

## ASX RELEASE

### COLLINS FOODS ANNOUNCES ACQUISITION OF COMPETITIVE FOODS AND INVESTMENT IN SNAG STAND

**Thursday, 28 November 2013:** Collins Foods Limited (ASX: CKF) is pleased to announce that it has entered into a binding agreement to acquire Competitive Foods Pty Ltd (Competitive Foods) – the franchisee of 44 KFC restaurants – 40 in Western Australia and 4 in Northern Territory. The company is also pleased to announce that it has made a strategic investment in Snag Stand Group (Snag Stand).

Collins Foods Managing Director & CEO, Kevin Perkins, said that these two strategic initiatives would provide attractive growth opportunities, with the acquisition of Competitive Foods consolidating the Company's position as the largest KFC franchisee in Australia.

#### COMPETITIVE FOODS

##### Acquisition highlights

- Reflects Collins Foods' strategy to grow its KFC network in Australia through consolidation and organic growth
- Increases the number of KFC restaurants by 44 to 169
- Expands Collins Foods' geographical footprint into the key market of Western Australia and provides entry into Northern Territory
- Competitive Foods has a strong management team that will remain in the business
- Provides meaningful new store rollout and organic growth opportunities in Western Australia and Northern Territory, as well as synergy / margin improvement opportunities
- Immediately EPS accretive (pre-synergies) for Collins Foods shareholders, with c15% EPS accretion on a normalised basis in FY15 (pre-synergies and margin improvements)

##### Compelling strategic rationale that delivers attractive growth opportunities

"Competitive Foods is a natural fit for Collins Foods. We are acquiring an existing franchisee of a business we know well. It will expand our restaurant base by 44 restaurants to 169, with 40 in Western Australia and four in Northern Territory," Mr Perkins said.

"Importantly, we will have meaningful new store rollout opportunities in Western Australia and Northern Territory to drive organic growth over the coming years. These markets represent fast growing geographical regions for KFC. In particular, Collins Foods will now have a substantial presence in Western Australia, a large market that has historically been under-penetrated by KFC.

"Competitive Foods has a strong management team in place with a long history in the business. They will be remaining in the business, which will ensure a clean and quick integration while providing business continuity.

"Given Collins Foods' experience and history operating KFC restaurants in Australia, we expect to be able to drive synergies from this acquisition and margin improvements within Competitive Foods. Areas of integration include streamlining back office operations, leveraging management capabilities in our KFC Queensland regional stores and cross-transferring operational learnings.

“Importantly, this acquisition will be immediately earnings per share accretive before synergies for Collins Foods’ shareholders, and substantially accretive from the first full year under our ownership, with an expected 15% uplift in normalised EPS in FY15 before the benefit of synergies and margin improvement. In addition, new restaurant growth and the ability to realise synergies and grow margins will support further earnings growth over the coming years.

“We are really excited by the opportunity that this acquisition brings to Collins Foods’ shareholders. Our strong balance sheet has placed us in a unique position to pursue this opportunity. We are committed to delivering a growth strategy, and Competitive Foods is a logical and sensible acquisition for us,” added Mr Perkins.

### **Acquisition overview**

Under the sale and purchase agreement, Collins Foods will pay \$55.6 million for Competitive Foods. The acquisition consideration will be 100% debt funded. Completion is subject to a number of standard conditions precedent and is expected to be achieved during February 2014.

### **Earnings accretion**

The transaction is expected to be immediately earnings per share accretive (pre-synergies and margin improvement) for Collins Foods’ shareholders. Under the first full year of Collins Foods’ ownership, Competitive Foods is expected to generate a 15% increase in normalised earnings per share in FY15 (pre-synergies and margin improvement). In addition Collins Foods expects to further grow earnings through synergies and lift EBITDA margins by 200 basis points over the first three years.

### **Financial impact to Collins Foods**

Collins Foods expects Competitive Foods to generate \$110 million of revenue and between \$10.0 million and \$10.3 million of EBITDA in FY14 (July to June) before synergies.

In addition, the company expects to invest \$25 million in capital expenditure to upgrade Competitive Foods’ stores over the next four years, with capital expenditure for 10 new stores over this period to be funded from operational cashflow in the WA business.

This acquisition will be 100% debt funded, bringing total Group pro forma net debt post-acquisition to approximately \$137 million. Having successfully refinanced the company’s debt on improved terms in July 2013, the debt package has been extended on similar terms for this acquisition. This level of debt keeps Collins Foods still comfortably within its debt covenants. The strong cash flows of the acquired business will be used to repay debt in the short term.

### **Current dividend payout ratio to be maintained**

Given the strong cashflow profile of Collins Foods’ existing and acquired businesses, and the strategy for the next two years of using the acquired business’ cash flows to pay down acquisition debt, the Directors of Collins Foods intend to maintain the current dividend pay-out ratio of at least 50% of the NPAT of CKF’s existing KFC and Sizzler businesses.

### **SNAG STAND**

In addition to acquiring Competitive Foods, Collins Foods has also invested \$1.85 million to acquire a 50% equity stake in Snag Stand. Snag Stand is an attractive early stage company in the fast growing fast casual dining sector. Existing management will retain a shareholding and remain in the business, with back office support provided by Collins Foods.



“We see our investment in Snag Stand as an attractive opportunity to invest in an innovative dining concept at the early stage of its development. Snag Stand will continue to run independent to Collins Foods. Currently with four company owned stores and one franchisee owned store, the concept is very expandable,” said Mr Perkins.

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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](http://www.collinsfg.com.au)