

ASX RELEASE

COLLINS FOODS MAINTAINS SALES MOMENTUM AMIDST CHALLENGING LANDSCAPE

Tuesday, 29 November 2022: Collins Foods Limited (ASX: CKF) is pleased to announce its results for the half year ended 16 October 2022 (**HY23**), a period that saw the brand strength of KFC underpin strong same store sales (**SSS**) growth, helping to mitigate some of the margin headwinds from cost inflation.

Group HY23 results^[1]

- Revenue up 15.0% to \$614.3 million (HY22: \$534.2 million) with growth across all business units
- Statutory EBITDA of \$93.4 million (HY22: \$92.5 million)
- Underlying^[2] EBITDA (post AASB 16) up 0.5% to \$95.4 million (HY22: \$94.9 million)
- Statutory NPAT of \$11.0 million (HY22: \$26.4 million), includes \$11.9 million, after tax, non-cash impairment of 8 Taco Bell restaurants
- Underlying NPAT down 14.2% to \$24.8 million (HY22: \$28.9 million)
- Net Operating cash flow (post AASB 16) of \$69.1 million (HY22: \$72.3 million)
- Net Debt reduced \$6.5 million to \$191.1million (HY22: \$197.6 million) and Net Leverage Ratio decreased to 1.31 (HY22: 1.41)
- Fully franked interim dividend of 12.0 cents per ordinary share declared (HY22: 12.0 cps fully franked)

Commenting on the Company's half-year results, Managing Director & CEO, Drew O'Malley, said:

"In a challenging consumer landscape, we've seen the brand strength of KFC on full display in the first half. Top-line growth has continued at an impressive rate, which has allowed us to mitigate some of the considerable margin headwinds experienced across the business while maintaining the brand's value proposition.

"The resilience of the QSR, and KFC's brand strength in particular, allow us to be well-positioned to appeal to consumers regardless of economic conditions. Whilst we expect inflationary pressures to remain in the near-term, we continue to pursue our long-term growth agenda, and will continue to invest in new restaurant builds, as well as equipment, technology, and operational innovations to provide unmatched experiences for our customers and our people."

KFC Australia

- Revenue up 10.6% to \$479.6 million (HY22: \$433.7 million)
- SSS growth^[3] of +5.1% (HY22: 0.1%)
- Underlying EBITDA (post AASB 16) of \$95.0 million (HY22: \$94.3 million) at a margin of 19.8%
- Underlying EBITDA (pre AASB 16) of \$75.6 million (HY22: \$77.2 million) at a margin of 15.8%.

SSS growth of +5.1% reflected an increased ticket with transactions broadly flat on HY22. A key highlight was the continued growth in digital and delivery, with e-commerce (delivery, web, app) accounting for over 22% of total sales in HY23, up from 16% in HY22.

[1] Presented on a post AASB 16 basis

[2] Underlying results exclude restaurant impairments, and acquisition costs

[3] Using the same methodology as Yum!

The roll out of KFC on Uber Eats was completed in July, and sales via this channel have performed well. KFC is now available on all major aggregators, with delivery sales (including Delivery-as-a-Service (DaaS)) up strongly. In addition, consumer adoption of digital ordering via the KFC app (click and collect) and kiosks is steadily increasing.

Revenue was up 10.6% to \$479.6 million, underpinned by strong SSS growth reflecting the ticket increase from the combined impacts of pricing and shifts toward delivery and dinner occasions. Transactions were broadly flat on prior corresponding period (**pcp**). During the half, three new restaurants were added, including Collins Foods' flagship KFC restaurant on Brisbane's Queen Street Mall. Underlying EBITDA (post AASB 16) grew 0.7% to \$95.0 million, with EBITDA margin of 19.8% in line with expectations, reflecting significant input cost inflation and wage increases.

"KFC's value proposition remains the strongest in the QSR market, benefitting from strategic decisions to keep price increases at or below inflation and competitive relative to peers. We're also improving accessibility to the brand, while further refining and expanding our digital and delivery channels. KFC's successful launch on Uber Eats is seeing us grow our share of the delivery segment, adding to the significant number of existing registered KFC app users, who now also benefit from personalised click and collect offers," said Mr O'Malley.

KFC Europe

- Revenue up 32.0% to \$111.8 million (HY22: \$84.7 million)
- SSS growth of +10.4%
- Underlying EBITDA (post AASB 16) of \$13.2 million (HY22: \$12.5 million) at a margin of 11.8%
- Underlying EBITDA (pre AASB 16) of \$5.6 million (HY22: \$7.0 million) at a margin of 5.0%

Collins Foods continues to scale its European operations and is now enjoying the early benefits of its Netherlands Corporate Franchise Agreement (CFA). Revenue increased 32.0% to \$111.8 million, supported by SSS growth of +10.4% reflecting higher ticket and transaction volumes, a substantial improvement on pre-COVID performance. Germany delivered SSS growth of +14.6% (H1 FY22: +8.9%) while Netherlands achieved SSS growth of +9.2% despite cycling +17.2% SSS in the prior corresponding period.

Underlying EBITDA margin (post AASB16) of 11.8% was down on pcp but remains up on FY21 and pre-COVID. The decline reflects the impact of unprecedented cost inflation in Europe with significant increases in labour, utilities, and across the supply chain.

Inflationary pressures were partially offset by top-line revenue growth and increased operational control under Collins Foods' Netherlands CFA. These include elevated operating standards that have lifted overall franchisee performance and brand quality, and successful new marketing and pricing strategies focused on core products and everyday value that are resonating with price conscious consumers. A newly launched Veggie offering, targeted at evolving consumer demand for plant-based products, is also performing well and creating additional brand perception benefits.

"KFC Europe delivered exceptional revenue and same store sales growth, offsetting some of the unprecedented cost inflation experienced in the first half. We are now seeing the early benefits of our Netherlands CFA with marketing control enabling us to shift the brand away from disruptive value promotions, to focus on core products and everyday value. Our new marketing strategy is translating to increased sales, with higher average ticket values and transaction volume. Importantly, our operational focus is lifting franchisee performance and brand quality, with improvements to restaurant design and e-commerce underway," said Mr O'Malley.

Taco Bell

- Revenue up 42.6% to \$21.1 million (HY22: \$14.8 million)
- Underlying EBITDA (post AASB 16) of \$(0.8) million (HY22: break-even) at a margin of (3.8)%
- Underlying EBITDA (pre AASB 16) of \$(2.3) million (HY22: \$(1.1) million) at a margin of (10.9)%

Taco Bell revenue increased 42.6% to \$21.1 million, reflecting the addition of four new restaurants during the half and seven new restaurants since the corresponding period in the prior year. SSS declined -7.8%. Delivery represented 15.6% of sales, prior to the anticipated launch of Uber Eats early in the second half. EBITDA at a restaurant level was \$1.2 million, with an EBITDA margin of 5.6% excluding new restaurant opening costs and brand G&A.

In HY23, Collins Foods opened four new drive-thru restaurants (two in Melbourne and two in Perth), bringing total restaurant numbers to 13 in Queensland, eight in Victoria and three in Western Australia. To ensure the long-term strength of the brand and to generate the required return on investment, new restaurant builds beyond the five-six sites already committed to have been paused. In addition, a non-cash impairment of \$11.9 million, after tax, was incurred in relation to eight underperforming restaurants.

"We are refining every element of the business, from marketing and media spend to portioning and product quality, to ensure we meet and exceed customer expectations. We have paused new restaurant builds, other than the five-six already committed, to enable us to work with Yum! to regain traction on sales before further recommencing the rollout and scaling the brand. We are confident in the future prospects of Taco Bell given its value position within the fastest growing QSR segment." said Mr O'Malley.

Sizzler Asia

Sizzler Asia continues its positive recovery as operating conditions for dine-in restaurants improved, delivering a 100% increase in royalty revenue to \$1.8 million (HY22: \$0.9 million) and an EBITDA of \$1.2 million (HY22: \$0.4 million). Strong results over the prior period reflect the impact of COVID-19 restrictions in the first half of FY22. The restaurant footprint across Thailand and Japan currently sits at 69 restaurants and seven kiosks.

Cash flow and dividends

Collins Foods remained highly cash generative during the half with operating cash flow of \$69.1 million (HY22: \$72.3 million), facilitating investment in new restaurants, remodels, acquisitions, and dividends. Net debt reduced \$6.5 million over the prior period to \$191.1 million, and net leverage ratio decreased to 1.31.

Considering Collins Foods' operating cash flows, healthy balance sheet and growth opportunities, the Board has declared a fully franked interim dividend of 12.0 cents per ordinary share (HY22: 12.0 cps fully franked). The interim dividend will have a record date of 6 December 2022 and payment date of 29 December 2022.

Outlook

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

"The solid top-line performance in our KFC businesses has continued into the first six weeks of the second half, with same store sales growth of +5.6% in Australia, and +14.8% in Europe. Significant inflationary headwinds are continuing in both markets, with margin pressure expected to remain for the balance of FY23. In the longer term, we are committed to margin recovery while maintaining KFC's value proposition to ensure continued growth and transactions.

"Our KFC development outlook remains robust with nine to 12 new restaurants planned for KFC Australia this financial year. In the Netherlands, we expect to deliver three new restaurants next month, unlocking CFA incentives, and are building the market development pipeline under the CFA to meet our long-term target of up to 130 net new restaurants by 2031. We continue to monitor the Australian and European landscapes for M&A opportunities to increase scale for Collins Foods.

"Despite the current pause on new store development, we expect Taco Bell Australia's rollout of delivery with Uber Eats, product quality upgrades and enhanced value marketing will return the brand to sustainable positive same store sales growth in FY23, establishing a more robust foundation to reignite development for this brand.

"Operating in the resilient QSR sector, we believe we are well positioned to navigate the current challenging environment. When combined with Collins Foods' focus on operational excellence, supported by a highly capable and experienced management team, and the flexibility that comes with a healthy balance sheet, we retain our recipe for success to deliver sustainable earnings growth over the long term."

Investor conference call at 11:00am AEST/ 12:00pm AEDT today

A results briefing for investors and analysts will be held at 11:00am AEST / 12:00pm AEDT today. Participants can register for the briefing session via: <https://sl.c-conf.com/diamondpass/10026585-x1tz3v.html>

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