

Quarterly Highlights

August 2016

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RSI Quarterly Board of Directors Meeting

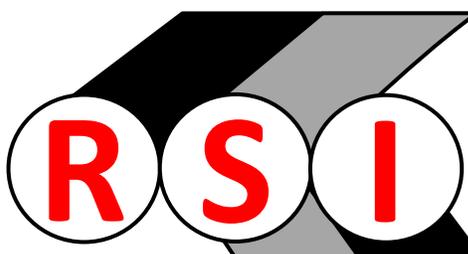
The RSI Quarterly Board Meeting was held on Aug. 24–25, 2016 at RSI's office in Miami, Fla. Key points of focus were:

- Ricardo Azevedo, BK® Brand Vice President, North America Marketing, presented a North America Sales and Marketing update covering Q2 system performance, Marketing Calendar Strategy, and Quality Improvement Update.
- RSI's progress on delivering company objectives for F'16.
- Reviewed F'17 Company Priorities in the following key areas:
 - Food cost management
 - Commodity hedging
 - Member restaurant profitability
 - Web/Mobile RSI Member Tools
 - Improved LTO inventory forecasting and contingency planning (in collaboration with BKC)
 - Distribution System Management
 - Member Engagement and Communications
 - Support of Trust in Taste Initiative
 - Financial plan - cost effectiveness
- Demonstrated new member web/mobile tools, including:
 - GP Drivers dashboard, which launched on Aug. 26.
 - SOS Tracker, Inventory Valuation and PLV Reports which will launch in Sept.
 - RSI News App which will launch in Sept.

New RSI Members

RSI welcomes the following new member:

Member Name	Owner/Org	RSI Region
Joel Aaseby	Viking Restaurants, LLC	Midwest



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Patronage Dividends

On July 21, 2016, RSI distributed the **first Fiscal 2016 Patronage Dividend**. The total distribution of \$7,100,000 to RSI's members resulted in an average dividend per restaurant of approximately \$1,000. This distribution was based on the quantity of food and packaging purchased by your restaurants from approved distributors, as reported by them, for the period of Oct. 1, 2015 through March. 31, 2016.

Your Patronage Dividend Report is available for viewing on [RSI Web](#). The report identifies dividends attributable to each restaurant owned by your organization. **RSI members with a Master Account role on RSI Web may access their Patronage Dividend Report by logging on and clicking on Tools & Resources>Resources>RSI Patronage Dividend Report.**

Patronage ACH Program

Effective January 2016, all RSI patronage dividend payments are being issued electronically. To enroll in this program, please contact [Vanessa Hernandez](#) at 305.529.3417 or [Monique Russo](#) at 305.529.2158.

2016 Food Cost Outlook

After a 7.4% year-over-year decline in RSI's Food and Packaging Cost Index (FPCI) during the first half of CY16, FPCI is expected to be 3.5% lower in the second half of the year compared to one year ago, largely due to lower beef and chicken costs.

After another year of U.S. cattle herd rebuilding, U.S. beef production is projected to be up 5.28% in the second half of CY16 when compared against last year. Even though a sharp decline in U.S. beef import from Australia is expected this year (Australia's cattle herd has reached its lowest level in 20 years), higher domestic production should keep our beef cost at levels well below one year ago in the coming months. The upside risk to our baseline beef forecast is that improving weather conditions in Australia and strong cattle prices could accelerate cattle herd rebuilding activities in the second half, which could tighten up imported beef supply even further.

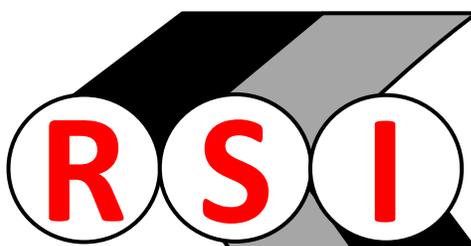
The combination of strong chicken production and a slow-down in export due to Avian Influenza have pushed chicken prices lower. We have taken advantage of the opportunity by securing most of our chicken prices at levels approximately 4% below one year ago for the rest of CY16.

Even though inventory of most dairy products remain heavy, growth in milk productions have recently slowed down. Cheese prices are expected to move higher throughout the summer months due to strong domestic demand. Extremely large domestic and world corn and wheat supplies have pushed their prices to near multiple year low levels; however, weather conditions in the U.S. over the next few weeks will be critical and could boost price volatility significantly. There are significant upside risks in crop production and prices this summer.

2016 BKC Global Convention

Planning for RSI's events at the 2016 BKC Global Convention is underway. The convention will be held in Orlando, Fla. at the Gaylord Palms Resort & Convention Center on Nov. 1–4, 2016. RSI will once again exhibit at the tradeshow as well as host the following events:

- A Welcome Reception for global franchisees, vendors and suppliers on Tuesday, Nov. 1 at 7:30 p.m.
- Live demonstrations of RSI's new web/mobile tools on Wednesday and Thursday, Nov. 2–3, at 1:30 p.m.



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Coffee Implementation

After the completion of BKC's consumer taste test, S&D Coffee was the preferred coffee based on the results and was selected to be the next coffee supplier. RSI aggressively negotiated the terms of the three-year agreement with S&D Coffee, projecting an average annual savings cost of \$4.6 million over the next three years.

Equipment & Facilities

Based on BKC's continued focus on new restaurant development and remodel activity, RSI will refocus some of our E&F resources to support our members' construction needs in the following areas:

- **Direct Member Savings & Data Benchmarking:** Provide technical support and benchmarking insights for restaurant construction and remodel work, resulting in member savings in cost and time.
- **Best Practices:** Collect and share best practices, checklists, materials, planning, RFP templates, etc.
- **New Negotiation Opportunities:** Identification and implementation of sourcing opportunities for restaurant building, remodeling and construction products and services beyond our usual E&F scope.
- **Facilitation:** Support members' interaction with BKC Development, calibrate member architects and general contractors to BKC requirements, resulting in savings opportunities.

In addition, the eRedBook home page carousel now features a permanent "View All Promotions" link that allows members to easily access a list of all current promotions in one click, reducing the time spent scrolling through the carousel.

Distribution & Logistics

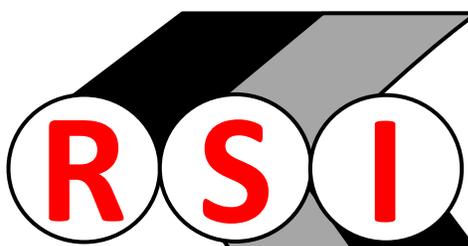
RSI continues its work on the implementation of its Long Term Distribution Strategy and negotiation of 15 Distribution Contracts expiring by 2017. Challenges include the continued industry consolidation, rising non-fuel costs, the new Department of Transportation rules limiting driver hours and resulting nationwide driver shortage, and overall decreased BK system case count over the last five years. To date, most of the 15 new Distribution Center contracts have been awarded with the RSI Board's approval of extensions of the Reinhart Omaha, Oak Creek and Rogers agreements as well as the extension of the MBM Taylorville Agreement.

New WHOPPER Flag Uniforms Implementation



The new uniforms will be available to order beginning Thursday, Sept. 1, 2016 from www.burgerkinguniforms.com. Orders will begin shipping on Oct. 1. Orders must be placed by Nov. 1 to ensure delivery by Dec. 31.

It is very important that old uniforms and the new WHOPPER® Flag uniforms are not combined on the same order as orders will be filled from different locations. Combined orders of old and new uniforms will delay the deliveries.



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Premiums

BKC has confirmed the kids marketing program for the remainder of CY16 and through October of CY17. 10 kids programs, including domestic and international, are in various stages of development and manufacturing.

RSI Analytics Tools

Food Cost Outlook Tool

RSI launched a more efficient, interactive Food Cost Outlook tool with new reports on RSI Web to replace the former Food Cost Forecast Excel file. The new reports are divided into four links: (1) Food & Packaging Cost Index (FPCI); (2) Restaurant Landed Case Cost Outlook; (3) Plate Cost Outlook; and (4) Weekly Commodity Charts. Within the FPCI link, members may access two new, interactive charts—FPCI Category Impact FPCI YOY % Change—which show how cost changes for different commodity groups affect year-over-year and month-over-month variances in the FPCI Index.

Restaurant Groups

RSI has added the ability to sort restaurant data on its web and mobile dashboards and reports by the reporting groups members have pre-defined in BKC's Franchise Organizer, located on BK® Gateway. In Franchise Organizer, members may align restaurants to whatever reporting groups make sense for their organization, i.e. geographically or by market, and these groups will dynamically flow through to RSI Web and RSI Analytics.

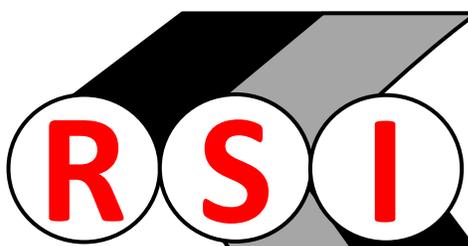
GP Drivers Dashboard

RSI's new dashboard helps members analyze the underlying drivers causing the changes in profitability in their restaurants. GP Drivers leverages information from RSI's most valued repositories, including POS product mix from the BK Burger Bus, RSI plate costs, and Distribution Center (DC) invoices, to provide key insights on what's driving profits. The tool breaks down the changes into five components:

1. **Cost:** differences in restaurant-landed plate costs and gold standard recipes by menu item
2. **Price:** differences in menu prices related to discounts, coupons, employee and free meals by menu item
3. **Mix & Volume:** differences in product-mix (un)favorability and overall volume gains and losses by menu item
4. **Indirect Cost:** differences in volume and costs of items not in the gold standard recipes, i.e. cooking oil, napkins, etc.
5. **Profit Loss Variance (PLV) Cost:** differences in restaurant waste experience by product as a result of waste, loss or inventory shrinkage



For questions or assistance on any of these enhancements, please contact the [RSI Help Desk](#) at 305.529.2123.



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Promotions Planning

The following national promotions and product launches were supported during the last quarter:

June

2 for \$10 WHOPPER® Meal



A.1.® Ultimate Bacon Cheeseburger



Mac n' Cheetos™



July

\$1 Grilled Dogs Trial Event – July 2–3

\$1 Classic Grilled Dogs Trial Event – July 23, National Hot Dog Day



2 for \$4 CROISSAN'WICH® Extension



August

WHOPPERRITO™



2 for \$10 WHOPPER® Meal Extension



\$1.49 10-Piece Chicken Nuggets Extension



In addition to these national promotions, RSI managed the transition of two products (bulk mustard and square fish patty) and two packaging items (8 oz. sundae cups & lids) on schedule and minimizing liability when possible.

RSI also continues to support the execution and inventory management of numerous Local Promotions. Throughout the quarter, RSI has supported 11 in-market tests.