

IT'S THE MAGIC NUMBER

The merger of three of the gaming industry's iconic brands, Barcrest, Games Media and The Global Draw, raises as many questions as SG Gaming is looking to answer.

G3 interviews COO Robert White about the next stage of the evolution

The rebranding of lottery giant Scientific Games' three gaming acquisitions, The Global Draw, Barcrest and Games Media, into the singular SG Gaming, is part of a strategic integration of these iconic gaming brands. Speaking to SG Gaming's COO, Robert White, about the past, present and future of the new gaming division, he explained the background behind the decision, the opportunities that lie ahead and the means by which the three companies, acting as one, intends to achieve its objectives.

"The integration of the three companies has been going very well and we've made a great deal of progress," described Mr. White of the umbrella brand that now encompasses The Global Draw, Barcrest and Games Media. "We are doing all the things you'd expect when three companies merge together. Soon after the deal, and as a result of the merger, we found ourselves in the position of having numerous different offices spread across the UK; two in London, with Barcrest in Paddington and The Global Draw in Hounslow, a design studio Red Gaming and Games Media offices in the Midlands; and finally the Barcrest/ HQ outside Manchester and a further Global Draw facility close by. We have subsequently merged those properties into three regional offices; Feltham near Heathrow, a Midlands office and new office in Oldham. We've also made great progress as regards the back office processes with, for example, finance functions now based out of Manchester. "The restructuring of the physical elements of the business is just one part of the process, since SG Gaming provides a framework for the combined entity to go to the next stage of integration internally, as regards employees and functions within the business, and externally as a highly complementary set of brands under one singular entity. "If you look at the long-term future of this business, the means of distributing game content must converge as technology converges," stated Mr. White. "SG Gaming is the amalgamation of three highly successful and highly complementary businesses. From a customer perspective, dealing with SG Gaming means that you're talking to a company with the expertise of



ROBERT WHITE,
Chief Operating
Officer, SG Gaming

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both Barcrest and Games Media in terms of product development, and The Global Draw as regards machine operation and the ability to drive value from machines in-venue. It's a proposition that spreads across all sectors of the market. Barcrest/Games Media covers the pub, bingo and arcade sectors and The Global Draw's expertise is the LBO sector. As our customer base spans each of these sectors and increasingly interactive as well, it means that our customers have one source in SG Gaming that provides product in every single individual sector."

One of the key aspirations for the business, which has to date been predominately focused on the UK gaming market, is to expand its products and services into the international marketplace. "There's no doubt our

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business is largely UK-focused at this point and one of the key areas of our growth strategy is to internationalise the business," commented Mr. White. "One of the reasons for rebranding was to use Scientific Games' global reach to help us as we build the gaming division and drive into international markets. International growth is a key objective of the business and we'll use our strong position in the UK as our foundation. Scientific Games now has two distinct divisions, lotteries and gaming with lotteries accounting for 80 per cent of Scientific Games' revenue and gaming providing the remainder. Our remit is to build a gaming division that over time will grow and be a significantly



more important part of the overall Scientific Games business. We are building on our UK foundations, targeting growth internationally, exploring interactive markets and potentially other areas too, outside our traditional products and into new sectors such as social gaming."

What the SG Gaming rebrand has created is a unified brand that spans the multiple channels and runs across all the currently available different delivery devices. As the delivery mechanisms increasingly converge, the SG brand is positioned to meet its customer requirements, irrespective of the delivery device itself. "Our objective is to provide our customers and the end consumer with an entertaining experience and entertaining game content, delivered on technology that works and in machine environments in which we can drive value through promotions that enable our customers to effectively operate the product," said Mr. White. "Our aim is to become a one-stop-shop and multi-channel solutions provider for our customers."

In a UK marketplace that has recently seen major shifts in the distribution and supply of street gaming products through acquisitions that complete the chain from content provision, supply and operation, Mr. White is all too aware that traditional market supply models are quickly being superseded, with companies looking to connect the dots from producer to consumer in today's modern gaming industry. "If you're asking do we have aspirations to be an operator? The answer is, 'no' we do not have aspirations to become an operator at this point - but we do not rule it in or out either," clarified Mr. White.

"We see our business as transitioning from traditional B2B to a B2B2C. We can build a franchise to communicate directly with the consumer, however, our expertise is in delivering our traditional relationship, which is B2B and in the UK, we have built a significant business on that basis. We are investing in interactive, particularly social media and social gaming as this is consistent with the building of a direct franchise with the consumer that's delivered through our B2B relationship. That's the multi-channel relationship we're looking to build. An example of this approach would be in the FMCG sector, where Mars or Twix develop their brands directly with the consumer, but deliver their product through traditional retail relationships. That's how we see our business evolving as those different delivery mechanisms inevitably converge," said Mr. White.

The move by Scientific Games to acquire

Barcrest and subsequently announce the ceasing of analogue machine production was viewed externally by the market as a restriction of the traditional reel-based supply chain. The reluctance of the UK market to accept a video-based future frustrated a digital-only supplier such as Games Media and the Scientific Games acquisition of Barcrest was viewed cynically as a move by the lottery giant to control the supply chain. However, this is not an opinion shared by Mr. White.

"It's an interesting viewpoint, but when I joined the gaming sector 12 years ago - many of the conversations happening now around video product in pubs, were happening then," said Mr. White. "It's been clear for a long time that the traditional reel-based model is a very difficult market in which to participate. So much so that it was a model that was constantly under review and tough decisions had to be taken ultimately as to whether we should continue in that sector. We are a multi-channel game content distribution business that has got stronger with the merger. We are increasingly looking at VLT type markets internationally and in the UK to build and grow our solid business. We looked at the traditional pub market in the UK and questioned if it was a market that fits our model. I believe that Games Media did a great job in moving from a 'fire and forget' sales model into stable recurring revenue. Games Media was trying to transition the markets from reel-based to video while also trying to develop a recurring revenue based model at the same time. I think they did a great job on both fronts, given the headwind in that market."

"As regards our exit from traditional reel based, it has certainly created a vacuum that others will try to fill, but we will also seek to fill the vacuum with our own video product," continued Mr. White. "We are committed to the pub market, in which success is ultimately determined by the performance of the product. Our advantage is that we can draw on Barcrest's game design expertise, content and delivery technology developed by Games Media, machine operational expertise in The Global Draw and use all this knowledge and ability for the benefit of our customers. If you look at our business and the functions that we control, we now stand a much better chance to develop successful video products for pub markets than we ever could with analogue games."

The idea of bringing these three companies together centres upon the fact that each is complementary. In uniting 700 employees across 12 countries to support one company, one strong

platform, SG Gaming is better equipped to drive innovation through its products. "We have a fantastic opportunity to innovate the product," outlined Mr. White. "SG Gaming provides the specific framework to achieve that. The four divisional managing directors responsible for each of the channels creates the organisational framework that we needed. My role as COO means that I'm responsible for the creative side of business, both today and for tomorrow. As part of the launch we are building four fundamental principles into the fabric of the business: innovation, a drive for performance across all areas of the business for the benefit of our customers, a drive to exceed expectations internally and externally, and a commitment to communication at all levels. We are

AS WE'VE SEEN IN THE TRADITIONAL GAMING SECTOR, INTERACTIVE WILL MOVE IN THE SAME DIRECTION, TOWARDS CONSOLIDATION.

determined to bring performance to the market that meets the expectations of both customers and internal stake holders and we will communicate more effectively internally and externally to deliver the right message."

If you look back at Scientific Games' acquisition trail over the last six years with Global Draw and then Games Media, Barcrest and ADS, there has been a clear progressive path and show of intent to build a gaming division to rival its lottery division at the global level. "We are planning to use SG Gaming as a predominately UK focused platform today, to grow internationally, interactively and into other adjacent markets in the future," said Mr. White. "I don't think anyone would say the acquisition process is complete and there are opportunities to grow through acquisition if you consider where we are looking to develop both internationally and in the interactive sector. A key strategic challenge is to scale our interactive division to be a truly global interactive gaming business. We have a number of options in regard to how we accomplish that goal and Scientific Games is investing heavily in creating an interactive product that will drive technology in both international lottery and gaming markets. "

The theme of convergence in terms of technology has been a long-running issue for debate in the gaming industry, but what's not anecdotal is the consolidation of companies involved in this industry. The number of companies in gaming is dwindling and the integration of these three iconic brands into a single entity, SG Gaming, is a further sign of the future structure of the gaming sector. "Clearly a high level of consolidation in the machine-based business has occurred," agreed Mr. White. "From an EU perspective, each of the major markets, with only Italy as an obvious exception, have each been dominated by two to three large suppliers. The machine business has inevitably consolidated over time and I think it's logical to assume that the interactive sector will experience a similar degree of consolidation too. Scale and more specifically large-scale helps considerably and while the new frontier, social media and social gaming, is still a very fragmented market, even in that sector we are seeing consolidation into three or four large global players. As we've seen in the traditional gaming sector, interactive will move in the same direction towards consolidation as the advantages of scale dominate all aspects of the gaming market."

At one point in the development of a convergent gaming industry, the larger corporations had envisioned a future in which players could continue playing their game choice in the casino/arcade onto their mobile device and port directly onto their home PC to enjoy the same experience whatever the location. However, the view has since softened as increasingly the results have shown that there's very little cross-over of play from one sector to the other.

"We are ultimately guided by the consumer and we deliver products they want to play," underlined Mr. White. "If you look back at Barcrest/IGT, we were seeking to transition a traditional manufacturing business to multi-channel content distribution business with the acquisition of Million2One, which was a precursor to IGT Interactive. However, one of the things we found was that the traditional venue player, the mobile phone gamer and PC user were all separate. While it had been presumed that we could follow this player from location to mobile device and onto their home PC, the fact is that the same consumer isn't necessarily playing across those different divisions. We found that the mobile consumer is different to the Internet gaming consumer and that we can't treat them as the same. From that experience we know that our job is to deliver to the consumer the game they want to play through retail relationships. We are not



wedded to the idea that it must be the same technology - it's our job from an efficiency perspective to standardise the technology across the different platforms, but that doesn't mean that we standardise the product itself."

Never having been a believer in forcing products upon a market, Mr. White insists that the only way to supply a successful gaming product is to be guided by the consumer and the customer. "It's not our aspiration to force the market, but rather be guided by the customers and deliver those products; though running alongside that we will be innovating and studying how the market is moving," explained Mr. White. "Forcing the market doesn't work. There is a relevance to the model Games Media was focused upon in the pub sector, in that as they tried to push a type of product onto a market, they found resistance. However, my perspective is that they experienced difficulties largely because they were trying to change the traditional business model. Games Media sought to provide a new type of product to change the traditional business model, one which allowed them to be more efficient in the delivery of content and reduce the cost of delivery. Our job, as SG Gaming, is to listen to the market, listen to the consumer and deliver the product that they want. Yes, we are here to help them with the process of innovation and provide them with product they may want in the future, but that's their choice. The phenomenal success of Apple is a great example of this formula. Steve Jobs explained the philosophy of Apple as: "It's our job to tell consumers about products they don't necessarily know they want yet." Well, I believe it's our job to strike the same balance."

What's clear from speaking to Mr. White is that SG Gaming remains committed to the pub market in the UK and is very positive regarding the future of the business and the involvement and engagement with customers. "We are still committed to the sector, but the brutal truth of the analogue pub market is that it's just not sufficiently profitable for us to continue with that type of product," acknowledged Mr. White. "In focusing on the distribution of networked video products, we can provide customers with the content that we used to supply on reel based platforms, with a new business model and back-end digital distribution without all the inefficiencies of reel-based models. It's a pure economic decision as it simply makes more sense for us to follow this route. Also, the level of investment required in the pub market is currently disproportionate with the opportunities out there. The decision to exit the analogue business was purely an economic one."

The next phase of the integration will see SG Gaming capitalising on the individual strengths of each of the three merged businesses. In Barcrest and Games Media particularly, the company has a heritage of developing great content and engaging products and as it moves into environments that increasingly need operational expertise, the machine management skills of The Global Draw will come to the forefront. The strategic benefits of merging these companies together, combined with the core strength and global reach of Scientific Games now sees a strong management team and employee base of 700+ people all moving in the same direction.

"SG Gaming provides us with a framework to deliver a comprehensive offering to each and every gaming channel," said Mr. White. "What you'll see leading up to ICE in February next year is investment in building the SG Gaming brand while retaining the three separate brands so that we do not lose

the individual heritage. We have created one company, one vision for customers and employees, capitalising on the equity in those brands from a content perspective, while Scientific Games provides a framework in international markets with its global reach."

The key message that industry watchers should take from the merger is that SG Gaming brings together three highly successful complementary businesses and provides a framework on which the business can capitalise as one entity with one vision. Those four principle objectives: innovation, performance at all levels, a drive to exceed expectations of customers and employees and a commitment to communication - are the building blocks from which SG Gaming seeks to expand on its phenomenal UK machines business success, grow internationally, build its interactive business whilst also evaluating adjacent markets, with the aim of creating a truly global gaming division.

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