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Presentation

Operator

Thank you for standing by, and welcome to the Endeavour Group's F '26 First Quarter Trading Update. — ***Operator Instructions*** — Endeavour Group's CEO, Kate Beattie, will provide some opening remarks followed by a question-and-answer session. — ***Operator Instructions*** — I would now like to hand the conference over to Kate Beattie, CEO. Please go ahead.

Kate Beattie

Thank you, and thanks, everyone, for joining us this morning. I'm Kate Beattie, and I'm joined by our CFO, Tali Ross. I'd like to start by acknowledging the traditional custodians of the land on which we're conducting this call today, the Gadigal people, and pay my respects to their Elders, past, present and emerging.

I'll make some brief remarks on our first quarter trading update before taking questions. Our first quarter results saw improving momentum in retail sales and continued sales growth in our Hotels business. In total, across the group, for the 14 weeks ending 5 October, we delivered sales of $3.1 billion, down 0.3% on the prior corresponding period. In Retail, total sales were $2.5 billion for the quarter, down 1.4% versus the first quarter of F '25. This includes the impact of lower specialty business sales following the integration of Shorty's operations into Dan Murphy's and the transition of Jimmy Brings to a partnership model with MILKRUN run in F '25.

Combined Dan Murphy's and BWS sales were $2.4 billion in the quarter, down 1% year-on-year. Following a soft start to F '26, our retail sales trajectory improved with positive sales growth in September, which was supported by targeted and well-executed promotions during school holidays and the footy final season. During the quarter, we continued to strengthen our competitive position by reinforcing our best-in-market everyday-low pricing on the key brands and products our customers value most, complemented by value-focused promotions and underpinned by Dan Murphy's lowest liquor price guarantee.

More specifically, we have taken a number of proactive steps, which are worth highlighting. Firstly, we have updated our product segmentation to ensure we are driving value through the products that matter most to customers and ensuring these are more prominent in our stores supported by increasing stock weight. Second, we have broadened our competitor set we use to benchmark our shelf prices across both BWS and Dan Murphy's in store and online. Third, we have increased our in-store messaging to emphasize value and our commitment to beating competitor prices. Fourth, we are doubling down on Dan Murphy's brand messaging to ensure more customers are aware of Dan's lowest liquor price guarantee. And lastly, we have increased BWS' promotional offerings, including offering incremental value, leveraging our Everyday Rewards partnership with Woolworths. This is through activations such as points booster offers above threshold spend levels and points multipliers on selected Appy Deals product purchases. The user experience for customers shopping our BWS products on the Woolworths website and app has also been significantly improved.

We were pleased to see our team's focus on delivering great value range and service continue to resonate with our customers. Dan Murphy's further strengthened its market-leading Voice of Customer score by 1 point up to 82, while BWS achieved its highest-ever score of 79, up 4 points.

Promotional intensity across the retail liquor market remained elevated throughout Q1, particularly in the online channel. Online sales grew 20.9% to represent 10.2% of our combined Dan Murphy's and BWS sales. Growth was driven by strong promotional activity, a more competitive delivery fee structure and strength in the ultra-convenience channel.

Now turning to our Hotels segment. In Hotels, sales of $592 billion were up 4.4% versus the first quarter of F '25, driven by growth across all 4 key drivers of food, bar, gaming and accommodation. Our continued investment in renewals, localized food and bar menus, new EGMs and expanded Nightcap offering all contributed to this positive trading result and was reflected in higher customer satisfaction scores.

Gaming remains resilient with our 2 largest markets of Victoria and Queensland exhibiting the strongest growth. Our overall performance has benefited from the installation of approximately 250 new electronic gaming machines in the first quarter in addition to the approximately 900 machines, which were installed in the second half of F '25. Pleasingly, our gaming market share in Victoria continued to improve.

Hotels continue to benefit from being a destination of choice for key events, notably sporting events and family occasions such as Father's Day. We continue to innovate our food and beverage offerings, including our new summer menu, which is focused on seasonal menu items and updated pub classics. Our pub+ loyalty app now has over 560,000 active users, accounting for almost 30% of food and bar transactions. Members enjoy access to all day everyday draft beer specials and promotions such as our current October-long Pubtober offering of daily deals on food and beverage throughout the month.

We continue to grow our renewals pipeline and to deliver strong renewal returns. We completed 10 renewals during the quarter, including 6 whole-of-venue repositionings. By way of example, at our full year update in August, I mentioned we had just launched the Northern Grounds Hotel into Diddillibah on the Queensland Sunshine Coast. This venue is now a top 10 venue for food and beverage nationally in our portfolio, up from outside the top 150, demonstrating the upside available to us through strong renewal execution.

Turning now to second quarter trading and outlook. Pleasingly, the positive sales growth in retail, which began in September, has continued in October. We will continue to invest in maintaining a differentiated everyday price position as well as delivering incremental value through promotions, reinforcing our market-leading retail customer value proposition. We expect promotional intensity across the retail liquor market to continue to be elevated through the second half. As a reminder, in the second quarter, we will be cycling supply chain disruption in the prior year, which impacted both sales and our ability to invest in promotional activity during the peak summer trading period.

Hotels have also made a positive start to the second quarter. Sales growth in October is modestly below the Q1 trend driven by beer pricing and event timing. Inflationary pressure on wages and the elevated security costs, combined with increased depreciation and amortization, remain a headwind to earnings growth in the half. We expect to install approximately 400 new EGMs and complete a further 10 hotel renewals in the second quarter.

Across both retail and hotels, our focus for the rest of the half will be firmly on execution across the social event season, including sporting events and celebrations, such as Spring Racing, The Ashes Series, Christmas and New Year festivities as well as general summer socializing.

As always, I'd like to close by thanking all of our Endeavour team members for their tireless efforts in delivering great value and experiences for our customers and guests.

With that, I'll now hand back to the operator for any questions.

Question and Answer

Operator

— ***Operator Instructions*** — Your first question today comes from Craig Woolford from MST Marquee.

Craig Woolford

Kate, your commentary does suggest some positivity on the sales line, but the comments on promotional intensity sound quite – like quite a step-up. Sales growth online is higher. Just trying to understand, is Endeavour leading this promotional intensity? Or are you responding to others? And as part of that, can you clarify what you meant by the shift of the competitor set in your lowest liquor price guarantee?

Kate Beattie

Yes. Thanks for the question, Craig. I think there's a couple of key points I'd like to make. One is, as I've tried to say, we are making sure that we underscore our customer value proposition in the market and most importantly, Dan Murphy's position as the lowest price liquor retailer, including the lowest liquor price guarantee. So that is a proactive stance, and I've outlined some of the ways in which we're doing that. And we are taking all the measures within our [gift] to make sure that, that remains front and center for customers when they're looking for a place to shop.

We have done that in the ways I outlined, including expanding the competitor set against which we consistently proactively seek to understand and make sure we are beating their prices and also being really clear about changing trends in customers' preference for particular products, and making sure on those particular products, we offer differentiated value. And we will continue to do that. We will be unapologetic about making sure that we are front of mind for value in the market.

It also remains a competitive landscape. I think it's self-evident that everybody is competing for what remains a relatively constrained consumer dollar, discretionary dollar of spend, and we will continue to match any competitor or match and beat any competitor offerings in that regard.

Operator

Your next question comes from Shaun Cousins from UBS.

Shaun Cousins

Maybe just a question on – back on retail and the industrial action from Woolworths. Does Endeavour expect to regain the $40 million to $50 million in sales and $8 million in EBIT that it lost in the second quarter last year? Or is the liquor market now smaller and/or maybe the consumer locked in to shop at other competitors now such that regaining those lost sales might not be possible, please?

Kate Beattie

Thank you for the question, Shaun. Look, our intent is to continue to compete to win in a competitive market. I'm not in a position to comment on the market itself and what trends might be emerging there. But I think as I've tried to make clear, we are competing to attract the discretionary dollar in our – every discretionary dollar in our category, and we will continue to do so.

Operator

Your next question comes from Michael Simotas from Jefferies.

Michael Simotas

Just wanted to touch on the comment in the release that the industrial dispute last year impeded your ability to invest in promotions through the second quarter. How should we think about what that meant for your gross margin that you'll then be cycling in the first half? Does that mean that there was a material benefit to gross margin last year and we should think about that when we look at how you can lap that in the first half ’26?

Kate Beattie

Yes. I think, I mean we’ve called that out with intent. It is certainly fair to say that when you’re in the position we were in, which is we could not get enough stock on the shelf fast enough, we had to pull back on our ability to compete on promotions. We couldn’t provide the product to underpin a strong promotional campaign as we were leading into Christmas last year. And thankfully, that’s not the position we’ll be in this year, and that will have corresponding impact to both sales and margins.

Operator

Your next question comes from Ben Gilbert from Jarden.

Ben Gilbert

Sorry, another question around the promotions. So if I just put together what you’re saying around all these points, so you’ve got the lapping of reduced promotional intensity, which, obviously, you pull that in. Presumably, it’s going to be funded by you, so there’s a GM impact. And then it sounds like you’re leading a lot of the step-up in promotional intensity. Is that largely funded by you? Because it sounds like we could see a reasonable decline in gross margins year-on-year in the first half, putting all these points together?

Kate Beattie

Thanks for the question, Ben. Look, I think what I would say is – what I would reiterate is we are actively ensuring our brand value propositions resonate and that they are showing up true to their brand value promise, which includes being the lowest on price in the market but above that as well, offering great value on promotions and on attractive offering, both in terms of composition of the products on display and the price points at which they’re sold.

That should drive the kind of top line momentum that we are encouraged to see emerging. It's an environment in which social occasions continue to matter a lot. I think it's fair to say that our sales momentum in September was particularly underscored by things like the footy final season, where we were really pleased to see actual transaction growth as customers embrace those occasions and the opportunity to participate in the category, both in our pubs as well as in retail.

How that will play out over the rest of the season remains to be seen, but I would say, we would see that as early good signs of the fact that when the opportunity to socialize, have fun is there and there are a lot of occasions still to come through the rest of the half, customers do participate. And we look forward to seeing how that plays out in terms of both sales momentum and the drivers of that.

Ben Gilbert

So are you funding the step-up in promotions there? Or is it supply funded?

Kate Beattie

I think it's fair to say these things are always a mix. So of course, we work very hard every day with our suppliers to make sure that their products show up at a price that is good for our customers, that is funded through a mixture of mechanics in partnership with our suppliers. But as I've also said, our everyday shelf prices, we're making sure that they are positioned to reflect our brand value propositions in the market. And that is also an ongoing dialogue with our suppliers about what price we put what products on shelf.

Operator

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

David Errington

Kate, look, all power to you for trying to get the business back into sales growth. I think that's what the business really needs. And I think that's all power to you for doing that irrespective of the impact on short-term profitability. But the question, I suppose, that I've got is that you seem to be doing a lot of this promotional – or the industry is shifting, if you like, to online immediacy, if you like, ultra convenience. And I suppose that's what worries me a little bit because that's where the promotions seem to be playing out.

My question is how ready is the business to be able to win in that game? Because you seem to be late to the party a little bit, whether you have to do it through Uber. It just doesn't seem a very profitable way to run a business going forward, this ultra convenience and immediacy and online. So how is your business set up to be able to combat the necessary pressures that will be on your profitability to meeting that sales need? I mean, is it just you have to do it because the customers want it? Or is it that's the preferred way of doing promotions now?

If you could do that because it just seems to me listening to you, that's the way – the preferred way is to give offers. I think you said delivery, preferred modes of delivery and delivery availability in that. It just worries me that the cost burden of this, I don't want to use the word profitless sales growth, but that's what I'm taking away a little bit today. If you could comment on that, that would be really appreciated.

Kate Beattie

Thanks for the question, David. I think I'd start by saying our competitiveness on price is not limited to the online space. We're making sure we show up with the best prices for customers everywhere we trade, both online and in store, and it's worth also remembering that online sales represent 10% of the total sales base. So while it is an important channel and it is a promotional, it is a channel in which we've seen more intense – a more intense competitive landscape. It's certainly not the only one in which we're showing up for value.

It’s also important, I think, to underscore that online remains a profitable channel for us. And there are multiple ways in which we participate in the online space. They are our brand exclusive online spaces like the Dan Murphy’s app and web, BWS app and web, and there’s also other channels through which our products are sold such as the fast last mile convenience channels, the ultra-convenience channels as well as the Woolworths site and app.

So what we do in all of those channels is make sure that we’re balancing our price competitiveness with the profitability. And we do that through multiple means, including obviously managing price and margin in the way the products show up as well as the way we negotiate, for example, delivery fee outcomes.

It’s also worth remembering that the Dan Murphy’s online channel remains, by far, the biggest e-commerce channel in the liquor industry in Australia. And our sales in the Dan Murphy’s online channel are approximately 75% picked up at store. So that also supports a multiple things, not just profitability of the channel but also actually customer presence in our stores. I think it’s very important to remember that when a customer picks up at store, it’s a further opportunity for us to connect with them directly and for them to recognize the proposition that is the Dan Murphy’s box, including the range of products available, the promotional offerings and the value in shopping in a Dan store.

Operator

Your next question comes from Tom Kierath from Barrenjoey.

Thomas Kierath

We’re seeing a bunch of retailers basically come out and, I guess, improving sales trajectories. What are you kind of seeing from like an up-trading or down trading perspective from the consumer? Is there any signs that people are buying more premium products? Or is that kind of down trading trend that’s been happening for a while with the cost of living pressures kind of continuing?

Kate Beattie

Thanks for the question, Tom. Look, I think it's very fair to say we continue to see people shop for value on average. And the trends we've spoken about before, such as the relative prominence of entry price points and categories in our sales remains true.

Having said that, we also disproportionately represent across our sales base the majority the shoppers of the category in the market, and so we do see all types. And I think we've spoken before about the fact that while we see the value shoppers, to some extent, down trading or trading out of things like champagne into sparkling wine, we also continue to see, for example, good growth in the premium and luxury wine segment, which I think talks to the fact that engagement in the category remains strong, and where affordability isn't an issue, participation at the premium end of the market still remains strong and actually in growth.

Operator

Your next question comes from Caleb Wheatley from Macquarie.

Caleb Wheatley

Just to follow-up on the competitive intensity online, just ask more comment around the online channel competition and promo moving more toward sort of what you're seeing in the broader market. Or is there anything else happening more specifically in online just conscious that the online specialist retailers are also starting to ramp up some of their liquor SKUs?

Kate Beattie

Sorry, Caleb, I didn't catch all of that. Can you repeat the question for me?

Caleb Wheatley

Apologies, Kate. Yes, just a question around sort of that online promo/competitive intensity. Is it more that online channel and your platform moving more toward the broader market conditions? Or is there something happening more specifically in the online competitive space in liquor, particularly with sort of Amazons of the world starting to increase their offering in the liquor space as well?

Kate Beattie

So I think if I'm right, your question is asking about are there more players in the market doing more or are we promoting more deliberately in that channel.

Caleb Wheatley

Yes.

Kate Beattie

I would say probably a combination of both. Yes, there – I mean the online space is an easier-to-access space if you don't have a physical footprint. And so there are unique competitors in that space that we continue to compete with and we'll do so. And we compete with their product – with their prices not just online but in store. And it's also where you see, at the moment, in the broader market, the prevalence of the spend stretch and sort of basket-building offers, and that's just a unique mechanic that's more prevalent in online than it is in off-line in our category at the moment.

Operator

Your next question comes from Richard Barwick from CLSA.

Richard Barwick

Can just touch on the strategy review? So you've referenced that still continues. Can you just give us a little bit of detail as to who's actually leading that? And to what extent, if any, is Jayne Hrdlicka involved in that process as well?

Kate Beattie

Thanks, Richard. So it's a process that's being led by management with support of Bain Consulting and of course, with continuous feedback loop to the Board. Jayne is supporting the business the equivalent of a couple of days a week, working with us on that strategy build as we progress as well. And I think we've said before, we're looking forward in the second half of the year, bringing the outcome of that to the market once we've landed it, and it's progressing really well. We're really encouraged by the early signs we're seeing there. They continue to underscore our confidence in the opportunity still available to us in this portfolio.

Richard Barwick

And any sort of update, Kate, just on when do you think you'll be in a position to bring that to market?

Kate Beattie

So we think it will be in the fourth quarter of the financial year, so sort of the April-May time frame next year. We'll be planning to do a Strategy Day.

Operator

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

Phillip Kimber

Just a question on the hotels. You've called out there nearly 1,000 new AGMs – or EGMs, sorry, in the last 6 or so months. And then another 900, I think, it was. Can I just confirm that whilst there might be new machines there, old machine goes out and new machine comes in, and you haven't gone from like 12,000 EGMs to 14,000 over last year or 2? So I just want to confirm that they're replacement of existing machines rather than incrementally new machines.

Kate Beattie

Yes. Thanks, Phil. That's right. They are replacement. I'd sort of characterize that as a category management exercise. We continue to make sure that our product offering in our gaming room remains relevant to the customer base. And so that does involve continuously refreshing the fleet.

Phillip Kimber

And is that – I mean you stepped that up. I think you called it out probably a year or 2 ago. I think you've got maybe 5- to 7-year replacement cycle. I might have that slightly wrong. Is that just consistent with that? Or are you stepping it up again to have an even shorter replacement cycle?

Kate Beattie

Yes. So it's approximately – it's sitting between 6 and 7 years on average. That's pretty much the same as it has been for the last couple of years, so we haven't particularly stepped it up. There is some timing in when we've purchased last year, which is what we've commented on when we talk about the depreciation and amortization impact this year. So disproportionately – the purchasing was disproportionately weighted to the second half last year, but on average, the amount of replacement that we're doing is pretty consistent.

Operator

Your next question comes from Sam Teeger from Citi.

Sam Teeger

Just was keen to please explore the comment around promotional intensity being expected to be elevated in the second half given that's still some time away. Is this because of what you're learning in the strategic review to date or some other factor which you can explain to us? And then just in terms of the second half, should we be assuming promotions are the same or at an even more level than last year?

Kate Beattie

Thanks, Sam. Apologies, I may have been unclear. I meant the second half of the quarter – I mean, sorry, the second quarter of the half. So for the remainder of the half was my intention, to say that we're not expecting a material change in what is currently an elevated level of promotional activity. May even get more intense as we lead into things like cyber sales, trading for Christmas, which, of course, is the key must-win event for the liquor category.

Operator

Your next question comes from Peter Meichelboeck from Select Equities.

Peter Meichelboeck

Just on the gaming, you've called out Victoria and Queensland has been the strongest markets, which aligns with the sort of the industry data and that you gained share in Victoria, which is partly, I guess, driven by the sort of the post normalization in the opening hours, et cetera. Do we imply from that, though, that Queensland, that you've lost some share? And if so, what's driving that?

Kate Beattie

Yes. Thanks for the question. As we have previously commented on the fact that we're not keeping up with market growth in Queensland, there are a number of factors, including where our pubs are positioned relative to the club sector, which is outperforming pubs, and also the state of the fleet. And we're investing strongly in renewals in Queensland. And where we renew our venues, we're very pleased with the gaming performance, which is more in line with the rest of the market. But we have some – we still have some work to do there.

Operator

— Operator Instructions — Your next question is a follow-up from Shaun Cousins from UBS.

Shaun Cousins

I've actually sort of got 2, but maybe just to clarify the answer to Sam's question. Kate, you said – so you're not calling out the promotional intensity will remain elevated through the second half of fiscal '26. You're just saying that it's second quarter '26?

Kate Beattie

That's right. Apologies if I was unclear.

Shaun Cousins

Okay. Got you. All right. Sorry, that's quite a difference in how I think that's been interpreted by investors. My question is around gaming and regulatory changes, particularly in Victoria, where I think load limits are to be reduced from $1,000 to $100. I believe that's coming in later this year. Is that expected to have any impact? Or it's – you haven't seen any – or, yes, is that expected to have any impact?

Kate Beattie

Thanks, Shaun. Yes, I might just clarify for the benefit of everyone on the call. What load limits refers to the amount of cash that can be put in a machine at any point in time. What we've seen is and what we have actually been an advocate of is the reduction of load limits in various states. So we're supportive of the trajectory and where it has occurred, which includes in both the state of South Australia and in New South Wales, we've not seen it materially impact earnings. But we do think it's a sensible measure that the regulators are taking.

Operator

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

Michael Simotas

I've actually got a couple as well. Can I just confirm the point around promotional activity and whether we're talking about the second quarter or the second half? Kate, I think you made a comment about the second half of the half, but the release itself talks about promotional activity being elevated through the second half in the outlook statement. I'm a little bit confused by that now. Just how we should interpret that.

Kate Beattie

Yes. So our intention was definitely not to provide guidance on what we expect in promotions in the second half of the year. So to be perfectly clear, we are only commenting on the second half of the half. So we – all of our comments that we are making only relate to the first half of the financial year, so the period up to the end of – effectively, end of December.

Michael Simotas

Okay. Yes, that's clear. And then in terms of your commentary on sales, so turning positive in September and continuing into October, to be clear, is that just BWS and Dan's? Or is that entire retail sales?

Kate Beattie

It's BWS and Dan Murphy's.

Michael Simotas

So is the implication of that retail sales including specialty negative?

Kate Beattie

No, no. Apologies. Retail sales, in total, are positive, but we're not distinguishing specialty sales. As we've said, I mean, one, it's a relatively small component of overall sales and particularly because of the merger of Shorty's into Dan Murphy's last year and moving JIMMY BRINGS to MILKRUN, that channel is not – that segment is not in growth, but retail sales overall in October are in growth.

Michael Simotas

Total retail sales are positive in September and October.

Kate Beattie

Yes.

Operator

There are no further questions at this time. I'll now hand back to Kate Beattie for any closing remarks.

Kate Beattie

Thank you, everybody. I appreciate you joining and appreciate the questions. Of course, we're heading into the all-important Summer Spring Racing Carnival and summer trading period. We look forward to seeing you in our stores and in our pubs. Hope you have a great weekend.

Operator

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