



## Lorne Weil

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**PGRI Introduction:** The gaming industry, consumer markets, and macro-economic climate have moved out of a period of slow-growth conservatism and into a period of exciting change and high expectations. The industry needs strong leadership to drive innovation and increase capital investment. Lorne Weil served as CEO of Scientific Games from 1992 to 2008, during which time revenues grew from just under \$50 million to over \$1 billion. He returned to the CEO role in late 2010 to guide the company and its customers toward achieving full growth potential. Mr. Weil talks about the important trends that will drive that growth and how Scientific Games is positioning its business units to create new and exciting player experiences that truly optimize the revenue growth of their lottery customers.

**Paul Jason, Public Gaming:** *How important is the U.S. DOJ memorandum which empowers states to regulate i-gaming and i-distribution of lottery products?*

**Lorne Weil:** Scientific Games is a big believer that regulation of gaming is a state-level function. In 2011, state-regulated lotteries in the U.S. generated \$18.4 billion in funding for good causes. Future revenue will be seriously eroded if legal internet gaming is not regulated and taxed by the states. State lottery contributions are in jeopardy if lotteries are forced to compete with federal internet gaming providers, but are prohibited from offering their own games for sale on the internet. After talking to our lottery customers, we anticipate that some will be first to move to sell new games through new channels to their players. Some will offer an expanded internet experience that engages players with their current games. Others will wait and see what emerges. Scientific Games most definitely sees the internet as the next significant growth channel for the lottery industry. It engages players in an experiential relationship with the lottery and its games. As you know, Paul, because we've been discussing this for the last few years, we call our solution Scipay.

*The internet has been transformational for other industries. I evangelize its potential to be the same for our industry. How*

*would you assess the potential of the internet to contribute to Lotteries' business?*

**L. Weil:** With 74% of the U.S. population currently having access to or using the internet, a new internet-based sales channel could definitely lead to expanded playership for lottery products by introducing new players to the games and by offering current players new interactive ways to play the lottery from their home computers, laptops, tablets and mobile devices. Certainly, internet sales require examination by each individual state. But any time there is a new channel to market and promote lottery games to players, it's a good opportunity to increase sales performance and maximize returns to beneficiary programs. The internet should not be viewed a separate sales channel in isolation, but as one component of a lottery's entire sales and marketing mix for all games – both draw games and instant games. Lotteries must find ways to use the internet to increase, not cannibalize, overall sales. A lottery's internet platform must be customized so that it works in tandem with the existing brick and mortar retail network. Integration with traditional products and retail networks must be a crucial component of a lottery's internet channel strategy.

As for potential, since our PropertiesPlus™ program launched with the Tennessee Lottery in February this year, the results have been phenomenal. This program is clear indication

of the value that can be realized when traditional products are integrated with an internet strategy. The Lottery's board of directors and Rebecca Hargrove, the Lottery's President & CEO, are incredibly engaged and excited about this new lottery initiative.

*The Tennessee Lottery just had a phenomenal, record month in February. Total sales were up 16% over last February with the launch of our PropertiesPlus™ program for internet-based player engagement and rewards. This is solid proof that engaging players in a new way using the internet can build playership and increase sales.*

*How is Scientific Games positioning itself to help customers/i.e. lottery operators, optimize performance going forward, and to integrate the internet into their channel mix for optimal impact, etc?*

**L. Weil:** It's not how we are positioning, but how we have already positioned ourselves over the last decade or so, because we have been anticipating that this day would come. Since 2001, Scientific Games has developed a strong leadership position helping our lottery customers outside the U.S. with internet sales, then taken this knowledge into the U.S. and created meaningful internet programs for our lotteries here. We have developed a portfolio of assets and internal company expertise

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through the strategic acquisitions of leading content firms GameLogic and Barcrest, and our creation of Sciplay continues to be our focus. Very important to the unique internet gaming position we have here in the U.S. is our launch of almost 400 micro sites in 35 U.S. states, along with our successful players club and loyalty rewards programs that have enhanced both player engagement and retail participation. Sciplay brings the technologies and expertise together and integrates an internet program for U.S. lotteries.

*I have found myself making a distinction between “i-gaming” and “i-distribution” of traditional games. But I have not seen that others are making any such distinction. Do you feel that there is a relevant distinction to be made between i-gaming, which would include all forms of internet wagering games like i-poker, casino-style games and actually any i-games other than traditional lottery games, and i-distribution of traditional games, which would include all the varieties of second-chance draws, Instants, and jackpot games and what I would like to think is a whole new portfolio of i-distribution strategies and traditional lottery games customized for lottery distribution?*

**L. Weil:** For us, the distinction is actually between iLottery and iGaming because the internet is generally not purely a distribution channel for any consumer product. The internet will always deliver a unique, personal, interactive experience. It can also help build playership by establishing a “community” for players through players clubs and loyalty reward programs, and of course, social media. iLottery – which is the sale of draw, including subscriptions, and electronic instant games – offers a very different player experience than iGaming – which is bingo, poker and other casino-style games. There is a big difference between buying an instant or draw game to play on the internet (iLottery) versus engaging in a casino-style game play experience on the internet (iGaming). The internet will be able to offer an expanded play experience that engages a lottery’s players with current games, and it will also offer new channels (through computers and laptops, tablets, mobile devices) for the lottery to sell new interactive games to their players.

*I have been quite outspoken, though, with the notion that this U.S. DOJ position statement is a window of time that will close at*

*some point. This U.S. DOJ opinion is fungible and can be overturned in Congress, or by the DOJ itself under guidance of the next administration. In fact, Big Casino is spending tens of millions of dollars to affect just that result and, given enough time, will almost certainly succeed. Do you agree with those suppositions and/or how would you clarify or better explain the current position of state governments and their lotteries and what they should do about it?*

**L. Weil:** The government entity that regulates gaming is a local issue. Scientific Games has always been a believer that states need to make this decision. Scientific Games supports all lottery advocacy groups and we are working with NASPL to support its efforts in this area. U.S. lotteries should proceed carefully but expediently to interpret the DOJ’s recent opinion as it applies to other federal laws as well as their own existing state laws. Because U.S. lotteries work diligently to deliver revenue performance to the state governments they serve, naturally they must view the internet as a very important growth opportunity – based on what’s happening in other areas of the world, internet sales initiatives have generated significant growth for lotteries.

*Tell us about Sciplay and Scientific Games’ strategies to support the efforts of U.S. lotteries to leverage the internet for optimizing the gaming experience and integrate the internet into the channel mix.*

**L. Weil:** Well, I’ll begin by sharing some research we’ve done that may surprise you ... 77% of lottery players have access to or use the internet – that’s actually more than the general population. And 73% of lottery players are age 35 or older – so we’re definitely not talking about creating a new channel that reaches the “younger demographic” – we’re talking about adding a sales and distribution channel that will reach a lottery’s existing, loyal player base and grow playership as well as attract new players to the games. Again, the internet must be integrated into the lottery’s overall strategy; it cannot stand alone, but must work in tandem with existing products and retail networks.

One of our key areas of focus has always been to customize offerings to meet the dynamics of each individual lottery jurisdiction, and we approach internet and Sciplay in the same way. Working with our U.S. lottery cus-

tomers, we have already implemented successful loyalty rewards programs to help optimize the play experience and build playership. Loyalty rewards programs foster a more social or emotional relationship with players – so the internet becomes much more than simply an additional channel for sales transactions. Once this relationship is established, it’s all about continuing to engage players and build loyalty with Points for Prizes®, 2nd Chance drawings and other promotions. The opportunity to integrate these promotions with existing lottery retailers to drive traffic to brick and mortar locations is virtually unlimited. When a lottery begins using the internet to sell products within its state, responsible gaming will be of the utmost importance. And because we have been anticipating this, Scientific Games has expertise in place that will enable lotteries to launch an internet sales channel with age verification, geolocation, self-exclusion and fraud prevention technologies that regulate purchases through a secure Sciplay platform. As lotteries explore the possibility of offering their players electronic versions of instant scratch games, Scientific Games can provide our customers the proven expertise of a content creation team that’s designed and programmed many of the best-selling traditional scratch games in the U.S.

*The Association of Convenience Stores (NACS) posted a statement proclaiming the negative impact that i-distribution would have on land-based retail sales. The records of lotteries that have been distributing over the internet for years shows clearly that is not the case. How can we convince our retail channel partners to embrace the tremendous opportunity this represents for them to drive new consumer groups into their stores and affect all manner of new outreach that will benefit everyone including retailers? Any thoughts on what SG/MDI is doing in particular to make that happen?*

**L. Weil:** Lotteries, like other businesses, make sales through marketing and distribution channels. The most successful lotteries in the world – indeed the most successful businesses in the world – watch what their customers are doing, help shape behaviors and ultimately adapt to the consumer’s choice. Today, consumers are choosing the internet in addition to traditional retail operations to make their purchases. Virtually every consumer industry understands that both their

existing customers and future customers are using the internet for news, information, shopping, entertainment and staying connected – so it has now become mandatory to build internet-based sales channels or risk obsolescence. By no means does selling lottery products on the internet require or result in shutting the store and moving exclusively to the internet. Indeed, successful businesses, including pioneering lotteries, have found that effective integration of the internet into the channel mix can increase, not cannibalize, a lottery's overall sales. In fact, it can be used to drive traffic back to brick and mortar retailers. Experiences from international jurisdictions that have pursued comprehensive internet-based sales have seen a corresponding growth in brick and mortar retail sales. Simply put, distribution over the internet can expand the opportunity for all stakeholders. This is an important approach that needs to be shared with the retail partners. Success happens through partnership and collaboration.

An important driver for a successful internet sales initiative is providing a wide range of methods for a consumer to fund the activity. In the world of iTunes®, a very successful example, consumers can deposit funds into their account through numerous online sources (e.g. credit card, debit card, bank account transfer, etc.) A consumer can also deposit funds by purchasing a prepaid card distributed through an extensive network of retail outlets. The same would be true for a lottery internet sales program. Players could deposit funds through traditional internet means. But, they could also do so through a visit to any lottery retail outlet. This connection is critical to making the internet and retail channels two parts of the same consumer connection. Promotions designed to drive sales growth will also target play at traditional retailers. For example, last year, Zynga® – the world's most successful social gaming website with over 240 million monthly active users – ran a promotion in conjunction with 7-Eleven®. Slurpee® cups contained web-codes that awarded free bonuses in the popular Zynga game, Farmville. Consumer traffic to 7-Eleven peaked as Farmville players took advantage of this promotion. Lotteries selling games on the internet will offer continued promotions that tie-in their retailers as a natural means to drive overall sales. It just makes sense. And, the traditional retail base will benefit. The connection to retail and launching marketing programs that bring play-

ers to the internet and back to retail are important elements of Sciplay.

*Selling Powerball and other draw games over the internet would seem to be a no-brainer – certainly a great way for lotteries to get started on the internet. But how about instant scratch games and other game concepts? I would think the instants category offers a fertile ground for innovating to create new and engaging games.*

**L. Weil:** As they explore the possibility of internet programs, lotteries must make decisions that don't limit their options. Maintaining flexibility for access to the best electronic instant game content is really important. This is an area where Canadian lotteries are making some strong decisions today to make sure they always have access to the best content portfolio and are not limited exclusively to the firm that delivers the infrastructure solution for selling internet iLottery games.

*A West Virginia legislator appears to be trying to stanch the growth of VLT's there in WV? It concerns me that Big Casino is turning more and more big guns towards steering states away from i-gaming and now it seems they are attacking the VLT and distributed venue model?*

**L. Weil:** While we remain supportive of the West Virginia Lottery and the West Virginia legislative team, licensing and enforcement is not within the scope of Scientific Games' relationships in West Virginia or any of the other 13 VLT jurisdictions in the U.S. What I can share is that the West Virginia Lottery manages nearly 9,000 VLTs in over 1,700 bars and taverns, and five racinos with nearly 10,000 VLTs – including the state's largest racino with over 5,000 VLTs. Our AEGIS-Video™ System has been in operation there for over five years and utilizes a variety of gaming industry protocols which seamlessly interface with every licensed VLT manufacturer. From the robust security of the games, to financial accounting that balances to the penny, our system has been very successful in this and other VLT jurisdictions.

*Congrats on the award of the Illinois central server contract which is huge and represents the real heart of a distributed-venue system.*

**L. Weil:** We are very excited about Illinois – it's a big win. Illinois could grow to be the largest video gaming network in the country with the potential for up to 60,000

terminals. Our sixth generation AEGIS-Video Central Communication System will be implemented and managed by experienced Scientific Games staff from an operational center in Chicago. The Scientific Games Video Gaming group will provide real-time communication and control between every licensed video gaming terminal in the state of Illinois, as well as day-to-day management of the operation of the system and service throughout the state. This is truly a case of enhancing our product offering to meet a customer's evolving and expanding needs. Globally, Scientific Games' Video Gaming group currently manages over 94,000 gaming machines in nearly 9,000 locations.

*You served as CEO of Scientific Games' from 1992 to 2008, during which time revenues grew from less than \$50 million to over \$1 billion. You returned to the CEO role in late 2010. What are some of your observations on the lottery and gaming industry since you've been back at the helm, and what do you see in the coming years as growth potential with regard to potential for lotteries? And, how has the global economic crisis changed the market and impacted innovation?*

**L. Weil:** I'm optimistic because we're seeing innovation return on the investment side of the lottery business. For years, the lottery practice was to focus on the cost side of the business at the expense of real growth and return on investment. A look at the reduced combined market capitalization of the major suppliers will confirm the impact of an out-of-balance investment model. More and more, we are being directly engaged by government leaders – especially in the U.S. – to enter into discussions and make recommendations as they look to fully optimize the performance of the lottery as a government asset. With the integration of interactive channels, public-private partnerships, consortiums and focused execution in current channels, innovation will once again fuel growth in our unique industry. More and more, lotteries are beginning to take an entrepreneurial focus – for example, some of the strategic projects that have been initiated by the Pennsylvania Lottery. Overall, I do find it very interesting to see a shift in the conversation over the last 12-18 months to a real focus on generating return on investment and realization that lotteries can provide a significant benefit when they receive adequate investment. ♦