Annual Shareholders Meeting 2019

Chief Executive's Address

Thankyou Jose. And good morning everyone.

2019 saw another excellent result for the company with strong performances across all three divisions. It has been particularly pleasing to see the acquisitions made over the past few years contributing strongly and we have been extremely pleased with the way our new operations are becoming firmly established within the Group.

We set a new record for total group sales of $794 million which was an increase of over $53 million or 7.2% on the previous year, with the result benefitting from the full year contribution of 18 KFC stores acquired in Australia during 2018.

It's worth pointing out that in FY19 our revenue is already more than double that of three years ago, before our offshore expansion began.

Total group sales translated to combined brand EBITDA of $129 million which was up by close to $7 million or 5.4% on the previous year.

It has been pleasing to see our earnings profile diversifying further with overseas operations now contributing 47% of sales and 41% of EBITDA. And at year-end total store numbers stood at 283, made up of 142 stores in New Zealand, 61 in Australia and 80 in Hawaii.

Our New Zealand operations performed very well, driven by another consistently strong performance from the KFC brand. Total sales for our New Zealand businesses of $420 million were down slightly, mainly due to the sale of Starbucks Coffee in October 2018. But same store sales were up by 2.7% for the year.

Once again KFC delivered a new record result, reaching $337 million in sales, up 5.3% year on year. This excellent sales result included the highest single week of sales across the country, beating the previous weekly sales record by 13% and we also saw a new weekly sales record set for a single store of $185,000 in a single week.

Margins also remained strong, despite continued input cost pressures, with an EBITDA margin of 20.9%, consistent with recent years. In dollar terms this delivered over $70 million, up 5.9% on last year due to the increase in sales.

The investment in our KFC store network has continued with 16 major renovations completed. Adding to this, we introduced additional digital self-ordering kiosks in a number of locations and this has proved very popular with a high level of uptake from customers.

We continued our strategy to transform the New Zealand Pizza Hut network to a master franchise model with the sale of stores to franchisees. Company owned store numbers reduced by six to 30 with the number of independent franchisee stores lifting to 68.

Total network sales rose to $101 million, up 0.2%, with sales from company-owned stores down by just under $6 million to $35 million due to the reduction in store numbers and lower same store sales.
The EBITDA contribution from company-owned stores was $2 million, down by $1 million on last year.
Our Carl's Jr. business finished the year on a stronger footing. Store numbers reduced to 18 as an acquisition under the Public Works Act forced the closure of the profitable Upper Harbour store in Auckland.

Carl's Jr. sales were down 3.3% on a same store basis, while EBITDA fell from $2 million to $1 million. However, a strong recovery was evident in the final quarter, with the introduction of a delivery service through UberEats. As a result, we saw an immediate and positive impact on sales and margins, with the momentum continuing into the new year.

During the period we took the strategic decision not to renew the Starbucks Coffee franchise agreement in order to concentrate on our other core brands. This resulted in the business being sold in October 2018.

Our Australian operations experienced significant growth driven by stronger trading and the full year impact from 18 KFC stores acquired part way through the prior year. This saw the KFC Australia business deliver strong sales of AU$178 million, an increase of 27.8%.

Store EBITDA rose by 33.7% to a new high of AU$27 million. The business also delivered a pleasing lift in margins to 15.2% of sales.

The successful trial of an external delivery service has seen this model rolled out across all 26 of our Sydney metro stores with pleasing results and this will now be extended more widely across the network.

Our Hawaii operations produced another fine result, contributing sales of US$125 million, up 4.1% on the previous year and store level EBITDA of US$16 million.

It was particularly pleasing to see the Taco Bell brand performing ahead of expectations, reinforcing our confidence in this winning brand ahead of a launch into the New Zealand and Australian markets.

Taco Bell sales grew to US$72 million for the year, delivering an impressive increase of 5.9%.

Store EBITDA grew to US$14 million with margins softening slightly due to cost increases, but still delivering a strong 19.8% of sales.

The sales result was particularly impressive as it was achieved without the benefit of the planned network upgrade. Our initial transformation of the Kailua Taco Bell store over nearly two years ago continues to deliver in excess of 60% of pre-transformation levels, with this boding well for this transformation strategy.

Whilst the long lead-times to secure local government construction permits have been holding back our plans for rolling out the transformation strategy to more locations, we are now starting to see the light at the end of the tunnel.

I'm pleased to report that our next full Taco Bell transformation, the Moanalua store is complete and has recently re-opened with sales growth averaging +37% over the two weeks since the re-opening. We will have one more Taco Bell store transformed by the end of the year with at least two lined up for next year.

Our Pizza Hut operations in Hawaii however faced some headwinds during the year. While total sales for the brand increased by 1.8% to US$52 million, the impact of an increasingly competitive market and labour cost pressures translated to a reduced EBITDA of US$2 million, down from US$3 million a year ago.

A store refurbishment programme is underway although as with Taco Bell, delays in obtaining construction permits have slowed the process. However, one new Delivery and Carry-out unit was opened at Pearl City in Honolulu and this is trading ahead of expectations.

Across each of our operating divisions we have maintained a strong focus on health and safety, a focus that extends from board level, through each of our nearly 300 workplaces and to all of our 9,000 staff.

This year has seen the implementation of our Vault system, an employee-driven incident identification and reporting system that is vastly improving our hazard management processes in our stores. We continue to strive towards our target of zero workplace injuries and although we have again been encouraged by the results, we are committed to improving further.

The focus on our people, is also reflected as part of our wider approach to sustainability.

I encourage you to read on our website about the sustainability framework we have developed and the exciting and practical ways that Restaurant Brands is positively impacting on its people, workplaces, business practices, communities and the environment.

While the initiatives are wide-ranging, I am particularly proud of the work we have put into our waste reduction programmes, including the redesign of many of our packaging materials to remove as much material as possible. Our improved energy conservation measures have reduced our carbon footprint while also delivering a positive impact to our bottom line. And here in New Zealand, Restaurant Brands is one of 14 companies taking part in a working group set up to tackle some of the most significant issues in the country's supply chain and operations management. We have already been working with vendors to reduce truck movements on New Zealand roads and have a zero air-freighting policy, choosing instead to support local producers.

Our work in this area is ongoing and we will continue to update you on our progress.

As you will appreciate, a significant amount of management time has been spent on the takeover activity which was underway for a good part of the 2019 financial year.

But as you can see, this didn't get in the way of our progress and the leadership teams in each of our three operating divisions have done a superb job in not only delivering another record financial performance but also in bedding down our newer operations. I am sincerely thankful, both to them and to the team of 9,000 staff throughout our store network in New Zealand, Australia and Hawaii for the focus and enthusiasm they have brought to the task.

I'd also like to thank the Chairman and other board members who have shouldered much of the increased workload over the past year. I can assure you they have worked hard on behalf of shareholders and provided outstanding support for myself and the management team.

Through the takeover process I have had the opportunity to get to know Jose and the other Finaccess directors and I am very happy to welcome them to the Restaurant Brands family. The significant investment that Finaccess Capital has made in the company and the unequivocal support for our growth strategy provides a firm platform for the next big push and I look forward to working together to deliver on these plans.

As Jose has mentioned, within our key brands there is no shortage of opportunity to grow our business organically and through acquisitions in existing and new markets.

In our KFC brand we'll be carrying out major refurbishments in 50-60 stores and building 30 new stores in New Zealand and Australia. We will also continue to seek out opportunities to acquire independent franchisees.

We are actively looking for opportunities to acquire on the West Coast USA to establish a beach head within the mainland.

Our newest brand, Taco Bell presents many exciting opportunities which we are eager to get underway.

We have signed a development agreement to bring this iconic brand to New Zealand and New South Wales and ACT in the Australian market. Our plans are already progressing with the first stores expected to open during the 2019 calendar year. This will be followed by an aggressively-paced rollout with more than 60 stores planned to open across Australasia by 2024.

In Hawaii we are committed to delivering 10-12 new or "scrape and rebuild" Taco Bell stores.

The 2020 year has started well with the first quarter producing a strong same store sales results across all three operating divisions of 4.9% for New Zealand, 6.0% for Australia and an impressive 8.4% in Hawaii.

We've already opened three new KFC stores in New Zealand and completed the first Taco Bell store transformation in Moanalua, Hawaii as we begin the next wave of development.

Looking ahead, while the introduction of the Taco Bell brand to New Zealand, 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, we expect the Group will deliver a NPAT (excluding non-trading items) result for the new financial year of in excess of $45 million, excluding the impact of any major new acquisitions during the year and the adverse impact of adopting the new lease accounting standard).

My team and I are excited for the challenges and opportunities ahead. We have a clear strategy and a full work plan and I look forward to updating you on our progress in a year's time.

Thank you. I'll now hand you back to Ted.