



hoosier lottery™

Indiana Lottery Commission Meeting
September 26, 2012

FY2013 YEAR-TO-DATE FINANCIAL REPORT



State Performance Metrics

Fiscal YTD
As of
8/31/12
Result

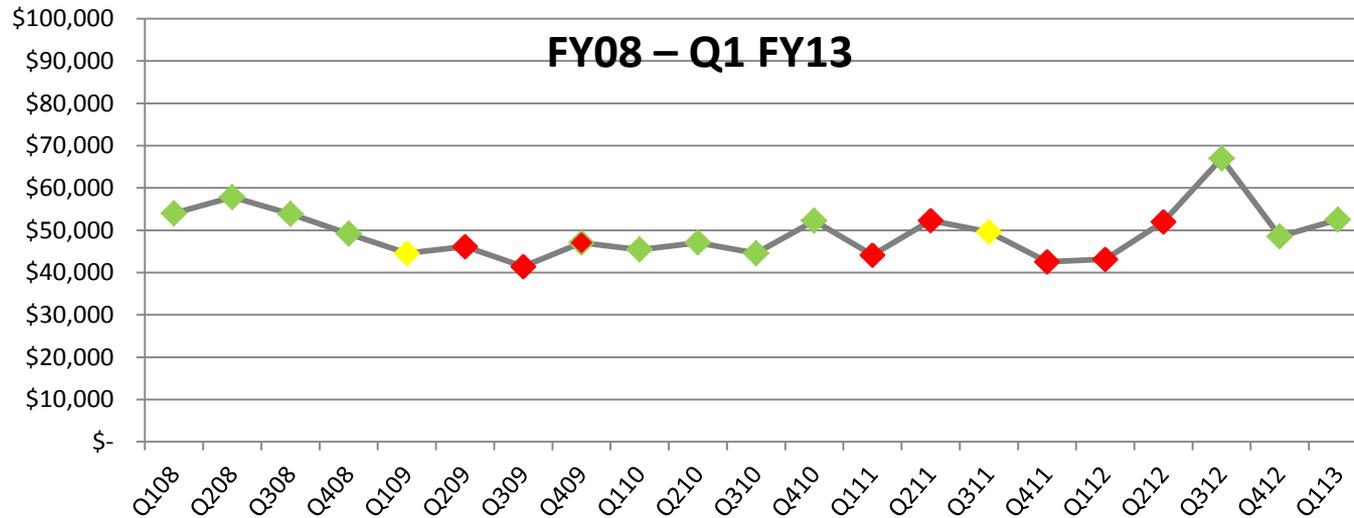
Fiscal year ending
6/30/2013
Target

FY '13 Budget	5% Increase over FY '12 Actual
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Surplus Revenue Paid or Due to the State (000)

\$ 37,915

\$ 35,895 \$ 31,038



Financial Outlook

(In Thousands)

	FY 2013 Forecast as of <u>8/31/2012</u>	FY 2013 Forecast as of <u>7/31/2012</u>	FY 2013 Budget	FY 2012 Actual	FY 2011 Actual	FY 2010 Actual
Revenues	\$ 885,137	\$ 889,811	\$ 893,373	\$ 855,585	\$ 791,446	\$ 740,339
Game Expenses	644,942	650,068	649,472	625,930	582,109	537,588
Net Revenues	240,195	239,743	243,901	229,655	209,337	202,751
General and Administrative Expenses	19,251	18,520	18,375	19,039	17,849	19,285
Operating Profit	220,944	221,223	225,526	210,616	191,488	183,466
Other Income/(Expenses)	231	230	234	222	241	338
Fair Market Value Adjustment	-	-	-	16,549	(3,499)	5,854
Net Income	<u>\$ 221,175</u>	<u>\$ 221,453</u>	<u>\$ 225,760</u>	<u>\$ 227,387</u>	<u>\$ 188,230</u>	<u>\$ 189,658</u>



REPORT – RESOLUTION 12-6



Legislature's Public Policy Intent for the Lottery

IC 4-30-1-1 Purpose

Sec. 1. The purpose of this article is to establish lottery games in Indiana that are the best available and that enable the people of Indiana to benefit from significant additional money for capital improvements.

IC 4-30-1-2 Intent Sec. 2. In construing this article, it is the intent of the general assembly that the following policies be carried out: (1) That the lottery games be operated by the state lottery commission, which is created by IC 4-30-3 as a separate body politic and corporate from state government and should function as much as possible as an entrepreneurial business enterprise.

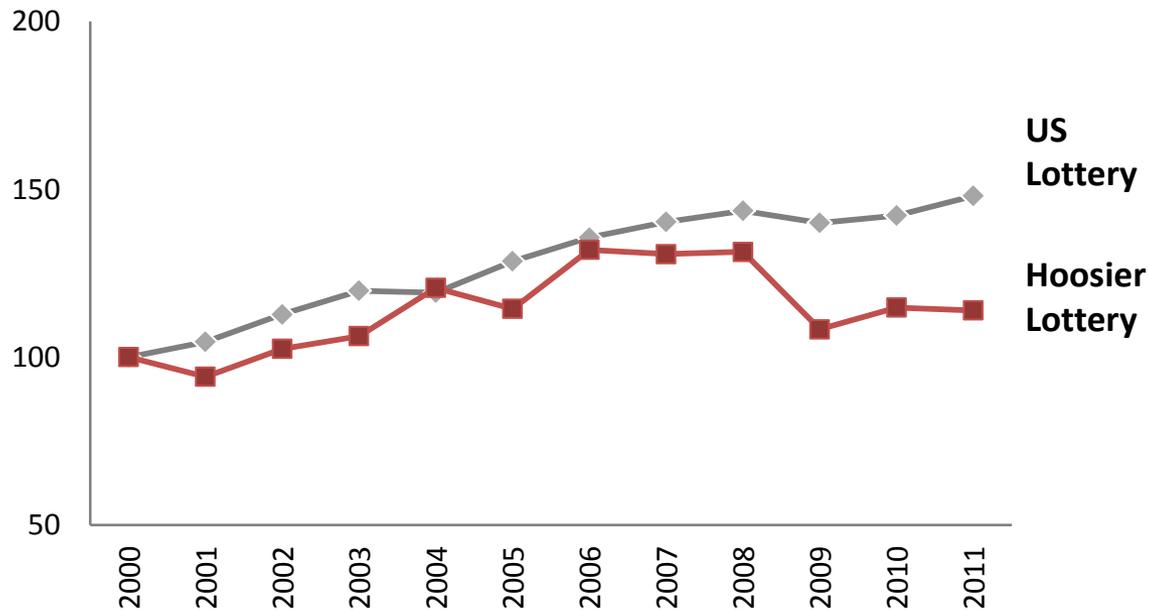
IC 4-30-5-3 - Operation of lottery

Sec. 3. The director shall operate the lottery to maximize revenues in a manner consistent with the dignity of the state and the welfare of its citizens.



Hoosier Lottery Lags US Performance

Net Income – Hoosier Lottery vs. US Lottery Industry¹ 2000-2011 (growth Indexed 2000 = 100)



Hoosier Lottery Performance

- Since 2000, US lotteries have grown at a CAGR of 3.6%, versus the Hoosier Lottery's 1.2%
- HL was among the hardest hit by the economic downturn, **declining 18% between FY08-FY09**
 - U.S. lottery industry experienced -1% growth in the same period, while **comparable states² grew by 2.8%**

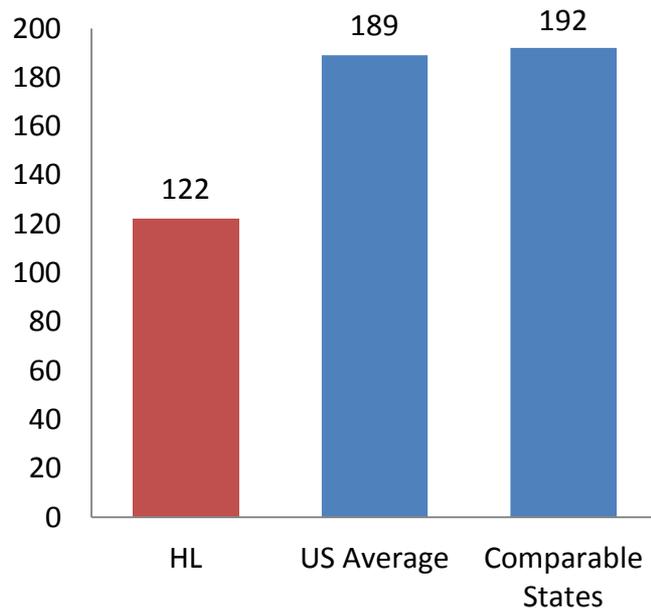
¹ Only lotteries that have been in operations since 1990 were included in the US Lottery calculation

² Comparable states were determined based on comparable HH income per capita and age composition, includes Georgia, Tennessee, North Carolina, Missouri and Kansas

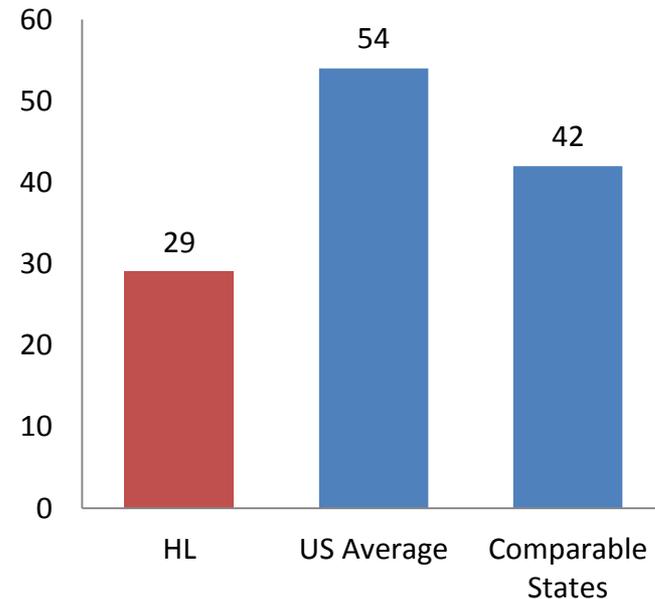


Hoosier Lottery Lags Its Peers

**U.S. Lotteries Per Capita Sales
(Excludes VLT)
FY11**



**U.S. Lotteries Net Income Per Capita
(Excludes VLT)
FY11**



Source: La Fleur's Almanac

1 Comparable states were chosen based on comparable HH income per capita, age composition, population density and gaming environment; includes Georgia, Tennessee, North Carolina, Missouri and Kansas

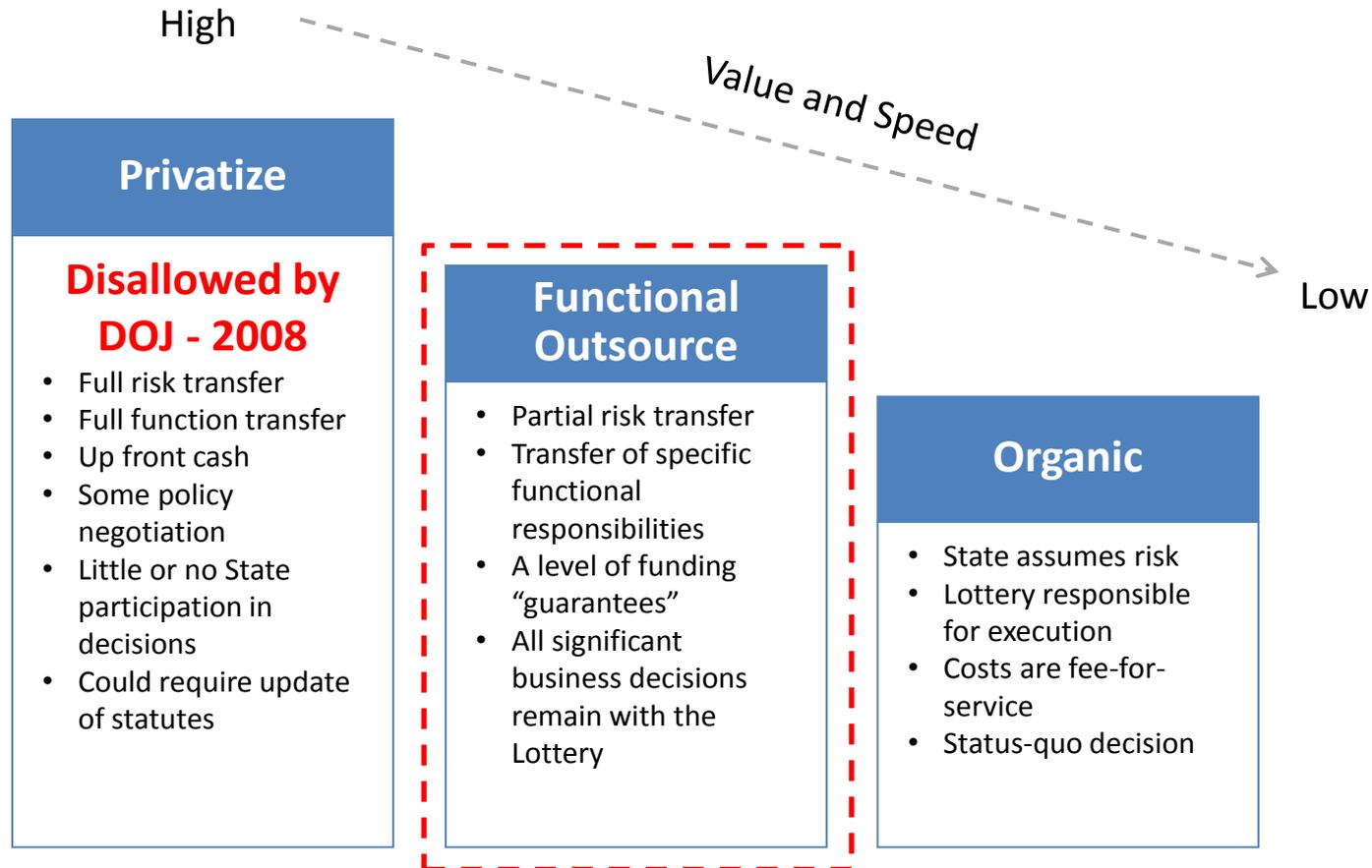


Commission Directive

- On May 16, 2012, the Lottery Commission requested in resolution 12-6 that the Director solicit proposals to determine if a private party could enhance certain aspects of the Lottery and to enable the Commission to make a final determination on whether to enter into an Integrated Services Agreement

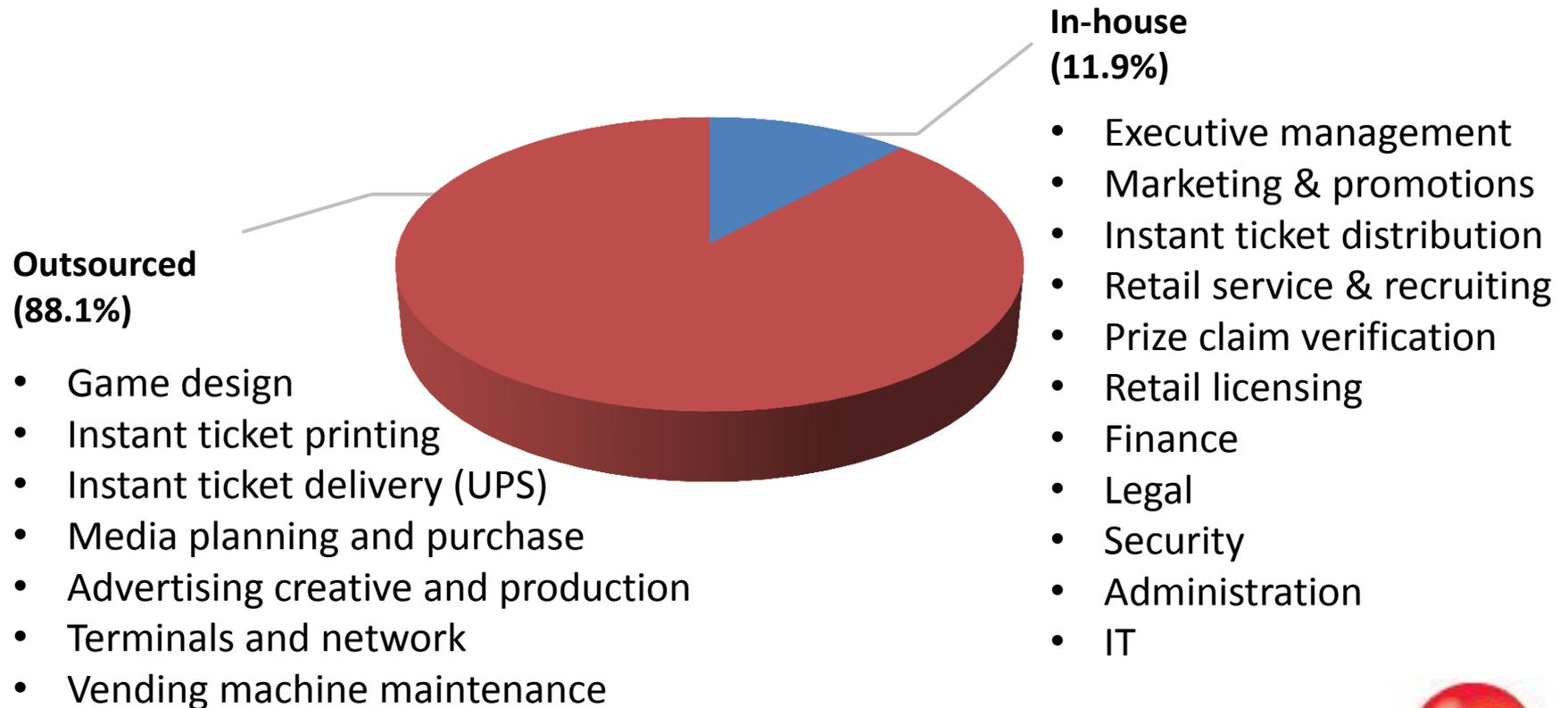


Choices – Highest Value, Fastest Delivery



Today, the Lottery spends 88% of its budget on outsourced services

In-House vs. Outsourced Operations FY13 Budget (% of dollars)



Determining interest and value



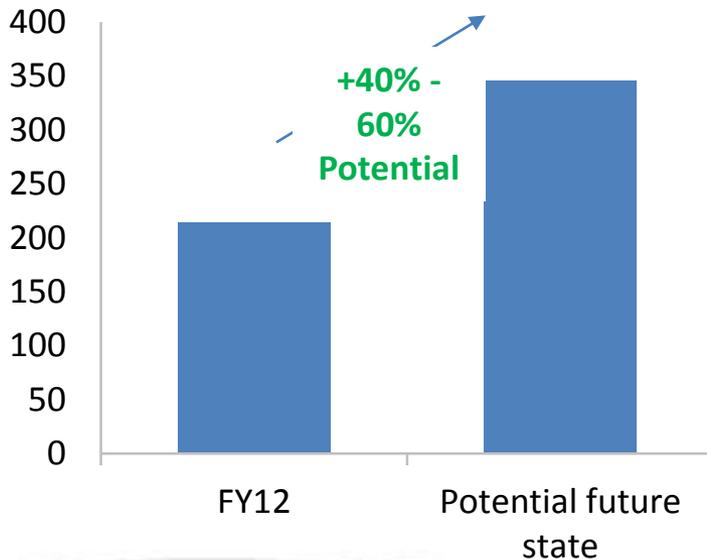
Step 1: Potential

Measure
Opportunity

Is there opportunity for growth?

Potential Income capacity (\$M)

Today vs. potential future 'end-state'¹



If Lottery optimized best-practices:

- Marketing
- Consumer engagement
- Product portfolio
- Sales force effectiveness
- Retail network & distribution

¹ Not adjusted for population growth or inflation



Step 2: Interest

Gauge Market
Interest

Would industry players be interested in the Hoosier Lottery as a business opportunity?

What we learned:

- Strong interest from the market
- Timeline was manageable and desirable
- Elements of the deal structure that would increase the value



Step 3: Structure

Relationship Structure

What relationship structure is simultaneously attractive to prospective responders and is in the best interest of Hoosiers?

Framework:

- Conforms with DOJ opinion on state lottery ownership
- Conforms with Lottery authorizing statute
- Succeeds without expanding gaming
- Balances commercial interests with sound public policy
- Maintains the State's ownership and control



Step 3: Structure

Guiding Principles

Maximizes return to the State

Longer contract term, minimum growth requirements, additional years for success, termination for cause or convenience

Highest Standards

Absolute assurance of the highest sense of business ethics and financial stability

Align vendor and state objectives

Incentives that motivate the Provider to continually increase returns, while protecting the State

Balances Risk / Reward

Entrepreneurial execution, decisions remain with the State Lottery Commission

Cooperative / Collaborative environment

Clarity of roles and minimization of dispute situations

Security for current staff

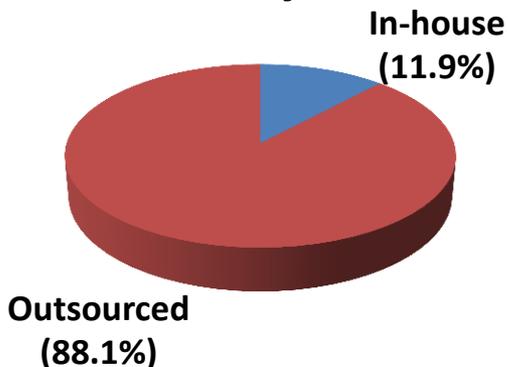
Affected employees offered positions with the Provider at similar terms



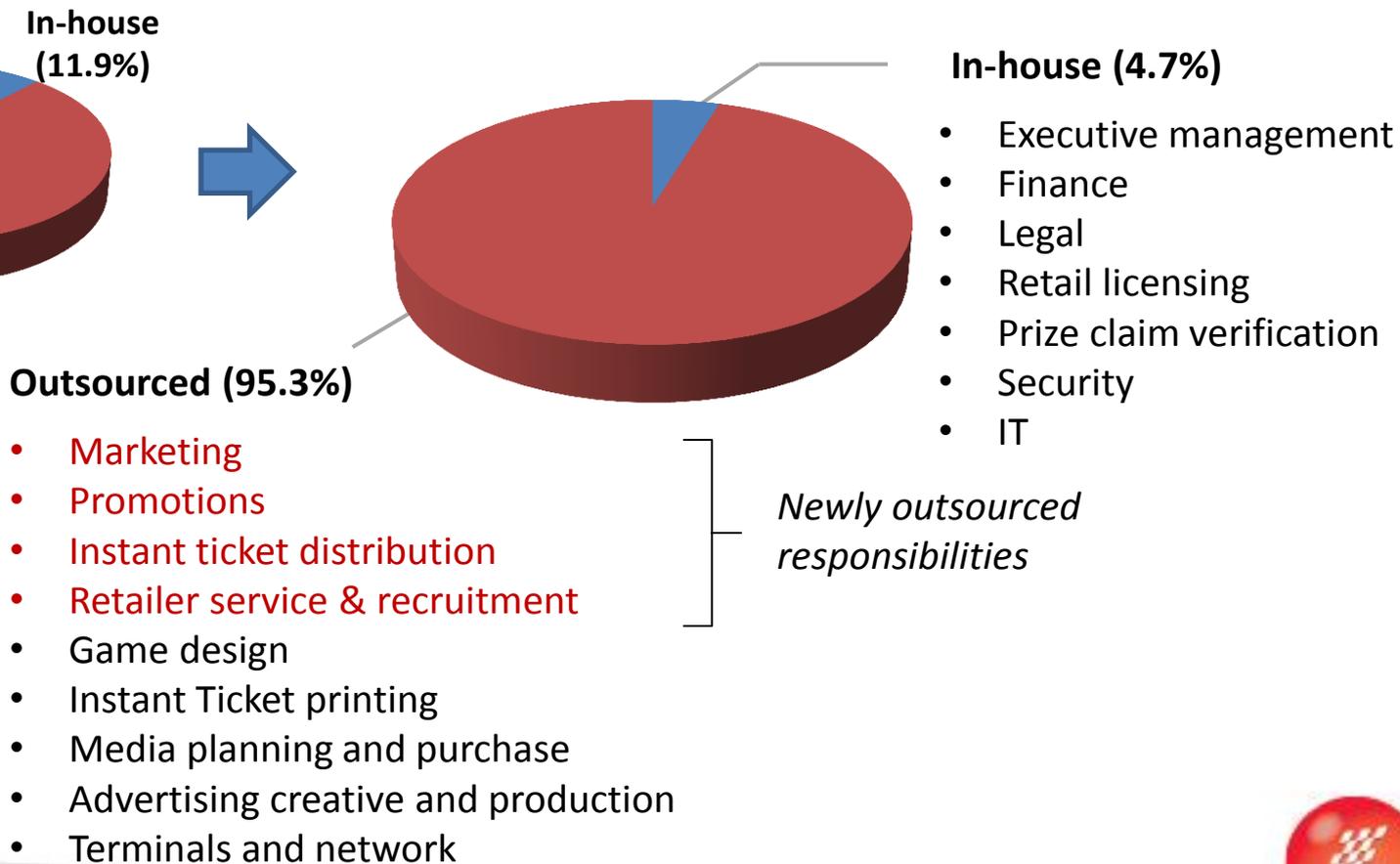
Step 3: Structure

What might further outsourcing look like?

Today

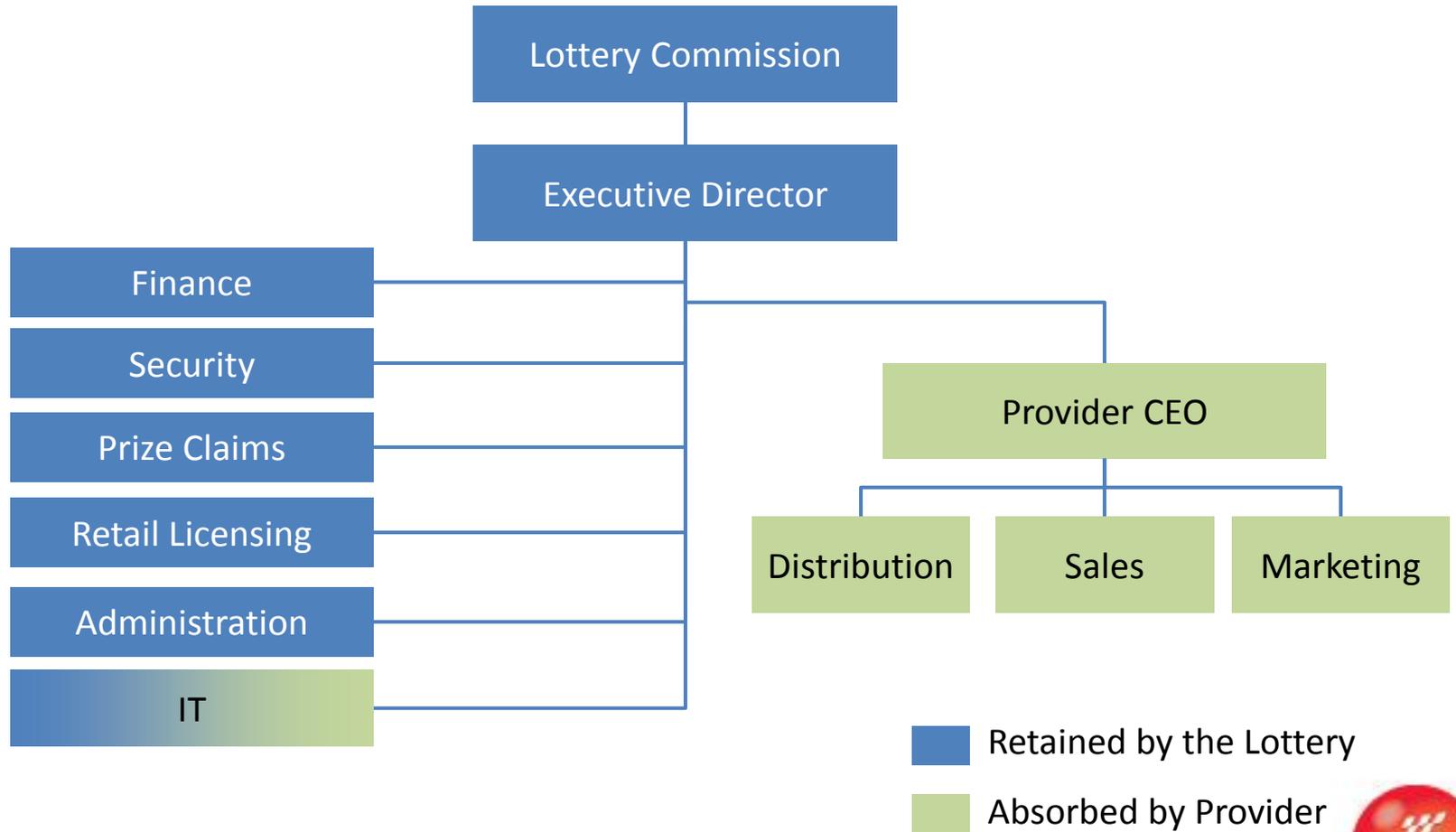


As envisioned



Step 3: Structure

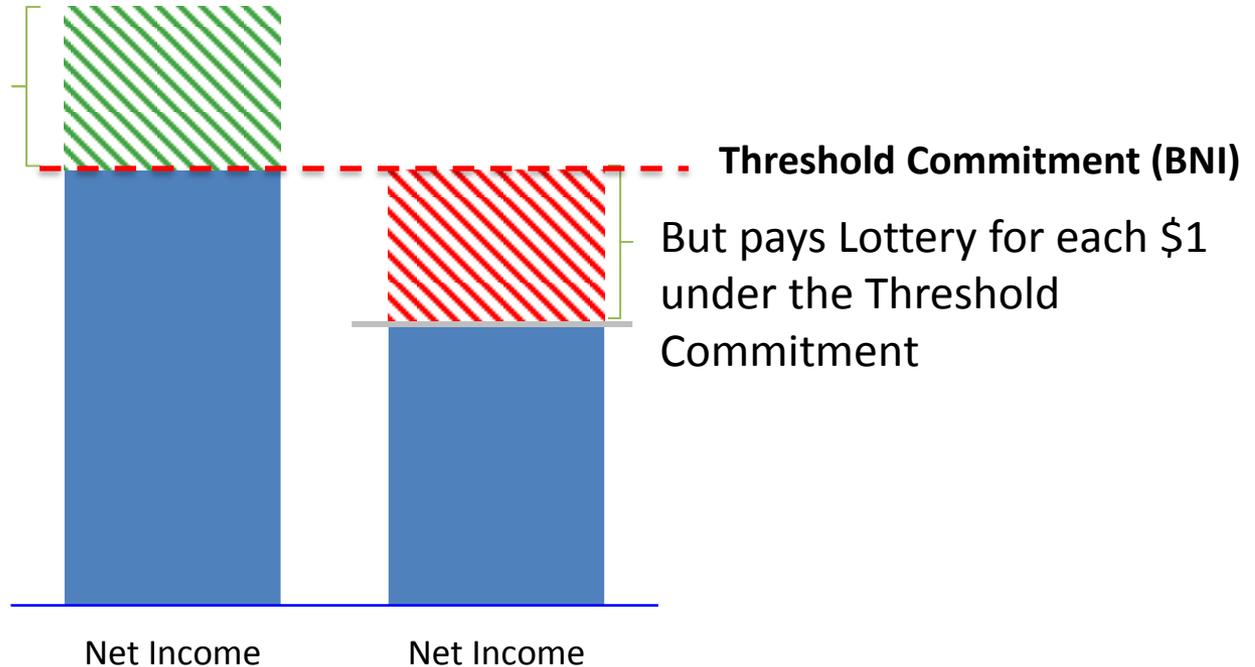
Who makes the decisions?



Step 3: Structure Incentives and security



Provider receives bonus for each \$1 over Threshold Commitment



Step 4: Business Plan

Issue Formal
Request for
Information

Prospective Bidders were asked to present a detailed business plan with their ideas of how they will improve lottery performance.

What we asked for:

- Activities & initiatives to broaden the player base
- Experience managing outsourced functions
- Detailed financial projections – very specific for 1st 5 years
- Approach to responsible gaming
- Plan for monitoring the Hoosier Lottery brand
- Support for supplier diversity



Step 5: Due Diligence



Evaluate Responses

A 5-member Selection Team evaluated proposals and met with prospective responders to ask clarifying questions

What we are looking for:

- The strongest business case for an ability to grow the Lottery responsibly and a significant commitment of new sales
- Sufficient detail to support and defend the plan
- Credibility in explaining “how” and “why”
- Commitment to a good working relationship with the Lottery in upholding the integrity of the games and the brand
- Commitment to social responsibility



Step 5: Due Diligence

Robust Evaluation Criteria

Ethics & Financial Viability

- Background & reputation
- Financial resources

Bid Commitment

- Bid Net Income Years 1-5

Business Plan

- Business Plan Strategy
- Credibility of Business Plan Activities & Initiatives
 - Marketing
 - Brand Management
 - Customer Engagement
 - Product Development
 - Sales Effectiveness
 - Retail Distribution
- Experience
- Financial Plan
- Resource Plan
- Transition Planning
- Ramp Up Plan
- Disentanglement
- Compliance
- Brand Integrity
- Responsible Gaming
- Supplier Diversity
- References





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