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### On Empowering the Customer

**Paul Jason, PGRI:** *What are your main objectives for 2016?*

**Gavin Isaacs:** Scientific Games is continuing on the path we have set. Our mission is straightforward. We want to empower our customers by creating the world's best gaming and lottery experiences. Our primary focus is on creating games that excite the consumer, and technology and services that make it more convenient for the consumer to interact with lottery. We also continue to focus on making it more profitable for retailers to deliver enjoyable lottery playing experiences to their customers.

**Jim Kennedy:** Gavin has crystallized a clear sense of purpose for Scientific Games. Our pathway to success has always been to serve the customer. So our mission to empower our customers begins with providing lottery operators and

retailers with the tools that deliver value to the consumer.

The lottery playing experience includes entertaining games that offer exciting chances to win great prizes. Creating amazing game content is key to our value proposition to the player. This has always been the core mission of Scientific Games, and the results of this leadership are evident in our customers' success. There is a tremendous opportunity to enhance the consumer value proposition by taking a broader view of the overall lottery player journey with the category.

Viewing the entire experience as a player journey also reveals the way that the market has changed over the last 10 years. The consumer is now presented with more and more gaming entertainment choices, immediate access via technology, and the convergence of markets.

**G. Isaacs:** That really describes the whole purpose of creating the fully integrated gaming company that Scientific Games has become. The convergence of consumer markets is best served by an integration of the products, games, messaging and delivery systems on the operator and supplier side of the business.

*What exactly is "convergence," and how can government lotteries be more proactive to benefit from the opportunities that convergence is creating?*

**J. Kennedy:** The real innovation is about turning the phenomenon of convergence into positive outcomes for lottery operators, retailers, and players. We do this when we harness and integrate across media and distribution channels to reach and appeal to the broadest range of player and consumer profiles. There

## A Letter from Gavin Isaacs

Lottery generates hundreds of billions of dollars globally for education, healthcare, the elderly and other good causes. The mission of Scientific Games is to help our lottery customers increase funds to support their good causes. That is the mission that has driven everything we do, including the acquisitions of Bally, WMS and SHFL entertainment. In 2016, Scientific Games is positioned to deliver more value than ever to our government-gaming clients.

I want to thank all of our customers for your confidence in our vision, and reaffirm our dedication to exceeding your expectations on every front. The last 12 months have been an incredibly energetic time for all of us at Scientific Games and our customers. The company's integration is right on target and delivering benefits to our customers. The synergies on the operations and infrastructure sides of the business are ahead of plan. This yields efficiencies that will enable us to focus even more on the real objective, which is to empower our government-gaming clients with great games, great technologies and systems, and world-class support. The repositioning of Scientific Games with the customer-facing brands of SG Gaming, SG Lottery and SG Interactive demonstrates how the different components of the business are now integrated under one harmonious roof. This was showcased last fall at G2E and at NASPL. Our commitment to our existing product lines, as well as to the R&D and innovation that drives our ability to empower our customers with ongoing success, was all on full display at these conferences. The excitement level for Scientific Games at both events was awesome—a really exciting kick-off for the last quarter of the year and launch into 2016.

The synergies accruing to the combined companies will benefit our customers in all the different gaming categories. The technologies and skill sets in Scientific Games' Lottery business are being migrated across all gaming categories. The Bally and WMS product brands have tremendous assets, such as content, product development and systems technologies that are now enhancing our capabilities in lottery.

The key to building long-term sustainable success is investment. And we are investing more than ever in innovation and sales performance—initiatives that will further empower our lottery customers.

We understand and appreciate that lotteries operate within many constraints. But the fundamental ROI in this industry is so high that it should be just a matter of constructing tenders that free up capacity and that unlock the resources of the community of commercial partners so that these resources can be applied to drive sales and net funding for good causes. If there was ever an industry that was investment-driven, it's lottery. The highest margins in the commercial world are Apple, Microsoft and Google. They are all between 21 percent and 23 percent. These companies spend billions in R&D and billions more to test, launch, and market innovation and new product concepts. Lotteries haven't embraced R&D thus far. But lottery is a market-driven industry that yields a higher ROI than these commercial companies. Net funding to good causes will benefit the entire industry as we work together to unlock the reservoir of investment capital to drive lottery sales. It can and should be done.

I have learned so much over the last year-and-a-half from the incredible lottery leadership team at Scientific Games. It has been a pleasure working with and learning from team members like Jim Kennedy, John Schulz, Pat McHugh, Michael Conforti, Simone Harrison, and many others whose knowledge of the industry and connection to our customers is truly an inspiration. It's also been truly enjoyable meeting and learning from our lottery customers around the world. It has given me an appreciation for the incredible vision we have for the industry, and the drive we have to maximize funds for good causes and build a sustainable long-term growth business. Lottery is so well-positioned to continue our success in the lottery marketplace, and Scientific Games is dedicated to helping our customers make it happen.

Lottery products have fundamental and enduring appeal to the broadest cross-section of consumers in the lottery industry. Lottery is well-known and trusted, and its network of retailers provides, by far, the broadest reach and consumer access to these great products. We believe the main goal is to help lottery retailers drive the business, for the benefit of lottery and also for the benefit of the retailers. The more lottery contributes to the success of its retailers, the more dedicated they will be to the success of lottery. Enhancing the consumer connection with lottery, through digital and mobile initiatives, will benefit the entire lottery ecosystem. There is tremendous potential to build upon the incredible success that lottery has established over the decades. Scientific Games appreciates and is dedicated to helping lottery achieve its full potential. ■

will be consumers who migrate some of their lottery spend over to other gaming categories. There will be others who migrate some of their spend away from other categories to lottery. And there will be entirely new sets of consumers who are experiencing lottery games for the first time. Ubiquitous access to gaming options will result in a convergence of different player segments, enabling players to easily migrate from one gaming category to another. For example, online shopping apps are causing consumer usage of mobile to converge with retail shopping. Mobile apps are creating a convergence of casino and online gaming and they're driving a convergence of retail and online lottery play. As an industry, we should embrace these trends because they're happening. Scientific Games is out in front of it all, innovating to harness our incredible assets and capabilities and integrate them with the real-world marketplace so that we produce and deliver real-world value to the consumer on behalf of our lottery customers.

**G. Isaacs:** The technology and the means to apply it are all here, ready to be deployed. It is time for our industry to take control, shape its own destiny, and turn these industry trends to work to its advantage. The new world is ruled by the consumer. In our industry, the consumer values a diversity of options, great games, and easy access to that game entertainment. The innovation that shapes our industry going forward will empower lotteries with tools to connect to this consumer marketplace of multiple options. Innovation will position lotteries for long-term sustainable success. The technology is available today; Scientific Games has it ready to go. And it is now much less about the technology itself than it is about applying the technology in the real world so that we create real value for the consumer. We believe 2016 is the year to make this happen, and we are ready to empower our

customers to do just that.

*How will the integration of mobile, lottery gaming and retail be changing, and how will it add value for everyone?*

**G. Isaacs:** Regardless of whether a lottery's mobile platform is transaction-enabled or not, there is an incredibly rich variety of ways, such as promotional offers, second-chance plays, and many other catalysts to drive the consumer back and forth between mobile and land-based retail. Lottery's global network of approximately one million retailers is an invaluable asset, and building on that retail connection to the player will always be paramount. Providing the most robust functionality and consumer options on the mobile platform will augment lottery's ability to drive retail engagement as well as elevate the lottery brand for the consumer. Driving this kind of omnichannel relationship with the consumer is key to creating the relationship that is so fundamental to a fully engaged and loyal player base.

**J. Kennedy:** There are many ways that all lotteries, completely apart from selling games online, can drive consumer engagement with mobile apps and leverage the role that retailers play in the distribution system. For instance, lotteries can enable players to select their lotto numbers online, assign a bar code to that number, and go to the retail store to have it scanned and make the actual purchase at the store. Consumer adoption of common e-wallet platforms may not have reached the tipping point yet, but it's coming. That's why lotteries that do not sell online yet should still be building their consumer-facing mobile platforms to engage their players across multiple channels. Scientific Games has already integrated our instant and draw products with our systems capabilities to include mobile to meet our customers' changing needs. Game design and content will al-

ways be the key to success, but providing increased consumer access and a diversity of ways to interact with lottery is the key to driving sales and profits.

**G. Isaacs:** It is this marriage of games and technology at retail that creates that seamless player-journey. Lotteries may have multiple suppliers of games, systems and technologies that are distributing the games. The different component parts of the puzzle must be completely integrated to create the best user experience, a holistic player-journey. Standardization that enables interoperability between suppliers is key to this, and Scientific Games is committed to helping the industry evolve toward that end. Most importantly, players expect this today.

Our mission with retailers is quite simple. We need to make it easier to do business with Lottery, we need to be the technology and merchandising leader. If we help retailers be more profitable, they will be more focused on selling lottery products.

**J. Kennedy:** That's been the core of our SalesMaker retail-optimization program for the last five years. We have implemented this program in 500 stores across 30 different jurisdictions in many different countries around the world. Our experienced lottery retail specialists actually go into retail stores to work with the retailers to help them improve their operations. These retailers welcome our support and ideas because many of the best practices that we implement are easily applied to other areas of their business. We think of retailers as our partners, so we want to empower them in the Lottery ecosystem.

**G. Isaacs:** The cycle of knowledge created by SalesMaker is benefitting our lottery customers as well as the retailers. We've learned what practices produce the best results, how these best practices can be improved to make them even better, and how they can be deployed on a large scale to benefit other lotteries. This cooperative relationship also informs our prod-

uct development and marketing processes, and engenders a spirit of cooperation and appreciation for the shared values that we all have to serve the consumer in the best way possible.

**J. Kennedy:** Progressive retailers think of lottery as a growth category rather than a managed product category. We show them what we mean by that and why they should devote the extra effort and resources to drive that growth. Creating an exciting in-store Lottery experience for the consumer not only drives lottery sales, it drives store traffic and shopper engagement in ways that drives overall store profitability.

*How is the “player-journey” model different from a focus on just selling more lottery tickets?*

**G. Isaacs:** The player journey is the means to the end of increasing sales. But it's important because it is a more expansive approach to viewing the entire experience, how to add value to the entire experience, and how that leads to player loyalty and more engaged players—all of which add up to increased sales.

It also forces us to look at our business in fresh, new ways. It helps us to focus on the real-world, and get past preconceived notions about consumer preferences. Some of the practices formed over the decades in the lottery industry may no longer be relevant. The player-journey model helps us focus more clearly on the actual consumer experience and evolve our games and overall approach to maximizing entertainment value to the consumer. Scientific Games is paying attention to our consumer research and we are open to the ways in which our research constantly reveals new information, sometimes even contradicting premises that may have held true in years past.

**J. Kennedy:** We are marrying our primary research that yields insight into human behavior with secondary research that's based on the immense amount of Lottery-specific sales data. The informa-

tion reveals changes in consumer behavior that, when combined with the primary research, is yielding significant performance differentials for us. At Scientific Games, we follow the consumer, because selling lottery games ultimately comes down to what the consumer wants to purchase.

A great example of this is the assumption that Millennials no longer like to play lottery. The research, both primary and secondary, confirms conclusively that this premise is just not factual. The data show that Millennials don't have as much spending power as 30 and 40-somethings, but that has been the case in past generations and it is also the case in the other lottery categories. But the Millennial is demanding alternative options to purchase lottery products. Younger adults of today are not that different from those of past generations. They enjoy lottery, and this is especially true with instant games, which tend to skew younger than draw games.

**G. Isaacs:** There is also the fact that Millennials are currently spending much more of their income on housing, education, student loans, and health care than older generations once did at their age. So the money pinch on the latest generation of younger adults may be more acute than it was in past generations. Our understanding that they like the games means that the marketing challenge is less about changing the games and more about making the games visible, accessible, and easier to purchase for Millennials when they choose to allocate a portion of their discretionary dollar to recreational gaming.

Lottery is a conservatively operated business, as it should be. Lotteries have a large revenue stream and tremendous brand value to protect. And the foremost thing they must protect is the consumer's trust and confidence in the integrity of the games. They also have to protect the loyalty of their core players who expect to be able to continue to play the games

they know and love. We can also expect that today's 20-somethings will grow into 30-somethings with more disposable income whose lifestyle includes mobile and other new variables when it comes to playing Lottery.

*The success of the integration process of Scientific Games was evident at the Global Gaming Expo (G2E) in Las Vegas, at NASPL in Dallas, and next at ICE Totally Gaming in London. Applying the technologies and solutions requires investment. How can we as an industry unlock the resources needed to turn this potential into reality?*

**J. Kennedy:** Investment is key. The high profit margins on lottery game sales create a significant return on investment, increasing these sales a smart thing to do to generate additional profits for the good causes the lotteries support. There are many very actionable ways to free up the investment capital needed to optimize the potential of this business. It just requires a more flexible way of thinking about the construct of the RFP tenders so that the commercial community can bear some of those costs and participate in some of the profits of capital investment. It is a slam-dunk win-win-win-win for everyone—for government lottery, for retailers, for consumers, and for the commercial suppliers to the industry. Truly, the biggest winners when investment capital is unlocked are the good causes supported by government lotteries. Scientific Games has the R&D power, the technology, the game content, and the deep knowledge of the government lottery business to help this industry realize its full potential. Let's make 2016 the year that lottery builds on its tremendous success and positions itself for many more decades of generating increased funds for good causes. ■