



Manitoba Liquor and Lotteries Corporation

2018-19 Corporate Business Plan

Table of Contents

Mandate & Strategic Direction.....	2
Operating Environment	2
➤ About Manitoba Liquor & Lotteries	2
➤ Corporate Responsibility	3
➤ External Operating Environment	4
➤ Financial / Operational Risks and Opportunities.....	5
➤ Strategic Direction.....	7
➤ Corporate Goals	8
➤ Key Planning Assumptions	10
Performance Measures & Targets.....	10
Financial Budgets & Forecasts.....	11
➤ Summary of Financial Results.....	11
➤ Sensitivity Analysis	11
Human Resources	12
➤ Staffing Summary	12
➤ Management Structure	12
Capital Plan	14
➤ Liquor Projects.....	14
➤ Gaming & Entertainment Projects	14
➤ Corporate Projects	14
➤ First Nations Capital Program	14

Mandate & Strategic Direction

The Manitoba Liquor and Lotteries Corporation Act states:

The purposes of the corporation are:

- (a) to sell liquor;
- (b) to buy liquor, and bring liquor into Manitoba, for sale in Manitoba;
- (c) to conduct and manage lottery schemes;
- (d) to carry out functions relating to lottery schemes and liquor conferred on it under this Act; and
- (e) to conduct or fund initiatives that promote responsible gaming and responsible liquor consumption.

In November 2017, a [mandate letter was issued by the Province of Manitoba](#) which outlined additional responsibilities. According to that mandate letter, in addition to the distribution and sale of liquor and gaming products, Manitoba Liquor and Lotteries Corporation (Manitoba Liquor & Lotteries) will be responsible for the supply and distribution of recreational cannabis in the Province when it becomes legal in 2018.

Manitoba Liquor & Lotteries strives to make the greatest possible contribution to the economic and social well-being of the province of Manitoba. The key priorities identified by the Board of Directors are to:

- Perform Profitably and Sustainably
- Champion Innovation
- Be Progressive; and
- Engage Manitobans

Manitoba Liquor & Lotteries is committed to encouraging the responsible use of its products and services and is required to allocate 2% of annual anticipated consolidated net income and comprehensive income to social responsibility initiatives.

Operating Environment

➤ About Manitoba Liquor & Lotteries

Manitoba Liquor & Lotteries is a provincial Crown corporation with a core mandate to provide revenue to the Province of Manitoba to support provincial programs and initiatives such as health care, education, social services, housing and infrastructure. The corporation is responsible for the sale of liquor and gambling in Manitoba using a sustainable and socially responsible approach.

The Government of Manitoba has overall control over gaming in Manitoba in accordance with the requirements of the Criminal Code of Canada, and has appointed Manitoba Liquor & Lotteries to act as its agent in the Conduct and Management of the gaming regime. Within this authority, the corporation operates Club Regent Casino, McPhillips Station Casino, a network of over 6,600 Video Lottery Terminals (VLTs), and online gaming through PlayNow.com. Through a selection process, the Government has provided certain First Nations the opportunity to operate casinos. In addition, the Government has provided the TN Arena Limited Partnership the opportunity to establish the Shark Club Gaming Centre. Manitoba Liquor & Lotteries maintains the Conduct and Management authority over these gaming activities.

The corporation distributes beverage alcohol through a provincial retail network that includes 54 Liquor Mart and 9 Liquor Mart Express locations operated by Manitoba Liquor & Lotteries, as well as privately-owned beer vendors, specialty wine stores, privately-owned liquor vendors located throughout rural Manitoba, and duty-free stores. Manitoba Liquor & Lotteries also supplies liquor products to approximately 1,800 licensees across Manitoba.

Manitoba Liquor & Lotteries is the exclusive supplier of breakopen tickets and bingo paper in Manitoba, and distributes and sells lottery tickets at approximately 900 retailers across Manitoba in partnership with the Western Canada Lottery Corporation (WCLC) and the Interprovincial Lottery Corporation (ILC).

As was announced in November 2017, Manitoba Liquor & Lotteries will play a role in the supply and distribution of recreational cannabis in Manitoba upon its legalization.

Manitoba Liquor & Lotteries works to earn the public trust and respect of its customers, business partners and employees through responsible business decisions and corporate commitments. This means taking into account the impacts of the corporation's economic, social and environmental activities and continuously improving performance. Corporate responsibility commitments include social responsibility information for customers, funding for addiction treatment and research, community sponsorships and programs, and environmental initiatives.

➤ **Corporate Responsibility**

Manitoba Liquor & Lotteries approaches corporate responsibility as a priority through its business operations, social and environmental initiatives, and its support to Manitoba communities.

Social Responsibility

The Manitoba Liquor and Lotteries Corporation Act requires Manitoba Liquor & Lotteries to allocate 2% of annual anticipated consolidated net income and comprehensive income to social responsibility initiatives.

This commitment to social responsibility is fulfilled in several ways. Extensive information is available to consumers on how to use Manitoba Liquor & Lotteries' products in a low risk, sensible way as part of sustainable growth. Social responsibility considerations are incorporated into many corporate, gambling, liquor and marketing initiatives each year. Funding support is provided to the Addictions Foundation of Manitoba and Marymount (organizations that provide programs related to liquor and gambling prevention, awareness and treatment) as well as to organizations involved in research (e.g. Fetal Alcohol Spectrum Disorder and best practices research through Responsible Gambling Council Insight studies).

Community Support

Manitoba Liquor & Lotteries is committed to building partnerships that help to grow strong, vibrant communities within the province. The community support program seeks to improve the quality of life for Manitobans through the support of festivals, events and community initiatives and through supporting volunteerism by its employees and in the community.

Environmental Sustainability

In everything Manitoba Liquor & Lotteries does, the aim is to be environmentally responsible. Manitoba Liquor & Lotteries is committed to reducing its environmental impact in the areas of water, waste and energy. The corporation engages in sustainable procurement practices both independently and in partnership with other public sector purchasers to support positive change in the supply chain.

➤ **External Operating Environment**

The Manitoba market has experienced relatively high levels of growth over the past year due to record in-migration, record housing starts and high levels of well-paid employment as large hydro capital infrastructure projects in the Province continued to bolster the economy. (Conference Board of Canada 2017-18) As these positive growth pressures decline, analysts are forecasting a softening in economic growth in 2018.

While the largest threat to the Canadian economy in the short term is the renegotiation of the North American Free Trade Agreement (NAFTA), Manitoba Liquor & Lotteries only sells products domestically. However, uncertainty in the value of the Canadian dollar poses a risk to Manitoba Liquor & Lotteries as some of its high-value equipment investments are obtained from U.S. suppliers and many of the liquor products are sourced from suppliers in other countries. Rising fuel costs could also have a negative impact on the corporation's operating costs and has the potential to reduce consumer disposable income, which could affect revenues.

Recreational cannabis is set to become legal in Canada in 2018. News reports have suggested that alcohol sales have been adversely impacted in U.S. States where the sale of cannabis has been legalized and can range between a 1-15% reduction in overall alcohol sales. Research to

date reveals that there will likely be cannabis supply challenges across the country as this emerging market enters the consumer landscape.

There is significant migration of consumer transactions from traditional bricks and mortar retailing and entertainment options to modern digital channels across many product lines including liquor and gaming. Seamless, convenient and safe online experiences are essential in an increasingly digital environment, while new functionality and marketing opportunities facilitated by digital channels such as customer loyalty programming, personalized content, responsive customer support systems and mobile applications can help to drive sales.

Competing for discretionary dollars is progressively challenging. There are a significant number of entertainment and leisure options (sports, theatre, special events, travel, etc.) available to Manitobans, while social media channels and online information sources allow consumers to educate themselves on company core values and business practices before purchasing their products or services. The increasingly discerning consumer demands responsible operating practices and expects companies to address social and environmental issues related to their industry.

Social media is one of the most effective marketing tools today. Through social media, companies can engage with large audiences and interact directly with their customers. At the root of social media effectiveness is a two-way conversation – a dialogue where brands speak and listen to their audience, responding swiftly to their wants and needs.

➤ **Financial / Operational Risks and Opportunities**

A regular review process identifies risks and opportunities that may have a significant impact on operations at Manitoba Liquor & Lotteries. These include risks and opportunities for the corporation as a whole as well as those that are associated with a particular line of business.

Corporate Risks and Opportunities

As a Crown Corporation, the purposes of Manitoba Liquor & Lotteries are stated in relevant legislation. Should there be changes to statutes, regulations and government priorities, this may impact the organization's goals, objectives, and plans. This risk is ongoing as relevant laws, regulations and priorities are subject to change, but there is increased uncertainty in the current year as Manitoba Liquor & Lotteries' mandate and the overall implications of federal and provincial cannabis legislation are examined.

As cyber threats continue to evolve and become more sophisticated, there is a risk to the corporation's operations and reputation. The risk associated with cyber threats increases as technology becomes more prevalent.

Succession challenges and skill gaps may impact the organization's ability to execute its strategies and corporate objectives. Structural changes and knowledge loss may lead to

shortfalls impacting existing processes and operations, as well as compliance with legislation, regulations and internal policies and procedures. Succession challenges are further exacerbated due to the number of labour agreements within the organization that impact employee mobility.

Major opportunities have been identified at the corporate level in the areas of markets knowledge and information technology. A growing immigration market increases the customer base and provides an opportunity to offer products and services desired by specific demographics that are currently not served.

The exploration of new technologies such as cloud-based computing solutions and the pursuit of IT shared and managed services provide opportunities in the delivery of information technology. These opportunities offer the potential to manage growth of technology infrastructure and to improve delivery times and cost effectiveness.

Liquor

Liquor operations is faced with risks associated with capacity requirements, ensuring processes are as updated as possible, and the continual need to move from manual to automated processes where practical. The current liquor distribution centre is not sufficient to meet future capacity requirements which could impact the ability of existing operations to efficiently and effectively deliver products and services to meet consumer demand.

Expected revenue growth requires that the organization keep up with technological changes. Modernization of liquor operations will require investment of financial and human resources to mitigate this risk.

Responding to changes in consumer preferences and expectations is essential to the viability of the products offered by the organization. There is a risk that these changes may not be identified due to challenges associated with monitoring and predicting customer behaviour. As a mitigation strategy, data analytics will be leveraged to effectively manage customer information or to increase productivity and efficiency.

A major opportunity in the liquor operations area involves the leveraging of technology to meet customer needs and expectations related to on-line buying. Experiential events that grow product knowledge and drive customer engagement through immersive branded experiences can also help enhance revenue growth. Such events include samplings, interactive media, and/or tactile tools with the objective of leaving a lasting impression.

The development of consumer interest in the no/low alcohol category and interest in Manitoba craft beer offer the potential for both new customers and increased sales. Further leveraging Manitoba Liquor & Lotteries' channel partners through improved collaboration provides opportunities for growth of commercial sales.

Gaming & Entertainment

Gaming & Entertainment operations are heavily reliant on third party suppliers for key offerings. Should these parties express an inability or unwillingness to provide innovative products that align with consumer preferences, this will negatively impact revenue.

Challenges also exist around monitoring and predicting customer behaviour and the ability to identify consumer preferences. These challenges could lead to decisions regarding products and services that are not in line with changing consumer choices and expectations.

Customer growth (existing and new) may present a significant challenge if marketing efforts do not keep pace with current trends. The gaming market in which the organization operates is mature and potential growth would have to come from increasing the number of participants from all demographic groups. Growth opportunities involve leveraging of player development and target marketing as well as creative marketing initiatives to support product and event awareness.

New amenities at the casinos and more social gaming offerings at both the casinos and VLT establishments also provide opportunities for revenue growth.

A further gaming opportunity may be provided with single event sports wagering, which could become legal throughout the United States in the summer of 2018. If this occurs, it could lead to a similar change in Canada, which would open up a new type of gaming that was not previously available.

Cannabis

As the Cannabis line of business is developed, uncertainty around the final legislative framework exists, which may impact the corporation's ability to execute its mandate as it is currently understood.

It is also possible that an adequate supply of cannabis products may not be available at the time of legalization to fulfill initial demand.

Furthermore, as this is a new product and market for the corporation, it is also possible that the product mix and price chosen may not meet consumer demand. Development of a product catalogue with the involvement of suppliers is underway to mitigate this risk.

➤ **Strategic Direction**

The Board of Directors of Manitoba Liquor & Lotteries has approved a Statement of Purpose and four associated elements to be used as guiding principles in the development of strategic goals.

Purpose

Manitoba Liquor & Lotteries strives to make the greatest possible contribution to the economic and social well-being of our province.

Enrich the lives of Manitobans

Elements

Sound business practices that strengthen our profitability – allowing us to maximize funding available for healthcare, education and other services Manitobans rely on.

Perform Profitably and Sustainably

A vibrant ownership culture that celebrates innovation – supporting and challenging our employees to continuously improve all aspects of our operations.

Champion Innovation

Products and experiences that keep pace with evolving preferences and market trends – ensuring Manitobans’ expectations for choice, quality, value and social responsibility are consistently exceeded.

Be Progressive

Meaningful relationships with Manitobans – engaging Manitobans both as customers and citizens to ensure all aspects of operations reflect the needs, expectations and interests of those to whom we are ultimately accountable.

Engage Manitobans

Underpinning the statement of purpose are Manitoba Liquor & Lotteries’ corporate values, which essentially serve as the guiding principles behind how the corporation does business. The following corporate values are recognized:

Importance of People - Foster a positive and diverse workplace and work together towards our common goals.

Responsibility - Demonstrate responsible business, social, and environmental practices.

Integrity and Fairness - Be respectful, ethical and fully accountable for our actions and decisions.

Service Excellence - Provide superior service to our customers, partners and co-workers.

➤ **Corporate Goals**

In response to the new statement of purpose and the guidance provided by the Board of Directors, Manitoba Liquor & Lotteries has embarked on a revamped strategic planning process which starts with an assessment of the current environment to understand the impacts to

Manitoba Liquor & Lotteries' business. Based on this research, and using the statement of purpose and associated elements as the key guiding principles, corporate goals are being drafted for consideration by the Executive Management Committee and the Board of Directors to inform the 2019-20 business planning cycle.

To ensure the corporation performs profitability, goals are being proposed to increase revenues, to reduce or limit expenses, to establish targets for capital investment, and to maintain measures of productivity. To address sustainability, goals are being developed to achieve continuous improvement in sustainable development, to enhance the Health & Safety program, to employ a workforce that reflects the diversity of Manitobans, and to create a culture that supports responsible and healthy choices.

To champion innovation, goals under discussion concern the implementation of a cannabis business structure, the creation of a framework to generate information that reveals innovative business opportunities, the establishment of a culture of innovation with an innovation agenda aligned to strategic objectives, and the implementation of alternate path to purchase options for customers.

To ensure products and services keep pace with evolving preferences, goals are under discussion that address growth in Manitoba Liquor & Lotteries' customer base, the understanding and response to evolving consumer trends, investment in social media, and improvements in employee engagement.

Finally, to engage Manitobans as customers and citizens, goals are being proposed that concern communications of corporate activities to key stakeholders, increasing and maintaining customer satisfaction levels, increasing the understanding of Manitoba Liquor & Lotteries' contribution to Manitoba, and the measurement of the engagement of key corporate partners.

➤ **Key Planning Assumptions**

The 2018-19 Corporate Business Plan is based on the following assumptions. If these assumptions do not hold true, Manitoba Liquor & Lotteries will need to adjust its plans accordingly.

- Current partnerships with existing stakeholders will continue without significant change.
- There will be no major unanticipated changes in legislation relating to the corporation's lines of business.
- Inflation will increase slightly as the Bank of Canada adjusts its interest rates upwards.
- The major driver of growth in Manitoba Liquor & Lotteries' business will continue to be disposable household income.
- There are no major environmental catastrophes or major economic disruptions.
- Cannabis does not have a material negative revenue impact on the liquor line of business in the short term.
- There are no major technological disruptions currently facing the corporation's lines of business.
- Corporate responsibility is embedded in strategy and operations.

Performance Measures & Targets

As part of the strategic planning process, Manitoba Liquor & Lotteries' will develop performance measures and targets which will measure achievement of its corporate goals.

Financial Budgets & Forecasts

➤ Summary of Financial Results

Manitoba Liquor & Lotteries (\$000s)	2016-17 Actuals	2017-18 Budget	2018-19 Budget
Revenue	\$ 1,360,796	\$ 1,424,128	\$ 1,469,459
Cost of sales	507,315	530,562	549,868
	853,481	893,566	919,591
Operating expenses	248,780	262,961	269,049
Depreciation and amortization	49,289	63,178	58,458
Goods and Services Tax	2,973	3,800	3,000
	301,042	329,939	330,506
Operating Income	552,439	563,627	589,085
Share of profit of Western Canada Lottery Corporation	62,572	61,133	61,953
Interest expense on long-term debt	(10,636)	(13,900)	(13,900)
Interest income	909	912	791
Income Before Allocations and Payments	605,284	611,771	637,929
Allocations and payments	19,230	19,771	15,929
Net Income and Comprehensive Income and Total Allocation to the Province of Manitoba	\$ 586,054	\$ 592,000	\$ 622,000

It is forecast that Manitoba Liquor & Lotteries' net income for 2017-18 will exceed the budget.

➤ Sensitivity Analysis

The preparation of the annual budget includes analysis of current trends as well as adjustments for planned projects and initiatives that may affect revenue or expenses, such as refresh of VLT machines, construction in the casinos, or opening new Liquor Mart stores. For more information on major capital projects, please see the capital plan section.

Budgeting and business planning at Manitoba Liquor & Lotteries involves multiple assumptions regarding the expected growth rate of revenues and expenses. The following table outlines the sensitivity of net income to a 1% change in the items outlined:

1% Change in:	Impact on 2018-19 Budgeted Net Income
Revenue	± \$14.7 million
Cost of Sales	± \$5.5 million
	± \$9.2 million
Operating Expenses	± \$2.7 million
Depreciation, Amortization, GST and Interest	± \$0.8 million

Human Resources

➤ Staffing Summary

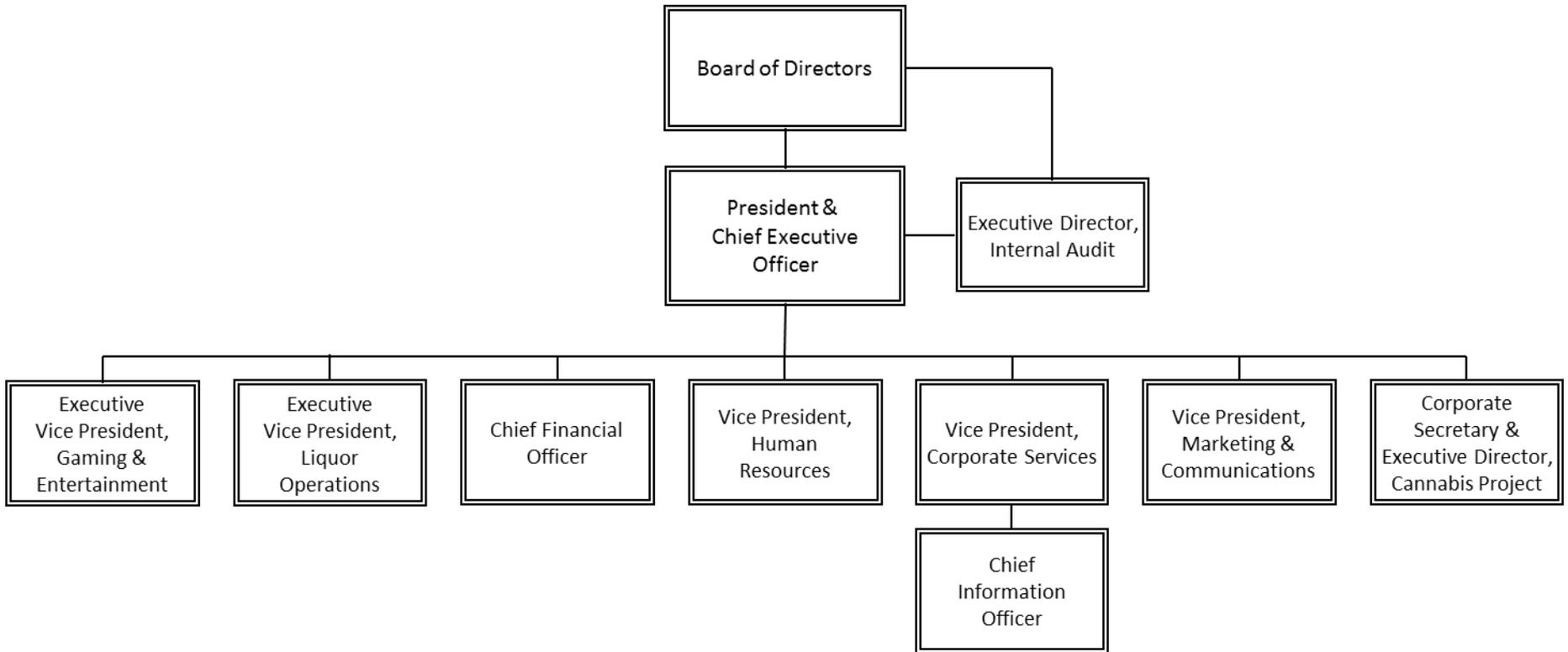
Manitoba Liquor & Lotteries provides employment to 2,844 full-time and part-time employees throughout the province of Manitoba. Of these employees, 8 are members of the executive team, 173 fulfill management roles and the remainder are employees and front-line staff required to appropriately service the corporation's customers. Approximately 85% are unionized and are represented by 5 unions which operate under 7 collective agreements. Manitoba Liquor & Lotteries does not anticipate any material change to its staffing complement in the 2018-19 year.

The main factor affecting overall salaries & benefits in 2018-19 is the general pay increases negotiated within these collective agreements. All collective agreements are set to expire between March 2018 and August 2020.

➤ Management Structure

Manitoba Liquor & Lotteries is overseen by a Board of Directors consisting of at least nine Board members recommended by the Minister of Crown Services and appointed by the Lieutenant Governor in Council.

The organizational structure is as follows:



Capital Plan

(\$000s)	2017-18 Budget	Actuals to Dec 31, 2017	Projected Expenditures			Four Year Total Cost
			2018-19	2019-20	2020-21	
Liquor Projects	24,119.4	1,728.8	12,587.3	27,116.5	11,418.3	75,241.5
Gaming & Entertainment Projects	28,792.5	9,105.4	44,888.9	57,219.8	51,318.1	182,219.3
Corporate Projects	11,550.9	1,886.6	10,932.5	5,017.2	4,019.8	31,520.4
Total Regular Capital Program	64,462.9	12,720.8	68,408.7	89,353.5	66,756.2	288,981.3
First Nations Capital Program	4,385.0	793.4	3,285.0	3,855.0	2,655.0	14,180.0

➤ Liquor Projects

Liquor Projects include development of new and existing Liquor Mart stores; short- and long-term solutions to address capacity issues in the liquor distribution centre; and information technology (IT) projects to improve processes and upgrade or replace outdated systems.

➤ Gaming & Entertainment Projects

Gaming & Entertainment Projects include on-going replacement of gaming equipment at the McPhillips Station Casino, Club Regent Casino, Shark Club Gaming Centre and VLT sites; development projects at both casinos; and enhancements to IT infrastructure and the gaming management systems.

➤ Corporate Projects

Corporate Projects include annual replacement of outdated IT and surveillance equipment, consolidation of payroll, procurement of an enterprise portal platform and standardization of corporate office locations.

➤ First Nations Capital Program

The First Nations Capital Program is primarily an annual on-going replacement program for gaming equipment at the First Nations Casinos. The cost of the gaming equipment and related computer equipment is recovered by Manitoba Liquor & Lotteries from these casinos. There is also an allocation to purchase VLTs for First Nations sites.