



## FY 2025 Management Commentary

Fiscal year 2025 presented unique challenges not only to the North Carolina Education Lottery (NCEL), but the entire Lottery industry. As noted in the accompanying financial report, total sales in fiscal year 2025 equaled \$6.6 billion.

The lottery recorded \$4 billion in sales from lottery products sold in stores, down \$254 million from the year before. It recorded \$2.6 billion in Digital Instant sales during the first full year this new lottery product was offered.

Two independent factors were the primary reasons for those results. Retail sales declined mainly due to the underperformance of national, multistate draw games, Powerball and Mega Millions. Offsetting that decline was the growth in sales of Digital Instant games. As Digital Instant games attracted new lottery players, they rose to the second most popular way to enjoy lottery play.

### MULTISTATE DRAW GAMES

A significant percentage of lottery performance sometimes simply results from the luck of the draw. Both multistate jackpot games, Powerball and Mega Millions, perform best when jackpots reach or exceed a certain level to drive sales.

In fiscal year 2025, an unusual, almost unprecedented, number of Powerball and Mega Millions jackpots did not reach the levels needed to drive sales. Statistically, this is not expected to occur.

The highest Powerball jackpot reached only \$514 million in the year. In fiscal year 2024, the Powerball jackpot exceeded the \$1 billion mark three times, with a high of \$1.7 billion. The Mega Millions jackpot only exceeded the \$1 billion mark once, a \$1.2 billion jackpot. The year before, two Mega Millions jackpot exceeded \$1 billion with a high of \$1.56 billion.

When jackpots reach certain levels, such as \$1 billion dollars, the level of interest from consumers soars, ticket sales increase, and profits from those sales rise accordingly. This chart indicates the number of drawings that exceeded \$800 million for the last two fiscal years.

Jackpots > \$800 M	FY 2025	FY 2024
Powerball	0	4
Mega Millions	2	2
Total	2	6

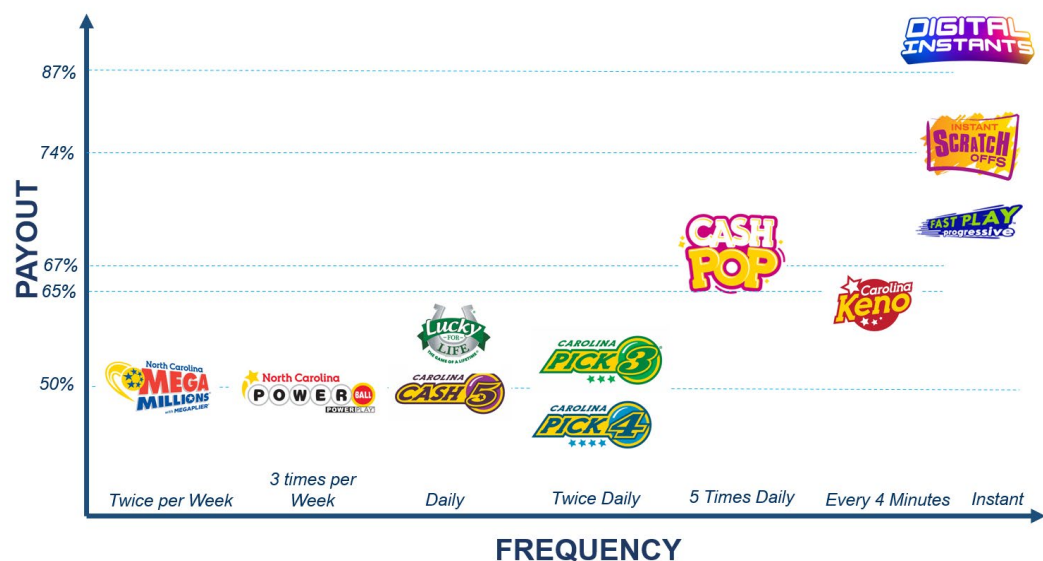


Due to the lack of high jackpots, combined sales from these multistate jackpot games decreased by \$174 million, resulting in \$70 million less in net profit. This decline contributed to two-thirds of the deficit in retail sales of lottery games. Consequently, a substantial percentage of fiscal year 2025 performance resulted mostly from the luck of the draw.

## DIGITAL INSTANTS

Digital Instant games provided a needed lift to sales, contributing nearly 40% of the lottery's overall product mix in fiscal year 2025. The games, sold exclusively through NCEL's Online Play program, expanded NCEL's offering online to include an instant win category of games.

Digital instant games like their retail instant win equivalent, scratch-offs, have higher payouts than draw games due to the nature of game play. The NCEL's game portfolio features a wide range of payouts based on the value proposition of each game with digital instant games providing the highest prize payout.



North Carolina's launch of digital games became the most successful one so far in the U.S. lottery industry. Many of those new players did not play traditional lottery games so digital instants helped the lottery expand its overall base of players.



## Summary

Luck of the draw makes it difficult for a lottery to forecast sales of multistate games such as Powerball and Mega Millions. Consequently, lotteries adopt conservative sales forecasts for this product line. In a typical year, multistate jackpot games perform as expected, delivering higher margin sales to a lottery's portfolio. The key to reducing risk for a year when a slump occurs in the sale of multistate jackpot games relies on a well-balanced game portfolio where an increase in sales in one part of the product line makes up for a weakness in another part.

The popularity of new digital games helped offset a decline in traditional lottery games seen both in North Carolina and at most lotteries across the U.S. The NCEL experienced success with digital instant games as it dealt with an unexpected downturn in traditional higher margin games. This led to a lower profit margin in fiscal year 2025.

The introduction of digital instants is a strategic business decision to ensure the sustainability of the lottery over time. If not for this new way of playing lottery games, the lottery would be unlikely to sustain its record of increasing sales every year or its ability to raise more than \$1 billion a year for the good cause it serves.

As lottery players' interest and purchasing habits change, the lottery must evolve with those changes and provide entertaining games where customers expect them to be. Digital Instants provides the platform for the lottery to offer convenient and fun online play to those who want it –in an increasingly competitive gaming space in North Carolina –, and to continue to attract new players to lottery games.