



FY21 ANNUAL REPORT ON
THE PRIVATE MANAGEMENT AGREEMENT

(20 ILCS 1605/9.1(p)(3))

Respectfully submitted to:

Illinois Governor JB Pritzker
Senate President Don Harmon
Senate Republican Leader Dan McConchie
Speaker Emanuel "Chris" Welch
House Republican Leader Jim Durkin

The Illinois Lottery -- Private Management Background

In 2009, the Illinois General Assembly passed legislation requiring the State to seek a private manager for the Lottery (“Department”). Consequently, the Department engaged its first private manager pursuant to the process outlined in Section 9.1 of the Illinois Lottery Law (20 ILCS 1605). The winning bidder was Northstar Lottery Group, LLC (“Northstar”), a consortium comprising the Department’s then-current supply vendors, GTECH Corporation and Scientific Games International, Inc. The Department entered into a private management agreement with Northstar on January 18, 2011, and Northstar entered into supply agreements with GTECH and Scientific Games.

On September 18, 2015, the Department, Northstar, International Gaming Technologies (“IGT” formerly GTECH), and Scientific Games (“SGI”) entered into a Letter Agreement of Termination due to performance issues. Subsequently a Request for Proposal (“RFP”) was released for a new private management partner. Camelot Illinois (“Camelot”) was the sole bidder. The Department and Camelot entered into a new 10-year private management agreement (“PMA”) on Oct. 13, 2017.

In January 2018, Camelot replaced Northstar as private manager and completed the transition of key business functions in Q3 of FY18. A comprehensive and extensive technology transition took place in parallel and largely concluded in Q4 of FY19. The technology transition included a new central gaming system, a new instant ticket management system, a new internal control system, all new retail terminals and equipment, a new iLottery platform, website and mobile app. Camelot continues to perform private manager responsibilities as of the date of this report.

FY21 Updated Annual Business Plan Objectives and Guiding Principles

Primary FY21 Objectives

- 1. Protecting the player base** by minimizing player attrition in retail while maintaining and acquiring new digital players.
- 2. Demonstrating cost and margin consciousness** across the business to maximize contributions to the Common School Fund (“CSF”) and other good causes.
- 3. Setting the foundation for a new generation of player growth** in FY22 and beyond.

FY21 Guiding Principles

- 1. Invest in momentum:** Prioritize investment and resources where opportunity and momentum are presented as a result of changing consumer behaviors.
- 2. Protect the bottom line:** As with all businesses in times of uncertainty, it is especially important for the Illinois Lottery and Camelot Illinois to remain cost conscious in order to contribute the maximum amount possible to the Common School Fund and other good causes.
- 3. Prioritize based on high impact and low difficulty:** Initiatives are being prioritized based on those with the highest impact on players, retailers, and the State with the lowest amount of investment required.
- 4. Maintain flexibility:** Pursue shorter-term initiatives with limited interdependencies with an expectation that the roadmap is likely to change as the year progresses.

FY21 Executive Summary

The FY21 Updated Annual Business Plan (“Plan”) sets forth the financial performance goals for the year and the initiatives that support them. The uncertainty and concern felt at the beginning year due to the potentially negative financial impact of the pandemic, quickly turned positive leading to a record sales year for the Department. The positive financial impact of the pandemic was aided by strong jackpot performance of our multi-state games, primarily Mega Millions®, which had a \$1 billion jackpot in January 2021. Multi-state games (Powerball and Mega Millions) increased sales over FY20 by \$83.1 million (40.5%). In FY21 the Department saw an increase in draw-based games (DBG) sales of 29.2% YOY. The largest increase in DBG sales was with in-state Pick Games, which saw a combined increase of \$155.5 million (28.8%). Additionally, at the end of Q1 FY21 the Department launched a new DBG titled Fast Play, which accounted for \$36 million (2.9%) in DBG sales revenue. Sales from the Department’s iLottery platform, which only offers DBGs, nearly doubled in FY21.

FY21 Operating Revenue was \$3.455 billion, 10.1% higher than the Plan target of \$3.139 billion and 21.3% higher than FY20 revenue. The year-over-year increase FY21 Operating Income was \$776 million, 5.4% higher than the Plan target of \$745 million, and 12.5% higher than FY20. Camelot met their Minimum Net Income Target of \$758 million and will receive Incentive Compensation of \$3.8 million. Approximately, \$10 million was transferred to specialty causes and \$3 million of excess funds were transferred to the Capital Projects Fund.

FY21 ended with the three core objectives of the business plan largely being met:

1. Protecting the player base by minimizing player attrition in retail while maintaining and acquiring new digital players.
2. Demonstrating cost and margin consciousness across the business to maximize contributions to the Common School Fund and other good causes.
3. Setting the foundation for a new generation of player growth in FY22 and beyond.

The financial goals of the FY21 Plan were purposefully conservative given the uncertainty the Department faced going into FY21 driven by the COVID pandemic. The pandemic turned out to be the unexpected catalyst for the whole US Lottery Industry dramatically performing in FY21, achieving double digit growth and setting sales records in most states. By leveraging this “COVID effect” and executing well, we were able to exceed our FY21 goals and deliver our prescribed FY21 contribution to the Common School Fund, contribute to the Capital Projects Fund and deliver our highest total ever to the specialty causes we support.

FY21 Financial Performance Summary Detail

	FY20 Actual	FY21 Business Plan Target/CSF Plan¹	FY21 Actual	Performance
Operating Revenue	\$2.849 B	\$3.139 B	\$3.455 B	21.3% Up YOY 10.1% Up Plan
Operating Income	\$698 M	\$745 M	\$776 M	12.5% Up YOY 5.4% Up Plan
Instant Ticket Sales	\$1.887 B	\$2.083 B	\$2.214 B	17.3% Up YOY 6.3% Up Plan
Draw Game Sales	\$956 M	\$1.052 B	\$1.235 B	29.2% Up YOY 17.4% Up Plan
Digital Sales	\$86 M	\$141 M	\$170 M	97.7 % Up YOY 20.6% Up Plan
CSF Transfers	\$690 M	\$763 M	\$763 M	10.6% Up YOY Prescribed amount was met
Specialty Ticket Transfers	\$7 M		\$10 M	55.4% Up YOY
CPF Transfers			\$3 M	100% Up YOY

Table 1 – Annual Financial Targets and Results

Specialty Causes Detailed Transfers

Specialty Ticket Cause	FY21 Transfers
Veterans	\$1,326,807
Ticket for the Cure	\$643,172
The MS Project	\$1,582,817
Red Ribbon Cash	\$1,033,522
Special Olympics	\$1,350,653
Police Memorials	\$1,122,520
Homelessness Prevention	\$1,059,730
Alzheimer’s Awareness	\$961,936
STEAM	\$1,106,061
Total FY21 Transfer to Specialty Causes	\$10,187,218

Table 3 – FY21 Specialty Ticket Proceeds

The Department continues to maintain its portfolio of specialty tickets which has grown to 9 causes in FY21. Illinois is unique in the lottery industry with the number of specialty causes it supports (almost 20%

¹Annual Financial targets are presented in Camelot’s Annual Business Plan

of its portfolio of instant tickets) directly through the sale of instant tickets. 100% of the profits from each ticket is used to support Veterans’ causes, Special Olympics programs, breast cancer research and support, multiple sclerosis research, HIV/AIDS research and treatment, police memorial funding, Alzheimer’s support, STEAM education and homelessness prevention.

Every dollar that is raised through sale of these tickets is important. The Department continues to explore ways to maximize specialty ticket returns while maintaining the health of its portfolio of instant tickets as specialty tickets don’t have as broad an appeal as regular tickets due to their cause specific branding. The specialty transfers in FY20 have increased 51.2% year-over-year due to the increasing number of specialty causes we support but also due to our efforts to maximize returns.

iLottery Program

Fiscal Year	Internet Sales	Subscription Sales	Total iLottery Sales	% of DBG Sales	% of Total Sales
2018 ²	\$27,611,697	\$15,926,818	\$43,538,515	4.2%	1.5%
2019 ³	\$39,864,695	\$17,870,795	\$57,735,490	5.2%	1.9%
2020	\$72,236,397	\$13,988,021	\$86,224,418	9.0%	3.0%
2021	\$153,710,298	\$16,360,434	\$170,070,732	13.7%	4.9%

Table 5 – iLottery Sales

The Department’s iLottery (internet) program was expanded in FY20 by House Bill 3661 which was signed into law by Gov. JB Pritzker on June 28, 2019. The bill extended the iLottery program by three years, through 2022, and allowed the Department to sale all of its draw-based games (DBGs) through the iLottery program without a subscription. Previous legislation only allowed the sale of Mega Millions, Powerball and Lotto without a subscription online. Lottery players were able to take advantage of this new capability in the beginning of FY20. Along with a new iLottery mobile app and website interface that went live in Q3 of FY19 the new capabilities were supported by various marketing efforts which were designed to build awareness and widen the base of players who play online.

FY21 iLottery sales exceeded \$170 million which is a 50.6% increase over FY20. iLottery sales account for approximately 13.7% of all draw-based games sales and 3.6% of total sales in FY21.

Responsible Gaming

The Department is committed to responsibly growing sales and maximizing economic benefits for the State of Illinois, while providing players with tools and resources to support positive play.

Certifications

The Illinois Lottery responsible gaming program is structured around the World Lottery Association Responsible Gaming Framework, which demonstrates international best practice for lottery responsible gaming. The Department currently holds Level 3 Responsible Gaming Framework certification with the World Lottery Association and is preparing to make a submission for Level 4 certification in FY22. Additionally, the Department is deemed compliant with the North American Association of State and Provincial Lotteries (NASPL) and the National Council on Problem Gambling (NCPG) Responsible Gaming Verification Standards at the Implementation level.

² FY18 was a partial year for Camelot who assumed private management responsibilities in Q3.

³ The Department transitioned to the Camelot’s iLottery platform in late Q3 2019

Player and Retailer Education

During the year, the Department launched statewide responsible gaming campaigns to promote positive play. Throughout November and December 2020, the Illinois Lottery widely promoted the message that lottery tickets are not suitable gifts for children and reminded players to “Gift Responsibly.” During March 2021, which is problem gambling awareness month, the Illinois Lottery helped to raise awareness of problem gambling and available treatment services. Efforts for both campaigns included social media messaging, radio public service announcements, messaging on customer-facing screens in lottery retail locations, advertisements, and media releases.

Stakeholder Engagement

Throughout the year, the Department worked with problem gambling treatment providers to gather valuable insights and maintained open and active communication with the Illinois Problem Gambling Helpline provider to collect anonymized data from the calls in relation to Illinois Lottery products. Additionally, the Department performed a responsible gaming retailer satisfaction survey to identify ways to further support retailers who are the frontline for providing information, tools, and resources to encourage responsible play.

The Department maintains membership and support of the Illinois Council on Problem Gambling (ICPG), Illinois Alliance on Problem Gambling (IAPG), National Council on Problem Gambling (NCPG), and the World Lottery Association (WLA). The Department also provides funds for the Illinois Problem Gambling Helpline (1-800-GAMBLER).

Marketing and Advertising

The marketing and advertising activities of the Department are the responsibility of the private manager and are designed to drive awareness and encourage consumer engagement with the Illinois Lottery brand. In FY21, the Department leveraged a wide variety of media channels to promote the brand, including linear TV, connected and streaming TV, terrestrial and streaming radio, out-of-home advertising, print, digital and social media. Channels leveraged were determined by needs of the brand at specific times – from mass awareness to targeted tactics.

In addition to paid media, the Department leveraged owned media channels, including customer relationship management (CRM) and social media, to distribute messaging digitally and used dedicated lottery sales staff to help collaborate with retail partners to ensure effective placement of promotional materials in stores. Finally, the Department leveraged experiential activation to engage with consumers at events across the state.

In FY21, the Department’s marketing and advertising was focused around five main focus points – strategically grow and retain digital player base, continue to drive retail success in the new normal, develop comfort with a flexible and agile approach, stretching spend further by maximizing efficiencies, and prepared to respond to change.

Utilizing the focus points, the Department has four main initiatives:

1. New player acquisition
 - iLottery: Continue to grow player base
 - Retail: Normalize play to entice new players
2. Retention
 - iLottery: Maintain active players acquired in Q4 FY20
 - Retail: Continue engaging newly acquired player segments (from competitors)
3. Drive efficiencies

- Drive higher ROI with media
 - Reduce spend with agencies
 - Implement Jackpot communications playbook
4. Improve brand health
- Single brand platform - Illinois is Full of Winners
 - Focus on key brand tracker metrics

BEP Spending

The Private Management Agreement encourages Camelot Illinois to maintain a goal that at least 20% of their spend in marketing, advertising and shipping/freight be awarded to businesses that are State of Illinois BEP certified minority owned companies.

For FY21, the total budgeted spend by Camelot in these areas was \$31.6 M resulting in a BEP goal of \$6,320,000.00 toward the utilization of BEP certified minority owned vendors for FY21. Camelot's BEP spend in Q4 was \$2,712,401. Camelot's total BEP spend for FY21 was \$9,769,234 exceeding the FY21 proscribed goal of 20% of eligible spend by 155%.