



Endeavour Takes Off

Company/ASX Code	Endeavour Group/EDV
AGM date	Thursday 21 October 2021
Time and location	9am AEDT Virtual AGM
Registry	Link Market Services
Webcast	Yes http://agmlive.link/EDV2
Poll or show of hands	Poll on all items
Monitor	Julianne Mills assisted by Don Adams
Pre AGM Meeting?	Yes with Chairman- Peter Hearl, Catherine West - Chair of People Culture and Performance Committee, and Sean O'Sullivan investor relations

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

Summary of issues for meeting

It was a robust pre-AGM meeting with the Chairman, Peter Hearl and director Catherine West as we covered a number of contentious issues that we felt Endeavour needed to address going forward including remuneration, poker machines and responsible gambling, underpayment of employees, gig workers and their rights, governance issues around independence, integrity issues and the Dan Murphy's Darwin report.

Item 1	Consideration of accounts and reports
ASA Vote	No vote required

Summary of ASA Position

This is the inaugural year for Endeavour Group having seen the restructure of Endeavour drinks, a merger with ALH and finally the demerger from Woolworths on 28 June 2021. This has resulted in a distribution of 70.8% of Endeavour shares to Woolworths's shareholders on a one for one basis. The remaining 29.2% is split equally between Woolworths (14.6%) and the Bruce Mathieson Group (BMG) (14.6%). Endeavour started trading on the ASX on the 1 July 2021 under the ASX code EDV.

The company is focused on two main sectors Retail and Hotels. Retail drinks includes BWS, Dan Murphy's, Langton's, Shorty's, Jimmy Brings and Cellarmaster's brands and 5.5million My Dans loyalty members (up 20%). The Hotel sector is essentially an operator and licensee of 332 hotels which includes 900+ bars and 230 function rooms, it owns 49 properties, operates 12,402 gaming machines and 280 Keno and 300 TAB across 293 venues, has 103 accommodation venues and the Monty's rewards loyalty program.

Pinnacle drinks provides products and services to the group as does the newly formed Endeavour X with its digital platform.

There are a number, of partnership agreements in place with Woolworths that provide access to supply chain, customer loyalty programs, technology, digital and media capabilities. The company has policies to manage the disagreements and commercial agreements that present benefits for both parties.

Governance and culture

It is still early days, but the board has made progress on board and governance frameworks including new values and purpose statements. Endeavour have put in place a Chief Sustainability Officer Alex Holt and are releasing a sustainability report just prior to the AGM. They are currently working on a modern slavery statement.

The board has articulated a growth strategy that includes, growing digital, enhancing and expanding their network of stores and hotels with locally focused renewals, and optimising the group by unlocking further valuations in their freehold and leasehold property assets over time. ASA questioned the Chair about whether they saw themselves as developers of property or managers, he felt they were agnostic, and dependent on the economics and that there were plenty of opportunities to redevelop and upgrade existing properties.

There is a minimum shareholder policy requiring directors to have at least 1 year's base fees within 5 years of listing. The ASA would prefer to see this within a three-year time frame so that Directors are aligned with shareholders. The base fees for the Chair are \$500k and members \$200k. The CEO is required to hold shares to the value of 200% of FR and KMP 100% of FR within 5 years of their appointment.

Financial performance

While effectively still part of Woolworths until the end of the financial year (FY) the annual report has separated out EDV group performance for the year. Due to the demerger and shared costs between Woolworths and EDV in the past it is difficult to see a true financial picture. Woolworths has attempted to give the shareholders as much information as possible in the demerger document.

Endeavour launched as an S&P/ASX50 company with a market cap of \$10.8bn.

Group sales in FY21 were \$11,595m, up 9.3% on last year, with profit for the year of \$445m. Sales in retail have risen 9.6% to \$10,178m, with EBIT up 17.9% to \$669m reflecting a continuation of in-home drinking and premiumisation. Online sales grew 35% to \$859m and 8.4% of retail sales. Hotel sales in FY21 were \$1,417m with EBIT for hotels at \$261m. Lockdowns mainly affected Victorian Hotels due to the July through to Nov in 2020, and the February and June restriction. In FY21 Hotels were closed for 169 days and 83 stores were closed as exposure sites.

Pinnacle has produced 530 new products in FY21 and now has 200+ low or no alcohol products It received 528 wine awards in FY21.

Endeavour X has had 86% year on year growth in monthly active users, it is reflected in the 35% increase in e-commerce sales, 63% increase in pick-ups and 90% increase in 1 hour deliveries.

Capital expenditure of \$312m has been re-invested in adding another 33 stores, upgrading 64 stores, upgrading accommodation, and upgrading 500 gaming machines, and expanding their wine business.

A final dividend of 7c was declared 26 August 2021, it is fully franked.

Key events

Endeavour established a \$1.9bn syndicated loan facility and a \$600m bilateral loan facilities prior to the demerger. An outstanding related party loan with Woolworths of \$1.7bn was repaid to Woolworths after the demerger leaving \$625m in undrawn debt.

Key board, or senior management changes

The board that came into effect at the demerger date consists of the following Directors: - Peter Hearl the Independent Chairman, Stephen Donohue the CEO/Managing Director, Holly Kramer the Woolworths nominee Director, Bruce Mathieson Snr the BMG nominee Director, Colin Storrie an ex Woolworths executive and Non-executive Director, and Independent Non-Executive Directors (INED) Duncan Makeig who is also Interim Chair Audit and Risk; Joanne Pollard; and Catherine West the Chair of People Culture Remuneration committee.

The board announced on 30 July the appointment of another Independent Director, Anne Brennan, who will commence in the role on the 22 October. Anne will become Chair of the Audit and Risk committee and a member of the People Culture and Remuneration Committee. Anne brings significant financial credentials and experience as a public company director, as well as retail and gaming industry experience. Her current directorships include Argo Investments, Tabcorp, Spark, Infrastructure Group, NSW Treasury Corporation and Rabobank New Zealand. Her past directorships include Charter Hall, Echo Entertainment Group (Star entertainment), Metcash, Myer Holdings and Nufarm and executive roles as finance director at Coates, and CFO of CSR.

The board currently has 8 members, 3 women with 4 independent directors. The addition of Anne Brennan in October will make it a 9 member board, with 4 women and a slim majority of independent directors.

The CEO Steve Donohue was appointed in June 2020 having been in the role of Managing Director of Endeavour drinks since 2018. He has broad experience across all areas of the Woolworths retail drinks business with 25 years in the retail industry, having started in Dan Murphy's in 1994.

The executive leadership team includes Shane Gannon as CFO, Scott Davidson as managing director of BWS, Alex Freudmann managing director of Dan Murphy's, and Bruce Mathieson Jr managing director of Hotels.

Bruce Mathieson Jr will step down from his role in December after 10 years of running the Hotels business having taken on the CEO role at ALH in 2011.

A diversity policy is aiming for 40:40:20 by 2023 for all management levels, we hope that will include more women at higher levels of management and consideration of cultural diversity.

Reputation and Risk

The independent report into the proposed Dan Murphy's store in Darwin highlighted concerns around integrity at Endeavour, especially in regards, to the inappropriate scale and location of the development, lack of community consultation and inappropriate government lobbying.

Woolworths eventually handed back the license to repair some of the damage to its reputation.

Issues around the sale of alcohol in the Northern Territory, and in particular, near indigenous communities is something that Endeavour needs to consider in rebuilding its reputation.

Endeavour is engaging with indigenous communities and listening to their concerns and taking time to consider their response. They have already engaged an indigenous community liaison officer. We look forward to a considered response and Reconciliation Action Plan in the future

Endeavour, as part of Woolworths, was involved in the underpayment issue and has substantially reimbursed all its managers who were employed under the General Retail Industry Award (GRIA). Many Endeavour employees are under the Hotel Industry General Award (HIGA) and the BWS Enterprise Agreement and similar underpayment problems have been found in these groups. Endeavour is preparing to pay compensation for these managers and has a provision of \$102m at FY2021 which they expect will not be materially distant from the costs they will incur. Endeavour does not expect to be caught up in the Fair Work Ombudsman case against Woolworths since it depends on the interpretation of language in the GRIA. The HIGA and the BWS agreement are said to be more clearly written.

Another potential reputational risk for Endeavour concerns poker machines. Endeavour is the largest operator of poker machines (electronic gaming machines or EGM) in Australia with 12,402 EGMs in 295 hotels and they are the third largest gaming operator in Australia. Gaming is a significant part of the Hotels revenue. Gordon Cairns (Woolworths Chairman) is reported to have said that revenue is somewhere around \$700m and 50% of hotel revenue. The Chair refused to answer our questions around those figures but admitted that they were a gambling company and “not prohibitionists”. In their view they are leading the way in responsible gambling. This was not always the case.

In 2020 NSW Liquor and Gaming issued fines and suspensions, relating to a 2018 incident of inappropriate promotion of gambling. The company believes it has now gone beyond the regulatory requirements. They have introduced face recognition to identify problem gamblers in South Australian hotels and are now extending that to other states. They have a responsible gaming host in all their hotels, and no alcohol is served in gaming rooms. There is voluntary pre-commitment available at all their gaming rooms (although the take up rate is very low) and all employees are trained in responsible service of alcohol and gaming. Much of this is regulated. How much of this is effective in preventing problem gambling and money laundering is debatable.

Endeavour is independently audited by the Responsible Gaming Council of Canada and says it takes on board some of their recommendations. The ASA suggested that transparency around the reporting of those audits, and the amount of revenue would improve accountability, integrity and trust. We hope that gaming revenue will be included in future sustainability or annual reporting.

The board is committed to EGMs. EGMs are responsible for most gambling losses in Australia. The company’s view is that it is legal, and they are operating within the law. At issue for the ASA is that, like coal and tobacco, there is reputational risk associated with the social harm that is done by poker machines.

Endeavour made community contributions of \$3.1m to various charities and 500 local sports clubs. The Voice of Customer score was 75 up 2 pts on the prior year.

COVID-19

COVID-19 has seen a significant impact to the Hotels business. 41% of hotels are now temporarily closed due to lockdowns across NSW and VIC, 3000 team members have been affected, 50 people have been impacted by COVID-19, 10-15 stores are shut on any day. The company has managed it well they have redeployed staff from hotels to retail, and provided community support with FareShare Kitchen. The increase in e-commerce has seen contactless direct to boot pick up in 180 Stores, and new on demand delivery options.

The additional costs of COVID-19 safety and cleaning have added \$400-500k a month to cost of business. Online sales are not as profitable as store sales and there is the lost revenue from pubs and pokies with ongoing lockdowns.

Endeavour is supporting its staff by providing 8 hours of vaccination leave and providing an additional day's leave. They are encouraging vaccination where no regulation exists and complying where it does.

For Endeavour to provide fast home delivery (up 73%), the need for a flexible workforce has meant gig economy workers have been engaged in last mile deliveries, they are delivered through Partnerships with Uber and Sherpa. Endeavour ensures they are trained in RSA. ASA questioned the company on worker's rights, and they acknowledged that this is an evolving space.

Endeavour workers were not eligible for JobKeeper as the company did not reach the financial threshold.

Summary

(As at FYE)	2021	2020	2019	2018
NPAT (\$m)	445	n/a		
UPAT (\$m)	445	328*	445*	462*
Share price (\$)	6.29	n/a	n/a	n/a
Dividend (cents)	7	n/a	n/a	n/a
Simple TSR (%)	n/a	n/a	n/a	n/a
EPS (cents)	24.8			
CEO total remuneration, actual (\$m)	3.99	3.09		

* Pro-forma UPAT reported in the Demerger Booklet covering all the businesses that are now in Endeavour.

For 2021, the CEO's total actual remuneration was **43 times** the Australian Full time Adult Average Weekly Total Earnings of \$92,034.80 (based on November 2020 data from the Australian Bureau of Statistics).

Item 2a	Re-election of Peter Hearl as a Director
ASA Vote	For

Summary of ASA Position

Peter Hearl was appointed Chairman of EDV on the 21 June 2021.

Peter is a very experienced ASX 50 company director with extensive executive leadership experience, in fast moving consumer goods and the energy sector. He was Pizza Hut President and Chief Operating and Development Officer for Yum Brands. His current directorships include Telstra Corporation, which he will step down from at the end of 2021, and Santos Limited. His past

directorships include Treasury Wine Estates, Goodman Fielder Ltd, and Westport Resources. This is Mr Hearl's first Chair role on an ASX listed company.

He has 75,000 shares

The ASA intends to vote all proxies FOR the election of Peter Hearl but would like him to speak to the meeting about what he brings to the board.

Item 2b	Re-election of Holly Kramer as a Director
ASA Vote	For

Summary of ASA Position

Holly Kramer was appointed on 21 June 2021.

Holly is a nominee director for Woolworths (14.6% shareholder) and an important connection for the strategic relationship between the two companies. She is a member of the People, Culture and Performance committee, and the Nomination committee.

Holly is an experienced listed company director with substantial retail and leadership experience as a former CEO of Best and Less, and with senior executive roles at Telstra and Pacific Brands. Her current directorships include Woolworths Group, Fonterra Co-operative Group, Abacus Property, pro-chancellor at Western Sydney Uni, Go Foundation and Ethics Centre. Her past directorships include Deputy Chair Australia Post, Chair Lendi, AMP Ltd, Nine Entertainment, and 2XU Ltd.

Shareholding: 13,275

The ASA intends to vote all proxies FOR the election of Holly Kramer but would like her to speak to the meeting about what she brings to the board and managing her workload.

Item 3	Appointment of Auditor
ASA Vote	For

This is a requirement as a newly listed entity. Deloitte was appointed on 30 January 2020.

Item 4	Adoption of Remuneration Report
ASA Vote	For

Remuneration Framework 2022

CEO rem. Framework for FY22	Target* \$m	% of Total	Max. Opportunity \$m	% of Total
Total Fixed Remuneration	1.65	33.33%	1.65	23.80%
STI - Cash	0.825	16.67%	1.24	17.85%
STI - Equity	0.825	16.67%	1.24	17.85%
LTI	1.65	33.33%	2.81	40.47%
Total	4.95	100.0%	6.93	100%

Summary of ASA Position

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 TSR of the ASX100, 40% return on funds employed (ROFE) and 20% "leading in responsibility". The performance rights vest after three years. The ASA would like to see that extended to a longer time frame. Board discretion and malus apply and can be adjusted down to zero. The shares are allocated at face value based on the 5 day VWAP up to 1 July.

The new CEO Steve Donohue was the managing director of Endeavour for this financial year and played a critical role in the execution of the demerger. Woolworths was responsible for his remuneration for FY21 and felt that his \$3.99m remuneration was commensurate with the increased role, prior to Endeavour becoming a standalone listed entity.

The quantum of the CEO maximum remuneration for FY22 is a large leap up from his previous year's remuneration. Fixed remuneration increased from \$962,000 to \$1.65m and, as with his target remuneration, is in keeping with companies of a similar size. His maximum potential remuneration is now \$6.93m which is seen as generous.

In considering the appropriateness of the remuneration we took into account the following: . Steve has done an excellent job as Managing Director of Retail, and this will be his first year as CEO. How the board will apply their discretion and targets to adjust remuneration and therefore outcome will be seen in the coming years.

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.

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 support 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 5	Approval of Non-Executive Directors Equity Plan
ASA Vote	For

The Non-executive Director (NED) Equity Plan is designed to provide directors with a tax effective way of purchasing their minimum shareholding and managing the difficulties of trading periods. It is a pre-tax, up to 100% fee sacrifice plan, whereby share rights are automatically purchased after a yearly election is made. The rights are allocated quarterly and vest every 6 months. These rights can have a restriction period of up to 15 years or until they cease to be a director, or another event determined by the board. No dividend entitlements apply. They are purchased on market.

The maximum amount in any year can be no more than the \$3.5m NED fee cap.

The ASA intends to vote FOR the NED equity plan as it provides an opportunity for directors to purchase shares without restrictions of trading periods and in line with the minimum shareholding policy.

Item 6	Approval of LTI grant to CEO/Managing Director Steve Donohue
ASA Vote	For

Summary of ASA Position

The maximum number of performance share rights is 451,923 under the FY22 LTI (2021-2024) The face value of these rights is \$2,805,000 and represents 170% of 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.

Demerger transitional LTI grants were approved as part of the demerger and reflect the LTIs forfeited at Woolworths. They include 120,936 performance share rights for the FY20 LTI (July 2021-July 2022) and 212,542 performance share rights for the FY21 LTI (July 2021-July 2023)

These will be subject to the same performance measures as the FY22 LTI however they will vest one and two years later. The resulting shares will be purchased on market.

These share rights show the significant increase in potential variable remuneration for the CEO over the last 3 years 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 dealing effectively with the social implications of its business.

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

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