Annual Shareholders Meeting 2021

Chairman’s Address

There is not a country or business in the entire world that has not been affected by the spread of COVID-19. Restaurant Brands has been no exception. However, as we noted in the annual report, ours is an adaptable company operating in a resilient industry, and we weathered the storm despite the headwinds of compulsory store closures, increasingly difficult operating procedures, and economic uncertainty.

Operating with multiple brands in a variety of geographical markets has helped us diversify the risk and dilute the adverse impact of the COVID pandemic.

For instance, while our KFC stores in New Zealand were completely closed, our Pizza Hut business in Hawaii delivered strong sales growth as customers had their pizzas delivered to their homes at significant rates. We also successfully finalized the acquisition in California of 69 KFC and Taco Bell restaurants, moving us forward in our strategy to increase our presence in a new and relevant market.

As evidenced in our results, although the financial outcomes for the “year of COVID” are below expectations, they were certainly satisfactory in the face of unprecedented circumstances.

As we discuss the 2020 results, please note that Restaurant Brands changed its balance date last year from February to December 31st, which means our trading results as of December 2020 correspond to a full 52-week year, and not only to the 44 weeks of the prior period. Where necessary, I will quote a full year equivalent, so that the comparison with underlying performance will be clearer.

These, then, are some of the highlights for the last financial year:

- Total sales for the year of $892.4 million, up against the previous 44-week period, with full year positive same-store sales growth across all three operating divisions. On an equivalent 12-month basis, total sales were up 7.0%, or $58.6 million.

- Reported net profit after tax of $30.9 million for the year, up $0.8 million on the 44-week reporting period last year, despite the adverse impacts of COVID-19.

- Combined store EBITDA (pre NZ IFRS 16) for the period of $147.3 million, up 27.0% on the previous 44-week period. On an equivalent 12-month basis, EBITDA was up over 7.5%, or $10.3 million.

- The acquisition of 69 KFC and Taco Bell stores in California on September 2nd, 2020, generated an additional $51.9 million in sales and $8.5 million in EBITDA in the last four months of the financial year.

Restaurant Brands’ store numbers went up from 287 to 348, mainly on the back of the 69-store California acquisition. There were some Pizza Hut store sales in New Zealand, and a couple of closures in Hawaii.

Launched in New Zealand and in New South Wales in late 2019, the Taco Bell brand has continued to grow, with eight stores now successfully operating in New Zealand and Australia.

COVID-19 was particularly testing for the New Zealand division, with the entire business being closed for nearly five weeks in March-April 2020. The Australian, Hawaiian, and Californian operations, although adversely affected, have generally continued to trade through the crisis (with some limitations), and have sustained much less of an adverse profit impact.

The net profit after tax (NPAT) for the year ended December 31st, 2020 (FY20) of $30.9 million, was up 2.8% on the reported NPAT of $30.1 million for the prior period. As previously noted, the prior period reported NPAT is for 44 weeks compared to 52 weeks in this year.

In addition to the change of balance date, two other factors distort the prior year comparison: the continuing negative impact of NZ IFRS 16, and Other Income and Expenses (unrelated to normal trading).

On a like-for-like comparison of the current year's 12-month result versus the prior year's 10 months of normalised trading, the underlying trading profit is estimated at $46.7 million, which is up 2.2% on the prior equivalent year.

This is after adjusting for the negative impact of the NZ IFRS 16 accounting lease standard, which was at $2.5 million and the shorter trading period, estimated at $7.1 million, in addition to the impact of higher net expenses unrelated to normal trading of $4.8 million.

Later on in our presentation, Russel will provide more insight into our individual divisional performance.

With the California acquisition in September of last year, Restaurant Brands has now established a firm presence in each of its four key operating markets. This has significantly diversified our earnings stream from the 100% New Zealand base of five years ago to a position where the New Zealand business now represents only slightly more than 40% of total sales and earnings.

We have a growth strategy in place for each market.

We will continue to deliver organic same-store sales and profit growth through: operational improvements, store refurbishments, channel enhancements, innovative marketing, new product development, and staff attraction and retention initiatives.

We see significant additional growth opportunities by expanding our networks in each location through either new store builds or acquisitions. New store builds in the KFC and Taco Bell brands is a prime focus for the Australian and New Zealand markets. We plan to have 60 Taco Bell stores opened in these two markets over the course of the next four years, and a steady build of 4-6 KFCs a year.

Despite the fact that we have owned the business for just over six months, we also have considerable new KFC store prospects in California, where we are already under way with three new stores.

We also expect to be opening our first KFC store in Hawaii in the next 1-2 years.

Acquisitions remain opportunistic in nature, but the Californian and Australian markets in particular provide significant opportunities. In the past couple of months, we settled the purchase of five KFC stores in urban Sydney and we are currently finalising the acquisition of another KFC store in California.

Ongoing investment in both new store builds and acquisitions will continue to be undertaken within a disciplined and structured framework. We will only embark upon those offering clear value creation for our shareholders.

Before the COVID-19 outbreak, the transformation and rationalisation strategy for the Hawaiian store network had begun to gain momentum, despite continuing delays in the local council approval process. The construction of new Pizza Hut delivery stores and the closure of some of the larger inefficient red roofs has helped produce solid growth in the Pizza Hut business. The transformation of the larger Taco Bell stores continues to produce sales results well ahead of expectations, with four stores already transformed and another two scheduled for completion this year.

Our capital expenditure requirements continue to increase as we build and refurbish stores and undertake further acquisitions. Investing cash outflows over the year increased to $178 million, of which $122 million was for acquisitions, primarily the purchase of the California business.

This has increased our net bank borrowings to $200 million, which is well within our $350 million facility level, and we continue to meet required banking covenants very comfortably.

Operating cash flows continue to reach new highs, finishing this year at $111 million, this with only four months trading out of the California business.

Despite the strength of these cash flows, the residual risks around COVID and the current intensive capital expenditure programme have led the Board of Directors not to declare a dividend for FY20.

I would like to take this opportunity to acknowledge the contribution made by my fellow directors over the past 12 months, and especially during the height of the COVID-19 crisis. This effort enabled us to make the right decisions in leading the company during uncertain times.

Your directors have worked well together and actively contributed to an effective governance regime. I greatly value their support and guidance.

We have a strong Board with a wide range of skills. To further strengthen it, this year we have recruited a new director. We welcome Maria Elena Pato-Castel (Malena) as an independent non-executive director for the company, effective April 1st, 2021.

Malena is based in Spain and she brings to the Board of Restaurant Brands over 30 years' experience in the consumer goods and restaurant industries, most recently having spent nine years at AmRest Holdings. Additionally, she has served on the Boards of several Yum! Brands subsidiaries that operated Pizza Hut and KFC stores in Spain. Malena will be seeking your approval for re-election later in the meeting.

I would also like to thank Russel Creedy and his management team for their continued outstanding efforts in adding further value for all shareholders. Russel and his team have successfully steered the company through what has been one of the most disruptive crises of recent times.

I wish to recognize the entire staff for their hard work and loyalty. It has been a challenging year that they have overcome with dedication and commitment.

And finally, I would like to thank you, our loyal shareholders, for your continued support and interest in the company.

I am optimistic that we have left the hardest times behind us and that, in moving forward, we will embrace new growth and expansion opportunities.