

April 30<sup>th</sup> 2021

## Restaurant Brands Limited (RBD)

The company will hold its Annual Shareholders Meeting **2.00pm Thursday 27 May 2021**.

The meeting will be virtual. You can join the meeting at <https://web.lumiagm.com/>

The meeting code is 370-907-342.

### **Company Overview**

The company has 348 KFC, Taco Bell, Pizza Hut and Carls Jr restaurants in New Zealand, Australia, Hawaii, and California employing over 12,000 people. During the year it added 69 KFC and KFC/Taco Bell restaurants in California.

Operations were impacted by Covid-19 with stores in New Zealand closed for nearly 5 weeks at a cost of \$40 million sales, however the company received Government wage subsidies of \$22 million. Stores were also closed in Australia and the other operating areas for various periods. Despite this, sales were up 7% and NPAT was up 2.8%.

The company's majority shareholder is Global Valar S. L. who hold 75% of the shares.

### **Current Strategy**

The company has a growth strategy for each market, with new stores planned for the KFC and Taco Bell brands in New Zealand and Australia and sees significant KFC opportunities in the California market. It also expects to open its first KFC store in Hawaii in the next 1-2 years. It will continue to refurbish and refresh stores and also look at acquisitions where appropriate.

### **Key**

The following sections calculate an objective rating against criteria contained within NZSA policies.

Colour	Meaning
G	Strong adherence to NZSA policies
A	Part adherence or a lack of disclosure as to adherence with NZSA policies
R	A clear gap in expectations compared with NZSA policies
n/a	Not applicable for the company

### **Governance**

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Directors Fees	G	Good disclosure
Director share ownership	G	Directors not required to own shares
Executive Remuneration	A	Poor disclosure
Golden parachutes/handshakes	A	Poor disclosure
Director Independence	G	Good disclosure
Board Composition	A	Majority of non-independent Directors
Director Tenure	A	No Director succession plan
ASM Format	R	No physical meeting only virtual
Company Sec independence	G	Good disclosure

NZSA expects full disclosure of the terms and conditions of the CEO remuneration. This is also a recommendation in the NZX Code of Corporate Governance. In particular, disclosure around short-term and long-term incentive targets provide assurance to shareholders that delivery matches long-term shareholder interests. Like many other listed entities, RBD does not disclose whether golden parachutes or handshakes are paid – even if none are applicable, this should be transparent for shareholders.

The Code also recommends that a majority of the Board are independent. Whilst 75% of the shares are owned by one entity, we note that there are other NZX-listed companies with a greater single shareholder where the majority of that Board are Independent Directors. We also note that there is no disclosure of the skills matrix for the Board.

The Annual Meeting will be virtual only. Whilst we acknowledge the statements around Covid-19 in the Notice of Meeting, we believe that the company should have also planned a physical meeting. This could have been cancelled if Covid restrictions prevailed at the time. We are concerned that Covid is not used to prevent shareholders attending a physical meeting.

### **Audit**

NZSA assessment against its key policy criteria is summarised below:

Policy Theme	Assessment	Notes
Audit independence	G	Good disclosure
Audit rotation	A	Good process, but appointment dates not disclosed.

Whilst the company rotates the Audit Partner every 5 years and also reviews the Audit Firm at 5 years (and has a tender process if considered necessary), it does not disclose the appointment dates of the Audit Firm or Audit Partner.

NZSA notes that the parent of RBD is an unlisted private company that owns other similar businesses to RBD. We acknowledge that consistency of audit firm across these businesses may be beneficial for shareholders.

### **Ethical and Social**

NZSA assessment against its key policy criteria is summarised below:

<b>Policy Theme</b>	<b>Assessment</b>	<b>Notes</b>
Whistleblowing	G	Good disclosure
Political donations	A	Not disclosed

Whilst the company discloses total donations it does not identify whether any are related to political organisations.

### **Financial & Performance**

<b>Policy Theme</b>	<b>Assessment</b>	<b>Notes</b>
Dividends and Imputation	n/a	There was no dividend paid
Capital Raise process	n/a	There was no capital raising

Restaurant Brands' share price rose from \$12.00 to \$13.00 (as of April 30th) over the last 12 months - an 8% return . This compares unfavourably with the NZX 50 which increased by 21% in the same period. The Performance Factor for RBD is 0.40. The company's operations have been heavily impacted by the impact of Covid-19 lockdowns in its markets.

The following metrics are derived from the financial statements. The figures from 2019 have been annualised and have not been audited as RBD has changed its balance date during that period – this may mean that comparisons are impacted by seasonality. We note that the company provided a good variety of comparison options in its annual reporting, given its change in balance date.

<b>Metric</b>	<b>2020</b>	<b>2019</b>	<b>Change</b>
Revenue	\$924.7m	\$867.1m	7%
NPAT	\$30.9m	\$35.6m	-13%
EPS	\$0.248	\$0.285	-13%
PE Ratio	52	42	
Current Ratio	0.51	0.30	66%
Debt Equity	4.09	3.23	17%
Operating CF	\$111.9m	\$87.6m	28%
NTA Per Share	-\$0.73	-\$0.33	122%

Of note, the Current Ratio, which measures the ability to meet short term obligations, and is derived by dividing current assets by current liabilities, is a low 0.51 and could indicate liquidity issues, although this represents an increase from an exceptionally low 0.30 in 2019. We note, though, that trading liabilities are well covered by Operating Cashflow. The relationship between these two metrics might imply that the company has been using its strong cash generation capability to fund future growth (as shown in the Statement of Cashflows).

This shows how well the company is performing on an operational level - it grew by 28% to \$111.8m. Although revenues increased by 7% (due to acquisitions) NPAT decreased by 13% to \$30.9m.

The Debt-to-Equity ratio increased from 3.23 to 4.09. This measures how much leverage a company is using. The company has been in acquisition mode, however a ratio of 4.09 is considered a high level of debt when compared to other NZX companies. This does not give the company much head room if required.

Of interest, the NTA or net tangible assets per share of RBD decreased from negative \$0.33 to negative \$0.73. This is a concerning trend but expected as RBD has been on an acquisition mandate, with intangible goodwill paid expected to be offset by future cashflows. The company has recently managed three major transactions and is now moving towards a more 'localised' acquisition strategy. NZSA will expect RBD to maintain effective governance as smaller transactions are delegated to in-country management.

The Price Earnings ratio is 52 compared with 42 the prior year which suggests the market supports their high debt, low NTA, acquisition strategy and direction.

### **Resolutions**

**1. That Maria Elena (Malena) Pato-Castel be elected as an Independent Director.**

Malena Pato-Castel was appointed to the Board 1 April 2021 and is therefore required to offer herself for election. She was formerly a co-founder and managing director of a restaurant operating company that grew from 14 to more than 130 restaurants prior to being acquired by AmRest. She then spent nine years in various roles at Amrest including President for AmRest Spain and most recently Chief Proprietary Brands Officer with responsibilities in Spain, China, France, Portugal, and Germany.

We will vote undirected proxies **IN FAVOUR** of this resolution.

**2. That the Board is authorised to fix the auditor's remuneration for the coming year.**

This is an administrative resolution.

We will vote undirected proxies **IN FAVOUR** of this resolution.

### **Proxies**

You can vote online or appoint a proxy at <https://www.investorvote.com.au/Login>

Instructions are on the Proxy/voting paper sent to you.



Voting and proxy appointments close **2.00pm Tuesday 25 May 2021.**

**Please note you can appoint the Association as your proxy. We will have a representative attending the meeting.**

**STANDING PROXIES - AUTOMATICALLY APPOINT NZSA AS YOUR PROXY**

**MAKE YOUR VOTE COUNT!**

**Details on the NZSA website.**

<http://www.nzshareholders.co.nz/shareholders-standing-proxies.cfm>

**The Team at NZSA**