OREGON LOTTERY®

Quarter 2, Fiscal Year 2025 Variance Analysis
(July 1, 2024 – December 31, 2024)

Net Profit

Net profit at the end of the second quarter is $433,021,917 on a plan of $439,281,156 creating an unfavorable variance of $6,259,239 (1.4%). While we are seeing expenses under budgeted amounts, the savings is not quite enough to cover the unfavorable variance in profit.

	Net Profit Variance Favorable/(Unfavorable)			
	YTD			
	Actual	Budget	Variance	Percent
Net Revenue	$ 705,843,781	$ 725,577,824	$ (19,734,043)	-2.7%
Indirect Revenue	11,730,794	9,951,996	1,778,798	17.9%
Direct Expense	221,793,734	226,219,438	4,425,704	2.0%
Indirect Expense	62,758,924	70,029,227	7,270,303	10.4%
Net Profit from Operations	$ 433,021,917	$ 439,281,156	$ (6,259,239)	-1.4%

Net Revenue (Sales After Prizes)

Net revenues are $705,843,781 on a budget of $725,577,824 generating an unfavorable variance of $19,734,043.

	Net Revenue Variance Favorable/(Unfavorable)			
	YTD			
	Actual	Budget	Variance	Percent
Traditional	$ 82,696,912	$ 78,075,372	$ 4,621,540	5.9%
Video	584,670,994	602,098,009	(17,427,015)	-2.9%
Sports	38,475,875	45,404,442	(6,928,568)	-15.3%
	$ 705,843,781	$ 725,577,824	$ (19,734,043)	-2.7%

- Total traditional sales were over expectations by 6.3%
    - Scratch-It and Mega Millions sales were both more than anticipated. Mega Millions began a roll in mid-September and was won on December 27th with an advertised jackpot of $1.22 billion.
    - Megabucks sales were less than forecasted by 21.5%. The decline in sales occurred in the 2nd quarter of fiscal year 2025 as a new jackpot roll began the end of October. By the end of December the jackpot was advertised at only $3.7 million
- Video net revenue continues its trend of being slightly under forecast.
- Sports wagering activity met expectations. However, players were lucky in both October and December driving down net revenue.

Direct Expenses - YTD favorable $4,425,704

Commissions: YTD favorable $988,362

Commissions Variance Favorable/(Unfavorable)		
	Traditional	Video
	YTD	YTD
Variance from sales	$ (1,116,143)	$ 3,745,581
Variance from budgeted rate	(174,490)	(1,466,586)
	$ (1,290,633)	$ 2,278,995

- Traditional commissions are over budget as expected when sales surpass forecast.
- Video commissions are favorable to budget as expected when dollars played are not at the levels expected. However, sales being below forecast are contributing to an overage for the rate portion of the variance. When sales aren't as expected, the retailers descend through the commission tier levels more slowly than expected.

Game Vendor Charges: YTD favorable $2,086,508

	Game Vendor Charges Variance Favorable/(Unfavorable)		
	YTD		
	Actual	Budget	Variance
Traditional	5,555,926	5,315,210	(240,715)
Video	230,029	271	(229,758)
Sports	20,933,007	23,489,988	2,556,982
	26,718,961	28,805,469	2,086,508

- Sports product is the major source of savings in game vendor charges. As previously mentioned, players had some lucky days in the 2nd quarter of the fiscal year. When days of loss occur, losses are shared with the vendor and they actually pay us.
- 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. This resulted in expense being included in the depreciation budget rather than the game vendor charges budget. The expected budget overage for video, by year end will be about $390K

OREGON LOTTERY®

Ticket Expense: YTD unfavorable ($479,871)

Ticket Expense Variance		
		YTD
Variance from sales	$	(192,111)
Variance from budgeted rate		(287,761)
	$	(479,871)

- $192K 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. Had we applied the same budgeted rate to the updated forecast numbers the sales portion of the variance would have only been $86K.
- 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. The estimated rate for budgeting purposes was based on actual percentages seen in fiscal year 2024. The budgeted rate for the first half of FY25 is 2.01% but the actual rate is 2.34%. This rate variance resulted in a budget overage of $256K. Last year's rate was lower as new contract pricing had not taken effect. It is anticipated that over the rest of the year the variance caused by the rate will decline, but will still remain unfavorable at year end.

Sales Support: YTD favorable $248,809

- The favorable variance is due to invoices not being received as expected. It was expected that invoices for updating faceplates would occur weekly. However, the vendor will now be invoicing when the work is completed in February.

Game Equipment Parts & Maintenance (GEPM): YTD favorable $1,209,169

- Game set purchases planned for the video product have shifted in both timing and the game sets being purchased due to vendor issues. By the end of Q3 (March) much of the favorable variance is expected to be used. However, the product team does anticipate a $300K to $400K favorable variance to remain at year end due to the plan changes.

Interest Expense (Direct): YTD unfavorable ($27,746)

- 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 ended in September and the equipment is now owned. This purchasing arrangement was in the Intelligen contract that started in September 2016.

- Interest for the Intelligen software was budgeted low.

Indirect Revenue: YTD favorable $1,778,798

The favorable variance is produced by interest earnings on cash balances. This is primarily caused by prize cash balances not being included in the budget projection.

Indirect Expenses - YTD favorable $7,270,303

Public Information: YTD favorable $102,865

- Focus has been on the launch of Cash Pop during the 2nd quarter so problem gambling work has been delayed. It is expected to pick up in the second half of the year.
- Some of the budgeted agency and consultant fees will likely not be spent due to illness of the consultant.

Market Research: YTD favorable $145,319

- Invoices for product research projects will be later than anticipated as some projects took longer to complete than initially scheduled.
- Responsible gambling research will be less than originally budgeted.

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

Salaries, Wages and Benefits Variance				
	Actual	Budget	Variance	% Variance
Salaries and Wages	26,171,201	27,949,806	1,778,605	6.36%
OPE	15,858,330	19,852,153	3,993,822	20.12%
Total	42,029,531	47,801,959	5,772,427	

- 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 July.
- Pay calibration is having a smaller impact than originally anticipated and there are fewer employees than projected at the time of budgeting.

Services & Supplies: YTD favorable $1,816,170

The favorable conditions are attributable to the following expense groups:

- Retailer Network Expenses – YTD favorable variance $541,943
  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 $816,527
  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 have been recognized as assets and amortized in depreciation over the length of the agreement. This can lead to differences between actual and budgeted expenses.

- Professional Services – YTD unfavorable variance $(271,433)
  The 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. OSP has been fully staffed this year resulting in higher costs than expected.

- Staff Training & Recruiting – YTD favorable variance $247,087
  Favorable variance to date is primarily due to postponed expenses for the CHRO recruitment and executive relocation costs. Additional favorable variances are seen in professional development and technical training. Both of these are expected to have increased participation in the second half of the year.

- Other Services & Supplies – YTD favorable variance $168,294
  Expenses in this category are flexible. For example, a solar evaluation and compensation survey have not been completed yet saving $18K. Managed spending in small parts and tools and other expense accounts have led to about $57K of favorable variance.

Depreciation (Indirect): YTD unfavorable $(538,282)

- Lease depreciation is over estimates due mainly to billboard lease renewals not being anticipated in the budget.
- Several software subscription assets have been added causing depreciation to be recognized. Because the designation as a subscription asset vs. expense is not known

before the contract is signed, these assets were budgeted in technology expense accounts. This depreciation overage is generally offset by the favorable variance in those accounts.

- Additional small overages are from vehicle purchases late in FY24 and the building security system not being included in the budget.

<u>Interest Expense (Indirect): YTD unfavorable $(28,196)</u>

- The negative variance is due to new lease and subscription contracts recognized as assets with a corresponding liability and interest. This results in expense being reported through depreciation and interest vs the technology expense accounts where they were budgeted.