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EPS of \$0.86 **beats** by \$0.00 | Revenue of \$2.08B (17.18% Y/Y) **misses** by \$25.46M

Restaurant Brands International Inc. (NYSE:[QSR](#)) Q2 2024 Earnings Conference Call August 8, 2024 8:30 AM ET

Company Participants

Kendall Peck - Head of IR

Joshua Kobza - CEO

Sami Siddiqui - CFO

Patrick Doyle - Executive Chairman

Conference Call Participants

Brian Bittner - Oppenheimer & Co
David Palmer - Evercore ISI
John Ivankoe - JPMorgan
Lauren Silberman - Deutsche Bank
Dennis Geiger - UBS
Andrew Charles - TD Cowen
Danilo Gargiulo - AB Bernstein
Katherine Griffin - Bank of America
Pratik Patel - Barclays
Jon Tower - Citi
Gregory Francfort - Guggenheim
Christine Cho - Goldman Sachs

Operator

Good morning and welcome to the Restaurant Brands International Second Quarter 2024 Earnings Conference Call. All participants will be in listen-only mode. [Operator Instructions] Please note this event is being recorded.

I will 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 Conference Call for the Second Quarter Ended June 30, 2024. As a reminder, a live broadcast of this call may be accessed on the Investor Relations webpage at rbi.com/investors, and a recording will be available for replay.

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

Today's earnings call contains forward-looking statements which are subject to various risks set forth in the press release issued this morning and in our SEC filings. In addition, this earnings call includes non-GAAP financial measures. Reconciliation of non-GAAP financial measures are included 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, we introduced a sixth reportable segment, Restaurant Holdings. This segment includes results from operations of the Burger King restaurants acquired as part of the Carrols acquisition, and will include results from our Popeyes China restaurants beginning in the third quarter.

The consolidated growth metrics discussed during the prepared remarks, including organic adjusted operating income growth, and organic adjusted EPS growth, exclude results from our Restaurant Holdings segment. And now I'll turn the call over to Josh.

Joshua Kobza

Good morning everyone, and thanks for joining us. We had a busy second quarter and grew comparable sales, while navigating a softer consumer environment that's impacting the broader restaurant industry. Our teams worked closely with franchisees and their team members to deliver delicious food and beverages, provide great experience for guests, and improve our physical and digital footprints.

We closed strategic transactions that will strengthen our long-term positioning for the Burger King brand in the U.S. and for Tim Hortons and Popeyes in China. And we identify opportunities to drive cost savings for our franchisees P&L and our own. Our results demonstrate our brand's strong relative value propositions, the importance of franchisee alignment, and the benefits of maintaining cost discipline. Comparable sales grew 1.9% and net restaurants grew 4%, which translated into system-wide sales growth of 5% and organic adjusted operating income growth of 9.3%.

We certainly were planning for better absolute top-line results. However, relative to the overall performance of our industry, we've continued to outperform key competitors in some of our largest markets. Tim Hortons and International drive nearly 70% of our adjusted operating income, and both delivered strong AOI in the second quarter. Tim's in Canada once again outperformed the industry and continues to showcase the power of delivering the fundamentals of quality, service, and convenience to guests every day and driving results for restaurant owners and for our business.

Our International business demonstrated its resilience and delivered solid top-line results that translated into strong adjusted operating income growth. The remaining 30% of our AOI comes from Burger King, Popeyes, and Firehouse in North America. At Burger King US, our turnaround is well underway. Our balanced approach to everyday value continues to resonate with guests and the team has reacted calmly in the face of heightened promotional activity across the industry.

Popeyes remains focused on unlocking sales opportunities through menu innovation and making restaurants easier to run. And at Firehouse, the team is building out its development pipeline with a clear path to accelerate growth this year and beyond. As I mentioned before, this quarter, we took a few important steps to strengthen our long-term positioning in the US and in China. We closed the acquisition of Carrols and are working to remodel 600 Carrols restaurants through 2028, so we can begin refranchising the vast majority of the portfolio to smaller owner operators in the next few years.

You also saw us acquire Popeyes China and make a co-investment into Tim Hortons in China. We have taken control of Popeyes China and plan to grow the business ourselves in the coming years before finding a new partner to accelerate long-term growth. We're working closely with the Popeyes China team to refine our business plans and we'll update you when we have more to share. Our co-investment in Tim's China reflects our confidence in the long-term potential of the brand in the market. There is a lot of work for us to do in China, especially given the compounding impacts of lingering consumer and competitive challenges. But these are both important steps in the right direction.

We're fortunate to have Patrick Siewert, a seasoned executive with extensive knowledge in food, beverage, and consumer products in Asia on Board as our Chairman for Asia Pacific. He's helping us solidify long-term plans, build key relationships, and accelerate development for each of our businesses in the region. Before I turn to segment results, I'd like to provide a high-level update on expectations for 2024, which Samuel will expand upon shortly. While we still delivered solid global comparable sales growth this quarter, there's no denying that the environment has been tough. As such, we believe system wide sales will be a bit lighter this year compared to our stated long-term growth algorithm.

That said, we've implemented expense improvements while continuing to invest in all the right areas to drive sustainable sales growth. As a result, I'm confident we'll deliver organic adjusted operating income growth of 8% plus this year. Turning now to segment results, I'll start with Tim Hortons that delivers about 43% of our adjusted operating income. In June, I joined Axel, the Tim's team, and over 1,800 restaurant owners and leaders in Toronto for their convention celebrating 60 years of Tim Hortons in Canada, 50 years of the Tim's Foundation, and 40 years of Tim Hortons in the US. It was an incredible experience, complete with a special musical, The Last Timbit, and a ton of product tastings from the culinary and beverage teams.

It was amazing to celebrate the Tim's Foundation, which is so core to Tim's strong community ties. And we recently raised nearly \$13 million Canadian dollars for Tim's Foundation camps through our Annual Camp Day. I love seeing the excitement and confidence of so many restaurant owners for the future of this brand. So much of this confidence is due to the strong foundation Axel and the Tim's leadership team have built alongside our restaurant owners over the past five years and the results that they continue to drive every day.

Tim's in Canada delivered a 4.9% increase in comparable sales, well ahead of the broader industry and did so through a balanced mix of traffic and check growth. It's pretty remarkable to see the market leader expand share in core categories like coffee, breakfast and baked goods. This is a testament to the team's marketing and menu initiatives, relevant value positioning, operational excellence, and unmatched convenience. Morning day part sales grew 4.5% year-over-year, anchored by our leadership in brewed coffee, with over 70% market share, and breakfast sandwiches and wraps, where we hold over 60% market share.

Some of you may have seen that even Deadpool can't live without his Tims. We're looking forward to working with Ryan and we'll have more to share on that soon. Great results are as much of the product of strong operations as strong marketing. The team is delivering some of the best weekday morning service times we've seen in the past five years, with even more opportunity in the morning day part through increased adoption of our Scan and Pay app feature, shoulder-to-shoulder restaurant visits, and layout optimization from store renovations and new builds.

We've made exciting strides on our PM food journey, which began in 2022 with the launch of Loaded and Anytime Snackers. We've already seen these two platforms contribute two points to PM food market share growth. This success paved the way for our expansion into flatbread pizzas introduced in mid-April after two years of testing, aligning with restaurant owners, and adding new ovens to the back of house.

We've been pleased with the results so far, and we're excited for the innovation opportunities our new ovens unlock. I had the pleasure of tasting a number of these at convention in June. Flatbread pizzas are helping us increase our exposure to the family guest occasion and improve throughput for restaurants during historically underutilized times such as after 2 p.m., and on the weekends. Between loaded flatbread pizzas and our savory pastries, we have a clear path to drive franchisee profitability and achieve double-digit PM food market share in the near future.

Our PM food innovation ties in nicely as we broaden our beverage strength, especially in the cold category, which represented nearly 40% of total beverage sales in the second quarter. We kicked-off the summer with two co-branded [ice cap] (ph) partnerships, Caramilk and Oreo Double Stuf, to honor 25 years of our iconic Iced Capp beverage. We also added exciting flavors to our sparkling quencher lineup and most recently introduced Infuser, an energy drink made with natural caffeine that appeals to younger guests looking for a delicious caffeinated beverage alternative.

I'm very excited about all the progress the team continues to make here at Tim's in Canada and feel very confident that Tim's is well positioned for growth into the future. Shifting now to International, which comprises about 25% of our adjusted operating income. International saw comparable sales of 2.6%, net restaurant growth of 8.2%, and system-wide sales growth of 9.2%. In April, I spent some time with our Burger King partners in France, which remains a standout market for us and outperformed the industry this past quarter. Our local team and restaurant operators are really talented and very passionate, and we appreciate the work they've done to build such a powerful and relevant brand in France over the past 10 years, building the brand to over 530 locations today with over \$2 billion in annual system-wide sales.

Burger King also saw positive results in markets like Brazil, Japan, Australia, and Mexico. This strength helped to partially offset moderating price trends in many of our Western European markets, challenging consumer dynamics in China, and the conflict in the Middle East. At Popeyes, we're bringing our delicious Louisiana chicken to more markets around the world. Since acquiring Popeyes in March of 2017, the brand has grown from over 500 international restaurants generating roughly \$300 million in annual system sales to nearly 1,300 restaurants today and over \$1 billion in system-wide sales.

To give you a few market examples, in 2019 we brought Popeyes to Spain with one of our existing Burger King partners, RB Iberia, and we now have nearly 140 stores in the market with an attractive runway for further development. In the UK and India, the brand is off to a great start and has already reached roughly 50 restaurants in each market in less than three years with clear paths to accelerate from there. We entered France about a year ago and although we only have 16 stores today, the market offers a lot of potential.

In May I visited our first Popeyes in Lyon and saw how much our beautiful restaurants and high quality food are resonating with our French guests. Most recently New Zealand welcomed its first Popeyes restaurant, which is on track to deliver over \$6 million in annual restaurant sales, making it one of our strongest new country entries to date. I'll be there with Thiago and our international team in a couple of weeks to celebrate their early success and learn about the key ingredients to it.

Not to be outdone though, our Latin America team followed the New Zealand opening by opening in Costa Rica in July. And that restaurant opened to nearly 1,800 transactions on day 1. A big congratulations to our teams and our partners on some remarkable accomplishments with Popeyes and International. While Popeyes is having a lot of early success in many markets around the world, we know it can do so much more. Shifting now to Burger King, which delivered about 18% of our adjusted operating income this quarter. Burger King US comparable sales were relatively flat while total net restaurants declined 2% resulting in a negative 0.8% decline in system-wide sales.

The absolute sales and traffic results at Burger King were clearly softer than we aspire to. But the business continued to outperform Burger QSR sales and traffic. I believe this is in large part due to our responsible approach to everyday value, our focus on meeting the needs of our guests and franchisees, and the impact of our operational improvements starting to shine through. The word value has received a lot of airtime in the past few months. We've been reinforcing Burger King's value proposition, great tasting food at an affordable price for the past few years now, with our distinctive qualities of flame grilling, the Whopper and HAVE IT YOUR WAY.

We brought back another \$5 price pointed item this quarter, the \$5 Your Way Meal and balance it with premium menu innovation like Melts and Now our new Fiery Menu. There's even more we can do to enhance the value we offer. And I believe great operations, digital and re-imaging are just as important to win in the long-term. We're on track to complete nearly 400 remodels this year and bring our system to between 85% to 90% modern image by 2028. We now have 150 Royal Reset remodels open for at least six months, and they are driving uplifts in the mid-teens range, net of control. A number of these stores showcase our new sizzle image, and Sami

and I got to visit a few recently in Atlanta and in Miami with Tom and the team. We're very excited to get more sizzles in our system as we remodel Carrols restaurants and execute our \$300 million Royal Reset 2.0 investment.

It may take time to see the full impact of our Burger King investments flow through. And I'm confident in the brand's path forward, especially given the focus of our multi-year plans and the strong alignment our team has built with our franchisees. I think we'll find that the shorter-term pressures being felt by the QSR industry are masking some pretty incredible changes at Burger King that will deliver long-term rewards.

Turning now to Popeyes which comprises about 10% of our adjusted operating income. Popeyes US grew net restaurants 3.8% and comparable sales 0.6%, resulting in system-wide sales growth of 4%. Top-line results reflect the environment I've discussed, but our wings platform, which recently expanded with the launch of boneless and our big-box value promotions helps lead to overall QSR share growth year-over-year.

Our freshly hand battered and breaded boneless wings are a great way to expand our wings platform to new guests and occasions. While we aren't yet seeing the uplift from wings and attracting new users, we are seeing strong traction from existing guests. Awareness, trial and consideration take time to build. And by continuing to focus on wings with the right promotional and advertising strategy, we are confident there's a lot of runway for us to bring in new guests and take share in one of the fastest-growing chicken categories.

Digital is also an important channel to communicate Popeyes' value to guests and drive traffic. And we saw a 32% growth in digital sales this quarter, reaching a digital sales mix of over 27%. Jeff and team have now converted around 50 kitchens under our Easy to Run model, and we shared initial learnings with franchisees at our convention in New Orleans in May. The simplified kitchens and automated ordering are driving improvements in order accuracy, driver wait times and team member and guest satisfaction.

Franchisees are eager to adopt in their own restaurants, and we are excited to expand to more hub markets like Houston and Central Florida this year. We'll continue to incorporate feedback and provide necessary resources and trainings to optimize this investment before scaling across the entire system. We also expect another solid development year at Popeyes and are focused on delivering high-quality openings with top operators. We are on track to have over 4,000 Popeyes restaurants in the US and Canada by 2028 as we drive average US franchisee profitability closer towards our goal of \$300,000.

Finally, Firehouse Subs, which saw relatively flat comparable sales and increased system-wide sales by 3.3%. Firehouse is becoming more convenient for guests by opening more restaurants and strengthening our digital leadership. Mike and team have added 44 net new restaurants since the second quarter of 2023, and saw over 40% of sales come through digital channels primarily driven by mobile order and pay and attractive digital-only deals.

I'm excited to join the team and our franchisees in [Houston] (ph) later this month to celebrate Firehouse's 30th anniversary at our convention and update franchisees on our long-term plans.

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

Sami Siddiqui

Thanks, Josh, and good morning, everyone. We were pleased to close two significant and highly strategic transactions this quarter; our acquisition of Carrols, which closed on May 16; and our acquisition of Popeyes China, which closed at quarter end.

I want to provide you with a quick update on how those two transactions impact our segment reporting going forward. As I mentioned last quarter, we want to preserve the franchisor dynamics and P&Ls, consistent with how our businesses will be run long-term. And since we plan to rebrand the vast majority of the Carrols restaurants and to find a new partner for our Popeyes China business over time, we will be reporting results of the BK Carrols and Popeyes China restaurants in a separate segment called Restaurant Holdings.

Restaurant Holdings will pay intercompany royalties, rents and advertising fees to their respective franchisor segment, the Burger King and International segments, respectively, which will be eliminated upon consolidation on the face of the P&L. All organic growth rates I'll be discussing today exclude results from the Restaurant Holding segment. For a full primer on how these eliminations map to our segment P&Ls, I would encourage you to visit our Investor Relations website or feel free to reach out to Kendall if you have any questions.

Now turning to our results. For the second quarter, we grew global comparable sales 1.9%. We grew global system-wide sales 5%. We grew organic adjusted operating income 9.3%, and we grew organic adjusted earnings per share 3.1%. AOI growth outpaced system-wide sales growth this quarter for a few reasons. First, our Tim's supply chain business benefited from lower average cost of inventory during the quarter, resulting in organic gross profit dollar growth of roughly \$20 million year-over-year.

Over \$4 million of that increase was related to net bad debt recovery in the current year period. Excluding these recoveries, our supply chain margin would have been just north of 20%, and we continue to expect our full year supply chain margin in the 19% range, as we stated previously. Second, we recorded just over \$6 million of net bad debt recoveries across the entire business compared to \$3 million of net bad debt expenses in Q2 of '23. Our Q2 '24 net recoveries included that Tim Hortons supply chain recovery I just mentioned and also includes \$2 million of net recoveries at Burger King US.

And third and finally, as I discussed on our previous call, we've been working hard to drive operating leverage in our P&L by closely evaluating our cost structure. To that end, segment G&A, excluding Restaurant Holdings of \$158 million was up only 1% year-over-year in Q2. These three factors taken together, supply chain, bad debt recoveries and cost discipline helped drive organic AOI growth of 9.3% for Q2.

Now shifting to EPS. Our adjusted EPS was \$0.86 for the quarter compared to \$0.85 last year, representing an organic increase of 3.1% year-over-year, excluding an FX headwind of \$0.03 per share and a \$0.01 benefit from Restaurant Holdings. Our strong growth in organic AOI was offset by an increase in adjusted income tax expense due to a higher effective tax rate, which had a \$0.06 per share negative impact on earnings, as well as an increase in our adjusted net interest expense of approximately \$18 million year-over-year.

Our adjusted effective tax rate in this quarter was approximately 20% bringing our year-to-date rate to approximately 19%. And the increase in adjusted net interest expense was mainly driven by a higher debt balance following our Carrols transaction. In terms of our capital structure, in June, we saw a good opportunity to reprice our \$5.9 billion term-loan and improve the spread on our interest rate by 50 basis points from SOFR plus 2.25% to SOFR plus 1.75%, which is one of the tightest spreads for a credit of this size and this rating.

In conjunction, we paid down the term loan B from \$5.9 billion to \$4.75 billion, and we issued \$1.2 billion of 6.125% senior notes due in 2029. These successful transactions are expected to drive approximately \$30 million in annualized net interest savings and our leverage neutral. We ended Q2 with available liquidity of approximately \$2.2 billion, including nearly \$950 million of cash on the balance sheet, and our net leverage ratio was 5 times. We continue to anticipate reaching mid 4 times net leverage by the end of this year, pro forma for a full year of Carrols results.

Turning now to free cash flow and our recent investments. During the quarter, we generated over \$290 million in free cash flow. As a reminder, our free cash flow metric does not reflect the benefit of our FX and interest rate hedges which added approximately \$46 million of positive cash flow. We spent \$15 million on Reclaim the Flame investments at Burger King US, of which \$5 million was related to our Fuel the Flame marketing investment. We have \$48 million of our Fuel the Flame marketing investment -- marketing spend left, and we expect to contribute around \$10 million in Q3, with the balance of that \$48 million to be spent in Q4.

As a reminder in Q3 of '23, we did not contribute to the Fuel the Flame marketing investment. And in Q4 of '23, we contributed \$37 million. We returned \$261 million of capital to shareholders this quarter through our dividend, which we declared for Q3 at \$0.58 per common share and unit, with a 2024 target of \$2.32 per share. As Josh touched on this quarter, we also acquired Popeyes China for an enterprise value of \$15 million.

At Tims China, we agreed to invest up to \$30 million via three-year convertible notes, \$20 million of which were issued at closing with the balance to be issued over the coming months, subject to the business meeting certain operational and financial conditions. I'll now provide you with an update on our expectations for 2024, which excludes results from Restaurant Holdings.

As Josh discussed earlier, considering our year-to-date results and current industry trends, we now expect our second half results to be similar to what we saw in Q2, implying system-wide sales growth in the 5.5% to 6% range for the full year. Embedded within that are slightly tempered expectations for net restaurant growth of roughly 4% for the full year, given some of the impacts that we are seeing from macro and geopolitical challenges in a few markets, including China.

Even so, we're very confident we will deliver 8% plus organic adjusted operating income growth this year, consistent with our long-term growth algorithm. My team and I have been working closely with our business leaders to identify cost opportunities while continuing to invest in all the right areas to build sustainable sales and deliver the long-term growth targets we outlined for you in February. As a result, we now expect 2024 segment G&A to be between \$640 million and \$660 million, including equity-based compensation between \$170 million and \$180 million resulting in relatively flat year-over-year growth in G&A.

We continue to expect consolidated 2024 CapEx, tenant inducements and incentives to be roughly \$300 million, though the timing of cash outlays may spill into 2025. And finally, we now anticipate adjusted net interest expense to be between \$565 million and \$575 million, inclusive of the \$750 million of debt raised as part of our Carrols acquisition and the benefits of our June financing transactions.

While 2024 will be a softer system-wide sales growth year than our long-term outlook, our business is incredibly resilient. And our balance of strategic investments and history of cost discipline, allows us to successfully navigate the short-term consumer pressures and not overreact to one or two quarters of softer sales. We have four amazing brands. And I'm pleased with many of the initiatives underway that will help us drive bottom-line growth in 2024 while positioning the business for long-term success.

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

Patrick Doyle

Thank you, Sami and good morning, everyone. We clearly saw softer sales than expected across our businesses in Q2, and it is not yet clear when we'll see the category strengthen. But in watching this quarter play out, I've learned a lot about this team.

While absolute sales weren't what we wanted, we did pretty well on a relative basis. We did that by creating value for our customers and prioritizing our franchisees' profits. That is impressive. The team quickly and efficiently went after costs in our own P&L, and they did it in a manner to protect the investments that are going to grow the business in the medium and long-term.

We are sitting here today with system sales growth lower than we'd expected for our growth algorithm. But as you heard, we still expect to deliver 8% plus adjusted operating income growth for the year. That is also impressive. And maybe most importantly, we've seen the value of building a great working relationship with our franchisees by consistently acting in their best interest. It's allowed us to move quickly when needed as conditions have shifted.

I hear franchisors thank their franchisees regularly on these calls. I'm going to do it now, but hopefully, you are going to understand it isn't in some pro forma way. Our alignment with our franchisees is becoming a real strength of our businesses. We debate things thoroughly, which is how you get to the best answer. But the trust we are building with our franchisees, allows us to move quickly together when needed, and that creates competitive advantage.

So thank you to our franchisees and restaurant owners. Your growing trust in us inspires us to do great work to profitably grow your businesses. We exist to serve our guests, and we know that their purchase habits are affected by a lot of macro factors, and it is our job to adapt. But clearly, we have opportunities to position ourselves to perform even better in all environments and take share no matter the category conditions. We need to continue to provide guests the best quality food and beverages in each of our categories and to innovate to meet our guest needs.

We need to continue to improve operations across the Board. This is something we can never take for granted, even at a brand like Tim, which is already executing at a stunning level. We need to bring Burger King to modern image, and we need to make ourselves more convenient at Popeyes and Firehouse and for all our brands around the world. The great thing is that each of our teams has strong long-term plans in place to do just this, and I'm confident in their ability to execute. I've been around this business long enough to know that you are going to have bumps. But you don't know the quality of the team and the franchisees until you see them operate through a bump. Having now seen them operate in a tougher environment, I'm impressed.

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

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] Our first question comes from Brian Bittner from Oppenheimer. Brian, your line is now open.

Brian Bittner

Good morning. Thank you. I just have a clarification for Sami and then a follow-up question for Josh and Patrick. Sami, you said on the outlook that you expect to be -- this year to be an algorithm year for operating profit despite system sales being a little light. Is this being partially driven by the inclusion of the incremental profits from the Restaurant Holdings segment? Or are you expecting to achieve algorithmic profit growth regardless of those acquired stores?

And for Josh or Patrick, just as it relates to unit growth, you anticipate to drive unit growth of roughly 4% across the enterprise in 2024. Can you update us on how you are anticipating unit growth to evolve after 2024 into 2025? If you do anticipate any acceleration, can you remind us of the building blocks that drive this? Thanks guys.

Sami Siddiqui

All right, Brian. Good morning. Thanks for the question. So just to clarify, when I was speaking to the algorithm and the forward-looking guidance, we were very clear that it does not include Restaurant Holdings. So it is -- the business kind of pre -- the Carrols transaction. And just to reiterate, for the full year we're expecting 8%-plus organic, adjusted operating income growth, which excludes Carrols.

Joshua Kobza

Great. And Brian, I'll take the second one on unit growth. So there is a number of things that we are working on to drive improvement in unit growth over time, and I'll talk through each of those. First of all, we have seen an improvement in our -- the trajectory of our Burger King US business. And we hope to see even further improvement in the unit trajectory of that business as we go into 2025.

We're also making progress at Firehouse. I mentioned a bunch of times that Mike has been doing some great work, building up a development pipeline in the US and in Canada as well to improve the pace of growth there. So I am hopeful that we'll see some good improvement here in 2024 and build upon that as we go into 2025. I also think we can see some improvement at Tim Hortons in Canada and the US. We've talked about the opportunities in both of those geographies, but we are looking at opportunities to grow the store base in Canada. As we've referenced a little bit in the past, the population is growing here, and that creates opportunities. And there is still some provinces where we are relatively underpenetrated.

So we're looking at some opportunities in Canada. And we are also making some good progress in the US. So Katerina and her team are building development pipelines, both in some of our existing markets in the northern parts of the US. But we are also opening more restaurants in the southern part of the US. So you've seen us in Texas and Georgia, and we have plans to open up in a number of additional geographies later in this year and building upon that into 2025.

On top of that, there is a lot we are working on in our international markets. I referenced a few of the really exciting developments that we've seen, especially at Popeyes, I would say. And we've got some big markets that are starting to get to relevant scale. Places that I mentioned like Spain, the UK, India, those are starting to ramp up their development pace, but we're opening some new markets as well.

And I would say the results of those new markets have been really encouraging. So all that are kind of the projects that we're working on for 2025. On top of that, we are trying to make more progress in China. You saw us take a few important steps there in this quarter. We are setting ourselves up for, I think better results in the future, especially for Popeyes and Tim Hortons as we get into 2025, though we obviously have work to do on our business there still. So I don't think we own the solution to everything there, but I think we are making some good progress across a lot of our international markets. So those are some of the building blocks we are working on. A lot of stuff going on. And I think a lot of ways to accelerate growth from where we're at today.

Brian Bittner

Thanks for the clarification Sami and thanks for the answer Josh, appreciate it.

Operator

Thank you. Our next question comes from David Palmer from Evercore ISI. David your line is now open.

David Palmer

Hi, good morning. Love to just explore what you are thinking about in terms of gives and takes on the same-store sales in the second half of the year. I think you are more or less saying that comps globally blended will be something like 2% in the second half, based on your commentary on things being roughly similar to the second quarter.

I think there is concern out there that the industry trends are getting softer into the third quarter, and the competitive discounting is intensifying. So maybe could you talk about gives and takes among your brands and regions? And maybe what gives you confidence you can at least be somewhat stable into the second half? Thanks.

Sami Siddiqui

Hi, David, it's Sami. Good morning. Thanks for the question. So the way you are framing it is correct. We expect the second half of the year comp to be consistent with what we saw in Q2. That was roughly 2% as you look at Q2 same-store sales. We are not going to get into the specifics of the business units and the segments around the world. There will be puts and takes as you think about kind of how big our business is and where we -- how diversified we are. But I think we expect kind of -- I think, broadly speaking, the environment to continue to be the same as we compare H2 to the second quarter.

And for the full year, that is what kind of gives us confidence around the guidance of 5.5% to 6% system-wide sales growth and 8% plus adjusted operating income growth.

Patrick Doyle

And the one thing -- it is Patrick. The one thing I would add to that is as you think about value and you suggested kind of heavier value positioning from the category. Look, overall I mean if you look at our two biggest businesses, Tims continues to do just exceptionally well in Canada. The Canadian market is no easier right now than the US from an overall perspective. It's just outperformance by Axel and the team. We are taking share. We are just hitting on all cylinders up here.

If you look at the burger category and Burger King in the US, we feel really good about the different value levers that we have in the US. They are levers that we've been pulling for a while. And frankly, the fact that there are others out there that are advertising around \$5 on meals is probably overall a positive because it is getting consumers to understand that there is good value in the category overall. That is a positive. We need to not only be focused ourselves on seeing if we can take share, but we also need the category to be healthy. And the fact that there is a lot of messaging out there right now around that \$5 price point, I think is overall a positive for the category. So we feel pretty good about where we are, but we are taking actions on the business, as if this is going to continue for at least another quarter or two, through the end of the year.

We've gone after the cost side of the business to make sure that we are protecting that 8%-plus algorithm that we have talked about is our long-term growth algorithm for the bottom-line on operating income. And we are going to do that in an environment where we are probably going to be a couple of points short of our system-wide sales long-term growth algorithm that we said we would hit on average over time. Unfortunately, this first year, it looks like we may be a little short on that. But we're protecting the bottom line. We're going to deliver really good operating income growth. I'm proud of the team. I mean they've gotten after it. And I think on an overall basis, we are doing a really nice job of doing a bit better than the industry overall.

Operator

Thank you. Our next question comes from John Ivankoe from JPMorgan. John your line is now open.

John Ivankoe

Very much. First, since it's been a focus on the call, the G&A and cost containment in fiscal '24, does that represent a new base to grow off of in '25, or might it actually present some difficult comparisons from a profit growth perspective, 2025 over 2024? There may be some catch-up expenses is the first question. And secondly, you mentioned economic, geopolitical situation which obviously has been deeper for longer than certainly any of us would have hoped and I think expected.

As a number of your franchisees do asset reviews on a trade area by trade area basis, might there be an uptick in closures as we kind of go into '25 at this point? Or are these 20-year types of investments where your franchisees are willing, able to kind of withstand a bad year or a slow year in terms of impacted markets and basically just wait the storm or war as you want to call it out? Thank you.

Sami Siddiqui

Great. Thanks, John, for the question. I'll take the first one and then I'll throw it over to Josh. Specifically on the G&A, it is a great question. I think broadly speaking, as you look at where our guidance has come down and gotten better as the year has progressed on G&A. That's really driven by three factors, and roughly 1/3, 1/3, 1/3. I think the first one was something we commented on Q1 was there were some personnel and senior level changes earlier this year that are flowing through the P&L. And as you think about the recurring nature of those, that is a new baseline. So those are permanent.

I think as you look at the second bucket, you look at as where the year is sort of headed, our incentive-based compensation structure for this year will be slightly down because our algorithm - our full year numbers have -- outlook have sort of changed. So you will see that also reflected in the numbers. Now I would argue that, that is not a permanent change. As you think about incentive-based compensation, we typically go into every year assuming that we'll hit our targets, and we'll pay out on those targets. This year is a little light on that, which is why the incentive-based comp has come down a little bit.

And then the third bucket that we have alluded to as well is really kind of broadly just cost discipline measures that we are implementing across the business. So we've slowed the pace of hiring a little bit. We've been really disciplined about where we invest our resources without compromising some of the really big investments that we are making in our brands like Burger King. And I think that is a new baseline. We will continue to see those investments and those decisions really flow through the P&L. And so I'd say, as you look at the allocation of G&A, I think two of the three buckets are a new baseline for the business. So hopefully, that helps.

Joshua Kobza

Great. And then I'll take the second part. And we have seen some of the geopolitical impacts last a little bit longer than I think many of us expected. What we are seeing so far at least is probably just some marginal slowdown in some of the opening pace in some of the impacted markets. And that's part of what's reflected in that NRG outlook that we had at -- moving from 4.5% to 4%.

John Ivankoe

Okay. Thank you.

Operator

Thank you. Our next question comes from Lauren Silberman from Deutsche Bank. Lauren, your line is now open.

Lauren Silberman

Thank you very much. I wanted to ask about Tim's and solid trends during the quarter. Any color you can give on cadence of what you saw, how you're thinking about the outlook? Really just talk a bit more on what you're seeing with the consumer in Canada specifically. Thank you very much.

Joshua Kobza

Hi, Lauren, it's Josh. I'll take that one. As you mentioned, I think Tim's performance has really been remarkable. Even in a somewhat challenging consumer environment, they're outperforming the industry by a wide margin. And they've been doing it consistently for a long time. And like I said, I think that's really a credit to Axel and the rest of the Tims' team and our restaurant owners. I think they are getting all the basics right, and they are building their business and I think really taken the industry forward in a lot of the new categories.

We've been putting into PM food for a while and cold beverages. And we've done that consistently with a number of new platforms, the latest of which was our Flatbread Pizzas that we launched in April. I think the progress there has been really encouraging. We actually -- we just realized recently, we broke the 10%, really around the 10% threshold in PM food. And so I think we are making a lot of progress there. It's kind of a big milestone we wanted to get to. And we want to build much beyond that. And I think as I look at the pipeline that Axel and the team have here for building that PM food and cold beverage business forward over the next couple of years, I'm really excited, and I think they're going to continue to grow this business really well.

Operator

Thank you. Our next question comes from Dennis Geiger from UBS. Dennis your line is now open.

Dennis Geiger

Great. Thanks guys. I just wanted to ask a little bit more on the Burger King investments in the US, and maybe specifically on the reimage program. Just kind of the latest and greatest there on thoughts, how that rollout is going, what you guys are seeing and kind of confidence in the plans going forward and what that can do for the business overall? Thank you.

Joshua Kobza

Yes, Dennis, it's Josh. Thanks for the question. We've seen continued progress, I'd say, on a few different fronts. We're seeing an increase in the pace of remodels. And I mentioned that a little bit earlier. We expect to do about 400 this year, which will be fantastic. And as the sample size has grown, we're continuing to see really great results from those reimages. So we are still around sort of the mid-teens uplift. That's tremendous. That's a great result. And I think it speaks to the quality of the projects that we are doing and execution of those projects.

We've been around to visit an awful lot of them. And especially, we are trying to visit as many Sizzles as we can. And I've got to tell you, I think it is a – it is getting better and better every time we do a new one. And some of the customer reactions we've seen have been incredible.

So I think there's building excitement for the Sizzle image. And as we transition to doing more of those this year and especially into next year, I think it is really going to transform the image of the Burger King brand in the US, and help to modernize it and elevate it. So I think we are seeing good returns. We're seeing good progress on getting the remodels done and good progress towards moving to our new modern image. So I'm really happy with it so far, and I think the team is doing a great job.

Dennis Geiger

Great. Thanks Josh.

Operator

Thank you. Our next question comes from Andrew Charles from TD Cowen. Andrew your line is now open.

Andrew Charles

Great. Thanks. You talked about how the long-term guidance framework for 5% plus net restaurant growth still hold through 2028. So 2024, of course has tempered to around 4%. Can you help bridge, though from how you get to 4% unit growth in '24 to 5% in 2025? I recognize, obviously, the China investment will help. That's probably only a piece of it. If something else has probably needed to help you accelerate that cadence of openings back to 5%. Thanks.

Joshua Kobza

Yes, Andrew. So as I mentioned a little bit earlier, there is a lot of things we are working on, frankly across all of the business units. I think we've got a lot of opportunities. We've got to go out and realize all those opportunities. And each of them can be a material building block towards getting - towards that long-term algorithm. I think the math is pretty simple. A point is about 300 restaurants. And so that's not so far.

We are not so far off of that level. And I think if we can make progress on a decent number of the things that I laid out a little bit earlier, we've got -- we have confidence that we are going to get back to where we need to be to hit that guidance over the long term.

Operator

Thank you. Our next question comes from Danilo Gargiulo from AB Bernstein. Your line is now open.

Danilo Gargiulo

Great. Thank you. Can you please highlight how Burger King is going to be approaching value going forward? Specifically, some peers have talked about another national platform. So what is it reasonable to expect from Burger King?

And then can you maybe also help us understand the impact on traffic and comps of \$5 meal deal? And how you were able to make it profitable for your franchisees? Thank you.

Joshua Kobza

Yes, Danilo I would say a couple on Burger King's value approach, which we are really happy with overall. It is not something new. We've had value in our business, and we've had compelling value offerings, both the \$5 price point and elsewhere for some amount of time. We've had our \$5 Whopper Jr. Duo is out there. We've had the \$5 Your Way Meal, couple of times, and we have some great offers, both in printed and digital format. And I would say as we look at the business and as we talk to some of our biggest operators, I'd say our feel is that we've got the value offering just right. We are not trying to change anything. We think it is working for the business. We can see it is really compelling to consumers and what they're looking for in business today. And we see that in the incidence of all of those offers, which they've been received really well.

But importantly, they're also profitable for our franchisees. They have a reasonable gross profit margin. And so our -- I think our franchisee base, our operators, and we're a big owner of restaurants too, we think it is exactly the right balance for the business. Just to give a little bit more color on that. We -- Tom and the team just assigned it together with the franchisees that we're going to extend that \$5 Your Way Meal now into October because we feel like it is working perfectly for the business, and we think customers are loving it.

So we're going to keep that going because we think we have the right balance. So I think we've got the right things going on. We're happy with how it's performing in the business. And that's kind of what's embedded in our outlook for the rest of the year.

Sami Siddiqui

Hi, Danilo I'll just add that as you know, we launched the \$5 Your Way Meal in early June. And we're seeing some really interesting stats so far early on. We are seeing it over-index with the lower- and middle-income consumers, which was really the intended purpose. We are also seeing it over-index with women, and we're seeing the average check is over \$10. And so I think as you look at the \$5 Your Way Meal and you also look at it in conjunction with the \$5 Whopper Jr. Duo, we really have a comprehensive value strategy plus wraps at \$2.99 that really is able to speak to all of our guests in a comprehensive way that delivers value in a profitable way for our franchisees.

Danilo Gargiulo

Great. Thank you.

Operator

Thank you. Our next question comes from Sara Senatore from Bank of America. Sara your line is now open.

Katherine Griffin

Hi, thank you. This is Katherine on for Sara. Thanks for the questions. First, I just wanted to ask about the -- some of the pressure that you are seeing in the demand and competitive environment. Will this change how you are thinking about the trajectory of the franchisee cash flow targets that you've previously outlined?

Patrick Doyle

No. We're feeling good about it. And franchisee profitability is absolutely top of mind. And we want to continue making improvements there and our -- but no, it doesn't change a thing.

Katherine Griffin

Okay. Thanks. And then second question, just on the -- some of the investments in Tims China. I think given some of the pretty persistent challenges in that market, have you considered pausing or maybe rethinking some of the growth target in that market rather than reinvesting in the business in order to sustain growth there?

Joshua Kobza

Katherine, so my point of view on this, I think that we absolutely believe in the long-term potential of the coffee market in China. We recognize it is very competitive right now. I think that's a reflection of the size of the opportunity. But I think the business – any of those businesses that is going to be competitive in China, you've got to get to critical mass. You've got to get to large scale to be competitive. So I think it is really important over the medium to long-term that we pursue a pretty aggressive growth path there. At the same time, we are working on making sure that we are operating the business in a really profitable way. So the team at Tims in China has taken a lot of actions to improve the profitability of the business, the profitability of the restaurant base. And I think we are seeing some good progress now.

We've come a long way in the first six months, seven months of the year. And that is encouraging to us, in terms of how the business is performing, but it also gives more confidence to want to see that business grow aggressively over time.

Katherine Griffin

Thank you.

Operator

Thank you. Our next question comes from Jeffrey Bernstein from Barclays. Jeffrey your line is now open.

Pratik Patel

Hi, good morning. This is Pratik on for Jeff. Thanks for taking my question. Sami, it seems like the balance sheet even after the acquisitions and investments in Tims China, et cetera, is in pretty good shape with a sizable cash balance. And I believe the release mentioned that you're within your target leverage ratio around 5 times. Just how should we think about cash usage going forward? It seems like the shares are at a pretty attractive value right now. And I just want to get your thoughts on potential share repurchase going forward. Thank you.

Sami Siddiqui

Hi, Pratik, thanks for the question. And yes, we similarly feel very strong about the position we are in and the balance sheet -- the position of the balance sheet. I think it is really a testament to the business model. It's a resilient business model that generates really high free cash flow, which allows us to do a couple of things.

I think number one, and first and foremost, we are going to continue to invest in our own business as you've seen with the Burger King Reclaim the Flame plan, as you've seen really with the Carrols acquisition, which was really an investment in the Burger King US business. And I think it is really important that we continue to do that with the right discipline measures in place. I think number two, we're committed to our dividend and having a healthy payout ratio. And so as we think about capital allocation, the dividend has been a big part of our strategy for a while now and will continue to be a big part of our capital allocation going forward.

And then as you sort of start thinking about share buybacks to your question and you sort of measure it against deleveraging, I think it is hard to see sort of an absolute. But I'd say our preference at the moment is really to focus on deleveraging. We've been very clear that we want to hit the mid 4 times leverage range by the end of this year. And we remain committed to that. And so we will continue to always be nimble, but I think deleveraging is our priority on the balance right now.

Pratik Patel

Got it. Thanks I appreciate that.

Operator

Thank you. Our next question comes from Jon Tower from Citi. Jon, your line is now open.

Jon Tower

Great. Thanks for taking my question. Just I guess a follow-up on the China business, maybe not the Tim Horton side, but the PLK as well as the Burger King business. I'm just curious, with the investment in PLK, should we expect any strategic shifts in that market specifically around that brand? And then can you give us an update on the Burger King China business? And I know that, that's been a source of slower growth for the overall company. Have you made any progress in shoring up growth going forward from a unit growth perspective over there?

Joshua Kobza

Hi, Jon, it's Josh. Thanks for the questions. I'll take each of those. So in Popeyes, we were really encouraged by how the brand was received initially. And I would say the shift is just for us to take it on and make sure it has the capital and the support it needs to realize its full potential. So I'd say not a big like brand positioning or strategy shift there. I think we'll just be working on building up the team and then building up the development pipeline to make sure that we start growing that at the pace that we think makes sense. So that's the game plan there.

We'll -- and we're planning to do that ourselves for a while, and then we'll start working on finding the right long-term local partner there over the next couple of years.

And in terms of Burger King in China, it has been a challenging environment. So the business has been a bit challenged there. We don't have anything new to share. That one is more of a work in progress. Happy that we made some progress on Tims and Popeyes, and we are still working on Burger King.

Jon Tower

Got it. Thank you.

Operator

Thank you. Our next question comes from Eric Gonzalez from KeyBanc Capital Markets. Eric, your line is now open.

Unidentified Analyst

Hi, good morning. This is Chris on for Eric. So maybe following up on the prior franchisee profitability question. Can you provide an update, at least at a high level on some of the puts and takes around BK domestic franchisee profitability today? I know you'll provide specific details once the year closes, but any updates on progress against last year's \$205,000 average four-wall EBITDA in the context of some of the consumer and operating dynamics today, including focus on value, commodity and labor cost trends or anything else that's relevant? Thank you.

Sami Siddiqui

Hi, Chris, I can take the first -- or second part of that question regarding sort of some of the costs we're seeing in the business. You've obviously seen the reported sales that we're seeing at the Burger King business. And really roughly flat for the quarter on the top-line. As you think of sort of some of the commodity impacts, we haven't seen a whole -- a ton of impact in terms of commodity inflation from beef, which has been widely reported on, I think earlier this year. We do expect in the second half of the year to see some beef inflation.

And so I think if you think about the Burger King commodity basket for the full year, we'll see low single-digit commodity inflation in that range primarily driven by beef. There are some other items that are also impacting that. And then on the labor side, I think nothing dissimilar from what we're seeing across the rest of the industry. Also low single-digit inflation on the labor side. So those are probably the cost elements. I don't know Josh, if you have anything to add on the top-line?

Joshua Kobza

No, I think as you mentioned, we'll share the update at the end of the year. I'd say overall, BK US franchise profitability has been sort of stable to improving. And so that's what we're seeing so far, and we'll give specific numbers when we get to the year-end.

Unidentified Analyst

Okay. Thanks so much.

Operator

Thank you. Our next question comes from Gregory Francfort from Guggenheim Securities. Gregory, your line is now open.

Gregory Francfort

Hi, thank you guys for the question. My question is just -- there's been a lot of talk about the US consumer. You guys are performing pretty well at Tims Canada. And I'm just wondering if you could kind of compare and contrast what you're seeing in the US and what you're seeing in Canada. And then I think your biggest competitor up there about four weeks ago put out a dollar level entry price point for coffee. Do you feel like you have value in the right spot up there? Do you feel like you have to make any changes? Just any thoughts on kind of the menu construct and the pricing construct. Thanks.

Joshua Kobza

Yes, Greg, I'll take this one. There has been some consumer softness in Canada. There are a little bit different dynamics. I'd say, inflation has softened in Canada up there a bit, but there is a little bit more unemployment up here. So some -- a little bit of nuance there. And I think probably the biggest difference is just Tim is doing a great job outperforming the market even in a difficult market. And that's been the case for a while now, and it is certainly been the case in the year-to-date and in the second quarter.

In terms of value offerings, two thoughts on this one. One, I think the Tims business, what it does so well is provide incredible everyday value. You see that in our menu prices, but we also hear it back from guests. And any of our brand surveys, we're Number One in value for money. So I think we've been really disciplined in our everyday pricing, which has been paying really good dividends though we also do have value mechanisms from time to time up here. Right now, we have a \$3 breakfast sandwich with the purchase of any coffee. I had that this morning for breakfast, which was great. And that's all been really effective and is great for the business, and guests are really enjoying that. So I think we're pretty well positioned up here and you kind of see that in the results.

Sami Siddiqui

And the one thing I would add to that is that what's generating growth at Tims in Canada is just relentless improvement across the business. What builds a great restaurant business is continually improving your food, improving your service, making your restaurants look great, having a great relationship with terrific, motivated franchisees focusing on success for them and for us. And we're seeing that with Tims. And it is frankly the template for success everywhere for us if we continue to give better service, deliver better food. The price part is an element of that, but it is not the only thing. And frankly, it is less important than most of the other things, which is continually giving a better experience to your customers.

And that's the lesson from the success that Tims is having in Canada and their outperformance versus the industry, and frankly their great absolute performance given the overall economy in Canada right now. And it is the model for how we grow Burger King in all of our businesses.

Gregory Francfort

Thank you both.

Operator

Thank you. Our last question comes from Christine Cho from Goldman Sachs. Christine, your line is now open.

Christine Cho

Thank you. So I think the previous question provides a good segue, but I think how do you think about kind of the value messaging in other international markets? And how do you make sure that these kind of local strategies align with the brand equity and core strategies that you have here? Any color would be great. Thank you.

Joshua Kobza

Yeah. Christine, it is Josh. It's a great question. And I think it is something that we talked about a lot is the value -- great value proposition is one important part of the business, and it is important all over. And you've seen us in a lot of our international markets as well bring through compelling value. And that can mean a little bit -- something a little bit different in each market. What exactly we focus on, whether it is a meal or two-burgers for a fixed price. That can be a little bit local. But wherever we've had really great value for our customers, everyday value and promotions, those are the things that I think are really resonating with guests in the US and Canada and in a large number of our international markets.

So it is something that we're focused on and our -- all of our international teams try to work with the local master franchisees to make sure that we've got the right balance of that in each of our markets.

Operator

Thank you. We have no further questions on the line. I will now pass back to Josh for closing remarks.

Joshua Kobza

Great. Well, thanks, everybody for joining us today. We really appreciate the time and the great questions. We look forward to chatting again. We'll update you here in a few months with our Q3 earnings. Have a good day.

Operator

Ladies and gentlemen, this concludes today's call. Thank you for joining. You may now disconnect your lines.

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