

The image shows the cover of the Scientific Games Corporation 2018 annual financial report. At the top left is the logo for 'PROFESSOR SLOTS', which consists of three stylized red 'E' shapes. To the right of the logo, the text 'Scientific Games Corporation' is written in a large, black, serif font, with '2018' centered below it in a similar font. Below the logo and title is a photograph of a desk setup featuring a laptop, a newspaper with the word 'BUSINESS' on it, a brown leather folder, a coffee cup, a smartphone, and a pair of glasses. At the bottom left of the cover, it says 'Copyright 2018 Jon Friedl, LLC' and at the bottom right, 'professorslots.com'.

## Introduction to Scientific Games Corporation 2018

Slot machine manufacturer Scientific Games Corporation (SGC) with stock ticker symbol SGMS filed their annual report with the SEC on March 1, 2018. For many of their mutual business segments, previously reviewed IGT PLC has SGC as its primary competitor.

Being a slot machine equipment, game, and casino software manufacturer, SGC is well placed to be a primary competitor of IGT PLC as well as the other, less prominent slot machine manufacturers.

This is a review of Scientific Games Corporation's annual report to the SEC filed on March 1, 2018. It includes a few details of the financial performance of SGC but more importantly examines SGC's own best judgments of risks factors as well as their forward-looking statements.

Reviewing this second world-class slots manufacturer in addition to IGT PLC is advisable as it effectively provides a second opinion of the current state of the gaming industry.

As usual, knowing what the major risks and potential trends within the gaming industry from the point of view of a primary slots manufacturer provides you and me with another rare glimpse into the future of slot machine gambling in the U.S. and elsewhere.

This blog article has the following sections:

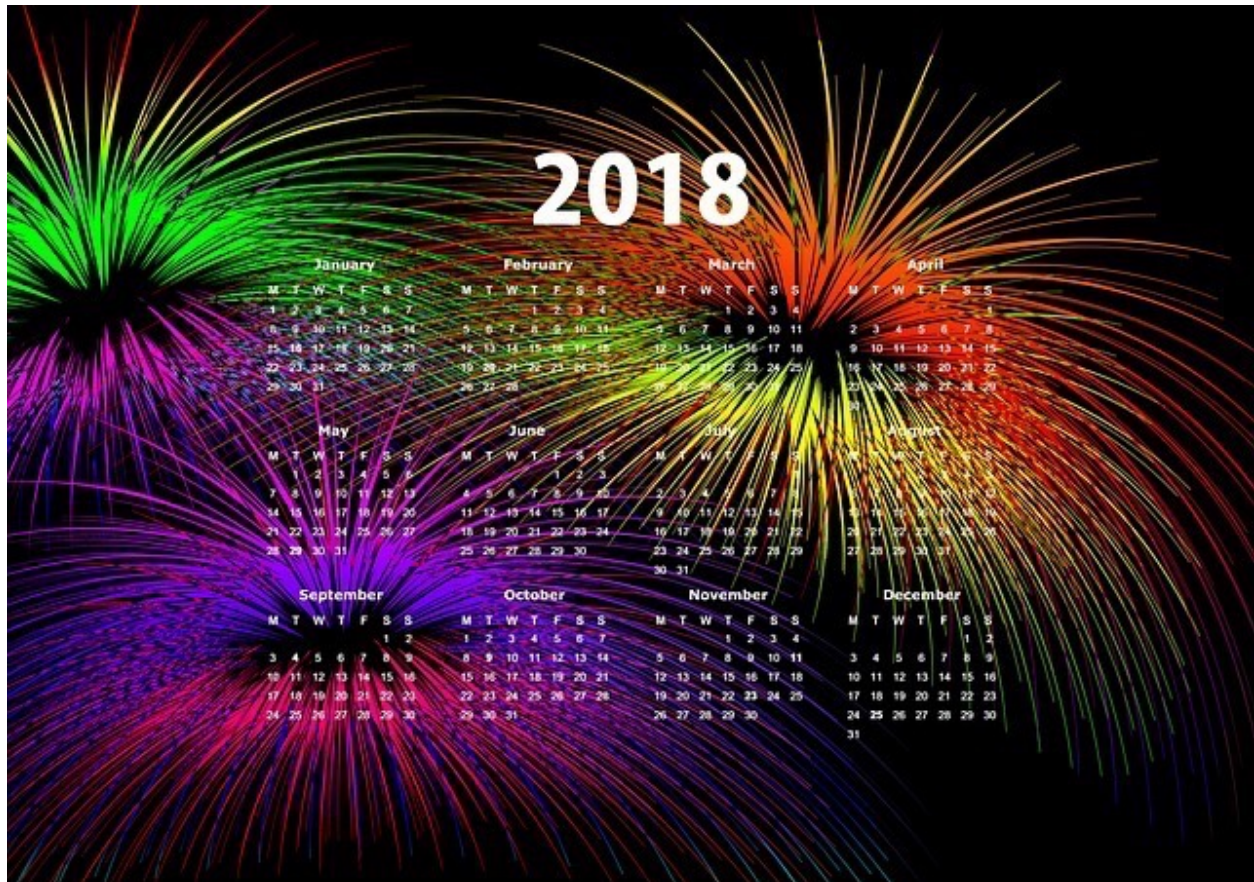
- Introduction to Scientific Games Corporation 2018
- Overall Risk Factors for SGC

- Overview of Slots Manufacturer SGC
- Gaming Business Segment
- Lottery Business Segment
- Interactive Business Segment
- Summary of Scientific Games Corporation 2018

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<http://traffic.libsyn.com/professorslots/PSo40-Slot-Manufacturer-SGC-AR-CA-2018-10-28-ro.mp3>

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The 2018 Calendar [Scientific Games Corporation 2018].

## Overall Risk Factors for SGC

Each year around early March, slots manufacturer Scientific Games Corporation files their

annual financial report with the [U.S. Securities Exchange Commission \(SEC\)](#).

SGC is a U.S.-based company, so their annual report is a Form 10-Q. I mention this Form I.D. so you know what to look for on the SEC website itself, where a great many other forms are required to be filed for various reasons over any given year.

More conveniently, however, SGC has an [Annual Reports tab](#) on their company's Investors webpage where such reports are quite easy to find and download.

The [2018 Form 10-Q for SGC](#) is a 161-page-long annual report for 2017 filed on March 1, 2018. As usual, it has quite a bit of tabulated financial data. But, again, a strict financial analysis is not the focus of this blog article.

I do focus on SGC's best interpretations of risk factors and so-called forward-looking statements. These are the best thoughts of gaming experts, freely available to all, regarding their overall corporate position within the gaming industry markets of interest to them.

The Risk Factors section of SGC annual financial report is 22 pages long. Risk topics include

1. Operating in highly competitive industries
2. Unfavorable U.S. and international economic conditions
3. Changes in the replacement cycle of gaming machines
4. Ownership changes and consolidation in the gaming industry
5. Opponents attempting to curtail legalized gaming
6. Changing technology and evolution of industry standards
7. Failure to succeed at ongoing research and development activities
8. Responsiveness to customer demand for creating appealing products
9. The adverse impact of strict government regulations
10. Legislative interpretation of sports wagering activities
11. Failing to maintain intellectual property protection efforts
12. Lack of a shift toward regulated online gaming
13. Lack of being able to capitalize on a shift toward regulated online gaming
14. Maintaining business relationships with key suppliers
15. Obtaining and renewing customers, particularly in long-term lottery contracts
16. Maintaining the security and integrity of information technology systems

17. Failure to maintain internal control of financial reporting systems
18. Inability to complete mergers and acquisitions
19. Unanticipated restructuring costs for prior mergers and acquisitions
20. Periodic operating results due to seasonality
21. Dependence upon the business performance of suppliers and vendors
22. Legal risks due to foreign operations
23. The relationship between the European Union and the U.K., i.e., Brexit
24. Substantive changes in tax laws both in the U.S. and internationally
25. Dependence on key employees
26. Costs associated with potential violations of environmental laws
27. Costs of litigation
28. Substantial damages due to failure to meet contractual obligations
29. Liability for product defects or other product claims
30. Costs associated with labor disputes

Each of these general risk topics is provided in the annual report along with a one to three paragraph description. There is also another three pages of risk factors associated with SGC's capital structure including indebtedness and operating cash flows.

For you and I as slots enthusiasts, what does all this mean? It means that being a slot machine manufacturer is a risky business. And, while SGC is working hard to keep us entertained, they may not succeed. If any few of these risk factors turn into reality, we may be, well, disappointed.

Also worth noting is how unavoidable some of these risk factors are. By unavoidable, I mean most or all of these risk factors apply to the entire gaming industry. If they occur, that is, they'll most likely occur for all of the slot machine manufacturers.

In turn, that means risks for slot machine manufacturers are also risks to our being as entertained as we'd like to be over the next year or so. I suggest we wish them well.



Overall Risk Factors for SGC [Scientific Games Corporation 2018].

## Overview of Scientific Games Corporation

Scientific Games Corporation was incorporated in Delaware in 1984. The company headquarters are located in Las Vegas. Additional facilities are located in Chicago, Georgia, and India.

As of the end of 2017, it had over 8,600 employees, with 4,600 employed in the U.S. and another 4,000 employees working abroad. Total assets are \$7.7 billion, roughly half of the total assets of slot manufacturer International Gaming Technology PLC.

Overall, SGC brands itself as "...a leading developer of technology-based products and services

and associated content for the worldwide gaming, lottery, and interactive gaming industries.”

SGC has gaming, lottery, and interactive business segments. They have spent between \$180 million and \$200 million per year over the last three years in research and development activities in these three business segments

Their game development studios are in Las Vegas, Sydney in Australia, Manchester in England, and several cities in India. Much of their lottery research and development team is located in Alpharetta, Georgia. And, their interactive personnel are spread across Chicago, Cedar Falls in Iowa, Austin, and Tel Aviv in Israel.

SGC is organized into three business segments, which I will review individually in the coming sections:

- Gaming
- Lottery
- Interactive



Overview of Slots Manufacturer SGC [Scientific Games Corporation 2018].

## Gaming Business Segment

In the Gaming section of their 2018 annual financial report, Scientific Games Corporation points out the international gaming industry is distinguished by the ongoing and diverse development of new technologies, products, and game themes.

SGC's gaming products can be found in all U.S. gaming jurisdictions. That is to say, they can be found in all U.S. states, territories, and federal district that regulates gambling. They are also

located in 176 international gaming jurisdictions.

Growth in the gaming business segment is driven by the opening of new casinos and the expansion of existing casinos. Further, gaming industry growth is driven by the rate at which slot machines are replaced by casino operators.

Both are a consequence of the economic conditions of casino operators impacted by any changes in the availability of player disposable incomes.

A significant portion of SGC's gaming business is from sports betting contracts with two large bookmakers located in the U.K.

Scientific Games Corporation states they have eight primary competitors within the gaming business segment. Yes, you read that correctly. Their primary competitors are all eight other slot machine manufacturers in the gaming industry. This includes IGT.

How is this possible? Well, it's possible for two reasons. For one, it truly is a highly competitive industry during a time of dynamic change in the gaming industry. For another, their competitors are roughly the same size corporation as SGC or, like IGT, quite a bit larger.

SGC goes on to mention that the casino management system market is also highly competitive. For this sub-market in the gaming industry, their primary competitors are only Aristocrat, IGT, and Konami.

Unlike IGT's annual report with its two revealing paragraphs detailing the features of these casino management systems, SGC does not provide any details. That lack of detail is interesting, and itself a bit revealing, given they mention their three competitors.

If SGC truly is competitive with IGT in the casino management system market, then most of what IGT says about the features of their systems are likely also available from SGC.

I'm not trying to actively convince anyone that my winning slots strategies are based on this technology. No. What I'm interested in here is what more Aristocrat and Konami might reveal in their own financial reports regarding the casino management systems.

Frankly, I don't know if you'd be interested in more such blog articles on the annual reports of other slot manufacturers. But, yes, I do indeed claim such information is the basis of winning at slot machines.

Tell you what. How about I go read those annual reports, and let you know if I learn anything more about how to win at playing slot machines? Would that be a fair compromise? Okay, that sounds like a deal to me.



Gaming Business Segment [Scientific Games Corporation 2018].

## Lottery Business Segment

Scientific Games Corporation claims there are currently about 180 lotteries worldwide. These include draw lottery games and instant lottery games.

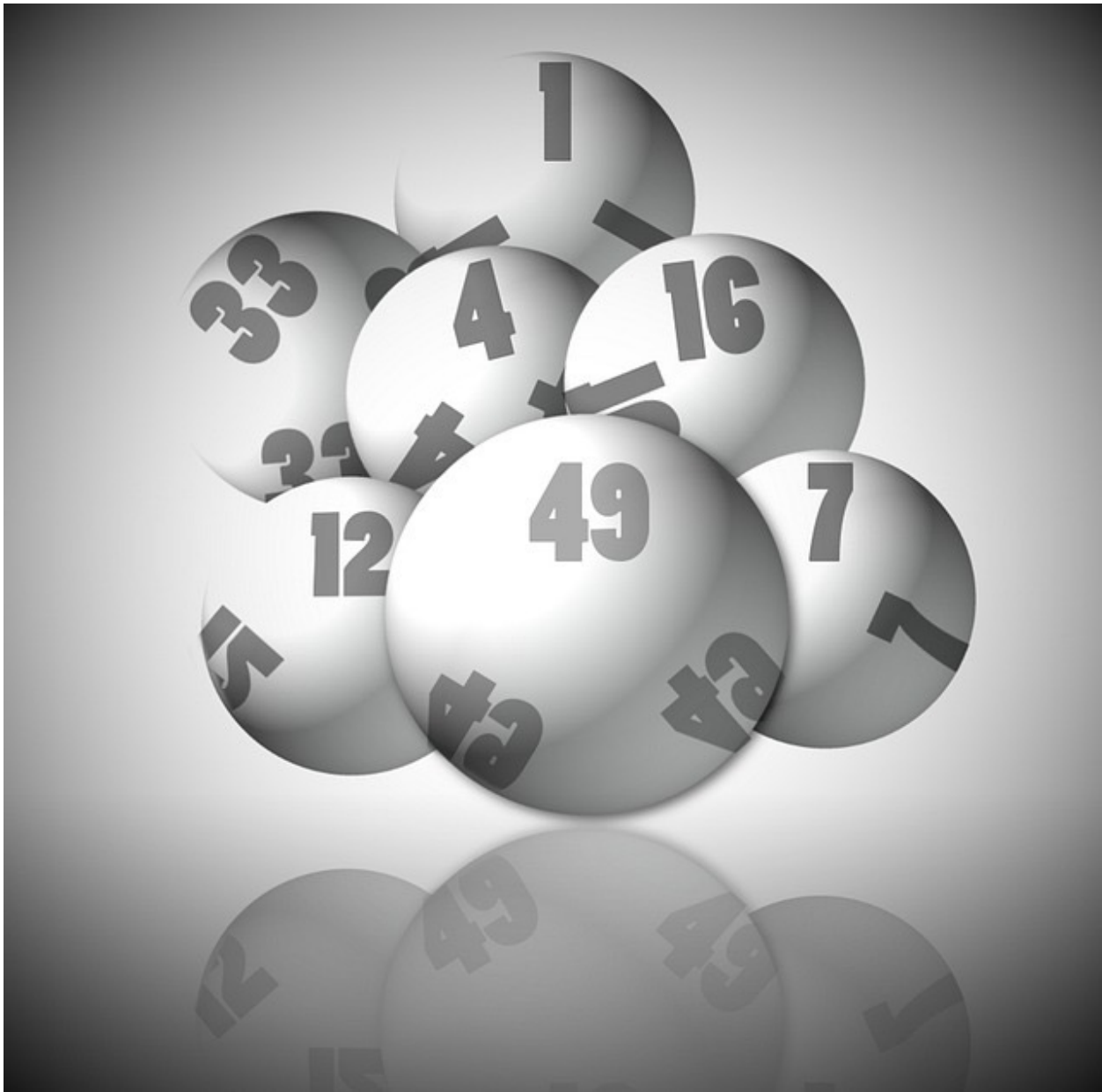
Overall, there are 46 U.S. gaming jurisdictions offering draw lotteries and 33 U.S. gaming jurisdictions offering instant lotteries.

SGC has 10-year to 25-year lottery contracts with Florida, Georgia, Pennsylvania, and Maryland. They also have two additional lottery contracts with the U.K. and Italy.

Both the draw lottery and instant lottery markets are highly competitive, including an ongoing price-based competition. Primary draw lottery competitors are IGT, Intralot S.A., and Tattersalls Group. Primary instant lottery competitors are IGT and Pollard Banknote Limited.

If you happen to play the lottery in any of these four U.S. states, or in either the U.K. or Italy, this intense competition means you're located in the right places to benefit from it. For the rest of us, however, we're just going to have to buy a lottery ticket when we're in the area.





Lottery Business Segment [Scientific Games Corporation 2018].

## Interactive Business Segment

Scientific Games Corporation's interactive business segment includes social gaming and interactive real-money gaming. Social gaming is a non-wagering activity as real-money can be spent, but not won. Only in-game money, not real money, can be won in social games.

SGC's interactive business segment concentrates the operation of their products and services on both mobile devices and desktop computers. Besides the difference between real-money for interactive and in-game money for social, SGC doesn't seem to distinguish between the two in this annual financial report.

I think they should distinguish between the two types of gaming. Yes, both are online. But, it's not the same activity. Not at all. As a slots player at a casino, would you equate a social game on Facebook to be the same as making a live bet? No, I think not.

But, would you equate online gambling with being much like playing slots at a casino? Yes, I believe you would. Social gaming is fun. Playing for real-money is serious fun.

My point here is I hope SGC understands this. I hope they understand that the same games being played for real-money get a different response from players when it's instead of all just for fun. But another way, a popular social game isn't necessarily popular when it's for real-money gaming and vice versa.



Interactive Business Segment [Scientific Games Corporation 2018].

## Summary of Scientific Games Corporation 2018

Scientific Games Corporation is a U.S.-based company incorporated in 1984 and headquartered in Las Vegas, Nevada. It has approximately 8,600 employees, up by 200 internationally-based employees when compared to the prior year.

SGC offers products and services in the highly competitive gaming industry business segments of gaming, lottery, and interactive.

Risk factors in the gaming industry were shown to be extensive. If any of these significant risk

factors were to occur, our entertainment as slots players would likely suffer.

However, if the worst happens, luckily for us our local casinos can fall back on the many competitors of SGC. Switching over to another slot manufacturer's machine would take time, so let's hope for the best for Scientific Games Corporation.

Just in case, maybe you should check. Do you play SGC slot machines? If not, which company's slot machines do you play? IGT? Aristocrat? Konami?

## Related Articles from Professor Slots

- [Who Builds Slot Machines Throughout the World?](#) – Slot machine manufacturing is principally supported in North America by Scientific Games Corp. and International Game Technology PLC, global leaders in the gaming industry engaging in mergers and acquisitions as who builds slot machines is trending towards consolidation amongst gaming equipment and technology companies.