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Q3: 2024-11-05 Earnings Summary

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EPS of \$0.93 **misses by \$0.02** | Revenue of \$2.29B (24.71% Y/Y) **misses by \$63.84M**

Call Start: 8:45 January 1, 0000 9:49 AM ET

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

Q3 2024 Earnings Call Transcript

Nov 5, 2024 8:45 AM ET

Company Participants

Kendall Peck - Head of Investor Relations

Josh Kobza - Chief Executive Officer

Sami Siddiqui - Chief Financial Officer

Patrick Doyle - Executive Chairman

Conference Call Participants

Brian Bittner - Oppenheimer & Co

John Ivankoe - JPMorgan

Dennis Geiger - UBS

David Palmer - Evercore ISI

Gregory Francfort - Guggenheim

Lauren Silberman - Deutsche Bank

Danilo Gargiulo - AB Bernstein

Sara Senatore - Bank of America

Jon Tower - Citi

Christine Cho - Goldman Sachs

Operator

Good morning and welcome to the Restaurant Brands International Third 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, Barry. Good morning, everyone, and welcome to Restaurant Brands International's Earnings Conference Call for the Third Quarter Ended September 30, 2024. As a reminder, a live webcast 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, and our acquisition of Popeyes China, which closed on June 28, 2024, we introduced a sixth reportable segment, Restaurant Holdings. This segment includes results from operations of Popeyes China and the Burger King restaurants acquired as part of the Carrols acquisition.

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.

Josh Kobza

Thanks Kendall, and good morning, everyone. Thank you for joining us today. Our teams and franchisee are doing a nice job, navigating difficult macro and competitive environment in the US, Canada and many of international markets. The brands winning today are consistently executing the fundamentals. They are serving fresh, delicious food and beverages in modern restaurants and providing excellent value to every guest on every occasion. We see the power of great fundamentals and great value in our own businesses, including Tim Hortons and our international division, which drove nearly 70% of our adjusted operating income. Tim Hortons, for example, remains number one value for money in Canada and is one of the only major QSR brands in the market with positive traffic growth in the year-to-date. And our international business continues to outperform many of our largest global peers. Our goal is for all of our businesses to provide compelling value to guests the right way, with quality products, exceptional service and unmatched convenience. If we can do this, we'll outperform the competition and deliver sustainable growth for our franchisees and our shareholders.

Turning now to our results, comparable sales were relatively flat, up 0.3% year-over-year, and net restaurants grew 3.8%, which translated into system-wide sales growth of 3.2%. Our cost discipline helped offset softer system-wide sales growth, resulting in organic adjusted operating income growth of 6.1%. We've been encouraged to see the business accelerate in October, with consolidated comparable sales of low single digits, led by improvements in International, Burger King and Popeyes. With only two months remaining in 2024 and year-to-date system-wide sales growth of 5.3%, we believe full year system-wide sales growth will come in slightly below the expectations we laid out for you in August.

That said, our year-to-date organic adjusted operating income growth is over 7.5%, and the great work Sami and Tim are doing is keeping us on track to exceed 8% AOI growth for the full year 2024. I'll take a few minutes to walk through the performance of each of our business segments, starting with the largest contributor to AOI, Tim Hortons. Tims drawn 43% of AOI. An excellent team continued to demonstrate the power of having high-quality food and beverages at a great everyday price, excellent restaurant-level execution, unrivaled convenience and dedicated restaurant owners. Tims in Canada delivered a 2.7% increase in comparable sales, primarily driven by traffic growth. While we continue to see a softer consumer environment impact the broader QSR industry in Canada, Tims number one restaurant brand love and number one value positioning allow us to maintain our leading market share in coffee, baked goods and breakfast sandwiches and wraps. Morning daypart sales grew in line with overall sales, anchored by mid-single digit growth in breakfast sandwiches and wraps. We offered a hot breakfast sandwich for \$3 with any size coffee purchase, which delivers great value for Canadians and was incremental to both traffic and gross profits for our restaurant owners.

We continue to make progress in our PM food journey with our loaded Anytime Snacker and flatbread pizza platforms, and grew PM main food sales 5.2% year-over-year. Flatbread pizzas are giving Canadians another reason to visit their local Tims, boosting restaurant traffic during historically slower dayparts and driving higher average check. We've seen nearly 70% of flatbread pizza sales occur after 2 p.m. or on weekends, and the platform is generating 2.5x higher average checks than non-flatbread tickets. We're balancing PM food extensions with a strong beverage lineup as well. Cold beverage sales represented 43% of total beverage sales this quarter, with some weeks reaching 50%. This is remarkable for a brand that is loved for its hot brewed coffee. We continue to innovate around our cold brew and ice cap offerings to bring Canadians fresh and exciting new options. Following the success of our tiramisu innovation, we introduced the Nutella collaboration, which contributed to a 7% year-over-year increase in cold beverage sales this quarter. An important driver of our performance, in addition to our strong marketing calendar, is strong operations. Matt Moore, his team, and our restaurant owners delivered another quarter of year-over-year improvements in drive-through speed of service. It is truly impressive to visit a drive-through in Canada on a weekday morning and watch the car stack move so quickly.

Our ongoing improvements and operations, coupled with our marketing initiatives, remain a consistent driver of traffic growth, and I'm proud to see the dedication of our Tims team and restaurant owners driving positive sales growth and industry outperformance.

Moving now to the International segment, which drives 25% of our adjusted operating income. We saw comparable sales in international grow 1.8%, with net restaurant growth of 7.6% and system-wide sales growth of 8.0%. While a bit slower than earlier in the year, our results were nicely ahead of some of our largest global peers and reflect some great work from our partners around the world. Burger King remains the largest driver of our international business and grew in key markets like Australia, Spain, Korea, the UK, and Japan, each of which accelerated from Q2. This helped offset softer results in France and continued pressures from the difficult operating environment in China and the conflict in the Middle East. I recently joined Thiago, Tom, and about 20 of our country-level Burger King leaders, capturing over 80% of the brand's global system-wide sales for a CEO Summit in Italy. It was a very engaging and interactive forum for our top CEOs to connect and share marketing, development, franchising, and operations best practices.

It's clear that while Burger King is already established around the world, we still have a long runway for growth and tons of appetite from our master franchisees to deliver the best burger in each of their markets. While overall development in 2024 is going to be a below or long-term target of 5%, which Sami will address in a bit, I want to give some perspective on where our international net restaurant growth will come from in the years ahead. There is so much opportunity to capture, and one of the best examples is Japan, which I visited two weeks ago. Our performance has improved dramatically in Japan over the past few years, and we are now the clear winner for best burgers in the market. I tried some amazing local Whopper innovations there, and it's clear why they are doing so well. We now have almost 250 locations in Japan, with enormous runway, and are growing between 40 and 50 locations per year. We are also working to accelerate development in many of our Popeyes markets, and Popeyes UK is a fantastic example. We recently spent time with Tom Crowley and his team in the UK, and tried some of the best Popeyes chicken I have eaten anywhere in the world.

They are operating beautiful, modern restaurants with exceptional service and are generating great sales and returns. Popeyes UK already has over 55 restaurants in just three years, and drives over \$130 million in system-wide sales on a trailing 12-month basis. They have a lot of room to grow. And then there is China, where you have seen us take meaningful steps on Tim Hortons and Popeyes this year. We're also actively working to find the right long-term path for Burger King. We know the consumer is momentarily pressured in China, but we are positive on the mid and long-term opportunity for each of our brands in the market.

Turning now to Burger King in the US and Canada. Burger King US comparable sales were down 0.4%, and net restaurants declined by 1.6%, resulting in a 1.5% decline in system-wide sales. Sales were softer than we'd like this quarter, and were impacted by a tough consumer environment over the summer. Our calendar initiatives, including Fiery, were unable to cut through all the value messages in the market, and were less impactful than our Royal Crispy Chicken Wraps launch in the prior year. As a result, we saw our gap versus the industry take a slight step back beginning in August, after several quarters where we'd been outperforming Burger QSR peers. As we've moved into October, performance has shifted, particularly with the great success of our Addams Family Meal, including Wednesday's Whopper, and helped us return to same-store sales outperformance relative to the burger QSR industry again.

Taking a step back, there's a lot going well at Burger King and it's clear the business is in a much healthier place today than when we launched Reclaim the Flame in September of 2022. At convention last week, Tom and team updated franchisees on the important foundational progress we've made over the past two years that is setting us up for long-term success. We have a new discipline in operations that our franchisees have embraced in our executing, which has driven notable improvements in operations. Our focus on quality remodels is paying off with mid-teens uplifts, net of control and even better improvements in franchisee profitability. We're on track to accelerate our pace of remodels and move towards our goal of 85% to 90% modern image by the end of 2028. Accelerating the modern image of our system is one of the primary motives behind our acquisition of Carrols, aside from creating new franchise opportunities for existing and new operators when we move to refranchise those restaurants over the next few years.

Furthermore, our \$120 million investment into the ad fund allowed us to break a difficult cycle, significantly increase our share of voice, start regaining the market share and drive a positive trailing 12-month same-store traffic gap versus the industry for the first time in a very long time. The enhancements our digital team has made to our app and delivery capabilities are also driving strong growth in digital sales, which now represent nearly 20% of total sales, up from around 10% in Q3 of 2022. As you know, our ultimate scorecard is franchisee profitability. We're in a completely different and better place than where we were two years ago. We said on this call two years ago that our goal was to reach \$175,000 of four-wall EBITDA by the end of this year. We achieved far more than that, reaching \$205,000 by the end of last year. We expect average franchisee profitability to be flattish to slightly up for 2024, a pretty great result considering the labor, commodity and top line sales pressures facing the industry this year.

And we have our sight set on reaching \$230,000 by the end of 2026 with a longer term commitment to drive the system to \$300,000 in four-wall EBITDA. Tom and team delivered a powerful message at convention, underpinned by incredible progress over the past couple of years. Our time together at convention really highlighted the optimism, excitement, and confidence the franchisees share in Tom and his team's leadership to take us forward to great success.

Turning now to Popeyes. Popeyes U.S. grew net restaurants by 3.6%, while comparable sales declined 3.8%, resulting in a system-wide sales decrease of 0.8%. In a more value-sensitive environment this quarter, Popeyes' calendar was missing some of the offers consumers were looking for, and this resulted in softer comps. Since September, we've reoriented our marketing strategy to better align with the needs of consumers today, while reminding guests what makes Popeyes so special, our delicious, freshly hand-battered, and fried chicken. We know we need to provide better value, which we can deliver through better price points and a better experience. As an initial step, Jeff and his team introduced three pieces of chicken for \$5 in mid-September, and followed it in early October with a \$6 big box, leveraging a strong existing brand asset. We're already seeing both offerings drive traffic and sales improvements.

Moving beyond the short term, we know that Popeyes has to provide a better experience, and that will come from more consistent operations. Easy-to-run kitchens are one part of a multi-year opportunity to improve operations and enhance the guest experience. We've identified easier and faster ways to install the upgrades, and we'll continue to incorporate feedback to optimize this investment before scaling it across the U.S. system. We also need to make Popeyes easier to access, and we're exploring new formats to infill in key markets and improve build costs. In the meantime, we continue to enhance our digital capabilities and drive strong growth in digital sales, which were up 21% year-over-year and reached 28% of total sales.

I'll wrap up my comments with Firehouse Subs in the US and Canada. The team and our franchisees have done a good job navigating a difficult environment. While unable to offset industry headwinds this quarter, we did bring back a Firehouse fan and a personal favorite of mine, the Hot Sauce Bar, in mid-September. This is an incredibly unique and perfect brand fit for Firehouse, pairing 13 hot and flavorful sauce options with our hot subs. Overall, Firehouse sauce system-wide sales decreased 1.3%, driven by a comparable sales decline of 4.8%, partially offset by net restaurant growth of 3.9%. Mike and team have been hard at work on new unit development and added 49 net new restaurants since Q3 of 2023. That's nearly 60% more than where we were this time last year, and we're on track to further accelerate development in 2025 with a strong pipeline of new and existing franchisees.

In August, I spent time with many of our franchisees in Austin, Texas, celebrating the brand's 30th anniversary. There is a ton of excitement and energy in the system that will allow us to keep opening new restaurants and introducing our delicious hot subs to more and more guests throughout North America. With that, I'll pass it to Sami to walk you through our financial results for the quarter. Sami?

Sami Siddiqui

Thanks, Josh, and good morning, everyone. Our results this quarter highlight the stability and strength of our businesses and our team's ability to navigate a tougher consumer backdrop while staying focused on our long-term goals. For the third quarter, global comparable sales were relatively flat, up 0.3% year-over-year. We grew global system-wide sales by 3.2%, organic AOI by 6.1%, and organic adjusted EPS by 4.6%. AOI growth outpaced system-wide sales growth this quarter for a few reasons. First, segment G&A, excluding restaurant holdings, decreased 11% year-over-year to \$146 million, with approximately \$12 million of the decrease related to lower equity-based compensation. As I mentioned on our Q2 call, incentive-based compensation is expected to decrease year-over-year. We've also been working closely with our business leaders to drive operating leverage in our P&L, and you're seeing the benefits start to flow through this quarter.

Second, we continued to work through lower average cost of inventory in our Tim supply chain and CPG businesses, which contributed to an \$8 million increase in organic growth profit dollars. Our Q3 supply chain margin was 20%, and we continue to expect our full year supply chain margin will be approximately 19%, meaning Q4 margins should be in the mid-18% range. These two factors, segment G&A and supply chain, were partially offset by incremental advertising expense at Burger King U.S. and net bad debt expenses in the quarter. We invested \$7 million behind Fuel the Flame marketing at Burger King U.S. as compared to no direct investment in the prior year period. In addition, net bad debt expenses, primarily in international, were over \$3 million compared to approximately \$2 million of net bad debt recoveries in Q3 of '23.

Shifting now to EPS, our adjusted EPS was \$0.93 per share compared to \$0.90 last year, representing an organic increase of 4.6% year-over-year, excluding an FX headwind of \$0.02 per share and a \$0.01 benefit from restaurant holdings. Our adjusted net interest expense increased approximately \$18 million during the quarter, mainly driven by a higher debt balance following our Carrols transaction, which closed in mid-May. In addition, we saw an increase in adjusted income tax expense due to a higher adjusted effective tax rate, which had a \$0.03 per share negative impact on earnings. Our adjusted effective tax rate this quarter was approximately 17%, and we expect our full year tax rate to be in the 18% to 19% range. We ended Q3 with available liquidity of \$2.4 billion, including \$1.2 billion of cash, and our net leverage ratio was 4.8x. We continue to expect to reach mid-4x net leverage by year end, assuming a full year of Carrols results.

In September, we issued \$500 million of 5 and 5.625% First Lien Senior Secured Notes due in 2029, and used the proceeds, together with cash on hand, to redeem our outstanding \$500 million 5.750%, which were due in 2025. We feel good about our capital structure, with no significant maturities, until 2028.

Turning now to free cash flow. We generated \$485 million of free cash flow, excluding the benefit of our FX and interest rate hedges, which added approximately \$46 million of positive cash flow this quarter. We continue to execute against our Reclaim the Flame plan at Burger King US, which is designed to engage new and existing Burger King fans, accelerate our path towards modern image, and drive franchisee profitability. This quarter, we spent \$24 million on Reclaim the Flame investments, including \$7 million on our Fuel to Flame marketing investment, and \$16 million towards Royal Reset. We have \$41 million of Fuel to Flame marketing remaining in Q4. Since we are tracking well ahead of the 2024 Fuel to Flame franchisee profitability target, beginning in 2025, franchisees will increase their ad fund levy from 4% to 4.5% through at least 2026. And our advertising fund contribution, which has been \$60 million per year over the last two years, will fall away.

This will provide a nice tailwind to both AOI and adjusted EPS growth in 2025. And to close on our dividend, we returned \$261 million of capital to shareholders through our dividend, which we declared for Q4 at \$0.58 per common share and unit with a full year total of \$2.32 per share.

I'll now wrap up with an update on our expectations for 2024. Considering Q3 comparable sales and system-wide sales growth came in lower than anticipated, we now believe full year 2024 system-wide sales growth will be in the 5% to 5.5% range. Embedded within this are expectations for an acceleration in consolidated comparable sales from Q3 levels, slightly offset by tempered expectations for net restaurant growth to the mid-3% range, primarily due to Burger King China, as well as some of the impacts we're seeing from macro and geopolitical challenges. To be more specific, about 100 basis points of our NRG shortfall this year, compared to our 5% long-term unit growth target, is attributable to a significant year-over-year deceleration in Burger King China NRG.

As many of you know, Burger King China has been struggling. We have recently sent termination notices to our master franchisee, which they have disputed, and we are currently in a dispute resolution process with them. At the same time, we are in active discussions with the master franchise in an effort to reach an amicable solution. We believe this is a short-term situation, and we are committed to the long-term success of the business in China. We will update you when we have more to share.

Overall, we remain confident in achieving over 8% organic AOI growth this year. This confidence is driven in part by the improved top line results we saw in October, as well as our cost discipline initiatives, which have allowed us to tighten our 2024 segment G&A guidance to between \$640 million and \$650 million, including equity-based compensation between \$170 million and \$175 million. Finally, 2024 has obviously been a more complicated environment with more moving pieces than any of us had envisioned. As such, it's been important for us to provide more detail on shorter-term expectations for sales, NRG, and AOI than we normally would. As we look to 2025 and beyond, we're committed to achieving our long-term outlook of 3% plus comparable sales growth, 5% plus net restaurant growth, 8% plus system-wide sales growth, and 8% plus AOI growth, on average, over the next five years.

And we will keep you informed of our progress along the way. In the meantime, I'm confident we'll achieve our goal of at least 8% organic AOI growth for 2024.

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

Patrick Doyle

Thank you, Sami, and thank you to our teams and franchisees who are doing a terrific job delivering value to our guests through delicious products and improved experiences. One of my routines is to do a gut check from time to time. On average, are we doing a better job than we were a year ago? And I strongly believe that to be the case in each of our businesses. Our customers are getting better, more consistently made food with better service in a better environment for good value. That's what ultimately drives growth. And while we all understand those elements to be the foundation for all restaurants, I believe our progress on these customer benefits sets us apart and is what ultimately drives great returns for our franchisees and our investors.

We all know the environment's been more challenging but we are not allowing that to impact our plans. We're outperforming our largest global peers. We are actively addressing the areas of our business that have fallen behind and we are protecting profitability for our franchisees and our company all while positioning our brands for lasting success. We have a remarkable business in Canada. One that I can't remind you enough generates over 40% of our adjusted operating income. Tims continues to outperform the industry and deliver strong absolute results. The discipline, Axel, his team, and our dedicated restaurant owners, have had executing against the multi-year back to basics plan has been paying dividends for the past few years. I am confident it will continue to do so for years to come.

International has many pockets of strength but there are few markets where we're struggling a bit. In some cases this is due to macro factors out of our control but in others there's more we can do to change our trajectory and we are tackling them head-on. You saw us take control of Popeyes China, you saw us invest in Tims China and I can tell you we're working on a solution for Burger King China. These two businesses, Tims and International drive nearly 70% of our earnings and have solidly outperformed the competition from a top line perspective. In fact, they've outperformed the industry for many quarters. I think that gets lost on a lot of folks but it's definitely not lost on me and I am very confident in our teams and franchisees ability to continue delivering great results.

Now let's turn to the other 30% of our earnings. Burger King US, 18% of our business is only two years into its multi-year plans. While we work hard to navigate the current environment which has been more complicated than we expected entering the year, we need to take a step back and look at the bigger picture. We've already made a ton of progress in just two years. We have a lot more work to do but I am confident we will get there. We have the right plans, the right teams and dedicated franchisees and RBI and our franchisees are committing the right resources. It is going to work. We are remodeling restaurants, improving service and continuing to grill amazing whoppers. Popeyes is fundamentally doing all the right things as well, improving operations, introducing quality menu innovation, enhancing its digital capabilities and opening more restaurants. We simply need to entice more people to try our food. Firehouse's long-term value will come from opening more and more restaurants, and Mike and the team are doing just that. They've accelerated growth meaningfully this year, and their 2025 pipeline will bring another major step up.

So overall, our business is trending in the right direction. Franchisee profitability is far stronger today than it was 18 months ago. Our year-to-date organic adjusted operating income growth is over 7.5%, which I view as great performance in this environment. And we are on track to deliver 8% plus growth for the year. While we are already seeing signs of improvement in the U.S. and overseas in October, it may take a few more quarters for the macro environment to even out, and for us to see consolidated same-store sales track towards our 3% plus long-term guidance. But if you're invested in this company for the long-term, like I am, I can assure you the fundamentals are better today than they have been in years. With that, I'll pass it back to the operator for questions.

Question-and-Answer Session

Operator

[Operator Instructions]

Our first question today comes from the line of Brian Bittner from Oppenheimer & Co.

Brian Bittner

Thanks. Good morning. I wanted to ask my question on the international business and focus specifically on Burger King International, where you had almost a 2% positive comp, which is nicely above your global peer set, as you talked about in your prepare remarks. Can you just unpack this outperformance versus your peers a bit? Is it related more to just a better market mix of exposures across international, or do you actually believe you're taking share in most of your major Burger King International markets? And what do you believe is behind an improved international trend as we're moving into the fourth quarter?

Josh Kobza

Brian, good morning. It's Josh, and thank you for the question. I do think our Burger King teams in a lot of our international markets, they're doing a fantastic job, and that's leading us to take market share in many of those markets. I'll give you just a couple examples that I think for me really brought home how we win in some of these places. We were in Australia a couple months ago with the Hungry Jacks team led by Chris Green and Jack Cowin, who's in the business for a very long time, and they're just doing a fantastic job. They're getting all the basics right. They're really engaging their teams and their managers. They're delivering high quality products. They've been really focused on quality enhancements and the perception of quality and communicating that quality across the menu and really elevating the perception of the whopper and they're outperforming by a healthy margin.

I saw this again in Japan two weeks ago, we were there and that's a fantastic example for us. It was a market that was struggling if you go back kind of five, seven years. We had under a 100 restaurants and the team just really got all the fundamentals right. They've really driven product quality. We follow a lot in our brand trackers of who has the best burger in the market and we win by a big margin in Japan. And I think that's the critical formula. You've got to get the operations right, have high quality locations and really win on product quality and thankfully we've got the best burger in the world with the whopper. When we get that right and really land it well with consumers, we have the opportunity to outperform really meaningfully. So we've got a lot of markets like those too. Spain is another great example. Brazil is doing well. But some of our biggest markets are they're getting the basics right and they're outperforming and taking market share and I think that's what you saw in the quarter.

Operator

Our next question today comes from the line of John Ivankoe with JPMorgan.

John Ivankoe

Hi, thank you. The question is on growing the Burger King US franchisee base from 300 franchisees to 500 franchisees which is obviously a very big change especially considering I think you'll have a lot more than 200 new franchisees that enter the system. So that's just kind of like the big theme but the specific question that I want to ask is specifically on the Carrols units that you presumably would have the most opportunity with. If there is some discussion or plan or any further along of making general managers in a lot of cases actually more responsible to some of -- for some of their specific units, which would really be more consistent without other systems that, I'll say, remain nameless at this point, but other systems have become very successful in the U.S. is making people that formerly worked in the restaurants become franchisees. Thank you.

Josh Kobza

Hi, John, good morning, and thanks for the question. You're right that there's a big change we're contemplating in the BK US system in terms of the franchisee base, and we do expect to have a lot of new franchisees. I think they'll come from a few different places, and we're in the midst of a lot of these discussions. We've already started either discussions or we've done a few re-franchising already, and there are a couple different profiles that we have. I think some of our new franchisees will be folks who are already on our teams. So some of our field team members within Burger King U.S. are on the corporate side or running some of our company restaurants. We have some of them who are interested in becoming franchisees, and we're in discussions for them to take over portfolios. We're also in discussions with some of the folks at Carrols. It could be a general manager, a district manager, a director of operations. Some of those team members have ambitions to run their own business, and they might take over a smaller portfolio of two, five, 10 restaurants. So we're having a lot of those discussions, and I think that's really exciting.

In my mind, and I think you sort of hinted at it, I think the idea here is that there's something very powerful if we can get closer ownership of those restaurants, whether that's how you compensate the general managers or having smaller franchisees who have ownership of the business or in the restaurants in the communities every day. I think there will be a lot of different versions of the exact form of that. So there may be smaller and larger versions of how we accomplish that, but it's very much front of mind to us that having more local ownership in the business at the restaurant level is really the key to outsize performance and taking market share. And I think that you'll see that be a big piece of what we do over the next few years at Burger King in the US. Patrick, do you want to add anything?

Patrick Doyle

Yes, John, what I'd add to that, and obviously my past life, I know well what it's like to have the local owner operators in the restaurants, and it's a powerful thing. And if we continue to make the progress on franchisee profitability and the returns that you get by building or buying Burger King restaurants, and in fact, all of our brands, the capital becomes easy. What's hard is the operations and having great dedicated local owners operators has to be the answer. And, I've said this before, but franchisees are, people refer to them interchangeably as owner operators. And the owner part of that is relatively easy if the cash flows are there.

The operating part is the critical part. And we're dedicated to that. And the best example of that, the reason that we are the juggernaut that we are in Canada with Tims is the local ownership. Those owner operators that we have in Canada are fantastic. They've done a great job for decades. And we take the learning from that. Now, we're going to have big franchisees that are going to have success in the U.S. Those are operated at a high level, and there are many of them. We love having them in the system. But we've set a standard. You've got to be running your restaurants really well to have an opportunity to be part of the system.

Josh Kobza

John, maybe just add one last thought there. It ties a little bit back into Brian's question, too. I mentioned the outperformance of Australia. And one of the things that I think Jack and Chris and the Hungry Jacks team have been really focused on, and it's been a big driver of their result, is a program where they're doing a bigger profit-sharing program with some of their restaurant managers. And I think that's really powerful, to engage and empower our restaurant owners. And some of that thought process is already starting to get into our company restaurants. So we've started more substantive profit-sharing programs with some of the restaurant managers and our company restaurants at Burger King, as well.

And those restaurants are doing really well. Our company restaurants, especially the ones that we've acquired and run over the last few years, are really starting to outperform the system. So we're seeing some exciting things on that front, and we'll continue to take those learnings and expand them as they work.

Operator

The next question today comes from the line of Dennis Geiger from UBS.

Dennis Geiger

Great, good morning. Thanks, guys. I wanted to ask a bit more on the unit growth outlook. Maybe if you could speak to any key considerations or notable impacts for the rest of '24 development beyond BK China, which you spoke to. And maybe just that at a high level that global unit growth opportunity, as we look ahead over those next few years and your ability perhaps to offset some of the BK China pressure with contribution from other market and brand combinations. Thank you.

Josh Kobza

Good morning, Dennis. I don't think we have too much additional to add on '24, but just as we think about, looking out towards 2025 and beyond. I'll highlight a few of the things that we're working on and where we see some good progress. First and foremost is Burger King in the US. We've seen a ton of progress there from, a moment in time, not too far back where we had a drag from net closures to where we're getting pretty close to flat here. And I think a lot of that's driven by the progress that we've seen on franchise profitability. As we mentioned earlier, we made a huge step forward last year and we're still doing well this year. So I think that's been a big driver. And I think that will continue to be a tailwind as we look into 2025 and beyond. We've also been making progress in a couple of our other US brands. Firehouse is starting to pick up a lot.

As I mentioned in my prepared remarks, our trailing 12 months net restaurant growth is up 60%. And we expect to make even further progress through the balance of this year and into next year. So that's starting to become a more material contributor. And Tims in the US is starting to have more positive momentum. We think we'll have a good year this year. Kat and her team have put together a lot of new development agreements for that business. So we've got a good outlook for Tims in the US. Just as important or perhaps equally important is Tims in Canada. We've mentioned a couple of times that there's been a lot of population growth in Canada, which means that there's opportunity for more Tims, and there are particular pockets that the team's been going after, and I think you'll start to see some benefit from that next year.

Places like Western Canada, where we just have lower density of units than we have in places like Ontario, I think we'll start to see some of those units get opened as we get into 2025. In addition to that, there's some exciting other areas of growth in our international business, specifically places like India, which we think will be one of the biggest growth drivers over the next five to 10 years. We're ramping up businesses like Popeye's there, and Burger King keeps growing really well. But we're also making progress in countries like Mexico. Mexico has become one of our best growth drivers around the world. Our Tim Hortons business is doing fantastic there with great sales, great margins, and a lot of restaurant growth. Japan, I mentioned, is a big positive story. UK, particularly around Popeyes. We're building a lot of Popeyes in the UK, and I mentioned it earlier, but the average restaurant sales are fantastic. The margins are good, so the returns on capital are compelling for our franchisees. There's a lot of good markets I would characterize, especially within Popeyes and the international business, where we're getting ramped up on that development curve, and we're seeing really strong results on the sales side. So those are some of the things that we're working on to make sure that we pick up the pace of growth, even if we have a couple soft spots in other places.

Operator

The next question today comes from the line of David Palmer from Evercore ISI.

David Palmer

Thanks. Just two areas that maybe you could make another comment on. With regard to China, Burger King China, I know that's going to be a situation that you have some limited ability to comment on, but what is our best guess about? You mentioned that 3.5% this year could have been the 5% without China being a drag, and it would be great to have that reinflate as quickly as possible. How long a time do you think it could be before you get China growth back up to where you wanted to fill that gap by itself?

And then separately, what is your message on comps outlook for Tims Canada? That's not one of the markets that you said accelerated in the fourth quarter. You had a 3% comp, which was still quite healthy given the world we're in right now, and traffic appears to be pretty good there. But how do you feel about that brand market share outlook going forward initiatives for Tims? Thanks.

Sami Siddiqui

Hey, good morning, David. It's Sami. I'll just tackle the first part of your question and a slight correction on China. Our long-term growth algorithm, as we've talked about, is 5% unit growth on average over the next five years. This year we talked about being around mid-3s in terms of unit growth. China represents about 100 basis points, so one point of that 1.5 roughly shortfall. So as I said, we are actively working on an amicable solution there and we will update you and we have more to share. I'll turn it over to Josh to expand that a little bit more.

Josh Kobza

Yes, just add a little bit to what Sami said. I would tell you that the business performance there has been challenging in the short run, but I tell you, we are all very committed and very excited about the long-term prospects for the Burger King business and all of our businesses, frankly in China. It's the number two QSR market in the world. We think we have brands that have every right to win in that market and we're going to make the right decisions to support that long-term growth. I would ask for a little bit of patience and time, like you saw with Tims and Popeyes. Sometimes the stuff takes a little bit of time for us to work through and we'll keep giving you updates as soon as we have anything material to share on that front.

Patrick Doyle

Yes, I'm going to add a little bit of perspective on this. It's interesting. The China business, if you look at our business and where it is, and frankly, all three of the brands, while we've got some scale, it is still relatively early in their journey. Our bigger competitors and peers there, if you look at the businesses of Yum and Starbucks and McDonald's, they are kind of at a point where their cash flow and probably Domino's as well. They're at a point where the cash flow from their businesses is not only enough to manage their day-to-day, but to fuel their growth. We're in a position where we still need fresh capital to go into these businesses, to develop these businesses at the pace that we think we need to do to get them to the scale that we want for the long term. We are very bullish on the medium and long term, but we've got some things that we've got to work through, and it still requires some capital.

So I wish right now, as China became more complicated, that we were a little bit further along on that journey, but we're committed to getting there and we're going to work through it. And one of the things I believe in strongly on everything is we're not just going to talk about the things that are going well in our business. We're going to talk to you about the things where we think we need to make improvements. And that's not only important for you to know, but it's important for franchisees and team members who are listening to this call to know that we talk about things we need to get better at. We're serious about it, and we're going to talk to you the same way we talk to everybody else about where we need to make improvements. The one thing you asked about, Tims, and I'll do that, and Josh can add on as well on that, but what's changed in Tims is fundamentally ticket growth. The bulk of our growth in this quarter was from order count growth, from ticket growth, not from check growth. And so it's a very healthy business. We feel great about where Tims is in Canada when we were putting up bigger numbers a year or two ago. A lot of that, while it had good order count growth, a lot of that was also just from the inflation that was in the market. As inflation has worked its way out of the market, you're seeing what we think is a very sustainable growth path that involves bringing more customers into our restaurants day in and day out.

Josh Kobza

Yes, just to reinforce what Patrick mentioned, what makes me feel so good about Tims, both the current performance and the outlook, is they're doing all the basics right. All the underlying fundamentals of the business, the operations are getting better, we're remodeling more restaurants, we're launching high quality products. I think that's what's been driving our results and the ticket growth. As I look out into 2025, we have a great pipeline of new innovations, both on the food side and on the beverage side. So I think if we keep doing what we're doing, keep bringing new exciting innovations to Canada, we're going to keep seeing good results there, and that's why we feel good about that business.

Operator

The next question today comes from the line of Gregory Francfort from Guggenheim Securities.

Gregory Francfort

Hey, thanks for the question. I just want to double click in on Popeyes. I think it's around 30% of your international growth, more than 100% of your domestic growth. Comp slowed and kind of both regions this quarter. And I'm just wondering what happened, how you bridge back to improve comps, and then maybe a state of play on where cash and cash returns are for the brand. Thanks.

Josh Kobza

Yes, Greg, so on Popeye's same-store sales, they were a little softer in Q3. And as I mentioned, I think we probably had a little bit of a gap in terms of value offerings. And we saw that, and I think we fixed that as we got into September and October. And that's a meaningful part of what I mentioned in terms of the turn in global same-store sales performance, going from about flat in Q3 to positive low single digits in October. So Popeyes saw a meaningful uptake once we got those value offerings in. So I think we're back in a better place with Popeyes. As it pertains to cash on cash returns, that's primarily driven by franchisee profitability. And we reported a pretty big step up in franchise profitability last year. We're also making a bunch of progress this year. While sales have been a little bit softer in the last quarter, we found a lot of good opportunities to be smarter on the cost side. And so we're seeing a healthy uptick in franchise profitability, and that's ultimately what drives cash on cash returns and that unit growth that you've continued to see being pretty strong.

Operator

The next question today comes from the line of Lauren Silberman from Deutsche Bank.

Lauren Silberman

Thanks very much, just a follow-up on Tims. Can you just talk about the cadence of trends that you saw throughout the quarter and any changes perhaps that you're seeing in the competitive environment? Are you guys implying that we should see pretty similar trends in the fourth quarter versus what you saw in the third quarter.

And then my larger question is just on the 2025 guide, you're rolling off Reclaim the Flame, low single-digit benefit to op income. So as we think about '25, should that be an outsized year? Just any thoughts on the puts and takes of underlying growth? Thank you.

Josh Kobza

Hey, Lauren, thanks for the question. I'll take Tims and turn it over to Sami on the '25 question. We're not going to get too much into kind of the intra-quarter dynamics there, but I would just reinforce, we saw good healthy growth throughout, driven by transactions, so it's pretty good. And you can tell within what we said about October, trends overall improved across the business, more driven by improvement in BK and Popeyes. So give you some sense in the aggregate of what's going on, but we'll probably wait to update on the, kind of on the, with specific business performance until we get through the whole of Q4.

Sami Siddiqui

Yes, hey, good morning, Lauren. So just with respect to Burger King US, and as you think about the implications of Reclaim the Flame on what the outlook looks like for next year, you're absolutely right. Going into next year, we will roll off the multi-year at fund investment that we had put in. As a reminder, it's around \$60 million a year that we contributed this year. So that \$60 million structurally will roll off. And because we did achieve, we actually achieved by a wide margin the franchisee profitability threshold, the franchisees will now take their ad fund contribution up from 4% to 4.5% for next year.

So the aggregate ad fund will still be in a good place, but structurally that investment will come off our P&L next year. I'd say the only other dynamic to keep in mind with Reclaim the Flame is the capital investments alongside the franchisees that we make around remodels. We do expect the remodels to accelerate going into 2025. So you'll see those investments hit cash flow and a smaller impact on the P&L as it's amortized over the course of the franchise agreement. And you'll see embed in D&A but the vast majority of it will be the roll off of the \$60 million going into 2025, which would be a nice tailwind for adjusted AOI and EPS.

Operator

The next question today comes from the line of Danilo Gargiulo from AB Bernstein.

Danilo Gargiulo

Thank you. I have a two-part question. First of all, on Burger King US, I mean, some of your peers have been hinting toward expanding their value messaging into 2025 and even evolving the structure of their value menus. So I'm wondering how you might be responding to that change in competitive dynamics. And the second part is, you were sharing health expectations on profitability for Burger King in this year and next year. What's your expectations for other brands? And maybe if you can dwell on the most positive feedback and the biggest state of opportunity that you are receiving from your franchisees on each of the brands. Thank you.

Josh Kobza

Good morning, Danilo. First on Burger King in the US. I think what we've seen, and I think this plays out especially in what's happened in October, is Burger King in the US and really around the world, we do best when we've got the good value offerings and we have things like the \$5 a year away meal that we've had for a while. But we also pair that with relevant innovation and a big focus on the whopper. And you saw that with what we did with Addams Family. We did a really cool Wednesday's Whopper with a purple potato bun and a lot of really innovative sides. And that's what really drove the business to perform the best it has in a fair while here. And I think that shapes a bit of our thinking as we look into Q4 and really into next year. We do need to have good value offerings. We think we have something right now that works really well for the business. We may tweak it slightly into 2025, but I think we're pretty happy with it overall. But as much as that, we want to make sure that we have relevant innovation and big whopper focus, really elevating our flagship whopper. That when we have both of those things, I think is when we perform our best and you'll see us try to balance those as we get into next year.

In terms of franchise profitability, I think that the good news here is that in the three of our four kind of domestic businesses and the three biggest ones, we're making good progress. We mentioned already that Burger King is doing well this year. We're kind of stable, but slightly up already and we're seeing progress in Popeyes as I just mentioned, and of course with Tim Hortons, we've had great sales and that's been followed with some good progress in franchise profitability. So I think it really speaks to the focus we've brought to franchise profitability that even in a year that's been a little bit more challenging on the sales side, we're continuing to make progress in making sure that the unit economics of our biggest businesses are healthy and improving and I think that's really important to us and to our franchisees.

Operator

The next question today comes from the line of Sara Senatore from Bank of America.

Sara Senatore

Thank you. I guess two maybe questions on Burger King US and Tims Canada respectively. What I wanted to know about Burger King is, you mentioned some strong outperformance in October. I guess it seems like there's just been more movement back and forth share shifts in the market than historically has been the case and essentially, whoever has kind of the strongest tie in. So I guess are you seeing any improvement in the overall demand for the category versus other, perhaps other categories, or are you mostly just trading share back and forth? And if that's the case, I guess, how do you get comfort that the trend can persist and that, your franchisees can hit their EBITDA goal because it does seem like maybe, you've harvested some of that low hanging fruit, if you will [inaudible]. And so it's been a little bit more of a, I don't know, a street fight, if you will, on the ground and with rather than kind of persistent share trends for any given brand.

And I guess just, Tims, it may be a similar question. You talked about strength in the afternoon, but I think we heard some of your competitors have had very strong breakfast businesses. So, in aggregate, are you kind of giving some ground and breakfast and maybe taking some ground in the afternoon and then net effect is sort of, kind of consistent with the overall Canada fast food market. Thanks.

Josh Kobza

Hey, good morning, Sara, and thank you for the questions. First on Burger King in the US, I think there's a couple things going on there. Some are specific to things we're doing. And I think there are some signs of some improvement in the category. I think it is the case that what we saw in October was some improved performance of some of our marketing initiatives. I mentioned the Addams Family. That was a really great partnership that we did there that was very successful, both on the flagship whopper, but also on some of the sides that really resonated, whether it was Thing's Rings or our new Churro Fries. Those did fantastic. So I think when we get the marketing right, when we really focus on the whopper, we tend to do really well. And I think that helped us take some share here in the near term. But I also do see some positive signs on the overall consumer. I think if you look at a few of the things that help our gas out, things like inflation have been persistently trending down.

Gas prices have come down a little bit recently, and interest rates have started to come down. And I think you can start to see that reflected a little bit in things like some of the consumer sentiment indices. If you look at the University of Michigan one, for example, the last couple of months it started to trend upwards. So it's early, but I think there are some positive signs for overall industry demand as well that are a bit encouraging to us.

And with respect to the Tims business, we're really doing pretty well across the business. I would mention just on both the afternoon we already talked about, but also on breakfast, our breakfast food was up 5.8% year-on-year in the quarter. So we're actually doing pretty well across the business. And as I said, that's what gives us confidence as we go into Q4 and into 2025.

Patrick Doyle

Hey, Sara, it's Patrick. The one thing I would kind of add is Josh and I were both just out at the Burger King Convention last week. And Tom and his team are doing an amazing job, but maybe more importantly, the franchisees are engaged and excited about the progress we're making. And while you may see some short-term back and forth based on who's running what promo at which time, what gives us real confidence and what gives our strong operators in Burger King real confidence is they're seeing systemic improvements in service levels that are driving stronger sales. They're seeing still the kind of mid-teen lifts as we do remodels, we are seeing these fundamental things as our restaurants look better, as we give better service, that are driving sales for them, and we just need to continue to drive progress on those initiatives.

And we frankly need to have more and more of our Burger King franchisees join the top half of our franchisees and drive those great results, and we're going to get where we need to go. But our big advantage is we do have those core improvements that we can make in our business, and that's going to drive results, which is what gives me some confidence that while you will see some short term back and forth based on who's doing what. We've got the ability to improve, continue to improve fundamentals. And that's what got us from underperforming the category a few years ago to performing kind of in line today. And it gives me confidence on how we can outperform into the future.

Operator

The next question today comes from the line of Jon Tower from Citi.

Jon Tower

Great, thanks. It's just a couple of quick ones for me on the Burger King US business. First, I just wanted to confirm you guys are still on track to launch the Million Dollar Whopper campaign. I think it was November '24 when you guys had initially gone after it with the consumer. And then secondly, can you just speak to the returns you're seeing and the remodels? Obviously, you're talking about the sales lift, but just the aggregate investment required so far and paybacks you're seeing today. Thank you.

Josh Kobza

Hey, Jon, it's Josh. On the first one on Burger King US and the Million Dollar Whopper, yes, that is still planned for November. And in terms of returns on the remodels, we underwrote those kind of looking for a sort of a low teen uplift in sales. And as we've mentioned, it's coming a little bit better than that. So the realized returns on average are coming in a little bit better than we expected. And we usually target those for sort of a low teen return on capital. So pretty happy with what we're seeing there so far. And I would tell you, even some of the recent ones we've seen some of the new sizzle restaurants are really amazing. I'd really encourage everybody to check them out. They're beautiful, but also some of the sales results we're seeing on those have been really fantastic. We've done a bunch here in Miami with our company restaurants with some tremendous results so far. So I am very excited to see more and more sizzles out there in the market as we get through the end of this year and especially into next year. I think it's a really transformative image that really elevates the brand and the market.

Operator

Our final question today comes from the line of Christine Cho from Goldman Sachs.

Christine Cho

Hi, thank you for taking the question. So I was hoping whether you can shed some light on any trends or spending shifts you've seen across various income cohorts. Specifically, I think in the last call you did mention the \$5 meal deals are actually successfully driving trial and participation, particularly in the lower consumer cohort. But how does that look in terms of repeat and frequency, especially for that cohort? Thank you.

Josh Kobza

Yes, Christine, I'd say nothing too new to call out this quarter in terms of income cohort performance. Most of the trends have been pretty consistent over the last few months there. So I don't have anything else particular to add there that we found notable.

Operator

That concludes today's question and answer session. So I'd like to pass the call back over to Josh Kobza for any closing remarks.

Josh Kobza

Great. Well, thank you all for your time today and all the great questions. We look forward to updating you again on our Q4 results in early 2025. Thanks and have a great day.

Operator

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

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