Endeavour Group Limited, Investor Day 2023
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Presentation

Sean O'Sullivan

Welcome to the Forest Hotel and the 2023 Endeavour's Hotel Investor Day. For a few people in the room who don't know who I am, my name is Sean O'Sullivan, and I'm General Manager of Investor Relations here at Endeavour. Before we commence the proceedings some housekeeping notes, if everybody hadn't discovered already, the toilets are here to your left. In the unlikely event of an emergency, the exits are on my right and left-hand side and at the rear of the room where you entered. We'll be having morning tea break at 10:50 where you can order coffee from the barista in the Bistro. You can also access water and self-serve coffee and tea from the back of the room all day.

The first question-and-answer session will follow Steve and Kate's initial presentations. As a rule, throughout the day, given the size of the audience, the number of presentations and in fairness to all, I will ask any person asking a question limit themselves to a single question only. Finally, I would ask that everyone turn off their phones or put them on silent mode. I will now hand over to Steve to commence the proceedings.

Steve Donohue

Thanks, Sean. Everyone hear me okay? Thanks, everybody, for coming. When we put the call out to join us at the pub, we do intend to fill the room. So it's great to have you all here. We're gathered here on — ***indiscernible*** —, and I'd like to acknowledge the traditional owners and pay my respects to elders past, present and emerging. Endeavour Group operates across Australia on the lands of many different First Nations traditional owners. And I'd like to extend my respect to the traditional owners of all the lands on which we operate, and their elders past, present and emerging and also pay my respects to any aboriginal or Torres Strait Islander people who are joining us today.

Before we begin the presentation proper, I'd like to introduce you to the Forest Hotel, which is where we are and run you through today's agenda. So thanks for coming to the Forest Hotel. It's one of our more recent developments, which we completed in 2020. We chose this as today's venue because it's such a great example of a multi-driver hotel. I encourage you to explore it when you get the chance later on today. And I think you'll find that the Forest has multiple great bars, a fantastic food offer right through to the Bistro in the terrace. And in a gaming room, we've got 30 EGMs as well as an attach Dan Murphy, so feel free to zip across and stock up for Christmas.

The Forest is therefore the type of pub that really perfectly suits an all-day destination for our guests and certainly is a great location for us to be meeting today. In February 2020, we brought together the hotels operations of ALH with the retail drinks operations of Woolworths to create Endeavour Group within the Woolworths Group. In June '21, we then demerged from Woolworths and now Endeavours into its third year as a separate listed entity.

I'm conscious that it's a very young company in a fast-moving operating and economic landscape, we've got more to do to provide insight in the key parts of our business. And to that end, we're here today to provide greater insight, particularly into our hotels network, strategy and operations. However, before we do that, Kate Beattie, our CFO, and I will provide a brief overview and recap of Endeavour's strategy and our capital allocation framework. I'll also spend a few minutes on Pinnacle Drinks since this is another area that we intend to continue to grow and that I know there's a lot of curiosity about.

We'll then break for morning tea, after which Kate will continue with an overview of the ALH network and economic model. And Paul Walton, our Managing Director of Hotels will then provide an overview of the hotel's strategy. After lunch, we'll go deeper into some of the key aspects of the strategy, Jarrod Holt, our General Manager of Commercial for hotels will cover our hotels operational growth levers. And Paul will provide more insight on gaming and responsibility.

Then following a short afternoon tea break, we'll finish with a presentation on the opportunities within the network and Paul, along with Matt Toohey, Endeavour Group's Director of Property; and Shaun Dunleavy, the Head of Format Operations for hotels. Each section will be structured as a short presentation with sufficient time for questions and answer.

The symbol of Endeavour Group is an imprint. Our purpose reflects our desire that the imprint we leave as a team and as a business is a positive one. We're united around our common purpose of creating a more social future together. We're pioneering, we're entrepreneurial, and we're always innovating. We connect people through our products and places enabling great experiences and positive memorable moments. We're focused on the future. We do the right thing, build our business sustainably, act responsibly and embrace technology. And we work as one team to contribute to the communities we serve and collaborate with our partners to help build a better industry. This purpose along with the values and ways of working, enables the culture that will underpin and sustain our ongoing success.

I'm proud of what the Endeavour teams achieved in fairly short time as a stand-alone company. However, I do want to acknowledge that we clearly have more to do to deliver the performance and shareholder returns that investors expect. I'm confident that we're well positioned to deliver for shareholders. We've got a fantastic portfolio of brands and businesses, which have delivered growth and profitability. As we go forward, we'll continue to execute our strategy, operating as an interconnected group to drive growth and returns.

In a moment, I'll share with you our scorecard, which lays out our new performance targets. In our core markets, drinks and hospitality, these are underpinned by the resilience and stability that is Endeavour Group. They're defensive with spending in our categories remaining steady over the long run and their regulated nature provides a further source of stability. Our business portfolio is complementary, driving synergies through integrated retail, hotels and Pinnacle offers and through our ability to leverage shared infrastructure, licensing and group capabilities to drive revenue.

Endeavour Group, as we currently know it is young, but our core businesses have a long history of entrepreneurial growth. We've consistently grown our networks, bought complementary businesses together, acquired innovative small businesses that have delivered outsized growth or capability and delivered organic growth. Our vision to be the leading platform enabling social occasions, sees us building on this legacy operating as an interconnected group using the assets and capabilities of Endeavour to succeed in our ever-trend changing environment.

Our vision sees us using the knowledge of customers to address their evolving expectations for meaningful and connected omnichannel experiences, leverage our market-leading brands, assets and capabilities across digital and data platforms, product leadership and fulfillment, while driving efficiency as we leverage scale and operate as an end-to-end business. It's also about investing to drive returns and expanding our core business and offerings, creating a virtuous loop of value generation. And when we do this, we bring together our assets, our customers and our industry into something greater than the sum of the parts. We create a platform that will grow the ways which we enable social occasions through our core businesses into new markets and new customer propositions and through partnerships which will all grow earnings and drive shareholder value.

We introduced you to our strategy at our Investor Day in May 2022. While it is the right strategy for Endeavour Group, we realized that one of the most significant opportunities to accelerate growth in our portfolio is to drive higher returns on our invested capital, in particular, in our hotels portfolio. To enable greater focus on this opportunity, we're more explicit in our strategic focus on hotels, capital optimization and driving growth.

Our strategy has 5 pillars, creating leading customer offers and brands, driving an efficient end-to-end business, optimizing capital allocation to drive growth, delivering a positive and sustainable imprint, and perhaps most importantly, enabling and encouraging our one team to live our purpose and values. Our strategy delivers for shareholders by driving revenue through our meaningful omnichannel experiences, growing earnings ahead of sales through higher margins, driven by our investments in advanced analytics and Pinnacle and through cost of doing business optimization in both the short and longer term and delivering further growth and returns through prioritized capital management and allocation, portfolio optimization and laying the foundation for new earnings streams.

We're also continuously focused on progressing on our sustainability ambition, with emphasis on responsibility and compliance and ensuring we have the talent and capability to deliver Endeavour's strategic goals. I want to spend a little time talking about how we bring the key aspects of our strategy to life and drive meaningful customer experiences, growth and returns.

The key principle behind successful retail and hospitality businesses or the principles I should say, are enduring to deliver customers a best-in-class offering that meets their needs, but the demands of customers today are changing very rapidly. We use data to deeply understand our customers and guests, which allows us to create meaningful omnichannel experiences that meet their needs. We do this by bringing together retail and hotel formats that customers love, innovative web and app assets and trend-leading products. We curate our brands, our formats and digital offerings to provide our customers with distinct propositions that serve them across different occasions and missions.

Driving change in our business to meet shifting expectations is critical for all of us in the sectors we operate and can only be delivered by having the best assets and capabilities focused on improving customer experiences at a faster rate, and again, more seamless and conveniently than ever before. Our investments in our digital and loyalty capabilities help us deliver for customers, know our customers individually and connect with them in whichever way they prefer.

We're equally focused on the need to continue optimizing our business to drive sustainable growth in earnings. We do this by first delivering sustainable margin expansion, balancing sales growth and margin to deliver maximum profit dollars. Our investments in Pinnacle, advanced analytics and retail media all help enable this. Our focus on sustainable cost reduction ensures we're able to invest in our key growth and margin driving assets and capabilities. We take a zero-based approach to above store and venue costs while also continually optimizing in-store and in-venue to drive supply chain and driving supply chain efficiencies.

We've achieved nearly $100 million cost reduction since F '22, with a cumulative target of over $290 million by F '26. Finally, the One Endeavour transformation to transform and simplify our business is underway and we'll, over the medium term, ultimately unlock significant simplification and optimization opportunities for productivity and costs.

So moving on to our scorecard. Importantly, we can measure the success of our strategy through our ability to achieve key outcomes as I'm about to step through in our scorecard. Our ultimate aim is to deliver long-term shareholder value. We've set a target to deliver 10% plus shareholder value, which is EPS growth plus dividend yield per year. And I want to – I do want to make it clear that this is a through-the-cycle goal. And then in F '24, we faced rising interest rates and high costs related to inflation, higher costs related to inflation. However, as interest rates stabilize and inflation normalizes, we're confident that we can continue to deliver improved shareholder returns, and we believe that we'll be able to deliver this ambition within a 3- to 4-year time horizon.

We'll do that by executing the strategy that I just touched on. Starting with the first column. The measures here align to the first pillar of our strategy, creating leading customer offers and brands. You can see that the focus here is on customer brands and sales outcomes. In particular, comparable sales growth is a core measure of our success, and we're always targeting positive comp store and hotel sales growth each quarter. Although we acknowledge that there will be periods of time when market context makes this a more challenging goal, we think a focus on this measure through the cycle is key to our long-term success in our core businesses.

Voice of customer directly measures customer views of our success in delivering great customer experience. In this vein, the lowest liquor price guarantee is a core tenet of Dan Murphy's customer value proposition. And we aim to sustain the actual delivery of this through price leadership and also customer perceptions of that value proposition.

Earlier in the presentation, I highlighted that our brands are a valuable asset for Endeavour. It's important that we remain focused on maintaining and growing these brands and NPS allows us to track this. The last 2 measures here focus on our omnichannel customers, growing the customer base to use our digital platforms and their sales conversion rates, allows us to provide a customer experience for today's digitally engaged consumers while also improving our understanding of those customers so that we can continue to create experiences that they'll love. Our membership programs are another key enabler of customer understanding, while also providing value to our customers and will therefore, look to continue to grow that member base as well.

Moving on to being an efficient end-to-end business. These measures are aligned to our target to grow earnings ahead of sales through investments that deliver sustainable margin expansion and cost of doing business optimization. We're targeting $290 million plus of savings from demerger to F '26 through the Endeavour Group optimization program, or endeavourGo. We'll measure our success in increasing our efficiency through our ability to maintain leading operating cost metrics such as cost of doing business as a percentage of sales compared to our key comparable competitors.

Our transformation program will deliver simplification and optimization benefits over the medium to long term. Our ability to balance sales growth and margin expansion has been a key driver for our retail earnings growth. So we'll continue to execute on this strategy. And we'll measure our ability to do so through growth in our retail gross profit margin and apply this lens to our hotel's food and bar margins, too. Underpinning this, our investments in advanced analytics will increasingly provide the tools we need to optimize our costs and margin. We'll implement use cases to drive price, promotion and range optimization in our core businesses.

Finally, Pinnacle is an important driver of customer value and choice, innovation and margin expansion, and therefore, we'll continue to invest behind it. I understand the Pinnacle is an area of our business on which many investors have questions, and I'll, therefore, surely spend some time on it before we move to the hotel's conversation in the latter part of the day.

We believe the drawing being higher returns from prioritized deployment of capital is a significant lever to drive growth above market in our core. Well, we'll also continue to look for opportunities to grow through new ways to enable social occasions. This third column of our scorecard focus on measuring our delivery of these opportunities and the measures aligned to our capital management framework, which Kate will talk to shortly.

The first measure here ensuring return on capital for growth investments of greater than

15%, reinforces our commitment to investing only where we can drive growth and deliver returns. Working capital management is fundamental to retail, and we acknowledge that we've got more to do here, and so are including trade working capital days reduction as a measure on our scorecard. More broadly, it's also important that we continually evaluate our business and asset portfolio to deliver strategic and financial value. Today, we'll provide greater insight into how we're doing this across our hotels portfolio and how we're unlocking the value of our property portfolio, and we'll continue to report against this objective across our business.

Finally, we've not lost sight of the need to lay the seeds for additional growth through new ways to enable social occasions. And to that end, we'll continue to partner and invest to deliver our customers' complementary products and offer new ways and channels through which they can shop. We can only deliver great experiences to customers and guests and value to shareholders if we have a team of exceptional people focused on driving business performance and executing the strategy. Our culture is critical to our success, and we believe it's a differentiator for Endeavour as a business and a place to work. This culture is brought to life through our commitment to living our purpose, values and ways of working every day.

Through our voice of the team survey, we hear directly from our team, including on whether they believe we're truly living our values and ways of working. So we'll aim to continuously improve our voice of team scores in this area. The safety and well-being of the 30,000 team members within Endeavour is, of course, of paramount importance.

We measure this primarily through total recordable injury frequency rate, TRIFR, and target continuous improvement here. We also measure overall team experience directly from our team through our voice of the team engagement score, and we're really proud that we already have a highly engaged team. In light of this, we're committed to maintaining our team engagement score. However, given the importance of highly engaged teams in businesses like ours will always strive to keep improving.

Finally, we're committed to gender equality across the business and measure this both through pay parity and gender balance in senior management. In this area, I'm again pleased that we have a very small gender pay gap and 41% of our senior management are women, so we'll aim to maintain or improve these measures as appropriate. Moving across the page to our final strategic pillar. I opened today talking about the importance of our imprint as a team and as a business. To ensure we always leave a positive and sustainable imprint, we must deliver on our sustainability commitments. We provide detailed updates in our sustainability – on our sustainability progress through our annual sustainability report, but have highlighted some key measures in the scorecard.

Our commitment to responsibility and community is about strengthening our responsibility culture and driving compliance to every part of our operations and starts with full compliance with our regulatory requirements. We also believe that it's important for the culture that our team undertake training on what it means to lead in responsibility at Endeavour Group. So we're committed that every team member completes this unique training module within their first year of employment.

As a leader, it's important that we also promote responsibility outwardly. With our customer reach and engagement, we aim to reach 5 million people with each responsibility campaign we do. Endeavour is deeply embedded in communities across Australia. So we'll increase our support to the communities we're part of through community partnerships and progress on our reconciliation journey. And lastly, on the topic of planet, we will meet or exceed our target of 100% renewable energy by 2030 and meet our targets on packaging to improve circularity.

So coming back to the very last column of this page, which may well be the most important. It really lays out our financial ambition for Endeavour. The measures in this column build on our ambition to deliver 10%-plus shareholder value through the cycle. We'll strive to deliver sales growth above the growth rates of our core hotels markets. which have historically been in the 3% to 4% range, however, we'll remain committed to our strategy of driving profitable growth by balancing sales growth and margin expansion.

We'll target EBIT growth in the mid- to high single-digit range and sustainable EBIT expansion. From a capital perspective, first, we'll continue to deliver a cash conversion ratio of 90% to 110%, which implies around $900 million to $1.1 billion of operating cash flow generation. And we'll fund recurring capital requirements and dividends from this free cash flow. This balance ensures that we're sustainably investing to grow our business while continuing to deliver dividend growth to shareholders. Our capital discipline and capital management will ensure that we're able to expand ROFE year-on-year.

At the balance sheet level, we've consistently told the market that we'll target credit metrics in line with investment grade credit ratings. We think it's useful to provide more specificity through a target leverage level. Our goal of 3x to 3.5x lease-adjusted leverage provides us with balance sheet flexibility while acknowledging that we'll continue to invest to drive growth. I'd also point out here that our current leverage is 3.6x.

Finally, EPS growth and dividend yield are the fundamental measures of shareholder value creation. We're targeting high single-digit EPS growth and plan to maintain a dividend payout ratio of 70% to 75%. If we deliver on the measures in this scorecard, we'll reach our target of 10%-plus shareholder value per year. And I'm confident that Endeavour can achieve these returns for our shareholders. What our scorecard really does is articulate in detail what we need to do to unlock the next phase of growth.

In summary, though, we'll continue our successful strategy of balancing sales growth, gross margin management and cost control. We'll take a disciplined approach to capital management, allocating capital to deliver growth and shareholder returns, and we'll continue to focus on our teams and sustainability particularly responsibility and community. The group has a deep commitment to our purpose, vision and strategy, all of which come together to deliver for shareholders.

Thanks for your attention to this part of the session. I'm now going to hand over to Kate Beattie, our CFO, who's going to take you through capital management. So welcome, Kate.

Kate Beattie

Thank you, Steve, and good morning, everyone, both in the room and thank you to those who are listening in online. I'm going to speak to you about our capital management framework. This is an important backdrop to how we ensure we are delivering the best returns to shareholders from capital invested. The key takeaways I hope you'll get from this session are that Endeavour has a disciplined approach to capital management that is governed centrally. We have a flexible asset base underpinned by hotel businesses that are bought and sold in an active market. This provides ongoing opportunity for portfolio optimization.

We have a structured approach to allocating capital across both sustaining and growth investments that aligns to our strategy. Our business, as Steve has noted, is highly cash generative with sufficient in-year cash realization to deliver both stable dividend flows while also funding our capital requirements. Our capital management framework begins with that high level of cash – free cash generation and the vicinity of 90% to 110% a year, equating to around $1 billion on an annualized basis. It's worth noting this ratio wasn't achieved in F '23 due to one-off factors. We expect a normal level of cash realization in F '24.

Free cash flow is first deployed to dividends with a target payout ratio of 70% to 75%

and then to the group's CapEx requirements. CapEx is broken into sustaining and growth capital. Growth CapEx return hurdles are risk-weighted as I'll detail more in the next section with a low-risk investment hurdle of 15% ROI. Surplus cash will be used to pay down debt or return to shareholders. As Steve covered in our scorecard, we are targeting a lease-adjusted leverage ratio of 3 to 3.5x, keeping us within investment-grade credit metrics.

This slide breaks down our F '23 group funds employed, which underpins our return on funds employed measure. And I am going to spend a little bit time on this slide because there are some important things I'd like to communicate. As you can see, the funds employed balance is substantial at $9.6 billion. Our most material asset class is intangibles. Liquor and gaming licenses totaled more than half of this balance at $2.4 billion.

Needless to say, in the industries we operate, access to these licenses is a precondition to trading. The majority of licenses do not depreciate. What this means is that when we invest in a hotel, there is a one-off cost to acquire the necessary licenses, but once we've made this investment, we generate returns on it for as long as we operate the hotel.

This is one key reason why it is preferable to secure long lease terms for hotels. It's also worth noting that on average, the licenses become more valuable over time as the regulatory environment changes and as access becomes more restricted. Owning these licenses, therefore, is an increasing competitive advantage. This is going to get covered more later today in the context of the gaming section.

Our second most material asset pool is lease assets. Within the $3.2 billion of lease assets, 70% relate to hotels. The hotel lease weight is driven by the long lease term with a weighted average lease expiry of 13.3 years. This compares to 8 years for retail. However, hotel leases are different to retail store leases and that they are readily salable along with the associated assets, including liquor and gaming licenses as part of a going concern of hotel business. This provides significant flexibility in the asset base. It also provides significant flexibility in our lease adjusted leverage.

Hotel leases are a bigger contributor to our leverage than net debt, but can be readily sold to delever if required. Thirdly, we have property, plant and equipment, including $650 million of freehold assets, the majority of which are hotels. As we will cover later today, there are opportunities to realize further value from development of freehold assets.

So in summary, our hotel portfolio drives a large part of our funds employed base, but these assets have a significant amount of flexibility through which we can drive higher returns on funds employed as well as bring extra cash flow into the business. Before I leave this page, it is worth touching on trade working capital. We've previously noted that we have room to improve our working capital days. Our retail inventory levels in F '23 elevated following COVID supply chain disruption. Optimization of trade working capital continues to be a focus area for the business and an opportunity area to drive better return on funds employed in retail.

I'll now touch relatively quickly on how we think about deployment of capital to each of retail and hotels, respectively. Our retail network includes physical store infrastructure as well as core and digital technology. It also includes the asset base of our Pinnacle owned and exclusive brand portfolio, including wine production assets. As Steve said, he's going to talk more to Pinnacle in the next section, but in the meantime, it is important to understand that the entire asset base of the Pinnacle portfolio sits within our retail segment, and returns from that portfolio are accretive to our retail return on funds employed.

The physical store network in retail has an average age since last renewal of under 7 years, so it's well maintained. Our renewal capital investment in retail is intended to sustain portfolio performance with a focus on innovating the customer experience while driving capital efficiency. Within sustaining capital, we also have the investment in core systems required to move off the Woolworths transitionary technology services arrangement, which was established on our demerger from Woolworths Group.

This program called One Endeavour is expected to take approximately 5 years. We anticipate funding the program within our capital envelope using free cash flow. It is important to note that while we are categorizing it as sustaining CapEx, it is a key enabler of future optimization of the business as it will provide us with a simplified and modern technology and data backbone.

Growth capital in retail is directed towards new stores, many of which are attached to hotels and improving the customer experience. So includes investments to sustainably grow trading margin, including through the development of analytical assets that support, for example, our merchandising team with range price and promotion optimization. Margin expansion is also underpinned by investment in our Pinnacle portfolio. In F '23, we spent $48 million of our retail growth capital in Pinnacle, which included the acquisition of Cape Mentelle in the winery in the Margaret River in Western Australia. And it included expansion of our scale winemaking facility at Dorrien Estate, which will drive production efficiency.

The returns from these investments will be reflected in product cost, which flows through retail gross margin. We are also investing in capital assets to drive efficiency in retail operations. A current notable example of this is the rollout of electronic shelf-edge labels across our Dan Murphy stores. In F '23, we spent a combined $262 million in retail CapEx. We expect F '24 to be materially in line with this. Our hotels portfolio has not historically been maintained to the same condition as retail. Due to the relative age of the hotel's fleet, there is on balance a portfolio performance uplift that can be driven through investing in renewals, even though a portion of the associated spend would be regarded as maintenance capital. As a result, you will see here that we have included renewals capital in both sustaining and growth under network optimization.

Following the material disruption of COVID, we've spent the last year analyzing the portfolio and observing the post-COVID trading performance to determine where our performance uplift opportunities are. We're now building a deep pipeline of renewal investment from which we have been measuring strong returns, which Sean will cover later. As a result, going forward, investment in renewal will take priority over network expansion when allocating capital due to the size of the opportunity that we can see.

We are also activating property redevelopment opportunities to maximize site value, and we are building a hotel customer app, leveraging data and analytics to drive optimization in hotels also. All of these topics will be covered in more detail later today. In F '23, we spent a combined $248 million in hotel CapEx, this included 11 hotel acquisitions. In F '24, we expect total capital investment to be below $200 million with a reduction in acquisitions.

I'll now speak briefly to the topic of investment governance. Capital investments are subject to a governance process that requires all CapEx that meet certain criteria to be approved at the executive level within Endeavour. This includes growth CapEx capital outlays of material value, expenditure outside of risk appetite or expenditure with cross-functional impacts. All property-related investments are governed by our group property committee attended by the executive team.

Investments above defined materiality thresholds require board approval. The performance of growth investments is monitored continuously for realization of returns. The whole investment decisioning process sits within the group funding framework, which is monitored by our Board. Growth capital investments, as I've said, are prioritized based on return weighted by risk with reference also to our strategy and the size of the opportunity as well as factors such as interdependence with other investments and our capacity and the time frame required to execute the project. Our low-risk return on investment hurdle is 15%, and this is typically applied to the second year EBIT return over the capital investment net of depreciation.

The second year is used to give the investment time to mature to full return run rate. The bulk of our investments fall into lower risk categories. Our ROE hurdle is a conservative target as it is based on EBIT, not EBITDA, so it’s a P&L return measure not purely a cash return measure. On a cash return basis, the return hurdle is typically higher by as much as 2% to 4% depending on the nature of the investment. For this reason, we also cross referenced the expected ROE against the internal rate of return and net present value of the investment to ensure adequate cash returns over the investment life.

In summary then, we expect to spend less capital in F ’24 than F ’23 with fewer hotel acquisitions. F ’24 CapEx is currently expected to be in the range of $420 million to $480 million. We generate sufficient cash flow in the year to fund both dividends and our capital investment requirements. Capital investments are governed under a clear framework to optimize both spend and returns. And our capital management framework supports our scorecard ambitions outlined earlier by Steve, including continued expansion of return on funds employed while maintaining investment-grade credit metrics, including lease-adjusted leverage of 3 to 3.5x, with our net debt expected to be stable to reducing as our earnings growth outpaces our capital needs.

As I’ve covered, we have a relatively flexible balance sheet with opportunities to both improve returns on capital as well as generate further cash flow, particularly by optimizing our portfolio. Throughout the day, we will cover our growth investment opportunities in more detail.

I’ll now invite Steve to join me for Q&A.

Question and Answer

Sean O'Sullivan

We're now going to go to Q&A. When asking question, please state your name and the name of organization that you represent. And please, again, if you can limit yourself to one question per person. David, do you want to head off.

David Errington

David Errington. I'll start off with just a holistic question. And I'm listening to your presentation, and I'm still not convinced that, Steve, to your point, the whole of the company can exceed the sum of the parts. You saw – you said that there were synergies between the business. I'm a believer in conglomerates. So I think conglomerates can work, and that the whole of the company can exceed the sum of the parts. I'm losing confidence that Endeavour Group can be that type of company. And I believe that there's probably more value in a breakup than what they would be keeping the group together.

So can you give a bit of an overview and then others can ask other questions, but why Endeavour is a better value proposition to shareholders by being a diversified company with hotels and retail because I don't see the synergies between retail and hotels. In fact, I think they actually have got different skill sets. And I think they're totally different companies, and I think they will be too difficult to manage to get value for shareholders. So can you give a bit of time as to why there's synergies between the 2 businesses, so is it the whole can exceed the sum of the parts?

Steve Donohue

Yes. Thanks, David. And I'm respectful of your view, and I have heard it before, so I understand where you're coming from. I guess some risk today of preempting what you're about to see in the upcoming slides. So I don't necessarily want to duck the question, but I think perhaps by the end of the day, we could reassess your perspective, having heard what we're about to tell you about the interconnected nature of the hotel and retail businesses as well as the interconnected nature of our Pinnacle businesses therein and the overlay that our group capabilities bring to driving efficiency across the group.

So I understand the notion of the potential for separating hotels and retail, and I know it's been done by others. We hold the view that the – as I said before, some of the parts is the way to address this business going forward. And that's going to become, I think, more evident through the next session that we discussed. So happy to take the question again, if you like, not trying to avoid it.

David Errington

What's the synergies to bring them together, you might even answer that.

Steve Donohue

Yes. Well, I think we will answer that through the course of today. The synergy you're bringing them together is that you've got group capabilities that drive efficiency through them. And you're going to hear from the people that leverage those group capabilities throughout the course of the day.

David Errington

You are the CEO, you alluded — ***indiscernible*** —

Steve Donohue

Sure. And I'm telling you that you're going to get the CEOs view through the presentation in the course of the day. So you're going to see it in more detail. It's a similar question to that which you've asked us before, again, I respect the question, will allow us the time to go through the how we see the interconnection being more valid than the separation.

Bryan Raymond

Just on the $150 million over 5 years. Obviously, there's some things out of your control in hotels, particularly the regulatory environment. Just thinking through the drivers of that because it's certainly more than my expectations over that 5-year period. How much of – how much are you factoring in, in terms of regulatory change? Or are you assuming the status quo there?

And given that's going to be in the higher ROFE part of the hotels business, being gaming, if that is being factored in, what does it imply out for ROFE from that 10.2 level you had in FY '23 by the time you get to FY '28?

Steve Donohue

I'm at risk of that because everyone's had the opportunity to look forward through the paper, I'm at risk of answering every question the same way. So I don't intend to do that nor sound facetious in giving you that answer, but the team is going to talk through that in more detail.

So I appreciate the question, and I'm happy to come back to it. I was hoping that perhaps maybe it was somewhat forlorn hope that we could focus the conversation on the stuff that we've presented in preempting – rather than preempt the stuff that's coming up. But I'm not avoiding the question, I think we're about to answer it, Bryan.

Another one up the back.

Thomas Kierath

Tom from Barrenjoey. I mean it's a similar question because you've seen regulation for the last 20 years in gaming. I think it would be naive to assume that there's going to be none going forward. I mean, I think it's probably the biggest question that the company faces and everyone in the room wants to understand it.

So what is the company's expectation on regulation? And how do you plan to navigate that? Because it's a lot easier for a private company, too, and you guys have obviously got your ESG hats that you've got to wear, but I'd be really interested in your perspective on that.

Steve Donohue

Yes. So I mean, at the 20 to 10, we've got a long day ahead of talking specifically to that question. Paul is going to delve into the detail there, and everybody gets very upset with me when I steal their thunder. So I can answer your question. but I'm going to allow the team to do that for us. And if you have had the chance to flip through the presentation pack, you'll see that we've outlined the nature of change to the regulatory landscape in relation to gaming over the last couple of decades, and we've also tried to correlate that with the continued growth of the category as we as operators in the industry alongside government and regulators have sort to continue to make it available in the most responsible way.

So we're very considered and very committed equally to progressing the responsibility agenda. And I think in that respect, we're very aligned with quite a number of government and regulator perspective. So we think the 2 can coexist and have done for quite a long period of time. So we will talk to that in more detail as well.

Shaun Cousins

Shaun Cousins, UBS. I just want to talk about your CapEx governance slide or your broader view on capital. In fiscal '23, you had the Victorian gaming licenses. You didn't manage working capital well. I'm just curious, was that capital governance framework actually in place in fiscal '23?

Because I struggle to see how that's consistent with your actions if you knew you had Vic CapEx coming through and then you bought 11 pubs? I'm just curious, is this a line in the sand when now you're going to be following it more and you didn't do that in '23? Or we had fiscal '23 was actually applying that CapEx governance sort of program, please?

Steve Donohue

I don't think that what we're intending to say there was that there was a mea culpa historically. What we're saying is that we apply those disciplines, and we are about to talk you through the acquisitions that were made and the progress that they are making in terms of their returns so you'll judge them on face value, and Kate will talk to that in a moment.

So what we're trying to give you is confidence about the look forward. Kate also mentioned the fact that where I'm going to focus more of our capital back into our network rather than outwardly expanding it inorganically in the case of hotels. So again, you'll get more of us into that. So that wasn't the intention of the slide, Shaun. I respect the fact that you might have a view. But the gaming license cost was well known for a long period of time. So the 2 just coincided the expansion of the network and the license cost. You want to add to your question?

Shaun Cousins

Sorry. But if you knew you had the Vic gaming and you knew you had this other impose and isn't there someone internally to say 11 hotel acquisitions might be a great idea, but maybe let's have a few less of them so that we manage our overall net debt and then make acquisitions later on, when we don't have that step-up. I'm just curious, was there a broader allocation decision to say, hey, let's just hold off some of these acquisitions, so we manage our net debt a wee bit better. I'm just curious there didn't appear to be appropriate oversight at that time in '23.

Steve Donohue

Yes. Again, I take your point. I think the availability of appropriate hotels is something that you're going to be opportunistic about. So we're not running the business for a single year. We're running it for the long term. I respect your point about the outcomes for interest costs in F ’23. It’s been much discussed and acknowledged by us and the flow on impacts to the current financial. So we certainly pass on more than we buy in terms of hotels. We’re just inclined to pass on a few more in the current context. So I understand your point.

Kate Beattie

I think maybe if I might add, our net debt remains within investment-grade credit metrics. And that’s always been our target. We also have material debt headroom. So – and net debt position per se is not something that is a great concern to us as in, we don’t think it’s extraordinary relative to the settings that we manage our business to.

We also, as we’ve said – since we’ve demerged have continued to fund both dividends and our capital investments through free cash flow, the cash outflow that occurred last year wasn’t related to our choices about where to invest. It was more related to catch up in other areas, including installment tax payments that have been delayed following demerger.

Ben Gilbert

It’s Ben Gilbert here from Jarden. Steven or Kate, just interested in reflections upon since you’ve actually demerged from Woolies. It does – and obviously, the question is in the room are probably leading to some of this feels like it’s really been pushed in, in the last couple of months, maybe some of the news and agitation, et cetera, that’s happened. Just maybe any sort of key reflections since you demerge, what would you have done a little bit differently?

Have you actually accelerated a lot of these plans in light of some of the events over the last few months? And also on that shared services comment with Woolies, obviously, some big numbers you’ve still got coming out of there. Would you in hindsight have taken any of those with you? Are you accelerating some of that? How much of that is the crux of the cost out, that's sitting within the group?

Steve Donohue

I think, as I said in my opening remarks, it was – it has been a fairly challenging time for any business, not least of all, one that's executed, one of the largest mergers in Australian history. So what we've tried to do is remain focused on the operational execution of the business, while we've had to try and support the market's understanding of the business. And that is, I think, essentially, what we're saying is the gap that we're trying to fill in the conversation we're having today and that's which we want to have ongoing is to help everybody understand the approach that we've taken to the business, the extent to which we think it's been effective or not, and we acknowledge that elements of what we've done could have been done better.

And that's why we've outlined a scorecard that articulates how we're going to judge our performance, and importantly, what the shareholder return should look like off the back of that.

So there's been an awful lot happened in that 2.5 years. And as I said, the years that preceded that in preparation for the demerger, but scale demerger, obviously, impacts of the changing marketplace that were all created through the pandemic and shareholder expectations, which are not exclusive to our largest shareholder, we've got shareholder expectations that traverse number of people in this room and beyond that we're working hard to address in terms of explaining our strategy going forward.

Ben Gilbert

Okay. Just the shared services piece as well, which I think is a big chunk of a — ***indiscernible*** —

Steve Donohue

Sorry, I didn't talk to it. It's something that will – it underpins the delivery of the business at the moment in terms of supply chain and technology. And those are the 2 largest chunks thereof. We've had some elements that have rolled off. They are supportive of the business, and they don't inhibit the business, they enable the business and Woolworths is being a good partner in terms of helping us find ways to transition from the technology platforms. And we'll continue to have good conversations about the way the supply chain is supported.

Beyond that, there's obviously the important arrangements as it relates the co-located stores, and that's something that we think needs to be enduring and of course, the Everyday Rewards program. But net-net, these are all positive for Endeavour Group and Endeavour Group shareholders. They do account for a large value of transactions between the 2 organizations, but they are enabling and they are done on a commercial basis.

So it's something that will continue to change and will continue to update the market on as we transition and the most material transition underway is that of the technology side of things.

Craig Woolford

Craig Woolford from MST Marquee. I assume you won't address this later on. So let me try and ask it around hotel – retail store growth, so in your leading customer offer and brands. The emphasis is growing comparable store sales and hotel sales, you're obviously pulling back on hotel acquisitions. There's nothing that specifically talks about store openings on retails, what should we expect around that on the retail side of the business?

Steve Donohue

We haven't added this specifically, but I think we're on the record saying between 8 and 12, Dan Murphy's and 20 to 30, BWS is generally the range that we operate in. And that's net of closures. We don't intend to close Dan Murphy stores, but we do have to keep the network up to scratch in terms of BWS. So you've often got a sort of 40-plus openings with a 10 to 15 closures. So – that we expect to be something that's enduring.

Craig Woolford

And if I can add then, so with the hotels because of the question earlier, like what did change in your mindset around hotel acquisitions if they were good to do 12 months ago and not worthwhile pursuing now, what has changed?

Steve Donohue

Well, I mean, what has changed in part is the capability and the confidence that we have in improving the fleet we've got. So we knew in the short term that it wasn't going to be as – we weren't going to be able to quickly get back into our own network and improve it as much as we might be able to expand it. So it's always a balancing act of the pace with which you're expanding versus improving.

Just for clarity, we're not saying that we will cease expanding the network. We will buy pubs. So please don't think about these things in absolute terms. We're just adjusting the ratios so that as we build the capabilities, and I think you're going to hear from some very capable leaders in the business shortly, we've grown our confidence on the returns that we can get from improving or deploying capital back into our network to improve it. You're sitting in a hotel that's representative of that.

Lisa Deng

It's Lisa Deng from Goldman Sachs. It is a question on one of your pages that has been presented, so Page 30. I'm interested, we've talked about the book value of the $650 million freehold asset and also the $2.4 billion recurring gaming licenses. If we were sort of to mark-to-market based on the current environment, do you have an idea of or a view on what the mark-to-market value of those ones would be?

Kate Beattie

No, we don't is just the short answer. I mean, the value in the market does continue to move, of course, and we will consider that as and when it becomes important to us to do so, for example, on disposal of an asset. But we don't internally run a mark-to-market model for them.

Steve Donohue

We are going to touch shortly on the growth trajectory that we see, particularly in gaming entitlements. But no is the short answer.

Phillip Kimber

Phil Kimber from Evans & Partners. My question is just, it's on Slide 24. You've basically given some guidance from FY '26, and there's a footnote in there that says – talks about the interest rate and inflationary environment. So I understand in FY '24, you've given us some guidance around interest. But I was surprised in FY '25, why that guidance might not have started in '25, what does it take into FY '26?

Kate Beattie

I think what we're really trying to say with the F '26 guidance is in a normalized economic environment. And I think at the moment, there's a degree of jury out on when that's going to take place. We think assuming we will be in a full normal level of the – normalized level of CPI and inflation through the F '25 financial year is, I would say, far from given at the moment, hence why we've said that. Should the cycle finish earlier, of course, that gives us some tailwinds.

Steve Donohue

And that's why we're not giving you specificity other than to say that it's going to continue to improve, and we aspire to reach that level from '26 onwards.

Ross Curran

It's Ross Curran from Macquarie. Steve, can you just talk us through a little bit about your stakeholder management over the last 12 months or so. It seems your relationship with your major shareholders has gone a bit sour. Certainly, the regular – rank gaming in most states have gone a bit worse as well. Can we just talk about your relationship with Woolworths? And as you pull away from the shared service with Woolworths, how does the rest of relationship fall out there? Is there a risk that maybe you start getting charged more for the shared DCs or that they reset your rents in the attached stores?

At the moment, it seems you get quite a lot from that relationship with Woolworths. So as you pull back from it, are you putting the rest of the relationship at risk?

Steve Donohue

I think foundational to the relationship with Woolworths is the coexistence of our teams. And I don't mean to be glib when I say that, but if you take yourselves out of a model or a conversation about the financials and put yourself into the places where our teams work, they are together working to serve the same customers in the same place. And that – don't underestimate that human connection as it relates to the broader relationship we have. We've got a shared history and to a degree, aspects of our cultures are similar in that regard.

There is arrangements across the 26 partnership agreements that were struck on the merger that do have trigger points in them, yes, absolutely. The things, for example, like the coexistence store arrangements are very long dated, they run for decades. But we're already having conversations with Woolworths about how we might adjust for those into the future, both initiated in instances – in some instances in these arrangements by Woolworths sometimes initiated by us.

So there is an ongoing dialogue in connection to all of the partnership arrangements. But notably, we continue to roll off a number of arrangements. So that 26 is all already in the vicinity of just slightly over 20. But it's not the number. It's the quantum, and I touched before on the supply chain and technology side of things. Those are the ones that are the most material, the technology transition is the most important in terms of the work that we've got ahead.

The supply chain side of things is a very sustaining arrangement. And for the most part, it's a commercial one. It is one of the tenets of the partnership agreements being struck in the first place was that we would be no worse off on the point at which we demerged. So that's enduring, and we continue to work with Woolworths on ways to adjust all that are relevant on a sensible commercial basis to meet the needs of both of us. But there is a genuine intent around supporting one another in that partnership and I'd acknowledge Woolworths in their approach to that. So it's ongoing. And we'll keep the market informed as to the progress and changes we make as we go.

Sean O'Sullivan

Right. Is there any more questions at the moment? Okay. Thank you.

Presentation

Sean O'Sullivan

So if that's the case, we'll continue to move on. Steve got a presentation around Pinnacle Drinks.

Steve Donohue

Yes. Thanks, Sean, and thanks for those questions. Again, apologies if you felt we didn't answer the question at the moment. There is an intent to do that. So I'm sure you won't hesitate David and others in coming back on your question in due course. .

One of the things I admitted to do in my introductory remarks was introduced, Lucas

McKay, who leads our operations for our hotel business. He certainly is Australia's most experienced and accomplished contemporary hotelier. So it was remiss of me not to have acknowledged the legacy in my opening remarks. You'll hear from Lucas shortly, and it will give you a sense I think of how we're going about our integrated operation in the hotels shortly.

But before we get to that, I wanted to touch briefly on what we're doing with the Pinnacle Drinks business because I know it's a topic of some interest amongst investors. It's a key part of our business, but it doesn't actually get much airtime since the results for Pinnacle are incorporated into the retail segment. It is a large, growing and profitable drink supplier in its own right, with a market-leading wine portfolio. The success of Pinnacle is driven by customer insight-led brand building and a unique integrated value chain and our ability to drive strong returns across the wine portfolio.

Crafting brands people love is the essence of Pinnacle Drinks. Our key brand building capability when combined with Pinnacle's other assets and capabilities, allows us to deliver some of the world's leading brands to our customers. In the next short while, you'll hear me a bit about this capacity, probably more than once because it's so important to what Pinnacle is and does. It's useful to remind ourselves of the scale and growth of Pinnacle. Pinnacle delivered $1.8 billion in sales for Endeavour last year, with sales of Pinnacle products through our retail stores, up 60% since F '19 and is the #4 branded liquor supplier in Australia.

Customers love Pinnacle products, 7 out of 10 retail customers bought a Pinnacle product in F '23, and customers are more loyal to Pinnacle products than other products in the same category. While you can see the Pinnacle operates across the range of core liquor products, wine is at the heart of Pinnacle. Pinnacle is actually the #1 retail wine supplier to drinks retailers in Australia, noting the significance of our network.

Wine is a unique category. Customers have much larger brand repertoires than in other categories in drinks, and they're looking for both choice and help navigating that choice. Our ability to craft a brand portfolio of consumer-led brands allows us to meet customer needs and deliver a profitable outcome across commercial, premium and luxury price points, which makes it unique in itself. Our leadership in wine is enabled by our deep understanding of consumer preferences, we draw insights from that retail customer knowledge, allowing actionable insights that are rapidly turned into commercialized new products.

And we've built a deep portfolio of over 300 wine brands through our team advocacy and digital capabilities. Pinnacle Drinks value chain end-to-end is unique globally. We bring together our insight-led brand building with supply and production and an unbeatable distribution network to enable rapid brand development, remove risk and drive profitability. In terms of supply of our own brands, we do own select strategic vineyards where it's important for a state authenticity or for access to tightly held super premium supply. This is less than 5% of our supply with the majority premium supply sourced as grapes from long-term growers and our commercial wine is sourced as bulk.

From a production perspective, we've got a commercial premium winery in the Barossa, 3 estate wineries, 3 bottling sites and a packaging and material supply business. Importantly, we also have partnered with over 300 suppliers across both our own brands and exclusive brands owned by them. And in terms of distribution channels, we have the long and obvious partnership between Pinnacle BWS and Dan Murphy's and now a strong partnership with our ALH Hotels business. And over the last few years, we've also grown our external domestic sales and our export capabilities through further strong partnerships.

As I said earlier, Pinnacle is profitable at all price points. And in fact, Pinnacle was built on the commercial and premium segments. Premiumization is a continuing customer trend in a relatively flat wine market, spearheaded by credential-led brands with place, people and winemaking credibility. As customer preferences have changed, we've evolved our portfolio, expanding into the high-margin, fast-growing luxury space. Paragon Wine Estates, our luxury brand portfolio, delivers margins 10-plus percentage points higher than the category average margins. And this is part – and this part of our portfolio is growing at a much faster rate than our premium or commercial segments.

Reflecting our integrated value chain and partnership approach, we've got a fit-for-purpose production model for each part of the portfolio. We've got an asset-light model for commercial production and a mix of owned assets and partnerships for our premium portfolio, and we have built our luxury portfolio through the acquisition of iconic brands and vineyards.

We brought those together, those luxury brands together, to create our Paragon Wine Estates portfolio. Since 2019, we've acquired 5 Australian wineries and brands to grow our premium wine presence. These brands joined earlier acquisitions such as Isabel State in New Zealand to form Paragon Wine Estates. When considering acquisitions, we looked for assets in premier regions with significant luxury segment growth potential at $30 per bottle price points plus. Underinvested heritage brands with the opportunity to grow brand equity and premiumize their portfolio architecture. Existing export capabilities, including distributor relationships. Access to supply, vineyards or grower relationships, for example, in attractive or underrepresented markets, and the opportunity to generate cost synergies in overheads, including bottling and winemaking.

We delivered growth and returns from these acquisitions by leveraging existing capabilities to build and improve the brand credentials and drive penetration across our retail network, realizing cost synergies due to our vertical integration and over time, growing brands in the new markets, for instance, via exports and via external domestic customers.

Our luxury wine acquisitions deliver returns above investment hurdles by around the 3-year mark. Isabel Estate was acquired in 2014, and Chapel Hill, which we acquired in 2019 are both typical examples of our investment in this luxury portfolio. Isabel crafts premium and luxury Sauvignon Blanc, which is Australia's largest white wine segment and fastest-growing variety globally.

Chapel Hill's strong heritage winemaking and grower relationships in the leading McLaren Vale portfolio. We've grown both brand sales by a factor of 3 and both are consistently delivering 15% plus returns on investment with new and exciting growth opportunities to come. In fact, these 2 often reach the 20s.

Pinnacle is a leading customer-led drink supplier and an important and strategic part of our business. And while we had Q&A there at the end of Kate's session, I'd welcome any specific questions in relation to Pinnacle before we break for morning tea. So it was a bit rapid fire, but open to any questions.

Question and Answer

Craig Woolford

Craig from MST. So just – I think you said category margins are 10% higher from Paragon than the business average. Is that across the whole wine category?

Steve Donohue

Yes.

Craig Woolford

Right. And when you look at – a lot of the analysts in the room and investors in the room, we're covering treasury wines, we can see they're a wine business with 20%-ish, 20% to 25% profit margins at EBIT. As a retailer, you're going to get that wholesaler margin, manufacturer margin and the retail margin. So it should be a significantly margin accretive part of the business.

My actual question is, how do we reconcile the 60% growth in Pinnacle Drinks over the last 4 years with the EBIT margin profile on the retail side of the business because it doesn't have that strength of EBIT margin trajectory that would coincide with the, I guess, the rich margins you would have on Pinnacle Drinks?

Steve Donohue

Yes. I think what we're saying is it's early days for the luxury side of the portfolio, Craig, which obviously has the highest returns from a margin standpoint. So in the event that we're successful in building that, you should see more flow through to the bottom line. But I think some about 1.5 months ago when we provided an update to the market in response to the investor questions we were getting. We talked about the growth in our gross margins. So respect the fact that it doesn't flow through – the increase that we're getting in gross margin doesn't all flow through to the EBIT line given the investments that we're generating to deliver it.

What we are saying is that we can see further opportunities growth in our existing retail businesses, so expect to see it continue to help with that aspiration we outlined in the scorecard of expanding our gross – sorry, expanding our EBIT margins. But it's also an element of charting new pathways for growth for the organization. So we're very early days with this, and I don't want to over-egg it, but we do have good partnership that enables sales domestically to our other retailers and restaurants and on-premise outlets as well as a growing partnership in the international space, particularly in North America.

So you'll see it. And it's part of the reason why we separated the specialty businesses in our last update was because increasingly, we want to be able to talk to the growth vector that sits inside the Pinnacle business from an external sales standpoint.

Lisa Deng

It's Lisa from Goldman. So just more on that Paragon opportunity, it's 7% of our mix currently. Can you tell us a little bit about the actual revenue contribution to the $1.8 billion? And putting in that domestic as well as overseas lens. Where would you see that in the next 5 years? And is China an option as well?

Steve Donohue

Yes, I'm very cautious not to over-egg China because we haven't had a material play in the China market and as positive as we are about the great work that the federal government has done in negotiating the likely removal of tariffs. We're biding our time in terms of being able to say anything in relation to that. I think that on Slide 41, we outlined the mix and breakdown. So you can – that's the sales mix, yes, on Slide 41 is the wine sales mix. And it's very early days, frankly, for us in maximizing the potential of the luxury portfolio that sits inside Paragon Wine Estates.

So we talked about some of the more mature brand assets that we've got in Isabel and Chapel Hill, but some of the more recent acquisitions, for example, Cape Mentelle in WA, still very early days. In fact, that wine is only now materially flowing through our own network, and that's before we capitalize on. LVMH did, obviously, a good job of getting that wine distributed globally, and we're tapping into those pathways that which we acquired through that acquisition to try and build not only Cape Mentelle, but other brands on the international front.

Lisa Deng

Qualitatively, can you kind of give us how much they distributed like together Paragon within our own assets? And like how much are they distributed now?

As in like, for example, how many points of distribution across our network or however you measure distribution within your own assets.

Steve Donohue

I might take the question on notice, and get one of the merchants to tell me what the number is. But it's fair to say that not – this is true for every product that comes to Endeavour Group Retail, not every product is distributed in every store. So it's a number less than the 100% because we only try and put the right things in the right places.

That might seem obvious to you, but a lot of suppliers turn up and suggest that we should range their product in every store across the network, we don't. I'll get you the answer because I don't have it off the top of my head. There is room for growth, though, is the short answer, yes. Not only in distribution but also in brand architecture. As we build new products, as we understand customer needs and we build new products to meet them, that's the opportunity as well. Dave?

David Errington

Look, my question is following on from the first question in effectively what's holding the company together, and that's a bit of a statement, I suppose. I just don't understand why you need to be a fully fledged wine producer. I've covered wine for a long time. There's only one wine brand that makes money, and that's Penfolds. The rest don't make money. They just make up the numbers and they lose a lot of money.

So I'm trying to understand why do you need to be a fully integrated wine producer when you've got Dan Murphy's and you've got an oversupply of wine, you got wine producers absolutely on their knees. Why don't you just use your leverage as Dan Murphy? You're spending shed loads of capital on other businesses. I mean 500 plus CapEx. You had a terrible year in '23 with cash flow. Why don't you put your cash back into renovating your businesses, do things simple and that gives us investors a clear message as to what you are because listening to this presentation, it just confuses me as to what Endeavour Group is.

Steve Donohue

Yes. Well, I'm sorry if that's the case, David. I wasn't intending to confuse you. I was trying to elicit the explanation that actually Pinnacle as an integrated part of the group delivers material value, and that's what it has been doing. And I think what I've just tried to explain is that you're wrong actually about the fact that there is no other wine company in Australia that's making money. Pinnacle is materially a wine company. In fact, the largest supplier of wine to retail in Australia, and it derives material profitability. We just haven't told anybody about it, and that's what we're starting to do here is unpack some of the detail that sits behind it.

As I just explained, it's a very unique model where we take the needs of the customer and link them very quickly and directly with the production side of things and in so doing, remove material risk from the winemaking side of the business. The risk for winemakers is having somebody to buy their product. We know who's going to buy our product before we make it. And that is central to our point about an integrated organization. We take people who stand in stores and in pubs, we connect the data that we gather on our customers, and we link that directly with our winemaking teams and have viticulturists who are making decisions about where they deploy capital, to buy another vineyard or another brand. And we know that we are undersupplied every time we do that. So we have a very unique model globally that is delivering returns for shareholders. And you should feel confident about that rather than confused, and I'm happy to continue the conversation to bring further clarity to it, but it's unique.

David Errington

Owning the production facilities, owning the bottling facilities, it's very capital intensive, you're very happy that, that generates a great return on its own if it wasn't for Dan Murphy's.

Steve Donohue

It's important, though, David, that you pay attention to what's on Slide 45 in terms of the capital-light model, we employ in the lowest margin segment that is commercial. So you'll see on that slide that we say it's asset light. We use partnerships and co-packing. And just while we're talking about the way you're phrasing your question, we don't take advantage of anybody on their knees, thanks anyway.

We are a big contributor and a participant in the Australian wine industry. Its positive future will be a contributor to our positive future. So we partner with growers that invest their families money in growing grapes and we give them comfort that they've got a place to sell them through us. And we can give them that surety because we know what customers are buying.

So we're in partnership. We're not here to take advantage of anybody. We're here to give customers what they need to invest shareholder capital appropriately to deliver the returns that people deserve. It's an integrated model. It could not exist without the connection between both retail and the Pinnacle business.

It would fall into the categories that you talked about before of businesses that don't make money. It didn't become the largest wine company in Australia serving retailers because it doesn't make money. It does. And as I explained, customers love these products. And in the event that customers don't love these products, we don't love these products, and they don't exist very quickly. It's our version of fast fashion in the wine category.

Thomas Kierath

It's Tom from Berrenjoey. Just following on from — ***indiscernible*** — question. How much money does Pinnacle make? Or what are the returns? Or what is the kind of retail margin if you just look at it like stand-alone without Pinnacle? Like how do you give people confidence that there is the synergy there? Because we can't see the numbers. Obviously, I hope you guys have. I assume you have the numbers. But it would be just great to share some of those.

Steve Donohue

Yes. I mean, we're not going to give you the detailed P&L other than to say it delivers, as we've explained on the capital expectations that we have for these sorts of investments. I talked about 2 examples. I said it was 15% plus, it's in the vicinity of 20% returns on those investments. It is part of the special elements of Endeavour Group that make it unique and deliver on that interconnected point that David was making.

So it's a profitable business. It is a market-leading business. The fact that Dan Murphy's has a lowest like price guarantee, which is automatically indexed against every other competitor in the market puts it in a very tough position. It's a tough business to run. I ask Tony Leon, who effectively started it. You have to spend endless hours making sure that you are covering the cost of delivering the lowest price in the market.

Pinnacle is one of the ways that we do that, as is bringing in new products and managing our costs effectively and a variety of other things that retailers have to do. So it underpins actually a lot of the customer-facing benefits that you get through a last price guarantee as well. But I'm not going to give you today the detailed breakdown of the P&L other than to say, the largest retail wine supplier in the country, and it's very profitable.

Thomas Kierath

Can you disclose how much capital is involved with Pinnacle or range of the capital or percentage or...

Steve Donohue

Yes, I think that's a fair question. I think we can bring more color to that. So let me...

Phillip Kimber

Phil Kimber, E&P, Steve? You're right. I just wanted to – I mean I get a lot of questions and you read the papers. There seems to be a lot of questions and commentary around Paragon within Pink. And I was just looking at the slide there. So I think you said wines 54% of the Pinnacle business and Paragon 7%. So I'm assuming Paragon's like 3% or 4% of the Pinnacle business. Is that – have I got the – got that right? Is there some volume...

Steve Donohue

Won't take. Yes, it's over-indexed in the market narrative, under-indexes in the financials, if that's your point.

Phillip Kimber

Just trying to understand. So the rest of the — ***indiscernible*** — brand private label for one of a better word business as opposed to owning wineries and making – and running a wine brand?

Steve Donohue

No, I'm very deliberate in being clear that it is not a private label business. It's a branded manufacturer of drinks, and that is one of the key elements that makes it unique. It is distinct from a program that you would see in a supermarket per se. So I think perhaps it's got something to do with our historical association with Woolworths that people think about it the same way.

It's nothing like what a supermarket does. As I said to David, it's more akin to a fast fashion. It's about building brands that people have an affinity with or acquiring brands that have preexisting histories and maximizing their potential. It's a branded drinks manufacturer, branded drinks manufacturer. The largest wine branded drinks manufacturer in the country servicing retail.

We take our products to retailers around the world and partner with them with the same mindset that we partner internally around understanding customer needs and then building products that meet them. So that – I'm just trying to emphasize the unique nature of this thing and why we thought it was important to talk about it today was because of the lack of understanding, which is down to us because we haven't provided that insight as to what the thing is.

Bryan Raymond

Bryan Raymond, JPMorgan. Just following on from some of the other capital-related questions. Maybe to be more specific, how much inventory do you have in Paragon and then the rest of Pinnacle in that business? And then just a clarification, the 10% higher margin, just confirming that's gross margin you're talking to…

Steve Donohue

It's a better – the problem is that when you're looking at the retail EBIT margin, you're looking at the blended retail and Paragon – sorry, Pinnacle EBIT margin. So again, I'm not going to unpack the breakdown of how the EBIT margins are separated, derived and so on, you have to add in the amount we invest in the lowest price guarantee and so on…

Bryan Raymond

The comment on that, is that a gross margin comment? Or is that an EBIT in become…

Steve Donohue

It's at least 10% better at a gross margin level across the board in Pinnacle. Yes, that's right. But again, we're not – I'm not going to give you sufficient data that you can build a model today that breaks that down. The inventory challenge or the industry question that you've got, we haven't got detailed in these materials either, but I'm happy to take that one on notice as well. I haven't got that number off the top of my head. So…

Kate Beattie

Inventory by which part of the business, the inventory sits in. But of course, as a manufacturer, there is an inventory. It all fits within the reported inventory number that grown up.

Steve Donohue

But I understand the rationale behind your point, and let me have a think about what we can give you in terms of better visibility.

Bryan Raymond

So maybe just a. The ROFE on Pinnacle, is there a way to give us any color on that with respect to your 15% target on the low – I assume it sits at the lower kind of the spectrum, would it be materially in excess of 15% or below at this point?

Kate Beattie

Sorry, I think it's important to distinguish the 15% return on incremental funds invested metric from group ROFE. What we've said about the Pinnacle portfolio is that the portfolio return on funds employed level. All of that – all of the funds employed at the Pinnacle business are positive inside the retail funds employed number and the returns on the Pinnacle element of that are accretive to the retail ROFE. So they improve retail ROFE as opposed to if we didn't – to David's question, if Pinnacle didn't exist, the return on funds employed and retail would be lower than it is.

Analyst

You'll see an alternate number — ***indiscernible*** —

Steve Donohue

You'd like to see a split out number. I understand your point.

Analyst

Yes, because there is a — ***indiscernible*** —

Steve Donohue

We're not giving you retail excluding Pinnacle, and we're not giving you Pinnacle excluding retail. I understand your question. Yes. So sorry, we're not providing that level of detail today, but I understand your question.

Ben Gilbert

Ben from Jarden. Just the sales number, is that a wholesale or retail number?

Steve Donohue

That's the retail number.

Ben Gilbert

That's great to – so if you look across in terms of penetration because presumably your wine penetration in Dan's is probably belove 50% for Pinnacle. And then **— *indiscernible* —**, I know it's probably going to be in the teens, something may be low. How do you think about the Xline opportunity? Because I think if you look at what probably more than 5 of the top 10 growing brands in liquor stores at the moment, there are TDs and coming out of the fridge and who knows where they're from and what's in them.

But what are you guys thinking about in terms of that space? Because in theory, you talked to fast fashion. That's the fast fashion element of liquor turning over. You can probably make some pretty decent margin, not a lot of brand equity. They seem to churn through with seltzers and tequilas and all that sort of stuff. Is that an attractive part for you to play? And are the margins in that space pretty attractive as well.

Steve Donohue

Yes. Thanks, Ben. I appreciate the question. It's – we think it's harder to get a – to get confidence around an appropriate return on capital if we were to invest in the production side of those categories because of the lightning fast nature of change that you're seeing in them. So we're in conversations with some of our largest long-standing brand owners in the beer and spirits space, and they're really suffering because they haven't been able to keep pace with the changing rate of customer demand and you're seeing new brands come through all the time.

So we leverage that to our advantage in the wine space, given customer repertoire. And that point I made probably too quickly about having to curate create a big enough brand portfolio, but then also help customers make choices. Customers are much more willing to be led by our communication, be it our advertising or by our teams in stores on what a good wine is and examples of things that other people like and so on and so forth, whereas it is a much more pure brand exercise in particularly RTDs and to – and certainly be and to a degree, spirits, although you've seen sort of proliferation in things like GI and so on.

So don't miss the point that like slightly less than half of our business is in those categories, it's slightly more than half that is wine. So we're over-indexed on the wine category because we have a high degree of confidence in the return on capital that we'll get by investing in production assets and so on in the wine space. We just don't have that same degree of confidence. But we are in it.

It's a very asset-light way that we're in those other segments. So we leverage off partners in terms of others having distilleries and breweries. We've avoided the temptation and I'll call it as a temptation because it has been much discussed internally of setting up breweries and distilleries. So if we were to ever embark on it, it would be entirely at the craft end of the spectrum, not at the scale end of the spectrum. So that's the reason why...

Richard Barwick

Steve. You've got Richard Barwick here from CLSA. Can you talk about the – what Pinnacle actually means for EBIT margins within retail? I think Craig asked the question before. And I think your answer was effectively, you're seeing the Pinnacle impact at the GP line, but not necessarily at the EBIT margin line.

You also talked about it's sort of helping perhaps contribute or perhaps even funding the low-price positioning. Can we get to a situation where Pinnacle is actually additive to your EBIT margin? Or is it – or should we be thinking about it as yes, it is actually contributing to the low price positioning. It is covering your costs, but it's actually not going to lead to your EBIT margin expanding.

Steve Donohue

Yes, thanks. I think I should somewhat correct maybe the interpretation of my answer to Craig. What I was talking about was the growth in gross margin since F '19 in the chart that we've shared previously. When you look at our EBIT compared to our competitors in the retail space, it is a material gap which we enjoy compared to anybody else in context of a very large part of our business offering an automatically indexed lowest price on predominantly branded product.

Most of what we sell is a highly branded product. offering an automatically indexed lowest price guarantee is a very powerful but relatively expensive exercise. It's what gives you the scale that Dan Murphy's enjoys. The fact that we're able to generate an EBIT margin, so considerably greater than the next player in the market is materially contributed to by Pinnacle as well as a number of other things we do. So it is there, but I was referring to the change since F '19.

Richard Barwick

I understand that in terms of providing that margin that's superior to competitors. But if we're looking forward, is that a margin that is effectively going to be staying where it is? Or because if you balance that up, Pinnacles, the growth in Pinnacle is super strong, outpacing everything else and yet margin hasn't moved.

Steve Donohue

I think we outlined on a scorecard, our ambitions for EBIT growth and that being driven by margin growth. So I'd point you back to that. And that's our long employed strategy, which we're going to provide more color on. So what we're saying is that we do believe we can continue to expand EBIT margins and gross margins at sustainable levels, at sustainable rates to deliver that shareholder value growth that we talked about there.

Shaun Cousins

Shaun Cousins, UBS. Yes. Just a question on Pinnacle space. It's circa 18% of sales, and it's grown 60% what proportion of space within the store does Pinnacle take up in terms of? And have you seen – you've had that tremendous growth since '19? Have you seen a significant increase in the proportion of space in store allocated to Pinnacle as well, please?

Steve Donohue

Yes, it does, as per the stats I shared over trade somewhat. So we get a higher efficiency on average out of a Pinnacle product. I haven't got the specifics of space Shaun to hand. But as you build more products that have more resonance with customers, they demand more space on your shelf. I'm sorry, I don't have the specific number of SKUs or space in store necessarily.

Shaun Cousins

Is it 18% or less than the 18%?

Steve Donohue

I would expect it to be less than the growth rate because of that over-indexation in velocity that we get out of these brands, noting that a lot of them have been at the commercial and premium end of the categories. I'm talking about gross not shares.

Shaun Cousins

I'm asking about the proportion of sales today is 18% of space. Is it higher or lower than 18% allocated to Pinnacle?

Steve Donohue

I haven't got the data off the top of my head. I would expect that it is lower is what I'm trying to say because they are operating at a higher velocity. On a spot on the shelf, you get more throughput of those products versus the relatively long tail that they exist in the rest of the portfolio.

Sean O'Sullivan

Right. If there's no more questions, we'll go to the morning tea. We'll – morning tea will be served in the Bistro area, which is through these doors pass the gaming bar and then to your left. If that confuses anybody, there will be somebody to help point you in the right direction. The Morning tea will go for 30 minutes. So if we can see you all back here at and ready to go at 11 a.m., that would be fantastic. Thank you, everyone.

Steve Donohue

Thank you.

[Break]

Presentation

Sean O'Sullivan

Right. We're going to start again. Just for everybody's – we had taken the feedback, and we are putting the temperature up a little bit. I got a lot of comments that not only the temperature, the questions are a little bit cold, but so is the temperature. All right. Yes.

So it’s Kate and then Paul.

Kate Beattie

Welcome back, everyone. I’m now going to take you through some information that is really important to understand our network and our strategy. The key points I’d like you to take away from this section that our hotel and retail portfolios are deeply interconnected. We make hotel investment decisions based on the value that we can generate from all revenue streams attached to the hotel license.

Endeavour has a unique set of capabilities and assets that enable us to maximize the returns from a hotel license. Good returns can be generated from all revenue streams in different combinations and we have plenty of room to improve the portfolio returns through both investment and divestment.

So as this slide shows, our hotel and retail networks are deeply interconnected. The significant majority of our hotels have attached to retail liquor stores. 38% of our group’s 1,701 retail stores as of the end of F ’23 are attached to hotels. In combination, approximately 45% of our total Endeavour Group sales come from the income streams generated from hotel licenses, including retail.

In the state of Queensland, the regulatory environment is such that you can only operate retail liquor stores attached to a hotel license and as such, Queensland accounts for almost 30% of combined retail and hotel sales. However, we also have an extensive combined network outside Queensland.

Almost 20% of group sales are associated with hotel licenses outside Queensland, including 174 retail stores. This is important to understand as investments in hotels when we make them are made on the basis of the returns from all of the revenue streams that can be generated from that license, including retail. We call these cash-generating units.

Endeavour is uniquely positioned to maximize the value from hotel licenses. Our portfolio is not constructed in this way, simply due to licensing requirements. We have the most recognized and most profitable retail network in the country. We can drive superior retail performance, fractionalizing hotel license lease and property costs. We can derive operational scale benefits, for example, from group-wide supplier relationships that support trade buying and promotional activation across the network.

A notable example of this is beer buying. Operational scale enables efficiency of investment in areas such as team attraction and retention, compliance, training and technology and property investments can be driven efficiently on a whole of site basis. We can leverage group capabilities. For example, in areas such as Endeavour X to support digital asset development and customer engagement, leveraging our deep customer understanding to drive compelling offers across both hotels and retail.

And we can leverage group Advanced analytics and optimization capabilities to support network-wide operational optimization.

We also have the scale to support internal sub-brands through which we could drive efficiency such as NightCap for our accommodation offer. This enables scale efficiency from repetition across areas such as design, construction, operations, technology and sourcing. And very importantly, we can invest behind leadership in compliance, deploying national programs to support responsible service in both gaming and alcohol under our rigorous responsibility framework.

These scale benefits and synergies drive value beyond the sum of the parts. Here, you can see our share of sales nationally for each sales driver for our combined hotel and associated retail portfolio. Retail has the highest sales share at approximately 65%. Bars and food represent just under 20% of sales and gaming 15%. Accommodation, although minor, is growing share and is one of our opportunity areas for brownfield investment to drive growth later in the day.

It is worth noting that in the state of Western Australia, there is no gaming. Without the returns from gaming, our hotels in WA combined with retail, deliver a somewhat lower EBIT margin than the national average, however, have a higher return on capital investment as shown on the bottom left of this slide. This is primarily because of the capital cost of gaming entitlements outside of WA.

This overall picture supports our investment thesis that we can deliver strong capital returns from mixed driver businesses in multiple combinations, leveraging our unique group assets and capabilities. However, not all of our portfolio is delivering returns equally. Now that we have experienced a year of uninterrupted post-COVID trading, we have reviewed the returns on investment in our integrated hotel and retail portfolio from a number of lenses, including trading margins, absolute returns and returns on funds employed. We exclude new acquisitions that have not yet had time to trade their full potential and assets from which there is expected to be material redevelopment upside.

With this framing, we consider approximately 80% of the network to be moderate to high performing and 20% of the network to be underperforming. This shows that we have opportunity to lift the average portfolio performance and we will seek to do this through operational optimization and renewal or redevelopment or potentially through divestment. To realize this upside, we are prioritizing the highest returning opportunities first, balanced with speed to value realization.

To recap then, we have a deeply interconnected network of retail and hotels and are uniquely positioned to maximize the returns from a hotel license, leveraging the total of our group assets and capabilities. We can deliver good returns from multiple combinations of new streams and we have the capacity and flexibility to improve the average returns of the portfolio through both investment and divestment.

I'll now invite Paul to come up and speak about our hotel strategy specifically.

Paul Walton

Thanks, Kate, and welcome, everybody. I'm Paul Walton, MD of Hotels, and it's nice to be in a pub and talking about pubs. Pubs don't have graphs. They don't have models. They don't have matricial frameworks. Instead, they're real, you can feel it here. They've got hot food, they got cold beer, good music, sticky carpets, and it's where you meet your making your family like a second living room and really the soul of Australia.

I've worked alongside pubs and worked alongside ALH for most of my career. Beginning with Line back in 1999, delivering kegs on the back of a truck in Sydney. They're managing accounts, hotels in WA. And then finally, wrestling with Steve, actually, as my customer when I was heading the Endeavour account and national on-premise for Line as well.

After line, I work for a global consumer good leaders, Nestle and Mars in e-commerce and GM roles. And then I found my way back to liquor with Pinnacle Drinks. And most recently, I've been working with Pinnacle for 5 years, leading the Pinnacle Drinks business through a period of sustained growth. And over that time, established the Paragon Wine Estates business and also worked really closely with ALH on building the product range.

Early this year, I made the jump from – I should switch the – is this a – I should have worked out how to use this. Okay. There's 1 button. I'll know which one to use. Here we go. And earlier this year – sorry, I made the jump from wineries to pubs. I think you see my smile in this picture, this was Steve and myself at the Kirribilli hotel. That was last Thursday at — ***indiscernible*** — Music T-shirt Day, where we're supporting bands, which are a large part of what we do.

And I think my small there says it all really, really, really loving the role, so it's fantastic. And just remember that wouldn't bar for later because I'm going to come back to it.

So today, as you know, we welcome you to the Forest Hotel. I couldn't think of a better pub to kick back in while we tell you our story. If the enormous opportunity We, as a team, see in the ALH business, which is well positioned for balanced growth in a large profit pool. It's recently emerged from COVID with a strong base platform and a new operating model and with a long runway of both organic and capital-driven growth opportunities, which will enable us to drive accelerating EBIT over the next 5 years. And to start things off today, let's watch a brief video.

[Presentation]

Paul Walton

So as you can see on the screen, the ALH purpose is creating pub experiences locals live. And I think the Brook Hotel, which was in the video from – in Mitchinson, Queensland, is an outstanding demonstration of ALH's ability to do just that. Since reopening in May this year, it's become our best performing new Dan Murphy's.

It's become the #3 food pub in the ALH network nationally. It's become the #9 beverage venue in ALH nationally. Gaming has grown and it's achieved 81% accommodation occupancy at $170 a night. Performance is running well above hurdles, and this is all in what is just a typical Brisbane suburb. I think our incredible opportunity at ALH is to leverage this model and to scale this capability across 350 pubs across Australia.

As we all know, Australians love pubs, so there's lots of them. And the aggregated market is really big at – I'm sorry, at $25 billion. Australians also love owning pubs, so it's a fragmented market with the top 5 operators owning less than 20% of their venues.

For many years, Bruce Matheson Senior traveled the country buying the best pubs to create what we consider now an unrivaled fleet. And Bruce had some foresight. He bought Pubs position in the biggest and most structurally resilient segment, the midmarket, which allows for great balanced businesses.

Now clearly, scale and operating in the largest market has its advantages, but a pub is not a bottle shop. They're different shapes and sizes and their essence is reflecting the local community and inviting them in. You can't just roll out the same box across the country. And for many years, the ALH operating model recognized this by running a decentralized state-based model with lean support, with the pubs given performance targets each year and the freedom and the accountability to chase it.

As a network rapidly through acquisition, this simple model worked really well. But Australian hub goers expectations are lifting. The competition is getting better and technology is moving at pace. Running the network is 349 individual pubs is no longer enough.

A year ago, we started developing our segmentation model, a long detailed iterative process, spending time in our pubs, talking with our teams and really understanding how our guests are using them. The goal is to keep the local pub brand and identity, but overlay a framework to understand the characteristics of each segment. This allows us to benchmark and then work with the venue managers in creating venue level business plans and support them with peer cohorts and toolkits to improve.

You can see on the screen the different segments that we've segmented with intercity, suburban, regional, destination and entertainment, and then we've got 3 levels of affluence in each of these as well. Take the Kirribilli pub. If you remember backwards, Steve and I were resting on the traditional Woodard. Its segmentation is in a city. So that is premium, it's F&B led and it's mixed — ***indiscernible*** — balance.

When we benchmark Kirribilli against the intercity segment, the turnover, so turnover per square meter is actually pretty good. It works hard. But the food and beverage margins are well below the cohort and where they should be. And when you look at it, this is because it operates more as a suburban bar. It's got a strong male SKU. And it has a standard Bistro menu. So we're not taking much opportunity from the premiumization.

The opportunity in the Kirribilli is to renovate, classic art deco bar style and potentially has some spaces that are interchangeable across food and beverages, premiumize both the bar and the food menus in the process and then open up the second floor to create a more vibrant, female-friendly space that creates a whole new occasion to visit. The result will be significantly high margin, significantly high turnover and even happier local community because we're meeting their nights.

And of course, alongside our unrivaled fleet, we have 12,000 team members who are central to bringing to life our purpose. The good news is we have a really engaged team. With ALH but as the #2 top employer in Australia this year by Randstad. And a driver of this is the focus we put on growing our teams, both in terms of training development and also mapping career pathways.

And within the hospitality industry, we've got more scope to do that than anybody else. Over the past 18 months, we've deliberately gone about building a leadership team that balances deep hotels experience with new capabilities from leading companies in other industries. These include loyalty, network transformation, team development, merchandise renewals and property development. What really stands out across this team is the love of the industry and the passion for pubs.

And since emerging from [COVID] and the demerger, we've gone about deliberately changing our operating model and resetting the business. We've renewed our commitment to responsible gaming. We've built up our next levels of operational team, retaining existing team and recruiting key roles from leading hospitality businesses, both beverage and food.

We’ve segmented our network. We’ve started implementing new commercial frameworks and approaches in our venues. We’ve started adapting the Endeavor Go cost optimization program for hotels, and we’ve begun leveraging our group digital and analytics capabilities. All this has meant that we’ve emerged from Covid in a very strong operating position and created positive momentum with accelerated revenue growth – what really excites us, though is the long runway this business still has.

Since rolling up our sleeves and starting on the journey, the opportunities become even clearer. We can lift that performances across venues, including the underperforming 20% that Kate was talking about. With standouts like the Brook highlighting the opportunity across our fleet. Our guest understanding can be improved, and our retail experience demonstrates the upside available as we improve our insights through loyalty data.

We have legacy systems and processes, including manual and stand-alone systems and over 1,000 venue policy documents, which create an efficiency price through simplification, integration and automation. Our retail business has developed industry-leading digital and advanced analytics know-how that can be applied to many more use cases in the hotel world. And there are significant opportunities across property and fleet to unlock value via renewals, redevelopments and divestments.

What makes ALH truly unique is the breadth and the depth of these opportunities and our share size, which can support unlocking these in an efficient and a scaled way. And it’s these opportunities that we think form the basis of the compelling growth model that ALH has available. From an organic growth perspective, Jared and Lucas will take you through the operational growth pillar, which consists of initiative to grow revenue and improve margin and initiatives to target efficiency and reduce our operating cost.

From a capital-driven perspective, Kate, Sean and Matt will take you through the network opportunities, including the criteria for acquisition and divestment, the significant opportunity in renewals and the exciting development pipeline across our fleet. The final growth pillar is responsibility in gaming, which I will lead you through. And we include this in our growth model because we see looking after our communities and our guests and doing responsibility well as an absolute table stake for growth.

Which brings us to the money slide, literally. We believe this growth model offers a step change growth opportunity of 6% plus CAGR over the next 5 years, an additional $150 million plus in EBIT on top of F ’23. This number would comprise the total EBIT growth over the period as we assume market growth is offset by the current high cost inflation. We also see the benefit ramps up over time. Without knowing the precise regulatory changes, we believe this also incorporates the number of the known changes. The growth will be split somewhere equally across lower capital operational growth and capital-driven renewals and acquisitions.

And will be brought to life by our experienced team accelerated by our group capabilities, including Endeavor Go, EndeavourX, advanced analytics, property development and renewals. And at the end of the 5 years, we see an even more balanced business profile across the drivers. And on top of this, we’ve identified a series of one-off property developments across the network that Matt will begin to share.

Overall, a really tangible and compelling opportunity – so I’d like to thank you for joining us in the forest hotel and listening to our hotel story. Hopefully, you see the enormous opportunity we as a team see in the ALH business, which is well positioned for balanced growth in large profit pool. It’s recently emerged from Craver with a strong base platform and with a long runway of both organic and capital-driven growth opportunities, which will enable us to drive an accelerating EBIT growth over the next 5 years. Thank you and on to questions with Cape…

Question and Answer

Lisa Deng

Paul Lisa Deng from Goldman Sachs. Question on Page 65. Congratulations on strong team. I just wanted to understand a bit more with clarity. How the different roles potentially could be differentiated or overlapping including yourself, Lucas, Mark, so GM of Transformation; Mario GM of Portfolio; Jared, GM of commercial, then Sean and Matt potentially, like what would be some of the key individual KPIs?

Paul Walton

Yes. I won't go to specific KPIs, but I can talk you through. So Lucas leads our the majority of our 12,000 team and venues as Head of Operations. Lucas – sorry, Jared, leads our commercial, which would – in the retail, we would be best thought of as merchandise. So our buying teams and our commercial things like pricing, et cetera, et cetera, within the business and procurement. Phil is obviously marketing. Mark leads our transformation.

So if you think about all of the things we're going through, we are going through a significant transformation as we run the business. Mark and his team are leading that transformation in terms of the initiatives like a project office through the business.

And then from a – I suppose, or from a property perspective, we have Sean who's leading our format operations, which is renewing of our hotels and brings that capability across a spirit in the own world. And then Matt, who's looking after property overall with a primary focus on the development of the properties and the value we can create there.

And then finally, Mario, who was doing the Managing Director role has rejoined us, which is fantastic new because it's great to have his experience and his knowledge of businesses. He's looking after our portfolio piece, which is thinking about from a hotel perspective, specifically on acquisitions, divestments and things in that space as well.

Lisa Deng

Okay. So there's – okay. So how would Mario and Lucas potentially work together, for example, or overlap or different? Like what would the – what's the decision, I guess, rights for either Lucas or Mario, for example?

Paul Walton

So Lucas' role is every day running the hotels. So he looks after our 12,000 team, which serve our guests and manage our hotels. And then Mario looks at, from a hotel's perspective, what are the right hotels for us to be acquiring, divesting? And should we be prioritizing those for development, for example, in terms of – as we look at them.

Thomas Kierath

It's Tom from Barrenjoey over here. Can you go to Page 63, where you do this segmenting the hotels? I don't think we've had that kind of disclosure before. Are you able to pull that up just so I can look at it sorry?

Paul Walton

I hope so.

Thomas Kierath

I'm just really interested to understand how the margins differ across those different segments of hotels. And I guess the reason I ask is gaming revenues have no COGS, have very little costs. And so when you lose $1 of gaming revenue, a lot of it drops through the bottom line.

And I think it would be interesting to understand how the yet, I guess, the margin profile across the different hotels looks? And is it different? I think you said WA was a bit lower margin. I understand it's higher ROI given the intangibles there from the licenses. But yes, just some clarity on that, I suppose, and then we can all assess what that means if the regulation happens, if it doesn't happen?

Paul Walton

Yes. It's a really difficult question to answer in a simple way. And the reason being is that, number one, you can see – I think the statement there is the gaming pretty much drops to the bottom line. Everything is interconnected in our hotels. And I think the presentation Kate took you through demonstrated that. So in order to run a gaming room that needs food, it needs beverages, it obviously needs support.

It needs – the venue teams that need support offices. So it's not necessarily doesn't drop out because – and our learnings in Victoria because we had to shut our hotels or we've chosen to shut our hotels for a number of hours is there's actually some significant savings we can make at that time as well from gaming.

In terms of margins across, it's probably intuitive but every hotel is different because it each has a different mix of food, beverage and gaming. Obviously, at a gross margin level, accommodation and gaming are going to be fairly similar across the group. But what you'll tend to find is intercity and affluent suburban, we'll have better food and beverage margins and regional and lower affluence entertainment will have lower food and beverage margins as well. But the net margin for the hotel will depend upon the mix.

Thomas Kierath

If someone says right, instead of buying a – instead of putting $5 in a gaming machine, I'm going to buy a scone. Like you make a lot less money of that right. So I guess I'm just trying to understand how it might look if gaming revenues are flattish and you get inflationary growth in food and bev, what that does to the margin profile? Because I think what you're saying is the margins are expected to expand, and that's what I can't really get my head around.

Paul Walton

Yes. And I think what you described is there's less ability for us to change our margins in gaming. We can grow it. And I think Jared will talk to some of the capabilities we have to grow the gaming area above service as well. But that – what you described is actually the opportunity. We have significant upside in food and beverage margin. And I think, again, both Jared and Lucas will talk to you that, that's where the big opportunity for us is to grow food and beverage and also increase the margin because there is an opportunity there.

David Errington

Paul, David Errington. On – following I suppose on from Tommy's question, but I'm very titillated, if you like, for that $150 million worth of growth, that EBIT growth. That's a very nice number, but I need to know a little bit more as to how it's going to be delivered. And I haven't quite got that connection yet so we can walk out of this room with the confidence because that's a pretty punchy number that you're going out with close to $600 million by '28, you name it. So I just need to know where it's coming from.

And as Tom said, you've got gaming regulatory – gaming is going to grow, so it's obviously got to come in food and bev. So I know that you've got this, you've got operational growth, limited capital, renewals and acquisitions capital. Can you give us some examples, please, to bring it to life so that we can understand it because at the moment, it's numbers, it's concept. But can you give us a bit of an example so that we can actually grasp how you get that price? Because it's a big number and we're going to hold you to account on it. Now we need to know how you're going to get it.

Paul Walton

Yes. First, we're happy to be held to account because we absolutely believe it's there and we can see it. I'm not going to go into all of the details because Jarrod and Lukas as well as

Shaun and Matt will, but it is absolutely – we've got significant cost opportunities as we say, Food & Beverage margins, we've got revenue growth opportunities, and we've got renewal and property development opportunities that all add up, it's across the board to a number of which is $150 million plus.

David Errington

Not exciting me, Paul, it's not exciting me.

Paul Walton

So we've got a whole table of people that are going to come and excite you in the next session. So – and we'll go through that data.

David Errington

I'll give you an example in Melbourne, I'll give you an example. I mean everyone in Melbourne knows the Duke of Wellington. It's doing $11 million sales revenue. It's nowhere near the site of Young and Jacksons. Young and Jacksons is your pub that would be lucky to do it.. So clearly – and it's nowhere near the quality, but you guys just don't have to bid in there. You walk in there and it's nowhere near, but Young and Jacksons, which is owned by ABC and you just don't have the bids. So how can we have confidence that you're going to go and get that $150 million? I still haven't got the confidence yet that you're going to deliver it.

Paul Walton

So look, if we can revise at the end of the presentation, we've got a team of capability here with deep experience. And David, that's why I brought Lukas, Jarrod, Shaun and Matt is because they can talk us through in detail, their capability and what they can bring to the table and how they're going to change it.

Ben Gilbert

It's Ben here from Jarden. Sorry, I asked about $150 million number as well, maybe 2 thoughts. One, is this going to be included as a KPI within all the management rem? Presumably, it is obviously it's a big number that's been put out there.

Paul Walton

Yes. Well, this is included in our 5-year plan and the pieces that contribute to that will be in the rem, which is part of the way we incentivize.

Ben Gilbert

Just a second one, maybe asking in a different way. The market has been relatively benign. I think you've probably grown your comp growth to your pubs, it's probably somewhere between 1% and 2%. You got inflation and trying mid-singles. How much of that $150 million do you think is in your control, i.e., is this just going to come down to the management team's execution as opposed to market growth, regulation, not changing these sort of things like if you sit here today have to look if we execute well, that nothing is in the bank, but it's all going to come out to actually executing these 10, 20, 30, 40 points. Is that how you see it?

Paul Walton

Yes. We've been realistic on both market growth and inflation. And as I said, given the – where the environment is at the moment, we think they largely offset each other with a bit of fleet decline. It's okay over the next period of time because it's high inflation environment. And so all of this is within management control. And all of it requires the plans for us to put in place.

Bryan Raymond

It's Bryan Raymond, JPMorgan. Just again on the $150 million question. The $75 million there that's capital driven, as you referred to it on the slide. Just going back to a comment Kate made earlier around the CapEx split coming down to – well, the CapEx coming down to sub $200 million this year. Obviously, fewer acquisitions are in that number. Just thinking about what sort of growth CapEx you're thinking about on an annualized basis over that 5-year period to achieve the $15 million per annum or $75 million over 5 years and the ROFE that falls out of that.

Paul Walton

You want to answer that?

Kate Beattie

I think at a high level, we will prioritize the capital towards the high returning opportunities first. We're not going to provide at this point, the 5-year growth CapEx numbers, but we will continue to operate our funding within the free cash envelope that we've spoken about. So our intention will continue to be that we'll generate sufficient free cash, both through the uplift that we deliver and through trading of the broader business to fund the growth ambitions that's expressed in the $150 million number.

Bryan Raymond

Okay. Right. But that $15 million per annum should be generated at a 15%-plus return on funds employed, is that a fair assumption?

Kate Beattie

That's a fair assumption.

Bryan Raymond

Okay. If I can sneak one more in, just on where you talked about it was a laggard portfolio, the 20% at the bottom how of your hotel network, how do you define that 20%? Is it sub a certain threshold on ROFE or is it an EBIT margin? Or what is it that comes in to call out a laggard and just I noticed you talked about potential divestment there.

That would help solve your balance sheet issues as well if you could divest some of those, whether they lease or freehold, as you say leaseholds are salable. What's the opportunity there to kind of solve 2 problems with one in terms of ROFE and balance sheet?

Kate Beattie

Yes, I'd say we used a number of metrics to define what was underperforming. It included relative EBIT margins, growth potential. So we did consider where to from here and how much opportunity have we got and also return on funds employed. And I think it's safe to say that our task with that portfolio is to think about, can it be improved through operational levers through investment? Or what's the next opportunity to move that venue on?

So yes, the second part of your question is spot on. I think there's an opportunity to both return – improved return on funds employed and potentially bring some cash back into the business to optimizing not just the bottom end, but optimizing the fleet overall and thinking diligently about every site. I mean every site – I mean, Paul sort of spoken to the fact that every site is a stand-alone business effectively.

So we have to think about the trading dynamics of every site, both currently and the potential from that site and work out what's the best way to deploy capital to the highest use whether it be by optimizing the site performance or thinking about divestment and reinvesting that capital out there.

Shaun Cousins

Shaun Cousins, UBS. Maybe just further to Bryan's question there. Within the lagging hotels, are they more gaming focused and don't have a prospect of getting better in food and bev just curious around what are the attributes on a mix basis we think about the upside for your EBIT seems to be very skewed to food and bev. Do the laggards have problems or an inability to grow food and bev? I'm just curious if you could describe them in terms of what products they seem to do well at and more of a challenge that.

Kate Beattie

Unfortunately, I don't think there's a generalized answer I can give to the questions. Every pub is unique, and we are looking at the unique trading circumstances of every pub to decide how we categorize it.

Paul Walton

I think it's fair to say though – is that working? I think it's fair to say, though, that if we don't think we – if it's lagging, and we don't think we can improve it through food and bev, but that's probably one that we have on our divestment list.

Shaun Cousins

And – but just you provided an EBIT guidance, you've tipped up in the past, I think, on net interest as you're doing half your upside is going to come out [oh, pardon me] uplift is going to be coming out of refurb and acquisitions. Could you maybe sort of tell us how much you're expecting an uplift in your net interest there according to this? Sorry, I'm just curious in that EBIT is not going to flow to the bottom line. It's going to get absorbed a little bit more with a step-up in net interest on the back of this investment place.

Kate Beattie

So as I said earlier, we're not expecting that our capital requirements will outpace our free cash generation requirements. So we're not expecting the investment we're going to make in the hotels portfolio will grow net debt.

Craig Woolford

Craig Woolford from MST. Just coming through on the, I guess, the renewals. Firstly, is the 50% uplift that you're looking at from renewals, social acquisitions, is that assuming you only have to do those lagging portfolio of pubs or is part of it about what you do with the moderate and other part of the portfolio?

And is there anything you can give us in terms of what rules of thumb in the industry or your own business users on a renewal? Where does the uplift come from in terms of sales? Does it typically get a 20% uplift in sales? How should we think about that?

Kate Beattie

I think it's a question, it would be good to ask Shaun to address a bit further on because he's going to talk more to the pipeline of renewal opportunity. But I think, I mean to answer your question at a big picture level, the renewal investment will be across the portfolio. It's not just relying on investment and lift in the bottom end. And the returns from renewals, the pipeline of returns from renewals that we think we can generate above the 15% return on average, recognizing, as we've said, and we'll cover it a bit more later, but there's a degree of fleet decade that needs to be caught up as well.

So remember, I said earlier that in our hotels portfolio, the renewals capital, we categorize as both stay in business or both sustaining as well as growth. So in some venues, there'll be a combination of those factors. But on average, we're expecting above 15% returns on the incremental dollar invested in renewals.

Craig Woolford

With that fleet to figure, is at the lagging? Or is that a different measure you're referring to there?

Kate Beattie

For fleet – across the network, we have outperforming pubs that still need material capital invested.

Craig Woolford

And what's the average – refurb cycle, how often should a pump be updated?

Kate Beattie

If you don't mind, we'll get to that when we get to the property section of the day.

Ross Curran

It's Ross Curran from Macquarie. Again, sort of coming back to Shaun's question in a slightly different way. Can you refresh our memory on the Charter Hall owned pubs? Because from memory, there's a big step up in rent in FY '28 comes through that portfolio and whether that rent step up in that book is included in this guidance.

Kate Beattie

Yes. There is a step-up in a portion of our portfolio based on market rent review in 2028, I think worth recognizing that is 5 years away. So exactly what that will look like will depend on the trading circumstances of those specific pubs at that point in time.

I'd also say that some of those are part of what we would regard as good leasehold development opportunities, and we have a very constructive relationship with Charter Hall in relation to thinking about how we're going to partner together to realize some of that upside.

So I think there's still quite a lot of water to pass under the bridge as we move through the next 5-year horizon to that point. The $150 million plus that we've put out is we're not – I guess we're comfortable putting that out on the basis that a market rent review in 2028, the extent it materializes is not expected to be materially detrimental performance of the portfolio.

Ross Curran

Okay. And then I guess as a follow on, how many of the hotels in the network are where you want them to be today? What proportion of absolute perfect this one is humming?

Kate Beattie

I think maybe, again, we've got some good data in the property section that would give you a sense from a property perspective. And I think through the operational section, we'll talk to operational improvements. So maybe again, it's probably maybe – we don't want to avoid the question, but maybe can we target until we've been through the next couple of sections. And if you still feel there's something unanswered at the end, we can come back to it if that's okay.

Analyst

It's a question for Paul. Paul, you talked about a new operating model for the venues now. Can you just give us a sense for what's actually – I mean, everyone is talking about capital, but surely, there's a lot of stuff you can do, which doesn't involve capital. And can I just ask how much of your revenues, for instance, is coming out of kind of events and stuff, which clearly is a big part of running a pub?

Paul Walton

Yes. I think the – that's a difficult question because the events can take many, many different forms. And Jarrod is probably best informed to talk about that. But I think it's probably another question for Jarrod when Jarrod has his session because he'll be able to talk through that. I'm sorry, I'm not trying to hold back on this. I don't want to steal his thunder. I think he is the best person to talk that to.

Analyst

I'd ask it in a different way. How many salespeople do you have inside the pubs business?

Paul Walton

For venues and events, you're talking about? We have a very tight entertainment business that has 3 people in it. And then we have a very small amount of events people, again, it wouldn't be more than 10 across the country because they tend to be crossrolls, either within hotels or within hotel subgroups.

Phillip Kimber

Question – sorry, Phil Kimber from Evans & Partners over here. Just on the food and beverage opportunity. How should we think about that? Is that – do you think your pubs on average are underperforming in a sales sense, in food and beverage, and so it's going to be a sales-led improvement or is it cost and efficiency?

And then we've done some work, and I don't know there's a lot of averages and analysis that – and assumptions being made, but it does look like versus your biggest competitor, your food and beverage margins are quite a bit lower. But how does it work when you're more gaming-focused part, is there a trade-off and you have to accept lower food and beverage margins if you're going to have a big gaming business?

Paul Walton

Probably just start by asking – answering your last question, which was I don't think there's a trade-off. I think they actually support each. If you can do food and beverage well, then it helps because you have more people coming through and you'll have more people that will also do supplementary gaming as well.

In terms of the opportunity in food and beverage, well, I think it's all of the above the moment. We run our hotels very much as individual venues or have traditionally. We've been changing that over the last 18 months. And none of this stuff is completely new, which commenced the journey and we're seeing the traction start to happen. So we will see through cost benefits, and there's all sorts of through aligned buying potential in the future, things like commissary kitchens, shared kitchens — ***indiscernible*** — efficiencies.

We'll be talking through things like rostering to trade. I think we'll see it through improved margins, and that's ensuring that we've got really tight key value items, but then premiumizing our menu so we've got right architecture menus, applying sub-brands. And I'll give you – The HERMS is a really good example, which is Toddy's for example. And we have opportunities for those sub-brands across our venues.

And then I think also just lifting turnover as you get the right offer. So I think across the board, there's opportunities in food and beverage, and it will help our gaming as well. It will help our accommodation. They all work together.

Lisa Deng

It's Lisa. Just a follow-up question on one of the synergies, the key synergies was beer procurement, I think we talked about. So a little bit more color. Is procurement done with retail and pubs together and how much roughly from a value or volume perspective, would the group procurement actually be for the pubs? And on directionally, how much would our pubs be able to procure for relative to — ***indiscernible*** — pub, a single pub from a benefit perspective, like a percentage benefit?

Paul Walton

I feel like I keep deferring – Jarrod would be the perfect person to…

Jarrod Holt

Yes. If I don't answer all your questions, it's [just I've forgotten] . Firstly, we procure separately. I sit on the merchandise leadership team with [Tim Carroll], who is our Managing Director of [Merch]. But importantly, both on and off play different roles, right, in the beer space, right? So we're a bulk beer, and it operates differently in the way that we interact with our suppliers and the way that we interact with our guests.

But a lot of insights can be shared across both, right? We – our guests, share the occasion across retail or hotels and a lot of the insights are born in the hospitality industry and then feed into retail, right? COVID changed that a little bit, but we're normalizing back out of that.

In terms of your question around [mum and dad] businesses versus ours, we're a business at scale with the largest hospitality business in the country. So obviously, that comes with a unique opportunity around our buying power. But we're not going to go into specifics and to be honest, I don't know what [mum and dad] buy for. They might be really, really good at their jobs, right?

So I think importantly, we sell a [kick] per minute of our operating hours, right? We have a good amount of volume within our business. And that gives us an opportunity to put the best value in front of our guests.

Attendee

— indiscernible —

Jarrod Holt

100%, yes. And that competitive nature is something that we monitor and something that we brought into play within our business around 12 months ago around how we're pressure testing against our competitor set.

Lisa Deng

But you procure separately. But for example, is it a joint negotiation between you and Tim with Asahi with Lion, like do you jointly negotiate even though it's procured separately, for example?

Jarrod Holt

So we don't. So I don't know if, Steve?

Steve Donohue

Well, they're very different...

Jarrod Holt

This is my point.

Steve Donohue

— ***indiscernible*** — across multiple channels. Sorry, can you – thank you. When I'm talking to Asahi, I'm obviously talking to the them on behalf of the whole group, similarly, Tim, but when Jarrod is talking to them, he's talking to them about — ***indiscernible*** — So we talk to our suppliers about the partnership that we can generate together to benefit both of us. It's not [a fewer]. We're were bigger, we get more type of exercise. It's what can we bring to the table for you? What can you help us with? And how do we make that work for both of us? And we have a great partnership and actually, I would say our best partnership is with Asahi and that won our supplier the year in the last year, I think it was.

Lisa Deng

Put it another way, let me — ***indiscernible*** — pricing be better than ABC, leveraging the retail that we have .

Steve Donohue

We don't know.

Lisa Deng

We don't know, okay.

Steve Donohue

We don't have facts on the purchase price of any of our competitors, be that in retail or hotels.

Lisa Deng

I got it. Okay, thank you.

Analyst

— ***indiscernible*** — And in theory, and maybe to [Arrow's] points before, I would have thought, particularly when you tie Pinnacle in and you look at your retail business, there's a big opportunity to drive loyalty through your registers, tie purchases in get $2 off if you try the XYZ product, then go and cash this in at downs. Where are you at with that capability? And if I look at it, that's probably one of the big competitive advantages you guys have got being in the portfolio business versus your — ***indiscernible*** — it doesn't feel it's being explored as much as it could be at the moment.

Paul Walton

No. It's a good question, and you're right. Traditionally, we haven't. I think Jarrod is going to share a fantastic example that we've recently done, which has kicked that off in terms of using our joint capabilities. And we're launching Pub Plus, which is our new app, which is really – tools that will help our guests understand the pub, what's on offer, provide them promotions, discounts, et cetera. And the trade is that we, obviously, we will have the data around how they use our pubs.

And then we'll be able to choose how much do we then link that knowledge with BWS with Dan Murphy's, My Dan Murphy's and then start to look at cross opportunities. So we haven't done it traditionally. We have started and we'll really start to accelerate it from March when Pub Plus launches.

Analyst

And maybe just final one for me. Just as you look forward following again from Tom's question is, you look at your gaming share. When you're looking, you've obviously got your 5-year plan, you put out, you now put some great numbers around it. Do you see gaming being higher or lower on the same share of your business revenue?

Paul Walton

I think naturally in terms of share of the business, you naturally say if we're going to – if we think there's an acceleration – an accelerated opportunity in food and beverage, then gaming would naturally reduce. And I think that's where I spoke about a more balanced business. It is a balanced business already, but even a more balanced business.

We still expect a on how to grow gaming market share because of the number of initiatives we've got placed in place in terms of our analytics capabilities and our service capabilities that we're going to continue to develop. But we do expect food and beverage will grow and the accommodation at a faster rate than gaming.

Sean O'Sullivan

Okay. We're going to break for lunch now. There'll be 2 more, at least 2 more question times to come. So plenty of opportunity with some further information being made available to ask a lot more questions later in the day.

Now for the first time in – it's my probably 25th Investor Day amongst different companies, we're actually running early. And so what that means is lunch won't be available until quarter past 12, but we will extend the time available.

So basically, if you come back here at 5 past 1, then we'll kick off then. So lunch – we've got a little bit of spare time to get organized, a set to make phone calls and then lunch will commence in the – sorry, in the stag area at quarter past 12. So the stag area is, again, you go past the bistro into the main area of the bar. And out on to the terrace area, and that's where lunch will be served. So anything else. You can order drinks in the bar if you just show your bracelet, et cetera. And I think that's it, and I'll see you back here at 5 past 1. Okay.

[Break]

Presentation

Sean O'Sullivan

Hi, everyone. Okay. So we're going to commence the afternoon session. We're going –

for the record, we're going to go straight through. So we're not going to have afternoon tea, but afternoon tea and coffee and water remains available back room for anybody who wants one. But we – we've got momentum. So we're just going to keep on forging on. So we have Jarrod and Lukas coming up now, and I'll turn it over to you, Lukas.

Lukas McKay

Thanks, Sean, and welcome back, everybody. I trust you enjoyed your lunch. Just to shout out to Rose, the publican here at the Forest and — ***indiscernible*** — our head chef and Kate, the function Manager and the whole team at the Forest and putting on such a great day today and also putting on an amazing lunch. So if you're around, anyone, thank you.

I also want to apologize on the one who's asking for the aircon to be so low. A number of reasons. Number one, it's hot. Number two, I sweat in the [cold chairs]. Number three, I'm a publican, I'd be entering back on public speaking. And probably the most important reason is I'll be entering public speaking with Jarrod. So hence, we have the aircons on so low.

My name is Lukas McKay, I'm the General Manager of Operations of ALH. In a nutshell, my role is to contribute, to develop and implement our strategy and lead our team of 12,000 amazing people operationally. I love pubs, pubs are dynamic, pubs are fund, pubs are exciting. Yes, they can be challenging, but there's always something happening in a pub.

And that's why I've been in the industry for 23 years. I've been fortunate enough to work for ALH for 19 of those years in all areas of the business from the position, which I'm privileged to hold now all the way back to 2005 when I was standing on the door, you brought to a hotel — ***indiscernible*** — at 3:30 in the morning helping security or checking in a patron in combination at the Melton hotel.

I just love this industry. The people that work in this industry just amaze me. The fact that this industry has a rich history of over 150 years. Results made me stay in this industry for so long and hopefully for many years to come. There's something special about a pub. In my opinion, it's the cornerstone of the Australian culture. Whichever side of the bar you're on, everybody loves the pub. I'll hand over to Jarrod to introduce himself.

Jarrod Holt

Thanks, Lukas. I'm glad we made up some time is intro things to go for a little while. My name is Jarrod Holt. I'm the General Manager of Commercial here at ALH Hotels. My team and I lead the commercial strategies across food procurement, beverages, gaming and entertainment. I've been with ALH for a little over 12 months now, crossing over from our retail side of the business, where I was Head of Beer for Dan Murphy's and BWS for a little over 3 years.

I joined Endeavour after 7-year stint in liquor retailing working both with first — ***indiscernible*** — bottle shops and with the Coles Liquor Group. Prior to this, my first 13 years of my working out of life were all in hospitality. I started as a glassy at the — ***indiscernible*** — Club in Melbourne, some of you might have been there back in the day, working as a glassy first and then a bar tender before working across night clubs around Melbourne, before having the bright idea with my brother to open our own venue when were 21 and 22 years old.

And then went on to run more businesses throughout Melbourne, including a festival business and bars over in London as well. I come from a family of hospitality, my uncle and my brother are in the industry. And my first home, I was actually one our pubs called the Mitcham Hotel, where my dad was the publican.

It's really awesome to be given the opportunity to take you through our operational growth levers, green button, cool. It's a really cool business, this one. If you just take a second to think about it. We're unique in the market with our presence in hospitality and also our retail footprint. We have unrivaled customer transactional and competitive data. We have an incredible team of in-house capabilities such as our advanced analytics, digital and tech teams. All of these give us a unique platform for growth against the market, all are powered by the 12,000 strong hospitality team, full of knowledge and passion for our industry.

Today, Lukas and I will outline a plan to leverage these strengths. We'll focus on sustainable initiatives that boost revenue and margins and effective cost out of the business while enhancing the guest experience. These initiatives account for around $75 million of the 5-year EBIT opportunity Paul highlighted earlier, the less capital intensive than our renewals and acquisitions plan and deliver operational growth from 5 key initiatives.

The first is how we've brought a national approach to the way that we activate for our guests through what we call a trade plan. How we're going to enhance our guest experience through our digital platforms, how we're leveraging analytics to drive data-led decision-making at a pace, how we're applying the new segmentation framework that Paul took you through earlier using benchmarking to unlock F&B opportunities. And finally, Lukas will take you through his road map of sustainable cost improvement.

These initiatives are crucial for our 5-year EBIT goal and often intersect one another adding value to each other. So let's jump into it. The first initiative I'm going to take you through today is the creation of our national trade plan. A trade plan essentially is marketing, operations and commercial, all being aligned, planned and organized in how we put the best offer to our guests. It sounds pretty simple, but let's think it another way.

Historically, we had an individual pub creating offers as they know their community better than any really. We had our state ops teams and state programs running offers over the top to things like our charity drives our food specials. We had centralized teams in beverages, wagering, entertainment, running state offers, national offers, the new specific offers.

We're marketing campaigns, running socials and point of sale for all of this activity. We had our suppliers coming to us with state-based offers, national offers and venue offers. You're starting to see the flavor of what I'm getting to here. This is just a sample.

In isolation, they're all productive. But when laid on top of one another and not in a coordinated approach, we become inefficient for our venues. At times, ineffective for our guests, and we're not actually leveraging our scale to its full potential. A centralized view is just that. It gives us visibility and capability to land each of these offers in a way to complement one another and zero in on how we elevate key big occasions.

Doing this well also enables us to leverage our size and scale, and it enables us to leverage our cross-sell opportunities, partnering across the 1,700 strong network of retail stores, unlocking a critically unique asset to Endeavour. A great example of this, right now, if you go into a Dan Murphy's or BWS, we're partnered with Line and produce 200,000 cases of James Squire. On every carton of beer, there's a $20 voucher. And on every 6 pack, there's a $5 voucher. You simply make your purchase, go online and we'll send you a prepaid cash card that can only be spent in one of our pubs. With a forecast redemption rate between 5% and 10%, we're going to be pushing an incremental 20,000 guests into our pubs beside of Christmas.

Green button. Our next initiative is all around guest experience. It's why we do what we do. It's how we drive more spend more frequently. We've all had that really great hospitality experience. The publican knows your name, she knows your favorite footy team or how's your Friday night favorite drink waiting at the bar before you've even had a chance to say hello. This only happens by knowing our guests and it generally only happens in your local. We want to enable that hospitality and personalized field with every guest interaction we have.

I talked earlier about data being a key strength for Endeavour. This is true. However, historically, for our hotels business, we haven't had a platform to enable us to capture guest data in a way that's engaging, leaving us with a relatively small data set to appropriately segment who our guests are, how they interact with us and more importantly, how we get better for them.

Later this year, we'll be launching Pub Plus, our new app-based digital platform that is poised to set new industry standards with a focus on personalization, communication, member offers and benefits. Pub Plus will give us capability to create a far more sophisticated promotional program, unlocking cross-sell opportunities that I talked to you earlier on. It will reward our guests for repeat visitation with the points program and member-only offers. It positions us at the forefront of leveraging data. It will give us the single richest – the richest single source of guest data in the industry, supporting critical decision-making on revenue management, guest experience and a more seamless approach to our responsibility framework.

With 350 pubs, Pub Plus creates a unified brand presence that connects our network and over time, connects our other brands such as Nightcap and Live At Your Local, changing our ability in how we communicate and how we market. In time, Pub Plus will consolidate all of our in-venue digital touch points, creating a far more seamless experience for our guests.

As a business, we've got significant runs on the board in this space when you think of Dan Murphy's and BWS. My Dan's 2 years ago, brought forward a personalization engine, creating individual and relevant content and product offers for our customers. Engagement is high. It has over 5 million members, driven by member-only offers and all underpinned by enabling the famous Dan's price guarantee.

Pub Plus replicates that principle, but with our hotel's value proposition and unique engagement model. What does the future look like for Pub Plus? Picture yourself booking a 6:00 dinner at your favorite pub. Earlier on that day, we sent you a push notification with an offer on your favorite beer, favorite cocktail or favorite wine. We've essentially created your own personalized happy hour. And in return, we've extended your occasion during that visit with us. It doesn't really get a lot better than that for me.

The next initiative is how we're using analytics to drive data-led decision making. Our first case study is gaming using advanced analytics to optimize our game selection, delivering the right mix of games to our guests. It's critical as a large operator. We balance player needs and experience with player protection. So we're increasingly doing this with a more systematic approach using new capabilities, supporting teams to continue delivering great guest outcomes, but with far more accuracy and with a much faster pace.

Think of this as a really simple category management. I'm going to give you an example, and that example is the cinema industry. To be relevant and optimize its output, a cinema needs a mix of office, think thriller movies, comedies, rom-com, action. It needs different ways to experience such as 3D, Minimax, Independent and Gold Class ***— indiscernible —***

Our consideration set is really very similar in gaming. We're in a mix of – a mix of game types such as door storm or Dragon train when it features themes, different sounds. We need different experiences such as our room layout, our space, our lighting and even a chair type. Both industries equally have a heavy reliance on technology and innovation, but both have a cult following for the classics.

Critically, both are underpinned by atmosphere and service. Over time, analytics helps us crunch all of these factors, giving best offers and experience to our guests. To give you a live example, historically, our gaming team has used manual spreadsheets to crunch over analytics over 12,500 machines. We're currently – with the current case study we have in play at the moment, we've created tools that have helped that team deliver 2.5x the volume of changes to last year while also delivering significantly better outcomes per change.

Discovery is underway for our next use case looking at all things, promotion, price and range for our beverages driver. We'll take learnings from work already underway in our retail space over the past 12 months. With more than 350 pubs, we have 1,100 bars. And in those 1,100 bars, they each offer a different occasion for our guests. Across our draft beer range, we have over 9,000 caps to optimize.

So it's pretty easy to see how data analytics can support our range and price and optimize well into the future. The future of Advanced Analytics is that it's our gateway to one-to-one promotions through Pub Plus. This will take time, but with the core base of clean data and the right algorithms, true personalization can be realized for our guests.

Our next initiative is around our approach to F&B through segmentation, food and beverages. Earlier today, Paul talked you through our new approach to segmentation. We're using segmentation to enable benchmarking a pub's relevant cohort. The benchmarking identifies inconsistent venue performance, looking at things like sales, cost, ASP, margin and even things like Voice of Team and Voice of Customer. It also informs our thinking on refreshing menus, reducing waste and pressure testing our pricing relevance.

When we apply a simple principle, lifting underperforming venues up to their segmentation benchmark in margin, it shows an opportunity of $15 million to $20 million in F&B.

What does this look like? Essentially, we pick a pub like the forest that we're in today. It's segmented as a suburban high affluence. It's performing in indicators such as weekly sales and trade GP against fleet is really strong. But when we benchmark it against its cohort, it's trade GP is actually down 200 basis points in beverages.

Once we get under the hood of it, from there, we realize that it's really running a regional pub cocktail list. Its draft ASP is out of WAP compared to its affluence levels and its product mix isn't right for the local area. Making simple tweaks to improve this across 350 venues has significant value.

A live example, we've recently just launched our new cocktail list. Our old cocktail list had 1,587 different recipes and had 47 different ways to making espresso martini. Lukas can make 46 of those. And he said earlier, he's happy to show you all afterwards how to make them. We cut this list down to 50, carefully selected recipes then further broken down by segment. Our benchmarking allows us to easily identify our pubs that have great cocktail expertise and let them keep doing what they do best.

This leads to better deals and improved margins, quality of ingredients and consistency over the recipe that we do. Quality and consistency echoes better revenue on better margin. We can be more effective with our pricing, but still maintain that value that we want to deliver to our guests.

In food, we're rationalizing our menus. We're rebalancing our menu mix and we're focusing on our ambition to deliver the best pub classics by segment. These deliver almost 50% of our [covers] and our [covers] are over 17 million covers a year.

By focusing our strategic priorities and rebalancing our menus, we've reduced our menu size by 25%. Why is that important? It removes operational complexity. It allows our head chefs to focus on local and authentic and the pub classics that I mentioned earlier. It has supported reducing our pantry list or our list of available items from 50,000 down to 21,000, enabling us to best buy the quality ingredients that we need by segment and enabling our best buys program of work. This reduction has us on track to deliver $3 million by the end of the financial year.

Now over to Lukas, who will probably help you fall asleep after your lunch.

Lukas McKay

Thanks, Jarrod. I probably need to turn the aircon down after that intro. And also, thanks for making that stand all warm and fuzzy. Effectively, you've just told everyone in this room, what to do list is for the next period time. So I appreciate that. As you can all see, respectable sledging is a core part of pubs. Anyway, I'll now take you through all the hard work that the operations team do.

Another crucial aspect of hotels operation performance is the delicate act of managing our operating costs while maintaining our high levels of guest service. Pubs are busy. Our people are busy. There's always so much to do in a pub. Over the years, our systems have organically grown to a point where they're starting to become inefficient. Thankfully, we're now in a position where we can start mapping out a simplified systemic approach to make it user-friendly for our teams.

Between these two key programs of work you see on the slide, we have the capability of unlocking substantial cost improvement in a way that is conducive to the environment of [any Australian].

So how will we do this? endeavourGO looks at the tasks that our venues complete on a daily basis and finds ways to optimize the way in which they're sequenced. Our teams perform a wide variety of work outside of serving our guests like restocking fridges and taking deliveries, resetting furniture, various administrative tasks, et cetera, et cetera. These are the tasks that endeavourGO sees as opportunities to sequence and optimize to make it easier for our teams. We're obviously doing this in a way that does not impact the guest service levels. And I'll go into a bit more of a case study on the next slide to demonstrate this.

All of the opportunities that endeavourGO continues to identify really couldn't happen with our capacity management, which was launched in July of this year. Capacity management is the tool that we're using to bring all of this together and to make sure that everything we're implementing has the right level of impact on operations, whilst ensuring that our team and our guests are always front of mind.

Given the peaks in our trading support tasks that our teams are required to complete, capacity management is all about ensuring that when our guest needs us, we're there for them. By its nature, it's also a great way for us to manage the complexities of the hotels business and it shows that our forward planning and organization is always on point.

Finally, it's always an opportunity for us to look at improving our Voice of Team results. It's been really great to see the success since it was implanted in July, and I'm confident we will see further success in the future.

The One Endeavour transformation is all about synergizing our systems and simplifying our manual processes for our teams. Our business has grown, but it's grown by mergers and acquisitions. Trust me, I've been involved in a lot of acquisitions over the years in New South Wales alone. And I've seen firsthand how some of these systems have been introduced into our operations. In other words, we have a few too many systems in play.

Don't get me wrong, the base systems that we have and the processes that we have in play are great, they're sturdy, but we're now in a position to where we're able to start simplifying them. A great example of this is our food safety digitalization project, which has transformed a manual hand-written food safety diary into a digital system. The manual food safety diary was used to record manual temperature checks, activity in cleaning logs and recording deliveries, twice daily. By digitizing this process, it means our managers and chefs have more time to spend with their guests as we're removing these manual processes.

Annualized, our projection is a reduction of 15,000 hours across the fleet, which gives time back to our chefs to focus on the service they provide to the guests whilst maintaining the highest levels of compliance in this area. This is obviously a significant operational change. And the feedback that we received to date shows that it's been very well received by our teams.

Cost management in our pubs is largely driven by our optimization team, both at a group level and at the hotel level. It's great to see endeavourGO and our hotels team working collaboratively together to be able to map out our path moving forward.

As I mentioned before, endeavourGO looks at the task that our venues complete on a daily basis and find ways to make it easier for our teams and to drive cost improvement.

One of the initiatives that has delivered promising results in F '23 is our benchmarking rostering exercise, which categorizes venues based on the size of their team, trading hours and operational complexities. From the findings of the benchmarking exercise, we've been able to provide venue support tools to manage their forecasting effectively.

One of these tools is roster to trade, which was released to venues in September and have seen great success since its implementation. In a nutshell, roster to trade allows our teams to ensure we've got the right people in the right places at the right time in all of our pubs. Roster to trade allows our operations managers and state manages greater visibility of sales and wages forecasting and a more consistent approach across the board.

Another win from improving our rostering practices has been the reduction in our overtime occurrences, pleasingly saving over $1 million so far this year. Most importantly, we're enhancing our guest experience with the ability to accurately roster based on trade predictions that are quickly to guess demand. This is tracked and monitored through our Voice of Customer program, which excitingly continues to grow positively. Sitting at

Northland, half of hotels at just under 8.7 and a — ***indiscernible*** — to our teams for the focus that they placed on this.

Reduction in labor hours has been a huge opportunity for our optimization team, and they've undertaken a complete review on our stock take and cash management processes. Just through the review on stock takes, we found the number of stock counts, frequency of stock counts and recounts performed more excessive. And by restructuring this process, we've achieved a labor reduction of about 1 to 2 hours per venue per week, depending on the stockholding and the size of the venue obviously. Now 1 to 2 hours might seem small, but it actually equates to about $1.5 million in wages. And ultimately, it's more time that our people get to spend with our guests.

We've also reduced the cost associated with our non-value services within operations. This includes things such as trade waste and cash collection. As I mentioned before, it's all about finding efficiencies for our busy teams.

So looking into the future, labor will continue to be our core focus. We will be using productivity metrics and analytics to streamline and standardize processes across this business with the intention to significantly reduce manual processes, again making it easier for our teams so they can spend more time with their guests.

To achieve this, we'll be taking a close look at our venue admin processes and procedures as well as heightening our focus on our kitchens and optimizing food preparation periods around our service times.

To put things into context, as Jarrod alluded to, we serve about 17 million meals a year. Anything that we can do to systemize our kitchen operations makes it better for our teams and makes it better for our guests. We've got many midsized opportunities, including activity-based roster, which is the final stage of our rostering evolution.

Again, putting it into context, the managers in our busy pubs can do up to 24,000 steps a shift. It's half a marathon. I should do more operational shifts. Activity-based rostering will be able to map this out amongst other metrics to produce the rosters that's conducive to the operational needs of the pub. And eventually, this will all be automated.

Think about it this way, a venue with 150 team members will eventually have an automated roster that is – that has all their peak trading times clearly identified and scheduled appropriately. That's gold for [Republican]. Other midsized opportunities include a thorough review of our third-party security and our non-ticketed venue entertainment.

So to sum it all up, what Jarrod and I have gone through, our pubs are special and our people are amazing. And opportunities we've highlighted focused on driving revenue and improving margins and operational efficiencies in the business to make our pubs even more special and allow our teams to be even more amazing.

Through the case studies that Jarrod and I took you through, we've demonstrated the effectiveness of these approaches. While focusing on guest satisfaction and optimizing internal operations, we will produce long-term gains over the next 5 years and beyond.

Thank you, everybody. I'll hand over to Paul.

Paul Walton

Thanks, Lukas and Jarrod. And I will – I think you'll all be glad to hear that after those two extended introductions, I'll save you the time because I've done it before.

So I think in this presentation, I'll be sharing with you an understanding of the gaming player and the gaming market. I'll be sharing an overview of the evolving regulatory landscape including some of the more recent announcements that you've heard from state governments. And finally, I'll be sharing our deep commitment to responsible gaming and compliance, highlighting a number of our key initiatives.

I'm going to ask – start by asking a slightly revealing question and throw it out there, who plays pokies regularly? Put up your hand. I reckon we're at about 2%. I don't think – and it doesn't surprise, but I think this crowd is representative of the Australian and our population. So 1 in 3 Australians play annually, play the pokies. And I'm guessing the reason why this crowd doesn't is it's a pretty numerical crowd. And $0.92 in the dollar return to player probably doesn't seem the most compelling odds in the world.

I'm going to ask you another question, and this one is going to even be more confronting, I think. Who has a little luxury/vice? I'll continue this one. Raise your hands in a sec, but I'm going to ask you were you paid double or triple, quadruple, I don't even know what 5x is, quintuple, I don't even know if that's the word. But the category entry price, okay? Something like fine wine, spirits, branded clothing, accessories, jewelry, electronics. Mine's bikes, maybe a car. So put up your hand if you've got some of the luxury/vice you paid triple the category price for. I think we've got 80% truth-tellers here and 20% liars, but it's significantly more than a 2% or 3%.

So if you think it from a pokies player's perspective, from suburban Australia, those purchases might even seem less compelling because when they play the pokies, they've actually got a shot at making that money back. So it might be worthwhile just spending a little time to understand the player and a round of view of who they are and why they enjoy gaming.

So – and I think that competitive part, being able to win it back is part of the motivation. They're often competitive, they're confident and they enjoy a challenge. They see the pub is their escape from the every day. And so Gaming is recreation and part of the overall pub experience alongside meals, sports, drinks and live music.

Most players view gaming as an entertaining part of their lives. It also has significant economic benefits, employing nearly 300,000 people across the pubs and clubs industry and generating about $5 billion in state taxes.

Of course, while gaming is social entertainment for the vast majority of players, we recognize that it can be harmful for a small minority. So that's why at ALH we strive to provide responsible gaming in a safe and supportive environment and at the same time, provide a superior entertainment experience. And it's an important distinction to say that we're not looking to find the right balance between the two goals, but to ensure we do the best to achieve both of them at the same time.

I think you'd all understand this one, that the gaming market is large. And across multiple economic cycles and constantly evolving regulation, gaming expenditure growth has been relatively steady and resilient. State treasuries are forecasting continued growth in their budget models. And alongside this growth, they're focused on a range of new policies, trials, regulations to support players and enhance responsibility. This has been the case over the long term.

And with this background of expenditure growth, there are fewer and fewer machines in the market, an outcome of state government policies. There are unlikely to be any net new pokies in the future. These dynamics have increased the attractiveness of existing entitlements and growing their average value in the bigger states.

Now I think while we're here, it's probably worthwhile indulging a little bit of pokies 101. Turnover, player returns and how the proceeds admitted and revenue are shared. Firstly, turnover is the term used to describe both the total of the original funds bet, so if somebody puts on $50, as well as the reinvested winnings. As they win, they may reinvest them. That's turnover.

States regulate the minimum return of this turnover to player, which is at 85% or above and on par or higher than most other forms of gaming. But this is the minimum. And hotels nationally, return to player significantly higher number of around 90% to 92%. And the reason is, is that's arrived at to optimize the player experience.

From this — ***indiscernible*** — revenue, 45% to 65% is paid to the state in taxes with the remaining, which is about 3% to 5% of turnover, representing the hotel sales revenue. Hopefully, that makes sense.

Who can speed read this one. There is a lot on here. And no, it's not necessary to read everything. It's just the essence. You remember a few slides back that we shared the steady expenditure growth over the past 20 years. This has happened in a background of ongoing regulatory change. Almost every year, there's been a change with perhaps the most impactful being around 2007 when the smoking bans happened.

History has shown that ALH has worked closely with governments and regulators on every change and responded effectively both in terms of immediate compliance but also in maintaining the overall player experience. And over this time, ALH has also moved ahead of regulation with a number of initiatives as a commitment to responsible gaming and also with the confidence that we can manage the commercial implications. I'll share some of these initiatives later.

There's been a few recent announcements that I spoke about before and press coverage to propose regulatory changes. And as per the previous slide, this evolution isn't new. Firstly, there's been some confusion between load limits, which are designed to slow the pace of cash feeding, and loss limits, a defined maximum loss over a period of time. The mainland states are focused on load limits, which are primarily targeted at Anti Money Laundering.

Reduced trading hours, load limits and loss limits are population-wide measures. These don't account for individual circumstances and are applied in a uniform way, unnecessarily limiting recreational play for some and still exposing others to risk of harm. Identified play facial recognition technology and voluntary precommitment are more targeted and each provides the capability for ALH to understand and support individual players.

Victoria and New South Wales have both proposed versions of identified play, which are being considered through consultation and/or trials. We are working with both governments. And a part of a working group in Victoria around consultation and have two pubs included in the New South Wales trial. We also have a separate digital wallet trial underway in New South Wales as we do see an eventual consumer preference for digital payments, similar to transport in the Opal card. We're confident that we're well placed to implement any changes and continue to provide a superior playing experience.

And following on from the prior slide, we consider and prioritize measures that maintain the player experience and are most effective at reducing either player harm and/or money laundering. Using evidence-based research, we advocate four key principles.

First, collaboration with all key stakeholders. So that's governments, regulators, the community and industry. Second, solutions that consider the experience of the player. This encourages adoption and therefore, enhances responsibility. Third, identified play, and this is probably the biggest for us. It allows an understanding of playing patterns and creates the opportunity for intervention and support. This is already available voluntarily through the Monty's card and will be in the future in the pub+ app. And then lastly, targeted solutions, which most effectively help those most at need and maintain a sustainable industry. And to maintain the sustainable industry, we've developed Player Protect as our Endeavour business commitment to responsible gaming. I won't go through every component, but I will highlight a few.

And the first is that the ownership and accountability comes from the executive team down and as a key pillar of both our group and our business strategies. We also focus on additional responsibility training for the team. So we've had over 3,500 people completing responsible gaming training, which is over and above what is required and 550-plus completing advanced responsible gaming training as well.

And we also have a strong compliance and assurance program having built a sizable team with three lines of defense. And we have biannual audits from the responsibility Gaming Council of Canada, a world leader in responsibility. Importantly, Player Protect is not a static framework, and we'll evolve it as we learn.

And finally, we have a number of initiatives underway, guided by Player Protect that we believe will be good for our guests and help shape responsible gaming. The first is the Focal ALeRT Bettor system. We're the first Australian company to use this global leading capability that analyzes player patterns and allows our teams to check in and support players. We've trained over 2,000 members, team members in the use of this system.

Next is Voluntary Pre-Commitment, which allows players to set limits on how much time and/or money they spend on machines. And we are the only operator to offer this in all of our mainland machines.

And finally, Self Exclusion is one of the most powerful tools available for players for risk of harm. Facial Recognition Technology supports Self Exclusion by improving the ability to identify patrons on the excluded list. It's mandatory in South Australia. And based on the success that we've seen here, we're taking it further by advocating the governments and trialing it in both Queensland and New South Wales.

I'm honestly proud to say, I think at ALH, we're making progress on the journey to creating both a superior playing experience and a safe and supportive environment. I should have used your advice Jarrod. I didn't press the green button.

That brings us to the end of this section. Hopefully, I've been able to show you, firstly, the role of gaming as recreation and entertainment for a sizable portion of the Australian population. The steady growth of revenue alongside the evolution of regulation. ALH's commitment to responsible gaming delivered through Player Protect and our range of initiatives ahead of regulation aimed at preventing individual harm and how we work with government, the industry and regulators.

Thanks, and gentlemen come up and we'll throw to questions.

Question and Answer

Executive

All right. All right, everybody. So I would – we've got a question now for the Operational and Gaming and Responsibility section we just had. I would encourage anybody who didn't get their questions on these areas answered previously to re-ask it, and there's the opportunity to do exactly that.

I would just say when Paul was in rehearsals and he asked, how many people are going to put their hands up that plays pokies, I said, put it this way, Paul, 50% of people here haven't crossed – never crossed the half of bridge before. Another 50%, I think the West and Southern start at — ***indiscernible*** —

David Errington

David Errington. Look, I really enjoyed the presentation, Lukas and Jarrod. I think it gave us a bit of an idea of, it is half of that 150. My question is you look to be moving more to a state-based more control centralized. That's why I took away from it. It's not stating too much outside the spec that you brought together through acquisitions, a lot of different pubs have been brought in, probably because of gaming. So there's a lot of dysfunctional, if you like, between the hotels, so you need to put it all in together.

And I get the advantages of pulling it together where you get digitalization and you get operating systems. My question though is what's the risk? You've got five segments here, but you've got 350 pubs that are so different that how are you going to be able to get those cost efficiencies out by running a more centralized business model but then you lose the individuality of the pub? The individual managers of the business, how do you incentivize them to be more flexible, to be more energized? Because a pub is an energy, you go there not to get a stale corporatized offer. You go there to be excited, to be energized.

Part of the community where I live, the [Ultimo Hotel is a dug], Absolute dog, whereas the Warradale Hotel, which is privately owned is pumping because it's privately owned. It's part of the community. So how can you get the corporatized balance to get your cost efficiencies to drive the 75, but keep that individuality that excites the customers to get the foot traffic in? I still quite can't get how you can get the best of both worlds.

Paul Walton

Yes. Maybe I can give you the helicopter version, then I'll hand over to Lukas to give you the more informed version. But I think that is the goal of segmentation. And the way that we're rolling out segmentation is going to be very much venue-led. So the tools and capabilities that we'll be setting up are to support their new plans.

So the venues will be setting up venue-level business plans, which we, based on segmentation, to provide the insights and the understanding and peer cohorts, the support will come centrally, but those plans will be created and driven at an operational venue level.

Lukas McKay

No. Thanks, Paul. And I agree. And I also think we can't underestimate the value of our venue managers and our venue teams and how they can individualize each pub to be able to make that community and cultural-centric pub that you're alluding to.

I think what we're talking about is the capability of group being able to provide the support and structure to allow our publicans to be individualized and be really specific in the communities.

Paul Walton

It's the biggest debate we have is how to keep that balance right. Well, that's what we're describing. The way that we do it is by creating the tools and a segmentation framework, which allows us to have a common set of systems to support their plans.

Richard Barwick

Richard from CLSA. Can we talk about collaboration with government. You talk about that as one of your principles. And obviously, it seems like – well, it seems like an obvious one. But in the context of the recent Victorian government announcements, it looked like – well, you are blindsided by that. I don't think so, correct me if you disagree. So when you do talk about collaboration, how do you manage those sort of risks? How – to what extent can you collaborate? It sounds like a nice thing to do, but that – the Victorian situation seems like it didn't work. And then how are you thinking about that in the context of the Queensland election coming up in 2024?

Paul Walton

Yes, I think we absolutely do work really, really closely with government to understand what's happening. Victoria was a surprise, and I think it was a surprise for everybody. And then I think that was probably a rare outcome than the normal outcome.

But certainly, over the last period of time, I know that Steve's met recently with the – I'll throw it to Steve in a sec, but with the Victorian government. We've met a number of times recently with the regulator. And we're now part of the working both in Victoria and we're part of the digital working group in Queensland and a number of other forums as well. And I think we'll continue to work closely.

And I think some of the moves we've made by stepping ahead with things like Focal ALeRT Bettor system has allowed us to work with – become part of those working groups and demonstrates the trials in New South Wales, allow us to work with the government as well on what's happening there. And I think the working group in Victoria is another good example of that. But I'll throw over to Steve around some of that.

Steve Donohue

Yes. Just back to the Victorian example. As much as it was true that it was unexpected by us and the industry, what was the biggest surprise was the market's reaction to it, to be blunt. The substance of the announcement itself was in four parts, three of which we relatively immediately responded to by saying we either already have those things in place or we will accelerate them.

The fourth was the establishment of a working group to explore the possibility of mandatory pre-commitment, which is something that we're open to. But the market's reaction to that was what took us by the most surprise.

So I think there's been some recent notes put out about a potential overreaction that took place. And I think it would be fair to say that I would be aligned with that perspective because of the substance of those announcements, whilst it was real, and they made announcements that impacted the way we operate our business, I don't think that they were at risk of destroying the sort of value that the market thought they were.

Richard Barwick

I got one follow-up here as well. To the extent that you have visibility on your players and what they're spending, do you have a view on what percentage of your gaming revenue comes from problem gamblers?

Paul Walton

We – one of the reasons why we advocate for identified players that will help us do that, and without identified players, it's really difficult to answer that question.

Richard Barwick

That's something you expect to gain over what time frame?

Paul Walton

Well, we already have it available on a voluntary basis through Monty's, but it is a voluntary basis. So that's part of the Victorian carded play trial would include identified play and the New South Wales cashless would include identified play as well.

Steve Donohue

You've got to be conscious of anybody's capacity to define problem gambling in the first instance. So I think that's the first place to start. What I would point you to, though, as Paul has talked about, is the not immaterial investment we've made in working with a third party that has designed algorithms that can show our team that an individual may be at risk of harmful patterns of play and therefore, problem gambling.

And we are enabling our team to intervene with those players and talk to them about the options they have to self-exclude and do that in the most effective manner.

Richard Barwick

You've got that announced today?

Steve Donohue

We do that today. Yes, that's the Focal ALeRT Bettor system that Paul talked about. We're the first in Australia to activate that system. It didn't – it was a not immaterial expense but an appropriate one for us to take leadership on the topic of attempting to identify. And it's very difficult, as I say, you can use patterns of play or they can use patterns of play to help identify players.

And then what takes place thereafter, and Lukas will be better placed to talk to this than me, is a very, I think, thoughtful and careful explanation to the player of their options. And in the event that somebody chooses to self-exclude, we help them to reach that self-exclusion step.

Now it's one of the reasons why facial recognition technology is important because we all change our mind about changing our habits from time to time. So I've decided I'm going to do this and then I changed my mind. And at the moment, it's our responsibility to identify you, if you have self-exclusion, it's very difficult with 12,000 people working in our pubs in different shifts and so on and so forth. So facial recognition technology, we think, is a great solution to enable better player outcomes to people that have excluded.

so don't know if you want to add anything to that, Lukas in terms of the experience that somebody has if they choose to self-exclude?

Lukas McKay

Yes. No, I think when you listen to the actual name the system alert, alert's the real important word; alert, meaning our teams get notified should a person start showing patterns of play that could indicate to probably gambling. What that does is that the team are then notified, they go to that individual in a very discrete way, have a conversation with that individual to see him or her are okay.

From that conversation, and Paul made reference to the over 500 people that have had advanced training in gaming, that's the Alert advanced training. From that conversation, our teams can then direct the individuals, should they feel they need to do it, into self-exclusion schemes and stuff like that, that all the states have in various areas. So that's what alert means, yes.

Paul Walton

Through the facial system and just visual intervention, we had over 4,000 recorded intervention with guests in the last quarter. We think it's a lot higher than that because not everything was recorded, but a minimum of 4,000 interventions that were alerted either by the system or just visually.

Steve Donohue

Noting though that not all of those resulted in somebody self-excluding. It's all – harm is a very individual thing. And we don't mean test our players or understand their personal circumstances other than to offer them the opportunity to step into the self-exclusion space.

Bryan Raymond

Bryan Raymond, JPMorgan. Just again, coming back to the $75 million of operational benefits from an EBIT perspective. I wrote down food and bev was $15 million to $20 million in there. I just want to confirm that's $15 million to $20 million of the $75 million is an opportunity within food and bev, sounds like it is?

Paul Walton

Sorry. Sorry, just to – that's not $15 million to $20 million opportunity in food and bev. That's just in getting it up to the average margin or to the standard margin. There's growth opportunities lifting further. There's all sorts of opportunity, absolutely.

Bryan Raymond

Maybe if I just ask a slightly differently, if – of the $75 million, could you maybe think about – what is the buildup to that across food and bev, gaming cost out with endeavourGo? And then just what sort of – have you factored in for gaming regulation which will – which is known, obviously, the stuff out there, which we don't know yet in terms of how that plays out. But just to build up to the $75 million of – at least roughly, if possible?

Steve Donohue

Look I won't go into direct specifics. What I will say around the $75 million, it's spread fairly evenly across 4 of the initiatives taking our trade plan. And it's not that there's not value in the trade plan, but trade plan is there to help connect and create a better platform for how we deliver the others. So – but it is a fairly even spread across the other 4 initiatives. I think it's also really important to note that we've got a little bit more of a bank sitting there as well, but some opportunities will come to life the way we want them to, others won't, right?

Analyst

Yes. If I can just follow up quickly. Just on one of those being the pub+ app and how that plays with the personalization engine. I thought it was interesting when you said you can sort of prompt people with already got a booking for – to buy a particular beer. And I'd imagine there'll be some supply funding behind some of that hopefully.

But then can you prompt – from an ESG perspective, can you prompt people which have not already entered the pub or indicate? Can you send someone out there for a beer or for gaming who haven't already been gone to the pub and are already in the venue? Or is that an ASG concern? I'm just thinking about opportunities to drive visitation in a responsible way.

Steve Donohue

First of all, I could say from a gaming point of view, no, we wouldn't. That would be an absolute no. And then from a food or beverage point of view, you can as long as it's done in a responsible way. It's the way you do it. we do it. And a physical example is the James Squire example we gave around the $20 to us, suggest somebody to come in, supply it funded come in and effectively have a beer in the pub and use that to try the pub. But gaming would be no, but I can hand over to you more on the F&B side.

Paul Walton

Yes. And I think that example I gave was very much when we're talking about the future state. The most important thing for us at the moment is to get a hold of guest data to understand them better. Then we talked a little bit about segmentation and how we're thinking about our pubs and the architecture of our pubs. This is going to give us another level of our guest data to be able to understand how we interact with them.

I take your point around how do we drive footfall. I think when we talked about that James Squire example in our digital network across our entire ecosystem. That is where we can unlock great opportunity later on. Like if we thought about what I spoke about, it's essentially driving footfall into pubs. But if we fast forward 2 years, and we've got our pub network as well, that's a great asset for 1 of our guests in our pubs to be able to sit there and go, "You know what, I can go and buy my carton at James Squire at Christmas, over in my Dan Murphy's and we're closing that loop.

We're a great ecosystem, right? Everyone comes in and is coming for a different occasion. Our pub has thousands of occasions that people come for and our retail brands have different occasions even in amongst them. Our job is to try and capture that network. And I think we've got a really great footprint to be able to do that.

Ross Curran

It's Ross Curran from Macquarie. So I'm just trying to understand the gaming fleet, the CapEx requirements and the opportunity there. So there's a bit of regulation change going on. There will need to be some investment in those machines to bring them up to standard, if we get a standard across Australia on facial recognition or whatever it is. Can you help us understand how much CapEx is required to bring the fleet up to where you think the regulation is going to? And then once you put new machines in, can you help us understand the performance of a new machine versus the average machine on the fleet.

So are we going to get a better payoff through the machines to help pay for the CapEx.

Steve Donohue

I can probably start by just – we did a huge amount of work through COVID. That gave us the opportunity from a gaming room perspective to reset our rooms, and we prioritize because of COVID, spacing, et cetera. We invested a chunk of our CapEx over that period of time, resetting room. So our gaming rooms from physical room perspective and CapEx are actually a pretty good space. And I think you'll see that in Sean's presentation. And we also recently have done the acceleration in life to get it to where we think is about right, which is around that 6.5 to 7 years age of machine.

In terms of your question around the specific regulatory changes, we don't know yet because we don't know what the changes are. We do know that we're probably best placed because of our capability and our supplier relationships and the scale of the relationships to be able to do that. But we're not sure based on timing, whether it will just happen as part of the normal cycle or whether it will be something we'll have to do ahead of a cycle because if it's done on a normal game replacement or machine replacement cycle, there probably won't be additional CapEx. If it gets accelerated ahead, there might be an element, but we're not at the stage where we know how that will be shared with ourselves and the suppliers.

Ross Curran

And sorry, just – because I'm not a gamer a 6- or 7-year old game sounds pretty old. If I get my kid a said in real Mario Brothers game, he wouldn't be particularly happy. Why is it different to poker machines? Like why isn't it the latest machine drives more traffic than a 7-year old game?

Steve Donohue

No, sorry, I – probably be that was machine. I was referring to there rather than games.

And then within the games, it’s like an intend you can change games within it and roll them over.

Ross Curran

Can you just restate that point…

Paul Walton

Yes. Yes. So machine is obviously the physical machine, right? That obviously needs to be upgraded. So capability can stay up to speed. But the – for example, the analytics work that I was talking about is how we’re optimizing the machine. So think of it as XBox right, not the greatest analogy, but you brought up that. And it’s the games that we’re changing within that Xbox. Every now and again, you’ve got to get a new Xbox right because it’s outdated graphics, sound, all the experience things that I talked to you about before, but it doesn’t mean that you can’t get the latest game within that machine with the same capability.

Steve Donohue

And we’re continually looking at and optimizing those games and now using advanced analytics, but the CapEx then I referred to was new machines.

Ben Gilbert

Great. Ben here from Jarden. Just around cashless gaming. What do you expect the impact based on some of the trials and what you’re seeing offshore because there’s massive ranges around what the impact is? And how does that impact your desirability to invest behind the machines? I think you’ve got the average age channel of 6.6 years now with cashless gaming coming obviously the trials at the moment, it looks like it’s more than likely is it 10% hit, you think it to 30% hit has an impact to decision to invest behind it?

Steve Donohue

It’s again a really difficult question to answer. I think what you can say – if you say go back to basic principles, you say it’s an industry that employs a lot of people, 300,000 people. There’s a lot of small businesses involved in it. History demonstrates that governments have found a way to increase regulatory, increased responsibility and do it better but do it in a way that the player experience stays. And I think we’ll see this on my personal opinion, we’ll see the same in cashless. So the way cashless is being trialed in New South Wales, is being proposed is a hybrid model. So you’ll effectively see the identified play, which enables a digital and also a cash component to it. And it’s been cold cash flow, it’s but it’s hybrid between those 2 things.

And I think the more that we can be on working groups and we can trial, which both governments are doing and allowing, then the more that will player experience will be enhanced, but the harm minimization will also be improved and we’ll see the least impact in that way.

Ben Gilbert

Excellent. I might just ask 1 more, just following up from another question for data. So pub+ sounds great. But one, how are you going to get people to sign up to it? And two, with the name you’re thinking too small because you’re going to have people who might not have an affinity with the pub, we want to go to bistro whatever, how could you then tie that and have the umbrella or how the effect with Dan’s and BWS?

What if you want to partner with the ticketing group to become an entertainment app. It just feels like you’re pigeonholing yourself, I know it’s a name, but you guys have got massive opportunity in theory probably the best in the entertainment space in Australia given your scale, and it feels like you’re limiting your market from the get-go with the name.

Steve Donohue

Yes, yes, yes, thanks. It is pub+, right? And our entertainment is in our pubs. I think I don't – let me have a thing for a second. I don't think we're narrowing our focus on what that app could be, and it is just the app, right? But it is a pub in the palm of your hands, and it can facilitate a lot of different things. So what was the first question, sorry, sorry. I just got caught up on the brand unlike ever really thought about it on that, so I had to think about it.

Ben Gilbert

It's because there are so many loyalty programs, right? Like you look at value.

Steve Donohue

Value, value, sorry.

Ben Gilbert

Value. How do you get members on there because you want to have 5 million, 10 million sort of seems to be the part and play with a loyalty program in Australia. Obviously, have seen my – Dan's at mass view, but are you going to get them on the as you get people willing to sign it got me and you and your pubs, all those sort of stuff that people are using these sort of applications?

Steve Donohue

Yes, yes. So well, starting with menu, I think one of the things I spoke about was the fact that we want to make a more seamless digital experience for our guests. So if we think about menu if we think about our work, we think about the way that we do order at table or book a table, there's multiple different touch points for our guests. So this helps facilitate that over time. But most importantly, this is going to be the place that our guests get the best value.

I spoke about the member-only offers, currently, with our beverages promotional program, it's 1 to all. This will allow us initially to go to 1 to a member, then 1 to a segment and then over time, 1:1. So there's the value there just straight up from the members offers. But equally, there's rewards to spend, right? So we have a points-based program fit within it. And then we have an engagement model that once they download the app, we feel that they'll have a lot of other great benefits why they want to keep engaging with the app.

Paul Walton

Ben, I think just on pub+ to on the name and why did we center around a pub. It's because that's our core proposition in our differentiator. That's what we can really offer and compete against, offer – quite purely the pub offer and the range of offers, whether it be accommodation, food, beverage, gaming, entertainment that's within a pub. And we think there's a real opportunity to that versus competing against Ticketek or someone directly as the immediate opportunity.

Steve Donohue

Yes I think our is really the GM of marketing is really happy that I'm never going to take his job with mine. He is my boss.

Lisa Deng

It's Lisa from Goldman. So we talked a little bit about segmentation, and there was a slide on Page 62 that we were largely square in the middle with that big ball, the big cluster. If we fast forward 3 to 5 years, how do we see it in terms of the spread or the segmentation in the quadrants? And then the follow-up on that is a little bit to Ben's question, personalization becomes increasingly important. So what is the synergy or data sharing that we're able to leverage with the Dan's and the everyday awards on BWS analytics. And then on the front end, how can we cross-sell on those 2 apps potentially?

Steve Donohue

Okay. Maybe I'll answer the first half and you answer the second half, you have to do that.

Paul Walton

Sure.

Steve Donohue

So in terms of how do we perceive the bulk of the – or how the segmentation and where we'll be in 3 to 5 years' time versus where we are now. I think – and you would have seen through the presentation, we have an enormous opportunity in the space to wrap, first of all, for the next 3 to 5 years to extract value by all the initiatives that we've spoken about. So I'd see for that period of time. In doing that, we, I think, have the opportunity to build out capabilities, especially when we move to in a city, for example, we've created a destination, we've created what we call a precinct role, leadership role, which looks after our top 20 hotels. That will start to build us a capability of really building and focusing a transferable toolkit for those premium venues.

We're just in – our Head of Beverages has come from 1 of the leading premium hotel groups in Sydney. You can guess where and our Executive Chef has come from the leading premium group in Queensland in terms of restaurants. And so we're building out that capability. So that – as we go after opportunities in the existing portfolio, we see that within 3 to 4 years, we'll have capabilities that are more transferable to other parts, which allow us to really build out those parts of this segmentation as well.

Lisa Deng

So just to clarify, does that mean the segmentation, whether on 62 or in the middle or the 63 segmentation on innercity destination, none of the segmentation changes, it just lifts in terms of. Okay. So none of the segmentation changes.

Steve Donohue

The segmentation is based on the venues themselves and the way that guests I suppose, experienced the venues. Does that make sense?

Lisa Deng

Yes, it's optimization within the segment itself.

Steve Donohue

That's exactly right. So we've got a larger chunk, as you would have said, seen the numbers. We've got a larger chunk in the middle segment. And we see over time as we build our capabilities and improve our capabilities that we'll be able to step into other segments as well.

Lisa Deng

Yes. So we're not trying to move more hotels into the F&B-led premium quadrant.

Steve Donohue

We see opportunities as per cap slide to get a good return across all of those segments and as we build out our capabilities.

Lisa Deng

Okay. Got it.

Paul Walton

Do you want to take the digital one?

Steve Donohue

On the question on the areas and the interconnection between programs. Yes. Yes. Sorry, I – is this okay? We – it's very early days. So we're just building pub+ and Jarrod gave you an example of a bounce-back offer that happened between retail and hotels at the moment. The first 1 we've done with James Squires. So I suppose you could see a world where there are more connections between customer experiences, but it's important to recognize that there's a different customer experience, whether you're in BWS or Dan's or a pub and the pub+ customer experience needs to be the Forest Hotel. So most patrons of hotels have their local, have their regular. So it wouldn't be normal for many people to even understand the connection between this pub and our next pub down the road. So there's even those opportunities when you're traveling for us to let you know that you can get your pub+ benefit in the pub that you are in here.

So 1 particular point I want to make is that everyday rewards is not our program, we're the beneficiaries of everyday rewards inside BWS, it's the Woolworths program. So that's the limit of that one and it wouldn't be appropriate for everyday was necessarily to be associated with pub+ because we don't speak for them. So maybe 1 day, there's a food offer or something like that, but that would be a conversation for down the track.

Shaun Cousins

Great. Shaun Cousins, UBS. Just curious around how you're thinking about Tasmania in that – while there's a bunch of trials going on in the mainland, there's actually a change that's mandated to occur at the back end of next year. Are you forecasting your gaming – conscious you only have a few pubs there, but are you forecasting your gaming revenue to fall, rise or be in line and noting that the state government seems to have gaming revenue forecast to grow between now and '27? So I'm just curious around what we've got real live regulatory change. What are you thinking is going to happen to your gaming?

Steve Donohue

So with Tasmania, there has been another recent change in Tasmania, which is probably where some of the forecasts have changed the structure in that they had a middle party, which was part of the gaming landscape there, that has recently changed, which is actually for both the government and operators made a different sharing of the gaming revenue in Tasmania. I think moving forward, I don't think because there hasn't been the confirmed system or the confirmed date, so I haven't seen that the forecast for Tasmania change at this stage.

Shaun Cousins

Okay. And then just curious around pub+. What did you get right and maybe what could you have done better with Monty's? Because that seems to possibly not done all the things you could do to sort of been engagement point or have you been happy – totally happy with Monty's and then moreover, how do we then get confidence that pub+ will execute well?

Steve Donohue

I'll have a crack at answering this, but I'm going to answer it by actually saying I've been in the role for 12 months, right? And we've been working on pub+ for a little over 12 months. So our focus is very much on getting that up right. And so Monty's, it's not that we've stepped away from it for our guests, but it hasn't been a core focus.

So what I can talk to you about is the team that's gotten behind pub+ to make it an interactive environment that covers all of our drivers and with the future state to really help us with our Nightcap business and several other opportunities across the business. So I'm not sure of the approach that was taken back then. But this is very much a holistic pub type program that we're trying to deliver and drive.

Paul Walton

Yes. So the simplest way to describe it is that Monty's was largely a points-based reward system because I think pub+ is being designed as an experience enabler across all the different drivers. Did you receive a number of gaming responsibility tools that will also be in pub+ as it rolls out as well, which if you refer to the question before around the cost of future compliance as well, a lot of that is done within the app as it stands.

Johannes Faul

Paul, it's Johannes here from Morningstar. I was trying to connect the 2 CAGR, the growth rates on that Slide 87 where we look at the gaming market. And the forecast that's implied by the budget is the CAGR is greater than what it has been in the past. So firstly, like has that outlook that future CAGR changed since the proposed regulatory changes in Victoria? And secondly, is that higher growth rate perhaps connected to any tax increases? Or is that just driven by underlying EGM spend? Is there just high inflation there?

Paul Walton

Yes. I can only give you a simple answer and just say that we've just taken what's in the government treasury forecast and reflected that we haven't tried to understand why or how. But as I understand it, it's in line with the trajectory that we previously had as well.

Johannes Faul

Yes. Okay. That's interesting because I'm just surprised by the fact that they're implementing regulatory changes, but don't expect their tax revenue to decline rather accelerate, do you have any explanation for that?

Steve Donohue

Well, I think if you look at history, that's what they've been able to achieve in the past. They've been able to change the regulatory environment improve, the – I suppose the effectiveness of harm minimization and been able to achieve a low steady level of growth continually.

Craig Woolford

Yes. Craig from MST. Just maybe a pretty simple question, but $428 million of EBIT for hotels in FY '23. $75 million of cost savings. Am I just adding the $75 million to EBIT over the next 5 years. I can ask the same question in the renewal section, but the other $75 million, but is that how we should look at it?

Steve Donohue

Yes. In effect, we see at the moment, you normally expect to see a level of let's say, market-driven growth to EBITDA over the next 5 years. But with the balance of the way it stands in terms of cost inflation, we're in high cost inflation. And obviously, right at the moment, we've got disposable income being squeezed. What we see is a flatter normal trajectory in terms of base EBIT. So these opportunities are largely effectively above that $430 because between the revenue of market growth, cost inflation and natural fleet decay, all being equal, we'd see a reasonably flat EBIT outcome over the next period of time is our forecast.

Craig Woolford

And maybe it's for Steve on cap. So will this – how will this be disclosed in terms of progress? How will we understand where the growth has come from in terms of earnings and these initiatives?

Steve Donohue

So I think you should – sorry expect us to continue to update the market through the basis of the scorecard. So we'll – now we've put this out there, we'll continually talk to our progress against it. It is elements of the scorecard reflect exactly the aspiration that the team's talked to. So that's how we'll report on. It won't necessarily be a straight line, but we'll keep everybody up today.

Analyst

Sorry, can I just sneak 1 more in following Craig's question. I think, Steve, particularly in your supermarket days, you never want to bank everything you take out. You want to put some back to the customer. How are you thinking about that dynamic in terms of still trying to drive value and not just bank or your savings and pump your margin up?

Steve Donohue

I think Jarrod is best placed to answer that. And you did touch on it before when he talked about the initiative that he has instituted to gather data on competitive pricing in hotels in each of the catchments around our hotels, so as to maintain the gap that we have today, but there are opportunities to expand it. There's also opportunities to be more focused in the investments you make at a 1:1 level through your pub+ platform, which will drive efficiency. But how much cheaper than everyone else do you plan to be, Jarrod?

Jarrod Holt

About the same as where we are now. Look, it's a good question, and I did touch on it earlier on because we spoke a little bit around value in the way that we're measuring value. And about 12 months ago, we started a program of work around how we pressure test against every pub is a local competitor and make sure that we're pressure testing everything that we're doing and keeping that value going. A lot of what we talked about is about how we get better for our guest right, how we get offers more to a segmented level and a more targeted level for what that guest is looking for and that unlocks the value by just not having a dump out of promotions across the market.

But also when we think about our range, value is many different things to many different people. We're not – we don't have a program of work here where we're just looking to put prices up across all of our pubs and go happy days the way we go. What we're trying to show is that we've actually got a really smart way to start to handle our back end, and it probably goes a little bit to what David was asking – I think David was asking earlier on. We're not looking to take away what our venue managers have done well for many, many, many years.

What we're saying is we used to do it in a way that kind of was a little bit from everywhere, and we're trying to get alignment through our business. You only have to think about our tap bank. If you look at our tap bank, we're not – the new managers don't necessarily choose our core range and haven't done for a number of years. But by being smarter in the back end, we don't have to have a whole bunch of mainstream beers on our tap bank.

We're able to work with our suppliers and say, actually, if we use analytics, if we get smarter range, we can actually have the right mix of products for our guests at that time. And then when a guest is coming in and they've got their happy hour, they know the product is there for them that they need. So it's about how we're getting smarter in the background, not taking away from our venues, and it's not just about jacking up price, it's about increasing our quality.

Steve Donohue

I think it's worthwhile to reflecting on what Jarrod went – spoke to around menus as an example, where 50% of our sales are in key value items, and the opportunity there is to increase the quality, but by standardizing, decrease the cost and make a huge cost saving. But the rest of the menu becomes local opportunities for the shift, and that premiumizes and you make a higher margin in that. So you get this combination of great transferable value or visible value, but premium opportunities because it's localized, which is value from a, I suppose, a premiumization perspective as well.

Paul Walton

Sorry. Last thing I'll say, part of our segmentation is to get our pubs all aligned and be thinking about them in their segment. But part of getting them all aligned is then being able to separate them. So we've got a bunch of pubs all in a similar area. It doesn't really make a lot of sense to have the same offer in every single pub because we're not giving a different occasion for our guests to come to different pubs. So they might sit in the same segment, but we actually want to use a tool kit that pull them up in the background to actually make sure we've got varying offers to give, I guess, different occasions and different offers that they're looking for.

Steve Donohue

All right. No more questions in the room? No. All right. So we're going to go straight into the next presentation, which is network opportunities, Kate, Shaun and Matt will be on stage. And then we'll have 1 more Q&A with everybody on who's presented today on stage after that. Okay.

Kate Beattie

All right. So I'm going to introduce this section, and then I'm going to hand to Sean and Matt who have to face and deeper experience on the topics we're going to cover. But as we've referenced throughout the day, in addition to operational optimization, we have multiple property leaders to drive portfolio performance. These include acquisitions and divestments, brownfield renewals and redevelopments. Through this section, we'll cover acquisition and renewal opportunities and returns, and we'll share where we're up to with larger-scale redevelopments, particularly of our freehold portfolio.

And as I said earlier, we have a long runway of attractive property capital deployment opportunities across the hotels portfolio. And we'll start with the topic of overall portfolio optimization. So just to repeat a few key things about the hotels market. The market in Australia is large, and it is very highly fragmented with the top 5 group holdings representing less than 20% of the market. And as I referenced earlier, hotels are very readily tradable businesses, either in combination with the associated freehold property or on a leasehold basis.

For both landlords and operators, hotels provide attractive, stable returns over long lease lives. And hotels are relatively resilient to economic cycles, sitting as they do at the heart of Australia's cultural and social occasions. We will continue to buy hotels that have the opportunity to drive superior returns, leveraging our group assets and capabilities. And equally, we will seek to divest those that don't. Our preference will continue to be to require long lease terms that provide stability in a long time frame over which to generate returns from capital investments. However, on occasion, we may make freehold purchases too, whether it's development upside or other strategic reason to do so.

Here we outline our set of criteria for the determining if a hotel is a good fit for our portfolio. As you'd expect, this is aligned to the ways in which we believe we can add value to the business, including via multiple revenue drivers such as extending into retail and accommodation and through operational optimization to deliver target returns. Acquisitions typically take up to 24 months from purchase to deliver the full return capacity. This is due to the time required to execute any post-acquisition investment such as conversion of the attached retail into a BWS or a refresh of the gaming fleet and to embed technology and operational changes, including bar and food menu changes, implementation of our operational safety and compliance standards and so on. It takes time to understand the guest profile and trading dynamics of a venue and decide what changes should be made that minimize disruption while maximizing guest experience and trading performance.

Acquisitions often have further upside from investments such as refurbishing accommodation rooms and converting to our Nightcap brand. This is considered as part of the acquisition case and is typically upside to the initial 15% ROE hurdle as these can take longer to execute. You can see on this slide, this example outlined for the Rainbow Beach Hotel. We acquired this hotel in February 2023. Since then, we've converted the associated retail liquor stores and improved hotel trading margins, which will deliver the target return and we have further upside to grow the returns by investing in refurbishment of spare space to turn it into accommodation rooms and by expanding the gaming fleet. The returns on capital or investment in this hotel are supported by what is effectively a lifetime lease with an initial term of 15 years plus 5, 10-year options that are exercisable at our discretion.

Here, we share the trajectory of returns from 11 leasehold venues and associated retail that we've acquired since we demerged from Woolworths. As you can see all but 1 of these is on track to deliver the 15% target return on investment based on year to EBIT, noting that 6 of the 11 have traded for less than 12 months under Endeavor ownership and so have not yet had time to demonstrate a full annualized run rate of return following the actions we've taken to uplift performance post acquisition. You'll see we regard 1 venue is underperforming, which in this case, is actually due to circumstances impacting the economy of the location in which we are actively monitoring. Across the sum of these investments, we are delivering 14% ROE currently, remembering, as I said earlier, that this is an EBIT return measure. And on a cash EBITDA basis, the returns are approximately 2% higher.

I'm now going to welcome Shaun up to cover renewals.

Shaun Dunleavy

Okay. Can everyone hear me okay? All right. Thanks, Kate, and good afternoon, everybody. I'm Shaun Dunleavy and I'm the Head of Former Operations. I joined the company just over a year ago, and I lead the renewals program for ALH.

Impression of the company. It's my first time presenting to this group. So I apologize if I refer to my notes, but our CEO sat in the front row, so I need to make sure I cover everything. Being English, it will be no surprise to hear I grew up in and around pubs. One thing that those of you who have been New England will know as English, we love nothing more than a good pub experience.

In fact, my grandfather had me working in the family pub from young age. Luckily for him back then, he didn't have to worry about things like responsible service of alcohol, training, award rates, any of the stuff actually that Lukas has to worry about paying us GBP 2 an hour. He is paying us GBP 2 an hour would no doubt have helped him with –

well, he didn't use the word EBIT, but needless to say, he must have done well because at this time of the year, the Christmas tree was always fully stopped.

As many do, I went on then to work in pubs during my university days before moving to Australia in 2004. First stop upon arrival in Australia, yes. A mate's pub for some casual work whilst looking for my next career or task back then with everything from changing kegs to running food, working behind the bar and collecting glasses. For the last 20 years in Australia, I've been completing corporate rollouts for a number of large organizations, including delivering the renewals program for Spirit Hotels, now known as ABC. For the last 14 years, I've been combining work with my passion for pubs, completing hundreds of hospitality projects.

So it's been a long day. It sounds as though afternoon tea might have been canceled. I'm aware that it's now just Matt and myself that stand between you guys and a nice glass of Pinnacles. I think we've got Riddoch's cab sauv, the award-winning Riddoch's cab sauv today. So with that in mind, I'll keep my presentation to the point, and you'll, of course, get the opportunity to ask questions at the end.

Walking through the Forest at lunchtime, it reminded me the importance – the important part, renewals play in improving guest experience. The Forest is a multifaceted pub, has all the key elements we look for in a license venue. This renewal was successful in creating distinct zones for different occasions. We have the sports bar where Lukas, Jarrod and myself will be having a beer after work. We have the bistro perfect for the midweek date night and the beer garden, where I will meet with friends and family at the weekend or a Sunday afternoon grazing session, whilst the kids are having fun in the play area.

It also has the function center where we sat here today, ideal for business events as well as milestone occasions. And to round things off, Dan Murphy's just next door to stock up on drink for at home. Just like Paul, the green button failed me. So there's a little flash up. And I think everyone has been through the Forest today at some point, but a couple of shots there from the – before the renewal.

Okay. So if improving guest experience is 1 reason we complete renewals, let's talk through a few more. We have pubs that were designed decades ago, built decades ago in a different time for a different style of operation. Pubs designed for the 6:00 swell that could handle 60 at the bar whereas in today's world, our guests are behaving differently. Their expectations of what they want from their pub experience have definitely changed.

We also complete projects addressing changes in local demographics and competitive set. And of course, we complete projects to deliver strong capital returns and growth. You saw the before photos of the Forest prior to its renewal, and the pub clearly hadn't been touched in a long time. When we look at the age of our portfolio, we don't only take a whole of venue view but we also drilled into the numbers of years since last touch by driver, be that food, bars, accommodation, gaming.

We'll roll out projects strategically at the right level to rightsize the investment in our hotels. Age of fleet is 1 of the key data points we use in reviewing the renewals program at portfolio level. What's clear from the data is that we have a large pipeline of projects to select from for the next 5 years. And with that comes a clear opportunity for growth. As you'd expect, we'll continue to assess the program as we progress. We have a mixture of small, medium and large pubs. Some are simple operations, 1 or 2 drivers, whereas others are larger multifaceted, multi-driver venues. Our projects have a mix of complexity and size and we split them into 3 categories. We have small refurbs, where we touch 1 or 2 of the pubs drivers, spending lower amounts of capital, quicker speed to market, these projects are less complex, quicker to scope, document, build and launch.

Repositioning projects are exactly that. We invest at a high level to truly reposition the pub within the market. It sits, targeting new and a wider group of customers. These projects take longer often triggering development and liquor licensing approvals. They come with a higher level of investment, bringing to life the asset's potential for the next stage of its life cycle. Accommodation projects really had a great opportunity for us.

They are easier to roll out, given we have a clear brand standard, they are lower cost and quick to execute. Learning from the past, previous projects demonstrate taking unbranded rooms, upgrading them whilst applying the Nightcap brand results in both increased occupancy and room rate. We also have the benefit of being able to reopen previously unused rooms to further increase returns. A little bit more on that later. We'll deliver a balanced program that consists of a mixture of all 3 of these types of projects.

Now I'll take you through a snapshot of a few recent examples for each of those categories, the investment and the returns. I'm going to stick to the numbers. We'll show you more of the end results these projects later. Redbank Plains is an example of Refurb project, addressing 2 drivers of the hotel. This is a suburban pub in Brisbane's West and the project unlocks spatial planning opportunities by relocating a sports bar and a gaming room. We invested $1.6 million, launching the project in May 2023. Project is performing above hurdle rate and showing a 19.5% return on investment.

Sunnybank Hotel is a recent example of a repositioning project. We invested $3.1 million, which included all drivers of the pub. The project was launched in July 2021 is trading well, delivering a return on investment of 33.2% and receiving positive feedback from our guests. Hotel Victor in South Australia had its renewal completed in November 2022. We took the opportunity to bring the rooms up to the Nightcap standards, investing $900,000 across 32 rooms. The projects resulted in improved guest reviews, higher occupancy and room rates and is delivering a return on investment of 26.9%.

Now a little bit more detail on that broader accommodation opportunity. Kate touched on Nightcap, and we operate 1,700-plus Nightcap branded rooms. We're the fifth largest accommodation operator in the country. We also operate 873 currently unbranded rooms, which are yet to benefit from all the advantages of the Nightcap brand. We have more than 350 rooms that are currently not trading. And in addition to this, we have a pipeline of greenfield sites identified with demand for new accommodation. Okay. A few minutes break from hearing my voice. Well, about 3.5 minutes to be exact while we share with you a short video of highlighting some of our past and better still future projects. A little more detail around how we approach and bring these projects to life.

[Presentation]

Shaun Dunleavy

Looking at some of the future projects in the video, you can see our recipe for renewals is starting to take shape. Recipe renewals, not my tagline, but pretty easy to spot marketing fingerprint showing up in the renewals program. We start by understanding where our Pub sits within its local market. The competitive set as well as through our current and potential guests. With a guest-focused approach, we tap into data to understand our Pub's local demographic, what it looks like in terms of age, affluence, ethnicity; people's life stage, be that couple, singles, without kids, empty nesters, young families. We review our Pub's individual brands, what they represent and how they market.

We understand our competitive set. We look at the format of the hotel, spatial planning, look and feel, the service models. We seek operational efficiencies in bar, kitchen, back of house design. We put a plan in place around our food, offer wineless, beer tap, product mix, cocktails range, point-of-sale messaging and the service levels we deliver, all the aim of providing a clear and targeted offer for our guests. To call out a couple of examples. The Elsternwick Hotel, we thought about spatial planning and operational efficiencies. By moving the sports bar, we unlocked the opportunity to reduce the distance our team had to travel to deliver meals, as well as being able to create a central service core bars reducing the number of labor points around the hotel.

Our team will be able to spend less time counting steps and more time with guests. Another example is how we're repurposing an oversized loading dock to make way for a new outdoor beer garden creating a new sales driver for the pub and dialing up the appeal of the Wick. At the Manly hotel, we've worked with marketing from the project inception. Now I'm not going to take you through the whole strategy, but having considered the local competitive set of bars and restaurants, the brand voice is steered towards positioning us as being the local pub, anchoring the project around being humble, comfortable and a second home for locals.

So we're ramping up. But we're going to take a disciplined approach. We selected a team that forms part group capability. It includes myself as Head of Format and a team of experienced client side, hospitality project managers.

We'll be working in ways that are both collaborative and repeatable. And we'll continue our process of post-implementation review, ensuring that we continue to monitor and learn from previous projects once they go live. Simplified, it's about joining our renewals program up with operations, food, commercial and marketing teams with the intent to create a timeless appeal and a welcoming atmosphere. We've talked today about a few topics. Why we do projects, the opportunities we have, the types of projects we complete, our past track record of returns, our strategy moving forward and how we plan to execute it. Ask anyone in our business, no 2 pubs are the same. Literally, literally hundreds of hubs around the country. Each with their own unique history, identity, brand, design, look and feel, demographics, financials, competitors and guests. Each pub has its own story.

But what is the same? What is the same as the way we read and understand each one of those stories, how we apply our business strategy and structured formula to fully understand the opportunity and what it is for the pub to be part of the fabric of its community right in the next chapter of each pub's story and creating pub experiences locals love. Now finally, I'm going to hand you over to Matt. I'll be here for the Q&A and I'll be more than happy to answer any other questions you might have over that glass of — ***indiscernible*** — we mentioned earlier and that we're now one step closer to. Thank you.

Matt Toohey

Thank you. Good afternoon, everyone can you hear me well? Yes, I am the last thing standing between you and that — ***indiscernible*** — So we'll get straight into it. Thanks, Shaun. Good afternoon, everyone. My name is Matt Toohey, I'm the Director of Property at Endeavour. My team is responsible for the rollout of new stores, property management, facilities management, property development across all the business units including Retail, Hotels and Pinnacle. I started at Endeavour in July this year. I've been in commercial property industry now for 30 years and prior to Endeavour, I was the Director of Property at Coca-Cola Europacific for 6 years and was responsible for property development and management across 6 countries.

Prior to Coca-Cola, I was at Wesfarmers for 13 years and was General Manager of Property at Bunnings for over a decade. I also have had M&A responsibilities in previous roles. Our hotel portfolio is made up of both owned and leased sites. We have 54 owned sites and 300 leased sites across Australia. And as you can see from the numbers on the screen, we have a strong presence on the East Coast and in particular Queensland, where we have 137 operating hotels. As Kate mentioned, these hotels have high value and very tradable. The net book value of our hotel freehold portfolio is $535 million. And of those 54 sites, we've identified 10 that we believe are underutilized and have high development potential. In addition to the review we've undertaken on our own sites, we've also undertaken a similar review on our lease sites.

And to that end, we've engaged with the senior leadership team at both Charter Hall and the — ***indiscernible*** — family, who are our 2 largest landlords, and we believe there are many more development opportunities we can explore together as landlord and tenant. As part of our review to identify those high potential sites, we've had regards to a number of factors. Firstly, we've considered the town planning controls. The underlying land zoning, floor space ratios, height controls, setbacks, et cetera. We also had regard to the existing improvements of the site, their age, condition, written down value and any operational impact the development may have. We will consider CapEx required in each case, and this can be done by engaging early with quantity surveyors and/or contract builders. And we will test the development feasibilities by engaging with external valuers where needed.

As part of the review of the development opportunities, we've obtained detailed town planning advice from external planners to help us understand what the planning rules allow for on each site. The list on your screen highlights the 10 sites we've identified as high potentials. And we believe there are many more to come in the medium category range as well, which we're going to review next year. The last column you can see on the screen provides commentary around the potential in each case. I won't go through all 10 today, but we believe the development of these sites will take place over a 5- to 10-year horizon. Some are major and complex in nature and others are more straightforward, and I'm going to highlight a few for you now.

This is our Chelsea Heights site in Melbourne, which we own. We currently have a trading hotel and a Dan Murphy's and a vacant ex hardware store on the site. When we looked at what other uses we could co-locate with, we conducted some research into the planning controls and determined that a supermarket would be a good complementary use. Following that review, we launched an application with the local council, and we now have development approval for a full-line supermarket with 7 specialty stores.

We've also now received an offer to acquire that parcel of land from a national supermarket chain and in the process of subdividing that part of the site and intend to sell that land and realize a significant development profit. By pursuing the development approval for the supermarket, we've not only increased the land value, but we've also get the benefit from the additional foot traffic and the cross-shopping that the supermarket will produce for both our hotel and our Dan Murphy's.

This is our Camberwell site located in the affluent area of Melbourne's Eastern suburbs. The site is 5,200 square meters and is in the heart of the main retail precinct of Camberwell and directly adjacent to the Camberwell Plaza shopping center. The site is owned activity center and allows mixed-use retail, office and residential. And any redevelopment of the site can take advantage of a 12-story height control.

We currently occupy the site with a single-level Dan Murphy's store underutilized, and the store has been open for 20 years and is in need of refurbishment. While this site is not an operating hotel site, we believe there may be potential for us to have a new Dan Murphy's and a new pub in any redevelopment. We've received town planning advice and also had a pre-VA meeting with the local council who are very supportive of our concept in principle, which you're about to see. The designs are about to see are not approved by any authority and a conceptual only but are an indication of what the planning laws allow for.

As you can see by the massing diagrams in this slide, the potential has – the site has potential for a large mixed-use development, taking advantage of the height controls and may allow up to 200 apartments to be built on the site with ground floor and podium level retail, which will accommodate a Dan Murphy's and potentially a new pub.

This is the Morrison Hotel, which we also own located at Woolloongabba in Brisbane. It is 3 kilometers south of the Brisbane CBD and 600 meters from the Gabba stadium which will be knocked down and rebuilt on the same site for the 2032 Brisbane Olympics at a cost of $2.7 billion according to the state government's website. The rebuild of the Gabba will start in 2025 and is expected to take up to 4 years to complete. Now we've completed a demand study, which shows there is a lack of short-term accommodation in this area. So we think this is a great opportunity for us to develop an accommodation offer for our Nightcap business as we will be one of the closest accommodation offers to the new stadium. Now why is this exciting?

Well, if we can move quickly on this development, have this approved and built with the next few years, we'll be able to provide accommodation to the thousands and thousands of construction workers who will be working on the new stadium. We'll also be well placed to service patrons attending concerts, sporting events, et cetera. The Mater Hospital and Queensland Children's Hospital are both within 500 meters of this site. And there's 3 universities within 2 kilometers of this site.

Finally, this is our Doncaster site in Melbourne, which we also own. For those of you who know Doncaster, this side is on Williamsons Road, directly opposite Westfield shopping center. It's 2.3 hectares of land. For those of you who don't understand that scale, that's about the size of an average Bunnings warehouse site area. It's massive.

We have a 40-year old pub on this site and a BWS at the front. This site is prime for redevelopment. We think this is a large-scale development opportunity. I'm going to play you a video in a minute that showcases what this site's potential is. I want to caveat the video by saying what you're about to see does not yet have planning approval from the relevant authorities. But again, is based on expert town planning and legal advice as to what is allowable under the current planning laws. We have met with the local counsel and had a pre-DA meeting, which was very positive.

I also want to point out that it is not our intention to become a residential developer. We are in the liquor and hotel industry. Having said that, we believe we own some fantastic real estate that is currently being underutilized. And where there's an opportunity to adding value to a site, we intend to do so.

Generally speaking, the value of land increases when the planning approval risk is removed. We are very excited about these projects and the opportunities they provide to allow our brands to go back into any redevelopment but to also add value on the way through. We've only just started on this journey. So there will be more to come as we move through the next stage. I'll now play the video.

[Presentation]

Matt Toohey

Thank you. And I think we'll go to Q&A now.

Sean O'Sullivan

We're going to ask everybody to – all the speakers that have presented today to get back on stage. Okay, we'll go for just the network opportunities. First, with Kate, Shaun and Matt on stage. Okay. First question.

Phillip Kimber

It's Phil Kimber here. Just wanted to ask a question in the target by FY '28 of earnings. Are there any – is there any contribution from the major refurbishments that you just showed us and expected in that number. So are we getting some of the benefit of those major refurbishments in your target?

Shaun Dunleavy

Yes, absolutely. I mean it was called out in the slides previously, that the time to value for some of the larger projects can be between 12 and 36 months. However, not only do we have some of the projects that we're just starting now mature within that time period, we will also have projects that are in construction now, launching now come through that period as well. So yes.

Phillip Kimber

So even including some of these potential residential developments, I guess. More focused on them than necessarily just the pub.

Shaun Dunleavy

Sorry, just to be clear, I'm talking about the renewals, pubs or refurbs and repositioning, redevelopments — ***indiscernible*** — as it were.

Kate Beattie

Yes. And the answer is no. We're not counting on the returns from the large recovery developments as part of that target.

Phillip Kimber

And just conceptually, how would you benefit from that? Is it a case of getting the DA approval and then selling the land? Or is it joint venturing with the developer and sharing in part of the profits, just as a rough guide?

Kate Beattie

Look, I think we haven't yet worked out exactly how we're going to go about it yet. So yes, at minimum, the benefit will be from the increased value of the land that we did on sales to a developer, but we're exploring at the moment, what kind of structural options and including potential pooling options. So do we put more than one asset with a single developer and have some kind of joint venture or other arrangements, the sort of thing we're looking into actively that haven't yet made any decision on yet.

Ben Gilbert

Ben here from Jarden. So it's a question for Shaun. You sort of come from the other team or the big competitor a year ago, and you must have been looking at Endeavour's portfolio and in real terms, it's being backwards for hotels over the last sort of 5, 6, 7 years on a CAGR basis, sort of probably growing 1%, 1.5%. When you looked in as a competitor, what was the biggest impediment? Do you think it was capital and not spending enough on refurbs and what are you doing differently now you're coming in to get more out of the refurbs that might have been got out of it in the past.

Shaun Dunleavy

Sorry, can we get that projector to change the slide as it is right in my eye line. Sorry. Thanks for the question. And just to clear up my CV a little. I was with Spirit Hotels between 2010 and 2016. So part of the business turnaround there before it was sold to ABC. I was there with Mario Volpe and a few others. Now we obviously is – back then, the second biggest operator of pubs in the country, kept a keen eye on ALH. And it was absolutely our observation back then that we were of the view that they were under investing or certainly, they were investing at a lower rate than what we were at Spirit Hotels. And the renewals program at Spirit Hotels was one of the growth engines around that business turnaround prior to itself. Sorry, the last part of your question?

Ben Gilbert

And I suppose, just in terms of what you brought in to do differently in terms of the approach to refurbs. Is there a more disciplined approach around the capital? Are you putting it into different areas? Are you spending less? What are you doing differently to actually drive some better returns and uplifts that give you confidence in the $75 million over the next few years?

Shaun Dunleavy

Yes, good question. I can't really talk about the approach to renewals previously. Obviously, I wasn't in the room, but certainly, how we're going to approach it moving forward.

There is that disciplined structured approach. It is data lead and it's formulaic and its nature. But really, it's that cross divisional piece. It's not just building and opening the doors. It's really understanding our customer, really understanding our competitive set and where the unlock comes out of that. And it's about linking in with the operations team, the commercial team, the marketing team, food teams and really it's pulling all those levers at the same time. That's how you're able to really turn up that return on investment. And if you go back in the history books and look at Spirit Hotels and results in their renewals during that period, that's how you turn it up and look at.

Lisa Deng

It's Lisa from Goldman. Just two questions, one for Shaun. On the renewal target ROI of I think it was 17% on a combined basis. The key competitor has been pretty uniformly delivered around 30% that they talk to. Is there any reason why we can't aim higher, like a structural difference? And I've got a follow-up for Matt, but we'll – let's talk that one.

Shaun Dunleavy

So just to clarify, I think the 17% you're referring to was our historic run rate. And is there any reason why we can't target more than 15%. Well, we are targeting more than 15%, 15% is the hurdle rate. And I think I know the competitor you're talking about, and I think I know the number. The main reason behind that is a different calculation. And Kate, you might want to maybe build on the differences between those calculations.

Kate Beattie

I think it's pretty important to understand again that ours is an EBIT hurdle rate and an EBIT – and we measure the returns on an EBIT rate, which is not normal, actually. Most others would look at it on an EBITDA basis, cash return versus P&L return. And so our numbers will always look anything from 2% to 4% lower on net basis than the cash return that we're delivering. But Shaun's point on the – I think it was the 17% number is right. I think that was referenced in the slide is the return delivered on his – on renewals done since F ’19 to date, recognizing that’s been relatively hard for us to measure because of the disruption that the hotels business underwent through that period. But we’ve done a pretty rigorous process of comparing like-for-like hotels that have experienced the same level of disruption and looked at the uplift we’ve got from the renewal program through that time.

Lisa Deng

While we’re on definition, that EBIT number, is that pre AASB 16?

Kate Beattie

Yes.

Lisa Deng

Okay. So that’s post all the leases and stuff.

Kate Beattie

So we don’t take the lease asset into the calculation when we – so it’s pre-AASB 16. So it’s EBIT cash, EBIT AASB 16.

Lisa Deng

Got it. And then one follow-up for Matt is out of the 10 that we outlined, how much of it is on the books, like what’s the book value right now, but then also more qualitatively around resourcing, you’ve come in, in July 23, apart from yourself have – and just outside of CapEx alone, what about your team? Have there been processes changed, so you have better access to decision makers? Is it faster? Have they built a team around you? Can you talk us through that to get it done?

Matt Toohey

Yes, the net book value was $535 million. That’s just for the hotel portfolio.

Lisa Deng

But not the 10? What about the 10?

Matt Toohey

We haven't done those numbers yet, but we can certainly come back to you on that. But to answer your second part of the question. Yes, I'm resourcing for the team at the moment. So we've employed a few more property managers in the team recently, but we're also going to be employing some senior development managers to assist with the work that's ahead of us in the years to come.

Lisa Deng

So you've already got that all approved, you're just in the market.

Matt Toohey

Yes. Absolutely. I mean in the market right now.

Richard Barwick

Okay. You've got Richard from CLSA. I really like that Slide 55, you broke down – you got the WA returns in the rest of Australia than the total. Based on that, the returns on WA are superior at 27%. So yes, my guess my question is, when is the last time you bought a pub in WA? What are the plans for acquisitions going forward? Because if they are the return metrics, shouldn't you be focusing your investments in that market?

Kate Beattie

I think we haven't bought a pub in WA.

Steve Donohue

Two years ago.

Kate Beattie

In the recent 18 months. We bought one 2 years ago. Steve will remind me which one it was.

Steve Donohue

Two Rocks.

Kate Beattie

Two Rocks. I think maybe the bigger picture way of answering the questions. As I said before, we do see a path to acquiring good diverse mix of driver hotels, and we will continue to opportunistically do so when we can get the right type of portfolio at the right type of price. In some states, clearly, prices have been too elevated to make that viable. So we will simply continue to look and watch. We're not prioritizing that over unlocking the rich pipeline of renewal opportunity that we have. This is brownfield investment that Shaun's spoken about.

And Shaun shared some good numbers about how much returns we can deliver on. Actually, what are in relative terms really small mix of capital, but almost deliver immediately kind of got a 2- to 3-year horizon. You've literally got your cash back. So we will be prioritizing supporting Shaun to activate that pipeline as fast as we can go while also continuing to keep an eye on how would we add to the portfolio.

Richard Barwick

And just a really quick clarification. The extra – the 150 target over the next 5 years. So there's no redevelopment profits in there. So that 150 is what you'd see as a new sustainable base of earnings going forward?

Kate Beattie

That's right. And I guess we would be very cautious about the redevelopment profits because clearly, they're went off shore with — ***indiscernible*** — So we wouldn't try and bake them into any go-forward earnings forecast. We'll enjoy them when we get them, but they'll be one-off. But we should get out of the redevelopments, though. Our goal as per the plans that Matt showed is to put back into the site a better asset than we had as we exited it. So we should get a better performing site at the back end following what will inevitably a fairly long period of disruption. So we're not baking into the 5-year projection either. The return on the sale of the freehold, for example, or the uplift in performance will get out the back of the redevelopment.

David Errington

Okay. Shaun, Matt. I'm David from Bank of America. I'm trying to get the conceptual – the question I'm trying to get to is the latent value that's within the hotels business. I think that's the whole – probably the purpose for today is how valuable is your hotels business. And obviously, we've heard the first part with earnings with the $150 million. And then the first part of that is the $75 million and this part is the actual development of the fleet, if you like. Can you give us a bit of a rundown? It's a bit of a multifaceted question, but you've said we've highlighted 10 – you guys have highlighted 10 stores out of 54, which look pretty exciting in terms of opportunities.

Can you give us a bit of an understanding though, what about the other 44? What sort of plans have you got for those? And then of the 300, the question I'm really interested in is, you've highlighted refurbs, repositioning and accommodation. What sort of opportunities are there within that 300 in terms of how many are there that you could actually really get your teeth into? And I suppose, what sort of discussions that you're having with your landlords? Are they as excited as what you might be because the 10 that Matt put out there looks pretty exciting. And what Shaun says is pretty exciting. I mean I'm trying to now conceptualize what's the actual value here that could be within this business outside of the 150. It's – what is this business really worth? I didn't ask that very well, but I'm hopeful that you know where I'm going with that.

Kate Beattie

Certainly understand where you're going, and it's a complex question to answer, of course, because you're talking about return hurdles and time frames. I think – I mean, I hope that what I'm hearing in the question is that you've appreciated the level of opportunity – the latent opportunity we see in the portfolio.

David Errington

I am and that's what I'm trying. I'm trying to materialize. I'm trying to actually or quantify it, if you like, what that opportunity is? We've got the 75, but I'm trying to quantify what is the real prize of your hotel asset?

Kate Beattie

Yes, understand. I think I can't answer that in a simple statement. I think we've put the 150 out there because clearly.

Shaun Dunleavy

Well, let's break it down. You've got 10 of 54. What's the other 44? And in the 300, how much is in the refurb bucket? How much is in the repositioning bucket? How much in the accommodation bucket? And how much is in the bean bucket that you just throw out?

Kate Beattie

So maybe I'll take this. The first part of that question out of the 150 equation because as we said, the opportunities Matt spoke to aren't included in the 150 uplift by 2025. I'll take at a summary level the question and I'll ask Shaun to comment further. But I think the summary statement on our pathway for the next 5 years is that we are still reviewing all of the opportunities in the renewal pipeline, and therefore, we aren't in a position now to say, here's how we racket all down and here's how it all adds up. We're still doing all the feasibility work. We still have DAs to get. We still have to do value engineering of designs.

We've got a lot of work to do. But the more we look at it and the more we size the work, the more we get returns from the work that we have done, the more confidence we have in the value of that pipeline. Hence, why we're standing in front of you saying, we're really confident there's some real value, Mark, here. But Shaun, do you want to comment on that further?

Shaun Dunleavy

No, I think you've covered it well, Kate, other than to say the exact number of repositionings versus refurbishments versus accommodation projects, we don't have that exact number right now. But I can point you to the data around age of fleet to give you a sense of the size of the prize. I think you said your local was the...

David Errington

It's an absolute — ***indiscernible*** —

Shaun Dunleavy

Okay. So you'll be able to see where you'd be able to guess the last time that was invested in and you'll be able to see where the — ***indiscernible*** — sits within that. And that will give you a sense of the broader portfolio and the size of the prize that sits beyond it.

David Errington

And the landlords?

Matt Toohey

I can turn that one. Yes, David, as I mentioned, we're having regular monthly meetings with both Charter Hall and the Charter Hall — ***indiscernible*** — family. In fact, Shaun and I had met with Arthur and the whole family last week for their regular portfolio review. So we are going through literally every property in the portfolio and looking at how we can both benefit together by either going back in with a new pub, a new Dan Murphy's, whatever. And we're basically going through the same exercise that I've just gone through with those top 10. So I'll have more to say on that shortly as we work through that portfolio. But it's very active.

Kate Beattie

Maybe just to add to Matt's statement, I guess, Matt's given you a flavor for what we believe we can do with the redevelopment of our freehold properties. It's safe to say there are properties within our leasehold portfolio that have similar sorts of opportunity. It's certainly not all of them but there are some there. And they are jewels that, of course, the landlord is interested in unlocking, as we are. And so we're seeking to engage with our landlords on that basis, to say. If it's just in our hands on a triple net lease, we may not have the ambition around the level of capital that might be required to get the highest and best use of the site. So let's work together on what might that look like to get a better return for both of us.

Shaun Cousins

It's Shaun Cousins from UBS. Just a question on divestments. I'm just sort of curious and we touched on this a little bit before but I'm just – what attributes do you need to see out of a pub or a hotel to sell it? Why did you exit The Victory? Maybe as an example, would you sell EGMs? And I guess we're really keen to see all the exciting things around investments. But I think the investor feedback that we've been getting is there's also a desire to see action on actually exiting some and recycling the capital that you have rather than just talking about adding to it but actually starting to recycle it, please?

Kate Beattie

Yes, absolutely. And thanks for the question, Shaun. We – I know I have spoken about the topic of divestments a number of times today. There will definitely be hotels in our portfolio for which we are no longer best place to realize the value or it doesn't – it's not positioned well within our ambitions for our portfolio. And that will be for any number of reasons. It may be that the return on capital isn't adequate. It may be that we can't grow it any further than its current earnings profile and we have better ways to grow earnings for our shareholders through other uses of that cash. And that could be a well-performing pub but one where we've kind of maxed out on where it goes to from here. And that's the way we're looking at it. We sort of don't have a one size fits all. We're looking at every pub and saying, are we going to be able to grow the earnings base of this pub in a reasonable way with a diligent application of capital and operational improvement or not. And if not, then what?

We obviously look at every pub as it reaches the end of its lease renewal life and decide what to do. We have exited, I think, now 2 pubs in the last, I'm going to say, 12 – approximately 12 months both with no – both without having to pay any kind of lease exit price because they are not performing well enough for us to continue to be the right holder. EGMs, we don't have a specific goal around the divestment or otherwise of EGMs. I think we've said that gaming is an important part of the pub experience for a lot of our guests. So we will deploy EGMs to enhance guest experience where relevant and I presume if there is a case where it wasn't, then we would think about what we do with them but they're just part of the overall equation.

Bryan Raymond

It's Bryan Raymond, JPMorgan. Just on the acquisition gross margin uplift. You called out, I think it was the Rainbow Beach Hotel with a 1000-basis point uplift in food and bev gross margin. — ***indiscernible*** — a big part of that or has to be part of that. First of all, is that a typical uplift? I know it would vary. I'm sure you'll say it will vary and it's all pub by pub. But over the 14, for example, you've done, what is the average uplift? Is it sort of in that vicinity? And if it is, like how you're only getting 14% ROI? I would have thought the gross margin uplift by itself, the synergies essentially would be day 1 cost free, making 2 phone calls to the pub groups. Like what's the opportunity from particularly on buying on these acquisitions?

Kate Beattie

I'll pass that one back to Chad, if that's okay to talk about the sort of – I guess it comes back to the question of what's our – what are our buying advantages relative to a typical pub owner, which I think, it's very hard to say because it always depends on who owned the pub previously and what their buying terms were.

Executive

It does go to — ***indiscernible*** — question earlier and it's probably the best answer – the better answer because we don't – most of which we don't know but this is 1 example of something of that scale. So I think your question is — ***indiscernible*** —

Bryan Raymond

Well, not quite because there's 14 pubs you've acquired over the last couple of years. Across the 14, is that 1,000 a broadly similar…

Executive

In that vicinity.

Bryan Raymond

In that vicinity. Yes. Okay.

Executive

I think you were right, when you referenced to the trading drop — ***indiscernible*** —

Kate Beattie

Yes. Before we seek to operationally improve a pub or find other ways to drive uplift, there were 2 – the 2 most easy levers for us to return average performance relative to the average operator is tap beer buying and conversion of the retail to a BWS store, where we just self-evidently from our retail trading margins get a better return. Generally, we would get both of the sales uplift and a better EBIT margin from the conversion of the BWS.

Bryan Raymond

Yes. If I could just sneak one more in. So I really like Slide 105, where you sort of break down of the acquisitions, which ones are outperforming, on track and underperforming. You haven't done that for the refurbs. And I know it's been a crazy couple of years. So I'm not suggesting it's a clean picture. But just trying to get a feel for how that 17% ROI would be distributed across. I'm sure there's a lot more refurbs than there's been acquisitions. Would you say that there's a lot that are sort of outperforming or underperforming, is it more volatile? Or is it less? Like I'm just trying to get a feel for the distribution because I would have thought you'd know that your own assets better than you know an acquired asset.

Kate Beattie

Yes. I mean, I think I'll start where you started, which is to say it's really hard to measure that in a precise way through a COVID disruptive period. So that will get much easier for us from here as we can literally compare prerenewal trading to postrenewal trading at the site level. Having said that, I think I'd refer you back to the point Shaun made about the age of the fleet. We do – and the earlier slide I spoke to about how we think about returns on capital deployed into hotels as opposed to retail, where in hotels with regard to renewal capital on average has been an uplift in capital investment and therefore, proportionately growth capital as opposed to sustaining capital. Whereas in retail, it basically just keeps recycling the fleet.

So on average, when we deploy renewal capital, it will be returning above our return hurdles. And I know, maybe Shaun can talk to it. But that's the way Shaun thinks about it. So when he's mapping out what we're going to do, he doesn't distinguish there's going to be this much spent on sustaining and therefore, I'm kind of excluding that because that's just maintenance capital. At least over here, I'm going to call growth capital. It's just 1 big renewal capital bucket from which he is — ***indiscernible*** — to get the above-hurdle returns but I'll let you comment on that more.

Shaun Dunleavy

I think you're right there and simplistically, — ***indiscernible*** — for a number of years, capital is capital. So it needs to return. To your point around our recent returns post-COVID, the reason we didn't drill into it today is because the data set is a bit messy because of the disruption. But what I can say with confidence is the returns we're seeing in our post-COVID projects are in line with what we represented. So we would...

Bryan Raymond

And just a clarification, the renewals that are in that 17%, is that whole of pub renewals or if you're just renewing the gaming room because I know you've done a lot of that. Is that in that 17% because I imagine that number is a lot higher than 17%?

Shaun Dunleavy

So just to clarify, what we're referring to as renewals is the program, the renewals program. And within that sits refurbs, repositionings, accommodations the group of gaming projects that happened during COVID that you're referring to, are all bundled within that number, yes.

Ross Curran

It's Ross Curran from Macquarie. Shaun, love to get your thoughts, coming out of the U.K., that there's a lot of pub chains over in the U.K. You've talked about 300 different pubs and they're all individual businesses. What's your thought – why does it need to be 300 different brands? You guys are some of the best brand custodians in Australia, Dan Murphy's and — ***indiscernible*** — amazing brands. Why not homogenize the offer? Not every McDonald's has a drive-through or kids play area but you kind of know what you're going to get when you go into one. If you're standardizing the menu, why don't you standardize the pub offering and roll it out faster?

Shaun Dunleavy

You've really hit on a contentious subject where – one that's – there's been lots of discussion over that for a period of years. — ***indiscernible*** — start with your comments around the U.K., lots of pub chains, yes. Single brand pub chains that have been successful during, I'd probably challenge that a little bit. And the more broader comment around that is the U.K. versus Australia. The industry is — ***indiscernible*** — the same in a lot of ways but all the customers are all very, very different. And I think for us to really have those individual brands that are localized and talk directly to what our customer wants, there is great value in that whilst having the large machine that sits behind it and all the efficiencies that come with that. — ***indiscernible*** — We could talk about this one for hours and I'm more than happy to do so over a beer later. But it's something that we talk about a lot but nothing that's in our immediate plans.

Ross Curran

— ***indiscernible*** —

Shaun Dunleavy

Yes. So one way that you could talk about or think about it maybe is, not so much in a single branded outcome for the pubs. But what we do think about is sub-brands. So I think the — ***indiscernible*** — name came up earlier. And whilst – this is – we're not looking to do what — ***indiscernible*** — do and Merivale do, what they do very, very well. There is a place for sub-brands within pubs, be it in that instance, an Italian branded concept that can sit under the brand architecture of the pub. And then once you build that trust, credibility and service level, you can then replicate that through your portfolio for the segments of the market and for the demographics that are ripe for it.

Ross Curran

And then this might be for Steve or Kate. But in the IPO documents, Bruce Mathieson at the time was expressing his frustration with Woolworths not acquiring more pubs, more quickly. And so the shift in strategy away from being acquisition led towards reinvesting in your own network, can you talk us through how the Board, as a group, what they're thinking about this sort of changed approach? Do you have universal Board buy into this sort of shift?

Kate Beattie

I think we probably can just summarize the response to that by saying, the Board like management is focused on getting the best return for shareholders for every dollar spent, whether that be through revenue expansion, operational optimization or capital expenditure. So I think our interests are very well aligned and we have continuing active discussions with the Board about how we achieve that.

Craig Woolford

Craig from MST. Just a question on the refurbs specifically. It looks like there's roughly 200 where food and beverage can be upgraded or updated. How fast can you go on that? Is it a question of capital or just bandwidth in human resource?

Shaun Dunleavy

Good question. The question on capital, I'll pass over to Kate. The short and simple answer is, there's more projects than we can deliver in a short amount of time, the size of the prize and the opportunity, it tells the story itself. History has taught me in terms of capital rollouts and ramp-ups, you do need to take that capability and how do we deliver at the right speed and ramp up at the right rate? Because as you guys would know, if you ramp up too fast, you shock the system and your return on investment drops back down. That being said, we have set up the resource. We have set up the team as part of group capability. So we are ready to increase the number of projects we've been doing. But we'll do it in a measured way.

Craig Woolford

So is 7 years, the right age for a refurb cycle?

Shaun Dunleavy

So another contentious question, not as contentious as the last one. But if we think about what the industry does, there are a number of large players in the industry whose refresh rates or renewal rate on their hotels typically sit between 5 or 7 years. We know that ours is substantially behind that at the moment and there's some catch-up capital required should we try and bring our levels to the same as those.

Sean O'Sullivan

Okay. There's no more questions on network opportunities. I'm going to ask all the presenters today to get up on stage. And just, this is really just a last opportunity, we don't want anybody to go home having not had a question answered. So if you do have any last questions, please put up your hand and we have everybody up there with an answer.

Lisa Deng

It's Lisa from Goldman. I just have a follow-up on the, I guess, incremental CapEx preference or spend preference between retail and hotels for growth CapEx, right? Because we're looking at FY '23 ROFE for hotels at 15.9%. And the target ROFE for hotels will be above at least 15%. F&B aside, the gross CapEx, where would we be spending for incremental growth CapEx?

Kate Beattie

Sorry, I might need to correct you on those numbers. The hotel's ROFE is not at 15.9%.

Lisa Deng

Oh, sorry, not hotels, retail, sorry. I might have said the wrong thing. Sorry, retail ROFE is 15.9%. Current FY '23 hotels ROFE is at 10.2% but the incremental is targeted at least 15 plus. So if we've got incremental growth CapEx, where would we be preferring to spend?

Kate Beattie

So I think I said earlier, the retail capital expenditure for this year, we're expecting to be broadly in line with last year. And in hotels, we're slightly below but that's because we're not acquiring as much hotels while we ramp up the pipeline of renewals that Shaun spoken to. So it's not – we're sort of not – how do I say this? So we actually have, if you like, less growth capital being spent in the year but being directed towards what's arguably a higher returning earnings pool, which is renewal, which we're ramping up in hotels. So if we're thinking about directionally from here, as Shaun said, we're building a pipeline. He's got some work in progress but we're building our capability and also building up the pipeline of renewal. So directionally, I would expect growth capital to be increasingly be directed towards the hotel renewal pipeline because that's where we see a good return opportunity. But that's not to say we'll sacrifice other things in the process. So we have…

Lisa Deng

— indiscernible —

Kate Beattie

That's right. But as I said at the outset, we're not growing borrowings to fund capital expenditures. The capital envelope will remain within what we can fund within free cash flow generated in year after paying dividends in our target 70% to 75% payout ratio.

Ben Gilbert

I am Ben from Jarden. Steve, I think you got through the whole day without anyone asking about trading or the consumer, so thought I might chuck one in for you. How do you feel the pubs business is positioned in that context? Obviously there' sort of the press ovenight, talking good cyber for Dan's and — ***indiscernible*** — How do you see your pubs positioned, consumers trading down all these sorts of things that give you any concerns? Or do you think you naturally benefit if people shift from pubs back into retail?

Steve Donohue

Yes. Thanks for the question, Ben. Net, we feel pretty positive actually. I think the published data on gaming is demonstrating relative resilience in that market. I'll have to get the latest on what our forward bookings are for Christmas lunch but we're almost all out.

And sorry, if I – can you just tell me if I need to move, if I'm creating a problem with this mic, don't hesitate.

Executive

Put it closer to your mouth.

Steve Donohue

There you go. Sorry. We're 87% forward bookings for Christmas lunch in the hotels network, which is well ahead of where you were at the same time last year. Looking very positive. So I think our oft-made point about the comfort, the familiarity, the value, the positive service experience that you get from a hotel is really playing through this year. And it is analogous with the points I made yesterday in relation to the customer experience of Cyber Weekend in particular, Dan Murphy's. Customers are hunting value. They're hunting familiarity. They are looking for great experiences that don't cost the earth. So I think both our retail and hotels businesses are well placed to capitalize on that.

Bryan Raymond

Bryan Raymond, JPMorgan. So I'll ask my first question again around the regulatory impact thing built into your assumptions longer term. We've obviously got some things that you've implemented already, some that are pretty clear and some that are uncertain as to how they play out in your $150 million number in terms of uplift. Does that take account of any of the regulatory changes in the landscape from FY '23 through to '28, as you see it? Or is that still something we need to consider over and above your target ?

Steve Donohue

Bryan, we've tried to give you an understanding of the history of the gaming category in context of very material and high frequency of changes imposed by state governments to give you a sense of history informing the future. We've also given you insight into what state government forward projections look like from their treasuries on what gaming revenue taxation will look like. I can't give you a better answer than that. I mean that is informing our decision-making around the support that we put behind our hotels business and the support that we put behind players and the support we put behind our responsibility initiatives. So I'll have to let you make your own call. Yes. Yes.

Bryan Raymond

Okay. And then just maybe just the [1 50]. If you could just maybe give us a few guidelines around how we should be thinking about, say, that long term after the 5-year period with the [1 50] in the base, if you achieve what you plan to? What your sort of EBIT margin ROFE will look like at that point, if all goes well? Is this going to be an EBIT margin driven uplift from your 21% to 22% level at the moment? Does that overall ROFE get close to 15%? Or incremental is going to be but there's obviously a big base there. Is there some sort of further detail you can give us around the shape of the P&L should all go well?

Steve Donohue

I think it will be a watch and see. You'll do your own calculations. I think you would actually take out the award for best in the room at doing the back sales. So I'll probably ask you. But we are putting out there our long-term plans to create shareholder value and that is a component part of that. I don't know, Kate, do you want to give any more specificity around where you think the ROFE is going to end up or anything like that?

Kate Beattie

No. Other than to say, as we stated in the scorecard at the start of the day, our goal is to continue to expand ROFE, to improve ROFE, while continuing to optimize returns for shareholders and grow the business sort of through the cycle, 10% plus return to shareholder.

David Errington

It's David over here. Kate, I'm trying to – again, I'm trying to get down to working out the intrinsic value of the hotels business. When you look at buying – I know, Kate, you said that you look at – when you buy a hotel, you look at maximizing the value of the license. But can you give us a bit of an idea, I mean you guys have been in the industry a long time, what's the sort of multiples that you look at earnings multiples, cash flow multiples that you would look at that would be value – that you'd look at to buy a hotel, just so that we can get a bit of an understanding as to how to value a hotel because it's – they're so difficult to value.

And I think we – I'll put my hand up, I certainly struggle to know how to value your business. So maybe if you can give us a bit of guidance as to how you guys go about looking at valuing hotels but how you go about valuing a hotel when you're looking at acquiring it. That might give us a bit of an idea and a bit of a help how do we can – might be able to value your business.

Steve Donohue

Yes. And maybe Kate can give you a more technical answer but there is a going concern – consideration as to how the hotel is performing and then we'll overlay what performance we think we can generate from it in terms of the better trading terms or purchase prices that we have for the stuff that we sell inside the hotel, as well as the systems we bring. I wouldn't underestimate the materiality of the change to retail that we bring to the hotel side. That I think to this whole question and point about an interconnected operating model, is a big part of what distinguishes us from any other operator of hotels or retail in the market. But do you want to talk to any of the multiple side of things?

Kate Beattie

I think Steve has covered it well. I mean we do look for that initial year 2 ROE of 15% plus, as I've said. So we will largely – I mean, irrespective of what multiple that hotel may be trading at that's a going concern, we will take the price that's being asked and work out whether we have enough value levers that we're confident in that we will get that 15% plus return. And that – how that equation works on a hotel-by-hotel basis can be very different because as I said, if you go back to the Western Australian hotel versus, which with no gaming versus Eastern states with gaming, the multiples that they trade on as a starting point are very different. And the asset base you're acquiring is very different from the start, and therefore, the return that you have to get looks very different. So it's a –apologies, it's not – I'm sure I'm not helping you with your valuation portfolio.

David Errington

I'll ask it in a different way. So 15% return is about a 6x multiple roughly. And you'd probably be paying 8, 9x multiples I would imagine. Can you get that to 15% largely because of what you're saying, the synergy? Because this is my first question to you, Steve, about this being part of the integrated group. Is this the value that it brings, that by bringing the retail offering, by bringing the hotel under your network, you can get that 15% upside, I suppose, in earnings from an acquisition pretty quickly because of that. Is that what you’re saying?

Steve Donohue

Absolutely. And I would point you to the pubs that we don’t buy that get transacted if you want to consider what other acquirers might pay in terms of a multiple and what they think they can generate out of it. That’s why we’ve always said we’ll be very disciplined in terms of the deployment of capital more broadly and we accept the point about focusing more on what we’ve got rather than expanding it. But the potential that we get from the site is what distinguishes us from anybody else. But yes, there are certainly pubs that we should not be buying. And consequently, we don’t.

David Errington

Can you share some of them, what the multiples, that go in?

Steve Donohue

We don’t need to pay $100 million for a pub that’s a bar, that’s a bistro with gaming and no retail opportunity because that would be probably one that was being bought for the aerial space redevelopment above it. But that’s not the primary driver for us. That’s a secondary tertiary outcome, which is a positive value accretive one but our primary purpose is we’re a good publican, we’re a great retailer, a great publican and a great retailer and that’s what we focus on first. So that’s where we hunt for the value in sites that are going to meet our model.

David Errington

But apart from those anomalies like a beachfront $100 million like a normal pub, what would it going?

Steve Donohue

Well, we tapped out on the Great Northern around the corner, it went for [70] and that was about accommodation and some other stuff. So it's just – sometimes they just get too hot and that's fine. We wish the acquirers the best of luck and we'll stand by and see what happens with those or any other pubs in the country for that matter. And in the event that there is a pub opportunity that comes along that's going to deliver the right returns and it's something that we can maximize the value relative to any other operator, learning, of course, the information we've shared today about our accommodation brand, it's the fifth largest accommodation provider in the country. There's a number of things that we can bring to these sites that we consider in the mix that determine whether or not we're interested as the acquirer.

David Errington

So just to finish, that's the sort of leverage that you get when you acquire it, you bring it into your business, you get that uplift. You're probably talking a 40% or 50% uplift in earnings from that – from the – from those synergies that you're bringing in by being part of your business. Is that a — ***indiscernible*** —?

Steve Donohue

I think we showed that the – Kate talked to the example of the 11 that we bought in the last year or thereabouts and they've got varying degrees of performance. So you don't take everyone to the bank. You don't get everyone right. We haven't got everyone right. On average, we do and some of them perform exceptionally well. There's the occasional one that is an outlier and we focus on that. And then there's the point about divesting those that we know are not going to be fit for purpose in terms of our operating model in the medium to long term.

David Errington

With the outlier. It's just timing, it's economic condition.

Steve Donohue

Absolutely.

Shaun Cousins

Shaun Cousins, UBS. Just curious isn't that it's been uncommon over the last sort of 4 months where you've had your major shareholder and a would be Director, sort of make some criticism of the company. I haven't seen that in a lot of companies that we've looked at. Are there any instances where you've reflected and suggest, hey, they've made a good point there. And then moreover – and probably a question for you and the chair, how do you ensure that there's sufficient sort of board harmony and then everything sort of functioning well just in that – obviously, you've ultimately got a business to run, to generate returns to shareholders. Board disharmony is probably unhelpful for that.

Steve Donohue

Yes. I feel as though that question was relatively well dealt with in the moment when you had materials being put out there by activists that we responded to with quite a detailed paper that I thought outlined how we reflected on performance, particularly the pre-, post-COVID performance and some of those types of questions. So I wouldn't rake through all of that again. But I would say that those challenges and challenges from a number of investors we have in the room and many more that we don't, are often caused for us to reflect on our performance and consider how we can improve. And that's part of the reason why we've done this session today. It's part of the reason why we've made commitments around our working capital.

It's part of the reason why we established the whole idea of a scorecard, something we stole from other successful businesses and leaders through recent history in corporate Australia because think there's opportunities for us to help everybody better understand how we're holding ourselves to account on delivering shareholder value. So we, by no means, consider ourselves perfect. But we do intend to continue to be transparent and take investors and potential investors on the journey that we're on in improving this business and its shareholder returns they're in.

And your question in relation to the Board, yes, it is one for the Board. But our Board is functioning and does and that is their job. And I think as a Board member, we're all very conscious that we are part of the Board that is here to progress the best interests of the company and I think all of our Directors do that. So it's positive.

Sean O'Sullivan

Okay. No more questions? No more questions for – Lukas actually asked if anybody had a keen accounting question. He was really keen to. All right. Okay.

Steve Donohue

Sean, if I may. There were a couple of questions but I wanted to make sure that we've answered them. So one of them was around distribution points for Pinnacle. I think at least that might have been from you. So I did promise to come back and I wanted you to use take the — ***indiscernible*** — because they — ***indiscernible*** — Pinnacle distribution points, as a matter of fact, 518,000 across the group and of those Paragon accounts for 73,000. And that 518,000 accounts for 12.3% of our wine business. So someone did the back sales, probably Bryan before about the – what percentage of your Pinnacle mix is wine? This goes to this point about the velocity or the quality of the sales that we get out of our Pinnacle portfolio. So it's a much higher percentage of our sales than it is a percentage of our space. I can't remember where that question is coming from. 518,000 points of purchase for Pinnacle products and Paragon is 73,000. So it's a smaller amount of that.

Analyst

— ***indiscernible*** —

Steve Donohue

That SKUs in spots, SKUs in spots. Yes. So that's dots on our...

Analyst

— indiscernible —

Steve Donohue

Yes. I wouldn't get too caught up in the – my new share of the numbers, other than to say that they are a smaller proportion of our total SKU count than they are of our total sales. Then we had the question, I don't think that I gave you a good enough answer to on the question of the flow-through of Pinnacle into the P&L. And that was one we were talking about to before.

So just to be clear, all of the costs associated with Pinnacle products sits in the goods themselves. So the Pinnacle EBIT is effectively posited in the retail gross margin. There is no cost that posit themselves throughout the rest of the P&L and that's how we account for all the costs associated with Pinnacle products. They're up in the COGS. Everything – every cost associated with running a winery and so on sits inside the cost of the product.

The impact on inventory of Pinnacle is [de minimis]. And effectively, we're just making choices about which products customers want in our store network. So there's no material impact on our working capital as a result of Pinnacle products. So I just wanted to make sure we were clear on that one.

And Ross, I think you asked how many hotels were perfect. Not very many. This one, not even is perfect. So we've – as the team talked about before, we've got an opportunity to build accommodation next to it. So we're still not finished. And the reality is, it's the Harbor Bridge, you are never done, by the time you're done, you're starting again. I think the small exception is, probably The Brook that the teams talked to today, where for a little while now, I think we'll be pens down on The Brook. It's the best example up there in Mitchelton, of a pub that's pretty well perfect as far as they go for us. So I just wanted to make sure I answered those few points.

Sean O'Sullivan

Great. Okay. Our formal presentations are complete. We'll have some final words from Steve. So everybody else can leave the podium. The – we'll then be moving to the fun part of the day. So some informal drinks and a opportunity to taste some of our award-winning Pinnacle wines. The drink section will happen back at the Stag bar, which is where lunch was served. For those who are interested, a lot of people mentioned that they never played the pokies before. Lukas has volunteered to give a quick one-on-one to anybody who wants to know how to play the pokies with your own money.

Steve Donohue

That's not true. That's not true. I've given Lukas $500 worth of — ***indiscernible*** — tickets and it's my own money, by the way, not the company's. Mary Andrew already has one of those because I know she likes a — ***indiscernible*** —, only when she's at an Investor Day. So those of you who have never played before, you can come and see us up the front here. We've got $50 vouchers for you.

Sean O'Sullivan

Okay. I'm at front of the queue. The – okay. So also as a – so if you come up to the front and if there's more than sort of 10 people, then we'll give you some time to come back in so we can – not disrupt the normal activities. As a token of our appreciation for your attendance today, as you exit at rear, please pick up the bottle of our newly released Ovata, Australian sparkling wine. And please grab that as you leave.

And now – and also finally remember that the bus is leaving at 4:30 and another at 6:30. The buses will leave on time, so please ensure you are here on time. And finally, before

Steve's final words, thanks from all the — ***indiscernible*** —, everyone in the Endeavour and the Investor Relations team for your attendance and participation today. Thank you.

Steve Donohue

Thanks, Sean. Just a round of applause for Sean, of course. Just for the record, Ovata is Australia's hottest new sparkling wine from the Yarra Valley produced by our expert winemaking team at Oakridge, who have created a very, very beautiful new wine. So please do enjoy it with our best wishes for the season.

I just wanted to touch very quickly on the wrap of what our key messages for the day were and thank you all for being part of it. We hope you've come away with clarity, much more clarity on the group strategy. And I will reiterate that it is a group strategy. The whole is greater than the sum of parts in the case of Endeavour Group, is our firm view. And we've outlined how we intend to leverage the unique portfolio of assets and brands that we've got, to deliver earnings growth, which is going to be done through a balance of driving sales and managing margin and managing costs on the way through.

We've been deliberate in sharing what we consider to be very clear and measurable targets for our scorecard. We've tried to reiterate the importance that we have on the focus in the business on a disciplined approach to capital management. And at the end of the day, we're a business that is all about being sustainable and it's run by a large team of people, 30,000 of us in Endeavour Group. So hopefully, you've come away with that impression as well.

But a lot of the focus today was obviously on unlocking the opportunity in hotels. And we think we remain very uniquely positioned to the last part of today's conversation to do that and deliver superior returns from the right hotel licenses, the ones that we have. We know that we can grow our capital returns through our portfolio optimization and our renewal and redevelopments that the team just talked on.

We've talked about the $150 million plus EBIT growth opportunity over 5 years with 50% operational optimization and again, our commitment to responsibility. All of that rolls up to that shareholder value creation of 10-plus percent from F'26, which is driven by high single-digit EPS growth and that dividend payout ratio of 70% to 75%. I won't go through the rest of the financials but they're obviously all laid out in the scorecard.

At the beginning of the day, I said that we're a very purpose-driven organization and that purpose of creating a more social future means that we've got to be pioneering, entrepreneurial and always improving. What we've tried to outline for you here today is the approach that we're taking to that, particularly with reference to hotels and the fact that we'll unlock that value by being connected to one another.

But there's no better place to be connected to one another than a pub, which is where we are here now. So I'd love to think that you'd all take some time before you chuff off to join us for a drink and maybe a punt with Lukas and enjoy what is a great pub and part of a great business and network in Endeavour Group. Thanks all very much.