



FY23 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 Tony McCombie

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 and submits an annual business plan detailing its goals and objectives for the year. The following report provides a status overview.

FY23 Updated Annual Business Plan Objectives and Initiatives

Primary FY23 Focus

1. Fast Play growth through engaging content and experiences.
 - a. New Fast Play Campaign Development and Retail Support
 - b. Expand Fast Play Portfolio
2. Excellence in execution across brand and marketing, Instants development, and retail and iLottery optimization.
 - a. Refresh instants portfolio
 - b. Enhance brand platform, CSR, Responsible Gaming and promotion capability
 - c. Enhance iLottery in-app Experience
 - d. Optimize retail with the use of GEM Intelligence, cashless payments, LSR incentives
3. Laying the foundations for future growth with investment in technology, including a Remote Gaming Server (RGS), engaging game content, and new products.
 - a. Implement RGS to support Fast Play growth

FY23 Financial Targets

1. Operating Revenue – \$3,507 million (+3% FY22)
2. Operating Income – \$822 million (-3.3% FY22)
3. Instants Revenue – \$2,158 million (0% FY22)
4. Retail Draw Based Games Revenue – \$924 million (-4% FY22)
5. iLottery Draw Based Games Revenue – \$424 million (+52% FY22)

FY23 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 FY23. A FY23 Q4 PMA report will be submitted after year end that will reflect the full fiscal year.

The FY23 Updated Annual Business Plan (Plan) sets forth Camelot's business objectives, initiatives, and financial projections for the year. Below are details regarding Camelot's financial performance through Q3 of FY23. Operating Revenue is \$2,752 million, which is 6% more than Plan projections and 8% more than the same period in FY22. Operating Income is \$670 million, which is 10% more than Plan projections and 10% more than the same period in FY22.

Common School Fund (CSF). As a result of a finding in the Department's FY21 Financial Audit, performed by the Office of the Auditor General, the Department is responsible for reconciling historical excess proceed transfers between the CSF, State Lottery Fund and Capital Projects Fund for periods prior to 2010 and again in 2018. This reconciliation amounted to ~-\$134 million to the CSF during FY23. Through Q3 of FY23 that amount has been fully reconciled and a net of \$486 million has been transferred to the CSF. Common School Fund transfers are down 11% from the same period in FY22 because of this reconciliation in accordance with 20 ILCS 1605/9.2.

Specialty Causes. Just under \$6 million has been transferred to specialty causes through specialty tickets sales through Q3 of FY23. Proceeds were down 22% from FY22 through Q3 due to a decrease in sales. Instant ticket sales are down across the entire portfolio, which impacts contributions to these games.

Instant Tickets. Instant ticket sales through Q3 were \$1,534 million, 4% below Plan and 6% below the same period in FY22. The \$10 and \$20 price points saw the biggest dip in sales compared to FY22 and Plan targets for the same period. The \$10 price point was down 5% from the same period in FY22 and 5% from Plan. The \$20 price point was 16% down from the same period in FY22 and 13% down from Plan.

Draw-Based Games (DBGs). Draw-based games sales through Q3 were \$1,208 million and were 22% more than Plan and are 31% higher than DBGs during the same period of FY22. Mega Millions and Powerball drove a lot of that performance through Q3 due to the three separate \$1 billion+ jackpot runs that netted an additional ~\$187 million in Operating Revenue and ~\$87 million in Operating Income above what we would normally see, which is 13% of our total operating income through Q3. Illinois was the recipient of one of those billion-dollar Mega Millions jackpot wins, its first such win in the 27 years it has been selling the game.

Pick 3 and Pick 4 sales continued to soften from post COVID-19 pandemic highs in FY21, this softening started in the middle of FY22 and has carried into FY23. Pick 3 and Pick 4 sales in every quarter through Q3 are far less than the corresponding quarter in FY22. Those games are on track with Plan targets as this softening was anticipated. Lotto sales are up 3.6% and Lucky Day Lotto sales are flat through Q3 compared to FY22. Fast Play total sales are up 212% over last year and 20% over Plan due to online play. FY23 marks the first full year of Fast Play sales online, after being launched in Q2 of FY22, and has been well received by players.

iLottery. iLottery sales are a subset of total DBG sales, given only DBGs can be sold online. Total iLottery Operating Revenue through Q3 were \$387 million, 102% more than the same period in FY22 and 26% more than Plan. The increase was largely driven by Fast Play sales. Fast Play iLottery sales represented 55% of total iLottery sales through Q3 compared to 29% of total iLottery sales through Q3 of FY22. Fast Play generated ~\$34 million in Operating Income through Q3, ~29% of total iLottery Operating Income. Multi-state game iLottery sales almost doubled through Q3 compared to FY22 and generated ~33% of total iLottery Operating Income. iLottery Pick game sales were flat through Q3, while Lotto and Lucky Day Lotto were up ~13%.

As we look to close the year strong, Camelot will exceed their Plan's Operating Revenue and Operating Income targets for FY23. The following summarizes other activities of the private manager.

FY23 Financial Performance Summary Detail Q1 through Q3

	FY23 ACTUAL	FY23 PLAN TARGET	FY22 ACTUAL	FY23 ACTUAL vs. PLAN		FY23 ACTUAL vs. FY22	
Operating Revenue	\$2,751,871,444	\$2,604,059,720	\$2,558,124,516	\$147,811,724	5.68%	\$193,746,928	7.57%
Operating Income	\$670,487,794	\$610,063,090	\$610,376,090	\$60,424,704	9.90%	\$60,111,705	9.85%
Instant Ticket Sales	\$1,539,979,076	\$1,607,795,551	\$1,629,744,121	\$(67,816,475)	-4.22%	\$(89,765,045)	-5.51%
DBG Sales	\$1,208,403,844	\$993,237,179	\$925,111,655	\$215,166,665	21.66%	\$283,292,189	30.62%
iLottery Sales	\$387,092,194	\$307,785,275	\$191,559,349	\$79,306,919	25.77%	\$195,532,845	102.07%
CSF Transfers	\$486,031,903		\$545,724,000			\$(59,692,097)	-10.94%
Specialty Ticket Transfers	\$5,796,276		\$7,390,442			\$(1,594,166)	-21.57%

Table 1 – Q1 through Q3 Financial Targets and Results

Specialty Causes Detailed Transfers

Specialty Ticket Cause	FY23 Transfers Through Q3
Veterans	\$1,181,006
Ticket for the Cure	\$615,139
The MS Project	\$292,022
Red Ribbon Cash	\$683,162
Special Olympics	\$485,451
Police Memorials	\$573,388
Homelessness Prevention	\$992,329
Alzheimer’s Awareness	\$973,779
Transfers to Specialty Causes	\$5,796,276

Table 2 – FY23 Specialty Ticket Proceeds through Q3

The Department continues to maintain its portfolio of 8 specialty tickets in FY23 (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 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%
2021	\$153,710,298	\$16,360,434	\$170,070,732	13.7%	4.9%
2022	\$261,466,730	\$17,280,757	\$278,747,487	22.5%	8.2%
2023 Q1-Q3	\$373,042,180	\$14,050,015	\$387,092,194	32.0%	14.1%

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 sell all 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 these new capabilities in the beginning of FY20 which help fuel iLottery’s meteoric rise over the past 3 years. Camelot’s new iLottery mobile app and website interface that went live in Q3 of FY19 leveraged the new capabilities of the law and were supported by new game development, innovation and 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 extended the iLottery program for another three years.

FY23 Q1-Q3 iLottery sales exceeded \$387 million which is a 102% increase over FY22 Q1-Q3 sales. iLottery sales account for approximately 32% of all draw-based games sales and 14% of total sales in FY23 Q1-Q3. Efforts to enhance the iLottery in app experience have been ongoing throughout FY23. The implementation of a Remote Gaming Server (RGS) to enable the delivery of more engaging online content will be completed by the end of the FY23.

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

To ensure continuous improvement of responsible gaming efforts consistent with industry best practices, the Illinois Lottery maintains nationally and internationally recognized responsible gaming certifications. In July 2022, the Illinois Lottery achieved Level 4, the highest-level Responsible Gaming Framework certification from the World Lottery Association and is one of only nine U.S. lotteries to receive the prestigious distinction. To qualify for Level 4 certification under the rigorous standards, the Illinois Lottery demonstrated an ongoing commitment to incorporate and continuously improve responsible gaming practices in day-to-day operations.

Additionally, the Illinois Lottery received Sustaining Level Responsible Gaming Verification recognition from

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 North American Association of State and Provincial Lotteries (NASPL) and the National Council on Problem Gambling (NCPG). Sustaining Level is the highest level of verification achievable and demonstrates strong leadership in responsible gaming efforts.

Research

The Illinois Lottery supports responsible gaming and problem gambling research to better understand the attitudes and behaviors of key stakeholders (including players, retailers, and employees) and to inform the continued development of the responsible gaming program. Through various forms of research, the Lottery seeks to measure and improve the safeguards and information provided in support of positive play.

Research efforts throughout FY23 included:

- Commissioning the third iteration of the Positive Play study to assess the positive play experiences of Illinois Lottery players.
- Testing messages to anchor the 2022 Gift Responsibly campaign and the 2023 Problem Gambling Awareness Month campaign.
- Continuously evaluating the Illinois Lottery brand attributes relevant to the responsible gaming program via the monthly brand tracker.

The Illinois Lottery's responsible gaming web pages were recognized in a peer-reviewed article published in the International Gambling Studies journal. The article summarized research conducted by Rutgers University on the promotion of responsible gaming strategies by lottery providers. Researchers reviewed the responsible gaming information publicly available on 46 U.S. lottery websites and concluded that information was limited in most cases with "several notable and informative exceptions." The Illinois Lottery was among only two lotteries identified as providing easily accessible information in all core responsible gaming categories.

Employee Program

New employees continue to receive responsible gaming training as part of the on-boarding process. Each training includes a pre-training survey to help identify any necessary areas of focus for the training and a post-training survey to measure understanding and training effectiveness. Additionally, responsible gaming "Lunch Byte" training was offered to all employees in March 2023. The training provided a refresher on the ways in which the Illinois Lottery promotes a fun and healthy gaming environment for players. Nearly 40% of employees participated in the optional training.

Player and Retailer Education

The Illinois Lottery launched two statewide responsible gaming campaigns to promote positive play. Throughout November and December 2022, a "Gift Responsibly" message was widely promoted to remind adults that lottery tickets are not suitable gifts for children. During March 2023, which is recognized throughout the U.S. as 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.

The Be Smart, Play Smart® Responsible Gaming pamphlet was updated and distributed to all retail locations. Feedback on the content was sought from NCPG and the Illinois Council on Problem Gambling (ICPG) to ensure the goal of providing players with clear, concise, and accessible information was accomplished. The pamphlet was also translated into Spanish to ensure responsible gaming resources are available to meet the needs of players.

Remote Gaming Channels

Recognizing that there are unique risks associated with remote gaming, the Illinois Lottery promotes positive play online by providing players with additional safeguards, tools, and information. The responsible gaming webpages on IllinoisLottery.com are regularly reviewed and updated to ensure the information is clear and current.

Stakeholder Engagement

To support important stakeholders in Illinois, the Illinois Lottery was a sponsor of the 1st Annual Latinx Conference on Problem Gambling organized by the ICPG. During the event, information was shared about the issue and prevalence of problem gambling in the Latinx community. The Illinois Lottery was also a Gold Sponsor at the Way Back Inn's annual Rebuilders Dinner, which raised money for programs that support individuals recovering from drug, alcohol, and gambling use disorders.

The Illinois Lottery co-presented with the National Council on Problem Gambling during the ICPG's December webinar for problem gambling providers in Illinois. Information about the Lottery's commitment to responsible gaming, recent responsible gaming certifications, and efforts related to the Gift Responsibly and Problem Gambling Awareness Month campaigns was shared.

Reporting

To promote the transparency of the Illinois Lottery's responsible gaming efforts and encourage stakeholder feedback on opportunities to advance the responsible gaming program, the Illinois Lottery published its second annual responsible gaming report covering activities from calendar year 2022. The report was shared with representatives from key stakeholders and made publicly available on the Our Commitment responsible gaming webpage on IllinoisLottery.com.

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.

Paid Media

In FY23, the Illinois Lottery leveraged a wide variety of media channels to promote the brand, including linearTV, 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 – with an emphasis on flexible media.

Owned Channels, CRM and POS

In addition to paid media, the Illinois Lottery leveraged owned media channels through the Illinois Lottery website and social media like Meta, Twitter, Instagram, Snapchat and YouTube. A strong emphasis was also placed on customer relationship management (CRM) tactics and engaging current and prospective player base with messaging digitally. The Illinois Lottery also used dedicated lottery sales staff to help collaborate with over 7,000 retail partners to ensure effective placement of promotional materials in stores called Point of Sale (POS) materials.

Events, Sponsorships and Public Affairs

The Illinois Lottery leveraged experiential activations to engage with consumers at events across the state. It also leveraged sponsorships with four Illinois-based professional sports teams to increase brand awareness and reputation. The Public Affairs team used earned media to promote winner stories and to

bring awareness to the eight specialty tickets that sell to support special causes in the state.

In FY23, the Department’s marketing and advertising was focused around three primary objectives:

1. Maximize our marketing ROI and continue to build brand equity by maturing our creative platforms and staying agile in our marketing spend.
2. Introduce our digital creative platform to support broader iLottery use with new agency model.
3. Support a tighter integration between channels to help digitize the player experience.

The FY23 marketing spend is about \$30 million with a slight increase in the media spending. Camelot’s internal studio capabilities allowed for more efficiencies and cost savings by producing more in-house creative allowing production costs to decrease by about 30%. Fees increase by about 8% compared to FY22, driven by inflationary pressures and rising labor costs

Camelot and the Department chose a new creative marketing agency for the Illinois Lottery in FY23. Dentsu Creative has taken over as the agency of record for creative for the Illinois Lottery from OKRP starting in FY23 Q2.

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 FY23, the total budgeted spend by Camelot in these areas is anticipated to be \$31,709,244 resulting in a BEP spending goal of \$6,341,849 for FY23. The total amount of BEP spend for FY23 is currently \$7,418,287. Camelot has currently achieved approximately 117% of their spending goal for FY23.

FY23	BEP Spend
Q1	\$2,106,243
Q2	\$2,664,172
Q3	\$2,647,872
Q4	Q4 not completed
Total	\$7,418,287

Table 6 – BEP Spend