



Eilers & Krejcik
Gaming

Konami – Analysis of 3Q CY18 Results

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Summary

Konami Gaming reported its 2Q FY19 results late last week for the period ending Sep 30, 2018. Overall, revenue for the casino gaming division increased +4.5% y/y in USD driven by a pickup in U.S. & Canada slot replacement sales while Operating Income improved significantly (+74% y/y) off of a poor quarter the previous year.

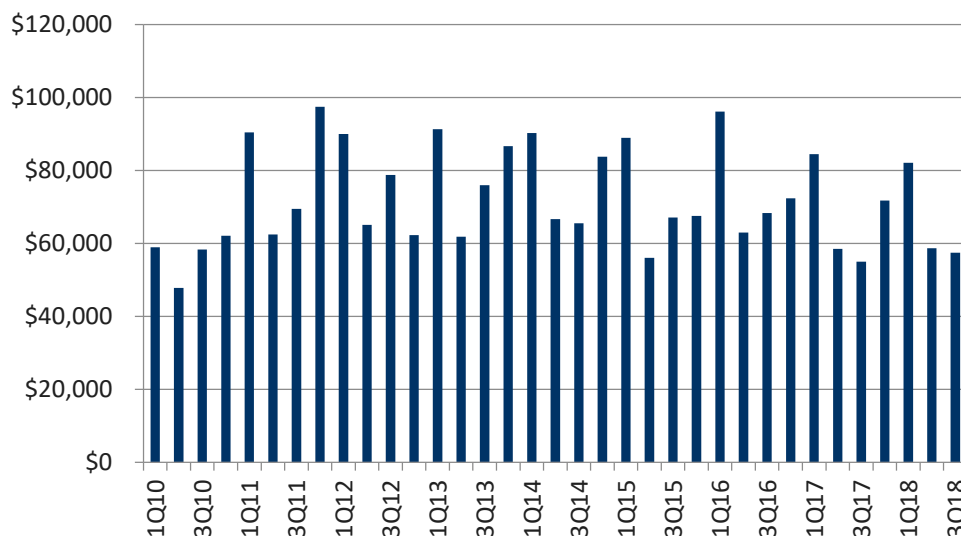
OUR KEY TAKEAWAYS

- **Game sales pick up.** Game sales increased +50% y/y as Konami is starting to see the benefits of a recent product re-tooling. Our checks indicate that Konami sold ~1,700 games during the quarter which was up +60% y/y and +40% q/q. Sales were driven by a pickup in Concerto Crescent (curved platform) and Concerto Stack (Single screen video) sales. Key titles driving sales during the period include: *Jumpin Jalapenos Jackpots*, *Agent Magnifying Jackpots*, *Mayan Chief Great Stacks*, and *Riches Drop Plop Plop Peach*, which were all ranked as Top 25 Casino Owned games in our latest proprietary game performance report for Sept '18.
- **Gaming Ops improving.** We estimate Konami's NA Gaming Ops revenue increased +8% y/y and was flat q/q at ~\$12.4 million in the qtr driven by an increase in the avg. number of games installed on participation/lease agreements and while avg Fee per Day (FPD) was relatively flat. Installations of Fortune Cup and new linked progressive games with Strike Zone bonus rounds both had a positive effect on the install base during the period.
- **Systems light in period.** We estimate the systems segment contributed ~\$6 million in revenue during the qtr, which was down y/y and q/q. On a seq. basis, we estimate the number of slots connected to Konami systems declined by 1,900 games to ~81,750 units. Looking forward, Konami's corporate contract with Carnival should add ~10,000 new slot connections and recent Golden Entertainment contract for four additional casinos should add another 2,500 slots providing a steady stream of systems revenue over the next 2-3 years as those casinos and ships are installed. We anticipate both contracts to begin contributing in early CY19.
- **FY19 guidance maintained.** Mgt also maintained its FY19 full year guidance for the 12-month period ending March '19 including revenue of ¥31.5 billion yen and operating income of ¥5.5 billion. Using an USD/YEN FX rate of 111, forward guidance implies expectations for \$282 million in revenue (+6% y/y) and \$49.3 million in operating income (+18% y/y).

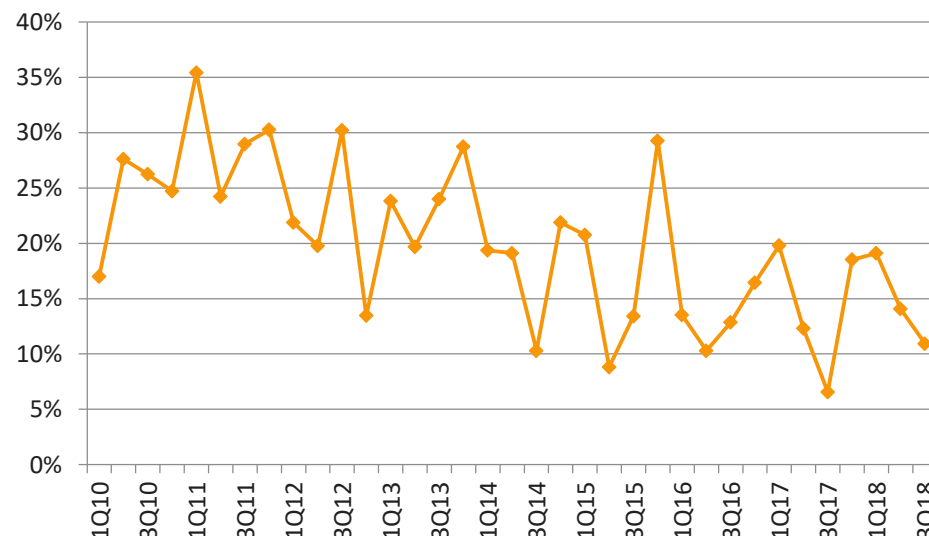
Financial Results – 3Q CY18

- Within the parent company's results, Konami Gaming (Casino supplier division) generated revenue of ¥6.4 billion Yen (US \$57.5m) vs. ¥6.1 billion Yen (US \$55.0m) the prior year. In local currency (USD), revenue was up +4.5% y/y and down -2.1% q/q.
- Operating Profit increased to ¥0.7 billion Yen (US \$6.3m) vs. ¥0.4 billion Yen (US \$3.6m) in the year ago period. In local currency (USD), operating profit increased +74% y/y while declining -24% q/q.
- As mentioned on the previous slide, revenue and profit increased y/y in USD driven primarily by a pick up in U.S. & Canada slot replacement sales.

Total Revenue, \$\$ in 000 (USD)



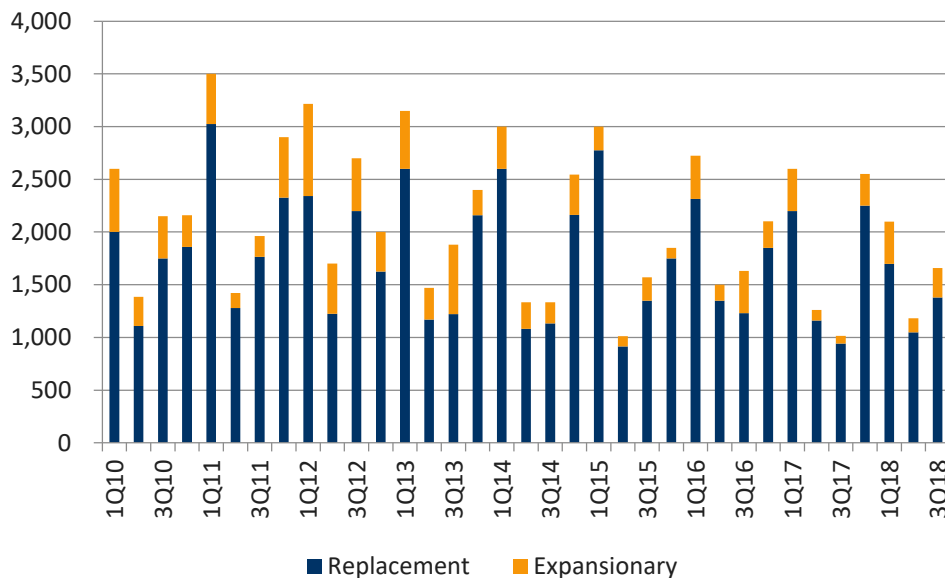
Operating Margin



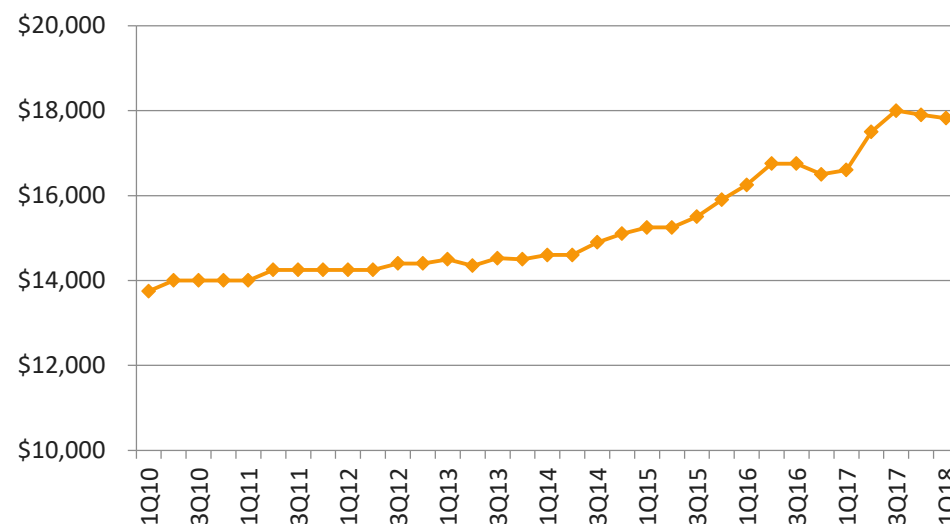
U.S. & Canada Product Sales – 3Q18

- We estimate Konami's product sales were up +50% y/y and +30% q/q to US\$32.0 million in the qtr. Our industry checks indicate that Konami sold ~1,700 games in the U.S. & Canada during the 3Q CY18 period, which was up +60% y/y and +40% q/q.
- For the qtr we estimate replacements sales increased +50% y/y to ~1,400 games sold while New and Expansionary sales were ~300 units shipped.
- ASPs remained relatively stable in the period at ~\$17,500 reflecting a healthy contribution of Concerto Crescent and Concerto Stack sales.

Games Sold - N. America



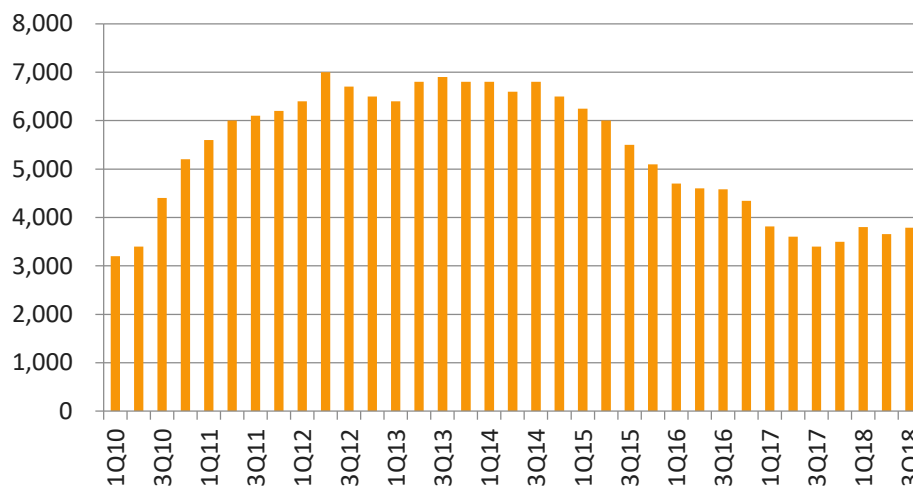
Avg Sales Price (ASP)



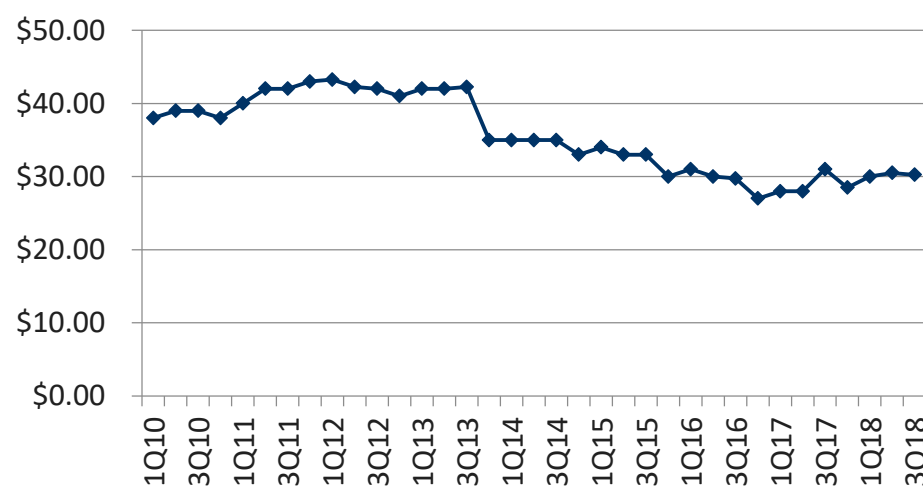
U.S. & Canada Gaming Operations – 3Q18

- We estimate Konami's Gaming Ops revenue increased +8% y/y and was roughly flat q/q at ~US \$12.4 million in the qtr driven by a increase in the avg install base of games while the average FPD was essentially flat.
- Our checks indicate that the company's avg install base of lease and participation games in North America increased by +221 units q/q to ~3,721 games while Konami's end of period install base increased +387 units q/q to 3,787 games.
- After several years of declines, Konami is finally gaining back some share with the introduction of Fortune Cup and a couple new linked progressive games with new Strike Zone bonus rounds . We note installations of the Fortune Cup game equates to 10 seats.
- Finally, we also estimate that Konami generated ~US\$2 million of Interactive gaming revenue (i.e. Social Casino, RMG, etc.) during the qtr.

Lease / Participation Games Installed - N. America



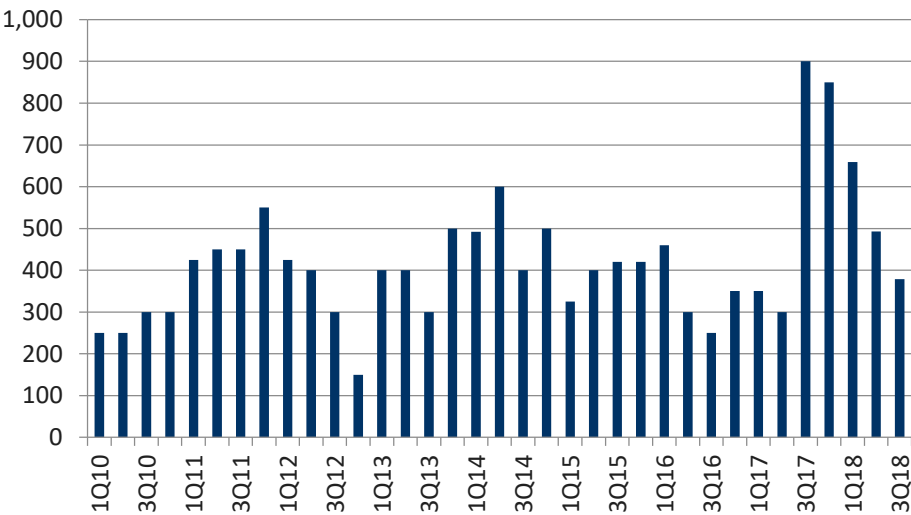
Avg Fee per Day (FPD) - N. America



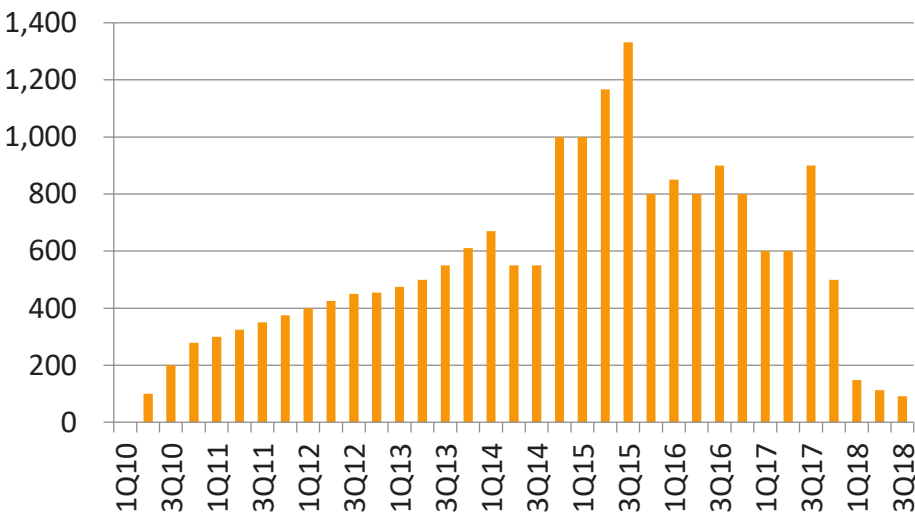
International Game Sales & Gaming Ops – 3Q18

- As for International markets, we estimate Konami sold ~400 games during the 3Q CY18 period and ended the qtr with ~100 recurring revenue games installed earning an average of ~US\$13.00 per day.

Game Sales - International



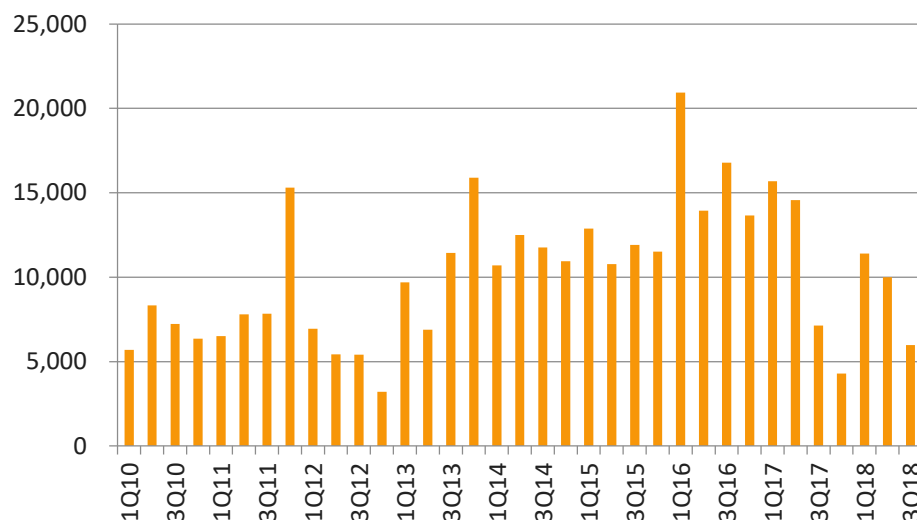
Lease / Participation Games Installed - Intl



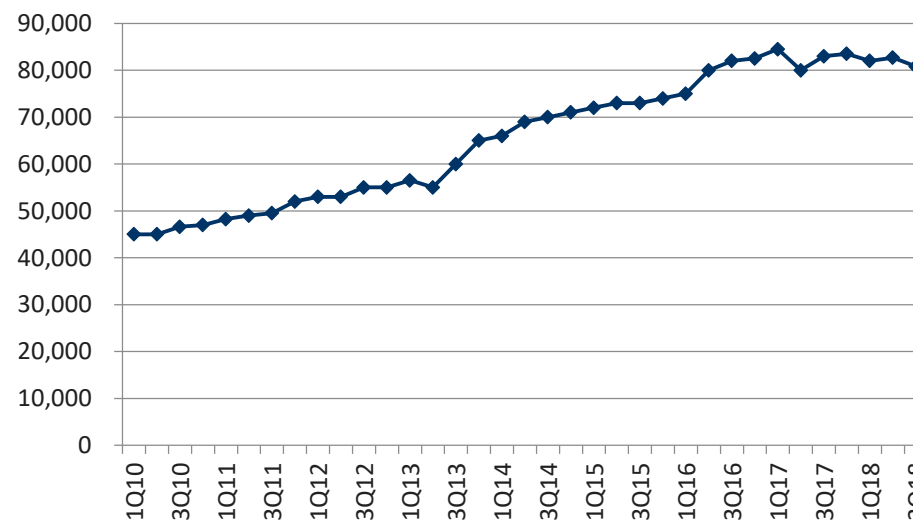
Casino Systems – 3Q18

- We estimate Konami's system's business contributed ~\$6 million in revenue during the period, which was down y/y and q/q.
- On a seq. basis, we estimate the number of slots connected to Konami systems to be ~80,800, which was down -1,900 units from the prior qtr.
- Looking forward, Konami's corporate contract with Carnival should add ~10,000 new connections providing a steady stream of systems revenue over the next 2-3 years as ships are converted. Konami's recent Golden Ent contract for four new properties should also contribute another 2,500 slots to the systems portfolio.

Systems Revenue, \$s in 000 (USD)



Total Slots Connected to Systems



Guidance for FY19

Mgt also maintained its FY19 full year guidance for the 12-month period ending March '19 including revenue of ¥31.5 billion yen and operating income of ¥5.5 billion. Using an USD/YEN FX rate of 111, forward guidance implies expectations for \$284 million in revenue (+6% y/y) and \$49.6 million in operating income (+18% y/y).

FY19 Guidance in USD

Revenue: US\$282.2m (+6% y/y)

Operating Profit: US\$49.3m (+18% y/y)

Notes:

Guidance assumes an avg. FX rate of 112 Yen/USD for FY19 vs. 111 in FY18



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