



Benefits Older Pennsylvanians.  
Every Day.

# **Pennsylvania Lottery Profit Report**

## As Required by Act 201 of 2014

2020

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 June 30, 2020, the Pennsylvania Lottery had contributed over \$31 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 97 of 2019), the Pennsylvania Lottery is currently required to return 20 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. Even as the mandated rate of return has dropped, Lottery sales and profits have increased.

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. Act 97 of 2019 set the minimum return percentage at 20 percent starting with fiscal year 2019 and continuing through June 30, 2024. (Note: Per Act 47 of 2018, iLottery is excluded from the profit margin requirement.)

Because the lottery game development process can in some cases take up to a year, it is important for the Lottery to have some level of certainty regarding the minimum return percentage requirement. Increasing player demand for higher payout (i.e. lower profit margin) games will require extending, or preferably eliminating, the minimum profit margin requirement that expires in 2024. Without it, and the flexibility to offer the games Lottery players want, the Lottery will be forced to rein in payouts, which will have a negative impact on sales and profits.

This annual profit report is required by Act 201 of 2014. This profit report includes analysis of fiscal year 2019-20, and a look ahead to 2020-21.

## **FISCAL YEAR 2019-20 ANALYSIS**

Although the Pennsylvania Lottery faced many challenges in fiscal year 2019-20, such as low multi-state jackpots and the COVID-19 pandemic, it recorded the second-best sales year in its 48-year history. After mitigation efforts began in mid-March, overall Lottery sales decreased by about 25 percent as approximately 30 percent of its retailers closed; however, as retailers began to reopen, sales improved.

The \$4.47 billion (\$4,469,473,516) in traditional sales was topped only by fiscal year 2018-19 record traditional sales of \$4.50 billion (\$4,503,328,678); a decrease of \$33.86 million, or 0.75 percent.

For the ninth consecutive year, the Lottery recorded profits exceeding \$1 billion during fiscal year 2019-20. Fiscal year 2019-20 net profits of \$1,141,800,788 were topped only by fiscal year 2018-19 record profits of \$1,143,225,749. Net revenues decreased by \$1.42 million, or 0.12 percent, compared to the prior fiscal year.

The Lottery paid a record \$2.93 billion in traditional prizes, meaning more than 65 cents of every Lottery sales dollar went back to players. A total of 79 winning tickets of \$1 million or more were paid to players during the fiscal year.

More than 10,000 licensed Lottery retailers statewide earned over \$234.9 million in regular commissions and over \$22.5 million in additional retailer incentive for a total of over \$257.4 million in total sales and bonus commissions, which equates to 5.76 percent commission on traditional sales. Total retailer commissions decreased by \$8.55 million, or 3.21 percent, over the prior fiscal year.

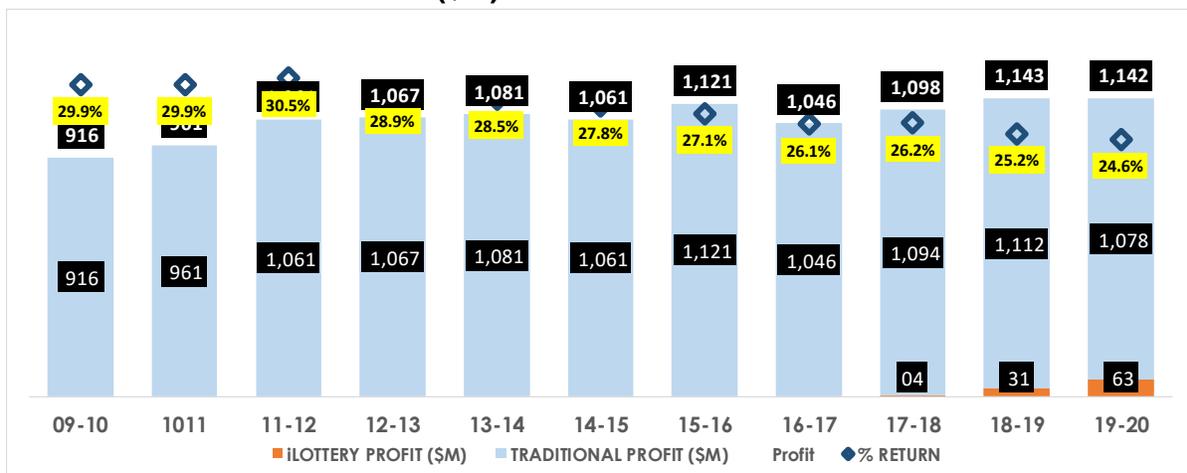
Operating costs remained one of the lowest in the country at 2.56 percent of traditional ticket sales.

The Pennsylvania Lottery remains one of the best-performing lotteries of the 45 U.S. lotteries, ranking 5th in population, 6th in traditional ticket sales, and 8th in profits in fiscal year 2018-19 (i.e. the most recent industry statistics available, LaFleur’s Almanac 2020). It should be noted that Pennsylvania would rank 6th in profits if transfers from video lottery terminal (VLT) revenues were not included in Ohio and Maryland profit totals. The PA Lottery outperformed the industry in per capita Scratch-Off sales, ranking 4th in the U.S.

### LOTTERY PROFIT MARGIN IN FISCAL YEAR 2019-20

The Lottery ended fiscal year 2019-20 with a net profit margin of 24.6 percent, down from the 25.2 percent recorded in fiscal year 2018-19. Even with much lower than average multi-state jackpot levels and the onset of a global pandemic, the Lottery managed to come within \$1.4 million or 0.12 percent, of setting a new profit record. It should be noted that in the last two fiscal years, the Lottery has recorded its two lowest years for profit margin – 25.2 percent and 24.6 percent – yet also its two highest years for total profit dollars.

**PA LOTTERY PROFITS (\$M) AND % RETURN FY2009-10 to FY2019-20**



Note: The Total Net Revenue as reported on the comparative financial statements is made up of the Net Traditional Revenue, Net Gaming Revenue, and the Retail Incentive Program expense. The profit margin requirement pertains only to the Net Traditional Revenue.

It should also be noted that none of the states ranked above Pennsylvania in profit have a profit margin mandate.

Pennsylvania Ranks 6 <sup>th</sup> in Net Income - <i>None of the States Ranked Above Pennsylvania Have Mandated Profit Percentage Requirements</i>		Profit % Mandate?
 1. New York		NO
 2. Florida		NO
 3. California		NO
 4. Texas		NO
 5. Georgia		NO
 6. Pennsylvania		YES

PA is one of only 7 states that still have a profit percentage requirement: Delaware, Louisiana, New Jersey, New Mexico, Rhode Island and Tennessee.

State lotteries with the highest profit per capita in absolute dollars are among the states with the lowest percentage return rates.  
- Source: October 2015 NASPL Study

## STATE OF THE LOTTERY GAME PORTFOLIO IN FISCAL YEAR 2019-20

The Pennsylvania Lottery maintains a diverse product portfolio, providing lottery games that meet an equally diverse consumer population. The Lottery’s product portfolio continues to add to that diversity with recent additions such as a horse racing-themed monitor game named Derby Cash in fiscal year 2019-20, Xpress Sports monitor games in fiscal year 2018-19, Keno and iLottery in fiscal year 2017-18, and Fast Play games in fiscal year 2016-17.

### Scratch-Offs

Scratch-Off games set a new sales record in fiscal year 2019-20 of \$3.20 billion, up \$213.5 million, or 7.1 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 \$116.2 million. The \$1, \$2 and \$3 price points continued their downward trend - together the three price points were down \$31.9 million. The Scratch-Off sales mix continues to shift toward the higher price point (i.e. higher payout) games. Higher price point scratch-off tickets have a lower profit margin; however, because of their high sales volume, they generate more profit dollars.

The following table 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. In fiscal year 2019-20, the \$5 and above price points accounted for 88.5 percent of all Scratch-Off sales.

### Scratch-Offs - Percentage of Sales by Price Points

FY	\$1	\$2	\$3	\$5	\$10	\$20	\$30	Avg Sell Price
19-20	2.3%	4.6%	4.6%	29.1%	23.1%	23.4%	13.0%	\$6.30
18-19	3.1%	5.4%	4.9%	29.7%	21.9%	22.9%	12.2%	\$5.85
17-18	3.4%	5.8%	5.3%	31.0%	20.8%	22.8%	10.9%	\$5.61
16-17	3.6%	6.4%	5.4%	31.9%	20.6%	23.2%	8.9%	\$5.41
15-16	3.9%	7.2%	5.7%	32.6%	21.1%	22.1%	7.4%	\$5.15
14-15	4.1%	7.5%	6.3%	30.5%	20.0%	24.7%	6.8%	\$5.12
13-14	4.5%	8.7%	7.0%	29.8%	19.7%	25.9%	4.5%	\$4.87
12-13	5.0%	9.8%	7.0%	30.6%	19.3%	28.3%		\$4.59

The Scratch-Off game category accounted for 71.7 percent of total traditional sales in fiscal year 2019-20, up from 66.4 percent in 2018-19. Most of that increased share of the product mix came from the 11.8 percent growth in sales of the \$10 and above price points.

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

Powerball® sales declined by \$122.6 million or 47.1 percent. Mega Millions® declined by \$123.4 million or 53.7 percent. Both games suffered from a very poor year in jackpot run luck combined with being up against strong jackpot runs in fiscal year 2018-19. Mega Millions, in particular, was up against a record \$1.6 billion jackpot run that ended in October 2018. In fiscal year 2019-20, Powerball saw its lowest average jackpot since fiscal year 2014-15, and its lowest maximum jackpot in the past eight years. Mega Millions fared slightly better, but had its lowest average jackpot in the last three years and its lowest maximum jackpot in the last four years.

Powerball Jackpots by Fiscal Year

FY	Average Jackpot	Max Jackpot
FY.1213	\$120M	\$600M
FY.1314	\$118M	\$425M
FY.1415	\$103M	\$500M
FY.1516	\$166M	\$1500M
FY.1617	\$159M	\$478M
FY.1718	\$174M	\$700M
FY.1919	\$203M	\$750M
FY.1920	\$106M	\$394M

Mega Millions Jackpots by Fiscal Year

FY	Average Jackpot	Max Jackpot
FY.1213	\$43M	\$190M
FY.1314	\$98M	\$636M
FY.1415	\$94M	\$321M
FY.1516	\$101M	\$390M
FY.1617	\$77M	\$540M
FY.1718	\$147M	\$521M
FY.1919	\$219M	\$1600M
FY.1920	\$142M	\$410M

The multi-state Cash4Life® group changed Cash4Life® 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. A full fiscal year of daily drawings shows impressive growth in Cash4Life® sales. Cash4Life® sales were up \$8.9 million, or 53.4 percent, year over year. The move to daily drawings for Match 6 and Cash4Life® should signal to the rest of the industry that the "convenience" of daily drawing can serve as a model for transforming other games to daily drawings as well.

The multi-state game category accounted for \$269.6 million, or 6.0 percent, of total traditional sales in fiscal year 2019-20.

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

Overall, the in-state lotto game category was down \$18.0 million, or 6.6 percent, in fiscal year 2019-20 over the prior fiscal year. Cash 5 sales were down \$21.4 million or 18.6 percent. Treasure Hunt sales were up \$2.3 million or 8.6 percent. Match 6 Lotto sales were up \$1.1 million or 0.8 percent. The in-state lotto game category accounted for \$253.9 million, or 5.7 percent, of total traditional sales in fiscal year 2019-20.

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

PICK games ended fiscal year 2019-20 up \$1.3 million, or 0.2 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 \$31.3 million in new sales. Wild Ball accounted for about 5.4 percent of PICK sales. PICK games accounted for \$576.4 million or 12.9 percent of total traditional sales in fiscal year 2019-20.

## **Millionaire Raffle**

The Lottery sold all of the 500,000 tickets available for the New Year's Eve Millionaire Raffle #29. 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 \$102.7 million in fiscal year 2019-20. This was a decrease of \$0.5 million, or 0.5 percent, over fiscal 2018-19.

Fast Play accounted for 2.3 percent of total traditional sales in fiscal year 2019-20.

## **Monitor Games (Keno and Xpress Sports)**

The Lottery began selling Keno on May 7, 2018. In 2019-20, Keno sales generated over \$47.1 million, up \$2.7 million or 6.1 percent over fiscal year 2018-19.

Xpress Sports, including football and car racing themed drawings, launched in August 2018. The Lottery replaced the football-themed game with horseracing in November 2019. Xpress Sports games added \$6.5 million in sales for fiscal year 2019-20, up \$4.3 million or 194.2 percent over fiscal year 2018-19.

Monitor games in total contributed \$53.7 million in fiscal year 2019-20. They accounted for 1.2 percent of the traditional game portfolio.

## **iLottery**

Fiscal year 2018-19 was the first full fiscal year of sales for iLottery, in which it generated over \$381 million in play and \$31.3 million in profit. In fiscal year 2019-20, iLottery generated \$731 million in play, \$4.2 million in online Draw game sales, and \$63.4 million in profit, which was more than double compared to the prior fiscal year.

The Lottery continues to expand the Draw games available for online purchase, which now includes Powerball®, Mega Millions®, Cash4Life® and Treasure Hunt.

## **FISCAL YEAR 2020-21 AND BEYOND**

The PA Lottery projects traditional sales of \$4.65 billion in fiscal year 2020-21, an increase of \$183.0 million or 4.09 percent. Additionally, the Lottery projects iLottery play of \$940.0 million, an increase of \$208.7 million or 28.6 percent, and online draw sales of \$27.8 million.

Fiscal year 2020-21 profits from traditional games sales (i.e. excluding online sales) are projected to increase by more than \$57.9 million, or 5.26 percent, to \$1.16 billion. iLottery profits are projected to grow by \$19.3 million, or 30.5 percent, for a total of \$82.7 million. Combined profits are projected to reach \$1.24 billion for fiscal year 2020-21, which would be an increase of \$99.8 million or 8.74 percent.

Both sales and profit budget projections would represent new records should the Lottery achieve its goals.

Estimated sales and profits for fiscal year 2020-21 and the next five years are shown in the tables below.

<b>TRADITIONAL SALES (\$,000)</b>	<b>2019-20</b>	<b>2020-21 Bdgt</b>	<b>2021-22 Est</b>	<b>2022-23 Est</b>	<b>2023-24 Est</b>	<b>2024-25 est</b>	<b>2025-26 Est</b>
Scratch-off	3,203,206	3,342,986	3,466,820	3,605,493	3,749,713	3,899,701	4,055,689
Fast Play	102,734	105,996	111,065	115,507	120,127	124,933	129,930
Draw Games	1,109,853	1,147,184	1,176,465	1,207,237	1,239,581	1,273,578	1,309,319
All Monitor Games	53,681	56,278	59,001	61,361	63,816	66,368	69,023
<b>Total Sales</b>	<b>4,469,473</b>	<b>4,652,443</b>	<b>4,813,351</b>	<b>4,989,599</b>	<b>5,173,236</b>	<b>5,364,580</b>	<b>5,563,961</b>

<b>TRADITIONAL PROFIT (\$,000)</b>	<b>2019-20</b>	<b>2020-21 Bdgt</b>	<b>2021-22 Est</b>	<b>2022-23 Est</b>	<b>2023-24 Est</b>	<b>2024-25 est</b>	<b>2025-26 Est</b>
Scratch-off Profit	640,641	668,597	689,897	713,888	738,693	764,341	790,859
Fast Play Profit	20,444	21,093	22,102	22,870	23,665	24,487	25,336
Draw Games Profit	429,117	457,726	469,410	481,688	494,593	508,158	522,418
All Monitor Games	10,736	11,481	12,036	12,518	13,018	13,539	14,081
<b>Total Net Profit</b>	<b>1,100,938</b>	<b>1,158,897</b>	<b>1,193,445</b>	<b>1,230,963</b>	<b>1,269,970</b>	<b>1,310,525</b>	<b>1,352,695</b>

<b>Combined Profit (\$,000)</b>	<b>2019-20</b>	<b>2020-21 Bdgt</b>	<b>2021-22 Est</b>	<b>2022-23 Est</b>	<b>2023-24 Est</b>	<b>2024-25 est</b>	<b>2025-26 Est</b>
iLottery Profit	63,379	82,720	86,856	91,199	95,759	100,547	105,574
Traditional Profit	1,100,938	1,158,897	1,193,445	1,230,963	1,269,970	1,310,525	1,352,695
<b>Profit</b>	<b>1,141,801</b>	<b>1,229,617</b>	<b>1,258,301</b>	<b>1,300,162</b>	<b>1,343,728</b>	<b>1,389,072</b>	<b>1,436,269</b>
Profit Change	(1,425)	87,816	28,684	41,861	43,566	45,343	47,197
Profit Change %	-0.12%	7.69%	2.33%	3.33%	3.35%	3.37%	3.40%
<b>Total Net Profit %</b>	<b>24.63%</b>	<b>24.91%</b>	<b>24.79%</b>	<b>24.67%</b>	<b>24.55%</b>	<b>24.43%</b>	<b>24.31%</b>

To meet its commitment in fiscal year 2020-21 and beyond, the PA Lottery has set the following growth strategies:

- Continuing to aggressively manage its product portfolio. This includes:
  - Expanding the portfolio of Draw games available for online purchase.
  - Revitalizing Cash 5. The revised game will carry a \$2 price point while adding higher jackpots and a quick cash feature.
  - Evaluating prize structures and other product features of its entire game portfolio.
  - 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 PA Lottery also continues to face increased competition, in both legal as well as illegal forms, such as Games of Skill. Because of their proliferation and local presence, 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 7, 2020, the known count of 7,435 Games of Skill machines in PA Lottery retailers has a negative impact on statewide yearly traditional sales of approximately \$226 million. Additionally, Games of Skill continue to hamper the Lottery's ability to grow the number of Lottery retail outlets offering monitor games, Keno and Xpress Sports.