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# INSIGHTS

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# THE **NASPL** ANNUAL CONFERENCE





## Executive Q&A

# An interview with Pat McHugh, Lottery Group Chief Executive, Scientific Games

### Scientific Games made a big announcement recently, can you tell us more about the plans and the impact?

Yes, it's exciting news for our lottery team and our lottery customers. Scientific Games announced in late June that it plans to establish its lottery and commercial sports betting businesses as stand-alone companies to position for enhanced growth. The company is evaluating strategic alternatives for each business, including an initial public offering (IPO) or a combination with a special purpose acquisition company (SPAC), or a sale or a strategic combination with another business.

We conducted an in-depth strategic review focused on unlocking the value of our products and services, creating a more nimble company positioned to accelerate growth for our customers and stakeholders, and deleveraging our balance sheet to allow increased investment in growth areas. I'm so proud of the great work our teams have done growing our lottery business which has positioned us for this next step.

I'm confident these steps will strengthen our financial position, increase our ability to invest in lottery innovation, and allow us to focus exclusively on our lottery customers. Our global lottery team will continue to deliver as we do today across all product lines, with additional assets

and focus on iLottery, and we'll continue to offer our lottery sports betting platform to customers around the world.

### Digital lottery has exploded over the last year, how is Scientific Games serving its lottery customers in this new era?

Across iLottery and digital lottery, we currently serve 21 lotteries globally so there's a lot happening. A shining example is the Pennsylvania iLottery program, which continues to evolve and thrive. Hitting \$2 billion for total wagering at the three-year mark, it is the fastest iLottery program to reach this milestone. The program currently has 94 live digital instant games and a pipeline of new games.

In Canada, early this year we launched a subscription program with Western Canada Lottery Corporation (WCLC) and Atlantic Lottery Corporation added iCasino content to our iLottery platform. It really took off in Q2, achieving 50% Q2 year-over-year sales growth in gross gaming revenue for the program. Digital instants, draw and casino game sales all increased with no sign of cannibalization in any category.

Internationally, we went live with a new iLottery program in Germany for Lotto-Rheinland-Pfalz, launching digital instant games featuring a prize pool shared with the retail instant

games to create a great cross-platform experience for players. We also launched virtual sports betting on our combined internet and retail lottery platform in Hungary, offering exciting new content with betting on simulated digital sporting events.

We've also been helping our customers drive digital engagement with their players through loyalty – particularly, through loyalty powered by a strong customer relationship management (CRM) program. I do want to congratulate Scientific Games' CRM team on receiving national recognition from outside the industry this year because their expertise is truly making an impact with lottery programs. Lottery players expect the same customized, personal experience other brands deliver and this CRM team succeeds.

Scientific Games is connecting the retail and digital lottery experience. We are evolving our player loyalty programs to our NextGen™ Loyalty Program with achievement-based rewards, where players earn points based on specific activities, such as buying lottery tickets. So far this year, more than 181 million lottery tickets were entered into our six loyalty programs and over 17 million achievements were awarded across our three NextGen programs.

We continue our focus on bringing mobile lottery experiences to players.

One in four U.S. lotteries are powered by Scientific Games mobile apps, and our apps are quickly approved by Apple – sometimes in less than a day. We are evolving to a NextGen mobile app, moving from a mobile-first to a user-first experience. Most recently, we launched the NextGen app for the South Carolina Education Lottery, which has been well-received by players.

### **With 20 million U.S. players new to lottery instant games in the pandemic, what's next?**

What an incredible moment for instant games. U.S. calendar year-to-date instant games sales are up 21% over Q2 last year and up 30% versus 2019. It's up to lotteries to keep these new consumers entertained with exciting games, promotions, prizes and once-in-a-lifetime experiences. In addition to a great gameplay experience, players are seeking more entertainment value and that can be delivered with exciting licensed brands, life-changing prizes like Cash for Life games, prize-packed blowout games, and second-chance promotions – particularly promotions that extend the experience to digital channels like 7-11-21® LIVE! And blockbuster winner events like the JAMES BOND™ Lottery Challenge.

Another recent trend is more players purchasing instant games at higher price points, and many lotteries are considering their first \$50 game. So it's extremely important to manage the interplay of the portfolio with expertise and a data-driven strategy.

### **Scientific Games has always led with analytics, what role is data currently playing in your business?**

Correct, and it's what gives our lottery customers an advantage. The world is changing rapidly, our teams are following consumer trends and lottery product sales, in-store and digital. Our MAP™ database has more than three million data points of weekly sales data and 60,000 games from the past 20 years. Our Infuse™

platform combines data from players, games, retailers, equipment and logistics to offer lotteries meaningful insights, macro-level trends and key performance indicators from the industry. We are using data from our gem|Intelligence® retailer relationship management software. And on the digital side, we have data from advanced CRM software.

Now more than ever, analytics are driving performance to maximize lottery proceeds. Data informs everything from instant game design and prize structure, game launches, value proposition alignment, logistics, and inventory management. Data drives the digital lottery portfolio and the offering of draw-based games. Through our SCiQ® technology, data tells us in real time exactly what games are selling when and where at retail. So from our point of view, it all begins and ends with data.

For about 20 of our 120 instant game customers worldwide – including 14 in the U.S. – we manage the full life cycle of the instant product through our Scientific Games Enhanced Partnership (SGEP) program, which is powered by insights. The result is performance: five of the top six performing lotteries in the world for instant game per capita sales participate in SGEP. As a \$310 billion global consumer category, lottery product portfolios must be designed using data-driven insights.

### **What's going on lately at Scientific Games with retail technology?**

We have placed tremendous focus on modernizing the way lottery games are sold so that consumers have easy, convenient access to lottery like they have with other products. Scientific Games continues to lead innovation for cashless, self-service and in-lane lottery sales.

As you may know, our PlayCentral® HD self-service technology won Scientific Games the Walmart Supplier of the Year award just before the pandemic, and self-service continues to be important to consumers. We just launched the

first full-service player self-service technology offering both instant and draw games in Canada with PlayCentral, and the first PlayCentral in Europe with Sachsenlotto in Germany. Our innovation teams continue to advance PlayCentral's capabilities with the addition of our SCiQ technology, which for the first time tracks self-service lottery products in real time, and can connect real time sales across clerk-sold, self-service and in-lane points-of-sale.

We also have expanded our SCiQ Inlane™ projects from Kentucky to Pennsylvania and Arizona with major grocery retailers, for the first time enabling in-lane sales in grocery stores with technology that integrates directly with the retailer's point-of-sale technology. Shoppers benefit from one, easy in-lane transaction for all items purchased in store. And the retailer and the lottery both get real-time in-lane lottery sales analytics. Not to mention the merchandising, inventory control and security benefits SCiQ Inlane offers.

### **What will it take to succeed in the new world?**

Our team's commitment to creating the best products for our customers, continually innovate and deliver with the highest quality and integrity for our customers. Success will be driven by lottery professionals who understand this very complex business inside and out, combining talents with experts from specialized areas like digital, CRM, retail, cloud-based technology and data science.

Scientific Games is very proud of the talent and tenure of our lottery account service teams, our game design teams, technology teams and our innovation teams. We have infused new specialists across our organization to advance innovation and ensure the sustainability of the lottery industry. We believe our employees' dedication, hard work and renewed focus on lottery is a competitive advantage for our customers' future. ■



# iLottery

Now is the Time to Stay Connected

Today more than ever, it's vital to be where your players are, wherever they are.

Scientific Games' portfolio of iLottery products lets your players stay connected to each other and to the games they love.



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