Annual Shareholders Meeting 2021

Chief Executive's Address

Thankyou Jose. And good afternoon everyone.

As Jose has said we produced a solid trading outcome for the 2020 year in the face of the COVID pandemic. I shall provide a little more detail on the results by division.

I again emphasise that these results are for a 12 month period vs a 10 month period in the prior year because of the change of balance date to December last year.

Total store sales in New Zealand were $410.4 million, up $42.9 million or +11.7% on the 44 week period ending December 2019. This is a result of the additional eight weeks trading in the December 2020 year, partially offset by the five weeks full store lockdown due to COVID-19.

The New Zealand business was completely closed for nearly five weeks in March-April 2020 with the COVID-19 lockdown, losing an estimated $40 million in sales over the period. However upon re-opening the business recovered well, with same store sales for the full year up +5.3%. The underlying sales growth has been driven by another good performance by KFC combined with Carl's Jr., both brands sales have remained strong throughout the year with growth through both the delivery and in-store channels.

Taco Bell saw three stores opened during the year with sales tracking above expectations.

EBITDA at $75.9 million was up $8.0 million reflecting the higher sales; however the underlying EBITDA as a percentage of sales has remained constant on 18.5%.

As part of the COVID-19 response the New Zealand business received a government wage subsidy of $22.0 million, which was fully passed on to all staff. We elected to retain all staff at 100% of their wages and salaries throughout the lockdown period. Although the wage subsidy helped to offset the cost to the business, there was a shortfall of approximately $0.5 million per week. There were also other fixed costs incurred during the mandated lockdown which contributed to an estimated $4.4 million drop in EBITDA before G&A costs over the closure period.

The Pizza Hut sub-franchising process continues, with 16 stores sold to franchisees during the year including three turnkey stores. The company now operates 13 Pizza Hut stores with independent franchisees operating 90 stores.

Overall New Zealand store numbers decreased by 11 during the year to 137 mainly because of the sale of the Pizza Hut stores to independent franchisees.
The Australian business contributed total sales of $A202.4 million, up $A42.2 million (or +26.3%) on last year (FY 19D). On a proportional 52 week basis sales were up $A12.1 million, primarily due to the effect of additional store numbers. Same store sales were up 2.0%.

There was significant disruption to the business from COVID-19 with the temporary closure of all mall stores and the extended closure of all dine-in restaurants. This was partly offset by the expansion of the home delivery service into New South Wales regional locations, which generated further growth in the KFC delivery channel. Despite COVID our investment in KFC store upgrades continued, together with new store openings. Two new drive-thru Taco Bell sites and four additional KFC stores opened during the year, bringing total store numbers to 70.

Store EBITDA was $A27.7 million, up $A4.3 million or +18.4% on last year with the additional eight weeks trading. On an equivalent 52 week basis store EBITDA has remained flat with additional sales offset by the impact of the extended closure of the dine in facilities.
Total sales in Hawaii for the period were $US139.3 million, up $US28.6 million, primarily due to the comparison with last year's reporting period of 44 weeks. On an equivalent year comparison sales were up $US8.6 million for the period which is reflected in same store sales growth of 7.7% for the year.

Store level EBITDA was $US21.5 million (15.6% as a percentage of sales vs 13.5% in the prior period).

Pizza Hut had a significant increase in both sales and profitability. Online ordering during the COVID crisis grew significantly and now accounts for 60% of sales. The closure of seven old format stores at the end of last year, and a further three stores this year, with a move towards smaller and more efficient delivery and carry-out (delco) style stores also helped drive profitability.

Although Taco Bell was harder hit by the closure of dine in options, the promotions around family size meals and affordable pricing were successful with drive through average customer spend increasing significantly. Food aggregators (such as Grubhub) helped to drive delivery sales.

Store numbers are down by a net two from December 2019 with the rationalisation of the Pizza Hut network, including the closure of some very old dine-in restaurants. During this period one new Pizza Hut delco store was opened and is performing strongly.

The Hawaiian market also saw good progress on the refurbishment and network rationalisation programme with some stores delivering same store sales growth of 40%+.

The acquisition of 69 stores in California was settled on 2 September 2020. With most of the existing management team being retained in place, the completion was executed smoothly. Even with the impact of COVID-19 on the business effectively closing the dine-in channel, management continuity and the benefit of recently upgraded stores ensured that this acquisition delivered results well ahead of our expectations.

Total sales in California for the four months of ownership were $US35.6 million with store level EBITDA of $US5.8 million (16.4% as a percentage of sales).

The business saw an extensive reinvestment programme prior to settlement. However in line with the strategy to further reinvest in this market, three new store builds are already underway.

General and administration (G&A) costs were $45.6 million, up $12.3 million from last year due to the longer current reporting period, but also up $6.2 million on a normalised annual basis.

Most of the increase came from long term incentive remuneration and additional G&A charges in California as that acquisition came on stream.

Depreciation charges of $65.0 million for the year ended 31 December 2020 were $17.2 million higher than the prior year primarily due to the impact of the additional reporting weeks. It also included $5.7 million from the newly acquired California division. Of the $65.0 million, $30.9 million related to right of use asset depreciation incurred under NZ IFRS 16.

Financing costs of $30.2 million were up $8.8 million on prior year, once again reflecting the impact of the additional reporting weeks. Of this interest on bank debt was $6.5 million, up $1.4 million on last year due to the longer reporting period and the additional debt taken on to acquire the California business.

We are increasingly aware of community and investor interest in the non-financial outputs of our business. Some time ago we commenced reporting to investors on our ESG performance. This has been a journey, but we believe we are making progress in providing a more balanced contribution to the community than purely financial returns.

Our annual report this year documents further steps in improving our performance and enhancing our measurement under the three pillars of People and Communities, Environmental Consciousness and Food Quality.

We are particularly proud of our financial contributions to worthwhile causes, our reduced accident rates and waste reduction and ethical sourcing initiatives.

The COVID-19 crisis has placed a good deal of stress on our staff at all levels and in all locations where our company operates.

I am sincerely grateful, both to my senior management team and to the team of over 12,000 staff throughout our store network in New Zealand, Australia, Hawaii and (more recently) California for the focus and enthusiasm they have brought to the task of serving our customers under often trying circumstances.

The FY21 year has started well for us with total sales for the first quarter to 31 March of $259.7 million, an increase of 11.2% across the businesses we operated during the previous year and up 29.8% or $60 million when including trading from the California acquisition of $37 million.

New Zealand, Hawaii and Australia delivered same store sales growth of 11.3%, 9.6% and 1.1% respectively. Australia continues to struggle with the impact of COVID-19 on its store mix with a higher preponderance of in-line and mall stores seeing a reduction in traffic, versus the higher mix of drive through and delivery sales in all our other markets.

Whilst we are certainly experiencing strong signs of a resurgence in sales and profitability over last year, we remain cautious as to full year outcomes. Further COVID outbreaks are very likely (and we are also wary of the long term effects of the current US government stimulus initiatives in our Hawaiian and Californian businesses and the timing of the sales recovery in our Australian mall and inline stores.

We therefore won't be providing any formal guidance for the full year results at this juncture, apart from to say that on current trends, they are significantly up on prior year to date.

My team and I remain excited for the challenges and opportunities ahead. We have a clear strategy and a full work plan and look forward to moving on from the COVID-19 crisis and delivering on the growth potential this company is capable of.

Thank you. I'll now hand you back to Jose.