Restaurant Brands International Inc. in Talks to Make US$1.7 Billion Acquisition: What Now?

Description

If two fast-food chains aren't enough, why not add a third? That's what **Restaurant Brands International Inc.** (TSX:QSR)(NYSE:QSR) appears to be considering. According to a report in **Reuters**, Restaurant Brands is close to buying Popeyes's Louisiana Kitchen, a fried chicken fast-food restaurant, for more than US$1.7 billion.

In the article, Reuters reports that chicken is about 10% of the fast-food industry with Popeyes quickly gaining market share on Chick-fil-A and Kentucky Fried Chicken. With this in mind, it makes sense to acquire a brand that is growing rapidly.

However, there's more to it than that.

According to Reuters, "the deal … is a bet by Oakville, Ontario-based Restaurant Brands that it can use its international reach to introduce Popeyes's Louisiana-style fried chicken and buttermilk biscuits to more diners globally."

This strategy makes sense because it's what Restaurant Brands has been doing with Tim Hortons over the past few years. In the U.S., there are 1,600 Popeyes restaurants with an additional 400 around the world. However, due to Restaurant Brands and its international exposure, those numbers could quickly change; there could be far more international restaurants than domestic.

The way that Restaurant Brands will likely achieve this is through the master franchise joint-venture model. Essentially, it will launch a joint venture in country that then builds a network of restaurants, making the supply chain more manageable and the company more profitable. This model has worked wonders for the company.

In July 2016, Restaurant Brands used this model in the Philippines with Tim Hortons; some analysts predict it could open hundreds of restaurants. Looking at other parts of the world, this model allowed store growth to explode in Brazil from fewer than 150 Restaurant Brand stores in 2011 to over 500 today. In China, there were fewer than 90 stores in 2012, and now there are over 650. And in Russia, there were fewer than 90 stores in 2012, and now there are over 350.

How is the company doing as a whole?

Its fourth-quarter numbers showed a 2.3% increase at Burger King and a 2.5% increase at Tim Hortons. And across both brands, net restaurant growth grew 4.8% year over year. Looking at fiscal 2016, the company saw total revenue of US$4.15 billion — a strong sign for the company. But it was the full-year profit that was really exciting: it was 223% higher than the year prior at US$103.9 million.

Because of this growth, the company was in a prime position to increase the dividend to $0.18 per share — up from $0.16 per share. My only real concern for Restaurant Brands is that it carries US$7.4 billion in net debt; however, with profits increasing, I expect to see this move lower (after any acquisitions are completed).

So, should you buy Restaurant Brands on news of this takeover? I very rarely believe in buying on the news cycle. It can be hard to get the timing right, and your starting position can be weakened. However, I believe that Restaurant Brands can use a similar model as it has in the past to scale Popeyes; should this deal get completed, I'll be even more bullish on the company.

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