



## **Chairman's Address, 14th Annual Meeting of Burger Fuel Group Ltd, Thursday 26th August 2021 at 11.30 am.**

### **Introduction**

Good morning Ladies and Gentlemen. My name is Peter Brook and I'm the Chairman of Burger Fuel Group Ltd.

On behalf of the board, I would like to welcome you all to the 14<sup>th</sup> annual BurgerFuel Group AGM and thank you all for your support as shareholders.

This year we decided to run the same online format as last year as it allows all shareholders to attend the meeting without the need to travel and it also negates any potential issues that may arise as a result of COVID-19. This turned out to be the right decision given the whole country is now in Level 4.

### **Results for the Year to 31 March 2021.**

In FY21 the Group Operating Revenue decreased by 4.1% to \$21.0M. Whilst revenue is down on FY20, this is mainly due to the significant Covid-19 trading restrictions we experienced within all the countries where we operate, as was noted in the annual report.

Net profit after tax for the period was \$712,985 which was a 41% increase on the previous year. This result reflects the costs associated with the on-going establishment of our new brands, exit costs for the USA settlement, the partial impairment of goodwill on 2 company owned stores, reduced revenue due to Covid-19 and further expenditure control.

The loss of revenue due to Covid-19 and some other operating costs were partially offset by the Government wage subsidy and some rent relief provided by landlords.

The Group has also undertaken significant investment in the ongoing development of the new brands as well as additional investment to provide further assistance in the Middle East region.

BurgerFuel Total (unaudited) System Sales for all three brands were down (12.5%) to \$88.7M for the 12-month period. This is also a reflection of the restricted trading periods during the pandemic.

The total number of BurgerFuel, Winner Winner & Shake Out restaurants operating globally as at 31 March 2021 was 78. Of this amount there are 4 Winner Winner's and 3 Shake outs all operating in New Zealand. There are 71 BurgerFuel's operating globally, 58 of those are in New Zealand.

### **General Review**

FY 21 was another busy but challenging year for the group and I think it would be fair to characterise it as a year of safety & consolidation, with Covid-19 acting as the catalyst for how we both approached and tackled the year. Our business in the Middle East has been hit hard by the pandemic and this has resulted in some store closures, although our master



franchisees did open a new location in Saudi Arabia. The UAE which was previously a thriving tourist hub all but died during the FY21 year and it continues to be largely absent of tourists or business travellers.

On a brighter note our New Zealand business performed well in FY21 and lockdown periods aside, our BurgerFuel customers supported us well throughout the other periods of various trading restrictions. This is a testament to our many years of investment in the BurgerFuel brand and the continual improvement in our products to make sure that we remain best in class.

In New Zealand we opened two new BurgerFuel locations in FY21. One in Pt Chevalier in Auckland and one in Whangarei. Both locations have been strong additions to our network. We also opened a new Winner Winner in Takapuna. That store has been slow to perform to the level we had hoped but we still regard it as early days. We will continue to review the performance of the new Winner Winner store.

We opened a new Shake Out store in Hamilton East under franchise and it was great to see that despite the many challenges that Covid threw at us in this year, our team managed to continue with their plans to open these locations during the Covid-year.

That said, Covid-19 has been very disruptive and has certainly significantly reduced the pipeline of further development. At this stage we are simply not seeing the quality of development opportunities that we need, in order to locate successful outlets. Although our team is constantly reviewing potential locations, we expect this situation to continue for some time yet, certainly throughout this financial year. With the country now being in level 4 lockdown again, this will only further amplify this problem.

In regards, to the strategic review that the KPMG corporate finance team were engaged to undertake, I can confirm that this still remains open and that we continue to engage KMPG and meet regularly to review the business and options.

A key issue that I have talked about in the past few years and one that continues to surface is the rationale for BFG remaining a listed company. As stated last year our new brands will eventually provide new earning streams for the Group, but it will take considerable time for them to contribute meaningful revenue, especially given the current Covid-19 environment.

We are no longer a company with international development aspirations, and we don't have a requirement to raise capital at this point. We also seem to be getting more and more enquires from our smaller shareholders as to how they can sell their shares.

We did approach the NZX with a view to de-listing, however, the suggested process would make it unlikely we could achieve a de-listing without an asset sale or takeover which we will continue to look at. In any event, we will keep you informed should there be any further developments in this area.



Building new brands on scale is costly, especially with the closures and various stages of lockdowns that we experienced in FY21 and have now returned. Unlike BurgerFuel, new brands simply do not have the depth of consumer uptake to open and close and then re-open depending on the pandemic alert levels set by the government. There is no doubt we have seen the impact of this on both Winner-Winner and Shake Out, but less so on BurgerFuel.

Whilst we are always looking for key opportunities we are (and not by choice) in a phase of consolidation at present, with the uncertainty still surrounding Covid-19 and historically strong trading areas like inner city Auckland still greatly affected by the impact of Covid. The recent pandemic outburst in Australia and now here in New Zealand, are a very real reminder about the vulnerability of the environment we are all living and operating in.

In summary, with the present Delta variant issues both New Zealand and our Australian cousins are now facing, the board cannot be certain about the profitability of the group throughout this financial year. Whilst we have been tracking quite well for the 4 months to end of July FY22, as at today it is unclear how long we will remain in Level 4 lockdown and what financial impact this will have on the group.

This groups financial results will depend on the length and levels of lockdowns and the amount of government support the business will be eligible to claim. I can say for certain that this lockdown will have a negative impact on the new brands and their ability to rebound. That said, we expect BurgerFuel to come back to near previous lockdown levels in the months following lockdown.

At our AGM last year, I advised that the Board would consider paying dividends in the future following the completion of the strategy review process and the consequent determination of our capital requirements. Although the review remains open, this has been considered and we have decided that at this point, all cash will be retained, in order to support the growth of the new brands and also to take advantage of other opportunities that may arise.

Such opportunities could include the use of cash for financing potential franchisees into our new brands, other expansion opportunities, or if it makes sense share buy-backs as we have done in the past. We also wish to ensure that the company has sufficient cash so it can weather any further Covid-19 incursions, if these continue to occur and particularly if less government support is available. Accordingly, shareholders should not expect dividends to be made in the foreseeable future.

Thank you Josef and I 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.



## **Chief Executive's Address, 13th Annual Meeting of Burger Fuel Group Ltd, Thursday 26th August 2021 at 11.30 am.**

Good morning everyone and welcome to our 14th AGM. FY21 was another busy year for the BurgerFuel Group, compounded by the spread of the global pandemic - Covid-19.

To begin with, I would like to give you an overview of the events that shaped our reported results in FY21 and then later in my speech I will talk about the realities that we continue to face in this Covid-19 environment in which we operate.

### **Overview FY21**

In FY21 we invested in our two new brands and despite the various trading restrictions, we were successful in opening both a Shake Out and a Winner Winner store. Our BurgerFuel brand also opened three new locations and in the UAE despite a lack of tourists and business travellers we continued optimisation of the marketplace, including opening some Dark Kitchens, sometimes called Ghost Kitchens.

FY21 was a year of safety as Peter notes, with a major focus on both customer and staff protection and learning to adapt, as we quickly re-wrote and re-established operating processes and procedures to cope with lockdowns. As well, we undertook an inward review of all policies that ultimately led to some further changes and consolidation.

Whilst it was pleasing that we managed to continue with our plans to open some new locations, we also had to close some and defer decisions to enter new developments. With the global rollout of vaccines our outlook is more positive, but lately even that seems to be moving further out with no clear indication of when vaccine passports, may be available, allowing the free movement of travel. It appears that border re-opening is also unlikely to occur anytime soon and probably not until at least mid-2023. But I can only speculate.

The problem for us is reloading the growth pipeline with new franchisees and new site locations. Franchisee appetite in the current Covid environment remains tepid. As Peter alluded to, what was particularly encouraging was to see the resilience of our main brand BurgerFuel, which following full level 4 lock-downs and then partial lock downs, was, as a system, basically able to return to close to pre-covid sales levels, pretty quickly.

Clearly New Zealand is operating in isolation from the rest of the world now and although prior to this current lockdown we had returned to some sort of at least local normality, I have found that some people seem quite oblivious to the reality of the actual on-going impact that Covid-19 has had and continues to have on businesses like ours.

As a reminder, at the very beginning of the financial year, the New Zealand Level 4 lockdown resulted in 27 days of lost trade across all 3 of our brands. We estimate that this had a negative impact on our FY21 annual sales of around 7.4%. In addition to this, there were a further 106 days of varying alert levels and the associated trading restrictions that came with those. These were primarily focussed on our largest market, Auckland. The Central Business Districts of Auckland, Wellington and Christchurch continue to be impacted by the pandemic. Only a couple of months ago Wellington went back into level 2 following the incident of the Australian tourist. Now the whole country is in level 4, so these threats remain



very real to us, our planning and our day to day business operations and decisions. Covid still features significantly in our decision making and that does not look likely to change for some time yet.

We are also continuing to observe how "social" behaviours have changed. At first, shopping malls looked like cathedrals of virus transmission, yet prior to this latest lockdown, they seemed to be as busy as ever. Conversely, there seems to be a resistance for people to re-enter a more controlled environment, such as their workplace in an office tower in the CBD. So some people seem to be fine with shopping in a crowded environment, yet are not so keen to sit at their desk anymore. The working from home trend has been very evident when we look across our retail network. The suburbs have performed well, and the more urban districts have not returned to their pre covid levels.

If these short-term trends become more permanent, especially given the latest outbreak, then that will further inform our future development plans. However, at this stage the future of once popular shopping strips like Queen Street in Auckland are quite uncertain. Lack of international students and tourists as well as on-going changing traffic and pedestrian and cycle layouts occurring in places like Queen Street, all impact business in these areas.

What I am saying is that at present, it is quite difficult to see where future stores should be located as we still feel like we are in a holding pattern of sorts. Even suburbs like Ponsonby have taken a hit. With no summer or winter tourist swells, we only have New Zealanders moving around – and as a result we simply see shifts of trade or cannibalisation as we term it, from one region to another within New Zealand over the holiday periods and long weekends.

In FY21 following the introduction of Covid -19 and the subsequent level 4 lockdown, we undertook a full review with the goal of reducing costs. The impact of cost reductions has greatly assisted our ability to withstand future external shocks to our revenue. For now, this strategy is appropriate as growth is minimal and the current head count can manage what is in front of us, but this will need to be reviewed in the future, when we see more growth opportunities emerging.

So those are the high level and large items that shaped our annual results. I will now give you a more detailed update on each brand and region before I move onto the current year.

### **BurgerFuel New Zealand**

The BurgerFuel New Zealand business remains strong and sustainable. As Peter mentioned, we have been well supported by our customers throughout this pandemic and I would like to also say the same of our Franchisees and our staff. Everyone banded together during the past financial year to adapt with speed and deal with the many problems that operating 70 odd restaurants brings with it on a daily basis, let alone during times of a pandemic. It has been a new experience and a test of our resilience and strength as a company and as an established brand.



We are a 7 day a week business and all of us have had to go above and beyond in order to adapt to this new and changing pandemic environment. Who really knows what lays in front of us. I'm sure the business owners and residents of NSW had no idea what was coming their way a couple of months ago. In the same way for us here in New Zealand, everything changed again last Tuesday.

For many years now we have invested in our brand and an absolute myriad of fundamental basics. The continual improvement of the quality of our food. New packaging innovations. Dining room upgrades. Staff motivation and service programmes. Safety improvements. Ambience improvements – such as lighting, music and décor. We've often say that "Our stores are our temples and burgers are our religion." And that's a mantra that we strongly believe in. Then of course we have our high priests – the franchisees – they are there day-in and day-out looking after the staff and customers. I'd like to acknowledge them for their diligence and resilience over the last 18 months.

As Peter mentioned, our two new BurgerFuel stores are trading well and I'm thrilled we have finally opened a location in Whangarei, Northland. If we aren't in your province or region, you can rest assured that we'll be looking for the right opportunity to come your way at some point in the future.

Overall, the BurgerFuel New Zealand business is solid and quite well poised for the uncertain and turbulent times that we are in right now and that may continue in the future. However aside from the covid impact we are facing same store growth head winds as increased costs such as labour, rents and supply chain items, which are all set to continue to rise with measures imposed by the current government for both wage increases and increased sick leave. This coupled with a lack of tourists can only mean less growth and that ultimately the price of a burger or indeed any restaurant meal or item, must sooner or later increase. Rising prices are concerning as we always like to provide value to our customers,.

Share of stomach as we term it, is limited to a relatively fixed population at present – so if someone buys a burger elsewhere today – then we have missed out on a sale that won't be substituted by an overseas tourist or an international student. It is for this reason that we continue to improve and monitor our efforts in marketing as well as in-store operations. In these times we must be more on our game than ever before, because every burger counts.

### **Winner Winner New Zealand**

We opened a new Winner Winner location in December 2020 in Takapuna, Auckland. This is the brand's 4<sup>th</sup> location and if you haven't visited it yet then I would encourage you to do so. It boasts a welcoming dining room and atmosphere and I'm sure you will have a great meal there, but please let us know if you don't! As Peter noted that restaurant which is a company owned store is not performing to the level that we expected, but slowly it is picking up and we are hopeful it will hit its strides over the next year or so.

It would be fair to say the Winner Winner brand was quite severely knocked around by the pandemic, as it is not a brand that is focussed on takeaways. Winner Winner is your comforting, affordable, local chicken restaurant where there is something on the menu for everyone. Healthy, or indulgent, beer & wine, and if you are a vegan, or even someone who prefers beef to chicken, then we also have something for you on the menu. However, the



closure of a restaurant like Winner Winner due to Covid-19 restrictions, has a large impact on this style of business. Much more so than with a BurgerFuel.

This year of consolidation has allowed us to tweak the menu, décor, operating procedures and technology in preparation for future growth. We intend to persevere with the Winner Winner brand, and we are hopeful that over time this will become a contributor in our stable

### **Shake Out New Zealand**

In FY21 Shake Out opened a new location in Hamilton East. This store has started with a good base and is now all about achieving incremental growth. Our company owned store in Smales Farm continues to trade well and is our "go to" for development and to perfect this brand. We would like to see the brand expand faster, the problem however is locations – we simply cannot obtain the kind of sites we need at the rents we need to pay. Hopefully this will change soon but so far it is somewhat of a drought in this area for Shake Out.

The franchised Shake Out store that opened in Palmerston North has been slower to reach its base, but it is growing, and we are confident that once again, over time, this store will establish itself.

Shake Out is all about "Premium Simplicity, Speed & Technology." We started this concept with what we established could be a minimum menu. Since then, we've made some changes to further enhance and improve the menu without compromising on our ability to serve customers quickly. An example is our "Nuggies" which are a whole muscle, battered chicken morsel that has resonated very well with our customers and brought in some new customers, as it is a non-burger option.

Shake Out is more of an urban offer and the effects of Covid-19 have not favoured urban environments, meaning inner cities like Auckland. We are confident in the brand and the menu, but we remain cautious about the expansion of Shake Out until the future of our urban areas are more certain and stable. At present and following the impact of Covid there are simply less people in the cities.

For FY21 the two new brands represented 6.5% of total sales for the group.

### **NZ Summary**

Overall – before I move on to our international markets, I'd just like to emphasise that we do have a very solid business in New Zealand. When we made the decision to focus our efforts on our domestic market it would be fair to say that a global pandemic was not actually in our thinking. So it seems it has been a mixture of good management and a bit of good luck, that the overall group remains strong thanks to the performance of our New Zealand based business.



I would however like to temper your expectations regarding growth. We will continue to open new locations for each of our brands, but we will be doing it in a well-considered, measured and cautious manner. I cannot see much if any real growth in this current financial year, despite constant efforts to evaluate opportunities. When will this change? I think we are at least 12 months away from any material shift in the marketplace and that in reality, we are operating in quite a flat environment in our fast casual, premium sector in New Zealand at present.

One other issue that I want to flag is rising costs. I mentioned before the pressures that have come onto the business such as rising wage costs. We are also starting to see some supply chain cost pressures and low interest rates have driven retail property to yields that are quite frankly unrealistic. When a retail property is purchased or developed at such cost a return is expected by the landlord.

So far, we are seeing little or no reduction in rents as some landlords continue to expect growth year on year without increased footfall or population to support these increases. If we are being squeezed further and further on margins than prices must inevitably rise. This may have an affordability impact for some customers. We are not alone in this position, costs in New Zealand are only going one way and that's up. New Zealand is becoming more and more expensive to live and operate in. Rising labour costs, more sick leave for staff, more leave availability, rising rents and utilities, inevitable increasing food costs and increased on-going health and safety requirements, all add up.

Sustainability issues also take time and cost money to implement, and whilst we are constantly working to lower our carbon footprint wherever we can, it all impacts on cost and margins. Much is expected these days of a company like ours to meet all these growing expectations and requirements and still make a profit.

On the upside this could lead to opportunities for us to obtain sites in the future, should failure of other operators begin to occur. Who knows what the future will bring but I suspect significant adjustment to cost structures and the impact of rising property prices and now rising interest rates will eventually start to bite and take its toll on many New Zealand consumers and how much they can spend each day.

### **BurgerFuel Middle East**

We have previously signalled to the market that we are having difficulties in the Middle East. To give you some idea of the reality there, as at mid-July New Zealand had reported less than 3000 cases of Covid-19. The UAE however had over 665,000 cases and Saudi Arabia more than half a million.

Dubai was in a slump before the pandemic, so the recent Covid impacts have only accelerated this negative trend. On the brighter side, the UAE is now one of the most vaccinated countries in the world and the proposed 2020 World Expo in Dubai will proceed in October this year, although it is unclear how many out of country people will attend this major event.





In the UAE our Licensee has closed more locations and now only has four remaining BurgerFuel outlets. As I mentioned they have also opened some additional dark kitchens as home delivery has been vital to this nation of apartment dwellers.

In Saudi Arabia trading conditions have been similar to the UAE. Our Licensee opened a new store in Dammam in a district called Faisaliyah, but they also closed two locations in Riyadh and Dammam.

There isn't a lot more to say about the Middle East. Hopefully it can only get better from here. Vaccination rates continue to improve and we expect the UAE in particular will be making moves to re-establish itself as a global node for travel and business, but again how long will this take is the big question? We are not collecting the revenue that we used to from this region and as always, we caution the market that the trading environment can rapidly change at any time, throughout the Middle East.

### **BurgerFuel USA**

As previously reported, the store in Indianapolis did not reopen from its Covid-19 lock-down. We have concluded all arrangements regarding our permanent exit from the USA and the settlement of our commercial negotiations are within our FY21 results.

### **Current Year**

Whilst we did manage to open some new locations last year, we are taking a cautious approach to any further openings. We have learnt over our many years that unless we can match the right location and specifically the right site, to the right franchisee, then new stores are simply not worth undertaking. BurgerFuel remains a strong and highly recognised brand and we expect to obtain some moderate growth from BurgerFuel New Zealand, however until we can really see the borders open and a life that will allow people to transition easily and without risk – I personally cannot see that we are going to achieve much growth. In reality, it could be a few years yet before we see a return to the pre-covid world and environment of 2019 and earlier.

It is important to note that we are a higher cost, premium brand and a niche fast food chain. Therefore, unlike mainstream chains we do not have the ability to offer drive-thru's or the ability to sell high volumes of food at significantly cheaper prices. BurgerFuel has established itself as premium product. That is what we are loved for by our customers and that is what we need to maintain.

We do however have a strong balance sheet and no debt and expect to withstand reasonable sales percentage drops across the system should there be further Covid-19 incursions, particularly with this new Delta variant that both we and Australia are currently trying to contain and eliminate. The problem with this strategy is the financial cost to businesses like ours, as well as our ability to plan for the future, when we simply don't know what the future holds.



In summary, whilst there are positive trading signals in the strength of our brand and the new brands, these remain uncertain times and we will have to see how things develop over the next 6-12 months. There has not been a lot to communicate to you in the past year and it feels to me like that trend will continue for a while yet. That said, we will of course provide updates on any relevant or material events.

That concludes my address today. I would like to thank you and all our shareholders for their continued involvement and support. Especially however, I would also like to thank our many stakeholders; suppliers and others that work with us each day. Big credit however needs to go to our team at the BurgerFuel head office, all our in-store staff, and our franchisees both in New Zealand and overseas. All of you have worked tirelessly since the arrival of Covid-19 and we thank you all for your efforts.

I would also like to acknowledge our Chief Operating Officer Tyrone Foley. Tyrone has been with us in two separate tours of duty for over 10 years. In that time, he has made an invaluable contribution to the business. I am now announcing to the market that Tyrone has advised us that he will be leaving the business to pursue a new career opportunity. Whilst we will be sad to see him go, I am also excited for him as he undertakes his next chapter in business and in his life.

Tyrone's role as COO will not be replaced at this stage, instead I will undertake more operational duties whilst we are in this rather flat growth phase. This of course may change in the future but for now, I will undertake both roles.

I am pleased to say that we have asked Tyrone and he has agreed, to remain on the board in an advisory capacity. We are delighted that he will still be able to contribute his wide-ranging skills to the future direction of the business, after his departure as COO.

Tyrone – on behalf of the board and also all the BF staff and franchisees - thank you very much for all your efforts, which have been greatly appreciated and we wish you all the very best in your new role.

Of course, finally I wish to thank those of you that dialled in for our Zoom based AGM. It seemed appropriate to undertake this format today. And just as well we did. We'll see whether future meetings are held this way or we may return to in person attendance at our HQ, as we have in the past. Or possible hybrid formats. This of course all depends on the pandemic and the future operating levels set by the government.

Anyways, as I often ask at these AGMs "when was the last time you visited a BurgerFuel? Or a Winner Winner or a Shake Out?" Well, if there is one near you – pop in order a meal and spread the word.

Thank you all for your attendance today. Keep safe and get vaccinated so that we can move past lockdowns and move back towards an open economy and country.