New York State Lottery Business Plan

August 2014

VOLUME 1

Foreword

Following a competitive procurement process in December 2013, the New York State Gaming Commission awarded Camelot Global Services North America (Camelot), a contract to conduct market research in relation to alternative approaches for the future of the New York State Lottery, (NYSL).

Camelot specializes in digital lottery growth focusing on retail and digital execution, responsible gaming, game development and marketing strategies designed to maximize participation and therefore net revenue to beneficiaries. In the UK, Camelot has operated the National Lottery since 1994; globally Camelot provides consultancy and management services to lotteries – including the California State Lottery, the Interprovincial Lottery Corporation in Canada and the Massachusetts State Lottery. Camelot is in a unique position to understand the challenges arising from increased competition from casinos for discretionary income purchases. We have the operating, consulting and delivery track record to support the NYSL in a comprehensive program of market research, business plan development and implementation support that will maximize player participation while securing growth in funding for State aid to education for decades to come.

This document articulates the outcome of this market research and details a five year business plan designed to ensure the growth of future net revenue for the NYSL.

Please be aware that all data contained in this document was accurate at the time of submission (11th February 2014)

Introduction

This document has been structured with a number of chapters to lead readers through the detail of the business plan and is supported by a number of appendices as outlined in the contents page. Each chapter is set out below:

Chapter 1: The Executive Summary provides a background to this five year business plan and the current performance of the NYSL along with providing an outline of each of the plans chapters.

Chapter 2: The performance and Situational Analysis is split into four key areas that include an introduction to the Situational Analysis, Business Analysis, Competition and finally a section on Macro Trends.

Chapter 3: The strategic platforms are split between the four commercial strategies and the fifth supporting 'Keys to Success'. Each strategy contains a number of initiatives that together form the business plan. The chapter then finishes on the finance section that details all of the assumptions of the business plan.

Chapter 4: The conclusion sets out the main key findings of this business plan along with the next steps.

0.0 Background

The NYSL confirmed its position as the biggest lottery in the United States in terms of sales in FY 2012-13, returning $2.17bn to state funding for Education generated from annual sales of over $7.1bn in traditional lottery sales, excluding Video Lottery Terminals (VLTs). The NYSL markets lottery tickets through c.18,000 retailer locations across the State and by subscription over the internet.

At present the NYSL's main product breakdowns are:

- Multi-jurisdictional jackpot games [redacted]
- Quick Draw [redacted]
- Numbers and Win 4 [redacted]
- Instants Tickets [redacted]
- Other games [redacted]

The Upstate New York Gaming Economic Development Act of 2013, passed by the legislature and subject to approval by the State electorate, authorizes four upstate destination gaming resorts to enhance tourism development. New York State already permits gambling and is home to nine video lottery facilities, five tribal class III casinos, three tribal class II facilities and more electronic gaming machines than any state in the Northeast or Mideast. [redacted]

0.1 Financial Performance

VLTs have been the main driver of recent sales and net revenue growth. Traditional Lottery remains flat.

The NYSL had combined annual sales of $8.9bn in FY 2012-13 for both traditional lottery and VLTs, generating $3.3bn in net revenue. This equates to an overall 3-year sales CAGR of 4.5% and a 3-year net revenue CAGR of 4.7%, making the NYSL the highest producing lottery in the United States.

[redacted]

[redacted]

[redacted]

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0.2 Business Plan Development Approach

[redacted]

[redacted]

Figure 0.2 [redacted]

Camelot has worked with the NYSL to ensure the five year business plan is relevant, achievable and targeted to maximize net revenue to education, providing a solid foundation for implementation. In undertaking the development of the business plan through the [redacted], Camelot has conducted the following actions on behalf of the NYSL.

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[redacted]

The detailed outcomes and full reports of the Qualitative, Quantitative and Futurology research can be found within Appendices B (research) and C (futurology).

0.3 Camelot Engagement Team

The members of the Camelot engagement team, who authored this business plan document, are detailed below. Throughout the engagement the Camelot team drew extensively upon its considerable experience of delivering successful engagements with the California State Lottery, the Massachusetts State Lottery, Canada's Interprovincial Lottery Corporation (ILC), the EuroMillions community, the award of the Pennsylvania PMA in January of 2013 and, most recently, the appointment of Premier Lotteries Ireland (a consortium of Ontario Teachers' Pension Plan (owners of Camelot) and An Post) as preferred bidder for the Irish National Lottery.

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Richard Wheeler
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Strategy & Business Plan Development
Camelot Global Services

Sam De Phillippo
Senior Consultant
Camelot Global Services

1.0 Executive Summary

[redacted]

In sales terms, the New York State Lottery is the biggest in North America and is widely considered to be one of the best lotteries in the world. The NYSL already has a great foundation. New York players are very positive about the NYSL and Camelot's research indicates the brand is one of the most recognizable within New York State and that [redacted]

The business plan detailed in this document provides a detailed strategy informed by a wealth of evidence based research to strengthen the NYSL's current operation and mitigate potential declines in net revenue. It makes specific recommendations to address the challenges outlined above, with a view to growing [redacted] over the next five years.

Strategic Vision

[redacted]

Our proposed strategy will:

- Ensure the New York State Lottery remains the biggest and best in the U.S. protected against competitive threats and changes in consumer behavior by future-proofing it for the challenges of 2019 and beyond

- Maximize net revenue and delight players in doing so

[redacted]

Forecasted Financial Impact of Five Year Business Plan

To evaluate the overall benefit of the five year business plan, Camelot has developed a comprehensive financial model that evaluates the impact on net revenue of the initiatives developed against business as usual. The outputs of this model are summarized below:

Status Quo scenario

Camelot worked with the NYSL to model and agree to a comprehensive Status Quo scenario that estimates net revenue and sales assuming current trends continue. The Status Quo scenario sets out the net revenue against which the 'Initiatives' scenario is compared in Figure 1.0.

[redacted]

[redacted]

Initiatives Scenario

[redacted]

As has been shown, over the five year period, total net revenue under the [redacted]

[redacted]

The following graphs provide a summary breakdown of how each of the initiatives contributes to the additional net revenue over the period and the phasing of the net revenue growth.

[redacted]

[redacted]

Five Key Strategic Platforms

The proposed business plan provides strategies to strengthen the NYSL's current operation and recommends changes that will safeguard [redacted]

[redacted]

A brief overview of each strategy follows, with further detail provided in Section 3 of the business plan.

3.1 Games

[redacted]

[redacted]

[redacted] 3 [redacted]

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3.2 Marketing

The NYSL is in a strong position to leverage existing high consumer awareness of the lottery and trending consumer propensity to support or have an interest in brands that give something back to society. However, as with any lottery, it can have the best game portfolio in the world and help fund the most compelling good cause; but this won't manifest in revenues, if consumers are not engaged.

[redacted]

3.3 Retail

[redacted] converting demand into purchase. Section 3.3 Retail details five key strategic initiatives:

[redacted]

[redacted]

3.4 Player Relationships

[redacted]

[redacted]

3.5 Keys to Success

Sections 3.1 to 3.4 detail the commercial strategies required to ensure the growth of future returns to Education from the NYSL. [redacted]

[redacted]

Implementation

In developing the business plan, Camelot has considered the range of implementation options open to the NYSL for the successful execution of each initiative. The table below summarizes the advantages and disadvantages of this range. Camelot has evaluated the implementation options based on its understanding of the current NYSL business situation and all regulatory considerations.

For every initiative in this document, Camelot has made suggestions as to the best implementation options for success.

[redacted]

The ultimate decision as to which implementation options are selected for each initiative will be made by the NYSL and will be subject to further analysis and evaluation following the conclusion of this report.

[redacted]

2.1 Introduction to Situational Analysis

Camelot has undertaken an in-depth understanding of the macro environment and the NYSL business in order to unlock “the consumer truth” that explains business, game, channel and marketing performance. Camelot places great importance on insight and foresight because it underpins the strategic recommendations made. The Situational Analysis captures this intelligence in one place.

The Situational Analysis (Appendix A) provides an overview of the New York Lottery (NYSL). It includes New York key facts, economic macro overview and a summary of gaming in New York. It closely looks at NYSL performance through time and versus other peer lotteries. The analysis considers the consumer, the brands, channels and marketing.

An initial assessment of the NYSL was conducted in December 2013. Information was gleaned from five key sources, including NYSL supplied data, NYSL Financial Statements, La Fleurs, TGI Simmons and Oxford Economics. This assessment shaped Camelot’s initial hypotheses on the NYSL and influenced the consumer insight and future trends briefing process.

The Situational Analysis evolved to incorporate the learning from consumer research, future trends and store visits.

Consumer Research/Insight

[redacted]

[redacted]

[redacted]

Future’s Research/Foresight

The Future Foundation is the number one consumer trends and insight enterprise in the world, with offices in New York, London and Stockholm. It counts an impressive client list of consumer packaged goods giants among its clients, including: Coca Cola, Nestle and L’Oreal.

Camelot worked with the Future Foundation to produce a report identifying political, economic, social and technological megatrends in the U.S. and New York State. The report considers the impact of these macro trends on lottery consumers and highlights opportunities presented by these trends over the medium term. The full Future Foundation report can be found in Appendix C. The bulleted points below summarize key areas included in the analysis:

[redacted]

Store visits

In December 2013, Camelot visited over [redacted]

Stakeholder Interviews

In addition the Camelot team had the opportunity to meet with the NYSL's Senior Management team, both at head office and in the field, on a regular basis between December 2013 and January 2014. These meetings provided excellent operational insight explaining current and historical performance.

2.2 Business Analysis

The five year NYSL strategic plan is underpinned by a comprehensive business review and analysis including an in-depth review of the macro environment as well as an assessment of the NYSL business. In addition, [redacted] A strengths, weaknesses, opportunities and threats analysis (SWOT analysis) of the findings is summarized below:

Strengths

The NYSL is viewed favorably by many New Yorkers, [redacted] The NYSL is widely accessible via an extensive retail network of approximately 18,000 stores. This foundation, coupled with prominent awareness, has helped the NYSL achieve high participation. Camelot's quantitative research identified [redacted] played the lottery in the past 12 months.

[redacted]

Weaknesses

[redacted]

Opportunities

[redacted]

[redacted]

2.3 Competition

[redacted]

[redacted] A number of U.S. states have already begun paving the way for online gambling. The Illinois Lottery was the first U.S. based lottery that allowed players to purchase lottery tickets online. Any adult resident, 18+, can now play Mega Millions, Lotto and Powerball via the lottery's online sales channel and through the new app, launched in 2014. New Jersey passed legislation in early 2013 which allows online gambling via existing casino operators. New Jersey's ruling may herald a further expansion of this industry by individual states in the U.S. Pennsylvania is now the second biggest gaming market after Nevada, overtaking New Jersey.

Consumer attitudes towards gambling are becoming more liberal, making gambling far more accessible and acceptable. The Upstate New York Gaming Economic Development Act (UNYGEDA) and specifically, Proposal One – relating to permission for casinos - was passed in November 2013 following a referendum in New York State. The proposed amendment was backed by 57% of voters, which altered the State constitution to allow up to seven non-Indian casinos across the State.

[redacted]

[redacted]

2.4 Macro Trends

[redacted]

[redacted]

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New York State real consumer spending growth

Annual % change in real consumer spending | *Oxford Economies forecasts, November 2013 projection*

[redacted]

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Social

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Technological

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3.1.1 Instants [redacted]

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3.1.3 Draw Based Games

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3.1.4 New Product Development

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3.1.5 Quick Draw – Increase Spend & Frequency

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3.2.1 Ensuring Compelling Communications

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4.0 Conclusion

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The brief of this business plan was to look at ‘Alternative Approaches for the Future of Lottery in New York State’.

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Glossary of Terms

Brand Champions
A person responsible for the performance of the brand they represent. Improving its profile by instigating new initiatives and the point of contact internally and externally for all aspects relating back to the brand.

Consumer Packaged Goods
Consumer packaged goods (CPG) are consumable goods such as food, beverages, cleaning products etc - items that get used up and have to be replaced frequently, in contrast to items that people usually keep for a long time, such as cars and furniture.

Discretionary Spend
Money spent by consumers on non-essential purchases such as vacations, DVDs, eating out, make-up, accessories etc. Discretionary spend represents the amount of income remaining after a person pays for personal necessities and taxes.

Future-proofing
Ensuring value of a product or process into the distant future by creating it in such a way that it does not become obsolete or can be easily updated to adapt to changing times.

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Retail Estate
All of the individual retailers in which lottery products are sold, including chain stores, independent stores and gas and convenience stores.

Spend Effectiveness
The return on investment gained from budget spent on marketing.

Holistic Insight
Holistic Insight considers the combined findings of data analysis, desk research, qualitative, quantitative research, online/ new/social media, future trends, etc. All data is reviewed in totality, to gain an accurate and deep understanding of the subject matter.

Upskill
Teaching an employee additional skills to enable them to better perform their role.

Situational Analysis

A

Camelot | GLOBAL

Situation Analysis
New York State Lottery

11th February 2014
Version 4

Disclaimer

- The following presentation has been prepared by Camelot Global Services Ltd on behalf of the New York State Lottery (NYSL)
- It has been developed from data provided by the NYSL (supplied both directly, in accordance with Camelot's information request, and indirectly via published data. In addition, Camelot has drawn on its broad UK and North American experience, as well as third party information. For example: the Futures Foundation, Consumers Insights Group, TGI Simmons and Oxford Economics
- Camelot Global Services Ltd has worked with the NYSL to agree the contents of this presentation as the 'base' position before developing, refining and referencing the content within the 5 year business strategy deliverable
- Camelot has endeavoured to match terminology used by the NYSL
- The presentation should be treated as Commercially Sensitive
- VLTs have been included in the presentation, however following discussions with the Lottery w/c 16th December 2013, VLTs are likely to be 'ring-fenced' as a non-lottery category

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1. OVERVIEW & TERMINOLOGY

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1. Overview

Purpose

This document provides an overview of the NYSL. It includes a PEST analysis and high level information relating to Lottery performance, by brand and channel, as well as VLT.

Core information has been gleaned from five key sources, which include:
(1) NYSL Annual Reports and website
(2) GBGC
(3) La Fleurs
(4) TGI Simmons
(5) Oxford Economics

This final version 4 of the Situational Analysis has been incorporated as Appendix A I the final report, which follows the presentation given to the state on the 28th of January 2014

- La Fleurs data has been swapped with NYSL supplied data (where relevant)
- Topline research highlights have been captured in the Executive Summary. A full combined qualitative and quantitative deck can be found in Appendix B
- Additional insight has been added by Subject Matter Experts. This includes findings from data analysis, retail site visits and stakeholder interviews

1. Terminology

Definitions

- **GFC:** Global Financial Crisis
- **VLTs:** Video Lottery Terminals are located in 'Racinos' in New York
  Difference between VLTs and Slots: there are a pre-determined number of winners with VLTs, and players are competing with each other for a prize rather than against the house.
- **Racinos:** Combined race tracks and VLTs
- **HDI:** 'Household Disposable Income'. This is the amount of income left to an individual after taxes have been paid, available for spending and saving
- **Numbers:** A daily game which falls into the '3 digit' game category
- **Win 4:** A daily game which falls into the '4 digit' game category
- **Net Gaming Revenue:** Sales minus prizes

Calculations

- **Per Capita:** Key Variable ÷ Total Population
- **Participation:** % of adult population who play lottery
  (adult population = 18years+)

2. EXECUTIVE SUMMARY

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2. Executive Summary

Lottery Overview

- NYSL is North America's largest and most profitable lottery. It outperforms its US peers on most metrics. In 2012, it had the highest per capita ranking for total Traditional Lottery sales ($358). It ranked top per capita for both DBG ($175) and Instants ($183) amongst its selected comparative peers. Please see Appendix 7.1 for detailed peer comparisons

[redacted]

* Lottery reports Net Revenue for VLT

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2. Executive Summary

Lottery Portfolio / Offer

[redacted]

Traditional Lottery Games

Traditional Lottery Games are segmented into three core areas: (1) Jackpot Games: MegaMillions, Powerball, Lotto and Sweet Million; (2) Daily Games: Take Five, Numbers, Win 4, Quick Draw, Pick 10; and 3) Instant Games.

1) Jackpot Games

[redacted]

2. Executive Summary

3) Instant Games

[redacted]

Channels

- Retail: NYSL indicates that they have c.18,000 retailers currently active however this figure varies as new stores take Lottery and others stop. It also includes outlets that may not be currently active due to seasonal factors and it may include suspended stores whose sales of Instants have been validated

[redacted]

- Interactive: Operates an Internet subscription offering. Lottery does not require up front submission of social security number

2. Executive Summary

Consumer participation for Traditional Lottery

- The NYSL is well-regarded in the state and enjoys high awareness and participation

[redacted]

- Total participation, according to the Simmons survey, has grown marginally since 2004. However, the number [redacted]

Peer Comparison

- NYSL is the largest US Lottery. [redacted]
  Note: Massachusetts has not been used as a comparative peer as the population is too small versus the population of New York

- [redacted]

- [redacted]

2. Executive Summary

Competitive Environment

- New York State has a large and diverse gaming market. It comprises 9 racetracks (Racinos); 5 Class III tribal casinos and 2 Class II tribal casinos; A State Lottery – which operates and oversees Traditional Lottery and VLTs (all sited in Racinos)
- [redacted]
- The Upstate New York Gaming Economic Development Act (UNYGEDA) - was passed in Nov 2013. The Act made provision for 7 casinos. New York will roll out four in three upstate regions: the Catskills, the Capital Region and the Southern Tier (along the Pennsylvania border but not near Native American reservations, or in New York City)
- The Gaming Commission will seek bids from casino operators early 2014; final selections later in 2014

2. Executive Summary

VLTs

- VLT sales have grown as a proportion of Lottery; revenue numbers exceed Traditional Lottery sales [redacted]

[redacted]

2. Executive Summary

[redacted]

2. Executive Summary

[redacted]

3. NEW YORK KEY FACTS

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3.1 New York Key Facts - 2013

Population: 19.6 million

Age Distribution: 78% of the population is 18+

Ethnicity: White 71.2%, Black 17.5%, Asian 8%, Two or More Races 2.2%, Other 1.1%

Population Density: 412/sq. mile (ranked 7th in 2011) vs. US avg. of 87 persons/sq. mile

Education: High school graduates (includes equivalency) 27.8%, Some college, or associate's degree, 23.9%, Bachelor's degree 15.6%, Master's, professional or doctorate degree 11.8%.

Disposable Income per Capita: $43,524 vs. U.S. average of $37,152

Unemployment Rate: 8.8% in Apr 2013 (ranked 47th). This exceeds the U.S. average (6.8%). Unemployment has decreased from a peak in Feb 2010 (11.3%) but falls above the 4.6% unemployment recorded in Feb 2006

Source: US Census

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3.2 Population by State – 2013

New York over-indexes on core lottery age group (25-64) vs. US average.
New York population is ethnically diverse.

	New York	California	Florida	Illinois	New Jersey	Penn-sylvania	USA
Age							
Under 15	17.9%	20.1%	17.1%	19.7%	18.8%	17.6%	**19.3%**
15-24	14.1%	14.8%	12.9%	13.9%	12.9%	13.8%	**14.0%**
25-44	27.1%	28.0%	24.9%	27.0%	26.3%	24.5%	**26.0%**
45-64	26.9%	25.1%	27.0%	26.3%	27.9%	28.1%	**26.7%**
65+	14.1%	12.1%	18.2%	13.2%	14.1%	16.0%	**14.0%**
Sex							
Male	48.5%	49.7%	48.9%	49.1%	48.8%	48.8%	**49.2%**
Female	51.5%	50.3%	51.1%	50.9%	51.2%	51.2%	**50.8%**
Ethnicity							
White	71.2%	73.7%	78.3%	77.9%	73.8%	83.5%	**77.9%**
Black or African American	17.5%	6.6%	16.6%	14.8%	14.7%	11.4%	**13.1%**
American Indian and Alaska Native	1.0%	1.7%	0.5%	0.6%	0.6%	0.3%	**1.2%**
Asian	8.0%	13.9%	2.7%	5.0%	9.0%	3.0%	**5.1%**
Native Hawaiian or other Pacific Island	0.1%	0.5%	0.1%	0.1%	0.1%	0.1%	**0.2%**
Two or More Races	2.2%	3.6%	1.9%	1.7%	1.9%	1.7%	**2.4%**

Source: US Census

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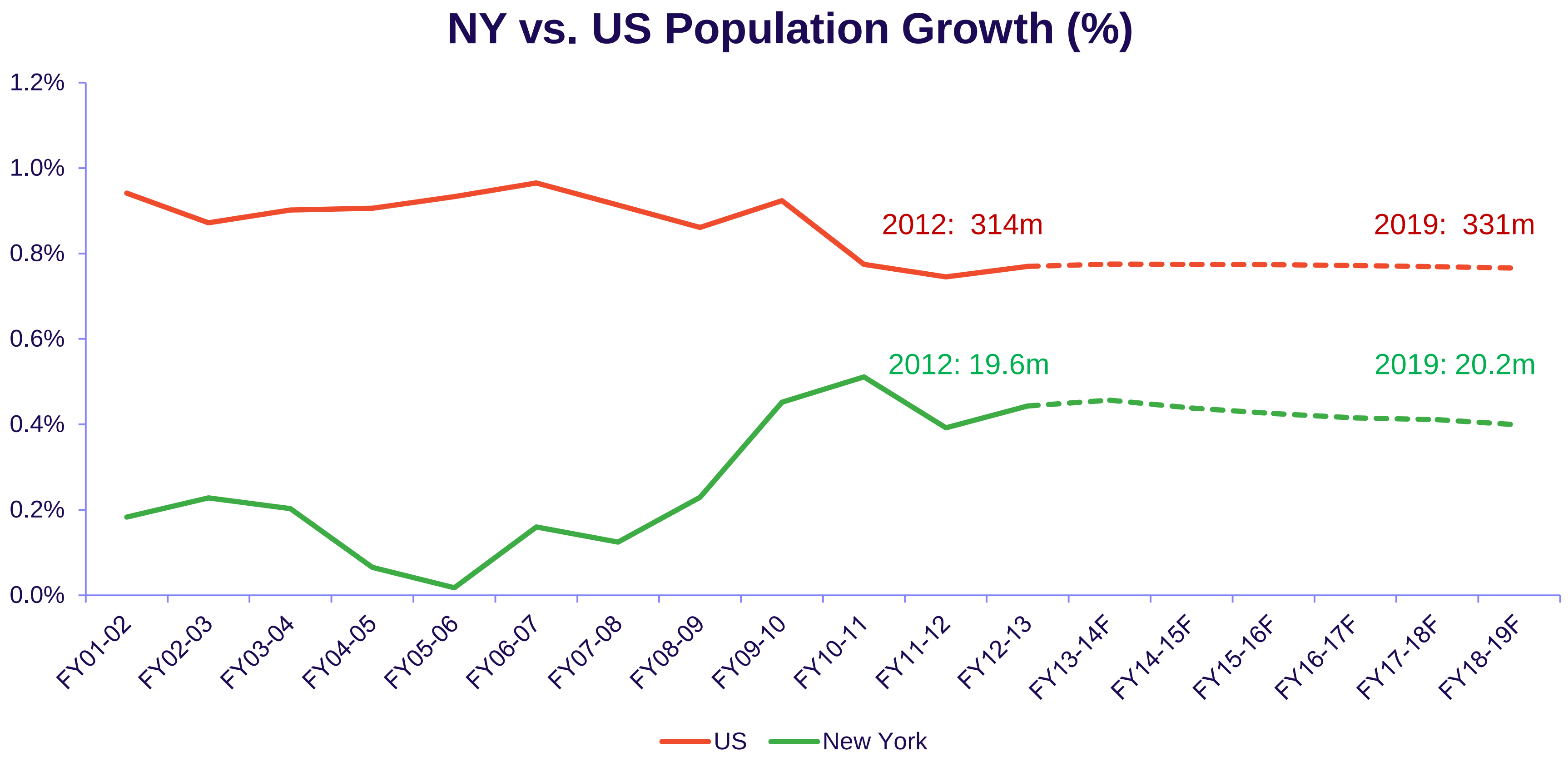
3.3 Population Trends – New York vs. US 2001-2019

Third most populated US state at 19.6m; grown by 2% (US = 4.1%) between 2008 to 2013. Forecast to grow to 20.2m by 2019



Source: Oxford Economics

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4. US AND NEW YORK MACRO OVERVIEW

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4.1 PEST Analysis – Total Lottery Sales % HDI

New York Lottery is performing well versus peers. Sales have kept in line with HDI growth

[redacted]

Source: Oxford Economics ; Annual Report, La Fleurs; ONS
Note: HDI = The amount of income left to an individual after taxes have been paid, available for spending and saving.

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4.2 PEST Analysis – Macro-Economic Forecasts

NY, as a leading financial centre, felt the GFC impact early. It has recovered at a quicker rate versus other US States

[redacted]

Source: Oxford Economics

Note: HDI = The amount of income left to an individual after taxes have been paid, available for spending and saving

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4.3 PEST Analysis – Business Plan Forecast

[redacted]

Source: Oxford Economics and Annual Reports

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5. NEW YORK GAMING OVERVIEW

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5.1 Current New York Gaming Regulations

[redacted]

[redacted]

Source: New York State Gaming Commission

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5.2 Permission for Casinos granted Nov 5th 2013

[redacted]

Source: New York State Gaming Commission

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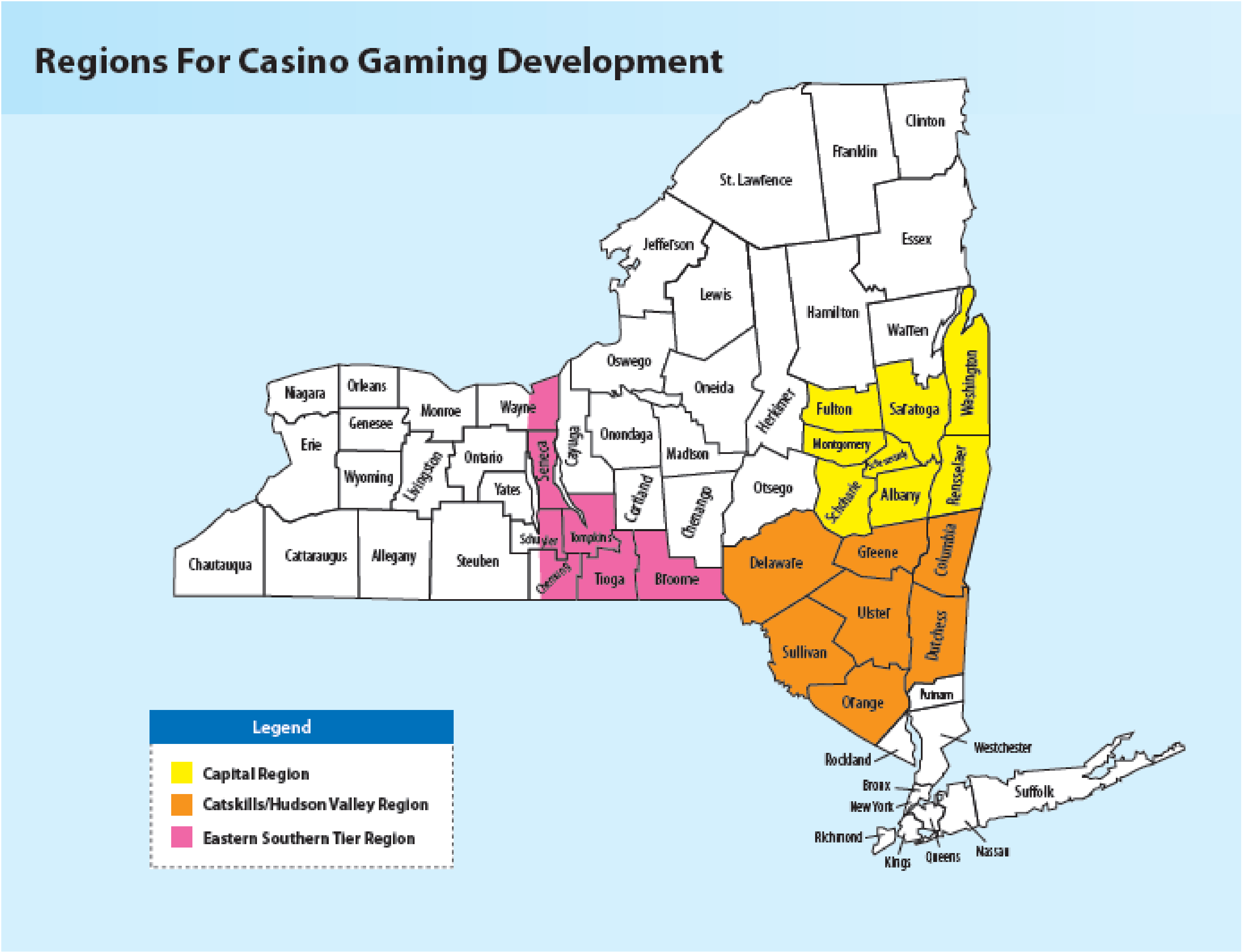
5.3 Potential Casino Locations



Plan for the initial rollout of 4 commercial gambling parlours, in 3 upstate regions: the Catskills, the Capital Region and the Southern Tier, along the Pennsylvania border

Source: New York State Gaming Commission

5.4 New York vs. US GGY 2007 vs 2012*

[redacted]

Source: GBGC ***Please Note: Gross Gaming Yield (GGY) = Sales less prizes.***
**** Data has been estimated in 2012.*** Machines include VLT Racinos

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5.4 New York vs. US GGY 2007 vs 2012*

Source: GBGC ***Please Note: Gross Gaming Yield (GGY) = Sales less prizes.***
**** Data has been estimated in 2012.*** Machines include VLT Racinos

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6. NEW YORK LOTTERY PERFORMANCE OVERVIEW

6.1.1 About the New York Lottery

History

The New York Lottery was enacted into the New York State Constitution by voters as a result of a referendum in 1966. In 1967, New York Legislation created a Division of the Lottery and a Lottery Commission within the Department of Taxation and Finance and the Lottery began.

Purpose

The New York Lottery's sole mission is to earn revenue for education. The Lottery contributed $3.04 billion to help support education in New York State in fiscal year 2012-13, which is nearly 15% of total state education funding to local school districts. It continues to be North America's largest and most profitable Lottery, earning over $48.43 billion in education support state-wide, since its founding over 45 years ago. A team of c. 350 New York Lottery employees work with contracted business partners and more than c.18,000 active retailers (NYSL data for Jan 2014) state-wide to provide innovative, fun, and entertaining games for their customers. Games include draw games like *Numbers, Mega Millions* and *Powerball* and approximately 35-50 Instant tickets. The Lottery's Video Lottery business includes the new Resorts World Casino New York City, as well as casinos in Yonkers, Saratoga and 6 other locations state-wide.

Revenue Distribution

Lottery revenue is distributed to local school districts by the same statutory formula used to distribute other state aid to education. The amount of funds disbursed by the Education department, under the state budget process, is based upon estimated Lottery earnings at the time of budget passage. In the event Lottery earnings exceed budget estimates, those additional funds become part of the next year's Lottery aid distribution. Committed to maintaining the highest standards for financial integrity, the New York Lottery's drawings and annual financial statements are monitored and audited independently.

Source: NYSLottery.ny.gov

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6.1.1 About the New York Lottery – Key Events

- **1966** – Voters approved a constitutional amendment authorizing a government-run lottery
- **1967** – the New York Legislature created a Division of the Lottery and a Lottery Commission within the Department of Taxation and Finance and the Lottery began
- **1975-76** – Sales were suspended due to scandal
- **1985** – New Game day added to Lotto
- **1985, 1986, 1988, 1999, 2001** – Matrix changes to Lotto in these years
- **1990 –** Pick 10 was introduced
- **1992** – 'Take 5' was introduced to the portfolio
- **1995** – Quick Draw was introduced
- **1997** – New draw day added to 'Take 5'
- **1999 –** Local Lotto (regional) was available for a period of 10months
- **2002** – Mega Millions was introduced
- **2003** – Quick draw went from a 5 minute game to a 4 minute one
- **2005-11** – Mega Millions Mega Plier game was available
- **2007** - $20 instant ticket introduced
- **2009** – Sweet Million was introduced
- **2010** – Powerball was introduced (with PowerPlay Multiplier)
- **2012** – Powerball price increase: $1 to $2 (PowerPlay Multiplier no longer available)
- **2013** – Lotto Jackpot reduced from $3million to $2million and a matrix change to MegaMillions introduced

Source: Wikipedia; NYSL Website; NYSL direct information and Year End Financial Reviews

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6.1.2 Summary Income Statement

NYSL generated total sales of $8.9bn (2009-2013 CAGR of 3.9%) and operating income of $3.1bn (2009-2013 CAGR of 5.4%) in FY2013

Summary income statement ($m) March y/e>>	2009	2010	2011	2012	2013	2013 vs 2009 ($m)	CAGR 2009-2013
Sales	7,660	7,818	7,868	8,439	8,934	1,274	3.9%
Direct expenses (prizes, commissions, fees)	(5,030)	(5,013)	(5,038)	(5,387)	(5,708)	(678)	3.2%
Gross margin	**2,630**	**2,805**	**2,830**	**3,053**	**3,227**	**596**	**5.2%**
Gross margin %	**34.3%**	**35.9%**	**36.0%**	**36.2%**	**36.1%**		
Indirect expenses (overheads and depreciation)	(130)	(133)	(139)	(130)	(138)	(8)	1.5%
Operating income	**2,500**	**2,672**	**2,692**	**2,923**	**3,089**	**589**	**5.4%**
Operating income %	**32.6%**	**34.2%**	**34.2%**	**34.6%**	**34.6%**		
Non-operating items	48	(115)	399	126	39	(10)	-5.4%
Income before allocation to education	**2,549**	**2,558**	**3,091**	**3,049**	**3,128**	**579**	**5.3%**
Required allocation to education	**2,544**	**2,666**	**3,049**	**2,888**	**3,046**	**502**	**4.6%**

Source: Annual Reports

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[redacted]

Source: Annual Reports

Note: NYSL Annual Reports Report VLT Revenue as Net Income, i.e. sales after prizes paid out

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6.1.2 Summary Contribution to Education*

[redacted]

Source: Annual Reports

*Defined as sales less direct costs (eg prizes, commissions, sales-variable costs) but before ohds

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6.1.2 Portfolio – Detailed Sales Analysis

[redacted]

Revenue by Product (in $m) - March-end	Financials						2013	5-year period		1-year period	
	2008	2009	2010	2011	2012	2013	Revenue split	2008-13 % CAGR	2008-13 $ var.	2012-13 % CAGR	2012-13 [redacted]
[redacted]											

Source: Annual Reports

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6.1.2 Portfolio – Detailed Contribution to Education by Game Type

[redacted]

Net revenue by Product (in $m)	Financials						2013	5-year period		1-year period	
	2008	2009	2010	2011	2012	2013	Net rev. split	2008-13 % CAGR	2008-13 $ var.	2012-13 % CAGR	2012-13 $ var.
[redacted]											

6.1.2 Contribution to Education

[redacted]

Source: Annual Reports
Note: Sales and Net Income inc. VLTs and cannot be separated as yet

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6.1.3 Games Portfolio Overview

[redacted]

6.1.3 Portfolio Performance Summary

[redacted]

6.1.3 Games Portfolio Overview (Jackpot)

[redacted]

Game	Date Introduced	Description	Matrix	Price per Unit (TL)	Odds of Winning a prize	Jackpot Odds	Prize Payout	Last Enhancement	Event / Draw Frequency
[redacted]	[redacted]		[redacted]						
[redacted]	[redacted]	[redacted]	[redacted]						
[redacted]	[redacted]		[redacted]						
[redacted]	[redacted]		[redacted]						

Source: NYSL Website

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6.1.3 Games Portfolio Overview (Daily)

Daily Games provide a broad range of game formats, with differing prize levels and price points

Game	Date Introduced	Description	Matrix	Price per Unit (TL)	Odds of Winning a prize	Jackpot Odds	Prize Payout	Last Enhancement	Event / Draw Frequency
Take 5	1992		5 numbers from 39	$1	1 in 8.77	1 in : 575,757	50%		Nightly
Numbers	1980		3 sets of balls, 0 to 9	50 cents min	Correct nos & order 1:10 NoS 1:333		50%		Twice daily
Win4	1981			50 cents min	Correct nos & order 1:10 Nos 1:25				
Quick Draw	1995	Keno Game	Choose 1 to 10 numbers; 20 numbers are drawn	$1 min	Varies by no. of spots		60%		Every 4 mins from 4.04am to 3.24am
Pick 10	1990		20 numbers drawn from 1 to 80 – players choose 10	$1	1:17	1 in : 8,911,711	50%		Nightly

Source: NYSL Website

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6.1.3 Games Portfolio Overview (Instants)

7 price points currently offered with another ($25) recently launched

Game	Themes	Top Prize
$1	Numbers, Cash, Luck and Gift	$100 - $8,888
$2	Extended Play, Numbers, Gifting, Luck, Cash	$10,000 - $25,000 $1,000 PW or Life
$3	Extended Play, Numbers, Gifting, Luck, Annuity,	$60,000 - $100,000 $1,500 PW for Life
$5	Extended Play, Numbers, Casino, Annuity, Cash	$300,000 - $1,000,000 $2,500 PW for Life
$10	Extended Play, Cash, Licensed	$1,000,000 - $3,000,000 $5,000 PW for Life
$20	Extended Play, Cash	$5, 000,000 $10,000 PW for Life
$30	Extended Play	$60,000 - $100,000 $1,000,000 PY for Life

Source: NYSL Website

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[redacted]

[redacted]

[redacted]	[redacted]

[redacted]

[redacted]	[redacted]

[redacted]

[redacted]	[redacted]

Sources: statcan.gc.ca and La Fleurs

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6.2 CHANNELS

6.2.1 Summary

We have identified the following key areas of opportunity:

[redacted]

6.2.2 Retail Overview

[redacted]

Source: La Fleurs – Note: NYSL have indicated that c.18,018 retailers are currently active but this figure changes over time due to new stores, seasonal stores and suspended stores

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6.2.3 Total number of Retailers, by Type

[redacted]

Source: La Fleurs – Note: NYSL have indicated that c.18,018 retailers are currently active but this figure changes over time due to new stores, seasonal stores and suspended stores

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6.2.4 Lottery Retail Distribution, 2012

[redacted]

Source: La Fleurs – Note: NYSL have indicated that c.18,018 retailers are currently active but this figure changes over time due to new stores, seasonal stores and suspended stores

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6.2.5 In-Store Branding and Marketing

[redacted]

Play Center

Digital signage for Multi State Jackpots

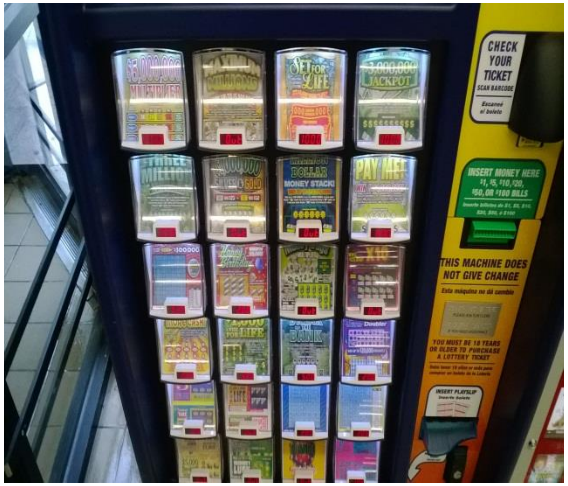
Vending in store


"Waterfall" Instants display

[redacted]

6.2.6 Instants Supply Chain

[redacted]



[redacted]

6.2.7 Sales Team Structure

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

Source: NYSL Sales Data

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6.2.9 Digital / Interactive

[redacted]

6.3 Participation

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Disclaimer

[redacted]

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6.3.1 US Lottery Participation

[redacted]

Source: TGI/Simmons Note: Regular – more than once per week; Occasional – Once per week to once per month; Infrequent (between 1-12m) – less than once per month but at least once per year

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6.3.2 New York Lottery Participation

[redacted]

Source: TGI/Simmons Note: Regular – more than once per week; Occasional – Once per week to once per month; Infrequent (between 1-12m) – less than once per month but at least once per year

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6.3.3 Peer Comparison – Participation (2013)

[redacted]

Source: US -TGI/Simmons

6.4 DRAW BASED GAMES

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6.4.1 Lottery Portfolio Performance

[redacted]

Source: Annual Reports

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6.4.2 Lottery DBG Performance by Category

DBGs dominated by stable performance of Daily Games, while Lotto decline accelerated by Powerball and MegaMillions

[redacted]

Source: Annual Reports

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6.4.3 Lottery DBG - Category Performance

[redacted]

6.4.4 Lottery Jackpot Game Performance

[redacted]

Source: Annual Reports

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6.4.5 Jackpot Games: Powerball & Mega Millions

[redacted]

Source: **Annual Reports and direct NYSL information Note: 10year CAGR cannot be calculated as 11years of data is needed.**
(See Appendix 7.3 for How to Play)

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6.4.6 Powerball & Mega Millions – some consumer perspective…

6.4.7 Lotto Sales

[redacted]

Source: La Fleurs and Annual Reports (from 2003)
(See 7.3 for How to Play)
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6.4.8 Weekly Draw* Participation

[redacted]

Source: TGI/Simmons **Note: Regular – more than once per week; Occasional – Once per week to once per month; Infrequent (between 1-12m) – less than once per month but at least once per year *TGI definition**

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6.4.9 Numbers (3-digit) Sales

[redacted]

Source: La Fleurs and Annual Reports (from 2003)
(See 7.3 for How to Play)

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6.4.9 Win 4 (4-digit) Sales

[redacted]

Source: La Fleurs and Annual Reports (from 2003)
(See 7.3 for How to Play)

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6.4.9 Daily Draw* Participation

[redacted]

6.4.10 Daily Games
– some consumer perspective…

Source: Camelot - commissioned Research, New Jersey, 2012

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6.4.11 Quick Draw Summary

We have identified the following key areas of opportunity:

[redacted]

6.4.11 Quick Draw Sales Performance

[redacted]

6.4.11 Game Portfolio

[redacted]

[redacted]

Source: Keno store visits Jan 2012

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6.4.11 Game Portfolio

[redacted]

Source: NYSL Sales Report 2008-13

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6.4.11 Quick Draw Distribution

[redacted]

Source: Infographics: Eater National

6.4.11 Quick Draw Value of Monitor Based Games

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

6.4.11 Quick Draw Promotions

[redacted]

[redacted]

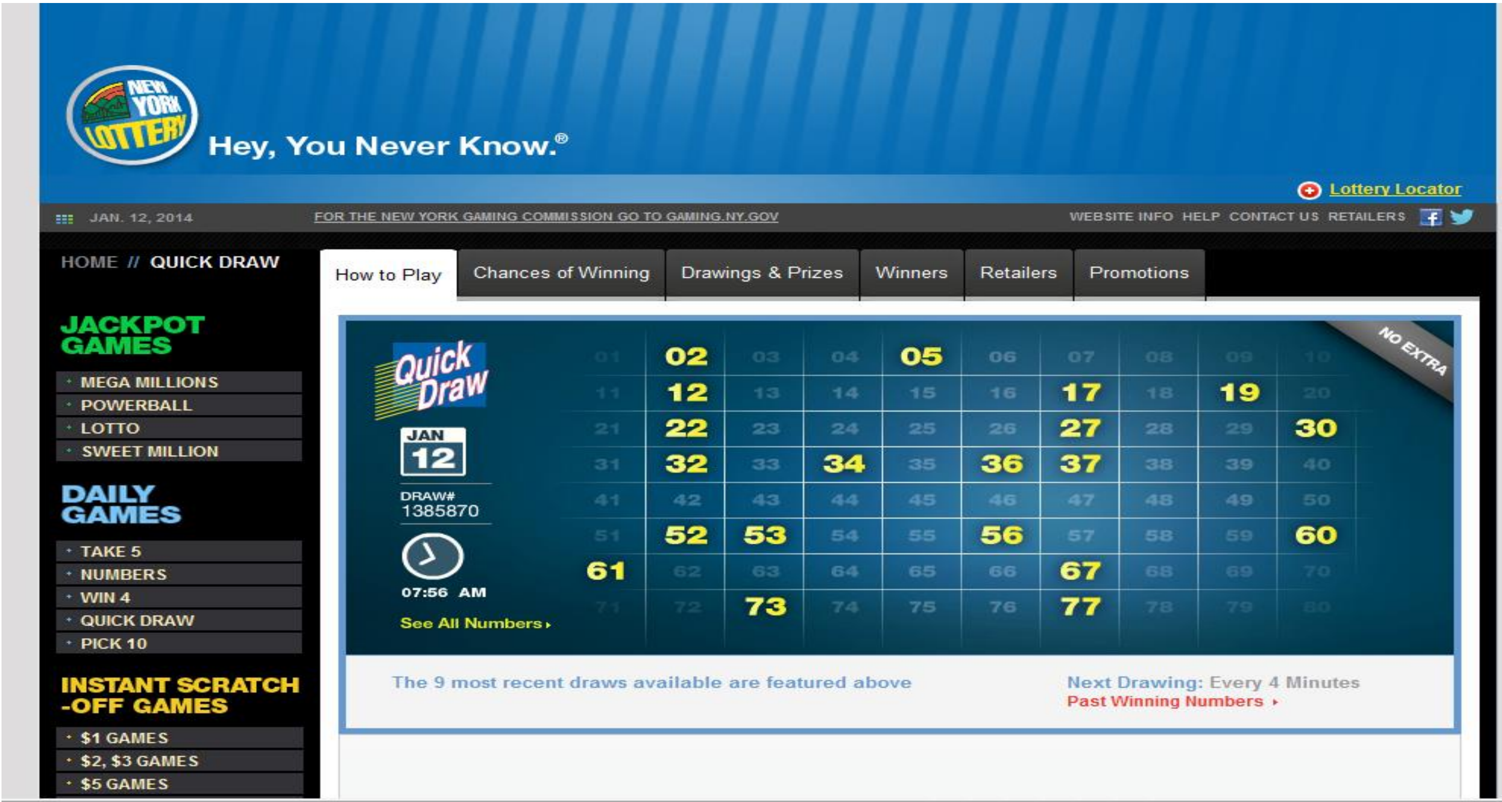
6.4.11 Sales Team Structure

[redacted]

[redacted]

[redacted]

6.4.11 [redacted]



[redacted]

6.5 INSTANTS

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6.5.1 Instants Overview

Instant games are successful and popular with consumers

[redacted]

6.5.2 Instants Sales 1996 – 2013

[redacted]

Source: La Fleurs '97-'13 and http://www.nydailynews.com/2.1353/scratchoff-lotto-tickets-hit-30-pop-article-1.313039

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6.5.3 Instants Per Cap Sales

[redacted]

Source: NYSL Annual Reports and Oxford Economics

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6.5.4 Participation, Spend and Frequency

[redacted]

Source: Camelot Quantitative Research Jan 2014

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6.5.5 Instants – Higher Price Point Growth

[redacted]

Source: La Fleurs 2012

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6.5.6 Instants – Higher Price Point Growth in other States

[redacted]

Source: La Fleurs 2012; PA and New York Lottery Annual Reports

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6.5.6 Instants – Top Performing Games

[redacted]

Source: NYSL (last 52 weeks to 23rd Nov 2013)

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6.5.7 Instants – Meeting Consumer Demand

[redacted]

Source: NYSL (last 12 weeks to 23rd Nov 2013)

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6.5.8 Instants – Game Launches

[redacted]

Table: Summary of sales validations by price point

[redacted]

[redacted]

6.5.8 Instants – Game Launches

[redacted]

[redacted]

6.5.9 Instants – Games Available to Order

[redacted]

Source: NYSL (last 52 weeks to 23rd Nov 2013)

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6.5.10 Instants – Product Life Cycles

[redacted]

Source: NYSL (last 52 weeks to 23rd Nov 2013)

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6.5.11 Instants Range

[redacted]

Source: NYSL site visits (Dec 2013)

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6.5.12 Instants Portfolio

[redacted]

Source: NYSL Lottery website

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6.5.13 Instants – Prize Payout

[redacted]

Source: NYSL (last 52 weeks to 23rd Nov 2013)

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6.6 VLTS

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6.6.1 Racino Overview

[redacted]

6.6.1 Racino Overview

[redacted]

Source: AGA Survey of Casino Entertainment 2013

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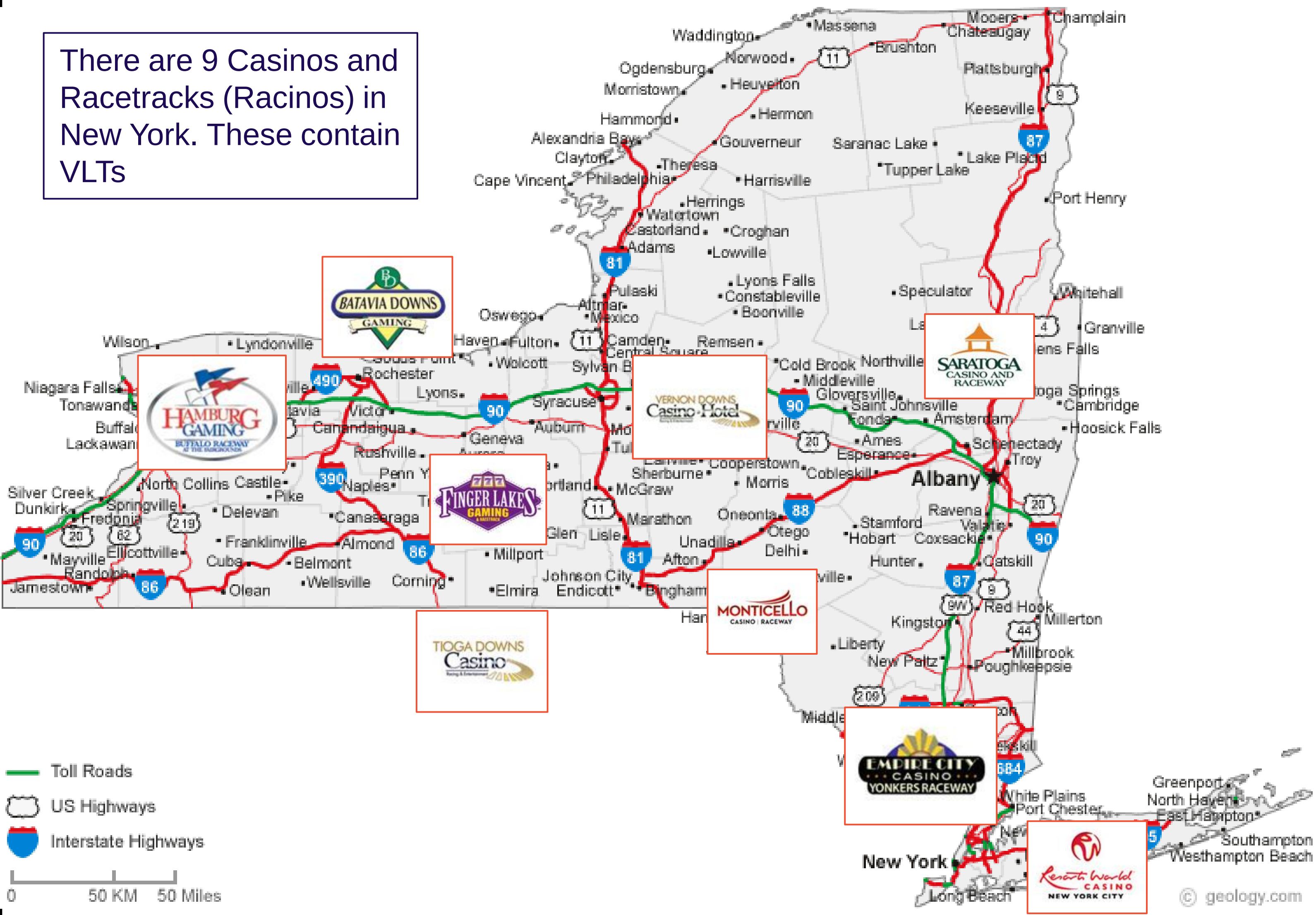
6.6.1 Racino Overview

There are 9 Casinos and Racetracks (Racinos) in New York. These contain VLTs



6.6.1 Racino Overview

[redacted]

6.6.2 VLT Performance

[redacted]

Source: Annual Reports and La Fleurs

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6.6.3 Net Gaming Revenue

[redacted]

Source: Annual Reports and La Fleurs

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6.6.4 Net Gaming Revenue Growth

[redacted]

[redacted]

Source: Racino Financial Reports

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6.6.5 The VLT Reality…

[redacted]

Source: Annual Reports

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6.6.6 Costs and Margin

[redacted]

6.7 PRIZE PAYOUT

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6.7.1 Payout ratio evolution by game

[redacted]

Source: Annual Reports

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6.7.2 Strong Correlation between Payout Ratios and Sales Growth

[redacted]

Source: Annual Reports

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7.0 APPENDICES

7.1 Peer Analysis

7.2 Global Lottery summary

7.3 How to play

7.4 Quantitative Easing

7.5 OPEX

7.6 Regional Sales

7.7 Native American Casinos

7.8 Retail Observations

7.9 Draw Based Games – further analysis

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7.1 PEER ANALYSIS

7.1.1 Peer Comparison – Note on Methodology

- NYSL data is sourced from 2012 La Fleurs in order to facilitate comparison between US States
- Actual NYSL sales data have not been used to ensure we are comparing like with like
- Other data sources include US Census data (for per capita charts) and World Bank (for GDP chart)
- The rationale underpinning the selection of immediate peers to NYSL is outlined in 7.1.3

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7.1.2 Peer Criteria

[redacted]

= Closest matching Peers by Selection Criteria

7.1.3 Population Qualification

[redacted]

[redacted]

Source: La Fleurs and World Bank 2012
Note: US Top 10 Avg are based on Total FY12 Lottery Sales

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[redacted]

Source: La Fleurs

Note: US Top 10 Avg are based on Total FY12 Lottery Sales

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[redacted]

Source: La Fleurs, US Census

Note: US Top 10 Avg are based on Total FY12 Lottery Sales

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[redacted]

Source: La Fleurs

Note: US Top 10 Avg are based on Total FY12 Lottery Sales

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[redacted]

Source: La Fleurs

Note: US Top 10 Avg are based on Total FY12 Lottery Sales

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[redacted]

Source: La Fleurs
Note: US Top 10 Avg are based on Total FY12 Lottery Sales

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[redacted]

[redacted]

Source: La Fleurs

Note: US Top 10 Avg are based on Total FY12 Lottery Sales

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[redacted]

Source: La Fleurs

Note: US Top 10 Avg are based on Total FY12 Lottery Sales

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[redacted]

Source: La Fleurs

Note: US Top 10 Avg are based on Total FY12 Lottery Sales

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7.2 GLOBAL LOTTERY SUMMARY

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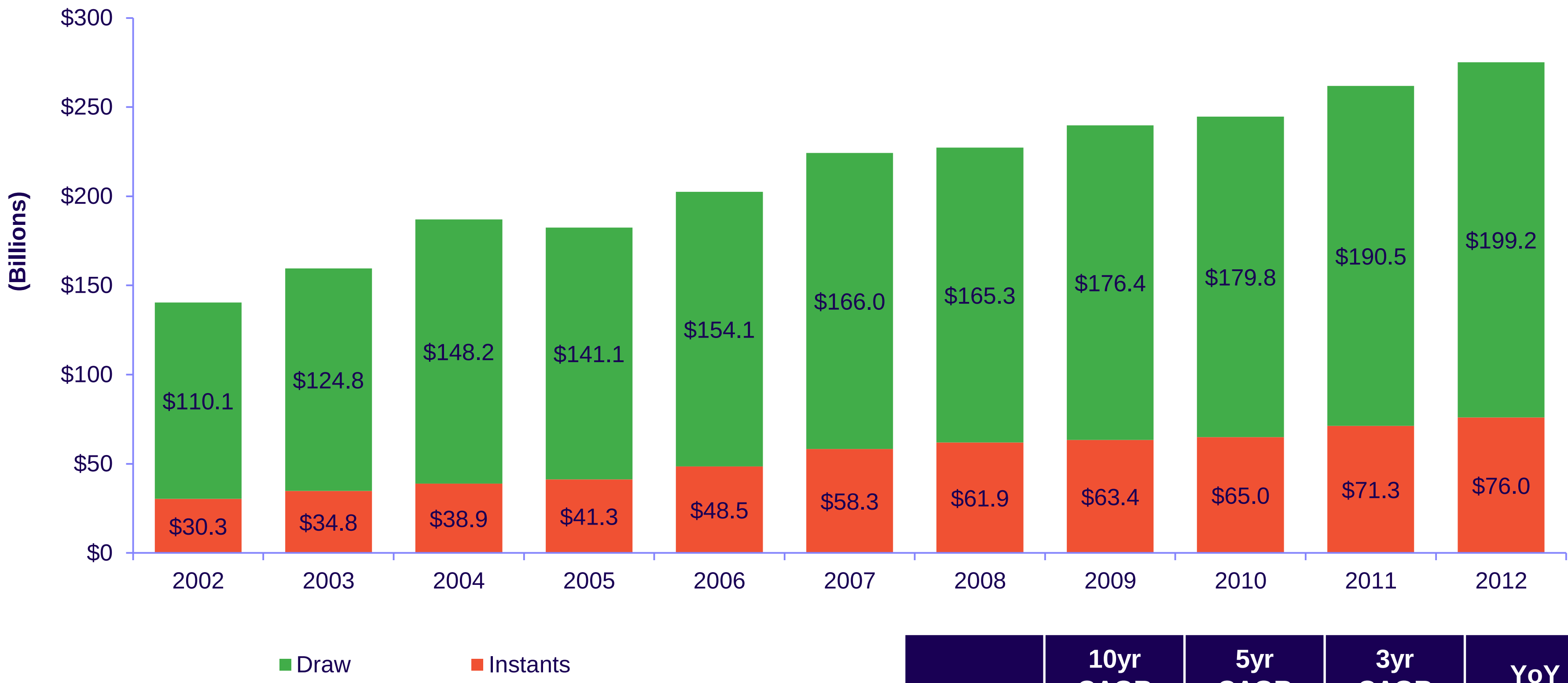
7.2.1 World Lottery Sales

Global Lottery sales are buoyant



	10yr CAGR	5yr CAGR	3yr CAGR	YoY
Total	7.0%	4.2%	4.7%	5.1%
DBG	6.1%	3.7%	4.1%	4.6%
Instants	9.6%	5.4%	6.2%	6.6%

Source: La Fleurs **Note: Data is Calendar Year**

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7.2.2 Global Lottery Overview, by Region

N. America has outperformed Europe for past 3 years. This may be related to a more buoyant economic situation in US and Canada

	2012 Total Sales	Per Caps	10yr CAGR	3yr CAGR	DBG 2012	Instant 2012
World	$275,218.6	$118.7	7.0%	4.7%	$199,225.2	$75,993.4
Europe	$113,409.8	$124.6	6.5%	-1.0%	$85,614.0	$27,795.8
Asia/ME	$73,987.4	$86.7	12.2%	16.4%	$65,954.9	$8,032.5
N. America	**$72,950.4**	**$182.9**	**3.9%**	**5.0%**	**$33,755.4**	**$39,194.9**
Central America	$7,350.4	$59.9	7.7%	0.1%	$7,182.0	$168.4
Australia	$6,501.8	$253.4	10.6%	9.2%	$5,858.8	$643.0
Africa	$1,018.9	$5.0	3.0%	0.2%	$860.1	$158.8

Source: La Fleurs **Note: Data is Calendar Year; N.America includes Canada**

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7.2.3 US and NYSL Sales

[redacted]

Source: La Fleurs Notes: Data is Calendar Year; US Lottery Sales include those who have come on board in the past 10years (N&S. Carolina, Tennessee, Oklahoma, N.Dakota and Arkansas)

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7.3 HOW TO PLAY

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7.3.1 Lotto

- Lotto operates on a 6/59 matrix
- The jackpot is guaranteed at $2m minimum (reduced from $3million in April 2013)
- 40% of gross revenue is allocated to the Prize Fund
- Price: 1 lines for $1
- Draws on Wednesday and Saturday

Prize Tier	% of Prize fund	Odds of winning
Match 6	75%	1:45,057,474
Match 5 and Bonus	7.25%	1:7,509,579
Match 5	5.5%	1:1,44,414.98
Match 4	6.25%	1:2,179.85
4Match 3	6%	1:96.17

(Taken from New York Website 31/10/13)

Source: Annual Reports/ NYSL Website

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7.3.2 Numbers

- 3 sets of balls, 0 to 9
- Winnings are dependent upon wager
  50% of gross revenue is allocated to the Prize Fund
- Price: 50cent minimum wager
- Draws twice daily

Prize Tier	% of Prize fund	Odds of winning
Match winning numbers exactly in order	Dependent upon wager	1:1000
Match winning numbers in any order	Dependent upon wager	1:333

(Taken from New York Website 31/10/13)

Source: **Annual Reports / NYSL Website**

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7.3.3 Win 4

- 3 sets of balls, 0 to 9
- Winnings are dependent upon wager
- 50% of gross revenue is allocated to the Prize Fund
- Price: 50cent minimum wager
- Draws twice daily

Prize Tier	% of Prize fund	Odds of winning
Match winning numbers exactly in order	Dependent upon wager	1:10000
Match winning numbers in any order	Dependent upon wager	1:2500

(Taken from New York Website 31/10/13)

7.3.4 Mega Millions

- 5/75 matrix on Main Board; 1/15 matrix on Mega Ball Board
- The jackpot is guaranteed at $20m minimum
- 50% of gross revenue is allocated to the Prize Fund
- Price: 1 line for $1
- Draws on Tuesdays and Fridays

Source: Annual Reports / NYSL Website

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7.3.5 Power Ball

- 5/59 matrix on Main Board; 1/35 matrix on Power Ball Board
- The jackpot is guaranteed at $40 Minimum
- 50% of gross revenue is allocated to the Prize Fund
- Price: 1 line for $2
- Draws on Wednesdays and Saturdays

Source: Annual Reports / NYSL Website

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7.3.6 Payout Details

[redacted]

7.3.7 Power Ball and MegaMillions Milestone Jackpots

Rank	Annuitized jackpot	Game	Date	# of winning tickets	Where
1	$656 million	Mega Millions	30 March 2012	3	KS, IL, MD
2	$590.5 million	Powerball	18 May 2013	1	FL
3	$587.5 million	Powerball	28 November 2012	2	AZ, MO
4	$448 million	Powerball	7 August 2013	3	MN; NJ(2)
5	$399.4 million	Powerball	18 September 2013	1	SC
6	$390 million	Mega Millions	6 March 2007	2	GA, NJ
7	$380 million	Mega Millions	4 January 2011	2	ID, WA
8	$365 million	Powerball	18 February 2006	1	NE
9	$363 million	"The Big Game"	9 May 2000	2	IL, MI
10	$340 million	Powerball	19 October 2005	1	OR[2]
11	$338 million	Powerball	23 March 2013	1	NJ
12	$337 million	Powerball	15 August 2012	1	MI
13	$336 million	Powerball	11 February 2012	1	RI
14	$333 million	Mega Millions	28 August 2009	2	CA, NY
15	$331 million	The Big Game	16 April 2002	3	GA, IL, NJ
16	$330 million	Mega Millions	31 August 2007	4	NJ, MD, TX, VA
17	$319 million	Mega Millions	25 March 2011	1	NY
18	$315 million	Mega Millions	15 November 2005	1	CA
19	$314.9 million	Powerball	25 December 2002	1	WV
20	$314.3 million	Powerball	25 August 2007	1	IN

Source: Wikipedia

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7.3.8 Drawings

- Lottery drawings are syndicated to television stations
- Pick 10 drawings air nightly on MSG Network and the Sabres Hockey Network at 11:00 p.m., or during the next commercial break.
- Other draw games, except for Sweet Million, air on these stations: WABC-TV New York (except Powerball, Take 5, and Lotto; the last two are aired on the station's website, 7online.com, while Powerball is not aired), WSYR-TV Syracuse, WBNG Binghamton, WETM-TV Elmira, WPTZ Plattsburgh, WHAM-TV Rochester (except Powerball), WWTI Watertown, and WUAM/YNN Capital Region. (WBNG and WETM newscasts are seen in the Binghamton area.) Mega Millions (drawings held in Atlanta) and Powerball (drawings in Florida) are drawn at 11:00 p.m.
- Take 5 and Lotto are drawn at 11:21 p.m. The Numbers and Win 4 drawings are held at 12:30 p.m. and 7:30 p.m. Powerball drawings can be seen in the New York and Rochester areas via the national cable/satellite feed of WGN America. The Utica-Rome region (which does not receive WGN on cable) does not see live lottery drawings; the local affiliate, WUTR, dropped lottery drawings when it closed its news division in 2003; and its rival WKTV also do not air drawings. Likewise, the Buffalo area does not view most Lottery drawings; in October 2013, the only area station, WGRZ-TV, gave up the rights.
- Sweet Million drawings are viewable online only. Its drawings are held Mondays and Thursdays at 9:30 p.m.

Source: Wikipedia

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7.4 QUANTITATIVE EASING

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7.4 Quantitative Easing

Source: Wikipedia

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7.5 OPEX

7.5 Opex Details

[redacted]

Source: Annual Reports

7.6 REGIONAL SALES

7.6.1 Regional Sales

[redacted]

Source: NYSL sales data

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7.6.2 Regional Sales by County

[redacted]

Source: NYSL sales data

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7.7 NATIVE AMERICAN CASINOS

7.7 Native American Casinos & Gaming

[redacted]

7.8 RETAIL OBSERVATIONS

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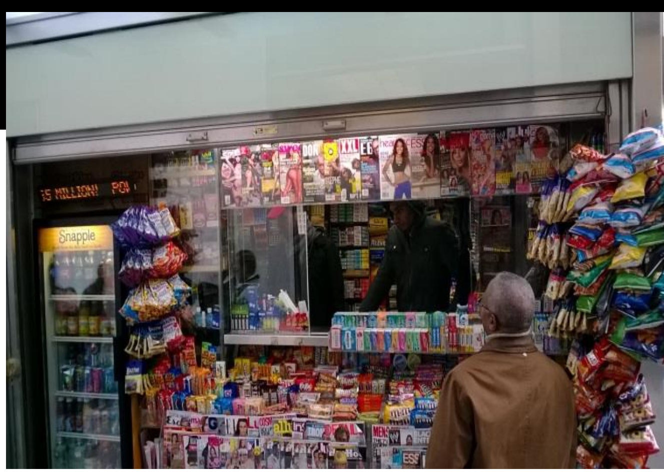
7.8.1 Manhattan

[redacted]

7.8.2 Distribution - Traditional Retailers

[redacted]



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7.8.3 Distribution Quick Draw – Social Outlets

[redacted]

7.8.4 Store Standards and Driving Brand Messages

[redacted]

7.8.5 Vending machine – Full Offer

7.8.6 Vending machine – Instants Only

7.8.7 Play Centre

7.8.8 Win Checker and Media Screen

7.8.9 Jackpot Communicators

7.8.10 Play Slip Holders

7.9 DRAW BASED GAMES
Further Analysis

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[redacted]

7.9.1 Total Jackpot Category 2002 - 2013

[redacted]

7.9.1 Lotto – Base Sales vs. Total Game Sales

[redacted]

7.9.1 Mega Millions: Base Sales vs. Total Game Sales

[redacted]

7.9.1 Powerball: Base sales vs. total game sales

[redacted]

[redacted]

7.9.2 Lotto – Win Rate

[redacted]

7.9.2 Mega Millions – Win rate

[redacted]

7.9.2 Powerball – Win rate

[redacted]

[redacted]

7.9.3 Typical Gaming Motivations 'Needs' Map

[redacted]

7.9.3 NYSL core games on 'Needs' Map

[redacted]

Source: Ca[redacted]

[redacted]

7.9.4 DDB's Game Architecture

[redacted]

7.9.4 Consumers are Bombarded by Messages

7.9.4 [redacted]

[redacted]

Qualitative & Quantitative Research

B

* Appendix B and its entirety has been redacted

Futurology Report

C

* Appendix C and its entirety has been redacted

Financial Model

D

* Appendix D and its entirety has been redacted

Presentation

E

* Appendix E and its entirety has been redacted