20 April 2017
NZX

RESTAURANT BRANDS' 2017 ANNUAL RESULT

	2017 (52 weeks) $m	2016 (52 weeks) $m	Change %
Total Group Store Sales	**497.2**	**387.6**	**+28.3%**
Group Net Profit after Tax	**26.0**	**24.1**	**+7.8%**
Dividend (cps)	**23.0**	**21.0**	**+9.5%**

Note: All amounts are in NZD unless specified otherwise.

Key points

- Group Net Profit after Tax was $26.0 million (24.1 cents per share), up $1.9 million (+7.8%), on prior year. Net Profit after Tax (excluding non-trading items) was $30.6 million (28.4 cents per share), up 26.3% on prior year.
- Total Group Store Sales were $497.2 million, up $109.6 million (+28.3%) on prior year, primarily because of the contribution from the KFC business in Australia, but also assisted by continued strong growth from KFC New Zealand.
- New Zealand operations continued to perform well, delivering total sales of $400 million and a store EBITDA of $71.2 million of the $86.2 million reported for the group.
- With the settlement of the KFC Australian purchase in April 2016, Australian operations contributed sales of $97.2 million and store EBITDA of $15.0 million for the 10 month period.
- Operating cash flows were $47.9 million, up $3.6 million; however investing cash outflows increased from $15.3 million to $79.0 million with the purchase of the Australian business.
- On 26 October 2016 the company entered into an agreement to acquire Pacific Island Restaurants Inc ("PIR"), the sole Pizza Hut and Taco Bell operator in Hawaii and Guam with 82 stores. The acquisition is expected to deliver an additional $180 million in annual revenues.
- A final fully imputed dividend of 13.5 cents per share will be paid on 23 June, making a full year dividend of 23.0 cents (up 9.5% on the previous year).

Overview

Restaurant Brands has enjoyed a profitable financial year to 27 February 2017 with New Zealand operations delivering their best ever overall sales and profit performance, strong trading from the KFC Australian business under its new Restaurant Brands' ownership and the successful completion of the acquisition of the Taco Bell and Pizza Hut franchise in Hawaii (although settlement was not completed until after balance date).

Group Operating Results

Restaurant Brands Net Profit after Tax for the 52 weeks to 27 February 2017 (FY17) was $26.0 million (24.1 cents per share*), up 7.8% on last year's profit of $24.1 million (24.6 cents per share - on a smaller share base).

Net Profit after Tax (excluding non-trading items) was $30.6 million (28.4 cents per share*), up 26.3% on the $24.2 million (24.7 cents per share) result in FY16.

**On a weighted average of 107.8 million shares on issue basis (FY16 97.9 million shares on issue).*

Non-trading costs were $5.1 million for the year (compared with $0.5 million in FY16).

Total store sales of $497.2 million were up $109.6 million (+28.3%) on the previous year's sales. Most of the growth ($97.2 million) came from the acquisition of the 42 KFC stores in Australia. However the New Zealand business grew sales by $12.4 million on prior year, mainly from the KFC New Zealand operations.

Group revenues for the year were $517.5 million (up 28.1%) with continued increases in sales of ingredients and packaging materials to independent franchisees.

Store EBITDA (before G&A costs) was up by $19.3 million (+28.8%) to $86.2 million, $15.0 million of which came from KFC Australia.

Year-end store numbers were 212, with New Zealand totaling 170, three down on prior year, largely because of sales of Pizza Hut stores to independent franchisees. However the KFC Australian acquisition brought a further 42 stores into the network.

KFC New Zealand

	2017 $m	2016 $m	Change $m	Change %
Sales	**296.5**	**282.5**	**+13.9**	**+4.9%**
EBITDA	**61.4**	**57.2**	**+4.3**	**+7.5%**
EBITDA as % of Sales	***20.7%***	***20.2%***	***-***	***+0.5%***

KFC had its best ever year in terms of sales and profitability with sales of $296.5 million, an increase of $13.9 million or +4.9% on the prior year.

Same store sales growth started slowly with the first half up 1.9%. However the brand built stronger momentum as the year progressed, finishing at +7.1% growth for the last quarter of the year to a total of +3.6% for the full year (rolling over +6.3% for FY16).

The brand continues to enjoy the momentum of the store transformation programme, together with the benefits of further increases in marketing expenditure and some successful new product releases.

Margins improved commensurate with sales, with a benign ingredient cost environment and increased store efficiencies offsetting increasing labour costs. The brand finished the year with an EBITDA of $61.4 million, another new record for the brand. This represents an increase of $4.3 million or +7.5% on FY16. As a percentage of sales, brand EBITDA improved from 20.2% in FY16 to 20.7% this year.

With the last major transformation completed this year, the store network rebuilding programme that the brand embarked upon over ten years ago is now complete. The programme has seen a total refurbishment of the KFC store network at a cost of $100 million and has resulted in the New Zealand KFC business growing from $172 million sales in 2006 to nearly $300 million this year and EBITDA more than doubling from less than $30 million to over $60 million over the same time.

The company recognizes the importance of continued re-investment in its stores and completed 11 major store upgrades and 10 minor refurbishments over the course of the year.

Store numbers increased to 92 with the opening of a new store at Rolleston in November 2016.

Pizza Hut New Zealand

	2017 $m	2016 $m	Change $m	Change %
Sales	**40.5**	**44.9**	**-4.4**	**-9.8%**
EBITDA	**4.1**	**4.9**	**-0.8**	**-17.2%**
EBITDA as % of Sales	***10.0%***	***10.9%***	***-***	***-0.9%***

The company opened one new Pizza Hut store during the year in LynnMall and oversaw four additional stores which were opened by independent franchisees. By year end Restaurant Brands still retained a total of 35 stores and independent franchisees had 58 stores. Sales from the 93 store Pizza Hut network were $91.6 million, an increase of 6.4% on prior year.

Total sales from stores operated by Restaurant Brands were down 9.8% over the year to $40.5 million, due to lower store numbers as the company sold a further four stores to independent franchisees.

Same store sales for company stores grew 3.6% over the year with a slightly stronger first half.

Earnings from company stores reduced slightly because of the sale of more of the profitable stores to independent franchisees and some increases in labour and ingredient costs. EBITDA for the year was $4.1 million, down $0.8 million on FY16. This represented an EBITDA margin of 10.0% of sales versus 10.9% last year, but still within the company's expected margin range.

Demand from independent franchisees remains strong for both purchases of Restaurant Brands' stores and new store construction in greenfield locations.

Starbucks Coffee New Zealand

	2017 $m	2016 $m	Change $m	Change %
Sales	**26.7**	**26.8**	**-0.1**	**-0.4%**
EBITDA	**4.8**	**4.4**	**+0.4**	**+8.0%**
EBITDA as % of Sales	***17.8%***	***16.4%***	***-***	***+1.4%***

As the company's smallest brand, Starbucks Coffee has yet again made a reliable and sustainable contribution to the overall group result.

Total sales at $26.7 million were marginally down on prior year, because of the end-of-lease closure of the Aotea Square store in Auckland. Same store sales however were up a healthy 4.5%.

Despite some weakening of the NZD/USD exchange rate, increased volumes and continuing operating efficiencies delivered a further increase in earnings to a new high of $4.8 million (17.8% of sales).

With the Aotea Square closure store numbers are now 24.

With the 20th anniversary of the first store opening in the country coming up next year the company is in discussions with the franchisor on potential franchise renewal options.

Carl's Jr. New Zealand

	2017 $m	2016 $m	Change $m	Change %
Sales	**36.3**	**33.4**	**+2.9**	**+9.0%**
EBITDA	**1.0**	**0.4**	**+0.6**	**+120.7%**
EBITDA as % of Sales	***2.7%***	***1.3%***	***-***	***+1.4%***

The Carl's Jr. brand continued to make steady progress towards building critical mass and long term financial viability.

Sales were up 9.0% to $36.3 million, with the impact of new store openings in Church Corner and Hornby in Christchurch. Whilst same store sales for the brand were -3.8%, they improved over the year and were positive for the second half.

Margins continued to improve with lower input costs, although beef prices remain stubbornly high. Maintaining the strategy of accelerating advertising expenditure to try and build brand presence also adversely impacted margins. The resultant EBITDA of $1.0 million (2.7% of sales) was $0.6 million or 121% up on FY16 and indicative of the continued improvement in brand performance.

Store numbers increased by one to 19 with the two openings offset by the closure of the Otahuhu store.

KFC Australia

	2017 $m	2016 $m	Change $m	Change %
Sales	**97.2**	**-**	**+97.2**	**n/a**
EBITDA	**15.0**	**-**	**+15.0**	**n/a**
EBITDA as % of Sales	***15.4%***	***-***	***-***	***n/a***

The addition of the 42 QSR Pty Limited ("QSR") KFC stores in New South Wales Australia, completed on 27 April 2016 gave a considerable boost to the Company's results, adding $97.2 million in sales and $15.0 million in EBITDA for the 10 month period.

The purchase of QSR for a consideration of $89.4 million was settled by the issue of five million Restaurant Brands shares (at a set price of $4.16). Market value of the shares at settlement was $25.5 million with the balance of $63.9 million in bank debt.

The acquisition represents a strategic move into the Australian market, buying a well-run profitable company which will provide a sound base for future expansion opportunities.

The business has seen further growth in store numbers after balance date with five further KFC stores being acquired from independent franchisees, two new stores under construction and the potential purchase of a number of Yum!-owned stores in the market under active consideration.

Corporate and Other Costs

G&A (above store overheads) at $20.4 million were $4.0 million (23.9%) up on prior year. Most ($3.6 million) of this increase arose from the additional G&A in the Australian business. Total G&A remains at 3.9% of total revenues, within the company's 4.0% target.

The board is currently considering a long term incentive scheme for the senior management team.

Group non-trading charges were $5.1 million for the year ($0.5 million in FY16). There were some gains on the disposal of Pizza Hut stores of $0.7 million and the sale and leaseback of a KFC store of $0.4 million. These gains were however offset by store closure costs of $1.7 million (primarily Carl's Jr. Otahuhu), legal and due diligence costs on the Hawaiian acquisition of $1.5 million and stamp duty on settlement of the QSR Australia purchase of $2.1 million.

Depreciation charges at $22.2 million were up $5.6 million on the prior year, largely as a result of the QSR acquisition ($4.6 million). New Zealand operations had an increase in depreciation of $1.0 million, mainly from the KFC business.

Interest and funding costs at $2.3 million were $1.3 million up on prior year. Bank interest rates (inclusive of margins) for the year averaged 4.1% compared with 4.8% in FY16.

Cash Flow and Balance Sheet

The company's cash flows continue to be very robust. Operating cash flows were $47.9 million for the year, up $3.6 million on prior year. The impact of working capital movements was minimal this year at -$1.0 million, compared with a +$4.5 million benefit in FY16.

Net investing cash outflows rose significantly to $79.0 million, compared with $15.3 million in FY16. $63.9 million of the increase was attributable to settlement of the QSR acquisition in Australia.

Financing cash flows for the year showed a net inflow of $99.2 million, compared with the previous year's net outflow of $29.4 million. The reasons for the significant (and largely one-off) turnaround were the increase in borrowings for the Australian acquisition and the share capital raised of $91.1 million (net) for the Hawaiian acquisition that had not settled by balance date. Dividend payments took $22.6 million versus $19.6 million in FY16.

Total assets at year-end were up significantly to $302.4 million (FY16 $139.8 million) on the strength of the Australian acquisition and the capital raising for the Hawaiian acquisition. Current assets were up $70.7 million to $83.3 million because of the cash raised for the Hawaiian settlement which was still pending at balance date. Non-current assets were up $91.9 million to $219.1 million with the impact of goodwill and leasehold improvements, plant and equipment acquired on the QSR purchase.

Total liabilities were up $46.1 million to $110.3 million largely because of increased borrowings for the QSR acquisition.

Year-end shareholders' funds of $192.1 million were $116.4 million up on prior year because of the capital raising for the Hawaiian acquisition.

The balance sheet remains conservative with a gearing ratio of 19% (FY16: 13%), but was artificially low at balance date pending completion of the Hawaiian acquisition.

Dividend

Directors have declared a final fully imputed dividend of 13.5 cents per share. This, together with the interim dividend of 9.5 cents per share, makes a full year dividend of 23.0 cents per share (up 2.0 cents on FY16).

The final dividend of 13.5 cents per ordinary share will be payable on 23 June 2017 to all shareholders on the register on 9 June 2017. A supplementary dividend of 2.3824 cents per share will be paid to all overseas shareholders at the same time.

The re-introduction of a dividend reinvestment plan for the company is currently being evaluated, with a decision to be announced before the FY18 interim dividend.

Hawaiian Acquisition

On 26 October 2016, Restaurant Brands entered into agreements to purchase 100% of the shares in Pacific Island Restaurants Inc (PIR) for $US105 million. PIR is the sole Taco Bell and Pizza Hut franchisee in Hawaii, Guam and Saipan. PIR's store network includes 37 Taco Bell stores and 45 Pizza Hut stores.

The acquisition, which was finally settled on 7 March 2017 (in the new financial year), was funded by a combination of (US dollar) debt and equity. The company undertook a successful capital raising in November 2016 through an Accelerated Renounceable Entitlement Offer (AREO) that saw mainly existing shareholders subscribe for 19,972,101 shares for a total consideration of $94 million.

On a full year basis the Hawaiian business is expected to deliver total sales in the vicinity of $180 million and a store EBITDA of $27 million.

Outlook

The reported profit for the year at $26.0 million was 7.8% up on prior year, although the underlying result was considerably higher after adjusting for the significant non-trading items incurred in completing the two acquisitions in Australia and Hawaii. The resultant $30.6 million NPAT (excluding non-trading) was up 26.3% on prior year and included a solid contribution from the KFC Australia business.

The new financial year has seen a continuation of the strong trading performance across all four New Zealand brands seen over the FY17 year and both new acquisitions in Australia and Hawaii are currently delivering results in line with their business case projections.

The company is not anticipating any significant changes in the economic and competitive environment or unusual costs for the new financial year. Therefore with a consistent domestic performance, a full year's trading from the QSR business in Australia and a 51 week contribution from the Hawaiian acquisition, directors expect that the company will deliver an NPAT (excluding non-trading) result in the new financial year in the vicinity of $40 million. More details will be provided at the Annual Shareholders' Meeting.

Annual Shareholders' Meeting

The Annual Shareholders' Meeting for the company will be held in Auckland on 23 June 2017.

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About Restaurant Brands:

Restaurant Brands New Zealand Limited operates the New Zealand outlets of KFC, Pizza Hut, Carl's Jr. and Starbucks Coffee, together with KFC in Australia and Pizza Hut and Taco Bell in Hawaii and Guam. These brands - five 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, Australia, the US and around the world.

RESTAURANT BRANDS GROUP
Consolidated Income Statement
For the 52 week period ended 27 February 2017

$NZ000's	Unaudited 27 February 2017 52 weeks		vs Prior %	Unaudited 29 February 2016 52 weeks	
Sales					
KFC	296,465		*4.9*	282,531	
Pizza Hut	40,492		*(9.8)*	44,871	
Starbucks Coffee	26,694		*(0.4)*	26,811	
Carl's Jr.	36,347		*9.0*	33,351	
Total New Zealand Sales	**399,998**		*3.2*	**387,564**	
KFC Australia	97,181		*100.0*	-	
Total Sales	**497,179**		*28.3*	**387,564**	
Other revenue	20,370		*23.2*	16,531	
Total operating revenue	**517,549**		*28.1*	**404,095**	
Cost of goods sold	(421,872)		*(27.8)*	(329,983)	
Gross margin	**95,677**		*29.1*	**74,112**	
Distribution expenses	(2,764)		*(10.3)*	(2,505)	
Marketing expenses	(28,107)		*(36.1)*	(20,654)	
General and administration expenses	(20,364)		*(23.9)*	(16,434)	
EBIT before non-trading	**44,442**		*28.7*	**34,519**	
Non-trading	(5,063)		*(1,020.1)*	(452)	
EBIT	**39,379**		*15.6*	**34,067**	
Interest expense	(2,291)		*(131.2)*	(991)	
Net profit before taxation	**37,088**		*12.1*	**33,076**	
Taxation expense	(11,133)		*(23.6)*	(9,006)	
Total profit after taxation (NPAT)	**25,955**		*7.8*	**24,070**	
Total NPAT excluding non-trading	**30,567**		*26.3*	**24,207**	
		% sales			% sales
EBITDA before G&A					
KFC	61,419	*20.7*	*7.5*	57,150	*20.2*
Pizza Hut	4,058	*10.0*	*(17.2)*	4,902	*10.9*
Starbucks Coffee	4,760	*17.8*	*8.0*	4,409	*16.4*
Carl's Jr.	969	*2.7*	*120.7*	439	*1.3*
Total New Zealand	**71,206**	***17.8***	***6.4***	**66,900**	***17.3***
KFC Australia	14,964	*15.4*	*100.0*	-	-
Total	**86,170**	***17.3***	***28.8***	**66,900**	***17.3***
Ratios					
Net tangible assets per security (net tangible assets divided by number of shares) in cents	87.7c			56.3c	

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 27 February 2017

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 five operating segments comprising the New Zealand segments (KFC, Pizza Hut, Starbucks Coffee and Carl's Jr.) and KFC Australia. 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 on a consistent basis.

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***	**2017 Unaudited**	**2016 Unaudited**
EBITDA before G&A	1	**86,170**	**66,900**
Depreciation		(22,152)	(16,512)
Loss on sale of property, plant and equipment (included in depreciation)		(32)	(243)
Amortisation (included in cost of sales)		(2,342)	(1,797)
General and administration - area managers, general managers and support centre		(17,202)	(13,829)
EBIT before non-trading	2	**44,442**	**34,519**
**Non-trading items ** **	3	**(5,063)**	**(452)**
EBIT after non-trading items	4	**39,379**	**34,067**
Net financing costs		(2,291)	(991)
Net profit before taxation		**37,088**	**33,076**
Income tax expense		(11,133)	(9,006)
Net profit after taxation		**25,955**	**24,070**
Add back non-trading items		5,063	452
Income tax on non-trading items		(451)	(315)
Net profit after taxation excluding non-trading items	5	**30,567**	**24,207**

* Refers to the list of non-GAAP measures as listed above.
** Refer to Note 2 of the financial statements for an analysis of non-trading items