



## **Chairman's Address, 15th Annual Shareholders Meeting of Burger Fuel Group Ltd, Wednesday 31st August 2022 at 11.00 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 15<sup>th</sup> Annual Shareholders Meeting of BurgerFuel Group and thank you all for your support.

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 minimises potential issues that may arise because of COVID-19.

### **Results for the Year to 31 March 2022.**

In FY22 the Group Revenue remained the same as FY21 at \$21.0M. This represents another year of COVID disruptions.

Net profit after tax for the period was \$575,869 which was a 19.2% decrease on the previous year. The results reflect a second year of considerable COVID disruption including temporary store closures both during and after periods of lockdown. As well, inflationary costs, a higher cost of absenteeism, investment in our new brands, and some abnormal yet significant one-off costs all contributed to this result.

I'm sure you are aware of the general yet significant inflation in costs, and in addition, we've had significant costs associated with establishing our new brands (Winner Winner and Shake Out) as well as exit costs associated with the termination of the Master License of the UAE and ongoing development assessment costs for that region.

These and other operating costs were partly offset with some Government support received by the Group.

BurgerFuel Group (unaudited) Total System Sales (all three brands, all regions) increased by 6.2% to \$94.2M on the same period last year.

The increase in sales is mainly due to benchmarking against reduced sales in April 2020 when the total system was closed for a month due to COVID.

There were also reduced sales due to COVID store closures in FY22 (August & September) but not to the same extent. We had also opened the BurgerFuel Whangarei store in March 2021, and that store continues to perform well.

As at 31 March 2022 there were 58 BurgerFuel restaurants operating in NZ and 12 operating in the Middle East excluding third party "ghost" kitchens operating in the UAE.



From the 1st April 2022 the UAE now only has one store; being the Dubai World Trade Centre store, in operation, taking the total MENA region store count (including Saudi Arabia) to 9 stores.

## **General Review**

The FY22 year was another very challenging year under COVID. The hospitality sector was hit hard by the pandemic but given these circumstances we believe the Group turned in a reasonable performance, in that it was still able to maintain a profit for the year. At this stage the Group Performance over the next 12 months remains uncertain both with COVID but also with the current worsening economic conditions. Like every business in New Zealand, we are experiencing rapidly escalating cost pressures both in the supply chain, but also labour costs and shortages.

We cannot see an end to this at present and believe that many of these increased costs are permanent and therefore will lead to increased prices as the year progresses. Price increases are occurring right across our sector and in the wider economy in general.

In regard to franchise opportunities in FY23, whilst we expect there to be some activity, it is unclear if the current economic conditions will yield potential suitable franchisees for new locations. Accordingly, we expect growth in new stores to be modest with perhaps a few new stores across all brands occurring in FY23. On the positive side, once again the past year has confirmed BurgerFuel's robustness as a well-established brand within New Zealand and we expect to at least maintain consumer demand (sales) in FY23 despite increased prices.

Whilst we didn't open any new Burger Fuel stores in New Zealand in FY22 we have opened BurgerFuel Cambridge in May 2022 which is performing well. We also have two more stores scheduled to open in this financial year with new sites in Rolleston and Dunedin.

Covid-19 continues to be very disruptive and has certainly significantly reduced the pipeline of further development. As in the prior year we are not seeing the quality of development opportunities that we would like. A further problem is staffing. Not only is this a problem for BurgerFuel, but also nationally and globally. Staff costs continue to rise in this country and coupled with staff shortages we can expect an impact on our business with some stores having to close for short periods of time, simply because we cannot staff them. This is happening right across the hospitality and fast-food sector.

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 KPMG to review the business and options, should anything of interest eventuate. There are no further updates in this area.

In summary, the Group's future financial results will depend on many factors including Covid and the on-going impact of the pandemic, rising costs, both in the supply chain and labour, and the overall economic conditions that New Zealand is clearly facing. It remains to be seen if these factors will impact customer demand.



The board continues with its strategy of retaining cash, in order to weather these unusual times, and support the growth of the new brands, as well as take advantage of any 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. Accordingly, shareholders should not expect dividends to be made in the foreseeable future.

## **Chief Executive's Address, 15th Annual Shareholders Meeting of Burger Fuel Group Ltd, Wednesday 31<sup>st</sup> August 2022 at 11.00 am.**

Good morning everyone and welcome to our 15th ASM. FY22 was another busy year for the BurgerFuel Group, compounded by the on-going spread of Covid, within New Zealand.

To begin with, I would like to give you an overview of the events that made up our reported results in FY22 and then later in my speech I will talk about the on-going realities that we continue to face in the current environment in which we operate.

### **Overview FY22**

FY22 was another year of ensuring high levels of staff and customer safety, as well as continuing to adapt to a rapidly changing environment and regulations driven by COVID. Running a restaurant chain in these times remains challenging both at an existing store operational level, as well as endeavouring to increase the potential for growth in new locations. The on-going problem for us beyond the day-to-day operations of our existing stores, is reloading the growth pipeline with new franchisees and new site locations and then staffing those new outlets.

The working from home trend has been very evident when we look across our retail network. We have however recently noticed the CBD stores are picking up again as office workers and students start to return to the major centres. This isn't at the pre Covid levels, but it is finally starting to head in the right direction.

### **BurgerFuel New Zealand**

The BurgerFuel New Zealand business remains strong and sustainable. We have been well supported by our customers throughout this pandemic and I would also like to say the same of our Franchisees and our staff.

The latest Burger Fuel stores to open in Whangarei and recently Cambridge are both trading well. The performance of these stores has demonstrated there is a demand for our product in these other regions and has given us confidence to look at other locations in New Zealand that weren't previously on our radar. 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 positioned. However, we are facing some strong head winds as increased costs such as labour, rents and supply chain items continue to rise. These coupled with the labour shortages and supply issues, lead us to the conclusion that we are in for some testing times in New Zealand, at least for the next 12 months.

### **Winner Winner New Zealand**

No new Winner Winner stores opened in FY22 and the Covid lockdown in August & September disrupted the growth of this brand more than the other brands, as it is more of a dining-in/restaurant concept. If you haven't visited a Winner Winner 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. 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 on the menu for you.

Our Takapuna restaurant, which is a company owned store, is slowly picking up and we are hopeful it will hit its strides in the next 12 -18 months. We have introduced Uber Eats and Deliveroo across all Winner Winner and Shake Out stores to get more sales and brand exposure and this seems to be working in these early stages.

### **Shake Out New Zealand**

Whilst we didn't open any new Shake Out stores in FY22 we have recently signed an Agreement to Lease for a new company owned store in the Commercial Bay precinct in the Auckland CBD. Shake Out is ideal for busy precincts, and busy people who value speed, convenience, and premium quality. Commercial Bay will give Shake Out great brand exposure to potential customers and franchisees

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.

As previously noted, the establishment of new brands takes considerable time, effort, and financial investment, and accordingly this investment has affected our bottom line. With the ongoing impact of temporary COVID store closures and reduced hours we were unable to gain much traction with these brands in FY22. We do however believe that both brands have a future in New Zealand, and we intend to commit significant resources in terms of cash and management throughout FY23 and beyond. The future development of these brands in FY23 is very much dependant on the impact of current and any new variants of COVID, as well as general market conditions.

For FY22 the two new brands represented 6.5% of total NZ sales for the group.



## **NZ Summary**

Overall – before I move on to our international markets, I'd just like to emphasise that we continue to maintain a very solid business in New Zealand.

It is important however to reinforce realities and 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. Following two and half years of Covid management and now the inflationary impact of that, I do not foresee any significant growth for the next at least 12 months. I make this statement despite our constant efforts to evaluate opportunities both within and outside of the Group.

Costs in New Zealand continue to climb. Rising labour costs, labour shortages, food cost inflation and supply disruptions, all add up. These costs will ultimately be reflected in increased consumer retail pricing. This is not just for BurgerFuel and our new brands, but for the entire hospitality and retail sectors in general, within New Zealand.

## **BurgerFuel Middle East**

As previously announced our United Arab Emirates Master License holder AKI Group, ceased operating the BurgerFuel brand in the UAE on 1 April 2022. At present we continue to operate in the UAE with a single store at the World Trade Centre in Dubai and by way of third party "ghost" kitchens. Ultimately, we anticipate the operation of BurgerFuel Middle East will occur under, a yet to be finalised Development Agent (DA) agreement. This structure effectively appoints a Master Licensee for the entire region to one company, that assumes responsibility for the appointment and operations of individual stores and regional franchisees.

We have previously advised that BFG earnings from the Middle East have been diminishing for some years, but particularly since the arrival of COVID. We reiterate our earlier advice that The Group doesn't anticipate generating any material income from the UAE region or the wider Middle East in the next 2-3 years, while this proposed new DA structure is embedded and tested. It should be noted that the Group incurred costs in FY22 in relation to both exiting the Master License agreement with AKI Group, as well as the ongoing assessment of this region for further growth and development.

BurgerFuel Saudi Arabia sales were up on FY21 even after closing two underperforming stores and the "ghost" kitchen operations. A new location was opened at Faisaliyah in December 2020 which contributed to these increased sales.

The future of the Middle East business continues to remain uncertain. This territory will need to be completely redeveloped and although we have made an initial commitment to move forward on this, there can be no certainty of future returns from this region for some time yet.

## **Current Year**

The disruption of the pandemic, and recent waves of Omicron, is causing constant re-evaluation of every aspect of business. Yet, despite all this change, it's clear to us that investing in a consistent brand presence will continue to deliver advantages for BurgerFuel and connect us with our customers. Our latest brand advertising campaign has proven this, delivering strong results, particularly across TV and cinema. We constantly strive to build





brand advocacy and loyalty through impactful marketing that differentiates us from our competitors.

Customer confidence has been hit hard from multiple angles, including rising interest rates, cost of living pressures and a slowdown in the property market. As the cost of dining out increases, sentiment towards value for money becomes more important than ever for our customers and we have been investing in product improvements and extensive customer service workshops over the past year. This will hold us in good stead, strengthened by an ongoing programme focused on the customer experience.

### **Labour Shortages and Increasing Costs**

Since 2020, one of the most significant issues, that spans across many industry sectors, is the labour market skills shortage. This is being felt keenly in hospitality and the opening of our international borders is not expected to be an immediate solution. As previously noted, we are feeling the effects of rising labour costs and shortages. Whilst BurgerFuel has always attracted individuals from all walks of life, there is no doubt that this landscape has changed significantly following the COVID period.

The challenge in our industry will always be attracting and retaining young staff members who are prepared to work consistently and work towards management positions both within the restaurants and ultimately aspiring to work in Head Office. As a result, BurgerFuel is investing in and embarking on a long-term recruitment project with the intent to strengthen our position as an employer brand of choice and we will work to continue to improve our employee value proposition

### **Sustainability**

BurgerFuel has always been a leader in environmental positioning, way before the rest of our industry caught on. We led with our "enviro-mental" campaigns and processes since year 2000. We have always been concerned with lessening our impact on the environment through projects such as sustainable packaging and we continue to make design improvements and reductions in the amount of packaging we need to present our products to the consumer. Becoming a more sustainable business remains high on the agenda, and as well as our own internal efforts we are engaged with third-party providers to assist and guide us on this journey. We have a number of new, key workstreams in place and have ambitious plans to convert our dining room and kitchen bins to facilitate 100% compostable collection, ensuring we are diverting as much food and packaging waste from going to landfill as possible. This is an on-going project and one that in some cases requires our providers to catch up to us so that the "store to collection-site" sector can properly facilitate waste from all of our stores in New Zealand. Sustainability is a good example of a project that requires continued improvement and constant investment.

### **The Rising Costs of Technology**

There is no question that technology now plays a key part in any business but in the world of fast food there have been rapid advancements that were accelerated by the COVID event and the need for easier applications to order food.



We are seeing a rising cost in basic green fees simply to compete with more and more subscription-based applications entering the market and nipping away at profits with turnover percentage-based applications that in some cases we have been forced to accept.

BurgerFuel has had to adapt and accepted that a greater investment in technology will be needed to protect existing margins and attract new customers. Our investment into technology and support has and will continue to increase this year and in the years ahead.

## Summary

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 once again it feels to me like that trend will continue for a while yet. That said, we will of course continue to provide updates on any relevant or material events that occur and that affect the business.

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. I do once again wish to give a big shout out 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 and for enduring another year of the pandemic.

Of course, finally I wish to thank those of you that dialled in for our Zoom based ASM. It once again seemed appropriate to undertake this format today. 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.

Anyways, as I like to ask each year at our ASMs "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.