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Restaurant Brands International Inc. (NYSE:[QSR](#)) Q4 2024 Earnings Conference Call February 12, 2025 8:30 AM ET

Company Participants

Kendall Peck - Head, Investor Relations

Josh Kobza - Chief Executive Officer

Sami Siddiqui - Chief Financial Officer

Patrick Doyle - Executive Chairman

Conference Call Participants

Brian Bittner - Oppenheimer
Dennis Geiger - UBS
Danilo Gargiulo - Bernstein
David Palmer - Evercore ISI
John Ivankoe - JP Morgan
Andrew Charles - TD Cowen
Lauren Silberman - Deutsche Bank
Sara Senatore - Bank of America

Operator

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

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

Kendall Peck

Thank you, operator. Good morning and welcome to earnings call for the year and quarter ended December 31 2024.

Joining me on the call today are Restaurant Brands International's Executive Chairman, Patrick Doyle; CEO, Josh Kobza; and CFO, Sami Siddiqui. Following remarks from Josh, Sami and Patrick, we will open the call for questions.

Today's discussion may include forward-looking statements, which are subject to risks detailed in the press release issued this morning and in our SEC filings. We will also reference non-GAAP financial measures, reconciliations of which are available in the press release and trending schedules available on our website. Please note that franchisee profitability referenced on this call is based on un-audited, self-reported franchisee data.

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 Holding, which comprises the Popeyes China business and the Burger King Carrols restaurants. The consolidated gross metrics discussed on this call, including organic adjusted operating income growth and organic adjusted EPS growth, exclude results from the restaurant holding segment.

With that, I'll turn it over to Josh.

Josh Kobza

Good morning, everyone, and thank you for joining us today. As I begin my third year in this role, I'm incredibly proud of the strong foundations we've built across all of our businesses. I've spent the past two years traveling the world, from Australia to Japan and Nova Scotia, visiting countless restaurants and connecting with our dedicated team members, franchisees and guests. Across every visit, one thing has remained clear, successful restaurants execute the fundamentals of quality, service and convenience with excellence.

Reflecting on 2024, while we encountered challenges, our focus on delivering these fundamentals enabled us to provide even better experiences for our guests and outperform most of our global QSR peers from both the top line and bottom line perspective. In 2024, we grew comparable sales 2.3%, net restaurants 3.4% and system wide sales by 5.4%. Our top line performance coupled with disciplined cost management and a strong business model drove significant operating leverage and resulted in 9% organic adjusted operating income growth.

Our brands continue to stand out for their high quality food and beverages. This year we delighted guests with exciting menu innovations from Wednesday's Whopper at Burger King in the U.S. to our King and Popeyes collaboration with a Michelin-starred chef at Burger King Spain and seasonal hits like the Thanksgiving sub at Firehouse. Quality extends beyond menu and ingredients. It's also about execution and delivering a great guest experience. By enhancing team member trainings and upgrading restaurant equipment, we are strengthening in-restaurant operations and elevating product satisfaction across our flagship offerings like Popeye's Bone and Chicken, the Whopper at Burger King, and Tim's Coffee and Breakfast Sandwiches.

In 2024, Tim's Canada reduced already remarkably fast drive-through times and hosted Tim's Way Training Symposiums to elevate hospitality. Popeyes U.S. improved order accuracy, driver wait times, and product satisfaction. And across all our businesses, we reinforced our commitment to excellence by transitioning underperforming franchise portfolios to stronger, more engaged operators.

Expanding access to our brands for guests around the world remains a key focus. This year we grew in 110 brand market combinations and improved our digital capabilities to facilitate a seamless experience for all guest interactions. By delivering on these three core fundamentals, quality, service, and convenience, we are solidifying RBI as the preferred home for franchisees looking to grow their businesses and for industry talent looking to grow their careers across brands and geographies.

Our franchisees have the opportunity to invest in up to four strong, growing brands, offering high quality products that resonate with guests worldwide; all while benefiting from RBI's global infrastructure and talent. We already have many examples of franchisees capitalizing on these opportunities. From Yuri Miranda, who helped grow Burger King Brazil into a nearly \$1 billion system-wide sales business and is now launching Firehouse subs in that market, to Gregorio Jimenez, who built a thriving Burger King business in Spain, later expanding to Portugal and adding Tim's Spain, Popeye's Spain, and Popeye's Italy to his business or Ken and Alicia Jur at Tim Hortons Canada, who've grown their business in Manitoba to now include Firehouse Subs.

Supporting our franchisees profitability remains foundational to our success. It's why we continue to be accountable to franchisees by sharing average restaurant profitability across our four brands in their home markets. We're two years into this commitment and feel good about the progress we've made. For 2024 average four-wall EBITDA, Tim's Canada exceeded CAD305,000, up from CAD280,000 in the prior year. And Popeyes U.S. increased to just over \$255,000 from \$245,000. Burger King U.S. remained stable at \$205,000, marking a substantial improvement from just two years ago.

And Firehouse Subs saw a step back to approximately \$90,000, largely due to broader substandard category sale dynamics over the summer and fall. Overall, we're very pleased with the improvements we delivered at Tim's and Popeye's, and we're working to return to growth at Burger King and Firehouse in 2025.

While 2024 had its challenges, our teams and franchisees remain focused and resilient, positioning RBI and its brands for long-term success and for 2025 to be another year of 8% plus organic adjusted operating income growth. Together, we're building businesses that thrive on quality service and convenience, while delivering meaningful value to our guests, our franchisees, and the shareholders alike.

With that, let's move into our segment highlights, starting now with Tim Hortons. Tim Hortons delivered a strong performance in 2024 and surpassed \$1 billion in AOI for the first time. Tim's Canada grew comparable sales 4.3%, significantly outpacing major peers in the market, which declined 0.5% on average. For Q4, Tim's in Canada delivered a 2.5% increase in comparable sales, again outperforming the industry, which was relatively flat.

Growth in Canada was primarily driven by traffic, the best way to get it done, with Tim's delivering its 15th consecutive quarter of positive traffic growth, an impressive achievement given its leading market share position. This success highlights Axel and the team's focus on offering guests quality food and beverages at a great price, having engaged restaurant owners and providing exceptional digital and physical convenience.

Q4 morning daypart sales outpaced overall sales, fueled by high-single-digit growth in breakfast sandwiches and wraps, including an extension of our \$3 hot breakfast sandwich offer. Our continued morning innovation, including our recent launch of freshly cracked Canadian scrambled eggs, keeps us at the forefront of guest preferences.

In the PM, we built on the success of our loaded and anytime snackers platforms with the launch of our flatbread pizzas in April and delivered over 5% growth in PM main foods during the quarter. Flatbread pizzas support our goal of increasing Tim's presence throughout the day and expanding our appeal for families. We are excited to keep innovating with new flavors and side pairings that leverage our restaurant's new ovens.

We are also expanding our beverage leadership into strategic growth categories like cold and espresso based beverages. Warmer than average Q4 temperatures contributed to over 6% growth in cold beverages, while our delicious lineup of ice caps, cold brews, and quenchers continues to meet evolving guest preferences. Meanwhile, our early results from new espresso machines, which are currently being tested in about 100 restaurants, are showing promising potential.

Our operations team and restaurant owners are committed to operational excellence. Q4 marked Tim's 8th consecutive quarter of year-over-year improvements in average weekday morning drive-through times, which now average about 28 seconds per car at the window. This solidifies Tim's as one of the fastest drive-through concepts in North America. The team's consistent focus on speed of service and enhancing guest satisfaction, boosting throughput and driving sales. We estimate every one second reduction in drive-through time translates to approximately \$30,000 of incremental annual sales per restaurant.

On the development front, we're very excited for Canada to return to positive net unit growth in 2025, supported by compelling unit economics and ambitious restaurant owners looking to expand, especially in under-penetrated regions like Western Canada and in rural areas. Tim Horton's deep community ties remain a key pillar of its strength and brand love. In 2024, our restaurant owners helped raise CAD44 million for local charities and our Tim's Foundation camps, including nearly CAD11 million from Holiday Smile Cookie and Q4. I'm incredibly proud of our Tim's team and our restaurant owners. Tim Hortons remains one of the only brands in Canada consistently growing traffic which was up nearly 3% for 2024 and we're doing it profitably for our restaurant owners.

With its strong value proposition, number one brand love, innovative marketing, operational excellence, and dedicated restaurant owners, I'm confident Tim's will continue to deliver positive sales growth and industry outperformance.

Shifting now to international, which continues to be a strong growth engine, closing the year with over 15,600 restaurants and over \$18 billion in system-wide sales, approximately 60% of which was driven by our top 10 markets. We feel very good about the relative performance of our international business versus our global peers. In 2024, international comparable sales grew 3.3%, including 4.7% growth in the fourth quarter. We saw solid growth in many of our largest markets, including Australia, Spain, the U.K., and Brazil, thanks to well executed calendar initiatives, compelling core value offerings, and great restaurant level execution.

We achieved net restaurant growth of 6.1%, despite temporary headwinds from geopolitical pressures in certain markets, as well as net closures in BK China. While we don't have an update on BK China today, we're optimistic we'll have a resolution relatively soon, and Sami will provide you with a few financial details on the business shortly.

Importantly, since most of the developments slowed down stemmed from lower average restaurant sales or ARS markets like China, the overall impact on system-wide sales was minor. As a result, we delivered full-year system-wide sales growth of 10%. Looking ahead, Thiago and his team are concentrating efforts on our highest ARS markets, such as those in Western Europe and Australia.

Burger King France continues to shine, posting at \$3.8 million ARS alongside 10% NRG in 2024. Popeyes U.K., which opened a little over three years ago, surpassed 65 units this year, growing nearly 75% year-on-year and reached nearly \$3 million in ARS, up from \$2.6 million in 2023. Meanwhile, Burger King Spain and Italy, each with strong ARS of \$1.6 million, remain steady contributors to our restaurant expansion. And the team at Hungry Jacks in Australia continues its momentum, delivering nearly \$2.6 million ARS across its 471 restaurants.

We also know it's important to continue growing in markets with enormous white space opportunities like India and China. While these markets are not yet major drivers of AOI, we are laying the foundation to ensure that RBI brands become strong players in the world's largest QSR markets in the future. Additionally, our continued expansion of Popeyes, Tim Hortons, and Firehouse Subs into new international markets will be a long-term catalyst for unit growth.

Since acquiring Popeyes in 2017, we've brought the brand to more than 15 new markets, including New Zealand, Italy, and Costa Rica in 2024. We've grown the business from roughly 500 international restaurants to nearly 1,500 today, and from around \$300 million in system-wide sales to nearly \$1.3 billion. The brand's remarkable 47% system-wide sales growth this year, building on 61% growth from the prior year, showcases its incredible momentum. This success is driven by strong partnerships with our master franchisees such as RB Iberia, which expanded to over 150 locations in Spain in just five years and recently launched Popeyes in Italy.

It's clear that Popeyes' delicious, high quality chicken and authentic Louisiana flavors resonate with guests around the world. And as we keep delivering strong system-wide sales growth, we will see more robust contribution to our AOI.

Turning now to Burger King in the U.S. and Canada, which grew comparable sales 1% in 2024. In the fourth quarter, Burger King U.S. outperformed major burger QSR peers with a 1.5% increase in comparable sales, a solid achievement following last year's 6.4% increase. Tom, his team, and our dedicated franchisees are executing the multi-year Reclaim the Flame Plan and providing guests exciting menu innovation, compelling value offerings, and improved overall experience.

By emphasizing operational excellence and investing in modern, welcoming restaurants, we're setting the brand up for long-term success. Recent menu initiatives, such as the Adams Family Menu, featuring Wednesday's Whopper, the Million Dollar Whopper campaign and the Melts platform have reinforced that guests crave innovation and high quality food at a great price.

For 2025, we'll continue leading into our key differentiators of Flame Grilling, the Whopper, and HAVE IT YOUR WAY, while enhancing quality and consistency through menu renovation and operational improvements. Operational excellence remains a key pillar of our strategy. In 2024, our A operators achieved average four-wall EBITDA of over \$275,000, that's 35% higher than the system average. This is one of the most compelling metrics we can share with our franchisees, as it demonstrates the direct impact of operational excellence on running a healthy and growing business. It also reinforces our ongoing efforts at the corporate level to raise the bar, transitioning disengaged franchisees out of the system, and attracting dedicated operators who share our vision for brand excellence.

In January, I had the opportunity to meet with two such dedicated operators, Tim Foley and John Kaufman. Since acquiring about 20 restaurants in North Carolina in 2021 from an underperforming franchisee, they've transformed their portfolio, improving their franchise success score from a D to an A. They delivered an over 30% increase in average restaurant sales and more than doubled their restaurant's four-wall EBITDA to an impressive \$325,000 per store on average. Their success is built on the right fundamentals, instilling a culture of operational excellence, training and engaging their team members, executing with a guest-first mentality, and modernizing their assets.

They exemplify how powerful Burger King can be in the hands of strong operators, which is why we're excited about their recent expansion, acquiring 30 more restaurants from another underperforming franchisee in the Carolina region. Modern Image is another key driver of our success. During my trip to North Carolina, I toured two newly opened Carol Sizzle restaurants, and they are truly stunning. These restaurants showcase the future of Burger King. Beautiful, inviting and well-designed restaurants with modern guests and families in mind. With about 80 sizzles in operation today, we're thrilled with the early results and excited to see how these restaurants will inspire both our franchisees and our guests with a transformed Burger King experience.

Our commitment to modernizing the Burger King system remains very strong. In 2024, we completed 370 remodels, including about 60 Carol's restaurants, bringing the system to 51% modern image. We have about 220 remodels that have been open for more than six months now, and they continue to deliver an average of mid-teens year one sales uplifts, net of control, and even stronger improvements in franchisee profitability.

As we previously shared with you, we're on track to reach 85% plus Modern Image by 2028, and we're confident this transformation will further strengthen Burger King's position in the industry. At Carol's, we made progress towards Modern Image by accelerating our pace of remodels in 2024. Additionally, we've initiated work to begin refranchising select locations in 2025, two years ahead of our original plan, and expect to accelerate refranchising efforts in 2026 and beyond.

As we look ahead, Burger King is in a strong position to build on its recent success. With a continued focus on operational excellence, menu innovation, and a modernized restaurant image, we are confident in our ability to drive sustainable long-term growth for the brand and strong returns for our franchisees.

Turning now to Popeyes. In 2024, Popeyes continued its growth trajectory and grew net restaurants by 3.7%, driving a 4.2% increase in system-wide sales. While top line results came in faster than we would have liked, our \$6 big box value meal and protein only three for \$5 offering resonated with guests in Q4, helping us to modestly expand our share within the chicken QSR category this year.

Over the past few quarters, Jeff and team have been working closely with our franchisees on several strategic initiatives to support our easy to love plan. We're excited to announce that roughly 85% of Popeyes restaurants committed to amend their franchise agreement, resulting in alignment on our easy to love plan to drive sales through increased media investment and a unified restaurant image. This amendment commits participating restaurants to test higher national advertising rates over three years, beginning this April with an initial step up from 4.5% to 5% in year one and up to 5.5% by year three, subject to meeting certain profitability thresholds.

The amendment also establishes a remodel schedule by which most of the system will feature a modern image by 2030, ensuring our guests will enjoy beautiful updated restaurants across all locations. As part of this commitment, participating franchisees will receive a \$4,000 royalty credit per restaurant to offset the year one increased advertising investment, resulting in a \$10.5 million investment from Popeyes. Taken together, the amendment supports our commitment to delivering impactful brand messaging, achieving modern image, and providing greater flexibility and alignment for our franchisees.

Meanwhile, we're advancing the Popeyes experience and simplifying operations with our Easy to Run initiative, which standardizes processes, enhances technology, and introduces new kitchen equipment and a new production line. Following 18-months of testing across 200 locations, we are excited to begin rolling out these updates system-wide.

By the end of 2026, our goal is for all Popeyes locations in the U.S. to feature cloud-based point of sale systems, digital drop charts, sticky label printers, order ready boards, kiosks, and upgraded back-of-house equipment, including auto batter makers and improved hot holding units. These upgrades enhance the team member experience, reduce wait times and improve order accuracy, all while preserving the brand's unique Louisiana culinary heritage and our food quality. Franchisees can also choose to implement the new production line as they adopt the upgraded equipment or during the restaurant's next remodel.

During a recent visit to Orlando and to Houston, which are hub markets for easy to run, I saw firsthand how operators, who have embraced these improvements are already delivering notable performance gains. We also remain committed to our easy to access initiative and have been raising the bar for new franchisee development so that every new Popeyes restaurant delivers a great guest experience. While this heightened focus on operational standards led to a slight slowdown in our pace of development, we still opened over 160 restaurants in 2024 and remained amongst the fastest growing freestanding drive-through chicken QSR concepts in the U.S. and Canada.

As we look ahead, we plan to build on this momentum through new format innovations that enhance convenience, optimize build costs, and uphold strong average unit volumes. We are confident these strategic priorities and our franchisee's alignment will strengthen Popeye's competitive position and drive sustainable growth well into the future.

I'll close with an update on Firehouse Subs in the U.S. and Canada. While full-year comparable sales declined about 1%, due to broader U.S. sub sandwich category challenges in Q3, we saw about 5 points of sequential improvement in Q4, resulting in flat comparable sales for the quarter. This was driven by the successful launch of our hot sauce bar and the introduction of delicious menu innovations, such as our Thanksgiving and French dip subs, as well as strong performance in Canada.

On the development side, after several years of laying important foundational groundwork, including development team investments, moving away from our legacy area developer arrangements, and introducing targeted development incentive programs, we are now seeing real acceleration in net restaurant growth. This year, Mike and team opened 80 new restaurants across the U.S. and Canada and more than doubled net restaurant growth from 3% last year to over 6% in 2024.

Looking ahead, our development pipeline for 2025 is even stronger, reinforcing our confidence and delivering another year of accelerated expansion. We're excited to continue building on the success and bringing Firehouse Subs to even more guests across North America in the years ahead.

With that, I'll hand it over to Sami to walk you through our financial results.

Sami Siddiqui

Thanks, Josh, and good morning, everyone. Today, I'll discuss our long-term outlook, our 2024 financial results and capital structure, and some modeling nuances to keep in mind for the upcoming year. I'll also provide some incremental color on Burger King China.

Last February, we introduced RBI's first long-term growth algorithm targeting 3% plus comparable sales, 5% plus net restaurant growth, 8% plus system-wide sales growth, and 8% plus organic AOI growth on average over the five-year period from 2024 through 2028. We acknowledge from the outset the results could fluctuate year-to-year due to market dynamics, unexpected headwinds, or strategic investments, and that we're committed to making the right long-term decisions for our business to ensure sustainable growth and strong financial performance.

2024 was a good example of this. Global comps grew 2.3%, outpacing global QSR peers, but still reflecting a challenging consumer backdrop, moderated pricing, and some periods of marketing softness across some of our brands. Net restaurant growth of 3.4% was affected by a few discrete items, including a development slowdown in geopolitically impacted markets and a 100 basis point year-over-year headwind from Burger King China.

Importantly, given the low ARS contribution from BK China restaurants averaging around \$400,000 per unit. We did not experience the material impact to system-wide sales. We know energy expectations are top of mind and we expect to have a resolution for Burger King China relatively soon. Following a resolution, we will be able to update you with any potential implications on our energy targets.

Importantly, we are on track to achieve our guidance for 8% plus organic AOI growth, supported by continued cost discipline and a development focus on higher system-wide sales and AOI contribution markets. At Tim's, we're excited to return to positive net unit growth in Canada, while accelerating in the U.S. Importantly, Canadian unit growth, where ARS is CAD2.4 million on average, is accretive to both system-wide sales and AOI growth.

At BK, where ARS has now reached \$1.6 million per unit, we expect a more stable development outlook. While remodels remain our top priority, we are also giving strong operators with a modern portfolio the opportunity to expand.

At Popeyes, we've added nearly 1,300 restaurants since 2017 and reached over \$1.9 million ARS in the U.S. The team has been doing the right thing for the long-term health of the brand by ensuring new development occurs with the strongest operators. We expect to see continued growth at Popeyes supported by strong and improving unit economics.

Firehouse, which delivers nearly \$1 million in ARS, achieved impressive NRG acceleration in 2024 and is well positioned for another strong year in '25. And finally, in our international markets, growth will be driven by a mix of new brand market combinations, as well as increased penetration in existing high ARS markets like France, Australia, and the U.K.

Adding that all up, we are confident our business, brands, and partners can support reaching 5% NRG over time. While 2024 top-line results were below our long-term average targets, disciplined cost management enabled us to deliver above average organic AOI growth of 9%, underscoring the strength of our business model. Our two largest businesses, Tim Hortons and International, stood out, highlighting their strong fundamentals. Tim's achieved over 10% organic AOI growth in 2024, building on 7% growth last year, while International grew organic AOI over 7% following a robust 15% increase in 2023.

Turning now to a few call-outs from the year and the fourth quarter. First, segment G&A for the full-year, excluding restaurant holdings, decreased to \$632 million, driven by a \$15 million decrease in Q4. This was primarily due to lower incentive-based compensation and benefits, and benefits from cost initiatives identified during 2024, which should continue to flow through our P&L through the first-half of 2025.

Second, in Q4 Tim's supply chain saw a \$20 million increase in organic gross profit dollars driven by lapping an \$11 million trade expense true up in the CPG business from Q4 of '23 and a \$9 million increase in the underlying supply chain business. Full-year gross Profit margin was 19.5% which was slightly ahead of our guidance of around 19%. And lastly, we recorded \$20 million of net bad debt expenses in Q4 primarily related to Burger King China which I will expand on shortly.

Now turning to EPS, 2024 adjusted EPS increased to \$3.34 per share from \$3.24 last year representing organic growth of 4.4%, while Q4 adjusted EPS grew 11% organically year-over-year to \$0.81 plus per share. As a reminder, our 2023 adjusted EPS, it included a \$0.12 per share net benefit related to discrete non-cash tax items.

For the full-year '24 we had roughly an 18% adjusted effective tax rate assuming no changes in tax policy, we'd expect our 2025 tax rate to be in the 18% to 19% range, though we will be monitoring potential legislation closely.

2024 adjusted net interest expense was \$554 million, which was slightly better than our prior guidance due to benefits from our proactive FX risk management through cross currency swaps. In Q4 we upsized our USD, CAD swap from \$5 billion to \$5.7 billion and we extended the maturity through 2030 to better align with our debt maturities.

In 2025, our net interest expense will reflect a full-year of benefits from these upsized cross currency swaps, as well as the benefits of our 2024 refinancings and our interest rate swaps. As a result of all of these, we expect adjusted net interest expense to improve to the \$500 million to \$520 million range based on an average SOFR rate of 4.2%, which flows through to approximately 15% of our debt.

Turning now to free cash flow and our capital structure, we generated \$1.5 billion in free cash flow inclusive of approximately \$180 million of cash benefits from our hedges. Our strong cash flow generation allows us to continue investing in key initiatives like Reclaim the Flame at Burger King U.S. while returning over \$1 billion of capital to shareholders via a healthy and growing dividend. This year, we successfully met our mid-4 times net leverage target ending 2024 with \$2.6 billion of liquidity and net leverage of 4.5 times assuming a full-year Carol's results. Looking forward we continue to monitor the interest rate environment and we intend to continue prioritizing deleveraging.

I'd now like to spend a moment on Burger King China. As previously mentioned, we expect to have an update soon and thought it would be helpful to provide some financial context on the business. In 2024, we generated \$37 million of royalty and franchise fee revenue from BK China, \$19 million of which was reflected in our AOI. After terminating the agreement in October, we recorded bad debt expense for the remaining \$18 million of revenue recognized but not collected.

Therefore, if you were to model no change in the current situation, we would see \$19 million year-over-year impact to our 2025 AOI, or about \$0.03 on an EPS basis. Even factoring in this potential headwind, we are confident we would still deliver 8% plus AOI growth in 2025.

I'd also like to discuss Restaurant Holdings. As a reminder, RH includes our BK Carol's restaurants, Popeyes China and starting in 2025 firehouse Brazil. We do not plan to own and operate these businesses permanently, which is why we've carved them out to maintain the franchisor relationship with our BK and international segments. 2025 will be our first full-year with RH in our consolidated results, so there are a few modeling items worth noting.

At BK Carrolls, we expect Q1 to see between 150 basis points to 200 basis points of restaurant level EBITDA margin compression, compared to our fourth quarter margin of 12.3%. This is driven by normal Q1 seasonality, the stepped up ad fund levy following our completion of the fuel to flame investment and the higher commodity costs primarily related to beef. We also expect to have a step up in segment G&A for RH from \$59 million in 2024 to around \$100 million in 2025 as we incorporate a full-year of results of BK Carrolls and build out our teams for Popeyes China and Firehouse Brazil.

I'll now wrap up with four additional modeling topics for the year ahead. First, total CapEx TI and remodel incentives will be between \$400 million and \$450 million for the full-year 2025 as compared to over \$330 million in 2024, both including CapEx related to RH. This increase is primarily driven by modern image investments at BK U.S., increased remodels and development at Tim's Canada and accelerating development at Popeyes China.

Second, with the U.S. Dollar strengthening, we thought it would be helpful to provide a perspective on our FX exposure. For every \$0.01 change in the USD CAD and the USD Euro, we see a roughly \$8 million and \$4 million annual AOI impact respectively. Based on today's rates and assuming rates were to stay constant for the rest of the year, this would translate to a nearly \$15 million FX headwinds to our Q1 AOI and around \$45 million for the full-year. For context, in both 2024 and 2023 the business saw about a \$38 million annual AOI impact from FX.

Third, as we think about our earnings and comparable sales trajectory for the year, we anticipate Q1 to be the lowest absolute same-store sales in EPS quarter due to typical seasonality, as well as a tougher comparable sales lap, including the roughly 100 basis point weekday benefit our business saw in Q1 of '24. We expect year-over-year comparisons to ease into the summer months.

And finally, because we achieved our 2024 Fuel the Flame franchisee profitability target, Burger King U.S. franchisees have increased their ad fund levy from 4% to 4.5% beginning in 2025 through at least 2026. As a result, our Burger King Corporate Advertising fund contribution, which was \$58 million in 2024 will fall off in 2025. This benefit should help offset potential year-over-year drags from BK China bad debt, which I already discussed and a \$20 million reset in incentive-based compensation in G&A that stems from a lower bonus payout in 2024.

I know this is a lot, but as we start the year we want to give you as much clarity as we can around the puts and takes of the P&L. In summary, we are pleased with our bottom-line results in 2024 and are confident we will deliver another year of 8% plus organic AOI growth in 2025.

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

Patrick Doyle

Thank you, Sami. As I reflect on the past year, the first thing I want to highlight is franchisee profitability, the foundation for driving sustainable growth across all aspects of our business. In 2024, we remained laser focused on enhancing franchisee profitability through top line growth, operational improvements and modernizing our restaurant image. Our continued emphasis on operational excellence, including all the hard work our franchising and development teams are doing to place our restaurants in the hands of engaged operators, is already starting to deliver results.

At RBI, we also used our global procurement capability to drive incremental savings for franchisees. As you know, we fully own the procurement and supply chain at Tim Hortons in Canada and consistently deliver savings and best-in-class service to our franchisees. And recently our procurement team has been working much more closely with the Popeyes and Burger King systems as well. We're already seeing the impact of these efforts. Tim Hortons has exceeded our Canadian \$300,000 goal and Popeyes continues making strides towards reaching the \$300,000 U.S. mark.

Burger King U.S. was relatively stable this year, while Firehouse did experience some pressure due to a challenging category environment. That said, when I look at franchisee profitability, compared to just two years ago, and when I hear directly from our franchisees about their optimism in the business, it's clear that our franchisee base is far stronger today and that directly translates to healthier brands. At the end of the day, it's franchisee profitability that fuels our ability to hit our growth targets, which is why it remains a top priority for me and the entire team.

Taking a closer look at each of our businesses. I couldn't be prouder of what we're achieving together. Tim's continues to prove quarter after quarter its incredible strength and ongoing potential. We're one of the only brands growing traffic in Canada and we're doing it while maintaining leading market share, an incredible achievement, especially for a brand of our scale.

The return to positive unit growth in 2025 reflects the brand's strong underlying unit economics, and we're thrilled to bring more Tim's restaurants to communities across Canada. Our international business is a standout performer. It's growing at a strong pace and continuing to outshine global peers. We see tremendous white space opportunities with new brand market combinations and lots of headroom in our existing higher ARS markets as well. Obviously, we're addressing a few markets where we face challenges, but the opportunities far outweigh these obstacles.

Looking forward, I'm confident that we'll see momentum across the globe. In the U.S. Burger King continues making meaningful progress by staying committed to doing the right things for the long-term whether it's for the brand, our franchisees or our guests. It's clear that the team's efforts to clean up our franchisee and restaurant base is paying off and I believe most of our troubled situations are behind us. Now we're excited about the operational improvements and modernization efforts underway, and we feel good about the direction of our marketing plans. I'm looking forward to seeing more modern image Burger Kings thrive under strong operators.

For Popeyes, our strategy is clear. Attract more people to try our food and ensure every guest receive a consistently great experience. Our food quality speaks for itself, so delivering consistently exceptional guest experiences will be key to unlocking further growth. I'm proud of the progress the team made in 2024 to grow our business, while maintaining the quality of our restaurants and operators. And I'm excited to see that continue in 2025.

Finally, Firehouse Subs is just beginning to tap into its potential. The value here will really come from ramping up development. Mike and the team delivered a significant step forward in 2024, and we expect this momentum to continue in 2025. It's clear there's plenty of Runway ahead for this incredible brand and we're really just getting started.

I'm proud of our team and our franchisees. We're doing all the things that I know create outperformance versus the category. Our food is getting better, our service is improving, our restaurants are getting remodeled, and we're being very smart about giving good value to our guests, while helping generate improved profits for our franchisees.

And where we have problems, where we face them head on and openly. While we do all of that, we're being smart about managing the cost side of the business, so that we're generating strong earnings growth for our shareholders.

With that, let's open the line for questions. Operator?

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] As a reminder, all callers will be limited to one question. We'll start with our first question, which comes from the line of Brian Bittner from Oppenheimer. Please go ahead. Your line is now open.

Brian Bittner

Thank you. Good morning. On 2025, the adjusted operating income growth you stated that you anticipated on algorithm year of 8% plus just from a real high level, can you help us understand the same-store sales range you're assuming to get there, do you need to be in line with your 3% long-term target to achieve that operating income growth, or do you have additional cost efficiencies built in like we saw in 2024?

Sami Siddiqui

Hey Brian, it's Sami. Good morning and thanks for the question. Look, I think when we put out our algorithm last year, we talked about our algorithm being a five-year, kind of, growth outlook for the business. And some years would be on and some years would be off, but on average that was the target. We're not going to get into the specifics of the top line components of what that looks like on a year-to-year basis, but we do feel good about the AOI bottom line guidance that we provided of 8% plus growth this year. I think there are puts and takes to all of that.

Obviously, same store sales is a component. And we feel really good about the marketing programs we have planned for this year as well as the operational improvements we see across the business that will help deliver on that 8% plus AOI growth for this year.

Brian Bittner

Thank you, Sami.

Operator

Thank you. The next question comes from the line of Dennis Geiger from UBS. Please go ahead. Your line is now open.

Dennis Geiger

Great. Thanks, guys. Appreciate it. I guess first as a clarification, I guess just given that the BK China situation as it relates to development, we're sort of waiting on that for color on '25 Nug. So just wanted to confirm that, guys?

And then the question, if I could, is just as it relates to BK and Tim's brands in their home markets in '25 against seemingly a difficult macro, still tough promotional backdrop, seemingly. If you could just kind of speak to that, how you think about the two brands and this year in their markets, is it fair to assume that some of the key '24 sales drivers will also support growth in '25, or does that look a little different, if any color there? Thanks, Ed.

Sami Siddiqui

Hey, Dennis, thanks for the questions. I'll take it and I'll pass it over to Josh just to clarify, as I said in the prepared remarks, we're in active discussions on the Burger King China situation and we can't speculate on sort of the outcomes, but we expect to have a resolution relatively soon. And following that resolution, we will update you with any potential implications on energy targets.

Josh Kobza

And Dennis, I'll take the second part on kind of marketing plans across Burger King and Tims in their home markets for this year. I think you alluded to it well. I think you'll see a lot of building upon some of the things that really worked for the businesses in '24 with a couple of new twists and innovations. And maybe just to recap that in terms of Burger King, I think we have an excellent calendar for the year and I think it's balanced across a few different things that have been working well for us. One of them has been families, and we've done some great partnerships.

You saw it with the Adams family in 2024. Those kinds of things are really resonating when we have the right partnerships with the right properties and we do really compelling innovation that leverages our core equities like the Whopper and Flame grilling. So I think you can expect to see a couple of really fun ones that I think will bring a lot of families and kids into the restaurants in 2025.

You'll also see us focus on the Whopper again. We had some very successful activations, things like the Million Dollar Whoppers where we had guest created versions of the Whopper that really appealed to guests and I think puts the Whopper in the right place as a premium product. So you should expect to see more Whopper innovation in 2025.

You'll also -- you should also expect to see us focus very much on quality across the menu. And quality comes from a lot of different places. It can be working with our suppliers on upgraded recipes, but there are also really important elements that come from operations. As you'll see us focused a lot on training. You've seen us focused on upgrading our equipment, which has a big impact on our ability to deliver the quality that we want to consistently across the restaurant base. So I think you'll see a continued focus on elevating quality in the system.

And lastly, we will continue to bring news to value. We've done that now in the first part of the year with our \$5 duos and \$7 trios. So I think you can expect some refreshed messaging and mechanics on the value side just to keep that relevant and fresh for our guests. So that's what I would look for on the Burger King side.

On Tim's similar story, where we've been focused for a while on PM food and cold bev. So you'll see more of that. I think what might be a little bit new and incremental this year is we've got some really exciting breakfast innovation that's coming out, too. You probably saw some news on Scrambled Eggs. That's one of the things that we're excited about for this year. And we might have some celebrity collaborations to go along with some of these innovations, too, that we think will be pretty engaging for our guest base in Canada.

So hopefully that gives you a little bit of an overview. We're building a lot on the things that have worked but keeping them fresh and new and adding a few new things. And we're pretty confident in the plans for this year.

Dennis Geiger

Great. Thank you.

Operator

Our next question today comes from the line of Danilo Gargiulo from Bernstein. Please go ahead. Your line is now open.

Danilo Gargiulo

Thank you. It sounds like you're doing an excellent job also in speed of service with regards to Tim's Canada. And I was wondering if you can elaborate a little bit more on the early feedback from franchisees from the testing of these new espresso machines and maybe the potential impact on speed of service and in the number of seconds that you can save with a full rollout.

And then still on the coffee, if you might help us understand a bit more the impact of the coffee price increases on your supply chain margins and more in general, on the coffee demand in Canada. That would be very helpful. Thank you.

Josh Kobza

Thanks, Danilo. I'll take the first part, and then I think Sami will take the last part. In terms of speed of service, I'm really proud of the work that Matt Moore, who's our COO up there, has done with his team, and the franchisees have been highly engaged on it. I mentioned one of the statistics there about how much incremental sales we get from just one second of improvement, and that tells you why we're all collectively so focused on the topic.

And I think Matt and our franchisees have done a great job driving continued improvement in window times, which I mentioned. We've just done it quarter in and quarter out through a lot of focus and a lot of small sweeps. Even our renovations, which we've started doing more and more of.

One of the central elements of those renovations is. Is an update to the way that the back of house flow works. And those renovations are enabling us to get more throughput and faster speed of service as well. So you can kind of see it across the business. We're highly focused on driving speed of service, and I think we're seeing it come through, and I think that's helping. Our sales and traffic momentum that I mentioned has been so consistent, too.

In terms of the espresso machines test, I think we're still early in that, so I think we need to give it a little bit more time. I would tell you that as much as it is focused on speed, it's probably even more focused on enhancing quality. We really want to make sure across all of our brands, all categories, we're serving the best product in the market. And that's something we're looking at across recipes, machines, procedures. And that's the piece that I think I'm most excited about. And where we're going with the espresso machines is the potential to serve an even better product to our guests in the future.

Maybe, Sami, do you want to take the coffee question?

Sami Siddiqui

Yes, I can take that. Hey, good morning, Danilo. So, coffee, it's no secret. I think most of you have read about probably it's at historic highs. And I think a couple things that we'd say about that. Number one, as you think about our Tim Hortons commodity basket, coffee is only about 15% of our Tim Hortons total commodity basket. So relatively smaller in terms of the entire basket.

I think, number two, for a bit of background on how we buy coffee, we buy coffee forward typically six to 18-months with a forward buying strategy. And what this allows us to do is really smooth out potential volatility as we pass those costs on to franchisees. And it gives us visibility, really into what the year might look like. And given that visibility, we still feel good that 2025 supply chain margin will be around 19%.

As you recall, we finished 2024 a little bit higher than that at 19.5%, but we feel good about 19% for the full-year in '25. I will call out that we typically talk about the margin percentages. But a really good way to look think about this business is actually the growth in gross profit dollars. And as we think about where those gross profit dollars, where that growth comes from, it's really around increased volume, it is around mix shifts and it's around new development as we open restaurants as well as expansion of our CPG business. So taking all that into account, I think we'll leave it at that. But 19% for the full-year on supply chain margin.

Danilo Gargiulo

Great. Thank you.

Operator

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

David Palmer

Thanks. A very nice comp growth from the international segment this quarter. I'm wondering how you're thinking about 2025 for this segment. Any color and feelings about key markets and shape to the year's growth would be helpful. Obviously you entered the year pretty strongly. You talked about sort of a back weighted year for BK U.S. and wonder maybe it's going to be the opposite for Burger King International, for example. But any color about how you're thinking about the year for that segment in terms of comps? Thanks.

Josh Kobza

Hey Dave, thanks for the question. We were pleased with the improvement in same-store sales trajectory going into Q4 in international and there was a pretty good step up there and we're very happy with momentum. We're not ready to give guidance on the sales for that segment. But I think a lot of the things that you saw work in Q4 are things that we'll keep working on into 2025. We focus on making sure that we've had compelling value offerings in all of those markets and combining that with some really compelling innovation that I mentioned in my remarks earlier. So I think we'll keep working on those things and hope to continue the momentum we saw in Q4 through next year.

Sami Siddiqui

Dave, I'll just add that Q1 as I said in the prepared remarks does have the impact of a leap day. So good to kind of adjust your model for that. Thanks for the question.

Operator

The next question today comes from the line of John Ivankoe from JP Morgan. Please go ahead. Your line is now open.

John Ivankoe

Hi. Thank you. The question is on CapEx and just overall capital intensity in the business. \$400 million to \$450 million I think was guided for fiscal '25. But the new development is that you're refranchising some of the Carrols units ahead of your expectations which might lessen CapEx requirements in '26 into '27. So the question is really is '25 CapEx guide kind of the high watermark of CapEx?

Might we expect further increases as overall Burger King U.S. development accelerates into '26 and '27? And certainly I do ask that CapEx question not only in the context of you being free cash flow positive. But the fact that you carry \$1.3 billion of cap -- cash excuse me, on your balance sheet. So I wanted to get a sense of whether carrying that much cash on your balance sheet did make sense given future capital intensity of your business. Thank you.

Josh Kobza

Hey, good morning John, and thanks for the question. I think when you take a step back and you think sort of about the cash flow generation of the business, you're absolutely right. We've had strong and growing cash flow generation which really does allow us to invest in our businesses. And I think as we think about capital allocation priorities, our number one priority is always to invest in our business and high ROI investments in our business.

The CapEx as we think about 2025 is really a reflection of that and that increase I think is probably two main things. Number one is a stepped up pace of the Reclaim the Flame remodels, both in the BK franchises system, but also at Carrolls, as we step up to a higher pace. You'll recall we want the system to be at 85% to 90% modern image by 2028. So in order to hit those numbers, the CapEx has to naturally step up this year. And even as we rebrand restaurants at Carrolls, you won't see that direct as an offset in the CapEx. And typically, we will try to rebrand restaurants as we remodel.

I think sort of on the second point and another driver of the increase in CapEx is really around some stepped up development and development investments. As we think about Tims Canada, Josh mentioned returning to development growth and net new unit growth in Canada. As you recall, our business model in Canada is often around a full kind of real estate model and finding sites and typically that is a little bit more capital intensive. That said, the ROIs on that capital are extremely good and we think is a good use of our capital. So as we think about expanding penetration in Canada, which we still can do, we think that's a really efficient use of the capital.

John Ivankoe

And I realized my question was dense. So as we think about capital needs in the '26 and '27, is the '25 number a good number to use? Should we expect modest increases from here and do give us a sense of what the right level of cash RBI should run on the business longer term as it currently sits at around \$1.3 billion on the balance.

Josh Kobza

Yes, look, I think as you think about the CapEx trajectory of the business, I think around this \$400 million to \$450 million, I think this elevated level is elevated and it will gradually come down over time as we move towards 2028 and then once the Reclaim the Flame plan has sort of we've achieved kind of our target that will come down a little bit more. So you can kind of view this level for the next couple of years and coming down.

With respect to kind of cash on the balance sheet, we ended the year in a really good liquidity position. I think it is similar to kind of the liquidity positions that we've had in prior years. And going back to capital allocation, I think beyond sort of those high ROI investments that we make in the business, we then look at how do we return capital to shareholders. We've done that through a healthy and growing dividend.

And last year, we did it through -- we also then deleveraged and we started taking leverage down. We finished the year, we were proud to finish the year at 4.5 times net leverage. Assuming a full-year of Carrols, we will likely continue to take that leverage level down as we kind of monitor the interest rate environment and the general macro conditions. But we feel good about those capital allocation priorities.

John Ivankoe

That's great. Thank you so much.

Sami Siddiqui

Thanks, John.

Operator

Thank you. Our next question today comes from the line of Andrew Charles from TD Cowan. Please go ahead. Your line is now open.

Andrew Charles

Great. Thanks, Sami. I also wanted to expand on cash priorities. You talked about continuing to prioritize deleverage. Does this mean we shouldn't expect share purchases to resume in 2025 after you took a pause in '24? And then also in terms of CapEx, I know you guys called out 370 BK U.S. remodels in 2024. How many are planned for 2025?

Sami Siddiqui

Thanks, Andrew. Thanks for the question. You know, I'll reiterate what I said to John. I think as you said, deleveraging is the priority. We're not going to rule anything out. We always sort of are opportunistic about things we repurchase. We did repurchase about half a billion dollars of shares in 2023. We did not repurchase shares in 2024. But as I said, deleveraging is the priority right now.

In terms of remodels, I think for 2025, we're going to step up the pace of remodels and we'll do around 400 remodels in 2025. As you kind of do the math and you think about getting to 85% to 90% modern image by the year 2028. The pace of remodels naturally has to step up over time. So we think we were really proud to finish 2024 kind of around 350 remodels and stepping that pace up in 425 is a good step forward. And you'll continue to kind of see that pace as we approach the long-term targets.

Andrew Charles

Thank you.

Sami Siddiqui

Thank you.

Operator

Our next question today comes from the line of Lauren Silberman from Deutsche Bank. Please go ahead. Your line is now open.

Lauren Silberman

Thank you very much. Two part question on comp one is just a follow-up on the 1Q commentary, understanding you're lapping over the leap day given how much noise is there out there to start the year. Any color that you can share, at least on what you're seeing with underlying trends across the business.

And then my primary question is on Tim Hortons Canada comp, what was the composition across traffic and average check? And then how are you thinking about price in '25 given coffee costs, as well as the competitive environment? Thank you.

Josh Kobza

Hey Lauren, good morning. It's Josh. In terms of Q1, I think as you point out, there's always a lot of noise, especially when you're in the early part of Q1 with weather and it's a little bit hard to get a read. I think our preference is probably going to be just to wait until we get through the quarter and share how it went overall, if that's all right. And I think Sammy just wanted to call out that you need to make sure we factor in that leap day. So we'll probably wait to give an update on Q1 performance until we get to our Q1 earnings call.

In terms of Tim's Canada and the comp in Q4 and the composition of that, it was about two thirds driven by traffic and the rest was ticket and mix. And then in terms of what we'd expect in terms of check in 2025, we're always looking to overall CPI, that's kind of the starting point for us. So that's something that we're mindful of and we'll have to keep an eye on what happens with coffee prices.

As Sami mentioned, there's a pretty delayed impact of that for us because of the way that we hedge. So that helps us remove a little bit of the volatility. But that's something that I think is a question we'll have to keep an eye on as we move through the next few months.

Lauren Silberman

Thank you.

Operator

The next question today comes from the line of Sara Senatore from Bank of America. Please go ahead. Your line is now open.

Sara Senatore

Thank you. I just have a quick modeling, I guess clarification and then a broader question. The clarification was on the franchisee formal EBITDA. It was stable year-over-year for Burger King. And I guess stepping back, I look at it and see how a 1% same-store sales growth number is actually pretty impressive. I would have expected maybe some more deleverage?

So as you think about getting that number higher, what's the same-store sales growth number you need to lever? And if you can't get there, you don't think it's something maybe in the 3% range, can you still -- can franchisees still get over time to these higher EBITDA targets? So that was just the kind of modeling question?

And then could you talk a bit about Tims, you called out high-single-digit growth in breakfast sandwiches, 5% growth, PM main foods, 86% in cold beverage what were some of the offsets? Because those are all very strong numbers and you know, the healthy comp, but certainly not of that magnitude. So where might you be seeing trade-offs? Thanks.

Sami Siddiqui

Hey, morning Sara. I'll take the first part of the question and then I can throw it over to Josh just on sort of the modeling point. Well, first up, yes we were very pleased with the comp at Burger King in the U.S. and as you think about the margin, a bit of the offset that sort of offset some of that flow through would have been increased commodity costs in the U.S. we talked about that. There was an inflationary environment on the commodity cost side, which sort of, which offset a little bit of that comp increase.

As you sort of think about longer term. And you know, we've talked about this on prior earnings calls. As you get the comp growing and leveraging the P&L, there's approximately a 25% to 30% flow through on those incremental sales. And that's ultimately over time, growing the top line is the best thing we can do for growing franchisee profitability and growing that margin. So that's really how we think about it and that's why we're so focused on really delivering a strong marketing calendar at Burger King U.S.

Josh Kobza

Thanks, Sami. What I would add there is, I think another one of the levers that's very clear to drive franchise profitability is doing remodels. You know, that's one of the clearest ways that we get from where we are to trying to get towards that \$300,000 in the long run. And you know, we're actually in a lot of the remodels that we've been doing. We're pretty close to that. So I think that's an important part in my mind in addition to the marketing calendar and the operational improvements. We've got to get to a modern image and I think that's part of getting the franchisee four-wall EBITDA up.

And in terms of the Tims question, Sara, I think you mentioned a lot of the categories that performed the best on a sales growth basis and were kind of above the aggregate comp. A couple of the ones that weren't above the comp, I think were driven by some of the weather that we had. So we had a little bit warmer weather in the quarter and that tends to drive more cold beverage. And so we saw less good performance in some of our hot beverage. And then with those hot beverages, usually you see cold or sorry, you see baked good attachment to some of those hot beverages and that one was less of an outperformer as well.

Sara Senatore

Thank you, Patrick.

Patrick Doyle

I'd just jump in on the franchise profitability part also, I would point out we talked about the fact that our procurement team is working across the brands and our supply chains with the co-op structure for Popeyes and Burger King operated pretty separately before. And one of the big benefits of, I think, increasing trust with our franchisees is, you know, they are letting us work with them to try to leverage the overall scale of RBI to drive, you know, efficiencies.

And the other thing that's important is more of our restaurants are owned by stronger franchisees now, who are simply better at running their stores. And, you know, we're seeing that play through both in the top line and the bottom line for those restaurant owners. And so, you know, there remains a lot that can be done there. You know, if you told us that, you know, 1% comp for 2024 was going to get us flat on the bottom line, we obviously want more than flat, but I think it's a reflection of the opportunities that are out there that we were able to do that. And we continue to look for those opportunities. We continue to remodel the restaurants and we continue to move restaurants in the hands of stronger operators. And that's generating the growth or the results that you're seeing.

Sara Senatore

Thank you. That's exactly what I was looking for. Thanks, Patrick.

Operator

Thank you. This concludes today's question-and-answer session, so I'd like to pass the call back over to Josh for any closing remarks.

Josh Kobza

Well, thank you all very much for joining us today, and thank you especially to our teams and to our franchisees for all of their hard work that allowed us to deliver these great results this quarter. We look forward to updating you on our performance again on our Q1 call here in a couple of months. And have a great day, everybody.

Operator

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

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