Annual Shareholders' Meeting 2018

Chief Executive's Address

Thank you Ted

This has indeed been a year of strong growth for Restaurant Brands, primarily driven by our offshore acquisition strategy. As you would have read in the annual report, this strategy is predicated on identifying acquisition targets in significant and growing offshore markets that are:

1. of sufficient size to both operate on a stand-alone basis; and
2. able to provide a "beachhead' for further expansion.

We have restricted our expansion opportunities to familiar brands in familiar markets. Hence our primary expansion focus has been with KFC and Taco Bell.

It is important to note the relevancy of these two brands; they are second to none in the QSR marketplace and carry considerable mana.

I will give you a run down on the performance of each of our brands; provide some commentary on the trading results and also brief you on our further growth opportunities. I will also talk about some of our corporate social responsibility initiatives.

As the Chairman indicated earlier, with total sales this year of $741 million we are well on the way to our billion dollar revenue target. This result incorporates $421 million in sales for New Zealand, $152 million for the Australian business and $168 million for Hawaii.

Total store numbers at year end were 314, up 102 on prior year with the benefit of the 82 Taco Bell and Pizza Hut stores acquired in Hawaii and the purchase of another 18 KFC stores in Australia. New Zealand store numbers were up one to 171, with KFC new store builds offsetting Starbucks Coffee store closures.

KFC New Zealand, our biggest brand, continues from strength to strength, delivering another record year of sales growth to reach $319.6 million for the year, up 7.8%.

Same store sales growth for the full year was + 6.2%, rolling over an increase of 3.6% in the prior year.

KFC is a very powerful brand that holds a special place in the New Zealand psyche.

KFC was the first international quick service restaurant brand in New Zealand (first introduced over 40 years ago) and has never lost its pre-eminence in consumers' minds.

EBITDA was commensurately up by $4.6 million or +7.4% on prior year to $66.0 million. Despite some higher labour and other input cost pressures, margins were held at 20.6% of sales, consistent with the previous three years.

With the completion of the KFC New Zealand major store transformation programme, new store formats were identified as potential growth drivers for KFC. Our store Development team was charged with developing a store design suitable for high foot traffic CBD areas, and the prototype store opened in Fort Street Auckland just over nine months ago. The revolutionary design incorporates kiosk ordering, table service and a funky atmosphere and décor, and the store duly opened to widespread acclaim. It is proving immensely successful with total sales averaging over $70,000 a week.

KFC delivery has been successfully trialled and the business is implementing software to better enable our future delivery strategy. Our KFC customers will see mobile ordering, payment, order tracking and a fast reliable service rolled out in New Zealand over the next 12 months. The business will benefit from providing a seamless transaction for store operations to fulfil and delivery drivers the tools to operate efficiently.

Our New Zealand Pizza Hut strategy continues to focus on store growth in what is a competitive marketplace. However we see this growth increasingly led by smaller independent franchisees who can bring a more competitive cost structure to the operation of individual stores than we can.

System sales for Pizza Hut exceeded $100 million this year, up 10% on prior. Despite the continued sale of company stores Restaurant Brands' share of that $100 million still amounted to over $41 million, up 1.5% in total on prior year and 8.1% on a same store basis.

Pizza Hut's profit was down slightly on prior year with EBITDA at $3.1 million, partly due to the sale of profitable stores and also as a result of increases in labour and some ingredient costs.
As I've mentioned, we are continuing to sell Pizza Hut stores to independent franchisees with two stores being transferred over the 2018 financial year. Three additional stores were built for independent franchisees. At year end, the Pizza Hut network comprised 97 stores, 36 of which are owned by Restaurant Brands and 61 by independent franchisees.

We have signed a master franchise agreement with Yum!, formalising our responsibility for the Pizza Hut business as a master franchisee in New Zealand. The Pizza Hut "mixed ownership" model of blending company-owned stores with those of independent franchisees works well.

The Starbucks Coffee brand had another solid year producing a store EBITDA of $4.8 million with continued same store sales growth (of +6.3%). We have previously announced that our franchise agreements for this brand expire this year and we have been considering our options. An announcement regarding the future direction of Starbucks within the Restaurant Brands portfolio is expected to be made within the next few months.

The Carl's Jr. brand continues to make steady progress towards building critical mass and longer term financial sustainability. This has been a slow process and has seen some hard decisions made on store viability. A lot of work has been done on improving ingredient costs, modifying the menu to align with customer preferences, enhancing operational efficiencies and refining brand marketing.

The focus for the brand this year has been on margin enhancement, rather than sales building. To that end the brand doubled its earnings this year to an EBITDA of $2.0 million (5.7% of sales) The profitability of the brand continues to improve, but it is still not generating a satisfactory return on funds invested and to that end directors elected to take up an impairment charge of $1.2 million in the current year.

From our initial purchase of 42 KFC stores in New South Wales Australia on 27 April 2016, the Australian business has grown dramatically with total store numbers up 45% to 61 as at the end of the FY18 year. Most of this growth has come from acquisition with 18 stores being acquired over the past 18 months from independent franchisees and Yum!

We opened one store ourselves at Nambucca Heads in regional New South Wales and are looking to open at least one additional store in the current year.

We have further enhanced our above-store management and support structure, with the addition of experienced store development and operations capabilities. With the recent retirement of Adrian Holness, the CEO, we were delighted to promote Ashley Jones, the long-standing CFO into the role.

In the FY18 financial year the KFC Australia business delivered sales of $A139 million ($NZ152 million). This was an increase of 50.9% on the prior year and 4.9% on a same store basis. Given that we did not have a number of our additional stores for the full year, this understates the full year potential of the business. We believe that with organic growth and some small acquisitions, our Australian KFC operations will be producing over $NZ200 million of revenues in the next two years.

Store EBITDA was up 42% to $A20.2 million, despite some cost pressures. We expect this business to continue to deliver an EBITDA margin in excess of 15% of sales over the longer term.

With settlement of the purchase of our Hawaiian business on 7 March 2017, we have had just under a year's trading from this acquisition in the FY18 results.

Our first year's sales were in excess of $NZ160 million ($US120 million) and store EBITDA was over $NZ24 million ($US17 million). Whilst our Pizza Hut business was slightly behind expectation, the Taco Bell operation continued to demonstrate strong growth.

Our growth strategy in Hawaii is centred around rebuilding and transforming the network, in much the same vein as we applied to the KFC transformation in New Zealand.

Considerable work has gone into this network growth and transformation of the Hawaiian market since we took over the business last year. However there continues to be a long lead time in site procurement, store design and approval processes in Hawaii. We do have a number of major new builds, relocates or major renovations in the pipeline over the next 12-18 months, but they will take a while to come to fruition. We have opened one Pizza Hut delco store earlier this year and it is trading well.

We continue to gain heart from the performance of the Kailua Taco Bell store, the first of the Taco Bell stores to be substantially rebuilt. Same store sales growth following its re-opening has been in excess of 60% and this level of improvement has been maintained.

We are now a very large employer with about 9,000 staff across our three divisional operations. Each jurisdiction has its own individual attributes from an employment viewpoint and we rely on the senior management in each division to recruit, train, motivate and properly remunerate our people.

Restaurant Brands continues to be considered a leader in the industry in terms of treating our people fairly and remunerating them at the upper end of the market. We actively promote employees from within and provide training and development for all employees, from first job new starters to experienced managers looking to upskill.

We place the health and safety of our employees and customers as our top priority and continue to strive towards our target of zero workplace injuries across all our brands and operating territories. Continued investment in training, improving processes and employee engagement have resulted in the number of lost time injuries decreasing year on year across New Zealand and Australia.

We continue to actively encourage diversity across all areas and levels within our business as reflected by the many different nationalities represented, and approximately half our workforce together with a significant proportion of senior management are female.

Restaurant Brands serves high quality, great tasting food. We are aware of our product offerings and their impact on the health and wellbeing of those that consume them and as such we continue to improve the nutritional composition of the food we serve, with a strong focus on sodium, sugar, and saturated fat reduction.

We do not target any of our advertising at children, but continue to support sporting events and teams in a sponsorship capacity, such as our Super Rugby teams. NZ Surf Life Saving also benefits strongly from extensive support of our KFC brand.

We have come a long way over the past year. Our New Zealand business has delivered its best ever result and we have successfully implemented and built on major overseas expansion in two new geographies.

We are well on the way to achieve our "billion dollar revenue" target and I am confident that we will deliver on this objective, and we are already planning to reach $1.5 billion, together with ensuring a continued increase in shareholder value.

Thank you