

ASX RELEASE

COLLINS FOODS DELIVERS ANOTHER STRONG YEAR OF EARNINGS GROWTH DESPITE COVID-19

Tuesday, 29 June 2021: Collins Foods Limited (ASX: CKF) is pleased to announce its results for the financial year ended 2 May 2021 (FY21), that saw the Company deliver robust full-year earnings growth despite COVID-19 turbulence.

Commenting on the FY21 results, Collins Foods' CEO, Drew O'Malley, said:

"Collins Foods successfully navigated the unprecedented challenges of COVID-19 to deliver another year of strong earnings growth in FY21. Our focus on people and operations was critical to this result, as our teams did an exceptional job of keeping our restaurants operating at a world-class level, often without the benefit of dine-in sales channels. As the world emerges from the COVID-19 crisis, we intend to build on this foundation with further investments in our core operations to provide unmatched experiences for our customers and our people.

"KFC Australia was the standout performer with same store sales growing at a record rate of 12.9% and Underlying (pre AASB 16) EBITDA margins reaching 17.9%. As consumers turned to trusted brands and sought convenience, we responded with powerful brand marketing, combined with exciting initiatives in digital and an expansion of our delivery network. Digital and delivery continue to be pillars of our growth strategy for the KFC brand.

"KFC Europe had a more challenging operating environment with margins impacted by ongoing lockdowns and dining restrictions, in place for most of the year. Nonetheless, we were able to leverage weakness in the market to advance our strategic interests there, recently executing a more favourable Development Agreement and increasing our footprint in the Netherlands with the acquisition of a (net) eight new restaurants. Both of these moves will position the European business unit for a favourable recovery. Meanwhile, Taco Bell Australia continues to improve with 57% sales growth and gain in store level profitability. Our focus now returns to building the brand and expanding its footprint, focused on taste, convenience and great value.

"In addition to strong same store sales growth, Collins Foods built and opened 18 new restaurants across the group, consisting of 11 for KFC Australia, four for Taco Bell and three for KFC Europe, funded out of strong operating cash flow. While maintaining an attractive dividend payout, surplus cash flow has been used to further strengthen our balance sheet, reducing Net Debt and affording capacity for further expansion opportunities as and when they arise."

Key FY21 results

- Revenue up 12.4% to \$1.07 billion (FY20: \$948.1 million):
 - KFC Australia revenue up 13.8% to \$900.4 million (FY20: \$791.5 million); SSS (same store sales) growth^[1] of 12.9% (FY20: 3.5%); and an EBITDA margin (pre AASB 16) of 17.9% (FY20: 16.8%)
 - KFC Europe SSS declined 0.6% (FY20: -5.8%) and EBITDA margin (pre AASB 16) contracted to 0.8% (FY20: 5.1%), impacted by COVID-19 restrictions
 - Taco Bell revenue up 57.4% to \$28.0 million (FY20: \$17.8 million) and store level EBITDA of \$1.4 million (FY20: \$0.6 million)
- Statutory EBITDA from continuing operations^[2] (post AASB 16) of \$184.2 million (FY20: \$175.1 million)
- Underlying^[3] EBITDA from continuing operations (pre AASB 16) up 12.4% to \$136.3 million (FY20: \$121.2 million)

[1] Using the same methodology as Yum!

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

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

- Statutory NPAT (post AASB 16) of \$32.9 million (FY20: \$31.3 million)
- Underlying NPAT from continuing operations (pre AASB 16) up 18.2% to \$56.9 million (FY20: \$48.1 million)
- Net Operating cash flow (pre AASB 16) of \$95.9 million, in line with prior year (FY20: \$96.4 million)
- Net Debt down to \$177.4 million (FY20: \$203.2 million) and Net Leverage Ratio down to 1.33 (FY20: 1.69)
- Fully franked final dividend of 12.5 cents per ordinary share declared (FY20: 10.5 cps fully franked). Total FY21 fully franked dividend of 23.0 cents per share up 15% (FY20: 20.0 cps fully franked).

KFC Australia: record results reflect brand strength

Commenting on the FY21 performance of Collins Foods' KFC Australia division, Mr O'Malley said: "Our KFC Australia restaurants achieved exceptional sales performance with strong same store sales growth of 12.9%. This reflects the high trust consumers have in the KFC brand and our strategy of continuously optimising front and back-of-house operational execution across the business. In what was a challenging environment for the foodservice market over the period, KFC Australia increased market share and grew its user base through marketing and menu items that resonated with consumers, as well as a clear focus on guest experience and convenience."

The Company's KFC Australia division recorded strong revenue growth of 13.8% to \$900.4 million, underpinned by same store sales (SSS) growth of 12.9%. This exceptional SSS growth flowed through to Underlying EBITDA (pre AASB 16), which was up 21.6% to \$161.4 million, and EBITDA margin, which was up 1.1% to 17.9%.

Capitalising on consumer demand for convenience, Collins Foods increased its delivery and digital initiatives to include contactless ordering, click and collect, in-store kiosks and an expanded delivery network to further support e-commerce channels. E-commerce sales channels now account for more than 14% of total sales. A total of 202 restaurants now offer delivery with three aggregators (FY20: 138 restaurants) and the Company is operating the recently trialled Delivery-as-a-Service (DaaS) in-house delivery platform.

The Company also accelerated its restaurant rollout, opening 11 new restaurants during the year. In addition, 17 major remodels and 25 minor upgrades were completed during the period. External digital menu boards now feature in a third of drive-thru restaurants and kiosks are currently being trialled in an initial 13 restaurants.

KFC Europe: challenging conditions enable execution of strategic initiatives

Commenting on Collins Foods' KFC Europe division, Mr O'Malley said: "Operations in Europe were challenging, given our business is weighted more to in-line and food court locations than in Australia, which were impacted by ongoing COVID-19 lockdowns and dining restrictions for extended periods during the year. Our focus was first and foremost on the health and safety of our staff and customers, with the risk of COVID-19 very much present across the region. The challenging operating conditions enabled us to make significant progress on strategic initiatives, including the recent signing of a Netherlands Development Agreement and the successful negotiation of three acquisitions, which added a (net) eight restaurants to the portfolio. These initiatives provide Collins Foods' KFC Netherlands operations with scale, ensuring the business is well positioned for growth as restrictions ease."

Revenue increased slightly to \$134.9 million (+0.6%), albeit same store sales declined by 0.6%. The Netherlands' same store sales declined 3.3% due mainly to the higher in-line and city centre restaurant mix, which includes our flagship Amsterdam restaurant in Damrak. Germany achieved positive same store sales growth of 4.2% due to having proportionately fewer in-line and food court restaurants and stronger marketing. Pleasingly, both regions performed strongly at drive-thru locations, with Netherlands' same store sales up 9.5%, and Germany up 12.6%. EBITDA margin (pre AASB 16) declined 4.3% with the flow-through from lower sales in the Netherlands and a higher delivery mix across the business. Non-trading items reflect a strategic reset of the European footprint, with the full impairment of one Netherlands mall location and the provision for closure of two restaurants in Germany.

Collins Foods opened three new restaurants in the Netherlands during the year. The Netherlands Development Agreement to 2025 outlines build targets going forward of two to four new restaurants per year, with significant incentives in place for meeting and exceeding targets. Netherlands corporate activity also increased in H2 FY21, with (net) eight restaurants acquired through the acquisition of three franchise businesses for a total consideration of €10.8 million. These restaurants widen Collins Foods' geographic footprint beyond the existing restaurant network and will provide access to new development areas. The Company's approach to deployment of capital in Germany is expected to remain more selective in the near term.

Taco Bell: improvement evident in brand's early stages

Commenting on the rollout of Collins Foods' Taco Bell Australia division, Mr O'Malley said: "While we are still in the early stages of building the brand here in Australia, Taco Bell has shown noticeable improvement in FY21 with 57% revenue growth and achieving greater profitability at the restaurant level. Consumer adoption of the 'Mexican' category continues to increase and, as a QSR offering, Taco Bell's focus on taste, convenience and value remains a key differentiator. After a COVID-19 related development hiatus in H1 FY21, we opened four new stores in H2 FY21 and our focus has returned to ramping up the build rate in FY22 as we continue to drive brand awareness and trial."

Taco Bell revenue increased 57.4% to \$28.0 million, with the additional contribution from four new restaurants opened during the year, together with the full year effect of FY20 openings. Same store sales growth of 3.9% is based on seven restaurants that have been operational for a minimum of 18 months. While the segment is not yet at breakeven (pre AASB16 EBITDA: \$1.6 million loss), restaurant level profitability has increased to \$1.4 million from \$0.6 million in FY21. Two restaurants, both former Sizzler locations, have performed below expectations and have been impaired, but they will remain open in expectation of future profitability as the brand gains scale.

There were a total of 16 Taco Bell restaurants at year end, with 12 in Queensland and four in Victoria. Nine to 12 new restaurant builds are planned for FY22 as the rollout strategy ramps up, supported by refined marketing designed to drive brand awareness and trial.

Sizzler Asia: profitable despite COVID-19

Despite being heavily impacted by COVID-19, Sizzler Asia remained profitable during FY21 with EBITDA of \$1.6 million and EBIT of \$0.8 million. Revenue declined 46.8% to \$2.5 million due to the significant restrictions on foodservice in Thailand and Japan.

High cash generation and healthy balance sheet

Commenting on the Company's balance sheet strength, Mr O'Malley said: "Collins Foods has remained highly cash generative, both in terms of operating and free cash flow, notwithstanding the accelerated KFC Australia build rate and Netherlands acquisitions. Excess cash flow has been used to reduce debt, leaving our balance sheet in a very healthy position."

Operating cash flow (pre AASB 16) remained strong at \$95.9 million (FY20: \$96.4 million), absorbing the reversal of working capital benefit in FY20 and higher instalments for income tax. At the end of FY21, Net Debt (pre AASB 16) was \$175.8 million (FY20: \$201.0 million) and the Net Leverage Ratio had decreased to 1.33 (FY20: 1.69).

Dividend

Taking into account Collins Foods' strong operating cash flows, healthy balance sheet and growth opportunities ahead, the Board has declared a fully franked final dividend of 12.5 cents per ordinary share, up 19.0% on FY20 (10.5 cps fully franked). The final dividend will have a record date of 8 July 2021 and payment date of 22 July 2021. This brings the total FY21 dividend declared to 23.0 cps fully franked, up 15% on FY20 (20.0 cps fully franked).

Key strategic priorities for FY22

Commenting on Collins Foods' priorities for FY22, Mr O'Malley said: "With continuing strong cash generation and a healthy balance sheet, Collins Foods is well positioned to continue to pursue strategic organic and acquisition growth opportunities across the Group in the year ahead.

"With KFC Australia sustaining the higher sales base and clear brand strength, it will remain the core engine of performance. We are now operating under a new Development Agreement to build a minimum of 66 new restaurants by 2028, and expect to build ahead of the required rate at nine to 12 new restaurants in FY22. Ongoing innovation across digital and delivery, including our delivery-as-a-service initiative, will drive further growth in our e-commerce channels. We have plans to roll-out kiosks in 30 to 50 restaurants and a further 60 digital menu boards in our drive-thru lanes in FY22, towards an ultimate target of having digital menu boards in all restaurants within three years.

"Europe is currently re-opening from the hard lockdowns of FY21 and sales recovery has been promising as restrictions have eased. With a new Development Agreement in the Netherlands and a larger footprint, we are incentivised to drive growth and expect two to four new builds per year going forward. We also remain well placed should further acquisition opportunities arise. While our approach to capital spend in Germany will remain selective, we have positively noted the improvement in business performance there and will continue to monitor the landscape for opportunities to increase openings as conditions warrant.

"Taco Bell is on track for accelerated development in FY22, supported by ongoing consumer demand for Mexican in Australia, and a refined marketing approach. With nine to 12 new restaurants in the pipeline in the year ahead, we remain committed to our strategy of achieving scale within three to five years. New restaurants will be opened in tightly concentrated clusters in Queensland and Victoria and we expect to open our first Perth restaurant in late 2021. Increased points of presence support brand visibility and will be complemented by a simplified marketing strategy that emphasises the core product range and everyday value, as we continue to brand drive awareness and trial.

"Our team remains aligned on delivering on our core mission of "Restaurants Done Better". Our continued emphasis on operational execution, people development, and excellence in store development will underpin our pursuit of sustainable growth in FY22 and beyond."

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 and KFC franchisee in the Netherlands and 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