Greg Smith

President & Chief Executive Officer, Connecticut Lottery Corporation

Growth Strategies in a mature market with increased competition and changing consumer shopping behaviour

Paul Jason: What is the likelihood of regulatory change that allows the Connecticut Lottery to make lottery products available for online play?

Greg Smith: Like many other states, Connecticut has different gaming sectors vying for the rights to offer their portfolio of products online, including sports betting. There are two tribal casinos that have been in place for about 25 years. They are important stakeholders in Connecticut's regulatory model.

> ***"More recent conversations with retailers indicate a growing recognition for the fact that iLottery does not cannibalize in-store sales."***

They are also experiencing competition from regional casinos in neighboring states that is causing revenues, and the funds they transfer to the state, to decline. So they are under pressure and see online sales and sports betting as an important income opportunity. Connecticut also has Off-Track Betting facilities that are struggling with a limited offering and maybe a declining clientele. The state Lottery, conversely, continues to increase the net fund transfers to the state and have now bypassed the profit turned over to the state from casinos. The Lottery now delivers approx. $150 million more per year than the casinos return to the state. So our position is that the Lottery has the distribution, the technological infrastructure, the gaming and organizational expertise to manage sports betting. Too, our fundamental mission and objectives are fully aligned with the state. State lotteries exist not to serve private shareholders but to serve the people of the state. And we have the track record of success at growing revenues and net fund transfers year-after-year.

The casinos, the OTB operators, and the state Lottery would all like to offer sports betting and would all like to be given the exclusive authority over sports betting. Similarly, all three would like to have the authority to make their products available to online players. As the operator most likely to optimize the financial benefits to the state while ensuring alignment in all other respects like responsible gaming and balanced promotion of the different game categories, I respectfully submit the Lottery delivers the best bet for the state.

But there are lots of competing interests and ancillary considerations. For instance, how do the Tribal agreements (called "compacts") with the state impinge on the debate over who operates sports betting? Are there legal issues impinging on the state's right to implement an exclusive license to operate sports betting? Will sports betting be available to the online players, or only in land-based venues? And if it is available online and on through mobile, shouldn't the Lottery be allowed to make its traditional lottery products available online?

A lot of moving parts.

Greg Smith: We now have lots of insight into iLottery, how it fits into the channel mix and portfolio of products, and how it augments and supports the land-based retailers. Michigan, Pennsylvania, Georgia, New Hampshire, Illinois, Kentucky now make the products available online. We hope the Connecticut Lottery is among the next ones to be joining them.

What was your experience with iLottery in Illinois?

Greg Smith: When I was with the Illinois Lottery we were allowed to offer some draw games online but not Instants. It is a slower climb when you don't have Instants in the iLottery product mix. Getting approval to offer any products online is certainly a positive step. But it is so much better if you can go to market with a bigger launch, like was done in Michigan some years ago, and Pennsylvania, New Hampshire, Kentucky more recently. Best to make a great first impression with a high-impact introduction of iLottery to your online audience.

How can we engage retailer support for iLottery?

Greg Smith: We can make sure they are aware of the facts. iLottery helps drive land-based retail growth. That has been demonstrated for many years in markets outside the U.S., and now it has years of proof in Michigan and no doubt will be demonstrated in Pennsylvania, Kentucky, New Hampshire, Georgia and other markets where the products are offered online. Retailers and some legislators still talk about cannibalization even now after the evidence is in that it just does not happen that way. In fact, it's the opposite. Land-based retail sales have grown each year in the states that offer online sales, and at times at a rate that is faster than the national average. iLottery brings in new consumer groups who play the lottery and the online connection is leveraged to drive traffic to the stores.

Consumers all buy at both retail and online. And they all expect to have both options available to them. Think about

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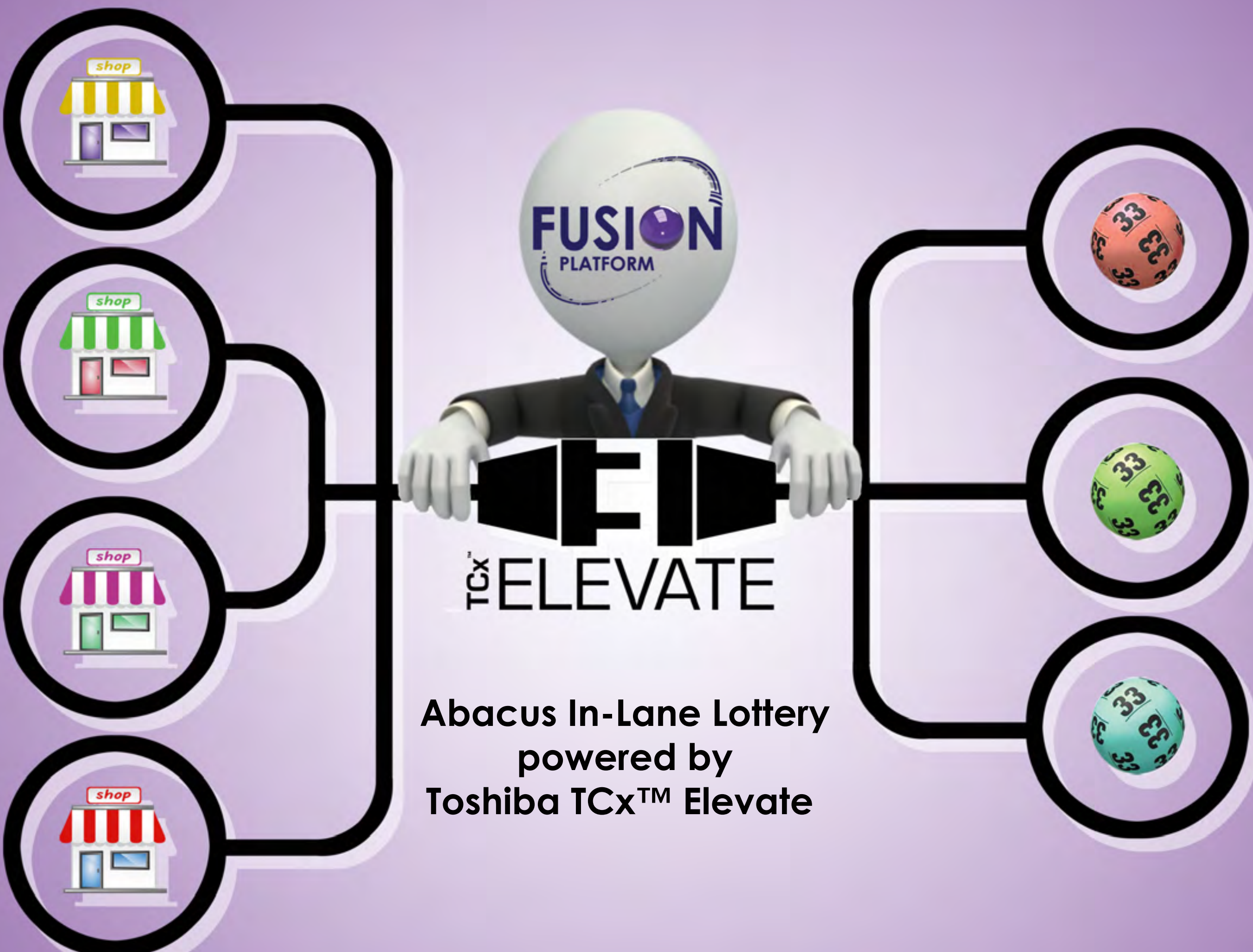

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*Source: RBR London, June 2018. RBR defines Grocery to include Supermarkets, Hypermarkets, Convenience Stores, and Drug Stores.

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Amazon. You can get almost everything delivered the same day from Amazon. And yet Amazon is opening retail stores. I would say that more recent conversations with retailers indicate a growing recognition for the fact that iLottery does not cannibalize in-store sales. Our goals are to increase our customer base through this new channel which will increase the customer traffic in lottery retail locations.

You pointed out that the Connecticut Lottery actually delivers approx. $150 million more per year than tribal casinos – yet another example of how much better the outcomes produced by Lottery are than any other classes of operator, be it commercial casinos or online operators or tribal gaming casinos. What can we as an industry do to engage more outspoken support from our constituents, stakeholders, legislators and beneficiaries of the lottery?

Greg Smith: Lottery cannot lobby for itself or even its beneficiaries. What we can do is identify advocates who may have influence with political leaders who can at least make sure they are all aware of the facts. Complimenting yourself does not have the same effect as a compliment delivered by someone else. We can certainly take action ourselves to make sure that everyone is armed with the facts that should inform regulatory and policy decisions. But we also need to engage a larger circle of influencers who advocate for us. Each lottery needs to cultivate that circle of influencers from their base of supporters from within the legislature and governor's office, from outside of state government, from the media, perhaps from their beneficiaries. There is no profile of the typical or ideal base of influential lottery supporters since personalities will vary from state to state.

Our beneficiary is the state's general fund. Of course, all the services provided by state government depend on the general fund so that is a very worthy recipient of Lottery funds. I would say, though, that affiliating with a more specific cause, like education or scholarships or senior care or public parks and recreation, gives a better platform to enlist supporters who have something more tangible and relatable to advocate for.

The CT Lottery deployed 200 ticket vending machines (TVM's) over the last year. Is self-serve a significant consumer shopping trend, and do TVM's represent a big part of your growth strategy?

Greg Smith: Before we placed these 200 TVM's, we had already placed 200 other vending machines, but they sold only instant tickets. The new digital vending machines, which replaced the other machines, also offer all draw games as well as Instants. Having the largest variety of products significantly increases the output, the sales, of the new digital units. Approximately three-quarters of the machines are installed in the grocery and convenience store market, and another quarter of them placed in the social establishments like bars, restaurants, fraternal locations and the like. So these serve-serve vending units greatly expand our retail footprint, reaching consumer groups who don't necessarily walk into convenience stores and so may not otherwise be exposed to Lottery.

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What are some of the keys to effective execution of a self-serve strategy?

Greg Smith: Placement of the machines is vital. The self-serve units that are in high-traffic areas have better sales. Units in lower traffic areas have lower sales. So the goal is to connect with the retail store managers and persuade them of the benefits to positioning the TVM's where consumers see them and play them. Ideally, store employees will be familiar with the way the TVM's operate and can show shoppers how to play. For instance, sometimes the wall that houses the appropriate electrical for vending machines is not in the best location. In-store staff need to know to send players over to the TVM's. But that is another great thing about TVM's. It gives us something new and exciting to talk about with the store managers. Lottery sales rep's need to be thoroughly trained. They need to explain the benefits of TVM's in concrete financial terms, they need to understand store layouts and traffic flow and shopping behaviour, they need to connect well with store management, and they need to sell the store managers on how and why it benefits them to help lottery players warm up to TVM's.

The trend towards self-serve is picking up more and more momentum. Not just in Lottery but in everything. It's what Bill Gates calls a positive feedback cycle. As more shoppers use self-serve vending terminals, the economics of deploying more terminals improves. More terminals means more and easier access for the consumer. Increased convenience drives increased usage which leads to further proliferation of self-serve vending. As time goes on, consumers become more comfortable with self-serve and want to use them even more.

The next stage will be to figure out how to manage the balance between in-lane sales at the check-out counter and TVM's. If in-lane does as well as we think it will, maybe it won't leave enough volume to support the TVM channel. But in-lane is still in the early stages and TVM's are delivering a more entertaining player experience – so we will just have to see.

What are the highest priority initiatives of the Connecticut Lottery for the coming 18 months?

Greg Smith: We are highly focused on our development and launch of a player loyalty program. We do not have one now, so that is huge for us. Then there is Keno. We started selling the keno game in 2016 and have continued success with that product. It's contribution to sales continues to climb but perhaps more important is the addition of non-traditional POS's, like social establishments, to our retailer base. We feel that keno is delivering solidly incremental sales growth and so we will continue to press for even further expansion of keno POS's. And as we have already discussed, I have high expectations for the productivity of the in-lane solutions and TVM's.

There are lots of opportunities for growth. Most require an investment of time and money so it is a matter of deciding which levers to pull first. My timeline for planning typically falls within the next 6 to 30 months, depending on the topic. Of course, on the daily basis, we are most focused on optimizing performance and results for the current quarter and fiscal year.