

March 26, 2019

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

Re: February 2019 Lottery Results

Dear Governor Northam:

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

February sales totaled \$172.5 million, an increase of \$3.9 million (+2.3%) compared to the same month last year. Profits for the month totaled \$49.3 million, an increase of \$5.4 million (+12.3%) compared to last February. Profits increased at a higher rate than the increase in sales, because of a lower overall prize expense rate during the month.

For the year to date, sales totaled \$1.53 billion, an overall 9.0% increase compared to last year. Profits totaled \$424.9 million, an increase of \$23.3 million, or 5.8%, due to higher sales compared to last year – particularly for the national jackpot games, but also for daily draw games. Sales and profits are tracking well to the revised forecast, up \$12.1 million (+2.9%) compared to forecast profits through February. 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 weeks, we will introduce additional features and functions to our mobile app platform, which will allow players to access our games in a convenient and modern way. Additionally, as an organization committed to supporting Virginia's K-12 public schools, we will be heavily engaged in statewide activities leading up to Teacher Appreciation Week in April. Finally, I am pleased to report that the Virginia Lottery once again has been selected as a finalist among mid-sized organizations in the Richmond region's annual Top Workplace competition. We are proud of our committed and diverse workforce, and believe this recognition helps immeasurably in our ongoing recruitment and retention of talented employees.

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

Sincerely yours,

Kevin Hall

March 26, 2019

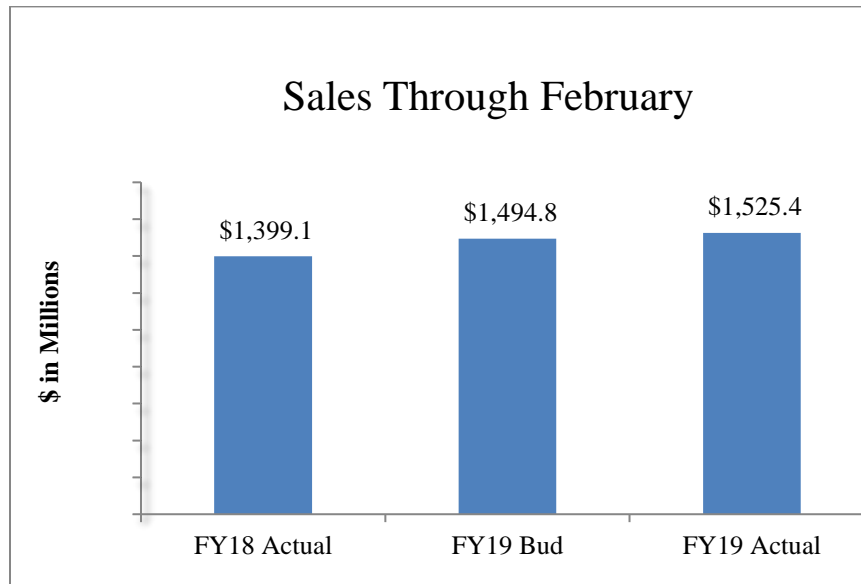
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c: The Honorable Thomas K. Norment, Jr., Co-Chairman, Senate Finance Committee
 The Honorable Emmett W. Hanger, Jr., Co-Chairman, Senate Finance Committee
 The Honorable S. Chris Jones, Chairman, House Appropriations Committee
 The Honorable R. Lee 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 February 28, 2019

Sales

Lottery sales for the fiscal year totaled \$1,525.4 million through February. This represents an increase of \$126.3 million (+9.0%) compared to the prior year. Scratcher sales of \$804.7 million were \$38.0 million (+5.0%) higher than last year. Sales of daily games (Pick 3, Pick 4, and Cash 5) totaled \$454.4 million, up \$45.1 million (+11.0%) 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 \$227.1 million, an increase of \$41.0 million (+22.0%) 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 \$31.7 million, \$2.2 million (+7.5%) higher than last year. Overall, sales are \$30.6 million (+2.1%) ahead of the revised forecast for the fiscal year.



Expenses

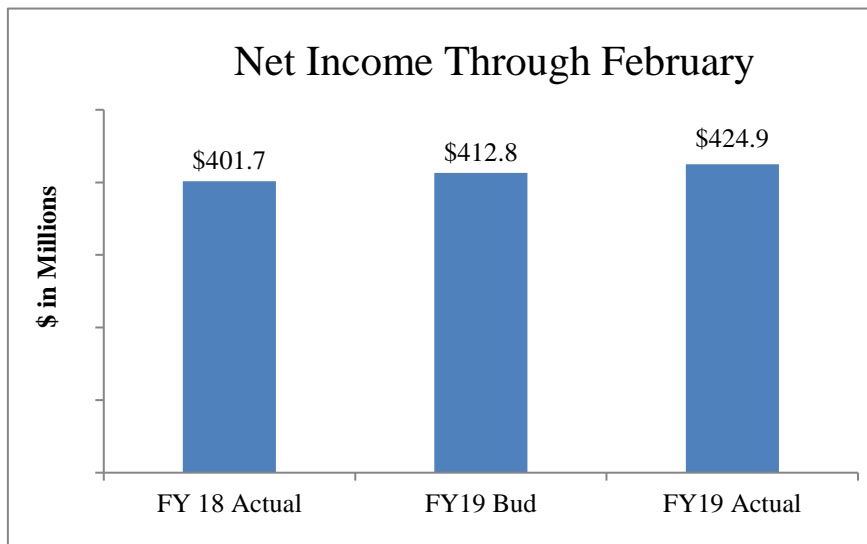
The overall prize expense rate (prizes as a percent of sales) through February was 61.8%, higher than last year's rate of 60.6%. The scratcher prize rate of 70.2% was the same as last year's rate. The daily games prize rate of 52.3% was higher than last year's very low rate of 45.4%, and higher than the statistically expected 50%. The jackpot games prize expense rate of 50.0% was lower than last year's rate of 53.5%, 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 61.8% prize expense rate is 0.2% higher than the expected 61.6% rate for the year so far.

Retailers earned \$5.9 million more than last year, for a total \$85.5 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 \$3.2 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 \$424.9 million, an increase of \$23.3 million (+5.8%) compared to the same period last year. Profits through February are \$12.1 million (+2.9%) 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 \$1,624,550. Also, unclaimed prizes totaling \$4,397,397 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.