

TRANSCRIPTION

Company: Viva Energy Australia

Date: 26 August 2025

Time: 11:00am, AEST

Duration: 88 minutes

Reservation Number: 10047961

[START OF TRANSCRIPT]

Operator: Thank you for standing by, and welcome to the Viva Energy Australia Half Year 2025 Results. All participants are in a listen-only mode. There will be a presentation, followed by a question-and-answer session. If you wish to ask a question, you will need to press the star key followed by the number one on your telephone keypad.

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

Scott Wyatt: Good morning, and thank you for joining us this morning to discuss our first half results. With me on the call is Carolyn Pedic, our Chief Financial Officer; and Jevan Bouzo, our CEO of Convenience and Mobility. Carolyn and I will share the group results, and Jevan will provide more commentary on the development of our retail strategy, which is a clear priority for the business and an important driver of long-term growth.

Over last year, we have made substantial progress to bring together our retail businesses under a single unified operating platform. And with the bulk of the transition now behind us, we are very focused on delivering on these aspirations in the period ahead. We look forward to sharing this progress with you this morning as well as the performance of our broader business.

So let me begin by turning to Slide 4 and 5 to briefly discuss our broader operational and trading performance. Our safety and operational performance in the first half was very solid, injury frequency rates continue to improve, and I'm particularly pleased with the step change we are seeing across the retail business as common expectations and processes are implemented. Our process safety performance was equally strong, and we are well prepared for a

busy operational period as we commence our major maintenance at Geelong and the start-up of our Ultra-Low Sulphur Gasoline production.

After suffering a site-wide power outage in January, Geelong Refinery recovered extremely well and has since delivered a strong operating performance with availability at 92% and crude intake at just short of 19 million barrels. Fuel sales were comparatively strong across the group, with retail sales largely in line with the prior period despite the broader market decline by more than 20%.

Convenience sales were, of course, heavily impacted by the continued loss of tobacco sales to illicit trade and the knock on to sales in other convenience categories. I think we've done particularly well to minimise the margin impact from this dynamic but there's no doubt it's been a significant challenge for this part of our business.

The company delivered an EBITDA of \$305 million, in line with our guidance for the half and has declared an interim dividend of \$0.028 per share. The balance sheet remains strong with peak capex coming to an end and net debt finishing at \$1.947 billion.

Let me now hand over to Carolyn to discuss our financial performance in more detail.

Carolyn Pedic:

Thanks, Scott. So turning to Slide 7. This summarises the financial performance by segment. As Scott just highlighted, group EBITDA on a replacement cost basis was \$305 million, which was slightly above the guidance we gave in late July. Net profit after tax for the group was \$63 million.

That's reflecting another strong period of delivery from commercial and industrial, along with a period of challenging conditions for the retail and refining businesses as well as higher depreciation and amortisation and net interest costs associated with recent acquisitions.

Significant items recognised outside underlying earnings during the period included a non-cash \$245 million impairment of individual sites in the convenience and mobility business. It's primarily the reduction of the right-of-use assets for certain sites during a period of softer trading conditions and decline in tobacco.

The Board has determined a fully franked dividend of \$0.028 per share that represents a payout ratio of 50% for the convenience and mobility and commercial and industrial businesses at the half.

Now turning to cash flow on Slide 8. Free cash flow for the half was impacted by a period of significant investment and integration activity. You can see the bridge from EBITDA to net free cash flow, the impact of capital expenditure on multiple year projects, the acquisition of Liberty Convenience as well as integration costs associated with convenience and mobility.

When we adjust for these items, underlying free cash flow is slightly positive. Now given we report on a pre-AASB 16 basis, EBITDA remains a good proxy for underlying operating cash generation.

Now on the next slide, net capital expenditure for the half was \$225 million. We remain on track for around \$500 million of investment in FY 2025, net of government grants. Spend is weighted to the Ultra-Low Sulphur Gasoline and aromatics projects, which are expected to be completed in October this year at a total net cost of approximately \$270 million.

From FY '26 onwards, as we've previously guided, we expect capital expenditure to step down to between \$350 million and \$450 million per annum as these major projects are delivered and integration spend moderates.

Now moving to Slide 10. On gearing at the half was elevated at 1.66x, which is just above our target range of 1x to 1.5x term debt to trailing 12-month EBITDA. Gearing, including total net debt, was 3.2x. This reflects a period of significant investment, which, as I mentioned earlier, will reduce heading into 2026.

Our focus is on reducing gearing as we move through the current period of intensive capital investment towards 2x by the end of FY 2027, including utilisation of the revolving credit facility. This will be supported by the completion of major projects, delivery of earnings and improved market conditions.

Now on Slide 7, you'll see the Board has determined an interim fully franked dividend of \$0.028 per share for the half, and this represents, as I said, a 50% payout ratio of NPAT RC from the convenience and mobility and commercial, industrial segments and 73% of the group overall.

Consistent with our dividend policy, no dividend has been declared for the energy and infrastructure segment, which is assessed on a full year basis. The interim dividend will be paid on the 30th of September 2025 to shareholders on the register as at the 8th of September 2025.

Now our dividend reinvestment plan remains active, with 52% participation in the final FY 2024 dividend and eligible shareholders for reinvest their dividends directly into shares at a 1.5% discount. The dividend reinvestment plan is not underwritten.

With that, I'll hand over to Jevan to discuss the development of our convenience business.

Jevan Bouzo:

Thanks, Carolyn. I'll kick off with a short recap of the retail strategy. We're reshaping the petrol and convenience industry by creating a business that fills a gap between traditional petrol stations and quick service restaurants. It's the area of convenience and fast food that's more and more in demand in people's busy lives.

Our retail business will be the largest player in the convenience market with a network of irreplaceable locations and an offer which delivers over half of the earnings from convenience and QSR. This is a long-term strategy, and we think about delivery over the five years to 2028, which largely started at the end of the first quarter last year when we completed on the OTR since acquisition.

When you look at the diagram on this slide, we've completed three material acquisitions and the heaviest part of the integration is almost behind us. On Slide 14, we've set out a summary of the progress achieved in the first half this year. It's a really long list, so I'll just call out some of the highlights.

Our investment in technology has been significant and to stand up a new ERP point-of-sale payroll system and supply chain management system at this scale in what is about 18 months is an exceptional feat by a really dedicated team. The transition of brands, investment in stores and building out our network plan has taken considerable effort, and we're set up really well to focus on conversions going forward.

There have also been some fairly large disruptions to trade between consolidating organisations and navigating the new tobacco legislation. This has not been a period of business as usual by any means. The positive is that

this is all largely behind us now, and we're focused on driving the core business forward from here.

On Slide 15, we've set out the first half results bridge from 2024 to 2025 and the result is in line with our quarterly update to the market from last month. This has been a period heavily impacted by the transition over the past 12 months with impacts from tobacco and one-off and transitional costs dampening earnings.

We've missed opportunities to better manage margins in the first half. And we haven't passed on prices and increases from suppliers in a way that we would have liked. We managed labour cost fairly well given the addition of new stores and mandated award increases, and I'll cover some of these areas in a bit more detail on the next slides.

Turning to Slide 16. We've separated tobacco and SMGB from convenience and quick service restaurants. The decline in tobacco sales continues to be driven by the significant shift into illicit tobacco. And despite illicit tobacco representing over 50% of the total market, we've managed margin to soften the impact of the sales decline and we'll continue to pursue opportunities to do this going forward.

Our convenience performance on sales results were down a couple of percent with OTR outperforming the Express offer. We did miss some opportunities to deliver a better outcome during the first half, given the focus on transition of people and systems. However, this trend is improving into the second half as we're starting to pass on some of those supplier cost increases.

On Slide 17, we've set out the results of the synergy and the cost out program we highlighted earlier in the year. Overall, we expect to deliver \$65 million of earnings improvements from a combination of the business integration synergy and the cost-out program that's designed to manage underlying earnings. This is the retail program of the overall commitment that we made earlier in the year.

Of this, there's about \$15 million in the first half and \$50 million expected in the second half of 2025. We're on track to deliver the second half commitment given the work we've done to date on the new payroll and HRIS system, cost rationalisation and consolidation of supply terms. Over time, the cost-out component will become part of underlying earnings, and we still expect to deliver the \$90 million plus of integration synergy as we exit 2026.

Slide 18 sets out a bridge between the poorer result in the first quarter of the half and the second quarter, which is more representative of underlying performance going forward. There was a clear improvement in fuel margin in the second quarter, along with the contribution from the Liberty acquisition.

Although it's hard to see given the seasonal performance of segments like car wash, the improvement in merchandise and food and beverage margin is evidence that our actions to lift performance are delivering results. While some of the synergy and cost out results are embedded in the second quarter numbers, on the previous slide, we called out about \$35 million of improvement in the second half beyond what's already in the Q2 result.

Slide 19 sets out our network segmentation. Our primary focus is conversion of Reddy Express sites to OTR stores with a significant improvement in the range and food and beverage offering. The Liberty acquisition provides us with a discount fuel offer that can compete in certain markets more effectively than the Shell brand. This allows us to continue to run sites that are not suitable for OTR conversion and compete more actively with low-cost independent and unmanned sites.

Slide 20 outlines the progress on our network conversion program. Year-to-date, we've opened 15 new OTR stores with conversions focused on New South Wales. These stores are absolutely exceptional and incorporate a lot of the learnings from the first four that we completed last year.

While the conversion spend has averaged \$1.5 million, a significant proportion of this spend relates to replacement of end-of-life fit-out and equipment given the underinvestment that has occurred in the Express network. Over time, this should further reduce repairs and maintenance expenditure.

Looking forward, we expect to deliver around 40 OTR sites this year with about 25 in the final three to four months of the year. This is the result of significant investment in capability, which will see us make a strong start to 2026 as well. In addition, we expect to convert about half a dozen sites to the Liberty discount fuel offer by the end of the year. These sites were not suitable to convert to OTR.

Slide 21 sets out the performance of conversion stores to date. The first four sites we converted are performing really well and delivering results that are far

superior to the Reddy Express network. It's important to note that these results are dampened by the removal of Reddy Express loyalty and promotional programs typically designed to drive headline sales and the gross margins are impacted by the subscale interstate supply chain. These factors will be addressed in the future once we've integrated Flybuys across both platforms and implemented our interstate supply chain during 2026.

On Slide 22, we've set out a summary of the progress this half and some of the key priorities going forward. The progress we've made in the past six to 12 months has been really significant. Collectively, the systems implementations and integration is the sort of journey that most stable businesses would deliver over a decade.

I admit we've been focused on building an incredible business over the long term. With a lot of risks of systems implementation across all aspects of the operation now behind us, we're starting to shift the balance back to managing the short-term earnings. This doesn't mean there isn't still a lot of work to do.

The key focus areas through to the end of next year are delivering on the store supply chain implementation outside South Australia, integrating the loyalty programs and continuing to execute on conversion to exceptional OTR stores. Our transition of this size is hard, but we're building something really exceptional. So if you can bear with us and give us time, the rewards will be significant.

Over to you, Scott, for the next section.

Scott Wyatt:

Thanks, Jevan. Turning now to the other parts of our business. Let me give a quick overview of our commercial and refining businesses from Slide 24 before turning over to your questions. As Carolyn touched on earlier, the commercial and industrial businesses delivered an EBITDA of \$238 million, which was in line with the same period last year.

Sales volumes for the half were down 2% on that same period with weather impacts on the East Coast and softer sales to the wholesale channel, partly offset by strong aviation demand, increased demand from defence for planned exercises and growth initiatives in marine, bitumen and other commercial segments. The stability and ability to withstand sector cycles and softer conditions is a direct reflection of the diversity we now have within our

commercial business and I'm really pleased with the way this part of our business is performing.

From a strategic perspective, we continue to expand our infrastructure footprint to grow our presence and meet demand from our commercial customers with the entry of the marine fuel market in Brisbane and plans to enter three new airports over the next few months. Our national infrastructure position supported by high-quality customer relationships provides an important point of differentiation and continues to be a key factor in the continued performance of this high-quality business.

As I mentioned earlier, our refining business turned in a strong operational performance as set out on Slide 10, which has translated into a modest EBITDA of \$18 million due to the weak refining margins which persisted for much of the half. Margins have strengthened somewhat in recent months, which are now recording a GRM of US\$10 per barrel in July just prior to entering our turnaround.

We have commenced the major maintenance of our catalytic cracking unit in August and are in the process of preparing for start-up of our Ultra Low Sulphur Gasoline processing units, which are both expected to be online in early October. With both projects behind us, this will bring to an end a period of heavy investment, which sets us up for a clear run through to 2030 when we commence our next major maintenance cycle.

As I mentioned at the beginning of the presentation, this is a very important year for the company. We are nearing the end of a heavy investment period for the refining business, which allows us to shift our capital focus to store conversions and the development of our convenience business. We will, of course, continue to invest in our commercial business, but this will be largely organic where we have achieved great success over the last few years.

We have now completed the acquisition of Coles Express, OTR and Liberty Convenience. These businesses have been integrated under a common set of systems and processes, and we are building experienced momentum in upgrading our convenience offer through the extension of OTR across the Reddy Express network. We aim to end this year with at least 40 new OTR stores and a capacity to deliver 20 to 25 stores per quarter through the years ahead.

At a group level, we are on track to deliver group synergies and cost out improvements of approximately \$80 million this year with \$60 million embedded within the convenience and mobility business. We aim to build on the performance we delivered in the second quarter and finish the year with strong operational and earnings performance in Convenience.

We expect our commercial and industrial business to deliver another stable performance and our refining business to deliver a strong fourth quarter once we complete the major maintenance and production of Ultra-Low Sulphur Gasoline. There is much to achieve in the coming months, but we are clear on our priorities, and we look forward to ending the year with solid momentum across all our business units.

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

Operator:

Thank you. If you wish to ask a question, you will need to press the star key followed by the number one on your telephone keypad. If you wish to cancel your request, please press star two. If you're on a speakerphone please pick up the handset to ask your question.

Your first question today comes from Tom Allen with UBS. Please go ahead.

Tom Allen:

Good morning, Scott, Carolyn, Jevan and the broader team. On the network conversion growth, to hit the market's expectations for medium-term earnings we would need to deliver 100 conversions annually. And are that including the New-To-Industry sites.

So having delivered only nine conversions over the half but expecting from the fourth quarter of this year that the required 25 sites a quarter can be met, what additional colour can you provide to help build conviction that, that growth rate can be achieved?

Whether that relates to additional colour on the contractor or additional work that you've done to mitigate challenges that you've seen with delays from council and planning departments? Just keen to understand how we can hit that target.

Jevan Bouzo:

Sure, I can take that one. Yes, thanks for the question. We've done quite a lot of work on building the pipeline. And we definitely have seen a ramp-up in both capability and -- lodgement and planning approvals through the course of this

year. And with the plans for the remainder of this year, will see us deliver almost 25 or so across a single quarter. I mean that's been a really sharp ramp in capability.

Beyond that, we haven't just focused on the program to the end of this year. We're focused pretty heavily on completing and concluding designs and approvals, building council DA lodgement packs and getting them lodged in. So as we stand today, we have quite a lot of sites that are already in planning approval process with councils.

And those aren't the sites that we plan to deliver between now and the end of the year. Those are sites that will be on schedule for delivery next year. And that's now a process that's running in parallel to conversions. I expect that when we get to the end of the year, a lot of the sites that we plan to deliver next year will either already be in council or will be approved. And that will give us the opportunity to go as fast as we like as we move into 2026.

So it's taken a bit of time to build the capability and to build that pipeline of approved DAs and lodge designs. But we're starting to get in front of that now, and I expect over the next four to five months, we'll be well in front of that and have the process humming. But that's the key, I think, Tom, that's getting designs in getting the DAs lodged and getting them approved well ahead of time.

Tom Allen:

Thanks Jevan. I appreciate that extra colour. How confident are you on achieving Viva's target of growing convenience and mobility EBITDA to over 500 million by '28, just given that there has been a bit of a slower start to the conversion ramp-up?

Jevan Bouzo:

Yes, there's definitely been some disruption. And I think if you go back to the original bridge that we set out, the conversions were only one component of that. I mean, a big part of it is underlying business performance. It's the synergy and integration work that we've been working to deliver and have called out for delivery by end of next year. It's also the new sites, the acquisition of Liberty.

And so I think the work that we've done in the past six to 12 months has been really important to lay the foundations that will help us get to that sort of level in 2028. There's obviously still a lot of water to go under the bridge and there's a few years ahead of us.

But from where we stand today, I think we have put everything in place with the integration work that we've done to give us the best chance of delivering on that. There's obviously a bit of work we need to do to manage the earnings in the short term but really focused on the long-term delivery, which I think is really positive for the business.

Tom Allen:

Thanks Jevan. Just expanding your comment there on the underlying business performance being a big part of achieving that EBITDA growth in convenience. There's obviously a lot of focus on the performance of the new OTR conversions in the new-to-industry stores, but yet, there's obviously a very large express network that is competing in a tough operating environment with to use your language and under-invested convenience offer.

Can you talk just a little bit more to specific initiatives to improve the Express store performance so we're seeing industry offers proliferating discount fuel and unmanned sites. And so keen to understand how Viva might adjust its fuel pricing strategy perhaps just to mitigate the pressure on fuel volumes and drive more traffic through the shop?

Jevan Bouzo:

Yes, totally. I mean, our fuel volume result in the first half was quite positive. And I think the team have done a pretty good job of working to optimise fuel volume and margin across that network in a way that's better than we ever had before. And one of the reasons for that is just having the scale and the wider network and the wider range of offers to manage the way we compete in different markets.

And so if you reflect on a few years ago, the Express network was all we had. And we didn't have exposure to convenience earnings and so our only lever for earnings management was fuel price and fuel margin if you reflect on the different elements in the retail business today, we've got the OTR network. We've got the Express network.

We've got the Liberty business the fuel offer that's associated with that and our ability to compete in different segments in different markets. And so that alone has given us a lot of confidence and a lot of opportunity to run and manage that network and position it in a better way than we ever have been able to in the past.

And so I think there's definitely more we can do to grow the fuel presence. I think we'll use the Liberty brand and the Liberty offer to do that in markets where sites are more suited to a discount fuel offer than the Shell brand. And that doesn't need to be a move away from the Reddy Express store.

I definitely think we can grow the Shell card presence within our Shell offer, and we're continuing to focus on that too, which will be a big part of that network acceptance. And over time, as we see more and more OTRs interstate and outside of South Australia, that will change the shape and the brand presence for Shell as well as a bit of a halo to Reddy Express.

So A bit of a focus across all platforms. It doesn't mean we've forgotten about Reddy Express because there's still a lot of sites out there, and we've been running some marketing and advertising on that more recently and seeing some really good customer response to that. But definitely, the move to OTR stores and away from Reddy Express stores will help accelerate that.

Tom Allen: Thanks, Jevan. Thanks all.

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

Dale Koenders: Morning, Scott, Jevan and team. Maybe just another one for Jevan. Thanks for the incremental colour on, I guess, earnings and where we are today in the waterfall. Just wondering, when we look at that second quarter EBITDA for Convenience and Mobility what are the one-offs that are worth calling out maybe some of the colour around the waterfall or the \$3 million one-off costs are? And the 12-odd million of transition costs, how much of that is in that run rate in the second quarter?

Jevan Bouzo: Yes, totally. I mean I think there is a bit of balance between first quarter and second quarter. Most of the negative impacts were in the first quarter. And while it's a bit hard to see from the first to second quarter bridge, there's obviously the improvement in fuel margin and the addition of Liberty. There is an improvement in our convenience gross margin there.

And so some of the work that we've been doing to lift contribution from convenience, particularly in a Reddy Express network where we're slow to pass on price increase from suppliers are starting to take shape in the second quarter. There's obviously a bit more of that to do into the second half.

And you can say that the flattish cost of doing business into the second quarter is representative of starting to improve results given the cost increases that we saw half-on-half from last year. But the way I would think about it, Dale, is the underlying performance of the business going forward, at least in the short term, is going to be fairly similar to what we've delivered in Q2.

And then there's obviously the incremental synergy and cost out that's not embedded in Q2, which we called out on that slide as being 35 million of the 50 million delivered in the second half.

Dale Koenders: If we take that second quarter run rate, we can all times wide to and plus the synergies to get to a number for the second half. But what are the other moving pieces you think we should be considering? I don't know if there's like seasonal fuel strength normally in the fourth quarter? Any sort of comments on tobacco, further outages in OTR? Anything else we're sort of talking about the moving pieces for the second half?

Jevan Bouzo: Yes. I mean I'll cover a few. I mean there's plenty. But I think -- I mean the second quarter is a good baseline to reflect on as what performance will look like going forward. I mean the obvious factors are the ones that you've called out are impacted tobacco, a fact that, that's been flat from first quarter into second quarter demonstrates that we've started to see results from the margin management strategy despite the sales declines that we've experienced.

So our focus is on continuing that sort of performance into the second half. There's obviously the award wage increases that occur from 1 July each year, and that lifts wage costs for our team members across the network. But then you have a little bit of seasonality that is likely to offset that at the same time. So a few moving parts.

But overall, we'll be pretty focused on delivering that synergy and cost out target, which is effectively the incremental 35 beyond what's embedded in the second quarter. And while there's a few moving parts, and I expect them to largely offset each other, I think 2Q performance is a good baseline for now.

Dale Koenders: Okay. And then just finally, on the OTR conversion performance, I guess, relative to comments provided in Feb where you've sort of spoken about 170,000 to 220,000 of annualised margin improvement. Are you seeing these results now better than that or similar? Because I guess, last time around, we

said the cost increase is really offsetting that margin and the -- breakeven at an EBITDA level. Just wondering if we're seeing positive contributions yet.

Jevan Bouzo:

Yes. I mean definitely seeing positive earnings contribution on those stores. There's been some really good results. And I think what we're realising is that it takes time for the offer to be embedded in market for people to understand what is on offer and start to take full advantage of the store.

It's one thing for people to come in and fill up petrol and walk in and see what's in the shop, it's another for people to stop in regularly because they know that the store offers what they know and love and want. And there's definitely an opportunity for us to start to get the OTR offer and acceptance out there in markets outside South Australia.

I expect once we get a meaningful number of stores in New South Wales, we'll be able to focus on more brand awareness campaigns start to tell people a little more actively about what we offer in store and what they can come in and expect and those are the sorts of things that will help further lift shop-only transactions and frequency of visitation over time.

So I feel really positive about the contribution of the early stores. I feel really positive about the stores that we've converted in the past few months. And the ones that we've recently converted are pretty large and impressive stores. And so if you haven't had the opportunity to get to them. They're well worth a visit. There's some pretty exceptional delivery of offer in those stores and I think will only grow from here as we continue to incorporate the learnings in the next program.

Dale Koenders:

Thank you.

Operator:

Your next question comes from Adam Hugh Martin with E&P Financial. Please go ahead.

Adam Hugh Martin:

Yes morning, Scott, Carolyn and Jevan. Just a last one with some convenience and one on the Board business. But just firstly, just on this conversion capex, \$1.5 million. I mean how is that comparing to medium-term expectations? And you talked about the 100 sort of ready, but what do you expect to do in FY '26 or more of that 50 sort of level? Or just give us some colour there, please?

- Jevan Bouzo: Yes. Thanks, Adam. We're definitely working on capability to deliver the equivalent of 100 a year or this 20 to 25 a quarter. So I think as we enter next year, we'll have the opportunity to go as fast as we like on conversions. There's been some really strong results on the early sites and strong results so far on the sites that we converted in the last few months. And obviously, as we enter 2026, we'll have more data and more colour on the sites that were recently converted as well as the sites that are ahead of us.
- So I think the momentum on that program will just continue to build. We obviously haven't guided for a number of stores for next year, but the positive from my perspective is that we've got the capability now and so we'll just focus on execution and delivery.
- Adam Hugh Martin: Okay. Thank you. And just a follow-up or another question to Scott. Just on LNG imports, I mean you're talking the pack there about FID ready or early 2026. How is discussions with commercial partners going there? Are you looking at some sort of farm down here just given where the balance sheet is that perhaps just give us a bit more colour there, please?
- Scott Wyatt: Yes, sure, Adam. Thanks for the question. I mean the -- so reaching the environmental approval was a major milestone, and it's now allowed us to move forward more clearly with commercial negotiations with potential customers. And I'd say, look, the interest is very strong. I mean the need for the terminal and import terminal is increasingly recognised as an important part of the overall gas [inaudible] so I think we feel positive about that. It's -- there's other things, other processes we also need to work through as well, but the commercial side is going to be key for FID.
- We're pretty open. And in terms of how we fund it, and we're certainly -- that's obviously also part of the work that we need to do is determining the funding mechanism and how that works with the potential customers that we would look to involve in the terminal. So -- and all those things are in play, Adam. I think it will play out over the next six months or so and potentially getting us to a point for FID late this year, early next year is our objective still at this point in time.
- Adam Hugh Martin: Okay. Great. Thank you. I'll pass it on.
- Operator: Your next question comes from Henry Meyer with Goldman Sachs. Please go ahead.

- Henry Meyer: Good morning, team. In C&M, we've got the total \$90 million cost reduction from the end of next year, which would suggest there's another \$25 million to go from this year. Could you just step through what those key drivers will be and how those costs have come out through the year?
- Jevan Bouzo: Yes, sure. I mean, there's a few elements that go to that synergy and cost reduction bucket, some system integrations and bringing teams together and reducing above store costs. Some have been rationalising supplier terms, and that will continue to deliver some benefits as we consolidate buying across the two businesses.
- And align terms in a way that gives us the best opportunity to compete in market and grow our convenience gross margin. There's definitely some that's associated with transition activity concluding and things like our supply chain project, supply chain implementation that will occur through the course of 2026 will be a big part of that as well.
- So there's a number of things that we're working on through the course of this year into the back half and through the first half of 2026 that will help us deliver the full run rate as we exit '26 and enter '27. But quite a few elements that make up the 90 plus.
- I think as you stand back and look at the business, there is still a lot of opportunity to bring things together and really start to leverage the scale that we've got and the size of the organisation, particularly now that we're starting to get the systems in place that will enable us to do that.
- Henry Meyer: Okay. Thanks, Jevan. And more broadly, gearing is now above the target range. How rapidly do you think you could gear the balance sheet? And are there any other opportunities like asset sales that you could issue to accelerate?
- Carolyn Pedic: Yes. Thanks for the question. I'll take that one. So I mean, I mentioned I guess, on the call in terms of from a gearing perspective, we're exactly where we expected to be just given we've been going through a higher period of capex and weaker earnings. And so we expect that this will improve as we cycle out of this higher capex period, as we mentioned before, the Low Sulphur Gasoline project and the turnaround will be behind us this year.

So that will definitely help. And we expect earnings to improve going forward. So it's been a pretty weak period. So we've talked about moving towards a gearing of 2x, that's total net debt-to-EBITDA heading towards 2027.

Henry Meyer: Okay. Thanks, Carolyn.

Operator: Your next question comes from Gordon Ramsay with RBC Capital Markets. Please go ahead.

Gordon Ramsay: Thank you. Jevan, I'm going to come back to your kind of rollouts of your OTR stores. I think the company was previously targeting 40 to 60 OTR format stores during 2025. That's a combination of new builds and conversions. On my numbers, you're looking at delivering 39 now because six of them are going to be converted to Liberty sites.

So I guess my question relates to guidance going forward, where you're saying you're going to do 20 to 25 a quarter. Is there a risk that not all those sites get converted to OTR sites and some of them become Liberty sites?

Jevan Bouzo: Yes, sure. I'll take it. Yes, we will deliver -- so if you work the numbers through, I expect we'll deliver about 40 this year, and that's a combination of OTR conversions and new OTR stores that's within the pipeline. In order to deliver that, we'll see 25 delivered effectively between now and end of the year. And it means close to 25 are delivered within one quarter.

So it is the program that's in place to deliver that between now and the end of the year, which is repeatable and the level of planning approvals that are in at the moment for consideration along with those that are continuing to be prepared and lodged, I'm pretty confident we've got the capability in place to deliver that sort of level going forward.

The six or so Liberty sites that we're looking at rolling out between now and the end of the year are sites that were not suitable for OTR conversion. And so over time, I think we'll be additive or separate to the OTR conversion program and the delivery of the new OTR pipeline stores.

It's just an opportunity for us to think about sites that struggle under the Shell brand that are perhaps close to an area where discount fuel offers are more prevalent and more accepted by customers. And are better suited to a different offer than a Reddy Express Shell and aren't necessarily suitable for an OTR

store. And so in the past, we would have had limited options to deal with those sites and run them effectively.

I think today, we can rebrand the forecourt to Liberty and compete differently. We can convert the shop as well. And so -- there's a few things that we're going to explore with those Liberty sites. It's really quite separate to the OTR conversion program and the strategy to deliver that over time and it's obviously managed by the Liberty team.

And so it doesn't impact on the capability to deliver conversions. So I feel fairly comfortable that the two can coexist in a way that will get us a better overall outcome for the business.

Gordon Ramsay:

Okay. And just one more. There's a comment about landlord funding preferred for stores requiring major building works. I just wanted to get a feel for what the take-up is for that? And is that ongoing right now or is that in the future and how that affects average conversion costs, which you're estimating at 1.5 million?

Jevan Bouzo:

Yes. I mean we're in regular conversations with the landlords and I think we've got pretty good relationships with all of them. There's obviously quite a lot across quite a wide network and it's slightly different for different owners of sites.

But broadly speaking, I think when you're doing a fairly basic refurbishment or remodel of the store that's the sort of spend that we've called out. It's the sort of site conversion that we've done more recently and the opportunity for landlord funding is there, but it's not essential.

When you're doing a full knockdown rebuild or a major redevelopment of a site such as the sites at Glasshouse Mountain, which we're working on with the guys at Dexus. Those sorts of things are big investments in site and infrastructure and buildings and are more commonly across all sectors really funded by the landlord and managed through adjustments to rent and typically come with resetting leases and new leases in place.

And so -- as we go through the network and we move into next year, we start to tackle some of the bigger and more impactful sites on highways and in other locations around the country, that sort of model is more likely to be adopted and it will obviously be subject to cost of capital and negotiations and arrangements with landlords.

But I think on that front, there's opportunity for us to do more. At the moment, we haven't done a lot. We've been focused on building capability and rolling out the conversions in the most agile way as we move into a more programmatic phase, we've got opportunity to tackle that a little bit more than we have.

Gordon Ramsay: Okay. Thanks for that.

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

Rob Koh: Good morning. Thank you for the presentation. My first question is just on Slide 21 in relation to the store conversion performance, that kind of swing between the margin of the conversion versus the Express looks very attractive. Is that -- can you maybe give us a sense of the distribution of outcomes that you're looking for in the pipeline in the year ahead? Are they all around that level or is that middle of the bell curve?

Jevan Bouzo: Yes. I mean it's not that wide. They are mostly around that level, but when you think about the impact of the conversions, in my mind, it's less about the size of the uplift and more about the speed of getting it. We feel pretty comfortable and confident that the uplift will be there over time and it will be significant.

You can see that by just walking into a store and saying what an old tired Reddy Express looks like with a fairly limited range and multiple facings and then you go walk into an OTR and it's got a much more fulsome food and beverage offer. It's got almost 4x the SKUs.

I mean the simple fact is that there is like 4x the amount of stuff that you can buy in a store. And so no doubt, over time, we'll see the basket size continue to lift and grow and the uplift will be there. The question in my mind is more how fast do you get it?

And I think what we're saying is that when you convert a single store in a state that doesn't know what an OTR is, it takes a little bit of time to grow. As we roll out more and more conversions and by the end of the year, we'll probably have north of 30 stores in New South Wales.

People start to become more familiar with the offer. And my expectation is that the more stores we convert, the faster we'll start to see that uplift. And the more that halo effect will start to uplift earlier stores that we converted some time ago

that have performed for quite a while without real brand awareness of the OTR offer.

So yes, I think the performance that we've called out in the slide is fairly representative of where we expect it to trend across the network over time. The question is more how fast can we get these stores to grow and start to mature and how soon can we start to market a bit more actively across the state so that people know and understand what they can get when they visit an OTR.

Rob Koh: Yes. Okay. Cool. Does that kind of network benefit also apply to the capex per store, the kind of 1.5 million, does that maybe have scope to come down as you build critical mass in each stage?

Jevan Bouzo: Yes, we're definitely getting more efficient, like we're learning more. I mean, the first four taught us a bit. We've incorporated some of that into the last 10 or so sites that we delivered. We're already making changes to the few that we'll deliver in the next couple of months and the 20 or so into the end of the year.

And I think those learnings will continue to add value as we go into 2026. I would say though, a lot of that spend relates to a full replacement of the equipment and fit out in stores. And so in certain conversions, you would hope that you can retain shelving and equipment and various bits of fit out.

The problem we've got in the Express stores is that a lot of that is very old and is in need of replacement. And so there's an obvious opportunity to replace all of it when we do the conversion. I think the side benefit that we haven't talked about a lot in the past is that as we do more conversions.

We'll see a general reduction in the overall reactive repairs and maintenance spend across the network because at the moment, we're running around replacing things as they break or fail because they're pretty close to end of life versus having a sort of proactive and ongoing replacement program.

Rob Koh: Yes. So that kind of ongoing replacement program benefit, is that kind of like a post 2027 type time frame for that or...

Jevan Bouzo: Yes, I think so. I mean we're talking about a network of some 660 sites or so, having converted close on 40. It will cause a little bit of improvement. I think as we move through the next couple of years and we've converted 200 and we've

done one-third of the network, those sorts of benefits will start to become more obvious.

Rob Koh:

Yes. Okay. Cool. Okay. And final question for me. Just obviously, illicit tobacco always in the news. Can we maybe just get an update from you on how you're thinking about the compliance side of that? And I guess, specifically, obviously, there's compliance with law, but there's also, I guess, the temptation for your workers to get involved in the illicit traffic. And if you could comment on any additional measures that you've been looking at on that front, please?

Jevan Bouzo:

Yes. I mean that's a great question. I'll start by saying we absolutely comply with the law. So that's non-negotiable, although increasingly in the sector, it feels like we're one of the few who do, but it's definitely a challenging part of the business.

And I think this rise in illicit has been accelerated by the regulatory changes that were implemented on the 1st of July. There are more strict health warnings printed on packets, there are uniform pack sizes and a reduction in the availability of types of tobacco products like no ability to sell menthol or mint flavoured cigarettes.

Of course, the players in illicit don't adhere to that. And so the reward for them is significant. From time to time, you read stories in the paper about employees who work in a store that sell tobacco and are tempted by the opportunity to sell a little bit of illicit on the side.

We haven't seen that through our network and because we have been pretty focused on dealing with the issue, tackling and educating staff, we've rolled out a lot of training and staff engagement programs on the introduction of the new regulations and obviously helping them to be able to engage with customers and explain what's happening. I think they understand pretty well the risks and the implications of those sorts of things and what's happening with the changes in industry and in market.

Of course, we can't control the illicit players out there who are continuing to thrive. But I don't think we have much risk in our business from people doing the wrong thing. Of course, there's an occasional team member who might do the wrong thing, but that exists in all retail such as theft and other minor indiscretions.

I feel pretty comfortable about the way the network is run and the way our team members turn up to work every day and represent themselves and represent the brand and the offer. There's a lot of good people out there, and I'm really proud of the way they work.

Rob Koh: Great. Many thanks. Appreciate it.

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

Mark Wiseman: Good day, Scott, Carolyn, Jevan. Thanks for the update today. Jevan, I wonder if I could just ask on the capex for the network transformation, if we go back a couple of years, the guidance was 50 million per annum net of landlord funding. I just wonder -- and I think at the time, you said that the IRRs were attractive. You could accelerate that.

And the 1.5 million today, I imagine we knew the state of the Express network. I imagine the replacement of old fittings and so on. I imagine that was known, how do we sort of reconcile the 50 million with the 1.5 and 100 stores per year?

Jevan Bouzo: Yes. Thanks for the question. I think there's a bit in it. I would start by saying the replacement of existing equipment, I think we underestimated when we first set out on this project. I think we -- through a lot of the work we did pre acquisition of the OTR business and around the time of completion and thought that there would be more in the existing stores that we could retain.

Of course, over time, we've learned that almost every single store equipment layout and fit out is unique. And so that's made it very hard to do that. Second thing I would say is that the sort of spend that you see, which is the 1.5 incorporates a little bit of repairs and maintenance, replacement expenditure. So the point we just discussed. And it's also pre any landlord funding. And I think it's wise to think about landlord funding at a portfolio level rather than an individual site level.

You can imagine a site like a big highway site where a full redevelopment of the site might cost \$5 million or \$10 million being almost fully landlord-funded versus a remodel or refurbishment of a store being sort of 1 million to 1.5 million and not being landlord funded at all.

And so I think that won't be necessarily uniform across all sites across the network. But in aggregate, we will still seek to take advantage of landlord funding as you would in any retail redevelopment program.

And then when you work that through over an extended period, we can still deliver on net 50 million of conversion capital and convert the sort of proportion of the network that we've called out on the introduction to the retail strategy slide, which is about 50% of the network by 2028.

Mark Wiseman:

Okay. Thanks Jevan, that's good commentary. I wonder if I could ask just on the convenience supply chain project that you mentioned launching next year, just given the expansion of range, which is part of the winning OTR offer. I imagine this is probably quite a complex task, interstate and some in the sector sort of outsource a bunch of this, the distribution centres and so on from what I understand.

Could you just talk through the complexity of this exercise and how outsourced versus doing it within Viva and what's the prize in terms of margin? Is this over and above the 90 million uplift? Thanks.

Jevan Bouzo:

Thanks. Yeah, no, great question. I would say it's within the 90 plus. I mean we sort of -- we get in the habit of putting a plus on things, and we'll do our best outperform over the long term. But I wouldn't think about it as being additional and extra at this stage. It's definitely complex.

And when you think about, I mean, pretty much everything we are working on and a lot of the items we've delivered over the past 18 months have been incredibly complex. And if anything, our challenge has been trying to deliver all of these projects at once rather than in sequence like you would do if you had a more stable business.

But -- the supply chain is a really interesting one. We've actually got a live working example in South Australia. We've transitioned the Reddy Express stores in Northern Territory and South Australia off the Coles supply chain and product supply agreement and into the consolidated OTR supply chain.

I won't go too much into the detail of how we set it up because I do think our supply chain will become one of the areas that is a competitive advantage for us, particularly with the scale that we've got around the country.

But there are some challenges with using traditional models that petrol and convenience operators use where they outsource elements of the supply chain. And as a result, are forced to rely on a lot of direct-to-store deliveries and multiple deliveries for different types of products.

The opportunity that we're pursuing, which is effectively the model in place in South Australia is to consolidate all of that into one distribution centre. And when you look at some of the things that we're employing that have already existed in the OTR business, some will exist in our business going forward.

They're not necessarily new they're just new to petrol and convenience. And so the supply chain that we'll implement nationally is not dissimilar to the supply chain that supermarkets might run at a larger scale, is just different to what petrol and convenience operators do because, as you say, they outsource a lot and they rely on multiple direct-to-store deliveries from suppliers because of the complexity.

I think one of the benefits we've got with the scale that we now have on the convenience side, is that we can start to tackle some of those more complex projects and turn them into a competitive advantage for us.

Those are the sorts of things that allow us to run a store that's a similar size to a normal petrol and convenience outlet but have 4x the range of an expanded food and beverage offer. And the gross margin of the stores in New South Wales at the moment that have converted to OTR and not yet seeing the benefit of a supply chain like that.

So I think we'll see further benefits of that once it's implemented. But the good thing is we're not doing something that's never been done before. We're just doing something that so far hasn't been done in petrol and convenience outside of the OTR business in South Australia. So a good model to replicate and a good model to roll out nationally.

Mark Wiseman: Thanks, Jevan. That's really helpful. And congrats on the new stores they're looking great.

Jevan Bouzo: Thanks. Appreciate it.

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

Michael Simotas: Hi, guys. Thanks for taking my questions. The first one for me, just making sure we all understand the baseline for the convenience retail business. And I think that disclosure around the second quarter really helps. When we look at what the business delivered in the second quarter versus the first quarter, there were puts and takes, but most of the uplift was due to better fuel margins and fuel margins across the industry were very buoyant in the second quarter.

We'll see where they go from here. But so far, in the third quarter, they've been a bit lower than that and somewhere between the first and the second quarter. Is there anything else you can do there to manage your fuel pricing and fuel margin more effectively? So you don't give that up and the second quarter does become the baseline for the go forward?

Jevan Bouzo: Yes. I mean it's been a real focus for us. I think our volume performance was quite good through the first half, and I think we managed to deliver a pretty reasonable volume and share results through the second quarter while capturing the additional margin.

I think we'll continue to do that, and that's a real focus for us and for the team. I don't want to make excuses, but I would say that through the periods from October when we started shifting stores off the Coles systems and onto our own systems, right through to the end of March, where we're running the network across multiple ERPs.

And so everything was a little bit more difficult, and we were having to work harder to manage the network. Now that we've got everything off the Coles system, we've concluded the transitional services, the team have got a better level of access to data and pricing information. There's still some more work to do to bring systems together into one through the course of the next 12 months to 18 months.

But definitely have a better opportunity with the systems place now, the Liberty business and the offer that comes with that, that I talked to really manage and optimise the volume margin mix and feel pretty confident that we'll be able to hold that through the second half.

Michael Simotas: Okay. Thank you. And if I look at your shop margin in the first half, it was up on a reported basis, but tobacco mix would have been quite a nice tail win there

and it looks like at least in the second quarter, you've improved your tobacco gross margin percentage as well.

It implies that your ex tobacco gross margin percentage fell pretty sharply year-on-year it maybe 200 basis points or so, is that a similar sort of challenge that should unwind to what you talked about with fuel margins or is there something else going on there?

Jevan Bouzo:

No, it is -- I think that's something we've got to cop on the chin. We saw a fair bit of supplier cost increase come through around the beginning of the year and with all the transition activity, we're slow to both mitigate that through in-store changes and generally pass that on in price.

If you look at our shop price index relative to some of our major competitors. That widened through the first half and we lagged catching up and some of that is responsible for the improvement that we called out in the second quarter. And we'll see us deliver that through the second half as well.

So yes, it has been something that I which we had've managed more quickly and better, but something that at least we're able to fix fairly easily and working on that into the second half as we speak.

Michael Simotas:

Okay. No, that's a good point. And the last one for me. On the 50 million group-wide cost initiatives that you called out a little while ago in the second half seems like that number is still pretty consistent with what you've presented today.

When you first disclosed that number, you suggested that, that would be mostly temporary cost benefit and it would eventually come back into the P&L. Has the thinking around that changed and you think you might be able to retain some or most of that 50 million?

Jevan Bouzo:

I would think about the 50 as improving the underlying earnings back to the direction of what we had previously called out as the baseline businesses that we acquired. So it's a bit of a hard one that one because earnings are obviously depressed at the moment in part because of the softer environment, but also because of the focus on the transition and integration activity.

There's some short-term mitigations that you would typically take to manage earnings through a soft period and the 50 is a lot of the sorts of things that we're

doing right now to offset that and to recover from the first half. And ultimately, that forms part of the underlying earnings going forward.

And then you're really thinking about the integration synergies as being the additional uplift. So -- that's still the way that we're thinking about it. As we look forward and perhaps we see some further rate cuts and some positive improvements in consumer sentiment and people spending a little bit more on discretionary items, particularly in convenience stores.

There'll obviously be a little bit of labour that comes back in line with transaction growth and those sorts of things, but I would hope that we continue to see the positive earnings trajectory rather than just rolling that 50 million of cost out into the future.

Michael Simotas: Yes. That makes sense. Thank you.

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

David Errington: Good morning, everyone. I think it's afternoon now. Jevan, can I direct you to Page 21. Look, everyone's talking about margin. I know it's important, but at this stage, couldn't care less about cost outs for a brand-new transition. I'm worried about the sales growth. And I'm a little bit please, I don't want to sound rude.

So forgive me if I'm sounding rude, but I'm a little underwhelmed by that pickup in sales on those conversions. And I'm a bit worried hearing today that there's a bit of execution risk in the retail side of the business. And I worry when I see that second bullet point, that you eliminated fly by shopper discounts, Reddy Express and the Tencent promotions.

Why would you do that with a conversion? Why wouldn't you go full court press to just get customers in the store because this is -- the conversion has to be about getting customers in? You got to get the sales growth. Now I know that you've got to manage short-term earnings, I get it.

But if you can't get the sales up, you're just not going to get the job done. Why would you cut those offers to customers, why wouldn't you just go all out to get customers into these stores? Because you got 4x the stock, 4x the availability of products.

I don't care less about the costs at the moment, the savings. It's not about the synergies. This is about the concept of getting customers in to really shop, shop, shop, shop. And a retailer just got to get your sales. You've got to get sales. And I'm a little bit underwhelmed that you're only doing just under 10% on a conversion. I would like to see that 20%, 30% growth.

So can you give us a bit of -- I don't want to be rude, please, but I'm listening to this call today and it's all about cost management. It's all about margin management. I want to see more of sales growth. I want to see you driving sales harder because if you don't get the sales this isn't going to get the job done. So can you comment on that?

Jevan Bouzo:

Yes, totally and it's a huge focus for us. So don't get me wrong. I think we're talking a little more about some of the short-term impacts and how we're going to tackle them. But it's no surprise from the last 6 months, 12 months, somewhere we're heading that we're absolutely on balance, long-term focused about building the business.

And I think that's right. I think -- I mean, sales is important, but I also think about it, David, in the context of transactions and visitation and awareness. And so some of those programs are not suited to the OTR offer, Flybuys is and that has been a systems challenge for us.

There's quite a bit to do to integrate between all the different systems, off coals, transitional services arrangements into OTR systems into the ERPs that we've built. And so I expect that Flybuys will come very quickly. That's not far away and then we will be able to offer that across all OTR stores, not just conversion sites.

But some of the other things are a bit of a challenge like the Reddy Express spend \$20 in store, save \$0.10 per litre. I mean that's a historical promotion that has existed right back into the Coles Express days. It's really a sales driving promotion at the expense of margin and not really consistent with what the OTR offer stands for.

The shopper docket is a bit of a systems integration thing. So that will come in time too. There are offsetting promotions in the OTR business. There's the adoption of the OTR app. There's a coffee pre-order. We've been running a number of shop promotions on launch.

But the challenge for us, I think is not about the promotional activity in store at this stage. It's about getting customers off the street and inside the shop and giving people products at cheaper prices once they get there is probably not the answer, but the key focus for me, David, is exactly as you say.

It's getting people off the road and into the shop and not just on the forecourt. And so I think that will come as we get some more sites and we build awareness. I think that will come as we market a little bit more heavily and actively as we start to convert some of the better performing sites in more prominent locations, which is what we've done in the past month or two.

The four sites that we started with, remember one is in South Australia, three are in New South Wales, they were not best locations or premium sites and some of the sites that we're converting now are. So I definitely think that the sales growth will come.

The reason I called out those promotions and changes is because when you look at Express stores and the Reddy Express network, there are a number of things in place like those promotions that hold sales at a higher level than the margin deserves if that makes sense.

And when you take them out, that can have the early effect of dampening the sales number, while you're actually growing food and beverage sales quite materially, while you're growing basket size and starting to build awareness of a new offer.

So I'm not as worried as you call out about those sales numbers, and I'm quite optimistic about seeing sales continue to grow in the future. But sales that are much more profitable and much more useful for customers as well.

David Errington:

With these new conversions that you're coming up, better sites, can we expect to see 15%, 20% uplift because that's the sort of number that I'd be hoping you'd see. Is that a fair approx that these four stores aren't really that great and that the better ones you will get a bigger uplift? Is that what you have mentioned in your answer?

Jevan Bouzo:

Yes. I mean, I think so. I think the question is just how long does it take because you got to remember, too, like when we close a store for four to five weeks of conversion and then you reopen for the first couple of weeks, people haven't quite realised that it's reopened. And so for some of the conversions

that we completed and opened in the past two months, it's still early days, but we're already seeing really strong results.

I mean the positive for me is that food and beverage sales are up like immediately when you reopen and the sort of uplift on food and beverage sales is material. And it's obvious, right? I mean it's obvious because Reddy Express doesn't really have any food and beverage and an OTR has a lot. And so people walk in and they buy that sort of stuff. And you see that in the margin because obviously a higher-margin product.

David Errington:

Yes. Leah Weckert, I jumped off Coles' call and she said some really positive things about green shoots toward the consumer now starting to come back and buying more food. Hopefully, that can transpire in the next 6 months for you guys as you do more transitions that you'd be doing this in a stronger environment.

I don't know whether you're seeing much green shoots, I suppose it's still too early, but I suppose that was a bit more of a statement than a question. But the next question is on segmentation. I mean I like -- I don't know if I like segmentation in petrol offers. And I don't know whether this UGO and this unmanned concept is going to help you in On The Run.

What's your thinking towards segmentation, Jevan. I mean, my worry is it brings the margin down for the whole industry. Can you actually segment a fuel offer? Like can you localise an offer? Because my worry is, once you start going down the path of segmentation, it spills across the entire industry, and it brings the margin down for everyone.

How can you effectively segment? Or I mean they do it in supermarkets, they try to, although Coles did it with Bi-Lo and they exited Bi-Lo. Can you do segmentation in petrol? I'm not sure you can without an industry dilution margin.

Jevan Bouzo:

Yes. I mean I tend to think about it as serving different customers in different ways. So I mean, I suppose don't start from the network, start from the customer and think about how we best serve the guests that visit our stores. There is actually very little overlap in shop and fuel transactions across our network, across both networks. It's obviously smaller in OTR.

And so those customers that would go to an unmanned fuel offer, they exist today. They're the people that try to fill up at the bottom of the cycle at the

cheapest point. They're probably the people that go to a discount fuel store like a Liberty or a United or a Metro. And so I think it's more about how can we best serve those customers. I can see a world where in certain markets, there are some customers that are more suited to a discount fuel offer when they need to fill up.

And there are some customers that prefer a premium brand and premium fuels, and we can coexist in a market with the Shell site and a Liberty site and serve both and that there will be a huge cohort of people, some of which who might go to a discount fuel outlet to get their fuel that will regularly and always want to stop in an OTR because they want a hot dog, they want a soft serve, they want the best coffee in the country. And they're happy to visit an OTR to get it or to even use an app to pre-order it.

So I tend to think about it a bit less in the context of segmenting the network and more in the context of how can we use all of the sites that we have, the levers in our business to serve our customers and guests in the best possible way for everything that they need in the space.

David Errington: Okay. Thanks, Jevan. I appreciate it. And hopefully, this transition doesn't end up killing you.

Jevan Bouzo: Thanks, David. Still alive at the moment.

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

Scott Ryall: Sorry, I'll try and talk you back off the cliff, Jevan. Hey, I've got a quick question on Slide 13. Hopefully, you can -- this is relatively quick. Can you just confirm with the ERP, you've obviously built it, is every single convenience and mobility site now on that ERP? And if not, when does that all happen?

Jevan Bouzo: Yes. Thanks. So, what we've done is effectively taken a copy of the ERP system that existed in OTR. And we've used that configuration to stand something up that can run the Reddy Express stores, and get us off the Coles legacy systems. So we haven't yet gone to one.

We've exited the Coles systems, and we now have one ERP that we're maintaining to run the Reddy Express stores, and we have the existing legacy

OTR ERP that runs the OTR network and the associated businesses that came with that acquisition. So we're down to two.

And we're working to bring those two together, which we expect will happen through the course of 2026, but it definitely puts us in a much better position than we were in before, where we were having to rely on effectively someone else's system maintained and run by someone else under a transitional services agreement.

So we've got full control of our systems and platforms now, but still some more work to do to really rationalise them get some further savings at an overhead level and tidy up the reporting to get it to, I guess, a state that we're really happy with that enables us to run the business really hard.

Scott Ryall: Okay, cool. And just concerning Liberty goes on presumably to the new one that you've built.

Jevan Bouzo: Liberty has come with its own platform and its own management team. So separate at the moment. And because of their model, which has traditionally been a commission agent model, there's a pretty light overhead that's associated with that business. So no real urgency to move that into the operating platform of the rest of the network, but it does remain an opportunity for us in future years. But definitely enough on the slate at the moment. And that's one that won't necessarily change overhead or result in a lot of synergy delivery right now.

Scott Ryall: Okay. Great. But basically, you can -- because you mirrored the OTR platform, you can see even though they're not together, you can see data in a like-for-like basis between your incumbent network -- the Coles network and the OTR network? Is that a fair statement?

Jevan Bouzo: We can now, yes, starting to. We -- obviously, it was a lot more difficult to do that until recent months when we got off the Coles transitional services and onto our own platforms and still working to tidy up reporting a little bit, but that's largely behind us, which is good.

Scott Ryall: Okay. Great. Thank you. Carolyn, the next question is for you, just Slide 8. If it's okay to -- so if I look at the underlying free cash flow section that you put in there, and if I added the conversion capex once it starts accelerating for the business as usual capex that you put there, looks to me like you're going to be

pretty close to free cash flow breakeven. Now obviously, if you improve EBITDA materially, that changes. But just in the near term, as we're going through the transition on C&M and you start ramping up the capex.

I wonder if you could just comment on the Board's willingness to draw down meaningful additional debt to go for capex at the moment. You've indicated where the debt metrics are and particularly thank you for pointing out the net debt, including revolving facility metrics there. So just how high can you take it before you start to the year, as you said, towards the end of '27?

Carolyn Pedic:

Yes. Thanks for the question. And I mean, it's important that we keep on referring ourselves back to our capex guidance. And we do have a range of growth capex there, and we can -- and we've pointed out that that is across the business. So it's growth across the business, and we can flex depending on what competing returns are between the different businesses.

So we do have that lever which is really, really important. That capex guidance is critical that we continue to adhere to. So I wouldn't be saying that we're going to push ourselves into really, really tight territory in order to achieve these conversions. We need to really see how earnings are panning out as well.

As I said, what's lining up from a growth capex perspective and what makes the most sense at the time. So -- we've talked about looking at our targets to dig here towards FY '27, and we remain committed to that.

Scott Ryall:

Okay. So there's a -- I don't want to put words in your mouth, but is there a world in which the conversion rate has slowed down because the free cash flow is not there, and you've got competing priorities within the business?

Carolyn Pedic:

I mean, I guess you're always going to -- if you're really in a position where we're not seeing the returns, then that's when you start to slow down investment. And I think that's just a normal part of business decision-making. If we're seeing the returns, and of course, our earnings are going to grow and that's certainly going to assist us to make decisions to invest. So I think we've really just got to see the returns, what position we're in, in order to see all of this play out over the next couple of years.

Scott Ryall:

Fair enough. Thank you. And then the last question, just on the write-down of right-of-use assets. Now I don't know who -- maybe this is continuing with you, Carolyn. But historically, for obvious reasons, accounting-wise, they've been

very similar to the long-term lease liabilities and they move in the same direction by about the same magnitude.

With the write-down, they've obviously gone in opposite directions. Now I understand why, but obviously, that's created a bit of a divergence. So can I -- I guess my question on this specifically is, is there something different about the length of the lease liabilities in the OTR business relative to the incumbent business, if I can call it that. And maybe can you confirm what the duration of those leases is, please?

Carolyn Pedic:

Yes. So I mean I can give you a bit of colour around the impairment and Jevan, you can probably add a bit of colour around the leases as well. But from -- I guess, from an impairment perspective, it's important to, I guess, reiterate that this is not an impairment of the business level, at the Convenience and Mobility business level.

It is a site-by-site individual impairments. And -- as you mentioned, this is primarily the right of use lease assets that is being impaired. I guess the challenge that we have is from an accounting standards perspective is that we have to look at the accounting calculated value of the business and compare it to the right-of-use assets and property and plant equipment on a site-by-site basis.

And we can only do that for the duration of the lease that we've got in place. So in terms of the actual number of sites impaired, it's actually a majority of the sites or the SMGB sites because they, of course, been impacted by illicit tobacco as we've talked about.

And overall, we've got a softer trading environment that we've been talking about today. You have to project these cash flows forward from January this year, which has been a weak period and new growth from there over the lease term.

In terms of the actual dollar amount of impairment, it is sitting in a higher proportion within OTR, but once you start to break that down that includes store 24s, which haven't been converted. You're talking about new industry sites from the last 12 months, once you sell it down to actual OTR stores, it's a very, very small percentage.

And as we said, we do have longer leases in OTR at this point in time because we just commenced the full portfolio. So that naturally gives you a higher right-of-use asset. So it's just the mechanics that fall out of that. But Jevan, did you want to comment on the leases?

Jevan Bouzo:

Yes. Look, I think it's just a normal feature of retail businesses. You just look at individual site profitability over time and you compare that to the size of the right of use asset that's associated with the lease liability. In our sector, we've got long leases and a lot of our leases have been set relatively recently, which from a business sense is a really good thing for the business because we've got long leases in place.

We've got security of 10-year oversights that are impossible to replicate and a long period of time over which to recover investment in sites such as conversions and redevelopment.

So a really good feature of the business. Of course, what that means is that when you have long leases and long prime terms, you have those larger right-of-use assets and through periods of softer trading you're required to review site profitability based on current levels against those right-of-use assets and make tweaks to them.

In the context of the total assets employed in the business, it's a relatively small proportion, well less than 10%. And so -- if you think about a network of our size having a sort of small proportion impairment like that from time to time is not an issue. So no concern from my perspective and something that I think is pretty typical on the retail business.

Scott Ryall:

Okay, thank you. That's all I have.

Operator:

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

Scott Wyatt:

Thank you very much for all your questions. I might just wrap up with a few comments about the businesses we didn't talk about today, which is obviously commercial and refining. Commercial, of course, had another very solid first half. I'm really happy with how that business has been performing not only this year but over a number of years now. It's been a very solid contributor to the business.

We have quite a lot opportunities happening and being explored within that business and heading into the second half, even though the half seasonally a week of commercial, I'm really confident the business will continue to deliver a really solid result in the half ahead.

And in case of refining, we're obviously finishing the half with stronger margins that has continued through July and even now through our major maintenance event as well, which we've gone into very well prepared. It's progressing well, and we continue to make good progress on the commissioning of the Low Sulphur Gasoline project, which together with the turnaround, we expect to start up in early October.

So I think as we head into quarter 4, if the refining margin environment prevails, and we have some confidence that will be the case, then we potentially -- we should run into the quarter 4 with all activity behind us running in a clean environment through the rest of the year into next year and enjoying what we think will be some margin uplift from Low Sulphur Gasoline production as well.

So I think across the board with retail now in a period of the transition behind us and obviously, real focus on trading and delivering the store conversions, refining in completing a major investment period running at a clean operating environment and commercial continuing to be a strong contributor really have high confidence we'll finish the year strongly with a nice momentum across all our businesses heading into 2026.

So that's obviously all ahead of us, but we know what our priorities are, we're pretty clear on what we need to deliver, so -- and the opportunity ahead. So thanks very much for your questions. Thanks, again, for all your support and look forward to talking to you again in the future.

Operator:

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

[END OF TRANSCRIPT]