Directors' Report to Shareholders
For the 28 Weeks ended 9 September 2019
(1H 2020)

Key Points

	1H 2020	1H 2019	Change ($)	Change (%)
Total Group sales ($NZm)	**442.6**	**431.0**	**+11.6**	**+2.7**
Group NPAT (reported) ($NZm)	**20.0**	**20.4**	**-0.4**	**-2.0**

- Total Group sales were $442.6 million, up $11.6 million on the previous half year and up $24.6 million (+5.7%) on a like-for-like basis (excluding the Starbucks Coffee sales in 1H 2019). The bulk of the increase is attributable to KFC in New Zealand and Taco Bell in Hawaii.

- Net Profit after Tax for the 28 weeks ended 9 September 2019 (1H 2020) was $20.0 million (16.0 cents per share), down $0.4 million on the prior period (1H 2019). Net profit after tax was adversely impacted $2.9 million by the adoption of the new lease accounting standard NZ IFRS 16.

- Net Profit after tax (excluding non-trading items and the effect of NZ IFRS 16) was $25.0 million (20.0 cents per share), up $3.2 million or +14.4% on the prior period.

- Combined brand EBITDA before G&A was up $3.4 million to $72.6 million with the New Zealand businesses delivering an increase of $1.8 million, despite the loss of the Starbucks Coffee contribution of $2.1 million due to the sale of the business in October 2018. A further $1.3 million was generated in Hawaii with a strong Taco Bell performance.

Group Operating Results

Directors are pleased to report the Restaurant Brands New Zealand Limited (RBD) results for 1H 2020, with a Group Net Profit after Tax (NPAT) of $20.0 million, $0.4 million down on the same period last year.

The underlying NPAT (excluding non-trading items and the effect of the adoption of the new lease accounting standard NZ IFRS 16) is $25.0 million, an increase of 14.4% on 1H 2019. When also taking into account the profit effect of $1.1 million relating to the Starbucks Coffee business sold in October 2018 the ongoing business NPAT is $4.3 million (19.7%) ahead of 1H 2019.

Total store sales for the Group were $442.6 million, up $11.6 million or +2.7% on 1H 2019. This is despite the loss of $13.0 million in Starbucks Coffee sales in 1H 2019. Total operating revenue was $458.8 million, up $12.9 million on prior period.

Combined brand EBITDA at $72.6 million was $3.4 million (+5.0%) up on 1H 2019, largely because of increased performance of KFC New Zealand which delivered an additional $4.8 million.

Restaurant Brands' store numbers now total 285, down 20 on the 1H 2019 (due primarily to the sale of the 22 Starbucks Coffee stores) and comprise 145 in New Zealand, 79 in Hawaii and 61 stores in Australia.

New Zealand Operations

New Zealand operating revenue was $246.8 million, up $2.0 million or +0.8% on 1H 2019.

Total store sales were $230.8 million, an increase of $0.6 million (+0.2%) on last year, with EBITDA of $43.0 million, a $1.8 million or +4.3% improvement on 1H 2019, driven mainly by the continued strong performance of the KFC business.

New Zealand operations produced an EBIT (before non-trading items and lease adjustments) of $25.9 million, up 9.1% on the prior year.

KFC New Zealand

	1H 2020	1H 2019	Change ($)	Change (%)
Network Sales ($m)	**204.6**	**190.2**	**+14.4**	**+7.6**
Network Store Numbers	**103**	**100**		
RBD Sales ($m)	**193.5**	**179.3**	**+14.2**	**+7.9**
RBD Store Numbers	**97**	**94**		
RBD EBITDA ($m)	**41.8**	**37.0**	**+4.8**	**+12.9**
EBITDA as a % of Sales	***21.6***	***20.6***		

Restaurant Brands' KFC New Zealand sales were $193.5 million, up 7.9% or $14.2 million on prior year with same store sales up 5.7%. Continuing successful product promotions, the further roll out of delivery and the effect of opening three new stores during the period have helped drive the strong sales growth.

Margins remained strong at 21.6% of sales. In dollar terms EBITDA totalled $41.8 million, up $4.8 million (+12.9%) on last year's result.

Both company-owned and total network store numbers increased by three to a total of 97 and 103 respectively with the opening of the Tauranga Crossing, Bombay and Courtney Place stores. The latter is the second in the new CBD-format, following the success of the Fort Street store which opened in 2017.

Pizza Hut New Zealand

	1H 2020	1H 2019	Change ($)	Change (%)
Network Sales ($m)	**53.6**	**55.8**	**-2.3**	**-4.0**
Network Store Numbers	**100**	**98**		
RBD Sales ($m)	**18.3**	**20.5**	**-2.1**	**-10.5**
RBD Store Numbers	**30**	**29**		
RBD EBITDA ($m)	**0.5**	**1.5**	**-1.0**	**-65.6**
EBITDA as a % of Sales	***2.7***	***7.1***		

Restaurant Brands' Pizza Hut store sales were down $2.1 million to $18.3 million, despite an increase in the company's store network to 30 stores. Same store sales from Restaurant Brands' stores were also down -4.4% due to continued competitive pressure, the impact of new stores and new food delivery companies coming into the market. A revamped menu launched late in 1H 2020 has had a positive effect on sales and EBITDA which is expected to continue into the second half of FY20.

Restaurant Brands' Pizza Hut store earnings were $0.5 million (2.7% of sales), down $1.0 million or -65.6% on the equivalent period last year reflecting some sales deleverage, ongoing cost pressures (particularly in relation to increased labour rates) and aggressive price competition in the market.

Total Pizza Hut network sales declined to $53.6 million for the half year, down $2.3 million (-4.0%) on prior year. Network store numbers increased by 2 to 100 at the end of 1H 2020, with company owned stores at 30.

Carl's Jr. New Zealand

	1H 2020	1H 2019	Change ($)	Change (%)
Sales ($m)	**19.0**	**17.5**	**1.5**	**+8.8**
EBITDA ($m)	**0.8**	**0.7**	**+0.1**	**+18.0**
EBITDA as a % of Sales	***4.4***	***4.0***		
Store Numbers	**18**	**18**		

The Carl's Jr. business demonstrated an improved performance as the half year progressed, driven primarily by the introduction of a delivery channel into a number of stores. The arrangement with our delivery service provider has been successful to date, driving strong same store sales growth.

Sales were up 8.8% (+9.8% on a same store basis) and this has begun to flow through to improved earnings with EBITDA of $0.8 million (4.4% of sales), up 18% on last year.

Store numbers remain the same as prior year at 18 stores.

Taco Bell New Zealand

Initial planning and setup is well under way to bring this exciting new brand to the New Zealand market with the first new store in Auckland targeted to open in November. Initial costs of $0.1 million have been incurred within concept EBITDA (with additional G&A costs).

Australia Operations

In $NZ terms the Australian business contributed total (KFC) sales of $NZ104.8 million (up 1.4%), a store EBITDA of $NZ15.5 million (up 2.3%) and EBIT (excluding the effect of NZ IFRS 16) of $NZ6.8 million (down 1.3%). These results were adversely effected by a strengthening of the NZD-AUD exchange rate.

KFC Australia

	1H 2020	1H 2019	Change ($)	Change (%)
Sales ($Am)	**99.5**	**95.5**	**+4.0**	**+4.2**
Store EBITDA ($Am)	**14.8**	**14.0**	**+0.8**	**+5.7**
EBITDA as a % of Sales	***14.9***	***14.7***		
Store Numbers	**61**	**61**		

In $A terms total sales of the KFC business in Australia were $A99.5 million, up $A4.0 million (or +4.2%) on last year. The ongoing store upgrade program has contributed to positive sales growth, coupled with encouraging growth generated through the digital channels, including home delivery, in-store kiosk and mobile app. Same store sales were also strong at +5.9% for the period.

Store EBITDA margins of $A14.8 million (14.9% of sales) were up $A0.8 million or +5.7% on last year. The strong underlying results are supported by a well-balanced marketing calendar and continued product innovation.

Taco Bell Australia

As with New Zealand the planning and set up is well underway with two Taco Bell stores expected to be opened in New South Wales this calendar year. Initial store set up costs were incurred of $A0.1 million.

Hawaii Operations

Total sales in Hawaii for the period were $US70.9 million with store level EBITDA of $US9.4 million generated equating to 13.3% of sales.

In $NZ terms the Hawaiian operations contributed $NZ106.9 million in revenues, $NZ14.1million in EBITDA and an EBIT of $NZ5.8million for the period. These results were all significantly up on the prior year.

Taco Bell Hawaii

	1H 2020	1H 2019	Change ($)	Change (%)
Sales ($USm)	**42.4**	**38.6**	**+3.8**	**+9.8**
Store EBITDA ($USm)	**8.4**	**7.8**	**+0.6**	**+8.0**
EBITDA as a % of Sales	***19.8***	***20.1***		
Store Numbers	**36**	**36**		

This half year saw another strong performance from Taco Bell with total sales to date of $US42.4 million, up 9.8% in total and 13.7% on a same store basis. A full promotional programme including both new product releases and the re-introduction of previously successful products, together with initial returns from refurbished stores all helped to drive the strong sales growth.

Store-level EBITDA rose to $US8.4 million (19.8% of sales) driven by the increased sales, although the EBITDA margin is down slightly due to continued cost pressure in labour and ingredients.

Store numbers have remained stable during the period at 36. The Company continues with its refurbishment strategy which has helped to drive sales as store refurbishments are completed. Three new stores and major refurbishments are underway with more planned for FY21. The Moanalua store reopened after undergoing a major transformation, delivering sales growth of +29% on its pre-refurbishment levels.

Pizza Hut Hawaii

	1H 2020	1H 2019	Change ($)	Change (%)
Sales ($USm)	**28.5**	**28.4**	**+0.1**	**+0.1**
Store EBITDA ($USm)	**1.0**	**1.0**	**+0.0**	**+0.0**
EBITDA as a % of Sales	***3.5***	***3.5***		
Store Numbers	**43**	**45**		

Total sales were slightly up for the brand by $US0.1 million. Improved promotional activity has helped drive positive sales growth despite the closure of two stores. Same store sales were up 2.9% for the half year. Despite the U.S. Pizza Hut market continuing to struggle, Pizza Hut Hawaii sales bucked the trend, in particular benefitting from the re-introduction of the Big New Yorker pizza in the Hawaiian market.

EBITDA at $US1.0 million (3.5% of sales) was in line with prior year despite continued margin pressure particularly from 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.

Franchise agreements for a considerable number of stores expire before the end of the calendar year and negotiations continue with Yum! as to renewal terms.

Corporate & Other

General and administration (G&A) costs were $20.9 million, an increase of $1.4 million on prior year. This reflects the impact of some additional headcount from FY19 now rolling into a full year and additional staff and training costs arising from the establishment of the Taco Bell brand. G&A as a % of total revenue was 4.6%, up from 4.4% in the prior year.

Depreciation charges of $29.1 million for the half year were $12.7 million higher than the prior year. This is primarily due to the effect of NZ IFRS 16 which added $14.0 million in lease depreciation. When adjusted for NZ IFRS 16 the depreciation charge was $1.3 million down on the prior year mainly because of the sale of the Starbucks Coffee business sold in FY19.

Financing costs of $13.4 million were up $9.7 million on prior year primarily due to lease interest of $10.1 million resulting from the adoption of NZ IFRS 16. Bank interest costs were $3.3 million, $0.4 million lower than prior year with reduced borrowing levels.

Tax expense was $7.7 million and in line with the prior year reflecting similar reported profit levels.

Non-Trading Items

Non-trading expenditure for the half was $2.3 million, an increase of $0.2 million on prior year. This year's costs included amortisation of franchise rights acquired on acquisition of QSR Pty Limited and Pacific Island Restaurants Inc. ($1.1 million), store closure costs ($0.3 million) and relocation and major refurbishment costs ($0.6 million).

NZ IFRS 16

The Group adopted the new lease accounting standard, NZ IFRS 16 on 26 February 2019. The impact of the standard has been significant on the half year financial statements. Net profit after taxation attributable to shareholders has been negatively impacted by $2.9 million as a result of the lease depreciation of $14.0 million and lease interest of $10.1 million (partially off-set by the removal of lease expenses of $20.2 million).

The consolidated statement of financial position also has seen significant changes with total assets increasing over FY 2019 year-end balance by $421.7 million, primarily through the recognition of right of use assets ($356.0 million) and the deferred tax implications of the standard. Total liabilities increased by $442.0 million with the recognition of future lease liabilities of ($428.7 million). The net impact on retained earnings was a reduction of $46.5 million on adoption of the standard with a further $2.9 million reduction in net profit during the period.

Cash Flow & Balance Sheet

Bank debt at the end of the half year was down to $151.2 million compared to $145.9 million at the previous year end. As at balance date, the Group had bank debt facilities totalling $NZ258.0 million in place. Cash and cash equivalents increased by $26.3 million during the period resulting in net debt reducing by $21.0 million to $109.8 million over the half year.

Operating cash flows continue to improve, up $16.4 million to $63.7 million. However included in this is a $10.1 million increase in relation to NZ IFRS 16 with the remaining $6.3 million due to enhanced earnings, albeit with the assistance of positive working capital movements.

Net investing cash outflows at $27.7 million versus $13.9 million in 1H 2019 reflects the increased level of spend as the Group continues to focus on refurbishing stores throughout the network.

Dividend

As previously advised, the company is beginning to ramp up its capital expenditure programme. Planning for the opening of more than 60 Taco Bell stores in New Zealand and Australia over the next five years is now underway with the first of these due to open this financial year. This, combined with potential further acquisitions and the refurbishment programme in Hawaii now picking up pace, is beginning to place significant demands on the capital resources of the company. Therefore the directors have resolved there will be no interim dividend for FY20.

Outlook

The overall business continues to deliver solid results across all geographic markets and this strong performance is expected to continue in the second half of the year.

New store roll outs for the KFC brand will continue in New Zealand and Australia with at least a further two stores opening in each market. The launch of the Taco Bell brand will also see two stores opening in each country by early 2020. The Hawaiian market will see at least one further Taco Bell transformation completed by the end of the calendar year.

The company continues to evaluate further acquisition opportunities in all three existing markets, together with the US mainland.

Directors believe that, absent any major changes to economic or market conditions, the Group will deliver a Net Profit after Tax (excluding non-trading items and the effect of NZ IFRS 16) for the FY20 year of at least 10% in excess of the FY19 year.

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Consolidated Income Statement
For the 28 week period ended 9 September 2019

$NZ000's	9 September 2019 28 weeks	% sales	vs Prior %	10 September 2018 28 weeks	% sales
Sales					
KFC	193,487		*7.9*	179,264	
Pizza Hut	18,309		*(10.5)*	20,452	
Starbucks Coffee	-		*(100.0)*	13,049	
Carl's Jr.	19,001		*8.8*	17,461	
Total New Zealand sales	**230,797**		***0.2***	**230,226**	
KFC	104,846		*1.4*	103,391	
Total Australia sales	**104,846**		***1.4***	**103,391**	
Taco Bell	63,998		*14.0*	56,115	
Pizza Hut	42,921		*4.0*	41,255	
Total Hawaii sales	**106,919**		***9.8***	**97,370**	
Total sales	**442,563**		***2.7***	**430,987**	
Other revenue	16,196		*9.0*	14,861	
Total operating revenue	**458,759**		***2.9***	**445,848**	
Cost of goods sold	(367,136)		*0.2*	(366,536)	
Gross margin	**91,623**		***15.5***	**79,312**	
Distribution expenses	(2,319)		*15.0*	(2,016)	
Marketing expenses	(25,010)		*4.8*	(23,871)	
General and administration expenses	(20,933)		*7.2*	(19,523)	
EBIT before non-trading items	**43,361**		***27.9***	**33,902**	
Non-trading items	(2,312)		*10.4*	(2,095)	
EBIT	**41,049**		***29.1***	**31,807**	
Financing expenses	(13,365)		*264.9*	(3,663)	
Net profit before taxation	**27,684**		***(1.6)***	**28,144**	
Taxation expense	(7,679)		*(0.6)*	(7,726)	
Total profit after taxation (NPAT)	**20,005**		***(2.0)***	**20,418**	
Net profit after taxation excluding non-trading items and NZ IFRS 16	**25,008**		***14.4***	**21,853**	
		% sales			% sales
Concept EBITDA before G&A					
KFC	41,779	*21.6*	*12.9*	37,018	*20.6*
Pizza Hut	499	*2.7*	*(65.6)*	1,450	*7.1*
Starbucks Coffee	-	*n/a*	*n/a*	2,061	*15.8*
Taco Bell	(82)	*n/a*	*n/a*	-	*n/a*
Carl's Jr.	830	*4.4*	*18.0*	704	*4.0*
Total New Zealand	**43,026**	***18.6***	***4.3***	**41,233**	***17.9***
KFC	15,598	*14.9*	*2.6*	15,197	*14.7*
Taco Bell	(59)	*n/a*	*n/a*	-	*n/a*
Total Australia	**15,539**	***14.8***	***2.3***	**15,197**	***14.7***
Taco Bell	12,625	*19.7*	*11.7*	11,305	*20.1*
Pizza Hut	1,446	*3.4*	*(1.7)*	1,471	*3.6*
Total Hawaii	**14,071**	***13.2***	***10.1***	**12,776**	***13.1***
Total concept EBITDA before G&A	**72,636**	***16.4***	***5.0***	**69,206**	***16.1***
Ratios					
Net tangible assets per security (net tangible assets divided by number of shares) in cents	(42.5)			(35.6)	

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 concept 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 9 September 2019

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:

1. **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 eight operating divisions comprising the New Zealand divisions (KFC, Pizza Hut, Taco Bell and Carl's Jr.), two Australian divisions (Taco Bell and KFC) and the two Hawaii divisions (Taco Bell and Pizza Hut). The term **G&A** represents non-store related overheads.

2. **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.

3. **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.

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

5. **Total NPAT excluding non-trading items and NZ IFRS 16.** Total Net Profit After Taxation ("NPAT") excluding non-trading items and NZ IFRS 16 is calculated by taking net profit after taxation attributable to shareholders and adding back (or deducting) non-trading items and NZ IFRS 16 adjustments 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:

$NZ000's	Note*	2020 half year (28 weeks) unaudited	2019 half year (28 weeks) unaudited
EBITDA before G&A	1	**72,636**	**69,206**
Depreciation		(15,149)	(16,426)
Net loss on sale of property, plant and equipment (included in depreciation)		(487)	(112)
Lease depreciation		(13,996)	-
Add back lease costs		20,199	-
Amortisation (included in cost of sales)		(1,385)	(1,920)
General and administration costs - area managers, general managers and support centre		(18,457)	(16,846)
EBIT before non-trading items	2	**43,361**	**33,902**
Non-trading items **	3	(2,312)	(2,095)
EBIT after non-trading items	4	**41,049**	**31,807**
Financing expenses		(13,365)	(3,663)
Net profit before taxation		**27,684**	**28,144**
Income tax expense		(7,679)	(7,726)
NPAT		**20,005**	**20,418**
Add back IFRS16 impact		3,871	-
income tax on IFRS16 impact		(956)	-
Net profit after taxation excluding NZ IFRS 16		**22,920**	**20,418**
Add back non-trading items		2,312	2,095
Income tax on non-trading items		(224)	(660)
Net profit after taxation excluding non-trading items and NZ IFRS 16	5	**25,008**	**21,853**

* 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.