

Massachusetts State Lottery Commission Meeting

Executive Director's Report

Delivered by: Michael R. Sweeney

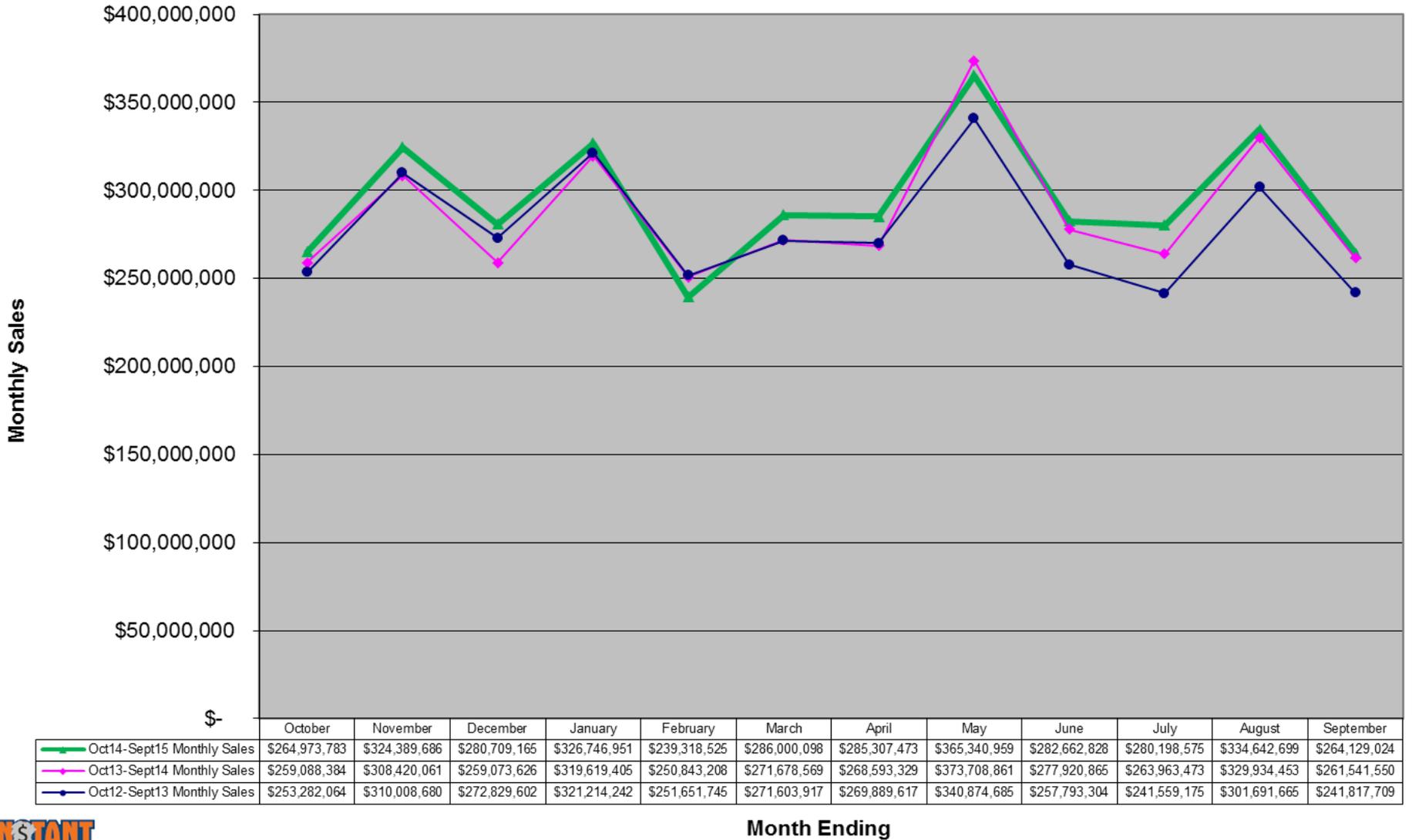
November 2, 2015



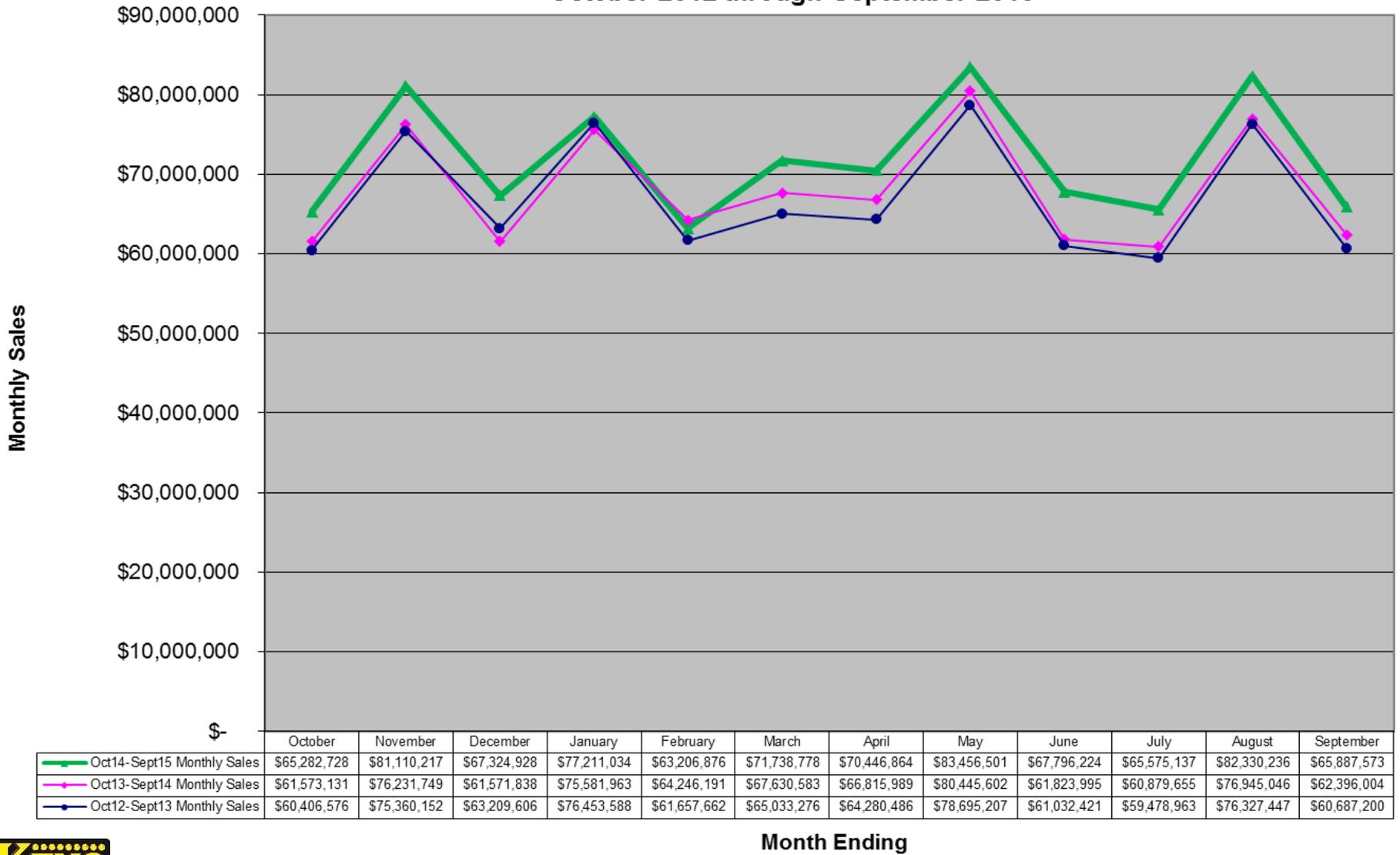
Lottery Sales Update

- Overall sales for September 2015 were up \$7.1 million over last year. Net profit for the month was \$72.3 million compared to \$77.7 million in September 2014. Our estimated prize payout for the month was 73.52 percent, as compared to 71.93 percent in September 2014. This increase in prize payout contributed to a \$5.4 million decrease in net profit compared to last September.
- Year-to-date, Fiscal Year 2016 vs. Fiscal Year 2015, our estimated net profit for the first three months of this fiscal year is down \$29.4 million, from \$242.6 million in FY15 to an estimated \$213.2 million in FY16. Our year-to-date prize payout for FY16 is an estimated 75.30 percent, as compared to 72.45 percent for the same three-month period of FY15. The estimated FY16 net profit and prize payout figures both include accruals associated with a one-time end of game \$20 million bonus prize in the Mega Cash Instant Ticket game that is expected to be awarded in FY16.
- KENO sales continue to be strong, experiencing an increase of \$3.5 million over September of last year. The Instant Ticket portfolio saw a \$2.6 million sales increase in September following the release of five new games (\$1, \$2, \$5, \$5, \$20) on September 15. Mega Millions, the Numbers Game, Megabucks Doubler, Powerball and Mass Cash all had slight increases in sales versus September of 2014. Sales for the final Powerball draw of the calendar month, which took place on Wednesday, September 30 and featured an advertised jackpot of \$301 million, will be reflected in next month's figures.
- Jackpot Poker sales decreased by \$54,133 and Lucky for Life sales were down \$14,446 in sales compared to September of 2014.

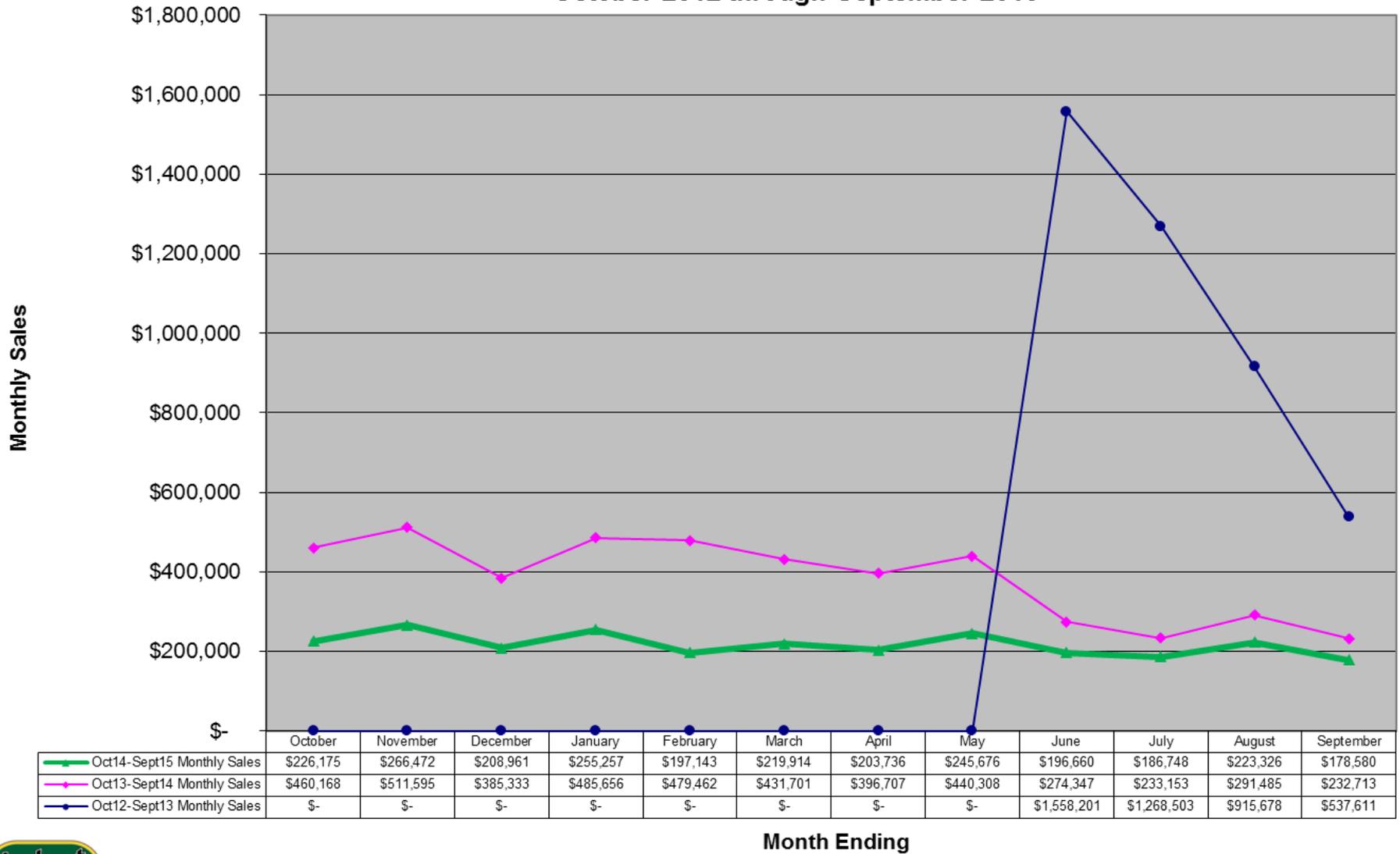
Instant Games Monthly Sales Unadjusted Non Fiscal Year October 2012 through September 2015



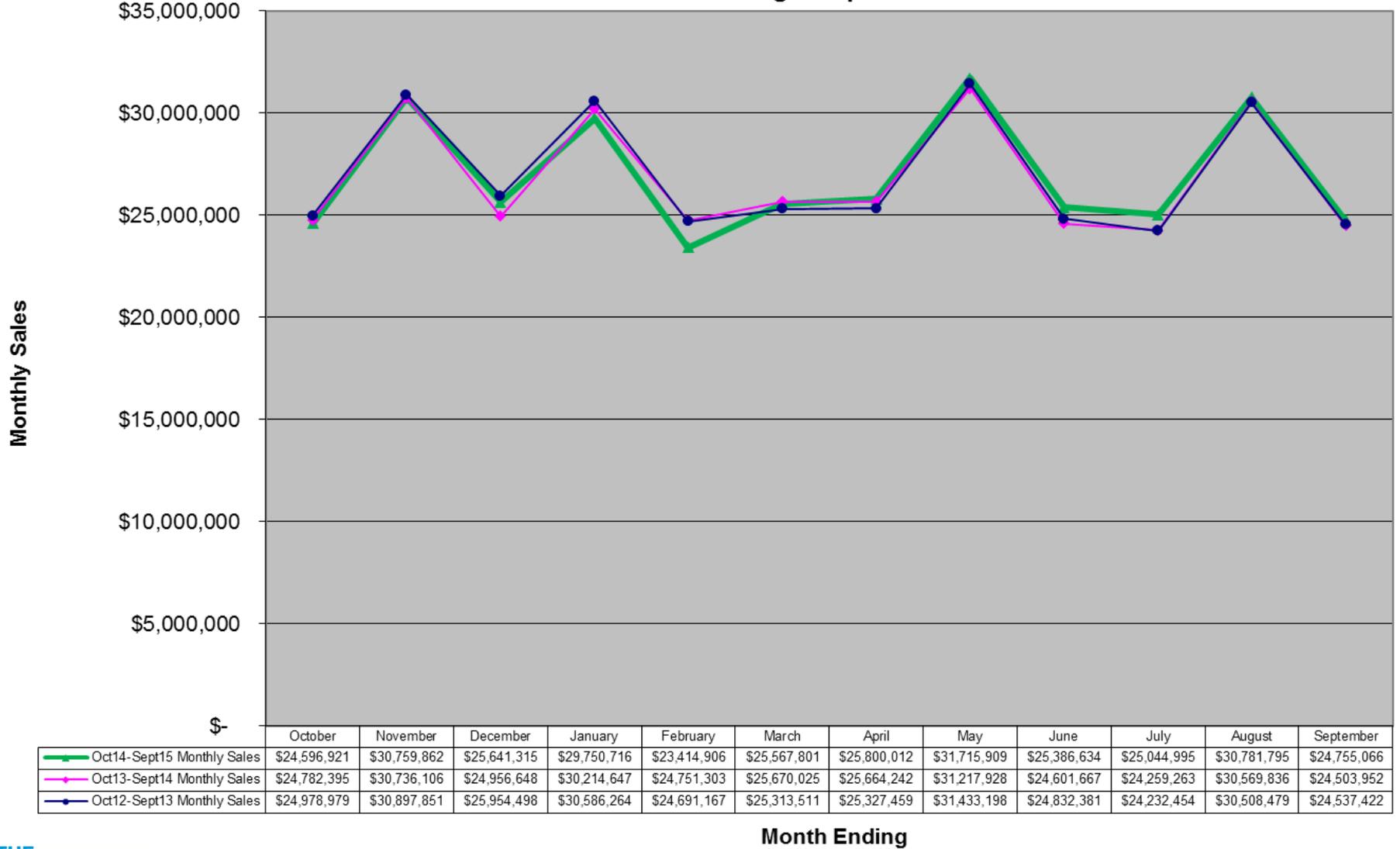
KENO Game Monthly Sales Unadjusted Non Fiscal Year October 2012 through September 2015



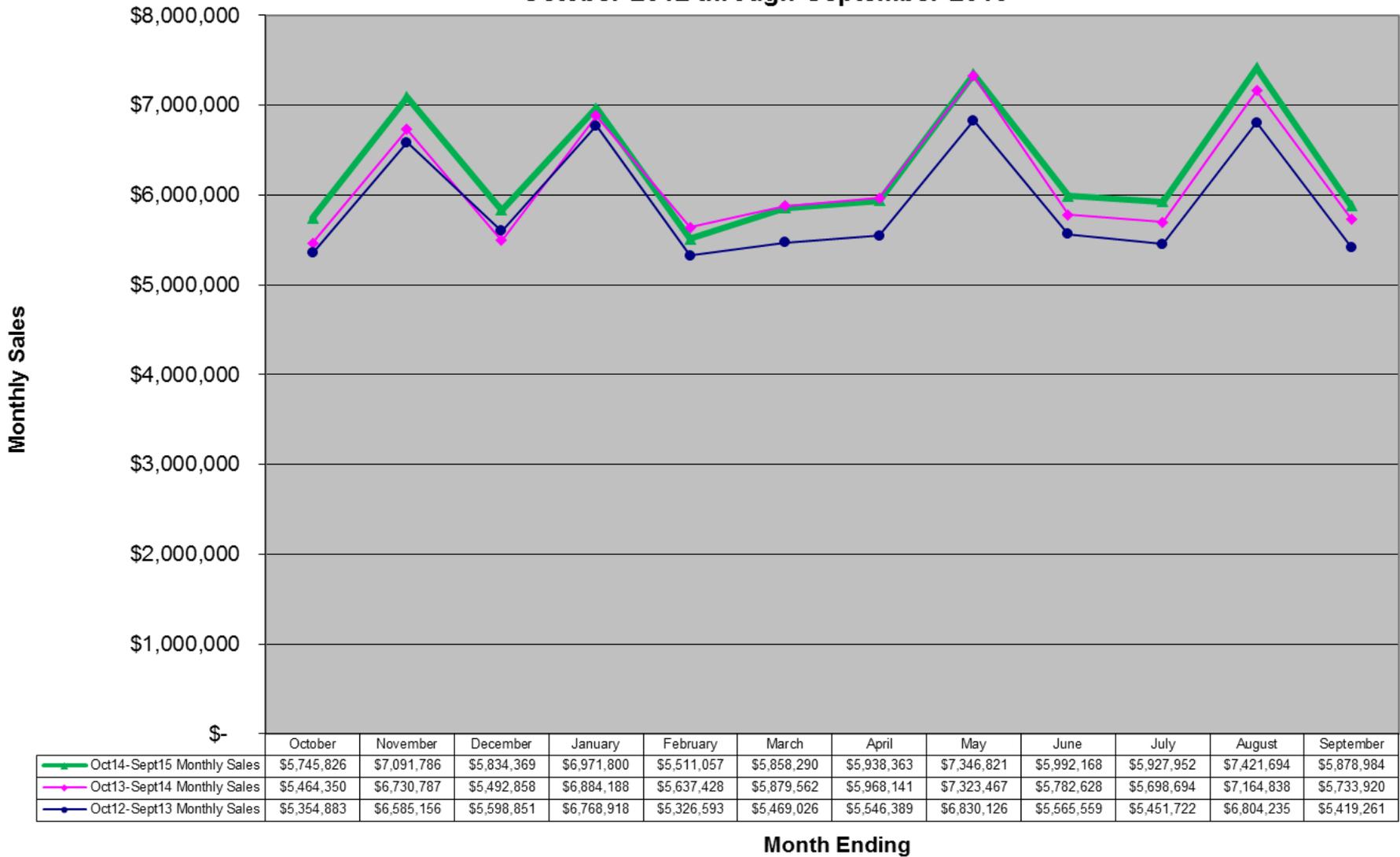
Jackpot Poker Game Monthly Sales Unadjusted Non Fiscal Year October 2012 through September 2015



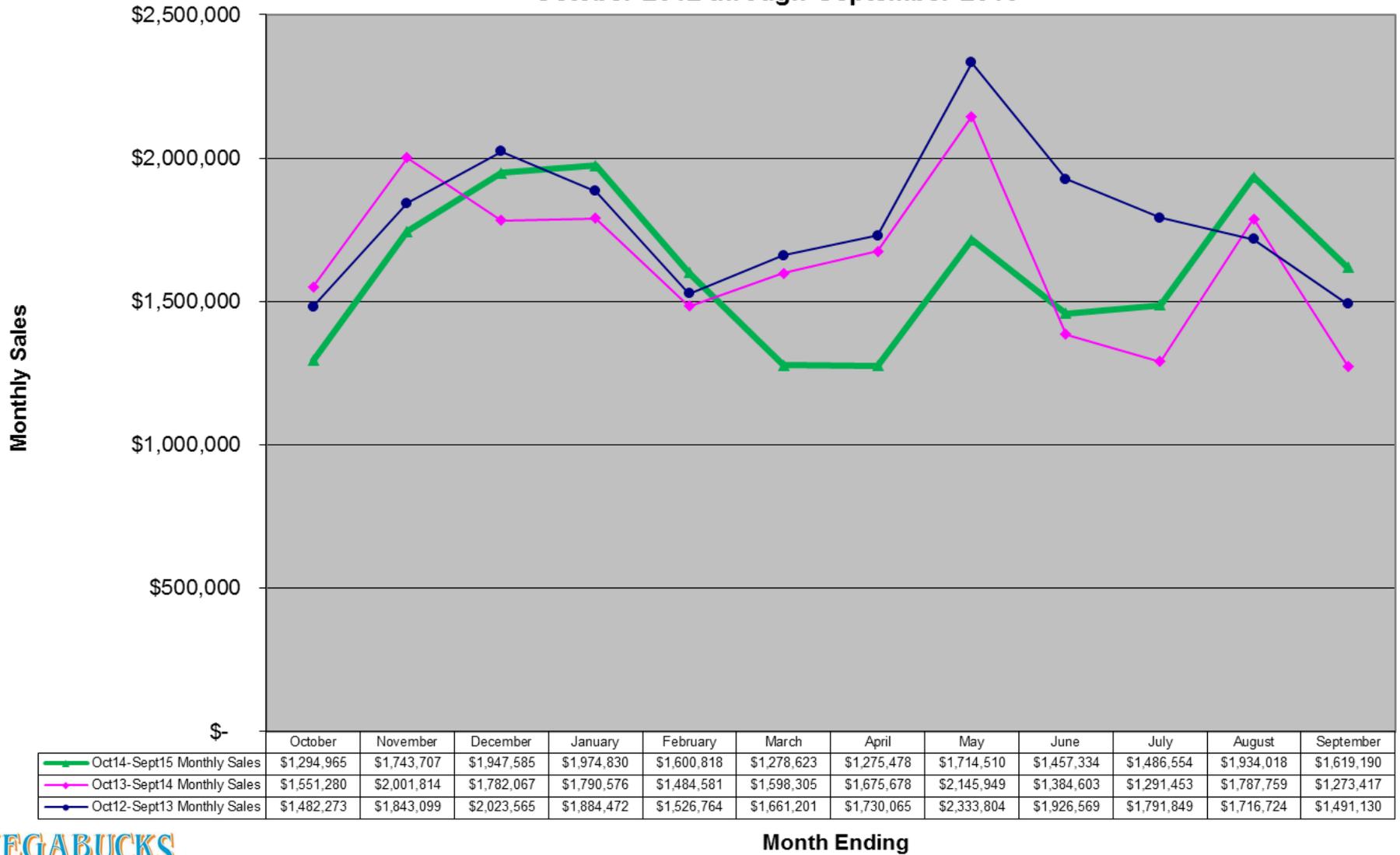
Numbers Game Monthly Sales Unadjusted Non Fiscal Year October 2012 through September 2015



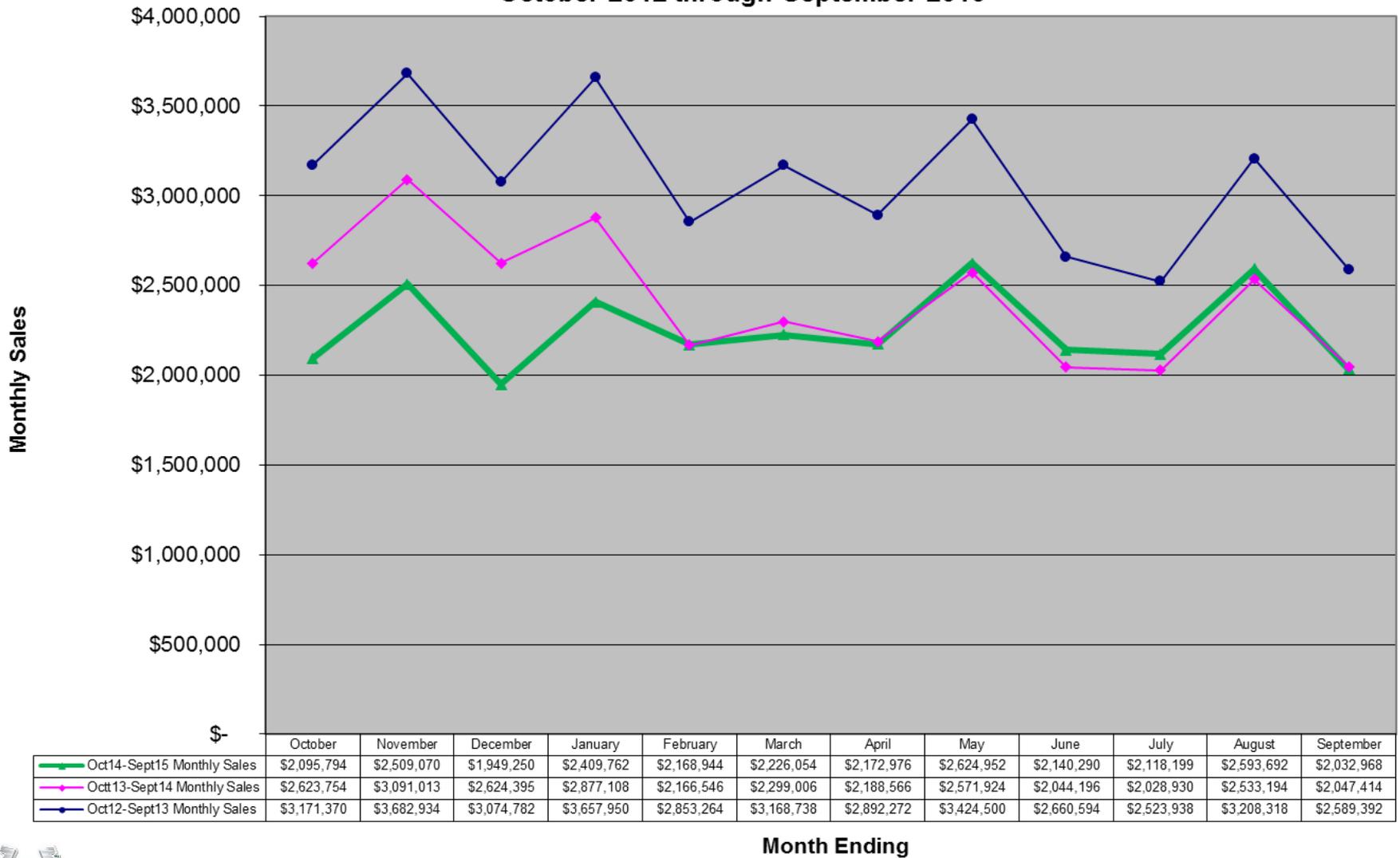
Mass Cash Game Monthly Sales Unadjusted Non Fiscal Year October 2012 through September 2015



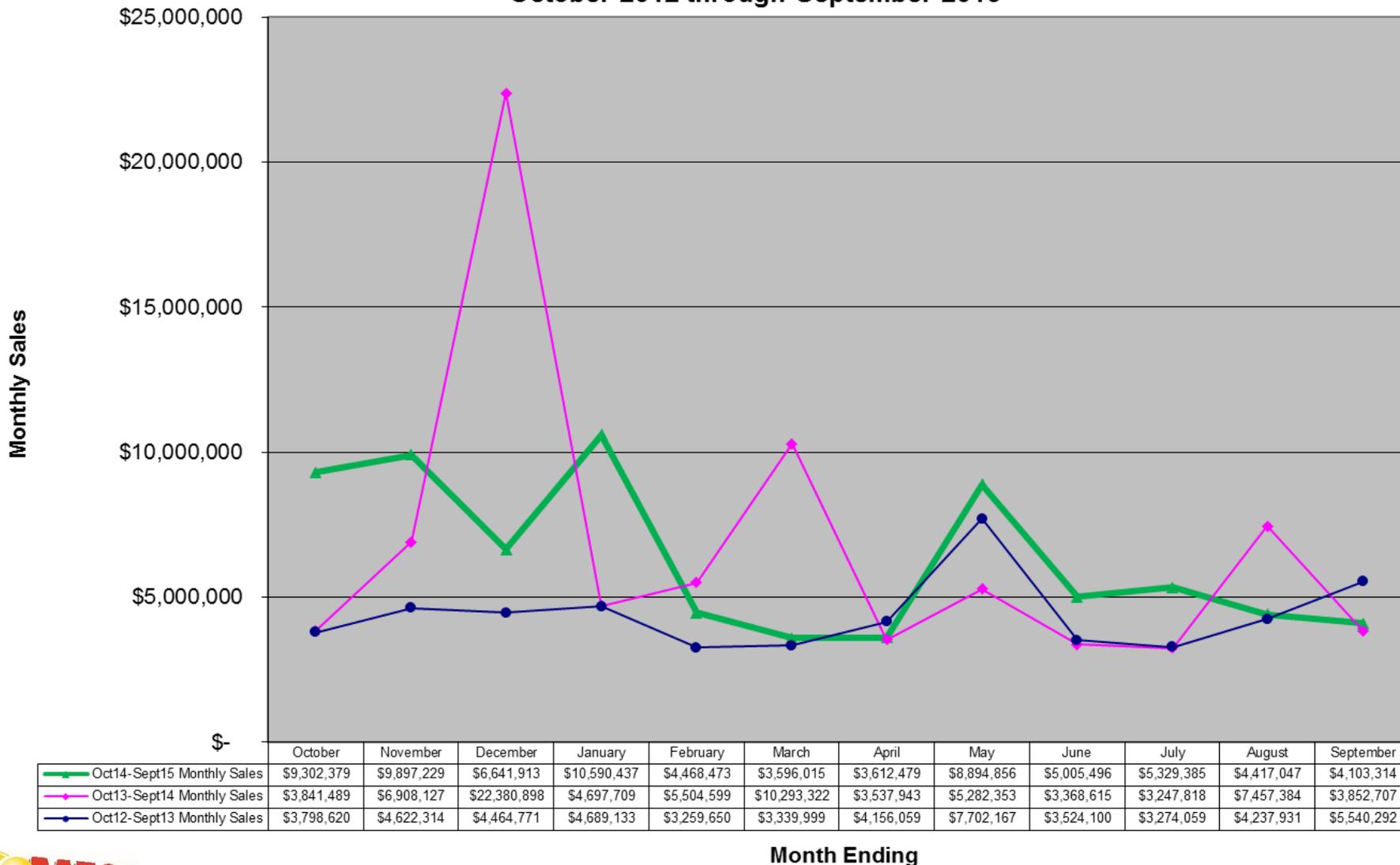
Megabucks Doubler Game Monthly Sales Unadjusted Non Fiscal Year October 2012 through September 2015



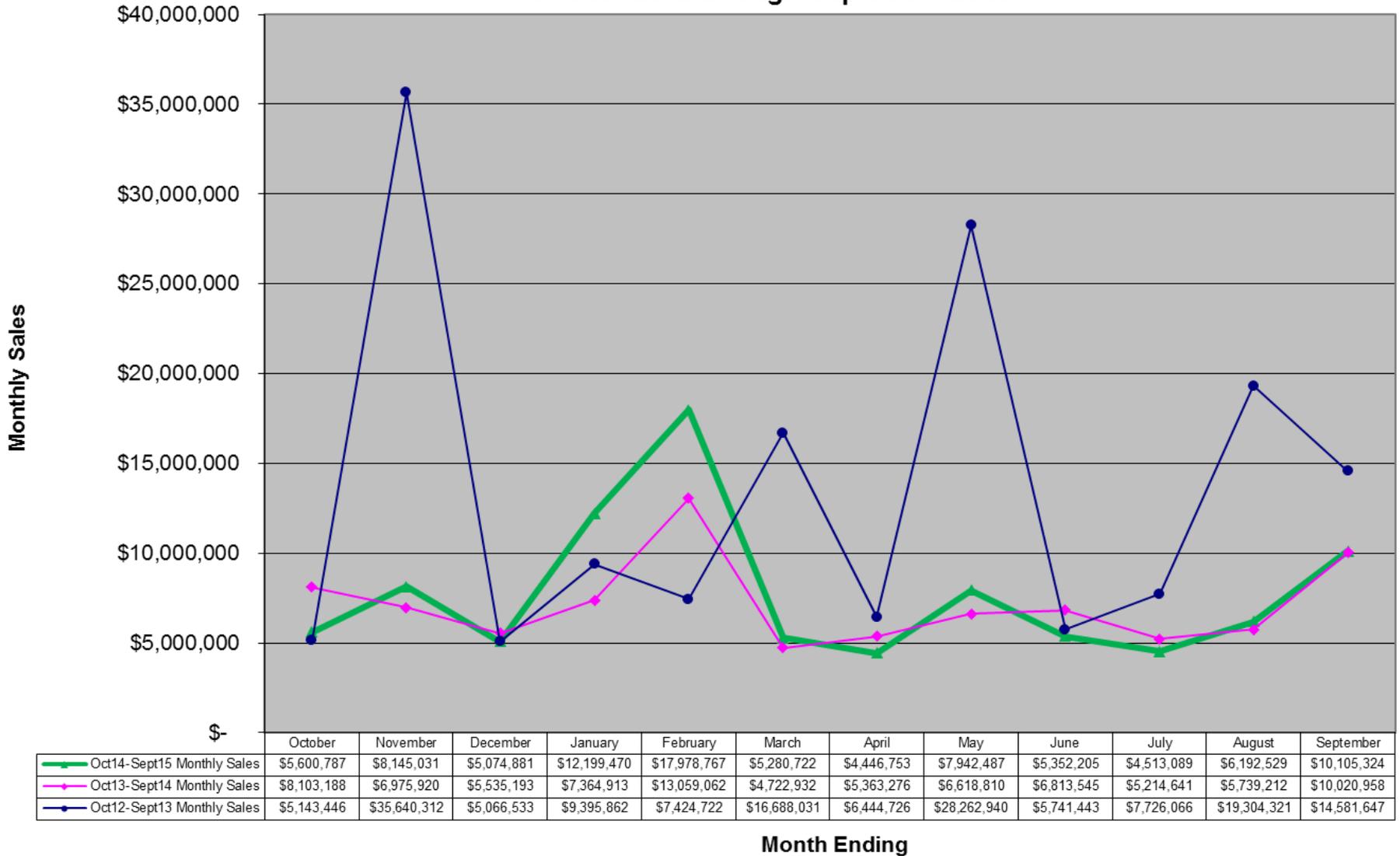
Lucky for Life Game Monthly Sales Unadjusted Non Fiscal Year October 2012 through September 2015



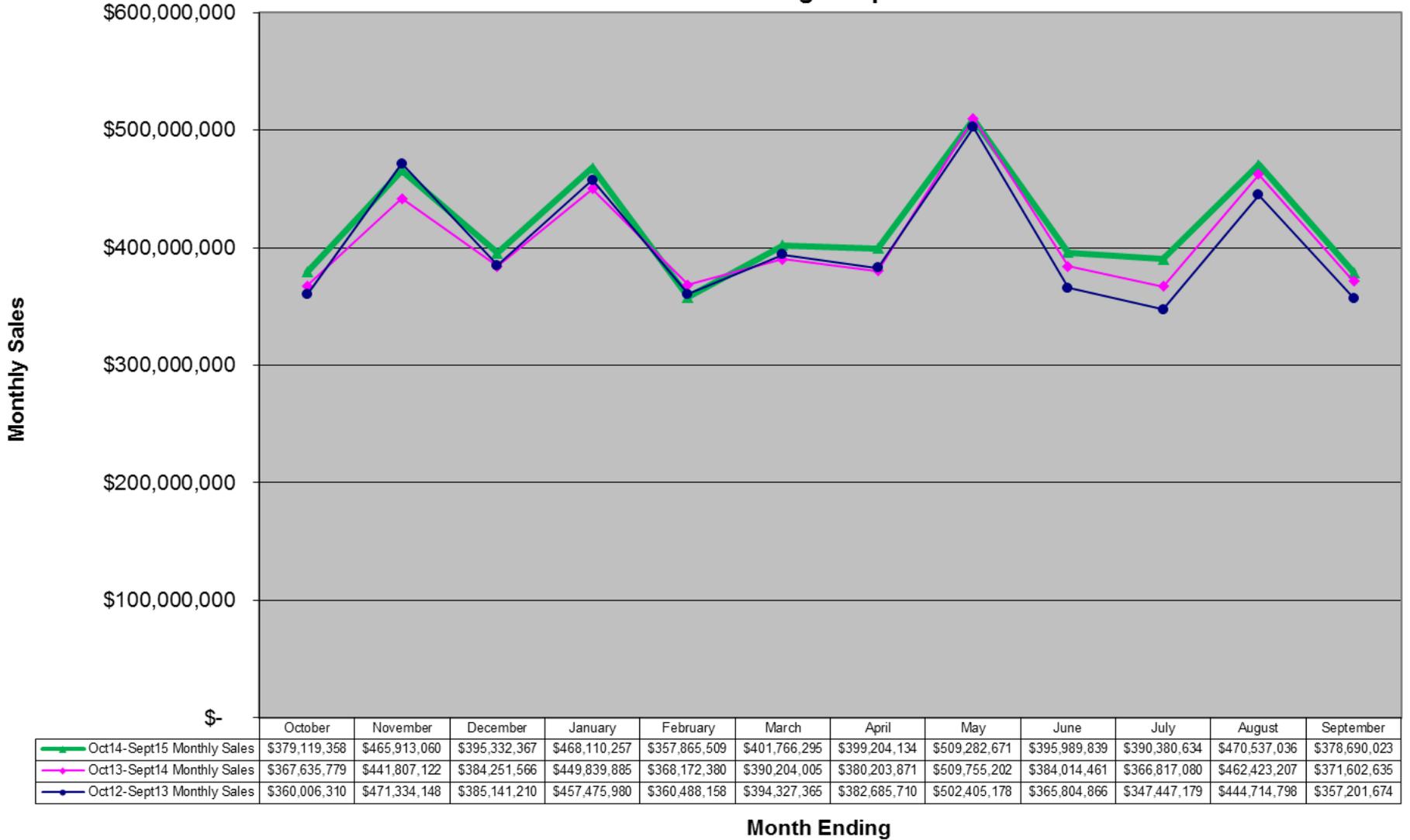
Mega Millions Game Monthly Sales Unadjusted Non Fiscal Year October 2012 through September 2015



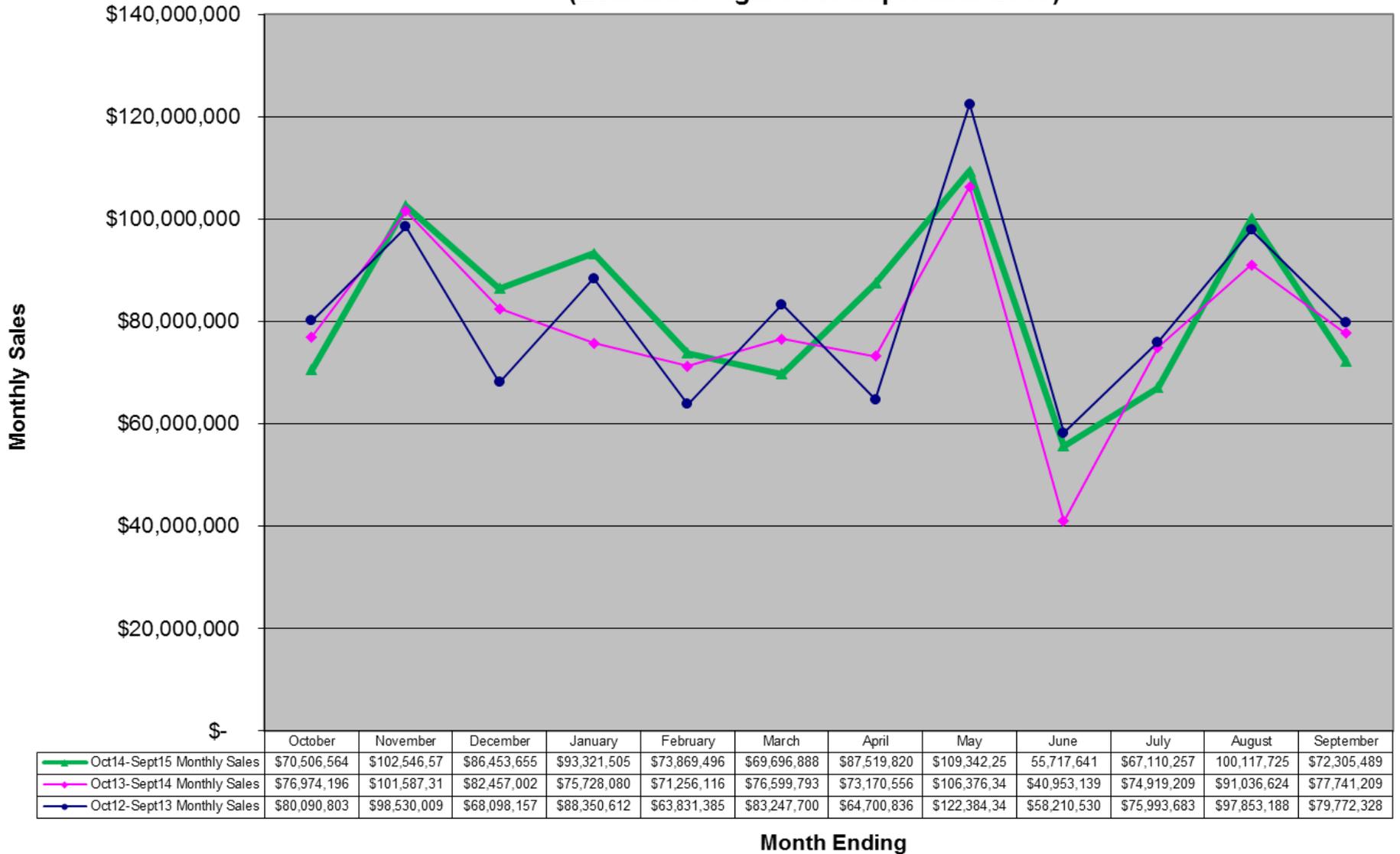
Powerball Game Monthly Sales Unadjusted Non Fiscal Year October 2012 through September 2015



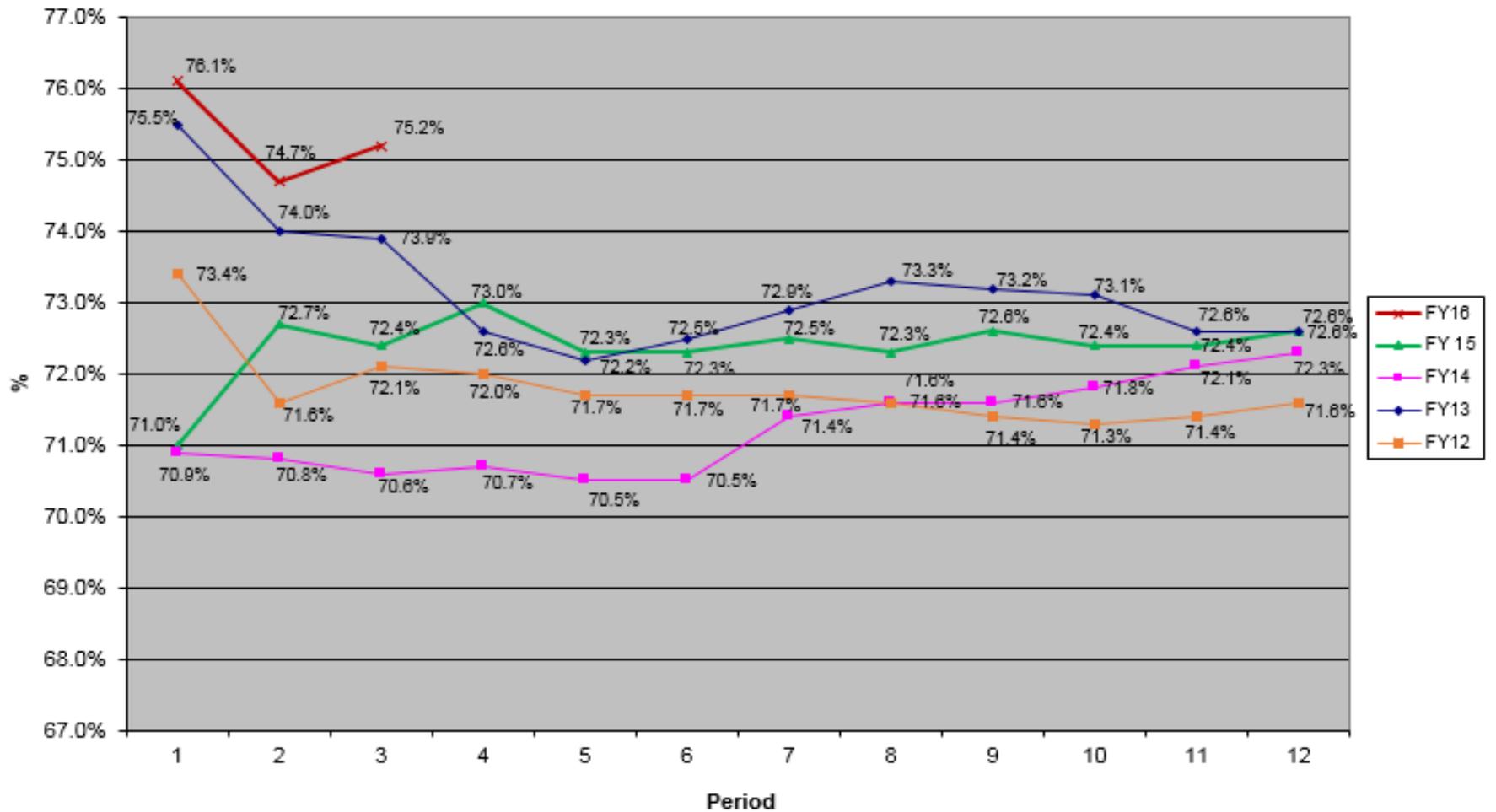
All Game Monthly Sales Unadjusted Non Fiscal Year October 2012 through September 2015



Monthly Net Profit October 2012 through September 2015 (Estimated Figure For September 2015)



5 Year Comparison Prize Payout as a % of Sales



| MSLC Gross Sales Results | | | | | | | | |
|---|-------|-----------------|-------------------|-------|-----------------|-------------------|------------------|-----------------|
| September FY16 vs. FY15 Unadjusted Non Fiscal Year | | | | | | | | |
| (\$ millions) | | | | | | | | |
| Through September 26, 2015 | | | | | | | | |
| | | FY16 | % of Total | | FY15 | % of Total | \$ Change | % Change |
| Instant Tickets | | \$264.1 | 69.7% | | \$261.5 | 70.4% | \$2.6 | 1.0% |
| Mega Millions | | \$4.1 | 1.1% | | \$3.9 | 1.0% | \$0.3 | 6.5% |
| Powerball | | \$10.1 | 2.7% | | \$10.0 | 2.7% | \$0.1 | 0.8% |
| KENO | | \$65.9 | 17.4% | | \$62.4 | 16.8% | \$3.5 | 5.6% |
| Mass Cash | | \$5.9 | 1.6% | | \$5.7 | 1.5% | \$0.1 | 2.5% |
| Lucky for Life | | \$2.0 | 0.5% | | \$2.0 | 0.6% | \$0.0 | -0.7% |
| Numbers Game | | \$24.8 | 6.5% | | \$24.5 | 6.6% | \$0.3 | 1.0% |
| Megabucks Doubler | | \$1.6 | 0.4% | | \$1.3 | 0.3% | \$0.3 | 27.2% |
| Jackpot Poker | | \$0.2 | 0.0% | | \$0.2 | 0.1% | -\$0.1 | -23.3% |
| Total | | \$378.7 | 100.0% | | \$371.6 | 100.0% | \$7.1 | 1.9% |
| Instant Tickets | | \$264.1 | 69.7% | | \$261.5 | 70.4% | \$2.6 | 1.0% |
| Draw Games + KENO | | \$114.6 | 30.3% | | \$110.1 | 29.6% | \$4.5 | 4.1% |
| Total | | \$378.7 | 100.0% | | \$371.6 | 100.0% | \$7.1 | 1.9% |
| Unadjusted | Month | 8/30/15-9/26/15 | | Month | 8/31/14-9/27/14 | | | |
| | | 4 weeks | | | 4 weeks | | | |
| | | 28 days | | | 28 days | | | |

MSLC Gross Sales Results

Year-to-Date FY16 vs. FY15 Unadjusted Non Fiscal Year

(\$ millions)

Through September 26, 2015

| | FY16 | % of Total | FY15 | % of Total | \$ Change | % Change |
|--------------------------|-----------|-----------------|-----------|-----------------|-----------|----------|
| Instant Tickets | \$879.0 | 70.9% | \$855.4 | 71.2% | \$23.5 | 2.8% |
| Mega Millions | \$13.8 | 1.1% | \$14.6 | 1.2% | -\$0.7 | -4.9% |
| Powerball | \$20.8 | 1.7% | \$21.0 | 1.7% | -\$0.2 | -0.8% |
| KENO | \$213.8 | 17.2% | \$200.2 | 16.7% | \$13.6 | 6.8% |
| Mass Cash | \$19.2 | 1.6% | \$18.6 | 1.5% | \$0.6 | 3.4% |
| Lucky for Life | \$6.7 | 0.5% | \$6.6 | 0.6% | \$0.1 | 2.0% |
| Numbers Game | \$80.6 | 6.5% | \$79.3 | 6.6% | \$1.2 | 1.6% |
| Megabucks Doubler | \$5.0 | 0.4% | \$4.4 | 0.4% | \$0.7 | 15.8% |
| Jackpot Poker | \$0.6 | 0.0% | \$0.8 | 0.1% | -\$0.2 | -22.3% |
| Total | \$1,239.6 | 100.0% | \$1,200.8 | 100.0% | \$38.8 | 3.2% |
| Instant Tickets | \$879.0 | 70.9% | \$855.4 | 71.2% | \$23.5 | 2.8% |
| Draw Games + KENO | \$360.6 | 29.1% | \$345.4 | 28.8% | \$15.2 | 4.4% |
| Total | \$1,239.6 | 100.0% | \$1,200.8 | 100.0% | \$38.8 | 3.2% |
| Unadjusted | Year | 6/28/15-9/26/15 | Year | 6/29/14-9/27/14 | | |
| | | 13 weeks | | 13 weeks | | |
| | | 91 days | | 91 days | | |

| MSLC Gross Sales Results | | | | | | |
|--|--|------|-----------------|-------------------|------------------|-----------------|
| Year-to-Date FY16 vs. FY15 Unadjusted Non Fiscal Year | | | | | | |
| (\$ millions) | | | | | | |
| Through September 26, 2015 | | | | | | |
| | | | FY16 | % of Total | \$ Change | % Change |
| Instant Tickets | | | \$879.0 | 70.9% | \$23.5 | 2.8% |
| Mega Millions | | | \$13.8 | 1.1% | -\$0.7 | -4.9% |
| Powerball | | | \$20.8 | 1.7% | -\$0.2 | -0.8% |
| KENO | | | \$213.8 | 17.2% | \$13.6 | 6.8% |
| Mass Cash | | | \$19.2 | 1.6% | \$0.6 | 3.4% |
| Lucky for Life | | | \$6.7 | 0.5% | \$0.1 | 2.0% |
| Numbers Game | | | \$80.6 | 6.5% | \$1.2 | 1.6% |
| Megabucks Doubler | | | \$5.0 | 0.4% | \$0.7 | 15.8% |
| Jackpot Poker | | | \$0.6 | 0.0% | -\$0.2 | -22.3% |
| Total | | | \$1,239.6 | 100.0% | \$38.8 | 3.2% |
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| Unadjusted | | Year | 6/28/15-9/26/15 | | | |
| | | | 13 weeks | | | |
| | | | 91 days | | | |

September Instant Tickets Sales Update

Wild Doubler

Price Point: \$1

6 Week Sales: \$2,225,955



\$10,000,000 Big Money

Price Point: \$20

6 Week Sales: \$33,161,640

\$1,000,000 Payout

Price Point: \$5

6 Week Sales: \$11,977,890



Triple 777

Price Point: \$2

6 Week Sales: \$9,933,286



Monster Cash (2 scenes)

Price Point: \$5

6 Week Sales: \$13,869,765



Holiday Instant Tickets Release (October 27)

\$10,000 Holiday Bonus

Price Point: \$1

Top Prize: \$10,000



Frosty Cashword

Price Point: \$2

Top Prize: \$50,000



\$1,000,000 Holiday Bonus

Price Point: \$5

Top Prize: \$1,000,000



\$2,500,000 Holiday Bonus

Price Point: \$10

Top Prize: \$2,500,000



\$100,000 Holiday Bonus

Price Point: \$2

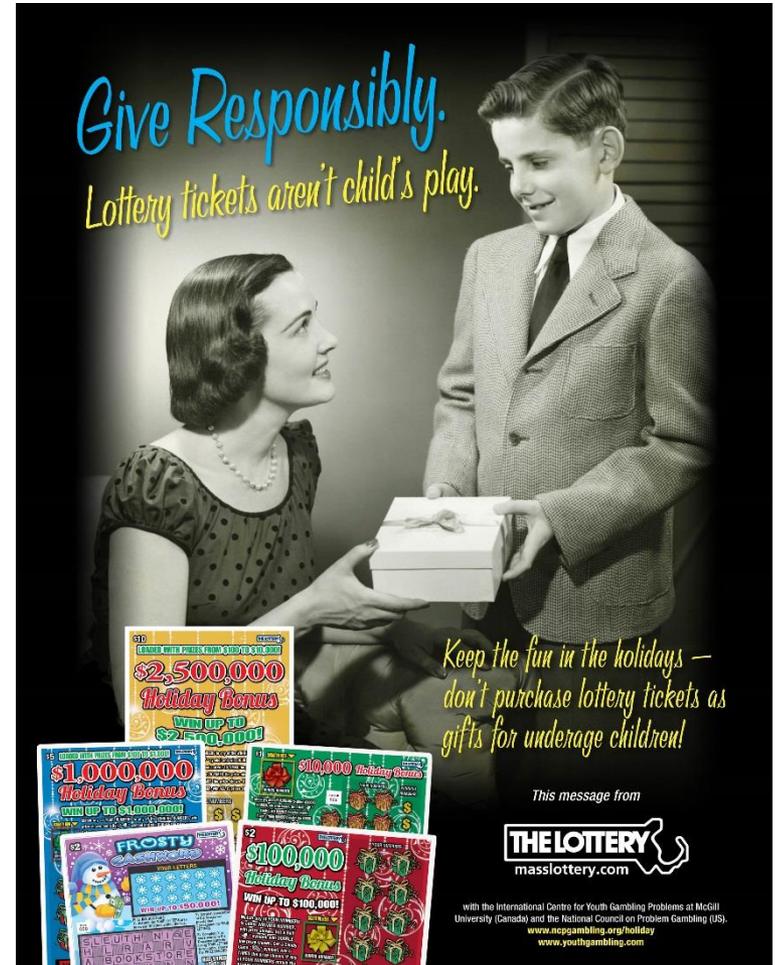
Top Prize: \$100,000



Responsible Gambling

As in previous years, the Lottery will be promoting responsible gambling during the holiday season in the following ways:

- Producing and posting POS materials at Lottery retailers during the holiday season discouraging underage play
- Providing the Mass. Council on Compulsive Gambling (MCCG) with radio inventory as part of the Lottery's annual holiday advertising campaign
- Including the MCCG's 1-800 hotline number in various paid and POS advertising

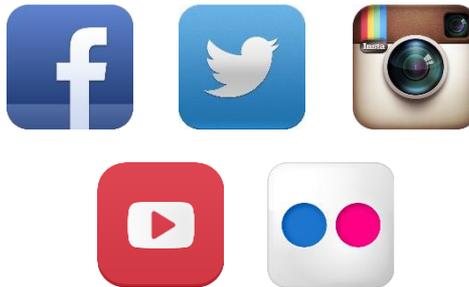


8.5x11 Poster

Social Media Messaging

Social media content that the Lottery will be promoting in November includes:

- “Holiday Bonus” contest
- “Selfie” sweepstakes in conjunction with the Celtics
- All in-season sports-themed tickets
- Winner awareness
- Happy Thanksgiving
- Responsible gambling



Example of previous sports-themed ticket post on Instagram

Winner Awareness on Facebook



5,450 people reached

Boost Post

Like Comment Share

Example of previous holiday messaging



DAILY FANTASY SPORTS

A presentation for the MSLC

The Lottery Today



Fiscal Year 2015

- Over \$5 billion in total sales
 - ▣ 70.2% from Instant Games
 - ▣ 17.0% from KENO

- Generated over \$985 million in net profit to remain the single largest source of local aid for the 351 cities and towns in the Commonwealth.

- Over \$3.6 billion paid out in prizes. At 72.6% of all sales, return to players is highest in the U.S.

The Lottery Today



- Statewide network of 7,500 retail sales agents, including chain stores, supermarkets, gas stations, package stores, restaurants, bars, convenience and corner stores.
- These retailers earn commissions on Lottery sales, and bonuses on prizes claimed.
- The average retailer earned approximately \$38,000 in income from selling Lottery in FY15.

The Lottery Today



- According to a UMass “Social and Economic Impacts of Gambling in Massachusetts (SEIGMA)” survey, two groups that were significantly more likely to be Lottery players were adults age 35 to 64 and males.
- Adults age 35 to 79 were significantly more likely than younger (18-24) or older (80+) adults to have played Lottery.
- The Lottery-playing population is skewing toward an older demographic.

Source: UMass SEIGMA Baseline Population Survey
<https://www.umass.edu/seigma/reports>

The Lottery Today



- The biggest current challenge facing the Lottery is the daily fantasy sports industry.
- The immediate protection and responsible growth of the Lottery is a must given that it is the single largest source of unrestricted funds – nearly \$1 billion – to the Commonwealth's 351 cities and towns.

Fantasy Sports Industry

- 56.8 million people play some form of online fantasy sports in the United States and Canada.
- Daily fantasy players have doubled in the last two years.
- 66% of these players are male, with an average age of 37.
- 57% have a college degree or higher, and 47% report a household income of \$75,000 and above. 66% enjoy full-time employment.
- The average annual spending per fantasy player is \$465. This is up from \$80 in 2012.

Source: Fantasy Sports Trade Association

<http://fsta.org/research/industry-demographics/>

Fantasy Sports Industry

- There is an available market to attract players to fantasy games, and websites such as DraftKings and FanDuel are penetrating it.
- In Q3 2015, DraftKings media buy was \$173 million
- 56% of their players use a mobile device to engage the sites.
- DraftKings is valued at \$1.2 billion. FanDuel is valued at \$1.275 billion.
- MLB, NFL, and NBA all have operating or funding deals with the sites.

Source: Business Insider, "Billion-dollar fantasy sports startup DraftKings just blew through ~\$20 million in one week"

<http://www.businessinsider.com/draftkings-fantasy-sports-startup-blew-20-million-in-a-week-2015-9>

Fantasy Sports Industry

“If there is a statistic that puts dollar signs in the heads of league commissioners, it's this one: Fans consume 40% more sports content — across all media — once they start playing FanDuel.”

“With money on the line every day, daily fantasy participants want to see the results as they happen. So they watch more live games until the end, boosting advertising and television viewership, which fatten the golden goose of American sports: TV rights contracts.”

“In addition to television, it leads to ‘increased consumption of our digital content and overall interest in our sport,’ said Sal LaRocca, the NBA's president of global operations and merchandising.”

“Not only does it increase viewership, it increases live viewership, which is the reason these TV contracts are so valuable, because it's one of the few things you don't DVR.”

USA Today, January 1, 2015, “Leagues see real benefits in daily fantasy sports,” by Brent Schrottenboer

Fantasy Sports Industry

“It also shows that the gambling environment in Massachusetts a decade from now could look far different from what anyone planned.”

“Unlike casino resorts, daily fantasy sports websites can launch without government doing anything on their behalf. So they’ve had little incentive up to now to engage in behind-the-scenes intrigue.”

“But even if DraftKings disappeared tomorrow, it won’t be the last startup to probe the limits of what state and federal gambling laws allow.”

Boston Globe, October 22, 2015, “DraftKings bodes ill for glitzy casino,” by Dante Ramos

Fantasy Sports and the Lottery

- The introduction of a fantasy sports platform to the Mass. Lottery embraces an emerging market while protecting the Lottery's 7,500 retailers.
- It does not cannibalize existing products.
- By engaging a next-generation player, Lottery will be creating a new revenue source as opposed to eroding existing offerings.

Lottery Product Innovation



1974 Massachusetts becomes the first state to sell Instant Lottery Tickets as an alternative to the weekly jackpot game.

1993 The Lottery launches KENO, becoming the seventh state in the U.S. to offer the game.



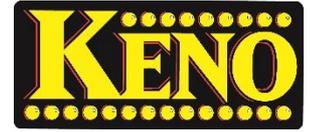
2006 The “Red Sox Instant Ticket” is the first instant game in the U.S. to feature a Major League Baseball team logo



2009 The “New England Patriots Instant Ticket” is the first instant game to feature a National Football League team logo.



Launch of KENO



News coverage as the Lottery was considering introducing KENO

Boston Globe, January 3, 1993

“When a traditional business is faced with a mature market, strategies are developed to change the product mix. Lotteries must respond in similar fashion.” (*W. Bruce Turner, Gaming Analyst, Raymond James & Associates*)

“So far, that's what the Massachusetts Lottery has been able to do. But the job is getting tougher...to increase revenues, the lottery has to continue coming up with exciting products.”

Boston Globe Editorial, June 23, 1993

“The introduction of keno, an unskilled game of chance, might increase state revenues. But there is no reason keno could not be administered within the framework of the lottery...”

Launch of KENO



News coverage as the Lottery was considering introducing KENO

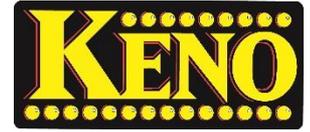
Boston Globe Editorial, June 25, 1993

“Will gamblers really contribute \$50 million in keno wagers to the state?”

Boston Globe, September 26, 1993

“Fifty-two percent of Massachusetts residents called the game a bad idea, while just 30 percent supported it.”

Launch of KENO



News coverage after the Lottery introduced KENO

Boston Globe, March 29, 1994

“...some analysts wonder whether the novelty of keno will have worn off by the time it’s fully introduced in Massachusetts.”

Boston Globe, December 18, 1994

“Others said the game was too complicated and would never catch on.”

“When the game was first introduced, officials projected gross sales of \$25 million for the remainder of the fiscal year and a net income of \$7 million. In fact, gross sales were \$63 million with a net income of \$18 million.”

KENO Performance



KENO sales, FY1995 - FY2015

| FISCAL YEAR | KENO SALES | PCT. INCREASE | vs. FY1995 |
|-------------|---------------|------------------|------------|
| 1995 | \$299,535,000 | --- | --- |
| 2000 | \$572,442,000 | 91.1% | --- |
| 2005 | \$742,007,000 | 29.6% | 147.7% |
| 2010 | \$753,832,000 | 1.6% | 151.7% |
| 2015 | \$850,487,000 | 12.8% | 183.9% |

FY1995 was the first full Fiscal Year in which KENO was offered

A Proven Model



- The Lottery has over 40 years of experience in the gaming market
- The Lottery operates within a comprehensive system of internal controls to protect game integrity
- Lottery profits aid cities and towns across the Commonwealth.

The Path Forward



- The Lottery should issue an RFI to better understand the daily fantasy sports market and identify what technology and resources would be necessary to pursue the introduction of a fantasy sports offering.
- We should engage the Legislature to make it clear that the Lottery offers a venue for daily fantasy sports that protects the consumer and preserves fundamental fairness within the game, while creating a new source of revenue for local aid.

Thank you for the opportunity to share this information. We look forward to your feedback and to further discussion on these figures, as well as other Lottery initiatives.

