

**Directors' Report to Shareholders
For the 28 Weeks ended 10 September 2018
(1H 2019)**

Key Points

	1H 2019	1H 2018	Change (\$)	Change (%)
Total Group sales (\$NZm)	431.0	386.1	+44.9	+11.6
Group NPAT (reported) (\$NZm)	20.4	19.1	+1.3	+7.0
Group NPAT (excl. non-trading) (\$NZm)	21.9	20.4	+1.5	+7.0

- Net Profit after Tax for the 28 weeks ended 10 September 2018 (1H 2019) was \$20.4 million (16.5 cents per share), up \$1.3 million or +7.0% on the prior period (1H 2018).
- Net Profit (excluding non-trading items) was \$21.9 million (17.6 cents per share), up \$1.5 million or +7.0% on the prior period.
- Total Group Sales were \$431.0 million, up 11.6% on the previous half year, with the bulk of the increase being attributable to Australian KFC acquisitions made in the second half of FY 2018.
- Combined brand EBITDA was up \$5.8 million to \$69.2 million with \$4.6 million of the increase from the Australian KFC business as a result of prior year acquisitions and strong same store sales growth (+4.8%) and the New Zealand businesses delivering a further \$1.1 million.

Group Operating Results

Directors are pleased to report that Restaurant Brands New Zealand Limited (RBD) has produced a first half unaudited net profit after tax for the 28 weeks ended 10 September 2018 (1H 2019) of \$20.4 million (16.5 cents per share). This compares with a reported NPAT of \$19.1 million (15.5 cents per share) for the prior half year.

After allowing for the impact of non-trading items the underlying NPAT was \$21.9 million (17.6 cents per share), up \$1.5 million or +7.0% on prior year.

Total brand sales for the Group were \$431.0 million, up \$44.9 million or +11.6% on 1H 2018 with the benefit of \$A25.8 million in sales from the acquisition of 13 Australian KFC stores and one new store opening in the second half of FY18. Total operating revenue was \$445.8 million, up \$45.9 million on prior year.

Combined brand EBITDA at \$69.2 million was \$5.8 million (+9.1%) up on prior year, largely because of the contribution from KFC Australia acquisitions which delivered an additional \$4.6 million.

Restaurant Brands' store numbers now total 305, up eight on the prior year and comprise 163 in New Zealand, 81 in Hawaii and 61 stores in Australia.

New Zealand Operations

New Zealand operating revenue was \$244.9 million, up \$5.8 million or +2.4% on 1H 2018.

Total store sales were \$230.2 million, an increase of \$4.8 million (+2.1%) on last year, with EBITDA of \$41.2 million; a \$1.1 million or +2.8% improvement on 1H 2018 driven mainly by the continued strong performance of the KFC business.

New Zealand operations produced an EBIT (before non-trading items) of \$23.8 million, up 5.1% on the prior year.

KFC New Zealand

	1H 2019	1H 2018	Change (\$)	Change (%)
Network Sales (\$m)	190.2	180.8	+9.4	+5.2
Network Store Numbers	100	98		
RBD Sales (\$m)	179.3	170.3	+9.0	+5.3
RBD Store Numbers	94	92		
RBD EBITDA (\$m)	37.0	35.3	+1.7	+4.9
EBITDA as a % of Sales	20.6	20.7		

Restaurant Brands' KFC New Zealand sales were \$179.3 million, up 5.3% or \$9.0 million on prior year with same store sales up 3.8%. Successful product promotions and the increased use of the delivery service in selected stores contributed to a strong first half sales performance.

Margins remained strong in percentage terms, with an EBITDA margin of 20.6% of sales being delivered in the period. In dollar terms EBITDA totalled \$37.0 million, up \$1.7 million (+4.9%) on last year's result.

Both company-owned and total network store numbers increased by two to a total of 94 and 100 respectively with the opening of the Christchurch Airport store and a new format store in Fort Street Auckland. The Fort Street store continues to outperform expectations and is now the prototype for similar central city stores planned for Wellington and Christchurch.

Pizza Hut New Zealand

	1H 2019	1H 2018	Change (\$)	Change (%)
Network Sales (\$m)	55.8	54.9	+0.9	+1.7
Network Store Numbers	98	94		
RBD Sales (\$m)	20.5	22.9	-2.4	-10.5
RBD Store Numbers	29	34		
RBD EBITDA (\$m)	1.5	2.1	-0.6	-29.7
EBITDA as a % of Sales	7.1	9.0		

Restaurant Brands' Pizza Hut store sales were down \$2.4 million to \$20.5 million, due to a reduction in the company's store network to 29 stores, because of further sales to independent franchisees. Same store sales from Restaurant Brands' stores were also down -4.9%, rolling over +10.6% in the prior year.

Restaurant Brands' Pizza Hut store earnings were \$1.5 million (7.1% of sales), down \$0.6 million or 29.7% on the equivalent period last year reflecting both the reduction in store numbers and the ongoing cost pressures encountered in the first half of the year, particularly in relation to increased labour rates.

Total Pizza Hut network sales climbed to \$55.8 million for the half year, up \$0.9 million (+1.7%) on prior year. Whilst company owned store numbers continue to reduce, the Pizza Hut network continues to expand with total store numbers up four on prior year to 98, with independent franchisees operating 69.

On 13 June 2018, the company entered into a ten year master franchise agreement with Yum! for the Pizza Hut business in the New Zealand market. Under the terms of this agreement Restaurant Brands stepped into the position of franchisor to existing independent franchisees. The company provides operational, marketing and development support to new franchisees, and in return receives a portion of the franchise fees payable by independent franchisees to Yum!

Starbucks Coffee New Zealand

	1H 2019	1H 2018	Change (\$)	Change (%)
Sales (\$m)	13.0	13.4	-0.4	-2.8
EBITDA (\$m)	2.1	2.2	-0.1	-7.5
EBITDA as a % of Sales	15.8	16.6		
Store Numbers	22	23		

Starbucks Coffee saw same store sales growth over the period of +3.8%.

Total sales were down marginally on 1H 2018 by \$0.4 million (-2.8%) to \$13.0 million, reflecting the reduced store network to 22 stores, following the closure of the Auckland Newmarket store in 2H 2018.

Margins decreased with the continued pressure on costs. The brand achieved an EBITDA of \$2.1 million (15.8% of sales), down \$0.1 million on 1H 2018.

As Restaurant Brands has increasingly pursued a growth strategy with a much stronger emphasis on its core quick service restaurant brands, the Starbucks Coffee business has less relevance to its core activities. On 3 September 2018, we announced the sale of the Starbucks Coffee business for \$4.4 million. Settlement on this transaction is expected to be late October 2018.

Carl's Jr. New Zealand

	1H 2019	1H 2018	Change (\$)	Change (%)
Sales (\$m)	17.5	18.8	-1.3	-7.1
EBITDA (\$m)	0.7	0.5	+0.2	+28.3
EBITDA as a % of Sales	4.0	2.9		
Store Numbers	18	19		

The Carl's Jr. business continues to make steady progress towards a sustainable operation with a focus on building margin.

Sales were down 7.1% due primarily to the closure of the Upper Harbour store (-2.0% on a same store basis). With the focus on generating more profitable sales rather than driving sales through discounting and promotional activity EBITDA was \$0.7 million (4.0% of sales), an increase of \$0.2 million or +28.3% on last year.

Store numbers now total 18 following the compulsory closure of the Auckland Upper Harbour store in 1H 2019 due to road development.

Australia Operations

In \$NZ terms the Australian business (operating the KFC brand) contributed total sales of \$NZ103.4 million, a store EBITDA of \$NZ15.2 million and EBIT of \$NZ6.9 million. These results are all significantly up on prior year, primarily because of the acquisition of 13 stores and the opening of one new store during 2H 2018.

KFC Australia

	1H 2019	1H 2018	Change (\$)	Change (%)
Sales (\$Am)	95.5	66.7	+28.8	+43.1
Store EBITDA (\$Am)	14.0	9.8	+4.2	+42.5
EBITDA as a % of Sales	14.7	14.7		
Store Numbers	61	47		

In \$A terms total sales of the KFC business in Australia were \$A95.5 million, up \$A28.8 million (or +43.1%) on last year, reflecting both increased store numbers following the acquisition of 13 stores during 2H 2018 and the annualised effect of the five stores acquired at the start of 1H 2018. Same store sales were strong at +4.5% for the period.

Store EBITDA margins of \$A14.0 million (14.7% of sales) are up \$A4.2 million or +42.5% on last year.

Further new store build and acquisition opportunities continue to be explored.

Hawaii Operations

Total sales in Hawaii for the period were \$US67.1 million with store level EBITDA of \$US8.8 million generated equating to 13.1% of sales.

In \$NZ terms the Hawaiian operations contributed \$NZ97.4 million in revenues, \$NZ12.8 million in EBITDA and an EBIT of \$NZ4.3 million for the period.

Taco Bell Hawaii

	1H 2019	1H 2018	Change (\$)	Change (%)
Sales (\$USm)	38.6	36.6	+2.0	+5.5
Store EBITDA (\$USm)	7.8	7.2	+0.6	+8.0
EBITDA as a % of Sales	20.1	19.7		
Store Numbers	36	37		

Taco Bell continues to perform well with total sales to date of \$US38.6 million up 5.5% in total and 3.2% on a same store basis, assisted by a strong promotional programme.

Store-level EBITDA rose to \$US7.8 million (20.1% of sales) despite some increasing cost pressure in labour and ingredients.

Store numbers have dropped by one with the closure of the Pearlridge store due to the lease expiring. The Company has undertaken a number of minor refurbishments as part of an asset refurbishment strategy which continue to drive sales as they are completed. A number of major store transformations are expected to be under way in the coming months.

Pizza Hut Hawaii

	1H 2019	1H 2018	Change (\$)	Change (%)
Sales (\$USm)	28.4	27.3	+1.2	+4.4
Store EBITDA (\$USm)	1.0	1.9	-0.9	-48.9
EBITDA as a % of Sales	3.5	7.1		
Store Numbers	45	45		

Whilst total sales were up for the brand, they were negative (-2.0%) on a same store basis. Disruption from the implementation of a new store point of sale system, a weak economic environment in Guam and a lack of new promotions all contributed to a softer sales outcome at \$US28.4 million.

EBITDA at \$US1.0 million (3.5% of sales) was also down because of significant margin pressure from participating in value-led marketing promotions together with some higher commodity costs and rising direct labour expense from low unemployment rates.

The company continues with an asset refurbishment strategy that will see a move away from the larger restaurants into smaller, more cost-effective delivery and carry out (delco) units.

Corporate & Other

General and administration (G&A) costs were \$19.5 million, a 5.3% increase on prior year. The increase in the G&A cost base was partly as a result of growth of the Australian operations with various acquisitions part way through 2H 2018 and partly through more corporate resource. G&A as a % of total revenue was 4.4%, down from 4.6% in the prior year.

Depreciation charges of \$16.5 million for the half year were \$1.0 million higher than the prior year, which primarily related to the Australian business acquisitions.

Financing costs of \$3.7 million were up \$1.0 million on prior year reflecting the higher borrowings required to fund the Australian acquisition and increasing interest rates in the US.

Tax expense was \$7.7 million, down \$0.6 million on the prior year despite higher reported profit levels. The effective tax rate of 27.5% reflects the increased proportion of profits that are generated off-shore and the drop in the corporate tax rate in the US to 21% together with a non-trading capital gain on the sale of five Pizza Huts to independent franchisees.

Non-Trading Items

Non-trading expenditure for the half was \$2.1 million, an increase of \$0.4 million on prior year. This year's costs included a \$2.0 million settlement provision for New Zealand leave remediation following a review of historical holiday pay calculations. Also included was the amortisation of franchise rights acquired on acquisition of QSR Pty Limited and Pacific Island Restaurants Inc. (PIR) and the impairment of assets associated with the relocation of the Australian support office. These were partially off-set by gains on the sale of Pizza Hut stores to independent franchisees.

Cash Flow & Balance Sheet

Bank debt at the end of the half year was down to \$159.6 million compared to \$166.8 million at the previous year end. As at balance date, the Group had bank debt facilities totalling \$NZ257.6 million in place.

Operating cash flows continue to improve, up \$9.7 million to \$47.3 million with enhanced earnings, albeit with the assistance of positive working capital movements.

Net investing cash outflows at \$13.9 million versus \$10.1 million last year (excluding business acquisition) reflects the increased level of spend as the Group continues to focus on refurbishing stores throughout the network. Cash inflows for the period saw \$4.4 million received from the sale of Pizza Hut stores.

Partial Takeover Proposal

On 18 October 2018 the Group announced that it has received a non-binding indicative approach from Finaccess Capital, S.A. de C.V. to acquire up to 75% of Restaurant Brands' shares by way of a partial takeover offer at \$NZ9.45 cash per share ("Proposal").

The Proposal does not constitute a takeover notice pursuant to the Takeovers Code. The Group and Finaccess are in discussions to seek to agree and finalise the terms of takeover implementation arrangements which, if agreed, could result in Finaccess issuing a takeover notice to Restaurant Brands New Zealand Limited. There is no guarantee at this stage that agreement will be reached or that Finaccess will proceed with a takeover. If Finaccess does proceed to make a takeover, the offer would be subject to various conditions, including Overseas Investment Office consent and receiving consent from certain subsidiaries of Yum! Brands Inc., the owner of the KFC, Pizza Hut and Taco Bell brands franchised to the Group.

As a result of this Proposal the directors have resolved not to declare an interim dividend at this time. If the Proposal does not result in a takeover by Finaccess, the Board will consider declaring a dividend at a later stage.

Outlook

The overall business continues to deliver solid results across all geographic markets.

The strong performance of Taco Bell in Hawaii and the KFC brand in Australia and New Zealand is expected to continue in the second half of the year. This will be partially off-set by the sale of the Starbucks Coffee brand which is expected to have a minor adverse impact of approximately \$1.3 million on the Group's EBITDA.

Directors believe that, absent any major changes to economic or market conditions, the Group is expected to deliver a Net Profit after Tax (excluding non-trading items) for the FY19 year of between \$43 million and \$45 million, after adjusting for the impact of the Starbucks Coffee sale.

For further information, please contact:

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Consolidated Income Statement					
For the 28 week period ended 10 September 2018					
	10 September 2018		vs Prior	11 September 2017	
	28 weeks		%	28 weeks	
\$NZ000's					
Sales					
KFC	179,264		5.3	170,307	
Pizza Hut	20,452		(10.5)	22,862	
Starbucks Coffee	13,049		(2.8)	13,425	
Carl's Jr.	17,461		(7.1)	18,803	
Total New Zealand sales	230,226		2.1	225,397	
KFC	103,391		43.9	71,864	
Total Australia sales	103,391		43.9	71,864	
Taco Bell	56,115		10.1	50,950	
Pizza Hut	41,255		8.8	37,919	
Total Hawaii sales	97,370		9.6	88,869	
Total sales	430,987		11.6	386,130	
Other revenue	14,861		7.7	13,804	
Total operating revenue	445,848		11.5	399,934	
Cost of goods sold	(366,536)		12.1	(327,007)	
Gross margin	79,312		8.8	72,927	
Distribution expenses	(2,016)		17.7	(1,713)	
Marketing expenses	(23,871)		14.2	(20,909)	
General and administration expenses	(19,523)		5.3	(18,537)	
EBIT before non-trading items	33,902		6.7	31,768	
Non-trading items	(2,095)		22.0	(1,718)	
EBIT	31,807		5.8	30,050	
Financing expenses	(3,663)		36.3	(2,687)	
Net profit before taxation	28,144		2.9	27,363	
Taxation expense	(7,726)		(6.7)	(8,277)	
Total profit after taxation (NPAT)	20,418		7.0	19,086	
Total NPAT excluding non-trading items	21,853		7.0	20,430	
		% sales			% sales
Concept EBITDA before G&A					
KFC	37,018	20.6	4.9	35,277	20.7
Pizza Hut	1,450	7.1	(29.7)	2,061	9.0
Starbucks Coffee	2,061	15.8	(7.5)	2,230	16.6
Carl's Jr.	704	4.0	28.3	549	2.9
Total New Zealand	41,233	17.9	2.8	40,116	17.8
KFC	15,197	14.7	43.5	10,592	14.7
Total Australia	15,197	14.7	43.5	10,592	14.7
Taco Bell	11,305	20.1	12.9	10,016	19.7
Pizza Hut	1,471	3.6	(45.6)	2,704	7.1
Total Hawaii	12,776	13.1	0.4	12,720	14.3
Total concept EBITDA before G&A	69,206	16.1	9.1	63,428	16.4
Ratios					
Net tangible assets per security (net tangible assets divided by number of shares) in cents	(35.9)			(22.2)	
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 store EBITDA for each of the concepts may not aggregate to the total due to rounding.					

