Annual Shareholders' Meeting 2015

Chief Executive's Address

Thank you Ted

As you have heard this year has been another good one for the company. I will give you a brief run down by brand on our performance and then provide some insights into our strategic direction.

However before doing so, I think it is appropriate to introduce our senior management team who have been an integral part of producing the results we are presenting to you today:

Introduces: Grant Ellis, Geraldine Oldham, Leonie Reyneke, Geoff Holton, Jennifer Blight, Deidre Gourlay.

All four brands delivered an increase in total sales on prior year, up 9.2% in total to $359.5 million

And all four brands also produced profit increases this year to a combined EBITDA of $61.5 million, up $8.0 million or 15% on prior year.

Total store numbers also continued to increase with Carl's Jr new builds and acquisitions increasing that brand's network by ten stores. This was partly offset by continued selling down of Pizza Hut stores, reducing that number by five. As a consequence we finished the year with 181 stores.

KFC, our biggest brand enjoyed its strongest year ever in terms of sales performance. Sales were driven by:

- An improving economic environment;
- Some innovative new product development;
- The ongoing programme of store upgrades and
- Higher levels of marketing and promotion activity

Same store sales growth for the year was 7.7% with each quarter showing continued momentum. Q1 was 5.0%, Q2 7.4%, Q3 10.8% and Q4 7.5%.

KFC's earnings also grew strongly, with EBITDA up $6.2 million or 14.0% on prior year to $50.8 million. Good sales leverage, a change in menu mix from last year's value offerings and some relief in raw material price increases all assisted in driving better margins. These benefits were somewhat offset by increased levels of marketing expenditure and higher labour costs as KFC reinvested in store labour to improve the customer experience.

The tempo of store transformations increased with a total of ten stores receiving major upgrades. This brings the total number of KFC stores that are either new or significantly transformed to 82, of the 91 stores in the network.

We also increased our KFC store numbers with the acquisition from independent franchisees of two stores in Mt Maunganui and Oamaru.

The turnaround in the Pizza Hut brand continued with another excellent year in sales and profit performance. Total sales held at $48.4 million despite there being five less stores in the network with the continuation of the store sales programme. The value pizza offering with quality product and good levels of customer service produced same store sales growth of +6.3%.

Pizza Hut's profitability rose yet again with brand EBITDA up +15.8% to $6.4 million, despite lower store numbers. Volume leverage and stable material prices contributed to the good result which at 13.2% of sales is one of the highest margin levels seen for some time.

Five more stores were sold to independent franchisees as part of the strategy of exiting regional and lower volume stores. Interest in purchasing Pizza Hut stores continues to be very high with a number of franchisees now looking to buy more than one store. The pace of selling remains steady and we will see independent franchisees running more than 50% of the market by the end of the year.

FY15 saw the best profit performance ever for the Starbucks Coffee brand. Earnings were up 21.6% for the year to $4.3 million on the back of solid same store sales growth (of +5.1%) and continuing store efficiencies. A strong exchange rate also assisted in keeping input costs down.

Solid progress was made in establishing Carl's Jr, despite intense competition and some significant supply chain challenges. The impact of new store opening costs still weighed on earnings, although this is becoming increasingly diluted as the brand grows. Additional costs were also incurred over the year in increased marketing expenditure (driving brand awareness off a small base) and in the acquisition and integration of the Forsgren stores. The West Coast US port strikes interrupted supply of some critical ingredient items from the US, resulting in disruption to the business in the latter half of the year. This necessitated an urgent search for alternative sources of supply with commensurate cost implications.

Our Carl's Jr store numbers increased from eight to 18 with the construction of three new stores and the acquisition in December 2014 of seven stores in the Auckland area previously owned by Forsgren NZ Limited. The brand is beginning to gain penetration in Auckland and middle-upper North Island, but has yet to take up the opportunities available for growth in the Wellington and South Island markets.

Sales grew by over 40% from $14.3 million to $20.1 million with the impact of the new store builds and Forsgren acquisition. Same store sales continued to remain negative with Carl's Jr. having to roll over often significant new store opening sales volumes in prior periods. As the brand begins to mature sales will move to more consistent levels.

I'd now like to focus on how Restaurant Brands is progressing on our major strategic initiatives.

Firstly with our people.

As you can see we have a large and diverse workforce of nearly 4,000 people spread over the entire country at over 180 different sites and four different brands. Our challenge is how to utilise our staff efficiently and provide the best training.

Our labour rostering practices were in the news earlier this year when we announced that we were going to move to a guaranteed minimum hours approach to rostering our staff. Moving to guarantee our people minimum working hours represents a significant step in improving certainty of work availability for our people and at the same time helping Restaurant Brands become a better employer and a more efficient operator.

Our intent is that, through providing this certainty of work, we improve the commitment and skill of our staff.

We have also increased our employee relations capability in our support centre (head office) to provide a "one stop shop" for our field based people to handle any employment issues.

Furthermore we established last year a centralised recruitment function to reduce the time that needs to be be spent by store managers in recruiting new staff. This is proving effective in both attracting suitable staff and reducing turnover by making better recruitment decisions.

Technology is at the forefront of our future growth. To that end as you have seen in my introductions we have created a new role of GM Information Systems reporting directly to me. Several major initiatives have been undertaken such as installing Micros point of sale systems throughout Starbucks and we are currently working through the testing of a Starbucks phone app to electronically process coffee loyalty cards. Other major developments have included installing unlimited high speed free WIFI in our KFC and Carl's Jr stores and the implementation of a full inventory control and debtors system as part of bringing our inventory management in-house.

The new year will see some further significant technological advances such as:

- A major upgrade of the Pizza Hut website, making it far more user friendly and interactive and enabling maximum portability between mobile devices;
- A complete restructuring of our data management warehousing and reporting.

- From a health and safety viewpoint we are installing kiosks in store for all staff and contractors to log on to and receive appropriate safety briefings;

- KFC and Carl's Jr will see further upgrades to our new digital menu technology in stores.
- And our financial applications are undergoing major upgrades to general ledger, inventory and accounts payable to produce greater efficiencies in such areas as billing independent franchisees for inventory and moving to buyer created tax invoices for our suppliers.

New product development is a strength we continue to build on. We take the best of what our franchisors have to offer in terms of new products worldwide and where required modify them to the New Zealand palate. We also develop a number of our products in-house with great success.

We have this year brought the ownership of stock and its management back in house. As a fundamental part of our business model we determined it was appropriate to take control of the warehousing and distribution of our raw ingredients to our stores. This initiative is expected to deliver more efficiencies in sourcing and distributing product to both our and our independent franchisees' stores.

As you can see from the annual report we've institutionalised the reporting to our shareholders on how we are striving towards better environment and community outcomes.

Our support of Surf Lifesaving New Zealand, with both donations and in-store fundraising continues together with other worthwhile causes such as World Hunger Relief and the NZ Gynaecological Cancer Foundation. We were instrumental in raising over $220,000 for these causes last year.

We continue to recognise that the safety of our staff and customers is paramount. All employees are required to undergo safety training and demonstrate ongoing competency. We continue to see ongoing improvements in our accident statistics and have been for a number of years accredited at the Tertiary Level for the ACC Accredited Employers programme.

Diversity is important to us and whilst we do not actively pursue an equal opportunities programme, we recognise the benefits that diversity can bring to an organisation. From a gender diversity viewpoint I am pleased to say 53% of our employees, 50% of our senior management team and 25% of our board members are female.

We continue to meet the specific challenges of our industry with respect to the obesity debate, encouraging our customers to enjoy our food in moderation and providing low-calorie food options in our stores.

In conclusion I want to leave you with a very clear message that Restaurant Brands has the pace and momentum for continued expansion. Our brands all continue to grow and the staff development and technological initiatives that we are undertaking will continue to enhance that growth and deliver returns to our shareholders over the years to come.

Thank you