

ASX RELEASE

COLLINS FOODS LIMITED 2023 AGM MANAGING DIRECTOR & CEO'S REPORT

Friday, 1 September 2023: In FY23, Collins Foods continued to execute on its sustainable growth plans across all three business units whilst managing cost inflation during difficult trading conditions.

The Company achieved this result through its 'restaurants done better' approach to all operations and customer service, focussing on its value credentials and harnessing the strength of the powerhouse KFC brand to lead the sector on value, quality, and taste at a time when this really matters.

KFC

KFC's strong topline growth in Australia and Europe reflect the resilience and trust in the brand during challenging economic conditions.

KFC operations in Australia strengthened in FY23 through an increased footprint and rollout of innovative marketing initiatives that are driving mainstream appeal, while the Company's KFC Europe brand delivered impressive double-digit revenue and SSS growth, even with significant inflationary pressures in the region.

Taco Bell

New brands take time to gain traction, even those with the appeal of Taco Bell. Collins Foods is expanding the brand presence of Taco Bell in Australia by investing in marketing activities and campaigns.

The Company is also being backed by Taco Bell International (Yum!) to raise awareness of the brand and increase sales so the Taco Bell brand can achieve scale within three years.

Financial performance

Collins Foods delivered another solid financial performance in FY23. All business units achieved revenue growth, with KFC Europe seeing double-digit revenue and earnings growth and KFC Australia surpassing the \$1 billion sales milestone. Group revenue increased 14.2% to \$1.3495 billion, underpinned by solid KFC same stores sales growth and the contribution of 21 additional restaurants.

Statutory EBITDA was \$197.9 million, while underlying EBITDA was \$205.1 million, reflecting pressures on supply chains, labour and inflationary costs.

Statutory NPAT was \$11.3 million and underlying NPAT came in at \$51.9 million, due to a non-cash accounting impairment of \$36.7 million for Taco Bell.

Net cash flow from operations decreased to \$146.2 million from \$156.3 million in FY22, as the Company increased its investment in growth initiatives. Net debt grew to \$212.2 million and the net leverage ratio grew from 1.17 to 1.47: (pre AASB 16)

Operational Performance

KFC Australia

The KFC Australia brand is becoming more salient for customers as we continue to expand both its physical and digital presence. In FY23 our growing KFC Australia business delivered more than \$1 billion in revenue, up 10% on the prior year, driven by an expanding network of 272 restaurants and solid same store sales growth. Transactions remained broadly flat on the prior year, in line with the overall Australian QSR market.

Same store sales rose 5.8% over the prior period, reflecting strong growth in e-commerce, increased availability through Uber Eats, and higher ticket. The second half of FY23 saw almost a quarter of all sales come through our growing digital and delivery channels, up more than 7% over the same period last year. Increased accessibility has been a key driver of this growth, with the brand now available through all major aggregators while new digital software has improved personalisation of offers through the app with great take-up of these promotions.

To accommodate our changing order mix and evolving customer trends, we are embedding convenience and innovation in new builds with dedicated delivery-driver entrances and waiting areas, increased kiosk installation, as well as enhanced design and music elements. These improvements were also rolled out to 47 remodelled restaurants during the year. At the same time, we're investing in back-of-house technology to improve efficiency, speed and reduce wastage.

While Australia currently has the highest penetration of KFC per capita of any global market, we still believe there is room to grow with plans to open a further nine to 12 restaurants over the coming year. This is ahead of our development agreement pace.

Underlying EBITDA was \$201.6 million, with the EBITDA margin declining from 21.6% to 19.2% (pre AASB 16: from 17.4% to 15.0%), reflecting the impact of inflationary pressures and supply chain.

KFC Europe

KFC Europe was a standout for the business in FY23, especially considering the challenging local market conditions in which annual inflation more than tripled, high energy costs reached record levels, and there were sizeable increases in labour and food. Same store sales grew +13.9% and revenue increased 31% to \$249.5 million, as Collins Foods was able to utilise marketing activities through the Netherlands Corporate Franchise Agreement (CFA).

Both the Netherlands and Germany saw solid sales transaction volume increases and a higher ticket. The growth in sales was made possible by a margin strategy that prioritised value initiatives and helped mitigate significant cost pressures.

With our increased marketing and operational control, both consideration and conversion increased in FY23, as did our positive value metrics versus competitors.

Like in Australia, innovation is key in our product strategy, with KFC Netherlands' veggie platform one of the highest in the world. Digital channels, at double-digit levels, are key to our convenience strategy, with improvements made to kiosk, delivery, and the introduction of a new app during the year.

Underlying EBITDA grew 19.0% to \$32.8 million. On a post AASB 16 basis, the EBITDA margin contracted from 14.5% to 13.2%, noting that the pre AASB 16 EBITDA margin of 6.6% was consistent with FY22.

Collins Foods has grown its FY23 market share for KFC in the Netherlands to 64%, through our 56 restaurants. This growth is in line with the CFA, which will see the Company target up to 130 net new restaurants by 2031. Collins Foods is seeing support of our leadership from sub-franchisees in the country, which was bolstered by it winning Franchisee of The Year in Western Europe by Yum!. The Company also continues to look for more opportunities to further increase its market share in the Netherlands.

Taco Bell

Collins Foods has initiatives in place to generate more customers for its 26 Taco Bell restaurants in Australia through a metro cluster strategy that focuses on deliveries and marketing that drives more consumer trial and engagement. They feature the value of iconic craveable Taco Bell products at key price points and are based on improved quality of product through increased engagement with local suppliers to create flavour profiles and consistency that suit local tastes.

Taco Bell saw revenue growth of 36.1% to \$48.7 million, due to the opening of eight new restaurants across Australia in FY23. Same store sales improved over the second half in part due to the high 25% delivery mix and successful rollout of Uber Eats, but remained down 4.8% on a full year basis.

EBITDA profitability at the restaurant level was at \$2.8 million, a decrease of \$1.2 million from FY22, and underlying EBITDA saw a loss of \$1.5 million. This loss was expected as Collins Foods continues to invest in Taco Bell's growth initiatives.

Sizzler Asia

Sizzler Asia rebounded as operating conditions normalised with royalty revenue up 45.8% to \$4.1 million, generating EBITDA growth of \$2.9 million – an increase of more than 70% on the prior year. The Sizzler Asia business, considered non-core to our strategy, has now been sold for SGD \$20.2 million under an agreement with a subsidiary of listed Thai company Minor International. The sale is on a cash-free, debt free and working capital neutral basis, and is expected to complete in early July 2023.

The capital has been effectively redeployed to support the expansion of our high-growth European operations.

ESG/Sustainability

Collins Foods' Positive Impact Strategy has some of the Australian QSR industry's most substantial environmental, social and governance targets for a restaurant operator of its size. Over the year, we continued to work towards these targets under the banners of people and communities, planet, and governance.

We pride ourselves on a people-first culture and continue to create unmatched experiences for our team and customers. We continue to regularly promote health and safety practices within our day to day operations to strengthen our safety culture. Enrolment in Collins Foods Giving was stable at 36% despite cost-of-living pressures also impacting our team, with the Collins Family Fund granting \$275k to employees experiencing challenging circumstances. Importantly, our people can now share in our success under a newly launched Ownership Share Plan.

On sustainability, Collins Foods decreased its greenhouse gas (GHG) emissions across its operations by 12.7% in FY23, down 20.3% since FY21, despite continuing to grow its restaurant network. Solar is now installed on all available 162 drive-thru restaurants (subject to landlord and council approvals), with installations in Europe commencing next year. We reduced waste to landfill with a diversion rate of 19.6%, supported by organics waste diversion now in 23 stores, and food recovery partnerships being rolled out to KFC restaurants in Tasmania, Queensland and NSW.

Demonstrating our commitment to best practice ESG standards, Collins Foods has appointed a Group Sustainability & ESG Manager to strengthen our capability in this area and ensure our growth remains sustainable.

Outlook

Inflation continues to be a real part of the Australian and European operating environments, and is expected to impact margins for much of FY24. Encouragingly, most commodities appear to be easing off their peaks and we have initiatives in place across energy, supply chain and menu pricing to mitigate inflationary pressures across all three business units. These short-term headwinds have not changed our growth trajectory and we continue to prioritise customer value to protect transactions and long-term brand health.

Improving brand strength and a recent uptick in market share has validated this is the right approach in the current economic climate. At the same time, e-commerce remains a key growth driver and we continue to increase accessibility of KFC and Taco Bell to meet customers' increasing demand for convenience.

I'd like to take this opportunity to acknowledge all Collins Foods staff for their enormous contribution during the year. Our continued growth in a challenging economic environment is directly attributable to the hard work of our passionate team members. I'd also like to say a special thank you to Group CFO Nigel Williams, who left the business in mid-July. Nigel has been a valued part of our growth story over the past eight years, and we wish him all the best for the future.

Thank you to our loyal shareholders for your ongoing support over the past year. We look forward to executing on our sustainable growth plans for our KFC and Taco Bell businesses, confident that our best days are ahead of us.

ENDS

Authorised for release by the Board

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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 Company seeks continuous improvement in all areas of its operations and work towards the following mission: "Restaurants Done Better." For further information please visit www.collinsfoods.com