

## 6 LESSONS LEARNED FROM G2E 2016

The Innovation Group wrapped up G2E with some insightful observations. Our top takeaways include:

- 1. The lines are officially blurring between gaming product lines, most notably bricks and mortar versus interactive and lottery versus distributed systems.** The industry's shift in how gaming players, places and technologies are interacting and changing has become a pervasive condition. The magnitude of the change we are seeing could be likened to the effect of a "disruptive technology" in other industries. Fueled by abstract generational shifts in the preferences of players and the convergence of internet gaming and traditional casino formats, the industry is perhaps more in flux today than since the first wave of gaming expansion in the 1990's. Observing the attendees, content and tone of G2E made this movement quite obvious.
- 2. Apprehension regarding the potential regulatory environment in Brazil is common across potential entrants into that new market.** Brazil has been touted as the next gaming development hot spot, with good reason. With the potential for over US\$7 billion in casino and bingo revenue and at least as much or more in internet based gaming, the market would be the largest simultaneous introduction of traditional casino and internet gaming supply and revenue perhaps in history. However, even with a demonstrably clear path to legislation, the industry continues to waver around the potential for acceptable regulation. Regulation is not built into the bill, but rather, largely decided upon after the passage of the bill. Brazil is attempting to address the fear of regulatory risk by putting regulation at the Federal (versus state) level. But we believe our clients will need more assurance to enter the market comfortably when the time comes.
- 3. The new trend of virtual sports betting is interesting and appears to fill a need and have an opportunity for implementation both in bricks and mortar and online.** Multiple companies have debuted new avenues for virtual sports betting. Interestingly, these products provide multijurisdictional opportunities to play in both class three and video lottery terminal based markets. As celebrity and other realistic intellectual property is integrated, the product could provide a new avenue for growth to the industry.
- 4. Should Japan pass legislation during the special session, this year, the development opportunities both in the large cities (Tokyo, Yokohama and Osaka) and the secondary markets (Nagasaki and Hokkaido) could spawn significant growth for the industry.** If opened, the Japan market has been projected to be the second largest market in Asia behind Macau. Proposed legislation has been discussed for the past 18 months with limited prospects for passage or positive movement. At G2E, we heard from multiple stakeholders that the pieces are lining up for potential passage. Both the ruling LDP Party and their coalition partner, Komeito, have positive indications in the press both leading up to and coming out of G2E. Should legislation be introduced and passed this year, it will be off to the races for large cap, medium sized and smaller gamer operators and developers alike.

- 5. Tribal economic diversification through non gaming ventures will continue to be a hot topic through 2017.** Economic diversification throughout Native American Country continues to be at the forefront of tribal minds as tribes begin to think outside the box and pursue new and diversified sources of economic opportunity other than the gaming industry. Tribes that have financial, human, natural and other resources, including gaming, continue to advance economically while those that do not have some of these elements continue to struggle, finding it difficult to gain traction in the modern-day economic terrain. It is in this area that we are beginning to see a great transition within tribal nations. The mindset is shifting from individually focused sovereign nations to a more global outlook of tribes seeking to help other tribes achieve successes. This ‘renewable innovation’ is occurring not only on a financial basis, but also with tribes sharing their successes in terms of best practices and tribal development to help other tribes identify their own opportunities of diversification using the resources they possess. In an Innovation Labs session at G2E, Dr. Richard Luarkie shares the following: “The idea of renewable innovation lies in the historical economic successes tribes have had, and renewing these successes in an innovative, unconventional, diversified and results-oriented way.” These concepts will most certainly continue to be a hot topic in coming years.
- 6. The millennial debate continues apace with no clear agreement on how to woo them to casinos or what value they would add to gaming revenue.** The verdict is still out on how to entice Millennials to the casino floor and what value they would add in any case. The challenge is not just in designing games but in the entire resort experience, and how to achieve forward movement with this generation that has never known a world without smart phones.

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