

Restaurant Brands International Inc.

4Q Quick Take: Tim's, BK SSSG beat, int'l misses; EBITDA misses as QSR invests

Maintain Rating: UNDERPERFORM | PO: 74.00 USD | Price: 78.27 USD

Tim's, BK home market strength offset by int'l weakness

QSR's 4Q topline results (global same store sales growth of +5.8% vs consensus +6.2%) are consistent with trends reported by global limited service peers, where solid home market performance was offset by weakness in international markets (+4.6% vs cons +8.3%). Within QSR's portfolio, Tim Horton's Canada reported better than expected results (+8.4% vs cons +5.4%), suggesting momentum is continuing even after the COVID reopening tailwind has dissipated. Burger King's US/Canada comp of 6.3% was also ahead of consensus (+4.8%), though we think market expectations had crept higher. Popeye's was better than expected (+5.5% vs cons +4.5%), helped by the launch of wings, and the much smaller Firehouse posted in-line results (+3.5% vs +3.2% cons).

EBITDA misses as QSR invests in value, advertising

The adjusted EBITDA (excludes stock-based comp (SBC)) of \$603mm missed consensus of \$631.5mm as all major expense lines were higher than expected, including cost of sales (\$643mm vs \$635mm cons), advertising (\$364mm vs \$338.6mm cons), and G&A (\$197mm vs \$172.6mm cons). The overall composition of the quarter is as we would expect from a company that is investing to drive topline after having under-invested in the brand previously: topline growth materialized but expenses more than offset.

While a lower tax rate helped drive in-line EPS (\$0.75 vs cons \$0.74), the market's focus will be on operating fundamentals. The 4Q result reinforces our view that there is likely to be fairly limited flow through and EPS upside going forward despite better SSSG. With QSR's P/E multiple relative to the S&P500 already trading in-line with its historical average (1.0x vs a 5-year average of 1.0x) and EPS upside revisions capped by investments, we maintain our Underperform rating and \$74 PO.

13 February 2024

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Stock Data

Price (NYS / TOR)	78.27 USD / 105.38 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 - 79.94 USD
Market Value (mn)	24,458 USD
Free Float	95.3%
Average Daily Value	95.43 USD
Shares Outstanding (mn)	312.5 / 312.5
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

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QSR – Restaurant Brands International

G&A – general & administrative expenses

SSSG – same-store sales growth

VA – Visible Alpha consensus

BofAE – BofA Global Research estimates

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Timestamp: 13 February 2024 08:02AM EST

Exhibit 1: QSR reported 4Q revenue ahead of consensus, although higher expenses led to EPS in line with consensus

QSR Reported 4Q23 Results vs BofA and Consensus

	Reported	Reported	y/y change	BofAE	Consensus	Variance (vs BofAE)	Variance (vs Cons)
\$ in millions (except per share amounts)	4Q22	4Q23E		4Q23E	4Q23	4Q23	4Q23
Blended SSS	7.7%	5.8%	-1.9 ppt	7.0%	6.2%	-1.2 ppt	-0.4 ppt
TH SSS	10.1%	8.4%	-1.7 ppt	5.0%	5.4%	3.4 ppt	3.0 ppt
BK SSS	5.0%	6.3%	1.3 ppt	5.0%	4.8%	1.3 ppt	1.5 ppt
PLK SSS	1.7%	5.5%	3.8 ppt	7.0%	4.5%	-1.5 ppt	1.0 ppt
FHS SSS	0.4%	3.5%	3.1 ppt	2.9%	3.2%	0.6 ppt	0.3 ppt
INTL SSS	10.5%	4.6%	-5.9 ppt	10.0%	8.3%	-5.4 ppt	-3.7 ppt
Total Systemwide Units	29,902	31,070	4%	31,009	31,064	0%	0%
TH	4,519	4,525	0%	4,512	4,501	0%	1%
BK	7,389	7,144	-3%	7,154	7,158	0%	0%
PLK	3,235	3,394	5%	3,399	3,392	0%	0%
FHS	1,242	1,265	2%	1,277	1,261	-1%	0%
INTL	13,517	14,742	9%	14,667	14,752	1%	0%
Company sales	\$743.0	\$767.0	3%	\$755.9	\$772.8	1%	-1%
Total Revenue	\$1,689.0	\$1,820.0	8%	\$1,774.4	\$1,799.9	3%	1%
Revenue by Segment							
TH	\$987.6	\$1,018.0	3%	\$1,010.6	\$1,024.9	1%	-1%
BK	\$310.2	\$345.0	11%	\$307.7	\$321.0	12%	7%
PLK	\$162.8	\$182.0	12%	\$178.6	\$174.1	2%	5%
FHS	\$36.0	\$51.0	42%	\$49.8	\$51.5	2%	-1%
INTL	\$192.0	\$224.0	17%	\$227.6	\$228.3	-2%	-2%
COGS	\$619.0	\$643.0	4%	\$632.1	\$635.1	2%	1%
% of Company Revenues	83.3%	83.8%	52 bps	83.6%	82.2%	21 bps	165 bps
Company Operated margin %	16.7%	16.2%	-3%	16.4%	18%	-1%	-9%
Advertising expenses and other services	\$295.0	\$364.0	23%	\$350.4	\$338.6	4%	8%
G&A	\$196.0	\$197.0	1%	\$155.5	\$172.6	27%	14%
SG&A	\$491.0	\$561.0	14%	\$505.9	\$511.2	11%	10%
% of Revenues	29.1%	30.8%	2 bps	28.5%	28.4%	232 bps	242 bps
Other operating expense/(income)	\$93.0	\$35.0	N/D	\$0.0	-\$2.3	N/D	N/D
Adj. EBITDA	\$536.0	\$603.0	13%	\$617.7	\$631.5	-2%	-5%
Adj. EBITDA margin	31.7%	33.1%	140 bps	34.8%	35.1%	-168 bps	-195 bps
Interest Expense	\$144.0	\$152.0	6%	\$139.8	\$148.0	9%	3%
Tax Rate	15.3%	-129.7%	-947%	13.9%	15.8%	-14366 bps	-14552 bps
Adj. Diluted EPS	\$0.72	\$0.75	5%	\$0.72	\$0.74	4%	2%

Source: Visible Alpha, Company filings, BofA Global Research estimates

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 \$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.

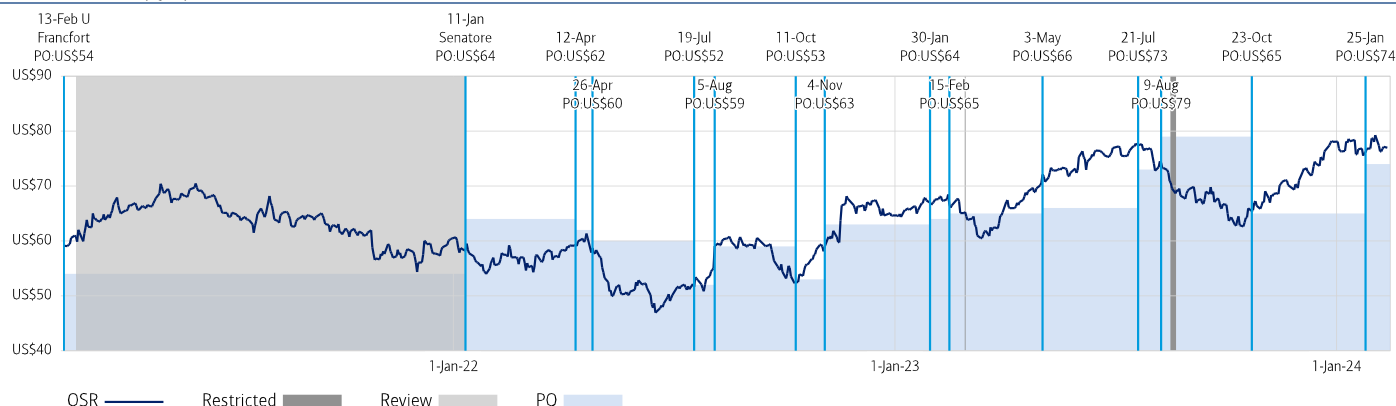
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Restaurant Brands In (QSR) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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Restaurant Brands In (YQSR) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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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.

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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.

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