



Benefits Older Pennsylvanians.
Every Day.

Pennsylvania Lottery Profit Report

As Required by Act 201 of 2014

2023

The Pennsylvania Lottery remains the only state lottery that designates all its proceeds to programs that benefit older residents. Since its inception in 1971 through June 30, 2023, the Pennsylvania Lottery had contributed over \$34.9 billion to senior 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-time and part-time senior centers throughout the state.

By law, the Pennsylvania Lottery is currently required to return 20 percent in net profits from all sales of traditional games (i.e., not including iLottery). However, research has shown that by reducing or eliminating the minimum rate of return, the Lottery can execute a diverse product portfolio to better maximize profits for senior programs. Generally, 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. Act 137 of 2022 extended the minimum return percentage at 20 percent through June 30, 2029. (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 so that it can manage game payouts. 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 June 2029. 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 2022-23 and a look ahead to fiscal year 2023-24.

FISCAL YEAR 2022-23 ANALYSIS

In fiscal year 2022-23, the Lottery recorded its second-best sales year in its 51-year history.

There were several large Powerball® and Mega Millions® jackpots that drove sales. As a result, the Lottery exceeded its projected negative year-over-year sales growth for fiscal year 2022-23 of -6.11 percent. The Lottery saw a traditional sales decline of just -0.48 percent.

For fiscal year 2022-23, the over \$4.98 billion (\$4,984,702,192) in traditional sales was a decrease of \$24.1 million, or -0.48 percent, compared to the prior fiscal year.

For the 12th consecutive year, the Lottery recorded profits exceeding \$1 billion. Fiscal year 2022-23 net profits of \$1,102,518,266 were the sixth highest in the Lottery's 51-year history. Total net revenues decreased by \$92.6 million, or -7.75 percent, compared to the prior fiscal year.

The Lottery paid more than \$3.31 billion in traditional prizes, meaning 66.5 cents of every Lottery sales dollar went back to players. A total of 86 winning tickets of \$1 million or more were paid to players during the fiscal year. More than \$785 million in prizes were paid to winners on online Lottery games.

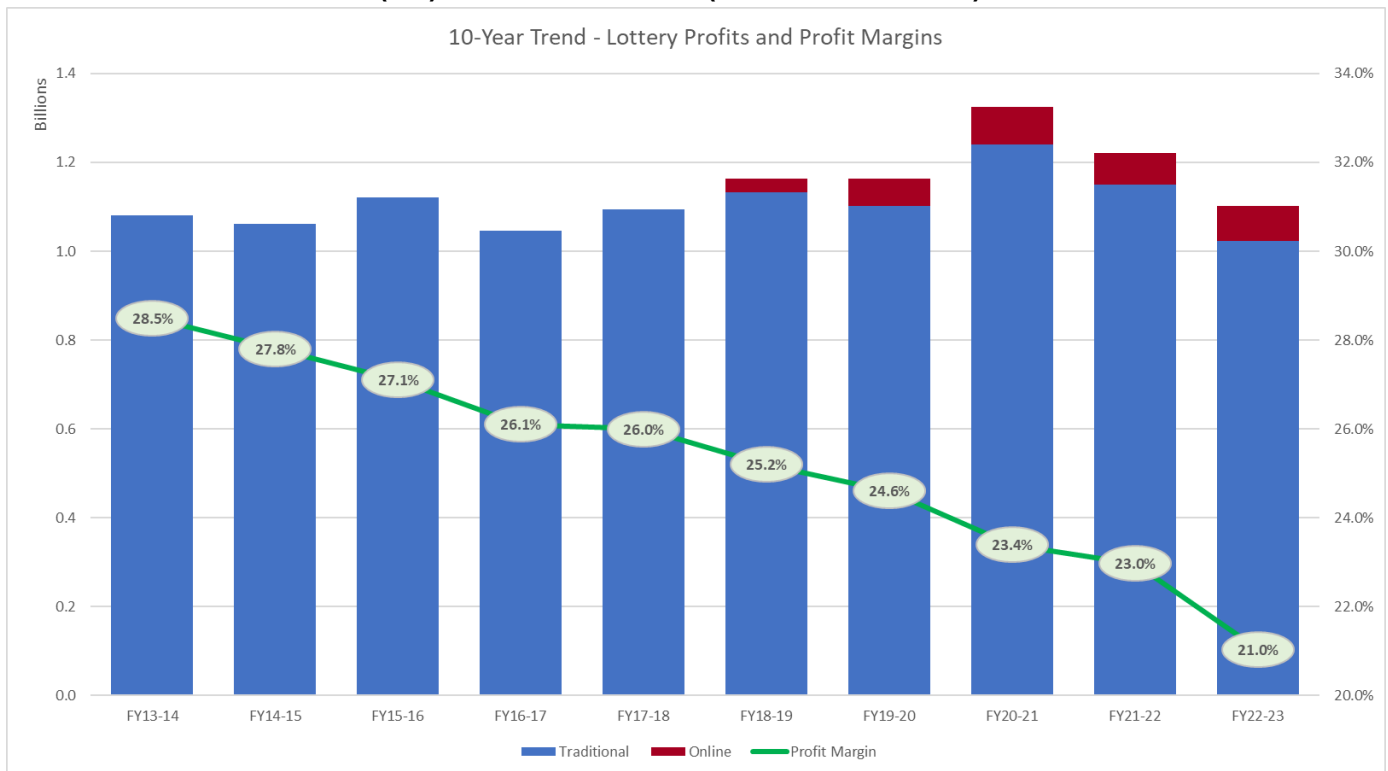
More than 10,000 licensed Lottery retailers statewide earned an estimated \$269.6 million in regular commissions and over \$25 million in additional retailer incentives for a total of \$294.7 million in total sales and bonus commissions, which equates to 5.91 percent commission on traditional sales.

Operating costs were 5.32 percent of traditional ticket sales, due to an extraordinary vending equipment purchase of \$146.7 million to replace old vending equipment. Typically, Lottery operating costs are about 2 percent of ticket sales.

LOTTERY PROFIT MARGIN IN FISCAL YEAR 2022-23

The Lottery ended fiscal year 2022-23 with a net traditional profit margin of 21.04 percent, down from the 22.97 percent recorded in fiscal year 2021-22.

PA LOTTERY PROFITS (\$B) AND % RETURN (PROFIT MARGIN) FY 2013-14 to FY 2022-23



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.

Pennsylvania is one of only seven states to have a profit percentage requirement, along with: Delaware, Louisiana, New Jersey, New Mexico, Rhode Island, and Tennessee.

In the U.S., Pennsylvania ranks 6th in population and 8th in profit. None of the states ranked above Pennsylvania in profit have a profit margin mandate.

| Net Income Ranking | State Lottery | Profit % Mandate? |
|---------------------------|----------------------|--------------------------|
| 1 | New York | No |
| 2 | Florida | No |
| 3 | California | No |
| 4 | Texas | No |
| 5 | Maryland | No |
| 6 | Georgia | No |
| 7 | Ohio | No |
| 8 | Pennsylvania | YES |

STATE OF THE LOTTERY GAME PORTFOLIO IN FISCAL YEAR 2022-23

The Pennsylvania Lottery maintains a diverse product portfolio, providing lottery games that meet an equally diverse consumer population. The Lottery's portfolio includes games in each of the categories shown in the table below.

| PA Lottery | Lottery Game Categories |
|-------------------|-----------------------------------|
| ✓ | Scratch-Offs |
| ✓ | Multi-state Lotto (Powerball) |
| ✓ | Multi-state Lotto (Mega Millions) |
| ✓ | Multi-state Lotto (Cash 4 Life) |
| ✓ | In-State Lotto |
| ✓ | 2-Digit Numbers |
| ✓ | 3-Digit Numbers |
| ✓ | 4-Digit Numbers |
| ✓ | 5-Digit Numbers |
| ✓ | Raffle (Millionaire Raffle) |
| ✓ | Fast Play |
| ✓ | Monitor Games (Keno) |
| ✓ | Monitor Games (Xpress Sports) |
| ✓ | Online eInstant Games |
| ✓ | Online Draw Games |

Scratch-Offs

Sales of Scratch-Off games totaled more than \$3.3 billion, down \$164.8 million, or 4.7 percent, from the previous year. These games account for more than 67 percent of total traditional sales.

The sale of \$10, \$20, \$30, and \$50 price points were down a combined \$27.0 million or -1.1 percent. The \$5 price point was down \$102.9 million or -13.1 percent. The \$1, \$2 and \$3 price points were down a combined \$34.8 million or -11.8 percent. The Scratch-Off sales mix continues to shift toward the higher price point (i.e., higher payout) games. Higher price point Scratch-Off games have a lower profit margin; however, because of the high sales volume, they generate more profit dollars.

The following table shows the sales migration toward the higher price point games over the last 11 fiscal years. As a result, the average selling price has increased over the previous in every fiscal year. The first \$50 price point Scratch-Off game was introduced in fiscal year 2021-22. In fiscal year 2022-23, the price point generated \$372.6 million in sales and accounted for 11.1 percent of all Scratch-Off sales.

Scratch-Offs - Percentage of Sales by Price Points

| FY | \$1 | \$2 | \$3 | \$5 | \$10 | \$20 | \$30 | \$50 | Avg. Selling Price |
|---------|------|------|------|-------|-------|-------|-------|-------|--------------------|
| FY.1213 | 5.0% | 9.8% | 7.0% | 30.6% | 19.3% | 28.3% | | | \$4.59 |
| FY.1314 | 4.5% | 8.7% | 7.0% | 29.8% | 19.7% | 25.9% | 4.5% | | \$4.87 |
| FY.1415 | 4.1% | 7.5% | 6.3% | 30.5% | 20.0% | 24.7% | 6.8% | | \$5.12 |
| FY.1516 | 3.9% | 7.2% | 5.7% | 32.6% | 21.1% | 22.1% | 7.4% | | \$5.15 |
| FY.1617 | 3.6% | 6.4% | 5.4% | 31.9% | 20.6% | 23.2% | 8.9% | | \$5.41 |
| FY.1718 | 3.4% | 5.8% | 5.3% | 31.0% | 20.8% | 22.8% | 10.9% | | \$5.61 |
| FY.1819 | 3.1% | 5.4% | 4.9% | 29.7% | 21.9% | 22.9% | 12.2% | | \$5.85 |
| FY.1920 | 2.3% | 4.6% | 4.6% | 29.1% | 23.1% | 23.4% | 13.0% | | \$6.30 |
| FY.2021 | 1.8% | 3.9% | 3.9% | 25.3% | 25.9% | 24.4% | 14.7% | | \$6.92 |
| FY.2122 | 1.6% | 3.4% | 3.3% | 22.4% | 24.7% | 23.3% | 13.7% | 7.4% | \$7.67 |
| FY.2223 | 1.6% | 3.2% | 2.9% | 20.5% | 25.1% | 22.3% | 13.3% | 11.1% | \$7.97 |

The trend toward higher price point games has continued to boost the average Scratch-Off selling price every year over the last 11 years. The average selling price has grown from \$4.59 in fiscal year 2012-13 to \$7.97 in fiscal year 2022-23.

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

Powerball® sales increased by \$66.1 million or 24.6 percent. Mega Millions® increased by \$149.3 million or 134.3 percent. The table below shows that average jackpots and maximum jackpots improved over the previous year for both games. Comparing fiscal year 2022-23 jackpots against the previous year makes it clear why both games saw substantial sales increases. Another important factor that contributed to an improvement in Powerball sales was the change from two drawings to three drawings

per week. That change took place on August 23, 2021, so fiscal year 2022-23 was the first full fiscal year of the change.

| Powerball Jackpots by Fiscal Year | | | Mega Millions Jackpots by Fiscal Year | | |
|-----------------------------------|-----------------|-------------|---------------------------------------|-----------------|-------------|
| FY | Average Jackpot | Max Jackpot | FY | Average Jackpot | Max Jackpot |
| FY.1213 | \$120M | \$600M | FY.1213 | \$43M | \$190M |
| FY.1314 | \$118M | \$425M | FY.1314 | \$98M | \$636M |
| FY.1415 | \$103M | \$500M | FY.1415 | \$94M | \$321M |
| FY.1516 | \$166M | \$1500M | FY.1516 | \$101M | \$390M |
| FY.1617 | \$159M | \$478M | FY.1617 | \$77M | \$540M |
| FY.1718 | \$174M | \$700M | FY.1718 | \$147M | \$521M |
| FY.1819 | \$203M | \$750M | FY.1819 | \$219M | \$1600M |
| FY.1920 | \$106M | \$394M | FY.1920 | \$142M | \$410M |
| FY.2021 | \$144M | \$730M | FY.2021 | \$167M | \$1000M |
| FY.2122 | \$216M | \$432M | FY.2122 | \$149M | \$670M |
| FY.2223 | \$239M | \$1900M | FY.2223 | \$270M | \$1350M |

Cash4Life® sales were down \$0.52 million or -2.0 percent in fiscal year 2022-23.

The multi-state game category accounted for \$620.6 million, an increase of \$214.9 million, or 53.0 percent, over the previous fiscal year. Including sales of multi-state games sold online, the category accounted for 12.3 percent of total traditional sales in fiscal year 2022-23.

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

Cash 5 with Quick Cash sales were down \$7.9 million or -7.0 percent. Match 6 Lotto sales were up \$15.6 million or 13.5 percent. Treasure Hunt sales were down \$5.2 million or -15.0 percent.

Including sales of in-state lotto games sold online, the in-state lotto game category accounted for \$265.9 million, or 5.3 percent, of total traditional sales in fiscal year 2022-23. Overall, the in-state lotto game category was up \$2.5 million.

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

PICK games ended fiscal year 2022-23 down \$45.5 million, or -7.1 percent. Including sales of PICK games sold online, PICK games accounted for \$593.9 million, or 11.8 percent, of total traditional sales in fiscal year 2022-23. Wild Ball accounted for \$46.5 million of total PICK sales.

Millionaire Raffle

The Lottery sold all the 500,000 tickets available for the New Year's Eve Millionaire Raffle #32. Sales were aided by eight weekly drawings in which two prizes of \$50,000 were awarded each week.

Fast Play

Sales of Fast Play games totaled over \$145.2 million in fiscal year 2022-23, which was a decrease of \$3.9 million, or -2.6 percent, over fiscal 2021-22.

Fast Play accounted for 3.0 percent of total traditional sales in fiscal year 2022-23.

Monitor Games (Keno and Xpress Sports)

In fiscal year 2022-23, Keno sales generated over \$37.5 million, down \$3.7 million, or -9.0 percent, over fiscal year 2021-22.

Xpress Sports games added \$13.2 million in sales for fiscal year 2022-23, down \$1.3 million, or -8.7 percent, over fiscal year 2021-22.

Monitor games in total contributed \$50.7 million in fiscal year 2022-23, down \$5.0 million or -9.0 percent. They accounted for 1.0 percent of the traditional sales.

iLottery

In fiscal year 2022-23, iLottery generated \$872.5 million in eInstant sales which was up \$126.0 million, or 16.9 percent, compared to the previous fiscal year. Online eDraw game sales added \$50.1 million, which was \$22.4 million, or 80.6 percent, more than the previous fiscal year. In total, iLottery added \$78.7 million in profit, which was up \$7.7 million, or 10.8 percent more than 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. Match 6 Lotto and all PICK games were added in fiscal year 2021-22. The Lottery added subscription play in fiscal year 2022-23. The Lottery plans to add online Keno, Derby Cash, and Cash 5, as well as electronic playslips, in the future.

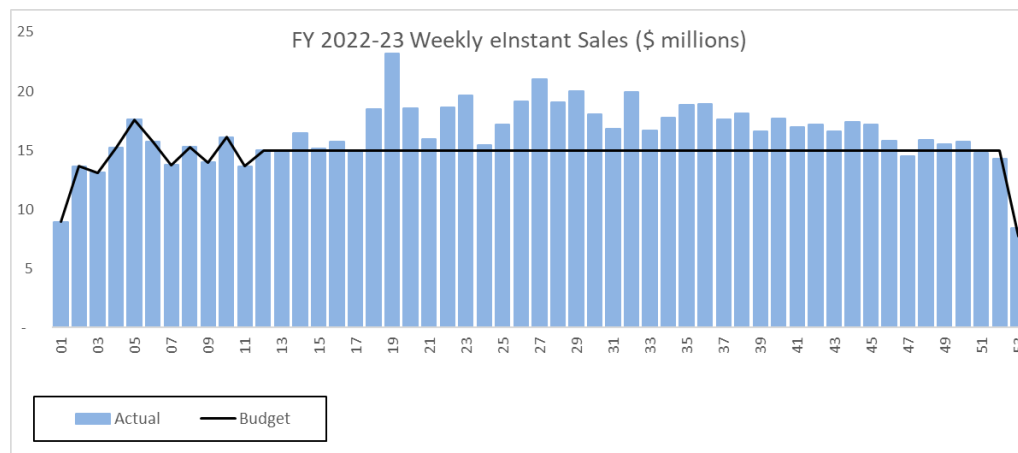
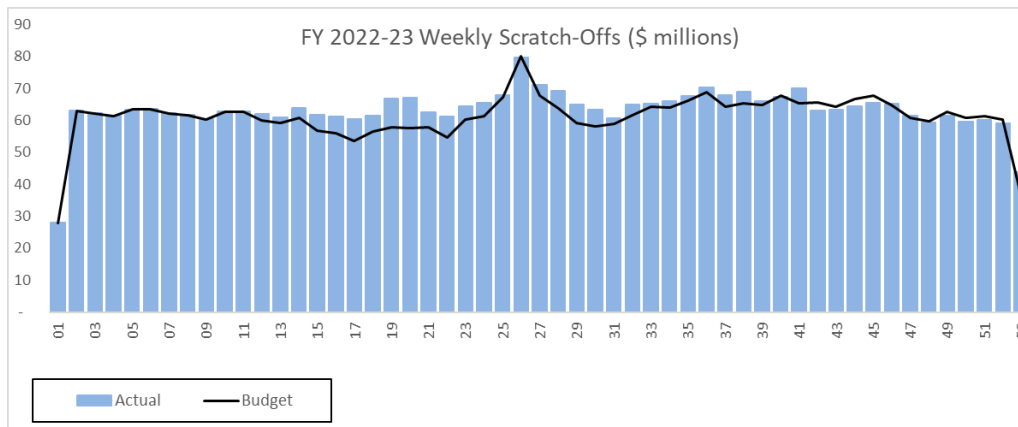
FISCAL YEAR 2023-24 AND BEYOND

The PA Lottery is estimating fiscal year 2023-24 traditional sales of \$4.99 billion, an increase of \$5.4 million or 0.11 percent. The Lottery is projecting eInstant sales of \$958.9 million, an increase of \$86.4 million, or 9.9 percent, and online eDraw sales of \$49.4 million, a decrease of -\$0.7 million or 1.4 percent.

Fiscal year 2023-24 profits from traditional games (i.e., excluding online sales) are projected to be \$1.101 billion, an increase of \$77.2 million or 7.5 percent. Combined profits, including iLottery, are projected to reach \$1.192 billion, an increase of \$89.6 million or 8.1 percent, with a projected profit margin of 22.1 percent.

NEW VENDING EQUIPMENT WILL LEAD TO INCREASED SALES

The Lottery is projecting an increase in sales based on the purchase of all new vending equipment to replace older vending units. The new vending equipment will increase Lottery sales by being able to sell draw games in addition to Scratch-Offs, accepting debit card purchases, and increasing the amount of inventory each unit is able to hold to reduce out-of-stock situations. Fiscal year 2022-23 Scratch-Off sales were trending very close to the budget estimate as shown in the graph below. As a result, the Lottery forecasts an increase in fiscal year 2023-24 sales and profits. The second graph shows that eInstant sales exceeded Lottery forecast consistently beginning in week 18. As a result, Lottery is forecasting strong growth for eInstants in FY 2023-24.



To meet its commitment in fiscal year 2023-24 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.
 - 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:
 - Replacing old instant ticket vending machines with new machines that also sell draw games, Fast Play games and cashless payment options.
 - 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 for discretionary spending, as it operates in a saturated gaming market. According to the PA Gaming Control Board's monthly reporting, Lottery traditional sales are only 10.9 percent of the regulated gaming market during fiscal year 2022-23, while the Lottery's online gaming represented only 1.6 percent of the regulated online gaming market in Pennsylvania.

Because of their proliferation and local presence, unregulated and untaxed gaming machines at retail are a significant threat to the Lottery and the vital senior programs that it funds. According to Lottery's analysis, as of August 2023, the known count of these machines is over 14,200. There is at least one unregulated gaming machine in each of over 30 percent of Lottery retailers throughout the state. The Lottery estimates that unregulated gaming machines at retail have cost the Lottery \$800 million, or 4.5 percent, in lost Scratch-off sales between October 2017 and March 2023. Additionally, based on feedback from Lottery sales representatives and potential retailers, the presence of these machines continues to hamper the Lottery's ability to grow the number of Lottery retail outlets offering monitor games, Keno and Xpress Sports.

PROFIT MARGIN RELIEF

Act 137 of 2022 extended the minimum return percentage at 20 percent through June 30, 2029. After which the profit mandate would return to 25 percent. The Lottery's margin rate projection for Fiscal Year 2023-24 is 22.1%. Given player demand for higher payout games, it could potentially fall below 20% before 2029.

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 2029. Without it, and the flexibility to offer the games Lottery players want, the Lottery will be forced to restrict payouts, which will have a negative impact on sales and profits. If the Lottery is required to return to a 25 percent profit margin, the Lottery would have to eliminate sales of higher payout Scratch-Off games, such as the \$50 and \$30 Scratch-Offs, as well as cut back on quantities of \$20 Scratch-Offs.

A lower Lottery margin rate of return will provide more profit dollars and therefore more money for senior programs. The Lottery estimates that if the profit margin were eliminated and it could increase payouts, the Lottery could generate an incremental increase of \$1.24 billion in profit over 10 years.