



November 16, 2018

To our valued customers,

We are very excited to announce that we will be hosting the first in a series of webinars about the business of Sports Betting. The need to understand the real numbers associated with this opportunity is an important topic for legislators and regulators. This webinar is designed to walk through the process and considerations for building an economic impact statement – a now common research tool used by state governments and regulatory bodies to understand the market potential of introducing sports betting in a jurisdiction along with the related risks and policy considerations. This Webinar will include a discussion with the following panel of experts:

- Chris Grove, Managing Director, Eilers & Krejcik Gaming
- Kahlil Philander, Assistant Professor, Carson College of Business, Washington State University
- Mark Lipparelli, Founder, Gioco Ventures and former Nevada State Senator
- Jeff Ifrah, Ifrah Law and Executive Director and General Counsel, iDEA
- Lindsay Slader (moderator), VP Regulatory Affairs, GeoComply

This event will be held on December 4th, at 1:30pm ET / 10:30am PT. If you're interested in joining the webinar, click [here](#).

While the mainstream media has been focused on the latest developments and numbers coming out of the emerging US sports betting market (and rightfully so), we believe companies and investors should not lose sight of the largest addressable US digital gaming market right now, social casino. According to our latest Social Casino Tracker report the industry eclipsed the \$5bln mark for the trailing 12-month period ending Sep 30, 2018, with the U.S. accounting for approximately 2/3rds of all revenues generated (or ~\$3.3bln). Scientific Games has certainly not lost sight of this market opportunity as the company announced on its recent earnings call that it's considering a possible IPO of a minority interest in its social gaming business in CY19, which we believe would easily fetch a valuation of over \$1bln.

E&K Hot off the Press

This section provides some links to appearances in other media outlets over the last month. After all isn't there a saying that no press is bad press.

Fort Wayne Journal Gazette - [Sports bets to pay off in taxes](#)
Las Vegas Sun - [336 million reasons New Jersey really enjoys betting on sports](#)
Bloomberg BNA - [Nevada Sports Books Prepare for Out-of-State Betting](#)
WHAS11 (ABC Affiliate) - [Indiana lawmakers move forward on legal sports gambling](#)
Las Vegas Review-Journal - [MGM Resorts, NHL sign sports betting partnership](#)
Casino Reports - [Indiana Committee Unanimously Backs Sports Betting Legalization](#)
Las Vegas Review-Journal - [Caesars signs promotional betting partnership with NBA, NHL teams](#)
Gambling.com - [Las Vegas Raking Record Money Despite Competition](#)
Las Vegas Review-Journal - [New York Jets, MGM Resorts announce gaming partnership](#)
Gambling Insider - ["Life will go on" for UK operators after RGD increase, says analyst](#)
New York Post - [Morgan Stanley predicts sports betting will be big business](#)
The Inquirer - [Three early takeaways from N.J.'s explosive sports-betting launch](#)
OnlinePokerReport.com - [Casinos In New Jersey And Pennsylvania See Online Gambling Opportunity Across The Border](#)
Gaming Post - [US Casinos Mull Cross-Border Operations](#)

iGamingBusiness.com - [Illinois targets rapid progress on betting legislation](#)
Las Vegas Review-Journal - [Boyd Gaming expects boost from 5 new acquired properties](#)
Gambling Insider - [U.S. Sports Betting: States and storylines to watch](#)
New York Times - ['Goldmine': Why New Jersey is Suddenly Challenging Nevada as a Sports Betting Hub](#)

Recent Reports Published:

Digital & Interactive Games reports published over the last month:

- On October 23rd, we published the *Social Casino Gaming Tracker 3Q18*. After a strong first half of 2018, there was a notable slowdown in Q3. We still believe the social casino market is on track to meet our CY18 estimate of over \$5b (up over +15% y/y). Most of the top 15 social casino publishers were weak within the quarter with a few exceptions, SG Digital and Playstudios both showed strong sequential growth. On a positive note CPI appears to have eased in the qtr and ROAS also improved this period.
- On October 25th, we published *G2E Content Trends and Takeaways*. This special topic report was authored by Robin Littleworth, Product Consultant for Eilers & Krejck Gaming, LLC and is part of a monthly series within our Digital & Interactive Vertical. Asian Progressive machines have taken over a spot in every slot game vendors portfolio. After being introduced to attract players in Asian markets, they now inhabit casino floors in virtually all markets. Companies are still relying quite heavily on licensed brands as a way to attract players but, oddly, there were few games featuring recognizable titles/characters available in the public domain.
- On October 29th, we published *FLASH: UK Remote Gaming Duty Raised*. The UK Government announced the Remote Gaming Duty (RGD) will rise from 15% of GGR to 21% of GGR from October 2019, a date that coincides with the reduction in the maximum stake on Fixed Odds Betting Terminals (FOBT) to 2 Pounds. The RGD applies to online casino, bingo, and poker revenues generated from the UK and the 6% increase is expected to cost the industry an additional 230m Pounds in FY20 by our forecasts. Along with a recent increase in regulatory oversight this could act as a catalyst for further M&A as the cost burden rises for sub-scale gaming operators.
- On October 31st, we published *Facebook: In Depth Look at its Games Business in 3Q18*. Facebook's 'payments and other fees', which includes mostly game-related revenues generated from PC, was up +3% q/q and up +1% y/y. TTM revenues appear to have stabilized at over \$700m implying a \$3b market size for games on Facebook canvas. Social casino appears to be among the more resilient genres, which we credit to the green field nature of these titles and loyal users who have invested a significant amount of time and money into some of the games. The largest publishers on Facebook (Web) were: Playtika, King, Zynga, SciGames Interactive, and DoubleDown. Those publishers account for 33% of all Facebook PC game revenues in 3Q18.
- On October 31st, we published *FLASH: William Hill to Acquire Online Operator MRG*. William Hill made a cash offer to acquire online gaming operator MRG, which operates Mr. Green, Redbet, and a number of smaller brands. The acquisition seems to address some of the near-term concerns with investors relating to revenue mix and international profile. WH is diversifying its reliance on the UK market with the MRG deal but that came at a very high cost, with the acquisition price equating to 15x CY 17 EBITDA and 12x TTM EBITDA although continued growth could take it to 7.5x CY19 EBITDA. The acquisition does further complicate the WH platform issues and third-party reliance.
- On November 1st, we published *Zynga – Analysis of 3Q18 Results*. Zynga reported 3Q18 bookings of \$248.9m and adjusted EBITDA of \$28m, both ahead of their previous guidance of \$248m and \$16m, respectively. For 2019, management said it expects y/y bookings growth driven in part by new titles but EBITDA margins will decline due to an increase in operating expenses, primarily marketing spend on new game launches in addition to a slight ramp up in development spend.
- On November 2nd, we published *FLASH: Paddy Power Betfair Reports 3Q18 Results*. Paddy Power Betfair reported a +10% rise in group revenues for 3Q18 boosted by +15% y/y growth in online and +22% growth in its US business, which includes FanDuel. Online was a highlight but we remain concerned about rising taxes and product changes that would have pressured CY 18 EBITDA if those changes had been implemented in

CY18. US sports betting added approximately 5M pounds in revenue at a margin over 4%. We believe the sports betting landscape in the US is still in its very early days and PPB will need more legislative assistance to gain greater market access before it will emerge as a meaningful player in the US market.

- On November 6th, we published *FLASH: William Hill Reports 2H18-to-Date Results*. William Hill reported group revenue decline of -4% for the 17 weeks to 10/23, with online revenue down -5% y/y, retail down -4% y/y, and US revenues were up +6% y/y. The company provided an ambitious annual revenue target for its online business. Management stressed the mass market would be the key driver of future growth. We would question how big the market truly is and how much market share WH can claim from competitors like Sky Bet, Paddy Power, and Ladbrokes, all of which are competing for the same customer base in a mature online gambling market.
- On November 8th, we published *The Stars Group Inc. – 3Q18 Earnings Analysis*. The company reported 3Q18 revenues that were up +74% y/y and adjusted EBITDA that was up +27% y/y. The results were primarily driven by organic growth, Australia contributions (e.g. William Hill and CrownBet now branded as EasyBet), and Sky Betting & Gaming. The quarter overall was mixed with healthy revenue gains and strong margins offset by slower growth and weaker margins from the SBG assets. The Company didn't provide detailed CY19 guidance, but we project consolidated revenues of over \$2.8bln and adjusted EBITDA of over \$970m. We do believe the risk-reward profile of the company is starting to look compelling with the recent sell-off in shares.
- On November 8th, we published *DoubleU Games + Double Down Interactive: Analysis of 3Q18 Results*. DoubleU Games reported social casino gross revenues of over \$111m, a growth of over +16% y/y that outpaced the rest of the industry at approximately 12%. DoubleU Games' consolidated EBITDA margin was well over 35%, up nearly 300 bps from last year and largely attributed to a significant reduction in marketing spend and despite still paying a 12% royalty to IGT.
- On November 9th, we published the *Social Gaming Monitor – November 2018*. This new monthly report tracks the latest news and developments as it relates to both social and mobile games. Each month we highlight the top 20 grossing games on the major U.S. app stores, analyze key trends and themes, and detail the latest investments and M&A transactions within the social & mobile games industry. Key games moving up the grossing charts in October were Slotomania, Gardenscapes and Golf Clash. EPIC Games, the developer of Fortnite, announced it raised over \$1b from a group of seven well known venture firms. The uncertainty in the Chinese gaming market continues as the "green channel" by the Chinese government in an effort to monitor and control addictive gaming.
- On November 9th, we published *SG Interactive – Analysis of 3Q18 Results*. The highlight of the call was management discussing the possible IPO of a minority interest in the social gaming business in 2019. Management believes the IPO would provide greater flexibility to pursue additional growth initiatives for its social gaming business and unlock additional value for Scientific Games stakeholders. We believe the social gaming business would be worth over \$1B.

Gaming Equipment & Technology reports published over the last month:

- On October 23rd, we published the *EILERS-FANTINI Game Performance Report – Sep '18*. This monthly report is designed to provide a detailed analysis of current slot machine performance trends down to the individual game theme level, as well as track key slot suppliers and operator floor mix metrics for the North American gaming market. In addition to the previous filters for newly released cabinets and 180 Days on Floor by Theme or less we have now added an additional filter. The new filter only allows game themes that have been added to the EILERS-FANTINI Central Game Performance Database in the past six months. We believe this filter will provide more accurate snapshot of top performing new games in the market. Aristocrat leads the other suppliers in the Lease and WAP categories, while SGMS is the Top Grossing Supplier, while AGS is the Top Indexing Supplier in this month's report.
- On October 25th, we published *G2E Content Trends & Takeaways*. This special topic report was authored by Robin Littleworth, Product Consultant for Eilers & Krejcik Gaming, LLC and is part of a monthly series within our Digital & Interactive Vertical. Most of Robin's reports are focused on mobile product trends. However, we are

sharing this report with our land-based Gaming Equipment subscribers as Robin does a nice job of highlighting some key trends in the land-based slot machine sector.

- On October 30th, we published the *EILERS-FANTINI Slot Survey – 3Q18*. The EILERS-FANTINI survey is designed to track slot machine and related technology purchasing trends on a quarterly basis and is the gaming industry's largest slot survey in terms of total casinos and slot machines surveyed. This quarter's report represents our 36th proprietary slot survey and includes record level responses from key purchasing agents at a number of U.S. & Canadian Commercial and Tribal casinos, several Racino/VLT operators, as well as several international participants. In total, our 143 survey participants collectively operate 665 casinos and 24,739 retail outlets worldwide with ~587,000 total slot machines or equivalent electronic gaming devices. Our 124 U.S. & Canada participants operate 459 casinos, 7,200 retail outlets, and ~410,000 slot machines, representing ~41.4% of the total install base of gaming machines in N. America. The avg casino surveyed in N. America had ~893 slot machines installed while the avg international casino surveyed had ~858 slots.
- On November 1st, we published *IGT 3Q18 Earnings Summary*. IGT generated \$1.16 billion in revenue during 3Q18 which represented a moderate decline versus the prior year due to comparably lighter periods for North America and International Gaming as well as North America Lottery which was offset by growth from International Lottery as well as Italy Gaming & Lottery. However, margin improvement across the board produced +3% y/y growth in adj. EBITDA to \$443m.
- On November 5th, we published *Konami 3Q18 Earnings Summary*. Konami Gaming reported its 2Q FY19 results late last week for the period ending Sep 30. 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.
- On November 7th, we published the *EILERS: U.S. Lottery Tracker 3Q18*. In 3Q18, total U.S. lottery sales decreased -1.2% y/y and -2.8% q/q to \$18.9 billion across the 45 U.S. jurisdictions we track in our report. Draw-Based sales for the quarter decreased -8.1% y/y but increased +3.7% q/q to \$6.7 billion due to lower multi-state jackpot activity on an annual basis but higher jackpot activity on a sequential basis. Instant Ticket sales increased +3.8% y/y but decreased -5.7% q/q to \$12.1 billion further building on an impressive stretch of growth. Internet-based iLottery sales, though small in size relative to traditional lottery games, continues to be a promising pipeline for further growth increasing +48% y/y to \$70.3 million driven by the launch of Pennsylvania iLottery services.
- On November 8th, we published *Strong Payments & Game Sales Drive Upside*. Everi Holdings (EVRI) reported strong 3Q18 results earlier this week that beat both consensus and our estimates due to strength from both Payments and Games segments. For the qtr, revenue increased +17% to \$120.3 million and Adj. EBITDA increased +9% y/y to \$58.3 million. Payments growth was fueled by strong industry fundamentals as well as the expansion of services with new clients. The Games segment enjoyed growth from strong sales of new cabinets as well as Fee per Day (FPD) growth among leased units. Total debt was \$1.1b and the company's consolidated secured leverage ratio was 3.3x vs a maximum senior leverage of 5x. Looking ahead, Mgt maintained Adj. EBITDA guidance of \$228-231m for FY18. Our estimates have been revised upward to reflect strong performance.
- On November 9th, we published *AGS: Record Game Sales Drive Strong Q3 Results*. AGS reported mixed 3Q results with revenue coming in above expectations while EBITDA came in slightly below our estimates. The upside to revenue came from record level slot machine sales driven by new markets (Alberta), new cabinets (Orion Slant), and a large corporate order. Margins were negatively impacted by the recent acquisition of Gameiom combined with a dip in Game sales margins due to higher than normal corporate orders which carry volume discounts. Mgt also narrowed its EBITDA guidance to \$134-\$136 million from \$132-\$136 million. The company's top line trends remain strong and we anticipate margins to improve in 2019. We currently forecast AGS to generate \$307 million in revenue and \$148 million in EBITDA in CY19. AGS ended the qtr with \$492 million in long-term debt and \$33 million in cash while generating \$7.5 million in FCF during the qtr. Post qtr, AGS repriced its long-term debt to LIBOR plus 350pbs from 450pbs, which should save ~\$4m in cash interest. Updated model attached.

- On November 12th, we published *SciGames 3Q18 Earnings Recap*. SciGames reported 3Q18 results with revenue and adj. EBITDA coming in below expectations. However, the company generated significant positive free cash flow in the period after two quarters of negative cash burn. Overall, this was a mixed qtr for SciGames. Revenue and EBITDA were light primarily due to weaker than expected performance in the Gaming segment. On the other hand, Lottery, Social, and Digital performed well and the company generated positive free cash flow. Looking forward, a slight rebound in game sales, growth in gaming ops with the rollout of James Bond titles, and further casino system installs in Canada should help support the Gaming segment, while the remaining verticals remain stable. Additionally, management announced the company is considering an IPO of the company's social gaming business, from which proceeds would be utilized to pay down debt.
- On November 12th, we published *EILERS-FANTINI Data Insights – Sept '18*. This is a special "Data Insights" report utilizing game performance data from the EILERS-FANTINI central Game Performance Database (GPD). With this report, we introduce Percentile based Ranking as a way to normalize the impact of large performance variances between reporting casinos. We also take a look at the top performing slot cabinets in the market. Finally, we note that Aristocrat is our Highlighted Supplier in this report and we share some positive and negative data points.
- On November 13th, we published *Pollard: Strong Instant Ticket Sales & Acquisitions Drive Growth*. Pollard reported strong 3Q results this past week with significant revenue and Adj. EBITDA growth. Total revenue increased +33% y/y to \$94.5m while EBITDA increased +22.4% y/y to \$14.2m for the period. Healthy instant ticket market conditions as well as a favorable timing of ticket shipments produced significant growth within the core business. Additionally, inorganic growth from the acquisitions of Innova Gaming and International Gamco over the past year also provided a boost to results in the period.

Sports & Emerging Verticals reports published over the last month:

- On November 1st, we published the *U.S. Sports Betting Monitor – November 2018*. Senator Orrin Hatch of Utah is readying a "discussion draft" for a very narrow federal measure that would provide stiff penalties on match-fixers, the draft is slated for release after Thanksgiving. The DC sports betting market is looking to pass a measure that would authorize a hybrid public-private model to take advantage of the compelling upside to legalized sports betting through the significant tourism and convention traffic in the Nation's capital. Louisiana is looking like a state that will have substantive sports betting policy push in 2019. Also, Nevada sports betting seems to be getting a boost from the competition as September handle across all retail and mobile sportsbooks hit a new all-time monthly high.
- On November 15th, we published we published *FLASH: NJ Sports Betting / Online Casino Revenue for October 2018*. The NJ sports betting market is heading in the right direction, even if the revenue numbers paint a different picture. The handle increase is impressive and points to a market that is poised for significant growth y/y. A closer look at the results shows that sports books had one of the worst months on record in terms of hold for football bets and a lion's share of the revenue drop can be attributed to that low hold figure. Still, we believe the figure can be chalked up to variance; sportsbooks, after all, traditionally enjoy some of the highest hold rates on NFL and college football. The online channel is proving critical to the growth of the NJ market as almost all the growth in handle came from online in October. The retail segment is a disappointment and suggests that the gap between online and retail sports betting will continue to expand going forward.

Upcoming reports scheduled for release:

Here's a listing of our upcoming report releases:

- U.S. iGaming Tracker – New Jersey October 2018 Results + Updated National Outlook – Week of November 19th
- Mobile Gaming Product Trends – Week of November 26th
- Aristocrat Earnings – November 29
- Inspired Earnings Release – Week of December 3rd (estimated)
- Daily Fantasy Sports Tracker – Week of December 3rd

- Social Gaming Monitor - Week of December 3rd
- Social Casino Tracker – 3Q18 Recap Report – Week of December 3rd
- EILERS: North American Revenue Brief – Week of December 10th
- EILERS: Slot & Table Count – Week of December 10th
- U.S. Sports Betting Report – Week of December 10th
- U.S. iGaming Tracker – New Jersey November 2018 Results + Updated National Outlook – Week of December 17th

Upcoming Industry / EKG Events:

We also want to provide an update for you, our clients, on upcoming events we are sponsoring or attending that you may be interested in. If you have any questions or want to meet with us at industry events, please email me with those requests.

- ICE Sports Betting USA Conference – November 27-28, 2018 – New York, NY
 - D.J. Leary will be at the event and available for meetings
- Mobile Growth Summit – February 13-14, 2019 – San Francisco, CA
 - Adam Krejcik will be speaking at the event and available for meetings

As always, contact me with any questions or concerns. Enjoy the weekend.

P.S. As a friendly reminder please do not distribute any reports outside of your organization, we have implemented tracking software and note forwarding reports is a direct violation of your terms & services agreement. If you know of someone that might be interested in becoming a subscriber, please contact us and we will follow-up and provide samples accordingly. If you would no longer like to receive these monthly emails please respond with "opt-out".

All the best,
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