Endeavour Group Limited, H2 2023
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Presentation

Operator

Thank you for standing by, and welcome to Endeavour Group's Full Year 2023 Results Briefing. — ***Operator Instructions*** — I'd now like to hand the conference over to Mr. Steve Donohue, CEO. Please go ahead.

Steve Donohue

Thank you, and good morning, everyone. Thanks for joining us for Endeavour Group's full year F '23 results announcement. As mentioned, I'm Steve Donohue, Managing Director and CEO of Endeavour Group, and I'm joined here today by our Chief Financial Officer, Kate Beattie. I'd like to begin today by acknowledging the Gadigal people as the traditional custodians of the land where we're gathered today and pay my respects to their Elders past and present.

Just before I step through the details of our results, I want to take a moment to remind everyone of our purpose of creating a more sociable future together. Our teams live this purpose every day, recognizing that we play an important role in bringing people together to enjoy social moments and celebrate special occasions. Whether that's a drink with friends around the dinner table at home or having a great time on one of our pubs, our team is there to make each experience special for our customers.

The idea that we can create a more sociable future together is what guides our strategy. We're a purpose-led team of 30,000 people, and we stay focused on making a positive imprint. We work hard to maintain leadership across all our customer offers, stay connected across the group so we can drive efficiencies end-to-end through our business units and importantly, we aim to unlock accelerated growth through our capital investments.

So now turning to our group financial highlights for the 2023 financial year, which Kate will further expand on later in the presentation. The team delivered a strong financial result, which reflected the resilience of our customer offers, the strength of our brands and the effectiveness of our end-to-end efficiency programs. Importantly, we continue to generate strong underlying cash flow, allowing us to continue to invest in the business, while also delivering a full year dividend of $0.218. This dividend payout equates to a payout ratio of 73.9%, which is in line with our payout guidance of 70% to 75%. As we enter the new financial year, we're encouraged by that resilience in our trading performance, and our stores and hotels are continuing to resonate with customers who are continuing to look for quality and, in particular, great value.

Now looking at our retail performance. Both sales and EBIT were slightly down on F '23, reflecting the cycling of COVID impacts, particularly in the first half. The strength and resilience of our retail business is reflected in the 4% sales CAGR we've delivered since F '19 though. Pleasingly, we saw improved momentum through the year, starting with a strong festive season and a return to positive sales growth in the second half. Underpinning this return to growth is a real resilience in demand as customers continue to embrace both the discovery of new products and new moderation options. This, in turn, drives the ongoing popularity of new craft and local ranges as well as the continuing trend towards premiumization.

Now turning to the highlights for the year in our 2 key retail brands, beginning with Dan Murphy's. It really is a privilege to be the [custodian of] Dan Murphy's. Dan delivers to its customers the very best value through the Lowest Liquor Price Guarantee, also Australia's leading range and an outstanding customer service experience. Because of all that, customers love Dan Murphy's, which is reflected in that fantastic NPS score of 54 as well as the fact that they're growing active members in the My Dan's membership program. And the growth we've seen in My Dan's members scanning their cards or tapping their digital membership when they're shopping has reached now almost 80% at scan, and it's higher again at tag rates given the larger basket size for our My Dan's members. The My Dan's program also provides us with great customer knowledge, which allows us to deliver increasingly personalized and memorable experiences.

In F '23, we continue to invest in the Dan Murphy's network to drive growth, delivering 8 new stores and 27 renewals. We also continued the rollout of electronic shelf labels, which have delivered operating efficiency as well as an improved customer and team experience. There continues to be opportunities for network growth, both through traditional store growth and now through new formats including things like The Cellar by Dan Murphy's, noting that we recently opened the latest Cellar in Martin Place in Sydney. And while it's early days, it's already proving to be very popular.

Now switching the focus to the BWS achievements in the year. BWS had a strong year supported by the broader customer trend back to local and convenient shopping. We continue to add to the network of stores in the year, opening 18 net new stores, to bring the total number of stores to 1,435. This puts us closer to more customers than any other brand, which facilitates both in-store and online shopping with the broadest reach of any express delivery network. F '23 also saw BWS launch its new brand promise of being your unboring bottle shop. This brand positioning is centered around BWS' long-term purpose of delivering drinks your way, and it's designed to drive broad customer engagement with a particular emphasis on younger adults. And the initial response has been very strong with significant lift in brand preference among Gen Z customers. And we're also continuing to innovate BWS store formats, which is reflected in new modern store designs like that which we've recently launched at our new Bondi Junction store in Sydney.

Over to Slide 11 and to our Pinnacle Drinks business. During the year, we saw continued growth in demand for Pinnacle products. Pinnacle Drinks covers the portfolio of brands we own as well as exclusive products which we source from third-party supplier partners. Pinnacle sales in the year reached a new high of $1.7 billion with 7 out of 10 of our retail customers purchasing a Pinnacle Drinks product in F ’23. Encouragingly, through the year, we’ve also seen continued very strong growth in the sales of luxury and premium wines that make up our Paragon Wine Estates portfolio. And that growth was supported by the addition of 2 new estates: McLaren Vale’s Shingleback wines back in August last year and Cape Mentelle from Margaret River in May this year.

I might also mention that our winemakers achieved 12 best-in-class trophies for their wines this year, and a particular highlight came from Riddoch Coonawarra with the Pastoralist 2021 Coonawarra Cabernet Sauvignon winning the prestigious cabernet of the year trophy at the International Wine show, which I thought was an amazing achievement for a wine that sells for about $40 a bottle. We’ve also invested in the upgrade of our Dorrien winemaking facility in the Barossa to drive further efficiency and productivity savings and continue to foster industry partnerships, both locally and internationally, as we grow the reach and relevance of Pinnacle brands beyond Australia.

So turning to hotels. I’ve got a few slides I wanted to touch on here just in the interest of providing a little bit more color on what’s driving our results in hotels. Hotels results reflect a robust recovery from the impacts of COVID-19 restrictions and the return to a full service offering across the network. Food and bars performed particularly well, supported by the return of live entertainment and people seeking out on-premise social occasions. Similarly, we experienced very strong growth in our accommodation business, albeit off a small base. As we noted in our third quarter sales update, gaming revenues stabilized through the year, resulting in a more normalized sales mix in the segment.

On to the next slide, and this one just highlights how big a year it's been for our hotels team as we saw the return to a full suite of offerings across all of our venues. And it's certainly come at a welcome time, particularly for families looking for an affordable place to celebrate a special occasion. Like Mother's Day, for example, we served over 86,000 meals, which was a new record, and the team worked really hard on a new winter menu, the response to which has been very positive. In the year, we expanded our hotel network with the acquisition of 11 new hotels, up from 5 in each of the 2 prior years. And it's important to note that when we add to our hotel portfolio, we're choosing assets with a balance of revenue streams across food, bars, gaming and accommodation as well as often supporting growth in retail.

In F '23, we tested a proof of concept for a new hotel app platform called pub+, which we plan to pilot and progressively roll out in the second half of F '24 with the aim of step changing both our guest engagement and guest experiences. In F '23, our focus in hotels was primarily on restoring full levels of trade. But as we move into F '24, we'll start to introduce optimization initiatives, including activity-based rostering, taking learnings from retail where it has delivered strong results so far. And we've also evolved our approach to responsibility in hotels with the launch of our Player Protect responsible gambling framework, which I'll talk a bit more about in a later slide.

So a bit more detail on Slide 14 on our hotel investment progress this year. We completed 46 renewal projects, which represented the early stages of restoring our renewal program post COVID, during which we've had a focus on social distancing and gaming rooms. Whereas now, our attention is more focused on multi-driver renewals, uplifting our food, bar and accommodation offers. When it comes to acquisitions, it's important to understand that we're valuing the acquisition on the revenue potential of all the earnings streams attached to the license, including all parts of the hotel plus any associated retail. So for example, the 11 acquisitions we made this year are expected to generate approximately $100 million in annualized sales, and that's split evenly between hotel sales and retail sales. As with all our growth capital, our hurdle rate for these acquisitions is 15%, measured as 2-year EBIT return on invested capital.

Finally on this slide, we're showcasing our latest hotel full redevelopment, The Brook, which is in the northern suburbs of Brisbane. Phase 1 was the opening of a new Dan Murphy's on the site in February, and a world-class new pub was unveiled as Phase 2 in May with the third phase being 40 rooms of accommodation from Nightcap that is scheduled to open in September. By the time we've completed that accommodation, we'll have invested $30 million in this redevelopment. And while it's early days and the site does remain partially under construction, both the Dan Murphy's and the pub have been embraced by locals. In fact, The Brook immediately jumped up to be in our top 10 venues nationally for food and bar sales. It's a beautiful pub experience with that amazing fig tree feature you can see on the slide, and we're hoping that some of you will join us there sometime later this financial year for an Investor Day focused on a discussion about our hotel strategy.

Now turning to Slide 15, covering the further development of our approach to cost management. Being deliberate and disciplined in relation to cost management has been a key focus since the demerger and has allowed us to effectively address ongoing, growing inflationary pressure, sustain and grow our margins and focus our team's efforts to give them more time to engage with customers and guests. In the 2 years since the merger, our optimization initiatives has delivered $90 million in savings, $30 million in F '22, followed by another $60 million in F '23. The types of initiatives already undertaken include the introduction of an activity-based rostering system across our retail network with the team using AI and other analytics to optimize store rosters. We've also simplified our in-store and online delivery processes amongst a variety of other initiatives, which I'm happy to talk more about.

This year, we rolled up all our current and future optimization work under the endeavourGO program, or Endeavour Group Optimization program, to leverage the new capabilities we've built in the most efficient way. And as you can see on this slide, looking forward, we're targeting a further $200 million in annualized run rate savings by the end of F '26, which will increasingly rely on us standing up our new core tech platforms, which will help drive that efficiency and cost out.

Before handing over to Kate, I'd like to finish by talking about the progress on our sustainability strategy. In October 2021, we launched our first sustainability strategy. And today, we released our second sustainability report, which I think you'll appreciate when you read it, represents good progress against our goals. We stayed focused on our responsibility and community programs. And in the second half of F '23, we launched our evolution of responsible gambling, the program we now refer to as Player Protect. It's a framework that details our [standards and] strategy, our future commitments and our future commitments in relation to responsible gaming. It includes our market-leading initiatives, such as voluntary precommitment, and the use of a new piece of technology that helps our team have earlier conversations with customers about their gameplay.

Player Protect also covers initiatives like the training of 3,000 team members in responsible gambling practices – gaming practices, I should say, sorry; new trials, such as the digital wallet trial at the Crows Nest Hotel in Sydney; the self-exclusion enhancement that can be delivered through the use of facial recognition technology, and this tech is already in place in South Australia. We've also been running a trial in New South Wales, and we're in dialogue with the regulator in Queensland about conducting a trial of this technology there, too. As many of you will be aware, in the past weeks, we're able to announce the early adoption of some of the new changes proposed in Victoria, and our teams are well advanced on making those changes. As we said at the time, some of them are already being in place. Our commitment in this space is to be industry-leading, and we'll continue to work with governments and regulators on trialing the latest technology and evolving our Player Protect platform.

Now I'll hand over to Kate to go through the financial aspects of the result in some more detail.

Kate Beattie

Thank you, Steve. As Steve has outlined, in our first full year of trading without COVID restrictions, we achieved $11.9 billion in sales, which translated into $1.023 billion in EBIT and $529 million in net profit after tax. NPAT was up 6.9% on the prior year. We remain in a strong financial position. Our operating cash flow reduced when compared to F '22 due to an increase in working capital and a catch-up in tax payments relating to the prior year. We maintained significant debt facility headroom of over $800 million. Across the year, we have continued to invest in our businesses, adding $510 million in capital assets during the year, weighted towards further expanding and improving our network. The group's return on funds employed of 11.8% is 35 basis points higher than last year as we resumed full trading across all our operations post COVID while continuing to invest in a disciplined manner.

As highlighted on this group performance slide, our 6.9% NPAT growth was driven by the resumption of full trade in hotels as the hospitality sector reopened, while retail performance continued to be solid. Unallocated corporate costs, shown as Other in this graph, were $63 million for the year, up $6 million, partly due to an increased investment in sustainability that Steve has spoken to. As highlighted in our third quarter trading update, we have experienced higher finance costs due to rising interest rates as well as an increase in net debt. I will cover this topic in more detail in a later slide. Income tax rose in line with our increased EBIT. The effective tax rate for the year was 31.6%.

Turning to the next slide. Given our year-on-year comparatives are still distorted by COVID impacts, we thought it meaningful to highlight the growth we have achieved when compared to our trading results in F ’19, this being the last full year of pre-pandemic trading. We have delivered sales growth and EBIT margin expansion in both retail and hotels with both segments delivering an EBIT CAGR of over 5% since F ’19. Within retail, network expansion coupled with investment in areas such as data and analytics, merchandising and Pinnacle as well as our focus on optimization have underpinned this performance.

In hotels, the growth since F ’19 has been similarly strong driven by network expansion and renewal while maintaining strong cost management discipline. While F ’23 was a year of rebuilding our hotels back to full operations post COVID, as Steve has noted, as we look forward, we continue to see further opportunities to accelerate growth by renewing and redeveloping our existing network, expanding our network via acquisition as well as through operational improvements from leveraging the capabilities successfully deployed across the retail business.

Turning to retail performance in the year. Our current year of trading, we would characterize broadly as normal in retail, recognizing COVID cycling impacts distort the year-on-year comparative. The biggest post-COVID impact was to online sales, which fell 15% year-on-year to 8.6% of total sales as customers reverted to out-of-home shopping and entertainment. This drove 1.5% of the full year sales decline of 1.8%. In the second half, retail sales overall returned to growth of 0.7% with in-store sales growing at 1.7% in this period. After a strong Christmas and a good start to the half, we experienced a softer Easter trading period than prior year partly due to noncomparable holiday timing. However, sales momentum improved again through May and June.

Our gross profit margin was the same in F ’23, which saw retail deliver a 23.8% GP margin in both halves of the financial year. This was in spite of increased promotional activity in the market, which we continue to beat through the Dan Murphy’s Lower Liquor Price

Guarantee. Whilst the inflationary pressures have increased costs, notably, salary and wage increases, benefits from our optimization program have mitigated this impact. As a result, we have been able to continue to invest behind our strategic initiatives of network expansion, new innovative formats, advanced analytics and customer experience. The increase in depreciation and amortization in the year was in line with these investments. The resulting EBIT for the retail segment in F ’23 amounted to $658 million and represents a minor decrease of $8 million compared to the previous year. GP margin expansion and cost growth containment enabled retail to deliver a strong EBIT to sales ratio of 6.6%, in line with the prior year in spite of a loss of sales leverage.

Our hotels achieved record sales of $2 billion in F ’23, representing growth of 31% compared to the prior year, which as we’ve noted was impacted by pandemic-related trading restrictions. As Steve has articulated, the hotel sales composition rebalanced as we resumed full trade over the course of the year. Gaming revenue was the first to recover post pandemic and therefore saw the lowest growth in the year. Food and bar sales were strong with both volumes and average selling price in year-on-year growth. While still a small component of our overall earnings, accommodation sales growth was the highest in the year, with both room and occupancy rates up across our expanding portfolio of over 2,500 rooms. The normalized sales mix flowed through to a gross profit margin of 84.1%. This was 94 basis points lower than last year due to the lower weighting of gaming revenue this year.

Cost of doing business increased due to our return to full operations and the addition of 10 net new hotels. Inflationary impacts were seen in labor as well as energy costs and CPI index lease costs. We are actively managing these impacts through effective cost control measures and the implementation of the optimization program, leveraging our experience in retail. Depreciation and amortization expense included an increase of $14 million relating to the amortization of Victorian gaming entitlements, which we renewed for a

10-year period during the year. The resulting EBIT of $428 million represents a 35.9% increase on the COVID-impacted F ’22 results with EBIT margin expanding to 21.6%, supported by leverage from higher sales.

Turning to capital expenditure. During the year, we invested $510 million in CapEx. This includes the acquisition of the Cape Mentelle winery and the Dorrien winery expansion that Steve made reference to, reflected here within the Pinnacle total. The bulk of the remaining retail spend related to network expansion and redevelopment costs incurred to deliver the 8 new Dan Murphy’s stores and 31 new BWS stores as well as our ongoing investment in renewal of the existing fleet.

In hotels, we progressed the redevelopment of The Brook Hotel, as Steve outlined, and acquired 11 hotels in the year. We also invested in renewing food and bar precincts, and we continue to invest in our gaming machine fleet and rooms as well as continuing to expand and improve our accommodation offering, all reflected here in hotel renewal expenditure. With the return to full trading, F ’23 provided a baseline performance year for which to build investment plans to further scale our hotel renewal program in the coming year. These investments all aligned to our strategic priorities and supported our ROFE of 11.8% delivered F’23.

We have continued to invest in transitioning to stand-alone technology capabilities through the One Endeavour program. This is an important program of work for us as we leverage the opportunity to replace what are end-of-life and disaggregated systems with a simplified technology landscape. As we progress through the One Endeavour transformation, we expect to increasingly benefit from modern, fit-for-purpose systems, enabling greater growth, efficiency and operating agility, including the leverage of strong data foundation for advanced analytics.

The spend management program has been completed with the relatively full investment expected to pay back within 2 years as it enables the optimization of group-wide nontrade spend. We are making headway with in-flight programs, being property lease management, people systems, commerce platforms and service transformation. We expect these to complete across F ’24 and ’25. The ERP and end-to-end store and venue programs are expected to progress to design phase during the year, and we will continue to update the market on these programs as we finalize the plans. We anticipate that these programs will extend to approximately financial year ’28.

In F’23, we incurred operating costs of $26 million and capital expenditure of $15 million associated with this program. In F ’24, we expect to incur total operating costs of $40 million to $50 million and capital expenditure of between $35 million and $55 million. With ERP ramping up as in-flight programs roll off, we expect the expenditure profile to continue to be sustainable within our operating cash flow envelope. It is important to note that this program overall is a key enabler of our group optimization program targets with benefits to be delivered as we roll through the program in the coming years.

Turning now to cash and net debt. Our net debt increased by $706 million over the year. Within this number, $237 million is noncash and relates to the amount owing for the renewal of Victorian gaming entitlements. Bank debt rose by $465 million largely due to higher inventory, reflected in increased trade working capital, as well as the catch-up in tax payments in the year that I mentioned earlier. These factors also drove a one-off reduction in the cash realization ratio to 70% for the year.

As we outlined in the first half, we increased our stock of international inventory to ensure product availability during the key Christmas trading period when international supply chains were disrupted. Inventory levels have decreased through the second half, though they remain higher than the end of F ’22. This was driven also by reduced overall out-of-stock levels, cost of goods inflation, new stores and winery investments.

During the year, we renewed 3 of 4 bilateral loan facilities and added a fifth facility, increasing the combined commitment value by $300 million and extending the facility maturity date to 2027 and 2028. We continue to maintain significant facility headroom of over $800 million and a leverage ratio of 3.6x, consistent with investment-grade credit metrics.

We remain committed to our strategy for delivering value for shareholders. Our trading plans target sales growth ahead of market and EBIT growth ahead of sales, balancing capital returned to shareholders with investment to sustain and grow our portfolio. Across the 2 years since demerger, we have delivered earnings per share growth of 19% and a dividend yield of 3.5%, returning $752 million to shareholders in the form of fully franked dividends.

We remain in a strong financial position. And with the scale and reach of our retail and hotel portfolios as well as the synergies between these, we are uniquely positioned to perform in sectors that have demonstrated resilience and stability over a long period of time. We will continue to invest in a disciplined way to grow and improve our portfolio while maintaining adequate flexibility to respond to both opportunities and risks as they arise. I will now hand back to Steve.

Steve Donohue

Thanks, Kate. If you flick to Slide 30, I'll just talk briefly here because our F '24 plans are pretty consistent with our F '23 priorities. But what I would say is that, as Kate just mentioned, in the 2 years that we've operated as a listed company, the team's achieved an enormous amount of progress, which culminates in the delivery of this result, which, for the first time, includes over $1 billion of EBIT. We are, however, very aware of the constantly changing operating environment, and the priorities listed here are designed to ensure that we maintain our leadership position in all the areas that we choose to operate while accelerating our growth and maintaining our progress on that sustainability journey that I've talked about.

So now turning to our final slide. In summary, the group delivered a strong result in F '23. We've maintained a disciplined approach to cost management, accelerated our customer experience and digital transformation and made progress against our sustainability strategy, all while growing our network and investing for the future. All businesses are now trading in a stable, post-pandemic operating environment with retail delivering very solid results, including maintaining an industry-leading EBIT margin. And thank goodness, hotels are back to full operations with customers enjoying everything the pub has to offer. As we look forward, we're encouraged by our trading momentum, and we've started the year with retail sales for the first 6 weeks up 2.5% and hotel sales up 4.6%. And we're looking forward to what the rest of the year that lies ahead holds. And in particular, we're looking forward to seeing everybody at the pub this evening to watch the Matildas have another fantastic game.

So with all of that, I'd like now to open up to any questions.

Question and Answer

Operator

— *Operator Instructions* — Your first question comes from David Errington from Bank of America.

David Errington

Steve, I don't know whether you want to answer this or Kate, but the part of this result that I was pleased with was your actual cost performance. And I suppose what caught me out a little bit is this endeavourGO. I hadn't heard much about this. Can you give us a bit more color, please, as to what this endeavourGO program is all about? Because there are some pretty punchy numbers there. I mean was it – is it $60 million of savings that you took out in '23? And is it $200 million of annual savings that you're planning to take out in '26 or by '26 annual savings? And is this linked to One Endeavour? I'm just a bit confused as to what this endeavourGO is all about. If you can give us a bit of road mapping on these cost savings, that would be really appreciated.

Steve Donohue

Yes. Thanks, David. I'll have a go and then pass to Kate for some more detail. The short answer to your question is yes. We've, as we announced today, brought all of the initiatives we've had over the last couple of years together under this platform we call endeavourGO. And a lot of what's been achieved through both F '22 and F '23 are initiatives that have predominantly related to the retail business. And I would call out actually the leadership that Michael James, who you might know, has provided the group in respect of this. Michael, I'm sure Brad won't mind me saying, was the pioneer of these capabilities in Woolworths when he was at Woolworths. And his understanding of rostering and using technology to do that has been a big fill-up for us in, as I say, retail over the last couple of years and we're now expanding that capability into hotels, which is all about understanding what type of team capability you need when you need it and providing a system that enables our store and venue managers to deliver against that.

But that's only one element of it. We're trying to optimize the whole group, and that means we're looking through supply chain initiatives in partnership with Woolworths and our other supply chain service providers. We talked about the in-store wages side of things. We've got money that we can save in the fulfillment that goes into our e-commerce business, which is a very scaled business. So there's lots of opportunities to save there. We'll keep working on stock loss, which is not a material number but provides an opportunity for savings, and that's both in retail and hotels. So there's this opportunity to really ramp up some of the work in hotels. And if you think about a hotel, David, it's got a lot more moving parts, if you like, than retail. So arguably, there'd be more opportunities for us there.

At a group level, we're very focused on our procurement programs [of goods enough for resale]. We also look through opportunities as it relates to all of our partnerships, those with Woolworths and other service providers. And we are very focused on maintaining a lean group overhead. And we had a great opportunity coming out of Woolworths to a standard that we thought was lean and right for us, but we continually review that, particularly, as Kate mentioned, in context of the One Endeavour program that you asked about because unlocking those savings in the outer years is very much going to rely on our ability to implement new system capabilities that provide for that. So that's a quick fly over. But I guess it's not so much been a secret as it just hasn't been articulated the way we are now and the fact that we've taken a much more coordinated approach to it. But Kate, would you add anything to that?

Kate Beattie

I think the one point I would make in addition is the very deliberate naming of the technology transformation as One Endeavour. And we've done that because we know that a technology program in and of itself won't deliver a transformation for the business. So we're regarding it very much as a holistic transformation program across people, processes and systems. And we're capturing all of that in the description of it as One Endeavour and very much in our optimization program and recognizing that, that investment in technology will be accompanied by the opportunity to rethink some of the [work we've been doing]...

Steve Donohue

Yes, I think Kate's point just highlights the fact that we have a very disparate technology platform or platforms that we're operating on at the moment, many of them out of date and past useful life. So there's a lot of work that's going into One Endeavour and the consequent benefit through endeavourGO.

David Errington

Yes, it's pleasing because 6 or 12 months ago, we were worried that your costs were really getting out of – or potentially could have got out of control, and now it looks like you've got a good cost program there that will at least keep it in check. So from that perspective, it's pleasing.

Operator

Your next question comes from Ross Curran from Macquarie.

Ross Curran

Congratulations on the results. Can I just get a feel for the step-up in debt coupled with the step-up in interest rates? Can you give us a feel for where you expect interest costs to be over FY '24?

Steve Donohue

Thanks, Ross. I'll let Kate give you that one.

Kate Beattie

Yes. Thanks, Ross. I think the critical thing with the step-up in debt is to recognize that we would characterize that step-up as being one-off. I think it's the investment in working capital, which will now stabilize as well as the catch-up in tax payments. So we're not projecting a material shift in our net debt position from here. And therefore, the tax rate can be calculated with that in mind. We're probably not in a position at this stage to give guidance for the full year on the tax number, but the tax [function] ratio is expected to be — ***indiscernible*** —

Ross Curran

Okay. And then can we talk about price versus volume and mix in the retail business?

Steve Donohue

Yes, absolutely. It has been moving around given the impacts of inflation and that flowing through to CPI. So the inflation that's sitting at a cross-category level at the moment in retail is sort of in the mid-6s, about 6.5%, which does result in reductions in volume, which, of course, provides us opportunities for savings through the supply chain and in the stores as we move fewer boxes and bottles to achieve the sales number. But as I said in our previous updates, it's not evenly spread that inflation. So it's quite lumpy. And the last CPI increase that just came through in August was only 2.2%, and the 2 that preceded that in February and August the year prior were 3.7% and 4%. So you're seeing that sort of lag flow-through of unit price inflation.

In terms of category mix, the impacts in beer run to about 5%. RTDs have got the biggest impact. That's had an increase of around 8% and spirits at about 6%. Wine is flat, of course. So wine doesn't have excise applied to it, and therefore, it doesn't get that tick up in unit price the way some of those other categories do. In terms of how that's affecting mix, it's relatively stable, noting that some of the categories with the highest increases continue to be the most popular. So RTDs continue to perform very strongly at both the volume and value level even in light of the fact that they've got some of the higher increases.

So there's quite a bit moving around, I suppose. What we're very focused on is the impact on customer spending power and making sure that everyone is very clear on the fact that, obviously, Dan Murphy's beats everybody's prices for members so that you get that great value and BWS offering convenience in partnership with the Everyday Rewards program from Woolies, which continues to be really positive for BWS. So what's going on, that's starting to moderate, I suppose, I'd say, Ross, on that one. So we'll see what lies ahead.

But in terms of trade down, I've said before, we're not seeing it. We continue to not see it in any material way. I think the watch outs are kind of ultra-premium champagne. And the reopening of international travel with such gusto as we've seen particularly in the last half has meant that there will be a fair bit of leakage back to travel retail. Duty-free spirits are up like 60%. So there's certainly puts and takes through the whole thing. But overall, we're feeling pretty good about the whole mix effect.

Kate Beattie

In my response, I said tax when, of course, I meant to say interest.

Operator

Your next question comes from Michael Simotas from Jefferies.

Michael Simotas

Can we talk a little bit about gross margins in the retail business? There's a little bit of rounding in there, but it looks like they might have fallen a tiny bit in the second half versus the first half. What's the outlook for gross margin? Can you continue to expand gross margins in the retail business? I know Pinnacle penetration improved a bit. The market still seems to be premiumizing. So any sort of color on that would be helpful.

Steve Donohue

I think that was flat to slightly better in H2, actually. So flat – half-on-half flat gross margins, so no real shift. And I think that performance in itself demonstrates pretty good resilience in the second half, noting the amount of gifting that goes on in the first half, which can often be at a slightly higher margin. So no, we're very pleased with the gross margin performance across the year. It's, I think, a standout in the overall result. And I'm sure, Michael, you're sick of me talking about structural resilience in gross margin because it's not a passing fad. It's very much baked into the way we do business, and it continues to deliver results.

Now in terms of what will it deliver for us in the current financial year, I suppose that remains to be seen, as to my answer to Ross before on mix. There's a fair bit moving around there. But what we'll continue to focus on is producing products that people have demand for in our Pinnacle and Paragon portfolios. And I say that deliberately because no one's forced to buy anything in any of our stores. You've got choice from our ranges and those of others. But new, I mean, if you just look at what's going on in the premix/RTD space at the moment, it is going faster and bigger than it ever has before, particularly in relation to lemon-flavored beverages. So – which is, in some respects, a cast back to the '90s. And you're probably old enough to recall Lemon Ruski and the phenomenon that, that was. Well, that whole…

Michael Simotas

Unfortunately, yes.

Steve Donohue

Yes, yes. We won't ask you too many questions. But I mean, it's history repeating but twice over and twice as fast at the moment when you consider what's going on in this space. So ours is very much a fashion taste-led category, and that requires us to be very able to, one, understand the customer need; and two, respond to it. So as I said in my opening remarks, we're not seeing big down trading. We're not seeing a massive step away from premiumization. Those that have been buying premium products continue to. The amount of money that people are spending on an individual shop remains the same. Of course, they're getting slightly less because things cost a little bit more, but it just continues to be resilient. So look, we'll wait and see what happens through the course of the year ahead, but people continue to enjoy the simple pleasure of a beautiful drink.

Michael Simotas

Okay. Great. And just can I ask a quick follow-up to remove all confusion. With endeavourGO, you're talking about by the end of the program a run rate annual cost saving of $290 million. So $200 million plus $60 million plus $30 million. Is that right?

Steve Donohue

Yes, that's right.

Operator

Your next question comes from Shaun Cousins from UBS.

Shaun Cousins

Maybe just some clarification of some of the answers. So maybe just on net interest. Can you maybe – if we look at your second half at 131, we annualize that, you get to 262 then you get $9 million because of the Victorian gaming and you've got higher interest rates. I'm just conscious that your net interest was higher than the market was going for. So can you – I mean, why won't your net interest be 270 to 280 next year? Can you just maybe walk us through what are the components there, please?

Kate Beattie

So we're probably not in a position to give a breakdown of all the moving parts on net interest for the full year, recognizing that will move in line with movements in net debt and with lease interest costs. But it is certainly one of the – and I guess probably worth saying, both of those are factored in the growing interest cost base, which is the CPI indexation of leases and the interest as it applies to those and also the net debt level, which we suspect [to broadly sustain] at the level we've made.

Shaun Cousins

Okay. Maybe then if we think about the $200 million cost saving program for '24 to '26, what's the incremental costs in '24 – cost savings in '24? Do we just split that equally? Or does it build, please?

Steve Donohue

We're not unpacking the detail, I think, on the look forward. But we will, as we progress, provide more visibility on it, Shaun. So as I said in my comments, we're very focused on enabling what we've started in retail, continuing to – because a lot of that relates to full rollout already across Dan Murphy's with activity-based rostering. We're at the relatively early stages in BWS, and we're kind of starting in hotels. So it remains to be seen. We've got strong aspirations, obviously, to build on the kind of numbers that you've seen in the preceding 2 years but are not unpacking the detail on a year-to-year basis just yet.

We'll certainly keep everybody informed of our progress and success because we're confident that – in place of one of our biggest costs rising at the rate that it is and that is wages, wage increases of 5.75%, we have to go back and work out ways to drive productivity into our business. And we do that in a very collaborative way with our teams to understand what their needs are so they can be focused on serving customers and guests. And that takes a lot of work. And as I say, we'll certainly keep everybody abreast of our progress.

Shaun Cousins

Okay. And maybe just finally, just on the Victorian amounts that you're paying in terms of you've signed a 10-year lease – or, sorry, [probably] you had a 10-year agreement there. But arguably, things have changed in terms of – as you go into [carded] gaming. Can you negotiate a lesser fee? Or are you comfortable with the value of the assets that you've got on balance sheet given what could be a different revenue trajectory that you could get out of Victoria? I'm just curious in that these changes have come just 1 year in to your 10-year agreement there. So I'm just curious around how you're thinking about the financial implications there? And is there any potential to change those financial terms, please?

Steve Donohue

Yes. Thanks for the question, Shaun. Look, back on the 20th of July when we made our announcements in response to the Victorian government proposed changes, we said we didn't have a perspective on that topic at this stage because there's still so much to be resolved. And I think what I would encourage everybody to do is actually deeply focus on and understand what the announcement that was made by the Victorian government consisted of and again, what our response to it was. So it really did comprise 4 key parts: the $100 cash load limit, the spin rates, the opening hours and a look forward to mandatory precommitment.

Now on the first 3, we were able to demonstrate that both spin rates and load limits – well, spin rates are in place and load limits are in place in other markets, and we were very comfortable with having them roll into Victoria. We also announced an early move to the opening hours that were proposed. That was 10 months ahead of what the Victorian government had proposed. So I think what that was intended to demonstrate was our willingness to work with the Victorian government to maintain our leadership in responsibility.

On the topic of mandatory precommitment specifically, the release from the Victorian government said that they will require it, but that they were – the implementation of that was subject to thorough consultation with industry through an implementation working group. As yet, no time articulated specifically in relation to that, and we're looking forward to working with the Victorian government on how that would be implemented and at what stage it would be implemented.

So very open ended, I suppose, in terms of the announcements they've made, respecting the fact that, that is their intention. But I think everybody just needs to understand that there's a lot of work to be done to actually reach the conclusion collaboratively that we would endorse and made quite a point about in our announcements back on the 20th of July. So that's how we're looking at it. There's a lot of work to do to get it into the shape that it's going to need to be to meet the needs of the government, the regulators, players, industry participants like ourselves and others. So we'll continue to work on that.

Operator

Your next question comes from Lisa Deng with Goldman Sachs.

Lisa Deng

I've got 2 questions. First, on retail. I wanted to understand a little bit on the fourth quarter comp there. In the third quarter, we had 14% decline in online, but we've got the comp back to 0.2%. But in the fourth quarter, with only a [3.8%] decline in online, we had a negative 0.7% decline in comps. So that would suggest the store-generated sales have really worsened. And so what exactly happened? And how confident are we on keeping the positive top line through '24 with prices lowering and then the comps getting worse because that 2.5% is off a weaker comp, right, in the first quarter?

Steve Donohue

Yes. Thanks for the question, Lisa. A few numbers there. So this is going to land in Kate's lap in a second, and she'll give you some more detailed response. But I would just point the following out. Actually, it's the opposite to what you've just articulated, I think, insofar as our store sales were significantly – the strength of our store – in-store sales significantly outstripped our e-comm sales. So if you cast your mind back over the last few years, F '21, I think we did about $500 million in e-comm sales. F '22, we doubled that to $1 billion in e-comm sales, which is all COVID-driven. And then you've seen that, that market moderate in the last financial. We're back to about $815 million in retail sales. That's accounted for the lion's share of the shift in our retail number in the year, whereas our bricks-and-mortar sales have been very, very consistent. And as I highlighted in my opening remarks, we've seen total sales, both bricks and e-comm, accelerating both through H2 versus H1 and then more recently into the first few weeks of trade.

So really, the biggest impact on the total retail number has been the market-wide contraction in e-comm, noting that our e-comm business is about 5-plus times larger than the next largest player. So wherever the market goes, goes the Endeavour Group and in particular, Dan Murphy's. And rack and stack, the whole thing is material and profitable in contrast to other e-comm outside of our category, but certainly other e-comm inside of our category. But Kate will talk to the specifics, but we feel very good about our retail bricks-and-mortar sales. Kate?

Kate Beattie

I think Steve's probably covered – I think your question is how confident are we in sales growth, I think, is the…

Lisa Deng

I mean more specifically for the fourth quarter. Like the sales in e-comm narrowed. It's declined, but our comps have gone more negative versus the third quarter. So I just wondered why that was.

Kate Beattie

Yes. I think – I've broadly covered it in my comments, I think, which is that the fourth quarter was not all equal in weighting and that we saw quite a noncomparable April trading period — ***indiscernible*** — when we were – when we had quite different dynamics around the timing of the holidays over that period. So we really did have quite a soft April, and then we returned to more normal in May.

Steve Donohue

Yes, Easter was very soft because at the prior year, you had like this 11-day straight potential break, which didn't occur this year. And the weather was considerably worse in this Easter compared to the Easter prior. So I think the market changed quite a lot over the quarter.

Lisa Deng

And then confidence in holding the positives like through the year, especially because sales – I mean, the comps are getting stronger and pricing getting weaker.

Steve Donohue

Yes. I think that – I mean, that's a bigger sort of consumer confidence type question, I suppose. We're seeing some moderation in inflation in the market, and that's somewhat reflected in moderation in CPI price increases flowing through the category. I think what gives us real confidence is the Dan Murphy's price position. I've heard other retailers this week talk about people hunting for bargains. Well, Dan Murphy's does all the hunting for you and has already found all the bargains and beaten all of those prices. So that's why you're seeing this very virtuous sort of looping demand coming back into Dan Murphy's as people recognize that they don't want to pay a very high premium for convenience and have it necessarily delivered immediately or pay a higher price to have it closer to home.

We're seeing a real appetite for value and value on premium products, though, which is that sort of secret sauce, if you like, of Dan Murphy's. So I think the continued positivity from consumers towards Dan's reflected in that 54 NPS record high in terms of customer positivity towards Dan Murphy's as it relates to price gives us a real sense that in context of what may play out as it relates to consumer confidence or purchasing power, Dan's has some potential upside, but we'll have to wait and see.

Lisa Deng

Got it. A follow-on on hotels. Understand that there is a mix in gaming and food and accommodation in there in the second half. But can we understand if the food and –

well, the nongaming margins in that second half year-on-year, did that expand or contract versus the year prior, please?

Steve Donohue

Well, it's a good detailed question to break it down. What we've been able to do is pass through those cost increases that are affecting both food and bars. And when you consider the price of a [skinner of 2 weeks' news] running at about $8.30 these days, that's gone up a handful of cents because of the excise increases that are flowing through. So we've been able to pass that on to customers. And we kind of do it somewhat begrudgingly because we want everybody to enjoy a great value drink and meal. But we've been able to, I guess, is the long and the short of it. So we're pretty comfortable with margins, and it's important that we are able to do that, I suppose, in context that there is no inflation in gaming. Gaming is very much a factor of participation more than anything else. So yes, we're – so far, so good, I would say. And if inflation continues to moderate, I suspect that will be a positive for us.

Operator

Your next question comes from Bryan Raymond from JPMorgan.

Bryan Raymond

My first one is just on capital allocation over the medium term. Given some of the uncertainty you outlined earlier and the regulatory backdrop in gaming, how are you thinking about the hotel network expansion profile and really just deploying capital longer term? Do you think that – is there much change to your thoughts around that? You obviously had a big year of acquisitions in '23. Should we expect that to continue? Or are you going to sort of pause and have a wait and see on the regulatory backdrop to see if the economics still stack up based on what you're seeing out there?

Steve Donohue

Thanks, Bryan. Yes. I think we've articulated that there's a bit of a mix shift that's taking place in those 11 hotels that we bought relative to the existing fleet. That's not a particularly deliberate outcome, but it is a matter of fact that the mix is less to gaming and more to other drivers. You talked about uncertainty in respect of gaming regulation. That is certainly a factor for the market. And yes, I mean, it's a challenge to be dealt with, I suppose. What we're confident in is our ability to work with government and regulators across the country to affect positive outcomes in relation to responsible gambling initiatives and AML, obviously, not to be underestimated.

So yes, the market will assume what the market chooses to assume about impacts on performance of the gaming sector. We, I think as evidenced by our continued confidence in expanding our network, feel as though we can participate in that change in a positive way. And if you look at the money, we're investing in things like the digital wallet trial in New South Wales. That's, I think, respectful of the fact that there are changes that are going to take place there. The fact that we've got preexisting voluntary precommitment on every mainland gaming machine that we operate today says we're ready to go on changes that might take place in the future.

I guess I could also point you to forward estimates from state governments on what they think is going to happen in the gaming space irrespective of whatever conversations are taking place in relation to further changes in the future. All of that with the point that we just remain committed to working with government and regulators on what we think we're able to demonstrate as the most effective measures as it relates to responsible gambling. And you can see a lot of that articulated in the Player Protect platform that we've outlined in our results today and in our sustainability report.

Bryan Raymond

Okay. Great. And then just on – just to continue on gaming. Was turnover in gaming still positive? I know it's comping some big numbers. But was it still positive year-on-year in the fourth quarter and the trading update? Or has that slipped into negative territory like some of the state-based numbers we can see?

Steve Donohue

It's played out in a very resilient way. When we say that our categories are operating in a stable and resilient manner, we mean all of our categories. It's probably performed slightly better than I had expected in the last month. So yes, it continues to perform very solidly, as does the efforts that we continue to make in relation to responsible gaming. I think those 2 have to go hand in hand. So yes, performance has been strong. It's also publicly available, too, of course, as you know, Bryan. So you can look through any of the published data in relation to that, which I think would demonstrate the same.

Operator

Your next question comes from Tom Kierath with Barrenjoey.

Thomas Kierath

Just following on from Bryan's question there. If gaming is growing at a lower rate than food and bev, which I think it did in the half just gone, and margins down pretty significantly in the hotels business, if it grows at a lower rate going forward, does that mean that the overall hotel margin likely falls just given the different margin structures of those businesses?

Steve Donohue

Yes. Thanks, Tom. I think you've got to look back through the COVID events that took place really. I think you'll need to take a longer-term historical perspective perhaps than that what you take. And I tried to answer your question, I think, when Lisa asked similarly. So I guess I can only say that we continue to see that level of stability and resilience that I've talked about in that category. And again, I also made reference to our ability to pass through price and drive efficiency back into the group. So you do have to look at the coordinated combination of all of those things to understand what's driving, I think, a very [positive] result in hotels. And there's some published industry data that shows the performance of other hotels that I won't reference specifically. But yes, I think the performance of our hotels business is really positive. But just remember that gaming came back first in that post-COVID world. So it's important to look back a bit further as we've tried to articulate in the materials referencing back to F '19.

Kate Beattie

Yes. And maybe the point I'd add further to Steve's and then probably to underpin that point, the mix of earnings, sales drivers that we're seeing in our hotel portfolio through the year is stable and back to what we saw before the pandemic started. And what we're talking to in that compositional change is really the cycling impact that Steve has said.

Steve Donohue

And given the public exposure of gaming data, you can see whether – roughly – we're holding share roughly across the market [in gaming].

Thomas Kierath

Cool. And then just on the retail business. I mean on the numbers I look at, it looks like you've lost share again in the last quarter. I know from the slides here you're saying that your aspiration is to win share. The numbers I'm looking at is the ABS numbers. I know they're not perfect, but they're up over 1% – the net cash numbers are up over 1%. You're kind of flat. I guess, why aren't you winning share or holding share? And is it because you're pushing so much Pinnacle stuff? Is it pricing? Just be interested to understand what's going on there.

Steve Donohue

Yes. Tom, I don't want to pick on your numbers, but we think you're wrong about share.

We don't reference ABS. And I don't want to pick on ABS either, but the data that we look through suggests something altogether different. There is no single reference point in the market for total market share. We get good anecdotal feedback from suppliers, and what we can see suggests that – in line with a lot of that customer feedback I referred to about — ***indiscernible*** — performing very positively. I'd also point you in a similar way to those comments I made about gaming to the comments I made in relation to e-comm. And e-commerce business, that went from $500 million to $1 billion and is now $850 million is sitting on top of very resilient bricks-and-mortar trading in our retail business. So the puts and takes in share probably relate more to e-comm, and our bricks business is as solid as it's ever been, I would say. So I just encourage you to take a different perspective, I suppose, on how you think about the market.

Operator

Your next question comes from Richard Barwick from CLSA.

Richard Barwick

My question would be for Kate. I want to talk about – or ask about cash realization. Obviously, soft in this result at 70%, and you've given the explanation particularly around the movement in working capital and sort of, I guess, the normalization of inventory. But if I look back to last year, you also talked about normalization of industry – inventory then and delivered 93%. What – so I guess my question is, what should we be thinking – or how do you think about a target or what is a normal level of cash realization as we look into FY '24?

Kate Beattie

Thanks, Richard. Yes, I think we've previously spoken to broadly around 100% being our expectation. We are a very strongly cash-generative business. So typically, without the puts and takes of those items that I spoke about moving away from that level, that would be our underlying expectation. There is always a higher realization in the first half, obviously, because that's the [highest] period of trade and a step back in the second half.

Richard Barwick

Yes. And there's sort of nothing else to call out, Kate, if we think through FY '24?

Kate Beattie

No.

Richard Barwick

Okay. And just one clarification question, if I can. You called out, obviously, $1.7 billion retail sales for Pinnacle. Does that all sit within the retail segment? Or by retail sales, are you talking about actual retail sales across retail and hotel? And if it's the latter, can you give us a sense of how that – the $1.7 billion is allocated?

Steve Donohue

Yes. Thanks, Richard. Yes, it's all retail. I mean we've kind of just started to get the right products into our hotels' wine lists. But what we sell over bars in hotels has changed a little bit in the recent times. We're selling a few more cocktails and a bit more wine. But predominantly, we are a draft beer business in our pubs. So the little bit that we offer customers doesn't really move the needle too much in pubs. But that – I've talked historically about, I think, over the last year or 2 around a $1.5 billion sales contribution to retail. It's grown as per the number that we've shared today. But again, I belabor the point by saying that's a pull from consumers as we've better understood people's needs. We've been able to produce products that have been more in line with what they've been looking for. So that's how that's come about.

Richard Barwick

The $1.7 billion, though, Steve, obviously, you've added a bunch of acquisitions fairly recently. So that $1.7 billion wouldn't have captured the full impact there like on an annualized impact. What would you expect that to finish up, again, if you look through the rest of this financial year?

Steve Donohue

Yes, a number that's bigger than that, I guess, Richard. We're not going to be specific about it. But I think the comment I made about luxury and premium in the wine space is an important one to recognize, I think you heard Treasury talking about it. And those that understand this customer need well, I think, are the ones that are being successful in this market. So that's an area that we'll continue to be focused on. But I guess it's important to point out that our retail network is really indeed partnership, in particular, with the wine industry in enabling people's products to get into the hands of their end consumers. We are effectively everywhere, and we've got a very scaled supply chain capability and customer-facing platforms that allow the smallest producer to get their product into the hands of customers a long way away from the beautiful cellar doors that they might be operating.

So that's at a proprietary level. And as I mentioned in the announcement, we also have many hundreds of partners that provide us with wine, beer and spirit brands on an exclusive basis because we're able to provide that level of customer exposure and market distribution such that they're happy to partner with us on an exclusive basis. So there's quite a breadth to what we do in retail supporting industry and providing customer choice.

Operator

Your next question comes from Benjamin Joseph Gilbert from Jarden.

Ben Gilbert

Steve, just interested around – appreciate the comments you're saying on market share. I think at the time of demerger, you guys were saying you always like to grow a little bit above market, [better] top line and then also grow EBIT above that with some leverage through the P&L. Do you still think in this cost environment you've got ability to grow EBIT margins across the group into '24, '25?

Steve Donohue

Yes. Thanks, Ben. Look, I think our ability to grow the bottom line does depend on being relevant to customers, which is potentially going to drive your top line, but also that augmentation of gross margin on the way through and CODB management. So it's always kind of all elements of the P&L that deliver the outcome. I think if you look at the EBIT rates that we've been able to generate in both the segments, they are industry-leading and at a sustainable level. So we'll work through the other elements of the P&L to try and maintain that level of sustainability is the way we think about it. But I've always said that we'd like to grow our bottom line faster than our top line, noting the comments I made before about what is the industry we work in, how do you calculate market share. That's a bit of a nebulous exercise in many respects, but we're focused on bottom line a bit faster than our top line, and that will continue to be our focus in the year ahead.

Ben Gilbert

Steve, can you – or maybe Kate, can you just give us an idea on how you're thinking about cost growth into next year? I'm not looking for sort of a line by line because, obviously, a lot of moving parts, most of them moving up probably at least around the mid-singles. And then you got, call it, $60 million of cost out [and, call it], $50 million, $60 million from returns on that Slide 34. Do you think you can more than offset some of that [to a degree] through your cost out and just through some of this growth CapEx that you've announced and given some very helpful return targets on?

Operator

This is the operator. We have temporarily lost our speaker line. **— *Technical Difficulty* —**

Our speakers are back on the line. Benjamin, you may proceed.

Steve Donohue

Ben, sorry about that.

Ben Gilbert

No problem at all. It's just on cost. So I'm not trying to ask another way around margin, but your costs last year, obviously, you did a pretty good job on the cost side, sort of $2.5 billion — ***indiscernible*** — $100 million, pick a number this year. But do you think you've got – with what you have announced around cost out and these initiatives, is it enough to offset cost inflation for next year? Because – so the reason I'm asking is we're getting some companies saying that the cost must be up 2%, 3%, 4%. Others are saying they think it might be up 6%, 7%, 8%. Just any help you can give us around how to think about that cost trajectory?

Steve Donohue

Yes. I mean, as you point out, it's a bit of an imprecise science. I think lots of moving parts, but the 2 biggest cost components that we have in the business are wages and rent. So rent changes in a more glacial way. Wages change quite rapidly based on what happened with — ***indiscernible*** — commission and the market generally. So – which is a good and bad thing, as you know. Like it [drives] more demand, but also provides us the challenge of how we generate more productivity. So I guess what we've tried to say today is that we feel a degree of confidence and have a demonstrated track record in managing inflationary costs.

Again, if you look back at the slide that Kate talked about in terms of the performance since demerger, there's been quite a lot of inflation that has been chewed through in both our optimization programs, but also other work that's gone on beyond that. And again, we've got all elements of the P&L. It's not just the cost line that we're focused on.

You've got to address some of the opportunities in margin, et cetera. But Kate, did you have anything you wanted to add to that?

Kate Beattie

No. I think that's — ***indiscernible*** —

Ben Gilbert

So is the [$200 million], is that sort of designed to offset what you guys see at cost inflation? Because a lot of companies sort of – these cost out programs typically as sort of mitigation around [C2B] and then you can drive benefits elsewhere through mixed efficiencies, growth CapEx, et cetera?

Steve Donohue

Absolutely. I tried to sort of explain that a bit with David's question there earlier. So it is multifaceted. We have tended to over-index the conversation today on activity-based rostering because that is the most material part. But you can look through all elements of the cost lines, and we're focused on supply chain, our group overhead, et cetera. But increasingly, and it's important to note this, that is going to be linked to our One Endeavour transformation. We've shared a bit more color today on some of the in-flight programs and those that we're landing successfully, those that are ongoing, those that are yet to start. A lot of that work is going to enable that optimization cost out that we're referring to because, as I said, we've got quite a mix, if you like, of systems, some of which are well and truly end of life. And if we can address that, then we've got a great opportunity to drive productivity and efficiency back through the group.

Kate Beattie

I think — ***indiscernible*** — to build on Steve's answer for me is that through the last few years, what we've also done is use the fact that we have an optimization program that broadly offsets inflation to give us the capacity in our EBIT shape, in our group financial shape to invest behind the margin-expanding initiatives that have underpinned both the gross profit margin expansion as well as our overall EBIT containment.

Operator

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

Phillip Kimber

Just had a question specifically on hotels. I was – that's obviously hard to track with all the COVID impacts in relation to growth rates. But the second half is probably largely clear air in a year-on-year basis. And I just wanted to understand whether as we move into FY '24, if we think about the second half of FY '23, do we – have all the costs sort of step-ups now annualized? And so I guess I'm referring there to the increased amortization of Vic gaming entitlements, but I think there was also a step-up in the Victorian gaming tax. So I just wanted to check that that's all sort of – how to think about that when you think about the second half of '23 and then what might happen in FY '24.

Steve Donohue

I'll let Kate come back to some of the specifics. But materially, yes, is the answer. Everything is baked in. But don't miss the point, Phil, about this wage change. So we have lots of people working in pubs. We are fully paying them 5.75% more per hour, and that requires us to work out how we can structure rosters in a way that maximizes their time, working directly for their guests and engaging with their guests as well as removing any waste that we might have had in the system and trying to improve our customer experience on the way through, which we track very, very carefully because I've worked in businesses before where you've seen people pull the cost out of the store or whatever environment and turn a blind eye to customer experience. We can't afford to do that because the publican down the road will trump us. So we're very focused on maintaining customer experience at the same time as driving productivity. But Kate can talk to the topic of the gaming entitlements.

Kate Beattie

The gaming entitlement will be a very small impact. There were 11 months [of 12] worth of amortization of those in the year last year. So we get one extra month, which won't be material. I think there – [I mean] probably — ***indiscernible*** — margin puts and takes to see events such as – during the year, we have increased our promotional events and live entertainment. We expect that those will continue to increase coming into the new year – in the new financial year. So there will be some movement, but as I say, puts and takes at the margins as opposed to any sort of structural change to the P&L shape versus what we saw this year.

Phillip Kimber

Great. And then the – not just the entitlement amortization, but Vic gaming tax actually stepped up from memory in FY '23. Is that fully annualized now? Like that rate will continue, but the step change won't?

Kate Beattie

Right. That's pretty much fully baked in.

Phillip Kimber

Great. And then my second question, sorry to be on the technical one, on the tax. Your effective tax rate is a little bit higher for the year, but in the second half was actually a fair bit higher. I understand that it can be a bit volatile. But historically, if we look at your tax rate, it's been a little bit higher than sort of the 30% effective because I think there are some expenses that are nondeductible for tax purposes. Is that 31% sort of around the mark? Because just in the second half, I think it was 33.5%. I just want to make sure that that's not the new rate we should think of going forward.

Kate Beattie

Thanks for the question. Yes, the second half is not representative. It was impacted by the timing of nondeductible expenses. Typically, we'd expect the rate to be between about 31% to 32%, call it, 31.5%...

Operator

Next question comes from Craig Woolford from MST Marquee.

Craig Woolford

Can I just clarify just in terms of the CapEx outlook. The pie charts are very helpful. And obviously, the bigger component that you've got this year were those extra acquisitions. The guidance on the specific program for One Endeavour, but the market around renewals, do you expect that to be similar or bigger in FY '24 as to what it was in FY '23 for both retail and hotel?

Steve Donohue

Yes. Thanks, Craig. I think I've got your question, you're a little hard to hear. But on capital [going] forward and the mix between acquisitions and renewals, I think I've always said we'll be opportunistic with acquisitions, and there were certainly more pubs available that met our needs and expectations than last financial – whether or not that's true in the next remains to be seen. I think what we tried to articulate though on that slide that talked about the hotel renewals and redevelopments was that we're building a better capability there over time. And that may result in perhaps us tweaking more capital towards our own network than expanding the network inorganically.

So it is a bit dynamic. It does depend a lot on the availability of stock out there and pricing and competition and so on and so forth. But it's really what is your opportunity at any given point. I think we'll talk more about this when we get up to The Brook Hotel and share in more detail our strategy as it relates to hotels at the Investor Day so everyone can understand it a bit better. But I don't see a material step-up necessarily unless some amazing opportunity comes along, but that will remain to be seen. What we've got to be focused on is doing a great job of improving the network that we've got, and we've taken good steps in that direction with lots more to do.

Craig Woolford

Got it. And at the half, the company gave clarity that it was 41% of the interest of your debt book was hedged or fixed. Can you give us an update on that figure as at June?

Steve Donohue

I can't, but Kate should be able to.

Kate Beattie

— *indiscernible* — we had $725 million of drawn bank facilities hedged [at the close]. That's about 40%.

Craig Woolford

Okay. That's great. And there's no other change in credit spreads in terms of renegotiated facilities or anything during the year?

Kate Beattie

So as I mentioned, we did renegotiated and renewed 3 of the 4 bilateral facilities and extended them and added one more. The spreads were not materially changed. In fact, in one case, were improved. I think while I've got the opportunity, I might go back around again on the topic of the interest question, in particular, what's the interest guidance for the current year given I appreciate it would be helpful to give more clarity around that and also, I think it was a bit quiet in my answer previously. I think I was hard to hear. I think the couple of points to note, just by way of consideration, is interest expenses going into F '24 rather. We've got the uplift in interest rates that occurred during the year, which will annualize. Obviously, we've had the growth in net debt during the year. And we, as I said, expect it to remain broadly consistent with the current level as we go through the next year. And with that in mind, we're expecting that interest expenses in the year will be around $280 million to $310 million on uplift on what we incurred during this year.

Operator

That does conclude our question-and-answer session. I'll now hand back to Mr. Donohue for closing remarks.

Steve Donohue

Thank you. Thanks, everybody, for joining us today. I appreciate your interest in the business and reiterate that – how pleased we are to be able to share our strong F '23 trading results and how exciting it is to have so many people back in pubs right now enjoying watching women's soccer, which is a fantastic spectacle, and we're looking forward to seeing more of it this evening. So I look forward to seeing you in the pub tonight.

Operator

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