



QUARTERLY REPORT ON THE PRIVATE MANAGEMENT AGREEMENT

*Fiscal Year 2023 Quarter 2 (October 1, 2022 – December 31, 2022)
(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 Tony McCombie**

The Illinois Lottery – Private Management Current Status

In FY23, Camelot Illinois' ("Camelot") approved Annual Business Plan ("Plan") projected Operating Revenue of \$3.507 billion and Operating Income of \$822 million. The Operating Revenue is a 3.2% increase from the \$3.399 billion generated in FY22. The Operating Income projection is a 1.4% decrease from the \$833.6 million generated in FY22 and is reflective of an anticipated softening of lower prize payout games in FY23.

Q2 FY23 Operating Revenue was \$937.8 million, which was 12.0% higher than the Q2 FY22 Operating Revenue of \$837.5, and 7.4% higher than the Q2 FY23 Plan target of \$873.2 million. Q2 FY23 Operating Income was \$224.7 million, which was 14.8% higher than the Q2 FY22 Operating Income of \$195.7 million, and 9.6% higher than the Plan target of \$205.0 million. Q2 FY23 Operating Revenue and Operating Income are up from Q2 FY22 actuals and Q2 FY23 Plan targets primarily due to sales that were generated from the Powerball \$2.04 billion jackpot run that was won in California on November 7th. Multi-state games are the biggest contributors as a percentage of their sales to the Department's bottom line and had a significant impact on the Department's performance in the first half of the year.

Q2 FY23 instant ticket sales continued to underperform and are down \$52.1 million from Q2 FY23 Plan. The \$10 and \$20 price point is the biggest contributor to the underperformance compared to Q2 FY22 and Q2 FY23 Plan. The Department and Camelot are continuing to monitor instant ticket sales closely. It should be noted that lotteries across the country are also seeing a sales decline in their instant ticket portfolio.

Q2 FY23 iLottery sales were \$135.8 million and were up 29.3% over Q2 FY23 Plan. Fast Play Online and Powerball sales drove most of Q2 iLottery performance. Fast Play Online sales increased each month in Q2 culminating in December with \$29.4 million in sales when four new Fast Play games were launched and performed exceptionally well. Total H1 (Q1 and Q2) FY23 Fast Play Online sales were \$124.8 million, which was 52% of total iLottery sales and 87% of total Fast Play sales.

Contributions to the Common School Fund in Q2 FY23 were \$195 million, down 2.1% from Q1 FY22 contributions of \$199.3 million. 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 Common School Fund, State Lottery Fund and Capital Projects Fund for periods prior to 2010 and again in 2018. Common School Fund transfers are down from the same period in FY22 because of this reconciliation in accordance with 20 ILCS 1605/9.2.

In Q1 FY23 the marketing team partnered with Dentsu/360i on a matched market test to determine the effectiveness of Point-of-Sale (POS) advertising in Lottery retailers. Results of the test were delivered in Q2 FY23 and showed that in- and near-store media delivered net positive sales impact among retailers, and media has greater positive impact to sales when jackpots are low or reset.

Holiday instant ticket marketing started in October and FY22 holiday marketing spots for radio and TV were repurposed for FY23, producing cost savings. Four new Fast Play games launched in December and new marketing materials were created to support them.

In Q2 FY23, the Lottery partnered with the Chicago Bulls and Chicago Blackhawks with both digital and in-stadium/arena assets, and sweepstakes. The Lottery once again participated in Powerball's First Millionaire of the Year sweepstake and selected a winner to receive a trip to New York for Dick Clark's New Year's Eve show to become a semi-finalist for a chance at a \$1 million prize. The Illinois winner did not win the final prize. However, the Public Relations team was able to garner some earned media from the event and semi-finalist.

The Public Relations team hosted three toy drives for the holiday season and matched the number of toys collected to give a total of 3,000 toys to the Illinois Boys and Girls Clubs. The team continued to feature winner and winning retailer stories in press releases throughout the quarter.

The three FY23 core objectives of the business plan are:

1. Fast Play growth through engaging content and experiences.
2. Excellence in execution across brand and marketing, Instants development, and retail and iLottery optimization.
3. Laying the foundations for future growth with investment in technology, including a Remote Gaming Server, engaging game content, and new products.

In delivering these objectives, Camelot hopes to maximize net Income for the Common School Fund and good causes. The Department and Camelot utilize the business plan's core objectives to guide decision making throughout the year.

Total Sales and Transfers to Good Causes

FY23	Sales Revenue	Transfers to Common School Fund¹	Transfers to Capital Projects Fund	Transfers to Special Causes
Q1	\$872.4 M	\$195.0 M	-	\$2.4 M
Q2	\$936.6 M	\$195.0 M	-	\$1.7 M
Q3	-	-	-	-
Q4	-	-	-	-
Total	\$1,809.0 M	\$390.0 M	-	\$4.1 M

Specialty Cause Detail

Specialty Ticket Cause	FY23 Transfers thru Q2
Veterans	\$523,588
Ticket for the Cure	\$345,507
Red Ribbon Cash	\$683,162
The MS Project	\$38,675
Special Olympics	\$415
Police Memorials	\$573,388
Homelessness Prevention	\$992,329
Alzheimer's Awareness	\$952,630
Total	\$4,109,694

¹ Transfers to the Common School Fund (CSF) are made based upon net income available to transfer. Exclusive to FY23, the Office of the Auditor General (OAG) Fiscal Year 2021 Financial Audit found that the Department made cash transfers to the CSF in excess of the actual net proceeds generated in years prior to 2010 and again in 2018 that totaled \$133.968 million. The deficit was reconciled during Fiscal Year 2023 in accordance with 20 ILCS 1605/9.2. The reconciliation consisted of monthly cash offsets of CSF cash transfers during July 2022 thru March 2023. The CSF estimated net proceed transfers made in Q1 totaled \$195.0 million, which were offset by \$45.0 million of the \$133.968 million transferred in excess resulting in an actual CSF cash transfer of \$150.0 million.

iLottery Program

HB 4700 passed the Legislature in spring 2022 and was signed by Gov. JB Pritzker on April 19, 2022. The bill extends the iLottery program to July 1, 2025. 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 FY23 Q2 were almost \$136 million, totaling \$239 million through H1.

FY23	Internet Sales	Subscription Sales	Total iLottery Sales
Q1	\$99.2 M	\$4.4 M	\$103.6 M
Q2	\$130.9 M	\$4.8 M	\$135.8 M
Q3	-	-	-
Q4	-	-	-
Total	\$230.1 M	\$9.2 M	\$239.4 M

Responsible Gaming

Throughout the second quarter of fiscal year 2023, the Illinois Lottery continued to focus on supporting and advancing its responsible gaming program consistent with best practices recommended by the World Lottery Association and the National Council on Problem Gambling.

Stakeholder Engagement

The Illinois Lottery was a sponsor of the 1st Annual Latinx Conference on Problem Gambling organized by the Illinois Council on Problem Gambling (ICPG). The conference was attended by Director Mays and representatives from Camelot Illinois. During the event, information was shared about the issue and prevalence of problem gambling in the Latinx community, along with a preview of the new “Are You Really Winning” problem gambling awareness campaign.

Additionally, 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.

Player and Retailer Education

Once again, 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 2022 holiday Gift Responsibly campaign included:

- The player-tested slogan: “Tis the season to gift responsibly: Lottery Games Aren’t for Kids.”
- A media release issued jointly with the Illinois Council on Problem Gambling (ICPG). The release earned 10 story placements with a reach over 550,000.
- Sixteen posts across Lottery’s social media channels earning over 10,400 impressions and 146 engagements.
- Print and digital advertisements displayed by the Lottery’s multicultural media partners, including media outlets representing the African American Community Market, Hispanic Community Market, and Asian Community Market.
- Messaging displayed on customer facing ESMM screens at retail.
- A responsible gifting logo displayed on all holiday marketing materials.
- Messaging to retailers via the sales terminals, Lottery Lowdown, and digital newsletter.
- Messaging displayed on the Lottery’s Springfield billboard.
- Illinois Office of Information and Communication radio interviews with Director Mays and Bill Johnson, the ICPG Executive Director.

Research

The Illinois Lottery performed a post-campaign analysis on the 2022 holiday Gift Responsibly efforts, in addition to customer message testing prior to the campaign. Findings from the post-review survey indicated the effectiveness of the campaign to encourage adults not to gift lottery tickets to children was neutral to slightly positive. Among all survey respondents, 68% reported that seeing the messaging would have no impact on their future behavior, and 19% reported that seeing the Gift Responsibly campaign messaging would make them less likely to gift lottery tickets to minors.

Business Enterprise Program (BEP) Spending

The Private Management Agreement encourages Camelot Illinois to maintain a goal that awards at least 20% 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 \$6,341,848.80. Camelot’s BEP spend in FY23 Q1 was \$2,106,243, and the BEP spend in Q2 was \$2,664,172. Therefore, the total amount of BEP spend for FY23 to date is currently \$4,770,415. Camelot has currently achieved approximately 75% of their spending goal for FY23.

FY23	BEP Spend
Q1	\$2,106,243
Q2	\$2,664,172
Q3	-
Q4	-
Total	\$4,770,415²

² This is the amount that has presently been confirmed by subcontractors recorded by the Business Enterprise Program's BEP Compliance Module as of 3-20-2023