

Massachusetts State Lottery Commission

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DATE: Tuesday, January 26, 2016

TIME: 10:30 a.m.

MEMBERS PRESENT: James MacDonald, First Deputy Treasurer
Doug Levine, Special Counsel, Executive Office of Public Safety and Security, designee for Commissioner Daniel Bennett
Meghan Liddy, Commissioner
Anthony Salvidio, Commissioner
Thomas G. Shack III, Comptroller
Jeffrey Shapiro, Esq, Deputy Comptroller, Chief Operating Officer

ALSO PRESENT: Michael Sweeney, Executive Director, Lottery
Edward Farley, Chief Administrative Officer, Lottery
Christian Gonsalves, Deputy General Counsel, Lottery
Christian Teja, Director of Communications, Lottery
Judy Moore, Executive Assistant, Lottery

Dave Falcone, Chief of Staff, Treasury
Sarah Kim, General Counsel, Treasury
Shawn Collins, Legislative Director, Treasury
Chandra Allard, Deputy Communications Director, Treasury

Michelle Capasso, Connelly Partners
Ashley McGilloway, Connelly Partners
Tom Taylor, Connelly Partners
Justin Vogt, Connelly Partners

Colin Young, State House News Service

I. Opening of Meeting:

First Deputy Treasurer MacDonald opened the meeting at 10:31 a.m. and extended regrets for Treasurer Goldberg explaining that she was unable join the meeting as she was attending a Clean Water Trust announcement in Millbury. He continued by saying that although Treasurer Goldberg views the Massachusetts State Lottery Commission meeting as very important, so are the issues in the district of Millbury.

II. Approval of Minutes from December 22, 2015

First Deputy Treasurer MacDonald asked the Commission to accept the minutes of the meeting from December 22, 2015. Commissioner Salvidio made a motion to accept the minutes of the meeting and Commissioner Shack seconded the motion. The motion passed unanimously. The minutes were approved at 10:33 a.m.

III. Executive Director Report

a. Sales Update

b. Marketing Update

c. Big E

Executive Director Sweeney began the meeting by reviewing Lottery sales for December announcing overall sales were up an estimated \$16.2 million compared to December of last year and net profit for the month was \$91.9 million as compared to \$86.5 million in December of last year, an increase of roughly \$5.4 million. Regarding the net profit, Executive Director Sweeney explained that due to a shift in the calendar, 1 less day was included in the Fiscal Year 2016 year-to-date net profit figure when compared to FY15. The net profit for the first six months of FY16 was \$479.2 million compared to \$494.9 million through the first six months of FY15, a decrease of \$15.7 million. He explained that after adding in that additional day, the average net profit figure of \$2.7 million, the adjusted year-over-year change for the first six months of FY16 vs. the first six months of FY15 is approximately a \$13.0 million decrease in net profit. The Prize payout for the month of December was at 70.47 percent as compared to 70.21 percent in December, 2014 and the year-to-date prize payout for FY16 is at 73.61 percent, as compared to 72.28 percent for the same five-month period of FY15. The 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 has been awarded in FY16.

Executive Director Sweeney continued by saying that the Instant Ticket portfolio saw an \$8.2 million sales increase in December during the Holiday campaign. Powerball increased by \$4.3 million during December as compared to last December as the December 2015 jackpot reached the \$300 million mark. KENO sales in December continued to be a strong earner, experiencing an increase of \$4.2 million over December of last year. Executive Director Sweeney also said Megabucks Doubler, the Numbers Game, Lucky for Life and Mass Cash, respectively, had increased sales over December of 2014.

Executive Director Sweeney stated that Mega Millions sales were down at \$1.66 million compared to December of 2014 and said that was primarily due to a larger jackpot in December of 2014. Jackpot Poker sales were down \$44,945 in sales as compared to December of 2014. Executive Director Sweeney followed up by providing additional details on each game across the Lottery's portfolio for the month of December, including:

- December Instant Ticket sales year over year continue to be strong and were up over \$8 million as compared to this time last year.
- KENO sales continue to be consistently strong at a little over \$4 million as compared to last December.
- Jackpot Poker game sales continue to lag, approximately \$45,000 decrease in sales from last year. Executive Director Sweeney reminded the Commission that the Lottery is anticipating having this game switched out in July or August of this year.

- Numbers Game sales continue to be fairly steady year over year.
- Mass Cash Game showed a slight increase compared to this same time a year ago.
- Megabucks Doubler had a good performance with about a \$3.5 million increase in sales over December of 2014.
- Lucky for Life had a slight increase as compared to last month. Executive Director Sweeney said that this increase could be attributed to the added consumer participation of those starting to purchase more Powerball tickets at this time period. He added that this may have also increased sales for other games.
- Mega Millions year over year is down significantly, but as mentioned previously in other meetings, Mega Millions is jackpot dependent. This number was due to a very large jackpot from this same time period last year.
- Powerball Game saw the beginnings of a Powerball liftoff, and as it started reaching over the \$300 million mark, it started to generate a lot of interest with consumers as well as with the media. Commissioner Salvidio asked if the charts during the meeting in January would show the increase for Powerball Sales. Executive Director Sweeney responded by saying that the sales in January will definitely be showing a significant increase and that the sales in January alone, almost matched the projections for the year. He continued by saying that the Lottery is gathering more information as there is a lot of behind the scenes operations that the public doesn't realize. He said that even though we had almost a year's worth of extra stock, we literally almost ran out of betting slips. Executive Director Sweeney gave credit to Director of Operations, Matthew DiFrancesco who ordered new stock back in December which came in right on time. He explained that operationally, everything was affected by the impact of sales. Commissioner Salvidio asked Executive Director Sweeney if he could supply the Commission with a summary of exactly how Powerball works and how the sales affect the state during the next meeting. He said he is pretty familiar with it, but he doesn't want to misstate when asked about it. Executive Director Sweeney said that was something he could absolutely put together and promised it for the next meeting.

Executive Director Sweeney recapped by saying all game monthly sales did see an increase as compared to last year.

Monthly Net Profit

Referring to the Monthly Net Profit chart, Executive Director Sweeney pointed out that the numbers for December were very healthy, with a little over a \$5.5 million increase over December of 2014.

5 Year Comparison Chart

Executive Director Sweeney went on to discuss the 5 Year Comparison chart which shows the highest payout as a percentage of the Lottery's sales from the last 5 years. He said that his concern is that the overall payout percentage for the year is at 73.6% which is great news for our consumers, but it's causing an imbalance between increased sales and not seeing an increase in profit year over year. Currently, the Lottery is running a full percentage point over the previous highest year which was back in FY13 at 72.5%. Executive Director Sweeney said, historically, there has been some increase through the February to March period in this number, and whether or not that will continue remains to be seen. The Lottery has been actively working on projections this past month to see if an adjustment should be made in the year end projections for either net profit or the prize payout percentage. He went on to say that that the Lottery doesn't want to get into the habit of coming out with an adjusted number and since there are so many variables, it's better to take a long term view. Commissioner Salvidio asked, if the

prize payout is driving and increasing sales, then sooner or later, shouldn't it catch up if there were enough sales? Executive Director Sweeney responded by saying, yes, what happens at that point does not become the normal profit margin where a dollar of extra sales automatically means you are moving closer and closer to breaking that record. He said, we have to look at what is the actual increase in sales needed in order to keep the profit rising above what it was the previous year. He went on to say that the Lottery is trying to determine the right balance and mix of products and said that a number of things are changing with consumers. For instance, how they purchase products, and the price points that they want to play. Executive Director Sweeney said, all of that impacts these numbers.

Gross Sales Results

Referring to the Gross Sales Results chart, December FY16 vs. FY15, Executive Director Sweeney pointed out that overall sales were up just about 4.1%. Instant Tickets were a good performer up at 2.9%. There was a decrease in Jackpot Poker which is a very small contributor to the overall numbers that we have in total. Sales in total, were up just over 4% year over year and the holiday time frame was a good period for sales. Powerball had a strong month overall with sales at about 85.3%. KENO sales continue to be strong and the Megabucks Doubler for the month did quite well. Year over year unadjusted sales were approximately 4.1% for all products as compared to FY15. Regarding overall revenue, it is Instant Tickets and KENO that lead the pack with all other games showing a marginal performance. Year to year, overall sales were up approximately 3.2%.

Instant Ticket Sales Update

Executive Director Sweeney updated the Commission on the Holiday Instant Ticket sales, referring to it as a very successful campaign. He went on to say that the success can be attributed to the good work that transpired in issuing these tickets. He said that the Frosty Cashword Instant Ticket is in the process of being closed out, as the majority of the top prizes have been won. Across the board, with the exception of the \$1.00 ticket, sales were extremely strong and very well received by the public. He went on to update the Commission on the ten week holiday season sales period saying, year over year, Instant Ticket Sales were up 3.5% and all product sales during that same time period were up a very healthy 4%.

Executive Director Sweeney provided an update on the January Instant Ticket sales saying that all four products have been selling very well. He said that the feedback on the Taxes Paid Instant Ticket during the development and conception stage was very good from consumers and it has been very well received with radio advertisements, as well as other media, including Facebook.

Executive Director Sweeney then unveiled a new \$10.00 Instant Ticket that is being launched on Feb 2: \$2,000,000 50X Cashword. He said that these Cashword tickets have a strong and deep base of core players and he anticipates that with both the multiplier aspect and the Cashword aspect, that this new ticket will be well received.

Social Media Messaging

Executive Director Sweeney moved on to share what is being done by the Lottery in terms of using social media to promote Lottery products. He showed examples of recent and upcoming strategies that have been done on Twitter, Facebook and Instagram. He said that during the Powerball frenzy, the Lottery made it a priority to promote responsible gaming and reminded players not to exceed their normal play budget.

The Big E

Executive Director Sweeney concluded the report by updating the Commission on Lottery operations during The Big E, which is the largest fair in the Northeast and the fifth-largest fair in the nation. He told the Commission that based on last year's review of existing operations and procedures during the event, changes were made to tighten up the security and establish protocols for accounting.

Connelly Partners

Executive Director Sweeney continued the meeting by introducing members from Connelly Partners, LLC, Ashley McGilloway, Michelle Capasso, Justin Vogt, and Tom Taylor to update the Commission on the results of the Holiday Instant Ticket Campaign. Media Director, Michelle Capasso and Associate Director of Social Media, Tom Taylor delivered an overview of the digital and social media used during the campaign and discussed how they evaluated the performance to be able to use those results to apply to other campaigns this year and into next year as well. After the presentation, Justin Vogt took a moment to say that he is proud of the relationship between the Lottery and Connelly Partners. He said given the same flat year over year budget, they were able to take those same dollars that they had last year and extend them into new channels through new technology. He said Connelly Partners is committed to expanding the audience and most importantly, drive sales. **(Please reference the handout to provide the details that were discussed.)**

IV. Votes Presented to the Commission

There were no votes on the agenda for this meeting.

V. Other matters related to the purchase of goods and services by the Lottery

After asking if there was any other business to discuss, First Deputy Treasurer MacDonald sought a motion to adjourn the meeting. Commissioner Shack made the motion to adjourn, Commissioner Salvidio seconded the motion. The motion passed unanimously. The meeting adjourned at 11:21 a.m.