

Restaurant Brands International Inc.

Penciling out the TAST acquisition

Reiterate Rating: UNDERPERFORM | PO: 74.00 USD | Price: 76.15 USD

Small change in financials, big change in philosophy

Despite the minimal financial impact (EPS and cash flow neutral) of RBI's announced acquisition of Carrol's (TAST), we view it as transformative. Beyond the immediate impact of faster TAST remodels (~15% of BK US units), the US system will be more company operated (~3-4% co-op vs <1%) with a less concentrated franchisee base.

Faster remodels on TAST stores

While TAST had planned to remodel 45 units (~\$38mm) in 2024, RBI has the liberty to allocate nearly all TAST's cash flow from ops (~\$126mm T4Q) to remodels (~\$500 mm over ~5 years across 600 units). But the original pace may also reflect muted returns. Using comp lifts reported in RBI's 2020 franchise disclosure document (FDD) of 11.3% in year 1 and ~2% after and assuming a 45% flow through margin, the payback period on the average remodel cost of \$725K is 8.8 years. Evidence from Wendy's remodel initiative suggests remodels may not lead to structurally higher steady state SSSG.

But see more RBI investment needed for a broader boost

Because consumer brand perceptions tend to shift only after a critical mass of remodels (we estimate 50-70%), franchisors have an interest in completing remodels quickly. That rationale explains MCD's decision to offer incentives on its own remodel program (2017-21) that diminished over time (55% years 1-3, 40% years 3-4, nothing thereafter). The \$200 mm BK set aside for ~800 franchised store remodels – or \$250K per restaurant—reduces the payback to 5.5 years. Higher interest rates and tighter lending constraints suggest the need for broader RBI co-investment could prove particularly pressing.

Higher EBITDA, not multiple, will dictate refranchising ROI

The 6.6x multiple paid for TAST by RBI appears to be [towards the high end of the range](#) of multiples paid for BK franchisees, suggesting eventual refranchising (RBI intends to keep a “couple hundred” of the 1000+ TAST stores) transactions could earn similar multiples. Value creation will therefore need to come from increased EBITDA. RBI's outlook for no material G&A synergies is reasonable: company operated restaurants require more G&A (~\$40-50K for co-op vs \$10K for franchised). We update our RBI model for the TAST acquisition. We raise our PO to \$74 (from \$65) to reflect market multiple expansion (implied absolute multiple 18.8x vs 18.2x previously). We reiterate Underperform on negative risk/reward.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	2.76	3.09	3.17	3.27	3.60
GAAP EPS	2.70	3.27	2.88	3.20	3.53
EPS Change (YoY)	318.2%	12.0%	2.6%	3.2%	10.1%
DPS	2.24	2.16	2.40	2.40	2.40
Valuation (Dec)					
P/E	27.6x	24.6x	24.0x	23.3x	21.2x
Dividend Yield	2.9%	2.8%	3.2%	3.2%	3.2%
EV / EBITDA*	18.5x	17.8x	16.5x	14.9x	13.8x
Free Cash Flow Yield*	6.7%	5.7%	6.7%	8.8%	8.6%

* For full definitions of *IQmethod*SM measures, see page 9.

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12650451

Timestamp: 25 January 2024 05:00AM EST

25 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	65.00	74.00
2023E Rev (m)	7,025.0	6,978.0
2024E Rev (m)	7,498.1	8,755.7
2025E Rev (m)	7,846.1	9,489.3
2023E EPS	3.15	3.17

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Stock Data

Price (NYS / TOR)	76.15 USD / 103.00 CAD
Price Objective	74.00 USD / 100.09 CAD
Date Established	25-Jan-2024 / 25-Jan-2024
Investment Opinion	B-3-7 / B-3-7
52-Week Range	59.99 USD - 79.45 USD
Market Value (mn)	24,205 USD
Free Float	95.4%
Average Daily Value	97.98 USD
Shares Outstanding (mn)	317.9 / 317.9
BofA Ticker / Exchange	QSR / NYS
BofA Ticker / Exchange	YQSR / TOR
Bloomberg / Reuters	QSR US / QSR.N
ROE (2023E)	33.2%
Net Dbt to Eqty (Dec-2022A)	307.5%
ESGMeter™	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

BTE – Better than expected

RBI – Restaurant Brands International (ticker: QSR)

IRR – internal rate of return

BK- Burger King

MCD- Mcdonald's

iQprofileSM Restaurant Brands International Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	7.9%	8.1%	8.7%	9.1%	9.4%
Return on Equity	33.9%	34.6%	33.2%	32.1%	32.2%
Operating Margin	32.7%	29.2%	30.0%	26.9%	26.8%
Free Cash Flow	1,620	1,390	1,618	2,133	2,083

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.3x	1.1x	1.2x	1.5x	1.4x
Asset Replacement Ratio	0.5x	0.5x	0.6x	0.4x	0.4x
Tax Rate	8.1%	NM	13.0%	18.0%	19.0%
Net Debt-to-Equity Ratio	345.9%	307.5%	284.8%	251.9%	214.3%
Interest Cover	3.7x	3.6x	3.7x	4.0x	4.4x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	5,734	6,505	6,978	8,756	9,489
% Change	15.4%	13.4%	7.3%	25.5%	8.4%
Gross Profit	3,845	4,193	4,555	5,003	5,282
% Change	14.5%	9.1%	8.6%	9.8%	5.6%
EBITDA	2,117	2,201	2,372	2,623	2,828
% Change	80.6%	4.0%	7.8%	10.6%	7.8%
Net Interest & Other Income	(332)	(255)	(388)	(513)	(510)
Net Income (Adjusted)	1,282	1,406	1,446	1,486	1,623
% Change	315.7%	9.6%	2.9%	2.8%	9.2%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	1,250	1,482	1,308	1,453	1,590
Depreciation & Amortization	201	190	195	256	273
Change in Working Capital	216	(336)	(36)	296	91
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	59	154	265	244	244
Capital Expenditure	(106)	(100)	(115)	(115)	(115)
Free Cash Flow	1,620	1,390	1,618	2,133	2,083
% Change	101.5%	-14.2%	16.4%	31.9%	-2.4%
Share / Issue Repurchase	(491)	(296)	(301)	(301)	(301)
Cost of Dividends Paid	(974)	(971)	(1,096)	(1,090)	(1,082)
Change in Debt	446	(92)	(100)	650	(100)

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	1,087	1,178	1,373	2,640	3,316
Trade Receivables	547	614	753	945	1,024
Other Current Assets	182	256	246	351	388
Property, Plant & Equipment	2,035	1,950	1,870	1,729	1,571
Other Non-Current Assets	19,395	18,748	18,729	18,729	18,729
Total Assets	23,246	22,746	22,970	24,394	25,027
Short-Term Debt	96	127	127	127	127
Other Current Liabilities	1,782	1,989	2,082	2,674	2,883
Long-Term Debt	14,319	14,177	13,921	14,599	14,527
Other Non-Current Liabilities	3,196	2,185	2,190	2,195	2,200
Total Liabilities	19,393	18,478	18,320	19,595	19,737
Total Equity	3,853	4,268	4,451	4,798	5,291
Total Equity & Liabilities	23,246	22,746	22,770	24,394	25,027

* For full definitions of iQmethodSM measures, see page 9.

Company Sector

Restaurants

Company Description

Ontario-based Restaurant Brands International (RBI) is the third largest restaurant company in the world by systemwide sales, with over 26,000 locations (99%+ franchised). The entity was formed with Burger King's 2014 acquisition of Tim Hortons. Burger King is the second-largest QSR hamburger chain in the world, while Tim Hortons is a coffee and baked good company located primarily in Canada, with regional presence in the U.S. The third brand, Popeye's, is a 2,000+ unit chicken concept.

Investment Rationale

We believe challenges abound for QSR, including the weak Burger King US brand, required investments in technology, stores, and marketing to build capabilities, and overall lagging sales trends. We thus rate the shares Underperform.

Stock Data

Average Daily Volume	1,291,555
Shares / Common - Dual Listed	1.00

Key Changes

(C\$)	Previous	Current
Price Obj.	89.80	100.09
2023E EPS	4.25	4.28

Small change in financials, big change in philosophy

Despite the minimal financial impact (EPS and cash flow neutral) of RBI's announced acquisition of Carrol's (TAST), we view it as transformative. Beyond the immediate impact of faster TAST remodels (~15% of BK US units), the US system will be more company operated (~3-4% co-op vs <1%) with a less concentrated franchisee base.

Faster remodels on TAST stores

While TAST had planned to remodel 45 units (~\$38mm) in 2024, RBI has the liberty to allocate nearly all TAST's cash flow from ops (~\$126mm T4Q) to remodels (~\$500 mm over ~5 years across 600 units). But the original pace may also reflect muted returns. Using comp lifts reported in RBI's 2020 franchise disclosure document (FDD) of 11.3% in year 1 and ~2% after and assuming a 45% flow through margin, the payback period on the average remodel cost of \$725K is 8.8 years. Evidence from Wendy's remodel initiative suggests remodels may not lead to structurally higher steady state SSSG.

Exhibit 1: At average unit volumes of ~\$1.5mm, we estimate a remodel could generate an additional \$71K in EBITDA in year 1 and \$84K in EBITDA in subsequent years compared to an un-remodeled store; the payback period is 8.3 years

Remodel Flow-through estimates

Incremental EBITDA (000)	Yr 1	Yr 2+
2022 Domestic AUV	\$1,455	
2023 Domestic SSSG	7%	
2023 Domestic AUV	\$1,560	\$1,737
SSSG Lift	11%	2%
\$ Increase	\$176	\$211
Flow Through Margin (before royalty)	45%	45%
Flow Through \$ (before royalty)	\$79	\$95
Less royalty	5%	5%
Less royalty \$	\$9	\$11
EBITDA	\$71	\$84
Remodel Cost	(\$725)	
Payback Period (Yrs)	8.8	

Source: Company filings, BofA Global Research estimates

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Exhibit 2: Wendy's reported same store sales lifts of mid- to high-single-digits from its image activations

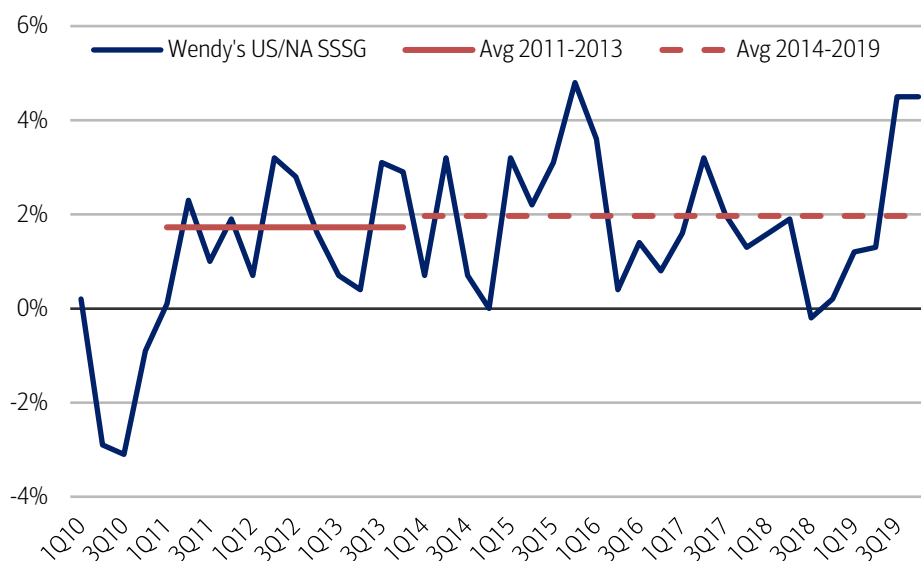
Reported image activation progress and contribution to same store sales

Quarter	% Activated	SSSG Tailwind	Quarter	% Activated	Change % Activated	SSSG Tailwind	Implied SSSG
4Q18	50%	50	4Q18	50%	11ppts	50bps	5%
2Q18	47%	60	2Q18	47%	11ppts	60bps	5%
1Q18	44%	50	1Q18	44%	11ppts	50bps	5%
4Q17	43%	70	4Q17	43%	11ppts	70bps	6%
3Q17	39%	70	3Q17	39%	11ppts	70bps	6%
2Q17	36%	70	2Q17	36%	10ppts	70bps	7%
1Q17	33%	60	1Q17	33%	9ppts	60bps	7%
4Q16	32%	70	4Q16	32%	10ppts	70bps	7%

Source: Company reports, BofA Global Research estimates

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Exhibit 3: The average same store sales for the Wendy's system in the years preceding the Image Activation initiative was 1.7%; in subsequent years the average SSSG was 2%
Wendy's SSSG



Source: Company reports, BofA Global Research estimates

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But see more RBI investment needed for a broader boost

Because consumer brand perceptions tend to shift only after a critical mass of remodels (we estimate 50-70%), franchisors have an interest in completing remodels quickly. That rationale explains MCD's decision to offer incentives on its own remodel program (2017-21) that diminished over time (55% years 1-3, 40% years 3-4, nothing thereafter). The \$200 mm BK set aside for ~800 franchised store remodels – or \$250K per restaurant—reduces the payback to 5.5 years. Higher interest rates and tighter lending constraints suggest the need for broader RBI co-investment could prove particularly pressing.

Exhibit 4: We estimate under McDonald's recent remodeling initiative, the payback period would have been 12 years without co-investment, but only 5.6 years with coinvestment

MCD Remodel Flow-through estimates

McDonald's Incremental EBITDA (000)

	Yr 1	Yr 2+
2019 Domestic AUV	\$2,912	\$3,057.60
SSSG Lift	5%	2%
\$ Increase	\$146	\$207
Flow Through Margin (before royalty)	45%	45%
Flow Through \$ (before royalty)	\$66	\$93
Less royalty	5%	5%
Less royalty \$	\$7	\$10
Less rent	10%	10%
Less rent \$	\$15	\$21
EBITDA	\$44	\$62
Remodel Cost	(\$725)	
Payback Period (Yrs)	12.0	
Remodel Cost with Co-investment	(\$326)	
Payback Period (Yrs)	5.6	

Source: Company reports, BofA Global Research estimates

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Exhibit 5: With RBI co-investment the payback period for BK remodels drops to 5.8 years

Remodel IRR- Franchisee Funded vs RBI contribution

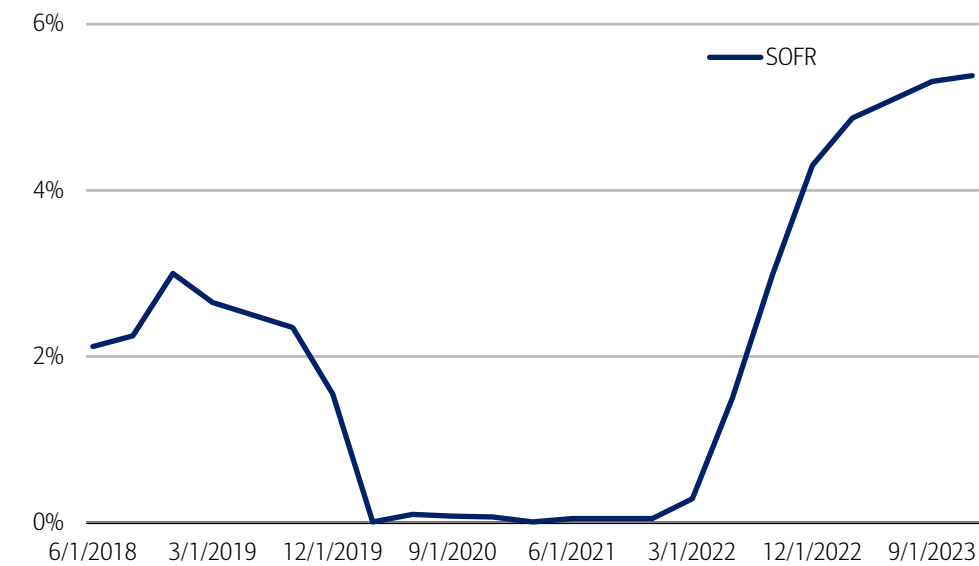
Remodel IRR	0	1	2	3	4	5	6	7	8	9	10	Payback Period (Yrs)	IRR
Franchisee funded	(\$725)	\$71	\$84	\$84	\$84	\$84	\$84	\$84	\$84	\$84	\$84	8.75	3%
RBI contribution of \$250K	(\$475)	\$71	\$84	\$84	\$84	\$84	\$84	\$84	\$84	\$84	\$84	5.79	11%

Source: BofA Global Research estimates

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Exhibit 6: Reference rates for franchisee loans have increased 5.4ppts compared to pre-COVID

Secured Overnight Financing Rate



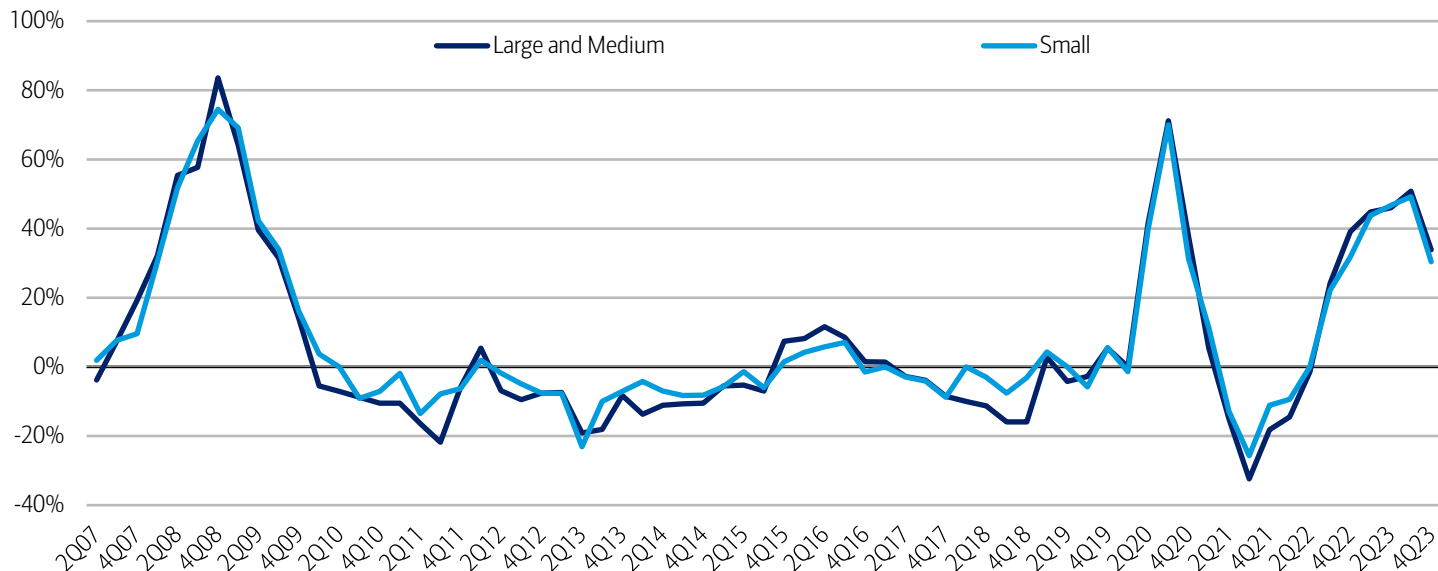
Source: Bloomberg

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Exhibit 7: Lending standards have tightened sharply

Net Percentage of Domestic Respondents Tightening Standards for C&I Loans, by Size of Firm Seeking Loans

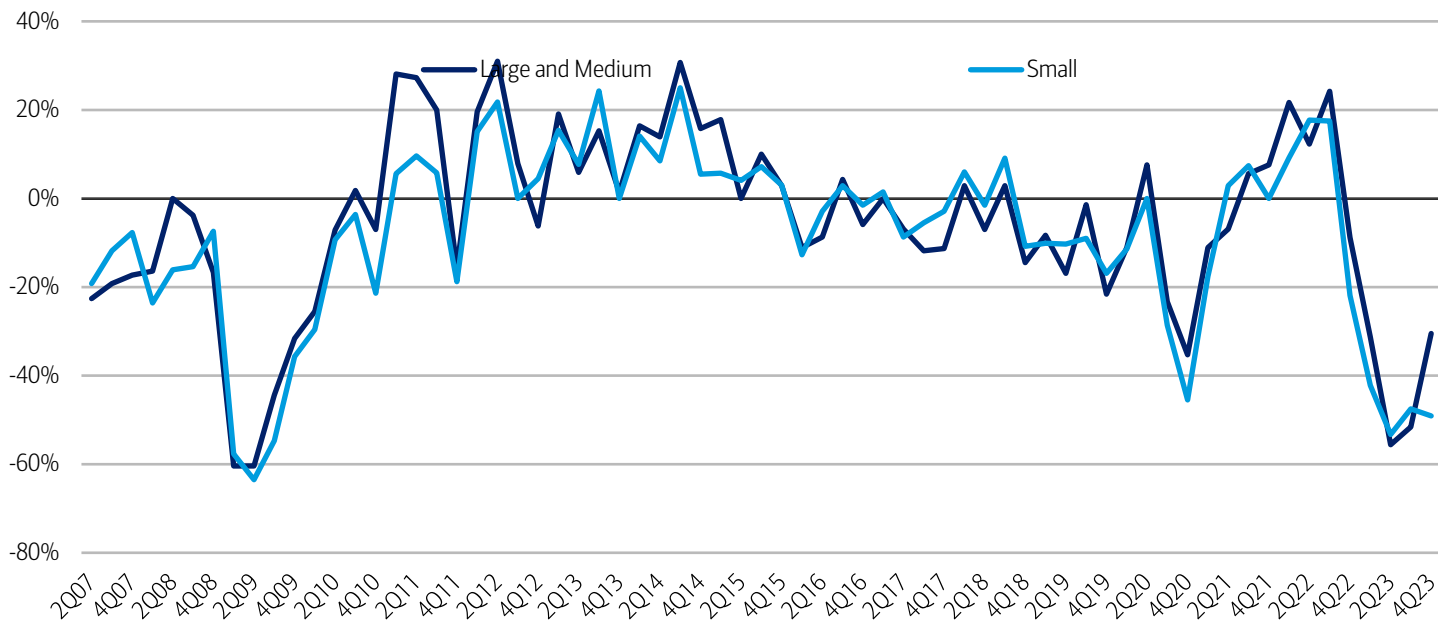


Source: Bloomberg

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Exhibit 8: Demand for loans has started to recover for large/medium businesses, but not for small

Net Percentage of Domestic Respondents Reporting Stronger Demand for C&I Loans, by Size of Firm Seeking Loans



Source: Bloomberg

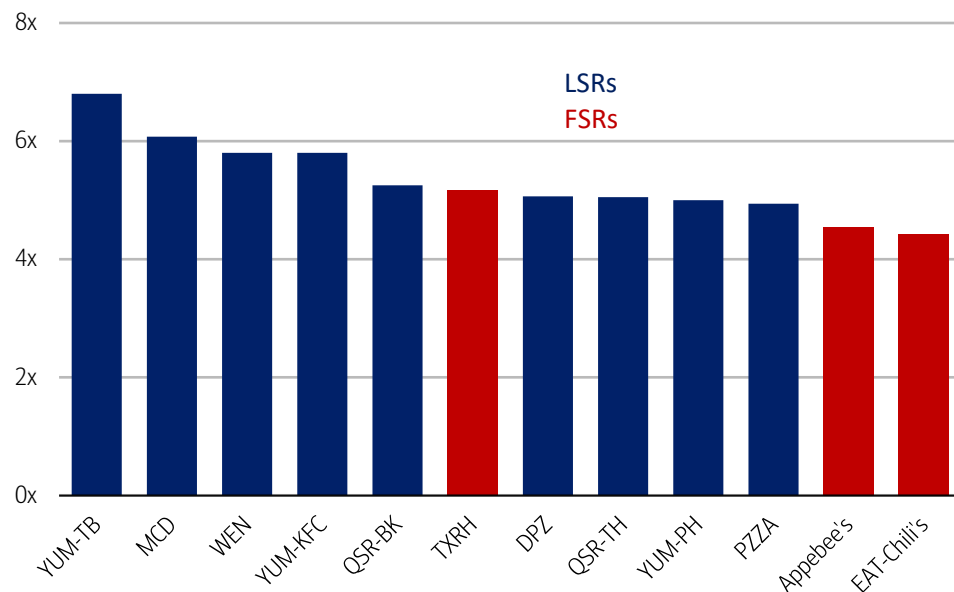
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Higher EBITDA, not multiple will dictate refranchising ROI

The 6.6x multiple paid for TAST by RBI appears to be towards the high end of the range of multiples paid for BK franchisees, suggesting eventual refranchising (RBI intends to keep a “couple hundred” of the 1000+ TAST stores) transactions will earn similar multiples. Value creation will therefore need to come from meaningful increases in EBITDA – through either higher margins or higher volumes. We also view RBI’s outlook for minimal G&A synergies as reasonable: company operated restaurants require more G&A than franchise (MCD has in the past estimated \$40-50K vs \$10K)

Exhibit 9: The valuation multiple paid by QSR for TAST (6.6x) sits toward the high end of the range of sale multiples for franchisees

Estimated 2022 EBITDA multiples by brand



Source: BofA Global Research estimates

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Exhibit 11: Stocks mentioned

Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
QSR	QSR US	Restaurant Brands In	US\$ 76.15	B-3-7
MCD	MCD US	McDonald's	US\$ 300.44	A-2-7
WEN	WEN US	Wendy's Co	US\$ 18.98	B-3-7

Source: BofA Global Research

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Price objective basis & risk

Restaurant Brands International Inc. (QSR / YQSR)

Relative to the S&P 500, currently QSR's earnings multiple stands at 1.1x, in line with its 5-year average. We view this multiple as appropriate as lagging sales trends and greater investment needs drive lower estimate revisions. We apply a 1.1x multiple to our 12 months forward EPS estimate (4Q24-3Q25) EPS to arrive at a price objective of \$74 (C\$100.09). Our 1.1x relative multiple (vs the S&P 500) translates to an absolute P/E multiple of 18.8x.

Upside risks: better-than-expected results on sales trends and market share gains as a result of investments in stores, technology, and marketing spend. Faster-than-expected turnaround in the Burger King brand. Faster-than-expected growth of the Tim Horton's brand.

Downside risks: Higher-than-expected G&A spending, continued lag in topline growth trends relative to competitors, slower-than-expected recovery in supply chain and/or labor constraints associated with COVID-19.

Analyst Certification

I, Sara Senatore, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Restaurants Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Chipotle Mexican Grill	CMG	CMG US	Sara Senatore
	Darden Restaurants	DRI	DRI US	Sara Senatore
	Domino's Pizza	DPZ	DPZ US	Sara Senatore
	Dutch Bros	BROS	BROS US	Sara Senatore
	First Watch	FWRG	FWRG US	Sara Senatore
	Jack in the Box	JACK	JACK US	Sara Senatore
	Krispy Kreme	DNUT	DNUT US	Sara Senatore
	Papa Johns International	PZZA	PZZA US	Sara Senatore
	Portillo's Inc.	PTLO	PTLO US	Sara Senatore
	Starbucks	SBUX	SBUX US	Sara Senatore
	Sweetgreen	SG	SG US	Katherine Griffin
	Texas Roadhouse	TXRH	TXRH US	Sara Senatore
	Wingstop Inc	WING	WING US	Sara Senatore
NEUTRAL				
	Bloomin Brands	BLMN	BLMN US	Sara Senatore
	McDonald's	MCD	MCD US	Sara Senatore
	Shake Shack	SHAK	SHAK US	Sara Senatore
	The Cheesecake Factory	CAKE	CAKE US	Katherine Griffin
	Yum Brands Inc	YUM	YUM US	Sara Senatore
UNDERPERFORM				
	Brinker International	EAT	EAT US	Katherine Griffin
	Cracker Barrel	CBRL	CBRL US	Katherine Griffin
	Restaurant Brands International	YQSR	QSR CN	Sara Senatore
	Restaurant Brands International Inc.	QSR	QSR US	Sara Senatore
	Wendy's Co	WEN	WEN US	Sara Senatore

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

iQdatabase[®] is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Global Research.

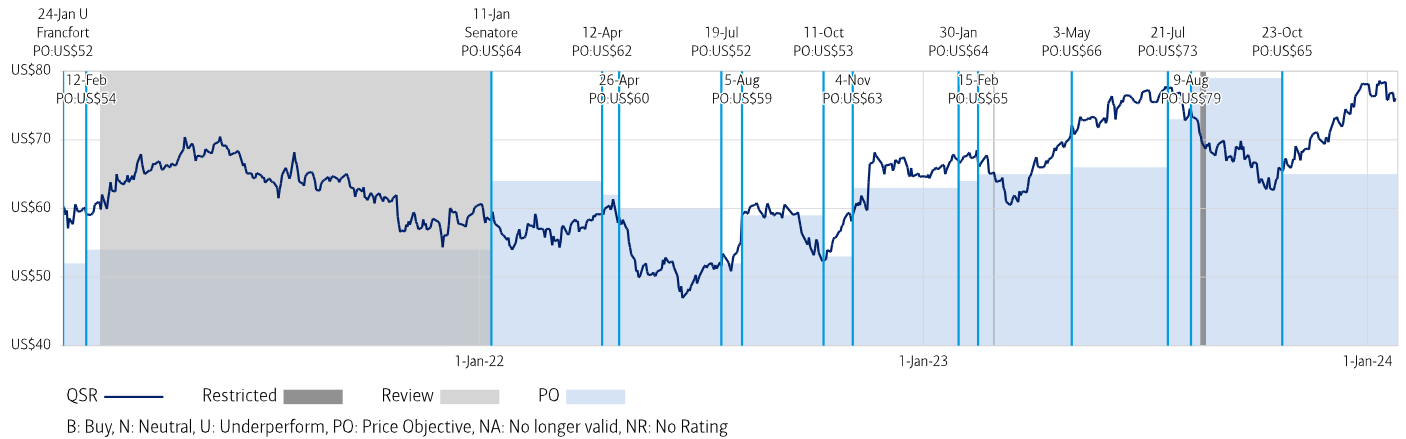
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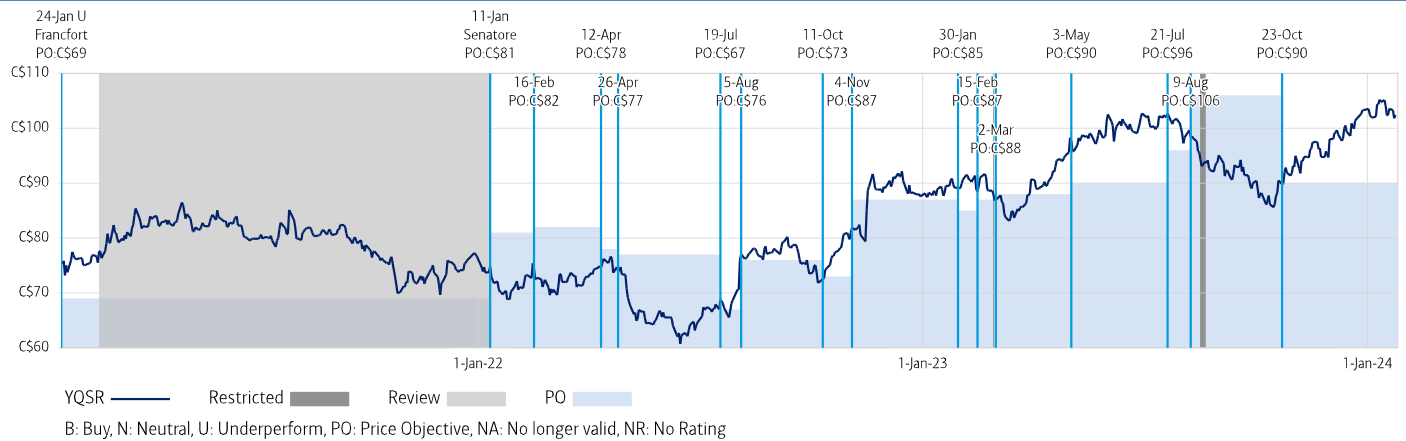
Disclosures

Important Disclosures

Restaurant Brands In (QSR) Price Chart



Restaurant Brands In (YQSR) Price Chart



Equity Investment Rating Distribution: Restaurants Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	21	58.33%	Buy	10	47.62%
Hold	10	27.78%	Hold	3	30.00%
Sell	5	13.89%	Sell	4	80.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2}Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

INCOME RATINGS, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. **Coverage Cluster** is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Global Research report referencing the stock.

Price Charts for the securities referenced in this research report are available on the [Price Charts website](#), or call 1-800-MERRILL to have them mailed.

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