

Loto-Québec Annual Report Message

Lynne Roiter, President and Chief Executive Officer

For a fourth year in a row, we achieved gross and net revenue growth, thanks to the good performance of all of our businesses and tight control over expenses. In fact, our total sales were up \$ 84.9 million (+ 3.1%) when compared to preceding year. Our consolidated net income surpassed last year's by \$ 72.7 million (+ 5.4%); is \$ 147.4 million more (+ 11.7%) than our budget target. For their part, our total expenses were down \$ 22.0 million (-2.3%) compared to 2017-2018 which themselves were in lower than the preceding year.

The lottery sector had a remarkable year, mainly because of the record number of Lotto-Max jackpots but instant lotteries also continued to grow, as did our event betting. The casino sector also obtained good results, notably thanks to the success of the different thematics allowing visitors to enjoy our entertainment offer in a variety of ways.

Our online gambling site, lotoquebec.com, continued its growth, posting revenues 23.2% higher when compared to the previous year. In 2017-2018, we developed a portal facilitating navigation between our different product lines - whether it's lottery games event betting or casino - which has greatly contributed to this growth, thus increasing our market share. As for the VLT sector, it presents a fairly stable income. The lottery video network in bars, however, showed a slight decline. This is more pronounced in the areas where we have removed video lottery machines (VLTs). The gaming halls on the other hand, saw an increase.

It should be noted that new accounting standards changed the presentation of our financial statements for lotteries, bingo and Kinzo. The prizes awarded are now deducted from sales, as was already the case for casinos and video lotteries; this does not affect gross profit or net income. Figures from previous years have been adjusted to for comparison purposes.

The pursuit of a winning strategy

To achieve these good results, we continued the approach from our 2017-2020 strategic plan. We remained customer centric, intensified our gaming-entertainment position-



ing, maintained a responsible marketing approach and continued to improve the way we do business to foster convergence, agility and efficiency.

A customer centric year

We have once again made many winners in all of our gaming sectors. We paid a record of 129 prizes of \$1 million or more in the lottery sector. The lottery payment centers in our 4 casinos and 2 gaming halls received an increasing number of winners, which shows that they enjoy this local service.

A full year of festivities has been planned to celebrate the 25th anniversary of the Casino de Montréal, our first casino, which opened on October 9, 1993. Customers were entitled to several surprises as thanks for their loyalty. We also adapted some of our products to meet the expectations of consumers; the image of certain lotteries, including Winner for Life, has been updated and our event-betting offer has been improved.

Entertainment put forward

Several initiatives have helped to accentuate our positioning focused on entertainment. Among those are the thematic activities we

have in our casinos and gaming halls. They allow visitors to entertain themselves in multiple ways, be it at one of our restaurants or bars, attending a show or taking advantage of our diverse game offering.

In ongoing aim to answer customer needs, we also launched products introducing out of the ordinary features, including the Box Bingo, which combines a board games with lotteries. Casino game lovers are not left out, with landing of new initiatives, like the Live Casino. This allows you to play table games online and chat in real time with live dealers. We have also launched keno games on the site lotoquebec.com.

To renew the customer base in the bingo market, we set up a bingo pilot project electronic, bingo +. Offered in four bingo halls, it promotes socialization and proposes new forms of Entertainment. It is to be noting that all bingo profits go to the benefit of none for profit organizations.

We have infused entertainment into our sponsorship program by providing festival-goers with fun experiences. We have also maintained our partnerships with players in the fields of video games and innovation. An always for us, a constant priority in

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Philippe Vlaemminck

Philippe Vlaemminck, Managing Partner of Pharumlegal and legal counsel to Team Lottery: This morning's panel discussion tackled a most contemporary issue. How should Lottery be represented in the modern world of multiple recreational gaming options? Does Lottery position itself as a competitive offer or something entirely different from other games-of-chance? What does our brand represent and how should that be communicated to the general public, to the audience of gamers, and to the audience of lottery players? And how might the message differ depending on the different interests and concerns of each of those audiences?

These questions apply everywhere but manifest differently depending on the gaming culture and maturity of the markets. For instance, we are exploring in-depth the ways to shape the message in Africa where so many economic activities are in the emerging market stage. Perhaps paradoxically, the biggest opportunities in Africa reside in the futuristic digital space. The infrastructure that enables the mass market of communications in Africa is skipping entire generations of land-line technologies and leaping right into Mobile. A challenge for lotteries is that the legal framework is not yet up to date to actually address this situation. Like the EL (European Lotteries Association), the Africa Lotteries Association is doing a fabulous job of bringing these issues to our attention and providing the seminars for industry leaders to meet and discuss and create solutions and pathways forward. Younes el Mechrafi, the CEO of MDJS, is hosting the annual Africa Lottery conference in Casablanca in early July. And Rebecca Hargrove is leading the World Lottery Association in an exciting direction that promises to bring the global community of lotteries together, forging more direct relationships and promoting a more vigorous interaction and cooperation that will serve the interests of lotteries and the good causes they support. ■

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our responsible approach to marketing and promotion, as evidenced by our level 4 certification of the World Lottery Association, the highest level. We are working towards renewing our certification in 2020.

During the past year, several initiatives were launched to support information and awareness-raising activities, including a campaign to promote the importance of respecting set gaming limits; broadcasting a web capsule explaining the operation of chance; and adding a tab in our online gaming site giving easy access to responsible gaming content.

The responsible marketing of our offer also includes training all our employees and retailers. Significant efforts will continue to be made to this end.

The management of video lottery retailers was reinforced with the adoption of our ALV Action Plan. In addition to reconfiguring the network, now comprised of less than 9,900 ALVs, we strengthened enforcement of our responsible marketing code that all lottery video retailers must respect. The Government also approved Loto-Québec's new socio-economic criteria that have to be met before placing an ALV, which include the bar not being in a sector identified as materially deprived by the National Institute of Public Health.

Our support for various philanthropic causes has continued. Our employees have once again been generous by contributing to the All Winners campaign, for the benefit of Centraide, Partenaire Santé-Québec, the Canadian Red Cross, Quebec Division, and the Harvest Organization.

Proactive Improvements

We continued the improvement and harmonization of our procedures. The goal is to have a convergent offer, which meets player expectations and habits and to be more efficient. In particular, improvements have been made to our slot machine park, at our online gaming site, our lottery kiosks and in the prize payment process.

In recent years, we have assured the control of expenses and we continue to do so. The \$ 20 million decline in our expenses compared to the previous year - which also showed a decline from the prior year - is evidence of our fiscal discipline.

Thanks

I thank the board of directors and the government for reiterating their confidence in renewing my mandate last February. I take this opportunity to welcome the

two new Board members who joined the board of directors at the end of the fiscal year, Mr. Jean-François Blais and Ms. Ann MacDonald.

Thank you also to my colleagues on the management team for their valuable collaboration and support unwavering. I wish to recognize MM. André Dumouchel and François Tremblay, who acted respectively as Corporate Vice President, Resources Human Resources and President of operations for our video lottery network and bingo. They retired at the beginning of the 2019-2020 fiscal year. I thank them for their important contribution to Loto-Québec.

The excellent work of all the staff of Loto-Québec must also be underlined. The success of the past year is really attributable to the professionalism and commitment of our employees. I am very grateful to them.

Finally, I would like to say thank you to our customers; appreciation for the confidence they place in us motivates us to surpass our goals.

Lynne Roiter
President and CEO, Loto-Québec