



Collins Foods serves up some tasty results through COVID-19

Company/ASX Code	Collins Foods Limited / CKF
AGM date	27 August 2020
Time and location	9.30am Virtual QLD
Registry	Computershare
Webcast	Yes
Poll or show of hands	Poll
Monitor	Steven Mabb assisted by Sally Mellick
Pre AGM Meeting?	Yes with Chair Robert Kaye and Director Russell Tate

Please note any potential conflict as follows: The individual involved in the preparation of this voting intention has a shareholding in this company.

Item 1	Consideration of accounts and reports
ASA Vote	No vote required

Summary of ASA Position

CKF is one of the largest restaurant operators in Australia, with 240 KFC restaurants, 12 Taco Bell restaurants, and 9 Sizzler restaurants in the domestic market. It is also operates 40 KFC restaurants in Europe (Germany and Netherlands), and 73 franchised Sizzler stores in South East Asia (including Thailand, China and Japan). All KFC and Taco Bell restaurants are corporate owned and under franchise agreements with Yum! Brands Inc.

Despite the impacts of COVID-19, CKF produced a resilient set of results. Total group revenue was up 8.9% year on year (YOY) following strong same stores sales growth across KFC Australia (+3.5%) though offset by weaker KFC Europe (-5.8%) and Sizzler sales (-5.6%). KFC Australia which is about 80% of total sales closed dining areas, though growth was sustained by a shift towards drive-thru as well as organic store openings. In Europe which is about 14% of total sales, where drive-thru is less common, social distancing restrictions had a more significant impact on revenues but this was cushioned by greater cost control. Underlying profit after tax (UPAT) increased 5.2% YOY to \$47.3 million and Earnings Per Share (EPS) increased 5.0% YOY to 40.29 cents.

As COVID-19 restrictions begin to ease, the company is expecting both in Australian and in Europe a steady normalisation of restaurant traffic in the near-term.

CKF is financially healthy and their solid free cashflow generation will help the company weather the restrictions of in store dining as well as the increased focus on drive thru and delivery.

Governance and culture

The board currently seems to have a balance of independent directors and those with lengthy experience in the quick service restaurant business including international markets. Two of the six board members are female and five of the six directors have significant skin in the game with at least one year's total remuneration in stock.

There is a detailed skills matrix listed for the current board in the company governance statement which appears appropriate for the business at present.

The business uses a Guest Experience Survey (GES) to measure customer satisfaction. In any service business this is a vital indicator of the health of the business and a good pointer on future growth prospects. The scores for this survey form part of the management STI with improvement being sought each year. If the culture of the business is not working or regressing then it's reasonable to conclude the GES scores would be a quick way to identify this.

Key Board or senior management changes

Former CEO, Graham Maxwell retired on 1 July 2020. His successor is Drew O'Malley who has been the Chief Operating Officer since 2017 and looks well suited to the role, bringing with him previous experience at AmRest in fast food restaurant operations across central Europe. The board believe the transitory risks are minimal due to the long handover period.

Christine Holman joined the board in December 2019.

Risk management

The Group undertakes its risk management activities utilising a Risk Management Framework, the methodology for which is consistent with the International Risk Management Standard ISO31000.

Key risks currently identified in the annual report are foreign currency which they are mitigating through hedging.

Other risks identified include food safety, strength of the KFC brand, diversification of the brands, as well as systems and cyber security.

We have discussed risks in general with the Chair Robert Kaye. As this is the first interaction between the board and ASA we asked they speak plainly and be frank with retail shareholders so they have a good knowledge of significant risks and what the company is doing to protect the interests of its owners.

Summary

(As at FYE)	2020	2019	2018	2017	2016
NPAT (\$m)	31.2	39.1	32.4	27.9	29.1
UPAT (\$m)	47.3	44.9	37.6	34.2	31.3
Share price (\$)	7.00	7.45	5.35	5.20	3.98
Dividend (cents)	20	19.5	17	16.93	13.88
TSR (%)	1%	43%	6%	35%	71%
EPS (cents)	40.29	38.36	32.66	35.17	33.18
CEO total remuneration, actual (\$m)	1.36	1.51	1.11	0.95	1.51

For 2020 the CEO's total actual remuneration was **15.1 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2019 data from the Australian Bureau of Statistics).

Note - For November 2019, the Full-time adult average weekly total earnings (annualised) was \$89,585.60 (<http://www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0>, "Full-time adult average weekly total earnings", Trend(a)).

Item 2	Election of Christine Holman as a Director
ASA Vote	For

Summary of ASA Position

Christine Holman was appointed as a Director by the board on 12 December 2019. The constitution requires she retire at the next AGM and is now eligible for election at the AGM.

She has more than 20 years of commercial and Board experience across a variety of areas including mergers and acquisitions, finance, sales, technology, digital transformations and marketing to Collins Foods. Currently, she serves on the Board of ASX companies, CSR Ltd and Blackmores Limited. In her previous executive capacity, as both CFO & Commercial Director of Telstra Broadcast Services, she brings experience of legacy and technologies as well.

Her election would ensure the board has at least 30% female members and her skill set seems appropriate and complementary to the other board members.

She has already shown some commitment to the Company through her purchase of approximately \$95,000 in shares.

Item 3	Re-Election of Russell Tate as a Director
ASA Vote	For

Summary of ASA Position

Russell Tate was Chair of Collins Foods from its listing in 2011 until March 2015 and then continued on as a Non-Executive Director from that time.

He is also Chair of ASX listed Macquarie Media Limited and a Director of One Big Switch Limited.

Given his experience and the overall performance of Collins Foods during his 10 years as a Director we are happy to support his re-election however this would be his final term to be considered as an independent Director according to ASA guidelines.

At the time of writing he held approximately \$208,000 in shares in Collins Foods which is well in excess of one year's fees.

Item 4	Adoption of Remuneration Report
ASA Vote	For

Summary of ASA Position

Departing CEO Graham Maxwell oversaw strong growth and general results over his 5-year tenure, which has seen TSR grow by 28.8% p.a. during that 5-year period. In FY20 his total remuneration declined approx. 10% compared to FY19, even with solid growth of UPAT and EPS in a COVID-19 affected environment.

Most board members and several other senior executives received approx. 10% increases in total remuneration in FY20 vs. FY19.

With at least 50% of the CEO's pay at risk, the remuneration report sets out the methodology and conditions for achievement of STI and LTI payments for executive staff. STIs are paid based on EBITDA achievement vs. target and award scales. 80% of the STI is based on EBITDA targets for FY20. The remaining 20% of the STI is based on improving scores in the guest experience survey (GES). 95% of the EBITDA target must be achieved before payment is made including the GES results. Details of the payment scales and an outline of the GES and how it is administered is laid out in the remuneration report.

The CEO STI is based on 50% of base salary as the target with a maximum opportunity of 75% of base salary.

Long term incentives are based on a 3-year period while ASA prefers LTIs to be paid after at least 4 years. Vesting of LTIs is based on company annualised EPS growth rate. The LTI is 25% of fixed remuneration when EPS growth reaches 5.5% and reaches 50% of base salary on a pro rata basis when EPS growth reaches 11%. The maximum opportunity is 100% of base salary when EPS growth reaches 22% for rights offered in FY20. This maximum opportunity target reduces to 16.5% in FY21.

The board chose not to exercise any discretion in FY20 around STI or LTI despite the COVID-19 impacts.

There were also no Job Keeper payments received in FY20 although management does anticipate some payments being received in FY21.

The remuneration report is clear and well laid out in the annual report.

FY20 CEO Actual Remuneration

CEO rem. framework	Actual/Statutory \$k	% of Total	Max. Opportunity \$k	% of Total
Fixed Remuneration	950k	70%	950k	50%
STI - Cash	352k	26%	645k	25%
STI - Equity	N/A	N/A	N/A	N/A
LTI	58k	4%	860k	25%
Total	1.36m	100.0%	2.455m	100%

The amounts in the table above are the statutory amounts that are envisaged in the design of the remuneration plan. *Target remuneration is sometimes called budgeted remuneration and is what the company expects to award the CEO in an ordinary year, with deferred amounts subject to hurdles in subsequent years before vesting.

Below is the new CEO Drew O'Malley plan for FY21. This total amount compares to the maximum opportunity of \$1.8 million that was set for departing CEO Graham Maxwell in FY20.

CEO rem. framework	Target* \$k	% of Total	Max. Opportunity \$k	% of Total
Fixed Remuneration	754k	50%	754k	36%
STI - Cash	377k	25%	565k	28%
STI - Equity	N/A	N/A	N/A	N/A
LTI	377k	25%	754k	36%
Total	1.508m	100.0%	2.073m	100%

Item 5	Renewal of shareholder approval for LTI Plan
ASA Vote	For

Summary of ASA Position

The LTI Plan is a 3-year plan and was approved at the 2019 AGM. In December 2019 new listing rules took effect requiring disclosure of the maximum number of securities proposed to be issued under the plan. As such the board is seeking to refresh the approval of the LTI Plan.

Since the 2019 AGM 267,536 performance rights have been issued. Zero performance rights have been converted to fully paid ordinary shares since the 2019 AGM.

Going forward the maximum number of performance rights being proposed over 3 years is 1.8 million. These performance rights will be based upon a dollar value divided by the VWAP 5 days before and 5 days after the announcement of audited financial results.

The incentive is based on annual EPS growth. It's a sliding scale with growth below 5.5% resulting in zero performance rights being issued then scaling up to 16.5% EPS growth or higher achieving 100% of performance rights being issued.

EPS is measured by calculating compound growth in underlying basic EPS over the performance period.

Whilst we would prefer a 4-year plan and have advised the company accordingly we are in favour of the LTI Plan overall and believe it appropriately aligns management with shareholder interests.

Item 7	Renewal of proportional takeover provisions
ASA Vote	For

Summary of ASA Position

Collins Foods last renewed the proportional takeover provisions at the 2017 AGM and the board would like to renew these provisions for a further 3 years as they ensure shareholders have an opportunity to decide whether a partial vs a full takeover offer is desirable. We support this resolution.

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