ASX Release

28 March 2024

Viva Energy completes acquisition of OTR Group

Viva Energy Group Limited (the Company) is pleased to announce it completed the acquisition of OTR Group on 28 March 2024.

The acquisition advances Viva Energy's strategy to transform into a leading convenience and mobility business, leveraging OTR Group's advanced convenience and quick service restaurant (QSR) offering.

"Today's announcement marks a critical step forward in the Convenience & Mobility business's ambition to grow earnings beyond $500 million over the next five years," said Viva Energy CEO and Managing Director Scott Wyatt.

"Having completed the OTR Group and Coles Express acquisitions, we will extend our world-class convenience retail offering across the largest company-operated network in Australia, with a pathway to more than 1,000 stores."

About OTR Group

As at 31 December 2023, OTR Group comprises:

- A network of 226 stores comprising 195 fuel and convenience stores and 31 stand-alone stores, of which 42 are located outside South Australia. The business has leasehold rights to a growth pipeline of 85 sites across the country, which will be developed into new OTR stores over the next few years;
- Within the network there are 94 QSRs including Subway, Wokinabox, Guzman Y Gomez, KrispyKreme, Hungry Jacks and Oporto, of which 75 are fully integrated under the same roof as the convenience offering, often sharing the same counter;
- The Smokemart and Giftbox (SMGB) network, which provides tobacco wholesale arrangements to OTR and other retail third-party networks. It has 278 company-owned and controlled leasehold stores across Australia, together with an online retail portal, and;
- The OTR fuel wholesale and lubricants businesses (Mogas Regional and Reliable Petroleum), which service commercial customers in regional South Australia and the Northern Territory.

Transaction overview

Viva Energy has paid a headline consideration of $1,215 million to Peregrine Corporation, funded by $1,065 million of debt and working capital, and an equity component of $150 million issued to the sellers. The increase in the cash consideration of $65 million primarily relates to capital expenditure on new stores and acquisitions since the announcement of the acquisition (5 April 2023).

The debt component was funded through existing debt facilities and bridging finance, with long-term debt facilities to be put in place in 2024 (subject to market conditions). Of the equity component, 50% will be escrowed for a 12-month period and the remainder will be escrowed for a 24-month period. The number of shares issued to the sellers was 50,641,458, based on the 20-day volume weighted average price (VWAP) prior to signing the deal.

Strategic rationale

The OTR acquisition provides high-quality, non-fuel earnings, substantial growth potential by extending its sophisticated offering to the Convenience & Mobility (C&M) retail network and approximately $60 million of synergy opportunities[1], largely across the broader Viva Energy C&M business. The acquisition is an integral part of the C&M strategy to grow earnings to above $500 million in five years (end-2028), as set out at our Investor Day in November 2023.

OTR will increase the contribution from convenience earnings to approximately 50% of C&M's total earnings[2] and transactions to more than 250 million per year (versus 164 million prior to completion). As electric vehicle penetration grows over the next two decades, we believe a larger proportion of earnings from a high-quality convenience offering and frequent visitation to our stores will create advantages over competitors.

OTR delivers a best-in-class convenience offering and brand it has cultivated over more than two decades, by leading in innovation and focusing intensely on providing an outstanding customer experience ("Making Life Easy"). Its competitive advantages include:

- A highly scalable convenience offering, featuring pre-designed formats that seamlessly integrate into a variety of shop layouts;
- The capability to operate a large number of QSRs and integrate them with the convenience offering within the same store;
- A 24/7 network of stores that set the benchmark for quality and aesthetics;
- A consistent and wide range of products and services informed by thorough customer research, rather than being influenced by suppliers, and;
- A seamless digital experience with high engagement (13% of fuel purchases and 43% of coffee purchases have involved an in-app purchase or in-store scan this year).

OTR's approach has achieved superior operating metrics compared to leading convenience retail peers. Excluding fuel, in CY2023 the OTR fuel and convenience network generated:

- Sales growth of 5% (17% ex-tobacco);
- Non-fuel sales of $3.9 million per store on average, well above Viva Energy's network at $1.6 million;
- Gross margin of 40%, well above Viva Energy's network at 34%, and;
- >70% of earnings from convenience sales compared to Viva Energy's network at ~30%[2].

Financial impact

In line with the original business case presented at the acquisition announcement, we expect OTR Group to deliver:

- ~$105 million EBITDA (RC)[3] on a pro-rata basis in FY2024;
- Overall synergies of ~$60 million per annum on a post-integration basis, to be achieved over three years through rationalising procurement, overheads (totalling ~$250 million) and fuel supply benefits;
- Corresponding EPS accretion of ~11% on a pro forma FY2023 basis (including expected synergies)[4], and;
- Significant growth through the OTR growth pipeline and transforming the company-operated network to the OTR format, to be realised over five years as the OTR branded network expands and converted stores reach maturity.

To reflect the contribution from OTR Group in FY2024, guidance for the Company's total capital expenditure has increased to between $490 million and $525 million, net of government contributions. The increase to FY2024 guidance reflects:

- Run-rate sustaining investment of ~$80 million per annum in C&M, and;

- Initial capex of ~$50 million per annum on average to transform stores to OTR, net of expected landlord funding.

We expect transaction and integration costs of between $120 million and $140 million through to 2026 relating to both the OTR Group and Coles Express Convenience acquisitions, and stamp duty and advisor costs of $15 million to $20 million relating to the OTR Group acquisition. As at 31 December 2023, $30 million of transaction and integration costs and $7 million of stamp duty and advisor costs have been incurred.

Once long-term debt facilities are put in place, we expect our balance sheet to remain at the lower end of the targeted gearing range (1 to 1.5 times term debt to EBITDA).

Capability

The acquisitions of OTR Group and the Coles Express Convenience business, as well as existing expertise in Viva Energy Retail, bring together a deep capability to deliver on C&M's strategic objectives. Jevan Bouzo, CEO of Convenience & Mobility, leads a team with extensive experience in the convenience sector.

To support alignment with strategic objectives and financial outcomes, the Board has approved a one-off five-year incentive (2024-2028 performance period) for Jevan Bouzo that will replace his LTI entitlement as CEO Convenience and Mobility for the next five years (2024-2028). The grant value of this one-off incentive award, which will be issued in Viva Energy securities, is a maximum of $6.5 million.

The primary part of the incentive (75%) fully vests where C&M EBITDA is $500 million or more in FY2028. A vesting scale will apply from a threshold level of C&M EBITDA on a straight-line basis up to $500 million. This part of the incentive is also subject to a return on growth capital gateway. The second part of the incentive (25%) is subject to strategic measures relating to integration of the Coles Express, Liberty and OTR businesses. These strategic measures include a level of store conversions, growth in the QSR offering, implementation of an EV strategy and expanding the customer loyalty program.

To support Jevan Bouzo, OTR Founder Mr Yasser Shahin has been retained by Viva Energy as a consultant for two years. In addition to supporting the transition of the business to Jevan Bouzo, Mr Shahin is focused on the roll-out of the OTR offer across Viva Energy's company-controlled network.

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Notes:

1. Estimated run-rate synergies of approximately $60 million per annum are anticipated in three years post completion.
2. Based on non-fuel gross margin contribution. Viva Energy contribution based on pro forma Coles Express convenience gross margin as a percentage of total gross margin for the full FY2023 year.
3. Viva Energy reports its 'Underlying' performance on a "replacement cost" (RC) basis. RC is a non-IFRS measure under which the cost of goods sold is calculated on the basis of theoretical new purchases of inventory instead of historical cost of inventory. This removes the effect of timing differences and the impact of movements in the oil price.
4. Based on pro forma OTR Group business case and Viva Energy actual FY2023 EPS (8 months contribution from Coles Express Convenience Retailing business).

Authorised for release by: the Board of Viva Energy Group Limited.

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About Viva Energy

Viva Energy (ASX: VEA) is a leading convenience retailer, commercial services and energy infrastructure business, with a history spanning more than 120 years in Australia. The Group operates a convenience and fuel network of almost 700 stores across Australia, and exclusively supplies Shell fuels and lubricants to a total network of more than 1,300 service stations.

Viva Energy owns and operates the strategically located Geelong Refinery in Victoria, and operates bulk fuels, aviation, bitumen, marine, chemicals, polymers and lubricants businesses supported by more than 20 terminals and 60 airports and airfields across the country.

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