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10 Minutes with Pat McHugh

Scientific Games CEO Tackles Tough Conversations

With more than 25 years of industry leadership directing innovative gaming systems and product launches in lottery markets around the world, including many industry-firsts, Scientific Games CEO Pat McHugh shares his unique perspectives.

Q: The vendor landscape has never been more competitive with RFPs and day-to-day business dealings. How can vendors work together for the greater good of the industry?

Pat McHugh: Competition is healthy—it makes all of us in the industry sharper and drives innovation. Scientific Games' mission is to be the leading provider of lottery games and solutions that responsibly maximize funding to the good causes that our customers support. We do this by challenging ourselves to continually innovate across our portfolio of products and services to deliver the most entertaining lottery experiences.

In pursuing that mission, we've set many of today's industry standards, which facilitates collaboration across the industry. This benefits all stakeholders, even with direct competitors, by partnering on big issues like security, responsible gaming and advocacy, while also competing to produce the best products and services that drive lottery growth. For our lottery customers, as long as RFP's incent investment in growth and innovation, we will compete hard for the greater good of our lottery partners and the communities they serve. Competing for the lowest cost, which erodes innovation investment and beneficiary funding, is not healthy.

Q: Many North American lotteries are experiencing softening sales due to increased competition from sports betting, iGaming and grey machines. What is the lottery industry's biggest advantage in this competitive landscape? How can lottery compete and what can we learn from these competitors?

McHugh: Lotteries' unique and most powerful differentiators are generating trusted funding for good causes, the broad appeal of our products and public trust. Commercial sports and gaming competition can't match that. Contributing more than USD \$100 billion a year to good causes in communities should be our industry's tagline. Every trade association should campaign on that advantage. This is our major differentiator. At the same time, lotteries must significantly increase investment in modernizing how we sell and promote our products, as our competitors are doing.

What we can learn from real money gaming is that they are investing in their future—relentlessly focused on marketing to acquire players, effectively applying personalization, AI-driven game optimization and seamless user experiences. Lotteries must invest more than they have historically to attract and retain players. However, it's crucial to do so while protecting trust and integrity in our brand by maintaining our focus on responsible gaming.



*Pat McHugh, CEO,
Scientific Games*

Q: The rise of unregulated gray machines is a serious threat to lottery revenues. How should the industry respond to this issue?

McHugh: The explosion of unregulated gray machines is a serious threat that undermines public opinion of gaming generally and funding to lottery beneficiaries directly. They typically exploit legislative gaps or stretch the bounds of regulated gaming categories, such as gaming machines disguised as “electronic pull-tabs.” The American Gaming Association estimates gray machines take in about \$123 billion in annual wagers. This has resulted in billions of dollars in lost lottery revenue and beneficiary funding. The industry needs a clear, aligned legislative strategy to address this problem head-on. Unlike regulated gaming, gray machines don't contribute to good causes; they simply pay outsized commissions, which is why they've proliferated and are cutting into vital lottery funding streams.

Q: How do you see technologies like cashless payments, digital wallets or real-time data analytics shaping the future retail experience?

McHugh: We see these as part of modernizing the experience of selling lottery products. Cashless and digital wallets are no longer optional. Not only because consumers carry less cash. They make the purchase process more frictionless, secure, and effective for marketing responsibly to individual consumers. Consumers no longer want to be anonymous. They want to feel valued for their brand loyalty. Combining these technologies with analytics can create a modern omnichannel environment that allows retailers to drive a better experience. Lotteries and retailers can better understand player preferences, optimal game mix and promotions at the store level. That's the future we're building toward.

Q: The industry is shifting toward digital adoption. How do you envision the optimal balance between growing lottery penetration and supporting the essential retail channel?

McHugh: As we've seen in other industries, cohesive omnichannel strategies drive sales across both channels. Retail will remain essential, but digital engagement is required to extend reach and create a modern, holistic customer journey. Our belief is that both will grow together.

We believe that digital should complement, not cannibalize, retail with loyalty, promotions and second-chance play that create a unified, omnichannel ecosystem. This approach has proven to be successful. Studies by McKinsey show that Walmart omnichannel shoppers spend 50% more annually and drive nearly 60% of U.S. sales. And look at Starbucks, where 34 million+ rewards omnichannel shoppers shop 1.7 times more often and spend up to 70% more than their offline-only customers.

Q: Where do you see the greatest opportunity for product innovation in instant scratch games, draw games or digital games?

McHugh: Each category has a role to play in keeping lotteries relevant. In the U.S., instant games continue to be the growth engine. There's still so much potential in enhancing entertainment value through portfolio optimization, innovative playstyles, extended play mechanics and incorporating digital extensions that bridge to iLottery or loyalty programs. SCiQ, our in-store scratch game management ecosystem, is a perfect example of innovation that has a real impact—solving issues like shrink, market basket analytics, stock outages, responsible play, game optimization, all while modernizing how games are merchandised, leading to meaningful sales increases.

Draw games are ripe for modernization, too—whether that's introducing flexible price points, bonus multipliers or even new draw formats designed for today's faster-paced entertainment market. Our Fast Play category has seen great success, especially when applying our experience in game designs, licensed properties and omnichannel game families. On the digital side, the opportunity lies in creating seamless connections across platforms, so players experience the lottery as one cohesive ecosystem, rather than separate channels. The real win will come from combining the best of all three—

instants, draw and digital games—into engaging, omnichannel player journeys.

Q: Beyond loyalty and second-chance, what are some of the most promising digital tools or experiences that can drive players back to retail?

McHugh: Digital can be a powerful driver of retail traffic when used strategically. Features like digital coupons, geo-targeted push notifications or online-to-retail prize redemption can create a strong pull into stores. Imagine a player getting a notification that their favorite \$20 instant game has just been released or that they've unlocked a reward redeemable only in-store. These types of experiences make digital an extension of retail rather than a replacement. The opportunity lies in harnessing data to create personalized offers that encourage players to engage with both channels, thereby reinforcing the ecosystem.

Q: What do you think lotteries can do to better appeal to the next generation while staying true to their core values?

McHugh: Invest more in modernizing the player experience and acquiring and retaining players. The next generation expects a modern omnichannel experience, personalized promotions, convenience and entertainment on their own terms. Lotteries must meet those expectations without losing sight of their mission. That means offering creative promotions, fresh play styles, digital engagement and responsible play tools—while always reinforcing the fact that lottery is the only form of gaming that gives back 100% to good causes. This is our differentiator and our advantage. Younger players are value-driven. They want their entertainment dollars to matter. If we connect their lottery purchase to the purpose of funding education, veterans, or other community programs, we'll attract them in a meaningful and lasting way.

Q: What keeps you up at night about our industry?

McHugh: What keeps me up at night is the urgency of this inflection point for our industry. The rapid growth of competitors is a serious threat. We previously discussed unregulated gaming machines. Sports betting is another example. In Pennsylvania, sports betting, which was non-existent in 2018, has grown into an \$8 billion market today, surpassing total lottery sales. We must make future-forward investments in products, promotions and solutions that safeguard our long-term funding for good causes. It's crucial that we continue to innovate and invest in the player and retail experience to protect the lottery industry's reputation as the most responsible form of gaming.

We look forward to collaborating with our partner lotteries to help them solve these issues and secure a strong future for the industry.

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