

1 December 2020

ASX Market Announcements Office  
10 Bridge Street  
SYDNEY NSW 2000

**Via ASX Online**

Dear Sir/ Madam

**ANNOUNCEMENT FOR RELEASE VIA MARKET ANNOUNCEMENTS PLATFORM**

Please find **attached** an announcement entitled, "*Strong earnings growth delivered despite COVID-19 turbulence*" (**Announcement**) for release via the ASX Market Announcements Platform.

The Announcement sets out contact details for queries relating to the Announcement.

By Order of the Board



**Frances Finucan**  
Company Secretary

## ASX RELEASE

### STRONG EARNINGS GROWTH DELIVERED DESPITE COVID-19 TURBULENCE

**Tuesday, 1 December 2020:** Collins Foods Limited (ASX: CKF) is pleased to announce its results for the half year ended 18 October 2020 (HY21), that saw the Company deliver another period of strong earnings growth despite the impacts of COVID-19.

Commenting on the HY21 results, Collins Foods' CEO, Drew O'Malley, said:

"The Company has delivered a strong result over the first half, effectively managing the economic and operational challenges brought upon by COVID-19. Our team rose to the task of navigating near-constant fluctuations in operating restrictions, while putting the health and safety of our people and customers as our top priority. KFC Australia was the main driver of the strong growth achieved, demonstrating the power of the KFC brand and benefiting from excellent operational disciplines, as well as the growth in digital and delivery channels.

"While KFC Europe had to manage through stricter lockdowns and a second wave of restrictions, sales momentum in Germany remained positive, and our Netherlands restaurants saw promising growth in drive-thru sales. Taco Bell's free-standing drive-thru restaurant sales have now fully recovered to pre COVID-19 levels, and the brand has adapted well to place a greater focus on delivery and takeaway, enabling further rollout of new restaurants over the coming months.

"Our balance sheet has further strengthened over the past half year, with robust sales and disciplined cost controls producing healthy operating cash flows, lowering Collins Foods' Net Debt and Net Leverage Ratio. There is sufficient headroom in both the debt facility and covenant to support the increased dividend payout and our future growth plans."

#### Key HY21 results (compared to HY20 Underlying<sup>1</sup> pre AASB 16)

- Revenue up 11.3% to \$499.6 million (HY20: \$448.8 million):
  - KFC Australia revenue up 15.6% to \$415.5 million (HY20: \$359.5 million); SSS (same store sales) growth<sup>2</sup> of 12.4% (HY20: +4.9%); Underlying EBITDA up 22.4% to \$77.2 million (HY20: \$63.1 million) with an EBITDA margin (pre AASB 16) of 18.6% (HY20: 17.5%)
  - KFC Europe SSS declined 4.2% (HY20: +0.1%), impacted by COVID-19 restrictions
  - Taco Bell shifted towards takeaway channels as a result of COVID-19, with its pace of new restaurant development slightly delayed, but already recommencing
  - Sizzler significantly impacted by COVID-19 with SSS declining 50.7%; Australian restaurants were closed by 15 November 2020
- Statutory EBITDA (post AASB 16) of \$79.6 million (HY20: \$81.2 million)
- Underlying EBITDA (pre AASB 16) up 10.5% to \$63.7 million (HY20: \$57.7 million)
- Statutory NPAT (post AASB 16) of \$16.5 million (HY20: \$20.4 million)
- Underlying NPAT (pre AASB 16) up 15.1% to \$27.5 million (HY19: \$23.9 million)
- Net Operating cash flow (pre AASB 16) of \$57.3 million, up \$23.6 million on prior half year
- Net Debt down to \$170.7 million (HY20: \$217.3 million) and Net Leverage Ratio down to 1.35 (HY20: 1.84)
- Fully franked interim dividend of 10.5 cents per ordinary share declared, up 10.5% (HY20: 9.5 cps fully franked)

<sup>1</sup> HY20 adjusted to exclude the pre-tax impact of make good expenses associated with equipment from a product exit, insurance money relating to material damages and marketing expenditure redirected to digital technology as well as post-tax impact of unamortised borrowing costs being expenses as a result of the refinancing.

<sup>2</sup> Using the same methodology as Yum!

## **KFC Australia: sales and margins demonstrate continuing brand strength**

Commenting on the HY21 performance of Collins Foods' KFC Australia division, Mr O'Malley said: "Our KFC Australia restaurants continued to deliver excellent results and achieved same store sales growth of 12.4%. In uncertain times, research has shown that consumers gravitate towards known and trusted brands; this has underpinned KFC's sales growth. In addition, Collins Foods has made great efforts to engage its customers during the pandemic, emphasising the accessibility, safety and value we offer, adapting our operational model to accommodate dine-in restrictions, and further expanding our drive-thru and delivery capabilities."

The Company's KFC Australia division recorded strong revenue growth of 15.6% compared to the prior corresponding period (pcp). This sales growth combined with effective cost control measures drove increases in the division's Underlying EBITDA (pre AASB 16), which was up 22.4% on pcp to \$77.2 million, and EBITDA margin, which was up 104bps on pcp to 18.6%.

Delivery capabilities have been further expanded to a total of 178 restaurants, up from 137 at the end of FY20. Delivery is now available from three aggregators – Deliveroo, Menulog and DoorDash. 'Click and Collect' and website traffic has further increased over the period as customers continue to transition towards digital channels for their purchases. Overall sales in digital e-commerce channels doubled in comparison with the prior corresponding period.

The Company has also further invested in growing and improving the convenience and accessibility of KFC for its customers. Over HY21 there were 2 new restaurant openings, 1 major remodel and 8 minor remodels completed across the division. The digital menu board rollout program for drive-thrus is well underway, and the implementation of in-restaurant kiosks is due to begin in the second half.

## **KFC Europe: drive-thru helping to reduce the negative impact of COVID-19**

Commenting on Collins Foods' KFC Europe division, Mr O'Malley said: "COVID-19 restrictions in Europe weighed down on the division and will likely continue to do so with the second wave of infections and stricter lockdown restrictions. Our top priority has remained the safety of our employees and customers, and we are ensuring that we can accommodate elevated levels of hygiene and social distancing. Alongside this, we have continued to focus on ensuring strict operational disciplines within the restaurants to drive sales and protect margins as much as possible under the circumstances."

Overall, revenues increased by 1.1% to \$64.3 million, whilst SSS declined 4.2% and EBITDA margin declined by 191bps to 2.4%. In Germany, the continued strength of the marketing campaigns and lighter restrictions supported SSS growth of 0.8%. While COVID-19 had a greater impact on the Netherlands with overall SSS declining 7.0%, drive-thru SSS grew 4.4% (excluding Amsterdam city centre restaurant Damrak which was down due to reduced tourism).

Second wave restrictions will likely impact second half performance. Going into these restrictions the division has adapted its approach to align with changing consumer preferences. Delivery is now available at 21 restaurants in the Netherlands and 5 restaurants in Germany, and 'Click and Collect' has been planned for imminent launch in the Netherlands.

During HY21, 1 new restaurant was opened in the Netherlands. Development pace was slowed due to COVID-19, but a target of 1 to 3 new restaurant builds has been set for the second half. In addition to this, an agreement has been signed to acquire 3 new restaurants in the Netherlands for €2.5 million. These restaurants are in complementary locations to the existing restaurant network and will provide access to new development areas. As Germany has experienced a noticeable increase in the drive-thru channel, any new restaurant build opportunities under consideration remain focused on drive-thru locations.

## **Taco Bell: high awareness and consumer enthusiasm for the brand**

Commenting on the rollout of Collins Foods' Taco Bell division, Mr O'Malley said: "We have continued to refine the Taco Bell business model, with an early shift towards takeaway channels in response to COVID-19, in conjunction with changes in our menu and product offering. The expansion of the Taco Bell network has been delayed due to COVID-19, but there is a strong pipeline in place for FY22."

Sales in free standing restaurants have now fully recovered to pre COVID-19 levels, with the 2 inline restaurants in Victoria returning towards expected levels. The menu and product offering has adapted to offer bigger bundle value meal deals, in part to support the shift towards delivery.

No new restaurants were opened during the period, as the focus was shifted to meeting demand from the delivery and takeaway channels, continuing to support employees and customers, and maintaining high standards of hygiene and safety. New restaurant openings have recommenced with the opening of a new drive-thru restaurant at Roxburgh Park in Victoria on 10 November 2020. Additionally, there is a strong pipeline in place for calendar year 2021. Currently 6 to 8 new restaurant openings are being targeted for that period, with a focus on reaching scale in South-east Queensland and Melbourne within the next 3 to 5 years.

### **Sizzler: Australia closed, Asia improving**

Sizzler is the brand in Collins Foods' portfolio that has been most heavily impacted by COVID-19. Revenues declined 57.1% to \$8.7 million, with SSS declining 50.7% and EBITDA declining to \$(0.6) million.

The 9 remaining Sizzler restaurants in Australia were closed by 15 November 2020, following a brand review. Sizzler Australia's approximately 600 employees were offered appropriate redundancy packages and access to outplacement support; so far over 100 of these employees have accepted positions in Collins Foods' KFC and Taco Bell divisions.

Sizzler Australia received support from the Australian Government in relation to COVID-19 during the half year amounting to \$4.2 million, of which \$2.4 million was a direct pass through (top up to the minimum fortnightly wage of \$1,500), with the balance of \$1.8 million covering wages for hours worked by employees.

Sizzler Asia is improving, after dining restriction impacts led to a 49% decrease in royalty revenue. There are currently a total of 64 restaurants in Asia. Sizzler Asia remains profitable and will continue to be operated as usual.

### **Rapid reduction in Net Leverage Ratio and Net Debt highlight strong balance sheet**

As at the end of HY21, Net Debt was \$170.7 million (HY20: \$217.3 million) and the Net Leverage Ratio decreased to 1.35 (HY20: 1.84).

"We have continued to generate strong net operating cash flows despite COVID-19. This combined with good cash management has reduced our net debt and net leverage ratio to a very comfortable level, well below covenant maximums," said Mr O'Malley.

### **Dividend**

Reflecting the growing operating cash flows, strong balance sheet and growth opportunities being pursued, the Board has declared a fully franked interim dividend of 10.5 cps, up 10.5% on HY20. This dividend will have a record date of 8 December 2020 and payment date of 18 December 2020.

### **Key strategic priorities for FY21**

Commenting on Collins Foods' priorities for the second half of FY21, Mr O'Malley said:

"Despite the challenges imposed by COVID-19, the business is in a strong position financially and operationally. Net debt and leverage levels have significantly reduced due to the strength of our operating cashflows, and the challenges brought on by the pandemic have allowed us to make significant improvements to digital and delivery platforms, which continue to perform well. We see growth opportunities across each of our business units, and we are focused on strengthening the operational foundations and ramping up our new restaurant pipelines to deliver on these opportunities.

"Our KFC Australia division was the key driver of growth over the period, demonstrating the strength of the KFC brand and the trust consumers place in it. We will continue to emphasise the core brand strengths of convenience and value, and accelerate digital initiatives around app and delivery, to maintain and improve customer loyalty and experience. The target of 9 to 12 new restaurant builds in FY21 remains unchanged, and we remain open to pursue acquisition opportunities. Discussions are being finalised with Yum! towards an extended Development Agreement with a minimum 66 new restaurant builds through to December 2028.

"In Europe, we aim to build upon the sales momentum that has been generated in Germany, amplifying the same store sales growth in drive-thru formats. In the Netherlands we will resume the rollout of the value-focused promotional campaigns. As a second wave of lockdown restrictions threatens to impact the second half of FY21, we will focus on operational discipline and routines to protect margin throughout this period. We plan to build 2 to 4 new restaurants, with Development Agreement negotiations underway to provide greater incentives for growth. If any further favourable acquisition opportunities arise in the Netherlands, we will consider them.

"With Taco Bell, our aim is to continue to develop the brand, and drive top-line sales growth through targeted marketing efforts focused on driving trial. We continue to make refinements to the business model and are pleased with the progress on both margins and build costs. While new restaurant builds were put on hold during HY21, a renewed ramp up in development is now underway, with plans to open 3 additional new restaurants in the second half of FY21, and an additional 6 to 8 restaurants by the end of calendar year 2021.

"The Group as a whole has delivered a great result in light of the challenges it has faced over this period. I would like to thank our entire team and loyal customers for their support. Collins Foods will continue to remain focused on what we do best – running great restaurants – and on delivering on the multiple attractive growth runways we see for our business in the years to come."

ENDS

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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, 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)