# Endeavour Group Limited, Q1 2023 TU, Earnings Call 2022-10-17

## Presentation

### Operator

Thank you for standing by, and welcome to Endeavour Group's F '23 First Quarter Trading Update. — ***Operator Instructions*** — Endeavour CEO, Steve Donohue, will provide some opening remarks followed by a question-and-answer session. — ***Operator Instructions*** —

I would now like to hand the conference over to Mr. Steve Donohue, CEO. Please go ahead.

### Steve Donohue

Thanks, and thanks to everybody for joining us this morning. I'm joined here today by our CFO, Shane Gannon. Despite the attempts of Sydney's inclement weather to keep him from [ us ], he's just made it in time. My plan today is to make some quick opening comments before opening up to questions. But before I begin, I'd like to acknowledge the traditional custodians of the land on which we are conducting this call today, the Gadigal people, and pay my respects to their elders past, present and emerging.

Now turning to our trading update. During the first quarter, the group delivered a sales result of $3.028 billion, up 3.1% on the prior corresponding period. Compared to Q1 F '20, the last pre-COVID comparative period, sales revenue was up 14%, which represents a compound annual growth rate of 4.5%. This consistently strong sales performance reflects our improved customer offerings, the benefits of consistent investment in strategic initiatives and the value of our industry partnerships. It also demonstrates again the natural hedge between our retail and wholesale businesses as we move beyond COVID into a new operating environment. Perhaps most importantly, the result is a testament to the outstanding contributions of our many team members.

The strong performance in the quarter reflects customers across the country embracing the opportunity to come together again with family and friends and make up for the lost time socializing in both large and small groups. More and more, these connections are happening in our hotels after years of COVID-19 disruptions. There's been a rebound across all hospitality segments with bars, food, gaming and accommodation all performing strongly. And I'm pleased to add that Live entertainment is also becoming a feature of our hotels business again with music fans enjoying a range of sold-out gigs across our hotels. Our ALH teams enjoyed welcoming back their guests in such strong numbers.

Overall, from a group perspective, customer demand across both our segments has been improving, and we're looking forward to the critical Christmas and New Year period with increased levels of confidence.

Now focusing on the sales performance of each segment. Retail sales of $2.49 billion were, as foreshadowed, down 6.6% on the prior comparative period due to the cycling of elevated sales related to the extensive COVID-related lockdowns and restrictions in New South Wales and Victoria. This cycling impact is easing as we head into the second quarter. For the record, excluding New South Wales and Victoria, total retail sales for non-lockdown states were in growth year-on-year during the quarter.

Central to this solid retail sales performance is our focus on knowing our customers and continuous innovation in our offers and service. My Dan's active members grew to 4.7 million members in the quarter, demonstrating the value we're delivering for customers as we increasingly tailor the experience for them via our personalized offers. The retail sales performance in the quarter was additionally supported by customers continuing to drink better with the trend towards increased demand for premium, new and craft products continuing.

In past calls, we've extensively discussed our investments in e-commerce and endeavourX. These investments were foundational to our strong online sales during the pandemic and continued to generate benefits in the quarter. Q1 online penetration at 8.6% of total retail sales is 210 basis points higher than in F '20. Online sales are up 50.3% when compared to Q1 F '20, which is a 14.6% CAGR.

Now turning to our hotel segment. As I previously stated, the performance of our hotel segment was particularly strong in the quarter with sales revenue up 90% to $538 million with trade across all drivers, gaming, food, bars and accommodation recovering quicker than previously anticipated. Hotel's performance reflected the cycling of COVID lockdowns, which saw 40% of our hotels temporarily closed in the prior corresponding period. We're now seeing a strong appetite to come back together to reconnect and embrace the joy of social occasions, particularly at the pub. Compared to Q1 F '20, the last pre-COVID comparative period, hotel sales were up 15%, representing a 4.8% 3-year CAGR.

So now with inflationary pressure impacting many people's hit pockets, we remain focused on providing affordable, welcoming places for people to get out and relax with family and friends. We can see this working through our forward bookings for functions, including Christmas lunch, which are very strong. Finally, I'd like to take the opportunity again to thank all of the team members across Endeavour Group for what were amazing efforts again in the quarter.

Thanks for your attention, and now I'd like to open it up to any questions. I think I might have – I think just before we open up to questions, I may have referred to retail being down 6.6%. Retail was down 6.2%, my apologies, just to correct that stat.

## Question and Answer

**Operator**

— ***Operator Instructions*** — Your first question comes from Michael Simotas with Jefferies.

**Michael Simotas**

Can we talk a little bit about market share? If I look at the 3-year growth trends in retail, it looks like you've lost a little bit of market share. I know you've spoken about the sort of lower-margin, secondary wholesaling-type volume in the past. But there's a bit of feedback out there that BWS is losing a little bit of share in wine, and there have been some changes made in the business ahead of Christmas. Can you just sort of talk to those trends and whether you're comfortable with market share and whether you may be able to lift that heading into Christmas?

**Steve Donohue**

Yes. Thanks, Michael. Appreciate the question. We feel really comfortable with our market share performance on a pre/post-COVID basis. There's certainly been a giveback of some market share as a result of not cycling the unexpected spikes of demand through lockdowns and COVID restrictions. So those were nonrepeatable events, and we continue to fight hard to keep our market share. But the reality is that for event-based businesses, particularly like Dan's, those are nonrepeatable.

The other thing that we're very focused on from a pre/post-COVID standpoint is knowing our customers better. So we refer to the fact that we've now got 4.7 million members in the My Dan's program. Coming into COVID 3 years ago, that was 1.7 million customers. So we now have 3 million more customers, and they are shopping with us with a relatively high frequency. So that's giving us enormous capability around being able to tailor offers and increase convenience for those customers across both businesses. And that information feeds into the decisions we make about ranging.

So actually, we're not seeing any particular or explicit challenges around the wine category in BWS. On the contrary, we've seen an improvement in wine category performance across both Dan's and BWS relative to the trend in the last quarter. So we're not particularly concerned about wine. We're concerned about driving the whole category. And we're particularly concerned about being focused on delivering a great Christmas, which is a really big opportunity for the whole business because we are generally a very event-based category, and we overindex in events as a group.

**Operator**

Your next question comes from David Errington with Bank of America.

**David Errington**

Anyway, I'd like to talk about hotels, in particular, and the reopening. It seems to be going a lot better than what you're expecting post the lockdowns last year. And I'm particularly interested in your comments where you're ensuring that they become a destination that's for locals, welcoming and seeking a welcoming and affordable place to socialize.

Now the one – I think the last probably 3 months since we last spoke or whenever it was, the world seems to becoming a more miserable place, whether it be the threat of bombs going off or recessions going off and people tightening belts and that. Are you doing anything different in your hotels that will ensure you – that you can capture this market share, that potential could be got because of – because it's an affordable place rather than going after a high-end restaurant? And then what are you doing to do it? And then how difficult is it to do it, given the constraints with getting labor and stuff like that? Now I know it's a bit of a convoluted question. But if the world is a miserable place, what are you going to do to ensure that your hotels are going to be the solution to all – everyone's miseries?

**Steve Donohue**

Thank you, David. I'm not sure it's as miserable as you perhaps are characterizing it. Certainly, in a global context, certainly. But what we're experiencing in the way customers are enjoying the pub is actually to the contrary. On average, we're seeing larger groups coming together. So we're seeing about a 10% increase in the size of a booking. We're also seeing people wanting to enjoy the hotel over more hours of the day, and I think that is a factor of both people's intent to want to get together but also the convenience that we offer in a hotel as well as the affordability that I've talked about. So a lot of that convenience is actually enabled by the tap, order and pay functionality.

So we're actually seeing more food and beverages being ordered from more places in a hotel than ever before. Whereas previously, you had to go to the bar or you had to go to the bistro or canteen and order your meal. You can just tap and even pay from anywhere in the pub right now. So the convenience of the hotel has markedly increased as has consumers' propensity to want to use digital platforms or their ordering via the pub. So those are a couple of things I'd point.

So I think the affordability and the quality that we offer in the hotel is something that's being recognized by customers. And you made the reference to the – perhaps the opportunity for a trade down at a fine dining into the sort of more mainstream offer that we provide. That's potentially a factor at play out there. And then the last one is that real appetite for human connection, listening to music or watching a live show, be it a comedian or whatever the case. We've certainly seen that come back quite strongly.

And I guess what distinguishes our hotel group is the fact that it is so multifaceted. So I won't bore you with the details of the performance of our accommodation at the moment, but it's going very well. So our pubs have bar experiences, great food experiences, accommodation experiences, gaming experiences, a variety of experiences and places where people can congregate and have that positive time together.

The only other thing I would add is that our team is doing an amazing job. And in context of the challenges we have around finding sufficient chefs or sufficient assistant managers, the step-up in our team, particularly some of our more junior team, is just very encouraging, I suppose. I couldn't be more proud of the effort that people have made and the positivity with which they approach our customers and guests inside hotels. So all in all, we're feeling positive about what lies ahead, particularly with Christmas because we think people are feeling positive about the opportunity in getting together at Christmastime for the first time in a long time.

**David Errington**

And staff, getting them?

**Steve Donohue**

Yes. It continues to be a challenge, but we have made some progress. So we're still looking for a number of chefs and a number of managers. But as I say, these shortages, as it were, have provided opportunities for people to step up that perhaps might not have had those opportunities. And I think that's great for particularly younger people to be getting those opportunities. So I've been personally the beneficiary of those sorts of times in my life, and it's great to see it playing out for a lot of our team, too.

**David Errington**

Yes. It seems hotel is a positive surprise. So good news, Steve.

**Steve Donohue**

Well, we hope it's a very good Christmas is what we're very focused on at the moment, David. Thank you.

**Operator**

Your next question comes from Grant Saligari with Credit Suisse.

**Grant Saligari**

Steve, I'm just wondering on the retail business. You mentioned positive mix effects. Can you just maybe unpack the price mix and volume a little for us? We observed a little sort of straight-out price inflation on the CPI data. But just in your business, could you maybe unpack those drivers a little bit, if you could, please?

**Steve Donohue**

Yes. Thanks, Grant. Yes, obviously, we're seeing some volume declines off that top line dollar decline that we've talked to. And there is some inflation in the category. And it has been elevated somewhat by the CPI increase that flowed through in August. So it's probably in the vicinity of around the 4% mark overall across the trade, I would say. I'm not just talking for us. I would expect that, that's around about what it's operating at across the industry, and that's true for us, too. So yes, that is a factor in this performance.

What has been interesting to observe is the continued appetite from customers for what we describe as drinking better. And that has historically included low and no alcohol as we've talked quite at length about, but also that propensity to want to enjoy a local product or a craft product or something new that you haven't tried before that perhaps is more premium than the last thing you tried. That broadening repertoire of customers and real commitment to supporting local type of businesses has continued to play forward. And I think in context of the broader pressure on consumers out there, that's been really interesting to observe.

So I'm hopeful that, that plays forward through the Christmas trading period. All indicators suggest that it will do. I think it will be interesting to observe what happens in a post-Christmas environment. That will be the perhaps more unknown sort of era that we'll step into.

**Operator**

Your next question comes from Lisa Deng with Goldman Sachs.

**Lisa Deng**

Steve, just wanted to get a little bit more color on how you're planning to execute around Christmas because obviously, that's a very important period for us, and there will be different dynamics at play compared to last year. I think you talked to like maybe doing – going earlier. I don't know if you can talk a little bit about like the promotional calendar, the key categories, the promotional strength of what we plan to push in front of consumers. Like how are you operating differently this Christmas versus last?

**Steve Donohue**

Yes. Thank you, Lisa. I think that's a really important question. Obviously, there's 2 different dynamics that play out across both sectors, and I'll just touch on hotels to give you a flavor of that first up. So we expect to serve around 44,000 Christmas covers, so Christmas lunches, Christmas dinners. And at the moment, our forward bookings are double what they were at the same time a year ago. So we've got demand for about 1/3 of the seating and capacities that we'll have for Christmas already, and that's double where we were last year. So what that does is give us confidence around the preparedness that we have to have in hotels.

But I think your question probably related more to retail. You probably recall that we talked about the flow-through of inventory last Christmas was very much inhibited in some respects by the supply chain, and we were quite extremely just in time. Now it worked out okay, but we don't want to take those sorts of chances this year, particularly with challenges around availability of pallets or our labor in DCs or trucks and the various other issues that we could potentially face. So we're pulling forward some of our inventory into stores a little bit earlier.

We're also seeing an abatement of some of the international shortages that have been manifested as a result of supply chain challenges around the world, so some scotch whiskey availability, some American bourbon availability. And that is also continuing to get better. So as we go through October, we're actually going to find ourselves in the best in-stock position we've been in since the start of this financial year. So that too is giving us some confidence. So in general terms, we'll pull forward a little bit of inventory. We've worked very hard to make sure that we've got the appropriate level of availability, particularly of things that we have to bring from overseas.

What will play out, we think, in terms of Christmas demand is a combination of the tried and true, the old favorites, champagne. We do sell a lot of Irish cream at Christmastime and those sorts of things. There are certain products that only sell at Christmastime, but the continuation of this strong appetite for new and premium drinking better craft and local is also what we've been prepared for. So all of that combined is giving us a degree of confidence about being able to serve the needs of customers this year, whereas last year, we were quite by the seat of our pants, if you like.

**Lisa Deng**

And promotional strength?

**Steve Donohue**

Our promotional strength is as strong as ever. And I think customers take great confidence in the Dan Murphy's price guarantee and active price guarantee, unique across all forms of retail in Australia. Dan Murphy's go and seek out their competitors' prices and lower them proactively. That is a killer offer in a market where there are all sorts of challenges for customers around affordability.

**Operator**

Your next question comes from Shaun Cousins with UBS.

**Shaun Cousins**

Just a question regarding gaming. Can you just talk a little bit about, I guess, the proportion of sales? I'd assume within hotels that socialization has become more of a focus, this human connection, that gaming may have moderated as a proportion of your gaming revenue – sorry, of your hotels revenue there. And then just any comments you'd care to make around the Tasmanian announcements that are coming through in terms of the change in regulations there and potential impact it could have on your business, maybe not so much from a Tasmanian perspective, given that you don't have many hotels in that state, but just more generally, that direction of travel in terms of gaming regulation, please.

**Steve Donohue**

Yes. Thanks, Shaun. I know you spent a lot of time researching us in situ, in our stores, in our pubs. So you'll be familiar with the goings-on of a gaming room. They are a combination of places time – people spend time on their own in places where people spend time socializing together. The performance of gaming has been relatively strong through the quarter. What's been interesting is the performance of bars and food have surpassed them in terms of percentage growth. So we feel pretty good about the balance of all of the – what we call the drivers of the hotel. And the fact that food and bars have become our fastest-growing categories or drivers, if you like, is really positive. I think it's a testament to that point we were making before about sociability, which happens in all parts of the pub.

Your question on Tasmania, yes, we're obviously staying very close to the changes in Tasmania. I think your question related to the implications or impacts on other states, as you'd appreciate, every state operates its own jurisdiction, and there are differences across each of those states. I think what we remain very focused on is the engagement that we have with both regulators and government in every jurisdiction we operate. And there's all sorts of different programs underway that we're involved in actually in places like New South Wales and Queensland on a variety of initiatives that are in some respects similar, in other respects different to those that have been announced in Tasmania. So what we'll continue to do is engage very closely with regulators and governments in all jurisdictions in pursuit of progressing the agenda of responsible service of gambling in all of our markets.

**Operator**

Your next question comes from Craig Woolford with MST Marquee.

**Craig Woolford**

Just a quick question about the excise. You had alluded to it before, but it was early August, I think, and obviously very noisy year-on-year figures to try to interpret. But have you seen any volume reaction by consumers to the excise-related price increases in retail?

**Steve Donohue**

Thanks, Craig. Yes. Look, as I said before, what we've seen is across the market, that price increase flow through and hold, I would say. What it hasn't seemingly done is affect consumers' long-term trend appetite for new and premium and craft. So that's a pretty succinct answer, but the 2 are operating in connection with 1 another, I suppose, across the category. And we're seeing it across the market. So my reference to the increase is one for the whole category rather than for Endeavour.

**Operator**

Your next question comes from Bryan Raymond with JPMorgan.

**Bryan Raymond**

Much – maybe a follow-up on Shaun's question around gaming. Just if we could have a look at it rather than year-on-year, which is obviously very messy with lockdowns. If we could look at that 3-year CAGR figure of – in the 4% range and think about gaming versus food and bev over that time frame, most of my feedback suggests it's pretty buoyant out there in gaming from a hotel perspective across the major states. I just wanted to understand how you're seeing the environment more broadly and also how your investments in the gaming floor and content has maybe helped on that front.

**Steve Donohue**

Thanks, Bryan. Yes. Well, there's plenty of publicly available data on gaming performance over all of those horizons that you just referred to. My comments are very grounded in the here and now and what are the particular trends that are playing out. And as I say, food and bars are leading at the moment, and we've got the balance overall. I think as COVID restrictions ease, gaming was one of the categories that came back first, but that wasn't an enduring trend. People were able to enjoy all elements of the hotel very quickly thereafter.

So yes, I mean, what we're very focused on at the moment is what lies ahead. And we're taking a degree of confidence, I suppose, from the forward bookings for Christmas and our preparedness for that. We think it's going to be very exciting for customers this year.

**Bryan Raymond**

Excellent. Just a quick follow-up, just on that 3-year CAGR figure that you guys put in your presentation. Gaming in Queensland, where it is really observable, is trending at sort of well above that level. Would that be a fair indication for a national run rate that you would see gaming ahead of the overall level on a 3-year CAGR basis for your hotel business?

**Steve Donohue**

Let's make sure I understand your question. Well, first of all, we won't – don't intend to split out the drivers of the hotel. But what we're observing is a good return on the investments that we've been making in improving the quality of our fleet and our rooms.

And that stands us in good stead relative to the markets that we're operating in. So when we look at those the market results that you're referring to, we feel as though we're delivering very effectively in our hotel network.

And I might also add, sorry, just to draw a line under it, when we look back over that 3 years you're talking about, we see a degree of balance as well. So there's not an imbalance in the historicals, if that's what's motivating your question.

**Operator**

— ***Operator Instructions*** — Your next question comes from Peter Marks with Barrenjoey.

**Peter Marks**

So again, just a follow-on from Shaun's question on the Tasmanian proposed changes to the regulations on gaming machines. I think the interesting proposal there is the loss limits of $5,000 per year. Have you done any work on what sort of proportion of your gaming revenues would be coming from gamblers that are losing more than that per year, just to give us a sense of how material a risk that could be for your hotels business?

**Steve Donohue**

Thanks, Peter, for the question. I think I should just state for the record, I think we've got 5 pubs in Tassie, just so everybody's conscious of that. And we have stared into the planned changes in Tasmania. And we're conscious of the impact that, that will have on our business down there. So I think the bigger picture here is that, as I said earlier, we remain very close and engaged with regulators and government in every state on the topic of improving outcomes as it relates to responsible gambling. We're active participants in digital wallet trials, in facial recognition trials, and we're very committed to the best possible outcomes that we can be involved in across every jurisdiction.

So I'm not going to go into detail on any modeling or anything of that nature other than to say we're very committed to working closely with government and regulators in every jurisdiction.

**Operator**

Your next question is a follow-up from Michael Simotas with Jefferies.

**Michael Simotas**

And look, I know this is a sales call, not an earnings call, but there's a lot of confusion after the full year results in terms of retail margins. Is there anything that you can do to give us a little bit more color or comfort on the outlook for retail margins and in terms of the one-offs that were sitting in that FY '22 result?

**Steve Donohue**

Thanks, Michael. Yes, you're right. It is a sales call. I think the only thing I would say, which is really only a follow-on from what we said at the full year, is that we're seeing things get back to normal. Now if you look back through the historicals for us, our seasonality in H1, H2 bottom line is about 60-40, and that's probably where things will play out into the future, one would expect. And that's true for both hotels and retail. So that's as much as I think I can give you at the moment.

**Michael Simotas**

And just to be clear on that, when you say 60-40, should we be looking at that second half of '22 as a reasonable indication of a normal second half? Or it sort of looks like there is some one-off drag in that. So that's probably not the right way to think about it for this year.

**Steve Donohue**

Yes. I think your last point is right. So go back to a pre-COVID year and have a look at the weighting there, and that's where we get the balance from. That's right.

**Shane Gannon**

I think, Michael, the underlying point is, yes, what we experienced, particularly around January, February earlier this year with the disruptions around supply, those additional sort of COVID costs, they were sort of one-offs that we're not experiencing now we've moved back to that normalized environment. So to Steve's point, the seasonal point is the 60-40. We have talked about more normal sort of historical EBIT margins as a sort of expectation. So that will continue.

**Operator**

Your next question is a follow-up from Lisa Deng with Goldman Sachs.

**Lisa Deng**

One on sort of hotel acquisitions. I think we've done 3 in the first quarter. Can we talk a little bit about sort of the trend going forward or what we're seeing in the market and kind of what we can expect? Because going back to the strategy day, we had a decent allocation of sort of the capital with a good sort of range in between to do acquisitions and renewals.

**Steve Donohue**

Yes. Thanks, Lisa. The point here is that we always balance the capacity we have with the discipline we must apply from a capital management standpoint. So you're right, we do have the capacity, and we have taken in 3 into the portfolio in the quarter versus the 5 that we had in the preceding 2 years. So last year was 5, and the year before was 5. I think we feel marginally more confident of being able to have a number greater than 5 in the current financial year, but the market continues to shift its shape quite materially from 1 week to the next at the moment.

So we just stick very close to what the opportunities are and continue to work to the best possible outcomes. But our aspiration is to grow our hotel network through acquisition as well as to improve the existing hotel network. The first part of that really depends on the market in many respects. So we just have to maintain the discipline. But I'd be hopeful of well and truly exceeding that 5 in this year, given we already got 3 done.

**Lisa Deng**

Have we seen sellers more willing and potentially terms or valuations get easier?

**Steve Donohue**

If anything, just in the last couple of weeks, there's been a little bit less inventory in the market, but that's a very narrow perspective. So I think we'll have to wait and see what happens, particularly through this quarter before we make any judgments on a shift in the market.

**Operator**

Your next question is a follow-up from Bryan Raymond with JPMorgan.

**Bryan Raymond**

Just a quick one on Pinnacle. Has Pinnacle sales growth continued to outperform the broader retail sales growth? And also just as a note from that, how are you seeing the Pinnacle portfolio in terms of positioning you for potentially a period of trading down or maybe an unwind of some of that premiumization that we've seen over the last couple of years?

**Steve Donohue**

Yes. Thanks, Bryan. Look, it's tracking marginally ahead, I would say, of the total business. But it's important to remember that Pinnacle is a combination of our quite small but premium Paragon Wine Estates portfolio, a number of their after brands that we own. But an important part of Pinnacle is the partnerships that we have, and there's media today on the strong performance of better beer. So that's an example of something that we consider a Pinnacle product. So it's not just an Endeavour-owned portfolio. There's also a number of partnership brands that sit inside it. Overall, it's tracking slightly ahead.

To the second part of your question about the potential performance in an environment which is a little bit more value-oriented, certainly, we've historically had an overindex of entry price points or lower price points through the owned end of our portfolio. So we think that stands us in good stead, noting that a lot of our efforts have been going into tapping into the higher price points, the more premium craft-driven price points. So we think we're well placed, I would say. The further point would be that the team is able to move very fast based on what we see customer behavior changes looking like. So we will pivot, be agile, create new products and brands on a needs basis, and we've got a strong track record of doing that.

**Operator**

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

**Steve Donohue**

I'd like to thank everybody for joining us for the call today, and again, acknowledge the efforts of the Endeavour Group team. And hope to see everybody at a pub or in a Dan Murphy's or a BWS between now and Christmas, while you're getting ready for what is hopefully the biggest Christmas we've had in many years. So appreciate everybody joining us for the call.

**Operator**

That does conclude our conference for today. Thank you for participating. You may now disconnect.