



BC Lottery Corporation

**2020/21– 2022/23
SERVICE PLAN**

February 2020



For more information on the British Columbia Lottery Corporation (BCLC) contact:

74 West Seymour Street, Kamloops, B.C. V2C 1E2

T: 250-828-5500

consumerservices@bclc.com

Or visit our website at

www.bclc.com

Board Chair Accountability Statement



The 2020/21 – 2022/23 BCLC Service Plan was prepared under the Board's direction in accordance with the *Budget Transparency and Accountability Act*. The plan is consistent with government's strategic priorities and fiscal plan. The Board is accountable for the contents of the plan, including what has been included in the plan and how it has been reported. The Board is responsible for the validity and reliability of the information included in the plan.

All significant assumptions, policy decisions, events and identified risks, as of February 5, 2020, have been considered in preparing the plan. The performance measures presented are consistent with the *Budget Transparency and Accountability Act*, BCLC's mandate and goals, and focus on aspects critical to the organization's performance. The targets in this plan have been determined based on an assessment of BCLC's operating environment, forecast conditions, risk assessment and past performance.

Peter Kappel
Board Chair

Table of Contents

Board Chair Accountability Statement	3
Strategic Direction and Alignment with Government Priorities.....	5
Operating Environment.....	5
Performance Plan	8
Financial Plan.....	16
Summary Financial Outlook	16
Key Forecast Assumptions, Risks and Sensitivities	16
Sensitivity Analysis	18
Management's Perspective on the Financial Outlook	18
Major Capital Projects	19
Significant IT Projects	19
Appendix A: Hyperlinks to Additional Information.....	20
Corporate Governance	20
Organizational Overview	20
Appendix B: Subsidiaries and Operating Segments	21

Strategic Direction and Alignment with Government Priorities

The Government of British Columbia remains focused on its three strategic priorities: making life more affordable, delivering better services, and investing in a sustainable economy. Crowns are essential to achieving these priorities by providing quality, cost-effective services to British Columbia families and businesses.

Additionally, where appropriate, the operations of Crowns will contribute to:

- The objectives outlined in the government's newly released A Framework for Improving British Columbians' Standard of Living,
- Implementation of the *Declaration on the Rights of Indigenous Peoples Act* and the Truth and Reconciliation Commission Calls to Action, demonstrating support for true and lasting reconciliation, and
- Putting B.C. on the path to a cleaner, better future – with a low carbon economy that creates opportunities while protecting our clean air, land and water as described in the CleanBC plan.

By adopting the Gender-Based Analysis Plus (GBA+) lens to budgeting and policy development, Crowns will ensure that equity is reflected in their budgets, policies and programs.

As a Crown corporation, British Columbia Lottery Corporation (BCLC) is responsible for the conduct and management of commercial gambling on behalf of the Government of British Columbia, including lottery, casino, bingo and online gambling. The net income BCLC generates is delivered to the Province to fund health care, education and important services and programs across B.C.

BCLC is focused on delivering its strategic priorities, as established by Government and as outlined in the BCLC 2020/2021 [Mandate Letter](#). These instructions form part of BCLC's strategic context, and along with economic and market trends, inform the business choices it makes and ensure the business interest is being served.

BCLC is aligned with the Government's key priorities:

Government Priorities	BCLC Aligns with These Priorities By:
Delivering the services people count on	<ul style="list-style-type: none">• No one is harmed from gambling offered by BCLC (Goal 1)
A strong, sustainable economy	<ul style="list-style-type: none">• Our business does not create opportunities for criminal activity (Goal 2)• BCLC delivers our promised financial return to the Province of B.C. (Goal 4)

Operating Environment

BCLC offers gambling entertainment products across the Province through brick-and-mortar facilities and online, including mobile applications. BCLC relies on service providers and retailers to deliver its products in brick-and-mortar facilities while it delivers directly online and mobile offerings through

PlayNow.com.

BCLC's vision is "We deliver exceptional gambling entertainment". While BCLC is the only organization legally permitted to manage and conduct commercial gambling in British Columbia, it competes with casinos nearby across the border with the United States, borderless online sites and with many other entertainment options vying for consumers' discretionary dollars.

Player Experience

BCLC operates in a crowded entertainment market¹; competing for players' time and spend on entertainment options such as movies, concerts and in-home entertainment experiences. People are increasingly seeking immersive entertainment experiences and their expectations are set by their last, best experience.

BCLC customer research shows that customer perceptions of experience are based upon a mix of the product experience and the purchase experience. Research by BCLC has also highlighted that the purchase experience has a greater impact on overall customer satisfaction than the product itself.²

Mobile devices have fundamentally changed how people interact with each other and businesses and companies are converging the retail and digital experiences for their customers. They are moving away from simply offering a website which is disconnected from the rest of the business to integrating the experiences as customers move between distribution channels.

BCLC is expanding its focus beyond products and distribution to focus on player experience and seeking opportunities to offer omnichannel experiences and products (i.e. offering similar products and/or experiences across distribution channels). Player health is a key component of the player experience and BCLC will continue to integrate player health into decisions regarding both its products and how they are delivered.

Anti-Money Laundering (AML)

The Government of B.C. has completed three independent reviews into money laundering in the province's economy; including Dr. Peter German's independent review of B.C.'s anti-money laundering policies and practices in Lower Mainland casinos ([German Report](#)). BCLC has a steadfast commitment to combatting the risk of money laundering in its business and is working with government and regulators to respond to the recommendations in Dr. German's report. A number of recommendations have already been addressed. Notably, in 2018, BCLC implemented Dr. German's interim recommendation requiring bank-level proof for cash buy-ins of \$10,000 or more in a 24-hour period. This has resulted in changes in player behaviour including a reduction in unsourced cash and is one factor that has led to a decline in BCLC's table game business. BCLC continues to monitor this impact. BCLC continues to implement further audit reviews, staff education and changing business practices to address the risk of money laundering in its business.

¹ The Kantar Group. (2018). *Needstates Index (commissioned by BCLC)*.

² IPSOS. (2018). *Player Experience Index (commissioned by BCLC)*.

In May 2019, Government announced the Commission of Inquiry into Money Laundering in British Columbia. BCLC has been granted standing as a participant with relation to the gambling and horse racing sections and not the full scope of the inquiry. The hearings are scheduled to commence in February 2020 and conclude at the end of 2020. The inquiry encompasses a variety of other matters including the real estate market and other sectors of the economy. The Commission is expected to deliver its final report by May 2021.

Social Purpose Expectations

People are expecting more from businesses. They are expected to be leaders in social change; supporting not only their employees but the communities in which they operate.³

In today's hyperconnected world, customers are scrutinizing organizations' impact on society, whether it is how well a product meets peoples' needs, how manufacturing processes impact the environment or how employees feel about their jobs. Eighty six per cent of millennials think that business success should be measured on more than just financial performance.⁴

Business leaders are adjusting to these new expectations in part by publicly stating their company's values and demonstrating those values in their business practices and decisions. BCLC aspires to become a social purpose organization⁵. It has started this journey and while it explores this opportunity, it continues to strengthen its social responsibility practices.

Player Health Impacts

For most people, gambling is entertainment. However, any gambling product has the inherent potential to cause harm and there are players who experience gambling problems. Problems with gambling are often connected to other existing factors such as substance abuse and mental health conditions. In addition to impacting the person with the addiction, problem gambling impacts those around them and can also have far ranging social impacts.

While BCLC recognizes it cannot control individuals or directly address the fundamental personal and emotional problems that may underlie gambling disorders and gambling-related harms, with the right combination of communications, tools, product safety measures and interventions, the organization can make a significant positive impact on the health of its customers. BCLC is providing GameSense staff in all casinos to engage players and have a positive impact on their health.

Organizational Change

BCLC has recently introduced a new strategy that is articulated within this Service Plan. The new strategy is influencing how employees work together to achieve BCLC's goals. In addition, it's expected that a number of new executives will be onboarded to fill roles that are currently vacant.

³ [The rise of the Social Enterprise: 2018 Deloitte Global Human Capital Trends](#)

⁴ [Deloitte Millennial Survey 2017](#)

⁵ [Conference Board of Canada](#): Social purpose companies are profit-driven businesses whose core purpose is to contribute positively to society. They use their products, supply chains, people, capital, influence, relationships, real estate, and scale to accelerate positive impacts. As a positive force for change in everything they do, they become multipliers for responsible business practices and sustainable development in society.

BCLC is committed to ensuring that the executive complement across Vancouver and Kamloops remains consistent.

Performance Plan

In 2019, BCLC drafted a new corporate strategy to better position the organization to meet the changing needs of its players, ensure the long-term sustainability of the business and achieve the vision, “We deliver exceptional gambling entertainment”. BCLC’s mission is to operate gambling responsibly to benefit all British Columbians. In reviewing the organization’s strategic direction, it identified five goals which reflect the vision and mission and the results BCLC wants to achieve: no one is harmed from gambling offered by BCLC; our business does not create opportunities for criminal activity; BCLC is respected for how we operate; BCLC delivers our promised financial return to the Province of B.C.; and players are entertained.

The following section outlines these goals, the corresponding strategies and the performance measures used to track progress against BCLC’s strategic goals over time. As a result of the new strategy and goals, BCLC has introduced new performance measures. With the exception of net income, all performance measures reported on in past Service Plans have been retired.

Goal 1: No one is harmed from gambling offered by BCLC

BCLC understands that the pursuit of “exceptional entertainment” includes a commitment to supporting the wellbeing of all players and looking for opportunities to make products and environments safer. BCLC is committed to offering safe gambling and supporting the wellbeing of all players, including those who are at risk of developing a gambling problem.

Objective

1.1 Reduce the percentage of players who scored as high risk on the Problem Gambling Severity Index (PGSI).

Key Strategies:

- Develop improvements to the Voluntary Self-Exclusion (VSE) Program to eliminate instances whereby self-excluded players gain entry to a casino, community gaming centre or log onto PlayNow.com. In addition, provide additional supports for those who want to return to gambling.
- Determine approaches to identifying and responding to high at-risk play and provide tools for players to address this high at-risk behaviour.
- Reduce myths and misconceptions regarding gambling products and increase understanding of how games work and safe gambling practices.
- Continue to build the expertise and knowledge of expanded GameSense advisor team.

Performance Measure	2018/19 Actuals	2019/20 Forecast	2020/21 Target	2021/22 Target	2022/23 Target
1.1 Percentage of BCLC players who scored as high risk on the PGSI Index	8%	8%	7%	6%	5%

Data Source: Continuous tracking survey conducted online by a third-party research professional. Study uses market research industry standard techniques to randomize the sample while retaining gender, age and regional balance that is consistent with B.C. population figures available from Statistics Canada's Census. To qualify for these measures, a respondent will need to have played at least one BCLC game in the past year.

Linking Performance Measures to Objectives:

The Problem Gambling Severity Index (PGSI) is a self-reported, standardized measure of assessing at-risk gambling behaviours. It is a globally used tool based on research of common signs and consequences of problematic gambling. Players who score eight or higher are considered to be at high risk for problem gambling. Measuring PGSI allows BCLC to monitor the proportion of high risk players in its player base.

Discussion:

BCLC has introduced the new PGSI measure to better align with its corporate strategy that no one is harmed from its gambling products. BCLC has looked at PGSI scores by its products to identify potential high-risk play associated with each individual product and in the coming years, BCLC intends to initiate actions to educate high-risk players and encourage healthy gambling. In addition, improvements to the VSE program are planned to reduce gambling-related harm. Through these efforts, and a focus on encouraging healthy play and making its products, environments and services safer for players, BCLC intends to reduce the percentage of players with high-risk PGSI scores over the next three years.

Goal 2: Our business does not create opportunities for criminal activity

Any criminal activity related to gambling and BCLC's business is a concern for British Columbians and BCLC will take action to eliminate these risks.

Objectives

- 2.1a Reduce the number of incidents related to potential crime in and near BCLC's facilities (both brick-and-mortar and online) and/or related to a BCLC-managed gambling product.
- 2.1b Improve public perceptions about the safety and security of gambling in casinos in BC.

Key Strategies:

- BCLC continues to collaborate with Gaming Policy Enforcement Branch (GPEB) to establish an independent regulator, shift the casino industry to a standards based model, and amend the *Gaming Control Act*, which were recommendations from the German Report.

- Further modernize and streamline AML processes and analysis of gambling activities, including online gambling, player accounts, source of funds reporting, and ongoing monitoring of certain customers and transactions.
- Seek and implement an enhanced and scalable AML software solution that has been operationalized and implemented in the casino environment. The solution will enable BCLC to meet its reporting and regulatory requirements for recently implemented and anticipated new AML controls, and to integrate and extend existing reporting capabilities, intelligence and analytics.

Performance Measure(s)	2018/19 Actuals	2019/20 Forecast	2020/21 Target	2021/22 Target	2022/23 Target
2.1 Number of incidents of reports of potential crime ¹	4,826	4,585	4,355	4,138	3,930
2.2 Perception of gambling in BC casinos being safe and secure ²	52%	50%	51%	52%	53%

¹Data Source: BCLC iTrak (an internal software platform used for daily log reporting and incident management) and Salesforce Database

²Data Source: Continuous tracking survey conducted online by a third-party market research professional. The study uses market research industry standard techniques to randomize the sample, while retaining a gender, age and regional balance that is consistent with B.C. population figures available from Statistic's Canada Census. Population base used – 2016 Census BC 19+.

Linking Performance Measures to Objectives:

Incidents of reports of potential crime

Under Section 86 of the *Gaming Control Act* and Section 34 of the *Gaming Regulations Act*, BCLC and its service providers are required to report to GPEB any conduct or activity that may be contrary to the *Criminal Code* if it occurs at or near a BCLC gaming facility (both bricks and mortar and online) or is in connection with a BCLC product. For the purposes of this measurement, BCLC has focused on certain relevant categories of potential crime. Examples of such incidents include allegations of: cheating at play, theft, assault and money laundering.

In 2018, for BCLC, there were 0.97 incidents of reports of potential crime per 1,000 population. For reference, the [Crime Statistics in British Columbia, 2018](#) report indicates that in 2018 the crime rate in B.C. was 74 offences per 1,000 population.

By monitoring the frequency of these incidents, BCLC can assess the prevalence and impact of potential criminal activity related to gambling in our business and introduce new security measures where necessary.

Perception of gambling in BC casinos being safe and secure

The above performance measure assesses the percentage of the BC adult population that agrees with the statement “Gambling in casinos in BC is safe and secure”. Having fewer incident reports of

potential crime may instill confidence in the public about the safety and security of our gambling facilities which will be directly reflected in this perception measure.

Discussion:

BCLC continues to work with law enforcement, regulators, service providers, retailers and other stakeholders to implement security controls aimed at deterring the occurrence of criminal activities in our business. These efforts include banning those individuals found to be engaged in undesirable behaviour from BC casinos and implementing controls and requirements for source of gambling funds. BCLC is committed to continue developing strategies in collaboration with GPEB and law enforcement to effectively identify and mitigate criminal activities in our business.

Goal 3: BCLC is respected for how we operate

Government has entrusted BCLC to operate gambling within the province. BCLC depends on building and maintaining community support to operate gambling on behalf of British Columbians.

Objective

3.1 Improve public perceptions of how BCLC conducts business based on the following four areas:

- Integrity: BCLC operates fairly and honestly
- Social Responsibility: BCLC is a good corporate citizen
- Well managed: BCLC is a well-managed corporation
- Trust: The public has trust and confidence in the games offered by BCLC

Key Strategies:

- Continue to conduct mystery shops to ensure retailers comply with age-verification policies and leverage the Lottery Retailer Agreement to support compliance.
- Introduce a Player Health Plan component to service provider business plans to act as a road map towards achieving each facility's responsible gambling objectives and to help increase safer play and reduce gambling related harms.
- Seek ways to improve products, environments and marketing in order to ensure safer and healthier gambling experiences for players.
- Continue to work with Government and GPEB to implement the German recommendations and continue to evolve BCLC's AML program in line with best practices and regulatory requirements.
- Assist GPEB and Government in meeting its responsibilities for the overall integrity of gambling and horse racing.
- Work with industry partners and support GPEB in the development of new regulatory gambling standards and the transition to a standards based model.
- Proactively communicate major corporate initiatives and activities to the public, the media and employees in order to be transparent, accountable and build awareness and understanding of BCLC's operations.

- Share information with municipal, business and community stakeholders and the public to create awareness and understanding of BCLC and the gambling industry.
- Actively engage with communities, players and the public to share how Host Local Government revenue benefits communities and continue to share this information throughout the province through BCLC's Play it Forward community outreach and advertising.
- Continue BCLC's social responsibility and sustainability program and annual reporting on this initiative.
- Renew BCLC's Diversity & Inclusion strategy and seek opportunities to align with Government's commitment to diversity & inclusion and gender equity.

Performance Measure(s)	2018/19 Actuals	2019/20 Forecast	2020/21 Target	2021/22 Target	2022/23 Target
3.1a Integrity	61%	61%	63%	66%	68%
3.1b Social Responsibility	62%	62%	63%	64%	66%
3.1c Well managed	61%	61%	63%	65%	68%
3.1d Trust	63%	63%	64%	66%	67%

Data Source: Continuous tracking survey conducted online by a third-party market research professional. The study uses market research industry standard techniques to randomize the sample, while retaining a gender, age and regional balance that is consistent with B.C. population figures available from Statistic's Canada Census.

Linking Performance Measures to Objectives:

The above performance measures assess the percentage of the B.C. adult population that agrees with the above four statements in relation to BCLC's operations. BCLC has identified that in order for the public to respect how it operates, it would be integral for the public to believe that BCLC conducts business in a fair, honest, transparent and trustworthy manner, and that everything BCLC does is done with consideration of its impact on and for the people and communities of B.C.

Discussion:

In previous service plans, the measures used were Public Recognition of Positive Contributions and Public Perceptions of BCLC's Transparency. However, the measures were recognized as not appropriately reflecting the full scope of the goal "BCLC is respected for how we operate". As such, the scope of assessing public perceptions has been adjusted and expanded in relation to BCLC and its operations.

The ongoing media commentary regarding money laundering in B.C. has had a negative impact on the public perceptions of BCLC. However, BCLC is committed to continuously improving operations to meet and surpass the public's expectations of its business and will continue to explore ways to strengthen its social responsibility practices. BCLC will also provide more information to the public about how it operates and how the proceeds of gambling revenue to government contribute positively to the Province of B.C. Through these efforts, BCLC intends to maintain 2018/19 public perception levels and continuously improve over the next three years.

Goal 4: BCLC delivers our promised financial return to the Province of B.C.

BCLC's mandate is to generate net income for the benefit of all British Columbians.

Objective

4.1: Optimize net income through investing to sustain the long-term health of the business

Key Strategies:

- Identify and develop actions around business processes in order to improve operational efficiency and continue to foster a culture of cost consciousness.
- Continue to collaborate and leverage the capabilities of vendors, service providers and retailers to deliver games in an effective and responsible manner in the regulated market.
- Leverage investments in PlayNow.com infrastructure to provide the digital connection with brick-and-mortar environments in order to improve the player experience.

Performance Measures	2018/19 Actual	2019/20 Forecast	2020/21 Target	2021/22 Target	2022/23 Target
4.1 Net Income (\$ millions) ¹	1,415	1,376	1,374	1,376	1,413

¹ Data Source: BCLC's financial plan, see page 16. Actual results are calculated in accordance with International Financial Reporting Standards (IFRS).

Linking Performance Measures to Objectives:

Net income is the total amount of income generated by BCLC and delivered to the Province, net of payments to the Federal government. This measure is a direct indicator of BCLC's success in meeting its mandate to generate net income for the benefit of all British Columbians.

Discussion:

Net income, net of payments to the Federal government, is the amount of money generated by BCLC and delivered to the Province of B.C., which uses it to fund the BC First Nations Gaming Revenue Sharing Agreement, public health care, education, charitable community programs, and other essential services the Province and Host Local Governments provide.

Net income in the fiscal year 2019/20 forecast reflects a decrease compared to the prior year, primarily due to Lotto jackpot normalization and changes in BCLC's cost structure to ensure the long-term health of the business such as: implementation of a revised Lottery Retailer Agreement with an enhanced retail compensation structure for lottery distributors, costs required to replace lottery legacy systems and to promote player health.

Overall revenue increased with the launch of the Lotto Max game enhancements, normalized Casino revenue following the resolution of the labour disputes in certain casino facilities and continued strong growth of products available on the PlayNow.com website. This projected increase in revenue was partially offset as Lotto Max and Lotto 6/49 jackpots returned to historically normal levels as expected after above average number of high jackpots experienced in the prior year as well as the continued decline in table games revenue. The continued softness in table games revenue was observed since the implementation of the Source of Funds declaration in January 2018. The reduction

in table revenues is expected to be long term and is reflected in the targets established for 2020/21 through 2022/23.

Fiscal year 2020/21 net income reflects modest revenue growth, offset with higher amortization and operating costs to maintain base business. It also reflects substantial completion of the lottery legacy replacement project.

Fiscal year 2021/2022 will be focused on investment in new initiatives expected to launch in future years such as the opening of the new casino in Delta and the relocation of the community gaming centre in Mission. New initiatives such as opening a new casino property are dependent on external forces that are not fully within BCLC's control. For example, the opening of casino properties is dependent on receiving municipal approvals and construction of the facility itself.

In previous years, BCLC used the Comprehensive Cost Ratio (CCR) to gauge operational efficiency. BCLC has and continues to foster a culture of cost consciousness and operational efficiency. Given changes in technology delivery (from owned and constructed assets to cloud-based services) and increased investments to ensure the long-term health of the business such as replacing lottery legacy systems and promoting player health, the CCR relevance has diminished; however, the commitment to cost consciousness remains steadfast. Operating in a mature market requires maintenance and innovation which does not necessarily come with an immediate corresponding increase in revenue. Furthermore, the CCR is most significantly impacted by BCLC's product sales mix as BCLC has a diversified portfolio of products which generates a wide range of gross margins. Shifts in product mix are a reflection of player preference for products they play more so than a reflection of BCLC's operational efficiency.

Goal 5: Players are entertained

BCLC is shifting from products and distribution to focus on player experience and seeking opportunities to offer omnichannel experiences and products which deliver enhanced entertainment.

Objective

5.1: Increase the Player Entertainment Needs Index Score

Key Strategies:

- Replace aging technology infrastructure to enable the launch of new games and content into the marketplace.
- Continue to improve ability to deliver relevant play recommendations, promotions and other communications based on a players' interactions with BCLC's products.
- Investigate account-based gambling as a foundation for delivering enhanced experiences and service for players. Including how it may also serve as a tool for player health information and communication.
- Continue to introduce games and content which seek to extend the play experience for players (e.g. bonus play).

- Deliver additional value through the introduction of features to the Encore Loyalty program such as the ability to redeem for food and beverage within casino and community gaming sites.

Performance Measure(s)	2017/18 Actuals	2018/19 Forecast	2019/20 Target	2020/21 Target	2021/22 Target
5.1 Player Entertainment Needs Index Score	58	59	60	61	62

Data Source: Survey conducted online by a third-party research professional. Study uses market research industry standard techniques to randomize the sample while retaining gender, age and regional balance that is consistent with B.C. population figures available from Statistics Canada's Census. To qualify for these measures, a respondent will need to have played at least one BCLC game in the past year.

Linking Performance Measures to Objectives:

The Player Entertainment Needs Index score is a composite measure assessing how well all BCLC products and activities are satisfying players' functional, social and emotional needs in relation to entertainment. This relates to both the overall strength of the BCLC brands and how satisfied players are with BCLC products.

Discussion:

Over the last year, BCLC has launched new products, accelerated jackpots and updated facilities to provide its players with a more entertaining experience across all product lines. BCLC will continue to be committed to better understanding customer preferences, how products resonate with them and make adjustments to products and facilities to provide a more entertaining player experience across all channels and product offerings. Through these efforts, BCLC expects to steadily improve its Player Entertainment Needs Index score in the years to come.

Financial Plan

Summary Financial Outlook

Consolidated Corporate Operations

\$ Millions	2018/19 Actual ¹	2019/20 Forecast	2020/21 Budget	2021/22 Budget	2022/23 Budget
Revenue	2,590	2,606	2,631	2,652	2,728
Direct Costs	814	844	851	858	885
Gaming Support Costs	43	50	51	53	54
Operating Costs	170	183	195	193	195
Amortization and Other	87	88	92	102	108
Total Costs	1,114	1,165	1,189	1,206	1,242
Net Income Before Taxes	1,476	1,441	1,442	1,446	1,486
Taxes	61	65	68	70	73
Net Income	1,415	1,376	1,374	1,376	1,413
Liabilities	446	524	537	540	525
Accumulated Deficit	(26)	(26)	(26)	(26)	(26)
Accumulated Other Comprehensive Loss	(39)	(39)	(39)	(39)	(39)
Total Deficit	(65)	(65)	(65)	(65)	(65)
Capital Expenditures	75	105	105	110	90

¹Fiscal year 2018/19 financial data is from the Audited Financial Statements for the year ended March 31, 2019

Key Forecast Assumptions, Risks and Sensitivities

Net income targets are updated through a reforecasting process that analyzes recent revenue trends for each product category to build a projection of baseline contribution margin (revenues less direct costs). Baseline costs for fiscal year 2020/21 were estimated after a rigorous budgeting process. Incremental revenues and costs from strategic initiatives are incorporated into baseline projections and result in the financial plan.

BCLC's two major business units (lottery and casino) are mature and face market growth challenges. Revenue is projected to increase by \$122 million or 1.5 per cent compounded annually by fiscal year 2022/23 compared to fiscal year 2019/20.

Private sector service providers own and operate gambling facilities on behalf of BCLC and employ unionized staff. Union contract agreement expiry dates vary by facility, with contracts for four major sites expiring in fiscal year 2021/22. BCLC revenue targets assume contract negotiations between the service providers and unionized employees are successful, resulting in no labour disruptions.

Direct costs include private sector service provider and retailer commissions, lottery ticket and bingo paper printing, supplies and leases. These are driven by revenue projections of each product category. Direct costs are forecasted to increase \$41 million or 1.6 per cent compounded annually over the three-year period. The increase in direct costs is primarily a function of an increase in revenue.

Gaming support costs are expenses that support revenue generation including systems support, data transmission, equipment installation, product delivery, and internet-based software licence and service fees. These costs are projected to increase by \$4 million or 2.6 per cent compounded annually over the three-year period. Costs in this area are forecasted to increase in line with industry trends as BCLC continues to make investments in technology to sustain and enhance core systems that support its player experiences. Also, systems support costs associated with maintaining BCLC's online and mobile-enabled gambling site, PlayNow.com, are expected to rise to keep pace with upgrades to BCLC's players' desktop operating systems, browsers, security systems and mobile devices.

Changes in technology delivery are driving a market shift from on-premise owned and constructed assets to cloud-based services (cloud). BCLC has incorporated some high level assumptions regarding the impact of adopting cloud into the financial projections; however, variability in estimates can occur from many factors, including volatility in costs due to variable usage, degree of automation and systems management, increased costs due to increased business demands/growth and cost overlap with existing technology that may not be fully depreciated.

Operating costs include advertising and marketing, staffing costs, professional fees, rent, equipment, communications and financial costs. Operating costs are projected to increase by \$12 million or 2.1 per cent compounded annually over the three-year period to support revenue generation and maintain base business operations. Included in this increase are the estimated operating costs required to replace lottery legacy systems and to promote player health. The lottery legacy system replacement project involves the replacement of equipment and software identified as high-risk as they are near end-of-life, and the majority of lottery revenue relies on this critical equipment and software. Pension costs have also increased as a result of the lower interest rates used to value the defined benefit pension plan obligation due to market conditions.

BCLC has continued to improve its AML controls as part of its ongoing effort to safeguard B.C. casinos from illegal activity. As part of this effort, BCLC is in the process of identifying a solution to increase the efficiencies and effectiveness of AML reporting. BCLC is also exploring options for account-based gambling solutions in order to substantially reduce the use of cash, further increase capacity for monitoring transactions and to increase non-anonymous play. At this time, an estimate

cannot be reasonably determined for these solutions and the potential impact they may have on BCLC's operations and accordingly, is not included in these projections

Initiatives underway around player health, updating obsolete technology, AML and account-based gambling solutions require significant resources from a work effort, capital and operating perspective, but are essential to ensure the long term health of our players and the organization.

Sensitivity Analysis

As indicated above, the business planning process involves a thorough analysis of revenue trends by product category to determine baseline organic growth assumptions. Baseline organic growth assumptions are then applied to base operations. As BCLC's revenues are in excess of \$2.6 billion, small percentage changes in certain assumptions result in variances in the millions of dollars. As BCLC's revenue is generated from games of chance, outcomes to these games are all inherently unpredictable. Incremental revenue is added to baseline operations from new and strategic initiatives. As a result, the three-year plan is sensitive to small percentage assumption changes in revenues along with risks associated with future initiatives, such as execution risk, market acceptance and success of new products and facilities.

Below is the table outlining the sensitivities in revenue given the above factors.

	2020/21		2021/22		2022/23	
	High	Low	High	Low	High	Low
Revenue Target	2,631	2,631	2,652	2,652	2,728	2,728
Forecast Risks and Sensitivities						
2% change in Slot Growth Assumption	29	(29)	29	(29)	29	(29)
Volatility in Tables	12	(12)	12	(12)	12	(12)
Market adoption/success of new initiatives		(8)		(11)		(12)
Revenue Risk Adjusted	2,672	2,582	2,693	2,600	2,769	2,675

Management's Perspective on the Financial Outlook

Delivering on BCLC's net income commitments to Government continues to be challenging given market conditions and trends, especially in the volatile table business. The overall gambling industry in B.C. is at a mature stage with stable net income and a modest growth outlook.

BCLC's two major business units (lottery and casino) are mature and face market growth challenges. Revenue increases are flattening and margins are sensitive to shifts in product mix. Lottery revenues are heavily dependent on the national games' jackpot rolls, resulting in lottery revenue volatility. As well, revenues from these business units rely predominantly on a core, aging player base.

An exception to the mature market trend is the eGaming business unit which delivers products on BCLC's online gambling platform, Playnow.com. Through the PlayNow mobile application and a wide range of innovative online product offerings, BCLC is successfully tapping into a younger demographic that is less engaged with the traditional delivery channels for gambling products. This business unit is expected to grow year over year by 11 per cent in fiscal year 2020/21.

BCLC's gambling product portfolio depends heavily on the performance of six core products (slots, tables, Lotto Max, Lotto 6/49, Keno and Scratch & Win), which comprise more than 90 per cent of revenue.

The projections presented position BCLC to make the necessary investments to ensure the long-term health of the business. BCLC continues to focus on innovation to retain existing intended players, and provide opportunities to increase their frequency of play and the number of different games played, by supporting and enhancing existing products (e.g. replacing lottery legacy systems) and developing new content and experiences.

BCLC is committed to managing its business responsibly in this ever-evolving environment. Investment decisions which enable future business growth and competitiveness are balanced with cost management in order to deliver net income commitments to Government. BCLC is continually managing costs and looking for ways to operate its business more efficiently and effectively.

Major Capital Projects

Currently there are no major capital projects (over \$50 million) approved through BCLC's business planning process.

Significant IT Projects

Lottery Terminals and Systems Replacement

This project involves the replacement of equipment that has been identified as legacy, including retail lottery equipment and supporting systems. This equipment is nearing end-of-life and supports the majority of lottery revenue. The capital estimate available at this time is approximately \$40 million and the project is estimated to complete in fiscal year 2021/22. Capital costs incurred to December 28, 2019 (last day of BCLC's fiscal period 9, fiscal year 2019/20) since this project started are approximately \$9 million.

Appendix A: Hyperlinks to Additional Information

Corporate Governance

[Governance and Oversight](#)
[BCLC Senior Executive](#)

Organizational Overview

[Mission and Values](#)
[Who we are](#)
[What we do](#)
[Customer support](#)

Appendix B: Subsidiaries and Operating Segments

Active Subsidiaries

The consolidated financial statements of BCLC include a wholly-owned subsidiary, B.C. Lottotech International Inc. (“Lottotech”). The primary purpose of Lottotech is to purchase capital assets for BCLC. These assets are leased to BCLC and the major expense is the amortization on the capital acquisitions as well as disposal costs on equipment. Increasing costs of equipment disposal are the primary drivers of the historical and projected net losses in Lottotech. As BCLC replaces lottery legacy equipment and other legacy investments, there will be associated disposal costs. The management and oversight of Lottotech is consolidated within BCLC operations and the Board reviews and approves capital budgets through the business planning process.

The majority of BCLC capital expenditures (refer to Financial Plan) are planned to be purchased through Lottotech.

Lottotech’s business activities are in alignment with BCLC’s mandate, strategic priorities and fiscal plan.

Summary Financial Outlook Table for Each Active Subsidiary

\$ Millions	2018/19 Actual	2019/20 Forecast	2020/21 Budget	2021/22 Budget	2022/23 Budget
Revenues	64.4	68.7	79.2	88.0	93.6
Expenses	64.3	68.5	79.0	87.8	93.4
Income from Operations	0.2	0.2	0.2	0.2	0.2
Other Income (Expenses)	(6.1)	(0.8)	(1.0)	(1.0)	(1.0)
Net Income (Loss)	(5.9)	(0.6)	(0.8)	(0.8)	(0.8)

Lottotech’s publicly available financial statements can be found in [BCLC’s 2018/19 Annual Service Plan Report](#).

Business Units' Income Statement

\$ millions	Actual <u>2018/19</u>	Forecast <u>2019/20</u>	Budget <u>2020/21</u>	Budget <u>2021/22</u>	Budget <u>2022/23</u>
Lottery					
Revenue	536	498	504	505	505
Less: direct expenses	91	101	104	108	110
	<u>445</u>	<u>397</u>	<u>400</u>	<u>397</u>	<u>395</u>
Operating expenses:					
General Operating	53	59	61	60	60
Gaming Support	15	16	16	16	17
Amortization	10	14	15	21	26
Other	3	(1)	-	-	-
	<u>81</u>	<u>88</u>	<u>92</u>	<u>97</u>	<u>103</u>
Net Income Before Taxes	364	309	308	300	292
Taxes	12	13	14	15	16
Net income	<u>352</u>	<u>296</u>	<u>294</u>	<u>285</u>	<u>276</u>
e-Gaming					
Revenue	150	172	191	210	228
Less: direct expenses	31	38	43	46	51
	<u>119</u>	<u>134</u>	<u>148</u>	<u>164</u>	<u>177</u>
Operating expenses:					
General Operating	19	21	21	21	21
Gaming Support	8	9	9	9	9
Amortization	4	3	3	3	4
Other	1	1	1	1	1
	<u>32</u>	<u>34</u>	<u>34</u>	<u>34</u>	<u>35</u>
Net Income Before Taxes	87	100	114	130	142
Taxes	6	7	8	8	9
Net income	<u>81</u>	<u>93</u>	<u>106</u>	<u>122</u>	<u>133</u>
Casino & Community Gaming					
Revenue	1,904	1,936	1,936	1,937	1,995
Less: direct expenses	692	705	704	704	724
	<u>1,212</u>	<u>1,231</u>	<u>1,232</u>	<u>1,233</u>	<u>1,271</u>
Operating expenses:					
General Operating	98	103	113	112	114
Gaming Support	20	25	26	28	28
Amortization	56	59	70	74	74
Other	13	12	3	3	3
	<u>187</u>	<u>199</u>	<u>212</u>	<u>217</u>	<u>219</u>
Net Income Before Taxes	1,025	1,032	1,020	1,016	1,052
Taxes	43	45	46	47	48
Net income	<u>982</u>	<u>987</u>	<u>974</u>	<u>969</u>	<u>1,004</u>

Operating Segments

Capital Expenditures for each Operating Segment

\$ Millions	2018/19	2019/20	2020/21	2021/22	2022/23
	Actual	Forecast	Budget	Budget	Budget
Gambling Systems					
Lottery	10	23	40	21	21
eGaming	4	2	1	2	2
Casino & Community Gaming	50	60	40	69	49
Total Gambling Systems	64	85	81	92	72
 Infrastructure & Corporate Systems					
Corporate Facilities	10	16	22	16	16
Other Capital	11	20	24	18	18
Total Capital	75	105	105	110	90

Lottery

Lottery's key initiative is the replacement of legacy systems and equipment, as the current infrastructure is near end-of-life.

eGaming

eGaming continues to project double digital growth via delivery of new games and improvements to online and mobile experiences.

Casino and Community Gaming

One of Casino and Community Gaming's key initiatives is to provide players with new and exciting games and entertainment options. This also includes collaboration with private sector service providers to revitalize several existing casino properties to stay relevant and to encourage repeat visits. In fiscal year 2021/22, Chances Playtime Mission will relocate into a new facility while increasing its game count. A new facility, Cascades Casino Delta is also expected to open by fiscal year 2022/23. New entertaining gaming product will complement facility developments that include non-gaming amenities to broaden player appeal. In addition, Casino and Community Gaming will continue to expand the product portfolio of electronic table games to meet growing market demand.