Australian Shareholders' Association

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Renewal, expansion and digital optimisation.

Company/ASX Code	Endeavour Group/EDV
AGM date	Tuesday 18 October 2022
Sofitel	9am Sofitel Sydney Wentworth, 61-101 Phillip Street, Sydney
Registry	Link Market Services
Type of meeting	Hybrid https://meetings.linkgroup.com/agm/edv22/register
Poll or show of hands	Poll on all items
Monitor	Julieanne Mills assisted by Don Adams
Pre AGM Meeting?	Yes, with Chair Peter Hearl, INED - Joanne Pollard, Investor Relations - Sean O'Sullivan and Anna Collins.

Monitor Shareholding: An individual involved in the preparation of this voting intention has a shareholding in this company.

Summary of issues for meeting

As this is Endeavour's first year as a stand-alone S&P/ASX50 Index company we wanted to question the board on a broad range of areas. There are areas where we felt they had not attained the right balance, but many things that they have done well. We have attempted to include much of this in the commentary below. We hope they will take on board our comments going forward.

Proposed Voting Summary

No.	Resolution description	
2 a	Re-election of Duncan Makeig as a Director	For
2 b	Re-election of Joanne Pollard as a Director	For
2c	Election of Anne Brennan as a Director	For
3	Adoption of Remuneration Report for year ended June 26 2022	For
4	Approval of long-term incentive equity grant to CEO/Managing Director Steve Donohue	For

Summary of ASA Position

Endeavour's (EDV) first year as a stand-alone company has seen substantial progress. Notwithstanding, the difficulties of COVID-19, floods, supply chain, and inflationary pressures, they have pressed forward with the renewal of stores, hotels, and gaming machines. They continued to purchase more properties and expanded their range of Pinnacle products with 350 new stock keeping units (SKU's) and the purchase of several Wineries. They have also invested in the growth of their e-commerce business with sales in EndeavourX now reaching $859m in total sales of $1bn.

Although impacted by the COVID-19 closures and with the Hotel business only open for 231 days, the natural hedge of their retail business and out performance of retail sales balanced out the financials. EDV ended the year with group sales flat but with early signs of improvements in the hotel business and normalisation of both business streams in the past few months the future is looking much brighter.

There are currently labour shortages in their business with over 400 positions in June that the company was trying to fill in hospitality, retail, gaming and software. They have brought forward by 3 months, the pay increases of the Fair Work Commission annual wage decision of 4.6%-5.2% to July 2022 for 15,000 workers to attract workers but are still struggling to fill positions. Absenteeism peaked in March and there is a still some continuing absenteeism exacerbated by COVID-19.

The historic underpayment of employees seems to be corrected and under control with another $37m in costs in FY22, down from $52m in FY21, with provisions for another $23m. Improved systems are now in place.

According to the chairman there is not likely to be a significant impact of inflation on their business as customers tend to consider their products as an affordable luxury. Premiumisation and low and zero alcohol are still showing strong sales and providing higher margins and a lot of choice. The 4.4% price rises implemented in August have been absorbed by the market indicating that inflation has not yet impacted sales.

Over 4000 COVID-19 regulatory checks were done during COVID-19 lockdowns and EDV had only 3 infringements for customers observed queuing. Contactless ordering, home delivery and direct to boot was increased.

Governance and culture

This year has seen changes to the board with Catherine West's resignation on the 11 April and Bruce Mathieson Senior resignation in June 22. He is to be replaced by his son Bruce Mathieson Jnr subject to probity approvals. The board recognises the need for more independence with only 4 of the 7 directors independent and has started the search for another independent non-executive director (INED) with skills in IT transformations, leadership, and consumer digital.

The nomination of Bruce Mathieson Jnr to the board has been subsequent to his resignation from his executive position. The board has been selected by Woolworths and the Bruce Mathieson Group (BMG) and ASA feels its heavily weighted to those shareholders. They are both significant shareholders with a round 14% and 15% each. While it was understandable during the demerger it would be preferable to see this transition to a much greater proportion of independent directors going forward.

There is a 40:40:20 gender policy with 34% at board level, 0% women at executive leadership level, and 36% of women in key management personnel (KMP). Gender pay equity sits at 2%. The executive leadership team will improve to 20% women in October with the internal appointment of Agneizka Pfieiffer-Smith to MD Dan Murphy.

It would be good to see a more culturally diverse board and management and indigenous employment policies in place. There are the beginnings of an LGBTIQ+ inclusivity policy. More work needs to be done here. The Voice of team results that show a 49% intent to stay, which may indicate there are cultural issues to address at EDV.

There is a non-executive director (NED) Equity Plan which provides an automated mechanism for share purchases. The minimum shareholder requirement (MSR) requires directors to hold one year's base fees within 5 years of listing. The CEO is required to hold shares to the value of 200% of fixed remuneration (FR) and KMPs 100% of FR within 5 years of their appointment. There is disclosure of MSR compliance in the annual report that Peter Hearl and Colin Storrie have met their requirements, the others have 4 years to comply.

CEO Stephen Donohue has 118,258 EDV shares. He still has a way to go reach his MSR but has another 4 years in which to do so.

Financial performance

An overall strong result with sales in line with last year of $11.6bn, earnings before interest tax (EBIT) was $924m up 2.8%, and profit jumped to $495m up 11.2%.

A full year dividend of 20.2c, with a payout ratio of 73.1%. Earnings per share (EPS) of 27.6c.

Net debt was $1.2bn, with undrawn debt facilities of $985m, operating cash flow of $949m.

Retail Sales were $10.1bn down 0.9%, EBIT $666m down 0.4% impacted by first half (1H) at home sales, and second half (2H) normalised sales and supply chain impacts especially over Christmas. They produced a 23% profit due to higher margin premiumisation and low and zero alcohol sales.

Hotels Sales were $1.5bn up 6.6% year on year, EBIT was $315m up 20.7%. 1H saw 30% days open, 2H had very strong sales in gaming, bar and food but was impacted by team shortages. They achieved an 85.1% profit margin. In FY21 193 days open vs FY22 231days open

Pinnacle saw a 30% sales growth. The development of over 300 zero and low alcohol drinks options which produce higher margins.

EndeavourX hit $1bn in sales up 35%, EBIT up 17%. with 10% penetration and there are now 4.5million My Dan online members.

Key events

Capital expenditure of $349m included renewals of 40 hotels, 81 retail stores and 2000 electronic gaming machines (EGMs), and the purchase of 5 hotels and 32 new retail stores, Josef Chromy Wines and Shingleback Wine.

The sale of ALE property group shares to Charter Hall achieved $27m, with $5m in Capital Gain

Key Board or senior management changes

Bruce Mathieson Jnr resigned as managing director (MD) of ALH Hotels in December 2021. Alex Freudmann has resigned as MD of Dan Murphy and will be replaced by the Chief Strategy Officer Agneizka Pfieiffer-Smith in October. There is a new Chief Marketing Officer, Jo Rose and the new MD for ALH Hotels, Mario Volpe, started in March.

ASA focus issues (not discussed under remuneration report or re-election of directors

Sustainability Report

Endeavour's first Sustainability Report was released in line with the Annual Report however it was light on detail and ambition, with goals of Net Zero by 2050 for Scope 1 & 2 and 100% renewable electricity use by 2030. EDV produced 329,978 tonnes of CO_2 e in 2022, 87% comes from its electricity use.

We would like to encourage EDV to provide more transparency and metrics on the areas of material impact, transition plans and scenario planning for physical risks and mitigation of climate change and short-term goals aligned with those plans. The inclusion of metrics around the following: energy usage, waste to landfill, water recycling, sustainable packaging, recycling initiatives, transport costs and emissions, diversity, safety, whistle-blower complaints.
We commend the Task force for Climate Related Financial Disclosures (TCFD) reporting and UN Sustainability Goals.
The focus of this Sustainability Report was on its people and sociability and read more like a marketing document than a serious report around ESG and climate change.

"Leading in responsibility" is the catch all for EDV's social corporate responsibility. We questioned the company on the detail of their "leading responsibly" -it includes bespoke training of staff in responsible service of alcohol and gaming, which is more about compliance and regulation than really considering their impact on the communities. The chair's response was that they have over 150 liquor accords in place in different communities with police and social services to manage responsibly. There is little transparency around the metrics in place to measure the success or not of its policies or the real impact on its communities.

They produced their first modern slavery statement and identified two potential high risk areas in horticulture and viticulture workers, and property and maintenance service workers. They also recognised the potential for gig economy workers to be exploited and will collaborate with regulators to improve conditions for these workers. They have produced a Responsible Sourcing Policy to guide the company and their suppliers, organised audits of vineyards, they have a SEDEX ethical trade membership roll out and modern slavery training for staff and the board. The work is ongoing and a good start.

The impact of the Darwin Dan Murphy review has seen some positive actions with a "Reflect" Reconciliation Action Plan (RAP) in development and a Darwin Community Advisory Committee made up of indigenous and other community leaders. A new screening policy for developments has been put in place. The chair was not able to provide us with any insight from this committee yet. We asked them if they would consider rolling this out to other communities.

Gaming

EDV is the largest owner of poker machines in Australia with 12,539 pokies, or as they like to call them, electronic gaming machines (EGMs). It is the third largest gaming operator after Crown and Star yet it fails to declare its income from gaming. This is a significant transparency issue and talks to identified risks attached to its business model. Shareholders should be able to have clear answers to this question.

The valuation in liquor and gaming licences in intangibles assets sets this value at $2bn.

Summary

(As at FYE)	2021	2020	2019	2018	2017
NPAT ($m)	495	445			
UPAT ($m)	495	445	328	445	462
Share price ($) year end	7.57	6.29			
Dividend (cents)	20.2	7			
Simple TSR (%)	23.5%				
EPS (cents)	27.6	24.8			
CEO total remuneration, actual ($m)	3.998	3.992	3.094		

This is the first full trading year as a stand-alone company and UPAT results are pro forma as presented in the Woolworths demerger documents for comparison. 2021 dividend was only a partial year dividend, earlier dividends only went to WOW and BMG. The 5 year summary cannot be completed.

Election or re-election of directors

It would be good to see more diversity across the board and a lot more independence. Currently there are 7 directors, with one executive director the CEO, Woolworths has 2 directors, and the Bruce Mathieson Group will have one which will make it 8. There are a lot of crossover relationships on prior boards ie AMP, Yum, Pepsico, which is perhaps understandable?

The skills matrix indicates appropriate skills and experience amongst directors in most of the expected areas, but it doesn't mention ESG or climate risk, the focus is on social responsibility and compliance. Individual directors' skills are not included in the matrix, and we would like them to be in future.

All directors up for election are seen as independent.

2a Re-election of Duncan Makeig

Duncan was appointed to the board in June 2021. He sits on the Audit Risk and Compliance Committee (ARCC) and the People Culture Performance Committee, and Nominations Committee.

Duncan has extensive legal and corporate governance expertise, international experience in fast moving consumer goods (FMCG) and a broad knowledge of the retail and alcohol industry.

He currently is founder and CEO of a brand consultancy China Road, chairman of Curing Homesickness Ltd, a director of Wirrabilla Pastoral Pty Ltd and a part owner of two hotels.

His past roles include MD of Lion Asia Dairy and corporate governance roles at Lion Nathan, Pepsico and Yum Brands.

Duncan is considered an independent Non-executive Director. He has 14,005 EDV shares

ASA will vote all undirected proxies FOR the re-election of Duncan Makeig.

2b Re-election of Joanne (Joe) Pollard

Joe was appointed in June 2021. She is chair of the People, Culture and Performance Committee, a member of the Audit, Risk and Compliance Committee, and the Nominations Committee.

Joe has wide experience across telecommunications, media, marketing and the sports industries and a thorough understanding of customer management, cultural transformation and digital disruption.

Past roles include Group executive of media and marketing at Telstra, CEO of Nine MSN.

She is currently a director of Greencross Ltd, oOH! Media, Washington H Soul Pattinson and RACAT group. Her previous director roles include AMP Bank Ltd, Nine Entertainment Co, iSelect, and 12WBT.

Joanne is considered an independent Non-executive Director. Joe has 7,525 shares

ASA will vote all undirected proxies FOR the re-election of Joanne Pollard

2c Election of Anne Brennan

Anne was appointed in June 2022. She is chair of the Audit, Risk and Compliance Management Committee, and a member of the People, Culture and Performance Committee and Nominations Committee.

She is an experienced company director with deep financial and business experience across a wide range of industries.

Currently a director of Argo investments Ltd, GPT group, the Lottery Corporation, NSW Treasury, and Rabobank NZ Ltd. Previous boards include Charter Hall Group, Tabcorp, Spark Infrastructure, Metcash, Nufarm, Myer, and Echo entertainment.

Her experience includes executive finance director at Coates Group and CFO at CSR. She was previously a partner at Arthur Anderson (now KPMG) and Ernst & Young.

Anne is considered an independent Non-executive Director. Anne has 13,211 shares
Anne has a reasonably heavy workload but is a seasoned company director and has recently let go of a few director roles. We would like her to speak to the meeting about her workload.

ASA will vote all undirected proxies FOR the election of Anne Brennan.

Item 3 Adoption of FY22 Remuneration Report

The remuneration framework is clear and easy to understand with actual remuneration reported. Short term incentives (STI) are paid 50% in cash and 50% in deferred share rights over 2 years. Business performance is measured against a balanced scorecard, 60% weighted to financials, 40% non-financials. The measures are EBIT 20%, average working capital days 20%, safety 20%, customer satisfaction 20%, sales 20%. The scorecard determines the remuneration pool. This is then multiplied by the individual's performance which is assessed against strategic and "ways of working" goals.
Long term incentives (LTI) are measured 40% against relative total shareholder return (TSR) of the ASX100, 40% return on funds employed (ROFE) and 20% "leading in responsibility". The performance rights vest after three years. ASA would like to see that extended to a longer time frame, we prefer at least 4 years preferably 5 to reflect longer-term planning and sustainability. Board discretion and malus apply and can be adjusted down to zero. The shares are allocated at face value based on the 5-day volume weighted average price (VWAP) up to 1 July.

The CEO maximum remuneration for FY22 remained the same as last year with fixed remuneration at $1.65m and, as with his target remuneration, is in keeping with companies of a similar size. His maximum potential remuneration is still $6.93m which is seen as generous. The CEO actual pay-out for FY22 STI was target or 100% of FR, and 74.3% of his transitional FY20 LTI grant his reflecting 40% based on relative TSR, and 34.3% ROFE performance, there was no LTI pay-out for the 20% “Leading in Responsibility” component.

In considering the appropriateness of the remuneration we took into account the following: The CEO has produced a decent result under difficult circumstances. The board has applied their discretion and targets to adjust remuneration and therefore outcome. While the structure on the surface is good the STI for target represents 100% of FR and at maximum is 150% of FR for the CEO and 120% for the KMP. ASA prefers greater weighting to be applied to LTI.
See the appendix for more details.

While ASA would prefer a more modest maximum opportunity which evolves over the coming years as the CEO and the board prove themselves, we recognise that the target remuneration is in keeping with similarly sized companies and will therefore vote FOR this resolution.

It will be up to the board and KMP to manage the social implications of a workforce on far more moderate remuneration and mitigate potential harms to any vulnerable customers. We support the weight given to initiatives that enhance responsible sale, service and consumption of alcohol and conduct of gaming, as these support a sustainable business.

Item 4 Approval of long-term incentive equity grant to CEO/Managing Director Steve Donohue

This is automatically required for the implementation of the remuneration report.

The maximum number of performance share rights is 371,839 under the FY23 LTI plan (2022-2025). The face value of the rights is $2,817,536 and represents 170% of the CEO’s FR. The actual value realised will not be determined until the end of the performance period and will depend on the performance and the share price at the time of vesting.

These share rights show the significant potential variable remuneration for the CEO in terms of maximum LTI. While Mr Donohue has to meet and exceed hurdles before they vest, ASA feels the growth in maximum variable remuneration is generous. The exposure to share prices provides alignment with shareholders, with 20% weight on “leading in responsibility” and the potential action of the malus policy emphasising the importance placed on the company of dealing effectively with the social implications of its business. We are pleased to see the board has implemented this in FY22 with no reward for “leading in responsibility”.
See appendix for further details.

As we are supporting the Remuneration Report which incorporates this LTI grant, we will vote FOR the long term incentives.

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Appendix 1
Remuneration framework detail

CEO rem. Framework for FY22	Target* $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	1.650	33%	1.650	24%
STI - Cash	0.825	17%	1.2378	18%
STI - Equity	0.825	17%	1.2378	18%
LTI -share rights	1.650	33%	2.805	40%
Total	4.950	100.0%	6.930	100%

The amounts in the table above are the amounts that are envisaged in the design of the remuneration plan.
*Target remuneration is sometimes called budgeted remuneration and is what the company expects to award the CEO in an ordinary year, with deferred amounts subject to hurdles in subsequent years before vesting.

The CEOs maximum total remuneration package is $6.93m it includes fixed remuneration (FR) of $1.65m, a short-term incentive (STI) equal to 100% of FR at target or 150% of FR at maximum and an LTI at 170% of FR.

LTI performance hurdles are relative TSR (40%), ROFE (40%), leading in responsibility (20%)

Relative TSR must be above 50th percentile and reaches maximum at 75th percentile measured against the ASX 100.

ROFE targets are published at the end of the performance period.

Leading in responsibility, is a subjective decision by the board around management, regulatory compliance and responsibility etc.

Board discretion and malus are applied prior to vesting.