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PGRI Introduction: PGRI is making a special effort to cover Latin America lotteries, to understand how they operate, identify some of the potential opportunities as well as some of the obstacles to growth and how the marketplace is likely to evolve over the next two years. Luke Weil pointed out that Latin America is not one big homogeneous market, but in fact a diverse region with a wide variety of lottery models, gaming cultures and distribution channels. Luke offered to share some insight into what makes this region tick, and how Scientific Games is helping its Latin American customers accomplish their goals and be positioned to optimize the full potential of one of the fastest growing markets in the world.

Paul Jason, Public Gaming: *With fewer retailers per capita in the emerging Latin American market than in more mature markets, how can lotteries increase the number of land-based retailers?*

Luke Weil: Networks of street vendors traditionally served as the main vehicle for distribution of many lottery products throughout Latin America, and programs utilizing them have served as important sources of employment. These network-based social programs should continue, but Scientific Games believes they can co-exist alongside additional points of sale such as convenience stores, supermarkets and prepaid mobile phone “top-up” locations.

How can Latin America leapfrog a generation of transaction-processing and/or communications technology where there is not existing land-based infrastructure?

L. Weil: This is an important question and one we certainly think about. In truth, you can do virtually everything required at the point of sale (except perhaps, printing) on a smartphone—so wireless networks have obviated the need for landline communication. We’re already seeing products and services traditionally reserved for POS terminals

migrating to mobile devices, and we expect that trend for secure transaction processing to continue and to accelerate, particularly in markets lacking traditional lottery system and transaction-processing infrastructure, which can be quite capital intensive.

What are some of the most important trends in Latin America with respect to the games and the ways in which Latin American consumers purchase or access the games?

L. Weil: The trend in Latin America now is to move from traditional lotteries, often with manual draw, to electronic lotteries – especially in Chile, Mexico, Argentina, Brazil, Peru, Uruguay and Colombia. Many Central American countries, though, remain predominantly focused on traditional pre-printed draw games. Looking ahead, we believe the trend will be to use the internet and mobile devices to deploy lottery products and services. We also see enormous potential in instant tickets—‘raspados’— which is Scientific Games’ largest business area in Latin America.

What is the timeline for adoption of internet and mobile technologies, etc. in Latin America? What percentage of the population has e-mail addresses and mo-

bile phones? Are there strategies that might accelerate the rate of adoption?

L. Weil: There are roughly 231 million people with internet access in Latin America, or about 41% of the population. That number is growing rapidly, even though 31% of the population lives below the poverty level. Cell phone penetration is nearly 100% in Latin America; in Mexico, Brazil and Argentina, smart phone penetration is already 25%. Clearly, opportunities involving the internet and mobile technologies exist today, and Scientific Games is pursuing them aggressively. We believe these technologies will be key drivers for growth in Latin America in the near future and beyond. By continuing to educate the industry and our customers about opportunities and the value-add Scientific Games can bring, we expect to see increasing adoption of new technologies.

What are the Latin American consumer trends and which games seem to be growing, what are the obstacles to growth and what are some possible solutions, what are the biggest opportunities and what is needed to capitalize on them?

L. Weil: The World Lottery Association reported that alongside Asia-Pacific, Latin

America's lottery growth last year outpaced every other region globally—far ahead of Europe and the U.S. Latin American lotteries had an almost 16% aggregate increase in sales in 2011. Every segment of gaming grew, so virtually the entire Scientific Games' portfolio of products has significant potential in Latin America: lottery systems, internet gaming, gaming machines and systems, and, of course, instant tickets. We are particularly focused on instant tickets—although this product has a large, natural audience in Latin America, to date it is underdeveloped. In the U.S., instant ticket sales have outpaced draw game sales, but in Latin America, instant tickets constitute a small fraction of total lottery sales. We believe the instant prod-

uct in Latin America will succeed using the formula that's generated so much success in the U.S., Europe, China and more recently, Puerto Rico: optimized payouts, prize mixes, distribution, marketing and other aspects of our long-established best practices, including Cooperative Services Programs (CSP) through which we provide many of the other services necessary to successfully manage instant products, beyond the supply of tickets—programs that can grow a lottery's overall revenues as we've demonstrated with our CSP customers around the globe.

How is the Latin American market unique from others, what can mature lotteries learn from the ingenuity being applied to great effect in emerging markets, etc.?

L. Weil: Latin America is unique in the way the lottery market has evolved: it has largely been driven organically by consumers and culture, rather than operators and suppliers – in part because many of these jurisdictions were unregulated for decades. Often, success has come from pairing more traditional games with new technologies and regulatory frameworks. For example, Scientific Games' "hybrid" lottery product, which we first introduced in Ecuador, combines the traditional, pre-printed draw game with raspados, or scratch games, and it has been very successful. So I think this dynamic of combining long-established consumer preferences with new technologies applies to any marketplace. ♦