

# **BC Lottery Corporation**

## **2021/22 – 2023/24 Service Plan**

**April 2021**



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## Board Chair's Accountability Statement



The 2021/22 – 2023/24 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 April 1, 2021 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.

A handwritten signature in black ink, appearing to read 'Peter Kappel', with a stylized flourish at the end.

Peter Kappel  
Board Chair

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## **Strategic Direction and Alignment with Government Priorities**

In 2021/22, British Columbians continue to face significant challenges as a result of the global COVID-19 pandemic. Recovering from the pandemic will require focused direction, strong alignment and ongoing engagement between public sector organizations and the Government of British Columbia. The government has identified five foundational principles that will inform each Crown agency's policies and program and contribute to COVID recovery: putting people first, lasting and meaningful reconciliation, equity and anti-racism, a better future through fighting climate change and meeting our greenhouse gas commitments, and a strong, sustainable economy that works for everyone.

As a Crown corporation, British Columbia Lottery Corporation (BCLC) is governed by B.C.'s [\*Gaming Control Act\*](#) (2002), and 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 the province. Government shares seven per cent of provincial distributions with First Nations through the First Nations Revenue Sharing Partnership, and in accordance with the Province's Host Financial Assistance Agreement, local governments that host casinos or community gaming centres also receive a 10 per cent share of net gaming income generated by those facilities.

BCLC is focused on delivering its strategic priorities, as established by Government and as outlined in the BCLC 2021/2022 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.

## **Operating Environment**

As the organization responsible for managing gambling in British Columbia, BCLC offers gambling entertainment products across the Province through brick-and-mortar facilities and online. We rely on service providers and retailers to deliver our products in brick-and-mortar facilities while we deliver online and mobile offerings directly through PlayNow.com.

### ***COVID-19***

The COVID-19 pandemic has resulted in unprecedented and challenging times for the Province, the organization and our industry partners. The future of BCLC's operations and financial performance is dependent upon many factors which are difficult to predict including: future waves of the pandemic, public health orders, vaccine availability, physical distancing restrictions, and long-term impacts to the economy and British Columbians' disposable income.

On March 16, 2020, in consultation with and on the advice of the Provincial Health Officer (PHO) of B.C., the Attorney General and then-Minister responsible for BCLC ordered the closure of all gambling facilities until further notice. Since then, BCLC has worked closely with our service providers to develop reopening plans to ensure the health and safety of players and employees. These plans have been reviewed by WorkSafe BC and the PHO and, although casinos remain closed, BCLC is prepared to reopen as soon as the PHO directs that it is appropriate to do so.

When facilities do reopen, a number of health and safety measures will be in place that may include restrictions on the number of patrons to support physical distancing. As such, when casinos reopen, BCLC estimates that casino operations will return to pre-pandemic levels of player engagement and revenue within three years. Historically, brick-and-mortar gaming facilities have accounted for over 70 per cent of BCLC's revenue and the other lines of business are not able to offset the decline in revenue from the closure of brick-and-mortar casinos.

Along with the temporary casino closures, in the latter half of March 2020, a number of lottery retailers made the decision to suspend sales as a precautionary action. Most retailers have since resumed lottery sales. In the event that potential future rising pandemic case numbers result in orders to temporarily shut down some retail operations and sit-in dining in the hospitality sector, brick-and-mortar lottery operations and sales could be impacted. That said, many players have moved their play online and BCLC has leveraged online and mobile operations through PlayNow.com.

Despite the challenges of COVID-19, BCLC has remained focused on forging ahead with its new corporate strategic plan that puts the player at the centre of everything we do and which sets the organization up for future success as noted elsewhere in this document.

### ***Player Experience***

BCLC operates in a crowded entertainment market<sup>1</sup>, competing for players' time and spend on entertainment options. In addition, COVID-19 has shifted consumer expectations and patterns to

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<sup>1</sup> The Kantar Group. (2018). *Needstates Index (commissioned by BCLC)*.

online and/or socially distant options. With consumers spending more time at home, COVID-19 has accelerated the adoption of mobile into virtually all interactions including retail, entertainment and the world of work.

BCLC is in the midst of an organizational redesign which is intended to focus on our ability to deliver a coordinated player experience and integrate the delivery of our products and services across all channels (brick-and-mortar, mobile and digital). BCLC has embarked on a comprehensive process to evaluate its current player experience (PX) maturity and clearly define a PX vision.

### ***Cullen Commission of Inquiry into Money Laundering***

The Commission of Inquiry into Money Laundering in British Columbia was announced by government in May 2019 and the hearings are ongoing. BCLC was granted standing in the Inquiry in relation to the gaming and horse racing sectors. We expect a final report in 2021 and will work with government and regulators to address any recommendations.

### ***Single-Event Sports Betting***

On November 26, 2020, the federal government introduced legislation to amend a section of the Criminal Code of Canada to allow provinces and territories to regulate and license single-event sports betting. Currently, sports bets require a “parlay” – meaning players must wager on the outcome of at least two different events. As a result of this requirement, many players place single bets on offshore websites operating illegally in Canada. If the legislation passes, BCLC is poised to begin offering single event sports betting on PlayNow.com and will work with the industry to offer this popular form of sports betting in land-based venues. These activities will connect players to BCLC’s strong player health safeguards and repatriate gambling dollars to B.C., generating additional net income for the Province of B.C., which government shares with Host Local Governments and First Nations and uses to fund important programs.

### ***Lottery Retail Transformation***

BCLC is focused on modernizing its lottery business and making lottery easy and accessible to play, while ensuring our games are fun and entertaining for our players. In fiscal year 2021/22 BCLC plans to replace and upgrade the majority of over 3,500 lottery terminals across B.C., as well as the related software systems. Legacy systems supporting BCLC’s lottery business are nearing end-of-life. The project will support the evolving needs of retailers and players with a faster purchasing experience, enhanced functionality and a more user-friendly terminal.

### ***Social Purpose***

Social expectations are changing and consumers want companies to play a larger role in shaping a better world<sup>2</sup>. 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. In addition to our commitment to player health, BCLC has undertaken the process to

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<sup>2</sup> Social Purpose Resources (2019). Social Purpose Institute.

define a social purpose<sup>3</sup> as part of our business strategy which will influence the employee experience, products and the player experience. The Board of Directors will consider BCLC's social purpose in 2021, and subsequent to that we will integrate our social purpose into all aspects of our business.

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<sup>3</sup> Social Purpose Business Definition. (2019). Social Purpose Institute: A Social Purpose Business is a company whose enduring reason for being is to create a better world. It is an engine for good, creating societal benefits by the very act of conducting business. Its growth is a positive force in society.



## Performance Planning

BCLC’s corporate strategy is intended to position the organization to meet the changing needs of our players, ensure the long-term sustainability of the business and achieve our vision, “We deliver exceptional gambling entertainment”. Our mission is to operate gambling responsibly to benefit all British Columbians.

Our corporate strategic plan is guiding decisions that are creating a more player-centric and competitive company that will achieve responsible growth based on healthy play.

BCLC has five goals which reflect the vision and mission and the results we are focused on achieving. The following section outlines these goals, the corresponding strategies and the performance measures used to track progress against BCLC’s strategic goals over time.

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

We understand that the pursuit of “exceptional entertainment” includes a commitment to the well-being of all players and looking for opportunities that make products and environments safer. BCLC is committed to offering safe gambling and supporting 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:

- Eliminate opportunities for voluntarily self-excluded (VSE) players to enter a casino or community gaming centre and/or log onto PlayNow.com, and provide further supports for those who want to return to gambling.
- Implement processes to identify and respond to red flag gambling behaviours.
- Identify increases in risky play and provide tailored incremental responses, including opportunities to interact with GameSense Advisors (GSAs).
- Continue to promote informed play through information and nudges<sup>4</sup> that increase player awareness of time and money spent.
- Support PlayNow.com players to practice safe play and reduce harms.
- Continue to collaborate with the Gaming Policy and Enforcement Branch (GPEB) on harm reduction approaches, including referring players to provincial resources such as Gambling Support BC.

Performance Measure	2019/20 Actuals	2020/21 Forecast	2021/22 Target	2022/23 Target	2023/24 Target
1.1 Percentage of BCLC players who scored as high risk on the PGSI Index	8%	8%	7%	7%	6%

<sup>4</sup> Nudges are a behavioural economics intervention meant to affect behaviour without restricting anyone’s choice.

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 our player base.

### **Discussion:**

Understanding PGSI scores is critical to understanding higher-risk players. BCLC aims to lower our players' PGSI scores through enhanced player health education, pinpointing higher risk products and continued enhancement of our VSE program to reduce gambling-related harm. We are also committed to providing our players with world-class gambling education so they can make better decisions which ultimately leads to lower risk behaviours. Safety for our players is paramount and understanding PGSI scores and how to best lower these scores is important to the corporation for the foreseeable future.

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

Any criminal activity related to gambling and our 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 BCLC-managed gambling products.
- 2.1b Improve public perceptions about the safety and security of gambling in casinos in B.C.

### **Key Strategies:**

- Continue to collaborate with GPEB on clarifying roles and responsibilities of GPEB and BCLC, shifting the casino industry to a standards-based model, and amending the *Gaming Control Act*.
- Continue to collaborate with law enforcement and GPEB to identify opportunities and define approaches to reduce potential crimes impacting the business.
- Further modernize and streamline anti-money laundering (AML) processes and analysis of gambling activities, including online gambling, player accounts, source of funds reporting, and ongoing monitoring of customers and transactions.
- Explore account-based gambling solutions that substantially reduce the use of cash, further increase capacity for monitoring transactions and provide insights into player behaviour.

- Implement an enhanced and scalable AML software solution for casinos. The solution will enable BCLC to meet reporting and regulatory requirements for AML controls, and to integrate and extend existing reporting capabilities, intelligence and analytics.
- Respond to any recommendations resulting from the Cullen Inquiry and inform the public of BCLC's response and actions.
- Provide information to the public about the safety and security measures in place at B.C. casinos.

Performance Measure	2019/20 Actuals	2020/21 Forecast*	2021/22 Target**	2022/23 Target	2023/24 Target
2.1 Number of incidents of reports of potential crime <sup>1</sup>	4,782	N/A	2,138	3,930	3,734
2.2 Perception of gambling in B.C. casinos being safe and secure <sup>2</sup>	52%	N/A	53%	54%	56%

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

<sup>2</sup>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. Population base used – 2016 Census BC 19+.

\*Both measures are predicated on casinos being open. Casinos were closed the entirety of FY2020/21 and at the time of writing, an opening date still has not been established. Providing these forecast measures would be inaccurate and incomparable to last year and upcoming annual targets, therefore they have been marked as N/A.

\*\*Assumes casino facilities will reopen in late June 2021 at limited capacity and will return to a new normal capacity sometime by the end of fiscal year 2022/23.

## 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 Control Regulation*, 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 brick-and-mortar and online) or is in connection with a BCLC product. For the purposes of this measurement, we have focused on certain relevant categories of potential crime. Examples of such incidents include allegations of cheating at play, theft, assault and money laundering.

In fiscal 2019/20, for BCLC, there were 0.94 incidents of reports of potential crime per 1,000 population. For reference, the [Crime Statistics in British Columbia, 2019](#) report indicates that in the 2019 calendar year the crime rate in B.C. was 87 offences per 1,000 population.

By monitoring the frequency of these incidents, we can assess the prevalence and impact of potential criminal activity related to gambling in our business and introduce new security measures where necessary. It should be noted that caution will need to be applied when analyzing this measure to ensure it is fully understood whether any change in frequency is reflective of a change in prevalence and impact of crime, or simply a change in the reporting of such incidents.

### Perception of gambling in B.C. casinos being safe and secure

The above performance measure assesses the percentage of the B.C. adult population that agrees with the statement “Gambling in casinos in B.C. 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:**

As a result of facility closures for the entirety of fiscal year 2020/21, we expect a significant decrease in the incidents of potential crime. Once casinos fully reopen in 2021/22, the number of incidents is expected to be lower than 2019/20 due to a slow build up back to pre-COVID-19 business. While there is a correlational effect between volume of players and incidents of potential crime, BCLC will continue to use the key strategies mentioned above to limit the number of incidents. This includes continuing to collaborate with law enforcement, regulators, service providers, retailers and other stakeholders to define and implement security controls to further reduce potential criminal activities in our business. Furthermore, BCLC will work closely with service providers on communicating with the public around our efforts to deliver a safe environment upon the reopening of facilities.

### **Goal 3: BCLC is respected for how we operate**

Government has entrusted BCLC to operate gambling within the province. Our business 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 monitor the impacts of COVID-19 and adapt the physical spaces in which we operate based on recommended practices from the PHO and WorkSafe BC. BCLC is also considering how it can better support COVID-19 contact tracing abilities in facilities.
- Continue to conduct mystery shops to ensure retailers comply with age-verification policies and leverage the Lottery Retailer Agreement to support compliance.
- Continue to evolve BCLC’s AML program in line with global best practices and regulatory requirements.
- Assist GPEB and government in meeting its responsibilities for the overall integrity of gambling and horse racing through ongoing collaboration and participation in working groups such as the RCMP-led Counter Illicit Finance Alliance.

- 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.
- Develop a workplace-of-the-future model that reflects the new, flexible needs of employees and initiate a multi-year head office revitalization project that supports the workforce and enhances the company’s presence in downtown Kamloops.
- 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 community outreach and advertising.
- Engage with the First Nations Gaming Commission in order to build mutual awareness and understanding.
- Action BCLC’s Diversity, Inclusion & Belonging Strategy and continue to seek opportunities to align with government’s commitment to diversity, inclusion, belonging and gender equity.
- Continue to actively participate in the Cullen Inquiry and implement recommendations as required.
- Reinvigorate BCLC’s sustainability plan around the three pillars of environment, social and governance, including leveraging industry standards and rating systems to update our policies.
- Define our social purpose which will be integrated into our operational environment and external communications over the Service Plan period.
- Implement COVID-19 safety measures to ensure the health and safety of players and employees upon reopening of facilities.

Performance Measure	2019/20 Actuals	2020/21 Forecast	2021/22 Target	2022/23 Target	2023/24 Target
3.1a Integrity	61%	63%	67%	69%	70%
3.1b Social Responsibility	62%	63%	64%	66%	67%
3.1c Well managed	61%	63%	65%	68%	68%
3.1d Trust	64%	64%	67%	68%	68%

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 it is critical for the public to agree that BCLC conducts business in a fair, honest, transparent and trustworthy manner, and that everything we do is done with consideration of its impact on and for the people and communities of B.C.

**Discussion:**

BCLC is committed to operating according to our values of respect, integrity and social responsibility. We will continue to engage our stakeholders in conversations about our business and our impacts. We will also continue to proactively share disclosures and information on our website and will amplify this information on our social channels, with the media and the public. BCLC is transitioning to a social purpose company which is further focusing the organization on how it positively impacts society. Through these efforts, BCLC intends to continuously improve these measures over the next few years.

**Goal 4: Players are entertained**

BCLC is focussing on player experiences that enhance omnichannel experiences and products.

**Objective**

5.1: Increase the Player Entertainment Needs Index Score

**Key Strategies:**

- Introduce account-based gambling and continue to build a foundation for delivering enhanced tailored and safe experiences and services to players.
- Offer relevant play recommendations, promotions and other communications.
- Leverage new technologies that enhance the experience in retail environments, including the replacement and upgrade of over 3,500 lottery terminals.
- Continue to introduce games and content which seek to increase affinity with BCLC.
- Further align our processes and gain efficiencies in order to provide a more player-centric approach.
- Shift communications to messaging that reflects the entertainment experiences of our entire product portfolio.
- Expand our Encore Loyalty program to PlayNow.com, allowing players to earn and ultimately redeem Encore Reward points in both channels.
- Improve the entertainment value of the Encore Loyalty program by making it easier to engage in the program, through a simplified registration process and by offering tailored in-game promotions which delight in the moment.

Performance Measure	2019/20 Actuals	2020/21 Forecast	2021/22 Target	2022/23 Target	2023/24 Target
5.1 Player Entertainment Needs Index Score	56	59	62	64	66

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:**

A key strategic focus for our business is to provide products with high entertainment value. Along with a product focus, we have made casino enhancements that ensure a safe and appropriately distanced environment. In addition, PlayNow.com is continually improving its platform to showcase a world-class online gambling entertainment experience. BCLC will continue to study player entertainment preferences through insights obtained by our customer support center and by listening to player feedback on how to improve the entertainment experience. Through these efforts, we expect to steadily improve the Player Entertainment Needs Index score in the years to come.

## **Goal 5: 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 investment to sustain the long-term health of the business

### **Key Strategies:**

- Continue to invest in casino slot machines to ensure an entertaining experience when facilities reopen.
- Continue to invest in BCLC's eGaming platform and leverage the PlayNow mobile application and online product offerings to tap into the millennial demographic that is typically less engaged with traditional delivery channels.
- Leverage the investment in new lottery systems and technology to enhance the way players engage with and experience lottery by enabling improved digital and in-store experiences and greater personalization.
- Identify and develop actions that improve operational efficiency and continue to foster a culture of cost consciousness.
- Continue to collaborate and leverage the capabilities of Casino and Community Gaming service providers to rebuild the industry post-COVID-19 in a safe, healthy and sustainable manner.
- Create exceptional omnichannel experiences for players that nurture and safeguard their sustainable long-term value.
- Should the federal government approve single-event sports betting, offer this popular form of betting on PlayNow.com.
- Invest in the new corporate strategic plan that puts the player at the centre of everything we do.

- Look for opportunities for PlayNow.com in other markets that will expand our product offering and drive increased revenue.

Performance Measures	2019/20 Actual	2020/21 Forecast	2021/22 Target	2022/23 Target	2023/24 Target
4.1 Net Income (\$ millions)	1,347	394	840	1,310	1,520

Data Source: BCLC’s financial plan, see page 18. 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 an indicator of BCLC’s success in meeting its mandate to generate net income for the benefit of all British Columbians.

**Discussion:**

Seven per cent of provincial net income distributions are shared with First Nations through the First Nations Revenue Sharing Partnership. In accordance with the Province’s Host Financial Assistance Agreement, local governments that host casinos or community gaming centres also receive a 10 per cent share of net gaming income generated by those facilities. The Province uses the remaining funds to help support public health care, charitable community programs, and other essential provincial and local services.

The fiscal year 2020/21 forecast reflects a significant decrease in net income compared to the prior year, primarily due to the closure of all gambling facilities effective March 16, 2020 in response to the COVID-19 pandemic. While many players migrated to PlayNow.com, our online channel, the growth did not make up for the revenue lost from casino brick-and-mortar channels. Even so, PlayNow.com revenue is expected to more than double over last year.

While it is uncertain when the PHO will permit gambling facilities to reopen, fiscal year 2021/22 net income reflects the assumption of casino reopening in late June 2021 (beginning of second fiscal quarter), a gradual recovery of casino revenue, return to pre-COVID-19 levels for lottery, and normalized revenue for the online gaming channel. Physical distancing measures are assumed to be in place until the end of the fiscal year and as such, gambling facilities are expected to be operating at reduced capacity. The longer casinos are closed, the longer the recovery period is expected for patronage to return to pre-pandemic levels. When brick-and-mortar gambling facilities reopen, the eGaming revenue projections reflect some reverse migration net of organic growth, resulting in a slight revenue decline in fiscal 2021/22. Simultaneously, lottery is projected to return to pre-pandemic levels with minor disruptions while lottery terminals are being replaced as part of a planned renewal project.

Fiscal year 2022/23 is focused on restoring the casino player base back to 94 per cent of pre-pandemic revenue levels by the end of year. The projections are based on the key assumption that physical distancing restrictions will be removed during the fiscal year and gambling facilities will be allowed to operate at normal capacity.



## Financial Plan

### Financial Summary

#### Consolidated Corporate Operations

\$ Millions	2019/20 Actual <sup>1</sup>	2020/21 Forecast	2021/22 Budget	2022/23 Budget	2023/24 Budget
<b>Revenue</b>	<b>2,531</b>	<b>942</b>	<b>1,702</b>	<b>2,472</b>	<b>2,842</b>
Direct Costs	802	171	443	724	867
Gaming Support Costs	48	56	52	54	55
Operating Costs	182	192	212	212	216
Amortization and Other	91	82	94	101	105
<b>Total Costs</b>	<b>1,123</b>	<b>501</b>	<b>801</b>	<b>1,091</b>	<b>1,243</b>
Net Income Before Taxes	1,408	441	901	1,381	1,599
Taxes	61	47	61	71	79
<b>Net Income</b>	<b>1,347</b>	<b>394</b>	<b>840</b>	<b>1,310</b>	<b>1,520</b>

<b>Liabilities</b>	<b>526</b>	<b>520</b>	<b>523</b>	<b>545</b>	<b>533</b>
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Accumulated Deficit	(25)	(25)	(25)	(25)	(25)
Accumulated Other Comprehensive Loss	(7)	(7)	(7)	(7)	(7)
<b>Total Deficit</b>	<b>(32)</b>	<b>(32)</b>	<b>(32)</b>	<b>(32)</b>	<b>(32)</b>

<b>Capital Expenditures</b>	<b>102</b>	<b>89</b>	<b>96</b>	<b>120</b>	<b>90</b>
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<sup>1</sup> Fiscal year 2019/20 financial data is from the Audited Financial Statements for the year ended March 31, 2020

## Key Forecast Assumptions, Risks and Sensitivities

Net income targets are established through a forecasting process that analyzes revenue trends for each product category to build a projection of baseline contribution margin (revenues less direct costs). Baseline costs for fiscal year 2021/22 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.

Casino operations are significantly challenged by the impacts of COVID-19 having been ordered to temporarily close in March 2020 through an order by the Attorney General and then-Minister responsible for BCLC to support public safety. The assumptions regarding the date that casinos will be allowed to reopen, the level that revenue will return to, and the length of time for the recovery period to pre-COVID-19 levels have the greatest impact on forecast net income. Based on 2019/20 results, casino and community gaming operations generated \$1.8 billion in revenue and contributed 72 per cent of BCLC's overall revenue. Small assumption changes can cause large variability in the projections. At the time of writing this Service Plan, there is no date for when brick-and-mortar gambling facilities will be allowed to reopen. These projections reflect the assumption that casinos will be reopened in late June 2021; however, this assumption does not represent the likelihood or certainty of when casinos will be allowed to reopen. BCLC is also closely monitoring the financial health of its service providers who have been significantly impacted by the pandemic and the prolonged closure of casinos. It is assumed that service providers will be able to reopen as soon as the PHO deems it safe to do so.

Revenue from lottery is expected to return to pre-pandemic levels in fiscal year 2021/22 with minimal disruption to operations expected when approximately 3,500 lottery terminals are replaced. Some PlayNow.com revenue is expected to migrate back to brick-and-mortar gambling facilities when they are reopened. Any potential revenue from single-event sports betting has not been incorporated into the projections as the federal legislation has not yet been approved. Any future waves of the pandemic may affect operations; however, due to the uncertainty and lack of information of this possibility, no provision has been made for the possible financial impact.

By fiscal year 2023/24, total BCLC revenue is projected to return to pre-pandemic levels due to continued growth for PlayNow.com, offset by slightly lower casino gaming revenue.

Private sector service providers own and operate gambling facilities under contract with BCLC and some 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 there will be no labour disruptions in fiscal 2021/22.

Direct costs include private sector service provider and retailer commissions, lottery ticket and bingo paper printing, supplies and leases. Commissions have been forecasted using rates in current operating agreements. Direct costs are driven by revenue projections of each product category and the cost ratios have remained relatively steady. Direct costs are forecasted to increase in line with revenue increasing and returning to pre-pandemic levels.

Gaming support costs are expenses that support revenue generation including systems support and maintenance, data transmission, equipment installation, product delivery, internet-based

software license and service fees, and upgrading gambling equipment. Fiscal 2020/21 included investments for upgrading gaming equipment and incremental costs of maintaining the integrity of the gaming system during casino closure, partially offset by cost containment during the pandemic. These one-time costs are projected to return to normalized levels in fiscal 2021/22 and forward. 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 player experiences. Also, systems support costs associated with maintaining our 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 or due to the need to have both environments operational to facilitate the transition period. This will drive a fundamental shift from capital intensive upgrade project costs to annual operating costs.

Operating costs include advertising and marketing, staffing costs, professional fees, rent, equipment, communications and financial costs. Future operating costs reflect restoring costs back to pre-pandemic levels in fiscal 2021/22, supporting the operationalization of revenue generating initiatives and maintaining base business operations in BCLC's environment. Pension costs have increased primarily as a result of market volatility and its impact on the pension plan. As the lottery legacy system replacement project completes in fiscal year 2021/22, the focus shifts to investing in enterprise-wide initiatives to realize our strategy.

BCLC continues to improve our AML controls as part of our ongoing effort to safeguard B.C. casinos, both land-based and online, from illegal activity. This includes implementing a solution that will give BCLC an even more effective compliance program by connecting service providers to reduce the administrative workload of all stakeholders and enhance BCLC's ability to collect, investigate, analyze and report. BCLC continues to explore 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.

Initiatives underway around updating obsolete technology, AML and account-based gambling solutions and implementing the corporate strategy 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 year over year baseline growth assumptions. As BCLC's pre-pandemic revenue is in excess of \$2.5 billion based on fiscal 2019/20 actual results, it is highly sensitive to small percentage changes in certain assumptions. At the same time, our revenue is

generated from games of chance and the outcomes of these games are all inherently variable. Incremental revenue driven by new and strategic initiatives are added to baseline operations.

In addition to the usual forecasting sensitivities of BCLC's operations, the next several years are uncertain due to the unknown impact of COVID-19 on the gambling facilities. Specifically, changes in assumptions as to when casinos are allowed to reopen, what percentage of revenue will return and how long it will take the gambling facilities to recover to pre-COVID-19 levels can all have a significant impact on revenue projections. The sensitivity to fiscal 2021/22 revenue is estimated below.

The forecast risks and sensitivities specifically related to the impact of the COVID-19 pandemic on BCLC revenue are as follows:

1. The casino reopening date is assumed to be late June 2021, beginning of the second quarter of fiscal year 2021/22. Any delay to this date would result in revenue loss of approximately \$20 million per week in fiscal 2021/22.
2. The assumptions related to the level of casino revenue upon reopening, as well as the rate and speed of recovery and casino capacity restrictions, will impact the projections. The capacity restriction assumptions, imposed to meet health and safety guidelines, vary by product. A change to any one of the above factors would result in an impact to revenue and more than one factor affected may contribute to a compounding effect. A five per cent variance to the 2021/22 revenue projections would represent \$40 million on an annual basis.
3. Revenue from the lottery channel is expected to return to pre-pandemic levels when casinos reopen. However, it is unknown at this time what the impact the casinos reopening will have on lottery revenues. A five per cent change to the overall lottery revenue would result in a revenue impact of \$25 million on an annual basis.
4. Since the casinos have been closed, BCLC has more than doubled its year over year eGaming revenue through the PlayNow channel in fiscal 2020/21. It is assumed when casinos reopen, some revenue will migrate back to the brick-and-mortar channel net of organic growth, resulting in a slight revenue decline of 1.4 per cent in fiscal 2021/22. A five per cent change to overall PlayNow revenue would result in a revenue impact of \$20 million on an annual basis.

Assumptions related to future initiatives, such as execution risk, market acceptance and success of new products and facilities have an impact on the revenue projections. The sensitivity to the revenue projections based on these factors is estimated to be \$8 million in fiscal year 2021/22.

Revenue projections beyond fiscal year 2021/22 will be most significantly impacted by the economic consequences of the COVID-19 pandemic.

## **Management's Perspective on the Financial Outlook**

Delivering on BCLC's net income commitments to government may be challenging given the unknown impact of the COVID-19 pandemic on the economy and player habits.

Revenue is difficult to accurately estimate as there are many external factors that are unknown and unpredictable at this time such as: future waves of the pandemic and severity, vaccine

availability and uptake, physical distancing restrictions, and impacts on the economy and players' disposable income.

When casinos are allowed to reopen, BCLC will partner with our service providers to ensure a safe environment for our players, provide player incentives to return to the facilities and continue to deliver the best possible gambling experience. Focus and resources have shifted to PlayNow.com and BCLC has capitalized on the opportunity to migrate many existing brick-and-mortar players onto our online gambling platform. Omni-channel marketing and programs have been developed and implemented to incent players back to the gambling facilities when it is deemed safe to do so, while offering players an alternative gambling experience. During fiscal 2020/21, BCLC started to promote PlayNow.com products to our bricks-and-mortar players and expanded the Casino loyalty program to enable rewards earning through PlayNow.com play. Through the PlayNow mobile application and a wide range of innovative online product offerings, BCLC is continually tapping into a younger demographic that is less engaged with the traditional delivery channels for gambling products. Our eGaming operation is expected to end the current year at \$414 million, more than doubling its revenue over last year. When brick-and-mortar gambling facilities reopen, some of the growth experienced through migration of casino players is expected to reverse, net of continued incremental growth, resulting in a slight revenue decline of 1.4 per cent in fiscal 2021/22.

The projections presented position BCLC to ensure operations recover as quickly as possible while making the necessary investments to ensure the long-term health of the business. We continue 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.

We are committed to managing our business responsibly in this ever-evolving environment, especially during these unprecedented times. Investment decisions which enable future business growth and competitiveness are balanced with cost management in order to deliver net income commitments to government. We are continually managing costs and looking for ways to operate our business more efficiently and effectively.

## **Capital Expenditures**

### **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 total capital estimated cost for this project is approximately \$41 million and this project is estimated to substantially complete in fiscal year

2021/22. Capital costs incurred to December 26, 2020 (last day of BCLC's fiscal period 9, fiscal year 2020/21) since this project started are approximately \$15 million.

## Appendix A: Additional Information

### Corporate Governance

[Governance and Oversight](#)

[BCLC Senior Executive](#)

### Organizational Overview

For an organizational overview of BCLC, please visit <https://corporate.bclc.com/>

## 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. As we replace 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

	2019/20	2020/21	2021/22	2022/23	2023/24
\$ Millions	Actual	Forecast	Budget	Budget	Budget
Revenues	64.0	69.5	78.5	84.9	88.3
Expenses	63.8	69.3	78.3	84.7	88.1
<b>Income from Operations</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>	<b>0.2</b>
Other Income (Expenses)	(4.3)	(1.0)	(1.1)	(1.1)	(1.1)
<b>Net Income (Loss)</b>	<b>(4.1)</b>	<b>(0.8)</b>	<b>(0.9)</b>	<b>(0.9)</b>	<b>(0.9)</b>

Lottotech’s publicly available financial statements can be found in [BCLC’s 2019/20 Annual Service Plan Report](#)

## Business Units' Income Statement

\$ millions	<u>Actual</u> <u>2019/20</u>	<u>Forecast</u> <u>2020/21</u>	<u>Budget</u> <u>2021/22</u>	<u>Budget</u> <u>2022/23</u>	<u>Budget</u> <u>2023/24</u>
<b>Lottery</b>					
Revenue	519	528	497	509	510
Less: direct expenses	<u>99</u>	<u>103</u>	<u>101</u>	<u>108</u>	<u>108</u>
	<u>420</u>	<u>425</u>	<u>396</u>	<u>401</u>	<u>402</u>
Operating expenses:					
General Operating	61	97	73	62	60
Gaming Support	15	23	19	18	17
Amortization	14	19	20	24	25
Other	<u>4</u>	<u>1</u>	<u>2</u>	<u>2</u>	<u>2</u>
	<u>94</u>	<u>140</u>	<u>114</u>	<u>106</u>	<u>104</u>
<b>Net Income Before Taxes</b>	326	285	282	295	298
Taxes	<u>13</u>	<u>19</u>	<u>18</u>	<u>16</u>	<u>16</u>
<b>Net income</b>	<u>313</u>	<u>266</u>	<u>264</u>	<u>279</u>	<u>282</u>
<b>e-Gaming</b>					
Revenue	179	414	408	429	452
Less: direct expenses	<u>37</u>	<u>68</u>	<u>68</u>	<u>71</u>	<u>75</u>
	<u>142</u>	<u>346</u>	<u>340</u>	<u>358</u>	<u>377</u>
Operating expenses:					
General Operating	21	66	47	38	37
Gaming Support	7	15	12	11	11
Amortization	2	8	6	4	4
Other	<u>1</u>	<u>2</u>	<u>1</u>	<u>1</u>	<u>1</u>
	<u>31</u>	<u>91</u>	<u>66</u>	<u>54</u>	<u>53</u>
<b>Net Income Before Taxes</b>	111	255	274	304	324
Taxes	<u>6</u>	<u>17</u>	<u>15</u>	<u>13</u>	<u>13</u>
<b>Net income</b>	<u>105</u>	<u>238</u>	<u>259</u>	<u>291</u>	<u>311</u>
<b>Casino &amp; Community Gaming</b>					
Revenue	1,833	-	797	1,534	1,880
Less: direct expenses	<u>666</u>	<u>-</u>	<u>274</u>	<u>545</u>	<u>684</u>
	<u>1,167</u>	<u>-</u>	<u>523</u>	<u>989</u>	<u>1,196</u>
Operating expenses:					
General Operating	100	29	92	112	119
Gaming Support	26	18	21	25	27
Amortization	59	50	61	66	69
Other	<u>11</u>	<u>2</u>	<u>4</u>	<u>4</u>	<u>4</u>
	<u>196</u>	<u>99</u>	<u>178</u>	<u>207</u>	<u>219</u>
<b>Net Income Before Taxes</b>	971	(99)	345	782	977
Taxes	<u>42</u>	<u>11</u>	<u>28</u>	<u>42</u>	<u>50</u>
<b>Net income</b>	<u>929</u>	<u>(110)</u>	<u>317</u>	<u>740</u>	<u>927</u>



## Operating Segments

Capital Expenditures for each Operating Segment

\$ Millions	2019/20	2020/21	2021/22	2022/23	2023/24
	Actual	Forecast	Budget	Budget	Budget
<b>Gambling Systems</b>					
Lottery	20	38	23	14	14
eGaming	1	1	-	-	-
Casino & Community Gaming	62	33	52	71	55
<b>Total Gambling Systems</b>	<b>83</b>	<b>72</b>	<b>75</b>	<b>85</b>	<b>69</b>
Infrastructure & Corporate Systems	16	15	16	30	16
Corporate Facilities	3	2	5	5	5
<b>Other Capital</b>	<b>19</b>	<b>17</b>	<b>21</b>	<b>35</b>	<b>21</b>
<b>Total Capital</b>	<b>102</b>	<b>89</b>	<b>96</b>	<b>120</b>	<b>90</b>

### Lottery

Lottery's key initiative is to substantially complete the replacement of legacy systems and equipment.

### Casino and Community Gaming

The pandemic has changed the way casinos must operate in the foreseeable future. With physical distancing requirements and reduced capacity constraints, the focus will be to optimize our casino gaming floors and provide our customers with a safe and comfortable gaming environment while improving upon the gaming content we can offer. This also includes investments into electronically assisted table games where players can enjoy wagering on several live table game results from the convenience of their own terminal.

A new facility, Cascades Casino Delta is expected to open in fiscal year 2023/24 with capital expenditure to occur in fiscal year 2022/23. New entertaining gaming product will complement facility developments that include non-gaming amenities to broaden player appeal.

### Infrastructure & Corporate Systems

Infrastructure & Corporate Systems include annual spend to maintain and replace existing network and hardware in BCLC's IT environment. Enterprise-wide system investments will be made to enable and focus on omni-channel player experiences.

### Corporate Facilities

The company will upgrade and revitalize its Kamloops office to meet safety standards and to provide employees with a practical and stimulating work environment that supports their flexible needs and well-being, to ensure BCLC continues as one of BC's top employers. The

revitalization will cater to the company's workplace-of-the-future model and enhance the company's presence in downtown Kamloops.