

## ASX RELEASE

### **SAME STORE SALES GROWTH AND INCREASING MARGINS UNDERPIN ANOTHER STRONG RESULT FOR COLLINS FOODS**

**Tuesday, 25 June 2019:** Collins Foods Limited (ASX: CKF) is pleased to announce its results for the financial year ended 28 April 2019 (FY19), that saw the Company continue to deliver strong earnings growth.

Commenting on the FY19 results, Collins Foods' Managing Director & CEO Graham Maxwell said:

"Over the past 12 months we have consolidated our position as the largest KFC operator in Australia, with initiatives around digital and delivery expected to drive further growth. In Europe, we are refining our KFC offering with a renewed focus on value to drive transactions. Taco Bell continues to perform in-line with expectations, with four stores now opened and strong positive customer engagement with the brand.

"Our focus on operational initiatives across our brands has underpinned another record result, with revenue now over \$900 million and underlying EBITDA of \$113.7 million. The businesses generate strong cashflows that are supporting growth initiatives while also allowing us to steadily reduce gearing. The strong earnings growth has enabled a 14.7% increase to shareholder dividends this year."

#### **FY19: consistent growth**

- Revenue up 16.9% to \$901.2 million (FY18: \$770.9 million):
  - KFC Australia SSS\* (same store sales) growth of 3.7% (FY18: 1.4%), with all States growing
  - KFC Europe SSS\*\* of (3.7%) reflecting lower than expected sales from new products and fewer value offers than prior year
  - Taco Bell rollout progressively increasing
- Reported EBITDA up 25.2% to \$112.2 million (FY18: \$89.6 million):
  - Underlying EBITDA up 20.3% to \$113.7 million (FY18: \$94.5 million)
- Reported NPAT up 20.3% to \$39.1 million (FY18: \$32.5 million):
  - Underlying NPAT up 15.7% to \$45.0 million (FY18: \$38.9 million)
- Net Operating cash flow up 30.9% to \$97.5 million (FY18: \$74.5 million)
- Net Debt down to \$212.5 million (FY18: \$227.2 million) and Net Leverage Ratio down to 1.87 (FY18: 2.14) due to strong operating cash flow
- Fully franked final dividend of 10.5 cents per ordinary share declared, up 16.7% (FY18: 9.0 cps); and total FY19 fully franked dividend up 14.7% to 19.5 cps (FY18: 17.0 cps)

\* SSS using Yum! methodology

\*\* SSS using Yum! methodology on acquired stores

## **Strong growth delivered across KFC Australia**

Commenting on the FY19 performance of Collins Foods' KFC Australia Network, Mr Maxwell said: "Innovation and great value remain at the heart of KFC Australia. Over FY19, KFC Australia performed strongly, with same store sales growth of 3.7% underpinned by initiatives relating to delivery, digital and operations. Our focus on excellence in operational systems continues to yield gains on core KPIs including speed of service during peak times and guest satisfaction."

Across the KFC Australia business, increasing transactions and efficiencies have resulted in underlying EBITDA growing by 20.9% to \$120.0 million. SSS growth and diligent costs control, together with the expansion of delivery options across the network increased EBITDA margins in FY19 to 16.6%, compared to 15.9% in FY18.

The delivery channel continues to grow steadily, with 64 restaurants now supporting delivery through Deliveroo and Menulog. App sales are also showing consistent growth with a range of app only offers now available.

Further supporting growth and geographic reach, seven new restaurants were built and opened during FY19, with two restaurant closures. The final three restaurants acquired as part of the Yum! acquisition were completed early in the reporting period.

## **KFC Europe**

Commenting on the FY19 performance of Collins Foods' KFC Europe Network, Mr Maxwell said: "We completed FY19 with 37 stores operating in the region, having built four new restaurants over the past 12 months. We continue to be focused on driving sales improvements in Germany and the Netherlands, with revenue up 35.2% to \$123.8 million."

Same store sales were down 3.7% due to lower than expected sales from new products and fewer value offers than prior year. EBITDA was impacted primarily by the flow through impact of weaker trading conditions, but also the cost of new restaurant openings and the underperformance of some of the new restaurants.

A national brand refresh has been launched in Germany and this supported by the permanent introduction of a snacking and value layer will drive transactional growth across all restaurants. In addition, there is a specific focus on the Stuttgart region where local marketing campaigns will focus on reinforcing value. In the Netherlands, a renewed focus on value and more targeted product innovation is expected to improve trading during the year while the introduction of multiple digital channels supported by table service will elevate the restaurant experience.

## **Taco Bell**

Commenting on Collins Foods' rollout of Taco Bell in Australia, Mr Maxwell said: "Taco Bell continues to trade in line with expectations, with great value products and contemporary restaurant designs resonating well with our customers. We have now successfully opened four Taco Bell restaurants in Queensland, and continue to work on developing the pipeline for sites, with 10 restaurants planned for opening before the end of the year, including the planned entry into Victoria in early 2020."

## **Sizzler Australia continues to transition; Sizzler Asia delivered solid results**

Sizzler Australia SSS grew 4.4% in FY19 compared to (0.5%) in FY18. Two restaurants closed during FY19, bringing the Sizzler Australia store count to 12 as at financial year end.

Sizzler Asia continues to grow in both existing restaurant sales and new builds, reflected in royalty revenue being up 12.2%. As at financial year end, there were a total of 77 restaurants in Asia, predominantly in Thailand with five restaurant builds between Thailand and Japan and one closure in China.

Overall Sizzler revenue was down 8.0% to \$46.7 million due to the closure of two restaurants in Australia during the year. Underlying EBITDA of \$4.9 million was generated with EBITDA margins increasing to 10.5% from 9.0% in the prior period.

### **Comfortable balance sheet with net debt reducing**

Strong operating cash flows have resulted in Net Debt reducing to \$212.5 million (FY18: \$227.2 million) and Net Leverage Ratio reducing to 1.87 (FY18: 2.14).

“Collins Foods continues to maintain gearing at comfortable levels and generate healthy net operating cash flows to support growth initiatives, pay down debt and reduce leverage,” said Mr Maxwell.

### **New leasing standard**

The Group implemented the new leasing standard (AASB 16) as at 29 April 2019. The new standard requires leases to be recognised on the balance sheet, as a lease asset (right to use the leased item) and a lease liability (present value of lease payments). The Group will apply the modified retrospective approach to existing operating leases, which will be capitalised under the new leasing standard. The cumulative effect on the date of initial application will result in an adjustment to the opening balance of retained earnings, with no restatement of comparative information in the financial statements.

The impact of transition to AASB 16 on the Group's 29 April 2019 balance sheet is expected to be an increase in lease and other related liabilities (debt) of \$366.9 million, an increase in right of use assets of \$368.6 million, and a charge of \$1.7 million, to retained earnings. The overall impact of these changes on the income statement is expected to be minimal over time, however, due to the lease profile there will be an adverse impact in the first year of adoption of approximately \$12.2 million to net profit before tax.

### **Continued growth in dividend**

The Board has declared a final FY19 fully franked dividend of 10.5 cps, up 16.7% on the prior corresponding period (FY18 final dividend: 9.0 cps). This dividend will have a record date of 10 July 2019 and payment date of 25 July 2019.

The total dividend for FY19 is up to 19.5 cps fully franked (FY18: 17.0 cps).

### **Growth priorities for FY20**

Commenting on Collins Foods' growth priorities for FY20, Mr Maxwell said:

“In FY20, our priorities are to continue the execution of operational, delivery and digital initiatives. In our KFC Australia business, we are focused on further expanding the delivery network, rolling out and testing digital initiatives such as digital menu board implementation for drive-thrus, and further strengthening operational systems.

“Throughout our KFC Australia network, we plan to increase the rate of new restaurant builds from eight to nine, to nine to 10 in FY20. This will be complemented by ongoing restaurant refurbishment work across the portfolio to unlock capacity where possible, including the development of dual lane drive-thrus in appropriate locations.

“In Europe, we will be focused on driving KFC sales growth by implementing a greater range of value products across all restaurants in Netherlands and Germany. Specific brand building initiatives in the Stuttgart region are already underway and are expected to improve sales in Germany during FY20. In both markets there will be a focus on elevating the customer experience through multiple digital channels and the trialing of table service.

"Our rollout of the Taco Bell brand in Australia will gain pace during FY20, with further restaurants to be opened in Queensland and the entry into Victoria in early 2020. We intend to complete 10 new restaurant builds by the end of the year, and we remain focused on operational performance to ensure business model returns are delivered.

"Across the Group, our ongoing focus remains to deliver value to our customers, driving transaction growth across our store footprint and geographies, and increasing returns for our shareholders."

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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)