EMBRACING THE NEW WORLD OF OMNI-GAMING

SPORTS-BETTING, TRADITIONAL LOTTERY AT RETAIL, ONLINE GAMING, AND ILOTTERY ALL GROWING TOGETHER

Moti Malul, Chief Executive Officer, Neogames

The U.S. games-of-chance market is undergoing a seismic shift from fragmented sets of product "verticals" that vary from state-to-state to an omni-gaming model in which more and more game categories are available across more and more channels of distribution. Legislators are recognizing that prohibition does not prevent people from playing, that it instead just drives the activity under-ground so that players are forced to resort to illegal, unregulated criminal operations that do not pay taxes. The antidote to this is to regulate the games-of-chance industry. Enlightened lawmakers everywhere are implementing regulatory frameworks to protect players and channel economic benefit back to society. 2021 is becoming the year in which iLottery programs are more widely brought into the world of legally regulated forms of gaming.

Neogames is applying its fifteen years of global iLottery experience to its mission to serve clients with the omni-channel platform, innovative interactive games, and full suite of business and technology services to generate outperforming growth. Riding on the waves of a successful NASDAQ IPO, Neogames CEO Moti Malul enjoins his colleagues all around the world to work together to make the coming few years represent the iLottery era of Digital Transformation.

MAKING THE CASE FOR ILOTTERY

■ Significantly higher financial return to the state and to good causes than sports betting

■ More benign form of "gambling" than sports betting – less problem gambling, lower social costs

■ Operates well right along-side all other forms of gaming including sports betting, iGaming and traditional lottery-at-retail

■ Provides the platform necessary for the Interactive relationship with the players that is key to a sustainable future for lotteries

■ Drives high synergies with digitization of lotteries at retail through omni strategies

Paul Jason: Let's start with a basic question. Why are U.S. states rushing to regulate sports betting more than they have ever done for iLottery? Does sports betting generate more financial benefit for society (funding for "good causes" or in the form of tax receipts) than iLottery?

Moti Malul: Sport Betting is definitely the hottest topic in gaming regulation across the US, and the simple evidence of that is the fact that within less than 3 years since PASPA was repealed, more than 30 states have authorized sport betting in various shapes and forms. It is interesting, and in some ways unfortunate, that it has over-shadowed the efforts of allowing lotteries to go live with iLottery programs. I believe the power of voice created by the sport gaming giants and the excitement that people in the US have for finally being able to bet on sports, which has been common around the world for many years, provides for that slightly imbalanced prioritization and attention. This imbalanced view is even more glaring when you consider the significant difference in contribution to state good causes and budgets by the verticals. Let's take for example a simple case and compare $100m in GGR (Wagers minus Wins) in Sport Betting vs the same in iLottery. On average, according to most tax structures in states that have regulated sport betting, at best the state will receive 10-15% of that, and this is even before adding to the

equation the ability to deduct bonus money, which could be pretty aggressive as we know is the case in sport betting where reported data shows that bonus reach 45-50% of GGR by many. Now take the same $100m in GGR from iLottery, and you will see that based on the range of commercial deals with iLottery technology and service partners, and after blending in other costs of modest promo dollars, marketing costs and teams, lotteries will typically see more than 75% of that turned into contribution to good causes. That's 4-5 times on a dollar spent!

Now I'm not suggesting that states should not regulate online sport betting. In fact, what we see in all states where we operate iLottery side-by-side with regulatedSport Betting, is that the two different game categories appeal to different audiences and that both thrive one next to the other.

And this is before considering the obvious reasons to enabling iLottery for its ability to create the platform for the truly interactive relationship between players and lotteries that is vital for the sustainability of our industry.

So – I'm not sure I know the answer to your question as to why states have taken so long to regulate iLottery and are now rushing to legalize sports betting, but its clear that iLottery authorization is meeting a bit different challenges, interest groups and stakeholders in the path for approval. Hopefully, now that lawmakers see the compelling logic to regulate instead of prohibit, and are applying it so quickly to sports betting, they will apply that same reasoning to iLottery. It appears that they are doing that to some extent, though the momentum of sports betting continues to outstrip iLottery. Think about it – it was almost ten years ago that the U.S. Department of Justice cleared the way for states to have the authority to implement iLottery if they so choose (by clarifying at the end of 2011 that the Wire-Act of 1961 only applies to sports betting). It was less than three years ago that the federal prohibition against sports betting was struck down. Now, about 30 states have already legalized/regulated sports betting in three years compared to only about 10 that have authorized their

own state lotteries to make lottery games available online in ten years. That is disheartening because we now have almost the same number of states regulating iGaming as states that regulate iLottery. I can't emphasize enough that this should not be an either/or decision. iLottery, sports betting, iGaming and other forms of gaming should all be regulated for all the same reasons – regulation serves the interests of society and the players so much better than prohibition.

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We are doing our very best to assist the lottery industry in the US, working closely with Directors in different states to provide them with the vast experience, data and evidence to help promote the benefits of iLottery. We appreciate that lottery directors in the US understand that well and in most cases are as eager to implement iLottery as we are.

How do we apply "best practices" when regulatory structures, consumer attitudes, and gaming cultures vary so widely throughout the world?

M. Malul: First, there are many commonalities about human behaviour, the way markets operate, and the way marketing is performed throughout the world. People may play games-of-chance for different reasons, but common throughout the world is a love for lottery. Common throughout the world is the need to connect buyer and seller, operator and consumer. Common

throughout the world is the need to communicate with a diverse audience. Common throughout the world is the need to create games that appeal to the players.

Second, we can learn from our differences as well as commonalities. For example Neogames Studio applies science to the goal of deconstructing the game attributes down to a molecular level in order to analyze and understand more precisely the properties and impacts of each component part. Nobody would presume that a game that is successful in France or Portugal will be similarly received in California. But there are many elements to successful games in one market place that can be paired with other game attributes to reproduce successful results in other markets.

This is where data-analytics enters the picture.

M. Malul: Exactly. The one "best practice" that is a key to success is the effective application of data-analytics. That is a universal principle that applies everywhere. The methodologies used to extract, capture, and organize data and convert data into useful business intelligence are constantly evolving, but the best of those are being applied all around the world regardless of variables like gaming culture that are unique to each market and jurisdiction.

Data-analytics is what enables us to isolate and identify the attributes of a great game to see which component parts are the killer-apps that can likely be applied to equally great effect in other markets. It is what enables us to segment the market and customize the messaging to appeal to different player sensibilities. Data-analytics enables us to understand the differences and similarities between markets and player groups. In fact, it is the insights derived from data-analytics that enable us to customize the portfolio of games and marketing strategies for each individual market, to appeal to the unique characteristics of the players in each market. We know that "all markets are local". That is why we need data-analytics to help us sort through the enormous brain-trust of past experience to guide our current strategies and actions.

And the more insights we glean from the data, the more we realize how we are only

integrated unified commerce environments from in-store and online touchpoints through to mobile devices. The platform is enriched by innovative services such as AI-based dynamic pricing, personalization, fraud detection, and mobile applications.

Virginia Lottery and IWG First to Launch Linked Progressive Jackpot e-Instants

Washington state Gov. signs sports betting compacts with 15 tribal casinos

Connecticut Lottery Lucky for Life® draw game expands from two drawings per week to seven drawings per week

Atlas Experiences and Luke Combs Exclusively Collaborate to Create a $1,000,000 Cash Concert Second-Chance Lottery Promotion

Texas Lottery completes its website re-design with transition to texaslottery.com, replacing its txlottery.org domain.

scratching the surface for how data can inform and guide our game development, messaging, promotions, strategies and decision-making.

What is an example of a data-driven insight that we wouldn't know from common-sense, anecdotal observation and focus groups?

M. Malul: Let me give you a simple example from tests we have done on Draw Games players and especially during jackpot runs, and this is consistent all o ver the world. We know from observation that the motivations of draw-game players are different from Instant game players. Data analytics just give us more insight into how they differ, and even amongst Draw Games players there are sub groups with different purchase motivations. We look at tens of thousands of plays combined with different promotion types and the data show, for instance, that the draw game player responds much more positively to certain kinds of upsells than others. Let's say you want to incent the player to increase their purchase of Powerball during a jackpot. The regular bonuses of online would usually call for "Deposit/Pay $10 and get a matchup of 100% bonus". However, you could also say "Increase your purchase from five tickets to ten tickets and pay for only seven." This first bonus is objectively a better value, but the draw game player is more likely to respond to the second offer of paying only for seven tickets because it resonates with what they want to do here and now when they come to purchase a ticket during a jackpot run. Observing and analyzing these data, and correlating it with other data-points and matrices that describe player behaviour, we can infer much about the underlying psychology of why people act the way they do, why certain play-styles will respond more positively to one kind of message over another, and those inferences in turn guide ongoing and deeper analyses of the data.

The point is that data-analytics tells us what works and what does not. Without that, we are just guessing based on relatively small test groups or what players tell us in surveys. The data do not tell us the "why", just the "what". But then we compile the data and add layers of analyses and modeling to derive a very clear roadmap of how to build games and promotional packages that appeal to all the different play-styles.

Data also assist to significantly optimize marketing budgets for both Acquisition of Players as well as their Retention because you can spend your dollars attracting players from sources which convert better and/or bring in players with a higher lifetime value. Data analytics also helps to ensure that your budget of promo dollars is spent where it needs to be and not spread in a sub-optimal way across unproductive groups.

The next phase in evolution will be the combination fo Predictive Analitics and Real-Time decisions. We are already using Predictive modeling and continue to refine them in order to be able to predict LTV within just a few days after sign up, potential churn before it happens, likelihood to become VIP players and more. These models enable enormous efficiencies and much more relevant player engagement strategies.

However, the world is moving towards real-time. That means that implemented messaging or treatment should take place as close as possible, and prefferabbly within the interaction with a player. For example, today we already enable presenting different marketing banenrs and promotiosn to different players in real-time based on their segment and specific behaviour which proves itself to be most effective. But this can be gratelly improved. For example, if we connect predictive LTV data back into acquisition, we can refine digital campaigns as they go and pay less or more with accordance to the quality of the sourcse. We could also

let the Portal or Mobile App be aware in real-time what games the player is more likely to play based on their segment so that the channel can repurpose the way it presents and suggests games recommendations to the players.

There are many other such use cases and some of them are already in play with our customers, showing significant impact.

To augment all the great technical solutions, games studio and the wide range of services we provide our customers, we are just about to launch NeoCube, a Business Intelligence and Data Warehouse that integrates the performance metrics of all our customers with KPI's that enable them to see opportunities for growth, for implementing changes that will shore up weaknesses, leverage strengths, and enhance results. Our customers will be able to see how they are performing against various iLottery KPIs and utilize a very advanced BI engine to analyze and interpret the metrics. The solution uses aggregated data and not player-specific data, which is quite frankly not needed in big-data initiatives. It's the correlations between multiple data-points that reveal the pathways to improvement. What kinds of promotions and messaging work best with which games? Who has the best conversion rates during jackpot runs, and what strategies are being applied to achieve those results? And this is just the beginning as we will add more and better modeling tools to help our customers gain more and deeper insights into their operations.

What are our expectations as Covid hopefully unwinds?

M. Malul: I think we are all looking forward to a year of getting back to normal. Without knowing what the future holds, we look forward to seeing everyone at PGRI Nashville and other industry events, and continuing to serve the industry as it progresses into the digital era. ■