

Board challenged by major shareholder Bruce Mathieson and board nominee Bill Wavish

Company/ASX Code	Endeavour Group /EDV
AGM time and date	10am Tuesday 31 October
Location	Four Seasons Hotel, 199 George St, Sydney
Registry	Link Market Services
Type of meeting	Hybrid meetings.linkgroup.com/EDV23
Monitor	Julianne Mills and Don Adams
Pre-AGM Meeting	Yes Chair: Peter Hearl, Investor Relations Sean O'Sullivan, NED Joe Pollard

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

1. How we intend to vote

No.	Resolution description	
2a	Election of Board endorsed Bruce Mathieson Jnr as a Director	Against
2b	Election of Board endorsed Rod van Onselen as a Director	For
3	Election of non-Board endorsed Director Candidate William Wavish as a Director	Against
4	Adoption of the Remuneration Report	For
5	Approval of Long-Term Incentive grant to the Managing Director and CEO Steve Donohue	For
6	Renewal of Proportional Takeover Provisions in the Constitution	For

2. Summary of Issues and Voting Intentions for AGM/EGM

- Death of 20-year-old employee at a Darwin BWS drive thru bottle shop in March 23.
- Bill Wavish's self-nomination as a Director.
- Board relationship with major shareholder BMG group led by Mr Mathieson.
- Regulatory environment changes: cashless gaming machines, trials in limiting hours, facial recognition and cashless cards.
- Gaming revenue disclosures; isn't it about time?

See [ASA Voting guidelines](#) and [Investment Glossary](#) for definitions.

3. Matters Considered

Accounts and reports

Summary

(As at FYE)	2023	2022	2021	2020 ¹	2019 ¹
NPAT (\$m)	529	495	445	NA	NA
UPAT (\$m)	529	495	445	328	445
Share price (\$)	6.31	7.57	6.29	NA	NA
Dividend (cents)	21.8	20.2	7	NA	NA
Simple TSR (%)	(13.8) %	23.5%	NA	NA	NA
EPS (cents)	29.5	27.6	24.8	NA	NA
CEO total remuneration, actual (\$m)	3.842	3.998	3.99	3.09	NA

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). ¹Listed after demerger from Woolworths in June 2021.

Summary

Endeavour is the largest retail drinks business in Australia and the largest portfolio of licensed hotels with 1,701 stores, 354 hotels, over 12,700 gaming machines, and a growing portfolio of wineries. The size and scale of this business gives them an edge but also creates challenges and responsibilities.

This is Endeavour's second year as a standalone company and it is making progress in improving its governance as an ASX listed company.

A key resolution for this AGM is the election of Mr Wavish. We interviewed Mr Wavish and discussed his election with the chairman. ASA does not support his election. Please refer to Item 3 below.

The election of Mr Wavish is supported by Mr Mathieson, EDV largest shareholder. Mr Mathieson was instrumental in the initial amalgamation of ALH with Woolworths around the year 2000. Mr Mathieson has one board seat, as is appropriate considering his 15.1% shareholding and EDV's constitutional requirements drawn up on demerger.

A recent request from Mr Mathieson for an additional board seat was rejected by the chairman. This is seen as the possible reason for the current friction between Mr Mathieson and the board and Mr Mathieson's support of Mr Wavish's nomination.

We have concerns about the obvious disagreements with the board and the distraction this creates for the business. We are also concerned by the selective data presented to shareholders in order to gain another candidate to the board and we question Mr Wavish's independence given

Mr Mathieson's support, and whether Mr Wavish has the contemporary board skills needed for this company.

ASA would like to hear from Mr Mathieson Jnr at the AGM, as to how he intends to work with the board and how the board will be able to benefit from his differing opinions for the benefit of all shareholders. We will vote against his election if we feel that this can't be achieved.

Financials

A strong result with group sales up 2.5% to \$11.9bn, with overall net profit after tax up 6.9% to \$529m.

Retail generated sales of \$9.9B a decline of 1.8%, while Hotels grew by 31% from FY22 to \$2.0B in sales. This was driven by a strong recovery from COVID restrictions, an uplift in bar, food and accommodation and an apparent "normalisation" of gaming revenue after an initial surge post COVID restrictions. There is no breakdown of these segments beyond Retail and Hotels, which we find frustrating. Gaming revenue is not reported separately, and it is considered this would aid shareholders in assessing the impact or risks of any ongoing tightening of regulations.

My Dans membership grew by 15.6% to 5.2 million active users. Online sales are up 73% on F19 pre covid numbers to \$851M.

In FY23 Endeavour made significant investments in the business, adding 8 Dan Murphy's, 18 new BWS, and 11 new hotels. They have also renewed 95 BWS and 27 Dans, and 46 hotels. Pinnacle drinks purchased Shingleback Wines and Cape Mentelle in FY23, expanding the wineries portfolio.

Net debt increased by \$703M to \$2,205million a significant increase on FY22. There was an increase of 22% to \$250m in finance costs reflecting increased interest rates and increased net debt.

There were \$60M in cost savings from the EndeavourGo optimisation program. They have made \$90M in cost reductions since the demerger and have plans for another \$200M over the next 3 years.

Inventory grew due to supply chain issues and out of stocks in the prior period and the expanded network of stores and hotels.

Victorian Gaming entitlements were renewed for the next 10 years at a cost \$310m, which will be amortised over the 10 years, with payments spread over 5 years.

Low-alcohol sales were up 19%, reflecting a shift in consumer preferences and health focus.

A final dividend of 7.5c with an interim dividend of 14.3c gave a final payout ratio of 73.9%.

We would like to see more clarity around the related party transactions, particularly with BMG.

Governance and culture

The board continues to build on its governance with an aim of improving the number of independent directors. The board has a selection process and succession plan in place with two independent directors due to be added after the AGM.

The board now has only 2 women out of 8 directors. We expect this will be rectified in the new appointments. There have been improvements in the group executive leadership team with now 6 women out of the 10-person team. They now have 41% women in senior executive positions.

The annual report could be improved with more clarity and transparency around gambling income and the breakdown of costs, revenue, taxes etc, it seems deliberately obtuse.

Key board or senior management changes

This year has seen significant change at Endeavour. Woolworths director Holly Kramer resigned in June and left in August 2023 after the reduction in the Woolworths shareholding to 9.1%. Colin Storrie has resigned and will leave at the end of the year. This leaves a gap in board skills for more retail and financial experience and two board positions.

Rod van Onselen has joined the board and is up for election. See Item 2 below.

CFO Steve Gannon retired at the end of FY23 and has been replaced by Kate Beattie the deputy CFO. Alex Freudmann, MD of Dan Murphy resigned in October 2022 and was replaced by Agi Pfeiffer-Smith. The MD of Hotels Mario Volpe was replaced by Paul Walton in May 2023.

Remuneration

The remuneration report is clearly laid out. CEO and KMP remuneration have a minimum of 60% of remuneration at risk over three years. ASA would like to see a longer time frame for LTI than the current 3 years. We also prefer relative TSR vesting at 30% at the 50th percentile and 100% at the 85th percentile. We also note that the quantum of maximum remuneration is significant, and we would expect significant performance to achieve that result. We will monitor results.

The STI is paid 50% in Cash and 50% in deferred share rights and vests over two years.

STI scorecard is broken down into financial and non-financials measures with Sales (25%), EBIT (25%), Average working Capital Days (AWCD; 10%), Customer satisfaction (20%) and Safety (20%).

For FY23 Sales were at entry level, EBIT at stretch, AWCD did not achieve entry level, Safety was above target but with a high level of hours lost at 78,405. Voice of customer (VOC) was just above entry.

LTI is subject to TSR performance (40%) ROFE (40%) and leading in responsibility (20%) and measured over three years.

There is a minimum shareholding requirement (MSR) for the CEO of 200% of his TFR, and for KMP it is 100% TFR, over 5 years.

MSR for directors is 100% of base fees within 5 years. The Chair, Mr Storrie and Mr Mathieson meet that requirement and all other directors are progressing.

Discretion was used by the board to reduce the group outcome for STI from 79% to 75% to reflect the unexpected impact of a faster return to socialising post COVID restrictions.

Superannuation has increased to 11% for all employees from July 2023, there were no further increases to fixed remuneration. There is a new deferral of share rights for 12 months for 25% of STI for other key executives other than KMP.

No change to directors' fees.

CEO actual remuneration is reported as \$3.842M made up of TFR = \$1.657M, STI cash= \$580,082, Deferred STI= \$580,082, LTI (F21) = \$1.024M

Sustainability/ESG

A lot has been achieved in the last 12 months. In October EDV launched its first Reflect Reconciliation Action Plan, in August its first Independent Sustainability Report and in April 2023 an independent materiality assessment which raised Responsibility and Compliance, and Community, as the most material issues and elevated and aligned them with the business strategy. EDV responsibility and leadership has been validated by the decision to implement the new Victorian 4am -10am closure a year earlier than required. They have also been involved in promoting “moderation” and low/ no-alcohol options within the communities in which they operate.

A Modern Slavery statement has been completed.

The establishment of the Darwin Community Advisory Committee in FY22 has helped develop a partnership with the Larrakia Nation – providing cultural engagement, and patrols of stores and hopefully a positive change for Darwin.

A GIVIT partnership was established in March 2023.

Player Protect is the latest evolution of EDV responsible service of gambling. It was launched in August 2023 and involves a whole of business commitment to responsibility, team education, player welfare and a commitment to innovation and technology.

It is early days in their environmental sustainability journey. Endeavour has net zero targets for scope 1 & 2 only by 2050, they are disclosing Scope 1 & 2 operational GHGe, have started addressing Scope 3 waste emissions and have set reduction targets of 100% renewable electricity by 2030. They have added 33 solar panel sites this year to a total of 144 sites.

EDV now have 8 certified sustainable wine growers and are developing biodiversity in their viticulture by sharing the Chapel Hill Biodiversity Action Plan across their wineries. More can be found in their Sustainability report.

Death of employee

The tragic death of a 20-year-old employee at a Darwin BWS this year brings into account the companies safety policies and procedures. This investigation is still ongoing, a young man has been arrested and a court case is still to come.

A board review found that Endeavour’s training in avoiding conflict was not followed. We will wait for the outcome of any investigation and expect full disclosure of any responsibility that the company may have, any changes they may make to those conflict procedures, and any further consequences for remuneration.

The CEO, the MD of BWS and another senior executive volunteered a reduction of 5% of their final STI in deference to the death in Darwin. We don’t feel that this commensurate with the death. We are also concerned that the safety metric used in the STI scorecard (20%) does not take into account a death with the FY23 outcome being above target.

Gaming

FY23 has seen significant changes in the regulatory regime with Victoria introducing new pokies laws in August 2023. These include mandatory pre-commitments and carded play with a \$100 cap (down from \$1000), mandatory closing hours (4am-10am), and slower spin rates. These are intended to minimise gambling harm and to stop money laundering and will be introduced by mid-2024. EDV is involved in a NSW trial of cashless gaming with a \$500 limit down from \$5,000.

Signage to gaming rooms will be banned on exteriors and there will be a reduction in the number of pokies.

Endeavour has introduced the reduced gaming hours in Victoria ahead of time. It is good to see they are leading in responsible gaming.

Endeavour has a number of liquor accords that involve licensees, regulators, police and community groups. BWS Alice Springs have voluntarily reduced hours and have a one purchase per customer per day and no 1 litre bottles of spirits to reduce some of the issues seen in that community. Similar trials that have taken place in S.A. have seen reduced injuries and a decline in alcohol related violence.

Given the shifting regulatory environment it is good to see Endeavour working towards developing less reliance on gaming and alcohol sales; however, there needs to be more disclosure for investors around this revenue and regulatory change.

4. Rationale for Voting Intentions

Resolution 2a. To elect Bruce Mathieson Jnr as a Director (against)

Bruce Mathieson Jnr was appointed a BMG director in November 2022. He has considerable experience as a recently retired executive and MD of Hotels at Endeavour, he is also the son of the largest shareholder, and is not seen as an Independent Director. The constitution of Endeavour provided for a board seat for both 14% shareholders Woolworths and BMG at the time of the demerger. Mathieson Jnr replaced his father when he relinquished his seat.

Bruce Jnr has been at ALH (now EDV Hotels) since 2004, he was CEO and Director of ALH until December 2021 and was employed as an executive until June 2022. We see benefits and disadvantages to this, including blurring of distinction between an executive and director role.

ASA would like Mr Mathieson to speak to what he brings to the board and how he can work with the board going forward given the obvious conflict between BMG and the EDV board.

While Mr Mathieson is understood to have what he sees as the best interests of the company front of mind, he appears to hold a very different view to the rest of the board as to the company's direction and potentially timeframe. We will therefore vote against his election, unless convinced at the AGM that voting for is better for the company and its governance.

Mr Mathieson represents 270,175,715 shares equal to 15.1% held by the BMG group.

Resolution 2b. To elect Rod van Onselen as a Director (for)

Rod has a background in digital innovation and technology, business growth strategy and transformation. He will add considerably to the board's skill set. Rod is currently an advisor to TPG Capital and a Director of Tucker Holdco a producer of food and non-alcoholic beverages. He was chief digital and growth officer at Origin energy. He also oversaw the online scale up of Sportsbet.

He does not have a shareholding as yet.

Item 3 – Election of non-Board endorsed Director Candidate William Wavish as a Director (against)

Mr William Wavish has nominated himself for a position on the Endeavour Board and there is a statement by Mr Wavish in the Notice of Meeting.

The Board invited Mr Wavish to participate in the search being conducted by a search firm for new directors to replace Holly Kramer and Colin Storrie who have both resigned their directorships. Mr Wavish declined this opportunity to be assessed against other possible candidates.

Most directors of Endeavour oppose Mr Wavish's election. Bruce Mathieson Jr supported it and Colin Storrie abstained. Mr Wavish denies that he is associated with the BMG group.

The Notice of Meeting explains the probity clearance problems that are created by Mr Wavish's candidacy.

More than twenty years ago Mr Wavish was an executive director of Woolworths and was heavily involved in the development of the Dan Murphy's and BWS businesses, which are now part of Endeavour. Mr Wavish now has no other directorships of ASX listed companies. His last directorship was of DSHE Holdings (formerly Dick Smith) which ended in 2015, with the company failing in 2016. That company has now been delisted.

We think that Mr Wavish's retail and board experience is now quite dated, especially given the impact of digital change on the retail industry. He is not willing to be measured against other candidates for election to the Board. He is also not prepared to be there for more than 3 years. Finally, most current Board members do not want him to be elected. For these reasons we will vote proxies against his election.

He claims to have bought \$500,000 worth of shares 2 months ago at \$5.50.

Resolution 4. Adoption of Remuneration Report (for)

The remuneration framework is largely consistent with ASA guidelines with the exception of LTI measured over a 3-year time frame with no holding period. ASA prefers a minimum of 4 years. Please refer to our comments above for more detail and the appendix or the Annual report page 58-86.

ASA supports this resolution but will continue to monitor the outcomes.

Resolution 5. Approval of Long-Term Incentive grant to the Managing Director and CEO, Steve Donohue (for)

Approval is sought for the grant of 451,052 performance rights to Steve Donohue under the LTI which covers the 3-year period from July 2023 to July 2026 (FY24\$LTI). ASA prefers a 4-year minimum period for LTI's.

The CEO's maximum remuneration package for FY24 is \$6,991,971. It is based on the VWAP of \$6.2744, and 170% of his TFR. However, the actual value cannot be determined and will be dependent on his performance and the share price at the time of vesting.

As we have voted for the remuneration report we will vote for the incentive grant.

Resolution 6. Renewal of Proportional Takeover Provisions in the Constitution (for)

Without the proportional takeover approval provisions in the constitution, a takeover bid may enable control of EDV to pass without shareholders having the opportunity to sell all their shares to the bidder. Shareholders may be exposed to the risk of being left as a minority in EDV and the risk of the bidder being able to acquire control without payment of an adequate premium for control of their shares. This provides a 3-year approval.

ASA supports this resolution.

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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	1.657	33%	1.657	24%
STI - Cash	0.828	17%	1.243	18%
STI – Equity (over 2 years)	0.828	17%	1.243	18%
LTI	1.657	33%	2.817	40%
Total	4.972	100.0%	6.961	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 report is clearly laid out with actual remuneration of KMP included. Actual CEO remuneration for FY23 was \$3.842M, 77% of target.