Reaching new heights

Restaurant Brands

Restaurant Brands New Zealand Limited
Interim Report 2019

The overall business continues to deliver solid results across all geographic markets. The strong performance of Taco Bell in Hawaii and the KFC brand in Australia and New Zealand is expected to continue.

Contents—

Restaurant Brands New Zealand Limited operates the KFC, Pizza Hut, Carl's Jr. and Starbucks Coffee brands in New Zealand, the KFC brand in Australia and the Taco Bell and Pizza Hut brands in Hawaii, Saipan and Guam. These brands - five of the world's most famous - are distinguished for their product, ambiance, service and for the total experience they deliver to their customers in New Zealand and around the world.

Key points—

Total Group sales

were $431.0 million, up 11.6% on the previous half year, with the bulk of the increase being attributable to Australian KFC acquisitions made in the second half of FY 2018.

NPAT (reported)

for the 28 weeks ended 10 September 2018 (1H 2019) was $20.4 million (16.5 cents per share), up $1.3 million or +7.0% on the prior period (1H 2018).

NPAT (excluding non-trading items)

was $21.9 million (17.6 cents per share), up $1.5 million or +7.0% on the prior period.

Total concept EBITDA

was up $5.8 million to $69.2 million with $4.6 million of the increase from the Australian KFC business as a result of prior year acquisitions and strong same store sales growth (+4.8%) and the New Zealand businesses delivering a further $1.1 million.

Group operating results

	1H 2019	1H 2018	Change ($)	Change (%)
Total Group sales ($NZm)	**431.0**	386.1	+44.9	+11.6
Group NPAT (reported) ($NZm)	**20.4**	19.1	+1.3	+7.0
Group NPAT (excl. non-trading) ($NZm)	**21.9**	20.4	+1.5	+7.0

Directors are pleased to report that Restaurant Brands New Zealand Limited (RBD) has produced a first half unaudited net profit after tax for the 28 weeks ended 10 September 2018 (1H 2019) of $20.4 million (16.5 cents per share). This compares with a reported NPAT of $19.1 million (15.5 cents per share) for the prior half year.

After allowing for the impact of non-trading items the underlying NPAT was $21.9 million (17.6 cents per share), up $1.5 million or +7.0% on prior year.

Total brand sales for the Group were $431.0 million, up $44.9 million or +11.6% on 1H 2018 with the benefit of $A25.8 million in sales from the acquisition of 13 Australian KFC stores and one new store opening in the second half of FY18. Total operating revenue was $445.8 million, up $45.9 million on prior year.

Combined brand EBITDA at $69.2 million was $5.8 million (+9.1%) up on prior year, largely because of the contribution from KFC Australia acquisitions which delivered an additional $4.6 million.

Restaurant Brands' store numbers now total 305, up eight on the prior year and comprise 163 in New Zealand, 81 in Hawaii and 61 stores in Australia.

New Zealand operations

New Zealand operating revenue was $244.9 million, up $5.8 million or +2.4% on 1H 2018.

Total store sales were $230.2 million, an increase of $4.8 million (+2.1%) on last year, with EBITDA of $41.2 million; a $1.1 million or +2.8% improvement on 1H 2018 driven mainly by the continued strong performance of the KFC business.

New Zealand operations produced an EBIT (before non-trading items) of $23.8 million, up 5.1% on the prior year.

KFC New Zealand

	1H 2019	1H 2018	Change ($)	Change (%)
Network sales ($m)	**190.2**	180.8	+9.4	+5.2
Network store numbers	**100**	98		
RBD sales ($m)	**179.3**	170.3	+9.0	+5.3
RBD store numbers	**94**	92		
RBD EBITDA ($m)	**37.0**	35.3	+1.7	+4.9
EBITDA as a % of sales	***20.6***	*20.7*		

Restaurant Brands' KFC New Zealand sales were $179.3 million, up 5.3% or $9.0 million on prior year with same store sales up 3.8%. Successful product promotions and the increased use of the delivery service in selected stores contributed to a strong first half sales performance.

Margins remained strong in percentage terms, with an EBITDA margin of 20.6% of sales being delivered in the period. In dollar terms EBITDA totalled $37.0 million, up $1.7 million (+4.9%) on last year's result.

Both company owned and total network store numbers increased by two to a total of 94 and 100 respectively with the opening of the Christchurch Airport store and a new format store in Fort Street Auckland in 2H 2018. The Fort Street store continues to outperform expectations and is now the prototype for similar central city stores planned for Wellington and Christchurch.

Pizza Hut New Zealand

	1H 2019	1H 2018	Change ($)	Change (%)
Network sales ($m)	**55.8**	54.9	+0.9	+1.7
Network store numbers	**98**	94		
RBD sales ($m)	**20.5**	22.9	-2.4	-10.5
RBD store numbers	**29**	34		
RBD EBITDA ($m)	**1.5**	2.1	-0.6	-29.7
EBITDA as a % of sales	***7.1***	*9.0*		

Restaurant Brands' Pizza Hut store sales were down $2.4 million to $20.5 million, due to a reduction in the company's store network to 29 stores, because of further sales to independent franchisees. Same store sales from Restaurant Brands' stores were also down -4.9%, rolling over +10.6% in the prior year.

Restaurant Brands' Pizza Hut store earnings were $1.5 million (7.1% of sales), down $0.6 million or 29.7% on the equivalent period last year reflecting both the reduction in store numbers and the ongoing cost pressures encountered in the first half of the year, particularly in relation to increased labour rates.

Total Pizza Hut network sales climbed to $55.8 million for the half year, up $0.9 million (+1.7%) on prior year. Whilst company owned store numbers continue to reduce, the Pizza Hut network continues to expand with total store numbers up four on prior year to 98, with independent franchisees operating 69.

On 13 June 2018, the company entered into a ten year master franchise agreement with Yum! for the Pizza Hut business in the New Zealand market. Under the terms of this agreement Restaurant Brands stepped into the position of franchisor to existing independent franchisees. The company provides operational, marketing and development support to new franchisees, and in return receives a portion of the franchise fees payable by independent franchisees to Yum!.

Starbucks Coffee New Zealand

	1H 2019	1H 2018	Change ($)	Change (%)
Sales ($m)	**13.0**	13.4	-0.4	-2.8
EBITDA ($m)	**2.1**	2.2	-0.1	-7.5
EBITDA as a % of sales	***15.8***	*16.6*		
Store numbers	**22**	23		

Starbucks Coffee saw same store sales growth over the period of +3.8%.

Total sales were down marginally on 1H 2018 by $0.4 million (-2.8%) to $13.0 million, reflecting the reduced store network to 22 stores, following the closure of the Auckland Newmarket store in 2H 2018.

Margins decreased with the continued pressure on costs. The brand achieved an EBITDA of $2.1 million (15.8% of sales), down $0.1 million on 1H 2018.

As Restaurant Brands has increasingly pursued a growth strategy with a much stronger emphasis on its core quick service restaurant brands, the Starbucks Coffee business has less relevance to its core activities. On 3 September 2018, the Group announced the sale of the Starbucks Coffee business for $4.4 million. Settlement on this transaction is expected to be late October 2018.

Carl's Jr. New Zealand

	1H 2019	1H 2018	Change ($)	Change (%)
Sales ($m)	**17.5**	18.8	-1.3	-7.1
EBITDA ($m)	**0.7**	0.5	+0.2	+28.3
EBITDA as a % of sales	***4.0***	*2.9*		
Store numbers	**18**	19		

The Carl's Jr. business continues to make steady progress towards a sustainable operation with a focus on building margin.

Sales were down 7.1% due primarily to the closure of the Upper Harbour store (-2.0% on a same store basis). With the focus on generating more profitable sales rather than driving sales through discounting and promotional activity EBITDA was $0.7 million (4.0% of sales), an increase of $0.2 million or +28.3% on last year.

Store numbers now total 18 following the compulsory closure of the Auckland Upper Harbour store in 1H 2019 due to road development.

Australia operations

In $NZ terms the Australian business (operating the KFC brand) contributed total sales of $NZ103.4 million, a store EBITDA of $NZ15.2 million and EBIT of $NZ6.9 million. These results are all significantly up on prior year, primarily because of the acquisition of 13 stores and the opening of one new store during 2H 2018.

KFC Australia

	1H 2019	1H 2018	Change ($)	Change (%)
Sales ($Am)	**95.5**	66.7	+28.8	+43.1
Store EBITDA ($Am)	**14.0**	9.8	+4.2	+42.5
EBITDA as a % of sales	***14.7***	*14.7*		
Store numbers	**61**	47		

In $A terms total sales of the KFC business in Australia were $A95.5 million, up $A28.8 million (or +43.1%) on last year, reflecting both increased store numbers following the acquisition of 13 stores during 2H 2018 and the annualised effect of the five stores acquired at the start of 1H 2018. Same store sales were strong at +4.5% for the period.

Store EBITDA margins of $A14.0 million (14.7% of sales) are up $A4.2 million or +42.5% on last year.

Further new store build and acquisition opportunities continue to be explored.

Hawaii operations

Total sales in Hawaii for the period were $US67.1 million with store level EBITDA of $US8.8 million generated equating to 13.1% of sales.

In $NZ terms the Hawaiian operations contributed $NZ97.4 million in revenues, $NZ12.8 million in EBITDA and an EBIT of $NZ4.3 million for the period.

Taco Bell Hawaii

	1H 2019	1H 2018	Change ($)	Change (%)
Sales ($USm)	**38.6**	36.6	+2.0	+5.5
Store EBITDA ($USm)	**7.8**	7.2	+0.6	+8.0
EBITDA as a % of sales	***20.1***	*19.7*		
Store numbers	**36**	37		

Taco Bell continues to perform well with total sales of $US38.6 million up 5.5% in total and 3.2% on a same store basis, assisted by a strong promotional programme.

Store-level EBITDA rose to $US7.8 million (20.1% of sales) despite some increasing cost pressure in labour and ingredients.

Store numbers have dropped by one with the closure of the Pearlridge store due to the lease expiring. The company has undertaken a number of minor refurbishments as part of an asset refurbishment strategy which continue to drive sales as they are completed. A number of major store transformations are expected to be under way in the coming months.

Pizza Hut Hawaii

	1H 2019	1H 2018	Change ($)	Change (%)
Sales ($USm)	**28.4**	27.3	+1.2	+4.4
Store EBITDA ($USm)	**1.0**	1.9	-0.9	-48.9
EBITDA as a % of sales	***3.5***	*7.1*		
Store numbers	**45**	45		

Whilst total sales were up for the brand, they were negative (-2.0%) on a same store basis. Disruption from the implementation of a new store point of sale system, a weak economic environment in Guam and a lack of new promotions all contributed to a softer sales outcome at $US28.4 million.

EBITDA at $US1.0 million (3.5% of sales) was also down because of significant margin pressure from participating in value-led marketing promotions together with some higher commodity costs and rising direct labour expense from low unemployment rates.

The company continues with an asset refurbishment strategy that will see a move away from the larger restaurants into smaller, more cost-effective delivery and carry out (delco) units.

Corporate and other

General and administration (G&A) costs were $19.5 million, a 5.3% increase on prior year. The increase in the G&A cost base was partly as a result of growth of the Australian operations with various acquisitions part way through 2H 2018 and partly through more corporate resource. G&A as a % of total revenue was 4.4%, down from 4.6% in the prior year.

Depreciation charges of $16.5 million for the half year were $1.0 million higher than the prior year, which primarily related to the Australian business acquisitions.

Financing costs of $3.7 million were up $1.0 million on prior year reflecting the higher borrowings required to fund the Australian acquisition and increasing interest rates in the US.

Tax expense was $7.7 million, down $0.6 million on the prior year despite higher reported profit levels. The effective tax rate of 27.5% reflects the increased proportion of profits that are generated off-shore and the drop in the corporate tax rate in the US to 21% together with a non-trading capital gain on the sale of five Pizza Huts to independent franchisees.

Non-trading items

Non-trading expenditure for the half was $2.1 million, an increase of $0.4 million on prior year. This year's costs included a $2.0 million settlement provision for New Zealand leave remediation following a review of historical holiday pay calculations. Also included was the amortisation of franchise rights acquired on acquisition of QSR Pty Limited and Pacific Island Restaurants Inc. (PIR) and the impairment of assets associated with the relocation of the Australian support office. These were partially off-set by gains on the sale of Pizza Hut stores to independent franchisees.

Cash flow and balance sheet

Bank debt at the end of the half year was down to $159.6 million compared to $166.8 million at the previous year end. As at balance date, the Group had bank debt facilities totalling $257.6 million in place.

Operating cash flows continue to improve, up $9.7 million to $47.3 million with enhanced earnings, albeit with the assistance of positive working capital movements.

Net investing cash outflows at $13.9 million versus $10.1 million last year (excluding business acquisition) reflects the increased level of spend as the Group continues to focus on refurbishing stores throughout the network. Cash inflows for the period saw $4.4 million received from the sale of Pizza Hut stores.

Partial takeover proposal

On 18 October 2018 the Group announced that it had received a non-binding indicative approach from Finaccess Capital, S.A. de C.V. to acquire up to 75% of Restaurant Brands' shares by way of a partial takeover offer at $NZ9.45 cash per share ("Proposal").

The Proposal does not constitute a takeover notice pursuant to the Takeovers Code. The Group and Finaccess are in discussions to seek to agree and finalise the terms of takeover implementation arrangements which, if agreed, could result in Finaccess issuing a takeover notice to Restaurant Brands New Zealand Limited. There is no guarantee at this stage that agreement will be reached or that Finaccess will proceed with a takeover. If Finaccess does proceed to make a takeover, the offer would be subject to various conditions, including Overseas Investment Office consent and receiving consent from certain subsidiaries of Yum! Brands Inc., the owner of the KFC, Pizza Hut and Taco Bell brands franchised to the Group.

As a result of this Proposal the directors have resolved not to declare an interim dividend at this time. If the Proposal does not result in a takeover by Finaccess, the Board will consider declaring a dividend at a later stage.

Outlook

The overall business continues to deliver solid results across all geographic markets.

The strong performance of Taco Bell in Hawaii and the KFC brand in Australia and New Zealand is expected to continue in the second half of the year. This will be partially off-set by the sale of the Starbucks Coffee brand which is expected to have a minor adverse impact of approximately $1.3 million on the Group's EBITDA.

Directors believe that, absent any major changes to economic or market conditions, the Group is expected to deliver a Net Profit after Tax (excluding non-trading items) for the FY19 year of between $43 million and $45 million, after adjusting for the impact of the Starbucks Coffee sale.

Consolidated income statement

for the 28 week period ended 10 September 2018

$NZ000's	10 September 2018 28 weeks	vs Prior %	11 September 2017 28 weeks
Sales			
KFC	179,264	*5.3*	170,307
Pizza Hut	20,452	*(10.5)*	22,862
Starbucks Coffee	13,049	*(2.8)*	13,425
Carl's Jr.	17,461	*(7.1)*	18,803
Total New Zealand sales	**230,226**	***2.1***	**225,397**
KFC	103,391	*43.9*	71,864
Total Australia sales	**103,391**	***43.9***	**71,864**
Taco Bell	56,115	*10.1*	50,950
Pizza Hut	41,255	*8.8*	37,919
Total Hawaii sales	**97,370**	***9.6***	**88,869**
Total sales	**430,987**	***11.6***	**386,130**
Other revenue	14,861	*7.7*	13,804
Total operating revenue	**445,848**	***11.5***	**399,934**
Cost of goods sold	(366,536)	*12.1*	(327,007)
Gross margin	**79,312**	***8.8***	**72,927**
Distribution expenses	(2,016)	*17.7*	(1,713)
Marketing expenses	(23,871)	*14.2*	(20,909)
General and administration expenses	(19,523)	*5.3*	(18,537)
EBIT before non-trading items	**33,902**	***6.7***	**31,768**
Non-trading items	(2,095)	*22.0*	(1,718)
EBIT	**31,807**	***5.8***	**30,050**
Financing expenses	(3,663)	*36.3*	(2,687)
Net profit before taxation	**28,144**	***2.9***	**27,363**
Taxation expense	(7,726)	*(6.7)*	(8,277)
Net profit after taxation (NPAT)	**20,418**	***7.0***	**19,086**
NPAT excluding non-trading items	**21,853**	***7.0***	**20,430**

Consolidated income statement (continued)

for the 28 week period ended 10 September 2018

$NZ000's	10 September 2018 28 weeks	*% sales*	vs Prior %	11 September 2017 28 weeks	*% sales*
Concept EBITDA before G&A					
KFC	37,018	*20.6*	*4.9*	35,277	*20.7*
Pizza Hut	1,450	*7.1*	*(29.7)*	2,061	*9.0*
Starbucks Coffee	2,061	*15.8*	*(7.5)*	2,230	*16.6*
Carl's Jr.	704	*4.0*	*28.3*	549	*2.9*
Total New Zealand	**41,233**	***17.9***	***2.8***	**40,116**	***17.8***
KFC	15,197	*14.7*	*43.5*	10,592	*14.7*
Total Australia	**15,197**	***14.7***	***43.5***	**10,592**	***14.7***
Taco Bell	11,305	*20.1*	*12.9*	10,016	*19.7*
Pizza Hut	1,471	*3.6*	*(45.6)*	2,704	*7.1*
Total Hawaii	**12,776**	***13.1***	***0.4***	**12,720**	***14.3***
Total concept EBITDA before G&A	**69,206**	***16.1***	***9.1***	**63,428**	***16.4***
Ratios					
Net tangible assets per security (net tangible assets divided by number of shares) in cents	(35.6)			(22.2)	

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 order centre, advertising and local store marketing expenses.

General and administration expenses (G&A) are non-store related overheads.

Sales and store EBITDA for each of the concepts may not aggregate to the total due to rounding.

Non-GAAP financial measures

for the 28 week period ended 10 September 2018

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 items.** 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. **NPAT excluding non-trading items.** 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.

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.

Non-GAAP financial measures (continued)

for the 28 week period ended 10 September 2018

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

$NZ000's	Note*	2019 half year (28 weeks) unaudited	2018 half year (28 weeks) unaudited
EBITDA before G&A	1	**69,206**	63,428
Depreciation		**(16,426)**	(15,490)
Net loss on sale of property, plant and equipment (included in depreciation)		**(112)**	–
Amortisation (included in cost of sales)		**(1,920)**	(1,304)
General and administration costs – area managers, general managers and support centre		**(16,846)**	(14,866)
EBIT before non-trading items	2	**33,902**	31,768
Non-trading items**	3	**(2,095)**	(1,718)
EBIT after non-trading items	4	**31,807**	30,050
Financing expenses		**(3,663)**	(2,687)
Net profit before taxation		**28,144**	27,363
Taxation expense		**(7,726)**	(8,277)
Net profit after taxation		**20,418**	19,086
Add back non-trading items		**2,095**	1,718
Income tax on non-trading items		**(660)**	(374)
Net profit after taxation excluding non-trading items	5	**21,853**	20,430

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

** Refer to Note 3 of the interim financial statements for an analysis of non-trading items.

Consolidated statement of comprehensive income

for the 28 week period ended 10 September 2018

$NZ000's	Note	2019 half year (28 weeks) unaudited	2018 half year (28 weeks) unaudited	2018 full year (52 weeks) audited
Store sales revenue		**430,987**	386,130	740,776
Other revenue		**14,861**	13,804	25,513
Total operating revenue		**445,848**	399,934	766,289
Cost of goods sold		**(366,536)**	(327,007)	(626,027)
Gross profit		**79,312**	72,927	140,262
Distribution expenses		**(2,016)**	(1,713)	(2,895)
Marketing expenses		**(23,871)**	(20,909)	(40,095)
General and administration expenses		**(19,523)**	(18,537)	(34,090)
EBIT before non-trading items		**33,902**	31,768	63,182
Non-trading items	3	**(2,095)**	(1,718)	(5,429)
Earnings before interest and taxation (EBIT)		**31,807**	30,050	57,753
Financing expenses		**(3,663)**	(2,687)	(5,604)
Profit before taxation		**28,144**	27,363	52,149
Taxation expense		**(7,726)**	(8,277)	(16,683)
Profit after taxation attributable to shareholders		**20,418**	19,086	35,466
Other comprehensive income				
Exchange differences on translating foreign operations		**11,438**	(1,545)	(3,538)
Share option reserve		**34**	5	34
Derivative hedging reserve		**(65)**	492	1,651
Income tax relating to components of other comprehensive income		**90**	(275)	(303)
Other comprehensive income for the half year, net of tax		**11,497**	(1,323)	(2,156)
Total comprehensive income for the half year attributable to shareholders		**31,915**	17,763	33,310
Basic and diluted earnings per share (cents)	4	**16.47**	15.50	28.83

For and on behalf of the Board:

E K van Arkel
Chairman

H W Stevens
Director

18 October 2018

Consolidated statement of changes in equity

for the 28 week period ended 10 September 2018

$NZ000's	Share capital	Share option reserve	Foreign currency translation reserve	Derivative hedging reserve	Retained earnings	Total
For the 52 week period ended 26 February 2018						
Balance at the beginning of the period	**143,386**	**–**	**(2,522)**	**(1,174)**	**52,369**	**192,059**
Comprehensive income						
Profit after taxation attributable to shareholders	–	–	–	–	19,086	19,086
Other comprehensive income						
Movement in share option reserve	–	5	–	–	–	5
Movement in foreign currency translation reserve	–	–	(1,545)	–	–	(1,545)
Movement in derivative hedging reserve	–	–	–	217	–	217
Total other comprehensive income	**–**	**5**	**(1,545)**	**217**	**–**	**(1,323)**
Total comprehensive income	**–**	**5**	**(1,545)**	**217**	**19,086**	**17,763**
Transactions with owners						
Net dividends distributed	–	–	–	–	(16,584)	(16,584)
Total transactions with owners	**–**	**–**	**–**	**–**	**(16,584)**	**(16,584)**
Unaudited balance as at 11 September 2017	**143,386**	**5**	**(4,067)**	**(957)**	**54,871**	**193,238**
Comprehensive income						
Profit after taxation attributable to shareholders	–	–	–	–	16,380	16,380
Other comprehensive income						
Movement in share option reserve	–	29	–	–	–	29
Movement in foreign currency translation reserve	–	–	(1,993)	–	–	(1,993)
Movement in derivative hedging reserve	–	–	–	1,131	–	1,131
Total other comprehensive income	**–**	**29**	**(1,993)**	**1,131**	**–**	**(833)**
Total comprehensive income	**–**	**29**	**(1,993)**	**1,131**	**16,380**	**15,547**
Transactions with owners						
Shares issued	5,168	–	–	–	–	5,168
Share issued costs	(63)	–	–	–	–	(63)
Net dividends distributed	–	–	–	–	(12,282)	(12,282)
Total transactions with owners	**5,105**	**–**	**–**	**–**	**(12,282)**	**(7,177)**
Audited balance as at 26 February 2018	**148,491**	**34**	**(6,060)**	**174**	**58,969**	**201,608**

Consolidated statement of changes in equity (continued)

for the 28 week period ended 10 September 2018

$NZ000's	Share capital	Share option reserve	Foreign currency translation reserve	Derivative hedging reserve	Retained earnings	Total
For the 28 week period ended 10 September 2018						
Balance at the beginning of the period	**148,491**	**34**	**(6,060)**	**174**	**58,969**	**201,608**
Comprehensive income						
Profit after taxation attributable to shareholders	–	–	–	–	20,418	20,418
Other comprehensive income						
Movement in share option reserve	–	34	–	–	–	34
Movement in foreign currency translation reserve	–	–	11,438	–	–	11,438
Movement in derivative hedging reserve	–	–	–	25	–	25
Total other comprehensive income for the year	**–**	**34**	**11,438**	**25**	**–**	**11,497**
Total comprehensive income	**–**	**34**	**11,438**	**25**	**20,418**	**31,915**
Transactions with owners						
Shares issued	5,841	–	–	–	–	5,841
Share issue costs	(35)	–	–	–	–	(35)
Net dividends distributed	–	–	–	–	(22,254)	(22,254)
Total transactions with owners	**5,806**	**–**	**–**	**–**	**(22,254)**	**(16,448)**
Unaudited balance as at 10 September 2018	**154,297**	**68**	**5,378**	**199**	**57,133**	**217,075**

Consolidated statement of financial position

as at 10 September 2018

$NZ000's	Note	2019 half year unaudited	2018 half year unaudited	2018 full year audited
Non-current assets				
Property, plant and equipment		**158,358**	145,739	157,211
Intangible assets		**261,338**	220,531	246,257
Deferred tax asset		**16,045**	13,585	14,955
Total non-current assets		**435,741**	379,855	418,423
Current assets				
Inventories		**10,589**	11,449	12,634
Trade and other receivables		**11,660**	9,728	8,819
Income tax receivable		**1,700**	1,899	–
Cash and cash equivalents		**12,000**	8,701	10,140
Derivative financial instruments		**837**	–	538
Assets classified as held for sale	8	**1,855**	2,762	2,396
Total current assets		**38,641**	34,539	34,527
Total assets		**474,382**	414,394	452,950
Equity attributable to shareholders				
Share capital		**154,297**	143,386	148,491
Reserves		**5,645**	(5,019)	(5,852)
Retained earnings		**57,133**	54,871	58,969
Total equity attributable to shareholders		**217,075**	193,238	201,608
Non-current liabilities				
Provision for employee entitlements		**809**	690	813
Deferred income		**8,449**	8,708	8,876
Loans	7	**159,580**	123,724	166,815
Total non-current liabilities		**168,838**	133,122	176,504
Current liabilities				
Income tax payable		**2,347**	3,793	4,167
Creditors and accruals		**82,831**	71,021	67,548
Provision for employee entitlements		**1,657**	1,532	1,683
Deferred income		**823**	1,198	930
Derivative financial instruments		**811**	1,142	510
Loans	7	**–**	9,348	–
Total current liabilities		**88,469**	88,034	74,838
Total liabilities		**257,307**	221,156	251,342
Total equity and liabilities		**474,382**	414,394	452,950

Consolidated statement of cash flows

for the 28 week period ended 10 September 2018

$NZ000's	2019 half year unaudited	2018 half year unaudited	2018 full year audited
Cash flows from operating activities			
Cash was provided by/(applied to):			
Receipts from customers	**446,753**	398,541	763,573
Payments to suppliers and employees	**(384,752)**	(349,336)	(674,371)
Interest paid	**(4,031)**	(2,423)	(5,625)
Payment of income tax	**(10,692)**	(9,199)	(15,809)
Net cash flows from operating activities	**47,278**	37,583	67,768
Cash flows from investing activities			
Cash was provided by/(applied to):			
Acquisition of business	**–**	(105,326)	(147,502)
Payment for intangibles	**(2,575)**	(1,374)	(4,772)
Purchase of property, plant and equipment	**(15,768)**	(9,090)	(26,353)
Proceeds from disposal of property, plant and equipment	**4,405**	414	4,064
Landlord contributions received	**46**	–	1,222
Net cash used in investing activities	**(13,892)**	(115,376)	(173,341)
Cash flows from financing activities			
Cash was provided by/(applied to):			
Proceeds from non-current loans	**181,088**	223,785	451,716
Repayment of non-current loans	**(195,455)**	(195,622)	(387,024)
Dividends paid to shareholders	**(17,701)**	(16,584)	(23,700)
Share issue costs	**(34)**	–	(63)
Net cash (used in)/from financing activities	**(32,102)**	11,579	40,929
Net increase/(decrease) in cash and cash equivalents	**1,284**	(66,214)	(64,644)
Cash and cash equivalents at beginning of the period	**10,140**	70,390	70,390
Opening cash balances acquired on acquisition	**–**	4,513	4,621
Foreign exchange movements	**576**	12	(227)
Cash and cash equivalents at the end of the period	**12,000**	8,701	10,140
Cash and cash equivalents comprise:			
Cash on hand	**567**	408	513
Cash at bank	**11,433**	8,293	9,627
	12,000	8,701	10,140

Consolidated statement of cash flows (continued)

for the 28 week period ended 10 September 2018

Reconciliation of profit after taxation with net cash from operating activities

$NZ000's	2019 half year unaudited	2018 half year unaudited	2018 full year audited
Total profit after taxation attributable to shareholders	**20,418**	19,086	35,466
Add items classified as investing/financing activities:			
Gain on disposal of property, plant and equipment	**(1,770)**	(98)	(648)
FX gain on investing	**–**	(873)	(873)
	(1,770)	(971)	(1,521)
Add/(less) non-cash items:			
Depreciation	**16,538**	15,490	29,599
Increase/(decrease) in provisions	**14**	(109)	(802)
Amortisation of intangible assets	**3,010**	2,335	5,144
Impairment on property, plant and equipment	**–**	–	(60)
Impairment of goodwill	**–**	–	1,217
Net increase in deferred tax asset	**(1,014)**	(1,333)	(394)
Share option amortisation	**34**	29	5
	18,582	16,412	34,709
Add/(less) movement in working capital:			
Decrease/(increase) in inventories	**2,111**	(1,914)	(3,864)
Increase in trade and other receivables	**(2,394)**	(4,369)	(4,309)
Increase in trade creditors and other payables	**12,264**	9,881	5,723
(Decrease)/increase in income tax payable	**(1,933)**	(542)	1,564
	10,048	3,056	(886)
Net cash flows from operating activities	**47,278**	37,583	67,768

Reconciliation of movement in term loans	
Balance as at 26 February 2018	**166,815**
Net cash flow movement	**(14,367)**
Foreign exchange movement	**7,132**
Balance as at 10 September 2018	**159,580**

1. General information

Restaurant Brands New Zealand Limited ("Company" or "Parent"), together with its subsidiaries (the "Group") operate quick service and takeaway restaurant concepts in New Zealand, Australia, Hawaii, Guam and Saipan.

The Company is a limited liability company incorporated and domiciled in New Zealand.

Statutory base

The Company is registered under the Companies Act 1993 and is a FMC reporting entity under Part 7 of the Markets conduct Act 2013.

Reporting framework

The unaudited interim financial statements have been prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP"). They comply with New Zealand equivalents to International Financial Reporting Standards ("IFRS") and other applicable New Zealand Reporting Standards as appropriate for profit oriented entities. The financial statements comply with IFRS. These policies have been consistently applied to all the periods presented, unless otherwise noted.

The Group has a negative working capital balance as the nature of the business results in most sales being conducted on a cash basis. The Group has bank facilities totalling $257.6 million (refer note 7) and has the ability to fully pay debts as they fall due. At balance date the amount undrawn was $98.0 million.

These interim financial statements for the 28 week period ended 10 September 2018 ("2019 Half Year") have been prepared in accordance with NZ IAS 34, Interim Financial Reporting and should be read in conjunction with the financial statements published in the Annual Report for the 52 week period ended 26 February 2018 referred to in these statements as ("2018 Full Year"). They also comply with International Accounting Standard 34 Interim Financial Reporting (IAS 34).

The Group divides its financial year into thirteen 4-week periods. These interim financial statements are for the first 7 periods (28 weeks) of the year ended on 10 September 2018 (2018: 28 weeks ended 11 September 2017). The second half will be for 6 periods (24 weeks). The prior full year comparative represents the 52 week period ended 26 February 2018 (2018 Full Year).

To ensure consistency with the current period, comparative figures have been restated where appropriate.

New standards and amendments

- NZ IFRS 16 Leases (effective for periods beginning on or after 1 January 2019) replaces the current guidance in NZ IAS 17. Under NZ IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under NZ IAS 17, a lessee was required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). NZ IFRS 16 now requires a lessee to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts. Included is an optional exemption for certain short-term leases and leases of low-value assets; however, this exemption can only be applied by lessees. The Group intends to adopt NZ IFRS 16 on its effective date being for the year ended 2 March 2020 and is currently working through a process to establish its full impact. However based on preliminary assessments the Group has determined that NZ IFRS 16 will have a significant impact on the Group's balance sheet and income statement disclosures. The balance sheet will be impacted by the recognition of a right to use asset and a corresponding lease liability. The income statement will be impacted by the recognition of an interest expense and amortisation expense and the removal of the current rental expense. The full impact on these statements has yet to be finalised.
- The impact of NZ IFRS 9 and NZ IFRS 15 were assessed as having an immaterial impact on the Group.

2. Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision makers. The Group is split into three geographically distinct operating divisions; New Zealand, Australia, and Hawaii. The chief operating decision makers, responsible for allocating resources and assessing performance of the operating segments, have been identified as the Group Chief Executive Officer and Group Chief Financial Officer. The chief operating decision makers considers the performance of the business from a geographic perspective, being New Zealand, Australia and Hawaii (including Guam and Saipan) while the performance of the corporate support function is assessed separately.

The Group is therefore organised into three operating segments, depicting the three geographic regions the Group operates in and the corporate support function located in New Zealand. All segments operate quick service and takeaway restaurant concepts. All operating revenue is from external customers.

The Group evaluates performance and allocates resources to its operating segments on the basis of segment assets, segment revenues, concept EBITDA before general and administration expenses and EBIT before non-trading items. EBITDA refers to earnings before interest, taxation, depreciation and amortisation. EBIT refers to earnings before interest and taxation.

2019 $NZ000's	New Zealand	Australia	Hawaii	Corporate support function	Consolidated half year unaudited
Business segments					
Store sales revenue	230,226	103,391	97,370	–	430,987
Other revenue	14,667	–	194	–	14,861
Total operating revenue	**244,893**	**103,391**	**97,564**	**–**	**445,848**
EBITDA before general and administration expenses	**41,233**	**15,197**	**12,776**	**–**	**69,206**
General & administration expenses	(7,122)	(3,868)	(4,776)	(1,080)	(16,846)
EBITDA after general and administration expenses	**34,111**	**11,329**	**8,000**	**(1,080)**	**52,360**
Depreciation	(9,116)	(4,207)	(3,215)	–	(16,538)
Amortisation (included in cost of sales)	(1,225)	(252)	(443)	–	(1,920)
Segment result (EBIT) before non-trading items	**23,770**	**6,870**	**4,342**	**(1,080)**	**33,902**
Other non-trading items					(2,095)
Operating profit (EBIT) after non-trading items					**31,807**
Current assets	19,533	9,147	9,961	–	38,641
Non-current assets	114,206	149,186	172,349	–	435,741
Total assets	**133,739**	**158,333**	**182,310**	**–**	**474,382**

2018 $NZ000's	New Zealand	Australia	Hawaii	Corporate support function	Consolidated half year unaudited
Business segments					
Store sales revenue	225,397	71,864	88,869	–	386,130
Other revenue	13,702	–	102	–	13,804
Total operating revenue	**239,099**	**71,864**	**88,971**	**–**	**399,934**
EBITDA before general and administration expenses	**40,116**	**10,592**	**12,720**	**–**	**63,428**
General & administration expenses	(7,180)	(2,692)	(4,207)	(787)	(14,866)
EBITDA after general and administration expenses	**32,936**	**7,900**	**8,513**	**(787)**	**48,562**
Depreciation	(9,155)	(3,242)	(3,093)	–	(15,490)
Amortisation (included in cost of sales)	(1,170)	(134)	–	–	(1,304)
Segment result (EBIT) before non-trading items	**22,611**	**4,524**	**5,420**	**(787)**	**31,768**
Other non-trading items					(1,718)
Operating profit (EBIT) after non-trading items					**30,050**
Current assets	19,423	6,762	8,354	–	34,539
Non-current assets	115,153	109,596	155,106	–	379,855
Total assets	**134,576**	**116,358**	**163,460**	**–**	**414,394**

2.1 Reconciliation between EBIT after non-trading and net profit after tax

$NZ000's	2019 half year unaudited	2018 half year unaudited	2018 full year audited
EBIT after non-trading items	**31,807**	30,050	57,753
Financing expenses	**(3,663)**	(2,687)	(5,604)
Net profit before taxation	**28,144**	27,363	52,149
Taxation expense	**(7,726)**	(8,277)	(16,683)
Net profit after taxation	**20,418**	19,086	35,466
Add back non-trading items	**2,095**	1,718	5,429
Income tax on non-trading items	**(660)**	(374)	(48)
Net profit after taxation excluding non-trading items	**21,853**	20,430	40,847

3. Profit before taxation

$NZ000's	2019 half year unaudited	2018 half year unaudited	2018 full year audited
Profit before taxation			
The profit before taxation is calculated after charging/(crediting) the following items:			
Royalties paid	**25,552**	22,838	43,830
Operating rental expenses	**24,629**	21,522	40,452
Net gain on disposal of property, plant and equipment	**(1,036)**	(98)	(694)
Non-trading items			
Gain on sale of stores			
Net sale proceeds	**2,332**	306	588
Property, plant and equipment disposed of	**(721)**	(56)	(95)
	1,611	250	493
Amortisation of franchise rights acquired on acquisition of QSR Pty Limited (QSR) and Pacific Island Restaurants Inc. (PIR)	**(1,090)**	(1,031)	(1,911)
Acquisition costs	**(225)**	(694)	(1,598)
Store closure costs	**101**	(166)	(325)
ASX listing-related costs	**20**	(570)	(608)
FEC Exchange gains	**–**	873	873
Impairment of assets	**–**	–	(879)
Relocation and refurbishment	**(463)**	–	–
Leave remediation	**(2,021)**	(380)	(674)
Impairment of goodwill	**–**	–	(1,217)
Make good on acquisition	**(28)**	–	–
Gain on store sale and leaseback	**–**	–	417
Total non-trading items	**(2,095)**	(1,718)	(5,429)

Notes to the financial statements (continued)
for the 28 week period ended 10 September 2018

Leave remediation

Included in non-trading items above is a $2 million (Half year 2018: $0.4 million, Full year 2018: $0.7 million) expense relating to leave remediation. The Group identified payroll calculation errors in regards to entitlements under the Holidays Act 2003 which, over time, have resulted in staff receiving incorrect payments. The specific areas that require remediation date back to 2012, and primarily relate to the payment rates for annual leave. This amount represents an estimated provision required for periods prior to the 2018 financial year. Any provisions related to the 2018 full year (Half year 2018: $0.2 million, Full year 2018: $0.4 million) and 2019 half year (nil) have been included as part of operating costs. This has resulted in the restatement of $0.4 million of costs from cost of goods sold to non-trading items within the 2018 half year (Full year 2018: $0.7 million) consolidated statement of comprehensive income. The restatement has been performed to ensure EBIT before non-trading items profit measure is directly comparable between periods.

4. Earnings per share

	2019 half year unaudited	2018 half year unaudited	2018 full year audited
Basic and diluted earnings per share			
Profit after taxation attributable to shareholders ($NZ000's)	**20,418**	19,086	35,466
Weighted average number of shares on issue (000's)	**123,936**	122,843	123,032
Basic and diluted earnings per share (cents)	**16.47**	15.54	28.83

Shares on issue

As at 10 September 2018, the total number of ordinary shares on issue was 124,380,523 (2018: 122,843,191).

5. Property, plant and equipment

Acquisitions and disposals

During the half year ended 10 September 2018, the Group acquired assets with a total cost of $17.1 million (2018: $9.4 million) and disposed of assets with a total cost of $5.3 million (2018: $2.0 million).

6. Related party transactions

Transactions with entities with key management or entities related to them

During the period the Group made the following:

- Acquired services totalling $145,512 (2018: $37,000) from AsureQuality Limited, a company of which Company director Hamish Stevens is a director. There was $32,764 owed at balance date (2018: $nil).

These transactions were at arm's length and performed on normal commercial terms.

7. Loans

The Group has loan facilities in place totalling $NZ257.6 million with the following financial institutions:

- Westpac Banking Corporation - $NZ125.0 million facility expiring on 12 October 2020.
- First Hawaiian Bank - $US51.2 million facility of which $US13.0 million expires on 1 August 2019 with the remainder expiring 16 December 2023.
- MUFG Bank, Ltd - $A50.0 million facility expiring on 12 October 2020.

8. Assets classified as held for sale

On 3 September 2018 the Group announced the sale of the Starbucks Coffee business in New Zealand for $4.4 million (including stock). Settlement for the transaction is expected to be late October 2018. The assets held for sale represent the non-current assets relating to the Starbucks Coffee business.

Half year 2018 relate to Pizza Hut stores that were immediately available for sale and therefore the associated non-current assets had been classified as held for sale.

Year end 2018 relate to Pizza Hut stores immediately available for sale and the non-current assets associated with the Carl's Jr. Upper Harbour store which had been acquired under the Public Works Act 1981.

9. Capital commitments

The Group has capital commitments totalling $9.1 million (2018: $2.7 million) which are not provided for in these financial statements.

10. Contingent liabilities

At period end there are no contingent liabilities that the directors consider will have a significant impact on the financial position of the Group (2018: nil).

11. Deed of Cross Guarantee

Pursuant to the Australian Securities and Investment Commission (ASIC) Class Order 98/1418, the wholly owed subsidiary, QSR Pty Limited (QSR), is relieved from the Corporations Act 2001 requirement for the preparation, audit and lodgement of financial reports.

It is a condition of that class order that Restaurant Brands New Zealand Limited (RBNZ) and QSR enter into a Deed of Cross Guarantee (Deed). On 9 February 2017 a Deed was executed between RBNZ, QSR, Restaurant Brands Australia Pty Limited and Restaurant Brand Australia Holdings Pty Limited under which each company guarantees the debts of the others.

12. Subsequent events

On 18 October 2018 the Group announced that it had received a non-binding indicative approach from Finaccess Capital, S.A. de C.V. to acquire up to 75% of Restaurant Brands' shares by way of a partial takeover offer at $NZ9.45 cash per share ("Proposal").

The Proposal does not constitute a takeover notice pursuant to the Takeovers Code. The Group and Finaccess are in discussions to seek to agree and finalise the terms of takeover implementation arrangements which, if agreed, could result in Finaccess issuing a takeover notice to Restaurant Brands New Zealand Limited. There is no guarantee at this stage that agreement will be reached or that Finaccess will proceed with a takeover. If Finaccess does proceed to make a takeover, the offer would be subject to various conditions, including Overseas Investment Office consent and receiving consent from certain subsidiaries of Yum! Brands Inc., the owner of the KFC, Pizza Hut and Taco Bell brands franchised to the Group.

As a result of the Proposal the Group has a contingent liability in relation to the long term incentive scheme established for the Group CEO and Group CFO. If the Proposal results in a change of control of the Group the performance rights issued under the plan will vest, resulting in a cost to the Group of approximately $0.2 million.

Independent review report

To the Directors of Restaurant Brands New Zealand Limited

Report on the interim financial statements

We have reviewed the accompanying interim financial statements of Restaurant Brands New Zealand Limited (the "Company") and its subsidiaries (the "Group") on pages 16 to 29, which comprise the consolidated statement of financial position as at 10 September 2018, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the period ended on that date, and selected explanatory notes.

Directors' responsibility for the interim financial statements

The Directors are responsible on behalf of the Group for the preparation and presentation of these interim financial statements in accordance with International Accounting Standard 34 Interim Financial Reporting (IAS 34) and New Zealand Equivalent to International Accounting Standard 34 Interim Financial Reporting (NZ IAS 34) and for such internal controls as the Directors determine are necessary to enable the preparation of interim financial statements that are free from material misstatement, whether due to fraud or error.

Our responsibility

Our responsibility is to express a conclusion on the accompanying interim financial statements based on our review. We conducted our review in accordance with the New Zealand Standard on Review Engagements 2410 Review of Financial Statements Performed by the Independent Auditor of the Entity (NZ SRE 2410). NZ SRE 2410 requires us to conclude whether anything has come to our attention that causes us to believe that the interim financial statements, taken as a whole, are not prepared in all material respects, in accordance with IAS 34 and NZ IAS 34. As the auditors of the Group, NZ SRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial statements.

A review of interim financial statements in accordance with NZ SRE 2410 is a limited assurance engagement. The auditor performs procedures, primarily consisting of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. The procedures performed in a review are substantially less than those performed in an audit conducted in accordance with International Standards on Auditing (New Zealand) and International Standards on Auditing. Accordingly, we do not express an audit opinion on these interim financial statements.

We are independent of the Group. Our firm carries out other services for the Group in the areas of specified procedures on landlord certificates and executive reward services. The provision of these other services has not impaired our independence.

Independent review report (continued)

To the Directors of Restaurant Brands New Zealand Limited

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that these interim financial statements of the Group are not prepared, in all material respects, in accordance with IAS 34 and NZ IAS 34.

Who we report to

This report is made solely to the Group's Directors, as a body. Our review work has been undertaken so that we might state to the Group's Directors those matters which we are required to state to them in our review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Directors, as a body, for our review procedures, for this report, or for the conclusion we have formed.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
18 October 2018

Auckland

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Financial calendar

Financial year end
25 February 2019

Annual profit announcement
April 2019