



# Virginia ABC FY 2024 – 2026 Financial Update

*As of March 18, 2024*

**Virginia ABC Board of Directors  
March 19, 2024**



[www.abc.virginia.gov](http://www.abc.virginia.gov)

# Purpose and Contents

## Purpose of Discussion

Update the ABC Board on February YTD financial performance and seek approval on revised FY 2024-2026 GACRE forecasts.

## Contents

Section 1 – February 2024 Financial Results (Month and YTD)

Section 2 - Store Sales Revenue Impacts and NABCA Comparison

Section 3 - Revised GACRE Forecast for FY 2024 - 2026

## Section 1

# February 2024 Financial Results (Month and YTD)

**VIRGINIA ALCOHOLIC BEVERAGE CONTROL AUTHORITY**  
**Contribution Margin - Income Statement (In Millions)**  
**Fiscal Year 2024 - Month of February**

	FY 2024		FY 2024		FY 2024			FY 2023			
	Actual		Budget		Variance	Percentage		Actual		Variance	Percentage
<b>Revenue Sources:</b>											
Alcoholic Beverages (Store Sales)	\$ 110.9		\$ 115.3		\$ (4.4)	-3.8%	●	\$ 105.8		\$ 5.1	4.8%
Online Sales	0.6		0.6		-	0.0%	●	0.6		-	0.0%
Other	2.0		1.9		0.1	7.5%	●	1.7		0.3	14.7%
<b>Gross Revenue</b>	<b>113.5</b>		<b>117.8</b>		<b>(4.3)</b>	<b>-3.6%</b>	●	<b>108.1</b>		<b>5.4</b>	<b>5.0%</b>
Less: Spirits Excise Tax	18.4		19.2		0.8	4.2%	●	17.6		(0.8)	-4.5%
<b>Net Revenue</b>	<b>95.1</b>		<b>98.6</b>		<b>(3.5)</b>	<b>-3.5%</b>	●	<b>90.5</b>		<b>4.6</b>	<b>5.0%</b>
<b>Variable Operating Costs:</b>											
Cost of Goods Sold	53.7	48.2%	55.7	48.0%	2.0	3.5%	●	51.1	48.0%	(2.6)	-5.1%
Variable Administrative Costs	16.6		17.4		0.8	4.6%	●	16.3		(0.3)	-2.1%
<b>Total Variable Costs</b>	<b>70.3</b>		<b>73.1</b>		<b>2.8</b>	<b>3.8%</b>	●	<b>67.4</b>		<b>(2.9)</b>	<b>-4.4%</b>
<b>Contribution Margin</b>	<b>24.8</b>		<b>25.5</b>		<b>(0.7)</b>	<b>-2.8%</b>	●	<b>23.1</b>		<b>1.7</b>	<b>7.2%</b>
Contribution Margin as a % of Store Sales	<b>22.2%</b>		<b>22.0%</b>					<b>21.7%</b>			
<b>Fixed Operating Costs:</b>											
Fixed Administrative Costs	5.8		6.3		0.5	7.9%	●	6.6		0.8	12.1%
Regulatory Costs (Enforcement & Hearings)	2.2		2.4		0.2	8.3%	●	1.8		(0.4)	-22.2%
<b>Total Fixed Costs</b>	<b>8.0</b>		<b>8.7</b>		<b>0.7</b>	<b>8.0%</b>	●	<b>8.4</b>		<b>0.4</b>	<b>4.8%</b>
<b>ABC Net Profit</b>	<b>\$ 16.8</b>		<b>\$ 16.8</b>		<b>\$ (0.0)</b>	<b>-0.1%</b>	●	<b>\$ 14.7</b>		<b>\$ 2.1</b>	<b>14.0%</b>
Net Profit as a % of Store Sales	<b>15.1%</b>		<b>14.5%</b>					<b>13.8%</b>			
Net Profit as a % of Net Sales	<b>17.7%</b>		<b>17.1%</b>					<b>16.3%</b>			

● Favorable Variance  
● Unfavorable Variance

NM = Not Meaningful



**VIRGINIA ALCOHOLIC BEVERAGE CONTROL AUTHORITY**  
**Contribution Margin - Income Statement (In Millions)**  
**Fiscal Year 2024 - YTD as of 02/29/2024**

	FY 2024		FY 2024		FY 2024	FY 2024		FY 2023		
	Actual		Budget		Variance	Percentage		Actual		Variance Percentage
<b>Revenue Sources:</b>										
Alcoholic Beverages (Store Sales)	\$ 978.0		\$ 1,009.1		\$ (31.1)	-3.1%	●	\$ 960.2		\$ 17.8 1.9%
Online Sales	6.0		6.5		(0.5)	-7.6%	●	6.1		(0.1) -1.1%
Other	17.2		14.9		2.3	15.4%	●	15.2		2.0 13.2%
<b>Gross Revenue</b>	<b>1,001.2</b>		<b>1,030.5</b>		<b>(29.3)</b>	<b>-2.8%</b>	●	<b>981.5</b>		<b>19.7 2.0%</b>
Less: Spirits Excise Tax	162.7		168.2		5.5	3.3%	●	159.9		(2.8) -1.8%
<b>Net Revenue</b>	<b>838.5</b>		<b>862.3</b>		<b>(23.8)</b>	<b>-2.8%</b>	●	<b>821.6</b>		<b>16.9 2.1%</b>
<b>Variable Operating Costs:</b>										
Cost of Goods Sold	472.7	<b>48.0%</b>	487.4	<b>48.0%</b>	14.7	3.0%	●	463.2	<b>47.9%</b>	(9.5) -2.1%
Variable Administrative Costs	141.7		142.1		0.4	0.3%	●	140.1		(1.6) -1.2%
<b>Total Variable Costs</b>	<b>614.4</b>		<b>629.5</b>		<b>15.1</b>	<b>2.4%</b>	●	<b>603.3</b>		<b>(11.1) -1.8%</b>
<b>Contribution Margin</b>	<b>224.1</b>		<b>232.8</b>		<b>(8.7)</b>	<b>-3.7%</b>	●	<b>218.3</b>		<b>5.8 2.7%</b>
Contribution Margin as a % of Store Sales	<b>22.8%</b>		<b>22.9%</b>					<b>22.6%</b>		
<b>Fixed Operating Costs:</b>										
Fixed Administrative Costs	45.6		52.6		7.0	13.2%	●	53.9		8.3 15.4%
Regulatory Costs (Enforcement & Hearings)	17.1		17.1		-	0.0%	●	15.1		(2.0) -13.2%
<b>Total Fixed Costs</b>	<b>62.7</b>		<b>69.7</b>		<b>7.0</b>	<b>10.0%</b>	●	<b>69.0</b>		<b>6.3 9.2%</b>
<b>ABC Net Profit</b>	<b>\$ 161.4</b>		<b>\$ 163.1</b>		<b>\$ (1.7)</b>	<b>-1.1%</b>	●	<b>\$ 149.3</b>		<b>\$ 12.1 8.1%</b>
Net Profit as a % of Store Sales	<b>16.4%</b>		<b>16.1%</b>					<b>15.4%</b>		
Net Profit as a % of Net Sales	<b>19.2%</b>		<b>18.9%</b>					<b>18.2%</b>		

● Favorable Variance  
● Unfavorable Variance

NM = Not Meaningful



## Section 2

# Store Sales Revenue Impacts and NABCA Comparison

# Virginia ABC is feeling the effect of an industry-wide sales slowdown

Through Feb'24, Virginia ABC store sales are (3.0%) unfavorable to the budget. Spirits sales have slowed across the United States, in both “open” and control states, leading to suppliers publicly revising sales estimates downwards.

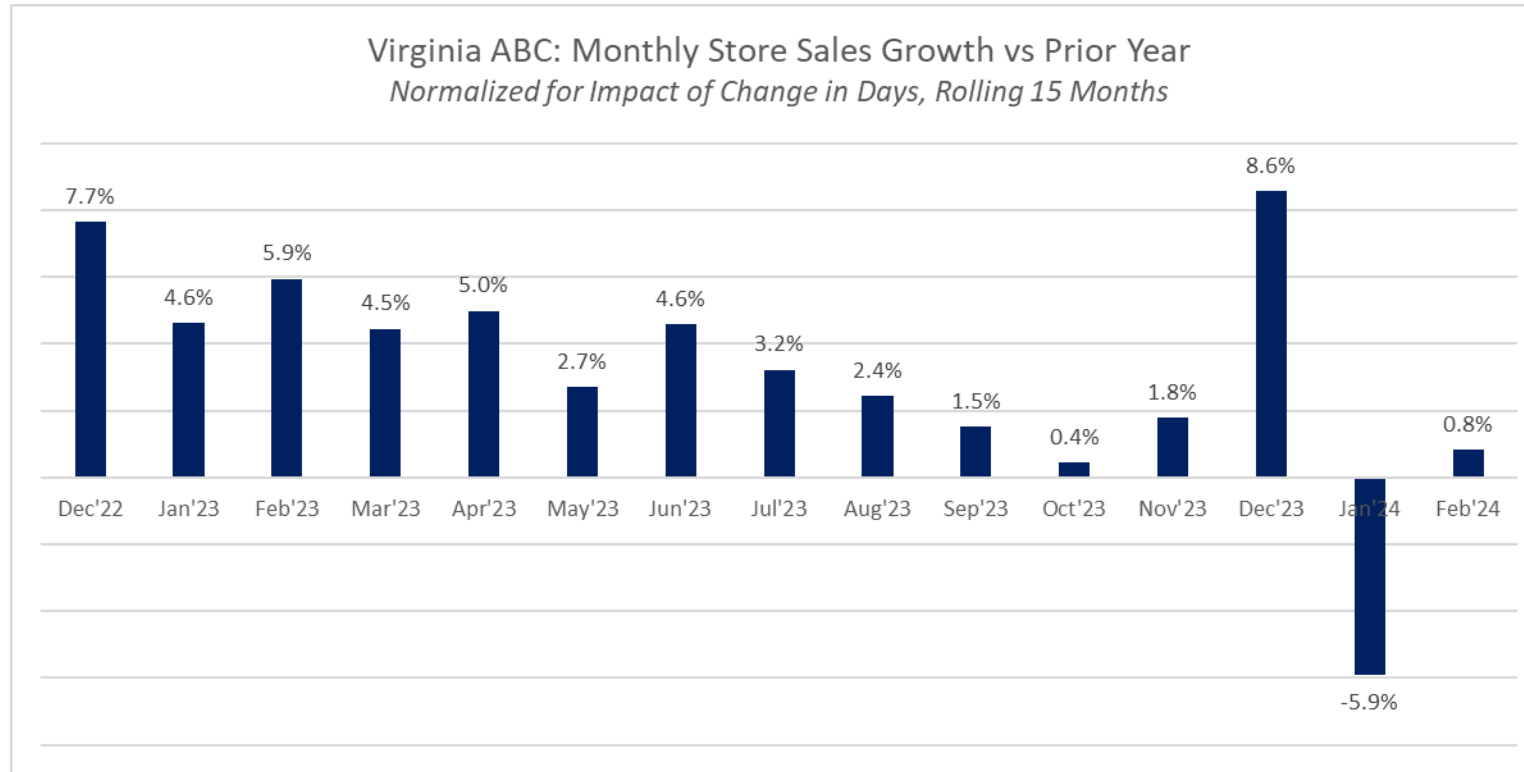
Virginia ABC: FY'24 Gross Store Sales Revenue Tracking									
<i>In \$M</i>	Jul'23	Aug'23	Sep'23	Oct'23	Nov'23	Dec'23	Jan'24	Feb'24	FY'24 YTD
Actual	121.8	115.2	116.1	124.5	127.0	171.9	100.1	111.9	988.5
Budget	121.4	119.8	122.8	126.3	132.2	170.6	109.6	116.3	1,019.0
Variance B/(W)	0.4	(4.6)	(6.7)	(1.8)	(5.2)	1.3	(9.5)	(4.5)	(30.5)
Variance %	0.3%	-3.9%	-5.5%	-1.4%	-3.9%	0.8%	-8.7%	-3.8%	-3.0%

Source: SmartView and Oracle BI

Note: Represents Gross Store Sales before any offsets such as over/shorts

# This sales downturn began affecting Virginia ABC store sales in July

Virginia ABC store sales had 4.9% growth in FY'23, but the declines in monthly growth rates that started in CY'23 has resulted in lower-than-expected sales levels that are driving budget unfavorability.



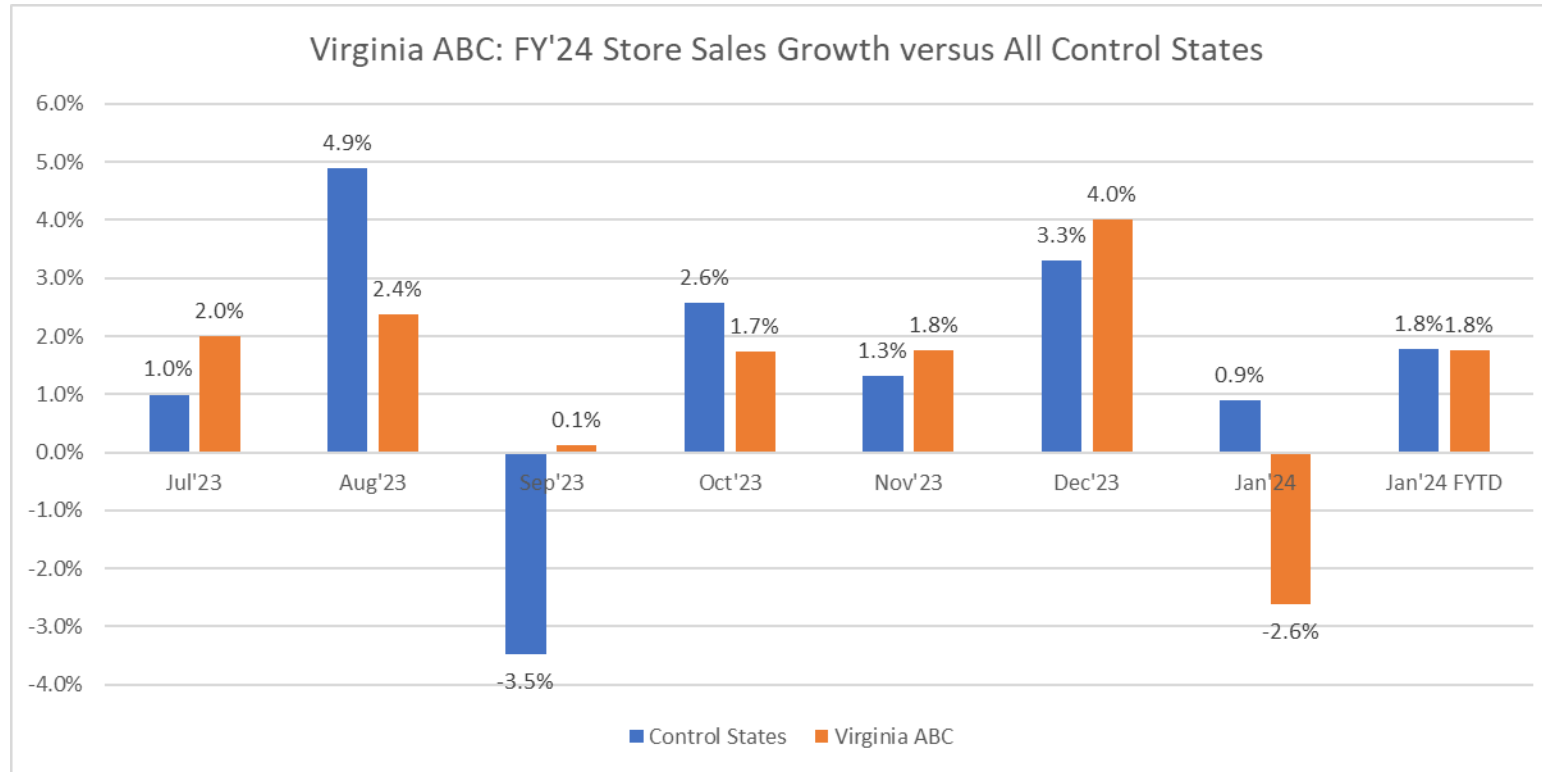
Source: SmartView and Oracle BI

Note: Actuals are updated to remove the impact from Change in Days, to show the true growth rates without the noise created by the change in selling days that occur each month



# Virginia isn't the only control state experiencing low growth rates

The 17 control states in aggregate had 1.8% growth between Jul'23 and Jan'24, demonstrating that Virginia isn't isolated in the current low growth rates.



Source: SmartView and NABCA Control State Results


Note: Michigan reports weekly instead of daily, some months have 5 weeks, including Jan'24


# Multiple industry suppliers have recently highlighted low growth

Major industry suppliers Brown-Forman, Pernod Ricard, and Moët Hennessey have all recently highlighted lower demand for spirits as driving down spirits sales.


Jack Daniel's owner Brown-Forman reported “slower than anticipated” sales for the first half of its 2024 fiscal year; dragged down by whiskey and Tequila declines. The US firm reported a sales increase of 1% to US\$2.1 billion for the six months to 31 October 2023, with operating income rising by 1% to US\$666 million. Dec 7, 2023

The French drinks group said Thursday that sales came in at 3.04 billion euros (\$3.20 billion) in the three months to the end of September, down 8% on the year in reported terms and 2% organically. Oct 19, 2023

 Wall Street Journal  
<https://www.wsj.com> › Economy › Consumers  
**Pernod Ricard Sales Fall as Americans Drink Less - WSJ**

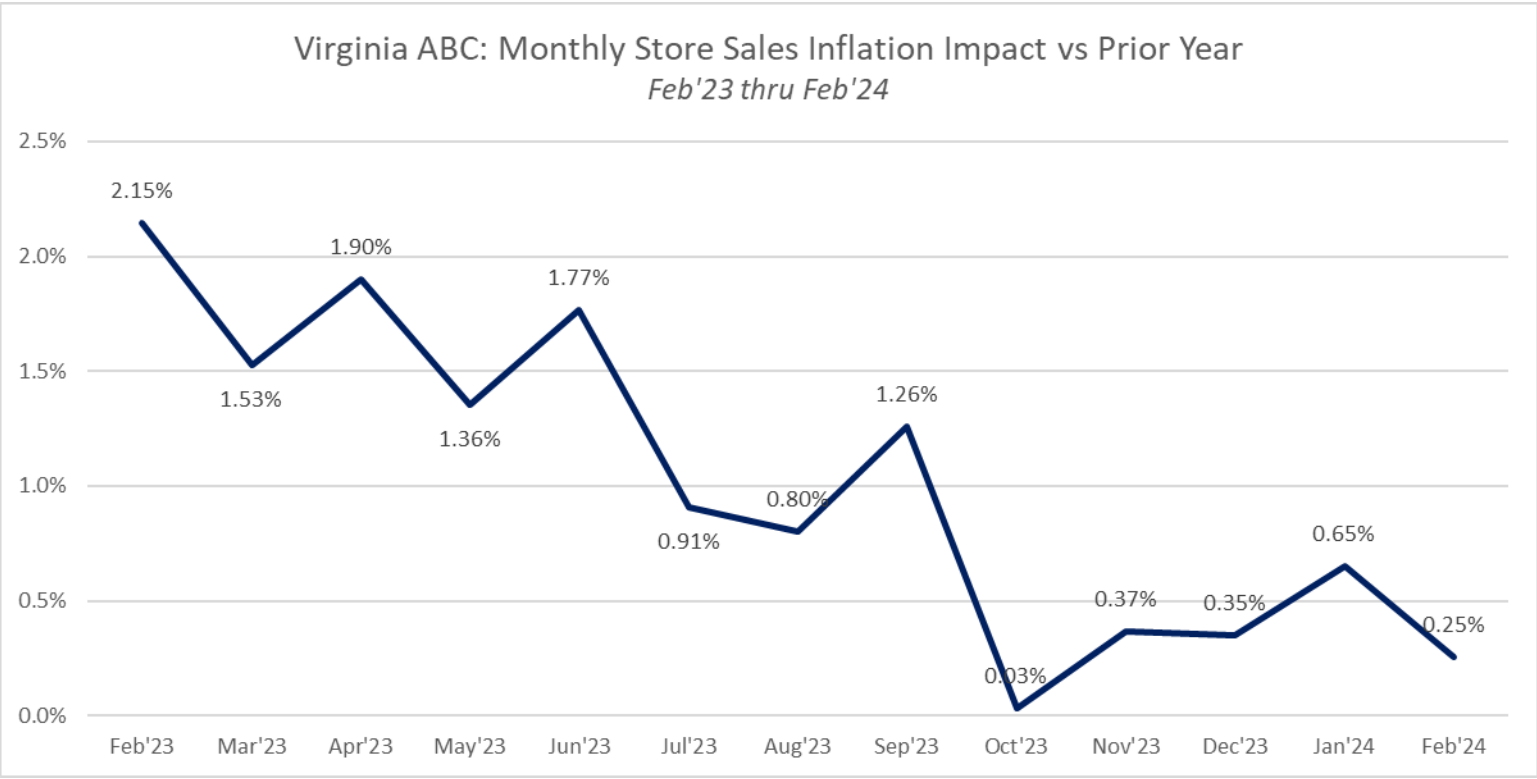
 The Spirits Business  
<https://www.thespiritsbusiness.com> › 2023/12 › brown-f...

Moët Hennessey, the wine and spirits arm of luxury conglomerate LVMH, saw organic revenue drop by 7% to €4.7 billion (US\$4.98bn) in the first nine months of 2023. The subsidiary's sales for the third quarter fell by 14% to €1.5bn (US\$1.6bn). Oct 11, 2023

 The Spirits Business  
<https://www.thespiritsbusiness.com> › 2023/10 › lvmh-spi...

# Lower supplier driven inflation is impacting Virginia ABC revenues

As suppliers become more concerned about sales levels, they lower shelf prices and offer discounts as they try to maintain share. This is good for consumers but lowers Virginia ABC's store sales revenues.

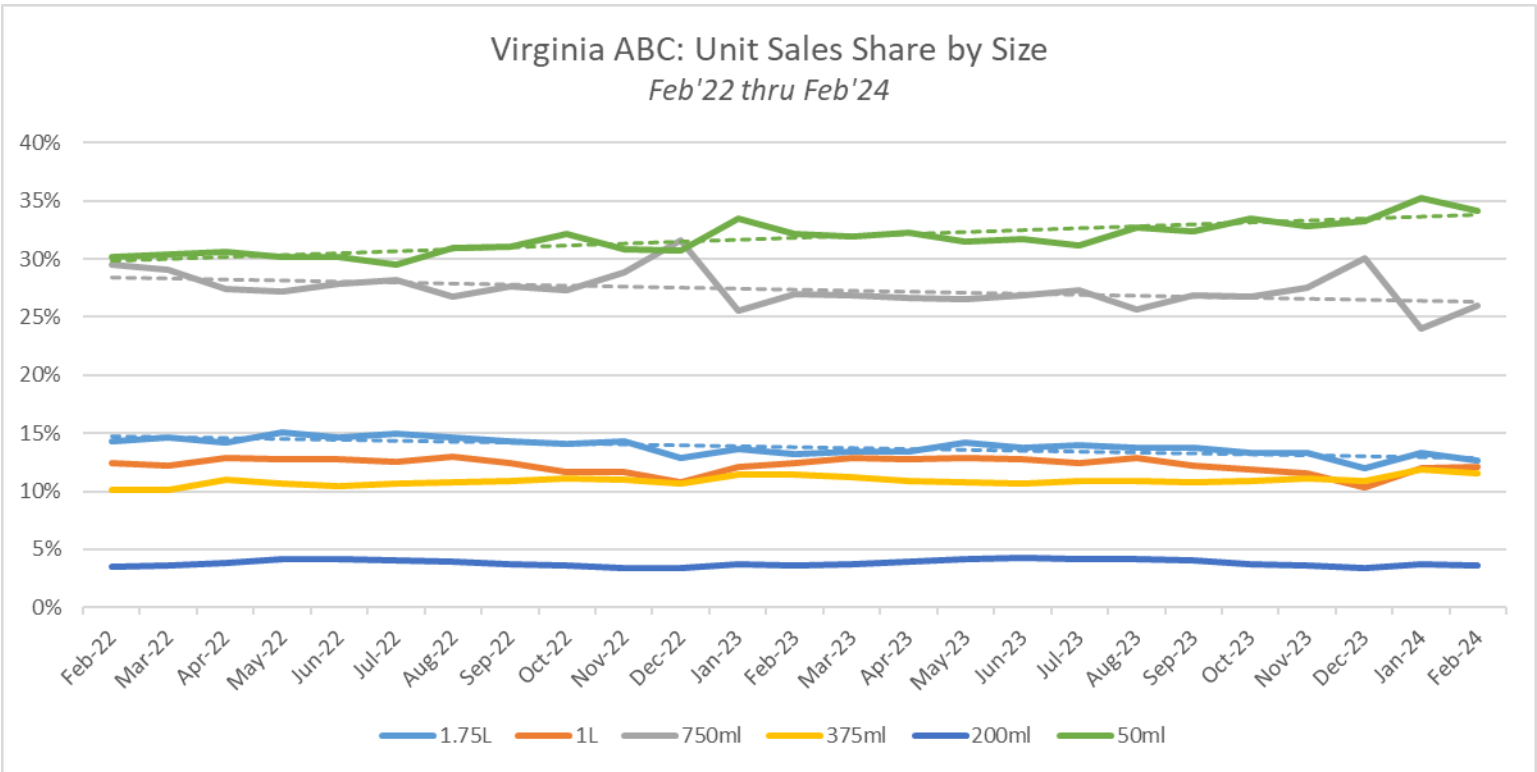


Source: Oracle BI, SmartView, and Strategy & Analytics internal analysis



# Consumers are shifting to buying smaller sized spirits products

Rather than moving down the shelf, we're seeing customers moving to smaller bottle sizes. Both the 1.75L and 750ml sizes are seeing declines, while the 50ml is increasing. Some of this is unwinding COVID impacts, but goes beyond pre-COVID norms.

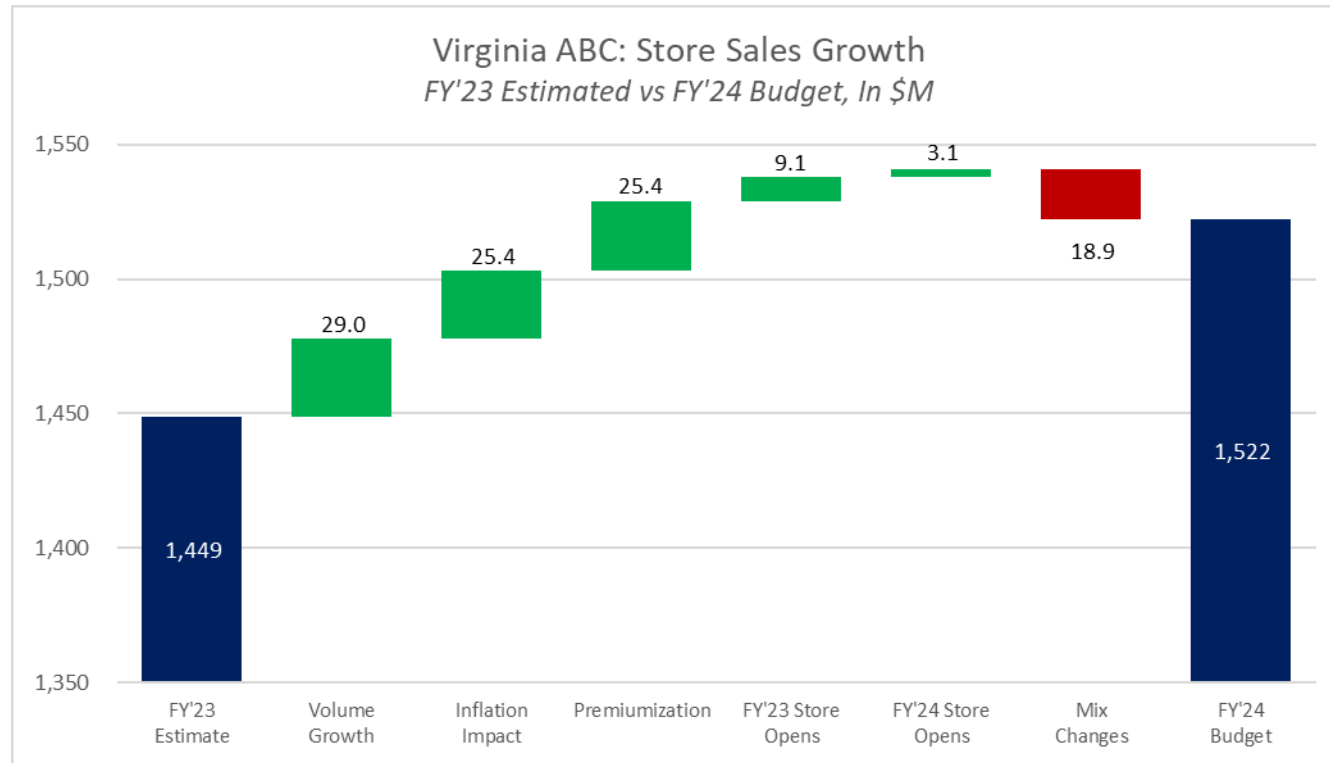


Source: Oracle BI



# Store Sales Revenues: Budgeting 5.1% growth in FY'24

Growth in FY'24 primarily driven by premiumization, inflation, and volume growth; economic downturn and volume growth are the biggest risks to achieving this forecast.



Source: SmartView, Data Warehouse, Strategy & Analytics analysis

This slide is directly out of the FY'24 budget materials, explaining budget thinking at the time

## Assumptions:

*Volume Growth* – 2.0% increase in bottle volumes

*Inflation Impact* – 1.75% increase in average bottle pricing

*Premiumization* – 1.75% increase from consumer price selection

*FY'23 Store Opens* – Net impact @ \$225K/month, 4 stores

*FY'24 Store Opens* – \$65K/month, 8 stores, midyear average open

*Mix Changes* – Ongoing shift into larger sizes, resulting in lower price per liter, and trading down activity into smaller sizes

## Risks:

*Economic Downturn* – spirits industry is recession resilient, but drives consumers down shelf (depremiumization), purchase larger sizes, and reduced licensee sales from restaurant visit declines

*Volume Growth* – Volumes have been stagnant across industry post-pandemic, and declined in April; investor analysts recommending “hold” on supplier stocks due to slow/no growth

*Store Openings* – Identification and buildout of 8 locations that meet Authority goals for new stores

## Opportunities:

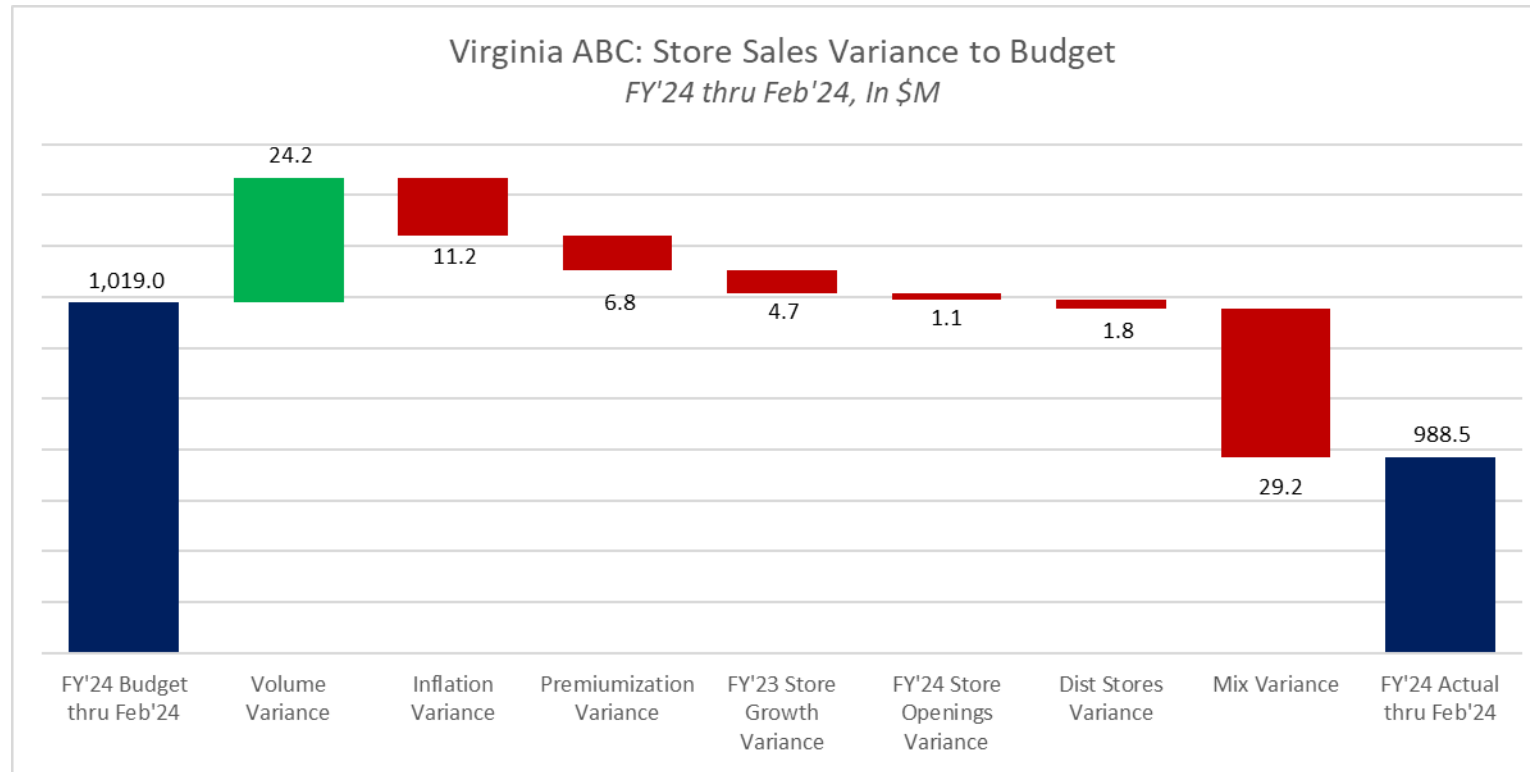
*Inflation* – supplier context suggests fewer price increases in FY'24, above 1.75% could deliver greater revenues

*Marketing* – Potential to seek out marketing opportunities to reverse the mix declines

*Online Cross Sell* – Moving limited availability products to online sales could result in additional cross sell opportunities as consumers check out their transactions

# The changed sales environment is impacting every budget assumption

Mix shift to smaller sizes, lower inflation, and lower premiumization are primary drivers of the budgeted store sales shortfall. New stores opened in FY'23 are not selling at same rate as stores opened in FY'22. Volume variance correlated to mix.



<i>Assumption</i>	2.0%	1.75%	1.75%	\$225k/mo
<i>Actual</i>	4.53%	0.58%	1.04%	\$91k/mo

Source: Oracle BI, SmartView, and Strategy & Analytics internal analysis  
Note: Represents Gross Store Sales before any offsets such as over/shorts

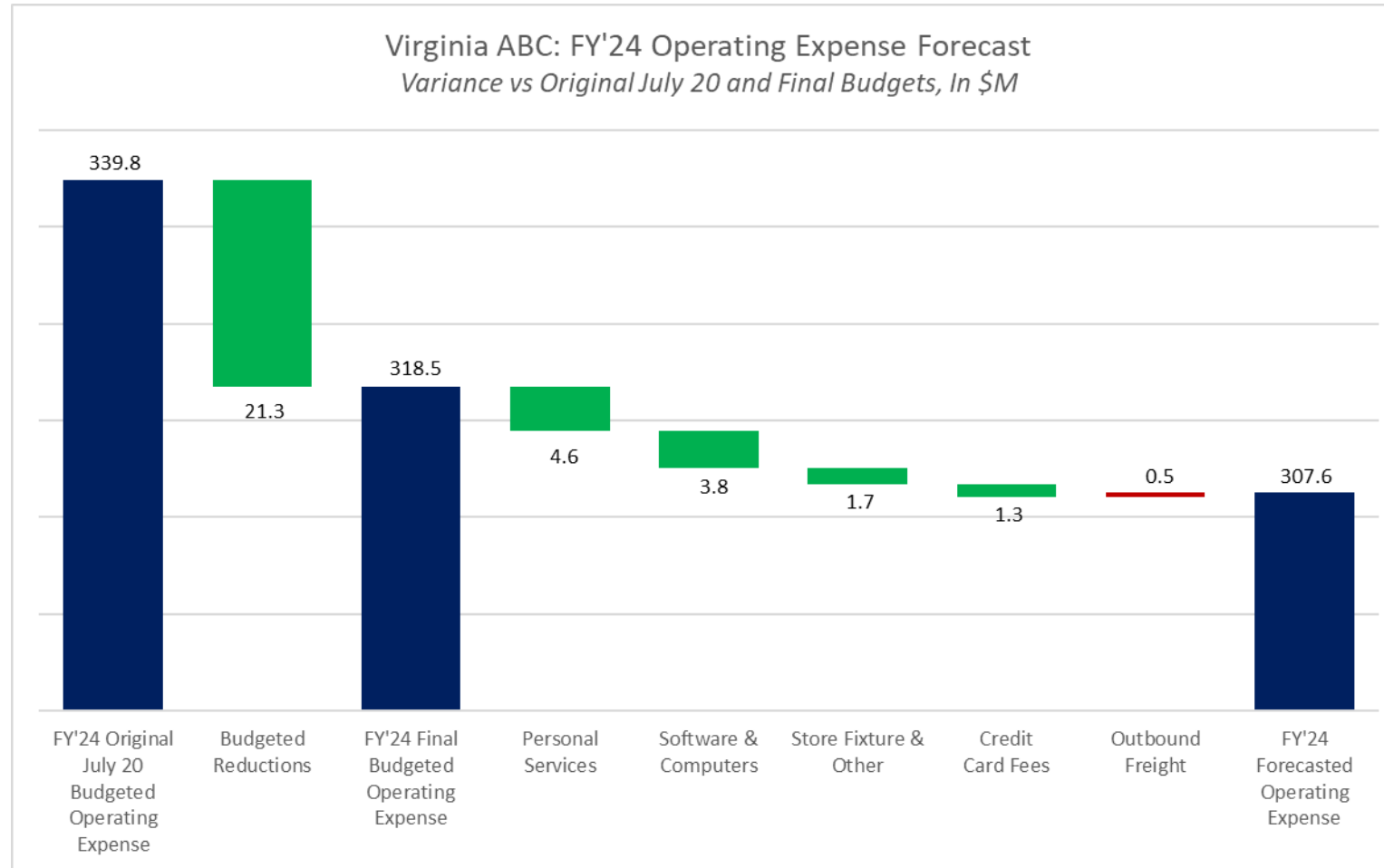
# Ongoing expense management is offsetting some of the revenue shortfalls

In addition to the cost cutting efforts implemented into the FY'24 budget, we have been aggressively managing expenditures to help offset lost profits from lower than budgeted store sales.

- All vacated positions are being critically evaluated with only retail, enforcement and critical need positions being backfilled.
- Two vacated C-Suite positions are not currently planned to be backfilled. Functional reporting responsibilities have been reassigned to other C-Suite members.
- Initiated weekly spend review meetings to analyze procurement requests and invoices greater than \$10K to further identify opportunities for spending efficiencies.
- Modified large scale contracts to reduce operational costs.
  - Transitioned from paper bags to biodegradable plastic bags (approx. \$140K per month saving)
  - Modified Cintas replenishment strategy for retail store supplies to reduce excess supplies on-hand

# Those aggressive actions have saved \$32M on Operating Costs overall

After the initial reduction of \$21.3M incorporated into the final budget, ongoing actions have saved an additional \$10.9M, primarily in personnel related costs and software and computer related equipment. We will continue to focus on costs.

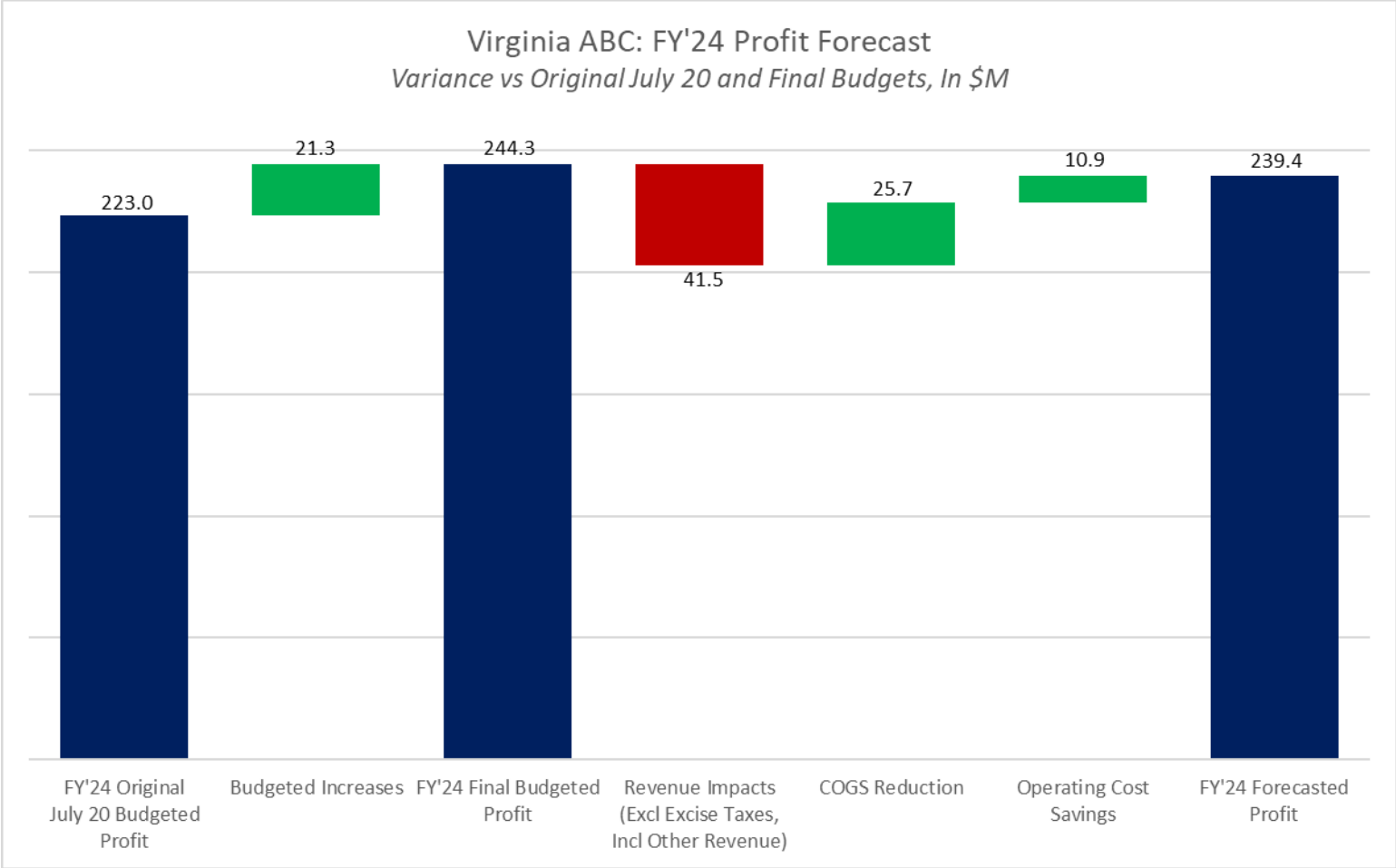


Source: Finance internal analysis



# Ultimately, we are forecasting a \$4.9M unfavorable variance to profit

After excise taxes and cost of goods sold, the revenue impact on profits is \$15.8M, but the aggressive savings on operating cost claws back \$10.9M of that impact, leaving an unfavorable variance of \$4.9M versus the final budget.



Source: Finance and Strategy & Analytics internal analysis

# Section 3

## Revised FY 2024 – 2026 GACRE Forecast

# FY 2024 – 2026 Budget/GACRE Recap – Final Board Approved Submission

- In FY 2024, ABC budgeted sales growth in the retail segment at 5.1% due to volume increases of 2%, inflation impacts of 1.75% and premiumization of 1.75%, partially offset by anticipated changes in product mix.
- Similar revenue growth of 5% was anticipated in both fiscal years 2025 and 2026.
- ABC's FY 2024 budgeted net profit of \$244.3M reflected a net profit increase of \$23.7M over FY 2023 and was based on aggressively controlling spending (eliminating reliance on 3<sup>rd</sup> part vendors, minimizing discretionary expenditures, eliminating non-critical open positions, etc.), and leveraging operational efficiencies.
- ABC budgeted 1% salary increases for FY 2025 – 2026 to achieve increased net profit expectations.
- FY 2025 – 2026 GACRE focused on increasing profit margins with minimal investments in new technology/infrastructure.

# FY 2024 GACRE Forecast – as of March 18, 2024

## FY 2024 Financial Outlook versus Budget

- ABC’s normalized revenue growth through February 2024 is 1.4% (actual growth is 1.8% inclusive of leap year impact).
- The overall spirits industry is experiencing similar year-over-year declining growth. NABCA data of Controlled States through January 2024 reflects year-over-year revenue growth of only 1.8%.
- ABC revised the FY 2024 forecast to reflect anticipated revenue growth of 1.4% representing a \$43.9M shortfall in net store sales versus the budget of 5.1%.
- The net profit impact of the net store revenue shortfall is \$16.9M. Other sales change options yield the following:

Profit Impact of Sales Change Options	
% Sales Change	Profit Impact in Millions
1.2%	(\$18.2)
<b>1.4%</b>	<b>(\$16.9)</b>
1.6%	(\$16.1)
1.8%	(\$15.0)
2.0%	(\$13.9)

- ABC’s ongoing cost control actions result in an additional \$10.9M in savings helping to offset the impact of the revenue shortfall.
- The revised FY 2024 forecast reflects net profits of \$239.4M or \$4.9M less than budget of \$244.3M.
- Overall, net profit margins as a percentage of sales increased to 19.1% versus the 18.9% budget.

# FY 2025 – 2026 GACRE Forecast – as of March 18, 2024

## FY 2025 Financial Outlook versus Original GACRE

- ABC revised the FY 2025 and 2026 forecast to reflect anticipated net store revenue growth of 1.5% and 2.0% for 2025 and 2026 respectively, versus the original GACRE estimate of 5.0% growth each year.
  - Forecasts reflect declining sales expectations based on projected 2024 sales growth of 1.4% and declining nationwide trends in spirit sales.
  - NABCA data of Controlled States through January 2024 reflects consistent declines in year-over-year revenue growth at only 1.8%.
- ABC adjusted salary increases for FY 2025 and 2026 from 1% to 3% in each year to reflect salary increases proposed in the FY 2024 – 2026 biennium budget amendment.
- ABC adjusted FY 2025 and 2026 attrition forecast to align more closely with FY 2024 turnover trends resulting in additional personnel expenses of \$4.5M and \$5.7M in FY 2025 and 2026, respectively.
- **The revised FY 2025 and 2026 forecast reflects net profits declines of \$44.1M and \$66.0M respectively, versus the original GACRE estimates.**

# Virginia Alcoholic Beverage Control Authority

## FY2024, FY2025 and FY 2026 Current Forecast vs. GACRE Forecast

(in millions)

		Curr.Fcst. FY 2024	Final Budget FY2024	Variance	Curr.Fcst. FY 2025	GACRE FCST FY2025	Variance	Curr.Fcst. FY 2026	GACRE FCST FY2026	Variance
<b>Revenue Sources:</b>	<b>Growth Rate</b>	<b>1.4%</b>	<b>5.1%</b>	<b>-3.7%</b>	<b>1.5%</b>	<b>5.0%</b>	<b>-3.5%</b>	<b>2.0%</b>	<b>5.0%</b>	<b>-3.0%</b>
Alcoholic Beverages (Store Sales)		1,464.6	1,517.4	(52.8)	1,486.6	1,593.3	(106.7)	1,516.3	1,673.0	(156.7)
Less: State Taxes on Spirits & Wine		242.4	251.3	(8.9)	246.1	263.8	(17.7)	251.1	277.1	(26.0)
<b>Net Store Sales</b>		<b>1,222.2</b>	<b>1,266.1</b>	<b>(43.9)</b>	<b>1,240.5</b>	<b>1,329.5</b>	<b>(89.0)</b>	<b>1,265.2</b>	<b>1,395.9</b>	<b>(130.7)</b>
Other Revenue		27.4	25.0	2.4	25.2	25.2	-	25.5	25.5	-
<b>Total Net Revenue</b>		<b>1,249.6</b>	<b>1,291.1</b>	<b>(41.5)</b>	<b>1,265.7</b>	<b>1,354.7</b>	<b>(89.0)</b>	<b>1,290.7</b>	<b>1,421.4</b>	<b>(130.7)</b>
<b>Cost of Goods Sold:</b>		702.6	728.3	(25.7)	713.6	764.8	(51.2)	727.8	803.0	(75.2)
<b>Operating Costs:</b>		307.6	318.5	(10.9)	320.6	314.3	6.3	328.5	318.0	10.5
<b>VABC Net Profit</b>		<b>239.4</b>	<b>244.3</b>	<b>(4.9)</b>	<b>231.5</b>	<b>275.6</b>	<b>(44.1)</b>	<b>234.4</b>	<b>300.4</b>	<b>(66.0)</b>
<b>Profit Carryover from Prior Fiscal Year</b>		(0.8)	(0.8)	-	0.0	0.0	-	0.0	0.0	-
<b>Adjusted VABC Profit Including Carryover</b>		<b>238.6</b>	<b>243.5</b>	<b>(4.9)</b>	<b>231.5</b>	<b>275.6</b>	<b>(44.1)</b>	<b>234.4</b>	<b>300.4</b>	<b>(66.0)</b>
<b>Net Profit as % of Net Revenue</b>		<b>19.1%</b>	<b>18.9%</b>		<b>18.3%</b>	<b>20.3%</b>		<b>18.2%</b>	<b>21.1%</b>	
<b>Profit Change Bridge</b>										
Net Sales Change to 1.4%, 2% and 2.5% Respectively				(43.9)			(89.0)			(130.7)
Cost of Goods Sold on Sales Changes Above				25.7			51.2			75.2
Personal Services move from 1% to 3% in FY 25 and FY 26				4.6			(3.4)			(6.8)
Trend change in attrition forecast for FY 25 & FY 26							(4.5)			(5.7)
Other Revenue				2.4						
Computer Software Development/Maintenance Costs				2.1						
Credit Card Fees				1.3			1.6			2.0
Network Server Costs				1.0						
Training & Travel				0.9						
Store Fixture Costs				0.8						
Skilled Services				0.7						
Computer Software and Equipment				0.5						
Outbound Freight				(0.5)						
Amortization on SBITA and Software				(0.5)						
<b>Total Profit Change</b>				<b>(4.9)</b>			<b>(44.1)</b>			<b>(66.0)</b>



# Next Steps

1. Request ABC Board approval on revised FY 2024-2026 GACRE Forecasts.
2. Provide updated FY 2024 – 2026 GACRE Forecasts to the Governor's Office of Revenue by the requested March 20, 2024 deadline.