

February 25, 2019

The Honorable Ralph S. Northam
Governor
Commonwealth of Virginia
Patrick Henry Building, 3rd floor
Richmond, VA 23219

Re: January 2019 Lottery Results

Dear Governor Northam:

I am pleased to provide this report of monthly activities and financial update for the month of January 2019, as required in §58.1-4006 of the *Code of Virginia*.

January sales totaled \$190.5 million, an increase of 10.3 million (+5.7%) compared to the same month last year. Profits for the month totaled \$54.2 million, a decrease of \$3.2 million (-5.6%) compared to last January. Profits declined despite higher sales, because of a higher overall prize expense rate – players continued their lucky streak through January.

For the year to date, sales totaled \$1.35 billion, an overall 9.9% increase compared to last year. Profits totaled \$375.6 million, an increase of \$17.9 million, or 5.0%, due to higher sales compared to last year – particularly for the national jackpot games. Sales and profits are tracking well to the revised forecast, up \$10.0 million (+2.7%) compared to forecast profits through January. As always, I would note that comparisons to prior periods are not indicative of future performance due to the volatility of sales and profits over short periods of time.

In the coming days, I will send a separate letter to you and legislative leaders detailing our concerns about a recent U.S. Department of Justice opinion which reinterpreted the breadth and scope of the 1961 Wire Act. In short, while we anticipate no impacts on the Virginia Lottery's near-term sales or revenue projections, the DOJ opinion is widely perceived to potentially limit, if not prohibit, some activities by state-run lotteries, including participation in multi-state jackpot games and the transmission of data and financial transactions across state borders. I look forward to discussing our concerns at the appropriate time.

Please let me know if you have any questions or if you would like more information.

Sincerely yours,

Kevin Hall

February 25, 2019

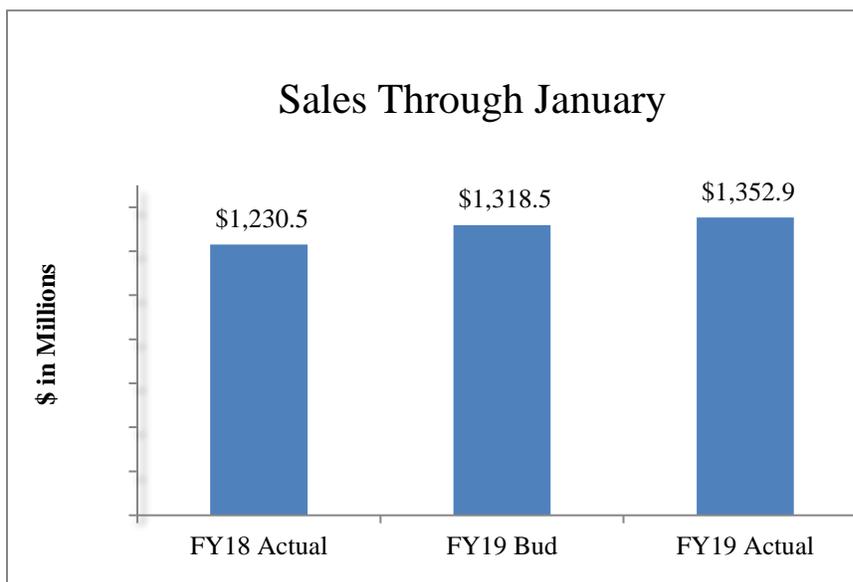
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- c: The Honorable Thomas K. Norment, Jr., Co-Chairman, Senate Finance Committee
- The Honorable Emmett W. Hanger, Jr., Co-Chairman, Senate Finance Committee
- The Honorable S. Chris Jones, Chairman, House Appropriations Committee
- The Honorable R. Lee Ware, Jr., Chairman, House Finance Committee
- The Honorable Clark Mercer, Chief of Staff, Office of the Governor
- The Honorable Aubrey Layne, Secretary of Finance
- Daniel S. Timberlake, Director, Department of Planning & Budget
- David A. Von Moll, State Comptroller
- April Kees, Co-Director, Senate Finance Committee
- Jason Powell, Co-Director, Senate Finance Committee
- Robert P. Vaughn, Staff Director, House Appropriations Committee
- Ferhan Hamid, Chairman, Virginia Lottery Board

VIRGINIA LOTTERY
Report to the Governor and
Selected Members of
the General Assembly
As of January 31, 2019

Sales

Lottery sales for the fiscal year totaled \$1,352.9 million through January. This represents an increase of \$122.4 million (+9.9%) compared to the prior year. Scratcher sales of \$707.2 million were \$39.0 million (+5.8%) higher than last year. Sales of daily games (Pick 3, Pick 4, and Cash 5) totaled \$401.7 million, up \$40.9 million (+11.3%) from last year, strongly bolstered by higher than statistically expected prize expenses due to the random luck of the draw. Sales in the jackpot games category (Mega Millions, Powerball, Cash for Life and Bank a Million) totaled \$208.7 million, an increase of \$40.7 million (+24.3%) compared to last year because of the record Mega Millions jackpot growth to over \$1.5 billion, and the Powerball jackpot growth to over \$687 million in October. Sales of Print n' Play games, a category that represents about 2% of total sales, totaled \$27.8 million, \$1.8 million (+7.0%) higher than last year. The annual New Year's Millionaire Raffle was a sellout, generating \$7.5 million in sales and three \$1 million winners, all of which were claimed by ticket holders during the first week of the year. Overall, sales are \$34.4 million (+2.6%) ahead of the revised forecast for the fiscal year.



Expenses

The overall prize expense rate (prizes as a percent of sales) through January was 61.9%, higher than last year's rate of 60.2%. The scratcher prize rate of 70.1% was higher than last year's rate of 69.9%. The daily games prize rate of 53.3% was higher than last year's very low rate of 45.3%, and higher than the statistically expected 50%. The jackpot games prize expense rate of 50.0% was lower than last year's rate of 52.8%, and more in line with the statistically expected rate. It is important to note that significant fluctuations in prize expense rates occur during the short term, especially for daily games that have fixed prizes; however, overall long-term prize rates reflect outcomes more in line

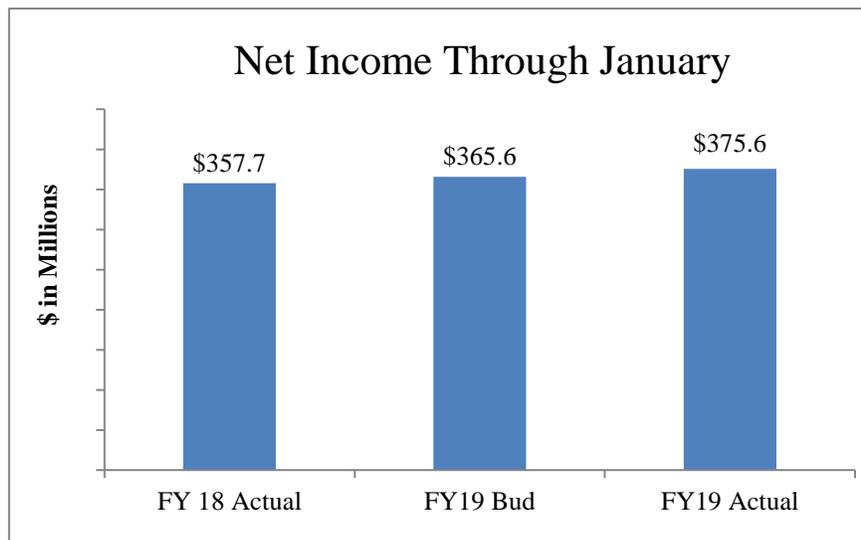
with statistical expectations. Compared to the revised forecast, the 61.9% prize expense rate is 0.4% higher than the expected 61.5% rate for the year so far.

Retailers earned \$5.7 million more than last year, for a total \$76.0 million in earnings. Overall, retailers earned 5.6% of Lottery sales in commissions and incentives, on par with the usual 5.6% earnings rate.

Administrative operating costs, including gaming, ticket printing and distribution expenses, were \$3.4 million higher than the same period last year but were still low at 4.9% of sales. Last year's rate was 5.1%.

Net Income

The strength in sales was partially offset by a higher prize expense rate, leading to year-to-date profits of \$375.6 million, an increase of \$17.9 million (+5.0%) compared to the same period last year. Profits through January are \$10.0 million (+2.7%) higher than the forecast.



CONTRIBUTIONS TO DEBT SETOFF & LITERARY FUND

For the 2019 fiscal year to date, the Lottery made debt setoff collection payments to the Department of Taxation totaling \$1,363,821. Also, unclaimed prizes totaling \$4,231,886 were transferred to the Literary Fund so far this year.

MEETINGS

The next meeting of the Board is scheduled for April 24, 2019, in Richmond.