



# Changes and opportunities in the Brazilian lottery market

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# Brazilian Ministry of Finance's institutional role



- Lottery exploration is one of many areas of competence of the Ministry of Finance.
- Brazilian Ministry of Finance's Secretariat of Fiscal Matters, Energy and Lotteries (Sefel) is responsible for the authorization, supervision, enforcement and regulation of lotteries activities in Brazil.
- Constantly searching for efficiency in lottery operation.
- Monitoring sales performance and market occupation to identify potential opportunities.
- Growth potential is not reached by the current form of management of Federal Lottery.



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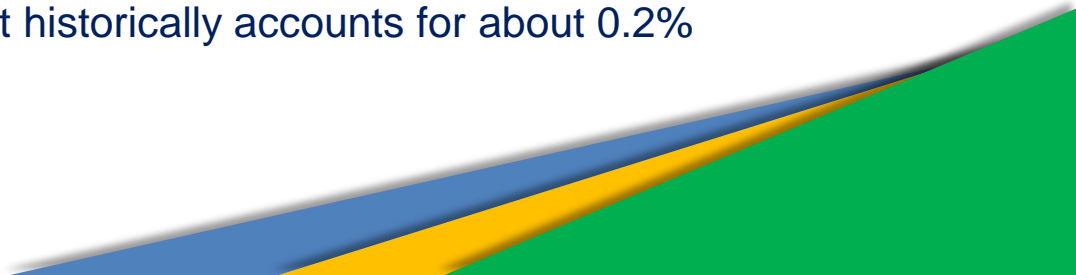
**Sefel**

# Lotteries in Brazil

- Since 1941 the legal framework defines as crime any game involving a bet “where a player can win or lose” according to the Brazilian Criminal Offenses Law (Decree Law 3,699/1941) – **the only exceptions are lotteries.**
- The set of lotteries in Brazil are categorized as the follow:

Categories	Lotteries
DRAW-BASED GAMES	six lottery products: <i>Mega-Sena</i> , <i>Quina</i> , <i>Lotofácil</i> , <i>Lotomania</i> , <i>Dupla Sena</i> and <i>Timemania</i>
SPORTS GAMES (PARI-MUTUEL)	two lottery products: <i>Loteca</i> and <i>Lotogol</i>
NUMBERS	one lottery product: <i>Loteria Federal</i>
INSTANT GAMES	Not available yet – the auction for concession will be held in June 2018

- The administration of federal lotteries is managed by *Caixa Econômica Federal* (CEF), which has a market that historically accounts for about 0.2% of GDP (US\$ 4.3 million - 2017).



# Federal Lottery's nominal sales

(\*US\$ million)

Categories	2013	2014	2015	2016	2017	Share (2017)
Draw-based games	3,411	4,055	4,515	3,879	4,212	96.80%
Sports games (pari-mutuel)	32	36	43	38	33	0.75%
Numbers	88	91	104	107	107	2.45%
Instant tickets	47	60	9	**	-	-
<b>Total</b>	<b>3,578</b>	<b>4,242</b>	<b>4,671</b>	<b>4,024</b>	<b>4,351</b>	<b>100%</b>
% of GDP	0.21%	0.24%	0.25%	0.21%	0.21%	

\* All values are using Brazilian Central Bank's mean exchange rate to 2017 (US\$ 1 = R\$ 3.19).

\*\* The production and supply of this product was suspended in March 2015.

# Exclusive Instant Lottery (LOTEX)

- Law 13,155 of 04<sup>th</sup> August 2015 (complemented by Law 13,262 of 22<sup>nd</sup> March 2016) established a new legal base for instant tickets lottery to Brazil – Loteria Instantânea Exclusiva (LOTEX).
- Allowed exploration of instant lottery by a private operator as public service concession.
- Sales authorized by phiscal retailers and virtual channels of distribution.

<b>100% Total Sales</b>	<b>65%</b>	Prizes payout (average)
	<b>18.3%</b>	Operator´s commission
	<b>16.7%</b>	Social beneficiaries

- Federal Government decided to privatize LOTEX operation looking forward to reach efficiency in the commercialization of instant tickets
- **Auction will happen next month.**



# LOTEX - Privatization through concession

- The recommendation to a concession for a private company with experience in the operation of instant lotteries in other global markets is based on the fact that LOTEX is not an essential public service - there is no collective interest in it.
  
- In addition to a new legal framework paving the way to the assignment of LOTEX to the market as a concession – enacted by Congress as Law 13,155/2015 – the government considered four elements in its decision:
  - i. lottery should be provided at the risk and expense of the private concessionaire;
  - ii. the absence of any subsidy from the federal government, either directly or through its state-owned companies;
  - iii. the federal government would be the main beneficiary of the success of LOTEX and earn 16.7% of the instant lottery's revenue – earmarked for social beneficiaries - and would collect taxes on the concessionaire's profits and income tax generated from LOTEX lottery winnings;
  - iv. privatization of LOTEX should bring competition to lotteries as a whole.



# Federal Lotteries Modernization

## Lotteries as funding for Public Security

- In 2016, the subfunction of state policing accounted for US\$ 1.38 billion of the total US\$ 18.28 billion in current expenditures;
- In this US\$ 1.38 billion are all expenses with management actions, compensation, feasibility, capacity building and contingency policies;
- The Provisional Measure is a federal lottery policy program for the Fund for National Public Security (*Fundo Nacional de Segurança Pública* - FNSP), restricted to funding activities of the subfunction of policing throughout Brazil, including a porcentage destination of its resources directly to states, which will contribute to increase the funding of the subfunction of state policing by more than 50%.

### Advantages of the Provisional Measure:

- a) It doubles the availability of resources to be spent on these actions;
- b) It broadens the sense of public safety;
- c) Serves the aspirations of society at the federal, state and municipal levels;
- d) Provides greater visibility to resources coming from lotteries → tend to increase with the entry of LOTEX and modernization of the sector.





# Federal Lotteries Modernization: Payout realignment and Transparency

- It allows realignment of the payout for current three categories of federal lotteries according to best practices in the global market.
- LOTEX's Law has already defined a payout of 65%, in line with the payout of the instant lottery category observed in modern lottery markets.
- With LOTEX in operation it will be necessary to re-align the payout of the existing federal lotteries, so that they can compete in isonomic conditions with instant lotteries, also guaranteeing the maintenance of the FNSP resources over time.
- Additional resources earmarked for public safety are also possible due to the increase in the expected collection capacity of lotteries as a result of updating the regulatory framework.
- There will be re-allocation of LOTEX resources from sports to public safety. This reallocation was necessary because the needs of resources to face the challenges of public safety are a higher priority than those of the sports at present moment.

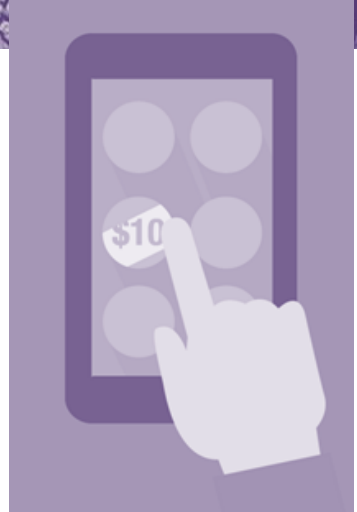


# Federal Lotteries Modernization: Payout realignment and Transparency



- To LOTEX there will be no change in the percentages of the distribution of total sales, but rather the allocation of resources previously foreseen for sport to public safety.

<b>100% Total Sales</b>	<b>65%</b>	Prizes payout (average)
	<b>18.3%</b>	Operator's commission
	<b>16.7%</b>	Social Security and <b>Public Security</b>



- For the other three lottery modalities, there will be a rearrangement of the percentage distributions of total sales, bringing resources to the FNSP.



# Federal Lotteries Modernization: Payout realignment and Transparency

## Five principles :

- 1) Increase the resources to public security;
- 2) Social security resources kept;
- 3) All social beneficiaries were kept in base of distribution;
- 4) Base of distribution was uniformized, it will be the same to everyone;
- 5) Simplify the legislation of lottery (fifteen laws in only one).

## Numbers

Entity	% 2018	% after LOTEX
Social Beneficiaries	24,96	20,87
Operator's commission (CEF)	19,13	19,13
<b>Payout</b>	<b>55,91</b>	<b>60,00</b>
<b>TOTAL</b>	<b>100</b>	<b>100</b>

# Federal Lotteries Modernization: Payout realignment and Transparency


## Draw-based games

Entity	% 2018	% after LOTEX
Social Beneficiaries	37,52	30,87
Operator's commission (CEF)	19,13	19,13
<b>Payout</b>	<b>43,35</b>	<b>50,00</b>
<b>TOTAL</b>	<b>100</b>	<b>100</b>

## Sports Games (pari mutuel)

Entity	% 2018	% after LOTEX
Social Beneficiaries	43,26	25,87
Operator's commission (CEF)	19,13	19,13
<b>Payout</b>	<b>37,61</b>	<b>55,00</b>
<b>TOTAL</b>	<b>100</b>	<b>100</b>

# Final words

- A competitive auction with the participation of the largest lottery companies in the world, the minimum grant payment of US\$ 150.82 million, a business plan that signals a growth of more than 30% of the Brazilian lottery market for the next 5 years and more than doubling it over the next 15 years is undoubtedly an excellent project for the country.
  - With LOTEK operated by a company with great experience in instant lottery, the Ministry of Finance expects a great growth of the national lottery sector.
  - Assuming some degree of substitutability between the instant lottery and the other lottery modalities that exist today, we aim a competitive duopoly in the Brazilian lotteries sector; with the competition, every lottery market should grow (new concessionaire, CEF and lottery retailers), printing modernity and innovation in the sector.
  - In the face of the new competition scenario, realignment of the federal lotteries to provided isonomy to the conditions of competition with the future concessionaire of LOTEK and, mainly, to strengthen the actions of the States in the provision of public security, by offering a consistent and perennial source for costing and investment in crime.
  - Greater competition means greater modernization, greater innovation, higher tax revenue directly collected by the government, more jobs and more income turning in the economy.
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**Thank you!**



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