



Manitoba Liquor and Lotteries Corporation

2019-20 Corporate Business Plan

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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;
- (c.1) to acquire cannabis and sell it to operators of cannabis stores for resale;
- (d) to carry out functions relating to lottery schemes, liquor and cannabis conferred on it under this Act; and
- (e) to conduct or fund initiatives that promote responsible gaming and responsible liquor and cannabis consumption.

In addition to the purposes outlined above, the Minister of Crown Services has issued mandate letters to the Board Chair of Manitoba Liquor and Lotteries Corporation (Manitoba Liquor & Lotteries). These letters, formally called framework letters, can be found at the following location:

<https://gov.mb.ca/government/proactivedisclosure/ministerials.html>

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 products and the supply and distribution of non-medical cannabis 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 58 Liquor Mart and 7 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.

The corporation supplies and distributes non-medical cannabis in Manitoba to the privately-owned retail network of stores.

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).

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).

Manitoba Liquor & Lotteries is currently in the process of establishing a social responsibility role in the new non-medical cannabis industry. To date, the corporation has funded consumer awareness messaging produced by the Province of Manitoba and has provided liquor and gaming customers with information on the website on how cannabis and alcohol interact when used together.

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 relatively high levels of growth previously experienced in the Manitoba market are not expected to be sustained. Manitoba's forecasted GDP growth for 2019 is 1.7%, which is

consistent with the forecast of 1.7% for Canada overall. Manitoba is forecasted to have higher inflation but lower unemployment than the national averages.

The Canadian dollar softened in early 2019 and is projected to be relatively stable to the end of 2019. Confidence in the Canadian dollar will improve if lawmakers in Canada, the United States and Mexico vote to approve the CUSMA trade deal. Rising oil prices will also help the Canadian dollar. Uncertainty in the value of the Canadian dollar poses a risk to Manitoba Liquor & Lotteries as many of the liquor products are sourced from suppliers in other countries. Rising interest rates and fuel costs could have a negative impact on the corporation's operating costs and has the potential to reduce consumer disposable income, which could affect revenues.

The sale of non-medical cannabis was legalized on October 17, 2018. The two types of cannabis products currently legal for sale are dried flower and ingestible oils. Health Canada plans to expand the range of legal cannabis products allowed to include popular categories such as vapes, edibles, concentrates and topicals. These products are expected to be legal for sale to consumers across Canada no later than October 17, 2019.

There is a 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 are increasingly available.

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.

➤ **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.

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 impacted by 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, impacting the ability to efficiently and effectively deliver products and services to meet consumer demand. As a result, the liquor warehousing and distribution functions are in the process of relocating to a different facility which will address both the short term and long-term capacity requirements.

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 improve the efficiency of operations and to meet customer needs and expectations. Experiential events that grow product knowledge and drive customer engagement through immersive branded experiences can also help enhance operations. 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 are opportunities for liquor operations. Further leveraging Manitoba Liquor & Lotteries' channel partners through improved collaboration provides opportunities for growth of commercial sales.

Manitoba Liquor & Lotteries has developed an enhanced strategy to target the rising rate of thefts at Liquor Mart locations. A multi-point theft reduction plan will be deployed to combat these thefts and robberies while protecting the safety of employees and customers.

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 operations.

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.

The gaming market in which the organization operates is mature and a sustainable business model involves broadening product and event awareness across all demographic groups.

A further gaming opportunity may be provided with single event sports wagering, which if legalized, which would open up a new type of gaming that was not previously available.

Cannabis

The cannabis line of business is operational and actively monitors the external environment to prepare for changes as the industry evolves. Cannabis sales continue to increase in Manitoba due to three factors: gradual increase in supply, introduction of more suppliers and on-boarding of more retail stores.

New legislation regarding the legalization of edibles is anticipated to come into force in the fall of 2019 which presents opportunities for new suppliers and products. The introduction of new product categories along with the expansion of the retail network in Manitoba will result in overall growth in this industry. However, supply challenges continue to impact the cannabis industry across Canada which is affecting the pace of retailer rollout and product availability.

➤ **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

➤ **Corporate Values**

Manitoba Liquor & Lotteries' core values are the foundation of its culture:

CARING

Everyone Matters – We care about each other, our communities and the environment by being genuine, responsible and considerate.

COLLABORATIVE

Better Together – We work together in an open, respectful way to produce and deliver outstanding results.

COMMITTED

Keep Promises – We take pride and ownership in making and meeting our commitments.

CREATIVE

Courage to Explore – We foster an environment of idea sharing, continuous learning and improvement, and push beyond what we have today to what is possible tomorrow.

CUSTOMER FOCUSED

Great Experiences – We listen to our internal and external customers so we can anticipate, understand and respond to their needs.

➤ **Corporate Goals**

To achieve its Statement of Purpose, Manitoba Liquor & Lotteries' strategic planning process involves an assessment of the current environment to understand the impacts to the business and the establishment of corporate goals by the Executive Management Committee and approved by the Board of Directors. These goals form the basis of annual business planning.

To ensure the corporation performs profitability, goals have been created around revenues, controlling operating costs and measures of productivity to maximize net income. To address sustainability, goals exist 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 include the evolution of the 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 address growth in Manitoba Liquor & Lotteries' customer base, the understanding and response to evolving consumer trends, and improvements in employee engagement.

Finally, to engage Manitobans as customers and citizens, goals include 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 2019-20 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.
- The legalization of cannabis edibles will occur in 2019 and supply shortages that are being experienced across the country will be resolved.
- 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)	2017-18 Actuals	2018-19 Budget	2019-20 Budget
Revenue	\$ 1,418,810	\$ 1,469,459	\$ 1,542,270
Cost of sales	530,110	549,868	630,073
	888,700	919,591	912,197
Operating expenses	254,547	269,394	260,309
Depreciation and amortization	52,406	58,103	55,632
Goods and Services Tax	3,354	3,000	3,100
	310,307	330,497	319,041
Operating Income	578,393	589,094	593,156
Share of profit of Western Canada Lottery Corporation	60,909	61,953	65,741
Interest expense on long-term debt	(11,454)	(13,900)	(13,677)
Interest income	937	791	766
Income Before Allocations and Payments	628,785	637,938	645,986
Allocations and payments	18,423	15,938	15,986
Net Income and Comprehensive Income and Total Allocation to the Province of Manitoba	\$ 610,362	\$ 622,000	\$ 630,000

It is forecasted that Manitoba Liquor & Lotteries' net income for 2018-19 will be below budget but will exceed the prior year.

➤ 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. 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 2019-20 Budgeted Net Income
Revenue	± \$15.4 million
Cost of Sales	± \$6.3 million
	± \$9.1 million
Operating Expenses	± \$2.6 million
Depreciation, Amortization, GST and Interest	± \$0.7 million

Capital Plan

(\$000s)	Projected Expenditures		
	2019-20	2020-21	2021-22
Total Regular Capital Program	31,696	26,419	11,293
First Nations Capital Program	-	-	-

The Regular Capital Program consists of funding for projects having contractual commitments or that are required for the maintenance, safety and security of Manitoba Liquor & Lotteries' facilities, infrastructure and systems. There is currently no allocation under the First Nations Capital Program pending the gaming strategy review to be completed by the Province of Manitoba.

Human Resources

➤ **Staffing Summary**

Manitoba Liquor & Lotteries provides employment to 2,813 full-time and part-time employees throughout the province of Manitoba. Of these employees, 8 are members of the executive team, 129 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 increases to its staffing complement in the 2019-20 year.

Salaries & benefits in 2019-20 are expected to be consistent with the current year. There were two collective agreements renewed in 2018 with a third in negotiations. The remaining agreements are set to expire between September 2019 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:

