



**COLLINS FOODS LIMITED**

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## ASX RELEASE

### COLLINS FOODS DELIVERS ANOTHER STRONG HALF YEAR RESULT WITH GROWTH ACROSS THE GROUP

**Wednesday, 27 November 2019:** Collins Foods Limited (ASX: CKF) is pleased to announce its results for the half year ended 13 October 2019 (HY20), that saw the Company deliver another period of strong earnings growth.

Commenting on the HY20 results, Collins Foods' Managing Director & CEO, Mr Graham Maxwell said: "Our KFC Australia network delivered enhanced same store sales growth that, with new restaurant openings, drove strong growth in revenue. Combined with management's focus on maintaining strong cost control, KFC Australia's earnings margin grew over the past 6 months. In Europe, we saw value campaigns delivering positive outcomes in Germany, and a strengthened marketing capability and significant changes in the marketing plan being implemented in the Netherlands. In regard to Taco Bell, we opened our fifth restaurant in Queensland during the half year, with imminent openings in Victoria."

#### Key HY20 results (compared to HY19 Underlying pre AASB 16)

- Revenue up 9.2% to \$448.8 million (HY19: \$411.0 million):
  - KFC Australia SSS (same store sales) growth of 4.9% (HY19: 3.1%), with all states showing positive SSS growth; Underlying EBITDA margin (pre AASB 16) of 17.5% (HY19: 17.0%) driven by positive leverage from SSS and strong cost control.
  - KFC Europe SSS growth of 0.1% (HY19: -2.5%) with positive results in Germany driven by value initiatives and national brand refresh.
- Statutory EBITDA (pre AASB 16) up 9.7% to \$58.8 million (HY19: \$53.6 million); and Underlying EBITDA (pre AASB 16) up 7.4% to \$57.7 million (HY19: \$53.7 million).
- Statutory NPAT (pre AASB 16) up 12.1% to \$24.1 million (HY18: \$21.5 million); and Underlying NPAT (pre AASB 16) up 9.1% to \$23.9 million (HY19: \$21.9 million).
- Net Operating cash flow (pre AASB 16) of \$33.7 million, down \$2.1 million on prior half year.
- Net Debt down to \$217.3 million (HY19: \$226.2 million) and Net Leverage Ratio (pre AASB 16) down to 1.84 (HY19: 2.08).
- Fully franked interim dividend of 9.5 cents per ordinary share declared, up 5.6% (HY19: 9.0 cps).

## **KFC Australia network: SSS growth and cost control delivered margin uplift**

Commenting on the HY20 performance of Collins Foods' KFC Australia network, Mr Maxwell said: "Our KFC Australia network is the largest franchisee of KFC restaurants in Australia. This business reported strong same store sales growth over the first half of the current financial year of 4.9%, and importantly all states delivered growth. The first half financial result demonstrates the success of past initiatives implemented, including the expansion of delivery, a successful focus on operational excellence, and an ongoing commitment to product innovation."

Across the Company's KFC Australia network, Underlying EBITDA (pre AASB 16) increased by 12.3% to \$63.1 million reflecting increased sales volumes and efficiencies. Underlying EBITDA margin increased to 17.5%, an increase of 50bps on prior corresponding period, due mainly to positive leverage from SSS growth and strong cost control from improved network systemisation.

Delivery continues to expand across the network, and there are now ~100 KFC restaurants from within our KFC Australia network supporting delivery through Deliveroo and Menulog. The delivery channel continues to exhibit strong growth, especially in metro and densely populated trade zones and is driving incremental sales volumes across the KFC Australia business.

A focus on excellence in operational systems continues to yield gains on core KPIs, with speed of service during peak times increasing by over 10% compared to the prior year and contributing to SSS growth. Additionally, guest satisfaction scores are up by over 11%, well above the KFC national average. As part of the Company's new Performance Operations Platform, quality and margin KPIs continue to be reviewed each period in each restaurant, contributing to further operational improvements and margin stability.

During the half year, there were 2 new restaurant openings, 4 major remodels and 25 minor remodels completed across the network to further support our growth and geographic reach. A multi year rollout of digital menu boards for drive-thrus commenced across the network to further enhance the customer experience.

## **KFC Europe network: return to positive SSS growth**

Commenting on Collins Foods' KFC Europe network, Mr Maxwell said: "In Europe, revenues increased 11.8% to \$63.7 million, with same store sales growth of 0.1% reflecting the early results from new strategies implemented within our network and across KFC's total franchise network in Germany and the Netherlands. With 4 new restaurants built and opened during the period and 1 underperforming restaurant closed in Germany, overall EBITDA (pre AASB 16) margins were impacted by sales de-leverage in the Netherlands and the near-term restaurant opening costs. Across the region, the Company's focus remains on delivering consistently high operational standards and tight margin controls."

The national brand refresh in Germany has delivered positive results and sales improvements in Germany. The brand refresh has been complemented by the introduction of value and snacking as permanent layers. A new TV advertising campaign has been more impactful than in previous years and standardised and simplified digital menu boards have made the customer journey easier. In Germany, 1 underperforming restaurant was closed and 1 new restaurant was built at Bonn Station which is trading in line with expectations.

In the Netherlands, a renewed focus on value and targeted marketing campaigns is being implemented, which is expected to improve trading in the second half of the year. KFC Netherlands has strengthened its marketing capability, with significant changes made in the marketing plan and the appointment of new agencies. Ongoing refinement of the kiosk offering is expected to drive further sales and the introduction of the KFC app and table service continues to be trialled. During the half year, 3 new restaurants were built and opened with all performing to expectations.

## **Taco Bell network: continuing to perform to expectations as rollout accelerates**

Commenting on the rollout of Collins Foods' Taco Bell network, Mr Maxwell said: "The fifth Taco Bell restaurant in Australia was opened during the first half of this financial year, followed by a further 2 restaurant openings subsequent to half year, bringing the total number of Taco Bell restaurants in Queensland to 7. Customers continue to react positively to the differentiated customer experience and unique and exciting products offered by the Taco Bell brand."

New restaurants continue to have strong openings and we will shortly be opening our first 2 restaurants in Victoria. Taco Bell has a strong pipeline of sites in place, with 8 restaurants expected to be opened during FY20. Collins Foods is targeting 20 new Taco Bell restaurant builds in calendar year 2020.

## **Sizzler: continued transition of Sizzler Australia and growing royalties from Sizzler Asia**

Collins Foods continues to transition the Sizzler Australia business, while Sizzler Asia continues to generate strong results. Sizzler revenues decreased 8.9% to \$20.2 million, driven by a lower Australian restaurant count with 2 closures during the first half of the year, bringing the Australian count to 10. Underlying EBITDA (pre AASB 16) was \$2.8 million at a margin of 13.7%.

Sizzler Asia continues to grow existing restaurant sales, with a total of 76 restaurants operating in Asia following 1 recent closure in China. The strong operating performance of the Company's Sizzler franchisees underpinned a 17.9% increase in Sizzler Asia royalty revenue.

## **Gearing at comfortable levels**

At 13 October 2019, Net Debt was \$217.3 million (HY19: \$226.2) and the Net Leverage Ratio (pre AASB 16) decreased to 1.84 (HY19: 2.08).

"Gearing has been maintained at comfortable levels, with Net Debt decreasing in comparison to HY19, as we continue to generate healthy net operating cash flows, and we will continue to focus on reducing our gearing over time as we have done previously," said Mr Maxwell.

## **Growing dividend**

Reflecting the healthy operating cash flows of the business and its growth outlook, the Board has declared a fully franked interim dividend of 9.5 cps, up 5.6% on HY19. This dividend will have a record date of 6 December 2019 and payment date of 17 December 2019.

## **Growth trajectory to continue in the second half of FY20**

Commenting on Collins Foods' priorities for the second half of FY20, Mr Maxwell said:

"The first half of FY20 saw us deliver on all the things that matter – great product and value, brand recognition, innovation and cost control, and further new restaurants. We see us doing the same in the second half of the year, focused on further strengthening all operational systems and executing on initiatives that continue to enhance the customer experience while maintaining operational excellence.

"In our KFC Australia network, delivery has performed strongly, and we plan to further expand the delivery channel across our KFC restaurants where possible. For the remainder of FY20, we plan to build 4 new restaurants, bringing our net new restaurant count to 9 by financial year end and continue our digital menu board rollout for drive-thrus, complemented by ongoing investment in digital channels.

"In Europe, there continues to be an elevated focus on customer experience across the entire KFC network. In Germany, our focus will continue to be on brand initiatives and value offerings to drive sales. In the Netherlands, changes to the marketing plan will see new campaigns rolled out in restaurants before the end of the financial year. A renewed focus on value and targeted marketing campaigns in the Netherlands is expected to improve trading in the second half of FY20. In Europe, we expect to have 4 to 5 new restaurant builds in FY20, with a further 4 to 6 in FY21.

"Taco Bell continues to progress its rollout, with a further 5 restaurants expected to be opened during this financial year in Queensland and Victoria. We are targeting 20 new Taco Bell restaurant builds in 2020. The brand and its products continues to resonate with customers.

"Collins Foods remains focused on delivering great value to our customers, refining the customer experience, and driving transaction growth and sales across the restaurant network both in Australia and Europe. We are well placed to continue growing revenue and earnings in the second half of the year, and deliver another strong full year result for the Company."

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**About us**

Collins Foods Limited (ASX: CKF) is a KFC and Taco Bell franchisee in Australia and KFC franchisee in the Netherlands and Germany, the owner of Sizzler restaurants in Australia and the franchisor for Sizzler in Asia. The Company seeks continuous improvement in all areas of its operations and work towards the following mission: "Establish Collins Foods as a leading restaurant holding company, which operates premier brands where people love to eat and are proud to work." For further information please visit [www.collinsfoods.com](http://www.collinsfoods.com)