

PROVIDING VALUE TO LOTTERIES THROUGH A BEST-OF-BREED GROWTH MODEL

Moti Malul

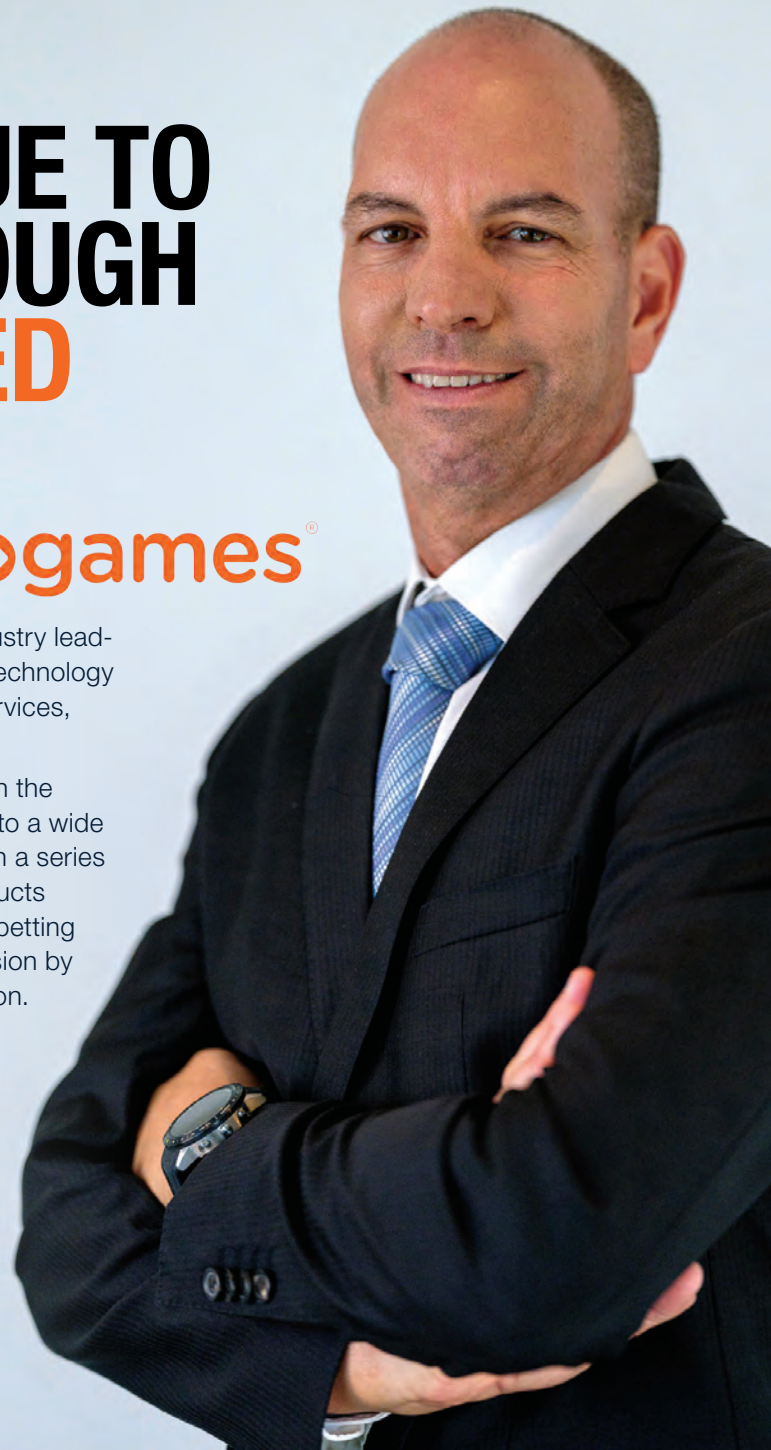
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PGRI INTRODUCTION: The story of NeoGames is one of industry leadership. It has successfully combined a complete omnichannel technology suite with an innovative games portfolio and a wide range of services, spearheading the evolution of the iLottery market worldwide.

With a strong focus on enhancing the player experience through the provision of cutting-edge online technology games that appeal to a wide player demographic, NeoGames has augmented its growth with a series of strategic acquisitions. Designed to broaden its range of products and services across the full range of verticals, including sports betting and iGaming, the success of this strategy is evident in the decision by Aristocrat Gaming to acquire the group at a cost of over \$1 billion.

Moti Malul has been an integral part of the NeoGames journey. First joining the company in 2008, serving as the Executive VP of Global Sales and Customer Development, he was promoted to CEO a decade later and has overseen its most successful period yet. However, he remains as humble as ever, giving full credit to the whole NeoGames team for the company's incredible achievements across the last 15 years. Meeting at the EL Congress in Croatia, Moti sat down with us to discuss the future of online lottery and gaming in all its forms, and how NeoGames is perfectly positioned for further success as the global regulated market evolves faster than ever.



Paul Jason: What an amazing career trajectory you've had with NeoGames. I recall the presentations you were making twelve years ago to ramp up global sales some. And now shepherding the billion-dollar deal with Aristocrat, taking NeoGames to a new level again. It's just really wonderful and amazing to see all that you've done. Was there an abiding vision that guided your actions over the last fifteen years?

Moti Malul: Thank you Paul. At NeoGames, we are all indeed very proud of our achievements which are a testament to our vision. Our vision has always been "to be the

long-term partner of choice for lotteries, throughout their interactive journey". We always aimed to be the long-term partner that invests in our clients' success through collaborating to develop lottery-specific strategies that support sustainable growth, such as advanced CRM programs, smart OMNI channels solutions and others which are consistent with the expectations of all stakeholders. Short-term growth may be driven by effective player acquisition and retention strategies, and those are vital. However, it needs to be complemented with long-term sustainable growth that

also depends on an enlightened and effective responsible gaming program and staying aligned with the priorities of our political constituents and the sensibilities of the general public. One of the things we are very proud of at NeoGames is that we, knock on wood, have never lost a partner in the lottery industry over the 15 years of service to our customers.

Internally, our vision begins by nurturing a long-term partnership with each individual NeoGames team member. My personal philosophy is that the way to maximize value and service to the customer is to support the team that produces that value

and service. Our internal culture is one of mutual respect and appreciation, combined with high expectations for achievement, dedication to service, and a creative drive to effect digital transformation and long-term success for NeoGames clients.

We keep reminding ourselves that our success is measured by one thing and one thing only: the level of success that our customers have, and their satisfaction with the service we provide them with. That is why we see our goal not as producing the best products for the industry, but to create, or at least to play a role in creating, successful lotteries. That's where our focus is.

You also encourage your clients to adopt a best-of-breed model.

M. Malul: In our vision that I mentioned, we believe in “partner of choice” not partner of force. That means we need to prove ourselves every day to our customers and if they want to include third-party products, or that we integrate for them into other services, we will of course do that. We need to be focused on innovation and the quality of our products so that our customers will prefer using them. The lottery operator understands their business and their needs better than anyone else. We encourage them to be guided by their own assessment of how to meet those expectations and needs. And we think the community of commercial technology partners should do everything it can to enable the operator to select the best partner for every aspect of the business. We all like to think that every aspect of our portfolio of products and services is best-of-breed, for everyone. But that is for the customer – the lottery operator – to decide.

For instance, the client may want NeoGames' player-account-management system, but also the flexibility to integrate game content from multiple suppliers, or even select a sports betting solution or another part of the overall ecosystem. We all benefit when the client successfully implements a best-of-breed strategy for maximizing value to their customer – the players.

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With the acquisition of Pariplay, NeoGames is becoming a powerful content hub as well as a content and product provider.

M. Malul: The third part of the NeoGames mission was “throughout their interactive

journey”. Our industry is ever evolving at a fast pace, as part of a journey we wish to be a part of as a strategic partner and advisor to our customers. That is why, when we saw that globally, more and more lotteries are moving into iGaming and online sports betting, we decided to buy leading assets as well as knowledge in these spaces so that we can enhance our partnership with our customers. We augmented our organic growth engines with strategic acquisitions like Pariplay, BtoBet, and Aspire Global, all with a focus on the player who wants more options, providing a broader range of choices and ways to connect and play. We have seen that this strategy has been successful, with major parts of our customer base already adopting these new offerings.

“Operators need an IT platform that facilitates flexibility to meet consumer expectations for a world-class user experience.”

So, the Pariplay value proposition, and the reason the Virginia Lottery chose Pariplay, is because the business of integrating is a matter of speed-to-market at the lowest cost? And Pariplay puts all content providers on equal footing right alongside NeoGames?

Moti Malul: Well, it is actually much more than that. Pariplay is the ultimate content hub in the industry, that has really become a marketplace. Whatever the game category or functionality, Pariplay creates a seamless integration process, enabling the operator to implement a true best-of-breed model. Pariplay has more than 100 content vendors connected to its Fusion platform, with eInstant game content, iGaming content, Bingo, Virtual Sports, Live Dealer and more. However, it is not only the technology that it handles, but also the entire service of seeking content based on lottery guidance, contracting, integrating, paying vendors, and so on. This means that customers will simply deal with their own strategy, with as little operational burden as possible. Pariplay has been very successful in doing this for iGaming operators, so it was seamless for us to bring these products and services to our customers. First was AGLC in Alberta, then Sazka and now Virginia. Content variety is seen as a strategy pillar, facilitated through a single and fast process, while allowing players

to enjoy the engagement features and functionality of the Fusion solution. With innovation taking place at a breakneck pace, operators need the freedom to choose and upgrade when and where they deem necessary.

Operators need an IT platform that facilitates flexibility to meet consumer expectations for a world-class user experience. That means the best games, the widest variety of gaming options, easy navigability over a broad range of game categories and intuitive access to an increasingly complex array of value-added functionality. It takes time and money to acquire the competencies and assemble the network of partners that enable the world-class player experience of the

future. Some lotteries may want to outsource those activities so they can concentrate on their primary mission of building their brand and engaging their audience.

However, it's a similar story for game content vendors that seek distribution easily and across multiple jurisdictions. That's what has made Pariplay a go-to option for many, at a growing pace.

Thankfully, we are seeing more and more RFPs with specific requirements to support this kind of content hub and service approach, enabling the fast and easy integration of game content from multiple suppliers.

NeoGames started with game development. And that has evolved into the NeoGames Studio.

M. Malul: Indeed. I believe we have been pioneers of eInstant games content, launching our first games in early 2006. We are excited to see that 17 years later, NeoGames Studio is a global leader and plays a key role in the evolution to a Lottery Ecosystem 2.0 that values the flexibility to meet and exceed the expectations of the players for more and better game content. Here is where NeoGames thrives, as we live in a state of constant change and creation. Lottery gaming is evolving to include elements of casual, social, and mobile gaming, to appeal to the broadest cross-section of player preferences. This

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is also a key area where we see immediate benefit with the Aristocrat opportunity; combining game development talent and the resources of Aristocrat with NeoGames' knowledge of the lottery space, to further our goal of becoming the supplier of choice for the games-of-chance operator.

Could you explain the mission and purpose of the Lotteries Entertainment Innovation Alliance (LEIA)?

M. Malul: I'm not sure that this is for me to explain, however it is rather simple. It's a consortium that was created by the four Scandinavian lotteries and FDJ (La Française des Jeux) to facilitate the introduction of new content while easing the RFP and selection process for game content providers to these government entities, through a single process and a single point of integration. We are proud and glad to have been chosen to play a role in the future of content for these innovative and advanced lotteries.

LEIA is the manifestation of a trend in content management and deployment that we see globally among lotteries. After the first phase of iLottery programs being centered around one or two game content vendors, they then wish to expand to a broader variety. While we don't foresee that the lottery industry will ultimately have the hundreds of content vendors that the iGaming industry has, we do see that the ecosystem of content vendors is expanding.

We have also announced a deal to provide content to the Pennsylvania lottery through SGI, who is their platform partner. We are in the process of integrating IGT content to Michigan and likewise, we will provide our content to Georgia which is an IGT platform partner. The pathway forward for iLottery platform partners is to support the lottery operator in its mission to meet and exceed the expectations of the players. And that means deploying the very best content from whichever suppliers are creating it.

A best-of-breed approach would seem to necessitate adjustments be made to the traditional Retail Central System RFP?

M. Malul: It doesn't have to be the case. We have already proven time and again across our customer base that the iLottery platform and solution can integrate very well with retail CGS systems to provide a full omnichannel approach and functionality that is much richer than that achieved by the CGS

vendors themselves, in many cases.

iLottery is a space with very specific, and very different knowledge, in both operations and technologies.

The features and functionality that are in a typical iLottery bid are so profoundly different to the features, functionality, service types and pace that are in a lottery retail systems bid. The landscape and leadership position of vendors, technology

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partners, and content providers vary greatly in these different spaces. Being the best in one product or service category does not mean you're the best in the others. And the competitive marketplace of the future will not leave room for anything other than the very best in every part of the business. What's clear in the industry today is that the top 3 iLottery programs in the US are powered by NeoGames, a pure iLottery focused vendor and in my view that is due to the very good reasons that we've discussed here.

You build online games for the casino-style sector as well as the iLottery sector. Are there synergies between the two?

M. Malul: Creative energy and ideas can cross-pollinate to instigate new ways of thinking about playstyles and preferences. We learn what is out there not only in terms of casino games but also in social, casual and other mobile games, to adopt these innovations into our industry. But the technology that drives successful online slot games is quite different from that which is required to provide online instant games. For one thing, lottery instant games must operate within predefined win results tiers to select from. The price points are in many cases, different, and the math models are significantly different. However, the instant player experience now includes features and functionality that did not exist five or ten years ago. Bonus rounds, progressive jackpots and other features that enhance the entertainment value to the online lottery player are becoming much more widespread

and promise to raise the engagement factor for players who are used to stimulating and fun games.

There is no rule that says lottery games must be boring and less entertaining than casino-style content. In answer to the question, we are indeed pushing hard to deconstruct and reconstruct, creating new game attributes that will break down the barriers of entertainment value between different channels and sectors.

Does it seem like online casino-style game operators complain about iLottery games becoming too much like their online slots?

M. Malul: I don't believe that this will be the case going forward, as all the evidence points to iLottery and casino-style games growing alongside each other. For instance, iGaming launched in Michigan just over two-and-a-half years ago when the Michigan iLottery program was well underway and leading the market, and already, it is close to being the biggest iGaming market in the US. This is a state with the most mature iLottery business in the country. It was launched nine years ago and has reported a consistent growth record. If ever there was a market where iGaming would be challenged to compete with an established iLottery player base, Michigan would be it. But iGaming has achieved hugely successful revenues right out of the box. iLottery and iGaming are not only co-existing, but they are both thriving, and not only in Michigan. Similar patterns also exist in Pennsylvania, and of course we also see this trend in global markets outside of the US.

Another perspective is to examine what happened to other forms of gaming which naturally evolved due to technology, innovation and evolution. As examples, you can look at current Class 2 gaming which is so different to before, as well as electronic pull tabs or HHR (Historic Horse Racing), digital bingo machines and more. The basis of game rules in all these examples didn't really change, just how eInstants continue

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legal obligation under international law to implement serious measures and policies to fight illegal gambling.

Opening a market up to multiple gambling licensees as Finland is not an effective way to combat illegals. Instead, the intense competition will end up stimulating consumer demand and even creating a fertile market for illegals to operate in.

In light of the peculiar nature of gambling, the Court of Justice of the EU and its Advocate generals affirmed several times already since 1993 that **free and open competition in the market of games of chance can have severely detrimental effects**. The general approach of free-market competition, as applied to most other services in the internal market, benefits the consumer in terms of quality and price. The EU wants the competitive market to drive the positive feedback cycle of increased production which reduces cost which in turn increases demand and so on. That underlying dynamic does not apply to a sector like gambling or Lottery where the goal is not to maximize consumption. Multiple operators of games-of-chance competing with each other inevitably results in increasing consumers' expenditure on gaming as well as their risk of addiction.

The positive benefits of the alternative to

liberalization is easy to establish. Governments and regulators should take regulatory actions, particularly in relation to:

- Implementing a strong monitoring system to identify the actual illegal market. There are systems available in the world that utilize anti-terrorist software, adapted to the gambling world, enabling governments and operators to get an exact vision of the illegal market in a territory.
- Geo-blocking: One aspect of channeling players from illegal operators over to the legal operator consists of preventing players from accessing these illegal operators in the first place (by geo-blocking illegal operators). This can be done in the gambling sector because Regulation (EU) 2018/302 of 28 February 2018 on addressing unjustified geo-blocking does not apply to gambling and thus permits geo-blocking for gambling services.
- Law enforcement: Fighting illegal gambling is a legal obligation under EU law (to maintain a consistent policy on gambling according to the CJEU) as well as in application of the Council of Europe Macolin Convention against manipulation of sport events (Article 11), where the fight against illegal sports

betting is defined and established as an obligation. A modern policy looks at the way to bring financial institutions, ISP's and media agencies under the umbrella of the fight against illegals. This requires strong legislation and cooperation.

- Reinforcement of regulatory regimes that support state lotteries, well controlled sport betting and safe land-based casinos: even more, governments should explore ways to provide more room for an attractive legal offer of games in a controlled manner. The Court of Justice of the European Union ("CJEU") refers to this as "controlled expansion", namely bringing attractive products with an appropriate form of advertising, and where necessary by using new distribution channels with an extensive range of games.

Instead of organizing the first conference on gambling in Finland, we may set up a simple course of European case law for the Government authorities, combined with an independent risk and economic viability assessment. The legislative pathway forward might then evolve towards recognition of the many advantages of the monopoly of Veikkaus, along with the numerous beneficiaries of the Lottery, the general public and the players, and Finnish society. ■

Implementing a best-of-breed growth model continued from page 53

to confirm to the same base rule of what is an instant game. However, the player experience in all these examples has evolved significantly, with entertaining features and visuals that simply did not exist in the past.

iGaming stakeholders should hopefully recognize this reality, support regulatory change that enables iLottery as well as iGaming, and embrace a future that maximizes options and the gaming experience for players. Constraining the consumer and the marketplace from going where it wants to go has never worked well and now it's a total non-starter as a business strategy.

So where do you see us as an industry going from here? What are the next innovation areas that we should be focused on?

It's a very interesting question because it is indeed in an ever-evolving state. Holistically, we should focus on improving three areas, apart from content which we discussed already.

The first is omni-channel. We have been leading the space for a while with super-successful solutions that our customers have launched. Whether it is remote ticket

cashing that has boomed in Virginia, or omni games launches across retail and online, this includes not only retail games having an online version but also pure "online-born" games which go into retail, as we have done for example in New Hampshire and Virginia. Seamless loyalty programs that run across retail and online are an important part of the mix, with retail cash-out of online wins and online claim centers. We have invested significantly in delivering all such programs to our customers and their importance will grow.

The second area is serving content to players. The portal and apps need to be personalized real-time in their approach. In a world where each of the lotteries will have more than 150 active games, you need to seamlessly segment and suggest them to players. NeoGames serves its customers with a huge mountain of data that can be learned from, not only in their own operations but also others. Pariplay as a content hub, for example, allows us to learn tastes and preferences on a vast global scale as well as locally within states, through our NeoCube BI suite that feeds into the lottery to personalize. We have apps and

portals that we provide to iGaming customers and we see the effect of this content personalization approach in an operator environment that sometimes has more than 1000 games.

And the third element which maybe connects it all is real-time marketing. We have the player's attention when they come to visit our "store" and we should engage with them right there and then. Sending emails is an after-the-matter thought process and is less and less effective as a sole tool. It needs to be augmented with real-time marketing that segments players and interacts, engages and offers them exclusively what they prefer. Our NeoEngage engine which we have implemented across our customer base in Europe as well as in North America is one such example, but this is only the beginning.

Beyond these three areas, which are already in play but will enhance in the next few years, we will start to see the introduction of AI. AI already plays a role in automated and smart customer service solutions, but it will move into all areas of operations sooner than we think. I believe it will ultimately boost the evolution of all product and service areas in ways we have not yet thought of. ■