

REAL-TIME PARTNERSHIP & STRATEGIC PLANNING POSITION TEXAS TO MAXIMIZE GROWTH OPPORTUNITIES



Most lotteries experienced a sales rebound post-COVID, but in Texas the recovery has been supersized. How did the state move from pandemic shutdown to double-digit growth and \$150 million per week in scratch ticket sales?

Texas have been known to say they have four seasons: drought, flood, blizzard, and twister. Over the past year, the state endured not only some extreme weather – notably, a severe storm in February 2021 that brought widespread power outages – but, of course, the pandemic.

As was the case for lotteries and retail businesses everywhere, sales initially declined with the outbreak of COVID-19. In Texas, they took another hit during the historic winter storm. The Texas Lottery Commission (TLC) was positioned to adapt quickly and make necessary changes to its strategy using a broad-based approach to scratch ticket planning established with longtime partner IGT, with sales rebounding and surging ahead each time.

“Over the years, we’ve created a partnership

where we’ve said, ‘If you have insights and recommendations that you think are material to our business, we want to hear it,’” said **Robert Tirloni, Products Manager, Texas Lottery Commission.**

Prior to April 2020, Texas had topped \$100 million in scratch ticket sales in 18 of the previous 52 weeks, with a maximum of \$118 million. Since that time, scratch ticket sales in Texas have been over \$100 million for 51 out of the past 54 weeks, with a high point of \$158 million – making **Texas’s scratch ticket program the second largest in the U.S. by sales in CY2020 and putting its scratch ticket sales on pace for 20%-25% growth in FY2021.**

“We communicate regularly with the TLC in real time to ensure they get the best information and analytics to proactively make decisions about their business,” said **Michael Kumar, IGT Senior Director Sales Development.**

For much of the past decade, teams from

IGT have worked in partnership with the Texas Lottery Commission to develop and execute strategies that generate additional contributions to Texas schools and veterans. The IGT teams analyze and address the TLC’s business needs through multiple lenses, forming an integrated view of **Portfolio Planning, Ticket Distribution, and Retail Execution.**

The collaborative structure created by the Lottery ensures that the two teams review scratch ticket portfolio, distribution, and retail strategies on a biweekly basis, with additional meetings as needed. This practice of regularly reevaluating strategies and plans proved critical in March 2020 as the pandemic unfolded.

With lottery sales everywhere plummeting, IGT and the Lottery met to assess the impact on new game introductions and develop a plan to stay on track to achieve the TLC’s goals.

THE POWER OF IDENTIFYING TRENDS QUICKLY

As adjustments to the plan for lower sales due to statewide shutdowns were still being solidified, sales began to explode. Teams from IGT monitoring the situation immediately recognized several trends and met with the Lottery to share four key insights:

Casino Closings

IGT identified sizable sales growth for retailers near the state's borders with Oklahoma, Arkansas, and Louisiana. "When we saw sales increasing in these areas, our sales team was able to confirm anecdotally with retailers that, with the closure of casinos in bordering states, players were buying lottery as an alternate form of entertainment," said **Riley Gough, IGT Senior Manager Market Research.**

Population Spend Shift

With more commuters working from home and consumer behaviors changing dramatically, IGT determined that spending on

lottery had shifted from major metro areas to more suburban areas, and that the recent sales history for many retailers was no longer a reliable predictor of future sales. This insight proved valuable as the team rapidly reconfigured distribution and sales support to accommodate the retailers and customers.

Significant Growth in Key Areas of the Portfolio

While the portfolio achieved growth across the board at every price point, the most significant growth was focused on a few areas. The first was the category of extended play games, which includes Bingo, Crossword, and the state's Loteria games. The TLC scratch ticket strategy had already planned for line extensions of Crossword to \$20 (launched February 2021) and Loteria to \$50 (launched October 2020), which have consistently ranked in the top 10 games since their introduction. Along with the new price point additions, significant increases were seen across the extended play category. For example:

- \$10 Loteria increased 30% as average sales increased from \$5.6 million/week to \$7.3 million/week.

- \$10 Crossword increased 25% as average sales increased from \$4 million/week to \$5 million/week.

The second area was a substantial increase in \$30 and \$50 sales, partially supported by the casino players.

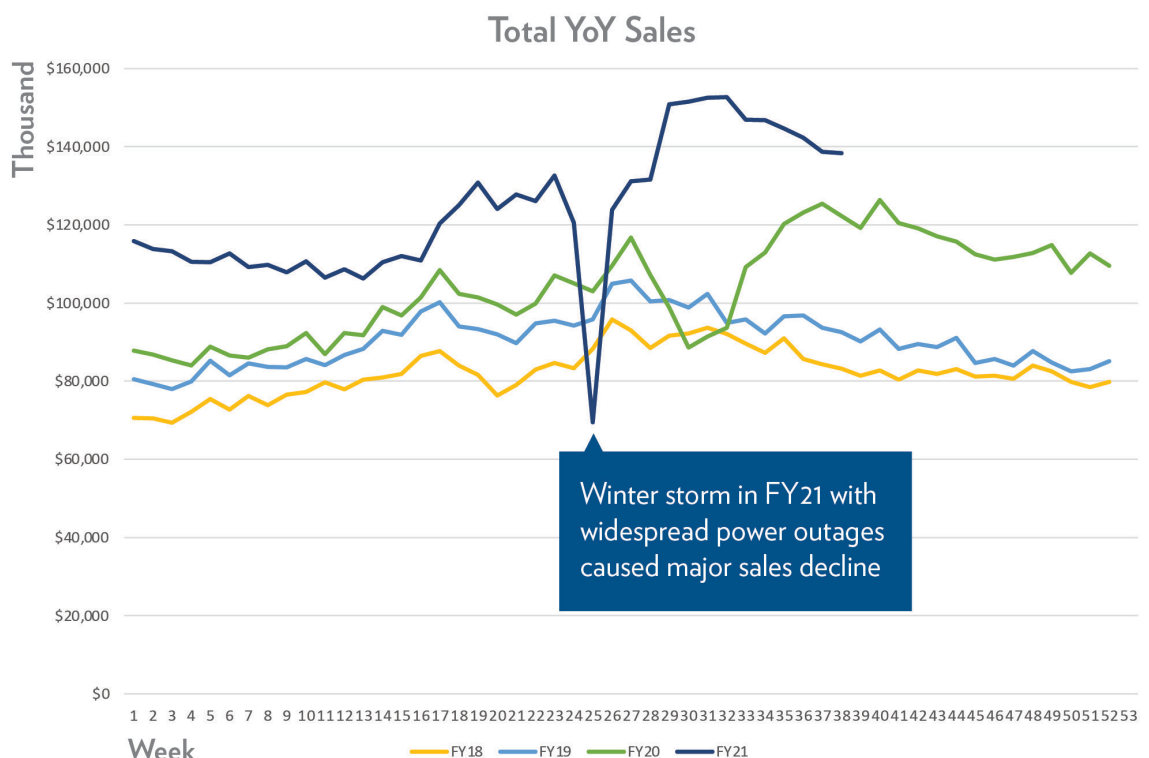
- \$30 sales increased 17% as average sales increased from \$6.5 million/week to \$7.6 million/week
- \$50 sales increased 105% as average sales increased from \$9.0 million/week to \$18.5 million/week
- \$50 sales have grown from \$229 million in FY17 and are tracking to exceed \$1 billion in FY21.

The Need to Address Rapid Inventory Depletion

"Even with all the adjustments that were made early on, sales were stronger than expected," said Kumar. IGT presented the TLC with a refreshed and detailed analysis of the anticipated business growth as well as a proposed strategic plan to fulfill the surge in demand. New games were added to the schedule and print runs were adjusted for existing games in the plan to replenish inventories and meet player preferences.

The Texas Lottery has held on to growth post-COVID, working with teams from IGT to maximize scratch sales.

The green line shows a large sales decline with the onset of COVID. The Lottery emerged stronger from the pandemic and sustained the recovery, surging to new heights in FY2021 (blue line) even after widespread power outages from a winter storm caused a major dip in sales.



OPERATIONS STRATEGY

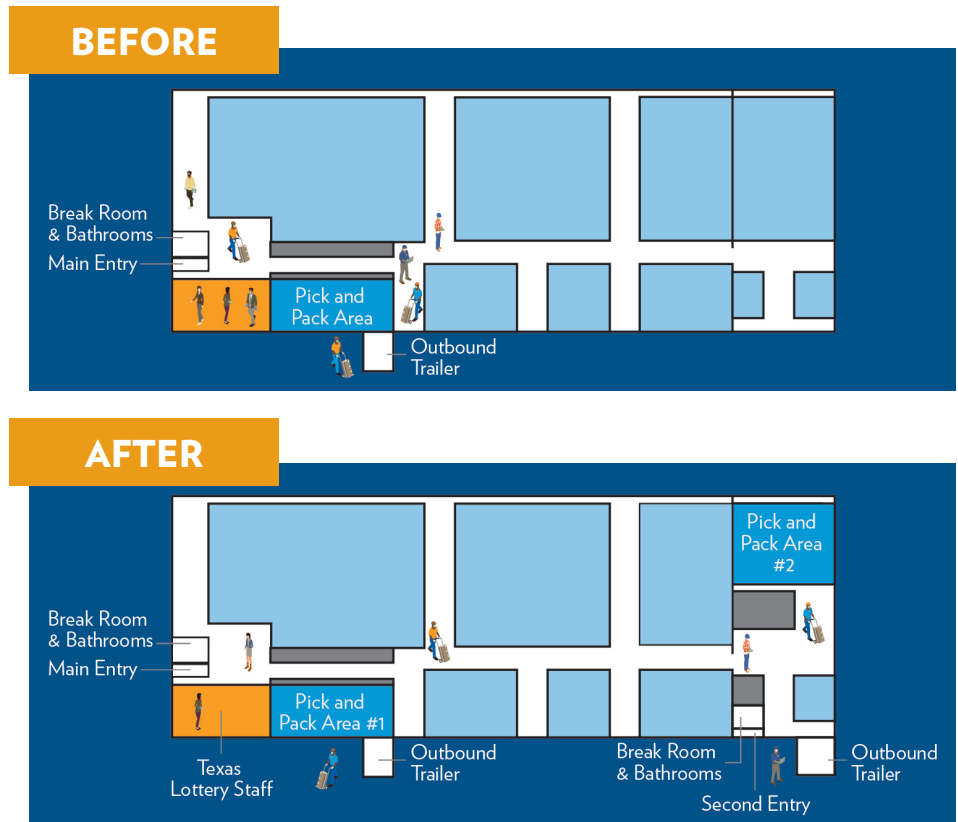
It takes close coordination to quickly and successfully pivot across a territory covering 268,000 square miles and 254 counties. A hallmark of the partnership is that the IGT teams monitor the business to anticipate potential problems or opportunities and look for answers proactively.

The practice of involving IGT experts on supply chain, retail execution, and the sales team in the strategy meetings was instrumental to the pandemic response. “Our team worked with the Lottery to adjust the portfolio and new game introductions to meet the new demand on the fly,” said **Joseph Lapinski, IGT Account Development Manager**. “Having everyone in the room when you’re having to rapidly make decisions means you can consider the implications across all aspects of the business and help ensure that nothing is overlooked.”

For example, amid rising demand, IGT **reconfigured the warehouse operation** in Texas to maintain scratch ticket distribution capacity and address pandemic safety needs. “We initially switched to an alternating shift for over a week and found we couldn’t match our desired productivity with reduced staffing on each shift,” explained **Philip Hayes, IGT Manager Instant Ticket & Warehouse**. “Instead, we split the existing warehouse operation into two physically separate warehouses under one roof. Our teams continued working the same shifts while maintaining separation and meeting safety protocols at all times.”

IGT’s **order methodology** enabled the teams to successfully manage the Lottery’s response to retailers. “We shifted from a scheduled order cycle to a needs-based prioritization,” explained Hayes. “This allowed us to address retailer demand as it was happening, day-to-day, optimizing retailer sales and reducing retailer call volume.”

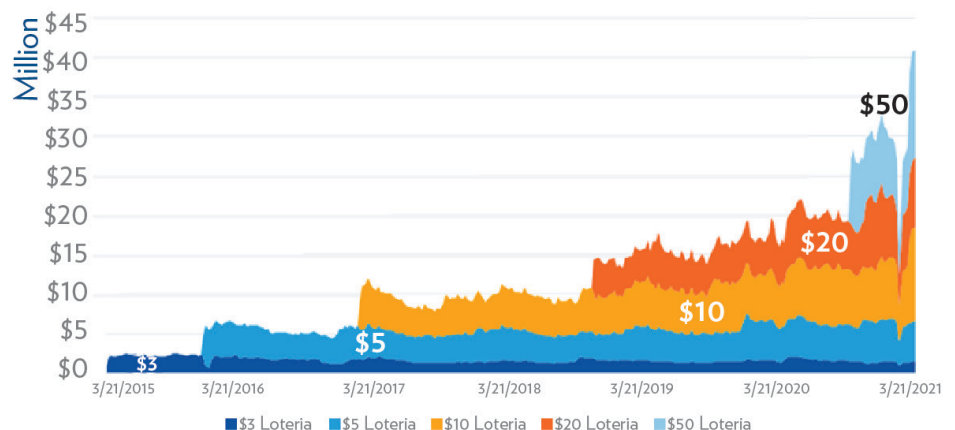
The changes in consumer buying patterns were evident in the series of **dashboards** that IGT developed for the Lottery using Tableau data visualization software. The data displayed using graphic elements told a vivid story as the situation changed. “These reports really brought the numbers to life,” said **Brian Finnigan, IGT Director of Sales**. “They were significant in identifying retailers that were performing. Sales shifted dramatically as people were staying home, and we identified the trend lines immediately in what had



Reconfigured Warehouse Operation

To maintain distribution capabilities and meet pandemic safety protocols, IGT teams in Texas reconfigured the warehouse, creating two physically separate operations within one facility with their own bathrooms, entrances, and exits.

Growth of Loteria in Texas



formerly been low-selling territories. Using these dashboards, we were able to respond accordingly.”

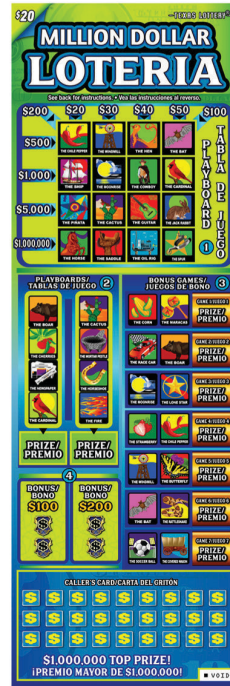
PRINTING

The TLC implemented a “multi-vendor” strategy in 2012, which gives its three printing vendors an equal share of the Texas printing

business. This allows the Lottery to leverage the strengths of each vendor and provide maximum ability to accelerate game production when necessary.

IGT is the exclusive printer of the state’s Loteria games and partnered with the TLC seven years ago to evolve a custom-designed, non-licensed version of the traditional lotería game into a full program of line extensions.

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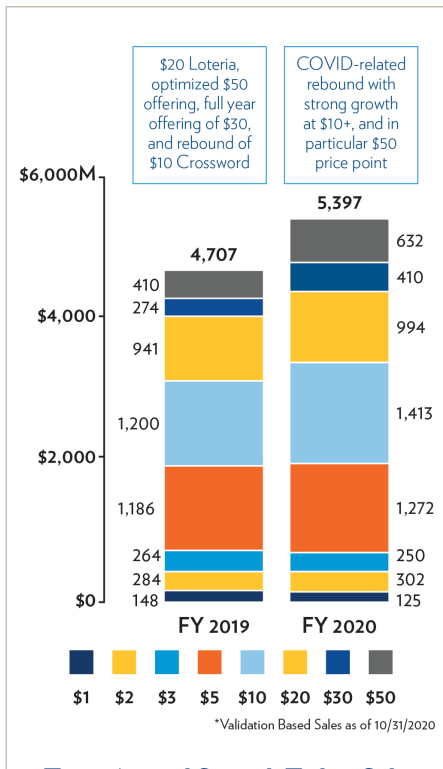


In FY 2020, the state's Loteria category produced 31% of annual scratch ticket sales growth. With the launch of a new \$50 ticket in FY21, this game alone has already contributed \$220 million in growth. Extended play games like Loteria can become a remarkably profitable source of growth for lotteries.

Through the Lottery's commitment to the Loteria brand and its continued expansion to new price points, total Loteria sales now account for **53% of the state's scratch ticket sales growth to date in FY21**.

The Lottery and IGT jointly develop plans for scratch printing based on data and trends. And by planning as far out as they had, based on the established relationship and biweekly meetings, the teams were able to alter the plan and get ahead of the shifts in demand caused by the pandemic.

The state required a massive increase in tickets, and IGT had the agility and flexibility in its printing operation to **quickly scale up print runs** and handle that capacity. For example, for \$10 Loteria, IGT is now printing 49 million tickets per print run, up from its most recent launch of 26 million – an increase of ~50%.



Texas Annual Scratch Ticket Sales

- Growth at high price points driven through product diversity, line extensions, and prize structure optimization
- Substantial growth coming from \$10+

LOOKING AHEAD

The TLC's collaborative approach and multi-year strategy, driven by data analytics, has not only allowed the lottery to maximize growth during periods of uncertainty, but will continue to drive results for sustainable future growth supported by long-term partner IGT.

"IGT's flexibility and ability to execute led directly to historic sales results for the Texas Lottery over the past year," said **Ryan Mindell, Lottery Operations Director, Texas Lottery Commission**. "Our partnership has proven it can handle whatever comes our way, so our future is bright."

For more information on broad-based support for instant program growth, please contact your IGT account representative.

