



Draft FY 2023-24 Business Plan

Informational Item 6b
Presented to
California State Lottery Commission

Presentation Outline

- Recap from current fiscal year
- Other Highlights from the Business Review
- Drivers for future Lottery growth in sales & contributions
- Proposed Objectives for the FY 2023-24 Business Plan and beyond



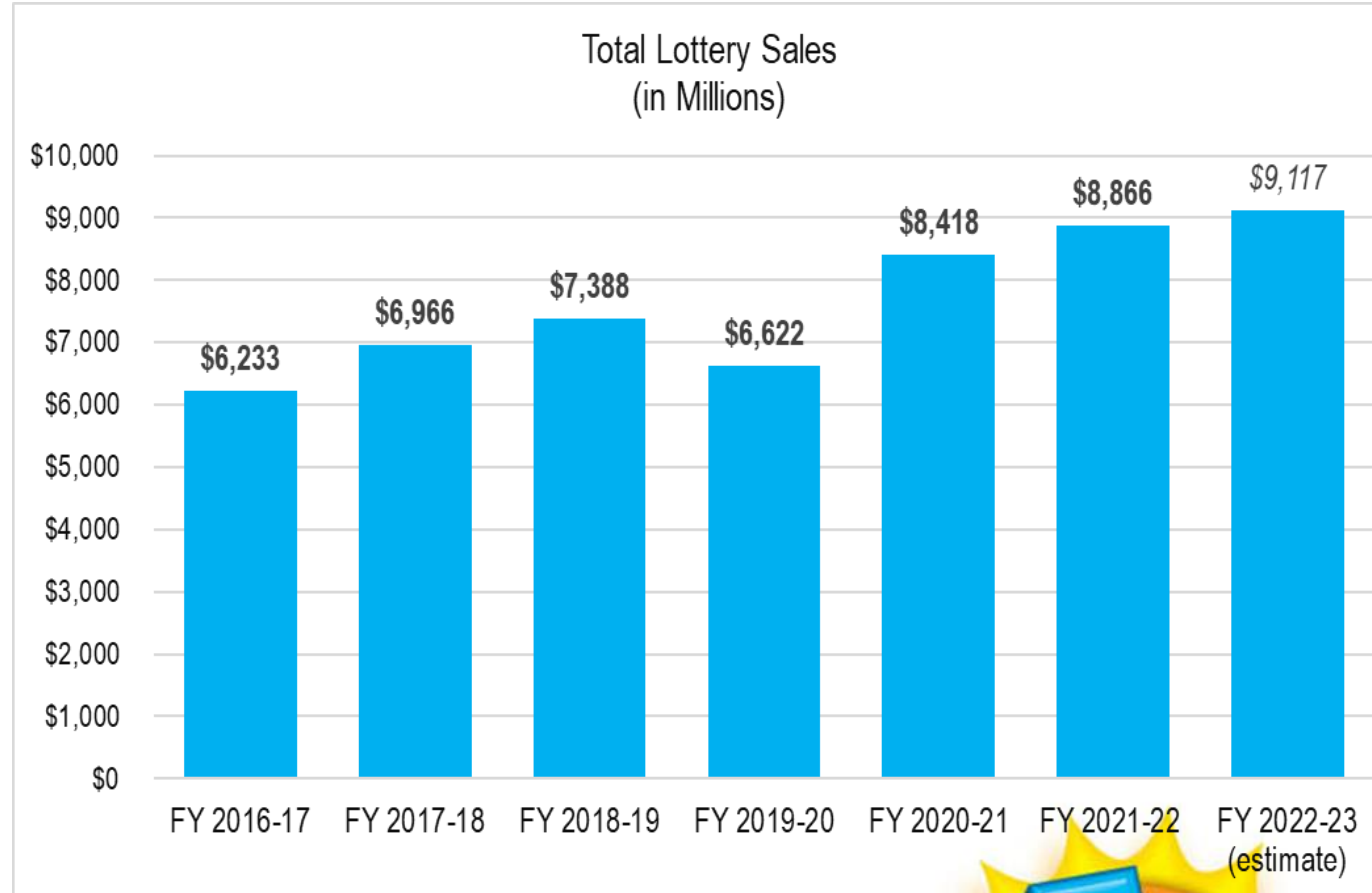
Review of FY 2022-23 Lottery Sales and Key Programs

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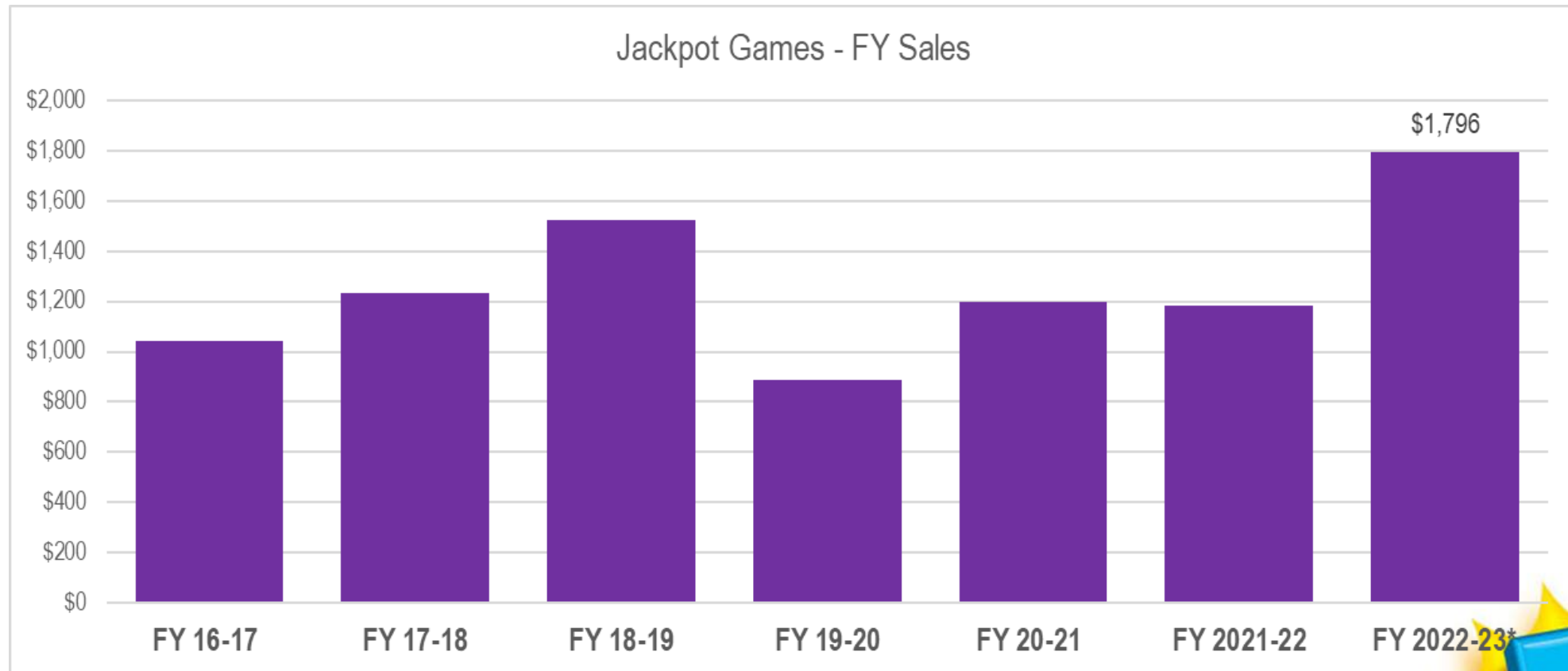


Lottery Sales by Fiscal Year

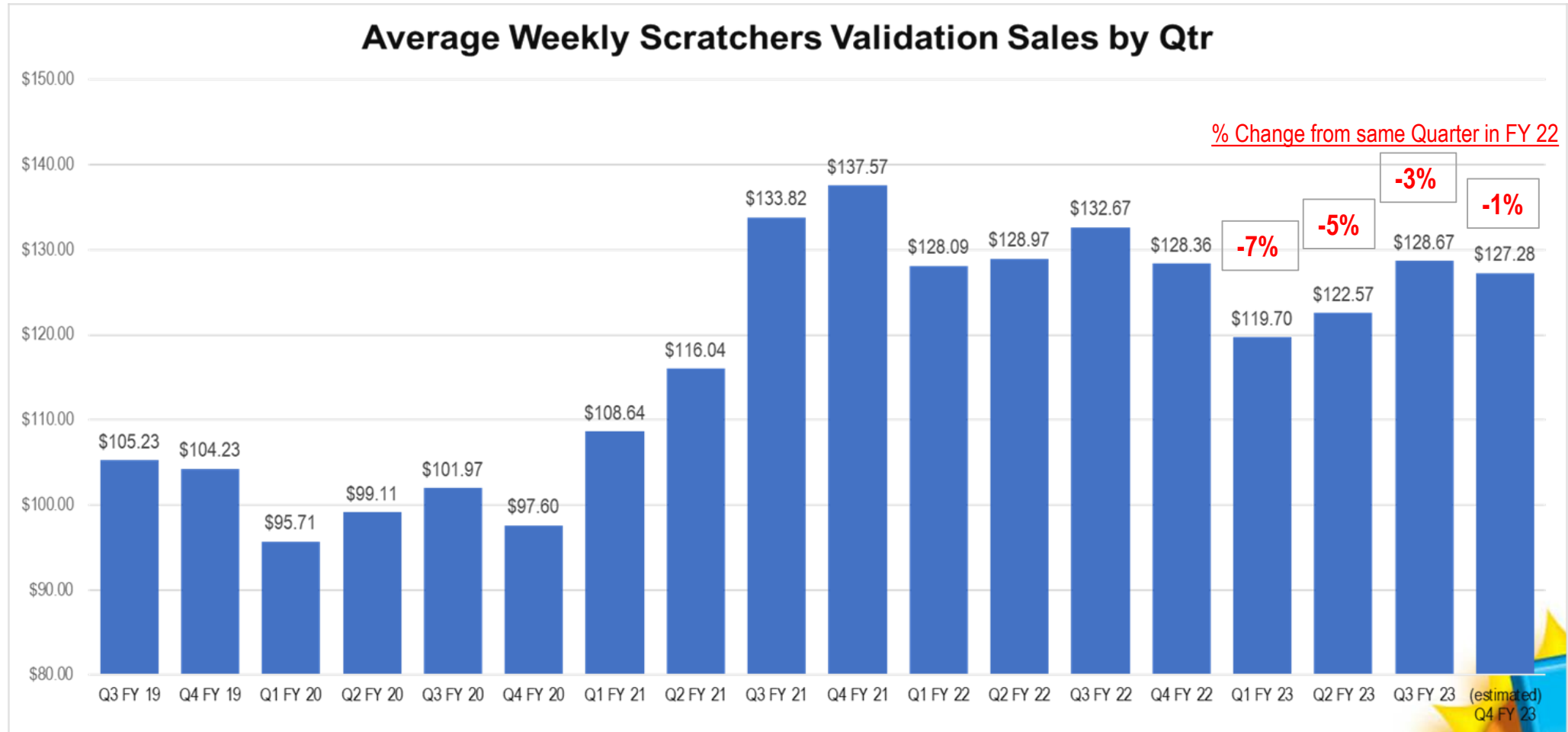
- The current fiscal year will see record sales and contributions to education
- The last three fiscal years have seen sales totals that far exceed pre-pandemic levels
- Scratchers saw growth in FY 21 and FY 22; but Jackpot Games fueled this year's sales gains



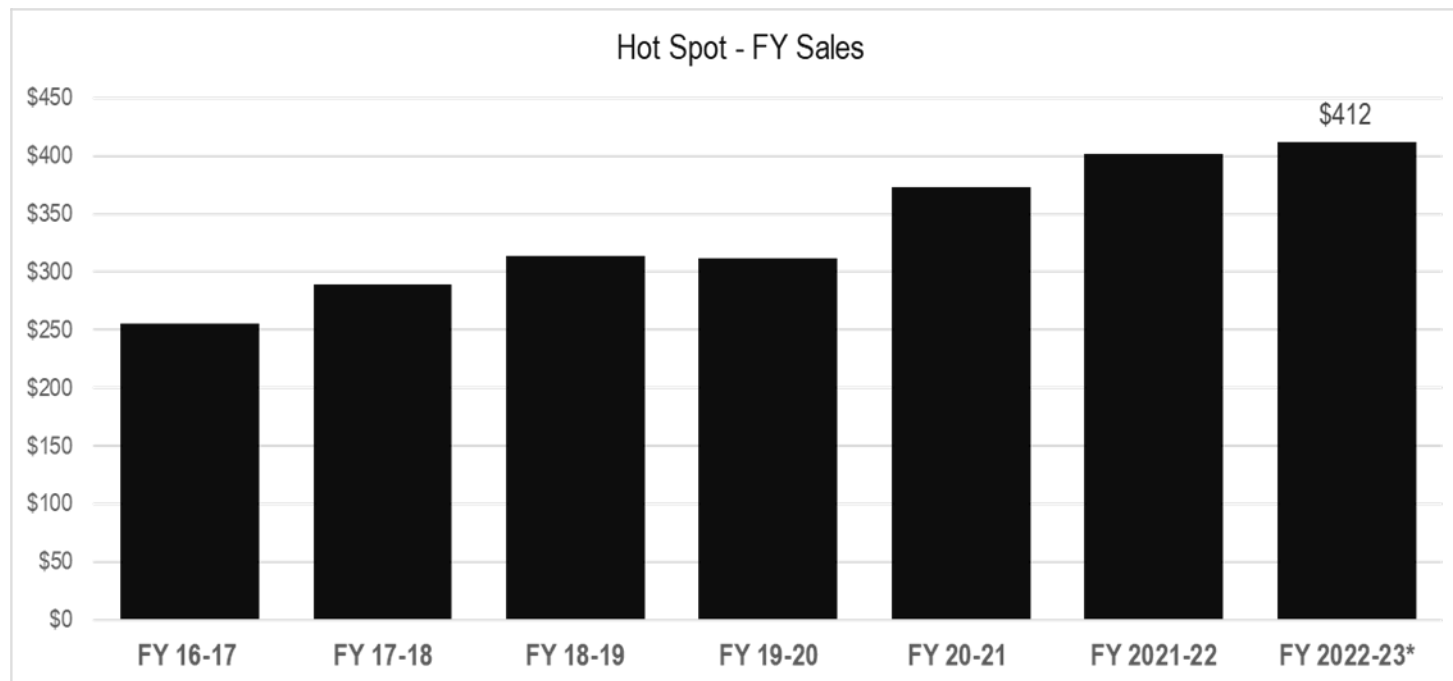
Large jackpots in Mega Millions and Powerball fueled record sales in FY 2022-23



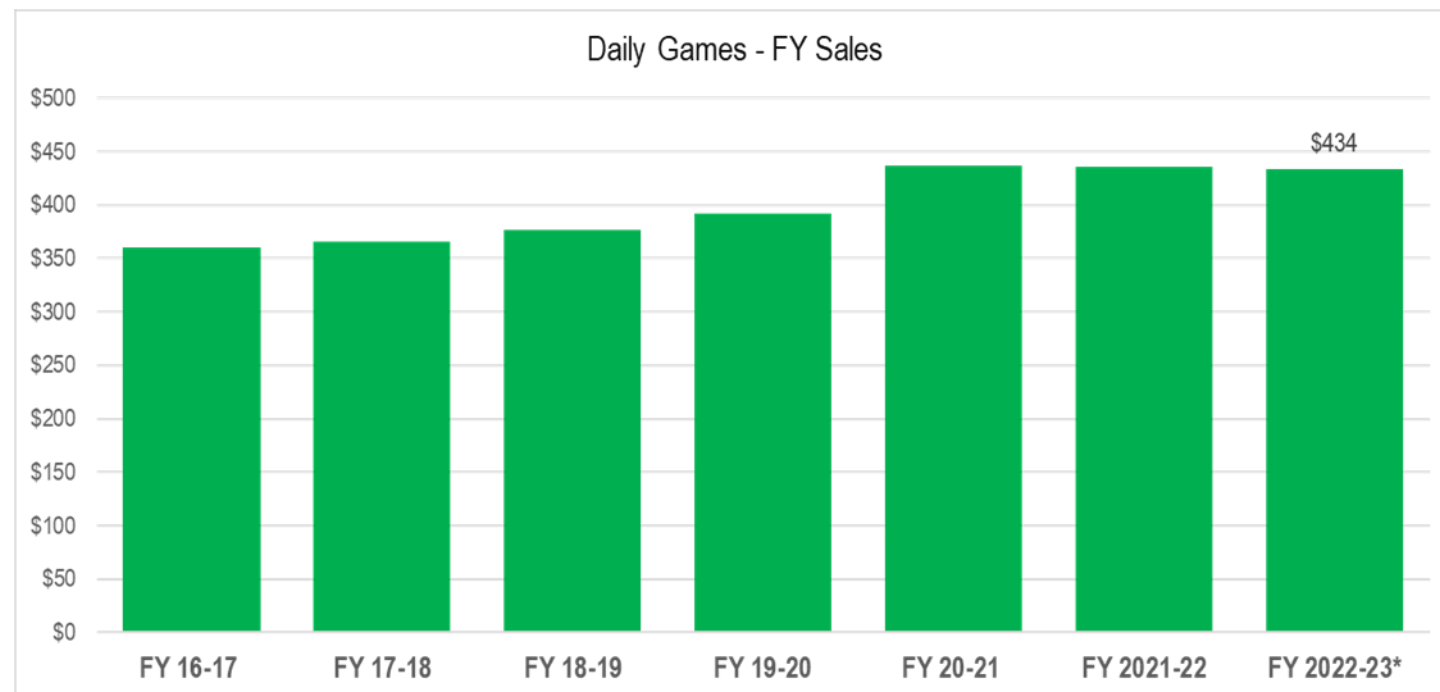
Scratchers sales declined as consumers returned to other forms of entertainment; however, sales are well above pre-pandemic levels



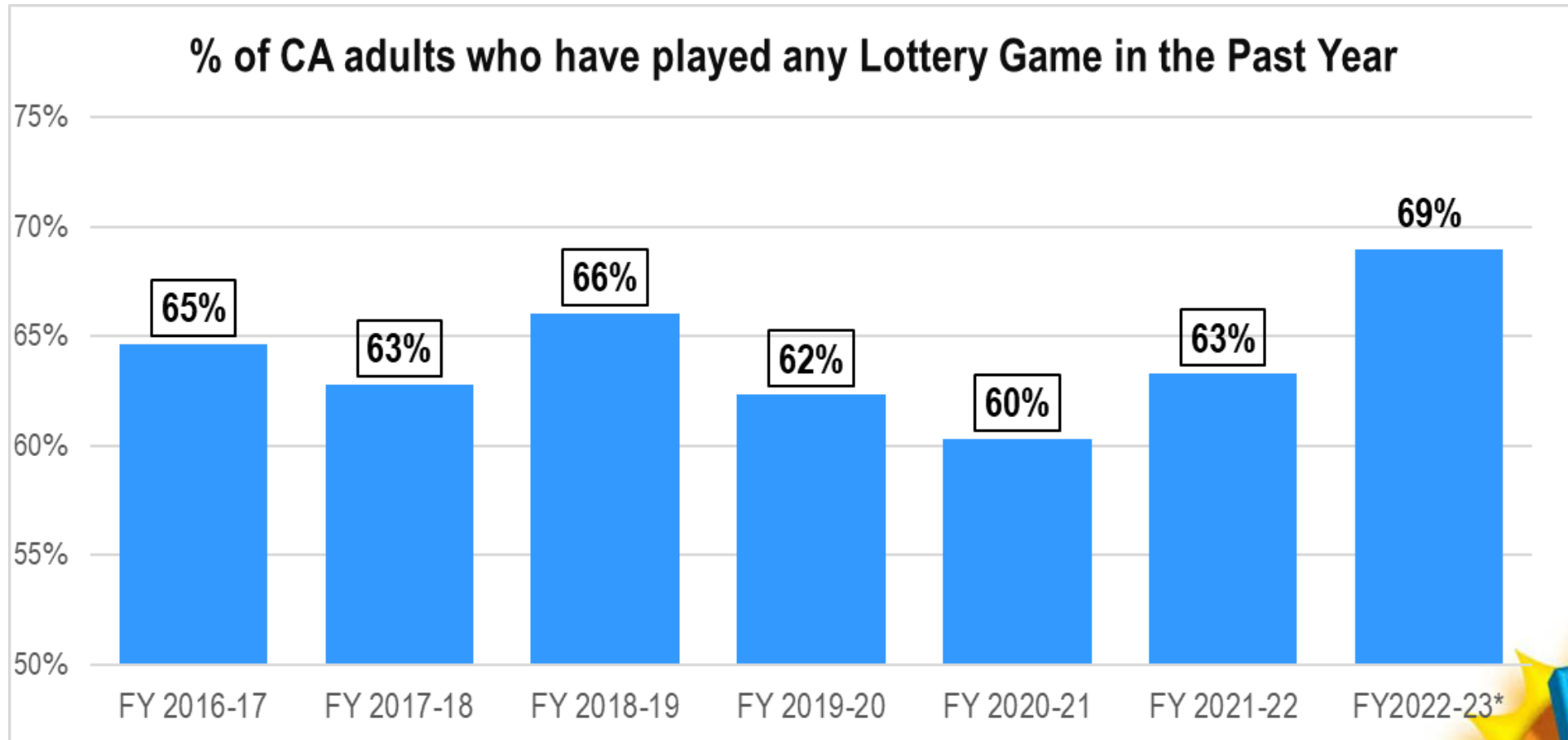
**Hot Spot sales growth
continued in
FY 2022-23**



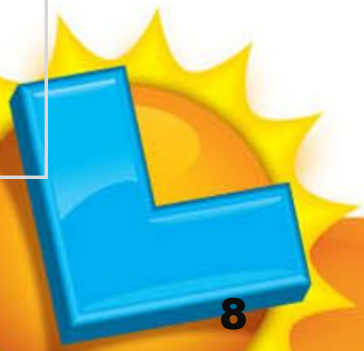
**On the other hand,
sales of Daily Games
slightly cooled
in FY 2022-23**



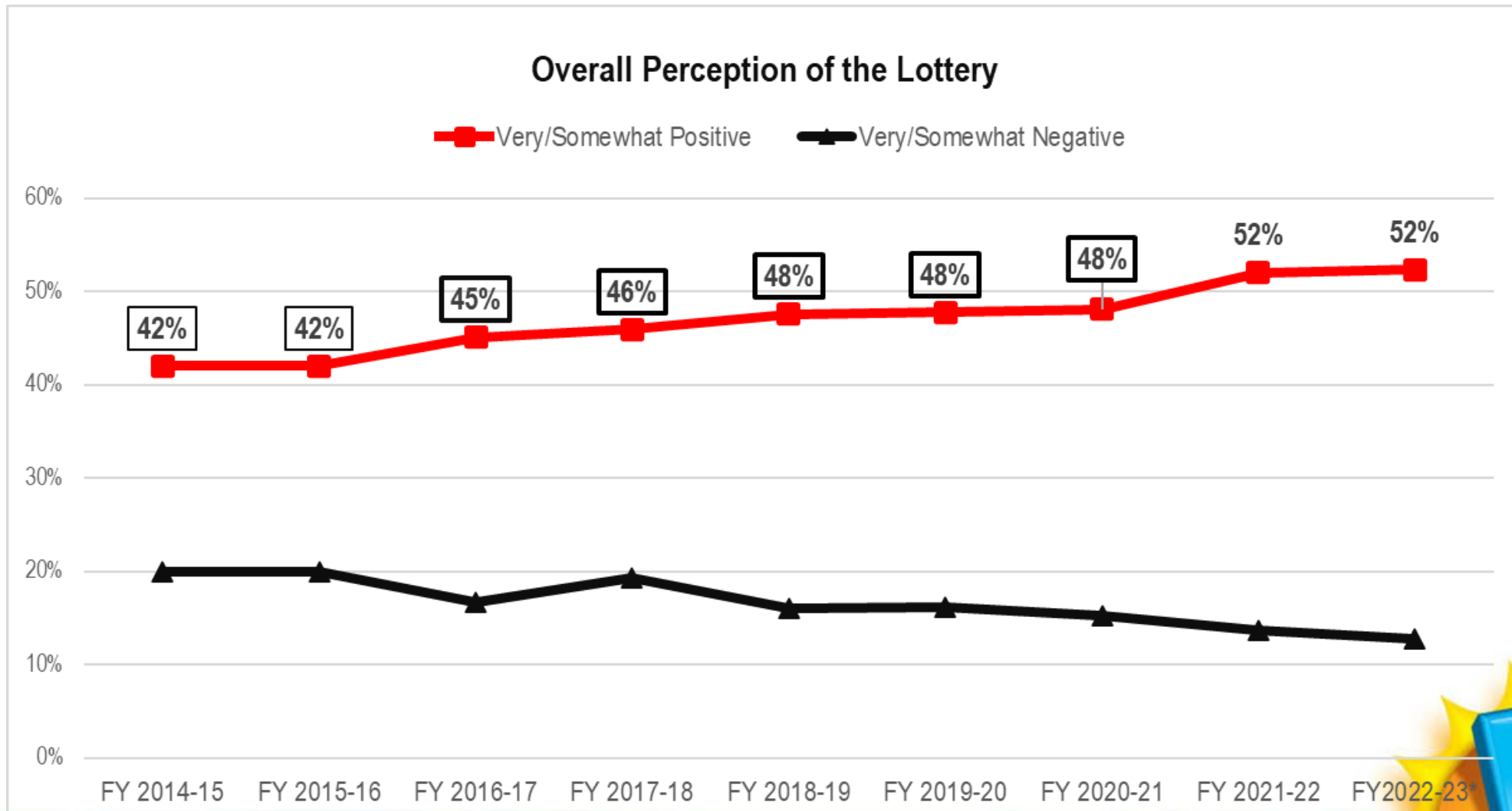
Lottery playership grew significantly this year



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Overall Perception has improved over the past few years



Source: CA Lottery Communications Effectiveness Tracking Study, various years

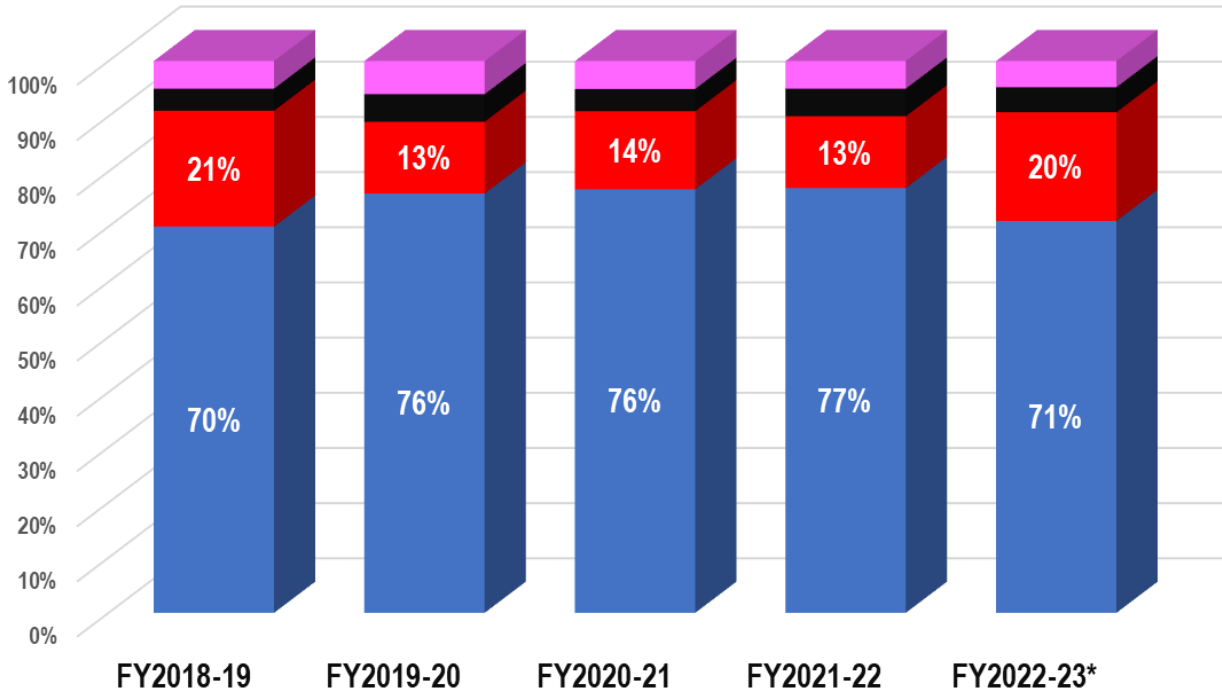
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Jackpot Games provide a higher share of Education Contribution than their share of sales

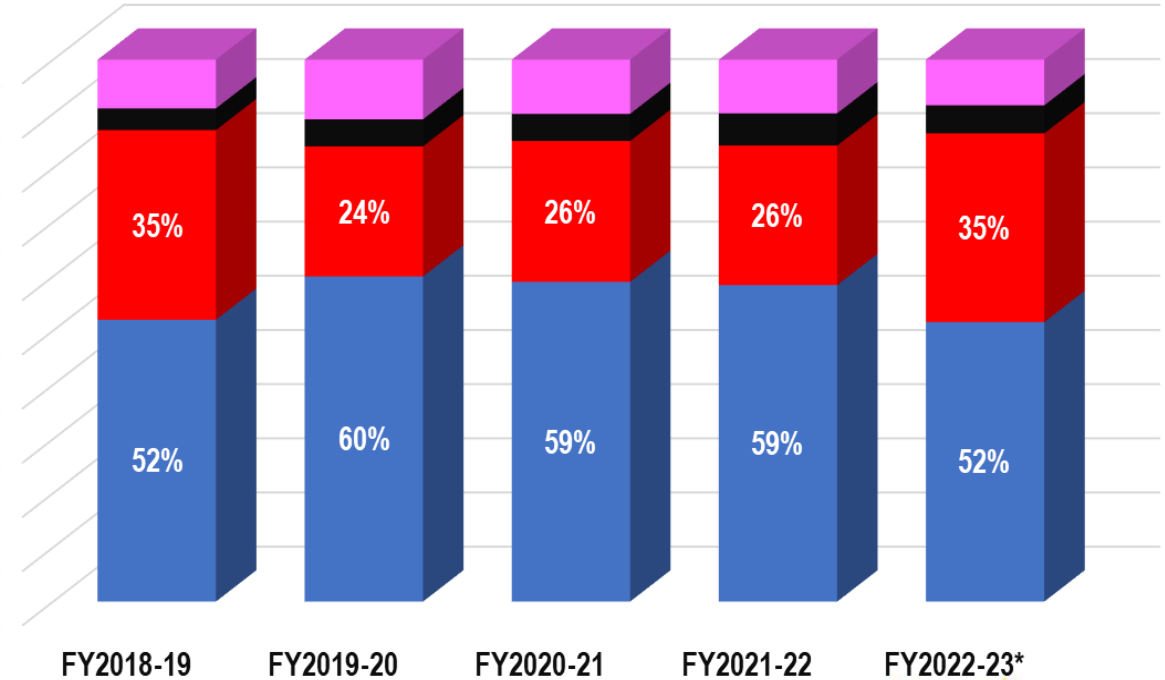
Share of Sales by Product Category by Fiscal Year

■ Scratchers ■ Jackpot Games ■ Hot Spot ■ Daily Games



Estimated Share of Contribution to Education by Product Category

■ Scratchers ■ Jackpot Games ■ Hot Spot ■ Daily Games

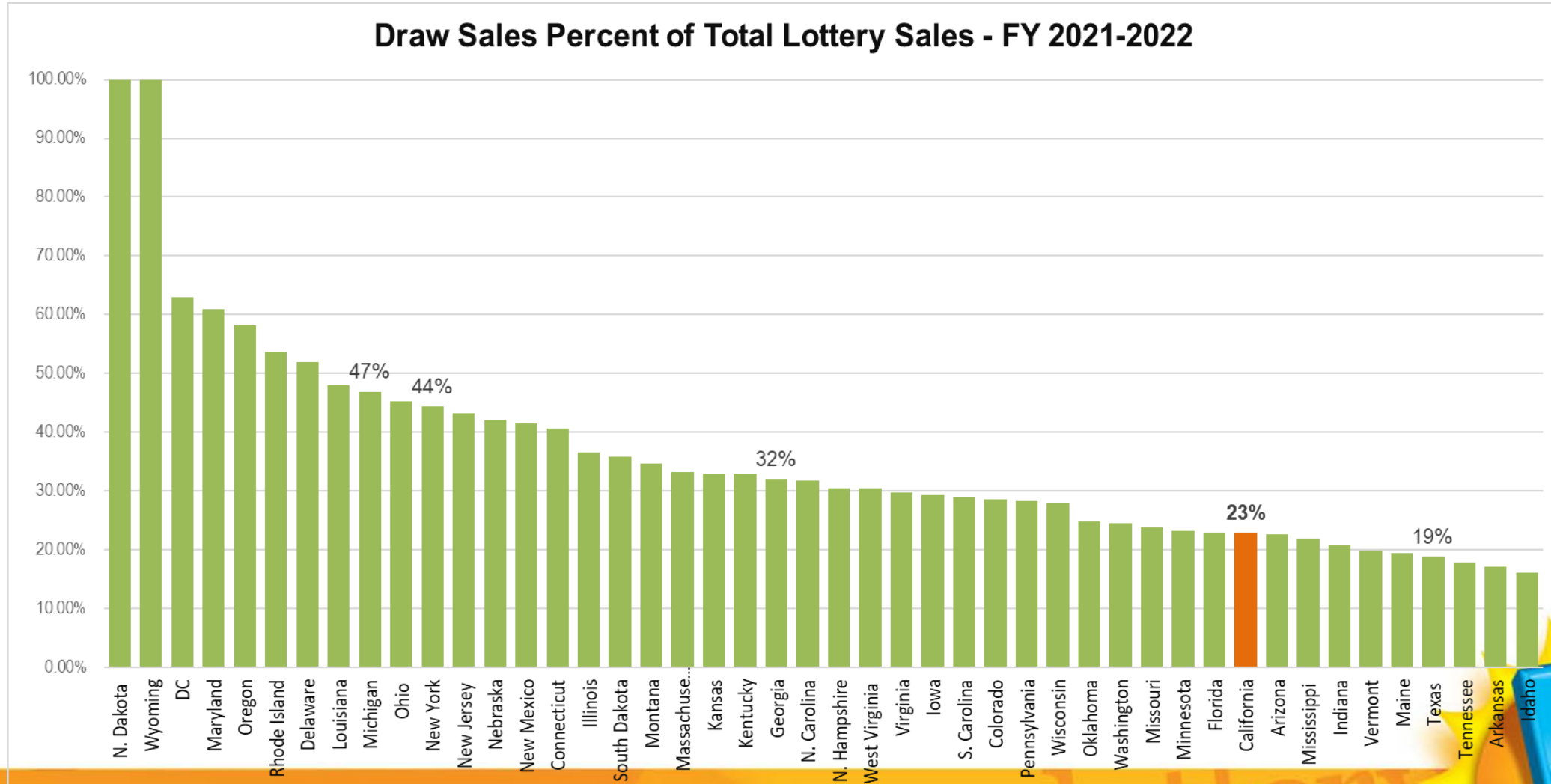


FY 2013-14: Scratchers were 65% of total sales but accounted for an estimated 50% of contributions to education

* Estimated Sales for FY 2022-23

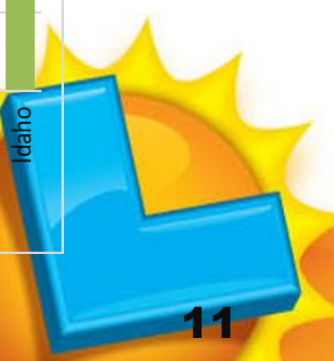


CA has lower share of sales coming from Draw Games than most other states



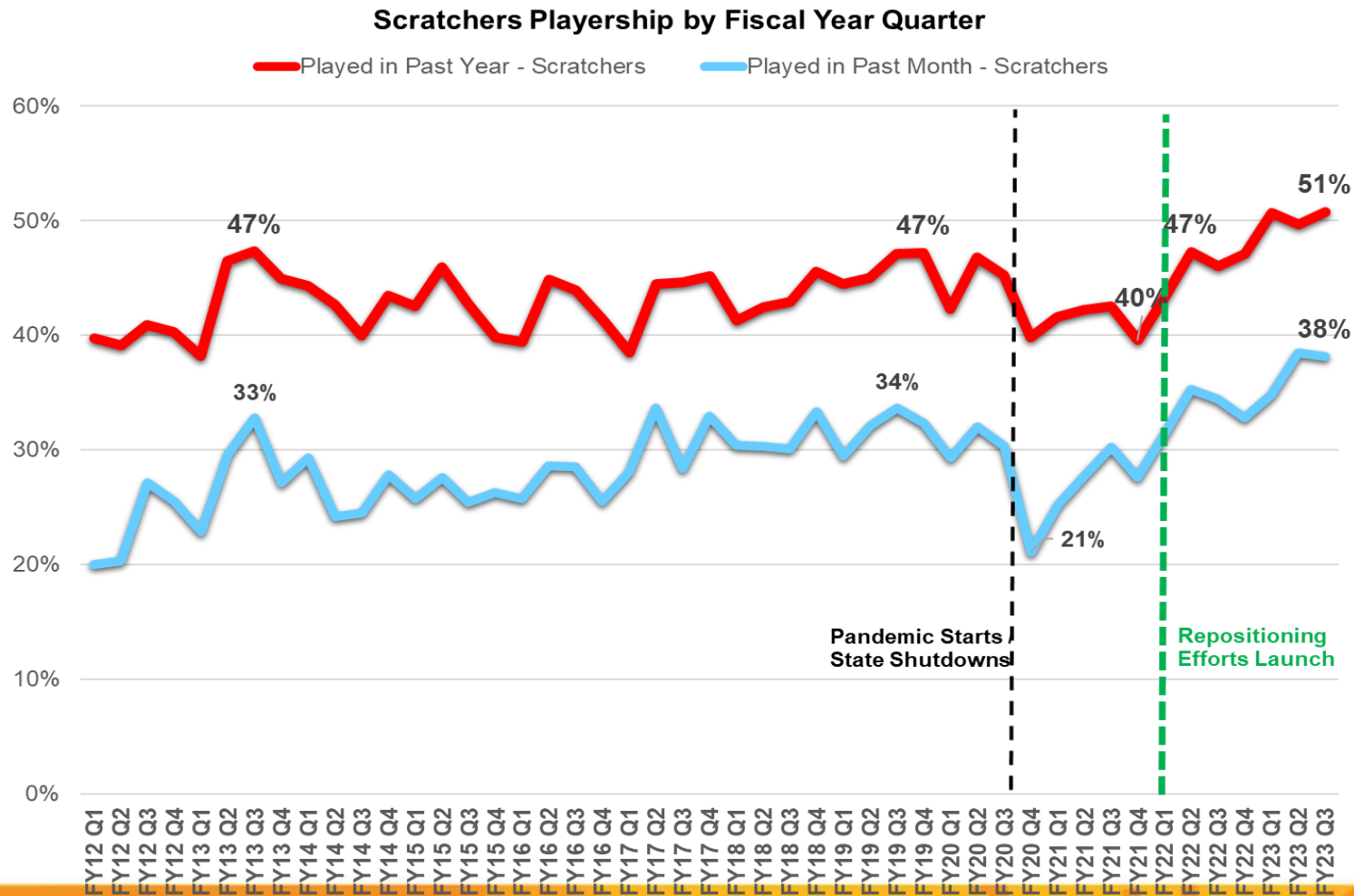
Source: LaFleur's Lottery World FY sales data

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A LITTLE PLAY CAN MAKE YOUR DAY

Scratchers Category Repositioning Effort Helps Grow Playership

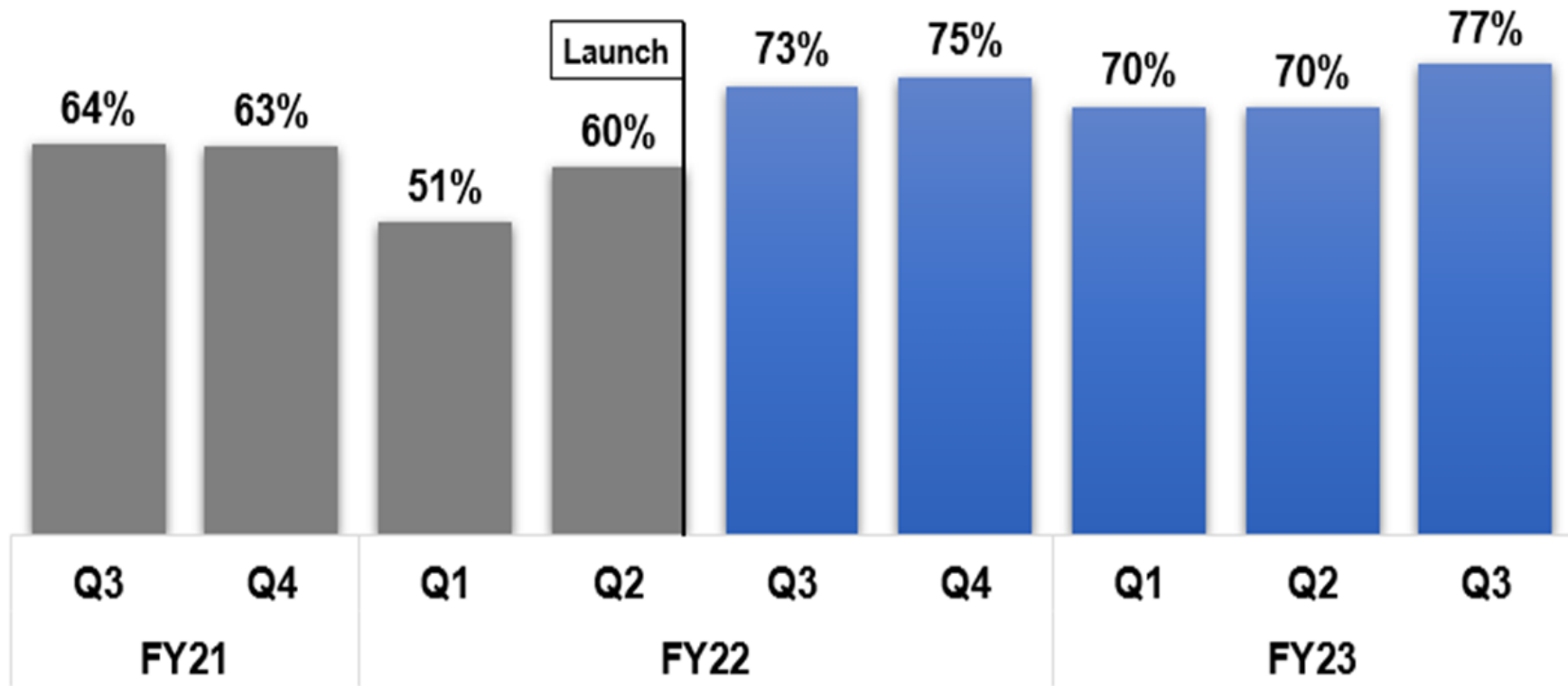


Source: CA Lottery Communications Effectiveness Tracking Study, various years



The Scratchers Repositioning Effort helps keep the product top of mind with consumers

Top-of-Mind Awareness of Scratchers among Casual Players



Source: CA Lottery Communications Effectiveness Tracking Study, various years

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Part of this effort is to offer a mix of Scratchers games that can appeal to Casual Players



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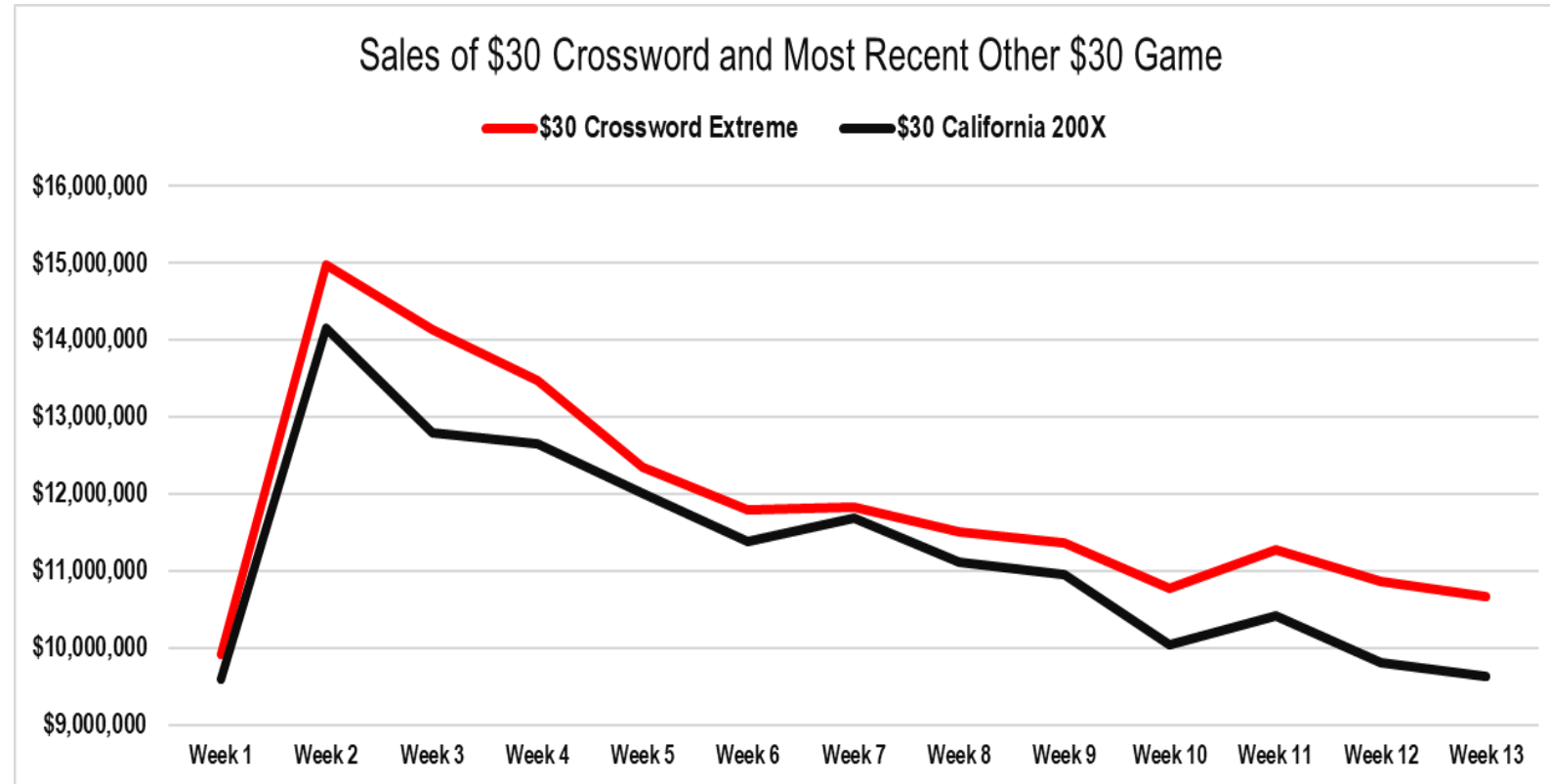
Early Findings about Game Mix

- Just one study from the games launched this past fall
- Preliminary results have some promising insights
 - Perceptions about the Scratchers category being exciting, new, and offering a variety of games to appeal to everyone were strong when these games were prominently in the mix
 - Preliminary evidence showing that seeing these games in the mix generated more positive views of Scratchers
 - Addams Family performed well in sales – approaching the average \$5 game sales (appealed to core and casual players)
 - Pumpkin Spice generated high trial among Casual Players (31% of them had bought this ticket)



Launch of \$30 Crosswords

- \$30 Crosswords launched at end of February with stronger sales than the prior \$30 game when it was introduced in August
- Extended Play games typically stabilize with strong sales week after week. The sales gap between these two games is starting to grow after 3 months



Upgrading Jackpot Signs this Fiscal Year

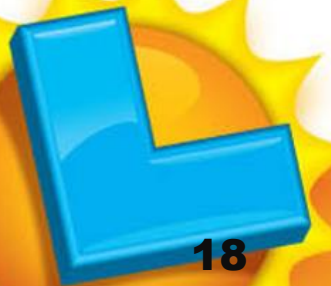


- Jackpot signs inform players to the size of the jackpot and can stimulate a purchase
- The signs also provide a general reminder that this is a Lottery retailer and have been shown to generate an incremental purchases of Scratchers tickets
- FY 20 and FY 21 represented the first two phases of the project and expanded number of locations with signs
- This fiscal year's effort was to upgrade existing locations with the upgraded display
- These new signs have a digital display that can switch between “Million” and “Billion” for MM and PB jackpots



Expansion into Walmart Supercenters

- The Lottery met its goal to have all eligible Walmart Supercenters begin selling before the holiday period – 183 locations!
 - Requires floor plan reviewed, electrical outlets at site of self-service machine, equipment installation, and training of store personnel
- Remaining 26 locations have various store-level issues, so they weren't approved for installation; gearing up for these now
- Sales in the locations are doing well and ahead of expectations



GT-28 Self-Service Machines

- 1,365 units installed thru mid-May
- Remaining 135 scheduled before June 30th
- Typically, replaces a unit with just 24 facings of Scratchers
- Analysis in progress to determine the incremental sales and profit with these new units



Offering a Better Customer Experience: Paying Claims at the District Office to give a check on the spot

- Data from March/April 2022 with Sacramento, Fresno, and San Diego District Offices offering the program: 4,208 prizes paid
- Data from March/April 2023 with 6 offices in the program: 10,745 prizes paid
 - Rancho Cucamonga, Costa Mesa, and Santa Fe Springs DO's along with Sacramento, Fresno, and San Diego offer this customer convenience
- That's about two and one-half times the number of checks being issued to happy winners from a year ago (an increase of 155%) with the expansion of the program

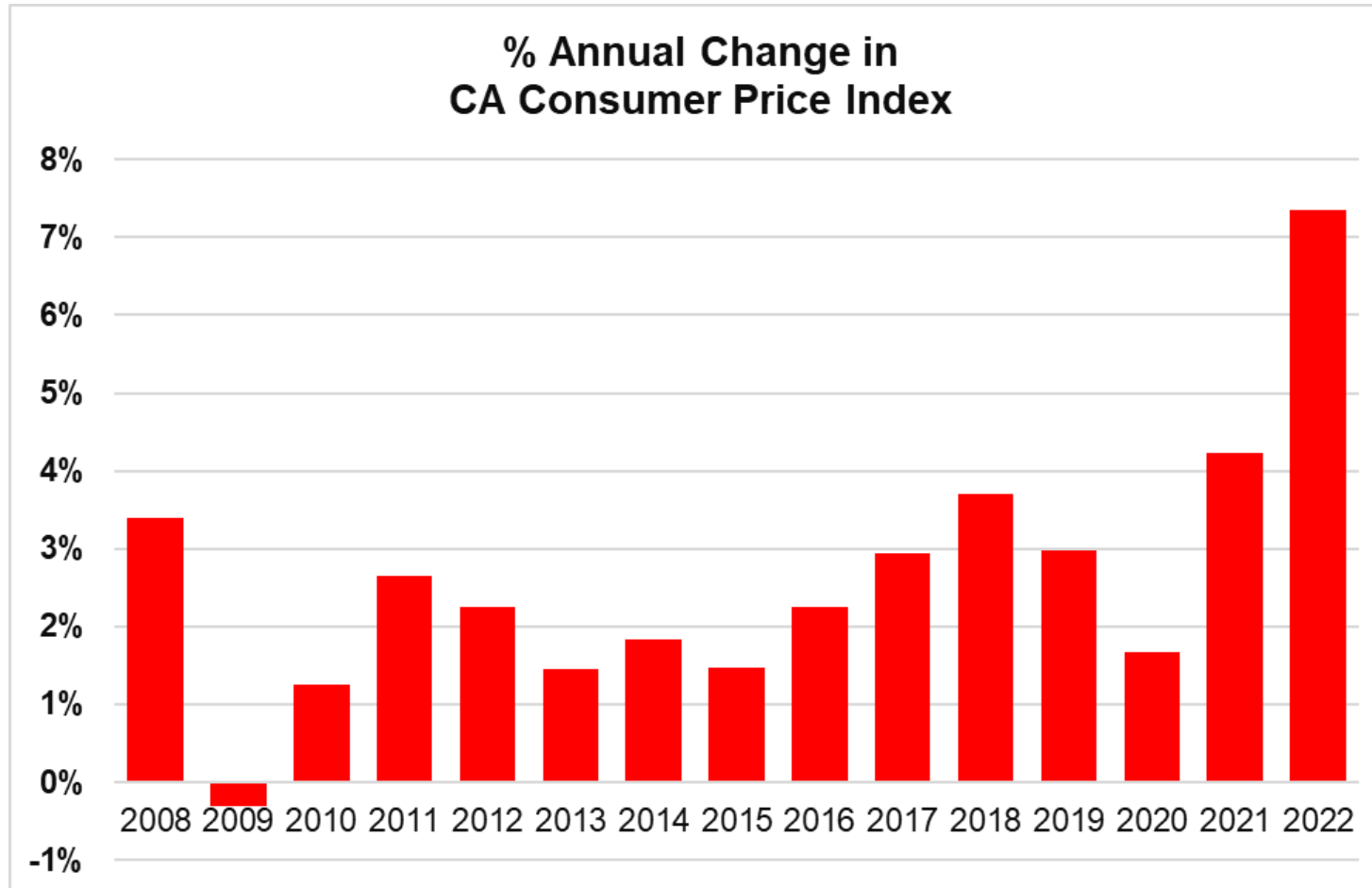
Other Insights helping to shape the Lottery's future

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Setting Goals Complicated by Inflation;

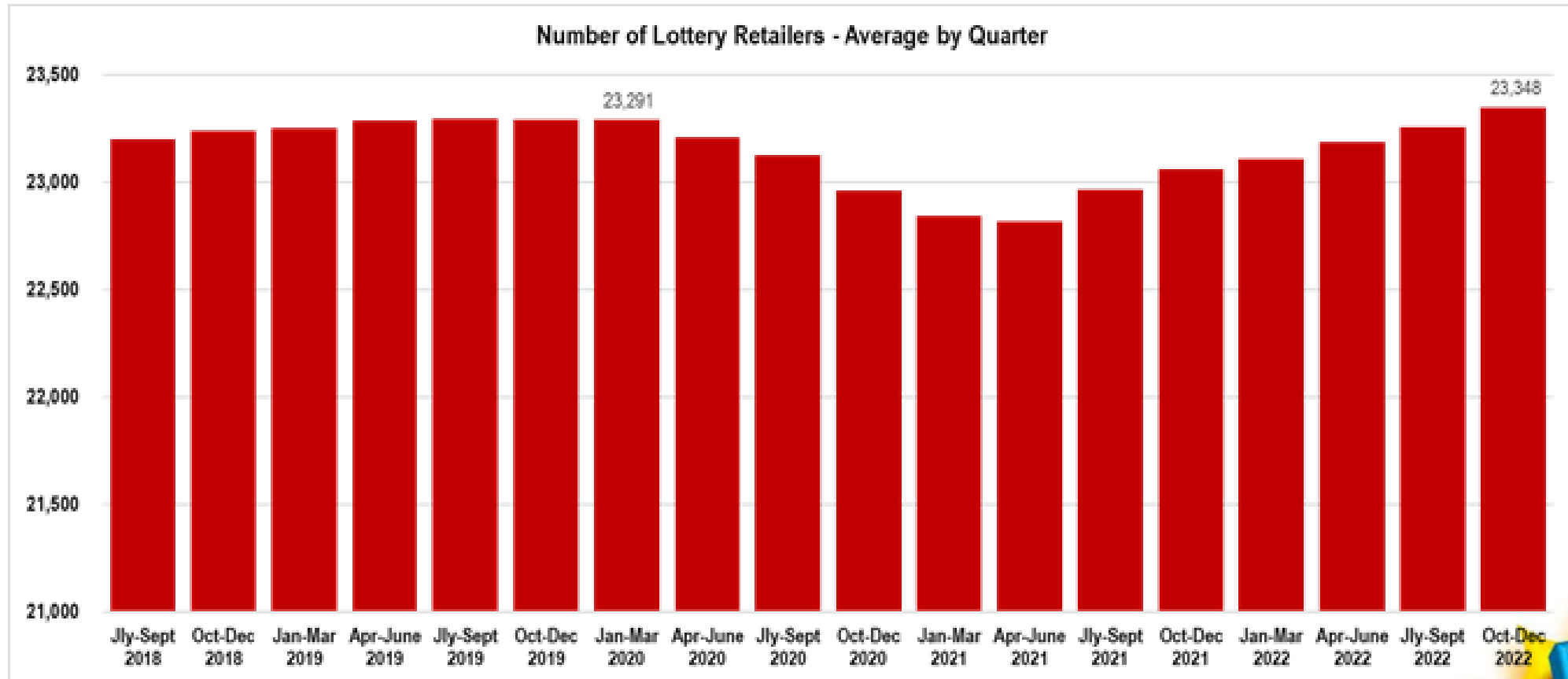
Lottery hasn't faced this consumer challenge since higher points introduced



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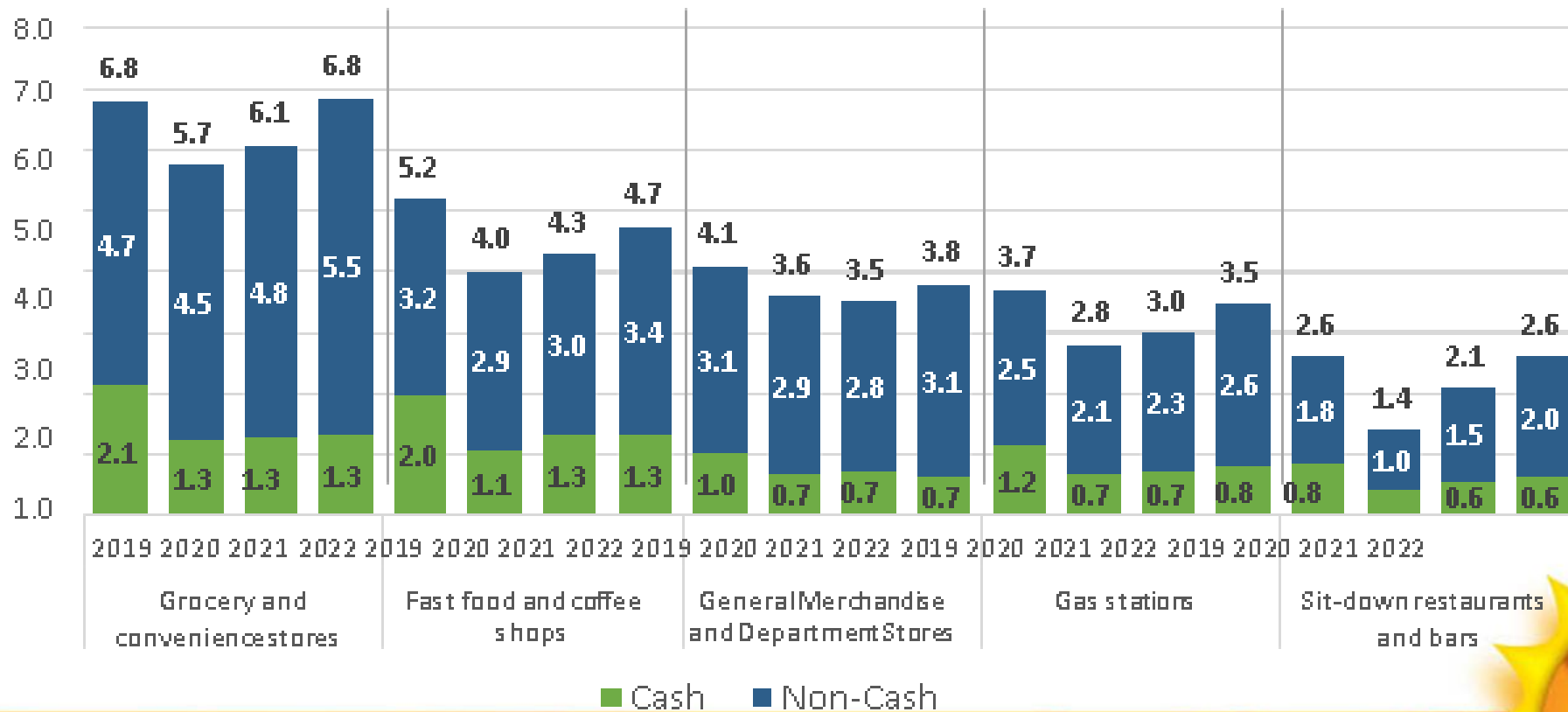
Size of Lottery Retail Network Now Exceeds Pre-Pandemic Levels



Retail Purchase Transactions Grew in 2021 and 2022

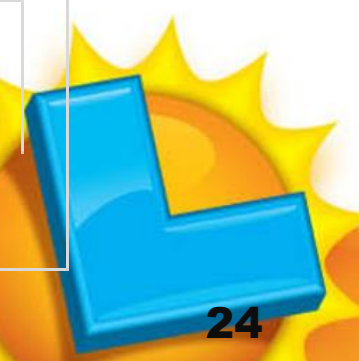
However, use of cash generally flat

Figure 5: Average number of monthly cash and non-cash payments by merchant type



Source: 2023 Diary of Consumer Payment Choice, U. S. Federal Reserve:
(based in diaries completed October 2022)

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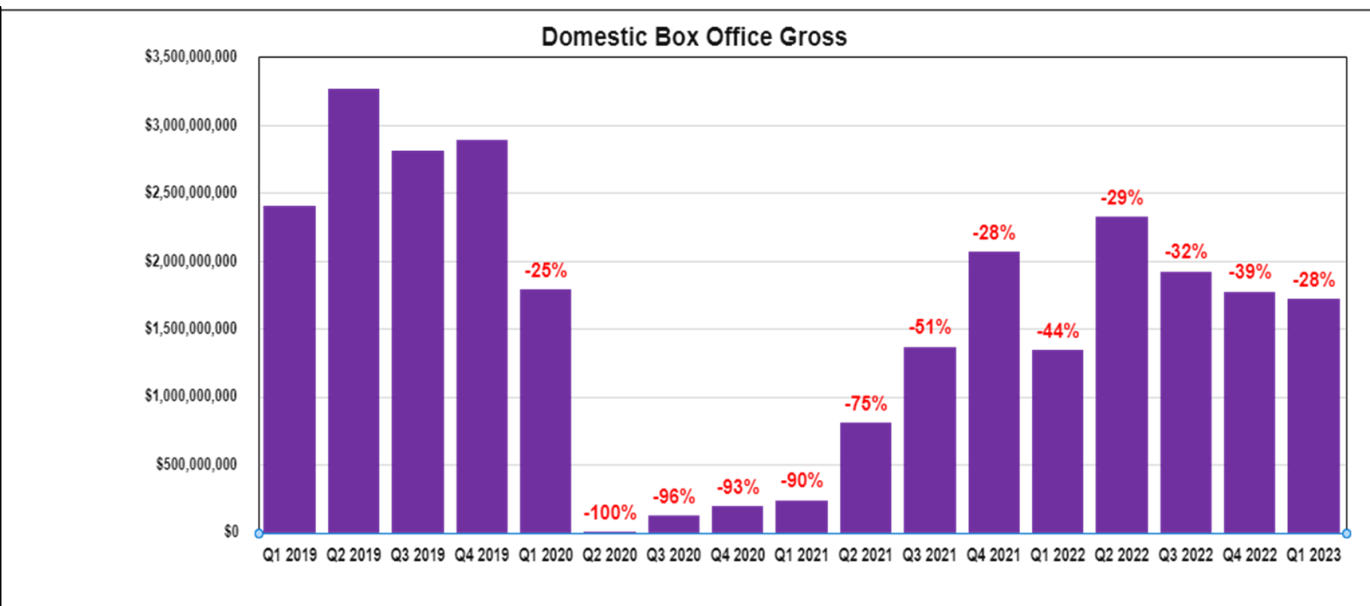
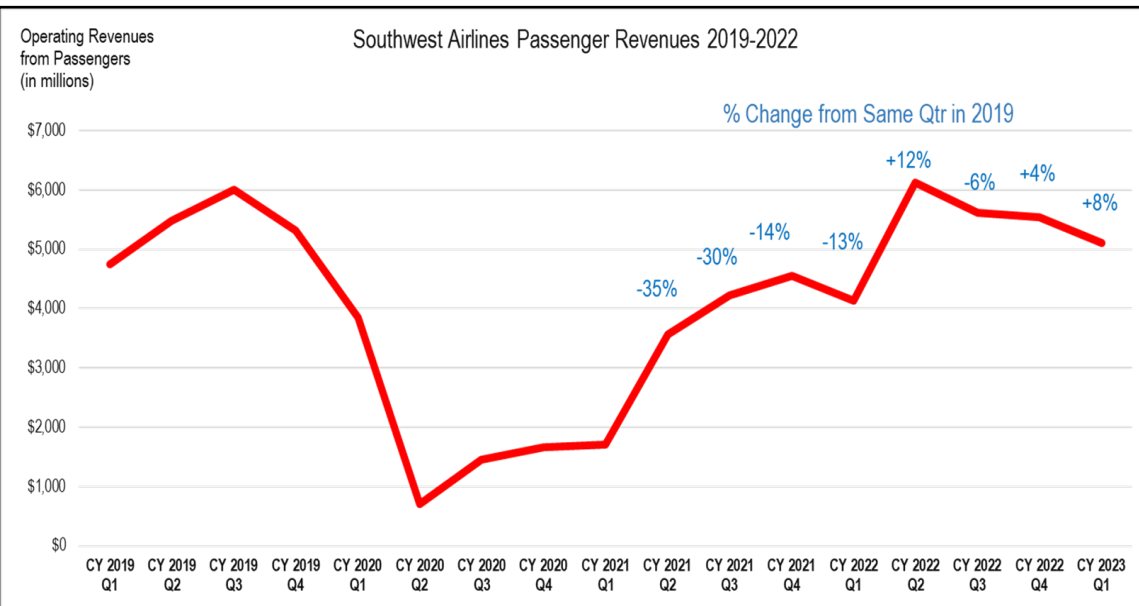
Many large Lotteries seeing Instant Ticket Sales starting to rise again

- CA Year-over-Year declines happened later than in many other jurisdictions
- By end of calendar year 2022, many large states are returning to sales growth in Instant Tickets (Scratchers)

Instant Sales % YOY Gain CY2019Q4 to CY2022Q4										
State	CYQ3 2020	CYQ4 2020	CYQ1 2021	CYQ2 2021	CYQ3 2021	CYQ4 2021	CYQ1 2022	CYQ2 2022	CYQ3 2022	CYQ4 2022
California	31%	13%	36%	31%	12%	14%	8%	-7%	-15%	-3%
Florida	27%	20%	22%	15%	3%	4%	1%	4%	0%	4%
Georgia		7%	24%	12%	-8%	4%	-9%	-12%	1%	-3%
Massachusetts	0%	3%	10%	23%	11%	0%	-7%	-7%	-7%	5%
Michigan	55%	34%	43%	19%	-4%	-1%	-9%	-10%	10%	4%
New York	10%	-3%	21%	30%	5%	5%	-9%	-7%	-6%	1%
North Carolina	30%	18%	25%	18%	3%	13%	1%	-1%	13%	15%
Ohio	36%	21%	34%	9%	4%	9%	-6%	-11%	-4%	1%
Pennsylvania	30%	12%	23%	7%	-7%	-3%	-6%	-10%	-8%	-1%
Texas	31%	19%	23%	19%	8%	12%	1%	-7%	1%	-1%
Median	26%	16%	29%	10%	4%	5%	-9%	-11%	-5%	-1%



Trends in Other Industries

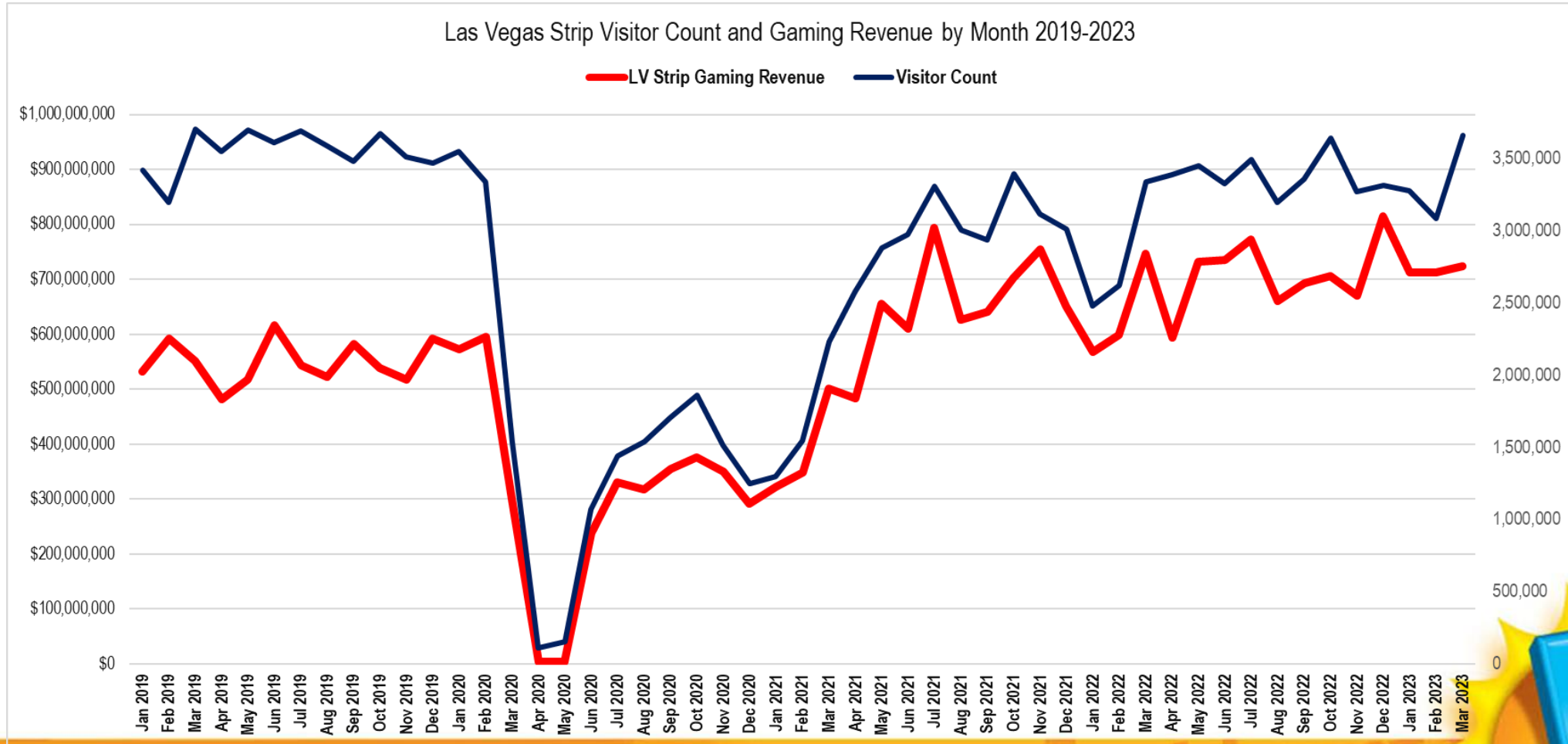


- Airline industry has returned to pre-pandemic levels based on passenger revenue
- However, movie theatre box office revenue is still 20-30% below pre-pandemic levels



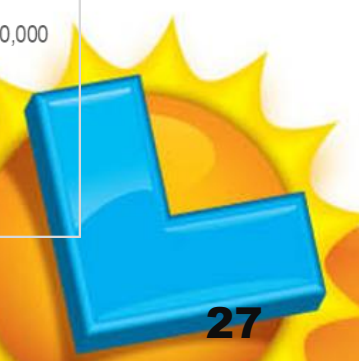
Sources: Southwest Airlines Condensed Consolidated Statement of Income from their website and Box Office Mojo by IMDb Pro

Las Vegas Visitor Count almost at Pre-Pandemic levels; Gaming Revenue about 20%-30% above Pre-Pandemic levels but starting to come down



Source: Las Vegas Convention and Visitors Authority website

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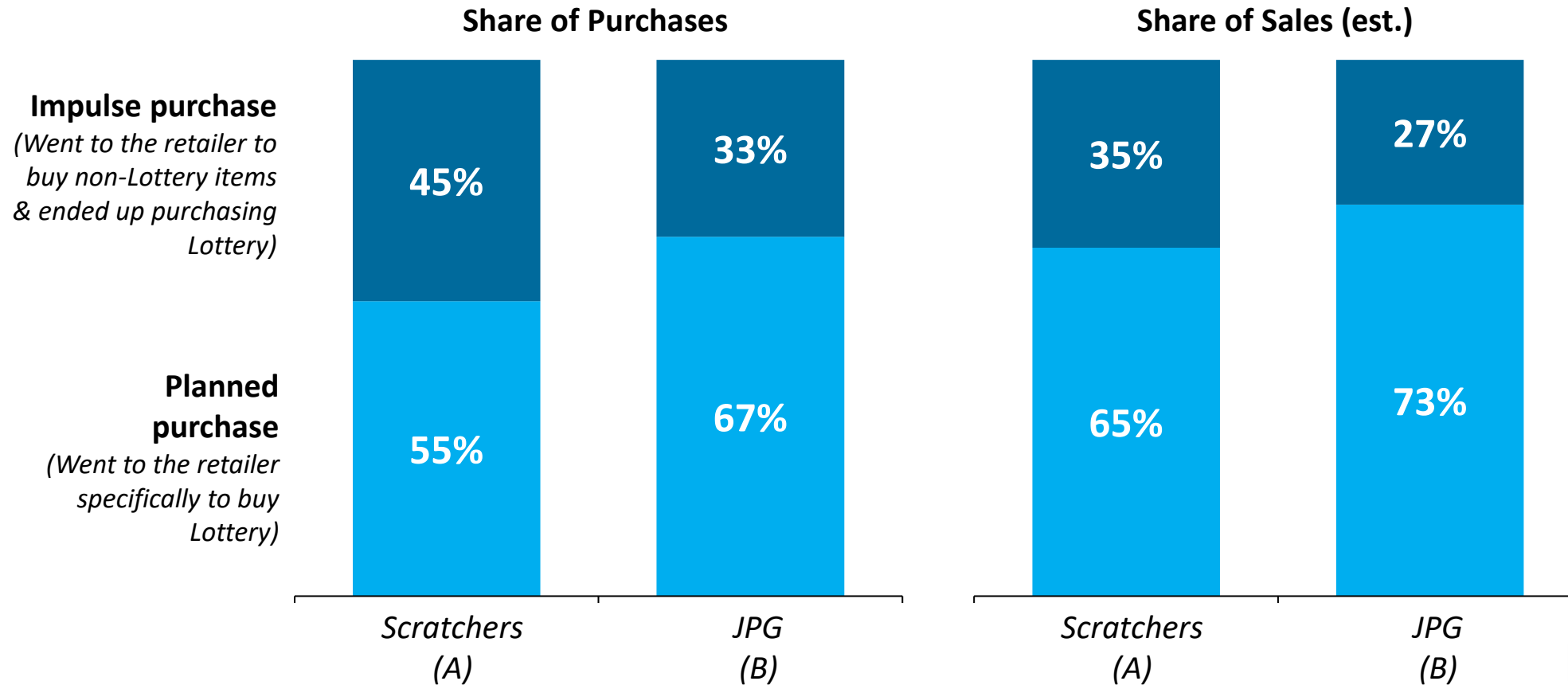
Shopper Insights based on recent purchase of Lottery tickets

- A study conducted during FY 2021-22 with over 1,400 interviews among all player segments. Questions were about their most recent purchase of lottery tickets. To qualify, people must have purchased a ticket within the past month.
- Insights into their purchase decision, about Lottery retailers, factors that triggered an unplanned purchase, and differences by type of retail establishment



A majority of Lottery Tickets are “planned purchases”

Scratchers more likely to be bought on impulse than Jackpot Games



Source: 2021 Shopper Insight Study (KS&R)

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Other Insights of Planned and Unplanned Lottery Purchases

- Core players, for both products, are more likely to have made a planned purchase
- Purchases in liquor stores have an even higher percentage being planned (65% for Scratchers and 74% for Jackpot Games)
- On the hand, drug stores and supermarkets generate significantly more unplanned purchases (up to 64% for Scratchers)
- The primary drivers for unplanned purchases are seeing tickets, lottery signage, jackpot signs, or a vending machine



Additional Insights into Retail Channels and Lottery Purchases

- Convenience stores and gas stations were cited as the place where tickets were purchased most often
- On the other hand, over 40% of players rarely or never buy lottery tickets in a supermarket with the key barriers cited being “they don’t think about lottery while in the store” and “wanting to get in and out when shopping there”
- Nearly 30% of players rarely or never buy tickets at a liquor store with the key barrier being “they don’t shop at that type of store often”



Casual Players

- To grow Lottery sales and contributions responsibly, efforts have focused on getting Casual players to participate a little more frequently – particularly for Scratchers
- Barriers to Play Scratchers among Casual Players include:
 - The purchase process including the need to have cash on hand
 - The perception that it's only about winning money and guilt about playing
 - Building more trust in the Lottery organization including the funds raised go where they should and are being put to good use
- The large number of planned purchases may be tied to the need to have cash to buy Lottery tickets



Strategic Objectives for FY 2023-24 and Beyond

Drivers for Future Lottery Growth

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Product Issue #1

- Expand Opportunities for Casual Lottery Players by Removing Barriers to Play
 - This is primarily for Scratchers
 - Increase unplanned purchases triggered at retail
 - Also tied to the retail issues discussed in a subsequent slide
 - Continue Scratchers Category Repositioning Effort that includes offering a broad mix of games



Product Issue #2

- Grow Draw Game Sales particularly in Jackpot Games and Hot Spot
 - Higher profit margins in Draw Games deliver more dollars to public education; creates a balance for Optimal Prize Payout
 - Player spending on these games across all segments are much lower than for Scratchers
 - Industry analysis shows growth opportunities



Retail Issue

- Explore new ways to expand and utilize the Lottery's strong retail network
 - More than just increasing the number of retailers selling Lottery
 - Expand types of tradechannels where tickets are sold
 - Increase the visibility and presence of Lottery in many existing locations
 - Explore additional business models and ways to sell tickets



Continue to Improve Knowledge and Perceptions about the Lottery

- This is a key part of a multi-prong effort to continue enhancing the perceptions of the Lottery among players and the general public (non-players)
- This strategy also involves efforts towards our various stakeholders



Next Steps

- Determine which of the various tactics proposed for next year and beyond will be included in the FY 2023-24 Business Plan to achieve these objectives
 - Based on budget dollars and availability of staff resources to execute the initiative

