



**2019/20 – 2021/22
SERVICE PLAN**

February 2019



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Board Chair Accountability Statement



The 2019/20 – 2021/22 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 January 25, 2019, 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

Table of Contents

Board Chair Accountability Statement 3

Strategic Direction and Alignment with Government Priorities..... 5

Operating Environment..... 5

 Customer convenience 6

 Societal expectations..... 6

 Data as a driver 7

 Pace of change 7

Performance Plan 8

Financial Plan..... 18

 Summary Financial Outlook 18

 Key Forecast Assumptions, Risks and Sensitivities 18

 Sensitivity Analysis 20

 Management’s Perspective on the Financial Outlook 20

 Major Capital Projects 21

 Significant IT Projects 21

Appendix A: Hyperlinks to Additional Information..... 22

 Corporate Governance 22

 Organizational Overview 22

Appendix B: Subsidiaries and Operating Segments 23

Strategic Direction and Alignment with Government Priorities

Specific direction from Government to BCLC is provided in the [2019/20 Mandate Letter](#) directing BCLC to take specific actions, in accordance with Government policy and directives. These instructions and principles form part of our strategic context and, along with economic and market trends, inform the business choices we make and ensure public interest is being served.

Specifically, in the Mandate Letter, the Government of B.C. has outlined the following strategic actions directing BCLC to: implement Government’s response to recommendations from the Peter German review of anti-money-laundering policies and practices in British Columbia casinos; complete implementation of the remaining commitments that BCLC is solely and jointly (with GPEB) responsible for in the Plan for Public Health and Gambling (February 2015); proactively share information with GPEB that assists the branch in meeting its responsibilities for the overall integrity of gaming and horse racing and provide advice on broad policy, standards and regulatory issues; and optimize BCLC’s financial performance in accordance with government policy and directives under the *Gaming Control Act* and Treasury Board direction in order to achieve a net income in line with service plan projections.

BCLC will conduct business in a manner that meets public expectations for social responsibility, public safety and gambling integrity. As a Crown corporation, BCLC is required to make smart, responsible investments to grow our business, while maintaining our commitment to managing our operating costs in the best interest of the Province and the people of British Columbia.

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"> • Promoting responsible gambling programs that encourage positive gambling choices (Objective 1.1) • Becoming leaders in diversity and inclusion (Strategy under Objective 2.1) • Defining and integrating the innovative experiences our players want (Strategy under Objective 4.1)
A strong, sustainable economy	<ul style="list-style-type: none"> • Being a partner for socio-economic growth in communities (Strategy under Objective 3.1) • Optimizing net income by investing to sustain the long-term health of our business (Goal 4)

Operating Environment

Businesses are shifting from just delivering products to understanding the customer in order to deliver the end-to-end experiences they value. While BCLC is the only organization legally permitted to manage and conduct commercial gambling in British Columbia, we will avoid complacency given the

nature of today's marketplace with nearby casino competition from across the border as well as the borderless e-commerce channel.

Customer convenience

BCLC routinely monitors marketplace trends within our business, the gambling industry and other industries. Through ongoing monitoring and observations, BCLC has seen that consumer behaviour and expectations are changing. Convenience is increasingly a factor in customers' choices regarding when, how and with whom to engage when consuming products and services. Driven largely by advances in technology, consumers are demanding more from the experiences they have with the companies with which they engage.

Retailers are adapting to their customers' need for convenience by integrating their digital and brick-and-mortar offerings. Retailers are changing how and where they offer their products. While online and mobile are intrinsic to that change, it is the integration of mobile with brick-and-mortar that creates the convenience and seamless experiences consumers seek.

Convenience is also impacting how customers are consuming media. With the advent of online streaming products and large screen televisions, many traditional out-of-home experiences (sports, movies, gambling) can be enjoyed without having to leave home.

In order to compete with the convenience factor of in-home entertainment choices, businesses are designing a more diverse set of entertainment options, such as pop-up venues, themed bars and escape rooms. New partnerships are forming to deliver engaging experiences that integrate food & beverage.

Societal expectations

People are expecting more and more from the businesses with which they engage. Businesses are expected to be leaders in social change; supporting not only their employees but the communities in which they operate¹.

In today's hyperconnected world, customers and investors are scrutinizing organizations' impacts on society, whether it is how well a product meets people's 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.²

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.

As a Crown Corporation, it is important that BCLC continue to demonstrate our mission and values in our strategic plan and business decisions. For instance, one of our values is social responsibility. We demonstrate that by engaging in meaningful dialogue with stakeholders, including critics, responsible gambling advocates and health professionals, to make informed investments to positively influence player health and mitigate harm to people and communities.

¹ [The rise of the Social Enterprise: 2018 Deloitte Global Human Capital Trends](#)

² [Deloitte Millennial Survey 2017](#)

Data as a driver

Data and the insights businesses derive from data have fundamentally changed industries. These insights are used to power stronger customer relationships, support product development and manage operational environments.

Consumers expect businesses to protect their data and, at the same time, willingly exchange information in order to gain access to services, receive discounts and have personalized experiences with companies. In this big data environment, businesses must continue to invest in cybersecurity and keep at the forefront of privacy protection.

Pace of change

The pace of change is faster than ever. For example, it has been 11 years since the release of the first generation of iPhones and since then, smart phones have become ubiquitous, with three quarters of Canadians now owning a smart phone.³ These devices have fundamentally changed how people interact with each other and businesses. Further, consumers have grown accustomed to ongoing updates to their technology and are looking to businesses to continue to update their offerings at a similar pace.

Businesses must learn quickly and adjust to changes in their environment if they are to remain relevant. For BCLC, this translates to a need to keep up with the significant changes in how customers experience entertainment and how customers choose to interact with businesses.

Competition for talent

The Provincial Government is projecting that, beginning in 2019, there will be a province-wide labour shortage and, by 2022, there will be at least a 28,400-person workforce deficit.⁴ Statistics Canada is also reporting a projected decrease in the unemployment rate nationally as the labour force participation rate decreases due to the aging population.

The Conference Board of Canada's Employer Skills Survey⁵ highlighted that employers in B.C. are worried about an upcoming experience gap. Skilled and experienced workers are set to retire, and those entering the workforce are perceived as having qualification deficits. The Conference Board of Canada indicates that the most anticipated challenges for B.C. employers will be recruiting in the market for:

- skilled trades
- computer and information science
- engineering and electronics
- business and management

It is a job seeker's market and BCLC will focus on retention and knowledge transfer as key internal strategies.

³ [The Internet and Digital Technology](#)

⁴ [British Columbia 2022 Labour Market Outlook.](#)

⁵ [Skills for Success: Developing Skills for a Prosperous B.C.](#)

Performance Plan

Goal 1: Player – we are creating an integrated player-focused entertainment company

Objective 1.1: Promote responsible gambling programs that encourage positive gambling choices

Key Strategies:

Influence player health

BCLC is committed to reducing the negative health impacts our business may have on people and communities. BCLC has a broad focus of influencing player health with various initiatives aimed at making gambling products, environments and delivery channels safer for our players. Across all our games we are focused on encouraging healthy gambling. Two components of this strategy include informed play – providing information that allows people to make informed choices, and positive play – helping customers to understand and adopt the attitudes and behaviors that keep gambling within safe bounds.

We are strengthening BCLC’s role in influencing player health by enhancing and expanding the GameSense Advisor Program across all community gaming centre and casino venues. We are also identifying and acting on opportunities to reduce harm by evaluating how gambling products are designed, delivered and promoted. We are creating a comprehensive, evidence-based program to increase safer play and reduce harms where: players are knowledgeable about healthy play, players gamble within safe limits, high risk players moderate their play and players with concerns receive help.

We are working with other gambling jurisdictions in Canada to develop approaches to communicating ‘odds’ and ‘return to player’ on electronic gaming machine screens to dispel myths about control and ability to win. Additionally, we have recently completed technical testing for PlayPlanner, a new, optional budgeting tool that allows players to set and manage daily maximums for how much time or money they want to spend playing on electronic gaming machines. BCLC will begin rolling out PlayPlanner in Spring 2019, in alignment with the implementation of the GameSense Advisor program at Community Gaming Centres, to better support player engagement and training.

We will implement customized responsible gambling messaging to our online customers on PlayNow.com and members of our BCLC Encore Rewards casino loyalty program. Once this is implemented we will conduct research to evaluate the impact of customized messaging on player behaviour.

	2017/18 Actual	2018/19 Forecast	2019/20 Target	2020/21 Target	2021/22 Target
1.1a Positive Play Scale: Gambling Literacy ¹	50%	50%	52%	56%	58%
1.1b Positive Play Scale: Pre-commitment ¹	55%	55%	56%	58%	60%

¹Data 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 a BCLC game in the past month.

Linking Performance Measures to Objectives:

- 1.1a Gambling Literacy assesses the extent to which a player has ample information to make fully informed decisions.
- 1.1b Pre-commitment assesses the extent to which a player considers how much money and time they should spend gambling.

Discussion

Based on commitments made in the Plan for Public Health and Gambling and internal reviews, we have introduced two new measures to better align with our Player Health Strategy. These two measures take into account two components of our strategy: informed play which is reflected in the Positive Play Scale: Gambling Literacy, and Positive Play, reflected in the Positive Play Scale: Pre-commitment measure. We are projecting higher results in the upcoming years with our GameSense Advisor Program and information centre expansion across all venues, and the development of tools and communication promoting healthy play.

Objective 1.2: Improve the gambling entertainment experience everywhere players choose to engage with our products

Key Strategies:

Improve the gambling entertainment experience with new content and enhanced facilities

A major focal point of our strategy is improving the player experience. We are enhancing how players engage with us, our games and amenities at our facilities. BCLC will focus on gaining a more detailed understanding of customer preferences, entertainment needs and gambling trends to improve the player experience. We are exploring opportunities to better know our players by introducing digital lottery services and by improving our casino loyalty program. This understanding will help us make informed decisions about the best way to entertain our players, as their needs and expectations evolve.

Optimize our points of distribution and simplify the way our players access and experience our products

We will invest in replacing aging technology infrastructure that supports our lottery business to provide a solid foundation upon which to enhance our player experience, and continue to leverage

previous investments in our digital and technology infrastructure. We will continue to ensure that our products are in the right locations and are delivering the experiences our customers expect in order to best serve our customers. In addition to BCLC being the only entity permitted to legally operate commercial gambling in B.C., our competitive advantage is that we manage products across a wide range of channels including retail and hospitality locations, casinos, community gaming centres, on the web, and on mobile devices to create a customer entertainment experience. We intend to simplify the way our players access and experience our products. Our objective is to enhance the gambling experience everywhere players choose to engage with our products.

Improve customer relationships

We will build on the Customer Relationship Management (CRM) foundation currently being implemented to optimize customer communications across email, on mobile devices and social media to engage in relevant, personalized conversations with our players. This will deliver customized and relevant BCLC promotions, content and service to players based on an improved understanding of interactions across all BCLC touchpoints. We will continue to enhance the services delivered through the Customer Support Centre and embrace social responsibility in how we engage customers by integrating a player health lens into our CRM approach.

Performance Measures	2017/18 Actual or Benchmark ⁴	2018/19 Forecast	2019/20 Target	2020/21 Target	2021/22 Target
1.2a Player Experience Index ¹	71.55	71.60	73.00	75.00	78.00
1.2b Revenue per Capita ^{2,3}	BCLC: \$516 LQ: \$321 OLG: \$380	\$532	\$536	\$540	\$541

¹ Data Source: Quarterly 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.

² Data Source: Revenue is from BCLC's financial plan. B.C. population projections are from Statistics Canada (Table 17-10-0058-01, formerly CANSIM 052-0006). Actual population estimates are from Statistics Canada (Catalogue no. 91-215-X). Revenue is presented net of prizes (see below footnote 3). Total BCLC revenue is divided by B.C.'s total population based on Statistics Canada population figures to obtain per capita metrics. Population statistics are estimated based on a calendar year and not available on BCLC's fiscal year. The targets are indicative of the overall trends despite the timing difference.

³ International Financial Reporting Standard (IFRS) 15 is effective for annual reporting periods beginning on or after January 1, 2018. BCLC will adopt this standard for its fiscal year ending March 31, 2019, on a full retrospective basis. The Corporation has identified that this standard will have a material impact on the presentation of its consolidated financial statements. Revenue is now presented net of prizes on the income statement. There is no impact on net income as a result of this presentation change. All impacts will be reflected in BCLC's 2018/19 Annual Service Plan Report.

⁴ Data Source: Benchmarks are calculated using Ontario Lottery and Gaming (OLG) and Loto-Québec's (LQ) fiscal 2017/18 financial statements provided in their published annual reports. BCLC figures represent 2017/18 actual results for comparability.

Linking Performance Measures to Objectives:

Player Experience Index and Revenue per Capita tell us how successful we are at delivering accessible entertainment experiences to the population of B.C.

- 1.2a The Player Experience Index provides a single measure that incorporates various elements of the customer experience, such as customer service, convenience, relevance and fairness. This measure provides BCLC with an understanding of the extent to which BCLC is currently meeting the expectations of our consumers as it relates to both their product and purchase experience, while offering actionable insights related to the customer experience.
- 1.2b Revenue per Capita tells us how successful we are in growing revenue in relation to the provincial population.

Discussion

BCLC's Player Experience Index is driven by various factors across the casino, lottery and online gambling businesses. Given BCLC's dedication to enhancing the player experience, coupled with improved insights into the factors driving player experience, we expect the index to improve in the years to come. BCLC's commitment to better understanding customer preferences and expectations enables us to enhance our content and utilize our customer relationship management capabilities to deliver entertaining games and experiences in casino gaming facilities, through lottery retailers and PlayNow.com.

Revenue per Capita growth in fiscal 2018/19 reflects strong slot performance in online and in brick-and-mortar facilities, as well as higher than expected jackpot rolls experienced in Lotto Max. While brick-and-mortar facilities performed well overall, growth rates were negatively impacted due to several factors, including the impact of the labour disputes and a changing table game landscape.

Revenue per Capita is expected to increase further in fiscal year 2019/20, driven by new initiatives that are anticipated to be launched in the market and reflecting normalized revenue following the resolution of labour disputes. The impact of these factors is partially tempered by the expected normalization in jackpot rolls in Lotto Max from the previous year.

In previous years, BCLC used the Player Participation measure to indicate the number of adult British Columbians who purchased BCLC products in the past year. Increasing the percentage of adults in B.C. who play any BCLC game is not our objective moving forward. Beginning next year BCLC will introduce new measures that will reflect BCLC's new strategy, and objective to increase the frequency of play and increase the number of games played by our intended player base.

Goal 2: People – we have the right talent to deliver exceptional business results

BCLC takes a rigorous and standardized approach to performance management and employee compensation that stays within the guidelines set out by the Public Sector Employers' Council. BCLC's talent strategy provides a framework to guide the application of all aspects of our human resource practices. We are preparing for changing workforce demographics that will ensure BCLC has the right talent to deliver exceptional business results in an environment of changing demands and evolution of the business. The talent strategy provides the foundation to build organizational capacity and capability, incorporating a diverse and inclusive culture focused on employee engagement.

Objective 2.1: Build an engaged workforce and strong culture

Key Strategies:

We know, understand and engage employees

We are working to develop an even greater understanding of our workforce and gather their diverse perspectives in order to support the creation of an engaging employee experience. We need the diverse perspectives and contributions of all employees in order to be leaders in the marketplace. We are embracing the philosophy of agility and are committed to learning through continuous improvement. We are driven by the perspective that when we put our employees first they will, in turn, put our customers first. Putting customers first is key to business success.

We will be leaders in diversity and inclusion

BCLC is embedding diversity and inclusion practices into our culture. BCLC will focus on implementing inclusive leadership training and practices, removing unconscious bias in processes, systems and our procurement partnerships.

We are creating an integrated, value added total rewards program

For 12 consecutive years, BCLC has been named one of B.C.'s Top Employers. Competition for qualified talent is strong and therefore we continue to pursue excellence in the programs, services and experiences we offer to our workforce. In order to compete within the marketplace to attract and retain talent, BCLC will redesign and implement its recognition and wellness programs while maintaining consistency with the Public Sector Employers' Council guidelines. We will communicate the benefits of the employee value proposition for current and future employees.

Performance Measures	2017/18 Actual	2018/19 Forecast	2019/20 Target	2020/21 Target	2021/22 Target
2.1a Employee Engagement ¹	86%	86%	86%	86%	86%

¹ Data Source: Anonymous [online survey](#) among BCLC employees, conducted annually by a third-party market research professional using industry standard techniques. Employee Engagement is defined as the intellectual and emotional commitment employees have in an organization and reflects the dedication employees exert to contribute to the organization's success.

Linking Performance Measures to Objectives:

2.1a A passionate and engaged workforce is more productive and will help drive the success of our business.

Discussion

In 2017/18 we achieved a high employee engagement score of 86 per cent. While we recognize that maintaining the high results is a challenge, we are focused on keeping our employee engagement scores at this high level (and well above the Canadian average of 69 per cent⁶) based on our commitment to being an employer of choice and creating an engaging employment experience for all employees. BCLC's third-

⁶ [AON: Employee Engagement in Canada](#)

party market research professional, which conducts this survey, indicates that a change in this measure of less than three per cent is not statistically significant.

Goal 3: Public – our business and the benefits it creates are understood, trusted and supported by British Columbians

Objective 3.1: Build awareness of BCLC’s positive contributions to the community

Key Strategies:

We are a partner for socio-economic growth in communities

BCLC strives to make business decisions that reflect and include local perspectives and provide benefits to the community that are broader than the bottom line. Over the past few years, we have actively engaged with municipalities to share how Host Local Government revenue benefits communities and will continue to share this information throughout the province through BCLC’s [“Play it Forward”](#) community outreach and advertising program.

BCLC’s sponsorship program is focused on supporting the communities in which we operate.

BCLC has a strong history of volunteerism and many employees choose to donate their time and skills and take advantage of BCLC’s formal volunteer program.

Our games are fair, our facilities and platforms are safe and secure

Sustaining net income depends on BCLC’s ability to build the public’s understanding, trust and support of our business by being a good corporate citizen, demonstrating integrity in what we deliver and how we deliver it, and being transparent in how we manage and conduct our business. It is paramount the public understands our products are fair and our facilities are safe.

As a priority, BCLC strives to protect its casinos from being targeted by criminals through a comprehensive anti-money laundering program built to meet or exceed federal requirements under the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act* and through formal cooperative efforts with casino service providers, police and regulators. On a continuing basis, BCLC works with regulators collaboratively to update and adapt its anti-money laundering program to ensure casinos in B.C. are protected from money laundering and terrorist threats, as well as meet or exceed all legal requirements. This is done with key guidance from the federal regulatory body responsible for anti-money laundering – The Financial Transactions and Reports Analysis Centre of Canada (FINTRAC) and the provincial gaming regulator, The Gaming Policy and Enforcement Branch (GPEB).

In July 2018, Government released Dr. Peter German’s independent review of B.C.’s anti-money laundering policies and practices in Lower Mainland casinos. Dr. German’s report, included 48 wide-ranging recommendations for the industry. We are actively working with government through the Anti-Money Laundering Deputy Minister Committee to support the government’s plan on responding to these recommendations.

Performance Measures	2017/18 Actual	2018/19 Forecast	2019/20 Target	2020/21 Target	2021/22 Target
3.1a Public Recognition of Positive Contributions ¹	70%	70%	72%	74%	76%

¹ 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 Statistics Canada's Census.

Linking Performance Measures to Objectives:

3.1a BCLC's success depends on maintaining and growing community support to operate gambling on behalf of British Columbians. This measure helps us gauge our success in building the public's recognition of the positive contributions of our gambling business so that our business and its benefits are better understood, trusted and supported by British Columbians.

Discussion

Recent media coverage has impacted the public's perceptions of BCLC. In the coming years we will be seeking opportunities to provide more information to the public on how BCLC operates, and how the proceeds of gambling revenue to governments contribute positively to communities. This will mean we will have the ability to tell more stories of how communities and other recipients of gaming revenue have benefited.

Objective 3.2: BCLC is perceived as transparent

Key Strategies:

We are open and accountable

We are committed to sharing information with municipal, business and community stakeholders and the public to create awareness and understanding about BCLC and the gambling industry. We proactively disclose relevant information about BCLC to media, via bclc.com and the BCLC Social Responsibility Report. We will proactively communicate major corporate initiatives and activities to the public, the media and our employees in order to be transparent, accountable and build awareness and understanding of our organization. We will also proactively share information with GPEB that assists the branch in meeting its responsibilities for the overall integrity of gambling and horse racing and will provide advice on broad policy, standards and regulatory issues.

Performance Measures	2017/18 Actual	2018/19 Forecast	2019/20 Target	2020/21 Target	2021/22 Target
3.2a Public Perceptions of BCLC's Transparency ¹	60%	58%	60%	62%	65%

¹ 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 Statistics Canada's Census.

Linking Performance Measures to Objectives:

- 3.2a To build the public's trust and support of our business, it is important that we are transparent so that our business and its benefits are understood by British Columbians. Public perception of BCLC's transparency helps us gauge our success in becoming increasingly open and accountable.

Discussion

The ongoing media commentary regarding money laundering concerns in B.C. have had a negative impact on the public's perception of BCLC. However, in 2016/17 this measure was at 64 per cent, so we intend to return to that public perception level within the Service Plan period. We will continue to act with integrity, be proactive in communicating about our business and engage with municipal, business and community stakeholders, the media and the public.

Goal 4: Profit – we will optimize net income through investing to sustain the long-term health of our business

BCLC fosters a culture of cost-consciousness and is committed to operating efficiently and effectively. As part of our mandate, we will optimize BCLC's financial performance and sustain net return to the Province in accordance with government policy, directives under the *Gaming Control Act* and Treasury Board direction. Our mandate and business models offer BCLC the opportunity to garner strong profit margins, and thus, growing revenue is the key to making a significant positive impact to our net income.

Objective 4.1: Generate net income for the benefit of all British Columbians efficiently

Key Strategies:

Define and implement the innovative experiences our players want

We will leverage investments in the PlayNow.com infrastructure to provide the digital connection with our brick-and-mortar environments in order to improve the player experience. We will continue to monitor consumer trends so that we can deliver relevant products and experiences that meet player expectations and provide value for money. Additionally, we will continue to improve our approach to support responsible gambling to improve player health.

Improve operational efficiency and effectiveness

We will invest in systems and technology required to support the long-term health of the business.

Collaborate and leverage the capabilities of our vendors, service providers and retailers

We will continue to work with our contracted casino and community gaming facility service providers and lottery retailers to distribute our games to customers with outstanding service. The distribution of our games spans brick-and-mortar locations as well as mobile and web on PlayNow.com. These services will continue to evolve to serve the dynamic nature of our customers.

We will also leverage the innovation around products and services from our many vendors to deliver our games in an effective and responsible manner in our regulated market.

Performance Measures	2017/18 Actual	2018/19 Forecast	2019/20 Target	2020/21 Target	2021/22 Target
4.1a Net Income (\$ millions) ¹	1,401	1,406	1,406	1,427	1,439
4.1b Comprehensive Cost Ratio (% of Revenue) ^{1,2}	41.7%	43.2%	44.1%	44.2%	44.4%

¹ Data Source: BCLC's financial plan, see page 18. Actual results are calculated in accordance with International Financial Reporting Standards (IFRS).

² The Comprehensive Cost Ratio (CCR) is the sum of direct, gaming support, operating, amortization and other costs (excluding interest and taxes) divided by revenue and expressed as a percentage.

Linking Performance Measures to Objectives:

- 4.1a Net income is the total amount of income generated by BCLC and delivered to the Province. This measure is a direct indicator of our success in meeting our mandate to generate net income for the benefit of all British Columbians.
- 4.1b The Comprehensive Cost Ratio (CCR) is a cost ratio used to gauge operational efficiency.

Discussion

BCLC net income benefits all British Columbians by funding public health care, education, charitable community programs, and other essential services the Province and our Host Local Governments provide.

Net income in the fiscal year 2018/19 forecast reflects a slight increase compared to the prior year, driven by an increase in revenue (see section 1.2b) and changes in cost structure to ensure the long-term health of the business (discussed in more detail in Key Forecast Assumptions, Risks and Sensitivities).

Fiscal year 2019/20 net income reflects normalized revenue operations and the launch of new initiatives. Revenue is expected to increase, primarily driven by new initiatives that are anticipated to be launched in the market and normalized revenue following the resolution of the labour disputes in certain casino facilities. This projected increase in net income is expected to be partially offset as Lotto Max and Lotto 6/49 jackpots are expected to return to historically normal levels after several years of an above average number of high jackpots. New initiatives such as launching Lotto Max game enhancements and opening a new casino property are dependent on external forces that are not fully within BCLC's control. For example, the Lotto Max game enhancements require collaboration and approval from other provincial lottery and gaming organizations, and the opening of casino properties is dependent on receiving municipal approval.

Investments to ensure the long-term health of the business will continue into fiscal year 2019/20 with increased focus on the lottery line of business.

The fiscal year 2018/19 CCR reflects BCLC's transition to a new Operational Services Agreement (OSA) with a revised commission structure for its casino and community gaming service providers. The OSA will drive better strategic alignment, strengthen accountability and drive incremental market

growth in the long-term. Retailer and service provider commissions comprise the majority of the comprehensive cost base. As a result, CCR is most significantly impacted by BCLC's product mix sales as BCLC has a diversified portfolio of products which generate a wide range of gross margins. In addition, BCLC is continuing to make appropriate investments to ensure the long-term health of the business such as replacing lottery legacy systems and promoting player health.

Increasing CCR in fiscal year 2019/20 is primarily due to the implementation of a revised Lottery Retailer Agreement with an enhanced retail compensation structure for all of its lottery retailers. These changes are a means to increase compliance with age-restriction policies and to invest in our retail partners' success, setting the course to ensure retailer engagement and support during a pivotal period in which we will be making critical Lotto Transformation investments at retail.

Changes to Performance Measures

BCLC reviews its strategic direction regularly, and as it evolves, we review and adjust the associated performance measures so that the organization can measure its progress against its strategic goals.

Financial Plan

Summary Financial Outlook

Consolidated Corporate Operations

\$ Millions	2017/18 Actual	2018/19 Forecast	2019/20 Budget	2020/21 Budget	2021/22 Budget
Revenue	2,503	2,587	2,637	2,684	2,719
Direct Costs	779	822	858	872	881
Gaming Support Costs	42	45	48	49	51
Operating Costs	149	170	177	180	182
Amortization and Other	75	81	83	89	97
Total Costs	1,045	1,118	1,166	1,190	1,211
Net Income Before Taxes	1,458	1,469	1,471	1,494	1,508
Taxes	57	63	65	67	69
Net Income	1,401	1,406	1,406	1,427	1,439
Liabilities	517	486	516	540	544
Accumulated Deficit	(17)	(17)	(17)	(17)	(17)
Accumulated Other Comprehensive Loss	(33)	(33)	(33)	(33)	(33)
Total Deficit	(50)	(50)	(50)	(50)	(50)
Capital Expenditures	82	80	105	105	90

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 2019/20 were estimated using a zero-based budgeting approach. Incremental revenues and costs from strategic initiatives are incorporated into baseline projections and result in the financial plan.

Revenue is projected to increase by \$132 million or 1.7 per cent compounded annually over the three-year period (fiscal year 2018/19 - fiscal year 2021/22).

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. Future BCLC revenue targets assume contract negotiations

between the service providers and unionized employees continue to be 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 \$59 million or 2.3 per cent compounded annually over the three-year period. The increase in direct costs is primarily a function of increase in revenue, and also reflects increases due to the implementation of a revised Lottery Retailer Agreement with an enhanced retail compensation structure for lottery distributors.

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 \$6 million or 4.3 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 our 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 our players' desktop operating systems, browsers, security systems and mobile devices.

Changes in technology delivery are driving a market shift from owned and constructed assets to cloud-based services (cloud). BCLC is reviewing the applicability of cloud to its business and assessing the associated risks and opportunities. As a result, the potential impact of adopting cloud is not reflected in the financial projections. Should BCLC choose to transition to cloud, the expected long-term impact is an increase in BCLC's operating spend, offset with a decrease in BCLC's capital spend. In the short-term as organizations transition to cloud, a range of financial impacts 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 and goods, communications and financial costs. Operating costs are projected to increase by \$12 million or 2.3 per cent compounded annually over the three-year period to support revenue generation. 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.

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. Incremental revenue is added from new and strategic initiatives. As a result, the three-year plan is sensitive to changes in sales mix 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.

	2019/20		2020/21		2021/22	
	High	Low	High	Low	High	Low
Revenue Target	2,637	2,637	2,684	2,684	2,719	2,719
Forecast Risks and Sensitivities						
1% change in Slot Growth Assumption	15	(15)	15	(15)	15	(15)
Volatility in Tables		(10)		(10)		(10)
Market adoption/success of new initiatives		(20)		(34)		(39)
Revenue Risk Adjusted	2,652	2,592	2,699	2,625	2,734	2,655

Management's Perspective on the Financial Outlook

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

Our two major business units (lottery and casino) are mature and face market growth challenges. Revenues 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.

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

The projections presented position BCLC to make the necessary investments to ensure the long-term health of the business. We continue our focus on innovation to retain our 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. These opportunities require time and investment before we will realize net income growth.

BCLC is committed to managing our 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 our net income commitments to Government. We are continually managing costs and looking for ways to operate our business more efficiently and effectively.

Major Capital Projects

Currently there are no major capital projects (over \$50 million) approved through our 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.

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 back 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.

All BCLC capital expenditures (refer to Financial Plan) are planned to be purchased through Lottotech, with the only exception being employee costs related to developing assets or attributable to preparing the asset for its intended use.

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	2017/18 Actual	2018/19 Forecast	2019/20 Budget	2020/21 Budget	2021/22 Budget
Total Revenue	63.2	64.7	69.1	74.0	81.2
Total Expenses	63.0	64.5	68.9	73.8	81.0
Income from Operations	0.2	0.2	0.2	0.2	0.2
Other Income (Expenses)	(1.0)	(2.5)	(0.4)	(0.4)	(0.4)
Net Income (Loss)	(0.8)	(2.3)	(0.2)	(0.2)	(0.2)

Lottotech’s publicly available financial statements can be found in [BCLC’s 2017/18 Annual Service Plan Report](#).

Business Units' Income Statement

\$ millions	<u>Actual</u> <u>2017/18</u>	<u>Forecast</u> <u>2018/19</u>	<u>Budget</u> <u>2019/20</u>	<u>Budget</u> <u>2020/21</u>	<u>Budget</u> <u>2021/22</u>
Lottery					
Revenue	477	518	495	508	512
Less: direct expenses	<u>84</u>	<u>91</u>	<u>101</u>	<u>104</u>	<u>105</u>
	<u>393</u>	<u>427</u>	<u>394</u>	<u>404</u>	<u>407</u>
Operating expenses:					
General Operating	45	53	58	58	55
Gaming Support	15	15	16	17	18
Amortization	8	9	9	8	16
Other	<u>1</u>	<u>2</u>	<u>3</u>	<u>3</u>	<u>3</u>
	<u>69</u>	<u>79</u>	<u>86</u>	<u>86</u>	<u>92</u>
Net Income Before Taxes	324	348	308	318	315
Taxes	<u>11</u>	<u>13</u>	<u>14</u>	<u>14</u>	<u>15</u>
Net income	<u><u>313</u></u>	<u><u>335</u></u>	<u><u>294</u></u>	<u><u>304</u></u>	<u><u>300</u></u>
e-Gaming					
Revenue	120	145	158	169	177
Less: direct expenses	<u>21</u>	<u>31</u>	<u>31</u>	<u>33</u>	<u>34</u>
	<u>99</u>	<u>114</u>	<u>127</u>	<u>136</u>	<u>143</u>
Operating expenses:					
General Operating	15	17	18	18	19
Gaming Support	7	9	10	10	10
Amortization	6	5	3	3	3
Other	<u>-</u>	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>
	<u>28</u>	<u>32</u>	<u>32</u>	<u>32</u>	<u>33</u>
Net Income Before Taxes	71	82	95	104	110
Taxes	<u>5</u>	<u>6</u>	<u>6</u>	<u>6</u>	<u>6</u>
Net income	<u><u>66</u></u>	<u><u>76</u></u>	<u><u>89</u></u>	<u><u>98</u></u>	<u><u>104</u></u>
Casino & Community Gaming					
Revenue	1,906	1,924	1,984	2,007	2,030
Less: direct expenses	<u>674</u>	<u>700</u>	<u>726</u>	<u>735</u>	<u>742</u>
	<u>1,232</u>	<u>1,224</u>	<u>1,258</u>	<u>1,272</u>	<u>1,288</u>
Operating expenses:					
General Operating	89	100	101	104	108
Gaming Support	20	21	22	22	23
Amortization	55	58	64	71	71
Other	<u>5</u>	<u>6</u>	<u>3</u>	<u>3</u>	<u>3</u>
	<u>169</u>	<u>185</u>	<u>190</u>	<u>200</u>	<u>205</u>
Net Income Before Taxes	1,063	1,039	1,068	1,072	1,083
Taxes	<u>41</u>	<u>44</u>	<u>45</u>	<u>47</u>	<u>48</u>
Net income	<u><u>1,022</u></u>	<u><u>995</u></u>	<u><u>1,023</u></u>	<u><u>1,025</u></u>	<u><u>1,035</u></u>

Operating Segments

Capital Expenditures for each Operating Segment

	2017/18	2018/19	2019/20	2020/21	2021/22
\$ Millions	Actual	Forecast	Budget	Budget	Budget
Gambling Systems					
Lottery	11	12	25	52	27
eGaming	4	3	2	2	2
Casino & Community Gaming	60	51	63	39	51
Total Gambling Systems	75	66	90	93	80
Infrastructure & Corporate Systems	6	13	14	11	9
Corporate Facilities	1	1	1	1	1
Other Capital	7	14	15	12	10
Total Capital	82	80	105	105	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 expand player participation on PlayNow.com through exciting new casino and sports content and applications to improve player experiences on mobile devices.

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 our private sector service providers to revitalize several existing casino properties throughout the province by renewing and refreshing amenities and the gambling mix to stay relevant and to encourage repeat visits. In addition, we are working towards rolling out PlayPlanner, a new, optional budgeting tool that lets players set time and money limits on slot machines to help them plan how much they want to play each day.

