



Benefits Older Pennsylvanians.
Every Day.

Pennsylvania Lottery Profit Report

As Required by Act 201 of 2014

2018 and 2019

The Pennsylvania Lottery remains the only state lottery that designates all of its proceeds to programs that benefit older residents. Since its inception in 1971 until Jun 30, 2019, the Pennsylvania Lottery had contributed over \$30 billion to programs that include property tax and rent rebates; free and reduced-fare transit; the low-cost prescription drug programs PACE and PACENET; care services; and the 52 Area Agencies on Aging, including full- and part-time senior centers throughout the state.

By law (Act 201 of 2014), the Pennsylvania Lottery is required to return 25 percent in net profits for programs that benefit older Pennsylvanians. Using the reduction of the minimum rate of return, the Lottery is able to execute a diverse product portfolio to maximize profits for senior programs.

Act 53 of 2008 granted the Pennsylvania Lottery temporary relief from the mandated 30 percent minimum return that had been in place since the Lottery's inception. The Lottery was given the latitude to return a minimum of 27 percent through fiscal year 2010-11. Act 23 of 2011 extended the 27 percent minimum return through fiscal year 2014-15. Act 201 of 2014 set the minimum return percentage at 25 percent starting with fiscal year 2014-15. While this lower percentage has allowed the Lottery to continue to offer its players the products they want to play, increasing demand for lower-margin games will require elimination, or further lowering, of the minimum return requirement. Without it, and the flexibility to offer the games Lottery players want, sales and profit will decline over time.

This annual profit report is required by Act 201 of 2014. This combined profit report includes analysis of two fiscal years, fiscal year 2017-18 and 2018-19, and a look ahead to 2019-20.

FISCAL YEAR 2017-18 ANALYSIS

The Pennsylvania Lottery set a new record with more than \$4.2 billion (\$4,200,564,811) in sales during fiscal year 2017-18, an increase of \$199.5 million, or 5.0 percent, from the previous fiscal year's record.

For the seventh consecutive year, the Lottery recorded profits exceeding \$1 billion (\$1,093,645,976) during fiscal 2017-18. This trails only fiscal year 2015-16 for total net revenues. Net revenues increased by \$47.9 million or 4.6 percent year-to-year.

The Lottery paid a record \$2.73 billion in prizes, meaning over 65 cents of every Lottery sales dollar went back to players in the form of prize money. A total of 67 prizes of \$1 million or more were awarded during the fiscal year.

More than 9,300 licensed Lottery retailers statewide earned over \$224 million in sales commissions. Sales commissions increased \$12.8 million, or 6.0 percent, over the prior fiscal year. The Lottery increased the number of active licensed retailers by 172 in fiscal year 2017-18.

Operating costs remained one of the lowest in the country at 2.24 percent of ticket sales.

LOTTERY PROFIT RETURN IN FISCAL YEAR 2017-18

The Lottery ended fiscal year 2017-18 with a net profit percentage of 25.91 percent, down from the 26.14 percent recorded in fiscal year 2016-17. As the sale of higher price point (i.e. higher payout) Scratch-Offs comprise a larger percentage of total sales, the net profit percentage continues to decline. Scratch-Offs

priced at \$10 and above make up 54.5 percent of Scratch-Off sales, as compared to 52.7 percent in the previous fiscal year.

STATE OF THE LOTTERY GAME PORTFOLIO IN FISCAL YEAR 2017-18

The Pennsylvania Lottery maintains a diverse product portfolio, providing lottery games that meet an equally diverse consumer population. The Lottery’s product portfolio became even more diverse in the past few years. Fast Play games were added to the game portfolio in fiscal year 2016-17, while Keno and iLottery were added in late 2017-18.

Scratch-Offs

Scratch-Off sales of \$2.82 billion were up by \$97.6 million, or 3.6 percent, from the previous year.

Every Scratch-Off price point above \$2 increased sales over the previous year. In particular, the \$30 price point grew by over 26 percent. The \$1 and \$2 price points were down a modest \$13 million combined.

As with most lotteries, the Scratch-Off sales mix is shifting toward the higher price point games. The table below shows the sales migration toward the higher price point games over the last seven fiscal years. As a result, the average selling price has increased over the previous in every fiscal year.

Scratch-Offs - Percentage of Sales by Price Points

Scratch-Offs	\$1	\$2	\$3	\$5	\$10	\$20	\$30	Avg. Selling Price
FY17-18	3.4%	5.8%	5.3%	31.0%	20.8%	22.8%	10.9%	\$5.61
FY16-17	3.3%	6.1%	5.0%	30.8%	19.1%	26.7%	9.0%	\$5.41
FY15-16	3.9%	7.2%	5.7%	32.6%	21.1%	22.1%	7.4%	\$5.15
FY14-15	4.1%	7.5%	6.3%	30.5%	20.0%	24.7%	6.8%	\$5.12
FY13-14	4.5%	8.7%	7.0%	29.8%	19.7%	25.9%	4.5%	\$4.87
FY12-13	5.0%	9.9%	7.0%	30.6%	19.3%	28.2%	0.0%	\$4.59
FY11-12	6.0%	11.6%	6.7%	32.2%	18.7%	24.8%	0.0%	\$4.24

The Scratch-Off game category accounted for 67.2 percent of total sales in fiscal year 2017-18, down from 68.1 percent in 2016-17. Part of the smaller Scratch-Off mix percentage is a result of the success of the new Fast Play game category.

Multi-State Lotto: Powerball®, Mega Millions® and Cash4Life®

Multi-state game sales (Powerball®, Mega Millions® and Cash4Life®) grew by \$54.9 million, or 14.9 percent, from the prior year. Powerball® and Power Play® sales grew by \$20.1 million or 8.0 percent. Mega Millions® and Megaplier® grew by \$39.5 million, or 41.8 percent, largely due to three strong jackpot runs over the course of the fiscal year.

The multi-state game category accounted for \$424.4 million, or 10.1 percent, of total sales in fiscal year 2017-18.

In-State Lotto: Cash 5, Match 6 Lotto and Treasure Hunt

The in-state lotto game category was up \$9.1 million, or 3.8 percent, over the prior fiscal year. Cash 5 sales were down \$20.3 million or 15.6 percent. Treasure Hunt sales were down \$4.4 million or 13.8 percent. Match 6 Lotto sales were up \$33.8 million or 42.4 percent due in large part to the strategic decision to convert Match 6 from two draws a week to daily drawings. Daily drawings for Match 6 launched in September 2017.

The in-state lotto game category accounted for \$250.4 million, or 6.0 percent, of total sales in fiscal year 2017-18.

PICK Games: PICK 2, PICK 3, PICK 4, PICK 5 and Wild Ball

PICK games ended fiscal year 2017-18 down \$22.1 million, or 3.7 percent, as compared to the prior year.

The Wild Ball feature for the PICK family of games continued to be a bright spot in this segment of the game portfolio, generating \$25.8 million in new sales. Wild Ball accounted for about 4.5 percent of PICK Game sales.

PICK games accounted for \$567.7 million, or 13.5 percent, of total sales in fiscal year 2017-18.

Millionaire Raffle

The Lottery sold 95 percent of the 500,000 available tickets for the New Year's Eve Millionaire Raffle #27.

Fast Play

The Pennsylvania Lottery launched a new category of games called Fast Play in February 2017. Fast Play games are instant style games sold through the Lottery's terminals alongside the other draw game products.

Although purchased through a lottery terminal, the payouts on Fast Play games are similar to Scratch-Offs, thus having a lower profit margin than most draw games.

Sales of Fast Play games totaled \$114.4 million in fiscal year 2017-18. This was an increase of \$59.4 million, or 108.1 percent, over a partial fiscal year 2016-17.

Fast Play accounted for 2.7 percent of total Lottery sales in fiscal year 2017-18.

Monitor Games (Keno)

Monitor games are an important addition to the Lottery game portfolio because they bring in additional revenues and they expand the Lottery's retailer footprint into new business categories such as eating and drinking establishments. Those new retailers generate new revenues across the entire game portfolio. The Lottery began selling Keno in May 2018. The eight weeks of Keno sales generated over \$7.6 million in sales.

iLottery

The Lottery began selling iLottery in May 2018. The six weeks of iLottery in fiscal year 2017-18 generated over \$20 million in play.

FISCAL YEAR 2018-19 ANALYSIS

The Pennsylvania Lottery set a new sales record with more than \$4.5 billion (\$4,503,328,678) in traditional sales during fiscal year 2018-19; an increase of \$302.8 million, or 7.2 percent, from the previous fiscal year's record.

For the eighth consecutive year, the Lottery recorded profits exceeding \$1 billion (\$1,143,225,749) during fiscal 2018-19, setting a new profit record. Net revenues increased by \$49.6 million, or 4.5 percent, year-to-year. The previous record profit was set in fiscal year 2015-16, which totaled \$1.12 billion.

The Lottery paid a record \$2.93 billion in prizes, meaning 65 cents of every Lottery sales dollar went back to players. Seventy prizes of \$1 million or more were awarded during the fiscal year.

More than 9,700 licensed Lottery retailers statewide earned over \$266 million in sales and bonus commissions. That equates to 5.91 percent commission on traditional sales. Retailer commissions increased over \$41.8 million, or 18.7 percent, over the prior year. The Lottery increased the number of active licensed retailers by 442 in fiscal year 2018-19.

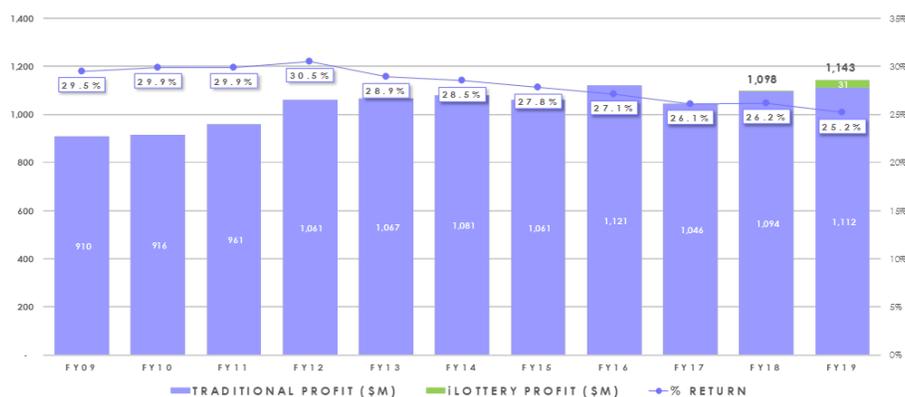
Operating costs remained one of the lowest in the country at 2.55 percent of ticket sales.

The Pennsylvania Lottery remains one of the best-performing lotteries of the 46 U.S. Lotteries, ranking 6th in population, 7th in traditional ticket sales, and 6th in profits in fiscal year 2017-18 (the most recent industry statistics available at this time). The Pennsylvania Lottery outperformed the industry in per capita Scratch-Off sales, ranking 5th in the U.S. It should be noted that several lotteries ranking higher than Pennsylvania have the advantage of including profits from Video Lottery Terminals (VLTs).

LOTTERY PROFIT RETURN IN FISCAL YEAR 2018-19

The Lottery ended fiscal year 2018-19 with a net profit percentage of 25.16 percent, down from the 25.91 percent recorded in fiscal year 2017-18. This past fiscal year was the lowest profit percentage in Lottery history, yet the Lottery set an all-time record profit – proving again that a lower profit percentage can generate more dollars for senior programs.

PA LOTTERY PROFITS (\$M) AND % RETURN FY2008-09 to FY2018-19



STATE OF THE LOTTERY GAME PORTFOLIO IN FISCAL YEAR 2018-19

The Pennsylvania Lottery maintains a diverse product portfolio, providing lottery games that meet an equally diverse consumer population. The Lottery's product portfolio became even more diverse in the past few years. Fast Play games were added to the game portfolio in fiscal year 2016-17, Keno and iLottery were added in fiscal year 2017-18, and Xpress Sports (monitor games) were added in fiscal year 2018-19.

Scratch-Offs

Scratch-Off sales of \$2.99 billion were up by \$165.5 million, or 5.9 percent, from the previous year.

Every Scratch-Off price point above \$3 increased sales over the previous year. The \$20 and \$30 price points were up a combined \$97.1 million. The \$1, \$2 and \$3 price points continued their downward trend - together the three price points were down \$9.2 million.

The Scratch-Off sales mix continues to shift toward the higher price point (i.e. higher payout) games. The table below shows the sales migration toward the higher price point games over the last eight fiscal years. As a result, the average selling price has increased over the previous in every fiscal year.

Scratch-Offs - Percentage of Sales by Price Points

Scratch-Offs	\$1	\$2	\$3	\$5	\$10	\$20	\$30	Avg. Selling Price
FY18-19	3.1%	5.4%	4.9%	29.7%	21.9%	22.9%	12.2%	\$5.85
FY17-18	3.4%	5.8%	5.3%	31.0%	20.8%	22.8%	10.9%	\$5.61
FY16-17	3.3%	6.1%	5.0%	30.8%	19.1%	26.7%	9.0%	\$5.41
FY15-16	3.9%	7.2%	5.7%	32.6%	21.1%	22.1%	7.4%	\$5.15
FY14-15	4.1%	7.5%	6.3%	30.5%	20.0%	24.7%	6.8%	\$5.12
FY13-14	4.5%	8.7%	7.0%	29.8%	19.7%	25.9%	4.5%	\$4.87
FY12-13	5.0%	9.9%	7.0%	30.6%	19.3%	28.2%	0.0%	\$4.59
FY11-12	6.0%	11.6%	6.7%	32.2%	18.7%	24.8%	0.0%	\$4.24

The Scratch-Off game category accounted for 66.4 percent of total sales in fiscal year 2018-19, down from 67.2 percent in 2017-18. The two-year downward trend in percent of the Scratch-Off game mix was expected as new products like Fast Play and Monitor Games grow in their share of the portfolio mix.

Multi-State Lotto: Powerball®, Mega Millions® and Cash4Life®

Multi-state game sales (Powerball®, Mega Millions® and Cash4Life®) grew by \$82.3 million, or 19.4 percent, from the prior year. Powerball® and Power Play® sales declined by \$12.2 million or 4.5 percent. Mega Millions® and Megaplier® grew by \$95.6 million, or 71.4 percent, largely due to the record \$1.6 billion jackpot run that ended in October 2018.

Cash4Life® sales were down \$1.14 million, or 6.4 percent, year over year. However, the multi-state Cash4Life® group decided to change the game from twice weekly to daily drawings on July 1, 2019, following up on the success of Pennsylvania's Match 6 Lotto move from twice weekly to daily drawings. After seven weeks of sales in fiscal 2019-20, Pennsylvania's sales for Cash4Life® are up 57.0 percent over the previous same seven weeks.

The multi-state game category accounted for \$506.7 million, or 11.3 percent, of total sales in fiscal year 2018-19.

In-State Lotto: Cash 5, Match 6 Lotto and Treasure Hunt

The in-state lotto game category was up \$21.5 million, or 8.6 percent, in fiscal year 2018-19 over the prior fiscal year. Cash 5 sales were up \$5.4 million or 4.9 percent. Treasure Hunt sales were down \$1.1 million or 3.9 percent. Match 6 Lotto sales were up \$17.2 million or 15.1 percent, benefiting from its first full year of daily drawings. Together, the in-state lotto game category accounted for \$271.9 million, or 6.0 percent, of total sales in fiscal year 2018-19.

PICK Games: PICK 2, PICK 3, PICK 4, PICK 5 and Wild Ball

PICK games ended fiscal year 2018-19 up \$7.3 million, or 1.3 percent, as compared to the prior year. Much of the growth in PICK game sales can be attributed to sales at the new monitor game locations.

The Wild Ball feature for the PICK family of games continued to be a bright spot in this segment of the game portfolio, generating \$28.4 million in new sales. Wild Ball accounted for about 4.9 percent of PICK Game sales.

PICK games accounted for \$575.1 million or 12.8 percent of total sales in fiscal year 2018-19.

Millionaire Raffle

The Lottery sold all of the 500,000 tickets available for the New Year's Eve Millionaire Raffle #28. Sales were aided by eight weekly drawings where one prize of \$100,000 was awarded each week.

Fast Play

Sales of Fast Play games totaled over \$103.2 million in fiscal year 2018-19. This was a decrease of \$11.2 million, or 9.8 percent, over fiscal 2017-18.

Fast Play accounted for 2.3 percent of total sales in fiscal year 2018-19.

Monitor Games (Keno and Xpress Sports)

The Lottery began selling Keno on May 7, 2018. In its first full fiscal year of sales, Keno sales generated over \$44.4 million.

Xpress Sports, including football and car racing themed drawings, launched on August 14, 2018. The Xpress Sports games added \$2.2 million in sales for fiscal year 2018-19.

Monitor games in total contributed \$46.7 million in fiscal year 2018-19. They accounted for 1.0 percent of the traditional game portfolio.

iLottery

Fiscal year 2018-19 was the first full year of sales for iLottery. iLottery generated over \$381 million in play,

which resulted in over \$31.3 million in profit.

iLottery is off to a strong start. By comparison, the Michigan Lottery is currently the U.S. industry leader in iLottery, which launched approximately five years ago in August 2014. With \$381 million in iLottery play, Pennsylvania more than doubled Michigan's first full fiscal year in which they generated \$146 million in play.

FISCAL YEAR 2019-20 AND BEYOND

The Lottery projects traditional sales of \$4.66 billion in fiscal year 2019-20, an increase of \$159.0 million or 3.53 percent. Fiscal year 2019-20 profits from traditional games sales (i.e. excluding online sales) are projected to increase by \$50.8 million, or 4.49 percent, to \$1.18 billion.

Additionally, the Lottery projects iLottery play of \$478.2 million, an increase of \$96.7 million or 25.4 percent. iLottery profits are projected to grow by \$8.5 million, or 27.2 percent, for a total of \$39.8 million in iLottery profits.

Combined profits are projected to reach \$1.22 billion for fiscal year 2019-20, which would be an increase of \$59.3 million or 5.10 percent.

Estimated sales and profits for fiscal year 2019-20 and the next five years are shown in the tables below.

TRADITIONAL SALES (\$,000)	2018-19	2019-20 Bdgt	2020-21 Est	2021-22 Est	2022-23 Est	2023-24 Est	2024-25 est
Scratch-off	2,989,693	3,084,493	3,157,298	3,232,433	3,309,986	3,390,048	3,472,712
Fast Play	103,261	131,823	138,598	144,275	148,133	150,380	151,387
Draw Games	1,363,680	1,393,977	1,405,235	1,415,500	1,424,608	1,432,423	1,440,380
All Monitor Games	46,695	52,009	54,609	57,340	60,206	63,217	66,378
Total Sales	4,503,329	4,662,302	4,755,741	4,849,548	4,942,934	5,036,068	5,130,857

TRADITIONAL PROFIT (\$,000)	2018-19	2019-20 Bdgt	2020-21 Est	2021-22 Est	2022-23 Est	2023-24 Est	2024-25 est
Scratch-off	577,011	601,476	615,673	630,325	645,447	661,059	677,179
Fast Play	21,685	27,683	29,106	30,298	31,108	31,580	31,791
Draw Games	524,417	543,651	548,042	552,045	555,597	558,645	561,748
All Monitor Games	9,806	10,922	11,468	12,041	12,643	13,276	13,939
Total Net Profit	1,132,918	1,183,732	1,204,288	1,224,709	1,244,796	1,264,560	1,284,658
Total Net Profit %	25.16%	25.39%	25.32%	25.25%	25.18%	25.11%	25.04%

Combined Profit (\$,000)	2018-19	2019-20 Bdgt	2020-21 Est	2021-22 Est	2022-23 Est	2023-24 Est	2024-25 est
iLottery Profit	31,310	39,836	41,828	43,920	46,116	48,421	50,842
Traditional Profit	1,132,918	1,183,732	1,204,288	1,224,709	1,244,796	1,264,560	1,284,658
Profit	1,164,229	1,223,568	1,246,116	1,268,628	1,290,911	1,312,981	1,335,500
Profit Change	71,536	59,340	22,548	22,512	22,283	22,070	22,519
Profit Change %	6.55%	5.10%	1.84%	1.81%	1.76%	1.71%	1.72%

To meet its commitment in fiscal year 2019-20 and beyond, the Pennsylvania Lottery has set the following growth strategies:

- Continuing to aggressively manage its product portfolio. This includes:
 - Revitalizing Cash 5. The revised game will carry a \$2 price point while adding higher jackpots and a quick cash feature.
 - Replacing the current Xpress Sports football game with Derby Cash, a horse racing themed virtual sports game.

- Focus on keeping the higher price point Scratch-Offs strong while giving some renewed attention to the lower price points. For example, the Lottery plans to take a closer look at prize structures and other product features of the lower price point games.
- Expanding the portfolio of online games, including draw games such as Powerball® and Mega Millions®.
- Adding play value to products and increasing player engagement through second-chance drawings, promotions, interactive elements and cross product category promotions.
- Expanding points of distribution. This includes:
 - Recruiting quality retailers, especially locations optimal for monitor games.
 - Expanding the Lottery's partnership with key corporate chains that have the potential to add hundreds more selling locations.
- Continuing to optimize the Lottery's presence at retail. This includes:
 - Increasing game displays, signage, branding and promotional elements through the Retail Incentive Program, established by Act 42 of 2017.
- Finally, measuring product performance and marketing effectiveness to optimize Lottery sales and profits, and identify new opportunities for growth.

The Lottery also continues to face increased competition, both legal and illegal. Games of Skill are a significant threat to the Lottery and the vital senior programs that it funds. According to our analysts, as of July 15, 2019, the known count of 5,746 Games of Skill machines in PA Lottery retailers has a negative impact on statewide yearly Scratch-Off sales of approximately \$185.2 million. Games of Skill have also had an impact on the Lottery's efforts to encourage retailers to offer monitor games, Keno and Xpress Sports.