

20 September 2011
NZX

Restaurant Brands' Second Quarter Sales

Restaurant Brands' total sales for the second quarter (16 weeks ended 12th September 2011) were \$93.9 million, a decrease of 6.5% or \$6.5 million on the equivalent period last year. The sales reduction is partly due to store closures in Christchurch following the earthquake and the disposal of a number of Pizza Hut stores. Same store sales were down 4.5%.

KFC total sales were down \$0.6 million or 0.9% in the quarter (compared with a 6.7% increase in the prior year). Starbucks Coffee sales decreased 8.3% and Pizza Hut sales decreased by 26.9%.

KFC same store sales were down 3.5% (versus a 5.9% increase in the prior year). Starbucks Coffee had an increase of 6.2% and Pizza Hut saw a decline of 13.5%.

Christchurch Earthquake

The earthquake on 22nd February 2011 as well as the 13th June 2011 aftershock continued to adversely affect total sales during the quarter.

A total of five stores (one KFC, one Pizza Hut and three Starbucks Coffee) stores in Christchurch city were closed at the beginning of the quarter. Of these, only the Pizza Hut store has since reopened. Total estimated sales lost from the earthquakes for the quarter are around \$1.3m.

Whilst these closures mean a loss in sales, Restaurant Brands has material damage and business interruption insurance policies in place for all the affected stores and hence the profit impact continues to not be significant.

KFC

Total KFC sales decreased 0.9% or \$0.6 million over the prior year to \$72.1m (rolling over a 6.7% increase in the prior year). The earthquakes clearly negatively impacted this growth, accounting for about \$0.6 million in lost sales from store closures. Same store sales were down by 3.5% rolling over a 5.9% increase on the prior year.

Whilst same store sales were down with continuing softness in retail spending, KFC was rolling significant second quarter same store sales growth in the previous three years (cumulatively totalling 20.6%). The brand continues to experience the impact of disruption to the business (and some sales cannibalisation) in its prior year comparative performance from the significant capital programme over the previous 18 months.

Although this is the second quarter of negative same store sales growth in the past year, total store sales over the past twelve months remains positive with effectively only 1 more store in operation than a year ago (with the Christchurch CBD store closed due to the earthquake).

Successful promotions over the quarter included *Double Down* at the beginning of the quarter, the customer inspired *Buster Burger* promotion, mixed packs including *KFC Grilled* as well as the return of old favourites such as *Hot & Spicy Chicken*.

During the quarter, KFC Wanganui, Masterton and St Lukes were closed for transformation with Wanganui reopening in August, Masterton reopening in June and the mall store at St Lukes reopening in late August after a few weeks closure for renovations. In Christchurch, the CBD store remains closed as a result of the earthquake.

Year to date sales for KFC were \$127.9m, \$0.9 million up on the previous year to date, an increase of 0.7% on a total sales basis but down 1.9% on a same store basis.

Total store numbers remained at 89 stores, up 2 on last year (although the Christchurch CBD store remained closed for the entire quarter).

Pizza Hut

Pizza Hut same store sales declined 13.5% over the quarter. Total sales were down \$5.1 million or 26.9% on prior year to \$14.0m. Whilst store numbers are significantly down on the prior year with the sale of 11 stores to independent franchisees and 3 closures, the same store sales decline continues to reflect the current difficult retail and competitive environment.

This quarter's promotional activity included the new product innovation with the *Mexican Mia* and the return of the *Big New Yorker Pizza*, a continuing favourite with Pizza Hut customers.

Year to date total Pizza Hut sales were \$24.6 million, down 27.2% in total on prior year with fourteen less stores. Same store sales YTD were down 14.5%.

Store numbers were reduced by five with the sale of stores in Whangaparaoa, Kerikeri, Whangarei and Masterton, and the closure of the Howick store, bringing store numbers to 74, down fourteen on last year.

In Christchurch, all earthquake affected stores have reopened after starting the quarter with one store closed for part of the quarter as a result of the earthquake.

Starbucks Coffee

Starbucks Coffee same store sales were up 6.2% for the quarter. This continues the improving same store sales trend seen in the latter half of last year and is the highest quarterly same store growth since Q1 2008/9.

Total sales however, at \$7.8 million were down \$0.7 million or 8.3% on the prior year, with four less stores than prior year as a result of store rationalisation, generally with lease end closures. A further four stores (with \$0.6 million lost sales) were closed in Christchurch for all or part of the quarter as a result of the earthquakes.

Year to date same store sales were up 5.4%. Total Starbucks Coffee sales were \$14.0 million, down 9.7% in total on prior year with four less stores and the Christchurch closures.

Store numbers reduced by one over the quarter with the closure of the Newmarket, Auckland store bringing store numbers to 35 at quarter end, four down on last year. Of these only 32 were actively trading because three stores in Cashel Mall, Cathedral Square and Colombo Street remain closed as a result of the earthquake.

Profit Outlook

Restaurant Brands has not been exempt from the effects of continued negative consumer sentiment and a weak retail environment that has been evident since the increase in GST rate last October

The first half of the current financial year has therefore seen pressure on sales and margins for the company across all three brands with commensurate reduction in reported profit. There is an expectation however that the second half of the year will see higher levels of consumer confidence and better retail sales with the stimulation of the Rugby World Cup and improving general economic conditions.

Full year profit guidance will be provided with the half year results release on 19 October.

For further information please contact

Russel Creedy

CEO

Phone: 525 8710

Grant Ellis

CFO/Company Secretary

Phone: 525 8710

ENDS

RESTAURANT BRANDS NEW ZEALAND LIMITED

Quarterly Sales Report

Summary of Results for the 2nd Quarter (Q2)

(for the 16 weeks 24/5/2011 to 12/9/2011)

| | Q2 2011/12 (\$000's) | Q2 2010/11 (\$000's) | % change |
|--|----------------------|----------------------|--------------|
| <u>Q2 2011/12 vs Q2 2010/11</u> | | | |
| Total Store Sales - KFC | 72,111 | 72,756 | -0.9% |
| Total Store Sales - Pizza Hut | 13,977 | 19,112 | -26.9% |
| Total Store Sales - Starbucks Coffee | 7,849 | 8,562 | -8.3% |
| Total Store Sales | 93,937 | 100,430 | -6.5% |
| Same Store Sales - KFC | 68,405 | 70,892 | -3.5% |
| Same Store Sales - Pizza Hut | 13,926 | 16,099 | -13.5% |
| Same Store Sales - Starbucks Coffee | 7,830 | 7,371 | 6.2% |
| Total Same Store Sales | 90,161 | 94,362 | -4.5% |
| <u>YTD 2011/12 vs YTD 2010/11</u> | | | |
| Total Store Sales - KFC | 127,912 | 127,051 | 0.7% |
| Total Store Sales - Pizza Hut | 24,565 | 33,756 | -27.2% |
| Total Store Sales - Starbucks Coffee | 13,980 | 15,477 | -9.7% |
| Total Store Sales | 166,457 | 176,284 | -5.6% |
| Same Store Sales - KFC | 120,288 | 122,641 | -1.9% |
| Same Store Sales - Pizza Hut | 24,503 | 28,644 | -14.5% |
| Same Store Sales - Starbucks Coffee | 13,923 | 13,214 | 5.4% |
| Total Same Store Sales | 158,714 | 164,499 | -3.5% |
| <u>NUMBER OF STORES OPEN AT QUARTER END</u> | | | |
| Qtr End no of Stores - KFC | 89 | 87 | 2 |
| Qtr End no of Stores - Pizza Hut | 74 | 88 | -14 |
| Qtr End no of Stores - Starbucks Coffee | 35 | 39 | -4 |
| Total Stores | 198 | 214 | -16 |
| | | | |