

# Restaurant Brands International Inc.

## QSR for TAST: Asset light just got a little heavier

Maintain Rating: UNDERPERFORM | PO: 65.00 USD | Price: 78.45 USD

### QSR acquires TAST; 1022 Burger Kings, 60 Popeye's

Restaurant Brands' announced acquisition of Carrols Restaurant Group (TAST, not covered by BofA Global Equity Research) is meant to accelerate its Reclaim the Flame Burger King US turnaround plan by rapidly remodeling restaurants (120 per year, up from TAST's target of 45), which it will use as proof of concept for the broader franchisee base. Adjusted for the lack of brand ownership, the EV/EBITDA multiple of 6.6x on 2023E EBITDA looks mostly in line with previous acquisitions (e.g., JACK for Del Taco, YUM for Habit). Given that the transaction is expected to be EPS neutral and cash flow neutral over time, QSR will fund remodels through TAST operating cash flow – the greater implications are for what the acquisition says about the limits of the asset- (and spending-) light approach. We maintain our Underperform rating on Restaurant Brands.

### Franchised systems require greater investment, ...

We have been concerned that the \$200 mm that QSR has allocated to supporting remodels was insufficiently large given the size of the system (~6800 US restaurants) and the extent of its needs (~2/3 of the system in need of upgrading). The implied investment (\$250K per restaurant for 800 restaurants) is small in absolute terms as well as when compared to spending by competitors McDonald's and Wendy's (see our report, [Restaurant Brands International Inc.: Enough tinder to "Reclaim the Flame"? 18 October 2022](#)). Today's commitment –\$500 mm allocated to fully modernize ~600 of Carrols' Burger King (BK) restaurants by 2028 – brings QSR's spending more in line with Wendy's, though it is more narrowly concentrated in funding the full remodel cost of the acquired stores than underwriting a broader upgrade campaign by franchisees.

### ... more permanent capital, ...

While QSR plans to rebrand most of the acquired restaurants upon completion of the upgrades (rebranding is expected to happen over the 5-7 years), the company will retain "a couple hundred" company restaurants for testing, training, and talent development purposes. Assuming that QSR retains 200 company-operated restaurants, BK US will land at ~97% franchise mix. That would put the company's US franchise mix only slightly higher than that of peers such as Domino's (96% franchised and the former employer of both Chairman Patrick Doyle and BK President Tom Curtis), Yum (95%), and McDonald's (95%). Philosophically, this reverses the BK shift to 0% ownership. Financially, company stores would have an outsized impact on QSR revenues and EBITDA (capturing full operating margins rather than ~5% royalties).

### ... and more active management

As part of the rebranding strategy, QSR plans to parcel out the Carrols restaurants across more, smaller franchisees, including restaurant managers currently in the Carrols system with aspirations of ownership. This approach marks another reversal from the prior strategy whereby the BK system saw financial investors consolidating smaller operators. In response, QSR shrank G&A to industry-low levels as a share of systemwide sales (under the view that larger franchisees needed less support from HQ). The renewed emphasis on owner-operators who live in the communities where the stores are operated suggests that ongoing franchisee support may also prove higher.

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#### Equity

**Sara Senatore**  
Research Analyst  
BofAS  
+1 646 743 2110  
[sara.senatore@bofa.com](mailto:sara.senatore@bofa.com)

**Katherine Griffin**  
Research Analyst  
BofAS  
+1 646 855 2849  
[katherine.griffin@bofa.com](mailto:katherine.griffin@bofa.com)

**Jessica Owusu Afari**  
Research Analyst  
BofAS  
+1 646 617 9040  
[jessica.owusu-afari@bofa.com](mailto:jessica.owusu-afari@bofa.com)

#### Stock Data

Price (NYS / TOR)	78.45 USD / 104.10 CAD
Price Objective	65.00 USD / 89.80 CAD
Date Established	23-Oct-2023 / 23-Oct-2023
Investment Opinion	B-3-7 / B-3-7
52-Week Range	59.99 USD - 79.45 USD
Market Value (mn)	24,936 USD
Free Float	95.3%
Average Daily Value	93.70 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)	33.0%
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".**

G&A: general and administrative expense

HQ: headquarters

K: thousand

## Exhibit 1: Adjusted for lack of brand ownership, the 6.6x EV/EBITDA transaction multiple for TAST is in line with previous acquisitions, such as JACK for Del Taco and YUM for Habit

### Historical Restaurant Mergers and Acquisitions

Date Announced	Target	Acquirer	Transaction Value (\$ mm)	Transaction Multiple (EV/EBITDA)
2/20/2018	Fogo de Chao	Rhone Capital	\$553	11.4x
3/8/2018	Bravo Brio Restaurant Group	Spice Private Equity	\$106	8.3x
5/29/2018	Pret A Manger	JAB	\$2,000	
8/2/2018	Jamba Inc	Roark Capital	\$195	
8/17/2018	Zoe's Kitchen	Cava Group	\$294	
8/31/2018	Costa Coffee	Coca-Cola	\$5,100	
9/25/2018	Sonic Corp	Roark Capital	\$2,263	15.6x
11/6/2018	Bojangles' Inc	Durational Capital Management	\$594	14.1x
3/4/2019	PF Chang's China Bistro	Paulson & Co, Triartisan Capital		
6/24/2019	Del Frisco's Restaurant Group	Catterton Partners	\$824	
1/6/2020	The Habit Restaurants	Yum! Brands	\$447	8.3x
10/30/2020	Dunkin'	Inspire Brands	\$11,583	24.6x
1/22/2021	Friendly's	Amici Partners Group	\$2	
3/24/2021	Pizza Hut and Wendy's restaurants	Flynn Restaurant Group	\$553	
6/28/2021	Global Franchise Group	FAT Brands	\$443	
9/30/2021	J Alexander's	SPB Hospitality	\$298	10.0x
10/11/2021	Anthony's Pizza	BurgerFi		
11/15/2021	Firehouse Restaurant Group	Restaurant Brands International	\$1,000	
12/6/2021	Del Taco Restaurants	Jack in the Box	\$825	8.0x
12/5/2022	Fuzzy's Taco Shop	Dine Brands	\$80	
5/3/2023	Ruth's Hospitality Group	Darden Restaurants	\$705	7.4x
8/7/2023	Fiesta Restaurant Group	Authentic Restaurant Brands	\$358	14.2x
8/15/2023	Fogo de Chao	Bain Capital	\$1,100	
8/24/2023	Subway	Roark Capital	\$9,600	12.8x

Source: Bloomberg, Company reports

BofA GLOBAL RESEARCH

## 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 \$65 (C\$89.80). Our 1.1x relative multiple (vs the S&P 500) translates to an absolute P/E multiple of 18.2x.

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.

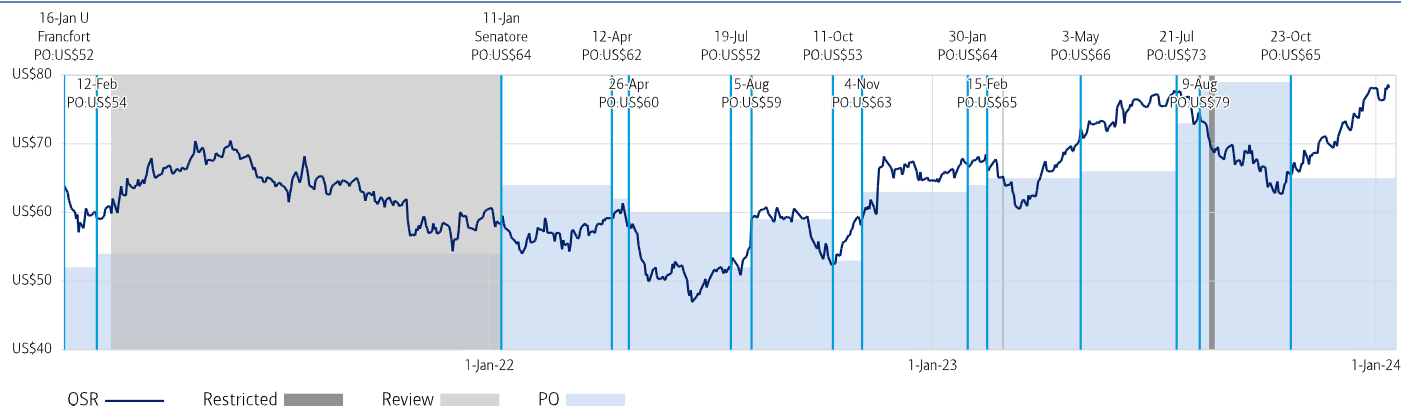
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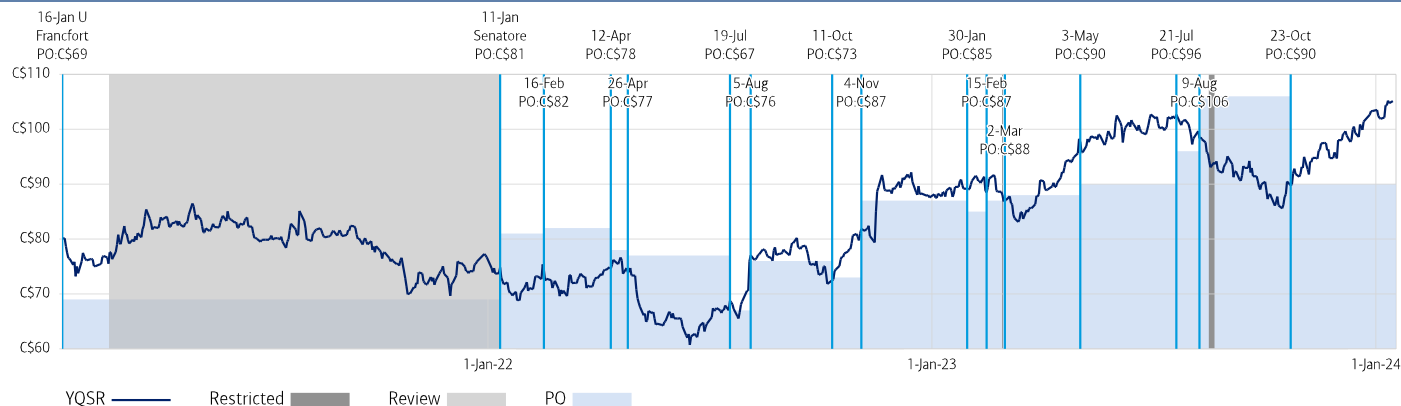
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### Restaurant Brands In (QSR) Price Chart



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### Restaurant Brands In (YQSR) Price Chart



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Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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)

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Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup>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.

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