Australian Shareholders' Association
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### Unsettling times as Woolworths exits

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|---|---|
| **Company/ASX Code** | Endeavour Group Limited/EDV |
| **AGM time and date** | 10am AEDT Wednesday, 13 November 2023 |
| **Location** | Magnifique Ballroom, Sofitel Sydney Darling Harbour, Darling Harbour Drive, Sydney |
| **Registry** | Link Market Services |
| **Type of meeting** | Hybrid: in person and online at meetings.linkgroup.com/EDV24 |
| **Monitor** | Don Adams and Julieanne Mills |
| **Pre-AGM Meeting** | Yes, with Chairman: Ari Mervis, NED: Joe Pollard, Investor Relations: Robert Wruck, and Anna Collins |

Monitor Shareholding: The individuals involved in the preparation of this voting intention have a shareholding in this company.

## 1. How we intend to vote

| No. | Resolution description | |
|---|---|---|
| 2a | Election of Director- Ari Mervis | Undecided |
| 2b | Election of Director- Peter Margin | For |
| 3 | Adoption of Remuneration Report | Against |
| 4 | Approval of Long-Term Incentive grant to the Managing Director and CEO | For |

## 2. Summary of Issues and Voting Intentions for AGM

- This was Endeavour's third full year as an ASX listed company having demerged from Woolworths during the chaos of COVID. The CEO Steve Donohue focused on team and responsibility and carried across much of the Woolworths culture. The business was settling into more normalised earnings and growing slowly. The sale of Woolworths shareholding, the loss of the two Woolworths directors and appointed chairman, and now the "retirement" of the CEO is unsettling.
- The FY23 AGM was acrimonious as the largest shareholder, Bruce Mathieson Snr (15%), attempted unsuccessfully to have Bill Wavish elected as a director. This failed and the Chair, Peter Hearl, said he would stay in his position and work to mend relations with Mathieson. On 3 January 2024 it was announced that he was leaving and that the board had selected two new directors, Ari Mervis (the new Chair) and Peter Margin who would take up their positions after probity and regulatory approvals had been obtained. It was also announced that the board representative of the Mathieson

interest, Bruce Mathieson Jnr, would resign from the board in June 2024. At the end of September this year, it was announced that Steve Donohue would be departing sometime in the next twelve months after an external search for a new CEO had been completed.

- The share price has continued to fall and is now at the lowest level since EDV listed in 2021.
- In December 2023, EDV conducted an Investor Day which provided a detailed strategy position for all aspects of the business and served to rebut the claims made by Mathieson. In our meeting with the Chair, Ari Mervis, we saw no clear strategy position.
- Gaming is a big issue for EDV and there are concerns about the nature and pace of likely reforms. EDV places a great deal of emphasis on responsibility in both alcohol and gaming, but we sense that in changes to remuneration policy there has been a weakening of their resolve.
- EDV has adopted a program called One Endeavour which is an acceleration of expenditure and effort to separate the company from its Woolworth parent.

## 3. Matters Considered

**Accounts and reports**

Financial performance

| (As at FYE) | **2024** | **2023** | **2022** | **2021** | **2020** |
|---|---|---|---|---|---|
| NPAT ($m) | 512 | 529 | 495 | 445 | NA |
| UPAT ($m) | 512 | 529 | 495 | 445 | 328 |
| Share price ($) | 5.05 | 6.31 | 7.57 | 6.29 | NA |
| Dividend (cents) | 21.8 | 21.8 | 20.2 | 7 | NA |
| Simple TSR (%) | (16) | (13.8) | 23.5 | NA | NA |
| EPS (cents) | 28.6 | 29.5 | 27.6 | 24.8 | NA |
| CEO total remuneration, actual ($m) | 2.288 | 3.842 | 3.998 | 3.99 | 3.09 |

Simple TSR is calculated by dividing (change in share price plus dividend paid during the year, excluding franking, by the share price at the start of the year.

Revenue increased by 1.8% (adjusted for the 53-week year) to $12.3bn and EBIT by an adjusted 1.8% to $1.055m. Growth in EBIT was slightly higher in the Hotels division at 2.3% adjusted compared with 1.7% for Retail.

Net profit fell due to higher interest costs on debt. Net debt was $55m lower at $1,872m but finance costs increased by $56m mainly due to higher interest rates in FY24 compared with FY23.

### Governance and culture

This is a company with considerable obligations in respect to regulatory compliance with its liquor and gaming licences. It promotes itself as a "responsible" provider of liquor and gaming with the aim of a leadership role as the largest supplier in Australia. Last year EDV took steps to introduce reduced hours at its Victorian pubs before the mandatory hours came into effect. Apparently, this was a contentious issue with the largest shareholder, Mr Mathieson Snr, whose family have their own pubs in Victoria with gaming machines.

This was considered one of the reasons that led to an acrimonious AGM and threats of an EGM from Mr Mathieson Snr, unless the chair and CEO left.

The resignation of Mr Mathieson Jnr from the board and the appointment of a board approved nominee director in his place will hopefully improve the board function and resolve the conflict with major shareholder Bruce Mathieson Group (BMG).

The regulatory environment for liquor and gaming is complex with each state having different rules and exploring different strategies and trials to minimise harm to problem gamblers and prevent money laundering. EDV is involved in these trials and will adapt to the changes when made. These changes may include mandatory loss limits in Tasmania, cashless technology in NSW, and carded play in Vic and a discussion in setting individual loss limits on a voluntary and mandatory basis, and facial recognition and self-exclusion in SA.

It is important for EDV to act responsibly and within the law to maintain its social license to operate.

### Key events

Woolworths sold down a further 5% of their holding on May 3, 2024, ceasing as a substantial shareholder. The remaining 4.1% was then sold in August 2024 and Woolworths has no shares in EDV at this time.

EDV completed 9 new My Dan and 18 BWS stores and 16 My Dans and 52 BWS renewals. Two new hotels were added, and two leases discontinued. They have cut back on purchasing hotels. Plans for further development of their existing portfolio of properties were presented at the December 2023 Investor Day as an opportunity to unlock future value. This shows promise but they will need to develop partnerships, funding and development skills.

### Key board or senior management changes

Mr Hearl announced his retirement on the 3 January 2024 along with a transition to a new chair, Mr Ari Mervis and the addition of another director Mr Peter Margin to take effect in March. Mr Mervis was at the time Chair of Myer Holdings, but he stepped down from that position on 14 March and became Chair of Endeavour on 27 March.

The announcement on 3 January was only two months after Peter Hearl said at the AGM that he was there for the long haul. That means that discussions with large investors (which have been reported as the reason for Mr Hearl to resign) and the recruitment of Mr Mervis had been carried out surprisingly fast.

Woolworths directors Holly Kramer and Collin Storrie each resigned from the EDV board in August and December 2023 respectively, as announced at the FY23 AGM. Bruce Mathieson Jnr retired on the 30 June 2024.

The current board has 25% female representation, well below their 40:40:20 target. They are actively recruiting a new director who is expected to be female. Mathieson is also in the process of nominating another director whose appointment will be subject to board approval and shareholder election at the next AGM. A search is also underway for a new Managing Director and CEO to replace Steve Donohue. All these appointments will need probity and regulatory approval.

According to the Chair, they are looking for skills and experience in broad commercial, financial, gaming, licensing, retail, regulatory and macro trends. There is a board skills matrix in the Annual Report, but it provides minimal information and does not indicate individual director's skill levels.

The retirement of Steve Donohue and the search for a replacement CEO was announced In September. He will remain until the 27 September 2025, or until a replacement is found. Our meeting with the new chairman was not particularly enlightening about the reasons for the change. It is uncommon for a departing executive at this level to stay in position for so long after his departure has been announced. We asked why an in interim CEO had not been appointed from the senior executive ranks and Ari Mervis said that while the existing senior executives were talented none of them had enough experience to step up. Mr Donohue was described as a "good leaver" so will retain his LTI equity opportunity on a monthly pro-rata basis, depending on his performance during this transition.

Senior leadership is now at 45% women.

The CFO Kate Beattie started in June 2023, she gave an impressive December presentation and received 55% of her STI bonuses. Claire Smith became the New CIO after 11 years at EDV, including establishing Endeavour X in 2019.

**Sustainability/ESG**

EDV sustainability reporting continues to improve but has some way to go. This is a diverse and complex business. We would like to see more transparency in their reporting especially around their regulatory compliance and other metrics that reflect their non-financial performance and progress against strategic plans.

Their primary focus is appropriately on responsibility and compliance and while they are making progress, there are increasing expectations on companies. EDV needs to ensure continual improvement and monitoring.

They currently have 92% of employees trained in Leading in Responsibility and mystery shopper audits found 88.7% compliance on their ID25 project which is designed to get age ID from all customers who appear to be under 25 years old. They have introduced and continue to evolve player protect. Facial recognition has been installed in 37 S.A. pubs and a trial is under way in NSW on cashless gaming in two of their hotels.

They have a 72% voice of team engagement score and EDV reached Bronze status for diversity and inclusivity from AWEI, the award for support of LGBTQI employees. The gender pay gap is minimal.

Customer net promoter scores (NPS) continue to improve with Dan Murphy at 81 and BWS at 75 and 8.7/10 for hotels. My Dans has 5.4 million members with a scan rate of 83%.

Safety problems were up slightly on FY23 with total recorded injury frequency rate at 10.36 mainly due to manual handling issues. They are reviewing safety protocols and training.

The death last year of an employee in a Darwin bottle shop has seen reviews of safety and some improvements to store security. EDV said that protocols were not followed in that case. Training has been strengthened to ensure safety of Endeavour staff has a higher priority than the loss of some stock. This year has also seen a concerning 42% increase in abusive behaviour towards staff.

Community engagement has seen progress with their Reconciliation Action Plan moving from Reflect to Innovate with continued support for the Uluru Statement from the Heart and reconciliation. The partnership with Larrakia Nation saw an Executive Leadership Teams immersion in Darwin and the Darwin Community Advisory Committee (CAC) has helped establish a Mob only yarning circle for team support, and support for a Bagot Youth Centre in Darwin. EDV are now considering developing further community consultation in other indigenous communities. Currently 2.9% of employee's self-identify as indigenous.

Unfortunately, the situation in some parts of NT, QLD and WA continue to be problematic with inter-generational alcoholism and disadvantage a large part of the problem. EDV works with police and government in many of these communities. There are a 127 liquor accords in place, with some restrictions to trading hours to minimise harm to the community.

The Modern Slavery Report sees issues mainly in labour hire and overseas recruitment in areas such as viticulture, cleaning and security. The "light capital investment" in own brand products means risks are attached to suppliers. EDV is engaging with their main suppliers to ensure compliance.

Validation of emissions data has been challenging. EDV are still working towards baseline data and an emissions footprint. They report against the TCFD framework however they are not at external assurance standards. Qualitive scenario analysis found that extreme weather events will continue under all scenarios with Pinnacle and the supply chain the most at risk. Transition risk "implied further rapid changes in policy, technology and market expectations".

Refrigeration, energy and water have been identified as areas of material environmental impact. Two new stores have installed lower emissions refrigeration, and 34 retail stores have installed enclosed fridges and doors are being retrofitted to some fridges to reduce energy use and increase asset life. They have 1,728 stores. The target of 100% renewable energy by 2030 has seen EDV continue to roll out solar with 219 sites generating 14,690MWh. 75 sites were added in FY24. Total scope 1 and 2 emissions are 365,924 tonnes of $CO_2$.

Nine EV charging stations have now been installed at hotels.

Work on identifying EDV's scope 3 emissions has seen 15 categories identified and work has begun on waste reduction with 11,087 tonnes (about 1/3 of total) of waste diverted from landfill. Packaging of EDVs own brand products is now 99% reusable, recyclable or compostable. There is considerable work to do to comply with the new Australian Sustainability Reporting Standards that are to be introduced this January. They are currently undertaking gap analysis to prepare for reporting.

**One Endeavour**

This is the program to continue to separate Endeavour from reliance on its one-time parent Woolworths. The present focus is on IT systems where EDV is aiming to develop its own technology but there are many linkages between the two companies that go beyond IT. For example, at some point EDV will want to remove the Everyday Rewards program from the BWS stores perhaps replacing it with a revamped My Dan's reward card. EDV leases considerable space from Woolworths for sites where BWS is co-located with a Woolworths store. They may share a loading dock which requires local coordination. Other linkages include warehousing and distribution, access to Woolworths marketing channels, and distribution of Pinnacle Drinks products in New Zealand.

One Endeavour spend in FY24 was $45m in expenses and $33m in capital expenditure, a total of $71m up from $41m in FY23. Interestingly, they wear these expenses above the EBIT line rather than report them as Specific Items. EDV use a concept of Operating EBIT which is EBIT before One Endeavour expenses. That is why the NPAT is equal to UPAT in our table above.

## 4. Rationale for Voting Intentions

**Resolution 2a: Election of director Mr Ari Mervis** (**Undecided)**

Mr Mervis has extensive global experience in the consumer goods, food and beverages sector. He is well known within the beverage industry as Managing Director of SAB Miller Asia Pacific. He was responsible for the integration of Fosters (rebranded as Carlton United Breweries) (CUB) into SAB in 2011. CUB was sold to Asahi in 2020. He was appointed interim CEO of Murray Goulburn in 2017 after financial difficulties saw the milk price for diary farmers fall below the price of production. In 2018 it was sold to Saputo Inc. He has significant experience in mergers, acquisitions, divestments and integrations.

Mr Mervis was executive chair of Accolade Wines when it was taken over by the Carlyle Group in 2018. It is now in the hands of Bain and several funds after running into financial troubles. He was a director of the Melbourne Business School. He retired as the Chair of Myer Holdings Ltd in March, handing on the role to the new CEO Olivia Wirth.

Mr Mervis is currently chairman of McPherson's Ltd.

We were disappointed in our pre-AGM meeting with Mr Mervis and that we came away with no understanding about what he saw as the future for Endeavour. We didn't hear about the strategic direction for the company and how it might differ from the direction developed by Peter Hearl and Steve Donohue. We will listen carefully to what he has to say at the AGM and vote the ASA's proxies after considering his words.

Mr Mervis has 100,000 EDV shares.

**Resolution 2b: Election of director   Mr Peter Margin (For)**

Mr Margin has 30 years' experience in the food, beverage and dairy industry. He was previously CEO of Goodman Fielder, and National Foods.

He is currently a director of Costa Group, deputy chair of Bega Cheese, and chair of Golf Australia. Previously he was Executive Chair (2016-2020) of Asahi Holdings Australian and involved in the integration of CUB into Asahi, a director of Nufarm, Pact Group Holdings and Huon Aquaculture Group.

Mr Margin has 16,166 shares

We believe Mr Margin is well qualified, and we support his selection.

**Resolution 3: Adoption of the Remuneration Report (Against)**

See the Appendix for a more detailed description of the Remuneration Report and the problems that the ASA has with it. The principal reason we will vote proxies against it, is the apparent downgrading of the importance of responsibility.

Endeavour talks a lot about responsibility. The word "responsibility" occurs 61 times in the Annual Report. Staff are trained in responsibility in alcohol and gambling matters. Yet the change to remuneration policy in replacing the 20% LTI measure, Leading in Responsibility, with an EPS target sends a negative signal, that responsibility matters are less important than financial measures.

Further the FY24 outcomes for LTI did not meet the entry point for both rTSR and ROFE measures but did meet the requirements for vesting based on the Leading in Responsibility measure. The Board decided to exercise its discretion and set vesting at zero for this measure as well.

We will vote against the Remuneration Report because of these changes which emphasise financial targets over responsibility, rather than responsibility being a pre-condition for financial outcomes over the longer term.

**Resolution 4: Approval of the Long-Term Incentive grant to the Managing Director and CEO (For)**

This is normally a routine resolution which, under ASX listing rule 10.14, requires shareholder approval to permit the company to issue or agree to issue new shares to a director, in this case the Managing Director. Since Mr Donohue will not be a director at the time when the shares might be issued, we will ask for more information at the AGM.

The remuneration policy provides that the Board can arrange for a departing employee to keep their performance rights alive after they leave. The amount of performance rights will be calculated on a month-by-month basis given the time served over the three-year vesting period. If the employee were to join a competitor, or not fully support the business up until their final day, the rights will generally be forfeited.

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## Appendix 1
## Remuneration framework detail

| CEO rem. Framework for FY24 | Target* $m | % of Total | Max. Opportunity $m | % of Total |
|---|---|---|---|---|
| Fixed Remuneration | 1.665 | 33.4% | 1.665 | 23.8% |
| STI - Cash | 832 | 16.65% | 1.248 | 17.85% |
| STI –Equity | 832 | 16.65% | 1.248 | 17.85% |
| LTI | 1.665 | 33.3% | 2.831 | 40.5% |
| Total | 4.994 | 100.0% | 6.992 | 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 remuneration policy is like previous years but there are some changes that give us some concern.

STI is based on three financial factors and two non-financial factors, safety and customer satisfaction. In FY24 the formula gave a 60% outcome. This is then adjusted by the board based on an assessment of individual performance. The result for the CEO was an award of 37% of TFR whereas other KMP had a higher individual performance and were awarded 55% of TFR. STI is paid 50% in cash and 50% in equity deferred for two years.

For FY25 the customer satisfaction metric will be cut from a 20% weight to 10% and a new factor called "Transition" will be introduced. This will be measured as the rate of progress achieved in the One Endeavour program during the year. We are cautious about this factor since it is not clear how it will be objectively measured.

LTI for FY24 was based on three factors – rTSR (40%), ROFE (40%) and Leading in Responsibility (20%). LTI is awarded as performance rights which are vested after three years depending on the outcome of those factors. Neither rTSR nor ROFE achieved the entry level so there was zero vesting for those components. The Board also decided that there would be zero vesting for the Leading in Responsibility metric even though there had been considerable progress.

Further, for the FY25 award the Leading in Responsibility metric has been removed and replaced with an EPS target. We believe that the replacement of the Leading in Responsibility metric with another financial metric sends the wrong signal for a company where responsible service is socially critical. That is why we will vote proxies against the remuneration report.

ASA has other long-standing difficulties with Endeavour's remuneration policy. We prefer that LTI be vested over four or five years, and that the rTSR measure vest at 30% at the 50$^{th}$ percentile and 100% at the 75th percentile. In the past we have voted for the remuneration report despite these concerns.