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Restaurant Brands International Inc. (QSR) Q1 2025 Earnings Call Transcript

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10-Q

EPS of \$0.75 **misses by \$0.03** | Revenue of \$2.11B (21.28% Y/Y) **misses by \$41.80M**

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Restaurant Brands International Inc. (NYSE:[QSR](#))

Q1 2025 Earnings Conference Call

May 08, 2025, 08:30 AM ET

Company Participants

Josh Kobza - CEO

Sami Siddiqui - CFO

Patrick Doyle - Executive Chairman

Kendall Peck - Head, IR

Conference Call Participants

Dennis Geiger - UBS

David Palmer - Evercore ISI

Brian Bittner - Oppenheimer

John Ivankoe - JPMorgan

Gregory Francfort - Guggenheim

Danilo Gargiulo - Bernstein

Andrew Charles - TD Cowen

Sara Senatore - Bank of America

Jon Tower - Citi

Christine Cho - Goldman Sachs

Operator

Good morning, and welcome to the Restaurant Brands International First Quarter 2025 Earnings Conference Call. All participants will be in 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'd 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, 2025. Joining me on the call today are Restaurant Brands International's Executive Chairman, Patrick Doyle; CEO, Josh Kobza; and CFO, Sami Siddiqui. Following remarks from Josh, Sami and Patrick, we will open the call to questions.

Today's discussion may include forward-looking statements, which are subject to risks detailed in the press release issued this morning and in our SEC filings. We will also reference non-GAAP financial measures, reconciliation of which are available in the press release and trending schedules available on our website.

As a reminder, following our acquisition of Carrols Restaurant Group, which closed on May 16, 2024 and our acquisition of Popeyes China, which closed on June 28, 2024, we introduced a sixth reportable segment, Restaurant Holdings, which comprises the Popeyes China business and the Burger King Carrols Restaurant. The consolidated growth metrics discussed on this call, including organic adjusted operating income growth and organic adjusted EPS growth exclude results from the Restaurant Holdings segment.

In addition, on February 14, 2025, we acquired substantially all the remaining equity interest in Burger King China from our former joint venture partners. Commencing with our first quarter 2025 results, BK China has been classified as held for sale and reported as discontinued operations in our financial statements as we are actively working to identify a new controlling shareholder. That said, BK China KPIs continue to be included in our International segment KPIs. A breakdown of BK China's KPIs and its impact on our 2024 financial statements can be found in the trend schedules available on our website.

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

Josh Kobza

Good morning, everyone, and thank you for joining us. Through the first few months of 2025, we've been navigating a highly dynamic macro backdrop, one that's evolving differently across each of our key markets. As a global franchisor, offering convenience and everyday value for guests, we're certainly better positioned than many others to navigate this evolving environment, but we're not immune and our Q1 results reflect that.

First quarter consolidated comparable sales were 0.1% or just over 1%, excluding the impact from Leap Day, and net restaurant growth was 3.3%. This translated into system-wide sales growth of 2.8% and organic adjusted operating income growth of 2.6%. We anticipated that Q1 would be our softest quarter of the year and believe that some of the macro noise may have driven further softness.

That said, we continue to perform reasonably well compared to many of our global peers, reflecting the underlying strength of our brands and the quality of the plans we are executing to improve on the fundamentals that our guests care about most. We know relative performance alone isn't enough and doesn't pay the bills for us or our franchisees though, which is why we're focused on delivering improved absolute results through the balance of the year.

In any environment, our guests are focused on quality, service and convenience at a fair price. And our teams are focused on exactly that, improving the value proposition for our guests at each of our brands and making that experience better each time they come in. Whether that is newly remodeled restaurants of Burger King and Popeyes or improved service standards at Tim Hortons in the PM daypart, we're spending our time on what matters most. That's why despite the slower start to the year, we were encouraged to see improved sales momentum in April. Combined with our continued discipline on costs, which Sami will address later, we're confident we'll deliver at least 8% organic adjusted operating income growth in 2025.

With that, let's turn to our results, starting with Tim Hortons in Canada. Tim Hortons Canada experienced relatively flat comparable sales of 0.1% or approximately 1.2% after adjusting for Leap Day, while lapping one of our strongest first quarter nominal sales results ever last year. While our results were masked this quarter by the tougher comparison, the Leap Day impact and macro pressures, it's clear the underlying plan is working. The Tim's team executed thoughtful calendar initiatives like the introduction of our 100% Canadian freshly cracked scrambled eggs, the \$1 donut with a coffee promotion and the return of physical roll-up room cups, a much loved Canadian tradition.

Importantly, although Canadian consumer confidence remains challenged, trends have improved in April as year-over-year comparisons normalize and we build momentum with a strong marketing calendar and continued operational improvements. Looking ahead, we will continue providing Canadians great everyday pricing for their favorite Tim's products while innovating across dayparts and categories. For example, in breakfast, we recently launched our scrambled eggs loaded breakfast box in collaboration with Ryan Reynolds.

In the PM, we expect to expand share through new loaded platform and flatbread pizza flavors like our Hat-Trick Pizza as well as innovation in sandwiches and sides. Arsenal [ph] team just wrapped up spring regionals in Canada, and there's a ton of enthusiasm from restaurant owners around the opportunity to continue growing in the PM daypart through strong menu initiatives and execution. We also continue to enhance our beverage portfolio, particularly cold and espresso-based beverages to complement our leading market share position in Hortons coffee. We're excited about our summer beverage lineup, including the introduction of frozen quenches in April.

Later this year, we'll begin rolling out new espresso machines to further elevate our espresso quality and credibility. Operational excellence remains a cornerstone of Tim's success, and our restaurant owners continue to demonstrate this with average morning drive-through times improving year-over-year for nine consecutive quarters and reaching one of the highest guest satisfaction levels of all time in the first quarter.

Finally, we're accelerating our development efforts in Canada. We're on track to return to positive net unit growth in 2025 with a focus on underpenetrated regions such as Western Canada, where we have approximately one restaurant per 13,000 Canadians versus the national average of one per 10,000.

In summary, despite a noisy start to the year, Tim Hortons continues to build on its own foundation and its underlying plan is clearly working. With its number one brand love, affordable everyday pricing, engaging marketing and relentless commitment to operational excellence, we are confident the brand will deliver solid growth in the quarters and years ahead.

Shifting now to International. We're pleased with our relative performance this quarter, delivering 2.6% comparable sales or roughly 3.7%, excluding the headwind from Leap Day and 8.6% system-wide sales growth. We saw solid growth in many of our largest markets, including the UK, Germany, Brazil, Japan and Australia. These markets share a few common traits, compelling everyday value, exciting menu innovation, modern restaurant image, strong digital capabilities and a focus on restaurant level execution.

In the UK, Burger King continued to take share through growing delivery, expanded core value platforms like the £4.99 King Box and premium innovation with products like the Memphis barbecue King double. In Germany, operational improvements and product innovation, including the launch of our new Tortilla platform, helped drive both sales momentum and industry outperformance. I had the opportunity to visit several key international markets this quarter, including France and Spain, two of our largest businesses. I'm always impressed when I spend time with the Burger King France and Spain teams.

They have beautiful, modern and well-run restaurants and demonstrate the power and importance of having well-capitalized local partners. Both have done a great job navigating more difficult consumer backdrops in recent quarters and have set their businesses up for continued success. Thiago, Sami and I also spent time in India, one of our most important growth markets.

Burger King India recently crossed the 500 restaurant milestone, just 10 years after market entry. Raj Varman has run that business from the beginning, and it's an incredible accomplishment, but I still believe the brightest days are ahead for BK India with a huge runway. We also spent time with the Popeyes team in India which is earlier in its growth journey, but is benefiting from a wonderful partner in Jubilant, which has deep local knowledge and a committed long-term mindset.

In China, our teams have acted quickly since taking over the Burger King business in mid-February, solidifying a strong local leadership team and implementing early sales driving initiatives. Sami and I were in Shanghai in March and we're encouraged by early signs of progress, including an improvement in comparable sales. We expect to close a number of unprofitable restaurants over the next 12 months in order to have a more sustainable base for restarting growth.

While we don't have a final count yet, the average sales volume for these restaurants are relatively low, less than \$300,000, which means the impact to system-wide sales will be limited. Importantly, we view this portfolio cleanup as a critical and necessary step to reposition the business for long-term success. In parallel, we've engaged Morgan Stanley and are actively working to secure a new local partner within the next year.

Shifting now to Burger King in the U.S., where we saw a 1.1% decrease in comparable sales, or relatively flat results adjusting for leap day. Burger King U.S. continued to outperform the broader burger QSR category, reflecting the ongoing progress of our claim to flame plan in capturing share. Tom and the team are staying disciplined in our approach to marketing, balancing value, premium and family while protecting franchise profitability.

This quarter, strong value offerings like the \$5 duos and \$7 trios were complemented by premium innovation, including the Steakhouse Bacon Whopper, which achieved one of our highest product satisfaction scores to date. Looking ahead, we're excited to launch a bold new family activation that taps into our flame-grilled heritage and broadens the brand's appeal. We're also making progress on operations. We just finished franchisee road shows, and it's clear there's strong alignment across the system around raising standards.

We're continuing to take steps to transition restaurants into the hands of more engaged operators. And we're seeing those efforts translate into improvements across key metrics, not just at underperforming stores, but across the system. These improvements, coupled with an ongoing effort to expand hours of operation, are driving better guest experiences and contributing to the outperformance we've seen relative to the industry.

Importantly, as we sustain this momentum over time, we believe it will result in stronger unit economics for our franchisees. Modernizing our restaurant base will be another important driver of franchisee profitability. We expect to complete about 400 remodels this year, including many with our new Sizzle image and average sales uplifts are holding in the mid-teens net of control.

Between remodels and the net impact of openings and non-modern image closures, we're on track to reach over 85% modern image by the end of 2028. Our Carol's refranchising efforts are also underway. We're in the process of placing restaurants with more engaged, smaller owner operators, whether that's high-performing existing franchisees, strong new entrants, internal talent within the system ready to take on ownership. The team and our franchisees remain focused on navigating the current environment with discipline and doing all of the right things to build a healthier, more competitive Burger King system.

Turning now to Popeyes in the U.S. and Canada. We saw a net restaurant growth of 3% and comparable sales declined 4% or down roughly 2.9% adjusted for leap day. This followed a 5.7% increase in comparable sales in the prior year which benefited from the brand's first-ever Super Bowl ad. While results were softer than we would like, we just returned from Popeyes convention in Orlando, where Jeff and the team reiterated their Easy to Love strategy to build a healthier, higher-performing system. The plan is focused on delivering our world-famous dried chicken more consistently to our guests. We will continue to bring exciting innovation like our pickle menu and relevant partnerships like our Don Julio collaboration from February.

These messages are being supported by a step-up in national advertising spend that began in April and will continue for the next 3 years if performance targets are met. Over the medium term, our incredible food is going to be increasingly paired with foundational work we're doing to strengthen the system. We know modern, well-run restaurants deliver much stronger results with remodeled restaurants that achieve an A-grade generating 30% higher profitability than the system average. That's why we're going to roll out our easy-to-run kitchen upgrades over the next few years, while we are remodeling our stores to reach a consistent modern image by 2030. And we'll focus on moving more of our restaurants to an A operations level.

Much like we have at Burger King, we're being more intentional about prioritizing operational consistency over new development by prioritizing top operators who share our focus on operational excellence. Our field teams are raising the bar on operations and our company and restaurant portfolio has expanded to approximately 100 locations, which we aim to make the example for the entire system. There's a lot of energy in the Popeyes system today. The Chicken segment of QSR has compelling growth dynamics, but is increasingly competitive, requiring us to raise the bar again on how we bring Popeyes amazing chicken to our guests.

With a sharper focus on fundamentals, better marketing support and a more modern, high-functioning base of restaurants, we're confident in our ability to perform in the quarters and years ahead. Finally, Firehouse Subs in the U.S. and Canada grew comparable sales by 0.6% or nearly 2% excluding leap day. Net restaurants grew 5.9% and system-wide sales 7.3%.

We continue to outperform the broader sub sandwich category in Q1, supported by fan favorites like our delicious French Dip sub and our recent Hot Ones collaboration. Digital remains a strength for the brand with a digital mix of over 45%, the highest of our home market brands. And on the development front, we're building on the momentum we created in 2024 with hundreds of new store commitments from both new and existing franchisees. It's encouraging to see that energy translate into a growing pipeline, and it gives me confidence in another Europe improved unit growth in 2025.

With that, I'll turn it over to Sami to walk through our financial results for the quarter. Sami?

Sami Siddiqui

Thanks, Josh, and good morning, everyone. Today, I'll discuss our Q1 financial results, capital structure and 2025 financial guidance, and I'll also provide an update on our Burger King China acquisition. But before that, I want to address the long-term growth algorithm we introduced last year. While we exceeded our 8%-plus AOI growth target in 2024, we came in below expectations on NRG. This reflected a more complex operating environment than we had initially anticipated, one that is only intensified in 2025.

As a result, we believe it's prudent to reframe our long-term outlook to better reflect today's realities. We're maintaining our target for 3%-plus comparable sales and 8% plus organic AOI growth on average through 2028. However, we are updating our net restaurant growth expectations in the near term, primarily due to Burger King China.

As Josh mentioned, since acquiring China in February, we've seen encouraging early results. The sales at BK China have improved under a refocused marketing plan and an energized local management team. That said, the portfolio needs some cleanup to set the business up for long term -- for success long term in the hands of a new partner. Because of this transition at Burger King China, we expect total reported 2025 NRG growth to be slightly down from last year in the plus or minus 3% unit growth range, down a bit from the mid 3% growth we reported in 2024.

Once this transition is behind us, we're confident BK China will return to positive growth, allowing us to ramp back to 5% global NRG growth towards the end of our algorithm period, which will equate to around 1,800 net new restaurants per year. When we think about the building blocks that is 1,800, we continue to believe in the path that we laid out last February. While the makeup of our growth in North America has shifted slightly, we remain confident that our home market businesses will reach roughly 400 net restaurants per year, driven by positive net restaurant growth at Tim in both Canada and the U.S. stabilizing and returning to modest growth at Burger King U.S., steady development at Popeyes North America and accelerating momentum at firehouse.

Internationally, we're targeting about 1,400 net units per year. There may be puts and takes over time, but based on where we sit today, we continue to expect roughly 600 net units from EMEA including higher ARS markets like the U.K., France and Italy. APAC outside of China will contribute around 300 with India, Korea, Japan and Australia as important drivers and last is expected to deliver roughly 200 per year with Mexico and Brazil as strong contributors. For perspective, these levels are generally in line to slightly ahead of what we delivered over the past few years in each region so very achievable, especially as we add new brand market combinations for Popeyes, firehouse and Tim around the world.

The remaining 300 units will come from our brands in China with Popeyes accelerating, BK China returning to its growth potential in the outer years, and Tim is making a positive contribution as well. China is the primary swing factor. And if we're firing on all cylinders, meaning all three businesses are on the right path. We believe 300 net new units per year is the surface of our potential.

Now shifting to Q1 results. As I mentioned on our year-end call, we expected the first quarter would be the lowest in terms of absolute comparable sales, AOI and EPS. While our performance came in softer than anticipated, we've been encouraged by a stronger start to Q2 and remain confident we will deliver improved top and bottom line results for the balance of the year.

In Q1, comparable sales were relatively flat. Global system wide sales grew 2.8% year-over-year and organic AOI grew 2.6%. There are a couple of items that impacted our year-over-year results, which I'll walk through now. First, we estimate calendar timing, including leap day and tougher weather in North America reduced our AOI by about \$10 million in the quarter or just over 150 basis points. And second, as we are actively working to find a new partner for the Burger King China business, we are treating it as held for sale, with the results reported in discontinued operations.

Our International segment will, therefore, not recognize revenue from BK China until the new partner is in place. In Q1, this resulted in a \$9 million year-over-year headwind to revenues and to AOI. And for the full year, assuming no change in ownership, we expect a \$37 million impact to revenue and a \$19 million impact to AOI on a year-over-year basis, given that we recorded approximately \$18 million of bad debt expenses in 2024.

We offset these headwinds in Q1 through system-wide sales growth, \$10 million organic gross profit dollar growth in our Tim's supply chain business and continued cost discipline, including a \$7 million reduction in segment G&A. I'd also note that we recorded on \$7.5 million in net bad debt expenses in line with the prior year period, primarily related to international royalties and cost of sales within the Tim's supply chain business, tied to coffee sales to certain international partners.

Now turning to EPS. Adjusted EPS increased to \$0.75 per share from \$0.73 per share last year, representing nominal growth of 3.3% and organic growth of 9.9%, excluding RH and a \$0.04 FX impact. The increase was primarily due to a decrease in adjusted net interest expense of approximately \$11 million year-over-year, reflecting the benefits from our upsized cross-currency swaps, our 2024 refinancings and our interest rate swaps. We continue to expect that 2025 adjusted net interest expense will be in the \$500 million to \$520 million range, assuming an average SOFR rate of 4.1% flowing through approximately 15% of our debt.

Our adjusted effective tax rate was approximately 16.5% in the quarter and included a onetime benefit of over two points from discrete noncash tax items. For the full year 2025, we continue to expect our tax rate to be in the 18% to 19% range. Now turning to free cash flow and our capital structure. We generated \$89 million of free cash flow, inclusive of approximately \$35 million in cash benefits from our hedges. Q1 is typically our smallest cash flow quarter, largely due to working capital seasonality including the timing of advertising payments, gift card redemptions and cash tax payments.

This quarter, our free cash flow was further impacted by \$77 million of cash tax payments largely related to new EIFEL Canadian interest tax deductibility rules. During the quarter, we spent approximately \$10 million on reclaimed the flame related investments while returning \$262 million of capital to shareholders through our dividend. In February, we acquired the remaining equity interest in Burger King China for roughly \$150 million. We also capitalized the business with approximately \$105 million to fund operations hire an experienced local management team and enhanced marketing efforts as we work closely with Morgan Stanley to find a new local partner.

Overall, we ended Q1 with \$2.1 billion of liquidity including approximately \$900 million of cash and a leverage ratio of 4.7x. Looking ahead, we remain focused on investing in our brands and businesses while continuing to deleverage. I'll now wrap up with four additional topics. Our long-term capital intensity, FX exposure, tariff impact and our G&A guidance. First, we've had several questions about our capital intensity, so I'd like to offer some perspective.

We expect total CapEx, tenant inducement and remodel incentives, what we refer to as CapEx and cash inducements to be in the \$400 million to \$450 million range for 2025 and 2026, up from over \$330 million in 2024. From 2027 to 2028, we'd expect this amount to step down to the \$350 million to \$400 million range as we find long-term partners for Popeyes China and firehouse Brazil, and we refranchised Carol's restaurants.

After 2028, with reclaimed to claims complete in Carol's restaurants largely refranchised, we expect to settle at around \$300 million of CapEx and cash inducement. This should generate a nice tailwind to our free cash flow growth as we reduce capital intensity and realize returns from the investments we're making today. Second, given recent fluctuations in FX rates, I'd like to remind you that for every \$0.01 change in the USD CAD and USD Euro, we see a roughly \$8 million and \$4 million annual AOI impact respectively.

Last quarter, we told you we expected a \$45 million FX headwind in 2025. We're now expecting that to improve to a headwind of \$15 million based on current rates. Third, we want to provide a preliminary view on the potential impact from tariffs. The vast majority of our COGS are localized, and we are working closely with our suppliers and franchisees to localize for those inputs that are not.

Based on what we know today, if our efforts pan out, we will see a COGS impact of around 100 basis points or less in most cases, across our home market franchise businesses and our company-owned restaurants. This is a point-in-time estimate and we'll continue to reassess as needed. Finally, as CFO, one of my priorities has been driving operating leverage across our P&L while continuing to invest in our business to build sustainable sales.

As we've integrated Carol's, redeployed capital behind new growth initiatives and assess the current operating environment, we've taken a closer look at our resources and identified opportunities to run our business more efficiently. As a result, we now expect 2025 segment G&A, excluding RH to be in the \$600 million to \$620 million range down from the \$650 million to \$670 million range previously. We think this is a healthy baseline that allows us to continue investing in our people and strategic plans while driving operating leverage and delivering 8% plus organic AOI growth in 2025 and beyond.

And with that, I'll hand it over to Patrick.

Patrick Doyle

Thanks, Sami. We can't control the macro environment, but we can control our complexity. We're operating in a moment of peak complexity, but our business will get simpler from here. What does that mean? First, we've started the process of refranchising Carrols to internal candidates from within Carrols to existing strong franchisees and to great external franchisees.

We will only put these restaurants in the hands of people who we believe will run them very well. While it will take a number of years to complete the process, you will start to see our owned restaurant count decline this year. We took on BK China. We've made great progress in the 3 months since we bought it, and we've now hired Morgan Stanley to help us find a great new partner.

Third, we're making real progress on BK in the U.S. We've moved on from some partners who weren't the right long-term answers. Our operations are improving, and we're on track to have the vast majority of our restaurants be modern image by the end of 2028. It has taken meaningful investments and tough decisions, and it won't always be a straight line of progress, but we are on track.

And finally, the net effect of what will be decreasing complexity is decreasing capital commitments from us over the coming years and a more stable cost structure that drives operating leverage as Sami just spelled out.

In the end, success is defined by franchisees generating great returns from committing their time and capital to our brands. And I'm confident our franchisees' success, will happen when they consistently make great food, deliver great service in an attractive clean restaurant, all at a good value.

Tim Hortons and its restaurant owners in Canada are a great example of this winning formula. All the complexity we've taken on has been about setting us up everywhere to be able to do just that. Where we felt like there wasn't a convincing path to get that done, we made changes and committed capital when needed.

As our investors, we appreciate that we've asked for some patience as we make these investments and the return on those investments is coming. It came in 2024 by generating adjusted operating income growth of over 8%, and we believe it will continue this year and into the future, as we've set ourselves up to continue delivering adjusted operating income growth of 8% or better.

We've been managing through the hard stuff to unlock a much stronger, more resilient business in the future. And when I look across our organization, I see the right people working on the right priorities for all the right reasons. I'm excited for what's ahead and grateful to our franchisees and teams who are consistently providing better experiences to our guests every day.

With that, let's take your questions.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions]. Our first question comes from Dennis Geiger from UBS. Your line is now open.

Dennis Geiger

Wondering if you could talk a little bit more about what you're seeing with Tim Hortons in Canada. How much do you think you are being impacted by the Canada macro environment right now and maybe expectations for the brand's resiliency in the market if the challenging backdrop persists? I don't know if there's anything to kind of share on the value proposition, how the back-to-basic strategy will help you take share just overall remain resilient in the market?

JoshKobza

Morning, Dennis. It's Josh. Thanks for the question. I think you've done a lot of great points. And for me, it really does go back to the -- back to basics plan that we've been executing for, I think, five years or more now. I think Axel and team are doing an incredible jump across all the fundamentals, and that's why -- you've seen Tim's in Canada performed so well over the last few years, and it's why we're so confident that it's going to continue performing well in the coming quarters and years. In Q1, I think we had more of an in-line quarter with the other big brands in the market. And I think to your point, we did see a little bit of a dip in consumer confidence. If you look at the Canadian Consumer Confidence Index, but importantly, we've seen that come back in the second quarter to date so far. We've seen a bit of an improvement in consumer confidence. And I also mentioned that Tim sales have come back really strong. We've got some awesome things going on in the business. You just saw us launch the -- a new loaded scrambled eggs box with Ryan Reynolds, that's doing great. And we have a lot of exciting stuff for the rest of the year. So we're feeling really good about the Tim's business. It's been doing wonderful, and we're very confident that we'll continue to do that in the future.

Dennis Geiger

Great. Thanks, Josh.

Operator

The next question is from David Palmer from Evercore ISI. Your line is now open.

David Palmer

Great. Thank you, good morning. Looking outside the U.S., rest of world markets, how are trends in the informal leading out market in your key markets coming out of the first quarter and as you look out to the year, just how you view the consumer in your key markets? And then separately, how are you looking at your market share trends in key markets around geographies around the world? Thanks so much.

Josh Kobza

So a few thoughts on the international business and some of the trends there. Maybe a few kind of stepping back thoughts on the International business, too. I would tell you that we were really pleased with the results in Q1. We had same-store sales of positive 2.6%, and that gets up into kind of the high 3s, excluding the impact of leap day. So I think that's a pretty good absolute result and also a pretty good relative result when you look at some of the other global brands out there. It's really an incredible business that we have and very diversified business. We're in around 200 brand country combinations, and our top 10 markets are about 60% of our international system-wide sales. So a lot of different dynamics in each of those countries. I think when you look at the Burger King brand in international, it's a bit different. It has some really great qualities that are -- that position it to grow so well. We've got a strong brand positioning. We've got modern restaurants in almost all of our markets. We have a lot more digital business as well. And because of a lot of those things, we have pretty great brand perception and really good food quality perception in those markets, where we balance some of our favorites like the whopper with strong localization that each of our teams bring. We also have a different level of execution and guest service. I think we're much more consistent across our international markets. That allows us to perform much better. And we have some incredible partners. I mentioned a couple of them earlier, but across the globe in places like France, Spain and so many others, we have some of the best international master franchisees that you could ask for. If you -- if we start -- if we kind of go through a couple of the major markets, I'll do it by region and share a few thoughts on what's going well and what needs some work. If we start with EMEA, which is by far our biggest market, we performed particularly well in Germany and the U.K., where we had really good both menu innovation and some good value proposition. So I think we outperformed a bit in those two markets. And on the other hand, places like France probably underperformed a little bit. But I would say the business in France is incredible. I was just there a few weeks ago with Alex, Simon and Olivier Bertrand, who run the business. They're terrific. They've built a wonderful business, and they're doing all the basics right. So I'm very confident we're going to get back to the right place in terms of same-store sales performance in France. Moving to APAC. A couple of the standout markets there where I think we're taking share are places like Australia, Japan and Korea. So those have been some of the biggest performers for us. Australia, in particular, has been very consistent over the last few years. I think Chris Green and the team there are doing awesome. So that's been good. And then

we've -- over the last couple of years and in recent quarters, we've had a softer performance in China. That's a lot of the reason that we stepped in and took over the business here in February. And as I mentioned, we're already seeing some progress. So I think we're making progress on the underlying fundamentals, kind of fixing the business, getting a local team in place, but we're actually already seeing some improvement in sales trends there as well. And then finally, in -- there are two biggest markets in Latin America, are Brazil and Mexico. And in Brazil, performance has been really good. The team has done a really nice job of increasing our share of voice and media and bringing some pretty compelling value propositions there, things like our two for 25 AI promotions have allowed us to perform well on a relative basis. Mexico has been a little bit softer. I would attribute that more to kind of a market-wide softness though we're doing some good things. And -- for me, one of the greatest highlights there that I had a chance to see a month or two ago with our Tim's business, which is just doing fantastic, growing really quickly and taking a lot of market share. Stepping back a little bit from BK. Just one last thought on international business performance is that we talk about -- when we talk about international, as I just did, we tend to talk about our Burger King business, given it's our biggest global brand. And I think we're going to be talking increasingly about Popeyes over time. We've grown that business tremendously since we acquired it. We're now at about 1,500 international restaurants. And we think that's going to keep growing at a really rapid clip over the next few years. We've got some fantastic markets, places like the U.K., increasingly places like Brazil and Spain. So we've got some great and fast-growing markets across the globe. And I think that's going to be an increasingly large part of our business mix and our growth mix over the next few years. So overall, I think good performance. As we mentioned with the rest of the business, we've seen further improvements as we stepped into Q2. So the international business has been and continues to do well. Thanks, David.

Operator

The next question is from Brian Bittner from Oppenheimer. Your line is now open.

Brian Bittner

Thanks. Good morning. As it relates to Burger King U.S., it was very encouraging to see the first quarter same-store sales much better relative performance versus your peers. I realize this is the culmination of a lot of work. But is there anything more specific that allowed you to win more clearly in the first quarter? And how would you frame your outlook for Burger King U.S. for the rest of the year, just given the challenges from low and middle income consumers that we've heard a lot about from your peers?

Patrick Doyle

Hey, Brian, this is Patrick. Let me step back a little bit, answer around BK but also broadly around the business. I mean outperformance over the medium and long term is driven by consistently improving your guest experience, not just from promotional activity. And across our business, I know we're making really strong gains on execution. Tim's is the best run restaurant chain in Canada, and it continues to get better. It's why I'm incredibly confident about it. But in the case of Burger King in the U.S., it's winning by running restaurants better. And that has often been with -- through new ownership. It's through now rapidly remodeling our restaurants to a great new image. It is really through executing the fundamentals. And as you look at -- we've talked about with the kind of the mid-teens lift from remodels. You're starting to see enough of those being done on a consistent basis, essentially one a day getting remodeled in the U.S., and I think you're starting to see execution flow through into results. And I think that's the big reason you've seen relative outperformance from BK in the U.S. over the last year and in the first quarter. And you look at international, as Josh was just talking about, I mean on average, it's really well run. And where we don't see a path, we make a change, like we did with BK China, where we're already making progress. So it's the same path ultimately at Popeyes and Firehouse. And so the foundational work is being done, and that's why I'm more optimistic about our business than ever. And I think that's really the foundational work that you're seeing being done in Burger King in the U.S. is what's starting to show up on our relative performance.

Josh Kobza

And if I can -- the only thing I would add to, I agree very much with what Patrick said. I think we've made significant progress on operations, and we started to make progress on remodels. I would say I still think we have a long way to go. We still have a lot of remodels to get done. We've got a lot of restaurants that aren't at the modern image. And while we have some -- we have pockets of restaurants that have dramatically improved operations and our doing much better than the average there, we still have some pockets of operations that aren't where we want them to be, that we need to turn around. And so I think those couple of things will continue to be the undercurrents that can drive relative outperformance. But as I mentioned in the prepared remarks, we want to see absolute performance, too, and we need to get better from where we were in Q1. And I've been happy to see that we have seen improvement in the absolute same-store sales coming into Q2, and we'll look to build on that as we get through the rest of this year. We've got some really exciting calendar stuff coming up, including one of these really great family promotion that we're going to launch here in the next month or so and some great additional focus on the Whopper, some refreshes on value. So we've got a very thoughtful and comprehensive calendar approach for the rest of the year that can help us continue to build on that momentum.

Brian Bittner

Thanks, Patrick.

Operator

The next question is from John Ivankoe from JPMorgan. Your line is now open.

John Ivankoe

Hi. Thank you. So a couple of questions. So firstly, on the capital intensity that you gave through '29, and thank you so much for that. Certainly, that's going to be very helpful for the model. But let me ask a couple of things. I have in my notes, you're expected to do 3,000 Burger King remodels. I think that's the number through the end of '28. So it's obviously a pretty big number from '25 to '28 on a per year basis. So can you give us the number of remodels that you're expecting at least in '25 and '26? So that's the first question. And the related question, in the longer term, \$300 million of CapEx in '29 and beyond, is that just kind of a placeholder number? Or can you help us think about where some of the major buckets of that \$300 million will be, especially, and I guess I'm going to make the assumption that new company store development isn't a major part of that number.

Sami Siddiqui

John, it's Sami. Good morning and thank you for the question, and thank you for a similar question in the push on the last earnings call. I think as we sort of reflected, we thought it would be helpful to give everyone a little bit more long-term visibility into kind of what the CapEx looks like. So kind of to take some of the pieces of your question first on the Burger King remodels. I think as we think about the pace, we think we'll do about 400 remodels this year in 2025. And we think that number will accelerate in 2026. I think your aggregate number of remodels. I think when you do the math, I think the way to think about it is, we're today at around 50% modern image in our system. And we want to be at 85% modern image by the end of 2028. So there's a couple of puts and takes to that. Certainly, the number of remodels we do in a year adds to that. The number of new restaurants we open growth in a year will add to that. And then the closures of older image restaurants will kind of take that percentage up. So I think that's sort of the bridge to getting to around 85% modern image by 2028. I think it's more like 2,000 remodels versus maybe the 3,000 remodels that you had in your notes, but that's the bridge. And Kendall and I can share that with you later. As you think about what the \$300 million looks like on a run rate basis after kind of the guidance period in 2029 and beyond. I think for \$300 million, I think a good chunk of that actually continues to be our Tim Horton's system. So our Tim's system, we're on a healthy pace of remodels where we're sort of caught up with our modern image percentage. And every year, if you kind of think about the way that system works, if it's roughly 4,000 restaurants, and you want to be remodeling a restaurant every 10 years, call it, give or take. That means you're doing about 400 remodels every year. And those are typically a little bit smaller because they're more frequent remodels. But keep in mind, we are -- we have property controlling about 80% of those situations. So there's an ongoing capital commitment, and we think that's the right investment to make to keep our Tim's brand strong and the restaurants looking really appealing to guests. I think the other piece of the Tim's business that we play in, as I mentioned, is the real estate. So as we think about new units at Tim's accelerating a little bit, there is some capital that goes into new leases and being on head leases. So I think a good chunk of that \$300 million is related to Tim. As you think about the other buckets in that number, we do have a larger company ops portfolio than we had in the past. We do think that this will rationalize over time, though we want to make sure that, that portfolio stays up to date and we're doing the right repairs and maintenance. And then as you think about kind of other buckets, sort of the natural other buckets that exist, corporate

buckets, IT buckets, things like that. But we think the right kind of long-term run rate for the business is around \$300 million, and that will start in 2029 and beyond.

John Ivankoe

Extremely helpful. Thank you.

Operator

The next question is from Gregory Francfort from Guggenheim. Your line is now open.

Gregory Francfort

Sami, not to throw another one your way, but can you maybe just expand on the cost savings that you mentioned in your prepared remarks. When you looked at the organization, what you're doing strategically from like what departments may be that will hit or what the reorganization looks like? Thanks.

Sami Siddiqui

Hey, morning, Greg. Yes, I think as we took a step back and about sort of nine months or so into our Carol's acquisition, and we look to integrate Carol's as well as Popeyes China, Firehouse Brazil, which we recently launched. And then as we kind of look at the current operating environment, it seemed like a natural time to evaluate opportunities to run our business more efficiently. I think the major areas that kind of this exercise covered was headcount, some technology and services contracts, things like stock-based compensation, taking a fresh look at that. And it ultimately drove approximately around \$20 million of year-over-year savings as you think about ending last year around \$630 million of G&A and then the midpoint of our guidance range being around \$610 million. So as you think about that, it's kind of low single digits in terms of a year-over-year decline. I think around \$600 million, that number, it's a healthy baseline level of G&A for our business, a good baseline for us to kind of grow off of. But I think if you take a really big step back -- if you think about five or six years ago, our business was running at around \$400 million of G&A in the kind of 2019 time frame. And so as you think about going from \$400 million to kind of low \$600 million, that's a 50% increase in G&A over the last five or six years, and most of that has been headcount. I think as you think about that, that's a very healthy level of growth. I think now with this kind of low \$600 million G&A level, we think we're able to invest in the right areas, do the right things and ultimately position our business to drive operating leverage over the long term.

Gregory Francfort

Thanks, Sami.

Operator

The next question is from Danilo Gargiulo from Bernstein. Your line is now open.

Danilo Gargiulo

Thank you. Sami, one more for you. So can you help us understand maybe the comp sales contribution in the past quarter and in the past year, perhaps due to the remodels at Burger King in U.S.? And how much are you expecting that to be \$425 million. And then if you don't mind, Josh, you also mentioned that you're planning to invest in value more for Burger King U.S. and we heard from one of your competitors that the other promotions are not matching the results generated by the \$5 meal deal, which is no longer available at Burger King. So has the \$5 duo, \$7.3 outperformed to the level that you expected and how you're planning to evolve your value offering? Thank you.

Sami Siddiqui

Hey Danilo, just quickly on the question around sort of the comp sales impact of remodels. At this point, it's going to be relatively small. I think as you think about the number of kind of remodels we've done, we want to do 400 this year. I think last year, we did closer to 300, but it takes a little bit of time for these to settle down and to normalize from a sales impact perspective. So I think most of the sales upside from the remodel impact is to come down the line. And we're still really pleased with the mid-teens sales uplift we're seeing. As that starts to flow through the system and you think about remodeling 400, 500 restaurants per year, it's kind of the math that flows through that proportion. Hopefully, we have more to update as kind of we do more of our remodels.

Josh Kobza

And Danilo, maybe I can try to clarify a little bit what I meant on the value side for BK U.S. What I intend to say was less that we're going to invest further into value than we have been currently. But rather, what I think you should expect to see from us over the course of the year. It's just continuing to refresh some of those value offering. So we might have new promotions, like you saw us move from \$5 meals to the \$5 duos and \$7 trios, we'll look to continue to refresh some of those mechanics and bring new ways to talk about it and new offerings to guests. So that's more of the plan than kind of pushing further in terms of the relative weight in the business.

Danilo Gargiulo

Great. Thank you.

Operator

The next question is from Andrew Charles from TD Cowen. Your line is now open.

Andrew Charles

Great. Thank you. You talked about returning to 5% portfolio net restaurant growth towards the end of the '24 through '28 time frame. And so curious if the message of this can be achieved in 2027? Or is it more prudent to assume this will take place beginning '28? And then lately, I'm just kind of curious about the confidence in returning to this just given it requires a contribution from BK China, which hasn't yet found a permanent odor? Thanks.

Sami Siddiqui

Hey morning Andrew. Yes thanks for the question. I think as we think about the path to 5% unit growth, we talked about getting there towards the end of our guidance period. And I think at this point, sitting in 2025, I don't think we can predict exactly if it will be in 2027 or 2028, but around that time frame. I think as we think about the confidence level is actually -- we're very confident in our ability to hit 5% over time. I think when we take a step back and look at where the buckets of growth will come from, I kind of look at it in three categories. I think the first category is our home market and what we're doing in our North American market. And we want to do around 400 -- as you think about the total bill to 1,800 units, we want to do 400 units by the end of that forecast period from our home markets. I think as you peel that back, if you look at Firehouse and you look at Tim's, particularly Tim's in Canada, accelerating, that will lead to a nice tailwind in our home market. BK will likely go from a negative net unit position to flat to modestly growing, which will be a nice tailwind. And then if you look at Popeyes in the U.S., we've stepped back a little bit as we've really focused on fortifying our operational capabilities in our restaurants, but we think we can get back to 150 units plus over time. So I think when you take all of those together in the home market, you see it pass to around 400 net new units there. As you kind of think about the big -- the second big category of restaurants, I would say it's our international business, excluding China. And we want to be able to do around 1,100 net new units per year in that buildup. And I think as you think about that, a good chunk of that can come from Popeyes, right? I think historically, Burger King due to the strength of the international business has been the big driver of NRG. But -- and it will continue to be. It will be about probably 50% of that. But Popeyes will be over 1/3 of it. And if you think about where we're growing at Popeyes, its markets like the U.K., its markets like India, and it's really exciting. If you actually look at our trending schedules that we posted online, the system-wide sales growth in International from Popeyes just off the charts. We did 60% in 2023, 50% in '24, 35% in the most recent quarter. So we're really excited there. And then to your question on Burger King, we -- in the model, we have around 300 restaurants from China in aggregate. So as you think about 300 restaurants from China in total, we think that's very achievable by the end of this forecast period. Just for context, even without all our brands firing on all cylinders in China in 2022, '23, we were already at 300 restaurants from China. And Burger King alone in 2019 did close to 300 units in China. And so we think there's a

ton of potential here. We have some cleanup to do in the short term, particularly at BK China, which Josh talked about, but once we move past that, we see a very clear path to acceleration in the business.

Andrew Charles

Thank you.

Operator

The next question is from Sara Senatore from Bank of America. Your line is now open.

Sara Senatore

Thank you. I guess, two parts. One is, could you just talk -- you talked about the backdrop. Could you talk about the consumer and whether you're seeing any broadening of weakness from low income to middle income? Just -- that was something that we've heard reference. I wanted to know if that thing you've observed too. But then one of the -- I guess, the question on Tim's, you mentioned growth in the core market. It -- optically, it looks like just as unit growth is stable or positive, your same-store sales are slowing. And I know some other QSRs have cited strength in Canada. So do you have any evidence that there's a trade-off between unit growth and same-store sales, maybe looking at regional trends, like where the unit growth is, what same-store sales looks like? Just some confidence that you don't have to trade those two? Thank you.

Josh Kobza

Thanks, Sara. I'll take both of those. So just in terms of consumer environment and behavior of different cohorts, we actually aren't seeing our data, at least a big difference in the performance, like directional performance of different income cohorts in the U.S. So we haven't seen that pattern as much, at least in the data that we have. What we did see is that consumer confidence, if you look at the kind of the main indices, whether in Canada or in the U.S. They did take a bit of a dip from Q4 into Q1, and that seems to have correlated with some overall market softness. We definitely want to see that go the other way. I think the good news is that we're seeing some of that and some early signs of Canadian consumer confidence coming back a little bit in the last couple of weeks. And that does seem to correlate with some improvement that we've seen in our overall business in both in Canada and the U.S. so far in Q2. And your second question on Tim's. We don't see that trade-off of same-store sales versus units stabilizing, so I don't have any data that suggests that's what's happening. I would assume out again and tell you, I think this business has done so well over the last few years and for all the right reasons. And we're very confident it's going to continue to do well. And like I said, we're seeing that again in Q2 so far. We've had a lot of really compelling things going into market, and we have a lot more to come over the summer. So we're pretty confident in the direction of the Tim's business.

Operator

The next question is from Jon Tower from Citi. Your line is now open.

Jon Tower

Thanks. Sami, I was hoping -- I know you guys had spoke to earlier in the -- on the fourth quarter call that 1Q is going to be the low point for the year for growth. I was hoping maybe you could walk us through kind of the puts and takes for how you get to that 8% adjusted operating profit growth for the year. Obviously, knowing first quarter was kind of that low point how much of a contribution you expect from this lower G&A growth on the year and maybe other factors as we should think through the model?

Sami Siddiqui

Good morning, Jon. Thanks for the question. Yes, as we think about it, first off, I'd say we feel good about our ability to deliver 8% plus AOI growth this year. I think it's sort of a combination of top and bottom line. I think Josh mentioned it, but I'll iterate, we are seeing improving sales trends in the business and are hopeful those continue. And from a unit growth perspective, we think it will be around plus or minus 3%, which I think both translate into kind of a healthy system-wide sales top line. And then as you think about driving operating leverage in the business, yes, a big chunk of that is the G&A. I think we're going to see kind of a low to mid-single-digit year-over-year decrease in segment G&A, call it, roughly \$20 million or so year-over-year at the midpoint of our guidance range. But then we also have a structural tailwind of around \$60 million of ad spending that rolled off at Burger King U.S. that kind of moved over to our franchisees investing in the ad fund. And so that \$60 million kind of rolling off also helps drive the operating leverage year-over-year. And I'd say the only other thing to call out is there's a partial offset there at BK China. I talked about kind of now sitting in discontinued operations until we find a new partner. So with that kind of accounting treatment, there is a \$19 million headwind from the loss of royalties and fees at Burger King China. They were in the prior year in 2024, but they won't be in 2025. So when you kind of put -- take all those together, we feel good about the ability to drive 8% plus AOI growth this year and beyond.

Operator

The next question is from Eric Gonzalez from KeyBanc Capital Markets. Your line is now open.

Unidentified Analyst

This is Chris [ph] on for Eric. Can you maybe expand a little bit more on the recent performance you've seen at Popeyes and the implementation and progress of the easy to love strategy. And maybe specifically, can you talk a little bit more on operations, maybe ahead of the step-up in advertising, Josh, I think you cited earlier? Thanks.

Josh Kobza

Hi, Chris, good morning and happy to tell a little bit about Popeyes. So we did have a bit of a softer same-store sales quarter. We expected that to some degree, given what we knew we were lapping over with our first-ever Super Bowl commercial in the prior year, which we didn't repeat this year. That said, we're very focused on driving improved momentum in the business across a number of fronts that are covered in the easy to love plan. I think part of that is an increase in advertising spend that started now in April. So we're stepping up our national advertising, which will give us increased share of voice, and we definitely think that should be helpful. We're also starting to remodel our restaurants, and we talked about our plan to have fully modern assets by 2030. And as we've seen with Burger King, that definitely starts to give you a tailwind in the business. But on top of that, now we think increasing operational consistency, guest experience is also a very important part of the path forward for Popeyes, I think we're doing -- we're making some progress there through rolling out our easy-to-run kitchens. And we're now in a couple of hundred restaurants, and we'll be progressively rolling that out over the next few years to have a more standardized operating system in the kitchen, both the layouts, the operational flows and the technology. So we're very encouraged by that, and we know we'll make progress there. And lastly, as I mentioned, we're going to be raising the bar a bit on operating standards across the franchisee base similar to what we've done at Burger King over the last few years where they made a lot of progress. I think we're going to be stepping up standards at Popeyes. I think those are all the things that drive the fundamentals of the business and I think add on top of what is already by far the best culinary team and the best food in the chicken space. So I think if we can bring all that together, we should see progressively better performance over the coming quarters and years at Popeyes.

Unidentified Analyst

Great. Thank so much.

Operator

The last question we have time for today is from Christine Cho from Goldman Sachs. Your line is now open.

Christine Cho

Thank you so much for taking my question. So I was wondering if you can provide some more details on the sales growth and share trends in the various categories in Tim Hortons between breakfast food, Tim, cold beverage, et cetera. And are you seeing any signs of elevated pressure in any particular part in the Canadian market and the other macro backdrop? Thank you.

Josh Kobza

Yes. In terms of the market share trends, -- we're still doing well in terms of market share in hot brewed coffee. We actually grew our hot brewed coffee dollar share year-on-year. So things are going pretty well in that part. We might have seen a little bit of softness in things like breakfast sandwiches, but I think we'll see a lot of progress with that now here as we get into Q2 and the rest of the year, we brought a lot more focus now in the calendar, things like our new promotion with Ryan Reynolds. So those are some of the kind of the main trends. And I think what you'll see us focus on for the rest of the year as we get into summer, we're going to be focused a lot on cold beverages. We just had some new launches there and you'll see more over the course of the summer. And we're also going to be very focused on some of our PM Foods. So you'll see a lot of that in the calendar over the next couple of months and into the back half of the year. That will help us to take more share in PM Food anything that, Sami, you want to add to that?

Sami Siddiqui

I would just add that the PM food share did increase in the quarter as you saw the impact of flat breads and loaded. So going to Mac's point, we continue to build that daypart and are pleased with the market share increases we've seen in that category.

Christine Cho

Thank you so much.

Operator

This is the end of today's Q&A session. I'd now like to hand the floor back to Josh for closing remarks.

Josh Kobza

Thanks. Just to close, I'd like to extend our sincere thanks to both our franchisees and our teams for doing a great job this quarter in a tough environment. I'd like to thank you all for joining us today for the call, and we look forward to updating you again with our Q2 earnings. Thanks.

Operator

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

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