

Lottomatica's VLT renaissance

Italian gaming giant, Lottomatica, is to radically reform its Gaming Division, amalgamating its two content and platform manufacturers, ATRONIC and SPIELO

At the beginning of May, Lottomatica invited its casino customers to a special event at its Rome headquarters. The event was not your regular run-of-the-mill products presentation, as it began with a frank and honest admission that Lottomatica's gaming subsidiary, ATRONIC, had lost ground to its competitors in the marketplace. The company had failed to meet the expectations of its customers, and so Lottomatica was taking action.

Having acquired ATRONIC through its acquisition of lottery giant GTECH, the Lottomatica Group is restructuring its Gaming Division into a single entity, amalgamating both ATRONIC and sister company, SPIELO, into one unit. The name of the new entity will be announced globally in September, but for now the Lottomatica Gaming Division is seeking to take the message to the gaming community that it has changed for the better, and is looking to address the issues of the past, while presenting unique solutions for the future.

The man leading from the front of the newly integrated division is CEO Walter Bugno. As head of Lottomatica's Gaming Division, he presents an enigmatic figure that's galvanised the two teams, ATRONIC and SPIELO, into a single cohesive unit. Addressing an audience of VIP customers, staff and privileged press at Lottomatica HQ, Mr. Bugno began by recognising first the mistakes of the past, before setting forth the company's vision for the present and future Gaming Division.

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It's been almost a year since Walter Bugno joined Lottomatica as CEO of its Gaming Division. His remit was to reinvigorate the business, but to do that he first set about accessing all aspects of it: its operations and its people. There were, he says, a number of recurring themes, both internally and externally. Whether at the international VLT market leader SPIELO, or the underperforming ATRONIC, Mr. Bugno recognised the depth and wealth of talent throughout the two companies.

The second message that Mr. Bugno encountered was that customers were unsure about the viability of the business brought on by a lack of progress. Content and timelines for new technology have been a major issue for ATRONIC. "It's a point that's been stressed and emphasised across all the boardrooms and offices that I've visited," stated Mr. Bugno. "It's been raised constantly and both the product and brand choice have been affected, while our competitors have also added to the debate."

Major US companies have looked long and hard at the EMEA region and have gained ground and opportunities thanks to the slow erosion of the leading position ATRONIC has let slip. "We want to reverse the erosion," said Mr. Bugno. "We believe we can achieve this through



stability and investment. Our aim is to surprise and delight our customers, and in doing so, quickly regain the position we once held."

The Rome Customer Event was staged by Lottomatica to give its customers an inside track into the developments taking place within its Gaming Division, and underline for those unfamiliar with Lottomatica the size and scale of the business driving those changes. "We want to share the journey with you," Mr. Bugno told his audience. "Share the actions we have taken and are planning to take, making clear the acceleration of what is going to occur. This is a major customer event; a week-long customer engagement. We have staged the event in Rome to show you behind the scenes of the fastest growing gaming market in the

world, Italy. It is also the best example through which we can show the results of our energies, the new technologies that have ensured that in Italy we are market leaders."

The customer showcase in May is to become an annual event, building upon the broad objectives as a private customer showcase. However, this first event was less about the products and more about credibility, perception, ability and stability of Lottomatica's Gaming Division. It was about a renewed impression of the company. Few of the operators gathered to attend the Rome event were aware of the size and scale of the Lottomatica business in its home market in Italy. Lottomatica's revenue last year was 2.3bn euros, generating more than 800m in after-tax profit. Primarily, the showcase

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Lottomatica.**

had been created to create awareness of Lottomatica's strength, provide a forum in which to talk about the latest products and innovations from the Gaming Division, and also the new opportunities emerging from the convergence of land-based and online gaming.

Lottomatica's Gaming Division has a series of goals and strategies that it is planning to implement over the next 3-5 years, such as the long-term investment plan of the business. "Have no doubt of the financial ability of our gaming business," Mr. Bugno told customers. "Lottomatica has a strong cash-flow and a healthy appetite for growth and success. The new Gaming Division is no different from all the other aspects of Lottomatica's business. Italy is the world's fastest growing geographical market. Online is a huge sector and we are superbly positioned with our GTECH G2 new media business to support you. We are a leading gaming business in the online sector and as such, we are looking to share all of our capabilities with you."

GTECH G2 is a major online solutions provider and a company that offers an integrated solution capable of seamlessly joining together the online and land-based sectors. The technology is market-leading, while the content can deliver an A+ performance. Italy represents the culmination of Lottomatica's efforts to combine each and every gaming element in a single joint offer.

"The variety of our platform offer is clear in a sector that is the largest server-based network in the world," detailed Mr. Bugno. "Italy is a perfect example of how we are competing in the global gaming market and how our product provides the winning solution. We have invited guests to Rome to change the perception they have about us and to take them with us upon our journey of change. We want to reassure customers of the stability of our company and demonstrate our Italian success. We want to show our latest gaming product portfolio and reaffirm our relationship with our customers."

THE WIDER GROUP

Victor Duarte, Senior Vice President and COO of the Gaming Division, explained the structure of the Lottomatica Group business, which comprises four divisions: Italian operations, GTECH, GTECH G2, and the Gaming Division. GTECH is the global leader in on-line lottery technology solutions and services, while GTECH G2 is a leading provider of sports betting and interactive gaming services.

The Gaming Division comprises SPIELO, a global leader in the VLT segment, and ATRONIC, a leading supplier of gaming



machines, content and systems to the casino segment. These two companies until recently had been operating somewhat autonomously, focused on their individual market segments, but connected through common links such as shared gaming cabinets, content, and other products.

Recognising that many markets, especially international markets, are opening opportunities across the different gaming segments, the Gaming Division determined that the time was right for a deeper integration of the SPIELO and ATRONIC businesses. The amalgamation of these companies is expected to achieve an integrated, globally diverse, multiple-segment, content-driven business that will

concentrate on serving the casino, VLT and AWP segments.

WHY INTEGRATE?

"We were not reaching our full potential as two separate businesses," Mr. Duarte said. "A lack of unified strategy combined with a level of duplication has hindered the effectiveness of our business in all segments. By combining efforts, we can focus on further developing our core competencies, better leveraging resources, and creating a truly global and diversified business portfolio. Whereas our new AWP business is thriving, and our VLT position is very strong and growing, we have missed some opportunities to gain traction in the international casino segment. Clearly, this segment is driven

by innovative content, and improving our focus on content is the priority. We have a globally diverse and experienced team of product and game developers, and we intend to better utilise them across our segments to achieve our goals."

As part of its regular customer feedback studies, the Lottomatica Gaming Division shared with its audience in Rome the results of a recent survey that quizzed hundreds of customers regarding its main areas of business. Based on the survey results, the Gaming Division has committed to focusing on game content across a wide range of segments: multi-games, community games, WAP, server-based, and VLTs, plus online games content. In a sector in which content is king, Lottomatica's Gaming Division aims to be the king of content by focusing on performance, product reliability, and price, which remain the most important factors influencing purchasing decisions in the European marketplace today.

STRATEGIES AND GOALS

2010 was a big year for the Lottomatica Gaming Division, as it was one of its most successful ever. While the hoped-for evolution in the casino market remains on a low heat, the rise of VLTs in Italy and the importance of AWP development co-existing with this new introduction has been a game-changer. Reliance on a single market segment is definitely a thing of the past. Though replacement in the casino sector has still to materialise (with estimates that the optimum time could be up to 36 months away), the integration of ATRONIC and SPIELO has opened up complementary markets for the company.

New geographies have also been opened to leverage content libraries into previously unobtainable spaces. ATRONIC games are being played on SPIELO machines. And having a 'ready-to-go' system and platform from SPIELO meant that Lottomatica's Gaming Division was the first to enter the Italian VLT market and establish a games beachhead. Its leading performance in both the Italian VLT and AWP space is as a result of the combination of content, technology and market opportunity. While traditional casino slot manufacturers saw a marked slowdown last year, Lottomatica's Gaming Division enjoyed a record year for cabinet shipments in 2010, with game performance also improving across what has become a truly global business.

"We are also taking steps to strengthen our customer facing organisation, in order to develop an intimate knowledge of our customers and their unique needs," said Duarte. "We recognise that the industry has changed over the past few years, and customers are requiring more flexible and

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"By improving focus on core competencies such as content development, eliminating redundancies between the two companies, and investing some of the savings from these synergies back into customer service and innovation, we are confident that we can rebuild our presence in the casino segment," Duarte said.

INTERACTIVE GAMING

One of the means by which Lottomatica intends to further engage with casino operators is through the adaptation of the online space to the requirements of land-based operations. Dominic Mansour, Vice President of Gaming Products at GTECH G2, explained that in regulated markets there are now opportunities to work with a single provider across all manner of platforms, both on- and off-line.

"GTECH G2 is a full-service provider, from sports-betting products, poker platforms, downloadable casino games, skill games, bingo, and standalone games," stated Mr. Mansour. "We have the best table games in the online industry, the best analytical tools and trend reporting, and with HD graphics we make the experience as real as possible. Our mobile casino recently launched with four games and we will offer 10 by the end of the year. Mobile has been the next big thing for years, but finally smartphone devices are delivering the experiences players expect."

GTECH G2 is also a specialist in bringing branded games content to market, with plans to bring the big App Store hit, Plants and Zombies, a game that has enjoyed 200 million paid downloads, to online players by the end of the year. G2 has also recently signed an agreement with CBS to bring CSI games to players, and in January at ICE launched Sherlock Holmes and Chippendales branded games to an eager public.

"GTECH G2 is a very player-centric company," explained Mr. Mansour. "We track and record everything our player does. This activity is used to help us promote the right games and offers to the right players." Controlling this offer is GTECH G2's GMS Gaming Management System. It's the engine that drives all its products and records everything its players interact with while playing online, be it poker, bingo, sports betting, payment transactions, tracking and affiliate tools - GMS takes care of everything.



One of the major advantages of GTECH G2's GMS system is that it creates a virtual wallet for the player, tying together their wagering account across every type of gaming experience. The player can seamlessly move from the land-based location to playing the same game on their mobile phone on the way home, to then playing exactly the same game on their PC later that evening, all of which is synced to the same purse. "We are the only provider with full integration into one platform, whether a player is in a retail outlet, on their phone or their PC, everything is tied together into the Internet liquidity," described Mr. Mansour.

To date, GTECH G2 has 140 customers

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worldwide in the regulated gaming space. It operates the fourth largest poker business in the world, the fifth largest bingo network and manages eight billion sports-betting transactions. In the last 12 months the company has launched Bet Cafe in Romania and has already developed over 150 sites in the country.

THE ITALIAN MODEL

Lottomatica is the only global gaming group in the world with the in-house capabilities to deliver a full suite of products and services across the value chain. The listed company has a worldwide footprint across approximately 60 countries, 7,700 employees, an EBITDA of more than €800m, diversified revenue sources, and is one of the biggest



companies in Italy. It's an operator of games in Italy and has a leading market share of the country's gaming market. Lottomatica's subsidiary, GTECH, provides 24 of the 44 US lotteries, and has recently renewed major contracts that guarantee around 90% of the group's revenues. The company provides full service capabilities to several of the top-performing lotteries in the world.

Lottomatica has seen healthy growth in the Italian market this year and last. 2010 saw growth return to the Italian market, and new energy was evident in the lottery sector, VLT sector, Italian Lotto and its optional game, 10eLotto. Interactive gaming, however, has grown in the marketplace consistently. Lottomatica's ability to tailor its offer to the needs of the customer has ensured that the company has retained its position as market leader in Italy. Lottomatica has shown that it can maintain a robust network and deliver consistent retail penetration -- no other country in the world has a higher system penetration.

Lottomatica has also expanded its ticket printing capabilities for instant lottery tickets. The company's success in the lottery sector in Italy is borne of the fact that Lottomatica has revolutionised this very traditional game. The Italian Lotto was a 500-year-old game that had become dated and faced a decrease in play. To arrest this decline, Lottomatica launched an additional lottery brand, Italian 10eLotto. The result has been exponential growth attracting both new and existing players to the game, with the added result that the traditional lotto game has also benefited.

ITALY VLT CASE-STUDY

It would be impossible to understand the scope of the Lottomatica business without viewing the recent introduction of VLTs in the Italian market in detail. Operating its own system and its own technology in this hugely complex legal and technical area, the decision of the Italian government to launch a VLT system in the market has really shown the capability Lottomatica has with SPIELO

SPIELO's VLT central system, INTELLIGEN, has been developed by SPIELO to deliver real value to the customer. The INTELLIGEN system gave Lottomatica a jump start into the VLT marketplace and sped through deployment of its terminals into locations. By November of 2010, SPIELO had deployed 3,000 VLTs into locations, by far the largest roll-out of any of the Italian concessionaires.

and ATRONIC to deliver the network and product for the marketplace.

In terms of history, the Italian marketplace before 2004 was dominated by unlicensed video poker machines. The government sought to control the street sector in Italy, and in doing so, created 10 concessionaires to operate machines legally, of which Lottomatica Videolot Rete is one. The first AWP machines under the Comma 6 law accepted basic wagers, while legislation changed the requirements thereafter to include a networked device that updates the central server once a week with information about this new machine under Comma 6a.

In the AWP sector in Italy, Lottomatica's Gaming Division currently has 50+ games on its network, and all the top-performing games are from the Gaming Division. The company has sold tens of thousands of game kits this year in the Italian AWP sector alone. The introduction of VLT machines, which



operate a live connection to the network at all times, has not replaced Comma 6a, but rather added a new gaming dynamic to the market.

The government restricted the number of licences in the VLT market to 56,000 terminals. VLTs can be located in bingo, betting shops and arcades only, and must be linked to a central determination system, with the random number generator located on the central system.

This is a 24-hr business in which the terminals must be connected at all times to the network. The Italian government imposed very strict compliance rules that presented technological challenges.

UP-TO-DATE

Lottomatica submitted its SPIELO VLT platform in October 2009 and received formal AAMS approval on June 28, 2010. On July 16 the first Lottomatica venue began collecting wagers. On November 11 the same year, Lottomatica awarded the first top jackpot prize.

The quantity of 56,000 VLTs split between the 10 concessionaires was chosen as it represented 14 per cent of their existing AWP base as of August 2010. Every one of the concessionaires applied for the maximum number of VLTs. SPIELO is the second largest operator by volume of VLTs in the marketplace and has placed about 8,500 SPIELO terminals and two systems to date across Italy, representing around 40 per cent per cent of the total live VLT market.

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The company's subsequent success has built on this first mover advantage, which synchronised and deployed its system before its competitors. The system was the first to receive certification and was the first to be installed in the marketplace. The result is that today, SPIELO has a 40 per cent share of the VLT sector in Italy. It's a success that has been built on the expertise, reliability and integrity of the SPIELO platform.

The scalability of SPIELO's platform supports tens of thousands of transaction every minute. In addition, INTELLIGEN controls the largest and widest WAP jackpot in the market. Such has been the success of the roll-out for SPIELO that two new concessionaires will be announced very soon. The key driver to the success of the product is the jackpot. Lottomatica's BetterSlot MegaJackpot has been an instant success, much in the same way that its 10eLotto has transformed the lotto sector in the country. Lottomatica Videolot Rete currently has 6,500 machines contributing to the jackpot and has awarded over €20m in jackpot prizes since launch. The jackpot is the key driver of the program's success, according to Lottomatica's customer surveys.

LEARNING FROM THE PAST

During the customer event in Rome, each member of staff reiterated the fact that the emphasis of the Gaming Division falls squarely upon content. It's the area in which ATRONIC has most heavily been criticised in the past. Limited integration with the Lottomatica family has been a past problem that the company has recognised, in addition to a short-term focus and limited investment, which yielded limited results in the marketplace.

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ATRONIC product success thus far has been concentrated in the areas of linked gaming where the company has achieved a number of innovations. However, low confidence in ATRONIC to continuously deliver top performing products has affected customer purchasing decisions. "Our response is to think globally as one company," responded Mr. Bugno. "Each of the locations, each of the products are now all under one company. Casino slots, systems, AWP, VLTs, roulette, multi-games, apps for system products, interactive and online solutions; Lottomatica's Gaming Division is now leveraging all the assets of the group."

The Lottomatica Gaming Division, according to Mr. Bugno, isn't seeking to implement technology for its own sake, but in the pursuit of providing the best experience for players and operators. "We are interested in technology that works," clarified Mr. Bugno. "Where manufacturers have in the past sought to create big changes, expensive and redundant changes, we're not asking operators to scrap their existing products and systems. We are using technology to add value and speed payback from their investments. We want to be quick adapters, not pioneers. We are making investments in technology and getting rid of duplication."

Having conducted itself separately from GTECH G2 in the past, Lottomatica's Gaming Division sees the convergence of online and land-based gaming, offering solutions in multiple segments, as a hugely important aspect of its future business. "We have a great opportunity to share our resources with customers, adapting successful games from the online space to land-based and vice-versa," stated Mr. Bugno. "We offer opportunities for land-based operators to replicate their entire casino floor offering online. We want the games from IGT, Bally and Aristocrat on that floor, played by their customers. The mindset of manufacturers looking to keep everything proprietary doesn't make sense anymore. We want to see the same content in land-based locations offered to players online. We can offer your casino's jackpot for play online on the player's favourite slot machine on their PC. We can do that today."

Server-based gaming is also a major area in which Lottomatica is taking an early lead, again with the help of SPIELO. The company's INTELLIGEN central system offers game downloading and switching on the fly. Last fall, the Quebec lottery board selected INTELLIGEN in a competitive procurement as the system it will use to manage and monitor Canada's largest VLT network. The Quebec lottery



board didn't want to overcomplicate its system with multiple game servers, but did want the flexibility to offer its players games from multiple suppliers. In this case, SPIELO and IGT worked together to supply games on a single server, INTELLIGEN, from a single point. It's a simple solution using G2S protocols that Lottomatica hopes will be a template for other operators to follow in the future, where the reality is that operations seeking to control different multiple servers on one floor isn't going to work.

THE PRODUCT COMMITMENT

Lottomatica's Gaming Division made a series of commitments and claims throughout the Customer Event in Rome. Here is breakdown of the pledges it made to customers:

- We will focus on the regular player, optimising the player interface and terminal.
- We will optimise multi-game packages, surprising and binding the player to the game, adding extra functionalities, selectable game options, and progressive options.
- We will enhance the social aspects of the game. We will offer new technologies to enhance the game

experience. And we will focus on the players of the future. We will interconnect land-based and online, and increase the variety of games across all platforms. We will bridge the online and land-based gaming gap.

- We will take cashless to the next level with Near Field Communications, and we are building player networks across all types of media, with information and service that must be available all times, anywhere.
- We see the emergence of smart-phone gaming playing a greater importance, and the development and integration of value-added apps transforming the player experience.
- Importantly, we are prepared to take more innovative approaches to pricing. In the past we have not offered a recurring revenue model, due to a lack of capital. We now have the opportunity to offer this as a model with performance-based pricing and a separate price for the box and for the game.
- We have created a global foundation that works. Our cabinet and platform have been developed with player and operator needs at the forefront, and we

Lottomatica Gaming Division CEO, Walter Bugno, welcomes customers to a location in Rome where a successful mix of AWP and VLT gaming machines are proving hugely popular with players.

"We have lost two to three years against our competitors and are now catching up. We understand the market and mean to differentiate ourselves in it. Historically, we have been a seller, but we have changed our approach. We are looking instead to interact with our customers and develop customised solutions. Our aim is to innovate by customisation, not mass. We have changed our mindset."
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are deploying them strategically.

- We will continue to conduct regular field tests in order to deliver products that work best for our customers.

"We have only begun our journey. This is not an arrival," summarised Mr. Bugno. "We have lost two to three years against our competitors and are now catching up. We understand the market and mean to differentiate ourselves in it. Historically, we have been a seller, but we have changed our approach. We are looking instead to interact with our customers and develop customised solutions. Our aim is to innovate by customisation, not mass. We have changed our mindset."

Lottomatica has big plans for its Gaming Division. The amalgamation of the two subsidiaries into a single entity under a single brand name will take place in September. At that time, ATRONIC and SPIELO will no longer exist in their current forms, but will instead become product brands of the new Gaming Division that is not simply the merging together of two companies. Instead, it will be the creation of a single entity through which operators can gain access to every gaming segment, leveraging their new and existing assets in exciting and profitable ways.