H1 2023
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Presentation

Operator

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

Steve Donohue

Thank you, and good morning, everyone. I appreciate you joining us for Endeavour Group's first half F '23 results announcement. As mentioned, I'm Steve Donohue, and I'm the CEO and Managing Director for Endeavour Group, and I'm joined today by Shane Gannon, Chief Financial Officer; and Kate Beattie, Deputy CFO, who, as you will have seen, we've announced today that Kate is going to be succeeding Shane as the CFO, when Shane steps back from executive role at the end of June this year.

I'd like to start by acknowledging the Gadigal people of the Eora Nation as the traditional custodians of the land on which we gather today and pay my respects to their elders past and present, and also extend that acknowledgment to any Aboriginal and Torres Strait Islander peoples listening today.

Before I step through the details of our results, I wanted to take a moment to highlight that this reporting period is the first time in the relatively short history of Endeavour Group as a stand-alone business that our results are relatively unaffected by pandemic impacts. That's important because the results we're sharing today represent a clearer baseline for investors to assess our performance in what's been a comparatively stable operating environment. Perhaps more importantly, though, these results underscore the consider-able appeal of our brands to consumers. They demonstrate the resilience of our portfolio of retail and hospitality offerings, the continued committed efforts of over 28,000 team members right alongside our valuable and extensive network of partners and suppliers, all supporting the delivery of our purpose of creating a more sociable future together.

Now turning to Slide 6 and the highlights of the group's first half F '23 financial results. Overall, our team delivered a very solid result. Total sales were $6.5 billion, up 2.6% on the previous corresponding period. EBIT was $644 million, up 15.8% and profit after tax rose 17% to $364 million. The group result reflects uninterrupted trading across all channels, which included a strong recovery in hotels through the half and the continuation of customers embracing new and innovative products and drinking better. The business generated robust operating cash inflow of $643 million, allowing us to continue to expand and renew our retail, hotel and winemaking operations as well as our continued investments in digital platforms and technology. And we're pleased to be able to provide a half year dividend to our shareholders of $0.143 per share, up 14.4%.

At our F '22 full year results presentation, we listed our priorities for the year ahead, and I'm pleased to provide an update on our progress through H1 this year. Our first priority was to maintain a disciplined approach to cost management. To deliver this, we've largely offset the impact of inflation in operating costs through productivity initiatives. And we've also sustained our retail gross profit margin despite increases in product and supply costs and increased promotional activity. Our next priority was to unlock property opportunities, particularly in our hotel portfolio. To this end, in addition to continuing our store and hotel renewal program, we were able to open 21 new stores and acquired 5 new hotels in the half, with a further 3 hotels acquired in January.

We've also completed a strategic review of the hotel portfolio, which has given us greater clarity of the opportunities to uplift performance and which will underpin our ongoing renewal and development programs. We continue to invest in improving our customer experience via digital platforms, launching product image search for our 2 major retail apps and launching Dan's Daily, our new digital drinks and lifestyle content platform. We also progressed our work on consolidating and simplifying our core technology infrastructure, launching a new group-wide spend management system in the half and continuing with the program to replace and consolidate our people systems. And finally, we progressed our sustainability program, launching our Reflect Reconciliation Action Plan, and growing our solar generating network to 113 sites.

Now looking at our retail segment performance, in retail, we achieved sales of $5.4 billion and EBIT of $418 million, both down when compared to the prior corresponding period. Remembering that in the same period last year, we saw elevated sales due to the pandemic restrictions which impacted hospitality venues. Through the half, we saw improving momentum, culminating in a very strong festive season during which sales were once again in growth versus the prior year. The first half also saw consumers reembracing in-store purchasing and a corresponding fall in online sales. In saying this, it's important to note that online penetration remains 2.2 percentage points above pre-COVID levels, and perhaps more importantly, that our eCommerce business remains profitable.

Our investments in digital development underpin our customers' omnichannel experiences. This is highlighted by the fact that 35% of retail in-store purchases are now digitally influenced. Beyond the pre and post COVID changes in customer behavior, there's real consistency in the theme of customers continuing to embrace discovery and drinking better which drives the increasing popularity of new craft and local ranges and the ongoing trend towards premiumization.

Underpinning the financial performance in the half has been a disciplined approach to cost management with productivity initiatives largely offsetting increases in our operating costs, including wages, and also enabling continued investments behind improving our digital platforms, along with our other priorities. And as 1 final note on our retail performance, I'd like to add that our stores and online – across our stores and online businesses, we maintained our focus on areas of profitable growth. Despite the increase in promotional activity, particularly online, which we anticipated as the sales boost driven by the pandemic fell away.

Now turning to the highlights in the half for our 2 key retail brands and beginning with Dan Murphy's. During the half, Dan Murphy's once again proved itself the retail drinks destination of choice for big occasions and the best value, recording its biggest Christmas on record. My Dan's program continues to resonate with members reaching over 4.9 million active participants by the end of the half, up 9% compared to last year. Those members enjoy the benefit of over 900,000 instances of automatic proactive price feed office as part of our lowest price guarantee benefit for members.

We continue to invest in the network, adding 4 new stores and 4 new drive-throughs, along with 5 renewals. And we also continued our electronic shelf label rollout to 32 more stores in the half, delivering operating efficiency, as well as improving the customer experience. And finally, our Managing Director, Dan Murphy's, Agi Pfeiffer-Smith led the team through a really successful low-cost Hiring Week campaign that generated great brand awareness and ensured that we have the right number of team members over the summer months.

Now switching the focus to Slide 10 and the BWS achievements in the period. BWS had a strong half, supported by the broader customer trend back to local and convenient shopping. Like Dan Murphy's, BWS also saw record sales levels over the Christmas trading period and continue to activate its convenient brand promise, while reducing average delivery time by 15 minutes compared to last year, which was a 23% reduction. We also added to the fleet opening 17 net new stores in the half to bring the total number of stores to 1,434 and at the same time, completed 55 renewals. And we continue to experiment with format innovation tailoring to local communities. In the half, this included the launch of our Mount Hawthorn Craft Beer Superstore and the Sorrento premium wine store.

The newly launched BWS brand promise of being Your Unboring Bottleshop was supported with our BWS Cool Room concert series, which saw cool rooms turn into performance venues for live bands, helping us drive further engagement with our Gen Z and millennial customer groups.

Now turning to Slide 11 and the drivers of the hotel business in the first half. Hotels recovered strongly in the half as customers enthusiastically embraced the opportunity to socialize again without restrictions. We delivered sales of $1.1 billion and an EBIT of $256 million, up 111.6% on the prior pandemic effective period. Food and bars performed well, strongly supported by our renewal program and the return of social events. Accommodation, albeit from a small base, was a standout, with strong growth in both occupancy and nightly room rates when compared to pre-COVID.

Through the half, team availability improved as we rebuilt to support the surge in customer numbers. We continue to invest in renewing and expanding the network and to focus on delivering great customer experiences while also driving efficiency, including through our order and pay table solution, which transacted 43% of food sales in the half.

Now taking a slightly more focused look at what we've achieved in the Hotels business in the half. As I said, we've seen a strong recovery in sales with our affordable value-for-money offerings resonating with customers. We really saw this on Christmas Day when our hotels team served a record 42,000 meals. We've previously highlighted the opportunity for us to enhance our customer experience through a more connected digital offering in hotels. And we took the first step in realizing this ambition with an in-house trial of a new hotels app, which we'll continue to build on in the coming half. We added 5 hotels in the half and a further 3 in January and completed 34 renewals while at the same time, reducing the average age of our EGM or electronic gaming machine fleet to 6.6 years.

We also launched an exclusive on-premise wine range in collaboration with our retail Fine Wine team and some key suppliers, which is so far landed really well with customers.

On the responsibility front, we continued the rollout of our data-driven alert system, which is designed to identify potential at-risk patents of gameplay so that our team members can have a supportive conversation with the player. Over 1,000 team members are now trained in this system, which is just one example of our ongoing efforts to take a leadership role in the responsible service of gambling. And pleasingly, we've recently been given approval by the New South Wales regulator to proceed with the digital wallet trial to enable cashless gaming. The hardware for that trial is actually being installed today at the Crows Nest Hotel.

Next slide showcases our new hotels. And as we've said previously, it's our expectation to acquire between 5 and 10 hotels a year. And as you know, in the first half, we purchased 5 hotels. And since the end of the reporting period, we've added another 3. So we're well on the way to achieving that ambition towards the upper end of the range. As always, we're focused on acquiring assets that leverage our strengths across both hospitality and retail, and deliver returns at or above our 15% hurdle rate. These hotels collectively added 22 bars, over 8 bistros with combined seating capacity for well over 500 people; 76 accommodation rooms, 200 EGMs and 6 retail stores.

Now switching focus away from our segment reporting towards the enablers that underpin our strategy, starting with endeavourX. While customers are reembracing the in-store experience, they remain very digitally connected through our omnichannel options with over 35% of our retail sales now digitally influenced, and as I mentioned, over 40% of our hotel food sales are enabled by order and pay at table technology. In June, we launched Dan's Daily, our customer-facing online content hub which delivers a regularly updated stream of articles and information on all forms of drinks discovery, from which we've had over 2.2 million visits since it was launched in June of '22. We've also launched an image search function in our major retail apps, which allows customers to use a product image to search for information on that product, including its availability for sale. During the half, we're also excited to launch MixIn, our Retail Media business, which is designed to maximize supplier's engagement with our customers.

Now over to Page 2 Pinnacle Drinks. During the half, we saw continued growth in consumer demand for Pinnacle products across both our own portfolio of leading brands and via our exclusive arrangements with suppliers like the team behind Better Beer. Pinnacle continued to demonstrate innovation leadership with notable launches, including our new Asian beverage range and an entirely new category with Fruity Beer which was developed in partnership with Carlton & United Breweries. In the last 6 months, we've added 2 new names to our Paragon Wine Estates portfolio of super premium Australian wines with the purchase of McLaren Vale's Shingleback Wines in August '22, and the acquisition of Margaret River winery at Cape Mentelle, which we announced in January after the end of the reporting period. In total, Pinnacle Drinks launched 382 new products in the half, and it was great to be recognized with 9 best-in-class trophies for our wines.

Now turning to Slide 16. Ensuring we leave a positive imprint on the communities we serve is a central theme for all of us at Endeavour Group. And while I won't talk to everything on this slide, I do want to say that on behalf of the team, we're very pleased to have taken a first step with the launch of our Reflect Level reconciliation action plan. And while that reconciliation action plan is in and of itself important, it's also important to note that it's just 1 part of our broader listening and engagement approach, which we've adopted with indigenous communities across Australia. In the People space, we've made progress on our 7 Modern Slavery Statement commitments, including evolving our risk management framework and training our team. And in line with our objective of reducing our impact on the planet, we've worked in partnership with Orora to develop another new, more sustainable lightweight bottle for wine industry.

I'll now hand over to Shane to take us through some of the financial highlights. Shane?

Shane Gannon

Thanks, Steve, and good morning, everyone. As Steve has outlined, we have delivered strong financial results in the first half of F '23 financial year. As a group, we have delivered sales of $6.5 billion in the half, up 2.6%, and earnings before interest and tax of $644 million, which represents a 15.8% increase on the same period last year. Our cash and funding remains strong, and we have continued to invest to support our medium and longer-term growth through $205 million of capital expenditure this half.

The return on funds employed rose to 12.2% in the half, fueled by the increased EBIT, and in particular, the material increase in hotel earnings. We are focused on returns to our shareholders, and we are very pleased to be able to distribute approximately $256 million to our shareholders by way of a $0.143 interim dividend per share which is fully franked and consistent with a 70% to 75% full year target dividend payout ratio. The dividend per share is up 14.4% on last year.

Turning to the next slide. As a group, our net profit after tax increased by 17% when compared to half 1 of '22. It should be noted that the pandemic impacted both the retail and hotel performance in half 1 last year. Our hotels results were negatively impacted, whilst retail had a very strong first half last year as on-premise closures and restrictions persisted at this time. Whilst there is a lot of noise in the cycling of COVID impacts, our half 1 results indicate our group shape is returned to a more typical segment mix. In addition, our finance costs increased with higher interest rates and income tax grew in proportion to the growth in Group's EBIT.

Other EBIT, which includes our corporate costs increased by $4 million as we continue to embed our group capabilities with a salary and wage inflation as a factor.

Turning to retail segment performance, we have recorded sales of $5.4 billion in the half. This is down 3.7% on half 1 of F '22. As I said, retail had a very strong first half last year with an elevated market due to on-premise restrictions. With that context, One of the highlights in the results we shared today is the stability of the retail gross profit margin at 23.8%, which is actually slightly ahead of last year by 12 basis points. This represents a gross profit margin expansion of approximately 242 basis points since half 1 of F '20, and as a result of the continuation of positive consumer trends and the benefits from our investments in initiatives such as personalization, and promotional optimization.

Throughout the half, we have been very focused on managing our cost base and investments given the inflationary pressures, the most significant of which is the increase in salary and wages. We have a track record of creating savings through our productivity initiatives, which have been able to largely offset these impacts. And as a consequence, in dollar terms, we have been able to hold our cost of doing business flat with half 1 of F '22. This is higher as a rate to sales as a result of the reduced sales leverage and ongoing investments in digital and technology.

On the hotel's financial performance, as Steve has said, all of our hotels were opened right across the period and back to the full suite of operations. As you will appreciate, COVID had a negative impact on our trading last year and has created unusually high year-on-year growth rates, with sales up 55.3% and EBIT up 111.6%. Looking through this, our sales have increased by 14.9% on pre-pandemic levels, supported by the investment and expansion of our hotel network. Approximately 1/3 of this growth is from new hotels over the 3-year period. And our gross profit margin at 84.4% remained stable compared to last year.

With all our hotels open during the period, the cost of doing business increased but improved as a percentage of sales by 633 basis points to 60.2%. This is principally due to higher sales leverage. Hotels recorded an overall EBIT of $256 million in the half.

To take out the noise of COVID impacts, we have included this representation of our sales and margins by half from F ’19. What is pleasing is that looking through these unusual periods, sales in both segments have grown strongly over a 3-year horizon. Retail of 4.5% 3-year compound annual growth rate and hotels at 4.7% 3-year compound annual growth rate and EBIT margins have expanded.

Now on to cash and liquidity. The group remains in a solid financial position with solid cash generation and appropriate funding in place to support the ongoing investment in our strategic priorities. In the half, we generated operating cash flows of $643 million. Trade working capital was $307 million higher than half 1 of F ’22, and this is largely due to the higher inventory. You might recall that last year, we experienced significant supply chain disruptions and out of stocks. This was rectified during half 1 of F ’23, particularly for international purchases that continued to have long lead times. We also invested in additional stock builds to protect sales and restore service levels through the key summer trading period. We do expect that inventory levels will moderate over the course of half 2.

The higher trade working capital also had a flow on impact to our cash realization ratio, which remains solid at 99.4%, but is lower than half 1 of F ’22. This was also impacted by income tax paid, which was higher in the half 1 of F ’23 due to increases in tax installment rates, and the final F ’22 tax payment made during the half for the capital gain arising on the disposal of ALE Property Group shares in the prior year.

Now turning to our debt and funding position. Our net debt was $112 million higher than at the end of F ’22 due to a $279 million increase in borrowings for amounts paid for the renewal of the group’s Victorian gaming entitlements and that was offset by $167 million in free cash flow. For those on the call who would like further details on the Victorian gaming entitlements, we have included a page in the appendix to the presentation. We continue to maintain significant headroom with over $1 billion of undrawn debt facilities. I should note, in half 1, interest rate hedging of bank debt was increased by $150 million to a total of $575 million. And this represents 41% of the drawn down bank facilities.

Capital expenditure. During half 1 of F ’23, we continued to invest in line with our strategic priorities. Our CapEx in half 1 was weighted towards enhancing our customer experiences through the renewal of our stores and hotels, and to expanding our network of stores, hotels and wine assets, some of which you saw featured in Steve’s commentary. Through endeavourX, we are continuing to deploy our digital capabilities to create differentiated experiences and value for our customers.

The level of capital investment was quite evenly distributed between our hotels and retail segments, 48% and 52%, respectively. You may recall at the Investor Day last May, we provided an indication that our capital expenditure would be in the vicinity of $300 million to $460 million in F ’23, excluding property redevelopments and tech transition costs. We expect to be towards the middle to higher end of this range, which is a factor of having been able to secure high-quality value-accretive assets, including Cape Mentelle and new hotels.

While we have not seen any customer impacts from softening in the broader economy, we are monitoring these closely, and we’ll adjust our investments as conditions change. Whilst there is only 2% of our total capital expenditure in the half, I think it is important to comment on our technology transformation and transition program. The program continues to advance, and our half 1 focus has been on the successful implementation of a group-wide spend management system and progressing our One Team People System project. In the half, we incurred $10 million in operating expenditure and capital expenditure of $4 million in relation to this program. And this is consistent with our communication at the FY ’22 results. The technology transition is a multiyear program. We are at the beginning stages of this. As such, we are continuing to assess our future technology needs, and we are working with Woolworths in a plan to transition to stand-alone technology platforms. We will continue to keep the market informed as we progress these important initiatives and have greater clarity on timing, benefits and costs.

In line with previous estimates we shared, we anticipate the total operating expenditure of $20 million to $30 million this year on this program and capital expenditure of $20 million to $25 million.

And finally, last slide, I would like to take the opportunity to say, in light of the announcement this morning that I will be resigning as CFO of Endeavour Group at the end of the financial year. That has been a pleasure and a privilege to be part of Endeavour’s journey. Endeavor is a business with an enviable position in the market, market-leading brands, a strong focus on customers and importantly, a commitment to sustainability and responsibility. The results we have achieved in the first half, as highlighted in this slide, demonstrate Endeavour’s ability to generate strong returns for shareholders now and in the future.

Further, I would like to personally congratulate Kate Beattie on her appointment. Kate is an outstanding talent, and is the right person to lead Endeavour as CFO going forward. Congratulations, Kate.

I’d like to now hand back to Steve, who will share some closing remarks.

Steve Donohue

Thanks, Shane. Now I'd like to give you a quick snapshot of how we're traveling so far in the first 5 weeks of the second half of F '23. As you can see, the growth rates on a year-on-year basis do continue to be distorted by the impacts of the pandemic in the prior year. However, we continue to see stable trading in both businesses, and no material changes in the first few weeks to the customer trends that we observed in the first half. It's also good to see that the retail market is returning to growth, and that's reflecting in this more positive there.

I did highlight our priorities early in the presentation, so I won't repeat that again other than to say that they remain unchanged and reflect our continuing commitment to building a resilient business through ongoing investments and the innovation of our offerings.

So over to our final slide. And in summary, the performance of both the retail and hotels businesses reflects the stability of our operations in a post-pandemic world, as well as a disciplined approach to cost management and the effectiveness of recent investments across the group. During the half, we continued to focus on expanding and renewing our retail and hotels networks, broadening our Pinnacle Drinks offerings, enhancing our stand-alone technology capabilities and improving our digital platforms.

When we look forward, we know that the operating environment is not without challenges, particularly the increase in cost of living pressures for our customers. We are, however, confident that the defensive nature of our business and our demonstrated ability to flex with changes in the operating environment stands us in good stead to continue to deliver affordable drinks and great experiences for customers, as well as sustainable returns for our shareholders.

So thank you, and I'd now like to open the session up for questions.

Question and Answer

Operator

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

David Errington

This is probably to Shane, and it's on the costs of the retail business. It looks to me, Shane, that you have really taken some costs out here, which is great. And I'd just like to – if you could elaborate some a waterfall, if you like. Because when I look at it, on an absolute dollar basis, your costs in retail have remained flat. Now when I look at some of the cost imposts that you would have encountered I mean you look at Woolies, I mean, Woolies was asleep at the wheel first half last year, and we knew what happened in the second half. So I'm assuming the first half, you had a significant increase in supply chain costs year-on-year. you just highlighted that you got technology cost increase that's been imposting in the business. And you've also obviously got increased labor costs with increased the award. So you've taken costs out of somewhere. So you've really run some cost savings there. Can you give us a bit of sugar as to where that would have come from, please? Because it's – on the surface, that is a really pleasing outcome for the retail business.

Steve Donohue

David, it's Steve. Thanks for the question. We'll let it go straight through to Shane. I'll try and take them all myself, but given his announcement today, I think it's fitting…

Shane Gannon

We really had a good response to…

David Errington

You can't steal his thunder, Steve. I mean this is done beautifully for the last 3 years.

Shane Gannon

Well, Steve's disrupted my flow here. But look, I'll let Kate give you some specifics either now or later on, but quite frankly, it is an emphasis of the company. And you're right, from a dollar point of view, it remains flat. So that's quite a challenge, particularly when you look at salary and wages increases that we incurred at the start of the year. We do have an ongoing optimization program that identified some efficiencies, but in a broader sense, it just demonstrates our ability to focus on these cost out initiatives to combat some of those inflationary challenges. As we go forward, that continues to be more challenged. But at the moment, you're right, from an overall point of view, we've been able to address those increases with cost-out programs.

Kate, here's your chance. You want to add to.

Kate Beattie

No, I think you've covered it well. We've previously spoken to activity-based rostering in stores. That is the primary driver of cost saving benefits that are broadly offsetting salary inflation, wage inflation that we've seen during the period.

David Errington

Can you give a bit of sugar though? Because you haven't really said much there, guys. I mean how much was the supply chain increase that you had to wear with Woolies? How much was the labor cost increase? We gave $10 million. So I'm just trying to get an order of magnitude as to dollars and cents with regard to that because I'm assuming it was about $30 million in the second half that you are – is that the sort of magnitude of the cost increase this half that you had to then find $30 million of cost savings? That's where I'm going. If you can give us a bit of sugar on numbers, that would be beautiful.

Steve Donohue

David, I think we can perhaps update the team separately on more detail. Remembering that supply chain sits in the GP line, that's an important reflection – remember we have a high degree of seasonality in the retail business, given the pop that you gain in retail at Christmas. So that obviously provides some fractionalization and that doesn't occur in H2, obviously, because Christmas is in H1. So what both Kate and Shane referenced is spot on. I think we did face material cost headwinds, particularly in wages.

And rather than using a blunt instrument to take them out, the team has worked very hard to understand the activities that are undertaken in a store and to engineer rostering that helps stores do their jobs in a way that's both efficient but also productive for them. We don't want people to be run off their feet because it's not their fault. We want to make sure we've got the right people in the stores at the right time focused on the right activities. And that's a credit to the – what we've got is a group optimization team who build those capabilities and then deploy them to our stores. So one more thing from Kate on this one, I think we'll move on.

Kate Beattie

Yes, thought I might just add 1 more build, Steve referenced the fact that we've been rolling out electronic shelf-edge labels in our Dan Murphy stores, David. I think that's probably an example of where we're investing in in-store technology that not only benefits our customers because they get real-time price updates as we flow through things like price adjustments in line with our lowest sticker price guarantee in store, but also, of course, the labor in store because we don't have to have team members running around the store updating shelf-edge labels during the day and update sort on that.

Steve Donohue

Thanks, David, for the observation and the commentary, I appreciate it.

Operator

Your next question comes from Shaun Cousins from UBS.

Shaun Cousins

Just a question regarding inflation, can you just talk a little bit about the CPI used for the excise on the 1st of August? I believe it was 4.4. But if you could correct them then maybe where the CPI for the 1st of February of this year landed. And within that broadly, how is Endeavour confident that premiumization and the benefit of new products having higher prices, will that continue to sort of remain a factor as we start to see cost of living pressures impact the consumer more, please?

Steve Donohue

Thanks, Shaun. Yes, I think you're broadly right, we'll get the team to give you a precision on the August versus February CPI excise increases. But I think you're broadly active about 3.7 on the 1st of February, which – the 1st of February only what, 13 days ago or 12 days ago. So it's still very early days. I think what we were seeing across category sense in retail with inflation running at 4s and 5s percent on average, noting that it affects different categories differently. We've now seen that step up since the 1st of February to more like 5.5 to size 7. And that – I talked to a range because it's slightly different in Dan Murphy's as compared to BWS. It's also notably different on a category basis.

So what we saw in August was that it took a couple of weeks for those new prices to land, if you like, across the market and with consumers, but they did so, and they did so quite well, we would say on reflection. Given that it's only a couple of weeks into the latest round of increases, it's still too hard to tell what the sort of longer-term impact is going to be. But again, it varies by category. Perhaps the category that's had the biggest increase is that which is the fastest growing, which will be interesting to observe in premixed drinks.

So that's got inflation running at around 10% right now. I think importantly, too, for the industry, the wine category isn't exposed to an excise increase. And consequently, it continues to represent great value for consumers with the small exception of champagne, where pursuant to high levels of global demand and a limited supply, we're seeing increases in champagne of between 10% and 15%, but that presents a great opportunity for Australian sparkling wine, which we all know has been extremely high quality to increase its appeal for consumers. So that's a broad brush on the retail side of things.

In hotels, the team has actually taken the initiative to hold off adjusting our tap beer prices at the moment. You're paying about on average for a full strength schooner about $8. And we think that still represents great value for money. We think it's very competitive across the market. And we're going to hold that price for a little while and just see what plays through in terms of the market. So that's the example I'd share in the case of hotels.

Shaun Cousins

And do you think the idea around premiumization and new products that have higher prices, resonating well with customers, how do you see that holding up in an environment where cost of living has a bit more of a hit to the consumer there? I'm just curious how you see that playing out, please.

Steve Donohue

Yes, I think we continue to rely on the long-term trend, noting that what lies ahead is a bit different to the more recent past. We're not talking about big ticket items. These are relatively affordable luxuries in some cases is the way I would view them, and that continues to be the case as we look through the data. I think that the riskier end of the market is probably the most convenient. So the on-demand drinks type of end of the market where you're paying quite a premium for the product and obviously a premium for the delivery.

So I think what we'll continue to see in this half is perhaps more conscious consumerism as it relates to the cost of products, and that stands up, I think, in good stead when you consider the fact that members that – My Dan's members and Dan Murphy's get an automatic price beat of everybody in the market every single day of the year. So if you're less inclined to stay at home and order on your phone, but perhaps go to a store, you're certainly going to get by far, the best deal if you go to Dan Murphy's. So I think it will be interesting to just observe how customers traverse the convenience versus value spectrum in the half is the way I'm thinking about it.

Operator

Your next question comes from Thomas Kierath from Barrenjoey.

Thomas Kierath

Just a question on the retail business. You mentioned that the gross margins are up 242 bps versus pre-COVID. Can you give us a breakdown of what is driving that? And I guess then like secondly, was there a consideration to reinvest some of that. Consumers obviously doing pretty tough and maybe give them a better deal.

Steve Donohue

Yes, thanks, Tom. I think if you cast your mind back to that point I made earlier about 900,000 prices beaten proactively for My Dan's members in the half, it's massive and is the cornerstone of the My Dan's offer as well as the broader Dan Murphy's offer. And it's really what has built that business and will continue to, I think, be really important for customers going forward.

When you look through the GP number that you talk about, it's important to remember that both supply chain and marketing costs are in that number. And as we said they have not gone down. They've been challenging, continue to be challenging. So those are offset by that, which I described as structural resilience in our GP line and our trading GP before those costs has proven very resilient for those structural reasons that I often talk about like first of all, the introduction of new products, and we've talked a lot over all of our updates about the new products that we've introduced into the category that continues to be the lifeblood of the business because it's what customers want.

Drinks is very much a fashion industry. And if you look at premix, as I said before, the fastest-growing category, the fastest-growing product in it is something that didn't exist in Australia only a couple of years ago in Suntory 196, which is a complete phenomenon and come slightly out of the blue. That alongside our continued efforts to build products in our Pinnacle portfolio that have appeal to consumers also contributes to that structural resilience.

So there's a number of factors at play when you look through the GP line. But I think the important thing to always have in the front of our minds is the fact that Dan Murphy speeds everybody's price, and they do that proactively, and that's a great benefit for our members, and it continues to drive the uptake.

Michael Simotas

I don't think it was called, but congratulations, Kate, and all the best, Shane, but I'm sure we'll talk more. My question is on the retail margin. And I just wanted to pick up on your point around this being the first period since the listing that it's relatively clean and unaffected by COVID. Your margin in the first half at 7.7% for retail was well ahead of what you did in the first half of '19. It was about 6.9%. You ended up doing 6.6% in FY '19, and that was with a pretty large impact from an impairment in the second half. At this run rate, if there's no change, it looks like you're on track to deliver a margin ahead of that 6.6%. I know it's not guidance, but you sort of softly spoken to around 6.5% for the full year on a sustained basis. Is there anything wrong with my logic? Because it looks like you're on track to do much better than that.

Steve Donohue

Thanks, Michael. I think you're referring to probably Slide 22 where we laid it out in a bit of detail in slide #22.

Michael Simotas

Yes.

Steve Donohue

Yes, look, I mean you certainly don't want to draw a straight line out of H1 in H2 from an EBIT standpoint, which is why we shared that information. I think when we got through the half and the full year results last year, we were still trying to bring the market up to speed on the seasonal nature of the weighting of our profitability. And you'll note that our H1 results sort of sits in retail about halfway between the F '21 and F '22 numbers. I don't think it would be unusual to expect something similar in terms of the H2 results in F '21 and F '22 being an average of where we might expect to land in the coming half. Having said that, there continues to be a lot of unknowns about what's going to happen with costs and with consumer behavior. So that's part of the reason why we don't provide that guidance. But no, I wouldn't necessarily refute the direction you were headed. We're not going to provide detail on what we think is going to happen. But I think we're anticipating a future that doesn't look dissimilar to the half we just had in terms of that breakdown.

Michael Simotas

And just a quick follow-up, on the IT OpEx, the $10 million in the first half, should we presume most of that was in the retail business and then the $10 million to $20 million in the second half will be mostly in the retail business as well?

Kate Beattie

It was about 60% in retail, about 40% in hotels in the half, and that's broadly what we expect going forward as well.

Steve Donohue

Because we're talking about procurement system that's for the group. We're talking about people systems that are for the group. So they're certainly group costs.

Operator

Your next question comes from Bryan Raymond from JPMorgan.

Bryan Raymond

Just on cash flow. I know there's a few moving parts there and you outlined earlier. I just wanted to understand a little bit better, given particularly you guys were into the vicinity of pre-COVID, it would be we don't have as much clarity on the pre-COVID working capital and overall cash conversion type profile half-to-half. If you're around 100% this half, is that something that is abnormally low, or is it – could you quantify how much of that is coming from some of these, whether it be tax installment rates and other things that are probably going to unwind versus where we were in the last couple of halves? Is that 160% run rate, a better indication? Or was that boosted by some factors that maybe aren't immediately clear. Can you just give us a bit more color on where that should stand and for the full year where cash conversion is likely to end as well.

Steve Donohue

I'll let Shane and Kate talk to the cash conversion question, but I think the biggest impact to note on the cash in the half was the buildup of inventory that we did consciously to make sure that we had enough stock to support Christmas sales as early as we possibly could because we were very much hand to mouth the prior year. And also the flow-through of some international inventory that was a bit pent up. So that's now landed. We're not concerned about the pull-through of that. It's all pretty short-term stuff. But those are the biggest contributors to that inventory number that probably impacted the cash more than anything else. But do you want to talk to the…

Shane Gannon

I'm trying not to make bold statements as I leave the building. But I think when you recognize those variables that we talked about in the presentation, we would have been above 100%. But I think as a starting point, the 100% is probably a reasonable starting point, but there are so many variables that can happen in a period. I don't think it's wise to make any other bold statement than that. Unless, Kate, you've got some additional…

Kate Beattie

No, I think that's right. It will be probably next year now until we see this play out, but my expectation would broadly be slightly better realization in the first half than the second half primarily because of the significant elevation stock turns we get during the Christmas trading period, which gives us a working capital benefit, but then somewhat reverses in the second half as we would pay through those payables.

Operator

Your next question comes from Richard Barwick from CLSA.

Richard Barwick

I got a question around acquisitions. So obviously, you've got effectively in the bag for hotels. As you said, that puts you at the top of the range. I'm just wondering how many do you have under negotiation or due diligence, so what's the risk that you're able to push ahead of the 10? And then within Paragon, obviously, you've added Cape Mentelle, which is a great one out of Margaret River. And I mean you had flagged for a long time that you're seeking on the Margaret River, but you've added Shingleback, it's your second one from McLaren Vale. How should we be thinking about the Paragon Wine Estates because across the broad regions, it looks like you've sort of got a name everywhere now. Are you finished there, or will there be more?

Steve Donohue

Thanks, Richard. On hotels, yes, we're quite pleased with the progress in the first half, and there's always a number on the go, if you like, in terms of discussions and negotiations. I think what we're seeing in the market at the moment is perhaps a slight freeing up of stock, and I don't mean to overstate that. It's freeing up of stock that's perhaps more relevant to us. And we continue to be really disciplined as we assess each of those opportunities. But fair to say, there's a good handful at least, of conversations going on. These things can take time, though.

So it's really hard for me to give you any sort of precision around what we'd expect in the next half other than that, which I've already said and that would be that we'd expect to be towards the upper end of that spectrum, we talk about in terms of 5% to 10%, particularly given where we are right now. But just to dwell on the point, I couldn't be happier actually with the [8%] that the teams managed to bring in. And there some really important hotels in the communities they serve, and they do a great job now, but we see equally an opportunity to improve them as time goes by. So we feel good about them.

On your question on Paragon Wine Estate, I think it's a really good observation with respect to Shingleback. That was the result of the family really approaching us. We've had a long association with them. And given where they were at and the fact that they wanted to step away from the winemaking side of things and focus more on the grape growing was just an opportunity for us that sort of too hard to resist. But we've built up some resistance now, and we will be doing more of that going forward, having ticked the box with Margaret River.

We do feel like we have more or less, and I never say never because we'd like to keep our options open. But if you think about that portfolio, it is really covering all of the most renowned, not all of the Australian wine growing regions. We don't aspire to be in every region, but perhaps some of the more renowned regions in Australia that just provides us with the opportunity to tell those stories about the history of those brands, both domestically and internationally, which is something we aspire to do. So, no, we're not actively out searching for more winery assets right now.

Operator

Your next question comes from Lisa Deng from Goldman Sachs.

Lisa Deng

Two questions. The first one is in relation to the hotel acquisitions. Obviously, we will come in at the higher end of that CapEx guidance, but with discussions around casual gaming, how it could impact the smaller publicans more heavily than potentially us also with the valuations in the market side, starting to look a little bit more reasonable. Is there opportunity for us to accelerate that acquisition program?

Steve Donohue

Lisa, yes, I think, as I said, just responding to Richard, there is a slight loosening up of inventory. I say slight, very deliberately because it's not a flood. There's just a couple of more pubs that have come on to the market that are more appealing for us. I think it's a question of time will tell with respect to what operators choose to do in light of the changing regulatory environment, which is very much focused on the conversation going on in New South Wales right now. So we'll maintain a watching brief. If it comes to pass that those opportunities become so great that we want to go beyond what we've indicated, the market will certainly keep everybody abreast of that and wouldn't sort of step outside of that frame without due consideration. And noting, of course, as we always said, that we'll be really disciplined in our application of capital. And we don't just buy any public comes along. Hopefully, we've demonstrated that in the time that we've been operating as a separate entity, and that will continue to be the case going forward.

Lisa Deng

And then the second question is more focused on the retail gross profit margin. So I think I saw in the presentation that the Paragon wines portfolio had grown 35% year-on-year and that would be against the decline in the retail business. I assume the Paragon Wines also have a significantly higher margin. So does that mean ex the Paragon Wine portfolio, the gross profit margin actually was declining in retail? And then secondly, we've seen in the news that we'll be starting to charge $1.89 I think per carton of beer in terms of handling fees? How do we think about that in terms of impact on the retail margin?

Steve Donohue

Thanks, Lisa. Just on the GP one first. The short answer is no. I mean, Paragon's a very important but relatively small part of the whole Pinnacle portfolio. It actually relates much more – the resilience in gross profit, is very much underpinned by that new product flow-through that I talked about earlier. Some of that's enabled by Pinnacle, but that's really been and continues to be the lifeblood there. So that's our focus. So no, I wouldn't worry too much about that. Having said that, that growth rate of our Paragon Wine Estates is given its small scale, relatively conservative. It might look good on the face of it, but given the scale, I'd like to think that we could do much better than that and that is my challenge to the team, produce more luxury and super premium product that customers want to buy. So that's our focus there.

Just on the 189 that you referenced, yes, our conversations with suppliers are very open. And in fact, in the case of that one, a bit over 12 months ago, whilst COVID was still causing all sorts of problems.

We undertook to commit to our suppliers that we would not pass on the increasing supply chain costs that we're experiencing. And we've talked quite a lot about that over the last 18, 24 months in terms of those impacts. So we undertook to subsidize that amount, and this is simply that coming to a conclusion. It's also important to note that every supplier situation is different. And whilst that sounded like a very blanket situation, we're actually having lots of conversations, one-on-one with suppliers. And suppliers have lots of options as to how they might get their product into our stores, whether it's from a national distribution center or a regional distribution center. And it's also linked back to the number of stores that they ranged in a whole raft of different factors. So again, we're very focused on supporting our suppliers as we did through COVID and intend to continue to do going forward. Thanks for those questions, Lisa.

Operator

Your next question comes from Grant Saligari from Credit Suisse.

Grant Saligari

Just quickly, what are you seeing in terms of vendor price expectations in hotels, and what do you think is actually driving up the modest increase in stock availability?

Steve Donohue

Thanks, Grant. Yes. I mean, there just continues to be a lot of fluidity in the market, I suppose, for hotels. That's not new. I don't – it's hard to comment on vendor expectations, to be honest with you, because each individual instance is unique. We have just continued to be focused on trying to find hotels that fit our needs and that is, as we've said before, a balanced range of drivers in the hotels. We love hotels that give us access to a combination to expand our network there. We also love hotels that gives the opportunity to add some retail assets. So I think what lies ahead will be interesting.

We'll continue to monitor it. And that goes to the second part of your question in relation to the regulatory changes that are much discussed in the New South Wales context, perhaps, somewhat less of an impact on the way hotel operators are feeling in other markets. So, there's a bit of light and shade if you like, in the way people are feeling. But I can't speak for every hotelier in Australia. I think Actually, when we look back at our business, we're feeling really positive about the performance of hotels and the fact that people are coming back and socializing and being connected is really important and it's also part of the reason why we've kept the lid on the price increase in tap beer because we want to support that sort of activity in Australia and bring people back to the [pub] as at they're doing it their own — ***indiscernible*** — . So I think it will be an interesting 6 months for hotels, and we'll watch it very closely.

Operator

Your next question comes from Craig Woolford from MST Marquee.

Craig Woolford

Steve and team. Just wanted to understand what's going to play out with this tech transition. I realize it's early days, but if I was looking at that appendix slide in your pack, I think it's Slide 37, there is CapEx of only $4 million in the first half and then $15 million to $20 million in the second half. What exactly was that money spent on? And is there any guidance on when the peak in CapEx around tech transition might happen, and any ranges you can give us?

Steve Donohue

I appreciate the question. If you look at that slide, we've tried to provide some consistency in the way we're communicating the progress on the technology transition transformation from the last full year results announcement. So that's why it looks like that you should expect to continue to see it in that format because it's going to be an ongoing story. I'm not sure we'll give you the detailed breakdown of all of those operating costs and CapEx other than to say they relate materially to the spend management system that we've implemented and the One Team People Systems transition, which is still ongoing. So we've tried to make it as simple as we can to demonstrate all the various moving parts and our progress thereof.

The big one that does sit off on the horizon a little bit is the ERP and enabling programs that you see there on the right-hand side scheduled for F ’24 to F ’27. Those are down the track considerations and there’s still a lot of work that’s going on both in our team and in connection with Woolworths who operate that ERP for us as to how we’re going to transition. So to be honest, there’s not a lot of color I can give you on that at the moment other than to say those amounts that we referenced there relate to materially to the 2 areas we’ve talked about.

I think the third thing to know is that it’s within our control and we need to make the transition of our eCommerce platform, which is that our intersection in the chart there. And we’ve made some decisions about with whom we’re going to work on that and that work is underway as well. So we’ll keep everybody abreast of the details behind that, but that’s in broad brush, the 3 key areas that are progressing.

Craig Woolford

Right, yes. I mean that’s what I’m going to the question because it seems quite modest in the scheme of things. The CapEx you obviously got a disciplined approach to all things around this, but…

Steve Donohue

Yes, it’s going to continue to evolve, yes. It will increase over time as we get into the bigger chunks and we’ll just keep everybody abreast of that and how we’re managing that inside the envelope that we think is appropriate for the total capital.

Craig Woolford

Okay. I mean, so if it is starting in ’24, the ERP enabling, should we expect some news mid full year results in August?

Steve Donohue

I'll certainly give whatever update I'm able to at that point. As I say, we're still working through the detail of what it looks like. And we have to do that in concert with Woolworths. So matter of fact, this week, there's some workshops that are going on between our 2 teams trying to plan out what that next horizon and change might look like. So we'll absolutely keep the market abreast of those changes as we understand them.

Operator

Your next question comes from Ross Curran from Macquarie.

Ross Curran

Congratulations on a great result. Since we last spoke, and I know I realize it's going to be hard to comment on given its election period in New South Wales, but regulatory risks more broadly have increased since we last spoke, whether it's gaming reform in Tasmania, the proposed change in New South Wales the restrictions in our core sales in the Northern Territory. Are you able to talk us through how you're thinking about potential regulatory change and whether the CapEx guidance you provided captures potentially change in the regulation, or will that be over and above what we've already got penciled in?

Steve Donohue

Thanks, Ross. Look, I think we can all agree that it's appropriate that there is a high level of regulation around the sale of liquor and the provision of gambling. That's the right thing for any [my side] to do, and we support it. I think what's important to having in your frame of reference is the fact that we've got different regulations in every state and territory that we operate in. So what we seek to do is to engage very closely with both regulators and governments in all of those jurisdictions to understand what their aspirations are and understand how we can contribute to progressing their ambitions.

Whether it's become a bigger risk or not, I think it's a bit of a moot point. For us, we could at top of our list, our consideration of meeting and, in fact, exceeding regulatory standards throughout every jurisdiction that we operate in. So it's a very top of mind topic for us as a management team, and it's also very top of mind for our Board and we have regular dialogue on how we're going about exceeding our regulatory expectations in that respect. So it's a cornerstone of the whole Endeavour Group strategy is to take leadership on responsibility, so that that won't change. And it's actually embedded in our existing capital planning when you consider the fact that our endeavourX team has a squad who builds responsibility as a service to various parts of our business, whether that be voluntary precommitment capabilities or self-exclusion capabilities when it comes to our retail business. There's a whole raft of work that already goes on across Endeavour to support responsibility initiatives.

And I called out in my opening remarks, the I think good progress that's been made by the hotels team in rolling out a data-driven alert system that observes patents at play of folks on gaming machines that suggest that an interaction with one of our team members would be a good thing. And that's actually leading to some players opting to self-exclude themselves, which we acknowledge as part of our role as an operator is to support people that are in our gaming rooms and in our bars and shopping in our retail stores. So we'll keep everybody abreast of what those initiatives look like, how they might impact positively or otherwise our capital plans. But it's really an ongoing journey of collaboration with both regulators and governments in every jurisdiction, and a real consciousness for us of how we're supporting consumers and players in all the places we operate.

Ross Curran

And perhaps just on that. So the digital wallet trial that you're rolling out in Crows Nest, what are you expecting to see out of that? And how much would it cost to roll that out across New South Wales, for example?

Steve Donohue

Yes, thanks for the follow-up question because we're really pleased to have been given that authority to go forward. And as I say, we're rolling out the hardware in Crows Nest today. I think the whole purpose of the trial is to understand the scope and scale of anything, so that's going to inform the cost of the exercise. I think we'll build whatever the right system is in collaboration with the regulator and understand best practice so that it's serving the needs of the player and the regulatory outcomes and the responsibility outcomes that are needed.

So it's hard to say it's fully scoped just yet, but I think it's important to recognize that pleasingly have been invited into a trial which is going to give us the opportunity to start to plan in more detail about what lies ahead, certainly in New South Wales over the next horizon. So again, we will keep everybody up to speed on what that looks like. But we don't think of it as some in position. We think of it as a great opportunity to work well with regulators and to build capabilities that we should be building as the leader in this space. So that's our frame of mind when it comes to those sorts of things.

Operator

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

Phillip Kimber

Regulation, I noticed in there that – which we're aware of, you've paid, I think it's $310 million and you're paying over a 5-year period to the Victorian government for entitlements for the next 10 years. Just given the amount of investment that you've made there and all this talk about albeit in other states, potential regulation, I mean, have you got any – were you able to work with the government to make sure that over the next 10-year period where those entitlements take place in Victoria, there won't be material changes in regulation, given that you're investing a significant amount of money to purchase them?

Steve Donohue

Thanks, Phil. Look, the first thing I'd say is that I don't think we should underestimate the material amount of regulatory change that has taken place in every gaming and liquor jurisdiction over the last decade. It's not unusual. It's an evolving change in regulations to meet community standards and expectations, which is entirely sensible. The way to achieve the outcomes we strongly believe is through trialing and understanding the impact of the changes that are being made.

So I think it's a credit to every regulator and government, the fact that they are willing to engage in trials with industry and third parties to come up with the best solutions. And we would encourage that to be continued into the next decade because we think it's delivered better outcomes overall. So no, the short answer is no. There is no guarantee that anything is going to stay static whether that relates to regulations or consumers or whatever you like. But we appreciate the extent to which we're able to work with regulators in every jurisdiction and always have done, and we want to continue to have a very open approach to those engagements. So as we can get the best possible outcomes for everybody.

Operator

Thank you. We have now concluded our Q&A session. I'll now hand back to Mr. Donohue for closing remarks.

Steve Donohue

Thanks, everybody, for joining today and for your interest in Endeavor Group. Hopefully, as I said in my opening remarks, you're getting a sense of the stability that the broader organization is able to bring. And we look forward to seeing you in our pubs or our wineries or our bottle shops over the coming weeks and months and look forward to joining you again before too long to talk about our next quarter's results. So thanks again for joining.

Operator

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