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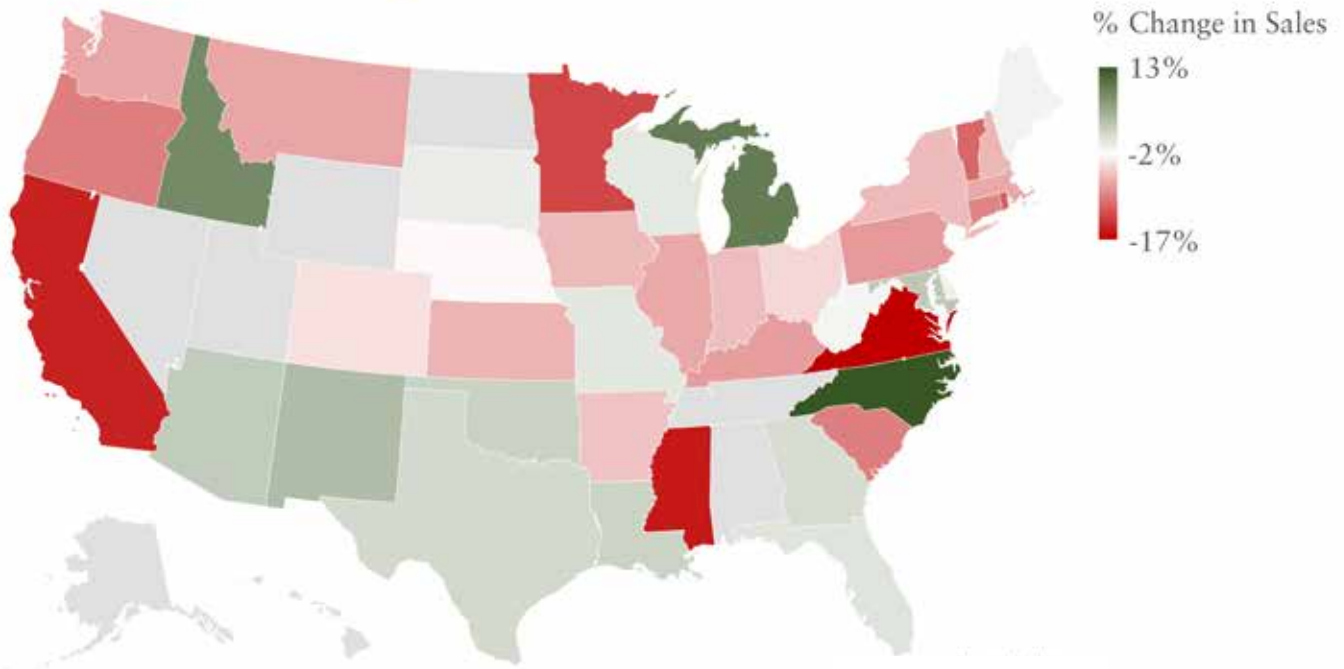



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U.S. Lotteries by YOY Percentage Change in 3Q22 Instant Sales



The Secret Behind NCEL Success

The North Carolina Education Lottery (NCEL) is off to an incredible start to FY23. Their first quarter sales for all products are up 11.73%. Scratch sales are certainly a highlight with YOY growth of 13.5%. According to La Fleur's 3Q22 Data Report (which starts on page 30), North Carolina had the largest increase in scratch sales in the United States during the period.

NCEL Executive Director Mark Michalko shared, "While we are thrilled to lead the U.S. industry in instant scratch-off game growth during challenging economic times, the real winners are education and students in North Carolina."

"We believe our success can be attributed to the alignment of several important factors: an optimized portfolio, flawless field execution, consistent marketing support and our Lucke-Rewards program," Terri Rose, Deputy Executive Director, Brand Management & Communications, said.

Optimized Portfolio

The role and importance of the individual price points in the Lottery's scratch-off portfolio has undergone a dramatic shift in the past three years, as it has for most of the industry.

"We leverage data and research as much as we can to determine market trends and shifts in player behavior. Understanding the difference between player demand and game introduction strategy as the source of growth or decline within a particular price point has been a point of emphasis for us and has led us to some pretty dramatic shifts in the number of games introduced and displayed at retail," Rose said.

The biggest shift in strategy has been the heavier emphasis on higher price point games. In July 2022, the North Carolina Lottery launched Fabulous Fortune, a \$30 ticket. The game was the fourth concurrent \$30 game in the marketplace, a first for the

lottery, and it was a massive success. The Lottery had \$91 million in sales for the \$30 price point for the category in July, a new record.

As of November 2022, the Lottery had 14 high price point games (\$20+) on sale simultaneously. In May 2021, it only had six.

"We have gradually reduced the number of lower price point games on sale and displayed, while increasing the number of higher price point games. We find that the gradual shift allows for better retail execution since the changes occur more organically as games sell out and come out of the market," Rose said. The planogram increased \$30 facings from two to three, with only two \$1 tickets and three \$2 tickets.

With more high price point games, the Lottery can offer a wider range of play styles and value propositions as well. Fabulous Fortune is a no-break even game with a minimum prize of \$50, and lower than normal top prize of \$3 million. The other three \$30

games in market had top prizes of \$10, \$5, and \$1 million. However, a diverse play-style strategy is applied to the entire category, not just the higher price points. Each game launch has a specific strategy applied to price point, theme, prize structure, play style, color, and merchandising. The Lottery has continued to emphasize diversification of value propositions across the entire portfolio that reinforces the value of each of the price points. Currently, the Lottery offers \$1, \$2, \$3, \$5, \$10, \$20, \$25 and \$30 price points.

“Our strategy is to build a scratch-off portfolio with a wide selection of games that appeal to as many current and potential players as possible. In simple terms, we want the right games on sale at the right time for the right consumers,” Rose said.

Higher price point tickets now represent 48% of total instant sales, a dramatic increase from 32% in FY18. Lower price points have seen a corresponding decrease from 44% to 32%.

Vendor Partnership

NCEL moved to the Scientific Games Enhanced Partnership (SGEP) program in 2017. “Our ability to work with Scientific

Games on a number of different fronts to leverage their collective expertise in those various aspects of scratch-off game development and distribution has been instrumental in continued growth during this volatile economic period,” said Rose.

NCEL’s enhanced partnership with Scientific Games plays an important role in its growth this fiscal year and in the future. The overall alignment between product strategy, retail execution and marketing are essential to growing the category as the Lottery’s portfolio continues to mature. “All of the data and consumer research available through SGEP allows us to observe the entire lifecycle of every game in our portfolio. It’s full-category, full-life cycle portfolio management,” said Rose.

The total portfolio management approach is paying off. “From FY2020 to FY2022, our Scratch Off games sales grew by 27% while the overall industry grew by 17%,” said Rose.

Consistent Support

The Lottery’s scratch ticket success is also being fueled by strong marketing support. Dubbed “365 Days of Advertising,” the marketing team will produce seven unique campaigns spotlighting a specific scratch ticket and five highlight campaigns that can feature more than one game.

In addition to an intense advertising schedule, Mr. First Tuesday is another key element to their success. Every first Tuesday of every month, the character appears on TV, digital, and social channels.

“We’re trying to follow our players wherever they may consume media, which can be challenging,” Rose said. “That ‘always on’ strategy is making a huge difference.”

Finally, to help fill in around the seven unique campaigns, Susan Singley, Director of Advertising, NCEL and 2022 NASPL Powers Award Winner, also developed a winners club campaign. It celebrates key games in every launch and shows players winning.

“It’s fun, but again it

supports the entire product portfolio and features a few games that remind players of the North Carolina Education Lottery. Here’s what we’re here for: we’re here to make winners, we’re here to contribute to education. All of it ties together quite nicely,” Rose said.

Flawless Field Execution

Retail execution by NCEL’s sales teams plays a vital role in their scratch-off success. Last year, the average dispenser count at its retailers hit 35 and new games had 99% penetration rate.

“Despite the pandemic and the volatile economy, our sales team continues to build relationships and opportunities for increased sales,” Rose said. “We continue to develop our retail footprint through sound partnership with our retailers, a focus on POS that works hard to deliver our key messages and innovation.”

All launches occur on the first Tuesday of the month. “What the sales team is doing at retail is nothing short of spectacular,” Rose continued. “Both SGI and IGT have provided data on key distribution data performance metrics that are just incredible.”

Lucke-Rewards

The last key element for the Lottery’s success is their Loyalty Program, Lucke-Rewards. It currently has 1.7 million players who have accounts at nclottery.com and 843,000 of those are active users in Lucke-Rewards. The program’s dynamic offering encourages players to stay engaged with the Lottery’s games, specifically scratch-offs through constant promotions and engagement activities.

“Players love earning points from their scratch-offs and using them to enter weekly and monthly Lucke-Rewards drawing as well as second-chance drawings associated with our scratch-offs. For example, a second-chance drawing last February had 14.2 million entries. These promotions have become a major part of our digital platform and bring more fun and value to lottery play,” Rose said. That additional value and touchpoint for Lottery has been an important factor in the growth of scratch-off category.

