

Lorne Weil

Chairman, Scientific Games Corporation

The legacy gaming industry model had two options...travel to a resort destination for casino-type gaming or buy a lottery ticket at your local retail store. As happens in all industries, distribution is evolving to make all the different products more accessible to the customer, wherever they live (and via whatever media or channel they prefer to use). This natural process has, however, been constrained by government regulations. The result is that the gaming industry has not kept up with its customer. This has begun to change. As governments respond to the opportunity to raise funds to contribute to their fiscal objectives, and as economic recovery kicks in, the change will be big. And it will happen quickly.

How will operators adapt to this new industry model? To be sure, there's no shortage of suppliers of products and distributional technologies. There is, however, a shortage of commercial partners who can integrate this new array of products, services, and channels into a seamless, customer-facing brand and operational platform. That's the real challenge. For government-sponsored operators, it represents a unique opportunity to build a truly customer-centric business, one that enables everyone everywhere to bond with the most trusted gaming operator in the gambling industry.

Public Gaming: *There have been many quite interesting changes since we talked last year, some occurring in the past few weeks.*

Lorne Weil: It has been a year of tremendous progress in a number of key areas. Sciplay is our joint venture that bridges a critical gap, addressing the need to combine the most advanced new media technologies with the regulatory frameworks and management structures of government-sponsored gaming.

But first, in our server-based gaming business, we've significantly expanded our footprint in the UK betting shop business, adding several thousand terminals in the UK market. We have a trial going on in Ladbrokes, who up until very recently had only a single supplier. So that's a significant milestone for us. We recently announced a contract with Marstons, one of the major pub operators in the UK, and the performance of that part of the business has been excellent.

I know your readership is not so much the UK pub markets, betting shops, and private operators like Ladbrokes and Marstons. Lottery operators, though, are expanding into new gam-

ing categories and require the technologies, skill sets, products, and overall capabilities to make that happen. We started the process of reshaping Scientific Games and subsidiaries to meet that need years ago. It is coming to fruition now just as government-sponsored gaming is poised to enter the most exciting period of expansion in its history. Even though the great majority of the revenue will continue to come from traditional lotto and scratch-offs and the land-based retail channel, it is imperative that the legacy businesses be supported with the new products, media, and distribution channels that the customer is migrating towards. The exciting thing is that government lotteries have that customer connection like nobody else in the business. Recognizing the tremendous value of their own lotteries, and the potential of the gaming industry to contribute to their overall fiscal objectives, governments are doing the smart thing to manage the expansion of this industry in ways that channel the benefits back to the public.

The technologies, products, and skill sets that we have acquired in these other product



categories and in the B2B markets can now be applied to help our customers in the Government Sponsored Gaming markets. The UK is the quintessential distributed market, with small numbers of units in a large number of remote locations, a network of pubs and betting shops spread across the entire country. Other jurisdictions are adopting this distributed model because it brings the product to the customer. It is the natural evolution, it's what the consumer wants, and in the long-run, markets evolve to meet the needs of the consumer. One of those needs has always been to make products and services more accessible to the consumer. We think this simple concept applies to all products and services, including gaming, and that is what will happen in the electronic game/VLT market.

It's already happening, isn't it? Aren't you winning new contracts in Latin America, the Caribbean, and Mexico especially?

L. Weil: Yes. Mexico and Puerto Rico have become major markets in general for Scientific Games. We've had the online lottery in Puerto

Rico for several years. This year we added the gaming machines from Global Draw. Instant Ticket Cooperative Services in Puerto Rico has also taken off like a rocket. We have been working hard to develop the global draw games, media-server based gaming markets and the commercial potential of these products has begun to turn into reality. We began working on these projects over three years ago, when we bought Global Draw. It can take two or three years to lay the groundwork, develop your relationships, customize the technology, do the testing, and so on. And then by some small miracle the day comes when suddenly you have a commercially successful business. The same thing really happened for us in the UK pub market. It took a couple of years of product development, R&D, testing, and relationship-building to develop the market. And now our pub market is growing by several thousand terminals a year. So you only ever see the tip of the iceberg in this business. Most of the work that is going on to create it is down below the surface where you don't see it.

You asked about recent developments within Scientific Games and how that connects back to this idea of distributive gaming and lotteries. Lotteries, of course, have a huge distributed customer base. This customer base is used to buying the product at a local location. One could even say that this is a key attribute of the lottery player, the expectation that the product be available locally, without traveling to a resort destination. We think of this as a very good thing for lottery operators because they are best positioned to meet that need. Their branding, and their mix of marketing and distributional channels, positions them to service this distributed market in a way that nobody else can do nearly as well. So while there is a cost to meeting the needs to deliver a product to the doorstep of each of your customers, lotteries should see this as a very useful barrier to competition, a value that lotteries add that would be prohibitively expensive for a new competitor to try to replicate. This competitive advantage will be useful, though, only insofar as lotteries create a more comprehensive CRM, or customer relationship management approach, and develop and build upon the relationship they have with the millions upon millions of customers. Turn those customers into clients who think of their trusted lottery operator when they think of gaming. And then introduce the customer to new games.

A key component to the lottery's success is the branded and special relationship it has with this customer base. The logical extension to that is to enable the customer to affiliate with the protocols, marketing programs, and games that underlie everything regardless of the channel and medium. We want the customer to be able to play

VLTs in a shop, then go on the Internet and play the same games using the same electronic wallet, build points on the same rewards programs, become accustomed to the same bonusing programs and shooting for combined bonusing thresholds, and so forth. This is sort of the whole key to a good player retention strategy. Take all the distribution channels, traditional venue gaming, lotteries, Internet, mobile, VLT's, and put them all on one customer-facing platform that allows the customer to enjoy a singular interactive relationship with their trusted and branded lottery operator. And do all that through all different media and distribution channels.

Which brings us to Sciplay, the joint venture partnership you entered into with Playtech.

L. Weil: The Playtech partnership is part of our strategy to provide the lottery operators with the most comprehensive suite of gaming products and capabilities, enabling them to truly become the 'full-service provider' to their customer, the player. We are taking a 'best-of-breed' approach and through extensive research determined that Playtech has by far the most advanced platforms and capabilities in the internet space. That is especially true if what you want is to marry a virtual-based platform with a land-based channel. The lotteries' retail distribution network is one of their most uniquely valuable assets and will continue to be its most vital POS contact with the player. Lottery operators need to integrate this land-based network into their internet strategy and this is exactly what Sciplay is most able to provide. Through its Videobet subsidiary, Playtech has successfully pioneered the adoption of internet-style technology to land-based venues and provides operators with access to Playtech's leading internet gaming products and content. The technology also provides operators with a highly cost-effective way of delivering gaming content to land-based venues, while providing deep venue management capabilities. This strategic partnership enables Scientific Games to provide its lottery and government-sponsored gaming customers with the most advanced Videobet technology for its gaming terminal business.

As part of the new partnership, Playtech will also lead the development of Scientific Games' next generation systems technology, delivering a strong competitive advantage. These will offer comprehensive gaming systems that provide governments and commercial operators significantly greater functionality at lower cost, while meeting emerging industry standards and protocols. Functionality that was once confined to standalone systems will be merged into a single platform, both enhancing performance and reducing cost for the operator.

Gaming operators and their players will en-

joy a new level of flexibility and convenience by providing them with a technology platform that is seamless, integrated, and adaptable to multiple delivery channels. Where permitted by law, operators will have the ability to integrate their instant ticket, traditional lottery, internet, and brick-and-mortar systems, which allows for better player tracking and cross-promotional opportunities across all platforms.

The main idea is that lotteries have three main assets. Their brand, their retail distribution network, and their massive customer base. These assets are tremendously powerful but can be put to more effective use to increase funds for good causes. That is the primary mission of Scientific Games and the objective of our partnership with Sciplay.

Speaking of primary missions, you just divested most of your position in your Horse Racing and Venue Management business. Does that signal an important change in your mission, an increased concentration on the core lottery and gaming businesses?

L. Weil: Lottery and gaming have always been and continue to be our core business, central to our mission and every single one of our strategies. It's just that the business has evolved in ways that we no longer see venue management of horse racing as being core to our service to lotteries and government-sponsored gaming. So we are focusing our resources on those areas that are more key to lottery success, like our cooperative services programs for Instants, server-based gaming platforms with Global Draw, and now Sciplay for internet and technology development.

B to C. B to B, and now B to G? I think Business to Government, B2G is actually a very useful new category classification.

L. Weil: With the many changes we have initiated over the past couple of years, it would be important to note that we have no interest in the business to consumer space, B2C. We have no consumer-facing websites or businesses. Our primary focus has always been Business to Government, but it is vital for a supplier in our industry to acquire the technologies, the skill sets and competencies that meet the broader business to business space. The main reason for that is the long lead times required to develop new products, technologies, and platforms. It takes years to acquire the capabilities to support these new games and channels. We need to be ready when the enabling legislation passes that allows lotteries to expand into new games and channels. So we need to develop those capabilities in the business to business space. Too, the challenge to meet the expectations and standards of a completely different market segment results in more

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ing every week and there's no doubt that the addition of Mega Millions will be a very positive and impactful addition to our product mix.

How about the other lotto games? Hot Lotto and Super Kansas Cash?

E. Van Petten: Hot Lotto is up slightly and our in-state lotto game, Super Kansas Cash, is staying steady. And we feel really good about that. We are very pleased to have integrated Mega Millions into the mix without negatively impacting our other lotto games. So Mega Millions is incremental and now we can focus on growing all of the different games. However, we are showing some

decrease on our keno game, and our monitor poker game. Our instant games are steady but actually off a half of a percent. Overall we are showing a gain of about 2% right now. Of course, we'd like more and expect to finish the year at a higher growth point than that. But 2% year-to-date is still a net gain, and that's not bad in this economy.

What do you think is causing the softness in the keno and scratch-offs?

E. Van Petten: I think people aren't patronizing social environments quite as much. And that's where people play those games. And the smoking bans have somewhat hurt

bars and other social environments. Attendance at these venues has gone down. Retailers do tell us they do not have the patronage they used to have. But I'm just speculating and can't say for sure what exactly causes the softness in those product categories.

You're saying that the down economy would especially impact products sold in social venues because there it's not just about the few bucks for a lottery ticket, it's also about the money it takes to buy drinks and other consumables?

E. Van Petten: Absolutely. Both are factors. Smoking ban and less discretionary funds to spend. ♦

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innovation, better products and business processes, improving our capabilities for the benefit of our lottery customers.

That actually works in reverse too. Our core competencies in B2G have served us well in the B2B markets. B2G requires a higher degree of regulatory compliance, higher standards in most aspects of security, reporting, and other regula-

tory issues. The capabilities that we are required to have for the B2G space make us better suppliers in the B2B space. Consumer-facing operators in the B2B space like working with us because they know we are most able to support their ability to meet the highest regulatory and licensing standards. Governments that are beginning to license non-government operators will require

those operators to comply with standards equal to those of the government operators. This especially applies to internet gaming which is being brought under more regulatory control and why our Scisplay joint venture is so synergistic. Scientific Games' abilities, acquired from decades in the B2G markets, enables Scisplay to meet the most exacting regulatory standards. ♦

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So we can talk all we want about the need to innovate, but the overriding priority is to not mess up the giant revenue stream provided by the traditional products and core player.

B. Thorburn: I think that oversimplifies it. We are not about withering the vine here – we have a dynamic market place and we must actively manage it. We just have to be aware of players' attachments to our existing products. There have been a lot of years of investment in those products and that has generated tremendous value for the lottery. This is not to say that they don't need to be enhanced from time-to-time. Our biggest success as an Australian Bloc in the last few years has been a re-launch of the Oz Lotto game, which was originally launched in 1994, and was significantly restructured about three years ago that culminated in last year's record Australian jackpot of just over A\$100 million. So there is actually room to maneuver and innovate while preserving the original character of the game that appeals to the core player.

So you'll do something different once every 13 years whether you need to or not?

B. Thorburn: Since you put it that way we actually constantly review our games and test

things all the time. We actively manage our portfolio of games – but in a balanced way. We only do something when we think it is right for the lottery and players, always ensuring that players perceive that they have received a benefit from the change. Within the portfolio we look at things like product positioning, price, prize structures and retailer commissions to ensure we maintain player engagement and support. New products are treated the same way.

The Australian Productivity Commission issued a report on Australia's gambling industries some 10 years ago and is preparing an update now that is supposed to be released in the next few months. You contributed to the draft that was released last year. Can you tell us some highlights?

B. Thorburn: The landmark study conducted in 1999 led to quite a big industry shift, particularly in relation to how problem gambling was dealt with, and particularly in the area of poker machines or VLTs. The Federal Government has asked the Productivity Commission to come back a decade later and do a second review to see what's changed and also to identify what are the current issues for the gambling industry. One very interesting aspect to the report is that it will have little or no impact on the traditional lotter-

ies directly. The Commission gave every other form of gambling a chapter or chapters but lotteries barely rated a mention in the draft report. I think that's because the assessment confirmed findings in the 1999 report that there was a net community benefit attaching to lotteries and that problem gaming is not the issue with traditional lotteries as it is with some other forms of gaming. The final recommendations are likely to focus on further limits to VLT play or poker machine play and the potential introduction of card based pre-commitment systems. And they're making recommendations on the national market for wagering and sports betting, the deregulation of that market and how to handle that from a regulatory and taxation point of view. And they've also called for a possible relaxation of the federal internet gambling laws which currently prevent Australian operators from providing interactive gambling services with a few exceptions, including lotteries and wagering. The report is not binding on the government, but the recommendations will likely be very influential to our industry.

Excellent. Susan and I can't wait to see you in November. I know everyone is looking forward to visiting Australia and being a part of WLA Brisbane. ♦