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Presentation

Operator

Thank you for standing by, and welcome to Endeavour Group's Full Year 2025 Results Briefing. — ***Operator Instructions*** — I'd now like to hand the conference over to Kate Beattie, CEO. Please go ahead.

Kate Beattie

Thank you. Good morning, everybody. Thank you for joining us today for Endeavour Group's Full Year 2025 Results Presentation. I'm Kate Beattie, CEO of Endeavour Group, and I'm joined today by our Chief Financial Officer, Tali Ross. I'd like to begin today by acknowledging the Gadigal people as the traditional custodians of the land from which we're presenting and pay my respects to their elders, past, present and emerging. I'll begin today on Slide 5 and the group's F '25 highlights. I will flag upfront that comparatives are stated on a 52-week basis, given last year was a 53-week year and so had a non-comparable additional week. Overall, Endeavour delivered stable revenue with strong momentum in hotels, offsetting softness in the retail liquor market. In hotels, we saw good momentum in a buoyant market for hospitality with all of gaming, food, beverage and accommodation in growth. This was supported by our investment in renewals and our focus on enhancing the experience of our guests.

In retail, it was a more challenging year with subdued consumer spending and supply chain disruption that impacted our peak summer trading period. Against this backdrop, we continue to deliver market-leading value range and convenience, which was reflected in ongoing strength in our voice of customer feedback. Across the business throughout the year, we maintained our focus on controlling the controllables. Our strong cash flow of over $1.1 billion and continued capital discipline enabled us to deliver a $187 million reduction in net debt. We continue to take active measures to optimize our cost base. The endeavourGO program delivered $75 million in savings during F ’25, which again provided a material offset to elevated cost inflation and brought the cumulative savings from this program since F ’22 to $265 million. And we continue to unlock value in our property portfolio through hotel renewals and progress in our property optimization program. As we start the F ’26 year, we are undertaking a group-wide strategy refresh, which will inform our priorities to deliver value for all our stakeholders.

We look forward to sharing the outcomes from this review once welcome our incoming MD and CEO, Jayne Hrdlicka, in the second half of the year. The financial overview on Slide 6 points to the group’s stable revenue and strong operating cash flow. This year, we again benefited from the natural hedge in our combined on- and off-premise portfolio with strength in hotels partly offsetting the softness in retail, delivering group sales, which were materially flat year-on-year. The decline in our earnings reflected operating deleverage from lower retail sales, ongoing cost inflation and the impact of restructuring measures we undertook to simplify the business. Cost of the One Endeavour program drove the difference between our operating EBIT and our final EBIT result. In light of the group’s strong cash generation, the Board declared a fully franked final dividend of [$0.063] per share. When combined with the interim dividend payment of $0.125, this represents a full year payment of $0.188 per share or 79% of net profit after tax.

Turning to Slide 7, which provides a snapshot of how our 2 business segments have performed. Hotel sales grew by 4.1% on a comparable 52-week basis to $2.1 billion, with sales momentum growing in the second half. This is underpinned by a focus on delivering value and continued investment in elevating customer experience across all our offerings. Retail sales of $10 billion fell by 1.2% on a 52-week basis, reflecting both retail liquor market conditions and the impact of supply chain disruption. Like hotels, sales momentum improved in the second half and notably in the fourth quarter. Tali will talk to the financial performance in more detail shortly.

Turning to Slide 8. During F ’25, we have taken a number of initiatives to simplify the business and focus on our core strengths. These included integrating our Shorty’s B2B delivery business into Dan Murphy’s, moving Jimmy Brings into a partnership with MILKRUN, closing our Prowine bottling facility in South Australia, optimizing our network through targeted BWS store closures and the sale of Raintrees Tavern in Queensland, reprioritizing the One Endeavour program and a support office restructure. I will cover more on the One Endeavour program shortly.

Now turning to Slide 9. I would like to take the opportunity to reiterate the strength of the Dan Murphy’s customer promise. Dan Murphy’s continues to be the destination for value, providing everyday lowest prices. As part of our lowest liquor price guarantee, we proactively check around 500,000 competitor prices every day. We also provide a reactive price beat guarantee if customers find a better price elsewhere. In addition to everyday lowest prices, My Dan’s members access member-only specials, saving on average an additional $16 per shop. One in 4 adult Australians are active members of our My Dan’s program. Dan Murphy’s customers also access a product range that is 2 to 3x larger than other liquor retailers and which is available through an increasing number of channels, including fast delivery partnerships. The Dan Murphy’s network continues to grow with 7 new stores added during the year.

Now turning to Slide 10. BWS continues to be Australia’s most convenient drinks retailer with more than 1,400 stores nationwide and more pathways to purchase through delivery partners, providing the convenience of fast delivery in increasingly more locations. Since launching in May 2024, Appy Deals, BWS’ in-app promotion offering has supported 1.6 million incremental BWS app downloads. The app has 600,000 monthly active users with over half of these being millennials and Gen Z. In addition, BWS customers receive access to great value and exclusive deals via our partnership with Everyday Rewards with new offers continuing to be added. Moving to Slides 11 and 12, which highlight product trends and innovation in the liquor market. While cost of living pressure dampened over the market overall, we continue to see less impacted customers embrace new and premium products. Sales of luxury wine over $25 per bottle were in growth, driven by older and more affluent customers.

Pinnacle Drinks continues to play a key role in product innovation. This year, we focused on expanding the brand architecture of market-leading brands into new flavor profiles, varieties and price points and consolidated lesser performing brands. The portfolio's core strength in premium and luxury wine, both manufactured by us and exclusively sourced, continues to play a central role in catering to growing demand. Our winemakers also continue to attract strong industry recognition. Now on to Slide 12. Younger customers, in particular, continue to embrace new products, driving innovation in the premix category. This category continues to deliver a steady flow of new flavor profiles, an example of which is the very recently launched hard-rated orange flavor, which is our best-selling new product ever launched. This was supported by strong in-store activation, including providing the opportunity for customers to buy a single-serve taster through a Try Me for $4 promotion. Tastings and Try Me promotions, which are used regularly in both Dan Murphy's and BWS provide a valuable way of supporting our customers to explore products without the commitment of a higher-value purchase.

The appetite for citrus-flavored beverages more generally continues and combined with the convenience of ready-to-drink packaging has extended the premix trend into growth in wine, spritzes and mixes such as Zoncello, a combination of Limoncello and sparkling wine. Bagnums, a pinnacle packaging innovation, which is the modern and more premium version of a cask, have also continued to grow, demonstrating the value placed on convenience as well as the ability to consume a single serve rather than open a full bottle of wine. These types of innovations provide an entry point for new wine customers and therefore, a tailwind for the category, which has seen share remained stable over the past 12 months. Meanwhile, beer drinkers continue to favor mid-strength and low-carb options and in spirits, the white spirits such as tequila and vodka have more momentum, though nothing beats the size of the whiskey category, which is again front and center of our offerings for Father's Day.

We have seen ongoing strength in sales of products at category entry-level price points, which speaks to the cost of living pressures being experienced by a cohort of our customers. Turning to Slide 13. In hotels, we achieved strong trading results around key social occasions, including Father's Day, Christmas and Easter. Gaming benefited from growth in our key markets of Queensland and Victoria. In Victoria, we have continued to regain market share following the market-wide adoption of reduced trading hours. In Queensland, the market has been particularly strong. Our growth has trailed the market due to a number of factors, including the relative strength of clubs in our key LGA of Brisbane and strong competition in other locations. Where we have undertaken venue renewals, we have seen gaming growth rates more aligned to the rest of the market, providing confidence in our ROCE expectations. We invested in over 1,000 new EGM cabinets during the year with installations weighted to [half 2], aligned to the launch of the new Aristocrat Baron cabinet as well as the progressive rollout of new games from other manufacturers. Sales growth in food and bars was supported by better tailoring of menus and the successful launch of the Pub+ loyalty program in August 2024.

We now have almost 0.5 million active users, which account for more than 25% of our F&B transactions. Pub+ users get access to all day, every day specials on draft beer and a range of promotional offerings such as early week food discounts, points multipliers on key occasions and renewal opening specials. Our hotel renewal program stepped up during F ’25 and the results, which on average, deliver sales growth more than 10% above the rest of our hotel fleet, have given us increased confidence that we have the right formula for investing capital to improve whole of venue performance. A highlight of the renewal program is the continued expansion of our Nightcap branded accommodation, which is now available in 86 venues. Slide 14 showcases 2 of our larger renewals in the year, both of which are on track to exceed our targeted returns. Firstly, the Morris Hotel in Western Australia. Here, we invested $3 million in capital for a full repositioning of the venue as well as a rebrand. Improvements include refurbishment of the sports bar, Beer Garden, Bistro and external facade.

F&B sales at the Morris are up over 70%, which has taken this hotel’s F&B ranking to top 20 of our venues nationally, up from 106. In Queensland, we invested $5 million in the Queens Beach Hotel in Bowen. We undertook a full pub renewal, including gaming expansion and accommodation refurbishment, adding 7 accommodation rooms as well as upgrading to our Nightcap standard. Since the renewal, F&B sales have grown 35% and accommodation is up 60% year-on-year, while the gaming ranking in our network is 44 places higher. Turning to Slide 15, which highlights the overall progress being made on our hotels renewal strategy. We completed 27 hotel renewals during the year and have been pleased with the strong performance uplift these are delivering, along with our F ’24 cohort of renewed venues, which remain on track to deliver our year 2 ROCE target of 15%. We are increasingly getting to larger scale renewals that take longer to move through the planning process but have a bigger impact, addressing more parts of the pub experience. You can see that progress demonstrated in the chart on the right.

Now turning to Slide 16 and our endeavourGO cost optimization program. We’ve continued to focus on streamlining and simplifying our business to make us more efficient, driving both gross profit and cost of doing business improvements. The chart on the right-hand side of this slide outlines the impact the program has had in retail store rostering.

Following the introduction of activity-based rostering in our retail business in F '22, we have achieved an 8% improvement in sales per labor hour, while at the same time improving our customer satisfaction scores. As we move into F '26, we will be using the opportunity of our strategy review and the new enterprise technologies we are rolling out to identify our next wave of efficiency initiatives with upside still remaining in areas such as automation of back-office processes.

Moving on to Slide 17 and One Endeavor, which is the program to separate our systems from Woolworths and simplify our technology landscape. We were very pleased to successfully complete the implementation of people systems during the year with all of our team members now on a single HRMS and payroll platform. Following the detailed design and discovery phase for store systems, we've made the decision to accelerate the standalone ERP system implementation, which is now targeted to complete in the first half of F '28 and to defer the store system separation to start after the ERP program and complete in F '30. This will enable us to avoid a 2-step approach of separating from Woolworths on the existing technology stack and subsequently upgrading.

We will now separate directly onto a modern omnichannel store system solution connected to our new ERP, both derisking the program and avoiding substantial interim cost. On Slide 18, you can see an overview of the One Endeavour program and time line. The key change from our previous disclosure is that One Endeavour F '25 cash expenditure of $110 million was lower than previous guidance. Further, as a result of the resequencing, One Endeavour planned expenditure in F '26 is now approximately $80 million lower than previous guidance, with F '26 OpEx now expected to be lower than F '25. In the near term, this will deliver stronger operating cash flow and increased balance sheet flexibility. Turning to Slide 19, which provides a summary of the opportunities we're pursuing to unlock value in our property portfolio.

During the year, we realized $50 million from asset and business sales as part of our focus on portfolio optimization and capital efficiency. We still retain 52 freehold hotel and retail sites, giving us the flexibility to selectively realize the value in that real estate to fund future investments. We're also making good headway on our 5 highest priority redevelopment opportunities with 4 development applications lodged and 1 more in progress. These are freehold sites with current zoning classification for mixed-use development, including residential and hotel accommodation. In aggregate, these 5 sites have been independently valued at between $100 million and $150 million. We believe there is further upside to those valuations once our development applications are approved.

Turning to Slide 20. We've continued to progress our sustainability commitments where our primary commitment is towards the responsible service of alcohol and gambling. I won't speak to all of the achievements on this page, but I will say that I'm particularly proud of Endeavour's 0.5% gender pay gap, which places us in the top-performing companies in the ASX 200. For further details, I would encourage you to read our annual sustainability report and modern slavery statement that have both been released today. I will now hand over to Tali to talk about the financial results in more detail.

Tali Ross

Thank you, Kate. Moving to Slide 22. On a 52-week basis, sales landed broadly in line with last year at negative 0.3%. Following a half 1 sales decline of negative 0.7%, sales growth in half 2 was broadly flat at 0.1%, reflecting improved momentum in both retail and hotels. On a 52-week basis, group operating EBIT, which excludes the impact of our One Endeavour program, fell 7.3% overall, with growth in hotels offset by a decline in retail. While both segments continue to be impacted by inflationary pressures on costs, retail experienced operating deleverage from lower sales. An increase in the OpEx cost of our One Endeavour program drove the difference between our operating EBIT and our final EBIT results. One Endeavour costs landed at $18 million. The group EBIT result also includes the impact of $16 million of restructuring costs incurred in half 2. $11 million of this cost relates to the impact of our support office restructure and sits in the other EBIT line, which, as you can see, has increased versus prior year. $2 million is included in the retail operating line.

This relates to the closure of the Prowine bottling facility, which was materially lower than originally estimated and largely offset by a one-off property gain. The remaining amount of $3 million sits below operating EBIT in the One Endeavour cost line in retail, being the restructure cost from the decision to defer the stores transition program. Finance costs of $300 million reflect an increase in lease finance costs, offset by a reduction in non-lease finance costs. The reduction in non-lease finance costs versus last year was primarily driven by our lower average net debt. The net profit after tax of $426 million declined 15.8% versus last year on a 52-week basis, which is largely as a result of the lower retail performance, the restructure costs and the increase in the One Endeavour costs.

Now moving to Slide 23. We generated over $1.1 billion of net operating cash flow. The reduction of $60 million compared to the same period last year is primarily due to the earnings as explained earlier on Slide 22. Our cash realization landed at 110%, reflecting both strong operating cash flow and working capital management. Free cash flow improved by $129 million as a result of disciplined capital investment as well as $50 million in proceeds from property and business sales. Now turning to Slide 24. You can see gross capital expenditure decreased by $52 million. The decrease compared to last year is largely driven by reduced expenditure in our retail segment, where we spent less on stay in business and renewal capital. In addition, Pinnacle's growth capital reduced this year with the completion of the Dorrien Winery expansion last year. By contrast, hotels expenditure increased by $52 million. which is largely driven by our increased investment in renewals as well as investment in end-of-life gaming compliance hardware and software.

Net capital expenditure reduced by $100 million after including $50 million in proceeds realized from assets and business sales as we continue to focus on capital efficiency and portfolio optimization opportunities. Turning to Slide 25. You can see that net debt has reduced by $187 million compared to last year. Over the same period, average net debt reduced by $146 million. The reduction is primarily due to strong cash flow generation of over $1.1 billion and ongoing capital discipline across both capital investment and working capital management as well as $50 million in proceeds from asset sales. The leverage ratio of 3.6x was slightly above our target range of 3 to 3.5x despite a reduction in group net debt. Reduced earnings in F ’25 was the primary driver of the higher leverage, together with one-off restructuring costs, this pushed us just to the top of the range. During the year, a $1 billion syndicated debt facility was refinanced, extending the weighted average debt maturity to 5.1 years.

At balance date, we had $650 million in undrawn facilities, giving us ample headroom. F ’26 finance costs are expected to be broadly in line with F ’25 due to an increase in lease finance costs, offset by a reduction in non-lease finance costs. Now turning to our segment results in a little more detail, starting with retail on Slide 27. In the Retail segment, sales declined by 1.2% compared to last year. Online sales across Dan Murphy’s and BWS grew by 7% to 8.7% of total sales, driven by our strength in our ultra convenience offering. Retail continued to trade well around key social occasions, including Christmas, New Year and Easter. However, outside of these events, consumer spending remains subdued. Retail sales were also impacted by an estimated $40 million to $50 million in sales in half 1 due to supply chain disruption. Retail gross profit margin improved by 7 basis points to 24.5%, benefiting from product innovation and margin optimization through reviews of product range and trading terms with our major suppliers, delivering value for our customers.

Additionally, AI-driven price and promotion recommendations helped to offset increased promotional intensity, particularly in the last quarter of the year. Cost inflation remained a material headwind during the year, in particular, across wages, which were impacted by award wage increases of 4.25% However, we continue to deliver cost savings through our endeavourGo optimization program, in particular, across store labor and supply chain. As a result, operating cost of business grew below inflation at 3.5% compared to last year. The F ’25 operating EBIT of $624 million reduced by 12% or 6.3% of sales, with a decline versus last year driven by reduced operating leverage from lower sales and the impact of inflation on costs. The graph on the bottom left shows an indicative sizing of these respective drivers of our performance.

Now turning to hotels performance on Slide 28 and turning to Slide 29 for further detail. The hotels business delivered sales growth of 4.1% compared to last year. Sales momentum accelerated during the year with second half sales up 5% on a 52-week basis. Food and bar sales growth was strong over key events throughout the year and also benefited from the Pub+ loyalty app and optimized menu and range initiatives. Gaming remained resilient with key markets of Queensland and Victoria performing well. And we continue to grow our gaming market share in Victoria following the introduction of mandated industry-wide trading hours in half 1. Accommodation continued to deliver strong growth, supported by acquisitions and our renewal program. GP margin improved by 4 basis points to 84.8%, supported by optimized menu and range and working with our major [supplements] on procurement optimization opportunities. Similar to retail, wage inflation of 4.25% remained a material headwind.

Costs were also impacted by increased security and repairs and maintenance expenditure. These costs were partly offset by labor productivity savings through our endeavourGo program. Pleasingly, operating EBIT was up 4.5%, ahead of sales growth. Operating EBIT margin improved by 9 basis points to 22%, while we also saw an improvement of 51 basis points in operating ROCE to 10.6%. The graph on the bottom left shows an indicative sizing of these respective drivers of our performance. With that, I'll hand back to Kate.

Kate Beattie

Thank you, Tali. Turning now to Slide 31, which outlines our priorities for the first half of F '26. It goes without saying that the majority of our energy and capacity in the first half of the year is solely and fully focused on execution during the event season. This begins shortly with Father's Day and continues through key occasions such as the footy finals, spring racing, Black Friday, corporate end of year events, Christmas gifting and of course, festive season celebrations generally. In retail, our focus is on executing flawlessly, ensuring that when customers think of value, range, service and convenience, Dan Murphy's and BWS are top of mind. We have a well-curated range of Father's Day gifts in store now and will double down again for Christmas. We will continue to deliver leading value brought to life, for example, through member specials, value bins, Try Me offers, rewards point accelerators, large basket discounts and bundle buys. We are partnering with our major suppliers to bring new product to market catering to trending tastes. A great example is the new Stone and Wood Citrus Radler beer, which launched in recent weeks supported by a highly engaging mix in retail media activation in Dan Murphy's.

We will continue to make accessing our products even more convenient with more ways to shop online and more delivery options in more places at lower cost to our customers. In recent weeks, we were delighted to open the Dan Murphy's Prahran Arcade store, returning Dan Murphy's to its original home. This flagship store integrates the existing seller on the site to span 2 levels. It is a destination for product discovery, featuring our largest range of wine, including international wine and a full range of other product categories with value for money options for customers at all price points. In hotels, we will continue to accelerate investment in improving guest experience through our pipeline of renewals, gaming fleet upgrades and F&B offering enhancements, all focused on delivering experience tailored to the venue's local customer tastes. At the start of the year, we have launched our first branded Italian food offering, Signor Fox at the Boundary Hotel in Bentley, Melbourne, providing tasty share plates and meals at affordable pub prices. For those of you in Queensland, Signor Fox is also coming soon to the Albion Hotel in Brisbane.

In the last week, we were excited to open the Northern grounds at the Diddillibah on the Queensland Sunshine Coast. This hotel, which used to be called the Waterfront, is now Great Northern's first-ever flagship venue developed in partnership with Asahi Beverages and inspired by the great outdoors with multiple hospitality precincts, including space to have a beer around the fire or dine on the deck with waterfront views. This caliber of project is a taster of the portfolio rejuvenation opportunity still available. With an eye beyond the first 6 months, we have also commenced our strategy refresh, which will include a portfolio-wide review of the group's performance, key business drivers and execution across retail hotels and Pinnacle, with the aim of ensuring we continue to leverage our exceptional assets to deliver growth and maximize shareholder returns. The outcome of this review will be shared with the market in the second half of the financial year.

Now turning to Slide 32. Hotel sales momentum remains strong with growing transaction volumes underpinned by our continuing investments. Consumer spending in the retail liquor market remains subdued. However, as I have outlined, the first half provides the opportunity for us to lean into the momentum provided by the upcoming event season. We do expect retail liquor market conditions to improve as inflation moderates and real wages increase. We remain focused on managing what we can control, including capital discipline and operating efficiency. Finally, in closing, I would like to sincerely thank each of our 30,000-plus team members for their focus on delivering outstanding value products and experience for our customers and guests. I will now hand back to the operator for Q&A.

Question and Answer

Operator

— ***Operator Instructions*** — Your first question comes from Bryan Raymond from JPMorgan.

Bryan Raymond

Just on the underlying cadence of retail sales growth in the business. There was a bit of volatility there with Easter timing, I recall in the 3Q results. So I'd be keen to understand sort of how the 3Q, 4Q period looks Easter adjusted, if that's possible for you to break out. But then also just on the bricks-and-mortar front, there's quite a lot going on with online. I noticed 28% growth in the fourth quarter, and there was quite a few store [wides] on Dan Murphy's during that period. So I'm just trying to understand sort of the cadence of sales, particularly in store, just to get a view on the health of the retail business in the fourth quarter and then into the trading update.

Kate Beattie

I might make a few comments, and I'll turn to Tali for any further detail. So I think when we look at the Easter period, on an aligned basis year-on-year, we saw good growth. However, in the fourth quarter, as we got into June, we saw retail momentum dip again. And we think that's attributable to primarily the timing of the year. If you think about the nature of our category, we're not an end of financial year sale type of business. We don't drive retail momentum like a discretionary retailer does in that period. We're really an events-driven business. So I think what we've seen through June and into July is that trading season lacking the key social occasions that would drive momentum in our business. And that's really what we're talking about when we say that as we look forward to the remainder of this half, we think there are many opportunities for that momentum to begin to be restored through all of the occasions that we've mentioned to celebrate, to socialize and to come together.

Tali Ross

I mean just to reiterate, we did see some improvement in that fourth quarter, but it wasn't quite at the levels of flat as we had expected.

Kate Beattie

And then I think the second part of your question, Bryan, was about the online momentum. I think we've talked about the fact that we saw competitive intensity pick up in the fourth quarter, and that was particularly — ***indiscernible*** — online, where we saw some very big promotional activity, including on large baskets. That drove momentum in online, but it also, for us, coincided with increasing participation by us in the fast last mile delivery offerings. So we're seeing good growth come through, particularly attracting new customers in the Gen Z and millennial age demographic as we continue to lean into expanding our delivery options through those channels.

Bryan Raymond

If I could just ask a follow-up on that, Kate. Just the degree to which you're, let's say, responding to others in terms of that promotional intensity, particularly in online and versus trying to drive volume and sort of leading the market, so to speak, that sort of – what I'm referring to is the $50 off over $300 basket. I noticed that's now $40 off over $300. Just trying to understand how much of that is you guys versus seeing others quite active and needing to respond.

Kate Beattie

Yes, I won't comment on others. What I would say is we are trading to compete every day of the week. We have customers that span all occasions and needs, big baskets, small baskets, buy for consumption now, buy for later. And everywhere we show up, our intention is to compete.

Operator

Your next question comes from Michael Simotas from Jefferies.

Michael Simotas

I just wanted to ask a question around retail sales and the outlook. I mean I take your point on events. But generally, most of the discretionary retailers that have reported have had pretty solid June into July and into August, even as some of those sales events end. And some of the payments data suggests that some of the cohorts that have been under pressure are now starting to spend a little bit more. Why do you think the liquor category and you specifically aren't seeing an improvement in the trend? And I also just wanted to pick up on the comment you've made that you see first half an opportunity to reinforce your position as the leader. What exactly does that mean?

Kate Beattie

I think there are a couple of points that it's important to make about the liquor category. Firstly, inflation in our category lagged the rest of the market because we are subject to 6 monthly excise. And I think we saw this as the rest of the market started to slow down in the context of high inflation was that we stayed higher for longer. And really, the downtrend lagged the market by approximately that 6-month price change lag. In hotels, what we've seen is an earlier stabilization of inflation on our sell prices. And as a result, for the last 6 months, we've been seeing a steady recovery in volumes. We're expecting to see the same trend translate into the retail liquor market as we continue to benefit from a much more stable level of inflation with our most recent read on sale price inflation being only at around 1%. And as we've said, as consumers get the benefit of a decline in interest rates as well as a rise in real wages.

Michael Simotas

Okay. And that comment around reinforcing the position as the leader in the market, does that mean you're looking to invest more in value or service going forward?

Kate Beattie

There's a couple of things to say on that topic. Firstly, we've previously spoken about all the levers that we have available to us to manage price and margin. So I think it's safe to say based on the results that we delivered last year that our EBIT margins remain by far the strongest in our category. And so we can work to deliver value through customers through price levers, through value levers at the sales line as well as managing our margin investment to – in order to show up in the way we intend to for our customers. When you think about how we've managed margin historically, we continue to negotiate with our suppliers to share the bringing of value to the market. We continue to benefit from new product innovation, including through our Pinnacle Drinks business. And we're continuing to leverage AI-driven price and promotion optimization to make sure that we can balance our portfolio mix in the right way.

So with all of that in mind, I think what – the intention in what we are saying is that we will continue to drive for value, and we'll continue to drive to bring the best offers in market to our customers, recognizing both the breadth of the asset base and the many ways in which we have the opportunity to show up.

Operator

Your next question comes from Craig Woolford from MST Marquee.

Craig Woolford

Can I ask a question just to get clarification on that comment around the ERP system and the sequencing, it made a lot of sense. But just trying to understand how it fits with the near-term comments as well because you said that the One Endeavour costs will step down in '26. Just trying to clarify for the retail segment, do the One Endeavour costs year-on-year operating costs fall as well?

Kate Beattie

Yes, they do. So from F ’26, the One Endeavour costs will all be worn in the retail segment because the program is no longer delivering hotels. And the operating cost of that program, which rose to $80 million in the last year will step down in F ’26. And that’s because we’re no longer running 2 parallel streams of work. So we will be running just the ERP program to its conclusion before we pick up the store system separation program again.

Craig Woolford

So what was the retail One Endeavour cost in ’25, the retail segment? I think the group was $80 million, but.

Kate Beattie

The breakdowns provided in. It’s $61 million.

Craig Woolford

$61 million and we’ll go to $50 million to $60 million.

Kate Beattie

That’s correct.

Craig Woolford

Yes. So I mean, there’s been a lot of media coverage of that, what might happen with separation and CapEx investment. So you’re not changing the intention of moving to your own ERP. It’s just the time line and sequencing of when it comes out of Woolworths.

Kate Beattie

That’s right. And in fact, the ERP program has been accelerated, Craig. So it’s – from our perspective, it’s a really good news story. We were previously on a path to separating from Woolworths on a legacy technology stack and then facing into a subsequent upgrade, which when we got through the design phase was evident that was going to be a much more expensive path than the one we've now put ourselves on. So we're really comfortable with this outcome. We're going to deliver the ERP sooner. And when we get to the store systems separation, we will move straight to a modern architecture rather than inheriting the existing architecture and subsequently having to upgrade. So we're very confident that in the interim, that will deliver material cost savings and the overall program is benefiting as a result. But it's also important to note that it only costs us 1 more year in time compared to the previous plan and materially derisks the process. It's also worth noting, as I said, that we delivered the people systems in the past year. So that was the combination of a multiyear project, and we were very pleased with the outcome of that as well. It was ultimately delivered very seamlessly, which is an important thing in the context of something that impacts the payroll for all of the 30,000 people in our business.

Operator

Your next question comes from Sam Teeger from Citi.

Sam Teeger

I was just wanted to see if you could help us square away the cost of living pressures with Metcash's liquor business, which is growing faster than DAS and BWS. I would have thought that Metcash is convenience and should be higher cost.

Kate Beattie

So maybe if I reframe your question, I think you're asking, is Metcash growing faster than we are? And what is the – is there a relative difference in cost of living pressures? I think it's safe to say we believe all our customers in the category experiencing cost of living pressures equally. We won't – we don't talk to the relativity of our performance to other retailers. What we are confident of is that we retain our position as the market leader in our categories, including our price competitiveness through the very compelling Dan Murphy's lowest liquor price offer and through the convenience that BWS offers, which is the biggest retail franchise in the market.

Sam Teeger

All right. And then in New South Wales, there's plenty of news out there around what's happening at — ***indiscernible*** — What's the risk that this might have broader implications for regulations across the state?

Kate Beattie

Yes. Obviously, I'm not going to talk about what other operators are experiencing with respect to their relationship with regulators. What I will say is that we maintain as an ongoing natural part of doing business in an industry and a sector that's as regulated as ours, a very proactive stance in our relationship with regulators, and we will continue to do so.

Operator

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

David Errington

Good job on keeping this together, you guys. So good job. But Kate, look, following up from Craig's question, it's two-pronged. I'm completely lost with One Endeavour. I get with '26, and I think you answered the question really well that retail incurred whatever it did in '25 and then it's going to come down pretty flat. But what are we looking at now '27, '28, '29 in terms of cost for retail? Because where I'm going with that, like the biggest question I've got is, can retail grow its earnings? That's the key question. I mean you've had a bad year because of retail sales going backwards, but you guys are on the finance team. You'll be working through your strategic review. You got to be thinking, okay, we as investors want to see retail earnings grow. Can that – is that possible? I mean, can you get to the sales growth that you need, which I'm assuming would probably be 2% or 3%. Can you get to that so that we can actually see retail EBIT grow? So first prong of the question, if you could give us a bit of a map as to what One Endeavor is, where – what sort of costs we're looking at in the next 4 years in terms of what retail has to chew. And then if you could give us a bit of sugar in terms of what you're thinking with the strategic review you're doing, and I know it's hard with Jane not there, but can retail EBIT actually grow over a 3- to 4-year period? Because at the moment, the question every investor I know is thinking, well, it can't. And that's the worry. So can you give a bit of time on that because I think that would be really valuable.

Kate Beattie

I'll call that about 5 questions in one, but maybe I'll…

David Errington

Well, the main one is, can you grow EBIT in retail? That's the big one. And then obviously, One Endeavour is part of that, what it looks like in '27, '28. But I'm sitting here thinking, my God, I'm just worried about what retail EBIT looks like in the next 4 years.

Kate Beattie

Sure. I appreciate the question, David. Let me start with that one. I think what we've tried to underscore is that, yes, we believe retail has had a cyclical decline and is on a path to returning to growth. And as I referenced earlier, we think that, that's evident in the fact that sell price inflation in our category lagged the rest of the market. So our relative reduction in momentum occurred later than the rest of the market, and therefore, our relative recovery is occurring later. But we're very confident about the upcoming trading season. As I said, we have all of the social events still to come. And we can – and we think we've seen the inflection point back at around Q3 of last year, we think it was about the inflection point for the segment. And now we're just waiting for those social occasions to help us pull through the momentum that we think is beginning to come through underlying.

If I talk to the One Endeavour program again, I just want to reiterate, the program is on track, and we're really comfortable that the pivot we've made will deliver a better outcome. So as I said, we delivered the people systems during the year. We've now sequenced the program so that we will deliver ERP earlier, followed by the store system separation. And each of those implementations is onto a new modern technology stack so that we're avoiding interim steps of inheriting legacy architecture and having to upgrade. So we're very confident that overall, that means the program will be easier to deliver at a lower cost profile and will put us in a better position to get the benefits of it going forward.

David Errington

I'm not that smart person, Kate, but can you get that into dollars and cents? I mean if retail is going to chew between $50 million and $60 million in '26, how much is it going to chew in '27 and '28? Because that to me is critical as to where retail EBIT can grow in those years. Can you give us a bit of help there? Because at the moment, that's where I'm completely lost. I get it where you're doing what your systems, but like a journalist needs names, analysts need numbers. And can you tell us some numbers in '27, '28, what we can sort of expect here? Because at the moment, I'm absolutely non-plussed as to what this is doing to your cost line.

Kate Beattie

I appreciate the question, David. We have committed to providing the annual cost updates as and when our understanding of what becomes concrete enough to do so. So we're probably not in a position right now to explain how we think the cost will play out beyond F '26. However, as I said before, we're confident that the profile we now have for that program will reduce the cost relative to what it previously was going to be. I also think it's worth remembering that this is a once-in-a-generation technology refresh. Others would call out these kind of items as significant items and not talk to them as part of the underlying earnings profile. And I think that's the way we need to think about it. Our retail business is structurally very resilient. We still have the best assets in our sector. We still have the leading price position. We still offer the biggest ranges. We still have more to play with and more to play for than anybody else in the retail category, and we're very confident in our ability to bring that to life.

David Errington

So in summary, you're confident this is just a cyclical situation that you should be getting some improvement. and you're not willing to shed light yet on how much the One Endeavour cost line is going to flow out into later years. That's pretty much the summary to your answer. That's right.

Kate Beattie

I think that's a fair summary.

Operator

Your next question comes from Ben Gilbert from Jarden.

Ben Gilbert

Just one from me, sort of been touched on just the competitive backdrop and how you're seeing it out there. And like we look at wine and your friends down south have been pretty aggressive on Penfolds, which you guys have followed. Do you still see opportunities to actually take share out there in the market? Because as you said, you've got such a great portfolio done such a good job over the years of taking share, but it just feels like it's capped out a bit now. I'm just wondering where do you see opportunities to actually grow share in the market?

Kate Beattie

Look, I think – I mean, it's safe to say that it is a very competitive market at the moment as everybody is chasing the return of the consumer to the category. I think if we take a step back, what I would underscore again is that we are the market leader. We have a large and growing highly engaged customer loyalty base. We've got very strong omnichannel execution, including growing past the customers through online channels. We've got a differentiated product offering through our Pinnacle portfolio that also helps us to bring new product to market faster than anybody else. We're also very highly cash generative and have plenty of cash to invest for growth. And our Dan Murphy's franchise, which is by far the best way to use a liquor retail license is continuing to grow. So with all that in mind, I think we're very well positioned.

Ben Gilbert

Do you think – just following up on that, do you think you've done as good a job stretching the brand beyond just being a traditional – I appreciate it's liquor, but you look at Bunnings and even Chem Warehouse and others, and they find ways to stretch to continue to grow addressable market despite when there might be wobbles in the core. Do you think you've done a good enough job around that? And I suppose things like media, these sorts of areas you're exploring, how are they going? And are there opportunities to stretch the brand further?

Kate Beattie

Yes. It's a great question, Ben. And I think retail media is an important emerging opportunity for us that we're leaning into. I think it's safe to say that, that's the type of question we'll be addressing as part of our strategy refresh. It really is an important consideration as to when you have the powerhouse of a brand like Dan Murphy's, how far can you extend it and into what to deliver more for customers. And that's certainly something we'll be thinking about as we look to the future.

Operator

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

Phillip Kimber

My question is just around the offset to One Endeavour being endeavourGo. I think you said $75 million of cost savings. But if I look at your – in FY ’25, and if I look at your targets, I think there’s only $25 million less, although your target does have a plus in front of it. I mean is there going to be a material step down in the savings in FY ’26? Or should we assume that, that $295 million plus target is there’s a bit of room on the upside there?

Kate Beattie

I think it’s very safe to assume there’s room on the upside. That target was set some years back when we were looking out to just a 3-year horizon, we have multiple opportunities ahead of us to think about how we continue to optimize our cost base, and that includes how we’re going to leverage our new technology stack to deliver process efficiencies. Our new people systems have actually combined with a new retail EA have combined have given us the opportunity to think about how we share our frontline team across our brand portfolio more, giving us the opportunity to both attract and retain that talent pool increasingly going forward by giving them more flexible rostering options. The strategy refresh will, of course, look at have we got – have we done – is there more we can do to optimize the cost base for the future of the business as we see it strategically going forward, and we will be leaning into that.

Operator

Your next question comes from Shaun Cousins from UBS.

Shaun Cousins

Maybe just curious on the broader retail performance. We’ve touched on some elements of this, but you’ve highlighted again that Dan Murphy’s has maintained price leadership.

Does it have price perception leadership? Or is further investment in price required? And do you see the broader performance of big box as actually being a winning format in this current environment or convenience? I'm curious just around one of your competitors is talking up the merits of convenience format arguably to some degree at the expense of big box. Just curious around how you're seeing the relative merits of those different formats, please.

Kate Beattie

I'll talk to a few things in that regard. The first is I would point to our market-leading voice of customer metrics, which have continued to remain very strong even in the context of things like the supply chain disruption we experienced through the year. So I think that really does talk to how powerfully our service and value proposition shows up in market even when customers may be disappointed with lack of availability. We also, of course, measure price perception, and that continues to remain strong. And I think the big box comment is an important one. So what I would highlight in the context of being a big box retailer in a market where all retailers are experiencing high price inflation is that as a big box retailer, Dan Murphy's can pull through a much higher sales velocity on a more relatively flexible cost base and therefore, sustain profitability in a way that a small box retailer will not be able to.

Shaun Cousins

Great. And my follow-up question is just on the industrial action. You've called out the $40 million to $50 million impact in the second quarter. I think during the third quarter sales call, there was a recognition that there was some negative impact there during that period as well. I don't believe you've quantified that or I can't see it. What was the negative impact – sorry, was there a negative impact on sales in the third quarter? Just keen to get an idea of what that was so we can sort of look at, I guess, an improvement, say, in second quarter and third quarter '26 on a more of an underlying basis rather than when you – excluding the negative impact of the industrial action, please?

Kate Beattie

Yes. You're right. We haven't – we called out the impact for the second quarter because it was somewhat easier to read the relative Christmas performance year-on-year or the relative December trading period year-on-year. We did continue to have some supply deficiencies as we headed into the second half, but we do think it's harder to measure precisely what they did to sales, which is why we haven't called it out because, of course, customers will substitute and whether they're moving to other retailers or staying with us is not necessarily as clear because of that substitution effect. So we think the performance was impacted as we headed into the second half, but it's pretty hard to be specific about what that was.

Operator

Your next question comes from Tom Kierath from Barrenjoey.

Thomas Kierath

Just a quick one on the hotels business, the 7-week update. In July, we had the British and Irish Lions Rugby tour and the pubs are pretty full. I'm just trying to get, I guess, an assessment underlying of what – how that business is going, whether you got a benefit from that tour, if you can identify that, please?

Kate Beattie

Yes. We certainly did. The British Lions tour was a great one for our pubs, as you appreciate, great social occasion, a great chance to get out with you and have a pint. We saw particularly Guinness fell well during that event period, which probably reflects the demographic that was actively enjoying the festivities. But it's also true to say that those kind of events are routine in our pubs, whether it be footy finals, whether it be those kind of events, whether it be the Women's World Cup, football series. And we do see pubs really enjoying a renaissance as a destination for socializing with family and friends on those kind of occasions. We're also really happy with the benefits that Pub+ is delivering us in terms of offering more value for customers when they show up. And we've spoken about the fact that we've got 25% sales penetration of the Pub+ app. So we're seeing more customers appreciate that extra value, and it's also promoting more return. As I said earlier, for the last 6 months, we've been watching a steadily improving trend in transactions, which we think is a really solid sign of that.

Thomas Kierath

Is there any way to quantify what the impact was? Because that too is only every 12 years. So I just want to how do we think about it maybe this time next year when you've got to lap those 3 presumably pretty big Saturday nights?

Kate Beattie

Yes. I think 3 big Saturday nights in the context of a full year of event-based trading is probably not material enough to be calling out independently.

Operator

Your next question comes from Ajay Mariswamy from Macquarie.

Ajay Mariswamy

Just a question around the hotels gaming business. Given that you guys are regaining market share in Victoria following the return to trading hours across the board and the 1,000 EGM net increase, is the benefit we're seeing in gaming this period a one-off benefit, and it will be tougher to cycle next year? Or should we continue to expect this sort of momentum in the gaming business?

Kate Beattie

Gaming, as I said earlier, has been very strong as a sector, not just within our business, but generally, and we've been the beneficiary of that as well as enjoying increasing market share as the rest of the market has normalized the trading hours in Victoria. We are also investing behind maintaining our share. So as we've spoken about, we're investing in machines, and we'll continue to do so, recognizing that the age of the fleet is a material driver of participation in gaming rooms. And renewals overall, we've spoken about the fact that when we do all the venue renewals that uplift all of the experience across all of the drivers, we get a disproportionate return, and we're really pleased with that as well. So it's a combination of both the sector and our investment in it, but we're very confident in the ongoing momentum that we're seeing there.

Ajay Mariswamy

And just a follow-up on that gaming machine count of 1,000 EGMs. Is that a net increase on your total count? Or is that replacing older cabinets?

Kate Beattie

It's replacement. Yes. No, it's absolutely refreshing the machine. So it's improving the age of the fleet. It's not incremental machines.

Operator

Your next question comes from Richard Barwick from CLSA.

Richard Barwick

Just thinking again about the retail sales momentum. It would – is it fair to say that you've actually had the emergence of an additional competitor and a bit of a structural change perhaps in the way that at least some consumers might be buying their alcohol. I'm talking about the supermarket of Coles and then and also Woolworths as sort of increasingly competitors. And I'm just sort of trying to put 2 together. You talked about retail. It's an event-driven business. You talked about spending or consumer buying outside of those events has been pretty subdued. It just makes me think maybe outside of those key events that people who are shopping at Coles and Woolies online are actually electing to buy some beer and wine through the sort of regular grocery shop. And so therefore, that's going to reflect poorly on Dan's outside of those key events. So just be curious to hear your thoughts on that. Is that something that you can actually track? Can you see that within the data and sort of the market share and sales data that you can look at versus competitors? Because it would just appear that there could be a bit of a structural shift in your competitor set and the way that consumers are shopping.

Kate Beattie

I might start by making a clarifying point, which is that we continue to partner with Woolworths for liquor retail online. So where Woolworths shoppers put liquor in their basket, that is a BWS sale. So Woolworths is not a competitor in that regard. They're a partner. And they're also a partner, as I said before, through the integration of Jimmy Brings into MILKRUN. And so in that regard, I would say the competitive landscape is no different to what it has always been, which is you can buy alcohol as part of a Woolworths grocery shop and you can buy it as part of a Coles grocery shop. They're on an equal footing and our participation is on an equal footing.

Richard Barwick

Other than Coles, at least through their CFCs in Sydney and Melbourne now that sort of functionality they're offering shoppers, that's a new thing that's emerged over the – really since the end of last year.

Kate Beattie

I think CFCs are a fulfillment process. They're not a customer-facing thing. We also operate CFCs, both via our partnership with Woolworths and via our own network and within our own network. I think it's really important to understand that because of our physical footprint as well as our online reach, we remain the dominant omnichannel retailer in the market. It's probably worth also underscoring that almost half of our online sales are picked up in store at Dan Murphy's. And that business alone is the dominant online liquor market option. So we're not seeing any material shift in that landscape. In fact, if anything, we are seeing more pathways to deliver to customers through the expansion of the fast last-mile delivery service providers through which we are also operating.

Richard Barwick

Okay. All right. That all makes sense. Can I just clarify one thing, Kate. The – you got a strategy scorecard back in detail as an appendix, Slide 37. But one of the key points is you're talking mid- to high single-digit EBIT growth. It's always been in there, but it's from FY '26. So all of a sudden, we're here. So are you saying that, that sort of articulation is that a target? Or is that actual formal guidance?

Kate Beattie

So I think a couple of things. The strategy scorecard, as it's articulated, is the same strategy scorecard that we launched to the market at the back end of calendar year 2023. We certainly haven't retreated from that scorecard. As we've said, what we are doing is a group-wide strategy review currently, and we will talk to the market about the results of that in the second half, at which point if there is a material deviation from the scorecard, that would be the time for us to talk about it. It's also worth – you've mentioned the F '26 nature of the target in relation to the total shareholder return. It's worth pointing to the fact that, that is a through-the-cycle outcome in a stable inflationary and interest rate environment. As we enter the year, we would say that we're not quite there in terms of stability of that environment yet, but we can see that coming as interest rates come down and as real wages start to grow. We think the structure of the performance that we had projected would underpin that remains an appropriate structural projection for our business. And by that, I mean, ordinarily, you would expect to see top line sales grow at or around the level of CPI. You'd expect to pull through higher growth at EBIT from cost rationalization, which then falls through to NPAT. And combined with our strong dividend payout ratio of 70% to 75%, you would pull through a 10% plus TSR. And we think that does reflect what the sorts of returns you would expect to get from a portfolio like ours.

Richard Barwick

But not necessarily just yet.

Kate Beattie

As I said, it is a through-the-cycle target in a normalized inflationary environment.

Operator

That is all the time we have for questions today. I'll now hand back to Ms. Beattie for closing remarks.

Kate Beattie

Thank you, everybody. I appreciate you joining us today, and I look forward to seeing you in one of our venues or stores soon. Thank you very much.

Operator

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