COVID-19 AND THE LOTTERY INDUSTRY

FROM LOTTERIES TO VENDORS, PANDEMIC PROVIDES CHALLENGES, OPPORTUNITIES

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INTRODUCTION

As the lottery representatives who attended the PGRI Lottery Expo in Miami parted ways in early March, no one could have imagined it would their last in-person meeting for many, many months. By mid-March, many of us had retreated to the safety of our homes; handshakes and hugs were replaced with Zoom meetings.

With the nationwide spread of COVID-19 and the ongoing stay-at-home/safe-at-home orders given by many Governors, life was turned upside down across the country. The fortunate amongst us were only dealing with barking dogs during video conferences. So many others have been either battling the COVID-19 virus themselves or worrying about friends and loved ones.

For those in the lottery industry, the concerns were multi-layered and the impacts were both small and large:

■ How would employees deal with working from home, many for the first time in their careers?

■ Do daily drawings continue with staff operating ball machines?

■ Is it safe to allow lottery retailers to continue to sell lottery products?

■ How will the vendor-lottery relationship change with few or no in-person visits?

■ What will be the revenue expectations for the new fiscal year and beyond?

The passage of time will provide context to all these issues. While many lotteries saw little revenue impact (and many, in fact, have enjoyed sales boosts as the lottery provided the only available source of entertainment), others were hit hard and the pain will continue. Some lotteries had to make the difficult decision to lay off employees.

As the lottery industry slowly returns to normalcy, it's helpful to look back over the past few months, review what has taken place in the industry, and discuss where the events surrounding the COVID-19 pandemic have left us.

In this special section, we will take a look at how the sudden shift in lottery sales due to pandemic-related stay-at-home orders has renewed the push for iLottery in many states. We will examine how some of the lottery industry's most important retail locations, deemed as "essential businesses," are working to streamline and speed-up lottery purchases. And we'll look at how lotteries have used social media and other online communications tools to stay in touch with critical constituencies.

Is iLottery the Key for States Needing to Fill Budget Shortfalls?

In 2014, the Michigan Lottery became the envy of the lottery industry when it launched its iLottery e-instant platform. Lotteries watched, inquired and strategized about how they could add a similar platform in their states. Since then, other states have come on board, offering either eScratch tickets or single day draw game sales - Georgia, Kentucky, Pennsylvania, New Hampshire, Illinois, North Carolina and North Dakota. On July 1, Virginia launched eScratch and single ticket/same-day draw game sales.

But what happens now? Will states continue to slow-walk iLottery, even as they fast-track the process of licensing sports-betting operators? Will lotteries be handcuffed as they look to modernize their operations, broaden their customer base and increase revenues? Or now, after months of varying degrees of "stay-at-home" orders to help stop the spread of coronavirus, have we arrived at the tipping point where states realize that retail habits were already changing such that lotteries must offer alternative purchase options that no longer require an in-person retail experience?

As state budget chiefs and lottery directors have nervously monitored there week-over-week sales, there is one critical point – iLottery sales, where available, never faltered. In fact, they skyrocketed in most metrics, including new customer sign-ups and overall sales.

Will it take ongoing sales challenges, profit goal stresses, and continuing revenue gaps across state budgets to finally push more states to expand lottery offerings? If you consider where many states find themselves as the country steps forward and back with economic re-opening, this certainly looks like the final straw:

- New York state is forecasting a $15 billion revenue decline across the state

- West Virginia has been losing $9 million/week from its closed casinos alone

- New Jersey, Pennsylvania and Ohio announced limited spending and hiring freezes

- Virtually unheard of in the past, a number of states laid off workers, including from the ranks of lottery employees, including 60 at the Oregon Lottery alone (13% of the lotteries workforce)

In a radio interview in April, NY Governor said that the state might have to cut education funding to address the state's budget shortfalls.

"I said kiddingly to a legislator, 'This is the easiest budget we've done. There's no option. The number is zero," Cuomo said. "We have no money."

When we look at iLottery during these difficult times, we might just be seeing the future of the lottery put on hyper-speed.

GEORGIA, KENTUCKY iLOTTERY SALES SOAR; RHODE ISLAND LAUNCHES FULL iLOTTERY

For both the Georgia Lottery Corporation and Kentucky Lottery, the stay-at-home orders associated with the COVID-19 outbreak has been a further opportunity to leverage their digital offerings. Both lotteries enjoyed an excellent year for digital sales in 2019 but by mid-May 2020, respectively were performing year-to-date +62% and +57% in digital sales vs. the prior fiscal year. This growth had accelerated through the end of 2019, when both lotteries invested more on digital advertising and focused on player acquisition.

Both Georgia and Kentucky lotteries excel with draw-based-game digital offerings, particularly Keno, for which the digital channel represents 23% of total sales in Georgia and 15% of total sales in Kentucky. Offering the same Keno game at retail and digitally, rather than having a Keno-style e-Instant game at a significantly higher payout, allows those lotteries to benefit from the higher profit margin with a prize payout of 65%, and to promote more cross-selling opportunities between core players. Given all that has happened since the start of the COVID-19 pandemic, with many people not leaving their homes, the long-term strategic planning of both lotteries and their well-timed choice to focus more on the digital channel at the beginning of 2020 resulted in positive momentum and a strong first half of 2020.

Just prior to the COVID-19 outbreak, IGT implemented plans to upgrade the Georgia Lottery's digital platform and increase the marketing support the company provides to the lottery. The results of that work played out March-May, as digital sales accelerated significantly. In the early weeks of May, sales are at +155% in traditional draw-based games, +115% in digital Keno and +330% in e-Instant compared to the same time period in 2019.

apps in the U.S. and most recently installed its latest advancements in player functionality for the Missouri Lottery. Alongside wagering features, players can use the app to create play slips for retail purchases, store their favorites numbers and identify themselves as player's club members. The app is fully compliant with new Apple requirements regarding user experience and native content for HTML5 games. Players have welcomed the new app, and it is number one among US iLottery mo-
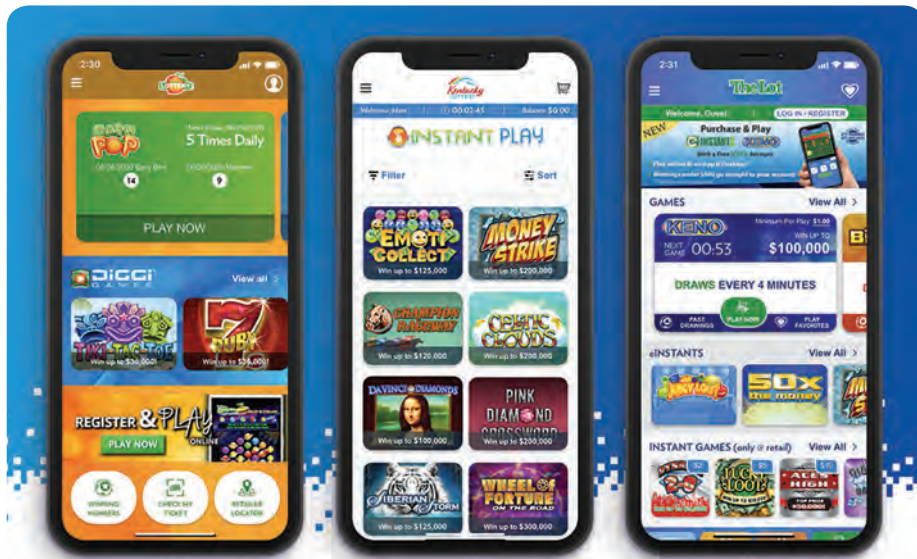
ity in just five months," he said. "This is the leading lottery app solution in the market and the first to comply with Apple Guideline 4.7. We worked closely with the RI Lottery team to develop and launch an iLottery solution that provides a modern playing experience for RI Lottery players. It gives players the choice and convenience to now play Keno and e-instant games from their mobile devices, consistent with how they engage with other forms of entertainment and media as well as purchase goods and services today."

Built on the PlayCommand platform that also supports sports betting in the state, the IGT PlayDigital solution integrates the retail and digital lottery experiences together with a host of tools from purchase to play, and it can all be done in a few touches on the mobile app.

Drago added, "Rhode Island players now have the added convenience of playing the lottery from their homes and personal devices. In collaboration with the Lottery, our expert marketing team has created promotions and loyalty campaigns to attract and retain players that will ensure a successful player engagement strategy to drive revenues for the RI Lottery."

All three Lotteries are powered by the IGT PlayCommand platform and sophisticated player account management system, which enables lotteries to control all administrative functions such as payments, player accounting, marketing campaign management, CRM and responsible gaming controls for players. The team of digital marketing experts help the lotteries improve results by using the powerful reporting tools available to analyze data that is turned into actionable insights that drive the day to day digital business strategy.

IGT's iLottery mobile offerings for the GA Lottery, KY Lottery and RI Lottery

"It's exciting to see our team's efforts making a difference in Georgia. From the new games that have been developed for the market to the engaging promotions and loyalty campaigns our expert marketing team has rolled out, it's rewarding that it has resulted in a positive outcome for our customer," said Enrico Drago, SVP, IGT PlayDigital.

Similarly, the Kentucky Lottery had improved its focus on iLottery and had started launching new IGT e-instant games that offer increased value to players through higher prize payouts. Sales have improved significantly, from +37% in total year-to-date digital sales in mid-March to +57% by the end of May 2020 (comprised of +60% in digital draw-based game sales and +260% in e-Instants).

In early May, the Kentucky Lottery launched a new mobile wagering app built by IGT that delivers a completely redesigned customer experience. IGT has delivered 10 mobile lottery

bile applications based on app store reviews.

Marty Gibbs, interim President and CEO of the Kentucky Lottery, said, "We are delighted to have launched our new mobile app. We expect the expanded functionality and appearance to help us continue to bring value, convenience and the best entertainment to our players."

In late April, the Rhode Island Lottery launched a new mobile experience that enables players to register and play Keno along with a catalog of exciting e-instant games. Players can register for free, create a digital wallet and have winnings under $600 automatically transferred into their accounts. This enables the lottery to reach a broader range of players and offer a convenient way to play.

As SVP of IGT PlayDigital, Enrico Drago leads the team responsible for creating and delivering the PlayLottery suite. "Our team set another record in delivering this functional-

"There is nothing more satisfying for the IGT PlayDigital team than to help our customers achieve greater results for good causes through the addition of new products and services," explained Enrico Drago. "Bringing modernized playing experiences and solutions to market during this time has further amplified the importance of a digital channel as a growth strategy for lotteries. We are committed to partnering with more and more of our customers to introduce and responsibly grow the digital business over time in order to drive new revenue growth."

PENNSYLVANIA ENJOYS AN ONLINE BOOST

While the Pennsylvania Lottery just launched its iLottery platform in May 2018, it has been an eventful two years – two RFPs for operators (as mandated by the Commonwealth's legislation) and more than $1 billion in revenue. The Lottery has offered internet instant games from the start, and has added draw games to its online lineup, including Mega Millions and Powerball, which have been available on that platform since January 2020.

It has been a busy, eventful two years for the PA Lottery.

Add in the past few months, when at one point about 30 percent of the PA Lottery's roughly 9,800 retailers closed because of COVID-19, PA Lottery executives were certainly happy to have iLottery available to players.

"During this unprecedented time, we have

The PA Lottery's iLottery platform is available on most devices

support the Pennsylvania Lottery's iLottery program, with effective use of powerful CRM tools and bonusing programs that engage and retain players. The growth of the iLottery program in Pennsylvania since the program launched continues to surpass expectations. Based on total wagers, the $1 billion milestone reached just prior to its two-year anniversary makes Pennsylvania the most commercially successful iLottery launch in North America to date.

During its first full fiscal year of iLottery, Pennsylvania traditional lottery sales grew 7.2% over the prior fiscal year and Scratch-Offs alone grew 5.9%. But the month of April is where the Lottery truly saw the potential of this technology start to ramp up. iLottery play was up 35% compared with March, with $89.2 million in topline play and $11.4 million in gross gaming revenue (play minus prizes and promotions/bonuses). The number of first-time players in April was also up 45% over March, with nearly 15,000 new online players.

been seeing incredible growth in PA Lottery online play," said Pennsylvania Lottery Deputy Executive Director of Marketing and Products Stephanie Weyant. "We are setting new records for play and first-time depositors, and breaking them just a quickly."

Weyant added, "While we are happy to see a growth in our online play, a majority of our sales still come from our traditional games. Furthermore, the increase in online sales is not enough to offset the sales the Lottery has lost on the traditional side of the business since Mid-March. Just to put it in perspective, an estimated 70 percent of our business comes from our Scratch-Off sales. So, it's our traditional products that remain the foundation of our business."

Behind the scenes, there are cross-functional teams of lottery, systems, marketing and digital experts at Scientific Games working together to

With stay-at-home orders still in place in PA for most of May, that month then broke new records. Online play in May was up 7 percent compared to April with over $95 million in topline online play and $12 million in gross gaming revenue. May was also a record month for deposits, with over 44,000 depositors.

Powerball and Mega Millions sales online, which are reported separately, are making up about six percent of overall Powerball and Mega Millions weekly sales, as compared to about two percent in previous months.

These numbers can be largely credited to the management of the entire game portfolio, delivery of exciting iLottery content to the market, and tools to enable retailer support, while continuing with the strategic management of all traditional lottery products sold at brick-and-mortar retailers.

Scientific Games offers a variety of games to PA Lottery iLottery players

Amy Bergette, Vice President, Digital Content Studio at Scientific Games which operates the PA Lottery iLottery program, said, "The past few months have seen a big uptick in online/mobile playership, but it has actually been an incredibly busy two years for all of us. iLottery brings game entertainment directly to a player's computer or mobile device, so the ability to offer digital play has allowed the Lottery to maintain a level of sales continuity during the global COVID-19 crisis and provide vital funding for programs benefitting older Pennsylvanians."

Bergette explained, "Our iLottery platform is built to handle an enormous volume of activity so we are equipped for the level of engagement we have seen in Pennsylvania. It also provides the flexibility to integrate powerful tools to enable important affiliate programs that incentivize retailers to participate in the iLottery program by signing up new players. Combined with highly effective marketing campaigns that leverage today's best practices for player retention and engagement, this ensures continued growth for the program."

NPi's CUSTOMERS SEE HIGH ACTIVITY LEVEL

Powering the most profitable iLottery programs in the industry in terms of per capita return to state, NeoPollard Interactive ("NeoPollard" or "NPi") has certainly seen an array of new players of all ages and backgrounds join the ranks of play-from-home customers. While the Michigan Lottery was the first lottery to partner with NeoPollard to

offer full iLottery to it players, the company has since expanded its customer base to include lotteries in Virginia, New Hampshire and North Carolina. Working with a diverse range of lotteries has provided the company with a holistic view of what is happening in the industry.

"There is a pent-up demand for iLottery that has been building among U.S. lotteries for a number of years," said Scott Bowen, SVP of Government Affairs and Business Development for NeoPollard and former Commissioner of the Michigan Lottery. "Considering the continued impact of the COVID-19 pandemic and the economic pressures facing lotteries as a result, the need for iLottery has never been greater. Not only does iLottery give players more options, U.S. lotteries with iLottery have experienced no negative impact on retailers. In fact, the growth of iLottery in Michigan has occurred alongside a 45.5% increase in retail sales since iLottery launched in 2014."

NPi's iLottery programs for the MI and NH Lotteries offer mobile capabilities which expand its accessibility to players
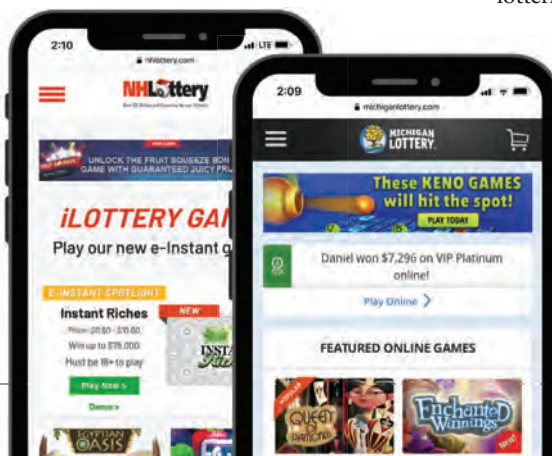
As North America's first $1 billion iLottery operator, the Michigan Lottery has achieved results that show that sustainable growth and performance is available through the iLottery channel. States like New Hampshire, which launched its iLottery program in September 2018, are proving that this model for success can be replicated. Though New Hampshire is a state with a population of only 1.3 million, its per capita iLottery sales in its first year of operations exceeded the standard set by the Michigan Lottery by 75%.

During these past shutdown months, these lotteries have shown the potential of iLottery. Comparing April 2020 to March 2020 performance, both Michigan and New Hampshire Lotteries saw improvement across all major program KPIs. The Michigan Lottery experienced a 40% increase in bets, or growth of $51.7 million. Net Gaming Revenue was similarly improved with an impressive 46% uptick over March. The New Hampshire Lottery's April 2020 results posted 49% higher in terms of bets. This translated to a $580,000 increase in net gaming revenue – the single highest grossing month-over-month change since the New Hampshire Lottery launched in September 2018. Player acquisition has seen highs that have only been outpaced by billion-dollar jackpots, with 105% and 45% increases in first-time depositors in Michigan and New Hampshire, respectively.

Across NPi's customer network, overall performance at the close of May drew significant increases as compared to February, before the impact of shutdown orders. There has been a significant influx of new players – growth, on average, of 227% since February. Similarly, bets grew by over 95% and Net Gaming Revenue saw tremendous improvement, with an average of 120% higher returns.

"The recent and significant impacts of the global COVID-19 pandemic to the way lotteries traditionally operate and market their products has emphasized the need to accelerate digital transformation and diversify how lotteries engage players," said Doug Pollard, Co-CEO, NeoPollard Interactive. "As the industry begins to focus on economic recovery and rebuilding successful retail partnerships, state lotteries and governments will be well-served to advance discussions on

iLottery, which has seen tremendous growth across all major key performance indicators during this period."

While many lotteries have been forced to postpone or cancel game launches, reach new financial settlement terms with their retailers, or even shut down distribution points to protect the health and safety of players, the iLottery channel has continued to flourish with few operational impacts.

One of the most significant performance indicators regarding player adoption of the iLottery channel is through the share of online sales as compared to retail. In North America, online lotteries typically reach 1-3% of their retail sales volumes through draw-based game (DBG) sales online. With its intuitive e-commerce purchase flow, NPi's lottery partners are accustomed to achieving a 10% share of DBG sales through the online channel. In fact, during the COVID-19 shutdown in March, the percentage of online sales compared to retail doubled to nearly 20% of sales.

Doug continued, "As an industry, we've long since understood that the ability to maximize sales through alternate distribution channels, such as iLottery, is a sustainable growth strategy. Channel diversification and the ability to adapt to volatile economic circumstances is vital to protecting future revenues as competition for 'share of mind' and 'share of wallet' encroach upon lottery player bases. While we couldn't have predicted that iLottery would prove to be a solution to softening the revenue impact during a global pandemic, this has been an eye-opening experience, and the time to act is now."

eSCRATCH IS DRIVING GROWTH

As iLottery emerges as a highly successful sales channel, eScratch is the game category that is leading the growth. Lotteries work closely with their system providers and their marketing partners to attract and acquire players. But then it's up to the games to engage. First-time players must be immediately able to find games they love to play. Returning plays must consistently find new games to try. Quickly, lotteries learn that their eScratch portfolio needs to be a systematically evolving mix of game types and play mechanics. A wide variety of visual skins overlaid on just a limited mix of game mechanics is not the same and does not suffice.

A recent game release from IWG

One common thread across all of the US lotteries currently offering eScratch games is Instant Win Gaming (IWG). In fact, IWG supplies eScratch games to every single North American lottery that sells eScratch. As Rhydian Fisher, CEO of IWG, explains, "it is now standard practice for lotteries offering eScratch to contract with an additional eScratch game provider for content to supplement their system provider's games. No single games studio is capable of providing the complete range of content to engage the entire spectrum of players."

Many players will maximize play on a new game when it is released, and this focus will tail off over a 7- to 14-day period. For this reason, best practice, as shown in Michigan, Pennsylvania and others, is to launch one game every two weeks. Players will learn to expect this pattern of launches, so consistency is critical. For selected periods of the year (i.e. the holiday season), introducing games on a weekly basis is a good lever to support peak demand. Further, the release cycle must avoid back-to-back launches of games from the same play category.

"It's common for a game developer to claim to have a large library," explains Fisher. "What is not common is for a developer to frequently invest in new play mechanics. This requires a much high degree of commitment. But regular release of new mechanics is fundamental to driving the eScratch category forward."

WHERE FROM HERE?

The results seen by the Virginia Lottery are indicative of what a new entrant to the online sales arena might see. Virginia has allowed the online purchase of draw game subscriptions since 2005, converting to NPi's platform in 2016. Mega Millions, Powerball and Cash4Life are the games currently offered,

and the online sales of those games have increased more than 400% since Fiscal Year 2017. Last fiscal year sales were up 68% compared to the prior fiscal year, and sales this year are tracking 20% higher.

It will be a new world in Virginia this summer as eInstant tickets are now a part of the Commonwealth's online offerings. Lottery officials are excited about what that will mean for revenue to their good causes.
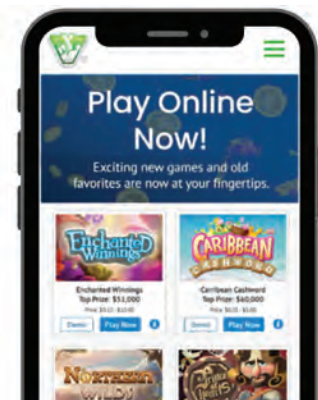
Virginia Lottery customers can now purchase eInstant tickets along with draw games on the new mobile app supplied by NeoPollard.

"When the General Assembly passed the iLottery legislation earlier this year, they obviously had no idea what was about to happen with the pandemic," said Virginia Lottery's Director of Digital Rob Wesley. "But because of their actions, Virginia will be able to offer our players an expanded alternative to in-person retail. They will be able to purchase a variety of lottery products from their homes and anywhere else within the Commonwealth using their computers or mobile devices.

"Lotteries are working hard to adapt to consumer behavior, which includes making purchases on the internet," Rob said. "Our plans have been in motion for many months, and the restrictions around the pandemic simply highlight yet another positive benefit to meeting our players where they already are – online. The current circumstances have led us to accelerate our scheduled launch of iLottery."

Across the country, there are many lotteries which, like Virginia, will look to quickly push iLottery to the top of their "to do" lists. ■