

**SOUTH CAROLINA EDUCATION LOTTERY
BOARD OF COMMISSIONERS MEETING MINUTES**

August 16, 2023

10:00 a.m.

The Board of Commissioners of the South Carolina Education Lottery (SCEL) met on Wednesday, August 16, 2023, at 1333 Main Street, Columbia, South Carolina, First Floor Conference Room, with the following members, representing a quorum, participating:

Sam Litchfield, Chairman
Dr. Edward Keith, Vice Chairman
Keith Munson, Secretary/Treasurer
Otis Morris
Patrick Earle

Jay Young
Dr. Vareva Evans-Harris
Andre Bauer (via video)
Billy Newsome (via video)

The Chairman called the meeting to order at 10:08 a.m. and welcomed guests.

Approval of Minutes

On motion of Commissioner Munson, seconded by Commissioner Morris, the Board approved the May 17, 2023, Minutes unanimously.

Action Items

a. Quarterly Advertising and Marketing Review

The Chairman recognized Ammie Smith, Director of Product Development, and Josh Whiteside, Director of Marketing, who discussed the following:

Carolina / Clemson Promotion

Digital Billboards: Choose Your Side, Carolina Jackpot (Spurs Up and Live Experience), Clemson Jackpot (All In and Live Experience).

Online Ad: Choose Your Side, Carolina Jackpot (Spurs Up and Live Experience), Clemson Jackpot (All In and Live Experience).

PID: Choose Your Side, Carolina/Clemson Jackpot.

Play Station Poster: Carolina/Clemson Jackpot.

TV: Blind Date and Delivery Room (30 Second Videos).

Window Poster: Choose Your Side, Carolina Jackpot, Clemson Jackpot

Writing Surface and Ticket Topper: Carolina / Clemson Promotion

Better U

TV and Social Media: Better U (30 and 60 Second Videos), Play Better (30 Second Video), Lottery 101 (101 Second Video), How the Odds Work (113 Second Video), Busting the Myths (118 Second Video), Warning Signs of Problem Gambling (107 Second Video)

Millionaire's Club

Digital Billboard, Online Ad, and PID

\$1,000,000 Riches Second-Chance Promotion

Online Ad and PID

Living Lucky With Luke Combs / Carolina Country Music Fest: Backdrop, Prop, Prize Wheel Version 1 and 2, Wheel Spin Promotion Sign, and Winner Signs.

General PID Updates: July - Black Diamond Dazzler, Easy Money, Money Multiplier, Hot 7s; and Southern Spectacular; August - \$1,000,000 Riches, and Cash Tripler; September - Max Money, Power Up, and Stacks of Green.

MISC: Digital Billboard, Carolina Cash and Easy Money

At the conclusion of the presentation and questions, the Chairman stated, without objection, that it is the consensus of the Board that the advertising presented did not and does not target with the intent to exploit specific ethnic groups or economic classes of people, and that the content is accurate and not misleading.

Reports

a. Financial Update and FY23 Year-end Report

Actual FY23 Results Compared to Actual FY22 Results

Overview

The Chairman recognized Brian Ford, Chief Financial Officer, who reported that transfers to Education were \$598.3M compared to \$564.0M last year. This is an increase of \$34.3M, 6.1% higher than FY22. The FY23 transfer total was second only to FY21, \$607.8M.

Net Income increased \$40.2M¹ (7.2%) from \$559.5M to \$599.7M. Total Game Revenues increased \$149.2M (6.6%) from \$2,253.6M to \$2,402.7M. Instant Game Revenues were \$1,628.6M, up \$29.6M (1.9%). Terminal Game Revenues were \$774.1M, up \$119.6M (18.3%). Game Margin² increased on both Instant Games and Terminal Games, up overall \$53.6M (7.0%). Total Game Margin Percentage was 34.1% in FY23 and 34.0% in FY22.

Instant Games

Instant Game Revenues increased by \$29.6M (1.9%), largely attributed to the launch of the first \$20 Instant Game. Since the launch in March 2023, it has generated \$118.8M in FY23, averaging \$8.1M per week. \$10 Instant Ticket Revenues decreased by \$75.9M (6.5%) from \$1,164.1M to \$1,088.2M due in part to cannibalization from the \$20 ticket. \$5 Instant Game Revenues increased by \$5.5M (2.2%) and the \$3 Instant Game Revenues decreased by \$10.9M (16.0%). Revenues associated with the \$1 and \$2 price points, in aggregate, decreased by \$7.9M (6.7%). The decreases observed in the lower price points are consistent with national trends. The net effect of the \$29.6M increase in Instant Game Revenue adds only \$2.9M (.7%) to the bottom line because a significant portion of the revenue increase is attributed to \$20 Instant Games, which have the lowest Game Margin of any product at 20% (paying out 80% to Players as Prize money).

Terminal Games

Terminal Game Revenues were \$774.1M in FY23, up from \$654.6M, an increase of \$119.6M (18.3%), largely attributed to increases in Powerball, \$29.3M (27.9%), and Mega Million, \$51.5M (16.2%). Powerball Revenue had three jackpot runs in FY23 that exceeded \$700M (one of which

¹ Net income as used herein means “Change in Net Position” as generally used for governmental agencies. Further, the increase in net income will not necessarily result in the same amount of Transfers. Transfers are “cash basis” and net income is on the accrual basis. The primary difference will be in accounts such as accounts receivable, the growth in which is reflected in net income, but not in Transfers since accounts receivable amounts recognized as income under the accrual basis have not been received under the cash basis.

² Game margin is defined as game revenue minus prize expense.

was a world record \$2.0B jackpot run) and none in FY22. These three jackpot runs generated \$95.9M and \$41.2M in FY23 Transfer Value. Similarly, Mega Millions had three jackpot runs that exceeded \$700M in FY23 (all of which were at least \$1.3B) compared to one in FY22. These three runs generated \$69.4M and \$29.9M in FY23 Transfer Value.

Pick 3 Revenue was down \$2.0M (0.7%) but is improving since increasing the liability limit in December 2022. Pick 4 Revenue was up \$3.8M (2.5%) and is trending higher since the liability limit change. The Game Margin Percentage on Pick 3 decreased from 51.1% to 47.5% due to statistical variation. SCEL drew 13 \$1M+ liability number combinations on Pick 3 in FY23 compared to 11 in FY22. Conversely, Pick 4 Game Margin Percentage increased from 52.1% to 54.6% due to favorable statistical variation in FY23. Overall, Game Margin on Pick 3 decreased \$11.2M (7.6%) due to lower revenue and unfavorable statistical variation, while Pick 4 Game Margin increased \$5.9M (7.5%) due to higher revenue and favorable statistical variation.

Palmetto Cash 5 Revenue decreased \$1.4M (5.0%) and Game Margin increased \$.1M (0.8%, due to statistical variation). SCEL drew 12 top prizewinners in FY22 and 5 in FY23. Cash Pop Revenue was \$72.6M while the Game Margin was \$25.6M, (35.2%), as planned.

Due primarily to large jackpot runs, Game Margin on Terminal Games increased \$50.6M (15.3%) while Overall Terminal Game Margin was down 1.3% at 49.2% due to the aforementioned statistical variation factors.

Other Revenues and Game Costs

Other Revenues, which consist primarily of license and telecom fees, were \$3.6M, the same as FY22. Other direct game costs were \$26.9M in FY23 compared to \$24.3M in FY22, an increase of \$2.7M (11.0%), attributable to higher instant ticket printing, shipping, and consumable costs, as well as new digital engagement costs. As a percentage of Revenues, both items were consistent from FY23 to FY22.

Advertising and G&A Expenses

Advertising Expense was \$10.4M compared to \$11.3M in FY22, a decrease of \$.8M (7.5%). Ad production and placement costs were lower than anticipated. Advertising Expense was .43% of FY23 Revenues. G&A Expenses (the primary component of which is employee compensation) were \$17.5M in FY23 and \$16.6M in FY 2022, an increase of .9M (5.6%). Operating Expense (Advertising plus G&A) were 1.2% of Revenue in FY23 and FY22.

Actual FY23 Results Compared to the FY23 Financial Plan

Game Revenues were \$2,402.7M compared to Plan of \$2,213.0M.

Instant Games

The \$49.2M positive variance in Instant Game Revenues is primarily attributable to the addition of three months of revenue associated with the launch of SCEL's first \$20 Instant Ticket, which generated \$118.8M in Instant Game Revenue. At the time the Plan was adopted in May 2022, the decision to launch a \$20 game had not been made. Once a \$20 ticket was added to the portfolio in March 2023, SCEL planned for 17% cannibalization of \$10 Instant Ticket Revenue. These revenues were under Plan by \$59.7M or 5.2% due to continued sales pressure on the \$10 price point and \$20 ticket cannibalization. \$5 Instant Ticket Revenue exceeded Plan by \$3.8M (1.5%) while \$3 Instant Ticket Revenue decreased by \$4.5M (7.3%). Lastly, the \$1 and \$2 price points performed under Plan, and, in aggregate, were \$9.2M (7.7%) below Plan as staff continues to make adjustments to address the softening demand in the lower instant ticket price points.

Terminal Games

The positive variance in Terminal Game Revenues is attributable to the strong performance of all terminal games with the exception of Palmetto Cash 5. Pick 3 was \$15.6M (5.7%) above Plan while Pick 4 was above by \$15.1M (10.6%). Both of these outcomes are the result of better than anticipated organic sales in addition to the positive impacts of raising the liability limits on each game. Palmetto Cash 5 Revenue was down \$.3M (1.0%). Powerball, fueled by record jackpot runs, performed above plan by \$46.2M (52.3%). Mega Millions was above Plan by \$50.7M (112.3%). Cash Pop exceeded Plan by \$13.3M (22.4%).

Other Revenues and Game Costs

Because of the better than planned Game Revenues, Gross Profit (Revenues less Prize Expense, Commissions and other game-related costs) was \$627.7M compared to Plan, \$551.1M, for a positive variance of \$76.7M (13.9%).

Advertising and G&A Expenses

Advertising Expense was under Plan by \$.5M (4.5%), \$10.5 Actual vs. Plan of \$10.9. The primary reason for this positive variance is lower than anticipated ad production and placement costs. Other Operating Expenses (“G&A”) were in line with Plan, \$17.5M Actual vs. Plan of \$17.5M.

Because of the aforementioned factors, Net Income for FY23 was \$599.7M compared to Plan of \$522.7M, an increase of \$77.1M (14.8%).

Jackpot Summary for FY23

Mr. Ford concluded his remarks with an analysis of Powerball and Mega Millions jackpot sales by draw by jackpot run. He noted the effects of lowering the initial jackpot to \$20M from \$40M and the addition of a third Powerball draw each week. He also explained that it takes much longer to achieve jackpots above \$700M. Overall, his analysis concluded that although no two jackpot runs are the same, jackpot fatigue is present even when the jackpot exceeds \$700M.

b. Instant Game Industry Update and \$20 Instant Ticket Update

The Chairman recognized Ms. Smith who compared SCCEL’s performance to lotteries of interest (those with similar attributes): North Carolina, Florida, and Georgia. SCCEL’s \$10 price point compares favorably but the lotteries of interest show increased sales in higher price points. These lotteries of interest have a fuller product portfolio with price points above \$20.

As for the lower price points, as in South Carolina, other jurisdictions are reevaluating their \$1 and \$2 games and are reducing the number of games offered at any given time and the number of tickets ordered in each game. She noted that \$1 and \$2 price point players require less variety than players who purchase higher price points. Georgia is the first state to discontinue \$1 games and once the inventory sells through, the industry will review its impact on sales in other price points.

As for the overall industry growth rate, coming out of the COVID-19 pandemic, the lotteries of interest recovered quicker than SCCEL. It appears that players returned to the market at higher price points and remained there. By contrast, SCCEL’s players could only buy \$10 games and sales did not spike here until the \$20 game launch. The sales equation in relation to transfer value is further complicated because the SCCEL \$10 game payout is comparable to the \$20 price point in other states. As SCCEL moves forward, to maintain the right balance of payout and return, SCCEL will need to reevaluate what payout for all price points. In conclusion, Ms. Smith stated that SCCEL is at the top of the industry in its performance given our product offerings. However, SCCEL is looking at ways to increase its activation rate on instant games and the new rewards program is

expected to invigorate interest in instant games. Mr. Brown added that debit card sales would be helpful and that iLottery will need to be considered to reach those who are accustomed to buying online.

c. Executive Director Report

SCEL Update

The Chairman recognized Hogan Brown, who began with a report on the headquarters lease, which expires in August 2024. After a competitive process managed by the Department of Administration, SCEL and the landlord have reached an agreement for a new 10-year lease for 1333 Main Street (the same space as currently occupied). The next step is to seek approval from the Joint Bond Review Committee (JBRC) and then, the State Fiscal Accountability Authority (SFAA). The Claims Center lease, also expiring August 2024, is being addressed separately because a new, larger location is being considered on the same block (1303 Assembly Street). The current location has a very small lobby, no public restrooms, and is ill equipped to handle the current volume of claimants, particularly when quads (four identical numbers) are drawn in Pick 4. In those instances, players must wait in long lines without shelter from the weather. Mr. Brown is optimistic that the outstanding issues for the new location can be resolved and a new 10-year lease will be signed this fall. The value of this lease will not require JBRC and SFAA approval.

While a House of Representatives bill to protect the release of winner information did not pass in the Senate, a budget proviso restricting release of that information was adopted. It allows SCEL to adhere to the board's 2014 policy on release of winners' information.

SCEL has recently prevailed in the SC Court of Appeals in two class action lawsuits. The time for filing an appeal to the state Supreme Court has not expired.

SCEL sends sales staff to the SC Convenience and Petroleum Marketers Association Conference (SCCPMA) each year. While Mr. Brown attended the North American State and Provincial Lotteries (NASPL) Professional Development Seminar (PDS), Dolly Garfield, General Counsel, addressed the SCCPMA audience with an SCEL update and the Board position on debit cards. Numerous staff members attended the PDS as it is the best professional development program in the lottery industry. It covers all areas of lottery operations such as Legal, IT, Marketing, and Product to name a few with lottery staff from across the country conducting the sessions.

Mr. Brown acknowledged the efforts of SCEL's Employee Engagement Committee (aka "Fun Squad"). Claire Jones, Director of Human Resources, described various events sponsored by the committee including the recent employee Luau event.

Industry Update

The Multi-State Lottery Association (MUSL) members recently met in Des Moines, Iowa to review and update its strategic plan addressing such issues as MUSL's services to the membership and its role and direction within the lottery industry. The Mega Millions Consortium (of which SC is not a member) has decided to change the game matrix and go to a \$5 price point. Mega Millions is working through the details of the game changes with the MUSL states.

Powerball sales in Australia are nearing the final regulatory stages for approval. If things go as expected, sales could start in mid-2024. Mr. Brown reminded the Board that the look of Powerball in Australia will not be the same as here but a comparable portion of sales will fund the jackpot.

The MUSL initiated NASCAR Second Chance promotion has had a positive impact on player engagement with our app. The NFL and MUSL have renewed discussions for a multi-state draw game, which has gained traction but is hard to forecast the outcome.

Other Business

Commissioner Harris took the opportunity to acknowledge the passing of state senator John Scott, noting his support for SCEL.

There being no further business, the meeting adjourned at approximately 12:16 p.m.

_____/s/
Sam Litchfield, Chairman

_____/s/
Keith Munson, Secretary/Treasurer

As required by *S.C. Code Ann.* § 30-4-80, SCEL posted notification for this meeting at its administrative offices, 1333 Main Street in Columbia. As provided in the Board Bylaws, SCEL also posted the meeting notice and agenda on its website (sceducationlottery.com), and sent emails pursuant to requests made by individuals, media outlets, and other organizations. These notifications included a link providing the time, date, place, and agenda of the meeting.