

Prepared remarks by
Stephen Larson, Administrator, Iowa Alcoholic Beverages Division
delivered at
Alcohol Licensing Reform Public Forum, December 28, 2017

Good afternoon, everyone.

Commissioner Ryan and I appreciate your efforts to be here today as we continue to move forward with our fourth meeting of the alcohol licensing reform initiative.

It's always relevant and important to revisit the purpose of why we are doing this. As outlined in the charter for the initiative – a copy of which is in your packet – our primary objective of this review is to streamline the licensing process without impacting public safety, public health, and the general welfare of Iowans.

In partnership with all stakeholders, we want to determine whether Iowa's alcohol licensing laws meet the needs of today's marketplace and meet regulatory goals and objectives. We want industry to bring forward information and ideas on how our licensing laws can be adjusted or refreshed to eliminate redundancy and red tape without impacting the roles and responsibilities of public safety, local authorities, or the licensing entity.

There are no simple ways to get to the final outcomes of either changing or not changing our laws without first digging into the details, receiving stakeholder input, and always asking a multitude of questions to ensure we are going to make correct decisions when submitting our final report of recommendations in 2019.

I want to reiterate that Commissioner Ryan and I will not be recommending any changes to the legislature for the 2018 legislative session. Any conversations about, or suggestions for, substantive modifications to our alcohol laws that are put out in the arena this coming legislative session will not be from ABD or the Department of Public Safety. In fact, we will be recommending to legislators that no changes take place until we have issued our report in 2019.

ABD does have a technical bill that we have put forward to make clarifying changes to the alcohol laws based on recommendations from our Regulatory Compliance Bureau. These changes would be nonsubstantive and would simply make the laws easier to understand and/or enforce. If you would like to see the bill, please contact our Government Relations Officer, Stephanie Strauss.

In closing, "the gist of getting it right" means: A process that involves conscious and deliberative analysis in the most transparent way possible, with slower reasoning, using our intelligence, not a bias toward the familiar way of doing licensing as it has always been done for the last 25 to 30 years.

"Getting it right" will require all of us to work together in a culture of collaboration and to find ways to bridge any divides we may have. Commissioner Ryan and I look forward to working with all of you to "get it right" in the year to come.

Profit & Loss Summary FY2014-2017

| | FY 2014* | FY 2015* | FY 2016* | FY 2017* |
|-------------------------------------|----------------------|----------------------|----------------------|----------------------|
| Revenues | | | | |
| Liquor Sales Revenue ① | \$263,495,212 | \$277,706,516 | \$288,908,790 | \$305,619,126 |
| Other Revenues | \$3,591,476 | \$3,942,081 | \$4,226,128 | \$4,503,333 |
| Total Revenues ② | \$267,086,688 | \$281,648,597 | \$293,134,918 | \$310,122,459 |
| Expenses | | | | |
| Cost of Sales ③ | \$171,429,626 | \$181,494,799 | \$189,335,883 | \$201,065,906 |
| Operating Expenses ④ | \$6,616,118 | \$6,296,486 | \$4,944,191 | \$5,056,186 |
| General & Administrative Expenses ⑤ | \$2,575,216 | \$2,759,540 | \$4,263,076 | \$4,848,241 |
| Other Expenses | \$1,623,389 | \$1,734,200 | \$1,828,566 | \$2,039,564 |
| Total Expenses ⑥ | \$182,244,349 | \$192,285,025 | \$200,371,716 | \$213,009,897 |
| Profits & Reversion | | | | |
| Income from Operations (Rev.-Exp) ⑦ | \$84,842,339 | \$89,363,572 | \$92,763,202 | \$97,112,562 |
| Less: Substance & Abuse Transfer | \$18,539,905 | \$19,539,339 | \$20,328,191 | \$21,502,070 |
| Net Profit ⑧ | \$66,302,434 | \$69,824,233 | \$72,435,011 | \$75,610,492 |

Profit & Loss Comparative Ratios FY 2014-FY2017

| Ratios | FY 2014* | FY 2015* | FY 2016* | FY 2017* |
|--|----------|----------|----------|----------|
| Income from Operations VS Liquor Sales Revenue ⑦/① | 32.20% | 32.18% | 32.11% | 31.78% |
| Income from Operations VS Total Revenues ⑦/② | 31.77% | 31.73% | 31.65% | 31.31% |
| Income from Operations VS Cost of Sales ⑦/③ | 49.49% | 49.24% | 48.99% | 48.30% |
| Income from Operations VS Total Expenses ⑦/⑥ | 46.55% | 46.47% | 46.30% | 45.59% |
| Return on Sales (Net Profit VS Liquor Sales Revenue) ⑧/① | 25.16% | 25.14% | 25.07% | 24.74% |
| Operating Expenses VS Net Profit ③/⑧ | 9.98% | 9.02% | 6.83% | 6.69% |
| General & Administrative Expenses VS Net Profit ④/⑧ | 3.88% | 3.95% | 5.89% | 6.41% |

Leverageable Cost Trends

| | FY 2015* | FY 2016* | FY 2017* |
|---|----------|----------|----------|
| Operating Expenses | -4.83% | -21.48% | 2.27% |
| General & Administrative Expenses | 7.16% | 54.49% | 13.73% |
| Total Leverageable Cost (Op. Exp. + Gen. & Admin. Exp.) | -1.47% | 1.67% | 7.57% |

| Other Expenses | |
|-----------------------|--|
| Bottle Deposit Fee | |
| Recycle Surcharge Fee | |
| Liquor Refunds | |

| Other Revenues | |
|------------------------------|--|
| Split Case Fee | |
| Bottle Deposit/Surcharge | |
| Recycling | |
| Fuel and Lease Reimbursement | |
| Lease Revenue | |

Definitions

Operating Expense: Costs associated with the direct production of goods/services (e.g. warehouse workers, truck drivers, fuel, scanners, boxes).
 General & Administrative Expense: Costs indirectly associated with the production of goods/services (e.g. accountants, IT services, software, utilities, management).



ABD Metrics July 1, 2016 - June 30, 2017

Final FY 17 Numbers Including Hold Open Period

| Metric | FY2016 | FY2017 | Trend | 5 Year Average | 4 Year Average |
|---|------------------|------------------|--------|----------------|----------------|
| Total Liquor Sales YTD | \$288,908,790.00 | \$305,619,126.00 | 5.78% | 4.75% | 4.55% |
| 12 Month Moving Average | \$24,075,732.00 | \$25,468,260.00 | 5.78% | 4.75% | 4.55% |
| Split Case Fee | \$1,493,939.00 | \$1,553,309.00 | 3.97% | | |
| Bottle Deposit Revenue | \$2,597,867.00 | \$2,834,706.00 | 9.12% | | |
| Substance Abuse Reversion | \$20,328,191.00 | \$21,502,070.00 | 5.77% | | |
| Liquor Profits Reversion | \$91,460,077 | \$93,000,000 | 1.68% | | |
| Total General Fund Reversion | \$111,788,268 | \$114,502,070 | 2.43% | | |
| Average Monthly Order Volume | 4,080 | 4,888 | 19.80% | | |
| Average Monthly Case Volume | 174,574 | 165,140 | -5.40% | | |
| Average Monthly Bottle Volume | 1,941,056 | 1,941,700 | 5.47% | | |
| Total Freight Cost per Case | \$1.32 | \$1.32 | 0.00% | | |
| Driver Cost per Case | \$0.73 | \$0.76 | 4.11% | | |
| Total Warehouse Operation Cost Per Case | \$0.91 | \$1.20 | 31.87% | | |
| Warehouse Worker Cost per Case | \$0.82 | \$1.08 | 31.71% | | |

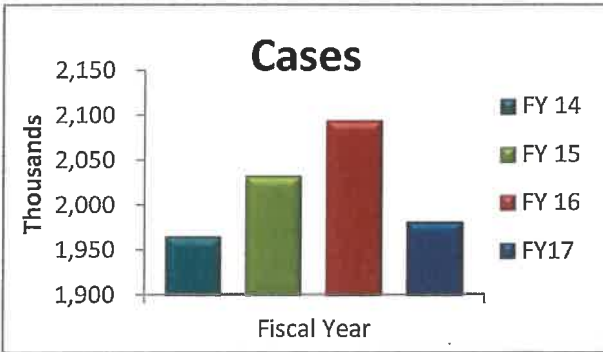
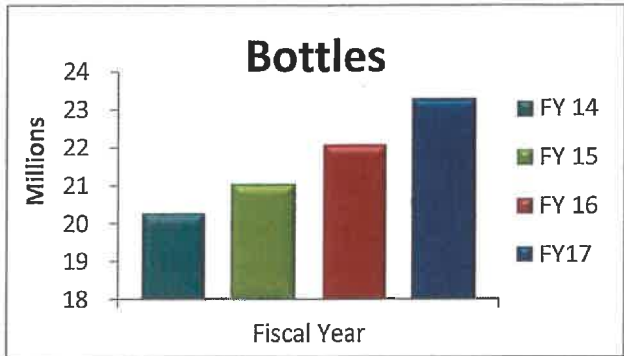
Key Performance Indicators (KPIs) Benchmarks

| Metric | ABD FY2016 Actual | ABD FY2017 Actual | Best in Class Benchmark | Median Industry Benchmark |
|--|-------------------|-------------------|-------------------------|---------------------------|
| Distribution Cost as a % of Sales | 3.74% | 3.90% | 2.04% | 5.00% |
| Distribution Cost as a % of Cost of Goods Sold | 5.89% | 5.89% | <1.6% | 6.05% |
| Distribution Cost Per Unit Shipped | \$0.480 | \$0.510 | \$0.30 | \$1.04 |

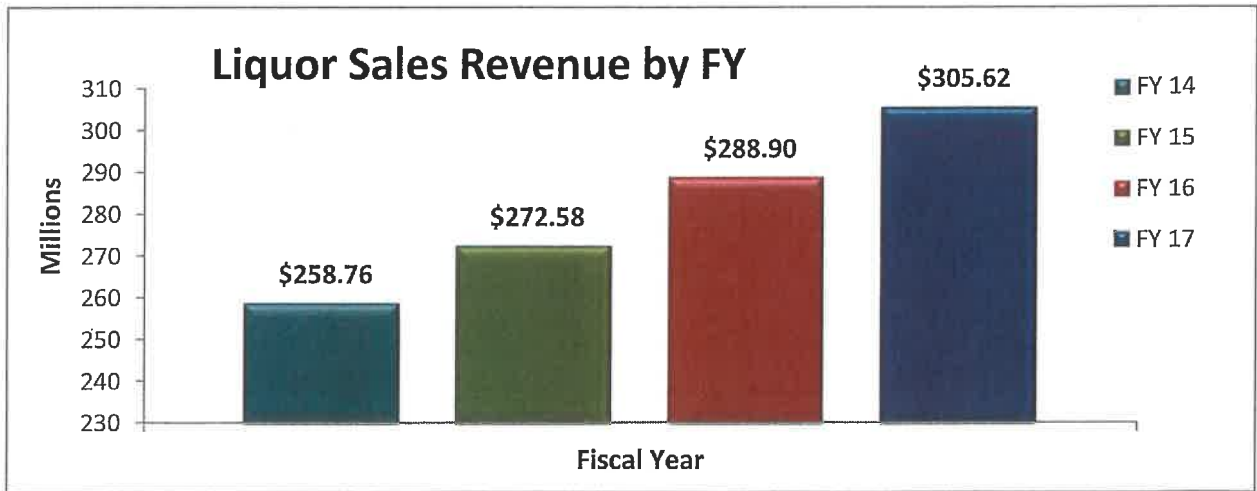
Iowa ABD
 Monthly Financial Meeting

FY 2017 YEAR END- JULY - JUNE SALES COMPARISON - YEAR OVER YEAR- CASH BASIS

| Category | FY 2017 | FY 2016 | % Change |
|----------------------|--------------------|--------------------|--------------|
| Liquor Sales | 305,619,126 | 288,908,790 | 5.78% |
| Split Case Fee | 1,553,309 | 1,493,939 | 3.97% |
| Bottle Dep and Sur | 2,834,706 | 2,597,867 | 9.12% |
| Total Revenue | 310,007,141 | 293,000,596 | 5.80% |
| Orders | 58,658 | 48,971 | 19.78% |
| Cases | 1,981,682 | 2,094,891 | -5.40% |
| Bottles | 23,300,411 | 22,092,802 | 5.47% |



| JUL-JUN Average Sale Days Comparison | |
|--------------------------------------|-----------|
| Month | YOY |
| JUL-SEP 1st QTR | 0 |
| OCT- DEC 2nd QTR | -1 |
| JAN-MAR 3rd QTR | 0 |
| APRIL-JUNE- 4th QTR | 0 |
| Total For FY | -1 |





ABD Metrics July 1, 2017 - December 31, 2017

FY18 Current YTD Financial Analysis

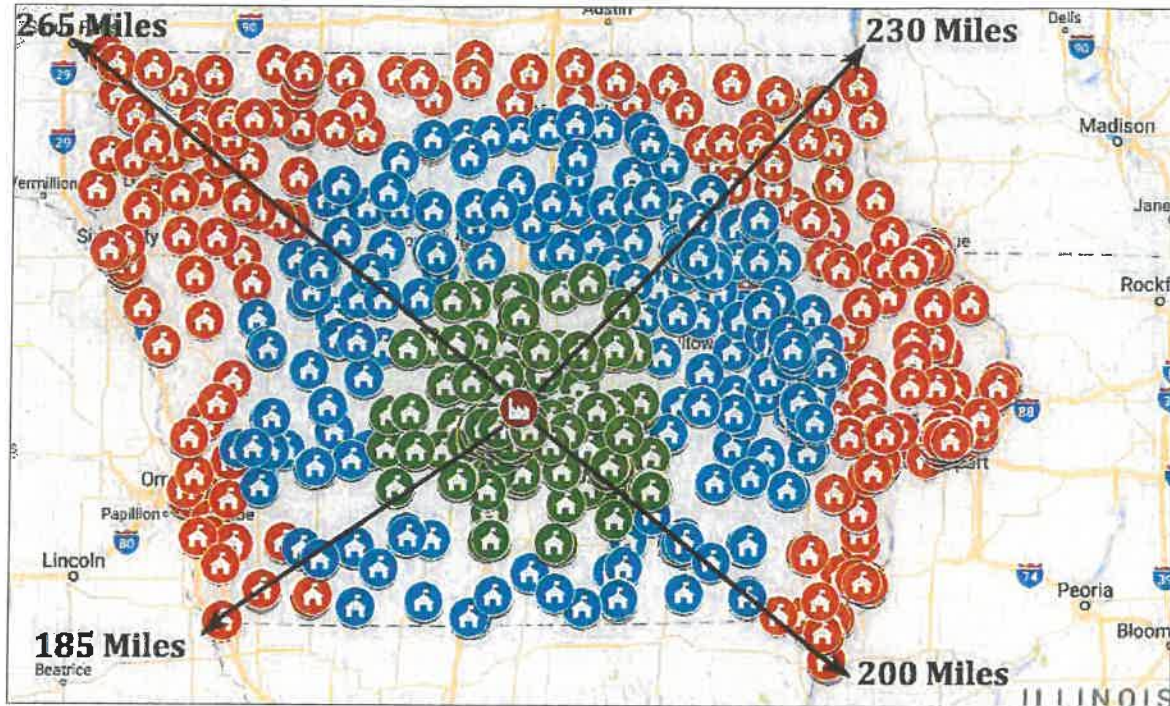
| Metric | FY2017 | FY2018 | Trend | 5 Year Average | 4 Year Average |
|---|------------------|------------------|--------|----------------|----------------|
| Total Liquor Sales YTD | \$151,428,175.00 | \$158,681,840.00 | 4.79% | 4.75% | 4.55% |
| 12 Month Moving Average | \$24,794,798.00 | \$26,072,732.00 | 5.15% | 4.75% | 4.55% |
| Split Case Fee | \$759,657.00 | \$760,957.00 | 0.17% | | |
| Bottle Deposit Revenue | \$1,373,700.00 | \$1,485,118.00 | 8.11% | | |
| Substance Abuse Reversion | \$10,653,148.00 | \$11,160,995.00 | 4.77% | | |
| Liquor Profits Reversion | \$47,200,000 | \$47,300,000 | 0.21% | | |
| Total General Fund Reversion | \$57,853,148 | \$58,460,995 | 1.05% | | |
| Average Monthly Order Volume | 4,913 | 5,371 | 9.32% | | |
| Average Monthly Case Volume | 169,298 | 175,255 | 3.52% | | |
| Average Monthly Bottle Volume | 1,986,595 | 2,091,981 | 5.30% | | |
| Average Monthly Delivery Volume | 4,219 | 4,401 | 4.31% | | |
| Total Freight Cost per Case | \$1.28 | \$1.21 | -5.47% | | |
| Driver Cost per Case | \$0.69 | \$0.64 | -7.25% | | |
| Total Warehouse Operation Cost Per Case | \$1.07 | \$0.98 | -8.41% | | |
| Warehouse Worker Cost per Case | \$0.97 | \$0.90 | -7.22% | | |

Key Performance Indicators (KPIs) Benchmarks

| Metric | ABD FY2017 Actual | ABD FY2018 Actual | Best in Class Benchmark | Median Industry Benchmark |
|--|-------------------|-------------------|-------------------------|---------------------------|
| Distribution Cost as a % of Sales | 3.39% | 3.21% | 2.04% | 5.00% |
| Distribution Cost as a % of Cost of Goods Sold | 5.51% | 5.12% | <1.6% | 6.05% |
| Distribution Cost Per Unit Shipped | \$0.430 | \$0.410 | \$0.30 | \$1.04 |

Liquor Distribution Points For the period ending on June 30, 2017

FY17 Iowa Class E Radius Analysis



The Iowa Alcoholic Beverages Division distributes through one central warehouse located in Ankeny, Iowa

27% (391 of 1423) LE retailers 50 mile radius

- o 32% (FY17 \$94,133,248.24)
- o 31% (6,568,516 Bottles)
- o 14% of Iowa

37% (524 of 1423) LE retailers 50-100 mile radius

- o 35% (FY17 \$103,121,394.70)
- o 36% (7,399,033 Bottles)
- o 42% of Iowa

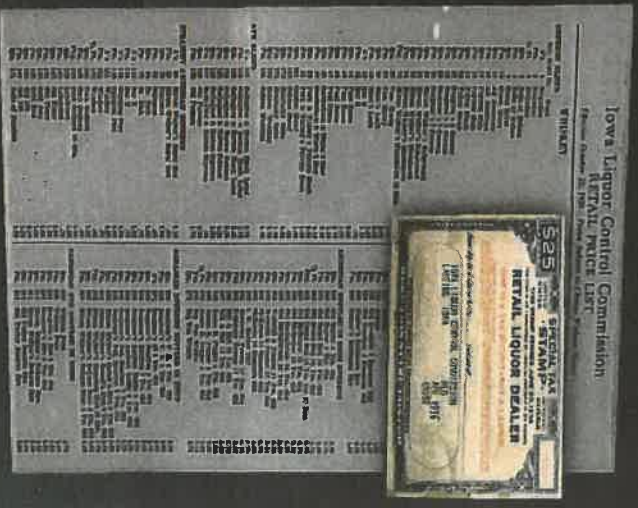
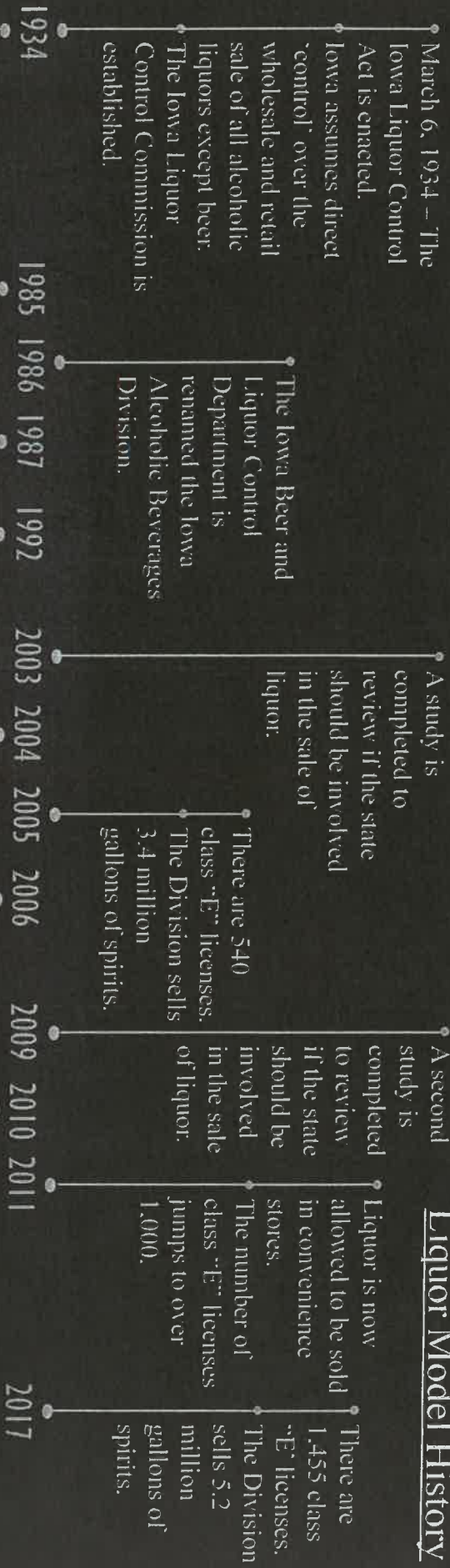
36% (508 of 1423) LE retailers 100+ mile radius

- o 33% (FY17 \$96,614,646.95)
- o 33% (6,900,569 Bottles)
- o 44% of Iowa

*FY17 sales based off total bottle sales to LE retailers.

Sales do not include bottle deposit, surcharge, or split case fees.

Liquor Model History



RFP Time Table

| Task | Start | End |
|--|------------|------------|
| Forming the RFP - ((Completed)) | 12/01/2016 | 04/30/2017 |
| Finalizing the RFP - ((Completed)) | 05/01/2017 | 05/04/2017 |
| Release Date - ((Completed)) | 05/08/2017 | 05/08/2017 |
| *Solicitation of Proposals - ((Completed)) | 05/09/2017 | 09/22/2017 |
| Respondent Mandatory Site Visit - ((Completed)) | 06/21/2017 | 06/21/2017 |
| Final Due Date for RPF Questions - ((Completed)) | 08/21/2017 | 08/21/2017 |
| Evaluation of Proposals - (Started) | 09/25/2017 | 01/31/2018 |
| Intent to Award | 02/16/2018 | 04/30/2018 |
| Forming an Agreement | 05/02/2018 | 07/01/2018 |
| Implementation/Transition | 07/15/2018 | 01/01/2019 |

*Final date for respondents submission to DAS 9/22/2017