

The Virginia Lottery

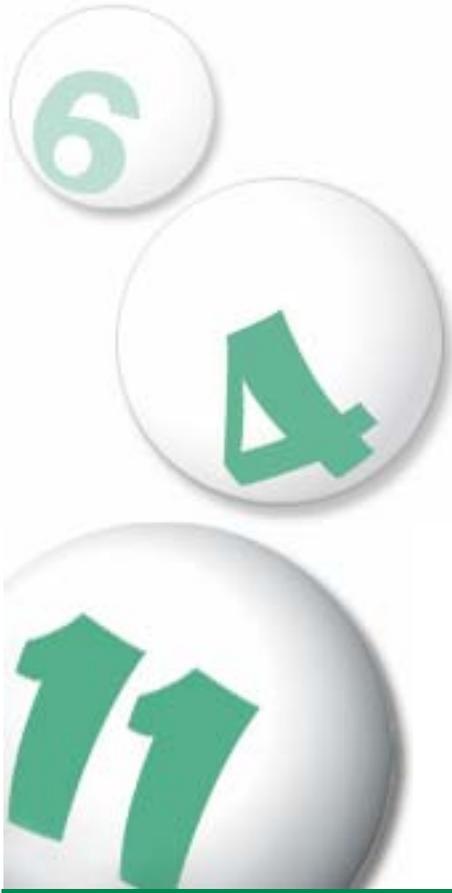
Follow-up Discussion of Lottery Revenues

**Senate Finance Committee
June 18, 2007**

**Sheila Hill-Christian
Executive Director, Virginia Lottery**

Overview

- **Update: NC Lottery impact on Virginia Lottery sales & profits**
- **Update: results of Virginia Lottery initiatives to support sales and profits**
- **Update: Projected FY2007 Lottery sales & profits**
- **Continued look toward the future**



Review: Estimated VA Sales to North Carolina Players

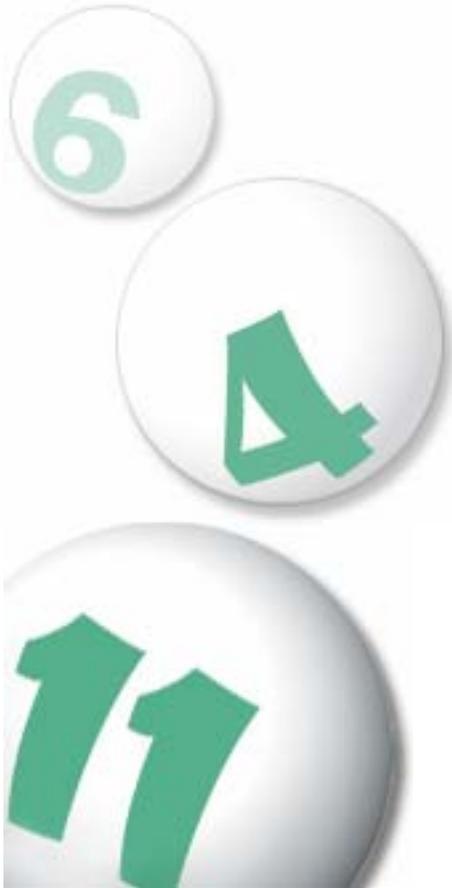
- **North Carolinians historically accounted for estimated 8-10% of VA sales**
 - About \$100 to \$125 million annually
 - Annual profit about \$35 to \$40 million
- **Over 2/3 sales to North Carolinians were in Scratch and Mega Millions**
 - Scratch ~ 40% of NC residents' purchases
 - Mega Millions ~ 25% of NC residents' purchases
- **About 20% of all Mega Millions tickets sold in Virginia were purchased by North Carolinians**

Source:

Internal estimates based on numbers of prizes claimed

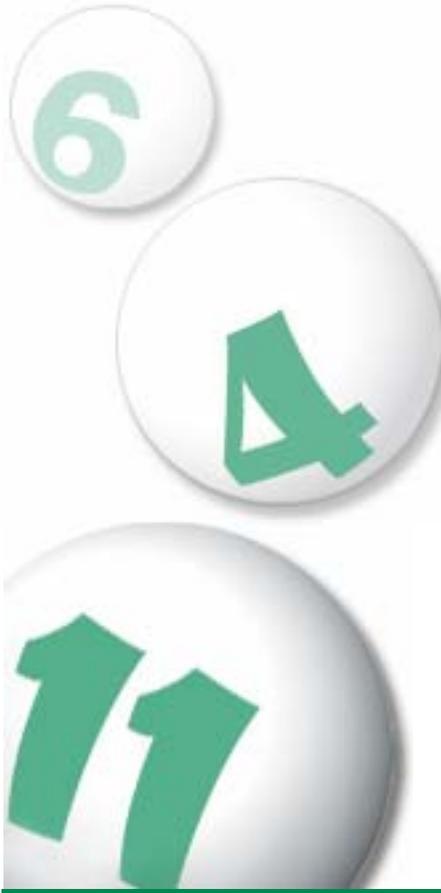
All highest volume VA Lottery retailers were on NC border

Ranking, pre-NC Lottery	Location
1	Danville
2	Chesapeake
3	Cana
4	Cana
5	Ridgeway
6	Danville
7	Skippers
8	Emporia
9	Bracey
10	Danville



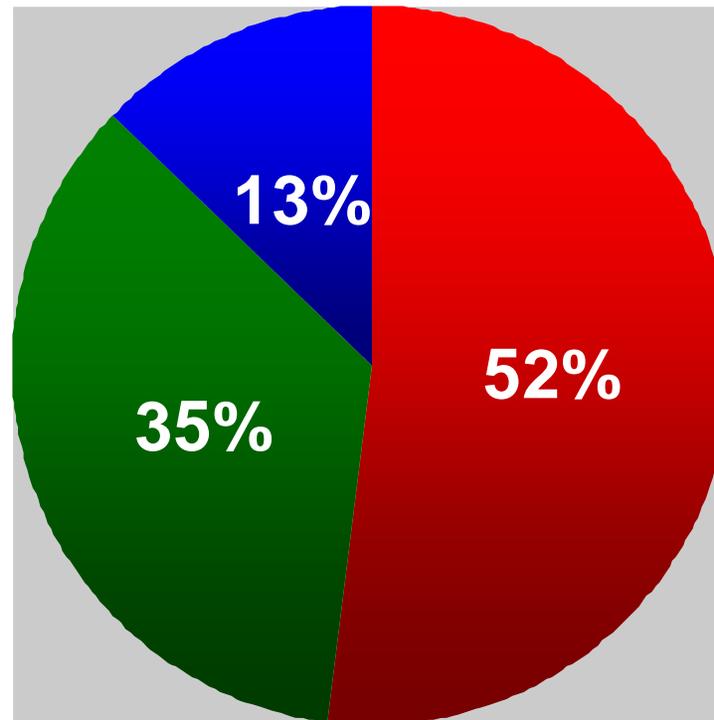
Current Sales of Former Top Retailers

(July 1 – May 31)



Ranking, pre-NC Lottery	Location	Current Ranking	\$ Sales Decline (FY07 vs. FY06)
1	Danville	4	(\$1,529,504)
2	Chesapeake	1	(\$1,133,819)
3	Cana	CLOSED	N/A
4	Cana	3	(\$1,427,745)
5	Ridgeway	5	(\$1,732,051)
6	Danville	9	(\$1,353,440)
7	Skippers	25	(\$1,714,588)
8	Emporia	8	(\$831,866)
9	Bracey	11	(\$1,362,850)
10	Danville	CLOSED	N/A

Scratch Tickets comprise over half of total sales



Scratch **Daily Games** **Jackpot Games**

FY2007 Forecast Drivers

(October 2006) (Current Status)

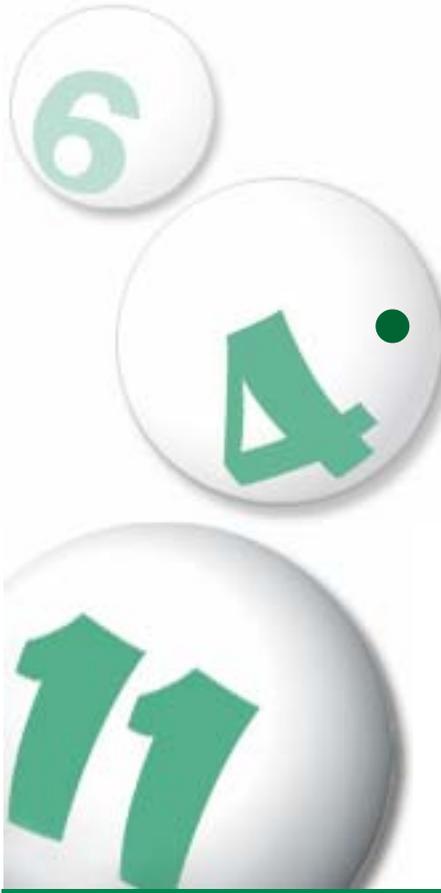
- **Stabilizing Scratcher Sales**
 - Virginia prize payout advantages beginning to take hold
- **Current Update: North Carolina Lottery has announced plans to increase their prize payouts**
 - Some NC players may purchase fewer tickets in Virginia
 - Some Virginians may purchase a larger proportion of their scratch tickets in North Carolina.



FY2007 Forecast Drivers

(October 2006) (Current Status)

- Timing of product introduction in North Carolina
 - Pick 3 and Carolina Cash 5 began Oct '06
 - Drawings 7-days a week
- Current Update: Expanded drawings for Virginia daily games (Pick 3, Pick 4, Cash 5) have increased sales for these products
 - NC has one additional daily game to introduce
 - Pick 3 and Pick 4 sales will set new sales records in FY2007



FY2007 Forecast Drivers

(October 2006) (Current Status)

- **Mega Millions**

- “Unlucky” Jackpot growth so far
- Competing jackpot game (Powerball) in NC

- **Current Update:**

- “Unlucky” jackpot growth this year, compared to “unusually lucky” jackpot growth last year
- \$390 million record jackpot offset 6 months of bad luck, with sales for that series of draws amounting to more than 27% of Virginia’s Mega Millions sales for this year
- Overall, Mega Millions sales will have a typical sales year and finish about 20% behind last year

Strategies



Increase our public information outreach in order to inform the public that 100% of Virginia Lottery profits are dedicated to supporting public education, grades K-12



VIRGINIA LOTTERY®

Helping Virginia's Public Schools

Strategies

Adjust products to meet player expectations

Sunday drawings for daily games began January 7, 2007

Annual profit projected: \$14 million

Sunday Drawings

FY07 Expected Sales: \$15 million

FY07 Actual Sales: \$24 million

FY07 Profits will top \$12 million



Strategies

Maximize competitive advantages

“Blockbuster” style scratch game went on sale 1/18/07

Highest prize payout in Virginia Lottery history

\$100 Million Cash Extravaganza

FY07 Expected Profits: \$8 million

FY07 Actual Profits: \$3.1 million

FY07 Actual Sales top \$36 million

This game did not meet our expectations

\$20 VIRGINIA LOTTERY®
OVER \$100 MILLION IN TOTAL CASH PRIZES!

\$100 MILLION CASH EXTRAVAGANZA

Match any of the **WINNING NUMBERS** to any of **YOUR NUMBERS**, win prize shown for that number. Reveal a "\$\$\$" symbol, win prize shown automatically. Reveal a "10X" symbol, win 10 times the prize shown.

OVER 350,000 PRIZES FROM \$100 TO \$500! **TEN \$1,000,000 TOP PRIZES!** **OVER 18,000 PRIZES FROM \$1,000 TO \$25,000!**

WINNING NUMBERS
\$ \$ \$ \$ \$ \$

YOUR NUMBERS

PRIZE	PRIZE	PRIZE	PRIZE	PRIZE
PRIZE	PRIZE	PRIZE	PRIZE	PRIZE
PRIZE	PRIZE	PRIZE	PRIZE	PRIZE
PRIZE	PRIZE	PRIZE	PRIZE	PRIZE

HIGHEST PAYOUT % IN VIRGINIA HISTORY!

\$50 BONUS **\$50 BONUS** **\$50 BONUS** **\$50 BONUS**

BONUS: Find two like symbols in the same \$50 BONUS box, win \$50! **WIN UP TO 24 TIMES!** 773-V0-1DO

Strategies



Introduce traditional-style lottery products attractive to new players

Instant-win Bingo to begin February 2007



Fast Play Bingo

FY07 Expected sales: \$11 million

FY07 Actual sales: \$13 million

FY07 Profits will top \$3 million

Game sales have significantly declined since introduction, will require frequent “refreshing” to maintain player interest

Due to the success of this game, current studies are underway for a Fast Play line of products

Strategies

Introduce traditional-style lottery products attractive to new players

Virginia's Millionaire Raffle in 4th quarter FY2007

Millionaire Raffle

FY07 Expected Sales: \$6.6 million

FY07 Actual Sales: \$6.6 million

FY07 Profits nearly \$1.5 million

Game sold out during timeframe expected; drawing held on June 14th

North Carolina Education Lottery launched similar game



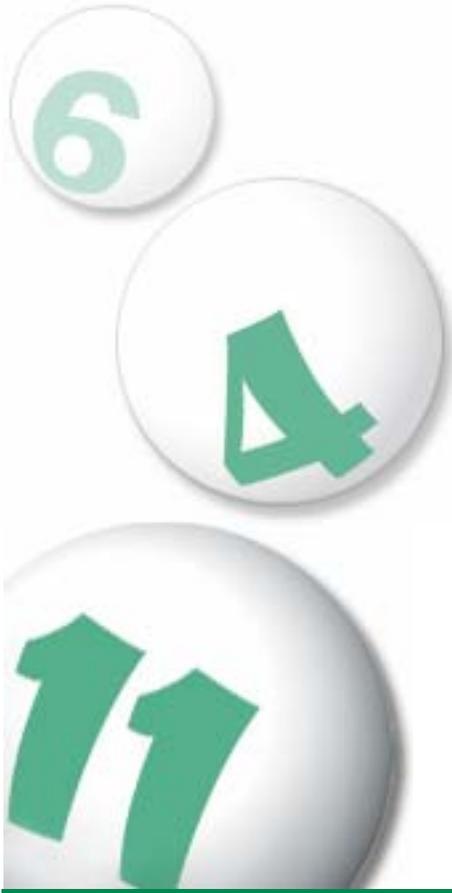
Highlights of Projected FY07 Results

- Total Lottery Sales and Profits will significantly exceed forecast, but will not exceed last year's record results
- FY07 sales forecast: \$1.304 billion
- FY07 actual sales: \$1.363 billion
 - \$59 million more than forecast
- FY07 forecast profit transfers: \$406 million
- FY07 actual profit transfers: \$430 million
 - \$24 million more than forecast
- Results are estimates

Projected FY07 Results

(in \$ millions)

	Projected FY07	Change from Forecast	
Scratchers	\$701	+ \$9	+1%
Fast Play Bingo	\$13	+ \$13	n/a
Daily Games	\$472	+ \$28	+ 6%
Jackpot Games	\$178	+ \$10	+ 6%
Total Sales	\$1,363	+ \$59	+ 5%
Less: Prizes	(\$797)	+ \$34	+ 4%
Operating Costs	(\$69)	(\$2)	- 3%
Retailer Comp	(\$77)	+ \$2	+ 3%
Other Income	\$10	\$ -	+ 0%
Net Income	\$430	+ \$24	+ 6%



Results vs. Forecast – Why?

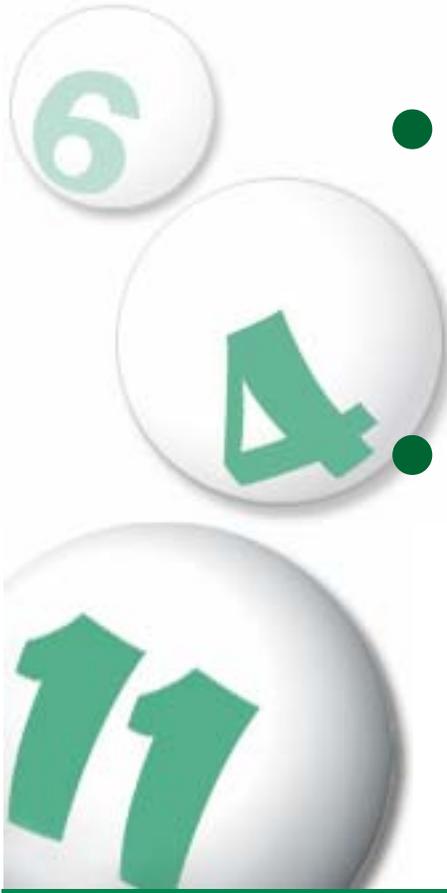
- New game offerings were not included in the revenue forecast for FY07 or FY08
 - Lack of historical data for forecasting
 - Uncertainty about timing of new product offerings
 - Change in Lottery leadership

Future Forecast Issues

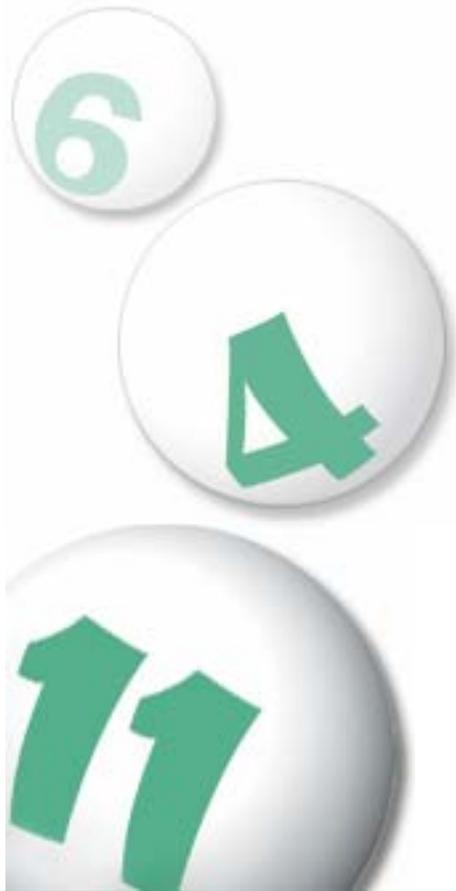
- **Jackpot dependency for Mega Millions**
 - Player fatigue / Jackpot fatigue – higher jackpots to excite players
 - Size of jackpot depends largely on luck
- **Variability of prize expenses**
 - Prize expense for daily game offerings vary with the luck of the draw – high prizes decrease short-term profits, but low prizes depress sales
- **Ongoing risk of border states' game offerings**
 - Given unmet expectations there, North Carolina could introduce games not offered in Virginia
 - Statutory changes to remove the limitation on NC Lottery prize payout could further dampen Virginia sales

Continuing Strategies for the Future

- Continually assess jackpot games with consortium members
- Create strategies to work within advertising limitations, market research restrictions
- Highlight initiatives planned for FY08



Questions?



Sheila Hill-Christian
Executive Director, Virginia Lottery