

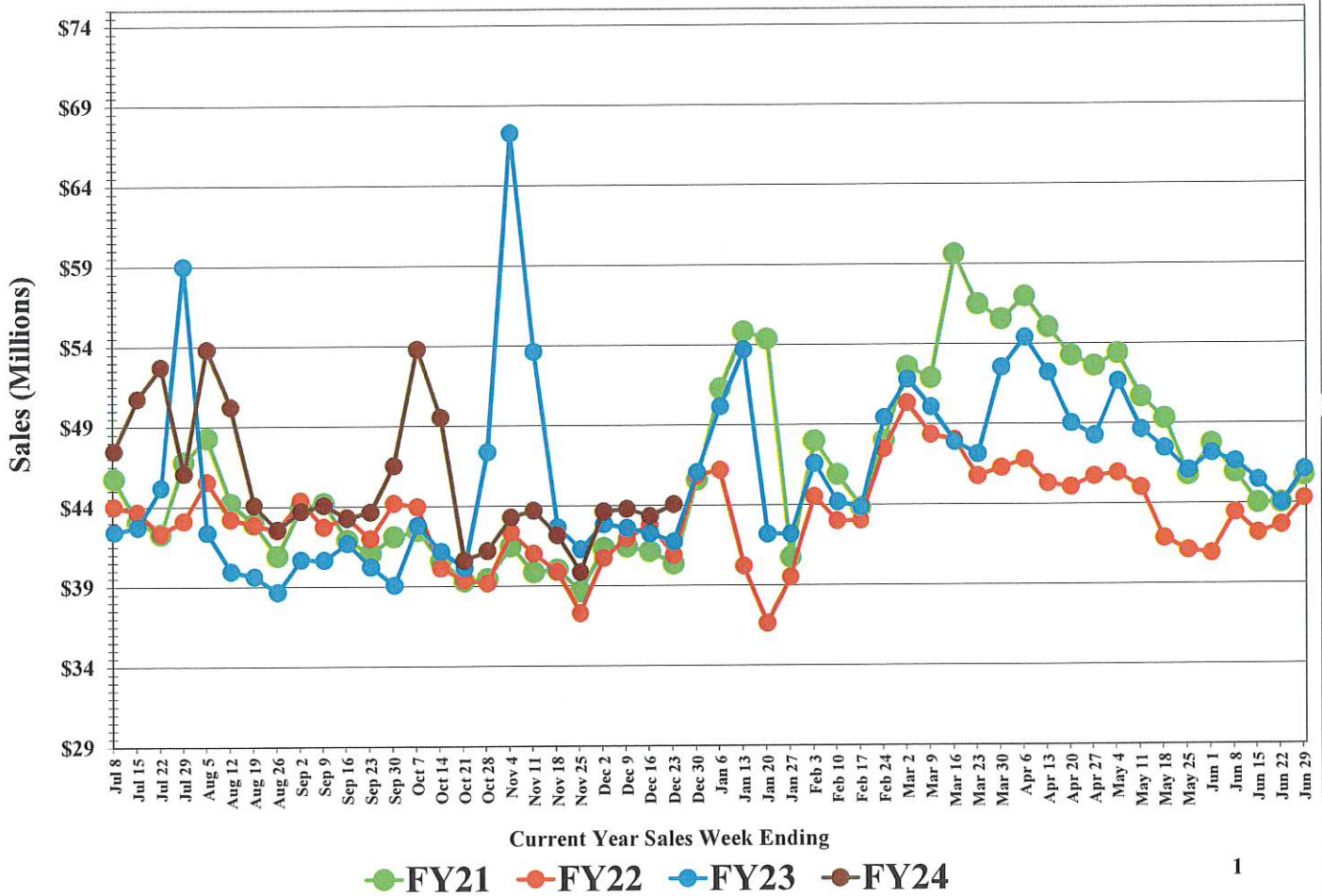
The South Carolina Education Lottery
Presentation to

House of Representatives
Ways & Means
Constitutional Budget Subcommittee

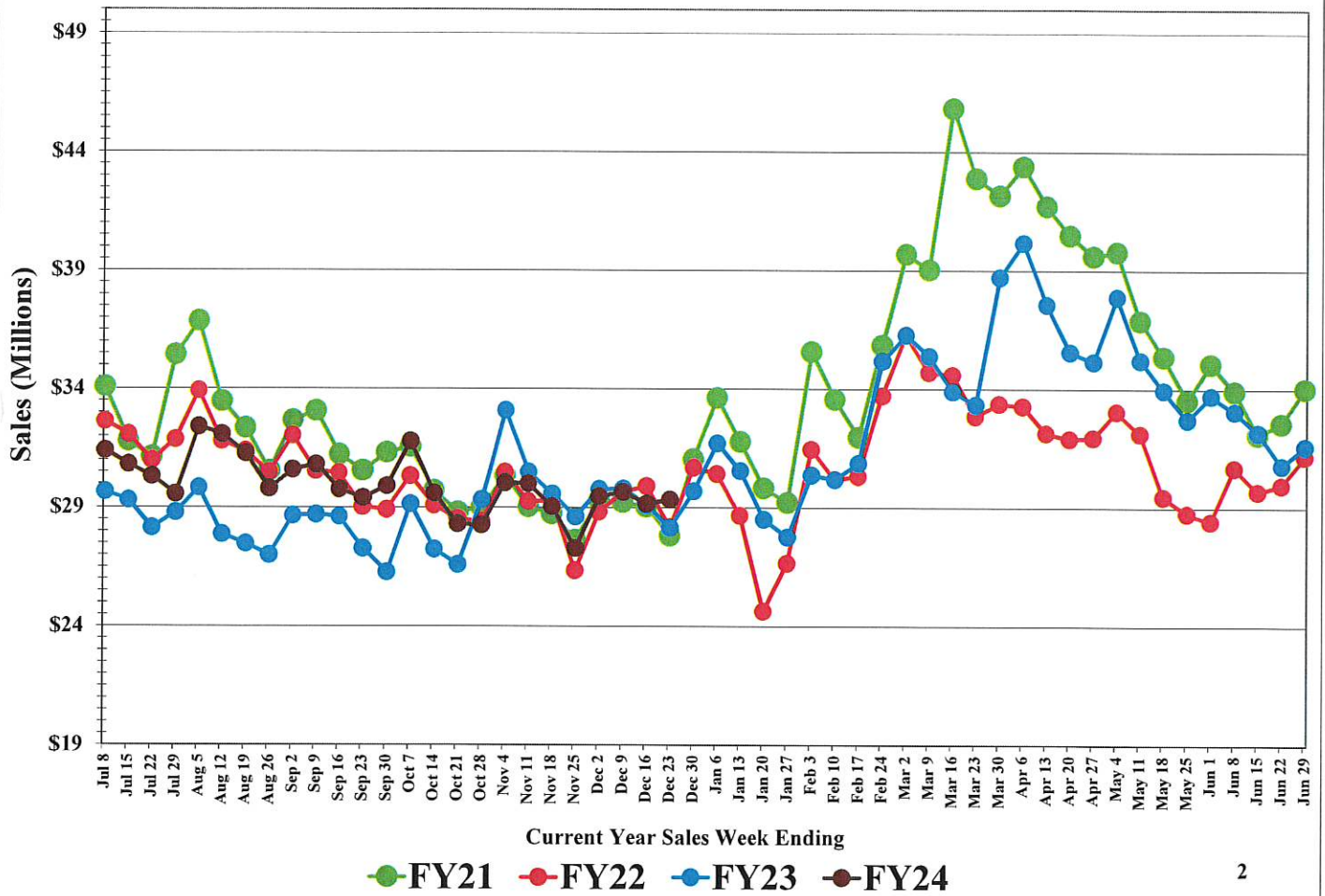
January 9, 2024



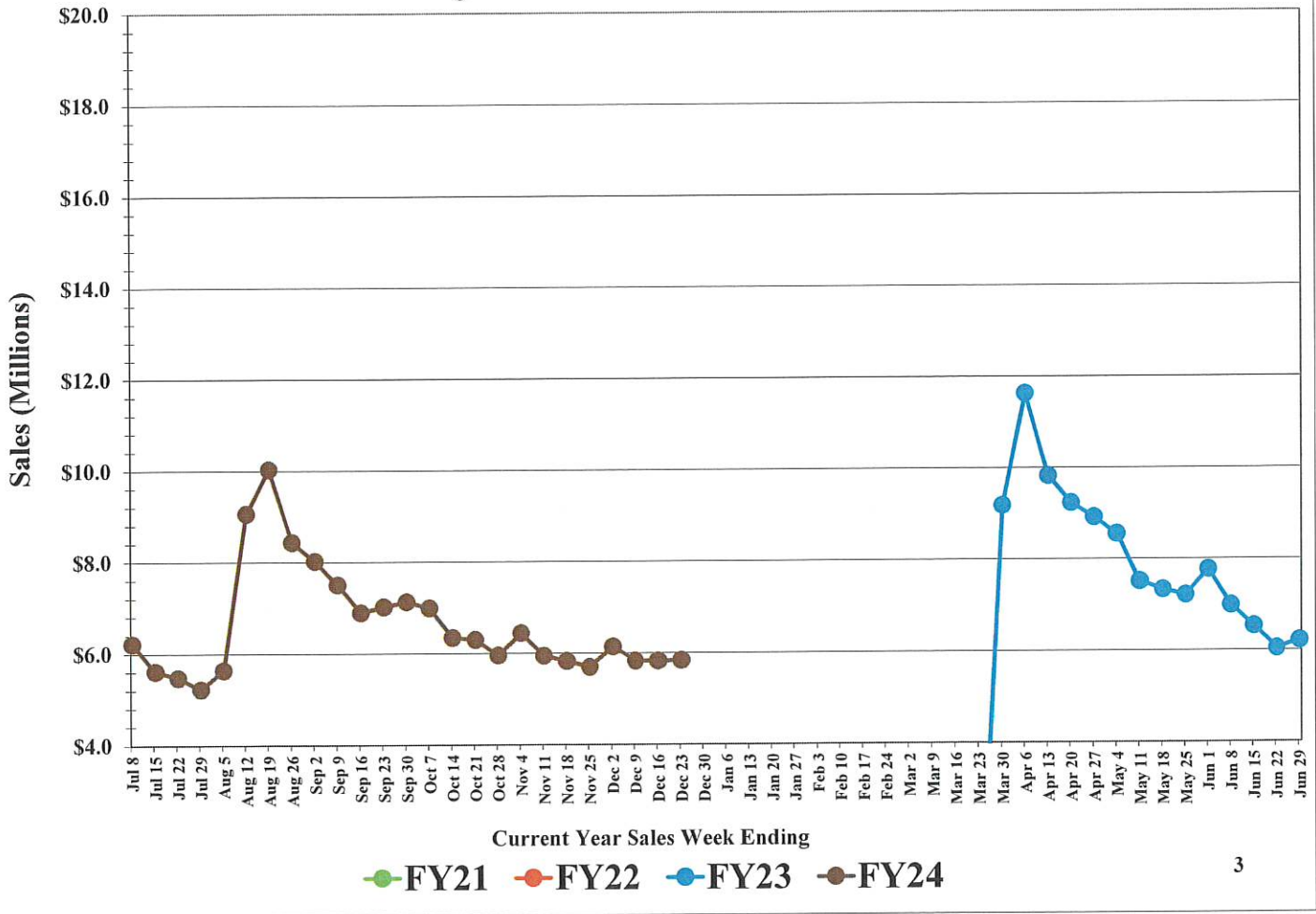
Total Weekly Sales



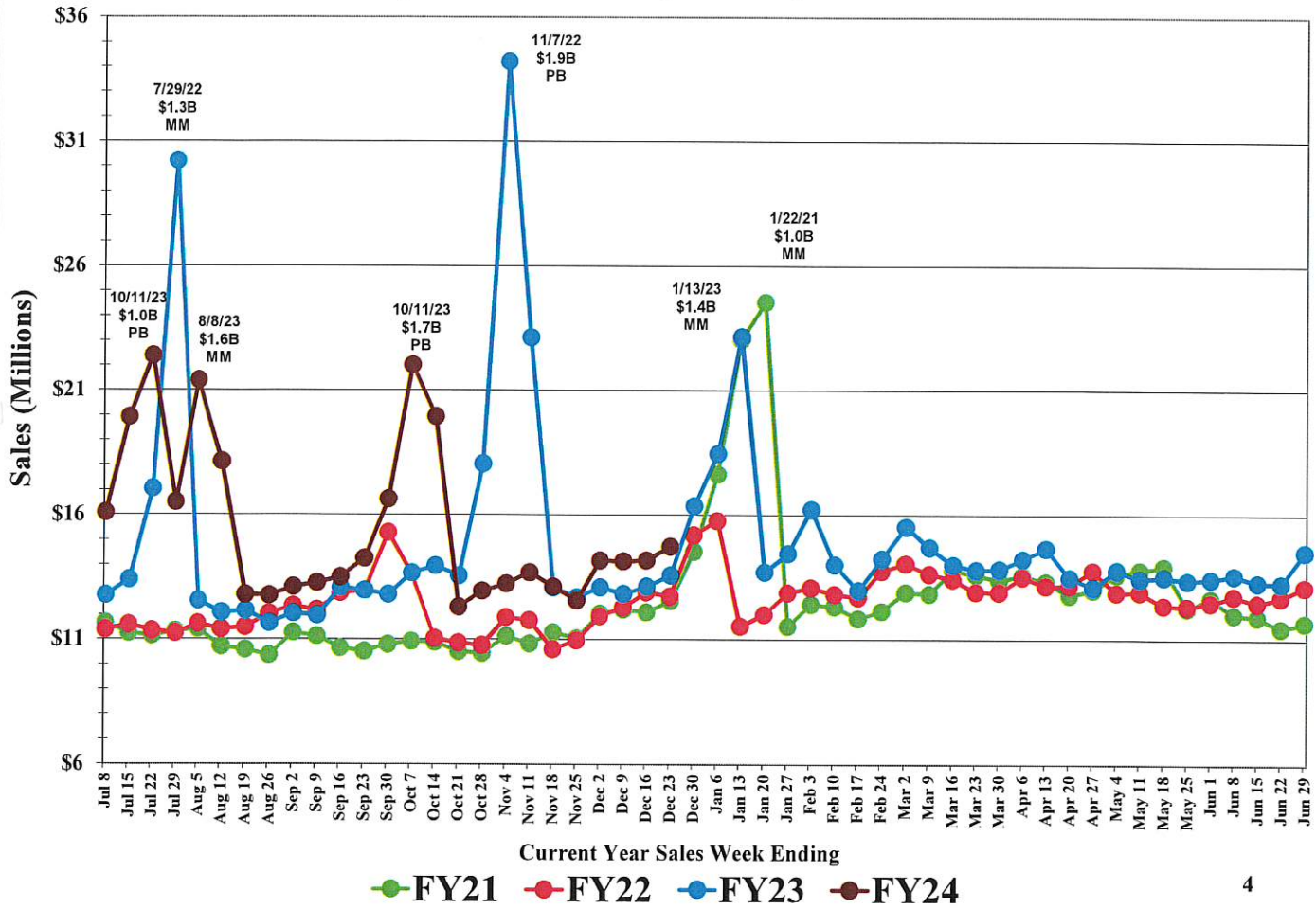
Weekly Instant Game Sales



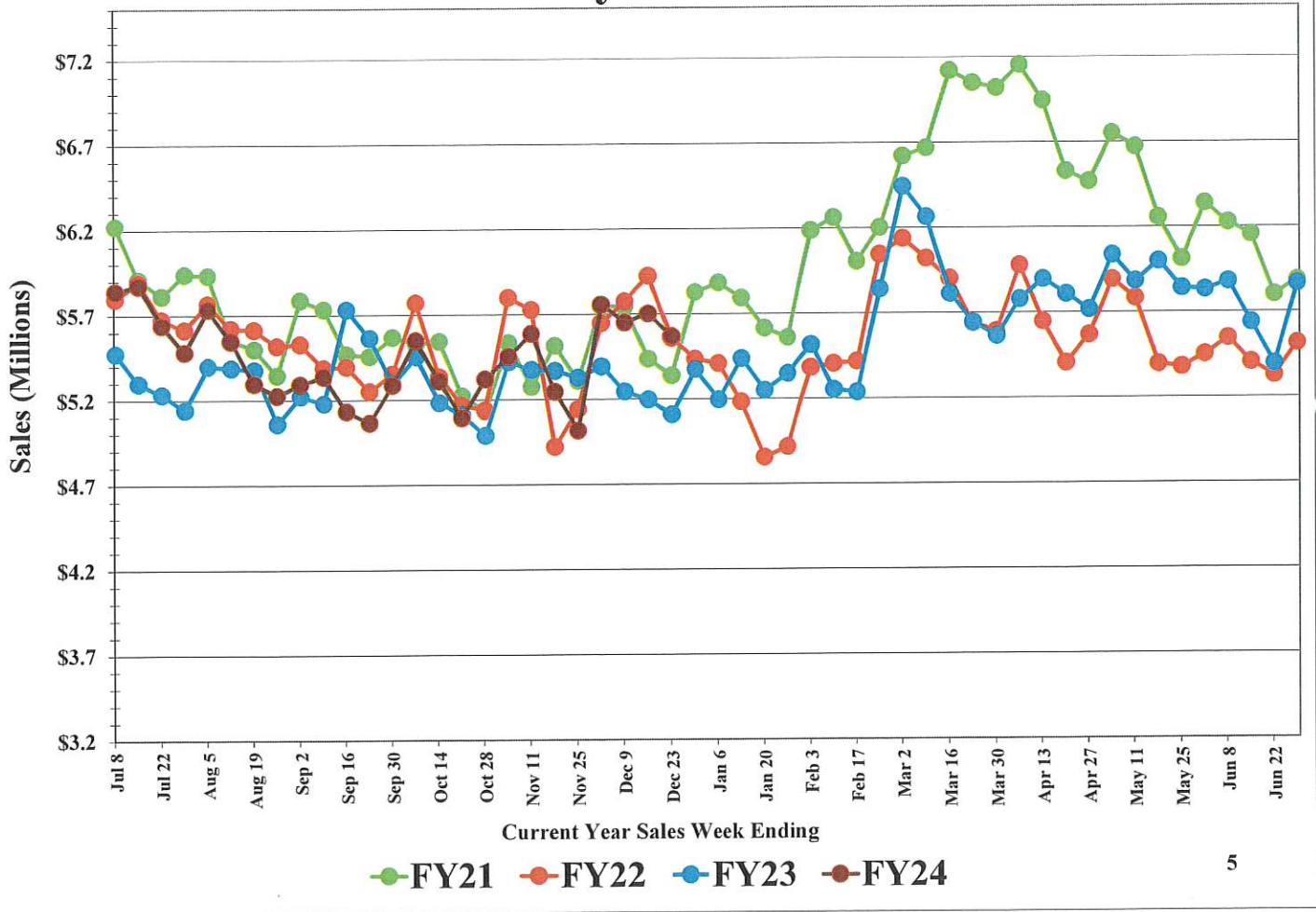
Weekly \$20 Instant Ticket Sales



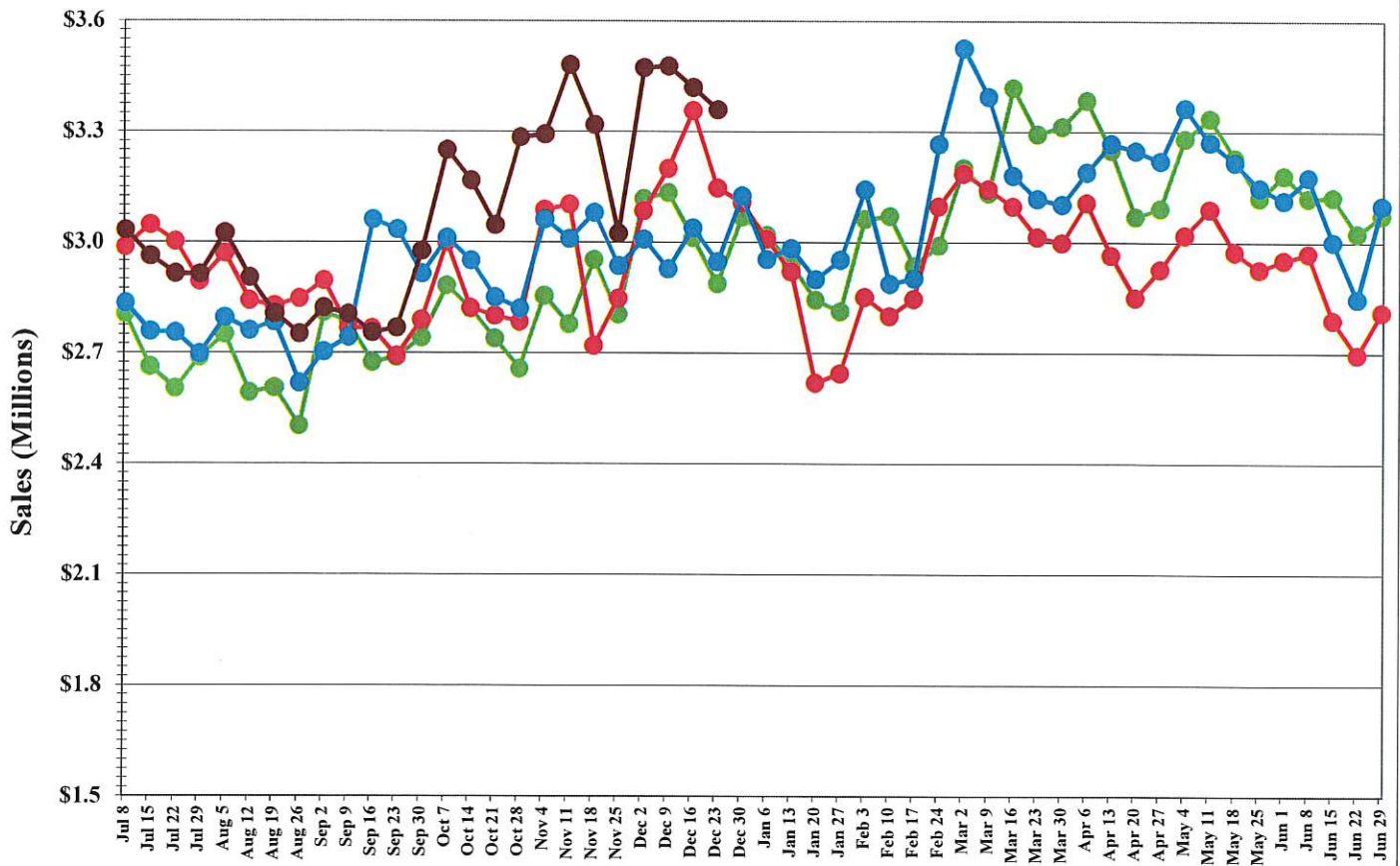
Weekly Terminal (Draw) Game Sales



Weekly Pick 3 Sales



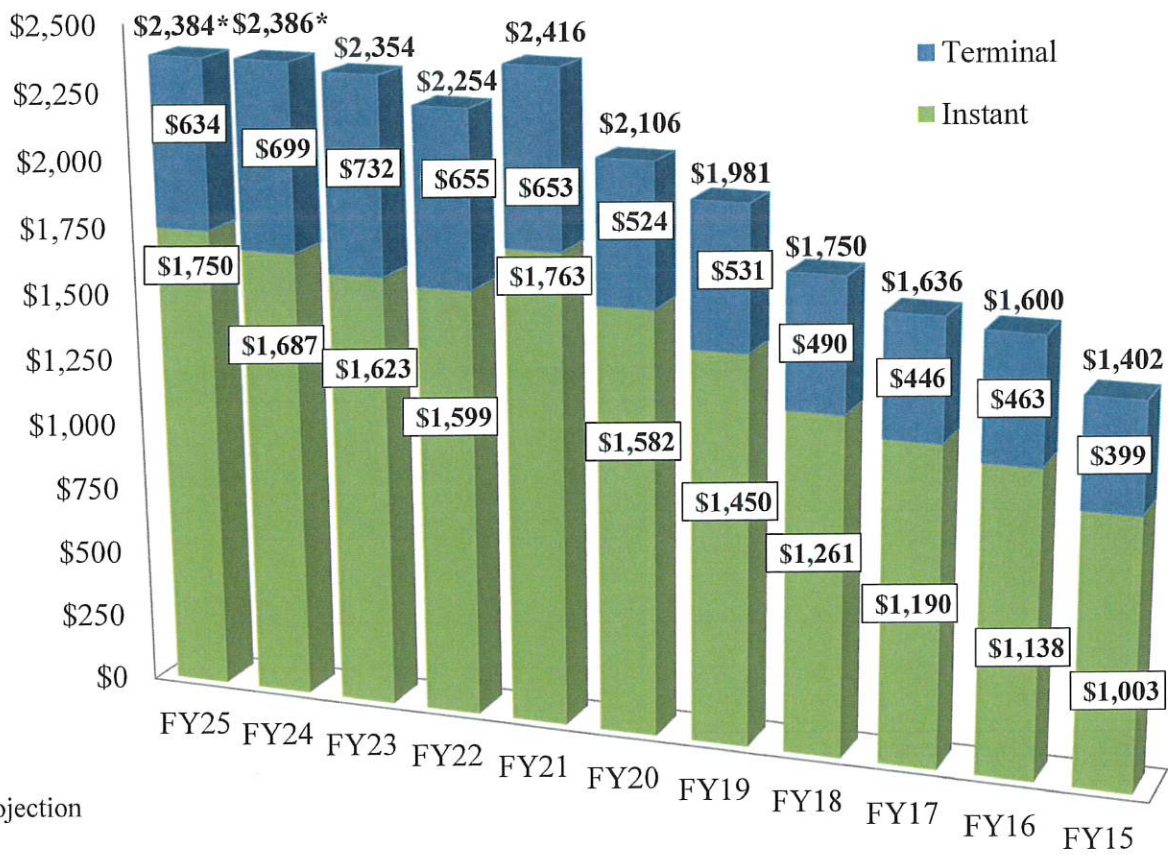
Weekly Pick 4 Sales



Current Year Sales Week Ending

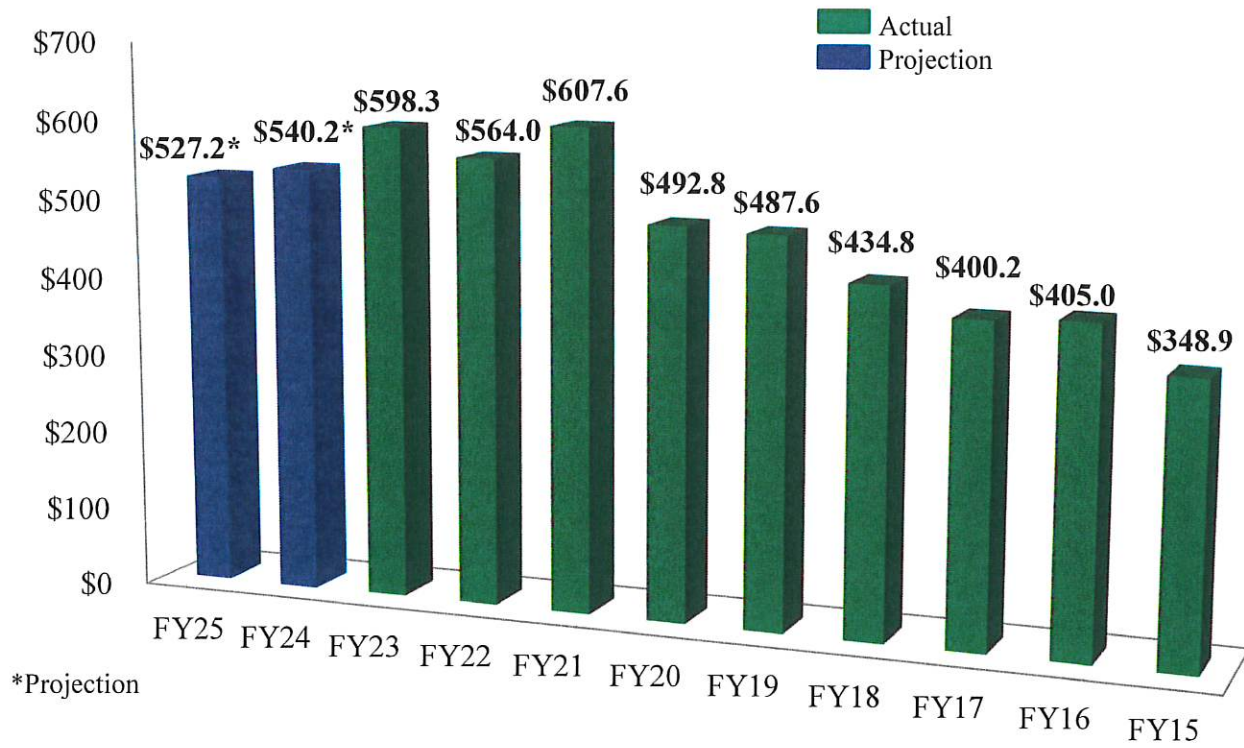
● FY21
 ● FY22
 ● FY23
 ● FY24

South Carolina Education Lottery Game Revenue FY 2015- 2025 *(Amounts in Millions)*



*Projection

South Carolina Education Lottery Annual Transfers *(Amounts in Millions)*



*Projection

SCEL House Way and Means Subcommittee Presentation

January 9, 2024

Financial Results as of November 30, 2023

Through the first five months of FY24, SCEL financial results are performing better than planned. Total Game Revenue is up 3.1% year to date. This is largely a product of multiple, unplanned billion dollar Powerball jackpot runs and better than anticipated overall Terminal Game performance. Year to date Transfers are \$219.0M compared to \$212.1M at this time last year. The current FY24 Transfer Estimate set with the Board of Economic Advisors (BEA) is \$540.2M. SCEL will meet with the BEA staff in February to discuss current trends. SCEL does not anticipate a revision to the current BEA Transfer Estimate.

After the second highest Transfer to Education ever in FY23 of \$598.3M, SCEL has noticed a flattening of Instant Game Revenue after a decade of record revenue growth. Better than anticipated Terminal Game Revenues have bolstered overall results. SCEL continues to strive to offer attractive products in our Instant Game portfolio. To this end, SCEL launched the first ever \$20 Instant Ticket in March 2023. SCEL continues to be cautious in forecasting Instant Game Revenues, as these are a significant portion of SCEL's product portfolio.

It is important to note that a \$20 ticket pays out 80% compared to 75% on a \$10 ticket. This is a material decrease to Instant Game Margin. Based on SCEL's research at other jurisdictions, the net impact of more revenue has offset the decrease in margin.

The FY24 results through November 30, 2023 are presented below.

Instant Ticket Revenue

- Instant Ticket Revenue is up 4.1% or \$25.5M compared to prior year.
- Instant Ticket Revenue finished FY23 up 1.9% or \$29.6M
- Both of these trends would not be possible without the launch of the \$20 Instant Ticket in March 2023 as SCEL continues to see pressure on all Instant Ticket price points.
- Year to date, \$1-\$10 Instant Ticket Revenues are down compared to prior year. The most significant of these is the 21.6% decline in the \$10 Instant Ticket price point. A large portion of this decrement is attributed to cannibalization by the \$20 Instant Ticket, but some of the decline is attributed to softening \$10 Instant Ticket demand.
- \$10 Instant Ticket Revenue was forecast to be down 22% this year compared to FY23. For many years, year-over-year \$10 Instant Ticket Revenue (the primary driver of Game Revenue) grew by double digits and this trend is believed to have run its course. Without the planned launch of a \$20 Instant Ticket, this would be more apparent in the attached materials.
- Up to FY22, SCEL's \$10 Instant Game Margins had performed comparable to \$20 tickets in other states. Meaning, SCEL's \$10 Instant Games paid out as much as other jurisdictions \$20 Instant Games. After observing the success in other jurisdictions with even higher price points (\$30 and \$50), SCEL made the decision to launch the first \$20 Instant Ticket

in March 2023 and to have at least one \$20 Instant Ticket Games in the market throughout FY24. This action added \$118.8M in revenue in FY23 and has added \$145.9M in revenue in FY24.

- From a Game Margin perspective, Instant Game Margin is up .2% or .3M. The reason for this is that the \$20 Instant Ticket pays out 80% of revenue compared to 75% on the \$10 Instant Ticket. Essentially, lower margin revenue is replacing higher margin revenue in an effort to offer a new product with a more attractive prize structure.
- SCEL continues to be conservative with our Instant Ticket Revenue projections after several years of significant growth and feel confident that our current projections are realistic and achievable.

Terminal Game Revenue

- Terminal Game Revenue is up 1.2% or \$4.2M compared to prior year.
- The primary reason for this increase is multiple jackpot runs exceeding \$1B already in FY24, which SCEL does prepare for in transfer forecasting. As the year progresses, it is important to note that FY24 results are competing with record jackpot runs from FY23, to the tune of five jackpot runs exceeding \$700M. This frequency of large jackpot runs is unprecedented.
- Terminal Game Revenue was forecast to be down 15% this year compared to FY23 because of multiple large jackpot runs observed in FY23. Additionally, SCEL has observed some recent pressure on Pick 3, Pick 4 and Palmetto Cash 5 after historic growth. These games typically comprise 75% of Terminal Game Revenue.
- Actual Pick 3 Revenue is up 1.7% or \$2.0M compared to prior year. This trend is attributed to better than anticipated performance in conjunction with raising the wager liability limit on this game from \$3.5M to \$5.0M. This change allows more players to wager a particular number combination without being rejected.
- Pick 4 has also performed better than anticipated, being up 5.5% or \$3.4M. SCEL also raised the liability limit on this game from \$3.5M to \$10.0M in December 2022 in an effort to allow more players to wager a particular number combination without being rejected.
- PC5 Revenue is down 2.2% or .3M and has been under recent pressure. SCEL has planned a rebranding for this game in March 2024, which will include a change to the game matrix that will include a rolling jackpot in an effort to rejuvenate player interest.
- Powerball Revenue is currently up 4.0% or \$3.0M due to two \$1B+ jackpot runs in the first five months of FY24. This game would be up much more were it not competing with the world record \$2B jackpot run from FY23 (August 2022 through November 2022).
- Mega Millions Revenue is currently down \$4.8M or 10.2% over prior year. This is the product of competing with two large jackpot runs in FY23 that occurred in July and December of 2022. While down, Mega Millions has averaged \$1.8M in weekly revenue, well above planned amounts.
- SCEL does not plan for jackpot runs of the magnitude observed in FY23 in our forecast.
- Cash Pop, a game that launched in January 2022, continues to perform very well, averaging \$1.2M in revenue per week.

Conclusion

- While Instant Ticket Revenues are up, driven by the addition of \$20 Instant Ticket Revenue, Instant Game Margin is essentially flat because of \$20 Instant Ticket high prize payouts. Terminal Game Revenues continue to offset the pressure observed in the Instant Ticket products.
- While we are optimistic about the positive impact the launch of a \$20 Instant Ticket will have on SCEL's game portfolio, we remain conservative with our estimates due to factors such as the cannibalization of \$10 Instant Ticket Revenue and the fact that \$20 Instant Ticket Revenue pays out 80% in prizes rather than 75%. SCEL continues to be optimistic about the attractiveness of the potential prize structures of \$20 Instant Tickets to SCEL's players.
- SCEL is also subject to significant swings in statistical variation, particularly on Pick 3, Pick 4 and PC5, and depending on when in the fiscal year popular number combinations are drawn, could have a material impact to Transfer Value.
- After almost a decade of double digit sales growth, SCEL feels like these trends, particularly in the Instant Ticket portfolio, have reached saturation. All prize structure modifications have been offered in an effort to continue incremental sales growth.
- To this end, without structural change to SCEL's product portfolio and absent large jackpot runs, SCEL Transfers to Education should range between \$515- \$530M.

SCEL

Advertising

	2016	2017	2018	2019	2020	2021	2022	2023	Projected 2024
Allowable Spend at 1% of PY Revenue	\$ 14,016,611	\$ 16,040,672	\$ 16,393,220	\$ 17,538,789	\$ 19,846,500	\$ 21,100,832	\$ 24,195,084	\$ 22,572,022	\$ 24,063,475
Spent	\$ 7,783,184	\$ 8,112,517	\$ 8,340,042	\$ 9,057,200	\$ 9,476,320	\$ 9,227,130	\$ 11,300,460	\$ 10,452,599	\$ 11,591,497
Actual % of Revenue	0.55%	0.51%	0.51%	0.52%	0.48%	0.44%	0.47%	0.46%	0.48%
% of Allowable Spent	56%	51%	51%	52%	48%	44%	47%	46%	48%

Per SECTION 59-150-60: During the second and subsequent years of operation of the lottery, the amount spent on advertising must not exceed one percent of the previous year's gross sales.

Operating Expenses

	2016	2017	2018	2019	2020	2021	2022	2023	Projected 2024
Annual Revenue	\$ 1,604,067,217	\$ 1,639,321,985	\$ 1,753,878,878	\$ 1,984,650,042	\$ 2,110,083,181	\$ 2,419,508,409	\$ 2,257,202,213	\$ 2,406,347,544	\$ 2,390,012,974
15% of Annual Revenue	\$ 240,610,083	\$ 245,898,298	\$ 263,081,832	\$ 297,697,506	\$ 316,512,477	\$ 362,926,261	\$ 338,580,332	\$ 360,952,132	\$ 358,501,946
Actual Administrative Expenses, Retailer Commissions and Retailer Incentives	\$ 134,334,930	\$ 137,464,895	\$ 147,440,497	\$ 162,792,921	\$ 172,905,730	\$ 196,202,500	\$ 186,499,599	\$ 195,954,030	\$ 208,909,307
% of Allowable Spent	56%	56%	56%	55%	55%	54%	55%	54%	58%
OPEX Excluding Commissions % Sales	\$ 21,394,785	\$ 22,075,955	\$ 23,983,246	\$ 23,215,771	\$ 24,690,179	\$ 26,205,331	\$ 27,891,715	\$ 26,885,071	\$ 29,853,508
	1.33%	1.35%	1.37%	1.17%	1.17%	1.08%	1.24%	1.12%	1.25%

Per SECTION 59-150-350: Annual administrative expenses must not exceed fifteen percent of gross lottery revenues for the year, including lottery retailer commissions and incentives.

