Restaurant BRANDS NEW ZEALAND LTD

3 April 2012
NZX

RESTAURANT BRANDS' 2012 ANNUAL RESULT

	2012 $m	2011 $m	Change (%)
Total Group Revenue	**308.9**	**324.9**	**-4.9**
Group Net Profit after Tax*	**18.4**	**25.1**	**-26.8**
Dividend (cps)	**16.0**	**17.0**	**-5.9**
** Excluding non-trading items*			

Key points

- Group Net Profit after Tax (excluding non-trading items) was $18.4 million (18.8 cents per share), down 27% on prior year.
- Total Group Revenue of $308.9 million was down $16 million (4.9%) mainly from the impact of the Christchurch earthquake ($5.9 million) and sell down of Pizza Hut stores ($5.9 million).
- KFC sales reached a new high of $236.3 million with store transformations continuing to produce positive sales and profit growth.
- The Pizza Hut sell-down programme is gaining momentum with 13 stores now sold to independent franchisees.
- Despite reduced operating cash flows, correspondingly lower capital expenditure meant debt levels finished close to prior year at $13.6 million.
- A final fully imputed dividend of 9.5 cents per share, making a full year dividend of 16.0 cents for the year, will be paid on 29 June.
- Carl's Jr rights were acquired for New Zealand as the company's fourth brand.

Group Operating Results

Restaurant Brands Net Profit after Tax (excluding non-trading items) for the 12 months to 29 February 2012 (FY12) was $18.4 million (18.8 cents per share), down 27% on last year's record profit of $25.1 million (25.6 cents per share).

Net Profit after Tax (including non-trading items) was $16.9 million (17.3 cps) compared to $24.3 million (24.9 cps) in 2010/11.

The Christchurch earthquake and the acceleration of Pizza Hut store sales to franchisees weighed on group sales and profit. However, the underlying result also reflected a tough trading environment and higher input costs. These factors were most evident in the first half, accounting for $5.3 million of the $6.7 million reduction in NPAT. In the second half of the year these factors were mitigated by some cost reductions and a focus on more profitable lines.

Total store earnings before interest, tax, depreciation and amortisation (EBITDA) dropped $10.5 million (17%) to $51.4 million. KFC contributed $6.6 million of the reduction, Pizza Hut $3.5 million and Starbucks Coffee $0.4 million.

Total store sales of $308.2 million were down $16.2 million (5%) on the previous year's sales. Same store sales for the group were down 2.5% (up 2.4% in 2010/11). KFC saw total store sales growth of 0.2% but Pizza Hut and Starbucks Coffee declined 23.3% and 9.8% respectively.

Year end store numbers at 194 were 14 down on February 2011. Eight Pizza Hut stores were sold to franchisees as part of the progressive sell-down strategy. One red roof (dine-in Pizza Hut store) and two delcos (delivery stores) were closed. There were also two Starbucks Coffee stores closed at lease end. KFC closed one store that was destroyed in the Christchurch earthquake.

KFC

	2012 $m	**2011 $m**	**Change $m**	**Change (%)**
Sales	**236.3**	**235.8**	**+0.5**	**+0.2**
EBITDA	**45.6**	**52.1**	**-6.6**	**-12.6**
EBITDA as % of Sales	***19.3***	***22.1***	**-**	**-**

Despite very difficult trading conditions, aggressive competitor activity and the impact of the Christchurch earthquake KFC managed to grow sales to a new high of $236.3 million, an increase of $0.5 million or 0.2%. The earthquake cost the brand approximately $3 million in lost sales with temporary closures of a number of stores and the permanent closure of one store.

On a same store basis however, sales fell by 1.8% compared with 4.4% same store growth in 2010/11 and 9.2% in 2009/10.

Input costs increased markedly over the year while the competitive marketplace limited KFC's ability to pass these costs (and the full amount of the October 2010 GST increase) on to customers. EBITDA fell by $6.6 million to $45.6 million (19.3% of sales). Margin pressures were most pronounced in the first half, but showed some recovery in the second half through cost reductions and a move to better margin products in the sales mix.

Innovation and burger promotions continued this year and provided sales growth in key market segments. The KFC *Double Down* promotion in the first quarter was very positive for sales but it cannibalised higher margin products. However, the customer mania fuelled by social media and word of mouth around this innovative burger outstripped all expectations and it has contributed significantly to KFC brand awareness.

KFC Grilled was launched early in the year providing innovation and a unique flavour platform in fresh chicken, *Sparklers* – a flavoured carbonated beverage was introduced along with the limited time offer *Buster Burger* (a customer inspired burger) as well as range extensions to the *Krusher* liquid snack beverage platform.

Five KFC stores were refurbished over the year bringing total transformed stores to 59 or 2/3 of the total network. Total store numbers reduced to 88 with the permanent closure of the Christchurch CBD store following the earthquake.

Pizza Hut

	2012 $m	2011 $m	Change $m	Change (%)
Sales	**45.5**	**59.3**	**-13.8**	**-23.3**
EBITDA	**2.1**	**5.6**	**-3.5**	**- 62.8%**
EBITDA as % of Sales	***4.6***	***9.5***	**-**	**-**

The Pizza Hut business continued to struggle in a fiercely competitive and tough retail environment. A very soft start to the year began to improve as the year progressed but the outcome saw same store sales for the year at -9.7%.

Total sales revenue was down $13.8 million to $45.5 million of which $5.9 million was as a result of sale of stores to independent franchisees. There were also three store closures. Pizza Hut sold a further eight stores to independent franchisees over the year bringing the total number of independents to 13 at year end. Year end store numbers were therefore 71, 11 down on prior year.

The combined effect of lower absolute sales as a result of store disposals, lower same store sales and higher input costs, notably higher cheese costs, was a cut in EBITDA to $2.1 million (4.6% of sales), down $3.5 million on the previous year's $5.6 million (9.5% of sales).

During the year, Pizza Hut introduced innovation with the *Mediterranean Mia* as well as meal bundles such as *The Footy Feast Meal* and *Big Box* offering strong value for groups. *More 4 All* and the *Big New Yorker* were brought back as a limited time offer during the year. Both offers remain continuing favourites with Pizza Hut customers. The brand saw a strong demand for value in its market segment and strong performing value promotions this year included the return of *The Slab* as well as the *$5.90 Everyday Value* promotions.

Starbucks Coffee

	2012 $m	2011 $m	Change $m	Change (%)
Sales	**26.5**	**29.3**	**-2.9**	**-9.8**
EBITDA	**3.7**	**4.1**	**-0.4**	**-8.8**
EBITDA as % of Sales	***14.2***	***14.0***	**-**	**-**

Starbucks Coffee suffered in relative terms more than the other two brands as a result of the Christchurch earthquake. Three of the four Christchurch stores were closed and look unlikely to re-open. The net impact of these closures amounted to $2.5 million of the $2.9 million drop in sales. Two more store closures took place over the year with Newmarket and Botany Kiosk stores closing at respective lease ends.

Whilst total sales were down to $26.5 million because of the earthquake, same store sales finished positive for the year at +5.4%.

Starbucks Coffee continued to introduce new seasonal variants to its beverage ranges this year including the *Toffee Nut* and *Gingerbread* flavours in latte and *Frappucino* ranges as well as refreshing the fresh food offer in stores.

Despite some cost increases, Starbucks continued to exercise solid operational controls and finished the year with EBITDA at $3.7 million (14.2% of sales), marginally down on last year's excellent result of $4.1 million (14.0% of sales).

Of the 35 stores at year end only 32 have been effectively trading with the three earthquake affected stores in Cashel Mall, Cathedral Square and Colombo Street remaining closed.

Corporate and Other Costs

G&A (above store overheads) at $11.3 million were $1.4 million (11.1%) better than prior year and only 3.7% of sales (2011: 3.9% of sales). The bulk of the savings arose from a reduction in variable remuneration costs with a lower profit performance on prior year, together with increases in cost recovery for G&A services provided to independent franchisees.

Group non-trading charges of $2.3 million ($2.0 million in 2011) included a pro rata write off of goodwill following Pizza Hut store disposals ($1.5 million), Pizza Hut and Starbucks Coffee store closure costs (mainly fixed asset write offs) of $0.6 million and KFC transformation write offs of $0.2 million.

Depreciation charges at $13.6 million were $1.0 million up on the prior year reflecting increased capital expenditure in KFC (up $2.0 million), offset by lower charges in the other two brands with store closures and disposals.

Interest and funding costs at $1.3 million were up $0.1 million on prior year with the company carrying similar debt levels. Bank interest rates (inclusive of margins and fees) for the year averaged 4.6% compared with 4.8% in 2010/11.

Cash Flow and Balance Sheet

Lower profitability and some negative working capital movements saw a reduction in operating cash flows for the year to $29.8 million, down $10.8 million on prior year.

Investing cash outflows were reduced to $14.3 million from $20.4 million, a reduction of $6.0 million on the prior year as there was some easing off of the tempo of capital expenditure in the KFC business. Only five KFC stores were transformed over the year compared with nine transformations and four new KFC stores in the 2011 year. The positive inflow from store disposals also reduced from $4.3 million to $2.1 million with no sale and leasebacks of new KFC stores this year.

Financing cash outflows were reduced to $15.6 million versus $20.3 million in the prior year. The bulk of the change arose from a change in borrowings with $5.5 million retired in debt last year versus increased borrowings of $1.4 million in the current year. Dividend payments were also up as the cash flow impact of last year's declared final higher dividend flowed through to a payment in the current year. Bank debt is up slightly to $13.6 million from $12.2 million, but remains well within facility limits of $35 million.

Total assets at $104.9 million were down $6.5 million on last year, with a $4.6 million decrease in fixed asset values mainly comprising Pizza Hut asset disposals and goodwill write downs following the sale of stores to franchisees.

Total liabilities were also down by $7.3 million to $45.1 million with a significant reduction in creditors of $6.3 million, mainly around timing differences, reduction in bonus accruals and creditors.

Year end shareholders' funds of $59.8 million were marginally ($0.9 million) up on prior year largely in retained earnings.

The balance sheet remains very conservative with a gearing ratio of 19% (2011: 17%).

Christchurch Earthquake

As has already been seen, the major earthquake in Christchurch on 22 February 2011 and subsequent tremors over the year have had a significant impact on the company's operations in that city with all nineteen of the company's stores in the city being closed for some time.

The worst hit were the Starbucks Coffee operations with only one store of the four in that city surviving the earthquake (although only one of the three closed stores (all in the CBD) has officially been declared unusable). The only other permanent closure was the KFC store in the Christchurch central business district which has now been demolished.

Insurance policies were in place for both material damage and business interruption cover and the company has received progressive payments on claims under these policies over the course of the year. The business interruption cover expired on 22 February 2012, but trading losses for the 12 months to that date have been fully met by the insurers.

Pizza Hut Franchise Sales

The Pizza Hut store sales programme has continued over the year with a further eight stores sold to individual franchisees, bringing the total number of Pizza Hut independent franchisees in the system to 13. The strategy remains to sell stores with smaller sales volumes, particularly 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. There has been no turnover of these new franchisees, indicating that the independent operator model is working for them.

Carl's Jr

In December 2011 the company entered into franchise and development agreements with CKE Restaurants Inc in the US, giving Restaurant Brands the exclusive rights to the Carl's Jr brand throughout New Zealand and shared rights to develop stores in the Auckland region.

Carl's Jr is an exciting new burger brand with in excess of 1,000 stores in the United States and it is just commencing international expansion in earnest. It specialises in offering best-in-class premium-quality burgers with a marketing proposition that targets youthful demographics. Carl's Jr. restaurants offer unique service attributes focusing on 'partial table service', with a 'made-to-order' menu, all-you-can-drink beverage bars, and a strong breakfast offering.

Dividend

Directors have declared a final fully imputed dividend of 9.5 cents per share. The continuing strong cash flows and low levels of debt mean that dividend levels have been sustained at close to prior year with the resultant full-year dividend totaling 16.0 cents per share, compared with 17.0 cents in 2011.

The 9.5 cents dividend will be paid on 29 June 2012 to all shareholders on the register as at 15 June 2012. A supplementary dividend of 1.676 cents per share will also be paid to overseas shareholders on that date.

The dividend re-investment plan remains suspended for this dividend.

Outlook

Whilst down on what was a stellar year last year, the underlying performance of the company remains strong. Directors believe that current levels of profitability will be maintained in the face of continuing tight trading conditions and soft retail environment through a continued focus on efficiency and cost reductions, together with new marketing initiatives.

The KFC brand is moving into the last phase of the transformation process with 59 stores out of the 88 in the network now transformed and another eight scheduled for upgrades in the coming year. The transformed stores will continue to hold the sales increases generated on original transformation, but there will be some tapering off in the rate of growth. There still remains the opportunity for more store growth (and relocations) with two new stores planned for the new year.

Pizza Hut will continue to face an intensively competitive marketplace. Whilst same store sales were down over the whole year, there was an improvement over the back half and this is expected to continue. Continued focus on operating controls and some supply chain improvements together with the continued sale of smaller stores is expected to produce slightly better margins. 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 steady same store sales growth trend with similar levels of profitability. There will be some capital invested in store refurbishment and some work will be undertaken on network development.

The new Carl's Jr brand will see three to four stores opening in the second half of the year. All stores are expected to be immediately profitable, but some set up costs at the G&A level will be incurred in establishing the business.

Directors consider the 2012 profit performance to be satisfactory in the current tough economic environment. The company is expected to produce a result of at least the same level in the year ahead.

Annual Shareholders' Meeting

The Annual Shareholders' Meeting for the company will be held in Auckland on 29 June 2012.

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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	29 February 2012 Audited		vs Prior %	28 February 2011 Audited	
Continuing operations:					
Sales					
KFC	236,284		*0.2*	235,805	
Pizza Hut	45,477		*(23.3)*	59,266	
Starbucks Coffee	26,452		*(9.8)*	29,313	
Total sales	**308,213**		*(5.0)*	**324,384**	
Other revenue	714		*38.4*	516	
Total operating revenue	**308,927**		*(4.9)*	**324,900**	
Cost of goods sold	(252,706)		*1.6*	(256,746)	
Gross margin	**56,221**		*(17.5)*	**68,154**	
Distribution expenses	(3,088)		*10.8*	(3,461)	
Marketing expenses	(15,087)		*0.8*	(15,204)	
General and administration expenses	(11,333)		*11.1*	(12,743)	
EBIT before non-trading	**26,713**		*(27.3)*	**36,746**	
Non-trading	(2,316)		*(13.1)*	(2,047)	
EBIT	**24,397**		*(29.7)*	**34,699**	
Interest income	1		*(90.9)*	11	
Interest expense	(1,307)		*(10.6)*	(1,182)	
Net profit before tax	**23,091**		*(31.1)*	**33,528**	
Taxation expense	(6,164)		*35.2*	(9,511)	
Net Profit after tax (NPAT) from continuing operations	**16,927**		*(29.5)*	**24,017**	
Discontinued operation:					
Profit from discontinued operation net of tax *	-		*(100.0)*	295	
Total profit after tax (NPAT)	**16,927**		*(30.4)*	**24,312**	
Total NPAT excluding non-trading	**18,361**		*(26.8)*	**25,072**	
		% sales			% sales
EBITDA before G&A					
KFC	45,553	*19.3*	*(12.6)*	52,125	*22.1*
Pizza Hut	2,099	*4.6*	*(62.8)*	5,637	*9.5*
Starbucks Coffee	3,744	*14.2*	*(8.8)*	4,104	*14.0*
Total	**51,396**	***16.7***	***(16.9)***	**61,866**	***19.1***
Ratios					
Net tangible assets per security (net tangible assets divided by number of shares) in cents	39.8c			37.6c	

* 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.