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Lottery Oversight Committee presentation of:

5 Year Business Plan for the Arkansas Scholarship Lottery

17 March 2016

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Overview

Camelot Global is pleased to present its Five-Year Business Plan in response to RFQ SP-15-0097, "Business Plan and Consulting Services"

- On March 8, 2016 Camelot Global (CG) presented its recommended Business Plan to the OAL

- The plan covered off the requirements outlined in the RFQ SP-15-0097 and the perquisites from the contract signed with the state in November 2015

- The Business Plan, developed in consultation with Lottery's management team, key employees and vendors is a 400 page submission

- CG is here to present to the Lottery Oversight Committee the plan submitted to the OAL. A plan that encompasses the insight understood from the market and its recommended plans for growing sales in a responsible manner

- The Business Plan also details the 'Facilitators' required to enable the plan and high-level financials
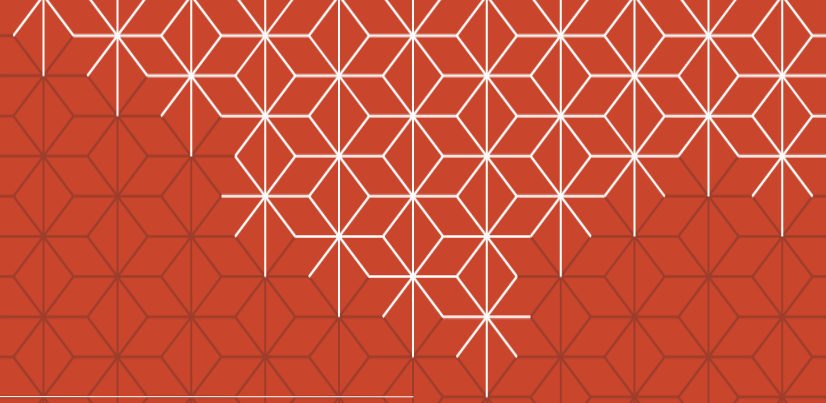
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Overview

An Implementation Plan will be recommended to the OAL on March 23, 2016 following approval of this Business Plan

- The intention of this presentation is provide the Committee with an understanding of the approach taken by CG, an overview of:
    - Insight (market understanding)
    - A proposed mission, vision and strategy for the lottery
    - Business plan recommendations
- This presentation provides the 'what' OAL needs to do with regards the Business Plan
- The contract signed with OAL allows for CG to recommend how the implementation of the Business Plan should be executed

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Agenda

1. Executive Summary

2. Background

3. Mission, Vision and Key Strategies

4. Business Plan

5. Financial Plan

6. Summary and Next Steps

1. EXECUTIVE SUMMARY
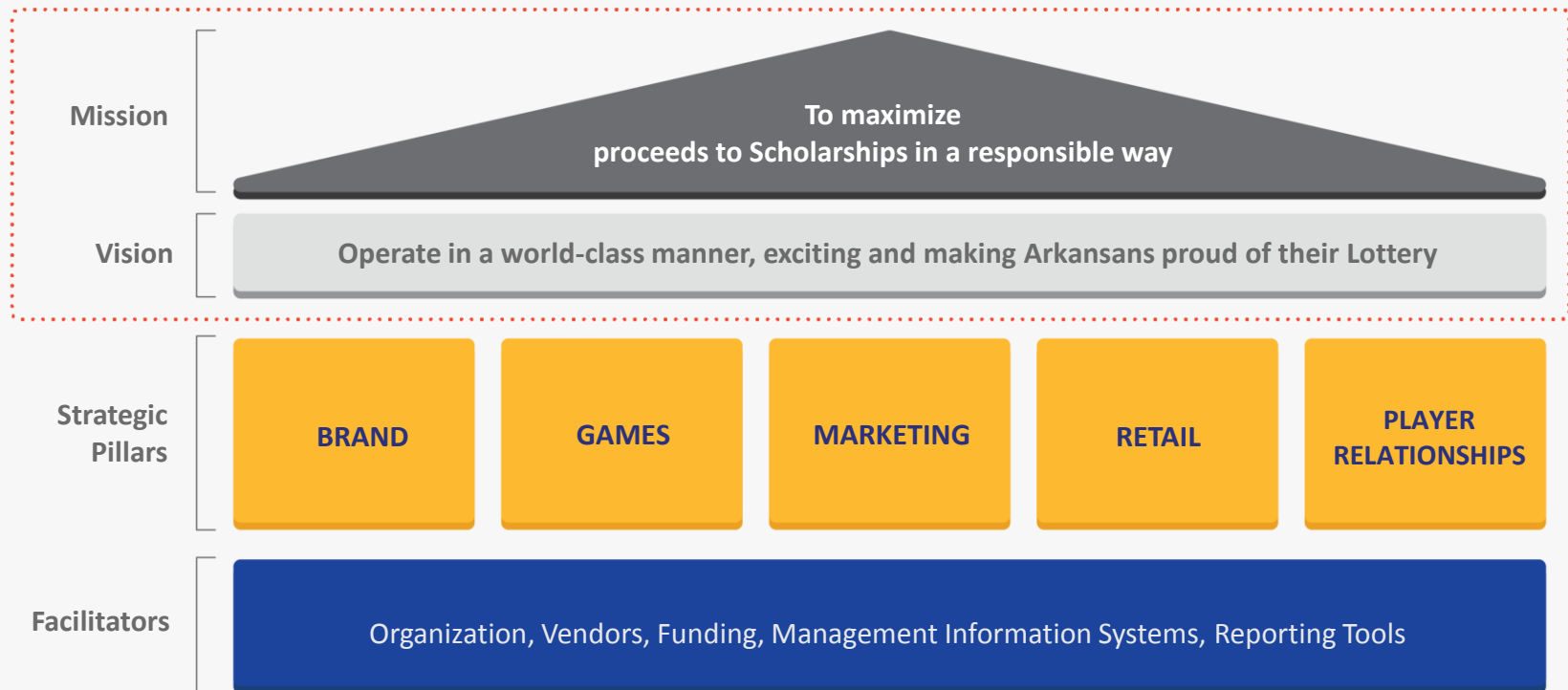
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1. Executive Summary

OAL needs a clear Mission and Vision to give clarity for its plans and purpose to players and stakeholders

Mission: To maximize proceeds to Scholarships in a responsible way

Vision: Operate in a world-class manner, exciting and making Arkansans proud of their Lottery

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1. Executive Summary

The Mission and Vision must guide the principles of the Lottery, with the five strategic pillars supported by a set of Facilitators

Mission	To maximize proceeds to Scholarships in a responsible way
Vision	Operate in a world-class manner, exciting and making Arkansans proud of their Lottery
Strategic Pillars	BRAND · GAMES · MARKETING · RETAIL · PLAYER RELATIONSHIPS
Facilitators	Organization, Vendors, Funding, Management Information Systems, Reporting Tools

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1. Executive Summary

The Business Plan (Section 5) covers the overall strategy and specific near-term actionable recommendations

- The strategy of the Business Plan is built on five key pillars:

    1) **Brand:** Build a brand with universal appeal for Arkansas consumers and stakeholders

    2) **Games:** Deliver games with clearly defined and exciting propositions

    3) **Marketing:** Provide compelling reasons to play

    4) **Retail:** Focus on better access, category presentation and make play easier (convenient)

    5) **Player Relationships:** Understand and then build engaging relationships with players

- Any recommendation or activity that is not currently permissible under legislation, is broken out as an addendum (with "3.2 addendum" noted throughout the Business Plan)

- Any addendum activity is not included in the business plan's sales or net revenue forecast

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1. Executive Summary

The Business Plan's strategic pillars are broken down into key activities for the OAL. The submission includes sub-strategies and initiatives. These are build-up to the financial plan forecast

4.7 Business Plan – Key Recommendations and Proposed Timeline

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1. Executive Summary

In conjunction with the five pillars, the Business Plan details a number of "facilitating" activities

- Four factors will impact the success of the Business Plan:

- **Governance** – Work with current Governance Processes and Practices to deliver the Business Plan

- **Investment** – the Business Plan outlines additional budget recommended to increase sales and returns to scholarships (this is covered in Sub-section 6.1)

- **Vendors** – At the request of OAL, and to preserve any strategy and/or competitive advantage exemptions the OAL may enjoy under the law, CG will not outline any requirements or pricing strategies in this document. This will be provided to the OAL as the contract process evolves

- **People** – 2 approaches are outlined in this section:

    1) Insource resources (recruit new roles)
    2) Outsource (short term) resources to vendors. Under its CG is obliged to submit an implementation plan to OAL, no later than 15 days after the submission of the Business Plan
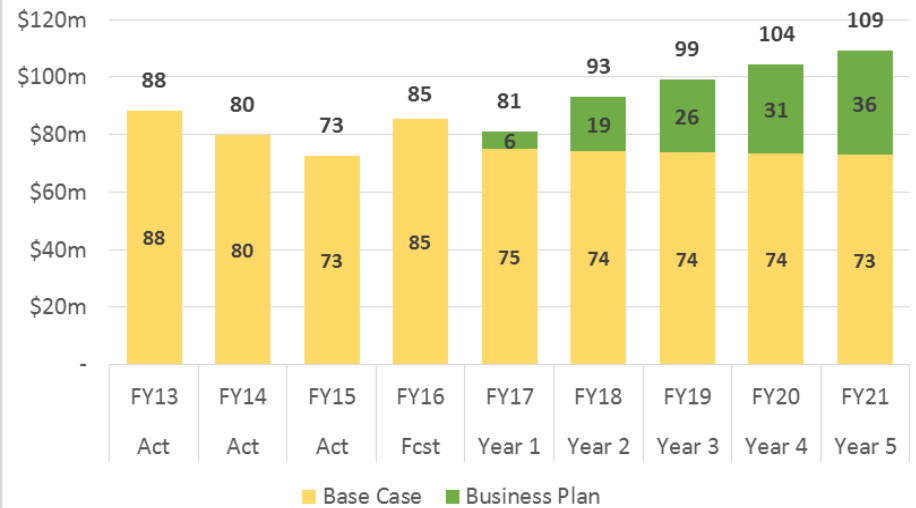
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1. Executive Summary

Delivery of the Business Plan will see sales grow from $409m in FY15 to $615m in FY21, with proceeds to Scholarships increasing from $73m in FY15 to $109m in FY21

Sales - Business Plan vs. Base Case

Proceeds to Scholarships - Business Plan vs. Base Case

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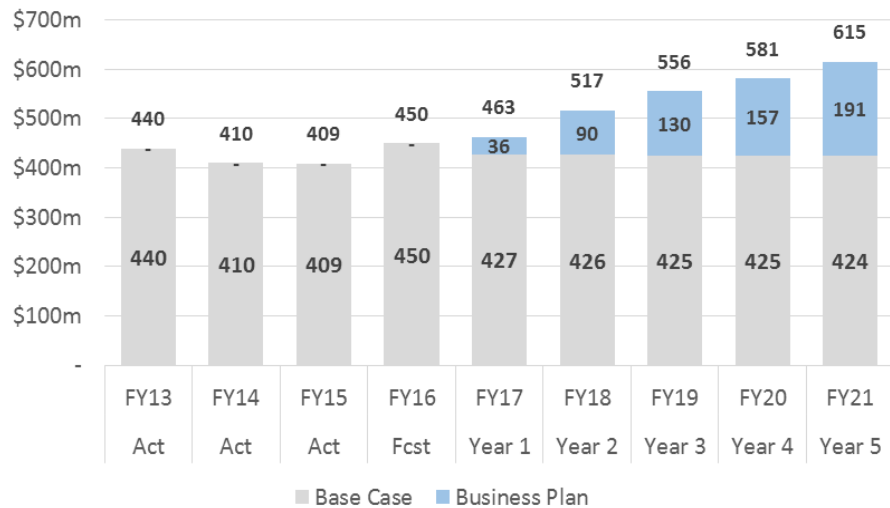
1. Executive Summary

Camelot wants to attract new players to the Arkansas Scholarship Lottery by broadening appeal

- From a player point of view, there are 3 ways to grow sales: a) recruit new players, b) get less frequent players to play more or c) get core players to play even more

- Our philosophy is simple. We believe in getting more people playing a little, rather than a few players playing a lot

- We do this by broadening appeal of the lottery as, "a chance to dream", and add relevance to playing by amplifying the role of the Lottery within state and communities

- The plan that CG recommends to the OAL is to grow sales by recruiting new players, increasing the frequency of less committed players and protecting the play of those who play regularly
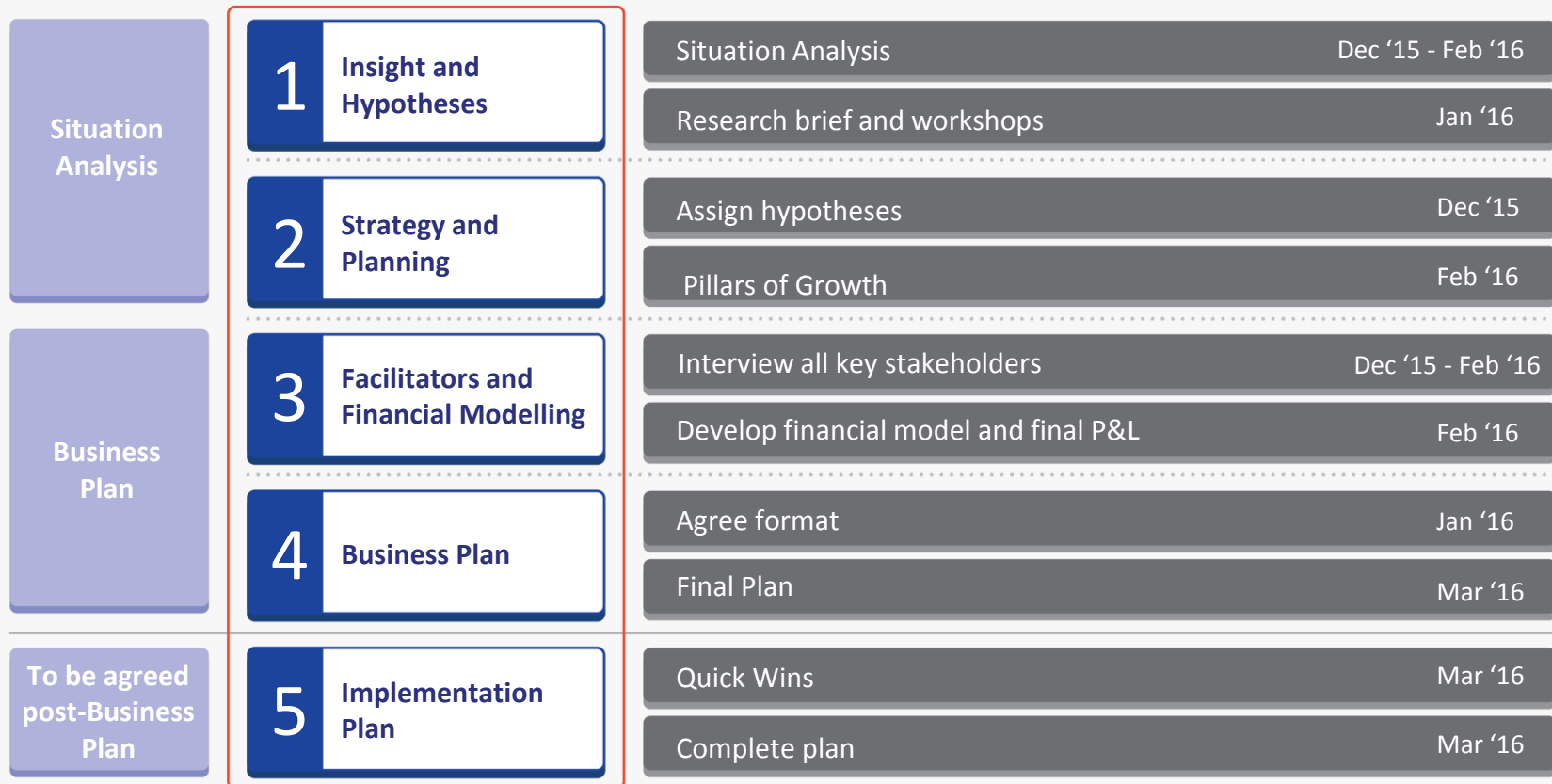
   RECRUIT new players, **NURTURE** less frequent players and **PROTECT** regular players

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2. BACKGROUND

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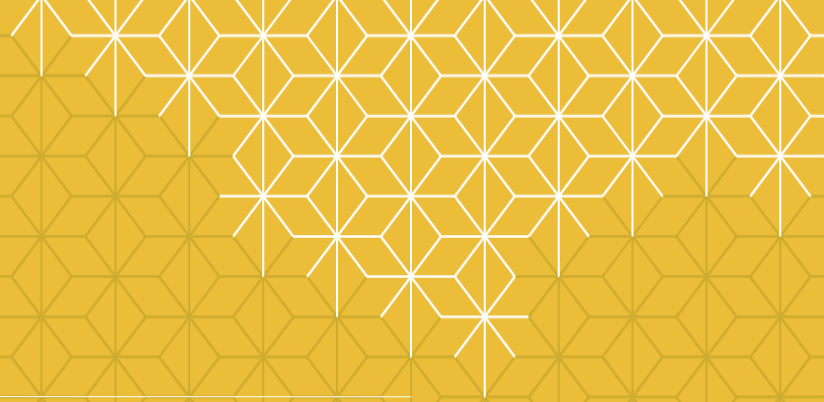
2. Background - Approach

Camelot identified five key phases to deliver the project

Situation Analysis		
	1 Insight and Hypotheses	Situation Analysis — Dec '15 - Feb '16
		Research brief and workshops — Jan '16
	2 Strategy and Planning	Assign hypotheses — Dec '15
		Pillars of Growth — Feb '16

Business Plan		
	3 Facilitators and Financial Modelling	Interview all key stakeholders — Dec '15 - Feb '16
		Develop financial model and final P&L — Feb '16
	4 Business Plan	Agree format — Jan '16
		Final Plan — Mar '16

To be agreed post-Business Plan		
	5 Implementation Plan	Quick Wins — Mar '16
		Complete plan — Mar '16

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2. Background - Business Plan Overview

The Business Plan consists of four main sections:

Situation Analysis

Summarizes the findings from the detailed analysis contained in Appendix A. This extensive piece of work forms the basis of the Business Plan

Mission, Vision, Key Strategies

This section contains a simplified Mission and Vision, taking the essence from the OAL's Comprehensive Business Plan. The key strategies set the direction and overall ambition for the Lottery

Business Plan

The Business Plan contains the actionable near-term recommendations for the each of the key strategies, linking back to the situation analysis, and longer term considerations

Financial Plan

The Financial Plan provides full P&L details of the five-year plan, with two scenarios:
- A counterfactual "base case" scenario
- A scenario containing the recommendations from the business plan

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2. Situation Analysis - Executive Summary

Overall

- Arkansas Scholarship Lottery (ASL) has benefitted from more positive news over the past twelve months

- There has been credible coverage of Scholarships, with more beneficiary understanding and better press

- This coincides with new reporting lines to DFA, improving lottery sales, as well as the ASL University Partnership program

- Sales had been on a downward trajectory to FY15, however base sales are improving and the recent record-breaking Powerball roll-series will both have a positive impact on sales

- Scholarship funding in FY16 will increase to $85m in FY16 (+$12m vs FY15), but this is an exceptional year due to Powerball

- FY17 sales and returns to Scholarships will be harder to achieve given the exceptional roll-series. OAL is minded of this fact, and it also makes the approval and implementation of the 5 year business plan so critical for maintaining sales growth

- The Lottery must make, and have permission to make, every month a 'Powerball record-breaking' month. To get new players playing and increase the times that infrequent players play – the Lottery needs to be able to react as a consumer goods business would

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2. Situation Analysis - Executive Summary

Macro

- Arkansas's population is 3 million. It is diverse in terms of its wealth, ethnicity, religion and geographical concentration

- 75 counties. Four large population centres: Little Rock – 196k; Fort Smith 87k; Fayetteville - 77k; Spingdale – 73k

- Faith is a significant motivator. High weekly affiliation. 45% weekly church attendance. Different denominations too

- Regional / economic disparity. Median income in Saline county is $56k versus Lee county $25k

- Employment rates differ. Benton, Conway Faulkner counties relatively high. Approx. 60%. Compared with places like Monroe, Lincoln, Lee counties (approx. mid 30%)

- The Lottery operates in an increasingly competitive gaming environment, which places pressure on consumer discretionary expenditure – so focusing on brand relevance and player need states is important

- Stakeholder support for the Lottery is essential to help create positivity around the lottery. Momentum is building behind the brand (with sales growth) but aligned stakeholders behind the Lottery and its business plan will be critical to its success

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2. Situation Analysis - Executive Summary

Instants

- Sales moved into growth during FY15 following two years of decline. Growth has continued in FY16, driven by higher price-point ($5+) games - which dominate the sales mix

- The portfolio of games offered are good industry standard and design attributes are good

- There is an opportunity to optimize prize structures for games. Win frequency is an essential ingredient for retaining existing players and encouraging category reappraisal

- There are too many games in market for retailers to manage. Range confusion is a big barrier to play. Slower selling games are stopping higher selling games to enter the market

- Retailers typically stock the same range of price-points regardless of how much / how quickly they are selling each game – so a range management program should be considered (focusing on rate of sale) – if not the issue of misalignment between sales throughput and dispenser bins, will continue

- There is a disproportionate distribution of Instant vending sales; approx. 50% of vending machines generated 9.9% of total vending sales in FY15. A distribution review needs to be considered

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2. Situation Analysis - Executive Summary

Draw Games

- Consumers find the Draw Games portfolio complicated. They are unclear on the range, how to play, and the benefits of playing. Establishing a clearly define Brand Architecture around game attributes is an opportunity

- Draw Games sales have been in decline for the past 2 years as a result of declining Multi-State jackpot games, which had a low number of rollovers / large jackpots in this period

- Powerball changes this in FY16 and an exceptional roll-series has arrested the decline, however rollovers cannot be guaranteed in any given year

- The percentage of Power Play and Megaplier sales In-State, as a proportion of total game sales, is high, albeit from a low base of players. This indicates there may be an opportunity to grow main game sales further (especially as per capita spend on games are low)

- There has been approx. 40% growth of In-State games between FY13-FY15. This has largely been driven by Progressive Fast Play Jackpot and Natural State Jackpot (NSJ) games

- The NSJ game offers jackpots which start at $25k. At lower level jackpots on this game, Fast Play and Instant games present better chances to win exciting comparable jackpot prizes

- Lucky for Life has low consumer awareness, albeit a potentially compelling proposition. It lacks new news to excite the consumer. There is an opportunity to recruit more players to the Cash games category

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2. Situation Analysis - Executive Summary

Retail

- The retail estate is imbalanced in terms of sector composition. For example, the Lottery is heavily reliant on C-Store and Gas retailers, which together comprises approximately 75% of the estate

- A uniform approach is applied to all retailers – meaning higher performing retailers are not being maximized for their potential (and the reverse is true)

- The Lottery does not currently have a consistent retailer-recognized set of standards, which rewards retailers who adopt best practices

- The number of lottery stores in Arkansas is below the US average on a per capita basis. There are counties / areas across Arkansas where terminal demand appears under-served on a population to terminals basis, e.g. Saline, Hot Springs and Craighead

- There are independent stores and chain retailers who currently either do not sell lottery, or do not have terminals in all their stores . There is an opportunity to roll-out 500 terminals under the Intralot contract

- New initiatives, such as pay at the pump (in some gas stations) along with the trend for using cashless payments, is changing the retail landscape

- Large chain stores expect a dedicated contact / Account Manager from their suppliers but OAL is currently unable to fulfil this role because of resource / budget restrictions

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2. Situation Analysis - Executive Summary

Marketing

- The beneficiary campaign creates a compelling link to Scholarships. Strong communication forges tangible connections to the lottery and gives it a powerful reason for being

- There is no clearly defined brand architecture that differentiates game propositions

- There has been step-change in Marketing since 2015, coinciding with the new advertising and media agency Mangan Holcomb Partners (MHP). More compelling advertising and innovative media buying has come as a result

- TV commercials are engaging, however execution lacks sales conversion / call to action. The effectiveness of the advertising in stimulating consumer behavioral change is unknown

- Out-of-home advertising (OOH) and website jackpot messaging is current but functional

- The look and feel of Lottery Point of Sale (POS) varies in retail. Lots of information which undermines comprehension and reduces impulse purchasing

- $5m marketing budget is limiting and there is no econometric model in place to drive marketing effectiveness

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2. Situation Analysis - Executive Summary

Public Relations

- The corporate media landscape is dominated by monthly sales figures and information gained from the monthly Lottery Oversight Committee meeting. This coverage is generally balanced but lacks proactive input

- Winner's stories are picked up but lack the feel good element

- Big Multi-State Jackpot games capture media attention but their dominance overshadows other Draw Games, which lack media visibility

- The profile of Arkansas Academic Challenge Scholarships is well referenced in the media but the Lottery would benefit further from stronger linkage

The Club

- The Club provides a number of rewards for consumers who enter non-winning Instant or Draw Games

- ASL has positively evolved the Club offer. While players in the Club see its value, it's the heavier spending players that are currently benefiting most. The challenge is to widen overall participation by attracting new members and reactivating / engaging those who have lapsed

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2. Background - PEST Summary

Political support of the Lottery, in combination with an improving economy, will provide a key platform for OAL to grow game participation and increase Scholarship funding

Political	Economic
• Federal government more active in reviewing gaming legislation • Conservative state, part of the "Bible-belt" therefore attitudes to gaming are polarized • Sensitivity on lottery play amongst lower income groups • Race tracks established heritage; politically influential	• US economy improving. More available discretionary spend. OAL to benefit from more favorable economic environment • Administration projecting $172m (+2.7%) growth in total general-revenue tax collections in FY16, to $6.58 billion in FY17. Forecast suggests faith in state's economic strength / future outlook • AR is a poor state with high levels of regional inequality • Scholarship / education funding is important in a state that has suffered from low educational attainment

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2. Background - PEST Summary

The rise of e-commerce and "connected societies" means consumers expect more from the organizations and brands they interact with. The Lottery must prepare to adapt in order to meet consumer expectations

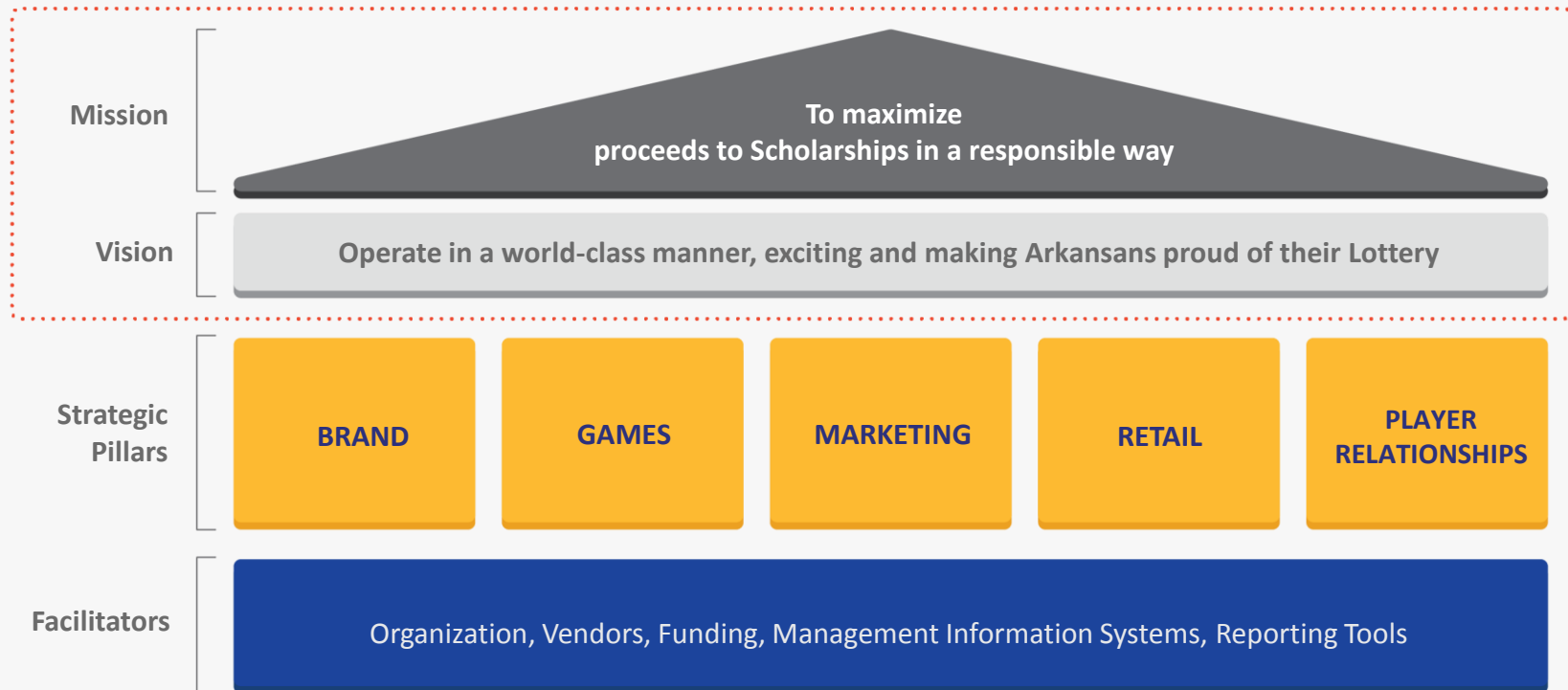| Social	Technological
• Media, social media platforms changing the way consumers interact and view content. This is driven by "millennials" - an important demographic for future lottery play	• E-Commerce and mobile usage is significant in the US and growing. Consumers expect a seamless experience across digital and retail
• Gaming competition (illegal sports betting; Fantasy Sports; and neighboring casinos) places pressure on available discretionary spend. Likely tribal casino (near LR airport)	• US cashless payments growing
	• OAL has some digital engagement
• Racinos increasing number of gaming machines; strong suite of table games. Gaming available via mobile phones	• Arkansas has low broadband penetration but smartphone penetration is higher than US average
• Faith is a significant motivator. Considerable regional variation in ethnicity and economic prosperity. Educational attainment is low	• 4G access is also universal (99%) due to investment by Verizon
• Sport is an important area of common ground (the Razorbacks)	• Cyber-security is a concern for lotteries (and players)

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2. Background - SWOT

Strengths	Weaknesses
• Strong recognition of Scholarships with consumers • Dedicated, knowledgeable staff and work ethic • Collaborative departmental integration. e.g. Sales, Gaming, Product, Marketing and Retail (particularly) • Tel-Sell and MSRs have strong relationship with retailers • Lottery's 2009 launch means it is more relevant to Millennial generation than other US lotteries	• Brand lacks universal appeal • Unclear brand architecture • Support of the Lottery undermined by its turbulent launch / history • Low win belief • Heavy skew towards Instant games and low Draw Game per capita sales • Low player participation and play frequency • Heavy workload and high reliance on key suppliers • Under-resourced in key areas
Opportunities	**Threats**
• Leveraging player relationships • Becoming strategically focused, "consumer first" organization • Game dev. program to clearly define market propositions • Improved in-store execution and increased number of outlets • Increasing Player Club participation • Proactive PR program • Evolving the Lottery's digital journey, e.g. cashless payment	• Increasing competition from racinos and possible casino in Little Rock • Illegal sports betting and the rise of Fantasy Sports • Political and media opposition to OAL • Falling levels of player engagement with the Lottery • Lottery not being able to adapt to changing consumer behaviors

3. MISSION, VISION AND KEY STRATEGIES

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3. Mission and Vision

The Mission and Vision must guide the principles of the Lottery, with the five strategic pillars supported by a set of Facilitators

Mission	To maximize proceeds to Scholarships in a responsible way
Vision	Operate in a world-class manner, exciting and making Arkansans proud of their Lottery

Strategic Pillars

BRAND	GAMES	MARKETING	RETAIL	PLAYER RELATIONSHIPS

Facilitators

Organization, Vendors, Funding, Management Information Systems, Reporting Tools
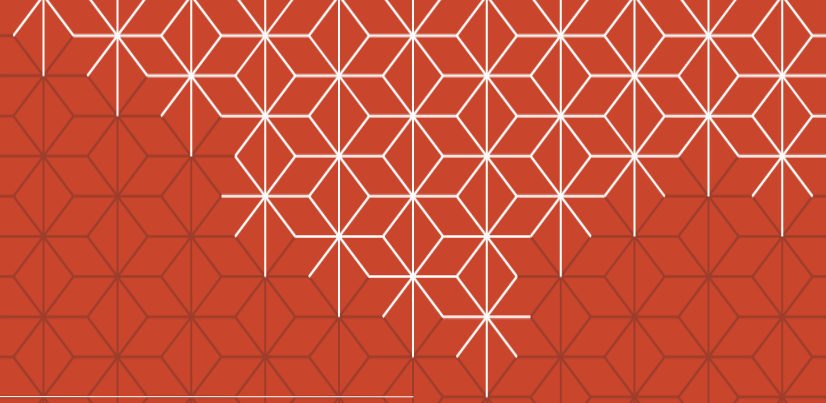
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3. Key Strategies

The purpose of the Business Plan is to deliver responsible, sustainable growth in proceeds for Scholarships. To achieve this, five key Strategic Pillars have been identified which are underpinned by Facilitators

Mission	**To maximize proceeds to Scholarships in a responsible way**
Vision	**Operate in a world-class manner, exciting and making Arkansans proud of their Lottery**

Strategic Pillars

BRAND	GAMES	MARKETING	RETAIL	PLAYER RELATIONSHIPS
Build a brand with universal appeal for Arkansas consumers and stakeholders	Deliver Games which are clearly defined, with exciting propositions	Provide compelling reasons to play	Focus on better access, category presentation and make play easier (convenient)	Understand and then build engaging relationships with players

Facilitators

FACILITATORS

Shape a high performance, future proofed, consumer focused organization - aligned to the core Mission

4. BUSINESS PLAN

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4. Key Strategies

1) BRAND

Build a brand with universal appeal for all consumers and stakeholders

- Increase player participation via brand reappraisal (with associated KPIs)
- Strengthen brand link to Scholarships to reinforce reasons to play and maximize current exposure
- Win belief – introduce a consistent winner awareness program to increase win belief and give less frequent players more reasons to play
- Introduce stakeholder management program to widen brand appeal to Arkansans
- These strategies will be delivered via the following 3 activities – parent brand program (the ASL brand/imagery), brand promotion (promotion of reason for being) and brand value (instilling win belief)

2) GAMES

Deliver Games which are clearly defined, with exciting propositions

- Deploy family of core Instant games to deliver sustained sales
- Instants: prize maximization program, game development program to ensure fastest selling games available and product design (Inc. range review to address confusion)
- Rationalize dispenser allocation
- Range - aspiration for more distinct, bigger, better games (Instants and Draw Games)
- Optimize and then extend core Draw Games, then focus on new product innovation
- Develop brand architecture to clearly define game propositions

3) MARKETING

Provide compelling reasons to play

- Maximize consumer awareness, comprehension and appeal
- Ensure marketing plans are integrated through the line and consistent across all player touch-points
- Optimize budget, media mix and creative effectiveness establishing consumer goods best practice
- Support brand and channel requirements to broaden participation and increase frequency of play (and repertoire) of less committed players

| Facilitators | (See the following page) |

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4. Key Strategies

4) RETAIL
Focus on better access, category presentation and make play easier (convenient)

- Introduce a new retail strategy, planning and execution principles to channel
- Strategy: Supporting marketing plan, develop value of lottery story, future-proof channel for consumer/retail changes and introduce key account function
- Planning: Develop sales teams objectives, optimize retailer estate and devise requirements for new and existing in-store POS / Equipment
- Execution: Perfect in-store execution, align retail agent support and standards

5) PLAYER RELATIONSHIPS
Understand and then build engaging relationships with players

- Develop richer business and player understanding via insight
- Utilize insight to drive brand, game and channel decision making
- Evolve CRM program across the organization to shift marketing from one-to-many to one-to-one
- Develop a digital program of activities to strengthen player interactions
- Build-out loyalty and retention program that has universal appeal

Facilitators
Shape a high performance, future-proofed, consumer focused organization… aligned to the core Mission
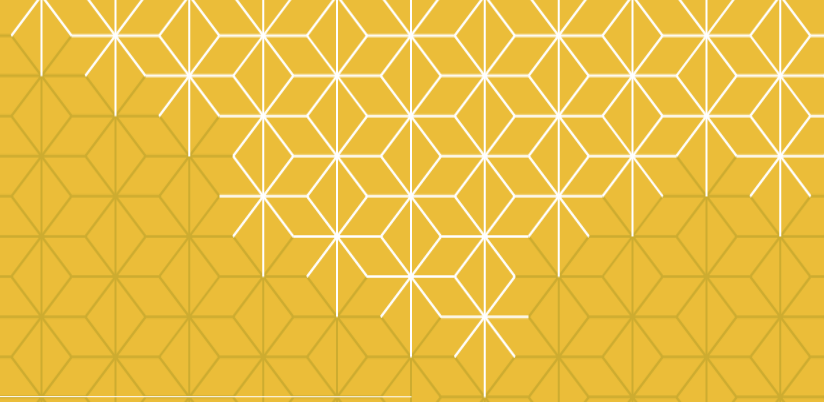
- Align organization to business plan and invest in resources and consumer goods processes/tools
- Leverage and align "key" vendor contracts to support business plan (in areas of expertise)
- Introduce new management information systems and reporting tools
- Agree business case recommendation, format and sign-off with stakeholders

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Arkansas Scholarship Lottery

4. Business Plan – Key Recommendations and Proposed Timeline

Key Initiatives	FY16 Q4	FY17 Q1	Q2	Q3	Q4	FY18 Q1	Q2	Q3	Q4	FY19 H1	H2	FY20 H1	H2	FY21 H1	H2
5.1 BRAND															
Beneficiary Program (enhance)															
Winners Program (define and execute)															
Stakeholder Management & Advocate Program															
Brand Refresh															
5.2 GAME - INSTANTS															
Core game strategy															
Prize maximization program															
Pre-launch game development program															
Game design principles document															
1 in 1 out approach to supply chain															
5.2 GAME - DRAW GAMES															
Establish NPD pipeline															
Renovate the NSJ game															
Renovate Powerball and Mega Millions (est)															
Review "Cash" games															
Introduce new bigger In-State jackpot game															
Launch new In-State Game															
5.3 MARKETING															
Introduce brand architecture															
Introduce insight led advertising															
Introduce econometrics model															
5.4 RETAIL															
Maximize sales from exisiting TVMs															
Key accounts function															
Optimize distribution (est +600 terminals)															
VOL program															
5.5 PLAYER RELATIONSHIPS															
Build Insight capability															
Enhance CRM program															
Enhance Digital program															
Enhance loyalty & retention program															

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4. Facilitators – Overview of Strategy

Mission

To maximize
proceeds to Scholarships in a responsible way

Vision

Operate in a world-class manner, exciting and making Arkansans proud of their lottery

Strategic Pillars

| BRAND | GAMES | MARKETING | RETAIL | PLAYER RELATIONSHIPS |

Facilitators

Facilitators

Facilitators

Shape a high-performance, future-proofed, consumer focused organization… aligned to the core Mission

Four component parts to facilitating the business plan: legislation, investment, vendors and people.

- Align organization to business plan and invest in resources and consumer goods processes/tools
- Leverage and align 'key' vendor contracts to support the business plan (in areas of expertise)
- Recommend new ways of working
- Agree reporting and business case template for any approvals (internal)

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4. Facilitators

In conjunction with the five pillars, the Business Plan details a number of facilitating activities

- Four factors will impact the success of the Business Plan:

- **Governance** – Work with current Governance Processes and Practices to deliver Business Plan

- **Investment** – the business plan outlines additional budget recommended to increase sales and returns to scholarships (this is covered in Sub-section 6.1)

- **Vendors** – At the request of OAL, and to preserve any strategy and/or competitive advantage exemptions the OAL may enjoy under the law, CG will not outline any requirements or pricing strategies in this document. This will be provided to the OAL as the contract process evolves

- **People** – 2 approaches are outlined in this section:

    1) Insource resources (recruit new roles)
    2) Outsource (short term) resources to vendors. Under its CG is obliged to submit an implementation plan to OAL, no later than 15 days after the submission of the business plan

5. FINANCIAL PLAN

5. Financial Plan - Introduction

Camelot has taken the following approach to developing the financial plan:

- In the first instance a 'base case' has been established without the initiatives included in the Business Plan to provide a counterfactual scenario

- The Business Plan scenario includes the initiatives identified in the plan

- Over the five years to FY21, the Business Plan delivers proceeds to Scholarships of $486m, compared to $369m in the Base Case, an increase of $117m

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5. Financial Plan - Base Case

- Base Case sales reduce from $427m in FY17 to $424m in FY21 (the one-time $22m sales benefit of the exceptional Powerball roll series in FY16 is isolated, giving an underlying sales forecast of $428m for FY16)

- Proceeds to Scholarships in the Base Case fall slightly from $75m in FY17 to $73m in FY21 due to the impact of a) increased Instants sales mix and b) higher price point mix within Instants

- Over the five years to FY21 proceeds to Scholarships total $369m

Base Case Sales ($m)

Base Case - Proceeds to Scholarships ($m)

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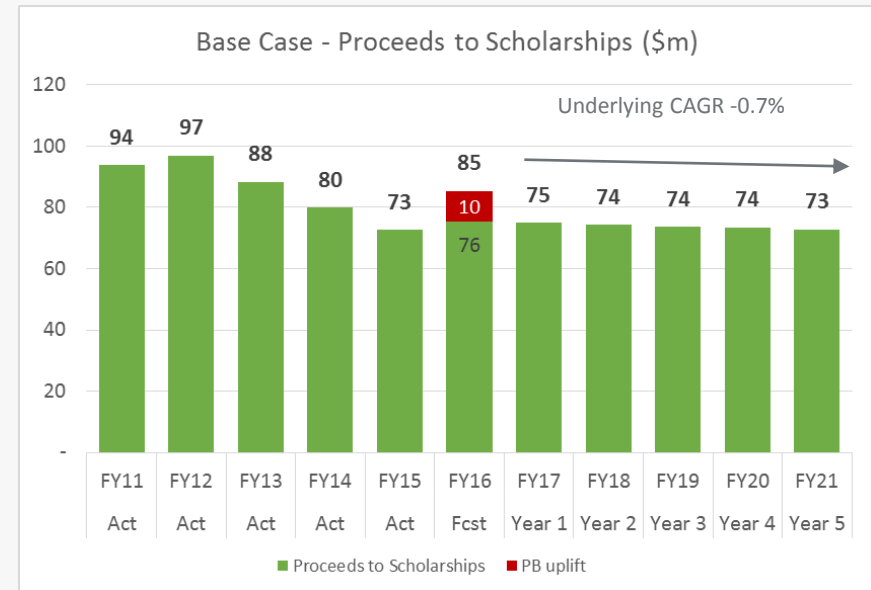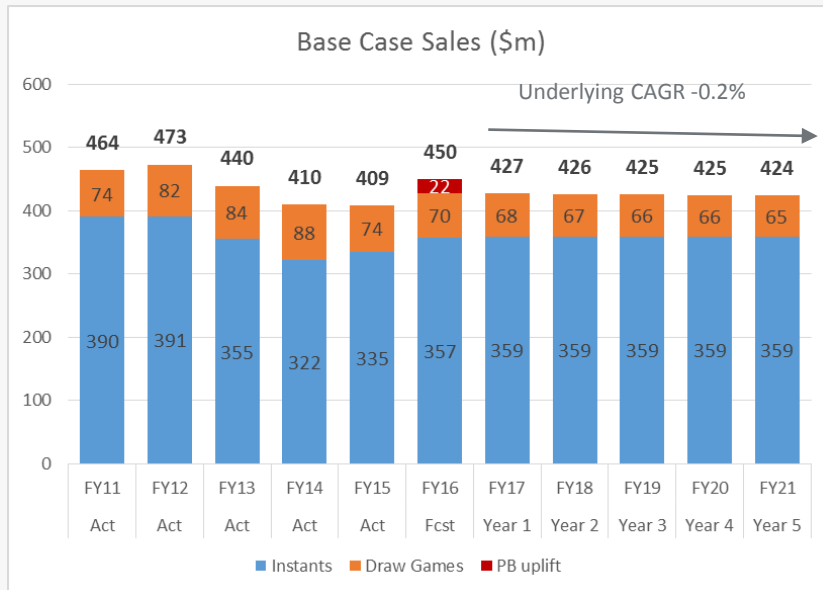
5. Financial Plan - Business Case

- Sales increase from $450m in FY16 to $615m in FY21

- Proceeds to Scholarships increase from $75m in the FY17 Base Case to $109m in FY21

- Over the five years to FY21, proceeds to Scholarships total $486m vs. $369m in the Base Case

Sales - Business Plan vs. Base Case
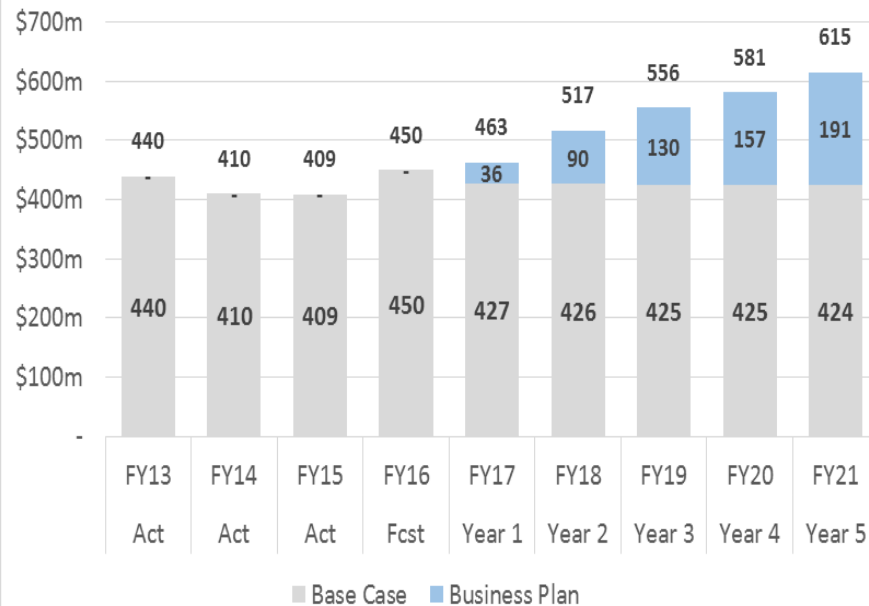
Proceeds to Scholarships - Business Plan vs. Base Case
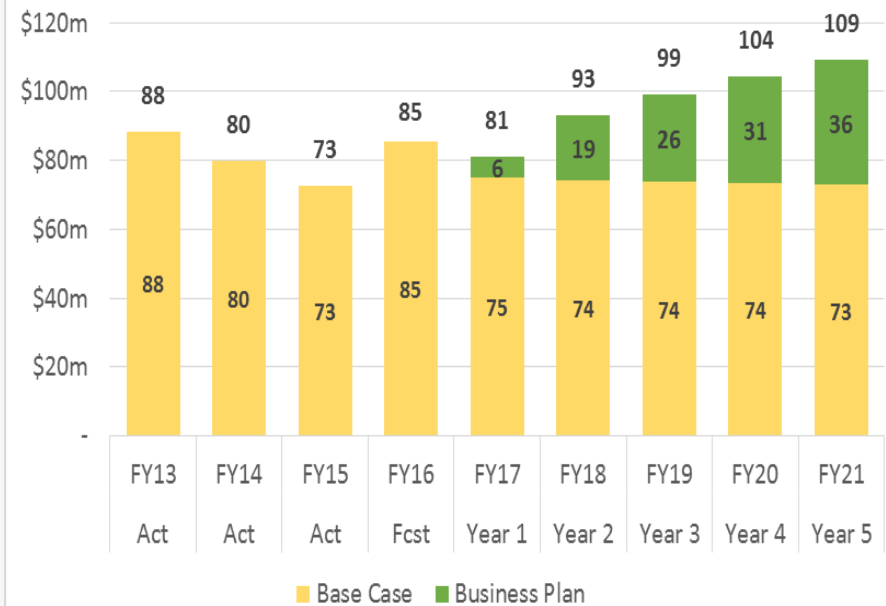
6. SUMMARY & NEXT STEPS
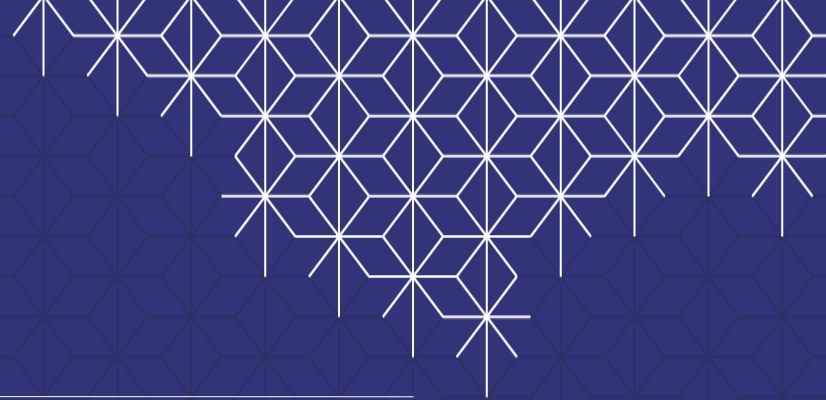
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6. Summary – Meeting RFQ requirements

Camelot is pleased to confirm that it meets all of the requirements of the contract and RFQ and a table has been provided in pages 20-22 of the business plan submission

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6. Summary

- The ambitious Business Plan underpins the Lottery's mission "To maximize proceeds to Scholarships in a responsible way"

- The Plan is to grow sales by recruiting new players and increasing the frequency of less committed players. Growing sales to $615m and Scholarships from $73m in FY15 to $109m in FY21

- The activities span all areas of sales and marketing, and cover Brand, Games, Marketing, Retail and Player Relationships

- There are "addendum activities" such as cashless payment and digital that should be reviewed by the State, however no numbers have been included in the sales forecast

- The Business Plan outlines "What" the Lottery needs to do. The focus now is on the "How", as in how will the recommendations be implemented

- Operational and proven expertise is required to deliver 37% sales growth.