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FY 2022 RETAILER INCENTIVE PROGRAM

GOALS AND OBJECTIVES

To develop a program to exceed the State Sales Scratch Off Quota for FY'22.

To provide financial incentives beyond standard fees for Retailers achieving outstanding sales performance.

To provide a compensation program that is fair and equitable for all KLC Retailers.

To provide an incentive for KLC Retailers to increase lottery presence and sales.

To provide an incentive system that will motivate retailers to promote and sell lottery games throughout the fiscal year.

SALES GOAL FOR FY '22

- \$897 Million goal for Scratch Off games
- FY '22 time period = July 1, 2021 – June 30, 2022
- Quarterly Scratch Off Goals for retailers will represent the same % change as the Kentucky Lottery Quarterly Scratch Off goals

INCENTIVE TIME PERIODS

- Quarter 1: July 1, 2021 – September 30, 2021
- Quarter 2: October 1, 2021 – December 31, 2021
- Quarter 3: January 1, 2022 – March 31, 2022
- Quarter 4: April 1, 2022 – June 30, 2022

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**SCRATCH-OFF INCENTIVE
FY '22 ELIGIBILITY**

Retailers must have an active license status on the records of KLC at the beginning and end of the quarter they qualify for an incentive. To qualify for a specific quarter's incentive program, the retailer must have the capability to sell Scratch-off products all weeks of that specific quarter. If not, they are ineligible for the incentive for that quarter. In addition – for Section 1 of the incentive plan – retailers must have had Scratch Off sales all 52 weeks of FY'21 to be eligible for that section's incentive. This allows the KLC to have measurable sales on which to base retailer quotas.

Retailers must carry a minimum of 24 Scratch Off games. If a retailer sells 24 or more games from a vending machine, they must also carry a minimum of 12 games at the counter to be eligible for any incentive.

Retailers who have an "Inactive" license status (often due to A/R balance issues) according to the records of the KLC on either of these two dates (first/last day of quarter) are still eligible if they fully pay their account balances and are eligible to sell lottery products all assigned weeks of that specific quarter.

Only retailers who had no more than 1 NSF instance during the incentive period during which they are qualified for an incentive will be eligible to receive that incentive. Those retailers with 2 or more NSF instances during a specific incentive period are not eligible for the incentive for that period.

At the sole discretion of the KLC, a retail location having joint ownership may retain its eligibility if one of the original owners sells their share of the business to the remaining partner(s) (which necessitates a Retailer Number change). These will be handled on a case-by-case basis. Sales from both retailer numbers will be combined for comparison to the weekly incentive rates if eligible.

Retailers not meeting the above criteria may still be eligible, at the sole discretion of the KLC, with written authorization of the President of the KLC.

Section 1 – Exceed Quarterly Scratch Off Goal

Retailers can earn an incentive if they exceed their quarterly sales goal for Scratch Offs. The Kentucky Lottery Scratch Off Sales Goal for retailers each quarter shall be based on their sales for the previous year applied toward the KLC quarterly Scratch Off goals. Each retailer sales goal will be provided by the sales rep upon the start of Quarter 1 and before the start of Quarters 2-4.

Retailers must exceed their Scratch Off sales goal each quarter to earn an incentive. Qualifying retailers must have Scratch Off sales all 52 weeks of the previous year July 1, 2020 to June 30, 2021 to be eligible. The incentive rates are below. These rates do not apply to or include draw game sales or iLottery sales.

To earn an incentive from this section, retailers must average 5% or less Out of Stock in all Scratch Off vending equipment as measured by system reports.

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Weekly Average	Bonus Earned by Exceeding Quarterly Sales Goal
Sales below \$1,750 per Week	Does not Qualify for Incentive
\$1,750 - \$3,499	Flat \$50
\$3,500 - \$5,749	0.25%
\$5,750 - \$7,499	0.40%
\$7,500 - \$10,499	0.50%
\$10,500 - \$13,999	0.60%
\$14,000 - \$28,999	0.70%
\$29,000 - \$34,999	0.80%
\$35,000 and more	0.90%

Average Weekly Scratch Off sales will be used to determine the quarterly incentive percentage (%) rate for which a retailer qualifies. Average weekly sales refer to total Scratch-off sales during the quarter, divided by the number of days in that quarter, multiplied by seven (7).

The incentive rate above will be multiplied by quarterly Scratch Off sales to calculate the incentive. During the normal course of business, retailers receive a 5% commission rate for our Scratch-off games which is separate from this incentive program.

If an incentive is earned, the retailer will receive it by an account credit with written notification by the Lottery. The credit will be given as soon as administratively possible in the month following the end of the respective quarter. At KLC's discretion, checks may be written and delivered to retailers earning incentives above a certain amount (i.e., \$5,000 or more). Each incentive period stands alone and represents a sales quarter as defined above.

**ADDITIONAL QUARTERLY INCENTIVE OPPORTUNITY
Excellence in Execution Program**

Retailers can earn an Excellence in Execution incentive each quarter based on achieving or complying with significant success markers. Retailers must be active all days of the associated quarter to qualify for this section of the plan.

Two markers will be tracked by the Kentucky Lottery system.

- 100% activation of at least one pack of Scratch Off tickets from every new game by the end of Launch Day 1. Games must be displayed immediately upon activation. Initially activated packs cannot be returned for credit until after the games are removed from the plan-o-gram unless approved by management.
- Average 5% or less Out of Stock for all days of Quarters 1-4 in all Scratch Off vending equipment as measured by system reports.

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Four markers will be measured and recorded by Lottery Sales Staffa minimum of 4 times per quarter during store visits.

- Retailers must carry a minimum of 24 Scratch Off games. If a retailer sells 24 or more games from a vending machine, they must also carry a minimum of 12 games at the counter to be eligible for any incentive.
- Average 5% or less Out of Stock Quarters 1-4 of all facings (vending and dispensers) based on condition upon arrival in store. If retailer exceeds allowed OOS % upon lottery employee arrival, the store does not qualify for this success marker even if the sales rep or retailer loads games during visit.
- 100% compliance with current POG program
- Placement of at least one game specific POS item including but not necessarily limited to:

o Pole Sleeve	o Window Cling
o Gemini/Dispenser topper	o Pump Topper

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To qualify for the Excellence in Execution incentive retailers must:

- Achieve 100% of the Activation Goal for all games launched each quarter
- Achieve all the above Success Markers at least 3 times each quarter
- Average 5% or less Out of Stock for all days in Quarters 1-4 in all Scratch Off vending equipment (vending and dispensers) as measured by system reports and recorded by Lottery sales staff

To qualify for 100% of eligible incentive in this section, retailers must exceed their sales goal for the assigned quarter. Otherwise, retailers will earn 50% of eligible incentive from this section. Retailers without sales all of FY'21 must exceed the same measurement quarter the previous year. Retailers without sales the same quarter the previous year do not qualify for this incentive.

The incentive categories are as follows:

SCRATCH OFF SALES PERFORMANCE CATEGORY	BONUS EARNED	SCRATCH OFF SALES PERFORMANCE CATEGORY	BONUS EARNED IF QUOTA NOT ACHIEVED
Sales below \$1,750 per Week	Does not Qualify	Sales below \$1,750 per Week	Does not Qualify
\$1,750 - \$3,499	\$50	\$1,750 - \$3,499	\$25
\$3,500 - \$5,749	\$150	\$3,500 - \$5,749	\$75
\$5,750 - \$7,499	\$300	\$5,750 - \$7,499	\$150
\$7,500 - \$10,499	\$750	\$7,500 - \$10,499	\$375
\$10,500 - \$13,999	\$1,000	\$10,500 - \$13,999	\$500
\$14,000 - \$28,999	\$1,500	\$14,000 - \$28,999	\$750
\$29,000 - \$34,999	\$2,000	\$29,000 - \$34,999	\$1,000
\$35,000 and more	\$2,500	\$35,000 and more	\$1,250

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Best of the Best Program

Retailers can qualify for an additional incentive each quarter above and beyond the Scratch Off Sales Incentive and Excellence in Execution Incentive by carrying a minimum of 24 games at the counter and a minimum 24 game Gemini machine.

Retailer must exceed \$5,750 per week in Scratch Off sales to qualify. Retailer must average 5% or less Out of Stock for all days in Quarters 1-4 in all Scratch Off vending equipment as measured by system reports and have sales and qualifying game facings all days of the quarter to qualify for this program. To qualify for 100% of eligible incentive in this section, retailers must exceed their sales goal for the assigned quarter. Otherwise, retailers will earn 50% of eligible incentive from this section. Retailers without sales all of FY'21 must exceed the same measurement quarter. Retailers without sales the same quarter the previous year do not qualify for this incentive.

SCRATCH OFF SALES PERFORMANCE CATEGORY	BONUS EARNED		SCRATCH OFF SALES PERFORMANCE CATEGORY	BONUS EARNED IF QUOTA NOT ACHIEVED
Sales below \$5,750 per Week	Does not Qualify		Sales below \$5,750 per Week	Does not Qualify
\$5,750 - \$7,499	\$100		\$5,750 - \$7,499	\$50
\$7,500 - \$10,499	\$250		\$7,500 - \$10,499	\$125
\$10,500 - \$13,999	\$500		\$10,500 - \$13,999	\$250
\$14,000 - \$28,999	\$1,000		\$14,000 - \$28,999	\$500
\$29,000 - \$34,999	\$1,500		\$29,000 - \$34,999	\$750
\$35,000 and more	\$2,000		\$35,000 and more	\$1,000

Bonus OOS Incentive

Retailers achieving quarterly vending machine OOS averages at 4.5% and under based on system reports shall be eligible for a bonus incentive. The incentive categories are as follows:

Quarterly OOS Average	Bonus Incentive
4.1% - 4.5%	\$100
3.6% - 4.0%	\$125
3.5% or below	\$250

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PROGRAM POINTS

1. Incentives will only be awarded to those retailers meeting all eligibility requirements and who qualify by their sales.
2. Each retailer will be considered as standing alone for purposes of this plan. (i.e., Each store in a chain account will be judged on the merit of its own sales, rather than the total of the chain account.) KLC will provide any incentive due to the retailers based on their current banking arrangements with KLC.
3. Unusual situations may arise that were not considered by this plan. Such situations will be brought to the attention of the President & CEO, who will determine how such situations shall be treated in conformance with the intent of this Incentive Plan.

Amy Drooker – Vice President of Sales

Pete Ramsey – VP, Corporate Accounts & Business Development

Mary Harville – President & CEO