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State Lotteries' pathway to success in a world of operator consolidation and global scale

Kambi

Paul Jason, PGRI: The i-gaming world in general, and the sport betting world in particular, is consolidating through mergers and acquisitions. If scale and global reach confer a competitive advantage, where does that leave the jurisdictional operator, like state lotteries?

It is true that global online operators are scaling up through mergers, acquisitions, and access to the global base of potential customers. Scale begets two decisive competitive advantages. One is operational. Efficiencies derived by scale basically reduce costs as a percentage of revenues. That translates into bigger margins. Bigger margins translate into better value to the player (mostly in the form of higher payout percentage but also in terms of the quality of the product itself, the digital player experience and platform functionality), and higher profits to the shareholders. The second driver of consolidation is customer-facing, market-driven. More players mean more liquidity which translates into more variety of betting options and a more interesting player experience.

This consolidation poses a challenge for jurisdictional operators like state Lotteries. The jurisdictional operator will never have the scalability options that the global operator has. And that is where Kambi comes in. Kambi provides the state lottery operator with all the operational tools they need

to compete with the global operators in the sports-betting space. Kambi provides one of the most advanced back-office operations in the industry and a customer-facing sport-betting experience that is second to none. Our technological infrastructure, access to the most comprehensive and timely data

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sources, and operational skill-sets enable the small operator to provide a player-interface that has all the tools, functionality, and user-benefits that the modern consumer expects.

Kambi does not just provide our operators with a proven, market-leading Sportsbook that delivers an unrivalled player experience. We empower them through our unique culture of co-creation which works hand-in-hand with operators as partners, addressing their unique needs by providing them with the flexibility to mold our service to fit their individual strategy and brand. That is our value proposition to the state lottery operator: Partner with us to create a world-class Sportsbook.

There are two other positive angles to this story. First, fully 68% of the GGR in sport betting continues to be at land-based retail. Lottery's retail footprint is already the envy of the entire games-of-chance industry. Lottery's operational infrastructure

and skill-sets at managing large networks of land-based POS provides it with a decisive competitive advantage. The trend, however, is towards online. The players are migrating to the online channel in sport betting as in everything else. That is especially true of the younger players and the players who are

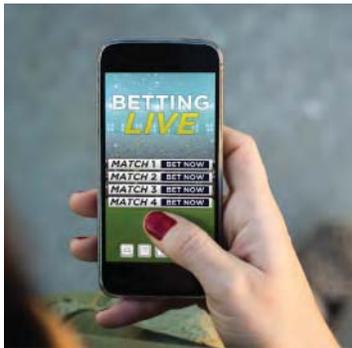
new to sport betting. The key take-away of this is that state lotteries do have a window of opportunity to leverage their land-based connection with the consumer to build out their integrated omni-channel model in sport betting just as they are doing with their traditional games.

There is another competitive advantage that Lottery has. Everyone loves lottery. It is easy to play, has no learning curve like sport betting, takes little time, and still offers the thrill of the game, the wager, the creating a chance to win. In past generations, the consumer tended to migrate to Lottery when they grew into their thirties and forties and had less time to play video games, go to the casino, or bet on sports. I think we can expect that will continue to be true, but only if the consumer is effectively presented with the opportunity to play the lottery. That means being the games-of-chance operator

for the games they like to play, which will always include sport betting. Absolutely vital to any long-term sustainability strategy for Lottery is to position itself as the games-of-chance destination. The success of any customer-acquisition strategy depends on having a highly visible profile with the consumer. The target market for Lottery includes sport betting players as well as other gamers. Lottery needs to be visible to these players and that means having a portfolio of gaming products that includes the fastest growing category in gaming - sport betting.

And thankfully, this is a strategy that aligns with some other interesting observations of player behavior. The proliferation of gaming, the increasing ease of access to all varieties of games, has caused an increase in the migration of players between game categories. In the short-term, this fracturing of market share is not favorable to Lottery. There is a silver lining, though. Lottery has the most enduring appeal of any game-of-chance in history. The life-cycle of all other games is limited. I-Poker, for instance, was thought to be on an unstoppable trend towards dominance until it flattened out a couple years ago. In fact, life-cycles are getting shorter and shorter. But not for Lottery. Sport betting is where the players enjoy an immersive gaming experience based on arguably the most popular spectator/entertainment sector in the world. The appeal and high-growth trajectory of sport betting will clearly continue for many years. That is why sport betting needs to be in the portfolio of Lottery. The silver lining is that sport bettors are more likely to play Lottery than lottery players are to migrate to sport betting. The key is for Lottery to make its products readily available to sport bettors.

In the competitive games-of-chance industry, Lottery operators hold all the cards. The assets of brand awareness, reputation for integrity and security, the sheer massive size of its player base, its network of land-based retailers ... these have been built up over decades and are impossible for commercial operators to replicate in a timely manner. The only way Lottery can lose this competition is to allow themselves to be marginalized out of the fast-paced race for new customer



acquisition. Lotteries do not need scale and global reach. Lotteries do need the robust portfolio of games that leverages its powerful assets, that provide additional revenue streams for the benefit of the societal good causes that Lottery support, and provides the platform for new customer acquisition for traditional lottery games.

Kambi can be Lottery's collaborative partner - building out the world-class sports betting platform that positions Lottery for sustainable long-term growth with the next generation of consumers. ■

About Kambi: Kambi Group plc is a leading B2B provider of premium sports betting services to licensed gaming operators. Its services provide an end-to-end turn-key solution for operators wanting to launch a standalone Sportsbook or bolster their existing offering with an innovative sports betting product. Front-end user interface to customer intelligence, risk management and odds compiling, and in-house developed software platform deliver the ultimate service and solution to our partners. Kambi's vision is to create the world's leading sports betting experience, together with our partners. Our co-creation

model drives financial performance and builds and strengthens partnerships. We currently provide our services to 13 operators in regulated markets all over the world. Together with over 500 passionate and highly skilled people dedicated to sports betting, Kambi has the strength of resource required to lead the market, proven by a number of highly successful market first initiatives and a healthy year-on-year revenue growth. The company's current coverage includes more than 165,000 live betting events and 300,000 pre-match events per year covering 65 different sports from all over the world. Kambi utilises a best of breed security approach, with guiding principles from ISO 27001. Kambi is eCOGRA certified. Publically listed, associate member of the World Lottery and the European Lottery Associations, fully compliant in regulated markets and with offices in Malta, Bucharest, London, Manila, Stockholm and Sydney, Kambi is the choice for operators looking to compete with a premium sports betting product.

Åsne Havelid *continued from p 16*

an important part of our annual reporting, where CSR is an important part of the topics we focus on.

Does Norsk Tipping's proactive leadership role translate into positive support from stakeholders like lawmakers, shapers of public and regulatory policy, the general media, and others whose support is important to our success? What do you do to promote to those stakeholders the positive role that Norsk Tipping performs for society?

Å. Havelid:

On a general note, I have to say that, yes of course it does. We have extensive stakeholder dialogue and cooperation where both RG and money for good causes are key topics. And this week (May 2nd), the Norwegian Parliament confirmed Norsk Tipping's role and mission as the key operator in the Norwegian gaming market through renewed monopoly licenses in all key sectors of this market (except horses, bingo and some minor humanitarian lotteries). There is no doubt that this is based on knowledge and trust in both our RG work and our substantial contributions to society.

But I also have to admit that this is messaging that is rather complex to communicate and that needs to be repeated and renewed. It's not easy for the "person in the street" to know if our RG measures are better than others or to acknowledge that the new football pitch down the street partially is funded by Norsk Tipping funds. These funds - as money generally - do not come with a stamp. So we have to tell these stories again and again, and in new and creative ways

Å. Havelid:

The recent government proposal, that was confirmed on May 2nd by the Parliament, has acknowledged that the proposed model relies on the ability to prevent illegal operators from entering the market more effectively than is being done today. So the Norwegian Gaming Authority will be given "better tools" and a wider mandate to battle this in the coming years. The approach that is being discussed is to prevent commercials on commercial broadcasters and prevent money transactions

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