4 April 2013
NZX

RESTAURANT BRANDS' 2013 ANNUAL RESULT

	2013 $m	2012 $m	Change (%)
Total Group Revenue	**312.8**	**308.9**	**1.3**
Group Net Profit after Tax*	**17.7**	**18.4**	**-3.9**
Dividend (cps)	**16.0**	**16.0**	**-**
** Excluding non-trading items*			

Key points

- Group Net Profit after Tax (excluding non-trading items) was $17.7 million (18.0 cents per share), down 3.9% on prior year.
- Total Group Revenue of $312.8 million was up $3.9 million (+1.3%) with growth from KFC and Pizza Hut, together with new sales from Carl's Jr. partly offset by a reduction in Starbucks Coffee sales.
- KFC sales continued to grow to a new high of $237.0 million with store transformations continuing to provide positive growth.
- Pizza Hut delivered a very strong result with same store sales up 21.2% to $47.9 million and EBITDA up 80.8%.
- Total store EBITDA of $51.5 million was marginally (+0.2%) up on prior year with the strong performance by Pizza Hut offsetting reduced margins in KFC and Starbucks Coffee and initial set up costs in Carl's Jr.
- The launch of the new Carl's Jr. brand proceeded to plan with two stores opening in the last three months of the year contributing $1.9 million in revenues, but earnings were negative $0.5 million as forecast with initial set up costs.
- G&A overhead costs were up 16.5% on prior year to $13.2 million with the Carl's Jr. pre-opening costs together with new initiatives in Human Resources and Information Systems.
- Operating cash flows were up $5.0 million to $34.8 million. Investing cash flows were also up $5.5 million to $19.8 million with KFC and Carl's Jr. store builds, meaning bank debt was slightly up on prior year at $14.6 million.
- A final fully imputed dividend of 9.5 cents per share will be paid on 28 June, making a full year dividend of 16.0 cents (the same as for the previous year).

Group Operating Results

Restaurant Brands Net Profit after Tax (excluding non-trading items) for the 12 months to 28 February 2013 (FY13) was $17.7 million (18.0 cents per share), down 3.9% on last year's profit of $18.4 million (18.8 cents per share).

Net Profit after Tax (including non-trading items) was $16.2 million (16.5 cps) compared to $16.9 million (17.3 cps) in FY12.

Total store sales of $311.9 million were up $3.7 million (+1.2%) on the previous year's sales. Same store sales for the group were up 1.9% (down 2.5% in FY12). KFC saw total store sales growth of +0.3% and Pizza Hut +5.3% but Starbucks Coffee declined 5.1%.

Store EBITDA (before G&A costs) was up marginally on prior year by $0.1 million to $51.5 million, driven by a strong turnaround in Pizza Hut's results. Pizza Hut was the stand out performer for the year increasing EBITDA by $1.7 million (80.8%) with both KFC and Starbucks Coffee seeing EBITDA down by $0.3 million (-0.6%) and $0.8 million (-21.8%) respectively. The new Carl's Jr. brand incurred $0.5 million in trading losses arising primarily from initial set up costs in establishing the brand.

Year end store numbers at 177 were 17 down on February 2012 with continuing sales of regional Pizza Hut stores to independent franchisees and the closure of a number of Starbucks Coffee stores at lease end.

KFC

	2013 $m	**2012 $m**	**Change $m**	**Change (%)**
Sales	**237.0**	**236.3**	**+0.7**	**+0.3**
EBITDA	**45.3**	**45.6**	**-0.3**	**-0.6**
EBITDA as % of Sales	***19.1***	***19.3***	***-***	***-***

KFC sales continued to climb to a new high, albeit at a reduced pace. Given the continuing competitive market place with increased competitor discounting activity, KFC did well to produce total sales of $237.0 million, up 0.3% on prior year. Same store sales however declined 1.0% (-1.8% in FY12). The brand's sales performance improved as the year progressed, returning to positive same store sales growth in the last quarter.

Brand EBITDA of $45.3 million was marginally ($0.3 million) down on prior year. Input costs remained relatively steady, but KFC experienced some pressure on labour costs. As a % of sales, brand EBITDA improved over the year from 18.7% in the first half to 19.5% in the second.

KFC product and promotional activity over the year included the very successful *$5 Lunch Box*, the *KFC Chicken Pie* and a new taste variant, *Sweet Sesame Chicken*. KFC also brought back the *Double Down* for a limited time.

KFC continued its transformation process. Six stores were refurbished over the year bringing the number of transformed and new stores to 68, 76% of the total network. Total store numbers increased by one to 89. An independent franchisee's store at Cambridge was acquired towards the end of the year and a new store was opened at Silverdale, north of Auckland. In addition a new store was opened at Lower Hutt, replacing two other older stores in the Hutt Valley.

Pizza Hut

	2013 $m	**2012 $m**	**Change $m**	**Change (%)**
Sales	**47.9**	**45.5**	**+2.4**	**+5.3**
EBITDA	**3.8**	**2.1**	**+1.7**	**+80.8**
EBITDA as % of Sales	***7.9***	***4.6***	***-***	***-***

Pizza Hut had a very strong year delivering both sales and margin growth in the intensely competitive pizza market. Commencing with the $4.90 pizza campaign, the brand has built renewed momentum, selling quality pizzas at an everyday competitive price and maintaining high levels of customer service.

Despite finishing the year with 14 stores less than last year, Pizza Hut increased total sales out of the remaining stores by $2.4 million (+5.3%) and grew same store sales by +21.2% (-9.7% in the prior year).

The benefits of higher sales volumes and increased efficiencies, together with disposals of some of the lower margin stores saw the brand produce a strong profit turnaround with EBITDA up $1.7 million (+80.8%) on prior year to $3.8 million or 7.9% of sales.

The strategy of selling regional and lower volume stores to independent franchisees continued with a total of 13 stores sold to largely single store operators, who are able to enhance the economics of these stores at lower sales volumes. This brings the total number of independents to 26 out of the total Pizza Hut network of 83 stores. These store sales, together with one closure brought Pizza Hut stores owned by Restaurant Brands to 57 at year end. There has to date been no turnover of the new franchisees.

Starbucks Coffee

	2013 $m	2012 $m	Change $m	Change (%)
Sales	**25.1**	**26.5**	**-1.3**	**-5.1**
EBITDA	**2.9**	**3.7**	**-0.8**	**-21.8**
EBITDA as % of Sales	***11.7***	***14.2***	***-***	***-***

Total Starbucks Coffee sales were $25.1 million, down $1.3 million or -5.1%, impacted by the closure of six stores over the year and a significant price reduction in the middle of the year. Same store sales however were only down 1.7% (up 5.4% in FY12). Same store sales growth improved as the year progressed, finishing the last quarter of the year up 1.7%.

The price discounting strategy and some sales deleverage, saw Starbucks Coffee EBITDA drop $0.8 million or 21.8% to $2.9 million for the year, but both sales and margins improved as the year progressed.

There are now 29 Starbucks Coffee stores operating – six less than a year ago. Three stores closed during the year and a further three remain closed following the Christchurch earthquakes of 2011 and are not likely to re-open.

Carl's Jr.

	2013 $m	2012 $m	Change $m	Change (%)
Sales	**1.9**	**-**	**+1.9**	**-**
EBITDA	**-0.5**	**-**	**-0.5**	**-**
EBITDA as % of Sales	***-26.4***	***-***	***-***	***-***

The first Carl's Jr. store opened in Mangere on 29 November 2012 generating $0.1 million sales in the first week of opening. The second opened in Palmerston North on 12 December 2012 at similar sales levels. Whilst these opening sales levels have since leveled off they remain ahead of forecast and have produced $1.9 million sales between them in the current year. A third store opened in Queen Street Auckland very shortly after the end of the financial year and has also traded very strongly.

Set up, recruitment, training and other establishment costs have meant that the brand has produced an initial trading EBITDA loss of $0.5 million. However, all stores are on target to produce breakeven results after three to four months' trading and produce positive contributions for the full year.

Corporate and Other Costs

G&A (above store overheads) at $13.2 million was $1.9 million (16.5%) higher than prior year. The increased costs arose in three main areas. Firstly the company has made a commitment to enhance its people capabilities. This has necessitated additional expenditure in its HR function such as the creation of a centralised recruitment facility ($0.5 million) in order to improve the quality of new staff and reduce store management time in recruitment activity. The second major initiative has been in upgrading capacity and performance of its information systems ($0.5 million) in order to ensure dependable and well-supported store systems were in place. Finally there have been above store establishment costs (recruitment, legal, training) required in the establishment of the Carl's Jr. brand ($0.4 million). All these areas of incremental expenditure are expected to either reduce (a portion being non-recurring) or produce significant benefits elsewhere in the organisation.

Whilst G&A costs this year were 4.2% of sales (3.7% in FY12), slightly above the 4.0% target, this will reduce in the coming year.

Group non-trading charges were $2.4 million ($2.3 million in FY12). These included a write off of goodwill following Pizza Hut store disposals of $3.2 million ($1.5 million in FY12), offset by a $1.5 million ($0.2 million FY12) gain on disposal above asset value. There were also store closure costs (mainly fixed asset write offs) of $1.5 million ($0.6 million in FY12) and KFC transformation write offs of $0.5 million. Insurance receipts for earthquake assets totaled $1.3 million.

Depreciation charges at $13.6 million were flat to the prior year reflecting increased capital expenditure in KFC with depreciation up $0.4 million, fully offset by lower charges in Starbucks Coffee with store closures (depreciation down $0.1 million) and Pizza Hut with store disposals (depreciation down $0.5 million).

Interest and funding costs at $0.8 million were down $0.5 million on prior year with the company carrying lower debt levels over the first half of the year. Bank interest rates (inclusive of margins and fees) for the year averaged 5.0% compared with 4.6% in FY12.

Cash Flow and Balance Sheet

Operating cash flows continued to be strong, up $5.0 million for the year from $29.8 million to $34.8 million. Although assisted by some working capital movements, this continues to reflect the underlying strength in cash generation from the company's brands.

Investing cash outflows increased by $5.5 million to $19.8 million reflecting the increased capital expenditure in the KFC and more latterly Carl's Jr. stores. The underlying capex spend was $22.4 million, up $7.3 million on prior year, but this was offset by $4.3 million in investing cash flow receipts, mainly from the sale of Pizza Hut stores.

Financing cash outflows were reduced to $14.8 million from $15.6 million in the prior year. The bulk of the change arose from a slight reduction in dividend payments made in the current year. Bank debt was up slightly to $14.6 million from $13.6 million, but continues to remain well within facility limits of $35 million.

Total assets at $111.8 million were up $6.9 million on last year, with a $7.7 million increase in fixed asset values arising from continued re-investment in KFC stores, together with the new builds in Carl's Jr. partly offset by asset disposals on Pizza Hut stores. Intangibles reduced $2.1 million through amortisation and Pizza Hut goodwill write offs following store sales to franchisees.

Total liabilities were also up by $6.3 million to $51.4 million with creditors up $4.0 million, mainly in trade and other creditors.

Year end shareholders' funds of $60.3 million were marginally ($0.6 million) up on prior year because of increases in retained earnings.

The balance sheet remains very conservative with a gearing ratio of 19% (2012: 19%).

Dividend

Directors have declared a final fully imputed dividend of 9.5 cents per share. The continuing strong cash flows and low levels of debt mean that dividend levels have been maintained at last year's level with the resultant full-year dividend of 16.0 cents per share.

The 9.5 cents final dividend will be paid on 28 June 2013 to all shareholders on the register as at 14 June 2013. A supplementary dividend of 1.6765 cents per share will also be paid to overseas shareholders on that date.

The dividend re-investment plan remains suspended for this dividend.

Outlook

Directors remain confident in the underlying strengths of the company's brands and with maintaining tight controls and efficiencies, together with some overall improvement in the economy, are anticipating profit growth for the new financial year.

Whilst KFC saw some softening of sales in the 2012/13 year, this has turned around as the year progressed. Now in its final phases, the KFC transformation process will continue and is expected to continue to deliver improved results for those transformed stores. In the absence of any significant input cost escalation, KFC is expected to deliver margins slightly better than the current year.

Pizza Hut is expected to continue to produce positive same store sales growth, albeit at a significantly reduced rate to the current year as it rolls over the substantial gains enjoyed this year. Continuing tight controls, together with volume leverage are expected to produce earnings at similar levels to this year despite lower store numbers. A further six to eight stores are expected to be sold to independent franchisees (primarily in the regional locations).

The Starbucks Coffee business will return to positive same store sales growth trend with similar levels of profitability. There will be some further network rationalisation as a number of poorer performing stores are closed at lease end.

The new Carl's Jr. brand is expected to contribute significant sales volumes and produce a positive margin in its first full year of operation. The brand will take some time to achieve its full margin potential with the start up costs and initial operating challenges that are experienced in a rapid brand roll out. The brand is expected to have nine to ten stores operating by the end of the financial year from the two established as at February 2013.

G&A costs will be at similar levels to the 2012/13 year as the company continues to focus on its human resources and information systems initiatives and a full year of Carl's Jr. G&A is incurred. However G&A costs are targeted to return to well under 4% of sales.

Given this, directors expect to deliver an improved NPAT result in the new financial year; further guidance will be provided at the Annual Shareholders' Meeting.

Annual Shareholders' Meeting

The Annual Shareholders' Meeting for the company will be held in Wellington on 28 June 2013.

For further information please contact:

Russel Creedy
CEO
Phone: 525 8722

Grant Ellis
CFO/Company Secretary
Phone: 525 8722

ENDS

About Restaurant Brands:
Restaurant Brands New Zealand Limited operates the New Zealand outlets of KFC, Pizza Hut, Carl's Jr. and Starbucks Coffee. These brands - four of the world's most famous - are distinguished for their product, look, style and ambience, service and for the total experience they deliver to their customers in New Zealand and around the world.

RESTAURANT BRANDS GROUP
Consolidated Income Statement

$NZ000's	28 February 2013 Audited		vs Prior %	29 February 2012 Audited	
Sales					
KFC	237,032		*0.3*	236,284	
Pizza Hut	47,876		*5.3*	45,477	
Starbucks Coffee	25,115		*(5.1)*	26,452	
Carl's Jr.	1,878		*n/a*	-	
Total sales	**311,901**		*1.2*	**308,213**	
Other revenue	912		*27.7*	714	
Total operating revenue	**312,813**		*1.3*	**308,927**	
Cost of goods sold	(258,081)		*(2.1)*	(252,706)	
Gross margin	**54,732**		*(2.6)*	**56,221**	
Distribution expenses	(2,672)		*13.5*	(3,088)	
Marketing expenses	(13,716)		*9.1*	(15,087)	
General and administration expenses	(13,203)		*(16.5)*	(11,333)	
EBIT before non-trading	**25,141**		*(5.9)*	**26,713**	
Non-trading	(2,405)		*(3.8)*	(2,316)	
EBIT	**22,736**		*(6.8)*	**24,397**	
Interest income	13		*1,200.0*	1	
Interest expense	(851)		*34.9*	(1,307)	
Net profit before tax	**21,898**		*(5.2)*	**23,091**	
Taxation expense	(5,739)		*6.9*	(6,164)	
Total profit after tax (NPAT)	**16,159**		*(4.5)*	**16,927**	
Total NPAT excluding non-trading	**17,654**		*(3.9)*	**18,361**	
		% sales			% sales
EBITDA before G&A					
KFC	45,272	*19.1*	*(0.6)*	45,553	*19.3*
Pizza Hut	3,796	*7.9*	*80.8*	2,099	*4.6*
Starbucks Coffee	2,929	*11.7*	*(21.8)*	3,744	*14.2*
Carl's Jr.	(495)	*(26.4)*	*n/a*	-	*n/a*
Total	**51,502**	***16.5***	***0.2***	**51,396**	***16.7***
Ratios					
Net tangible assets per security (net tangible assets divided by number of shares) in cents	42.5c			39.8c	

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 call centre, advertising and local store marketing expenses.
General and administration expenses (G&A) are non-store related overheads.