



COLLINS FOODS LIMITED

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ASX RELEASE

COLLINS FOODS LIMITED 2024 AGM INTERIM MANAGING DIRECTOR & CEO'S ADDRESS

Friday, 30 August 2024:

Collins Foods delivered another solid performance in FY24, leveraging the inherent resilience of our world-class brands to drive growth, despite the combined impacts of cost inflation and cost-of-living pressures.

We have a long-term mindset and remain focused on managing the controllables — improving accessibility to the brand, optimising operations, and continuing to raise the bar on customer experience. This consistent approach to brand health has proven successful, enabling us to grow revenues and same store sales last year for all three business units despite the challenging retail environment.

Our purpose is to be the best place to work for our people, the best place to dine for our customers, to be a trusted and respected partner for our suppliers and our franchisor, and to deliver superior sustainable long-term returns and wealth creation for our shareholders, while continuing to reduce our environmental footprint.

In times of economic hardship, consumers turn to brands they know and trust. The KFC brand with its 50-year heritage in Australia is well-suited to this volatile economic environment, and we continue to expand and modernise our network to capitalise on growing digital trends. Product innovation and brand-in-culture initiatives, such as the highly successful KFC weddings and Kentucky Fly Chicken campaigns, are also maintaining brand relevance.

The brand is gaining traction and market share in Europe, harnessing increased scale and a significant step-up in marketing effectiveness under our Netherlands Corporate Franchise Agreement.

The Taco Bell brand has made improvements to product quality, marketing and greater availability through delivery aggregators, which last year resulted in positive same store sales and double-digit revenue growth. We continue to strengthen the foundations of the brand in Australia.

FY24 financial performance

As you heard from Robert, Collins Foods delivered record Group revenue of \$1.49 billion in FY24, driven by growth across all business units and the addition of 17 net new restaurants. KFC Australia remains the primary contributor, accounting for three quarters of all revenue, while KFC Europe and Taco Bell continue to develop, with both recording double-digit revenue increases.

While we continue to prioritise long-term brand health, we remain focused on profitability. In FY24 our margin support initiatives across labour, energy and supply chain offset cost inflation across the Group with underlying Earnings Before Interest, Taxes, Depreciation and Amortisation (EBITDA) from continuing operations of \$229.8 million — a 12.0% increase on the prior year.

In FY24, statutory Net Profit After Tax (NPAT) increased to \$76.7 million, up from \$12.7 million in FY23, reflecting profit from the Sizzler Asia sale as well the Taco Bell impairment in the prior year.

Strong net cash flow of \$176.4 million, up \$30.2 million on the prior year, further strengthened our balance sheet and supported re-investment in the business. Net debt reduced by more than \$46 million to \$165.5 million, and the net leverage ratio was reduced from 1.47 to 1.07 (pre-AASB 16) leaving capacity for investments in growth initiatives.

KFC Australia

KFC remained the fastest growing QSR brand in Australia in 2023. Collins Foods was key to this expansion, opening 7 net new restaurants in FY24, bringing our footprint to 279. In a challenging operating environment, revenue from our KFC Australia operations increased 6.6% over the prior year to \$1.12 billion, supported by Same Store Sales of +3.8% and continued growth through digital channels. Increased app adoption lifted digital to more than 30% of all sales in the second half of FY24 — a 6.3 percentage point increase over the same period last year.

Investment in technology, design and back-of-house initiatives further supported growth in these channels, increasing sales capacity and improving customer experience. More than 70 restaurants were remodelled during the year, further modernising our network and improving efficiency.

These operational improvements combined with additional scale and cost control improved EBITDA margins, up 57 basis points over the prior year to 19.8%, mitigating a higher cost environment and more subdued consumer sentiment.

The KFC brand continued to lead the market on critical brand, taste and value metrics and retained market share nationally. As a result, we are well placed for growth as economic conditions improve.

However, we are not resting on our laurels with enhancements to core products, such as the Original Crispy Burger, and ongoing product innovation through Limited Time Offers ensuring we remain top-of-mind and effectively re-engage light or lapsed users.

While Australia is one of the most penetrated KFC markets globally, with a KFC restaurant located within 3km for 71% of Australians, we see further opportunities for growth in this well-established market. We expect to open 9 new restaurants in FY25 — ahead of our development agreement commitment of 7 per annum. We're also open to inorganic growth opportunities as they arise.

KFC Europe

In a tough economic environment, KFC Europe delivered another strong performance last year with revenue up 26.1% over the prior year to \$313.5 million.

Same store sales grew +4.9% — an impressive achievement given we were cycling two consecutive years of double-digit growth and more challenging operating conditions. Same Store Sales in the Netherlands increased +4.3% while Germany was up +6.4%, with growth driven by digital channels, value initiatives and product innovation.

Product innovation is key to broadening the appeal of this world-class brand with localised products, higher welfare chicken, and new veggie alternatives all driving engagement. Our focus on affordability is enabling us to introduce the brand to new audiences even as cost-of-living pressures impact the broader QSR sector. We're also seeing continued growth through in-store kiosks, with digital channels now representing 59.5% and 57.9% of sales in the Netherlands and Germany respectively.

More effective marketing and operational improvements under our Netherlands Corporate Franchise Agreement elevated brand perceptions and mainstream relevance, underpinning market share gains. Brand metrics are now at record highs, with awareness up 7.8 percentage points over the prior year to 55% and consideration improving 0.7%. This is ahead of competitors.

While significant inflationary pressures, particularly in labour, remain across Europe, sales growth, operational initiatives and pricing mitigated higher costs with underlying EBITDA margin increasing slightly to 13.6%.

Collins Foods' European operations now stand at 75 restaurants, an increase of 11 on the same period last year. We continue to find innovative solutions to address development and energy-grid challenges in the Netherlands, including implementing the market's first battery-supported QSR restaurant and introducing smaller-format drive-thrus to unlock new trade zones.

We remain optimistic about Europe's growth potential, and are actively evaluating several inorganic opportunities.

Taco Bell

We are encouraged by Taco Bell's continued recovery over the past year with revenue increasing 11.7% to \$54.4 million. Growth was achieved while operating a slightly smaller footprint than the prior year, reflecting improved product quality, the full-year impact of Uber Eats rollout, and increased investment in media and marketing.

Same store sales also improved, up +3.5%, as a result of more effective media campaigns focused on out-of-home digital marketing to maximise reach and greater availability through delivery aggregators. Digital channels accounted for just over 30% of all sales in the second half of FY24.

These targeted campaigns reinforced Taco Bell's value credentials and highlighted new products at key \$5 and \$10 price points, such as the Enchilada burrito and Lava Crunch burrito meal. Successful collaborations with well-known iconic brands, Arnott's and Vegemite, also increased awareness, engagement and consumer trial.

EBITDA profitability at restaurant level was \$2.4 million, down \$0.4 million from FY23 due to increased investment in marketing and customer experience initiatives. Underlying EBITDA was \$(0.7) million.

Collins Foods' Taco Bell network spans 27 restaurants in suburban metro geographies across Queensland, Victoria and Western Australia. Development remains paused as we continue to optimise our current network, learning from our Victorian restaurants, which remain the strongest performers due to the quality of our locations.

During the year, the Sizzler Asia business was sold for SGD \$20.2 million under an agreement with a subsidiary of listed Thai company Minor International. The sale enabled us to effectively redeploy capital to reduce debt and support our growing European operations.

Sustainability

Collins Foods embodies its 'restaurants done better' ethos, recognising the importance of operating in an ethical and sustainable manner for our long-term success. Over the past year, we've expanded our Environmental, Social and Governance (ESG) program to focus on initiatives under the five key pillars of Operations, People, Communities, Planet and Governance.

We're continuing to reduce our environmental footprint with more than half of our restaurant network generating solar power, environmentally conscious designs being implemented for new builds and remodels, and LED lighting now in all Australian restaurants. New energy initiatives in Europe, such as battery-supported restaurants, have reduced our energy consumption in the region by more than 3% across the network. We've also improved our waste management with all paper and cardboard being recycled while waste cooking oils are being used for biofuels in Australia and energy production in Europe.

On the social and governance front, we continue to put our people first with comprehensive safety training and a newly implemented wellbeing strategy. We're the first employer for many young people, and in FY24 we conducted 445 traineeships and made 813 internal promotions. Our supply chain is almost entirely locally sourced, with all KFC Australia chicken sourced from higher welfare suppliers.

Outlook

As we noted in our Annual Report, significant cost-of-living pressures and a higher cost environment are expected to remain for much of the year ahead, impacting sales growth, with ongoing margin pressure across the Group.

In our recent trading update we confirmed that, for the first 16 weeks of this financial year, the profit gains on higher sales have been more than offset by the impact of persistent inflation on cost of sales, labour and energy. Same store sales performance also continued to reflect weaker consumer sentiment in Australia and Europe and the impacts arising from the conflict in the Middle East, which has affected sales in the Netherlands. As a result, first-half FY25 margins are expected to contract relative to last year.

Commodity inflation continues to trend downwards, however, labour and energy costs remain elevated globally. Initiatives are in place across operations, energy and supply chain to support margins, and we expect them to recover as trading conditions improve.

The current conditions have not dampened our enthusiasm for growth, and over the year ahead we will continue to improve accessibility to the KFC and Taco Bell brands, leveraging our value credentials and product innovation to drive revenue and same store sales for all three business units. We remain open to inorganic opportunities to expand our network, lift revenue and profitability.

On behalf of the leadership team, I'd like to thank all Collins Foods team members for their significant contribution during a challenging year for the business. I'd also like to acknowledge Drew O'Malley, who stepped down from the Managing Director and CEO role to support his family. Drew has been an incredible asset to Collins Foods over the past 7 years, and leaves the Company in a much stronger position. I wish him all the best for the future.

Thank you to shareholders for your ongoing support during the past year. While trading conditions are some of the most challenging we've seen in recent years, Collins Foods is well-positioned for long-term sustainable growth, operating resilient world-class brands within the value-centric QSR sector.

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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, KFC Netherlands corporate franchisee and KFC franchisee in 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.