



Dermot GRIFFIN

Chief Executive Officer, Premier Lotteries Ireland (PLI)

PGRI Introduction: Following a competitive tender process in 2013, the Irish Government selected a private operator, Premier Lotteries Ireland (PLI), to operate the National Lottery for 20 years. PLI took ownership of the license in February 2014. PLI is a consortium made up of An Post (the Irish Postal Service), An Post Pension Funds and the Ontario Teachers' Pension Plan (owner of Camelot UK, the operators of the UK National Lottery, and Camelot Global). Dermot Griffin, who has headed the National Lottery since 2006, was appointed Chief Executive of Premier Lotteries Ireland. The Irish Government received a €405 million up-front payment from the sale. The ongoing arrangement includes the provision that an amount equal to 65% of the National Lottery Sales minus Prizes goes to good causes.

Celebrating the license signing, Dermot Griffin, CEO Designate, Premier Lotteries Ireland, said: "I am delighted the Government has awarded Premier Lotteries Ireland the license to operate the National Lottery. Premier Lotteries Ireland will invest in the National Lottery and its Retail Network, providing state of the art technology to facilitate game innovation. In addition, we will provide players with choice through the development of the online channel. These opportunities will allow us to grow the National Lottery, increase returns to Good Causes, and create jobs in Ireland. Premier Lotteries Ireland will continue to operate with the existing National Lottery branding, maintaining the highest levels of integrity and responsible gaming."

Premier Lotteries Ireland is well-positioned to deliver on this, given the expertise and experience of its shareholders—An Post and An Post Pension Funds and Ontario Teachers' Pension Plan (OTPP). Both companies have a successful track record in the lottery industry through their shareholdings in Camelot and the Irish National Lottery respectively. An Post has successfully operated the Irish lottery since its creation in 1986. OTPP is the 100% owner of the Camelot Group, which includes UK National Lottery operator Camelot UK Lotteries Limited, and Camelot Global which provides consultancy and management services to lotteries worldwide. Both An Post and the Camelot Group have proven track records of growing lottery sales in Ireland and the UK respectively, as well as demonstrated global leadership in responsible gaming and corporate social responsibility.

Paul Jason, PGRI: *The Irish government attempted to privatize the National Lottery in years past. But no deal was ever reached. What was different about this situation that resulted in a successful sale, raising over €405 million in an up-front payment to the government of Ireland?*

Dermot Griffin: The previous attempts to privatize the National Lottery were for seven-year periods with the possible extension of an additional three years. The

biggest difference with the tender that resulted in a sale is that this license is for twenty years. The longer term license made it possible for the bidders to put together a much better proposal, including a significant upfront payment, for the right to operate the National Lottery. It's not just about the longer time-line to produce a return commensurate with the higher bid price. It's also about executing a well-conceived and funded strategy to optimize long-term performance. The

twenty-year license enables the operator to implement a sustainable plan that adapts to changes in the market-place and grow the business. Conversely, with the short-term license, the operator initially spends some eighteen months or so working through the transition and then must start preparing for the next bidding process while executing on its mission to deliver short-term results. That's just not a good recipe for building a business for long-term success.

The long-term license has proven successful in many other jurisdictions, most notably in Australia, Italy, and, of course, the UK. The benefits really accrue to the government, the owner of the asset, because it enables a bid to factor in a longer period of time to generate a higher ROI. That optimizes the value of future cash which in turn maximizes the value of the bid to the government. In particular, the up-front payment of €05 million would have been much lower with a shorter-term license. And for our part, it enables the PLI to invest in the business, to make the National Lottery be as successful as possible and to properly position it for maximum long-term value. That's important, because the government wants to be confident that the value of the asset, the relevance of the National Lottery to the people of Ireland, will be higher than ever when the license expires in twenty years. So that's the main difference between this tender and the previous attempts to privatize the National Lottery.

And as a private corporation, you have far more flexibility to invest in growth than does a government-owned entity.

D. Griffin: Absolutely. Governments operate under a wide variety of restrictions (National & European) when it comes to managing a business. Governments also have many other priorities to focus on. In a privatised model shareholders are fully focused on the business. PLI is responsible to stakeholders that understand and accept the fact that managing a business involves an element of risk. We certainly also want to minimize risk, and apply the highest standards and most sophisticated risk-assessment models to our management practices. But we are free to invest in growth and in initiatives that have a longer-term ROI. This greatly reduces the time-to-market so we can move forward with those ideas that have a shorter window of opportunity to tap into the most relevant and current consumer tastes.

We are just over a year into the contract and are already launching a broad range of new initiatives to engage our customers and increase player-ship. The National Lottery already had a high player-ship percentage. But our fundamental business objective is to appeal to more and more people, engaging a larger audience to play within their means. It's sound business strategy, and it's the responsible way to build a games-of-chance business.

To what extent are the skill-sets, brain-trust, and industry knowledge of Camelot Global being applied to the operation of PLI?

D. Griffin: The Ontario Teacher Pension Plan owns Camelot Global and also owns 80% of PLI. So the capabilities of Camelot Global are certainly being applied to optimize the performance of PLI and the National Lottery. The experience and resources of Camelot Global are an invaluable asset that contributes to the success of PLI. This is particularly the case when it comes to growing online or mobile channel sales where Camelot UK have developed good product offerings and have built up technical knowhow.

What were some of the initial objectives?

D. Griffin: The first objective was to execute a successful transition from the old license into the new PLI license. All the technology had to be changed and the actual switch-over of the entire system needed to be completed within a few hours. The November 29, 2013 lotto draw was carried out by An Post National Lottery Company. The next day, November 30th, the Daily Million draw was carried out by Premier Lotteries Ireland. The transition was seamless from a player and agent view point. The first months trading when added to the previous 11 months resulted in 2014 being our first growth year in 6 years. Now we want to build on that growth, engage the players with new gaming options, and increase player participation. That's good for players, it's great for good causes, and it's good for our shareholders.

How does a 20-year contract factor in the uncertainty of what technologies and games will even exist in the future?

D. Griffin: A 20-year contract allows an operator to fully invest and re-invest in the lottery, eg latest gaming and CRM technology, and allows the operator to be flexible and adaptable to changing consumer/player behaviour. Under the previous license, the National Lottery was being operated under the National Lottery Act which was created in 1986. That's almost thirty years ago. The internet and Mobile and all the games associated with those new technologies did not exist in 1986. The Lottery Act was changed in 2013 to facilitate the new technology world and provide flexibility to adapt to future changes.

The PLI License Agreement includes provisions that hold us accountable to the highest standards of corporate social responsibility and responsible gaming. It also includes reward and consequence mechanisms to assure alignment between the operator (PLI), the owner (government), the Retailers and players. The terms of the license cause PLI strategies and actions to align with the interests and will of the government. The key to a successful license is the construct of rewards and consequences that drive the operator's performance. It might seem straightforward, but is actually quite difficult to fine-tune the terms and conditions such that they do not produce unintended results, and really do cause everyone to pull in the exact same direction.

The Agreement also includes terms that protect all stakeholders. For instance, retailer commissions are fixed current rates mainly at 6% for the entire 20-year term.

The National Lottery started selling online in 2009. But the requirements placed on the consumer were so onerous. The player was required to send you their drivers license with their application, or physically come to a National Lottery office, not just a retailer, to show their drivers license or passport? Has that changed?

D. Griffin: Yes. In spite of the inconvenient registration process, we had built a base of 50,000 online players. The new license agreement facilitates the whole process of registering and interacting with the Lottery online, and for the player to manage her PLI accounts online. Our online registrations and player-ship have now increased to over 150,000 and growing. That has been achieved in the space of just over 1 year. We see the online connection as being key to building player-ship with new generations of consumers, and also with consumer groups which may not have been playing the lottery when online wasn't a convenient option.

How do your land-based retailers feel about the growth of the online channel?

D. Griffin: As we all know, the most loyal and engaged player is the one who plays both online and off-line. The multi-channel approach is required to meet the needs of the modern consumer. The result is good for everyone, including the retailers. The player who sets up her online account is just as likely, perhaps even more likely, to buy at the land-based store as well as online. Lottery becomes a bigger part of the lifestyle for the multi-channel player.

Do your online initiatives involve cross-sell promotions or incentives for the online lottery player to go into the store to either redeem a discount coupon or take advantage of an in-store-only offer?

D. Griffin: We do not see a need to do that right now. The online business is growing, and the more engaged multi-channel player is buying at retail as well as online, so we are not doing anything right now to further drive the consumer to one channel or the other.

That could change in the future. But right now, just 3% of our sales are online. The UK has nearly 20% of their sales from the online player. So at this point, our focus is simply on recruiting online players. I agree that there is huge

Irish National Lottery Introduces BIGGER BETTER LOTTO

More winners and bigger jackpots

Average value per draw up 43% from €4.5m to €6.3m

More ways to win with new prize tier introduced

New Lotto Plus Raffle

First change since 2006

The National Lottery announced the introduction of a number of innovations to make the flagship Lotto game more exciting and engaging to players. **Bigger Better Lotto** will come into effect from Thursday 3rd September.

The game will have bigger jackpots and more ways to win, creating a more exciting game for players, which will drive sales and, in turn, create increased funds for Good Causes. Bigger Better Lotto will see a change to the lotto matrix, with the addition of two new numbers, creating **Lotto 6/47**. This change, along with the other enhancements to Bigger Better Lotto will improve the odds for players to win a prize from 1:42 to 1:28.7.

The announced changes have all undergone market and player research, with the findings strongly indicating that "it's time for a change" and that players are attracted by larger jackpots and the increased chance to win.

The enhancements include an increased win from €25,000 to €100,000 (avg.) for a Match 5 plus Bonus number; a prize for matching two Lotto numbers plus the Bonus number; and a new way to win with a Lotto Plus Raffle, where a 4-digit raffle number will be displayed on each Lotto Plus ticket and the player, if lucky, can win €300 if that number is drawn.

The changes take effect from Thursday 3rd September 2015.

BACKGROUND TO THE CHANGE:

- Lotto game sales peaked at €381.4m in 2008 and declined by 40% in the next five years to €229.5m in 2013. Forecasts maintaining the status quo indicated ongoing decline which would represent a significant problem for the National Lottery as the reducing revenue-generating capacity of its core game category would seriously inhibit its ability to maintain, much less grow, funds generated for good causes.
- The new Bigger Better Lotto game is jackpot driven, whereby analysis has shown that play levels respond to significant jackpot growth. Over the history of the lottery, the offer of a record jackpot has been an infrequent, but significant, driver of sales. Under Bigger Better Lotto, within three years we expect that the Lotto jackpots will reach record levels (estimated up to €20M).
- The highest Lotto jackpot won in Ireland to date is €18.96m, which was won in June 2008. [PLI's biggest jackpot to date was a €10,650,121 Lotto jackpot on April 4th 2015.]
- The new matrix will increase from 6/45 with 8,145,060 different combinations to Lotto 6/47 with 10,737,573 combinations. This equates to on average 14 jackpot winners per year which is three less than the number statistically expected in the current game. Average wins will however be larger at an estimated €6.3m jackpot win under the new structure compared to the current €4.5m average jackpot. ■

opportunity to enrich the whole online consumer experience, and that will likely include looking at ways to leverage all our assets even more effectively. But we move one step at a time, ensuring that every change to our operation is executed well, and achieves the desired consumer response, before moving onto further changes and enhancements. I would emphasize, though, that speed to market is a top priority, we are evolving our processes and innovating to enhance the consumer experience as quickly as we can. The top priority is to do everything in a responsible way that never puts our integrity at risk, or jeopardizes the goodwill of our stakeholders.

Do you have a measure of how your land based retail sales have increased, or not, since you started to ramp up your online channel?

D. Griffin: We do not have a precise measure, but we know that the online channel is not negatively impacting our retailers. We have a formal structure to ensure active communication and ongoing engagement with our retailers. Regularly scheduled meetings help us ensure that we are all accomplishing our shared objectives. Keep in mind that Lottery is not the only product category that is sold online. Almost all the CPG products you find in a retail store are also available to purchase online. Retailers understand this and are working with their suppliers to adapt to a multi-channel system that engages more consumers in more ways and ultimately benefits everyone. They want happy customers just as we want happy players. They see that online is the best way to engage young adults interested in Lottery, and that these new players subsequently become customers in their retail stores.

What are some of the differences in the way that the Lottery is being run now as opposed to before the license was granted to PLI?

D. Griffin: First, and perhaps most importantly, we retained the staff that

ran the National Lottery for the past number of years. So we are able to preserve the strengths and wealth of experience and understanding of the business as it existed prior to the license transfer to PLI. We then reviewed all aspects of the business with a focus on changing things that could be improved. Camelot Global brings a fresh perspective that has opened our eyes to lots of opportunities to change and improve our operations. And on an ongoing basis, the resources and experience of Camelot Global has helped transform our business. Camelot Global applies the risk-assessment and predictive modeling tools that enable us to invest in innovation, reduce the time-to-market, apply best-practices to the execution of the plan, and be confident of the ROI. We can think and act in a bigger way as well as move more quickly to keep up with changing consumer tastes and preferences.

Camelot Global gives us a significant head-start as we ramp up the whole online portfolio of products. We are moving at warp speed from being an embryonic online operator to having the best Instant-Win Games, Mobile apps, and technology platform to support our ambitious digital strategy. We won't need to suffer a long learning curve fraught with possible costly mistakes. Camelot Global already have gone through that stage and now is helping guide our online business to scale up with maximum efficiency. Our experienced National Lottery staff has the knowledge of the local markets and gaming culture. Combining that with Camelot's global experience positions us for long-term sustainable growth.

Intralot has brought in, modern gaming technology. Our telecoms are now predominantly wireless, which is the way the modern world is going. We started with one mobile operator and found that is a mistake to be dependent on one single operator. We now have four Irish mobile operators. So if one goes down then the signals are automatically trans-

ferred to another mobile operator. That provides the redundancy and resilience to ensure local telecoms access to Retailers. It also delivers a stronger signal to our retailers. This infrastructure is superior to the wired connection for many reasons, including the vulnerability to service disruption when wires are cut or impaired.

So the service disruption of last February is not likely to happen again?

D. Griffin: That was an extremely unusual circumstances that affected not just the Lottery but lots of communications-reliant businesses in Ireland and across Europe. The telecomm breakdown was in Spain and then its back-up system had a coding problem. It was a confluence of events that was not predicted by anyone. The bottom line, though, is that the Lottery can't be vulnerable to that kind of disruption and our telecom providers have taken steps to minimize the possibility of future disruption. It should also be pointed out that we dealt with the service disruption in a way that did no damage to the Lottery, Retailers or its players. We deferred the draw by 24 hours and gave people the opportunity to play the next day. Getting back online within 24 hours and the way we handled the whole experience actually demonstrated the flexibility of the new system.

For all of your progress over the past year and a half, now that you are past the transition period you are more able to focus on the players and building the business.

D. Griffin: It's true. We have ambitious plans to deliver more value to the players. We have commenced our game development programme with the revamp of our premier game 'lotto.' We have announced details of Bigger Better lotto which will have bigger Jackpots and more ways to win, creating a more exciting game for players, which will drive sales and in turn create increased funds for good causes. ■