1)
Total Cash Flow	(0.4)	0.4	(0.4)	0.4	(0.5)	1.5	0.2	(1.4)	(0.2)	1.0	1.2	(3.8)	(0.6)	(2.6)
Net Cash Flow	(0.4)	0.4	(0.4)	0.4	(0.5)	1.5	0.2	(1.4)	(0.2)	1.0	1.2	(3.8)	(0.6)	(2.6)
Cash Balance BoP	4.7	4.3	4.7	4.3	4.8	4.3	5.8	5.9	4.5	4.3	5.3	6.5	2.7	4.7
Cash Balance EoP (A)	4.3	4.7	4.3	4.8	4.3	5.8	5.9	4.5	4.3	5.3	6.5	2.7	2.1	2.1
Non available cash (B)	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1	3.1
Available Cash (A-B)	1.2	1.6	1.2	1.7	1.2	2.7	2.8	1.4	1.2	2.2	3.4	(0.4)	(1.0)	(1.0)

Restrictions Evolution



Key Commentary

- Daily run-rate of €200-210k lost Gross Win as of w/c 11th September, driven by San Martin (since 15-Jul), and Lomas de Zamora halls closure (since 25-Jun)
- Daily EBITDA loss run-rate as of w/c 11th of September of €100-105k, with cumulative EBITDA impact as of w/c 11th September of c.€17m
- Operating Revenues YTD reduction of c.€32m
- The Company is expected to be able to manage end of November cash shortfall through the implementation of short-term deferrals. Annual accounts signed by Auditors is needed to move cash from and to Argentina.
- 5,638 slots were impacted by ABM price increase delays, out of which 2,182 were already updated, 609 will be updated in September and for the rest of impacted slots (2,847) there is no visit scheduled from gaming authorities yet
- From September 1st, ABM price increase have been done for 814 slots allocated in Lomas, Mirador, Moron, San Martin, and San Miguel halls

(1) Revenues minus gaming taxes.

Overview of Restrictions

03

03. Overview of Restrictions | Mexico and Argentina

Authorities have closed / restricted halls in Mexico and Argentina citing a variety of reasons. The Company is taking all the available actions to mitigate restrictions and closures, some of which have led to the reopening of halls / lifting of certain restrictions.

- The reasons cited by Local Authorities and Federal Agencies for the closure of, or the imposition of operating restrictions on certain halls in Mexico and Argentina include alleged:
    - Invalidity or expiry of certain land use and / or environmental permits;
    - Failure to provide relevant permits / licences / other documentation in respect of activities taking place at certain halls;
    - Breaches of health and safety regulations (including inadequate implementation of smoking bans in certain halls/ deficiencies in ventilation systems in designated smoking areas in others); and
    - Breach of certain other regulations, for example, relating to the sale of alcohol and operating hours

- The company disputes a number of the allegations and is diligently pursuing a range of actions intended to mitigate the impact of the restrictions/closures on its business, including the remediation of deficiencies, the cessation of conduct identified as being in breach of relevant regulations, the payment of certain fines, the submission of relevant documentation to authorities and, where appropriate, the filing of appeals

- In certain instances, the company has been successful in overturning decisions of the authorities, leading to restrictions being lifted/halls being re-opened

Interim New Financing

04

04. Interim New Financing

Whilst the Group is still not able at this stage to provide an exact timeline for the reopening of the remaining closed / restricted halls, it is crucial that it secures an immediate liquidity injection to allow for (i) operational funding needs, (ii) de minimis Capex needs, and (iii) to avoid minimum liquidity covenant breach in September 2023.

- The following interim financing proposal has been prepared by the Company to address short-term liquidity needs, namely funding operations and deployment of required capex, while ensuring compliance with minimum cash covenant, while the Company continues to take every remediation action available and work expeditiously to facilitate a lifting of restrictions and re-opening of remaining closed halls as soon as possible
- The Interim Financing will be provided by the AHC and certain other holders and is expected to be refinanced with FPNs when locked-up transaction is launched. Amendments to the locked-up FPN terms to be considered as additional information is shared by the Company.
- Interim financing requires the amendment of the intercreditor agreement, NSSNs, SSNs and Subordinated PIK Notes, for which the required consents have been reached

Key Interim Financing Terms

Quantum	> €50m
Issuer	> Codere Finance 2 (Luxembourg) S.A *(same as the proposed issuer of the FPNs)*
Coupon	> 13% cash coupon

Fees	> 7% Minimum Deferred Exit Fee if instrument held until maturity
	  > Deferred Exit Fee to increase in order to guarantee a 1.2x MoM minimum return in case of an early repayment
	  > Minimum return to be guaranteed given exceptional circumstances and limited visibility of business plan over the bridge financing period

Maturity	> 12 months, i.e. September 2024
Ranking	> Super senior to all NSSNs and SSNs; pari with surety bond providers
Other	> Guarantors and security same as NSSNs > Removal of certain baskets given higher business risk and current uncertainty surrounding business profile > Minimum liquidity covenant to be kept at €40m > Instrument to be rated

Sources and Uses

Sources in 2023 & Q1 2024:	Amount (€m)
Bridge loan	50.0
Total Bridge Loan	**50.0**

Uses in 2023 & Q1 2024:	Amount (€m)
Mexico - Cash Needs for 2023 + Q1 2024	21.7
Restructuring Advisors	12.5
Wave 2 Restructuring Cost (Estimate of Potential Future Severance Payments)	3.0
Other Corporate Purposes	12.8
Total Bridge Loan	**50.0**

Corporate presentation