**RESTAURANT BRANDS** Annual General Meeting

## CHAIRMAN'S ADDRESS - NZX

**9 June 2006**

Fellow Shareholders, Ladies and Gentlemen

### Performance for the Year Ended 28 February 2006

The year under review has been characterised by some major events which have had an influence on both the company's results for the year, and on the company's future development.

Group Net Profit after Tax for the year (excluding non-trading or abnormal items) was $10.5 million, $0.5 million or 4.7% down on the previous year.

The profit after adjustment for non-trading items however, was $3.4 million, reflecting a pre-tax write down of $7.0 million on our investment in Pizza Hut Victoria, taken in the context of the company's decision to exit that business over the coming year.

Sales increased marginally to $316.4 million, compared with $315.5 million last year. 2005 however, was a 53 week year, and when sales are compared on a 52 week basis, the increase was 2.1%.

EBITDA totaled $45.2 million, an increase of 0.1% on the prior year.

Total store numbers increased by 11 to 289.

All in all, notwithstanding the write-offs we needed to take, the directors concluded that the underlying strength of the company remained sound, and felt able to declare a final dividend of 5.5 cents a share, giving a total of 10 cents a share for the year, thus maintaining the level of distribution to shareholders we have achieved over the past 7 years.

**CVC Takeover Notice**

This time last year, we had received notice of intention to make a takeover bid for all of the company's shares at $1.65 a share, from a private equity company associated with CVC Asia Pacific Limited. Despite some months of due diligence, an offer to shareholders never materialised, because of CVC's inability to reach agreement with our franchisor, YUM!, on a number of matters of concern to CVC.

I want to give special recognition to the way in which the Restaurant Brands management and staff kept their heads down during this period, and got on with running the business, despite the considerable distractions of an intense due diligence, and on-going media commentary.

**Value of the Business**

The exercise obliged the directors to crystalise their views on the company's value and its performance going forward. I can say that the proposed offer price was at the low end of our valuation range, and that our perspective was confirmed in the work of the independent appraiser - though this was not completed as, in the event, no final offer to appraise was forthcoming.

The basis for our views on valuation are quite straightforward. If we could eliminate the losses being experienced in Australia, either by successfully completing the turnaround of that business, or by exiting it, then the earnings of the New Zealand business on its own, taking into account expected earnings from the completion of the KFC transformation programme, at multiples which are characteristic of the sector, would yield share values of $1.65-75 a share

We feel obliged to deliver that value to shareholders. To have it recognised however, we need to deal with, or to, our Australian investment, and also establish to the market that our New Zealand earnings are sustainable in the medium term.

**Exiting Australia**

Exiting Australia had been in our contemplation for some time, and had it not been for the takeover process, we would have moved on this sooner.

Why exit and not persevere?

We had been successful in turning the Victorian business as regards both sales and EBITDA, but not enough to generate the cash flow which would have supported an expansion of the business to the level which would justify the television and other promotion necessary to secure its voice amongst the competition.

Had we continued, this would have meant an on-going drain on the earnings of the New Zealand business, not only to compensate for losses in Victoria, but also to service the borrowings incurred for new outlets. We had planned on it taking 3-4 years before the

Victorian business established its own equilibrium. Our best assessment last year was that it might take 6 or more, and, quite simply, the drain on New Zealand had to stop.

Vicki will report on progress with the Victorian sales programme. Suffice for me to say that it is progressing well.

**Sustainable Earnings - KFC**

We had already decided, prior to the takeover notice, that we needed to re-invest in the KFC concept to secure and grow its earnings into the future. Not just a makeover, of the kind we had undertaken in earlier years, but a radical transformation of the brand and of our stores and menu so that KFC would become, again, an exciting quick service restaurant option for our customers.

This has worked, though with some short term costs from closing stores during their reconstruction. I have no doubt that the KFC growth experienced from the 9 stores already transformed will be repeated as further stores are transformed, and will be sustained into the future.

**Sustainable Earnings – Pizza Hut**

Just as KFC is re-emerging as a growth concept, over the past two quarters the magic growth run of Pizza Hut in New Zealand started to slow.

This should not have a long term impact on the sustainability of Restaurant Brands' earnings. To understand this we need to reflect on what has happened in the market since the company was established.

In 1999 there were 117 branded pizza stores, of which Pizza Hut had 43, or 37%, the balance being franchised to Pizza Haven and Eagle Boys. Since then Pizza Hut has acquired Eagle Boys, and Dominos Pizza Haven, and total outlets have almost doubled, with 99 net new stores being built - 25 by Pizza Hut, 18 by Dominos and 56 by Hell Pizza. Pizza Hut now has a total of 107 stores, or 50 per cent of the total.

The outcome is that consumption per head has almost doubled, to the point that it now exceeds that in Australia, and there is some crowding in the market with pressure on margins, and some cannibalization of old stores by the new. All the participants are feeling the pinch. But it is not correct, as the media reports on "pizza wars" assume, that the newer competitors, who don't have to report their results, are succeeding at Pizza Hut's expense.

What we know is that Pizza Hut's total sales have doubled over the period, and that Pizza Hut remains the major player, with over 50 per cent of the market, by whatever measure, and will remain so. We have the best sites, having got there first; and the best delivery service; and on a quality for money basis, Pizza Hut remains the preferred product in the market.

There will be some rationalization. What is now required of Pizza Hut, and this is in hand, is a marketing shift to secure our position in the market, and an on-going share of its growth.

In brief, I am confident that Pizza Hut will quickly re-emerge as an on-going contributor to Restaurant Brands' earnings growth.

**Starbucks**

Starbucks continues to be a star performer. It has a special place in the beverages market, and with careful management it is a sound contributor - albeit small in relative terms. No change of strategy is indicated therefore for Starbucks, which will see a gradual expansion of outlets over time.

Overall therefore, we believe that the market will quickly come to recognise that Restaurant Brands' earnings are sustainable into the future, and when this occurs it will be reflected in the company's share price.

**Director Appointments**

Over the past two years the board has taken the opportunity of director retirements to "refreshen" its capability. David Pilkington and Ted van Arkel brought huge experience from the retail and food sectors. Trevor Hall brought specific marketing experience. His retirement on taking up a new executive appointment has enabled us to recruit to the board Sue Suckling – a high profile New Zealand director who will be known to may of you. I will speak to this again when we come to that item on the agenda.

This is my $9^{th}$ year on the board, and the board and I have been planning my retirement for a couple of years. I would not have sought re-election last year, but for the takeover process which I expected to be successful, and felt I should see through.  While I could readily find reasons for carrying on now – not least that I enjoy the role - there comes a time when change of chairman is good for a board, and with a strong board in place to deal with the initiatives now before us, that time has arrived. For my part, I have some new challenges to pursue, and I need to clear some space to do so. I expect the board to announce my successor within the next few months. .

**Outlook**

In commenting on the outlook for the year ahead, I cannot help but reflect on the company's performance over the past 9 years. The thing which has frustrated me, and the market, has been the roller coaster volatility of our performance. In a sense this is characteristic of the sector. Branded fast foods tend to roll from promotion to promotion, which creates its own volatility, particularly as all promotions are not equally successful. But fast food is also a discretionary spend, and sales are impacted by the amount of cash in the pocket of consumers, which in turn is subject to macro influences such as the wage cycle and interest rates, and more specific influences such as the recent hike in petrol prices.

In the year ahead economic forecasters are predicting a slowing in economic activity – though I suspect we shall perhaps see more of the same as regards most indicators. In this situation we expect sales to continue to grow, modestly, across all three concepts in New Zealand, with KFC's growth, which has been impressive despite flat economic conditions last year, continuing to shine. Our profit performance will turn on how quickly we can complete the exit from Victoria.

The challenge for the company, is to lift its performance above product driven volatility. We have achieved this from the outset with Starbucks, and I believe that we have established this can be done with KFC. We now need to consolidate a new Pizza Hut strategy for a more mature and competitive market.

In conclusion may I say that I have enjoyed the last 9 years, despite their ups and downs, and that I have particularly enjoyed the Annual General Meetings which have been characterised by straight questioning, I hope some straight answers, and extraordinary good conduct and good humour. I have enjoyed the interaction with you, my fellow shareholders, and I thank you all for your patient and continuing support for the company – I look forward next year to sitting with you on the other side of the rostrum.