

---

# **Pennsylvania Lottery Profit Report**

---

As Required by Act 53 of 2008

---

2015

---

## END OF FISCAL YEAR 2014-15 ANALYSIS

The Pennsylvania Lottery set a new sales record for fiscal year 2014-15 of \$3.82 billion, surpassing the \$3.78 billion record set in fiscal year 2013-14 by \$20 million, or 0.5 percent. This is the fifth year in a row that the Lottery has set a record in total sales.

The Lottery recorded profits of \$1.061 billion for fiscal year 2014-15, marking the fourth consecutive year that profits have surpassed \$1.0 billion. It represented a negative change of \$20 million, or -1.9 percent, from fiscal year 2013-14 total profits of \$1.081 billion. Shifting consumer preferences toward lower-margin instant games were primarily responsible for the change, as noted below in the product mix discussion.

The Pennsylvania Lottery remains the only state lottery that designates all its proceeds to programs that benefit older residents. Since its inception in 1971, the Pennsylvania Lottery has contributed more than \$25.8 billion to programs that include property tax and rent rebates; free and reduced-fare transit; the low-cost prescription drug programs PACE and PACENET; care services; and the 52 Area Agencies on Aging, including full- and part-time senior centers throughout the state.

Act 53 of 2008 granted the Pennsylvania Lottery temporary relief from the mandated 30 percent minimum return that had been in place since the Lottery's inception. The Lottery was given the latitude to return a minimum of 27 percent through fiscal year 2010-11. Act 23 of 2011 extended the 27 percent minimum return through fiscal year 2014-15. Act 201 of 2014 set the minimum return percentage at 25 percent starting with the current fiscal year.

The lottery ended fiscal year 2014-15 with a net profit percentage of 27.77 percent, down from the 28.46 percent recorded in fiscal year 2013-14. The Lottery was able to reduce operating cost to 1.98%. Fiscal year 2014-15 is the first time operating costs have been below 2.0% in 13 years.

Product mix plays an important role in the overall rate of return. Product mix is influenced by many factors including the length of jackpot runs as well as shifts in consumer preferences within the Lottery's game portfolio. Instant products return approximately half the amount of profit for the same dollar spent. The trend of players gravitating toward instant games, and particularly higher price point instant games, continues in Pennsylvania and in the lottery industry as a whole.

Instant sales as a percentage of total traditional sales:

	FY09-10	FY10-11	FY11-12	FY12-13	FY13-14	FY14-15
Pennsylvania	56.9%	59.9%	61.3%	62.3%	64.3%	67.8%
Other U.S. lotteries	57.2%	58.7%	58.5%	59.6%	60.0%	n/a

The Pennsylvania Lottery remains one of the best-performing lotteries of the 43 U.S. Lotteries, ranking fifth in profits in fiscal year 2013-14 (the most recent period for which national statistics are available).

## State of the Lottery Game Portfolio

The Lottery maintains a diverse product portfolio, providing lottery games that meet an equally diverse consumer population. The Lottery's 0.5 percent sales growth was largely driven by a 6.0 percent growth in the instant games category. Fiscal year 2014-15 marks the fifth year in a row that instant sales have grown by 6 percent or more. Terminal-based games' sales fell by 9.4 percent in fiscal year 2014-15, primarily due to significant drops in the lotto game jackpots.

### Instant Games

The category accounted for 67.8 percent of total sales.

For the fifth year in a row, the Lottery set a new instant games sales record. Instant sales of \$2.59 billion surpassed the record of \$2.45 billion set in fiscal year 2013-14. The growth in instant sales amounted to an increase of \$147 million, or 6.0 percent. An impressive 19 of the top 40 instant game sales weeks in the entire 43 year history of the Lottery occurred in fiscal year 2014-15.

As with most lotteries, the instants sales mix is shifting toward the higher price point instant tickets. The table below shows the sales migration toward the higher price point instant games over the last four fiscal years. As a result, the average selling price has risen as well. However, higher price points by necessity offer higher prize payouts which in turn lower the rate of return.

Instants	\$1 Inst	\$2 Inst	\$3 Inst	\$5 Inst	\$10 Inst	\$20+ Inst	Avg. Selling Price
FY14-15	4.1%	7.5%	6.3%	30.5%	20.0%	31.5%	\$5.12
FY13-14	4.5%	8.7%	7.0%	29.8%	19.7%	30.3%	\$4.87
FY12-13	5.0%	9.9%	7.0%	30.6%	19.3%	28.2%	\$4.59
FY11-12	6.0%	11.6%	6.7%	32.2%	18.7%	24.8%	\$4.24
FY10-11	7.1%	13.7%	6.7%	31.9%	19.8%	20.8%	\$3.91

### Multi-State Lotto: Powerball®, Mega Millions® and Cash4Life™

The multi-state lotto category accounted for 10.0 percent of total sales in fiscal year 2014-15.

The multi-state lotto category saw a 14.8 percent decline in fiscal year 2014-15, largely due to a 20.4 percent decline in Powerball sales and a 14.4 percent decline in Mega Millions sales.

As always, sales in this category are largely driven by the length of jackpot runs and the size of jackpots. Powerball had only three jackpots over \$300 million in fiscal year 2014-15

compared to five in fiscal year 2013-14. Mega Millions had only one jackpot over \$300 million in fiscal year 2014-15 compared to six in fiscal year 2013-14

An October 4, 2015 change to Powerball is expected to grow jackpots faster and therefore produce more revenue. At the same time, the Lottery will remind players of all multi-state games that any jackpot can be a life-changer.

In April of 2015, Pennsylvania joined the regional multi-state game Cash4Life. The game has been well received by players in Pennsylvania. The Lottery is projecting over \$39 million in Cash 4 Life sales in fiscal year 2015-16.

### **In-State Lotto: Cash 5, Match 6, Treasure Hunt**

The in-state lotto category accounted for 6.1 percent of total sales in fiscal year 2014-15.

The in-state lotto game category was down 15.7 percent over fiscal year 2013-14. The in-state lotto games saw a similar drop in jackpot levels that the multi-state games experienced.

Cash 5 sales were down 10.1 percent. Cash 5 saw six jackpots at \$1.0 million or above in fiscal year 2014-15, down from 14 jackpots over \$1.0 million the previous year.

Treasure Hunt was up 0.5 percent in spite of the fact that there were only six jackpots at \$120,000 or larger, compared to 14 jackpots at \$120,000 or larger in fiscal year 2013-14.

Match 6 was down 29.1 percent due smaller jackpots as well. In fiscal year 2014-15 there were only 12 Match 6 jackpots at \$2 million or larger, compared to 53 jackpots in fiscal year 2013-14.

The Lottery is currently testing in-state lotto concepts with a new game launch possible in the third quarter of fiscal year 2015-16.

### **Numbers Games: Pick 2, Pick 3, Pick 4, Pick 5**

Numbers games accounted for 15.6 percent of total sales in fiscal year 2014-15.

Numbers games ended fiscal year 2014-15 down 2.4 percent as compared to the prior year. Although sales declined, they declined at a slower rate than in fiscal year 2013-14 (3.1 percent). Although numbers games have a loyal player base, industry-wide trends show that these games have a shrinking player base.

The Lottery introduced a new two-digit game (Pick 2) in January 2015 and a simultaneous re-branding of all games in this category under a one-umbrella naming convention (Pick 2, Pick 3, Pick 4, and Pick 5). The rebranding of the numbers games has allowed the Lottery to increase product support by advertising the category.

The lottery is currently testing numbers game add-ons for potential launch in the second half of fiscal year 2015-16.

## **Millionaire Raffle**

The Lottery sold out Millionaire Raffle 19, but failed to sell out Raffle 20 -- marking the first time that a Millionaire Raffle offering did not sell out. Nevertheless, Raffle 20 produced significant profit. In fiscal year 2015-16, the Lottery has scheduled two additional Millionaire Raffles believing that offering four raffles annually will bring in more profit than two raffles, regardless of whether each raffle sells out.

## **PLANNING FISCAL YEAR 2015-16 AND BEYOND**

The Lottery is focused on the core business of running our business and responsibly generating profits to benefit older Pennsylvanians. Key areas of focus include:

- Continuing our aggressive product management:
  - Powerball: the game will undergo a matrix change in Oct. 2015 and additional enhancements to the game may occur in 2016.
  - Exploring the development of new draw games.
  - Adding value to draw games through Web codes, promotions and microsites.
- Improving our instant game supply chain to maximize product availability and meet consumer demand.
- Optimizing our existing retail practices through sales training for retailers and programs aimed to revamp and optimize product merchandising at retail.
- Strategic approaches to retailer recruitment and adding new points of sale through pursuit of large retail chains and exploration of new sales channels and technologies.
- Modernizing business and marketing practices through the enhanced use of technology to create conveniences for players and responsibly grow sales.

## **Conclusion**

The Lottery achieved a record sales year in fiscal year 2014-15 with \$3.82 billion in total sales and is projecting another strong year of sales growth in fiscal year 2015-16.

By operating the business in a manner that allows the Lottery to quickly respond to changing market conditions and consumer demand, the Lottery is working to achieve its financial goals and deliver profits to support essential benefit programs serving older adults.

###