Chairman's Address to the 2010 Annual Shareholders' Meeting

Fellow shareholders,

Overview

It is with considerable pleasure that I stand before you today to present the results of the company for the past financial year. This is the culmination of a rebuilding strategy that we have been working on over the past three years and our "work-in-progress" has now progressed to where we can see future Restaurant Brands store formats that have been completely transformed from their original concepts.

As we said in our annual report, "we've moved things around and it's worked pretty well".

Net profit after tax (excluding non-trading items) rose from a previous 5 year average of $10.4 million to $19.9 million in 2010.

Pizza Hut increased earnings before interest, tax, depreciation and amortisation (EBITDA) by 95% to $5.4 million after five years of decline; KFC EBITDA rose 22% on prior year to a record $46.3 million and Starbucks Coffee, our smallest brand, delivered a 9.6% rise in EBITDA to $3.2 million.

Yes, it was a good year in terms of financial performance but one that has been some time in the making. This performance was a result of strong demand in the recessionary environment combined with the benefits from continuing to reinvest in the transformation of the KFC network, tight cost control, and a focus on supporting and developing our people.

Cash flow & bank debt

Although our record of profit improvement has been sound, the fundamental underlying measure has been the improvement in free cash flow and resultant ability to either retire debt or return funds to our shareholders.

We produced operating cash flows for the 2009/10 year of $38.7 million, up $15.4 million (66%) on the previous year. We also spent more in reinvesting in our KFC stores with investing outflows of $13.2 million, an increase of $5.1 million.

The resultant $25.5 million generated in free cash flow this year, added to that over the previous three years, has seen our level of bank debt plummet from more than $55 million in 2007 to just under $18 million at balance date.

The balance sheet is therefore very comfortably geared and our bank ratios remain unchallenging by any measure.

Our funding lines come up for renewal in October this year and discussions with the bank to date indicate no issues and a likely favourable outcome in terms of future funding costs.

Share price

While I do not generally make a habit of commenting on the share price, I think it would be remiss of me not to note the substantial improvement in shareholder value Restaurant Brands' securities have delivered over the past 12 months. Restaurant Brands has been the best performer on the NZX50 gaining more than 120%.

Those who bought the stock 12 months ago at about $1 a share (or even earlier at the 65 cent mark) have enjoyed a substantial gain to current levels of $2.30 a share.

Those investors who bought the stock at the time of the float of the company in 1997 will be painfully aware of their entry price of $2.20 a share (effectively diluted to $2.03 a share with the bonus issue in 2000). It is worth noting that even those early investors now have effectively recovered their investment and have also received a reasonable dividend stream every year throughout the time they have held their investment.

Brand ownership

Given the name of our company, we are always cognisant of the fact that our expertise is in developing and operating branded food chains in the New Zealand marketplace.

To that end we do from time to time evaluate opportunities to bring other branded food concepts into New Zealand. We also periodically review our portfolio of brands and their continued retention.

Shareholders are aware of the decision to open up the Pizza Hut business here to smaller operators with the commencement of the sell down of some of our Pizza Hut stores. This is a gradual process and does not mean a lower commitment to the brand – in fact, more a strengthening of brand presence with a mixture of company stores and independent franchisees working together to maintain Pizza Hut's position as the leading pizza brand in this country. Chief executive Russel Creedy will shortly be making some further comments in relation to the Pizza Hut franchise programme.

There has also been recent media attention on the future ownership of the Starbucks Coffee business here. While we are on record as saying that the brand could be sold (as would any other of our businesses) if the price was right, we are not actively seeking buyers for Starbucks at this stage. As can be seen from the trading results, the Starbucks operation is rebuilding profitability and that remains our focus at the moment for this brand.

We recognise that with the strong turnaround in our trading results and the stability of the KFC business in particular; the board and management will need to turn their attention to the next brand opportunities. We have, however, learnt from past mistakes and any new concepts will be very carefully evaluated before any significant investments are undertaken.

Directors

Restaurant Brands has always operated with a relatively small board and this has been helpful in recent times, with directors often taking a direct and "hands-on" approach to the strategic leadership of the business. With the retirement of Shawn Beck last year, the number of directors has reduced to four. This has become a little tight in terms of director availability, rotation, and spread of expertise. We will therefore be looking to make a further appointment to the board over the coming 12 months.

I would like to acknowledge and thank all of my fellow directors for their continued support and guidance in assisting us to achieve the results that have been delivered, particularly during this last year.

The board's thanks must also go to our senior management in achieving this outstanding result. During the year they have consistently aimed to make further improvements in operational, marketing and financial controls.

Staff

It has become customary to acknowledge the importance of our staff (or partners as we prefer to call them) in turning out these sorts of results. I would like to make a heartfelt and genuine acknowledgement of the effort put in by the people in our stores and support centre that has delivered the improved performance across the board we have seen and are continuing to see within the company.

Dividend

The strength of this company's cash flows has meant that we have always paid a dividend, even in more challenging times. However as our profitability (and more importantly free cash flow) has improved we have increased our dividend payout.

The total dividend for this year is 12.5 cents per share (fully imputed) up 79% on prior year. You will have received the final dividend of 8 cents per share last week.

As we have previously stated, we will continue to increase our payout to our loyal shareholders as profitability and free cash flow continues to improve, but tempered as always with our requirements to reinvest in the business to keep generating these returns.

Outlook

As can be seen by our first quarter sales release, the new financial year has started well for the company. KFC has delivered another quarter of strong sales growth, up 10.7% on a same store basis. This is indeed a very pleasing start to our new financial year and bodes well for the future.

Indications are that the New Zealand economy is starting to gain some traction after the major international financial crises, but there are other storm clouds that have not fully dissipated and some macroeconomic influences such as the forthcoming GST rate increases which may have some impact on our sales

These factors notwithstanding, Restaurant Brands is on target to deliver a net profit after tax (excluding non trading items) in the range of $24–26 million in the current financial year.

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