

Restaurant Brands International Inc. (QSR) Q1 2026 Earnings Call Transcript

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Q1: 2026-05-06 Earnings Summary

Insights



EPS of \$0.86 **beats by \$0.03** | Revenue of \$2.26B (7.35% Y/Y) **beats by \$21.42M**

Restaurant Brands International Inc. (QSR) Q1 2026 Earnings Call May 6, 2026 8:30 AM EDT

Company Participants

Kendall Peck - Head of Investor Relations

Joshua Kobza - Chief Executive Officer

Sami Siddiqui - Chief Financial Officer

J. Doyle - Executive Chairman

Conference Call Participants

Dennis Geiger - UBS Investment Bank, Research Division

David Palmer - Evercore ISI Institutional Equities, Research Division

Danilo Gargiulo - Bernstein Institutional Services LLC, Research Division

Brian Bittner - Oppenheimer & Co. Inc., Research Division

John Ivankoe - JPMorgan Chase & Co, Research Division

Christopher O'Cull - Stifel, Nicolaus & Company, Incorporated, Research Division

Andrew Charles - TD Cowen, Research Division

Sara Senatore - BofA Securities, Research Division

Gregory Francfort - Guggenheim Securities, LLC, Research Division

Presentation

Operator

Good morning, and welcome to the Restaurant Brands International's First Quarter 2026 Earnings Conference Call. [Operator Instructions] Please note this event is being recorded.

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

Kendall Peck

Head of Investor Relations

Thank you, operator. Good morning, everyone, and welcome to Restaurant Brands International's earnings call for the quarter ended March 31, 2026.

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, reconciliations of which can be found in the press release and trending schedules available on our Investor Relations website. As a reminder, organic adjusted operating income growth is on a constant currency basis and excludes results from the Restaurant Holdings segment. For calendar planning purposes, our preliminary Q2 earnings call is scheduled for the morning of August 6, 2026.

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

Joshua Kobza
Chief Executive Officer

Good morning, everyone, and thank you for joining us. When we met with you in Miami at our Investor Day in late February, we made clear commitments to the investment community and highlighted a vision for RBI through 2028.

We laid out a path to 5%-plus net restaurant growth, predictable earnings growth and an investment-grade balance sheet while being the partner of choice for the best franchisees and the employer of choice for the best talent.

We also committed to returning capital to shareholders in a meaningful and sustained way through a growing dividend and the resumption of share repurchases with the goal of delivering consistent double-digit total shareholder returns. And we've acted quickly on that commitment. We began repurchasing shares in March for the first time in over 2 years, reflecting our conviction in the business. Investor Day laid out the vision for the company we are building, and Q1 is an early proof point that we're moving in the right direction.

We converted strong top line results, including comparable sales growth of 3.2% and system-wide sales growth of 6.2% and a 10.7% organic AOI growth and mid-teens EPS expansion, while continuing to invest behind our brands and return capital to shareholders. This combination of top line growth, cost discipline and shareholder returns is exactly what we're aiming to deliver on a consistent basis.

At Burger King, Tom and his team's work under Reclaim the Flame is starting to show up in the numbers. We saw strong performance on both an absolute and relative basis this quarter, delivering nearly 6% comparable sales growth in the U.S. and significantly outperforming the industry. Importantly, that performance wasn't driven by one collaboration or campaign. Over the last 4 years, the team has strengthened the foundation of the business from restaurant standards to the quality and consistency of the guest experience, and that's now enabling our brand elevation efforts to land more effectively.

In Q1, we continue to take a balanced approach to value and family offerings and layered on exciting improvements to the Whopper, both of which are driving higher engagement and repeat visits.

In addition to the momentum at Burger King, both International and Tim Hortons delivered their 20th consecutive quarters of positive comparable sales, reflecting the quality of our franchisees, our brand strength and our teams.

International continued to stand out, delivering 5.7% comparable sales and 11.1% system-wide sales growth, reinforcing its role as one of our most important long-term growth engines. We also closed our Burger King China joint venture with CPE, a milestone we're excited about and one that sets the business up for the kind of growth that we know it's capable of.

Overall, the momentum we built in Q1 gives me confidence. It reflects focused execution, engaged franchisees and the strength of the plan that we laid out in February. We're executing against it, and we're doing it in a way that the founders of our brands would be proud of with discipline and ownership mindset and a genuine commitment to building something durable for our franchisees, our guests and our shareholders.

With that, let's turn to our segment highlights, starting with Tim Hortons, which represents roughly 41% of our operating profit. Tims delivered comparable sales growth of 1.5% in Canada, outperforming a relatively flat QSR industry amid a backdrop of lower consumer confidence and unfavorable weather in January and March.

Growth was broad-based across all dayparts with notable strength in morning and late night, largely driven by cold beverages and breakfast foods. We remain focused on defending and extending our leadership in coffee, breakfast and baked goods.

In Q1, we achieved the #1 position in Brand Health's Best Breakfast ranking for the first time, leading our nearest competitor by approximately 2 points, and we're focused on building from that position of strength.

During the quarter, we launched our \$3 breakfast sandwich or wrap with a coffee, supporting our value leadership and ensuring Canadians can access their favorite core Tims products at a great everyday price.

We continue to build our presence in the PM daypart. Our \$8.99 loaded wrap meals helped drive higher combo incidence throughout the quarter. And with continued execution improvements, we remain confident in the long-term opportunity to grow this part of the business.

Across dayparts, beverages remain a key driver of our business. Beverage sales grew 2% year-over-year with another quarter of standout performance in cold beverages, up 10% and continued strength in espresso-based drinks and tea, up 8%. As we move into the warmer months, we're excited to provide guests with more cold beverage innovation, including recent launches like protein and zero-sugar quenchers.

Underpinning these results is continued operational progress. We're making steady improvements with strong execution from our restaurant owners and team members reflected in an average Google rating of 4 stars for the quarter. Overall guest satisfaction also improved over 2 points year-over-year, with the PM daypart reaching an all-time high in Q1. At the same time, we're enhancing our digital experience and deepening guest engagement with a nearly 40% digital sales mix in Q1, supported by initiatives like Roll Up to Win, which returned in February with a refreshed, more engaging experience.

We're looking forward to launching our loyalty partnership with Canadian Tire in the second half of the year, bringing more guests to the Tims platform alongside another iconic Canadian brand.

Finally, on development. While Q1 reflected normal seasonality, we remain confident in our path to accelerate growth in 2026, following our return to positive NRG in Canada last year. Tims is a brand that earns its industry outperformance quarter-by-quarter through quality food and beverages, compelling everyday value, a consistently high-quality guest experience and as a result, the loyalty of millions of Canadians who make it part of their daily routine. As we head into summer with an exciting innovation pipeline, continued focus on operational excellence and accelerating unit growth, we remain confident in the path ahead for this business.

Turning now to International, which represents 29% of our operating profit. International delivered another quarter of strong results with comparable sales of 5.7% and net restaurant growth of 4.5%, driving system-wide sales growth of over 11%. Performance was driven by solid execution of both menu innovation and everyday value, leading to broad-based momentum across some of our largest markets, including Burger King in Spain, Germany, Australia, Brazil, China, Korea and Japan.

Our local teams continue to launch innovative products that are locally relevant, create guest excitement and drive incremental visits. We expanded baby burgers into Germany and Spain, building on the platform's strong performance in France last summer.

In Korea, premium beef innovation like the Garlic Bulgogi Maximum Burger drove positive guest response, while in Australia, Hungry Jack's launched new unique beverages like Nutella iced coffee. At the same time, innovation must be balanced with strong value for money positioning. Markets like Brazil continue to execute a solid base of everyday value. While in China, we recently launched a value-oriented whole-muscle chicken sandwich that has been met with incredible guest feedback. This combination of innovation and value has enabled us to deliver some of the strongest and most consistent international sales results in the industry over the past few years.

During the first quarter, we also closed our joint venture agreement with CPE at Burger King China. In March, Patrick, Sami, Thiago and I spent time in Beijing with the Burger King China team, including Chairman, Johnson Huang; and Deputy CEO, Danny Tan, and we all came away energized about the path ahead. The team there is exceptional and the early results speak for themselves with double-digit comparable sales growth and notable margin improvement in the first quarter.

The team is already demonstrating its restaurant expertise and deep knowledge of the Chinese market with a clear plan to optimize the supply chain, enhance the brand's marketing and improve restaurant build costs to drive stronger returns. As we highlighted at Investor Day, BK China is an important component of our path back to 5%-plus NRG by 2028, and CPE has injected \$350 million of primary capital into the business, fully funding development over the next 5 years, starting with a return to modestly positive net restaurant growth this year in 2026.

While we were in China, we also spent time with the Popeyes China team, which is working to solidify brand positioning and increase awareness. We're looking forward to accelerating development this year and positioning the business for success under a new long-term operator within the next 2 years.

The first quarter demonstrated how the international business continues to be a reliable source of growth for us, consistently outperforming, building on a strong base of scaled markets and with no shortage of catalysts ahead, from CPE's ambitions in China to Popeyes continued acceleration all around the world.

Shifting now to Burger King, which represents roughly 18% of our operating profits. U.S. same-store sales grew 5.8%, outperforming the burger QSR industry by over 5 points this quarter. This is the result of 4 years of disciplined execution from Tom and his team that has positioned us and the system to successfully welcome guests back through impactful marketing.

Our marketing continues to be anchored on 3 key tenets: elevating our core menu, connecting with families and kids and delivering consistent everyday value. This quarter, we launched the elevated Whopper, featuring a new glazed bun, creamier mayo and clamshell packaging, which is driving positive guest feedback and the highest Whopper average unit volumes in over 3 years.

In April, we drove further trial and engagement with lapsed guests through nationwide Whopper Wednesday, reminding guests why our flame-grilled burger is the very best in the industry. We also rolled out \$3.99 King Jr. meals as part of our strategy to reengage with families and kids and saw continued growth in King Jr. average unit volumes as a result. And on value, our \$5 Duos and \$7 Trios continue to perform well, complementing our premium offerings and providing guests with choice and a consistent value message. A key highlight this quarter was our direct engagement with guests and the launch of our brand elevation campaign.

In February, Tom personally spoke with more than 1,500 guests as part of a listening campaign to better understand what they love about Burger King and where we have opportunities to improve. The feedback was really encouraging. There is clear latent love for the brand, and we received valuable input that's shaping our menu elevation road map and providing the team with ideas to further strengthen brand love and deepen guest connections.

Our marketing efforts are supported by ongoing improvements in operations and strong alignment with our franchisees as evidenced by their 97% vote to maintain their elevated ad fund contribution, which we announced at Investor Day. Overall, this was an exciting quarter for Burger King, and it serves as a strong proof point that our strategy is working.

When we invite guests back to experience a better Burger King, they come and they stay. What's most encouraging is that these results are not isolated data points. They reflect a brand that's earning back guest trust and building real momentum, and we believe we're still in the early innings of that journey.

Now turning to Popeyes, where net restaurant growth of 1.2% was more than offset by a comparable sales decline of 6.5%, resulting in system-wide sales declining by 3.9%. While results were softer than we'd like to see, we have a clear understanding of the underlying drivers and are moving quickly to address them.

At Investor Day, Peter laid out 3 key pillars required to get Popeyes back on track: one, improving in-restaurant execution and guest service; two, narrowing our focus on our core offerings; and third, rebuilding a consistent everyday value proposition. During our franchisee roadshows in April, we brought these priorities together into a clear actionable framework, which was met with strong alignment and excitement from our franchise operators.

To improve execution, we have increased field support to enable higher frequency shoulder-to-shoulder training on our brand standards. We held our inaugural restaurant general manager guest experience rallies across roughly 20 cities over the past 2 months, featuring interactive training focused on delivering great guest service. I attended our rally in Miami and saw firsthand the incredible energy and engagement from our managers. We're beginning to see early improvements in product satisfaction and operational metrics, though it will take time for these schemes to translate into top line results.

We're also focused on the core of what we do best: bone-in chicken, tenders and the sandwich. A tighter focus makes it easier to execute well in the restaurant and ensures our marketing is working harder behind fewer, stronger bets. To rebuild a consistent base of everyday value, we launched our \$5 Faves platform, offering guests choice of their favorite Popeyes items at an affordable price point. And we're already seeing signs of underlying improvement in value scores. We'll continue to evolve this platform while exploring additional offerings for group occasions. So while there's more work to do on Popeyes, the plan is clear, franchisee alignment is strong and the energy in the system tells me we're ready to execute and deliver some great results. I'm confident our efforts will support a return to positive comps in the second half of 2026.

Finally, Firehouse Subs delivered net restaurant growth of 8.1% and relatively flat comparable sales, resulting in 7.2% system-wide sales growth. We continue to see solid development momentum, supported by a strong pipeline of franchise partners, average paybacks of less than 4 years and increasing brand awareness. As highlighted at our Investor Day, I'm excited to see Firehouse become a more meaningful contributor to RBI's growth over time and remain confident that the brand will deliver another year of accelerated unit growth in 2026.

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

Sami Siddiqui*Chief Financial Officer*

Thanks, Josh, and good morning, everyone. Today, I'll discuss our Q1 financial results, capital structure and 2026 financial guidance. But before that, I want to recap a few takeaways from our Investor Day. First, we remain confident in the durability of our long-term algorithm, anchored by approximately 3% same-store sales and 8% organic AOI growth, supported by disciplined cost management and accelerating net restaurant growth. We are on track to deliver roughly 1,800 net new restaurants per year by 2028 coming from 3 building blocks: 300 to 400 from our businesses in the U.S. and Canada, 300 to 400 from our 3 brands in China and around 1,100 from international, including about 700 from our top 10 growth markets and 400 from the balance of the portfolio.

Second, we are continuing to simplify the business and have a path to sunset Restaurant Holdings by the end of 2027. Third, we announced our intention to become an investment-grade company and remain on track to achieve corporate investment-grade leverage by 2028. And finally, we continue to generate strong free cash flow, which allows us to do it all, invest in high-return organic growth opportunities, support our path to investment-grade leverage and return capital to shareholders through a growing dividend and share repurchases. As Josh mentioned, we resumed share buybacks in March and have repurchased \$60 million through April 30, an indication of confidence in our business momentum and our view that our shares remain undervalued.

Now on to our results, beginning with our financials. In Q1, we delivered comparable sales growth of 3.2%, net restaurant growth of 2.6% and system-wide sales growth of 6.2%. We translated that to organic AOI growth of 10.7% and nominal adjusted EPS growth of 14.6%. Strong comparable sales were led by nearly 6% growth in both International and Burger King U.S. And while Q1 NRG marks a low point for the year due to typical seasonality, we remain on track to accelerate in 2026.

Organic AOI growth outpaced system-wide sales growth this quarter, driven by a few factors: First, we saw \$12 million of net bad debt recoveries, primarily stemming from international compared to approximately \$8 million of net bad debt expense in the prior year period; second, we benefited from a \$12 million decline in segment G&A, excluding Restaurant Holdings; and third, we closed the Burger King China joint venture transaction with CPE on January 30 and began recording royalty revenues from BK China in the International segment once again.

These tailwinds were partially offset by a \$13 million AOI drag from Tim Hortons advertising and other services compared to \$2 million in the prior year period, primarily due to the timing of certain marketing-related expenses. We expect to see a similar AOI drag in Q2, which will partially reverse in the back half of the year. As a result, we anticipate a full year AOI drag of approximately \$20 million in 2026 compared to \$14 million in 2025. As a reminder, the Tim Hortons advertising expenses and other services line item includes CPG marketing expenses, which are funded by Tim Hortons corporate.

Now turning to EPS. Adjusted EPS increased to \$0.86 per share this quarter from \$0.75 last year, representing nominal growth of 14.6%. This was driven by our AOI growth as well as a modest year-over-year decrease in adjusted net interest expense from \$128 million to \$124 million and an FX tailwind of approximately \$0.04. Our adjusted effective tax rate this quarter was 18.5%, in line with our expectations for the full year of between 18% and 19%.

Moving to cash flow and capital allocation. We generated nearly \$200 million of free cash flow in Q1, including the impact of \$53 million of CapEx and cash inducements and a \$26 million benefit from our swaps and hedges. In March, we resumed share repurchases, repurchasing a total of \$34 million of stock in the quarter and \$26 million in April. We remain on track to repurchase approximately \$500 million for the full year 2026, largely through a programmatic approach to buybacks, subject to trading dynamics. In total, we returned approximately \$315 million of capital to shareholders in Q1 through dividends and share repurchases. We ended the quarter with total liquidity of approximately \$2.3 billion, including \$1 billion of cash and a net leverage ratio of 4.2x.

Finally, I'd like to discuss our 2026 financial guidance. First, we continue to expect segment G&A, excluding Restaurant Holdings, of about \$600 million to \$620 million. Second, we continue to expect net adjusted interest expense to stay approximately flat year-over-year in the \$500 million to \$520 million range based on a mid-3% average SOFR rate, which flows through to approximately 15% of our debt.

Third, we continue to expect 2026 CapEx and cash inducements, including capital expenditures, tenant inducements and incentives to be around \$400 million. Fourth, we continue to expect Tim Hortons supply chain margins to be roughly in line with 2025 levels. And last, there are a couple of things to keep in mind for Restaurant Holdings, which, as a reminder, is not included in our organic AOI growth. In Q1, Restaurant Holdings AOI was negative \$1 million, comprised of positive \$8 million from our Carrols Burger King business, offset by a \$9 million loss in our International start-up businesses, Popeyes China and Firehouse Brazil.

For the 2026 full year, we continue to expect total RH AOI of roughly \$10 million to \$20 million. The expected year-over-year decline in RH AOI reflects the impact of Carrols Restaurant refranchising, continued beef inflation and incremental investments in our international start-up businesses that we expect to continue until we transition ownership to new local partners. We are closely monitoring beef costs and expect normalization over time with relief now anticipated closer to 2027.

So stepping back, Q1 provides a solid foundation for the year. We are well positioned to accelerate net restaurant growth in 2026, deliver another year of approximately 8% organic AOI growth and increasingly translate that growth into strong earnings. Our resumption of share repurchases this quarter is a clear reflection of this confidence.

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

J. Doyle

Executive Chairman

Thanks, Sami. I'm going to start with some thoughts on the overall restaurant category, share a couple of observations on our recent trip to China and our International business generally, and then I'll shift to Burger King.

I've been working in the restaurant industry almost 30 years. I've never seen better proof of how executing well on the fundamentals for guests can drive such differentiated outcomes. I have an exercise I go through on a regular basis. I sit with a piece of paper and write down whether I think the average customer is having a better experience today than they were a year ago. If the food, service and image are generally better and the perceptions of value are improving, sales are going to follow. And marketing's job is simply to amplify that truth. If you aren't convinced the truth is better than a year ago, you can't market your way around it.

There are notable successes in the industry right now, and that includes Burger King, and they're putting up great numbers. And there are others in the industry where things are clearly getting worse and they are losing market share. Our teams are obsessed with being on the right side of that equation and hitting our 3%-plus comp goal this quarter is a reflection of that.

Now turning to China. It's been a while since I was last there, and I came away encouraged by what I saw on the ground. We're finally starting to see some signs of improving consumer momentum. It's still early, but it feels like things are improving on the macro front after a number of rough years coming out of COVID.

At Burger King China, our partnership with CPE is off to a strong start. They bring exactly what we were looking for in a partner, deep local operating experience and a clear focused plan to improve the business. The pace of execution on the ground is impressive, and early results are giving us real confidence that we made the right decision at the right time to position this business for growth as the consumer recovers.

Burger King China is delivering on every element of my simple test. Food quality is improving. Service is better. The restaurants look good, and they're hitting the mark on value. And as a result, sales are very, very strong.

At Popeyes China, it's clear we have a tremendous opportunity, and the team is focused on getting the brand positioning right so we can scale it with the right long-term partner. And at Tims, I walk away confident about the potential of the business. There's still work to do to fully unlock that opportunity, including incremental capital to support development, but it's a great brand with strong awareness in a huge and growing category.

Our overall International business is outstanding. Our comps are some of the best in the industry. Our system-wide sales growth, which has averaged nearly 13% over the past 3 years is best-in-class, and the free cash flow generated by the business is fantastic. We see lots of opportunity for continued outperformance. Congrats to Thiago and the team for yet another remarkable quarter.

Now on to Burger King U.S. We've consistently said that if we put in the hard work, sales will follow. What you saw in our Q1 results is a reflection of that. And the great marketing we're seeing today, whether it's around the Whopper or collaborations like SpongeBob or Mandalorian, only works because the in-restaurant experience is consistently better than it was a year ago.

I particularly want to thank our franchisees. They've shown tremendous trust and alignment with our team and are starting to see the return on their investments. And we remain committed to improving those returns for our franchisees. We've made progress, but we aren't close to being satisfied.

The most exciting part is that while we're proud of the progress we've made and the sales growth we're seeing by truly listening to our guests, we're also confident in our ability to continue improving our food, our service and the image in our restaurants moving forward. On top of that, guests know that they can come to us for consistent value and choice. That's how we'll continue to generate profitable growth in our restaurants.

This is a business and company with real momentum, improving fundamentals and a system that is increasingly aligned and executing at a higher level. We've been seeing the signs of this internally for quite some time, but now our top line results are starting to make that progress visible to you all. And I'm confident this will continue. This quarter is not an outlier, and that's what gives me confidence in where Burger King and RBI more broadly is headed from here.

With that, I'll turn it over to the operator for questions.

Question-and-Answer Session

Operator

[Operator Instructions] Our first question will come from Dennis Geiger from UBS.

Dennis Geiger

UBS Investment Bank, Research Division

I wanted to ask a bit more about Tim Hortons. Encouraging to see the solid results despite the weather, including the upside that you drove to the overall category. But just curious if you could help us think through where the Canadian macro environment is, where the Canadian consumer is and maybe how that's been impacting results of late and really how you think about the outlook for the brand looking ahead if we do have a more difficult backdrop in that market?

Joshua Kobza

Chief Executive Officer

Dennis, it's Josh. Thanks for the question. I'll share a few thoughts on Tims and Canada macro. Sami or Patrick, feel free to add on, if you like. I think when you step back, Dennis, you got to remember, Tims is an amazing business. It's one of the best restaurant businesses in the world, has fantastic brand scores, the #1 brand in Canada, really great unit economics, wonderful restaurant owners. I think we've put up a pretty great track record here with 20 consecutive quarters of same-store sales. And I think that reflects the underlying strength of this business.

There was a bit of macro softness in Q1, which you saw in those sector results. And I think importantly, we outperformed the sector by about 150 basis points, which is, I think, really remarkable and something we've done consistently. I think some of that macro softness is probably driven by a couple of the factors that I mentioned earlier and you cited.

The weather was a bit tough. That happened sometimes in Q1. But I think particularly this year, January in Toronto, I think it might have been the most snow that they've had in Toronto ever on record. So it was a bit rougher, and that's why we called it out, but that happens in Canada in Q1 sometimes. And there was a bit of a dip in consumer confidence. I think a bit of that was probably caused by some of the higher gas prices that you saw recently. But this happens from time to time. You have a bit of macro ups and downs. If you go back a year, actually, we saw something similar in Q1, and we printed a really great year overall. So our job, I think, is to deliver throughout any ups and downs that you see in the short run. And I think those things tend to even out over the medium term.

And with regards to this year and the things we're doing, I think our plan highlights some of the great strengths of the Tims business and some things that only we can do. And a few of them are that we're going to continue investing as we're able to do through the cycles. We're actually going to increase our investments in Canada this year. We're going to increase the pace of remodels doing, I think, 300-plus remodels in the country. That's hundreds of millions of dollars of investments back into our local markets. And we're also going to increase the pace of new restaurant openings. So we're going to be opening up restaurants, bringing Tims to new markets and new communities. So we're making huge investments that I think almost nobody else is making or can make in Canada.

I think there's also something very exciting that I mentioned that's coming up later this year, which is our partnership with Canadian Tire. Being the #1 most loved Canadian brand makes us absolutely the partner of choice for other iconic Canadian brands. And I think bringing those 2 brands together to deliver even more and differentiated value to our guests is going to be something very exciting for Tims as we get into the back half.

Another version of those partnerships that will bring to life is that we also are the partner of choice for some of the biggest IPs out there. So some of those global kind of family partnerships that you've seen us do elsewhere, we will bring some of those to Canada, and we've got a couple in the lineup that we're particularly excited about that we think are going to generate a lot of excitement and a lot of engagement within our Tims base.

And lastly, I would tell you the cold beverage and PM food calendar, that really ramps up as we get into the summer. So some of the food items that are going to drive our PM food start to come out here over the next couple of months and into the back half of this year. And I think our power as a brand is that we're really able to drive categories forward to transform categories and bring whole new ideas and things to Canada. We've done that in the past. That's a lot of our history as a concept, and we're going to do that again here going forward. And I think that's a unique asset of Tims. I think you bring those things together and more, and that's what gives us confidence about the trajectory of the business regardless of any blips that we might see on the macro side.

Operator

The next question comes from David Palmer, Evercore ISI.

David Palmer

Evercore ISI Institutional Equities, Research Division

Great. And thank you for that color on Canada and Tims, very helpful stuff. With regard to other international markets, I know there's concern that maybe some developed markets, Europe, for example, might be dealing with similar types of macro headwinds and obviously, the energy cost issue. Could you speak to just what you're seeing around the world in terms of the consumer and market share? And any sort of adjustments you might be making as you see the macro conditions outside the U.S.?

Joshua Kobza

Chief Executive Officer

So on our international business, if you look broadly across the business, as I mentioned earlier, really good results, over 5% same-store sales. So I think Thiago and all the teams and our partners around the world are doing a very nice job. If we break that down a little bit more into some of the regions, within our EMEA business, we actually had a very good quarter. So the EMEA business results were relatively in line with the rest of international. So some puts and takes across markets. But I think when you look at the aggregate of that business, we continue to see good momentum. Obviously, we're keeping an eye on energy costs that can flow through things like utilities and all. So that's something we'll definitely watch over the rest of the year. But I'd say so far, in the first quarter, the business there performed pretty well.

The other big highlight I would call out is our Asia Pacific business, which has been performing wonderfully. I called out a few of the markets, but it's pretty broad. Our China business, as we talked about, is doing great. Johnson and Danny doing a wonderful job posting double-digit comps. So off to a great start there. Japan continues to be a real standout with well into the double-digit comps again. So they're doing really well. Australia had a good quarter. Korea had a good quarter. So really across the Asian markets, broad-based strength.

And within Latin America, I would say Brazil was a positive point, both across our Burger King business and especially Popeyes, which has been doing terrific in Brazil. So hopefully, that gives you a little bit more color on some of the biggest markets around the world. But overall, we're pretty happy with the quarter across the International business.

Operator

The next question comes from Danilo Gargiulo from Bernstein.

Danilo Gargiulo

Bernstein Institutional Services LLC, Research Division

Well, it's very encouraging to see the consumer response to Burger King U.S. relaunch of the Whopper. And it seems you were able to reach mid-single digit even without being dragged into value wars. So I was wondering if you can maybe expand on the sustainability of the results and perhaps if you can focus on your comments on this not being isolated data points. So can you share maybe your expectations for the brand now in the U.S., whether you think this will be fair to be assuming low to mid-single-digit growth in the coming quarters and/or increasing 2-year stack, however you may want to frame it, in light of the momentum that the brand is experiencing? Or do you think that Burger King will remain a low single-digit same-store sales contributor to your trajectory going forward?

Joshua Kobza

Chief Executive Officer

Thanks. I'll touch on a few thoughts on Burger King here. And I think Patrick referenced it well. The really -- the thing that gives us so much confidence about what we're doing with Burger King is that what's happening now is building on underlying work that we've been doing on the foundation for the past 3 or 4 years.

We focused on all the basics. We improved operations really dramatically and the consistency of operations in the system across the whole country. We've made important improvements to our franchisee base that we're going to continue to do over the next few years. We've done a ton of remodels and made sure that the physical asset base looks a lot better and is ready to welcome back all kinds of guests and especially families that you see coming back. And now you started to see us really talk about that and build upon it with some of the culinary improvements that we've made.

And I think Patrick referenced one of the things I think Tom and I love to say it, too, like marketing amplifies the truth. And the important thing here is that we built a much better version of Burger King that you're now seeing us talk about. And I think that's what gives us a lot of confidence. And we've now started to talk, I think, about the things that we're doing.

And we're seeing the momentum build. We saw it with SpongeBob in the back half of last year. We were able to really effectively bring families back into the restaurant. But we saw things progressively build then again as we got into the first quarter here, where we started out with listening and then brought out the elevated Whopper, now building upon it further with Mandalorian. So I think that kind of building dynamic of what we're doing is what gives us confidence.

And I also think we sort of -- we found our way into an amazing insight with all the listening. I think it actually taught us all a lot. It showed us that there is incredible latent love for this brand. When we do these calls with our guests and hear what they have to say, it's amazing how many people they start out with, I love Burger King. That's the theme of all these calls. They love Burger King and they want us to do better.

So what Tom and the team are working on resonates so well. And I think that's why you saw our guests embrace so strongly what we did with the Whopper. And what you'll see us do over the next few years is we'll bring out kind of further and further chapters of all of the amazing things that we're doing to make Burger King even better, whether that's things like you probably just saw recently on Instagram, fixing all of the signs around the country, continue to remodel our restaurants. And we have a really incredible, I would say, road map of menu elevation ideas that have come from our guests and our team that will allow us to continue the momentum over many quarters and years to come.

In terms of the -- what you mentioned, Danilo, on kind of what the expectation should be, what I would say is I would stick with the definition that we've had over the last couple of years. We want to outperform the burger QSR segment consistently year upon year. And I think we started to do that. This quarter was a great example of it, and we'll look to do that in future quarters and years going forward.

Patrick, anything you want to add there?

J. Doyle

Executive Chairman

Yes. I just -- Danilo, I think that we really got to an inflection point in the first quarter. And there were a lot of things that we wanted to talk about at Investor Day, but the timing of it was not an accident. And we scheduled it last year for the first quarter. And partly, it was because our confidence was growing in our execution at Burger King that we had enough improvements in our service levels, in better-looking restaurants in all of those things that first quarter was when we were going to invite our guests back to take a new look at Burger King and to experience a new better Burger King. And the results that we saw, we're proud of them. But frankly, at some level, were expected given that we are inviting people back. And so we feel very good about where we are.

And I guess the thing that I would say is that while we have made great progress, growth comes from continued improvement. We are continuing to remodel our restaurants, so the image that people experience is going to continue to get better. As Josh just laid out, we're going to continue to improve our food across our menu, which means food perceptions are going to continue to improve. We've got great consistent value and our franchisees are executing at a better and better level. So if you do all of that, it ought to drive consistent growth. We're proud of the fact that we have outperformed the category for a couple of years now. And what you saw in Q1 was an acceleration of that.

Operator

The next question comes from Brian Bittner from Oppenheimer.

Brian Bittner

Oppenheimer & Co. Inc., Research Division

Sticking on Burger King, again, congrats on those results. It does seem like you've got a great thing going there with the brand's resurgence, nearly 6% comps. And now you are ready to accelerate refranchising. And sometimes refranchising this many units, it can cause some choppiness within the system. So as you do embark on now accelerating the refranchising of the RH segment, how do you make sure that the business momentum you have goes without a hiccup? And how do you think getting these stores in the right hands could actually be accretive to the trends of these stores?

Joshua Kobza

Chief Executive Officer

Brian, thanks for the question. I think we are very focused on how this refranchising process goes and the success of our new franchisees in particular. And I think we've seen some encouraging signs so far. And I would tell you, as we have these discussions, our number one criteria for the new partners that we want in these -- in the refranchising is the quality of the local operator. That's the number one consideration that we have.

And a couple of things we've seen so far. I was actually -- I spent -- last Friday, I was out visiting restaurants with one of our newest operators that just bought 30 restaurants, just a bit north of here, and they're doing fantastic. They're improving the operations of their restaurants. They're getting great managers in all of the restaurants. They're working on planning their first remodels. They're outperforming the system by hundreds of basis points. So I was really pleased with what I saw. And I can tell you, not just me, but everybody on the team is spending a ton of time with each of the new operators that comes in and takes over some of our restaurants to make sure that they're doing well, and we're hearing all of their feedback to make sure that not just they're successful, but each of our future franchisees who takes on some of the restaurants are successful. So I'd tell you a ton of focus, but pretty pleased with both the quality of the operators we're finding and their results so far.

The other thing I would mention is, I would tell you that the kind of the top of the funnel, the new transactions that we're seeing, we're seeing a lot of them. We're seeing a ton of interest both from outside parties, but a lot of inside folks as well, both team members from Carrols and people from our corporate teams who are really excited about what we're doing here with the brand. I think there really can't be any greater endorsement of the momentum of the brand and the fact that it's driven by sustainable fundamentals then the very folks who are working on it and driving that success want to become franchisees and be involved and participate in what the brand is doing for decades to come and dedicate their lives and their families' lives to it. So that gives us a ton of excitement. I think we're going to have a lot of wonderful new franchisees in the Burger King system over the next couple of years.

Sami and I, we talk through with Tom every single week of the new potential partners, and we're seeing a number of applications every week and ones that we're really excited about. So I feel good about it. I think there's a ton of focus on it. And I think we're going to -- we're kind of setting the course for a great new version of the Burger King system with some wonderful existing and wonderful new franchisees.

Operator

The next question comes from John Ivankoe from JPMorgan.

John Ivankoe

JPMorgan Chase & Co, Research Division

Firstly, an observation. The execution of the Whopper at Burger King really is objectively better. So congratulations on that because I know how much work goes into it, especially across an overall system. So that's first.

And then secondly, as we think about brand momentum, from what I understand, you consider approximately 60%, correct me if I'm wrong, of the Burger King U.S. system to be modern. It would seem that if customers were to be reintroduced to the Burger King brand, you would want them to see a modern imaged restaurant, so the repeat would generally be higher. So I wonder if we have an opportunity to really look at some of the sales momentum in the business, operating momentum in the business and just overall sentiment around franchisees to perhaps accelerate some of the remodels for Burger King in the U.S.

And if I could get a sense of where those remodels as a percentage of the overall system or modern as a percentage of the system could potentially end in '26, '27, '28, especially as you do want to accelerate and take advantage of just overall consumer and franchisee momentum as we think about Burger King U.S.?

Joshua Kobza

Chief Executive Officer

John, first of all, thank you for the Whopper feedback. It puts a smile on all of our faces every time we see that. And we're getting guest calls and e-mails that are saying the same thing. I got a wonderful one from a guest by the name of Jim the other day, which said something to the effect of, "I hadn't tried you guys in a very long time. I saw your commercials and you look genuine, so I gave it a try and you nailed it. And I went back again and you nailed it again." And so we're hearing that very consistently. And we all have Patrick's test in mind every day, are we making our core products better for our guests every day? And we feel like we are. And I think that's really exciting as to the sustainability of the progress.

In terms of modern image, I think you're right, we're in that 60% range. And we've said consistently that we want that to get to 85% plus such that almost every Burger King you see in America has that modern clean image. It's going to take a little bit of time to get there. And we've had to strike the right balance of waiting until we were all the way there versus making some progress in talking about it, and we felt like it was the right time with where we are on modern image that we -- where we were on modern image and on operations, we felt we were ready to welcome guests back in today.

And to your point on repeat business, that is one of the stats that we look at quite closely. And one of the things we saw recently that gave us a lot of confidence that I think we've mentioned is after we did the SpongeBob promotion back in Q4, we track for each of those promotions, what's our repeat rate. So how often do the guests who come in for some of those promotions, how often do they come back in the next 30, 60, 90 days. And we saw the highest repeat rate that we've seen in any of those promotions in a long time, which is another -- it was another data point that gave us confidence that as we brought new folks back in or lapsed guests in the case like the one I mentioned of Jim, that they were going to be happy with what they saw. So I think you're seeing that repeat rate start to increase, which is a great sign of the operations quality, but also that we're going to get a really solid ROI out of any marketing that we do.

In terms of remodel pace, I think we mentioned in the last quarter or 2 that we still want to get to 85%. It might take a little bit longer than the 2028 time line we had previously outlined. We would love to accelerate that pace. And I would tell you, we are investing pretty aggressively. So in our company stores and the former Carrols stores, we're investing pretty aggressively to increase the pace of remodels from what we did last year. And we're talking to our franchisees about the potential to do more.

I think what we need to do is see a bit more sustained momentum of these same-store sales and have that flow through to the franchise profitability. And once we get franchise profitability moving meaningfully back in the right direction, which doing these kind of same-store sales helps an awful lot on that, then I think we have a good opportunity to think about trying to move a little bit faster on the remodels, but we got to do it in that order, I think.

Sami, anything that you want to add there?

Sami Siddiqui

Chief Financial Officer

No, John, I would just add on to what Josh was saying in terms of the pace. And we talked about this, I think, a couple of quarters ago when we talked about maybe some of the remodels sort of getting pushed out a little bit. This top line momentum is a great accelerant when you think about it, but we have to look at the whole P&L. And we've talked a little bit in the past about sort of the unprecedented beef pressure that we've seen over the last year. And those beef prices do remain elevated right now. We had initially sort of planned for those to wind down toward the second half of this year. We're seeing that elevated level of beef costs kind of persist a little bit. This is natural. It's part of a herd rebuilding cycle that occurs in our industry every so often. I think as you see relief on the food cost side, you'll see even more momentum and even more excitement around those remodels, particularly with sustained top line momentum.

J. Doyle*Executive Chairman*

I'll add one thing, John, which is simply we've been watching every operational metric improve, and thank you for adding to that, which is we passed the Ivankoe test on the Whopper. So thank you for that. And we had to make a decision, when do you really do the big relaunch? When do you invite everybody back? When do you think that the experience is enough better that you want to put yourself out there and say, now is the time to retry Burger King?

And I think Tom and the team nailed it. I mean you can't wait for perfect. But what we are very confident of is that our guest experience at Burger King is going to continue to improve. We're going to continue to give them consistent value. The restaurants are going to continue to look better. And we had seen that in increasing repeat rates which meant it was time to move and really invite them to give us a new look again. And the experience is just going to continue to improve, and that's what should give us confidence and give you confidence that we're going to continue to see good results in the business.

Operator

The next question comes from Chris O'Cull from Stifel.

Christopher O'Cull*Stifel, Nicolaus & Company, Incorporated, Research Division*

Congrats guys on the solid start to the year. Josh, my question is on Tims. I know the company is rolling out fountain drink equipment to the system. And I was hoping you could just provide an update on where you are in that process and when you expect it to be completed? And then how significant do you believe this could be for lunch and dinner food sales? I mean, is this something that's going to be a slow build where people discover it? Or is it an opportunity to make combo meals, heroes in your messaging for that lunch, dinner daypart?

Joshua Kobza

Chief Executive Officer

Chris, so you're right, we are starting to roll out fountain machines to the system. We had already had sparkling beverages if -- kind of if you look at it across the system, we had sparkling quenchers, but we were doing it out of bottles. So as we get through the rollout here, what that enables us to do is a couple of things. One, it enables operational efficiencies. Obviously, using bottles is pretty complicated operationally. And moving to fountain machines makes things an awful lot easier and faster for our restaurant teams, but it also improves the cost profile of those beverages.

And then the fountain machines will also open up a lot of new innovation paths that we have on the cold beverage side. So they'll enable some of the platforms and the drinks that we have in mind over the next couple of years. So it's an enabler, if you will, to, I would say, a next leg of growth in our cold bev business. So that's pretty exciting.

And then I would say, lastly, I think you referenced this. As we move into PM food, one of the things that we want to be able to do is to drive more combo incidence. And I think I talked about moving that up in the quarter. And having a comprehensive set of beverage offerings through a fountain machine is something that will allow us to drive that combo incidence and build the PM food business over time.

So I think all of those things are pretty exciting and hopefully give you some sense of the things to come on our PM and cold bev journey over the next couple of years. In terms of where we are today, we're about 1/4 of the system rolled out, and we'll finish that, I would say, over the next few quarters.

Operator

The next question is from Andrew Charles from TD Cowen.

Andrew Charles*TD Cowen, Research Division*

One bookkeeping question and my real question. So International AOI saw a nice improvement from the release calling out bad debt recoveries. How should we think about that dynamic going forward?

And then my real question is about just the algorithm for 3% portfolio same-store sales on average. And curious just based on your confidence, you talked about BK momentum. You talked about the second half Popeyes rebound. Canadian macro is obviously challenged. I mean, if you put it all together, do you believe the 3% growth applies to 2026 as you face more challenging comparisons over the balance of the year?

Sami Siddiqui*Chief Financial Officer*

Andrew, I can take the beginning of that question. So yes, we called it out in our prepared remarks around a particular sort of international situation where we had an outsized bad debt recovery. That's a one-off sort of occurrence. I think if you look at the performance, even absent that one-off, we were still above algorithm, that 8% AOI algorithm. We were really, really pleased not only with the top line performance, but really with the bottom line growth. So we want to call out that one. I think as you kind of move throughout the year, we'll always call out one-off items, though we don't anticipate any sort of large one-off sort of items like that again.

Joshua Kobza*Chief Executive Officer*

And on your question on the 3% same-store sales, we laid that out as the benchmark. We've actually been pretty consistent about that over the years, and we reiterated that at our Investor Day in February. We're really pleased that in our first quarter reporting to you since then, we cleared that 3% bar. And what I can say is that sitting here where we are in early May, we continue to feel good about how we're performing against that threshold in Q2.

Operator

The next question is from Lauren Silberman from Deutsche Bank. We're going to move on. The next question is from Sara Senatore from Bank of America.

Sara Senatore*BofA Securities, Research Division*

I guess maybe a housekeeping question and then a question about Popeyes. So you mentioned, I think, the idea that beef remains quite high, but -- and so the topic of franchisee profitability emerges. Is it fair to assume that franchisee margins were under similar pressure to the RH margins in the first quarter? And I guess is the implication that perhaps you're taking less price than inflation or even than competitors, just sort of thinking through the value proposition versus weighing that against franchisee economics?

Sami Siddiqui*Chief Financial Officer*

Yes, I can jump in there, Sara, on the profitability side for BK system. I think, first off, it always starts with the top line, right? And we were really pleased with the top line performance. I think, yes, it has been a tough backdrop on the beef side. I think if you look at the margins year-on-year, keep in mind last Q1, so Q1 of 2025, you had just started to see the beef costs run up.

And so as you think about the compare in Q1 of '26, where we've been -- we've continued to see all-time high beef costs, you'll see -- kind of as you think of the food basket, you see basically high single-digit food cost increases. And keep in mind, beef is about 25% of our food basket. So that's what's driving, I'd say, a more outsized year-on-year increase in Q1. Though as you go through the rest of the year and you think about that food cost basket, it will kind of revert to more mid-single digits inflation for the full year. And so that's how we're thinking about it.

I think with respect to the Carrols margin, you actually see expansion on a year-on-year basis as you look at Q1 over Q1, largely driven by top line sales overcoming some of that beef cost inflation and continued great work on the operational side. So I think that's how we're thinking about the margin profile. And beef costs, I said it a couple of questions ago, I think as we get closer to 2027, it's probably when we expect to see more relief on the beef cost side.

Joshua Kobza*Chief Executive Officer*

And Sara, did you have a question on Popeyes as well?

Sara Senatore*BofA Securities, Research Division*

Yes. So just on Popeyes, obviously, I think, some impressive initiatives that we're talking about at Investor Day, particularly for the second half. But there's also, I think, been a sense that there's been a lot of competition and in particular, a lot of growth -- unit growth in the chicken category. Is that something that you've observed? Is that sort of competitive incursion or intensity? Is that something that perhaps is a headwind for Popeyes just as you execute the brand-specific initiative? I'm just trying to think through, it seems like a lot of the chicken operators perhaps are seeing some slower same-store sales than they have historically.

Joshua Kobza*Chief Executive Officer*

So in terms of the category and how I think about it, I kind of -- I zoom out a bit and say we are super happy to be in the chicken category. We got -- the reason we got involved with Popeyes 9 years ago now is that we knew that there was going to be huge secular growth in the chicken category in the U.S. and around the world, and that's exactly what's happened.

I think it's natural that when you have a great category like that, that's doing well consistently over time, you're going to have competition, and that happens in any part of restaurants. And I think there's a lot of concepts. A lot of them are upgrading what people expect in the category. I think that's good for the category. So I think that's positive, and it pushes us to improve our game, too, and that's a healthy tension.

And the way I feel about it is I think Peter is off to a fantastic start. He's built a great team that's very focused on improving the quality of operations. We're already seeing it across the business, engaging with restaurant managers, getting all the franchisees on board with the plan. And we're already starting to see signs that operations are improving and product satisfaction is improving. They're moving really fast to make progress on some of our core items.

Things like tenders, which is a big part of our business, we've tightened our tender spec a bit, and that's rolled out across -- it's rolled out very quickly to -- now we're at just over 1/3 of the system. We'll be done with the rest of the system by June, and we're already starting to see really material improvements in product satisfaction for the tenders. Peter is focused on bone-in chicken quality as well, making sure that we're serving our famous bone-in chicken exactly as it's meant to. That's the focus of seed trainings going to all of our restaurants across the entire country starting right now in May. So I would tell you the team is moving very quickly to make progress on operations and delivery of product quality. And I think that's what's going to lead to a turnaround in the business and help us to be more successful.

And I would tell you, on the sales side, a lot of what gives us confidence about the back half is just that we've already seen sales -- underlying sales trends improving in the business from kind of low points around the time of January, we've stepped up to a much better level. So I think we're seeing good progress. I would tell you we're excited about the category. Any category in QSR is going to be competitive, and we're happy to be in a category that's continuing to grow servings, and I think it's going to be a growing category for a long time.

J. Doyle

Executive Chairman

Yes, Sara, I'll add one thing, which is we know how to win in this category. We've got the best food in the category. And our execution is already improving. It needed to be better than it was, and we needed consistent value and Peter and his team and the franchisees are all over it. They believe in that as the path. And we know what it can do. The team will laugh at me if I don't quote my favorite statistic as I do every quarter.

But where we are executing at a really high level with Popeyes in International, we've now crossed the \$2 billion run rate in system sales outside of the U.S. I think we did \$502 million in the first quarter. And our system sales growth was only up 43.9%. So we know with this amazing food, how well we can win. And by the way, there is a big competitor in chicken outside of the U.S., and we're growing a lot faster than they are. And so we know how to win in this category. We know that having the best food is ultimately our point of differentiation, and we just need more consistent execution and consistent value, and we're doing those things.

Operator

Our final question today will come from Gregory Francfort from Guggenheim.

Gregory Francfort*Guggenheim Securities, LLC, Research Division*

Patrick, I guess maybe we've asked a lot about it, but just Burger King U.S., what metrics do you feel like you're seeing in the underlying customer response or that maybe we're missing from the outside and that kind of give you confidence in the momentum going forward?

J. Doyle*Executive Chairman*

Yes, ratings on the food, overall customer satisfaction, speed of service, repeat rate of customers coming back after having a great experience. All of those things are moving in the right direction. And that's why it was time to invite everybody back in. And we know that as we continue the remodeling the restaurants, they're going to be going into or driving through at a better looking restaurant. And so all those operational metrics have been moving in the right direction. It was time to invite people back, and that's why we had the confidence to do it.

Operator

I'll now pass the call back to Josh for closing comments.

Joshua Kobza*Chief Executive Officer*

Thanks, Adam. Well, thank you all for joining us today. We really appreciate the time and the questions, as always. Going back to February in our Investor Day, we made a number of commitments and outlined a clear vision of what we want to deliver in the future. And I think in this quarter, we made a great start and made progress against essentially all of those commitments.

First, we told you that we'd deliver same-store sales above 3%, and we did it this quarter. We said we're going to lay out a path to get back to 5%-plus net restaurant growth, and we did -- we made one of the most important steps towards that vision of the future by closing the China transaction and getting off our first quarter with our new partner to a terrific start.

We said we're going to keep delivering 8%-plus AOI, and we did that for the quarter. And we told you that we're going to move towards a simpler business, where we made a lot of progress on starting to rebrand our Burger King U.S. restaurants and built a big pipeline to move towards our goals on that front.

Finally, we announced a new capital allocation approach where we're going to restart consistent share repurchases, and we did exactly that by repurchasing over \$30 million so far in the quarter, and we look forward to repurchasing \$500 million, as we said, for the full year.

So thank you all very much for the time today. We wish you a great rest of the day, and we look forward to updating you on our continued progress with our Q2 call in August. Have a great day.

Operator

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

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