DIRECTORS' REPORT
For the year ended 31 December 2023 (FY23)

$NZm	Dec-23	Dec-22	Change ($)	Change (%)
Total Group Store sales[1]	**1,322.2**	**1,239.0**	**+83.2**	**+6.7**
Group Net Profit After Tax (NPAT)[2]	**16.3**	**32.1**	**-15.8**	**-49.3**
Group Store EBITDA[3 4]	**178.4**	**180.0**	**-1.6**	**-0.9**

Key Points

- Total Group store sales hit a record high of $1,322.2 million, an increase of $83.2 million (6.7%) on FY22, with all four operating divisions showing growth in terms of $NZ.
- The reported NPAT of $16.3 million for the year was down $15.8 million on the prior year. This was primarily driven by inflationary impact experienced in the first half of the year.
- The implementation of a strategic programme of price increases and cost control measures delivered margin gains in the second half of FY23. The Group is starting to see steady signs of recovery, notwithstanding the continuing cost pressures.
- Total store EBITDA for the period was $178.4 million. This was down 0.9% on the previous year.
- Total store numbers as at 31 December 2023 totalled 376, unchanged from 31 December 2022. Pizza Hut stores in New Zealand reached 124 (118 are operated by independent franchisees).
- At present Directors have not deemed it appropriate to declare a dividend payment.

Operating Results

NPAT for the year ended 31 December 2023 was $16.3 million. Reduced NPAT versus prior year is a result of continuing inflation pressures, higher financing costs, and under-performance of the California region and the New Zealand region in the first half of 2023 (1H 2023).

Inflation pressures have eased in all regions, but they remain elevated and above Central Banks' targets. The conditions in the labour market improved but remain tight across the Group. The implementation of a strategic programme of price increases and cost control measures have proved successful in the second half of FY23.

NPAT includes an impairment of $9.0 million ($6.4 million after-tax).

Total Group store sales were $1,322.2 million, up $83.2 million on the previous year. All four regions produced positive sales growth over the year in terms of NZ dollars. Same store sales were also positive in all regions except for California where it was affected by reduced consumer spending due to inflation.

Total Store EBITDA was $178.4 million, down $1.6 million or -0.9% on the prior year. The decrease in EBITDA is due to tighter margins in the 1H 2023 with inflationary pressures easing in the second half of the year. EBITDA margins (as a % of sales) reduced from 14.5% to 13.5% due to continued cost pressures across all divisions, particularly in 1H 2023.

[1] Store sales change may not aggregate to the total due to rounding.
[2] NPAT change may not aggregate to the total due to rounding.
[3] EBITDA is earnings before interest, tax, depreciation and amortisation. The Store EBITDA amounts referred to throughout this report are before General and Administration (G&A) expenses, NZ IFRS 16 and Other Items. Store EBITDA is a non-GAAP financial measure and is not in accordance with NZ IFRS.
[4] Group Store EBITDA may not aggregate to the total due to rounding.

The Group's store numbers as at 31 December 2023 totalled 376, comprising 147 in New Zealand, 84 stores in Australia, 70 in Hawaii and 75 in California. Pizza Hut stores in New Zealand increased to 124, of which 118 are operated by independent franchisees.

New Zealand Operations

The New Zealand business contributed total store sales of $571.8 million, up $42.6 million or 8.1% on FY22. Sales grew across all brands. This was driven by strong sales in the KFC brand, along with growing momentum in the Carl's Jr. and Taco Bell brands. Same store sales were up 6.2% for FY23.

	31 December 2023	31 December 2022	Change ($)	Change (%)
Store sales ($m)	**571.8**	529.2	+42.6	+8.1
Store EBITDA ($m)	**80.5**	89.3	-8.8	-9.9
EBITDA as a % of Sales	***14.1***	*16.9*		
Store numbers	**147**	143		

The New Zealand KFC and Pizza Hut businesses both delivered some of the strongest sales in their respective brands' histories. Strategic price increases and the continued innovation of new products achieved weekly sales records for both brands.

Carl's Jr. continues to perform well with sales up on last year and included the opening of two new smaller format delivery concept stores. Although Taco Bell remains a small portion of the New Zealand business, the brand sales increased by 13.3% year on year. The management has been realigned to combine the New Zealand and Australian businesses under one leadership.

Store EBITDA for the New Zealand operations was $80.5 million, down $8.8 million. This was due to persistent inflation throughout the year, particularly in 1H 2023. The inflationary pressures were primarily attributable to ingredient, labour input, and occupancy costs. Despite these challenges, the brands endeavoured to maintain value propositions to customers to ensure they remained competitive in the QSR market.

Store developments were slowed due to restricted availability of building materials and store equipment. The New Zealand division opened four new stores in the year: KFC Karaka, Taco Bell Otahuhu and two Carl's Jr. in Glenfield and Hamilton East.

The Pizza Hut store network has increased by 10 new independently franchised stores. This brought the total number of Pizza Hut stores to 124, of which 118 are operated by independent franchisees under a master franchise agreement with Restaurant Brands.

Australian Operations

In $NZ terms the Australian business contributed total store sales of $NZ310.1 million (up 9.4%) and a store EBITDA of $NZ37.8 million (up 21.1%).

	31 December 2023	31 December 2022	Change ($)	Change (%)
Store sales ($Am)	286.6	259.0	+27.7	+10.7
Store EBITDA ($Am)	34.9	28.6	+6.3	+22.0
EBITDA as a % of Sales	*12.2*	*11.0*		
Store numbers	84	83		

Total store sales in Australia were $A286.6 million, up $A27.7 million (or 10.7%) on last year. Total same store sales growth was 6.5% across both brands however the growth in sales was predominantly driven by the KFC brand. The KFC sales growth is attributable to a balanced approach in delivering consumer value whilst mitigating the impacts of inflationary pressures. Taco Bell sales growth is attributable to the continued investment in new stores, with two new stores opened in the year.

Continued focus on operational efficiencies has resulted in a store EBITDA of $A34.9m (12.2% of sales) which was up $A6.3m or 22.0% on last year. The improved store EBITDA result was driven by the strong performance of the KFC brand and the continued recovery of the Sydney CBD and mall stores. Additionally, an ongoing commitment to reinvesting in store upgrades and delivering on eCommerce sales channels has helped to maintain modernity in the QSR market.

Overall store numbers increased by one during the year. Two Taco Bell stores were opened during 1H 2023 and Taco Bell Tamworth was closed and will be converted to a KFC store.

Hawaiian Operations

In $NZ terms, the Hawaiian operations contributed $NZ259.7 million in store sales (up 4.9%) and $NZ45.0 million (up 6.4%) in Store EBITDA for the year. This was higher than FY22 with store sales up $NZ12.2 million and Store EBITDA up $NZ2.7 million partly supported by a favourable NZD/USD exchange rate.

	31 December 2023	31 December 2022	Change ($m)	Change (%)
Store sales ($USm)	**159.5**	156.4	+3.1	+2.0
Store EBITDA ($USm)	**27.6**	26.8	+0.8	+3.0
EBITDA as a % of Sales	***17.3***	*17.1*		
Store numbers	**70**	75		

Total store sales in Hawaii were $US159.5 million, up by 2.0% versus last year. Overall sales growth was due to strong Taco Bell sales partially offset by the decline in Pizza Hut sales growth. Taco Bell's promotions were performing better than expected. Hawaii same store sales were up 3.5% versus last year.

Store EBITDA was $US27.6 million, a $US0.8 million increase over FY22, and 17.3% as a percentage of sales. The improvement was primarily attributable to the lift in sales for the higher margin Taco Bell stores. Staffing continues to be an issue at a few locations but has steadily been improving throughout FY23, with extended store hours in key stores, primarily in the late-night hours, this should contribute to the future increase of Taco Bell's late-night footprint to a larger customer base.

Overall store numbers decreased by five during the year. with the closure of two Pearl Harbor Pizza Hut and Taco Bell stores in May 2023 and two Pizza Hut and Taco Bell stores are temporarily closed in Lahaina following the major wildfire in August 2023, and a further Taco Bell at Johnson Circle was closed in November 2023.

Californian Operations

In $NZ terms California operations contributed $NZ180.7 million (up $NZ1.7 million or 0.9%) in store sales. However, store EBITDA was down $NZ2.1 million to $NZ15.1 million.

	31 December 2023	31 December 2022	Change ($)	Change (%)
Store sales ($USm)	**110.9**	**113.2**	-2.3	-2.0
Store EBITDA ($USm)	**9.3**	**10.9**	-1.6	-14.7
EBITDA as a % of Sales	***8.4***	***9.6***		
Store numbers	**75**	**75**		

Total store sales in California were $US110.9 million, down 2.0% on a total basis versus the prior year. Whilst three new KFC stores were opened during the year, two were opened in late December so increased revenues from store growth will flow into FY24. Same store sales were down 4.3%. Although inflation eased, the rollback of pandemic government assistance has seen consumers shifting to value-orientated menu and promotional items.

Store EBITDA was $US9.3 million (8.4% as a percentage of sales). Whilst the rate of cost of sales inflation slowed this year in comparison to the prior year, the rising cost of labour and other costs as well as the shift in consumer preference and competitive pressure hampered the ability to fully recover margin through price increases in FY23.

Californian store numbers remained unchanged during the year overall compared to prior year. KFC Paramount was opened in June 2023 and two KFC stores opened in the Southern California cities of South Gate and Ontario in December 2023 offset by three store closures.

Corporate & Other

General and administration (G&A) costs were $67.2 million, up $5.7 million from last year reflecting the effect of inflation on salary costs and filling vacancies. G&A as a % of total revenue was 4.8% which is up from 4.7% for FY22.

Depreciation charges of $89.3 million for the year ended 31 December 2023 were $4.1 million higher than the prior year primarily due to the impact of continued capital expenditure particularly on refurbishments of existing stores. Included in the depreciation charge was $42.6 million related to right of use asset depreciation incurred under NZ IFRS 16.

Financing costs of $56.2 million were up $11.7 million on the prior year, reflecting the impact of higher interest rates. Interest on bank debt for the period ended 31 December 2023 was $20.7 million, up $9.6 million on last year.

Other expenses

Other net expenses of $6.1 million are up $3.2 million from $2.9 million for the prior year. This year's increase is primarily driven by a net impairment charge of $9.0 million partially offset by $4.7 million of insurance recovery proceeds following the wildfire in Lahaina and flood damage in Australia. Remaining items in other expenses in FY23 were $0.6 million relating to a store closure in Australia and $1.3 million of legal expenses in California.

Cash Flow & Balance Sheet

Total assets were $1,425.8 million, up $8.5 million on FY22 primarily driven by store refurbishments and eight new stores added across the network during the year which increased the value of property, plant and equipment. The Group also acquired land for new store development. Total liabilities were $1,135.4 million up $11.3 million on the prior year, reflecting the inflationary impact on trade and other payables, the Group's commitment to the store refurbishment program, and higher levels of bank debt.

Operating cash flows supported by inventory reductions were up $6.3 million to $127.8 million.

Net investing cash outflows were $84.7 million (vs $91.6 million in FY22). A decrease of $6.8 million is mostly attributable to a decrease in capital expenditure and reflects the lower investment in new store builds compared with FY22.

Dividend

The Board have assessed at balance date the current and projected financial position of the Group and in particular its cash flows, capital expenditure demands and debt levels. Given the demands of the store development programme on the Group's capital resources and an increased level of debt, directors believe it is in the best interests of the Group to retain cash in order to support growth and maintain funding flexibility.

Annual Shareholders' Meeting

The Annual Shareholders' Meeting of the company will be held in Auckland on Friday 24 May 2024.

José Parés
Chairman of the Board

Arif Khan
Group CEO

Group pro forma profit statement
For the year ended 31 December 2023

$NZ000's	31 December 2023		vs Prior %	31 December 2022	
Store Sales					
New Zealand	571,771		*8.1*	529,158	
Australia	310,050		*9.4*	283,397	
Hawaii	259,677		*4.9*	247,459	
California	180,689		*0.9*	179,035	
Total sales	**1,322,187**		***6.7***	**1,239,048**	
Other revenue	73,064		*23.5*	59,170	
Total operating revenue	**1,395,251**		***7.5***	**1,298,218**	
Cost of goods sold	(1,165,352)		*(8.2)*	(1,077,075)	
Gross margin	**229,899**		***4.0***	**221,143**	
Distribution expenses	(9,509)		*(15.3)*	(8,244)	
Marketing expenses	(68,461)		*(10.7)*	(61,849)	
General and administration expenses	(67,186)		*(9.3)*	(61,445)	
Other items	(6,131)		*(111.4)*	(2,900)	
Operating profit	**78,612**		***(9.3)***	**86,705**	
Financing expenses	(56,193)		*(26.2)*	(44,528)	
Net profit before taxation	**22,419**		***(46.8)***	**42,177**	
Taxation expense	(6,156)		*39.0*	(10,094)	
Total profit after taxation (NPAT)	**16,263**		***(49.3)***	**32,083**	
		% sales			% sales
Store EBITDA before G&A					
New Zealand	80,482	*14.1*	*(9.9)*	89,342	*16.9*
Australia	37,796	*12.2*	*21.1*	31,205	*11.0*
Hawaii	45,040	*17.3*	*6.4*	42,322	*17.1*
California	15,059	*8.3*	*(12.2)*	17,147	*9.6*
Total Store EBITDA before G&A	**178,377**	***13.5***	***(0.9)***	**180,016**	***14.5***
Ratios					
Net tangible assets per security (net tangible assets divided by number of shares) in cents	24.2			11.9	

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.
Store sales and Store EBITDA for each of the concepts may not aggregate to the total due to rounding.

Non-GAAP Financial Measures
For the year ended 31 December 2023

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-GAAP financial measures that are not prepared in accordance with NZ IFRS. The non-GAAP financial measures used in this presentation are as follows:

1. **Store EBITDA before General and Administration (G&A) expenses, NZ IFRS 16 and other items**. The Group calculates Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA") before G&A, NZ IFRS 16 and other items by taking net profit before taxation and adding back (or deducting) financing expenses, other items, depreciation, amortisation, NZ IFRS 16 and G&A. The Group also refers to this measure as Store 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 **Store** refers to the Group's 10 operating divisions comprising the New Zealand brands (KFC, Pizza Hut, Taco Bell and Carl's Jr.), the two Australia brands (KFC and Taco Bell), the two Hawaii brands (Taco Bell and Pizza Hut), and the two California brands (KFC and Taco Bell). 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-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-GAAP measures as reported by the Group may not be comparable to similarly titled amounts reported by other companies.

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

$NZ000's	Note*	31 Dec 2023	31 Dec 2022
Store EBITDA before G&A, NZ IFRS 16 and other items	1	**178,377**	**180,016**
Depreciation		(46,717)	(43,935)
Net loss on sale of property, plant and equipment (included in depreciation)		(909)	(952)
Lease depreciation		(42,615)	(41,282)
Lease costs		65,558	60,473
Amortisation (included in cost of sales)		(10,071)	(10,119)
General and administration costs - area managers, general managers and support centre		(58,880)	(54,596)
Net impairment		(8,985)	(162)
Other items		2,854	(2,738)
Operating profit		**78,612**	**86,705**
Financing expenses		(56,193)	(44,528)
Net profit before taxation		**22,419**	**42,177**
Taxation expense		(6,156)	(10,094)
Net profit after taxation		**16,263**	**32,083**
Add back NZ IFRS 16 impact		12,359	14,208
Income tax on NZ IFRS 16 impact		(2,792)	(3,934)
Total NPAT excluding the impact of NZ IFRS 16	2	**25,830**	**42,357**

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