

Restaurant Brands International Inc.  
Form 10-Q  
August 02, 2017  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2017

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 001-36786

RESTAURANT BRANDS INTERNATIONAL INC.  
(Exact Name of Registrant as Specified in its Charter)

Canada 98-1202754  
(State or Other Jurisdiction of (I.R.S. Employer  
Incorporation or Organization) Identification No.)

226 Wyecroft Road L6K 3X7  
Oakville, Ontario (Address of Principal Executive Offices) (Zip Code)  
(905) 845-6511  
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (check one);

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Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

As of July 21, 2017, there were 236,263,566 common shares of the Registrant outstanding.

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Table of Contents

RESTAURANT BRANDS INTERNATIONAL INC. AND SUBSIDIARIES  
TABLE OF CONTENTS

|                                       | Page  |
|---------------------------------------|---|
| <u>PART I – Financial Information</u> |   |
| Item 1.                               | <u>Financial Statements</u> 3   |
| Item 2.                               | <u>Management’s Discussion and Analysis<br/>of Financial Condition and Results of<br/>Operations</u> 23 |
| Item 3.                               | <u>Quantitative and Qualitative<br/>Disclosures About Market Risk</u> 37                                |
| Item 4.                               | <u>Controls and Procedures</u> 37   |
| <u>PART II – Other Information</u>    |   |
| Item 1.                               | <u>Legal Proceedings</u> 39   |
| Item 5.                               | <u>Other Information</u> 39   |
| Item 6.                               | <u>Exhibits</u> 40  |
|                                       | <u>Signatures</u> 41  |
|                                       | <u>Index to Exhibits</u> 42   |

Table of Contents

## PART I — Financial Information

## Item 1. Financial Statements

## RESTAURANT BRANDS INTERNATIONAL INC. AND SUBSIDIARIES

## Condensed Consolidated Balance Sheets

(In millions of U.S. dollars, except share data)

(Unaudited)

|   | As of<br>June 30,<br>2017 | December<br>31, 2016 |
|---|---------------------------|----------------------|
| <b>ASSETS</b>   |                           |                      |
| Current assets:   |                           |                      |
| Cash and cash equivalents   | \$3,435.5                 | \$1,460.4            |
| Accounts and notes receivable, net of allowance of \$15.9 million and \$14.3 million, respectively  | 388.8                     | 403.5                |
| Inventories, net  | 89.5                      | 71.8                 |
| Advertising fund restricted assets  | 92.8                      | 57.7                 |
| Prepays and other current assets  | 106.9                     | 103.6                |
| Total current assets  | 4,113.5                   | 2,097.0              |
| Property and equipment, net of accumulated depreciation and amortization of \$545.0 million and \$474.5 million, respectively   | 2,153.5                   | 2,054.7              |
| Intangible assets, net  | 10,841.6                  | 9,228.0              |
| Goodwill  | 5,683.7                   | 4,675.1              |
| Net investment in property leased to franchisees  | 81.5                      | 91.9                 |
| Derivative assets   | —                         | 717.9                |
| Other assets, net   | 363.1                     | 260.3                |
| Total assets  | \$23,236.9                | \$19,124.9           |
| <b>LIABILITIES, REDEEMABLE PREFERRED SHARES AND SHAREHOLDERS' EQUITY</b>  |                           |                      |
| Current liabilities:  |                           |                      |
| Accounts and drafts payable   | \$376.1                   | \$369.8              |
| Other accrued liabilities   | 492.1                     | 469.3                |
| Gift card liability   | 139.5                     | 194.4                |
| Advertising fund liabilities  | 120.7                     | 83.3                 |
| Current portion of long term debt and capital leases  | 76.3                      | 93.9                 |
| Total current liabilities   | 1,204.7                   | 1,210.7              |
| Term debt, net of current portion   | 11,252.9                  | 8,410.2              |
| Capital leases, net of current portion  | 231.2                     | 218.4                |
| Other liabilities, net  | 1,178.9                   | 784.9                |
| Deferred income taxes, net  | 2,198.0                   | 1,715.1              |
| Total liabilities   | 16,065.7                  | 12,339.3             |
| Redeemable preferred shares; no par value; 68,530,939 shares authorized, issued and outstanding at June 30, 2017 and December 31, 2016  | 3,297.0                   | 3,297.0              |
| Shareholders' equity:   |                           |                      |
| Common shares, no par value; unlimited shares authorized at June 30, 2017 and December 31, 2016; 236,247,377 shares issued and outstanding at June 30, 2017; 234,236,678 shares issued and outstanding at December 31, 2016 | 2,003.0                   | 1,955.1              |
| Retained earnings   | 497.6                     | 445.7                |
| Accumulated other comprehensive income (loss)   | (578.1                    | ) (698.3 )           |
| Total Restaurant Brands International Inc. shareholders' equity   | 1,922.5                   | 1,702.5              |

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|   |            |            |
|---|------------|------------|
| Noncontrolling interests  | 1,951.7    | 1,786.1    |
| Total shareholders' equity  | 3,874.2    | 3,488.6    |
| Total liabilities, redeemable preferred shares and shareholders' equity | \$23,236.9 | \$19,124.9 |

See accompanying notes to condensed consolidated financial statements.

3

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Table of Contents

## RESTAURANT BRANDS INTERNATIONAL INC. AND SUBSIDIARIES

## Condensed Consolidated Statements of Operations

(In millions of U.S. dollars, except per share data)

(Unaudited)

|   | Three Months<br>Ended<br>June 30, |         | Six Months Ended<br>June 30, |           |
|---|-----------------------------------|---------|------------------------------|-----------|
|   | 2017                              | 2016    | 2017                         | 2016      |
| Revenues:   |                                   |         |                              |           |
| Sales   | \$602.1                           | \$558.6 | \$1,152.5                    | \$1,049.1 |
| Franchise and property revenues                               | 530.6                             | 481.6   | 980.8                        | 909.6     |
| Total revenues  | 1,132.7                           | 1,040.2 | 2,133.3                      | 1,958.7   |
| Operating costs and expenses:                                 |                                   |         |                              |           |
| Cost of sales   | 460.2                             | 438.0   | 883.6                        | 828.6     |
| Franchise and property expenses                               | 113.7                             | 111.9   | 224.7                        | 213.7     |
| Selling, general and administrative expenses                  | 96.7                              | 73.1    | 218.6                        | 146.3     |
| (Income) loss from equity method investments                  | 0.9                               | 4.5     | (4.8)                        | (14.0)    |
| Other operating expenses (income), net                        | 46.8                              | (11.3)  | 60.6                         | 29.5      |
| Total operating costs and expenses                            | 718.3                             | 616.2   | 1,382.7                      | 1,204.1   |
| Income from operations  | 414.4                             | 424.0   | 750.6                        | 754.6     |
| Interest expense, net   | 128.0                             | 117.2   | 239.4                        | 232.3     |
| Loss on early extinguishment of debt                          | —                                 | —       | 20.4                         | —         |
| Income before income taxes                                    | 286.4                             | 306.8   | 490.8                        | 522.3     |
| Income tax expense  | 42.9                              | 59.2    | 80.7                         | 106.4     |
| Net income  | 243.5                             | 247.6   | 410.1                        | 415.9     |
| Net income attributable to noncontrolling interests (Note 11) | 86.5                              | 89.2    | 135.4                        | 140.0     |
| Preferred share dividends                                     | 67.5                              | 67.5    | 135.0                        | 135.0     |
| Net income attributable to common shareholders                | \$89.5                            | \$90.9  | \$139.7                      | \$140.9   |
| Earnings per common share                                     |                                   |         |                              |           |
| Basic   | \$0.38                            | \$0.39  | \$0.59                       | \$0.61    |
| Diluted   | \$0.37                            | \$0.38  | \$0.57                       | \$0.59    |
| Weighted average shares outstanding                           |                                   |         |                              |           |
| Basic   | 235.8                             | 233.5   | 235.2                        | 231.8     |
| Diluted   | 478.0                             | 470.1   | 477.3                        | 469.2     |
| Cash dividends declared per common share                      | \$0.19                            | \$0.15  | \$0.37                       | \$0.29    |

See accompanying notes to condensed consolidated financial statements.

Table of Contents

## RESTAURANT BRANDS INTERNATIONAL INC. AND SUBSIDIARIES

## Condensed Consolidated Statements of Comprehensive Income (Loss)

(In millions of U.S. dollars)

(Unaudited)

|   | Three Months<br>Ended<br>June 30, |         | Six Months<br>Ended<br>June 30, |          |
|---|-----------------------------------|---------|---------------------------------|----------|
|   | 2017                              | 2016    | 2017                            | 2016     |
| Net income  | \$243.5                           | \$247.6 | \$410.1                         | \$415.9  |
| Foreign currency translation adjustment   | 355.4                             | 21.1    | 461.2                           | 670.5    |
| Net change in fair value of net investment hedges, net of tax of \$(48.8), \$(6.9), \$(38.1) and \$28.6   | (172.9 )                          | 47.5    | (216.4 )                        | (191.1 ) |
| Net change in fair value of cash flow hedges, net of tax of \$5.9, \$5.7, \$6.8 and \$21.4                | (16.5 )                           | (16.6 ) | (19.1 )                         | (61.0 )  |
| Amounts reclassified to earnings of cash flow hedges, net of tax of \$(2.5), \$(1.8), \$(3.8) and \$(1.8) | 7.3                               | 5.2     | 11.0                            | 5.1      |
| Pension and post-retirement benefit plans, net of tax of \$0, \$0, \$0.1 and \$0                          | —                                 | —       | (0.1 )                          | —        |
| Amortization of prior service (credits) costs, net of tax of \$0.3, \$0.3, \$0.6 and \$0.6                | (0.4 )                            | (0.5 )  | (0.8 )                          | (0.9 )   |
| Amortization of actuarial (gains) losses, net of tax of \$0.8, \$(0.1), \$0.7 and \$(0.1)                 | 1.0                               | —       | 1.2                             | 0.1      |
| Other comprehensive income (loss)   | 173.9                             | 56.7    | 237.0                           | 422.7    |
| Comprehensive income (loss)   | 417.4                             | 304.3   | 647.1                           | 838.6    |
| Comprehensive income (loss) attributable to noncontrolling interests                                      | 171.8                             | 117.2   | 251.7                           | 351.0    |
| Comprehensive income attributable to preferred shareholders   | 67.5                              | 67.5    | 135.0                           | 135.0    |
| Comprehensive income (loss) attributable to common shareholders   | \$178.1                           | \$119.6 | \$260.4                         | \$352.6  |
| See accompanying notes to condensed consolidated financial statements.                                    |                                   |         |                                 |          |

Table of Contents

## RESTAURANT BRANDS INTERNATIONAL INC. AND SUBSIDIARIES

## Condensed Consolidated Statements of Shareholders' Equity

(In millions of U.S. dollars, except shares)

(Unaudited)

|   | Issued Common Shares |           | Retained Earnings | Accumulated Other Comprehensive Income (Loss) |            | Noncontrolling Interest | Total |
|---|----------------------|-----------|-------------------|---|------------|-------------------------|-------|
|   | Shares               | Amount    |                   |   |            |                         |       |
| Balances at December 31, 2016   | 234,236,678          | \$1,955.1 | \$445.7           | \$ (698.3 )                                   | \$ 1,786.1 | \$3,488.6               |       |
| Stock option exercises  | 1,710,286            | 12.3      | —                 | —   | —          | 12.3                    |       |
| Share-based compensation  | —                    | 24.9      | —                 | —   | —          | 24.9                    |       |
| Issuance of shares  | 153,683              | 8.5       | —                 | —   | —          | 8.5                     |       |
| Dividends declared on common shares   | —                    | —         | (87.1 )           | —   | —          | (87.1 )                 |       |
| Dividend equivalents declared on restricted stock units                           | —                    | 0.7       | (0.7 )            | —   | —          | —                       |       |
| Distributions declared by Partnership on Partnership exchangeable units (Note 11) | —                    | —         | —                 | —   | (83.9 )    | (83.9 )                 |       |
| Preferred share dividends   | —                    | —         | (135.0 )          | —   | —          | (135.0 )                |       |
| Exchange of Partnership exchangeable units for RBI common shares                  | 146,730              | 1.5       | —                 | (0.5 )  | (1.0 )     | —                       |       |
| Restaurant VIE contributions (distributions)—                                     |                      |           |                   |   |            |                         |       |