



QUARTERLY REPORT ON THE PRIVATE MANAGEMENT AGREEMENT

*Fiscal Year 2022 Quarter 2 (October 1, 2021 – December 31, 2021)
(20 ILCS 1605/9.1)*

Respectfully submitted to:

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

The Illinois Lottery – Private Management Current Status

In FY22, Camelot Illinois' ("Camelot") approved annual business plan ("Plan") projected an operating revenue of \$3.357 billion and an operating income of \$799 million. The FY22 Plan operating revenue is a 2.7% decrease from the \$3.450 billion generated in FY21. The decrease takes into consideration the expected softening of the "COVID Effect" and the anticipated performance of our multi-state games, Mega Millions and Powerball, not including extremely large jackpot rolls, both which helped drive FY21 performance. The operating income is a 3.0% increase from the \$776 million earned in FY21. Operating income is expected to increase in FY22 largely due to improved prize liability management in our Pick games. The FY22 Common School Fund obligation is \$775.0 million.

FY22 Q2 operating revenue was \$837.5 million which was 3% higher than the FY21 Q2 operating revenue of \$812.5 million and 1% higher than the FY22 Q2 Plan target of \$827.7 million. Contributions to the Common School Fund in FY22 Q2 were \$199.3 million, up 13% from FY21 Q1 contributions. FY22 Q2 operating income was \$195.7 million which was 17% higher than the FY21 Q2 operating income of \$167.9 million and 1% lower than the Plan target of \$197.9 million.

Instants, Powerball, and Fast Play sales were all up over the prior year. However, Pick, Lotto, and Mega Millions sales were all down. Lucky Day Lotto remained flat. Multi-State game sales were up due to Powerball sales and a 3rd drawing which was added in August 2021. Additionally, the Powerball jackpot reached \$670 million before being won on October 4, 2021 and was growing past \$500 million again without a jackpot winner as of December 31, 2021. The Plan for Q2 did not anticipate sales from large multi-state game jackpots, hence the over-performance against Plan.

The Department began selling FY22 holiday tickets in October. Through December, sales for those games out-performed previous holiday launches. The FY22 holiday games also sold through quicker than in FY21 due to a better performing portfolio.

While the department still had concerns over the financial performance of its new Fast Play game in retail, Fast Play launched successfully online in November 2021. In FY22 Q2 alone Fast Play brought in \$14.2 million in sales, indicating strong player interest.

Q2 marketing efforts focused largely on launching holiday instant tickets. Several fall and winter related instant ticket commercials launched throughout October 2021. The Camelot Illinois marketing team and creative agency, OKRP, continued to work on a new draw game marketing platform as well set to launch in 2022. Q2 marketing efforts also supported the launch of Fast Play online with a small spend through digital and owned platforms. Our partnership with the Chicago Bulls continued throughout FY22 Q2 with both digital and in-arena assets. FY22 Q2 paid media showed strong performance with digital display and Facebook.

The four FY22 core objectives of the business plan are:

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 playership and responsibly engage players on the Illinois Lottery iLottery platform.

The five FY22 Initiatives of the business plan are:

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

The Department along with Camelot utilize the Plan’s core objectives and initiatives to guide decision making throughout the year.

Overall Sales and Transfers to Good Causes

FY22	Sales Revenue	Transfers to Common School Fund¹	Transfers to Capital Projects Fund	Transfers to Special Causes
Q1	\$859.3 M	\$165.0 M	-	\$3.1 M
Q2	\$835.8 M	\$199.3 M	-	\$2.0 M
Q3	-	-	-	-
Q4	-	-	-	-
Total	\$1,695.1 M	\$364.3 M	-	\$5.1 M

¹ Transfers to the Common School Fund (CSF) are made based upon net income available to transfer.

Specialty Cause Detail

Specialty Ticket Cause	FY22 Transfers thru Q2
Veterans	\$690,548
Ticket for the Cure	\$450,860
Red Ribbon Cash	\$866,224
The MS Project	\$86,077
Special Olympics	\$32,081
Police Memorials	\$676,045
Homelessness Prevention	\$1,141,626
Alzheimer's Awareness	\$1,153,421
Total	\$5,096,882

iLottery Program

HB 3661 passed the Legislature in Spring 2019 and was signed by Gov. JB Pritzker on June 28, 2019. The bill extends the iLottery program through FY22 and allows the Lottery to offer Lucky Day Lotto, Pick 3, and Pick 4 through the program without a subscription. The Department and Camelot believe that iLottery channel is important to grow a modern and sustainable lottery and continue to focus on growth in this area.

iLottery sales in FY22 First Half (FY22 H1) are 43% higher than FY21 H1 sales and 12% over Plan. In November 2022 the game Fast Play launched on the iLottery platform. During FY22 Q2, Fast Play online had \$14 million in sales.

FY21	Internet Sales	Subscription Sales	Total iLottery Sales
Q1	\$43.3 M	\$4.4 M	\$47.7 M
Q2	\$53.9 M	\$4.4 M	\$58.3 M
Q3	-	-	-
Q4	-	-	-
Total	\$97.2 M	\$8.8 M	\$106.0 M

Responsible Gaming

Throughout the second quarter of fiscal year 2022, the Illinois Lottery's responsible gaming program was focused on strengthening player communication efforts and working towards Level 4 certification under the World Lottery Association (WLA) Responsible Gaming Framework.

Research

In fall of 2021, the Illinois Lottery conducted phase 1 of a responsible gaming Mystery Shopper pilot at retail locations across the State. The pilot intended to capture information to measure and support efforts to provide information and support to retailers about the Lottery's responsible gaming program. Mystery shoppers were asked to collect data regarding the:

1. Enforcement of the policy to ID any Lottery customer who appears age 25 or younger.
2. Availability of the **Be Smart, Play Smart**® Responsible Gaming Guide (Guide) in the play slip holder or a location that is easily accessible by the retail customer.
3. Ability of the retail clerk to direct individuals to at least one problem gambling resource.

Mystery shopper recruitment was significantly affected by the COVID – 19 pandemic, however, a small group of shoppers were deployed. The resulting data provided a helpful information baseline, and the following future opportunities were identified:

1. To address the low number of shoppers able to locate the Guide at retail, the cover of the Guide is being redesigned to improve its visibility from the play slip holders.
2. Lottery Sales Representative outreach efforts have been reinforcing the importance of the Guides and working to improve the availability of the Guides in retail locations.

Game Design

The Illinois Lottery created a process to evaluate the impact of new games once introduced in-market, in relation to responsible gaming. The process covers:

1. Games offering new play styles
2. Existing games with significant changes to the mechanics
3. Games made available through new sales channels

Following the launch of a new game, the following metrics are monitored and tracked:

- Data from the Illinois Problem Gambling Helpline and the Illinois Player Hotline
- Available player behavior information and feedback (via social channels and the Player Hotline)

In the event the post-implementation review indicates any impact in relation to problem gambling, the Lottery will review the findings to determine whether a remediation plan should be implemented, including:

- Revising marketing efforts for the new game
- Implementing additional responsible gaming controls, such as purchase limits or blackout periods during which the new game is unavailable for purchase
- Additional communications to players and retailers around responsible play in relation to the new game

Player and Retailer Education

Throughout the 2021 holiday season, the Illinois Lottery joined with the National Council on Problem Gambling and the International Centre for Youth Gambling Problems and High-Risk Behaviors at McGill University to promote the message that lottery tickets are not suitable gifts for children. The “Gift Responsibly” campaign included:

- A press release issued jointly with the Illinois Council on Problem Gambling encouraging responsible gift giving.
- Social media messaging on Lottery social channels featuring the Gift Responsibly message.
- PSAs played by radio media partners including WPNV 106.3 FM and WVON 1690 AM.
- Targeted print and digital advertisements displayed by at least 10 media partners.
- A Gift Responsibly reminder played on customer-facing ESMM screens at retail.
- Gift Responsibly messaging sent to players via the December digital player newsletter.
- Photon messages sent to retailers with reminders that everyone who purchases a lottery ticket or redeems a lottery prize must be at least 18 years of age.
- Gift Responsibly messages sent to retailers via the Lottery Lowdown and the December Lottery Insider digital newsletter.

Business Enterprise Program (BEP) Spending

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

For FY22, the total budgeted spend by Camelot in these areas is anticipated to be \$33,400,000 resulting in a BEP goal of \$6,680,000 for FY22. Therefore, in FY22 through Q2, Camelot achieved 67% of the spend goal for the full fiscal year.

FY22	BEP Spend
Q1	\$2,224,167
Q2	\$2,266,713
Q3	-
Q4	-
Total	\$4,490,880²

² This is the amount that has presently been confirmed by subcontractors recorded by the Business Enterprise Program's BEP Compliance Module as of 4-26-2022