

A Common Mission: Revenue Growth

By: Lorne Weil, Chairman & CEO of Scientific Games

I believe lotteries around the world, large and small, share a common mission: to discover or learn more about new products, services and ideas that will assist in increasing beneficiary revenue. That is the responsibility of lottery organizations to their beneficiaries and the communities they serve.

A major supplier to the lottery industry, Scientific Games inherently takes on the responsibility of its customers. Ours is not only to keep up with the demands of this increasingly sophisticated business, but to take a leading role in developing new products, technologies, and services that will foster steady and stable growth in the industry.

As sophisticated as most lotteries have become, however, there is still some resistance -- both externally and internally -- to embrace change. For instance, in the United States most lotteries have a legally mandated percentage of revenue they must return to their respective beneficiaries. That often prevents higher payouts and therefore higher profits.

Some international lotteries are not able to maximize sales because their methods of distribution are limited. In the U.S., lotteries are prohibited from selling games over the Internet. These legal and political restrictions can (and do) inhibit growth.

Internally, there is sometimes a resistance to change. Remember that old saying in the lottery industry? "I don't mind being a pioneer; I just don't want to go first." That is okay on the lottery side. It is not the job of a lottery to assume risk. But as a supplier, it is our job to research, develop and, yes, to pioneer new products or services that will allow our client lotteries to achieve their goals. That involves investment and a level of risk.

At Scientific Games we consider this an investment in our industry's future, as well as an investment in our own future and that of our shareholders. At NASPL '05, Scientific Games displayed and demonstrated 16 products. Each was developed to generate revenue, directly or indirectly, supporting sales, distribution, efficiency, research or a means of giving players more fun.

In addition, our acquisition of MDI Entertainment has added a level of fun and excitement to the instant ticket side of our company. I need only note that in 2005, the face value of MDI licensed product games will total \$2.5 billion, nearly 10 percent of the total instant ticket sales in the U.S.

Although space doesn't allow me to highlight each and every product and service that Scientific Games has developed to increase lottery revenue, I will mention three that are proven revenue enhancers. They are the Scientific Games Cooperative Services Program, the Electronic Game Card and the Multiplier™ and Multi-Hand Easy Win™ online



game concepts.

Scientific Games Cooperative Services Program

This program started decades ago with the New York Lottery. It was called Shared Risk - not a good name for a lottery program, but a great start for a business model that has ultimately revolutionized the instant side of the lottery business. This unique and customized Scientific Games program is a proven driver of incremental revenue.

From FY' 03 to FY'04, the instant ticket growth rate for SG's CSP customers was 31 percent. The rest of the industry had an overall growth rate of 10 percent.

In June 2004, the Italian Monopoli di Stato jumped many hurdles and adopted the progressive Cooperative Services business model. It was worth it. Gratta e Vinci ticket sales have grown from 165 million to over 1 billion in just over a year.

The Electronic Game Card (EGC)

The Iowa Lottery was the first to test and then offer the EGC to players throughout the state. Iowa calls it Quarter Play. We call it a success and a new way to bring extra fun and excitement to players and incremental revenue for the Lottery. The 80-play, driver's license-sized electronic card sells for \$20. Iowa retailers and players love it and the Kansas Lottery will launch its version soon. Public Gaming Research Institute awarded the EGC Product of the Year status, and it was selected as the Best Instant Ticket Product of the Year at NASPL '05.

New Online Games

I am now going to jump on my "bandwagon." It is clear that without huge jackpots, U.S. lottery online lotto games do not bring in stable revenue. In FY'05, online lotto game sales in the U.S. declined by about nine percent, while instant sales increased by 14 percent. Why? Instants are fast and fun and the odds of winning a prize are better. Players are willing to pay for that fun with the most popular games at \$2, ranging up to what is now a common \$10 or \$20.

At Scientific Games, we believe our new Multiplier™ and Multi-Hand Easy Win™ online games can deliver more fun, more entertainment and more winners at a higher price point that players will respond to just as they have done on the instant side with more play and more revenue.

These are just a few ideas to consider as each lottery faces the challenge of generating steady, stable and growing revenue year after year. Scientific Games shares the challenge of our customers and our industry and will continue to invest in and deliver the best the industry offers. ♦