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EPS of \$0.73 **beats by \$0.01** | Revenue of \$1.74B (9.37% Y/Y) **beats by \$39.53M**

Restaurant Brands International Inc. (NYSE:[QSR](#)) Q1 2024 Earnings Conference Call April 30, 2024 10:00 AM ET

Company Participants

Kendall Peck - Head of Investor Relations

Joshua Kobza - Chief Executive Officer

Sami Siddiqui - Chief Financial Officer

Patrick Doyle - Executive Chairman

Conference Call Participants

Dennis Geiger - UBS
Brian Bittner - Oppenheimer & Co
David Palmer - Evercore ISI
Danilo Gargiulo - AB Bernstein
John Ivankoe - JPMorgan
Lauren Silberman - Deutsche Bank
Andrew Charles - TD Cowen
John Zamparo - CIBC
Brian Mullan - Piper Sandler
Sara Senatore - Bank of America
Brian Harbour - Morgan Stanley
Eric Gonzalez - KeyBanc
Gregory Francfort - Guggenheim

Operator

Good morning, and welcome to the Restaurant Brands International First Quarter 2024 Earnings Conference Call. All participants will be in a listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Kendall Peck, RBI's Head of Investor Relations. Please go ahead.

Kendall Peck

Thank you, operator. Good morning, everyone, and welcome to Restaurant Brands International's earnings call for the first quarter ended March 31, 2024. As a reminder, a live broadcast of this call may be accessed on the Investor Relations webpage at rbi.com/investor and a recording will be available for replay.

Joining me on the call today are Restaurant Brands International's Executive Chairman, Patrick Doyle; CEO, Josh Kobza; and CFO, Sami Siddiqui.

Today's earnings call contains forward-looking statements, which are subject to various risks set forward in the press release issued this morning and in our SEC filings. In addition, this earnings call includes non-GAAP financial measures. Reconciliations of non-GAAP financial measures are included in the press release available on our website.

And now I'll turn the call over to Josh.

Joshua Kobza

Thanks Kendall. Good morning everyone and thank you for joining us today to discuss our first quarter of 2024. We talked a lot about our business and strategy during our investor event in February so I'll keep my remarks brief today and focus on the quarter.

We had a good start to the year with first quarter consolidated comparable sales of 4.6% and net restaurant growth of 3.9%. This translated into system-wide sales growth of 8.1% and organic adjusted operating income growth of 7.7%. Leap day contributed about 1% to same store sales globally so that's important to keep in mind as we talk through results. We're proud of the hard work our teams and franchisees are doing to deliver outstanding product quality and service to guests every day at a great value. That's what brings guests back and will be the driver of sales and traffic growth today and into the future. We're also making progress towards improving convenience.

In addition to remodeling our restaurants we opened 43 net new restaurants this quarter. We continue to expect mid 4% net restaurant growth for 2024 with development ramping in the second half of the year. And finally after an incredible performance in 2023 our franchisees and teams delivered another quarter of improved home market franchisee profitability driven by top-line sales growth and enhanced operations.

Before I shift to our segment results I'd like to address the consumer environment. As we've all seen sales across the restaurant industry have been slowing for a few quarters. In our own data we've seen consumers become a bit more sensitive to price resulting in moderating check growth. This is why driving traffic is so important and why I'm so pleased to see our brands deliver better traffic than most of the industry this past quarter. We know value is also top of mind and while there are a few tactical things we can do on the margin you should not expect us to reinvent the wheel on value.

Our priority is to continue enhancing our value proposition through our quality food and beverages at attractive price points, improved operations, and delivering a modern convenient experience for our guests. As we continue executing against our plans we feel well positioned to outperform the broader industry and traffic.

Now let's turn to our results and we'll start with Tim Hortons in Canada. We kicked off Tim's 60th anniversary year with a 7.5% increase in comparable sales, including mid-single digit traffic growth and 8.3% growth in system wide sales. These fantastic results were driven by operational and digital improvements as well as a strong marketing calendar which included the January launch of our retro donuts and omelet bites.

Our high quality offerings, great value for money, incredible speed of service and unmatched convenience have made Tim Hortons the most loved restaurant brand in Canada and the number one breakfast destination for millions of Canadians. We saw the team grow sales 7.5% year-over-year in our morning daypart, which contributes over 45% to total system wide sales in Canada.

On PM food, we're bringing Canadians delicious products at attractive price points, including our loaded bowls and wraps and anytime snackers, which now include our savory pinwheels. We're dialing up the craveability of our PM food even more with the launch of our new Flatbread Pizzas which leverage our baked good credentials and offer guests a heartier meal at a really great value. To bring these delicious products from market test, our largest and most successful in recent history to national launch, we invested approximately CAD20 million alongside our franchisees to roll out high speed convection ovens across the system.

Our marketing and culinary teams and restaurant owners are really excited about the future menu opportunities. This new equipment unlocks and we see a clear path to achieve double digit PM food market share in the next year or so. We're also building our great cold beverage lineup to make Tim's a destination of choice for PM occasions.

Even during the colder winter months, sparkling quenchers remained highly sought after refreshments for our guests and helped cold beverage sales grow 12% year-over-year during the quarter. As Patio season approaches, we see an exciting opportunity to drive traffic through additional cold beverage innovations.

Finally, we saw another quarter of drive-thru speed of service improvements, with average drive-thru times improving 8% year to 33 seconds. Continued restaurant trainings and ongoing adoption of our single QR code, scan and pay feature are helping to drive these great results. Tim Hortons had a great start to the year. It's an important one for the brand as we celebrate its 60th anniversary, the 50th anniversary for its beloved Tim Hortons Camp foundation, and the 40th anniversary for Tim Hortons in the U.S.

Restaurant owners are gathering with Axel and his team in Toronto in June to celebrate these important milestones. We're confident we can continue to drive growth for the business with the support and hard work of our dedicated restaurant owners, and we're looking forward to seeing them all next month.

Shifting to international I'm excited to have Thiago join the leadership team as our new President of International. Thiago has done an amazing job leading our largest international region, which is Europe, the Middle East and Africa, for the past two years, and led Latin America for three years prior to that. He's been instrumental in expanding our brands internationally with the launch of Firehouse Subs International and taking Popeyes to many markets like France and Eastern Europe, just to name a few.

In March, I spent time with Thiago and our partners in Asia where we visit our Burger King, Tim Hortons and Popeyes businesses in Shanghai and then visited our Tim's location in Singapore to spend time with our local partners and understand how the team is successfully translating the brand to markets across Asia.

It's clear we have a tremendous opportunity in APAC over the long-term. That said, there is work to do in certain markets like China to improve our near term path and once we have updates on that, we'll share those with you.

For the first quarter, International comparable sales were 4.2% and net restaurant growth was 8.4%, driving system wide sales growth of 11.6%. Positive results in markets such as France, Brazil, Mexico, Australia and Japan were partially offset by the softer consumer backdrop in China, deceleration in pricing in markets in Western Europe and the conflict in the Middle East.

Our performance in the midst of these macro pressures is a testament to our strong brand position and the hard work of our teams and partners. Together, we've developed balanced menus with enticing gourmet premium and value products and are serving guests in modern, digitally enabled restaurants. Burger King France's value menu and focus on great food coupled with excellent guest satisfaction helped the market grow its share and uphold its strong position in value for money.

At Burger King Brazil, value oriented calendar initiatives and effective advertising drove top line momentum during the quarter. At Tim Hortons in Mexico, we have a really strong business and saw another great quarter of comparable sales. International digital sales grew 15% year-over-year and represented over 50% of International system sales, led by Asia Pacific, where digital represented over 55% of the region's system wide sales. We know our four brands are well-positioned to adapt to the evolving business landscape of over 120 diverse markets, with many still representing significant development opportunities for decades to come.

Shifting now to Burger King U.S., comparable sales grew 3.9% and traffic was relatively flat, while total net restaurants declined 2.8%, resulting in 2.4% system-wide sales growth. Results were driven by continued progress across all pillars of Reclaim the Flame, including marketing focused on our flame-grilled and have-it-your-way core equities and strong value messaging.

Through operational improvements and a balanced menu of value and calendar initiatives, such as our \$5 duos and our fiery Buffalo innovation, Burger King U.S., comparable sales and traffic once again outperformed the industry. We know we still have a lot more work ahead of us, including closing and integrating our pending Carol's acquisition, but it's clear Reclaim the Flame is driving strong early results and positioning us well to outperform in any consumer environment.

On the advertising and digital side, we spent \$6 million of our Fuel the Flame investment during the quarter, and given continued franchisee profitability improvements, we're well-positioned to maintain our improved share of voice, with franchisees on track to take on the incremental 50 basis points of ad levies starting next year.

Our Royal Reset refresh investments, energy from our Royal Roundtables, and targeted gold standard service trainings are establishing a stronger restaurant-level culture at Burger King that's been a driving force behind our operational improvements. We're also making strides on the digital front and saw increased mobile order and pay, kiosk usage, and adoption of our Royal Perks loyalty program drive digital sales growth of 37% year-over-year, resulting in a digital sales mix of 17%. We are on track to complete nearly 400 remodels, both through our fully committed Royal Reset remodel program and normal course re-imaging in 2024, and now have nearly 100 Royal Reset remodels that have been open for at least six months. We're really impressed by the results we've seen so far, including average uplifts in the high teens net of control.

As expected, that's down a little from the 20% figure we shared in February, as more full remodel restaurants have come into the sample. These results are giving us and our franchisees a ton of confidence that Reclaim the Flame is working, and you're seeing another clear demonstration of that confidence in the expanded co-investment we announced this morning. The \$300 million investment will contribute to remodeling another 1,100 restaurants and bring us to between 85% and 90% modern image by 2028.

We're continuing to incentivize better operations and higher scope remodels, while introducing another element to incentivize urgency. By providing franchisees more meaningful contributions, the sooner they re-image. We've seen solid interest from franchisees in our new sizzle image, which we've been piloting and testing over the past few quarters, and are excited to officially make sizzle available to all franchisees soon.

Tom and team are on the road with franchisees launching the new program, and we are excited to work with them to bring beautiful, digitally forward Burger Kings to more guests around the U.S. For those of you in Miami, Las Vegas, New Jersey, Northern California, and Asheville, North Carolina, I encourage you to check out our newest BKs to get a taste of what's to come in the years ahead. I've been to all of those except Las Vegas recently, and continue the restaurants look great and guests are loving the upgraded experience.

Between our Reclaim the Flame investment, pending Carol's acquisition, and this additional \$300 million investment into remodels, we believe the brand is now fully funded to deliver against our long-term plans for Burger King.

Now turning to Popeyes, we're excited to have Jeff Klein take on the role of President of Popeyes in the U.S. and Canada. Jeff has over 20 years of marketing experience, and was an important contributor to our 'Easy to Love' plan development, while leading the launch of our we don't make sense, we make chicken, brand messaging, and our wings campaign. He has amazing operations, culinary, and development teams supporting him, and he's excited to continue executing against easy to love.

Shifting to results for the quarter, Popeyes U.S. grew comparable sales 6.2%, and net restaurants 4.0% resulting in system wide sales growth of 10.2%. We're seeing exciting momentum in the early days of our journey as a wings player. The brand's first ever Super Bowl ad proved to be successful driving mass awareness to wings.

In March, we built on this strength with the introduction of our newest flavor, honey-lemon-pepper, as a digital exclusive, which paved the way for new and existing guests to try all our wings, and help deliver a digital sales mix of 27%. We layered this digital promotion with our big box value deal, and both represented key drivers in our traffic, and Chicken QSR share growth this quarter. Our Easy to Run kitchen conversions are also delivering encouraging results, and enabling us to create a better experience for both team members and guests. We started to roll out Easy to Run kitchens in clustered markets beginning with California. I visited our California Easy to Run kitchens twice now this year and have heard from franchisees and team members how impactful the simplified kitchens and automated ordering can be to our business.

The best part is that the conversions can be completed in just a few nights with no restaurant downtime during the day. We're showcasing this opportunity with our franchisees next month at the Popeyes convention, which of course will be in our hometown of New Orleans, where our company restaurants will host the system in recently upgraded easy to run restaurants. The team is closely monitoring results from the Easy to Run kitchens we have today, and we look forward to sharing more updates with you on our journey later this year.

Finally, on Firehouse Subs, we saw relatively flat comparable sales in the U.S. and increased system wide sales by 3.3%. We remain focused on driving development and strengthening our digital leadership. On development, Mike and team are building a strong multi-year pipeline with attractive development incentive programs.

We saw a nice traction this quarter from these programs with commitments from new and existing franchisees, including first responders, to open restaurants in the U.S. and Canada. The Firehouse team recently participated and sponsored the FDIC convention that stands for Fire Department Instructors Conference, where we served thousands of Firehouse Subs and hosted a session on becoming a firehouse franchisee. Our franchisees in Canada, some of whom are Tim's restaurant owners as well, have done a great job and we're seeing strong average unit volumes in the market.

It's clear Canadians have an appetite for more Firehouse, so we're excited to continue bringing the brand's hearty subs to new destinations across the country. We also made progress migrating to digital channels and grew digital sales mix to over 40% for the quarter. Firehouse holds the highest home market digital penetration across all of our brands and has tons of potential to further enhance its overall digital strategy.

I just got back from Texas and Oklahoma with Mike and the rest of the Firehouse team visiting a couple of our best franchisees to talk about development and some of the hot new marketing innovations we're working on. Everyone's fired up for where we're going to take this brand, and I share their optimism.

I'm really pleased to have Sami with us today in his new role as CFO. Sami brings an incredible balance of financial, strategic and operational experience. Having worked across nearly all of our businesses across the last ten years. He's already proven himself to be an incredible partner to me and to the business unit Presidents as we work together to deliver against our long-term plans.

So now I'll turn it over to Sami to walk through our financial results for the quarter.

Sami Siddiqui

Thank you Josh and good morning everyone. It's really great to be here today. At RBI, we have five amazing businesses and I'm excited to work with each of them to deliver on our long-term outlook of 3% plus comparable sales growth, 5% plus net restaurant growth, 8% plus system wide sales growth and at least 8% adjusted operating income growth on average over the next five years.

For the first quarter, global system wide sales grew 8.1% year-over-year and our organic adjusted operating income grew 7.7%. Organic adjusted EPS declined slightly, 0.9%. System wide sales and adjusted operating income growth were largely in line with one another this quarter. That said, there were a few items that impacted results, which I'll walk you through now.

First, we estimate that the February leap day benefited consolidated comparable sales by 120 basis points, which was almost entirely offset by a 60 basis point consolidated headwind from the ongoing conflict in the Middle East and a 50 basis point headwind from tough weather, largely impacting Burger King and Popeyes in the U.S.

Second, we recorded just over \$7.5 million of net bad debt expenses, compared to \$5.5 million in Q1 of 2023, \$3 million of which impacted Burger King in that quarter. Our Q1 2024 expenses were primarily split between royalties at our international segment and cost of sales in our Tim Horton supply chain business relating to coffee sales to certain international partners.

Third and finally, segment G&A increased \$16 million year-over-year, primarily reflecting higher compensation related expenses associated with increased headcount to support our development, franchising and operations efforts. These items were offset by strong underlying growth in system wide sales and profitability improvements at Popeye's company restaurants, as well as the impact of restaurant acquisitions at Burger King, including 89 restaurants acquired in Q4 of 2023 and 38 restaurants added in January of this year.

Shifting now to EPS, organic adjusted earnings per share decreased slightly, 0.9% year-over-year, to \$0.73 per share compared to \$0.75 per share last year. The decrease was primarily due to an increase in adjusted income tax expense and an increase in adjusted interest expense of approximately \$16 million year-over-year driven by our September 2023 refinancing and the impact of higher U.S. benchmark rates, which flowed through to approximately 20% of our total debt.

As a reminder, Q1 2023 adjusted EPS included a \$0.04 per share net benefit related to discrete non-cash tax items. Our adjusted effective tax rate this quarter was approximately 17.5%, and included a three point benefit from the timing of equity-based compensation, which typically has an outsized impact on our tax rate during the first quarter.

Turning now to cash flow and capital allocation. Q1 is the seasonally smallest cash flow quarter of the year for us. And this quarter we generated \$122 million of free cash flow. This quarter we spent approximately \$25 million on Reclaim the Flame related investments. We returned \$245 million of capital to shareholders through our dividend, which we declared for Q2 at \$0.58 per common share and unit with a full year target of \$2.32 per share for the full year 2024.

We ended Q1 with available liquidity of approximately \$2.3 billion, including over \$1 billion of cash, and our net leverage ratio was 4.8 times. We have a clear path to reaching mid four times net leverage by the end of this year, pro forma for our pending acquisition of Carrols.

Now speaking of Carrols, we're also on track to complete our acquisition this quarter with a Carrols shareholder meeting to vote on the merger scheduled for May 14th. We've already secured \$750 million of funding as an add-on to our existing Term Loan B, which is contingent on acquisition close. For those of you looking to incorporate Carrols into your models, we plan to report Carrols Burger King Restaurants as a separate segment with intercompany franchise and rental fees that will be eliminated upon consolidation. Our goal in doing this is to keep the Burger King segment relatively untouched and consistent with how the business will be run over the long-term. This will become especially important as we begin refranchising Carrols restaurants in the future.

I'll now provide an update on our 2024 guidance and capital allocation priorities. As a reminder, this guidance excludes the impact of Carrols. We now expect 2024 segment G&A between \$665 million and \$685 million, including equity-based compensation between \$180 million and \$190 million. This represents about a \$15 million reduction from our prior segment G&A guidance, largely due to personnel changes and other identified opportunities across a variety of areas in our business.

We continue to expect consolidated 2024 CapEx, tenant inducements, and incentives to be roughly \$300 million, compared to around \$170 million in 2023. Of this amount, less than half will be tenant inducements and remodel incentives, which as a reminder, flow through other working capital.

Given our expected increase in CapEx and tenant inducements, we expect quarterly segment depreciation and amortization will ramp over the course of 2024, from around \$41 million in Q1 towards the mid-to-high \$40 million range by Q4 of 2024. As it relates to capital allocation, we will continue to invest in high return opportunities for our business while returning capital to shareholders through our dividends and assessing share repurchase opportunities when appropriate. Over the long-term, we plan to maintain net leverage between three and five times. Where we land in this range will ultimately depend on market conditions.

Finally, as it relates to our long-term outlook, I'd like to address a question we've been asked on why we didn't explicitly guide towards AOI leverage. I'll reiterate what Josh shared in February. This guidance is not what we're striving for. It's what we feel we can confidently achieve over the next five years on average, and meanwhile, we are working towards achieving much bigger results. That said, I'll remind you we have a few earnings streams that don't always grow in line with our global system wide sales.

And those are, number one, our property businesses at Tim's and Burger King. Number two, our supply chain business at Tim's and number three, our CPG business at Tim's. For reference, in 2023, our CPG business represented roughly 15% of total Tim's segment sales and 15% of Tim Horton's segment sales less cost of sales gross profit dollars.

To wrap up, I'll be working closely with each of our Presidents and their teams to drive leverage in other areas of our business as we scale around the world and deliver even greater returns from the investments we've been making over the past few years. I look forward to working with all of you over the coming quarters, and with that, I'll hand it over to Patrick.

Patrick Doyle

Thanks Sami, and good morning everyone. When I take a step back and I look at the quarter, I'd say it was a pretty good quarter that I'd put solidly in the win column. As Tim's in Canada, Burger King in the U.S., Popeyes in the U.S., and several international markets won market share, we're beginning to see the benefit of having the right teams with the right plans and the time to execute them in the right way. And importantly, we're seeing the benefit of strongly aligning with our franchisees.

The performance from Tim's in Canada has just been stunning. Axel and team have a clear path to keep driving the business forward, giving Canadians even more reasons to love Tim's with our growing food and beverage offerings and amazing service. Our International segment has shown great top line resilience over the past few quarters, especially considering the broader environment affecting the whole industry.

With that said, I'd really like to see us unlock the potential we know exists in China. While it's a very small portion of our results today, less than 2% of total RBI adjusted operating income, we know the long-term opportunity there is significant. We'll have more to say about this in the coming quarters.

At Burger King U.S., we've now committed more than \$2 billion to put the brand on the right track. When you consider today's \$300 million co investment, in addition to our \$250 million royal reset investments towards restaurant equipment and reimaging efforts, another \$150 million towards marketing and digital, and the \$1 billion acquisition and \$500 million remodel commitment, we're making with Carrols. I also think it's important to not forget that I'm talking about our investment and in addition, we will be seeing billions of dollars of accelerated investments from franchisees as well.

When we work together as a system like this, the impact on the brand will be pretty spectacular. We have a great team in place, led by Tom, who's been driving a lot of positive change. And we finally have a line of sight to driving franchisee profitability past \$300,000.

I shared with you all in New York a few months ago that you shouldn't question our commitment to getting the brand right in the U.S. The marketing is getting better. We have the biggest focus on operational consistency that the brand has ever had. We now have a path to be nearly fully modern image across the U.S. by 2028. Our franchisees are now on a path to strong profitability and our strong franchisees know they have the ability to drive even higher than average profits for their businesses.

Now it's just down to good old fashioned execution. And that's what Tom loves as an operator. Popeyes is still early on its journey to make the brand Easy to Love. We're coming from a pretty amazing starting point with what I'd say is the best fried chicken in the business, and I'm really excited about the potential we'll unlock for franchisees, team members and guests from Easy to Run kitchen conversions.

Jeff understands clearly the benefits that get unlocked by implementing all the operational changes involved here. So again, this is just a matter of focused execution in our kitchens. At Firehouse, we're working to give more people access to the brand and our development incentive programs are helping unlock the unit growth we know this brand is capable of. I think we've been a little bit slower than expected on the growth we wanted from this brand, but Mike is making all the right development decisions for the long-term and will shortly see the benefit of that. I'm also an optimist and still would bet that Mike and team will achieve my challenge of being 100% digital by the end of 2025.

Part of my confidence on achieving that is a point Josh just made. Our International business now has the majority of its sales through digital channels. That's an amazing milestone. Finally, as you saw in March, Josh now has his team in place. I'm extremely excited about this team and what they all bring to the table. I'm confident that together this team will deliver against the long-term guidance we laid out for you in February and drive value for all our stakeholders.

With that, let's take your questions.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] Our first question today is from the line of Dennis Geiger. The first question is from the line of Dennis Geiger of UBS. Dennis, your line is open. Please go ahead.

Dennis Geiger

Great. Thanks. Good morning, guys. I wanted to have a chat on Tim's and as it relates to the strength of the momentum that you continue to see with the brand. I'm wondering if you could just talk a little more about the sustainability of the underlying gains. It seems like progress against the back to basics plans continue to resonate. That's the main driver of performance. But anything notable to call out as well, maybe on the macro, your customer in Canada and how any of that may impact the outlook relative to strategy. Thank you.

Joshua Kobza

Dennis, good morning. It's Josh. Thanks for the question. As we mentioned, we're really pleased with the performance at Tim's. I think, as you mentioned, it's sustained for quite some time now. I think Axel, Hope, Matt, the whole team up there are working really well with our franchisees and working on and just improving all the basics. I think that's why you've seen so much momentum in the business.

I think the quarter was really good, both same-store sales and the traffic, which has continued to be solidly in the positive category. So we're really happy there. I think we have a lot more to do still at Tim's that we've been talking about building into the PM food part of the business and growing our cold beverages mix. I think you saw in the quarter we're doing those things. You've seen even more recently us coming out and building on some of the food offerings with our Flatbread pizzas and deployment of Merrychef Ovens.

We're pleased with the results of that so far, but I think it just opens up even more things that we can do. It creates more options in the innovation pipeline for us over time. They're going to allow us to continue to build on top of an amazing breakfast business, a great lunch, and later in the day business. I'm pretty pleased with what they're doing. Really great work from the teams and we're confident where we're going for the rest of the year.

Operator

Thank you. Our next question today is from the line of Brian Bittner with Oppenheimer & Co. Brian, your line is open. Please go ahead.

Brian Bittner

Thanks. Good morning. You laid out a path this morning to getting Burger King 85% to 90% remodeled. Obviously, you'll remodel those 600 stores you've talked about from the Carrols acquisition. It will be exciting to see that in the new reporting segment. Then this morning you announced that you'll remodel another 1,100 franchise stores through the 300 million co-investment.

The question is, will these remodels on the 300 million be as impactful as the remodels you're spearheading with the Carrols acquisition? As you work through this path to get to 85% to 90% remodeled, should we expect another batch of closings or relocations to get the portfolio at Burger King U.S. exactly where you want it to be? Thanks.

Joshua Kobza

Hey Brian, I'll take those maybe in reverse order, if that's okay. I don't expect another sizable batch of closures in the business. I think we've gotten past that. And you see that reflected a bit in our outlook, which we've talked about to see the stabilization in the Burger King U.S. store base numbers. So that's the first part.

And in terms of the remodels and how impactful there'll be, I do expect that all of these remodels should be fairly impactful. We're doing larger scope remodels in general compared to what we did over the prior 10 years. So those tend to have a big impact on the consumer and on sales. And the other thing that I'm really excited about that you haven't really seen in the numbers yet, but I think you will over the next 3 years is the impact of this Sizzle image in all of the elements of that and how they come together. The remodels we've been doing, we've been talking about are more in our prior Garden Grill image. And so you're just starting to see some of those Sizzles, we mentioned it in our prepared remarks. They look awesome during the day, and they look, I think even better at night perhaps. They're really beautiful. But importantly, they incorporate a lot of new digital elements and a new guest flow. So they've all built intentionally to have a nice interior flow with all kiosks and to have beautiful drive-thru and really great layouts in the kitchen.

So I think there's a lot of different elements to the Sizzle that I think are going to be good for the uplift that we get over the duration of the program that you haven't really seen come together in the backward-looking results so far.

Patrick Doyle

Brian, I'd add one thing on that, which is when you get to the point where the vast majority of your restaurants are reimaged, you get a bit of a catalytic effect from that. So having your Burger King reimaged and looking great has effect on that restaurant. But when all of the restaurants around it are reimaged, you get a dual effect, right? And so going to a great-looking Burger King, but driving past another one that doesn't look great. is not ideal. And so we thought it was important for, to get this last leg out there to show our commitment to the franchisees to give you visibility on our path to getting this system all looking great, but there's a real advantage. I mean we're still a bit under 50% today getting to the point where virtually every restaurant you're ever going to see looks great, has a real positive effect on the brand overall.

Operator

Thank you. Our next question today is from the line of David Palmer of Evercore ISI. David, your line is open. Please go ahead.

David Palmer

Thanks. A question on Tim Hortons, Canada. Obviously very strong quarter. Could you provide any color about how Tim's and the Canadian fast food industry progressed through the quarter and perhaps how things are starting this quarter, given what seems to be some negative macro headlines that we hear about the consumer in that market?

And is there an adjustment that's needed. You probably are not aware, but there was another call today in the U.S. And the U.S. fast food market slowing down was certainly highlighted in the need to access a value challenged or a lower income cohort is certainly a theme for the U.S. I'm wondering if you're seeing that in Canada as well. Thank you.

Joshua Kobza

Hey Dave, good morning and thanks for the question. We're not going to get into kind of the intra-quarter like monthly dynamics too much. What I can share is that we're really pleased with the performance of the Tim's Canada business. We think we're taking share in that market, which is great. That's what we're focused on every day is competing effectively in the marketplace. And I think we're doing that because we're executing across all fronts. We're very convenient. We're improving operations. And we already have the best value for money rankings in the market. I think that's something really special about Tim's. That positions us very well, especially if you're going into a tougher consumer environment. We already provide that best value in the market. And that's probably an important part of why the business has been performing so well on an absolute and on a relative basis.

Operator

Thank you. Our next question today is from the line of Danilo Gargiulo of AB Bernstein. Danilo, your line is open. Please go ahead.

Danilo Gargiulo

Thank you. And congrats on a great quarter. I mean, it looks like your brands are accelerating in a decelerating environment. And maybe you have even greater line of side on franchisees profitability increases. We are noticing some incremental pressures among the Canadian franchisees in light of the increasing labor cost due to the minimum wage increases. So maybe can you elaborate on the extent of these pressures and what are you contemplating to alleviate the operating costs in the stores without compromising on food quality? It sounds like you're really working on some equipment upgrades, but maybe there is more coming. Thank you.

Joshua Kobza

Yes, Danilo, thanks for the question. In terms of what we're seeing in terms of business performance in Canada, and then how that translates to our franchisees, PNLs and the outlook for that. As you've seen, our same store sales performance has been good both last year and into the first quarter. And we announced that franchise profitability was up very significantly last year. Given the sales outlook and the sales that we've already seen, plus what we see in terms of some favorable commodity movements, we actually have a very positive outlook for further growth and Tim Hortons Canadian franchise profitability throughout the course of 2024. So we feel pretty good about both the progress in Q1 on that front and the outlook for the full year for franchise profitability.

Operator

Thank you. Our next question today is from the line of John Ivankoe of JPMorgan. John, your line is open. Please go ahead now.

John Ivankoe

Josh, in your prepared remarks, you mentioned not wanting to recreate the wheel on value. So I just wanted to revisit what that meant. I mean do you think Burger King particularly in the U.S. but also around the world has an opportunity to kind of rotate back to a pre-COVID type of pricing stance in general for the industry that did involve some type of a value menu and at least communicating to customers in some way, perhaps giving them some sense what core menus, things like Whopper combo meals themselves would cost them.

So as the industry, as David Palmer was alluding to, I mean, as the industry is going to be talking a lot more about value very explicitly and might be trying to get some of your lower income or perhaps middle-income consumer way, are you preparing to perhaps be more explicit to communicate price points as we move forward versus what you've done in the past four years? Thanks.

Joshua Kobza

Hey John, good morning. When I look back at Q1, the way I read it, I think what we're doing is working really well. For sure at our Tim Hortons business in Canada, but also in our BK and Popeyes U.S. businesses, our sales and traffic performance relative to competition is pretty good. So I'd say we're pretty happy with the strategy that we have. The perspective that we've had over the last few years is we try to be balanced in how we manage any cost headwinds. We don't want to take price up quickly, but we also want to avoid some of the deeper discounting that happened at Burger King probably 3 years to 5 years ago. So we're trying to strive to make sure we have everyday good value and some reasonable value offerings.

So I think within the Burger King system, specifically kind of U.S. and around the world, in the U.S., we already have some pretty effective value mechanisms that seem to be working. We have our \$5 Duos that we've had in the market. We've had \$5 Your Way meals. We've had the 299 wraps. So those are the things that we've been doing. We think they've been pretty effective while having a balanced margin profile for the franchisees. And I'd say there's no real intention to change the strategy there.

If you get into International, it is a bit more nuanced. It's a lot of markets and a lot of different strategies. And I think you can see there a little bit more of a division where some of the markets where I think we've had a better strategy on value. I think places like France, we've gotten credit for that with consumers, and we've been able to take market share. And we have some other markets that we need to do a little bit more work on.

So I think there's probably a little bit more of a division in some of those markets, and we're working with all the places where results haven't been as good to make sure we've got the right value offerings. But I think when you zoom out across the majority of our big markets, we're happy with the value for money we're providing, and we think the results reflect that it's resonating with consumers.

Patrick Doyle

John, we've just got a lot of levers to pull. So when you look at all of the different things we're doing with getting Burger Kings reimage with launching PM foods at Tim's with increased ad spend at Burger King with Easy to Love, Easy to Run at Popeyes giving better service and more consistent products. We feel good about our value platforms. It's got to be a balance and we have it, offering good value to consumers through a range of products. But we have a lot of other levers that we're pulling to try to get balanced growth out of the business. And first quarter was a pretty good reflection of that.

Operator

Great, thank you. Our next question is from the line of Lauren Silberman of Deutsche Bank. Lauren, your line is open. Please go ahead.

Lauren Silberman

Thank you. On unit growth, I know it tends to be back half weighted. Can you just talk about the visibility in the development pipeline for 2024 and how the timing is going versus your expectations? And then any color on how the 2025 pipeline is beginning to shape up? Thank you.

Joshua Kobza

Hi, Lauren. Good morning. So our outlook is still for mid-4% unit growth for the year. As you point out, Q1 is always pretty quiet. And we're working on building those pipelines. I think we'll have more visibility as we get further into the year. And of course, we'll share that as we get through Q2 and get to our call there. I think we'll build more and more visibility on exactly where we'll land.

And I think it's probably a bit early for 2025. I think we probably want to wait and just check in on that when we get further into the year as well, and we'll have a better sense of planning together with our franchisees. Usually we do a lot of that more in the back half of the year, kind of Q3, Q4 where we plan all the kind of the growth targets for the final year. So probably need a few more months before we can come back with more visibility on that front.

Operator

Thank you. Our next question today is from the line of Andrew Charles of TD Cowen. Andrew, your line is open. Please go ahead.

Andrew Charles

Great, thank you. Josh, you spoke to a challenging restaurant macro that we're hearing about from other U.S. quick-service restaurants is anticipated to continue to soften. So notwithstanding 1Q's strong performance across the portfolio, is long-term guidance for 3% plus same-store sales still on track for 2024 across the portfolio? In the business that would make you think otherwise, particularly in the U.S. market, just given what we're hearing from peers.

Joshua Kobza

Good morning, Andrew. So I think if you look at the kind of industry overall, you have seen some softening in sales and traffic levels. Some of that, I think, is to be expected. We knew that as we came into 2024, you were going to see inflation coming down and pricing coming down from some of the elevated levels we saw in the past couple of years. But you have seen and heard some commentary on some consumer softening some lower end consumer is softening. I think despite that, we've been able to put up pretty good numbers in Q1, right? We were about 4.5% in terms of our same-store sales. So a healthy margin north of that 3%. We feel pretty good about the outlook for the year, but we'll keep updating you on that as we progress through the next couple of quarters.

Operator

Thank you. Our next question is from the line of John Zamparo of CIBC. John, your line is open. Please go ahead.

John Zamparo

Hey good morning. I wanted to ask about the Tim's supply chain and CPG businesses. I appreciate the additional disclosure on that business. I wonder if you could parse the performance of those two in the quarter. I believe the commentary last quarter was that you get back to a, call it, low to mid-18% margin range. Can you comment on when you expect margins to stabilize at that level?

Sami Siddiqui

Hey John, it's Sami. Thanks for the question. I think a couple of things going on in the Tim's supply chain business for the first quarter. So first off, as kind of I mentioned and alluded to in my prepared remarks, Q1 is typically seasonally the smallest quarter of the year. So in a business like the supply chain business where you have higher fixed costs, you'll see the margin be a little bit lower in Q1.

If you look at Q1 of this year, we were around 17.5% sales less cost of sales margin. There was a bad debt expense that I alluded to in my prepared remarks around certain international partners. I think on a more normalized basis, that margin will be closer to 18% for the first quarter. And on a full year basis, as we've said in the past, we expect full year supply chain margin to be around our 2022 full year levels which were at 19%. So hopefully, that gives you some color.

Operator

Thank you. Our next question is from the line of Brian Mullan of Piper Sandler. Brian, your line is open. Please go ahead.

Brian Mullan

Thank you. I had a question on Tim's Canada. I just want to ask specifically about speed of service. Last quarter, you called that out as a positive contributor. I'm wondering if that continues to be a benefit in Q1?

And then kind of just related to that, if you could give us some historical context. When was Tim's at its best? And where are you in the process now of improving that metric? And can this be a traffic driver from here?

Joshua Kobza

Hey Brian, thanks for the question. So we do continue to make progress on speed of service. I think, I mentioned for this quarter, we did improve about 8% year-on-year. So we're making more progress. Matt Moore and the team are really doing a wonderful job on that front. I think we'll probably see a little bit of a headwind in the near term from the Flatbread Pizza launch. That will slow us down a little bit, we think probably for like for some number of weeks. And that's something that we saw in the market test is when we launched Flatbread, we slowed down for a little bit as we kind of, we learn the muscle memory, but then we picked back up to where we were before. So I think probably a little bit of a near term headwind, but something that we'll work through as teams get used to the Flatbreads and then we should be back on track.

Operator

Great, thank you. Our next question today is from the line of Sara Senatore of Bank of America. Sara, your line is open. Go ahead.

Sara Senatore

Thank you. A clarification on the question. The question is, you mentioned you're on the path to getting franchisees to 300,000. Does that require significant volume increases? Or are there self-help opportunities that can get you there? I'm just trying to think about unit economics and a period of perhaps lower growth. And then maybe it's not a clarification, but just specifics on the G&A outlook. I think you mentioned head count reduction. But you've always been much leaner than others. So I'm just wondering if you could give a little bit of color on that. Thanks.

Joshua Kobza

Sara, just a clarification on the 300,000 franchise profit. Are you talking about which concept are you referring to?

Sara Senatore

I thought it was for Burger King U.S. I thought that's what Patrick was referring to?

Joshua Kobza

Perfect. Okay. Great. Yes. So I think there's a few things that will drive that. One of them has absolutely increased sales. That can come from a combination of improved operations even more effective marketing, increasing our advertising spending, which we've been doing, but also importantly, remodels. And that's one of the really important pieces that we think it's helpful to have more visibility on now that we've announced the funding that's needed to get to move us to a fully modern state.

So there's a few different pieces of sales growth that are definitely part of the mix there. There is also a piece of which is improving margins. And you've seen us be more thoughtful about discounting. So we've already made a lot of progress there in terms of managing our gross profit margins better.

And then I think those, the increase in sales can also allow us to become more efficient with labor. We're at sales levels where you get a lot of incremental margin out of those marginal sales and a lot more labor productivity. So that's an important part of the piece as well. And I think some of the stuff that we're doing on technology can also be a really important margin driver.

If we're able, over the course of a few years to move, for example, to a fully digital ordering model, whether it's through kiosks or digital ordering and the drive-thru that really changes the operating model of the restaurant and can allow us to be much more efficient in how we run the restaurants over time.

So those are a few of the pieces we're working at all of them. Some of them will work better than others, but there's a lot of different things we're working on that can be pieces of the puzzle to get towards that 300,000.

Sami Siddiqui

Yes. And Sara, I will -- maybe I'll give a clarification to your clarification. So in Q1, segment G&A grew 11% year-over-year. And so actually, that was related to higher compensation-related expenses. The majority of which were in the second half of 2023, so they're now flowing into Q1 of 2024.

As we think about guidance for the full year, we took it down by about \$15 million for the full year. That guidance and the majority of that reduction is really related to stock-based comp expense, which, as you know, goes into our segment G&A. So that's the majority of the \$15 million.

There are some one-off items as well, some smaller G&A items in that \$15 million. I'm digging in, I'm new into the role, and I've been working pretty closely with the brand presidents to see how we maximize the leverage we can get on the investments we've made. And if we have anything else to report there, we'll come back to you.

Operator

Thank you. Our next question today is from the line of Brian Harbour of Morgan Stanley. Brian, your line is open. Please go ahead.

Brian Harbour

Yes, thanks good morning. Maybe just following up on your unit growth comments, mainly outside of North America. Are there any markets that you think could remain slower for whatever reason, whether it's Middle East or if it's just sort of like macro issues? And then China, it sounds like you'll update us later, but is that going to be more of a 2025 story, at best?

Joshua Kobza

Brian, thanks for the question. I think you hit on the two main things that are top of mind and that have a lot of focus from us. First, we may see a small impact in some of the Middle East markets where pipelines might be a little bit slower there. So that's certainly something that we're paying attention to. And I think the other one is China, which we've called out before and we talked about in February. I think that's a huge long-term opportunity for us. I think it will take some time to get all of those markets on the right track. As you mentioned, we don't have anything new to touch on today there, but of course, we'll update you in the coming quarters there.

Operator

Thank you. Our next question is from the line of Eric Gonzalez of KeyBanc. Eric, your line is open. Please go ahead.

Eric Gonzalez

Thanks, good morning. My question is about the remodel investment. Patrick, you said to us over a year ago that if we saw RBI make an investment that is because the company found something he was confident to generate a significant return to shareholders. So it's exciting to hear what this next round of capital, and I appreciate the comment that you're seeing in the high-teens uplift, which appears quite strong. Can you speak to the cost of the remodel today? And maybe what percentage RBIs contribute on average to each project so we can maybe assess the return on the investment of that initiative?

Patrick Doyle

Sure. So I think you're seeing the remodels, it depends on the scope of the remodel. Clearly, if it's a scrape and rebuild, it's going to be close to the cost of building a new unit, depending on equipment that you're going to reuse. But I think you're going to see an average on full remodels and lighter remodels that's going to wind up in the \$0.5 million to \$1 million range, full, obviously, closer to the high end of that.

If you just play through the numbers that we rolled out today, you're looking at about 250 of that coming from us. And if we get a list in the double digits as we have seen to date, our return on that is healthy and the franchisees' return on that is healthy. So overall, and this kind of plays back to Sara's question a bit on how do you get to that \$300,000 over time. If we've still got half of our system to get remodeled and we can see double-digit lifts, mid-teens lifts on those remodels, and you average that out over half of our system, that's a pretty nice lift to the overall average unit and does really good things for the profitability of those units. So we feel very good about the return for the franchisees and for us.

And ultimately, this is us kind of laying out the full plan and the full commitment for the progress that we are making and are going to continue to make to get Burger King to a great place. We are fully committed to having the brand fixed. We're seeing great progress on that. We're pulling lots of different levers. And we feel very much on track.

Operator

Thank you. Our last question today will be from the line of Gregory Francfort of Guggenheim. Gregory, your line is open. Please go ahead.

Gregory Francfort

Hey, thanks for the question. My question is mostly, I guess, on the U.S. market. And I guess we're seeing in the protein markets is that they seem to be re-inflating at a time where the industry seems to be focusing more on value. And I'm curious, one, is that something you're seeing in your business? And two, how do you expect that to play out as we get through 2024. Do you expect maybe that focus on value from the industry to start to abate later in the year. Just any thoughts on that would be great? Thanks.

Sami Siddiqui

Hey Greg, it's Sami. I can take the first part of your question. Look, as we look at, first off, the Q1 results, but even the outlook for the year, I think from a protein perspective, most of you have read about beef headwinds and potential headwinds in that market. But then on the flip side, as you think about Popeyes and the chicken industry, you've actually seen some abatement in food costs from a macro perspective.

So nothing to call out here on a forward-looking basis when it comes to the food cost side of things. We're going to continue to monitor the situation. But as Josh mentioned earlier, we feel good about the position where our franchise profitability ended last year. And our outlook for this year, and I think nothing in the food cost arena changes that outlook.

Operator

Thank you. And this will conclude the Q&A for today. And I'd like to hand back to Josh Kobza for any closing remarks.

Joshua Kobza

Well, thank you all for taking the time to join us today on the earnings call. I'd just like to say thank you one more time to our corporate teams, our franchisees and our restaurant teams for an amazing job and for all your hard work you do every day. Have a great day, everyone, and we'll talk again soon.

Operator

This concludes today's call. Thank you all for joining. You may now disconnect your lines.

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