



Jim KENNEDY

Executive Vice President, Group Chief Executive—Lottery
Scientific Games Corporation

Actionable Innovation: Do the doable, move the moveable, and channel resources for maximum impact.

Paul Jason: *Scientific Games is known as a visionary, as an innovator that always looks to the future of the industry. What is driving your innovation right now?*

Jim Kennedy: Let's call it an innovation test. The first test of Scientific Games' innovation is that it must ultimately connect and deliver value to the consumer. It can be fresh game content that appeals to current players and attracts new consumer groups. It can be a promotion, merchandising strategy or new point-of-sale design that improves the customer experience, the UX of lottery. It can be anything that drives consumer interaction with the brand and the lottery experience. The consumer is the only source of actual revenue.

Scientific Games pioneered and continues to lead the business of building promotional interactive tools and platforms that support engaging connections to the lottery's brand. In this digital world, our PlayerVantage® suite of products and services drives those connections to the lottery's brand. We've innovated loyalty programs, players' clubs, second-chance draws, mobile apps and direct purchases. And we've modernized retailing to create a friction-

free in-store player experience. So we are very focused on continuous improvement to ensure our lottery and retail customers are always leading the marketplace and exceeding their players' expectations.

The second test—is it scalable? There are lots of solutions, lots of great ideas that deliver a positive ROI. But lottery is a huge business with finite resources to grow the business. There are many \$100,000 solutions available. But \$100,000 is just a tenth of one percent of a \$100 million lottery revenue baseline, this doesn't move the needle. We are in the business of helping our lottery customers drive significant growth on a large current base. So, when evaluating numerous projects—all of which deliver positive ROI—it is important to narrow the focus down to what is do-able, actionable and scalable in a meaningful way, maximizing impact and funds generated for good causes. Therefore it is important to channel resources to those programs with the most potential and have the discipline to pass on those that fall below a threshold of scalability. Do the do-able, move the moveable, and channel resources for maximum impact. This discipline is critically important.

The third test of innovation deals with the nature of the jurisdictional constraints of each individual lottery. Every single lottery, country, state or jurisdiction is bound by its own unique set of rules. Most of the progress that's been made in the lottery industry over the last 20 years is a result of a challenge to those rules—showing that the original intent of the laws and rules are either no longer relevant, or that their original purpose is now superseded by more relevant factors. The basic concept is that the entire games-of-chance marketplace has changed dramatically over the last number of decades, and the rules and laws that apply to lottery have not kept up with those changes. Two aspects of this apply to innovation: one, we must innovate within the existing regulatory framework and political eco-system of each jurisdiction; and two, as an industry we should endeavor to drive change in that framework for it to be consistent with modern culture and the lottery mission of funding good causes with security and integrity.

So, we approach innovation with these three tests:

- Does the innovation directly enhance the consumer experience?

- Does the innovation deliver scale commensurate with the size of the business?
- Does the innovation work with regulations and political realities, and endeavor to modernize laws when it is time for change?

How do these over-arching parameters apply more specifically to concrete business functions and objectives?

J. Kennedy: Consider these business functions in four categories: (1) games as a portfolio, (2) player engagement using strategic promotions, (3) tightly integrated distribution operations and logistics, and (4) retail-centric products and services.

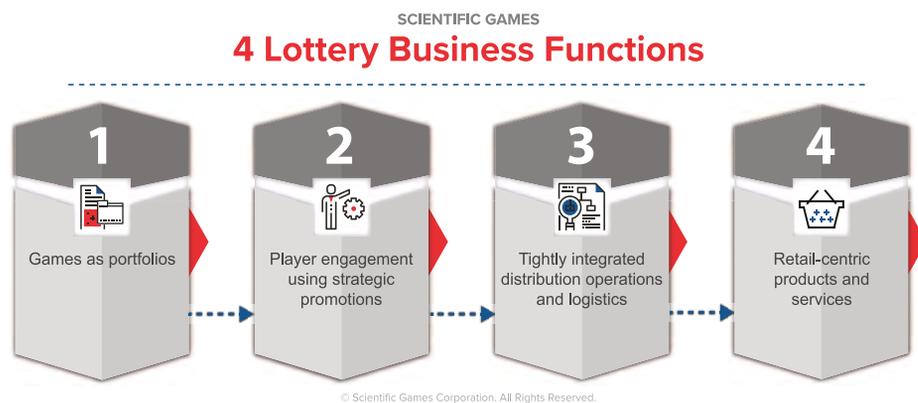
The first category is portfolio managed game content. Scientific Games operates with a three-year roadmap for the development of game content and portfolio management. This roadmap is revised annually. As the premier supplier in the instants category, we work with our customers to launch, on average, 60 new games every year. With this kind of velocity, it is vital that we apply a portfolio management model that produces optimal overall results. Our R & D, combined with decades of empirical evidence and data collection, form the basis for Scientific Games' uniquely powerful category management system. We think of our content development factory as the 'game engine' that uses individual data points to inform and enhance overall performance.

The second broad category addresses strategic promotions. Licensed properties, second-chance drawings, loyalty programs, players' clubs and our PlayerVantage promotional platform all fall within the strategic promotions category. This platform enables lottery to carve out a far larger space on the consumer's radar. Lottery becomes part of a dynamic and ongoing consumer dialogue as opposed to the narrow focus of whether to play a particular game. Scientific Games has developed, and continues to improve upon, the strategies and specific tools to promote a deep interactive relationship with the consumer. Leveraging a secure and more creative range of interactive promotional strategies is key to building the sustainable business of the future and is one of our core competencies.

Scientific Games' third area of focus is tightly integrated distribution operations and logistics. Our entire lottery supply chain includes everything from content design to manufacturing, distribution, to making sure that the right amount of inventory is in the retail ticket dispenser, and accelerating the volume of transactions going through the lottery's system. Our focus is on evolving these processes to drive revenue through increased unit sales, not just higher price points. The ultimate deliverables from the game engine and promotional initiatives all depend on our execution of operations in the supply chain. This operational skill set may not garner as much attention as games and marketing, but it is what truly separates the high performers from the marginal performers. Scientific Games' decades of experience building the instant game category has produced a singularly qualified expertise when

Isn't the complexity of managing a portfolio of hundreds of instant games a different order of magnitude than managing the sale of lotto tickets and jackpot games?

J. Kennedy: Managing a portfolio of instant games is a different business entirely. The consumer marketplace is all about fresh and new and different. Instants, and the competencies that Scientific Games has developed around the product over four decades, provide the platform for creative development of new game styles that appeal to the modern consumer. That's why instant games now comprise over 70% of U.S. lottery sales. The games-of-chance marketplace is expanding, but it is also fragmenting. Success will depend upon creating a greater diversity of games that appeal to narrower segments of the market. This is the skill set that we bring to our customers—the ability to create and deliver an increasingly complex portfolio of new game content, the under-



it comes to supply chain management. More than half of the top 15 performing lotteries in the U.S. use Scientific Games for this demanding and evolving expertise.

The fourth area is retail-centric products and services, which features our proprietary SalesMaker™ program that optimizes the particular assets of each retailer, and customizes in-store merchandising of lottery products. It also includes the continual improvement of our self-service play station technologies, advanced methods of processing transactions, and new commerce innovations like gift cards, which have expanded lottery products to almost 1,500 new retailers in Pennsylvania alone.

standing of the consumer market-place that informs our promotional approach using our interactive promotional platforms, and the experience and expertise to execute at the operational supply-chain level. Logistics, distribution and supply chain management are increasingly complex in the world of instants. But the pathways to optimizing these business processes, and the flexibility to continue to evolve with the marketplace already exist with Scientific Games leading our customers and empowering us all to succeed in this new player-centric world of gaming. ■