26 October 2012
NZX

Directors' Report to Shareholders
For the Half Year ended 10 September 2012

Key Points

	1H 2013	1H 2012	Change (%)
Total Group Revenue ($m)	**167.2**	**166.8**	**+0.2**
Group Net Profit after Tax* ($m)	**8.8**	**8.6**	**+2.4**
Dividend (cps)	**6.5**	**6.5**	**-**

**Excluding non-trading items*

- Net Profit after Tax for the half year (excluding non-trading items) was $8.8 million (9.0 cents per share), up 2.4% on the prior year. Reported profit (including non-trading items) was $6.9 million.

- Total revenues of $167.2 million were up 0.2% on the prior year. Same store sales were up 0.5% for the half year, driven by a significant improvement in Pizza Hut which was up 19.5%.

- Total brand EBITDA was $27.0 million, an increase of $1.0 million (4.0%) on the previous half year, with higher earnings for KFC and Pizza Hut partly offset by reduced earnings for Starbucks Coffee.

- G&A costs increased $1.0 million (16.6%), with increased investment in human resources and information systems, together with Carl's Jr establishment costs, in anticipation of three stores opening in the second half.

- Directors have declared a fully imputed interim dividend payable on 23 November 2012 of 6.5 cents per ordinary share, consistent with last year.

Group Operating Results

Restaurant Brands' unaudited net profit after tax (excluding non-trading items) for the half year ended 10 September 2012 was $8.8 million or 9.0 cents per share, a 2.4% increase on the prior year's result of $8.6 million. Reported profit was $6.9 million (7.0 cents per share) down 9.2% on prior year because of a $1.3 million increase in non-trading items.

Total operating revenue at $167.2 million was up $0.3 million (0.2%) on the prior year with the small decline in KFC revenue of $0.5 million and Starbucks Coffee of $0.6 million being offset by the $1.3 million increase in revenue for Pizza Hut.

Brand EBITDA was up $1.0 million on prior year to $27.0 million. KFC earnings increased $0.7 million (2.9%). Pizza Hut also increased EBITDA by $0.6 million (59.5%), although Starbucks Coffee was down $0.3 million (15.5%). The earnings increase for KFC was mainly from a lower cost of sales (mix variance and some efficiency improvements). Pizza Hut's lift in earnings largely arose from enhanced fixed cost leverage from increased sales volumes. Starbucks Coffee earnings were adversely affected by the fall in revenue.

Directors are comfortable with the improvement in overall trading results (and particularly Pizza Hut), achieved in the face of a continuing challenging retail environment and some increases in key input costs.

The increase in earnings at the brand level was almost completely offset by a $1.0 million increase in above store overhead (G&A). The bulk of the increase was in Carl's Jr set up costs (recruitment, training and salaries of new staff). There were also increases in human resource and information systems costs with the significant "beefing up" of resources in these areas.

Two further stores were closed permanently following the Christchurch earthquake – these were Starbucks Coffee stores located in Cathedral Square and Colombo Street. One further Starbucks Coffee store in Cashel Mall remains closed and is unlikely to re-open.

KFC

	1H 2013	1H 2012	Change	Change (%)
Sales ($m)	**127.4**	**127.9**	**-0.5**	**-0.4**
EBITDA ($m)	**23.9**	**23.2**	**+0.7**	**+2.9**
EBITDA as a % of Sales	***18.7***	***18.1***	**-**	**-**

KFC produced total revenues of $127.4 million, down 0.4% ($0.5 million) on prior year. Same store sales were down 2.4%. Whilst negative for the first quarter, rolling over the launch of Double Down last year, they improved to a positive 0.7% for the second quarter, a satisfactory result given the comparative period last year also had the impact of the Rugby World Cup.

Despite the negative same store and total sales, operating efficiencies and a higher margin menu mix resulted in an increase in this half year's earnings against prior year. The KFC business produced $23.9 million of EBITDA (up $0.7 million) which was 18.7% of sales versus 18.1% last year.

The transformation process has continued with three stores located at Te Awamutu, Thames and Hawera being refurbished over the period. All of these stores have re-opened with sales at or ahead of expectations. Two stores at Lower Hutt and Park Avenue, Hutt Valley were closed during the half to prepare for site relocation as part of the transformation programme. The new relocated KFC Hutt Valley store re-opened with very strong sales shortly after the end of the half year as one of the flagship stores for the brand.

A total of 62 stores have now been transformed which represents nearly three quarters of the network of 86. A further four transformations and two new stores (including the relocated Hutt Valley store) are planned for the second half of the year.

Pizza Hut

	1H 2013	1H 2012	Change	Change (%)
Sales ($m)	**25.9**	**24.6**	**+1.3**	**+5.4**
EBITDA ($m)	**1.7**	**1.0**	**+0.7**	**+59.5**
EBITDA as a % of Sales	***6.4***	***4.2***	**-**	**-**

Pizza Hut saw a significant lift in sales and margin over this half year.

The increase in sales of $1.3 million (5.4%) to $25.9 million is a particularly pleasing outcome, given it was on a significantly lower store base - 11 stores (15%) less than prior year. The effective same store sales increase was 19.5%.

The introduction of strong value propositions to the Pizza Hut business with the sustained success of the $4.90 Large Classics Pizza and other value price points have successfully driven the improved sales.

The sales leverage together with tight operational controls has seen Pizza Hut EBITDA increase $0.6 million to $1.7 million for the half year (up 59.5%). EBITDA margin also improved to 6.4% of sales, up on the 4.2% in the prior year.

Pizza Hut finished the half with 63 stores, 11 less than the prior year with 20 stores now sold to independents (seven in this half year) and four stores closed (one over this half year).

Sales of regional stores to independent franchisees will continue with a further five stores expected to be sold by the end of the financial year.

Total Pizza Hut system sales (including independent franchisees) were $32.2m for the half year, an increase of 18.8% in total and 18.7% on a same store basis.

Starbucks Coffee

	1H 2013	1H 2012	Change	Change (%)
Sales ($m)	**13.4**	**14.0**	**-0.6**	**-4.4**
EBITDA ($m)	**1.4**	**1.7**	**-0.3**	**-15.5**
EBITDA as a % of Sales	***10.7***	***12.1***	**-**	**-**

The Starbucks Coffee brand experienced a fall in sales on a total and same store basis in the half year. Despite a strengthening exchange rate and improvement in operational efficiencies, sales deleverage, increased input costs and the end of business interruption insurance cover for three stores in Christchurch resulted in a reduction in earnings. The business returned an EBITDA of $1.4 million for the half, $0.3 million or 15.5% down on the prior year. EBITDA margins declined from 12.1% in the prior year to 10.7%.

Sales at $13.4 million were down by $0.6 million or 4.4% on last year with same store sales down 2.7%.

Store numbers were 33 at balance date, two down on the prior year but only 32 stores were operating consistent with the prior year. During the period, two stores in the Christchurch CBD that did not re-open after the earthquake were permanently closed. These stores were located at Cathedral Square and Colombo Street with a further store at Cashel Mall in the CBD remaining closed since the earthquake.

Carl's Jr

The development of the Carl's Jr concept continues to gain momentum. Initial training with the franchisor in the US for the first batch of managers has been completed and site acquisition, design and development is well under way for the first stores.

Three stores are expected to open in the second half of the year. They are located in Metro Centre in the Auckland CBD, Palmerston North and Mangere. A number of other stores are also in the development pipeline as part of a progressive rollout of stores across the country.

There have been some initial set up costs (largely personnel and training) incurred for the development of the brand, but all stores once opened are expected to be immediately profitable at the EBITDA level.

Corporate & Other

General and administration (G&A) costs at $7.2 million were up $1.0 million or 16.6% on the prior half year. With the establishment of the Carl's Jr brand, there have been increases in headcount to build the initial management structure and train the first managers. As the brand builds critical mass this expenditure requirement will reduce considerably. There has also been significant investment in human resources and information systems capability to support other significant initiatives such as replacement of the payroll processing system and a centralised recruitment centre to provide greater consistency and quality in selecting staff. G&A costs were 4.3% of sales for the half year, an increase on the 3.7% of sales in the prior year; however a number of these additional costs will progressively reduce and G&A is targeted to return to 4.0% of sales in the new year.

Depreciation charges of $7.4 million for the half year were consistent with the prior year. Although there has been significant capital expenditure over the past year, particularly in KFC, this was largely offset by reductions in depreciation from the sale of Pizza Hut stores to independent franchisees.

Interest expense of $0.4 million is down $0.3 million on the prior year with lower debt levels.

Tax expense is down on the prior year with lower reported profit levels. The effective tax rate of 25.8% is similar to the prior year of 25.6%.

Non-Trading Items

Non-trading items of $2.9 million were up on last year's $1.7 million. Most of the increase came from Pizza Hut store disposals as the $1.0 million book gain on store sales was offset by a $2.8 million write down in associated goodwill. There were also write offs and make good costs on store closures of a further $1.1 million.

Cash Flow & Balance Sheet

Total assets of $103.4 million were $1.5 million lower than last year end, with property, plant and equipment at $76.6 million versus $78.0 million at year end. Despite payment of $0.3 million in franchise fees, intangible assets of $18.2 million were down from $20.9 million at the last year end with Pizza Hut continuing to write off goodwill as stores are sold to independent franchisees. There are no further impairment write downs on intangibles as all three brands continued to maintain enterprise values in excess of their carrying values.

Total liabilities at $46.0 million were up $0.9 million on the previous year end with total borrowings reduced by $7.3 million to $6.4 million; however this was largely offset by an increase in current liabilities. Creditors and accruals increased $7.3 million compared to prior year end.

Operating cash flows of $19.8 million were $4.6 million up on the previous half year mainly because of favourable working capital movements in creditors and accruals and the receipt of insurance proceeds from the earthquake.

Cash outflows from investing activities of $3.1 million were down $7.8 million on the previous half year with a reduction in KFC transformation expenditure to $4.9 million and the benefit of proceeds from the sales of Pizza Hut franchises ($2.1 million).

With higher operating cash flows and reduced investing cash outflows, debt reduced by $7.3 million over the half year reducing total borrowings to $6.4 million.

Dividend

Given the fact the financial performance for the first half is anticipated to continue for the balance of the year, the company's relatively low levels of debt and factoring in the capital expenditure requirements of bringing the Carl's Jr stores progressively to market, the board has declared an interim dividend of 6.5 cents per share, the same as the prior year.

Following the change in corporate tax rate from 30% to 28% from 1 March 2011, the company has been gradually utilising imputation credits at the rate of 30% with each dividend paid since that change to ensure that the maximum benefit of these imputation credits are passed onto shareholders within the statutory two year transition period. As a result, the interim dividend will be at a blended rate with 2.8 cents fully imputed at 30% and the balance of 3.7 cents fully imputed at 28%.

The dividend will be paid on Friday 23 November 2012 to all shareholders on the register at 5pm on Friday 9 November 2012. For overseas shareholders, a supplementary dividend of 1.1471 cents per share will be paid at the same time.

Directors have elected to continue to suspend the dividend reinvestment plan for the time being, but will review this again prior to the declaration of a final dividend.

Outlook

This continues to be a challenging period for the sector and for the company in the current tight economic and retail environment.

Pizza Hut has performed significantly better than the prior year with the significant sales lift providing a platform for sales leverage and an improvement in margin; this is expected to continue.

The KFC business faces further input cost increases in the second half of the year but is anticipating being able to manage these through some sales growth and operating efficiencies. KFC will receive a further boost in the second half with the opening of two of its new "Fusion" stores and a number of smaller transformations.

Starbucks Coffee has experienced a decline in sales and margins; however pricing changes, revised beverage formulations and a revamped food range are expected to address this.

The level of increased G&A is also expected to reduce in the second half.

With three Carl's Jr stores opening towards the end of the year, and all expecting to be immediately profitable, there will be some positive contribution from this new brand to the full year result.

Directors therefore anticipate a similar trend in profit in the second half over to a full year NPAT (excluding non-trading items) in the vicinity of $18 million.

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RESTAURANT BRANDS GROUP
Consolidated Income Statement
For the period 1 March to 10 September 2012 (2013 Half Year)

$NZ000's (Unaudited)	1st Half 2013 10 September 2012	% sales	vs Prior %	1st Half 2012 12 September 2011	% sales
Total operations					
Sales					
KFC	127,443		*(0.4)*	127,912	
Pizza Hut	25,884		*5.4*	24,565	
Starbucks Coffee	13,369		*(4.4)*	13,980	
Total sales	**166,696**		*0.1*	**166,457**	
Other revenue	465		*29.2*	360	
Total operating revenue	**167,161**		*0.2*	**166,817**	
Cost of goods sold	(137,905)		*(0.1)*	(137,834)	
Gross margin	**29,256**		*0.9*	**28,983**	
Distribution expenses	(1,529)		*10.3*	(1,704)	
Marketing expenses	(7,921)		*7.6*	(8,576)	
General and administration expenses	(7,204)		*(16.6)*	(6,179)	
EBIT before non-trading	**12,602**		*0.6*	**12,524**	
Non-trading	(2,924)		*(76.1)*	(1,660)	
EBIT	**9,678**		*(10.9)*	**10,864**	
Net financing expenses	(432)		*40.2*	(722)	
Net profit before tax	**9,246**		*(8.8)*	**10,142**	
Taxation expense	(2,388)		*7.9*	(2,593)	
Total profit after tax (NPAT)	**6,858**		*(9.2)*	**7,549**	
Total NPAT excluding non-trading	**8,762**		*2.4*	**8,556**	
EBITDA before G&A					
KFC	23,877	*18.7*	*2.9*	23,209	*18.1*
Pizza Hut	1,662	*6.4*	*59.5*	1,042	*4.2*
Starbucks Coffee	1,433	*10.7*	*(15.5)*	1,695	*12.1*
Total	**26,972**	***16.2***	***4.0***	**25,946**	***15.6***

Ratios		
Net tangible assets per security (net tangible assets divided by number of shares) in cents	40.0c	36.7c

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.