TRANSCRIPTION

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Operator: Thank you for standing by and welcome to the Viva Energy Australia conference call. All participants are in listen only mode. There'll be a presentation followed by a question and answer session. If you'd like to ask a question via the phones, you'll need to press the star key followed by the number one on your telephone keypad. I'd now like to hand the conference over to Mr. Scott Wyatt, chief executive officer, please go ahead.

Scott Wyatt: Hi. Good morning. And thank you all for joining this morning to discuss today's announcement. My name is Scott Wyatt, chief executive officer of Viva Energy. And on the call with me today is Jevan Bouzo our chief operating and financial officer. As always before we begin, I would like to acknowledge the traditional owners of the lands on which we are collectively gathered for this call. And to pay my respects to elders past, present and emerging. This morning. I'm pleased to announce that Viva Energy has reached an agreement with Coles Group to acquire its convenience, retailing business. Concluding the Alliance agreement, which was due to expire in 2029. Over the last 20 years, Viva Energy and Coles have worked together to become one of the leading fuel and convenience retailers in the country. It has been an extremely successful partnership and a central part of our broader retail business.

Scott Wyatt: As we look to the future, we believe it is critical for our company to more directly participate in the convenience business. So that we can evolve the broader fuel and convenience offer and capture growth opportunities in this fast moving convenience segment. As you will recall, we set out this strategy at our investor day last year. With today's announcement, we will accelerate our transition to becoming a fully integrated retailer. And in doing so create the largest single branded fuel and convenience network in Australia under a single operator. We will acquire all of the assets and infrastructure of Coles Express business with the transition of about 6000 team members. A sophisticated industry leading and team driven operating platform will be created, which will drive our future success in the retail market.

Scott Wyatt: We will maintain a partnership with Coles, continuing to cross promote and redeem shopper dockets from Coles supermarket customers and access to Coles products under a product supply agreement. We will be joint participants in the highly successful Flybuys loyalty programme and expect there will be other areas of cooperation as we develop our respective businesses into the future. Our sites will continue to be branded Shell, but over the next few years, our store fronts will be progressively rebranded to reflect our own identity. Combined and supported by a truly national supply chain, we will clearly be number two players in both the fuel and convenience sector, which I believe us gives us a compelling and strong competitive position to grow into the future. We are very excited about this development and look forward to welcoming the Cole's Express team to Viva Energy. When the deal completes during the first half of next year. As you may recall, Viva Energy held its strategy investor day in November last year. Together with the executive team, I laid out the company's transition and growth plans into the next decade across our three businesses, retail, commercial and the energy hub.

Scott Wyatt: Our retail strategy is summarised on slide four. With today's announcement we are requiring a capability which we believe is necessary to consolidate our leading position in the fuel and convenience sector. And develop new growth pathways within the retail business, which may not have been possible under the existing arrangements with Coles. Their convenience segment has enjoyed strong, consistent growth with the Coles Express business outperforming the market and regarded as one of the leading convenience businesses in the country. The business performed particularly well during the pandemic, which has in many ways, accelerated consumer demand and expectation for convenience offers. Over the long term, we expect the role of convenience to continue to grow. And our network is well placed to service the need for on road or on the go convenience needs of consumers. We will need to involve our offers to cater for new forms of mobility, a wider range of food and convenience. And extensions to other categories, which will benefit from a large network with close proximity, to suburban population centres and on major transport routes.

Scott Wyatt: We expect this to extend beyond the traditional fuel and convenience offers that are more aligned to grocery supply chains. And that new partners and investments in stores will be required to capture these opportunities over time. Creating a single retail platform, the largest in the country, will allow us to pursue these strategies more quickly and efficiently than under the current model. And give us direct access to consumers so that we can build deeper relationships and loyalty to our revolving brand and offers. Over time we will further expand the network operating under this platform so that we maintain a strong competitive position. And what we believe is a very attractive market.

Scott Wyatt: Strategic rationale is clear and summarised on slide five. We believe it is critical to directly capture convenience earnings and gain greater exposure to the fast growing market. And as a combined business, we can more efficiently optimise the network and make the necessary investments and innovations, which will be critical for our future success. Rather than wait for the natural expiry of the Alliance in 2029, we have agreed with Coles to step in early and begin this transition at a time when sales are recovering. And consumers are seeking greater convenience offers and ancillary services across the whole retail ecosystem. The opportunity to evolve and transform this business, we believe, is as strong as ever. As Steve Cain said in his release this morning, Viva is well placed to make the most of the opportunities to grow the express business into the future. This is very much an announcement which supports the strategic directions of both companies.

Scott Wyatt: And we will continue to work together with Coles through the transition and into the future under a new set of partnership arrangements. In terms of the transaction itself, we are purchasing the Cole's Express convenience retailing business for a headline consideration of 300 million, to be funded out of existing cash and debt facilities. We are of course acquiring the infrastructure and assets, but more than that, the processes and knowhow, which support a world-leading retail capability. This would take us years to replicate. We anticipate the convenience business to be earnings accretive as fuel volumes recover. And we expect further value from synergies associated with more network and store development and more effective marketing and capital spend. This business will be the engine room of our broader retail operations. And will be operated as a standalone business to ensure we maintain the strong retail culture and focus that exists within Coles express today.

Scott Wyatt: Transaction and integration costs of 120 to 140 million dollars includes important investments we expect to make in store rebranding and refreshment. Together with new digital and technology capability to improve the customer experience in the long term. These costs will be incurred progressively over the next three years. Let me now turn to slide six. As you will recall under the current arrangement, Viva Energy currently takes responsibility for retail fuel pricing and marketing, collects the full retail fuel margin and receives a royalty on convenience sales. Coles Express operates and provides the convenience offering, collects the convenience store margin and receives a commission per litre on fuel sales. Following this acquisition, Viva Energy will operate both the fuel and convenience businesses under a standalone, fully integrated retail business model. Existing Coles Express team members, infrastructure, processes, and capability will transfer to Viva Energy. And over time the existing retail capability within Viva Energy will also be transitioned.

Scott Wyatt: 46 sites currently controlled by Coles will also transfer to Viva Energy, bringing the total network to 710 stores. Being the largest fuel and convenience network in Australia under a single retail operator. We expect to grow this network over time through the development of new store formats and closing network gaps. Viva Energy will also introduce a new store brand to replace Coles Express. This will reflect our long term vision of the convenience offer and be another further exciting development for the business in the near future. During the transition, Coles will provide traditional support services and areas such as IT, human resources and payroll. Over the longer term, Coles has committed to continue supplying its extensive range of Coles branded products and provide merchant payment services. We believe these agreements will ensure operations continue without disruption during the transition period and will support the success of the business in the years ahead.

Scott Wyatt: Turning now to slide seven, let me talk about the competitive positioning of this new business. With today's announcement we will create the largest fuel and convenience network under a single operator. Most of our stores are in metropolitan areas and are impossible to replicate today. Having been established by Shell over the course of many decades, since it started operating in Australia at 1905. We also have the right to fully acquire the Liberty Convenience business in 2025. Liberty has the goal of increasing the number of its large format regional sites from 92 to 150 stores in the next three years. Once the integration of Coles Express and Liberty Convenience sites is completed, we will have created a high quality national network of sites located in Metro regional and on main transport routes. Putting the company in a leading position to serve the on road and local convenience market.

Scott Wyatt: Slide eight sets out the growth opportunity we see. The convenience market offers attractive and defensive growth with sales increasing by 3.1% per year, since 2014, broadly in line with the grocery market. The pandemic accelerated growth in this sector and the longer term appetite from customers for more convenience driven offers, which we believe our network combined with the retail capability of Coles express is well placed to benefit from. To that point, the Alliance has consistently delivered higher sales growth in the market. With annual average sales growth of 3.7% between FY2014 and FY2022. This growth has been driven by the food to go and hot beverage categories and competitively priced grocery items. As well as the highly engaged team members within the Coles express. Lower sales in the FY22 year reflect tobacco cycles cycling through at an unusually elevated period during the pandemic lockdowns. With non tobacco sales up 0.9%. Coles Express enjoys a high level of market share within the fuel and convenient sector, sitting in number two, position behind 7-Eleven in convenient sales. We operate a similar position within the retail fuel segment at number two behind Ampol.

Scott Wyatt: So by bringing these businesses together, we gain a very strong competitive position across both segments, which we believe sets us up extremely well for the future. As I mentioned earlier, we are requiring this business at a point where sales are beginning to recover and consumer appetite for more convenience, lead offers is strong. Looking to the future, we believe this acquisition provides important capability to pursue emerging revenue streams across the entire retail ecosystem. As set out on slide nine. Extending our convenience offers and redevelopment of stores will provide new revenue streams. But also entice customers to spend longer in store and increase visitations. We see that already with newer format stores within both the Coles Express and Liberty Convenience platforms. And we see considerable opportunities across the broader network to replicate this.

Scott Wyatt: The ability to communicate directly with customers and build direct deeper relationships is critical. Coles currently own the customer transactions, but this will transition to Viva Energy. Regaining an important relationship to drive loyalty and increase sales into the future. Over time, we expect the fuel and convenience offers will continue to evolve with electric vehicle recharging and hydrogen refuelling emerging as an important part of our energy offers. And potential to leverage our substantial bricks and mortar footprint to solve problems like last mile delivery. There are many new exciting opportunities that this transaction will unlock.

Scott Wyatt: As I mentioned earlier, we'll maintain an ongoing partnership with Coles, and this is particularly important in respect to our loyalty ecosystem, which is set out on slide 10. Through a direct relationship with Flybuys. We have access to one of the strongest loyalty programmes in the market with over 8.6 million members and 20 partners. By bringing together our fuel and convenience offers, we can create a more seamless digital experience through Flybuys and our other loyalty programmes. We will continue to cross promote and accept the Coles shopper dockets through our network and have recently digitalized this directly into the Flybuys app, which improves the customer experience. As well as bringing together our two key loyalty programmes into one ecosystem. This is just a great example of what is possible now that we are bringing together the fuel and convenience businesses. Let me now hand over to Jevan to explore the financial implications of the transaction we have announced today and provide some concluding remarks.

Jevan Bouzo: Thanks, Scott. First I'll turn to slide 11 and cover the key financial implications of the transaction. The acquisition price of 300 million dollars represents the approximate value of assets acquired. This includes convenience store stock, equipment and store fit outs, and point of sale systems. Of the 300 million dollars, the net impact relative to existing arrangements is expected to be 143 million dollars. The difference reflects working capital benefits of 59 million, expected post completion. And the settlement of a payable of 98 million dollars already recorded in Viva Energy's balance sheet. Payable relates to the acquisition of fuel stock in March 2019 when we last reset the Alliance agreement. In order to demonstrate the potential of the acquisition, we've shown proforma impacts as they would relate to our most recent full year actual results from 2021. On a proforma 2021 basis, we would record convenience store sales of 1.14 billion. In place of 160 million of income we received from Coles under the historical Alliance arrangements for rent and royalties.

Jevan Bouzo: This significantly improves our revenue profile. It is important to remember that fuel volumes remain impacted by mobility challenges as we continue to recover from COVID 19 impacts. And as a result, we've published proforma impacts to both EBITDA and EPS based on pre COVID volume of 65 million litres a week. And 70 million litres a week for reference. These EBITDA impacts are on a post double ASB 16 basis. And in line with the way we report our underlying results today. On this proforma basis, we expect the acquisition to deliver between 45 million dollars and 70 million dollars of retail EBITDA post-integration and before any further convenience sales growth, or synergies. This translates to EPS secretion of 11% to 18% relative to FY21 results. With further upside from convenience sales growth and synergies. In terms of the impact to the balance sheet, we'll fund the acquisition out of existing cash in our available debt facility.

Jevan Bouzo: And with our strong net cash position reported at the half year, we'll maintain a conservative capital structure following the transaction. Post completion, we do expect to record right of use assets and lease liabilities relating to the 46 pad sites acquired. The remaining 664 site leases are already recorded in our balance sheet and were previously subleased to Coles under the Alliance arrangements. We also have a right to future income asset in our balance sheet, relating to the 137 million paid in 2019 for the last reset. This has been amortising over the period to 2029. And at the half year, there was 89 million dollars remaining in the balance sheet. We expect to write this off as part of the transaction completion, and it will be traded as a significant item. Lastly, we expect to invest a further 120 to 140 million over the next three years to transition the business, rebrand the network, refresh stores, develop replacement IT systems and improve digital and technology capability.

Jevan Bouzo: This will both support the transition of the business from Coles and also set up a platform to evolve and grow the convenience business going forward. These costs and investments will be treated as significant items and will be funded out of cash flow over the integration period. Turning to slide 12. I'd like to make a few closing comments before we move to questions. First, we're acquiring an established retail platform and capability that has been optimised by the Coles Express team over almost 20 years. It is consistently outperformed the market for convenience store sales growth. And will create the largest fuel and convenience network in Australia under one single operator. As part of the acquisition, we've secured a suite of arrangements from Coles to ensure a smooth transition. And going forward our top priority will be on nurturing and growing this retail capability. Second, while Coles has been very successful with convenience retailing, it remains focused on its core supermarkets business. With the network under a single operator we can accelerate investment and growth plans across the network.

Jevan Bouzo: And when required evolve the offering to suit changing customer preferences over the next decade. This will see us capture upside from convenient store sales growth, as well as potential growth synergies achieved through the integration. The third and final point I'd like to make relates to our group strategy. In November last year, we talked about convenience retail being a key pillar of the future growth in our retail segment. And we set the target of achieving more than 50 million of annual EBITDA from new earning streams at a group level. Post integration, this acquisition has the potential to well exceed the earnings target we set. And provides meaningful growth potential for our business as fuel volumes recover and convenience sales continue to grow. On that note, I'd like to open for questions.

Operator: Thank you. If you'd like to ask a question, 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. Please go ahead.

Michael Simotas: Hi. Good morning guys. This looks like a very good deal for you. I just want to understand a little bit better the purchase price and how we work back from the 300 million. And in particular where the working capital benefit comes from and how we should think about that 98 million dollar payable. And then maybe if you can touch on the 89 million you referred to as well.

Jevan Bouzo: Sure. I can take that one, Michael. Thanks for the question. I think the way to think about it is in terms of the acquisition price, we will pay 300 million. Where we talk about the 143 million, it really relates to the excess that we are paying over and above existing arrangements that are in place. The 98 million dollars of payable that exists in the balance sheet relates to fuel stock that we acquired in 2019 as part of the reset. And has been in our balance sheet ever since. So it's something that we would always have to settle at conclusion of the Alliance.

Jevan Bouzo: The excess over and above that and within the $300 million dollars, really relates to the acquisition of assets, trading stock, store fit out, equipment and all the assets that we acquire to continue to run business going forward. Of that we're acquiring assets, not the entity. And in the few months, post completion, we expect to release some value from working capital as we build up payable balances on an ongoing basis. And we estimate that to be around 59 million dollars or so. So that's how we get to the 143 million dollars, which as I referred to is really the net cash or value that we will be out of pocket. Relative to existing arrangements in place. The write off of the 89 million is more of an accounting entry and will obviously improve the amortisation line going forward. And all that's taken into account in the EPS calculations that we've published.

Michael Simotas: Okay. And you've done this deal earlier than Coles had to accept. Did you make any concessions for Coles to be able to do this deal early? Because it really does look like very attractive terms for you, which by definition means not particularly attractive terms for them.

Scott Wyatt: Yeah. Michael, if you recall back to the investor day we had last year, when we set out the strategies for all of our three businesses. We were pretty clear at that point that we intended to take back the convenience business at the end of the arrangements. Both with Coles and obviously with Liberty convenience, when that comes due in 2025. It's sort of our view that we strategically need to be a fully integrated retailer, covering both fuel and convenience. So I think that was a catalyst to obviously have a number of conversations with Coles about that ambition and over the pursuing intervening period has resulted obviously in the transaction that's been announced today. I think the way to think about it is, it's the right outcome for both businesses. For us, we do believe that we are long term, are the natural owners of the business.

Scott Wyatt: We've always had a long term connection with retail throughout our history as a company. We are obviously a credible supplier of fuel and energy needs and in the future as we navigate the transition to electric vehicles and hydrogen vehicles, we're best place to do that. And I think through the association with the Shell brand, we have a pretty strong quality reputation for meeting consumers mobility needs whilst they're on road. So all of those ingredients together make, I think, us the natural owner of the business and the long term. And for Coles, it obviously allows them to focus on their core businesses of supermarkets and liquor. So it was one of those transactions, Michael, that was very sensible for both parties, which obviously made the deal easier to complete for both of us.

Michael Simotas: Okay. And then just one last quick one, if I can, you have focused on pre double ASB 16 earnings for the last couple of results. And I think that made a lot of sense given the way the lease asset and then offsetting lease liability was structured. Post this transaction that rationale doesn't necessarily seem to be there anymore. Will you revert back to reporting on a post double ASB 16 basis?

Scott Wyatt: We've got no plans to do that at this stage, Michael. I think that the overriding rationale for tidying up the segmentation in the past year or two to show post double ASB 16 or exclude lease impacts from our results, was really to align the EBITDA with the actual cash generation of the business. And that rationale continues to exist going forward. When you think about the impact that we've reported in terms of those proforma numbers, again, that will more accurately reflect the cash outcomes of the business relative to any sort of lease impacts that we would have to see impact the overall results. And so I think that rationale to align our underlying results with the actual cash generation, allow our underlying npat to drive a dividend that more aligns with the free cash flow of the business still stands. And I expect that we will continue to do that.

Michael Simotas: Okay. Thank you.

Operator: Thank you. Your next question comes from Grant Saligari from Credit Suisse, please go ahead.

Grant Saligari: Good. Good morning, actually still morning, yes. Good morning. Thanks for the opportunity. What I'm trying to understand here with the convenience strategy. And I do appreciate this is a bring forward of sites you would've got it anyway. But you're taking on 700 metropolitan sites and it sounds like to make the numbers work, you need to have at least 65 million litres a week. So up from the current high fifties, if not 70 million litres a week. But if we roll the clock forward to a sort of a 2030 future, fuel demand is best case likely to be flat, but potentially down. So what I want try to understand is what's the future of these 700 metropolitan sites? Do you actually need 700 in your strategy or should we expect rationalisation over time? And that's part of the strategy, just trying to understand the metropolitan aspect of the network, please.

Scott Wyatt: Yeah, no, absolutely. Probably two part question. Let me just touch on the sales performance first. So we're still very much in a post pandemic recovery phase in retail, which is still somewhat impacted by lower levels of mobility in the capital cities. Particularly Melbourne and Sydney. But we are starting to see some normalisation recovery in those markets. And certainly other markets are sort of back to pre pandemic levels. So we can see in the short term, the opportunity for this network to recover the sort of 60 to 65 million litres a week. And then potentially beyond that, if there is a full recovery and we start to see population growth back in Australia, as migration starts to reopen to the 65 to 70 million litres. And that's part of the growth opportunity that we see in the immediate future. And it's one of the reasons why an acquisition today makes a lot of sense.

Scott Wyatt: And beyond that, we obviously see an opportunity to continue to see growth and convenience. But extend that by broadening the range of products and services that we offer. Now in terms of the network, I am absolutely sure that will mean that we need to evolve the network over the next decade or so. And obviously having the full control of both fuel and convenience, we're in best place to be able to optimise the network, set it up for the future. We tend to do that as leases come up for renewal. And so that's always an opportunity to reflect on, is this site part of our future or not part of our future. And potentially replace older legacy sites with newer format sites that we're building in the network.

Scott Wyatt: Now we've been using Liberty Convenience as part of that growth channel for the last few years. With this acquisition, we'll have the opportunity to put some of those sites more directly into this Coles Express network. To provide some of those new future proof sites and continue to refresh the overall retail network over time. So that might mean less sites in metro and more sites in regional. We're still got plenty of gaps in our regional network and on main highway sites to continue to fill out. I think that will just continue to evolve naturally, as we assess as sites come up for renewal. And we assess new site development opportunities.

Grant Saligari: Okay. It's a tough one, I think. And just to follow up, if I could, just on the numbers. If I look back to Coles say first half 20, which is under the new arrangements and they provided a pre EBIDA number of 19 million dollars with, I think 64 million litres per week, was the average volume. If I annualised that up, that seems to get to the bottom end of your 45 to 70 million dollar EBIDA range. What's the rest of the bridge in there to the top end. And are there any other sort of pluses or minuses in that calculation we need to think about, for example, Coles taking a profit on wholesale supply et cetera?

Jevan Bouzo: Yeah, I can cover that Grant. There's probably a couple of things. I think one, our proforma impacts really relate to last calendar year. So we are looking at the cost and gross margin contribution from store sales for that period. So I think the period that you refer to is probably a little older and we'll have a slightly different profile in terms of earnings. At the same time, we've talked about obviously the recovery of volumes driving some of the contribution from the Coles express business. And as we look forward, you can imagine that we will have the opportunity to experience growth in convenience store sales as well. And some synergies as we look to get off transitional services arrangements and unlock some further acceleration of optimization and investment opportunities in the network. When you look at our proforma numbers, the way we've calculated them and set them out is such that all impacts of the transaction and our expectation of go forward position. Incorporating all the arrangements that are in place and our current transition plans are taken into account in calculating those numbers.

Grant Saligari: Okay. All right. Thanks for the clarification.

Operator: Thank you. Your next question comes from Mark Samter of MST Marquee, please go ahead.

Mark Samter : Yeah, morning guys. First question would be surprise surprise for Jevan on the balance sheet. I presume it's that completion first half 23, just in case you panicked that you might get into a net debt position without leaving that wiggle room. But I saw this morning, you've obviously extended the buyback period. I'm curious why no buyback today. And I guess it's part of this question, I know it's going off subject, but maybe Scott or Jevan, if you could give us just 10 seconds on your view on the risk around China exports with refined product.

Jevan Bouzo: Yes. Maybe let me start on the balance sheet and the buyback. Thanks for the question, Mark. Yeah, no, I think that's right. We're obviously heavily net cash at the half year. And we talked about the opportunity to get closer to our target gearing level while this obviously won't take us all the way there. I think it's a good step in starting to deploy some balance sheet capacity for sensible opportunities that can add value to our business. And for things that we think we can add value to over time. So I'm pleased to get this one out and announced. It's great. I think you're right, completion, we've talked about being first half next year. So that's when it'll land and when the outflows will occur. In terms of the buyback, it was more of a procedural item. When you open these buybacks, they have a fixed period of time, a window, and in order to keep them alive, you need to refresh the documentation. So we've done that this morning and expect to keep that current programme on foot, and we'll obviously have the opportunity to consider any other programmes in the future.

Scott Wyatt: Yeah. Look going on refining margins markets, obviously just a bit of a fluid time, moment as if it hasn't been all year. And the speculation around China is obviously driving a lot of selloffs and impacting or softening refining margins in the near term. I think we just need to wait to see whether that eventuates and what the physical actual, are. Will ultimately drive longer term refining margins as opposed to the speculation that we're seeing in the market at the moment.

Mark Samter : Okay. Thanks, good. Can I just ask the question on, I'm pretty sure there's lots of retail experts on the call, which I'm not one of, I'm pretty sure Coles disclosed the DNA number, so kind of was Express. Can you give us any steer on sustaining CapEx when we think about the store refreshers needed, but maybe they've under invested in given they're not going to own them long term. Do we think sustaining CapEx on this business might be more than DNA?

Jevan Bouzo: Yeah, I can take that one, Mark. I think it's worth bearing in mind the depreciation and amortisation number that was disclosed by Coles includes the impact of their lease assets and lease accounting. So it's not necessarily referable going forward when you think about our underlying results and the way we report. Because a lot of the leases or the vast majority of the leases that Coles have were subleases from Viva Energy. And so, as you can imagine, they would effectively eliminate when they come back into the Viva Group. And all of the external leases already exist in our balance sheet.

Jevan Bouzo: In terms of CapEx, there's not a huge amount of CapEx that is spent to support that business as you know our existing arrangements under the Alliance mean that we carry a reasonable amount of capital expenditure to support that network outside the store, in any case. And have been working with Coles on a number of store refresh programmes, and so expect to continue those going forward. And I think part of the synergy and growth opportunity allows us to unlock some value by accelerating programmes that can continue to grow both the store inside the shop and the forecourt as well. So we'll look to do that obviously post completion and that's a little way off into the first half next year.

Mark Samter : Okay. Thanks guys, can I quick sneak one other quick question, just on the redemption discounts. Is there any change in the funding? I guess we don't know what the current funding structure is. Will you be funding any of those and do you therefore bare some cost risk whilst you get the extra bond in. But if they go harder on those, do you worry with any of the risk on redemptions?

Jevan Bouzo: We haven't disclosed the funding arrangements for docket discounts historically. And again, we haven't today. I think the real positive in my mind is that all of the things that customers can see and enjoy about our sites today, they'll be able to continue to do so under our ownership going forward. So things like Flybuys arrangements, obviously the loyalty discount with dockets in supermarkets, all of those programmes will continue. And the broad suite of arrangements that we've got in place with Coles to run the network going forward will help a pretty seamless transition from a customer perspective.

Mark Samter : I'll let you off for completely dodging my question, Jevan. Thanks.

Jevan Bouzo: We didn't disclose the funding arrangements Mark, but I'm excited to be able to continue to offer those docket discounts.

Mark Samter : Thanks.

Operator: Thank you. Your next question comes from Daniel Butcher from CLSA. Please. Go ahead.

Daniel Butcher: Thanks guys. Might just follow up on the last question and give it one shot. You don't disclose the four centimetre splits, but did they change as a result of this transaction?

Jevan Bouzo: So we hadn't disclosed the sharing of the four cent docket discount historically. And we haven't disclosed the way that's shared going forward either. But it's good, I think, both for Coles and for Viva Energy, that we're able to keep that in place and continue to offer it for customers. I don't think the funding of it really impacts the customer to be honest. And like I mentioned in Grant's question, all of the impacts of the go forward arrangements with Coles have been taken into account in the proforma numbers that we've published.

Daniel Butcher: Okay. Just elaborate on maybe, tell a bit more about the synergies you expect. It seems like the main benefit is control over your destiny and also avoiding Coles under investing towards 2029 instead it's increasingly increased to dodge CapEx as it gets towards 2029. Is there anything else that we should call out or maybe elaborate a bit more about how you see that improving?

Scott Wyatt: Yeah. We're at a natural point where we start to look forward and the investment required in the network will come in a few areas. Certainly investment needed to support the evolution of new energies, EV charging stations and hydrogen for certain um... But also the opportunity that we see to take what is a pretty solid and well performing convenience business and extend it and support the sort of evolving consumer appetite that we see in convenience. And so there is a set of investment required, the ability to be able to get in now and start that journey rather than wait 2029 is good for us, I think. And as I mentioned before we take over at a time when there's some more immediate growth opportunities in the next year or two as well from a post pandemic recovery. So I think all those reasons it makes sense to step in now. And it's obviously a pretty exciting development for the company.

Daniel Butcher: Right. Thanks. A little bit off piste on the accession, but can we just comment on landed crude premiums versus product quality and freight premiums. Obviously landed crude premiums have gone pretty high in the last couple of months. Are you seeing a measurement increase in the import competition costs or is that sort of eating into your refining margin?

Scott Wyatt: Look, we sort of covered this a little bit after the first half results. When refining margins are strong, as we've seen in the second quarter and certainly through a lot of the third quarter as well. That product premiums, particularly for the diesel rich crudes, which obviously support chasing diesel cracks, do increase. And conversely they tend to fall away as the margins soften as well. So I think it's going to be different from day to day, but in terms of our, that's probably how to think about how those two things track and what we do. And our processes as we look to acquire crudes, we're typically buying those three months before we're processing them. We take a view about what the market refining margin environment's going to be like in that window. And we have a reasonably active hedging policy to support some of those crude buying decisions that we make. So that we're a bit insulated if the environment turns out to be a bit different than what we expected.

Daniel Butcher: All right, thank you. And just back to the transaction itself, do you have any concerns about Coles supply to the stores? What sort of arrangements can you comment on at this point? So that you're confident you'll get a good deal, good service from Coles on the supply side versus other potential suppliers down the track.

Jevan Bouzo: Yeah. I think the good thing with the arrangements we've got in place, so that Coles have been running these stores for almost 20 years now. And I think they've been doing a pretty good job of it. The arrangement that we've got to continue to run the network with their support going forward means that they'll continue to supply the existing products. And the Coles branded products in very much the same way that they do today. And so I feel very comfortable about having that arrangement in place. I think it gives us confidence in a smooth transition and also opportunity to continue to optimise and add to the range and the offer going forward. So I think we're starting from a pretty good base from that perspective.

Daniel Butcher: Okay. Finally, this might be a little bit cheeky, but there's a number of ways you can cut the numbers you've given today on the sort of price you've paid. And obviously you've given EBITDA on a theoretical recovery number. I've put my account, but how would you characterise the EBITDA paid for this business?

Jevan Bouzo: Yeah, I think there's probably a couple of elements to that, Dan. I think one, you've really got to acknowledge the existing Alliance arrangements, which come to a conclusion in 2029. And when you think about those, there's obviously the payable of 98 million dollars that would get settled at that point. And there's an element of transition and integration costs that we'd be required to incur when that comes around. Relative to that position, we've effectively paid an extra 143 million after considering those working capital benefits that we've achieved.

Jevan Bouzo: And we've brought forward the earnings potential that we would've otherwise got from 2030 onwards to effectively next year, post completion. And while there's a bit of opportunity to recover mobility and fuel volumes in a post COVID world. I think there's a lot of opportunity to see more growth from convenience store sales growth, which has been relatively positive over time. And outperform market, as well as a range of synergy opportunities that we talk to. Things where we can optimise investment, continue to grow the network, accelerate some of the store refreshers. And obviously see some benefit as we get off transitional services arrangements.

Daniel Butcher: All right, thanks very much. I'll leave it there.

Operator: Thank you. Your next question comes from David Errington from Bank of America. Please go ahead.

David Errington: Morning Scott, morning, Jevan. I'm trying to work out Scott and Jevan going forward because most important thing for me is how important each party is now to each other. To make sure that the relationship works in tandem and the relationship works quarterly. How important now, and this is getting on I suppose, to supply arrangements, but how important really is Coles going to be as a supplier to you? Because let's be frank convenience store sales really haven't kicked off. They're really only focused on coffee, probably water with a toilet paper here and there. So maybe that's a contentious argument you might want to fight back on.

David Errington: But the reality is convenience in my view has been a non-growth area really other than core categories, such as coffee and toilet paper and water. So how important will Coles be? And then how important is it going forward for you guys to retain the four cents off the litre fuel? Because there's a lot of petrol providers without the four cents off, don't really need it. It's probably more important for Coles than it is for you. So can you say how important is those current arrangements? How important are they going to be going forward to Viva? And so I'm trying to get at how vulnerable you are to this relationship if something doesn't work out. Because to my understanding, you probably don't need Coles as a partner, as much as probably what we might be making out.

Scott Wyatt: Yeah. Look, I mean the relationship is certainly going to be different going forward, but there is still a partnership, which I think is a really good outcome of the transaction. And the partnership is focused on the areas where the core areas, where we can continue to work together. And I think providing, continuing to maintain the current offers in market and maintaining no impact, achieving no impact on customers is a really important strategic outcome from the transaction. So maintaining the shopper docket discount, maintaining Flybuys redemption will all make this transition seamless from a customer perspective. And providing some of the products the customers are used to as well, particularly the Coles brand and products will also ensure that the customer impact is minimal.

Scott Wyatt: So that's been a key focus of the deal and I'm sure as we go forward, David, there'll be opportunities that may evolve out of as we take the business forward, that we can continue to work together in ways that we haven't contemplated today. I think maintaining that partnership will keep those options alive and they're a great partner to work with albeit in different segments and there's ways we can cooperate and provide value to customers. But it'll obviously change as we go forward. It's a starting point and we'll see where it takes us David. But I think that the elements of the partnership I've just spoken to are really critical that we maintain.

David Errington: So they are critical for you to maintain that relationship at this stage. If Cole's, for example, started charging you more rather than because it was their business effectively. So they'd be getting synergies, if you like, those synergies no longer exist. So there'll be a wholesaler now to you. So if they go and charge more, you'll be able to get alternate arrangements in place. Is that your line of thinking at the moment or it's still too early days to think of that. Because that's a realistic char, you've got to be thinking Coles, it was their business. They're supplying their own business. So there's synergies to Coles which no longer exist. So you're going to have to assume that it's going to be more costly for you to procure than what it would've been for Coles. That's just reality. What's in your thinking there, if you got contingency plans in place that, that won't cause harm in your business?

Scott Wyatt: I think, David, the things like the benefits I spoke about before in terms of what the ongoing partnership brings to us are also true for Coles. There's benefits for them and continue to provide their customers shop docket rewards. There's benefits to Coles and maintaining product supply through our network. So like any partnership, as long as it works and provides value for both partners, then it will be sustained and prosper if that was to change and there's no longer a benefit for one of the parties. Then clearly that calls for a review of things in the future. But we're starting from the perspective that we think there's value in this ongoing partnership for both of us and we're working hard to make that a reality.

David Errington: Yeah. There's enough, in other words, what you're saying, Scott, is there's enough in this relationship for them not to screw you on supplier products. It's not in their best interest to do that. That's your message you're giving us, is that right?

Scott Wyatt: Yeah, exactly. Exactly. The partnership not one way, there's benefits to both parties and the deals that we're continuing with.

David Errington: Yeah, yeah. Bit of a conceptual question here. You must think of this. I know you do. But let's take the clock forward three or four years. What can we expect to see from a Cole's not a Cole's Express, a Shell store now. A Shell petrol station that we can expect to see now in three to four years that we may not have seen had this remained under Coles. In other words, what will be your first priorities given you're spending 120, 140 million, I think it is. What are the first priorities, so we as a customer say, as opposed to a shareholder, but what we would see that would be different that if Coles was running it? So that we can get an understanding as to what would be the meaningful delta, if you like, to the business improvement by you owning it as opposed to Coles.

Scott Wyatt: Yeah, yeah. I mean it provides the platform, I think, to build a lot of new innovations and new products and services. But I think that in the midterm that you speak about, I think the most material opportunity that we get is the ability to really optimise the network more easily than we have been able to at this point. So looking at our network, assessing the strength of each of the sites and determining which sites need to be, what the investment programme needs to look like to bring those sites up to a level that supports a much stronger convenience offer into the future.

Scott Wyatt: I think that will, the new arrangements by bringing fuel and convenience together allows us to unlock that a lot more easily. It's not to say we couldn't unlock it before, but it's much easier when it's all under one operation. And at the front end also to be able to make our own decisions around adding new sites to the network will be unlocked as well. So I think that whole optimization between adding sites and deleting sites and also upgrading the network to support a broader convenience offer is something that we will get on with quite quickly. In the longer term it's really supporting, transition new energy's, evolving the convenience offer to extend new categories that provide great growth opportunities that we can't access today. Those are more longer term opportunities that we see.

David Errington: But just specifics Scott, optimise the network, please, I'm not being rude, but that's sort of like it rolls off the tongue easily. Can you be specific? What will make it better for a customer that they'll buy more fuel from your site as opposed to what Coles were doing. Just to be specific, so if someone asks us the question, what is this ad to Viva? We can say, "Well, for example, you can put a solar panel on a roof, whereas they wouldn't have, or they you'll spend something on this that they wouldn't have." Can you just give a couple of examples that gives a bit of tangibility around it?

Scott Wyatt: Yeah. I think if you drive around this and you probably have your own experience in this, the 710 sites. There's a very wide range of formats from very modern, large format stores that have the full ability to become a full convenience offer. And have lots of room and pumps for people to access fuel to some very small format stores that were probably built 30, 40 years ago, maybe even longer. At a time when convenience wasn't a big part of the deal. Now the ability to assess those, redevelopment or develop them or let them go and refresh the network is actually a very significant opportunity. When you look across the broad range of sites that we have across the network and increasingly be able to provide a more standardised offer across the whole network. We think is a pretty important part of our future.

David Errington: Okay. Thanks Scott. Thanks Jevan.

Operator: Once again, if you'd like to ask a question, you'll need to press the star key followed by the number one on your telephone keypad. For the courtesy of others, please limit yourself to two questions only. Your next question comes from Rob Koh from MS. Please go ahead.

Rob Koh: Good morning. Congratulations on the announcement. And my first question is just in relation to the point of sale infrastructure and emerging service agreement. Can you just talk to the options and potential cost for separation and setting up your own systems if you chose to do so at the end of the first agreement?

Jevan Bouzo: Yeah, sure. I can take that one. Rob, we haven't gone into a lot of detail on that. I think there's a wide range of arrangements we've got in place to transition the business and carry it forward. And as you rightly point out, that includes the point of sale systems that are in place today. And arrangements with Coles to have them continue to manage payments for us going forward. I'm pretty comfortable with that arrangement that we've got with Coles. And I think it gives us certainty for an extended period of time to run that part of the network. Of course, over time, there'll be plenty of optionality for us. And the way we take that forward will be something we consider embedded in our transaction and integration costs is also some short term spend for rebranding and developing some replacement it systems.

Jevan Bouzo: But it also includes some investment in the future and really building a platform that will help carry this business forward into the next decade and hopefully de-risk or make much more smooth, any potential future transition that might occur. So probably early days to go into any specifics around what a change would look like and really no need or rationale for any at this point. But feel comfortable that over our transition period, we'll focus pretty actively on setting up a platform to take this business forward in the most sensible way.

Rob Koh: Yeah, okay. Sounds good. Thank you. And then I guess my next question, which sadly follows on a bit from Mr. Errington's question about the motivations of the parties. Coles gets some very valuable ad space on your forecourts and you've got the use of the Shell patent as well. And those organisations are very protective of their logos. Are there any material restrictions in your network optimization plan that flow from that?

Scott Wyatt: No, not at all. We will obviously rebrand the stores from Coles Express to another store brand that we will develop. And that will be a subject of a future announcement, but the Shell brand will continue. We have the rights over the Shell brand until 2029.

And so remain a key part of this 710 site network with no constraints other than [inaudible] in respect to how we use that.

Rob Koh: Yeah, okay. Sounds good. Thank you so much.

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

Scott Rile: Thank you. I've got hopefully two relatively quick ones. I'm just looking at the strategic rationale slide number nine. And I just was interested particularly on the new energy side, Scott. Was it possible to actually deal with things like hydrogen and electric vehicle charging under the current contract? So would change have needed to have been made anyway to the current Alliance?

Scott Wyatt: It's wasn't something that was contemplated in the original Alliance agreement, as you can imagine, which was struck a long time ago. But that's not to say that we couldn't have found a way forward on it. But I think in this area, this is a good example of a development that is going to require some investment at some point in time. And given our expertise where the best place to make that investment by bringing the businesses together. It just makes that investment a lot easier to execute in a way that makes most sense for us.

Scott Rile: Yeah, no, that's what I was getting at. No, I agree. And then the second question just on brand, and you mentioned that you have the Shell brand until the end of this decade. I don't reckon there's been too many brands in terms of forecourt brands that have been different to the fuel brand that I would say have been wildly value accretive. So can you just tell us in terms of the contemplation of the brand over the next couple of years up until the licence agreement runs out. Presumably the brand that you pick given there will only be a few years less until you have certainly over Shell, unless you extend it in the meantime. Will the new brand have to contemplate the potential to lose the Shell brand at some stage?

Scott Wyatt: We've had the Shell brand, obviously for a very, very long time. We have an agreement that runs 2029 as you point out. It's already been extended once before. And as we approach the end of 2029, we will obviously be discussing with Shell about a further extension of that brand, I would imagine. The sorts of things we consider and we can consider in the past when we've extended it, is obviously the value we get from the brand. Obviously the cost of it, the cost of rebranding and the time it takes to re-establish a new brand and market. So those are sorts of things that we would contemplate as we discuss the continuation of this relationship with Shell, into the future.

Scott Wyatt: From their perspective, we know it's very important for them to have brand representation in Australia through a retail network. And I suspect that will be the case into the future as well. So again, it's one of those partnerships that works for both of us. I think the store brand will be primarily focused on how do we want to represent our position in the convenience market and making sure that's something that reflects the direction that we want to take the company. And that's work that we undertaking at the moment and we'll obviously want to be able to land that by the time we complete the transaction so that we can commence the process of rebranding the stores.

Scott Rile: Okay. Thank you. That's all I had.

Operator: Thank you. Unfortunately, that does conclude our allocated time for questions today. I'll now hand back to Mr. Wyatt for any closing remarks.

Scott Wyatt: Yeah. Thanks everyone for joining us today. It's a very exciting day for the company. I think bringing the businesses together at one is the right thing for our organisation. We're the natural owners of both fuel and convenience businesses, as I've said. It's really just the beginning. We've got a lot of work to do between now and completion to manage the transition. And on completion, we look forward to moving forward and really growing the network and redeveloping or retransforming the convenience software into the future. And continuing to work closely with Coles in areas we've agreed to participate. So really great announcement today. And thank you very much for the questions and for joining us for this call.

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

[END OF TRANSCRIPT]