# TRANSCRIPTION

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**[START OF TRANSCRIPT]**

Operator: Thank you for standing by, and welcome to the Viva Energy Australia Full Year 2024 Results Call. 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 via the phones, 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, all, 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.

2024 was an important year for the company with some significant investments underway to pursue the strategic agenda that we set out at our Strategy Day in 2023. We've made some good progress with more to be delivered in the year ahead as we complete the integration of our retail businesses, including the full acquisition of Liberty Convenience and the investment program underway at Geelong. I look forward to discussing this with you all this morning.

As always, let me start with our safety and environmental performance on Slide 4. Over the last couple of years, we've significantly expanded our operational activities with the acquisition of Express and OTR Group and the growth of our Liberty Rural business. All these businesses are now consolidated into our reporting and management systems and fully reflected in the performance set out on this slide.

Given the substantial changes to our operations and the associated safety and environmental risks, I'm pleased that we've been able to maintain a strong performance through this transition with both high severity injuries and significant process safety events stable and improving over time.

We have improved process safety performance over the last couple of years, in particular, with two API Tier 1 and 2 incidents recorded at Geelong refinery last year, one relating to a relief valve failure and the other to a leaking heat exchanger. Both incidents were well managed with no impact to people, demonstrating the strength of our safety protocols and response measures.

As mentioned earlier, we have made good progress on our strategic agenda with the highlights set out on Slide 5. We successfully completed the OTR acquisition in March last year and since then have made substantial progress on integrating our retail operating platforms, which will largely come together during the second quarter of this year.

These platforms will allow us to end transitional service arrangements and support the delivery of more than $90 million of synergies and cost reductions over the next two years. Together with growth from store conversions, I expect this to be a key driver of earnings improvement through the second half of '25 and into 2026.

Our commercial and industrial business continues to grow through a mix of organic and small bolt-on acquisitions with the OTR wholesale business giving us a strong position in the North of the country, in particular, where we are supporting the Australian Defense Force as well as other critical mining accounts. At the end of last year, we entered the marine market in Brisbane, extending our operations to all three major Australian ports.

At Geelong, we commissioned 90 million liters of strategic storage and are well advanced on the construction of our Low Sulphur Gasoline processing plant, which is due to commence production in the second half of this year. We are nearing the end of the environmental approval process for our proposed LNG storage terminal and have constructed initial capabilities to receive and process waste and biogenic feedstocks for the production of recycled plastics and low carbon fuels.

Turning to Slide 6. Let me address our key financial and operational outcomes. Group sales increased by 4% to almost 17 billion liters, comprising strong growth from commercial, which was up more than 5% and resilient fuel sales in the convenience business given the cost of living pressures. Convenience sales declined by 4%, primarily driven by lower tobacco sales, while gross margin increased to almost 40% as the sales mix shifted to higher margin products.

The Geelong refinery operated near full capacity during the year with intake at 40 million barrels, supporting exceptional operating performance. After starting strong, regional margins declined through the year on the back of a bearish global economy, triggering federal government support of $25 million in the third quarter. Overall, the company delivered 5% EBITDA growth and declared a final dividend of $0.0387 per share, representing 66% of group NPAT for 2024.

Moving to Slide 7, which sets out the earnings performance by segment and over the last four years. Looking through refining, which provides upside volatility as we saw in 2022, the business has been steadily increasing earnings with solid year-on-year growth from both C&M and C&I businesses. While the transition and integration of our retail business is progressing well, it has indeed been a challenging year for this part of the business with pressure on sales and operating costs weighing heavily on the underlying business performance.

As you can see on Slide 8, both OTR and Express have been similarly impacted by softer consumer demand and illicit tobacco, coupled with rising cost of doing business in an inflationary environment. The OTR network has seen 47 stores added through the course of the year, which has lifted operating costs ahead of sales uplift from refurbishment. And the Express network has declined by 25 stores, largely as a result of divestments to Chevron in South Australia.

Overheads have reduced, but remained elevated during this period of transition with considerable opportunities for substantial reduction once the integration of businesses is completed in the second quarter of this year. We remain confident in our plan to extract $90 million of synergies over the next two years.

Overall, C&M EBITDA was $231 million for the period, in line with the prior year, but behind our expectations for this part of the business. Jevan will discuss this in more detail a little later.

Turning to the next slide. Our Commercial and Industrial businesses continued to perform well in 2024. Both sales and earnings lifted by 5% with sales reaching 11.7 billion liters and EBITDA of $470 million. This continued growth was driven by the acquisition of the OTR wholesale fuels business and strong demand across all sectors, particularly aviation, agriculture, and defense. There is a solid pipeline of opportunities in the commercial business, which underpins this growth and will support sustained performance in the year ahead.

As mentioned earlier, the refining business delivered a strong operating performance during 2024 with crude intake at 40 million barrels and plant availability increasing to 95%. Earnings were $112 million in the first half, but declined in the second half as refining margins softened, resulting in a full year GRM of $8.70 per barrel.

In the third quarter, the refinery received $25 million in government support as the margin marker approached full support levels. But this was partly offset by carbon costs under the safeguard mechanism.

I'll now hand over to Carolyn Pedic to talk about our financial performance in a little bit more detail.

Carolyn Pedic: So, thanks, Scott. So, let's now turn to Slide 12, which shows the net cash flow bridge. So, you can see the business delivered positive underlying free cash flow despite a period of significant investment across the business.

The net cash flow of negative $23 million reflects the impact of almost $100 million in integration costs split between OpEx and CapEx as well as investment in the Ultra-Low Sulphur Gasoline and strategic storage projects. So, while these investments have weighed on short-term cash flow, they are critical to positioning the business for long-term growth and value creation.

So, the next slide, Slide 13, sets out capital expenditure in greater detail in 2024 as well as our expectations for 2025 and beyond. Net investment was almost 500 million in FY 2024. And that reflects the higher base of CapEx across retail and refining businesses and additional one-off investments.

Capital spend in 2025 is expected to be a similar level, including transaction costs and net of government grant contributions. This is before normalising for long-term guidance as we conclude compliance investment and finish integrating the Convenience and Mobility business.

We continue to target approximately $50 million per annum of our own funding to transform stores to OTR with capacity to increase as other capital commitments wind down and the offer proves up.

So turning to Slide 14,,looking at the balance sheet. Closing net debt stands at 1.8 billion as at 31 December 2024, reflecting the impact of recent acquisitions and ongoing investment. However, gearing remains within our target range of 1x to 1.5x term debt to trailing 12-month EBITDA.

The OTR Group acquisition was financed through a new AU$1 billion term loan facility, while our net debt position also includes the revolving credit facility, which continues to be used for working capital purposes.

Now looking ahead, the Liberty Convenience acquisition is set to complete on the 31st of March 2025. The net cash consideration for this acquisition is estimated to be approximately $115 million, inclusive of working capital adjustments plus taking on existing LOC debt facilities.

The acquisition will be funded through existing debt facilities. With gearing within target levels, we are focused on reducing overall net debt over time, supported by disciplined capital management and a continued focus on cash generation.

Now turning to Slide 15, you can see the breakdown of the dividend announced today. At $0.0387 per share, the final fully-franked dividend represents a 50% payout of net profit from the Convenience and Mobility and Commercial and Industrial segments in the second half.

As you know, we assess the Energy & Infrastructure segment on a full year basis. So, with Energy & Infrastructure reporting a net loss of $22 million in FY 2024, dividends for the full year represent 66% of group net profit, which is towards the higher end of our policy range payout between 50% and 70%.

Now to support our growth strategy, preserve capital, and attract retail investors, we have activated a dividend reinvestment plan for the final dividend and eligible shareholders can reinvest their dividends directly into shares at a 1.5% discount and this is not an underwritten facility.

I'll now hand over to Jevan to give an update on our Convenience & Mobility strategy.

Jevan Bouzo: Thanks, Carolyn. Before we dive in, I want to acknowledge that current performance has not met our expectations. We know this is disappointing and we're highly focused on addressing the challenges to get back on track.

Let's start with our operating performance in 2024, on Slide 17. It's important to first highlight the size and complexity of the retail network we have acquired through the Express and OTR acquisitions, which is not yet optimised or integrated.

Our team of more than 10,000 store level team members operate across more than 1,200 stores and quick service restaurants nationwide with a range of brands. Many of the Express stores are in impossible to replicate locations. But due to the nature of the agreement with Coles have been significantly underinvested with an offering that is not fit for purpose.

Our strategy is to become Australia's largest fuel and convenience retailer with the highest quality convenience offering and we will do this by converting many of our Express stores to the OTR offering in time.

In terms of the gross margin contribution, we've seen a shift compared to the previous year on a pro-forma basis, largely driven by weaker fuel and tobacco sales. Both Express and OTR have been impacted by the ongoing challenges in the tobacco segment, including the rise in illicit trade, as well as sustained high wage inflation.

Despite these headwinds, OTR continues to demonstrate superior operating metrics, generating an average of more than $500,000 of convenience margin per store net of wages compared to the Express network at a little over $100,000. Notably, OTR also delivered 4% ex-tobacco sales growth in 2024 versus a flat performance from Express.

Network growth has been a key focus within the OTR network with 47 additions, across 2023 and 2024. While this helps position the business for long-term success, it has temporarily reduced average store performance. Many of these locations either do not yet carry the OTR offer or new-to-industry sites, which typically take much longer to mature than conversions.

On to Slide 18, we converted our first four stores from the Express to OTR format in November and December last year, with an average investment of around $1.5 million per store. Initial results have been very encouraging and indicate that returns will eventuate much more quickly than we originally thought.

Across three stores, gross margin earned on ex-tobacco sales has increased by around 30% to 60%, which on an annualised basis is $170,000 to $220,000 of improvement. One store is behind on the same period last year and is taking a little longer to mature, but heading in the right direction.

These early signs reinforce the opportunity to drive stronger performance through the conversion program, as we prepare to scale up the rollout across the network.

Turning to Slide 19. You can see the rollout plan is now quite different from the preliminary view that we shared in the Investor Day in 2023. Following a lot of work and a lot of site visits across the network, we now expect a lower proportion of sites to be converted to the OTR network by 2028 with fewer basic conversions, more remodels, major refurbishments and knockdown rebuilds.

This means that the average spend per store will be higher than originally anticipated. However, the positive results on the first few conversions tell us that we will still meet our return expectations on the capital invested. With a longer timeframe to invest a greater amount of capital at attractive returns, the pipeline of year-on-year growth becomes much more significant.

In terms of this year, we expect to complete between 40 to 60 conversions, which is likely to be weighted to the second half. And we're building experience to scale conversions to approximately 100 per year from the beginning of next year. We're having positive discussions with our landlords and expect landlord funding to comprise a meaningful proportion of the total outlay, subject of course, to the cost of capital.

On Slide 20, in late last year, we upgraded the synergy opportunity from $60 million to $90 million. And we expect to deliver this on a run rate basis from end 2026. The majority of the $90 million will come from moving off the Coles transitional services arrangements, bringing all the systems together into one enterprise system and organising the functional support accordingly, rebranding from BP to Shell and self-supplying in South Australia and integrating the supply chains and moving off the Coles product supply agreements. These are identified opportunities with a clear path to deliver them through to the end of next year.

On Slide 21, we provide an overview of the Liberty Convenience business. It's positioned as a lower-priced fuel brand. Liberty complements the Shell premium offering by attracting value-conscious customers at a lower no-frills price point. Unlike our company-operated model for the Express and OTR networks, Liberty is a commission agent model that will continue to operate separately within the retail group.

Under the model, we received the full retail fuel margin minus the commission, while agents will operate the 92 sites and earn convenience sales revenue. We also earn a share of the convenience sales by way of a royalty style payment.

We'll acquire the remaining 50% share in the business for $115 million, as well as taking on some existing debt facilities. And in 2024, the business generated EBITDA of $36 million and net profit of $5 million. We expect it to contribute between $20 million and $25 million of EBITDA in 2025.

Turning to Slide 22. We've set out the impact of cost of living pressures on the retail business. It's easy to see from these charts that 2024 was a challenging year for industry given the level of cost inflation and we've been undertaking an enormous transition during this time.

The chart on the left shows industry convenience sales trends. Ex-tobacco sales have averaged 5% growth since 2015, but this slowed in 2024 as consumers became more price conscious. However, we expect tobacco sales declines to moderate in 2025, driven by stricter government penalties and enforcement.

On the right, we see industry fuel trends. Retail fuel sales have remained subdued since the pandemic. But as cost of living pressures ease, we're seeing signs of a recovery. Margins meanwhile continue to grow, up 3.9% on a compound annual growth basis since 2011, helping to offset rising operating costs, but you can see that the impacts to 2024 have been challenging in the face of recent inflation on cost.

On Slide 23, we've set out some short-term actions. Our medium and long-term strategy provides an enormous opportunity over the next five years to completely reshape the business and grow earnings in line with our original business case.

We are, however, impacted in the short-term by challenging trading conditions and a significant amount of transition activity. To manage this, we're taking a number of short-term actions to improve current year profitability. In a moment, Scott will talk to the quantum of these actions, wider business-wide program, and the upside opportunities.

But to give you an indication of the actions we're taking, we've set out the key areas on this slide. I won't go through them in detail. But the sum of these actions is such that we will deliver a large proportion of the synergy opportunity this year, along with a significant additional cost improvement program, which will help to manage short-term earnings.

While the beginning of the year has been soft, these actions will deliver through the back end of the first half and give us the opportunity to deliver a material improvement in the second half.

I'll now hand to Scott to talk to this in a bit more detail.

Scott Wyatt: Thanks, Jevan. So look, let's start with the outlook for the retail and commercial businesses in 2025 on Slide 25. In the first half of this year, we are issuing guidance for the C&M and C&I businesses on a combined basis.

Together, we expect them to deliver EBITDA of between $270 million and $330 million. This represents a decline of between 8% and 25% on our FY 2024 result, but remains well above the results for the first half of 2021 and 2022 with significant uplift expected in the second half of this year.

While our commercial business continues to perform well, challenging retail trading conditions and weaker retail fuel margins during the first two months of the year are driving lower earnings expectations for the C&M business in the short-term.

Delivering at the top of the range will be driven by improvements in retail fuel margins, strengthening retail sales performance and earlier delivery of synergies and cost reductions.

Given the macro headwinds facing parts of our business, we are accelerating programs to capture synergies within our C&M business and reduce overheads across all of our business units. This is expected to deliver approximately $50 million from a mix of operating cost reductions and margin improvements over the course of FY 2025, weighted towards the second half of the year.

Liberty Convenience will start contributing EBITDA from April, supporting another $15 million of EBITDA in the second half. While C&I has a pipeline of growth initiatives, we expect will maintain earnings growth in that part of the business.

It's important to now highlight that the C&M business has significant earnings leverage with the potential for substantial EBITDA expansion as industry conditions improve, driven by increases in margin and sales across fuel ex-tobacco and tobacco categories.

Turning to our refining outlook on Slide 25. The longer-term outlook for refining remains constructive, underpinned by structural tailwinds, including the Ultra-Low Sulphur Gasoline upgrade and tighter global supply-demand balance.

Since the pandemic, refining margins have structurally improved with GRMs averaging around $11 per barrel compared to pre-pandemic levels of around US$8 a barrel. This reflects a more balanced supply-demand environment alongside elevated energy costs.

Looking ahead, global demand recovery remains supportive with refining demand expected to grow by more than 1 million barrels per day in 2025. Additionally, tighter sanctions and energy tariffs continue to drive short-term volatility, but are likely to provide further margin support.

From 2026 onwards, we expect the Low Sulphur Gasoline upgrade will deliver around US$1.50 per barrel benefit to the gasoline crack. 2025 is a pivotal year for execution. The unplanned site-wide power outage in January impacted earnings by approximately $20 million and the scheduled major turnaround in the third quarter of 2025 is expected to reduce GRM by about US$40 million and intake by about 2 million barrels.

Beyond 2025, we think the Geelong refinery is well positioned to capture higher refining margins with clean production run through to the end of the decade. We continue to target a mid-cycle EBITDA of between $200 million and $300 million.

That concludes the presentation. So let me now hand over for questions.

Operator: Thank you. If you wish to ask a question via the phones, you'll need to press the star key followed by the number one on your telephone keypad.

Your first question comes from Michael Simotas from Jefferies.

Michael Simotas: Can we start with just the conversation around the OTR conversions that you've done so far? I know it's a pretty small sample and its early days. There's no mention of fuel volume. So just interested in what fuel volumes have done in the converted sites and maybe a comment on fuel margin. And also, should we infer from the comments that tobacco sales haven't changed or have, in fact, declined on a sort of underlying basis post the conversion?

Scott Wyatt: Thanks, Michael. I'll hand that over to Jevan to talk to.

Jevan Bouzo: Thanks, Scott. Yes. Thanks for the question, Michael. Yes, we've really focused on the convenience margin upside opportunity, which is what the strategy is all about. I can say that fuel volumes have been quite positive. And so that in line with what we've seen in other locations is delivering quite positive results. So, I feel good about that.

And tobacco sales have not shifted in a way that would negatively impact the stores. And in fact, in some has performed positively as well in line with a bit of a different focus on that. But overall, when you look at the opportunity on the convenience improvement, it gives us at least a lot of confidence that the rollout can deliver material value.

Michael Simotas: Okay. And just fleshing that out a little bit. So just in round numbers, it's a $200,000 gross profit increase per site. I presume there's a reasonable step-up in OpEx associated with the OTR model versus the Express model. How much more do you need the sites to mature to deliver an acceptable return? Because right now, when you allow for costs, it doesn't look like it's anywhere near the 20% return on capital that you're targeting?

Jevan Bouzo: Yes, it's a good question. And I think it's important to remember a couple of things. One, in the Express network, there's typically and historically been a lot of promotional activity that drives sales with not a lot of margin. And so, it felt like removing a lot of that activity might send the stores backwards before they move forwards.

We're not seeing that. We're seeing the stores move forwards quite significantly and quite quickly, which is fantastic. And then sorts of numbers that we're talking to are really only on the back of the first full month of trading the stores. So, you've got to remember that these opened across November and December with no real impactful marketing in state, no above-the-line awareness.

We didn't go out and tell people that OTR was coming and it's landed and, hey, look at just how good this is. We just converted the stores and opened them and put a sign out the front saying, come and check this out. And in the first sort of two months of trade, we're already seeing that sort of material uplift.

And so the real question, I think, for all of us is how do they track over the next six and 12 months. No doubt they'll continue to improve as awareness improves. And we see more and more repeat business. And then just how good they can get is what we'll find out.

Michael Simotas: Yes, that's fair. Maturity is always hard for new formats, I guess. And then the second question for me is balance sheet. Now I know that you think about your leverage in terms of the term facility and not the unsecured facility. I noticed in the notes of the accounts, the capacity of that working capital facility has expanded and I think it's now just under $2 billion.

How much of that would you be willing to draw in addition to your term debt being within the 1x to 1.5x leverage range? And will you only use that for working capital? Or do you have the ability to use that for other things?

Carolyn Pedic: Yes. Thanks, Michael. And good question, and certainly take your point around the leverage. I mean from a -- obviously, there's a huge focus on net debt at the moment. And as you rightly pointed out in the accounts, we do have expanded capacity under the revolver and probably also seeing that we've got headroom well in excess of $900 million that we could draw on, that is undrawn. So there's certainly plenty of capacity. So, from a liquidity perspective, very, very comfortable.

It is a working capital facility. But I mean, that can be used for things like CapEx as well, like the program that we're running, etcetera. So it's actually quite flexible. So, we can utilise it in a fairly flexible manner.

Michael Simotas: Would you be willing to, though? Because if you fully drew that working capital facility and were sort of maintaining term debt at where you are, for example, to fund OTR conversions if you need to contribute some capital, your overall leverage starts to look very high for a business like this. Is there any constraint in your ability to do that either through covenants or something else? And how does -- how do you think about leverage as a management team? Would you be willing to push it that hard?

Carolyn Pedic: Yes. I mean there's nothing stopping us from drawing down on that capacity in terms of covenants or anything like that. I guess it's not something that I foresee us needing to do based on our outlook. So, it's obviously it's important to have that capacity there, so we can use it if we need it. But it's really just a buffer more than anything.

Scott Wyatt: I think, Michael, you got to remember, too, and we've kind of set it out in the deck too on Slide 13 that we're kind of –because look last year and this year were at peak CapEx period, right, because it's driven by the -- particularly by the investments that are being made in the refinery and the turnaround cycle that we've got this year.

We kind of -- that all gets largely -- that gets completed this year. And we head into next year and starting to normalise back to our more normal capital CapEx levels and certainly getting sustained capital back to the sort of $250 million to $300 million range, no more compliance capital in terms of the investments at the refinery.

And then, our growth capital really largely being directed to the OTR conversion. So, I think it sort of gets into a period where that level of investment is going to be required to support the OTR business is more within our normal capital CapEx levels, right? So, it should be able to be sustained from our current facilities and our current drawings.

Michael Simotas: Okay. Thank you.

Scott Wyatt: Does that make sense?

Michael Simotas: Yes, it does.

Operator: Thank you. Your next question comes from Dale Koenders from Barrenjoey. Please go ahead.

Dale Koenders: Maybe just to round out the last question. Can I just confirm then that you're very comfortable with your balance sheet and you don't see any equity raising risk?

Carolyn Pedic: Yes, very comfortable.

Dale Koenders: Thank you. Then maybe shifting to the guidance that you've given. Can you confirm that really this weakness is largely convenience and mobility? And can you provide maybe some commentary in terms of what you're assuming within that guidance in the first half for fuel margin, illicit tobacco, ongoing cost of transition, and all those things that are maybe ending up with the guidance lower than the market had anticipated?

Scott Wyatt: Yes. Maybe Jevan, will get you to sort of cover off on the retail component of it and I'll sort of wrap it up, the question.

Jevan Bouzo: Yes. Thanks, Scott. Yes, I mean, it's definitely a softer trading environment. And we talked to that a little bit in the slides. We've seen a bit of a soft start to the year. And that's in the face of a fairly strong inflationary environment, where we've seen increases in both store wages and rents over successive years now and really needing a little bit more support at the top line at an industry level to make up for those cost increases.

Unfortunately, we've got a lot of transition activity going on at the moment. And so what we've talked about is both the softness that we're seeing in the first half, but also some of the shorter term actions that we can take to mitigate that short-term profitability. It would have been nice to be able to take those actions sooner.

But the reality is there is a lot of work to integrate and merge systems and organisations through the course of the first half, this year. But with the sort of opportunity that we see, I think we're shaping up for what can be a really, really strong second half on the back of that delivery. They're probably the comments I'd make about retail specifically. Scott?

Scott Wyatt: Yes. Look, I mean, I think and I'll just wrap that up. I mean we're obviously not where we want to be at this point in time. But the good -- I guess, the good news in the outlook is that we do wrap up all of the integration work in the first half of this year. A lot of the foundations to go after synergies will be in place and that all flows through into the second half period.

I think we can still finish the year with a pretty strong result, because it will be a bit of a year or two halves with a more challenging period in the first half, obviously, influenced a bit by what we've seen in the first two months of the year, which is unusual and I don't see continuing. But then, obviously, synergies and cost reductions that we've set out flowing through into the second half, plus some recovery in trading conditions and flowing through to sales.

I think we can still finish the year with a pretty strong result and some good momentum going into next year with obviously a more substantive program of store rollouts starting to happen as well and seeing results on a wider scale than what we've been able to demonstrate at this point in time. So, I think that's the plan for the year and hopefully help puts the first half numbers in a bit of context.

Dale Koenders: Can you maybe provide some more anecdotal comments just in terms of when we're thinking about that earnings level for C&M relative to what we're seeing in the second half of '24? Are you thinking that basically all the same issues just continue for the full 6 months, but maybe there's a little bit more retail fuel margin weakness to get to the numbers? Or what's the high-level difference?

Scott Wyatt: No. I mean, I think -- I mean, the lower range is obviously assuming we've got a continuation of January and February right through the half, which I would hope is -- expect is not going to be the case. That we will see some recovery and some normal return of fuel margins to more normal levels and obviously try and get on with some of the capturing of synergies in the first half as well.

There's some we have to wait until we've got the full systems in place and have a really genuinely integrated business. But there's others we can get on with now getting on with in the meantime and that probably then talks to the top of the range that we've set out for the first half.

But if you just take the middle at $300 million and then you say that -- carry that through to the second half of the year, that gives you $600 million. You add the $80 million of synergies and cost downs, it gets you to $680 million plus Liberty and a few other things get you to $700 million.

And then some recovery of sales and a bit of a brighter outlook than what we're currently painting for the first half, I think you get to a pretty good number -- a pretty good outcome for the combined businesses heading into 2026.

Dale Koenders: Okay. Thank you.

Operator: Thank you. Your next question comes from Bryan Raymond from JPMorgan. Please go ahead.

Bryan Raymond: Look, I'd just like to have a think about the more medium-term outlook. Like I noticed there wasn't any mention of the $500 million EBITDA target long-term in there. How do you feel about the longer-term trajectory? Or are you just focused on sort of the next 12 months at this point? Is that something that you're still comfortable with or something that needs to be revisited post the current market conditions?

Scott Wyatt: Yes. I mean right now, we're still shooting for that, absolutely. We will have a -- I mean we will have -- we are planning to have a strategy update in the second half of this year. Once -- which is a good time, I mean, it's an appropriate time to have it because we'll be through the full integration. We'll have first half behind us.

And a lot of the trajectory around synergies captured in place plus a bit of a store rollout starting to be -- provide some more material data points as to how the network is performing. So I think at that point, it's a good time just to revisit how the business is going and maintaining -- reconfirming our confidence level about that outcome. But at this point in time, we remain very much committed to working towards that.

Bryan Raymond: Quite a lift that you need longer-term from where you -- I mean, depending on that second half. As you say, you'll clearly have better second half than the first half. But yes, the implied growth rate there from over '26, '27, '28 is pretty substantial coming through. Do you need -- what sort of market conditions do you need to get to that level?

Scott Wyatt: Well, I mean, I think as we've always said, I mean, there's an enormous capacity to take a lot of synergies and overhead costs out of this business. Once we've got it fully combined and have got it rightsized for what's needed to run the network we've got. Well, obviously, that's something we're going to be working, starting to work more earnestly on this year.

The store rollout is obviously yet to be delivered in a material way. But the early signs on that in terms of uplift are actually pretty positive. So, we still see a lot of growth from those network conversions and probably in many ways exceeding what we expect with the early ones we've done. But we need to do a lot more to get a more representative sample in a number of different markets to prove that up. And that's something we'll get with 40 to 60 sites coming on stream this year. We'll have a lot more to talk to and a lot more evidence to support our confidence around that outcome.

Bryan Raymond: And then just final one for me, just sticking on C&M. The 2024 EBITDA decline on a pro-forma basis, I think it was 22% in the presentation compared to your major competitor yesterday, which is more like flat. If you can just help us understand sort of how much of that is -- obviously, you're both facing similar market conditions around tobacco and lower fuel margins, etcetera.

What's driving that difference on a pro-forma basis for you guys versus the rest of the market? Are you more exposed to tobacco? Do you have a different mix of fuel? Is there something else out there that's sort of driving that underperformance?

Scott Wyatt: Jevan, do you want to make some comments on that?

Jevan Bouzo: Yes. Thanks, Scott. Yes, it's quite an interesting one, I think, what we're seeing in terms of the environment, the impacts, and the conditions is fairly consistent across market. We see an impact of that to an extent in the Liberty results, we see it in the Express network, and we see it in the OTR network and they're all similar impacts.

So I think industry is facing that as a whole. There's definitely some short-term actions that we're now taking to manage lower industry profitability. And I would have liked to have taken more of those earlier. But there is a lot of transition activity that we're going through at the moment.

The dynamic around softer consumer spending because of the cost of living pressures and the rising cost base as a result of the inflation levels that impact wages and rents is consistent across all players in the sector. And so we obviously can't comment on other's results. But it's pretty clear to see the impact of that on our business and from what we can see, industry as a whole.

Bryan Raymond: And sorry, just as a quick follow-up. Is the Smokemart business a key differentiator there? And is there a sort of more permanent loss of gross profit in your business over time from tobacco? Do you think you're more exposed

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|---|---|
| | there? Maybe if you could help quantify sort of that impact just specifically on tobacco around what you're seeing? |
| Jevan Bouzo: | Yes. Look, I think, I mean, tobacco exposure exists in our business as it does in all petrol station businesses. The reality is the SMGB business gives us some level of scale on buying across the group. And so, I would say the impacts that we would feel on tobacco would be fairly consistent to what others would see.<br><br>And our proportion of tobacco as a percentage of total sales in the network is pretty consistent with industry average. So I don't think we're necessarily disproportionately impacted. However, we did talk about the impacts to South Australia through the course of particularly the second half of 2024 when we published some of the guidance ranges late last year.<br><br>And that was really driven by the fact that some of the illicit activity was starting to grow through South Australia, where it was perhaps already more established on the East Coast. But I don't think we carry a specific exposure that is markedly different to others in the industry. |
| Bryan Raymond: | Okay, great. Thank you. |
| Operator: | Thank you. Your next question comes from Henry Meyer from Goldman Sachs. |
| Henry Meyer: | Just want to really clarify Slide 25 here. Could you confirm again whether those two half uplifts are annualised or a step change half-on-half? |
| Scott Wyatt: | Yes. So, your question is regarding the cost reductions? |
| Henry Meyer: | Yes, that's right, please. Just if it's annualised or half-on-half, just to confirm? |
| Scott Wyatt: | That's the annual improvement we expect to get from cost reductions. But obviously, most of it is going to be delivered in the second half. So that's the steer. But as I said before, we will -- we're not going to sit there and wait until the beginning of the second half to get on with that. We'll be making steps towards that in the first half as well as much in terms of as much as we can accelerate ahead of systems being in place. But they're annualised numbers, Henry, yes. |
| Henry Meyer: | And expanding on the comments before on the confidence in hitting that 500 million EBITDA target in 2029 in Convenience. Could you perhaps step through |

some of the earning contributions there with 2024 as a baseline that could allow you to achieve that?

Scott Wyatt: Okay. Jevan, maybe you can just talk through the plans we set out where the uplift is expected to come from through to that aspiration.

Jevan Bouzo: Yes. Thanks, Scott. And yes, I mean, I guess, the key for us is the group-wide program of 50 million of cost reduction for this year. The majority of which we expect to come from the retail business, but also the acceleration of the synergy opportunity from which we also expect to deliver 30 million this year.

And when you look at the baseline earnings, they've obviously been impacted by the current trading environment as well as the tobacco impacts and some of the additional transition activity and transition costs that we carry. When you look forward and you look at some of the actions that will deliver that cost out of 80 million within this year, it's really driven by overhead rationalisation.

Through the first half, we get off the Coles transitional services arrangements. And we'll have the opportunity to bring all of our systems together in one. And that will give us the ability to rationalise the overheads fairly materially.

The other part is some labor optimisation through the network, which we've now got the ability to do on a combined basis across all sites, irrespective of offer. And the third part that will be fairly impactful will be improvements in the cost of goods sold generally.

So thinking fuel, moving off the VP supply arrangements and self-supplying across all of the OTR sites as well as optimisation of trading terms with suppliers of products in convenience stores where, historically, we've had multiple relationships with the same supplier. So a fair bit of that we'll be able to action and bring forward to help us deliver that full 80 million within this year.

Henry Meyer: Thanks a lot. And beyond 2025 and '26, would you expect a similar level of shop margin improvement or perhaps fuel margin improvement from that previous baseline, which is probably a lower level of average fuel margins over '21 to '23?

Jevan Bouzo: Yes. Look, it's obviously hard to predict that far out. And we'll obviously deliver the full run rate of the 90 million synergy by end of '26. So that will no doubt support earnings as well. But when you look at the baseline profitability and the baseline levels that we had called out historically through the Investor Days and the Strategy Days, they were always based on an average over a period of time, particularly for the Express business.

And I think what we're seeing at the moment is, we're on the downside of the average in terms of base business profitability, and we know that that moves around a little. It's perhaps been a little bit more leveraged to the current trading environment, which is obviously hard given everything that we're going after.

But I definitely expect that that will unwind and we'll see a more normal trading environment in the future, which will help recover baseline earnings. But the actions we're taking show that we're not going to sit around and wait for that, and we'll do some work in the short-term to try and manage the current year's profitability, but I feel very confident about the opportunity for the business to head in the opposite direction as conditions improve in addition to all the activity that we're undertaking.

Henry Meyer: Great, Okay. Thanks, Jevan.

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

Adam Martin: Yes, good morning guys. Obviously, tough result. I mean, I suppose first question, just around OTR sort of when you reflect on it, I suppose, what are the learnings here? I mean since a pretty big earnings compression and you obviously paid a pretty decent multiple. And then I suppose, secondly, why are you confident? I mean, is this still coming together?

Scott Wyatt: Yes. I mean, maybe I can say just a couple of things on that. I mean, I think, obviously, it's been a tough trading environment, which has added to the complexity of the transactions and the integration work that's underway as well. The trading environment has all the signs of improving from here.

But -- and the transition work, as I've mentioned before, will be largely out of the way in the first half. So, I think we've got a good pathway to getting a lot of that value back. And as we've always said, and I think this is absolutely true, is we're carrying an enormous level of overheads now across the retail businesses from the ones what we've inherited.

We haven't really been able to get to that yet. But if you add across all the businesses that we've got overhead costs now that's about $300 million, is significant and certainly nothing like what we need to run a business of that size. So, I think that the opportunity is there to streamline that and rationalise it as we go forward is enormous.

The bit on group-wide opportunity is real as well because this retail business now will be set up -- I mean, it very much is set up in a stand-alone basis with opportunity to improve. But -- and therefore, needs far less support from the rest of the group.

And so, we've definitely got work to do across the rest of the group to rightsize that support that's needed for the non-retail part of the business, which is where a lot of the other overhead costs will come from. So that work across both retail, across the convenience business, and the group over the next 12 months or so is going to be -- deliver an awful lot of value.

And as we improve the offer across the retail network, obviously, we expect to get improved sales outcomes beyond what happens in the market from the rest of that business.

So, I think the essence of what we've bought and the aspirations we have for the business absolutely remain and are clear, and very much in our sights and achievable. It's just we're at a point in the transition where we're not quite in the place to be able to capture all of that at this point in time, but that's ahead of us and starts to flow from the second half of this year. Jevan, I don't know what else you want to add to that?

Jevan Bouzo: No, I think that's all right, Scott. I think, yes, there's a really strong opportunity ahead of us. We know that the offer and the performance of the offer through conversions is sound and attractive. It's just trading through a bit of a soft environment. And when you reflect on the task that we set out and embarked upon, it's fairly significant.

The level of transition activity and the bringing together of multiple businesses involves a lot of additional work. And yes, it's been a bit challenging to have to do that in the face of difficult trading conditions, but really confident in where we're heading and the course and the opportunity ahead. So, a little bit of short-term work to manage the current year, and we'll keep going on the plans and the strategy.

Adam Martin: And second question, just on the sort of guidance for the uplift in -- obviously a lower first half '25 C&M, C&I, but then an uplift. Can you just split out what you're thinking -- sorry, if it's already come up in other questions, but you've sort of never actually put these two businesses together in guidance. Can you be able to split out what you're thinking for both businesses, please?

Scott Wyatt: We haven't split that out. I mean, obviously, we acknowledge we've got a tough half in front of us for retail just as we trade out of this current environment and complete the integration. Commercial, we haven't touched on commercial in the call, but it's had another strong year, last year.

And we expect commercial to continue to deliver well in the year ahead. It's got -- I mean, its growth has really come from a range of -- a lot of initiatives across the commercial businesses that have delivered value year-on-year, and that pipeline continues. There's still lots of -- there are a number of opportunities we're pursuing this year that we've called out will deliver further growth, particularly in the second half.

So, I think if you wanted to think about the guidance, it's obviously -- I think the commercial business is fairly -- is solid and will continue to perform well. The range reflects the potential outcomes for the convenience business on the back of -- probably more on the back of what happens with sales and fuel margins through the course of this first half as well. That's probably the upside to the retail business within the range that we've set out.

Adam Martin: Okay, that's helpful. Thank you.

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

Gordon Ramsay: Thank you very much. I'm trying to understand how you're reporting the conversions versus new store builds because the consistency is just not there in the communication. And I'm just going to quote something here. In the first half 2024 report, you were saying the rollout was based on the conversion of 30 existing stores into the OTR format in the next 12 months with the majority in the first half 2025.

You're now saying 50% of Express stores converted by 2028. Now back in the Investor Day, that was 80%. And you're now saying you're going to add 40 to 60 OTR stores in 2025 through store conversion and pipeline sites weighted to the second half. Can you provide like apples with apples, what's the mix between store conversions and new sites? I just don't understand it.

Scott Wyatt: I'll ask for Jevan to help clarify that.

Jevan Bouzo: Yes. Thanks, Scott. And yes, I can clarify that. I appreciate it's been a bit of a moving target. So maybe just talk through the history and the changes. When we set out, we said we would convert 80% of the network by 2028, which implied circa 500 sites or 100 a year over a five-year period. And that work was done pre-completion and before we had the opportunity to undertake a more detailed analysis based on OTR designs and formats.

And so as we have completed and moved through the course of last year, we've obviously done a significant amount of work to reset the network plan. And as part of that, said about commencing the program, the level of design activity, the involvement of landlords and, obviously, the requirement to get DAs and the process to do that in many states meant that we started a little slower than we would have liked.

And we said that we would complete the first 30 by the middle of this year. We undertook four last year, which implies an additional 26.What we're now saying is we'll obviously still continue to deliver those 26, but upsize that a little to 40 to 60. And the majority of the 40 to 60 will be conversions that we deliver through the course of this year.

Of course, given where we are now, there'll be quite a lot that happen over the coming few months, but quite a lot that happen into the second half. The other thing that we've said on the back of the updated work that we've done on the network plan is that the average cost of these conversions is higher than we originally anticipated, but the uplift is also bigger.

So, the return percentage on the capital outlay is consistent, but it means we will require more capital and most likely over an extended period of time to complete 500-odd sites or 80% of the network.

And what we think and see as being realistic over the next four years or so into 2028 is that we'll do 40 to 60 this year, which will be mostly conversions, and we'll scale up to a point where we can deliver 100 conversions a year from the beginning of next year.

Obviously, means that the rollout story will take longer than originally anticipated and require a greater level of capital. But in dollar terms, it will deliver a much greater return and deliver a more significant pipeline of earnings uplift over a longer period, which overall, I think is positive and particularly given the early results of the conversions we've done.

Gordon Ramsay: Are you still finding on conversions that existing landlords and issues with local councils creating an issue that's delaying that rollout? Or is that being addressed?

Jevan Bouzo: No, I think we're largely through that. I think we probably underestimated how much that would slow us down at the beginning. And so that was more of an impact through the course of last year. And there's obviously a bunch of DAs that went in late last year that we're waiting to see land.

And once they do, we will be underway pretty actively. And we're ready to go. There's others that with the learnings of the conversion sites we completed last year, we're using to find ways to do them under alternative processes that can allow for streamlined DAs and those sorts of things.

And there's been some really good and positive conversation with landlords, particularly the larger institutional ones, and we're starting to move forward with opportunities there too. So, I think what sort of took us a little bit more time to get moving last year is almost behind us, and we've got a good chance to move forward within the 40 to 60 this year and start to see some, hopefully, more really strong results as they convert.

Gordon Ramsay: Okay thanks for that.

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

Rob Koh: Yes, good morning. Can I just -- going to Jevan's response there on the rollout of OTR. You talked about more capital required, but the growth being commensurately higher. Is there going to be a recut of the long-term incentive plan, which has that $500 million stretch number there to reflect those kind of updated return metrics?

Jevan Bouzo: Probably not one for me to answer, Rob. I think so maybe leave the long-term plan or the incentives out of it. But I'm talking about the program and the time frame. We originally said in our Investor Day materials that we expected to spend something like $50 million a year of capital net of landlord funding over a five-year period and that that would see us do 80% of the network.

I think what we're saying now is to do 80% of the network, it will require more capital than that, given the average spend associated with the first few stores that we've done and how that plays across the wider network. It doesn't necessarily mean we will have to spend more money in the short-term. It just means that for the same amount of annual capital that we talked about historically, the program will run beyond 2028.

But given we expect the returns to be the same, it doesn't change the earnings uplift that we expect by 2028 as a result of spending that capital. It just means the program will continue beyond 2028 and provide potential for further earnings growth in future years, if that make sense.

Rob Koh: Yes. Okay. Yes, it was never going to be a straight line, I think, is what we're saying. Okay. Maybe just if I can ask a few questions just on the detail of the Liberty acquisition. So, there's $115 million for 50% of the equity. Are you able to tell us how much debt you're taking on there?

And is that term debt? Or is it revolving debt? Because that will go into the term debt-to-EBITDA type calc? And then you've talked about the EBITDA being $35 million in '24, but then potentially coming down a little bit year-on-year. And does the purchase multiple apply to the historical or to the future mode to earnings there, please?

Carolyn Pedic: Yes, I can probably talk a bit to that. And Jevan, obviously, if you want to add about the earnings in '25. So, in terms of the $115 million, that's also inclusive of working capital adjustments. So, I guess that's a full number. And there's a bit of a benefit effectively that we're paying for.

So, you can, I guess, take that out with the earnings payment we're making. In terms of the debt we're taking on, that is disclosed in the financial statement, that's $25 million. So we'll just absorb that ultimately into our own facilities. And then, Jevan, do you want to comment on 2025 earnings?

Jevan Bouzo: Yes, happy to. Thanks, Carolyn. And look, it's not all that different from the previous year. I think there's a little bit of an impact of phasing in there because we're expecting to complete on the acquisition at the end of March.

So, the guidance that we've given for Liberty reflects nine months versus 12 months, and obviously, some of the softness that we've seen into the beginning of the year, we will only capture from completion onwards, which will be end of March. So, when you sort of weigh those two things, that's effectively the bridge to previous year.

Rob Koh: Yes, the quarter you don't own it for. Sorry, I should have thought of that. Okay, thank you so much for your answers.

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

Tom Allen: Good morning, Scott, Carolyn and Jevan and the broader team. I was hoping you could please comment in a bit more detail on the funding arrangements with landholders. It looks like the first 30 sites are near all Waypoint sites and presumably they want to assess cap rates and rents by store rather than negotiate a network funding plan.

So Jevan, you've mentioned in the presentation that landlord funding is a meaningful contribution. Hoping you can please provide an indicative guide on your current average of $1.6 million in CapEx per store, just how much landholders are indicating they're willing to contribute to a typical conversion? And perhaps clarify what level of landowner funding is implied in the CapEx guidance that you provided for conversion?

Jevan Bouzo: Yes, sure. Thanks, Tom. It's yes, I mean, there's obviously a number of conversations that we're having. And so, I won't go into details and specifics necessarily until we've landed some arrangements and no doubt once when we have -- we'll talk about that a little bit more publicly and so will counterparties if it is Waypoint or others.

I mean I think the reality is you do, as you point out, do a little bit of work on a site-by-site basis. And so, you need individual evaluations to support uplifts regarding the work that's done.

We feel pretty positive about that and definitely will be the case that certain sites will create more capacity than others. And the good thing about the majority of our sites across the network is that there are large institutional landlords.

There's Waypoint, but there's also several others who own large portfolios of sites that have the capacity to provide funding. And so as we work through those arrangements, I think there's enough sites in those portfolios that you can do a portfolio deal and then sort of work and chunk that down on a site-by-site basis.

The first 30 conversion sites or the 40 to 60 that we do this year come from a pool of around 100 plus. And so we've got plenty of options and opportunities to do those with Waypoint or with others. And we're obviously working through that, and that will be a little bit dependent on the DA process and where we're at with designs and other activity that causes us to be ready to go.

But certainly, early conversations and the discussions we've been having on that front are pretty positive, and there's the potential to provide a fairly meaningful contribution from landlords, which could be up to 50% for some sites, maybe even more.

Tom Allen: Okay. So, I assume that for some of the more capital-intensive sites that are still probably 12 months away that, that could be up to 50%, possibly more. But yes, for the earlier simpler conversions, a more modest contribution perhaps?

Jevan Bouzo: Yes, that's right. And look, you want to pay for most of the fit-out yourself because you don't necessarily want to put a lot of that into long-term lease, but where there's structural works and modifications of buildings and kind of forecourt works that affect fuel equipment and that impacts the site over a longer term, those are the sorts of things that make a lot of sense to and fund with support from landlords.

Tom Allen: That makes sense. Thanks, Jevan.

Operator: Thank you. Your next question comes from Cameron Taylor from Bank of America.

Cameron Taylor: Yes, good afternoon. Thanks for taking my questions. Just on Slide 17, convenience margins per store is down 18% for OTR and 19% for Ready

Express. Just trying to understand what's driving those declines? And have those declines been arrested? That's the first question?

Jevan Bouzo: Yes, I can cover that. Thanks. I mean it's really the key issue with those charts is that it's the convenience margin after wages. And so, what we're effectively saying is that through the course of the past few years, we've seen mandated award wage increases of North of 5% in 2023, and then close on 4% in 2024.

And so, over the last kind of three financial years, the wage increases have averaged 5% per annum. And the fact that the convenience contribution net of wages hasn't kept pace with that effectively means that as prices of products have risen and we've passed on some of that price to consumers. Sales haven't lifted by the same percentage to offset the cost inflation on wages.

And that's more of an industry dynamic across retail generally, where cost of living pressures have meant that while wages and costs are rising, consumers are pulling back on spending. So, it definitely feels like a bit of an impact of sort of softer trading conditions generally and something that you would expect to unwind in time.

And there's obviously the potential for fuel margins to lift to support that as well. But you can see from the chart later on that outlines industry fuel margins that there hasn't been significant movement from '23 to '24, and is really the crux of some of the softness that we're seeing in the short-term in the retail business.

Cameron Taylor: It's short term and not something structural. You expect that to unwind over the next 12 to 24 months?

Jevan Bouzo: Yes. Look, it's interesting. I think in a retail business, it's quite different to the sort of cyclicality that you might see in a fuel or a commercial business. You see in retail times of higher interest rates, higher inflation that cause softer consumer confidence, and that does impact industry for a little while. And we know from broader retail that when that turns, it can turn quite quickly.

And I'm not going to make any forecasts or predictions about the future generally, but we're definitely facing into an environment where the risk is more on the improvement for lower interest rates and softer inflation, which has the potential to start to improve consumer confidence, and that alone can be pretty powerful in any retail business.

Of course, we're not going to wait for that. We've got some actions that we've set out that we're taking to manage the short-term profitability, but I think the opportunity ahead of us is pretty positive.

Cameron Taylor: Yes. Thanks, Jevan. And just on the four store conversions, clearly three are doing quite well, but one isn't quite hitting the mark. I appreciate it's a small sample size, but 25% of your stores. If you scale that up, it's quite a lot of risk when you apply it to all your conversions. Why isn't it hitting the mark? And if you have any takeaways from that into your rollout plan?

Jevan Bouzo: Yes, sure. I can make a few comments. I mean it's -- I mean, to be -- probably to start with my original expectations were that stores might go backwards for a little bit before they start to improve just given the lack of awareness of the OTR offer and the lack of awareness of some of the loyalty and discount programs that have existed in the sort of Coles Express and channel network for a long time.

And we have obviously disproved that with 75% of the conversions. There's one that has had a bit of a downward trajectory leading up to conversion. And so, it's possible that that has just clouded the look of the results when you compare to the same period 1 year ago. And there's been a little bit of traffic flow change given some of the road work and highway work that's occurred around the area.

But for the most part, I feel pretty positive about how that's tracked. And despite the fact that, that site has fallen behind a little post conversion, it's actually tracking and trending in a positive direction. And so that may end up just being a temporary phenomenon. It's still pretty early days.

We've really only seen a couple of months of trading on those stores since open at best. And so, to see these sorts of results so quickly with really no awareness of the OTR offer in New South Wales, it's fantastic, actually.

Cameron Taylor: Okay. Thanks, Jevan.

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

Mark Wiseman: Good day, Scott and Jevan. Thanks for the updates here. I just wanted to follow on from Henry's question on the C&M and C&I guidance into the second half, on Slide 25. Scott, you mentioned those were annual numbers, the 80 million cost reduction and 25 million of growth. I mean, Liberty, you're saying would contribute 20 million to 25 million of EBITDA this year. And so, the 15 million I've been thinking was a second half versus first half uplift?

Scott Wyatt: Yes. I was referring specifically to the cost reduction numbers. So, I mean, they are expected to be delivered in the second half. So, it's heavily weighted to that. But it's the additional uplift over the course of the whole year, but largely in the second half, whereas Liberty Convenience is literally just the second half contribution.

Mark Wiseman: Okay. So, we should -- so the 270 to 330, if we think about how that transitions into the second half, we should add the 15 and the 10 into the second half.

Scott Wyatt: Correct.

Mark Wiseman: And then think about how we attribute that 80 of cost reduction?

Scott Wyatt: Well, I think the starting point is you should attribute all that to the second half, but we're not going to sit around waiting for the second half to start delivering on that, of course. But you should think about all those numbers as a full year number, but delivered in the second half, to be clear. Probably confusing like we thought.

Mark Wiseman: Okay. No, that's great. Thank you. And just back to Slide 8, on the waterfall. Obviously, the big driver there, OTR OpEx going up, and Jevan you've talked about the wage inflation. I guess just during the period of ownership and understanding more how those OTR earnings work, is this a permanent sort of cost increase that's gone into the business?

If we think about OTR in isolation and not thinking about the benefits of leveraging it across your nationwide network, is the EBITDA coming off of those OTR assets just going to be much lower than the acquisition case as a base?

Jevan Bouzo: It's not. I think when you sort of look through the current environment and the current results, what tends to happen with wages is that the government mandates the award wage increase and it comes into effect on the 1st of July each year and it's not to say that industry as a whole or retail businesses see an immediate price increase in store products on the 1st of July that is exactly the amount of the wage increase.

I mean you obviously try to anticipate what the wage increase is going to be and to manage the business to mitigate that over time. But there's definitely impacts of a bit of a lag. And when you're in a soft trading environment with weaker consumer confidence, it's obviously hard to pass on those price rises. I think the reality is the easiest thing to do is to put price up immediately.

But if you do that in the wrong way, you obviously start to impact visitation and customers that have known and trusted you for a long time. And so, through periods of softness, you have to manage that delicately so that you don't impact the long-term value of the business.

I'm really confident in the long-term value of the businesses we've got, both the locations we've got through the Express network and the quality of the OTR offer and the way that it contributes and performs net of wages when you look at the sort of breadth of the convenience offer and the margin that it can derive. I think there's a bit of work to do to take some cost out because that's definitely been a challenge with all of the transition activity, and we'll do that, particularly from overheads to help carry through this period.

And in time, as consumers start to get a little bit more comfortable to spend again, I think we will be really well placed with an offer that people really know and love and have continued to support, and we should benefit from that with a much larger and expanded network than any of our competitors and an offer and a base that's stronger than anyone else.

So, I think while it's a bit soft during the downturn time, by taking the actions that we're taking and staying the course, we'll actually have the opportunity to benefit much more significantly than anyone else in the industry.

Mark Wiseman: Okay. That’s clear. Thanks, Jevan.

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

Michael Simotas: Thanks for taking another one. I'm still a little bit confused by Slide 25 and I'm getting a few questions from investors that suggests that it's not just me. So, to be clear, the 30 million of synergies and the 50 million of cost reduction is a full year '25 number, but the majority of that will be realised through your P&L in the second half?

Scott Wyatt: Correct.

Michael Simotas: So what does that mean for a run rate because if you're pulling out 50 million of costs mostly in the second half, does that imply that the run rate of those cost savings is effectively 100 heading into next year?

Scott Wyatt: Not entirely, no. So, we'll reset the -- I mean, in many places, we'll reset the cost base and that will step down the overheads by that amount and that will continue forward. But if we just step -- I mean, the Convenience and Mobility, it makes the expectation is obviously to deliver $90 million worth of synergies, $30 million in an absolute number in 2025 will obviously be a run rate that's higher than that going into next year?

Michael Simotas: Yes, that one is a bit different because that one builds.

Scott Wyatt: A slide earlier on that talks about ultimately having a run rate of 90 million by the time we end 2026, which is -- so in 2027, you've got a full run rate of $90 million outright?

Michael Simotas: Yes, it obviously steps up towards that.

Scott Wyatt: I think the group-wide program is $50 million out and we're going to deliver most of that in the second half of the year.

Michael Simotas: Yes. I'm still confused why that wouldn't be a much higher run rate, though?

Scott Wyatt: Yes, there's an element to what you say is true that the run rate, therefore, is going to be higher than that heading out of the year for that component as well.

Michael Simotas: Well, doesn't it has to be at least double?

Scott Wyatt: You could argue that. I can see your logic, yes. And so, I mean, we haven't framed it that way. I mean, so some of these costs may well be one-offs, but -- in terms of 2025, but there's an element of -- there will be an element of run rate that's going to be higher than that going into 2026, which we haven't quantified that, Michael.

Michael Simotas: Okay. That helps.

Jevan Bouzo: Do you want me to just touch on some of the retail elements, Scott?

I think, Michael, probably the key -- the key thing to focus on, and Scott is right, the synergy number, we're saying we'll deliver 30 million this year, but the reality is we're targeting a run rate of 90 million per year, and that's clear, and we're saying we'll deliver that by the end of next year. The 50 million cost out program, particularly for the elements that sit within the retail business, which is a lot, is more short-term actions to take cost out.

And while a lot of that will come through the second half, as conditions improve, it's not necessarily all costs that will stay out forever. It's costs that we'll take out to manage the current environment, but if we see an improvement in consumer confidence, we see sales starting to lift where we're doing things like labor optimisation, for example, you might start to put some of that labor back in line with the higher sales.

And so, it doesn't necessarily mean that all of the 50 that we take out through the course of this year gets run rated and annualised and taken out forever, but it's cost that we will keep out to manage the short-term environment until things improve. I hope that clarifies it a bit.

Michael Simotas: That helps a bit. Maybe just one more question to make it abundantly clear. So if I think about what earnings number is implied for your second half, should I then think about that as being on an annualised basis, the new base plus any uplift you get from synergies plus any uplift you get from conversions? And you may have an exchange of trading conditions for cost if conditions improve?

Jevan Bouzo: Love to give you a confirmation on a forecast. But I think the reality is you'll have to use the first half guidance to form a view as to what you think the baseline is for the second half. I think you can then improve that by the majority of the cost out program that we're focusing on, which is the 50, you'll layer in the synergies, as you said, which is the 90 run rate, which we've disclosed and committed to.

The real sort of question is, obviously, what you decide the baseline is for the second half. And as conditions improve over time, how much of the 50 we allow to come back in, in line with the growth versus keep out permanently.

Michael Simotas: Yes. That helps. And then I've got one other question on Slide 25 as well. The sensitivity you've given to Tobacco store sales implies about $500 million of Tobacco sales in the second half. That sounds like a very big number to me when I look at that as a proportion of your overall C&M sales. Am I missing something there?

Jevan Bouzo: I'm just trying to work out how you've done the math.

Michael Simotas: Well, let's just use round numbers and say a 20% gross margin on tobacco. I know it's a bit less than that, but that makes the number bigger. So that means 1% is equivalent to $5 million of tobacco sales or $1 million of tobacco profit, which would be $500 million in half or a $1 billion annualised, which sounds like a very big number?

Jevan Bouzo: Yes. We don't -- I mean, I guess, we don't disclose the tobacco sales. So I won't go into what the actual number is. I was just trying to hurridly follow through on the math. And perhaps the reality is it's a little bit more complicated than that. But in terms of the overall contribution to the business, it's not overly significant.

Michael Simotas: Ok.

Operator: Thank you. Your next question comes from Nicole Penny from Rimor Equity Research. Please go ahead.

Nicole Penny: Good afternoon and thank you. You've touched on this in the presentation briefly. However, could you please comment in further detail on the progress, some time frames and uptake or challenges of your co-processing initiatives in Geelong, specifically regarding the fuel production and the development of recycled plastic products, please?

Scott Wyatt: Yes, sure. So, there's a number of stages in our plants for co-processing. Stage 1, which we've progressed on this year is capacity to introduce feedstock to primarily produce recycled plastics. That's the primary purpose of it. And it's the early scale. So, it's not fully commercial scale, but it certainly allows us to start trialing different types of feedstocks and which we've been now doing since we introduced that particular receiving capability last year.

The next stage is probably is to introduce larger scale feedstock receiving and storage capability to produce low carbon fuels. So that basically replace crude oil with biogenic and waste feedstocks to essentially reduce the carbon content of the fuel that we make at the refinery.

That's a project that we're still in the process of scoping up and building feasibility for. It's one that will be better -- most supported like all these projects with government policy to support production and also customer demand for those products. And we know those sorts of policy changes are being considered by the government, but have still got some way to go before they materialise.

But we are doing the work so that we're ready to move when the environment is right. But in the meantime, certainly, the environment and the demand for recycled plastics already exists. It's one that we feel confident to move forward with in the early days and so hence, the early investments in that part.

Nicole Penny: Thank you.

Operator: Thank you. Your next question comes from Uwan Minogue from Barrenjoey. Please go ahead.

Uwan Minogue: Hi, guys. Just wondering why the returns and CapEx on the OTR format are quite a bit higher? Are we looking at bigger stores? Or is this cost inflation, better customer responses? We're just trying to understand the risk of the program costing more, but delivering its original profit expectations?

Jevan Bouzo: Yes, I can, I can talk to that. Thanks, Scott. Yes, I mean, I think what we've said is we think the cost per store is a little higher than original expectations, but the return in dollars based on the early results is bigger. So we're confident of delivering the same percentage return even if the capital outlay is higher.

So I think that's one piece that we feel confident about, which I think you're getting at. The reason that the average per store is higher than we originally expected is because as we've gone through and looked at store designs, the reality is the majority of the express network is individual and unique designs by store.

As we've gone and done work to convert those to the best version of an OTR format in the most sort of cost efficient way, we've realised that there's value in changing more in store, doing a little bit more structural work, moving the bathrooms so that they're internally facing in the store, replacing the counter and in some cases, in many cases, moving the location of the counter, which requires fairly significant remodel and refit in store.

A number of the sites also need some fuel equipment upgrades and forecourt work, and that's included in those numbers. One of the other things that we've done with the first few conversions that we completed last year is to trial a bit of a menu of different options. And as we go around store-by-store, we think there will be more elements of the existing stores that we can keep such as existing floors, existing ceilings, without having to fully gut and redo everything.

And so if anything, putting aside cost inflation, we think that scope and project optimisation will mean that we can bring the cost down a little from where it is and still complete the conversions as well as some improvements in sort of forecourt and fuel grade availability at sites.

Awesome. Thanks for that, guys

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

Henry Meyer: Hi team. Thanks for taking another one. Just a quick follow-up, if I can, on Slide 25 again. And apologies if I missed this earlier, but can you share what fuel margin you're assuming for the guidance in first half '25? I guess we've seen average industry numbers come down to $0.14 a liter, quite a bit below $0.17 or so in the last 2 years, which we'd expect to normalise as import prices stabilise?

Scott Wyatt: Yes. I mean we haven't -- we haven't obviously disclosed that. But I think probably the way I'd answer it is probably how I tried to address it before is to assume that the bottom of the range assumes a continuation of the margins that we've seen in January and February through the rest of the half. And then the top of the range, obviously, seeing a recovery and a normalisation back to historical levels.

So, I think that's kind of -- I think that's -- in the case of the retail part, the component of that range, that's sort of the broad sensitivity within there. So yes, you're right. It's been a lower margin in January and February so far, and unusually low.

And so that's a bit driven by what's been happening with oil prices during January and the rising cost of product, which -- and the way the markets were cycling through that time. So, it was a bit of a confluence of issues, and that wouldn't -- you wouldn't expect that to continue for the whole half, but the range reflects the upside and downside of that outcome.

Henry Meyer: Yes, it would be -- seem conservative to assume we'd be at the bottom end then.

Scott Wyatt: Yes. Correct. Correct.

Operator: Thank you. Your next question comes from Bryan Raymond from JPMorgan. Please go ahead.

Bryan Raymond: Thanks for taking the follow-up. I just wanted to make sure my logic was correct back on the C&M guidance for the first half, sorry to belabor this issue. But at the midpoint of the range and assuming a flat C&I performance, which basically your comments feels reasonable, I'm getting kind of circa 60 million, 62 million of C&M EBITDA in the first half, which is down basically 50% year-on-year.

I understand your comments around wages, fuel margins, etcetera, and there's cost out to come. But is there any mitigation you could be doing in the first half? And also, the Liberty acquisition that's coming in for the second -- on the second quarter, is there any contribution from Liberty factored into that EBITDA in C&M?

Scott Wyatt: Jevan, I'll get you to talk about the C&M thinking. But I think just generally, obviously, the bottom of the range reflects the bottom of the range, not just for C&M, but also for Commercial. So, it's kind of the -- it really is the bottom end of an outlook for both businesses. So, I think that you got to take that into context. But in terms of the retail, Jevan, I hand it over to you.

Jevan Bouzo: Yes. Thanks, Scott. Yes, there's a very small contribution from Liberty for a quarter, obviously, baked into those numbers, but that's not overly material in the scheme of the guidance. In terms of the actions that we're taking, yes, the reality is the first half includes quite a lot of transition activity.

Over the next three months, we completely exit the Coles transitional services arrangements. We start to bring all ERP systems together in one. We go live with payroll and HRIS systems. And we conclude the rollout of the new point of sale to all of the Express stores.

So there is a fair bit of transition activity that occurs in the first half alongside the bringing together of teams and functional support across the business for retail. So quite a lot of activity. Without that, obviously, in a stable environment, perhaps we would have been able to take some of these actions sooner than earlier to manage the current environment.

And we're running them as best we can in parallel, and I'm very confident that we'll deliver on the numbers that we've set out this year and seeing some action being taken in the business already.

But yes, I think we'll do what we can to manage the short-term profitability over the coming months, but not lose sight of the transition and the longer-term opportunity that's in front of us as well.

Bryan Raymond: Yes. Okay, great, thanks.

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

Scott Wyatt: Look, thanks, everyone, for joining us today and for your questions. I think as we've explored through the course of the call that we finished last year actually with a relatively strong performance in 2024, given the challenging market conditions that existed.

The next six months will see us complete the transition and the integration of our retail business. I mean that's significant in our journey and our plans for the retail business and will allow us to move forward with quite a bit of momentum on the synergies and the upgrading of the retail network.

And I obviously expect it pretty much to be a year of two halves with a period of consolidation this first half, setting ourselves up to really deliver on the synergies and accelerating those in the second half, getting a number of material number of conversions done and moving into 2026 with momentum that we really do expect from this business.

So that's the plan. It's all ahead of us. I hope you got a sense that of the things we -- there is we're going to be working and our commitment to do that.

And once again, thanks for joining us and look forward to seeing a number of you over the next few days. Thank you.

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

**[END OF TRANSCRIPT]**