Restaurant Brands International Inc.
Form 10-Q
August 04, 2016
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2016

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

For the transition period from __________ to __________

Commission file number: 001-36786

RESTAURANT BRANDS INTERNATIONAL INC.

(Exact Name of Registrant as Specified in its Charter)

Canada **(State or Other Jurisdiction of Incorporation or Organization)**	**98-1202754** **(I.R.S. Employer Identification No.)**
226 Wyecroft Road	
Oakville, Ontario **(Address of Principal Executive Offices)**	**L6K 3X7** **(Zip Code)**

(905) 845-6511

(Registrant s telephone number, including area code)

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

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

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

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

As of July 20, 2016, there were 233,777,402 common shares of the Registrant outstanding.

Table of Contents

RESTAURANT BRANDS INTERNATIONAL INC. AND SUBSIDIARIES

TABLE OF CONTENTS

Table of Contents

PART I Financial Information

Item 1. Financial Statements

RESTAURANT BRANDS INTERNATIONAL INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

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

(unaudited)

	As of	
	June 30, 2016	**December 31, 2015**
ASSETS		
Current assets:		
Cash and cash equivalents	$ 998.1	$ 757.8
Trade and notes receivable, net of allowance of $13.9 million and $14.2 million, respectively	380.2	422.0
Inventories and other current assets, net	217.5	132.2
Advertising fund restricted assets	44.7	57.5
Total current assets	1,640.5	1,369.5
Property and equipment, net of accumulated depreciation of $413.0 million and $339.3 million, respectively	2,140.5	2,150.6
Intangible assets, net	9,541.2	9,147.8
Goodwill	4,815.7	4,574.4
Net investment in property leased to franchisees	106.5	117.2
Other assets, net	877.4	1,051.6
Total assets	$ 19,121.8	$ 18,411.1
LIABILITIES, REDEEMABLE PREFERRED SHARES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Accounts and drafts payable	$ 359.9	$ 361.5
Other accrued liabilities	473.2	441.3
Gift card liability	131.4	168.5
Advertising fund liabilities	87.3	93.6
Current portion of long term debt and capital leases	94.9	56.1
Total current liabilities	1,146.7	1,121.0
Term debt, net of current portion	8,425.2	8,462.3
Capital leases, net of current portion	211.6	203.4
Other liabilities, net	891.7	795.9

Deferred income taxes, net	1,631.2	1,618.8
Total liabilities	12,306.4	12,201.4
Redeemable preferred shares; $43.775848 par value; 68,530,939 shares authorized, issued and outstanding at June 30, 2016 and December 31, 2015	3,297.0	3,297.0
Shareholders Equity:		
Common shares, no par value; unlimited shares authorized at June 30, 2016 and December 31, 2015; 233,740,606 shares issued and outstanding at June 30, 2016; 225,707,588 shares issued and outstanding at December 31, 2015;	1,923.2	1,824.5
Retained earnings	318.8	245.8
Accumulated other comprehensive income (loss)	(540.4)	(733.7)
Total Restaurant Brands International Inc. shareholders equity	1,701.6	1,336.6
Noncontrolling interests	1,816.8	1,576.1
Total shareholders equity	3,518.4	2,912.7
Total liabilities, redeemable preferred shares and shareholders equity	$ 19,121.8	$ 18,411.1

See accompanying notes to condensed consolidated financial statements.

3

Table of Contents

RESTAURANT BRANDS INTERNATIONAL INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations

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

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues:				
Sales	$ 558.6	$ 567.8	$ 1,049.1	$ 1,067.3
Franchise and property revenues	481.6	474.4	909.6	908.2
Total revenues	1,040.2	1,042.2	1,958.7	1,975.5
Cost of sales	435.8	474.8	824.0	908.0
Franchise and property expenses	114.1	121.7	218.3	250.8
Selling, general and administrative expenses	73.1	102.0	146.3	213.0
(Income) loss from equity method investments	4.5	6.4	(14.0)	4.7
Other operating expenses (income), net	(11.3)	35.2	29.5	72.8
Total operating costs and expenses	616.2	740.1	1,204.1	1,449.3
Income from operations	424.0	302.1	754.6	526.2
Interest expense, net	117.2	123.2	232.3	246.3
(Gain) loss on early extinguishment of debt		39.9		39.6
Income before income taxes	306.8	139.0	522.3	240.3
Income tax expense	59.2	45.2	106.4	95.9
Net income	247.6	93.8	415.9	144.4
Net income attributable to noncontrolling interests (Note 12)	89.2	15.3	140.0	5.5
Preferred share dividends	67.5	67.5	135.0	136.2
Net income attributable to common shareholders	$ 90.9	$ 11.0	$ 140.9	$ 2.7
Earnings per common share:				
Basic	$ 0.39	$ 0.05	$ 0.61	$ 0.01
Diluted	$ 0.38	$ 0.05	$ 0.59	$ 0.01
Weighted average shares outstanding				
Basic	233.5	202.4	231.8	202.3
Diluted	470.1	476.4	469.2	476.4
Cash dividends declared per common share	$ 0.15	$ 0.10	$ 0.29	$ 0.19

See accompanying notes to condensed consolidated financial statements.

Table of Contents

RESTAURANT BRANDS INTERNATIONAL INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Comprehensive Income (Loss)

(In millions of U.S. dollars)

(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net income	$ 247.6	$ 93.8	$ 415.9	$ 144.4
Foreign currency translation adjustment	21.1	193.1	670.5	(898.7)
Net change in fair value of net investment hedges, net of tax of $(6.9), $25.2, $28.6 and $(42.9)	47.5	(160.1)	(191.1)	226.1
Net change in fair value of cash flow hedges, net of tax of $5.7, $1.9, $21.4 and $21.3	(16.6)	(5.1)	(61.0)	(59.0)
Amounts reclassified to earnings of cash flow hedges, net of tax of $(1.8), $(6.7), $(1.8) and $(7.3)	5.2	17.5	5.1	19.0
Pension and post-retirement benefit plans, net of tax of $0, $0, $0 and $0.1				(0.1)
Amortization of prior service (credits) costs, net of tax of $0.3, $0.3, $0.6 and $0.6	(0.5)	(0.5)	(0.9)	(0.9)
Amortization of actuarial (gains) losses, net of tax of $(0.1), $(0.3), $(0.1) and $(0.6)		0.5	0.1	0.9
Other comprehensive income (loss)	56.7	45.4	422.7	(712.7)
Comprehensive income (loss)	304.3	139.2	838.6	(568.3)
Comprehensive income (loss) attributable to noncontrolling interests	117.2	41.0	351.0	(398.6)
Comprehensive income attributable to preferred shareholders	67.5	67.5	135.0	136.2
Comprehensive income (loss) attributable to common shareholders	$ 119.6	$ 30.7	$ 352.6	$ (305.9)

See accompanying notes to condensed consolidated financial statements.

RESTAURANT BRANDS INTERNATIONAL INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Shareholders Equity

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

(unaudited)

	Issued Common Shares		Retained	Accumulated Other Comprehensive Income (Loss)	Noncontrolling	
	Shares	Amount	Earnings		Interest	Total
Balances at December 31, 2015	225.7	$ 1,824.5	$ 245.8	$ (733.7)	$ 1,576.1	$ 2,912.7
Stock option exercises	1.2	10.7				10.7
Share-based compensation		15.5				15.5
Issuance of shares	0.2	7.6				7.6
Dividend declared on common shares ($0.29 per share)			(67.6)			(67.6)
Dividend equivalents declared on restricted stock units		0.3	(0.3)			
Distributions declared by Partnership on partnership exchangeable units ($0.29 per unit) (Note 12)					(66.0)	(66.0)
Preferred share dividends			(135.0)			(135.0)
Exchange of Partnership exchangeable units for RBI common shares	6.6	64.6		(18.4)	(46.2)	
Restaurant VIE contributions					1.9	1.9
Net income			275.9		140.0	415.9
Other comprehensive income (loss)				211.7	211.0	422.7
Balances at June 30, 2016	233.7	$ 1,923.2	$ 318.8	$ (540.4)	$ 1,816.8	$ 3,518.4

See accompanying notes to condensed consolidated financial statements.

Table of Contents

RESTAURANT BRANDS INTERNATIONAL INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(In millions of U.S. dollars)

(unaudited)

	Six Months Ended June 30,	
	2016	**2015**
Cash flows from operating activities:		
Net income	$ 415.9	$ 144.4
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	85.7	94.7
(Gain) loss on early extinguishment of debt		39.6
Amortization of deferred financing costs and debt issuance discount	19.3	15.3
(Income) loss from equity method investments	(14.0)	4.7
Loss (gain) on remeasurement of foreign denominated transactions	19.0	27.5
Amortization of defined benefit pension and postretirement items	(1.2)	(0.1)
Net losses (gains) on derivatives	9.4	46.6
Net losses (gains) on refranchisings and dispositions of assets	9.0	(0.6)
Bad debt expense (recoveries), net	(0.7)	0.7
Share-based compensation expense	16.1	22.5
Acquisition accounting impact on cost of sales		0.8
Deferred income taxes	10.5	(83.3)
Changes in current assets and liabilities, excluding acquisitions and dispositions:		
Reclassification of restricted cash to cash and cash equivalents		79.2
Trade and notes receivable	21.4	59.9
Inventories and other current assets	(69.4)	5.0
Accounts and drafts payable	7.4	39.3
Accrued advertising	(15.8)	6.2
Other accrued liabilities	(17.5)	36.9
Other long-term assets and liabilities	10.2	(31.1)
Net cash provided by operating activities	505.3	508.2
Cash flows from investing activities:		
Payments for property and equipment	(12.8)	(57.0)
Proceeds from refranchisings, disposition of assets and restaurant closures	13.2	10.7
Return of investment on direct financing leases	8.1	8.0
Settlement of derivatives, net	1.5	11.5
Other investing activities, net	1.8	2.3
Net cash provided by (used for) investing activities	11.8	(24.5)

Cash flows from financing activities:		
Proceeds from Senior Notes		1,250.0
Repayments of term debt, Tim Hortons Notes and capital leases	(34.6)	(2,592.4)
Payment of financing costs		(81.3)
Dividends paid on common shares and preferred shares	(260.2)	(124.5)
Proceeds from stock option exercises	10.7	1.6
Proceeds from issuance of shares		2.1
Other financing activities	1.1	(0.7)
Net cash provided by (used for) financing activities	(283.0)	(1,545.2)
Effect of exchange rates on cash and cash equivalents	6.2	(52.8)
Increase (decrease) in cash and cash equivalents	240.3	(1,114.3)
Cash and cash equivalents at beginning of period	757.8	1,803.2
Cash and cash equivalents at end of period	$ 998.1	$ 688.9
Supplemental cashflow disclosures:		
Interest paid	$ 199.7	$ 224.8
Income taxes paid	$ 76.6	$ 79.6
Non-cash investing and financing activities:		
Acquisition of property with capital lease obligations	$ 8.3	$ 7.9

See accompanying notes to condensed consolidated financial statements.

Table of Contents

RESTAURANT BRANDS INTERNATIONAL INC. AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

(Unaudited)

Note 1. Description of Business and Organization

Description of Business

Restaurant Brands International Inc. (the Company, RBI, we, us or our) was originally formed on August 25, 20 and continued under the laws of Canada. Pursuant to Rule 12g-3(a) under the Securities Exchange Act of 1934, as amended, the Company is a successor issuer to Burger King Worldwide, Inc. The Company serves as the sole general partner of Restaurant Brands International Limited Partnership (the Partnership), the indirect parent of The TDL Group Corp. (f/k/a Tim Hortons ULC and Tim Hortons Inc.), a limited company existing under the laws of British Columbia that franchises and operates quick service restaurants serving premium coffee and other beverage and food products under the *Tim Hortons®* brand (Tim Hortons or TH), and Burger King Worldwide, Inc., a Delaware corporation that franchises and operates fast food hamburger restaurants principally under the *Burger King®* brand (Burger King Worldwide , Burger King or BK). On December 12, 2014, a series of transactions (the Transactions) were completed resulting in Burger King Worldwide and Tim Hortons becoming indirect subsidiaries of the Company and Partnership. We are one of the world s largest quick service restaurant, or QSR, chains as measured by total number of restaurants. As of June 30, 2016, we franchised or owned 4,464 Tim Hortons restaurants and 15,100 Burger King restaurants, for a total of 19,564 restaurants, in more than 100 countries and U.S. territories worldwide. Approximately 100% of current Tim Hortons and Burger King system-wide restaurants are franchised.

All references to $ or dollars are to the currency of the United States unless otherwise indicated. All references to C$ or Canadian dollars are to the currency of Canada unless otherwise indicated.

Note 2. Basis of Presentation and Consolidation

We have prepared the accompanying unaudited condensed consolidated financial statements (Financial Statements) in accordance with the rules and regulations of the Securities and Exchange Commission (SEC) for interim financial information. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States of America (U.S. GAAP) for complete financial statements. Therefore, the Financial Statements should be read in conjunction with the audited consolidated financial statements contained in our Annual Report on Form 10-K filed with the SEC and Canadian securities regulatory authorities on February 26, 2016.

The Financial Statements include our accounts and the accounts of our wholly-owned subsidiaries. We consolidate entities in which we have a controlling financial interest, the usual condition of which is ownership of a majority voting interest. All material intercompany balances and transactions have been eliminated in consolidation. Investments in other affiliates that are owned 50% or less where we have significant influence are accounted for by the equity method.

We are the sole general partner of Partnership and, as such, we have the exclusive right, power and authority to manage, control, administer and operate the business and affairs and to make decisions regarding the undertaking and business of Partnership, subject to the terms of the partnership agreement of Partnership (the partnership agreement) and applicable laws. As a result, we consolidate the results of Partnership and record a noncontrolling interest in our consolidated balance sheets and statements of operations with respect to the remaining economic interest in

Partnership we do not hold.

We also consider for consolidation entities in which we have certain interests, where the controlling financial interest may be achieved through arrangements that do not involve voting interests. Such an entity, known as a variable interest entity (VIE), is required to be consolidated by its primary beneficiary. The primary beneficiary is the entity that possesses the power to direct the activities of the VIE that most significantly impact its economic performance and has the obligation to absorb losses or the right to receive benefits from the VIE that are significant to it. Our most significant variable interests are in entities that operate restaurants under our subsidiaries franchise arrangements and certain equity method investees that operate as master franchisees. Our maximum exposure to loss resulting from involvement with potential VIEs is attributable to trade and notes receivable balances, outstanding loan guarantees and future lease payments, where applicable.

Table of Contents

We do not have any ownership interests in our franchisees businesses, except for investments in various entities that are accounted for under the equity method. Tim Hortons has historically entered into certain arrangements in which an operator acquires the right to operate a restaurant, but Tim Hortons owns the restaurant s assets. In these arrangements, Tim Hortons has the ability to determine which operators manage the restaurants and for what duration. Tim Hortons previously also entered into interest-free financing in connection with a Franchise Incentive Program (FIP) with certain U.S. restaurant owners whereby restaurant owners finance the initial franchise fee and purchase of restaurant assets. In both operator and FIP arrangements, we perform an analysis to determine if the legal entity in which operations are conducted is a VIE and consolidate a VIE entity if we also determine Tim Hortons is the entity s primary beneficiary (Restaurant VIEs). Additionally, Tim Hortons participates in advertising funds which, on behalf of Tim Hortons Company and franchise restaurants, collect contributions and administer funds for advertising and promotional programs. Tim Hortons is the sole shareholder (Canada) and sole member (U.S.) in these funds, and is the primary beneficiary of these funds (the Advertising VIEs). As Burger King franchise and master franchise arrangements provide the franchise and master franchise entities the power to direct the activities that most significantly impact their economic performance, we do not consider ourselves the primary beneficiary of any such entity that might be a VIE.

In the opinion of management, all adjustments (consisting of normal recurring adjustments) necessary for a fair presentation have been included in the Financial Statements. The results for interim periods do not necessarily indicate the results that may be expected for any other interim period or for the full year.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in our Financial Statements and notes (Notes) to the Financial Statements. Management adjusts such estimates and assumptions when facts and circumstances dictate. Such estimates and assumptions may be affected by volatile credit, equity, foreign currency, energy markets and declines in consumer spending. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates.

Certain prior year amounts in the accompanying Financial Statements and Notes to the Financial Statements have been reclassified in order to be comparable with the current year classifications. These reclassifications had no effect on previously reported net income.

Note 3. New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued an accounting standards update that amended accounting guidance on revenue recognition. Under this guidance, an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should disclose sufficient information to enable users of financial statements to understand the nature, timing, and uncertainty of revenue and cash flows arising from contracts with customers. In August 2015, the FASB issued an accounting standards update which deferred the effective date for adoption of the new revenue standard by one year. In March 2016, the FASB issued an accounting standards update that clarifies the implementation guidance on principal versus agent considerations on revenue recognition. In April 2016, the FASB issued an accounting standards update that clarifies the implementation guidance on performance obligations and licensing on revenue recognition. This standard will be effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Early adoption of the accounting standard is allowed as of the original effective date, which is for fiscal years, and interim periods within those years, beginning after December 15, 2016. The accounting standards update permits the use of either the retrospective or cumulative effect transition method. We are evaluating the impact of this accounting standards update on our consolidated financial statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of the accounting standards update on our ongoing financial reporting.

Table of Contents

In February 2016, the FASB issued an accounting standards update which sets out the principles for the recognition, measurement, presentation and disclosure of leases applicable to both lessors and lessees. The new standard requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The new standard requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. The new guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. We are currently evaluating the impact that the adoption of this accounting standards update will have on our financial statements, but we expect this new guidance will have a material impact on our consolidated financial statements since the Company has a significant number of operating and capital lease arrangements for which it is the lessee and others for which it is the lessor.

In March 2016, the FASB issued an accounting standards update that clarifies that a change in the counterparty to a derivative instrument that has been designated as a hedging instrument under existing accounting guidance does not, in and of itself, require de-designation of that hedging relationship provided that all other hedge accounting criteria continue to be met. Amendments in this update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The amendments can be applied either prospectively or retrospectively on a modified basis. We do not expect the adoption of this new guidance to have a material impact on our consolidated financial statements.

In March 2016, the FASB issued an accounting standards update which eliminates the requirement that when an investment qualifies for use of the equity method as a result of an increase in the level of ownership interest or degree of influence, an investor must adjust the investment, results of operations, and retained earnings retroactively on a step-by-step basis as if the equity method had been in effect during all previous periods that the investment had been held. The amendments require that the equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor s previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. Therefore, upon qualifying for the equity method of accounting, no retroactive adjustment of the investment is required. Amendments in this update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The amendments should be applied prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method. Early adoption is permitted. We do not expect the adoption of this new guidance to have a material impact on our consolidated financial statements.

In March 2016, the FASB issued an accounting standards update which simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, forfeitures, classification of awards as either equity or liabilities, and classification on the statement of cash flows. Amendments in this update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. Early adoption is permitted for any entity in any interim or annual period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. We expect this new guidance to have an impact on our consolidated financial statements since the Company has share-based compensation arrangements. We are currently evaluating the impact that the adoption of this accounting standards update will have on our financial statements.

Note 4. Earnings Per Share

Basic earnings per common share is determined by dividing net income (loss) attributable to common shareholders by the weighted average number of common shares outstanding during the period. Diluted earnings per share is determined by dividing net income (loss) attributable to common shareholders and noncontrolling interests by the weighted average number of common shares outstanding, assuming all potentially dilutive shares were issued.

Beginning on December 12, 2014, an economic interest in Partnership common equity was held by the holders of Class B exchangeable limited partnership units (Partnership exchangeable units). Since December 12, 2015, the one year anniversary of the effective date of the Transactions, the holders of Partnership exchangeable units each have the right to require Partnership to exchange all or any portion of such holder s Partnership exchangeable units on a one-for-one basis for RBI common shares, subject to RBI s right as the general partner of Partnership, at RBI s sole discretion, to deliver a cash payment in lieu of RBI common shares. See Note 12, *Shareholders Equity*.

Table of Contents

We apply the treasury stock method to determine the dilutive weighted average common shares represented by Partnership exchangeable units and outstanding stock options, unless the effect of their inclusion is anti-dilutive. The diluted earnings per share calculation assumes conversion of 100% of the Partnership exchangeable units under the if converted method. Accordingly, the numerator is also adjusted to include the earnings allocated to the holders of noncontrolling interests.

The following table summarizes the basic and diluted earnings per share calculations (in millions, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Numerator - Basic:				
Net income attributable to common shareholders	$ 90.9	$ 11.0	$ 140.9	$ 2.7
Numerator - Diluted:				
Net income attributable to common shareholders	$ 90.9	$ 11.0	$ 140.9	$ 2.7
Add: Net income attributable to noncontrolling interests	88.3	14.3	138.2	3.5
Dilutive net income available to common shareholders and noncontrolling interests	$ 179.2	$ 25.3	$ 279.1	$ 6.2
Denominator:				
Weighted average common shares - basic	233.5	202.4	231.8	202.3
Exchange of noncontrolling interests for common shares (Note 12)	227.2	265.0	228.5	265.0
Effect of other dilutive securities	9.4	9.0	8.9	9.1
Weighted average common shares - diluted	470.1	476.4	469.2	476.4
Basic earnings per share	$ 0.39	$ 0.05	$ 0.61	$ 0.01
Diluted earnings per share	$ 0.38	$ 0.05	$ 0.59	$ 0.01
Anti-dilutive share options outstanding	6.4	4.4	6.4	4.4

Note 5. Inventories and Other Current Assets, net

Inventories and other current assets, net consist of the following (in millions):

	As of	
	June 30, 2016	December 31, 2015
Raw materials	$ 32.4	$ 22.7
Finished goods	54.3	58.6
Total inventory	86.7	81.3

Refundable and prepaid income taxes	93.9	21.5
Prepaids and other current assets	36.9	29.4
Inventories and other current assets, net	$ 217.5	$ 132.2

Table of Contents

Note 6. Intangible Assets, net and Goodwill

Intangible assets, net and goodwill consist of the following (in millions):

	As of					
	June 30, 2016			December 31, 2015		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Identifiable assets subject to amortization:						
Franchise agreements	$ 666.7	$ (121.4)	$ 545.3	$ 653.0	$ (106.8)	$ 546.2
Favorable leases	449.6	(132.4)	317.2	436.5	(107.5)	329.0
Subtotal	1,116.3	(253.8)	862.5	1,089.5	(214.3)	875.2
Indefinite lived intangible assets:						
Tim Hortons brand	$ 6,568.0	$	$ 6,568.0	$ 6,175.4	$	$ 6,175.4
Burger King brand	2,110.7		2,110.7	2,097.2		2,097.2
Subtotal	8,678.7		8,678.7	8,272.6		8,272.6
Intangible assets, net			$ 9,541.2			$ 9,147.8
Goodwill	$ 4,815.7			$ 4,574.4		

We recorded amortization expense on intangible assets of $17.8 million for the three months ended June 30, 2016 and $20.1 million for the same period in the prior year. We recorded amortization expense on intangible assets of $36.1 million for the six months ended June 30, 2016 and $39.6 million for the same period in the prior year. The change in the brands and goodwill balances during the six months ended June 30, 2016 was due to the impact of foreign currency translation.

Note 7. Other Assets, net

Other assets, net consist of the following (in millions):

	As of	
	June 30, 2016	December 31, 2015
Derivative assets - noncurrent	$ 629.8	$ 830.9
Equity method investments	152.9	139.0
Other assets	94.7	81.7
Other assets, net	$ 877.4	$ 1,051.6

11

Note 8. Equity Method Investments

The aggregate carrying amount of our equity method investments was $152.9 million as of June 30, 2016 and $139.0 million as of December 31, 2015 and is included as a component of other assets, net in our condensed consolidated balance sheets. Below are the names of the entities, country of operation and our equity interest in our significant equity method investments based on the carrying value as of June 30, 2016.

Entity	Country	Equity Interest
TIMWEN Partnership	Canada	50.00%
Carrols Restaurant Group, Inc.	United States	21.35%
Pangaea Foods (China) Holdings, Ltd.	China	27.50%

With respect to our TH business, the most significant equity method investment is our 50% joint-venture interest with The Wendy s Company (the TIMWEN Partnership), which jointly holds real estate underlying Canadian combination restaurants. During the three months ended June 30, 2016, TH received $3.1 million in cash distributions and recognized $5.2 million of contingent rent expense associated with this joint venture. During the six months ended June 30, 2016, TH received $5.6 million in cash distributions and recognized $9.6 million of contingent rent expense associated with this joint venture.

The aggregate market value of our equity interest in Carrols Restaurant Group, Inc., based on the quoted market price on June 30, 2016, is approximately $112.0 million. No quoted market prices are available for our remaining equity method investments.

With respect to our BK operations, most of the entities in which we have an equity interest own or franchise BK restaurants. Franchise and property revenue we recognized from franchisees that are owned or franchised by entities in which we have an equity interest consist of the following (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues from affiliates:				
Franchise royalties	$ 31.6	$ 23.9	$ 59.3	$ 44.3
Property revenues	7.6	7.2	14.2	14.2
Franchise fees and other revenue	4.3	2.2	7.9	3.4
Total	$ 43.5	$ 33.3	$ 81.4	$ 61.9

At June 30, 2016 and December 31, 2015, we had $14.6 million and $23.9 million, respectively, of accounts receivable from our equity method investments which were recorded in trade and notes receivable, net in our condensed consolidated balance sheets.

(Income) loss from equity method investments reflects our share of investee net income or loss. During the six months ended June 30, 2016, we recorded an $11.6 million increase to the carrying value of our investment balance and a noncash dilution gain included in (income) loss from equity method investments on the issuance of capital stock by

Burger King France SAS (France JV), one of our equity method investees. This issuance of capital stock reduced our ownership interest in the France JV. The dilution gain reflects an adjustment to the difference between the amount of our underlying equity in the net assets of the France JV before and after the issuance of capital stock. Similarly, during the six months ended June 30, 2015, we recorded a $10.9 million increase to the carrying value of our investment balance and a noncash dilution gain included in (income) loss from equity method investments on the issuance of capital stock by BK Brasil Operacao E Assesoria A Restaurantes S.A. (Brazil JV), one of our equity method investees. This issuance of capital stock reduced our ownership interest in the Brazil JV. The dilution gain reflects an adjustment to the difference between the amount of our underlying equity in the net assets of the Brazil JV before and after the issuance of capital stock.

Table of Contents

Note 9. Other Accrued Liabilities and Other Liabilities, net

Other accrued liabilities (current) and other liabilities, net (noncurrent) consist of the following (in millions):

	As of	
	June 30, 2016	December 31, 2015
Current:		
Dividend payable	$ 136.6	$ 128.3
Interest payable	62.9	63.1
Accrued compensation and benefits	35.3	62.5
Taxes payable - current	101.2	46.9
Deferred income - current	26.5	33.5
Closed property reserve	11.2	14.0
Restructuring and other provisions	9.2	13.5
Derivatives liabilities - current	6.5	
Other	83.8	79.5
Other accrued liabilities	$ 473.2	$ 441.3
Noncurrent:		
Unfavorable leases	$ 307.0	$ 322.0
Taxes payable - noncurrent	254.3	236.7
Accrued pension	78.9	80.2
Derivatives liabilities - noncurrent	140.0	47.3
Lease liability - noncurrent	28.0	29.5
Deferred income - noncurrent	25.5	23.7
Other	58.0	56.5
Other liabilities, net	$ 891.7	$ 795.9

Note 10. Long-Term Debt

Long-term debt consists of the following (in millions):

		As of	
	Maturity dates	June 30, 2016	December 31, 2015
Term Loan Facility	December 12, 2021	$ 5,071.9	$ 5,097.7
2015 Senior Notes	January 15, 2022	1,250.0	1,250.0
2014 Senior Notes	April 1, 2022	2,250.0	2,250.0
Tim Hortons Notes	various	42.2	39.4
Other	N/A	93.5	88.5
		(205.9)	(224.3)

Less: unamortized discount and deferred financing costs		
Total debt, net	8,501.7	8,501.3
Less: current maturities of debt	(76.5)	(39.0)
Total long-term debt	$ 8,425.2	$ 8,462.3

As of June 30, 2016 and December 31, 2015, unamortized discount included $39.5 million and $43.2 million, respectively, related to our secured term loans (the Term Loan Facility) under our credit agreement dated May 22, 2015 (the 2015 Amended Credit Agreement).

13

Table of Contents

As of June 30, 2016, deferred financing costs included $120.1 million related to the Term Loan Facility, $8.2 million related to our first lien senior secured notes (the 2015 Senior Notes) and $38.1 million related to our second lien senior secured notes (the 2014 Senior Notes). As of December 31, 2015, deferred financing costs included $131.3 million related to the Term Loan Facility, $9.0 million related to the 2015 Senior Notes and $40.8 million related to the 2014 Senior Notes. Deferred financing costs are amortized over the term of the debt into interest expense using the effective interest method. The amortization of deferred financing costs included in interest expense, net was $7.8 million for the three months ended June 30, 2016 and $6.2 million for the three months ended June 30, 2015. The amortization of deferred financing costs included in interest expense, net was $15.6 million for the six months ended June 30, 2016 and $11.1 million for the six months ended June 30, 2015.

Revolving Credit Facility

As of June 30, 2016, we had no amounts outstanding under the revolving credit facility available under the 2015 Amended Credit Agreement (the Revolving Credit Facility). Funds available under the Revolving Credit Facility may be used to repay other debt, to finance debt or share repurchases, to fund acquisitions or capital expenditures and for other general corporate purposes. We have a $125.0 million letter of credit sublimit as part of the Revolving Credit Facility, which reduces our borrowing availability under this facility by the cumulative amount of outstanding letters of credit. As of June 30, 2016, we had $1.5 million of letters of credit issued against the Revolving Credit Facility and our borrowing availability was $498.5 million.

Interest Expense, net

Interest expense, net consists of the following (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Term Loan Facility	$ 54.1	$ 69.4	$ 105.9	$ 145.2
2015 Senior Notes	14.4	6.3	28.9	6.3
2014 Senior Notes	33.8	33.7	67.5	67.5
Tim Hortons Notes	0.3	0.5	0.7	2.4
Amortization of deferred financing costs and debt issuance discount	9.6	8.3	19.3	15.3
Capital lease obligations	5.0	5.3	9.8	10.4
Other	0.9	0.7	1.7	1.6
Interest income	(0.9)	(1.0)	(1.5)	(2.4)
Interest expense, net	$ 117.2	$ 123.2	$ 232.3	$ 246.3

Note 11. Income Taxes

Our effective tax rate was 19.3% and 20.4% for the three and six months ended June 30, 2016, respectively. The effective tax rate during these periods was primarily a result of the mix of income from multiple tax jurisdictions, partially offset by the favorable impact from intercompany financing.

Our effective tax rate was 32.5% and 39.9% for the three and six months ended June 30, 2015, respectively. The effective tax rate during these periods was primarily due to the mix of income from multiple tax jurisdictions.

Note 12. Shareholders Equity

Noncontrolling Interests

Noncontrolling interests represent equity interests in consolidated subsidiaries that are not attributable to us. The holders of Partnership exchangeable units held an economic interest of approximately 49.3% and 50.9% in Partnership common equity through the ownership of 227,164,977 and 233,739,648 Partnership exchangeable units as of June 30, 2016 and December 31, 2015, respectively.

Table of Contents

Pursuant to the terms of the partnership agreement, each holder of a Partnership exchangeable unit is entitled to distributions from Partnership in an amount equal to any dividends or distributions that we declare and pay with respect to our common shares. Distributions declared by Partnership on Partnership exchangeable units were $66.0 million during the six months ended June 30, 2016. Additionally, each holder of a Partnership exchangeable unit is entitled to vote in respect of matters on which holders of our common shares are entitled to vote through one special voting share of the Company. Since December 12, 2015, the one year anniversary of the effective date of the Transactions, each holder of a Partnership exchangeable unit may require Partnership to exchange all or any portion of such holder s Partnership exchangeable units for our common shares at a ratio of one common share for each Partnership exchangeable unit, subject to our right as the general partner of Partnership, in our sole discretion, to deliver a cash payment in lieu of our common shares. If we elect to make a cash payment in lieu of issuing common shares, the amount of the payment will be the weighted average trading price of the common shares on the New York Stock Exchange for the 20 consecutive trading days ending on the last business day prior to the exchange date.

During the six months ended June 30, 2016, Partnership exchanged 6,574,671 Partnership exchangeable units pursuant to exchange notices received. In accordance with the terms of the partnership agreement, Partnership satisfied the exchange notices by exchanging these Partnership exchangeable units for the same number of newly issued Company common shares. The exchanges represented increases in our ownership interest in Partnership and were accounted for as equity transactions, with no gain or loss recorded in the condensed consolidated statement of operations. Pursuant to the terms of the partnership agreement, upon the exchange of Partnership exchangeable units, each such Partnership exchangeable unit is automatically deemed cancelled concurrently with such exchange.

Partnership issued preferred units to us in connection with the Transactions and our issuance of Class A 9.0% cumulative compounding perpetual voting preferred shares of the Company (the Preferred Shares). Under the terms of the partnership agreement, Partnership will make a preferred unit distribution to us in amounts equal to (i) dividends we pay on the Preferred Shares and (ii) in the event we redeem the Preferred Shares, the redemption amount of the Preferred Shares. Although the Partnership preferred units and related distributions eliminate in consolidation, they affect the amount of net income (loss) attributable to noncontrolling interests that we report. Net income (loss) attributable to noncontrolling interests represents the noncontrolling interests portion of (a) Partnership net income (loss) for the period less (b) preferred unit dividends accrued by Partnership.

The noncontrolling interest recognized in connection with the Restaurant VIEs of Tim Hortons was $4.4 million and $0.7 million at June 30, 2016 and December 31, 2015, respectively.

We adjust net income (loss) in our condensed consolidated statements of operations to exclude the noncontrolling interests proportionate share of results of operations. Also, we present the proportionate share of equity attributable to the noncontrolling interests as a separate component of shareholders equity within our condensed consolidated balance sheets.

Accumulated Other Comprehensive Income (Loss)

The following table displays the changes in the components of accumulated other comprehensive income (loss) (AOCI) (in millions):

	Derivatives	Pensions	Foreign Currency Translation	AOCI
Balances at December 31, 2015	$ 318.0	$ (12.3)	$ (1,039.4)	$ (733.7)

Foreign currency translation adjustment			670.5	670.5
Net change in fair value of derivatives, net of tax	(252.1)			(252.1)
Amounts reclassified to earnings of cash flow hedges, net of tax	5.1			5.1
Amortization of prior service (credits) costs, net of tax		(0.9)		(0.9)
Amortization of actuarial (gains) losses, net of tax		0.1		0.1
Other comprehensive income attributable to noncontrolling interests	131.2		(360.6)	(229.4)
Balances at June 30, 2016	$ 202.2	$ (13.1)	$ (729.5)	$ (540.4)

15

Table of Contents

The following table displays the reclassifications out of AOCI (in millions):

Details about AOCI Components	Affected Line Item in the Statements of Operations	Amounts Reclassified from AOCI			
		Three Months Ended June 30,		Six Months Ended June 30,	
		2016	2015	2016	2015
Gains (losses) on cash flow hedges:					
Interest rate derivative contracts	Interest expense, net	$ (5.9)	$ (5.0)	$ (9.4)	$ (5.0)
Interest rate derivative contracts	Other operating expenses (income), net		(22.7)		(27.6)
Forward-currency contracts	Cost of sales	(1.1)	3.5	2.5	6.3
	Total before tax	(7.0)	(24.2)	(6.9)	(26.3)
	Income tax (expense) benefit	1.8	6.7	1.8	7.3
	Net of tax	$ (5.2)	$ (17.5)	$ (5.1)	$ (19.0)
Defined benefit pension:					
Amortization of prior service credits (costs)	SG&A (a)	0.8	0.7	1.5	1.4
Amortization of actuarial gains (losses)	SG&A (a)	(0.1)	(0.7)	(0.2)	(1.4)
	Total before tax	0.7		1.3	
	Income tax (expense) benefit	(0.2)		(0.5)	
	Net of tax	$ 0.5	$	$ 0.8	$
Total reclassifications	Net of tax	$ (4.7)	$ (17.5)	$ (4.3)	$ (19.0)

(a) Refers to selling, general and administrative expenses in the condensed consolidated statements of operations.

Note 13. Fair Value Measurements

The following table presents our assets and liabilities measured at fair value on a recurring basis and the levels of inputs used to measure fair value, which include derivatives designated as cash flow hedging instruments and derivatives designated as net investment hedges, as well as their location on our condensed consolidated balance sheets as of June 30, 2016 and December 31, 2015 (in millions):

	Balance Sheet Location	Fair Value Measurements at June 30, 2016		Fair Value Measurements at December 31, 2015	
		(Level 2)	Total	(Level 2)	Total
Assets:					

Derivatives designated as cash flow hedges					
Foreign currency	Trade and notes receivable, net	$ 0.4	$ 0.4	$ 6.6	$ 6.6
Derivatives designated as net investment hedges					
Foreign currency	Other assets, net	629.8	629.8	830.9	830.9
Total assets at fair value		$ 630.2	$ 630.2	$ 837.5	$ 837.5
Liabilities:					
Derivatives designated as cash flow hedges					
Interest rate	Other liabilities, net	$ 110.5	$ 110.5	$ 40.9	$ 40.9
Foreign currency	Other accrued liabilities	6.5	6.5		
Derivatives designated as net investment hedges					
Foreign currency	Other liabilities, net	29.5	29.5	6.3	6.3
Total liabilities at fair value		$ 146.5	$ 146.5	$ 47.2	$ 47.2

Our derivatives are valued using a discounted cash flow analysis that incorporates observable market parameters, such as interest rate yield curves and currency rates, classified as Level 2 within the valuation hierarchy. Derivative valuations incorporate credit risk adjustments that are necessary to reflect the probability of default by us or the counterparty.

At June 30, 2016, the fair value of our variable rate term debt and bonds was estimated at $8.7 billion, compared to a principal carrying amount of $8.6 billion. At December 31, 2015, the fair value of our variable rate term debt and bonds was estimated at $8.7 billion, compared to a principal carrying amount of $8.6 billion. The fair value of our variable rate term debt and bonds was estimated using inputs based on bid and offer prices and are Level 2 inputs within the fair value hierarchy.

Certain nonfinancial assets and liabilities are measured at fair value on a non-recurring basis. These assets and liabilities are not measured at fair value on an ongoing basis but are subject to periodic impairment tests. These items primarily include long-lived assets, goodwill, the *Tim Hortons* brand, the *Burger King* brand and other intangible assets.

Table of Contents

Note 14. Derivative Instruments

Disclosures about Derivative Instruments and Hedging Activities

We enter into derivative instruments for risk management purposes, including derivatives designated as cash flow hedges, derivatives designated as net investment hedges and those utilized as economic hedges. We use derivatives to manage exposure to fluctuations in interest rates and currency exchange rates. See Note 13 for fair value measurements of our derivative instruments.

Interest Rate Swaps Outstanding as of June 30, 2016

During May 2015, we entered into a series of receive-variable, pay-fixed interest rate swaps to hedge the variability in the interest payments on $2,500.0 million of our Term Loan Facility beginning May 28, 2015, through the expiration of the final swap on March 31, 2021. The notional value of the swaps is $2,500.0 million. There are six sequential interest rate swaps to achieve the hedged position. Each year on March 31, the existing interest rate swap is scheduled to expire and be immediately replaced with a new interest rate swap until the expiration of the final swap on March 31, 2021. At inception, these interest rate swaps were designated as a cash flow hedge for hedge accounting, and as such, the effective portion of unrealized changes in market value are recorded in AOCI and reclassified into earnings during the period in which the hedged forecasted transaction affects earnings. Gains and losses from hedge ineffectiveness are recognized in current earnings.

Interest Rate Swaps Settled During 2015

The following derivative instruments were settled during May 2015. During November 2014, we entered into a series of receive-variable, pay-fixed interest rate swaps to hedge the variability in the interest payments associated with our Term Loan Facility beginning April 1, 2015, through the expiration of the final swap on March 31, 2021. The initial notional value of the swaps was $6,733.1 million, which initially aligned with the outstanding principal balance of the Term Loan Facility as of April 1, 2015, and was to be reduced quarterly in accordance with the principal repayments of the Term Loan Facility. There were six sequential interest rate swaps to achieve the hedged position. Each year on March 31, the existing interest rate swap was scheduled to expire and be immediately replaced with a new interest rate swap until the expiration of the arrangement on March 31, 2021. At inception, these interest rate swaps were designated as a cash flow hedge for hedge accounting, and as such, the effective portion of unrealized changes in market value were recorded in AOCI and reclassified into earnings during the period in which the hedged forecasted transaction affects earnings. Gains and losses from hedge ineffectiveness were recognized in earnings. During the first quarter of 2015, we temporarily discontinued hedge accounting on the entire balance of these interest rate swaps as a result of a $42.7 million mandatory prepayment of our Term Loan Facility as well as changes to forecasted cash flows, and settled $42.7 million of these instruments equal to the amount of the mandatory prepayment of our Term Loan Facility. During this same period, of the remaining $6,690.4 million of notional outstanding, we re-designated $5,690.4 million of notional amount as a cash flow hedge for hedge accounting and $1,000.0 million of notional amount was not designated for hedge accounting and as such changes in fair value on this portion of the interest rate swaps were recognized in earnings. During April 2015, in order to offset the cash flows associated with our $1,000.0 million notional value receive-variable, pay-fixed interest rate swap that was not designated for hedge accounting, we entered into a pay-variable, receive-fixed mirror interest rate swap with a notional value of $1,000.0 million and a maturity date of March 31, 2021.

The following derivative instruments were also settled during May 2015. During October 2014, we entered into a series of receive-variable, pay-fixed interest rate swaps with a combined initial notional value of $6,750.0 million that was amortized each quarter at the same rate of the Term Loan Facility. To offset the cash flows associated with these interest rate swaps, in November 2014 we entered into a series of receive-fixed, pay-variable mirror interest rate swaps with a combined initial notional value of $6,750.0 million that was amortized each quarter at the same rate of the Term Loan Facility. For all of these derivative instruments, each year on March 31, the existing interest rate swap was scheduled to expire and be immediately replaced with a new interest rate swap until the expiration of the arrangement on March 31, 2021. These interest rate swaps were not designated for hedge accounting and as such changes in fair value were recognized in earnings.

In connection with the interest rate swaps settled during May 2015, we paid $36.2 million. The net unrealized loss remaining in AOCI totaled $84.6 million at the date of settlement and is being reclassified into interest expense, net as the original hedged forecasted transaction affects earnings. The amount of pre-tax losses in AOCI as of June 30, 2016 that we expect to be reclassified into interest expense within the next 12 months is $12.6 million.

Table of Contents

Cross-Currency Rate Swaps

To protect the value of our investments in our foreign operations against adverse changes in foreign currency exchange rates, we may, from time to time, hedge a portion of our net investment in one or more of our foreign subsidiaries by using cross-currency rate swaps. We have designated cross-currency rate swap contracts between the Canadian dollar and U.S. dollar and the Euro and U.S. dollar as net investment hedges of a portion of our equity in foreign operations in those currencies. The component of the gains and losses on our net investment in these designated foreign operations driven by changes in foreign exchange rates are economically offset by movements in the fair value of our cross currency swap contracts. The fair value of the swaps is calculated each period with changes in fair value reported in AOCI net of tax. Such amounts will remain in AOCI until the complete or substantially complete liquidation of our investment in the underlying foreign operations.

At June 30, 2016, we had outstanding cross-currency rate swaps in which we pay quarterly between 4.802% and 7.002% on a tiered payment structure per annum on the Canadian dollar notional amount of C$5,641.7 million and receive quarterly between 3.948% and 6.525% on a tiered payment structure per annum on the U.S. dollar notional amount of $5,000.0 million through the maturity date of March 31, 2021. At inception, these derivative instruments were not designated for hedge accounting and, as such, changes in fair value were initially recognized in earnings. Beginning with the closing of the Transactions on December 12, 2014, we designated these cross-currency rate swaps as hedges and began accounting for these derivative instruments as net investment hedges.

At June 30, 2016, we also had outstanding a cross-currency rate swap in which we pay quarterly fixed-rate interest payments on the Euro notional amount of 1,107.8 million and receive quarterly fixed-rate interest payments on the U.S. dollar notional amount of $1,200.0 million through the maturity date of March 31, 2021. At inception, this cross-currency rate swap was designated as a hedge and is accounted for as a net investment hedge.

During the six months ended June 30, 2015, we terminated our cross-currency rate swaps entered into prior to the Transactions with an aggregate notional value of $315.0 million. In connection with this termination, we received $52.1 million, which is reflected as a source of cash provided by investing activities in the condensed consolidated statement of cash flows for the six months ended June 30, 2015. The net unrealized gains totaled $31.8 million as of the termination date. Such amounts will remain in AOCI until the complete or substantially complete liquidation of our investment in the underlying foreign operations. At inception, these cross-currency rate swaps were designated as a hedge and were accounted for as net investment hedges. A total notional value of $115.0 million of these swaps were contracts to exchange quarterly fixed-rate interest payments we make in Euros for quarterly fixed-rate interest payments we receive in U.S. dollars and had an original maturity of October 19, 2016. A total notional value of $200.0 million of these swaps were contracts to exchange quarterly floating-rate interest payments we make in Euros based on EURIBOR for quarterly floating-rate interest payments we receive in U.S. dollars based on LIBOR and had an original maturity of September 28, 2017. These cross-currency rate swaps also required the exchange of Euros and U.S. dollar principal payments upon maturity.

Foreign Currency Exchange Contracts

We use foreign exchange derivative instruments to manage the impact of foreign exchange fluctuations on U.S. dollar purchases and payments, such as coffee made by our Canadian Tim Hortons operations. At June 30, 2016, we had outstanding forward currency contracts to manage this risk in which we sell Canadian dollars and buy U.S. dollars with a notional value of $165.4 million with maturities to September 2017. We have designated these instruments as cash flow hedges, and as such, the effective portion of unrealized changes in market value are recorded in AOCI and are reclassified into earnings during the period in which the hedged forecasted transaction affects earnings. Gains and losses from hedge ineffectiveness are recognized in current earnings.

Credit Risk

By entering into derivative instrument contracts, we are exposed to counterparty credit risk. Counterparty credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is in an asset position, the counterparty has a liability to us, which creates credit risk for us. We attempt to minimize this risk by selecting counterparties with investment grade credit ratings and regularly monitoring our market position with each counterparty.

Table of Contents

Credit-Risk Related Contingent Features

Our derivative instruments do not contain any credit-risk related contingent features.

The following tables present the required quantitative disclosures for our derivative instruments (in millions):

	Gain (Loss) Recognized in Other Comprehensive Income (Loss) (effective portion)			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Derivatives designated as cash flow hedges:				
Forward-starting interest rate swaps	$ (21.6)	$ (2.9)	$ (72.6)	$ (85.9)
Forward-currency contracts	$ (0.7)	$ (4.2)	$ (9.8)	$ 5.5
Derivatives designated as net investment hedges:				
Cross-currency rate swaps	$ 54.4	$ (185.3)	$ (219.7)	$ 269.0

Classification on Condensed Consolidated Statements of Operations	Gain (Loss) Reclassified from AOCI into Earnings			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Interest expense, net	$ (5.9)	$ (5.0)	$ (9.4)	$ (5.0)
Other operating expenses (income), net	$	$ (22.7)	$	$ (27.6)
Cost of sales	$ (1.1)	$ 3.5	$ 2.5	$ 6.3

	Gain (Loss) Recognized in Other Operating Expenses (Income), net			
	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Derivatives not designated as hedging instruments:				
Interest rate swaps	$	$ (3.9)	$	$ (12.4)
Forward-currency contracts	$	$ 0.7	$	$ 2.8
Ineffectiveness of cash flow hedges:				
Interest rate swaps	$	$	$	$ (1.6)

Note 15. Franchise and Property Revenues

Franchise and property revenues consist of the following (in millions):

Three Months Ended June 30,	Six Months Ended June 30,

	2016	2015	2016	2015
Franchise royalties	$ 249.8	$ 239.2	$ 477.6	$ 455.0
Property revenues	198.0	197.5	369.3	376.0
Franchise fees and other revenue	33.8	37.7	62.7	77.2
Franchise and property revenues	$ 481.6	$ 474.4	$ 909.6	$ 908.2

Table of Contents

Note 16. Other Operating Expenses (Income), net

Other operating expenses (income), net consist of the following (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Net losses (gains) on disposal of assets, restaurant closures and refranchisings	$ 1.0	$ (3.9)	$ 16.3	$ (3.4)
Litigation settlements and reserves, net	0.9	0.3	1.6	1.9
Net losses (gains) on derivatives		25.9		38.8
Net losses (gains) on foreign exchange	(12.1)	11.8	12.0	34.3
Other, net	(1.1)	1.1	(0.4)	1.2
Other operating expenses (income), net	$ (11.3)	$ 35.2	$ 29.5	$ 72.8

Net losses (gains) on disposal of assets, restaurant closures and refranchisings for the six months ended June 30, 2016 primarily reflects losses in connection with sales of Company restaurants, or refranchisings in our TH business.

Net losses (gains) on derivatives for the three and six months ended June 30, 2015 is primarily due to changes in fair value related to interest rate swaps not designated for hedge accounting. These interest rate swaps were settled during May 2015.

Net losses (gains) on foreign exchange is primarily related to revaluation of foreign denominated assets and liabilities.

Note 17. Variable Interest Entities

VIEs for Which We Are the Primary Beneficiary

At June 30, 2016, December 31, 2015 and June 30, 2015, we consolidated 110, 141 and 237 Restaurant VIEs, respectively, where TH is the restaurants primary beneficiary and Advertising VIEs. During the three months ended June 30, 2016, sales and operating costs and expenses associated with Restaurant VIEs were $33.2 million and $32.1 million, respectively, prior to consolidation adjustments. During the three months ended June 30, 2015, sales and operating costs and expenses associated with Restaurant VIEs were $64.0 million and $62.8 million, respectively, prior to consolidation adjustments. During the six months ended June 30, 2016, sales and operating costs and expenses associated with Restaurant VIEs were $65.7 million and $63.5 million, respectively, prior to consolidation adjustments. During the six months ended June 30, 2015, sales and operating costs and expenses associated with Restaurant VIEs were $125.6 million and $123.2 million, respectively, prior to consolidation adjustments.

The liabilities recognized as a result of consolidating these VIEs do not necessarily represent additional claims on our general assets; rather, they represent claims against the specific assets of the consolidated VIEs. Conversely, assets recognized as a result of consolidating these VIEs do not represent additional assets that could be used to satisfy claims by our creditors as they are not legally included within our general assets.

VIEs for Which We Are Not the Primary Beneficiary

We have investments in certain TH real estate ventures and certain BK master franchisees, which were determined to be VIEs of which we are not the primary beneficiary. We do not consolidate these entities as control is considered to be shared by both TH and the other joint owners in the case of the TH real estate ventures, or control rests with other parties in the case of BK master franchisee VIEs.

Note 18. Segment Reporting

Under the *Tim Hortons* brand, we operate in the donut/coffee/tea category of the quick service segment of the restaurant industry. Under the *Burger King* brand, we operate in the fast food hamburger restaurant category of the quick service segment of the restaurant industry. We generate revenue from four sources: (i) sales exclusive to Tim Hortons franchisees related to our supply chain operations, including manufacturing, procurement, warehousing and distribution, as well as sales to retailers; (ii) property revenues from properties we lease or sublease to franchisees; (iii) franchise revenues, consisting primarily of royalties based on a percentage of sales reported by franchise restaurants and franchise fees paid by franchisees; and (iv) sales at Company restaurants.

Table of Contents

We have two operating segments: (1) TH, which includes all operations of our *Tim Hortons* brand, and (2) BK, which includes all operations of our *Burger King* brand. We also determined that our two operating segments represent our reportable segments.

Revenues by operating segment and country consist of the following (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues by operating segment:				
TH	$ 759.8	$ 764.0	$ 1,417.6	$ 1,447.7
BK	280.4	278.2	541.1	527.8
Total revenues	$ 1,040.2	$ 1,042.2	$ 1,958.7	$ 1,975.5
Revenues by country:				
Canada	$ 683.0	$ 680.4	$ 1,264.2	$ 1,285.0
United States	246.3	250.1	475.8	481.9
Other	110.9	111.7	218.7	208.6
Total revenues	$ 1,040.2	$ 1,042.2	$ 1,958.7	$ 1,975.5

Only Canada and the United States represented 10% or more of our total revenues in each period presented.

Our measure of segment income is Adjusted EBITDA. Adjusted EBITDA represents earnings (net income or loss) before interest, (gain) loss on early extinguishment of debt, taxes, depreciation and amortization, adjusted to exclude the impact of share-based compensation and non-cash incentive compensation expense, other operating expenses (income), net, (income) loss from equity method investments, net of cash distributions received from equity method investments, and all other specifically identified items that management believes do not directly reflect our core operations. Adjusted EBITDA assists management in comparing segment performance by removing the impact of such items, including acquisition accounting impact on cost of sales, TH transaction and restructuring costs, and integration costs. A reconciliation of segment income to net income consists of the following (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Segment Income:				
TH	$ 279.0	$ 234.9	$ 506.8	$ 419.3
BK	200.1	192.9	380.1	363.6
Adjusted EBITDA	479.1	427.8	886.9	782.9
Share-based compensation and non-cash incentive compensation expense	11.3	8.1	19.2	22.0
Acquisition accounting impact on cost of sales		(1.0)		0.8

TH transaction and restructuring costs		27.4		55.4
Integration costs	3.8		6.0	
Impact of equity method investments (a)	7.8	10.1	(7.9)	11.0
Other operating expenses (income), net	(11.3)	35.2	29.5	72.8
EBITDA	467.5	348.0	840.1	620.9
Depreciation and amortization	43.5	45.9	85.5	94.7
Income from operations	424.0	302.1	754.6	526.2
Interest expense, net	117.2	123.2	232.3	246.3
(Gain) loss on early extinguishment of debt		39.9		39.6
Income tax expense	59.2	45.2	106.4	95.9
Net income	$ 247.6	$ 93.8	$ 415.9	$ 144.4

(a) Represents (i) (income) loss from equity method investments and (ii) cash distributions received from our equity method investments. Cash distributions received from our equity method investments are included in segment income.

Table of Contents

Note 19. Subsequent Event

Dividends

On July 6, 2016, we paid a cash dividend of $0.15 per common share to common shareholders of record on May 16, 2016. On such date, Partnership also made a distribution in respect of each Partnership exchangeable unit in the amount of $0.15 per Partnership exchangeable unit to holders of record on May 16, 2016. On July 5, 2016, we paid a cash dividend of $0.98 per Preferred Share, for a total dividend of $67.5 million, to the holder of the Preferred Shares. The dividend on the Preferred Shares included the amount due for the second calendar quarter of 2016.

On August 3, 2016, our board of directors declared a cash dividend of $0.16 per common share, which will be paid on October 4, 2016, to common shareholders of record on September 6, 2016. Partnership will also make a distribution in respect of each Partnership exchangeable unit in the amount of $0.16 per Partnership exchangeable unit, and the record date and payment date for distributions on Partnership exchangeable units are the same as the record date and payment date set forth above. On August 2, 2016, our board of directors declared a cash dividend of $0.98 per Preferred Share, for a total dividend of $67.5 million which will be paid to the holder of the Preferred Shares on October 3, 2016. The dividend on the Preferred Shares includes the amount due for the third calendar quarter of 2016.

Share Repurchase Authorization

On August 2, 2016, our board of directors approved a share repurchase authorization wherein RBI may purchase up to $300 million of our common shares over the next 5 years. Repurchases under the Company s new authorization will be made in the open market or through privately negotiated transactions.

Table of Contents

Item 2. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

On December 12, 2014, a series of transactions (the Transactions) were completed resulting in Burger King Worldwide, Inc., a Delaware corporation (Burger King Worldwide), and Tim Hortons Inc., a Canadian corporation (Tim Hortons), becoming indirect subsidiaries of Restaurant Brands International Inc., a Canadian corporation (the Company), and Restaurant Brands International Limited Partnership, an Ontario limited partnership (Partnership).

Results for 2015 have been retrospectively adjusted to reflect the final purchase price allocation for Tim Hortons.

We are the sole general partner of Partnership. As a result of our controlling interest, we consolidate the financial results of Partnership and record noncontrolling interests for the portion of Partnership we do not own in our condensed consolidated financial statements. Net income (loss) attributable to noncontrolling interests on the condensed consolidated statements of operations represent the portion of earnings or loss attributable to the economic interest in Partnership owned by the holders of the noncontrolling interests. As sole general partner, we manage all of Partnership s operations and activities in accordance with the partnership agreement of Partnership (the partnership agreement).

You should read the following discussion together with our unaudited condensed consolidated financial statements and the related notes thereto included in Part I, Item 1 Financial Statements of this report.

The following discussion includes information regarding future financial performance and plans, targets, aspirations, expectations, and objectives of management, which constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and forward-looking information within the meaning of Canadian securities laws as described in further detail under Special Note Regarding Forward-Looking Statements set forth below. Actual results may differ materially from the results discussed in the forward-looking statements. Please refer to the risks and further discussion in the Special Note Regarding Forward-Looking Statements below.

We prepare our financial statements in accordance with accounting principles generally accepted in the United States (U.S. GAAP or GAAP). However, this Management s Discussion and Analysis of Financial Condition and Results of Operations also contains certain non-GAAP financial measures to assist readers in understanding our performance. Non-GAAP financial measures either exclude or include amounts that are not reflected in the most directly comparable measure calculated and presented in accordance with GAAP. Where non-GAAP financial measures are used, we have provided the most directly comparable measures calculated in accordance with U.S. GAAP, a reconciliation to GAAP measures and a discussion of the reasons that management believes this information is useful to it and may be useful to investors.

Operating results for any one quarter are not necessarily indicative of results to be expected for any other quarter or for the fiscal year and our key business measures, as discussed below, may decrease for any future period. Unless the context otherwise requires, all references in this section to RBI, the Company, we, us, or our are to the Company and its subsidiaries, collectively. Unless otherwise stated, comparable sales growth and sales growth are presented on a system-wide basis, which means that these measures include sales at both restaurants owned by us (Company restaurants) and franchise restaurants. Franchise sales represent sales at all franchise restaurants and are revenues to our franchisees. We do not record franchise sales as revenues; however, our franchise revenues include royalties based on franchise sales. System-wide results are driven primarily by our franchise restaurants, as approximately 100% of current Tim Hortons and Burger King system-wide restaurants are franchised.

Overview

We are a Canadian corporation originally formed on August 25, 2014 to serve as the indirect holding company for Tim Hortons and its consolidated subsidiaries and Burger King Worldwide and its consolidated subsidiaries. We are one of the world s largest quick service restaurant (QSR) companies with over 19,000 restaurants in more than 100 countries and U.S. territories as of June 30, 2016 and over 110 years of combined brand heritage. Our *Tim Hortons*® and *Burger King*® brands have similar franchised business models with complementary daypart mixes. Our two iconic brands are managed independently while benefiting from global scale and sharing of best practices.

Tim Hortons restaurants are quick service restaurants with a menu that includes premium blend coffee, tea, espresso-based hot and cold specialty drinks, fresh baked goods, including donuts, Timbits®, bagels, muffins, cookies and pastries, grilled paninis, classic sandwiches, wraps, soups and more. Burger King restaurants are quick service restaurants that feature flame-grilled hamburgers, chicken and other specialty sandwiches, french fries, soft drinks and other affordably-priced food items.

We generate revenue from four sources: (i) sales exclusive to Tim Hortons franchisees related to our supply chain operations, including manufacturing, procurement, warehousing and distribution, as well as sales to retailers; (ii) property revenues from properties we lease or sublease to franchisees; (iii) franchise revenues, consisting primarily of royalties based on a percentage of sales reported by franchise restaurants and franchise fees paid by franchisees; and (iv) sales at Company restaurants.

As discussed in Note 18 to the accompanying unaudited condensed consolidated financial statements, we have two operating and reportable segments: (1) Tim Hortons (TH) and (2) Burger King (BK).

Tim Hortons second quarter of fiscal year 2015 began March 30, 2015 and ended June 28, 2015. Tim Hortons first six months of fiscal year 2015 began December 29, 2014 and ended June 28, 2015. The change to a calendar quarter end of June 30 in 2016 did not have a material impact on our results of operations or key financial measures.

Operating Metrics and Key Financial Measures

We evaluate our restaurants and assess our business based on the following operating metrics and key financial measures:

- System-wide sales growth refers to the change in sales at all franchise restaurants and Company restaurants in one period from the same period in the prior year.

- System-wide sales represent sales at all franchise restaurants and Company restaurants. We do not record franchise sales as revenues; however, our franchise revenues include royalties based on a percentage of franchise sales.

- Comparable sales growth refers to the change in restaurant sales in one period from the same prior year period for restaurants that have been opened for thirteen months or longer.

- Net restaurant growth (NRG) represents the opening of new restaurants (other than limited service kiosks) during a stated period, net of closures. Commencing in the fourth quarter of 2015, we revised our presentation of NRG to exclude limited service kiosks, with the revision applied retrospectively to the earliest period presented to provide period-to-period comparability.

- Adjusted EBITDA, which represents earnings (net income or loss) before interest, (gain) loss on early extinguishment of debt, taxes, depreciation and amortization, adjusted to exclude specifically identified items that management believes do not directly reflect our core operations. See *Non-GAAP Reconciliations*.

System-wide sales growth and comparable sales growth are measured on a constant currency basis, which means the results exclude the effect of foreign currency translation (FX Impact). For system-wide sales growth and comparable sales growth, we calculate the FX Impact by translating prior year results at current year monthly average exchange rates. For items included in our results of operations, we calculate the FX Impact by translating current year results at prior year monthly average exchange rates. We analyze certain financial measures on a constant currency basis as this helps identify underlying business trends, without distortion from the effects of currency movements.

Table of Contents

Recent Events and Factors Affecting Comparability

Integration Costs

In connection with the implementation of initiatives to integrate the back-office processes of TH and BK to enhance efficiencies, we incurred $3.8 million and $6.0 million related to these initiatives during the three and six months ended June 30, 2016, respectively, primarily consisting of professional fees.

TH Transaction and Restructuring Costs

In connection with the Transactions and a series of post-closing transactions during 2015 that resulted in changes to our legal and capital structure, we incurred certain non-recurring selling, general and administrative expenses during the three and six months ended June 30, 2015, respectively, consisting of the following:

- Financing, legal and advisory fees, share-based compensation expense due to accelerated vesting of equity awards as a result of the Transactions and integration costs related to a realignment of our global structure to better accommodate the needs of the combined business, totaling $16.2 million and $33.2 million during the three and six months ended June 30, 2015, respectively;

- Severance benefits, other compensation costs and training expenses of approximately $9.0 million and $20.0 million during the three and six months ended June 30, 2015, respectively, related to a restructuring plan we implemented following the Transactions, which resulted in work force reductions throughout our TH business; and

- Financing, legal and advisory fees totaling $2.2 million during the three and six months ended June 30, 2015, in connection with the issuance of the $1,250.0 million of 4.625% first lien senior secured notes due January 15, 2022 and entry into a first amendment to our credit agreement in May 2015.

Results of Operations for the Three and Six Months Ended June 30, 2016 and 2015

Tabular amounts in millions of U.S. dollars unless noted otherwise.

Consolidated

	Three Months Ended June 30,		Variance		Six Months Ended June 30,		Variance	
	2016	2015	$ Favorable / (Unfavorable)	% Favorable / (Unfavorable)	2016	2015	$ Favorable / (Unfavorable)	% Favorable / (Unfavorable)
Revenues:								
Sales	$ 558.6	$ 567.8	$ (9.2)	(1.6)%	$ 1,049.1	$ 1,067.3	$ (18.2)	(1.7)%
Franchise and property revenues	481.6	474.4	7.2	1.5%	909.6	908.2	1.4	0.2%

Total revenues	1,040.2	1,042.2	(2.0)	(0.2)%	1,958.7	1,975.5	(16.8)	(0.9)%
Cost of sales	435.8	474.8	39.0	8.2%	824.0	908.0	84.0	9.3%
Franchise and property expenses	114.1	121.7	7.6	6.2%	218.3	250.8	32.5	13.0%
Selling, general and administrative expenses	73.1	102.0	28.9	28.3%	146.3	213.0	66.7	31.3%
(Income) loss from equity method investments	4.5	6.4	1.9	NM	(14.0)	4.7	18.7	NM
Other operating expenses (income), net	(11.3)	35.2	46.5	NM	29.5	72.8	43.3	NM
Total operating costs and expenses	616.2	740.1	123.9	NM	1,204.1	1,449.3	245.2	NM
Income from operations	424.0	302.1	121.9	40.4%	754.6	526.2	228.4	43.4%
Interest expense, net	117.2	123.2	6.0	4.9%	232.3	246.3	14.0	5.7%
(Gain) loss on early extinguishment of debt		39.9	39.9	NM		39.6	39.6	NM
Income before income taxes	306.8	139.0	167.8	120.7%	522.3	240.3	282.0	117.4%
Income tax expense	59.2	45.2	(14.0)	(31.0)%	106.4	95.9	(10.5)	(10.9)%
Net income	247.6	93.8	153.8	164.0%	415.9	144.4	271.5	188.0%
Net income attributable to noncontrolling interests	89.2	15.3	73.9	NM	140.0	5.5	134.5	NM
Preferred shares dividend	67.5	67.5		0.0%	135.0	136.2	1.2	0.9%
Net income attributable to common shareholders	$ 90.9	$ 11.0	$ 79.9	NM	$ 140.9	$ 2.7	$ 138.2	NM