**9 April 2014**
**NZX**

## RESTAURANT BRANDS' 2014 ANNUAL RESULT

| | 2014 $m | 2013 $m | Change % |
|---|---|---|---|
| **Total Group Revenue** | **330.4** | **312.8** | **+5.6** |
| **Group Net Profit after Tax*** | **18.9** | **17.7** | **+6.8** |
| **Dividend (cps)** | **16.5** | **16.0** | **+3.1** |
| ** Excluding non-trading items* | | | |

### Key points

- Group Net Profit after Tax (excluding non-trading items) was $18.9 million (19.3 cents per share), up 6.8% on prior year.
- Total Group Revenue of $330.4 million was up $17.6 million (+5.6%) with growth from KFC and the roll out of the Carl's Jr. brand.
- KFC sales continued to grow to a new high of $241.5 million despite competitive market conditions.
- Pizza Hut and Starbucks Coffee continued to deliver solid same store sales growth, up 15.3% and 5.7% respectively.
- The roll out of the new Carl's Jr. brand commenced in earnest with six new stores opened over the year, contributing $12.4 million in incremental revenue and bringing store numbers to eight.
- Total store EBITDA of $53.5 million was up $2.0 million (3.9%) on the prior year with a continued strong performance by Pizza Hut and Starbucks Coffee, together with positive earnings from Carl's Jr. offsetting slightly reduced margins in KFC.
- Operating cash flows were $32.7 million, marginally down on prior year. Investing cash flows were $9.8 million favourable to the prior year with the impact of property sale and leasebacks and continued sell down of Pizza Hut stores. As a result net debt fell to $8.2 million at year end.
- A final fully imputed dividend of 10.0 cents per share will be paid on 27 June, making a full year dividend of 16.5 cents (up 3.1% on the previous year).

### Group Operating Results

Restaurant Brands Net Profit after Tax (excluding non-trading items) for the 52 weeks to 24 February 2014 (FY14) was $18.9 million (19.3 cents per share), up 6.8% on last year's profit of $17.7 million (18.0 cents per share).

Net Profit after Tax (including non-trading items) was $20.0 million (20.4 cps) up 23.5% on the $16.2 million (16.5 cps) result in FY13.

Non-trading items primarily comprised gains on sale and leaseback of stores and totaled $1.5 million (pre-tax) compared with non-trading losses of $2.4 million in the prior year.

Total store sales of $329.3 million were up $17.4 million (+5.6%) on the previous year's sales. Same store sales for the group were up 2.4% (up 1.9% in FY13).

Store EBITDA (before G&A costs) was up by $2.0 million (3.9%) to $53.5 million, driven mainly by the continuing strong turnaround in Pizza Hut's results. Pizza Hut continued to be the standout performer for the year increasing EBITDA by $1.7 million (on top of $1.7 million in FY13) to $5.5 million. Starbucks Coffee also delivered a strong improvement in earnings, up 19.4% to $3.5 million for the year with Carl's Jr. breaking even (up $0.5 million on FY13). KFC saw profit slip slightly by $0.7 million to $44.5 million.

Year end store numbers at 176 were one down on February 2013 with continuing sales of regional Pizza Hut stores to independent franchisees, largely offset by new builds for Carl's Jr.

**KFC**

| | 2014 $m | 2013 $m | Change $m | Change % |
|---|---|---|---|---|
| **Sales** | **241.5** | **237.0** | **+4.5** | **+1.9** |
| **EBITDA** | **44.5** | **45.3** | **-0.7** | **-1.6** |
| ***EBITDA as % of Sales*** | ***18.4*** | ***19.1*** | ***-*** | ***-*** |

KFC sales continued to climb to yet another high at $241.5 million, up $4.5 million on the prior year. The soft retail environment and aggressive competitor activity put some pressure on sales during the first half, but the brand finished strongly with 4.1% same store sales growth in the last quarter and 0.2% for the full year (versus -1.0% in FY13).

Meeting competitor discounting activity put some pressure on margins with KFC producing an EBITDA of $44.5 million, 1.6% ($0.7 million) down on prior year. As a % of sales, brand EBITDA declined from 19.1% to 18.4%, but improved over the year from 17.7% in the first half to 19.3% in the second.

KFC promotional activity focussed on meeting competitor activity with the launch of the Value Menu. However considerable success was achieved with the launch of new burger variants, including the *Kentucky,* the *Mexican* and the *Real Kahuna* burgers and the new Family Meals menu.

The pace of store transformation was slowed, but will pick up again in the new year as the brand moves to fully complete the upgrade of its entire KFC network by FY16. As at balance date KFC had 71 of its 90 stores new or fully refurbished. Two stores (Otahuhu and Upper Hutt) received major upgrades and a further 21 stores saw minor (five-year) upgrades. Total store numbers increased to 90 with the opening of a new store at Auckland airport.

**Pizza Hut**

| | 2014 $m | 2013 $m | Change $m | Change % |
|---|---|---|---|---|
| **Sales** | **48.4** | **47.9** | **+0.5** | **+1.1** |
| **EBITDA** | **5.5** | **3.8** | **+1.7** | **+44.8** |
| ***EBITDA as % of Sales*** | ***11.4*** | ***7.9*** | ***-*** | ***-*** |

Pizza Hut had another very strong year, continuing to deliver both sales and margin growth in a very competitive pizza market. The brand continues to build momentum on its underlying premise of selling quality pizzas at an everyday competitive price and maintaining high levels of customer service.

Despite having store numbers six (10.5%) less than last year as a result of the sell down programme, Pizza Hut still managed to increase total sales out of the remaining stores by $0.5 million (+1.1%) and grew same store sales by 15.3% (on top of 21.2% growth in the FY13 year).

Continuing improvements in sales volumes and better operational efficiencies, together with the sale of lower margin stores meant another excellent improvement in earnings. EBITDA was up a further $1.7 million (44.8%) on prior year, which was itself up $1.7 million (80.8%) on the year before. Resulting EBITDA was $5.5 million or 11.4% of sales (7.9% in FY13).

The sale of regional and lower volume stores to independent franchisees continued, although at a slower pace with only six sold over the year, leaving Restaurant Brands with a total of 51 stores out of a total of 84 in the market. With the improved profitability of the brand there has been strong demand from potential purchasers of these Pizza Hut stores.

**Starbucks Coffee**

| | 2014 $m | 2013 $m | Change $m | Change % |
|---|---|---|---|---|
| **Sales** | **25.0** | **25.1** | **-0.1** | **-0.3** |
| **EBITDA** | **3.5** | **2.9** | **+0.6** | **+19.4** |
| ***EBITDA as % of Sales*** | ***14.0*** | ***11.7*** | **-** | **-** |

The Starbucks Coffee brand continued to steadily improve its sales and profit performance with network rationalisation now largely complete and in-store efficiencies well established.

Whilst total Starbucks Coffee sales at $25.0 million were flat to prior year with two less stores, same store sales grew strongly to +5.7% (-1.7% in FY13).

Sales leverage and continuing operating efficiencies (with some assistance from a stronger exchange rate) saw Starbucks Coffee EBITDA climb strongly to $3.5 million, up 19.4% on the prior year.

There are now 27 Starbucks Coffee stores operating following the closure of all non-performing stores and the brand is now well positioned for consolidation and future steady growth.

**Carl's Jr.**

| | 2014 $m | 2013 $m | Change $m | Change % |
|---|---|---|---|---|
| **Sales** | **14.3** | **1.9** | **+12.4** | **+662.2** |
| **EBITDA** | **0.0** | **-0.5** | **+0.5** | **-** |
| ***EBITDA as % of Sales*** | ***0.0*** | ***-26.4*** | **-** | **-** |

This year saw the continuation of the roll out of the Carl's Jr. brand with a further six stores opening over the year to add to the two opened at the end of the previous financial year.

New store openings produced significant sales surges, which have now settled back to more stable levels. Total sales for the year were $14.3 million as Carl's Jr. begins to build a presence in the Restaurant Brands' stable.

Bringing a new brand to market in a competitive environment has been a challenge in its first full year of operation. New store openings meant significant set up costs, particularly in recruiting and training staff. Moving to local sourcing of raw ingredients such as beef patties took somewhat longer than anticipated, but some benefits began to flow in the second half of the year. As a consequence, Carl's Jr. produced an EBITDA loss of $0.2 million in the first half, but turned this around to an equivalent profit in the second half, resulting in a breakeven position for the full year. Margins have continued to improve further with lower ingredient costs. The brand has seen improved labour efficiencies and lower wastage as stores have begun to establish more stable trading patterns.

**Corporate and Other Costs**

G&A (above store overheads) at $13.1 million were well controlled. They were $0.1 million down on prior year and on the targeted 4.0% of sales (4.2% in FY13).

Group non-trading gains of $1.5 million arose primarily from gains on sale following the successful sale and leaseback of two KFC stores and one Carl's Jr. store during the year. This compares with a $2.4 million non-trading loss in FY13.

Depreciation charges of $14.1 million were up $0.5 million on the prior year largely as a result of the Carl's Jr. new store roll out (an additional $0.8 million). Reduced depreciation charges in Pizza Hut and Starbucks Coffee with store disposals and closures were offset by an incremental $0.4 million in KFC with a new store and transformation expenditure.

Interest and funding costs at $0.8 million were flat to prior year with continuing lower debt levels and a benign interest rate environment. Bank interest rates (inclusive of margins) for the year averaged 4.9% compared with 5.0% in FY13.

**Cash Flow and Balance Sheet**

Operating cash flows at $32.7 million were similar to the prior year, reflecting higher profitability but without the same benefit of favourable working capital movements.

Investing cash outflows were $22.5 million, similar to the prior year's $24.2 million, reflecting the increased capital expenditure in KFC and the build of six more Carl's Jr. stores. However investing receipts from the sale and leaseback of three new stores and Pizza Hut store sales, together with the last of the Christchurch insurance proceeds contributed positive investing cash inflows of $12.4 million (up $8.0 million on prior year). Hence net cash flows from investing activities were a net outflow of $10.1 million ($19.8 million in FY13).

The resulting free cash flows enabled a net reduction in borrowings of $6.5 million over the year and dividend payments of $16.1 million. Resulting bank debt was down to $8.2 million at year end.

Total assets at year end were $108.3 million, $3.4 million down on the prior year end. The bulk of the change was in non-current assets, with three significant properties on the balance sheet in FY13 sold during the year as sale and leasebacks.

Total liabilities were down by $7.7 million to $43.7 million largely as a result of the reduction in borrowings.

Year end shareholders' funds of $64.7 million were $4.3 million up on prior year because of increases in retained earnings.

The balance sheet remains very conservative with a gearing ratio of 11% (FY13: 19%).

**Dividend**

Directors have declared a final fully imputed dividend of 10.0 cents per share. The continuing strong cash flows and low levels of debt mean that dividend levels have been able to be increased slightly on last year's with the resultant full-year dividend of 16.5 cents per share (16.0 cents in FY13).

The 10.0 cents final dividend will be paid on 27 June 2014 to all shareholders on the register as at 13 June 2014. A supplementary dividend of 1.7647 cents per share will also be paid to overseas shareholders on that date.

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

**Outlook**

Directors believe that the $18.9 million NPAT (excluding non-trading) was a solid result for the company given the current economic and competitive environment.

The retail sector was not particularly robust in the first half of the year and competitive activity (particularly in price discounting) was aggressive.

The company met the dual challenges of both maintaining market share and margin in a competitive environment whilst building a new brand and Restaurant Brands will be in a strong position to benefit from the general economic recovery in the coming year.

KFC will see significant capital investment over the new financial year as the brand focuses on bringing the remainder of its network up to new store standard. With some management changes and a renewed focus on operational performance, the brand is expected to deliver both sales and margin growth in the FY15 year.

Pizza Hut will continue to maintain its sales and margin momentum with another year of solid same store sales and earnings growth anticipated. The store sell down process to independent franchisees will continue, albeit at a slower pace.

Starbucks Coffee, like Pizza Hut, continues to perform well and is expected to also benefit from the economic recovery with continued sales growth and (assisted by sales leverage and a strong exchange rate) higher profit.

The Carl’s Jr. brand will see continued new store roll outs over the new year with four to five new stores anticipated over the next 12 months. As with any new brand there will be challenges in both maintaining sales momentum following new opening peaks and building margins as new store set up costs are incurred and the benefits of localising supply chain and store efficiencies are realised.

With a strong start to the new financial year and improving economic situation, Directors are cautiously optimistic that the company will produce a NPAT (before non-trading items) in excess of $20 million for the new year.

**Annual Shareholders' Meeting**

The Annual Shareholders' Meeting for the company will be held in Auckland on 26 June 2014.

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**ENDS**

***About Restaurant Brands:***

*Restaurant Brands New Zealand Limited operates the New Zealand outlets of KFC, Pizza Hut, Carl’s Jr. and Starbucks Coffee. These brands - four 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**
**For the 52 week period ended 24 February 2014**

| $NZ000's | 24 February 2014 | | vs Prior % | 28 February 2013 | |
|---|---|---|---|---|---|
| **Sales** | | | | | |
| KFC | 241,521 | | *1.9* | 237,032 | |
| Pizza Hut | 48,393 | | *1.1* | 47,876 | |
| Starbucks Coffee | 25,041 | | *(0.3)* | 25,115 | |
| Carl's Jr. | 14,314 | | *662.2* | 1,878 | |
| **Total sales** | **329,269** | | *5.6* | **311,901** | |
| Other revenue | 1,130 | | *23.9* | 912 | |
| **Total operating revenue** | **330,399** | | *5.6* | **312,813** | |
| Cost of goods sold | (273,493) | | *(6.0)* | (258,081) | |
| **Gross margin** | **56,906** | | *4.0* | **54,732** | |
| Distribution expenses | (2,464) | | *7.8* | (2,672) | |
| Marketing expenses | (14,656) | | *(6.9)* | (13,716) | |
| General and administration expenses | (13,088) | | *0.9* | (13,203) | |
| **EBIT before non-trading** | **26,698** | | *6.2* | **25,141** | |
| Non-trading | 1,472 | | *161.2* | (2,405) | |
| **EBIT** | **28,170** | | *23.9* | **22,736** | |
| Interest income | 19 | | *46.2* | 13 | |
| Interest expense | (774) | | *9.0* | (851) | |
| **Net profit before taxation** | **27,415** | | *25.2* | **21,898** | |
| Taxation expense | (7,462) | | *(30.0)* | (5,739) | |
| **Total profit after taxation (NPAT)** | **19,953** | | *23.5* | **16,159** | |
| **Total NPAT excluding non-trading** | **18,863** | | *6.8* | **17,654** | |
| | | % sales | | | % sales |
| **EBITDA before G&A** | | | | | |
| KFC | 44,529 | *18.4* | *(1.6)* | 45,272 | *19.1* |
| Pizza Hut | 5,496 | *11.4* | *44.8* | 3,796 | *7.9* |
| Starbucks Coffee | 3,498 | *14.0* | *19.4* | 2,929 | *11.7* |
| Carl's Jr. | 4 | - | *n/a* | (495) | *(26.4)* |
| **Total** | **53,527** | ***16.3*** | ***3.9*** | **51,502** | ***16.5*** |
| **Ratios** | | | | | |
| **Net tangible assets per security (net tangible assets divided by number of shares) in cents** | 47.2c | | | 42.5c | |

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.

**Restaurant Brands Group**
**Non-GAAP Financial Measures**
**For the 52 week period ended 24 February 2014**

The Group results are prepared in accordance with New Zealand Generally Accepted Accounting Practice ("GAAP") and comply with International Financial Reporting Standards ("IFRS"). These financial statements include non-GAAP financial measures that are not prepared in accordance with IFRS. The non-GAAP financial measures used in this presentation are as follows:

1. **EBITDA before G&A.** The Group calculates Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA") before G&A (general and administration expenses) by taking net profit before taxation and adding back (or deducting) net financing expenses, non-trading items, depreciation, amortisation and G&A. The Group also refers to this measure as **Concept EBITDA before G&A**.

   The term **Concept** refers to the Group's four operating segments comprising KFC, Pizza Hut, Starbucks Coffee and Carl's Jr. The term **G&A** represents non-store related overheads.

2. **EBIT before non-trading**. Earnings before interest and taxation ("EBIT") before non-trading is calculated by taking net profit before taxation and adding back (or deducting) net financing expenses and non-trading items.

3. **Non-trading items**. Non-trading items represent amounts the Group considers unrelated to the day to day operational performance of the Group. Excluding non-trading items enables the Group to measure underlying trends of the business and monitor performance.

4. **EBIT after non-trading items**. The Group calculates EBIT after non-trading items by taking net profit before taxation and adding back net financing expenses.

5. **Total NPAT excluding non-trading**. Total Net Profit After Taxation ("NPAT") excluding non-trading items is calculated by taking profit after taxation attributable to shareholders and adding back (or deducting) non-trading items whilst also allowing for any tax impact of those items.

6. **Capital expenditure including intangibles**. Capital expenditure including intangibles represents additions to property, plant and equipment and intangible assets

The Group believes that these non-GAAP measures provide useful information to readers to assist in the understanding of the financial performance and position of the Group but that they should not be viewed in isolation, nor considered as a substitute for measures reported in accordance with IFRS. Non-GAAP measures as reported by the Group may not be comparable to similarly titled amounts reported by other companies.

The following is a reconciliation between these non-GAAP measures and net profit after taxation:

| **$NZ000's** | **Note*** | **24 Feb 2014** | **28 Feb 2013** |
|---|---|---|---|
| **EBITDA before G&A** | 1 | **53,527** | **51,502** |
| Depreciation | | (14,114) | (13,573) |
| Loss on sale of property, plant and equipment (included in depreciation) | | (51) | (62) |
| Amortisation (included in cost of sales) | | (1,432) | (1,068) |
| General and administration - area managers, general managers and support centre | | (11,232) | (11,658) |
| **EBIT before non-trading** | 2 | **26,698** | **25,141** |
| **Non-trading items** | 3 | **1,472** | **(2,405)** |
| **EBIT after non-trading items** | 4 | **28,170** | **22,736** |
| Net financing costs | | (755) | (838) |
| **Net profit before taxation** | | **27,415** | **21,898** |
| Income tax expense | | (7,462) | (5,739) |
| **Net profit after taxation** | | **19,953** | **16,159** |
| (Deduct) / add back non-trading items | | (1,472) | 2,405 |
| Taxation expense / (credit) on non-trading items | | 382 | (910) |
| **Net profit after taxation excluding non-trading items** | 5 | **18,863** | **17,654** |

* Refers to the list of non-GAAP measures as listed above.