

How an Industry Leader Stays Motivated and Charged-Up to be the Catalyst for Innovation and Growth

An Interview with Jaymin Patel, President of GTECH



Jaymin Patel

Jaymin Patel, President and Chief Operating Officer of GTECH Corporation, met with PGRI at the European Lottery Congress in Budapest to talk about GTECH's focus on customer service and expanding portfolio of gaming products.

Paul Jason: *There has been a lot of talk at the European Lottery conference about new game styles, new media, and the changing legislation and regulatory environment. How has GTECH's primary mission and purpose changed as a result of the changing gaming industry and as a result of the combination of Lottomatica?*

Jaymin Patel: Our core focus on servicing our customers has not

Europe, Asia, and Australia are all quite different from one another.

Let's look at a few examples of how we work with customers to help them increase their sales. Take North America between 2000 and 2005. There have been dramatic changes in gaming legislation and the growth of other forms of gaming. There has been an explosion of casinos in California, an expansion of VLT gaming in several states, introduction of different types of games and the introduction of gaming at new venues. Our customers have tried to find ways of growing their lottery sales, despite these other forms of gaming growth. We've had to be more innovative. We worked with some of our customers to introduce VLT Central Systems and VLT machines, where states allow them. We've also had to introduce games that appeal to more players.

There has been tremendous growth in instant tickets over the last five or so years. Between 2000 and 2006, instant tickets grew from approximately 42% of the total lottery pie to 53% in North Amer-

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changed. Our fundamental role is still to provide the technologies and services that drive revenues for good causes. The main reason that we exist and the reason our business has grown to where it is, is that we realize our mission is to provide our customers with the systems, marketing strategies, technologies, and services that enable them to grow their enterprises year after year.

Governments need to continue to raise monies for good causes, whether those monies go to support education or charitable organizations. The demand for raising money for good causes continues to increase each year. For example, in the North American market, certainly between 2000 and 2005, many states suffered significant state budget shortfalls. Lotteries are seen as a way of filling these budget shortfalls. It is a bit different in Europe, because the monies there are directed toward good causes rather than to the government's general fund. The pressure for all governments to raise more money for good causes is increasing.

Therefore, our fundamental mission hasn't changed. What has changed is the way we address specific market requirements around the world, and the way we try to drive lottery sales working in conjunction with our customers. In our business, it is very hard to talk globally, because regional approaches to the business – whether it be legislation, lawmaking, or the basic approach to business – can vary so much. Although there are some worth noting, North America,

ica this past year. It's clear that consumers are looking for more and more forms of exciting play. That has driven us to introduce online content and online games that appear to have the characteristic of instant tickets, because that's what consumers want.

PJ: *Instant feedback.*

JP: Yes, instant feedback. And this is an area where Lottomatica has had tremendous success with their instant ticket business so when you ask how GTECH's mission and purpose is impacted by Lottomatica it is in a very customer-beneficial way in that we can now offer instant Best Practices to our customers that is based on practical experience of one of our biggest customers. Some of the products we've helped customers introduce, like Pick 'n Play, appear to be more like instant games. They have a higher prize payout and a more interactive feel to them – because that's what consumers are looking for. They are comparing the online games now to instant games and other forms of gaming in the marketplace. We have to be ready to deliver those more exciting games; a large part of our strategy is designed to introduce new content and make the newer games more exciting for the consumer.

PJ: *Aside from being a good sales/marketing/PR image, it seems that differences in markets and regulatory environments require that you work*

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and approximately 70% of it is invested into enhancing the core business.*

even more closely with your customer to create the best solutions.

JP: That is very true. Looking at this business by regions of the world, we are trying to spend more time with our European customers, who are further along on the gaming continuum by virtue of expanded gaming enabling legislation. In the U.S. and Canada, there is a great deal of creativity in retail sales and marketing, particularly in relation to scratch cards. And this is a very important growth opportunity for our various European customers. The exponential growth of our Italian Gratta eVinci instant business is a testament to the size of this incremental revenue opportunity overseas. In just three and a half years, the Italian instant lottery business has grown to \$5.1 billion (3.9 billion Euro) for 2006, up 160% from 2005 which was 205% higher than 2004, and is expected to approximate \$9.2 to \$9.8 billion (7.0 - 7.5 billion Euro) in 2007.

PJ: *Many of us who are from the outside looking in see GTECH as technologically sophisticated, with a pipeline full of forward-leaning products, that is just waiting for a green light from lotteries and their regulatory agencies. But what is interesting about what you are saying is that you are just as committed to enhancing the value and effectiveness of the conventional and traditional products that are still the bread and butter of our industry.*

JP: That's where we spend approximately 75% of our R&D, to enhance and upgrade our lottery management software and point of sale technology. In addition to innovation which is the lifeblood of our business, we also focus on the basics of the business. We invest more than \$50 million in R&D, and approximately 70% of it is invested into enhancing the core business. In other words, helping our customers improve their systems and technologies to drive same store sales.

PJ: *So while it might be exciting to talk about new technology, new game concepts, changing regulatory landscape, and the like, the real story is the task of figuring out how to incrementally grow sales by 7% a year by enhancing the performance of traditional products is what really drives the business.*

JP: That's a major focus of ours. I can tell you that GTECH's Marketing organization, led by industry marketing veteran Connie Lavery O'Connor, spends much of its time on how to help our existing customers grow their existing businesses. We use proven best practices where we benchmark the performance of all of our customers around the world against certain best practices in terms of retail distribution channels and game practices.

As you might expect, every customer has slightly different characteristics that result in being in different places on the best practices curve. In California, they have a requirement to return approximately 34% back to the state, which results in the product mix needing to look a certain way. In other jurisdictions, there is no set requirement

in the governmental and legislative rules that stipulates a percentage to return, which results in a different set of game dynamics.

If you take the case of Italy again, our Marketing team has been working closely with Marco Sala, our Managing Director for Italy. The 10 euro instant ticket launch on January 8, 2007, has enjoyed staggering sales performance – from over 400 million euro in December of 2006, to over 700 million euro monthly for the five months from January 1 to May 31. An almost 60% increase over last quarter 2006 base. These amazing results were achieved with little or no cannibalization to the existing lotto game in Italy and zero impact in the 5 euro, 3 euro, 2 euro, or 1 euro categories, which of course offer much lower prize payouts, an important part of the bottom line profit equation.

People tend to think of GTECH as an online technology company, and we definitely are a major contributor in that space. However, we are also a major player in the instant ticket space supporting some of the highest performing per capita lotteries world-wide with an expanded portfolio of instant game services and solutions. We plan to play an even bigger role in the instant ticket value chain in the future with the recent acquisition of CGI and our refined approach to instant optimization best practices and leading technology innovation in instant ticket management accounting and self-service distribution. If you look at our North American business, a full 50% comes from validating and distributing instant tickets. So, our instant ticket business is as large as, if not larger than, our competitors'.

PJ: *It seems like a cornerstone to GTECH's value proposition is your focus on and ability to integrate the expertise you have in all aspects of this business. This transfers to management of product mix, which gets complicated when you're not just managing a portfolio of instants, but building an overall plan that includes instants, online lotto, and entirely new games and media.*

JP: The area of best practices is not limited to the existing game portfolio and the existing business. We believe there is tremendous potential for optimizing the business by introducing new products and new technologies in the field. If you look at what is happening in retailing, aside from our own industry, there are dramatic changes. There is the growth of chain stores and big box retailers, but fewer "mom and pop" stores in North America. Consumers' buying habits are changing. We are also doing a lot of research in the retail industry to figure out what the next wave will be; hence the reason why we have made such large investments in our expanded line-up of self service technology, as well as our brand new, secure and automated Instant Showcase. Instant Showcase is a counter-top dispenser of instant tickets that has proven it can substantially reduce ticket shrinkage and provide excellent accounting for all instants inven-

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tory to easily reconcile with the retailer's cash drawer.

We have an extensive menu of products, which is designed to take the pressure off the retail shops and make their lives easier by removing labor associated with instant ticket management while at the same time creating visual appeal to attract new players. After all, it has taken the public two or three years to get used to checking in at a self service kiosk at an airport. And now that's the norm. We anticipate similar widespread acceptance of self-service for lottery purchases.

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PJ: *There is virtually no other company that is involved with so many different lotteries, across so many different product lines as GTECH. If we could capture all the intelligence and information that courses through your employees on a daily basis, that could have a powerful impact on our industry. Perhaps it could be said that GTECH owes it to all of us in the industry to help get us on board with doing the things that will make us more successful and effective.*

JP: One of the first conversations I had with Connie when she came to GTECH was about how to convert information into improvements in operations and increased profitability for lotteries. It is a top priority to turn the knowledge gained by collaborating with our customers around the world into increased funds for the good causes they support.

PJ: *The main thing is that you have access to a wealth of information that is going to enhance the whole business for everybody.*

JP: Absolutely. This goes back to the point of raising money for good causes. Does GTECH benefit? Of course we do. We are a public company and we do have to drive value for our shareholders. But, the focus of our company is to point our 6,000 employees toward serving our customers and making them more successful, which in turn generates more monies for good causes every year. In other words, the best way to deliver value to our shareholders is to ensure that our customers succeed. Our job is to work with our customers as partners, to help them accomplish their strategic and financial objectives.

PJ: *Let's talk about sports betting, your Finsoft acquisition, what you are doing in Italy, and how your initiatives in these areas might evolve.*

JP: First of all, let's step back to strategy. As we thought about the business, and we talked to our customers, we realized that certain parts of the world take the lead in adopting new technology, and that lotteries focus on revenue growth from different products, depending

on their legislation and market dynamics. In North America, instant tickets are the leading product. However, in Europe and Asia, as we listened to our customer base, we found that quite a few of our customers are looking at new ways to grow returns to good causes.

They are looking at interactive. You have many European customers taking their traditional online and instant games onto the Internet. They are looking at sports betting as a way of expanding beyond traditional lottery. They are looking at other forms of skill-based gaming. The idea here is to create pools of players, such that the pool of players creates lots of activity and creates excitement and a sense of community, for more and more players.

As we thought about what we have at GTECH that will address these needs, we realized that our Enterprise Series architecture already supports the Internet requirements, and we have been providing Internet systems and technologies for the last few years. But, we don't have the full technology suite in sports betting. We had to fill some gaps to be able to fulfill the needs of our customers in Europe and Asia.

We looked at the entire marketplace, and we found that Finsoft was, by leaps and bounds, the best company in providing sports betting technology and expertise. Finsoft does not operate sports books; it doesn't operate anything at all. It provides technology and consulting services to the sports betting industry. The current industry is largely commercial operators, so the growing segment of the industry is government-sponsored sports betting, where lottery customers and licensed government entities are looking to implement systems.

The Northern European countries such as Finland, Denmark, Sweden, and Norway all have sports betting systems. There are probably two or three customers in Western Europe that are looking to introduce sports betting systems. A few more lotteries like Turkey, Taiwan, and Singapore are either in the process of rolling out sports betting systems or will in the next 12 months. So there is a lot of activity in this area, and we are now very well equipped to provide sports betting technology and services to our customers.

PJ: *Why don't more governments get control of sports betting with a regulated and legalized policy, as opposed to driving it underground?*

Internet-based sports betting actually happens to be a better controlled business than the general lottery business, because using the interactive channel requires player registration.

JP: There are several aspects to consider. First of all, we will only operate in a legally-managed jurisdiction. In the U.S. market, for instance, it is illegal to operate Internet wagering. We would not support an operator that wishes to accept bets from the U.S., since

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it is illegal. Similarly, when we look at the customer base in Europe and Asia, we ensure that as Finsoft supplies systems and technology to customers in those regions, they are doing so where the local jurisdiction allows for Internet wagering. This is very important to us. We would never risk our core business, which is a licensed business globally, by operating in illegal countries or in a gray zone.

PJ: *How do you deal with age and location verification?*

JP: Internet-based sports betting actually happens to be a better controlled business than the general lottery business, because using the interactive channel requires player registration. You are required to provide your national insurance number or the equivalent, your date of birth, and to transfer funds from a bank account to replenish an e-wallet. So the controls around the business are quite strong.

Of course, you have to register in the country in which you are betting. If betting in the U.K, you have to register on a site as a U.K. citizen or resident. If you are betting in Finland, it is done the same way. Then, it is up to the operator in England to make sure that if they are offering their services in Belgium, they are doing so under E.U. law or U.K. law. So there is a bit more control around that than in the lottery business, where players are typically not required to register.

PJ: *Is it the case that GTECH's products might just as effectively be implemented by private operators who are being taxed, instead of government owned lotteries?*

JP: It is the same set of economics. It is the way it is delivered. Whether we as a company provide technology and services that our customers will operate or whether we operate on behalf of governments. The net result is that we are still driving sales and returning monies to good causes.

In the case of Italy, where we are the leading national operator, we are required to return a certain percentage of our revenues to good causes. Then, of course, there is the trend of potential privatization in the U.S. market and a couple of overseas markets. Governments, in very simple financial terms, are looking to securitize the value of current good causes, so that they can use those monies for state pension shortfalls and education requirements.

PJ: *The notion of "Public Order" plays an important role in the European Court of Justice assessing the arguments about whether to open up the gambling industry to free market competition. In North America, the notion of corporate social responsibility plays a large role in determining who operates a lottery. It seems like the real cutting edge differentiator between who should operate the lottery has less to do with securitizing than with fulfilling the need to operate this industry in the most responsible way.*

JP: It is important for our customers to understand that we are not pushing an agenda as a company to privatize or open up markets that have been run by governments. We are very comfortable

and privileged providing services and technologies within the current construct of the marketplace, whether it be North America or overseas. What we will do as a company is to offer our services as an operator or as a full-service provider of technology and marketing services where governments decide to privatize.

In North America, if the governments decide to privatize, then we would like to become part of a consortium that operates a North American lottery. In Europe, were governments to deregulate and open up competition in the European markets, we will provide our technology in those European markets. We are not seeking to directly compete today against our customers. We are not lobbying either way. We will simply follow the markets, follow the governments' lead.

Ultimately, it will be about ensuring a high level of corporate social responsibility. That will come about in two ways. If the governments liberalize markets in Europe or privatize in the United States, it is up to the governments to create a gaming commission, which is different from a lottery commission. The gaming commission is really much more commercial in nature, compared to a lottery commission. As you are well aware, in the U.S., we have gaming commissions all over the country that manage casinos. They are in place to provide oversight, probity, and ensure that there is complete transparency in the business within a set of rules. In the lottery business, the oversight is very different.

In our business, integrity and credibility are, and will continue to be, the cornerstone of public trust. GTECH works very hard every day to maintain this credibility and holds all of our employees to the highest standards of ethics and good character. Our continuing commitment is to act as good stewards and continue to earn our customers' trust in our people and our operations.

PJ: *Is there anything else important that you want to communicate to our readers?*

JP: Yes. GTECH is a company that listens. We want to respond to the market requirements of our customers. We want to be able to provide operating services, technology, and marketing services across the entire value chain. The value chain includes: retail lotteries, interactive betting, sports betting, live event wagering, video lotteries, instant tickets, and gaming, content (i.e., new and exciting games that drive sales), and the list goes on. We are not there yet, but we are making very good progress. There will be more acquisitions along the way.

The reason we are attending the European Lottery conference this year and will attend subsequent conferences, is to present our thoughts to our customers. But, even more importantly, we are here to listen to what their thoughts are about their own businesses and how they can grow. It is our job to then develop solutions and marketing strategies that will allow them to grow same store sales and increase returns to good causes. ♦