Savor 2023 Annual Shareholders Meeting Addresses

Chairmans Address

If you have been following this year's reporting season it will be no surprise this has been a difficult trading environment for consumer facing businesses. The hospitality industry may be viewed as something of a bell-weather for consumer discretionary spending and we have certainly seen our share of closures and consolidations within the industry. However strong brands, with great customer service and well-run businesses continue to be rewarded.

In general in the early part of the year Savor benefited from the post-covid trend of a switch in demand away from goods to the consumption of services. Despite this trend unwinding as the year has progressed, stringent cost control, decisive action from management and a resilient loyal customer base has gone a long way to producing a pleasing first half result.

Year of Consolidation

Last year we signaled this was to be a year of consolidation and our focus would be on optimising business performance, driving operating cashflow and continued debt reduction. This has been a successful strategy that has focused on three key areas, controlling the wage line, driving efficiencies through cost of goods sold and keeping a lid on variable costs. I am pleased to report management has done a great job in this regard.

Wage Cost Management

COVID led staff shortages resulting in a higher staff carrying cost as well as Government imposed friction costs has meant that this has been the primary area of focus for management.

Centrally managed rosters and twice weekly meetings, daily in some cases, with all venue management has resulted in tighter rosters which together with a 10% reduction in head count from 592 staff to 535 in total have delivered an overall 2% reduction in labour costs as a percentage of revenue compared to the same period last year.

Pleasingly the labour costs for the year to date have been managed to 44% of revenue against an annual target of 42% and down from 47% in the prior year. Management believes this 2% overrun should naturally come into line over the busy summer trading months.

Nevertheless, labour cost management is complex process as headcount reductions trigger the costs of redundancy payments and we have seen marked increases in sick leave of late threatening to blunt this gain. Furthermore, labour costs have a fixed component to them in that you need to maintain minimum rosters regardless of turnover to uphold standards of service and as such this cost line is highly dependent on hitting revenue targets.

We believe as the weather improves the group will achieve our internal targets which will be an outstanding result and one that differentiates Savor from the broader industry. Tight management of headcount and rosters will therefore remain our area of focus.

Cost of Goods Sold

Turning to Cost of Goods sold, you only have to pick up the paper or visit your local supermarket to appreciate how extremely demanding controlling this key expense has and continues to be. Not only has rapid COGS inflation been challenging to forecast and manage, but the excess volatility per item from one day to the next has made this job even more difficult.

However, it is with a great deal of pride that I can report despite a backdrop of a 9% increase to the input costs the groups cost of goods sold for the year-to-date was 31% of sales. Lucien will cover this in greater detail but to put this in perspective this is only one percentage point higher than our long-term average target of 30%. This has largely been achieved as a result of the relatively inelastic demand Savors experience offers customers, increases in the economies of scale via menu alignment, bulk buying through our Depot, bidding out and consolidating suppliers, creating own brand products and an outstanding response from our kitchen teams and head chefs who constantly review input pricing and substituted items across all venues on an ongoing basis.

Revenue Growth

Savor's Year to Date Revenue was in excess of $21m reflecting a 46% increase on the prior year. Against the backdrop of the difficult macro-economic conditions faced by our customers, Savor's first half revenue of $21m, is only 5% down on budget forecasting which is an encouraging start to the year especially given the weather Auckland has experienced. That said we have noticed revenue softening in August and the start of September perhaps as the cost of living starts to bite our consumers reinforcing revenue capture as a key priority.

Cash From Operations

Net Cash was up $1.6 million in the year-to-date July which compares favorably to a loss of ($0.5 million) in the same period last year. As I mentioned earlier, Bivacco's lease has been extended for a 10 year term which broadly aliens with the Group's average lease hold asset term of 10.2 years ensuring a stable runway for group earnings into the longer term with minimal rate reset risk.

A point to note is approximately $4.5m of Savors term debt is maturing at the end of this financial year. The Board is exploring options as to the optimal capital structure to maintain, which includes partial repayment out of cash flow, refinancing or retirement of the debt. The optimal solution will hinge on our trading results and bank rates available. We will keep you abreast of these decisions as the year develops. But we can say we have very strong relationships and support from our bankers going forward.

EBITDA

Savor's EBITDA for the year to date was $2.1 million which is a 198% increase on the prior year. This is a great result and largely a function of efforts to control the cost line. That said, Savor's half year EBITDA margin has been impacted relative to our budgeted forecast by approximately 8% as a result of revenue being under budget (by 5%), the cost of goods running (1%) higher than forecasts and the full effect of the labour cost reductions yet to be felt.

This has been a strong result given the difficult trading environment and management's continued focus on execution and cost controls has positioned Savor well for the all-important summer trading period. Summer trading yields between 65 and 75% of the Group's profitability, meaning it is really all to play for at this stage.

I want to mention the Board is very much aware of Savor's flagging share price. In the context of soft investor sentiment in consumer discretionary spending stocks and with broader retail shares also suffering, we believe Savor is very much undervalued.

We believe this moment in the market will pass and the value of our company will be reflected in our share price as we continue to grow. I will let Lucien share with you our forward-looking plans and just want to say at this time we thank you for your investment and continued support.

I will now hand you over to our CEO Lucien Law.

Good morning my name is Lucien Law and I'm the CEO of Savor Group. There are four key areas that I'd like take you through today.

Firstly I would like to discuss some of the venue highlights before moving on to two key areas I've been working on with our team – driving revenue and then cost control and efficiencies**.** Before lastly briefly discussing our future plans.

Venue Highlights

Amano

Amano continues to provide a strong base for the Group's operations both in trading results and proving itself a great incubator of staff, with several staff being promoted to management positions in other Savor Group venues.

Trading wise Amano is still probably New Zealand's largest restaurant in terms of sales of over $15 million and with a best in class profit story achieving EBITDA extraction of approximately 22%.

Bivacco

In its first 10 months of trading Bivacco has confirmed our belief that it will be one of our most successful venues and a great bookend for the Group with Amano. Like Britomart, the Viaduct is one of New Zealand leading dining and entertainment precincts and we have learnt a lot in the 10 short months we have been trading there.

Summer trading was busier and exceeded our expectations bolstered by tourists and cruise boats, the Viaduct in my opinion captures more of this business than any other precinct in New Zealand.

Bivacco naturally and as expected came off its huge summer highs, but we were adversely affected by the flooding and extreme rainfall with a fair amount of our outdoor seating unable to be used for a large portion of the year to date.

However with winter behind usthe arrival of Spring and plenty of dry weather forecast we have every reason to be excited and confident heading into summer. We have some strong marketing initiatives locked in to make the most of summer and pleasingly corporate bookings have already started to kick in this month.

NSP

Non Solo Pizza rounds out the Group's large format venues and has had an outstanding year, with a strong loyal following of local customers it will achieve annual sales over $5 million and an EBITDA extraction of approximately 25% - it could possibly be its best year in 26 years of operation. NSP's success can be credited to a dedicated team of staff. Pleasingly all leadership roles at NSP have been filled internally, demonstrating the depth of our teams and our commitment to providing a clear career path for our staff.

As Paul mentioned, it is pleasing that revenue has grown in the first half of the year. With us now moving into summer it's all to play for a strong end to the year and solid full year performance. Myself and my team are very clear on what we have to do to deliver that, to drive revenue and control costs. These are the things that are within our control.

DRIVING REVENUE

In a challenging economic climate it has been important to actively drive revenue.

We have focused on three key areas:

1. Outcatering
2. Events
3. Marketing

NZ Fashion Week

After a competitive tender pitch process, Savor were appointed as the official food partner for NZ Fashion Week. This is the first time we have taken on an event of this size, which generated over $120k in revenue across the 5 days. We were able to fully staff the event in-house, utilising 10% of our workforce. Our range of diverse offerings across multiple venues were on display, providing high quality products to over 20,000 people from retail Oji Sushi to sit down Bivacco events. This was a significant achievement given it was all executed off-site at the Viaduct Event Centre

Out-catering

We've successfully completed a number of out-catering events this year, allowing us to extend the experience outside of our venues, reaching both new and existing customers. Now that our venues are fully staffed, we see out-catering as a largely untapped market and has potential for great growth heading into summer.

Events

This year we've seen a significant increase in the number of event enquiries we've had, following the return from COVID. The easing of our staffing pressures means that we're able to reopen the last two levels of the Seafarers Building, with the Rooftop and Tommy's open for events in time for summer. The events business has historically been worth up to $3m in revenue for the Group, we're targeting $500k over the next three months heading into Christmas and a target for the year of $1.5m, to the build back to the $3m level for FY25.

Marketing

Post COVID we've seen significant demand from customers who want to come out and celebrate key events, whether large or small. Throughout the year we've grown our Always On offerings of Aperitivo Hour, Bivacco Feast, and daily specials to provide value for customers and drive consumption through the typically quieter months. We've also had overwhelming responses to ticketed Savor events like the Bivacco In Fashion series, House of Suntory whisky bar and the Moet & Chandon dinner. These all provide a point of difference, underpinned by Savor quality standards, creating value and an experience for our customers.

As you can see from the work on screen we have actively worked our database of circa 120k and worked with our partners to drive revenue with events and happenings outside of Business as usual.

Cost Control and Efficiencies

In May of this year our executive team identified 4 key areas to work on to try to optimise the business as much as possible as we anticipated some economic headwinds.

Depot

Having our own Depot is something unique to Savor in NZ hospitality, it allows us to bulk purchase and store our goods at better rates and also helps to maintain quality control.

We actively pushed more purchasing from the venues through the Depot and increased the categories of products we were procuring. The Depot now delivers to the venues Dairy, Fresh produce, protein, packaging, consumables etc. Through this work the Depot volume is up 45% on last year which will add to our buying power.

Protein

We conducted a tender this year on our red meat purchases. Following the tender we have reduced our suppliers and captured the benefits of scale without compromising the offering. We're on track for a saving of 15-20% on our red meat compared to last year we are working through a similar process on other protein categories, but red meat is our largest.

Wines and Sprits

We are currently in the process of rationalizing our wine lists across all our venues and working with a number of wine suppliers to improve our offering and also achieve some economies of scales. This project will be completed this month and rolled out into venues in October to take advantage of the increased summer trading.

At the start of this year I worked directly with a few wine companies to create and own label of wine "Idle Hands", this has been a great success for us.

Idle Hands sits at the cheaper end of our glass pour and we have achieved a 75% margin which is 5-10% increase from what we normally target in the category.

We currently expect to sell 12,000 litres of Idle Hands this year and given the success we will look to grow this brand into other varietals next year.

Wages

In May we redesigned our staffing requirements and slimmed down $350k heading into winter. The biggest cost to our business is wages at venue level and we have adjusted our model of rostering. The management team now “actively manage” these with the venue managers in most cases daily. This allows us to react quicker to things that might impact the venue revenue - such as weather and events that we might be experiencing in Auckland on any given day. This has achieved a Group wide reduction of 2% saving on a $28 million annual labour cost. To be clear our job is to maintain these ratios over the busy summer trading period then we will see real rewards for these efforts!

The Future

I‘ve talked in the past about the potential for both Amano and Oji Sushi to expand into other sites and markets. We believe in our brands, and we think Amano, Azabu and Oji deserve to be expanded both in Auckland and beyond.

While we continue to receive offers from potential landlords, we’ve been cautious to ensure we drive the best possible deals for these brands. They all add significant value to the buildings they go into, both as a brand and the physical improvements and investment we make to get to that standard. So, it’s important for us to find landlords who appreciate that and also structure a deal which takes that into account.

We have looked seriously at opportunities in Queenstown and Waiheke but found the extra costs of staffing associated with housing is not something we wanted to take on this year. So in summary, we’re actively looking for sites for some of our best performing brands in Auckland and beyond, but we’re committed to getting the best deal possible that we believe they warrant.

Thank you.