Directors' Report to Shareholders
For the six months ended 30 June 2020
(1H Dec 2020)

Key Points

	1H Dec 2020*	1H Dec 2019*	Change ($)	Change (%)
Total Group sales ($NZm)	383.4	442.6	-59.2	-13.4
Group NPAT (reported) ($NZm)	11.4	20.0	-8.6	-42.9

** 6 months ended 30 June (26 weeks) vs 28 weeks ended 9 September 2019*

- Total Group sales for the 1H December 2020 year were $383.4 million, down $59.2 million on the previous half year. This is the result of the impact of COVID-19 as well as the current reporting period being two weeks less than last year's reported 28 week result.

- Net Profit after Tax for the six months (26 weeks) ended 30 June 2020 was $11.4 million (9.2 cents per share), down $8.6 million on the 1H Dec 2019 (28 weeks ended 9 September 2019). Net profit after Tax was adversely effected by COVID-19 as reflected in the Group sales.

- Combined brand EBITDA before G&A was down $10.6 million to $62.1 million, primarily due to the effect of the COVID-19 store closures in New Zealand. The USA business however delivered an earnings increase of $2.2 million, with a strong Pizza Hut performance despite the challenges of COVID-19.

Overview

During the year ended 31 December 2019 Restaurant Brands NZ Limited ("RBD") changed its balance date from February to December. This half year report therefore is for a six month (26 week) period compared to 28 weeks as a comparison for the previous half financial year. This, together with the adverse effect of COVID-19 on the financial results makes direct comparisons between the reported results difficult.

Scaling back the previous year's results to enable a 26 week comparison produces a comparative sales number of approximately $411.0 million, which is $27.6 million higher than the current year. Similarly proportionately adjusting 1H Dec 2019 NPAT to approximately $18.6 million, results in the 1H Dec 2020 result being $7.2 million lower.

COVID-19 has had a significant impact on the company's results. Whilst difficult to quantify exactly, the New Zealand business five week full store closure saw lost sales in excess of $40 million. In addition there was a period of time where stores were only able to partially open with drive-through and delivery, further adversely impacting sales. All New Zealand stores are now fully operational. Most stores in Australia and the USA remained open although they have been operating, and in most cases continue to operate, without dine in facilities being available. This creates further difficulties in quantifying the underlying effect of COVID-19.

Group Operating Results

Despite the challenges faced by Restaurant Brands during the period, Directors are pleased to report that for the six months ended 30 June 2020, the company produced a Net Profit after Tax (NPAT) of $11.4 million. Although down $8.6 million on last year's reported profit the results have recovered strongly towards the end of the second quarter as the NZ market in particular has largely returned to pre-COVID sales levels.

The underlying NPAT (excluding other items and the effect of NZ IFRS 16) is $16.1 million, a decrease of $8.9 million on the 1H Dec 2019 result ($7.1 million on a like-for-like 26 week period). The profit reduction is a direct result of the impact of COVID-19.

Total store sales were $383.4 million, down $59.2 million or -13.4% on 1H Dec 2019. After adjusting for the 26/28 week comparison, store sales are down approximately $27.5 million (-6.7%). This is purely attributable to COVID-19. Sales have however recovered towards the end of the half.

Combined brand EBITDA at $62.1 million was $10.6 million down (-14.5%) on 1H Dec 2019, partially due to the reduction to 26 weeks in the current reporting period but primarily because of the effect of COVID-19. The effect of COVID-19 in New Zealand and Australia was partly off-set by an increased performance in the USA (Hawaii) business which delivered an additional $2.2 million in EBITDA.

Restaurant Brands' store numbers now total 290, up three on 1H Dec 2019 primarily because of the opening of the new Taco Bell stores in Australia and New Zealand. Store numbers comprise 150 in New Zealand, 75 in Hawaii and 65 stores in Australia.

New Zealand Operations

New Zealand store sales were $174.6 million, down $56.2 million or -24.3% on 1H Dec 2019. This is a direct reflection of five weeks full store lockdown due to COVID-19 with the balance a result of the additional two weeks trading in 1H Dec 2019. The five week lockdown alone is estimated to have cost over $40 million in lost sales.

Store EBITDA was $34.0 million, a $9.1 million or -21.0% drop on 1H Dec 2019. This again reflects the shorter reporting period and the five week store closure.

New Zealand operations produced an EBIT (before other items and lease adjustments) of $17.7 million, down 31.9% on the prior year.

New Zealand

	Actual 26 weeks 30 June 2020	Actual 28 weeks 9 September 2019	Proportioned 26 weeks 9 September 2019	Change ($)	Change (%)
Store sales ($m)	**174.6**	**230.8**	**214.3**	**-56.2**	**-24.3**
EBITDA ($m)	**34.0**	**43.0**	**40.0**	**-9.1**	**-21.0**
EBITDA as a % of Sales	***19.5***	***18.6***	***18.6***		
Store Numbers	**150**	**145**			

The proportioned 26 weeks in the table above is an arithmetical calculation factoring down the 28 weeks 1H Dec 2019 (26 February 2019 to 9 September 2019) to a 26 week equivalent. This is for illustrative purposes only.

The New Zealand business continues to trade on expectation, having bounced back post the COVID-19 lockdown, with same store sales for the half of +2.7%. This has been led by another good performance by KFC combined with Carl's Jr. whose sales continue to grow through both delivery and store channels. Product offerings such as the *Double Down* promotion have also helped to drive this result, with a continued strong new product development pipeline expected to maintain positive same stores sales in H2. Taco Bell remains only a small portion of the New Zealand business sales with the two stores opened to date but both continue to track above expectations.

EBITDA was down $9.1 million reflecting the lower sales; however the underlying EBITDA as a percentage of sales has increased to 19.5% up from 18.6% in the 1H Dec 2019.

The New Zealand business received a Government wage subsidy of $22.1 million which was recognised as an off-set to labour cost over the closedown period. Restaurant Brands is proud to have made the decision to retain all staff at 100% of their wages and salaries throughout the lockdown period. Although the wage subsidy help off-set the cost to the business of doing so, there was a shortfall of approximately $0.5 million per week.

The Pizza Hut sub-franchising process continues. Although no existing stores were sold to franchisees during the period, five stores have been sold to franchisees since 30 June 2020. One turnkey store was developed and sold to a franchisee during 1H Dec 2020.

Overall store numbers increased by two during the period with one new KFC store being opened in the Christchurch CBD and a second Taco Bell store in Shortland Street, Auckland. Both are trading well. An additional two Taco Bell stores and two further KFC stores are expected to open before the end of the year.

<u>Australia Operations</u>

In $NZ terms the Australian business contributed total sales of $NZ99.1 million (-5.4%), a store EBITDA of $NZ11.8 million (-23.9%) and EBIT (excluding the effect of other items and NZ IFRS 16) of $NZ3.2 million (-52.6%).

In $A terms total sales in Australia were $A94.4million, down $A5.1 million (or -5.1%) on last year, although on a proportional 26 week basis sales are up $A2.0m, primarily due to the effect of additional store openings with same store sales up +0.3% for the half.

Australia

	Actual 26 weeks 30 June 2020	Actual 28 weeks 9 September 2019	Proportioned 26 weeks 9 September 2019	Change ($)	Change (%)
Sales ($Am)	**94.4**	**99.5**	**92.4**	**-5.1**	**-5.1**
Store EBITDA ($Am)	**11.3**	**14.8**	**13.7**	**-3.5**	**-23.6**
EBITDA as a % of Sales	***11.9***	***14.9***	***14.9***		
Store Numbers	**65**	**61**			

The proportioned 26 weeks in the table above is an arithmetical calculation factoring down the 28 weeks 1H Dec 2019 (26 February 2019 to 9 September 2019) to a 26 week equivalent. This is for illustrative purposes only.

There was significant disruption to stores due to COVID-19 with the temporary closure of all mall stores and the closure of all dine-in channels. The business has focused on continuing to provide a safe work environment for all members of staff and quality of hygiene standards for customers. We continued to invest in a number of KFC upgrades in addition to growing the portfolio with work commencing on two new drive-through Taco Bell sites and three additional KFC stores, all of which are expected to open before the end of the year.

During the COVID-19 crisis the Australian business successfully expanded the home delivery services into regional markets and generated further growth in KFC mobile ordering.

Store EBITDA margins of $A11.3 million (11.9% of sales) were down $A3.5 million or -23.6% on last year. This reflects the on-going challenges from dine-in restaurants not opening, as well as initial set up costs of operating Taco Bell as we look to scale the business.

<u>USA Operations</u>

Total sales in Hawaii for the period were $US68.7 million with store level EBITDA of $US10.2 million (14.8% as a percentage of sales).

In $NZ terms the Hawaiian operations contributed $NZ109.8 million in revenues, $NZ16.3 million in store EBITDA and an EBIT (adjusted for NZ IFRS-16 and other costs) of $NZ8.4 million for the period. These results (particularly Pizza Hut) were all positive to 1H Dec 2019, despite the operational challenges provided by COVID-19.

Hawaii

	Actual 26 weeks 30 June 2020	Actual 28 weeks 9 September 2019	Proportioned 26 weeks 9 September 2019	Change ($)	Change (%)
Sales ($USm)	**68.7**	**70.9**	**65.8**	**-2.2**	**-3.1**
Store EBITDA ($USm)	**10.2**	**9.4**	**8.7**	**+0.8**	**+8.5**
EBITDA as a % of Sales	***14.8***	***13.2***	***13.2***		
Store Numbers	**75**	**79**			

The proportioned 26 weeks in the table above is an arithmetical calculation factoring down the 28 weeks 1H Dec 2019 (26 February 2019 to 9 September 2019) to a 26 week equivalent. This is for illustrative purposes only.

Although reported sales are down $US2.2 million this is predominately due to this year's 26 week vs last year's reporting period of 28 weeks. On a proportioned comparison sales are up $US2.9 million for the period which is also reflected in same store sales which are up +8.0% for the year to date.

Pizza Hut in Hawaii has seen a significant increase in both sales and profitability. This has been the result of both the benefits of a strategic review which saw the closure of seven stores at the end of last year with a move towards smaller and more efficient delivery and carry-out delcos and the excellent response by the Pizza Hut brand to the challenges created by COVID-19. Pizza Hut USA were very responsive with their COVID-19 response, emphasizing food safety, no touch contactless delivery as well as the roll out of curb side pick-up. They also had a strong value multi pizza offering that resonated well in the Hawaii community. Online ordering grew significantly and now accounts for 60% of sales.

Although Taco Bell was harder hit by the closure of dine in options, promotions of family size meals and affordable pricing were successful, with drive through average ticket increasing significantly. Uber Eats and Postmates came on board as food aggregators (in addition to GrubHub) which has also helped to drive sales.

Store numbers are down by six from 1H Dec 2019 following the closure of several Pizza Hut stores late last year as part of our strategy to close some very old dine-in restaurants. During this period one new Taco Bell store has opened in Kahili.

<u>Corporate & Other</u>

General and administration (G&A) costs were $22.7 million, an increase of $1.8 million on 1H Dec 2019, largely as a result of long term incentive remuneration payments and additional costs associated with the launch of Taco Bell in New Zealand and Australia. G&A as a % of total revenue was 5.7%, up from 4.6% in the prior year due to the drop in revenue as a result of store closures for COVID-19.

Depreciation charges of $15.4 million for the half year were $0.2 million lower than the prior year. Although when adjusted to reflect the reduced weeks depreciation is up by $1.8 million, reflecting the continued high level of new store builds and store refurbishments as well as new leases increasing the right of use asset depreciation.

Financing costs of $14.1 million were up $0.8 million on prior year primarily due to an increase in lease interest of $0.8 million resulting from new leases and some existing leases being extended. Bank interest costs were $3.3 million, consistent with the prior year with increased debt levels off-set by lower interest rates.

Tax expense was $4.1 million is down $3.6 million due to the lower earnings. The effective tax rate is 26.3% down from 27.7% last year due to the strong performance of the Hawaii division which has a corporate tax rate of 21%.

Other items

Other items for the half year were $2.6 million, an increase of $0.2 million on prior year. This year's costs included continued amortisation of franchise rights acquired on acquisition of QSR Pty Limited and Pacific Island Restaurants Inc. ($0.7 million), impairment of assets ($0.6 million), acquisition costs ($0.8 million) and relocation and major refurbishment costs ($0.5 million) off-set by the utilisation of depreciation provisions of $0.4 million created in prior years.

Government Grants

The company received $22.1 million as a wage subsidy for its New Zealand division over the COVID-19 crisis. This money was received in April 2020 and was applied against wages and salaries in the half year. Because of its material nature the amount is disclosed as a separate line item in the consolidated statement of comprehensive income and is also included in the consolidated statement of cash flows as part of the receipts from Government grants.

During the COVID-19 crisis the company also received a $US8.1 million as a Government loan in the USA. This support is part of the Paycheck Protection Program (PPP) offered to businesses affected by the crisis. The receipt has been classified as deferred income at reporting date, pending an application for this PPP loan to be forgiven. The amount is also included in the receipts from Government grants in the statement of consolidated cash flows.

NZ IFRS 16

The impact of NZ IFRS 16 on the Group accounts is a reduction of $2.8 million on after tax operating earnings (2019: $2.9 million).

The consolidated statement of financial position has right of use assets of $360.5 million up $5.4 million due to increased store numbers and lease renewals. Lease liabilities of $438.6 million are also up $11.3 million reflecting the increase in future lease commitments.

Cash Flow & Balance Sheet

In February the Group announced the negotiation of new bank facilities of $370 million which were activated on 1 May 2020. The new facilities were both part of the rationalisation of the Group's lending arrangements as it became more geographically diversified and also to fund the US acquisition. The new arrangements have meant some reduction in interest costs.

Bank debt at the end of the half year was up to $165.9 million compared to $154.3 million at the previous year end. Cash and cash equivalents increased to $58.2 million during the period resulting in net debt reducing by $11.7 million to $107.7 million over the half year.

Operating cash flows were $51.6 million, down $12.1 million being a direct reflection of the effect of COVID-19. Operating cash flows, however include $35.4 million of Government grants, $22.1 million from the New Zealand wage subsidy with the remainder in relation to the PPP loan in Hawaii.

Net investing cash outflows at $24.3 million versus $27.7 million in 1H Dec 2019 reflect the continued high level of spend as the Group continues to build new stores as well as focus on refurbishing stores throughout the network. The decline of $3.4 million on last year relates to having minimal spend in April due to the New Zealand lock down, together with the shorter reporting period.

Dividend

Restaurant Brands continues to ramp up its capital expenditure programme. Despite the interruption of the COVID-19 crisis, the company is targeting more than 60 Taco Bell stores in New Zealand and Australia over the next five years, with the first four stores already open and successfully operating. This, combined with potential further acquisitions and refurbishment programmes, is increasing demands on capital. Directors have therefore resolved there will be no interim dividend for the 31 December 2020 financial year.

Directors have also considered the future of the existing Dividend Reinvestment Plan and, given the constraints upon the majority shareholder in participation and the limited likelihood of dividends in the immediate future, they have elected to terminate the Dividend Reinvestment Plan with immediate effect.

Acquisitions

In December 2019 the Group entered into a conditional agreement to acquire 70 stores in Southern California, USA for $US73 million (plus some capital expenditure reimbursements). The purchase comprised 59 KFC stores and 11 combined KFC Taco Bell stores, together with a head office facility. The purchase was conditional on Yum! approval and the assignment of property leases.

After satisfying a number of conditions, including the approval from the franchisor, Yum! Restaurants International, the transaction for 69 stores was settled on 2 September 2020 in New Zealand (1 September in the USA). The $US80.7 million purchase price was fully funded through debt drawdown on existing facilities. Total net debt is approximately $NZ240 million following the transaction.

The business is expected to generate $US95 million in sales every year with a store EBITDA of $US12 million. It has 1,500 employees and is centred around the greater Los Angeles area.

Directors are very pleased with the acquisition and expect that it will serve as a base for considerable future expansion in the US market.

COVID-19 response

Directors would like to acknowledge all staff for their efforts in overcoming the many and varied challenges faced over the period of the COVID-19 crisis. Each division has had to deal with different issues including a full shut down and restart in New Zealand and extended periods of reduced trading in Australia and Hawaii. During these trying and stressful times the teams in our stores managed to successfully keep the business running.

Outlook

Although the Group was adversely affected by COVID-19, particularly with the full close down in New Zealand, trading has recovered well and is now producing results on or above prior years.

New store roll outs for the KFC brand will continue in Australia with three stores opening before the end of the year. The Taco Bell brand will also see two stores opening in New Zealand and four stores scheduled to open in Australia by early 2021. The Hawaiian market will see at least one further Taco Bell transformation completed by the end of the calendar year.

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

Despite a solid recovery in sales and margin in the beginning of 2H, continuing COVID-19 trading restrictions and with the possibility of further outbreaks, RBD is not providing firm guidance for the balance of this financial year.

Authorised by:

Russel Creedy
CEO
Phone: 525 8710

Grant Ellis
CFO
Phone: 525 8710

ENDS

Consolidated Income Statement					
For the six months ended 30 June 2020					
	30 June 2020		**vs Prior**	**9 September 2019**	
$NZ000's	**26 weeks**		**%**	**28 weeks**	
	unaudited			**unaudited**	
Sales					
Total New Zealand sales	174,603		*(24.3)*	230,797	
Total Australia sales	99,137		*(5.4)*	104,846	
Total USA sales	109,697		*2.6*	106,919	
Total sales	**383,437**		***(13.4)***	**442,563**	
Other revenue	12,054		*(25.6)*	16,196	
Total operating revenue	**395,491**		***(13.8)***	**458,759**	
Cost of goods sold	(338,839)		*7.7*	(367,136)	
Gross margin	**56,652**		***(38.2)***	**91,623**	
Distribution expenses	(2,887)		*(24.5)*	(2,319)	
Marketing expenses	(20,969)		*16.2*	(25,010)	
General and administration expenses	(22,689)		*(8.4)*	(20,933)	
Government grants	22,071		*n/a*	-	
Other items	(2,552)		*(10.3)*	(2,312)	
Operating profit (EBIT)	**29,626**		***(27.8)***	**41,049**	
Financing expenses	(14,127)		*(5.7)*	(13,365)	
Net profit before taxation	**15,499**		***(44.0)***	**27,684**	
Taxation expense	(4,081)		*46.9*	(7,679)	
Total profit after taxation (NPAT)	**11,418**		***(42.9)***	**20,005**	
		% sales			% sales
Concept EBITDA before G&A including Government grants					
Total New Zealand	33,970	*19.5*	*(21.0)*	43,026	*18.6*
Total Australia	11,832	*11.9*	*(23.9)*	15,539	*14.9*
Total USA	16,272	*14.8*	*15.6*	14,071	*13.2*
Total concept EBITDA before G&A	**62,074**	***16.2***	***(14.5)***	**72,636**	***16.4***
Ratios					
Net tangible assets per security (net tangible assets divided by number of shares) in cents	19.5			(1.5)	

Cost of goods sold are direct costs of operating stores: food, paper, freight, labour and store overheads.
Distribution expenses are costs of distributing product from store.
Marketing expenses are order centre, advertising and local store marketing expenses.
General and administration expenses (G&A) are non-store related overheads.
Sales and concept EBITDA for each of the concepts may not aggregate to the total due to rounding.

Consolidated Income Statement - Proportionally reduced for comparatives
For the six months ended 30 June 2020

$NZ000's	30 June 2020 26 weeks unaudited	% sales	vs Prior %	Proportional reduction [1] 9 September 2019 26 weeks unaudited	% sales
Sales					
Total New Zealand sales	174,603		*(18.5)*	214,312	
Total Australia sales	99,137		*1.8*	97,357	
Total USA sales	109,697		*10.5*	99,282	
Total sales	**383,437**		***(6.7)***	**410,951**	
Other revenue	12,054		*(19.8)*	15,039	
Total operating revenue	**395,491**		***(7.2)***	**425,990**	
Cost of goods sold	(338,839)		*0.6*	(340,912)	
Gross margin	**56,652**		***(33.4)***	**85,078**	
Distribution expenses	(2,887)		*(34.1)*	(2,153)	
Marketing expenses	(20,969)		*9.7*	(23,223)	
General and administration expenses	(22,689)		*(16.7)*	(19,438)	
Government grants	22,071		*na*	-	
Other items	(2,552)		*(18.8)*	(2,147)	
Operating profit (EBIT)	**29,626**		***(22.3)***	**38,117**	
Financing expenses	(14,127)		*(13.8)*	(12,411)	
Net profit before taxation	**15,499**		***(39.7)***	**25,706**	
Taxation expense	(4,081)		*42.8*	(7,131)	
Total profit after taxation (NPAT)	**11,418**		***(38.5)***	**18,575**	
		% sales			% sales
Concept EBITDA before G&A including Government grants					
Total New Zealand	33,970	*19.5*	*(15.0)*	39,953	*18.6*
Total Australia	11,832	*11.9*	*(18.0)*	14,429	*14.9*
Total USA	16,272	*14.8*	*24.5*	13,066	*13.2*
Total concept EBITDA before G&A	**62,074**	***16.2***	***(8.0)***	**67,448**	***16.4***

1. The results of the 28 week period ended 9 September 2019 have been proportionally reduced in an arithmetical calculation to a comparable 26 week period. This has been done for illustrative purposes only.

Non-GAAP Financial Measures
For the six months ended 30 June 2020

The Group results are prepared in accordance with New Zealand Generally Accepted Accounting Practice ("NZ GAAP") and comply with New Zealand International Financial Reporting Standards ("NZ IFRS"). These financial statements include non-NZ GAAP financial measures that are not prepared in accordance with NZ IFRS. The non-NZ GAAP financial measures used in this presentation are as follow

1. **EBITDA including Government grants, G&A and other items**. The Group calculates Earnings Before Interest, Tax, Depreciatio and Amortisation ("EBITDA") before G&A (general and administration expenses) and other items by taking net profit before taxation and adding back (or deducting) financing expenses, other items, depreciation, amortisation and G&A. The Group also refers to this measure as **Concept EBITDA before G&A and other items**. This measure provides the results of the Group's core operating business and excludes those costs not directly attributable to stores. This is believed to be a useful measure to assist in the understanding of the financial performance of the Group.

   The term **Concept** refers to the Group's eight operating divisions comprising the New Zealand divisions (KFC, Pizza Hut, Taco Bell and Carl's Jr.), two Australia divisions (KFC and Taco Bell) and the two USA divisions (Taco Bell and Pizza Hut). The term **G&A** represents non-store related overheads.

2. **Total NPAT excluding the impact of NZ IFRS 16**. Total Net Profit After Taxation ("NPAT") excluding the impact of NZ IFRS 16 is calculated by taking profit after taxation attributable to shareholders and adding back (or deducting) lease items whilst also allowing for any tax impact of those items. This measure reflects the performance of the business, excluding costs associated with the adoption of NZ IFRS 16 and is considered a useful measure to assist with understanding the financial performance of the Group.

The Group believes that these non-NZ 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-NZ GAAP measures as reported by the Group may not be comparable to similarly titled amounts reported other companies.

The following is a reconciliation between these non-NZ GAAP measures and net profit after taxation:

$NZ000's	Note*	**Six months ended 30 June 2020 unaudited**	**28 weeks ended 9 September 2019 unaudited**
EBITDA including Government grants, before G&A and other items	1	**62,074**	**72,636**
Depreciation		(15,361)	(15,149)
Net loss on sale of property, plant and equipment (included in depreciation)		(74)	(487)
Lease depreciation		(13,832)	(13,996)
Lease costs		20,716	20,199
Amortisation (included in cost of sales)		(1,328)	(1,385)
General and administration costs - area managers, general managers and support centre		(20,017)	(18,457)
Other income		-	603
Other expenses		(2,552)	(2,915)
EBIT		**29,626**	**41,049**
Financing expenses		(14,127)	(13,365)
Net profit before taxation		**15,499**	**27,684**
Taxation expense		(4,081)	(7,679)
Net profit after taxation		**11,418**	**20,005**
Add back NZ IFRS 16 impact		3,952	3,871
income tax on NZ IFRS 16 impact		(1,161)	(956)
Total NPAT excluding the impact of NZ IFRS 16	2	**14,209**	**22,920**

* Refers to the list of non-NZ GAAP measures as listed above.