

## Lorne Weil

Chief Executive Officer of  
Scientific Games Corporation

INTRODUCTION BY PAUL JASON: Some of us perceive the gaming industry to be poised for an era of unprecedented growth. The economic climate is improving but that's only a part of it. Governments everywhere are taking a closer look at how their public policy and fiscal objectives align with the way the gambling industry is taxed and regulated. The video-gaming generation is coming of age to drive change in the playing experience. Society is absorbing new technology at a faster rate, demanding that everything be available everywhere, including gaming. We may not see transformational change happening right now. But soon we will look around, we will see the transformation, and hopefully we won't be wondering ... when did all this happen?

The conservative strategies called for in a weak economy are yielding to a feeling of optimism and conviction that growth strategies will pay off for everyone. Lottery operators and their commercial partners are moving quickly to meet the expectations of a new generation of players in a marketplace bursting with possibilities. Scientific Games has restructured to focus all its resources on the goal of empowering its customers to take and hold the leadership position in this new era of growth, creative collaborations, and new forms of competition.

**Paul Jason, Public Gaming:** *You've made a few organizational and management changes, including yourself resuming the role of CEO of Scientific Games. Is there an overarching strategy or primary objective?*

**Lorne Weil:** These changes basically reflect our adaptation to the changing economic and business environment, or at least our view of that. The economic downturn that began in the fourth quarter of 2007 and continued through 2008 and 2009 was a time for businesses to manage conservatively, controlling costs, etc. As always, our primary focus is on serving our customers. But when the economy is not growing, a business has to cut back the resources it channels towards growth initiatives. And the organizational structure is amended to support the need to control costs, serve the customers, and execute a tightly drawn business plan. In our minds, the traditional functional structure, with manufacturing, finance, marketing, sales, HR, departments, etc. serves that purpose the best. Focus was on cash-flow and execution. That's served

us and our customers well over the past three years. But now it's time to refocus on growth and helping our customers get positioned to really optimize the upside in what we think will be a much healthier economic climate.

*So we're entering a period of economic growth?*

**L. Weil:** I do think we've seen the bottom and the economy is coming back. We are investing with confidence that the trend-line is positive and industry growth will be steady if not necessarily robust. The other driver of growth in our industry is regulatory change. And we see lots of signs that governments everywhere are ready to evolve the regulatory frameworks to be more consistent with the technological and cultural changes that have taken place over the past ten years. Governments need to generate funds amidst many



fiscal crises. But the more important driver is the need to rationalize the frameworks so that governments can enforce the laws, collect taxes, and marginalize illegal operators and gray markets. The underlying need for governments to create regulatory structures that are more consistent with their public policy objectives is, we feel, a trend that will drive growth. This is a very positive trend for lotteries and therefore for Scientific Games since our mission is to help lotteries achieve their full potential.

*Back to organizational structure. You're moving away from the functional departmental structure towards what?*

**L. Weil:** Business units. This is more conducive to driving growth. So we have a Lottery Systems Group, headed by Bill Huntley; the Printed Products Group headed by Jim Trask; the Diversified Gaming Group, headed by Steve Frater; Properties remains under Steve Saferin; and Michael Chambrello is over the Asia-Pacific Group, and so forth. Each business unit is charged with accomplishing an ambitious set of objectives. The business unit heads have control over the marketing, sales, manufacturing functions and so they have the resources and authority to implement their business plan and are held responsible for making it happen. The business unit heads have more flexibility to invest in growth, invest in R & D, and innovate to support the customers as lotteries modernize for the next stage of growth in the gaming industry.

*In fact, over the past number of years, you've personally forged some partnerships and acquisitions of companies with capabilities that will help you serve your customers best. Now comes the interesting part of driving growth. The business of managing costs isn't always easy, but it is certainly more straightforward than the business of producing growth. In other words, producing profitable growth is more challenging than managing costs, isn't it?*

**L. Weil:** There's no question about it. But like everything else in business, if you're not prepared to take the risks, then you're not going to experience the rewards. The process of building and creating and moving forward is definitely more difficult than managing costs. There's a much wider variety of options to sift through, and less data to guide the decision-making process. Investing in growth involves a lot of unknowns, requires making decisions with incomplete information. So there are many more ways to make mistakes. But it is an exciting time for our customers. They too have had to manage through a difficult time

in which the goal has been to avoid the downside impact of a weak economy. Now they can be exploring the different avenues to grow their business. That's really the purpose of organizing into business units: to really focus all of our resources on driving performance and results for the benefit of the customer. In the end, our success is measured directly by the results our customers achieve. And the rubber really hits the road when you're driving for significant growth.

*We've talked before about how markets, demographic profiles, and to use the current buzz word, consumer "touch-points," are multiplying and converging at the same time. Everything moves slowly in the gaming industry. But you referred to indications that governments are trying to remove the regulatory obstacles. As the economy comes out of recession, and the players vote with their feet, can we hope and expect that the rate of change will accelerate?*

**L. Weil:** You can look at it through two ends of the telescope. On one end, you see that convergence is happening exogenously, independently of anything we do. And we simply need to keep our eyes and ears open and react to how these phenomena evolve, adjusting strategies accordingly. On the other end, we are not just a passive player, but an active participant that influences the rate and manner in which events in the gaming industry unfold. We can create and promote new products that influence the game style and preferences of the players. We can develop new distributional channels and innovative promotions that make those products more accessible to the consumer. In those ways, together with our customers, we can shape not only our own destiny, but the direction of the industry. In fact, that is what I was trying to say about business units. We want an organizational structure that supports a more aggressive posture towards making things happen. We need to take a proactive role in shaping the course of the industry. For instance, the consumers want their playing experience to reflect their lifestyle and preferences. Among their preferences is to be able to play all different kinds of games, to have the flexibility to choose from a big menu of options, to be able to quickly pull up that game on a game console or website or mobile, and to interact with a Player User Interface that makes the whole playing experience seamless, familiar, and easily navigable. The players want us to merge the games and channels, making access and the playing experience easy and intuitive. And they want this convergence of their gaming habitat to include seamless interaction

with their other lifestyle habitats, like Facebook. But if you ask the players, they might not explain what they want in just that way. In that sense, we need to do more than just react to changes we observe, but to also be the drivers of this convergence. We need to recognize that this is the direction that things are going in and be the proactive agents that pave the way for the industry to evolve.

*Business units seem to be separated by product category, customer type, or geography. What is the mechanism to get them to work together and create the convergence that the players will respond to?*

**L. Weil:** Enter Steve Beason and Jim Kennedy. Steve is the chief technology officer whose responsibilities cut across all business units in the company. Likewise, Jim also works across all business units in the role of chief marketing officer. As you know, these are two veterans of the industry who know their business better than anyone. Steve and Jim do not work within any one business unit. Instead their assignment is to work with all the business units and integrate the efforts of the different business units and facilitate that convergence. Jim works with customers to determine how best to integrate products, promotions, distribution, media, and all aspects of creating the connection between the operator and the consumer. Steve works with the operators, technologists, and Jim to determine how best to implement those customer-facing plans from a technological and logistical perspective. Steve, Jim, our business units, and the operators are working to bring the different products and channels together, making it easy for the player to navigate from one game to another within the channel, and also making it easy for the player to acclimate to the different channels. We want the customer to see a similar User Interface when they go from one website to another, or when they go from the website to their mobile and possibly to kiosks or whatever other consumer touch-points are used. The idea is to create some commonality of customer-facing protocols to make it easier for them to navigate the options, learn new games, and have more time to focus on fun and playing. Jim and Steve report directly to me with the mission to create synergy between the business units, and a unified customer-facing platform that integrates all the different games, channels, and media. We feel these are inevitable trend-lines. The successful gaming operators are evolving with their players and we need to help lottery operators make this transition faster and better than anyone else.

*Through your subsidiary Global Draw, Scientific Games has become quite proficient at the business of true server-based wide-area networked gaming. That is, implementing electronic game consoles in a large number of remote locations, each with a small number of units. Why couldn't that form the basic platform for a console that would dispense all varieties of gaming products, including lotto and instants? Create a Player User Interface that would make it easy for the lottery customer to buy all different kinds of gaming products from each POS?*

**L. Weil:** That is an example of something that we're working on right now. That is a perfect example of convergence, and is exactly what Kennedy and Beason are working on. Kennedy's job is to understand what that terminal you're describing needs to do. That is a complicated issue, of course, because of all the differences in regulatory requirements. Then Beason's job is to figure out how to aggregate the technologies and implement the consoles, systems, and networks that deliver the end result that's desired. In cooperation with the retailers and operators, we are developing a family of products to deliver the kind of seamless access to all games that you described. The lotteries themselves are under huge pressure to increase funding to Good Causes, and so all of their resources are channeled towards maximizing profits in the current fiscal year. Which means they don't usually have the resources to invest in next generation technologies. But it absolutely has to get done. The upside potential is significant and we don't want to let that pass us by. Perhaps more importantly, though, is the downside consequences of not keeping up with your customers. Lotteries think of themselves as operating in a monopoly environment. But the consumer will be presented with more and more options for games of entertainment that are merging with games of chance. Lotteries need to hit the refresh button and do it sooner than later. We're making the investment to help them evolve with the consumer. We conserved

over the past three years so that we could step up when the timing was right to invest in growth with new products, new initiatives, and innovative strategies that would pay off for our customers. That time has arrived. In fact, we all now need to move quickly just to keep up with the marketplace.

*The concept of outsourcing management of the lottery, like the IL Private Management Agreement (PMA), seems to have a lot to recommend it. Offload the capital intensive role of investing in the future, as well as the risk of an uncertain ROI timeline. Lock in a predictable payment plan. Engage the commercial partners to do what they do well, provide financial incentives for them to invest in growth, and retain ownership of the asset. Seems a good bet.*

**L. Weil:** It is. But it's actually not as much of an innovation as it may seem. Commercial partners have always performed many of those services. This isn't the first time that contractual terms have been incentivized to pay for performance. Our instant ticket co-op services business, for instance, engages us directly in both the upside benefit of exceeding objectives, and downside consequence of falling short. We share the fruits of success with the operator. And it's not a coincidence that the co-op services system was also adopted in a down economy. The lotteries in effect outsourced the cost and risk associated with developing and launching new products. Payment for doing that came out of the increased profits. So it really was a win-win. It worked so well that there was a ten year period of time when the instant ticket business grew at 20 times the rate of the online, going from half the size of the online business to being twice the size of the online business. Now we've gone through a period when we've had very intense pressure on the profitability of instant tickets. The industry will be healthier, sales and profits will grow, only if there is an ROI that supports research, development, and innovation. Lottery operators and their

commercial partners need to come together to assess the entire situation. They need to identify exactly who is going to do the R & D that is the source of innovation and growth. The IL PMA is one way. And it is a very good way. But it's not the only way to engage the commercial community directly in a risk and profit sharing structure that benefits everyone.

*But doesn't your Northstar venture point the way towards a more open-minded approach to managing the lottery business? Won't this example predispose legislators everywhere to consider a wider variety of ways to collaborate with the commercial community to achieve the results they want?*

**L. Weil:** Certainly the Northstar venture is a step in the right direction of thinking outside the box and trying to conceptualize a model that is going to create incentive for suppliers to invest on behalf of the industry and work harder to drive growth. Another example is the joint venture that we have with Lottomattica in Italy in the instant ticket business. There's more than one way to skin a cat and produce a great result. And sure, I do hope that we are entering a period in which governments and commercial participants experiment with different operational models. I don't think it will ever be a one size fits all. There will be more innovations in the way lotteries collaborate with their commercial partners, the way commercial companies collaborate with each other, and the way that lotteries collaborate with each other. There doesn't seem to be any shortage of permutations and combinations! The ultimate driver, of course, is delivering maximum value to the consumer. The beauty of capitalism is that success comes to those who focus on that rather than legacy notions of how business should be conducted. Scientific Games and all of its affiliates are truly excited about the possibilities in store for lotteries to be the innovator, the leader, in the coming era of growth for this industry. ♦

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sible gaming and local beneficiary projects that are being supported by funding. It just gives us a whole new level of control over the messaging that the consumer is exposed to at the time and place that they are making their purchase decisions. The messaging can also differ by region as needed. It all happens with the flick of a switch from a centrally controlled network. In one of our player surveys, the number one reason for buying a ticket is because someone else in the queue bought a ticket or they've seen a sign in

the store about it. So it's really about making sure that our messages are very strong in the store. One of the things that we've learned as part of this project is that people's attention span is much less in the store than it is when looking at the television or reading the newspaper. So our messages will be condensed into 5-7 seconds for digital broadcast in-store.

*Could you clarify the ownership structure of An Post Lottery Corporation. If it's 80% owned by the*

*Ministry of Finance, and 20% by the Post Office, then that means it's essentially owned by the government of Ireland, right?*

**D. Griffin:** Yes, it's a state body and so in effect we're 100% owned by the government. But structurally we are a separate corporate with our own board of directors. And in terms of corporate governance we're a separate body. We have two shareholders: the Postal Service and the Department of Finance. ♦