Restaurant Brands International | UBS Global Consumer and Retail Conference | March 9 2022

Dennis Geiger:

... analyst at UBS. We're pleased this morning to be joined by Jose Cil, CEO of Restaurant Brands International, and virtually with David Shear, President International. Given we have the opportunity to speak with David, who I believe we haven't heard from since the company's last investor day, we're going to focus many of the questions this morning on the international business, the strength of RBI's portfolio globally, and the opportunity for continued growth.

Dennis Geiger:

Quickly, though, before we start, I'm required to read a legal disclaimer. As a research analyst, I'm required to provide certain disclosures relating to the nature of my own relationship and that of UBS with any company which I express with you at this event today. These disclosures are available at www.ubs.com/disclosures or I can provide them to you after the event.

Dennis Geiger:

And with that, let's get started. Jose and David, thanks a lot for being here with us today.

Jose Cil:

Dennis, thanks for having us. Great to be here.

Dennis Geiger:

Terrific. So maybe, Jose, if we could start, before we really dig in, if you wouldn't mind quickly reminding us how RBI is organized, how the company is structured for those that are maybe a little bit less familiar with the company.

Jose Cil:

Yeah, look, I think a lot of folks have access and have seen myself and Matt Dunnigan, who's our CFO, Josh, who's our COO, talk about the business results in quarterly earnings. So I think people are familiar with the functional side of the business. But we have amazing teams leadership in the business at the brand level all around the globe. And so last quarter, we shared in February some updates in the BK US business and the progress we're making there under Tom Curtis's leadership, and it was the first time I think many people had a chance to hear from Tom about the BK US business, his experience in the past, and how he's building a really world class team for the BK business going forward.

Jose Cil:

We're excited about the progress we're making with the BK US business. One of the things that we talked about was Whopper equity and really kind of leaning in on that as an important part of the BK US acceleration of growth in the coming years. And we just launched this week, actually, our Whopper melts, which is an opportunity to build on that important Whopper equity. Tim's, in the coming months, we'll have a chance, hopefully by summertime, to share more from that leadership team, and you can have a chance to hear from them on the progress they're making in Canada on the Back to Basics plan, which I is an exciting story to tell. We shared quite a bit in Q4 earnings around the progress we made in the quarter, and what was most exciting, obviously there was a lot of noise-

Jose Cil:

So what I was mentioning is on quarter four results for Tim's in Canada, we were excited about the progress. There was a lot of news and we shared a lot about the exciting promotion with Justin Bieber. But what was most exciting is the progress we made on the underlying core business, which allowed for really strong growth in the quarter. Obviously the beginning of this year was challenging with weather up in Canada, but also with new restrictions related to the Omicron surge. We came out of that in the middle of February, so we saw some mobility challenges, and as a result, some performance challenges, but we still feel confident and the business is performing well to deliver a quarter one somewhere in the neighborhood of high single digits in terms of positive year over year comparable sales. So look forward to sharing more on that.

Jose Cil:

And then we have David today, who's going to share some details on the international business, which is an exciting growth business for us with all of our brands, and our newest one, as well, with Firehouse Subs. I think before we get into to David's update and the questions you have for him, I did want to touch on Russia and Ukraine. I know it's top of mind for folks. And our first priority there is safety and the concern for Ukrainian refugees, mothers and children that are making the trek to neighboring countries. We announced yesterday that we're moving forward with some donations to a UN refugee agency that's helping Ukrainian agencies. It's a million dollar donation from the company. Probably more importantly, more than 25 of our franchisees in the region have come forward with contributions of their own totaling $2 million in meal vouchers to be able to help Ukrainian refugees. And then we've also mentioned we have a 100% franchise business in Russia and we're going to be redirecting any profits from that business to humanitarian efforts. And so it's an important message I wanted to share with everyone.

Jose Cil:

The other piece, just to give context, the restaurant count in Russia is about 800. It's all fully franchised. It's about 800 restaurants. It's about 2% of our restaurant count for RBI globally. It's less than 2% in terms of system-wide sales and less than 2% in EBITDA contribution. And so all of that said, our focus is on safety and wellbeing of the folks that are impacted by the crisis. And with that, I'll pass it over to David so he can... Or to you, Dennis, so you can chat with David about the international business.

Dennis Geiger:

Great. Thanks for the overview and for the updates, Jose. Very helpful. David, over to you. You joined the international team at RBI over 10 years ago. You recently took on the role of president. Again, it's been a few years since we've had the opportunity to hear directly from you. So I'd love to start off by hearing about your experience over the years, a quick overview of this big and successful international business and how it's evolved over time.

David Shear:

Sure. Thanks, Dennis. And I apologize I can't be there in person today. I would actually love to be. I'm from Boston. I grew up 20 minutes west of the city and went to HBS for business school. But I'm actually in Paris today with a pre-arranged trip with a number of our master franchisees from around the world, including the folks from Brazil and Australia. We had arranged a trip to come visit the business in Europe, so we were in Switzerland yesterday, France today, Spain tomorrow, and the UK on Friday. So sorry I couldn't be there in person, but thank you very much for having me.

David Shear:

My background with the company, before I get into the business, is I joined in 2011. I spent my first year or two in Miami before moving out to the business in Asia Pacific. So I spent a year in Shanghai getting our JV for Burger King in China off the ground, and then eventually as president for the Asia Pacific business for a couple of years. Then I moved to Switzerland almost six years ago to manage our business in EMEA as the president of the Burger King business in EMEA. And over time, that's grown to now oversee the international business. So APAC and EMEA, both regions I've spent a lot of time in and that I love and are exciting growth engines for us.

David Shear:

I think the business, just to give a bit more of an overview on that, we have around 13,000 restaurants in a hundred plus countries and territories. We split it up into three regions, which are EMEA, APAC, and Latin America. All of those are pure play franchise businesses. We don't have any supply chain. We have extremely small amount of real estate and nothing on any new restaurants. It makes up about 40% of system-wide sales last year, but it's contributed in 2019 and 2021 about 50% of RBI's overall EBITDA growth. So our role within the company is really to drive growth now and into the future.

David Shear:

I think this business has changed quite a lot since when I joined it in 2011. Back then, we had just over 5,000 restaurants, and for Burger King, we were the minority of sales for the brand. Now we make up more than 60% of the sales globally for Burger King. And I think Burger King's been the real key to that. I think it's been a consistent growth engine for us over the years. We have a successful master franchise model that we've set up in a lot of the biggest territories. Those are actually joint ventures, where we have a minority stake.

David Shear:

These master franchisees and joint ventures, they tend to be big, profitable, sophisticated businesses. I think as an example, the business in France that went in six years' time from no revenue to over a billion dollars in revenue. In India and Brazil, they're publicly listed entities. So they're big and sophisticated companies in their own right.

David Shear:

And for myself, I'm very close to these businesses. A lot of the folks on my team are extremely close to the businesses. We sit on boards. I think that's a little bit different than some other franchisors. We obviously have the franchisor/franchisee relationship, but we also a lot of times sit on the board. So personally, I'm on the board of BK China, BK France, Restaurant Brands Iberia, which are three brands all combined in Spain and Portugal, and a couple of others.

David Shear:

So I think this Burger King business has been a really consistent growth driver for us as a company, and over the years, it's allowed us to build out some important assets that we're now leveraging with our other brands, as well. So I think those include, we have a strong team, we have several hundred people on the ground in the markets in Asia, EMEA, and Latin America in addition to, obviously, our master franchise teams and joint venture teams. We have good local market knowledge of each of those countries. We spend a lot of time on the ground like I'm doing today. I think we have some good infrastructure from the nuts and bolts of the business. So things like QA, supply chain, those are things

that allow us to scale effectively around the world and are really important. And then, of course, we've got a really strong partner network, which I'm sure I'll touch on a little bit later. And I think these are assets we've built up with Burger King, but are now allowing us to accelerate with Tim's and Popeye's, as well.

Dennis Geiger:

Great. That's a super overview for how you folks have been so successful internationally to date. I want to shift maybe over to marketing. With restaurants in over a hundred countries, you have exposure to many different cultures and regions. So what's worked from a marketing perspective internationally? How have you seen some commonalities between markets or between key emerging trends?

David Shear:

Yeah, that's a good question. I think that we in general see a lot more commonalities than differences in terms of the principles that work in each of the markets. Of course their applications are different from place to place, but the principles are very similar. I think in general, we see two key drivers that are very consistent around the world. One is the digitalization and personalization of the business. Our guests are demanding to be more digital. They're demanding to have more personalized experiences in each of our restaurants.

David Shear:

And I think the second major trend is that people are more conscious now of the world around them. I think they want to feel good about the food that they're eating in each of our restaurants. And COVID has played a role. I think it's accelerated each of those trends. But really, they've been around much longer than COVID.

David Shear:

And I think that's one of the places where our strong global network provides a lot of value to us, because we're able to identify trends that can impact to our business both globally and also locally. An example of the global trends that we see that are driving our business right now is like- (silence)

David Shear:

... in places as far away as the Philippines and across Europe in particular. So I think this is some place that we'll continue to invest in. It was a good example of how we use our global breadth of research and insights to see major trends that are happening across the world. But locally, we also find a lot of big opportunities. So a good example, I'm in France today, and a couple years ago, they identified that there was an opportunity for a higher quality burger experience at Burger King. Guests were asking for it. They would accept it from us here in France. I think we launched here, and the product line reached mid teens in instants,

David Shear:

And when we saw that, it made us consider if there was a similar opportunity in other markets. And when we did research across a large number of markets, the opportunity was pretty consistent, and it was clear. So we launched in a number of markets now around the world, and it's really become again, a meaningful driver of our same-store sales growth in the international business. So I think that the trends that we see, a lot of times, are similar, but the application is very different, and this premium burger line I was just talking about is a great example. In lots of places, in Europe, including France, the key to

making that product line really speak to our guests was highly localizing it. So talking about French origin of the meat, talking about French origin of the cheese, Cantal cheese, so it's from a specific region here in France, and really changing the toppings to be the best of what you can get in France, but on a Burger King product.

David Shear:

In other markets around the world, the key was more to communicate that product line as best of international food that's been imported into those markets, because they saw imported food as being much higher quality. And so, in all of these markets, the product range works really well. It drives a ton of incremental sales and traffic, but even if the product is the same and the insight behind it was the same, the way that we communicate and the way that we position it with our guests needs to be tailored. But that's a... those are two examples of how we use both our global breadth to find global insights to drive the business, but also trying to rapidly scale up local insights that have wider potential application.

Dennis Geiger:

That's great. You mentioned digital at the beginning of those comments. I was curious if you could talk a little more about that digital business in your international markets specifically, and just how you've been able to drive so much growth through those channels to date.

Jose Cil:

Yeah, if I could on that one, Dennis, before David jumps in on international, we've gone, in our business, from essentially 0% digital business back in 2018, to now, it's a third of our business. In 2021, we had north of 10 billion in system-wide sales coming from digital business all around the world. International has led the charge there. It represents 60% of our digital business, but we've also seen incredible progress in a very short period of time with our Tim's business in Canada. Now, a third of our business is coming through digital, namely through loyalty, but mobile order and prepay.

Jose Cil:

And we're seeing a lot of progress on that side of the business, and it's becoming a key driver of growth long-term. We're seeing... In the U.S., with Burger King, we're about 9% digital sales, where delivery is a big part of it, but also seeing the ramp up of our loyalty program, Royal Perks. And at Popeye's, it's just around 16% today, and we think it's a tremendous opportunity for growth for the business long term. And so, we're excited about that and see that it is a key driver of growth for all of our brands all around the globe. And David can chime in on what's happening internationally.

David Shear:

Yeah, taking a step back, I think the digitalization of our business has basically, fundamentally changed our business. I think we used to be a business where people would mostly order at the front counter or in the drive through and they would get their food delivered to them at the front counter or at the drive through, and that's changed now to people wanting to be able to order from wherever they like, whether that's on their couch, or the drive through, or on their phone, or whatever. And they want to have the food delivered to them wherever they'd like as well, whether that's at the table, or at the curbside, or at their house. And so, this digitalization, it's absolutely changed the way that we look at our relationship with our guests.

David Shear:

It's also been the biggest driver of our sales over the last couple years on the international side, and I think it will continue to be for the next several years. And the reason is that, the digitalization of the business is good for everybody involved. I think our guests consistently tell us their experience is better when they're ordering digitally, because they feel less pressure, rather than being in a lineup of people at the front counter, their orders come more accurately. So from a guest experience standpoint, it's better. I think it's also better for our team members in the restaurants because it makes operations more streamlined and much more consistent. It's of course, better for sales, because we see on digital orders that the check is higher than in-restaurant or in-drive-through normally.

David Shear:

And of course, it's better for our franchisees profitability because of this upselling ability, and it's easier to communicate certain products that we want to really highlight. So this is kind of an unusual, win, win, win, win opportunity for us and for our partners. Every order taken digitally is better for pretty much everybody involved. So I think what's really great for us is that we've moved very quickly in different markets and each of them has a different strength. So Tim Horton's in China, for instance, digital sales represent 90% of the business, so it's already extremely highly digitalized. In Spain, we have a different strength. In Spain, we're really strong on delivery. We control our own driver network and besides some of the pizza players, we're the number one delivery option in the market. And in France, we have 70% of our orders taken digitally already, and 15%-plus are through the loyalty program.

David Shear:

So these are just a few examples that are really standouts across the globe, but the big opportunity for us is that we can learn from each of these markets and apply those learnings in the other ones. So I think that Spain is a great example. They've got a great delivery operation, but they're a little bit behind on loyalty, relative to a place like France, so we're learning from France to try to apply those same lessons and really grow the loyalty business as quickly as possible in Spain, which is growing quite nicely. And in France, equally on the flip side, great on loyalty. They're not as strong on delivery as Spain, and so we're focused on taking some of the best practices in Spain and delivering them to France.

David Shear:

So these are just two specific examples, but it's more or less the approach we're taking across our business, which is, we really know what's working across the world in different markets, and if we can apply those best practices to each of the markets, it represents a really big sales opportunity currently, just doing stuff we know works. And then, of course, we're going to continue to learn and spot more opportunities as we go. So I think this is not easy to do, but a really important opportunity for us to be... We're going to be continue to be focused and investing heavily on in the future.

Dennis Geiger:

Terrific. Want to shift over to unit development. So maybe we could talk first about the long-term development opportunity for the business. You've previously targeted a path to 40,000 restaurants, so how are you feeling now about that target, given all the developments over the last two years? And what the trajectory looks like from here. Maybe you could talk about some key geographies, perhaps, where you see the most white space, but we'd love to get the latest on the development outlook.

Jose Cil:

Yeah, I think the first time we shared that ambition was in 2019, in May, 2019 at our first ever Investor Day, and we feel really good about that long term. 2020 was a wake-up call for a lot of folks, and we put a pause on development to work with our franchise partners all around the world on addressing cash flow issues and ensuring the financial stability of their businesses, in light of such uncertainty. But very quickly, I think everyone around the world realized the resilience of our brands and business, the strength of our business model, and the fact that we were prepared for the most uncertain of situations, and we can work through it really, really well. We've got strong partners all around the world, and in coming out of COVID in 2020, and even in 2021, we have more excitement about the business.

Jose Cil:

We've seen a good bounce back. 2021 was a good year for all of our brands, and we saw acceleration back to... relatively close to historic levels of growth, and we think that's just the beginning. It's not the aspiration to get back to where we were pre-pandemic. We think it's just a kind of validation that we're on the right trajectory. And we feel we're well-positioned all around the world because of franchising, enthusiasm, and excitement, because of unit economics, and resilience, to accelerate from where we are. And I think David, you can chat on or talk through some of the geographies and areas of the business where we see upside and growth potential, and how the brands interact in that regard.

David Shear:

Yeah, sure. Yeah, I agree with Jose. We feel very good about this. I think that looking forward, Burger King continues to be the biggest driver of our unit growth, and it will be for several more years to come. I think what's great about the Burger King business is that, even though it's the brand that we have that's, let's say, most penetrated around the world, it's still just beginning to scratch the surface. We have big gaps in emerging markets like Brazil, India, Indonesia, where we can clearly continue to grow for a long time. But also what's exciting about Burger King is that, even in markets that are usually considered mature for other businesses, we have a big growth runway. So places like Japan, France, Spain, these are three of our biggest growing markets around the world, and will continue to be into the foreseeable future.

David Shear:

So I think Burger King, we feel good about the outlook to continue being our largest unit driver. I think Tim's is now becoming really meaningful for us as a company. The China target... China is a one-off business. It's obviously got a ton of potential, and I think you've all seen that the target that's been announced there is to get to 2,750 restaurants by 2026. That's obviously been a significant driver for us last year and will continue to be going forward. But with Tim Hortons, it's not just China. We've got a great business in the Middle East, which is growing quite quickly. We've got a great business in Mexico, which is growing quickly, a great business in the UK growing quickly, all underlined by very good paybacks and good investor returns. So I think China's obviously the headline figure there, but we've got a really solid business for Tim Horton's, that's starting to become a much more meaningful growth driver for us as a company. And then Popeye's. Popeye's will soon be a very meaningful growth driver for us.

David Shear:

I think that in the last 12 months, we've signed deals in a lot of major markets, including France, including Korea, India, Saudi Arabia, the UK, Romania, and I might be leaving a couple off, but the total commitments are... Of just those deals, there are more than 1,700 restaurants in the next 10 years. And on top of that, the importance of Popeye's, we're really working with some Blue Chip Partners for

Popeye's. I think a good example of that is in Spain, we're working with RB Iberia, who's our long-term Burger King partner. Great operators, some of the best restaurant operators in Europe. In India, we're partnered with Jubilant the long-time Dominoes franchisee, who are incredible operators as well.

David Shear:

And in France, we're partnered with TDR Capital through one of their portfolio companies in France, who are also great operators, and ambitious... share the same ambitions that we do for those markets. So I think Popeyes, you'll soon see ramping up as a growth driver for us as a company as well. And then Firehouse, we're just getting started to get it ready for the international growth stage, but I think that we feel good about our pace,` and as we're able to ramp up Tim's and Popeye's in the future, I think we should be able to accelerate.

Jose Cil:

And I think one other point on development... We didn't touch on North America. We think 2021 was a great year for Popeye's, and we've seen some of the work that's been happening at Popeye's from a franchisee/recruitment standpoint and new development deal standpoint start to take hold, and it was a record year from an opening standpoint. We think over time, we've got a long runway of growth for that business and in the U.S., we think. The same for obviously for Firehouse as it joins the family. Lots of great unit economics and great potential, both in the U.S., as well as in Canada, so I think the combination of the great work that the team is doing internationally, as well as the power of our brands, and the open opportunities that exist for development in the U.S. and Canada, bodes well for our path to 40,000 organically and beyond.

Dennis Geiger:

That's great. Lots of growth opportunity, for sure. Jose, you talked about this some in your comments a few minutes ago, but for 2022, specifically on development, is there much more to add on what growth this year looks like, relative to the pre-COVID '18, '19 levels? I know you touched

Dennis Geiger:

- on it a little bit just now.

Jose Cil:

Yeah. As I mentioned, Dennis, we're excited about the progress we're making, we're excited about the acceleration in 2021. Getting back to pre-pandemic levels is not the goal.,It's just kind of a confirmation that there's excitement and that there's commitment and there's a great business case internationally, as well as domestically, for growth for our brands. And we think there's an opportunity to accelerate in 2022, we've shared that towards the end of 2021. I think David touched on it, Tim's, Popeye's, we saw some of the best numbers we've seen international from both of those brands in 2021 and we think that'll continue in 2022. BK accelerated and we think we'll continue to accelerate in 2022, it probably won't get to levels that we saw pre-pandemic yet, we mentioned this in the last earnings call that we've worked through a number of challenges and issues with franchisees all around the world and we have a handful that we're still working through.

Jose Cil:

Obviously Russia is a market that's been a contributor of growth over the years and that's on hold, but long term, we feel very good about the BK business getting back to pre-pandemic levels and beyond. And there's enthusiasm and excitement everywhere, and that doesn't include what we think we can do with Firehouse domestically, as well as internationally. So exciting opportunity for the brands around the globe.

Dennis Geiger:

Terrific. Thanks for that. I guess, David, over to you, or maybe you as well, Jose, I want to talk about the success that you folks have seen in entering a new country, because you've done a phenomenal job with it. So David, based on your experience, what are the most important things to get right when entering a new country and then investors always ask us, "How should we think about the time that to go from the announcement of development agreements to, ultimately, actually opening those units and really ramping the units as it relates to growth.

David Shear:

Yeah. So I think growing brands into really scaled international businesses that are highly profitable and it doesn't happen overnight, but it's the part of the business that I know. I know I love, I know Jose is obsessed with it as well, maybe sometimes too much when I'm getting calls at all random hours of the day. But no, I think that it's a really fun part of the business and for us it's super important. I think the timeline actually starts one step before the development deals gets signed, which is, I think, there's basically, let's say, four major components of having successful new country entries and be able to ramp up these brands around the world.

David Shear:

I think the first thing is when we get our hands on a new brand, it takes time to do our homework upfront, we have to invest time and resource to get those brands ready for internationalization. Popeye's, I think, is a great example, when we acquired Popeye's we had a presence in 25 countries, but if you walked into a kitchen in South Africa and you walked into another kitchen in, let's say, Saudi Arabia, you would see absolutely different product specifications, different types of equipment, different layouts, different restaurant designs, different everything. So I think that it's really important when we get a new brand that we spend a lot of time to get the brand ready to be internationalized. So with Popeye's, for example, we had to overhaul the visual identity of the brand, we created a new logo, a new visual identity system, new fonts, new packaging, new uniforms. We had to come up with new restaurant designs that would work for the international business and we had to make sure the product specifications were much tighter.

David Shear:

These are just a few of the work streams, but product specifications, it's one thing being able to produce something consistently in the US, it's something very different to be able to consistently provide that experience in 100 countries around the world. So I think that piece takes time, but it's really worth doing the homework upfront to make sure that we're ready to scale going forward. So that's the first piece. I think the second piece is then finding the right partner and this, of course, we're very patient with because it's probably the largest driver of success in any of the markets that we go into.

David Shear:

And I think when we look for a partner, like I said, we're patient to find one that fits the criteria that we look for. I think, in general, that means that they have really big ambitions, just as big as we do for each of these countries. It means they're willing to invest in a really top class management team and incentivize that management team just based on our business. And it generally means they're well capitalized and I think that, for us, partners that meet those criteria, they can look absolutely different. We work with a lot of private equities around the world, like Bridgepoint, like Everstone, like Cartesian Capital, and we've had a lot of success with partners from that category. I think we work with a lot of entrepreneurs as well, our businesses in Spain and France were built up by entrepreneurs who are some of the best restaurant entrepreneurs in their countries and we've had a lot of success with partners like that as well.

David Shear:

And then in other cases, we work with strategics like Jubilant. So, I mean, we don't have kind of one type of partner that we love to work with, but as long as they meet those three criteria around investing in management team, being really ambitious, like we are and well capitalized, we've had a lot of success. And then once we sign the deal, there's a lot of work to make sure that we're tailoring the business for whatever new market that we go into. And I think, maybe a good example is going back to Popeye's, with Popeye's we try to bring the same Louisiana experience to any new market that we go into, but it's not the same product. When you source local chicken, the attributes of the chicken are different from one country to the other, the preferences in each market around the spiciness levels, the saltiness levels, the greasiness levels, those all change from place to place.

David Shear:

So to make sure that we're delivering our product in a way that's going to be really preferred in each to the markets, it takes time, it takes research and a bunch of consumer insights and it takes a lot of time on the ground from our culinary team from Miami. We've got a team of outstanding chefs based in Miami, and now based in some internationally as well, who spend a lot of time on the ground and in any of the markets that we enter to make sure the product is absolutely perfect and that we can say that we're really bringing the experience of Louisiana to the world. And that all takes time.

David Shear:

The fourth step, of course, is even once we enter a market, we're just kind of getting started, right? Because then we have to learn constantly about what's working, what's not working, how guests are perceiving our product, if it's exactly how we wanted them to perceive it coming in, or if we need to make some slight adaptations. So that's kind of from beginning to end how it's worked and I think that we can't really rush that, it takes time and it takes all of those steps to really build big profitable businesses over the next five or 10 years. And so we tend to be patient to make sure that we're getting the foundations right, to make sure that once we do get the foundations right, we have a business that's ready to be rapidly scaled going forward.

Jose Cil:

Yeah, just if I could add two things. One is our Popeye's chicken is not greasy, it's really juicy, so just on that point. The other probably more important point to make is sometimes when we talk about

development internationally, the there's a kind of an over-emphasis on contractual commitments and if you think about what David just talked about, the key is having really ambitious partners that share the same vision for the market. The contracts are like the base level, minimum standards and minimum commitments to be able to meet and to maintain exclusivity in the market. The reality is what drives growth, what drives Cartesians and Tim China's interest in getting to 2,700 restaurants in a shorter period of time than any of us anticipated is not a contract, it's the amazing business opportunity and value creation opportunity that exists in the market.

Jose Cil:

The same thing with another great example is BK France. We have an incredible partner there that's historically had tremendous restaurant businesses in France, in casual dining, fine dining, QSR, fast casual, so a strong, tremendous real estate experience as well. It was them, along with discussions with us, that wanted to acquire Quick and convert those restaurants to Burger King because of the strength of the real estate portfolio of Quick and the opportunity to accelerate growth. It wasn't a contract, it wasn't something that was a discussion amongst lawyers, it was a business opportunity and a value creation opportunity. And so as you look around the world and you look at the acceleration of our business, whether it's Burger King, Popeye's, Tim's and soon Firehouse, what drives that is an incredible value creation opportunity, really strong unit economics and a very strong partnership approach that we take with our franchisees to ensure that they have resources from our teams, that they have best practices, tools and the strength of our brands to be able to build that value.

Jose Cil:

So I think it's an important element to remind everybody about as we look at the path forward to 40,000 and beyond.

Dennis Geiger:

That's great. Wondering if we could talk a little more about the return profile for the international business, maybe you could kind of provide some insights into that profile, maybe highlighting, David, some of the unit volumes, perhaps, that you see in some of your larger international markets or perhaps even some of your new development markets. If you could just kind of give us some context, perhaps.

David Shear:

Yeah, sure. I think that the most important thing for us, like Jose was saying, it's just all about profitability of our partners, if they're profitable, then they'll grow. And so I think that's what we're heavily focused on, but when we talk about unit volumes, of course, there's a wide range based on market and format. So the way we look at that is as long as the returns are there, then we're a little bit less worried about the unit volumes. But I think to generalize, like in Europe, I think our unit volumes tend to be higher than in the US. Places like Spain, the UK, in France, our unit volumes are around 3.5 million dollars per year. So in Europe, in general, they're a bit higher than the US.

David Shear:

I think in Asia and the Middle East, we're building more smaller formats, they still have great returns, but they tend to be smaller and that brings our kind of average unit volumes down. But it does have some really major benefits to us, which is that these restaurants tend to be much faster to build, which allow us to get to scale in those markets much more quickly. I mean, China's a good example, they reach more than 400 in just three years.

David Shear:

So I think that allows to build scale, build brand awareness and build highly profitable businesses, so even though the AUVs are lower, it's still leading to a very good return. And then in Latin America, it's more of a mix, but generally the restaurants do lower volumes than in our home markets. So I think that for us, we see a wide range across markets and across formats, but our focus is really on finding the right balance of formats, breach the markets that are going to build a really highly profitable business and allow us to scale in a way that allows us to build brand awareness and sales and profitability over the long term.

Dennis Geiger:

That's great. I want to talk about the incentivizing for growth, and I think you and Jose just gave comments around what motivates your partners. And so I think it's relatively clear, but is there any more color you can provide on sort of incentivizing that growth, how you think about royalty rates between new and existing markets and at a high level, just briefly touch on that.

David Shear:

Yeah. Like we were just talking about, the best way to incentivize growth is to have highly profitable brands and businesses and that's generally where we're focused. But I think that at the beginning, when we sign new agreements, we're asking for major commitments from our partners, we're asking for big investments, big capital commitments and a lot of focus. And so we do think that this approach of kind of, at times, co-investing with them in the early years of their agreement makes sense. And that's mostly because the early years of these partnerships are by far the most difficult, I think that in our business scale is really critical to the profitability of the business. Of course, everyone is that allows you to bring down costs but I think the relationship in this business which drives more

David Shear:

... profitability growth over time is that actually as we scale up, it builds a lot more brand awareness and that brand awareness leads to much higher sales per store, and higher sales per store obviously flows through much better to the bottom line.

David Shear:

So I think that to help co-invest in those early years, sometimes we support with scaling up royalties. The amount varies, but it's never more than a majority of our royalty rate in any market. And what happens is that those royalty rates normalize over the short medium term to our long-term rate, and that coincides with the business growing and scaling and the margins of the business becoming better and better over time.

David Shear:

And so, by the way, those two things aren't related. So our royalty scale ups don't have to do with the margin. It's not conditioned on the absolute margin, but what happens is that ours scale up and the margins tend to improve as we scale the business in each of these countries. And we think that's a good approach. It's been something that's really allowed us to build really a lot of big businesses across the world with Burger King and now with Tim's and Popeye's as well.

Dennis Geiger:

That's terrific. I want to ask a couple of domestic questions, but maybe one more on the international for you or Jose, given his experience. BK International, a very strong business, maybe one that isn't fully appreciated as far as the growth that the brand and the business have exhibited over the last several years. Can either of you or both of you talk a little bit about the BK brand outside the US, how it's positioned and how you think about the opportunity for continued growth in the years ahead.

David Shear:

Yeah, maybe let me start, and then Jose can jump in as he'd like. But I think probably many people don't realize that Burger King's actually, majority of our sales are outside the US. So like I said before, 60% of our sales are actually outside the US. And that's a percentage that continues to grow consistently year over year with the strength of growth that we've been seeing internationally.

David Shear:

And I think what's really great is beyond our percentage of sales, what's been really important over the years is that our brand is getting much stronger every year, and we're becoming leaders in a bunch of markets. So a couple examples, like in Spain, we're the leader in the burger QSR space by restaurant count. If you look at Korea or Brazil, we're the most preferred burger brand in the country. That's based on a bunch of third party research that we do. We have several markets that are over a billion dollars in system-wide sales. So France, Spain, and Germany, they're all over a billion dollars in sales. And we couldn't say any of those things even just a few years ago about the Burger King business internationally. But we're really becoming a stronger business every year, and in a bunch of markets now we're becoming the category leader.

David Shear:

So I think that's been the last few years. And coming out of COVID obviously has been a challenge, but at the end of the day, I think our business has also come out of COVID much, much stronger than going in. If you look at it just from a sales standpoint, last year we were plus 14% in the international side of the business, and in Q4, we were plus 19%. So we're ramping up over the course of the year.

David Shear:

And I think that we see this as a really important continuable growth driver for us, as long as we keep learning, we keep being leaders in areas that are going to be really important category growth drivers, like digital, like plant based, like these more premium burgers that I was talking about. And I think as long as we're super focused on delivering a great guest experience, we see this as a brand that has a long runway of continued growth ahead of it.

Jose Cil:

Yeah. I think just to add to that, it's not just the logo and the brand equities that drive that. We have very talented leaders in each of our markets and CEOs, CMO, chief marketing officers, heads of operations and development, and our involvement in many of these organizations at the board level, especially the big markets where we have a JV interest, helps us help them align interest, ensure they

have the right incentives, and that we share best practices to be able to drive brand growth as they have.

Jose Cil:

And so we feel that we have a very unique model in that regard, the ability to recruit and bring in top talent in each of our key markets all around the world and to bring our management philosophy and our incentivized growth model all around the world. And I think that combination of having great talent, great brand, great tools, and aligned incentives is what's helped us drive the tremendous brand growth that David talked on and seeing preference become a reality in markets where five, 10 years ago we didn't have much of a presence at all.

Dennis Geiger:

Terrific. That's great. I want to shift the last question or two that we have perhaps, Jose, over to you. You gave some comments at the beginning about Tim Horton's in Canada. Want to touch there at the end of '19 or at the end of last year reached low single digit positive sales over 2019 levels before some of the COVID restrictions hit again. Can you talk about the path to recovery a bit more from here as mobility increases, restrictions ease, and really given all the work that you've done and the team has done to improve the brand over the last couple of years?

Jose Cil:

Yeah. Thanks, Dennis. Look, we're excited about the progress we're making at Tim's in Canada. It's been a journey for sure over the last couple years. We've changed the team, did the most comprehensive research we've done in the history of the brand in Canada, talked to thousands of consumers all around the country. We built the back to basics plan, which was aimed ... It's multi-phased plan that was first aimed at addressing the core product, coffee and breakfast sandwiches and baked goods, improving the quality, ensuring we have best in class there, which is what's appropriate for a brand like Tim's.

Jose Cil:

And then moving into a next phase, which is innovating around the core, expanding our beverage offering with cold brew, with iced coffee improvements, with espresso based products, which we launched or relaunched in the fourth quarter, going into lunch and improving the quality of that offering, and continuing to evolve the PM offering. We've made investments in digital, both our loyalty program there, Tim's Rewards, as well as the drive-through experience, which we think is a massive opportunity for growth in the coming years. And so we've made the investments, we've built the team. We're working closely with the owners in Canada.

Jose Cil:

There's a lot of work to do, but the fourth quarter, as we shared in February earnings call, was confirmation and validation that were on the right path, that some of the numbers we had shared and market share improvements we had shared during the strictest of restrictions in Canada were accurate. That we're taking share. We're growing the business, and we're just in the early stages of getting back to what we think is a really exciting growth opportunity for the Tim's business in Canada.

Jose Cil:

Obviously the near term and early in Q1 was a bit choppy with Omicron and some of the restrictions that we saw in Canada. But as I mentioned in my opening comments, we've seen the business come back. Mobility is beginning to move again. Restrictions have been lifted in many cases, and we think we have a really good path to high single digits in terms of same store sales growth year over year in the first quarter. Our goal is not to get back to 2019 levels, but similar to the pre-pandemic growth rate from a unit standpoint. It's a good milestone to keep in mind, but we have ambitious growth opportunities and plans for the Tim's business, especially as we pivot into a much more modern experience there on the digital side, as well as on the beverage and food side.

Dennis Geiger:

That's terrific. We're out of time. I don't know if, Jose, you mind if we go into overtime with a 30-second BK US question, recognizing there's going to be a lot more details to come later this year. But just anything you could share BK US near to medium term focus and ultimately how you'd like the brand to be positioned longer term.

Jose Cil:

Yeah, I think we had quite a bit of information shared during earnings with Tom Curtis showing up and giving all of you a bit of a preview of what we're working on. The focus has been team and plan and working with the owners and the franchisees in the US on prioritizing the near term opportunities. Many of them really straightforward, but a lot of work to do on operations, on simplification, on improving throughput. We saw that we got a lot slower and our volume as a result decreased a bit during the pandemic, because we didn't move quickly enough on simplification and addressing some of the bottlenecks in the kitchen that were exacerbated by labor and staffing challenges that everyone faced during the height of the pandemic and throughout 2021.

Jose Cil:

We've made near term improvements in how we think about media spend and how do we think about prioritizing our media dollars for the benefit of the business. We've made some changes in adjustments, as we shared on some of our core discount platforms to be able to raise the brand equity and status of our important flagship product, the Whopper, but continue to keep in mind that it's important to have an everyday core discount offering for the consumer. And we think we have a long road ahead of us in terms of continuing to execute well in these areas.

Jose Cil:

We think that there's obviously some more midterm, long term on the remodels and re-imaging our restaurants, and we're working with the franchisees and working internally. And once we have more information on that, we'll share it. But we're excited and encouraged by the progress we're making so far. We closed the gap in the fourth quarter that we shared versus our peers, which was an important confirmation of the progress we're making. It's not the goal. We want to create gaps, not close gaps, but important at the moment we were at with the brand in the middle of 2021 to show that the ability to close the gaps and get back to growth in the business. So we're excited, encouraged by the progress, and that we'll keep everyone posted on future progress in the coming quarters.

Dennis Geiger:

Terrific. That's great. Lots of opportunities for continued growth. We'll stop there. I want to thank Jose and David. This was a treat. Thanks so much to both of you for your time this morning. And thanks to

Matt and the team and all of you for your time today at the conference. And thanks very much, folks. Appreciate it.

Jose Cil:

Great. Thanks, Dennis. Appreciate it.

David Shear:

Thanks, guys.

Dennis Geiger:

David, thanks a lot.

Jose Cil:

Thanks, David. Great seeing you.

David Shear:

Thanks, guys. Talk to you later.

Dennis Geiger:

All right. Take care.