

PEDAL TO THE METAL

LOTTERY'S DRIVE TO SERVE GOOD CAUSES RACES TOWARD MODERNIZATION IN 2021



Pat McHugh, EVP and Lottery Group Chief Executive, Scientific Games

PGRI INTRODUCTION: 2020 was a challenging year that taught us all a great deal on many fronts. More than ever before, good causes will rely on the financial support generated by government lotteries. And the role of instant games to help protect lottery profits and ensure future sustainability is more vital than ever. The most important aspect of recapping the story of instant games over the last 11 months is to understand the picture going forward into 2021.

Paul Jason: Instant scratch off sales continue to increase for most U.S. lotteries. What can be done to keep the momentum and get new players to keep playing and preserve the activity level of core players who are playing more during the pandemic?

Pat McHugh: The lottery industry has demonstrated incredible resiliency in our products and ingenuity in adjusting to the circumstances to make sure the games continued to be available to players. I am so thankful and proud of the way our Scientific Games team and our lottery customers collaborated on creative solutions to keep our employees, customers, and retailers safe while maintaining the retail supply chain. Through COVID, consumers' demand for great games never waned, particularly for the entertainment of faster playstyle games, and economic impact increased the need for funding to support good causes. Coming out of COVID, the industry has a great opportunity to accelerate investment in their game portfolio to retain these new players.

Instant scratch game success during the pandemic starts with the same fundamentals

we always adhere to, portfolio management. It's the foundation of our Scientific Games Enhanced Partnership programs, or SGEP. The way to bring in new consumer groups and optimize the overall performance of the product category is to have a wide variety of games that appeals to the widest variety of playstyles and preferences. While that sounds obvious, the analytics and strategy to execute that is not easy. It requires significant history of game data attributes to pull from, plus expertise to analyze the full game portfolio, then develop a real plan to optimize as a portfolio over time – as opposed to looking solely at attributes of individual games.

The top 10 performing lotteries, as measured by weekly per capita instant game sales, operate with Scientific Games as the primary partner, providing all or almost all the games. This partnership enables us and our lottery customer to properly balance the entire instant game portfolio for maximum consumer reach. This is always at the forefront of our primary relationships. Where most adjustments have been needed during the pandemic is ramping up our manufacturing and game distribution services so that we can meet our customers' needs. Our scale



and resources become especially important when there is sudden, unanticipated spike in demand as there was back in March and April of last year. The demand never subsided, and we have adjusted manufacturing to this new normal of increased instant game sales.

Additionally, we manage the supply-chain logistics to ensure that inventories are tracked on a daily basis and the games are delivered so retailers are always properly stocked. Of course, demand has continued to be strong. So Scientific Games continues to keep our manufacturing working over-time with employee safety measures in place and applying our R & D and portfolio management approach to maximize game choices for the players and sales for our lottery customers. Thirty-four of our U.S. customers had record instant sales in FY2019-20, and 12 of those were SGEP customers where we provide analytics and insights, logistics and other services to manage the instant product category.

What were you thinking when the pandemic first hit back in March? Did you anticipate that demand for instant games would increase dramatically and so begin immediately to increase production?

P. McHugh: Our primary concern was keeping our employees safe and healthy. Secondly, from a business perspective, I was thankful for how well positioned Scientific Games was with planning for disaster-recovery scenarios and supply chain diversity. And we were bullish that the right moves were to not disrupt normal game launch schedules and to keep retail inventory pipelines full to avoid out of stock conditions. We have given special attention over the last few years to the importance of diversifying our supply chains, making sure we had in place a variety of methods to maintain inventories in multiple hubs, applying multiple methods of measuring product-specific usage so we know what we need to manufacture, creating multiple ways of inter-facing with the retailer, having multiple options for how we get the product to the retailer, and making sure all the right games are in all the right places at all the right times, and having multiple layers of process to enable disaster recovery for our customers. I am also very thankful to our customers for being flexible to allow us to balance the need for employee safety with the business of keeping the retailers stocked with product.



We have operations in China and were alerted to the possibility that the effects of the pandemic may be much more severe than anticipated back in January. We began to prepare for the worst early on, weeks prior to everything shutting down, getting ahead on production and fine-tuning our inventory management and supply-chain logistics. We wanted to make sure we had the inventory and the means of getting it to the stores so our customers would never run out of games. Filling the pipeline was the first

phase. Ensuring no disruptions to distribution was phase two. The diverse supply line and excellent relationships with shipping partners was critical as shipments across national borders were severely impacted. Ensuring the stability of ongoing manufacturing to meet the continuing increase in demand was phase three. We knew that most essential retailers would remain open and hoped that playership would be steady. So while we did not predict the spike in demand, we were prepared and kept our operations running overtime to keep the product flowing.

How have your analytics and insights platforms interpreted the impacts of the pandemic on play styles and preferences, and what changes to play style, preferences, and consumer expectations are they projecting for the next twelve months?

P. McHugh: Our MAP™ and Game Gallery™ platforms are our tools that capture data that helps guide our game planning and marketing strategies. These platforms house 60,000 instant games and nearly three million data points of weekly sales data. Both platforms are part of our suite of Business Intelligence (BI) tools, which also includes our Infuse™ enterprise platform. Each includes data from multiple sources which is the real benefit of BI: bringing together disparate sources of data and identifying meaningful patterns and interpreting insights.

During the pandemic, our analytics and insights teams pored over data that revealed the underlying factors driving trend-lines in games and markets. These tools were being applied long before COVID-19. But their relevance became mission-critical in a global crisis pandemic.



Some big-picture trends emerged. Perhaps related to the influx of new players to lottery, terminal-generated Fast Play instant win games really took off in the early stages of the pandemic and continue to be hugely successful. Traditional instant game sales increased over 15% year-over-year even in the most recent 12 weeks same period, and it is about the same for the 52-week year-over-year period. Fast Play sales are up over 15%. iLottery sales are up over 100% in most of the jurisdictions that offer the games online. That year-over-year growth rate may soften a little as we go forward, but we expect the influx of new players and the increased online activity of all consumers including core lottery players to continue to drive outsized performance in iLottery.

Another important trend is towards the higher price-point games. Twenty dollar and over games saw a 29% year-over-year increase in the last 12 weeks, and 24% increase over the last 52 weeks. Of course, these big-picture trends can be discerned without the application of sophisticated data-analytic tools. It's not enough, though, to know that there are accelerated shifts in purchasing of higher price-point instant games, Fast Play and growing affinity for instant-reward digital games. What the combination of data in MAP, Game Gallery and Infuse enables us to do is drill down on the detail to evolve and recast the underlying multitude of game attributes for optimal performance. For instance, we are analyzing in quite granular detail the degree to which the increase in Fast Play games is being driven by an evolution in core lottery player preferences, as well as the influx of new players are migrating over from casino style games.

The business of generating entertainment value for players is not static. It is always in flux, and the rate of change is increasing dramatically. Maintaining momentum, creating the games that will excite players in three and six months, is an ongoing challenge that can only be met with the application of effective business intelligence tools that produced advanced data visualization to guide our efforts. This is why we are very bullish going into 2021.

Did the pandemic provide an opportunity for operators and retailers to appreciate the effectiveness of tools like SCiQ®, predictive ordering, and other retail modernization initiatives?

P. McHugh: Yes. For example, we saw an

increase in our retail cashless payment programs, and lottery customers and retailers relying more on our automated predictive ordering systems. Investing in retail modernization technologies and processes is a top priority for Scientific Games. We think there's a great opportunity for predictive ordering tools for inventory management, and automating supply chain management lotteries and retailers to transform the business. Tools like our SCiQ intelligent retail ecosystem, single-ticket-activation, enhanced point-of-sale technologies, AI-enhanced self-service vending, and others that may have been optional in the past will become critical going forward. Cashless payments were up 15% May to August 2020. There are many more data-points that conclusively demonstrate how investment in modernization is paying off in a big way for lotteries and retailers. And retail modernization is delivering a more convenient and entertaining user experience for players.

How is the role of loyalty programs and player clubs and cross promotional initiatives going to change to further engage players in this new omnichannel marketplace?

P. McHugh: All forms of digital engagement have accelerated during COVID. That's true for our digital loyalty and promotions programs for players buying at retail, as well as players buying online and via mobile. We believe strongly in beginning the digital engagement for retail players. This was true before the pandemic and is true now and going forward. A sustainable iLottery program depends on digital engagement on multiple levels, including players clubs, effective loyalty programs, and cross-channel and cross-product promotional initiatives that excite the players. In 2020, we launched nearly 500 "achievement challenges" that incent and reward players for trying other games. We issued 1.5 million coupons as part of our digital loyalty programs. The gamification strategies we are applying are producing remarkable results.

Will the increasing number and accessibility of gaming options cause players to be more likely to migrate across multiple game categories to try new and different games?

P. McHugh: Your question speaks to the bigger issue I'm very passionate about: the sustainability of our industry in a world exploding with new gaming and entertain-

ment options. Our competition is not just with other wagering game categories. Lottery now operates within the extremely competitive environment of recreational and entertainment consumer products. This is a highly fluid and dynamic market and consumers are constantly shifting their attention from one product to another. Consumers are migrating across a landscape rich with exciting options, and doing so with much more ease and fluidity than ever before. So, yes, the challenge of getting attention, engaging interest, and staying relevant has become a daily, even an hourly, mission. Our team and our customers rely heavily on our ONE Segmentation™ consumer model which allows us to look across gaming and entertainment options and see how different groups of consumers have different motivations for engaging. Applying this model mitigates some of the guesswork and allows us to develop products and programs that align to consumer expectations.

Really, the good news is Scientific Games has been deeply embedded in using consumer motivation for product development for many years now. And when you are tuned into the 'why' of the experience consumers are looking for, you are much more effective in creating the 'what.' We have demonstrated that in our ability to position products in a way that players recognize there is something for them across multiple categories of gaming.

Another industry asset is lotteries' established retail distribution network. The lottery sector has the decisive competitive advantage where it counts most: trusted brand power, fabulous product that the consumer knows and loves, and a distribution infrastructure that is next to impossible for other forms of gaming entertainment to replicate. That is why Scientific Games is so focused on continued innovation investment in both lottery retail and digital channels.

I would like to once again expressing my appreciation to our customers for their flexibility and genuinely collaborative spirit during these challenging times. We are looking forward to seeing our customers in person again, and visiting with everyone at an industry event – hopefully sooner rather than later.

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