



ANNUAL REPORT ON THE **PRIVATE MANAGEMENT AGREEMENT**

FY20 (July 1, 2019 – June 30, 2020)
(20 ILCS 1605/9.1(p)(3))

Respectfully submitted to:

Illinois Governor JB Pritzker
Senate President Don Harmon
Senate Republican Leader William E. Brady
House Speaker Michael J. Madigan
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 Q4 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.

FY20 Private Manager Annual Business Plan Goals and Guiding Principles

Primary FY20 Goals

- Grow Lottery operating revenue by **11%** year-over-year to **\$3.297 billion** by increasing instant ticket sales by **11%** to **\$2.059 billion** and draw game sales by **10%** to **\$1.233 billion**.
- Grow Lottery operating income by **5%** year-over-year to **\$795 million**
- Expand iLottery weekly player base from **49K** to **110K**, increase digital sales by **111%** to **\$122 million**
- Refresh the Illinois Lottery Brand, maximize marketing and media spend efficiency
- Increase retailer base from **7,200** to **7,500**

FY20 Guiding Principles

1. **Touchpoints:** Communicate with target consumer segments at relevant points along the path to purchase to drive conversion.
2. **Communications:** Re-establish the brand, brand messaging and personalized engagement to drive consumer reappraisal of the Illinois Lottery.
3. **Experiences:** Establish the Illinois Lottery as a lottery leader by offering compelling experiences that engage the people of Illinois.
4. **Delivery:** Power retail partners to deliver to the needs of their customers.
5. **Advocacy:** Foster a community of advocates.

FY20 Executive Summary

The FY20 Private Manager Annual Business Plan (“Plan”) sets forth the financial performance goals for the year and the initiatives that support them. Performance against the Plan during the first half of the year fell significantly short of Plan targets. This necessitated a Plan modification request from the Department to adjust the Plan strategy and to establish new financial targets for the year. Camelot’s efforts to adjust the Plan strategy began immediately going into the second half of the year.

As the momentum to improve performance increased during Q3 and going into Q4, the COVID-19 pandemic occurred. The resulting stay-at-home order and the initial impact on society had a direct repercussion on lottery sales which weekly averages dropped ~10% during the first 6 weeks of the order compared to before the order. Several retail closures, ~5% of total retail locations, also affected sales. However, sales began to recover strongly to end the year with the highest weekly sales averages seen all year. Although not completely understood, this so-called COVID effect was due to several factors. The restriction of many social activities and outlets, elimination of other gaming options (casinos, VGTs, etc.), the change in work habits and personal behavior, all when viewed holistically, are a few variables that may have aided the lottery sales surge. Camelot was able to pivot our marketing and digital strategies to adequately position the lottery in society’s new normal. The COVID effect was strong (see Table 3) but wasn’t strong enough to overcome the poor performance during the first three quarters of the year.

FY20 Operating Revenue was \$2,849 million, 13.6% short of the Plan target of \$3,297 billion. It was 4.4% short of last year’s record total of \$2,981 million and was 9.2% above the Modified Plan target, which was adjusted to \$2,610 million due to initial COVID-19 impact fears.

FY20 Operating Income was \$698 million, 12.2% short of the Plan target of \$795 million. It was 7.4% short of last year’s total of \$754 million and was 12.9% above the Modified Plan target, which was adjusted to \$618 million due to initial COVID-19 impact fears. It was also 6.2% short of the minimum net income target in the private management agreement as well as 6.6% short of the Department FY20 Common School Fund obligation of \$747 million.

The Department will transfer a total of \$689.5 million to the Common School Fund, which is approximately \$57.4 million less than the FY20 Common School Fund obligation.

FY20 Financial Performance Summary Detail

	FY18¹	FY19	FY20	FY20 Performance
Operating Revenue	\$2,933 M Actual	\$2,981 M Actual \$3,037 M Target ²	\$2,849 M Actual \$3,297 M Target ² \$2,610 M Modified ³	4.4% Down YOY 13.6% Down Target 9.2% Up Modified Target ³
Operating Income	\$658 M Actual	\$754 M Actual \$735 M Target ² \$731 M Min Target ⁴	\$698 M Actual \$795 M Target ² \$618 M Modified ³ \$744 M Min Target ⁴	7.4% Down YOY 12.2% Down Target² 12.9% Up Modified Target ³ 6.2% Down Min. Target⁴
Instant Ticket Sales	\$1,880 M Actual	\$1,857 M Actual \$1,941 M Target ²	\$1,888 M Actual \$2,059 M Target ² \$1,694 M Modified ³	1.7% Up YOY 8.5% Down vs. Target² 11.2% Up Modified Target ³
Draw Game Sales	\$1,048 M Actual	\$1,121 M Actual \$1,092 M Target ²	\$956 M Actual \$1,233 M Target ² \$913 M Modified ³	14.7% Down YOY 22.5% Down Target² 4.7% Up Modified Target ³
iLottery Sales	\$44 M Actual	\$58 M Actual \$51 M Target ²	\$86 M Actual \$122 M Target ² \$73 M Modified ³	48.3% Up YOY 29.5% Down Target² 17.8% Up Modified Target ³

Table 1 – Annual Financial Targets and Results

1. FY18 was a partial year for Camelot who assumed private management responsibilities in Q3 of FY18.
2. Annual Financial targets are presented in Camelot's Annual Business Plan
3. The Department requested a Modified FY20 Business Plan in Nov 2019 due to under-performance against FY20 targets. Modified targets were reassessed and lowered in April 2020 due to the uncertainty of the business impact of COVID.
4. Minimum Net Income Targets for each year of the contract are identified in the Private Management Agreement

Overall Sales and Transfers to Good Causes

Fiscal Year	Operating Revenue	Transfers to Common School Fund (CSF)	Transfers to Capital Projects Fund	Transfers to Special Causes
2018¹	\$2,933 billion	\$718.8 million Actual \$718.8 million Obligation ²	\$9.3 million	\$3.6 million
2019	\$2,981 billion	\$731.3 million Actual \$731.3 million Obligation ²	\$18.5 million ³	\$4.3 million
2020	\$2,849 billion	\$689.5 million Actual \$746.9 million Obligation ²	\$0	\$6.5 million

Table 2 – Overall Sales and Transfers to Good Causes

1. FY18 was a partial year for Camelot who assumed private management responsibilities in Q3.
2. Transfers to the CSF are made based upon net income available to transfer. The Obligation is set by Statute.
3. Transfer made in FY20 Q1 after true-up of FY19

COVID Performance Summary

	Pre-COVID July 1st thru Mar 21st			Post-COVID March 22 nd thru June 30 th		
	FY19	FY20	Performance	FY19	FY20	Performance
Operating Revenue	\$2,172 M	\$1,993 M Actual \$2,330 M Target	8.3% Down YOY 14.5% Down Target	\$809 M	\$856 M Actual \$966 M Target \$631 M Modified ¹	5.8% Up YOY 11.4% Down Target 35.7% Up Modified Plan ¹
Operating Income	\$530 M	\$488 M Actual \$558 M Target \$523 M Min Target ²	7.9% Down YOY 12.5% Down Target 6.7% Down Min. Target⁴	\$224 M	\$209 M Actual \$237 M Target \$139 M Modified ¹ \$221 M Min Target ²	6.7% Down YOY 11.8% Down Target 50.4% Up Modified Plan ¹ 5.4% Down Min. Target²
Instant Ticket Sales	\$1,338 M	\$1,311 M Actual \$1,464 M Target	2.0% Down YOY 10.5% Down Target	\$519 M	\$576 M Actual \$595 M Target \$394 M Modified ¹	10.9% Up YOY 3.2% Down Target 46.2% Up Modified Plan ¹
Draw Game Sales	\$832 M	\$678 M Actual \$863 M Target	18.5% Down YOY 21.4% Down Target	\$289 M	\$278 M Actual \$371 M Target \$236 M Modified ¹	3.8% Down YOY 25.0% Down Target 17.8% Up Modified Plan ¹
iLottery Sales	\$43 M	\$48 M Actual \$88 M Target	11.9% Up YOY 45.5% Down Target	\$15 M	\$38 M Actual \$34 M Target \$20 M Modified ¹	153.3% Up YOY 11.8% Up Target 90% Up Modified Plan ¹

Table 3 – COVID Performance Summary

1. The Department requested a Modified FY20 Business Plan in Nov 2019 due to under-performance against FY20 targets. Modified targets were reassessed and lowered in April 2020 due to the uncertainty of the business impact of COVID.
2. Minimum Net Income Targets for each year of the contract are identified in the Private Management Agreement

Fiscal quarter 4 began following the stay-at-home order issued by Governor Pritzker in response to the COVID-19 pandemic at the end of Q3. The uncertainty surrounding the unprecedented nature of the pandemic necessitated new targets for operating revenue and operating income. The new targets were conservatively set at \$2.610 billion and \$618 million respectively in the Modified FY20 Annual Business Plan¹ approved by the Department in April. These new targets were less than Camelot's original FY20 Annual Business Plan by 20.8% for operating revenue and 22.3% for operating income. The Modified Plan's intent was to continue the performance improvement efforts started prior to the pandemic and to manage through the uncertainty caused by the COVID-19 pandemic.

Pre-COVID, operating revenue and operating income were below FY20 targets and FY19 totals by 8.3 – 14.5%. Post-COVID, after a significant negative impact during the first 6 weeks of the stay-at-home order where average weekly sales dropped ~10%, sales began to rebound in dramatic fashion and average weekly sales increased to ~20% higher than Pre-COVID averages to close the year. This late year performance mostly negated the initial depressed sales that were experienced during the first 6 weeks of the shelter-in-place order.

Post-COVID operating revenue increased by 5.8% over FY19 totals for the same time period but was 11.4% below the original FY20 target. Operating Income improved but was still below original FY20 targets and FY19 totals by 11.8% and 5.0% respectively. Post-COVID performance enabled the Department to end FY20 with an operating revenue of \$2.849 billion and an operating income of \$698 million, which is 9.2% and 12.9% above Camelot's FY20 Modified Plan targets. Although Camelot achieved their FY20 Modified Plan targets for operating revenue and operating income, the minimum net income target (operating income) of \$744 million per the private management agreement was not met.

Specialty Causes

Specialty Ticket Cause	FY20 Transfers
Veterans	\$1,364,678
Ticket for the Cure	\$281,274
The MS Project	\$357,104
Red Ribbon Cash	\$525,926
Special Olympics	\$1,521,244
Police Memorials	\$1,256,247
Homelessness Prevention	\$1,183,684

Table 4 – FY20 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% of its portfolio of instant tickets) directly through the sale of instant tickets. One hundred percent of the profits of each ticket are 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 ¹	\$27,611,697	\$15,926,818	\$43,538,515	4.2%	1.5%
2019 ²	\$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%

Table 5 – iLottery Sales

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

2. The Department transitioned to the Camelot's iLottery platform in late Q3 2019

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.

The ability to sale all DBGs online through single play purchases and subscriptions as well as the continued effort to build the platform resulted in increased iLottery sales and player growth in FY20. This growth was

accelerated during the onset of the COVID-19 pandemic and the statewide stay-at-home order. By the end of the year average weekly sales of iLottery during Q4 were 108% higher than the average weekly sales during the first 3 quarters and weekly new player registrations were 87% higher.

FY20 iLottery sales exceeded \$86 million which is a 49.3% increase over FY19 but was 29.5% below FY20 Plan targets. It was 17.8% above the Modified Plan target, which was adjusted to \$73 million due to initial COVID-19 impact fears. iLottery sales account for approximately 9% of all draw-based games sales and 3% of total sales.

Responsible Gaming

The Department through its private manager engages in a responsible gaming program to ensure revenues are raised in a socially responsible manner.

During the FY20 Christmas season, the Department promoted responsible play during the holidays with a “Gift Responsibly. Lottery tickets aren’t child’s play” public campaign. The purpose of the campaign was to raise awareness about the risks of underage lottery play and to remind individuals that it is illegal in Illinois to give an instant ticket to anyone under the age of 18. The Department won the National Council on Problem Gambling (NCPG) Holiday Responsible Gaming Campaign Award for its efforts in promoting responsible game play during the holiday season.

In March 2020, the Department promoted two responsible gaming messages as part of its responsible gaming program, **Be Smart, Play Smart®**. The first message “Set a Limit. Stick to It.” encouraged individuals to set a limit on the amount of money they were willing to spend and to not spend more than they could afford to lose. The second message “Remember it’s a game of chance.”, reminded players to know the odds and the rules of the games they play. These messages were promoted on social media platforms, in print publications, on customer-facing screens in lottery retail locations and a billboard in Springfield, IL.

The Department is committed to responsible gaming. As such, the Department currently holds a Level 3 Responsible Gaming Framework certification with the World Lottery Association (WLA). 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.

The Department maintains membership and support of the Illinois Alliance on Problem Gambling, Illinois Council on Problem Gambling, National Council on Problem Gambling, and the World Lottery Association. The Department’s commitment to responsible gaming also includes providing funds for the Gambling Hotline (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 FY20, 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 FY20, the Department's advertising was focused around four main areas – creating awareness around the iLottery platform and app, reinforcing the Department brand and the causes that the Department supports, highlighting Mega Millions and Powerball jackpots and finally, supporting the new Instant ticket launches throughout the year.

1. App Awareness Campaign - 'Play Anywhere' promoted the new Illinois Lottery app which makes it easier to play and safely enjoy the Lottery for new and existing players.
2. Instant Ticket campaigns - Holiday gifting, Monopoly ticket, and 'The World's Largest Instant Ticket' to support March instant.
3. New brand platform campaign - 'Illinois is Full of Winners' showcasing that by participating in the Lottery responsibly the whole state wins through funding of good causes.
4. Jackpot Awareness campaign - utilized a 'State vs. State' friendly competition for winning the Powerball and Mega Millions games.
5. COVID Marketing - Switched marketing efforts from product marketing driving people to retail to a more digital focused marketing to play for players to play on the app. Additionally, released a thank you commercial, 'Home,' which was meant to highlight and thank essential workers for their sacrifice during COVID-19 by highlighting a story about a nurse and her family.

BEP Spending

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

For FY20, the total budgeted spend by Camelot in these areas is \$45,200,000, resulting in a BEP goal of \$9,040,000 for FY20. Camelot's BEP spend in Q4 was \$2,732,506. The total for FY20 was \$16,091,338 or 178% of the FY20 goal.