

UNLOCKING THE FULL VALUE OF SCIENTIFIC GAMES LOTTERY FOR THE BENEFIT OF ITS CUSTOMERS



Pat McHugh

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PGRI INTRODUCTION: Following is a discussion about the implications of the sale of Scientific Games Lottery to Brookfield Business Partners L.P., and why the future looks bright indeed for customers and stakeholders of Scientific Games Lottery.

Paul Jason: What an interesting time this is for the industry in general, and now Scientific Games Lottery in particular.

Pat McHugh: We are very pleased with the way everything unfolded and very excited for the opportunities that lie ahead for Scientific Games Lottery and our customers. Brookfield brings to bear tremendous resources that will accelerate our innovation and growth plans to serve our customers. Brookfield is a highly diversified investment company with \$625 billion under management. They have a portfolio of investments in long-term assets such as major real estate development, infrastructure, and renewable energy. Many of these are in highly regulated industries, and they understand government stakeholder environments. They look for companies in industries with a long growth history and trajectory, with strong market leadership positions, innovative vision, and strong leadership teams. Their investment in Scientific Games Lottery will allow our leadership team to continue running this very

successful global lottery business with accelerated investment in our growth plans. It says a lot that we were selected to be a part of Brookfield and their investment partners' impressive portfolio of companies, and we will have the benefit of access to more capital resources.

So Brookfield will be involved in the formulation of long-term strategy but give you the space to execute your vision for Scientific Games Lottery?

P. McHugh: That's correct. We appreciate the high-level vision and expertise they bring to the boardroom and the guidance they will provide as we evolve Scientific Games Lottery to capture opportunities in a changing marketplace. The Brookfield team will assist us in the application of the most progressive and effective business practices, and in identifying the best way to allocate capital resources and where we might add strategic acquisitions that are focused on lottery. Brookfield also has a deep understanding of the global marketplace and relationships with



governments based on their extensive experience with large-scale infrastructure development. That expertise will certainly enhance and inform our approach towards the development of a broad global strategy.

And Brookfield recognizes the important role that Scientific Games Lottery's culture, decades of lottery industry experience, and our management team plays in driving success for the benefit of all stakeholders – customers and employees, as well as shareholders.

Could you describe a little bit about what Scientific Games Lottery will look like? Where do things like SciPlay, sports-betting, and iLottery land in the final organization of assets?

P. McHugh: Everything our customers know about Scientific Games Lottery today stays the same, with some ad-

ditional assets in our iLottery business. Our global management teams, our offices, our product services will all stay the same. iLottery and our lottery sports-betting platform and services remain with Scientific Games Lottery. The company's SG Digital group previously provided services to both the lottery and the casino gaming sides of the business. Those will now be separated with iCasino as part of the Gaming group, and iLottery staying with Scientific Games Lottery.

Scientific Games' digital platforms, products, and services expanded significantly in the last few years with the acquisition of NYX Gaming Group. Scientific Games Lottery currently has over 20 lottery sports betting contracts around the world. For example, the last sports betting launch we did was the national sports betting program in Turkey. We have tripled the sports-betting handle and gross gaming revenue since taking that over in 2019. Those increases elevated the Turkey sports betting program to become, we believe, the largest government-sponsored sports-betting platform in the world. Scientific Games Lottery's platform, lottery retailer terminals, and lottery sports-betting engine are powering the program and have driven the handle to about \$12 billion U.S. and about \$3.5 billion in gross gaming revenue.

That's huge. So the digital platform is being decoupled so that it can go to Scientific Games Lottery and stay with Scientific Games and thereby support both sectors. And SciPlay?

P. McHugh: SciPlay is the company's social casino business that remains with the Scientific Games Gaming Group. Sideplay Entertainment, a UK-based leading eInstant game content studio, was acquired by Scientific Games in August. The game studio had already been contributing to our high-performing iLottery program in Pennsylvania, and other large iLottery markets like the U.K., but now its portfolio of innovative digital instant games has been integrated with Scientific Games Lottery's eInstant portfolio. And we are already initiating additional acquisitions to build our portfolio of digital games for customers.

Scientific Games' CEO Barry Cottle refers to achieving a goal of "de-levering" the balance sheet for Scientific Games. But isn't that accomplished by moving \$6 billion off the Scientific Games' balance sheet onto the balance sheet of Scientific Games Lottery/Brookfield?

P. McHugh: This is not a restructuring of debt. This is a restructuring of the assets and the enterprises that generate profit. Both sides of this equation are now in a much better position to optimize return on assets. Speaking for Scientific Games Lottery, think of this as an investment strategy for our business. The free cash flow generated from our business will now be retained by Scientific Games Lottery to be invested in the lottery sector for the benefit of our customers as well as Brookfield's shareholders. Instead of our lottery business unit profits going to service high interest debt of our parent company, this should be viewed as a multi-billion-dollar investment by a private equity company putting their capital to work with a long view towards return on investment. Scientific Games Lottery has always delivered excellent free cash flow that will now be retained to support the financial objectives of Brookfield shareholders which includes optimizing the success and growth of our business. Brookfield's investment in Scientific Games Lottery has put us in a much stronger financial position, and that benefits everyone.

Are there any preliminary insights into where Scientific Games Lottery goes from here – new initiatives or strategic shifts?

P. McHugh: Historically, Scientific Games has been both an instant product company and a lottery systems company. It is now our goal to accelerate the strategy of integrating the two so that we focus on simply being the best lottery company for our customers. It is an important distinction as the games and enabling technologies and services are now being developed and delivered as an entire ecosystem with a focus on producing the best player experience. Producing great games and products and executing on all operational fronts will always be mission-critical. But

it is now the focus on the player experience that drives our increasing investment in business and data analytics which shapes the development of our games, promotional strategies and operations.

Second, our approach to the lottery business is evolving away from being transactional, with a focus on producing and promoting product for the purpose of maximizing game sales. It is now more about bundling products, games, technology, and services that help our customers optimize the long-term relationship with the players and retailers as well as maximizing near-term sales and proceeds to their beneficiaries. Scientific Games Enhanced Partnership, or SGEP, is the full-service collaboration that has produced the best results for our customers because it takes a holistic approach towards integrating instant scratch games with analytics, logistical and customer support services, game design services, and technology.

Our iLottery program in Pennsylvania functions much like a digital equivalent of SGEP. Our partnership with the Pennsylvania Lottery involves us in a wide range of value-adding services. Scientific Games Lottery delivers all the enabling technology, advises our partners on the whole portfolio of digital games, provides the consumer CRM and digital engagement initiatives, and is always poised to identify new ways to enhance performance and results. Now we want to do the same thing in the lottery systems business. We're applying our analytics to inform our approach towards managing the whole portfolio of games and promotions.

You know how Apple changed everything by shifting the whole focus of the consumer electronics industry away from features and functionality over to the user experience? Well, we have shifted the focus from transactional engagement to developing content and channel enterprise solutions and relationships – with our customers, with the consumers, with the retailers. That is the way to drive long-term sales growth for our lottery customers, and that's where we want to go with the business. ■