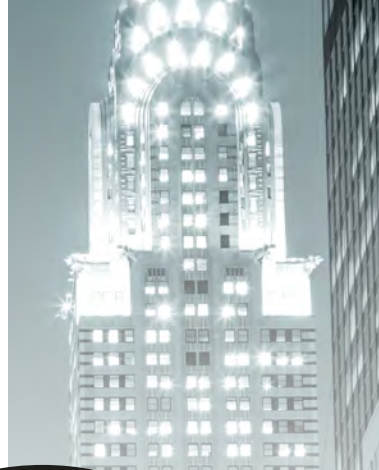


Following is an edited transcript of the panel discussion held at PGRI Lottery Expo NYC on October 29, 2019 in New York. You can view a video of the complete panel discussion at PGRItalks.com.

UPDATE ON THE PROGRESS OF SPORTS-BETTING IMPLEMENTATIONS IN THE U.S.

Moderator: Gerry Aubin
Executive Director, Rhode Island Lottery



PANELISTS:

Nick Papadoglou
Vice President & Chief Commercial Officer, INTRALOT US

Barry Pack
Executive Director, Oregon Lottery

Beth Bresnahan
Executive Director, DC Office of Lottery & Gaming

Rebecca Hargrove
President and CEO, Tennessee Education Lottery Corp. President of the World Lottery Association

Moderator: Gerry Aubin
Executive Director, Rhode Island Lottery

Introduction: According to U.S. federal law, all forms of gambling are prohibited throughout the United States until and unless it is specifically legalized and regulated by the individual state. Until May of 2018, the federal prohibition against sports betting did not even allow the states to legalize and regulate it. So states could legalize all forms of gaming except sports betting. Then in 2018, the Supreme Court ruled that states could not be prohibited from regulating sports betting. And so the last eighteen months have been a whirlwind of activity as state legislatures are exploring the pros and cons to different regulatory approaches. The Rhode Island Lottery implemented sports betting around 18 months ago, and the Oregon Lottery around two months ago. The District of Columbia Lottery is on deck to launch in 2020, right about when you are reading this. The Tennessee Education Lottery is tasked with regulating sports betting and is in the process of establishing terms, conditions, fees for application and licenses. The directors of those lotteries are joined by the Chief Commercial Officer for INTRALOT US to discuss the challenges, the opportunities, and some predictions for how things might evolve over the next couple years.

Gerry Aubin: We anticipated the possibility that sports betting would be legalized in Rhode Island and took the initiative to prepare RFP's ahead of time in order to be ready to fast-track the implementation once it was approved. The Rhode Island constitution and legislation stipulates that the RI Lottery operate all gaming in the State, and that includes sports betting. Our implementation began in late fall 2018 with on premise wagering at the two casino locations, which the Lottery already operates; and we launched statewide mobile sports

betting this past September.

The constitutionality of sports betting in Rhode Island was being challenged in court, so we were mindful of that with each phase of implementation. The servers, through which all sports betting transactions both on premise and mobile are processed, are located at the casinos. Mobile users must appear in person at one of the casinos to activate their account, and once the account is activated, players can wager from anywhere within the borders of Rhode Island.

70% of the world's sports betting is operated and/or regulated by government lotteries.

Rebecca Hargrove: Unlike Rhode Island, Oregon, and DC and other lotteries, the Tennessee Education Lottery only regulates sports betting. It manages the RFP and licensing process and determines regulatory policy, terms, fees, and conditions. But the TN Lottery does not operate sports betting.

Tennessee's legislation allows only for online sports betting. No casinos, no parlay betting at retailer venues – it's all online only. We've spent a lot of time looking at best-practices not only as they are being applied in Rhode Island, West Virginia, New Jersey, Oregon, D.C., and other states that operate

sports betting; but globally because that is where many Lotteries have been operating online sports wagering for many years. And it's not just about the rules and regs for companies once they are operating. The application and licensing process itself sets the foundation which supports the regulatory regime. We expect ten to thirteen applicants and there is no restriction on the number of licenses, only that applicants meet the suitability requirements.

There are many costs associated with background checks and other necessary licensing procedures. The license fee requires a \$50,000 upfront payment and then an annual \$750,000 payment. The license fees are stipulated by the enabling statute.

I think that means we are all in agreement that players prefer a legal sports betting option and that sports betting will not cannibalize lottery.

Beth Bresnahan: The District of Columbia has one of the more complex structures being implemented in the U.S. In December of 2018, the DC Council passed a bill that legalized sports betting in the District of Columbia and that bill was formally approved by the U.S. Congress in early May of this year. This bill designated the DC Office of Lottery & Gaming as both the regulator and an operator, though not exclusive operator, of sports betting. The DC Lottery will operate sports betting through a district-wide mobile application

as well as through a number of retail network chains. The DC Office of Lottery & Gaming will also regulate privately operated sports betting facilities including the Major League sports arenas, hotels, bars, restaurants that may want to operate independently and not through the DC Lottery.

We have regulations that were adopted in August of this year and we're working now to stand up the licensing process for the private operators. Operators, for the most part, can choose which locations where they want to operate their sportsbooks. Capital One Arena where the Wizards basketball team play; Nationals Park where the Major League Baseball World Series Champions Washington Nationals play; Audi Field

where the DC United soccer team plays; and a city owned St. Elizabeths East Sports Arena – those four venues are designated in the statute as Class A facilities. The application fee for those is \$500,000 for a five-year license. Class B facilities could include bars, restaurants, maybe hotels and other service industry facilities. The application fee for those is \$100,000 for a five-year license. As we are working to stand up the privately operated sports betting license, we are also building out the mobile app and retail network platform with our vendor INTRALOT.

There was a lawsuit that put everything on hold but it was dismissed so now we are moving steadily forward with the development and implementation. As Rebecca said, there's never a shortage of interesting challenges when it comes to launching sports betting. We expect to have the Lottery operated product launched and in the market in the spring.

Barry Pack: We tried to minimize the complexity and complications of the sports betting rules and regulations in Oregon. We limit gambling to those games offered by the state Lottery and Tribal casinos. We just launched our sportsbook two weeks ago, so we do not have a long track record to talk about yet. At this point, it is digital only, with a Mobile app. We consider the launch to be a tremendous success. Even the glitch at the start was, on hindsight, a good problem to have. We think of it as a Black Friday at Walmart when there are just too many people coming through the front door at the same time. Things stalled for a brief time and were fixed and have been running smoothly since. But, as everyone has already said, the issues are more complex than those we face in the world of traditional lottery.

My gaming commission has pretty broad constitutional authorities. We have a long list of things that we agreed that we could live without at launch but that we wanted to implement shortly thereafter. We are now in a good position to expand the offer. The next phase is to put together a business case and decide what the right value proposition for our players is for a retail-based strategy. It may be a kiosk or tablet-based

technology solution. Or maybe a near-field-frequency based solution that enables wagering on the player's own mobile device when they're in a retail location. It could include different playing options than if you're sitting at home in order to add value to our retailer. Or maybe give the retailers a parlay option. We do want to give retailers the opportunity to participate in sports betting.

G. Aubin: INTRALOT has a tremendous amount of global experience with sports betting, especially in Europe. And you are the technology partner for the DC Office of Lottery & Gaming. Nick, what are your thoughts on what's happening in other jurisdictions and their structures?

Nick Papadoglou: Thank you, Gerry. First of all, congratulations for leading a great launch in Rhode Island. Rhode Island Lottery set a very good example for other lotteries that will be following with sports betting implementations. And congratulations to you too Barry for what you have accomplished in Oregon. You have both shown sports betting can be a dynamic and powerful part of the lottery gaming portfolio.

Sports betting one of the fastest growing game categories in the world outside of the United States, it is also regulated and/or operated by the government lottery in 70% of the regulated markets world-wide. The different ways that a sports betting product can be launched into a market depends on how competitive the market is, and how the players react to the complexity of sports betting, and that depends somewhat on how much they love sports. Do the players want entertainment,

do they want parlay betting and, if so, what flavor of Parlay?

Retail distribution enables the operator to offer anonymity to the players which is valued by some players. Retail is also a very effective communication channel for the operator to promote and educate the marketplace about sports betting. And sports betting can be a very useful retailer engagement tool. But I would agree with others that a Mobile-first strategy is best. In the long-run, both the operator and the players are best-served by the interactive relationship that involves player registration. And you have much more flexibility to offer the complete variety of games on the digital platform, whereas at retail it is important that the games be

more limited in number and variety and also be easy to play.

G. Aubin: Everyone has made reference to the complexity of sports betting. There is also the volatility. Unlike traditional lottery where you set the fixed payout percentages and the results are very predictable, sports betting can have uncertain outcomes that directly impact the financial performance. For example, the Rhode Island Lottery lost \$660,000 last week because the Patriots beat the spread. On last year's Super Bowl, we lost \$2.3 million in one day. Of course, you should be able to calibrate the odds so that you end up making money for good causes in the long-term. So far this year we are pleased that our hold is almost 7%.

But considering we grossed about \$23 million and netted about \$6 million between the state and its partners, there's not the same margin of profitability as there is with traditional lottery. And you have to anticipate and prepare for the peaks and valleys.

uncertainty of sports betting being a source of anxiety, I have committed to my staff that I will only log in once a day to see how the numbers are doing!

My experience is also similar to Gerry's in that the potential to lose money on any given day or

Sports betting issues are more complex than those we face in the world of traditional lottery.

B. Pack: My perspective is informed by just two weeks' worth of experience. I have access to our reporting dashboard which gives granular data and performance metrics. To Gerry's point about the

sport contest takes some getting used to. The profit margins swing up and down – going as high as 13 to 14% to less than 3%. It's important that policy-makers who are allocating the income generated by Lottery to

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understand that it is more difficult to forecast the actual amount of net funds generated by sports betting than it is for traditional lottery. On the other hand, as the number of events increases, the results will gravitate more and more to the forecast, making long-term profitability of sports-betting a predictably profitable operation.

G. Aubin: A question for the panel: Will sports betting legislation be a bridge towards legislation that allows iLottery and cashless options for lottery players?

B. Bresnahan: It already has in DC. The bill that enables sports betting also authorized and clarified that iLottery is legal as well. We'll be launching an iLottery program late 2020 or early 2021. As awareness and understanding increase, I hope we see other states choose to regulate these consumer activities instead of trying to prohibit them. Better for society, better for the players, and better for our industry.

G. Aubin: I think so too. My legislators and political constituents in Rhode Island have always understood the need to channel player activity onto regulated, legal and authorized channels, which also channels economic benefit back to society. Once sports betting was allowed at the federal level, our legislature chose to legalize and regulate it. Now that iGaming and iLottery are being approved in many jurisdictions, our legislature is likely to approve a regulatory model for that as well.

Nick Papadoglou: Fantasy Sports was a preliminary step that appears to be shortening the time-line to get enabling legislation for sports betting passed. Hopefully, legislatures that are assessing sports betting will also consider modernizing regulations to allow cashless options and iLottery for their own state lottery, like they did in the District of Columbia.

R. Hargrove: I think that the cultural normalizing of sports betting and online gaming will cause legislators to look more favorably on the efforts to modernize the Lottery. So maybe that will smooth a path for modernizing Lottery to allow cashless options and iLottery. I just think it might take longer than we'd like – at least in some conservative states like Tennessee. It took

20 years to get the Lottery bill passed, and days to get the sports betting bill passed. Maybe this marks a turning point that will be favorable to lottery gaming too.

G. Aubin: In Rhode Island, there was opposition many years ago to the expansion of VLT's and table games. But there has been no opposition to sports betting. I think the ready acceptance of sports betting reflects a recognition that people were already betting on sports and now we are just providing a legal option. And we have had casinos for so long now that there is a cultural acceptance of gambling that makes the introduction of sports betting an easy lift for our legislature.

The demographic profile of sports betting players skews very heavily male and between the ages of 30 and 50. Very few females are going to our casinos and placing wagers. We expect that to be different for jurisdictions that allow mobile betting. Is it your experience that sports betting is bringing new players and new money into the games-of-chance space, or is it cannibalizing other categories like Lottery?

B. Pack: I think sports betting complements the broad portfolio of lottery gaming in a mutually supportive way. When we survey non-players, they tell us that they don't play lottery right now because they want a game with some element of skill to it, they want a game that has a social component to it, and they want a sports-themed game. Sports betting is all of those all wrapped up in a nutshell. I think the vast majority of players who are coming to sports betting are very infrequent lottery players or do not play traditional lottery games right now at all. Our demographics, Gerry, are very similar to what you said – overwhelmingly male, and with an average age of 40 which is about seven or eight years younger than the average age of our traditional lottery players.

B. Bresnahan: I'm just going to echo what you said, Barry. We don't believe that we'll see lottery spend migrating over to sports betting or game cannibalization. Instead of cannibalization, we believe that sports betting will attract new players who will then be exposed to the DC Lottery's digital offerings. We feel we are less likely to see the current lottery player who plays paper-based

products at retail stores going over to sports betting than we are to see new sports betting players buying a lottery ticket when they come across our online products.

G. Aubin: Well, I think that means we are all in agreement that players prefer a legal sports betting option and that sports betting will not cannibalize lottery. Realistically, we recognize that players still be on illegal websites.

R. Hargrove: The modern era of U.S. lotteries began in the late 60s. One of the catalysts for the explosive growth of lotteries throughout the following decades was to combat illegal numbers games. Government lotteries were at a distinct disadvantage from a value proposition point-of-view. The payout percentage was higher in the illegal numbers games and you didn't have a mechanism for making sure the players paid taxes when they won a large amount. Likewise, today with sports betting ... our prize payout may not be as high as the illegals but sports betting players will still prefer a legal option. Not necessarily all of the players, but most of them or at least enough of them to cause public-policy makers to want to regulate instead of prohibit the activity.

In my 35 years as a lottery director or CEO, I have found that this is an industry that helps each other. Beth and I were just talking about how great it is to be able to share insights and information since we do not compete with each other. Even though I knew this to be true, I was still surprised at how exceptional every one of my colleagues who have gone through this process truly are. I reached out for help from everybody, from Gerry to Beth to Charlie to people in New Jersey, Delaware, and West Virginia and Nick. The crash course in sports betting best practices I received was and continues to be so amazing and appreciated.

G. Aubin: I will echo what Rebecca said. There weren't any states other than Delaware doing sports betting when we came into the market. The New Jersey Gaming Board Commission was also helpful. And for all the challenges and issues surrounding sports betting, I think we all agree that sports betting is a productive part of our portfolio of games and contributes to the funding the Lottery generates for good causes. ■