OREGON LOTTERY®

Sales Sustainability Outlook & Strategic Considerations

Today's Goals

- Present basic OSL business model and highlight important links in our value chain
- Detail trends and describe changing landscape
- Ask the *Big Question*
- Open the strategy discussion

The Current OSL Business Model

The Player

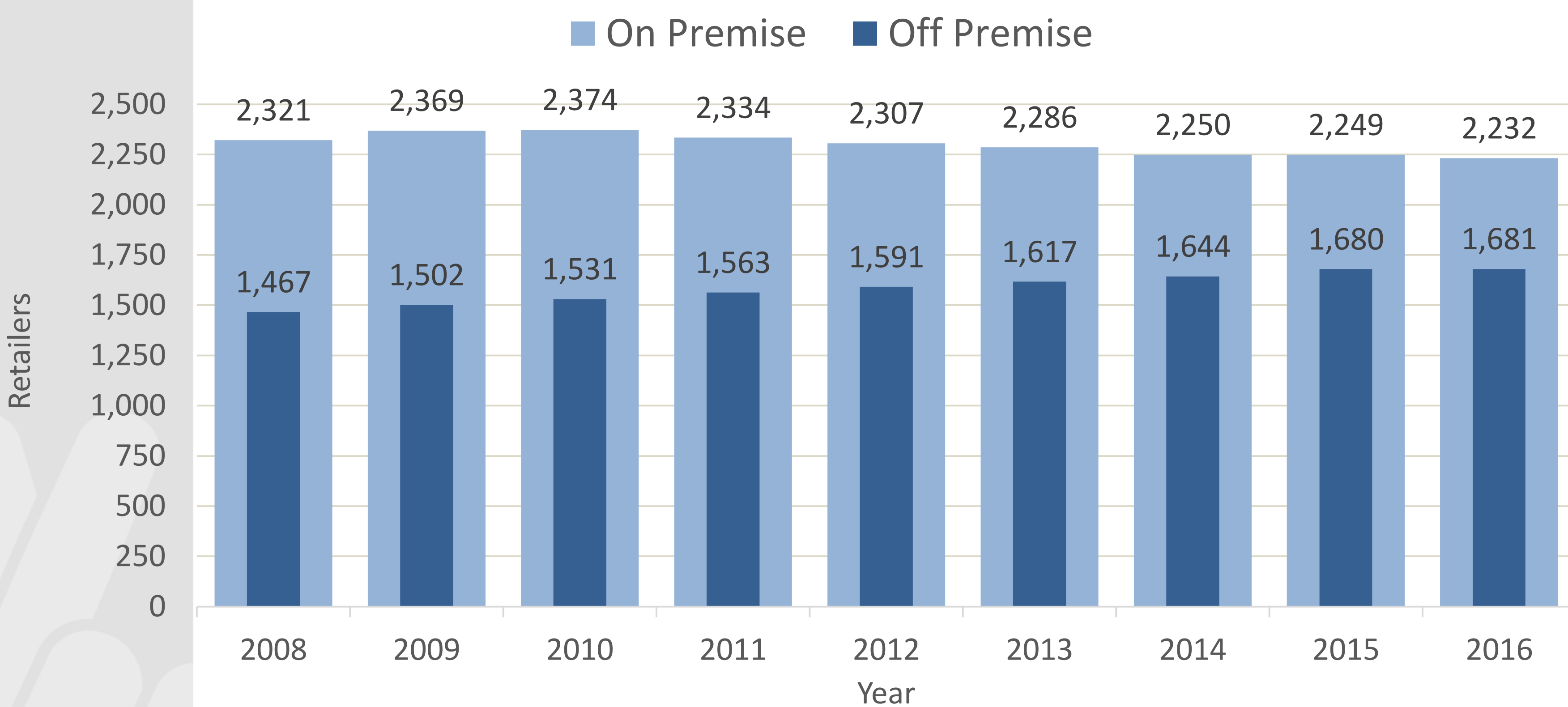
Demographic Changes Highlights

- Age: 40% between 35 and 54, with an average of 47
- Gender: Nearly 50/50
- Ethnicity: Predominately white, however, Hispanic Oregonians are becoming new players at a faster rate than non-Hispanics
- Education: 69% of Core Players have attended college, with 28% earning a degree
- Income: Approx 1/3 of players have household incomes greater than $50K, and 1/3 of players have household incomes less than $40K

What are many consumers looking for?

- Games of skill/knowledge
- Competition
- Sports betting
- A social aspect

Statewide Retailers

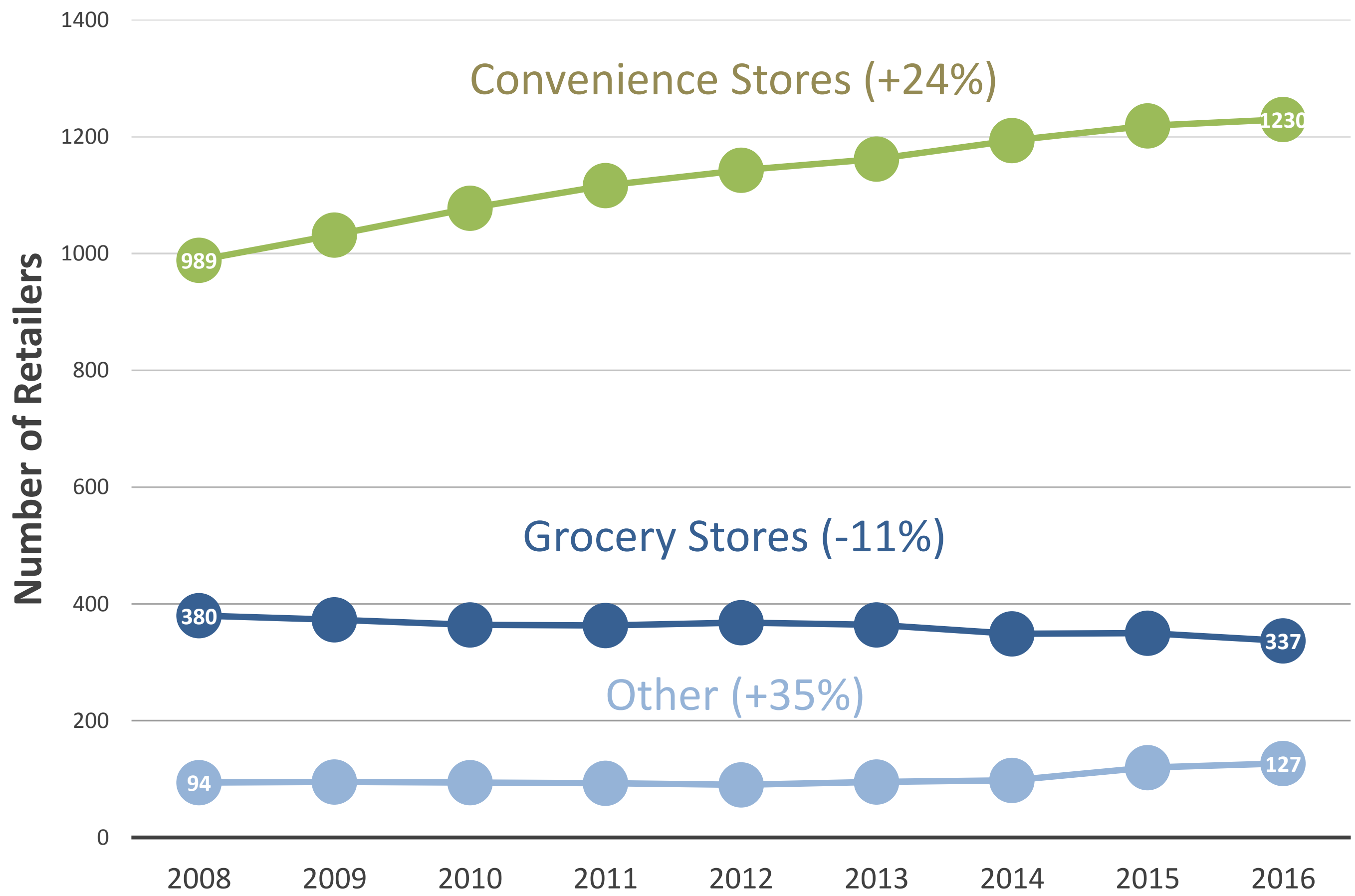


Total Retailers	3,788	3,871	3,904	3,898	3,898	3,903	3,894	3,929	3,913

The Retailer—Traditional

- Games sold at traditional retailers
  - **Instant**: Scratch-Its
  - **Draw Games**: Powerball, Mega Millions, Lucky Lines, Oregon's Game Megabucks, Keno, Raffle, Win for Life, Pick 4
- 29% of lottery revenue from traditional lottery sales (BY16)
- 75% of traditional-only retailers are in major metropolitan areas (1,268)
- 42% of traditional-only retailers are in the PDX metropolitan area (705)

Off Premise Traditional Lottery Retailer Counts by Business Year



Not all losses and gains are created equal

The loss of a single grocery store…

…may need two to three convenience stores to offset

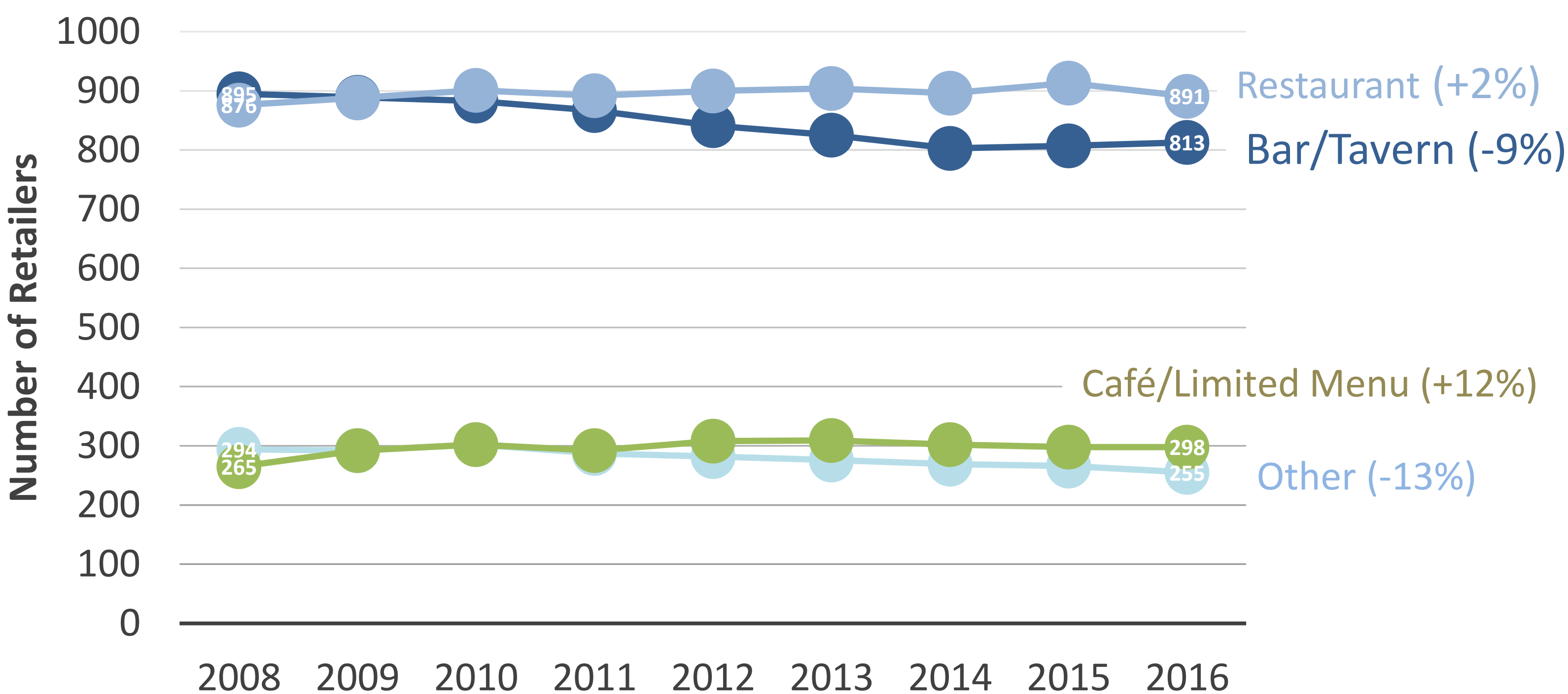
Traditional Off Premise Category	Average Weekly Sales*
Grocery	$2,400 to $5,600
Convenience Store	$1,200 to $3,100
Other	$900 to $2,100

* Interquartile range

The Retailer—Video

- 71% of Lottery Revenue from Video Lottery sales (BY16)
- 57% of Lottery Retailers (2,227) sell Video Lottery
- 77% of Video Lottery Retailers are in Major Metropolitan Areas (1,704)
- 47% of Video Lottery Retailers are in the PDX Metropolitan Area (1,043)

On Premise Video Lottery Retailer Counts by Business Year



Video Lottery On Premise Category	Average Weekly Sales*
Café/Limited Menu	$9,400 to $19,000
Bar/Tavern	$3,900 to $9,500
Restaurant	$2,800 to $8,200
Other	$1,800 to $6,300

* Interquartile range

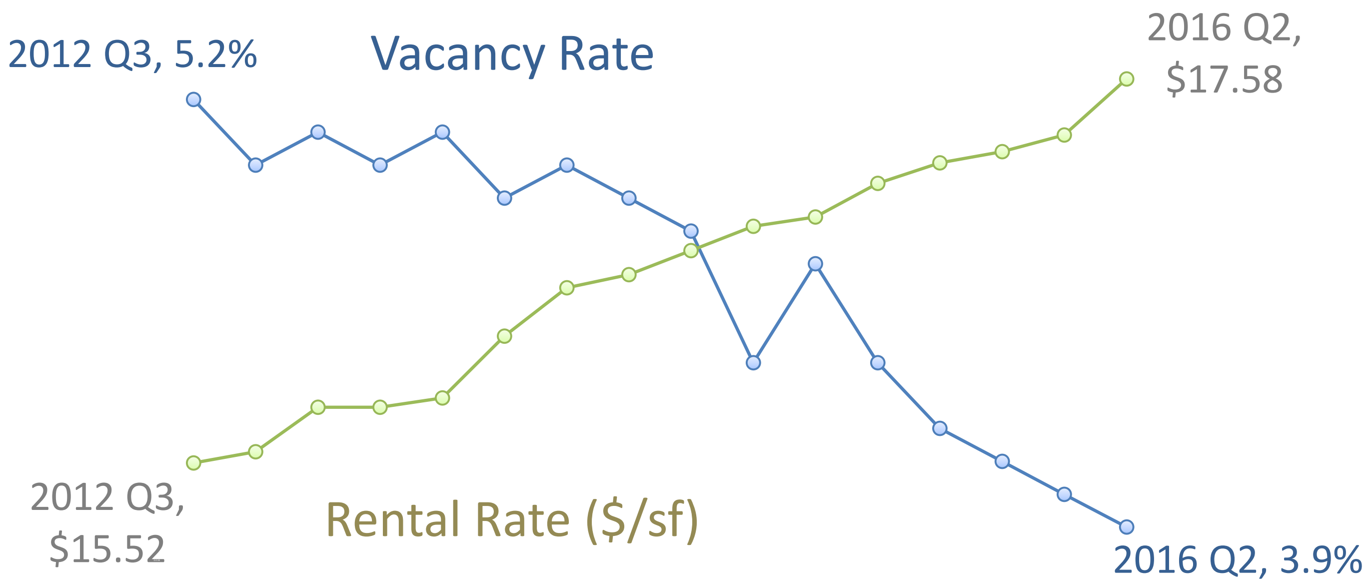
Oregon's gaming landscape may be saturated

- An analysis of the U.S. casino industry conducted by Nathan Associates, Inc.[1] states that many local and regional markets have shown flat or declining gaming revenue.
- The Oregon gaming market meets or exceeds the saturation thresholds identified by Nathan Associates, Inc.
  - These indicators suggest that increases in gaming revenue will be driven by population and income growth.
  - Additional gambling venues will likely compete for the same dollar, rather than drive an increase in overall gambling spend.

	Oregon Lottery	All Oregon Gaming	Saturation Level
Gaming Machines per 1,000 Adults (21+)	4.1	6.9	6 to 7
Gaming Machines per $1 Billion in Disposable Personal Income	79.4	133.6	100.0
Gross Gaming Revenue per Capita (21+)	$425.29	$632.04	$500.00
Gross Gaming Revenue as a Ratio of Disposable Personal Income	0.8%	1.2%	0.8%
Win per machine per day	$200.54	N/A	$200.00

[1]Meister, A. (2016). An Empirical Framework for Assessing Market Saturation in the U.S. Casino Industry. *Gaming Law Review and Economics*, Vol. 20, Issue 5.

Commercial Real Estate Pressures in Portland



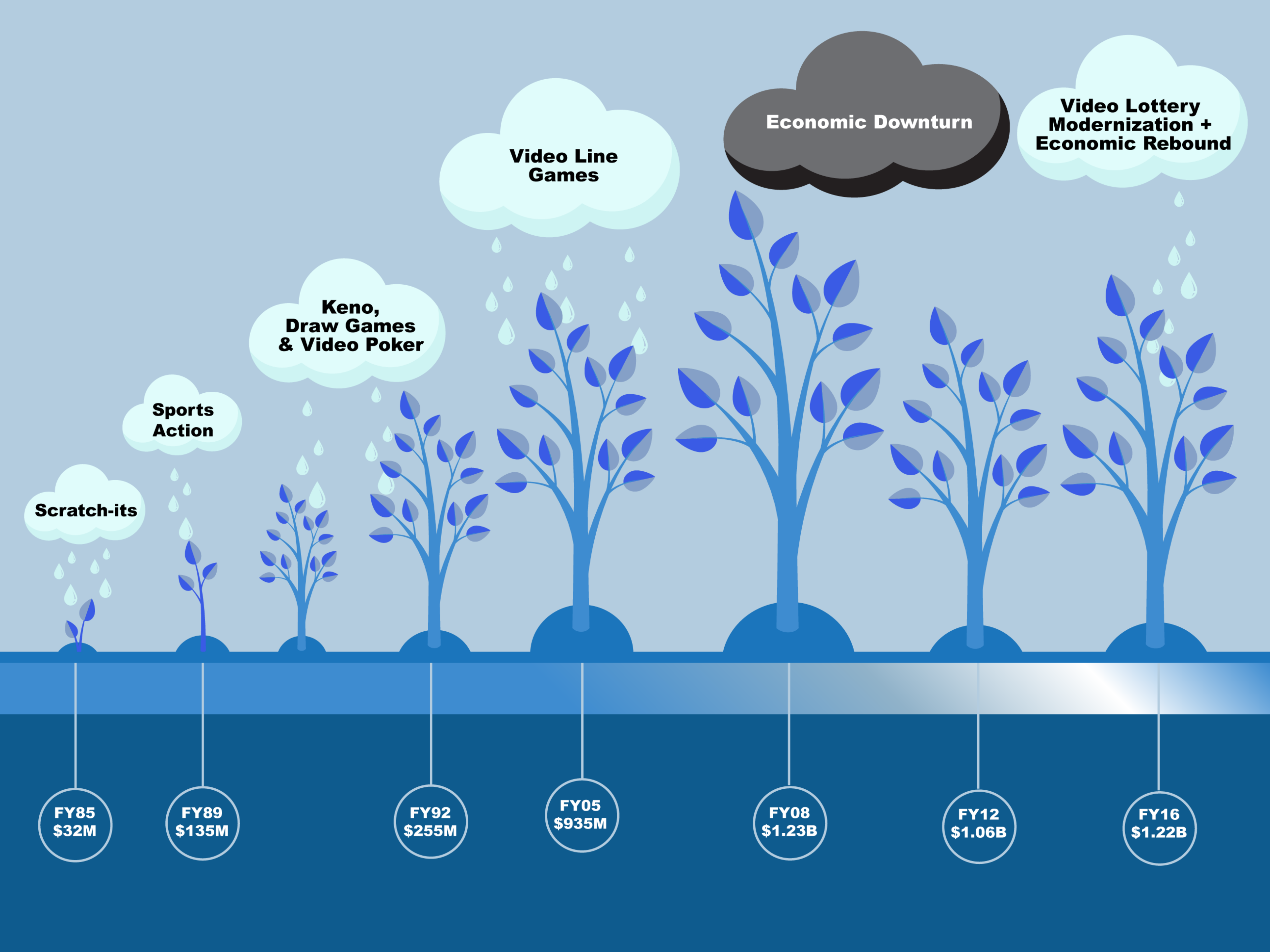
Commercial Real Estate Pressures in Portland

Major Trends

- Larger format retailer closures (Macy's, Walgreens)
- Smaller format specialty retailer growth
- Conversion of retailer space to creative office space

As some existing businesses in Portland are pressured due to rising rents and competition in the 1,500 – 3,000 square foot range, the infill of new smaller footprint retailers may not meet the criteria to be Video Lottery retailers or have business models that would include lottery products.

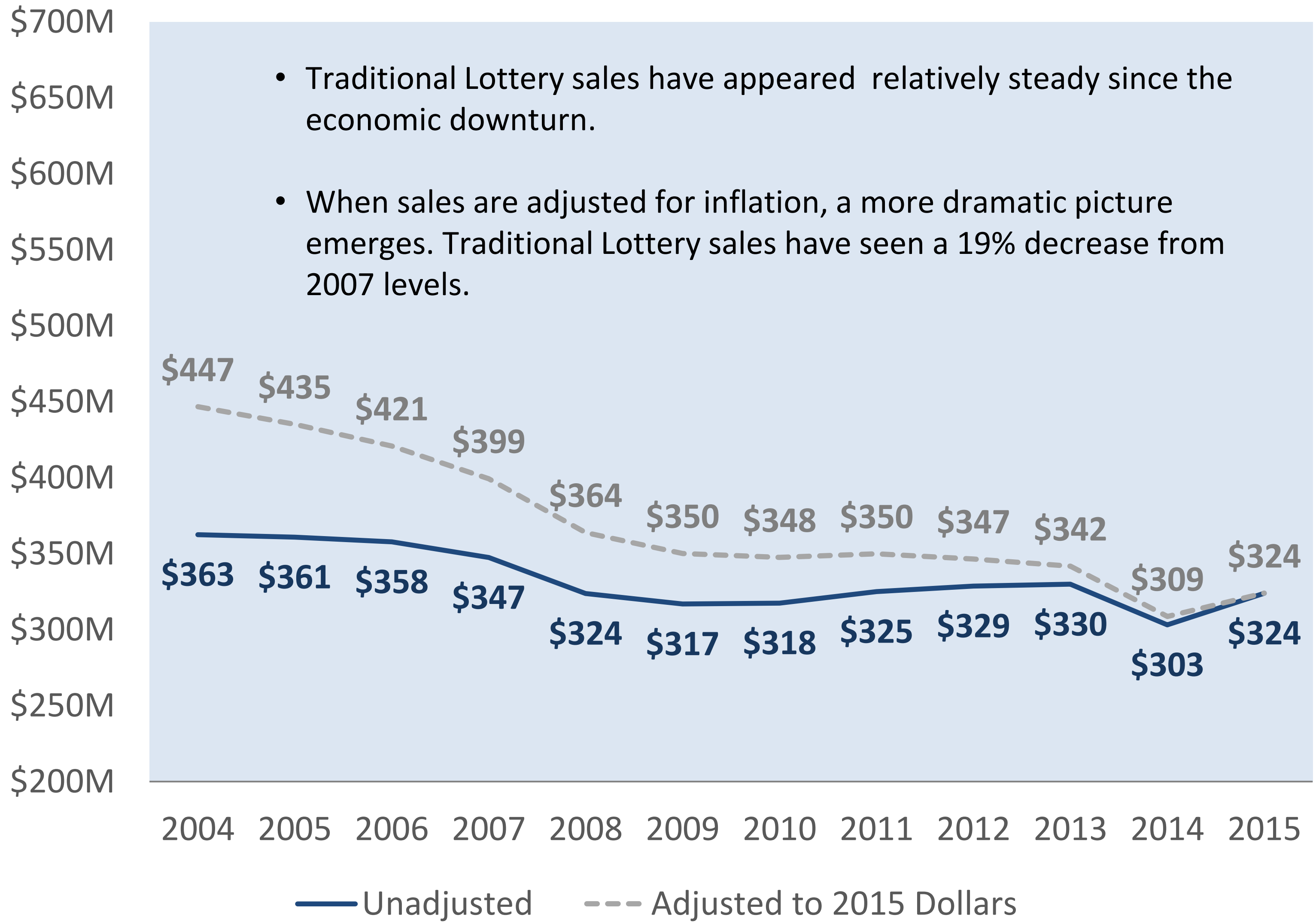
- **Food:** Killer Burger, Frack Burger, Little Big Burger, Laughing Planet, Chick-Fil-A, Corner Bakery, Wich Wich, MOD Pizza
- **Beverage:** Hopworks Urban Brewery, Wayfinder Beer, Century Bar
- **Grocery Stores:** Whole Foods 365, Green Zebra
- **Fitness:** Orange Theory Fitness, 9Round Kickboxing



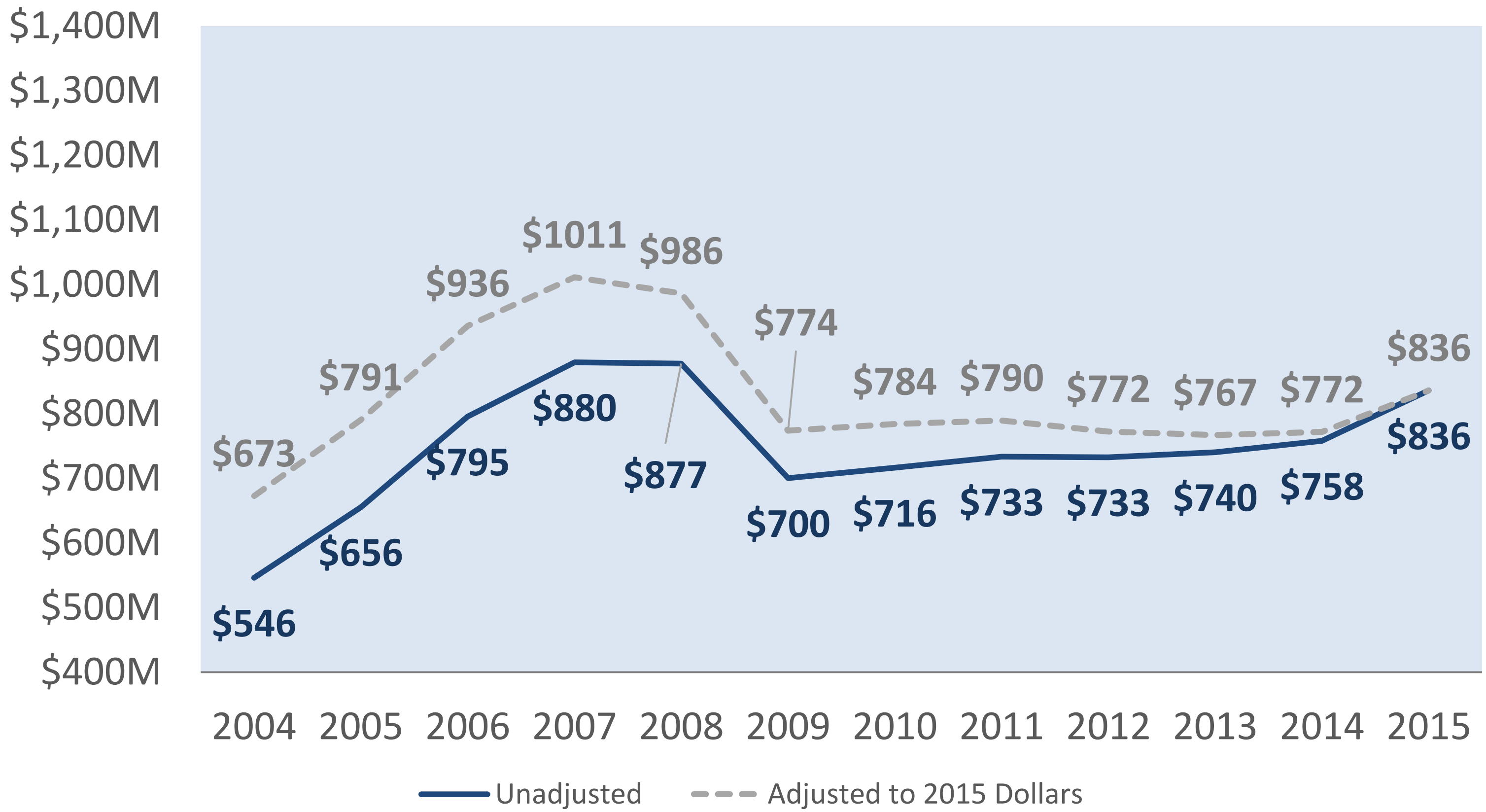
Scratch-its
Sports Action
Keno, Draw Games & Video Poker
Video Line Games
Economic Downturn
Video Lottery Modernization + Economic Rebound
FY85 $32M
FY89 $135M
FY92 $255M
FY05 $935M
FY08 $1.23B
FY12 $1.06B
FY16 $1.22B

Traditional Lottery Sales
Unadjusted versus Adjusted to 2015 Dollars

- Traditional Lottery sales have appeared relatively steady since the economic downturn.
- When sales are adjusted for inflation, a more dramatic picture emerges. Traditional Lottery sales have seen a 19% decrease from 2007 levels.

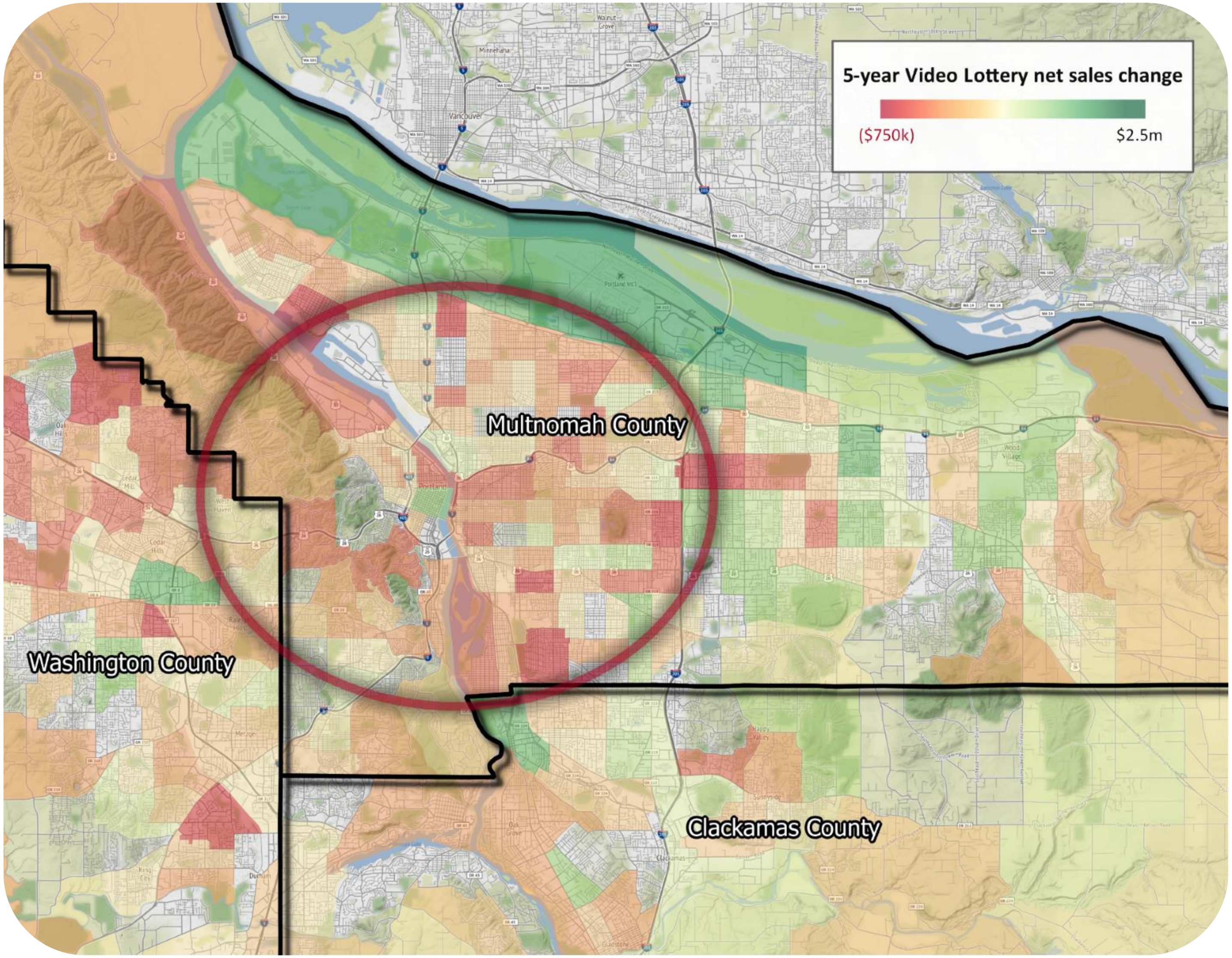


Video Lottery Sales
Unadjusted versus Adjusted to 2015 Dollars

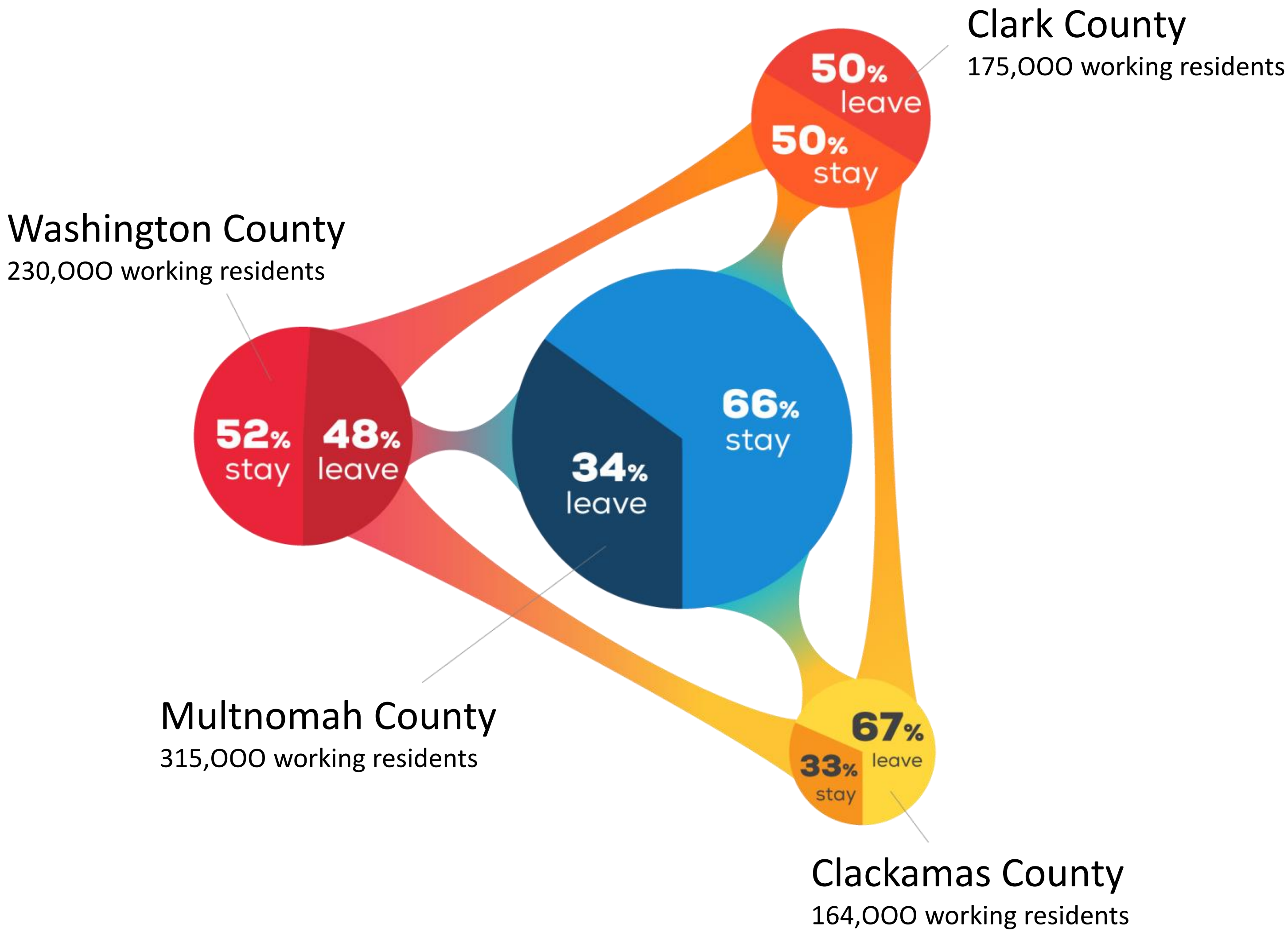


- In unadjusted dollars, Video Lottery sales begin to approach levels achieved prior to the economic downturn.
- However, in 2015 dollars, Video Lottery is still performing 17% below 2007 levels.

Greater Portland: 5-Year Video Lottery Net Sales Changes (FY12–FY16)

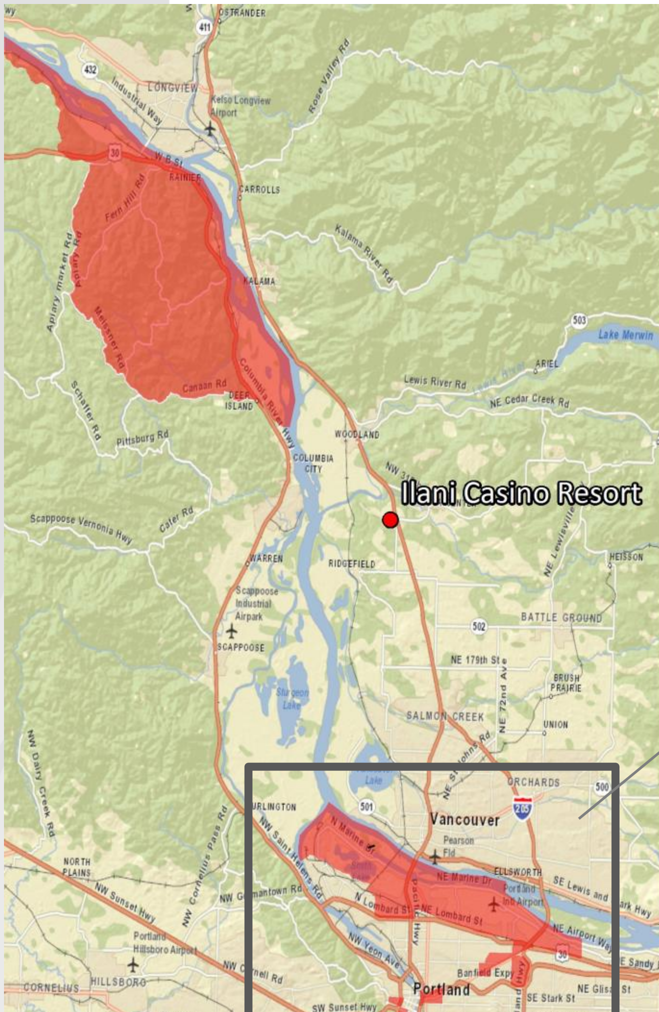


Where Portland region's residents work

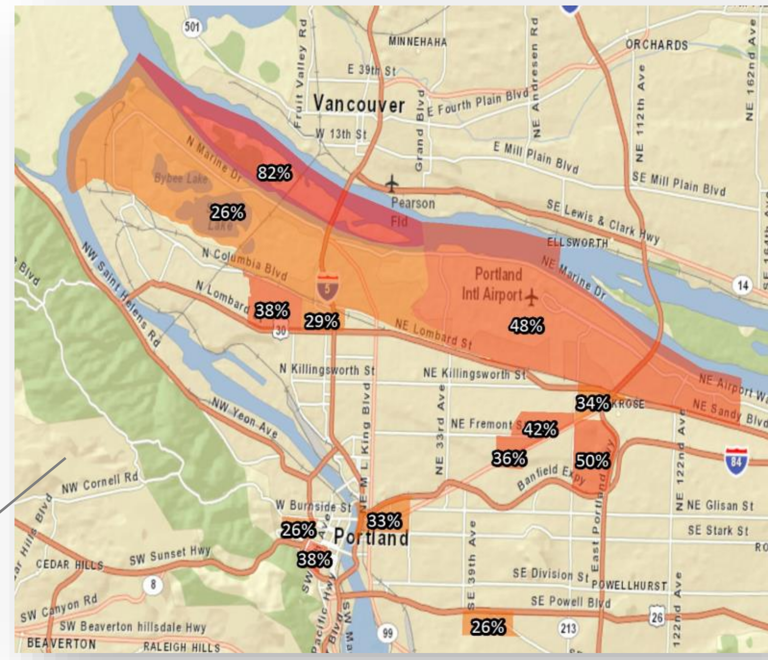


Source: Metro

Washingtonian Video Lottery Players in the Portland Metro Region



Red shaded areas: 25 % or more video Lottery players are from Washington State



Key Areas:

- Portland, north of Columbia Blvd, across from Vancouver
- Portland, along Sandy Blvd
- Rainier, across from Longview

Market and Industry Trends

We are selling "an off-line product in an on-line world".

Market expectations, driven by advances in consumer technology and demographic changes, are pushing the lottery industry to offer:

1. Convenient/mobile options to purchase and play lottery games

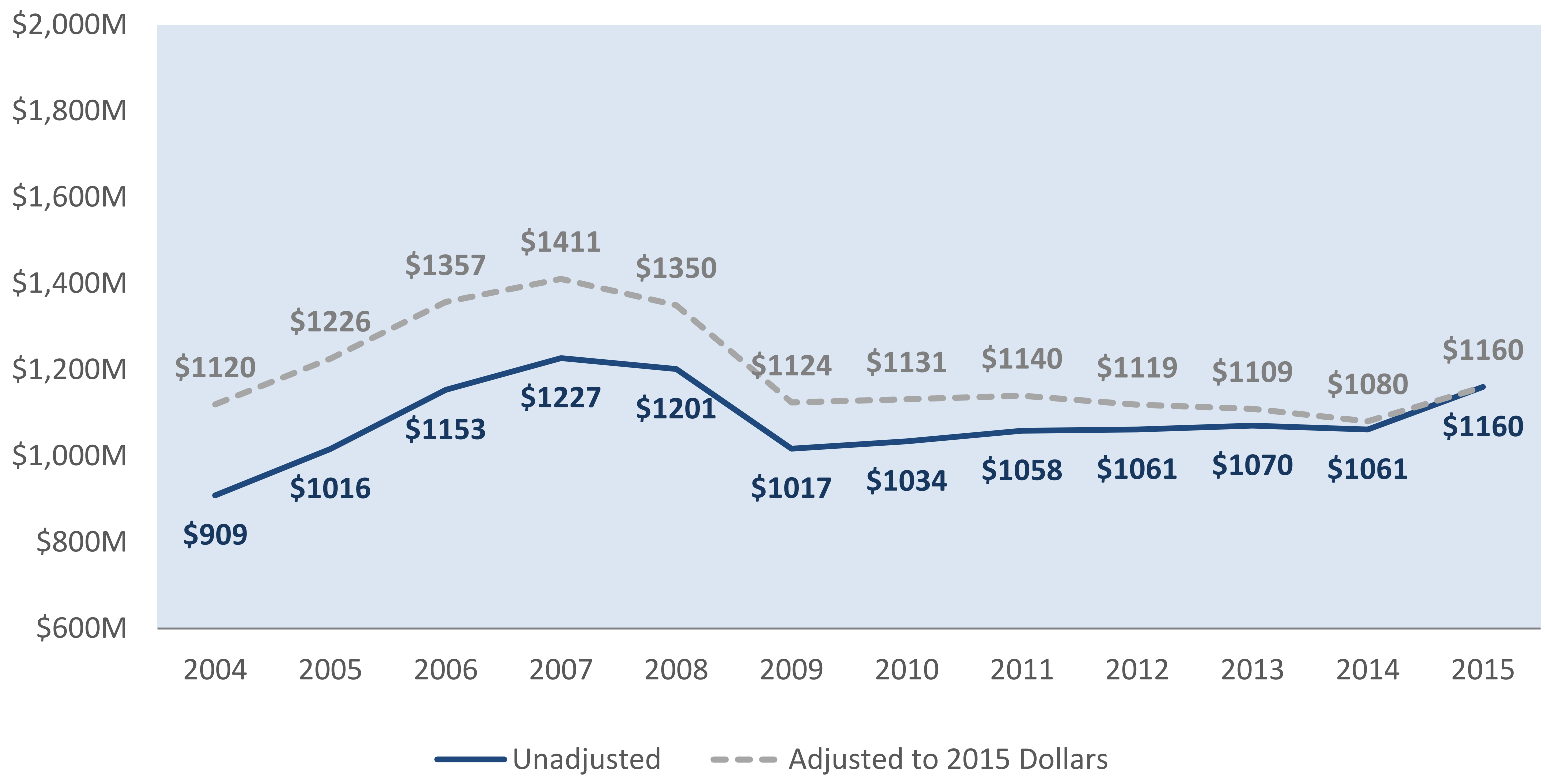
2. Experiential/social/authentic entertainment alternatives

The lottery industry is trying to innovate to meet these emerging expectations without alienating its core players, and is having varying degrees of success.

What does this mean

- Have not yet fully recovered from recession and future growth is not guaranteed
- All else held the same, it seems likely that real growth will continue be flat
- However, if untended, changes in player preferences and market characteristics may result in eroded playership and revenues
- Tribal gaming changes may result in negative shocks to Lottery revenue
- Without intervening strategies, such as responsible growth of the player base, product innovations, and thoughtful marketing, long term sales may be weaker than previously expected

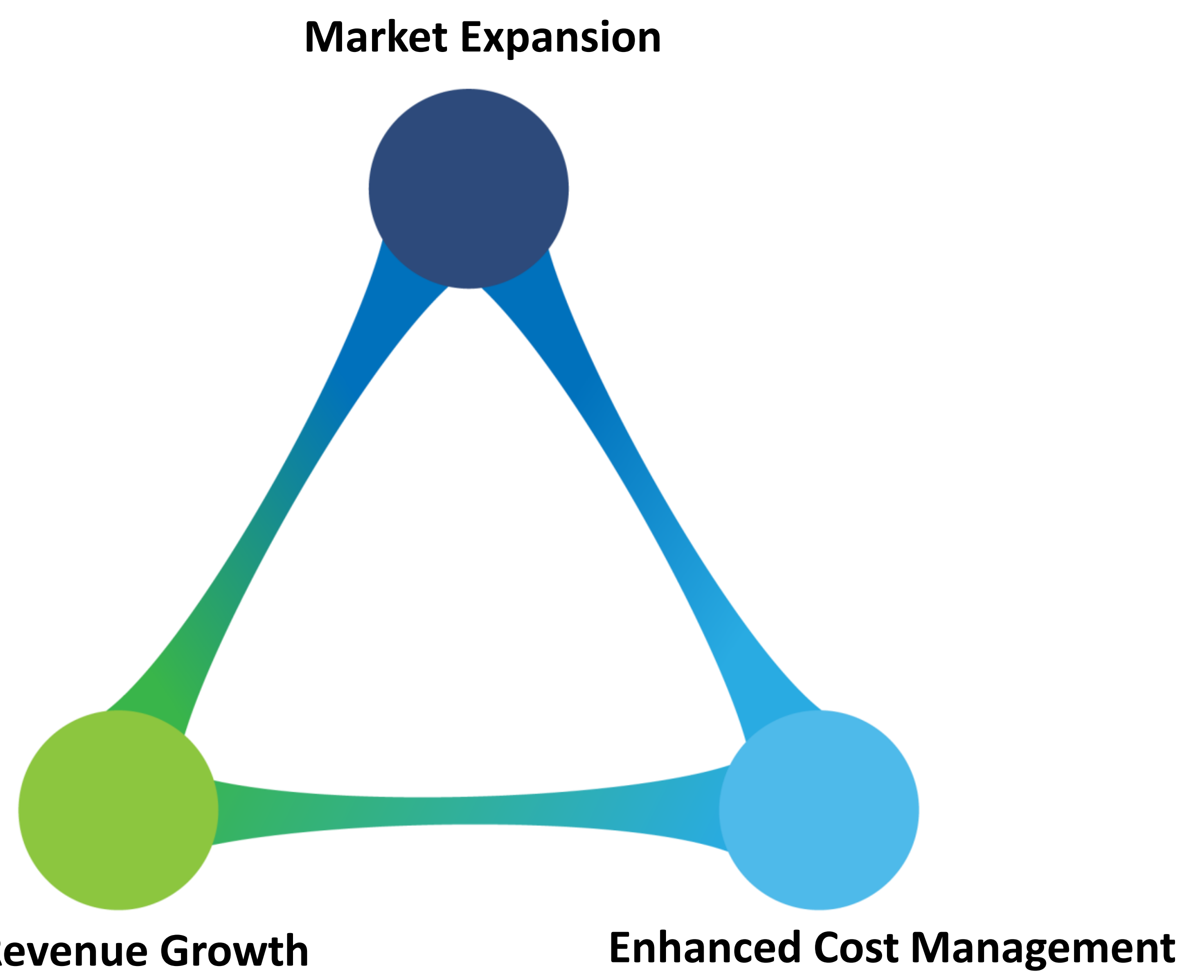
Total Lottery Sales
Unadjusted versus Adjusted to 2015 Dollars



- In unadjusted dollars, Oregon Lottery sales begin to approach levels achieved prior to the economic downturn.
- However, in 2015 dollars, Oregon Lottery sales are still performing 18% below 2007 levels.

The Big Question

Strategic Triangle for Maximized Profit/Transfers



Market Expansion

(Strategies to sell more volume)

- Deeper penetration into existing channels
  - Growing retailer partnerships; strengthening understanding and commitment to Responsible Gambling Code of Practice; including key messaging of:
    - Setting a budget
    - Setting a time limit
    - Knowing free and effective treatment is available
  - Corporate recruiting
  - Develop different retailer models

- New product development
  - Terminals, VLT games (thoughtful deployment)
  - CoBranded and new themed Scratch-its
  - ”Non-numeric” draw games
  - Sports themed
  - Integrated responsible gambling tools and information

- New distribution channels
  - Third party sales facilitators – offering increased access to in-state and international players
  - Online hybrid – “Geo-fenced” mobile purchases allowing partnerships with new retailers
  - Direct to player sales

Marginal Revenue Growth

(Strategies to increase revenue per purchase)

- Cross promotion and bundled sales
- Upselling and increased average wager
- Pricing and play optimization
- Balanced responsible gambling considerations – length of play time and wager amounts

Enhanced Cost Management

(Managing to ROI | Managing resources efficiently)

- Adaptive/flexible procurement – Annual VLT procurement, small batch test marketing
- New technology solutions
  - Digital v. Physical – Digital point-of-purchase materials and playstations
  - Integrated data systems – systems to manage customer relationship and sales support data, player data (supporting game design and responsible gambling strategies)
  - Digital Lottery-To-Go machines
- Banking and financing policies – Payment cards and deposit requirements
- Cost accounting systems

Questions?