Restaurant Brands International Inc.
Form 10-Q
August 02, 2017
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

Form 10-Q

(Mark One)
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission file number: 001-36786

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

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

(905) 845-6511
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (check one);

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

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

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

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

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

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

See accompanying notes to condensed consolidated financial statements.

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

See accompanying notes to condensed consolidated financial statements.

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

See accompanying notes to condensed consolidated financial statements.

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RESTAURANT BRANDS INTERNATIONAL INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Shareholders' Equity
(In millions of U.S. dollars, except shares)
(Unaudited)

	Issued Common Shares					
	Shares	Amount	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Noncontrolling Interest	Total
Balances at December 31, 2016	234,236,678	$1,955.1	$445.7	$ (698.3)	$ 1,786.1	$3,488.6
Stock option exercises	1,710,286	12.3	—	—	—	12.3
Share-based compensation	—	24.9	—	—	—	24.9
Issuance of shares	153,683	8.5	—	—	—	8.5
Dividends declared on common shares	—	—	(87.1)	—	—	(87.1)
Dividend equivalents declared on restricted stock units	—	0.7	(0.7)	—	—	—
Distributions declared by Partnership on Partnership exchangeable units (Note 11)	—	—	—	—	(83.9)	(83.9)
Preferred share dividends	—	—	(135.0)	—	—	(135.0)
Exchange of Partnership exchangeable units for RBI common shares	146,730	1.5	—	(0.5)	(1.0)	—
Restaurant VIE contributions (distributions)	—	—	—	—	(1.2)	(1.2)
Net income	—	—	274.7	—	135.4	410.1
Other comprehensive income (loss)	—	—	—	120.7	116.3	237.0
Balances at June 30, 2017	236,247,377	$2,003.0	$497.6	$ (578.1)	$ 1,951.7	$3,874.2

See accompanying notes to condensed consolidated financial statements.

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RESTAURANT BRANDS INTERNATIONAL INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(In millions of U.S. dollars)
(Unaudited)

	Six Months Ended June 30, 2017	2016
Cash flows from operating activities:		
Net income	$410.1	$415.9
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	88.7	85.7
Non-cash loss on early extinguishment of debt	17.9	—
Amortization of deferred financing costs and debt issuance discount	16.7	19.3
(Income) loss from equity method investments	(4.8)	(14.0)
Loss (gain) on remeasurement of foreign denominated transactions	47.1	19.0
Net losses on derivatives	14.9	9.4
Share-based compensation expense	27.2	16.1
Deferred income taxes	22.4	10.5
Other	9.8	7.1
Changes in current assets and liabilities, excluding acquisitions and dispositions:		
Accounts and notes receivable	27.4	21.4
Inventories and prepaids and other current assets	(11.1)	(69.4)
Accounts and drafts payable	(9.5)	7.4
Advertising fund restricted assets and fund liabilities	1.3	(15.8)
Other accrued liabilities and gift card liability	(164.2)	(17.5)
Other long-term assets and liabilities	(12.9)	10.2
Net cash provided by operating activities	481.0	505.3
Cash flows from investing activities:		
Payments for property and equipment	(11.7)	(12.8)
Proceeds from disposal of assets, restaurant closures, and refranchisings	9.6	13.2
Net payment for purchase of Popeyes, net of cash acquired	(1,635.9)	—
Return of investment on direct financing leases	7.8	8.1
Settlement/sale of derivatives, net	772.0	1.5
Other investing activities, net	0.3	1.8
Net cash provided by (used for) investing activities	(857.9)	11.8
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	3,050.0	—
Repayments of long-term debt and capital leases	(377.7)	(34.6)
Payment of financing costs	(47.0)	—
Payment of dividends on common and preferred shares and distributions on Partnership exchangeable units	(296.6)	(260.2)
Proceeds from stock option exercises	12.3	10.7
Other financing activities, net	(2.3)	1.1
Net cash provided by (used for) financing activities	2,338.7	(283.0)
Effect of exchange rates on cash and cash equivalents	13.3	6.2
Increase (decrease) in cash and cash equivalents	1,975.1	240.3
Cash and cash equivalents at beginning of period	1,460.4	757.8
Cash and cash equivalents at end of period	$3,435.5	$998.1
Supplemental cashflow disclosures:		

Interest paid	$205.6	$199.7
Income taxes paid	$116.9	$76.6
Non-cash investing and financing activities:		
Acquisition of property with capital lease obligations	$17.7	$8.3

See accompanying notes to condensed consolidated financial statements.

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RESTAURANT BRANDS INTERNATIONAL INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
(Unaudited)

Note 1. Description of Business and Organization

Restaurant Brands International Inc. (the “Company,” “RBI,” “we,” “us” or “our”) was formed on August 25, 2014 and continued under the laws of Canada. The Company serves as the sole general partner of Restaurant Brands International Limited Partnership (the “Partnership”). We franchise and operate quick service restaurants serving premium coffee and other beverage and food products under the Tim Hortons® brand (“Tim Hortons”), fast food hamburger restaurants principally under the Burger King® brand (“Burger King”), and chicken quick service restaurants under the Popeyes® brand (“Popeyes”). We are one of the world’s largest quick service restaurant, or QSR, companies as measured by total number of restaurants. As of June 30, 2017, we franchised or owned 4,655 Tim Hortons restaurants, 16,000 Burger King restaurants, and 2,768 Popeyes restaurants, for a total of 23,423 restaurants, and operate in more than 100 countries and U.S. territories. Approximately 100% of current system-wide restaurants are franchised.

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

Note 2. Popeyes Acquisition

On March 27, 2017, we completed the acquisition of all of the outstanding shares of common stock of Popeyes Louisiana Kitchen, Inc. (the “Popeyes Acquisition”). Popeyes Louisiana Kitchen Inc. is one of the world’s largest chicken quick service restaurant companies and its global footprint complements RBI’s existing portfolio. Like RBI’s other brands, the Popeyes brand is managed independently, while benefitting from the global scale and resources of RBI. The Popeyes Acquisition was accounted for as a business combination using the acquisition method of accounting.

Total consideration in connection with the Popeyes Acquisition was $1,654.7 million, which includes $32.6 million for the settlement of equity awards. The consideration was funded through (1) cash on hand of approximately $354.7 million, and (2) $1,300.0 million from incremental borrowings under our Term Loan Facility – see Note 9, Long-Term Debt.

Fees and expenses related to the Popeyes Acquisition and related financings totaled $34.4 million consisting primarily of professional fees and compensation related expenses, all of which are classified as selling, general and administrative expenses in the accompanying condensed consolidated statements of operations. These fees and expenses were funded through cash on hand.

During three months ended June 30, 2017, we adjusted our preliminary estimate of the fair value of net assets acquired. The preliminary allocation of consideration to the net tangible and intangible assets acquired is presented in the table below (in millions):

	March 27, 2017
Total current assets	$80.0
Property and equipment	114.4
Intangible assets	1,372.9
Other assets	0.7
Total current liabilities	(74.7)
Total debt and capital lease obligations	(159.0)
Deferred income taxes	(524.2)
Other liabilities	(23.2)
Total identifiable net assets	786.9
Goodwill	867.8
Total consideration	$1,654.7

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The adjustments to the preliminary estimate of net assets acquired resulted in a corresponding $210.5 million decrease in estimated goodwill due to the following changes to preliminary estimates of fair values and allocation of purchase price (in millions):

	Increase (Decrease) in Goodwill
Change in:	
Total current assets	$ (15.6)
Property and equipment	(17.9)
Intangible assets	(352.9)
Deferred income taxes	165.9
Other liabilities	10.0
Total decrease in goodwill	$ (210.5)

The purchase price allocation reflects preliminary fair value estimates based on management's analysis, including preliminary work performed by third-party valuation specialists. We will continue to obtain information to assist in determining the fair value of net assets acquired during the measurement period.

Intangible assets include $1,319.0 million related to the Popeyes brand, $44.0 million related to franchise agreements and $9.9 million related to favorable leases. The Popeyes brand has been assigned an indefinite life and, therefore, will not be amortized, but rather tested annually for impairment. Franchise agreements have a weighted average amortization period of 17 years. Favorable leases have a weighted average amortization period of 14 years.

Goodwill attributable to the Popeyes Acquisition will not be amortizable or deductible for tax purposes. Goodwill is considered to represent the value associated with the workforce and synergies anticipated to be realized as a combined company. We have not yet allocated goodwill related to the Popeyes Acquisition to reporting units for goodwill impairment testing purposes. Goodwill will be allocated to reporting units when the purchase price allocation is finalized during the measurement period.

The Popeyes Acquisition is not material to our consolidated financial statements, and therefore, supplemental pro forma financial information related to the acquisition is not included herein.

Note 3. Basis of Presentation and Consolidation

We have prepared the accompanying unaudited condensed consolidated financial statements (the "Financial Statements") in accordance with the rules and regulations of the Securities and Exchange Commission (the "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 17, 2017.

The Financial Statements include our accounts and the accounts of 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 amended and restated limited 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.

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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. 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"). As of June 30, 2017 and December 31, 2016, we determined that we are the primary beneficiary of 41 and 96 Restaurant VIEs, respectively. As Tim Hortons, Burger King, and Popeyes 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 are not necessarily indicative of the results that may be expected for any other interim period or for the full year.

The preparation of consolidated financial statements in conformity with U.S. GAAP and related rules and regulations of the SEC requires our management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, and the related disclosure of contingent assets and liabilities. Actual results could differ 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 4. New Accounting Pronouncements

Revenue Recognition – In May 2014, the Financial Accounting Standards Board (the "FASB") issued a new single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. In August 2015, the FASB deferred adoption of the new standard by one year. Several updates have been issued since to clarify the implementation guidance. The new guidance supersedes most current revenue recognition guidance, including industry-specific guidance, enhances revenue recognition disclosures, and is now effective commencing in 2018. The guidance allows for either a full retrospective or modified retrospective transition method. We currently expect to apply the modified retrospective transition method.

We have performed a preliminary analysis of the impact of the new revenue recognition guidance and developed a comprehensive plan for the implementation. The project plan includes analyzing the impact on our current revenue streams, comparing our historical accounting policies to the new guidance, and identifying potential differences from applying the requirements of the new guidance to our contracts. Under current accounting guidance, we recognize initial franchise fees when we have performed all material obligations and services, which generally occurs when the franchised restaurant opens. Under the new guidance, we anticipate deferring the initial franchise fees and recognizing revenue over the term of the related franchise agreement. We anticipate that the new guidance will also change our reporting of advertising fund contributions from franchisees and the related advertising expenditures, which are currently reported on a net basis in our consolidated balance sheet. Under the current guidance, as of the balance sheet date, advertising fund contributions received may not equal advertising expenditures for the period due to the timing of promotions. To the extent that contributions received exceeded advertising expenditures, the excess contributions are treated as a deferred liability. To the extent that advertising expenditures temporarily exceeded advertising fund contributions, the difference is recorded as a receivable from the fund. Under the new guidance, we anticipate advertising fund contributions from franchisees and advertising fund expenditures will be reported on a gross basis and the related advertising fund revenues and expenses may be reported in different periods.

We anticipate that estimated breakage income on gift cards will be recognized as gift cards are utilized instead of our current policy of deferring the breakage income until it is deemed remote that the unused gift card balance will be redeemed. We do not believe this guidance will materially impact our recognition of revenue from Company restaurant sales, our recognition of royalty revenues from franchisees, or our recognition of revenues from property rentals.

Lease Accounting – In February 2016, the FASB issued new guidance on leases. The new guidance requires lessees to recognize on the balance sheet the assets and liabilities for the rights and obligations created by finance and operating leases with lease terms of more than 12 months, as well as enhanced disclosures. The amendment requires the recognition and measurement of leases at the beginning of the earliest period presented using a modified retrospective approach and is effective commencing in 2019. We expect this new guidance to cause a material increase to our assets and liabilities on our consolidated balance sheet since we have a significant number of operating lease arrangements for which we are the lessee. We are currently evaluating the impact that adoption of this guidance will have on our consolidated statements of operations. The impact of this

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accounting standards update is non-cash in nature. As such, we do not expect the adoption of this new guidance to have a material impact on our cash flows and liquidity.

Derivative Contract Novations on Existing Hedges – 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. We adopted this new guidance on a prospective basis on January 1, 2017. Adoption did not have an impact on our consolidated financial statements.

Equity Method Accounting – In March 2016, the FASB issued an accounting standards update which eliminates the requirement to retrospectively apply the equity method to an investment that subsequently qualifies for such accounting as a result of an increase in level of ownership interest or degree of influence. We adopted this new guidance on a prospective basis on January 1, 2017. Adoption did not have an impact on our consolidated financial statements.

Employee Share-Based Payment Accounting – In March 2016, the FASB issued an accounting standards update to simplify several aspects of the accounting for share-based payment transactions, including the accounting for income taxes, forfeitures and statutory withholding requirements, as well as statement of cash flows presentation. The transition requirement is mostly modified retrospective, with the exception of recognition of excess tax benefits and tax deficiencies which requires prospective adoption. We adopted this new guidance on January 1, 2017. The adoption of this new guidance resulted in an increase to our diluted weighted average shares outstanding, as well as recognition of excess tax benefits as a reduction in the provision for income taxes rather than an addition to common shares, as required by previous accounting guidance. We will continue to estimate forfeitures instead of accounting for them as they occur as permitted by the new standard. The adoption of the other provisions of this new guidance did not have an impact on our consolidated financial statements.

Classification of Certain Cash Receipts and Cash Payments – In August 2016, the FASB issued an accounting standards update to reduce the existing diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments are effective for 2018. We do not expect the adoption of this new guidance to have a material impact on our consolidated financial statements.

Intra-Entity Transfers of Assets Other Than Inventory – In October 2016, the FASB issued guidance amending the accounting for income taxes. The new guidance requires the recognition of the income tax consequences of an intercompany asset transfer, other than transfers of inventory, when the transfer occurs. For intercompany transfers of inventory, the income tax effects will continue to be deferred until the inventory has been sold to a third party. The amendment is effective for 2018. We are currently evaluating the impact that the adoption of this new guidance will have on our consolidated financial statements.

Goodwill Impairment – In January 2017, the FASB issued guidance to simplify how an entity measures goodwill impairment by removing the second step of the two-step quantitative goodwill impairment test. An entity will no longer perform a hypothetical purchase price allocation to measure goodwill impairment. Instead, impairment will be measured at the amount by which the carrying value exceeds the fair value of a reporting unit; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. An entity still has the option to perform a qualitative assessment of whether it is more-likely-than-not that a reporting unit's fair value is less than its carrying amount. The amendment requires prospective adoption and is effective commencing in 2020 with early adoption permitted. We do not expect the adoption of this guidance to have an impact on our consolidated financial statements.

Note 5. Earnings per Share

An economic interest in Partnership common equity is held by the holders of Class B exchangeable limited partnership units (the "Partnership exchangeable units"), which is reflected as a noncontrolling interest in our equity. See Note 11, Shareholders' Equity.

Basic and diluted earnings per share is computed using the weighted average number of shares outstanding for the period. 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.

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