Endeavour Group Limited, H1 2022, Earnings Call 2022-02-21

Presentation

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Endeavour Group Limited First Half F '22 Results Briefing. I would now like to hand the conference over to Mr. Steve Donohue. Please go ahead.

Steve Donohue

Thanks, and good morning, everybody. I appreciate you all joining us for Endeavour Group's Financial Year '22 Interim Results Announcement.

As mentioned, I'm Steve Donohue, and I'm the Group CEO and Managing Director for Endeavour Group, and I'm joined here today by Shane Gannon, our Chief Financial Officer.

I'd like to begin by acknowledging the traditional custodians of the land on which we're based today here in Surry Hills, the Gadigal people of the Eora Nation.

I'd also like to acknowledge the traditional custodians of the land on which each of you joined us from today, and I pay my respects to elders past, present and emerging.

Before I step through some of our -- some of the details of our results, I wanted to take a moment to remind everybody of our purpose, creating a more social future together. I think we've all experienced the various impacts of COVID over the last 6 months. And all the while, our teams across Endeavour Group have continued to live that purpose, playing an important role in enhancing millions of social occasions throughout Australia every day. And whether it was the excitement of welcoming people back to our hotels where we hosted tens of thousands of Christmas meals or supplying a party with everything they need ready for pick up or 1-hour delivery from a local BWS through to offering beautiful and convenient gifting solutions from our new Dan's Gifting Hub, the one thing we've seen is that each time restrictions are lifted and the threat of COVID retreats, people are keen to reconnect, and we're there to help create that more sociable future together with them.

And we do that in a way that's real, that's inclusive and responsible, in a way that aspires to leave a positive imprint on the communities we serve.

We now also proudly offer the largest range of low- and no-alcohol adult beverages in Australia. And just last week, we launched our Loud & Proud product range with 100% of the proceeds going to The Pride Foundation, which I thought was a fantastic effort from our teams and our supplier partners and was actually co-created in just 8 weeks.

So looking forward to our financial results for the first 6 months of the 2022 financial year, which Shane, of course, will expand on a little late on the presentation. Overall, our team delivered a strong financial result, which has again demonstrated the structural resilience of the business and the agility and adaptability of our teams.

During what was a volatile period of COVID disruption, the strength of the retail network proved a natural hedge to hotels, which were hit hard by lockdowns and restrictions. Notwithstanding this, the team delivered total sales of $6.3 billion, which was broadly in line with the previous corresponding period. The EBIT of $556 million, which rose 3.2% despite the inclusion of new corporate tax, which were not incurred in H1 F '21, and a rise in our profit after tax of 15.6% to $311 million, predominantly driven by lower interest charges.

Importantly, the business continues to generate strong operating cash flow, realizing $932 million in the period, allowing us to continue to invest in the business while also declaring an interim dividend of $0.125. This dividend payment equates to a payout ratio of 71.9%, which is in line with our payout guidance of 70% to 75%, as was advised at our F '21 AGM.

So now looking towards the retail performance in a little bit more detail. The retail businesses delivered a very strong sales performance, 18.4% ahead of our H1 in F '20, which was our last pre-COVID half year baseline. And that was 1.5% down on a comparable store basis and 0.6% to 1% at a top line level from the peak sales we saw at the height of lockdowns in H1 of F '21.

That strong sales performance reflected a continuation of the switch away from on-premise purchasing, our continuing investment in new stores and the renewal of existing stores, the ongoing positive trend for customers to drink less but to drink better and our commitment to deliver more personalized products and services. The period also saw our retail EBIT margin grow to 8.1%, an uplift of 79 basis points, primarily due to a more profitable product mix with higher new margin products continuing to flow through and growing demand for Pinnacle Drinks, and I'll touch on Pinnacle in a little more detail in a couple of slides' time.

There was also lower promotional activity in the market, although it did somewhat shift up in December, and we have continued to apply disciplined cost management given the challenging COVID-affected environment.

Lastly, demand across our online platforms accelerated again in H1, up almost 25%, reflecting benefits from our continued investments, which are leading to improvements with things like personalization and overall customer experience, acknowledging that we were positively impacted by the changing customer purchasing patterns due to COVID, too.

So turning over to hotels now, and I would also make the comment that we were pleased today to announce the appointment of Mario Volpe to the role of Managing Director of our hotels business, and we'd do that by separate announcement. I was pleased for multiple reasons, but particularly given Mario is an internal appointment and has extensive experience across the industry, both inside the group and outside the group, and we're very pleased to have him in the role. Look forward to having him on the executive team and in the chair.

Of course, back to hotels, the most significant influence on the performance was again COVID-related. And over the course of the 6 months, there were only 30% of days where all of our hotels were actually open. And as with the prior year, this placed huge pressure on our teams. And in particular, I'd like to recognize our New South Wales and Victorian teams again for their efforts in coping with multiple closures and reopenings and of course, recognize all of our hotels team for supporting the social distancing measures, vaccination check-ins and other COVID-safe initiatives.

Given the challenging environment, it was outstanding to see our Voice of the Customer measure for hotels hold up in the half. Similarly, it was also another positive that, notwithstanding some challenges, our overall team retention rate once we reopened hotels was 85%. That retention of key team members and our continuing investment in our existing hotels as well as measures such as ensuring our gaming rooms are COVID-safe were all critical in the strong rebound in trading when we initially reopened in New South Wales and Victoria.

Unfortunately, though, with the emergence of Omicron and the consequent customer hesitancy towards social interaction, particularly in the period leading up to Christmas, the last 3 weeks of trade in December was very subdued. A pattern of behavior that's also impacted the first 6 weeks of trading in calendar '22, but which we've thankfully seen ease more recently as restrictions have been lifted. Overall, the team did a great job in delivering these solid numbers under the circumstances, and we continue to invest in the network, adding 3 hotels through acquisition and renewing '22.

We're also continuing to upgrade the quality of our hotel accommodation with well over half of our rooms now improved to make in our Nightcap brand standards.

I wanted to talk a bit about what's driving innovation in the business. Let's start with endeavourX. And firstly, I'd say that it's important to recognize that our commitment to investing in digital isn't solely about increasing online sales. Our digital platforms are the front door to all of our retail brands regardless of how customers choose to shop. We continue to see significant growth in customers researching online and then buying in store as increasingly, our platforms are becoming a source of information for customers as much as they enable transactions.

In the first half of F '22, we invested $35 million in the continued development of our digital platforms through endeavourX, in particular, we've remained focused on expanding the quality and application of our personalization capabilities. Both Dan's and BWS customers are benefiting from the relevance and convenience this enables, especially via our app platforms, which continue to experience significant growth in monthly users.

The scale of our customer data continues to grow in line with the increase in participation in our membership and loyalty programs. My Dan's members grew by over 20% to 6.2 million members, and total member sales far outstripped nonmember sales in Dan's.

Understanding our customers more deeply is opening opportunities for us to expand our product and service offerings in a very targeted and efficient way. And whilst it's still early days, the launch of Dan Picked, our new subscription offering, and Dan's Gifting Hub are both off to a good start. And I would recommend you try them yourselves if you haven't already.

Total online sales grew 24.8% to $603 million, and we remain on track to exceed about $1 billion in online sales in F '22. Importantly, online sizes are increasingly profitable, driven by our scale, our ongoing focus on unlocking operational efficiencies, growing basket size and a very deliberate emphasis on profitable category mix.

Our investment in digital isn't limited to our retail business. Of course, hotels, though a little earlier in their journey, have seen now more than 1.2 million online transactions with the rollout of our contactless order and pay options across our hotel network. And we continue to invest to lower the average age of our GM fleet, which now sits at 7.9 years.

Moving on to the next part of the presentation to talk about Pinnacle. And first off, it's really important to understand that the Pinnacle Drinks business is intrinsically tied to our overall Endeavour Group business. The Pinnacle team uses insights from that significant customer data to map and identify early signs of demand trends, and then rapidly innovate to bring products to market that satisfy the customer demand in a very efficient way.

On the back of these customer insights and in just 6 months of the reporting period, we launched 325 new Pinnacle products. Further to that, 36% of the total Pinnacle product portfolio were products launched in the last 3 years compared to an industry benchmark that sits at about 15%. Equally important to understand is that Pinnacle Drinks is delivering high-quality new products. In H1, for example, Pinnacle Wines were awarded with over 370 awards, including 10 best-in-class trophies. And many of our successful new products were developed using the expertise and brand equity contained in our Paragon Wine Estates portfolio, which is in turn premiumizing the total portfolio and driving high-quality growth and margin outcomes for the group. To further emphasize our commitment to the growth of this part of the business, we've allocated $40 million to expand and improve efficiency at our Dorrien Estate, Barossa winemaking facility over the next 2 years.

A little more on Paragon. As I mentioned, we've been growing the Paragon Wine Estates portfolio in line with that increasing demand for the premium and luxury wines they're producing. That success continues to give us confidence in the opportunity for further premiumization and expansion. One example of the power of these premium and luxury brands is that since acquiring Oakridge back in March 2021, we've actually grown sales by over 70% while continuing to enhance the brand prestige, having been shortlisted for the 2022 Halliday's Wine of the Year and winning a raft of other awards. We also recently opened our Krondorf cellar door in Tanundra, showcasing Krondorf's Barossa regionality and celebrating its inclusion in the full set of Jimmy Watson Trophy winners, which is on show for visitors to admire.

And before handing over to Shane, I just want to touch on some of the progress we're making on sustainability. As I said, at Endeavour, we're committed to leaving a positive imprint on each other in the communities we serve. In October, you'll recall that we launched our first sustainability strategy, essential to our purpose of creating a more social future together. In the last months, we've made good progress against the strategy. I won't step through all of these examples, but just to highlight a few. We've created and rolled out our own leading in responsibility training, and that's in addition to our normal responsible service of alcohol and responsible service of gambling programs, which in themselves actually exceed regulatory requirements. And the course it is intended for every team member across the organization to enhance the culture of responsibility, irrespective of the nature of that particular team member's role.

Similarly, we've partnered with DrinkWise to support their research into the use of low- and non-alcohol options to moderate consumption. And low- and no-alcohol adult beverages are now available at all of our stores and hotels, and we're also continuing to trial dedicated low- and no-alcohol sections in our stores.

And finally, we continue to enhance our approach to community engagement, whether that's through our ESG review processes or through our increased community consultation by groups such as the Darwin Community Advisory Committee, which we're well progressed in establishing.

So I'll hand over to Shane now to go through the financial aspects of the results in greater detail.

Shane Gannon

Okay. Thanks, Steve, and good morning, everyone. As Steve commented in his opening remarks, it's been both challenging and rewarding 6 months for the Endeavour Group.

During the 6 months ended December 2021, our hotel segment was significantly impacted. However, we are fortunate as a group to have somewhat of a natural hedge. When on-premise restrictions were in place, people shifted to at-home consumption, which, in turn, provided a boost to our retail business.

Consequently, as a group, we had a successful 6 months. Compared to the prior comparative period, group sales of $6.3 billion were broadly in line. Earnings before interest and taxes of $556 million was 3.2% higher, and profit after tax of $311 million was 15.6% ahead of last year. This strong profit outcome contributed to the cash and capital position at the end of the half. Our operating cash inflow in the first half was $932 million, and our debt headroom sits at $1 billion. Whilst there are many operational challenges to contend with, in addition to expanding and enhancing our retail and hotel network, we have continued to innovate and invest in our digital, e-commerce and technology capabilities. Capital expenditure during the period was $150 million.

Endeavour Group's return on funds employed was 11.3%. Representing our first 6 months as an independent-listed business and successfully navigating through this challenging environment, the financial results presented today highlight just how well positioned the company is to provide attractive returns to shareholders now while also continuing to invest in future growth opportunities.

Looking at the group financial performance. Our group net profit after tax of $311 million was 15.6%, up on the prior comparative period. In addition to the standout performance provided from our retail segment, which I'll cover in more detail in a moment, the group was also able to mitigate inflationary and COVID-related cost pressures.

Notable expense callouts during the period were other corporate costs, which increased by $24 million to $26 million in the half as we now operate as an independent-listed business. I should note, these costs are in line with our full year expectation of $55 million to $60 million. The group benefited from the lower interest rates negotiated on our external source debt. Our total finance costs were $105 million, which is $31 million lower than the prior comparative period.

Turning to our retail results. Sales for the half were in line with the same period last year of $5.7 billion. As Steve has referenced, we have seen the continuation of COVID tailwinds and the retail market remained elevated over the period. Compared to the pre-COVID half 1 F '20 period, retail sales increased by 18.4%. As you can see from the retail EBIT bridge, the key driver of our growth was the improved gross margin, which increased from 22.3% to 23.7% of sales. The main reasons for improved gross margin were, we continue to see high levels of product innovation and premiumization, including higher-margin new products and increased demand for the Pinnacle brands. And similar to other COVID-impacted periods, the market was less driven by promotions, meaning we have maintained our competitive price position but at a lower expense.

Our cost of doing business in the retail segment increased to 15.5% of sales. That's up 62 basis points in the half as we made investments in our store network and digital capability and we reset our store salary and wages following the pay remediation reviews as well as absorbing inflation such as wage award increases. Our retail EBIT-to-sales ratio was 8.1% in the half. However, it is worth noting, historically, our retail EBIT margins are higher in our first half due to seasonal factors as half 1 includes key Christmas to New Year's trading period. And also, our results in the half continued to benefit from high fixed cost leverage that we are experiencing due to the elevated sales in retail.

And going to hotels financials performance. In the hotel segment, the year-on-year comparison appears remarkably stable with EBIT of $121 million. It's just $1 million shy of the first half F '21 result. Sales and margins were also similar between the 2 periods. This apparent stability belies a true experience of our hotel teams.

In reality, it was anything but smooth sailing for the hotel operations. In the half, there were multiple openings and closures and fast-changing restrictions, all of which differed by region. As mentioned earlier, nationally, there were only 30% of total trading days during the period when all hotels were open.

Our hotels cost of doing business, at 66.6% of sales, was in line with last year. Both periods were impacted by COVID, and this rate to sales remains higher than pre-COVID norms due to the lower sales level and lower fixed cost fractionalization. As we look beyond these immediate challenges, we have continued to invest in our building our hotels network and further evaluating the renewal program amongst our existing portfolio of 342 hotels.

In summary, hotels have done an exceptionally well -- have done exceptionally well to maintain EBIT at $121 million in a very challenging period that was heavily impacted by COVID.

Now briefly on the sales track. These charts show a seasonally high first half sales historically in both segments. They also show the extent of COVID-driven sales inflation in retail, which grew 18.4% compared to that first half in the F '20 and the negative sales growth outcomes in hotels, which declined 26% compared to pre-COVID levels.

Now moving to cash and liquidity. We have ended up the half in a strong position and remain highly cash-generative. As of the first half balance to date, we had $1 billion of undrawn debt facilities and a net debt position of only $667 million. The strong cash position is assisted by the seasonal nature of our business as we close the half immediately after the Christmas and New Year period. Our trade working capital as of the 2nd of January was $235 million, which is $120 million lower than at the end of the first half in FY '21. The key contributor was a lower inventory balance, partly due to supply shortages as well as the strong Christmas trading.

During the half, we should note that we also received $72 million in cash proceeds from the -- from our investment in ALE Property Group.

Going to capital allocation. Our disciplined approach to capital management remains. Importantly, we target investment-grade metrics, and this is represented by a leverage ratio, which is currently 3.1x when you include the lease liabilities. We maintained our payout ratio between 70% to 75%, represented by our announced interim dividend of $0.125 per share.

Our continued focus to align capital allocation to balance between immediate income growth from core activities as well as the medium- to longer-term strategic growth opportunities remains a priority. Specifically, we will continue to invest in our core growth options, including acquisition plus renewal of the existing portfolio of retail and hotel assets.

For the longer-term opportunities, we remain focused on enhancing our digital capability and product innovation, combined with taking advantage of opportunities that can benefit from our existing Endeavour Group platform. I made the point, our market-leading brands, significant scale, digital and data capabilities mean we have considerable growth options available to us as a group.

Going to capital expenditure. In the first half, it totaled $150 million. Investments are focused predominantly on expanding and enhancing our existing network. Six Dan Murphy's stores were opened in the half. Following the successful pilot, we have commenced the rollout of the Dan Murphy's 2.0 store format with 5 new stores now live.

Within BWS, 24 new stores were opened and 6 of these came as part of 3 hotel acquisitions, and we undertook the renewal of 45 stores. This growth was supported by our continued partnership with Woolworths, with 2 of our new BWS stores and 17 renewals attached to Woolworths supermarkets. In addition, we have made targeted investments acquiring the 3 new hotels and renewing 22 of our existing hotels.

Approximately 11% of our capital expenditure was invested in gaming. And we have lowered the average age of the electronic gaming machine fleet, which now sits at an average age of 7.9 years, and that's down from 9.6 years at the beginning of F '21.

We continue to invest in growing our digital capability and engagement through endeavourX as well as improving our technology environment. The capital investment shown here is a small part of our overall investment in endeavourX, which is largely of an operating expenditure nature.

What is not evident in our half 1 spend is our ongoing commitment to building our Pinnacle Drinks business. As Steve mentioned, we have recently committed to the expansion of our portfolio and capacity, and we will continue to actively investigate opportunities to extend our Paragon Wine Estates.

In summary, the first half financial results representing our first 6 months of trading as an independent business have demonstrated the structural resilience of the group. We have maintained our sales in line with last year and improved our profitability significantly through strong retail gross margin outcomes. This is a quality result during a period which was heavily impacted by COVID-19.

As we look ahead, we have a strong balance sheet to leverage and sufficient funding available as we continue to make targeted capital investments to enhance and grow Endeavour for the benefit of our shareholders.

I thank you for your time today and your interest in Endeavour. Now I'm going to hand back to Steve, who will share insights regarding our current trading and group priorities.

Steve Donohue

Thanks, Shane. That's right. So we're going to talk about our F '22 priorities for the second half and the outlook. But before I do, I thought it was worth to talk through a slide that's trying to contextualize the group's financial year-to-date performance.

As you can see, the period from July to mid-October was heavily impacted by problems with lockdowns in New South Wales and Victoria where approximately 40% of our hotels were closed. And as we've talked about, the retail segment, of course, proved the natural hedge against that disrupted hotel situation and performed strongly.

Then we had the period from mid-October to early December, which actually proved in hindsight to have been a false down. Nevertheless, we did see very strong rebound in our hotels performance with trade initially returning to actually pre-COVID type levels.

Notably in this period, we also started to see an increase in promotional activity in the broader market. In that last period there from mid-December to mid-February, which we've termed "living with COVID", we saw hotels operating at quite subdued level, with the emergence of the Omicron variant and community hesitancy towards social interaction resulted in reduced patrons in hotels.

Hotels in this period also had to deal with team availability issues as many of our team members are in the age category hardest hit by the initial wave of Omicron infections. And this meant that in many of our hotels, we were on reduced hours, sometimes we were forced to close sections of the hotel and provide only limited menu offerings. Retail though maintained sales at an elevated level and delivered a very strong December.

In the first 6 weeks of sales, shown in that table, demonstrate how challenging Omicron was, particularly in January. It is worth noting, though, that the easing and removal of restrictions affecting hotels continues to correlate with much improved performance.

So with this backdrop and looking ahead to our priorities for the second half of the financial year. Firstly, continuing to manage and respond to any COVID impacts. As I stated in the last slide, while the pendulum might be showing some signs of swinging, the business continues to feel the impacts of Omicron to varying degrees, and that depends somewhat on the market that we're operating in.

Next is commencing work on our technology road map. That's both about transitioning across from Woolies to a stand-alone entity and also setting up the tech backbone that will enable our vision of an interconnected business better-equipped to serve the holistic needs of customers. And that longer-term technology journey will be augmented by the quicker wins in the digital and data space where we'll look to accelerate and build on the momentum I referred to earlier. We're very conscious of how quickly our customer expectations are evolving in this space, and we'll keep working hard to meet and exceed them.

Our digital business is, of course, fulfilled by our portfolio of 2,000 sites across our store and hotel network through our pickup and on-demand delivery. And we've got material further property opportunities across this network through new sites, with renewals and developments, and that's something we'll talk a bit more about when we have our Investor Day in May.

Finally, none of this is possible without our teams, and we'll continue to invest in them to embed the Endeavour culture, our purpose and values and continue to make progress on our sustainability ambitions to leave a positive impact on communities we serve.

So just a final slide. We have delivered a robust first half with financial results built on a resilient business and delivered by a very adaptable team. The margin performance in our retail businesses was particularly strong, while the hotel performance was as expected, severely impacted by COVID lockdowns and restrictions. We continue to be disciplined in investing for the future while focusing on expanding and renewing our retail and hotel networks, enhancing our digital capabilities and developing new and innovative products within our Pinnacle Drinks business.

And finally, while we do look confidently towards the second half of the financial year, I'd remind investors that our business is seasonally weighted to the first half, and that COVID volatility is still being expected to influence outcomes over the next 6 months.

So thank you for your attention. And now we'd like to open up to questions.

Question and Answer

Operator

The first question comes from Craig Woolford from MST Marquee.

Craig John Woolford

I just wanted to understand the gross margin performance in retail. It was a very good result. You talked about some of the impacts being reduced discounting activity. Was there also a mix benefit in the sales base? And how should we think about the outlook for gross margins in the second half? It does seem to be quite a seasonality. Gross margins looked like they're quite high in the second half based on last year's numbers.

Steve Donohue

Yes, yes. Thanks for the question, Craig. I think at the full year, I was saying that the gross margin upside was 1/3, 1/3, 1/3 split. It's now about 50-50, a combination of new products flowing through and Pinnacle demand flowing through. And the other 50% is upside from softer promotional activity in the market.

But as I said in my opening remarks, it has moved around quite a bit. Those things tended towards more of a normal environment, if you like, i.e., COVID restrictions started to ease. We were seeing more activity come back, both in the hotel environment and retail environment. It was a bit erratic though, I must say, and we were surprised, especially in retail, at some of the nature of those sorts of deep discounts and promotions. We saw multiple layers of promotions in some of our competitors, which probably leads me to think that we might not have the highest sales growth in the market in the half, I suspect, but I don't know. It will be interesting to see.

We've really avoided some of the least profitable sales that are out there and the wholesale loss-making beer sales and those sorts of things, so I would include in that category. So we were really focused on the quality of our sales in the half and continue to do so, but we'll have to play the market by ear.

Shane Gannon

Yes. Craig, it's Shane. Just to add to that to round out your question. In terms of what can we see going forward, I mean, the only -- it's always very difficult to forecast margins, but the only I'd make is around that sort of promotion spend that clearly, over time, as we move to a more normal environment, that promotion spend will increase. So we can say to you that, that will have some effect on gross margin.

Craig John Woolford

And what about the shortages? Because there were some categories which are quite short on stock leading into Christmas. Do you think that contributed to less discounting activity?

Steve Donohue

Look, you do tend to get that "the beer is going to run out and the champagne is going to run out" stories every year, irrespective of supply chain impacts. And we got them again last year. But I think what gets a little lost is the high degree of substitutability of those products. Most people have a repertoire and will shop across them. And that's the way we saw it play out. But it was -- there were some supply chain challenges, but it actually worked out pretty well in the end, as a matter of fact, because we would normally load stores up early and we didn't, the stock flow through with the demand.

So look, the truth is some people will have not been able to get precisely what they wanted, particularly through December, but most people got an alternative if they couldn't get their exact product. We've still got some challenges, I might add, with the real lime , beers with real lime, which has had a bit of an impact in recent weeks on both Western Australia and the Northern Territory because we've got our national distribution center in Melbourne. So we've got some of those slower-moving lines that have been a bit of a problem over there. But I think supply chain issues, they're always around and what would be more in the future.

Operator

The next question comes from Michael Simotas from Jefferies.

Michael Simotas

Can I follow on from the earlier question on gross margins? The benefit to gross margin that you've had from product mix premiumization, Pinnacle new products, et cetera, do you expect to be able to hold on to that as promotion spend starts to normalize? So when you've seen that recovery in on trade spend, have you seen any normalization in consumer behaviors away from those premium products?

Steve Donohue

Not so much premium products. I think, Michael, what we see is continuing demand for premiumization and, as I touched on, a lot of demand for premium and luxury products out of our Pinnacle portfolio. But also, 40% of our sales these days come from products we didn't even have in our stores 8 years ago. And as new products flow through the network, they generally do so at a higher return. And so therefore, I think it links back to customer behavior more broadly. People do want new and interesting products, particularly as tastes evolve and expectations around what's better for you or low and no-alc type of expectations come through. But that's only one side of the equation. The other is what happens in the market.

So our position is that we'll always remain competitive. That happens automatically in the Dan Murphy's environment because of the price guarantee, but BWS is no less committed to being competitive.

If there's competitive pressure and perhaps, if you like, a lack of sensible promotion in the market, then yes, absolutely, we'll remain competitive. We're not going to pass that market share. But we've actively stepped away from some segments or some categories, and that's what I'm saying about the quality of the sort of category mix.

So when COVID first started, we had to apply limits to all categories. We left some limits on beer sales and you can go out and chase unprofitable beer sales, if you so choose. There was a time 10 years ago when perhaps parts of our business can do that. But we're actively avoiding that sort of activity that's really not contributing to the profitability. So some of it is within our control, some of it is beyond our control. We continue to focus on that which is in our control.

Michael Simotas

And just a follow-up. You don't talk much about the economics of Pinnacle. How should we think about the current Australian wine grape oversupply situation and compression in pricing at the lower end? Is that likely to be a COGS benefit for that part of the business?

Steve Donohue

Yes. Look, I think I said at the full year that there were some benefits for us in some of the cooler climate, premium side of things. So -- but it's a relatively small kind of component cost of those cost of products. Where it's having a bigger impact, I think, is at the entry level. So you're seeing a bit of downward pressure on red wine, just given inventories as vintage comes through. White wine prices continue to be quite elevated, particularly in context of the challenges that have been experienced out of New Zealand, specifically Marlborough, and their heightened demand for New Zealand white at North America.

So yes, it tends to actually be affecting right now more the bottom end. But we're smacking the beginning of vintage sale. It will be interesting to see how it all plays out. But there's a bit there. How does it affect product costs and so on, it does take a bit of time to flow through.

It's important to realize. So kind of what we're picking today, we'll be drinking in a couple of years' time in most cases, except for the very, very entry stuff. So definitely a bit of pressure on bottom-end red wine bulk pricing. That's for sure.

Operator

The next question comes from Shaun Cousins from UBS.

Shaun Robert Cousins

Just a question in regards to the first 6 weeks. You've highlighted that hotel and retail are both sort of down. You also noted that the traffic issues eased into February. Are you seeing sort of February get to positive now or flat? I'm just curious in terms of how much of the easing of those sort of traffic issues because of Omicron have actually left the business or are they still hanging around in place?

Steve Donohue

Yes, thanks, Shaun. No, it definitely improves, as I said, as restrictions eased or removed, probable excitement about the fact that you could dance in pubs over the weekend. So that's definitely taking place.

So it's gotten considerably better. And as I said, when we last saw significant easing of restrictions in those 2 markets that has them in New South Wales and Victoria, things really didn't pop back. So Omicron was different. Omicron was more about hesitancy, I think, than anything. Certainly, we didn't have lockdowns, but that's abating in line with changes to restrictions. It's just volatile, I think, is the point. We don't really know what's next and what's going to change. So it's very hard to sort of have unbridled enthusiasm for what's about to come, but it's good to be dancing again.

Shaun Robert Cousins

Right, okay. And then maybe just more broadly on sort of reopening. Tabcorp's indicated that they're starting to see sort of cash business -- cash flow going to come back sort of quite strongly to sort of 90% of pre-COVID levels. I mean as you're seeing pubs reopen, and maybe with reference to what went on in the first half when you did get that sort of false down, where did gaming levels get to? I mean are you getting to a stage where gaming, just given that's quite important to the profitability of the hotels, did you get gaming levels back to where they were pre-COVID in those venues that were -- in drawing a reopening tailwind?

Steve Donohue

Yes. Gaming has been pretty solid. It hasn't really had the same challenges as parts of the business like the bar sales and food. That's sort of way of hesitancy played out the most. So what that means for us was, particularly in December, the shape of the P&L was very good to higher-margin segments like gaming. So it's a pretty probably unrepeatable type of event where you've got your lower-returning segments that are not doing a whole lot, and then your highest-returning still holding up.

So yes, generally speaking, gaming has helped.

Shane Gannon

So I guess the only comment would be around the sort of spacing requirements now with COVID, which we've done as well.

Operator

The next question comes from Grant Saligari from Credit Suisse.

Grant Saligari

Could you please give a little more color on your capital expenditure outlook for the remainder of the year? The business is in a fairly good cash position, so just interesting attentions on investment, please?

Steve Donohue

Yes. So as we said previously, we've sort of got an indication of around the $350 million mark. Yes, it's always difficult to predict as we're looking at a number of acquisition opportunities. So to specifically answer your question, I would say, in the order of $350 million to $400 million range is our most recent forecast.

Operator

The next question comes from David Errington from Bank of America.

David Errington

Steve, I am -- I can't help but notice the irony where Woolworths missed earnings by 10%. I think their first half earnings were down by 10%, and your earnings are up by 10%. I had to get that cheeky little hit in. Now I can't let that irony go past. But the question is with your cost performance, which is another ironic issue with Woolies, but your cost performance looks to have been superb. When you got your cost of doing business, I think, in retail, it only increased despite a really high elevated level of sales or not -- sorry, highly increased level of online, not your sales went down. But when you look at your absolute dollar in sales, have only increased, I think, by about $26 million or $28 million.

And in hotels, it only increased by $10 million in terms of absolute dollars, which is fantastic given rent charges would be going up, et cetera, and you had so much disruption. So my question is 2-front.

One, are there any costs increases because there's a lot of disruption in this first half because of supply chain disruptions. Are any costs still being worn by Woolies that might have to come to your -- mainly in distribution?

And secondly, with the costs in hotels, when they start to open up again, will those costs go up? Because otherwise, the leverage will be enormous because I thought most of the costs would be fixed. Can you give us a bit of a rundown as to when things get back to normal in the hotels, what we can expect with your cost there? Because I'm surprised they only increased by $10 million in this very first half.

Steve Donohue

Thanks, David. I appreciate all of that. I'll try and address all of the points you raised. But let me first say that we've actually -- we've got nothing but gratitude for the support we've had in Woolies in the half, particularly as it relates to supply chain challenges, and they had their fair share. But the efforts and work that they put into particularly getting our brand in DC back on track, we are really, really grateful for.

Now the costs that were associated with that have been passed through to us on case-by-case basis, i.e., carton by carton. Just as the boxes are moved out, those costs flow through on a carton rate. So there's nothing that's ballooning or being held out of the results that we're talking about here. Sort of -- I touched on it a little bit earlier. What we've done historically -- and we were very nervous in December and actually, you'll appreciate why. But we couldn't actually load up our retail stores with inventory, which is what we would always have done through the years I've been in the game.

You pump your stores for the stock in November, and then you've got a lot of confidence about having what you need to sell through to December. We couldn't do that this year because of the challenges we had in the supply chain, but it was a blessing in the store because we used the systems to feed the stock into the stores when they needed it. And the overall impact was a far better inventory position. We got the products, well, as close as we could to the products that customers wanted to buy when they wanted to buy them. So we've learned a really important lesson there about trusting our systems and flowing through stock when we need it.

But the other thing that has impacted cost is -- and I have a kind of a combination of pride and guilt about this is our team just worked really, really hard in December. We were stretched. People were running from 1 store to the next because we had so many people in isolation. We had teams in hotels that come from 4 other pubs to run this pub. It was really, really tough. So we kind of got COVID-lucky again, if you like, in relation to both our labor cost and the flow of stock through the system.

So there's no cost that's going to be passed through that hasn't already. And then to your question on hotels, it's a really good question actually because as I touched on with that December result, when some of the lower-margin elements of the hotel underperformed and you get a sustained performance out of gaming, you do get this sort of unnatural upside in profitability on the bottom line. We're starting to see a lot more demand for entertainment back into our pubs for live music. We've historically been the largest provider of live music and entertainment in Australia, and we aspire to get back to that stage as quickly as we possibly can. But I think things like food discounts and happy hours and those things, we'll be really sort of careful and judicious with how we apply them in the future. But you've got to look at these things as investments rather than costs, I think, and just monitor your sales performance off the back of them really closely.

David Errington

And in summary, it seems, Steve, that your business is better. You've significantly improved your business post-COVID or COVID. Your business is better today than what it was pre-COVID, basically, in summary.

Steve Donohue

Well, that's true. Yes. I mean we just -- as I touched on with the market, in every locality where our pubs exist, if we're dealing with half-priced parmigianas down the road, then we'll deal with our half-priced parmigianas. It's going to be a competitive marketplace and we'll continue to be making the right offers for our customers, absolutely.

Operator

The next question comes from Tom Kierath from Barrenjoey.

Thomas Kierath

Just a question on Pinnacle Drinks. You talked through the growth rates that you experienced there in the retail business in comparison to like the third-party brands that you sell. And I wonder whether -- just given the stock shortages, whether you're able to kind of replenish more of the stores with your own product, which supported the margins in the half.

Steve Donohue

Thanks, Tom. I don't think that net-net, we over-indexed on availability of Pinnacle relative to proprietary that -- with maybe some small exceptions in some categories, perhaps like champagne, where there were perhaps some of the bigger brands that weren't available. But all that really has done is accelerate this kind of mega trend towards craft and local and somewhat away from the more monolithic big brands. And I don't just mean with reference to champagne, I mean that generally, you find customers continue and they want better and they want more premium. So yes, it didn't really happen that way, if you like. It wasn't so much a matter of over-availability of Pinnacle products relative to proprietary.

Thomas Kierath

And just the growth rates, are you able to comment on the growth rate of your kind of own brands versus the proprietary brands?

Steve Donohue

Yes. Look, our growth in the Pinnacle portfolio. I mean we do look at it on a category-by-category basis, but in aggregate, I'd say that it's continued to grow ahead of the total business. It's like I talked about with the use of our data and the significant proportion of the portfolio, which is new product, we work really fast and hard to understand customer needs and then build products that meet those needs. And if you look at categories like seltzer, for example, we're privileged that customers love the seltzers that we've -- that our team has created and they account for somewhere in -- somewhere north of 1/3 of our total seltzer sales. And that's a testament to the team and the partnerships that we've got with suppliers that enable the development of those products so quickly. It's one of the benefits of being able to be so responsive and efficient through understanding what customers are after and being able to respond to it.

Operator

The next question comes from Ross Curran from Macquarie.

Ross Curran

Sorry, can I just go back to Dave's question earlier on around the elevated costs that sort of Woolies called out on the distribution channels and how you managed to avoid it. Can you give us a bit of a feel for just how your network is different from theirs and how you didn't see the spike in DC costs that some others did?

Steve Donohue

Yes. All of our stuff is ambient, so I'm trying to avoid making any comments about Woolworths, but we don't have frozen product. We don't have fresh product. We don't have chilled supply chains to contend with. We have a relatively simple supply network, predominantly locally sourced. And whilst there were increased costs and some challenges with availability relative to those more complex categories to manage, we came off pretty well.

I'd also point out that, that cost of distribution sits in our gross profit line. It's not -- doesn't sit in a CODB line. So just for awareness, whilst it had an impact, that was offset by those upsides in gross margin we've talked about.

Operator

The next question comes from Richard Barwick from CLSA.

Richard Barwick

I got a couple of questions about your investment within the hotels. What are your expectations re acquiring additional hotels? I see that you've managed to pick up 2 post-balance date. Can you give us a bit of a steer on what your expectations are for the remainder of '22 and then how we should be thinking about into '23 and '24?

Steve Donohue

Yes. Thanks, Richard. Well, I think we said at the end of the last financial that we've done 4, and a lot of those have come in a bit of a flurry towards the end of the year. We've now got 5 done so far year-to-date, as we sit here today, not in the half, as you pointed out. So we're tracking at less than 1 a month. It continues to be an opportunistic acquisition opportunity, if you like. We wait for the right sort of hotel to come up, and then we work through making that acquisition. And not all hotels that are on the market are the right sort of hotel for us.

The 2 that we haven't talked about but we have achieved, the Empire Hotel in Kilburn in South Australia; and the Grand Tasman in Port Lincoln. So 2 in South Australia. Both will, we think, be great additions to us, and we've already brought them in. So the team are in there now working on them. The forward view is anybody's guess, quite frankly. We're just going to have to take advantage of opportunities as they arise. We've got a couple more that we're sort of working through, but it's hard to be able to be specific. Shane, do you want to make a comment?

Shane Gannon

Richard, yes, just it's probably motherhood statements, I guess, but from a capital point of view, we continue to look at these opportunities, but we all pick up the paper and read about some of these high values for hotels. Clearly, we're not going to be tempted by that. So we're just very targeted at the moment. And we're hopeful we'll continue to secure those hotels that meet our hurdle rates, like the ones we've acquired, but not getting ahead of ourselves.

The one that is probably more work is coming is around what we talked about at the full year was around the renewals program in our hotels. So we talked about 22 hotels for the half where we've invested in upgrading our hotels in our existing portfolio.

I'll remind you, there's 337 hotels and 5 clubs in our portfolio. And what we believe is that like the retail component, we believe that the returns that we can generate from those existing hotels are quite significant, in the mid-teens is what we've said previously. And to me, that's giving us a better return on our capital than chasing some of these high-valued propositions that just don't stack up in our mind. So it's a combination of new and old.

Steve Donohue

And to Shane's point on the price of pubs, that 5% is -- our outlay has been in the vicinity of $80 million so far to get that 5%. So it's not small dollars, and that's a combination of leasehold and freehold. So I won't talk through all the detail, but it's pretty material expenditure put that way.

Richard Barwick

I get why it's lumpy and makes it difficult to be precise in the predictions and thus, you're sort of still thinking about refurbishments. So my follow-up was actually along those lines. You referenced that you've upgraded, I think it's 838 gaming machines across the half. Can you talk about what that actually means? So when you go through that process what's, I guess, the sort of return you get on that money? And how do we think about that process in terms of your, I guess, your average? Can you talk about an average number per AGM if we think about that for our modeling purposes?

Steve Donohue

Look, it's a scientific exercise to be honest, but it's also -- I'm not going to give you an easy answer to build a model on them. Sorry. But let me do my best to give you the best answer I've got. It's always a combination of things. So when we say we renewed 22 pubs, I think it was, it will be elements of the pub. We might not have done the whole thing top to bottom or we might have done the whole thing top to bottom. Certainly, it's true that reducing the average age of your gaming fleet is an important -- it's important for us because we're probably a little bit long in the tooth, to be honest. But what we're finding is that you've got to do it in small steps and you've got to bring product into your portfolio that has appealed to players.

Now we've got a good load of Dollar Storm from Aristocrat, and that's proving to be a pretty successful brand for them and us. So we'll continue with that one. But not to miss the point that it's also the fact that you've got to have COVID-space gaming rooms and players are expecting COVID-space playing -- gaming rooms these days. So -- there's more to it than just the age of the machine. You've got to have it in the right environment, and that environment needs to be surrounded by a good pub. The best one to point to is probably Sunnybank in Queensland, just an outstanding outcome. It's one where the team created a fantastic player experience in the gaming room, but an even better experience next door in the sports park. Just phenomenal, and I'd encourage anyone who's got the opportunity to go to Brisbane to go to our Sunnybank hotel, it's a beauty.

Operator

Next question comes from Ben Gilbert from Jarden.

Ben Gilbert

Just on the Dan's or just on your retail liquor piece. Just interested in how you're thinking about maintaining that price positioning in the market. Obviously, you've got a pretty clear loss prices on this. You sort of compared with you guys the same versus funding from the different businesses, but probably the same caliber of brands in Australia, just essentially taking a slightly different approach around maintaining pricing promise. What did you see around customer perception and price perception in the market? And how are you thinking about that looking forward?

Steve Donohue

Thanks, Ben. Yes, look, no plans at Endeavour to ask away from the price guarantee. We have made it more part of our My Dan's program. So one of the challenges we had -- and Dan Murphy's loss due to price guarantee is, as best we can tell, pretty unique globally in so far as we've got a team of people every day who proactively lower the prices of everything in the store relative to what we can scrape from our competitors' websites or what they advertise.

Now that's a very compelling proposition. We've transitioned that into a member benefit in the last period, and that's been great because customers are recognizing that we've done something for them, whereas in the past, it was just kind of lucky I got a good deal.

Now that's also translated to improvements in price perception. So Dan has always had a very high and has always had a very high price perception. And we've never got enough kind of credit, if you like, from customers for the significant investment we make in being price competitive, but that started to shift a little bit as we've shown customers, just how good a deal they're getting it at Dan's.

So definitely don't plan to step away from it. It's been what's built the business. It's what customers love. One of the things customers love about Dan's is that they don't have to worry about price. We sorted that out. For now, they can just enjoy the experience and talk to our team and find something that's going to enhance the quality of the next social event.

Ben Gilbert

So just a follow-up on that, Steve. So just around -- you said that most of the data out there probably suggests that there might have been some different movements in trends through December. Does it worry you? Or do you sort of get concerned if you think you might have lost a bit of momentum in some of the beer categories or these other ones? Or do you think, look, it's a bit of an abnormal period, let's look through Q1, Q2 this calendar year. When there's been a normality in sales, we'd go on the share side.

Steve Donohue

Yes, probably more the latter, Ben. I mean we know we had a very strong December, and that's critical. We had a strong December relative to what we know the rest of the market did. The half in the quarter though was a bit each way in some respects in some categories where we just -- we don't chase that sort of business as much as some others might choose to. So that's for them, and you can ask anyone else those questions.

But I think we're privileged to have products that customers want to buy that we own the IP of. And I think that makes us relatively unique as well as those continued investments in particular, in personalization, mean that we're able to provide the customer with the next new and interesting product that they perhaps have never thought about before in the same way as Netflix proposes a movie that you've not watched or a series you haven't watched or your music providers make a suggestion to you, which you love as well. Those are the sorts of capabilities that we've been investing in. And I think those do provide us with a degree of protection from the day-to-day pricing of product X or Y in the market.

Operator

The next question comes from Phil Kimber from E&P.

Phillip Kimber

I just had a question on hotel seasonality. It's been a while since we've had a normal sort of period. And I think we've only got Woolies' data to go by, and it was all pre-AASB. So I just want to check, is it roughly, in round numbers, earnings sort of skewed 60% first half, 40% second half in a normal year? Is anything materially changed to that seasonality, putting aside, obviously, when stores are locked down and things like that? Is there any fundamental things that have changed?

Shane Gannon

Phil, it's Shane. That's something that we've been looking at sort of pre-COVID, what is the sort of seasonal normality? And the best ideas that I can come up with is what you've -- the comment you've made around that 60-40.

Steve Donohue

That's probably retail. It's probably a little bit less in hotels than 60-40, I would say. Closer to 55%, but definitely weighted to the front end. And with all the volatility, it's just hard to put your finger on how it's going to play out. But we definitely had our biggest half, that's for sure.

Shane Gannon

Yes.

Operator

The next question comes from Craig Woolford from MST Marquee.

Craig John Woolford

A follow-up. Just on Slide 16, on the retail performance slide. You've got reset store salaries and wages? And my own calculation of cash CODB, it looks like it was quite modest growth in the first half. What is the reset store salaries and wages referred to?

Shane Gannon

Yes. So obviously, as you know, about the whole remediation program that we've undertaken on behalf of both hotels and retail. So that's the impact from -- that flows through from, as I said, a reset of what is the appropriate level of salary and wages.

What we've -- well, what I would also say to is that a lot of that sort of cost which we attempt to mitigate with some of the productivity improvements that we've sort of introduced to try and reduce that cost impact, the inflationary impact.

Steve Donohue

It's only about $7 million. That's the ongoing cost of paying people the right amount of money on a month-to-month basis.

Craig John Woolford

Yes, yes. Okay. So because the -- I mean, I guess the tied to my question is actually what is the nature of the cost saving program? So that looks quite impressive.

Steve Donohue

Sorry. Yes, sorry. I got it, Craig.

Craig John Woolford

I thought the reset was about some reduction in wages, but obviously not. I was referring to that.

Steve Donohue

Sorry, Shane. It's a bit unnatural, as I said before. So people really were stretched particularly in the second quarter. It doesn't take away from a lot of the initiatives that are underway from the team, led by Michael James, who you might recall also run the supermarket operations network for Woolies in years gone by. He's working with our tech teams to improve things like rostering and understanding the flow of picking in stores and all those sorts of things to improve the efficiencies. So we've got a very material program of work that sits behind that, and that offsets some of those upsides that -- the downside, I should say, in terms of elevated cost.

Shane Gannon

I'm just going to jump in because it is a good piece of work that the Endeavour team are doing in addition to what Steve has highlighted. There's work in procurement just generally around expenditure. And this comes also to when making decisions around technology now, that will continue to flow through over time and generate even more benefit. So I think what you're seeing in terms of cost optimization is example of the work that the team did to try and improve the cost efficiency of the organization.

Steve Donohue

Not all of it was sustainable. I have to repeat that. Like the pressure that people are under in December was quite great, too.

Operator

There are no further questions at this time. I'll now hand back to Mr. Donohue for closing remarks.

Steve Donohue

Thank you all for joining the update today. We do appreciate the interest in the business, and we look forward to seeing you in our pubs, over on the dance floor or in our stores or in our wineries over the course of the next half, and look forward to seeing you all again soon. Cheers.

Operator

Thank you. Ladies and gentlemen, that does conclude our conference for today. Thank you for participating. You may now disconnect.

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