

Virginia ABC

Fiscal Year 2024 Amended Operating Budget

Board of Directors
August 22, 2023



Profit & Loss Statement (in millions)

Post July 20, 2023 - Amended FY 2024 Budget

	FY 2022 Actual	FY 2023 Actual	Original FY 2024 Budget Approved on July 20 (Budget A)	Revised FY 2024 Budget (Budget B)	Post 7/20 Amended Budget (Budget C)	Amended 2024 Budget vs. July 20 Approved Budget
Revenue Sources:						
Alcoholic Beverages (Store Sales)	\$1,376.6	\$1,443.9	\$1,517.4	\$1,517.4	\$1,517.4	\$0.0
Other	41.5	28.5	24.9	24.9	24.9	-
Gross Revenue	1,418.1	1,472.4	1,542.3	1,542.3	1,542.3	-
Less: Spirits Excise Tax	227.7	238.9	251.3	251.3	251.3	-
Net Revenue	1,190.4	1,233.5	1,291.0	1,291.0	1,291.0	-
Variable Operating Costs:						
Cost of Goods Sold	660.7	693.3	728.2	728.2	728.2	-
Variable Administrative Costs	202.2	213.2	220.5	212.6	211.2	(9.3)
Total Variable Costs	862.9	906.5	948.7	940.8	939.4	(9.3)
Contribution Margin	327.5	327.0	342.3	350.2	351.6	9.3
<i>Contribution Margin as a % of Store Sales</i>	23.8%	22.6%	22.6%	23.1%	23.2%	
Fixed Operating Costs:						
Fixed Administrative Costs	63.8	83.1	90.0	78.6	80.8	(9.2)
Regulatory Costs (Enforcement & Hearings)	20.1	23.3	29.3	27.3	26.5	(2.8)
Total Fixed Costs	83.9	106.4	119.3	105.9	107.3	(12.0)
ABC Net Profit	\$243.6	\$220.6	\$223.0	\$244.3	\$244.3	\$21.3
<i>As a % of Store Sales</i>	17.7%	15.3%	14.7%	16.1%	16.1%	
General Assembly Profit Requirement (Chapter 1289)		\$200.8	\$185.4	\$185.4	\$185.4	
<i>Net Profit % of Net Revenue</i>	20.5%	17.9%	17.3%	18.9%	18.9%	
<i>Normalized Net Profit % of Net Revenue</i>	19.4%					

a) includes \$15.1M gain on the sale of Hermitage and other net one-time items of (\$0.9M); removing all one-time items yields an adjusted contribution margin of **22.6%**

b) includes \$1.8M in FEMA money and other net one-time items of (\$0.6M); removing all one-time items yields an adjusted contribution margin of **22.6%**

c) removing all one-time items yields an adjusted net profit margin of **16.5%**



FY 2024 Amended Budget Changes

Description of Reductions	07/20/23 Proposed Budget	Adjustments	08/22/23 Amended Budget	Rationale
Bonuses and Incentives	\$ 1.5	\$ (1.5)	\$ -	Restored to original levels to avoid employee impact.
Overtime (Salary and Wage)	\$ 0.5	\$ (0.5)	\$ -	Restored to original levels to prevent impact to business operations.
Employee Training and Org. Memberships	\$ 1.0	\$ (1.0)	\$ -	Restored to original levels to honor the commitment of investing in ABC employees.
Retail Staffing Efficiencies	\$ 5.2	\$ 1.6	\$ 6.8	Adjusted to reflect efficiencies identified in the retail staffing plan.
Reduction in Vacant FTE Positions	\$ 4.2	\$ 1.4	\$ 5.6	Adjusted for non-critical positions open for longer than one year.
Consulting Services	\$ 3.4	\$ -	\$ 3.4	Reduction related to limited projects in FY 2024 and fewer IT contractors.
Other Contractual Services	\$ 1.4	\$ -	\$ 1.4	Savings identified in software maintenance contracts and other managed services.
Media	\$ 1.1	\$ -	\$ 1.1	Reduced to 2021 levels. ABC will monitor sales and evaluate need for future promotions.
Computer Equip (Servers, Desktops, e	\$ 0.7	\$ -	\$ 0.7	Reduction in network servers and savings in computer equipment related to vacant positions.
Fixtures and Office Appurtenances	\$ 1.1	\$ -	\$ 1.1	Aligned with historic trends in new store openings and reduced remodeling activities; will mainly utilize fixtures on-hand.
Other Misc. Reductions	\$ 1.2	\$ -	\$ 1.2	Overall reductions in discretionary spending (i.e. supplies, meals, materials).
Total Expense Reductions	\$ 21.3	\$ -	\$ 21.3	



Reconciliation of FY 2024 (Budget A) - Approved By Board on July 20, 2023 vs. Amended (Budget C)

			Net Profits as a % of Net Revenue
Net Revenue		\$ 1,291.0	
Net Profits		\$ 223.0	17.27%
Expense Reductions			
Retail Staffing Efficiencies	\$ 6.8		
Reduction in Vacant FTE Positions	\$ 5.6		
Consulting Services	\$ 3.4		
Other Contractual Services	\$ 1.4		
Media	\$ 1.1		
Computer Equip (Servers, Desktops, etc.)	\$ 0.7		
Fixtures and Office Appurtenances	\$ 1.1		
Other Misc. Reductions	\$ 1.2		
Total Expense Reductions		\$ 21.3	
Revised FY 2024 Net Profits		\$ 244.3	18.92%



Reconciliation of FY 2024 Revised (Budget B) vs. Amended (Budget C)

			Net Profits as a % of Net Revenue
Net Revenue		\$ 1,291.0	
Net profits		\$ 244.3	18.92%
<u>Expenses Added Back to Division Budgets</u>			
Employee Training and Org. Memberships (a)		\$ 1.0	
<u>Expenses Held in Administrative Reserve (b)</u>			
Bonuses and Incentives		\$ 1.5	
Overtime (Salary and Wage)		\$ 0.5	
<u>Additional Reductions Identified</u>			
Additional Retail Staffing Efficiencies		\$ (1.6)	
Additional Reduction in Vacant Positions		\$ (1.4)	
Revised FY 2024 Net Profits		\$ 244.3	18.92%
(a) Employee training and organization memberships of \$1.0M will be added back into Division Budgets.			
(b) \$2.0M will be held in an Administrative Reserve account for expenses related to bonuses and incentives. Final Division allocations will be made based on future Chief approved programs.			



Opportunities Under Review

The following additional efficiency opportunities will continue to be evaluated to achieve greater profitability. Any efforts that materialize will contribute to actual FY 2024 and future year profits.

- Opportunities to increase retail store profitability
- Opportunities to leverage advanced buys
- Opportunities to increase Distribution Center productivity
- Conversion of IT contractors to ABC employees
- Optimize use of contractors
- Optimal staffing levels (i.e. vacancies, backfills)
- Defined ROI on future investments
- Opportunity to sublet available ABC HQ space to other Virginia agencies

Budget Risks

1. Slower than anticipated revenue growth
2. Decrease in premiumization
3. Decline in Licensee purchases
4. Unplanned recession impacts
5. Higher than anticipated inflation
6. Increase in retail theft
7. Unplanned system maintenance or emergency break/fix

Virginia ABC

FY2024-2029 GACRE Forecast Presentation

Board of Directors
August 22, 2023



GACRE Summary

Virginia Alcoholic Beverage Control Authority Forecast (FY2024-FY2029) (1)

As of 8/22/2023

(in millions)

	Actual FY2023	Forecast FY2024	FY2025	FY2026	FY2027	FY2028	FY2029
Revenue Sources:							
		<i>Growth Rate</i>					
Alcoholic Beverages (Store Sales)	1,443.9	5.1%	5.0%	5.0%	5.0%	5.0%	5.0%
Less: State Taxes on Spirits & Wine	238.9	251.3	263.8	277.1	290.9	307.1	322.5
Net Store Sales	1,205.0	1,266.1	1,329.5	1,395.9	1,465.7	1,537.3	1,614.2
Other Revenue	28.5	24.9	25.2	25.5	25.7	26.0	26.3
Total ABC Revenue	1,233.5	1,291.0	1,354.7	1,421.4	1,491.4	1,563.3	1,640.5
Cost of Goods Sold:	693.3	728.2	764.8	803.0	843.2	885.3	929.6
Operating Costs:	319.6	318.5	313.4	316.7	320.5	326.1	331.9
Infrastructure Projects (2):			0.9	1.3	2.0	5.4	5.0
ABC Net Profit	220.6	244.3	275.6	300.4	325.7	346.5	374.0
Profit Carryover from Prior Fiscal Year (1)		(0.8)					
GACRE Submission		243.5	275.6	300.4	325.7	346.5	374.0
ABC Net Profit as a % of Net Revenue		18.92%	20.34%	21.13%	21.84%	22.16%	22.80%

Notes:

1. Forecast developed on accrual basis. The profit transfer occurs on a cash basis. Variances often occur at year end when ABC has to transfer estimated profits prior to June 30th.

2. Infrastructure projects are ongoing and the depreciation/amortization impact with an increased impact beginning in FY25. These projects include the Inventory Management System FY25, Order Management FY26, Human Capital Management Project FY28 and other internal projects. All live projects as well as projects that will be going live in FY24 were included in the FY24 base budget.



Assumptions in GACRE Forecast FY 25 – FY 29

*The FY24 Budget was used as the basis for establishing FY24 GACRE

Assumptions for GACRE in FY 2025 - 2029

	Year over year growth rate				
	2025	2026	2027	2028	2029
Revenue Assumptions:					
Rev Growth Rate	5.00%	5.00%	5.00%	5.0%	5.0%
Mics. Rev Growth Rate	1.00%	1.00%	1.00%	1.00%	1.00%
Licensing Fee Adjustment	1.00%	1.00%	1.00%	1.00%	1.00%
Expense Assumptions:					
Inflation	2.00%	2.00%	2.00%	2.00%	2.00%
Ongoing Operational Efficiencies to offset Inflationary Impact	-2.00%	-2.00%	-2.00%	-2.00%	-2.00%
Freight Volume Cost Inc	3.00%	3.00%	3.00%	2.00%	2.00%
Healthcare	0.00%	4.00%	0.00%	2.00%	2.00%
Credit Card Fees	1.39%	1.42%	1.45%	1.47%	1.50%
Salary/Wage Increase	1.00%	1.00%	2.00%	2.00%	2.00%
Vacancy Factor - All divisions (except IT & Enforcement)	2%-3%	2%-3%	2%-3%	2%-3%	2%-3%
Vacancy Factor - IT/Enforcement	5%/9%	5%/9%	5%/9%	5%/9%	5%/9%
New Stores (Full year Impact)	4	4	4	4	4
New Store Personnel	8	8	8	8	8
Rent Escalation	3.00%	3.00%	3.00%	2.00%	2.00%

Other Efficiencies factored into GACRE

	YOY Flowthrough FY25 through FY29	YOY Flowthrough FY26 through FY29
Attrition	\$ (4,532,194)	\$ (1,200,000)
Skilled Services Contractor Cost Reduction	\$ (1,100,000)	
Employee Incentive program	\$ 800,000	

