



SciPlay Corporation

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David Karnovsky: We'll get started. Very happy to have for the first time at the conference, Josh Wilson, CEO of SciPlay. Josh, thanks so much for being here pads.

Joshua Wilson: Thank you. I'm amazed on how big the conference is and how many people are here. I'm very honored.

David: Thanks so much. You spoke last week at the Light & Wonder investor day. I don't want to make you redo your whole presentation. At a high level, how would you frame the key priorities you're setting for SciPlay as CEO?

Joshua: We're in a great spot right now. Because of the position we are in, the work that we've done over the last couple of years, we've really been able to bucket our growth into what I would say is three major areas.

The first is our core games. We build organically a suite of games that are all evergreen. All of them have grown year-over-year, including our oldest title, which is Jackpot Party, which was launched in 2012.

Set an all-time revenue record, even in '21. Continuing to invest and grow those games. At the same time, looking to move more and more into the casual space in a place where we share similar player demographics.

Looking for the games that are primarily played by that 35 and over female. She's looking for games as her form of entertainment. These type of games tend to be match three, Solitaire, puzzle games. The things that have that repetitive loop, that they can do over and over again.

Then, at the same time, investing in an infrastructure that allows to span all games. Making sure that we have the tool set needed, not only to support our core games that are growing, but all new games that are being built organically.

Any game that we build VR that we acquire through M&A. Making sure that we have the right analytics plugins, UAD plugins, live-ops and services, and data.

David: Got it. It was a great overview.

Joshua: Thank you.

David: This past quarter, what stood out to us in your results was that there was a notable uptick in monthly active users, monthly active payers. This was concurrent with an increase in marketing spend. That largely reflects higher LTVs across the portfolio as a result of Project All-Star.

I'm curious. Can you walk us through this positive-return dynamic you're seeing on UA spend and how that should flow through for the year?

Joshua: Your question actually hit my answer, which is amazing. We had pretty good returns going into Q4 of last year, but we had very good LTVs. With that, we made the decision to increase the funnel of people coming in, extending our payback window from six to nine months because we were still hitting a ROAS that we were very pleased with.

When you take the mixture of increasing the people, our games being as healthy as they ever have been, so not only are we seeing increased ARPDAUs, but we're also seeing increased retention and less churn. All of this together is what aided to that increase in DAU and MAU that we saw really in our core games.

Right now, we're not seeing any turn or any change in our returns. We're still running above forecast, so we're going to continue running at the marketing spend that we are, but I think it's because we're so focused on delivering the best entertainment inside the games.

When people are coming in the games, they're staying longer and playing more. As long as we can continue to deliver that, this, the spend makes all the sense in the world, and we expect to continue seeing that very steady growing DAU, but really more focused on that growing payer-base because that is where, that's who generates the revenue and the real growth.

David: Got it. Just going back to your comment on the LTVs and the best retention you're seeing. That's from Project All-Star. For people who are less familiar with it, you can walk through the project.

Joshua: Internally, we put names to everything when we switch and we move over to doing a new strategy.

Project All-Star for us was when, as a company, we looked at our three largest franchises and looked at it and said, "Hey we want to make sure that we're hitting on all cylinders on these games. We want to make sure we have a dedicated team to live-option services, dedicated team to meta, and a dedicated team to data and economy."

As we realize that hey, in the past week we did one or two at a time, never all three. What we realized is wow, we're seeing all of this success in all three buckets at once, and we get these learnings, and we're taking them and moving them from game to game. We started seeing each one of the games performing higher and higher and higher.

As we went through it, we were like, why not take this knowledge and effectiveness and put it into more of a centralized platform or a centralized repository almost, and allow all of the games in the portfolio to be able to take advantage of it without having to build out all of the teams. This was started with Jackpot Party, quickly went to Gold Fish, then Quick Hit.

The beginning of this year we announced the investment into what we call the SciPlay engine, and that is moving to take all of this knowledge and basically algorithms and put them into that centralized location with the hope that all of our current games that are not in Project All-Star will be able to take advantage of it.

Then, any new game we build or potentially any M&A where we bring in new games will also be able to plug into it.

David: Got it. Josh you previously highlighted ad-tech as an investment area for SciPlay and something that you think you can leverage across the portfolio, so I'm curious, how do you go about executing that, and then what role does Alictus and its large base of DAUs play in?

Joshua: I'll start with Alictus. Alictus already had done quite a bit of work, especially in the ad monetization area because that's how they monetize all their players. Bringing that in basically jumpstarted us two years from where we would've been trying to build it from the ground up, and has already put us in position where we can look at using that technology and putting it into other games for example, Solitaire Pet Adventure, which we have been developing.

We would've developed the game from the start with ad monetization in it because traditionally

Klondike games do better with it, but we didn't have the technology so we built it as an IAP game. Immediately after that acquisition, we were like, "Hey, we should redesign this and design it the right way, and let's put ad-mon into it."

We actually slowed down the release of it and said, "OK, let's do this and make sure it has the right economy." That's what we're working on right now. We're very pleased with what we're seeing as far as how the game is going to turn out, which should come towards the back half of this year, let's call it back half Q3 into Q4.

On the flip side is the ad buying. Marketing expense as far as a line item is one of the largest for all video game companies. We're in the hundreds of millions. Our chief revenue officer is constantly talking about efficiencies, "Hey, if I can find one percent here, instead of using this publishing network what if we built our own publishing network and we save three percent?"

We came up with basically a plan to stick inside of the SciPlay engine which will once again be used across the entire game, but the entire thought is using technology to buy more efficiently. The way I think of it is, if I can have a little bit better LTV model, I can get one percent better on my spend, if I can have a little bit better churn model I can increase the LTV by two or three percent.

All of these things are on a base of hundred of millions of dollars which means it's just more top line and bottom line right away. For us it was a no brainer to invest here because it is how you add new cohorts into games so we might as well get the most out of every dollar we spend.

David: For Alictus specifically on the UA side, can you talk about how you can maybe target that group...

[crosstalk]

Joshua: Alictus being primarily in the hypercasual space right now, for the people that know, it's high DAU for short lifecycle. They get around 28 million MAU, which results to really close to about 28 million installs a month. Out of this 28 million installs, about 50 percent overlap with our core business demographic.

What we are looking at doing right now is taking, how do we extend the lifetime value of the individual by moving them to longer-term franchises throughout the entire portfolio?

Timing behind that, acquisition just finished March 1st, the key initiative is like, hey, let's help them ramp up, let's help them scale because they make more money by building more games and they've been very, very successful at that.

Right now the focus is, let's get the team where we want them and get their roadmap to what their dream is, and then probably sitting in late Q3, early Q4, we start really the moving of the players into the longer lifetime value games.

David: Jumping ahead to that, and then we'll talk about the near-term and growing Alictus. Maybe can you talk, like, what data can you look at in an Alictus player that would then help you determine this is someone who might really like Jackpot Party.

Can you explain for the audience, everyone's heard of IDFA, not everyone's heard of IDFV, and that's an identifier for you? How can you utilize that?

Joshua: Another huge synergy for us with Alictus was helping us create a larger IDFV network, so giving us the information...I guess for those of you, IDFA, which is what Apple really is making more difficult for all of us to get information about because the individual player has to give permission in order for us to have the data.

We know that only about 20 percent of the users out there do that.

IDFV says as long as it's a player inside your network of games, you can share that information across all games. This gives us through this very large mile, the ability to see a much larger group of users and know who they are when we want to pull them in and out. One, we can see this user, see, hey, have they ever been part of a social casino world?

More importantly, I think what we do is we look for attributes or behaviors. Are they longer sessions when they're playing hyper games? Are they more engaged to the actual ads to progress further? We're looking for these attributes that make us go, OK, really, they want a long-term game, they just haven't found the right one.

It's the people who behave that way are the ones that we'll try to send over. As we send people over, we'll know, these attributes have a higher stay tendency, these attributes do not. When they're these type people, don't send them here, we'll keep them in and try to send them to another one of the hyper games, when they're these type of attributes they go to the longer LTV games. Does that make sense?

David: Absolutely, yeah. Sticking on with Alictus, the hypercasual space is very competitive and the dynamic that you mentioned kind of frequent churn and what games are popular, from a developmental standpoint, how are you thinking kind of about scaling up Alictus's output to some of its competitors?

Joshua: One of the things that drew us to Alictus is they had been continually taking market share in hypercasual, growing significantly faster than the market itself was growing. As we dug in we realized that they had put together a process for building games that I had never seen before. It's, to call it better, worse, their own secret sauce.

They have a team of people who are basically trying to figure out what will be successful at a very low cost. They start with hundreds of items, or themes, or ideas.

These hundred, they say, hey, these 10 seem to have more heat on them than the others, now let's do variations of these 10. Now they build 50 out of those 10. Only five of these seem to be. They don't put any development work until they get down to here.

This method or this, like I said, system of building, they've created more than six number one hits in the course of two years. I honestly don't know of another company that has been able to reproduce that, and they do it without failures, which is what I think is remarkable.

For us, it became a, well, how do we help you increase your creativity team so you have more ideas and then get more of the games out faster? That's where we come in to help them scale. It's very difficult to take a company from 30 people to 60, and let alone 60 to 100. Most companies hit a wall. Most companies fail before they succeed and they just become less profitable.

We have done it multiple times in multiple studios so we feel like we're able to bring that synergy to them or bring that knowledge to them, and so far we've seen great success.

David: You noted previously following Alictus, you have the ability to do in-app ads at a greater scale and you mentioned Solitaire Pets. How do you think about rolling this out to the rest of your portfolio? You've noted 90 percent of the users on your platform don't pay, can you serve ads to them or do you kind of have to perceive with a lot of caution there?

Joshua: Whereas we see it as a big opportunity, we are going to move with a lot of caution.

Social casino primarily has not been ad monetized. The reason for that is that genre is the genre that is growing payer basis faster than every other genre. Mainly because that genre was the last to really pick in or to implement metagames and live services.

For example, if you would've asked me this question five years ago, I would've said, well, that number wouldn't be 90, it'd be 95. In the course of five years, we've taken five percent of that population turned them into very valuable users. If we would've sat and gave them ad-mon back then we would be worth at least a hundred million dollars less, but we would have a lot more ad-mon.

Identifying exactly who the person is who will never pay, if someone can tell you they can do that, I think they're incorrect.

Mainly because this player is evolving so quickly and more and more people are spending their entertainment money on mobile games compared to what it used to, that people who weren't payers are turning into payers two to three years into their life cycle, some five years into their life cycle.

The reason is, it's not because they're getting a new slot machine that they all of a sudden love, it's because they're getting a new meta feature or a new live-ops event that is causing them to increase their engagement in the game like they didn't have before. That is the reason they're going, this is worth me putting in five dollars to get double the time.

It's a huge opportunity, but it's one that I think we're going to wade in very slowly now, different than the expansion into casual.

Almost every casual game is either 100 percent ad-mon, a 50/50 hybrid, or an 80/20. Very few are zero. My assumption is every new casual game we would launch would come with more likely than not some type of hybrid version of ad mon into it or the major revenue source.

David: Going back to user acquisition for a second. I think, based on our conversations, there's a perception among investors that the loss of IDFA access or a partial IDFA access with iOS 14.5 has fundamentally changed the mobile games industry in a negative way, in particular the ability to launch new games that might rely on a small number of in-app payers.

How do you view that? What adjustments have you had to make internally as privacy rules got stricter?

Joshua: Let me start with the macro. I think it's harder to launch new games if you're a new company because you don't have any existing player base or any existing information to start with.

If you are a brand new company that started from the ground up, and you're trying to put a game into the market, it will cost you more money to scale that game than it ever has in the past, mainly because it's harder to buy on Apple because of the IDFA reasons. It's more competitive throughout the entire industry itself.

To launch new games in a company of scale, I don't think it's a lot more difficult. We're not finding it harder to bring in the people. Also, we have existing cohorts of people that we know, and we're able to feed games. I think those two places are different.

Where did it affect our business as a whole? We had to change our philosophy, especially spending on iOS. As most of you are familiar, the IDFA stuff came in April of last year but didn't really hit our market until late July, early August.

Overnight, it became very, very difficult to reach large groups of people and still be profitable. The thought or analogy that I try to use is, if we were able to reach 2 million people per month, all of a sudden that 2 million drops all the way down to 500,000, and if you tried to reach 500,001, that 1 became ungodly unprofitable, and you wouldn't spend money on it.

That became the new reality. Well, each month that's gone by as Apple has continued to update their own network, it's improved a little by little. If you said August was 500,000 people, September was 600,000 and then 700,000. We're not back to what we were by any means, but we're seeing it improve.

This is part of the reason in Q1 we were able to outperform our performance as AI Apple actually improved faster than we thought they were, or I should say iOS was able to improve faster than what we thought. I think the humility part or the business part that you had to really change was companies were used to spending money chasing revenue growth.

If you continue to do that in Q3, Q4 of last year, and even arguably Q1 of this year, you did it at a negative EBITDA. I think that's part of what hit our market as a whole as people were worried about continuing that top line growth at the cost of returns.

David: You've been able to make that adjustment over time, but then now investors are saying, well, Apple could potentially make other changes prior to introducing things like Private Relay, which [inaudible] IP addresses. Any thoughts on that?

Joshua: Apple is going to continue changing things. That's about the only thing that is for certain. The only other thing that is for certain is ad networks are going to continue finding their way of identifying people. Fingerprinting, right now Apple's letting go through, but everyone says eventually will go away. When that goes away, they'll be three other ways to do it.

I think our goal in the meantime is to build as big of an IDFP network as we possibly can so we can have our own first-party data, this way giving us a big enough population not only to grow our current games but to launch new games into our ecosystem.

David: Necessity will breed the innovation.

Joshua: Exactly. [laughs]

David: Last week you revealed Project X as Spell Spinner. It's a game that combines spinning mechanics and puzzles with RPG battles. We talked about this a little bit, but those combination of elements is very deliberate. What do you think is important for investors to understand about this game?

Joshua: It sounds like an unusual game, but the method behind how we got here made a lot of sense. The spinner box is primarily the same fundamental thought of a slot machine. Here's a place where we have the mathematics, we have the understanding of the thrill factor, and we really understand that as a company.

The mixture that we're adding into it through using kind of the meta of the Empires & Puzzles gives you the collection / building the proud, so, what am I here for? When am I going to be here? Long-term?

The last, which is adding a little bit of a different thought to it, so the RPG, is how we implement kind of the loss aversion thought into the game. I built all of this stuff, but someone took it from me, I need to be able to maintain it.

From our head, as we designed this game with our team from Finland, it became more and more exciting as we built it through because we felt like, hey, this is really going to be met for our core

player, and we're very excited for that point, but it's also something that the market hasn't seen yet.

The genres of what we're taking from, or the simple core loops that we're taking from are all very, very popular, and they all are primarily that 35 and over female. I'm excited. You've seen the video yet?

David: Yeah, we saw it at the Investor Day.

Joshua: Yeah, the Investor Day, that's right. If you haven't seen the video, it's on our website, it is cool. I'm excited.

David: You mentioned Empires & Puzzles, in my head I was thinking Coin Master. Is that an accurate thought, and just given the success of those games, is that indicative of your ambition here?

Joshua: Yeah. That's taking the kind of a Coin Master simple core loop with the social aspect of it, because I mean, what makes that game wildly popular is everyone gets their friends to play. Taking that type of thought, but mixing it with the builder that comes from Empire Puzzles is why we think the two together are going to be an amazing mashup.

David: Do you have a sense for soft launch, full launch?

Joshua: Yeah. Right now we're kind of what we call internal alpha. This is where we play through, we internally test it over and over again. We're shooting for tech launch somewhere in late Q3. This is where we take the game and launch it at stores, normally not in the US, places where they have large groups of people, and we're just testing the technology.

We want to make sure that the game could scale when we put it out. From there we go into our soft launch, which we're expecting to be the end of this year. How long does it take for soft launch?

David: Can vary.

Joshua: Yeah. I've seen games take three months and I've seen games take a year, because soft launches, are the features right? Are they tuned right? Do the people behave and play them the way you would hope?

Then you have economy, you do not want to invest marketing money until you have a stable economy. Economy tweaks take three to four weeks to test every time you do it, so if you have 12 of them, three, four weeks each, you quickly get through half a year.

David: Got it. You've stated a goal of one to two new games per year. Historically, SciPlay built games in-house from the ground up, how are you thinking about execution on the pipeline in terms of resource utilization and then, you touched on this a little, but what kind of drives your vision in terms of genres, or mechanics, or audiences you target?

Joshua: We'll touch first on how to introduce new games. Yes, we've built internally everything. That's basically been how the company was started, and we will continue to have that be part of it. We have all of the, what we feel is the knowledge when it comes to economies, metagames, and live services, and then also our reach or growth team.

What we're missing is the simple core game. We don't have a lot of talent in building Match 3 or a lot of talent in puzzle games. This is where we'll either hire in the talent, bring people who are experienced who've done it, or do acqui-hires of companies that have launched multiple versions of that. I consider both those organic.

The other way is through M&A, where we're looking for companies that have already built games, scaled them, know how to run the company, they've got proven technology, they have a proven track record of releasing successful games, and that's where Alictus type company comes from.

We go both ways as far as that goes. The goal is to get the one to two really focused on what we think our core demographic is. If you go look at Match 3, it is a primarily 35 and over woman. She's very engaged in the game. A lot of them, been playing them for years.

When you even look at our world, if you remove social casino, most of our marketing spend is on the casual genre. And so finding the places where we find successful heat there also helps us drive, because that tells us it's our player who wants our type of meta.

David: Another area for investment that you've highlighted in the past is a direct-to-consumer platform. Can you walk through what your vision for this is in terms of creating a separate environment, and who in your player base is this right for? Is this mainly for spenders, certain types of spenders?

Joshua: If you're in mobile video games, you live on Apple's, Google's, Facebook, and Amazon's platform. They own the platform, they own the phone, they own everything around it. They decide who the advertising is and they decide the communication to the players.

First and foremost, when we think building out our own platform is, how do we become closer to our player? And what that's in, payer, non-payer? I just want to be able to have as good of a relationship as we possibly can because ultimately we're a customer retention company.

Once a player is in our ecosystem, our entire job is to keep them in our ecosystem as long as we can. The way we have managed that is by building great entertaining games, but it still first and foremost comes to, how long can you keep this individual in your world?

For me, that's the main push for the platform, is to get people in my world, where I own their entire outside surroundings, I decide which of my games I want to show to them, I decide how the communication goes, so on and so on.

There are other inherent benefits that we love. Being on everyone else's platform, you pay them 30 percent to live in their world, while that 30 percent goes down to 6 to 10 percent. Each user I have is literally 2,000 basis points more valuable to me when they spend money.

I think it does cause us to say, hey, our most valuable people are the ones we want there first. Also because it helps even strengthen the relationship between them and our VIP team, which their entire job is to help make sure that they're enjoying the games. If we can do that on our own platform, we can talk to them however we want whenever we want. I think I answered your question. I kind of rambled.

David: No, that's great.

Joshua: It's about the customer and being able to increase that relationship.

David: Got a few minutes left, anyone in the room have questions?

Joshua: Yeah.

David: We do have one. Hold on, we'll wait for the mic.

Audience Member: I've heard from some of the lottery players that the social casino, iCasino

overlap with what they offer. Some people are concerned it's pretty comparable. Can you talk about the competition level between those two mediums?

Joshua: iGaming and social casino?

Audience Member: Yeah. Also with the iLottery players, [inaudible] there was overlap. Maybe I'm mixing up with iCasino.

Joshua: I'll be honest, I have seen almost nothing with iLottery so I don't know that there's overlap at all, to be honest, from a statistical point. iGaming, there's actually some overlap, but it's positive for us. In our social casino business, our largest states are the one where gambling's legal. Nevada, Florida, places where there's casinos, land-based casinos tend to be our biggest states.

What's even more interesting is the states that have legalized iGaming, not as much sports betting, but iGaming, each one of those states have increased their average spend per user. We look at every individual state, we say, OK, what is the average?

Some states are worth more than others, mainly because disposable income is so much different state to state, but we do everything to the average or the median of everyone. Every state that has turned into iGaming has increased on the medium.

Why? Maybe because the advertising is there, people are becoming more familiar with it, so they do Google searches, they start looking for it. We're there, we're a free-to-play opportunity where they can come in and go, and then eventually they get bought into the metagame, which keeps them in our games.

David: I got time for one more. Joshua, I'm always amazed by this, but every time I look at the top grossing charts, and I look at it from time to time, but for social casino specifically you always find the same games. That's over like a multi-year period. Why is this category so stable?

Joshua: I think the reason people are surprised by it because almost a misconception, everyone, I shouldn't say everyone, a lot of people believe that games grow because of marketing spend. Where I would say that that is a factor, games grow because of retaining current payers.

At the end of the year, if I have 100,000 payers and I can keep 999,000 of them into next year,

people inherently become more valuable the longer they're in the game, I increased revenue.

The thing that social casino I think, does better than anything else, which is why when games get up there, it's very rarely that they come down is because we retain the payers inside of our games so well, and then the marketing spend just adds new cohorts of people, so it becomes the additive revenue to the individual games.

For me, I think that's why you're seeing it, and even us today, I think we have five games in the top 30, with one of the games being number 32 right now, so we'll soon have six, which would be literally all of the organic games that we've built over the years.

David: With that, we're out of time, Josh. Thanks for being here.

Joshua: Thank you everyone.

David: Cool.

[applause]



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