BURGER FUEL GROUP LIMITED
Annual Shareholders Meeting of BURGER FUEL GROUP LIMITED.
Held at the Rakiura Room, Parkside Hotel & Apartments, 100 Greys Avenue, Auckland, 1010 and via Zoom webinars
Thursday 29 August 2024 at 11.30 am.

Chairman's Address,

Results for the Year to 31 March 2024.

BurgerFuel Group (unaudited) Total System Sales (all three brands, all regions) increased by 10.22% to $117.1M in the same period last year.

The BurgerFuel brand also reached a significant milestone in FY24 and achieved over $100 million (unaudited) in NZ system sales. These sales were bolstered by the opening of BurgerFuel Dunedin in April 2023 and with the introduction of delivery through BurgerFuel outlets. We also recorded a complete year of sales for BurgerFuel Rolleston which opened in October 2022.

In FY24 the Group Revenue increased 13.58% to $27.3M and the Net Profit after tax for the period was $1,327,077 representing a 47.4% increase on the previous year.

The FY24 profit result is the Company's strongest since listing on the NZX in 2007. It reflects the growth and investment strategies that the Board has implemented following the considerable disruption to the business from the Covid years FY20 to FY22 and into FY23.

As noted in our full-year report, the record profit achieved in FY24 was a good result, however, it would have been considerably more (circa 70% increase on FY23) had BFG not been required to incur costs to respond to the opposition that was filed about the proposed return of capital to all shareholders. Unfortunately, those costs also extend into the current financial year.

As of 31 March 2024, 61 BurgerFuel restaurants were operating in NZ (1 more than last year) and in late July 2024, we opened a new BurgerFuel store in Whanganui. It is early days, but to date, the store is performing well and the locals are enjoying being able to finally get their BurgerFuel fix. In April 2024 the BurgerFuel Hereford Street store closed in Christchurch.

There are currently 4 BurgerFuel restaurants operating under license in the Middle East (3 less than last year) excluding some third-party "dark" kitchens operating in the UAE.

In FY24 there were also 4 Shake Out and 2 Winner Winner restaurants operating in NZ. The Group closed their underperforming company-owned Winner Winner Takapuna store in May 2023 and the franchise agreement for the Winner Winner store in Pukekohe was terminated in March 2024.

General Review

The Group performance over the next 12 months is currently softer than last year due to decreased top line sales. The economy remains challenging and like most of the industry, we are experiencing a lower volume of sales. Year-to-date total group sales for all brands are down. Overall and against the backdrop of general hospitality performance, BurgerFuel continues to perform well, but the reduced top-line sales do of course affect profit as we are likely to see in the results of the first half of this year. The economy and general consumer spending in the second half, remains to be seen.

We noted in the annual report that on a store-by-store basis, in some locations, viable operating numbers are becoming harder to achieve. By this, we mean not only achieving same-store sales growth but also achieving sustainable metrics around the ever-increasing operating costs, which have grown considerably in the past 18 months with rent, labour, utilities, and cost of goods all rising substantially. Whilst some cost increases have levelled off, others are clearly here to stay. We are always conscious of not increasing our prices more than necessary to keep our customers coming back and our franchisees in business. If we did move prices in line with full cost increases, we would lose customers, particularly given the cost-of-living crisis all New Zealanders are currently experiencing. There is always a necessary balance between retail pricing and franchisee/BFG margin. We take a long-term view, protecting our customer base whilst also continuing to build value. If we feel it is necessary to absorb current or future rising costs, this will further affect BFG profits in FY25, however, at this stage, cost increases have been manageable.

Once again, the past year has confirmed BurgerFuel's robustness as a well-established brand within New Zealand. We are a premium brand and although we do lose some customers in tough times, generally BurgerFuel is loved and highly regarded by our strong customer base, most of whom keep coming back.

The rest of FY25 is about ensuring that we can continue to perform at the store level; delighting customers, looking after our franchisees and building value where we can, against the backdrop of a weak economy. Around this, we continue to look at additional areas of investment, but at present, current industry opportunities such as other food brands, are not attractive for us to seriously consider.

In terms of dividends, as shareholders are aware we have just undertaken a large return of capital to all our shareholders and accordingly, there are no plans in the medium term for the company to offer a shareholder dividend.

Finally, I would like to take this opportunity to thank all the BurgerFuel staff both at head office and also the franchisees and staff in store. The entire BurgerFuel team works tirelessly to deliver a high-quality product, with a service level that we strive to both meet and exceed, our valued customer's expectations.

BurgerFuel is a special brand, and that's because of our people and the culture that has been created both at the head office and at the store level. Each week our customers get to experience all elements of the brand that set us aside and make us the "go-to" burger chain for many New Zealanders, on a regular basis. Despite tough times, we will never compromise on quality, because it is our quality that sets us aside. We continue to develop all aspects of the business to ensure that year on year we can achieve growth wherever possible, as well as remain both relevant to and desired by, our considerable customer base. So, a big thank you to all the team and of course, to our valued, BurgerFuel customers.

That concludes my speech for today. Thank you, I will return to address you all later in the meeting, but for now, I would like to hand you over to Josef Roberts our Chief Executive.

Chief Executive's Address,

Good morning, everyone and welcome to our 17th AGM. As Alan noted FY24 was another busy and particularly challenging year for the BurgerFuel Group, as it was for the entire hospitality and fast-food sector. Despite this, we had a successful year and posted our best result to date.

Before I give you an overview of the events that made up our reported results in FY24, as well as update you on the current year, I would like to acknowledge the passing of our former Independent Director and Chairman of the Audit Committee, Mr Alan Dunn.

Al was with the company from 2008 and resigned from the BFG board in November last year. He was a burger veteran and contributed a significant amount to our history over the past decade and longer. Al is greatly missed, and we continue to acknowledge Lisa (Al's wife) and all of Al's family for their loss. Our thoughts remain with them.

I would also like to acknowledge Peter Brook who retired as the BFG Chairman in July this year. Peter has also been a huge part of the Burger Fuel Group since the IPO in 2007 and his contribution over the years has been invaluable. The Board of Directors would like to thank Peter for his services and we wish him well in his retirement.

General review of 2024

FY24 had fewer disruptions than in the previous Covid years, but it was a year of significantly rising costs. Endeavouring to control these increasing costs while trying to maintain sales and per-store margin was incredibly challenging. Despite these increased costs, and as Alan noted, the Group managed to deliver a 47% increase in profit on the previous year.

Operating a restaurant chain in these times remains difficult both at an existing store operational level, as well as endeavouring to grow the chain in new locations. At present and due to the economy, per-store growth by transaction is generally non-existent. In some cases, it is in decline, but not to an alarming degree. The worsening trend in hospitality is due to more people spending less money, and eating outside of their homes. The large majority of consumers in New Zealand are all concerned about how much life is costing at present.

Following the Covid years, the country experienced long periods of sustained inflation which has affected many aspects of the business. The reality is that we cannot continue to absorb ongoing costs without increasing prices to cover some of those costs. However, if we do this, we see less patronage, so it becomes a balancing act between price increases and sales volume, generally resulting in reduced profit. Many businesses in New Zealand are struggling as they try to condition consumers to the new reality of pricing. Particularly in retail and hospitality, the amount charged for meals and drinks is currently a very sensitive issue.

Despite this, where BurgerFuel wins is in its brand power. We retain a considerable team to both manage, maintain and build the brand, and that is because our people are essential to ensure that we are constantly innovating and moving forward as a brand and a company. Everything, from flavours and ingredients to customer delivery. There is always someone in our organisation who is reviewing current offers, re-calibrating and striving to improve our performance and ensure that the product we deliver is nothing but the best hamburger in town. And we do all this at scale.

A large part of our brand success can be attributed to our ongoing staff training. We operate a division that does nothing else but develop our people and reward them. We are always looking for the pearls within the organisation, particularly those that work in-store. Those who stand out are selected for additional training and mentoring days where we help them to see things through a different lens. We provide them with a degree of aspiration to enable them to reach their goals and ensure that they can feel that they are a part of something bigger than just their daily job in-store. It is our people who are truly the backbone of our success as a locally owned and developed New Zealand brand.

In the current market, attracting new franchisees for new greenfield sites is proving difficult, due to higher interest rates, increased build costs and ultimately operating costs, as well as the uncertainty of the current economic times. There is no real indication of when things might be likely to improve, so at this stage, we can say with certainty that there will be no more new restaurants opened in this financial year in any of our brands, particularly BurgerFuel.

As noted above, one of the reasons BurgerFuel is successful is due to the quality of our franchisees and the work we do at HQ to keep them growing and in business. BurgerFuel operates a "franchisee first" approach to its business. This is because without strong franchisees, there is no business, let alone a sustainable one. The challenge of enlisting new franchisees for either new sites, or for replacing outgoing franchisees, remains a key part of our business and one we are always working to resolve with sound, long-term decisions, around the quality of those chosen brand representatives.

A reality we are potentially facing is the shrinking market for BurgerFuel. A key portion of our customer base are those aged between 20-40. Many of these customers are leaving New Zealand for Australia or further afield. Statistics NZ shows that there are far more leaving this year than previously. Although we are also seeing immigration, these are not yet established BurgerFuel customers. We are not sure what the impact of the latest immigration numbers will be, but hopefully the new arrivals to New Zealand sample BurgerFuel and become loyal customers over time.

So, the reality is that it is not just an issue of rising costs, but also in real terms, a reducing market. We are not immune to the many fundamental issues that most New Zealand businesses are grappling with, but especially the hospitality sector. These include rising costs of goods, rising labour costs (likely to be ongoing), rising utility costs, rising rents and against these factors, a potentially decreasing "BurgerFuel market" population. It's not hard to see that generally at the store level, we are facing two trend lines, one of costs going up and one of sales softening, given there is less cash circulating for indulgences such as eating out. The questions are, will the distance between these two lines come right next year as interest rates decrease, when will this occur and to what extent?

BurgerFuel New Zealand

Despite experiencing difficulties in the current economic climate, we have built BurgerFuel into a strong brand and the New Zealand business is robust regardless of the challenges we have just outlined. Year to date, we are experiencing a decrease in customer transactions although this is against a spike in sales we received last year with the introduction of the delivery service. That said, we continue to be well supported by the majority of our customers. As mentioned, our goal is always to keep "wowing" our customers with exceptional products and service, both in-store and through take-out and delivery.

Whilst store number growth has been slow due to the conditions outlined, we did open a new restaurant in Dunedin in April 2023, and last month we opened a new BurgerFuel store in Whanganui. Unfortunately, we closed the Christchurch, Hereford Street store in April 2024. This store was impacted by COVID-19, a new food hub opening around the corner, and substantial roadworks with the road in front of the store being closed for months. The store never recovered from this, and the franchisee decided to close.

I have previously noted that a big issue facing all retail occupants in New Zealand is the unrealistic rental increases being imposed by some landlords who seek an ever-increasing expectation of rising rents. It has reached a point where a growing number of landlords' expectations for retail rents are out of touch with reality and are simply unsustainable.

More and more empty tenancies are appearing in many of the main streets of New Zealand and shopping mall footfall and spending are also generally down. We are constantly trying to negotiate and minimise rent increases on behalf of the franchisees, as margins get squeezed with the ever-increasing occupancy costs.

Those landlords that do not recognise this and fail to view their commercial tenants as customers and partners, rather than slaves, will in the long term lose sustainable tenants who pay their rent on time and make enough profit to stay in business.

These days when presented with a new potential site, our first question is "Who is the landlord"? Internally we grade landlords A, B, C and DT (don't touch). We are only interested in A-class landlords who view us as partners. We now steer clear of most corporate landlords in New Zealand as their attitudes towards a partnership of success, are generally non-existent.

We noted in the annual report that the other significant issue we are facing is the escalating costs of building new restaurants. Since 2019 store construction costs have increased around 30%. The more expensive a store is to build, the fewer franchisees we can attract and the longer the return on investment takes for them to achieve. New Zealand building costs remain high and there seems to be little sign that they will reduce. This is affecting our numerical growth.

Delivery services for BurgerFuel have been rolled out across the New Zealand system predominantly through Uber Eats. In FY24 the sales uptake was pleasing, however, we are seeing some customer habits shifting from collecting their orders themselves, to now using a delivery service. So, as anticipated there has been a transfer of customers to Uber Eats.

We discussed with you before in previous AGMs, that we had been reluctant to implement a delivery service for this reason of potential channel cannibalisation and due to concerns around delivery quality (the time it takes to deliver our product). BurgerFuel burgers do not travel as well as pizza or other food offers that are more adaptable to transportation and to being re-heated at home. The additional delivery cost to customers is also significant.
We expect that eventually, delivery will not add much in the way of incremental sales to the total system. However, at this stage, we will continue to offer this convenience option for those customers who desire and are prepared to pay for it. All in all, we think our timing to enter the delivery sector was spot on because we were not lost in the crowd. On the contrary, we stand out as a quality burger delivery option, for those who wish to order this way.

Winner Winner New Zealand

As noted in the full-year report Winner Winner's total sales decreased by (28%) mainly due to the closure of our Takapuna company-owned store in May 2023. Whilst Winner Winner is a great brand & product, this site never really performed. Affected by Covid and other factors, we decided to shut the store and minimise losses.

In March 2024, the Winner Winner Pukekohe store also ceased operation and the franchise agreement was terminated. This site opened strongly just before COVID-19, however, it never really recovered from that. Winner Winner is more of a dine-in restaurant concept compared to BurgerFuel and Shake Out, and COVID hit it hard.

We now have two stores under franchise, one in Wellington's Courtenay Place and one in Hamilton East, which is the original Winner Winner. There is no significant royalty income from these sites.

As we noted in the annual report, in the current economic environment where costs remain high and consumers are not spending as much, we have elected to park the development of Winner Winner and focus on BurgerFuel, and also Shake Out, thereby reducing total investment costs and risk.

Shake Out New Zealand

Shake Out total store sales increased by 13.5% in FY24 mainly due to our new company-owned Shake Out store which opened in October 2022 in the Commercial Bay precinct, Auckland CBD. That store lives or dies off the foot traffic in the city and ultimately in that building. Unfortunately, that has largely declined in the past 12 months so we are seeing a decline in top-line sales there, this year.

As we noted in the annual report, we trialled a delivery-only "dark" kitchen in Glendene, Auckland. While operationally it was a success, sales volumes, due to the location were not enough to make this viable in the short term. It did however allow us to develop the brand further and trial other distribution channels. We noted in the annual report that we were trialling a virtual online delivery-only option, run out of the existing franchised Winner Winner store in Wellington. We are currently evaluating ways to expand that channel.

For FY24 the two new brands represented 6.8% of total NZ sales.

BurgerFuel Middle East

The Middle East has basically been a rescue operation. Our approach to rejuvenation in the Middle East is considerably different to the model that BFG built there in earlier years. The past structure in the Middle East meant that our master franchisee could not maintain a sustainable, financially viable model. Corporate models (where one company owns and operates all stores in the region) can be vulnerable and often do not provide the returns needed for them to keep investing. Site selection and significantly increased competition also appeared to be a key factor in the demise of BurgerFuel Middle East.

Following an in-depth review of the region we decided to continue with the brand under a new operating model that proposes to build a more secure franchise system, by allowing fewer full-scale corporate-owned and operated stores and more clusters (groups of 3) or if possible, individually owned and operated franchised stores, that build commitment and strength.

Our "franchisee first" approach to the development of the New Zealand system which has resulted in a strong and viable franchise model, needs to be duplicated in the Middle East. Development will be slow, as it was in NZ, but we will also have less exposure to a master licence holder making corporate decisions to shut down numerous stores in one tranche, as occurred in the UAE. As previously noted with a DA Agreement we receive less royalties, but this structure requires less investment. Our investment and support levels in this region are entirely elective.

In August 2023 the Dubai World Trade Centre store had a complete refit with a new BurgerFuel interior design. This new look, which is made up of various design elements, has been developed so that it can be incorporated progressively into any BurgerFuel store. It's a stage one concept that will be further developed and eventually rolled out in the New Zealand system over time.

There has been no royalty income from the Middle East in the past 2 years following COVID-19, but from 1 April 2024, we are starting to receive modest royalties from the MENA region. We are hopeful that our Development Agent will commence growing the brand in this region in the latter part of FY25, but this remains to be seen as that region is also experiencing huge cost pressures.

The Middle East system sales were down 35% in FY24. This is due to Saudi Arabia not continuing the leases on 3 stores. There are now 3 BurgerFuel stores operating in Saudi Arabia and 1 store in Dubai, although Dubai also has some third-party, dark kitchen delivery outlets.

Other Investment

As noted in our annual report, technology is a growing part of almost every business and certainly this can be said about our industry. Throughout FY24 the Group rolled out its online ordering platform with an integrated loyalty app. This release went relatively smoothly and customer interaction with the loyalty app is going well. We have had a large uptake on the app and we can now engage with our customers directly, updating them on new specials, promotions and targeted loyalty perks.

The BFG IT platform is a result of the ongoing investment we have made and intend to keep making, into proprietary IT systems. The stage one introduction of our IT system has allowed us to reduce the use of services from some third-party providers, as their rates began to rise at levels that were concerning. As a franchisor, it is always our goal to provide as many of the required services as possible directly to our franchisees, thereby reducing the need for SaaS (Software as a service) and other outside providers. This allows us better control over franchisee expenses and data.

We are pleased to advise that in November 2023 we were able to commence the monetising of our stage one IT investment by way of a monthly and sales percentage-based charge to the system, which allows BFG to earn revenue from this IT platform but ensures that our franchisees receive value for this service. This revenue assisted with our profit in the second half of FY24.

A key goal in developing our technology expertise is to create better communication with our customers. The new BurgerFuel app that we have created, allows us far more direct contact and helps us to better determine the needs and habits of our customers. We are conscious of not becoming too annoying to customers through endless promotions and offers, because that is not the BurgerFuel way. However, because of our investment in technology, we are now in a much better position to understand who our customers are and what attracts them to BurgerFuel.

As part of our long-term investment strategy, we intend to continue investment into technology. We are investigating different approaches to IT investment which will include bolstering our current stage one BF app to a stage two level. We are also considering investment into other areas of technology that our business requires or could benefit from, as we become more reliant on advances in technology across the business.

Summary

We indicated in our annual report that our FY25 sales growth would likely be flat at best. Food is tough and investors know that. You only need to look at our industry related, publicly listed companies; Restaurant Brands here in New Zealand and Domino's in Australia to see that making money out of food is currently not easy. All of us are having to absorb costs for fear of losing customers.

As a comparison of the share price decline, from July 2021, Restaurant Brands' share price has dropped 80% from $14.80 to $3.00. Dominos Australia is down 73% from $115.00 to $31.00 (earlier it was as high as $160.00 per share) compared to BFG which has dropped 28% to $0.29c. Even if the results are reasonable, it's clear that investors understand the headwinds that we face in our industry and as a result, are currently unsupportive of numerous listed food stocks.

Over the years we have often talked with you at the AGMs about the costs of being public. In real terms, a company of our size that was forced to migrate from the smaller cap NZAX board to the NZX main board is not really profitable enough to warrant being public. These days, there are many avenues for raising money if needed, without the need to be a public company.

The issue is the ever-increasing amount of cost to operate as a public company. I know that some shareholders believe that the costs are now starting to outweigh the benefits. A good example of this was the cost of around $700,000 implementing the recent capital return. Of this amount, and due to the opposition of one shareholder, BFG was required to spend circa $430,000 in additional legal costs. All this, just to give back $4m of capital to its shareholders.

We feel that we should never have been forced into this situation, both in terms of costs, and the major amount of work and distraction this caused to our core business. As a result of these actions against BFG, all shareholders are paying the price of what was an unnecessary loss of profit, a reduction of capital (from our cash pile) and a huge distraction of executive time spent on going through a court process to defend a proposal that we thought was always going to be approved in the end. These are the real and counter-productive obstacles of operating a public company. We are vulnerable to interference that ultimately costs us a lot of time and money.

Nonetheless, we are public and at present there are no plans to privatise the company, so shareholders should be aware that the costs to remain public are only rising. Compliance costs are starting to bite harder, and we are budgeting more and more each year just to remain on the NZX and meet the governance (particularly legal) requirements of a listed company.

There is an endless stream of competition that always seems to be coming or going from our industry, particularly burgers. At present, we are not enlivened to invest in other food brands, but instead, keep our focus on what we have and extend and integrate that towards associated areas such as technology and potentially distribution. Right now, we prefer to look at areas that can add scale and revenue to the business, without opening more restaurants. That is the future, and it is why we as a company continue to invest more in technology. That said, we are not a tech company we are a food company and that is largely what we will remain. However, where possible, we will take the opportunity to invest in scalable, revenue-generating opportunities, if we think they can help our business grow and make it more distinctive.

We sense that most of the retail sector will experience slower sales and ongoing compressed margins in FY25. If this continues, profits will be affected more than in FY24. That said, the Company intends to remain in profit in the current financial year. We will however continue investing in BurgerFuel, Shake Out and technology systems throughout the year. Despite the challenges, we have developed BurgerFuel into a great and strong brand, and we will continue to develop the many facets that makeup who we are, and what we stand for.

Sustainability remains a constant core issue in everything we undertake, such as the introduction of new items or functions into the business, it's in our DNA. We are always asking ourselves; "how do we reduce our carbon footprint"? I am pleased to say that this ever-developing area of our business improves year on year.

BurgerFuel has always been ahead of the curve on lowering our environmental impact, be it through the use of compostable packaging or rescued ingredients such as venison or fruit that we turn into our very own cherry cola. Whether it's your regular "go to" burger of choice or simply looking forward to our next special, our customers can eat at BurgerFuel, knowing that we do our best to reduce our footprint and innovate to find more sustainable solutions within all aspects of our operations.

Finally, I would like to welcome both Alan Gourdie and Tristram van de Meijden to the BFG board and fully support the resolutions to ratify their appointment. Tyrone Foley is now also deemed an independent director. Tyrone has a deep operational knowledge of our business, and his input is valuable. Between them, the independent directors offer a wealth of knowledge and are all a strong addition to the BFG Board.

I wish to thank all of you as shareholders including those of you that dialled in to our AGM today. As I like to ask each year at these meetings "When was the last time you visited a BurgerFuel? Or a Shake Out?" Well, if there is one near you – do pop in, order a meal and spread the word.

I also wish to thank all our team at BurgerFuel HQ. We have assembled a wonderful group of people who all work together to contribute to the unique and valued BurgerFuel culture that radiates to all our stores. Recognition also goes to our franchisees and to all the BurgerFuel staff who work in the stores each week, serving thousands of customers and keeping the fires going. Thank you very much, team. Your efforts especially in these tough times are appreciated.

Finally, a big shout out to all our customers, for it is they who can make or break us. We adore our customers and our goal and commitment to them remain focused on 3 key areas: innovation, service and quality. I thank them all for another year of patronage.

Thank you all for your attendance today. I will now hand you back to our Chairman Alan Gourdie to continue the proceedings.

Chairman of the Board to close address to shareholders.

Thank you, Josef, and on behalf of the Board, I wish to thank all employees, franchisees, and other business partners for their efforts. I would also like to thank my Board colleagues for their support and the work that they have performed during the year.

Finally, the Directors would like to thank all shareholders for their ongoing support. We look forward to continuing our work to support management and direct the business for the year ahead.

ENDS.