

A Work Project, presented as part of the requirements for the Award of a Master Degree in Finance from the
NOVA – School of Business and Economics.

AN EXPANSION JOURNEY BEYOND TASTE
Navigating the Quick-Service Restaurant Landscape

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Abstract

This report provides a detailed analysis of Restaurant Brands International Inc., including a deep dive into the foodservice industry landscape and the forces driving competition. The valuation of the company is performed on a segment-level through the discounted cash flow model, which is complemented with a multiples analysis. Furthermore, a risk assessment was conducted to test the valuation model's responsiveness to pivotal components. Finally, the company's sustainability profile was assessed, by discussing its performance in each ESG pillar.

Our final recommendation is to buy Restaurant Brands International Inc.'s stock given our price per share target of \$84.51 as of December 31st, 2024, implying a capital gain of 15.12% for the investor.

Keywords:

Restaurant Brands International Inc.

Quick-service restaurants

Franchisees

Brands

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This report is part of the “An Expansion Journey Beyond Taste” report (annexed), developed by Inês Vidal and Pedro Rodrigues and should be read as an integral part of it.

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Introduction

The joint report, entitled “An Expansion Journey Beyond Taste”, provides a comprehensive analysis on Restaurant Brands International Inc., one of the world’s leading quick-service restaurant providers, with the purpose of delivering an investment recommendation.

The joint dissertation starts by covering an overview on the company and respective business segments, followed by an external in-depth analysis of the industry outlook, macroeconomic environment and competitive landscape. Afterwards, the financial health is assessed as well as the historical evolution of main captions, namely Revenues, Operating Costs and Profitability Margins. Subsequently, the segment-level forecast is explained, with a detailed description of the necessary assumptions for the segment’s predicted revenues and costs. Building on top of this, the Discounted Cash Flow Model applied is described, followed by a complementary relative valuation and the respective valuation risk assessment through sensitivity and Monte Carlo methodologies. Finally, the ESG rating of the company is discussed given the increasing importance investors place on this criteria.

The conclusion of the joint report is a target price per share of \$84.51 as of December 31st, 2024, which translates in a “Buy” recommendation.

This individual report includes the sections concerning the industry analysis, valuation methods, risk assessment and ESG, while the company overview, financial analysis and forecast are covered by my pair.

Industry Outlook

Industry Analysis

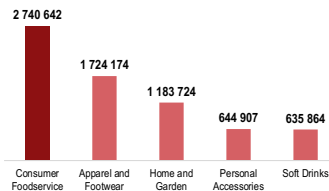


Figure 1: Top 5 Largest Industries in Consumer Goods
Source: Euromonitor International

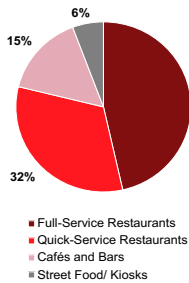


Figure 2: Foodservice Industry by type of restaurant (2022)
Source: Euromonitor International

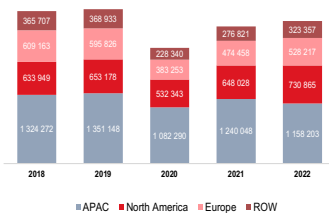


Figure 3: Foodservice Historical Industry Performance by geography, in USD Millions
Source: Euromonitor International

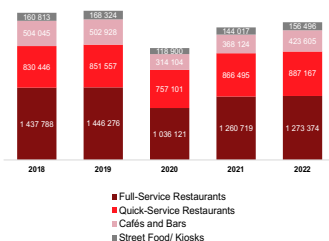


Figure 4: Foodservice Historical Industry Performance by type of restaurant, in USD Millions
Source: Euromonitor International

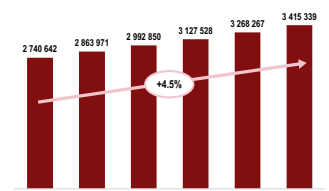


Figure 5: Foodservice Forecasted Industry Performance, in USD Millions, and CAGR
Source: Euromonitor International & Deloitte

Foodservice is the largest industry within consumer goods, with a size of \$2,740,642 million in 2022¹. It can be defined as the value of all food and drink for on site immediate consumption (food away from home) or, in the matter of takeaway, freshly prepared food for immediate consumption². This industry comprises full-service restaurants, quick-service restaurants (also designated as limited-service restaurants), caterers, some cafeterias and other sites which prepare, serve and sell food to the general public to earn a profit³.

Full-service restaurants and quick-service restaurants (QSR) are the two largest foodservice industry segments, accounting for approximately, 46% and 32%, respectively, of the market value in 2022. Restaurant Brands International Inc. positions itself within the QSR market, which encompasses fast food and 100% home delivery outlets. Quick-service restaurants provide limited menus whose items can be quickly prepared and generally customers order, pay and collect their orders from a counter. Nonetheless, some of restaurants might have limited table service. Concerning the different geographies, as of 2022, APAC remains the pacesetter (42%), followed by North America (27%).

In 2020 the foodservice industry suffered a sharp decline of 25% which was mainly due to the pandemic and consequent mobility restrictions. QSR was the market segment with the smallest decrease in value (11%). This can be explained by the fact that these restaurants were better able to adapt to the Covid-19 restrictions given the already limited physical interactions with customers (e.g.: no wait staff, relatively sparse dining amenities, drive-thru).

With the uplifting of the containment measures, in 2021, the global foodservice industry started to recover, showing a 18.6% increase, with significant growth across all geographies and restaurant types.

However, in 2022 prices increased along the foodservice value chain as a result of the record-high level inflation and the Ukraine-Russia war. This has led the majority of foodservice players to increase prices of products/services and/or accept lower profit margins⁴. The price increase in this industry is evident by looking at the Food Away from Home CPI Index, which jumped by 8.78% YoY in March 2023, the highest figure since September 1981. In addition, inflation impacts consumers' choices, discouraging the frequency of dining out. The demand and value chain challenges have thus delayed the global foodservice industry's return to pre-pandemic levels.

Nevertheless, as main markets such as the US and China recover, the overall industry is expected to consolidate its recovery, with a predicted CAGR of 4.5% between 2022-2027⁵. Focusing on QSR, this segment has returned to pre-pandemic levels already in 2022, registering a market value of \$887,167 million⁶, and is expected to have a CAGR of 4.1% over the years of 2022-2027⁵.

Lastly, there are a few main trends shaping consumer foodservice. Firstly, driven mainly by the

¹Euromonitor International. Accessed October 2023. <https://www.portal.euromonitor.com>.

²GlobalData. 2023. "Global Foodservice September 2023." Industry Profile.

³GlobalData. 2023. "Global Foodservice September 2023." Industry Profile.

⁴Deloitte. 2023. "Foodservice Market Monitor."

⁵Deloitte. 2023. "Foodservice Market Monitor."

⁶Euromonitor International. Accessed October 2023. <https://www.portal.euromonitor.com>.

Foodservice: Geography Segmentation		CAGR(22-27)
APAC		6.40%
North America		2.50%
Europe		2.80%
ROW		4.90%
Foodservice: Market Segmentation		CAGR(22-27)
Full-Service Restaurants		4.70%
Quick-Service Restaurants		4.10%
Cafes and Bars		4.80%
Street Food/ Kiosks		4.20%

Figure 6: CAGR (2022-27) across Regions and Markets of Foodservice Industry
Source: Deloitte Foodservice Market Monitor 2023



Figure 7: CPI (All items), Percentage Change from Year Ago
Source: FRED, October 2023

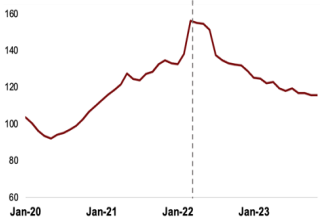


Figure 8: Food Price Index, 2014-16=100
Source: FAO, November 2023
 Note: Dotted line marks Russia's invasion of Ukraine

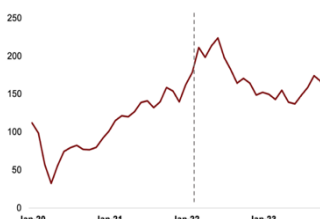


Figure 9: Crude Oil Prices: WTI, Jan-2019=100
Source: FRED, December 2023
 Note: Dotted line marks Russia's invasion of Ukraine

pandemic, consumers seek convenience more than ever. According to a Gartner study⁷, 96% of customers who had high-effort experiences reported being disloyal. Thus, creating an effortless customer journey through the expansion of digital strategies is relevant as it can enhance customer loyalty and possibly contribute to improved margins for restaurant operators. Secondly, sustainability is a growing consumer concern, with a KerryDigest study⁸ reporting that 58% of consumers in North America state being strongly influenced by sustainability when making a food or beverage purchase at a restaurant. Sustainability is being addressed by industry players to gain competitive advantage by appealing to eco-conscious consumers. For instance, within the QSR segment, McDonald's is setting to transition by 2025 from single-use plastic and foam to 100% sustainable alternatives⁸ and Chipotle has introduced an innovative all-electric restaurant concept aimed at reducing greenhouse gas emissions in its operations⁹. To effectively appeal to eco-conscious consumers, companies must continue to focus on sustainable practices like, for instance, reducing waste, resorting to sustainable ingredients and energy-efficient cooking methods. Lastly, expanding plant-based alternatives is relevant in order to meet the increasing demand for healthier and more sustainable diets. Having as basis the Euromonitor International's Lifestyles Survey 2023 results⁹, flexitarians (i.e., individuals whose diet limits animal protein and processed foods and beverages) make up 11.1% of the global population, while vegans and vegetarians continue to grow, reaching, in 2023, a proportion of 4.6% and 6.2%, respectively.

Macroeconomic Outlook

■ Persistent Inflation & Input Costs

Inflationary pressures have moderated considerably over the last year, albeit remaining at historically high levels. Inflation indices, including the CPI, have fallen below the 8.9% peak of June 2022 to a 3.2% rate in October¹⁰. The inflationary pressure felt over the last year has led, among others, to an increase in energy and commodity prices. The spike in these input costs' prices was felt with the beginning of the Ukraine-Russia conflict, as the war induced added uncertainty to the already rising energy and commodity prices. On the one hand, Europe heavily relied on energy imports from Russia which led to a market response being reflected in energy prices¹¹. Additionally, Ukraine and Russia are among the largest global grain exporters, with Russia also being a prominent fertilizers' exporter, driving supply chain disruptions and all-time high food prices¹².

The surge in commodity and energy prices driven by inflation and aggravated by the war, led to higher input costs for foodservice industry suppliers, which was then passed on to restaurant operators. This deteriorates margins as quick-service restaurants are not able to easily pass the price increase to consumers if they aim to maintain its low-cost perception. Nonetheless, energy and commodity prices have begun to ease, although they remain elevated in comparison with historical figures. The overall moderated inflationary pressure, especially that of input costs, is setting a more favourable scenario for the foodservice industry's performance as it could contribute to improving operating margins.

■ Disposable Personal Income & Savings

⁷Gartner. 2019. "Effortless Experience Explained." <https://www.gartner.com/smarterwithgartner/effortless-experience-explained>.
⁸Garson, Remy. 2023. "The Food Service Industry's Sustainable Revolution: Transitioning From Single-Use To Environmental Responsibility." *Forbes*.
⁹Euromonitor International. 2023. "World Market for Consumer Foodservice."
¹⁰2023. *Federal Reserve Bank of St. Louis (FRED)*. Accessed November 2023. <https://fred.stlouisfed.org>.
¹¹Zettelmeyer, Jeromin, Simone Tagliapietra, Georg Zachmann, e Conall Heussaff. 2022. "Beating the European Energy Crisis." *International Monetary Fund*.
¹²FAO, IFAD, UNICEF, WFP, WHO. 2023. "The State of Food Security and Nutrition in the World."

Over the last year, disposable personal income has been steadily increasing, with the latest release reporting a 7.6% increase from Q3 2022 to Q3 2023¹³. Conversely, during the last year, the savings rate has recently been on a relatively steady trend, being a slightly higher over the last 12 months (3.8% on October 2023 vs 3.0% on October 2022)¹⁴. A higher disposable income and lower savings rate reflect a favourable economic environment for restaurant operators as people tend to eat out more often.

■ Consumer Confidence Index

Consumer confidence index provides an insight into consumer sentiment on the general economic outlook and into future developments of households' consumption and saving. In the latest reading, released on the 28th November 2023, the index value increased from 99.1 in October to 102¹⁵. According to the recorded responses of the Consumer Confidence Survey, consumers express concerns towards rising prices, higher interest rates and the political situation, with a rise in worries regarding conflicts given the recent turmoil in the Middle East; while fears for a possible recession decreased slightly.

An index value above 100 signals a boost in consumers' confidence, with the latter being less prone to save. The index seems to point towards consumers increasing consumer spending for restaurant dining occasions.

Competitive Landscape & Positioning

The growing foodservice industry combined with the increasing disposable income and consumer expenditure pose an opportunity for RBI's operational activity. Additionally, international expansion will be key in enabling RBI to continue its market share increasing trend. Popeyes, Firehouse Subs and Tim Hortons have greater opportunities than most other brands in the top 10 for expansion into new international markets and for adding outlets in existing markets, since the latter have reached higher saturation levels in many international markets¹⁶. RBI's ability to take advantage from the mentioned opportunities, rests on the company leveraging its strengths. Firstly, RBI has a portfolio comprised of renowned brands, with strong brand identities which resonate to consumers worldwide. Its brand portfolio also leads the company to provide varied menu offerings, providing diversification and allowing the firm to reach a wide customer base, capturing the increasing consumer income and expenditure. Moreover, RBI's strong franchise network not only allows for a rapid business expansion but also enables the the firm to reduce operating costs and expenses. Nevertheless, RBI faces a variety of consumer preferences, changing trends and dietary concerns. The company needs to respond by offering products that meet such changing preferences, otherwise its operations could be affected by a declining demand. Lastly, competition also poses a threat. Foodservice is an intensely competitive industry whose players go from independent local operators to well-capitalized international restaurant chains. Market concentration, measured through the Herfindahl-Hirschman Index (HHI), is low, having increased in recent years due to leading players increasing market share.

Below is a more in-depth analysis on the forces driving competition within this industry.

■ Porter's Five Forces Analysis

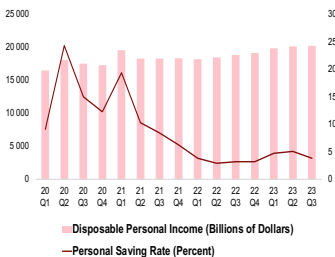


Figure 10: Disposable Personal Income & Savings Rate
Source: FRED, November 2023

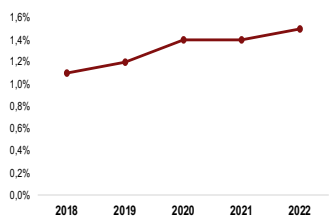


Figure 11: RBI Market Share Evolution in the Foodservice Industry (2018-2022)
Source: Euromonitor International

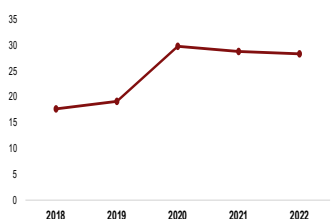


Figure 12: HHI Evolution (2018-2022)
Source: Euromonitor International & Own Computations

¹³2023. Federal Reserve Bank of St. Louis (FRED). Accessed November 2023. <https://fred.stlouisfed.org>.

¹⁴2023. Federal Reserve Bank of St. Louis (FRED). Accessed November 2023. <https://fred.stlouisfed.org>.

¹⁵2023. The Conference Board. Accessed November 2023. <https://www.conference-board.org/topics/consumer-confidence>.

¹⁶Euromonitor International. 2023. "World Market for Consumer Foodservice."



Figure 13: Forces Driving Competition in Foodservice Industry
Source: Own Analysis

Buyer Power: In this industry, buyers consist of individual consumers. The impact of any consumer on a player's revenue is minimal, but foodservice outlets must take into account the wider consumer interests. Demand is considerably influenced by price since eating out is a non-essential activity. To respond to this, leading players provide discounts and heavily invest in brand-building to drive customer loyalty. Overall, buyer power can be regarded as moderate.

Supplier Power: Suppliers are mainly wholesalers which sell to several businesses. Large foodservice chains like RBI benefit of more negotiation power over suppliers than individual players given their enormous orders and consequent significant effect over suppliers' revenues. Leading players also often have a wide range of suppliers to guarantee stability and mitigate sourcing problems or fluctuations in prices. Thus, supplier power can be seen as low.

New Entrants: The abundance of suppliers and the industry's steady-growth make it attractive for new firms. Moreover, there is only a moderate level of investment required in setting up a new restaurant. However, this is a highly regulated industry due to strict food hygiene regulations (e.g.: Within EU countries, companies are required to follow the legislation of the European Food Safety Authority)¹⁷ and compliance imposes costs. Additionally, new entrants face competition from large multinational restaurant chains, such as RBI, which benefit from cost-advantage given their higher bargaining power with suppliers and ability to provide highly competitive offers to price-sensitive consumers, while maintaining higher margins. Overall, there is a moderate threat of new entrants.

Threat of Substitutes: Eating out is a non-essential activity to consumers which can be easily replaced by eating at home, with the only switching costs associated being effort and time to prepare a meal. Based the GlobalData 2022 Q4 Global Consumer Survey¹⁸, more than 50% of US consumers say that they consume breakfast, lunch, and dinner at home on weekdays and weekends. As such, the threat of substitutes can be considered as strong.

Degree of Rivalry: In this industry, especially within the QSR segment, there are numerous companies with a similar structure which offer similar products within the same price range. This combined with the fact that consumers do not incur in switching costs, intensifies the rivalry among players. The low industry's HHI also points towards a highly fragmented and intensely competitive market. Overall, the rivalry can be contemplated as strong.

Foodservice Industry Market Shares 2022	
McDonald's Corp	3,9%
Yum! Brands Inc	2,2%
Restaurant Brands International Inc	1,5%
Starbucks Corp	1,3%
Inspire Brands Inc	1,1%
Seven & I Holdings Co Ltd	0,7%
CFA Properties Inc	0,7%
Domino's Pizza Inc	0,7%
Doctor's Associates Inc	0,6%
Wendy's Co, The	0,5%
Others	86,8%

Figure 14: Global Foodservice Industry Market Shares (2022)
Source: Euromonitor International

Peers

To better assess RBI's competitive position and its relative performance, a peer group was selected. The criteria behind the peers selection is explained in the Relative Valuation subsection of this report.

McDonald's Corp. (MCD)

McDonald's Corp is an American operator and franchisor of fast-food restaurants headquartered in Chicago, USA. Ever since the foundation in 1940, the company found great success in the franchise business model, and grew exponentially into the world's largest and most successful fast-food chain. McDonald's menu is renowned worldwide due to the existence of iconic products such as the Big Mac, Chicken McNuggets, and the golden fries. In 2022, McDonald's operated 40,275 restaurants, 95% being franchised and the remaining company-operated. Since McDonald's revenue from franchised restaurants corresponds to a royalty fee applied to



Figure 15: McDonald's Corp. Logo

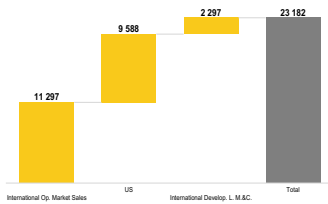


Figure 16: MCD Revenues Breakdown (2022), in USD Millions
Source: McDonald's Corp. 10K Annual Report (2022)

¹⁷U.S. Department Of Agriculture. Accessed October 2023. <https://usda-eu.org/import-controls/food-safety/>.
¹⁸GlobalData. 2023. "Global Foodservice September 2023." Industry Profile.

franchisees' revenues, the net revenue coming from franchised restaurants constitutes only 61% of total revenues. Total revenues amounted to \$23,182 million in 2022, being divided into three segments: 1) United States (41%); 2) International Operated Markets (49%); 3) International Developmental Licensed Markets & Corporate (10%)¹⁹.

Yum! Brands Inc. (YUM)

Yum! Brands Inc. is an American quick-service restaurant company which spun-off from PepsiCo in 1997. YUM operates restaurants under the brand name of KFC, Taco Bell, Pizza Hut and The Habit Burger Grill. These restaurants serve different types of menu items, allowing the firm to reach a wide consumer base. As of 2022, YUM is present across more than 155 countries and territories, operating 55,361 restaurants, of which 98% are franchised. On October 2016, Yum Brands completed the spin-off of its China business into an independent publicly-traded firm (Yum China Holdings Inc.), which is currently its largest master franchisee. In FY2022, the company reported revenues of \$6,842 million, having increased 3.8% over FY2021. KFC is responsible 41% of total revenues, followed by Taco Bell, with 36%. Conversely, US is the largest market in terms of revenues for YUM, accounting for over 57% of total revenues²⁰.

Starbucks Corp. (SBUX)

Starbucks Corp is a premium coffee retailer formed in 1985. It roasts, markets and retails high-quality coffee. The company also offers handcrafted tea and other beverages, as well as high-quality food items and other items like, for example, apparel and mugs. Additionally, Starbucks licenses its trademarks through, for example, licensed stores and grocery channels. As of 2022, the company operated 35,711 stores, with 51% being company-owned and accounting for 82% of total net revenues. In FY2022, Starbucks registered total net revenues of \$32,250 million up 11% from FY2021, with US being the prominent geographic area, accounting for approximately 72%. The company has three reportable segments: 1) North America; 2) International, which encompasses China, Japan, Asia Pacific, Europe, Middle East, Africa, Latin America and Caribbean; 3) Channel Development, which comprises consumer packaged goods, ready-to-drink businesses and strategic partnerships. As a percentage of total revenues, North America leads with 72%, driven by the US²¹.

Domino's Pizza Inc. (DPZ)

Domino's Pizza Inc. started out in 1960 and is the world's largest pizza company. It offers consumers a considerable range of pizza products with varied sizes and crust types, with toppings varying across countries and cultures. Its stores are operated through delivery and carryout service models. Domino's also generates revenues through their supply chain, by selling supplies, food and equipment to franchisees, predominantly in Canada and the US. As of January 1, 2023, the company has restaurants across 19,800 locations in over 90 markets, with approximately 99% of global stores being franchisee owned and operated. In FY2022, Domino's Pizza recorded \$4,537.2 million in revenues, increasing 4.1% from FY2021. The company's operation is divided within three main segments: US stores, Supply Chain and International Franchise. Supply Chain is the biggest segment, accounting for 60.7% of total revenues²².



Figure 17: Yum! Brands Inc. Logo

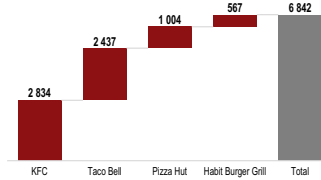


Figure 18: YUM Revenues Breakdown (2022), in USD Millions
Source: Yum! Brands Inc. 10K Annual Report (2022)



Figure 19: Starbucks Corp. Logo

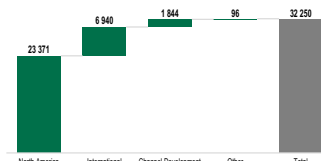


Figure 20: SBUX Revenues Breakdown (2022), in USD Millions
Source: Starbucks Corp. 10K Annual Report (2022)



Figure 21: Domino's Pizza Inc. Logo

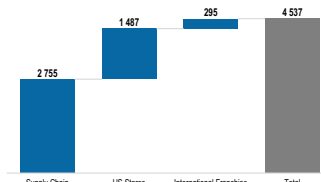


Figure 22: DPZ Revenues Breakdown (2022), in USD Millions
Source: Domino's Pizza Inc. 10K Annual Report (2022)

¹⁹ McDonald's Corporation. 2022. "Annual Report." Form 10-K.

²⁰ Yum! Brands, Inc. 2022. "Annual Report." Form 10-K.

²¹ Starbucks Corporation. 2022. "Annual Report." Form 10-K.

²² Domino's Pizza, Inc. 2022. "Annual Report." Form 10-K.



Figure 23: The Wendy's Co. Logo

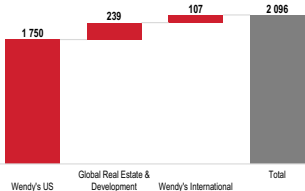


Figure 24: WEN Revenues Breakdown (2022), in USD Millions

Source: The Wendy's Co. 10K Annual Report (2022)

The Wendy's Co (WEN)

Wendy's Co is a quick-service hamburger restaurant company and it opened its first restaurant in 1969, in Ohio. Currently, Wendy's is the third largest hamburger sandwich company within the QSR market, with 7,095 restaurants over 32 countries, as of January 1, 2023. Company-operated restaurants comprised about 6% of total restaurant stores. In FY 2022, total revenues amounted to \$2,095.5 million, 10.5% higher than the previous financial year. Wendy's Co. comprises three operational segments: Wendy's US, Wendy's International and Global Real Estate & Development which account for 84%, 5% and 11% of total revenues, respectively²³.

Valuation

Cost of Capital

To compute the WACC, a stable market debt-to-value ratio (D/V) of 40% was assumed for the forecasted period as there is no publicly available information regarding a possible change in RBI's current capital structure.

For the estimation of the company's cost of debt, the Capital Asset Pricing Model (CAPM) was applied. The current yield of the US Government 10Y Treasury Bond (USGG10YR), 4.25%, was considered as the risk-free rate. The latter is reflective of the increase in interest rates as a response to the current inflationary period. For the market risk premium, a NYU Stern's estimate of 5.94% was used. The debt beta was assumed to be 0.17, having as basis S&P BB credit rating assessment and the respective ratings' average beta according to S. Schafer and I. Strebulaev (2009)²⁴. The CAPM output is an estimated cost of debt of 5.26%.

The CAPM was also applied to determine the cost of equity. The equity beta was estimated by regressing RBI's share prices against the S&P 500, using weekly observations from the last five years. Daily or weekly return-based betas are more likely to lead to the lowest tracking errors²⁵ and weekly data was chosen in detriment of daily given the fact that it is less noisy. With the intent of improving the beta's estimate, the regression's raw beta of 1.14 was adjusted to dampen extreme observations towards the mean. We used the same smoothing process as Bloomberg^{26,27} and achieved an adjusted beta of 1.095. The regression's standard error is of 0.081 and the respective possible impact on the company's value is further discussed in the Sensitivity Analysis subsection. Based on this, the computed cost of equity is 10.75%.

With the previously stated parameters, the stable D/V assumption, and the company's statutory tax rate of 26.5%, the WACC is estimated to be 8.03%.

Discounted Cash Flow Model

(in millions of US dollars)	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Core FCF	1 909	2 170	2 335	2 396	2 484	2 557	2 630	2 701	2 774	2 847	2 922
Core Terminal Value	44 978										
WACC	8.03%	8.03%	8.03%	8.03%	8.03%	8.03%	8.03%	8.03%	8.03%	8.03%	8.03%
Discounted Core FCF	1 767	1 859	1 852	1 759	1 688	1 608	1 532	1 456	1 384	1 315	1 249
Discounted Core Terminal Value	22 442										

Figure 26: Discounted Cash Flow Model
Source: Own Analysis

²³The Wendy's Company. 2022. "Annual Report." Form 10-K.

²⁴Schaefer, S., e I. Strebulaev. 2009. *Risk in Capital Structure Arbitrage*. Stanford GSB working paper.

²⁵Agarwal, Pankaj, Faye W. Gilbert, e Jason Harkins. 2022. "Time Dependence of CAPM Betas on the Choice of Interval Frequency and Return Timeframes: Is There an Optimum?" *Journal of Risk and Financial Management*.

²⁶Adjusted Beta = 0.33 + 0.67(Raw Beta)

²⁷Koller, Tim, Marc Goedhart, and David Wessels. 2010. *Valuation: Measuring and Managing the Value of Companies*. John Wiley & Sons.

The final firm value was determined by applying the DCF method, which consisted in discounting the forecasted free cash flows at the estimated WACC of 8.03%. As the valuation date considered for this analysis is December 2024, the first free cash flow included in the DCF corresponds to 2025. The core free cash flows correspond to the sum of each segment's free cash flow and the terminal value was also computed individually for each brand to depict the respective individual terminal value drivers.

For the forecasted period ending in 2035, the total core free cash flows show an increasing trend, with an implied CAGR of 4%.

The enterprise value is attained by adding the contribution of non-core activities to the value generated by the core operations of the business. By deducting the net debt and non-controlling interests, we reach an equity value of \$25,956 million. Considering that the number of outstanding common shares will remain unchanged at 307,947,651²⁸, we estimate a price per share of \$84.51. This translates into a capital gain of 15.12%²⁹, which added to the dividend yield leads to a total gain of 18.14% to the investor. As a result, our model discloses a BUY recommendation.

▪ Terminal Value

	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
ROIC	12%	13%	13%	13%	13%	13%	13%	13%	13%	13%	13%
RONIC	20%	24%	31%	26%	14%	14%	13%	13%	13%	13%	13%
RR	27%	28%	22%	15%	23%	20%	20%	19%	19%	19%	19%
Growth	5,4%	6,9%	6,3%	3,9%	3,5%	2,7%	2,6%	2,6%	2,6%	2,5%	2,5%

Figure 28: Long-term Core Value Drivers
Source: Own Analysis

For the DCF model, a terminal growth rate had to be determined to apply each segments' perpetuity formula when the steady-state is achieved. The growth rate depends on how much it is invested and how much the investment will generate and, as such, it was computed as the product of the reinvestment rate (RR) with the return on new invested capital (RONIC). Additionally, since the core value creation drivers (i.e., RR, core ROIC, core RONIC) stabilize across all brands in the last years of the forecasted period, it means that the company presents steady-state performance, and thus justifies the use of the perpetuity formula³⁰. The estimated terminal growth rate for each segment ranges from 2.2% to 2.6% (Figure 29). We believe this to be a fair estimation since it is reasonable for a company to grow less than the overall economy in the long-term (World GDP Growth of 3.1%).

The overall core ROIC and RONIC both stabilize at 13% in the long-term, surpassing the WACC and implying that RBI will keep creating value to its shareholders, since the return on their investment is higher than the alternative use they could have if their invested capital was given back. Focusing on the individual segments' ROIC and RONIC, both these value drivers are predicted to exceed the WACC in the steady-state for TH, BK and PLK, meaning these brands' continuous growth is driving the predicted additional value generated for investors. Contrarily, FHS core value drivers fall short of the WACC and this might be due to the fact that despite its revenues being expected to follow an expansion path, its asset turnover and operational margin are consistently below the other segments.

Although, according to economic theory, a company's ROIC tends to converge to the cost of capital, we consider that RBI will continue to benefit from sustainable competitive advantages, such as its renowned brands and strong franchise network. Thus, in our view, the fact that RBI is

Enterprise Value	40 812
Net Debt	13 086
Equity Value	25 956
Shares Outstanding (in Millions)	307
Price per Share Target	\$ 84,51

Figure 27: Discount Cash Flow Model
Final Output
Source: Own Analysis

Tim Hortons (TH)	
ROIC	10%
RONIC	11%
Growth	2,6%
Burger King (BK)	
ROIC	29%
RONIC	28%
Growth	2,5%
Popeyes (PLK)	
ROIC	14%
RONIC	16%
Growth	2,2%
Firehouse Subs (FHS)	
ROIC	3%
RONIC	2%
Growth	2,2%
World GDP Growth	3,1%

Figure 29: Segments' Long-term Core Value Drivers
Source: Own Analysis & IMF
Note: World GDP Growth corresponds to the world average GDP growth over the last 15 years

²⁸As of February 14, 2023

²⁹Considering the closing share price at December 15, 2023

³⁰Koller, Tim, Marc Goedhart, and David Wessels. 2010. *Valuation: Measuring and Managing the Value of Companies*. John Wiley & Sons.

predicted to sustain a higher ROIC than its WACC reflects the firm's expected ability to sustain competitive advantages vis-à-vis other competitors.

Relative Valuation

As stated in the Peers subsection, the peer set chosen comprises McDonald's Corp., Yum! Brands Inc., Starbucks Corp., Domino's Pizza Inc., and The Wendy's Co.. To reach this peer group, an initial range of companies was selected (Figure 30) having as preliminary criteria the positioning within the QSR segment of the foodservice industry and the adoption of a franchise business model. The peer set was then further narrowed based on international geographical focus and, consequently, Jack in the Box Inc. and Yum! China Holdings were left out as its operations are focused within the US and China, respectively.

Regarding the multiples, EV/Sales was excluded grounded on the fact that the latter is generally more applicable for early-stage companies (EBITDA can still be negative or very small relative to EV) or for when the cost structure is still evolving and thus not currently representative of the future.

EV/EBITDA Adjusted was chosen since the franchise business model does not entail high investments. For instance, this is reflected in the only 3% approximate difference between EBITDA and EBIT margins over the last five financial years for RBI. The EV/EBITDA Adjusted was used instead of EV/EBITDA to control for non-recurring expenses or one-time costs which could distort the financial results. The P/E was also included in the relative valuation to take into account market expectations.

Each of the chosen multiples was computed for a base, upside, and downside scenario. The base scenario was based on the peers' multiples median value while the upside and downside were built by using, respectively, the 75th percentile and 25th percentile. As a result, according to the EV/EBITDA Adjusted, the share price is likely to vary from \$64.6 to \$92.6, while with the P/E, the range is between \$79.4 and \$89.3. Focusing on the base scenario, with the median EV/EBITDA Adjusted and the P/E, RBI would achieve a share price of \$86.2 and \$85.3. These values are in accordance with our expectations since RBI has shown a robust financial performance, outperforming its peers in terms of revenue growth over the last financial year, in addition to being focused on improving sales growth, franchisee profitability and restaurant productivity through the current brands' strategic plans. Moreover, the base scenario is in line with our DCF share price output.

Risks

There are several risk factors which could negatively impact the company's performance and affect this report's target share price. For instance, since RBI operates worldwide, its earnings are impacted by foreign currency fluctuations. Moreover, as disclosed in the Industry Outlook, the industry's performance is significantly influenced by consumer spending and sentiment. Thus, an economic downturn or the occurrence of unforeseen events, such as a pandemic, would potentially be harmful to the firm's activities. There is also risk associated with the deterioration of the brand's reputation, the launching of unpopular products or ineffective advertising. Nevertheless, for the scope of this report, we will focus on the responsiveness of the share price to two key valuation factors: the cost of capital and the predicted long-term performance of the brands.

Peer Group: Selection	
YUM! BRANDS INC	YES
JACK IN THE BOX INC	NO
MCDONALD'S CORP	YES
THE WENDY'S CO	YES
YUM CHINA HOLDINGS INC	NO
DOMINO'S PIZZA INC	YES
STARBUCKS CORP	YES

Figure 30: Peer Group Company Selection

Source: Own Analysis

Current Multiples	P/E
RESTAURANT BRANDS INTERNATIONAL INC	27.24
YUM! BRANDS INC	24.01
MCDONALD'S CORP	24.76
WENDY'S CO/THE	19.51
DOMINO'S PIZZA INC	27.82
STARBUCKS CORP	27.24
Price Target (Base)	85.28

Figure 31: P/E Multiple

Source: Bloomberg & Own Analysis

Current Multiples	EV/EBITDA Adj.
RESTAURANT BRANDS INTERNATIONAL INC	20.08
YUM! BRANDS INC	19.05
MCDONALD'S CORP	18.72
WENDY'S CO/THE	12.20
DOMINO'S PIZZA INC	20.58
STARBUCKS CORP	14.70
Price Target (Base)	86.23

Figure 32: EV/EBITDA Adjusted Multiple

Source: Bloomberg & Own Analysis

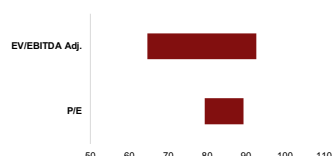


Figure 33: Share Price Variation for P/E EV/EBITDA Adjusted Multiples, in USD

Source: Bloomberg & Own Analysis

Sensitivity Analysis

Reflecting on the performed valuation analysis, it is important to understand the reactivity of the share price to changes in some key drivers. For this purpose, we chose to test the firm's share price when faced with variations in the discount rate, as this is a crucial estimate in our valuation, and the terminal value for the PLK segment. PLK has been having considerably more impact on RBI's results, but contrarily to BK or TH it is not a mature brand, instead, it is still in its growing stage, which entails more uncertainty regarding its future performance evolution.

Regarding the WACC, to reach the possible value range, an initial evaluation on the equity beta was conducted, having as basis a confidence interval of 95%, since this is one of the most uncertain inputs of the cost of capital estimation. As a result, having the maximum and minimum betas as the upper bound and lower bound, respectively, the equity beta interval is [0.99;1.17]. Consequently, this leads the cost of equity to range from 10.13% to 11.19%. Thus, the WACC could be within 7.65% and 8.29%, leading the possible share price to vary from \$78.79 to \$93.74.

β_e	0,99	1,04	1,09	1,13	1,17
Re	10,13%	10,44%	10,75%	10,97%	11,19%
WACC	7,65%	7,84%	8,03%	8,16%	8,29%

Figure 34: Cost of Equity Sensitivity Analysis

Source: Own Analysis

		RONIC PLK				
		8,03%	12,04%	16,04%	18,36%	20,69%
RR PLK	9,00%	0,72%	1,08%	1,44%	1,65%	1,86%
	11,3%	0,91%	1,36%	1,82%	2,08%	2,34%
	13,6%	1,10%	1,64%	2,19%	2,50%	2,82%
	14,1%	1,13%	1,70%	2,26%	2,59%	2,91%
	14,5%	1,17%	1,75%	2,33%	2,67%	3,01%

Figure 35: PLK Terminal Growth Rate Sensitivity Analysis

Source: Own Analysis

For PLK, a preliminary sensitivity for the brand's RONIC and RR was performed, as these are the two value drivers behind the perpetual growth computation. It is also relevant to mention that, by changing these two drivers, the final free cash flow within the perpetuity formula is now also different, making the analysis more complete in assessing the uncertainty of PLK's terminal value. The interval for the RONIC was set with the WACC as its lower bound (8.03%) since this would mean that the PLK brand would not be creating additional value for the company's shareholders. For the upper bound we chose the maximum value of RONIC within the last the five years of the forecasted period (20.69%). For the RR, the values range between the lowest terminal RR within all segments (9%) and the highest value for PLK's RONIC for the last the five years of the forecasted period (14.5%). The outcome is then an interval of [0.72%; 3.01%] for the brand's terminal growth rate.

		WACC				
	84,51	7,65%	7,84%	8,03%	8,16%	8,29%
PLK Terminal g	0,72%	92,32	87,68	83,33	80,49	77,76
	1,36%	92,86	88,17	83,79	80,91	78,16
	2,19%	93,74	88,97	84,51	81,59	78,79
	2,59%	94,26	89,44	84,93	81,98	79,16
	3,01%	94.91	90.01	85.45	82.46	79.61

Figure 36: Share Price Sensitivity Analysis, in USD

Source: Own Analysis

Finally, the company's share price was tested against the mentioned variation of the terminal growth and cost of capital. From the final sensitivity output, it is possible to conclude that the share price is notably sensitive to changes in both inputs, varying between \$77.76 and \$94.91. As a final remark, with our 8.03% cost of capital estimation, even though PLK's performance in the long run, might be uncertain, this report's recommendation to buy the stock would still hold.

Monte Carlo Simulation

To complement the previous sensitivity analysis, a Monte Carlo simulation with 1,000 trials was conducted. We focused on the cost of capital and the terminal growth rates for each of the brands, given the already mentioned importance of the two for our valuation, and the fact that the terminal value corresponds to approximately 55% of our estimated equity value. With this simulation, we were then able to test the responsiveness of the share price to all the brands' terminal growth simultaneously, performing a more rigorous risk assessment.

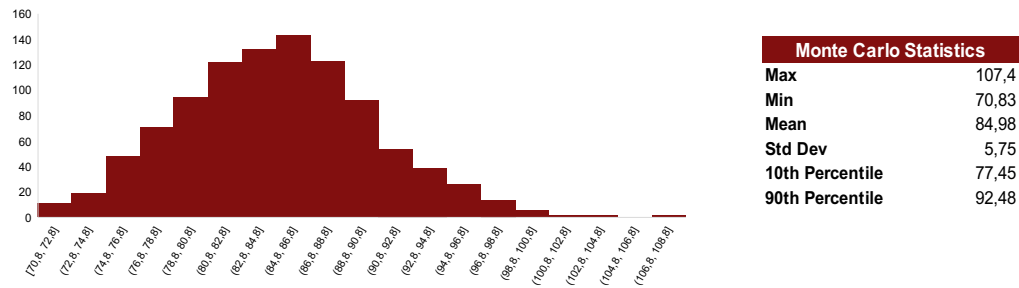


Figure 40: Share Price Histogram & Statistics from Monte Carlo Simulation Output
Source: Own Analysis

With the Monte Carlo simulation, the mean of the target share price was \$84.98, which consists of a capital gain of 15.76%. This is close to the share price of \$84.51 obtained through the DCF valuation. Additionally, according to the simulation's output, there is a 76.20% probability of our BUY recommendation being accurate.

ESG

ESG criteria reflect how companies address environmental, social and governance concerns, capturing non-financial risks and opportunities intertwined with the business. The concern for ESG factors has become considerably relevant amongst investors, with the value of sustainable investment in major financial markets standing at \$30.3 trillion, representing 24% of total professionally managed assets globally³¹.

For the purpose of this report, it is important to get a more holistic view of RBI's business and analyse its sustainability profile, by understanding how the company stands in terms of each ESG pillar.

Starting with the environment pillar, in 2021, RBI joined the United Nations Race to Zero Campaign, setting the target to achieve net-zero greenhouse gas (GHG) emissions by 2050. The company's current strategy to reduce GHG emissions lies on: (1) electrifying 100% of its corporate car and truck fleet by 2030, having reached 15% progress in 2022; (2) procuring renewable energy for 100% of electricity use in directly controlled, corporate-owned or leased operations and 50% for franchise restaurants; (3) engaging with the supply chain and prioritizing the beef category, as it accounts for 52% of the footprint, setting up a five-year plan to support regenerative agriculture in collaboration with Cargill and the National Fish and Wildlife Foundation; (4) operating sustainable restaurants by reducing the use of packaging, transitioning to sustainable materials and helping guests reuse³². From 2021 to 2022, the company was already able to reduce its CO2 emissions, from 63,104 to 62,854 tonnes. To assess RBI's relative performance to its industry peers in this ESG factor, we decided to look at the CO2 emissions per million USD revenue for each company (Figure 41). It is then possible to conclude, based on this metric, that RBI is outperforming its industry peers in what concerns the environment pillar.

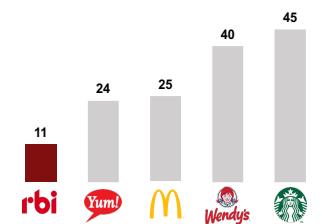


Figure 41: CO2 Emissions per Million of USD Revenue for Restaurant Brands International and its peers
Source: Refinitiv

Moving to the social pillar, RBI is focused on building a diverse pipeline of talent, with 64% of corporate hires in 2022 having added to the firm's diversity. In terms of gender diversity, the employee base and senior leaders are composed of 41% and 31% of women, respectively³³. Additionally, through Tim Hortons Coffee for Communities Program, the company improves the livelihood coffee farmers by ensuring they have the necessary skills and resources to guarantee

³¹Global Sustainable Investment Alliance. 2022. "Global Sustainable Investment Review 2022."

³²Restaurant Brands International, Inc. 2022. "Restaurant Brands for Good."

³³Restaurant Brands International. Accessed December 2023. <https://www.rbi.com>.

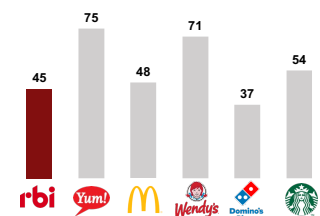


Figure 42: Diversity & Inclusion Score (0-100) for RBI and its peers
Source: Refinitiv

Governance Controversies	
RESTAURANT BRANDS INTERNATIONAL INC	G
YUM! BRANDS INC	Y
MCDONALD'S CORP	Y
DOMINO'S PIZZA INC	G
STARBUCKS CORP	G

Figure 43: Significant Governance Controversies for RBI and its peers
Source: MSCI

ESG Rating	
RESTAURANT BRANDS INTERNATIONAL INC	BBB
YUM! BRANDS INC	BBB
MCDONALD'S CORP	A
DOMINO'S PIZZA INC	BBB
STARBUCKS CORP	A

Figure 44: ESG Rating for RBI and its peers
Source: MSCI

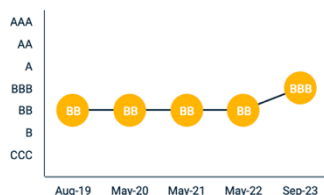


Figure 45: Evolution of ESG Rating for RBI
Source: MSCI

the industry's long-term sustainability. Outside of its business sphere, RBI supports communities all over the world through its charitable campaigns (e.g.: Smile Cookie program) and the brands' foundations. For the social factor, we defined as our KPI Refinitiv's Diversity and Inclusion Score (D&I) which measures 24 metrics across four pillars: diversity, inclusion, people development and news & controversies³⁴. It is then possible to observe that RBI is lagging behind its peers in terms of D&I, presenting a score of 45 vs the peer average of 55.

The third and last ESG pillar concerns the internal system of practices, controls, and procedures a company adopts in order to govern itself, make effective decisions, comply with the law, and meet the needs of external stakeholders³⁵. Firstly, the company's board is composed of members from various industries, cultures and geographies, with the 2021 target for 30% of women directors being met at the 2023 general shareholders' meeting. The board is composed of three standing committees: Audit, Compensation and Nominating and Corporate Governance. These include only independent directors and operate under a written charter, in accordance with NYSE and TSX listing standards.³¹ Moreover, RBI pledges to communicate its performance in both a transparent and regular manner, through the company's website. Additionally, it commits itself to an ongoing engagement with its stakeholders through, for instance, collaborations, surveys or in-person events, to identify relevant issues, opportunities or risks and use those insights in decision-making. According to MSCI, RBI has not been involved in any major controversies concerning its governance, in contrast with Yum! Brands Inc. and McDonald's Corp.

Finally, taking all of the above into consideration and combining it with the MSCI ESG Research³⁶, RBI falls behind in the social pillar, can be considered as average regarding corporate governance, and is leader in environmental factors, displaying in the end an average ESG rating of BBB. As a final note, although ESG compliance does not set an advantage for RBI in relation some of its peers, the company has been improving in this regard, rising from a BB to BBB rating in 2023, which, in our view, is likely to be received positively by investors.

Final Recommendation

According to the performed DCF valuation, RBI is predicted to trade at \$84.51 per share as of December 31st, 2024. This target price is also in line with the findings from the relative valuation conducted.

Nevertheless, the risks mentioned throughout this report should not be disregarded as, for instance, brand deterioration, unpopular products, ineffective promotions, an unforeseen event, or economic downturn, could lead to an unpredictable downturn in system-wide sales in the brands' restaurants, compromising our valuation.

Bearing all the aforementioned in mind, our final recommendation is then to buy RBI's stock, with the total expected return for the investor being of 18.14%, which can be decomposed in a 15.12% capital gain and 3.02% dividend yield.

³⁴Refinitiv. 2023. "Diversity and Inclusion Scores from Refinitiv." https://www.lseg.com/content/dam/ftse-russell/en_us/documents/methodology/diversity-inclusion-rating-methodology.pdf.

³⁵Henisz, Witold, Tim Koller, e Robin Nuttall. 2019. "Five Ways ESG Creates Value." McKinsey & Company Quarterly.

³⁶MSCI. Accessed December 2023. <https://www.msci.com/our-solutions/esg-investing/esg-ratings>.

RESTAURANT BRANDS INTERNATIONAL INC.

FOODSERVICE

STUDENT: INÊS VIDAL & PEDRO RODRIGUES

COMPANY REPORT

20 DECEMBER 2023

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An Expansion Journey Beyond Taste

Navigating the Quick-Service Restaurant Landscape

- Restaurant operators are expected to witness a business rebound driven by slower inflation in food and energy prices and by higher consumer expenditure.
- International expansion will be key in enabling Restaurant Brands International Inc. to continue its market share increasing trend (+0.4% in the last 5 years), with Popeyes Louisiana Kitchen, Firehouse Subs and Tim Hortons having greater opportunities than most other brands in the top 10 for expansion into new international markets and for adding outlets in existing markets.
- Revenues are expected to increase at an annual CAGR of 3% until 2035, with Popeyes and Firehouse Subs being the two brands with the highest individual growths.
- Given the target price per share of \$84.51 and the respective 18.14% total gain for the investor, after accounting for the expected dividend yield, the investment recommendation is to BUY the stock.

Company description

Restaurant Brands International Inc. is a multinational quick-service restaurant company, with approximately 30,000 restaurants throughout more than 100 countries. Its operations are divided in four reportable segments: Tim Hortons, Burger King, Popeyes Louisiana Kitchen and Firehouse Subs.

Recommendation: **BUY**

Price Target FY24: **\$84.51**

Price (as of 15-Dec-23) **\$73.41**

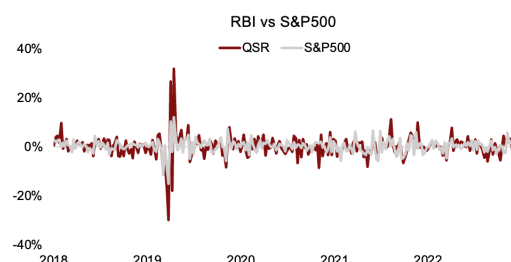
Reuters: QSR.N, Bloomberg: QSR:US

52-week range (\$) 59.99-78.30

Market Cap (\$m) 23,499

Outstanding Shares (m) 307

Source: Refinitiv & Company Data



Source: Refinitiv

(Values in \$ millions)	2022	2023E	2024F
Revenues	6 505	7 204	7 495
Gross Profit	3 675	4 418	4 628
Gross Margin (%)	61%	62%	62%
EBIT Margin (%)	27%	34%	34%
Net Margin (%)	23%	27%	27%
Core ROIC	9%	12%	11%
Core FCF	2 125	1 683	1 835
EPS	5.93	6.54	6.83

Source: Company Data & Own Estimates

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Restaurant Brands International – From Origin to Today

Brief History & Company Description

Restaurant Brands International Inc. (RBI) is a multinational quick-service restaurant company which is segmented into four of the most prominent chains in the restaurant industry. The company was created in 2014 after 3G Capital, a Brazilian investment firm which owned a majority stake in Burger King (BK), merged the American fast-food chain and the largest Canadian coffee shop and restaurant chain Tim Hortons (TH), in a deal worth \$12.5 billion. Both companies understood that the deal would fuel their growth through expansion across the globe, as synergies in resources would prove to be crucial to succeed in new markets. In efforts to further increase its operations and global reach, in 2017 RBI acquired the American fried chicken restaurant chain Popeyes Louisiana Kitchen (PLK) for \$1.8 billion and in 2021 the American sandwich chain Firehouse Subs (FHS) for \$1 billion. As of March 2023, RBI is led by the current CEO Joshua Kobza, the Executive Chairman J. Patrick Boyle, and the rest of the Board of Directors (Figure 1), of which 90% of the members are independent¹.

Name	Age	Role	Start date
J. Patrick Doyle	60	Executive Chairman	16/11/2022
Joshua Arthur Kobza	37	Chief Executive Officer	01/03/2023
Matthew Dunnigan	39	Chief Financial Officer	01/01/2018
Jacqueline Friesner	50	Chief Accounting Officer	15/12/2014
Duncan Fulton	47	Chief Corporate Officer	01/06/2018
Jeffrey Housman	41	Chief People & Services Officer	01/01/2015
Thomas B. Curtis IV	59	President Burger King US & Canada	01/10/2021
Axel Schwan	49	President Tim Hortons Canada & US	01/10/2019
David Chan Shear	39	President International	01/01/2021
Sami Siddiqui	39	President Popeyes US & Canada	01/02/2019
Jill M. Granat	57	Secretary/General Counsel	15/12/2014

Figure 1: Corporate Governance Structure

Source: Bloomberg

In terms of shareholders' structure, Figure 2 shows the 10 shareholders with the highest ownership, with Capital Group Cos Inc (19.65%), Pershing Square Capital Management LP (7.34%), and Royal Bank of Canada (6.64%) closing the top 3. Furthermore, one can conclude that RBI's shares are quite diluted, with 46.78% of them being owned by shareholders with less than 1.6% ownership.

¹ Bloomberg, 2023

Name	Shares	Ownership Share	Country
Capital Group Cos Inc	62 481 241	19,65%	US
Pershing Square Capital Management LP	23 348 135	7,34%	US
Royal Bank of Canada	21 096 437	6,64%	Canada
EdgePoint Investment Group Inc	13 546 795	4,26%	Canada
Vanguard Group Inc	11 781 047	3,71%	US
FIL Ltd	8 900 255	2,80%	UK
Jarislowsky Fraser Ltd	7 282 882	2,29%	Canada
3g Restaurant Brands Holdings LP	7 136 149	2,24%	Brazil
Canadian Imperial Bank of Commerce	7 007 949	2,20%	Canada
Power Corp of Canada	6 609 638	2,08%	Canada
Others (<1.6% share each)	148 709 472	46,78%	N/A

Figure 2: Shareholders' Structure

Source: Bloomberg

In 2022, the four brands collectively amounted to over \$35 billion in annual system-wide sales and approximately 30,000 restaurants in more than 100 countries. Burger King, Tim Hortons, Popeyes, and Firehouse Subs had around 20,000, 5,600, 4,000, and 1,200 restaurants respectively, with more than 99% being franchised restaurants.

The global expansion throughout the years has been based on a successful franchise business model, in which restaurants are either franchised or company-operated. This business model enables the several brands of RBI to have a consistent menu across regions, with few differences according to regional consumer preferences. Furthermore, this allows the company to enter into larger agreements with the suppliers, benefiting from economies of scale and pricing strategies. In terms of revenue, RBI generates revenues from 1) sales of products, supplies and restaurant equipment to franchisees, as well as sales to retailers and sales at company restaurants; 2) royalties based on a percentage of sales reported by franchise restaurants and franchise fees paid by franchisees; 3) property revenues from properties leased or subleased to franchisees; 4) advertising revenues and other services, consisting primarily of advertising fund contributions based on a percentage of sales reported by franchise restaurants. As shown in Figure 3, in 2022, Tim Hortons presented the highest percentage of total revenues (59%), which is explained by the fact that it is the only brand which controls the entire supply chain and fully operates its restaurants. Therefore, revenues are composed of supply chain sales and direct sales to customers. Although Burger King had 64% of all RBI restaurants in 2022, its revenues only accounted for 29% of total revenues. This is explained by the fact that more than 99% of Burger King's restaurants are franchised and not company-operated, which leads to only

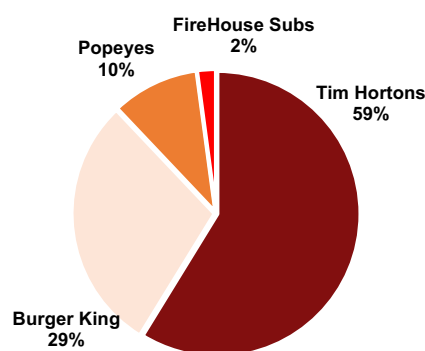


Figure 3: Revenue distribution per brand (2022)

Source: RBI 10k Annual Report (2022)

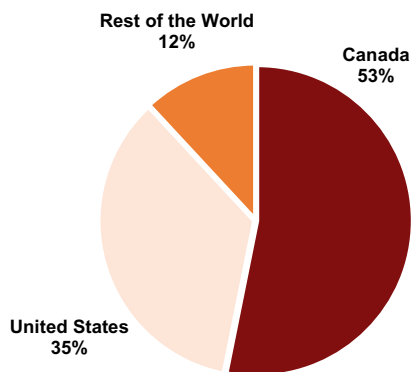


Figure 4: Revenue distribution per geography (2022)
Source: RBI 10k Annual Report (2022)

receiving a royalty fee from each franchised restaurant, rather than the full sale value that Tim Hortons collects from each customer sale. Popeyes and Firehouse Subs are brands still in their growing stages, and thus their weight on total revenues is smaller compared with the other brands, at 10% and 2% of total revenues in 2022, respectively. In terms of region breakdown, Figure 4 unsurprisingly demonstrates that North America is the region with the highest percentage, at 88% of total worldwide sales in 2022. Naturally, this is because all four brands were founded in this region, and thus either the US or Canada constitute their home markets. Globally, given the franchise business model, RBI is very profitable with 23% in net margin and positions itself as the world's third largest foodservice operator.

Growth strategy & recent developments

In September 2022, considering the effects of the pandemic, franchisees faced tighter margins and lower profitability, but also rising labour and product costs due to the increasing inflation, as will be further discussed in the Industry Outlook section. To combat this, Burger King launched its largest strategic plan “**Reclaim the flame**” in efforts to turnaround its business and secure itself as the second largest burger chain in the world. The \$400-million strategic-turnaround effort included substantial advertising and digital investments, restaurant remodellings, operational overhauls, and financial incentives for the franchisees. The plan is divided into five pillars which ultimately contribute to improving the guest experience and overall profitability of the brand:

- 1) **Brand Positioning:** Introduction of new brand elements to attract younger audiences, a refreshing and modernizing logo, and a focus on brand anchors such as “Flame Grilling” and “Have it Your Way”.
- 2) **Menu Priorities:** Creation of a multi-year menu roadmap that is centred on the guests and brand. Focus on product innovation through the development of new burgers, plant-based products, breakfast and snacking options, and investment in premium branding for the best-selling product – the Whopper. Continue the everyday value offering in its menu in response to the inflationary pressures faced by the customers.
- 3) **“Fuel the Flame” Advertising Investment:** Burger King committed to invest \$120 million (+30% annual increase) in its U.S. advertising fund to grow traffic, boost sales growth and further improve guest experience. Moreover, a \$30 million investment until 2024 to improve the Burger King app was promised, which included integrated payment processing, enhancing the Royal Perks loyalty

program, the addition of digital personalized offers, and improving the overall convenience of delivery and pick up options.

4) **"Royal Reset" Modernization Investment:** \$50 million investment channelled to the restaurant refresh program which englobes around 3,000 restaurants, improving restaurant technology, kitchen equipment, and building enhancements. In addition, Burger King also launched a Royal Reset remodel program that funds \$200 million for around 800 restaurant remodel projects for the two subsequent years. These investments were designed to contribute to the improvement of guest experience and to boost traffic back alongside with the help of the menu enhancements and Fuel the Flame advertising investment.

5) **Operational Excellence:** Expansion of the operations team focused on creating a culture of "Repeatable Precision" through the simplification of menu items and restaurant operations.

Popeyes also has a long-term strategic plan in the form of **"Easy to love"**. The plan focuses on three pillars:

- 1) Simplifying restaurant operations through variations in kitchen equipment and design, streamlined procedures, and digitization within and out of the restaurants.
- 2) Product innovation coupled with menu expansion, through the form of new products, or returning best-selling products to the restaurants.
- 3) Developing modern and convenient restaurants while helping operators to find high-quality real estate such as restaurants with drive-thru.

As part of the global growth strategy, RBI has been reinforcing its digital expertise through technology experts and having an in-house technology team. In 2022, RBI grew digital sales 31% to \$13 billion, representing over one-third of consolidated system-wide sales. Furthermore, the company is focusing on modernizing its restaurants with digitized drive-thru lanes, self-ordering kiosks, new outdoor digital menu boards, contactless payments, and predictive capabilities to provide seamless and connected in-restaurant customer experience.

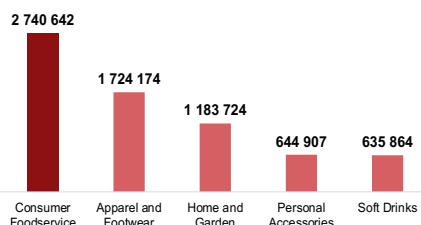


Figure 5: Top 5 Largest Industries in Consumer Goods

Source: Euromonitor International

Industry Outlook

Industry Analysis

Foodservice is the largest industry within consumer goods, with a size of \$2,740,642 million in 2022². It can be defined as the value of all food and drink for

²Euromonitor International. Accessed October 2023. <https://www.portal.euromonitor.com>.

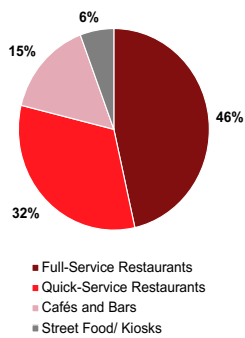


Figure 6: Foodservice Industry by type of restaurant (2022)

Source: Euromonitor International

on site immediate consumption (food away from home) or, in the matter of takeaway, freshly prepared food for immediate consumption³. This industry comprises full-service restaurants, quick-service restaurants (also designated as limited-service restaurants), caterers, some cafeterias and other sites which prepare, serve and sell food to the general public to earn a profit⁴.

Full-service restaurants and quick-service restaurants (QSR) are the two largest foodservice industry segments, accounting for approximately, 46% and 32%, respectively, of the market value in 2022. Restaurant Brands International Inc. positions itself within the QSR market, which encompasses fast food and 100% home delivery outlets. Quick-service restaurants provide limited menus whose items can be quickly prepared and generally customers order, pay and collect their orders from a counter. Nonetheless, some of restaurants might have limited table service. Concerning the different geographies, as of 2022, APAC remains the pacesetter (42%), followed by North America (27%).

In 2020 the foodservice industry suffered a sharp decline of 25% which was mainly due to the pandemic and consequent mobility restrictions. QSR was the market segment with the smallest decrease in value (11%). This can be explained by the fact that these restaurants were better able to adapt to the Covid-19 restrictions given the already limited physical interactions with customers (e.g.: no wait staff, drive-thru).

With the uplifting of the containment measures, in 2021, the global foodservice industry started to recover, showing a 18.6% increase, with significant growth across all geographies and restaurant types.

However, in 2022 prices increased along the foodservice value chain as a result of the record-high level inflation and the Ukraine-Russia war. This has led the majority of foodservice players to increase prices of products/services and/or accept lower profit margins⁵. The price increase in this industry is evident by looking at the Food Away from Home CPI Index, which jumped by 8.78% YoY in March 2023, the highest figure since September 1981. In addition, inflation impacts consumers' choices, discouraging the frequency of dining out. The demand and value chain challenges have thus delayed the global foodservice industry's return to pre-pandemic levels.

Nevertheless, as main markets such as the US and China recover, the overall industry is expected to consolidate its recovery, with a predicted CAGR of 4.5%⁵

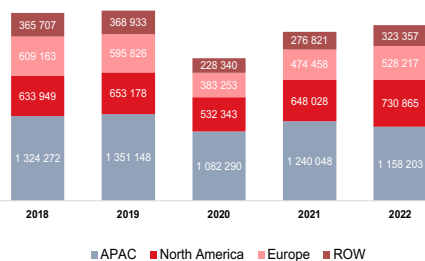


Figure 7: Foodservice Historical Industry Performance by geography, in USD Millions

Source: Euromonitor International

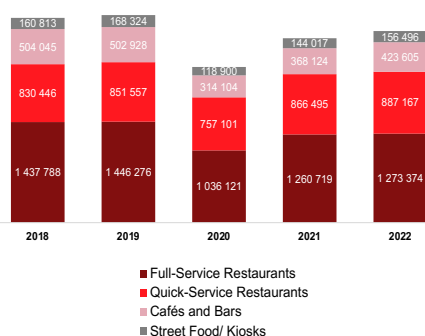


Figure 8: Foodservice Historical Industry Performance by type of restaurant, in USD Millions

Source: Euromonitor International

³GlobalData. 2023. "Global Foodservice September 2023." Industry Profile.

⁴GlobalData. 2023. "Global Foodservice September 2023." Industry Profile.

⁵Deloitte. 2023. "Foodservice Market Monitor."

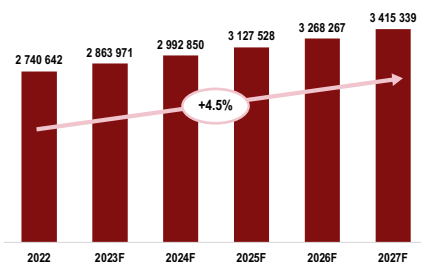


Figure 9: Foodservice Forecasted Industry Performance, in USD Millions, and CAGR

Source: Euromonitor International & Deloitte

Foodservice: Geography Segmentation		CAGR(22-27)
APAC		6.40%
North America		2.50%
Europe		2.80%
ROW		4.90%

Foodservice: Market Segmentation		CAGR(22-27)
Full-Service Restaurants		4.70%
Quick-Service Restaurants		4.10%
Cafés and Bars		4.80%
Street Food/ Kiosks		4.20%

Figure 10: CAGR (2022-27) across Regions and Markets of Foodservice Industry

Source: Deloitte Foodservice Market Monitor 2023

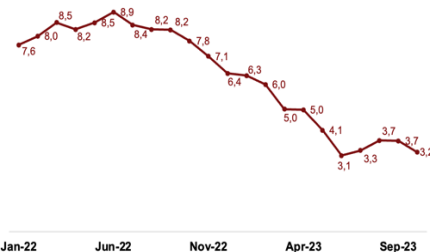


Figure 11: CPI (All items), Percentage Change from Year Ago

Source: FRED, October 2023

between 2022-2027. Focusing on QSR, this segment has returned to pre-pandemic levels already in 2022, registering a market value of \$887,167 million⁶, and is expected to have a CAGR of 4.1% over the years of 2022-2027⁶.

Lastly, there are a few main trends shaping consumer foodservice. Firstly, driven mainly by the pandemic, consumers seek convenience more than ever. According to a Gartner study⁷, 96% of customers who had high-effort experiences reported being disloyal. Thus, creating an effortless customer journey through the expansion of digital strategies is relevant as it can enhance customer loyalty and possibly contribute to improved margins for restaurant operators. Secondly, sustainability is a growing consumer concern, with a KerryDigest study⁸ reporting that 58% of consumers in North America state being strongly influenced by sustainability when making a food or beverage purchase at a restaurant. Sustainability is being addressed by industry players to gain competitive advantage by appealing to eco-conscious consumers. For instance, within the QSR segment, McDonald's is setting to transition by 2025 from single-use plastic and foam to 100% sustainable alternatives⁹ and Chipotle has introduced an innovative all-electric restaurant concept aimed at reducing greenhouse gas emissions in its operations⁷. To effectively appeal to eco-conscious consumers, companies must continue to focus on sustainable practices like, for instance, reducing waste, resorting to sustainable ingredients and energy-efficient cooking methods. Lastly, expanding plant-based alternatives is relevant in order to meet the increasing demand for healthier and more sustainable diets. Having as basis the Euromonitor International's Lifestyles Survey 2023 results⁷, flexitarians (i.e., individuals whose diet limits animal protein and processed foods and beverages) make up 11.1% of the global population, while vegans and vegetarians continue to grow, reaching, in 2023, a proportion of 4.6% and 6.2%, respectively.

Macroeconomic Outlook

▪ Persistent Inflation & Input Costs

Inflationary pressures have moderated considerably over the last year, albeit remaining at historically high levels. Inflation indices, including the CPI, have fallen below the 8.9% peak of June 2022 to a 3.2% rate in October⁹. The inflationary pressure felt over the last year has led, among others, to an increase in energy

⁶Euromonitor International. 2023. "World Market for Consumer Foodservice."

⁷Gartner. 2019. "Effortless Experience Explained." <https://www.gartner.com/smarterwithgartner/effortless-experience-explained>.

⁸Garson, Remy. 2023. "The Food Service Industry's Sustainable Revolution: Transitioning From Single-Use To Environmental Responsibility." *Forbes*.

⁹2023. Federal Reserve Bank of St. Louis (FRED). Accessed November 2023. <https://fred.stlouisfed.org>.

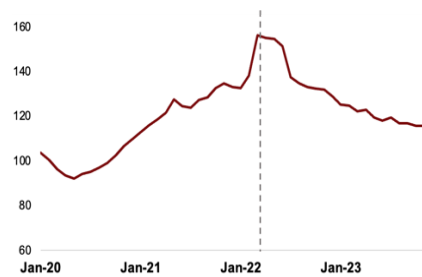


Figure 12: Food Price Index, 2014-16=100
Source: FAO, November 2023
 Note: Dotted line marks Russia's invasion of Ukraine



Figure 13: Crude Oil Prices: WTI, Jan-2019=100
Source: FRED, December 2023
 Note: Dotted line marks Russia's invasion of Ukraine

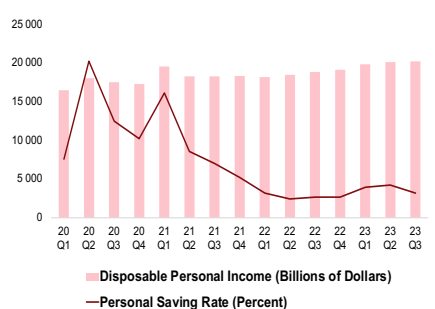


Figure 14: Disposable Personal Income & Savings Rate
Source: FRED, November 2023

and commodity prices. The spike in these input costs' prices was felt with the beginning of the Ukraine-Russia conflict, as the war induced added uncertainty to the already rising energy and commodity prices. On the one hand, Europe heavily relied on energy imports from Russia which led to a market response being reflected in energy prices¹⁰. Additionally, Ukraine and Russia are among the largest global grain exporters, with Russia also being a prominent fertilizers' exporter, driving supply chain disruptions and all-time high food prices¹¹.

The surge in commodity and energy prices driven by inflation and aggravated by the war, led to higher input costs for foodservice industry suppliers, which was then passed on to restaurant operators. This deteriorates margins as quick-service restaurants are not able to easily pass the price increase to consumers if they aim to maintain its low-cost perception. Nonetheless, energy and commodity prices have begun to ease, although they remain elevated in comparison with historical figures. The overall moderated inflationary pressure, especially that of input costs, is setting a more favourable scenario for the foodservice industry's performance as it could contribute to improving operating margins.

▪ Disposable Personal Income & Savings

Over the last year, disposable personal income has been steadily increasing, with the latest release reporting a 7.6% increase from Q3 2022 to Q3 2023¹². Conversely, during the last year, the savings rate has recently been on a relatively steady trend, being a slightly higher over the last 12 months (3.8% on October 2023 vs 3.0% on October 2022)¹⁴. A higher disposable income and lower savings rate reflect a favourable economic environment for restaurant operators as people tend to eat out more often.

▪ Consumer Confidence Index

Consumer confidence index provides an insight into consumer sentiment on the general economic outlook and into future developments of households' consumption and saving. In the latest reading, released on the 28th November 2023, the index value decreased increased from 99.1 in October to 102¹³. According to the recorded responses of the Consumer Confidence Survey, consumers express concerns towards rising prices, higher interest rates and the political situation, with a rise in worries regarding conflicts given the recent turmoil in the Middle East; while fears for a possible recession decreased slightly.

¹⁰Zettelmeyer, Jeromin, Simone Tagliapietra, Georg Zachmann, e Conall Heussaff. 2022. "Beating the European Energy Crisis." *International Monetary Fund*.

¹¹FAO, IFAD, UNICEF, WFP, WHO. 2023. "The State of Food Security and Nutrition in the World."

¹²2023. *Federal Reserve Bank of St. Louis (FRED)*. Accessed November 2023. <https://fred.stlouisfed.org>.

¹³2023. *The Conference Board*. Accessed November 2023. <https://www.conference-board.org/topics/consumer-confidence>.

An index value above 100 signals a boost in consumers' confidence, with the latter being less prone to save. The index seems to point towards consumers increasing consumer spending for restaurant dining occasions.

Competitive Landscape & Positioning

The growing foodservice industry combined with the increasing disposable income and consumer expenditure pose an opportunity for RBI's operational activity. Additionally, international expansion will be key in enabling RBI to continue its market share increasing trend. Popeyes, Firehouse Subs and Tim Hortons have greater opportunities than most other brands in the top 10 for expansion into new international markets and for adding outlets in existing markets, since the latter have reached higher saturation levels in many international markets¹⁴. RBI's ability to take advantage from the mentioned opportunities, rests on the company leveraging its strengths. Firstly, RBI has a portfolio comprised of renowned brands, with strong brand identities which resonate to consumers worldwide. Its brand portfolio also leads the company to provide varied menu offerings, providing diversification and allowing the firm to reach a wide customer base, capturing the increasing consumer income and expenditure. Moreover, RBI's strong franchise network not only allows for a rapid business expansion but also enables the the firm to reduce operating costs and expenses. Nevertheless, RBI faces a variety of consumer preferences, changing trends and dietary concerns. The company needs to respond by offering products that meet such changing preferences, otherwise its operations could be affected by a declining demand. Lastly, competition also poses a threat. Foodservice is an intensely competitive industry whose players go from independent local operators to well-capitalized international restaurant chains. Market concentration, measured through the Herfindahl-Hirschman Index (HHI), is low, having increased in recent years due to leading players increasing market share.

Below is a more in-depth analysis on the forces driving competition within this industry.

▪ Porter's Five Forces Analysis

Buyer Power: In this industry, buyers consist of individual consumers. The impact of any consumer on a player's revenue is minimal, but foodservice outlets must take into account the wider consumer interests. Demand is considerably influenced by price since eating out is a non-essential activity. To respond to this, leading

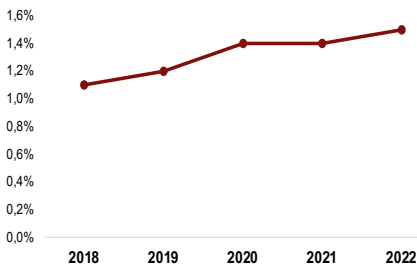


Figure 15: RBI Market Share Evolution in the Foodservice Industry (2018-2022)
Source: Euromonitor International

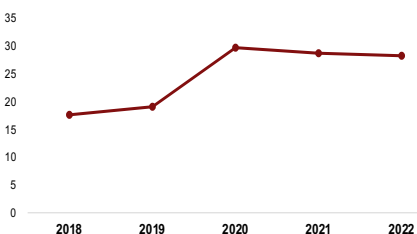


Figure 16: HHI Evolution (2018-2022)
Source: Euromonitor International & Own Computations

¹⁴Euromonitor International. 2023. "World Market for Consumer Foodservice."

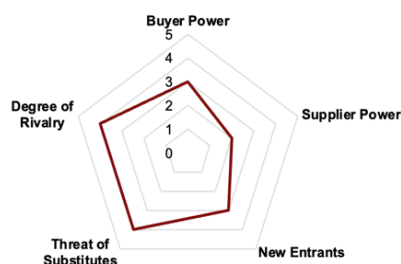


Figure 17: Forces Driving Competition in Foodservice Industry

Source: Own Analysis

players provide discounts and heavily invest in brand-building to drive customer loyalty. Overall, buyer power can be regarded as moderate.

Supplier Power: Suppliers are mainly wholesalers which sell to several businesses. Large foodservice chains like RBI benefit of more negotiation power over suppliers than individual players given their enormous orders and consequent significant effect over suppliers' revenues. Leading players also often have a wide range of suppliers to guarantee stability and mitigate sourcing problems or fluctuations in prices. Thus, supplier power can be seen as low.

New Entrants: The abundance of suppliers and the industry's steady-growth make it attractive for new firms. Moreover, there is only a moderate level of investment required in setting up a new restaurant. However, this is a highly regulated industry due to strict food hygiene regulations (e.g.: Within EU countries, companies are required to follow the legislation of the European Food Safety Authority)¹⁵ and compliance imposes costs. Additionally, new entrants face competition from large multinational restaurant chains, such as RBI, which benefit from cost-advantage given their higher bargaining power with suppliers and ability to provide highly competitive offers to price-sensitive consumers, while maintaining higher margins. Overall, there is a moderate threat of new entrants.

Threat of Substitutes: Eating out is a non-essential activity to consumers which can be easily replaced by eating at home, with the only switching costs associated being effort and time to prepare a meal. Based the GlobalData 2022 Q4 Global Consumer Survey¹⁶, more than 50% of US consumers say that they consume breakfast, lunch, and dinner at home on weekdays and weekends. As such, the threat of substitutes can be considered as strong.

Degree of Rivalry: In this industry, especially within the QSR segment, there are numerous companies with a similar structure which offer similar products within the same price range. This combined with the fact that consumers do not incur in switching costs, intensifies the rivalry among players. The low industry's HHI also points towards a highly fragmented and intensely competitive market. Overall, the rivalry can be contemplated as strong.

Peers

To better assess RBI's competitive position and its relative performance, a peer group was selected. The criteria behind the peers selection is explained in the Relative Valuation subsection of this report.

Foodservice Industry Market Shares	2022
McDonald's Corp	3,9%
Yum! Brands Inc	2,2%
Restaurant Brands International Inc	1,5%
Starbucks Corp	1,3%
Inspire Brands Inc	1,1%
Seven & I Holdings Co Ltd	0,7%
CFA Properties Inc	0,7%
Domino's Pizza Inc	0,7%
Doctor's Associates Inc	0,6%
Wendy's Co, The	0,5%
Others	86,8%

Figure 18: Global Foodservice Industry Market Shares (2022)

Source: Euromonitor International

¹⁵U.S. Department Of Agriculture. Accessed October 2023. <https://usda-eu.org/import-controls/food-safety/>.

¹⁶GlobalData. 2023. "Global Foodservice September 2023." Industry Profile.



Figure 19: McDonald's Corp. Logo

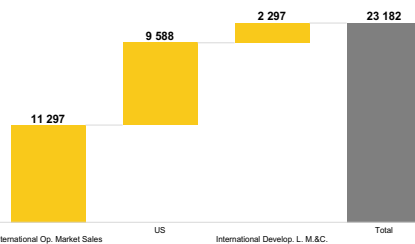


Figure 20: MCD Revenues Breakdown (2022), in USD Millions

Source: McDonald's Corp. 10K Annual Report (2022)

McDonald's Corp. (MCD)

McDonald's Corp is an American operator and franchisor of fast-food restaurants headquartered in Chicago, USA. Ever since the foundation in 1940, the company found great success in the franchise business model, and grew exponentially into the world's largest and most successful fast-food chain. McDonald's menu is renowned worldwide due to the existence of iconic products such as the Big Mac, Chicken McNuggets, and the golden fries. In 2022, McDonald's operated 40,275 restaurants, 95% being franchised and the remaining company-operated. Since McDonald's revenue from franchised restaurants corresponds to a royalty fee applied to franchisees' revenues, the net revenue coming from franchised restaurants constitutes only 61% of total revenues. Total revenues amounted to \$23,182 million in 2022, being divided into three segments: 1) United States (41%); 2) International Operated Markets (49%); 3) International Developmental Licensed Markets & Corporate (10%)¹⁷.

Yum! Brands Inc. (YUM)

Yum! Brands Inc. is an American quick-service restaurant company which spun-off from PepsiCo in 1997. YUM operates restaurants under the brand name of KFC, Taco Bell, Pizza Hut and The Habit Burger Grill. These restaurants serve different types of menu items, allowing the firm to reach a wide consumer base. As of 2022, YUM is present across more than 155 countries and territories, operating 55,361 restaurants, of which 98% are franchised. On October 2016, Yum Brands completed the spin-off of its China business into an independent publicly-traded firm (Yum China Holdings Inc.), which is currently its largest master franchisee. In FY2022, the company reported revenues of \$6,842 million, having increased 3.8% over FY2021. KFC is responsible 41% of total revenues, followed by Taco Bell, with 36%. Conversely, US is the largest market in terms of revenues for YUM, accounting for over 57% of total revenues¹⁸.



Figure 21: Yum! Brands Inc. Logo

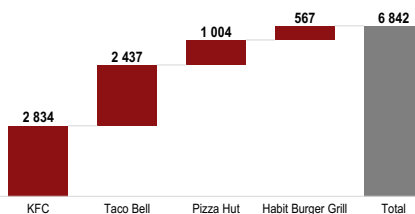


Figure 22: YUM Revenues Breakdown (2022), in USD Millions

Source: Yum! Brands Inc. 10K Annual Report (2022)

Starbucks Corp. (SBUX)

Starbucks Corp is a premium coffee retailer formed in 1985. It roasts, markets and retails high-quality coffee. The company also offers handcrafted tea and other beverages, as well as high-quality food items and other items like, for example, apparel and mugs. Additionally, Starbucks licenses its trademarks through, for example, licensed stores and grocery channels. As of 2022, the company operated 35,711 stores, with 51% being company-owned and accounting for 82% of total net revenues. In FY2022, Starbucks registered total net revenues of \$32,250



Figure 23: Starbucks Corp. Logo

¹⁷ McDonald's Corporation. 2022. "Annual Report." Form 10-K.

¹⁸ Yum! Brands, Inc. 2022. "Annual Report." Form 10-K.

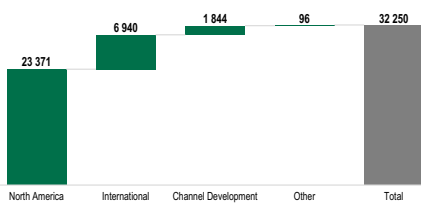


Figure 24: SBUX Revenues Breakdown (2022), in USD Millions

Source: Starbucks Corp. 10K Annual Report (2022)

million up 11% from FY2021, with US being the prominent geographic area, accounting for approximately 72%. The company has three reportable segments: 1) North America; 2) International, which encompasses China, Japan, Asia Pacific, Europe, Middle East, Africa, Latin America and Caribbean; 3) Channel Development, which comprises consumer packaged goods, ready-to-drink businesses and strategic partnerships. As a percentage of total revenues, North America leads with 72%, driven by the US¹⁹.

Domino's Pizza Inc. (DPZ)

Domino's Pizza Inc. started out in 1960 and is the world's largest pizza company. It offers consumers a considerable range of pizza products with varied sizes and crust types, with toppings varying across countries and cultures. Its stores are operated through delivery and carryout service models. Domino's also generates revenues through their supply chain, by selling supplies, food and equipment to franchisees, predominantly in Canada and the US. As of January 1, 2023, the company has restaurants across 19,800 locations in over 90 markets, with approximately 99% of global stores being franchisee owned and operated. In FY2022, Domino's Pizza recorded \$4,537.2 million in revenues, increasing 4.1% from FY2021. The company's operation is divided within three main segments: US stores, Supply Chain and International Franchise. Supply Chain is the biggest segment, accounting for 60.7% of total revenues²⁰.



Figure 25: Domino's Pizza Inc. Logo

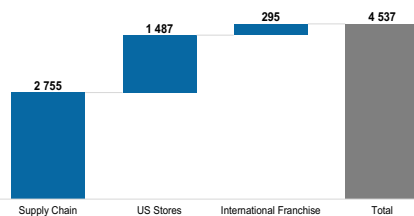


Figure 26: DPZ Revenues Breakdown (2022), in USD Millions

Source: Domino's Pizza Inc. 10K Annual Report (2022)

The Wendy's Co (WEN)

Wendy's Co is a quick-service hamburger restaurant company and it opened its first restaurant in 1969, in Ohio. Currently, Wendy's is the third largest hamburger sandwich company within the QSR market, with 7,095 restaurants over 32 countries, as of January 1, 2023. Company-operated restaurants comprised about 6% of total restaurant stores. In FY 2022, total revenues amounted to \$2,095.5 million, 10.5% higher than the previous financial year. Wendy's Co. comprises three operational segments: Wendy's US, Wendy's International and Global Real Estate & Development which account for 84%, 5% and 11% of total revenues, respectively²¹.



Figure 27: The Wendy's Co. Logo

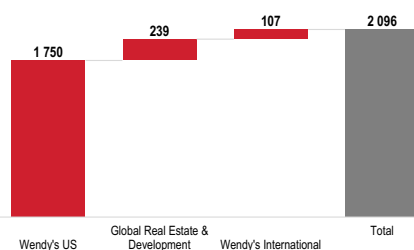


Figure 28: WEN Revenues Breakdown (2022), in USD Millions

Source: The Wendy's Co. 10K Annual Report (2022)

Financial Analysis

Revenues Evolution

¹⁹Starbucks Corporation. 2022. "Annual Report." Form 10-K.

²⁰Domino's Pizza, Inc. 2022. "Annual Report." Form 10-K.

²¹The Wendy's Company. 2022. "Annual Report." Form 10-K.

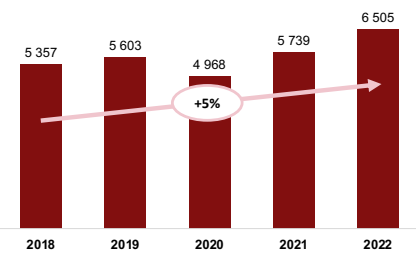


Figure 29: RBI's revenue evolution (2018-2022), in USD Millions

Source: RBI 10K Annual Report (2022)

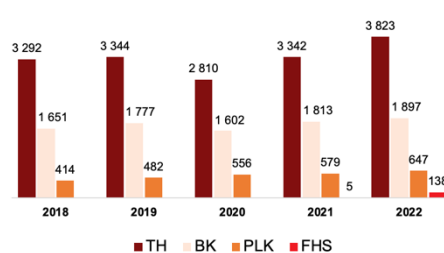


Figure 30: RBI's revenue evolution per brand (2018-2022), in USD Millions

Source: RBI 10K Annual Report (2022)

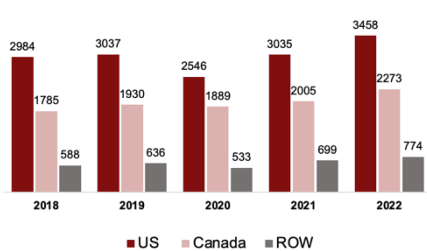


Figure 31: RBI's revenue evolution per geography (2018-2022), in USD Millions

Source: RBI 10K Annual Report (2022)

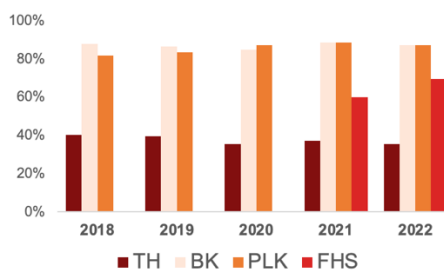


Figure 32: RBI's gross margin evolution per brand (2018-2022)

Source: Own Analysis

Total Revenues have followed the industry trend over the last five years, decreasing in 2020 by 11% mainly due to Covid-19, while recovering in the following financial year and surpassing pre-pandemic levels. Over 2018-2022, the company registered a CAGR of 5% in its total revenues, registering a higher growth than both the foodservice industry (-2%) and the QSR segment of the latter (2%) during the same period. Particularly in FY2022, RBI registered \$6,505 million in total revenues, up 13% from FY2021.

By doing a deeper analysis into the different segments' revenues evolution, TH stands out as the most prominent segment, accounting for more than 55% of total revenues over 2018-2022. This is driven by the fact that TH business not only includes sales from company-owned restaurants and revenues collected from franchisees as is the case of BK, PLK and FHS, but also encompasses significant supply chain operations which include manufacturing, procurement warehousing and distribution. The second biggest segment in terms of total revenue is BK, being responsible for roughly 30% over the analysed historical period. Both TH and BK have shown a CAGR of approximately 4% between 2018 and 2022. Additionally, it is relevant to underline the growing importance of the PLK brand which has established a strong brand identity within QSR and whose revenues registered a double-digit CAGR of 12%. Finally, given FHS acquisition in 2021, it only accounted with \$5 million of revenues in that same year, jumping to \$138 million in 2022, as a result of a full-operational year.

In terms of regions, North America has consistently been the main stream of revenues for RBI. Nevertheless, the rest of the world (ROW) has been gaining relevance, motivated by RBI's expansion plan for its brands, showing a CAGR of 7.1% over the last five financial years.

Profitability Margins

RBI presents great profitability margins across all segments, which is due to the nature of the franchise business model that enables fast expansion and growth coupled with a relatively low investment. Nevertheless, there are some differences between the four brands when it comes to profitability margins. Starting with the gross margin evolution present in Figure 32, TH presents a decreasing trend over the analysed period and far lower values compared with the remaining brands (only 36% in 2022). This could be explained by two main reasons: 1) TH is the only RBI brand that has control over the entire supply chain, meaning it incurs costs such as cost of goods, direct labour, depreciation, and bad debt expense from supply chain sales; 2) Given the rise in the inflation rate and consequent interest rates in the past years, supplier costs have become increasingly higher, affecting the direct

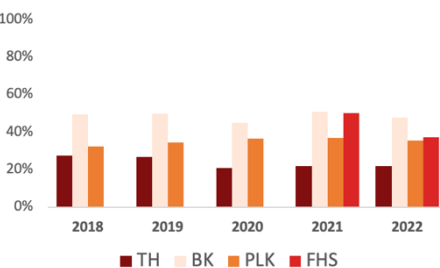


Figure 33: RBI's EBIT margin evolution per brand (2018-2022)
Source: Own Analysis

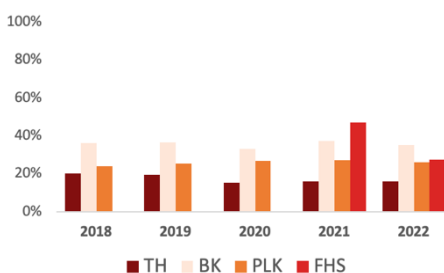


Figure 34: RBI's net margin evolution per brand (2018-2022)
Source: Own Analysis

costs associated with the sale of the products, and thus the gross profit. Despite their differences in size of operations, BK and PLK presented very similar gross margins at around 87% across the 5 years. The brands benefit from the franchise business model profitability, and since almost all the restaurants are franchised and not company-operated, both brands have similar revenue and direct cost structures in the form of rental expenses of properties subleased and direct costs related to the few company-operated restaurants. FHS differs from the other brands given its size and the fact that it is still in the early stages of growth, yet to become a truly global brand. This way, since the brand has not completed any major franchising agreements globally, the number of company-operated restaurants relative to the franchised is high, translating into a high cost of sales, similar to what happens to TH. Nevertheless, FHS registered an increase in its gross margin, and given the company's intention to fuel the growth of the brand through international expansion, it is expected that the number of franchise agreements will increase and consequently the brand's gross margin will improve.

In terms of EBIT margin, Figure 33 explains that once again TH represented the lowest values (22% in 2022), following the lower gross margin. Contrarily, BK was the brand with the highest EBIT margin with almost 50% in the period analysed. PLK's EBIT margin on the other hand decreased a lot compared with BK and the gross margin (35% in 2022), which can be explained by the efforts the brand is making to fuel the growth demonstrated in the past years, and thus investing nearly 50% of the gross profit in advertising expenses. Finally, FHS presented a significant EBIT margin decrease between 2021 and 2022, due to the natural growth of the company and the investments necessary to fuel that growth such as advertising expenses and segment G&A. For the decomposition of the net margin across the four brands, it follows the same structure as the EBIT margin (check Figure 34).

Cash Flows Decomposition

To get to Gross Cash Flow, one must add back depreciation and amortization to net profit. For TH, BK, and PLK depreciation was roughly 9%, 7% and 10% of the property and equipment of the previous year, through the period analysed. For FHS it was only possible to compute depreciation for 2022, and the value could be quite misleading since the company was acquired in late 2021 and the property and equipment caption was very small.

To keep the growth of their operations, companies invest a portion of their gross cash flow back into the business in several forms. By doing this it will lead to the Free Cash Flow (FCF), which is the after-tax cash flow available to both debt and

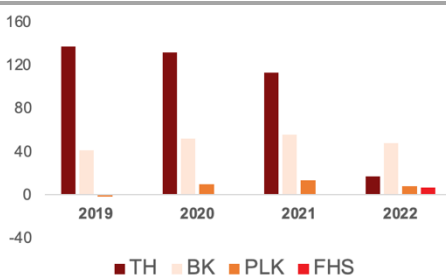


Figure 35: RBI's CapEx evolution per brand (2019-2022), in USD Millions

Source: Own Analysis

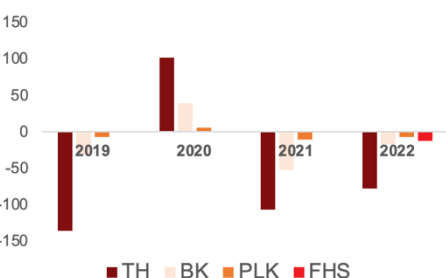


Figure 36: RBI's ΔNWC evolution per brand (2019-2022), in USD Millions

Source: Own Analysis

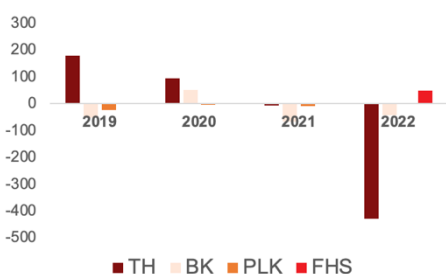


Figure 37: RBI's ΔIntangible assets evolution per brand (2019-2022), in USD Millions

Source: Own Analysis

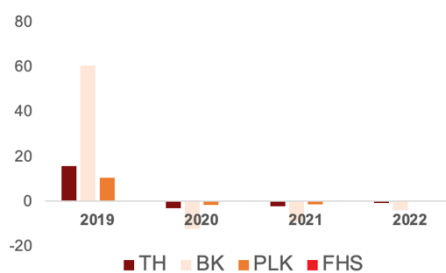


Figure 38: RBI's ΔOther long-term operating assets net of liabilities evolution per brand (2019-2022), in USD Millions

Source: Own Analysis

equity holders. In the case of RBI and its brands, the first gross investment to be deducted from gross cash flow is CapEx - the increase in property and equipment, net of depreciation. Over the period analysed in Figure 35, TH's CapEx decreased each year, with 2022 registering only \$17M, an 85% drop compared to the previous year. This was possibly because of the decrease in sites owned by the company and sites leased to the franchisees. For BK, CapEx grew proportionally to revenues at 3%, suggesting that as revenues grew, the need to invest in new capital also increased. PLK CapEx varied throughout the five years, from disinvestment in 2019 to \$14M in 2021. FHS had \$7M worth of CapEx in 2022, equalling 5% of revenues.

The second gross investment to be subtracted from gross cash flow is changes in net working capital. It consists of the investment in operating cash, inventory, and other components of working capital that are necessary for the growth of a business. Through the analysis of Figure 36, it is worth noting that for TH, BK, and PLK the net working capital decreased in 2019, 2021, and 2022, compared with the previous year, with the only exception for the three brands being 2020. The reason behind this is possibly related to the amount of debt the companies incur to leverage future growth. Therefore, a portion of the operating cash is used to mitigate debt, reducing the availability to fund working capital. However, in 2020 the change in net working capital was positive due to a reduction in accounts payable which was possibly caused by debt/contract reliefs related to the covid-19 pandemic.

The third caption is changes in intangible assets, which correspond to each of the brand's values. According to Figure 37, TH's intangible assets fluctuated throughout the years, initially increasing and since 2021 decreasing due to changes in consumer habits because of the covid-19 pandemic. Loyal customers understood during lockdowns that habits such as going to a TH for a snack were time and money-consuming, resulting in a loss in brand equity for the company. The BK and PLK on the other hand have decreased the value of their intangible assets almost every year, due to amortization and the lack of a long-term strategy that sets key priorities to focus on brand positioning.

The final gross investment to be deducted from gross cash flow is other long-term operating assets net of liabilities, which in the case of RBI and its brands corresponds to changes in the operating leased assets net of liabilities. In every brand (except for FHS), this caption was positive in 2019 and slightly negative in the subsequent years (Figure 38), meaning that RBI had to incur more rental expenses compared with rental income in the most recent period.

Considering all of these adjustments, one arrives at the FCF. By analysing the five years, one can observe that 2020 constitutes the year with the lowest FCF for all brands. This is due to the impact of the covid-19 pandemic and the corresponding decrease in the volume of operations and cash flows. After 2020, all brands presented a great recovery achieving FCFs higher than pre-covid levels.

Capital Structure

As referenced previously in this report, RBI's business model is set on the foundation of debt issuance to leverage investment opportunities and fuel the desired continuous growth. The company presents in Figure 39 a constant gearing ratio of around 70% and a debt-to-EBITDA ratio of more than 5 in almost every year in the period analysed. Looking into RBI's comparable peers in Figure 40, the company had the lowest gearing ratio - suggesting that RBI required less external financing to fund the invested capital -, and the highest debt-to-EBITDA ratio - suggesting that the company had a lower amount of income available to pay back debt before interest, taxes, depreciation, and amortization expenses. Given this, one can conclude that although RBI has been benefiting from the leverage of debt and tax shields, it has been also struggling to maintain a sustainable amount without compromising its operations through financial distress.

	2018	2019	2020	2021	2022
Gearing Ratio	0,73	0,68	0,72	0,73	0,71
Debt-to-Equity Ratio	3,05	2,44	2,96	3,11	2,78
Debt-to-EBITDA Ratio	5,27	4,75	6,84	5,76	5,67

Figure 39: RBI's capital structure ratios (2018-2022)

Source: Own Analysis

	RBI	MCD	YUM
Gearing Ratio	0,71	1,21	4,39
Debt-to-Equity Ratio	2,78	-5,77	-1,29
Debt-to-EBITDA Ratio	5,67	3,56	5,00

Figure 40: RBI's comparable peers capital structure ratios (2022)

Source: Own Analysis

Financial Position

▪ Liquidity

RBI's liquidity position has worsened since FY2020, with the company only verifying the minimum short-term financial equilibrium with its current ratio of 1 over the last two years and being below the threshold for covering its short-term obligations according to its quick and cash ratios. Nevertheless, these declining liquidity ratios, seem to have been driven by the Firehouse Subs acquisition in 2021 and by the decision approved in July 2021 by the board of directors to repurchase up to \$1 million of common shares until August 2023. As such, RBI's liquidity position does not appear to be a major source of concern as it can be possibly explained by relevant investing and financing activities.

Compared to McDonald's Corp. and Yum! Brands Inc., RBI presents slightly lower liquidity ratios than McDonald's Corp., but shows a lower executional risk than Yum! Brands Inc. It is also important to note that RBI displays consistent liquidity ratios over FY2021 and FY2022, while its peers have seen a declining trend in its liquidity position.

	RBI	MCD	YUM
Current Ratio	0,97	1,43	0,97
Quick Ratio	0,91	1,41	0,61
Cash Ratio	0,56	0,68	0,22

Figure 41: RBI's liquidity ratios (2018-2022)

Source: Own Analysis

	2018	2019	2020	2021	2022
Current Ratio	1,07	1,29	1,41	0,97	0,97
Quick Ratio	1,01	1,24	1,35	0,92	0,91
Cash Ratio	0,65	0,90	0,97	0,58	0,56

Figure 42: RBI's comparable peers liquidity ratios (2022)

Source: Own Analysis

▪ Solvency

	RBI	MCD	YUM
Solvency Ratio	0,23	-0,11	-0,60
Financial Autonomy Ratio	0,19	-0,12	-1,52
EBIT/Interest Expense Ratio	3,56	7,76	4,17

Figure 43: RBI's solvency ratios (2018-2022)

Source: Own Analysis

	2018	2019	2020	2021	2022
Solvency Ratio	0,22	0,24	0,20	0,20	0,23
Financial Autonomy Ratio	0,18	0,19	0,16	0,17	0,19
EBIT/Interest Expense Ratio	3,58	3,77	2,80	3,72	3,56

Figure 44: RBI's comparable peers solvency ratios (2022)

Source: Own Analysis

Regarding RBI's solvency, the company presented every year a low and stable solvency ratio of around 22%, a financial autonomy ratio of around 18%, and an almost constant EBIT/interest expense ratio of 3.6, except in 2020 where the ratio was 2.8 due to the impact of covid-19 on the business' operations. Unsurprisingly, all these ratios reflect the company's willingness to incur debt to boost the desired growth of its operations. Therefore, one suggestion would be increasing these ratios, especially the solvency ratio, to avoid undergoing a scenario of potential financial distress. Nevertheless, when comparing with McDonald's and Yum! Brands, RBI stands as the firm with the highest ability to meet its obligations using the capital that has been invested or generated by the company. The comparable peers have negative equity which makes them very vulnerable to financial distress situations. The only exception would be the EBIT/Interest expense ratio, in which RBI has the lowest values in every year.

▪ Profitability

ROIC	2018	2019	2020	2021	2022
Tim Hortons Core ROIC	11%	11%	7%	8%	10%
Weight (Core TH IC of Total IC)	40%	39%	41%	38%	38%
Weighted Tim Hortons Core ROIC	4%	4%	3%	3%	4%
Burger King Core ROIC	29%	31%	24%	31%	29%
Weight (Core BK IC of Total IC)	14%	14%	15%	13%	14%
Weighted Burger King Core ROIC	4%	4%	3%	4%	4%
Popeyes Core ROIC	8%	9%	12%	12%	13%
Weight (Core PLK IC of Total IC)	9%	9%	8%	8%	8%
Weighted Popeyes Core ROIC	1%	1%	1%	1%	1%
Firehouse Subs Core ROIC	-	-	-	0%	5%
Weight (Core FHS IC of Total IC)	-	-	-	5%	5%
Weighted Firehouse Subs Core ROIC	-	-	-	0%	0%
Non Core ROIC	-10%	3%	-3%	6%	5%
Weight (Non Core IC of Total IC)	38%	38%	36%	36%	38%
Weighted Non Core ROIC	-4%	1%	-1%	2%	2%
Overall ROIC	5%	11%	6%	10%	11%

Figure 45: RBI's ROIC breakdown per segment (2018-2022)

Source: Own Analysis

RBI's overall ROIC is a measure that increased to around 11% since 2019, except for 2020 in which the ROIC fell short at only 6%. To better understand this, Figure 45 shows us the decomposition of the overall ROIC into the several brands and non-core business, and one can infer that the decrease in the overall ROIC in 2020 was due to a poor performance in the non-core ROIC which was mostly explained by losses on foreign exchange. Moreover, the drivers which have the biggest weight on this metric are TH and non-core business segments due to their high value of invested capital, but it is the BK and PLK segments that demonstrate the strongest performances. Therefore, to further increase the overall ROIC, a good strategy would be to fuel the investment in the BK and PLK segments that have better performance and drive the overall metric upwards. In terms of ROE, the financing decisions made have always added value to shareholders since ROE has always been well above ROIC. When we compare with McDonald's and Yum! Brands, RBI has a lower ROIC but higher ROE, signalling that shareholders would be better off investing their capital in RBI. Nevertheless, when looking at the ROA, RBI presents the lowest values of the group, which demonstrates the company's inefficiency in using its assets to generate results.

Financial Forecast

Revenues Evolution

For both "Sales" and "Franchise and Property Revenues" captions, we used a bottom-up approach and assumed that the best key driver would be the number of company-owned restaurants and franchised restaurants, respectively. This was

given by the fact that these two captions can either grow through their number of restaurants or individual restaurant profitability.

Since the latter fluctuates depending on external factors such as consumer demand or restaurant location, we assumed all restaurants to have the same relative revenues – the average revenue per restaurant. We assumed the average revenue per restaurant to remain constant in the foreseeable future given two opposing factors: 1) According to the Federal Reserve Bank forecast, the inflation rate is only expected to return to 2% from 2026 onwards, which would then possibly influence the company to increase the prices of its products to maintain profitability levels; 2) Given the nature of the QSR industry, which is known and sought by consumers for high-quality products with lower prices than regular restaurants, it is expected that with a constant increase in the products' prices, the consumers will reduce the quantities purchased, since these are not essential goods. Hence, the overall effect is ambiguous, dependent on fluctuations in the inflation rate, price increases, and consumer preferences.

This way, our long-term proxy key driver is the number of company-operated or franchised restaurants, for the “Sales” and “Franchise and Property Revenues”, respectively.

For the TH segment, “Franchise and Property Revenues” were forecasted based on the franchised restaurants’ net restaurant growth (NRG), which until 2027 was assumed to be equal to the weighted average CAGR between 2022-2027 of the foodservice industry in the APAC, Europe, and RoW regions. The reason behind this is that TH’s home market (North America) is already very saturated, and thus it is expected that the growth in new restaurants will come from the rest of the world. From 2028 onwards, we used the CAGR QSR Segment (2014-2019) of 2.2% since this corresponds to a period of prosperity without any recessions (base scenario). The “Sales” caption for TH differs from other brands because it includes supply chain sales, which evolves according to total number of restaurants (i.e., company-owned and franchised). This way, given that almost 100% of the restaurants are franchised, we assumed it would follow the same evolution as in the “Franchise and Property Revenues” caption.

For the projected evolution of the number of franchised restaurants, we assumed an NRG for BK of 2.2% (which corresponds to the CAGR QSR Segment of 2014-2019) because the company is in its maturing stage and is saturated globally. For PLK we used an NRG of 7.2% until 2027 (corresponding to the historical NRG average) due to the recent international growth expansion, and then on the long-term reaching the lower CAGR QSR Segment (2014-2019) of 2.2%. For FHS, we

assumed the same NRG as PLK, since both brands are in their growing stages and are relatively smaller in size compared with the other brands.

Since the caption “Sales” for BK, PLK, and FHS, corresponds to sales from company-operated restaurants, and given their restaurants' portfolio composition (approximately 100% franchised restaurants) it was assumed that the low number of restaurants would remain almost constant as per the past historical evolution.

For the caption “Advertising Revenues and Other Services”, the key driver used was the system-wide sales since the company calculates the caption as a percentage of franchise restaurant sales. System-wide sales were decomposed and forecasted into the different brands and regions accordingly. For the North America region, we assumed sales would grow at the foodservice industry CAGR (2022-2027) of 2.5% of the corresponding region, for each brand. For the rest of the world, until 2027 we used the weighted average of the corresponding foodservice industry CAGR (2022-2027) and from 2028 onwards, the World GDP Growth (2018) of 3.3%. Finally, we forecasted all brands “Advertising Revenues and Other Services” based on a fixed percentage of system-wide sales, corresponding to the historical average.

Considering all these factors, on Figure 46 we can see the forecast of total revenues as well as the contribution per brand. TH and BK are expected to remain the two most consolidated brands, but PLK and FHS are the ones with the highest growth.

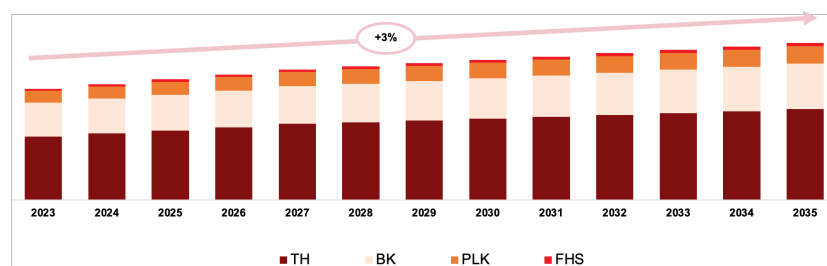


Figure 46: RBI's revenue evolution per segment (2023-2035)

Source: Own Analysis

Costs Evolution

Cost of sales consists mainly of TH supply chain costs such as cost of goods, direct labour, depreciation, and bad debt expense. For this reason, the remaining brands' cost of sales are immaterial. To forecast TH's cost of sales, we used Sales as a driver, applying a historical percentage average to every subsequent year. This way, cost of sales grow at the same rate as sales.

Franchise and Property Expenses on the other hand are mostly related to depreciation of properties leased to franchisees and rental expenses from

subleased franchised restaurants. Therefore, for all brands we used the sum of the number of sites leased and subleased by RBI to franchisees as the driver for this caption, applying a fixed percentage corresponding to the historical average for the foreseeable period. As the future growth of the number of sites was calculated based on the historical CAGR (predominantly negative), franchise and property expenses also followed that trend, slowly decreasing throughout the years.

The forecast of the evolution of advertising and other expenses was based on the company's commitment and conviction to equal advertising revenues and expenses in the long term. Hence, the forecast of this caption is equal to the advertising revenues for all brands.

As general and administrative expenses correspond to non-restaurant-related expenses, they were forecasted based on the assumption that with higher revenues, the need to increase corporate operations will increase as well. Nevertheless, this is only an indirect measure and therefore it is expected that segment general and administrative expenses ("Segment G&A") are not likely to grow at a constant percentage of revenues.

The remaining cost captions were either temporary or too immaterial to be further analysed.

Profitability Margins Evolution

By analysing Figure 47 and comparing them with the historical gross margins analysed in the financial analysis section, one can notice two significant differences: 1) There is a small positive jump between 2022 and 2023 for every brand; 2) The gross margins slightly increase during the initial period until eventually stabilizing in the long term. The evolution of gross margin can be explained by the natural evolution of revenues of a growing company and RBI's intention (based on the trend of historical values) to reduce the number of sites leased and focus more on franchise agreements with franchisees that already own restaurants. This way the number of franchised restaurants increases, but leased sites decrease, and consequently franchise expenses such as rent, and depreciation also decrease. Furthermore, a plausible assumption would be that the brand value of each brand would slightly increase each year given the expected revenue growth and internationalisation. This would create an incentive for franchisees who already own sites to enter into a franchising agreement with RBI since they would be more optimistic about potential future revenues under a strong and well-known brand. The fact that RBI is a group of different-sized companies could benefit the smaller brands' equity through synergies (by being associated with big names like BK and TH). Ultimately this would decrease even more the

investment that the brands make and maximise the benefits of the franchising model and gross margins. The initial jump in the gross margins in 2023 can be explained not only through the before-mentioned factors but also because we assumed there would not be any temporary costs related to unforeseeable events.

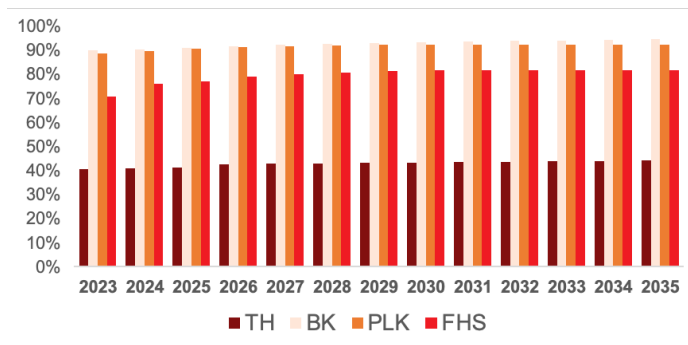


Figure 47: RBI's gross margin per segment (2023-2035)
Source: Own Analysis

The EBIT and net margin have the same evolution as the gross margin, since the advertising expenses are assumed to cancel the advertising revenues, and the general & administrative expenses have as key driver revenues. Figure 48 shows the evolution of the net margins for the four brands in the foreseeable future.

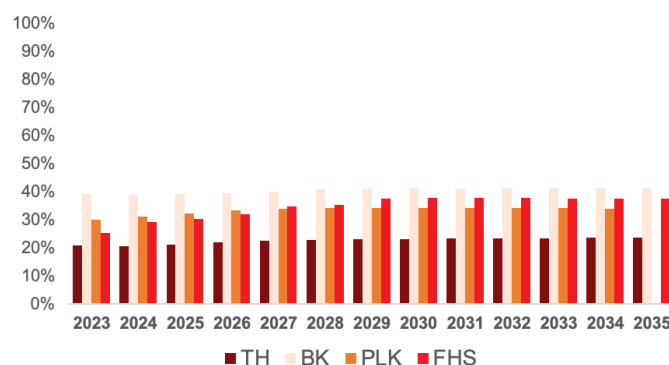


Figure 48: RBI's net margin per segment (2023-2035)
Source: Own Analysis

Cash Flows Evolution

To estimate the FCFs of each brand one must also estimate the necessary investments to be deducted from gross cash flow. The latter was forecasted by adding the core result of each brand with depreciation, a caption calculated through a fixed percentage (equal to the historical average) of property and equipment from the previous period. This way, and as Figure 49 shows, gross cash flow increases every year, at a similar rate as the individual core results.

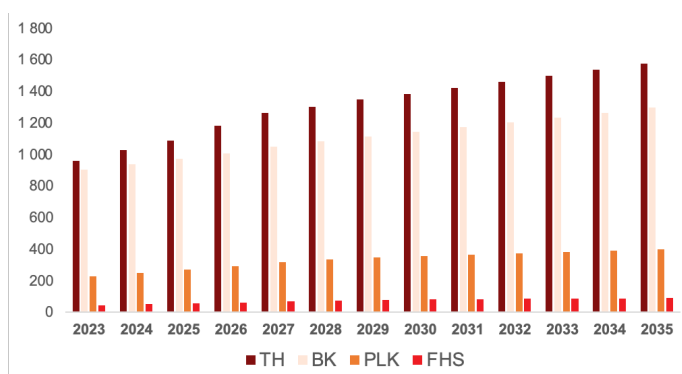


Figure 49: RBI's gross cash flow per segment (2023-2035)

Source: Own Analysis

In terms of CapEX, it was forecasted based on a percentage of revenues. Intuitively, for a company to grow it requires additional capital to be able to produce more and consequently increase its revenues. In RBI's case, CapEx is mostly related to property and equipment, which are crucial elements for the business operations of the four brands. For the changes in net working capital, the computation of the captions included in this caption was based on either the last key driver value or the historical average of the same. We expect that every brand's net working capital in the long term would residually decrease each year, which is a reasonable assumption given the companies' long-term growth strategies that use debt as leverage to increase the size of operations, and consequently the need to use a portion of the operating cash flow to mitigate debt, reducing the availability to fund working capital. Concerning the intangible assets, for the TH, PLK, and FHS brands, we expect a slight increase each year, given the predicted growth in each of the brands' equity due to the strengthening of the brands presence and popularity worldwide. For BK, as it is a mature brand and globally well-established, we consider that the historical evolution is likely to reflect the future trend of the corresponding intangible asset. As such, since the latter was slightly decreasing (-1%) between 2018 and 2022, we assumed the historical average growth for the initial forecasted period, and then, for the long-term, it would remain constant to translate the positive effect of brand equity. Finally, we expect that the changes in other long-term operating assets net of liabilities (corresponding to operating leased assets revenues and expenses mostly in the form of rents) would become residual in the future, as RBI intends to shift its focus to franchise agreements with franchisees that already own their sites, avoiding this way rental expenses related to leased agreements but also foregoing rental revenues related to subleased agreements. Therefore, although the net result is ambiguous, it is expected to be close to zero.

On Figure 50 we can observe the FCF forecast for each brand, and its respective evolution.

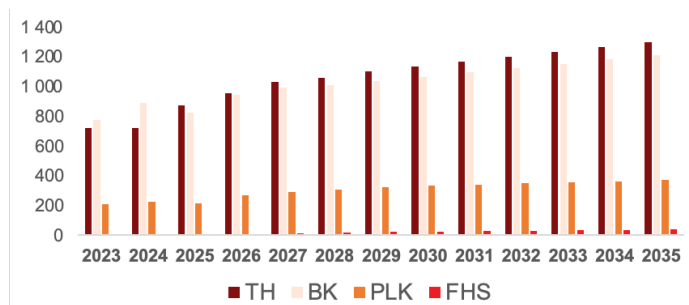


Figure 50: RBI's free cash flow per segment (2023-2035)
Source: Own Analysis

As we previously mentioned in this report, we expect in the foreseeable future that TH and BK will remain the strongest and most consolidated brands, with the highest revenues and better performance. Nevertheless, we also expect PLK and FHS to have the highest growth amongst the group, given their long term growth strategies and potential to fully exploit their growing stages and become global brands as their peers.

Valuation

Cost of Capital

WACC Calculation	
Risk-free rate	4,25%
Market Risk Premium	5,94%
β_e	1,095
R_e	10,75%
β_d	0,17
R_d	5,26%
Target D/V	40%
Taxes	26,50%
WACC	8,03%

Figure 51: WACC Calculation
Source: Own Assumptions & Computations

To compute the WACC, a stable market debt-to-value ratio (D/V) of 40% was assumed for the forecasted period as there is no publicly available information regarding a possible change in RBI's current capital structure.

For the estimation of the company's cost of debt, the Capital Asset Pricing Model (CAPM) was applied. The current yield of the US Government 10Y Treasury Bond (USGG10YR), 4.25%, was considered as the risk-free rate. The latter is reflective of the increase in interest rates as a response to the current inflationary period. For the market risk premium, a NYU Stern's estimate of 5.94% was used. The debt beta was assumed to be 0.17, having as basis S&P BB credit rating assessment and the respective ratings' average beta according to S. Schaefer and I. Strebulaev (2009)²². The CAPM output is an estimated cost of debt of 5.26%.

The CAPM was also applied to determine the cost of equity. The equity beta was estimated by regressing RBI's share prices against the S&P 500, using weekly observations from the last five years. Daily or weekly return-based betas are more

²²Schaefer, S., e I. Strebulaev. 2009. *Risk in Capital Structure Arbitrage*. Stanford GSB working paper.

likely to lead to the lowest tracking errors²³ and weekly data was chosen in detriment of daily given the fact that it is less noisy. With the intent of improving the beta's estimate, the regression's raw beta of 1.14 was adjusted to dampen extreme observations towards the mean. We used the same smoothing process as Bloomberg^{24,25} and achieved an adjusted beta of 1.095. The regression's standard error is of 0.081 and the respective possible impact on the company's value is further discussed in the Sensitivity Analysis subsection. Based on this, the computed cost of equity is 10.75%.

With the previously stated parameters, the stable D/V assumption, and the company's statutory tax rate of 26.5%, the WACC is estimated to be 8.03%.

Discounted Cash Flow Model

(in millions of US dollars)	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Core FCF	1 909	2 170	2 335	2 396	2 484	2 557	2 630	2 701	2 774	2 847	2 922
Core Terminal Value	44 978										
WACC	8,03%	8,03%	8,03%	8,03%	8,03%	8,03%	8,03%	8,03%	8,03%	8,03%	8,03%
Discounted Core FCF	1 767	1 859	1 852	1 759	1 688	1 608	1 532	1 456	1 384	1 315	1 249
Discounted Core Terminal Value	22 442										

Figure 52: Discounted Cash Flow Model

Source: Own Analysis

The final firm value was determined by applying the DCF method, which consisted in discounting the forecasted free cash flows at the estimated WACC of 8.03%. As the valuation date considered for this analysis is December 2024, the first free cash flow included in the DCF corresponds to 2025. The core free cash flows correspond to the sum of each segment's free cash flow and the terminal value was also computed individually for each brand to depict the respective individual terminal value drivers.

For the forecasted period ending in 2035, the total core free cash flows show an increasing trend, with an implied CAGR of 4%.

The enterprise value is attained by adding the contribution of non-core activities to the value generated by the core operations of the business. By deducting the net debt and non-controlling interests, we reach an equity value of \$25,956 million. Considering that the number of outstanding common shares will remain unchanged at 307,947,651²⁶, we estimate a price per share of \$84.51. This translates into a capital gain of 15.12%²⁷, which added to the dividend yield leads

Enterprise Value	40 812
Net Debt	13 086
Equity Value	25 956
Shares Outstanding (in Millions)	307
Price per Share Target	\$ 84,51

Figure 53: Discount Cash Flow Model

Final Output

Source: Own Analysis

²³Agarwal, Pankaj, Faye W. Gilbert, e Jason Harkins. 2022. "Time Dependence of CAPM Betas on the Choice of Interval Frequency and Return Timeframes: Is There an Optimum?" *Journal of Risk and Financial Management*.

²⁴Adjusted Beta = 0.33 + 0.67(Raw Beta)

²⁵Koller, Tim, Marc Goedhart, and David Wessels. 2010. *Valuation: Measuring and Managing the Value of Companies*. John Wiley & Sons.

²⁶As of February 14, 2023

²⁷Considering the closing share price at December 15, 2023

to a total gain of 18.14% to the investor. As a result, our model discloses a BUY recommendation.

■ Terminal Value

	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
ROIC	12%	13%	13%	13%	13%	13%	13%	13%	13%	13%	13%
RONIC	20%	24%	31%	26%	14%	14%	13%	13%	13%	13%	13%
RR	27%	28%	22%	15%	23%	20%	20%	19%	19%	19%	19%
Growth	5,4%	6,9%	6,3%	3,9%	3,5%	2,7%	2,6%	2,6%	2,6%	2,5%	2,5%

Figure 54: Long-term Core Value Drivers

Source: Own Analysis

For the DCF model, a terminal growth rate had to be determined to apply each segments' perpetuity formula when the steady-state is achieved. The growth rate depends on how much it is invested and how much the investment will generate and, as such, it was computed as the product of the reinvestment rate (RR) with the return on new invested capital (RONIC). Additionally, since the core value creation drivers (i.e., RR, core ROIC, core RONIC) stabilize across all brands in the last years of the forecasted period, it means that the company presents steady-state performance, and thus justifies the use of the perpetuity formula²⁸. The estimated terminal growth rate for each segment ranges from 2.2% to 2.6% (Figure 55). We believe this to be a fair estimation since it is reasonable for a company to grow less than the overall economy in the long-term (World GDP Growth of 3.1%).

The overall core ROIC and RONIC both stabilize at 13% in the long-term, surpassing the WACC and implying that RBI will keep creating value to its shareholders, since the return on their investment is higher than the alternative use they could have if their invested capital was given back. Focusing on the individual segments' ROIC and RONIC, both these value drivers are predicted to exceed the WACC in the steady-state for TH, BK and PLK, meaning these brands' continuous growth is driving the predicted additional value generated for investors. Contrarily, FHS core value drivers fall short of the WACC and this might be due to the fact that despite its revenues being expected to follow an expansion path, its asset turnover and operational margin are consistently below the other segments.

Although, according to economic theory, a company's ROIC tends to converge to the cost of capital, we consider that RBI will continue to benefit from sustainable competitive advantages, such as its renowned brands and strong franchise network. Thus, in our view, the fact that RBI is predicted to sustain a higher ROIC than its WACC reflects the firm's expected ability to sustain competitive advantages vis-à-vis other competitors.

Tim Hortons (TH)	
ROIC	10%
RONIC	11%
Growth	2,6%
Burger King (BK)	
ROIC	29%
RONIC	28%
Growth	2,5%
Popeyes (PLK)	
ROIC	14%
RONIC	16%
Growth	2,2%
Firehouse Subs (FHS)	
ROIC	3%
RONIC	2%
Growth	2,2%
World GDP Growth	3,1%

Figure 55: Segments' Long-term Core Value Drivers

Source: Own Analysis & IMF

Note: World GDP Growth corresponds to the world average GDP growth over the last 15 years

²⁸Koller, Tim, Marc Goedhart, and David Wessels. 2010. *Valuation: Measuring and Managing the Value of Companies*. John Wiley & Sons.

Relative Valuation

Peer Group: Selection	
YUM! BRANDS INC	YES
JACK IN THE BOX INC	NO
MCDONALD'S CORP	YES
THE WENDY'S CO	YES
YUM CHINA HOLDINGS INC	NO
DOMINO'S PIZZA INC	YES
STARBUCKS CORP	YES

Figure 56: Peer Group Company Selection

Source: Own Analysis

Current Multiples	P/E
RESTAURANT BRANDS INTERNATIONAL INC	27,24
YUM! BRANDS INC	24,01
MCDONALD'S CORP	24,76
WENDY'S CO/THE	19,51
DOMINO'S PIZZA INC	27,82
STARBUCKS CORP	27,24
Price Target (Base)	85,28

Figure 57: P/E Multiple

Source: Bloomberg & Own Analysis

Current Multiples	EV/EBITDA Adj.
RESTAURANT BRANDS INTERNATIONAL INC	20,08
YUM! BRANDS INC	19,05
MCDONALD'S CORP	18,72
WENDY'S CO/THE	12,20
DOMINO'S PIZZA INC	20,58
STARBUCKS CORP	14,70
Price Target (Base)	86,23

Figure 58: EV/EBITDA Adjusted Multiple

Source: Bloomberg & Own Analysis

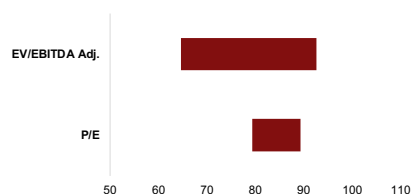


Figure 59: Share Price Variation for P/E EV/EBITDA Adjusted Multiples, in USD

Source: Bloomberg & Own Analysis

As stated in the Peers subsection, the peer set chosen comprises McDonald's Corp., Yum! Brands Inc., Starbucks Corp., Domino's Pizza Inc., and The Wendy's Co.. To reach this peer group, an initial range of companies was selected (Figure 56) having as preliminary criteria the positioning within the QSR segment of the foodservice industry and the adoption of a franchise business model. The peer set was then further narrowed based on international geographical focus and, consequently, Jack in the Box Inc. and Yum! China Holdings were left out as its operations are focused within the US and China, respectively.

Regarding the multiples, EV/Sales was excluded grounded on the fact that the latter is generally more applicable for early-stage companies (EBITDA can still be negative or very small relative to EV) or for when the cost structure is still evolving and thus not currently representative of the future.

EV/EBITDA Adjusted was chosen since the franchise business model does not entail high investments. For instance, this is reflected in the only 3% approximate difference between EBITDA and EBIT margins over the last five financial years for RBI. The EV/EBITDA Adjusted was used instead of EV/EBITDA to control for non-recurring expenses or one-time costs which could distort the financial results. The P/E was also included in the relative valuation to take into account market expectations.

Each of the chosen multiples was computed for a base, upside, and downside scenario. The base scenario was based on the peers' multiples median value while the upside and downside were built by using, respectively, the 75th percentile and 25th percentile. As a result, according to the EV/EBITDA Adjusted, the share price is likely to vary from \$64.6 to \$92.6, while with the P/E, the range is between \$79.4 and \$89.3. Focusing on the base scenario, with the median EV/EBITDA Adjusted and the P/E, RBI would achieve a share price of \$86.2 and \$85.3. These values are in accordance with our expectations since RBI has shown a robust financial performance, outperforming its peers in terms of revenue growth over the last financial year, in addition to being focused on improving sales growth, franchisee profitability and restaurant productivity through the current brands' strategic plans. Moreover, the base scenario is in line with our DCF share price output.

Risks

There are several risk factors which could negatively impact the company's performance and affect this report's target share price. For instance, since RBI operates worldwide, its earnings are impacted by foreign currency fluctuations.

Moreover, as disclosed in the Industry Outlook, the industry's performance is significantly influenced by consumer spending and sentiment. Thus, an economic downturn or the occurrence of unforeseen events, such as a pandemic, would potentially be harmful to the firm's activities. There is also risk associated with the deterioration of the brand's reputation, the launching of unpopular products or ineffective advertising. Nevertheless, for the scope of this report, we will focus on the responsiveness of the share price to two key valuation factors: the cost of capital and the predicted long-term performance of the brands.

Sensitivity Analysis

Reflecting on the performed valuation analysis, it is important to understand the reactivity of the share price to changes in some key drivers. For this purpose, we chose to test the firm's share price when faced with variations in the discount rate, as this is a crucial estimate in our valuation, and the terminal value for the PLK segment. PLK has been having considerably more impact on RBI's results, but contrarily to BK or TH it is not a mature brand, instead, it is still in its growing stage, which entails more uncertainty regarding its future performance evolution.

Regarding the WACC, to reach the possible value range, an initial evaluation on the equity beta was conducted, having as basis a confidence interval of 95%, since this is one of the most uncertain inputs of the cost of capital estimation. As a result, having the maximum and minimum betas as the upper bound and lower bound, respectively, the equity beta interval is [0.99;1.17]. Consequently, this leads the cost of equity to range from 10.13% to 11.19%. Thus, the WACC could be within 7.65% and 8.29%, leading the possible share price to vary from \$78.79 to \$93.74.

β_e	0,99	1,04	1,09	1,13	1,17
Re	10,13%	10,44%	10,75%	10,97%	11,19%
WACC	7,65%	7,84%	8,03%	8,16%	8,29%

Figure 60: Cost of Equity Sensitivity Analysis

Source: Own Analysis

		RONIC PLK				
		8,03%	12,04%	16,04%	18,36%	20,69%
RR PLK	9,00%	0,72%	1,08%	1,44%	1,65%	1,86%
	11,3%	0,91%	1,36%	1,82%	2,08%	2,34%
	13,6%	1,10%	1,64%	2,19%	2,50%	2,82%
	14,1%	1,13%	1,70%	2,26%	2,59%	2,91%
	14,5%	1,17%	1,75%	2,33%	2,67%	3,01%

Figure 61: PLK Terminal Growth Rate Sensitivity Analysis

Source: Own Analysis

For PLK, a preliminary sensitivity for the brand's RONIC and RR was performed, as these are the two value drivers behind the perpetual growth computation. It is also relevant to mention that, by changing these two drivers, the final free cash flow within the perpetuity formula is now also different, making the analysis more complete in assessing the uncertainty of PLK's terminal value. The interval for the RONIC was set with the WACC as its lower bound (8.03%) since this would mean that the PLK brand would not be creating additional value for the company's shareholders. For the upper bound we chose the maximum value of RONIC within the last the five years of the forecasted period (20.69%). For the RR, the values range between the lowest terminal RR within all segments (9%) and the highest value for PLK's RONIC for the last the five years of the forecasted period (14.5%). The outcome is then an interval of [0.72%; 3.01%] for the brand's terminal growth rate.

PLK Terminal g	WACC					
	84,51	7,65%	7,84%	8,03%	8,16%	8,29%
	0,72%	92,32	87,68	83,33	80,49	77,76
	1,36%	92,86	88,17	83,79	80,91	78,16
	2,19%	93,74	88,97	84,51	81,59	78,79
	2,59%	94,26	89,44	84,93	81,98	79,16
	3,01%	94,91	90,01	85,45	82,46	79,61

Figure 62: Share Price Sensitivity Analysis, in USD
Source: Own Analysis

Finally, the company's share price was tested against the mentioned variation of the terminal growth and cost of capital. From the final sensitivity output, it is possible to conclude that the share price is notably sensitive to changes in both inputs, varying between \$77.76 and \$94.91. As a final remark, with our 8.03% cost of capital estimation, even though PLK's performance in the long run, might be uncertain, this report's recommendation to buy the stock would still hold.

Monte Carlo Simulation

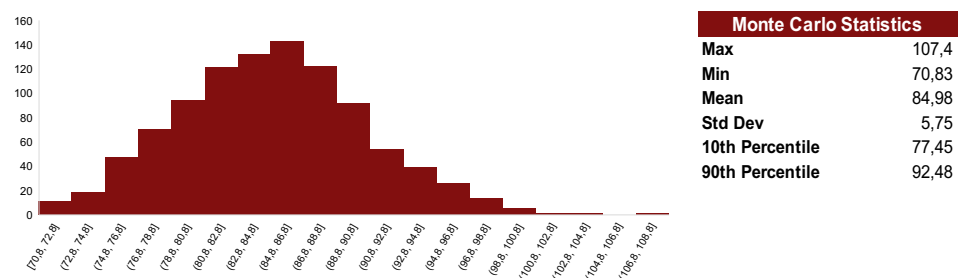


Figure 63: Share Price Histogram & Statistics from Monte Carlo Simulation Output
Source: Own Analysis

To complement the previous sensitivity analysis, a Monte Carlo simulation with 1,000 trials was conducted. We focused on the cost of capital and the terminal growth rates for each of the brands, given the already mentioned importance of the two for our valuation, and the fact that the terminal value corresponds to approximately 55% of our estimated equity value. With this simulation, we were then able to test the responsiveness of the share price to all the brands' terminal growth simultaneously, performing a more rigorous risk assessment.

With the Monte Carlo simulation, the mean of the target share price was \$84.98, which consists of a capital gain of 15.76%. This is close to the share price of \$84.51 obtained through the DCF valuation. Additionally, according to the simulation's output, there is a 76.20% probability of our BUY recommendation being accurate.

ESG

ESG criteria reflect how companies address environmental, social and governance concerns, capturing non-financial risks and opportunities intertwined with the

business. The concern for ESG factors has become considerably relevant amongst investors, with the value of sustainable investment in major financial markets standing at \$30.3 trillion, representing 24% of total professionally managed assets globally²⁹.

For the purpose of this report, it is important to get a more holistic view of RBI's business and analyse its sustainability profile, by understanding how the company stands in terms of each ESG pillar.

Starting with the environment pillar, in 2021, RBI joined the United Nations Race to Zero Campaign, setting the target to achieve net-zero greenhouse gas (GHG) emissions by 2050. The company's current strategy to reduce GHG emissions lies on: (1) electrifying 100% of its corporate car and truck fleet by 2030, having reached 15% progress in 2022; (2) procuring renewable energy for 100% of electricity use in directly controlled, corporate-owned or leased operations and 50% for franchise restaurants; (3) engaging with the supply chain and prioritizing the beef category, as it accounts for 52% of the footprint, setting up a five-year plan to support regenerative agriculture in collaboration with Cargill and the National Fish and Wildlife Foundation; (4) operating sustainable restaurants by reducing the use of packaging, transitioning to sustainable materials and helping guests reuse³⁰. From 2021 to 2022, the company was already able to reduce its CO₂ emissions, from 63,104 to 62,854 tonnes. To assess RBI's relative performance to its industry peers in this ESG factor, we decided to look at the CO₂ emissions per million USD revenue for each company (Figure 65). It is then possible to conclude, based on this metric, that RBI is outperforming its industry peers in what concerns the environment pillar.

Moving to the social pillar, RBI is focused on building a diverse pipeline of talent, with 64% of corporate hires in 2022 having added to the firm's diversity. In terms of gender diversity, the employee base and senior leaders are composed of 41% and 31% of women, respectively³¹. Additionally, through Tim Hortons Coffee for Communities Program, the company improves the livelihood coffee farmers by ensuring they have the necessary skills and resources to guarantee the industry's long-term sustainability. Outside of its business sphere, RBI supports communities all over the world through its charitable campaigns (e.g.: Smile Cookie program) and the brands' foundations. For the social factor, we defined as our KPI Refinitiv's Diversity and Inclusion Score (D&I) which measures 24 metrics across four pillars:

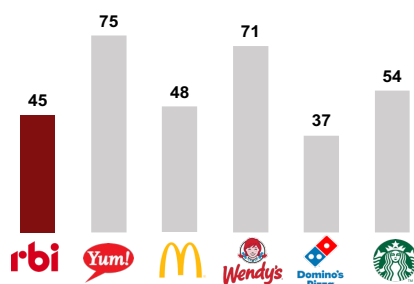


Figure 64: Diversity & Inclusion Score (0-100) for RBI and its peers
Source: Refinitiv

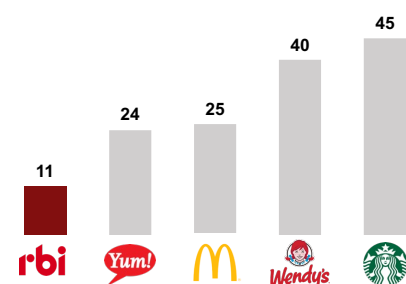


Figure 65: CO₂ Emissions per Million of USD Revenue for Restaurant Brands International and its peers
Source: Refinitiv

²⁹

Global Sustainable Investment Alliance. 2022. "Global Sustainable Investment Review 2022."

³⁰Restaurant Brands International, Inc. 2022. "Restaurant Brands for Good."

³¹Restaurant Brands International. Accessed December 2023. <https://www.rbi.com>.

diversity, inclusion, people development and news & controversies³². It is then possible to observe that RBI is lagging behind its peers in terms of D&I, presenting a score of 45 vs the peer average of 55.

The third and last ESG pillar concerns the internal system of practices, controls, and procedures a company adopts in order to govern itself, make effective decisions, comply with the law, and meet the needs of external stakeholders³³. Firstly, the company's board is composed of members from various industries, cultures and geographies, with the 2021 target for 30% of women directors being met at the 2023 general shareholders' meeting. The board is composed of three standing committees: Audit, Compensation and Nominating and Corporate Governance. These include only independent directors and operate under a written charter, in accordance with NYSE and TSX listing standards.³¹ Moreover, RBI pledges to communicate its performance in both a transparent and regular manner, through the company's website. Additionally, it commits itself to an ongoing engagement with its stakeholders through, for instance, collaborations, surveys or in-person events, to identify relevant issues, opportunities or risks and use those insights in decision-making. According to MSCI, RBI has not been involved in any major controversies concerning its governance, in contrast with Yum! Brands Inc. and McDonald's Corp.

Finally, taking all of the above into consideration and combining it with the MSCI ESG Research³⁴, RBI falls behind in the social pillar, can be considered as average regarding corporate governance, and is leader in environmental factors, displaying in the end an average ESG rating of BBB. As a final note, although ESG compliance does not set an advantage for RBI in relation some of its peers, the company has been improving in this regard, rising from a BB to BBB rating in 2023, which, in our view, is likely to be received positively by investors.

Governance Controversies	
RESTAURANT BRANDS INTERNATIONAL INC	G
YUM! BRANDS INC	Y
MCDONALD'S CORP	Y
DOMINO'S PIZZA INC	G
STARBUCKS CORP	G

Figure 66: Significant Governance Controversies for RBI and its peers
Source: MSCI

ESG Rating	
RESTAURANT BRANDS INTERNATIONAL INC	BBB
YUM! BRANDS INC	BBB
MCDONALD'S CORP	A

Figure 67: ESG Rating for RBI and its peers
Source: MSCI

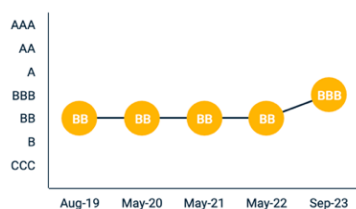


Figure 68: Evolution of ESG Rating for RBI
Source: MSCI

Final Recommendation

According to the performed DCF valuation, RBI is predicted to trade at \$84.51 per share as of December 31st, 2024. This target price is also in line with the findings from the relative valuation conducted. Nevertheless, the risks mentioned throughout this report should not be disregarded as, for instance, brand deterioration, unpopular products, ineffective promotions, an unforeseen event, or

³²Refinitiv. 2023. "Diversity and Inclusion Scores from Refinitiv." https://www.lseg.com/content/dam/ftse-russell/en_us/documents/methodology/diversity-inclusion-rating-methodology.pdf.

³³Henisz, Witold, Tim Koller, e Robin Nuttall. 2019. "Five Ways ESG Creates Value." McKinsey & Company Quarterly.

³⁴MSCI. Accessed December 2023. <https://www.msci.com/our-solutions/esg-investing/esg-ratings>.

economic downturn, could lead to an unpredictable downturn in system-wide sales in the brands' restaurants, compromising our valuation.

Bearing all the aforementioned in mind, our final recommendation is then to buy RBI's stock, with the total expected return for the investor being of 18.14%, which can be decomposed in a 15.12% capital gain and 3.02% dividend yield.

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Appendix

Balance Sheet

(in millions of US dollars)	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Core Business													
Tim Hortons													
Operating Cash	22	23	24	25	26	27	28	28	29	29	30	31	31
Accounts and notes receivable	428	448	468	490	512	524	536	548	560	572	585	598	612
Inventories, net	85	89	87	90	75	76	78	80	82	83	85	87	89
Property and equipment, net	1 511	1 580	1 652	1 728	1 807	1 848	1 889	1 931	1 974	2 018	2 064	2 110	2 157
Operating lease assets, net	185	282	282	282	282	282	282	282	282	282	282	282	282
Intangible assets, net	6 641	6 727	6 814	6 903	6 993	7 084	7 176	7 269	7 363	7 459	7 556	7 654	7 754
Goodwill	4 147	4 238	4 330	4 424	4 520	4 619	4 719	4 822	4 927	5 034	5 143	5 255	5 370
Net investment in property leased to franchisees	37	39	41	42	44	45	46	48	49	50	51	52	53
Accounts and drafts payable	(486)	(509)	(533)	(548)	(573)	(586)	(599)	(612)	(626)	(640)	(654)	(668)	(683)
Other accrued liabilities	(256)	(268)	(280)	(293)	(306)	(313)	(320)	(327)	(334)	(342)	(350)	(357)	(365)
Gift card liability	(127)	(133)	(139)	(146)	(153)	(153)	(153)	(153)	(153)	(153)	(153)	(153)	(153)
Operating lease liabilities, net of current portion	(188)	(187)	(186)	(185)	(184)	(183)	(182)	(181)	(180)	(180)	(179)	(178)	(177)
Other liabilities, net	(539)	(564)	(590)	(617)	(645)	(659)	(674)	(689)	(705)	(720)	(737)	(753)	(770)
Deferred income taxes, net	(803)	(752)	(698)	(638)	(575)	(510)	(442)	(372)	(301)	(227)	(152)	(74)	5
TH Invested Capital	10 658	11 013	11 273	11 557	11 823	12 177	12 459	12 746	13 038	13 337	13 641	13 952	14 269
Burger King													
Operating Cash	41	42	44	45	46	47	48	49	51	52	53	54	56
Accounts and notes receivable	184	189	194	200	205	210	215	221	226	232	237	243	249
Inventories, net	36	35	31	30	23	23	23	23	23	24	24	25	25
Property and equipment, net	925	950	977	1 004	929	951	974	997	1 021	1 045	1 070	1 096	1 123
Operating lease assets, net	753	753	842	842	842	842	842	842	842	842	842	842	842
Intangible assets, net	2 175	2 153	2 132	2 110	2 089	2 089	2 089	2 089	2 089	2 089	2 089	2 089	2 089
Goodwill	590	590	589	589	589	589	589	588	588	588	588	588	587
Net investment in property leased to franchisees	48	50	51	52	53	55	56	57	58	60	61	62	64
Accounts and drafts payable	(201)	(197)	(187)	(176)	(176)	(176)	(176)	(176)	(179)	(183)	(186)	(190)	(193)
Other accrued liabilities	(121)	(125)	(128)	(132)	(135)	(138)	(142)	(145)	(148)	(152)	(156)	(159)	(163)
Gift card liability	(69)	(70)	(72)	(74)	(76)	(78)	(80)	(82)	(84)	(86)	(88)	(90)	(92)
Operating lease liabilities, net of current portion	(658)	(655)	(651)	(648)	(644)	(641)	(638)	(634)	(631)	(628)	(625)	(621)	(618)
Other liabilities, net	(230)	(237)	(243)	(250)	(257)	(263)	(269)	(275)	(282)	(289)	(296)	(303)	(310)
Deferred income taxes, net	(277)	(213)	(148)	(80)	(9)	64	140	218	297	379	463	549	637
BK Invested Capital	3 197	3 266	3 430	3 512	3 480	3 575	3 672	3 772	3 871	3 973	4 078	4 185	4 295
Popeyes													
Operating Cash	8	8	8	9	9	10	10	10	11	11	11	11	12
Accounts and notes receivable	52	54	57	60	64	66	69	70	72	74	76	77	79
Inventories, net	10	9	8	8	6	6	6	6	6	6	6	6	6
Property and equipment, net	105	110	115	121	127	131	136	139	142	146	149	153	156
Operating lease assets, net	143	143	175	175	175	175	175	175	175	175	175	175	175
Intangible assets, net	1 412	1 422	1 433	1 444	1 455	1 466	1 477	1 488	1 499	1 511	1 522	1 534	1 546
Goodwill	864	883	903	922	942	963	984	1 005	1 027	1 050	1 072	1 096	1 120
Net investment in property leased to franchisees	12	13	14	15	16	17	17	18	18	18	19	19	20
Accounts and drafts payable	(55)	(52)	(49)	(48)	(48)	(48)	(48)	(48)	(49)	(50)	(51)	(52)	(53)
Other accrued liabilities	(34)	(35)	(37)	(39)	(41)	(42)	(44)	(45)	(46)	(47)	(48)	(49)	(50)
Gift card liability	(19)	(20)	(21)	(22)	(23)	(24)	(25)	(25)	(26)	(26)	(27)	(28)	(28)
Operating lease liabilities, net of current portion	(136)	(136)	(135)	(135)	(135)	(134)	(134)	(133)	(133)	(132)	(132)	(132)	(131)
Other liabilities, net	(64)	(67)	(70)	(74)	(77)	(80)	(83)	(85)	(87)	(89)	(91)	(93)	(95)
Deferred income taxes, net	(84)	(75)	(65)	(54)	(42)	(29)	(16)	(3)	11	25	40	54	70
PLK Invested Capital	2 213	2 258	2 336	2 383	2 428	2 476	2 524	2 573	2 622	2 671	2 721	2 772	2 824
Firehouse Subs													
Operating Cash	2	2	2	2	2	2	3	3	3	3	3	3	3
Accounts and notes receivable	15	16	17	18	19	20	21	22	22	23	23	24	24
Inventories, net	3	3	3	3	3	3	3	3	3	3	3	3	3
Property and equipment, net	8	8	9	9	10	10	10	10	11	11	11	11	12
Operating lease assets, net	45	45	48	48	48	48	48	48	48	48	48	48	48
Intangible assets, net	897	945	992	1 040	1 088	1 136	1 184	1 231	1 279	1 327	1 375	1 423	1 470
Goodwill	862	909	956	1 003	1 050	1 097	1 144	1 191	1 238	1 285	1 332	1 379	1 426
Net investment in property leased to franchisees	2	2	2	2	3	3	3	3	3	3	3	3	3
Accounts and drafts payable	(17)	(17)	(17)	(16)	(16)	(16)	(16)	(16)	(17)	(17)	(18)	(18)	(19)
Other accrued liabilities	(10)	(10)	(11)	(11)	(12)	(12)	(13)	(13)	(13)	(13)	(14)	(14)	(14)
Gift card liability	(5)	(6)	(6)	(6)	(7)	(7)	(7)	(7)	(7)	(8)	(8)	(8)	(8)
Operating lease liabilities, net of current portion	(42)	(47)	(47)	(47)	(47)	(47)	(47)	(47)	(47)	(47)	(47)	(47)	(47)
Other liabilities, net	(18)	(19)	(20)	(21)	(22)	(23)	(24)	(24)	(25)	(26)	(26)	(27)	(27)
Deferred income taxes, net	(44)	(53)	(57)	(56)	(55)	(54)	(51)	(48)	(45)	(42)	(39)	(36)	(33)
FHS Invested Capital	1 697	1 778	1 871	1 967	2 063	2 159	2 257	2 354	2 452	2 549	2 646	2 744	2 841
Core Invested Capital	17 764	18 314	18 910	19 419	19 794	20 387	20 911	21 445	21 983	22 530	23 086	23 653	24 229
Non-Core Business													
Prepays and other current assets	79	82	88	92	93	87	88	90	90	89	89	89	89
Other assets, net	770	796	811	809	818	801	807	809	809	809	807	808	809
Accrued compensation and benefits	(85)	(89)	(95)	(98)	(98)	(93)	(95)	(96)	(96)	(96)	(95)	(95)	(96)
Accrued pension	(797)	(821)	(830)	(872)	(888)	(842)	(851)	(857)	(862)	(860)	(854)	(857)	(858)
Derivatives liabilities	0	0	0	0	0	0	0	0	0	0	0	0	0
Restructuring and other provisions	(29)	(29)	(29)	(29)	(29)	(29)	(29)	(29)	(29)	(29)	(29)	(29)	(29)
Other	(135)	(135)	(135)	(138)	(136)	(136)	(136)	(136)	(136)	(136)	(136)	(136)	(136)
Non-Core Invested Capital	(197)	(196)	(189)	(237)	(240)	(212)	(215)	(219)	(224)	(222)	(218)	(220)	(221)
Total Invested Capital	17 567	18 119	18 720	19 182	19 554	20 175	20 697	21 226	21 758	22 308	22 868	23 433	24 009
Financial													
Excess Cash	0	0	0	0	0	0	0	0	0	0	0	0	0
Long-term debt	(12 325)	(12 484)	(12 658)	(12 645)	(12 494)	(12 558)	(12 494)	(12 413)	(12 311)	(12 201)	(12 077)	(11 931)	(11 769)
Other accrued liabilities	(308)	(308)	(308)	(308)	(308)	(308)	(308)	(308)	(308)	(308)	(308)	(308)	(308)
Financial leases, net of current portion	(295)	(295)	(295)	(295)	(295)	(295)	(295)	(295)	(295)	(295)	(295)	(295)	(295)
Net Debt	(12 928)	(13 086)	(13 261)	(13 248)	(13 096)	(13 160)	(13 096)	(13 016)	(12 913)	(12 803)	(12 679)	(12 533)	(12 371)
Noncontrolling interests	(1 769)	(1 769)	(1 769)	(1 769)	(1 769)	(1 769)	(1 769)	(1 769)	(1 769)	(1 769)	(1 769)	(1 769)	(1 769)
Common Equity	2 871	3 263	3 691	4 166	4 689	5 246	5 831	6 442	7 076	7 735	8 420	9 131	9 868
Total Sources of Funds	17 567	18 119	18 720	19 182	19 554	20 175	20 697	21 226	21 758	22 308	22 868	23 433	24 009

Income Statement

(in millions of US dollars)	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035
Tim Hortons													
Sales	2 642	2 766	2 896	3 032	3 174	3 244	3 316	3 389	3 464	3 541	3 619	3 699	3 781
Franchise and Property Revenues	1 202	1 258	1 317	1 379	1 444	1 476	1 508	1 542	1 576	1 611	1 646	1 683	1 720
Advertising Revenues and Other Services	266	274	282	290	298	306	314	322	331	340	349	358	367
TH Revenues	4 109	4 298	4 495	4 701	4 916	5 026	5 139	5 254	5 371	5 491	5 614	5 740	5 868
Cost of Sales	(2 106)	(2 205)	(2 309)	(2 373)	(2 485)	(2 540)	(2 596)	(2 653)	(2 712)	(2 772)	(2 833)	(2 895)	(2 959)
Franchise and Property Expenses	(331)	(330)	(329)	(328)	(327)	(327)	(326)	(325)	(324)	(323)	(322)	(322)	(321)
Advertising and Other Expenses	(266)	(274)	(282)	(290)	(298)	(306)	(314)	(322)	(331)	(340)	(349)	(358)	(367)
General and Administrative Expenses	(137)	(143)	(149)	(156)	(167)	(171)	(179)	(185)	(192)	(199)	(206)	(213)	(220)
Depreciation & Amortization Expenses	(106)	(140)	(146)	(153)	(160)	(168)	(171)	(175)	(179)	(183)	(187)	(191)	(196)
Other operating expenses (income), net	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
TH Core Result before Taxes	1 162	1 204	1 278	1 399	1 497	1 545	1 601	1 645	1 689	1 734	1 781	1 828	1 876
Income Tax	(308)	(319)	(339)	(371)	(397)	(409)	(424)	(436)	(448)	(460)	(472)	(484)	(497)
TH Core Result	854	885	939	1 028	1 100	1 136	1 177	1 209	1 241	1 274	1 309	1 344	1 379
Burger King													
Sales	74	74	74	74	74	74	74	74	76	77	78	80	81
Franchise and Property Revenues	1 571	1 610	1 651	1 692	1 734	1 772	1 812	1 852	1 893	1 934	1 977	2 021	2 065
Advertising Revenues and Other Services	548	569	591	614	638	657	677	697	718	739	762	784	808
BK Revenues	2 194	2 254	2 316	2 380	2 446	2 503	2 562	2 622	2 686	2 751	2 817	2 885	2 955
Cost of Sales	(77)	(76)	(72)	(68)	(68)	(68)	(68)	(68)	(69)	(70)	(72)	(73)	(74)
Franchise and Property Expenses	(144)	(138)	(132)	(127)	(122)	(117)	(112)	(107)	(103)	(99)	(95)	(92)	(88)
Advertising and Other Expenses	(548)	(569)	(591)	(614)	(638)	(657)	(677)	(697)	(718)	(739)	(762)	(784)	(808)
General and Administrative Expenses	(205)	(210)	(216)	(222)	(213)	(205)	(211)	(215)	(221)	(226)	(231)	(237)	(243)
Depreciation & Amortization Expenses	(49)	(63)	(65)	(67)	(68)	(63)	(65)	(66)	(68)	(70)	(71)	(73)	(75)
Other operating expenses (income), net	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)	(5)
BK Core Result before Taxes	1 165	1 192	1 234	1 278	1 332	1 388	1 426	1 464	1 502	1 541	1 581	1 621	1 662
Income Tax	(309)	(316)	(327)	(339)	(353)	(368)	(378)	(388)	(398)	(408)	(419)	(430)	(440)
BK Core Result	856	876	907	939	979	1 020	1 048	1 076	1 104	1 133	1 162	1 191	1 221
Popeyes													
Sales	81	81	81	81	81	81	81	81	82	84	86	88	90
Franchise and Property Revenues	386	414	444	476	510	536	557	574	587	600	613	626	640
Advertising Revenues and Other Services	290	298	307	315	325	333	342	351	360	370	379	390	400
PLK Revenues	756	793	831	872	915	949	980	1 005	1 029	1 054	1 079	1 104	1 130
Cost of Sales	(74)	(70)	(66)	(64)	(64)	(64)	(64)	(64)	(66)	(67)	(69)	(70)	(72)
Franchise and Property Expenses	(12)	(12)	(12)	(12)	(12)	(12)	(13)	(13)	(13)	(13)	(14)	(14)	(14)
Advertising and Other Expenses	(290)	(298)	(307)	(315)	(325)	(333)	(342)	(351)	(360)	(370)	(379)	(390)	(400)
General and Administrative Expenses	(76)	(80)	(83)	(88)	(87)	(91)	(93)	(96)	(98)	(101)	(103)	(105)	(108)
Depreciation & Amortization Expenses	(9)	(10)	(11)	(11)	(12)	(12)	(13)	(13)	(13)	(14)	(14)	(14)	(15)
Other operating expenses (income), net	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
PLK Core Result before Taxes	296	322	352	381	415	436	454	468	478	488	499	510	521
Income Tax	(78)	(85)	(93)	(101)	(110)	(116)	(120)	(124)	(127)	(129)	(132)	(135)	(138)
PLK Core Result	217	237	259	280	305	321	334	344	351	359	367	375	383
Firehouse Subs													
Sales	40	40	40	40	40	40	40	40	41	42	43	44	45
Franchise and Property Revenues	91	98	105	112	120	126	132	135	138	142	145	148	151
Advertising Revenues and Other Services	13	14	14	14	15	15	16	16	16	17	17	18	18
FHS Revenues	144	151	159	167	175	182	187	191	196	200	205	210	214
Cost of Sales	(35)	(35)	(35)	(33)	(33)	(33)	(33)	(33)	(34)	(35)	(36)	(37)	(38)
Franchise and Property Expenses	(7)	(1)	(1)	(1)	(1)	(1)	(1)	(2)	(2)	(2)	(2)	(2)	(2)
Advertising and Other Expenses	(13)	(14)	(14)	(14)	(15)	(15)	(16)	(16)	(16)	(17)	(17)	(18)	(18)
General and Administrative Expenses	(32)	(34)	(36)	(37)	(35)	(36)	(33)	(33)	(34)	(35)	(36)	(37)	(38)
Depreciation & Amortization Expenses	(6)	(6)	(7)	(7)	(7)	(8)	(8)	(8)	(8)	(9)	(9)	(9)	(9)
Other operating expenses (income), net	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
FHS Core Result before Taxes	50	60	65	72	82	87	95	98	100	102	105	107	109
Income Tax	(13)	(16)	(17)	(19)	(22)	(23)	(25)	(26)	(27)	(27)	(28)	(28)	(29)
FHS Core Result	37	44	48	53	61	64	70	72	74	75	77	79	80
Non Core													
Non Core Result before Taxes	(218)	(200)	(201)	(202)	(203)	(203)	(204)	(205)	(205)	(206)	(207)	(208)	(208)
Other Comprehensive Income	0	0	0	0	0	0	0	0	0	0	0	0	0
Income Tax	58	53	53	54	54	54	54	54	54	55	55	55	55
Tax Adjustments	217	217	217	217	217	217	217	217	217	217	217	217	217
Non Core Result	57	70	69	68	68	67	67	66	66	65	65	64	64
Financing													
Interest expense, net	555	575	582	589	589	582	585	582	579	574	569	564	557
Loss on early extinguishment of debt	0	0	0	0	0	0	0	0	0	0	0	0	0
Financial Result before Taxes	555	575	582	589	589	582	585	582	579	574	569	564	557
Income Tax	(147)	(152)	(154)	(156)	(156)	(154)	(155)	(154)	(153)	(152)	(151)	(149)	(148)
Tax Adjustments	(48)	(48)	(48)	(48)	(48)	(48)	(48)	(48)	(48)	(48)	(48)	(48)	(48)
Comprehensive income attributable to noncontrolling interests	490	490	490	490	490	490	490	490	490	490	490	490	490
Total Financing Cost	850	864	869	875	875	870	872	870	867	864	860	856	851

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Buy	Expected total return (including expected capital gains and expected dividend yield) of more than 10% over a 12-month period.
Hold	Expected total return (including expected capital gains and expected dividend yield) between 0% and 10% over a 12-month period.
Sell	Expected negative total return (including expected capital gains and expected dividend yield) over a 12-month period.

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