



FY22 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.

FY22 Updated Annual Business Plan Objectives and Initiatives

Primary FY22 Objectives

1. Maintain flexibility in a rapidly changing operating environment, including changes created from the ongoing Covid-19 pandemic.
2. Modernize the Illinois Lottery portfolio through game adjustments, new games, and omni-channel experiences.
3. Establish and invest in retail best practices.
4. Continue to grow player-ship and responsibly engage players on the Illinois Lottery iLottery platform

Primary FY22 Initiatives

1. Retail Expansion. Expand retail by expanding into Walmart and focusing on the recruitment of independent retailers
2. Retail Improvement. Improve retail performance by implementing best practices
3. Innovation. Introduce new game innovation with Fast Play Online and Scan-N-Play for retail
4. Portfolio Modernization. Add 3rd drawing to Powerball and improve Pick Game profitability
5. iLottery Growth. Attract new players, increase sales, offer new gameplay and player engagement

FY22 Financial Projections

1. Operating Revenue – \$3,357 million
2. Operating Income – \$799 million
3. iLottery Revenue - \$206 million

FY22 Executive Summary

The Annual Private Management Agreement Report, per Illinois statute, is due 30 days prior to year-end. As a result, the following information is reflective of Quarters 1, 2 and 3 of FY22. A FY22 Q4 PMA report will be submitted after year end that will reflect the full fiscal year.

The FY22 Updated Annual Business Plan (Plan) sets forth Camelot's business objectives, initiatives and financial projections for the year. The positive macro-economic factors of the pandemic that helped fuel the Lottery's best sales year ever in FY21 continued to linger during FY22. Coupled with strong Powerball sales and new game innovation, those factors have allowed Camelot to keep pace with last year's record results. Through Q3 of FY22, Operating Revenue is \$2,558 million, which is 2% more than Plan projections and 0.6% more than the same period in FY21. Operating Income is \$610 million, which is more than 3% over Plan projections and 7% more than the same period in FY21. Strong FY22 Operating Income performance has largely been driven by adjustments that were made to the liability limits of our Pick game and the structure of its add-on game Fireball, to bring the game more in line with the US lottery industry. Instant ticket sales are \$1,630 million and are 2% more than Plan projections and 1% more than FY21. Draw-Based games sales are \$925 million and are 1.5% more than Plan and are .1% below FY21. iLottery sales are \$191 million and are 29% more than Plan and 52% more than FY21.

Common School Fund (CSF) transfers have been met through FY22 Q3 and are up 5% from FY21. CSF transfer outlook for year-end shows the prescribed amount will be met, and there will be remaining funds to transfer to the Capitol Project Fund. Through FY22 Q3, \$546 million of \$775 million (70%) has been transferred. Approximately \$7 million has been transferred to specialty causes through the specialty tickets sales through FY22 Q3.

The Department has seen strong multi-state game jackpot sales, primarily in Powerball (PB), due to strong jackpot performance and the addition of the 3rd weekly draw for PB in August 2021. The Department and Camelot are currently analyzing the impact the 3rd draw has had on sales, but initial review shows a net positive impact. Through Q3 FY22, PB sales are ~30% more than Plan as a result adding a solid contribution to this year's Operating Income total. Mega Millions (MM) hasn't performed as well in FY22 and its sales are 4% below Plan.¹

Camelot launched a new draw-based game in retail in Q1 of FY21 called Fast Play (FP). First year sales began to soften in FY22 prior to the introduction of the game on the iLottery platform in November 2021. Illinois was the first state to launch FP online. Its addition has led to a significant increase in overall FP sales resulting in totals that are 64% more than Plan through Q3 FY22. FP online has also outperformed FP sales in retail by almost 130%. Camelot intends to launch another way to play FP in retail in May 2022 called Scan-N-Play. Illinois will also be the first state to launch this version of the game. Scan-N-Play will allow players to buy tickets in retail and watch the reveal of their ticket on their phone, bridging the gap between retail and digital play. The addition of FP online has helped support iLottery growth. New player registrations have increased by 16% and active players by 55% through Q3. Year-end targets are 36% and 70% growth respectively.

Retail expansion is progressing with the successful deployment into 167 Walmart locations throughout the state. Additional recruitment efforts are ongoing and are at 61% of the year-end target through Q3. Retail performance improvements efforts are ongoing as well with new game activation rates showing little improvement against the goal and unnecessary retailer ticket returns showing trending in the right direction through Q3. Ticket order compliance is improving throughout the retail estate but is still lagging targets for the year. Efforts to implement a new retail work management tool are underway and promises to help our performance improvement efforts.

As we look to close the year strong, Camelot will exceed their Plan's Operating Revenue and Operating Income projections for FY22 and is positioned to keep pace with FY21 Operating Revenue totals. They will exceed FY21 Operating Income totals. The following summarizes other activities of the private manager.

¹ It should be noted that the multi-state games are budgeted for total annual sales utilizing historical jackpot performance along with any current year known changes positive or negative.

FY22 Financial Performance Summary Detail Through Q3

	FY21 Q1-Q3 Actual	FY22 Q1-Q3 Business Plan	FY22 Q1-Q3 Actual	Plan v. Actual		FY20 v. FY21	
Operating Revenue	\$2,543,955,487	\$2,503,657,169	\$2,558,124,516	\$54,467,347	2.18%	\$14,169,029	0.56%
Operating Income	\$572,179,388	\$592,599,455	\$610,376,090	\$17,776,635	3.00%	\$38,196,702	6.68%
Instant Ticket Sales	\$1,614,745,607	\$1,591,935,818	\$1,629,744,121	\$37,808,303	2.37%	\$14,998,514	0.93%
Draw Based Game Sales	\$925,896,795	\$911,883,398	\$925,111,655	\$13,228,257	1.45%	\$(785,140)	0.08%
Digital Sales	\$126,415,068	\$148,455,511	\$191,594,670	\$43,139,159	29.1%	\$65,179,602	51.6%
CSF Transfers	\$521,864,471	\$545,724,000	\$545,724,000			\$23,859,529	4.57%
Specialty Ticket Transfers	\$7,339,934		\$7,390,442			\$50,508	0.69%

Table 1 – Annual Financial Targets and Results

Specialty Causes Detailed Transfers

Specialty Ticket Cause	FY22 Transfers Through Q3
Veterans	\$1,342,782
Ticket for the Cure	\$847,312
The MS Project	\$547,699
Red Ribbon Cash	\$866,224
Special Olympics	\$809,098
Police Memorials	\$676,045
Homelessness Prevention	\$1,141,548
Alzheimer's Awareness	\$1,159,033
Total FY22 Transfer to Specialty Causes Through Q3	\$7,390,442

Table 2 – FY21 Specialty Ticket Proceeds

The Department continues to maintain its portfolio of 8 specialty tickets in FY22 (representing almost 20% of the tickets in its portfolio). Illinois is unique in the lottery industry with the number of specialty causes it supports 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, and homelessness prevention.

Every dollar that is raised through sale of these tickets is important. The Department continues to explore ways to improve the program for the benefit of the causes and the Department. A simpler approach is needed that would improve overall program administration, enable better planning for the causes, improve the appeal of the program to a broader audience and the ability to market the program. Changes to the program will help improve the health of our whole portfolio of instant tickets as the number of specialty tickets have almost doubled in recent years. It would also enable efficiencies to be created that would lead to an overall net increase in scratch tickets sales for the Department. Changes will need to be enacted through legislation.

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%
2022 Q1-Q3	\$178,487,668 ⁴	\$13,107,002	\$191,594,670	20.7%	7.5%

Table 3 – 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. On April 19, 2022, Gov. JB Pritzker signed House bill 4700 which was a Budget Implementation bill that extended the iLottery program for another three years.

FY22 Q1-Q3 iLottery sales exceeded \$191 million which is a 52% increase over FY21 Q1-Q3 sales. iLottery sales account for approximately 20.7% of all draw-based games sales and 7.5% of total sales in FY22 Q1-Q3.

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

⁴ Sales shown are only for FY22 Q1-Q3

Responsible Gaming

The Illinois Lottery 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 Illinois Lottery holds Level 3 Responsible Gaming Framework certification with the World Lottery Association and is currently seeking Level 4 certification. Additionally, the Illinois Lottery 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.

Research

The Illinois Lottery supports responsible gaming and problem gambling research to inform the continued development of the responsible gaming program and the sustainable, responsible growth of the business. Through various forms of formal and informal research, the Lottery seeks to learn more from its stakeholders to help identify possible gaps in the tools, safeguards, and information provided in support of positive play. Research efforts throughout FY22 included:

- Phase 1 of a responsible gaming Mystery Shopper pilot at retail locations across the State.
- Testing of messages to anchor the 2022 Problem Gambling Awareness Month campaign.
- Continuous evaluation of Illinois Lottery brand attributes relevant to the responsible gaming program via the monthly brand tracker.

Employee Program

Specialized responsible gaming training was provided to employees whose specific job duties include interaction with players or involvement in the design and development of the Illinois Lottery's products or marketing materials. These additional responsible gaming training sessions help ensure employees with the greatest ability to influence responsible gaming efforts are well-equipped to do so. The following business areas received specialized training during FY22:

1. Product. The Product team participated in a detailed walk-through of the responsible gaming standards that inform the development of all Illinois Lottery games to ensure the games offered to players continue to have an acceptable risk profile for a lottery game.
2. Marketing, PR, and Key Agency Partners. The Marketing Team, Public Relations Team, and at least one representative from each key marketing agency partner participated in a training that covered the responsible gaming considerations specified in the Marketing Code of Conduct. Guidance on the prohibited use of images that primarily appeal to children, phrases that could encourage excessive play, and ways to ensure that all game advertisements clearly describe where approximate odds can be located were covered as part of the training.

Player and Retailer Education

During the year, the Illinois Lottery launched statewide responsible gaming campaigns to promote positive play. Throughout November and December 2021, the Illinois Lottery widely promoted the message that lottery tickets are not suitable gifts for children and reminded players to "Gift Responsibly." During March 2022, 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.

Remote Gaming Channels

To complement the online launch of Fast Play in late 2021, the Illinois Lottery introduced a number of additional safeguards into the online environment to further support responsible play. These included:

- Limiting the maximum number of Fast Play tickets that can be purchased within a 24-hour period to 75.
- Allowing players to lower their Fast Play purchase limits—which will take immediate effect—at any time within the Account Management section of their Illinois Lottery account or by calling the Illinois Player Hotline at 1-800-252-1775.
- Requiring a 24-hour cooling off period for any requests to raise a previously lowered Fast Play purchase limit (players may never raise a limit above the 75-ticket maximum set by the Illinois Lottery).
- Limiting the maximum number of Fast Play tickets that can be purchased in any one transaction to 20.
- Sending nudge notifications at 30-minute intervals to encourage players to take a break.
- Imposing mandatory 15-minute time outs for every five hours of continuous play.
- Programming the play time for each Fast Play game at no less than 11 seconds.

These measures are in addition to the existing responsible gaming safeguards online for all players, including maximum deposit limits and mandatory ID verification and geo-location for all players.

Stakeholder Engagement and Reporting

To support the transparency of the Illinois Lottery's responsible gaming efforts and encourage stakeholder feedback on opportunities to advance the responsible gaming program, the Lottery published its first annual responsible gaming report. This inaugural report provided an overview of the responsible gaming program and initiatives from calendar year 2021. A copy of the report can be found at: <https://www.illinoislottery.com/about-the-games/responsible-and-safe-play/our-commitment>.

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 FY22, the Department's marketing and advertising was focused around five key initiatives:

1. Leverage a new creative platform for Instants, drive efficiencies and create consistency
2. Strategically support the retail estate in a changing consumer environment through retailer partnership promotions and data-driven pilots
3. Drive iLottery growth through digital acquisition campaigns to support Fast Play online

5. launch and maximize the acquisition engine through paid media activation
6. Support Pick draw portfolio and key game changes through targeted messaging:
7. Powerball games changes, Pick 3 and 4 changes + enhanced support
8. Continue to enhance digital targeting for retail players, as we shift more dollars to reach and target consumers where they spend their time

The FY22 marketing spend mostly mirrored marketing spend from FY21 with media making up about 56% of the marketing budget. Camelot’s internal studio capabilities also allowed for more efficiencies and cost savings by producing more in-house creative.

Camelot will explore new opportunities to develop more digital friendly creative content and has sought industry feedback through the issuance of a Request for Information.

BEP Spending

The Private Management Agreement encourages Camelot Illinois to maintain a goal that awards at least 20 percent of the company’s spend in marketing, advertising, and shipping/freight to State of Illinois BEP-certified minority owned businesses.

For FY22, the total budgeted spend by Camelot in these areas was anticipated to be \$33,400,000 resulting in a BEP spending goal of \$6,680,000 for FY22. Camelot’s BEP spend in FY22 Q1 was \$2,224,167, in Q2 was \$2,266,713, and in Q3 was \$2,005,693. The total amount of BEP spend for FY22 Q1-Q3 was \$6,496,573, which is 97% of the goal for FY22.

FY22	BEP Spend
Q1	\$2,224,167
Q2	\$2,266,713
Q3	\$2,005,693
Q4	Q4 not completed
Total	\$6,496,573

Table 6 – BEP Spend