7 April 2011
NZX

RESTAURANT BRANDS FY11 PROFIT UP 26%

	2011 $m	2010 $m	Change (%)
Total Group Revenue	**324.9**	**318.3**	**+2.1**
Group Net Profit after Tax*	**25.1**	**19.9**	**+25.8**
Dividend (cps)	**17.0**	**12.5**	**+36.0**
** Excluding non-trading items*			

Key points

- Group Net Profit after Tax (excluding non-trading items) of $25.1 million, up 26% on prior year.
- Total Group Revenue of $324.9 million, up 2.1%; same store sales up 2.4%.
- KFC store transformation and new store openings continue to drive group sales and profit growth.
- Pizza Hut sell-down programme underway.
- Strong cash flows result in a reduction in group debt to a record low of $12.2 million.
- Final fully imputed dividend of 10.0 cents per share, making a full year dividend of 17.0 cents, up 4.5 cents or 36% on prior year.
- Outlook constrained by tough trading conditions with a slowing of the KFC store transformation programme.
- Annual Shareholders Meeting to be held in Christchurch.

Group Operating Results

Restaurant Brands has delivered a 26% increase in profit for the 12 months to 28 February 2011. Net Profit after Tax (excluding non-trading items) rose to $25.1 million (25.6 cents per share), up from last year's $19.9 million (20.5 cents per share). The result is in line with market guidance.

Most of the improvement arose from another good year for the KFC brand, but the Pizza Hut and Starbucks Coffee businesses continued to contribute to profitability.

Net Profit after Tax (including non-trading items) was $24.3 million (24.9 cps) compared to $19.5 million (20.1 cps) in 2009/10.

Overall, the results continued to reflect the benefits of the major refurbishment programme being undertaken in KFC over the past several years. Profit continued to climb in the first half of the year but the rate of growth wasn't able to be matched in the second six months. Trading proved more challenging as an increasingly difficult market slowed sales growth. First half results (excluding non-trading items) were up $4.7 million on prior year with the second half only showing a $0.4 million improvement.

Total store earnings before interest, tax, depreciation and amortisation (EBITDA) climbed $7.0 million (13%) to $61.9 million. This was on top of the $11.2 million growth in the prior year. KFC contributed $5.8 million of the improvement, Pizza Hut $0.2 million and Starbucks Coffee $0.9 million.

Total store sales of $324.4 million were up $6.5 million (2.1%) on the previous year's sales. Same store sales for the group were up 2.4% (up 6.8% in 2009/10). KFC and Starbucks Coffee saw same store sales growth of 4.4% and 0.8% respectively, but Pizza Hut saw same store sales drop 3.8%.

Year end store numbers at 208 were nine down on February 2010. Five Pizza Hut stores were sold to franchisees as part of the progressive sell-down strategy. Three red roof (dine-in Pizza Hut stores) and one delco (delivery store) were closed. There were also four Starbucks Coffee stores closed. KFC opened four new stores over the year.

KFC

	2011 $m	2010 $m	Change $m	Change (%)
Sales	**235.8**	**223.2**	**12.6**	**+5.6**
EBITDA	**52.1**	**46.3**	**5.8**	**+12.7**
EBITDA as % of Sales	***22.1***	***20.7***	**-**	**-**

KFC enjoyed another good year of sales and profit growth on the continuing momentum of the transformation initiative. However, the brand saw some slowing of this momentum towards the end of the year in line with the softer retail trading conditions and impact of GST changes.

Total sales reached another new high of $235.8 million, up $12.6 million or 5.6% on the prior year and 4.4% on a same store basis (on top of 9.2% same store growth in 2009/10 and 4.1% in 2008/9).

Continued improvements in operational controls and the benefits of volume leverage helped increase EBITDA by $5.8 million to $52.1 million (22.1% of sales).

A number of new burger promotions during the year continued to underline the move to more of a snack bias in KFC's product mix. These included the *Supercharged Zinger Burger*, the *BLAT Burger* and the *Big Chicken Burger*. The frozen *Krushers* beverage range continued to perform strongly with range additions and a wider roll out to stores (to 56 in total) supporting sales growth.

A further nine KFC stores were rebuilt bringing total rebuilt or refurbished stores to 49, over half of the total network. Store numbers increased to 89 with the opening of new stores at Pt Chevalier, Auckland, The Base in Hamilton, Gate Pa, Tauranga and Papamoa.

Pizza Hut

	2011 $m	2010 $m	Change $m	Change (%)
Sales	**59.3**	**64.2**	**-4.9**	**-7.6**
EBITDA	**5.6**	**5.4**	**0.2**	**+4.3**
EBITDA as % of Sales	***9.5***	***8.4***	**-**	**-**

After a strong start to the year, the Pizza Hut business lost some impetus in the last six months, but still managed to continue the trend of improving profitability begun in 2009/10. EBITDA was $5.6 million (9.5% of sales), up $0.2 million on the previous year's $5.4 million (8.4% of sales).

Store disposals and closures, leading to lower depreciation charges, as well as lower general and administration expenses (G&A) meant a much more significant improvement in Pizza Hut EBIT of $1.2 million.

Lower sales revenue was largely a function of having nine less stores. Five stores were sold to independent franchisees and four (including three red roof restaurants) were closed over the year. Year end store numbers were 82. The brand saw a drop back to negative same store sales of 3.8% for the full year with tougher trading conditions in the second half.

The release of the *Big New Yorker* pizza was a major sales driver over the year. The successful *Pizza Mia* range was expanded and there were a number of new pizza flavour variants introduced. *More 4 All* was brought back as a limited time offer which also performed well for the business. Pizza Hut continues to rely heavily on coupon activity and discounting to continue to bring in customers in a competitive environment.

Starbucks Coffee

	2011 $m	2010 $m	Change $m	Change (%)
Sales	**29.3**	**30.5**	**-1.2**	**-3.8**
EBITDA	**4.1**	**3.2**	**0.9**	**+27.3**
EBITDA as % of Sales	***14.0***	***10.6***	***-***	***-***

Despite a drop in total revenues following store closures, Starbucks Coffee produced a solid earnings result reflecting cost reductions across all areas of expenditure. Continued improvements in operating controls, a favourable exchange rate and some rationalisation of poorer performing stores all contributed to improved margins. EBITDA was a solid $4.1 million (14.0% of sales) up from the prior year's $3.2 million (10.6% of sales).

Total sales of $29.3 million were down 3.8% on prior year, but on a same store basis were up 0.8%. Four stores were closed over the year at the end of their leases: Parnell, Onehunga and Ponsonby in Auckland and also Mid Lambton Quay in Wellington. Total store numbers stood at 37 at year end.

Corporate and Other Costs

G&A (above store overheads) at $12.7 million were $0.2 million less than prior year and less than 4.0% of sales (2010: 4.1% of sales).

Group non-trading charges of $1.8 million included a pro rata write off of goodwill following Pizza Hut store disposals ($1.0 million), Pizza Hut and Starbucks Coffee store closure costs (mainly fixed asset write offs) of $0.8 million and KFC transformation write offs of $0.4 million.

Offsetting these charges were a number of credits, including a gain on disposal of a KFC sale and leaseback store and a gain on insurance recoveries.

A write down of fixed assets on the four closed stores in the central Christchurch business district following the recent earthquake resulted in a charge of $0.6 million, which has been fully offset by the estimated insurance recovery.

Depreciation charges at $12.6 million were $0.6 million up on the prior year reflecting increased capital expenditure in KFC, offset by lower charges in the other two brands with store closures and disposals.

Interest and funding costs at $1.2 million were down $0.3 million on prior year as the company benefited from lower debt levels. Bank interest rates (inclusive of margins and fees) for the year averaged 4.8% compared with 4.3% in 2009/10.

Cash Flow and Balance Sheet

The higher levels of profitability meant operating cash flows for the year grew to $40.6 million, up $1.9 million on prior year.

Investing cash outflows were $20.4 million, up $7.2 million on the prior year. This reflected the increased tempo of capital expenditure in the KFC business. A total of nine transformations and four new KFC stores produced a gross cash outflow of $24.3 million, up $10.7 million on the previous year. Offsetting this was the positive inflow from store disposals of $4.3 million.

Financing cash outflows were down $5.2 million on prior year as higher dividends paid were more than offset by reduced loan repayments. The improved free cash flow position meant that total bank borrowings could be further reduced by $5.5 million over the year, in addition to the $16.6 million reduction in 2009/10. This has reduced bank debt to $12.2 million, well within reduced facility limits of $35 million. Bank debt has been reclassified as term debt in the accounts, with the two year renewal of the Westpac facility in October 2010.

Total assets at $111.4 million were up $8.4 million on last year, with a $9.2 million increase in fixed asset values following the higher levels of KFC capital expenditure in the past 12 months. This was partially offset by a $1.6 million reduction in intangibles following a write down of Pizza Hut goodwill with store disposals.

Year end shareholders' funds of $58.9 million reflect the higher levels of profitability over the year and some increase in issued capital ($0.8 million) on exercise of options.

The balance sheet is now very conservative with a gearing ratio of 17% (2010: 27%).

Christchurch Earthquake

The major earthquake in Christchurch on 22 February had a significant impact on the company's operations in that city. Although no staff were harmed, a number suffered considerable disruption to their personal lives. All nineteen of the company's stores in the city were closed for some time.

The company response included staff financial support over the store closure periods, a $100,000 donation (including $50,000 from Yum! Restaurants International) to the city's relief fund and providing 18,000 pieces of free chicken to relief workers from its KFC Hornby store.

Three Starbucks Coffee, one KFC store in the Christchurch central business district and one Pizza Hut store in Shirley remain closed. Insurance policies are in place for both material damage and business interruption.

Pizza Hut Franchise Sales

The appointment of a full time manager to drive the Pizza Hut store sales programme has seen five stores sold to individual franchisees in the latter half of the year. A similar number are expected to settle in the first half of the new financial year. The focus is on selling stores in regional areas where an independent franchisee can make a successful business on a smaller sales base with a more personal approach to running the store.

Dividend

The continuing improved performance of the company (with profit up 26% on prior year) and further substantial reductions in debt levels has provided the opportunity for increased return to shareholders. Directors have therefore declared a final fully imputed dividend of 10.0 cents per share. This brings the total dividend for the year to 17.0 cents from 12.5 cents last year, an increase of 36%.

The dividend will be paid on 24 June 2011 to all shareholders on the register as at 10 June 2011. A supplementary dividend of 1.765 cents per share will also be paid to overseas shareholders on that date.

The dividend re-investment plan will remain suspended for this dividend.

Outlook

The 2010/11 financial year saw Restaurant Brands produce its best ever trading profit. The underlying performance of the company and its brands has lifted considerably over the past couple of years and directors believe that these levels of profitability are sustainable.

The latter half of the 2011 year, however, saw deterioration in trading conditions with a much softer retail environment. These trends were exacerbated by the change in GST rates and increasing petrol prices. The retail marketplace in the 2012 year will remain tough, with strong competition for an increasingly scarce consumer dollar. However, some improvement is expected as the year progresses, particularly with the Rugby World Cup taking place at the start of the third quarter of the financial year.

The company is well positioned to manage its way through the economic downturn. A strong management team and robust and increasingly efficient business processes are in place to maintain profitability through this tougher time, although any further increase in profitability will be very challenging.

The KFC brand still has considerable momentum driven by the ongoing benefits of its transformation project. The planned slowing in this expenditure in the 2011/12 year will give KFC the opportunity to stabilise its operations after the significant growth of the past couple of years. No more than four to five (smaller) stores are targeted for transformation and no more than one new store is planned.

Pizza Hut is also expected to face softer sales in the first half of the year, but then begin to return to same store growth. Continued focus on operating controls and the sale of smaller stores should see some small expansion in margin. Store sales to independent franchisees will continue with eight to ten stores expected to be sold over the coming year.

The Starbucks Coffee business is expected to maintain its steady sales growth trend. Margins may be squeezed somewhat with input cost increases, but these will be at least partially offset by improved operating controls.

Directors consider the 2011 profit performance to be very satisfactory. Restaurant Brands has demonstrated resilience in the recent tough economic environment, however the current trends mean taking a more cautious approach in looking at the year ahead.

Annual Shareholders' Meeting

The company has a policy of rotating the venue for its Annual Shareholders' Meetings to locations outside of Auckland every second year. The 2011 annual meeting had been scheduled to be held in Christchurch. Directors have resolved to continue with that plan in support of the people of that city following the tragic earthquake in February. Accordingly the Annual Shareholders' Meeting for the company will be held at the Peppers Clearwater Resort, Clearwater Avenue, Harewood, Christchurch on Thursday 23 June 2011, commencing at 11.00am.

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About Restaurant Brands:

Restaurant Brands New Zealand Limited operates the New Zealand outlets of KFC, Pizza Hut and Starbucks Coffee. These brands - three of the world's most famous - are distinguished for their product, look, style and ambience, service and for the total experience they deliver to their customers in New Zealand and around the world.

RESTAURANT BRANDS GROUP
Consolidated Income Statement

$NZ000's	28 February 2011 Audited		vs Prior %	28 February 2010 Audited	
Continuing operations:					
Sales					
KFC	235,805		*5.6*	223,228	
Pizza Hut	59,266		*(7.6)*	64,158	
Starbucks Coffee	29,313		*(3.8)*	30,463	
Total sales	**324,384**		*2.1*	**317,849**	
Other revenue	516		*4.2*	495	
Total operating revenue	**324,900**		*2.1*	**318,344**	
Cost of goods sold	(256,746)		*(0.6)*	(255,136)	
Gross margin	**68,154**		*7.8*	**63,208**	
Distribution expenses	(3,461)		*8.5*	(3,781)	
Marketing expenses	(15,204)		*9.0*	(16,716)	
General and administration expenses	(12,743)		*1.6*	(12,945)	
EBIT before non-trading	**36,746**		*23.4*	**29,766**	
Non-trading	(2,047)		*(266.8)*	(558)	
EBIT	**34,699**		*18.8*	**29,208**	
Interest income	11		*(65.6)*	32	
Interest expense	(1,182)		*19.8*	(1,474)	
Net profit before tax	**33,528**		*20.8*	**27,766**	
Taxation expense	(9,511)		*(15.6)*	(8,230)	
Net Profit after tax (NPAT) from continuing operations	**24,017**		*22.9*	**19,536**	
Discontinued operation:					
Profit from discontinued operation net of tax *	295		*100.0*	-	
Total profit after tax (NPAT)	**24,312**		*24.4*	**19,536**	
Total NPAT excluding non-trading	**25,072**		*25.8*	**19,926**	
		% sales			% sales
EBITDA before G&A					
KFC	52,125	*22.1*	*12.7*	46,268	*20.7*
Pizza Hut	5,637	*9.5*	*4.3*	5,403	*8.4*
Starbucks Coffee	4,104	*14.0*	*27.3*	3,224	*10.6*
Total New Zealand	**61,866**	***19.1***	***12.7***	**54,895**	***17.3***
Ratios					
Net tangible assets per security (net tangible assets divided by number of shares) in cents	37.6c			25.6c	

* Pizza Hut Victoria is a discontinued operation

Cost of goods sold are direct costs of operating stores: food, paper, freight, labour and store overheads
Distribution expenses are costs of distributing product from store
Marketing expenses are call centre, advertising and local store marketing expenses
General and administration expenses (G&A) are non store related overheads