

16 April 2019  
NZX/ASX

## RESTAURANT BRANDS CONTINUES PROFIT GROWTH

\$NZm	2019	2018	Change (\$)	Change (%)
<b>Total Group sales</b>	<b>794.0</b>	<b>740.8</b>	<b>+53.2</b>	<b>+7.2</b>
<b>Group NPAT (reported)</b>	<b>35.7</b>	<b>35.5</b>	<b>+0.2</b>	<b>+0.8</b>
<b>Group NPAT (excl. non-trading)</b>	<b>42.2</b>	<b>40.8</b>	<b>+1.4</b>	<b>+3.3</b>

\*52 weeks ended 25 February 2019

### Key Points

- Total sales of \$794.0 million, up 7.2%, with the bulk of this \$53.2 million increase attributable to the full year impact of Australian stores acquired during FY18.
- Reported net profit after tax of \$35.7 million, up 0.8%.
- Net profit after tax (excluding non-trading items) reaches a new high of \$42.2 million, up 3.3%.
- Rights acquired for the Taco Bell brand in New Zealand and Australia (New South Wales and ACT) with the first stores expected to open during the 2019 calendar year.
- Combined brand EBITDA<sup>1</sup> up 5.4% to a new high of \$129.2 million, primarily driven by the full year impact of the Australian stores acquired during FY18.
- Starbucks Coffee business disposed of in October 2018, as part of a brand portfolio rationalisation.
- Successful 75% takeover of the company by Finaccess Capital, S.A. de C.V at a price of \$9.45 a share.

### Overview

Restaurant Brands has seen a period of consolidation, integrating the operations acquired in Hawaii and Australia and rationalising its New Zealand operations. There has been considerable investment in store refurbishment programs in all three divisions with over \$33 million in capital expenditure, providing a solid base for future sales growth within existing markets.

Total Group sales were up 7.2%, primarily as a result of the full year's trading of 13 KFC stores acquired in Australia in the second half of last year. The company's three key businesses all performed strongly with Taco Bell Hawaii producing same store sales of +5.1%, KFC New Zealand +4.3% and KFC Australia +4.7%.

The strong performance of Taco Bell in Hawaii was especially pleasing, particularly given the successful negotiation of development rights for this brand in Australia and New Zealand during the year.

The continued growth in overseas markets has resulted in almost half of the Group's revenue produced outside of New Zealand.

The past twelve months also saw the company progress through a takeover bid from Finaccess Capital, S.A. de C.V, which saw Finaccess Capital take a 75% share in the company on 1 April 2019. Restaurant Brands welcomes this significant investment and looks forward to strong support from our new cornerstone shareholder.

<sup>1</sup> EBITDA is earnings before interest, tax, depreciation and amortisation. It is a non-GAAP financial measure and is not prepared in accordance with NZ IFRS

## Group Operating Results

Restaurant Brands produced a net profit after tax (NPAT) for the period ended 25 February 2019 (FY19) of \$35.7 million, up 0.8% on the reported NPAT of \$35.5 million for the prior year.

After allowing for the impact of non-trading items, the underlying NPAT was \$42.2 million, up \$1.4 million or +3.3% on prior year.

Total brand sales for the Group were a record \$794.0 million, up \$53.2 million or +7.2% on FY18 with the full year benefit of \$40.9 million from the acquisition of 18 stores in Australia during FY18. Hawaii's sales were also up \$15.2 million with a strong performance from the Taco Bell brand. The New Zealand business saw record sales from the KFC business, although Carl's Jr. and Pizza Hut showed negative growth. Other revenue (primarily sales to independent franchisees) totalled \$30.9 million, bringing total operating revenue to \$824.9 million, up \$58.6 million on prior year.

Combined brand EBITDA of \$129.2 million was up \$6.6 million or +5.4% on prior year, with a \$7.0 million incremental contribution from the Australian operations.

Restaurant Brands' store numbers now total 283, comprising 142 in New Zealand, 80 in Hawaii and 61 stores in Australia.

## New Zealand Operations

New Zealand operating revenue was \$450.3 million, up \$3.6 million on FY18 despite the \$9.8 million reduction in sales with the sale of the Starbucks Coffee business. Excluding Starbucks Coffee sales the underlying New Zealand operations revenue was \$13.3 million or 3.2% higher than FY18.

Total store sales were \$419.8 million, a decrease of \$1.7 million or -0.4% on last year.

New Zealand EBITDA was \$76.4 million, a \$0.1 million reduction on FY18. The continued strong performance of the KFC business was partly off-set by lost earnings following the sale of the Starbucks Coffee business part way through the year.

New Zealand operations produced earnings before interest and tax (EBIT) before non-trading items of \$45.3 million, which is consistent with the prior year.

## KFC New Zealand

<i>\$NZm.</i>	<b>2019</b>	<b>2018</b>	<b>Change (\$)</b>	<b>Change (%)</b>
<b>Network sales</b>	<b>356.9</b>	<b>339.4</b>	<b>+17.5</b>	<b>+5.2</b>
<b>Network store numbers</b>	<b>100</b>	<b>100</b>		
<b>RBD sales</b>	<b>336.5</b>	<b>319.6</b>	<b>+16.9</b>	<b>+5.3</b>
<b>RBD store numbers</b>	<b>94</b>	<b>94</b>		
<b>RBD EBITDA</b>	<b>70.4</b>	<b>66.5</b>	<b>+3.9</b>	<b>+5.9</b>
<b>EBITDA as a % of sales</b>	<b>20.9</b>	<b>20.8</b>		

KFC New Zealand continues to be a key driver of overall performance and this brand has had another excellent year. Sales were up 5.3% to a new high of \$336.5 million, with same store sales up 4.3%.

KFC record sales result included the highest single week of sales across the country (beating the previous record by 13%), as well as record sales for a single store in a week. This success is a result of the continuing impact of increased marketing spend and a strong promotional calendar built up over the last three years.

Despite some input cost pressures, margins remained strong, with an EBITDA margin of 20.9% of sales being delivered in the period. In dollar terms, EBITDA totalled \$70.4 million, up 5.9% on last year's result.

KFC continued to invest in store assets with 16 major renovations completed during the year. In addition digital self-ordering kiosks were introduced in several stores and this has seen a high uptake by customers.

The brand has a solid base for growth in the next financial year with work underway for three new stores to open in April this year.

## Pizza Hut New Zealand

<i>\$NZm.</i>	<b>2019</b>	<b>2018</b>	<b>Change (\$)</b>	<b>Change (%)</b>
<b>Network sales</b>	<b>101.0</b>	<b>100.7</b>	<b>+0.3</b>	<b>+0.2</b>
<b>Network store numbers</b>	<b>98</b>	<b>97</b>		
<b>RBD sales</b>	<b>35.4</b>	<b>41.1</b>	<b>-5.7</b>	<b>-14.0</b>
<b>RBD store numbers</b>	<b>30</b>	<b>36</b>		
<b>RBD EBITDA</b>	<b>2.0</b>	<b>3.2</b>	<b>-1.2</b>	<b>-37.5</b>
<b>EBITDA as a % of Sales</b>	<b>5.7</b>	<b>7.8</b>		

Transformation of the Pizza Hut network in New Zealand to a master franchise model continues on plan with the sale of nine stores to franchisees during FY19. This included the sale of three new turnkey stores.

This continued unit growth saw network sales climb to \$101.0 million for FY19, up \$0.3 million or +0.2% on prior year.

Company owned store numbers decreased by six to 30, whilst the number of independent franchisee stores has increased to 68, bringing the total Pizza Hut network to 98 stores. During the period three stores were temporarily closed and two new stores were opened at Kaitaia and Meadowbank (Auckland).

In company owned stores, sales were down \$5.7 million to \$35.4 million, which is a reflection of the reduced store numbers and same store sales decreasing 6.1%.

Restaurant Brands' Pizza Hut store EBITDA was \$2.0 million (5.7% of sales), down \$1.2 million on last year, reflecting lower company-owned store numbers and continued margin pressures, particularly in relation to increased labour rates and ingredient costs.

## Carl's Jr. New Zealand

<i>\$NZm.</i>	<b>2019</b>	<b>2018</b>	<b>Change (\$)</b>	<b>Change (%)</b>
<b>Sales</b>	<b>31.9</b>	<b>34.9</b>	<b>-3.0</b>	<b>-8.8</b>
<b>Store numbers</b>	<b>18</b>	<b>19</b>		
<b>EBITDA</b>	<b>0.9</b>	<b>2.0</b>	<b>-1.1</b>	<b>- 52.9</b>
<b>EBITDA as a % of sales</b>	<b>2.9</b>	<b>5.6</b>		

Store numbers in Carl's Jr. fell by one to 18 with the closure of the Upper Harbour store in Auckland as a result of a Public Works Act compulsory acquisition. Store sales were down 8.8% (-3.3% on a same store basis), although the introduction of a delivery service in February 2019 has had an immediate and positive impact.

EBITDA was \$0.9 million (2.9% of sales), a decrease of \$1.1m on the prior year with lower sales, increasing labour rates and ingredient costs. The brand continues to operate in a very competitive marketplace.

## Starbucks Coffee New Zealand

<i>\$NZm.</i>	<b>2019</b>	<b>2018</b>	<b>Change (\$)</b>	<b>Change (%)</b>
<b>Sales</b>	<b>16.0</b>	<b>25.8</b>	<b>-9.8</b>	<b>-37.9</b>
<b>Store numbers</b>	<b>-</b>	<b>22</b>		
<b>EBITDA</b>	<b>3.1</b>	<b>4.8</b>	<b>-1.7</b>	<b>-35.7</b>
<b>EBITDA as a % of sales</b>	<b>19.4</b>	<b>18.7</b>		

A strategic decision was made not renew the Starbucks Coffee franchise agreement to concentrate on the other core brands within the NZ operations and the business was sold in October 2018.

## Australian Operations

In \$NZ terms, the Australian business (operating the KFC brand) contributed total sales of \$NZ191.5 million, store EBITDA of \$NZ29.1 million and EBIT of \$NZ14.0 million. These results are all significantly up on the prior year, as a result of stronger trading and the full year trading impact of the 18 new stores acquired during the FY18 year.

#### KFC Australia

<i>\$Am.</i>	<b>2019</b>	<b>2018</b>	<b>Change (\$)</b>	<b>Change (%)</b>
<b>Sales</b>	<b>178.3</b>	<b>139.5</b>	<b>+38.8</b>	<b>+27.8</b>
<b>Store numbers</b>	<b>61</b>	<b>61</b>		
<b>Store EBITDA</b>	<b>27.0</b>	<b>20.2</b>	<b>+6.8</b>	<b>+33.7</b>
<b>EBITDA as a % of sales</b>	<b>15.2</b>	<b>14.5</b>		

In \$A terms, total sales for the KFC business in Australia were \$A178.3 million, up A\$38.8 million (or +27.8%) on last year. This was largely a function of the full year impact of the additional 18 stores acquired partway through FY18. Same store sales increased by 4.7%.

Store EBITDA was \$A27.0 million (15.2% of sales) up \$A6.8 million or +33.7% on last year with sales leverage and more efficient store operations.

The network totalled 61 stores as at balance date. One store was opened in the third quarter of the year, offset by one store closure in the final quarter of the year. The business has continued to invest in a major store upgrade programme with 10 store upgrades completed in the financial year.

The Australian business successfully launched and expanded its home delivery service to all 26 Sydney Metro stores during the year.

#### Hawaii Operations

In \$NZ terms, the Hawaiian operations contributed \$NZ182.7 million in revenues, \$NZ23.7 million in brand EBITDA and an EBIT of \$NZ8.0 million for FY19.

Total sales in Hawaii were \$US124.7 million with store level EBITDA of \$US16.2 million. Taco Bell had another strong year, performing ahead of expectations on strong sales generated by distinctive product offerings and pricing flexibility. Pizza Hut continued to underperform, facing increased margin pressures due to the national Pizza Hut value promotions, higher levels of competition and limited pricing power in the face of input cost increases.

#### Taco Bell Hawaii

<i>\$USm.</i>	<b>2019</b>	<b>2018</b>	<b>Change (\$)</b>	<b>Change (%)</b>
<b>Sales</b>	<b>72.3</b>	<b>68.3</b>	<b>+4.0</b>	<b>+5.9</b>
<b>Store numbers</b>	<b>36</b>	<b>37</b>		
<b>Store EBITDA</b>	<b>14.3</b>	<b>13.9</b>	<b>+0.4</b>	<b>+2.9</b>
<b>EBITDA as a % of sales</b>	<b>19.8</b>	<b>20.3</b>		

Taco Bell continued to perform very well with total sales of \$US72.3 million and store-level EBITDA of \$US14.3 million (19.8% of sales) for the year. A strong promotional pipeline has helped drive a solid sales performance with same store sales up 5.1%.

Restaurant Brands has embarked on a store rebuild and refurbishment strategy following the same successful model as undertaken by the KFC business in New Zealand. The first store transformed continues to deliver same store sales growth of +60% against pre-transformation volumes. However, local government construction permit approvals have delayed the roll out of transformations to further stores. The process is now gaining momentum and 2-3 major store refurbishments are expected to be completed over the next 12 months.

#### Pizza Hut Hawaii

<i>\$USm.</i>	<b>2019</b>	<b>2018</b>	<b>Change (\$)</b>	<b>Change (%)</b>
<b>Sales</b>	<b>52.4</b>	<b>51.5</b>	<b>+0.9</b>	<b>+1.8</b>
<b>Store numbers</b>	<b>44</b>	<b>45</b>		
<b>Store EBITDA</b>	<b>1.9</b>	<b>3.3</b>	<b>-1.4</b>	<b>-44.1</b>
<b>EBITDA as a % of sales</b>	<b>3.6</b>	<b>6.5</b>		

Total Pizza Hut sales were \$US52.4 million with store-level EBITDA of \$US1.9 million (3.6% of sales). Same store sales were down 2.1%. There continues to be margin pressure from participating in US-wide value-led marketing promotions together with higher commodity and direct labour expenses.

As with Taco Bell, an asset refurbishment program is under way for the Pizza Hut brand, which sees a move away from the larger Restaurant Based Delivery units into smaller, more cost-effective Delivery and Carry-out (Delco) units. One new Delco unit was opened at Pearl City in Honolulu during FY19 and is trading ahead of expectations.

### **Corporate & Other**

General and administration (G&A) costs were \$35.8 million, up \$3.9 million from last year. This is a result of the Group corporate team operating for a full year and the continued expansion of the Group's activities. G&A as a % of total revenue was 4.3% which is in line with the prior year.

Depreciation charges of \$30.3 million for FY19 were \$1.6 million higher than the prior year, of which the Australian business accounted for \$1.1 million arising from the stores acquired during FY18.

Financing costs of \$6.8 million were up \$1.2 million on prior year reflecting the higher borrowings required to fund Australian acquisitions during FY18. Interest rates in both Hawaii and Australia also increased.

Tax expense was \$13.7 million, down \$3.0 million on the prior year due to the reduction in the corporate tax rate in Hawaii. The effective tax rate of 27.7% reflects the increased proportion of profits that were generated off-shore, and the (one off) impact of non-trading items, with the average tax rate on earnings (excluding non-trading items) at 27.8%.

### **Non-trading Items**

Non-trading expenditure for the year was \$9.0 million, \$3.6 million higher than prior year. The FY19 charges included \$3.5 million leave remediation costs resulting from identified payroll inconsistencies in New Zealand relating to the entitlements under the Holidays Act dating back to 2012, an impairment charge of \$3.5 million relating to Carl's Jr. asset carrying value in New Zealand and an adjustment in the accounting treatment for workers compensation expenses in Hawaii of \$1.6 million. These costs were partially offset by a gain on the sale of the Starbucks Coffee business and a gain on sale of assets in relation to the sale of New Zealand Pizza Hut stores to independent franchisees.

### **Cash Flow & Balance Sheet**

The composition of the Group's balance sheet is largely consistent with the prior year except for a drop in net debt of \$25.9 million which reflects the Group's strong trading results and the decision not to pay an interim dividend. Bank debt at the end of the year was down to \$145.9 million compared to \$166.8 million at the previous year end. As at balance date, the Group had bank debt facilities totalling \$251.7 million in place.

The Group remains relatively unleveraged with a Net Debt: EBITDA ratio as at the end of the FY19 year of 1.3X.

Operating cash flows were up \$3.8 million to \$71.3 million, reflecting the Group's increased profitability.

Net investing cash outflows were \$26.8 million (versus \$173.3 million last year) with the prior year reflecting the cash impact of the Hawaii and Australian acquisitions totalling \$147.5 million (net of bank loans assumed as part of the transactions). Included within investing cash inflows for the period were \$10.2 million received from the sale of nine Pizza Hut stores and the Starbucks Coffee business.

## **Dividend**

As its growth strategy begins to accelerate, Restaurant Brands is facing substantial demands on its capital resources. In particular the planned new store build programme (including the intention of opening 60 Taco Bell stores in New Zealand and Australia over the next five years, together with accelerated levels of KFC store builds in both those markets) will see levels of capital expenditure at record levels. Overlaying this are significant potential acquisition opportunities in both the US and Australian markets.

While some of this store development and acquisition growth can be funded from increased borrowings, Directors believe that it is in the best interests of the Group to retain cash in order to provide funding flexibility. Directors have therefore resolved to not pay a final dividend for the FY19 year.

## **Finaccess Capital, S.A. de C.V**

On 1 April 2019 the partial takeover offer from Finaccess Capital was successfully completed with Finaccess taking a 75% shareholding in the Group through acquiring shares from existing shareholders at a price of \$9.45 a share. Finaccess Capital has a successful track record of investing in QSR businesses including a major shareholding in AmRest Holdings S.E, a large European QSR operation. They have signalled that they are supportive of the Group's continuation of its existing growth strategies.

## **Directors**

Following completion of the takeover, Vicky Taylor, David Beguely and Stephen Copulos resigned from the board and José Parés and Emilio Fullaondo were appointed as new directors. Ted van Arkel and Hamish Stevens will remain on the board until the next Annual Shareholders' Meeting of the company.

The board and company acknowledge the contributions made by the three retiring directors and welcome José (representing Finaccess) and Emilio (independent director) to the board.

## **NZ IFRS16**

The Group has adopted the new lease accounting standard (NZIFRS 16) with effect from the new financial year. The effect of this standard on the company's balance sheet will create a lease liability, reflecting future lease payments and a "right of use" asset for its lease contracts. The Group leases all its premises, therefore the initial balance sheet impact will be substantial, increasing assets by an estimated \$383 million, liabilities by \$432 million and reducing equity by \$49 million.

Furthermore the standard will impact on the Group's income statement by removing operating lease expenses and replacing them with an interest expense pertaining to the future lease payment obligations and a depreciation charge against the "right of use" asset in the balance sheet. The net effect of these changes will have a minimal overall impact on the income statement over time, but because of timing differences will have an estimated adverse impact in the first year of adoption of \$5.9 million before tax.

## **Outlook**

With stable operations in all three of its markets and the takeover activity of the past 12 months now complete, Restaurant Brands will be looking to expand further through acquisition, store refurbishments and new store roll outs.

Although the introduction of the Taco Bell brand to New Zealand and Australia (New South Wales and ACT) is not expected to have a material effect on the Group's result in FY20 it is another important step forward in the Group's overall expansion strategy for the region.

With a consistent performance from the existing store network, the benefit of new store builds and a stable economic environment, Directors expect the Group will deliver a NPAT (excluding non-trading items) result for the new financial year of 10% above current year's results (after adjusting for the disposal of the Starbucks Coffee business in FY19 or any major new acquisitions during the year). Further details will be provided at the Annual Shareholders' Meeting.

## **Annual Shareholders' Meeting**

The Annual Shareholders' Meeting of the company will be held in Auckland, New Zealand on Wednesday 10 July 2019.

For further information please contact:

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**ENDS**

***About Restaurant Brands:***

*Restaurant Brands New Zealand Limited operates the KFC, Pizza Hut, and Carl's Jr. brands in New Zealand, the KFC brand in Australia and the Taco Bell and Pizza Hut brands in Hawaii and Guam. These brands - four of the world's most famous - are distinguished for their product, look, style and ambience, service and for the total experience they deliver to their customers in New Zealand and around the world.*

**Consolidated Income Statement**
**For the 52 week period ended 25 February 2019**

	25 February 2019		vs Prior	26 February 2018	
	52 weeks		%	52 weeks	
\$NZ000's					
Sales					
KFC	336,534		5.3	319,598	
Pizza Hut	35,350		(14.0)	41,111	
Starbucks Coffee	16,022		(37.9)	25,818	
Carl's Jr.	31,864		(8.8)	34,921	
Total New Zealand sales	419,770		(0.4)	421,448	
KFC	191,547		26.1	151,844	
Total Australia sales	191,547		26.1	151,844	
Taco Bell	106,004		11.0	95,487	
Pizza Hut	76,725		6.6	71,997	
Total Hawaii sales	182,729		9.1	167,484	
Total sales	794,046		7.2	740,776	
Other revenue	30,869		21.0	25,513	
Total operating revenue	824,915		7.7	766,289	
Cost of goods sold	(675,697)		7.6	(628,169)	
Gross margin	149,218		8.0	138,120	
Distribution expenses	(3,629)		25.4	(2,895)	
Marketing expenses	(44,542)		11.1	(40,095)	
General and administration expenses	(35,818)		12.1	(31,948)	
EBIT before non-trading items	65,229		3.2	63,182	
Non-trading items	(8,997)		65.7	(5,429)	
EBIT	56,232		(2.6)	57,753	
Financing expenses	(6,797)		21.3	(5,604)	
Net profit before taxation	49,435		(5.2)	52,149	
Taxation expense	(13,694)		(17.9)	(16,683)	
Net profit after taxation (NPAT)	35,741		0.8	35,466	
NPAT excluding non-trading items	42,181		3.3	40,847	
Concept EBITDA before G&A		% sales			% sales
KFC	70,384	20.9	5.9	66,472	20.8
Pizza Hut	2,017	5.7	(37.5)	3,226	7.8
Starbucks Coffee	3,110	19.4	(35.7)	4,836	18.7
Carl's Jr.	923	2.9	(52.9)	1,962	5.6
Total New Zealand	76,434	18.2	(0.1)	76,496	18.2
KFC	29,064	15.2	32.0	22,026	14.5
Total Australia	29,064	15.2	32.0	22,026	14.5
Taco Bell	20,968	19.8	8.0	19,420	20.3
Pizza Hut	2,781	3.6	(40.6)	4,681	6.5
Total Hawaii	23,749	13.0	(1.5)	24,101	14.4
Total concept EBITDA before G&A	129,247	16.3	5.4	122,623	16.6
Ratios					
Net tangible assets per security (net tangible assets divided by number of shares) in cents					
	(19.6)			(36.1)	

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 call centre, advertising and local store marketing expenses.

General and administration expenses (G&A) are non-store related overheads.



**Non-GAAP Financial Measures**  
**For the 52 week period ended 25 February 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 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.

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.** 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.
6. **Capital expenditure including intangibles.** Capital expenditure including intangibles represents additions to property, plant and equipment and intangible assets.

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*	2019	2018
<b>EBITDA before G&amp;A</b>	<b>1</b>	<b>129,247</b>	<b>122,623</b>
Depreciation		(30,163)	(28,683)
Loss on sale of property, plant and equipment (included in depreciation)		(146)	23
Amortisation (included in cost of sales)		(3,112)	(3,233)
General and administration costs - area managers, general managers and support centre		(30,597)	(27,548)
<b>EBIT before non-trading</b>	<b>2</b>	<b>65,229</b>	<b>63,182</b>
Non-trading items **	3	(8,997)	(5,429)
<b>EBIT after non-trading items</b>	<b>4</b>	<b>56,232</b>	<b>57,753</b>
Financing costs		(6,797)	(5,604)
<b>Net profit before taxation</b>		<b>49,435</b>	<b>52,149</b>
Income tax expense		(13,694)	(16,683)
<b>Net profit after taxation</b>		<b>35,741</b>	<b>35,466</b>
Add back non-trading items		8,997	5,429
Income tax on non-trading items		(2,557)	(48)
<b>Net profit after taxation excluding non-trading items</b>	<b>5</b>	<b>42,181</b>	<b>40,847</b>

\* 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

**Restaurant Brands New Zealand Limited**

**2019 Financial Statements**

Restaurant Brands is pleased to present its financial statements.

Note disclosures are grouped into five sections which the Directors consider most relevant when evaluating the financial performance of Restaurant Brands.

<b>Section</b>	<b>Note Reference</b>
Performance	1-5 -
Funding and equity	6-9
Working capital	10-13
Long term assets	14-15
Other notes	16-28

Significant accounting policies which are relevant to an understanding of the financial statements and summarise the measurement basis used are provided throughout the notes and are denoted by the highlighted text surrounding them.

<b>Contents</b>	<b>Page</b>
Directors' statement	2
Consolidated statement of comprehensive income	3
Consolidated statement of changes in equity	4
Consolidated statement of financial position	5
Consolidated statement of cash flows	6
Basis of preparation	8
Notes to and forming part of the financial statements	9

**Restaurant Brands New Zealand Limited**  
**Directors' statement**  
**For the 52 week period ended 25 February 2019**

The Directors of Restaurant Brands New Zealand Limited (Restaurant Brands) are pleased to present the financial statements for Restaurant Brands and its subsidiaries (together the Group) for the 52 week period ended 25 February 2019 contained on pages 3 to 35.

Financial statements for each financial year fairly present the financial position of the Group and its financial performance and cash flows for that period and have been prepared using appropriate accounting policies, consistently applied and supported by reasonable judgments and estimates and all relevant financial reporting and accounting standards have been followed.

Proper accounting records have been kept that enable, with reasonable accuracy, the determination of the financial position of the Group and facilitate compliance of the financial statements with the Financial Markets Conduct Act 2013.

Adequate steps have been taken to safeguard the assets of the Group to prevent and detect fraud and other irregularities.

The Directors hereby approve and authorise for issue the financial statements for the 52 week period ended 25 February 2019.

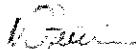
For and on behalf of the Board:



**E K van Arkel**

Chairman

Date 16 April 2019



**H W Stevens**

Director

Date 16 April 2019

Restaurant Brands New Zealand Limited  
Consolidated statement of comprehensive income  
For the 52 week period ended 25 February 2019

SNZ000's	Note	2019	2018
Store sales revenue	1	794,046	740,776
Other revenue	1	30,869	25,513
<b>Total operating revenue</b>		<b>824,915</b>	<b>766,289</b>
Cost of goods sold		(675,697)	(628,169)
<b>Gross profit</b>		<b>149,218</b>	<b>138,120</b>
Distribution expenses		(3,629)	(2,895)
Marketing expenses		(44,542)	(40,095)
General and administration expenses		(35,818)	(31,948)
<b>EBIT before non-trading items</b>		<b>65,229</b>	<b>63,182</b>
Non-trading items	2	(8,997)	(5,429)
<b>Earnings before interest and taxation (EBIT)</b>	1	<b>56,232</b>	<b>57,753</b>
Financing expenses	6	(6,797)	(5,604)
<b>Profit before taxation</b>		<b>49,435</b>	<b>52,149</b>
Taxation expense	16	(13,694)	(16,683)
<b>Profit after taxation attributable to shareholders</b>		<b>35,741</b>	<b>35,466</b>
<b>Other comprehensive income:</b>			
Exchange differences on translating foreign operations		4,189	(3,538)
Share option reserve		(34)	34
Derivative hedging reserve		(836)	1,651
Income tax relating to components of other comprehensive income		182	(303)
<b>Other comprehensive income for the period, net of tax</b>		<b>3,501</b>	<b>(2,156)</b>
<b>Total comprehensive income for the period attributable to shareholders</b>		<b>39,242</b>	<b>33,310</b>
Basic earnings per share from total operations (cents)	4	28.77	28.83
Diluted earnings per share from total operations (cents)	4	28.77	28.83

Restaurant Brands New Zealand Limited  
Consolidated statement of changes in equity  
For the 52 week period ended 25 February 2019

SNZ000's	Note	Share capital	Share option reserve	Foreign currency translation reserve	Derivative hedging reserve	Retained earnings	Total
<b>For the 52 week period ended 26 February 2018</b>							
Balance at the beginning of the period		143,386	-	(2,522)	(1,174)	52,369	192,059
<b>Comprehensive income</b>							
Profit after taxation attributable to shareholders		-	-	-	-	35,466	35,466
<b>Other comprehensive income</b>							
Movement in share option reserve		-	34	-	-	-	34
Movement in foreign currency translation reserve		-	-	(3,538)	-	-	(3,538)
Movement in derivative hedging reserve		-	-	-	1,348	-	1,348
Total other comprehensive income		-	34	(3,538)	1,348	-	(2,156)
Total comprehensive income		-	34	(3,538)	1,348	35,466	33,310
<b>Transactions with owners</b>							
Shares issued		5,168	-	-	-	-	5,168
Shares issued costs		(63)	-	-	-	-	(63)
Net dividends distributed	5	-	-	-	-	(28,866)	(28,866)
Total transactions with owners		5,105	-	-	-	(28,866)	(23,761)
Balance at the end of the period	9	148,491	34	(6,060)	174	58,969	201,608
<b>For the 52 week period ended 25 February 2019</b>							
Balance at the beginning of the period		148,491	34	(6,060)	174	58,969	201,608
<b>Comprehensive income</b>							
Profit after taxation attributable to shareholders		-	-	-	-	35,741	35,741
<b>Other comprehensive income</b>							
Movement in share option reserve		-	(34)	-	-	-	(34)
Movement in foreign currency translation reserve		-	-	4,189	-	-	4,189
Movement in derivative hedging reserve		-	-	-	(654)	-	(654)
Total other comprehensive income		-	(34)	4,189	(654)	-	3,501
Total comprehensive income		-	(34)	4,189	(654)	35,741	39,242
<b>Transactions with owners</b>							
Shares issued		6,132	-	-	-	-	6,132
Share issue costs		(58)	-	-	-	-	(58)
Net dividends distributed	5	-	-	-	-	(22,254)	(22,254)
Total transactions with owners		6,074	-	-	-	(22,254)	(16,180)
Balance at the end of the period	9	154,565	-	(1,871)	(480)	72,456	224,670

Restaurant Brands New Zealand Limited  
Consolidated statement of financial position  
As at 25 February 2019

SNZ000's	Note	2019	2018
<b>Non-current assets</b>			
Property, plant and equipment	14	153,400	157,211
Intangible assets	15	249,093	246,257
Deferred tax asset	16	16,304	14,955
Derivative financial instruments	7	339	538
<b>Total non-current assets</b>		<b>419,136</b>	<b>418,961</b>
<b>Current assets</b>			
Inventories	10	10,226	12,634
Trade and other receivables	11	12,109	8,819
Income tax receivable		2,734	-
Cash and cash equivalents	12	15,034	10,140
Assets classified as held for sale		1,038	2,396
<b>Total current assets</b>		<b>41,141</b>	<b>33,989</b>
<b>Total assets</b>		<b>460,277</b>	<b>452,950</b>
<b>Equity attributable to shareholders</b>			
Share capital	9	154,565	148,491
Reserves	9	(2,351)	(5,852)
Retained earnings		72,456	58,969
<b>Total equity attributable to shareholders</b>		<b>224,670</b>	<b>201,608</b>
<b>Non-current liabilities</b>			
Provision for employee entitlements	17	782	813
Deferred income	18	7,852	8,876
Loans	6	145,491	166,815
Derivative financial instruments	7	1,100	510
<b>Total non-current liabilities</b>		<b>155,225</b>	<b>177,014</b>
<b>Current liabilities</b>			
Loans	6	362	-
Income tax payable		4,275	4,167
Creditors and accruals	13	73,386	67,548
Provision for employee entitlements	17	1,567	1,683
Deferred income	18	792	930
<b>Total current liabilities</b>		<b>80,382</b>	<b>74,328</b>
<b>Total liabilities</b>		<b>235,607</b>	<b>251,342</b>
<b>Total equity and liabilities</b>		<b>460,277</b>	<b>452,950</b>

**Restaurant Brands New Zealand Limited**  
**Consolidated statement of cash flows**  
**For the 52 week period ended 25 February 2019**

<b>SNZ000's</b>	<b>Note</b>	<b>2019</b>	<b>2018</b>
<b>Cash flows from operating activities</b>			
<b>Cash was provided by / (applied to):</b>			
Receipts from customers		825,540	763,573
Payments to suppliers and employees		(731,317)	(674,371)
Interest paid		(6,801)	(5,625)
Payment of income tax		(16,159)	(15,809)
<b>Net cash from operating activities</b>		<b>71,263</b>	<b>67,768</b>
<b>Cash flows from investing activities</b>			
<b>Cash was (applied to) / provided by:</b>			
Acquisition of business		-	(147,502)
Payment for intangibles		(3,820)	(4,772)
Purchase of property, plant and equipment		(33,114)	(26,353)
Proceeds from disposal of property, plant and equipment		10,159	4,064
Landlord contributions received		46	1,222
<b>Net cash used in investing activities</b>		<b>(26,729)</b>	<b>(173,341)</b>
<b>Cash flows from financing activities</b>			
<b>Cash was provided by / (applied to):</b>			
Proceeds from non-current loans		336,535	451,716
Repayment of non-current loans		(358,487)	(387,024)
Dividends paid to shareholders		(17,700)	(23,700)
Share issue costs		(58)	(63)
<b>Net cash (used in) / from financing activities</b>		<b>(39,710)</b>	<b>40,929</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>		<b>4,824</b>	<b>(64,644)</b>
Cash and cash equivalents at beginning of the period		10,140	70,390
Opening cash balances acquired on acquisition		-	4,621
Foreign exchange movements		70	(227)
<b>Cash and cash equivalents at the end of the period</b>		<b>15,034</b>	<b>10,140</b>
<b>Cash and cash equivalents comprise:</b>			
Cash on hand	12	446	513
Cash at bank	12	14,588	9,627
		<b>15,034</b>	<b>10,140</b>

Restaurant Brands New Zealand Limited  
Consolidated statement of cash flows (continued)  
For the 52 week period ended 25 February 2019

Reconciliation of profit after taxation with net cash from operating activities

SNZ000's	2019	2018
<b>Total profit after taxation attributable to shareholders</b>	<b>35,741</b>	<b>35,466</b>
<b>Add items classified as investing / financing activities:</b>		
Gain on disposal of property, plant and equipment	(2,946)	(648)
FX gain on investing	-	(873)
	<b>(2,946)</b>	<b>(1,521)</b>
<b>Add / (less) non-cash items:</b>		
Depreciation	30,309	29,599
Share option amortisation	258	-
Increase / (decrease) in provision:	90	(797)
Amortisation of intangible assets	5,147	5,144
Impairment on property, plant and equipment	3,290	(60)
Impairment of goodwill	-	1,217
Net increase in deferred tax asset	(1,432)	(394)
	<b>37,662</b>	<b>34,709</b>
<b>Add / (less) movement in working capital:</b>		
Decrease / (increase) in inventories	1,732	(3,864)
Increase in trade and other receivables	(3,540)	(4,309)
Increase in trade creditors and other payables	3,601	5,723
(Decrease) / increase in income tax payable	(987)	1,564
	<b>806</b>	<b>(886)</b>
<b>Net cash from operating activities</b>	<b>71,263</b>	<b>67,768</b>
 <b>Reconciliation of movement in term loans</b>		
Opening balance	166,815	46,482
Net cash flow from financing activities	(21,952)	64,692
Acquisitions	-	58,890
Foreign exchange movement	990	(3,249)
<b>Closing balance</b>	<b>145,853</b>	<b>166,815</b>



**Restaurant Brands New Zealand Limited**  
**Basis of preparation**  
**For the 52 week period ended 25 February 2019**

**1. Reporting entity**

The reporting entity is the consolidated group (the "Group") comprising the economic entity Restaurant Brands New Zealand Limited (the "Company") and its subsidiaries. Restaurant Brands New Zealand is a limited liability company incorporated and domiciled in New Zealand. The principal activity of the Group is the operation of quick service and takeaway restaurant concepts in New Zealand, Australia, Hawaii, Saipan and Guam.

Restaurant Brands New Zealand Limited is registered under the Companies Act 1993 and is an FMC reporting entity under Part 7 of the Financial Markets Conduct Act 2013. The address of its registered office is Level 3, Building 7, Central Park, 666 Great South Road, Penrose, Auckland.

The Company is listed on the New Zealand Stock Exchange ("NZX") and the Australian Securities Exchange ("ASX") and is an issuer in terms of the Financial Reporting Act 2013. The Group is designated as a for-profit entity for financial reporting purposes.

Subsidiaries of the Company are as follows:

<i>Name</i>	<i>Nature</i>
Restaurant Brands Limited	Restaurant operating
Restaurant Brands Australia Pty Limited	Restaurant operating
QSR Pty Limited	Restaurant operating
Taco Aloha Inc.	Restaurant operating
Hawaii Pizza Hut Inc.	Restaurant operating
Pizza Hut of Guam, Inc.	Restaurant operating
Pizza Hut of Saipan, Inc.	Restaurant operating
TB Guam Inc.	Restaurant operating
Restaurant Brands Hawaii Limited	Investment holding
Pacific Island Restaurants Inc.	Investment holding
TD Food Group Inc.	Investment holding
RB Holdings Limited	Investment holding
RBP Holdings Limited	Investment holding
RBDNZ Holdings Limited	Investment holding
RBN Holdings Limited	Investment holding
Restaurant Brands Australia Holdings Pty Limited	Investment holding
Restaurant Brands Properties Limited	Property holding
Restaurant Brands Nominees Limited	Employee share option plan trustee
Restaurant Brands Pizza Limited	Non-trading

**2. Basis of preparation**

The financial statements of the Group have been prepared in accordance with:

- New Zealand Generally Accepted Accounting Practice ("NZ GAAP")
- Part 7 of the Financial Markets Conduct Act 2013
- NZX Main Board Listing Rules

They comply with New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS"), NZ IFRIC interpretations, and other applicable Financial Reporting Standards, as appropriate for a for-profit entity. The financial statements comply with International Financial Reporting Standards ("IFRS") as issued by the IASB.

The measurement basis adopted in the preparation of these financial statements is historical cost, modified by the revaluation of certain investments and financial instruments as identified in the accompanying notes. The financial statements are presented in New Zealand dollars, rounded where necessary to the nearest thousand dollars. The Group divides its financial year into 13 four-week periods. The 2019 full year results are for 52 weeks (2018: 52 weeks).

The principal accounting policies applied in the preparation of these financial statements are set out in the accompanying notes where an accounting policy choice is provided by NZ IFRS, is new or has changed, is specific to the Group's operations or is significant or material.

These policies have been consistently applied to all the years presented, unless otherwise stated.

To ensure consistency with the current period, comparative figures have been restated where appropriate.

These audited consolidated financial statements were authorised for issue on 16 April 2019 by the Board of Directors who do not have the power to amend after issue.



**Restaurant Brands New Zealand Limited**  
**Notes to and forming part of the financial statements**  
**For the 52 week period ended 25 February 2019**

<b>Note</b>	<b>Page</b>
<b>Performance</b>	<b>10</b>
1. Segmental reporting	10
2. Non-trading items	12
3. Revenue and expenses	13
4. Earnings per share	14
5. Dividend distributions	14
<b>Funding and equity</b>	<b>15</b>
6. Loans	15
7. Derivatives and hedge accounting	17
8. Financial risk management	18
9. Equity and reserves	21
<b>Working capital</b>	<b>21</b>
10. Inventories	21
11. Trade and other receivables	22
12. Cash and cash equivalents	22
13. Creditors and accruals	22
<b>Long term assets</b>	<b>23</b>
14. Property, plant and equipment	23
15. Intangibles	25
<b>Other notes</b>	<b>27</b>
16. Taxation	27
17. Provision for employee entitlements	29
18. Deferred income	29
19. Leases	30
20. Related party transactions	30
21. Commitments	31
22. Contingent liabilities	31
23. Subsequent events	32
24. New standards and interpretations	32
25. Fees paid to auditor	32
26. Donations	32
27. Deed of Cross Guarantee	33
28. NZ IFRS 16: Leases (mandatory from 26 February 2019)	35

**Restaurant Brands New Zealand Limited**  
**Notes to and forming part of the financial statements (continued)**  
**For the 52 week period ended 25 February 2019**

**Performance**

**1. Segmental reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision makers. The Group is split into three geographically distinct operating divisions; New Zealand, Australia, and Hawaii. The chief operating decision makers, responsible for allocating resources and assessing performance of the operating segments, has been identified as the Group Chief Executive Officer (Group CEO) and Group Chief Financial Officer (Group CFO). The chief operating decision makers consider the performance of the business from a geographic perspective, being New Zealand, Australia and Hawaii (including Guam and Saipan) while the performance of the corporate support function is assessed separately.

The Group is therefore organised into three operating segments, depicting the three geographic regions the Group operates in and the corporate support function located in New Zealand. All segments operate quick service and takeaway restaurant concepts. All operating revenue is from external customers.

The Group evaluates performance and allocates resources to its operating segments on the basis of segment assets, segment revenues, concept EBITDA before general and administration expenses and EBIT before non-trading items. EBITDA refers to earnings before interest, taxation, depreciation and amortisation. EBIT refers to earnings before interest and taxation. Operating revenue is from external customers.

Segment assets include items directly attributable to the segment (i.e. property, plant and equipment, intangible assets and inventories). Segment capital expenditure is the total cost incurred during the period to acquire property, plant and equipment and intangible assets other than goodwill. The Group has not disclosed segment liabilities as the chief operating decision makers evaluate performance and allocate resources purely on the basis of aggregated Group liabilities.

<b>2019 NZ\$000's</b>	<b>New Zealand</b>	<b>Australia</b>	<b>Hawaii</b>	<b>Corporate support function</b>	<b>TOTAL</b>
<b>Business segments</b>					
Store sales revenue	419,770	191,547	182,729	-	794,046
Other revenue	30,556	-	313	-	30,869
<b>Total operating revenue</b>	<b>450,326</b>	<b>191,547</b>	<b>183,042</b>	<b>-</b>	<b>824,915</b>
<b>EBITDA before general and administration expenses</b>	<b>76,434</b>	<b>29,064</b>	<b>23,749</b>	<b>-</b>	<b>129,247</b>
General & administration expenses	(12,683)	(6,905)	(8,839)	(2,170)	(30,597)
<b>EBITDA after general and administration expenses</b>	<b>63,751</b>	<b>22,159</b>	<b>14,910</b>	<b>(2,170)</b>	<b>98,650</b>
Depreciation	(16,567)	(7,679)	(6,045)	(18)	(30,309)
Amortisation (included in cost of sales)	(1,846)	(444)	(822)	-	(3,112)
<b>Segment result (EBIT) before non-trading items</b>	<b>45,338</b>	<b>14,036</b>	<b>8,043</b>	<b>(2,188)</b>	<b>65,229</b>
Other non-trading items					(8,997)
<b>Operating profit (EBIT) after non-trading items</b>					<b>56,232</b>
Current assets	20,464	7,340	13,337	-	41,141
Non-current assets	110,637	145,620	162,879	-	419,136
<b>Total assets</b>	<b>131,101</b>	<b>152,960</b>	<b>176,216</b>	<b>-</b>	<b>460,277</b>
Capital expenditure including intangibles	18,295	12,263	6,880	-	37,438

Restaurant Brands New Zealand Limited  
Notes to and forming part of the financial statements (continued)  
For the 52 week period ended 25 February 2019

Performance

1. Segmental reporting (continued)

2018 NZ\$000's	New Zealand	Australia	Hawaii	Corporate support function	TOTAL
<b>Business segments</b>					
Store sales revenue	421,448	151,844	167,484	-	740,776
Other revenue	25,325	-	188	-	25,513
<b>Total operating revenue</b>	<b>446,773</b>	<b>151,844</b>	<b>167,672</b>	<b>-</b>	<b>766,289</b>
<b>EBITDA before general and administration expenses</b>	<b>76,496</b>	<b>22,026</b>	<b>24,101</b>	<b>-</b>	<b>122,623</b>
General & administration expenses	(12,800)	(5,346)	(7,762)	(1,640)	(27,548)
<b>EBITDA after general and administration expenses</b>	<b>63,696</b>	<b>16,680</b>	<b>16,339</b>	<b>(1,640)</b>	<b>95,075</b>
Depreciation	(16,152)	(6,562)	(5,946)	-	(28,660)
Amortisation (included in cost of sales)	(2,182)	(333)	(718)	-	(3,233)
<b>Segment result (EBIT) before non-trading items</b>	<b>45,362</b>	<b>9,785</b>	<b>9,675</b>	<b>(1,640)</b>	<b>63,182</b>
Other non-trading items					(5,429)
<b>Operating profit (EBIT) after non-trading items</b>					<b>57,753</b>
Current assets	19,140	7,377	7,500	-	34,017
Non-current assets	115,552	148,063	154,808	-	418,423
<b>Total assets</b>	<b>134,692</b>	<b>155,440</b>	<b>162,308</b>	<b>-</b>	<b>452,440</b>
Capital expenditure including intangibles	19,907	5,198	6,298	-	31,403

1.1 Reconciliation between EBIT after non-trading items and net profit after tax

\$NZ000's	2019	2018
<b>EBIT after non-trading items</b>	<b>56,232</b>	<b>57,753</b>
Financing costs	(6,797)	(5,604)
<b>Net profit before taxation</b>	<b>49,435</b>	<b>52,149</b>
Income tax expense	(13,694)	(16,683)
<b>Net profit after taxation</b>	<b>35,741</b>	<b>35,466</b>
Add back non-trading items	8,997	5,429
Income tax on non-trading items	(2,558)	(48)
<b>Net profit after taxation excluding non-trading items</b>	<b>42,180</b>	<b>40,847</b>

Restaurant Brands New Zealand Limited  
Notes to and forming part of the financial statements (continued)  
For the 52 week period ended 25 February 2019

**2. Non-trading items**

\$NZ000's	2019	2018
<b>Non-trading items</b>		
Gain on sale of stores		
Net sale proceeds	1,848	588
Property, plant and equipment disposed of	-	(95)
	<u>1,848</u>	<u>493</u>
Amortisation of franchise rights acquired on acquisition of QSR Pty Limited (QSR) and Pacific Island Restaurants Inc. (PIR)	(2,035)	(1,911)
Acquisition costs	(345)	(1,598)
Store closure costs	-	(325)
ASX listing-related costs	-	(608)
FEC Exchange gains	-	873
Gain on the sale of Starbucks Coffee	1,186	-
Relocation and refurbishment	(1,021)	-
Hawaii workers compensation	(1,625)	-
Leave remediation	(3,466)	(674)
Impairment of assets	(3,539)	(879)
Impairment of goodwill	-	(1,217)
Gain on store sale and leaseback	-	417
<b>Total non-trading items</b>	<b>(8,997)</b>	<b>(5,429)</b>
<b>Acquisition costs comprise the following:</b>		
PIR acquisition costs	-	(334)
Other acquisition costs	(345)	(1,264)
<b>Total acquisition costs</b>	<b>(345)</b>	<b>(1,598)</b>

**Leave remediation**

Included in non-trading items above is a \$3.5 million (2018: \$0.7 million) expense relating to leave remediation. The Group identified a payroll calculation discrepancy in regards to entitlements under the Holidays Act 2003 which, over time, have resulted in staff receiving incorrect payments. The specific areas that require remediation date back to 2012, and primarily relate to the payment rates for annual leave. This amount represents an estimated provision required for periods prior to the 2018 financial year. The \$0.4 million provision related to 2018 has been included as part of operating costs in 2018. This has resulted in the reclassification of \$0.7 million of costs from cost of goods sold to non-trading items within the 2018 consolidated statement of comprehensive income. The reclassification has been performed to ensure EBIT before non-trading items profit measure is directly comparable between periods.

**Impairment of assets**

During the period the Group impaired the carrying value of certain fixed assets within the Carl's Jr. brand, refer note 14.

**Gain on the sale of Starbucks Coffee**

During October 2018 the Group sold the Starbucks Coffee business in New Zealand for \$4.4 million (including stock). The net gain on the sale was \$1.2 million.

The Group seeks to present a measure of comparable underlying performance on a consistent basis. In order to do so, the Group separately discloses items considered to be unrelated to the day to day operational performance of the Group. Such items are classified as non-trading items and are separately disclosed in the statement of comprehensive income and notes to the financial statements.



Restaurant Brands New Zealand Limited  
Notes to and forming part of the financial statements (continued)  
For the 52 week period ended 25 February 2019

### 3. Revenue and expenses

#### Operating revenue

##### Store sales revenue

Revenue from store sales of goods is measured at the fair value of the consideration received, net of returns, discounts and excluding GST. Retail sales of goods are recognised at point of sale.

##### Other revenue

Other revenue represents sales of goods and services to independent franchisees. Services revenue is recognised at the point in time in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the service provided as a proportion of the total services to be provided. Sales of goods are measured and recognised on a consistent basis with store sales revenue as noted above. Previously the Group netted freight charges relating to franchisees as an off-set with the cost recovery from the franchisee. This is now included in other income with the costs included in cost of sales.

Also included in other revenue is revenue related to the sale of new stores developed and constructed under contract to franchisees. Under the terms of the contracts, the Group is contractually restricted from redirecting the properties to another customer and has an enforceable right to payment for work done. Revenue from construction of stores is therefore recognised over time on a cost-to-cost method, i.e. based on the portion of the contracted costs incurred for work performed to date relative to the estimated total cost. Previously the Group recognised the revenue from new store development sales at the point the ownership of the store is formally transferred to the franchisee.

The Group has adopted NZ IFRS 15 Revenue from contracts with customers from 27 February 2018. The Group has used the modified retrospective method of adoption. No significant changes in the cumulative impact of the adoption were identified hence no adjustment to retained earnings at the date of implementation of the standard. The table below reflects the changes in the 2019 accounts resulting from adoption.

Income statement	As reported under NZ IFRS 15	Adjustment	Balance under prior NZ IFRS
Store sales revenue	794,046	-	794,046
Other revenue	30,869	(1,274)	29,595
	824,915	(1,274)	823,641

#### Operating expenses

##### Royalties paid

\$NZ000's	2019	2018
Royalties paid	47,312	43,830

Royalties are recognised as an expense as revenue is earned.

##### Wages and salaries

\$NZ000's	2019	2018
Wages and salaries	229,489	211,327
(Decrease) / increase in liability for long service leave	(147)	189
	229,342	211,516

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled.

**Restaurant Brands New Zealand Limited**  
**Notes to and forming part of the financial statements (continued)**  
**For the 52 week period ended 25 February 2019**

**4. Earnings per share**

	2019	2018
Basic earnings per share		
Profit after taxation attributable to the shareholders (\$NZ000's)	35,741	35,466
Weighted average number of shares on issue (000's)	124,230	123,032
Basic earnings per share (cents)	28.77	28.83
Diluted earnings per share		
Profit after taxation attributable to the shareholders (\$NZ000's)	35,741	35,466
Weighted average number of shares on issue (000's)	124,230	123,032
Diluted earnings per share (cents)	28.77	28.83

Basic earning per share (EPS) is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS reflects any commitments the Company has to issue shares in the future that would decrease EPS.

**5. Dividend distributions**

\$NZ000's	2019	2018
Final dividend of 18.0 cents per share paid for the 52 week period ended 26 February 2018 (2017: 13.5 cents per share)	22,254	16,584
There was no interim dividend paid for the 52 week period ended 25 February 2019 (2018: 10.0 cents per share)	-	12,282
	<b>22,254</b>	<b>28,866</b>

**Restaurant Brands New Zealand Limited**  
**Notes to and forming part of the financial statements (continued)**  
**For the 52 week period ended 25 February 2019**

**Funding and equity**

**6. Loans**

\$NZ000's	2019	2018
<b>Secured bank loans denominated in:</b>		
NZD	12,200	28,750
AUD	77,921	85,755
USD	55,732	52,310
Secured bank loans	<b>145,853</b>	<b>166,815</b>
A loan is classified as current if it is due for repayment within 12 months of the Group's year end.		
Current	362	-
Term	145,491	166,815
Secured bank loans	<b>145,853</b>	<b>166,815</b>

**Facilities**

On 12 October 2017 the existing Westpac bank loan facility was renewed on similar terms for a further three years, expiring on 12 October 2020. The total loan facility with Westpac bank is \$125 million.

On 12 October 2017 a new loan facility agreement for \$A50 million was entered into with MUFG Bank, Ltd, for a term of three years, expiring on 12 October 2020.

On 7 March 2017 as part of the acquisition of Pacific Island Restaurants Inc. the Group acquired a loan facility with First Hawaiian Bank. The facility is currently \$US51.2 million of which \$US13 million expires on 1 August 2019, \$US0.3 million expires on 1 February 2020 with the remainder expiring 16 December 2023.

**Interest rate swaps**

The table below summarised the Group's current interest rate swaps. The effective interest rate is inclusive of the swap margin.

Date entered	Face Value	Maturity date	Effective interest rate	Swap Fair value
16 April 2014	\$NZ5 million	16 April 2019	5.6%	19
22 January 2017	\$NZ10 million	28 January 2022	4.0%	318
25 January 2017	\$A15 million	25 January 2022	3.4%	331
14 November 2017	\$A20 million	14 November 2022	3.2%	432
22 May 2017	\$US10 million	1 June 2022	3.8%	(178)
29 June 2017	\$US10 million	1 July 2022	3.8%	(161)
<b>Total</b>				<b>761</b>

**Security**

As security over the AUD and NZD loans, the bank holds a negative pledge deed between Restaurant Brands New Zealand Limited and all its Australasian subsidiary companies. The negative pledge deed includes all obligations and cross guarantees between the guaranteeing subsidiaries.

As security over the USD debt facility, the bank holds guarantees and security over the Hawaii business.



**Restaurant Brands New Zealand Limited**  
**Notes to and forming part of the financial statements (continued)**  
**For the 52 week period ended 25 February 2019**

**6. Loans (continued)**

The Group is subject to a number of externally imposed bank covenants as part of the terms of its secured bank loan facilities.

The most significant covenants relating directly to capital management are the ratio of total debt to earnings before interest, tax and amortisation (EBITA) and restrictions relating to acquiring its own shares.

The specific covenants relating to financial ratios the Group is required to meet are:

- debt coverage ratio (i.e. net borrowings to EBITA), and
- debt coverage ratio (i.e. net borrowings to EBITDA), and
- Interest cover ratio (i.e. EBITDA to interest), and
- fixed charges coverage ratio (i.e. EBITL to total fixed charges), with EBITL being EBIT before lease costs. Fixed charges comprise interest and lease costs, and
- Non-guaranteeing Group EBIT excluding Restaurant Brands Hawaii to consolidated EBIT.

The covenants are monitored and reported to the bank on a six monthly basis. These are reviewed by the Board on a monthly basis.

There have been no breaches of the covenants during the period (2018: no breaches).

The carrying value equates to fair value.

For more information about the Group's exposure to interest rate and foreign currency risk see Note 8.

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss in the statement of comprehensive income over the period of the borrowings using the effective interest method.

**Financing costs**

<b>\$NZ000's</b>	<b>2019</b>	<b>2018</b>
Financing expenses	6,797	5,604

Financing costs comprise: interest payable on borrowings calculated using the effective interest rate method; interest received on funds invested calculated using the effective interest rate method; foreign exchange gains and losses; gains and losses on certain financial instruments that are recognised in profit or loss in the statement of comprehensive income; unwinding of the discount on provisions and impairment losses on financial assets.

**Restaurant Brands New Zealand Limited**  
**Notes to and forming part of the financial statements (continued)**  
**For the 52 week period ended 25 February 2019**

**7. Derivatives and hedge accounting**

	2019	2018
\$NZ000's	Liabilities / (Assets)	Liabilities / (Assets)
<b>Term</b>		
Fair value of interest rate swaps	761	(28)
	<b>761</b>	<b>(28)</b>

The above table shows the Group's financial derivative holdings at period end.

There were no transfers between fair value levels during the period (2018: Nil). The fair values are classified as level two.

The fixed interest rates of the swaps used to hedge range between 2.02% and 4.69% (2018: 2.02% to 4.69%) and the variable rates of the loans are between 0.78% and 1.75% above the applicable bank bill rates.

The Company has adopted NZ IFRS 9 from 27 February 2018. The standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

The Company has used the full retrospective method of adoption. No changes from the classification and measurement for financial assets were identified and the impact for changes to incorporate an expected credit method was not significant hence no comparatives have been restated.

The Group's risk management strategies and hedge documentation were updated to align with the requirements of NZ IFRS 9 from 27 February 2018, and these relationships are treated as continuing hedges. The Group's current hedge relationships qualify as continuing cash flow hedges upon the adoption of NZ IFRS 9. Under NZ IFRS 9 the hedged risk is designated as being changes in the interest rate, with changes in the full fair value of the interest rate swaps being accounted for through other comprehensive income (to the extent the hedge is effective). Accordingly, the Group does not have a significant impact on the accounting treatment for its hedging relationships.

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as was the case under NZ IAS 39. The standard applies to the Group in relation to financial assets classified at amortised cost, being the Group's trade and other receivables. Based on the Group's assessment of historical provision rates and forward-looking analysis, there is no material financial impact on the impairment provisions.

**Financial assets**

On adoption of NZ IFRS 9 from 27 February 2018, the Group classifies its financial assets as those to be measured at amortised cost (loans, receivables and non-derivative financial instruments), and those to be measured subsequently at fair value either through OCI or through profit or loss (derivative financial instruments).

**Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise trade receivables, other debtors and cash and cash equivalents in the statement of financial position.

Financial assets that are stated at cost or amortised cost are reviewed individually at balance date to determine whether there is objective evidence of impairment. Any impairment losses are recognised in profit or loss in the statement of comprehensive income.



## 7. Derivatives and hedge accounting (continued)

### Financial instruments

A financial instrument is recognised when the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the Group's contractual rights to the cash flows from the financial assets expire or when the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e. the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised when the Group's obligations specified in the contract expire or are discharged or cancelled.

### Non-derivative financial instruments

Non-derivative financial instruments comprise trade receivables and other debtors, which are initially recognised at fair value plus transaction costs and subsequently measured at amortised cost, cash and cash equivalents, loans and borrowings (initially recognised at fair value plus transaction costs and subsequently measured at amortised cost), and creditors and accruals which are initially recognised at fair value and subsequently measured at amortised cost.

### Derivative financial instruments

The Group has various derivative financial instruments to manage the exposures that arise due to movements in foreign currency exchange rates and interest rates arising from operational, financing and investment activities. The Group does not hold derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for at fair value through profit or loss. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

### Financial assets and financial liabilities by category

SNZ000's	2019	2018
<b>Loans and receivables</b>		
Trade receivables	595	556
Other debtors	6,193	4,461
Cash and cash equivalents	15,034	10,140
	<b>21,822</b>	<b>15,157</b>
<b>Derivatives used for hedging</b>		
Derivative financial instruments - liabilities / (assets)	761	(28)
	<b>761</b>	<b>(28)</b>
<b>Financial liabilities at amortised cost</b>		
Loans	145,853	166,815
Creditors and accruals (excluding indirect and other taxes and employee benefits)	52,728	46,524
	<b>198,581</b>	<b>213,339</b>

## 8. Financial risk management

Exposure to credit, interest rate and foreign currency risks arises in the normal course of the Group's business. Derivative financial instruments may be used to hedge exposure to fluctuations in foreign currency exchange rates and interest rates.

### (a) Foreign currency risk

The Group is exposed to foreign currency risk on purchases that are denominated in a currency other than the New Zealand dollar. The currencies giving rise to this risk are primarily Australian dollars and US dollars.

The direct exposure to foreign currency risk is small and is primarily confined to raw material purchases, some items of capital equipment and some franchise fee payments. Where any one item is significant, the Group will specifically hedge its exposure.

The Group has an indirect exposure to foreign currency risk on some of its locally sourced ingredients, where those ingredients in turn have a high imported component. Where this is significant the Group contracts to a known purchase price with its domestic supplier based on a forward cover position taken by that supplier on its imported components.

The Group has a foreign currency risk on its assets and liabilities that are denominated in Australian and US dollars as part of its Australian and US investments.

**Restaurant Brands New Zealand Limited**  
**Notes to and forming part of the financial statements (continued)**  
**For the 52 week period ended 25 February 2019**

**8. Financial risk management (continued)**

**(b) Interest rate risk**

The Group's main interest rate risk arises from bank loans. The Group analyses its interest rate exposure on a dynamic basis. Based on a number of scenarios, the Group calculates the impact on profit or loss of a defined interest rate shift. Based on these scenarios the maximum loss potential is assessed by management as to whether it is within acceptable limits.

Where necessary the Group hedges its exposure to changes in interest rates primarily through the use of interest rate swaps. There are no minimum prescribed guidelines as to the level of hedging.

Note 7 discusses in detail the Group's accounting treatment for derivative financial instruments.

As discussed in Note 6, the Group has an interest rate swap in place to fix the interest rate on \$A35 million of Australian denominated bank loans to 2022 (2018: \$A35 million), \$NZ5 million of New Zealand denominated bank loans to 2019, \$NZ10 million to 2022 (2018: \$NZ5 million to 2019 and \$NZ10 million 2022) and \$US20 million to 2022 (2018: \$US20 million). The Group will continue to monitor interest rate movements to ensure it maintains an appropriate mix of fixed and floating rate exposure within the Group's policy.

**(c) Liquidity risk**

In respect of the Group's cash balances, non-derivative financial liabilities and derivative financial liabilities the following table analyses the amounts into relevant maturity groupings based on the remaining period at balance date to the contractual maturity date, along with their effective interest rates at balance date. The amounts disclosed in the table are the contractual undiscounted cash flows.

<b>SNZ000's</b>	<b>Effective interest rate</b>	<b>Total</b>	<b>12 months or less</b>	<b>12 months or more</b>
<b>2019</b>				
Cash on hand	-	446	446	-
Cash at bank	0.37%	14,588	14,588	-
Bank term loan - principal	4.51%	(12,200)	-	(12,200)
Bank term loan - principal	3.19%	(77,921)	-	(77,921)
Bank term loan - principal	4.13%	(55,732)	(362)	(55,370)
Bank term loan - expected interest	3.73%	(16,810)	(5,446)	(11,364)
Derivative financial instruments	-	(761)	(761)	-
Creditors and accruals (excluding indirect and other taxes and employee benefits)	-	(52,728)	(52,728)	-
		<b>(201,118)</b>	<b>(44,263)</b>	<b>(156,855)</b>
<b>2018</b>				
Cash on hand	-	513	513	-
Cash at bank	0.73%	9,627	9,627	-
Short term deposits	3.90%	(28,750)	-	(28,750)
Bank term loan - principal	2.93%	(85,755)	-	(85,755)
Bank term loan - principal	3.25%	(52,310)	-	(52,310)
Bank term loan - expected interest	3.27%	(20,258)	(5,458)	(14,800)
Derivative financial instruments	-	28	28	-
Creditors and accruals (excluding indirect and other taxes and employee benefits)	-	(46,524)	(46,524)	-
		<b>(223,429)</b>	<b>(41,814)</b>	<b>(181,615)</b>

Prudent liquidity risk management implies the availability of funding through adequate amount of committed credit facilities. The Group aims to maintain flexibility in funding by keeping committed credit lines available.

The Group has bank funding facilities, excluding overdraft facilities, of \$252 million (2018: \$253 million) available at variable rates. The amount undrawn at balance date was \$106 million (2018: \$86 million).

The Group has fixed the interest rate on \$NZ15 million of NZD bank loans, \$A35 million of AUD bank loans and \$US20 million of USD bank loans with the balance at a floating interest rate. The bank loans are structured as a revolving wholesale advance facility with portions of the facility renewing on a regular basis. This leads to the loans being sensitive to interest rate movement in 12 months or less.



**Restaurant Brands New Zealand Limited**  
**Notes to and forming part of the financial statements (continued)**  
**For the 52 week period ended 25 February 2019**

**8. Financial risk management (continued)**

**d) Credit risk**

Credit risk arises from cash deposits with banks and financial institutions and outstanding trade and other receivables.

No collateral is required in respect of financial assets. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. The nature of the business results in most sales being conducted on a cash basis that significantly reduces the risk that the Group is exposed to. Reputable financial institutions are used for investing and cash handling purposes.

There were no financial assets neither past due nor impaired at balance date (2018: nil).

At balance date there were no significant concentrations of credit risk and the maximum exposure to credit risk is represented by the carrying value of each financial asset in the statement of financial position.

**(e) Fair values**

The carrying values of bank loans and finance leases are the fair value of these liabilities. A Group set-off arrangement is in place between certain bank accounts operated by the Group.

**Sensitivity analysis**

In managing interest rate and currency risks the Group aims to reduce the impact of short-term fluctuations on the Group's earnings. Over the longer term, however, permanent changes in foreign exchange and interest rates on a weighted average balance will have an impact on profit.

At 25 February 2019 it is estimated that a general increase of one percentage point in interest rates would decrease the Group profit before income tax and equity by approximately \$1.5 million (2018: \$1.6 million). A one percentage point decrease in interest rates would increase the Group profit before income tax and equity by approximately \$1.5 million (2018: \$1.6 million).

A general increase of one percentage point in the value of the New Zealand dollar against other foreign currencies would have minimal impact on the cost of the Group's directly imported ingredients denominated in foreign currencies.

**Capital risk management**

The Group's capital comprises share capital, reserves, retained earnings and debt.

The Group's objectives when managing capital are to safeguard the Group's ability to continue to operate as a going concern, to maintain an optimal capital structure commensurate with risk and return and reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt or draw down more debt.

Restaurant Brands New Zealand Limited  
Notes to and forming part of the financial statements (continued)  
For the 52 week period ended 25 February 2019

**9. Equity and reserves**

**Share capital**

	2019 number	2019 \$NZ000's	2018 number	2018 \$NZ000's
Balance at beginning of year	123,629,343	148,491	122,843,191	143,386
Share issue costs	-	(58)	-	(63)
Shares issued November 2017	-	-	786,152	5,168
Shares issued June 2018	751,180	5,841	-	-
Shares issued December 2018	378,000	291	-	-
Balance at end of year	<b>124,758,523</b>	<b>154,565</b>	123,629,343	148,491

The issued and authorised capital of the Company represents ordinary fully paid up shares. The par value is nil (2018: nil). All issued shares carry equal rights in respect of voting and the receipt of dividends, and upon winding up rank equally with regard to the Company's residual assets.

The shares issued in November 2017 and June 2018 were in relation to the company's dividend reinvestment plan.

The shares issued in December 2018 were in relation to shares issued to the Group CEO and Group CFO under the Performance Rights Plan upon the vesting criteria being satisfied.

Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

**Foreign currency translation reserve**

The foreign currency translation reserve comprises all exchange rate differences arising from translating the financial statements of the foreign currency operations.

**Derivative hedging reserve**

The derivative hedging reserve represents the fair value of outstanding derivatives.

**Working capital**

**10. Inventories**

\$NZ000's	2019	2018
Raw materials and consumables	<b>10,226</b>	12,634

Inventories are measured at the lower of cost and net realisable value. Net realisable value is the estimated selling price less the estimated costs of marketing, selling and distribution. The cost of inventories is based on the first-in first-out method and includes expenditure incurred in acquiring the inventories and bringing them to their existing condition and location. The cost of inventories consumed is recognised as an expense and included in cost of goods sold in profit or loss in the statement of comprehensive income.

Restaurant Brands New Zealand Limited  
Notes to and forming part of the financial statements (continued)  
For the 52 week period ended 25 February 2019

**11. Trade and other receivables**

\$NZ000's	2019	2018
Trade receivables	595	556
Prepayments	5,321	3,802
Other debtors	6,193	4,461
	<b>12,109</b>	<b>8,819</b>

The carrying amount of the Group's trade and other receivables are denominated in the following currencies:

NZD	7,609	5,066
AUD	1,114	1,011
USD	3,386	2,742
	<b>12,109</b>	<b>6,077</b>

The Group's exposure to credit risk is minimal as the Group's primary source of revenue is from sales made on a cash basis.

The carrying value of trade and other receivables approximates fair value.

Receivables are initially recognised at fair value. They are subsequently adjusted for impairment losses. Discounting is not applied to receivables where collection is expected to occur with the next twelve months.

**12. Cash and cash equivalents**

\$NZ000's	2019	2018
Cash on hand	446	513
Cash at bank	14,588	9,627
	<b>15,034</b>	<b>10,140</b>

The carrying amount of the Group's cash and cash equivalents are denominated in the following currencies:

NZD	3,053	953
AUD	5,619	5,767
USD	6,362	3,420
	<b>15,034</b>	<b>10,140</b>

**13. Creditors and accruals**

\$NZ000's	2019	2018
Trade creditors	25,711	28,873
Other creditors and accruals	27,017	17,651
Employee benefits	14,799	14,767
Indirect and other taxes	5,859	6,257
	<b>73,386</b>	<b>67,548</b>

The carrying amount of the Group's creditors and accruals are denominated in the following currencies:

NZD	44,570	43,353
AUD	15,674	13,999
USD	13,142	10,196
	<b>73,386</b>	<b>67,548</b>

The carrying value of creditors and accruals approximates fair value.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.



Restaurant Brands New Zealand Limited  
Notes to and forming part of the financial statements (continued)  
For the 52 week period ended 25 February 2019

Long term assets

14. Property, plant and equipment

SNZ000's	Note	Land improvements	Plant, equipment and fittings	Motor vehicles	Leased plant and equipment	Capital work in progress	Total
<b>COST</b>							
Balance as at 27 February 2017		3,038	164,125	81,620	1,535	258	252,389
Additions		-	5,461	3,834	384	-	26,584
Acquisition of business		-	28,702	12,580	42	-	41,324
Transfers from work in progress		-	7,077	7,263	226	-	-
Disposals		(2,380)	(2,456)	(3,297)	(283)	-	(8,416)
Movement in exchange rates		-	(898)	(459)	-	(25)	(1,382)
Balance as at 26 February 2018		658	202,011	101,541	1,904	4,127	310,499
Additions		-	4,239	4,374	249	-	33,618
Transfers from work in progress		-	12,773	6,165	303	-	(19,241)
Disposals		-	(12,669)	(9,735)	(516)	-	(22,982)
Reclassification		-	812	(783)	(35)	6	-
Movement in exchange rates		-	1	325	(23)	(19)	284
Balance as at 25 February 2019		658	207,167	101,887	1,882	9,629	321,419
<b>ACCUMULATED DEPRECIATION</b>							
Balance as at 27 February 2017		-	(76,703)	(48,621)	(711)	-	(126,293)
Charge		-	(16,688)	(12,567)	(344)	-	(29,599)
Disposals		-	1,365	2,092	215	-	3,672
Movement in exchange rates		-	92	75	1	-	168
Balance as at 26 February 2018		-	(91,934)	(59,021)	(839)	-	(152,052)
Charge		-	(18,841)	(10,920)	(361)	-	(30,122)
Disposals		-	10,296	7,830	331	62	18,519
Reclassification		-	377	(377)	-	-	-
Movement in exchange rates		-	179	(136)	5	-	48
Balance as at 25 February 2019		-	(99,923)	(62,624)	(864)	(196)	(163,607)
<b>IMPAIRMENT PROVISION</b>							
Balance as at 27 February 2017		-	(1,546)	(171)	-	-	(1,717)
Charge		-	841	98	-	-	939
Utilised/disposed		-	(430)	(28)	-	-	(458)
Balance as at 26 February 2018		-	(1,135)	(101)	-	-	(1,236)
Charge		-	(2,991)	(334)	-	-	(3,325)
Utilised/disposed		-	133	16	-	-	149
Balance as at 25 February 2019		-	(3,993)	(419)	-	-	(4,412)
<b>CARRYING AMOUNTS</b>							
Balance as at 27 February 2017		3,038	85,876	32,828	824	-	124,379
Balance as at 26 February 2018		658	108,942	42,419	1,065	-	157,211
Balance as at 25 February 2019		658	103,251	38,844	1,018	9,629	153,400



#### 14. Property, plant and equipment (continued)

##### Depreciation expense

\$NZ000's	2019	2018
Depreciation expense	30,163	28,683

##### Sale of property, plant and equipment

Net (loss) / gain on disposal of property, plant and equipment (included in depreciation expense)	(146)	23
Net gain on disposal of property, plant and equipment (included in non-trading costs)	3,092	671

Property, plant and equipment is measured at cost less accumulated depreciation and impairment losses.

Depreciation is calculated on a straight line basis to allocate the cost of an asset, less any residual value, over its estimated useful life. Leased assets are depreciated over the shorter of the lease term and their useful lives. The estimated useful lives of fixed assets are as follows:

Leasehold improvements	5 - 20 years
Plant and equipment	3 - 12.5 years
Motor vehicles	4 years
Furniture and fittings	3 - 10 years
Computer equipment	3 - 5 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

Depreciation expense is included in profit or loss in the statement of comprehensive income.

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss in the statement of comprehensive income.

##### Significant judgments and estimates - impairment testing

Impairment testing is an area where estimates and judgments have a significant risk of causing a material adjustment to the carrying amount of the Group's tangible asset balances. Estimates of future cash flows are highly subjective judgements and can be significantly impacted by changes in the business or economic conditions.

A review of term assets (primarily PP&E and allocated intangible assets subject to amortisation) is performed semi-annually for impairment, or whenever events or changes in circumstances indicate that the carrying amount of a restaurant assets may not be recoverable. We evaluate recoverability based on the restaurant's forecasted discounted cash flows, which incorporate estimated sales growth and margin improvement based upon current plans for the store and actual results at comparable restaurants. For restaurant assets that are deemed to not be recoverable, the restaurant assets are impaired to the estimated fair value.

Key assumptions in the determination of fair value are:

- the estimate of future cash flows of the restaurant incorporating reasonable sales growth and margin improvement
- the discount rate incorporating the rates of return based on the risk and uncertainty inherent in the forecast cash flows
- the terminal year sales growth is calculated based on the 2021 year and assumes a continuous sales growth of a minimum of projected inflation estimated at 2.5%.

Following a review of the Group's tangible assets for signs of impairment, eight Carl's Jr. stores were identified as having possible impairments. Four stores have had their assets fully impaired. A discounted cash flow model was prepared for the remaining four stores using the following assumptions.

	Discount rate 2020-2022 %	Sales growth 2020-2022 %	EBITDA margin 2020-2022 %	EBITDA margin terminal year %
Key assumptions 2019	10.9	1.0-3.5	1.0-4.1	2.5-4.1

The discount rate applied represents the weighted average post-tax cost of capital being an applicable rate for a standalone restaurant within the New Zealand segment.

Impairment testing was done at concept level for 2018 (refer note 15), this resulted in the full impairment of Carl's Jr. goodwill and an additional \$0.7 million impairment of Carl's Jr tangible assets.

An impairment of \$3.3 million (2018: \$0.7 million) is included in non-trading items (refer note 2) and as part of the impairment provision within property, plant and equipment.



Restaurant Brands New Zealand Limited  
Notes to and forming part of the financial statements (continued)  
For the 52 week period ended 25 February 2019

**15. Intangibles**

\$NZ000's	Note	Goodwill	Franchise fees	Favourable leases	Concept development costs	Software costs	Total
<b>COST</b>							
Balance as at 27 February 2017		75,649	11,752	-	1,422	8,233	97,056
Additions		-	2,446	-	693	1,680	4,819
Acquisition of business		153,177	13,849	4,297	-	-	171,323
Impairment		(1,217)	-	-	-	-	(1,217)
Disposals		(290)	(1,572)	-	(825)	(189)	(2,876)
Movement in exchange rates		(5,275)	(544)	-	-	(1)	(5,820)
Balance as at 26 February 2018		222,044	25,931	4,297	1,290	9,723	263,285
Additions		-	2,341	101	-	1,378	3,820
Disposals		-	(2,072)	-	-	(262)	(2,334)
Movement in exchange rates		4,275	792	148	-	(5)	5,210
Balance as at 25 February 2019		226,319	26,992	4,546	1,290	10,834	269,981
<b>ACCUMULATED AMORTISATION</b>							
Balance as at 27 February 2017		(831)	(5,992)	-	(1,113)	(4,759)	(12,695)
Charge		-	(3,028)	(718)	-	(1,398)	(5,144)
Disposals		-	766	-	55	123	944
Movement in exchange rates		-	(133)	-	-	-	(133)
Balance as at 26 February 2018		(831)	(8,387)	(718)	(1,058)	(6,034)	(17,028)
Charge		-	(2,676)	(822)	(99)	(1,551)	(5,148)
Disposals		-	1,073	-	-	264	1,337
Movement in exchange rates		-	(25)	(26)	-	2	(49)
Balance as at 25 February 2019		(831)	(10,015)	(1,566)	(1,157)	(7,319)	(20,888)

Impairment charges are recognised in non-trading in the statement of comprehensive income.

**CARRYING AMOUNTS**

Balance as at 27 February 2017	74,818	5,760	-	309	3,474	84,361
Balance as at 26 February 2018	221,213	17,544	3,579	232	3,689	246,257
Balance as at 25 February 2019	225,488	16,977	2,980	133	3,515	249,093

**Goodwill**

Goodwill arises on the acquisition of subsidiaries and business combinations. Goodwill is measured at cost less accumulated impairment losses. Goodwill is allocated to cash generating units and is tested annually for impairment. Where the Group disposes of an operation within a cash generating unit, the goodwill associated with the operation disposed of is part of the gain or loss on disposal. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the cash generating unit retained.

**Franchise costs**

Franchise costs are those incurred in obtaining franchise rights or licences to operate quick service and take-away restaurant concepts. They include for example, the initial fee paid to a system franchisor when a new store is opened. These are measured at cost less accumulated amortisation and accumulated impairment costs. Amortisation is on a straight line basis over the life of the applicable franchise or licence agreement.

**Favourable leases**

Favourable leases arise on acquisition of subsidiaries and business combinations. The terms of the lease were compared to market prices at the date of acquisition, to determine whether an intangible asset or liability should be recognised. If the terms of an acquired contract are favourable relative to market prices, an intangible asset is recognised. If the terms of the acquired contract are unfavourable relative to market prices, a liability is recognised. This is then amortised over the length of the lease.

**Concept development costs and fees**

Concept development costs and fees include certain costs, other than the direct cost of obtaining the franchise, associated with the establishment of quick service and takeaway restaurant concepts. These include, for example, professional fees and consulting costs associated with the establishment of a new brand or business acquisition. These costs are capitalised where the concept is proven to be commercially feasible and the related future economic benefits are expected to exceed those costs with reasonable certainty. These are subsequently measured at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight line basis over the period which future economic benefits are reasonably expected to be derived.

**Acquired software costs**

Software costs have a finite useful life. Software costs are capitalised and amortised on a straight line basis over the estimated economic life of 3-8 years.

**Restaurant Brands New Zealand Limited**  
**Notes to and forming part of the financial statements (continued)**  
**For the 52 week period ended 25 February 2019**

**15. Intangibles (continued)**

**Amortisation**

Amortisation charge is recognised in cost of sales and non-trading items in the statement of comprehensive income.

\$NZ000's	2019	2018
Amortisation of intangibles	5,148	5,144

**Significant judgments and estimates - impairment testing**

Impairment testing is an area where estimates and judgments have a significant risk of causing a material adjustment to the carrying amount of the Group's goodwill balances.

For the purpose of impairment testing, goodwill is allocated to the Group's operating brands which represent the lowest level of cash-generating unit within the Group at which the goodwill is monitored for internal management purposes.

\$NZ000's	2019	2018
KFC Australia	94,365	97,341
KFC New Zealand	3,818	3,818
Pizza Hut New Zealand	9,224	9,224
Taco Bell and Pizza Hut Hawaii	118,081	110,830
	<b>225,488</b>	<b>221,213</b>

The recoverable amount of each cash-generating unit was based on its value in use.

Value in use was determined by discounting the future cash flows generated from the continuing use of the brand. Cash flows were projected based on a three year strategic business plan as approved by the Board of Directors.

The key assumptions used for the value in use calculation are as follows:

Brand	2019	2019	2019	2018	2018	2018
	Sales growth	EBITDA	EBITDA	Sales growth	EBITDA	EBITDA
	2020-2022	margin	margin	2019-2021	margin	margin
	%	2020-2022	terminal year	%	2019-2021	terminal year
		%	%		%	%
KFC New Zealand	4.0	20.2 - 20.5	20.5	3.0 - 3.5	20.0 - 20.7	20.0
Pizza Hut New Zealand	3.7	9.0 - 10.6	10.6	3.0 - 3.5	9.4 - 10.5	12.5
KFC Australia	3.4	15.2 - 15.7	15.7	4.0 - 4.5	15.7	16.0
Taco Bell and Pizza Hut Hawaii	0.4 - 5.0	6.0 - 19.7	9.0 - 19.7	3.0 - 5.0	6.8 - 20.0	10.5 - 20.0

The terminal year sales growth is calculated based on the 2022 year and assumes a continuous sales growth of a minimum of projected inflation estimates of 2.5% (2018: 2.5%).

The discount rate for the New Zealand Brands was 8.9% weighted average post-tax cost of capital (2018: 8.9%). The discount rate applied to future cash flows for the KFC business in Australia is based on a 8.7% weighted average post-tax cost of capital (2018: 8.7%). The discount rate applied to future cash flows for the Taco Bell and Pizza Hut business in Hawaii is based on a 8.8% (2018: 8.8%) weighted average post-tax cost of capital.

The weighted average cost of capital calculation was reviewed in 2019 based on capital asset pricing model (CAPM) methodology using current market inputs.

The values assigned to the key assumptions represent management's assessment of future trends in the industry and are based on both external sources and internal sources (historical data).

The Carls Jr. goodwill was fully impaired in FY18.

**Restaurant Brands New Zealand Limited**  
**Notes to and forming part of the financial statements (continued)**  
**For the 52 week period ended 25 February 2019**

**15. Intangibles (continued)**

In respect of the New Zealand brands of KFC and Pizza Hut, any reasonably possible change in the key assumptions used in the calculations would not cause the carrying amount to exceed its recoverable amount.

In respect of the Hawaii brands of Taco Bell and Pizza Hut, any reasonably possible change in the key assumptions used in the calculations would not cause the carrying amount to exceed its recoverable amount.

In respect of the Australian KFC brand, any reasonably possible change in the key assumptions used in the calculations would not cause the carrying amount to exceed its recoverable amount.

**Other notes**

**16. Taxation**

**Taxation – statement of comprehensive income**

The total taxation charge is analysed as follows:

<b>\$NZ000's</b>	<b>Note</b>	<b>2019</b>		<b>2018</b>	
Total profit before income tax for the period	1	<b>49,435</b>		52,149	
Total income tax expense	1	<b>(13,694)</b>		(16,683)	
Net profit after income tax		<b>35,741</b>		35,466	
Income tax using the Company's domestic tax rate		(28.0%) (13,842)	(28.0%)	(14,602)	
(Non-deductible expenses) and non-assessable income		0.2% 98	(2.0%)	(1,051)	
Adjustments due to different rate in different jurisdictions		0.1% 50	(2.0%)	(1,030)	
		(27.7%) (13,694)	(32.0%)	(16,683)	
<b>Income tax expense comprises:</b>					
Current tax expense		(15,126)		(17,077)	
Deferred tax credit		1,432		394	
Net tax expense		<b>(13,694)</b>		(16,683)	



Restaurant Brands New Zealand Limited  
Notes to and forming part of the financial statements (continued)  
For the 52 week period ended 25 February 2019

16. Taxation (continued)

Imputation credits

\$NZ000's	2019	2018
Imputation credits available for subsequent reporting periods	-	20,209

The above amounts represent the balance of the imputation account as at the end of the reporting period, adjusted for:

- Imputation credits that will arise from the payment of the amount of the provision for income tax
- Imputation credits that will be utilised from the payment of dividends recognised as a liability at the reporting date; and
- Imputation credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

The imputation credits balance is nil due to the loss of shareholder continuity following the change of control with Finaccess Capital, S.A de C.V acquiring 75% shareholding in the Group.

The current income tax for the period was calculated using the rate of 28% for New Zealand, 30% for Australia and 21% USA (2018: 28% New Zealand for 30% Australia and USA changed to 21% during the period). The deferred tax balances in these financial statements have been measured using the 28% tax rate for New Zealand, 30% for Australia and 21% for the USA (2018: 28% New Zealand, 30% Australia and 21% USA).

Taxation – balance sheet

The following are the major deferred taxation liabilities and assets recognised by the Group and movements thereon during the current and prior year:

\$NZ000's	Assets		Liabilities		Net	
	2019	2018	2019	2018	2019	2018
Property, plant and equipment	9,497	7,317	-	-	9,497	7,317
Inventory	32	44	-	-	32	44
Debtors	-	-	(161)	(18)	(161)	(18)
Provisions	5,042	4,129	-	-	5,042	4,129
Intangibles	1,718	1,708	(2,421)	(1,483)	(703)	225
Other	2,597	1,993	-	-	2,597	1,993
Tax losses	-	1,265	-	-	-	1,265
	<b>18,886</b>	<b>16,456</b>	<b>(2,582)</b>	<b>(1,501)</b>	<b>16,304</b>	<b>14,955</b>

\$NZ000's	Balance 27 February 2017	Opening balances on acquisitions	Recognised in income statement	Recognised in equity	Foreign currency translation	Balance 26 February 2018
Property, plant and equipment	4,735	2,400	184	-	(2)	7,317
Inventory	33	-	11	-	-	44
Debtors	(18)	-	-	-	-	(18)
Provisions	3,462	668	(251)	-	250	4,129
Intangibles	1,361	(2,553)	1,097	-	320	225
Other	459	2,355	(422)	(337)	(62)	1,993
Tax losses	293	1,225	(225)	-	(28)	1,265
	<b>10,325</b>	<b>4,095</b>	<b>394</b>	<b>(337)</b>	<b>478</b>	<b>14,955</b>

\$NZ000's	Balance 26 February 2018	Opening balances on acquisitions	Recognised in income statement	Recognised in equity	Foreign currency translation	Balance 25 February 2019
Property, plant and equipment	7,317	-	2,151	-	29	9,497
Inventory	44	-	(12)	-	-	32
Debtors	(18)	-	(165)	-	22	(161)
Provisions	4,129	-	1,111	(185)	(13)	5,042
Intangibles	225	-	(796)	-	(132)	(703)
Other	1,993	-	498	-	106	2,597
Tax losses	1,265	-	(1,355)	-	90	-
	<b>14,955</b>	<b>-</b>	<b>1,432</b>	<b>(185)</b>	<b>102</b>	<b>16,304</b>

#### 16. Taxation (continued)

Current and deferred taxation are calculated on the basis of tax rates enacted or substantially enacted at reporting date, and are recognised in profit or loss except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, tax is also recognised in other comprehensive income or directly in equity, respectively.

Deferred income taxation is recognised in respect of temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred tax liability is settled.

Deferred income tax assets are only recognised to the extent that it is probable that future taxable amounts will be available against which to utilise those temporary differences.

Tax returns for the Group and the detailed calculations that are required for filing tax returns are not prepared until after the financial statements are prepared. Estimates of these calculations are made for the purpose of calculating income tax expense, current tax and deferred tax balances. Any difference between the final tax outcomes and the estimations made in previous years will affect current year balances.

The statement of comprehensive income and statements of cash flows have been prepared exclusive of Goods and Services Taxation (GST). All items in the statement of financial position are stated net of GST, with the exception of receivables and payables, which include GST invoiced.

#### 17. Provision for employee entitlements

<b>\$NZ000's</b>	
<b>Balance at 26 February 2018</b>	<b>2,496</b>
Created during the period	471
Used during the period	(393)
Released during the period	(179)
Foreign exchange movements	(46)
<b>Balance at 25 February 2019</b>	<b>2,349</b>
<b>2019</b>	
Non-current	782
Current	1,567
<b>Total</b>	<b>2,349</b>

The provision for employee entitlements is long service leave. The provision is affected by a number of estimates, including the expected length of service of employees and the timing of benefits being taken. Once an employee attains the required length of service, the employee has a period of five years in which to take this leave.

#### 18. Deferred income

<b>\$NZ000's</b>	
<b>Balance at 26 February 2018</b>	<b>9,806</b>
Created during the period	47
Used during the period	(1,448)
Foreign exchange movements	239
<b>Balance at 25 February 2019</b>	<b>8,644</b>
<b>2019</b>	
Non-current	7,852
Current	792
<b>Total</b>	<b>8,644</b>

Deferred income relates to non-routine revenue from suppliers and landlords and is recognised in profit or loss in the statement of comprehensive income on a systematic basis over the life of the associated contract.

Restaurant Brands New Zealand Limited  
Notes to and forming part of the financial statements (continued)  
For the 52 week period ended 25 February 2019

**19. Leases**

**Lease payments**

\$NZ000's	2019	2018
Operating rental expenses	44,510	40,452

Rent expenses reported in these financial statements relates to non-cancellable operating lease rentals. The future commitments on these leases are as follows:

\$NZ000's	2019	2018
Not later than one year	36,314	39,199
Later than one year but not later than two years	28,690	32,905
Later than two years but not later than five years	63,832	62,439
Later than five years	67,686	66,166
	<b>196,522</b>	<b>200,709</b>

The lease periods vary and many have an option to renew. Lease payments are increased in accordance with the lease agreements to reflect market rentals. The table below summarises the Group's lease portfolio.

	Right of renewal		No right of renewal	
	2019	2018	2019	2018
<b>Number of leases expiring:</b>				
Not later than one year	55	38	21	24
Later than one year but not later than two years	29	62	9	23
Later than two years but not later than five years	62	56	29	27
Later than five years	66	73	27	32

**Operating leases**

Payments made under operating leases are recognised in profit or loss in the statement of comprehensive income on a straight line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense over the term of the lease.

**20. Related party transactions**

**Parent and ultimate controlling party**

The immediate parent and controlling party of the Group is Restaurant Brands New Zealand Limited.

**Transactions with entities with key management or entities related to them**

During the period the Group made the following:

- Acquired services totalling \$200,685 (2018: \$30,239) fromASUREQuality Limited, a company of which Company director Hamish Stevens was a director resigning from their board on 31 December 2018. There was no balance owed at balance date (2018: \$517 owing).

These transactions were at arm's length and performed on normal commercial terms.

**Key management and director compensation**

Key management personnel comprises the Group CEO, Group CFO and the three divisional CEO's.

\$NZ000's	2019	2018
Key management - total benefits	3,090	2,499
Directors' fees	438	398



Restaurant Brands New Zealand Limited  
Notes to and forming part of the financial statements (continued)  
For the 52 week period ended 25 February 2019

**20. Related party transactions (continued)**

**Total Group CEO remuneration**

\$NZ000's	Salary	Short term incentives	Long term incentives	Total Remuneration
2019	921	116	-	1,037
2018	900	-	-	900

**Short term incentive scheme**

A short term incentive scheme is in place for all support office employees. The incentive is based on achieving in excess of planned results for the specific financial year. Any bonus payment to employees is at the discretion of the Appointments and Remuneration committee. The maximum that can be received by the CEO is 50% of base salary.

**Long term incentive scheme**

On 4 December 2018 the vesting criteria for the Performance Rights Plan for the Group CEO, Russel Creedy, and Group CFO, Grant Ellis ("the executives") issued on 14 August 2017 was satisfied.

The number of shares issued on 4 December 2018 under the Plan were as follows:

	Number of shares issued
Russel Creedy	252,000
Grant Ellis	126,000
	378,000

The shares were issued under the following conditions:

- The shares were not to be sold, transferred or disposed of prior to the completion of the takeover offer, except to accept Global Valar S.L.'s takeover offer.
- If Global Valar S.L.'s takeover offer is not completed or the executives cease employment prior to completion of the takeover offer then their relevant shares must be transferred back to the Company for no consideration.

The Global Valar S.L. takeover was completed subsequent to balance date (refer note 24 - subsequent events) therefore the remuneration for the shares provided to the Group CEO and Group CFO is not included in the FY19 Group CEO remuneration or the Key management total benefits.

**21. Commitments**

**Capital commitments**

The Group has capital commitments which are not provided for in these financial statements, as follows:

\$NZ000's	2019	2018
Store development	9,259	4,293

**22. Contingent liabilities**

There are no contingent liabilities that the directors consider will have a significant impact on the financial position of the Group (2018: nil).



**Restaurant Brands New Zealand Limited**  
**Notes to and forming part of the financial statements (continued)**  
**For the 52 week period ended 25 February 2019**

**23. Subsequent events**

On 26 March 2019 the partial take over offer by Finaccess Capital S.A. de C.V to acquire up to 75% of the Group was successfully completed. Settlement to shareholders was 1 April 2019.

There are no other subsequent events that would have a material effect on these accounts.

**24. New standards and interpretations**

Relevant standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

There are various standards, amendments and interpretations which were assessed as having an immaterial impact on the Group. There are no NZ IFRS, NZ IFRIC interpretations or other applicable IFRS that are effective for the first time for the financial year beginning on or after 27 February 2018 that had a material impact on the financial statements.

NZ IFRS 16 leases is effective for the FY20 year, refer note 28 in regards to the expected impact.

**25. Fees paid to auditor**

\$NZ000's	2019	2018
<b>Audit of financial statements</b>		
Audit and review of financial statements - PwC	553	405
<b>Other services - Performed by PwC</b>		
Executive rewards services	14	-
Specified procedures on landlord certificates	4	4
Review of Starbucks Coffee division report and Yum! Advertising Co-operative report	5	7
ASX listing assurance	-	18
Executive remuneration benchmarking	-	71
<b>Total other services</b>	<b>23</b>	<b>100</b>
<b>Total fees paid to auditor</b>	<b>576</b>	<b>505</b>

Included in the FY19 audit and review of financial statements fee is \$0.1 million relating to additional fees incurred in the completion of the FY18 audit.

**26. Donations**

\$NZ000's	2019	2018
Donations	251	244

**Restaurant Brands New Zealand Limited**  
**Notes to and forming part of the financial statements (continued)**  
**For the 52 week period ended 25 February 2019**

**27. Deed of Cross Guarantee**

Pursuant to the Australian Securities and Investment Commission (ASIC) Class Order 98/1418, the wholly owed subsidiary, QSR Pty Limited (QSR), is relieved from the Corporations Act 2001 requirement for the preparation, audit and lodgement of financial reports.

It is a condition of that class order that Restaurant Brands New Zealand Limited (RBNZ) and QSR enter into a Deed of Cross Guarantee (Deed). On 9 February 2017 a Deed was executed between RBNZ, QSR, Restaurant Brands Australia Pty Limited and Restaurant Brands Australia Holdings Pty Limited under which each company guarantees the debts of the others.

Set out below is the consolidated information for the 52 week period ended 25 February 2019 of the closed group consisting of RBNZ, QSR, Restaurant Brands Australia Holdings Pty Limited and Restaurant Brands Australia Pty Limited.

<b>\$NZ000's</b>	<b>2019</b>	<b>2018</b>
<b>Financial information in relation to:</b>		
(i) <b>Statement of profit and loss and other comprehensive income</b>		
Operating revenue	213,800	180,713
Earnings before interest and taxation (EBIT)	76,007	35,896
Financial expenses	(3,328)	(3,744)
Profit before income tax	72,679	32,152
Income tax	(2,462)	(1,744)
<b>Profit after income tax</b>	<b>70,217</b>	<b>30,408</b>
<i>Items that may be reclassified subsequently to the statement of comprehensive income:</i>		
Exchange differences on translating foreign operations	(1,822)	388
Share option reserve	(34)	34
Derivative hedge reserve	(606)	(83)
Income tax relating to components of other comprehensive income	182	24
Other comprehensive income net of tax	(2,280)	363
<b>Total comprehensive income</b>	<b>67,937</b>	<b>30,771</b>
(ii) <b>Summary of movements in retained earnings</b>		
Retained earnings at the beginning of the period	77,483	70,475
Total comprehensive income	67,937	30,771
Net dividends	(22,254)	(28,868)
Share capital issued	6,075	5,105
<b>Retained earnings at the end of the year</b>	<b>129,241</b>	<b>77,483</b>

Restaurant Brands New Zealand Limited  
Notes to and forming part of the financial statements (continued)  
For the 52 week period ended 25 February 2019

27. Deed of Cross Guarantee (continued)

\$NZ000's	2019	2018
(iii) <b>Statement of financial position</b>		
<b>Non-current assets</b>		
Property, plant and equipment	44,006	43,298
Intangible assets	97,021	100,168
Deferred tax asset	4,593	4,596
Investment in subsidiaries	231,790	231,790
<b>Total non-current assets</b>	<b>377,410</b>	<b>379,852</b>
<b>Current assets</b>		
Inventories	607	769
Trade and other receivables	18,341	17,092
Cash and cash equivalents	5,838	5,988
<b>Total current assets</b>	<b>24,786</b>	<b>23,849</b>
<b>Total assets</b>	<b>402,196</b>	<b>403,701</b>
<b>Equity attributable to shareholders</b>		
Share capital	154,565	148,491
Reserves	(4,747)	(2,467)
Retained earnings	(20,577)	(68,541)
<b>Total equity attributable to shareholders</b>	<b>129,241</b>	<b>77,483</b>
<b>Non-current liabilities</b>		
Provision for deferred income and employee entitlements	560	274
Amounts payable to subsidiaries	-	44,522
Loans	90,121	114,505
Derivative financial instruments	1,100	510
<b>Total non-current liabilities</b>	<b>91,781</b>	<b>159,301</b>
<b>Current liabilities</b>		
Income tax payable	55	360
Creditors and accruals	15,989	14,261
Provision for employee entitlements	1,160	1,322
Amounts payable to subsidiaries	163,970	150,464
<b>Total current liabilities</b>	<b>181,174</b>	<b>166,917</b>
<b>Total liabilities</b>	<b>272,955</b>	<b>326,218</b>
<b>Total equity and liabilities</b>	<b>402,196</b>	<b>403,701</b>



## 28. NZ IFRS 16: Leases (mandatory from 26 February 2019)

This standard replaces the current guidance in NZ IAS 17. Under NZ IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Under NZ IAS 17, a lessee was required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). NZ IFRS 16 now requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use' (ROU) asset for virtually all lease contracts. There is an optional exemption for lessees in respect of certain short-term leases and leases of low value assets.

From the date of adoption, the income statement will also be impacted by the removal of operating lease expenses, the recognition of an interest expense applicable to the future lease payment obligations and the recognition of a depreciation expense in respect of the ROU asset.

NZ IFRS 16 will change the accounting for the Group's operating leases and the recognition, measurement and presentation of certain amounts recognised in the balance sheet and income statement. As at reporting date, the Group had non-cancellable operating lease commitments of \$197 million (refer note 19). Upon adoption, NZ IFRS 16 will have a material impact on a number of elements of the Group's balance sheet and income statement. There will also be an impact to both operating and financing activities within the Group cash flow statement, although there is no impact to the net movement on the Group's cash flows.

The Group uses a property system to manage its lease portfolio which also provides calculations showing the financial impact of the new standard as at 26 February 2019 (the mandatory date of adoption). Management were required to make various key judgements, including:

- Incremental borrowing rate (IBR) used to discount the ROU assets and the future lease payment obligations;
- lease terms, including any rights of renewal expected to be exercised;
- foreign exchange conversion rates; and
- application of practical expedients and recognition exemptions allowed by the new standard, including in respect of low value assets and short-term lease exemptions.

The new standard allows a choice of transition methods. Management has determined that the most appropriate approach for the Group is to use the modified retrospective method. Using this transition method allowed the Group to retrospectively value the ROU asset on a lease by lease basis. The impact on the balance sheet is approximately \$432.0 million increase in lease liabilities, a \$364.1 million increase in ROU assets and an increase of \$18.8 million in deferred tax asset resulting in a \$49.1 million adjustment to equity. The future lease liability will be significantly higher than the lease commitments disclosed in note 19 primarily due to management decisions in regards to rights of renewals expected to be exercised and the discount rate used on future lease payment obligations.

The financial impact on the income statement for the year of adoption is estimated to be an approximate reduction in net profit before tax of \$5.9 million. This is made up of the following estimated differences:

- a \$38.1 million decrease in operating lease rental expenses (removed);
- a \$25.5 million increase in depreciation (relating to the ROU assets); and
- a \$18.5 million increase in interest expense (relating to lease liability finance costs).

There will be no change applicable to the Group's cash flows as a result of adopting the new standard, as operating lease payments will continue to be paid as usual. However due to classification changes both the operating and financing activities within the cash flow statement will be effected. The adjustments above are only for financial reporting purposes.

The estimated potential financial adjustments above are expected to be different from the final result as new leases are entered into, current lease payments are re-negotiated, expectation of exercising rights of lease renewals change and the IBR used is updated.



## ***Independent auditor's report***

To the shareholders of Restaurant Brands New Zealand Limited

We have audited the financial statements which comprise:

- the consolidated statement of financial position as at 25 February 2019;
- the consolidated statement of comprehensive income for the 52 week period then ended;
- the consolidated statement of changes in equity for the 52 week period then ended;
- the consolidated statement of cash flows for the 52 week period then ended;
- the basis of preparation; and
- the notes to the financial statements, which include significant accounting policies.

### ***Our opinion***

In our opinion, the accompanying financial statements of Restaurant Brands New Zealand Limited (the Company), including its subsidiaries (the Group), present fairly, in all material respects, the financial position of the Group as at 25 February 2019, its financial performance and its cash flows for the 52 week period then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards (NZ IFRS) and International Financial Reporting Standards (IFRS).

### ***Basis for opinion***

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of the Group in accordance with Professional and Ethical Standard 1 (Revised) *Code of Ethics for Assurance Practitioners* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our firm carries out other services for the Group in the areas of specified procedures on landlord certificates, review of Yum! Advertising Co-operative report, and executive rewards services. The provision of these other services has not impaired our independence as auditor of the Group.



## Our audit approach

### Overview



An audit is designed to obtain reasonable assurance whether the financial statements are free from material misstatement.

Overall Group materiality: \$2.5 million, which represents approximately 5% of profit before tax.

We chose profit before tax as the benchmark because, in our view, it is the benchmark against which the performance of the Group is most commonly measured by users, and is a generally accepted benchmark.

We have determined that there is one key audit matter:

- Carrying value of Carl's Jr. property, plant and equipment

### Materiality

The scope of our audit was influenced by our application of materiality.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the financial statements as a whole as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

### Audit scope

We designed our audit by assessing the risks of material misstatement in the financial statements and our application of materiality. As in all of our audits, we also addressed the risk of management override of internal controls including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates. Audits at each location are performed at a materiality level calculated by reference to a proportion of Group materiality appropriate to the relative scale of the business concerned.

The operating segments, as defined in note one of the financial statements, were subject to audit procedures that were considered appropriate for the size and nature of those segments.

### *Key audit matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current 52 week period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p><i>Carrying value of Carl's Jr. property, plant and equipment</i></p> <p>As disclosed in note 14 of the financial statements, following the full impairment of Carl's Jr. goodwill in 2018, management has performed an impairment assessment of the carrying values of property, plant and equipment at individual Carl's Jr. stores where impairment triggers exist. The carrying value of property, plant and equipment associated with Carl's Jr. is \$9.6 million. An impairment charge of \$3.3 million was recognised in the financial statements. Our audit has focused on the assets associated with the Carl's Jr. given the size of the property, plant and equipment balance, the judgements involved in determining the recoverable amount for each store, and the associated risk of impairment.</p>	<p>We performed the following audit procedures in relation to the Carl's Jr. impairment assessment process:</p> <ul style="list-style-type: none"> <li>• Through discussions with management and review of management reports showing financial performance for each store, we considered which stores were at risk of impairment as a result of either being loss making or identified for potential closure;</li> <li>• With respect to loss making stores identified for potential closure we confirmed that management fully impaired the carrying value of assets;</li> <li>• With respect to the remaining loss making stores, we checked that management had prepared a value in use model to assess impairment;</li> <li>• We challenged management on key assumptions used in the value in use models including sales growth, EBITDA margins and discount rate;</li> <li>• We reviewed the Carl's Jr concept historical actual performance to budget to assess the reliability of forecast information;</li> <li>• In relation to identified stores we have assessed whether any make-good provision and onerous lease obligations should be recognised; and</li> <li>• We reviewed the financial statements to ensure appropriate identification and disclosure of key assumptions.</li> </ul>



Key audit matter	How our audit addressed the key audit matter
	<p>In relation to the individual stores' value in use calculations we performed the following procedures:</p> <ul style="list-style-type: none"> <li>• Tested the mathematical accuracy of the models;</li> <li>• Reviewed forecast cash flows and key assumptions at an individual store level against historical trading performance and evaluated the achievability of management's plans to improve profitability; and</li> <li>• Performed sensitivity analysis over key assumptions to determine a potential range of impairment.</li> </ul> <p>We have no matters to report arising from our audit procedures.</p>

### *Information other than the financial statements and auditor's report*

The Directors are responsible for the annual report. Our opinion on the financial statements does not cover the other information included in the annual report and we do not and will not express any form of assurance conclusion on the other information.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard, except that not all other information was available to us at the date of our signing.

### *Responsibilities of the Directors for the financial statements*

The Directors are responsible, on behalf of the Company, for the preparation and fair presentation of the financial statements in accordance with NZ IFRS and IFRS, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

### *Auditor's responsibilities for the audit of the financial statements*

Our objectives are to obtain reasonable assurance about whether the financial statements, as a whole, are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (NZ) and ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.





A further description of our responsibilities for the audit of the financial statements is located at the External Reporting Board's website at:

<https://www.xrb.govt.nz/standards-for-assurance-practitioners/auditors-responsibilities/audit-report-1/>

This description forms part of our auditor's report.

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### *Who we report to*

This report is made solely to the Company's shareholders, as a body. Our audit work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's shareholders, as a body, for our audit work, for this report or for the opinions we have formed.

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The engagement partner on the audit resulting in this independent auditor's report is Pip Cameron.

For and on behalf of:

A stylized, handwritten-style signature of 'PricewaterhouseCoopers' in a dark brown color.

Chartered Accountants  
16 April 2019

Auckland

Restaurant Brands New Zealand Limited	
<b>Results for announcement to the market</b>	
Reporting Period	52 week period ended 25 February 2019
Previous Reporting Period	52 week period ended 26 February 2018

	Amount (000s)	Percentage change
Revenue from ordinary activities	NZ\$824,915	7.7%
Profit from ordinary activities after tax attributable to security holder.	NZ\$35,741	0.8%
Net profit attributable to security holders.	NZ\$39,242	17.8%

Interim/Final Dividend	Amount per share	Imputed amount per share
Final	NA	NA

Record Date	NA
Dividend Payment Date	NA

Comments:	Refer to attached report
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This report is based on accounts which have been audited. The report is provided with the accounts which accompany this announcement.

Reaching  
new heights



# **Restaurant Brands NZ Limited**

## **2019 Full Year Results Presentation**

**Russel Creedy - Group CEO**  
**Grant Ellis – Group CFO**  
**Ted van Arkel - Chairman**

**16 April 2019**

# Presentation Outline

- Key Points
- Finaccess Capital
- Results Overview
- New Zealand Operations
- Australia Operations
- Hawaii Operations
- Growth Opportunities & Dividend
- Outlook
- Questions

# Key Points

## Commentary (FY19 vs FY18)

- Group Sales +7.2%
- Reported NPAT (including non-trading) +0.8%
- NPAT (excluding non-trading) +3.3%
- Brand EBITDA
- Disposal of Starbucks Coffee business
- 75% takeover by Finaccess Capital S.A. de C.V at \$9.45/share

**FY 17**

**FY 18**

**FY 19**

\$479.2m

\$740.8m

**\$794.0m**

\$26.0m

\$35.5m

**\$35.7m**

\$30.6m

\$40.8m

**\$42.2m**

\$86.2m

\$122.6m

**\$129.2m**



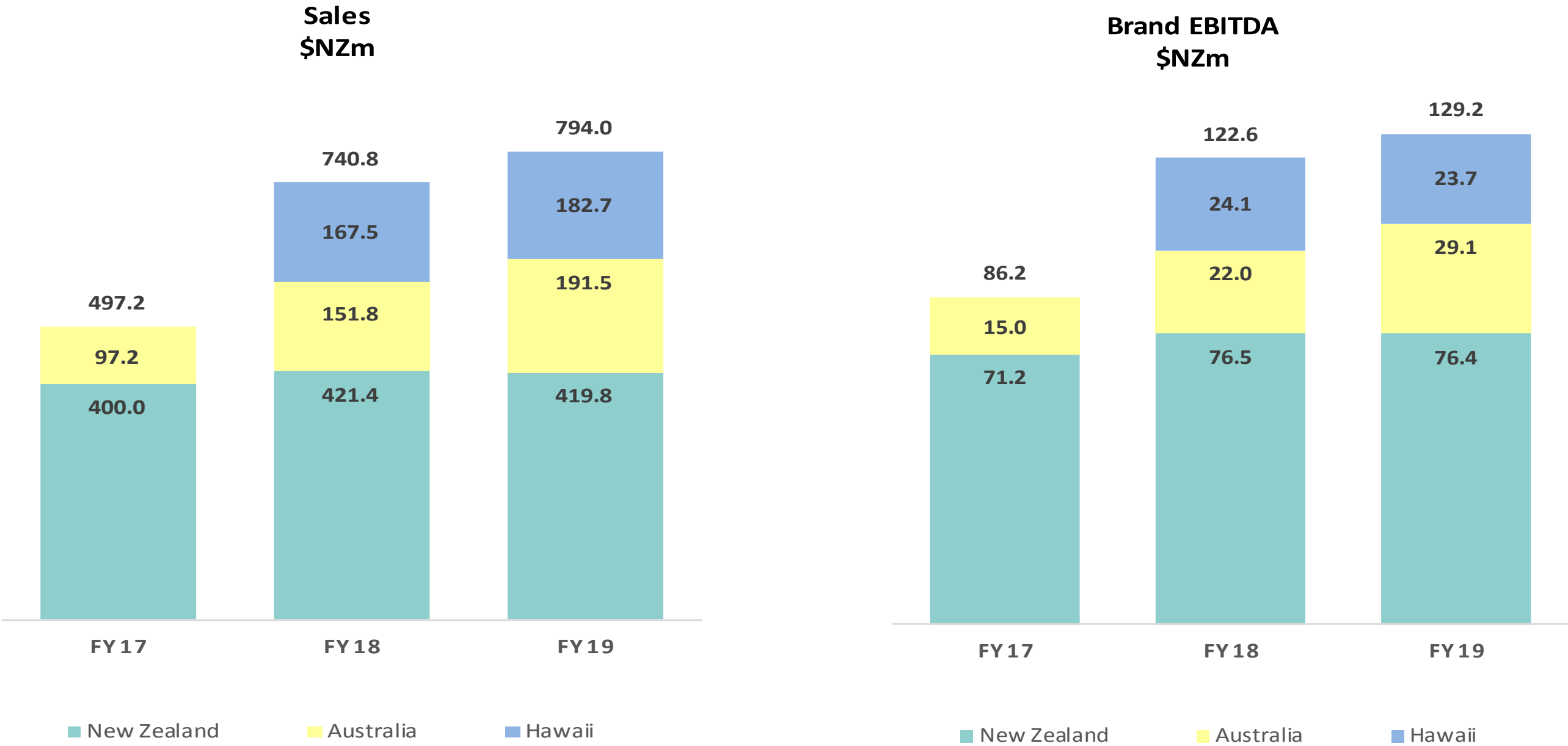
# Finaccess Capital S.A de C.V.

- Friendly takeover bid by Finaccess Capital S.A de C.V completed on 1 April 2019
- 75% of shares acquired (91.3% acceptance) at \$9.45 a share (24% premium on pre-announcement price)
- Finaccess is a Mexican based family investment company (not private equity) taking long term positions. Funded from sale of Corona Beer business
- Has a significant investment (67%) in Amrest Holdings S.E., a large (> €1.5 billion turnover) QSR operator in Europe
- Very supportive of current RBD growth strategies and looking to accelerate these
- Proposed board following 10 July 2019 Annual Shareholders' Meeting:

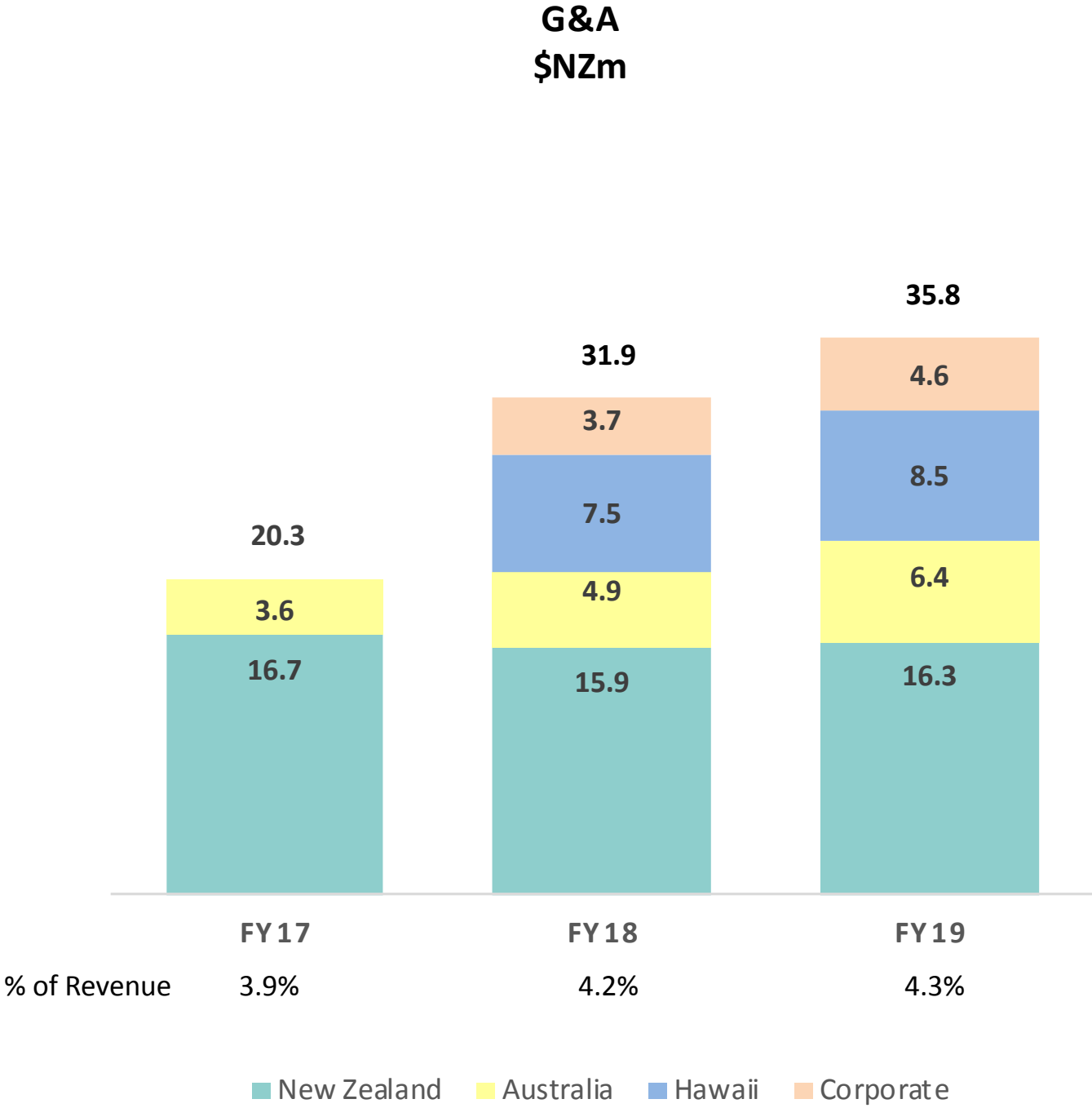
José Parés Gutiérrez	Finaccess	Chairman
Carlos Fernández Gonzalez	Finaccess	
Luis Miguel Álvarez Pérez	Finaccess	
Emilio Fullaondo Botella	Independent	Chair of Audit Committee
NZ resident (1)	Independent	
NZ resident (2)	Independent	

# RESULTS OVERVIEW

Overseas operations contributed 47% of sales and 41% of earnings for the year with Australia driving FY19 growth



# G&A costs at 4.3% of revenues with corporate costs and initial Taco Bell staffing



# Non-trading items up on prior year with Carl's Jr. impairment and leave remediation costs

<i><b>\$NZm</b></i>	<b>FY 18</b>	<b>FY 19</b>
Gain on sale Pizza Hut stores	(0.5)	(1.8)
Gain on sale of Starbucks	-	(1.2)
Realised gain on FX contracts	(0.9)	-
Gain on store sale and leaseback	(0.4)	-
Store closure costs	0.3	-
ASX listing costs	0.6	-
Acquisition costs	1.6	0.4
Relocation & refurbishment	-	1.0
Hawaii workers compensation	-	1.6
Franchise rights amortisation	1.9	2.0
Leave remediation	0.7	3.5
Impairment of assets & goodwill	2.1	3.5
	<b>5.4</b>	<b>9.0</b>



# Operating cash flows up in line with profitability

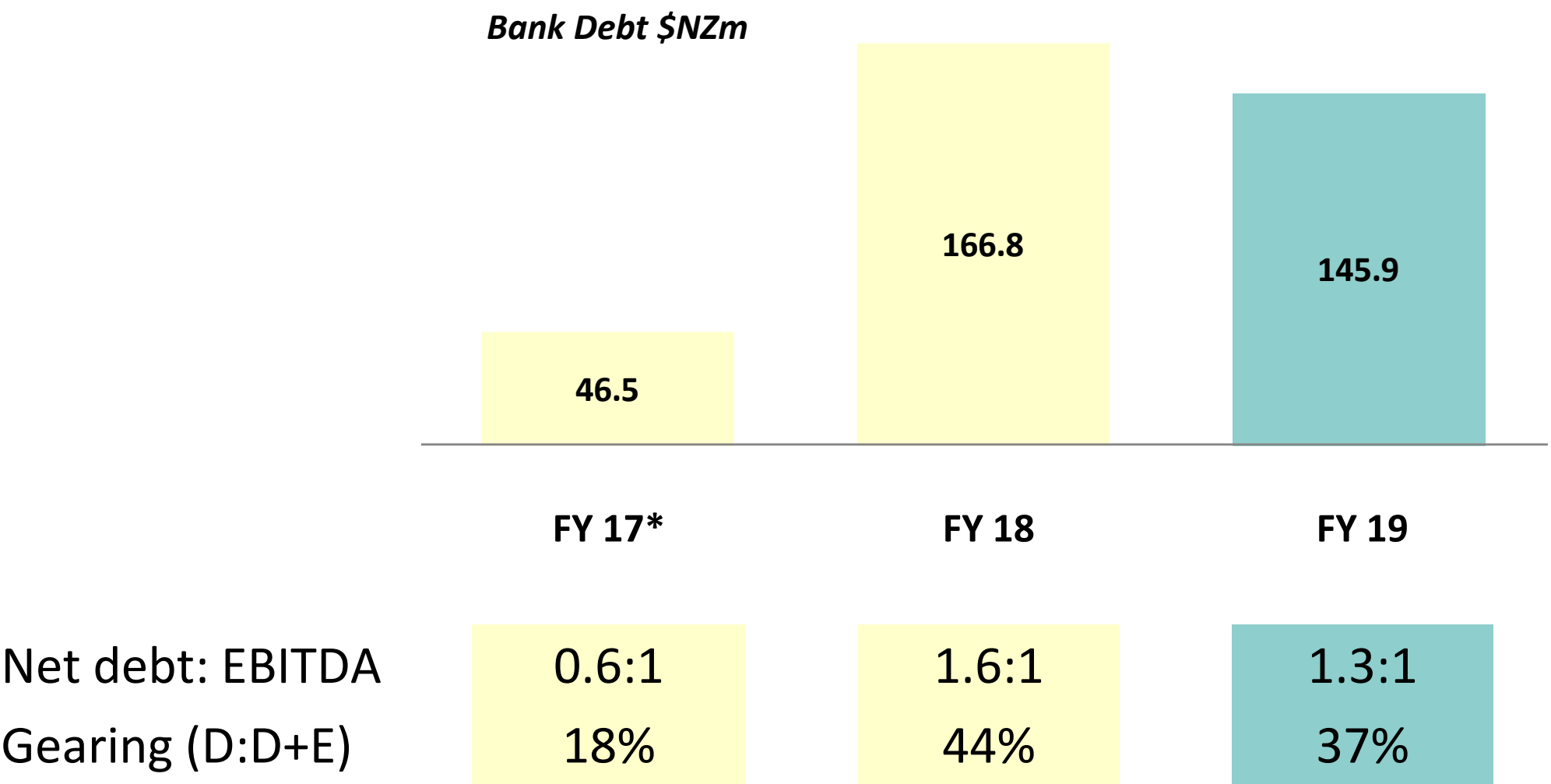
## Investing cash flows (excluding acquisitions and divestments) continue to increase

<i><b>\$NZm</b></i>	<b>FY 17</b>	<b>FY 18</b>	<b>FY 19</b>
Operating Cashflow	47.9	67.8	71.3
Investing Cashflow (adjusted)	(15.1) *	(25.8) **	(26.7)
Free Cashflow	<b>32.8</b>	<b>42.0</b>	<b>44.6</b>

\*Adjusted for \$63.9m of QSR purchase

\*\*Adjusted for \$147.5m of PIR + additional Australian stores

Borrowings were down with no interim dividend, and well within facility levels of \$252 million

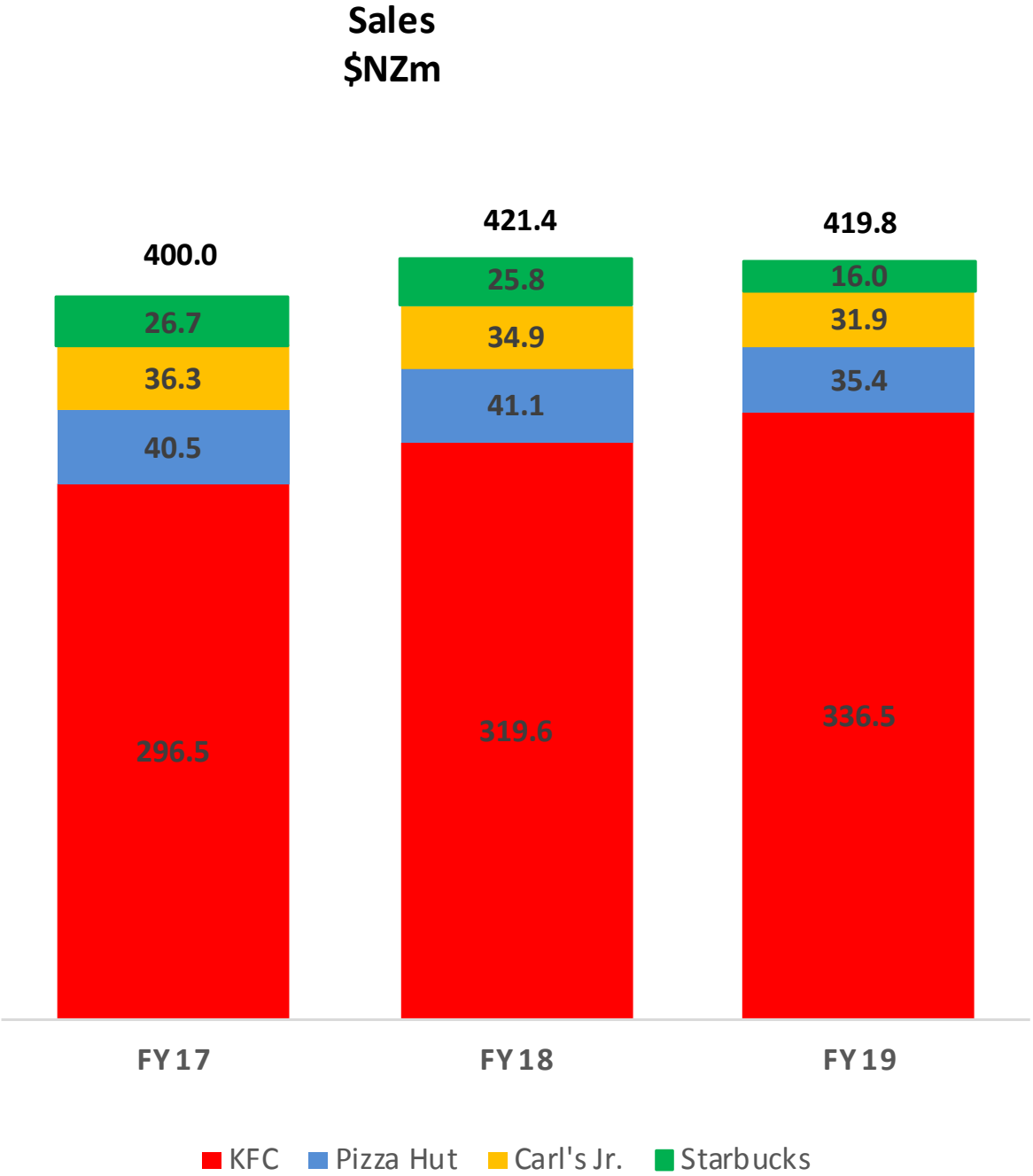


\*Adjusted for \$65 million of cash held for PIR purchase

# New Zealand Operations

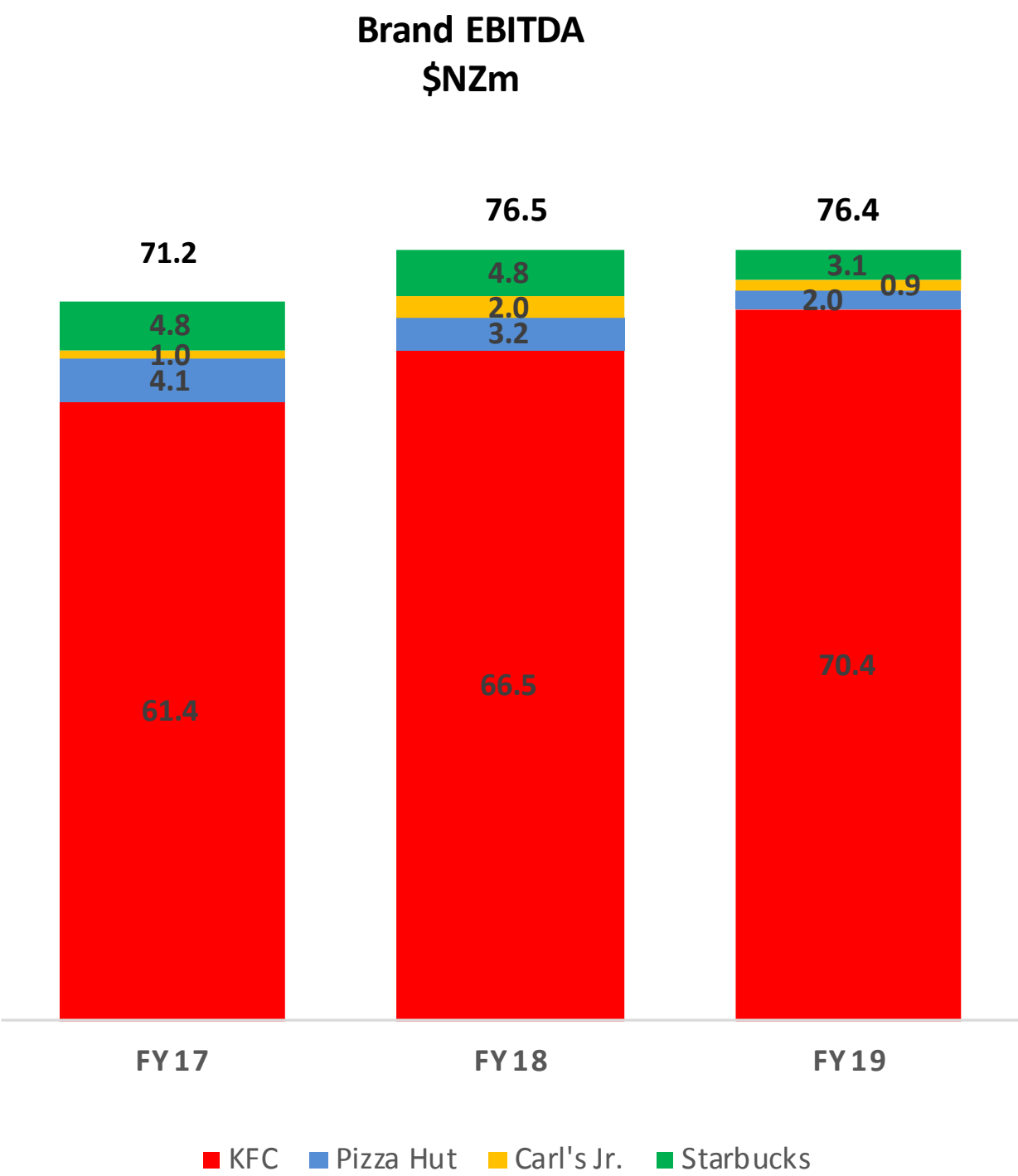


# NZ total sales flat to prior year with KFC increase offset by impact of Starbucks disposal and Pizza Hut store disposals



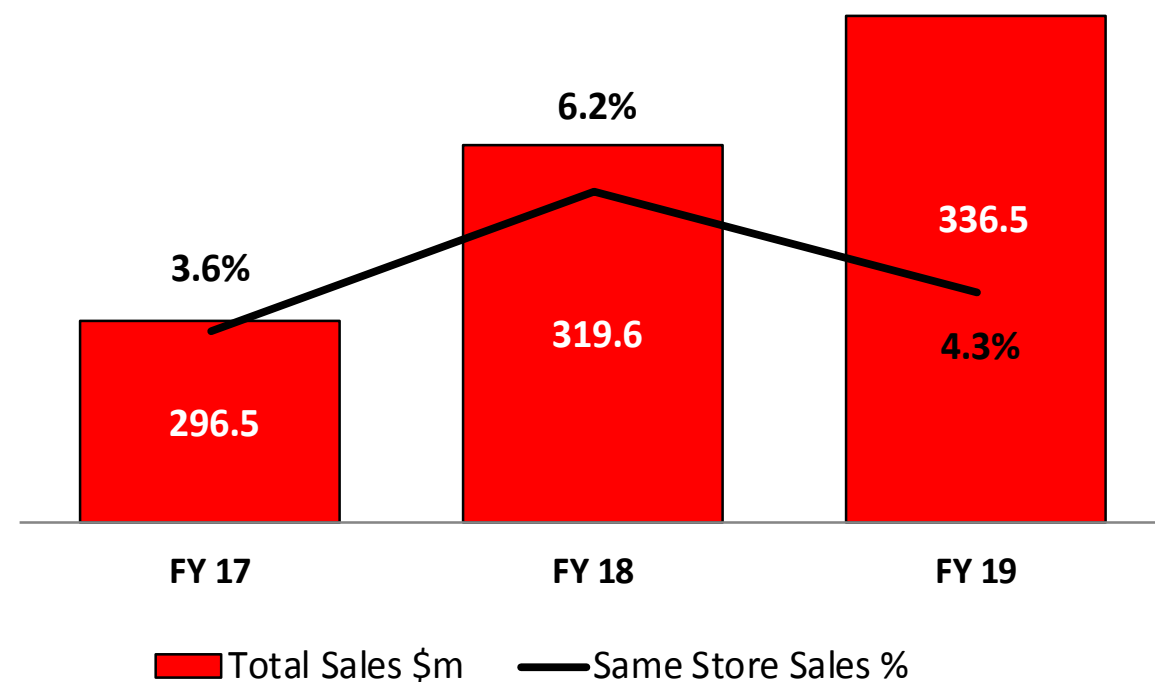


# NZ EBITDA flat to prior year with consistently strong performance by KFC

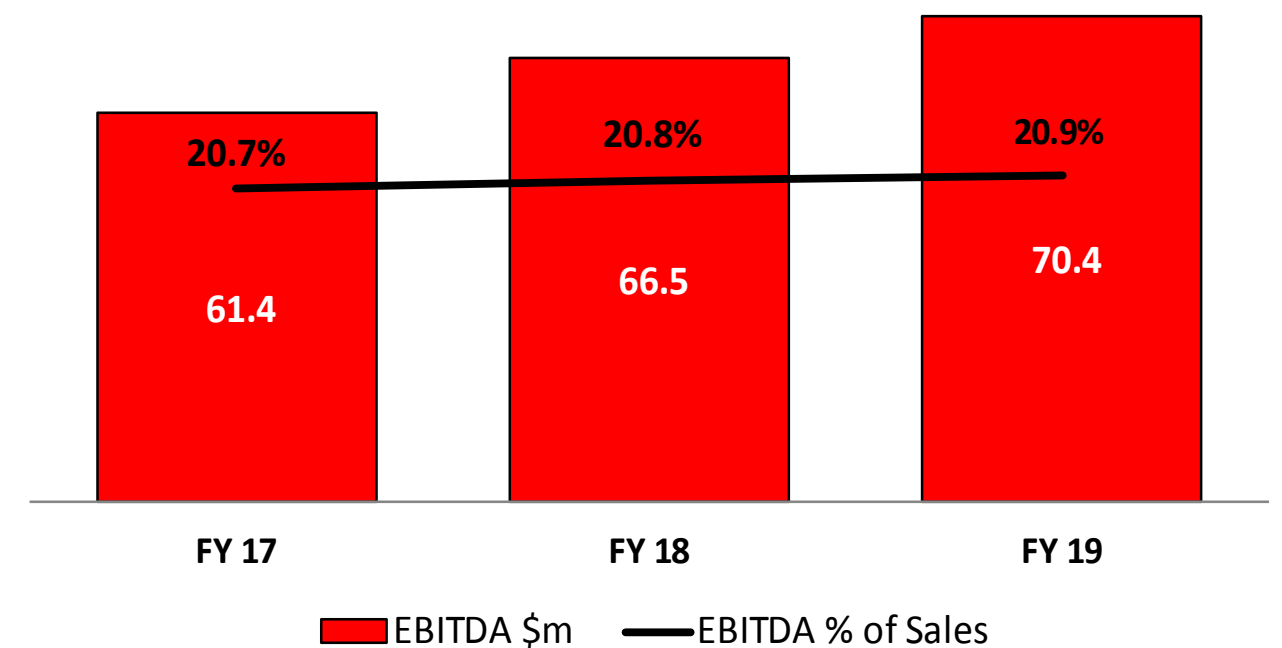


KFC continues growth momentum with sales up 5.3% on steady same store growth and EBITDA margins solidly in 20-21% range

**KFC Sales**



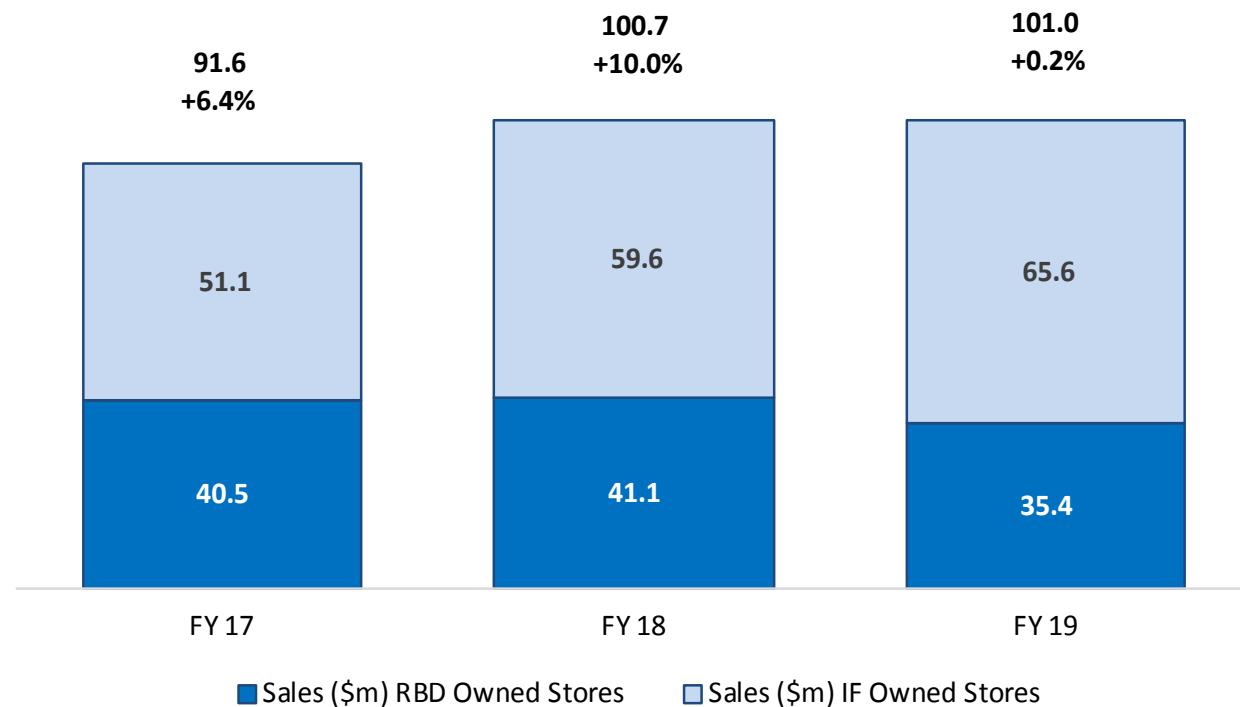
**KFC EBITDA**



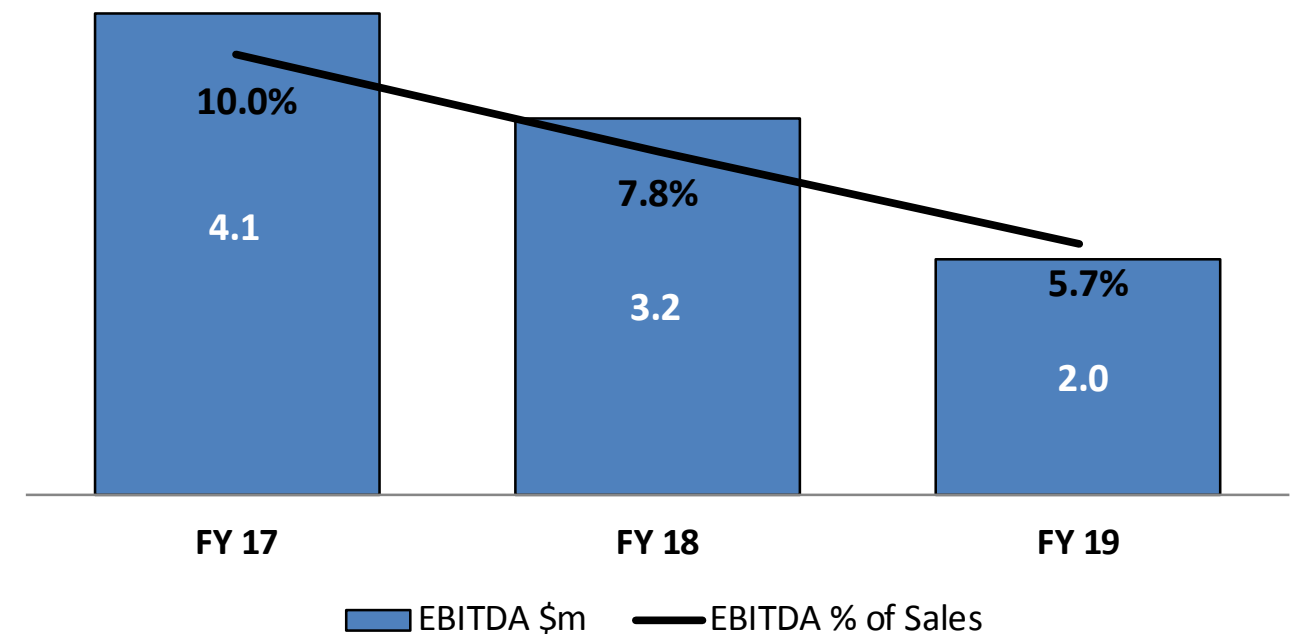
- Another year of record sales with successful promotions plus increased and effective marketing spend
- EBITDA margin remains >20% assisted by sales leverage, but cost pressures continue, especially in labour

# Pizza Hut network sales growth flat in a strongly competitive environment

## Pizza Hut Total Network Sales

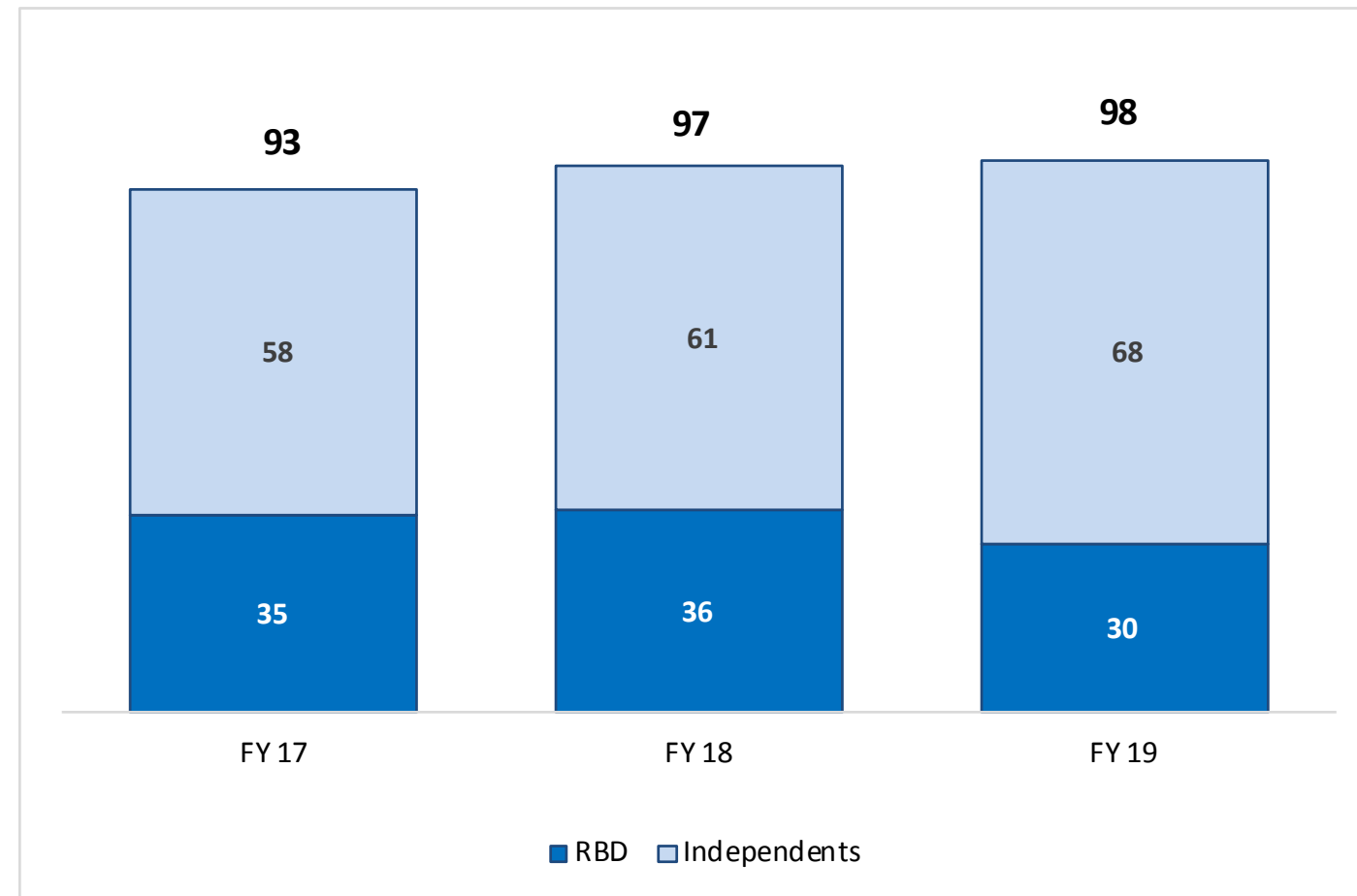


## RBD Pizza Hut EBITDA



- RBD stores lower sales from strong competition, store disposals and cannibalization from store builds for independents
- Labour cost increases and some deleverage impacted margins

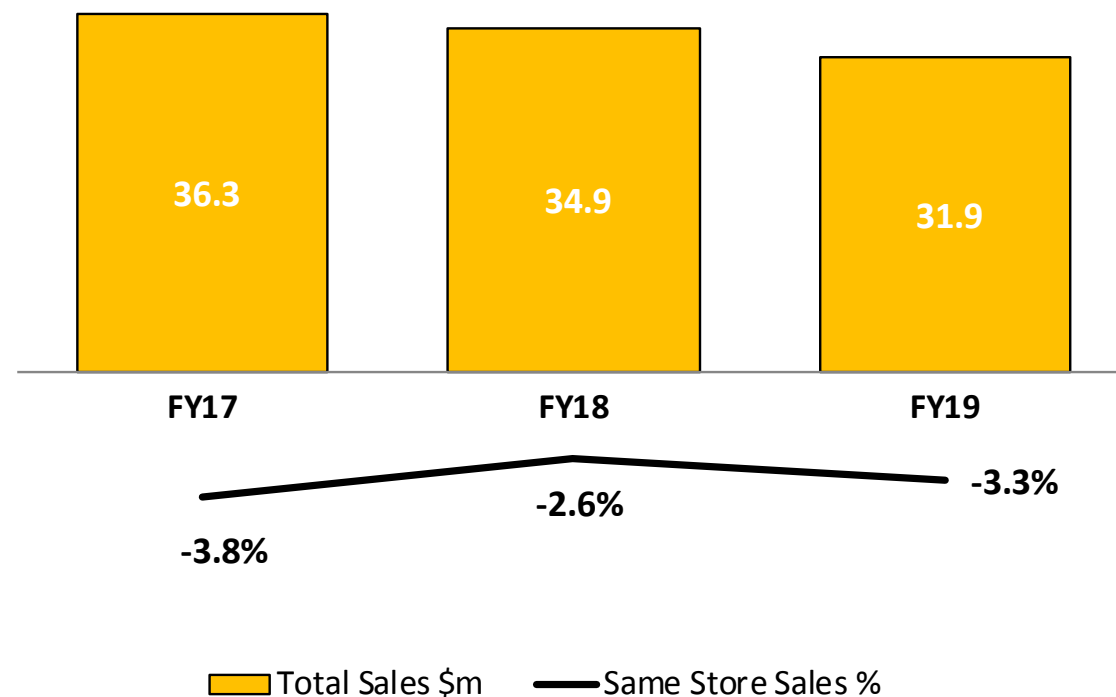
# Sales of Pizza Hut stores to independent franchisees continues together with increase in store builds



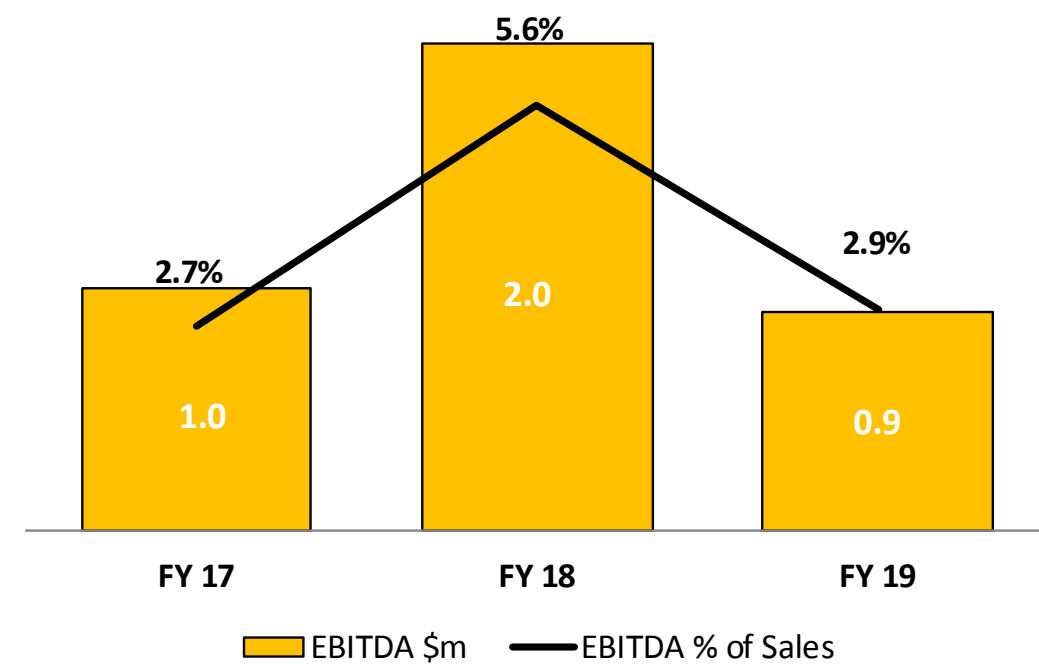
- Pizza Hut now primarily a franchise business supported by RBD infrastructure

# Carl's Jr. stumbled on profit build programme, but strong recovery underway

## Carl's Jr. Sales



## Carl's Jr. EBITDA



- Some poor pricing and promotional decisions mid-year together with continued competitive pressure meant a profit dip in FY19
- One profitable store closed – Public Works Act
- Strong recovery in sales and margins in last quarter with delivery initiative



# New store build momentum is building (especially KFC)

KFC Tauranga Crossing



KFC Bombay



# NZ FY19 Strategic Outcomes

Strategy	Score	Outcome
• Resolve Starbucks position	✓✓	Sold October 2018
• Formalise master franchise for Pizza Hut	✓✓	MFA in place in June 2018
• Enhance Carl's Jr. profitability with a view to further development	X	Profit miss FY19. Recovery beginning FY20
• Build Pizza Hut network in NZ through independent franchisee ownership (120+ stores)	✓	New store builds underway
• Maintain KFC margins and sales growth over long term	✓✓	SSS 4.3%. EBITDA margin 20+%
• New KFC store builds (2+ p.a.) with wider store design options	✓	Nil FY19. 3 opening April 2019
• Introduce a further brand to NZ	✓✓	Taco Bell development agreement signed and initial staff recruited

# Australia Operations



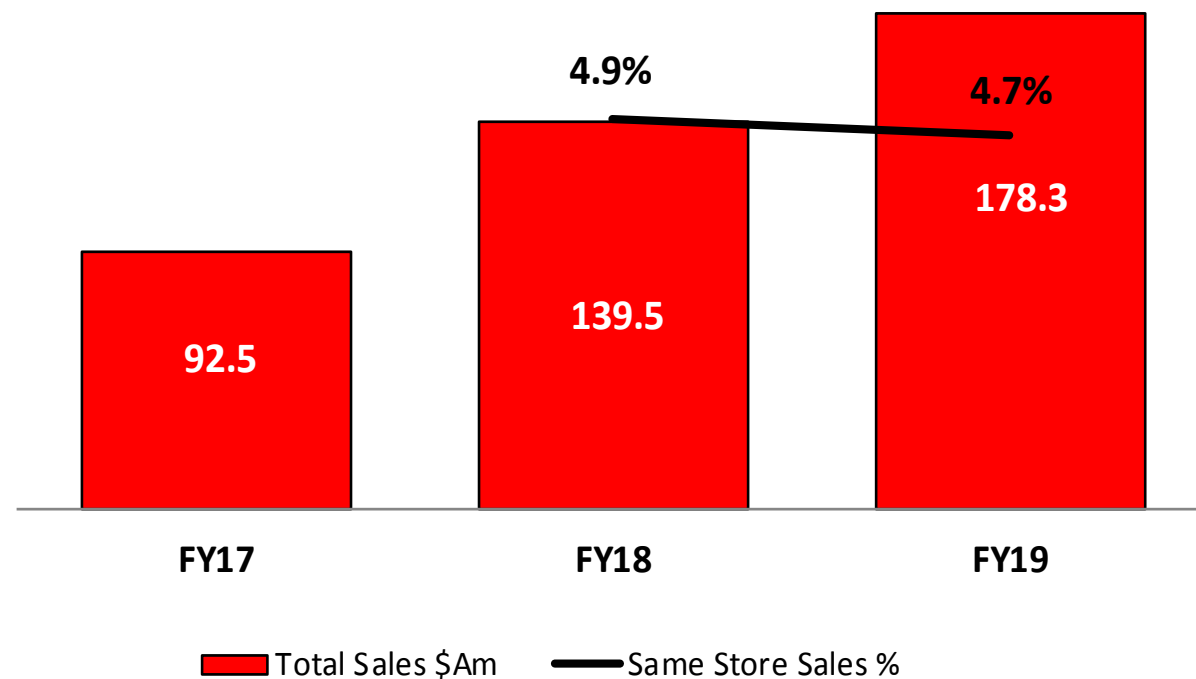
**KFC**  
FINGER LICKIN' GOOD

  
**TACO BELL**

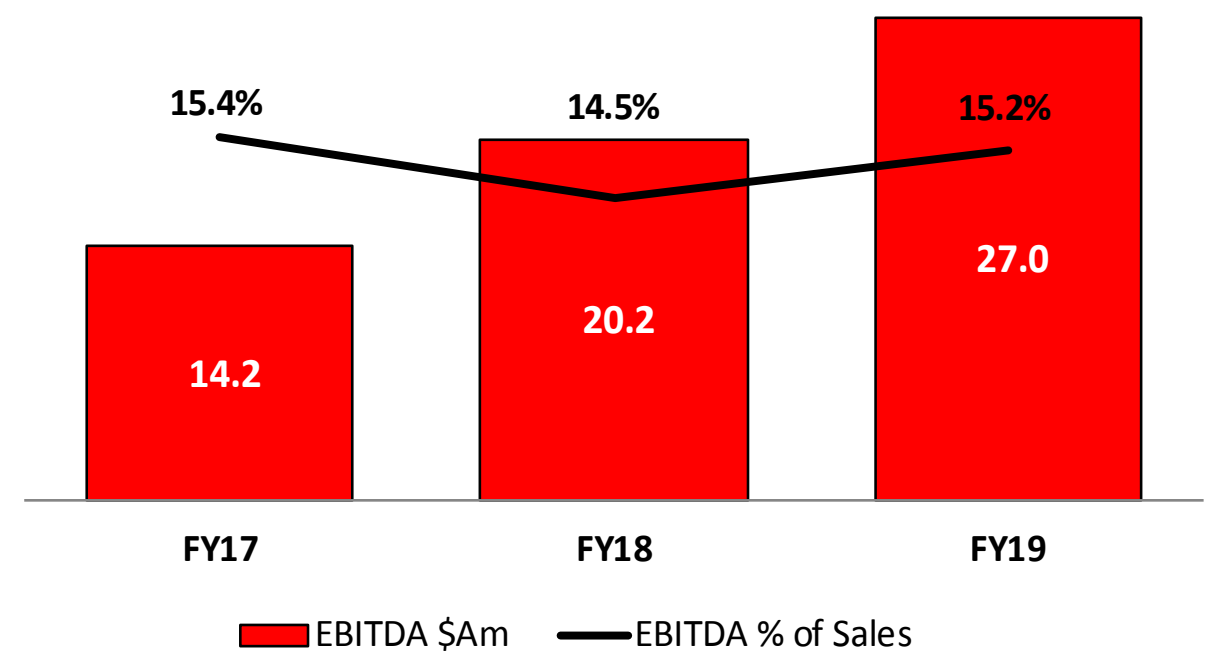


# Australia KFC business performed strongly, successfully integrating FY18 acquisitions

## KFC Australia Sales



## KFC Australia EBITDA



- Total sales up 27.8% on FY18 acquisitions (full year trading) and solid SSS growth
- EBITDA up 33.7% with FY18 acquisitions, enhanced margins on improved sales mix and store controls

# Australia FY19 Strategic Outcomes

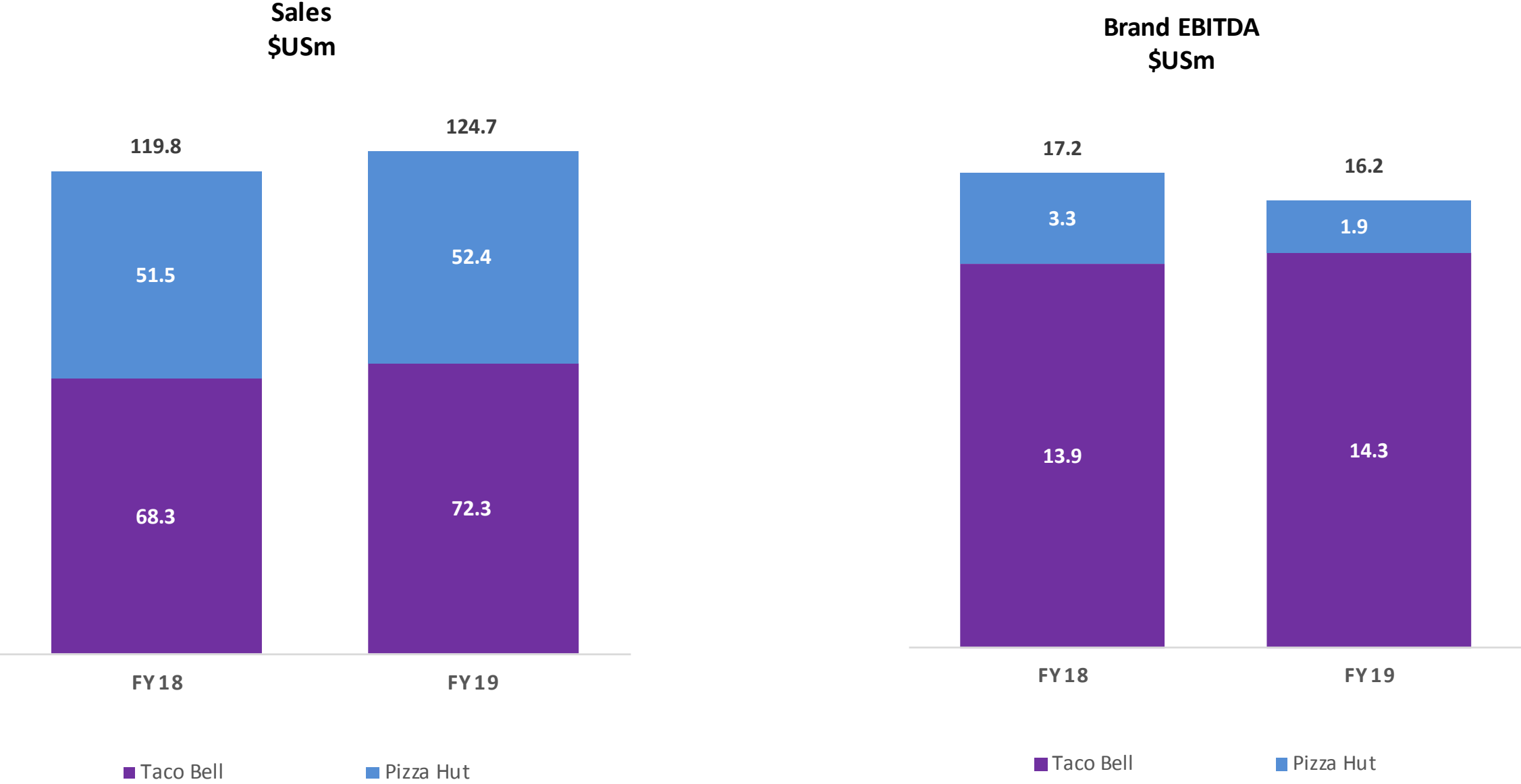
Strategy	Score	Outcomes
• Consolidate recent acquisitions and above store structure	✓✓	New management team in place
• Continue to acquire smaller independent KFC franchisees (primarily NSW)	-	Discussions continue
• New store builds in growth corridors and CBD locations	✓	Bondi – strong sales
• Build KFC margins above current norms	✓	Back to 15% +
• Acquire large parcels of KFC stores as and when opportunities permit	-	A watching brief
• Introduce a further brand to Australia	✓✓	Taco Bell development agreement signed and initial staff recruited



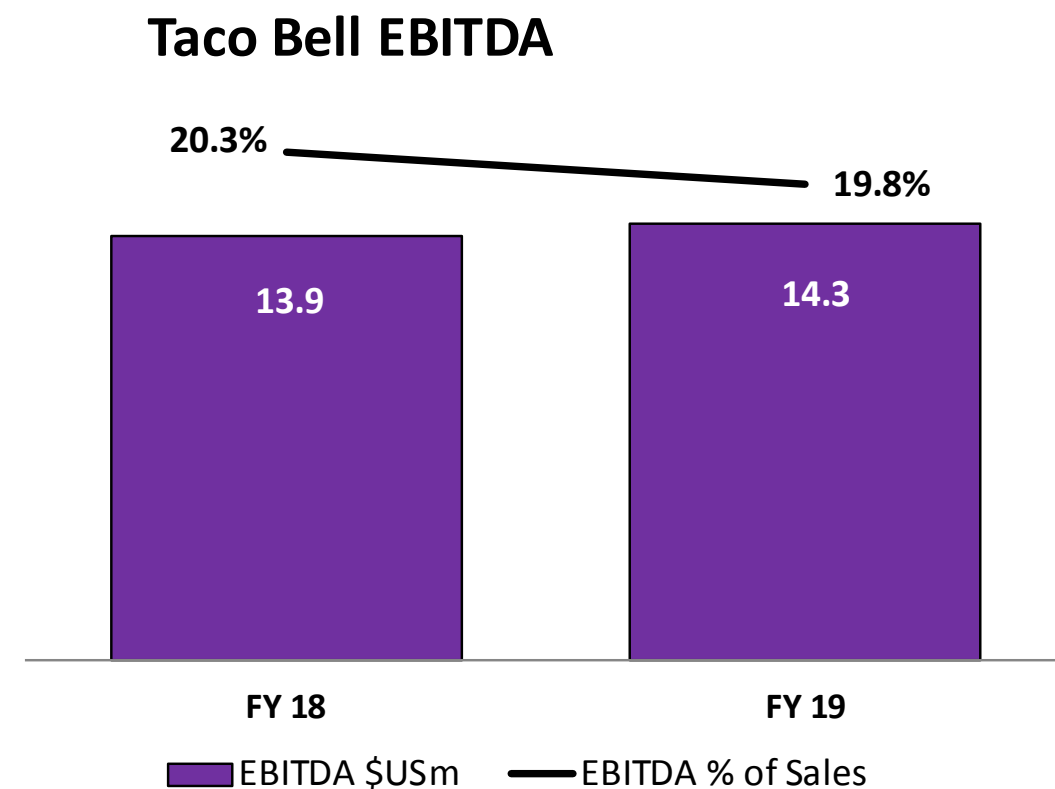
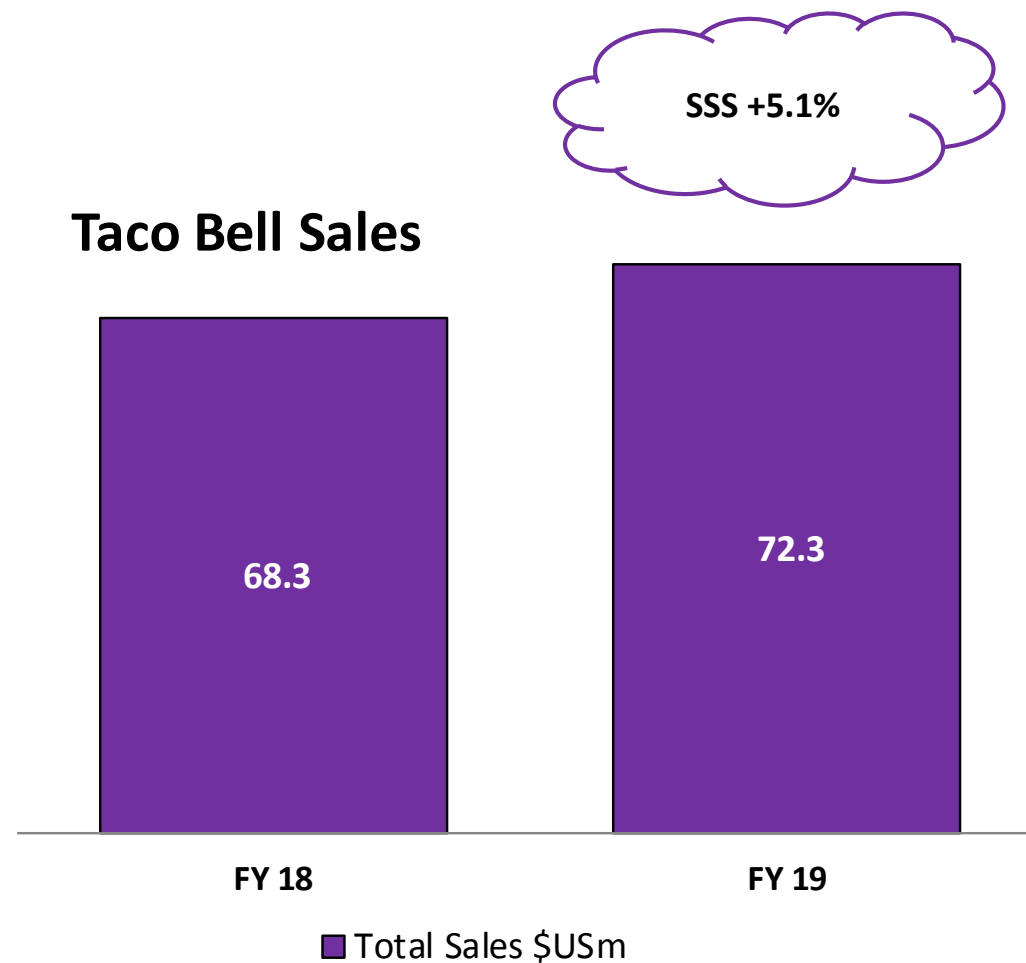
# Hawaii Operations



Despite continued delays in the store refurbishment programme and some headwinds for Pizza Hut, both brands delivered sales growth; however Pizza Hut margins slipped

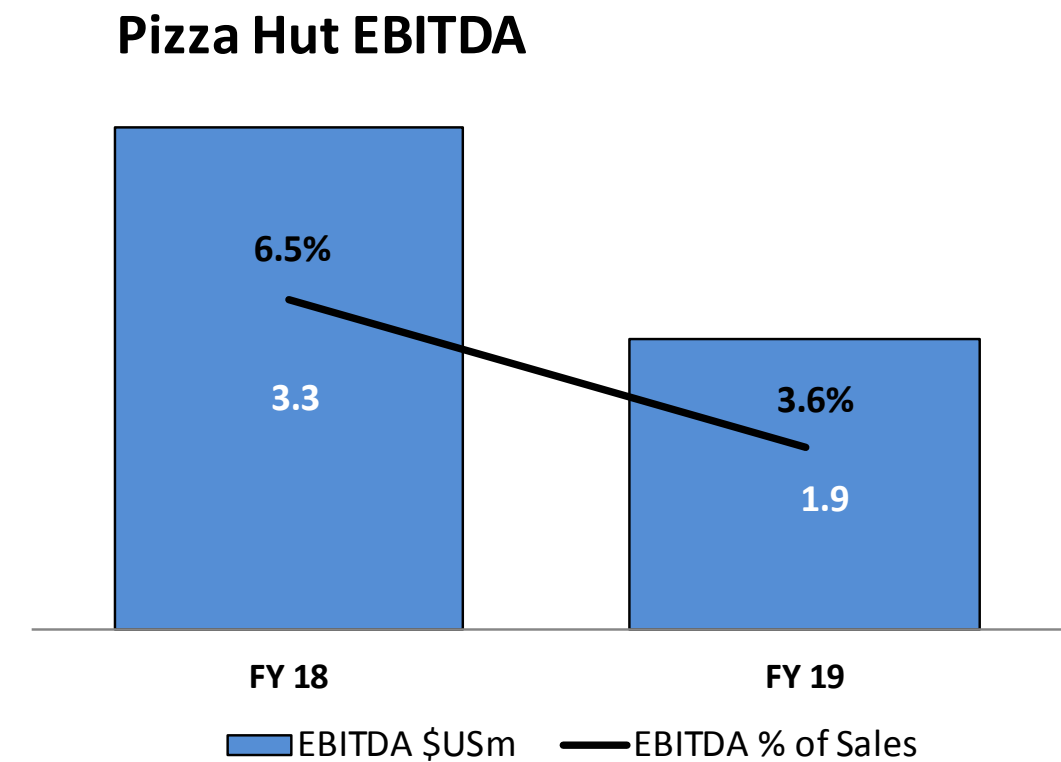
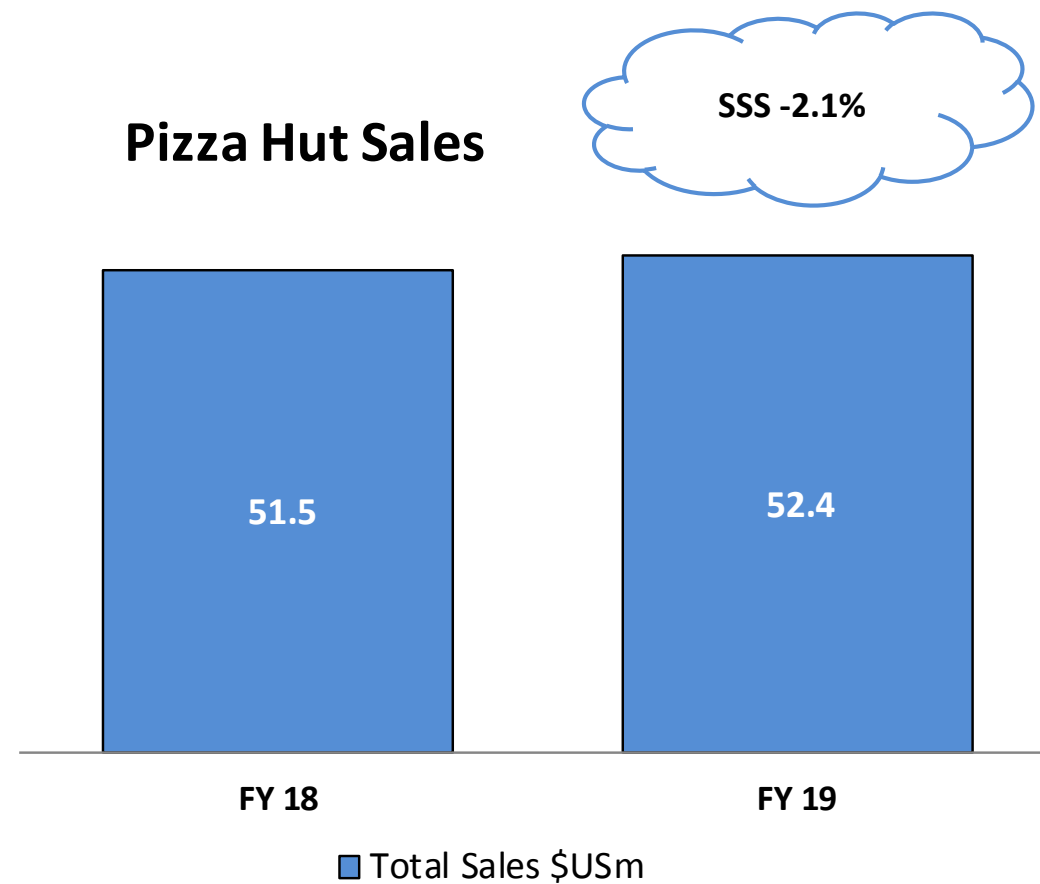


# Taco Bell continues to deliver strong results, even before a network upgrade



- Taco Bell SSS up 5.1% on innovative promotions
- Taco Bell % margin softened slightly on cost increases but run rate still ~20% of sales

# Pizza Hut continued to be impacted by US national value campaigns and labour cost pressures



- Pizza Hut SSS down 2.1% with stronger competition, systems issues and lack of innovation
- Pizza Hut struggling to recover cost increases in a competitive market and national value campaigns
- Opportunity to extensively review business model with franchise renewals FY20




# Hawaii FY19 Strategic Outcomes

Strategy	Score	Outcomes
• Return Pizza Hut to positive SSS growth and margins above current levels	X	Slow progress, but some positive weeks in early FY20
• Drive new store builds and transformations of Taco Bell brand	✓	Two scrape and rebuilds under way
• Accelerate move out of large Pizza Hut red roof stores into smaller delcos	X	Network plan in place. Planning consents delaying execution
• Build new delcos	✓	One delco in Pearl City
• KFC business in Hawaii (by acquisition or new store builds)	-	No further progress to date



# **GROWTH OPPORTUNITIES & DIVIDEND**

Growth opportunities in existing markets are beginning to crystallise and are being actively pursued in FY20

New Zealand	Australia	Hawaii	US
<div><ul style="list-style-type: none"><li>• Store builds</li></ul><div>4-5 new stores</div></div>	<div><ul style="list-style-type: none"><li>• Store builds</li><li>• Small franchisee acquisitions</li><li>• Large acquisition</li></ul><div>2 new stores</div></div>	<div><ul style="list-style-type: none"><li>• Potential acquisition</li><li>• New store builds</li></ul></div>	<div><ul style="list-style-type: none"><li>• Potential acquisition (beach head)</li></ul><div>Actively looking (West Coast, US)</div></div>
<div><ul style="list-style-type: none"><li>• Store builds (network)</li></ul><div>2 new stores</div></div>		<div><ul style="list-style-type: none"><li>• Relocations</li><li>• New store builds</li></ul><div>1-2 new delcos</div></div>	
<div><ul style="list-style-type: none"><li>• Market secured</li></ul><div>2 new stores</div></div>	<div><ul style="list-style-type: none"><li>• NSW / ACT market secured</li></ul><div>2 new stores</div></div>	<div><ul style="list-style-type: none"><li>• New store builds</li><li>• Transformations</li></ul><div>2-3 transformations</div></div>	<div><ul style="list-style-type: none"><li>• Potential acquisition (beach head)</li></ul></div>

# Dividend / Growth initiatives

- Historically, dividends paid in proportion to profits (80-85%) pay out ratio
- Strong cash flows allowed both dividend and some capex growth
- However significant growth initiatives planned over next 5 years

Geography	Brand	No. over 5 years	Nature of Investment
• NZ/Australia	KFC	30	New stores
• NZ/Australia	Taco Bell	60	New stores
• NZ/Australia	KFC	50-60	Major refurbishments
• Hawaii	Taco Bell	10-12	New and scrape and rebuilds
• Australia	KFC	10-40	Smaller acquisitions
• United States	KFC/Taco Bell	2-3	Major mainland acquisitions

- Finaccess preference is to equity fund as a last resort
- Intend to retain cash for funding flexibility

# OUTLOOK

With stable operations in all three markets and the takeover activity of the past 12 months now complete, the Company is poised for further expansion through acquisition, store refurbishments and new store roll outs.

New KFC store builds will drive sales and profit enhancement in New Zealand and Australia. The Taco Bell scrape and rebuilds in Hawaii will further assist that result.

The introduction of the Taco Bell brand to New Zealand and Australia will have an immaterial adverse effect on the FY20 result (largely establishment costs).

The underlying business across all brands is expected to deliver a consistent (or slightly better) result on FY19.

**After adjusting for Starbucks disposal and excluding any significant new acquisitions, Net Profit after Tax (excluding non-trading items) for the FY20 year of 10% above current year's performance**

# QUESTIONS

## DISCLAIMER

The information in this presentation:

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