RESTAURANT BRANDS NEW ZEALAND LIMITED

16 April 2019
NZX/ASX

RESTAURANT BRANDS CONTINUES PROFIT GROWTH

$NZm	**2019**	**2018**	**Change ($)**	**Change (%)**
Total Group sales	**794.0**	**740.8**	**+53.2**	**+7.2**
Group NPAT (reported)	**35.7**	**35.5**	**+0.2**	**+0.8**
Group NPAT (excl. non-trading)	**42.2**	**40.8**	**+1.4**	**+3.3**

**52 weeks ended 25 February 2019*

Key Points

- Total sales of $794.0 million, up 7.2%, with the bulk of this $53.2 million increase attributable to the full year impact of Australian stores acquired during FY18.
- Reported net profit after tax of $35.7 million, up 0.8%.
- Net profit after tax (excluding non-trading items) reaches a new high of $42.2 million, up 3.3%.
- Rights acquired for the Taco Bell brand in New Zealand and Australia (New South Wales and ACT) with the first stores expected to open during the 2019 calendar year.
- Combined brand EBITDA[1] up 5.4% to a new high of $129.2 million, primarily driven by the full year impact of the Australian stores acquired during FY18.
- Starbucks Coffee business disposed of in October 2018, as part of a brand portfolio rationalisation.
- Successful 75% takeover of the company by Finaccess Capital, S.A. de C.V at a price of $9.45 a share.

Overview

Restaurant Brands has seen a period of consolidation, integrating the operations acquired in Hawaii and Australia and rationalising its New Zealand operations. There has been considerable investment in store refurbishment programs in all three divisions with over $33 million in capital expenditure, providing a solid base for future sales growth within existing markets.

Total Group sales were up 7.2%, primarily as a result of the full year's trading of 13 KFC stores acquired in Australia in the second half of last year. The company's three key businesses all performed strongly with Taco Bell Hawaii producing same store sales of +5.1%, KFC New Zealand +4.3% and KFC Australia +4.7%.

The strong performance of Taco Bell in Hawaii was especially pleasing, particularly given the successful negotiation of development rights for this brand in Australia and New Zealand during the year.

The continued growth in overseas markets has resulted in almost half of the Group's revenue produced outside of New Zealand.

The past twelve months also saw the company progress through a takeover bid from Finaccess Capital, S.A. de C.V, which saw Finaccess Capital take a 75% share in the company on 1 April 2019. Restaurant Brands welcomes this significant investment and looks forward to strong support from our new cornerstone shareholder.

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[1] [1]EBITDA is earnings before interest, tax, depreciation and amortisation. It is a non-GAAP financial measure and is not prepared in accordance with NZ IFRS

Group Operating Results

Restaurant Brands produced a net profit after tax (NPAT) for the period ended 25 February 2019 (FY19) of $35.7 million, up 0.8% on the reported NPAT of $35.5 million for the prior year.

After allowing for the impact of non-trading items, the underlying NPAT was $42.2 million, up $1.4 million or +3.3% on prior year.

Total brand sales for the Group were a record $794.0 million, up $53.2 million or +7.2% on FY18 with the full year benefit of $40.9 million from the acquisition of 18 stores in Australia during FY18. Hawaii's sales were also up $15.2 million with a strong performance from the Taco Bell brand. The New Zealand business saw record sales from the KFC business, although Carl's Jr. and Pizza Hut showed negative growth. Other revenue (primarily sales to independent franchisees) totalled $30.9 million, bringing total operating revenue to $824.9 million, up $58.6 million on prior year.

Combined brand EBITDA of $129.2 million was up $6.6 million or +5.4% on prior year, with a $7.0 million incremental contribution from the Australian operations.

Restaurant Brands' store numbers now total 283, comprising 142 in New Zealand, 80 in Hawaii and 61 stores in Australia.

New Zealand Operations

New Zealand operating revenue was $450.3 million, up $3.6 million on FY18 despite the $9.8 million reduction in sales with the sale of the Starbucks Coffee business. Excluding Starbucks Coffee sales the underlying New Zealand operations revenue was $13.3 million or 3.2% higher than FY18.

Total store sales were $419.8 million, a decrease of $1.7 million or -0.4% on last year.

New Zealand EBITDA was $76.4 million, a $0.1 million reduction on FY18. The continued strong performance of the KFC business was partly off-set by lost earnings following the sale of the Starbucks Coffee business part way through the year.

New Zealand operations produced earnings before interest and tax (EBIT) before non-trading items of $45.3 million, which is consistent with the prior year.

KFC New Zealand

$NZm.	**2019**	**2018**	**Change ($)**	**Change (%)**
Network sales	**356.9**	**339.4**	**+17.5**	**+5.2**
Network store numbers	**100**	**100**		
RBD sales	**336.5**	**319.6**	**+16.9**	**+5.3**
RBD store numbers	**94**	**94**		
RBD EBITDA	**70.4**	**66.5**	**+3.9**	**+5.9**
EBITDA as a % of sales	***20.9***	***20.8***		

KFC New Zealand continues to be a key driver of overall performance and this brand has had another excellent year. Sales were up 5.3% to a new high of $336.5 million, with same store sales up 4.3%.

KFC record sales result included the highest single week of sales across the country (beating the previous record by 13%), as well as record sales for a single store in a week. This success is a result of the continuing impact of increased marketing spend and a strong promotional calendar built up over the last three years.

Despite some input cost pressures, margins remained strong, with an EBITDA margin of 20.9% of sales being delivered in the period. In dollar terms, EBITDA totalled $70.4 million, up 5.9% on last year's result.

KFC continued to invest in store assets with 16 major renovations completed during the year. In addition digital self-ordering kiosks were introduced in several stores and this has seen a high uptake by customers.

The brand has a solid base for growth in the next financial year with work underway for three new stores to open in April this year.

Pizza Hut New Zealand

$NZm.	2019	2018	Change ($)	Change (%)
Network sales	**101.0**	**100.7**	**+0.3**	**+0.2**
Network store numbers	**98**	**97**		
RBD sales	**35.4**	**41.1**	**-5.7**	**-14.0**
RBD store numbers	**30**	**36**		
RBD EBITDA	**2.0**	**3.2**	**-1.2**	**-37.5**
EBITDA as a % of Sales	***5.7***	***7.8***		

Transformation of the Pizza Hut network in New Zealand to a master franchise model continues on plan with the sale of nine stores to franchisees during FY19. This included the sale of three new turnkey stores.

This continued unit growth saw network sales climb to $101.0 million for FY19, up $0.3 million or +0.2% on prior year.

Company owned store numbers decreased by six to 30, whilst the number of independent franchisee stores has increased to 68, bringing the total Pizza Hut network to 98 stores. During the period three stores were temporarily closed and two new stores were opened at Kaitaia and Meadowbank (Auckland).

In company owned stores, sales were down $5.7 million to $35.4 million, which is a reflection of the reduced store numbers and same store sales decreasing 6.1%.

Restaurant Brands' Pizza Hut store EBITDA was $2.0 million (5.7% of sales), down $1.2 million on last year, reflecting lower company-owned store numbers and continued margin pressures, particularly in relation to increased labour rates and ingredient costs.

Carl's Jr. New Zealand

$NZm.	2019	2018	Change ($)	Change (%)
Sales	**31.9**	**34.9**	**-3.0**	**-8.8**
Store numbers	**18**	**19**		
EBITDA	**0.9**	**2.0**	**-1.1**	**- 52.9**
EBITDA as a % of sales	***2.9***	***5.6***		

Store numbers in Carl's Jr. fell by one to 18 with the closure of the Upper Harbour store in Auckland as a result of a Public Works Act compulsory acquisition. Store sales were down 8.8% (-3.3% on a same store basis), although the introduction of a delivery service in February 2019 has had an immediate and positive impact.

EBITDA was $0.9 million (2.9% of sales), a decrease of $1.1m on the prior year with lower sales, increasing labour rates and ingredient costs. The brand continues to operate in a very competitive marketplace.

Starbucks Coffee New Zealand

$NZm.	2019	2018	Change ($)	Change (%)
Sales	**16.0**	**25.8**	**-9.8**	**-37.9**
Store numbers	**-**	**22**		
EBITDA	**3.1**	**4.8**	**-1.7**	**-35.7**
EBITDA as a % of sales	***19.4***	***18.7***		

A strategic decision was made not renew the Starbucks Coffee franchise agreement to concentrate on the other core brands within the NZ operations and the business was sold in October 2018.

Australian Operations

In $NZ terms, the Australian business (operating the KFC brand) contributed total sales of $NZ191.5 million, store EBITDA of $NZ29.1 million and EBIT of $NZ14.0 million. These results are all significantly up on the prior year, as a result of stronger trading and the full year trading impact of the 18 new stores acquired during the FY18 year.

KFC Australia

$Am.	**2019**	**2018**	**Change ($)**	**Change (%)**
Sales	**178.3**	**139.5**	**+38.8**	**+27.8**
Store numbers	**61**	**61**		
Store EBITDA	**27.0**	**20.2**	**+6.8**	**+33.7**
EBITDA as a % of sales	***15.2***	***14.5***		

In $A terms, total sales for the KFC business in Australia were $A178.3 million, up A$38.8 million (or +27.8%) on last year. This was largely a function of the full year impact of the additional 18 stores acquired partway through FY18. Same store sales increased by 4.7%.

Store EBITDA was $A27.0 million (15.2% of sales) up $A6.8 million or +33.7% on last year with sales leverage and more efficient store operations.

The network totalled 61 stores as at balance date. One store was opened in the third quarter of the year, offset by one store closure in the final quarter of the year. The business has continued to invest in a major store upgrade programme with 10 store upgrades completed in the financial year.

The Australian business successfully launched and expanded its home delivery service to all 26 Sydney Metro stores during the year.

Hawaii Operations

In $NZ terms, the Hawaiian operations contributed $NZ182.7 million in revenues, $NZ23.7 million in brand EBITDA and an EBIT of $NZ8.0 million for FY19.

Total sales in Hawaii were $US124.7 million with store level EBITDA of $US16.2 million. Taco Bell had another strong year, performing ahead of expectations on strong sales generated by distinctive product offerings and pricing flexibility. Pizza Hut continued to underperform, facing increased margin pressures due to the national Pizza Hut value promotions, higher levels of competition and limited pricing power in the face of input cost increases.

Taco Bell Hawaii

$USm.	**2019**	**2018**	**Change ($)**	**Change (%)**
Sales	**72.3**	**68.3**	**+4.0**	**+5.9**
Store numbers	**36**	**37**		
Store EBITDA	**14.3**	**13.9**	**+0.4**	**+2.9**
EBITDA as a % of sales	***19.8***	***20.3***		

Taco Bell continued to perform very well with total sales of $US72.3 million and store-level EBITDA of $US14.3 million (19.8% of sales) for the year. A strong promotional pipeline has helped drive a solid sales performance with same store sales up 5.1%.

Restaurant Brands has embarked on a store rebuild and refurbishment strategy following the same successful model as undertaken by the KFC business in New Zealand. The first store transformed continues to deliver same store sales growth of +60% against pre-transformation volumes. However, local government construction permit approvals have delayed the roll out of transformations to further stores. The process is now gaining momentum and 2-3 major store refurbishments are expected to be completed over the next 12 months.

Pizza Hut Hawaii

$USm.	2019	2018	Change ($)	Change (%)
Sales	**52.4**	**51.5**	**+0.9**	**+1.8**
Store numbers	**44**	**45**		
Store EBITDA	**1.9**	**3.3**	**-1.4**	**-44.1**
EBITDA as a % of sales	***3.6***	***6.5***		

Total Pizza Hut sales were $US52.4 million with store-level EBITDA of $US1.9 million (3.6% of sales). Same store sales were down 2.1%. There continues to be margin pressure from participating in US-wide value-led marketing promotions together with higher commodity and direct labour expenses.

As with Taco Bell, an asset refurbishment program is under way for the Pizza Hut brand, which sees a move away from the larger Restaurant Based Delivery units into smaller, more cost-effective Delivery and Carry-out (Delco) units. One new Delco unit was opened at Pearl City in Honolulu during FY19 and is trading ahead of expectations.

Corporate & Other

General and administration (G&A) costs were $35.8 million, up $3.9 million from last year. This is a result of the Group corporate team operating for a full year and the continued expansion of the Group's activities. G&A as a % of total revenue was 4.3% which is in line with the prior year.

Depreciation charges of $30.3 million for FY19 were $1.6 million higher than the prior year, of which the Australian business accounted for $1.1 million arising from the stores acquired during FY18.

Financing costs of $6.8 million were up $1.2 million on prior year reflecting the higher borrowings required to fund Australian acquisitions during FY18. Interest rates in both Hawaii and Australia also increased.

Tax expense was $13.7 million, down $3.0 million on the prior year due to the reduction in the corporate tax rate in Hawaii. The effective tax rate of 27.7% reflects the increased proportion of profits that were generated off-shore, and the (one off) impact of non-trading items, with the average tax rate on earnings (excluding non-trading items) at 27.8%.

Non-trading Items

Non-trading expenditure for the year was $9.0 million, $3.6 million higher than prior year. The FY19 charges included $3.5 million leave remediation costs resulting from identified payroll inconsistences in New Zealand relating to the entitlements under the Holidays Act dating back to 2012, an impairment charge of $3.5 million relating to Carl's Jr. asset carrying value in New Zealand and an adjustment in the accounting treatment for workers compensation expenses in Hawaii of $1.6 million. These costs were partially offset by a gain on the sale of the Starbucks Coffee business and a gain on sale of assets in relation to the sale of New Zealand Pizza Hut stores to independent franchisees.

Cash Flow & Balance Sheet

The composition of the Group's balance sheet is largely consistent with the prior year except for a drop in net debt of $25.9 million which reflects the Group's strong trading results and the decision not to pay an interim dividend. Bank debt at the end of the year was down to $145.9 million compared to $166.8 million at the previous year end. As at balance date, the Group had bank debt facilities totalling $251.7 million in place.

The Group remains relatively unleveraged with a Net Debt: EBITDA ratio as at the end of the FY19 year of 1.3X.

Operating cash flows were up $3.8 million to $71.3 million, reflecting the Group's increased profitability.

Net investing cash outflows were $26.8 million (versus $173.3 million last year) with the prior year reflecting the cash impact of the Hawaii and Australian acquisitions totalling $147.5 million (net of bank loans assumed as part of the transactions). Included within investing cash inflows for the period were $10.2 million received from the sale of nine Pizza Hut stores and the Starbucks Coffee business.

Dividend

As its growth strategy begins to accelerate, Restaurant Brands is facing substantial demands on its capital resources. In particular the planned new store build programme (including the intention of opening 60 Taco Bell stores in New Zealand and Australia over the next five years, together with accelerated levels of KFC store builds in both those markets) will see levels of capital expenditure at record levels. Overlaying this are significant potential acquisition opportunities in both the US and Australian markets.

While some of this store development and acquisition growth can be funded from increased borrowings, Directors believe that it is in the best interests of the Group to retain cash in order to provide funding flexibility. Directors have therefore resolved to not pay a final dividend for the FY19 year.

Finaccess Capital, S.A. de C.V

On 1 April 2019 the partial takeover offer from Finaccess Capital was successfully completed with Finaccess taking a 75% shareholding in the Group through acquiring shares from existing shareholders at a price of $9.45 a share. Finaccess Capital has a successful track record of investing in QSR businesses including a major shareholding in AmRest Holdings S.E, a large European QSR operation. They have signalled that they are supportive of the Group's continuation of its existing growth strategies.

Directors

Following completion of the takeover, Vicky Taylor, David Beguely and Stephen Copulos resigned from the board and José Parés and Emilio Fullaondo were appointed as new directors. Ted van Arkel and Hamish Stevens will remain on the board until the next Annual Shareholders' Meeting of the company.

The board and company acknowledge the contributions made by the three retiring directors and welcome José (representing Finaccess) and Emilio (independent director) to the board.

NZ IFRS16

The Group has adopted the new lease accounting standard (NZIFRS 16) with effect from the new financial year. The effect of this standard on the company's balance sheet will create a lease liability, reflecting future lease payments and a "right of use" asset for its lease contracts. The Group leases all its premises, therefore the initial balance sheet impact will be substantial, increasing assets by an estimated $383 million, liabilities by $432 million and reducing equity by $49 million.

Furthermore the standard will impact on the Group's income statement by removing operating lease expenses and replacing them with an interest expense pertaining to the future lease payment obligations and a depreciation charge against the "right of use" asset in the balance sheet. The net effect of these changes will have a minimal overall impact on the income statement over time, but because of timing differences will have an estimated adverse impact in the first year of adoption of $5.9 million before tax.

Outlook

With stable operations in all three of its markets and the takeover activity of the past 12 months now complete, Restaurant Brands will be looking to expand further through acquisition, store refurbishments and new store roll outs.

Although the introduction of the Taco Bell brand to New Zealand and Australia (New South Wales and ACT) is not expected to have a material effect on the Group's result in FY20 it is another important step forward in the Group's overall expansion strategy for the region.

With a consistent performance from the existing store network, the benefit of new store builds and a stable economic environment, Directors expect the Group will deliver a NPAT (excluding non-trading items) result for the new financial year of 10% above current year's results (after adjusting for the disposal of the Starbucks Coffee business in FY19 or any major new acquisitions during the year). Further details will be provided at the Annual Shareholders' Meeting.

Annual Shareholders' Meeting

The Annual Shareholders' Meeting of the company will be held in Auckland, New Zealand on Wednesday 10 July 2019.

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ENDS

About Restaurant Brands:

Restaurant Brands New Zealand Limited operates the KFC, Pizza Hut, and Carl's Jr. brands in New Zealand, the KFC brand in Australia and the Taco Bell and Pizza Hut brands in Hawaii and Guam. 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.

Consolidated Income Statement
For the 52 week period ended 25 February 2019

$NZ000's	25 February 2019 52 weeks		vs Prior %	26 February 2018 52 weeks	
Sales					
KFC	336,534		*5.3*	319,598	
Pizza Hut	35,350		*(14.0)*	41,111	
Starbucks Coffee	16,022		*(37.9)*	25,818	
Carl's Jr.	31,864		*(8.8)*	34,921	
Total New Zealand sales	**419,770**		*(0.4)*	**421,448**	
KFC	191,547		*26.1*	151,844	
Total Australia sales	**191,547**		*26.1*	**151,844**	
Taco Bell	106,004		*11.0*	95,487	
Pizza Hut	76,725		*6.6*	71,997	
Total Hawaii sales	**182,729**		*9.1*	**167,484**	
Total sales	**794,046**		*7.2*	**740,776**	
Other revenue	30,869		*21.0*	25,513	
Total operating revenue	**824,915**		*7.7*	**766,289**	
Cost of goods sold	(675,697)		*7.6*	(628,169)	
Gross margin	**149,218**		*8.0*	**138,120**	
Distribution expenses	(3,629)		*25.4*	(2,895)	
Marketing expenses	(44,542)		*11.1*	(40,095)	
General and administration expenses	(35,818)		*12.1*	(31,948)	
EBIT before non-trading items	**65,229**		*3.2*	**63,182**	
Non-trading items	(8,997)		*65.7*	(5,429)	
EBIT	**56,232**		*(2.6)*	**57,753**	
Financing expenses	(6,797)		*21.3*	(5,604)	
Net profit before taxation	**49,435**		*(5.2)*	**52,149**	
Taxation expense	(13,694)		*(17.9)*	(16,683)	
Net profit after taxation (NPAT)	**35,741**		*0.8*	**35,466**	
NPAT excluding non-trading items	**42,181**		*3.3*	**40,847**	
		% sales			% sales
Concept EBITDA before G&A					
KFC	70,384	*20.9*	*5.9*	66,472	*20.8*
Pizza Hut	2,017	*5.7*	*(37.5)*	3,226	*7.8*
Starbucks Coffee	3,110	*19.4*	*(35.7)*	4,836	*18.7*
Carl's Jr.	923	*2.9*	*(52.9)*	1,962	*5.6*
Total New Zealand	**76,434**	***18.2***	*(0.1)*	**76,496**	*18.2*
KFC	29,064	*15.2*	*32.0*	22,026	*14.5*
Total Australia	**29,064**	***15.2***	*32.0*	**22,026**	***14.5***
Taco Bell	20,968	*19.8*	*8.0*	19,420	*20.3*
Pizza Hut	2,781	*3.6*	*(40.6)*	4,681	*6.5*
Total Hawaii	**23,749**	*13.0*	*(1.5)*	**24,101**	*14.4*
Total concept EBITDA before G&A	**129,247**	***16.3***	*5.4*	**122,623**	***16.6***
Ratios					
Net tangible assets per security (net tangible assets divided by number of shares) in cents	(19.6)			(36.1)	

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.

Non-GAAP Financial Measures
For the 52 week period ended 25 February 2019

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) 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 seven operating divisions comprising the New Zealand divisions (KFC, Pizza Hut, Starbucks Coffee and Carl's Jr.), KFC Australia and the two Hawaii divisions (Taco Bell and Pizza Hut). 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) 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 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***	**2019**	**2018**
EBITDA before G&A	**1**	**129,247**	**122,623**
Depreciation		(30,163)	(28,683)
Loss on sale of property, plant and equipment (included in depreciation)		(146)	23
Amortisation (included in cost of sales)		(3,112)	(3,233)
General and administration costs - area managers, general managers and support centre		(30,597)	(27,548)
EBIT before non-trading	**2**	**65,229**	**63,182**
Non-trading items **	3	(8,997)	(5,429)
EBIT after non-trading items	**4**	**56,232**	**57,753**
Financing costs		(6,797)	(5,604)
Net profit before taxation		**49,435**	**52,149**
Income tax expense		(13,694)	(16,683)
Net profit after taxation		**35,741**	**35,466**
Add back non-trading items		8,997	5,429
Income tax on non-trading items		(2,557)	(48)
Net profit after taxation excluding non-trading items	**5**	**42,181**	**40,847**

* 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