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REIMAGINE PLAY™

PGRI Introduction: 2019 was a year of celebrating success for Scientific Games. Instant games retail sales surpassed the \$50 billion mark in the U.S. The world’s largest provider of instant games announced a manufacturing expansion on two continents, and several major domestic and international instant games and technology contracts including Florida, Turkey and Italy, plus the announcement of the first national instant ticket lottery concession in Brazil. Much of the global marketplace is still emerging in the instant product category with large markets like Brazil poised for explosive growth, and mature markets continuing to represent a huge opportunity to apply proven best-practices that can expand the player base for responsible entertainment. The category is reinventing itself for the digital age – poised to grow at rates faster than ever. Scientific Games is integrating the games with a cross-channel entertainment experience for players, and a modernized technology approach to retail.

Scientific Games provides over 70% of instant games worldwide, serving over 150 government lotteries globally with games, technology or services. As gaming distribution

channels expand, the need for integration at the systems level becomes mission-critical. Innovation at the operational level, excellence at execution, and collaboration with customers to ensure best-in-class at every level have always been a part of the company’s culture.

Supporting the U.S. industry with iLottery, players clubs, player account management systems and second-chance promotions, Scientific Games continues to analyze consumers and follow how and where they want to play. The company’s digital sports betting solutions are powering more than 35 markets around the world. Retailer innovations like the SCiQ® instant game ecosystem, PlayCentral® 54 self-service machines, and Scientific Games Enhanced Partnership (SGEP) programs are revolutionizing the way lottery products are sold at retail. The technologies to drive success are all in place and innovating peak-performance for many lotteries. And Scientific Games’ Reimagine Play experience is informing a reimagined operational ecosystem for an ever-expanding portfolio of games distributed through multiple channels.

Paul Jason: How is technology changing the player ecosystem?

Pat McHugh: For Scientific Games, our technology has allowed us to connect the entire lottery ecosystem to deliver the best games and player experiences across channels and product lines. Momentum™ is Scientific Games’ enterprise ecosystem that connects our suite of value-add products and applications for effective use today by lotteries. Momentum creates a framework that allows us to integrate sets of content, products, and data analytics

to operate in together. Our approach of integrated technology and products creates a backbone that supports progress in every corner of our lottery customers’ business to maximize proceeds to their beneficiaries. Data analytics have become a core function of all our systems, allowing us to help our customers optimize game design, and diversify the variety of games and playstyles for the consumer. Reimagining retail, with products like SCiQ®, is modernizing lottery with business intelligence never before available.

Inside and outside our industry, expanding digital channels, the diversity of pop themes and brands, plus the impact of real-time entertainment – whether that be mobile sports betting or video games – is creating an explosion of consumer choices that will shape our industry going forward. Technology is unlocking consumers’ ability to enjoy entertainment on demand. Scientific Games uses technology to translate those capabilities into what we refer to as “entertainment ecosystems” that allow our customers to

manage and analyze their game portfolios and associated products to entertain players, seamlessly between online and retail play.

What do you think the government lottery operator will look like five years from now in terms of the portfolio of games that they are offering?

P. McHugh: I think we can expect the need to increase funding for good causes to drive further expansion of game categories and distribution channels to make lottery products more accessible to consumers. The online market will grow at the fastest percentage rate. However, Scientific Games remains incredibly bullish on the ability to maximize profit growth, in actual dollars generated, from the core business.

Scientific Games has demonstrated that a strong partnership with our customers investing in innovative products and game portfolio management can generate double-digit growth even for mature and high-performing lotteries. In 2019, our SGEP program customers saw year-over-year growth far ahead of the industry as a whole. While year-over-year instant game performance for the industry is 4.3% growth, we have eight domestic SGEP customers experiencing from 5.8% to 13.7% growth year to date (as of December 28, 2019). That is truly exceptional performance.

As Drew Svitko explained in his keynote speech at the PGRI Lottery Expo in New York, the Pennsylvania Lottery leveraged its iLottery connection with consumers to drive performance at retail and vice-versa. However, the Pennsylvania Lottery's success isn't just with iLottery. They also added new retail game categories, expanded the number of self-service vending kiosks, launched cash-less payments and digital wallet funding at retail, and added new retailers. This multi-channel model has allowed Pennsylvania to experience record retail sales growth while launching the most commercially successful iLottery program in the industry's history. Making the games more accessible drives sales growth responsibly because it increases the player base by bringing in new kinds of consumers – and it does not depend on the

core players to increase their spend.

U.S. consumers now think of games-of-chance like any other consumer product or service. They expect innovation to drive new product; they expect multi-channel availability; and they expect a seamless, user-friendly player experience. Players expect operators to engage with them across the whole spectrum of online and off-line channels, and offer the widest diversity of games. That's why we are focused on products, profit and programs for our customers. We are maximizing sales growth in a responsible way with technologies that allow lotteries to launch new games quickly and cost-effectively, and integrate those games into the existing portfolio in ways that optimize the

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seamless player-experience.

Are lotteries investing in the technology that enables modernization?

P. McHugh: Yes. Atlantic Lottery and Danske Spiel are examples of lotteries that migrated completely to our multi-channel platform, transforming a legacy series of separate platforms that served all of the various product lines, but were not integrated to work together. Siloed platforms are inefficient for the operator and clunky for the player. Now these lotteries have one wholly integrated platform that supports all the products they offer – draw games, instant games, casino games and sports betting – all operating seamlessly across retail and digital channels that include self-serve kiosks and land-based casinos as well as traditional retail stores, iLottery and online casino games. The modern entertainment ecosystem pulls together all those products and channels. Of course, many lotteries do not offer the entire range of products in a multi-

channel environment, but they still want to integrate what they do have to sell through the channels in which they are authorized to sell. And everyone wants a technology infrastructure that supports change, growth, the addition of new products, new game categories and new channels of distribution. The breadth and depth of our global experience enables Scientific Games to customize the approach for the specific needs of each jurisdiction that operates within its own unique set of dynamics, regulatory constraints and business objectives.

Scientific Games has developed the systems technology and services that supports not just instant and draw games, but integrates products across

a broad portfolio of games that includes iLottery, sports betting, land-based casino, iCasino, digital promotions, loyalty programs, etc. These are all at the ready to deploy for customers that are ready to expand their game entertainment, just as the Pennsylvania Lottery, Danske Spil, Atlantic Lottery and other lotteries around the globe have successfully done.

The European and Canadian markets are now heading into a second generation of systems-enabled game entertainment. The first

generation had the functionality, but it was not fully integrated. This next generation is fully integrated so consumers can migrate seamlessly across game categories, channels and media; and so the operator can sell across product lines and multiple media and channels and use player loyalty clubs to promote a diversity of games and playstyles that engage players. The online connection is fully integrated with the retail channel to drive the multi-channel relationship that is more convenient for the player while driving sales growth for the operator.

We want to make it easy for sports bettors to play e-instants and other lottery games, so we are creating a path for younger adults who may prefer casino games and sports betting, to try lottery games. We think the traditional consumer lifecycle is more receptive to Lottery game entertainment as they get older. Scientific Games is making sure the bridge is there for consumers to cross over when the time is right.

Where does the retailer fit into the entertainment ecosystem?

P. McHugh: SCiQ is a great example of an intelligent instant game ecosystem that eliminates existing retailer challenges to selling lottery products in their stores. The result is improved player experience and increased sales performance, as well as enhanced operations for security, retailer support and inventory management. Right now, SCiQ units are operating at five major retailer chains across 10 states. SCiQ automates the tracking and recording of sales by unit, and it captures a wide range of data points that informs everything from game development to promotional messaging to product mix and inventory management in the store and all aspects of data analytics. SCiQ also integrates the iLottery and in-store digital components with retail. For the first time in our industry, SCiQ technology provides a very high level of security for instant games that prevents theft. This was proven by a recently thwarted robbery at a retailer in Arizona.

But how does SCiQ actually enhance the player experience?

P. McHugh: SCiQ was inspired by a need for professional in-store merchandising, analytics and management of one of the largest consumer products in the world - lottery products at retail. SCiQ reflects lottery's status as a multibillion-dollar global consumer product with millions of players and brand awareness that competes with the best-known consumer brands. SCiQ has been proven to drive double-digit growth in retailers where it is installed by enhancing the entire player experience at the counter, the place where it matters most: the proverbial "zero moment of truth". Applying the data analytics captured by SCiQ is a first step towards understanding the likes and dislikes of consumers as well as broad marketplace trends. Without the insights provided by data analytics, game design, supply chain logistics, promotion and brand messaging are all based on anecdotal information, gut instinct and trial-and-error. "Data is the new oil," but only if it is converted into useful business intelligence. That's what SCiQ does, and the result is highly informed game development and promotional messaging which creates a better player experience. And that drives sales performance.

Turkey was already one of the biggest regulated sports betting markets in the world. Since 2019, when Scientific

Games joint venture, Sans Girisim, took over operations, Turkey's sports betting operation began a new and very impressive phase of growth. How did Scientific Games and Sans Girisim manage to increase sales so significantly?

P. McHugh: Scientific Games' systems and managed services in Turkey allow for expanded play styles and distribution, resulting in record sales and profits literally from our first week of operations. This is why we are so bullish on the opportunity for sports in U.S. lotteries if the program is managed effectively. The first U.S. state to launch full-scale sports betting, Scientific Games' customer the Delaware Lottery has an impressive \$255 million in wagers and 9.9 million transactions since the June

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2018 launch.

Scientific Games' recent contract awards in Turkey and Italy are great examples of how our industry leading games, products and services were selected because they help maximize lottery proceeds. The Turkey National Lottery award shows the power of full-fledged integration of our games, technology products and services across channels of distribution. In Italy, our customer SISAL is rolling out our WAVE™ terminals for the national draw game SuperEnalotto. This will represent one of the largest lottery terminal point-of-sale networks in the world.

The lottery operator wants sports betting to augment its portfolio of games, attract new consumer groups, and diversify its player base. But can sports betting also be a big profit generator?

P. McHugh: In Turkey, we maintained the sports betting margins at 30% of gross gaming revenues, much like traditional lottery margins. We rolled out an attractive portfolio of bet options, allowing our customer to maintain profit margins, through our high-performance lottery terminals at retail which opened up a thousand new points-of-sale across the country. We optimized digital channels,

and integrated all the consumer touch-points to unlock the full potential of the true multi-channel player ecosystem and transformed the business.

If managed effectively, sports betting can absolutely be a profit generator. To your point, Scientific Games has extensive research data that shows there is significant crossover of players between traditional lottery products and other game entertainment like sports betting. Expanding and diversifying the portfolio of games appeals to the modern player's interest in trying new entertainment, it absolutely helps drive player engagement and sales growth.

You, Pat, have developed lots of personal relationships with industry leaders all around the world. How does that inform your own perspective and ability to overcome challenges and issues in execution and the solutions that you recommend?

P. McHugh: Scientific Games listens to our customers, and we love innovating to solve their challenges. Our mission is to make the best products that generate the most profit for our lottery customers' beneficiary programs. We think of our customer relationships as partnerships. SGEP instant category managed services is a partnership because we can share experience, tools, insights and best practices to optimize our customers' entire game portfolio. The results show our SGEP customers dramatically outperform the industry in growth.

And there are two important points about "best-practices." One, every jurisdiction is different, so what works best in one market may need to be modified in another. Two, the customer is the boss. She or he knows their own market, business and political climate the best. Our job as a business partner is to understand our customers' current and future needs, provide insights based on our global experiences, and adapt best practices to each unique environment. This philosophy has served our customers well for 45 years, and Scientific Games will continue to improve this approach in 2020 by providing the best products and programs that maximize lottery profits.

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