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The Grey Machine Market – An Overview

Skill-based gaming machines, often referred to as “grey machines” due to their ambiguous legal status, are a growing phenomenon in the U.S. and one that warrants our industry’s attention. In this issue of Data in Motion, we provide a general overview of the grey machine market and its potential impact on the lottery industry.

What is a “Skill-Based Gaming Machine”?

The definition of a skill-based gaming machine is crucial, as it distinguishes these games from traditional casino gaming machines, such as slot machines, which are legally required to rely solely on chance and exclude any element of skill. This distinction enables skill-based games to operate without the usual oversight and regulations applied to chance-based gaming machines.

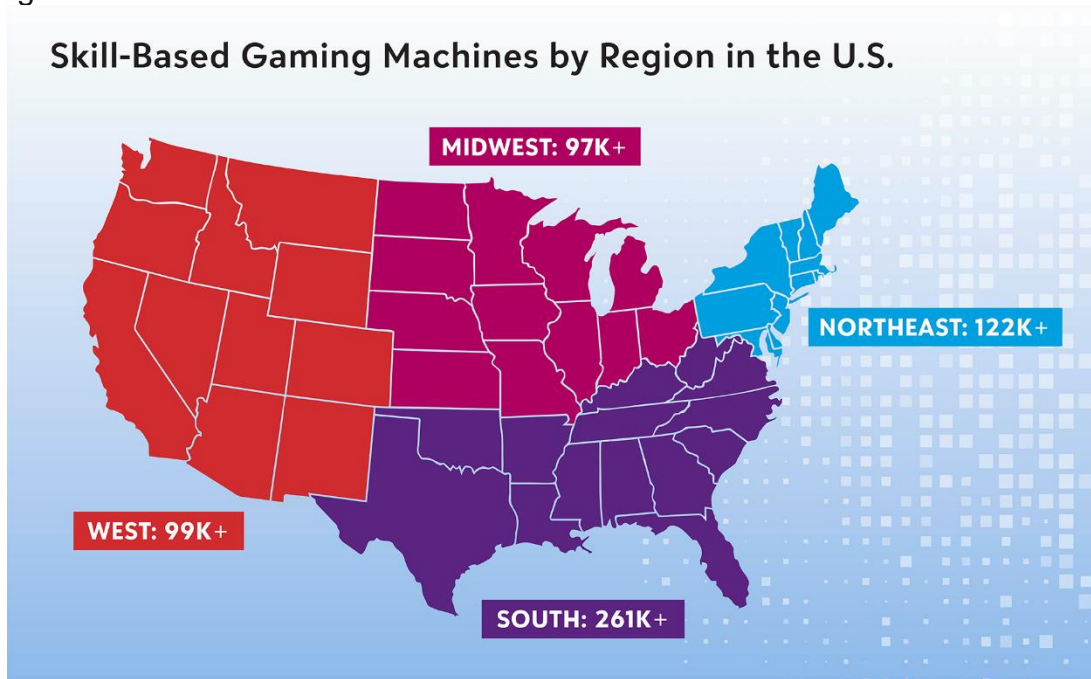
For all practical purposes, many skill-based gaming machines look and play like traditional slot machines. But a skill-based gaming machine will, at some point during the play experience, present the player with an opportunity to play a game of “skill,” usually to unlock a bonus or gain access to some other part of the game. The “skill” might be memorizing where certain play symbols are or a “twitch” game that rewards players for their speed and/or accuracy (e.g., the old “Asteroid” game).

The skill-based portions of these games are often optional, i.e., the player can choose whether to play them or not. But by simply including a skill-based play option, these machines – at least in the eyes of the manufacturers – fall outside the definition of traditional gaming machines and are therefore not subject to the same oversight and regulation.

Why this Matters

An American Gaming Association (AGA) study estimates that there are almost 600,000 skill-based gaming machines operating in the U.S. today. To put this number into

context, there are approximately 1.5 million gaming machines in the U.S. total, including traditional slot machines. So skill-based gaming machines make up 40% of the total gaming machine market.



The machines have been a boon to certain retailers, usually mom-and-pop operators of convenience stores and bars, who have benefitted from the extra foot traffic the games bring in as well as the revenue they generate (retailers receive a percentage of the money the machines take in, typically in excess of 40%). The AGA estimates that skill-based gaming machines process approximately \$110 billion in wagers annually, which means more than \$44 billion goes back to retailers in the form of a commission.

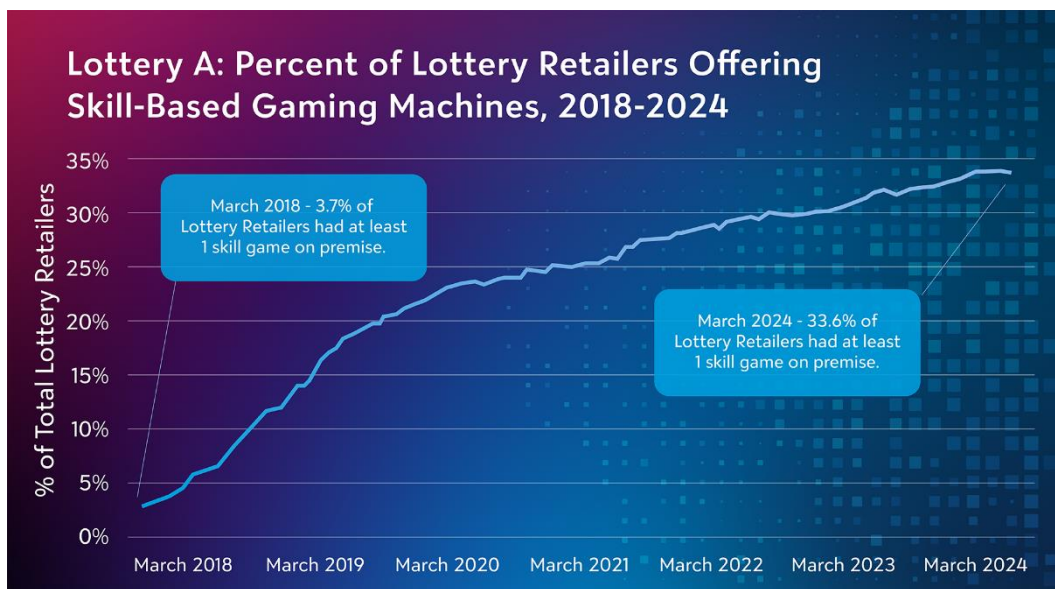
The games appeal to certain player types as well, and it's no wonder – grey machines payouts range from 75% to 93%, so quite a bit higher than the average instant game payout (73.6%) and average draw game payout (between 50% and 58% depending on jackpots, with the unweighted average being 52%).

But the proliferation of skill-based gaming machines has raised concerns on multiple fronts, including underage access to the machines, unregulated payouts to players, and untaxed revenues. The AGA estimates that skill-based machines generate approximately \$27 billion annually, resulting in nearly \$9 billion in uncollected tax revenue for states that do not explicitly ban them.³

Impact on Lottery

Scientific Games conducted two separate studies in conjunction with two top-performing U.S. lotteries to gauge the impact, if any, these skill-based gaming machines have on lottery sales.

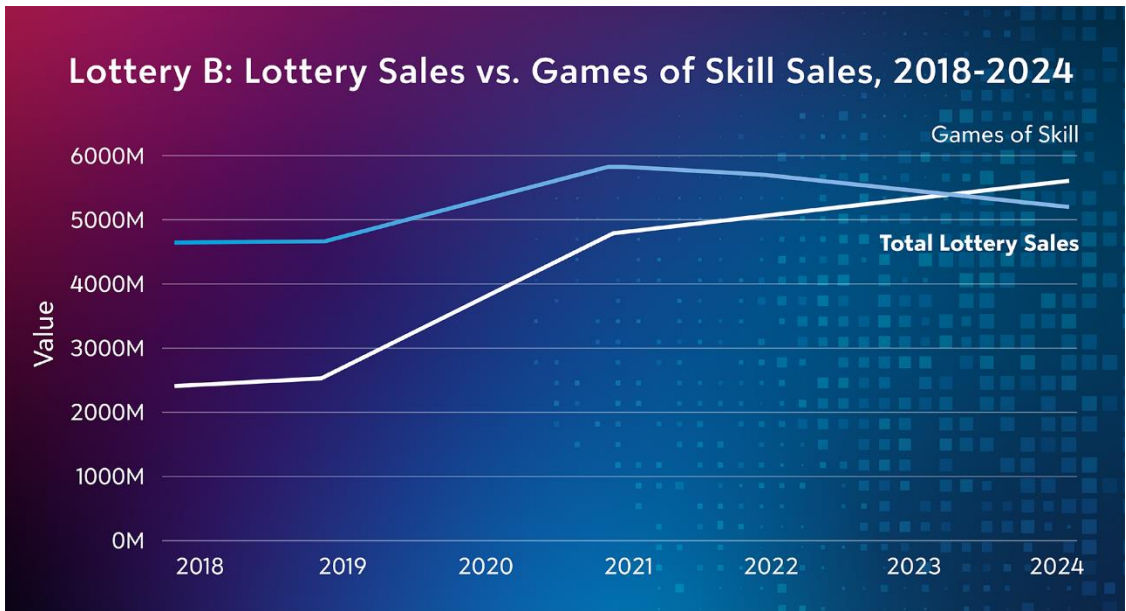
Over several years, Lottery A, using its sales force, was able to track the number of skill-based games in lottery retailers across the state. In 2018, skill-based gaming machines could be found in 3.7% of the Lottery’s retail network. By 2024, this number had grown to 33.6%, a nine-fold increase.



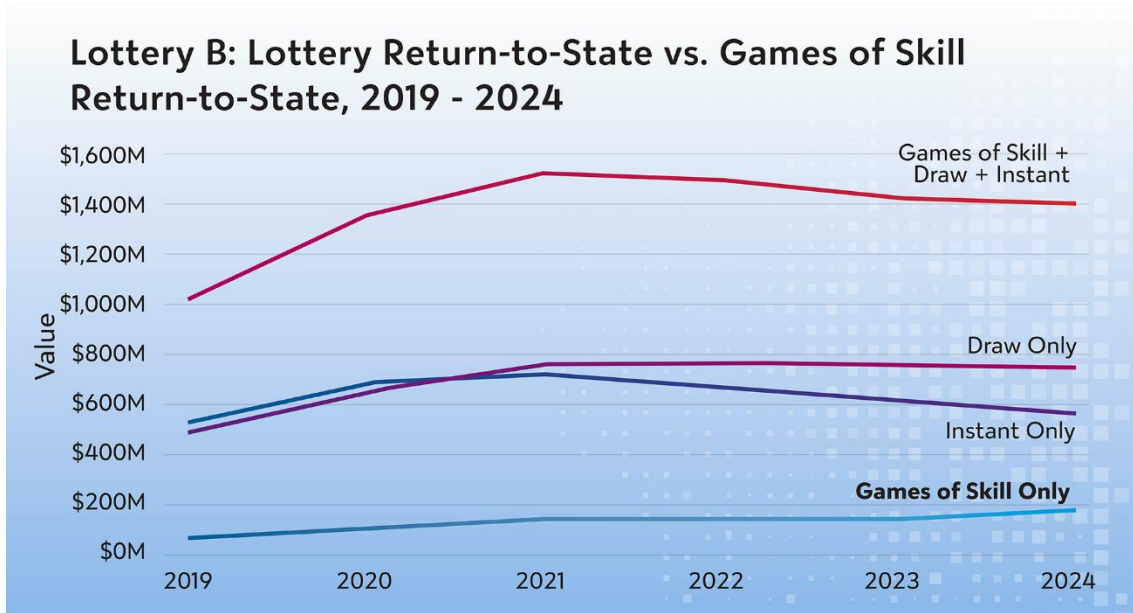
The Lottery’s data looked at the “breadth” of this expansion, i.e., the number of retailers carrying skill-based gaming machines, as well as the “depth” of the expansion, i.e., the number of machines that could be found at a single location. Both increased over the study’s time period – more retailers were carrying skill-based gaming machines overall and retailers had more machines on-site (one retailer had 32 such machines at one location).⁴

While the Lottery’s instant scratch game sales increased over the study’s time period, an analysis of the sales indicated that the proliferation of skill-based games across the state stunted this growth by as much as 4.8%. In the case of this particular Lottery, that equated to over \$1 billion in unrealized sales.

Lottery B, where skill-based games are legal, regulated, and taxed, also saw a negative impact on lottery revenues over time. From 2018 to 2024, skill-based game sales grew by almost 120% in this jurisdiction and eclipsed total lottery sales in 2024.



This increase in grey machine sales also meant an increase in the return-to-state these machines generated. Unfortunately, this increase in return-to-state by the grey machines was offset by the decline in return-to-state from both the instant scratch game and draw game categories over the same time period, resulting in a net loss to the Lottery and the state.



In short, both of these top-performing lotteries experienced a negative effect on their sales and revenues due to the proliferation of grey machines in their respective jurisdictions.

Final Word

State legislators and regulators continue to struggle with how to manage these skill-based gaming machines. Whether that means banning them outright, as some states have done, allowing them to exist “under the radar” with little regulation or oversight, or allowing the machines while taxing them as they would other gaming options (as State B, above, has done). And the landscape shifts so frequently, it’s difficult to find an accurate list of which states are doing what. We will continue to monitor the grey machine market and look forward to sharing an update in a future edition of Data in Motion.

CONTRIBUTOR



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Sources:

1. <https://www.americangaming.org/resources/the-dangers-of-skill-games-consumer-attitudes/>
2. <https://inamax.com/how-profitable-is-the-skill-gaming-industry/>
3. <https://www.casinoreports.com/gray-market-slot-style-games-ecgc/>
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