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Collins Foods secret recipe keeps on delivering…

Company/ASX Code	Collins Food Limited / CKF
AGM date	Friday 27 August 2021
Time and location	9.30am at the offices of Clayton Utz, Level 28, 71 Eagle Street, Brisbane, Q, 4000.
Registry	Computershare
Webcast	Yes Hybrid meeting with live questions for virtual attendees.
Poll or show of hands	Poll
Monitor	Steven Mabb assisted by Xavier Goh
Pre AGM Meeting?	Yes with Chair Robert Kaye and Director Russell Tate

Please note any potential conflict as follows: The individual(s) (or their associates) involved in the preparation of this voting intention has a shareholding in this company.

Summary of issues for meeting

To understand the new TSR measure being added to the LTI plan and to clarify Jobkeeper payments received and repaid.

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 252 KFC restaurants and 16 Taco Bell restaurants in the domestic market. All Sizzler restaurants in the domestic market have ceased operations during this period on the 15 November 2020. It is also operating 46 KFC restaurants in Europe (Germany and Netherlands), and 64 franchised Sizzler stores in South East Asia (including Thailand 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 12.4% year on year (YOY) following strong same stores sales growth across KFC Australia (+12.9%) and Taco Bell sales (+3.9%), though offset by weaker KFC Europe (-0.6%).

KFC Australia which is about 84.5% of total sales closed dining areas, sustained positive growth through e-commerce sales as well as organic store openings. The investment in new digital and delivery initiatives is catered to meet the demand in the shift of consumer dining preferences. At this stage, e-commerce sales accounts for approximately 14% of KFC Australia sales.

In Europe which is about 12.7% 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 18.3% YOY to $56.9 million and Earnings Per Share (EPS) increased 20.57% YOY to 48 cents.

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

CKF is financially healthy and their solid free cashflow generation should help the company continue to 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 all six directors have significant skin in the game with at least one year's total remuneration in stock.

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.

This year the company has added a Sustainability Report for shareholders, which is a welcome step and helps clarify what the company has been doing on ESG matters recently and its plans in the near future. Its lists some positive social impacts like a gender balanced workforce and no gender pay gap, as well as their plans to reduce carbon emissions and waste going to landfill over the next 5 years.

Key Board or senior management changes

Non-executive director, Newman Manion, is set to retire at the conclusion of this year's Annual General Meeting. Mr Manion was a director at the time of listing in 2011. It should be highlighted that the recently appointed CEO, Drew O'Malley has also now taken the position of managing director and board member.

Risk Management

The Group undertakes its risk management activities utilizing 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.

Summary

(As at FYE)	2021	2020	2019	2018	2017
NPAT ($m)	32.9	31.2	39.1	32.4	27.9
UPAT ($m)	56.9	47.3	44.9	37.6	34.2
Share price ($)	11.40	7.00	7.45	5.35	5.20
Dividend (cents)	23	20	19.5	17	16.93
Simple TSR (%)	62%	1%	43%	6%	35%
EPS (cents)	48.58	40.29	38.36	32.66	35.17
CEO total remuneration, actual ($m)	1.47	1.36	1.51	1.11	0.95

For 2021, the CEO's total actual remuneration was **16 times** the Australian Full time Adult Average Weekly Total Earnings (based on November 2020 data from the Australian Bureau of Statistics).

Note - For November 2020, the Full-time adult average weekly total earnings (annualised) was $92,034.80 (http://www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0, "Full-time adult average weekly total earnings".

Item 2	Re-election of Robert Kaye SC as a Director
ASA Vote	**For**

Summary of ASA Position

Robert Kaye was appointed as a Director by the board on 7 October 2014.

Robert has significant cross-border experience, including corporate restructuring and M&A across North America, Europe, Asia, and the Australia and New Zealand region. Currently, he is also serving as a non-executive Director of Magontec Limited and FAR Limited.

Drawing on his experience as a senior member of the NSW Bar, including serving on the Professional Conduct Committee and Equal Opportunity Committee, Robert has a strong emphasis on Board governance and is well versed in Board processes.

Given the solid performance of the company while serving as the Chair after the underperformance in the early years after listing in 2011, we will support his re-election.

Item 3	Re-election of Director Kevin Perkins
ASA Vote	For

Summary of ASA Position

Kevin Perkins was appointed as a Director by the board on 15 July 2011.

Kevin is a highly experienced executive in the Quick Service Restaurant (QSR) and casual dining segments of the Australian restaurant industry. He has had more than 40 years' experience with the Collins Foods Group, having overseen its growth both domestically and overseas over that time.

It is to be noted that he is also the non-executive chairman of Sizzler USA Acquisition, Inc and holds approximately 100% of the common stock. With 7,221,484 shares, Kevin is considered to be one of the substantial holders in Collins Foods.

Hence, given his experience and the overall performance of Collins Foods during his tenure as a Director, we are happy to support his re-election.

Item 4	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 2020 AGM. As highlighted in the Remuneration Report for the period ended 2 May 2021, changes to performance metrics and levels of entitlements to performance rights granted under the LTI Plan have been proposed. It is intended that those changes will be in effect commencing Financial Year (FY) 2022. As such the board is seeking to refresh the approval of the LTI Plan.

Since the 2020 AGM, 204,224 performance rights have been issued. Out of which, 1,363 performance rights have been forfeited and 114,866 performance rights have been converted to fully paid ordinary shares, following the review of the vesting conditions. Similar to previous years, 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.

Moving forward, the board has determined that a second performance condition of Relative Total Shareholder Return (TSR) will be introduced to the LTIP, based on a VWAP benchmark of ten trading days in either side of the announcement of financial results. However, it is to be noted that the board will determine an appropriate ASX 200 index which is sufficiently broad to measure relativity from the start of the performance period. We welcome the addition of this measure as it furthers aligns management with shareholder interests.

Compound EPS growth will continue as a performance condition that is weighted equally with Relative TSR. It's a sliding scale with below the 50th percentile resulting in zero proportion of performance rights vested then scaling up at or above the 75th percentile to achieving 100% proportion of performance rights vested.

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

Item 5	**Approve grant of performance rights to Drew O'Malley**
ASA Vote	**For**

Summary of ASA Position

The number of Performance Rights issued to Drew O'Malley will be 74,036. This has been calculated by dividing his FY 2022 base salary of $858,825 by the VWAP of the company's shares for the five trading days up to and including the date that the Company's full year 2021 financial results were publicly released and the five trading days after that date ($11.60). The performance rights granted is subjected to three-year performance hurdles and service vesting conditions.

The performance period spans across three financial periods beginning 3 May 2021 and ends on 28 April 2024.

Item 6	Adoption of Remuneration Report
ASA Vote	For

Summary of ASA Position

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

CEO rem. Framework for FY21	Target* $m	% of Total	Max. Opportunity $m	% of Total
Fixed Remuneration	0.768	51%	0.768	38%
STI - Cash	0.460	32%	0.565	28%
STI - Equity	N/A	N/A	N/A	N/A
LTI	0.239	17%	0.754	34%
Total	1.468	100.0%	2.08	100%

The amounts in the table above are the 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.

The company overall performance has been strong in FY20 despite the COVID-19 pandemic. The company has delivered solid revenue growth and double-digit profit growth and in addition TSR has grown by 62% during FY21.

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 FY21. 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 annualized 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 16.5% for rights offered in FY21.

We would prefer more of the variable pay to be measured against longer term hurdles (only 17% extends beyond the year) and that there be a deferred component of STI. We acknowledge the downward discretion available to the board for withdraw in full or adjust downwards, STI and LTI outcomes, in the event of mismanagement and other failures, but note it is difficult to recall STI awards once paid or vested.

During the year the company received $1.8 million in Jobkeeper payments. Despite the need to shut down the Sizzler division and the resulting redundancy of 110 permanent and 492 casual staff (96 of which were re-deployed into KFC or Taco Bell), the company made the decision to bear the costs of all wages paid and returned all of the $1.8 million of Jobkeeper payments received. We applaud the company for this positive decision and for acting as a good corporate citizen.

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