COVID-19 Recovery: A Top Growth Company in 2021

Description

Restaurant Brands International (TSX:QSR)(NYSE:QSR) recently reported a significant jump in sales on the basis of the reduced impact from COVID-19. The restaurant company appeared to significantly benefit from higher sales in the food delivery segment. Customers appear to have ramped up purchases of take-out sandwiches and wraps.

Limited-term incentive programs

During the past several years, Restaurant Brands offered remodel incentives to United States (U.S.) franchisees. These limited-term incentive programs are expected to negatively impact the company's effective royalty rate until 2027. However, Restaurant Brands expects this impact to be partially mitigated as incentive programs granted in prior years will expire, and the company will also be entering new franchise agreements for Burger King (BK) restaurants in the U.S. with a 4.5% royalty rate.

Lucrative development agreements

For Popeyes (PLK), Restaurant Brands offers development incentive programs pursuant to which the company encourages veterans, women, or minorities to become PLK franchisees and develop and open new restaurants. As part of Restaurant Brands's international growth strategy for each of the company's brands, it has entered master franchise agreements or development agreements that grant franchisees exclusive or non-exclusive development rights.

Global master franchise agreements

In some cases, Restaurant Brands allow franchises to sub-franchise or to provide support services to other franchisees. In fiscal 2020, Restaurant Brands entered master franchise agreements for the Tim Hortons (TH) brand in the Middle East, including United Arab Emirates, Qatar, Kuwait, Bahrain, Oman, and Saudi Arabia, and for the BK brand in Switzerland and Scandinavia, including Norway, Sweden, and Denmark.

Multiple recurring revenue sources

The franchise fees, royalty rates, and advertising contributions, paid by master franchisees or developers, vary from country to country, depending on the facts and circumstances of each market. Restaurant Brands expects to continue implementing similar arrangements for the company's brands in 2021 and beyond.

Fixed and contingent rental payments

Further, Restaurant Brands leased or subleased 3,586 properties to TH franchisees, 1,449 properties to BK franchisees, and 81 properties to PLK franchisees as of December 31, 2020, pursuant to separate lease agreements with these franchisees. This is another source of recurring revenue for the company. For properties that Restaurant Brands leases from third-party landlords and sublease to franchisees, the company's leases generally provide for fixed rental payments and contingent rental payments based on a restaurant's annual gross sales.

Strategic alliances with third parties and significant flexibility

In addition, the royalty rates under licence agreements entered in connection with non-standard restaurants, including self-serve kiosks and strategic alliances with third parties, are negotiated on a case-by-case basis. This ensures that Restaurant Brands has significant flexibility to modify the terms of the agreement as needed.

Triple net leases to reduce risk

Franchisees who lease land only from Restaurant Brands do so on a triple net basis. Under these triple net leases, the franchisee is obligated to pay all costs and expenses, including all real property taxes and assessments, repairs and maintenance, and insurance. This reduces the risk to Restaurant Brands quite significantly.

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