



COLLINS FOODS LIMITED

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ASX RELEASE

COLLINS FOODS CONTINUES TO GROW KFC BUSINESS

Thursday, 28 November 2013: Collins Foods Limited (ASX: CKF) today announced its financial results for the half year ended 13 October 2013 (HY14) that reflected continued growth in its KFC business.

In addition, the company separately announced the acquisition of Competitive Foods Pty Ltd (Competitive Foods) – the operator of 44 KFC franchises in Western Australia and Northern Territory – and investment in Snag Stand Group (Snag Stand).

Overview of HY14 results

- Revenue of \$198.0 million (HY13: \$197.9 million)
 - KFC SSSG (same store sales growth) of 1.3% (HY13: 3.6%)
 - Sizzler SSSG of -9.4% (HY13: -0.1%)
 - Three new KFC restaurants opened – returns tracking positively
 - Five KFC restaurants refurbished/rebuilt – returns continuing to improve
- Statutory NPAT of \$6.2 million (HY13: \$7.4 million)
- Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) of \$21.4 million (HY13: \$21.5 million)
- Underlying¹ results:
 - EBIT of \$13.1 million (HY13: \$13.6 million)
 - NPAT of \$7.5 million (HY13: \$7.4 million)
- Strong balance sheet with net debt at 13 October 2013 of \$77.9 million (net of \$0.5m capitalised costs), and comfortable net leverage ratio of 1.66x
- HY14 fully franked interim dividend up 12.5% to 4.5 cents per ordinary share (HY13: 4.0 cps).

¹ After adjusting for \$1.9 million impairment charge to Sizzler Mackay

Commenting on the HY14 results, Collins Foods Managing Director & CEO, Mr Kevin Perkins said: “The first half of the 2014 financial year had mixed results with strong underlying growth in KFC earnings offset by timing differences on some KFC advertising spend, subdued performance of Sizzler and an impairment charge for Sizzler Mackay. However, and most importantly, as a group we remain on track to deliver the [normalised] consensus earnings growth for the full year.”

“The competitive challenges continued in the first half, and our businesses have purposefully driven sales through targeted value offers. As a result, we have continued to pursue a number of strategic and operational initiatives across both businesses to counter these challenges, including enhancing operational efficiencies and focussing on innovation and product development to improve our value propositions.

“While we have seen an improvement in Sizzler’s EBITDA margin, the downturn in the casual dining sector due to current economic conditions depressed Sizzler’s top-line revenue and led to a reduction in earnings.

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“Pleasingly KFC revenue continued to grow, albeit dampened by the current market environment. Like Sizzler, the changes we have implemented to our KFC workflows and the efficiency gains across our labour force have also been flowing into improved margins for our KFC restaurants. Timing differences on some advertising in the first half dampened earnings growth for the half, but advertising spend will net out in the second half and not impact KFC earnings growth for the full year.

“Over the past six months we opened three new KFC restaurants and refurbished or rebuilt five KFC restaurants. Returns on refurbishments are continuing to improve, and returns on new restaurants are exceeding expectations. We continue to look for further new restaurant opportunities and are on track to open six or seven new KFC restaurants by the end of our 2014 financial year,” added Mr Perkins.

Dividend

Given the Group’s underlying trading performance continued to improve and strong balance sheet, the Board has declared an interim 2014 fully franked dividend of 4.5 cents per share, up 12.5% on HY13 (HY13: 4.0 cps). This dividend will have a record date of 9 December 2013 and payment date of 20 December 2013.

Priorities and outlook for remainder of FY14

Commenting on Collins Foods’ forward priorities, Mr Perkins said: “We continue to focus on innovation and new product development to maintain and differentiate the market positioning of our KFC and Sizzler restaurants, at the same time as improving margins while managing product pricing.”

“We continue to transition the Sizzler business to address the competitive dynamics in the casual dining segment. The new Sizzler lunch menu launched in July has had a positive impact on lunch sales, a key weakness in Sizzler’s previous offering. We are also revising the dinner menu with food quality improvements to be launched at the beginning of December, putting in place service and hospitality initiatives to drive a better dining experience, and reframing Sizzler’s marketing and communication strategy to distinctly target consumer segments with relevant messaging.

“As we have refined our KFC service flow format, the efficiency gains derived have increased as productivity gains have flowed through to the bottom line. With a continued focus on operating efficiencies, we will roll-out online ordering, tandem lane drive thru, digital menu board and service flow change trials to more KFC restaurants.

“The KFC brand continues to strengthen off the back of marketing campaigns that have resonated with key target demographics. In addition, very successful new products and the WOW Tuesday value offering have been key drivers in continuing to grow revenues. We will build on these successes with new marketing and product campaigns to be launched in the coming months,” added Mr Perkins.

Acquisitions to drive further growth

“The acquisition of Competitive Foods, the KFC franchisee with 44 restaurants in Western Australia and Northern Territory, leverages our experience in this category. Over the second half of 2014 we will look to complete the acquisition and begin integrating this business. With the acquisition being immediately EPS accretive for Collins Foods’ shareholders pre-synergies, meaningful new store roll-out opportunities, and synergies available, we are really excited by the growth opportunities that this acquisition brings.

“In addition, having made a small investment for a half share of Snag Stand, an attractive early stage company in the fast growing fast casual dining sector, we will look to start bringing our know-how and experience to support the current management team in growing this unique business. We see our investment as an attractive opportunity to invest in an innovative dining concept at the early stage of its development,” said Mr Perkins.

For further information please refer to the separate ASX release and HY14 results presentation slides lodged with the ASX today.

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Mr Perkins said that Collins Foods was confident that its businesses, excluding the just announced acquisition of Competitive Foods and investment in Snag Stand, will continue to track as expected for the full year and deliver the consensus FY14 earnings estimate of \$17.3 million normalised NPAT, and deliver the expected earnings growth (pre-impairments and acquisitions).

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About us

Collins Foods Limited (ASX: CKF) operates 125 KFC restaurants (123 in Queensland and 2 in New South Wales) and 27 Sizzler company owned restaurants throughout Queensland, New South Wales and Western Australia. In addition, the Company has 58 franchised Sizzler restaurants around 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.collinsfg.com.au

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