

ASX RELEASE

COLLINS FOODS GROWTH SPARKED BY EUROPEAN RECOVERY

Tuesday, 30 November 2021: Collins Foods Limited (ASX: CKF) is pleased to announce its results for the half year ended 17 October 2021 (HY22), a period that saw the Company continue its growth trajectory, delivering another strong financial performance underpinned by a return to growth in its European operations. Revenue increased by 8.5% to \$534.2 million and statutory EBITDA from continuing operations^[1] up 10.0% to \$92.5 million.

Commenting on the HY22 results, Managing Director & CEO, Drew O'Malley, said: "Collins Foods has successfully leveraged brand strength, scale and operational efficiency to deliver another strong first half result. Record revenues were achieved in KFC Australia, despite cycling exceptional same store sales (SSS) growth in HY21. The KFC brand is stronger than ever and continues to take market share in a growing but competitive chicken category. Growth in digital and delivery channels, ongoing investment in innovation, and a laser focus on customer experience and operational excellence has enhanced convenience and is driving brand loyalty.

"KFC Europe was the standout performer, experiencing a strong recovery with revenue and earnings back above pre-pandemic levels. As dine in customers returned, drive-thru and delivery revenues continued to record high growth levels. Importantly, we made significant progress towards unlocking the long-term potential of our Netherlands business unit, entering into a Corporate Franchise Agreement (CFA) and announcing the acquisition of an additional nine restaurants. The KFC Netherlands CFA will enable us to significantly scale our footprint over the next 10 years, supported by improved marketing activity to drive further brand awareness and growth.

"Taco Bell revenue increased 33.0% to \$14.8 million as we continue to build our restaurant footprint in targeted regions. As a pure play QSR Mexican offering, we are investing in the brand for long-term success with a refined marketing strategy focused on awareness and trial. Mexican is the fastest growing segment of the Australian QSR sector, outpacing broader QSR growth by 32% annually over the last decade, and our accelerating development pipeline will enable us to achieve scale in three to four years.

"Collins Foods increased its restaurant footprint by nine to 322 in HY22, and we remain on track to open a record number of new restaurants this financial year. We have a significant organic growth pipeline and attractive opportunities to reach scale in KFC Netherlands and Taco Bell Australia, while adding to our core KFC Australia footprint."

Key HY22 results^[2]

- Revenue up 8.5% to \$534.2 million (HY21: \$492.3 million).
- Statutory EBITDA from continuing operations^[3] up 10.0% to \$92.5 million (HY21: \$84.1 million).
- Underlying^[4] EBITDA (post AASB 16) from continuing operations up 13.1% to \$94.9 million (HY21: \$83.8 million).
- Statutory NPAT from continuing operations of \$26.4 million (HY21: \$20.9 million).
- Underlying NPAT from continuing operations up 31.6% to \$28.9 million (HY21: \$21.9 million).

[1] Continuing operations exclude Sizzler Australia, which was closed on 15 November 2020

[2] Presented on a post AASB 16 basis

[3] Refer to [1] above

[4] Underlying results exclude restaurant impairments, closure provisions, Netherlands development agreement fee, acquisition costs and marketing expenditure redirected to digital technology

- KFC Australia:
 - Revenue up 4.4% to \$433.7 million (HY21: \$415.5 million);
 - SSS growth^[5] of 0.1% (HY21: 12.4%);
 - EBITDA (post AASB 16) of \$94.3 million at a margin of 21.7% (HY21: \$91.1 million); and
 - EBITDA (pre AASB 16) of \$77.2 million at a margin of 17.8% (HY21: \$77.2 million).
- KFC Europe:
 - Revenue up 31.7% to \$84.7 million (HY21: \$64.3 million);
 - SSS growth of 14.6% (HY21: (4.2)%);
 - Underlying EBITDA (post AASB 16) of \$12.5 million at a margin of 14.7% (HY21: \$5.4 million); and
 - Underlying EBITDA (pre AASB 16) of \$7.0 million at a margin of 8.2% (HY21: \$1.5 million).
- Taco Bell Australia:
 - Revenue up 33.0% to \$14.8 million (HY21: \$11.1 million);
 - EBITDA (post AASB 16) at breakeven (HY21: breakeven); restaurant level EBITDA (post AASB 16) of \$1.7 million at a margin of 11.2% (HY21: \$1.7 million); and
 - EBITDA (pre AASB 16) of \$(1.1) million (HY21: \$(0.6) million); restaurant level EBITDA (pre AASB 16) of \$0.5 million at a margin of 3.7% (HY21: \$0.6 million).
- Net Operating cash flow (post AASB 16) of \$72.3 million (HY21: \$78.2 million).
- Net Debt increased to \$197.6 million (2 May 2021: \$177.4 million) and Net Leverage Ratio increased to 1.41 (2 May 2021: 1.33), retaining significant headroom to support ongoing growth.
- Fully franked interim dividend of 12.0 cents per ordinary share declared (HY21: 10.5 cps fully franked).

KFC Australia: record half year sales

Commenting on the HY22 performance of Collins Foods' KFC Australia division, Mr O'Malley said: "Ongoing high levels of KFC brand awareness has enabled KFC Australia to deliver record revenues, despite cycling three to four years' of SSS growth in the prior financial year. Our operational excellence and investment in innovation has delivered further gains in convenience channels with growth notably across drive-thru, click-and-collect, and delivery."

KFC Australia achieved record revenues of \$433.7 million in HY22, up 4.4% on HY21. Positive SSS growth of 0.1% was achieved despite cycling record comps (HY21: 12.4%), an effective 2-year SSS CAGR of 6.1%. As expected, operating cost inflation rose above SSS growth for the period, slightly contracting underlying EBITDA margin (post AASB 16) to 21.7% (HY21: 21.9%).

KFC brand strength and customer loyalty are at record highs, with consumers increasingly accessing the brand through digital channels. Collins Foods continues to invest in digital initiatives with e-commerce sales, including click-and-collect and delivery, accounting for 16.3% of total HY22 sales (HY21: 12.5%). Ongoing initiatives to further enhance customer convenience include external digital menu boards, which are now installed in 93 drive-thru locations, development of a new native mobile app, and kiosks being extended to 50 restaurants by year end.

Three new restaurants were opened in HY22, with KFC Australia on track to rollout nine to 12 new restaurants in FY22. This growth is in line with the Company's Development Agreement, which outlines 55 new restaurants by 2028. Site selection remains disciplined with cannibalisation factored into new restaurant investment appraisals and the Company's strong balance sheet enabling selective purchasing of freehold sites for future development.

KFC Europe: strong recovery and execution on strategic initiatives

Commenting on Collins Foods' KFC Europe division, Mr O'Malley said: "KFC Europe had a strong start to FY22, with revenue and earnings recovering to above pre-COVID levels, acquisitions performing ahead of expectations, and the execution of the milestone KFC Netherlands CFA setting the business up for long-term growth."

[5] Using the same methodology as Yum!

A strong market rebound to pre-pandemic levels increased revenue 31.7% to \$84.7 million, underpinned by SSS growth of 14.6%, returning EBITDA margin (post AASB 16) to 14.7% (HY21: 8.5%). Netherlands SSS growth was 17.2% (two-year: 6.7%) and Germany achieved 8.9% (two-year: 10.1%). Despite the strong return of dine-in as COVID-19 restrictions eased, drive-thru, digital and delivery sales were maintained at high levels, providing a sustainable base for future growth.

The eight Netherlands restaurants acquired in three separate deals (two net in late FY21 and six in early HY22) are performing above expectations. An additional acquisition of nine restaurants announced in October 2021 (with an expected close early 2022), will take the Company's restaurant footprint in the Netherlands to 44 locations and 55% franchisee share. Acquisitions contributed \$7.9 million to KFC Europe revenue for the half and provide additional trade zones for future development.

As the Company positions itself for longer term growth, a KFC Netherlands CFA was executed with Yum! Brands, under which Collins Foods will manage, oversee and support the Netherlands market and franchisees from 31 December 2021. The CFA provides for up to 130 additional KFC restaurants to be opened over 10 years, with both Collins Foods and independent franchisees to contribute to market development. One new restaurant was opened during HY22 under the existing Development Agreement, which will be superseded by the CFA.

Taco Bell: continuing to drive awareness and trial

Commenting on the rollout of Collins Foods' Taco Bell Australia division, Mr O'Malley said: "We are leveraging our KFC operational experience and QSR know-how to scale our Taco Bell Australia business over the next three to four years. We are investing in a refined marketing strategy to build brand awareness and drive trial, capitalising on strong demand in the attractive Mexican segment. We have a unique value proposition, delivering a great tasting menu at a more affordable price point than others in the category."

Taco Bell revenue increased 33.0% in HY22 to \$14.8 million, reflecting the contribution of five new restaurants. SSS declined 11.2% reflecting the variability in performance often seen during the early stage of brand development, as well as COVID trading restrictions in Victoria. The segment was profitable at the restaurant level EBITDA (post AASB 16) by \$1.7 million and breakeven at the EBITDA level (post AASB 16). The new marketing strategy, with a focus on driving brand awareness and trial, will target regions with clusters of Taco Bells to enhance media effectiveness ahead of the brand reaching scale.

Taco Bell's footprint increased to 17 restaurants in HY22, with 12 in Queensland, four in Victoria and one in Western Australia. The Company's strong visibility over its accelerating development pipeline will enable nine to 12 new restaurants to be built in FY22.

Sizzler Asia: impacted by COVID-19

Sizzler Asia continued to face highly challenging trading conditions during HY22 with Japan and Thailand operating under COVID-19 dining restrictions. As a result, revenue of \$0.9 million was down on the previous corresponding period (HY21: \$1.3 million) and the business delivered EBITDA of \$0.4 million (HY21: \$0.9 million).

Cash flow reinvested for growth

The Company remained highly cash generative during the half, enabling investment in new restaurants, acquisitions, remodels, and other growth capital expenditure. Operating cash flow (post AASB 16) of \$72.3 million was down slightly on HY21 (\$78.2 million), reflecting a small working capital outflow (compared to a significant inflow in HY21) and lower interest payments. With the adoption of AASB 16, lease payments are now reflected in cash flow from financing activities. In addition, the balance sheet remains strong with net debt as at 17 October 2021 of \$197.6 million (2 May 2021: \$177.4 million) and a net leverage ratio of 1.41 (2 May 2021: 1.33).

Dividend growth

Taking into consideration Collins Foods' strong operating cash flows, healthy balance sheet and growth opportunities being pursued, the Board has declared a fully franked interim dividend of 12.0 cents per ordinary share, up 14.3% (HY21: 10.5 cps fully franked). The interim dividend will have a record date of 7 December 2021 and payment date of 22 December 2021.

Positive outlook for continued growth

Commenting on Collins Foods' growth outlook, Mr O'Malley said: "We see attractive opportunities for continued growth across the group, leveraging digital and delivery innovations to further grow our core KFC Australia business and scale our KFC Europe and Taco Bell brands. Collins Foods' strong cash generation and healthy balance sheet supports our growth strategy, and we remain on track to open up to 24 new restaurants across the group in FY22.

"Whilst there is significant opportunity in the medium and long term, uncertainties remain in the short term with rising COVID-19 cases heading into the European winter."

"Our team remains focused on working towards our mission of "Restaurants Done Better". Our emphasis on best-in-class operational execution and implementing positive impact initiatives will underpin our pursuit of sustainable growth through FY22 and beyond."

Investor conference call

A results briefing session for investors and analysts will be held at 12:00pm AEDT / 11:00am AEST today.

Participants can register for the briefing session via:

<https://sl.c-conf.com/diamondpass/10018013-gyr637.html>

Please note that registered participants will receive their dial in number upon registration.

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, KFC Netherlands corporate franchisee, KFC franchisee in 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: "Restaurants Done Better." For further information please visit www.collinsfoods.com