South Dakota Lottery Commission Meeting December 14th, 2017
Executive Director Comments
Executive Director Comments

• Request for Proposals
  – Lotto and Video Lottery Central Gaming Systems

• FY17 Audit
  – No audit findings

• Commissioners Dykstra and Faehn
AGENDA

GOOD FUNCTIONALITY CAMPAIGN

2017 BRAND PERCEPTION STUDY
PERCEPTIONS
LOTTERY REVENUE
PLAYING HABITS
DISCUSSION
Goal: Move the audience past their indifference to the lottery and:
  - View the Lottery in positive light
  - Consider it an entertainment option

Focus: Gaming is entertainment with a bigger purpose in mind – improving South Dakota.
GOOD FUN!
FUN AND GOOD FOR SOUTH DAKOTA

DID YOU KNOW ELEPHANTS CAN'T JUMP? HOW ABOUT THAT THE SOUTH DAKOTA LOTTERY GAVE $112 MILLION BACK TO THE STATE LAST YEAR?

DID YOU KNOW COTTON CANDY WAS INVENTED BY A DENTIST? HOW ABOUT THAT THE SOUTH DAKOTA LOTTERY GAVE $112 MILLION BACK TO THE STATE LAST YEAR?

For more amazing facts and some other good fun, go to GoodFunSD.com.
2017 BRAND PERCEPTION STUDY
2017 Research Goals

1. Understand SD residents’ perceptions of the South Dakota Lottery and its’ family of games.

2. Gain an understanding as to whether the perceptions of the South Dakota Lottery have changed since 2015 and if so, how they have changed.

3. Identify ways to move the South Dakota Lottery brand forward in the future.
Survey creation and recruiting were executed with the goal of ensuring the 2017 study would be as similar as possible to the 2015 study.
The studies have very similar geographic distributions

*unweighted values
2017 v. 2015 DEMOGRAPHICS

**HOUSEHOLD INCOME**

- Less than $25k: 12% (2017), 13% (2015)
- $50k-$100k: 35% (2017), 36% (2015)
- $100k-$150k: 8% (2017), 10% (2015)
- $150k+: 3% (2017), 3% (2015)
- Prefer not to answer: 10% (2017), 9% (2015)

*unweighted values*
**2017 v. 2015 DEMOGRAPHICS**

**2017 AGE BREAKDOWN**

- 21-35: 16%
- 36-45: 18%
- 46-55: 24%
- 56+: 42%

**2015 AGE BREAKDOWN**

- 21-35: 27%
- 36-45: 16%
- 46-55: 20%
- 56+: 37%

**2017 PLAYERS CLUB MEMBERSHIP**

- **70%** YES
- **30%** NO

**2015 PLAYERS CLUB MEMBERSHIP**

- **57%** YES
- **43%** NO

*unweighted values*
WEIGHTING

Random Iterative Method

BY WEIGHTING THE 2017 SAMPLE DATA WE CAN ENSURE THAT THE TWO DATASETS CAN BE ACCURATELY COMPARED
PERCEPTIONS
2017 LOTTERY PERCEPTIONS

- FAVORABLE: 65%
- NEUTRAL: 21%
- NEGATIVE: 12%
- NOT FAMILIAR: 2%

* All Respondents
2015 v. 2017 PERCEPTIONS COMPARISON

FAVORABLE

- 2015: 37%
- 2017: 65%

NEUTRAL

- 2015: 21%
- 2017: 45%

NEGATIVE

- 2015: 9%
- 2017: 12%

NOT FAMILIAR

- 2015: 9%
- 2017: 2%

* All Respondents
2017 LOTTERY PERCEPTIONS

FAVORABLE

70%

NEUTRAL

25% 18%

NEGATIVE

13% 11%

NOT FAMILIAR

4% 1%

* Players Club v. Non-Players Club Responses
2017 vs 2015 PERCEPTIONS OF THE PLAYERS CLUB PROGRAM

Non-Players Club

<table>
<thead>
<tr>
<th>Year</th>
<th>Favorable</th>
<th>Neutral</th>
<th>Unfavorable</th>
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<tr>
<td>2017</td>
<td>17%</td>
<td>41%</td>
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<td>35%</td>
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<tr>
<td>2015</td>
<td>21%</td>
<td>41%</td>
<td>14%</td>
<td>29%</td>
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Players Club

<table>
<thead>
<tr>
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<th>Favorable</th>
<th>Neutral</th>
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<th>Not familiar</th>
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</thead>
<tbody>
<tr>
<td>2017</td>
<td>64%</td>
<td>25%</td>
<td>10%</td>
<td>1%</td>
</tr>
<tr>
<td>2015</td>
<td>51%</td>
<td>34%</td>
<td>9%</td>
<td>7%</td>
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</table>

Favorable | Neutral | Unfavorable | Not familiar |

20
**2017 vs. 2015 Play It Again Program Perceptions**

**Non-Players Club**

<table>
<thead>
<tr>
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<th>Not familiar</th>
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<tr>
<td>2017</td>
<td>26%</td>
<td>34%</td>
<td>8%</td>
<td>32%</td>
</tr>
<tr>
<td>2015</td>
<td>21%</td>
<td>35%</td>
<td>12%</td>
<td>31%</td>
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**Players Club**

<table>
<thead>
<tr>
<th>Year</th>
<th>Favorable</th>
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<th>Unfavorable</th>
<th>Not familiar</th>
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</thead>
<tbody>
<tr>
<td>2017</td>
<td>62%</td>
<td>21%</td>
<td>12%</td>
<td>5%</td>
</tr>
<tr>
<td>2015</td>
<td>53%</td>
<td>31%</td>
<td>9%</td>
<td>7%</td>
</tr>
</tbody>
</table>

*All Respondents*
Scratch

Lotto

Video
### 2017 vs. 2015 Scratch Tickets Perceptions

#### Non-Players Club

<table>
<thead>
<tr>
<th>Year</th>
<th>Favorable</th>
<th>Neutral</th>
<th>Unfavorable</th>
<th>Not familiar</th>
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<tbody>
<tr>
<td>2017</td>
<td>53%</td>
<td>29%</td>
<td>14%</td>
<td>3%</td>
</tr>
<tr>
<td>2015</td>
<td>49%</td>
<td>33%</td>
<td>13%</td>
<td>4%</td>
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#### Players Club

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<tr>
<td>2017</td>
<td>68%</td>
<td>18%</td>
<td>13%</td>
<td>1%</td>
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<tr>
<td>2015</td>
<td>59%</td>
<td>31%</td>
<td>8%</td>
<td>2%</td>
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</table>
2017 & 2015 LOTTO GAMES PERCEPTIONS

**Non-Players Club**

- **2017**
  - Favorable: 57%
  - Neutral: 25%
  - Unfavorable: 13%
  - Not familiar: 4%

- **2015**
  - Favorable: 50%
  - Neutral: 33%
  - Unfavorable: 13%
  - Not familiar: 3%

**Players Club**

- **2017**
  - Favorable: 70%
  - Neutral: 17%
  - Unfavorable: 11%
  - Not familiar: 1%

- **2015**
  - Favorable: 61%
  - Neutral: 30%
  - Unfavorable: 7%
  - Not familiar: 2%

Legend:
- Orange: Favorable
- Light Pink: Neutral
- Dark Gray: Unfavorable
- Light Gray: Not familiar
2017 vs. 2015 VIDEO LOTTERY PERCEPTIONS

Non-Players Club

<table>
<thead>
<tr>
<th>Year</th>
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<th>Unfavorable</th>
<th>Not familiar</th>
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<tr>
<td>2017</td>
<td>37%</td>
<td>29%</td>
<td>29%</td>
<td>6%</td>
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<tr>
<td>2015</td>
<td>32%</td>
<td>36%</td>
<td>26%</td>
<td>6%</td>
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</tbody>
</table>

Players Club

<table>
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<tr>
<th>Year</th>
<th>Favorable</th>
<th>Neutral</th>
<th>Unfavorable</th>
<th>Not familiar</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>39%</td>
<td>33%</td>
<td>26%</td>
<td>2%</td>
</tr>
<tr>
<td>2015</td>
<td>34%</td>
<td>38%</td>
<td>22%</td>
<td>6%</td>
</tr>
</tbody>
</table>

Legend:
- Favorable
- Neutral
- Unfavorable
- Not familiar
The overall perception of the South Dakota Lottery is far more favorable in 2017.
DETERMINING THE EFFECT OF THE GOOD FUN CAMPAIGN

IS THE GOOD FUN MESSAGING WORKING?
PEOPLE REMEMBER LOTTERY ADS

Do you recall seeing or hearing advertising messaging from the South Dakota Lottery within the last year?

YES 84%

* All Respondents
Do you recall seeing or hearing advertising messaging from the South Dakota Lottery within the last year? (Those who answered “Yes”)

Players Club: 90%
Non-Players Club: 76%

* Players Club v. Non-Players Club Responses
PEOPLE REMEMBER GOOD FUN, BUT WE HAVE ROOM TO GROW

Which of the following advertising messages do you recall seeing or hearing from the South Dakota Lottery?

(All Respondents)

- **GOOD FUN!** (49%)
- **Dream Big. Win Big.** (36%)
- **A State of Winning** (7%)
- **Other** (5%)
- **Raising Billions to Educate Millions** (4%)
Perceptions of the Lottery

- Favorable: 69%
- Neutral: 19%
- Unfavorable: 10%
- Not Familiar: 2%

*All Respondents*
LOTTERY REVENUE
SHOW THE GOOD THAT THE LOTTERY DOES

The fun of the South Dakota Lottery

The good the South Dakota Lottery does for the state
2017: MORE KNOWLEDGEABLE OVERALL

“I don’t know how the South Dakota Lottery money is used”

2015 Respondents
52% All Participants
71% Lapsed Players

2017 Respondents
50% All Participants
60% Lapsed Players
PLAYINGHABITS
OVERALL LOTTERY REGENCY
RECENCY

80% (Of Non-Players Club Members)

PLAYED WITHIN THE LAST YEAR

- Compared to 78% in 2015
When Was the Last Time You Played the SD Lottery?
(Non-Players Club Members)

2015
- Played within the last 6 months: 64%
- Has not played within the last 6 months: 36%

2017
- Played within the last 6 months: 72%
- Has not played within the last 6 months: 28%
When Was the Last Time You Played the SD Lottery?
(Non-Players Club Members)

Has not played within the last 6 months

2015: 36%

2017: 8%

Played within the last 6 months

2015: 72%

2017: 92%

INCREASE IN ACTIVE PLAYERS
(Non-Players Club)
PLAY FREQUENCY
BY GAME
How Often Do You Purchase Scratch Tickets? (Non-Players Club Members)

2015

- INFREQUENT: 55%
- FREQUENT: 29%
- NEVER: 17%

2017

- INFREQUENT: 44%
- FREQUENT: 46%
- NEVER: 10%
**2015-2017 Play Frequency - Scratch**

- **17% Increase in Frequent Scratch Players**
  (Non-Players Club)

- **7% Decrease in People Who Have Never Purchased Scratch Tickets**
  (Non-Players Club)
How Often Do You Play Video Lottery?  
(Non-Players Club Members)

2015
- Frequently: 21%
- Infrequently: 41%
- Never: 38%

2017
- Frequently: 32%
- Infrequently: 46%
- Never: 22%
2015 v. 2017 PLAYFREQUENCY - VIDEO

5%
INCREASE IN INFREQUENT VIDEO LOTTERY PLAYERS
(Non-Players Club)

6%
DECREASE IN PEOPLE WHO HAVE NEVER PLAYED VIDEO LOTTERY
(Non-Players Club)
• How Often Do You Purchase Lotto Tickets?
• (Non-Players Club Members)

- 46%
- 33%
- 21%
How Often Do You Purchase Lotto Tickets?
(Non-Players Club Members)

2017

<table>
<thead>
<tr>
<th>Game</th>
<th>FREQUENT</th>
<th>INFREQUENT</th>
<th>NEVER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Powerball</td>
<td>43%</td>
<td>9%</td>
<td>48%</td>
</tr>
<tr>
<td>Hot Lotto</td>
<td>34%</td>
<td>28%</td>
<td>29%</td>
</tr>
<tr>
<td>Mega Millions</td>
<td>29%</td>
<td>23%</td>
<td>47%</td>
</tr>
<tr>
<td>Dakota Cash</td>
<td>36%</td>
<td>25%</td>
<td>39%</td>
</tr>
<tr>
<td>Lucky For Life</td>
<td>29%</td>
<td>27%</td>
<td>44%</td>
</tr>
</tbody>
</table>
SALES

TOTAL SALES

$800,000,000

$750,000,000

$700,000,000

$650,000,000

$600,000,000

$550,000,000

FY12  FY13  FY14  FY15  FY16  FY17

2%

INCREASE IN SALES
(FY2016 to FY2017)
INCREASING PLAY
INCREASING PLAY

Would You Consider Playing the Lottery More?

80% of participants responded yes or maybe to playing the lottery more

*Non-Players Club Members
INCREASING PLAY-AGE

Would You Consider Playing the Lottery More?
(All Respondents)

<table>
<thead>
<tr>
<th>Age Group</th>
<th>Yes</th>
<th>Maybe</th>
<th>No</th>
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</thead>
<tbody>
<tr>
<td>21-35</td>
<td>47%</td>
<td>45%</td>
<td>8%</td>
</tr>
<tr>
<td>36-45</td>
<td>38%</td>
<td>47%</td>
<td>14%</td>
</tr>
<tr>
<td>46-55</td>
<td>25%</td>
<td>57%</td>
<td>18%</td>
</tr>
<tr>
<td>56+</td>
<td>20%</td>
<td>53%</td>
<td>26%</td>
</tr>
</tbody>
</table>
CONCLUSION
TAKEAWAYS

- Perceptions of the SD Lottery have greatly improved since the implementation of Good Fun.

- Residents have a better understanding of where the revenue from the lottery goes in the state.

- Recency and frequency have both increased which has led to an increase in lottery sales.

- An increasing number of people are willing to play the lottery more often and there are many opportunities to continue to growing lottery sales.

- A large proportion of people recall Good Fun.
  - Consider implementing ongoing Good Fun branding campaigns to continue to improve familiarity and perceptions.
DISCUSSION
FY19 Budget Request

• Two Budgets
  – Instant/Online – Informational Budget
  – Video Lottery

• FY19 Request
  – No increases requested

• Budget Amounts
  – Instant/Online - $38,405,766
  – Video Lottery - $2,674,153
FY 18 Video Lottery Performance Review
Video Lottery Net Machine Income - 3 Year Monthly Comparison

FY2016
FY2017
FY2018
New & Destroyed Terminals

FY16: 619 New, 541 Destroyed
FY17: 492 New, 465 Destroyed
FY18 (YTD): 151 New, 25 Destroyed
# YoY Percent Change in NMI – FY18 vs. FY17

## Over Performing Counties

<table>
<thead>
<tr>
<th>Rank</th>
<th>County</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>HAAKON</td>
<td>50.7%</td>
</tr>
<tr>
<td>2</td>
<td>HUTCHINSON</td>
<td>35.7%</td>
</tr>
<tr>
<td>3</td>
<td>DOUGLAS</td>
<td>26.4%</td>
</tr>
<tr>
<td>4</td>
<td>CLARK</td>
<td>22.4%</td>
</tr>
<tr>
<td>5</td>
<td>SULLY</td>
<td>21.5%</td>
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<tr>
<td>6</td>
<td>AURORA</td>
<td>16.8%</td>
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<td>7</td>
<td>BRULE</td>
<td>16.8%</td>
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<td>8</td>
<td>CODINGTON</td>
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<td>9</td>
<td>ROBERTS</td>
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<td>10</td>
<td>BENNETT</td>
<td>14.5%</td>
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<tr>
<td>11</td>
<td>HARDING</td>
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<tr>
<td>12</td>
<td>JERAULD</td>
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<td>13</td>
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<tr>
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<td>15</td>
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<tr>
<td>16</td>
<td>LAWRENCE</td>
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## Under Performing Counties

<table>
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<th>County</th>
<th>% Change</th>
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<td>EDMUNDS</td>
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<td>GRANT</td>
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<td>43</td>
<td>BROWN</td>
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<td>52</td>
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<tr>
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<tr>
<td>60</td>
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YoY Percent Change in NMI – FY18 vs. FY17

Legend

<table>
<thead>
<tr>
<th>Gain</th>
<th>Top 1/3 of Counties by Percent Gain (15)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Middle 1/3 of Counties by Percent Gain (14)</td>
</tr>
<tr>
<td></td>
<td>Bottom 1/3 of Counties by Percent Gain (15)</td>
</tr>
<tr>
<td>N/A</td>
<td>No Video Lottery</td>
</tr>
<tr>
<td>Loss</td>
<td>Counties by Percent Loss (16)</td>
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<td>City</td>
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<tr>
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</tr>
<tr>
<td>1</td>
<td>Sioux Falls</td>
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<tr>
<td>2</td>
<td>Rapid City</td>
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<td>3</td>
<td>North Sioux City</td>
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<td>4</td>
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<td>5</td>
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<td>Mitchell</td>
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<td>7</td>
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<tr>
<td>8</td>
<td>Pierre</td>
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<td>9</td>
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<td>10</td>
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<td>11</td>
<td>Box Elder</td>
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<td>12</td>
<td>Vermillion</td>
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<td>Brandon</td>
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<td></td>
<td>Subtotal (Top 15)</td>
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<td>All Other Towns</td>
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<tr>
<td></td>
<td>Statewide Total</td>
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Summary

- 4.04% ahead of FY17; Projecting $220.96 M for FY18
- On course to top 2009 levels for Net Machine Income.
- Since the lowest point in 2012, Video Lottery NMI has almost completely recovered, growing over 25% in six years.
  - 3.8% geometric average annual growth.
Legacy Terminals
Future is Now!
Timeline of Video Lottery in South Dakota

1988  Video Lottery Approved by South Dakota Legislature

1989  First VLC enrolled at Belle Fourche Lodge under Black Hills Novelty Co., Inc. (10/14/1989)

2000  Last date a new VLC was purchased and enrolled in the Video Lottery system. (May)

2001  Last software released and approved in South Dakota. (137B1 Software)

2001  IGT states they are no longer supporting VLC machines (July)
Timeline of Video Lottery in South Dakota

2004  Lottery Commission discusses obsolescence letter received from IGT during meeting. (March)

2007  Lottery Commission hold obsolescence hearing.

2008 **Lottery Commission obsoletes VLC’s. (1-4-08)**

2011  Lottery Commission approves Line Games for use in South Dakota (May)

2012  September the first line games introduced into South Dakota video lottery market. (Game Tech)

2013  Legislature approved Linear pay tables and penny denomination.

2016  New background check legislation passed.
Video Lottery by the Numbers

Cash In & NMI - Legacy vs. Line

- Legacy NMI (Old Machines)
- Line NMI (New Machines)
- Legacy Cash In (Old Machines)
- Line Cash In (New Machines)
Video Lottery by the Numbers

NMI/Terminal/Day - Legacy vs. Line

Legacy NMI per Machine per Day (Old Machines)
Line NMI per Machine per Day (New Machines)
Video Lottery by the Numbers

• Top 100 Performing Machines for November
  — 35 GMMS
  — 62 SAS, 3 Line (Spielos with line games running on legacy protocol)
Video Lottery by the Numbers

- NMI for top 100 GMMS machines: $1,007,938.60
- NMI for top 100 SAS machines: $1,219,173.23
Video Lottery by the Numbers

• 70% of NMI comes from just under 30% of machines
  – 1,423 SAS machines making up $7,142,494.67;
  – 1,106 GMMS machines making up $5,117,436.28;
  – 128 Line machines making up $531,250.90
Video Lottery by the Numbers

New & Destroyed Terminals

FY14 FY15 FY16 FY17 FY18 (YTD)

New & Destroyed

New

Destroyed
42-7A-21. Rules and regulations. The commission shall promulgate rules pursuant to chapter 1-26 governing the establishment and operation of a state lottery as necessary to carry out the purposes of this chapter. The commission shall promulgate rules concerning the following:

(10) The mechanical and electronic specifications for each video lottery machine. At a minimum, each video lottery machine shall meet the requirements of § 42-7A-37;

(17) Such other matters necessary or desirable for the efficient or economical operation of the lottery or for the convenience of the public.

42-7A-63. State's percentage of net machine income--Deposit into general fund and video lottery operating fund. The commission shall maximize revenues to the state from video lottery. The state's percentage of net machine income shall be fifty percent. The state's percentage of net machine income shall be directly deposited to the general fund, except for one-half of one percent of net machine income authorized for deposit into the video lottery operating fund.
General duties of all video lottery licensees. The general duties required of each video lottery licensee are as follows:

(5) Assist the lottery to maximize revenues to the state of South Dakota; and
Video Lottery in South Dakota

Date: July 5, 2001

From: Corporate Office, VLC

To: South Dakota Operators

Re: Obsolescence of the VLC Model FWG Gaming Machine

This memo serves as formal notification that VLC will discontinue the Model FWG gaming machine platform on July 5, 2001. The FWG platform and its associated components were originally designed over 15 years ago and have reached the end-of-life stage. The existing FWG gaming machine parts and accessories are still available for sale, but VLC will no longer support the FWG platform as of July 5, 2001. VLC will not accept orders for FWG platforms or FWG-related parts and accessories after that date.

VLC recommends transitioning to the new model, the Model VCM, as a result. The VCM platform offers improved performance and reliability, and VLC will provide ongoing support for the VCM platform.

VLC encourages operators to contact their sales representatives for assistance in transitioning to the VCM platform. Sales representatives will be available to provide guidance and answer any questions operators may have during this transition period.

VLC appreciates the support of its customers and looks forward to continuing to serve the South Dakota video lottery industry.
Items to consider:

- Age of current machines in market (30 years)
- Availability of approved parts for older machines
- Video System RFP (Available Extensions)
- Advantage or Disadvantage of running Multiple Protocols
- Line Game Performance vs Legacy Performance
- Current rate of machine investment. (New vs Destroyed)
- Cost of replacement machines
South Dakota Video Lottery

Open and transparent discussion with the Industry that helps maintain and grow the video lottery industry now and into the future. Keeping it as a positive and sustainable revenue source for the State of South Dakota and our partners.
Public Relations & Advertising Report
What’s New

Lotto America Rolled out on 11/12/2017

If you loved Hot Lotto and you love America, you’re going to REALLY love Lotto America. Why? It has better odds than Hot Lotto, and right now the jackpot is a record $16.3 Million! U-S-A, U-S-A, U-S-A!
What's New

Winner announced
12/04/2017

Second-prize winner sold in Fort Pierre!

Congratulations to our winner!
What’s New

Instant Ticket Testing

- Testing 44 new games
- Using 6 current “control” games. (100 Index)
- Testing in January, 2018

<table>
<thead>
<tr>
<th>Ticket Price</th>
<th>Number of Games Tested</th>
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<tr>
<td>$1</td>
<td>9</td>
</tr>
<tr>
<td>$2</td>
<td>10</td>
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<tr>
<td>$3</td>
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<td>$10</td>
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</tr>
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<td>$20</td>
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Sales Report
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<tr>
<th></th>
<th>Week Ending 12/09/2017</th>
<th>Fiscal Year</th>
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<tr>
<td><strong>Instant</strong></td>
<td>14.19%</td>
<td>9.87%</td>
</tr>
<tr>
<td><strong>Lotto</strong></td>
<td>36.78%</td>
<td>22.76%</td>
</tr>
<tr>
<td><strong>Video</strong></td>
<td>13.52%</td>
<td>4.35%</td>
</tr>
</tbody>
</table>
Instant and Online FY18 Revenue Projections
As of November 30, 2017

- **Instant Games**:
  - FY2018 Estimates: $5.74
  - FY2017 Actual (cash basis): $5.22

- **Lotto Games**:
  - FY2018 Estimates: $7.63
  - FY2017 Actual (cash basis): $7.04