

ASX RELEASE

COLLINS FOODS CONTINUES TO DELIVER TOP-LINE GROWTH AS KFC AUSTRALIA REVENUE SURPASSES \$1 BILLION

Tuesday, 27 June 2023: Collins Foods Limited (ASX: CKF) is pleased to announce its results for the full year ended 30 April 2023 (**FY23**), a period that saw its KFC businesses deliver strong revenue and same store sales (**SSS**) growth despite challenging operating conditions.

Group FY23 results^[1]

- Revenue from continuing operations^[2] up 14.2% to \$1,349.5 million^[3] (FY22: \$1,181.7 million) with growth across all business units
- Statutory EBITDA from continuing operations^[2] decreased to \$197.9 million (FY22: \$207.5 million)
- Underlying^[4] EBITDA (post AASB 16) decreased to \$205.1 million (FY22: \$207.5 million)
- Statutory NPAT from continuing operations^[2] of \$11.3 million (FY22: \$54.1 million), includes a non-cash accounting impairment of \$36.7 million for Taco Bell
- Underlying NPAT from continuing operations^[2] decreased to \$51.9 million (FY22: \$59.0 million)
- Net operating cash flow (post AASB 16) decreased to \$146.2 million (FY22: \$156.3 million)
- Net Debt of \$212.2 million (FY22: \$174.9 million) and Net Leverage Ratio of 1.47 (FY22: 1.17)
- Fully franked final dividend of 15.0 cents per ordinary share (**cps**) declared; total FY23 dividend of 27.0 cps fully franked (FY22: 27.0 cps fully franked)

Commenting on Collins Foods' FY23 results, Managing Director & CEO, Drew O'Malley, said:

"In a year of unprecedented challenges, we are pleased to have maintained our long-term approach to driving sustainable growth for Collins Foods. KFC's strong same store sales performance in both Australia and Europe reflects the strength of this global powerhouse brand and its inherent resilience during challenging economic conditions. Our expanding restaurant network and continued investment in digital and delivery is enhancing brand modernity and increasing convenience, and we remain laser-focused on maintaining best-in-class operational standards to provide an excellent experience to customers in our restaurants.

"Whilst inflationary pressures have played into our profitability in the short-term, our long-term growth plans remain on track, and we will continue to prioritise providing exceptional value across each of our brands as a primary driver of customer retention and engagement. We are managing cost inflation across the Group with initiatives in energy, supply chain, marketing, and pricing helping to mitigate inflationary pressures, protect transaction volumes, and support long-term brand health. While margin headwinds are expected to remain for much of the next year, we expect these to begin to subside and they have not changed our long-term growth plans and outlook."

[1] Presented on a post AASB 16 basis.

[2] Continuing operations excludes Sizzler Asia.

[3] FY23 Revenue includes business rental income of \$0.9m. This is shown in other income in the Financial Report.

[4] Underlying results exclude restaurant impairments, provisions and closure costs, acquisition costs and certain tax and marketing costs.

KFC Australia

- Revenue up 10.0% to \$1,051.3 million (FY22: \$955.5 million)
- SSS growth^[5] of +5.8% (FY22: +1.4%)
- Underlying EBITDA (post AASB 16) of \$201.6 million (FY22: \$206.9 million) at a margin of 19.2%
- Underlying EBITDA (pre AASB 16) of \$157.9 million (FY22: \$166.5 million) at a margin of 15.0%

KFC Australia revenue surpassed \$1 billion for the first time, up 10% over the prior corresponding period (**PCP**), driven by SSS growth and an expanded network of 272 restaurants. Increased SSS growth of +5.8% reflects primarily higher ticket sizes, significant e-commerce growth, and the rollout of Uber Eats. Transaction volumes remained broadly flat on PCP, in line with the overall Australian Quick Service Restaurant (**QSR**) market. Underlying EBITDA (post AASB 16) of \$201.6 million was down 2.5%, with EBITDA margin consistent with previous guidance given ongoing inflationary pressures across labour and supply chains.

Delivery, web and app represented almost a quarter of all sales in the second half of FY23, up from 16.9% last year, underpinned by increased accessibility with partnerships across all major aggregators, including Uber Eats. Investment in new software to support enhanced customer adoption of KFC's app and in-store kiosks is increasing digital ordering and driving higher conversion of personalised offers.

Eleven new restaurants were added to Collins Foods network in FY23, inclusive of one acquisition. The Company continues to track ahead of its development agreement of seven new restaurants annually.

Commenting on the performance Collins Foods' KFC Australia business, Mr O'Malley said:

"KFC's continued market leadership in value, quality and taste metrics has validated its strategy to prioritise long-term brand health over short-term margin pressures. We recognise that today's consumers are facing unprecedented conditions, and by keeping menu prices highly competitive, we continue to re-earn the trust that consumers have built in the KFC brand. We will continue to ensure that KFC is synonymous with value as we move into an even more challenging retail environment, attracting customers trading down from more expensive options and re-engaging light and lapsed users.

"Simultaneously, we will continue to look for new ways to excite and increase our customer base. E-commerce remains a significant growth driver and continues to unlock additional opportunities for the brand, enabling us to personalise customer engagement with exclusive app-only promotions. Innovations in restaurant design and technology support our changing order mix, with designated delivery-driver entrances in new build and high-mix restaurants improving experience for both customers and aggregator partners."

KFC Europe

- Revenue up 31.0% to \$249.5 million (FY22: \$190.4 million)
- SSS growth of +13.9% (FY22: +16.8%)
- Underlying EBITDA (post AASB 16) of \$32.8 million (FY22: \$27.6 million) at a margin of 13.2%
- Underlying EBITDA (pre AASB 16) of \$16.4 million (FY22: \$12.4 million) at a margin of 6.6%

KFC Europe again delivered impressive double-digit revenue and SSS growth, now benefitting from marketing and operational control under Collins Foods' Netherlands Corporate Franchise Agreement (**CFA**). Revenue increased 31.0% to \$249.5 million, supported by strong SSS growth of +13.9%. There were 64 restaurants at the end of FY23. With the completion of the acquisition of eight KFC restaurants in the Netherlands from fellow franchisee R. Sambo, the restaurant count in the Netherlands now totals 72. SSS growth reflected a combination of increased transaction volumes and higher ticket sizes. Germany achieved SSS growth of +17.3% (FY22: +11.7%) and Netherlands +12.8% (FY22: +18.8%).

Underlying EBITDA margin (post AASB16) of 13.2% was in line with previous guidance, down on PCP as Europe experienced record inflation levels impacting labour, utilities, and commodity costs across the supply chain. Sales growth and operational control in the Netherlands partially offset inflationary pressures, with value marketing and pricing strategies supporting transaction and ticket growth. The brand continues to make progress on key metrics as it strengthens its foundations on taste and value.

[5] Using the same methodology as Yum!

Importantly, Collins Foods achieved its first-year Netherlands CFA targets, opening three net new KFC restaurants, in addition to two opened by sub-franchisees, while continuing to build its future development pipeline. A further eight high-quality restaurants were acquired in May 2023.

Commenting on the performance of Collins Foods' KFC Europe business, Mr O'Malley said:

"We were very pleased with the performance of our European operations in FY23. Despite one of the most challenging environments seen in years, KFC continued to exhibit strong same store sales growth in both Netherlands and Germany, and has maintained margins respectably in both countries amidst significant headwinds. The brand has continued to improve traction with consumers, with effective value campaigns and increased digital penetration supporting the key attribute of unbeatable taste.

"We have now increased the size of our European business by over 50% in the last two years via both new builds and selective acquisitions. Our CFA agreement in Netherlands has achieved all targets in its first year, and sub-franchisees have indicated they are pleased with our market leadership. Our recognition by Yum as 'Franchisee of the Year' in western Europe is testament to our standing as a strong operator and a valued partner for growth. We believe this bodes well for our plans to make Europe a key growth driver for Collins Foods, and we will continue to look for opportunities to expand our portfolio and scale the KFC brand in that part of the world."

Taco Bell

- Revenue up 36.1% to \$48.7 million (FY22: \$35.8 million)
- SSS growth of -4.8% (FY22: -8.1%)
- Underlying EBITDA (post AASB 16) loss of \$(1.5) million (FY22: loss of \$(0.4) million) at a margin of -3.2%
- Underlying EBITDA (pre AASB 16) loss of \$(5.9) million (FY22: loss of \$(3.0) million) at a margin of -1.2%

Taco Bell revenue increased 36.1% to \$48.7 million, reflecting the addition of eight new restaurants. SSS improved slightly in the second half of FY23, down 2.5%, reflecting the successful rollout of Uber Eats. EBITDA at a restaurant level was \$2.8 million, with an EBITDA margin of 5.8%, excluding new restaurant opening and brand general and administration costs.

Collins Foods remains focused on returning the brand to growth with newly implemented product quality and marketing initiatives expected to drive brand awareness, trial and sales. Value marketing campaigns are now focused on iconic Taco Bell products, while higher-quality core ingredients are being rolled out to meet Australian tastes.

In line with its suburban metro cluster strategy, Collins Foods opened eight new restaurants over the year and closed its Cairns and Currajong sites in May 2023. This brings total restaurant numbers to 13 in Queensland, nine in Victoria and four in Western Australia. An integrated restaurant connected to BP is expected to open in Underwood, Queensland, in August 2023 before development pauses to focus on SSS growth. In accordance with accounting standards, a non-cash charge has been taken to impair the remainder of this business' asset value.

Commenting on the performance of Collins Foods' Taco Bell business, Mr O'Malley said:

"New brands often take time to gain traction, even ones with the appeal of Taco Bell. Despite the challenges we have encountered, we are encouraged by the experiences of several other international markets for this brand which have taken some time to get going yet are thriving today, and we believe that there is a place in the Australian market for a value-centred QSR offering in the Mexican category. We have continued to work on refining our marketing and enhancing the product quality and we have been pleased with the level of support that Taco Bell International (Yum!) is providing to make the business successful. Our primary focus is on driving same store sales growth to validate consumer appeal and we will continue to evaluate our future plans based on performance against quarterly milestones.

"The successful Uber Eats rollout has increased awareness and we expect further growth from digital and delivery channels with click-and-collect now being trialled in Queensland and Victorian restaurants. Greater financial and marketing support from Yum! will increase media spend, supporting awareness and driving top-line growth. New value-focused marketing campaigns are underway, and we are continuing to improve product quality to meet Australian consumer expectations,"

Sizzler Asia

Sizzler Asia rebounded as operating conditions normalised, delivering a 45.8% increase in royalty revenue to \$4.1 million (FY22: \$2.8 million) and an EBITDA of \$2.9 million (FY22: \$1.7 million).

A wholly owned subsidiary of Collins Foods, CFG Finance Pty Ltd (**CFG**) has entered into a share sale agreement with MFG International Holding (Singapore) Pte. Ltd (**Minor**), a subsidiary of Minor International Pcl (a company listed on the Thai stock exchange), pursuant to which Minor will purchase 100% of the issued shares held by CFG in SingCo Trading Pte. Ltd (**SingCo**) for SGD\$20.2 million^[6] on a cash free, debt free and working capital neutral basis (**Sale Agreement**).

SingCo owns a number of subsidiary entities associated with Collins Foods Sizzler business (**Sizzler**), including the franchisor entities for Sizzler restaurants in Japan and Thailand and the entities that own various Sizzler trademarks and other intellectual property, including the Australian registered trademarks.

On completion of the Sale Agreement, Minor will acquire 100% of Collins Foods' remaining interest in the Sizzler brand and business. Completion is anticipated to occur in early July 2023. It is expected that a book gain of at least AUD\$10.2m will be reflected in the FY24 financial report, together with an additional accounting foreign currency gain.

The sale proceeds will be redeployed to support investment in Collins Foods' high growth European operations.

High cash generative business and dividends

Collins Foods remained highly cash generative in FY23 with operating cash flow of \$146.2 million (FY22: \$156.3 million), facilitating investment in new restaurants, remodels, acquisitions, and dividends. Net debt increased \$37.3 million over the prior period to \$212.2 million, and net leverage ratio increased to 1.47.

Taking into consideration Collins Foods' operating cash flows, strong balance sheet and growth opportunities, the Board has declared a fully franked final dividend of 15.0 cps. The final dividend will have a record date of 11 July 2023 and payment date of 1 August 2023.

This brings the total FY23 dividend declared to 27.0 cps fully franked, in line with FY22's total dividend.

Outlook

Commenting on Collins Foods' outlook, Mr O'Malley said:

"Sales over the first seven weeks of FY24 have been encouraging with all business units reporting positive same store sales growth. KFC delivered +8.8% in Australia, +9.0% in Netherlands, +12.4% in Germany, while Taco Bell reported +2.1%.

"Inflationary pressures are still a very real part of our landscape. While some commodities are stabilising, there can be a lag before some of this flows through to input costs, and we expect margin pressures to persist for much of FY24. Though we certainly have a strong program of initiatives in place to address this in FY24, we will continue to manage this business for the long-term, prioritising brand health via providing exceptional value for consumers, which we believe will become even more critical in the year to come.

"Overall, we remain focused on executing on our long-term growth plans. Our mature KFC Australia network continues to grow with a further nine to 12 new builds planned for FY24. We are continuing to scale our European footprint, particularly in the Netherlands where we are working to build our development pipeline to meet our CFA targets, towards our long-term goal of up to 130 net new restaurants by 2031. As KFC remains underpenetrated in Europe, we also continue to monitor the landscape for additional M&A and growth opportunities.

[6] AUD \$22.8m, based on the exchange rate as at 30 April which was SGD 1: AUD 1.13

"Taco Bell Australia has had an encouraging start to the year, with positive same store sales growth in the first seven weeks, and we have a bold scope of initiatives in place to further support that trend. Despite its challenges, we believe the brand still has the potential to be a platform for growth for Collins Foods, and we will be working closely with Taco Bell International to make the necessary refinements to get the brand resonating with consumers.

"While we expect the year ahead to have ample challenges, we will rely on our deep operational capabilities, as well as the appeal of the brands we operate, to help navigate this landscape. Collins Foods has a proven track record operating one of the world's most recognisable restaurant brands within the highly resilient QSR market. We remain confident our best days are in front of us."

Investor conference call at 11:00am AEST today

A briefing for investors and analysts will be held at 11:00am AEST today. Participants can register for the briefing session via: <https://sl.c-conf.com/diamondpass/10030225-at5dge.html>

Registered participants will receive their dial in number upon registration.

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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