

BUILDING CANADA GAMING INDUSTRY

Industry leaders discuss the past,
present and future of gaming in Canada

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The background of the page is a photograph of Parliament Hill in Ottawa, Canada, at night. The building is illuminated with warm, golden lights, and its iconic wooden slat facade is clearly visible. In the foreground, there is a fountain with several jets of water spraying upwards, also lit with warm lights. The sky is a deep blue, suggesting twilight.

CANADA'S INDUSTRY

Canada's gaming industry is often defined by the involvement of provincial crown agencies but there are numerous private sector gaming companies making a significant mark in the gaming industry. At the Canadian Gaming Summit in Vancouver this past June, our panel of senior executives from Canada's leading gaming operators and suppliers talked about their success in Canada and abroad. This wide-ranging discussion touched on the secrets for success on an international stage, and the challenges and opportunities that come with being a Canadian gaming company in a global industry.

PROVINCIAL CROWN AGENCIES AND REGULATORS HAVE A PROFOUND EFFECT ON THE CANADIAN GAMING LANDSCAPE. GOVERNMENT GAMING STRATEGIES AND POLICIES TRY TO FORGE A BALANCE BETWEEN EMPLOYMENT, TOURISM, ECONOMIC DEVELOPMENT AND REVENUE WHILE THE PRIVATE SECTOR IS FOCUSED PRIMARILY ON THE LAST ITEM, REVENUE. SO THIS MUST CREATE SOME TENSIONS. TELL US WHAT CHANGES YOU HAVE SEEN AND WHAT YOU ARE LOOKING FOR IN THE NEAR FUTURE.

KL: We work with OLG and for the most part our objectives are aligned. We all want to have successful operations, we want to be responsible, we want to do right by our customers, do right by our employees. On occasion you'll hit an issue where they are not aligned. Over the years, I've asked the OLG, "What's most important: employment, tourism or revenue?" The answer I usually get is "Yes." I get it. To use a simplistic example, in Scenario A, we could operate a casino that had 1,000 employees, brought in 5,000 guests per day and made \$100 million per year. In Scenario B, we could double the employment to 2,000 employees, double the amount of visitation to 10,000 guests but we'd only make \$50 million in profit. For a private operator, that's really easy, you take Door No. 1 — more profit, more fees for the operator. Obviously the government's going to look at it and go "wow, that's 1,000 more jobs, 5,000 more people visiting that region." And that's sometimes where we have to work together and come up with the best answer. You also asked about the future. It's really competitive out there, margins are getting thinner but the demands on all of us are greater now — responsible gaming, anti-money laundering — with all of those things going on, I think it's incumbent on us to work with the agencies, the regulators, the operators and ask how can we do this more efficiently and most effectively so we don't have different layers doing the same thing in our organizations and auditing each other.

GG: I think all of the provinces have their nuances. Alberta is a great place to do business. We're living in a little fantastic economic bubble. . . but there are a lot of people in the province walking around with money in their pocket and we've relied on that in Alberta for a number of years to grow the casino industry. And it's truly a casino industry, not an entertainment industry right now. We're going to need to evolve in the future to keep that industry sustainable. I would say the good news with that is Bill Robinson, the relatively new president and CEO of AGLC recognizes this. In the last few years a lot of the legacy thinking at the AGLC has dissipated and Bill is looking for new ways to change that from a slot-in-a-box sort of business to an entertainment business. To do that we're going to have to change fundamentally and I would see that as the future challenge in Alberta.

ROD AND ANTHONY, YOU OPERATE PROPERTIES IN MORE THAN ONE PROVINCE. THROUGH THE RFP PROCESSES YOU'VE COMPETED AND WON AGAINST SOME BIG U.S.-BASED COMPANIES. SO HOW DO YOU DO THAT? WHAT ARE YOUR SECRETS TO SUCCESS?

AN: I've always found that taking a Canadian approach has been the greatest factor to success. Gaming in Canada comes from a totally different place and has a totally different stakeholder structure that we see in the U.S. The Canadian companies maybe benefitted from the American companies coming in and trying to do business as usual. Taking a Canadian approach certainly has helped. You have to remember that for the most part in Canada, the biggest stakeholder is far and away the government body that's either owning or taxing the entity and that doesn't compare in the U.S.

RB: I think that's a good point and it ties into Question No. 1. Most people don't understand this and that there's no question that there is the social license and social policy to our industry. We exist because we are a significant revenue generator for the crown in addition to jobs and economic development. That has not been lost on our crown corporation partners. It's certainly not lost on us. We have seen great organizations come to Canada and really misunderstand the nuances and struggle with the relationship with the crown partners.

IS CANADA STILL A GAMING TECHNOLOGY LEADER? DOES BEING CANADIAN-BASED HELP YOU TO SECURE FUNDING FOR EXPORT? HOW DOES A CANADIAN-BASED COMPANY STRATEGIZE FOR GROWTH?

MD: I think Canada is definitely still a gaming technology leader. As a perfect example, look at the things that Amaya is doing, look at some of the things that are happening in New Brunswick with these grant monies coming together to build multi-channel platforms. Our solution (ticket redemption) was actually invented and pioneered in Canada back in 1998-2000 so it's another great example of a Canadian company inventing something and then building that out globally. With respect to strategizing for growth, sometimes the best strategy is being a tactical company. We are very customer centric, we move on customer demands very quickly. Obviously our strategy has always been to own the infrastructure. When you own the infrastructure from the device to the banks, you can move and pivot very quickly.

RB: In organic growth, if you can use management time as opposed to huge pools of capital, it's the biggest value creator you can find. Whether it's north of the 49th parallel or south, growth has been pretty hard to achieve since 2007-2008. There have been pockets of strength that we have seen in parts of our business. The Asian high-end baccarat business around the world has allowed the industry to fare much

better than if we didn't have that opportunity. So we've been harnessing, nurturing and growing that and frankly trying to do some more creative and aggressive things with the rest of our business to move forward and generate some growth.

KL: I agree organic growth is difficult to come by. Regional gaming has seen declines year over year, even when the economy has bounced back. Ten years ago we wouldn't have imagined that we would be seeing properties in Tunica (Mississippi) and Atlantic City closing. There's abandoned assets in Atlantic City and Vegas so it is tough out there. A lot of what we're looking at, we used to model it and you would build a square box and put in as many slot machines as you could, maybe attach a hotel and some restaurants. Now we look at it as, you have a facility that has 10,000-15,000 people a day coming through — obviously gaming is a big part of that — but the hospitality industry is also part of it. Las Vegas, 20 years ago, used to get 75 per cent of their revenue from gaming. Now it's about 30 per cent and it's the non-gaming aspects that are growing. We also need to look at the demographics. . . .we all know that the younger demographic is not finding the gaming experience as attractive so we do have our work cut out for us.

AN: Things have become so competitive in terms of finding a new opportunity. At Sonco, we're more like the tech question a little bit earlier. It's more of an opportunistic business where we're looking for that new jurisdiction — it's harder and harder. Going to your Canadian theme, historically Canadians have been good at this; we don't get enough credit for being entrepreneurs. I think maybe we get too much credit for being tech developers, we're first to market often and that's been the history of gaming in Canada too. We've been early to payments, early to online gaming, the Golden Palaces, the Cryptologics, the PokerStars. In a few cases we get acquired which is sort of interesting. We're not really known for that but I'm kind of proud of being part of the Canadian tradition of finding those new jurisdictions and those new technologies.

HOW DO YOU SEE INTERNET GAMING, PARTICULARLY AS IT'S OPERATED BY CROWN AGENCIES? IS THIS A THREAT TO LAND-BASED PROPERTIES AND HOW CAN LAND-BASED CASINOS EFFECTIVELY COMPETE?

KL: The jury is still out. It's in its early days in New Jersey and Nevada but early on it looks like there is not a huge cannibalization or crossover with the two databases — the customers we have coming into the land-based casinos and the Internet gaming customer. I think there are some opportunities there. OLG will be releasing their online gaming platform later this year and I do think there's an opportunity for us to get some incremental business out there, between the customers crossing over, and you might be able to take someone who's Internet based and improve the customer experience if they want to come to a land-based casino and play in the poker room there or catch a show. So

I think there are some opportunities but it's still early and hopefully it's more of an opportunity than a threat.

GG: If you look at New Jersey in the inaugural year, originally they said they would do a billion dollars in Internet gaming and I think they have culled that down to about \$200 million a few months ago. So it's not a panacea. I'm a kind of glass-half-full guy when it comes to Internet gaming where it may introduce a demographic that we actually don't have and then you can do some cross-channel marketing and perhaps bring them in to the brick-and-mortar casinos.

MD: I think there are two players — I think we'll tap into a new demographic that's maybe timid of coming to the casino or the tables and then there's the guy that wants the experience where the gaming is secondary. They want to come in and be around people and have the entertainment value. The reason it hasn't lived up to expectations is because we're not taking away from that market, it's a new emerging demographic that we're tapping into. The Millennials just don't see the slot floor as entertaining anymore, everything is on demand, instantaneous and on their timeframe. Unless we start to bridge the gap between online and land-based, on the game side and on the payment side, we won't really see big growth.

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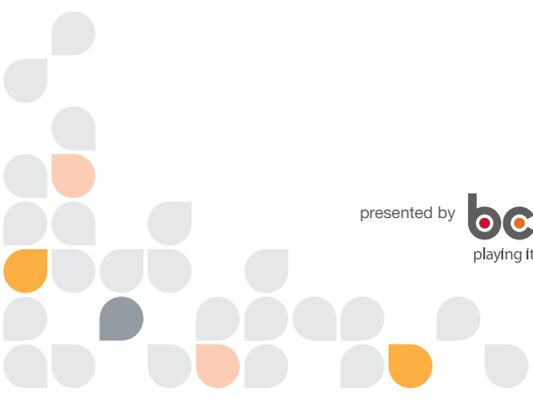
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IN THE PAST FEW YEARS, WE'VE SEEN A NUMBER OF HIGH-PROFILE INSTANCES OF MAJOR GAMING DEVELOPMENTS THAT HAVE BEEN REJECTED BY POTENTIAL HOST COMMUNITIES, SUCH AS IN TORONTO AND VANCOUVER. WHAT LESSONS HAVE WE LEARNED OR SHOULD WE LEARN AND WHAT NEEDS TO BE DONE BETTER IN THE FUTURE TO ALLOW THESE THINGS TO PROCEED?

RB: There are some real lessons learned. . . and we have had some real challenges in terms of the social license and what we mean and bring to the communities. I think that we're all very aware that we have a higher standard than most private sector businesses when we are afforded these social licenses and to become a member of all of these communities. It is challenging a lot of the time because we are misunderstood. So a very important part of it is an education process through channels and format that make sense for the municipality. We recently built community gaming centres out in Maple Ridge and Chilliwack, B.C. and I'm very proud about how we went about going and bringing in those communities. We show up in a community well in advance of wanting something from them. We talk to people and they see who we are and what we are all about. We show them what we do and how we do things in other jurisdictions. If you take people through the process that way. . . I think you can end up in a much better place with partners that are there, that are more supportive in all respects and not seeing negatives but bound by the big positives that we also bring to these municipalities.

AN: I couldn't agree more. We built three casinos and had to engage the local community each time and met up with significant opposition and in each case won over the community. We did it by engaging in the way explained by Rod. Since I live in Toronto and live and breathe that situation, I think a stakeholder there neglected to look at who their No. 1 partner was. I can't see a situation where the OLG doesn't engage the city, because the city is a major stakeholder as well. I don't think that was done in the way that Rod has done successfully when we've had to go into a new jurisdiction.

GG: It is a business imperative that when doing business in a community that you align your values with the community and hopefully they're aligned in advance. Are you hiring folks from the community? Are you vigorously developing them? Even if you're a charitable casino, are you giving back to the community in some way? Once you have the license and you have built and you're embedded, now what happens? Are you (still) walking the talk after numbers of years?

MD: As a private technology company, we are already groomed for something like a social license. NRT is one of Canada's best managed companies and we do a lot of responsible initiatives in terms of employees and communities, so I'm all for social license. If that's the platform that helps the government bodies put the good word out for the industry and people like us, I think it's a win-win. ■