

Restaurant Brands(QSR)

\$62.94 (As of 02/25/20)

Price Target (6-12 Months): **\$66.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/10/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: C

Growth: C

Momentum: D

Summary

Shares of Restaurant Brands, which have underperformed the industry in the past year, took a U-turn following fourth-quarter 2019 results. The company's earnings and revenues surpassed the Zacks Consensus Estimate and increased year over year. The company has been benefitting from solid expansion efforts, various sales-building strategies and more focus on franchise business model. Furthermore, Restaurant Brands is optimistic about its strategies that are likely to drive comparable sales and profitability for all three iconic brands in the long run. However, greater dependence on franchisees, intense competition and tricky consumer demand are potential headwinds. Also, the outbreak of Coronavirus in china might dent the company's performance going forward. Of late, earnings estimate for 2020, have witnessed downward revisions.

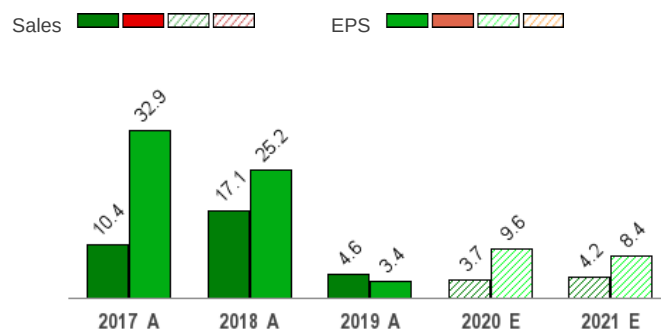
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$79.46 - \$60.58
20 Day Average Volume (sh)	2,210,895
Market Cap	\$18.8 B
YTD Price Change	-1.3%
Beta	1.19
Dividend / Div Yld	\$2.08 / 3.2%
Industry	Retail - Restaurants
Zacks Industry Rank	Top 29% (73 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.7%
Last Sales Surprise	1.3%
EPS F1 Est- 4 week change	-0.0%
Expected Report Date	05/04/2020
Earnings ESP	0.2%
P/E TTM	23.1
P/E F1	21.1
PEG F1	2.3
P/S TTM	3.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,376 E	1,507 E	1,559 E	1,564 E	6,059 E
2020	1,332 E	1,457 E	1,512 E	1,522 E	5,812 E
2019	1,266 A	1,400 A	1,458 A	1,479 A	5,603 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.67 E	\$0.81 E	\$0.87 E	\$0.87 E	\$3.23 E
2020	\$0.62 E	\$0.75 E	\$0.80 E	\$0.82 E	\$2.98 E
2019	\$0.55 A	\$0.71 A	\$0.72 A	\$0.75 A	\$2.72 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/25/2020. The reports text is as of 02/26/2020.

Overview

Based in Canada, Restaurant Brands International Inc. or RBI is one of the world's largest quick service restaurant companies.

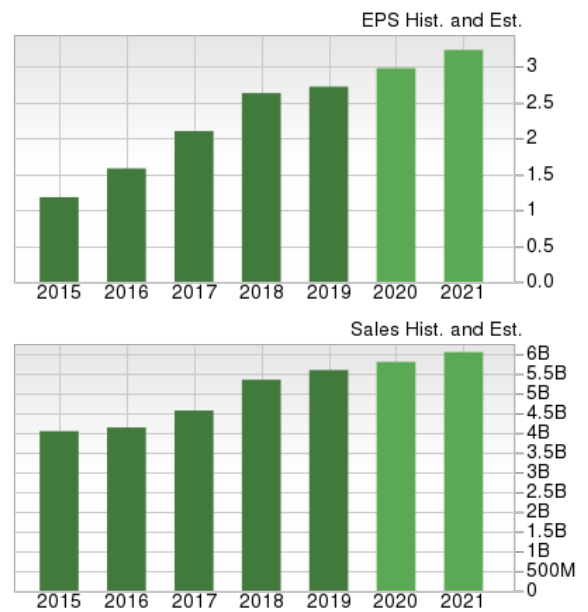
Formed on Aug 25, 2014, the company came into existence with the merger of Canadian coffee shop and restaurant chain – Tim Hortons Inc. – and American fast food restaurant chain –Burger King Worldwide Inc. It is now the parent company to these two iconic quick-service restaurant brands. On Mar 27, 2017, Restaurant Brands acquired quick service restaurant chain, Popeyes Louisiana Kitchen, for \$79.00 per share in cash, or \$1.8 billion.

These independently-operated brands have been serving their respective customers, franchisees and communities customers for more than 40 years and have similar franchise business models with complementary daypart mixes.

Restaurant Brands has three operating and reportable segments: Tim Hortons, Burger King and Popeye's Louisiana Kitchen. As of Feb 10, 2020, the company owned or franchised in excess of 27,000 restaurants in more than 100 countries and U.S. territories.

While the Tim Hortons brand maintains a strong base of restaurants across Canada, the United States and the Middle East; Burger King mostly serves customers in the United States and in markets outside. Popeye's Louisiana Kitchen operates restaurants in the United States and 25 other countries.

Restaurant Brands generates revenues from four primary sources: (i) sales to franchisees associated with the company's supply chain operations, including manufacturing, procurement, warehousing and distribution, as well as sales to retailers; (ii) franchise revenues, consisting mainly of royalties based on a percentage of sales reported by franchise restaurants and franchise fees paid by franchisees; (iii) property revenues from properties it leases or subleases to franchisees; and (iv) sales at company-owned restaurants.



Reasons To Buy:

- ▲ **Leveraging Three Strong Brands:** Restaurant Brands' quick service restaurant ("QSR") segment includes three iconic brands, each of which has a rich heritage, a unique value proposition, and significant growth potential. The QSR segment has witnessed solid growth, which is evident from high demand of franchisees. The company is optimistic about its strategies that could drive comparable sales and profitability for all three iconic brands in the long run. Among the three brands, Tim Hortons is one of the largest restaurant chains in North America and the largest in Canada and is known for its coffee and donuts. Meanwhile, Burger King restaurants appeal to a wide spectrum of consumers, with multiple dayparts and product platforms appealing to diverse customer groups. With over 60 years of operating history, Burger King has developed a scalable and cost-efficient QSR hamburger restaurant model that provides guests fast and delicious food. Popeyes too is one of the leading quick service restaurant chicken concepts in the world. It reported strong comparable sales growth of more than 12% during 2019, among the brand's strongest growth rates in the past few decades.
- ▲ **Solid Expansion Efforts:** Restaurant Brands believes that there is a huge opportunity to grow all its brands around the world by expanding its presence in existing markets as well as entering new markets. The company's expansion efforts drove consolidated systemwide sales by approximately 8% to \$34 billion 2019. Currently, it has more than 27,000 restaurants worldwide, which includes nearly 11,500 restaurants at Burger King. Restaurant Brands also continues to evaluate opportunities to speed up international development of all the three brands by establishing master franchisees with exclusive development rights as well as joint ventures with new and existing franchisees.

Various sales-boosting initiatives undertaken by the company coupled with its solid expansion efforts should drive growth

Furthermore, the company is confident about the Tim Hortons brand's long-term growth prospects and remains committed to deliver on its international growth strategy of expanding the brand worldwide. Despite witnessing comps decline at this segment during fourth-quarter 2019, the brand remains confident of its Winning Together plan. In addition, the prospects of the company's business in Canada appear bright. Evidently, the company has formed master franchise joint venture partnerships (MFJVs) for the brand in Mexico and Spain. Moreover, the company is optimistic about the major expansion opportunity that lies ahead for the brand in the United States.

- ▲ **Re-imaging Restaurants & Innovating Menu to Boost Sales:** Restaurant Brands continues to focus on improving its level of service through comprehensive training, improved restaurant operations, reimagining efforts and attractive menu options to enhance overall guest satisfaction, and thereby drive comps. Restaurant Brands believes that new product development is a key driver of long-term success for its brands and will continue to be in focus in 2018 and beyond. This is expected to drive traffic by expanding the customer base, spreading out into new dayparts, and continuing to build brand leadership in food quality and taste. During the third quarter 2019, the company reinvented its donut line up with premium donuts that include maple bacon dream donut and the PB&J dream donut. The company launched three dream donuts flavors nationally across Canada, in January 2020, gaining momentum in markets on an operational perspective and seamlessly fitting into its core baked goods assortment category. The company also introduced nitro bar that features nitro cold brew and nitro iced teas, and will be testing its Nitro Line in a few urban locations in the early part of 2020. The fresh brewer system is already in place at more than 2000 restaurants and the company expect to complete the accelerated rollout by the first half of 2020.

Moreover, the company re-launched the Chicken Sandwich in November 2019, leading to an accelerated comparable sales growth of more than 34% in the Popeyes, during the fourth quarter 2019. The company has an unwavering focus on its goal to drive traffic and revenues at its restaurants through core product platforms, a continual focus on a balanced menu design, expansion of delivery business, promotional offerings, efforts to grow breakfast daypart and product launches. Growth across each of its breakfast, lunch and dinner dayparts, supported by new products is driving incremental sales at Tim Hortons restaurants. Its coffee, cold beverage, wraps and breakfast sandwich platforms, particularly continue to reflect strength.

Restaurant Brands is also taking initiatives to re-image its restaurants to a more modern décor. In March 2018, Restaurant Brands announced a new Tim Hortons restaurant design called the welcome image, which entails a redesign of Tim Hortons restaurants. The company plans to re-image a majority of its restaurants across Canada over the next four years. In 2020, the company intends to revolutionize the drive-through experience at Burger King and Tim Hortons through the rollout of outdoor digital menu boards on an expedited basis. It plans to complete the rollout to approximately half of Burger King locations in the U.S. and a majority of the Tim Hortons systems in Canada.

- ▲ **The Success of Loyalty Program:** Restaurant Brands' loyalty program, Tim's Rewards, is gaining popularity. The company said that following a rapid ramp-up phase, nearly half of the customers pay through Tim's Rewards. In the past 10 months, more than 7.5 million people have joined the loyalty program. Also, Restaurant Brands is presently testing a loyalty program in Canada across different markets as high loyalty card adoption rates have been witnessed in these test markets. Moreover, it plans to integrate loyalty cards into the digital channel, basically through their mobile app. The company is focusing on digital as well as other valuable tool to drive digital adoption and guest registration as well as the Tim's Rewards Program.
- ▲ **Robust Strategy at Burger King:** Restaurant Brands has a solid strategy at Burger King that focuses on enhancing restaurant image, technology, operations and marketing. This strategy is likely to drive sustainable comps over the long run. As of now, the company has made significant progress with respect to remodeling and modernizing its restaurants in the United States. The company intends to replace underperforming restaurants with new Burger King of Tomorrow restaurants.

Also, healthy progress on other technology-related initiatives at Burger King has been realized in this quarter. Furthermore, Restaurant Brands launched Burger King mobile order and pay app in the United States. The company continues to expand the size of its delivery program, with availability of more than 4,200 restaurants in the United States and more than 9,000 restaurants worldwide. Notably, during the fourth-quarter 2019, comps grew 2.8% compared with 1.7% rise in the prior-year quarter.

Reasons To Sell:

- ▼ **Coronavirus Woes:** The company's immediate focus is on the health and well-being of its partners and guests, and cooperating with local and government officials working to contain the coronavirus. However, the company CEO's comments echoed uncertainty as it is too early to predict the impact on its business. In 2019, Burger King in China accounted for approximately 2% of its consolidated system-wide sales.
- ▼ **Franchised Model Restricts Operational Implementation:** Although the company's fully-franchised model has a lot of positives, it also has its share of drawbacks and risks. Under this business model, the company's prospects depend on its ability to attract new franchisees for all its brands, and the willingness of franchisees to open restaurants in the existing and new markets. The company also has limited influence over its franchisees, as a result of which its ability to control restaurants' operations, and implement operational initiatives and business strategies is restricted.
- ▼ **Cutthroat Competition:** Competition among fast-casual, quick-service and casual dining segments of the restaurant industry is expected to remain fierce with respect to price, food quality, service, location and concept, which may adversely impact Restaurant Brands' revenues.
- ▼ **Industry Susceptible to Consumer Discretionary Spending:** QSR operates in the retail restaurant space that is highly dependent on consumer discretionary spending. Consumers' propensity to spend largely depends on the overall macro-economic scenario. Although higher disposable income and increased wages are favoring the industry right now, it can change with the slightest disruption in the economy. The company, therefore, is highly vulnerable to the inconsistent nature of consumer discretionary spending. If it does not make pragmatic use of advanced technologies to innovate across value chains, it has high chances of fading out like many other restaurant retailers.

Greater dependence on franchisees, intense competition and tricky consumer demand are potential headwinds.

Last Earnings Report

Restaurant Brands Q4 Earnings Top Estimates

Restaurant Brands International, reported fourth-quarter 2019 results, with earnings and revenues surpassing the Zacks Consensus Estimate. The top and the bottom line also increased year over year, buoyed by solid organic growth across the business.

The company's adjusted earnings came in at 75 cents per share, which beat the Zacks Consensus Estimate of 73 cents and rose 10.3% from the year-ago quarter's reported figure. Total revenues of \$1,479 million beat the consensus mark of \$1,461 million by 1.3%. The said figure also increased 6.8% from the year-ago quarter's figure, courtesy of increased system-wide sales in Burger King and Popeyes.

Notably, the company continues to make progress on its key investment project that includes remodeling programs and digital construction.

Segmental Revenues

Restaurant Brands operates through three segments — Tim Hortons, Burger King and Popeye's Louisiana Kitchen.

Revenues at Tim Hortons totaled \$872 million compared with \$852 million in the prior-year quarter. However, system-wide sales declined 2.9% from the prior-year quarter's levels. Comps in this segment declined 4.3% against 1.9% growth in the prior-year quarter. Nonetheless, with focus on its fundamentals and founding values, the brand is optimistic regarding its business prospects in Canada.

Burger King's revenues grew from \$427 million in fourth-quarter 2018 to \$462 million in the quarter under review, primarily on solid system-wide sales growth in markets including France, Spain, Korea, China, Brazil and Mexico. Also, system-wide sales rose 8.4% from the year-ago quarter's figure. Comps in this segment increased 2.8% compared with 1.7% growth in the prior-year quarter. In the fourth quarter, net restaurant growth was recorded at 5.9%.

Popeye's Louisiana Kitchen, reported revenues of \$145 million compared with \$106 million in the year-ago quarter. System-wide sales rose 42.3% from the prior-year quarter's level, owing to net restaurant growth of 6.9% and 34.4% rise in comps. Notably, system-wide sales growth compared favorably with the prior-year quarter's 6.3% increase.

Operating Performance

In the quarter under review, the company's adjusted EBITDA rose 7.2%, driven by increased sales growth at Burger King and Popeyes. Segment-wise, Tim Horton's EBITDA declined 0.1% from the year-ago quarter's tally. Burger King's EBITDA increased 7.7% year over year. Popeye's EBITDA also surged 62.4% from the year-ago quarter's levels.

Cash and Capital

Restaurant Brands ended the fourth quarter with cash and cash equivalent balance of \$1,533 million. As of Dec 31, 2019, its total debt was \$12.3 billion. The company's board of directors declared a dividend of 52 cents per common share and partnership exchangeable unit of RBI LP for first-quarter 2020. The dividend is payable on April 3, 2020 to its shareholders of record at the close of business as of March 16, 2020.

2019 Highlights

In 2019, total revenues amounted to \$5,603 million, up 4.6% year over year.

Adjusted earnings per share (EPS) for the year ended Dec 31, 2019 was reported at \$2.72 compared with \$2.63 in 2018.

Adjusted EBITDA increased 4.2% to \$2,304 million for the year ended Dec 31, 2019, compared with \$2,212 million reported a year ago.

Other Developments

Restaurant Brands has made considerable progress with respect to its Canadian distribution centers in 2019. The company continues to make progress on key investment projects, including the expansion of our Tim Hortons supply chain network in Canada as well as the remodel programs at both Tim Hortons and Burger King. The company expects to finish the project by the second half of 2020.

Notably, the completion will increase the distribution coverage from about 75% to nearly 90%, leading to reduced complexity in deliveries.

Moreover, the company also plans to modernize the drive-through experience by deploying outdoor digital menu boards through the majority of its drive-through locations.

Quarter Ending **12/2019**

Report Date	Feb 10, 2020
Sales Surprise	1.26%
EPS Surprise	2.74%
Quarterly EPS	0.75
Annual EPS (TTM)	2.73

Valuation

Restaurant Brands' shares are up 0.7% over the trailing 12-month period. Over the past year, the Zacks sub-industry and sector have gained 15.5% and 12.3%, respectively.

The S&P 500 index is up 14.7% in the past year.

The stock is currently trading at 20.84x forward 12-month earnings, which compares with 25.19x for the Zacks sub-industry, 24.97x for the Zacks sector and 18.44x for the S&P 500 index.

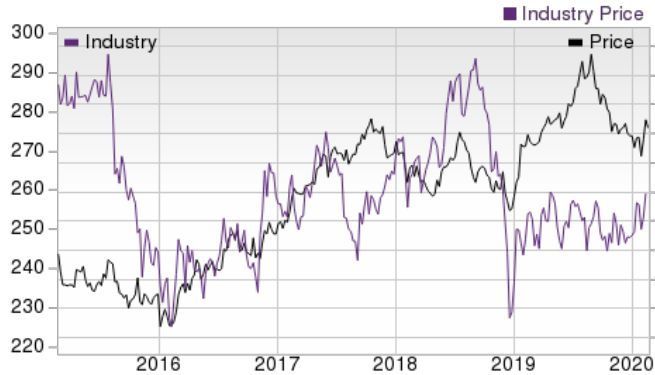
Over the past five years, the stock has traded as high as 43.35x and as low as 18.3x, with a 5-year median of 25.91x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$66 price target reflects 21.85x forward 12-month earnings.

The table below shows summary valuation data for QSR.

Valuation Multiples - QSR					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	20.84	25.19	24.97	18.44
	5-Year High	43.35	26.41	26.2	19.34
	5-Year Low	18.3	20.45	19.07	15.18
	5-Year Median	25.91	23.25	23	17.47
P/S F12M	Current	3.21	3.59	1.04	3.39
	5-Year High	3.89	3.85	1.11	3.43
	5-Year Low	1.64	2.91	0.8	2.54
	5-Year Median	2.69	3.25	0.92	3
EV/EBITDA TTM	Current	12.18	16.77	15.1	12
	5-Year High	22.77	17.48	15.28	12.87
	5-Year Low	10.72	12.09	10.79	8.48
	5-Year Median	14.52	14.01	12.41	10.77

As of 02/25/2020

Industry Analysis Zacks Industry Rank: Top 29% (73 out of 255)



Top Peers

Arcos Dorados Holdings Inc. (ARCO)	Neutral
Bloomin Brands, Inc. (BLMN)	Neutral
Cracker Barrel Old Country Store, Inc. (CBRL)	Neutral
Chipotle Mexican Grill, Inc. (CMG)	Neutral
Dominos Pizza Inc (DPZ)	Neutral
Brinker International, Inc. (EAT)	Neutral
Mitchells & Butlers Plc (MBPFF)	Neutral
Yum! Brands, Inc. (YUM)	Underperform

Industry Comparison Industry: Retail - Restaurants				Industry Peers		
	QSR Neutral	X Industry	S&P 500	BLMN Neutral	CMG Neutral	YUM Underperform
VGM Score	C	-	-	B	B	C
Market Cap	18.80 B	389.45 M	22.56 B	1.87 B	23.77 B	29.47 B
# of Analysts	11	5.5	13	7	16	11
Dividend Yield	3.18%	0.00%	1.88%	1.86%	0.00%	1.92%
Value Score	C	-	-	A	F	F
Cash/Price	0.09	0.03	0.04	0.03	0.03	0.02
EV/EBITDA	13.69	14.66	13.36	11.11	38.10	19.78
PEG Ratio	2.27	2.14	1.94	1.48	2.42	2.05
Price/Book (P/B)	4.41	2.50	3.09	12.32	14.14	NA
Price/Cash Flow (P/CF)	12.63	11.50	12.57	5.57	38.98	24.26
P/E (F1)	21.16	21.19	17.93	11.83	46.55	25.11
Price/Sales (P/S)	3.36	0.87	2.51	0.45	4.25	5.26
Earnings Yield	4.73%	4.40%	5.55%	8.47%	2.15%	3.98%
Debt/Equity	2.83	0.93	0.70	15.62	1.59	-1.26
Cash Flow (\$/share)	4.98	1.68	7.02	3.86	21.96	4.04
Growth Score	C	-	-	C	A	A
Hist. EPS Growth (3-5 yrs)	28.00%	7.33%	10.85%	6.60%	0.15%	0.67%
Proj. EPS Growth (F1/F0)	9.43%	9.28%	6.86%	17.99%	30.88%	9.86%
Curr. Cash Flow Growth	2.55%	5.49%	6.53%	-9.91%	34.05%	3.60%
Hist. Cash Flow Growth (3-5 yrs)	32.62%	6.24%	8.38%	-1.65%	1.89%	-6.71%
Current Ratio	1.29	0.60	1.22	0.27	1.61	0.99
Debt/Capital	73.88%	59.38%	42.37%	93.98%	61.41%	NA
Net Margin	11.48%	3.15%	11.57%	3.15%	6.27%	23.12%
Return on Equity	31.74%	7.56%	16.80%	73.91%	25.14%	-13.90%
Sales/Assets	0.26	1.12	0.54	1.18	1.16	1.14
Proj. Sales Growth (F1/F0)	3.73%	3.24%	4.03%	1.54%	12.97%	3.47%
Momentum Score	D	-	-	F	A	C
Daily Price Chg	-2.13%	-2.53%	-3.36%	-6.24%	-3.28%	-2.29%
1 Week Price Chg	-2.04%	0.24%	-0.94%	8.91%	-0.20%	-1.68%
4 Week Price Chg	0.24%	-0.76%	-5.65%	4.07%	-2.48%	-6.55%
12 Week Price Chg	-3.69%	0.00%	-1.04%	-8.43%	5.04%	-1.51%
52 Week Price Chg	0.61%	0.61%	8.00%	1.27%	42.79%	4.92%
20 Day Average Volume	2,210,895	179,262	2,073,853	961,559	467,166	1,689,516
(F1) EPS Est 1 week change	-0.12%	0.00%	0.00%	0.39%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.03%	0.00%	-0.06%	6.71%	2.20%	-5.61%
(F1) EPS Est 12 week change	0.18%	0.00%	-0.19%	6.27%	3.39%	-6.18%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	-0.61%	-1.90%	-5.95%	-9.67%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	C
Momentum Score	D
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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