



# Opportunity to operate one of the world's leading lotteries

4NLC | Market Briefing Pack



Gambling Commission

# The National Lottery at a glance

Scale	Good Causes	Players	Coverage
<p><b>c.£7.2bn annual sales<sup>1</sup></b> One of the largest lotteries in the world, in a UK lottery market with £9.4bn potential<sup>2</sup></p> <hr/> <p><b>Widely recognised</b> 99% of people in Great Britain have heard of the National Lottery<sup>3</sup></p> <hr/> <p><b>25 years in operation</b> Launched in 1994, celebrating its 25th Birthday in 2019</p>	<p><b>&gt;£40bn raised for good causes<sup>1</sup></b> Generates an average of £30m for good causes each week<sup>1</sup></p> <hr/> <p><b>565,000 grants<sup>1</sup></b> Total individual grants awarded – equivalent to 200 per postcode area</p> <hr/> <p><b>Distribution<sup>4</sup></b></p> <ul style="list-style-type: none"> <li>40% Community</li> <li>20% Heritage</li> <li>20% Arts</li> <li>20% Sports</li> </ul>	<p><b>&gt;£71 billion in prizes</b> Since launch in 1994<sup>1</sup></p> <hr/> <p><b>5,350 millionaires</b> Since launch in 1994<sup>1</sup></p> <hr/> <p><b>12 million participants</b> Every week for draw-based game, Lotto<sup>5</sup></p>	<p><b>c.45,000 retail outlets<sup>4</sup></b> Across the UK, yielding c.75% of the total sales<sup>1</sup></p> <hr/> <p><b>11m digital registrations<sup>4</sup></b> And over 6 million active registered players on national-lottery.co.uk<sup>1</sup></p> <hr/> <p><b>25% online sales<sup>1</sup></b> The digital channel's significance is growing consistently (of total revenue: 18%, 21%, 22%, 24%, 25% from FY15-19<sup>1,4,6</sup>)</p>



**Source:**

1. Camelot Media Briefing Sheet for the financial year ended Mar-19, July 2019
2. Forecast of UK lottery sales, Mintel report on UK Lotteries 2019
3. YouGov Ratings data collected from a sample of 8,823 panellists between June 2018 and June 2019
4. Camelot UK Lotteries Limited 2017/18 Annual Report & Accounts
5. Q36 of The Future of the National Lottery (31<sup>st</sup> report of session 2017-19), House of Commons Committee of Public Accounts, 5 April 2018
6. Camelot UK Lotteries Limited 2016 Annual Report & Accounts

# The importance of the National Lottery

Since 1994, the National Lottery has raised **over £40 billion<sup>1</sup>** to **support good causes** across the UK transforming lives and contributing to the arts, sports, heritage and communities. There are **12 National Lottery funders** who independently decide which projects are awarded funding.

“ We are incredibly privileged to be UK Sport and National Lottery funded. **It's been our game changer. It really has.** We are a 31-women team squad and we can train day in day out. We can look at the detail in our nutrition and in how we eat, drink and sleep. **This is all because we're full-time** at Bisham Abbey. It's seen our programme go from eighth, to third to **winning a gold medal at Rio.** It's taken time, it's been methodical and it's been planned but **we couldn't have done it without National Lottery support.** ”

Olympic Gold Medallist, Alex Danson MBE (England Hockey Captain)



Source:

1. Camelot Media Briefing Sheet for the financial year ended Mar-19, July 2019



# The National Lottery making a difference

## Culture in Coventry

With two years to go until Coventry becomes UK City of Culture in 2021, an astounding £5.2 million in National Lottery funding has been confirmed for the programme.

The Culture in Coventry campaign has been launched to raise awareness of the millions of pounds in National Lottery funding that will help to shape the year of culture, along with celebrating 25 years of supporting National Lottery projects in the area.

Over the past quarter of a century, the lives of ordinary people have been transformed in Coventry, thanks to £150 million in National Lottery funding invested in arts, heritage, community and sports projects across the city, such as the city's creative quarter, Fargo Village.



## Parkrun

Based on the original parkrun concept, a free 5km run held in local parks across the country, the Parkrun Visually Impaired project provides support for those with a visual impairment.

Less than 10% of the c.1.5 million visually impaired people in the UK are regularly active.

National Lottery funding has helped Parkrun to host taster days to introduce new visually impaired runners to the Parkrun family.

So far, over 150 people with a visual impairment have started running, walking or volunteering at events.



## Social Bite

Social Bite is a sandwich shop that has grand ambitions but every penny it makes in profit is ploughed back into supporting homeless people and tackling social problems.

Founders Josh Littlejohn and Alice Thompson were inspired by the philosophy of Nobel Peace Prize winning economist Professor Muhammad Yunus and his concept of 'social businesses' which alleviate poverty and hardship.

The enterprise has five cafes in Edinburgh, Glasgow and Aberdeen and employs and supports homeless people. 100 per cent of its profits go to charity. A quarter of the staff that Social Bite employ are from homeless backgrounds.

National Lottery funding allows the business to extend its opening hours and feed 150 more homeless people per day, while also supporting the Social Bite Academy.



## Duncan Scott

At just 21 years of age, Glasgow-born Duncan brought home six swimming medals from the 2018 Commonwealth Games, making him the most successful Scot ever at a single games.

The 20-year-old also picked up a gold and silver medal at the 2017 World Championships, two bronze medals at the 2018 British Championships and three golds and a silver at the 2018 European Championships.

Duncan was later voted the first ever 'Athlete of the Year' at the National Lottery Awards. He attributes his success in the pool to generous National Lottery funding, which has enabled him to achieve his goals and inspire the next generation of swimmers.



# The National Lottery today

Gambling Competition



# The National Lottery today

## Est. 1994

- The National Lottery was established in 1994 and in 2019 celebrates 25 years of generating funds for good causes across the UK

## National Lotteries etc. Act 1993

- The lottery was created by the National Lotteries etc. Act 1993. The Act provides that the Secretary of State and the Gambling Commission have three overriding duties:
  - To secure that the National Lottery is run, and every lottery that forms part of it is promoted, with all due propriety;
  - To secure that the interests of every participant in a lottery that forms part of the National Lottery are protected; and
  - Subject to these, to do its best in exercising its functions to secure that the net proceeds of the National Lottery for good causes are as great as possible

## Gambling Commission

- The Gambling Commission, as the regulator of the National Lottery, issues the licence to operate the lottery
  - It must be satisfied, inter alia, that the running of the National Lottery reflects its duties, as set out above, including that the licensee is fit and proper to run the National Lottery

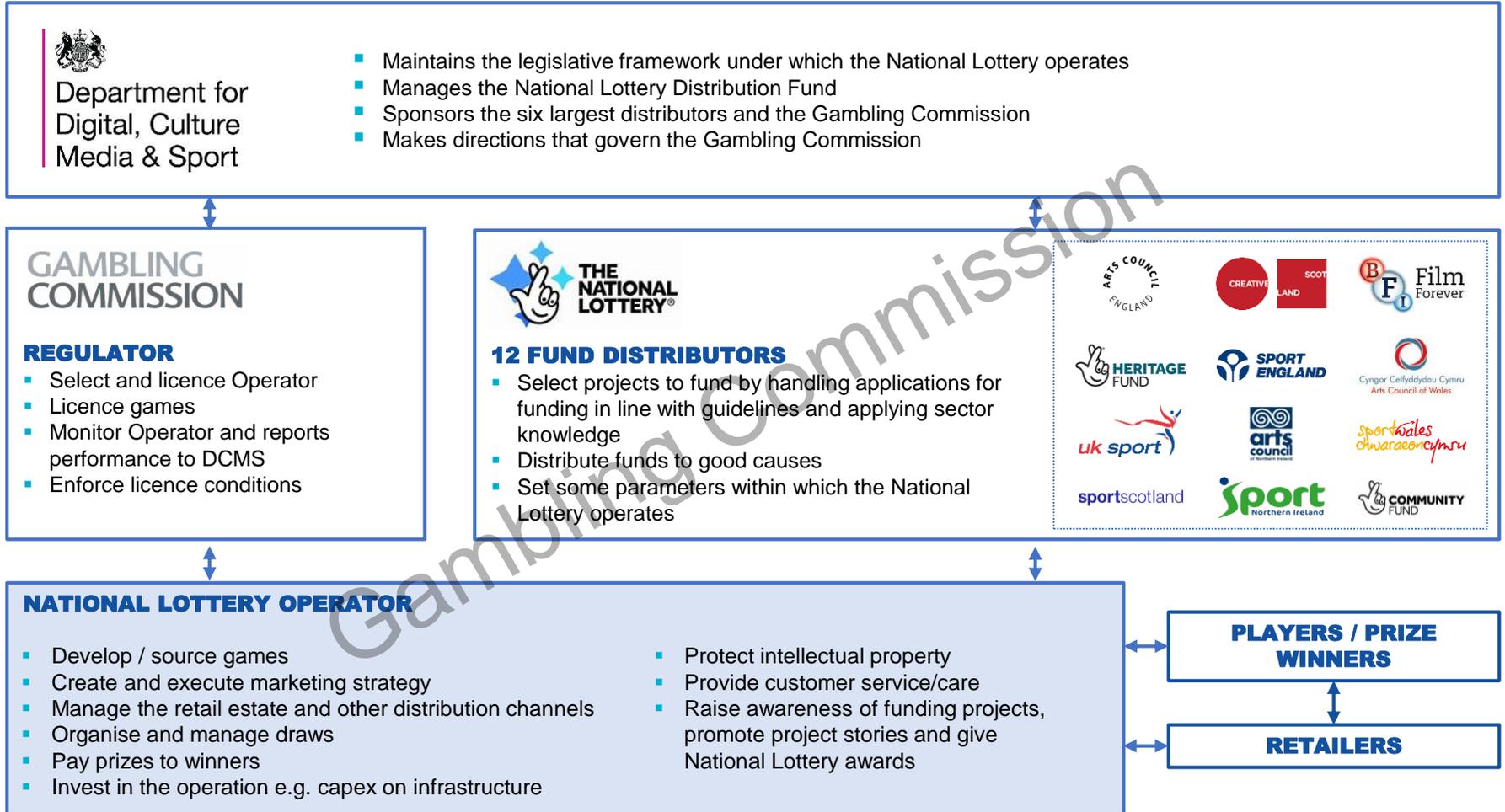
## 4NLC

- The Gambling Commission intends to launch a competition in early 2020 to award the fourth licence
  - The licence will be awarded in early 2021 and operate from January 2023
  - Currently, the fourth licence is expected to operate in the UK and the Isle of Man. The potential to extend it to UK overseas territories is being considered

## Competition and key notices

- Ahead of launching the competition, the Gambling Commission has appointed Rothschild & Co to engage with potentially interested parties to consider potential appetite to participate. This engagement is being conducted on the following basis:
  - Rothschild & Co will be engaging in confidence with a number of parties, who have taken the opportunity to meet with Rothschild & Co due to their interest in the competition, over the course of September and October 2019
  - The materials herein, and the discussions regarding these materials, make no assumptions about the decisions of the Gambling Commission or DCMS regarding the Competition
  - The discussions or views expressed by interested parties in the context of receiving these materials are commercially confidential and will not be made available to others stakeholders or published; however, the Gambling Commission is subject to the Freedom of Information Act

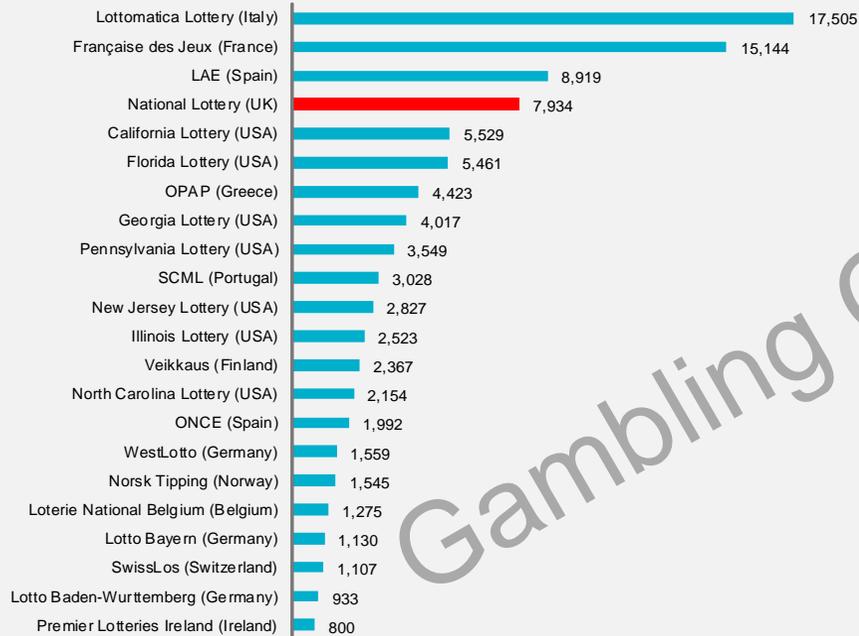
# The National Lottery landscape



# The National Lottery in an international context

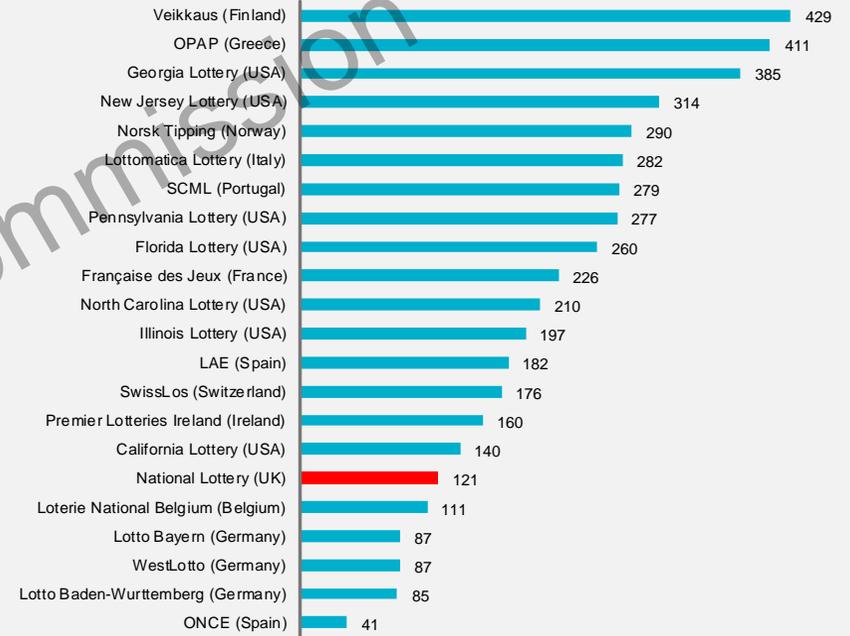
## The National Lottery is one of the largest lotteries globally...

2017 Sales<sup>1</sup>  
EURm



## ... but has room to grow per capita spend

2017 Sales per capita<sup>1</sup>  
EUR



Source:

1. MECN Lottery Benchmarking January 2019

Note:

Lotteries with VLT sales not included (only exceptions are lotteries which explicitly offer a detailed segment-specific reporting)

Sales in different jurisdictions are influenced by the make-up of the product portfolio and therefore may not be directly comparable with the National Lottery

# The National Lottery in a local context

## Large and growing UK lottery market...

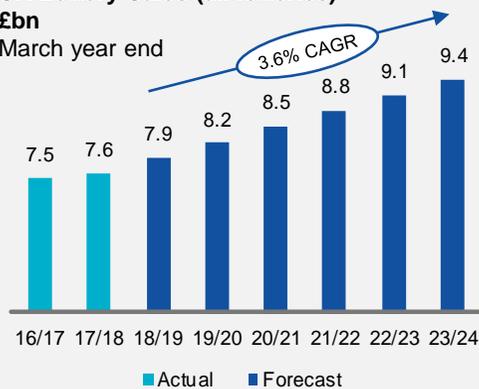
### £9.4bn market potential

The lottery market in the UK is projected to grow at 3.6% (CAGR) per year from 2019, to a total of £9.4bn by 2024<sup>1</sup>

#### UK Lottery Sales (all lotteries)<sup>1</sup>

£bn

March year end



#### Drivers<sup>1</sup>

- New game formats
- Digital initiatives and online growth
- Bigger prizes
- Annuity games interest different players
- Investment in marketing
- Society lotteries volume growth

### Growth leading to greater returns to good causes

The market is in a good position to flourish with the forecast sales of £9.4bn driven by both the growth of the National Lottery and society lotteries. This will lead to a consequential benefit to returns to good causes<sup>1</sup>

## ... The National Lottery is well positioned to capitalise on this growth

### Large scale

National Lottery sales c.£7.2bn<sup>4</sup> vs. large society lotteries combined c.£675m sales<sup>1</sup>

### Safe place to play

The success of player protection standards currently in place are evident: National Lottery games were associated with the lowest rates of problem gambling out of a broad range of gambling products considered in a recent study<sup>2</sup>

### Excellent and widely recognised brand

The National Lottery is a national treasure and the brand is known across the country, with 99% of people in Great Britain having heard of the National Lottery<sup>3</sup>

### Rich history of prize giving and returns to good causes

The National Lottery has now raised over £40bn to good causes, awarded 565,000 grants, and awarded £71bn in prizes while making 5,350 millionaires<sup>4</sup>

### Large, established retail network

With c.45,000 terminals across the country, 96% of the UK adult population live or work within two miles of a terminal<sup>5</sup>

### Digitally enabled with strong and growing user base

6 million active registered players on national-lottery.co.uk, while 11 million have registered so far. Circa 25% of sales now come from digital channels vs. 18% in FY15<sup>4,6</sup>

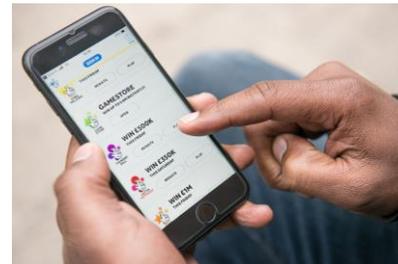
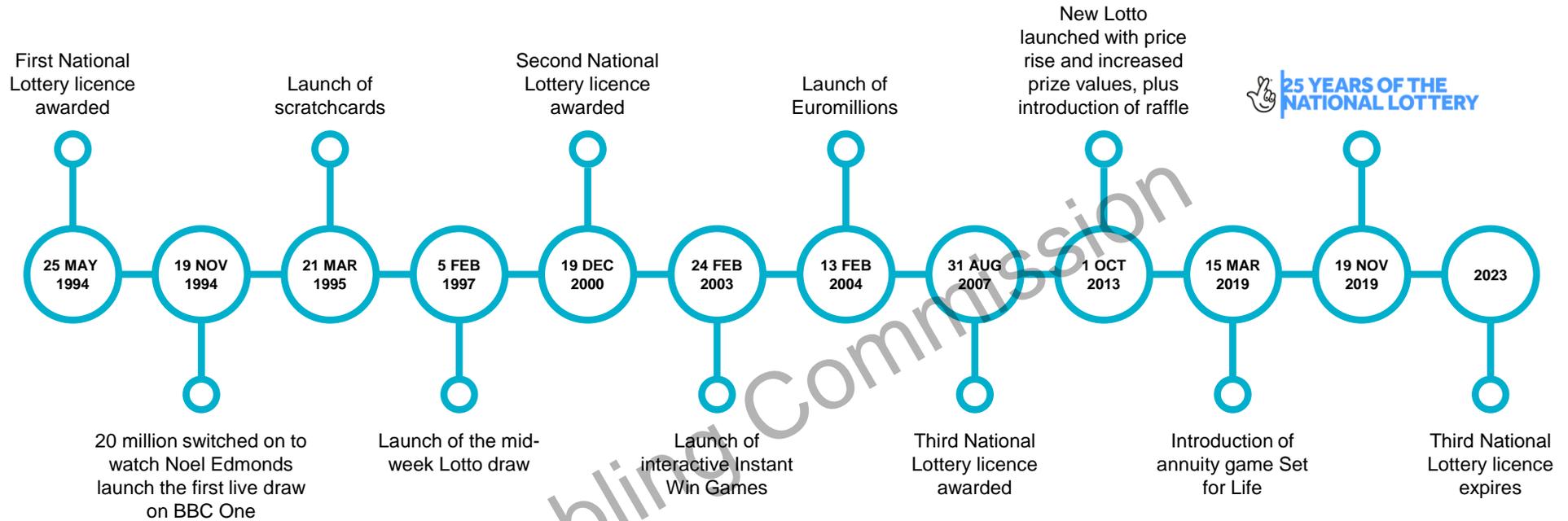
### Low direct competition with broader gambling industry

The National Lottery accesses a broad demographic as it appeals to people who would otherwise not participate in more traditional gambling activities. Additionally, direct competition is weaker in the retail setting vs. online, where online instant win games face similar products from casino and bingo verticals<sup>7</sup>

Source:

1. Forecast of UK lottery sales, Mintel report on UK Lotteries 2019
2. Consultation on the minimum age for playing National Lottery games, Department for Digital, Culture, Media & Sport, July 2019
3. YouGov Ratings data collected from a sample of 8,823 panellists between June 2018 and June 2019
4. Camelot Media Briefing Sheet for the financial year ended Mar-19, July 2019
5. Camelot UK Lotteries Limited 2017/18 Annual Report & Accounts
6. Camelot UK Lotteries Limited 2016 Annual Report & Accounts
7. Mintel report on UK Lotteries 2018

# The National Lottery through the years



Source:  
1. Gambling Commission

# Overview of the current National Lottery game portfolio

National Lottery games consist of draw-based games such as Lotto and EuroMillions, scratchcards with prices ranging between **£1 to £5**, and online interactive instant win games, which can range from **25p to £5**

## There are a number of ways to play the National Lottery:

- ◆ At one of the National Lottery retailers throughout the UK marked by the crossed fingers logo, of which there are approximately **45,000<sup>1</sup>**
- ◆ Online, using a mobile, tablet or desktop at [www.national-lottery.co.uk](http://www.national-lottery.co.uk), or via the National Lottery app on a smartphone
- ◆ Option to pay by recurring direct debits

## New annuity game – Set for Life

- ◆ The National Lottery has introduced a new game in 2019. Instead of a one-off lump-sum payment, the jackpot prize will be a set amount of money paid each month for 30 years. This type of game has proved popular in international markets, particularly amongst younger players



Source:

1. Camelot UK Lotteries Limited 2017/18 Annual Report & Accounts



### LOTTO

The UK's favourite lottery game every Wednesday and Saturday – with prizes ranging from a free Lotto Lucky Dip for matching just two main numbers, to **£1 million** for matching five numbers plus the Bonus Ball, while six main numbers scoops the **jackpot**. Tickets cost **£2** per play



### EUROMILLIONS

Tuesdays and Fridays are the biggest jackpots, plus one guaranteed **£1 million** prize for UK players every draw with the UK Millionaire Maker. Tickets cost **£2.50** per play and includes automatic entry into the UK Millionaire Maker draw



### NATIONAL LOTTERY INSTANTS

Scratchcards are the games with the best odds – on average **six players win every second**. And our range of interactive games with instant cash prizes are available to play online or on mobile. Prizes of up to **£4 million** available



### LOTTO HOTPICKS

Tickets are priced at **£1** for a chance to win up to **£350,000** by picking and matching fewer Lotto HotPicks numbers against the Lotto draw every Wednesday and Saturday



### EUROMILLIONS HOTPICKS

A chance to win bigger prizes by picking and matching fewer EuroMillions HotPicks numbers against the EuroMillions draw every Tuesday and Friday. Tickets are priced at **£1.50**



### THUNDERBALL

The best chance to win **£500,000** on a **£1** game – every Tuesday, Wednesday, Friday and Saturday



### SET FOR LIFE

A chance to win a top prize of **£10,000** a month for **30 years**, every Monday and Thursday



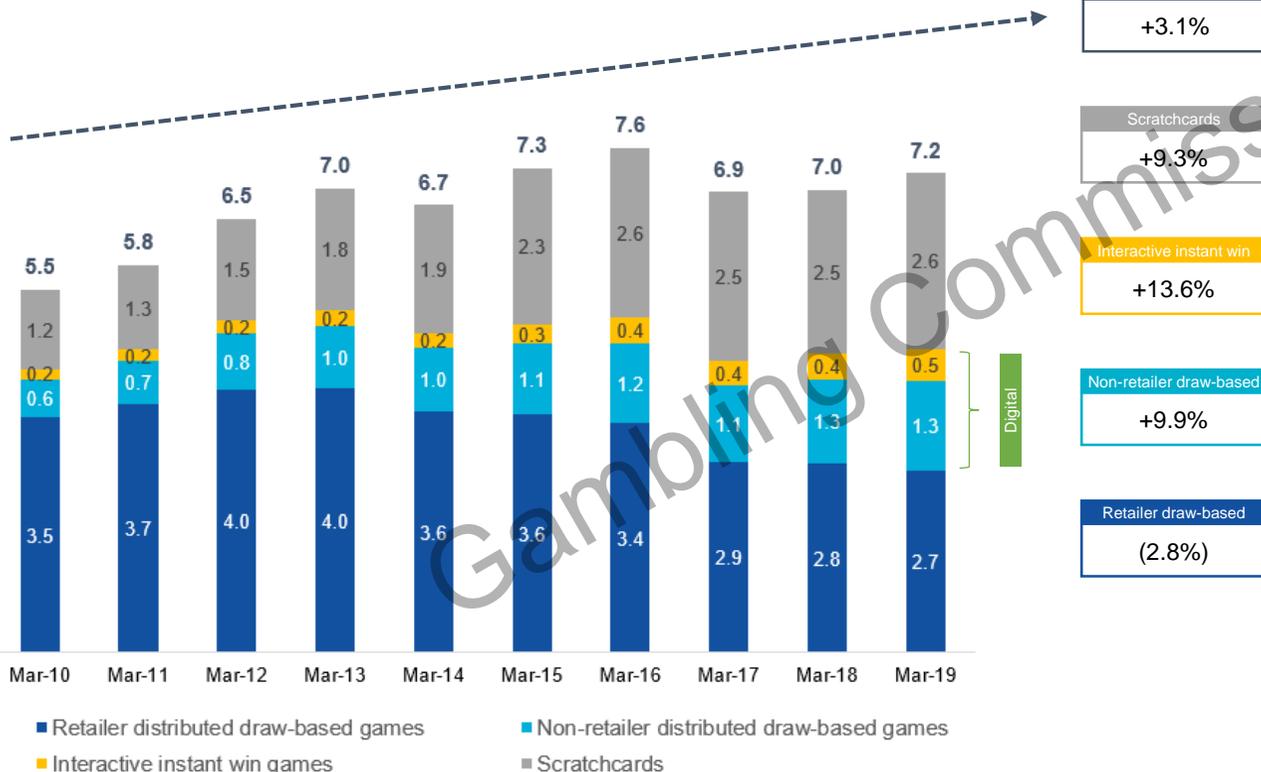
# Sales channels and evolution of game type mix

## Evolution of game type mix<sup>1,2,3</sup>

£bn

Financial year ended March

CAGR 2010-19



## Key events<sup>2,4,5</sup>

- 2011**
  - Rollover limit increased
- 2013**
  - An additional 8,000 lottery terminals
  - Bigger low-end prizes offered
  - Ticket price increased from £1 to £2
- 2014**
  - 4,000 scratchcard terminals installed
- 2015**
  - Now 47,000 terminals from 29,000 in 2012
  - Added 6,000 scratchcard only terminals bringing total to over 10,000
  - Ball pool increases from 49 to 59
  - Four-rollover limit is scrapped
- 2016**
  - Lotto Jackpot reduced to £22m, increasing frequency of 'must win' jackpots
- 2017**
  - Challenges leading to sales decline<sup>6</sup>
    - Global trends
    - Game changes
    - Player behaviour changes
    - Licence inflexibility
    - Competition
- 2018**
  - New Android app released
  - Bigger jackpots
  - Maximum of five rollovers
  - Lotto Millionaire Raffle ends
  - Rollout of terminals to discount retailers e.g. Aldi
  - Retail terminals now at c.45,000
- 2019**
  - 'Set For Life' annuity game launches



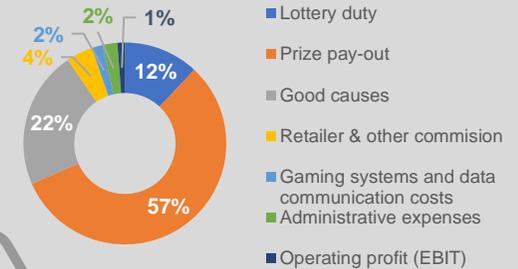
Source:

- Gambling Commission regulatory reporting data (note: 2009/10: 14 month accounting period, draw-based games assumption on retail and non-retail)
- Camelot UK Lotteries Limited 2010/11 - 2017/18 Annual Report & Accounts
- Camelot Media Briefing Sheet for the financial year ended Mar-19, July 2019
- Key events, Lottery.co.uk
- News, camelotgroup.co.uk
- House of Commons Committee of Public Accounts, The future of the National Lottery (26 March 2018)

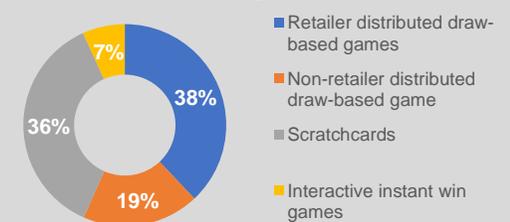
# Current operator's financials

£ million	Unaudited		
Financial year ended March	2016/17	2017/18	2018/19
Gross ticket sales	6,925	6,952	7,207
<i>Sales growth</i>		0.4%	3.7%
Lottery duty	(831)	(834)	
Retailers' and other commission	(300)	(294)	
<i>Commissions growth</i>		(1.9%)	
Total prizes	(3,943)	(3,928)	
<i>Prizes growth</i>		(0.4%)	
Returns to good causes	(1,496)	(1,533)	
<i>Returns to good causes growth</i>		2.5%	
<b>Net sales</b>	<b>355</b>	<b>362</b>	
Gaming Systems & Data Communications cost	(91)	(121)	
Employee costs	(37)	(48)	
Marketing costs	(91)	(70)	
Depreciation & Amortisation	(29)	(33)	
Other costs	(22)	(8)	
<b>Operating profit</b>	<b>86</b>	<b>82</b>	
<i>Operating profit growth</i>		(4.7%)	
<i>Operating profit % of net sales</i>	24.3%	22.7%	
<b>Capex</b>	<b>26</b>	<b>22</b>	

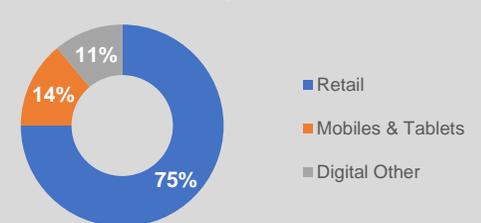
FY18 – Financial split<sup>1</sup>



FY19 – Sales mix by game<sup>2,3</sup>



FY19 – Sales mix by channel<sup>3</sup>



Notes:

1. Latest available data at August 2019 (full P&L not available for financial year 2018/19)

Source:

1. Financial accounts and segmentation, Camelot UK Lotteries Limited 2010/11 - 2017/18 Annual Report & Accounts
2. Gambling Commission analysis on game type mix
3. Camelot Media Briefing Sheet for the financial year ended Mar-19, July 2019

# Current lottery infrastructure



## Technology solution requirements under existing licence

- Needs to include the following: all computer hardware, software, data, gaming technology, telecommunications, data centre(s) and other facilities associated with the running of the National Lottery
- Must be fit for purpose, supported, available, secure, performant, resilient and capable of change
- Must provide the means to verify data independently



- Retail outlets provide c.75% of all National Lottery sales<sup>1</sup>
- Approximately 45,000 retail terminals currently in use<sup>2</sup>
- 96% of the UK adult population live or work within two miles of a terminal<sup>1</sup>



- Digital is a high growth and increasingly important channel with over 11 million registered online and mobile players<sup>2</sup>
- Approximately 25% of sales during 2018/19 came through digital channels, 55% of which came via mobile devices<sup>1</sup>
- Each week, the National Lottery's infrastructure processes over an average of 8 million draw-based game transactions and over an average of 4 million instant win game transactions<sup>3</sup>
- Spikes in the average number of online draw-based game transactions during high value roll over periods can increase by up to 35% in any one day<sup>3</sup>



Source:

- Camelot Media Briefing Sheet for the financial year ended Mar-19, July 2019
- Camelot UK Lotteries Limited 2017/18 Annual Report & Accounts
- Information provided by Camelot UK Lottery 20/08/2019 – Average numbers of online transactions for both Draw Based Games and Instant Win Games provided

# Current operational landscape

## Game Delivery, Promotions and Marketing

- Delivery of all game types, including running the game draws, complaint management
- 60 scratchcards currently in the market and 10 weekly draws<sup>1</sup>
- Planning and delivery of marketing activities, including managing promotions and marketing assets, management of National Lottery IP

## Organisational Management

Management of key functions (both front and back office), including:

- c.740 staff in total<sup>4</sup>
- 1 contact centre open 8am – 8pm Mondays-Saturday, 9am – 5pm Sundays<sup>5</sup>
- Average of c. 40,000 calls handled per month<sup>6</sup>

## Logistics

Movement of product (tickets, scratchcards, promotional materials), reverse logistics, 3PL management

- Average of c.1bn unique scratchcards printed each year<sup>2</sup>
- Average of c.22.3m draw-based game tickets printed per week<sup>2</sup>
- Average of c.16,000 printer rolls sent to c.4,000 retailers per week<sup>2</sup>
- Average of 29,200 requisition orders raised per week (82% scratchcards only, 14% consolidated, 5% consumables e.g. till roll and playslips)<sup>2</sup>
- 97% of orders are delivered the following day<sup>3</sup>

## Security and Infrastructure

Player protection management (prevention of underage / problem gambling)

- c.10,000 test visits to retailers per year to help prevent underage gambling<sup>7</sup>
- Retailer network availability target at 99.5%<sup>8</sup>
- Fraud prevention protocols and controls
- 2 data centres in use<sup>9</sup>
- Website availability target at 99.5%<sup>8</sup>
- >8m online draw-based game and >6m online instant win game transactions processed on average per week<sup>9</sup>
- Spikes in the average number of online draw-based game transactions during high value roll over periods can increase by up to 35% in any one day<sup>2</sup>

## Retailer and Customer Management

POS / Terminal estate management, oversight of retailers' adherence of standards, retailer remuneration / cash management and complaints management

- c. 45,000 retail terminals across the UK<sup>4</sup>

## Financial Management

Remittance of funds to the National Lottery Distribution Fund, holding of player, prize (including rollover) and good causes funds in trust arrangements, prize management (prize payment and unclaimed prizes)

- 180 days to claim prizes before given to good causes<sup>10</sup>
- Top prize management system to ensure games are withdrawn after all prizes >£121,000 have been won<sup>11</sup>



Sources:

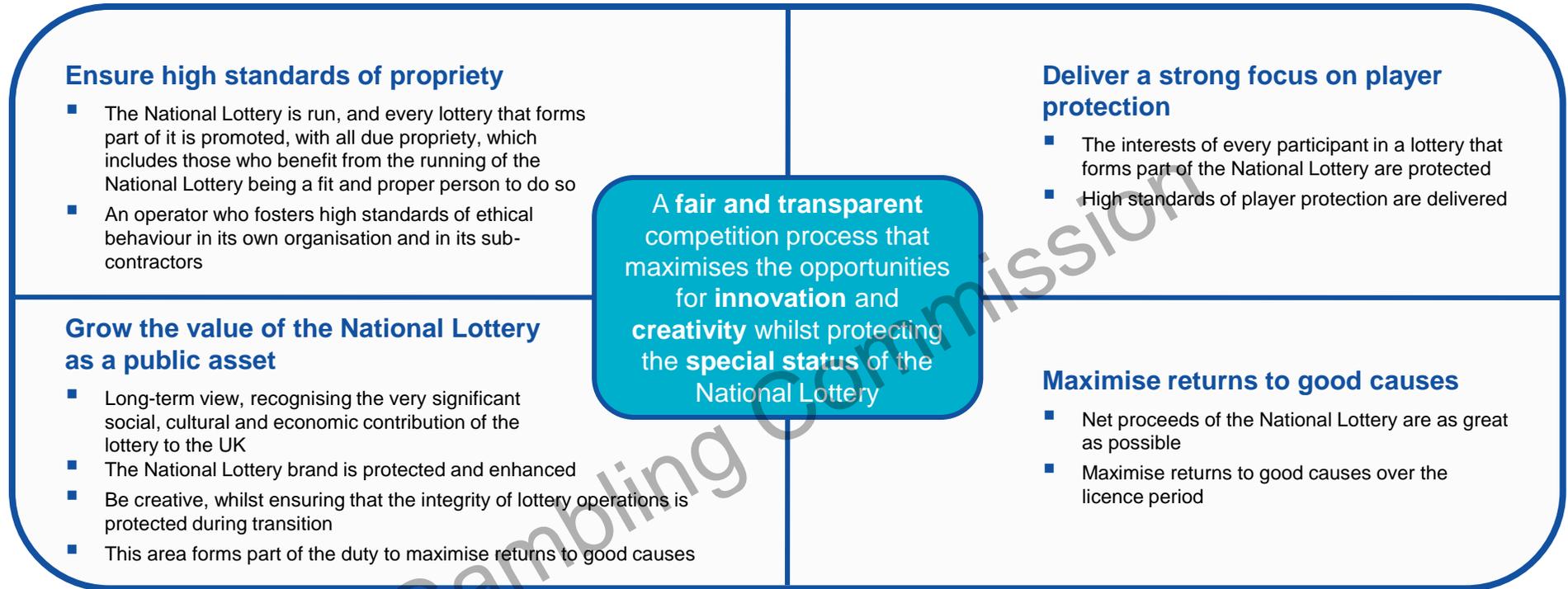
1. [www.national-lottery.co.uk/games/gamestore/scratchcards/current-scratchcards](http://www.national-lottery.co.uk/games/gamestore/scratchcards/current-scratchcards), correct as at 29/08/2019
2. Information provided by Camelot UK Lottery 20/08/2019 – Note: Not all scratchcards printed are sold, some are lost, stolen or returned
3. <http://www.camelotgroup.co.uk/our-people/our-teams>, correct as at 29/08/19
4. Camelot UK Lotteries Limited 2017/18 Annual Reports & Accounts
5. <https://www.national-lottery.co.uk/contact-us/get-in-touch>
6. Provided by Camelot for the period FY18/19 – Average number of calls taken by call centre is used which is sensitive to rollovers and incidents
7. <http://camelotgroup.co.uk/what-we-do/promoting-responsible-play/protecting-players-in-store>, correct as at 29/08/2019
8. Provided by Camelot for the period FY18/19 – Availability targets are taken from period reports provided to the Gambling Commission
9. Provided by Camelot correct as at 29/08/2019 – Number of average online transactions provided for both draw based and interactive instant win games from hours of 05.00-01.00 & supplemental data provided for periods of high value rollovers
10. Information provided by National Lottery correct as at 29/08/2019, <https://www.lottery.co.uk/unclaimed-lottery-prizes>
11. <https://www.national-lottery.co.uk/games/gamestore/scratchcards/code-of-practice>

# Preliminary thoughts on the 4<sup>th</sup> National Lottery Licence

Gambling Commission



# The Gambling Commission's objectives regarding 4NLC



## Deliver 'outcomes focused' licensing regime from a robust and fair competition

- A level playing field for all potential bidders for the 4th licence
- A competition process which tests a range of potential sources of interest and capital, and secures an operator who is financially sound
- Be transparent and seek innovation, whilst safeguarding sustainability of the National Lottery

Preliminary thoughts – may not be reflected in licence

# Delivering the objectives – key principles that will shape the 4<sup>th</sup> licence

## 1 Protecting the National Lottery asset

### Propriety

- Compliance with standards of governance, an ethical framework, cyber security, fit and proper requirements
- Act with integrity

### Branding

- Use, manage, develop, protect and grow the National Lottery brand
- Ensure strong links to good causes
- Work with distributors to enhance customers' understanding of the link between National Lottery games and the raising of funds for good causes

### Financial resilience

- Single purpose entity to hold licence
- Financial robustness and resilience throughout the licence period

### Transition

- Managed transition for 3<sup>rd</sup> to 4<sup>th</sup> licence and from 4<sup>th</sup> to 5<sup>th</sup> licence

## 2 Protecting and engaging players

### Player protection

- Develop, maintain and assure effectiveness of a player fairness and protection strategy
- Advertise the National Lottery responsibly
- Manufactured near miss game mechanics may be prohibited
- No premium rate phone services or provision of credit (playing by credit card is under review)
- Responsible use of player data and GDPR compliance

### Channels of sale

- Core availability and accessibility principle
- Operator to determine reasonable access subject to one terminal per postcode >2,000 population

### Game portfolio

- Requirement for national draw with life changing prize
- Flexibility for operator to determine games and attractiveness through game innovation to drives returns to good causes without compromising player protection
- Streamlined game approval process focused on assurance on outcomes

## 3 Maximising returns to good causes

### Core principles

- Single operator licence model
- Up to 10 years; depending on performance

### Alignment between good causes and the operator

- Based on a new retention model that incentivises operator performance
  - With a fixed payment
  - Plus a variable element linked to profitability
- Tools to manage underperformance of returns to good causes
- Terms set by competition
- No limit on returns subject to meeting the terms of the licence
- Financial risks managed on the basis of assurance principles

## 4

Underpinned by a **new licencing and regulatory model approach** that **focuses on outcomes** and provides the operator with the flexibility to innovate and meet consumer habits, recognising the opportunities and challenges created by changing market dynamics

# Overview of preliminary thoughts on key policy areas

1	Protecting the National Lottery asset	Monitoring
<b>Propriety</b>	<ul style="list-style-type: none"> <li>▪ Satisfy “fit and proper” criteria – standards of integrity required</li> <li>▪ Compliance with standards of governance (e.g. UK Corporate Governance Code) and ethical frameworks for decision making</li> <li>▪ Set out principles and approach to cyber security (based on National Cybersecurity Centre Guidance) and comply with relevant standards</li> </ul>	
<b>Branding</b>	<ul style="list-style-type: none"> <li>▪ Operator autonomy to use, manage, develop, invest in and protect the National Lottery IP (which is assigned to the Gambling Commission) and brand subject to guidelines                             <ul style="list-style-type: none"> <li>– Not to be used for non-National Lottery products / services</li> </ul> </li> <li>▪ Submit a Brand Communications Strategy that ensures the National Lottery remains instantly recognisable and distinctive                             <ul style="list-style-type: none"> <li>– Must ensure strong links to good causes and demonstrate how this will be achieved</li> </ul> </li> <li>▪ Demonstrate proposals to work with distributors to enhance customers’ understanding of the link between National Lottery games and the raising of funds for good causes</li> </ul>	<ul style="list-style-type: none"> <li>▪ Satisfy required criteria</li> <li>▪ Demonstrate ongoing compliance via regular monitoring and assurance statements (and, where relevant, performance metrics)</li> </ul>
<b>Financial resilience</b>	<ul style="list-style-type: none"> <li>▪ Requirement for a single purpose entity to hold the licence</li> <li>▪ Demonstrate financial robustness and resilience at competition stage and demonstrate the ability to meet financial thresholds throughout the licence period</li> <li>▪ Utilise licence conditions and regulatory tools to ensure continued resilience e.g. ring fencing player funds and separating National Lottery operations from other activities of the Licensee</li> </ul>	<ul style="list-style-type: none"> <li>▪ Gambling Commission ability to request evidence at any time</li> </ul>
<b>Transition</b>	<ul style="list-style-type: none"> <li>▪ Managed through a co-operation agreement between incoming / outgoing operators</li> <li>▪ Asset condition will be assessed by the Gambling Commission</li> <li>▪ 2 year mobilisation and handover period</li> <li>▪ Proposals for transition strategy will be a key component of bid evaluation – see next slide</li> </ul>	<ul style="list-style-type: none"> <li>▪ Gambling Commission can intervene in case of non-compliance</li> </ul>

# Transition overview

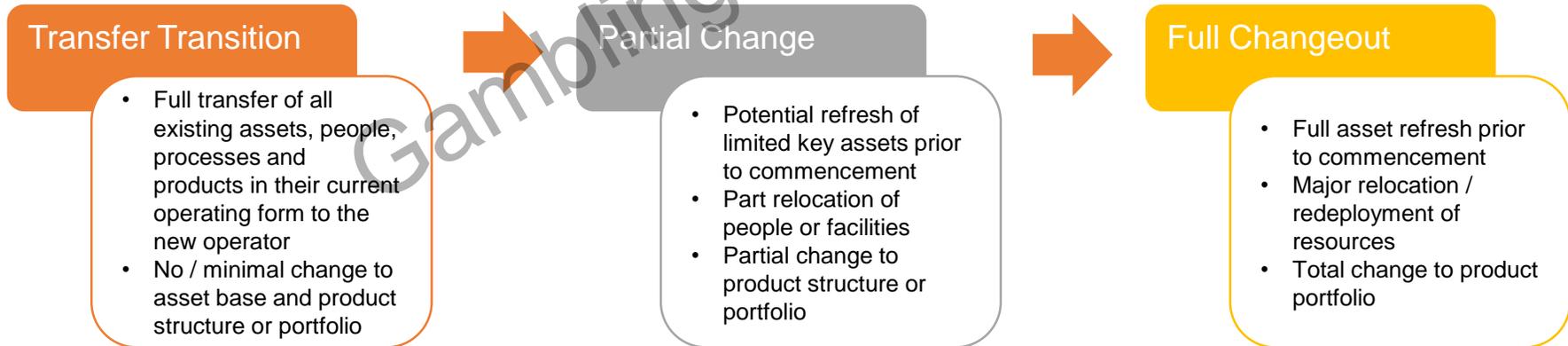
## 3NL to 4NL

- **Transfer transition:** all assets (technical, physical, personnel and intellectual) may be transferred, cost free, to the new operator on expiry of the current licence
- **Co-operation agreement** between incoming and outgoing operators to ensure data, information and processes are exchanged in a timely, open and transparent manner, for an orderly handover of National Lottery assets, services, infrastructure and products and/or to facilitate the integration plan for new infrastructure
- **Asset condition** to be established pre-expiry, be “fit for purpose” (under 3NL) at the end of the licence and have a life expectancy of use two years thereafter
- **Transfer of Licensee Assets and Novation of Key Subcontracts to Successor Licensee:** Current operator to arrange
- **2 year handover** anticipated from licence award with a provision for the current operator to provide an exit Transition Plan no later than 3 months into the Handover Period

## 4NL to 5NL

- Principles aligned to previous transition process:
  - The retention, protection and enhancement of National Lottery assets throughout the licence Period, and beyond, for future operators
  - A planned, collaborative transfer of assets, services, infrastructure and products to the incoming Licensee on expiry of the 4th licence

Operator may include alternative proposals for transition subject to demonstration of the risk mitigation proposals and benefits of such a change



Reconfiguration of existing technology assets to support the implementation and running of the 4th licence will be the incoming operator’s responsibility with support from the existing operator

# Overview of preliminary thoughts on key policy areas

2 Protecting and engaging players	Monitoring	
<p><b>Player protection</b></p>	<ul style="list-style-type: none"> <li>Develop, maintain and assure effectiveness of a player protection strategy</li> <li>Include measures to minimise the risk of harm to players (e.g. excessive / underage play, transparency of information, winner support, player funds, complaints and contributing to research and education)</li> <li>Advertise responsibly and comply with and comply with the Advertising Standards Agency Code CAP and BCAP codes of practice</li> <li>Manufactured near miss game mechanics may be prohibited</li> <li>No premium rate phone services or provision of credit (playing by credit card is under review)</li> <li>Responsible use of player data outside of the National Lottery and compliance with GDPR including seeking Gambling Commission approval where appropriate / required and anonymising personal information</li> </ul>	<ul style="list-style-type: none"> <li>Satisfy required criteria</li> <li>Demonstrate ongoing compliance via regular monitoring and assurance statements</li> <li>Gambling commission can intervene in case of non-compliance</li> </ul>
<p><b>Channels of sale</b></p>	<ul style="list-style-type: none"> <li>Ensure games are available and accessible as widely as possible to maximise returns to good causes</li> <li>Operator to determine reasonable access subject to one terminal per postcode &gt;2,000 population</li> <li>No minimum terminal threshold</li> <li>Ensure any retailer commission paid is in line with maximising returns to good causes and maintains the strength of the brand</li> </ul>	
<p><b>Game portfolio</b></p>	<ul style="list-style-type: none"> <li>Requirement for a national draw with a life changing prize</li> <li>Flexibility for operator to determine games and attractiveness through game innovation to drive returns to good causes without compromising player protection</li> <li>Streamlined approach to games' development and Gambling Commission approval to enable the operator to quickly react to market changes</li> <li>Game approval framework focused on assurance on outcomes</li> </ul>	

# Overview of preliminary thoughts on key policy areas

3 Maximising returns to good causes	Monitoring	
<p><b>Core principles</b></p>	<ul style="list-style-type: none"> <li>Single operator licence model</li> <li>Up to 10 years; depending on performance</li> <li>Core licence period includes the provision for transition to the fifth licence</li> </ul>	<ul style="list-style-type: none"> <li>Drafted in accordance with statute</li> </ul>
<p><b>Alignment between good causes and the operator</b></p>	<ul style="list-style-type: none"> <li>Market engagement points to merits of a new retention model that incentivises operator performance such that profits grow in alignment with returns to good causes, including:                             <ul style="list-style-type: none"> <li>A fixed payment in the form of an annualised fixed contribution</li> <li>Plus a variable element on a percentage basis linked to operating profit (before returns to good causes)</li> <li>These thresholds would, in principle, be subject to competition</li> </ul> </li> <li>See next slide</li> </ul>	<ul style="list-style-type: none"> <li>Onus on operator to demonstrate</li> <li>Ongoing compliance via regular monitoring and assurance statements</li> </ul>
	<ul style="list-style-type: none"> <li>Terms set by competition not regulation – operator to provide a business plan as part of 4NL competition</li> <li>No limit on returns to the operator subject to meeting the terms of the licence</li> <li>The Gambling Commission will use a range of regulatory tools to ensure financial resilience</li> </ul>	

# High level overview of the retention mechanism

The retention structure is a key tool to incentivise the operator’s strategies to maximise returns to good causes, enables innovation over time, and protects public trust in the National Lottery

Licence	3NL	4NL
Overview	<ul style="list-style-type: none"> <li>▪ <b>Variable element:</b> A fixed share of net sales to good causes (net sales: gross sales minus prize pay-out, retailer commission, lottery duty and the gross sales retention)</li> <li>▪ <b>Profit share element:</b> additional contribution to good causes, calculated as % share of operator profit beyond a specified threshold</li> </ul>	<p>Market engagement points to merits of a new retention model that incentivises operator performance such that profits grow in alignment with returns to good causes, including:</p> <ul style="list-style-type: none"> <li>▪ <b>Fixed element:</b> Annual fixed contribution to good causes</li> <li>▪ <b>Variable element:</b> A fixed share of the “surplus” between National Lottery income after prizes and costs (costs before distribution to good causes, excluding financing costs and senior management remuneration)</li> </ul>
Challenges and opportunities	<ul style="list-style-type: none"> <li>× <b>Divergence between operator profit and profit growth and returns to good causes:</b> Returns for good causes were only 2% higher in 2016/17 than in 2009/10, whereas the operator’s profits were 122% higher<sup>1</sup></li> <li>× <b>Product mix:</b> Operator’s commercial incentives in relation to different types of lottery products may not be aligned with generation of returns for good causes</li> <li>× <b>Product innovation:</b> Complex and extensive approvals process for new products and games</li> <li>× <b>Marketing and investment:</b> Limited commercial incentives for marketing and investment in certain circumstances</li> </ul>	<ul style="list-style-type: none"> <li>✓ <b>Alignment of incentives:</b> profit growth / contraction is much more aligned with returns to good causes</li> <li>✓ <b>Promotes innovation:</b> E.g. allows for streamlined games development to react to changes in customer behaviour</li> <li>✓ <b>Oversight:</b> Reduces the Gambling Commission’s likelihood of intervening with regard to the operator’s commercial strategy</li> <li>✓ <b>Accountability:</b> Operator has greater accountability for performance on returns to good causes as the Gambling Commission is less involved in its commercial approach</li> <li>✓ <b>Risk control:</b> Operator’s risk exposure is controlled</li> </ul>

Source:  
1. House of Commons Committee of Public Accounts, The future of the National Lottery (26 March 2018)

# Retention mechanism – illustrative example

Market engagement points to merits of a new retention model that incentivises operator performance such that profits grow in alignment with returns to good causes, including:

- **Fixed element:** Annual fixed contribution to good causes
- **Variable element:** A fixed share of the “surplus” between National Lottery income after prizes and costs (costs before distribution to good causes, excluding financing costs and senior management remuneration)

## Illustrative examples to demonstrate the mechanics of the retention calculation

Surplus calculation	A	B
Gross sales per annum	£7,000m	£8,000m
Sum of prize pay-out, lottery duty, retail commission, marketing, depreciation and other operating costs (excluding returns to good causes, finance costs and senior management remuneration)	(£5,400m)	(£6,000m)
<b>Surplus</b>	<b>£1,600m</b>	<b>£2,000m</b>

Operator profit	A	B
12.5% share of surplus	£200m	£250m
Less annual fixed contribution to Good Causes	(£150m)	(£150m)
<b>Operating profit</b>	<b>£50m</b>	<b>£100m</b>

Good Causes retention	A	B
88.5% share of surplus	£1,400m	£1,750m
Annual fixed contribution	£150m	£150m
<b>Total return</b>	<b>£1,550m</b>	<b>£1,900m</b>

The thresholds (operator share of surplus and annual fixed contribution) would, in principle, be subject to competition

# Overview of our planned regulatory approach

## 4 New licencing and regulatory model approach for the 4th licence – moving to a more outcomes focused approach

In line with regulatory best practice, the Gambling Commission intends to adopt, where appropriate, an **outcomes focused approach to regulating** the operation of the National Lottery rather than the current detailed and prescriptive licence. The Gambling Commission's intention is that this will allow the operator of the 4<sup>th</sup> licence greater **freedom to innovate as well as take greater ownership and responsibility for its performance and delivery** to the licence.

### Outcomes focused, risk based and evidence led regulation

- It may be possible for the operator to adopt a range of reasonable approaches to achieve the desired outcomes
- Likely to see balance struck between outcomes vs. prescription relative to the risks posed to statutory duties

### Refreshed, simplified and modernised licence content

- Limited rollover of 3NL content - the next licence will look and work differently in practice
- Plainer English and a shorter document which is easier for the operator, regulator and stakeholders to understand

### Less involvement from the Gambling Commission over time with a concept of earned autonomy

- Operator to work to agreed KPIs and a monitoring regime; no Gambling Commission involvement in day-to-day activities of the operator or in defining or approving operator strategies or procedures
- The Gambling Commission retains right to intervene as appropriate relative to the risks of the statutory duties
- Consistent demonstration of compliance with outcomes may earn the operator further autonomy

### More scope for operator to explore opportunities to innovate within a future-proofed licence

- Innovation encouraged where it is in line with maximising returns to good causes and player protection
- Regulatory processes supportive of innovation in a more future proofed licence

Preliminary thoughts – may not be reflected in licence

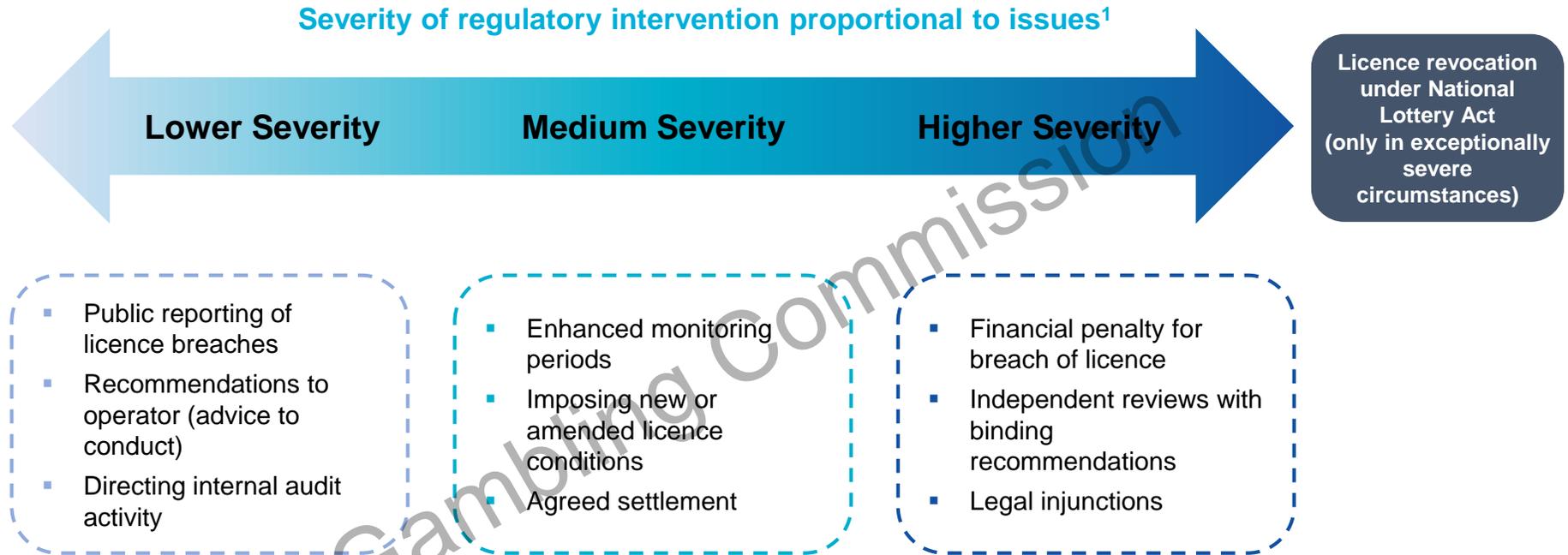
# Policy compliance and enforcement: The regulatory toolkit

Enforcement approach proportionate and targeted at the identified problem to address issues as they arise per the suite of tools shown below

Focus	Tool	Method
Direct control of operator's behaviour	Direct regulatory intervention	<ul style="list-style-type: none"> <li>Direct or constrain how the operator provides its products and services</li> <li>For example, requiring operator to follow specified methodologies and processes</li> </ul>
Desire to move away from direct regulatory intervention in line with a more outcomes focused approach		
Supervision of operator's performance	Periodic/risk-based monitoring and review	<ul style="list-style-type: none"> <li>Specify upfront expectation / requirement of operator for areas relating to good outcomes</li> <li>Measure or evaluate the operator's actual performance / compliance in these areas with procedural, reputation and/or financial consequences for the operator</li> </ul>
Financial incentives faced by operator	Retention mechanism and penalty regime	<ul style="list-style-type: none"> <li>Retention mechanism designed to align incentives of operator and returns to good causes</li> <li>The Gambling Commission retains the right to reward good performance (e.g. potential to extend licence) or penalise poor performance which is inconsistent with KPIs or licence requirements</li> </ul>
Use of competitive processes and stakeholder pressures	Reputational remedies / senior stakeholder engagement	<ul style="list-style-type: none"> <li>Recognise competitive processes and stakeholder pressures are an inter-related means to harness and achieve outcomes</li> </ul>

- A high level regulatory strategy paper will be provided during the ITA process to inform bidders about the regulatory approach
- The more outcomes focused approach will allow the operator greater flexibility to operate and innovate
- This approach will reduce the need for the Gambling Commission to have sustained day to day involvement with the operator of the 4<sup>th</sup> licence
- Seek to achieve 'earned autonomy' where, subject to confidence with operator performance and processes, the Gambling Commission will have reduced regulatory intervention in certain areas

# Regulatory interventions severity



Notes:

1. These are examples of regulatory interventions for indicative purposes, and do not represent a complete or final list. A number of interventions sit across the spectrum of severity (e.g. financial penalties) but have been allocated here according to their most likely application

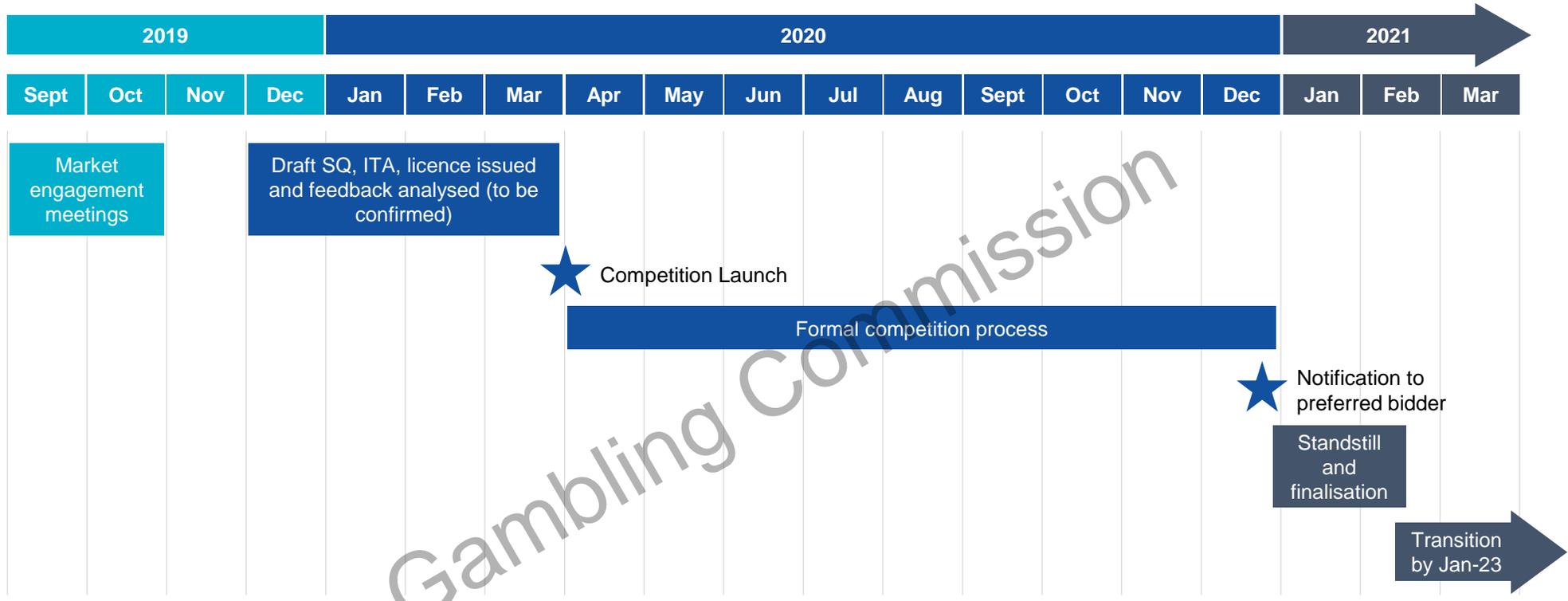
# Process and timeline

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# Preliminary timeline

This timeline is a working assumption. It is, however, the Gambling Commission's intention to launch the competition at the end of March 2020



## Participant requirements

- Selection Questionnaire response
- ITA and licence response
- Business Plan including Player Protection Strategy / Technology Solutions / Games and Channels Strategy / Brand Communications Strategy
- Due Diligence
- Transition plan

# Questions?

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# Useful documents and links

Resource	Link
Camelot annual accounts	<a href="http://www.camelotgroup.co.uk/about-us/reporting">http://www.camelotgroup.co.uk/about-us/reporting</a>
Camelot news	<a href="http://www.camelotgroup.co.uk/news">http://www.camelotgroup.co.uk/news</a>
Camelot media briefing sheet (July 2019)	<a href="http://www.camelotgroup.co.uk/assets/Uploads/BRIEFING-SHEET-July-2019.pdf">http://www.camelotgroup.co.uk/assets/Uploads/BRIEFING-SHEET-July-2019.pdf</a>
DCMS: Consultation on the minimum age for playing National Lottery games	<a href="https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/817457/Consultation_on_the_minimum_age_for_playing_National_Lottery_games.pdf?_ga=2.205967379.1294586227.1566516114-298051610.1566207011">https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/817457/Consultation_on_the_minimum_age_for_playing_National_Lottery_games.pdf?_ga=2.205967379.1294586227.1566516114-298051610.1566207011</a>
The Fourth National Lottery Licence Competition	<a href="https://www.4nlc.com/Home.aspx">https://www.4nlc.com/Home.aspx</a>
Gambling Commission	<a href="https://www.gamblingcommission.gov.uk/home.aspx">https://www.gamblingcommission.gov.uk/home.aspx</a>
MECN Lottery Benchmarking Report	<a href="http://mecn2.net/lottery-benchmarking-report/">http://mecn2.net/lottery-benchmarking-report/</a>
Mintel Lotteries Report 2018	<a href="https://reports.mintel.com/display/858717/">https://reports.mintel.com/display/858717/</a>
Mintel Lotteries Report 2019	<a href="https://reports.mintel.com/display/920102/">https://reports.mintel.com/display/920102/</a>
NAO: National Lottery funding for good causes	<a href="https://www.nao.org.uk/wp-content/uploads/2017/12/Investigation-National-Lottery-funding-for-good-causes-.pdf">https://www.nao.org.uk/wp-content/uploads/2017/12/Investigation-National-Lottery-funding-for-good-causes-.pdf</a>
National Lotteries etc. Act 1993	<a href="https://www.legislation.gov.uk/ukpga/1993/39/contents">https://www.legislation.gov.uk/ukpga/1993/39/contents</a>
National Lottery	<a href="https://www.national-lottery.co.uk/">https://www.national-lottery.co.uk/</a>
National Lottery Games	<a href="https://www.national-lottery.co.uk/games">https://www.national-lottery.co.uk/games</a>
PAC: Decline in National Lottery Income inquiry	<a href="https://www.parliament.uk/business/committees/committees-a-z/commons-select/public-accounts-committee/inquiries/parliament-2017/decline-national-lottery-17-19/">https://www.parliament.uk/business/committees/committees-a-z/commons-select/public-accounts-committee/inquiries/parliament-2017/decline-national-lottery-17-19/</a>
PAC: The future of the National Lottery	<a href="https://publications.parliament.uk/pa/cm201719/cmselect/cmpublicacc/898/898.pdf">https://publications.parliament.uk/pa/cm201719/cmselect/cmpublicacc/898/898.pdf</a>
Returns to Good Causes	<a href="https://www.lotterygoodcauses.org.uk/">https://www.lotterygoodcauses.org.uk/</a>
Select Committee: The Future of the National Lottery	<a href="https://www.parliament.uk/business/committees/committees-a-z/commons-select/digital-culture-media-and-sport-committee/inquiries/parliament-2017/national-lottery/">https://www.parliament.uk/business/committees/committees-a-z/commons-select/digital-culture-media-and-sport-committee/inquiries/parliament-2017/national-lottery/</a>



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