

**Directors' Report to Shareholders  
For the 28 Weeks ended 10 September 2018  
(1H 2019)**

### Key Points

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

- Net Profit after Tax 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).
- Net Profit (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 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.
- Combined brand 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

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 (%)
<b>Network Sales (\$m)</b>	<b>190.2</b>	<b>180.8</b>	<b>+9.4</b>	<b>+5.2</b>
<b>Network Store Numbers</b>	<b>100</b>	<b>98</b>		
<b>RBD Sales (\$m)</b>	<b>179.3</b>	<b>170.3</b>	<b>+9.0</b>	<b>+5.3</b>
<b>RBD Store Numbers</b>	<b>94</b>	<b>92</b>		
<b>RBD EBITDA (\$m)</b>	<b>37.0</b>	<b>35.3</b>	<b>+1.7</b>	<b>+4.9</b>
<b>EBITDA as a % of Sales</b>	<b>20.6</b>	<b>20.7</b>		

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. 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 (%)
<b>Network Sales (\$m)</b>	<b>55.8</b>	<b>54.9</b>	<b>+0.9</b>	<b>+1.7</b>
<b>Network Store Numbers</b>	<b>98</b>	<b>94</b>		
<b>RBD Sales (\$m)</b>	<b>20.5</b>	<b>22.9</b>	<b>-2.4</b>	<b>-10.5</b>
<b>RBD Store Numbers</b>	<b>29</b>	<b>34</b>		
<b>RBD EBITDA (\$m)</b>	<b>1.5</b>	<b>2.1</b>	<b>-0.6</b>	<b>-29.7</b>
<b>EBITDA as a % of Sales</b>	<b>7.1</b>	<b>9.0</b>		

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 (%)
<b>Sales (\$m)</b>	13.0	13.4	-0.4	-2.8
<b>EBITDA (\$m)</b>	2.1	2.2	-0.1	-7.5
<b>EBITDA as a % of Sales</b>	15.8	16.6		
<b>Store Numbers</b>	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, we 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 (%)
<b>Sales (\$m)</b>	17.5	18.8	-1.3	-7.1
<b>EBITDA (\$m)</b>	0.7	0.5	+0.2	+28.3
<b>EBITDA as a % of Sales</b>	4.0	2.9		
<b>Store Numbers</b>	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 (%)
<b>Sales (\$Am)</b>	95.5	66.7	+28.8	+43.1
<b>Store EBITDA (\$Am)</b>	14.0	9.8	+4.2	+42.5
<b>EBITDA as a % of Sales</b>	14.7	14.7		
<b>Store Numbers</b>	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 (%)
<b>Sales (\$USm)</b>	<b>38.6</b>	<b>36.6</b>	<b>+2.0</b>	<b>+5.5</b>
<b>Store EBITDA (\$USm)</b>	<b>7.8</b>	<b>7.2</b>	<b>+0.6</b>	<b>+8.0</b>
<b>EBITDA as a % of Sales</b>	<b>20.1</b>	<b>19.7</b>		
<b>Store Numbers</b>	<b>36</b>	<b>37</b>		

Taco Bell continues to perform well with total sales to date 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 (%)
<b>Sales (\$USm)</b>	<b>28.4</b>	<b>27.3</b>	<b>+1.2</b>	<b>+4.4</b>
<b>Store EBITDA (\$USm)</b>	<b>1.0</b>	<b>1.9</b>	<b>-0.9</b>	<b>-48.9</b>
<b>EBITDA as a % of Sales</b>	<b>3.5</b>	<b>7.1</b>		
<b>Store Numbers</b>	<b>45</b>	<b>45</b>		

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 & 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 & 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 \$NZ257.6 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 has 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.

For further information, please contact:

Russel Creedy  
CEO  
Phone: 525 8710

Grant Ellis  
CFO/Company Secretary  
Phone: 525 8710

**ENDS**

<b>Consolidated Income Statement</b>					
<b>For the 28 week period ended 10 September 2018</b>					
	<b>10 September 2018</b>		<b>vs Prior</b>	<b>11 September 2017</b>	
	<b>28 weeks</b>		<b>%</b>	<b>28 weeks</b>	
<b>SNZ000's</b>					
<b>Sales</b>					
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	
<b>Total New Zealand sales</b>	<b>230,226</b>		<b>2.1</b>	<b>225,397</b>	
KFC	103,391		43.9	71,864	
<b>Total Australia sales</b>	<b>103,391</b>		<b>43.9</b>	<b>71,864</b>	
Taco Bell	56,115		10.1	50,950	
Pizza Hut	41,255		8.8	37,919	
<b>Total Hawaii sales</b>	<b>97,370</b>		<b>9.6</b>	<b>88,869</b>	
<b>Total sales</b>	<b>430,987</b>		<b>11.6</b>	<b>386,130</b>	
Other revenue	14,861		7.7	13,804	
<b>Total operating revenue</b>	<b>445,848</b>		<b>11.5</b>	<b>399,934</b>	
Cost of goods sold	(366,536)		12.1	(327,007)	
<b>Gross margin</b>	<b>79,312</b>		<b>8.8</b>	<b>72,927</b>	
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)	
<b>EBIT before non-trading items</b>	<b>33,902</b>		<b>6.7</b>	<b>31,768</b>	
Non-trading items	(2,095)		22.0	(1,718)	
<b>EBIT</b>	<b>31,807</b>		<b>5.8</b>	<b>30,050</b>	
Financing expenses	(3,663)		36.3	(2,687)	
<b>Net profit before taxation</b>	<b>28,144</b>		<b>2.9</b>	<b>27,363</b>	
Taxation expense	(7,726)		(6.7)	(8,277)	
<b>Total profit after taxation (NPAT)</b>	<b>20,418</b>		<b>7.0</b>	<b>19,086</b>	
<b>Total NPAT excluding non-trading items</b>	<b>21,853</b>		<b>7.0</b>	<b>20,430</b>	
			% sales		% sales
<b>Concept EBITDA before G&amp;A</b>					
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
<b>Total New Zealand</b>	<b>41,233</b>	<b>17.9</b>	<b>2.8</b>	<b>40,116</b>	<b>17.8</b>
KFC	15,197	14.7	43.5	10,592	14.7
<b>Total Australia</b>	<b>15,197</b>	<b>14.7</b>	<b>43.5</b>	<b>10,592</b>	<b>14.7</b>
Taco Bell	11,305	20.1	12.9	10,016	19.7
Pizza Hut	1,471	3.6	(45.6)	2,704	7.1
<b>Total Hawaii</b>	<b>12,776</b>	<b>13.1</b>	<b>0.4</b>	<b>12,720</b>	<b>14.3</b>
<b>Total concept EBITDA before G&amp;A</b>	<b>69,206</b>	<b>16.1</b>	<b>9.1</b>	<b>63,428</b>	<b>16.4</b>
<b>Ratios</b>					
<b>Net tangible assets per security (net tangible assets divided by number of shares) in cents</b>	(35.9)			(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:

- 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.

- EBIT before non-trading.** 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.

- 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.

- EBIT after non-trading items.** The Group calculates EBIT after non-trading items by taking net profit before taxation and adding back financing expenses.

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

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

		2019 half year (28 weeks) unaudited	2018 half year (28 weeks) unaudited
\$NZ000's	Note*		
<b>EBITDA before G&amp;A</b>	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)
<b>EBIT before non-trading items</b>	2	33,902	31,768
Non-trading items **	3	(2,095)	(1,718)
<b>EBIT after non-trading items</b>	4	31,807	30,050
Financing expenses		(3,663)	(2,687)
<b>Net profit before taxation</b>		28,144	27,363
Income tax expense		(7,726)	(8,277)
<b>NPAT</b>		20,418	19,086
Add back non-trading items		2,095	1,718
Income tax on non-trading items		(660)	(374)
<b>NPAT excluding non-trading items</b>	5	21,853	20,430

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

\*\* Refer to Note 2 of the financial statements for an analysis of non-trading items.