TRANSCRIPTION

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[START OF TRANSCRIPT]

Operator: Thank you for standing by, and welcome to the Viva Energy Australia First Half 2024 Results Webcast. All participants are in a listen-only mode. There will be a presentation followed by a question-and-answer session. If you wish to ask a question, you will need to press the star key followed by the number one on your telephone keypad.

I would now like to hand the conference over to Mr. Scott Wyatt, Chief Executive Officer. Please go ahead.

Scott Wyatt: Good morning, everybody, and thank you for joining us today to discuss Viva Energy's Half Year 2024 Results. My name is Scott Wyatt, Chief Executive Officer of Viva Energy. And on the call with me today is Carolyn Pedic, our Chief Financial Officer; and Jevan Bouzo, our CEO of Convenience and Mobility.

I'll begin by acknowledging traditional owners of the lands on which we are collectively gathered for this call and pay my respects to Elders past, present and emerging.

As always, let me start with our safety and environmental performance on Slide Four. Following the acquisitions of Coles Express and OTR Group, Viva Energy has grown from 1,700 to almost 15,000 employees, predominantly within the convenience business. This has substantially expanded the extent of our operating activities. So we are adapting our safety management programs to reflect this change and apply these across the businesses that we've acquired.

Personal safety performance remained stable with the Express business achieving a 20% improvement over last year. Process safety performance is strong with zero Tier 1 and Tier 2 incidents so far this year.

In terms of the financial performance, as set out on Slide Five, Viva Energy delivered a strong first half performance, growing sales and EBITDA by 6% and 25%, respectively. Key drivers of earnings growth were continued strength in our commercial businesses and the return to full production at Geelong Refinery after a prolonged period of maintenance last year.

Our convenience business also performed well in the context of cost-of-living pressures weighing on consumer demand and inflation driving up the cost of doing business. During the half, we completed the acquisition of OTR Group, and we are making good progress on integrating this with the other retail businesses. We remain confident that we can deliver $60 million plus synergies over the next three years.

The Board has determined to pay an interim dividend of 6.7 cents per share for the year, representing a 70% payout ratio of our convenience and commercial businesses. The payout at the top of our range reflects their rateable and reliable earnings profiles and strong cash conversion. The balance sheet ended the period at $1.5 billion of net debt after taking up $1 billion of term debt to acquire OTR Group.

I'll now discuss our three businesses in a bit more detail, starting with Convenience & Mobility on Slide Six. With the acquisition of OTR and the continued network growth across both OTR and Liberty Convenience, fuel sales reached 2.4 billion litres for the half. This represents a relatively flat sales growth on a normalised basis and an overall strong performance in a difficult retail environment.

As with other retailers, cost-of-living pressures are weighing on consumer demand with both fuel and convenience sales in the company-operated network each declining by around 5% over the same period last year. OTR performed relatively better than Express, but both were impacted by declining tobacco sales, which were down 17% across the network.

With the contribution from OTR and generally strong margin and cost management, we have been able to maintain earnings broadly in line with the first half 2023. This is a particularly good result given higher transition and integration costs through this period.

While it has been a challenging first half for Convenience & Mobility business, I believe we are in a very good position to move forward with plans to grow our convenience business, and we remain excited about the opportunities ahead of us.

Turning to Slide Seven. The Commercial & Industrial business delivered another record result in the first half of '24. Sales grew 9% on last year on a pro forma basis with strong demand from aviation, resources, and agricultural sectors in particular. Defence is also contributing to year-on-year growth, and we remain excited about the long-term prospects for Viva Energy in this segment.

Overall, EBITDA increased by 3% to $238 million for the half. Lower earnings growth relative to sales growth reflected some of the headwinds we flagged in the full year 2023 results, including higher shipping costs and margin mix, but otherwise, another really strong half from the Commercial & Industrial businesses.

Turning to Energy & Infrastructure on Slide Eight. Compared with last year, which was heavily impacted by major maintenance, the Geelong Refinery operated at near capacity during the first half of 2024. Crude intake was 20.6 million barrels with an availability at 97%, generating an average margin for refined products at US$10.80 per barrel.

This GRM was impacted by an unplanned outage affecting feedstock supply to the polypropylene plant. While coastal shipping and energy costs remain elevated, total operating costs reduced to A$9.70 per barrel, supporting an overall EBITDA for the business of $112 million. The investment in the ultra-low-sulphur gasoline plant is progressing well, and we are in the process of commissioning the strategic storage tanks.

Let me now hand over to Carolyn Pedic, who will talk in more detail about our financial performance.

Carolyn Pedic: Thanks, Scott, and good morning, everyone. So let's start on Slide 10. So as you can see on the slide, the commercial and refining businesses drove the $90 million increase in EBITDA to $452 million in the half. The net profit on a replacement cost basis increased by 10% to $192 million.

Depreciation increased following the completed turnaround last year at the refinery, the inclusion of the OTR Group from the second quarter, and the full six months of owning the Express business. Higher finance cost primarily reflected higher borrowings in the period. So with significantly lower net capital expenditure in the half, underlying free cash flow was $220 million ahead of net profit.

Now turning to Slide 11. I think it's helpful to look at the Convenience & Mobility performance as if we had owned the Express and OTR businesses for the same time period last year. So on a combined basis, fuel made a positive contribution, and this is because higher margins more than offset the 5% decline in sales across the company-operated network.

Store income was lower as a $7 million impact from tobacco sales outweighed a positive contribution across other categories. Operating costs increased on the back of wage increases and most significantly, additional one-off costs incurred of up to $13 million under the transitional operating model. As we integrate, we expect to progressively remove these costs and annual rent, and property rates also increased as expected.

Company-operated EBITDA for the period was $128 million, and this is before $6 million in lower earnings associated with fuel supplied to the independent branded network, where wholesale margins reduced versus last year.

Turning to Slide 12. As Scott mentioned, the Commercial & Industrial business delivered $238 million of EBITDA, which is an increase of 3% on the first half last year. Sales growth across several sectors and recent acquisitions, particularly the OTR wholesale fuels business, supported growth.

Offsetting this were higher freight costs, although they have eased more recently and a weaker performance from the bitumen business due to significantly lower road maintenance activity across the industry.

So Slide 13 sets out the $90 million increase in refining EBITDA compared to the heavily impacted period last year during the extended turnaround. Full production, supportive margins and lower operating costs drove the increase, partially offset by an outage at our polypropylene plant in May, which reduced the available margin for the month. One-offs relate to a product quality claim last year and provisions taken this year.

Now moving on to Slide 14. We show you the bridge from EBITDA to net cash flow of $83 million. Our cash position continues to be managed well. The release in working capital partially offset the net inventory loss over the period even with the additional working capital requirements associated with OTR from the second quarter.

The OTR acquisition resulted in a net cash outflow of $1.04 billion and net drawings of borrowings and upfront fees totalled $1.15 billion, of which $1 billion related to new-term debt for the acquisition. The remainder funded short-term working capital requirements through our revolving credit facility.

So the next slide, slide 15 sets out the net debt position of the company and our updated capex guidance for 2024. Capital spend is now expected to be around $500 million, inclusive of transaction costs and net of government contributions.

Updated guidance is approximately 10% below our original guidance, reflecting the phasing of expenditure on projects between 2024 and 2025 and, of course, capital discipline in the current environment. It's also skewed to the second half of the year after a little over $120 million of net investment was made in the first half.

Net debt has increased from $380 million at the end of last year to almost $1.5 billion at June year-end. This includes refinancing the $600 million bridge facility used to complete the OTR acquisition with a $1 billion new term debt facility, which was successfully placed during the half. We believe the current net debt level positions us within our long-term gearing target of between 1x to 1.5x term debt to EBITDA while maintaining capacity for growth.

Now turning to Slide 16. You can see the breakdown of the dividend announced today. At 6.7 cents per share, the interim fully franked dividend represents a 70% payout of -- net payout ratio of net profit from the convenience and commercial segments. This is at the top of our dividend policy range. In the first half, these businesses again delivered underlying high free cash flow conversion, which supported the Board's decision.

The dividend announced equates to a 56% payout ratio for the group as net profit for the Energy & Infrastructure segment is assessed at year-end per dividend policy given its more volatile earnings profile. The dividend will be payable to registered shareholders on a record date of the 10th of September 2024 with a payment date of the 25th of September 2024.

So, I'd like to now hand back to Scott to provide a strategic update and our outlook for the remainder of 2024.

Scott Wyatt: Thanks, Carolyn. Given the focus on our convenience business at the current time, let me give an update on the transition and expected uplift from the development of our convenience offer beginning on Slide 18. With the acquisition of OTR and Coles Express now completed, we are now in a unique position to integrate and consolidate these businesses within Viva Energy Retail and capture the considerable savings and synergies that we have identified.

We remain confident that we can capture more than $60 million of synergies and cost reductions over the next 3 years, commencing in 2025 with the conclusion of the transitional service arrangements with Coles and the transition of the OTR fuel supply arrangements to Viva Energy. Further step-downs will occur in '26 as we consolidate systems between OTR and Express and optimise arrangements between the Coles product supply agreement and OTR trading terms in 2026.

We continue to see further opportunities from consolidating convenient supply arrangements and are also progressing these as a priority. Beyond these synergies, we also see considerable opportunities to grow our convenience business through the extension of the OTR offer outside of South Australia. Slide 19 sets out the performance of the existing OTR branded stores outside South Australia compared with the existing Express network.

There are currently 17 OTR-branded stores that have traded for more than 12 months, most of which are in Victoria and the Northern Territory. Without any brand awareness of OTR, these stores, on average, deliver industry-leading store sales of $2.5 million per year and a convenience gross margin of almost $1 million per store.

This compares with the average convenience gross margin of $600,000 per store within the existing Express network. After wages, which are naturally higher within the OTR network, we see a post-conversion uplift of more than

$200,000 per store once they reach a certain level of maturity after 1 or 2 years. This route represents a return of more than 3% on the capital necessary to convert Express stores to the OTR format.

Turning to Slide 20, we provide an update on the store rollout plans for the OTR format outside of South Australia. Over the next 12 months, we expect to convert the first 30 Express stores to OTR. These stores represent a cross-section of the Express network, including stores that are both currently successful and stores that have underperformed in recent years.

The objective of these conversions are test, learn and adapt the OTR model ahead of replicating and rolling out the offer on large parts of the network. While conversions are slower than we would like due to town planning processes, we continue to make good progress opening new stores from the growth pipeline. We expect to open over 20 new OTR stores by the end of next year in good locations across West Australia, New South Wales, Victoria, Tasmania, and South Australia.

I'll now turn to our broader outlook on Slide 21. While the economic environment is somewhat challenging at the current time, we certainly have the capability and distinct opportunities to outperform. In Convenience and Mobility, Jevan has established an experienced and high-quarterly leadership team to lead the consolidated convenience businesses. Their top priority is to integrate these businesses and capture the material cost synergies that I've outlined earlier and begin the extension of the leading OTR offer across the Express network.

Fuel and Convenience sales are expected to improve from here, and we certainly want to be in a position to build a leadership position in this exciting market. The commercial and industrial businesses continues to perform well. And apart from the bitumen market, most segments continue to show robust demand. We expect continued growth from recent acquisitions and new business wins with the OTR wholesale business and defence contract further strengthening our presence in regional areas, trading up new opportunities as we improve our supply chain capability.

The refining business delivered a strong mid-cycle result for the first half of 2024. Refining margins have weakened in the third quarter and continue to be influenced by geopolitical factors, which does create some volatility. While this is challenging, the business is, of course, supported by the fuel security services package with upside as conditions improve from here.

Let me now open it up for questions.

Operator: Thank you. If you wish to ask a question, please press star one on telephone and wait for your name to be announced. If you wish to cancel your request, please press star two. If you are on a speaker phone, please pick up the handset to ask your question. Your first question comes from Dale Koenders with Barrenjoey. Please go ahead.

Dale Koenders: Morning, Scott and team. I was hoping you could just talk a little bit more about Slide 19. And why only $200,000 per store uplift you're targeting? How are you thinking about the QSR benefit because these numbers were ex QSR? I would have thought there's a network quality difference in terms of the sites, the early entrants for OTR outside of South Australia, and also fuel benefits that could occur across the network. Can you maybe talk about some of those points?

Scott Wyatt: Thanks, Dale. Thanks for the question. Look, we've got Jevan here with us today, so I hand that question over to him.

Jevan Bouzo: Scott. Thanks for your question, Dale. There's a fair bit in that, but I'll try and tackle it from the top. I mean, what we've tried to do is use the handful of sites that exist outside of South Australia at the moment to give a little bit of early context as to what uplift could look like and the sort of data that we're seeing as we progress with the first package of 30 sites or so.

To talk through the numbers, the 17 sites that are ex-SA are all pretty recent. And there's only about 6 sites that have been trading for a few years now and show a little bit more maturity in the way that they trade to try and give a bit of context as to what uplifts might look like ex-fuel and focus on shop. We've looked at effectively shop sales in that small networks outside of SA relative to the sort of wage uplift that people are aware of.

You're right. It doesn't talk to the fact that there may very well be an improvement in fuel sales and earnings as those sites become newer and look a little bit more interesting and get more frequent visitation from customers, and that will be further upside to what you see there. But overall, I think we've got to go and work through the network in terms of the capital investment, the uplift, and the overall opportunity, it could be much more than that for some sites.

Obviously, those that are bigger and larger than what already exists. And we've tried to do that ex QSR, which would be additional earnings again to just show the change in the model from a petrol station perspective.

Dale Koenders: Am I right to conclude that 200,000 per store times the 500-store opportunity is 100 million, which is already higher than sort of what you'd steer to already, but then there's potentially further upside from fuel, QSR and from brand awareness?

Jevan Bouzo: Yes. I mean, when you look at the table, we're really saying that the earnings of shop sales less wages are a couple of hundred grand per site at the moment. That can grow to 500 grand, 700 grand, and it could be north of the 200 that you point to. But it's all going to depend on side-by-side characteristics and obviously, the speed of the rollout. But we did put a plus in that original bridge and we talked about the 50.

I think as we roll out the first 30 conversion sites, get a few done at the end of this year, we'll start to know more as we go through, and we can obviously update along the way.

Dale Koenders: Okay. And then secondly, just on the NPIs, the new store rollout, how should we be thinking about the earnings potential from these, like if we look at the average EBITDA per site across the network and then plus on the OTR uplift, is that the best way? Or are they these hero-big sites on highways?

Jevan Bouzo: There's a mix. So, I think thinking about it in average is a good way to forecast. I guess there's a lot of characteristics that are site-dependent and sites don't always open on the first day and start run rating mature performance. And so, it's helpful to give a bit of time for sites to get established in the market for people to see them, understand what they are and how they trade and mature. And you see that a little bit from the table when you look at the sort of Ex-SA 17 sites and the 6 that have traded for a few years that are a bit more established in the markets that they're in. So, there's a few factors that will impact that, but average is a sensible way to think about it.

Dale Koenders: Okay. Thanks, guys.

Operator: Thank you. Your next question comes from Michael Simotas with Jefferies. Please go ahead.

Michael Simotas: Can I follow on from Dale on Slide 19 and the colour that you've given us. Based on what you've seen and the work that you've done since getting the keys, how are you thinking about this relative to the 500 million plus convenience retail EBITDA target that you gave us, and maybe you can marry up some of what's in Slide 19 with the bridge to get there?

Jevan Bouzo: Yes, I can take that one as well. Thanks, Michael. I mean, I'm still fairly comfortable with the slide that we published. I mean, obviously, the implication from the numbers and potential uplifts on Slide 19 that once you've gotten around to the whole network, the potential uplift could be well in excess of the $50 million that we called out on that slide.

I guess I would balance that, the fact that it will take some time to get around to the whole network. And we're already a little slower than we perhaps anticipated focusing on the first sort of 5 sites to hit the ground this year and then the balance of the 30 or so through most of next year. So, we're going a little slower, but the opportunity looks a little bigger if that's the best way to summarise it.

Michael Simotas: Yes. That's helpful. And I guess the other part of that bridge to the 500 is the Coles Express/Reddy Express profitability or lack of profitability and the uplift. So that network currently loses money at the EBITDA level. Do you need to lift fuel volumes materially sort of towards those original targets to get to that 500 million or do you think there's enough in there to do it with shop/QSR?

Jevan Bouzo: I think there's enough in the overall business. I mean, I presume when you're talking about Express, you're focused on the historical convenience P&L that would have sat in the Coles business. Obviously, the overall…

Michael Simotas: If I look at the 200,000 of gross profit per site, applied rent outgoings, etcetera, it looks like it would struggle to be profitable at the EBITDA level?

Jevan Bouzo: Ex-fuel, I guess. And if you recall the old Coles arrangements, there was some fuel commission. And so, it's always a bit of a blend when you get to the EBITDA line. But I think to sort of paraphrase the question a bit of a different way. It's definitely a soft environment for retail. And so, we're seeing some tougher retail trading conditions. I think there's enough opportunity in the combination of the businesses, what we're going after, the pipeline sites, the conversions, the overall bridge, and the sort of buckets that we set out to deliver the 500 of earnings is something we're still very confident about.

Michael Simotas: Yes. That's good. Thank you.

Scott Wyatt: Yes, Michael, maybe just to be clear, I mean, just to reinforce what Jevan said, the numbers on Slide 19 are just convenience. So, it excludes fuel. So, you need to add fuel to that. And we've moved on the basis that we'd expect the fuel income to remain the same as we transition from Express to OTR format or hopefully improve, obviously from there, but not go backwards.

Michael Simotas: Okay.

Operator: Thank you. Your next question comes from Tom Allen with UBS. Please go ahead.

Tom Allen: Good morning, Scott, Carolyn, Jevan, the broader team. Just looking at the run rate implied in your OTR growth pipeline to the end of '25, you're indicating there's some constraints slowing the near-term pipeline, but that pace will pick up from '26 and beyond. So, can you please comment on how you expect to overcome some of the challenges that you've called out around planning approvals that are impacting the rate of conversions and then also for new stores?

Jevan Bouzo: Yes, I can take that. Thanks, Tom. There's probably a couple of things that are impacting. I mean, one is just a general ramp-up. So, we've only had the business for a few months. And while we were able to commence a little bit of work pre-completion on potential conversions and what that might look like, it was really only post completion that we were able to ramp up the team to deal with the sort of volume of consents and counsel DAs and those sorts of things.

It's different for different locations. And while we're focused a little bit more on Victoria and South Australia in recent months, it's meant that some of the planning processes in those locations are a little challenging. I think over time, as we get a little bit more experience with the conversions, the machines turning a little faster, we'll have a bit of a pipeline and that will roll a little quicker. But definitely, the offset to that is obviously the size of the opportunity, which we've talked about on Slide 19.

Tom Allen: Okay. Thanks, Jevan. And maybe can you please also just comment on or just a refresh on the key risks and opportunities that you're focused on for this test and learn phase and then how that might impact the rate of conversions you expect in the years immediately following that phase?

Jevan Bouzo: Yes, totally. I mean, I think what we've tried to select in the package of initial sites is not necessarily sites that we think will deliver the highest possible return to validate the future approach, but more a package of sites that's fairly representative of the different formats around the Coles Express network sit in different demographic locations, both high and low, some that trade well and some that don't trade well as well as sites that do well on push button coffee and some that don't.

We'll be trialing things like a combination of Barista and push button, we'll be trialing some things with app adoption and a range of formats in the early conversion sites that are representative of a number of Express sites around the country.

So hopefully, as we get through this, we will learn a little bit more about how to do this at scale and minimise the costs for maximum potential impacts with customers in store. And obviously, that translates to uplift over time as well as where we're likely to see the best bang for buck, where it's easier to manage consents and council approval processes and other areas.

So, I think it's really get through this first package and then use that to refine the approach and make sure that, that allows us to move forward at pace where the returns support it more attractively.

Tom Allen: That’s clear. Thanks Jevan.

Operator: Thank you. Your next question comes from Adam Martin with E&P. Please go ahead.

Adam Martin: Good morning Scott, Carolyn and Jevan. Just on the synergy target over three years 60 million. I suppose what have you learned about that? You obviously going into the year, you would have had a view, but are any of those buckets more substantial any a bit less? Just give us a bit more colour on the 60 million, please?

Jevan Bouzo: Yes, sure. I mean, there's plenty of opportunity in bringing the businesses together. And I think it's been interesting to get under the hood in a bit more detail and understand what it looks like across the organisation. We're definitely seeing opportunity. We haven't made changes or updated the bucket if you like, but still pretty focused on that.

We talked about the fact that there are a number of areas that we didn't include when we forecast that amount. They were things like trading terms, opportunities, on shop procurement, and some of the other opportunities that we might get through scale of the sort of size that we'll have when we're at 1,000 store plus network. Some of those things have the potential to be meaningful, but we'll obviously have to update on that over time. But yes, still feel very comfortable about that.

Adam Martin: Okay. That's good to hear. And just second question, just on the commercial business. You've called out sort of bitumen, a bit less road maintenance, and also freight cost as a drag. It's obviously been a very good performance in the last two years. Are those headwinds will they normalise or is that something we should expect going forward?

Scott Wyatt: I think they will – I think about those they will normalise. I mean, we call our bitumen only because of it's been a relatively softer demand through this period of state governments have wound back their spending, but the roads still need to get fixed and we've been through cycles like this before, and it comes back in a rush when the have to start spending again. So, it's just a bit of a phasing issue more than anything.

And then outside of that as a call out and the results of the commercial is continuing to perform very well, very strong demand across all segments and obviously, some real good runway in some of the accounts that we've picked up over the last year or so, particularly of defence. So still feeling very good about how the commercial business is traveling and the opportunities in front of us. And certainly, that aspiration to hit 500 million remains a very live line and hope to get there sooner than later.

Adam Martin: Okay. Thank you. That’s good to hear.

Operator: Thank you. Your next question comes from Mark Wiseman with Macquarie. Please go ahead.

Mark Wiseman: Good morning Scott and team. Thanks for the update here. I just wanted to go back to the Investor Day and the 80% rebrand by 2028. It sounds like there's obviously been some delays at the front-end. Should we be pushing that 80% out to 2029 or 2030? Or do you think you can make it up later in the program?

Jevan Bouzo: Yes. Look, I think there's obviously a bit of delay up front. It's probably a bit early to go and give a year-by-year schedule. So, I think you have to look to future periods for us to update against that. And to be fair, it's probably a bit early to tell whether we'll really be able to ramp up or not to continue to deliver on that target. I guess, we need to get through the first 5 to 30 sites understand the formats, the cost, the scale of what's involved once we've done some sites, and we can see that on a more detailed basis. And then hopefully, that will inform as to whether, from both sort of capital and practical resourcing perspective that it makes sense to be able to go at pace. So, I think in summary, we'll come back to you, and we know a bit more, but you're right, a bit of a slow start.

Mark Wiseman: Okay. And with the funding of the network rebrand and uplift, at the Investor Day, you talked about 50 million per year of equity funding. Could you maybe just update how does that look now based on your outlook? And how much of the capex do you expect to be funded by landlords versus Viva? Is there any update on that?

Jevan Bouzo: Yes. I mean, we'll be a bit short of that for this year, given we'll only get through five this year, obviously, and will start to progress well into next year as we do the balance of the package of 30. Landlord funding still remains a pretty sensible opportunity, and we're in conversations with a lot of the landlords across the portfolio. So, I still feel like that's something that there's a reasonable prospect of pursuing and something that's of interest to us and as it seems, is of interest to most of the landlords. And so, I expect that we'll continue to pursue that as an option to improve and speed up rollout in a low-cost or a low-capital-cost way. But again, a little bit more time to just work through those things before we update in any more detail.

Mark Wiseman: And just finally, if I can ask on the C&M bridge on Slide 11. That 5.6 million negative variance on branded supply, is that dealers that have churned off of the Viva off the Shell brand to Chevron or others? Or is that a renegotiation of margins on dealer supply?

Jevan Bouzo: Yes, it's a couple of things. I mean, one, we've resigned a few contracts at lower rates given a bit of competition in the market in that space. The other is just a general margin softening, which has happened a little over time post some of the period we saw last year and the year before where the sort of global volatility perhaps gave us a bit of an opportunity to capture some upside, not anything to be particularly concerned about. And I think in that part of the business, it can move around a little bit, but definitely a little softer relative to the first half last year.

Mark Wiseman: Okay. Great. Yes, it's very small compared to OTR. Thanks very much.

Operator: Thank you. Your next question comes from Gordon Ramsay with RBC. Please go ahead.

Gordon Ramsay: Thank you. Just referring to Slide 20, just on the conversion and growth plans. I just want to understand what's kind of impacting timing. Obviously, near-term, it's conversion. But if we look at the 85 new stores planned over the next three years, do you see any issues with that in terms of getting approvals and moving forward? Because it sounds like what I'm getting at, it sounds like the near-term issue relates to conversions more than new store rollouts?

Jevan Bouzo: Yes, that's right. And that's a good observation. It's definitely more conversions where we're having to put a little bit more effort into redrawing and designing sites. And then obviously, modifying and remodelling stores is a little bit more of a complex DA process relative to a complete new build, which, while it's obviously a bigger construction effort from a planning approvals process, it can be simpler sometimes. So definitely not a lot of issue with the 85 new stores. A lot of those already have DAs in place, and it's just a matter of phasing construction with the development partner and getting those up and running. So definitely not the same sort of challenges to new stores as you point out.

Gordon Ramsay: Thanks. And then a related question, the OTR fuel supply agreement with BP expires in 2025. Can you highlight or maybe Scott, what benefit you expect to get from that when you move your own supply to Viva?

Jevan Bouzo: No. We haven't specifically called that out. It's all wrapped up in the 60 million of synergy opportunity, but there's definitely a benefit to the overall business of supplying that fuel out of Geelong in Victoria and so something that we're continuing to work towards in conjunction with, BP because it obviously involves a rebranding of all stores from BP to Shell. So, a fair bit of work to get there, but yes, a good opportunity for us to bring some fuel volume back in-house and supply that ex-Geelong, which would be good for the refinery and good for the retail business as well.

Gordon Ramsay: Okay. Just lastly on C&I had a good result. That polymer plant interruption in May, did that have an impact on earnings?

Scott Wyatt: Only the $10 million that we called out, Gordon, which was more the impact on not so much the polypropylene business, but more on the upstream into the margin that the cracker delivers because it was set to the impact of it was really slowing down in the cracker because we lost the unit that turns the gas into a feedstock for the polypropylene plant. So, I just called that out because I think it was a bit of a one-off. And obviously, if that hadn't occurred, then it would have been more like $125 million, which is kind of more of our mid-cycle result for the refinery.

Gordon Ramsay: Yes. Thanks, Scott.

Operator: Thank you. Your next question comes from Henry Meyer with Goldman Sachs. Please go ahead.

Henry Meyer: Good morning all. If we can expand on the cost synergies on Slide 18, please. Able to share the split of the 60 million cost reduction in some of those other buckets like the TSA overhead supply terms. And any updated view on how those would be phased over the next three years?

Jevan Bouzo: Yes, I can cover that. I mean, we obviously talked about it being 60 plus, so in excess of 60, and we've brought in some of the opportunities here that weren't part of the initial forecast of the 60 particularly the convenience supply bucket at the bottom. We've tried to show a bit of an indicative phasing in that chart with the 24, 25, 26 bars across the top. But reality is there's quite a lot of individual opportunities that we're going after that add up to those numbers, and they will sort of come in and deliver at various points.

I mean, the easiest way to think about it is post transition and integration in a few years' time we'll be delivering the full value. It's hard to see a meaningful amount get delivered this year. And from the phase thing in the bars, you'll see that really comes in from second half next year and onwards. So, it's something that I think I would encourage you to look to sort of late '25, '26 on, but we'll be working pretty hard to access all of those opportunities as quickly as possible.

Henry Meyer: Okay. Thanks, Jevan. And another one on capex. If we're expecting 50 million lower roughly this year. Can you share any estimates for net capex in '25 across the three businesses? And whether any of that spend has been deferred from in 2024?

Carolyn Pedic: Yes. Well, obviously, we'll provide some guidance at the end of the year. But certainly, this year's capex number that we've reguided to is a good indicator for 2025 on the basis of the fact that we shared in the Investor Day that these two years were going to be higher capex year. So yes, a little bit of it's phasing projects. Obviously, some capital discipline in the current environment, but certainly, this year is a good indicator for next year.

Henry Meyer: Great. If I could squeeze a third one on C&I. We've historically been fairly cautious on the outlook commentary, looking at growth towards 500 million EBITDA now. If we assume similar second half performance is '23, you're around 450 million. Do you see much risk at all in growing that 10% over five years, how early could that potentially be delivered if you keep performing like you have over last two?

Scott Wyatt: Yes. Look, I think real we remain very confident about growing the business to above 500 million in the five years. And I think we've got enough in the pipeline and enough in the accounts that we've won and built worked with more recently to give us that confidence. Obviously, we've talked about defence, but there are others that customers we're also working with, and see them continuing to grow and supporting the commercial business. We continue to look to diversify the portfolios that we're in. Gordon touched on it before, but we obviously have polymers business now, which is not just a manufacturing business, but also downstream sales business as well. And with the closure of Cronos that market grows for us.

So, there's probably opportunity to grow in that segment as an example of the diversification that we see in commercial. So, I think through a combination of just natural economic growth with customers that are growing and new segments that we're entering into the 500 million will come from a combination of all those three things and just steadily deliver that over the next four years or so.

Henry Meyer: Okay, great. Thanks, Scott.

Operator Thank you. Your next question comes from Scott Ryall with Rimor Equity Research. Please go ahead.

Scott Ryall: Hi, thanks. I know the focus has been on consumer and that sort of thing, but I want to ask only about Geelong actually. And I know you touched on it very briefly initially, Scott, but I was hoping you could give me just a little bit more colour on how you're seeing the medium-term outlook there, please, not just the refinery but some of the other things. So, I'm not sure I missed the very start of the call, so I'm not sure if you updated on the progress of any LNG import facility there.

That's obviously come up recently, particularly in Victoria given the shortages that have been seen down there. So, I was just wondering if you could give an update there. You're due to finish the diesel storage in the second half. Could you just give us a sense on, is that just pretty much a stand-alone investment? Or does that give you something strategic that's a little bit more out of that business, please?

And then just get us a little bit more colour on what we can expect out of your circular solutions plastic business over three to five years that would be great.

Scott Wyatt: All right. I can probably use the rest of the call on all of that. Thanks for the question, Scott. Yes, there's a lot happening at Geelong. Maybe I'll just walk through. But obviously from our operating performance, we've covered that had a strong first half in terms of production and the rest of this year is pretty clean as well from a production standpoint, no real major maintenance. So, looking to continue to operate well through the rest of the year, albeit through a bit of a low point at the moment in terms of refining margins.

The progress obviously, a big piece of work happening at the moment is the delivery of the low Sulphur Gasoline project, which is going well on track to be commissioned in the third quarter of next year, well ahead of and when the regulations step into the end of next year. So that's obviously a compliance project, but we do continue to have an expectation that once the country switches to low-Sulphur gasoline there's probably some margin uplift opportunity for Geelong in that project.

But that's progressing well. Strategic storage, 90 million litres of diesel being commissioned at the moment. That delivers 2 things for us. One is ensuring we remain compliant with the minimum stockholding obligations that are in place. So, there's a cost avoidance piece in that. But it also improves the shipping economics for Geelong. Geelong is a net importer of diesel and jet into Victoria.

So, our market is bigger than what we make at the refinery. So having good import capability is important to keep shipping costs down and having storage allows us to manage that much more effectively than we're able to at the moment. So kind of a cost avoidance for the refinery, which should reflect in the results once that is in place. The gas terminal is progressing well as it can be.

With just to recap, we were asked to go back and do some more work as part of the environmental approval process in a few areas that were now being completed and we're pretty close to resubmitting and getting the approval process restarted again. So, if that progresses well and we have approvals by early next year then we should be able to take pretty confident about being able to take FID before the end of next year and then have gas into Victoria by mid-2028.

So, there's a bit that has to be true in that particularly the approval process, but we feel confident about the work we've done to meet the requirements of that process. And then on recycle, I guess co-processing generally. So, we've talked about the opportunity that Geelong has to take waste feed stocks and biogenic feed stocks to process alongside crude oil to produce both lower carbon fuels, but also recycled plastics through the collection of or the processing of waste plastics turning that into pyrolysis oil, which Geelong then reprocess through the plastics plant that we have there.

There's a lot in all of that. There's quite a bit of work happening to understand what investments are needed at Geelong and we're working with Cleanaway particularly on the whole shop supply chain to be able to reprocess waste plastic back into virgin plastics again. So, I think long term, if those projects can pass feasibility and we progress with them, I think the opportunity, particularly in both areas really but in the near term in waste plastics is enormous and significant both margin uplift opportunity for Geelong utilising plant that's currently quite underutilised within the refinery.

So, it's got a direct margin benefit as well as a diversification benefit, of course. And then finally, I guess, probably more near-term is the hydrogen refuel production refuelling facility long has now been constructed, if you drive past the refinery on the main road there, you'll see quite a large facility being built, which will be commissioned early next year.

It will have a hydrogen production and refuelling capability. It also have electric vehicle charging for heavy vehicles, but also traditional fuels as well. So, that will be part of the Arena funding that we've received but is a big part of our commitment with customers to introduce and trial hydrogen refilling and heavy vehicle transport.

Scott Ryall: All right, excellent. Thank you so much. That's all I had.

Scott Wyatt: Thanks, Scott.

Operator: Your next question comes from Rob Koh with Morgan Stanley. Please go ahead.

Robert Koh: Good morning. Thanks very much for the preso. I just wanted to ask one more question just about the on-the-run rollout and the planning approvals, which is one of the things that you're taking your time with. How important is 24-hour trading to that planning approval process? Is that one of the reasons things are being held up?

Jevan Bouzo: That's a good question. It's not the reason necessarily things are being held up, but it is something that requires an approval from the council. Interestingly, about 1/3 of the Express network already trades 24 hours and there's probably a fair chunk in the next third that used to trade 24 hours and over time, it had hours cut back during sort of the last five to eight years.

So, most of the sites already have the capability to trade 24 hours, in which case it's not a constraint at all. For those that don't, you require a council approval to amend that. And at the moment, it's something that is a core part of the OTR proposition. And so, we haven't sought to vary or change that.

But as we get through the conversion sites over the next few years that will be something to think about does every store need to trade 24 hours or not. I mean, so far, it makes sense to do it, and the initial package of conversion sites will all be 24 hours but something that we'll keep an eye on as we go through.

Robert Koh: Okay. Great. Thank you. Just next question is on Slide 13. This might be just my ignorance, but you have called out a one-off item there of 12 million. Can you just remind us what that was? And I guess, how we should be thinking about that in the second half? Is it now resolved?

Carolyn Pedic: Yes, that's definitely one-off. So, part of it is a prior year claim for a contamination. So that's not going to repeat and a portion of it as well is a change in EBA that occurred during the period. So that's really just uplifting the back pay and leave requirements, so just one-off.

Robert Koh: Okay. Thank you. And maybe just a question about balance sheet and how you're thinking about capacity over the next few years. I guess reading through the accounts, you've got plenty of liquidity at the moment and a little bit more government grant to come through. And I guess the EBITDA will grow that will increase the debt capacity over time. What are the major calls on your capital? I guess you've got Geelong import FID and Liberty coming up and some leases expiring. Any other major calls on liquidity that we should be thinking about?

Carolyn Pedic: I think you've covered that all pretty well actually. I mean, obviously, the rollout that we've talked about, as you said, this year and next year, Scott talked about the gasoline master plan the biggest fallout, so nothing really to add to what we've already identified.

Rob Koh: Okay. Sounds good. And thank you so much.

Operator: Thank you. Your next question comes from Scott Hudson with MST. Please go ahead.

Scott Hudson: Good morning, everybody. Just a couple of questions, maybe back to Slide 18. I guess just in relation to the Coles TSA arrangement. Are there any opportunities to, I guess, get off that onerous contract earlier than May 2025?

Jevan Bouzo: Yes. It’s a good one. I'll avoid calling it an onerous contract. And I will say our friends at Coles have been very supportive. They've been working pretty actively with us. But you're right in terms of what's fit for purpose for us going forward, I think we'll be able to take the opportunity to combine the businesses and see some meaningful improvement once we do that.

There is a lot of work to get off that contract across multiple systems. And while the acquisition of the OTR business has been really helpful in that we've been able to take the ERP system that exists in that business and effectively sort of copy and reconfigure that to make it fit-for-purpose to get off the Coles systems.

That's taking some time. We've got the first store live and running now, and we'll be working pretty hard to transition almost 700 stores over the next few months to get off by the end of April, early May. It would be hard to see us getting off much earlier than that.

Scott Hudson: Understood thank you, and then just in terms of the transition costs that you called out in the bridge. I understand that that's a transition cost. But I guess how long do they persist for? Is it just in terms of the systems switchover? Or is it a longer-term impact as you go through the store rollout as well?

Jevan Bouzo: Yes. The best way to think about that is really in the context of Slide 18 that you referred to and the timing. Those costs are not necessarily related to the store rollout, they're more related to the multiple systems, the overhead that's required to run what is effectively three ERPs at the moment.

The OTR, the Coles transitional services system, and obviously, the new OTR copy that we're using to get off Coles, and there's a bit of legacy Viva in there, too. So, in time, we'll have to consolidate all of that into one operating model, and that will probably see a little bit of efficiency.

Probably best to think about that in line with some of the phasing of those things on Slide 18, where we're moving to end-state IT functions kind of second half 2025, getting off TSAs and consolidating the Express, Viva, and OTR systems through 2026.

Scott Hudson: And then I guess just in terms of the opportunities to rollout the, I guess, the OTR app, how are you thinking about that in context of the Express network? And I guess, what you need from a systems requirement to be able to do that?

Jevan Bouzo: Yes. The really good thing about that is using the OTR, ERP to get off the Coles TSA in the way we are means that as we do that and move each site from Coles systems to our systems, the app is almost immediately able to be used.

The next challenge to work through is how we integrate that with the appropriate existing loyalty programs like fly-buys and the docket redemption and $0.04 discount that you get through the partnership with Coles. So, it's not to overlap with the existing offers that sit within the app.

And then obviously, the branding because the App is OTR branded and our sites, a lot of them are still Shell Coles or Reddy Express. So, there's a little bit we've got to work through on that, but it does remain an opportunity for us to think about sort of that activation earlier than the plans we've got for conversion sites.

Scott Hudson: And then lastly, just in terms of the branded supply headwinds that you called out in the first half. Is that something that we should be concerned about as we head into second half and into 2025?

Jevan Bouzo: No, I wouldn't be overly focused on it. First half last year was a fairly positive period in that part of the business. We've had to extend a little bit of the arrangements. We have a slightly lower margin to roll things over. And there's been a little bit of competition in the market for branded supply. I feel like we'll be able to work through that pretty actively over the next sort of 6 to 12 months. And so, I wouldn't see that as a particular headwind or drag going forward.

Scott Hudson: Appreciate it, thank you.

Operator: Your next question comes from Rachel Williamson with Renew Economy. Please go ahead.

Rachel Williamson: Hi, everyone. I'd like to ask you about the EV charger rollout in New South Wales. I was wondering if you can give an update on that. And also, if you can provide a view on the pace of the transport transition?

Scott Wyatt: Sorry Rachel, what was the second part of the question?

Rachel Williamson: Just provide a view on the pace of the transport transition right now?

Scott Wyatt: Okay. Thanks, Rachel. Thanks for the question. Yes. So, we've been working on our EV solution for a little while and are now able to begin to move forward with the rollout of that in New South Wales with a bit of support from the New South Wales government.

The solution we're working -- that we've developed is one that is supported as a battery-supported solution so that we’re less reliant on the capability of the grid in the locations that we execute and implement EV charging because we have ability to store electricity on-site from a combination of off-grid and solar, and best dependent on having the sufficient voltage in the street.

That's important to us because we want to ultimately execute it alongside the OTR rollout and want to have flexibility about when and how we execute EV of charging. So as mentioned, we're still in the early stages of that, that begin to trial that in New South Wales in the first instance, but obviously, intend to take that nationally over time in conjunction with the rollout over the next 5 years and try and continue to provide infrastructure support to our customers as the market grows.

In terms of transport transition more generally, I touched on heavy vehicles and the site that we're building at Geelong to provide hydrogen for heavy vehicle transport, and I also touched in the discussion around Geelong, the opportunity that we see to take biogenic feedstocks to process alongside crude oil and produce lower carbon fuels, which I think fits quite neatly into supporting the transition for customers in hard-to-abate sectors like aviation and road transport and mining, in particular. So, kind of those are the 3 areas that we're focusing on at the moment Rachel, and making investments and progress in each area.

Rachel Williamson: If I could just ask a follow-up to that. There's a view that particularly consumer transport outside of the transport is not moving far from us because of charging networks not being able to move quickly enough. How quickly are you intending on rolling out that New South Wales trial? And when would you be expecting to begin moving it outside New South Wales?

Scott Wyatt: I think it's one of the reasons why EV take-up is probably not as fast as it could be. I think there's many other reasons as well. In our retail business, we are obviously investing heavily in upgrading and converting from express format to OTR format and really broadening the convenience offer. Apart from seeing convenience is a great opportunity for us.

We also believe that to have a compelling recharging offer for customers, it's important to not just have a strong EV recharging offer, but also have a strong convenience offer as well, just given that the dwell time in our stores will be much longer than it is for a fuel customer. So, we want to invest sensibly and invest in parallel with the convenience offer.

So, I think the way to think about our rollout, it will be very much over the next 5 years in parallel in conjunction with the convenience upgrades that we're making. And I think that from an infrastructure point of view, probably best reflects the logical take-up of EVs over that time as well.

Rachel Williamson: Lovely. Thanks so much.

Operator: Thank you. There are no further questions at this time. I'll now hand back to Mr. Wyatt for closing remarks.

Scott Wyatt: Yes, thanks very much for joining us this morning. I think in summary, we're very happy with the results we turned into the first half having a very strong performance across all of our three businesses. There's obviously a lot happening across all of our businesses at the moment, and we've touched on a lot of those and a lot of interest naturally in our convenience business and the investments we're making in that area and obviously the plans to extend the OTR offer across the whole network.

I think we've covered a lot of the questions that you've had and we'll be able to give another update as we come to the full-year results of obviously, a bit of update on what we've achieved for the rest of the year, but also set out our plans for the year ahead and how we take the rollout forward in a more programmed way. So, I look forward to reconnecting with you before your results. Thanks for your questions and have a great day.

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

[END OF TRANSCRIPT]