OREGON LOTTERY®

Quarter 1, Fiscal Year 2025 Variance Analysis
(July 1, 2024 – September 30, 2024)

Net Revenue (Sales After Prizes)
Net revenues are $354,090,901 on a budget of $354,882,950 generating an unfavorable variance of $792,049.

Net Revenue Variance Favorable/(Unfavorable)				
	YTD			
	Actual	Budget	Variance	Percent
Traditional	$ 39,587,352	$ 35,574,428	$ 4,012,925	11.3%
Video	295,320,449	300,164,909	(4,844,460)	-1.6%
Sports	19,183,100	19,143,614	39,486	0.2%
	$ 354,090,901	$ 354,882,950	$ (792,049)	-0.2%

Traditional sales were over expectations as Oregon's Game Megabucks and Mega Millions both had higher jackpot offerings. The megabucks jackpot began growing in March of 2024 and had reached $9.5M when it was won on September 28th. The Mega Millions jackpot, which began in early June, was won on September 10th at $800M.

Net Profit
Net profit for the quarter is $214,436,232 on a plan of $206,010,444 creating a favorable variance of $8,425,788 (4.1%).

Net Profit Variance Favorable/(Unfavorable)				
	YTD			
	Actual	Budget	Variance	Percent
Net Revenue	$ 354,090,901	$ 354,882,950	$ (792,049)	-0.2%
Indirect Revenue	10,222,428	4,975,998	5,246,430	105.4%
Direct Expense	119,118,206	118,918,619	(199,586)	-0.2%
Indirect Expense	30,758,891	34,929,885	4,170,993	11.9%
Net Profit from Operations	$ 214,436,232	$ 206,010,444	$ 8,425,788	4.1%

First quarter favorable net profit was driven by indirect revenues over expectations and indirect expenses under expectations.

<u>Indirect Revenue: YTD favorable $5,246,430</u>
The favorable variance is produced by interest earnings and investment market value increases. Interest in the first quarter was $1.5M over expectations. This is primarily caused by prize cash balances not being included in the budget projection. In addition there was $3.6M of gain on the

market value of securities. Market value changes are not budgeted since they are unrealized and all securities mature at their face value despite market fluctuations during their life.

Direct Expenses - YTD unfavorable $(199,586)

Game Vendor Charges: YTD unfavorable $(571,687)

	Game Vendor Charges Variance Favorable/(Unfavorable)		
	YTD		
	Actual	Budget	Variance
Traditional	2,624,579	2,439,864	(184,715)
Video	118,128	-	(118,128)
Sports	10,172,793	9,903,949	(268,844)
	12,915,499	12,343,812	(571,687)

- Traditional product charges are a percentage of sales. As sales exceed forecast vendor charges increase and also exceed forecast.
- Video product has a $40K per month flat charge which is the maintenance portion of the software subscription fees. This fee was accidentally included as part of the subscription asset when budgeting resulting in inclusion in the depreciation expense budget rather than the game vendor charges budget.
- Sports product game vendor charges, also based on sales, were budgeted at a rate of 51.74%. However, the actual rate is 53%.

Ticket Expense: YTD unfavorable ($197,762)
- $51K of the overage is due to increased sales. Since fiscal year 2017 the ticket budget has not been adjusted for changes in the forecasted sales. Because sales directly impact the ticket expense recognized each month it is recommended ticket expense be included as a direct expense that is adjusted with sales forecast updates.
- Tickets are expensed as tickets are sold, with each game having its own rate based on the cost of the ticket and the selling price for the game's ticket. For budgeting, the overall cost percentage of revenue was estimated based on actual fiscal year 2024 percentages. The budgeted rate for the first quarter is 1.87% but the actual rate is 2.24%. Last year's rate was lower as new contract pricing had not taken effect.

Advertising: YTD favorable $94,663
- Creative production for the holiday campaign has not quite completed so invoices expected to be received this quarter will be received next quarter.

Sales Support: YTD favorable $154,564

- The favorable variance is due to lower than anticipated maintenance and replacement costs for signs and displays.

Game Equipment Parts & Maintenance (GEPM): YTD favorable $223,221

- The favorable variance primarily reflects the delay in receiving video lottery game sets planned for this quarter but are now scheduled for delivery in Q2 ($120K). Additional favorable variance is from lower than expected spending on consumables, such as parts and paper, and careful management of tools and supplies expense ($103K).

Interest Expense (Direct): YTD unfavorable ($15,367)

- The iLinks purchasing contract had no budget for FY25 but did have three months of interest. This variance will not grow as the iLink contract has ended and the equipment is now owned. This purchasing arrangement was in the 2017 Intelligen contract.
- Interest for the Intelligen software was budgeted low.

Indirect Expenses - YTD favorable $4,170,993

Public Information: YTD unfavorable $(37,875)

- Some creative production was completed earlier in the year than expected. Expectations are to remain within budget as the year continues.

Market Research: YTD favorable $86,862

- Expenses in this category include studies on player and retailer experience and engagement. It was anticipated the studies would be completed during the first quarter. However, the favorable $86K variance reflects the current progress of these studies, which are expected to conclude next quarter.

Salaries, Wages, & Benefits: YTD favorable $2,787,311

	Salaries, Wages & Benefits Variance Favorable/(Unfavorable)			
	Actual	Budget	Variance	% Variance
Salaries and Wages	$ 13,242,952	$ 13,894,042	$ 651,089	4.69%
OPE	7,732,420	9,868,642	2,136,222	21.65%
Total Salaries and OPE	$ 20,975,373	$ 23,762,684	$ 2,787,311	

- The OPE variance is the primary source of the favorable variance. The rate used for budgeting OPE was the rate occurring at the time of budgeting (March). In early May an estimate of PERS expense was received and reduced the expected FY24 expense. In mid-July actual PERS expense was received and although slightly increased from the estimate it was still below the FY24 expectations. Once the actual for FY24 was known, the FY25 monthly accrual amount was adjusted down to the new expectation for FY25. Actual PERS expense will not be known until next July.

Services & Supplies: YTD favorable $1,475,474

The favorable conditions are attributable to the following expense groups:

- Retailer Network Expenses – YTD favorable variance $214,742
  The ongoing transition of our retailer network to a new service platform is progressing as planned and retailers are being moved monthly. However, due to challenges with the new platform, expenses for the retailer network aren't being charged when services fail to meet requirements. This is causing a favorable variance.

- Technology Expenses – YTD Favorable variance $655,665
  The favorable variance is primarily driven by software subscription contracts which often have terms of a year or more. Originally budgeted in expense line items as payments are due, these contracts are actually recognized as an asset and amortized in depreciation over the length of the agreement. This can lead to differences between actual and budgeted expenses. Compared to the same quarter last year, technology expenses are consistent with prior-year spending levels.

- Professional Services – YTD Favorable Variance $171,885
  The favorable variance is related to Oregon State Police (OSP) charges. OSP bills us based on services provided during the period, with costs determined by a shared-cost model. While we anticipated a reduction in these charges, the decrease was more significant than expected, contributing to the favorable variance.

- Staff Training & Recruiting – YTD Favorable Variance $140,059
  The variance this quarter is primarily from underspending in professional development ($56K) and recruiting ($31K), both of which are driven by demand and timing of the need. We expect to see increased spending in future periods as more training and recruiting activities occur.

- Other Services & Supplies – YTD Favorable Variance $100,473
  Approximately half of the variance is from small amounts of underspending in various accounts ($46K). Additionally, costs for the All-Hands Meeting held in the first quarter were expensed to more specific accounts but budgeted as a sum in the meetings expense account ($56K).

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Depreciation (Indirect): YTD unfavorable $(131,576)

- Lease depreciation is over estimates due to renewal for the North Bend location being higher than expected and two other billboard leases not being included in the budget.
- Several software subscription assets have been added causing depreciation to be recognized. Because the designation as a subscription asset vs. straight expense is not known before the contract is signed, these assets were budgeted in technology expense accounts. This depreciation overage is offset by the favorable variance in those accounts.

Interest Expense (Indirect): YTD unfavorable $(9,203)

- As with much of the depreciation variance, interest variance is also caused by the unknowns for software contracts at the time of budgeting. Several contracts were budgeted in technology expenses but language in the contracts required them to be recognized as assets. This results in expense being reported through depreciation and interest vs the technology expense accounts
- A small amount of the overage is from the lease portion of the interest budget being too low.