

**SOUTH CAROLINA EDUCATION LOTTERY
BOARD OF COMMISSIONERS MEETING MINUTES
February 7, 2018
10 a.m.**

The Board of Commissioners of the South Carolina Education Lottery met on Wednesday, February 7, 2018, at 10 a.m., in the first-floor conference room located at 1333 Main Street, Columbia, South Carolina, with the following members, representing a quorum, participating:

Sam Litchfield, Chairman	Bo Russell
Dr. Edward Keith, Vice Chairman (by phone)	Otis Morris (by phone)
Keith Munson, Secretary/Treasurer	Buck Limehouse
	Mickey Renner

The Chairman called the meeting to order and welcomed guests. Thereafter, he reminded the audience that Holiday Cash Add-A-Play is not on the agenda and that the exclusion is intentional on advice of legal counsel.

Approval of Minutes

On motion of Commissioner Munson, seconded by Commissioner Russell, the Board unanimously approved the December 6, 2017, December 29, 2017, and January 23, 2018, meeting minutes.

Quarterly Advertising Review

The Chairman recognized Ammie Smith, Senior Marketing Manager, who presented the quarterly advertising in the various media for the following campaigns:

Lucky Numbers: Digital Billboard, Ticket Topper, TV, and Writing Surface. **Holiday Season:** Digital Billboard - Instant Tickets, Mega Millions, and Powerball. **PC5 10X:** Play Station Poster, and Buckslip. **Other Point of Sale:** Play Station Poster - \$50 and \$100 Blowout. **Other Online Advertising:** Online Ad - Royal Jewel Jackpot (Gigantix), Website Contests - Clemson Basketball (January 2018), and Kate Spade (December 2017). **Retailer Newsletter:** Selling Points (most recent issue).

Commissioner Munson raised questions about the manner in which the Palmetto Cash 5 (PC5) odds of winning and not winning were expressed. Chairman Litchfield suggested that Commissioner Munson meet with Mrs. Smith to discuss the game odds.¹

Commissioner Limehouse requested more information on the return on investment and the level of advertising expenditures needed to increase sales during the year. Chairman Litchfield

¹ After the meeting it was determined that while there may be more than one correct way to express the odds of winning and not winning, the odds are, and have been, accurately expressed in the point of sale material for PC5. Staff will continue to consider presentations of the odds on winning and not winning in future point of sale material for PC5.

suggested that Commissioner Limehouse discuss his concerns with Mrs. Smith and Mr. Johnson so that his questions could be addressed at the next Board meeting.

The Chairman asked if any Commissioners had any other questions or concerns regarding the material presented. Hearing none, the Chairman stated that it is the consensus of the Board that the advertising and proposed concepts for major media campaigns 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.

Mrs. Smith next reviewed the launch of Royal Jewel Jackpot, the first Gigantix new product offering. She stated that after eight weeks of sales, Royal Jewel Jackpot performed well in comparison to other top performing \$10 games. Mrs. Smith compared trend lines between this game and Mighty Jumbo Bucks. Mighty Jumbo Bucks is a strong performing, \$10 year-round instant game that gives SCEL incremental sales year-over-year. SCEL expects that Royal Jewel Jackpot and the other planned Gigantix offerings will produce positive incremental sales throughout the year as its prize structure and the face of the ticket will change with each launch.

Mrs. Smith discussed Powerball and the Power Cruise Second-Chance draw that is scheduled to start in April. Alchemy 3 is facilitating the promotion and providing an app for an interactive entry experience for players. The promotion will include cruises and cash prizes, namely: a \$100k cash prize, 7 interior rooms, 10 ocean rooms and 2 balcony rooms that are reserved for South Carolina players on a Royal Caribbean cruise ship. The entire cruise ship will consist of Powerball players from around the country, and the cruise is scheduled for 2019.

The Chairman asked Mrs. Smith about an update on recent beneficiary ads. Ms. Smith stated that SCEL has just finished shooting two new beneficiary ads. These ads involve real stories of two adults who returned to school to obtain their degrees from technical institutions. SCEL anticipates launching the ads in the fall, and staff will present them to the board at its May meeting.

Financial Update - Actual FY 2018 Results Compared to Actual FY 2017 Results

Overview

The Chairman recognized Mr. Boyle, Chief Financial Officer, who reported that during the first six months of FY 18, Transfers increased from \$193.4M to \$215.9M, an increase of \$22.5M. Overall Game Revenues increased \$76.1M to \$841.8M. Net Income increased \$25.3M² to \$213.1M. The increase in Net Income was the result of increased Instant and Terminal Game Revenues, as more fully discussed below.

Instant Games

Instant Game Revenues increased by \$46.7M to \$595.1M. Of the overall increase, \$10 Instant Tickets increased by \$29.9M (8.1%) and \$5 Instant Tickets increased by \$11.5M (11.6%). In both cases, the rate of revenue growth is significantly higher than the prior year. Revenues associated with the \$1, \$2 and \$3 price points, in aggregate, increased by \$5.3M (6.6%). The Game Margin³ on Instant Game Revenues increased during the period by \$13.9M (9.2%).

Terminal Games

² 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 amounts recognized as income have not been received.

³ Game margin is game revenue minus prize expense.

Terminal Game Revenues were \$246.6M, an increase of \$29.4M (13.5%). Powerball and Mega Millions Revenues drove the increase in Terminal Game Revenues. Powerball Revenues were up \$10.0M (23.5%). Mega Millions Revenues increased by \$0.7M (3.5%). The increase in Powerball added \$3.7M to Game Margin.

Pick 3 continued to perform well and revenues were up \$13.6M (14.7%). Pick 4 Revenues were up \$3.7M (7.8%). Interestingly, the aggregate increase in Pick 3 and Pick 4 Revenues of \$17.3M resulted in an aggregate increase in Game Margin of \$12.2M. This large relative contribution to Game Margin was due to statistical variation. Mr. Boyle then advised that because four threes were drawn on February 2, 2018, the Pick 4 Game Margin in February is likely to be lower. Lucky for Life Revenues were \$6.3M, a decrease of \$0.9M (12.7%). Palmetto Cash 5 Revenues were up by \$2.4M primarily due to the 10X promotion that carried over into FY 18.

The overall Game Margin percentage on Terminal Games was 50.67% compared to 49.34% during the same period last year. The 1.33% increase was a result of better margins on all Terminal Games.

Other Revenues and Game Costs

Other Revenues, which consist primarily of license and telephone fees, were \$1.9M in the first six months of FY18 and FY17. Other Direct Game Costs were \$9.0M in the first six months of FY18 and \$8.3M in FY 17. As a percentage of Revenues, both of these items, as expected, were consistent from FY17 to FY 18.

Advertising and G&A Expenses

Advertising Expense was \$4.2M in FY18 compared to \$4.0M in FY17. G&A Expenses (the primary component is employee compensation) were \$6.8M in FY18 and \$6.6M in FY17.

Actual FY 2018 Results Compared to the FY 2018 Financial Plan

To date, actual financial results have exceeded Plan. Game Revenues were \$841.8M compared to Plan of \$773.3M. The positive variance in Instant Game Revenues is primarily attributable to better than expected sales of \$5 and \$10 Instant Tickets. These price points exceeded Plan by \$12.3M (12.5%) and \$18.6M (4.9%). The \$2 price point also performed well and was \$3.7M (9.1%) over Plan. Aggregate revenues associated with the \$1 and \$3 price points were over Plan by \$1.9M (4.9%). The positive variance in Terminal Game Revenues is attributable to better than expected sales of all Terminal Games, except for Lucky for Life, which was \$0.8M (11.6%) under Plan. Pick 3 and Pick 4 exceeded Plan by \$13.3M (14.4%) and \$4.0M (8.5%). Mega Millions and Powerball exceeded Plan by \$3.7M (22.7%) and \$9.2M (21.2%). Palmetto Cash 5 exceeded Plan by \$2.6M (28.9%).

As a result of the better than planned Game Revenues, Gross Profit (Revenues less Prize Expense, Commissions and other game-related costs) was \$224.1M compared to the planned amount of \$201.6M for a positive variance of \$22.5M (11.2%). In aggregate, Operating Expenses were \$0.7M under Plan. Advertising Expense was under Plan by \$0.5M (\$4.2M Actual vs. Plan of \$4.7M). Other Operating Expenses (“G&A”) were \$0.2M under Plan. Most of the variances will normalize to planned annual amounts as the year progresses. Net Income for the six months of FY18 was \$213.1M compared to Plan of \$189.8M, a positive variance of \$23.2M.

Executive Director’s Report

The Chairman recognized Mr. Brown, Interim Executive Director, who updated the Board on several items.

Mr. Brown stated that in August 2017, the Board approved moving forward with the Winner-Take-All game (WTA), a Powerball add-on game. Although the MUSL Directors have made a few modifications to WTA, the game is fundamentally unchanged so no additional approval by the Board is needed. Mr. Brown expressed significant concerns about the viability of the game and has voted against WTA in the recent MUSL meeting but an “opt out” is not currently allowed. The WTA will now begin as a promotion for up to 6 months on September 7, 2018.

An Intralot protest hearing is scheduled for February 14, 2018, which may or may not be the last hearing on the substantive matters raised regarding the contract awarded to IGT last May. SCEL has issued a Media Placement RFP and that a selection should conclude by the end of March.

Mr. Brown provided an update on the draw studio reminding the Board that the Landlord had approached SCEL about moving its draw studio. Since the initial update, the Landlord’s leasing agent changed which caused somewhat of a restart to the conversation. To be advantageous to SCEL to move the studio to an interior location, the cost will need to as close to zero as possible.

Mr. Brown stated that the FY19 budget proposal will be presented to the Board in May and staff will provide this material well in advance of that meeting.

The 2018 Statement of Economic Interests filing is due at the end of March. Mr. Brown asked Commissioners to let staff know if any member has any questions or needs assistance in completing the online form.

Other Business

There being no further business, the Board adjourned the meeting.

/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 via email pursuant to requests made by individuals, media outlets and other organizations. These notifications included the time, date, place, and agenda of the meeting.