

THE NEW SCIENTIFIC GAMES EXPLAINED

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Patrick McHugh, the next chief executive officer of Scientific Games, speaks to *Gaming Intelligence* about the sale of OpenBet and the lottery division, and the company's future as a pure play lottery supplier

Scientific Games Lottery Division chief executive officer Patrick McHugh will soon become chief executive officer of Scientific Games, period. When [the sale of the \\$6.05bn lottery division](#) to Brookfield Business Partners completes during the first half of next year, the gaming arm will be trading under a new brand as the lottery division retains the brand that it launched under in 1973.

"If I could have scripted it out," says McHugh, "we couldn't have had a better outcome."

He is talking about acquirer Brookfield but the job title is a nice outcome too. McHugh has been with Scientific Games for 17 years, leading the company's North American operations for many years before succeeding long-serving Lottery chief Jim Kennedy in 2019. The past few months have been tumultuous for everyone at the company. The resolution after months of speculation is a welcome relief for all involved.

With the OpenBet sports betting business sold to Endeavor (IMG Arena) and the gaming team branching off with a new identity, it seems appropriate to ask what the breakup of the company means for the all-new old Scientific Games.

Before we go on, a quick history lesson would be worthwhile. Scientific Games was founded in 1973 as a technology supplier to lotteries. However, the company as we now know it came together in 2015, when SciGames [acquired casino supplier Bally Technologies](#) for \$5.1bn. The deal came hard on the heels of the company's [\\$1.5bn acquisition of WMS Industries](#). Bally was also knee-deep in integration after [acquiring Shuffle Master](#) for \$1.3bn just one year earlier.

The dream, as [elucidated by then-CEO Gavin Isaacs](#), was that "content has to be ubiquitous". Whether you are playing with the lottery, in the casino, in the bingo hall, or online, "you need common architecture and infrastructure".

"There was value in the strategy of putting the groups together," says McHugh today. "There technology and analytics and content across the



However, the price of doing so was an enormous debt burden that analysts were warning about from the moment SciGames announced the Bally acquisition. Ultimately, it cost Isaacs his job as Kevin Sheehan was brought in from the cruise ship industry with [a specific remit](#) of reducing the company's debt burden. In conjunction with then-CFO Michael Quartieri, Scientific Games stopped burning through cash but its balance sheet required more than good housekeeping.

"The last big piece was the value we added to both parts of the organisation on internet platforms, expertise and content [which came with [the CAD775m acquisition](#) of NYX in 2018]," explains McHugh. "That is a component we would not have put together if we had not been part of a larger group but now we have done enough integration of that to be separating."

McHugh says that process has been going on independently from the main separation, with iLottery split off with the lottery group and iCasino set to stay with the gaming group.

"We have been sharing technologies across the businesses," he continues. "People tend to think of the gaming business as much sexier but a lot of the innovation was coming from lottery into gaming. We were already doing cashless payments and digital wallets. A lot of solutions you are seeing coming out of our gaming group came out of programmes and technology we had launched in Lottery."

"We got to the point where we are starting to diverge and focus on products for our particular groups. We are going after separate markets," says the lottery chief. "We will continue to collaborate. We have customers that we serve SG Digital iCasino content. We will continue to do that on our lottery platform as a third-party agreement."

The separation process began in earnest after former Aristocrat CEO Jamie Odell joined, first [as a special advisor](#) in 2019, and then as executive chair after Ron Perelman sold his [34.9 per cent of the company](#), to Caledonia Investments.



"When Jamie Odell came in as our chair he really took a step back and looked at the strategic plan and whether we had accomplished everything we needed as a joint company," says McHugh. "Certainly, he couldn't ignore the fact that we had significant debt and needed to deleverage the company in order to get to the next phase of our growth, which was going to require more investment."

The shape of things to come

While an IPO was considered, [the \\$6.05bn acquisition](#) by Brookfield Business Partners, the business services and industrial company of private equity group Brookfield Asset Management, offered more financial certainty.

"The lottery group has been capital constrained because of the leverage of our parent company," says McHugh. "Brookfield is looking at long-term investments - particularly in companies that have not had full access to capital. We can put that into innovation and expand our offering to customers."

The loss of the sports betting technology provided by OpenBet, which counts British Columbia Lottery Corporation, Loto-Quebec, PMU and Singapore Pools among its lottery clients, could be seen as more of a loss. However, McHugh explains that the lottery team has always had its own sports betting technology and that OpenBet has worked quite separately with separate contracts from the lottery group.

The lottery group's own sports betting platform supports the sports books of over 20 lotteries. The largest is the Turkish national lottery, which it supplies with its sports betting terminals and sports betting engine. The lottery, which is operated by Scientific Games' partner Sisal, has become the largest government-backed sports betting platform in the world with \$12bn in handle and \$3.5bn in gross gaming revenue in the last 12 months. It is, perhaps, the gaming division that will miss OpenBet more than the new Scientific Games.

The lottery division's own figures have remained remarkably robust during the last two pandemic-plagued years. Its annual revenue for 2020 was \$918m (up marginally from year. With casinos closed for much of 2020, the





sinking 47 per cent from \$1.75bn in 2019 to \$926m in Q3 figures are out next week but it was up 303 per

cent in Q2.

While the rapid deleveraging of the company has been in full swing, both divisions have given a glimpse of things to come. The lottery division [recently acquired](#) UK-based iLottery games supplier Sideplay and the gaming division [acquired live casino specialist Authentic Gaming](#) just this week.

“Over the past 10 years we have had very few acquisitions that focused specifically on lotteries - certainly no big ones,” notes McHugh.

He says there are no particular gaps in the portfolio but there will be “tuck-in acquisitions” like the Sideplay deal that offer a boost to innovation in, for example, digital content.

With the rapid deleveraging mission accomplished, both companies are free once more to splash the cash. And so the M&A cycle begins once more.



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