

Restaurant Brands International Inc.
Form 10-Q
October 24, 2018
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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 September 30, 2018

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 (I.R.S. Employer
Incorporation or Organization) Identification No.)

226 Wyecroft Road L6K 3X7
Oakville, Ontario (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);

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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 October 19, 2018, there were 251,315,753 common shares of the Registrant outstanding.

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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	
	September 30, 2018	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$1,143.5	\$ 1,097.4
Accounts and notes receivable, net of allowance of \$17.8 and \$16.4, respectively	481.4	488.8
Inventories, net	91.8	78.0
Prepays and other current assets	48.7	85.4
Total current assets	1,765.4	1,749.6
Property and equipment, net of accumulated depreciation and amortization of \$716.5 and \$623.3, respectively	2,054.1	2,133.3
Intangible assets, net	10,821.0	11,062.2
Goodwill	5,680.0	5,782.3
Net investment in property leased to franchisees	58.0	71.3
Other assets, net	606.8	424.8
Total assets	\$20,985.3	\$ 21,223.5
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts and drafts payable	\$467.0	\$ 496.2
Other accrued liabilities	678.4	865.7
Gift card liability	95.3	214.9
Current portion of long term debt and capital leases	79.6	78.2
Total current liabilities	1,320.3	1,655.0
Term debt, net of current portion	11,766.8	11,800.9
Capital leases, net of current portion	240.6	243.8
Other liabilities, net	1,738.5	1,455.1
Deferred income taxes, net	1,524.7	1,508.1
Total liabilities	16,590.9	16,662.9
Shareholders' equity:		
Common shares, no par value; unlimited shares authorized at September 30, 2018 and December 31, 2017; 251,120,351 shares issued and outstanding at September 30, 2018; 243,899,476 shares issued and outstanding at December 31, 2017	2,155.7	2,051.5
Retained earnings	626.0	650.6
Accumulated other comprehensive income (loss)	(596.3	) (475.7
Total Restaurant Brands International Inc. shareholders' equity	2,185.4	2,226.4
Noncontrolling interests	2,209.0	2,334.2
Total shareholders' equity	4,394.4	4,560.6
Total liabilities and shareholders' equity	\$20,985.3	\$ 21,223.5

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 September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Revenues:				
Sales	\$609.1	\$631.6	\$1,743.1	\$1,784.1
Franchise and property revenues (Note 4)	766.2	577.0	2,229.4	1,557.8
Total revenues	1,375.3	1,208.6	3,972.5	3,341.9
Operating costs and expenses:				
Cost of sales	469.9	493.3	1,347.9	1,376.9
Franchise and property expenses	107.6	118.5	314.4	343.2
Selling, general and administrative expenses (Note 4)	298.3	100.1	917.2	318.7
(Income) loss from equity method investments	(3.8)	(4.1)	(16.9)	(8.9)
Other operating expenses (income), net	26.1	21.5	9.4	82.1
Total operating costs and expenses	898.1	729.3	2,572.0	2,112.0
Income from operations	477.2	479.3	1,400.5	1,229.9
Interest expense, net	134.9	136.0	404.8	375.4
Loss on early extinguishment of debt	—	58.2	—	78.6
Income before income taxes	342.3	285.1	995.7	775.9
Income tax expense	92.5	38.3	152.9	119.0
Net income	249.8	246.8	842.8	656.9
Net income attributable to noncontrolling interests (Note 11)	116.2	87.9	393.8	223.3
Preferred share dividends	—	67.5	—	202.5
Net income attributable to common shareholders	\$133.6	\$91.4	\$449.0	\$231.1
Earnings per common share				
Basic	\$0.53	\$0.39	\$1.81	\$0.98
Diluted	\$0.53	\$0.37	\$1.78	\$0.95
Weighted average shares outstanding				
Basic	250.5	236.6	248.6	235.7
Diluted	474.9	478.6	474.3	477.7
Cash dividends declared per common share	\$0.45	\$0.20	\$1.35	\$0.57

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 September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net income	\$249.8	\$246.8	\$842.8	\$656.9
Foreign currency translation adjustment	147.0	423.0	(325.4)	884.2
Net change in fair value of net investment hedges, net of tax of \$0.4, \$45.4, \$(37.5) and \$7.3	(82.6)	(126.1)	33.4	(342.5)
Net change in fair value of cash flow hedges, net of tax of \$7.4, \$1.4, \$(2.7) and \$8.2	23.9	(3.9)	51.5	(23.0)
Amounts reclassified to earnings of cash flow hedges, net of tax of \$0.9, \$(2.5), \$(1.4) and \$(6.3)	7.4	6.9	13.6	17.9
Gain (loss) recognized on defined benefit pension plans, net of tax of \$0.0, \$0.2, \$0.0 and \$1.6	0.1	(0.2)	0.3	0.1
Other comprehensive income (loss)	95.8	299.7	(226.6)	536.7
Comprehensive income (loss)	345.6	546.5	616.2	1,193.6
Comprehensive income (loss) attributable to noncontrolling interests	160.7	234.6	287.4	486.3
Comprehensive income attributable to preferred shareholders	—	67.5	—	202.5
Comprehensive income (loss) attributable to common shareholders	\$184.9	\$244.4	\$328.8	\$504.8
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		Retained Earnings	Accumulated	Noncontrolling Interest	Total
	Shares	Amount		Other Comprehensive Income (Loss)		
Balances at December 31, 2017	243,899,476	\$2,051.5	\$ 650.6	\$ (475.7)	\$ 2,334.2	\$4,560.6
Cumulative effect adjustment (Note 4)	—	—	(132.0)	—	(117.8)	(249.8)
Stock option exercises	6,908,354	52.9	—	—	—	52.9
Share-based compensation	—	39.2	—	—	—	39.2
Issuance of shares	147,188	6.7	—	—	—	6.7
Dividends declared	—	—	(338.2)	—	—	(338.2)
Dividend equivalents declared on restricted stock units	—	3.4	(3.4)	—	—	—
Distributions declared by Partnership on Partnership exchangeable units (Note 11)	—	—	—	—	(293.8)	(293.8)
Exchange of Partnership exchangeable units for RBI common shares	165,333	2.0	—	(0.4)	(1.6)	—
Restaurant VIE contributions (distributions)	—	—	—	—	0.6	0.6
Net income	—	—	449.0	—	393.8	842.8
Other comprehensive income (loss)	—	—	—	(120.2)	(106.4)	(226.6)
Balances at September 30, 2018	251,120,351	\$2,155.7	\$ 626.0	\$ (596.3)	\$ 2,209.0	\$4,394.4

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)

	Nine Months Ended September 30,	
	2018	2017
Cash flows from operating activities:		
Net income	\$842.8	\$656.9
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	137.5	134.9
Premiums paid and non-cash loss on early extinguishment of debt	—	75.9
Amortization of deferred financing costs and debt issuance discount	21.9	25.2
(Income) loss from equity method investments	(16.9)	(8.9)
Loss (gain) on remeasurement of foreign denominated transactions	(19.3)	64.7
Net (gains) losses on derivatives	(24.4)	23.1
Share-based compensation expense	39.3	38.0
Deferred income taxes	6.1	(3.1)
Other	11.1	12.8
Changes in current assets and liabilities, excluding acquisitions and dispositions:		
Accounts and notes receivable	(0.3)	0.3
Inventories and prepaids and other current assets	(16.3)	(1.0)
Accounts and drafts payable	(24.0)	6.8
Other accrued liabilities and gift card liability	(283.6)	(161.4)
Other long-term assets and liabilities	(0.8)	(20.1)
Net cash provided by operating activities	673.1	844.1
Cash flows from investing activities:		
Payments for property and equipment	(53.3)	(16.9)
Net proceeds from disposal of assets, restaurant closures, and refranchisings	1.8	19.6
Net payment for purchase of Popeyes, net of cash acquired	—	(1,635.9)
Return of investment on direct financing leases	12.3	11.8
Settlement/sale of derivatives, net	11.2	771.8
Other investing activities, net	0.3	(2.3)
Net cash provided by (used for) investing activities	(27.7)	(851.9)
Cash flows from financing activities:		
Proceeds from issuance of long-term debt	—	4,350.0
Repayments of long-term debt and capital leases	(65.9)	(1,690.0)
Payment of financing costs	—	(57.0)
Payment of dividends on common and preferred shares and distributions on Partnership exchangeable units	(517.1)	(451.9)
Payments in connection with redemption of preferred shares	(60.1)	—
Proceeds from stock option exercises	52.9	17.5
Other financing activities, net	1.3	(6.2)
Net cash (used for) provided by financing activities	(588.9)	2,162.4
Effect of exchange rates on cash and cash equivalents	(10.4)	22.7
Increase (decrease) in cash and cash equivalents	46.1	2,177.3
Cash and cash equivalents at beginning of period	1,097.4	1,475.8
Cash and cash equivalents at end of period	\$1,143.5	\$3,653.1
Supplemental cash flow disclosures:		

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Interest paid	\$410.5	\$340.2
Income taxes paid	\$373.8	\$189.3
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 (“Partnership”). We franchise and operate quick service restaurants serving premium coffee and other beverage and food products under the Tim Hortons® brand (“Tim Hortons” or “TH”), fast food hamburgers principally under the Burger King® brand (“Burger King” or “BK”), and chicken under the Popeyes® brand (“Popeyes” or “PLK”). We are one of the world’s largest quick service restaurant, or QSR, companies as measured by total number of restaurants. As of September 30, 2018, we franchised or owned 4,805 Tim Hortons restaurants, 17,239 Burger King restaurants, and 3,022 Popeyes restaurants, for a total of 25,066 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. 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 23, 2018.

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.

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 September 30, 2018 and December 31, 2017, we determined that we are the primary beneficiary of 19 and 31 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.

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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 consist of the December 31, 2017 reclassification of Advertising fund restricted assets to Cash and cash equivalents, Accounts and notes receivable, net and Prepaids and other current assets and the reclassification of Advertising fund liabilities to Accounts and drafts payable and Other accrued liabilities as detailed below (in millions). These reclassifications had no effect on previously reported net income.

	December 31, 2017 As Reported	Reclassification	December 31, 2017 As Adjusted
Current assets:			
Cash and cash equivalents	\$ 1,073.4	\$ 24.0	\$ 1,097.4
Accounts and notes receivable, net	455.9	32.9	488.8
Inventories, net	78.0	—	78.0
Advertising fund restricted assets	83.3	(83.3)	—
Prepaids and other current assets	59.0	26.4	85.4
Total current assets	\$ 1,749.6	\$ —	\$ 1,749.6
Current liabilities:			
Accounts and drafts payable	\$ 412.9	\$ 83.3	\$ 496.2
Other accrued liabilities	838.2	27.5	865.7
Gift card liability	214.9	—	214.9
Advertising fund liabilities	110.8	(110.8)	—
Current portion of long term debt and capital leases	78.2	—	78.2
Total current liabilities	\$ 1,655.0	\$ —	\$ 1,655.0

Note 3. 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. We adopted this new guidance on January 1, 2018. See Note 4, Revenue Recognition, for further information about our transition to this new revenue recognition model using the modified retrospective transition method.

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, amends various other aspects of accounting for leases by lessees and lessors, and requires enhanced disclosures. The new guidance is effective commencing in 2019 and requires a modified retrospective transition approach with application in all comparative periods presented (the “comparative method”), or alternatively, as of the effective date as the date of initial application without restating comparative period financial statements (the “effective date method”). The new guidance also provides several practical expedients and policies that companies may elect under either transition method. We currently expect to apply the effective date method and elect the package of practical expedients under which we will not reassess the classification of our existing leases, reevaluate whether any expired or existing contracts are or contain leases or reassess initial direct costs under the new guidance. Additionally, we expect to elect lessee and lessor practical expedients to not separate non-lease components, such as common area maintenance and property taxes, from lease components. We do not expect to elect the practical expedient that permits a reassessment of lease terms for existing leases.

We have commenced an analysis of the impact of the new lease guidance and developed a comprehensive plan for our implementation of the new guidance. The project plan includes analyzing the impact of the new guidance on our

current lease contracts, reviewing the completeness of our existing lease portfolio, comparing our accounting policies under current accounting guidance to the new accounting guidance and identifying potential differences from applying the requirements of

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the new guidance to our lease contracts. Under current accounting guidance for leases, we do not recognize an asset or liability created by operating leases where we are the lessee. We expect a material increase to our assets and liabilities on our consolidated balance sheet as a result of recognizing assets and liabilities for operating leases where we are the lessee on the date of initial application of the new guidance. We are continuing to evaluate the impact of the new guidance on capital leases and direct financing leases, as well as the impact of transition provisions of the new guidance on amounts recognized in connection with our previous application of acquisition accounting and previous accounting for build-to-suit leases. We are also continuing to evaluate the impact that adoption of this guidance will have on our consolidated statements of operations. We do not expect the adoption of this new guidance to have a material impact on the amount or timing of our cash flows and liquidity.

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 be required to 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. The amendment requires prospective adoption and is effective commencing in 2020 with early adoption permitted.

Hedge Accounting – In August 2017, the FASB issued guidance to improve the transparency and understandability of information conveyed to financial statement users about an entity's risk management activities and to simplify the application of hedge accounting by preparers. We adopted this guidance on January 1, 2018 (the "Adoption Date"). The new guidance eliminates the requirement to separately measure and report hedge ineffectiveness for cash flow and net investment hedges that are deemed effective. Most notably, for our cross-currency swaps designated as net investment hedges, the new guidance permits the exclusion of the interest component (the "Excluded Component") from the accounting hedge without affecting net investment hedge designation. The initial value of the Excluded Component may be recognized in earnings on a systematic and rational basis over the life of the derivative instrument. Subsequent to the Adoption Date, we changed the method of assessing effectiveness for net investment hedges using derivatives from the forward method to the spot method. We de-designated the cross currency-swaps and re-designated them as of March 15, 2018 (the "Re-designation Date"). As a result of adopting the new guidance and the re-designation of our cross- currency-swaps, we will recognize a benefit from the amortization of the initial value of the Excluded Component as a component of Interest expense, net in our condensed consolidated statements of operations rather than as a component of other comprehensive income. All changes in fair value of the instruments related to currency fluctuations will continue to be recognized within other comprehensive income.

The impact of adoption did not have a material effect on our Financial Statements as of the Adoption Date. We recorded a \$15.9 million net benefit to Interest expense, net during the three months ended September 30, 2018 and a \$39.4 million net benefit to Interest expense, net from the Re-designation Date through September 30, 2018 in our condensed consolidated statements of operations for the amortization of the initial value of the Excluded Component, as described above. We believe the new guidance better portrays the economic results of our risk management activities and net investment hedges in our Financial Statements.

Reclassification of Certain Tax Effects – In February 2018, the FASB issued guidance which allows a reclassification from accumulated other comprehensive income to retained earnings for the tax effects of certain items within accumulated other comprehensive income. The amendment is effective commencing in 2019 with early adoption permitted. We are currently evaluating the impact that the adoption of this new guidance will have on our Financial Statements.

Share-based payment arrangements with nonemployees – In June 2018, the FASB issued guidance which simplifies the accounting for share-based payments granted to nonemployees for goods and services. Most of the guidance on such payments to nonemployees would be aligned with the requirements for share-based payments granted to employees. The amendment is effective commencing in 2019 with early adoption permitted. We are currently evaluating the impact that the adoption of this new guidance will have on our Financial Statements.

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Note 4. Revenue Recognition

Revenue from Contracts with Customers

We transitioned to FASB Accounting Standards Codification (“ASC”) Topic 606, Revenue From Contracts with Customers (“ASC 606”), from ASC Topic 605, Revenue Recognition and ASC Subtopic 952-605, Franchisors - Revenue Recognition (together, the “Previous Standards”) on January 1, 2018 using the modified retrospective transition method. Our Financial Statements reflect the application of ASC 606 guidance beginning in 2018, while our consolidated financial statements for prior periods were prepared under the guidance of the Previous Standards. The \$249.8 million cumulative effect of our transition to ASC 606 is reflected as an adjustment to January 1, 2018 Shareholders' equity.

Our transition to ASC 606 represents a change in accounting principle. ASC 606 eliminates industry-specific guidance and provides a single revenue recognition model for recognizing revenue from contracts with customers. The core principle of ASC 606 is that a reporting 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 reporting entity expects to be entitled for the exchange of those goods or services.

Revenue Recognition Significant Accounting Policies under ASC 606

Our revenues are comprised of sales and franchise and property revenues, which are detailed as follows:

Sales

Sales consist primarily of supply chain sales, which represent sales of products, supplies and restaurant equipment to franchisees, as well as sales to retailers. Orders placed by customers specify the goods to be delivered and transaction prices for supply chain sales. Revenue is recognized upon transfer of control over ordered items, generally upon delivery to the customer, which is when the customer obtains physical possession of the goods, legal title is transferred, the customer has all risks and rewards of ownership and an obligation to pay for the goods is created. Shipping and handling costs associated with outbound freight for supply chain sales are accounted for as fulfillment costs and classified as cost of sales.

Commencing on January 1, 2018, we classify all sales of restaurant equipment to franchisees as Sales and related cost of equipment sold as Cost of sales. In periods prior to January 1, 2018, we classified sales of restaurant equipment at establishment of a restaurant and in connection with renewal or renovation as Franchise and property revenues and related costs as Franchise and property expense.

To a much lesser extent, sales also include Company restaurant sales (including Restaurant VIEs), which consist of sales to restaurant guests. Revenue from Company restaurant sales is recognized at the point of sale. Taxes assessed by a governmental authority that we collect are excluded from revenue.

Franchise and Property Revenues

Franchise revenues

Franchise revenues consist primarily of royalties, advertising fund contributions, initial and renewal franchise fees and upfront fees from development agreements and master franchise and development agreements (“MFDAs”). Under franchise agreements, we provide franchisees with (a) a franchise license, which includes a license to use our intellectual property and, in those markets where our subsidiaries manage an advertising fund, advertising and promotion management, (b) pre-opening services, such as training and inspections, and (c) ongoing services, such as development of training materials and menu items and restaurant monitoring and inspections. The services we provide are highly interrelated and dependent upon the franchise license and we concluded the services do not represent individually distinct performance obligations. Consequently, we bundle the franchise license performance obligation and promises to provide services into a single performance obligation under ASC 606, which we satisfy by providing a right to use our intellectual property over the term of each franchise agreement.

Royalties, including franchisee contributions to advertising funds managed by our subsidiaries, are calculated as a percentage of franchise restaurant sales over the term of the franchise agreement. Under our franchise agreements, advertising contributions paid by franchisees must be spent on advertising, product development, marketing and related activities. Initial and renewal franchise fees are payable by the franchisee upon a new restaurant opening or renewal of an existing franchise agreement. Our franchise agreement royalties, inclusive of advertising fund contributions, represent sales-based royalties that are related entirely to our performance obligation under the

franchise agreement and are recognized as franchise sales occur. Additionally, under ASC 606, initial and renewal franchise fees are recognized as revenue on a straight-line basis over the term of the respective agreement. Under the Previous Standards, initial franchise fees were recognized as revenue when the related restaurant commenced operations and our completion of all material services and conditions. Renewal franchise fees were

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recognized as revenue upon execution of a new franchise agreement. Our performance obligation under development agreements other than MFDAs generally consists of an obligation to grant exclusive development rights over a stated term. These development rights are not distinct from franchise agreements, so upfront fees paid by franchisees for exclusive development rights are deferred and apportioned to each franchise restaurant opened by the franchisee. The pro rata amount apportioned to each restaurant is accounted for as an initial franchise fee.

We have a distinct performance obligation under our MFDAs to grant subfranchising rights over a stated term. Under the terms of MFDAs, we typically either receive an upfront fee paid in cash and/or receive noncash consideration in the form of an equity interest in the master franchisee or an affiliate of the master franchisee. We previously accounted for noncash consideration as a nonmonetary exchange and did not record revenue or a basis in the equity interest received in arrangements where we received noncash consideration. These transactions now fall within the scope of ASC 606, which requires us to record investments in the applicable equity method investee and recognize revenue in an amount equal to the fair value of the equity interest received. Upfront fees from master franchisees, including the fair value of noncash consideration, are deferred and amortized over the MFDA term on a straight-line basis. We may recognize unamortized upfront fees when a contract with a franchisee or master franchisee is modified and is accounted for as a termination of the existing contract.

The portion of gift cards sold to customers which are never redeemed is commonly referred to as gift card breakage. Under ASC 606, we recognize gift card breakage income proportionately as each gift card is redeemed using an estimated breakage rate based on our historical experience. Under the Previous Standards, we recognized gift card breakage income for each gift card's remaining balance when redemption of that balance was deemed remote.

Property Revenues

Property revenues are accounted for in accordance with applicable accounting guidance for leases and are excluded from the scope of ASC 606. See Note 2, Significant Accounting Policies, to our consolidated financial statements included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2017 for our property revenue accounting policies.

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Contract Liabilities

Contract liabilities consist of deferred revenue resulting from initial and renewal franchise fees paid by franchisees, as well as upfront fees paid by master franchisees, which are generally recognized on a straight-line basis over the term of the underlying agreement. We classify these contract liabilities as Other liabilities, net in our condensed consolidated balance sheets. The following table reflects the change in contract liabilities between the date of adoption (January 1, 2018) and September 30, 2018 (in millions):

	Contract Liabilities
Balance at January 1, 2018	\$ 455.0
Revenue recognized that was included in the contract liability balance at the beginning of the year	(39.6)
Increase, excluding amounts recognized as revenue during the period	57.5
Impact of foreign currency translation	(10.5)
Balance at September 30, 2018	\$ 462.4

The following table illustrates estimated revenues expected to be recognized in the future related to performance obligations that are unsatisfied (or partially unsatisfied) as of September 30, 2018 (in millions):

Contract liabilities expected to be recognized in	Amount
Remainder of 2018	\$ 9.3
2019	35.6
2020	34.9
2021	34.1
2022	33.3
Thereafter	315.2
Total	\$ 462.4

Disaggregation of Total Revenues

Total revenues consist of the following (in millions):

	Three Months		Nine Months	
	Ended		Ended	
	September 30,		September 30,	
	2018	2017	2018	2017
Sales	\$609.1	\$631.6	\$1,743.1	\$1,784.1
Royalties	556.7	332.8	1,611.0	883.5
Property revenues	192.0	204.1	560.3	568.4
Franchise fees and other revenue	17.5	40.1	58.1	105.9
Total revenues	\$1,375.3	\$1,208.6	\$3,972.5	\$3,341.9

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Financial Statement Impact of Transition to ASC 606

As noted above, we transitioned to ASC 606 using the modified retrospective method on January 1, 2018. The cumulative effect of this transition to applicable contracts with customers that were not completed as of January 1, 2018 was recorded as an adjustment to Shareholders' equity as of this date. As a result of applying the modified retrospective method to transition to ASC 606, the following adjustments were made to the consolidated balance sheet as of January 1, 2018 (in millions):

	As Reported December 31, 2017	Total Adjustments	Adjusted January 1, 2018
ASSETS			
Current assets:			
Cash and cash equivalents	\$1,097.4	\$ —	\$1,097.4
Accounts and notes receivable, net	488.8	—	488.8
Inventories, net	78.0	—	78.0
Prepays and other current assets	85.4	(23.0)	62.4
Total current assets	1,749.6	(23.0)	1,726.6
Property and equipment, net	2,133.3	—	2,133.3
Intangible assets, net	11,062.2	—	11,062.2
Goodwill	5,782.3	—	5,782.3
Net investment in property leased to franchisees	71.3	—	71.3
Other assets, net	424.8	106.6	531.4
Total assets	\$21,223.5	\$ 83.6	\$21,307.1
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts and drafts payable	\$496.2	\$ —	\$496.2
Other accrued liabilities	865.7	8.9	874.6
Gift card liability	214.9	(43.0)	171.9
Current portion of long term debt and capital leases	78.2	—	78.2
Total current liabilities	1,655.0	(34.1)	1,620.9
Term debt, net of current portion	11,800.9	—	11,800.9
Capital leases, net of current portion	243.8	—	243.8
Other liabilities, net	1,455.1	425.7	1,880.8
Deferred income taxes, net	1,508.1	(58.2)	1,449.9
Total liabilities	16,662.9	333.4	16,996.3
Shareholders' equity:			
Common shares	2,051.5	—	2,051.5
Retained earnings	650.6	(132.0)	518.6
Accumulated other comprehensive income (loss)	(475.7)	—	(475.7)
Total RBI shareholders' equity	2,226.4	(132.0)	2,094.4
Noncontrolling interests	2,334.2	(117.8)	2,216.4
Total shareholders' equity	4,560.6	(249.8)	4,310.8
Total liabilities and shareholders' equity	\$21,223.5	\$ 83.6	\$21,307.1

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Franchise Fees

The cumulative adjustment for franchise fees consists of the following:

A \$320.7 million increase in Other liabilities, net for the cumulative reversal and deferral of previously recognized franchise fees related to franchise agreements in effect at January 1, 2018 that were entered into subsequent to the acquisitions of BK in 2010, TH in 2014 and PLK in 2017 (net of the cumulative revenue attributable for the period through January 1, 2018), with a corresponding decrease to Shareholders' equity.

A \$106.6 million increase in Other assets, net for the previously unrecognized value of equity interests received in connection with MFDA arrangements. This increase resulted in a corresponding increase in Other liabilities, net of \$105.0 million and an increase to Shareholders' equity of \$1.6 million for the cumulative effect of revenue attributable for the period between the inception of each such arrangement and January 1, 2018.

A \$67.1 million decrease to Deferred income taxes, net for the tax effects of the two adjustments noted above, with a corresponding increase to Shareholders' equity.

Advertising Funds

The cumulative adjustment for advertising funds reflects the recognition of cumulative advertising expenditures temporarily in excess of cumulative advertising fund contributions as of January 1, 2018, which is reflected as a \$23.0 million decrease in Prepaids and other current assets and a \$23.0 million decrease to Shareholders' equity.

Gift Card Breakage

The adjustment for gift card breakage reflects the impact of the change to recognize gift card breakage proportionately as gift card balances are used rather than when it is deemed remote that the unused gift card balance would be redeemed, as done under the Previous Standards. The cumulative effect of applying ASC 606 accounting to gift card balances outstanding at January 1, 2018 is reflected as a \$43.0 million decrease in Gift card liability, an \$8.9 million increase in Other accrued liabilities, an \$8.9 million increase in Deferred income taxes, net and a \$25.2 million increase in January 1, 2018 Shareholders' equity.

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Comparison to Amounts if Previous Standards Had Been in Effect

The following tables reflect the impact of adoption of ASC 606 on our condensed consolidated statements of operations for the three and nine months ended September 30, 2018 and cash flows from operating activities for the nine months ended September 30, 2018 and our condensed consolidated balance sheet as of September 30, 2018 and the amounts as if the Previous Standards were in effect (“Amounts Under Previous Standards”) (in millions):

Condensed Consolidated Statement of Operations for the three and nine months ended September 30, 2018

	Three Months Ended September 30, 2018			Nine Months Ended September 30, 2018		
	As	Total	Amounts	As	Total	Amounts
	Reported	Adjustments	Under Previous Standards	Reported	Adjustments	Under Previous Standards
Revenues:						
Sales	\$609.1	\$ —	\$ 609.1	\$1,743.1	\$ —	\$1,743.1
Franchise and property revenues	766.2	(193.3)	572.9	2,229.4	(574.4)	1,655.0
Total revenues	1,375.3	(193.3)	1,182.0	3,972.5	(574.4)	3,398.1
Operating costs and expenses:						
Cost of sales	469.9	—	469.9	1,347.9	—	1,347.9
Franchise and property expenses	107.6	(0.2)	107.4	314.4	(0.4)	314.0
Selling, general and administrative expenses	298.3	(197.8)	100.5	917.2	(588.4)	328.8
(Income) loss from equity method investments	(3.8)	(1.1)	(4.9)	(16.9)	(4.7)	(21.6)
Other operating expenses (income), net	26.1	0.1	26.2	9.4	0.1	9.5
Total operating costs and expenses	898.1	(199.0)	699.1	2,572.0	(593.4)	1,978.6
Income from operations	477.2	5.7	482.9	1,400.5	19.0	1,419.5
Interest expense, net	134.9	(0.7)	134.2	404.8	0.5	405.3
Income before income taxes	342.3	6.4	348.7	995.7	18.5	1,014.2
Income tax expense	92.5	0.9	93.4	152.9	4.1	157.0
Net income	249.8	5.5	255.3	842.8	14.4	857.2
Net income attributable to noncontrolling interests	116.2	2.6	118.8	393.8	6.8	400.6
Net income attributable to common shareholders	\$133.6	\$ 2.9	\$ 136.5	\$449.0	\$ 7.6	\$456.6
Earnings per common share:						
Basic	\$0.53		\$ 0.54	\$ 1.81		\$ 1.84
Diluted	\$0.53		\$ 0.54	\$ 1.78		\$ 1.81

The following summarizes the adjustments to our condensed consolidated statement of operations for the three and nine months ended September 30, 2018 to reflect our condensed consolidated statement of operations as if we had continued to recognize revenue under the Previous Standards:

As described above, our transition to ASC 606 resulted in the deferral of franchise fees, recognition of franchise fees in connection with MFDAs where we received an equity interest in the equity method investee, and a change in the timing of recognizing gift card breakage income. The adjustments for the three and nine months ended September 30, 2018 to reflect the recognition of this revenue as if the Previous Standards were in effect consists of a \$9.0 million and \$14.0 million increase in Franchise and property revenue, respectively, and a \$1.7 million and \$4.1 million increase in Income tax expense, respectively.

The adjustments to (income) loss from equity method investments for the three and nine months ended September 30, 2018 reflect the amount of losses from equity method investments we would not have recognized if the Previous Standards were in effect. There is no tax impact related to these adjustments.

As described above, under the Previous Standards our statement of operations did not reflect gross presentations of advertising fund contributions and expenses. Our transition to ASC 606 requires the presentation of advertising fund

contributions and advertising fund expenses on a gross basis. The adjustments for the three and nine months ended September 30, 2018 to reflect advertising fund contributions and expenses as if the Previous Standards were in effect

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consist of a \$202.3 million and \$588.4 million decrease in Franchise and property revenues, respectively, a \$0.2 million and \$0.4 million decrease in Franchise and property expenses, respectively, a \$197.8 million and \$588.4 million decrease in Selling, general and administrative expenses, respectively, a \$0.7 million decrease in Interest expense, net for the three months ended September 30, 2018 and a \$0.5 million increase in Interest expense, net for the nine months ended September 30, 2018, and a \$0.8 million decrease in Income tax expense for the three months ended September 30, 2018 and no adjustment to Income tax expense for the nine months ended September 30, 2018. Condensed Consolidated Statement of Cash Flows for the nine months ended September 30, 2018

The transition to ASC 606 had no net impact on our cash provided by operating activities and no impact on our cash used for investing activities or cash used for financing activities during the nine months ended September 30, 2018.

	As Reported	Total Adjustments	Amounts Under Previous Standards
Cash flows from operating activities:			
Net income	\$ 842.8	\$ 14.4	\$ 857.2
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	137.5	—	137.5
Amortization of deferred financing costs and debt issuance discount	21.9	—	21.9
(Income) loss from equity method investments	(16.9)	(4.7)	(21.6)
Loss (gain) on remeasurement of foreign denominated transactions	(19.3)	—	(19.3)
Net losses on derivatives	(24.4)	—	(24.4)
Share-based compensation expense	39.3	—	39.3
Deferred income taxes	6.1	4.1	10.2
Other	11.1	—	11.1
Changes in current assets and liabilities, excluding acquisitions and dispositions:			
Accounts and notes receivable	(0.3)	—	(0.3)
Inventories and prepaids and other current assets	(16.3)	(1.1)	(17.4)
Accounts and drafts payable	(24.0)	5.6	(18.4)
Other accrued liabilities and gift card liability	(283.6)	(3.5)	(287.1)
Other long-term assets and liabilities	(0.8)	(14.8)	(15.6)
Net cash provided by operating activities	\$ 673.1	\$ —	\$ 673.1

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Condensed Consolidated Balance Sheet

	As Reported	Total	Amounts
	September 30,	Adjustments	Under
	2018		Previous
			Standards
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 1,143.5	\$ —	\$ 1,143.5
Accounts and notes receivable, net	481.4	—	481.4
Inventories, net	91.8	—	91.8
Prepays and other current assets	48.7	24.1	72.8
Total current assets	1,765.4	24.1	1,789.5
Property and equipment, net	2,054.1	—	2,054.1
Intangible assets, net	10,821.0	—	10,821.0
Goodwill	5,680.0	—	5,680.0
Net investment in property leased to franchisees	58.0	—	58.0
Other assets, net	606.8	(101.9)	504.9
Total assets	\$ 20,985.3	\$ (77.8)	\$ 20,907.5
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts and drafts payable	\$ 467.0	\$ 5.6	\$ 472.6
Other accrued liabilities	678.4	(13.2)	665.2
Gift card liability	95.3	43.8	139.1
Current portion of long term debt and capital leases	79.6	—	79.6
Total current liabilities	1,320.3	36.2	1,356.5
Term debt, net of current portion	11,766.8	—	11,766.8
Capital leases, net of current portion	240.6	—	240.6
Other liabilities, net	1,738.5	(440.5)	1,298.0
Deferred income taxes, net	1,524.7	62.3	1,587.0
Total liabilities	16,590.9	(342.0)	16,248.9
Shareholders' equity:			
Common shares	2,155.7	—	2,155.7
Retained earnings	626.0	141.6	767.6
Accumulated other comprehensive income (loss)	(596.3)	—	(596.3)
Total RBI shareholders' equity	2,185.4	141.6	2,327.0
Noncontrolling interests	2,209.0	122.6	2,331.6
Total shareholders' equity	4,394.4	264.2	4,658.6
Total liabilities and shareholders' equity	\$ 20,985.3	\$ (77.8)	\$ 20,907.5

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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 equity awards, 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		Nine Months Ended	
	September 30, 2018	September 30, 2017	September 30, 2018	September 30, 2017
Numerator:				
Net income attributable to common shareholders - basic	\$133.6	\$91.4	\$449.0	\$231.1
Add: Net income attributable to noncontrolling interests	116.1	87.6	393.3	222.2
Net income available to common shareholders and noncontrolling interests - diluted	\$249.7	\$179.0	\$842.3	\$453.3
Denominator:				
Weighted average common shares - basic	250.5	236.6	248.6	235.7
Exchange of noncontrolling interests for common shares (Note 11)	217.6	226.8	217.6	226.9
Effect of other dilutive securities	6.8	15.2	8.1	15.1
Weighted average common shares - diluted	474.9	478.6	474.3	477.7
Basic earnings per share	\$0.53	\$0.39	\$1.81	\$0.98
Diluted earnings per share	\$0.53	\$0.37	\$1.78	\$0.95
Anti-dilutive securities outstanding	5.9	3.8	5.9	3.8

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Note 6. Intangible Assets, net and Goodwill

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

	As of September 30, 2018			December 31, 2017		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Identifiable assets subject to amortization:						
Franchise agreements	\$717.1	\$ (187.7)	\$529.4	\$724.7	\$ (168.0)	\$556.7
Favorable leases	428.5	(201.4)	227.1	455.7	(193.7)	262.0
Subtotal	1,145.6	(389.1)	756.5	1,180.4	(361.7)	818.7
Indefinite lived intangible assets:						
Tim Hortons brand	\$6,570.7	\$ —	\$6,570.7	\$6,727.1	\$ —	\$6,727.1
Burger King brand	2,138.9	—	2,138.9	2,161.5	—	2,161.5
Popeyes brand	1,354.9	—	1,354.9	1,354.9	—	1,354.9
Subtotal	10,064.5	—	10,064.5	10,243.5	—	10,243.5
Intangible assets, net			\$10,821.0			\$11,062.2
Goodwill						
Tim Hortons segment	\$4,229.9			\$4,325.8		
Burger King segment	604.3			610.7		
Popeyes segment	845.8			845.8		
Total	\$5,680.0			\$5,782.3		

Amortization expense on intangible assets totaled \$17.3 million for the three months ended September 30, 2018 and \$18.7 million for the same period in the prior year. Amortization expense on intangible assets totaled \$53.0 million for the nine months ended September 30, 2018 and \$54.2 million for the same period in the prior year. The change in the brands and goodwill balances during the nine months ended September 30, 2018 was due to the impact of foreign currency translation.

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Note 7. Equity Method Investments

The aggregate carrying amount of our equity method investments was \$264.2 million and \$155.1 million as of September 30, 2018 and December 31, 2017, respectively, and is included as a component of Other assets, net in our accompanying condensed consolidated balance sheets. The increase in the carrying amount of our equity method investments as of September 30, 2018 compared to December 31, 2017 is primarily attributable to the recognition of investments received in connection with master franchise and development arrangements as a result of our transition to ASC 606. See Note 4, Revenue Recognition. TH and BK both have equity method investments. PLK does not have any equity method investments.

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. Distributions received from this joint venture were \$3.2 million and \$2.7 million during the three months ended September 30, 2018 and 2017, respectively. Distributions received from this joint venture were \$9.0 million and \$8.1 million during the nine months ended September 30, 2018 and 2017, respectively.

The aggregate market value of our 20.5% equity interest in Carrols Restaurant Group, Inc. ("Carrols") based on the quoted market price on September 30, 2018 was approximately \$137.5 million. The aggregate market value of our 10.1% equity interest in BK Brasil Operação e Assessoria a Restaurantes S.A. based on the quoted market price on September 30, 2018 was approximately \$73.9 million. No quoted market prices are available for our other equity method investments.

We have equity interests in entities that own or franchise Tim Hortons or Burger King restaurants. Franchise and property revenues 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 September 30, 2018		Nine Months Ended September 30, 2017	
Revenues from affiliates:				
Royalties	\$75.9	\$39.2	\$217.7	\$121.1
Property revenues	8.6	7.2	26.4	20.1
Franchise fees and other revenue	2.1	3.7	6.8	14.7
Total	\$86.6	\$50.1	\$250.9	\$155.9

We recognized \$5.1 million and \$5.3 million of rent expense associated with the TIMWEN Partnership during the three months ended September 30, 2018 and 2017, respectively. We recognized \$14.6 million and \$14.7 million of rent expense associated with the TIMWEN Partnership during the nine months ended September 30, 2018 and 2017, respectively.

At September 30, 2018 and December 31, 2017, we had \$33.2 million and \$31.9 million, respectively, of accounts receivable, net from our equity method investments which were recorded in accounts 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, non-cash dilution gains or losses from changes in our ownership interests in equity method investees and basis difference amortization. During the nine months ended September 30, 2018 we recorded an increase to the carrying value of our equity method investment balance and a non-cash dilution gain of \$20.4 million on the initial public offering by one of our equity method investees.

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Note 8. Other Accrued Liabilities and Other Liabilities, net

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

	As of	
	September 30,	December 31,
	2018	2017
Current:		
Dividend payable	\$210.9	\$ 96.9
Interest payable	93.8	88.6
Accrued compensation and benefits	64.6	66.6
Taxes payable	121.2	401.0
Deferred income	49.7	42.9
Accrued advertising expenses	24.6	27.5
Closed property reserve	8.9	10.8
Restructuring and other provisions	8.8	12.0
Other	95.9	119.4
Other accrued liabilities	\$678.4	\$ 865.7
Noncurrent:		
Derivatives liabilities	\$368.1	\$ 498.5
Taxes payable	500.9	495.6
Contract liabilities, net	462.4	10.0
Unfavorable leases	216.4	251.8
Accrued pension	64.7	72.0
Accrued lease straight-lining liability	57.5	46.4
Deferred income	27.2	27.4
Other	41.3	53.4
Other liabilities, net	\$1,738.5	\$ 1,455.1

Note 9. Long-Term Debt

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

	As of	
	September 30,	December 31,
	2018	2017
Term Loan Facility (due February 17, 2024)	\$6,340.3	\$ 6,388.7
2017 4.25% Senior Notes (due May 15, 2024)	1,500.0	1,500.0
2015 4.625% Senior Notes (due January 15, 2022)	1,250.0	1,250.0
2017 5.00% Senior Notes (due October 15, 2025)	2,800.0	2,800.0
Other	82.4	89.1
Less: unamortized deferred financing costs and deferred issue discount	(148.9)	(170.1)
Total debt, net	11,823.8	11,857.7
Less: current maturities of debt	(57.0)	(56.8)
Total long-term debt	\$11,766.8	\$ 11,800.9

Revolving Credit Facility

As of September 30, 2018, we had no amounts outstanding under our senior secured revolving credit facility (the "Revolving Credit Facility"). Funds available under the Revolving Credit Facility may be used to repay other debt, finance debt or share repurchases, 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 thereunder by

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the cumulative amount of outstanding letters of credit. As of September 30, 2018, we had \$4.6 million of letters of credit issued against the Revolving Credit Facility, and our borrowing availability was \$495.4 million.

Fair Value Measurement

The following table presents the fair value of our variable rate term debt and senior notes, estimated using inputs based on bid and offer prices that are Level 2 inputs, and principal carrying amount (in billions):

	As of	
	September 30, 2018	December 31, 2017
Fair value of our variable term debt and senior notes	\$11.7	\$ 12.0
Principal carrying amount of our variable term debt and senior notes	11.9	11.9

Interest Expense, net

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Debt (a)	\$125.3	\$131.2	\$375.5	\$350.1
Capital lease obligations	6.2	5.4	17.7	15.4
Amortization of deferred financing costs and debt issuance discount	7.4	8.5	21.9	25.2
Interest income	(4.0)	(9.1)	(10.3)	(15.3)
Interest expense, net	\$134.9	\$136.0	\$404.8	\$375.4

Amount includes \$15.9 million and \$39.4 million benefit during the three and nine months ended September 30, (a)2018 from our adoption of a new hedge accounting standard. See Note 3, New Accounting Pronouncements, for further details of the effects of this change in accounting principle on Interest expense, net.

Note 10. Income Taxes

Our effective tax rate was 27.0% for the three months ended September 30, 2018. The effective tax rate for this period was primarily a result of the mix of income from multiple tax jurisdictions, the year to date impact from the realignment of various internal financing arrangements and the increase in valuation allowance on deferred tax assets. Our effective tax rate was 15.4% for the nine months ended September 30, 2018. This rate was primarily a result of the mix of income from multiple tax jurisdictions, the benefit from reserve releases due to audit settlements during the first half of 2018, and the realignment of various internal financing arrangements. In addition, benefits from stock option exercises reduced the effective tax rate by 0.9% and 6.9% for the three and nine months ended September 30, 2018, respectively.

Our effective tax rate was 13.4% and 15.3% for the three and nine months ended September 30, 2017, respectively. The effective tax rate during these periods was primarily a result of the mix of income from multiple tax jurisdictions, the favorable impact of our internal financing structure and benefits from stock option exercises that reduced the effective tax rate by 6.8% and 4.5% for the three and nine months ended September 30, 2017, respectively, partially offset by non-deductible transaction related costs.

Note 11. Shareholders' Equity

Noncontrolling Interests

The holders of Partnership exchangeable units held an economic interest of approximately 46.4% and 47.2% in Partnership common equity through the ownership of 217,543,591 and 217,708,924 Partnership exchangeable units as of September 30, 2018 and December 31, 2017, respectively.

During the nine months ended September 30, 2018, Partnership exchanged 165,333 Partnership exchangeable units, pursuant to exchange notices received. In accordance with the terms of the partnership agreement, Partnership

satisfied the

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exchange notices by exchanging these Partnership exchangeable units for the same number of newly issued RBI 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 accompanying 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 was cancelled concurrently with the exchange.

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	Accumulated Other Comprehensive Income (Loss)
Balances at December 31, 2017	\$ 96.8	\$ (15.3)	\$ (557.2)	\$ (475.7)
Foreign currency translation adjustment	—	—	(325.4)	(325.4)
Net change in fair value of derivatives, net of tax	84.9	—	—	84.9
Amounts reclassified to earnings of cash flow hedges, net of tax	13.6	—	—	13.6
Pension and post-retirement benefit plans, net of tax	—	0.3	—	0.3
Amounts attributable to noncontrolling interests	(46.1)	(0.1)	152.2	106.0
Balances at September 30, 2018	\$ 149.2	\$ (15.1)	\$ (730.4)	\$ (596.3)

Note 12. 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 our exposure to fluctuations in interest rates and currency exchange rates.

Interest Rate Swaps

During 2018, we entered into a series of receive-variable, pay-fixed interest rate swaps with a notional value of \$3,500.0 million to hedge the variability in the interest payments on a portion of our senior secured term loan facility (the "Term Loan Facility") beginning March 29, 2018 through the expiration of the final swap on February 17, 2024, resetting each March. At inception, these interest rate swaps were designated as cash flow hedges for hedge accounting. The unrealized changes in market value are recorded in AOCI and reclassified into earnings during the period in which the hedged forecasted transaction affects earnings.

During 2015, we entered into a series of receive-variable, pay-fixed interest rate swaps with a notional value of \$2,500.0 million to hedge the variability in the interest payments on a portion of our Term Loan Facility beginning May 28, 2015. All of these interest rate swaps were settled on April 26, 2018 for an insignificant cash receipt. At inception, these interest rate swaps were designated as cash flow hedges for hedge accounting. The unrealized changes in market value were recorded in AOCI and reclassified into earnings during the period in which the hedged forecasted transaction affects earnings.

During 2015, we settled certain interest rate swaps and recognized a net unrealized loss of \$84.6 million in AOCI at the date of settlement. This amount will be reclassified into Interest expense, net as the original hedged forecasted transaction affects earnings. The amount of pre-tax losses in AOCI as of September 30, 2018 that we expect to be reclassified into interest expense within the next 12 months is \$12.3 million.

Cross-Currency Rate Swaps

To protect the value of our investments in our foreign operations against adverse changes in foreign currency exchange rates, we hedge a portion of our net investment in one or more of our foreign subsidiaries by using cross-currency rate swaps. At September 30, 2018, we had outstanding cross-currency rate swap contracts between the Canadian dollar and U.S. dollar and the Euro and U.S. dollar that have been designated 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

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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.

We terminated and settled our previous cross-currency rate swaps in June 2017, with an aggregate notional value of \$5,000.0 million, between the Canadian dollar and U.S. dollar. In connection with this termination, we received \$763.5 million which was reflected as a source of cash provided by investing activities in the condensed consolidated statement of cash flows. The unrealized gains totaled \$533.4 million, net of tax, as of the termination date and will remain in AOCI until the complete or substantially complete liquidation of our investment in the underlying foreign operations. Additionally, we entered into new fixed-to-fixed cross-currency rate swaps to partially hedge the net investment in our Canadian subsidiaries. At inception, these cross-currency rate swaps were designated as a hedge and are accounted for as net investment hedges. These swaps are contracts to exchange quarterly fixed-rate interest payments we make on the Canadian dollar notional amount of C\$6,753.5 million for quarterly fixed-rate interest payments we receive on the U.S. dollar notional amount of \$5,000.0 million through the maturity date of June 30, 2023. In making such changes, we effectively realigned our Canadian dollar hedges to reflect our current cash flow mix and capital structure maturity profile.

At September 30, 2018, we also had outstanding cross-currency rate swaps in which we pay quarterly fixed-rate interest payments on the Euro notional value of €1,107.8 million and receive quarterly fixed-rate interest payments on the U.S. dollar notional value of \$1,200.0 million. At inception, these cross-currency rate swaps were designated as a hedge and are accounted for as a net investment hedge. In August 2018, we extended the term of the swaps from March 31, 2021 to the maturity date of February 17, 2024. The extension of the term resulted in a re-designation of the hedge and the swaps continue to be accounted for as a net investment hedge. Additionally, in August 2018 we entered into cross-currency rate swaps in which we receive quarterly fixed-rate interest payments on the U.S. dollar notional value of \$400.0 million through the maturity date of February 17, 2024. At inception, these cross-currency rate swaps were designated as a hedge and are accounted for as a net investment hedge.

The fixed to fixed cross-currency rate swaps hedging Canadian dollar and Euro net investments utilized the forward method of effectiveness assessment prior to March 15, 2018. On March 15, 2018, we dedesignated and subsequently redesignated the outstanding fixed to fixed cross-currency rate swaps to prospectively use the spot method of hedge effectiveness assessment. We also elected to amortize the Excluded Component over the life of the derivative instrument. The amortization of the Excluded Component is recognized in Interest expense, net in the condensed consolidated statement of operations. The change in fair value that is not related to the Excluded Component is recorded in AOCI and will be reclassified to earnings when the foreign subsidiaries are sold or substantially liquidated. See Note 3, New Accounting Pronouncements, for further information on the adoption of this new guidance.

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 purchases made by our Canadian Tim Hortons operations. At September 30, 2018, 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 \$143.0 million with maturities to November 2019. We have designated these instruments as cash flow hedges, and as such, the unrealized changes in market value of effective hedges are recorded in AOCI and are reclassified into earnings during the period in which the hedged forecasted transaction affects earnings.

Credit Risk

By entering into derivative 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.

Credit-Risk Related Contingent Features

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

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Quantitative Disclosures about Derivative Instruments and Fair Value Measurements

The following tables present the required quantitative disclosures for our derivative instruments, including their estimated fair values (all estimated using Level 2 inputs) and their location on our condensed consolidated balance sheets (in millions):

		Gain or (Loss) Recognized in Other Comprehensive Income (Loss)			
		Three Months Ended September 30,		Nine Months Ended September 30,	
		2018	2017	2018	2017
Derivatives designated as cash flow hedges ⁽¹⁾					
Interest rate swaps		\$22.0	\$(0.1)	\$46.4	\$(20.5)
Forward-currency contracts		\$(5.5)	\$(5.2)	\$7.8	\$(10.7)
Derivatives designated as net investment hedges					
Cross-currency rate swaps		\$(83.0)	\$(171.5)	\$70.9	\$(349.8)
(1) We did not exclude any components from the cash flow hedge relationships presented in this table.					
		Location of Gain or (Loss) Reclassified from AOCI into Earnings		Gain or (Loss) Reclassified from AOCI into Earnings	
				Three Months Ended September 30,	Nine Months Ended September 30,
				2018	2017
Derivatives designated as cash flow hedges					
Interest rate swaps	Interest expense, net			\$(4.8)	\$(8.2)
Forward-currency contracts	Cost of sales			\$(15.9)	\$(23.1)
				\$0.9	\$(1.1)
		Location of Gain or (Loss) Recognized in Earnings		Gain or (Loss) Recognized in Earnings (Amount Excluded from Effectiveness Testing)	
				Three Months Ended September 30,	Nine Months Ended September 30,
				2018	2017
Derivatives designated as net investment hedges					
Cross-currency rate swaps	Interest expense, net			\$15.9	\$—
		Fair Value as of		\$39.4	\$—
		September 30,	December 31,	Balance Sheet Location	
		2018	2017		
Assets:					
Derivatives designated as cash flow hedges					
Interest Rate		\$11.0	\$ —	Other assets, net	
Foreign currency		2.8	0.5	Prepays and other current assets	
Total assets at fair value		\$13.8	\$ 0.5		
Liabilities:					

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Derivatives designated as cash flow hedges			
Interest rate	\$—	\$ 42.1	Other liabilities, net
Foreign currency	0.6	5.1	Other accrued liabilities
Derivatives designated as net investment hedges			
Foreign currency	368.1	456.4	Other liabilities, net
Total liabilities at fair value	\$368.7	\$ 503.6	

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Note 13. Other Operating Expenses (Income), net

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

	Three Months Ended September 30, 2018		2017		Nine Months Ended September 30, 2018		2017	
Net losses (gains) on disposal of assets, restaurant closures, and refranchisings	\$	7.5	\$	3.4	\$	17.2	\$	14.9
Litigation settlements (gains) and reserves, net	5.1		0.6		(0.6	)	1.7	
Net losses (gains) on foreign exchange	(3.1	)	17.7		(19.3	)	64.9	
Other, net	16.6		(0.2	)	12.1		0.6	
Other operating expenses (income), net	\$	26.1	\$	21.5	\$	9.4	\$	82.1

Net losses (gains) on disposal of assets, restaurant closures, and refranchisings represent sales of properties and other costs related to restaurant closures and refranchisings. Gains and losses recognized in the current period may reflect certain costs related to closures and refranchisings that occurred in previous periods.

Litigation settlements (gains) and reserves, net primarily reflects payments made and proceeds received in connection with litigation matters.

Net losses (gains) on foreign exchange is primarily related to revaluation of foreign denominated assets and liabilities. Other, net during the three and nine months ended September 30, 2018 is comprised primarily of an accrual for a payment expected to be made in 2018 in connection with the settlement of certain provisions associated with the 2017 redemption of our preferred shares as a result of recently proposed Treasury regulations.

Note 14. Commitments and Contingencies

Litigation

From time to time, we are involved in legal proceedings arising in the ordinary course of business relating to matters including, but not limited to, disputes with franchisees, suppliers, employees and customers, as well as disputes over our intellectual property.

On June 19, 2017, a claim was filed in the Ontario Superior Court of Justice. The plaintiff, a franchisee of two Tim Hortons restaurants, seeks to certify a class of all persons who have carried on business as a Tim Hortons franchisee in Canada at any time after December 15, 2014. The claim alleges various causes of action against the defendants in relation to the purported misuse of amounts paid by members of the proposed class to the Tim Hortons Canada advertising fund (the "Ad Fund"). The plaintiff seeks to have the Ad Fund franchisee contributions held in trust for the benefit of members of the proposed class, an accounting of the Ad Fund, as well as damages for breach of contract, breach of trust, breach of the statutory duty of fair dealing, and breach of fiduciary duties.

On October 6, 2017, a claim was filed in the Ontario Superior Court of Justice. The plaintiffs, two franchisees of Tim Hortons restaurants, seek to certify a class of all persons who have carried on business as a Tim Hortons franchisee at any time after March 8, 2017. The claim alleges various causes of action against the defendants in relation to the purported adverse treatment of member and potential member franchisees of the Great White North Franchisee Association. The plaintiffs seek damages for, among other things, breach of contract, breach of the statutory duty of fair dealing, and breach of the franchisees' statutory right of association.

On July 24, 2018, a complaint for declaratory relief was filed against Tim Hortons USA, Inc. ("THUSA") and Restaurant Brands International Limited Partnership in the Circuit Court of the 11th Judicial Circuit in Miami-Dade County, Florida by Great White North Franchisee Association - USA, Inc., on behalf of its members. The complaint alleges certain breaches of the franchise agreements between THUSA and its franchisees and the implied covenant of good faith and fair dealing, as well as violations of the U.S. franchise rules and the Florida Deceptive and Unfair Trade Practices Act.

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While we believe the claims are without merit and intend to vigorously defend against these lawsuits, we are unable to predict the ultimate outcome of these cases or estimate the range of possible loss, if any.

Note 15. Segment Reporting

As stated in Note 1, Description of Business and Organization, we manage three brands. 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. Under the Popeyes brand, we operate in the chicken category of the quick service segment of the restaurant industry. Our business generates revenue from the following sources: (i) franchise revenues, consisting primarily of royalties based on a percentage of sales reported by franchise restaurants and franchise fees paid by franchisees; (ii) property revenues from properties we lease or sublease to franchisees; and (iii) sales at Company restaurants. In addition, our TH business generates revenue from sales to franchisees related to our supply chain operations, including manufacturing, procurement, warehousing and distribution, as well as sales to retailers. Each brand is managed by a brand president that reports directly to our Chief Executive Officer, who is our Chief Operating Decision Maker. Therefore, we have three operating segments: (1) TH, which includes all operations of our Tim Hortons brand, (2) BK, which includes all operations of our Burger King brand, and (3) PLK, which includes all operations of our Popeyes brand. Our three operating segments represent our reportable segments.

As stated in Note 4, Revenue Recognition, we transitioned to ASC 606 on January 1, 2018 using the modified retrospective transition method. Our Financial Statements reflect the application of ASC 606 guidance beginning in 2018, while our Financial Statements for prior periods were prepared under the guidance of the Previous Standards. For comparability purposes, we have disclosed 2018 total revenues by operating segment under the Previous Standards as well as segment income with a reconciliation to net income under the Previous Standards. See Note 4, Revenue Recognition, for further details of the effects of this change in accounting principle on total revenues and net income.

PLK revenues and segment income from the acquisition date of March 27, 2017 through September 30, 2017 are included in our condensed consolidated statement of operations for the nine months ended September 30, 2017. The following table presents revenues, by segment and by country (in millions):

	Three Months Ended			Nine Months Ended		
	September 30,			September 30,		
	2018			2018		
	2018	Amounts		2018	Amounts	
	As	Under	2017	As	Under	2017
	Reported	Previous		Reported	Previous	
	Standards			Standards		
Revenues by operating segment:						
TH	\$853.9	\$796.5	\$827.0	\$2,440.4	\$2,278.6	\$2,332.9
BK	416.4	315.5	313.6	1,224.4	914.5	874.3
PLK	105.0	70.0	68.0	307.7	205.0	134.7
Total revenues	\$1,375.3	\$1,182.0	\$1,208.6	\$3,972.5	\$3,398.1	\$3,341.9

	Three Months		Nine Months	
	Ended September		Ended September	
	30,	30,	30,	30,
	2018	2017	2018	2017
Revenues by country (a):				
Canada	\$776.6	\$748.7	\$2,214.3	\$2,093.6
United States	447.4	310.5	1,318.9	856.1
Other	151.3	149.4	439.3	392.2
Total revenues	\$1,375.3	\$1,208.6	\$3,972.5	\$3,341.9

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

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Our measure of segment income is Adjusted EBITDA. Adjusted EBITDA represents earnings (net income or loss) before interest expense, net, (gain) loss on early extinguishment of debt, income tax expense, and depreciation and amortization, adjusted to exclude the non-cash impact of share-based compensation and non-cash incentive compensation expense and (income) loss from equity method investments, net of cash distributions received from equity method investments, as well as other operating expenses (income), net. Other specifically identified costs associated with non-recurring projects are also excluded from Adjusted EBITDA, including fees and expenses associated with the Popeyes Acquisition (“PLK Transaction costs”), Corporate restructuring and tax advisory fees related to the interpretation and implementation of comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act enacted by the U.S. government on December 22, 2017 and non-operational Office centralization and relocation costs in connection with the centralization and relocation of our Canadian and U.S. restaurant support centers to new offices in Toronto, Ontario, and Miami, Florida, respectively. Adjusted EBITDA is used by management to measure operating performance of the business, excluding these non-cash and other specifically identified items that management believes are not relevant to management’s assessment of operating performance or the performance of an acquired business. A reconciliation of segment income to net income (loss) consists of the following (in millions):

	Three Months Ended			Nine Months Ended		
	September 30,			September 30,		
	2018			2018		
	2018	Amounts	2017	2018	Amounts	2017
	As	Under	As	As	Under	As
	Reported	Previous	Reported	Reported	Previous	Reported
	Standards			Standards		
Segment income:						
TH	\$298.9	\$ 294.1	\$294.4	\$829.6	\$ 833.2	\$831.7
BK	231.0	237.6	233.9	681.5	684.6	637.8
PLK	41.5	44.0	36.8	120.2	127.3	70.0
Adjusted EBITDA	571.4	575.7	565.1	1,631.3	1,645.1	1,539.5
Share-based compensation and non-cash incentive compensation expense	13.8	13.6	12.5	44.6	44.4	42.9
PLK Transaction costs	—	—	6.9	9.7	9.7	49.8
Corporate restructuring and tax advisory fees	5.5	5.5	—	19.0	19.0	—
Office centralization and relocation costs	4.1	4.1	—	16.5	16.5	—
Impact of equity method investments (a)	(0.3)	(1.4)	(1.3)	(5.9)	(10.6)	(0.1)
Other operating expenses (income), net	26.1	26.2	21.5	9.4	9.5	82.1
EBITDA	522.2	527.7	525.5	1,538.0	1,556.6	1,364.8
Depreciation and amortization	45.0	44.8	46.2	137.5	137.1	134.9
Income from operations	477.2	482.9	479.3	1,400.5	1,419.5	1,229.9
Interest expense, net	134.9	134.2	136.0	404.8	405.3	375.4
Loss on early extinguishment of debt	—	—	58.2	—	—	78.6
Income tax expense	92.5	93.4	38.3	152.9	157.0	119.0
Net income	\$249.8	\$ 255.3	\$246.8	\$842.8	\$ 857.2	\$656.9

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

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Note 16. Subsequent Events

Exchange of Partnership exchangeable units

On October 16, 2018 Partnership received an exchange notice representing 11,106,925 Partnership exchangeable units. In accordance with the terms of the partnership agreement, Partnership intends to satisfy the exchange notice by repurchasing 10,000,000 Partnership exchangeable units with cash and exchanging 1,106,925 Partnership exchangeable units for the same number of newly issued RBI common shares. Pursuant to the partnership agreement, the exchanging holder may withdraw the exchange notice in whole or in part on or before October 30, 2018, at which point the exchange notice will become irrevocable. The exchange will represent an increase in our ownership interest in Partnership and will be accounted for as an equity transaction, 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. The exchange date will occur on November 6, 2018. The repurchase of the Partnership exchangeable units is anticipated to be financed with available cash on hand.

Dividends

On October 1, 2018, we paid a cash dividend of \$0.45 per common share to common shareholders of record on September 7, 2018. On such date, Partnership also made a distribution in respect of each Partnership exchangeable unit in the amount of \$0.45 per exchangeable unit to holders of record on September 7, 2018.

Our board of directors has declared a cash dividend of \$0.45 per common share, which will be paid on January 4, 2019 to common shareholders of record on December 17, 2018. Partnership will also make a distribution in respect of each Partnership exchangeable unit in the amount of \$0.45 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.

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

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 and presented in accordance with U.S. GAAP, a reconciliation to GAAP measures and a discussion of the reasons why 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 Restaurant Brands International Inc. and its subsidiaries, collectively.

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 for Burger King and its consolidated subsidiaries. On March 27, 2017, we acquired Popeyes Louisiana Kitchen, Inc. and its consolidated subsidiaries (the “Popeyes Acquisition”). We are one of the world’s largest quick service restaurant (“QSR”) companies with more than \$30 billion in system-wide sales and over 25,000 restaurants in more than 100 countries and U.S. territories as of September 30, 2018. Our Tim Hortons®, Burger King®, and Popeyes® brands have similar franchised business models with complementary daypart mixes and product platforms. Our three 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. Popeyes restaurants are quick service restaurants featuring a unique “Louisiana” style menu that includes spicy chicken, chicken tenders, fried shrimp and other seafood, red beans and rice, and other regional items.

We have three operating and reportable segments: (1) Tim Hortons (“TH”); (2) Burger King (“BK”); and (3) Popeyes Louisiana Kitchen (“PLK”). Our business generates revenue from the following sources: (i) franchise revenues, consisting primarily of royalties based on a percentage of sales reported by franchise restaurants and franchise fees paid by franchisees; (ii) property revenues from properties we lease or sublease to franchisees; and (iii) sales at restaurants owned by us (“Company restaurants”). In addition, our Tim Hortons business generates revenue from sales to franchisees related to our supply chain operations, including manufacturing, procurement, warehousing and distribution, as well as sales to retailers.

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Operating Metrics

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

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

Comparable sales refers to the percentage change in restaurant sales in one period from the same prior year period for restaurants that have been open for 13 months or longer for TH and BK and 17 months or longer for PLK.

System-wide sales growth and comparable sales 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, we calculate the FX Impact by translating prior year results at current year monthly average exchange rates.

Unless otherwise stated, system-wide sales growth, system-wide sales and comparable sales are presented on a system-wide basis, which means they include franchise restaurants and Company restaurants. System-wide results are driven by our franchise restaurants, as approximately 100% of current system-wide restaurants are franchised.

Franchise sales represent sales at all franchise restaurants and are revenues to our franchisees. We do not record franchise sales as revenues; however, our royalty revenues are calculated based on a percentage of franchise sales.

Net restaurant growth reflects the percentage change in restaurant count (openings, net of closures) over a trailing twelve month period, divided by the restaurant count at the beginning of the trailing twelve month period.

Recent Events and Factors Affecting Comparability

Transition to New Revenue Recognition Accounting Standard

We transitioned to Accounting Standards Codification Topic 606, Revenue from Contracts with Customers (“ASC 606”), effective January 1, 2018 using the modified retrospective method. Our consolidated financial statements for 2018 reflect the application of ASC 606 guidance, while our consolidated financial statements for 2017 were prepared under the guidance of previously applicable accounting standards.

The most significant effects of this transition that affect comparability of our results of operations between 2018 and 2017 include the following:

Franchise fee revenue for franchise agreements entered into subsequent to the acquisitions of BK in 2010, TH in 2014 and PLK in 2017 are deferred and amortized over the franchise agreement term beginning in 2018 compared to upfront recognition in 2017 under previously applicable accounting standards. Franchise fees associated with acquired franchise agreements are not included in franchise fee revenue under ASC 606. Consequently, we expect the impact to be greater in those periods in which more openings occur.

Advertising fund contributions and advertising fund expenses are reflected on a gross basis in our 2018 statement of operations and there may be a difference in timing for recognition of advertising fund contributions and advertising fund expenses beginning in 2018. Under previously applicable accounting standards, our statement of operations did not reflect gross advertising fund contributions and advertising fund expenses and temporary net differences between contributions and expenses due to the timing of expenses were reflected as current assets or current liabilities on our consolidated balance sheet.

The portion of gift cards sold to customers which are never redeemed is commonly referred to as gift card breakage. Under ASC 606, we recognize gift card breakage income proportionately as each gift card is redeemed using an estimated breakage rate based on our historical experience. Under previously applicable accounting standards, we recognized gift card breakage income for each gift card’s remaining balance when redemption of that balance was deemed remote. This change may impact the timing of when gift card breakage income is recognized.

Please refer to Note 4, Revenue Recognition, to the accompanying unaudited condensed consolidated financial statements for further details of the effects of this change in accounting principle.

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PLK Transaction Costs

In connection with the Popeyes Acquisition, we incurred certain non-recurring fees and expenses ("PLK Transaction costs") totaling \$6.9 million during the three months ended September 30, 2017 and \$9.7 million and \$49.8 million during the nine months ended September 30, 2018 and 2017, respectively, consisting primarily of professional fees and compensation related expenses, all of which are classified as selling, general and administrative expenses in the condensed consolidated statements of operations. We did not incur any PLK Transaction costs during the three months ended September 30, 2018 and do not expect to incur any additional PLK Transaction costs.

Tax Reform

On December 22, 2017, the U.S. government enacted comprehensive tax legislation commonly referred to as the Tax Cuts and Jobs Act (the "Tax Act") that significantly revises the U.S. tax code generally effective January 1, 2018 by, among other changes, lowering the federal corporate income tax rate from 35% to 21%, limiting deductibility of interest expense and performance based incentive compensation and implementing a modified territorial tax system. As a Canadian entity, we generally would be classified as a foreign entity (and, therefore, a non-U.S. tax resident) under general rules of U.S. federal income taxation. However, we have subsidiaries subject to U.S. federal income taxation and therefore the Tax Act impacted our consolidated results of operations in the current period, and is expected to continue to impact our consolidated results of operations in future periods.

Also on December 22, 2017, the Securities and Exchange Commission (the "SEC") staff issued Staff Accounting Bulletin No. 118 ("SAB 118") to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Act. SAB 118 provides that companies (i) should record the effects of the changes from the Tax Act for which accounting is complete (not provisional), (ii) should record provisional amounts for the effects of the changes from the Tax Act for which accounting is not complete, and for which reasonable estimates can be determined, in the period they are identified, and (iii) should not record provisional amounts if reasonable estimates cannot be made for the effects of the changes from the Tax Act, and should continue to apply guidance based on the tax law in effect prior to the enactment on December 22, 2017. In addition, SAB 118 established a one-year measurement period (through December 22, 2018) where a provisional amount could be subject to adjustment, and requires certain qualitative and quantitative disclosures related to provisional amounts and accounting during the measurement period. We have not completed the accounting for the tax effects of the enactment of the Tax Act and we have not recorded any adjustments during 2018 to the provisional amounts recorded in December 2017.

We recorded \$5.5 million and \$19.0 million of costs arising primarily from professional advisory and consulting services associated with corporate restructuring initiatives related to the interpretation and implementation of the Tax Act ("Corporate restructuring and tax advisory fees") during the three and nine months ended September 30, 2018. We expect to continue to incur additional Corporate restructuring and tax advisory fees related to the Tax Act.

Office Centralization and Relocation Costs

In connection with the centralization and relocation of our Canadian and U.S. restaurant support centers to new offices in Toronto, Ontario, and Miami, Florida, respectively, we incurred certain non-operational expenses ("Office centralization and relocation costs") totaling \$4.1 million and \$16.5 million during the three and nine months ended September 30, 2018, respectively, consisting primarily of duplicate rent expense, moving costs, and relocation-driven compensation expenses, which are classified as selling, general and administrative expenses in the condensed consolidated statements of operations.

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Results of Operations for the Three and Nine Months Ended September 30, 2018 and 2017

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

Consolidated	Three Months Ended September 30,		FX Variance Impact (a)		Variance Excluding FX Impact	Nine Months Ended September 30,		FX Variance Impact (a)		Variance Excluding FX Impact
	2018	2017	Favorable / (Unfavorable)			2018	2017	Favorable / (Unfavorable)		
Revenues:										
Sales	\$609.1	\$631.6	\$(22.5)	\$(21.6)	\$ (0.9)	\$1,743.1	\$1,784.1	\$(41.0)	\$20.4	\$(61.4)
Franchise and property revenues	766.2	577.0	189.2	(17.5)	206.7	2,229.4	1,557.8	671.6	8.7	662.9
Total revenues	1,375.3	1,208.6	166.7	(39.1)	205.8	3,972.5	3,341.9	630.6	29.1	601.5
Operating costs and expenses:										
Cost of sales	469.9	493.3	23.4	16.7	6.7	1,347.9	1,376.9	29.0	(15.3)	44.3
Franchise and property expenses	107.6	118.5	10.9	3.3	7.6	314.4	343.2	28.8	(3.9)	32.7
Selling, general and administrative expenses	298.3	100.1	(198.2)	1.4	(199.6)	917.2	318.7	(598.5)	(3.4)	(595.1)
(Income) loss from equity method investments	(3.8)	(4.1)	(0.3)	(0.1)	(0.2)	(16.9)	(8.9)	8.0	0.1	7.9
Other operating expenses (income), net	26.1	21.5	(4.6)	(0.4)	(4.2)	9.4	82.1	72.7	(5.0)	77.7
Total operating costs and expenses	898.1	729.3	(168.8)	20.9	(189.7)	2,572.0	2,112.0	(460.0)	(27.5)	(432.5)
Income from operations	477.2	479.3	(2.1)	(18.2)	16.1	1,400.5	1,229.9	170.6	1.6	169.0
Interest expense, net	134.9	136.0	1.1	0.1	1.0	404.8	375.4	(29.4)	(0.2)	(29.2)
Loss on early extinguishment of debt	—	58.2	58.2	—	58.2	—	78.6	78.6	—	78.6
Income before income taxes	342.3	285.1	57.2	(18.1)	75.3	995.7	775.9	219.8	1.4	218.4
Income tax expense	92.5	38.3	(54.2)	(1.7)	(52.5)	152.9	119.0	(33.9)	(3.0)	(30.9)
Net income	\$249.8	\$246.8	\$3.0	\$(19.8)	\$ 22.8	\$842.8	\$656.9	\$185.9	\$(1.6)	\$187.5

For items included in our results of operations, we calculate the FX Impact by translating prior year results at (a) current year monthly average exchange rates. We analyze these results on a constant currency basis as this helps identify underlying business trends, without distortion from the effects of currency movements.

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TH Segment	Three Months Ended September 30,		FX Variance Impact (a)		Variance Excluding FX Impact	Nine Months Ended September 30,		FX Variance Impact (a)		Variance Excluding FX Impact
	2018	2017	Favorable / (Unfavorable)			2018	2017	Favorable / (Unfavorable)		
Revenues:										
Sales	\$570.9	\$585.5	\$(14.6)	\$(21.5)	\$ 6.9	\$1,627.2	\$1,666.8	\$(39.6)	\$20.1	\$(59.7)
Franchise and property revenues	283.0	241.5	41.5	(8.9)	50.4	813.2	666.1	147.1	7.4	139.7
Total revenues	853.9	827.0	26.9	(30.4)	57.3	2,440.4	2,332.9	107.5	27.5	80.0
Cost of sales	436.9	454.2	17.3	16.6	0.7	1,250.2	1,273.8	23.6	(15.1)	38.7
Franchise and property expenses	71.6	83.2	11.6	3.2	8.4	209.9	240.7	30.8	(2.9)	33.7
Segment SG&A	75.8	24.1	(51.7)	0.6	(52.3)	238.4	71.4	(167.0)	(0.7)	(166.3)
Segment depreciation and amortization (b)	25.8	26.1	0.3	0.9	(0.6)	77.9	75.9	(2.0)	(0.9)	(1.1)
Segment income (c)	298.9	294.4	4.5	(10.9)	15.4	829.6	831.7	(2.1)	10.1	(12.2)

(b) Segment depreciation and amortization consists of depreciation and amortization included in cost of sales and franchise and property expenses.

TH segment income includes \$3.4 million and \$2.8 million of cash distributions received from equity method investments for the three months ended September 30, 2018 and 2017, respectively. TH segment income includes (c) \$9.7 million and \$8.8 million of cash distributions received from equity method investments for each of the nine months ended September 30, 2018 and 2017.

BK Segment	Three Months Ended September 30,		FX Variance Impact (a)		Variance Excluding FX Impact	Nine Months Ended September 30,		FX Variance Impact (a)		Variance Excluding FX Impact
	2018	2017	Favorable / (Unfavorable)			2018	2017	Favorable / (Unfavorable)		
Revenues:										
Sales	\$18.4	\$23.4	\$(5.0)	\$(0.1)	\$(4.9)	\$56.0	\$71.6	\$(15.6)	\$0.3	\$(15.9)
Franchise and property revenues	398.0	290.2	107.8	(8.2)	116.0	1,168.4	802.7	365.7	1.8	363.9
Total revenues	416.4	313.6	102.8	(8.3)	111.1	1,224.4	874.3	350.1	2.1	348.0
Cost of sales	16.9	21.3	4.4	0.1	4.3	50.0	66.1	16.1	(0.2)	16.3
Franchise and property expenses	33.6	33.1	(0.5)	0.1	(0.6)	97.5	98.0	0.5	(1.0)	1.5
Segment SG&A	146.9	38.0	(108.9)	0.3	(109.2)	432.7	110.3	(322.4)	(2.0)	(320.4)
Segment depreciation and amortization (b)	12.0	12.7	0.7	0.1	0.6	36.1	37.9	1.8	(0.4)	2.2
Segment income (d)	231.0	233.9	(2.9)	(7.9)	5.0	681.5	637.8	43.7	(0.7)	44.4

(d) BK segment income includes \$1.2 million of cash distributions received from equity method investments for the nine months ended September 30, 2018.

PLK Segment	Three Months Ended September 30,		FX Variance Impact (a)		Variance Excluding FX Impact	Nine Months Ended September 30,		FX Variance Impact (a)		Variance Excluding FX Impact

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	2018	2017	Favorable / (Unfavorable)			2018	2017(e)	Favorable / (Unfavorable)		
Revenues:										
Sales	\$19.8	\$22.7	\$(2.9)	\$ —	\$ (2.9)	\$59.9	\$ 45.7	\$14.2	\$ —	\$ 14.2
Franchise and property revenues	85.2	45.3	39.9	(0.4)	40.3	247.8	89.0	158.8	(0.5)	159.3
Total revenues	105.0	68.0	37.0	(0.4)	37.4	307.7	134.7	173.0	(0.5)	173.5
Cost of sales	16.1	17.8	1.7	—	1.7	47.7	37.0	(10.7)	—	(10.7)
Franchise and property expenses	2.4	2.2	(0.2)	—	(0.2)	7.0	4.5	(2.5)	—	(2.5)
Segment SG&A	47.5	12.8	(34.7)	—	(34.7)	140.5	27.2	(113.3)	—	(113.3)
Segment depreciation and amortization (b)	2.5	1.6	(0.9)	—	(0.9)	7.7	4.0	(3.7)	—	(3.7)
Segment income	41.5	36.8	4.7	(0.4)	5.1	120.2	70.0	50.2	(0.5)	50.7

(e) PLK revenues and segment income from the acquisition date of March 27, 2017 through September 30, 2017 are included in our consolidated statement of operations for the nine months ended September 30, 2017.

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The following table presents our operating metrics for each of the periods indicated. The operating metrics for 2018 and 2017 have been derived from our internal records. The system-wide sales growth, system-wide sales, comparable sales and net restaurant growth presented for PLK are calculated using the historical information from PLK when it was under previous ownership for the periods prior to the acquisition date of March 27, 2017. Consequently, these metrics for PLK may not necessarily reflect actual data as if PLK had been included in our results for the full year in 2017. We evaluate our restaurants and assess our business based on these operating metrics. These metrics may differ from those used by other companies in our industry who may define these metrics differently.

Key Business Metrics	Three Months Ended		Nine Months Ended		
	September 30,		September 30,		
	2018	2017	2018	2017	
System-wide sales growth					
TH	2.8	% 3.0	% 2.4	% 3.0	%
BK	7.8	% 11.2	% 9.1	% 9.4	%
PLK	7.9	% 4.5	% 9.8	% 4.6	%
System-wide sales					
TH	\$1,793.4	\$1,812.3	\$5,142.8	\$4,971.8	
BK	\$5,544.4	\$5,335.0	\$16,096.7	\$14,773.1	
PLK	\$956.4	\$897.3	\$2,797.7	\$2,623.5	
Comparable sales					
TH	0.6	% 0.3	% 0.1	% (0.2)%
BK	1.0	% 3.6	% 2.1	% 2.6	%
PLK	0.5	% (1.8	)% 2.1	% (1.5)%
As of September 30,					
2018 2017					
Net restaurant growth					
TH			2.7	% 4.2	%
BK			6.1	% 6.6	%
PLK (e)			7.6	% 5.9	%
Restaurant count					
TH			4,805	4,680	
BK			17,239	16,253	
PLK			3,022	2,809	

(e) For 2017, PLK net restaurant growth is for the period from October 3, 2016 through September 30, 2017.

Comparable Sales

TH comparable sales were 0.6% during the three months ended September 30, 2018, reflecting Canada comparable sales of 0.9%, partially offset by softer results in the U.S. Comparable sales in Canada reflect growth in breakfast foods, while softness in the U.S. was driven by weaker sales of brewed coffee and baked goods, partially offset by strength in breakfast foods and cold beverages. For the nine months ended September 30, 2018, TH comparable sales were relatively flat, reflecting Canada comparable sales of 0.5%.

BK comparable sales were 1.0% during the three months ended September 30, 2018, reflecting continued growth in international markets, offset by softer U.S. comparable sales of (0.7)%. Internationally, our comparable sales reflect strength in markets like Brazil and Russia, partially offset by a continuation of softer comparable sales in Germany and Australia. Our results in the U.S. reflect less compelling value offers and the lapping of our strong 2 for \$6 launch last year. For the nine months ended September 30, 2018, BK comparable sales of 2.1% reflect U.S. comparable sales of 1.7%.

PLK comparable sales were 0.5% during the three months ended September 30, 2018, reflecting relatively flat comparable sales in the U.S., offset by very strong comparable sales in other markets, including Canada. Our results in the U.S. reflect a shift in media spend towards limited-time offers and away from value. For the nine months ended

September 30, 2018, PLK comparable sales of 2.1% reflect U.S. comparable sales 1.2%.

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Sales and Cost of Sales

Sales include TH supply chain sales and sales from Company restaurants. TH supply chain sales represent sales of products, supplies and restaurant equipment, as well as sales to retailers. In periods prior to January 1, 2018, we classified revenues derived from sales of equipment packages at the establishment of a restaurant and in connection with renewal or renovation as franchise and property revenues. Sales from Company restaurants, including sales by our consolidated TH Restaurant VIEs, represent restaurant-level sales to our guests.

Cost of sales includes costs associated with the management of our TH supply chain, including cost of goods, direct labor and depreciation, as well as the cost of products sold to retailers. Cost of sales also includes food, paper and labor costs of Company restaurants. In periods prior to January 1, 2018, we classified costs related to sales of equipment packages at the establishment of a restaurant and in connection with renewal or renovation as franchise and property expenses.

During the three months ended September 30, 2018, the decrease in sales was driven by a decrease of \$4.9 million in our BK segment, a decrease of \$2.9 million in our PLK segment and an unfavorable FX Impact of \$21.6 million, partially offset by an increase of \$6.9 million in our TH segment. The decrease in our BK and PLK segments was due to Company restaurant refranchisings in prior periods. The increase in our TH segment was driven by an \$18.0 million increase in supply chain sales, partially offset by an \$11.1 million decrease in our TH Company restaurant revenue, primarily from the conversion of Restaurant VIEs to franchise restaurants. The increase in supply chain sales was due to the reclassification of revenue from the sales of equipment packages from franchise and property revenues to sales beginning January 1, 2018 and growth in system wide sales.

During the nine months ended September 30, 2018, the decrease in sales was driven by a decrease of \$59.7 million in our TH segment and a decrease of \$15.9 million in our BK segment, partially offset by an increase of \$14.2 million in our PLK segment, primarily as a result of including PLK for a full nine months in 2018 compared to six months in 2017, and a favorable FX Impact of \$20.4 million. The decrease in our BK segment was due to Company restaurant refranchisings in prior periods. The decrease in our TH segment was driven by a \$39.8 million decrease in our TH Company restaurant revenue, primarily from the conversion of Restaurant VIEs to franchise restaurants, and a \$19.9 million decrease in supply chain sales, primarily due to the non-recurrence of last year's roll-out of espresso equipment and related espresso inventory which benefited our results in the first half of 2017, partially offset by the reclassification of revenue from the sales of equipment packages from franchise and property revenues to sales beginning January 1, 2018.

During the three months ended September 30, 2018, the decrease in cost of sales was driven primarily by a decrease of \$4.3 million in our BK segment, a decrease of \$1.7 million in our PLK segment, a decrease of \$0.7 million in our TH segment and a \$16.7 million favorable FX Impact. The decrease in our BK and PLK segments was due to Company restaurant refranchisings in prior periods. The decrease in our TH segment was primarily due to a decrease of \$11.8 million in Company restaurant cost of sales, primarily from the conversion of Restaurant VIEs to franchise restaurants, partially offset by an increase of \$11.1 million in supply chain cost of sales due to the reclassification of costs from the sales of equipment packages from franchise and property expenses to cost of sales beginning January 1, 2018 and an increase in supply chain sales described above.

During the nine months ended September 30, 2018, the decrease in cost of sales was driven primarily by a decrease of \$38.7 million in our TH segment and a decrease of \$16.3 million in our BK segment, partially offset by an increase of \$10.7 million in our PLK segment, primarily as a result of including PLK for a full nine months in 2018 compared to six months in 2017, and a \$15.3 million unfavorable FX Impact. The decrease in our BK segment was due to Company restaurant refranchisings in prior periods. The decrease in our TH segment was primarily due to a decrease of \$33.6 million in Company restaurant cost of sales, primarily from the conversion of Restaurant VIEs to franchise restaurants, and a decrease of \$5.1 million in supply chain cost of sales primarily due to a decrease in costs in connection with the non-recurrence of last year's roll-out of espresso equipment, partially offset by the reclassification of costs from the sales of equipment packages from franchise and property expenses to costs of sales beginning January 1, 2018.

Franchise and Property

Franchise and property revenues consist primarily of royalties earned on franchise sales, rents from real estate leased or subleased to franchisees, franchise fees, and other revenue. Franchise and property expenses consist primarily of depreciation of properties leased to franchisees, rental expense associated with properties subleased to franchisees, amortization of franchise agreements, and bad debt expense (recoveries). In periods prior to January 1, 2018, franchise and property revenues and franchise and property expenses included revenues and cost of sales, respectively, related to equipment packages sold at establishment of a restaurant and in connection with renewals or renovations.

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During the three months ended September 30, 2018, the increase in franchise and property revenues was driven by an increase of \$116.0 million in our BK segment, an increase of \$50.4 million in our TH segment, and an increase of \$40.3 million in our PLK segment, partially offset by a \$17.5 million unfavorable FX Impact. The increase in our BK, TH and PLK segments reflects the inclusion of advertising fund contributions from franchisees as a result of the application of ASC 606 beginning January 1, 2018 and an increase in royalties driven by system-wide sales growth. These factors were partially offset by a decrease in franchise fees and other revenue, including the deferral of initial and renewal franchise fees as a result of the application of ASC 606 and for our TH segment, the reclassification of revenue from the sales of equipment packages from franchise and property revenues to sales beginning January 1, 2018.

During the nine months ended September 30, 2018, the increase in franchise and property revenues was driven by an increase of \$363.9 million in our BK segment, an increase of \$159.3 million in our PLK segment, an increase of \$139.7 million in our TH segment, and an \$8.7 million favorable FX Impact. The increase in our BK, TH and PLK segments reflects the inclusion of advertising fund contributions from franchisees as a result of the application of ASC 606 beginning January 1, 2018, an increase in PLK franchise and property revenues as a result of including PLK for a full nine months in 2018 compared to six months in 2017, and an increase in royalties driven by system-wide sales growth. These factors were partially offset by a decrease in franchise fees and other revenue, including the deferral of initial and renewal franchise fees as a result of the application of ASC 606 and for our TH segment, the reclassification of revenue from the sales of equipment packages from franchise and property revenues to sales beginning January 1, 2018.

During the three months ended September 30, 2018, the decrease in franchise and property expenses was driven by a decrease of \$8.4 million in our TH segment and a \$3.3 million favorable FX Impact, partially offset by an increase of \$0.6 million in our BK segment and an increase of \$0.2 million in our PLK segment. The decrease in our TH segment was primarily due to the reclassification of expenses from sales of equipment packages from franchise and property expenses to cost of sales beginning January 1, 2018.

During the nine months ended September 30, 2018, the decrease in franchise and property expenses was driven by a decrease of \$33.7 million in our TH segment and a decrease of \$1.5 million in our BK segment, partially offset by an increase of \$2.5 million in our PLK segment, primarily as a result of including PLK for a full nine months in 2018 compared to six months in 2017, and a \$3.9 million unfavorable FX Impact. The decrease in our TH segment was primarily due to the reclassification of expenses from sales of equipment packages from franchise and property expenses to cost of sales beginning January 1, 2018.

Selling, General and Administrative Expenses

Our selling, general and administrative expenses were comprised of the following:

	Three Months Ended September 30,		Variance	Nine Months Ended September 30,		Variance
	2018	2017	\$ Favorable / (Unfavorable)	2018	2017	\$ Favorable / (Unfavorable)
Segment SG&A:						
TH	\$75.8	\$24.1	\$ (51.7)	\$238.4	\$71.4	\$ (167.0)
BK	146.9	38.0	(108.9)	432.7	110.3	(322.4)
PLK	47.5	12.8	(34.7)	140.5	27.2	(113.3)
Share-based compensation and non-cash incentive compensation expense	13.8	12.5	(1.3)	44.6	42.9	(1.7)
Depreciation and amortization	4.7	5.8	1.1	15.8	17.1	1.3
PLK Transaction costs	—	6.9	6.9	9.7	49.8	40.1
Corporate restructuring and tax advisory fees	5.5	—	(5.5)	19.0	—	(19.0)
Office centralization and relocation costs	4.1	—	(4.1)	16.5	—	(16.5)
Selling, general and administrative expenses	\$298.3	\$100.1	\$ (198.2)	\$917.2	\$318.7	\$ (598.5)

Upon our transition to ASC 606 on January 1, 2018, segment selling, general and administrative expenses (“Segment SG&A”) include segment selling expenses, which consist primarily of advertising fund expenses, and segment general and

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administrative expenses, which are comprised primarily of salary and employee-related costs for non-restaurant employees, professional fees, information technology systems, and general overhead for our corporate offices. Prior to our transition to ASC 606 on January 1, 2018, our statement of operations did not reflect advertising fund contributions or advertising fund expenses, since such amounts were netted under previously applicable accounting standards. Segment SG&A excludes share-based compensation and non-cash incentive compensation expense, depreciation and amortization, PLK Transaction costs, Corporate restructuring and tax advisory fees and Office centralization and relocation costs.

During the three and nine months ended September 30, 2018, TH, BK and PLK Segment SG&A increased primarily due to the inclusion of advertising fund expenses from the application of ASC 606 beginning January 1, 2018 and an unfavorable FX Impact.

During the three and nine months ended September 30, 2018, the increase in share-based compensation and non-cash incentive compensation expense was due primarily to an increase in the number of equity awards granted during 2018.

(Income) Loss from Equity Method Investments

(Income) loss from equity method investments reflects our share of investee net income or loss, non-cash dilution gains or losses from changes in our ownership interests in equity method investees, and basis difference amortization. The change in (income) loss from equity method investments during the nine months ended September 30, 2018 was primarily driven by the current year recognition of a \$20.4 million non-cash dilution gain on the initial public offering by one of our equity method investees, partially offset by an increase in equity method investment net losses that we recognized during the current year.

Other Operating Expenses (Income), net

Our other operating expenses (income), net were comprised of the following:

	Three Months Ended September 30, 2018		2017		Nine Months Ended September 30, 2018		2017	
Net losses (gains) on disposal of assets, restaurant closures, and refranchisings	\$	7.5	\$	3.4	\$	17.2	\$	14.9
Litigation settlements (gains) and reserves, net	5.1		0.6		(0.6	)	1.7	
Net losses (gains) on foreign exchange	(3.1	)	17.7		(19.3	)	64.9	
Other, net	16.6		(0.2	)	12.1		0.6	
Other operating expenses (income), net	\$	26.1	\$	21.5	\$	9.4	\$	82.1

Net losses (gains) on disposal of assets, restaurant closures, and refranchisings represent sales of properties and other costs related to restaurant closures and refranchisings. Gains and losses recognized in the current period may reflect certain costs related to closures and refranchisings that occurred in previous periods.

Litigation settlements (gains) and reserves, net primarily reflects payments made and proceeds received in connection with litigation matters.

Net losses (gains) on foreign exchange is primarily related to revaluation of foreign denominated assets and liabilities. Other, net during the three and nine months ended September 30, 2018 is comprised primarily of an accrual for a payment expected to be made in 2018 in connection with the settlement of certain provisions associated with the 2017 redemption of our preferred shares as a result of recently proposed Treasury regulations.

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Interest Expense, net

Our interest expense, net and the weighted average interest rate on our long-term debt were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Interest expense, net	\$134.9	\$136.0	\$404.8	\$375.4
Weighted average interest rate on long-term debt	4.9	% 4.8	% 4.8	% 4.9

During the three months ended September 30, 2018, interest expense, net decreased primarily due to a \$15.9 million benefit during the three months ended September 30, 2018 from our adoption of the new hedge accounting standard, partially offset by higher outstanding debt from the issuance of senior notes during 2017. During the nine months ended September 30, 2018, interest expense, net increased primarily due to higher outstanding debt from incremental term loans and the issuance of senior notes during 2017, partially offset by a \$39.4 million benefit during the nine months ended September 30, 2018 from our adoption of the new hedge accounting standard. We expect the benefit from our adoption of the new hedge accounting standard to continue in 2018. Please refer to Note 3, New Accounting Pronouncements, to the accompanying unaudited condensed consolidated financial statements for further details of the effects of the adoption of the new hedge accounting standard. Subject to foreign exchange rate movements and other factors, we expect a benefit to continue during 2018.

Loss on Early Extinguishment of Debt

During the three and nine months ended September 30, 2017, we recorded a \$58.2 million and \$78.6 million loss on early extinguishment of debt, respectively, which primarily reflects the payment of premiums to redeem a portion of our second lien notes during September 2017 and the write-off of unamortized debt issuance costs and discounts in connection with the refinancing of our senior secured term loan facility and redemption of a portion of our second lien notes.

Income Tax Expense

Our effective tax rate was 27.0% and 13.4% for the three months ended September 30, 2018 and 2017, respectively. The increase in our effective tax rate was primarily due to the impact of certain aspects of U.S. corporate tax reform, the year to date impact from the realignment of various internal financing arrangements and a lower tax benefit from stock option exercises. The effective tax rate was reduced by 0.9% and 6.8% for the three months ended September 30, 2018 and 2017, respectively, as a result of benefits from stock option exercises.

Our effective tax rate was 15.4% and 15.3% for the nine months ended September 30, 2018 and 2017, respectively. The increase in our effective tax rate was primarily due to the impact of certain aspects of U.S. corporate tax reform, partially offset by a higher tax benefit from stock options exercises. The effective tax rate was reduced by 6.9% and 4.5% for the nine months ended September 30, 2018 and 2017, respectively, as a result of benefits from stock option exercises.

Net Income

We reported net income of \$249.8 million for the three months ended September 30, 2018, compared to net income of \$246.8 million for the three months ended September 30, 2017. The increase in net income is primarily due to the non-recurrence of \$58.2 million of loss on early extinguishment of debt recognized in the prior period, the non-recurrence of \$6.9 million of PLK Transaction costs incurred in the prior period, a \$4.7 million increase in PLK segment income and a \$4.5 million increase in TH segment income. These factors were offset by a \$54.2 million increase in income tax expense, the inclusion of \$5.5 million of Corporate restructuring and tax advisory fees, a \$4.6 million unfavorable change in the results from other operating expenses (income), net, the inclusion of \$4.1 million of Office centralization and relocation costs, and a \$2.9 million decrease in BK segment income.

We reported net income of \$842.8 million for the nine months ended September 30, 2018, compared to net income of \$656.9 million for the nine months ended September 30, 2017. The increase in net income is primarily due to the non-recurrence of \$78.6 million of loss on early extinguishment of debt recognized in the prior period, a \$72.7 million favorable change in results from other operating expenses (income), net, a \$50.2 million increase in PLK segment

income, primarily as a result of including PLK for a full nine months in 2018 compared to six months in 2017, a \$43.7 million increase in BK segment income, and a \$40.1 million decrease in PLK Transaction costs. These factors were partially offset by a \$33.9 million increase in income tax expense, a \$29.4 million increase in interest expense, net, the inclusion of \$19.0 million of Corporate restructuring and tax advisory fees, the inclusion of \$16.5 million of Office centralization and relocation costs, and a \$2.1 million decrease in TH segment income.

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Non-GAAP Reconciliations

The table below contains information regarding EBITDA and Adjusted EBITDA, which are non-GAAP measures. These non-GAAP measures do not have a standardized meaning under U.S. GAAP and may differ from similar captioned measures of other companies in our industry. We believe that these non-GAAP measures are useful to investors in assessing our operating performance, as it provides them with the same tools that management uses to evaluate our performance and is responsive to questions we receive from both investors and analysts. By disclosing these non-GAAP measures, we intend to provide investors with a consistent comparison of our operating results and trends for the periods presented. EBITDA is defined as earnings (net income or loss) before interest expense, net, loss on early extinguishment of debt, income tax expense, and depreciation and amortization and is used by management to measure operating performance of the business. Adjusted EBITDA is defined as EBITDA excluding the non-cash impact of share-based compensation and non-cash incentive compensation expense and (income) loss from equity method investments, net of cash distributions received from equity method investments, as well as other operating expenses (income), net. Other specifically identified costs associated with non-recurring projects are also excluded from Adjusted EBITDA, including PLK Transaction costs associated with the Popeyes Acquisition, Corporate restructuring and tax advisory fees related to the interpretation and implementation of the Tax Act, and non-operational Office centralization and relocation costs in connection with the centralization and relocation of our Canadian and U.S. restaurant support centers to new offices in Toronto, Ontario, and Miami, Florida, respectively. Adjusted EBITDA is used by management to measure operating performance of the business, excluding these non-cash and other specifically identified items that management believes are not relevant to management's assessment of operating performance or the performance of an acquired business. Adjusted EBITDA, as defined above, also represents our measure of segment income for each of our three operating segments.

	Three Months Ended September 30,		Variance			Nine Months Ended September 30,		Variance		
	2018	2017	\$	%	Favorable / (Unfavorable)	2018	2017	\$	%	Favorable / (Unfavorable)
Segment income:										
TH	\$298.9	\$294.4	\$4.5	1.5	%	\$829.6	\$831.7	\$(2.1)	(0.3)	%
BK	231.0	233.9	(2.9)	(1.2)	%	681.5	637.8	43.7	6.9	%
PLK	41.5	36.8	4.7	12.8	%	120.2	70.0	50.2	71.7	%
Adjusted EBITDA	571.4	565.1	6.3	1.1	%	1,631.3	1,539.5	91.8	6.0	%
Share-based compensation and non-cash incentive compensation expense	13.8	12.5	(1.3)	(10.4)	%	44.6	42.9	(1.7)	(4.0)	%
PLK Transaction costs	—	6.9	6.9	100.0	%	9.7	49.8	40.1	80.5	%
Corporate restructuring and tax advisory fees	5.5	—	(5.5)	NM		19.0	—	(19.0)	NM	
Office centralization and relocation costs	4.1	—	(4.1)	NM		16.5	—	(16.5)	NM	
Impact of equity method investments (a)	(0.3)	(1.3)	(1.0)	76.9	%	(5.9)	(0.1)	5.8	NM	
Other operating expenses (income), net	26.1	21.5	(4.6)	(21.4)	%	9.4	82.1	72.7	88.6	%
EBITDA	522.2	525.5	(3.3)	(0.6)	%	1,538.0	1,364.8	173.2	12.7	%
Depreciation and amortization	45.0	46.2	1.2	2.6	%	137.5	134.9	(2.6)	(1.9)	%
Income from operations	477.2	479.3	(2.1)	(0.4)	%	1,400.5	1,229.9	170.6	13.9	%
Interest expense, net	134.9	136.0	1.1	0.8	%	404.8	375.4	(29.4)	(7.8)	%
Loss on early extinguishment of debt	—	58.2	58.2	NM		—	78.6	78.6	NM	
Income tax expense	92.5	38.3	(54.2)	(141.5)	%	152.9	119.0	(33.9)	(28.5)	%
Net income	\$249.8	\$246.8	\$3.0	1.2	%	\$842.8	\$656.9	\$185.9	28.3	%

NM - not meaningful

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

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Segment income is affected by the application of ASC 606 beginning January 1, 2018, including the deferral of initial and renewal franchise fees and the timing of advertising fund related revenues and expenses. The increase in Adjusted EBITDA for the three months ended September 30, 2018 reflects the increase in segment income in our PLK and TH segments, partially offset by a decrease in our BK segment. During the three months ended September 30, 2018, TH segment income reflected a net benefit from the timing of advertising fund related revenues and expenses. The decrease in BK segment income during the three months ended September 30, 2018 compared to the prior year period is primarily attributable to an unfavorable FX Impact and the deferral of initial and renewal franchise fees. The increase in Adjusted EBITDA for the nine months ended September 30, 2018 reflects the increase in segment income in our BK and PLK segments, primarily as a result of including PLK for a full nine months in 2018 compared to six months in 2017, partially offset by a decrease in our TH segment.

The increase in EBITDA for the three months ended September 30, 2018 is primarily due to an increase in segment income in our PLK and TH segments and a decrease in PLK Transaction costs, partially offset by the inclusion of Office centralization and relocation costs and Corporate restructuring and tax advisory fees, unfavorable results from other operating expenses (income), net in the current period, a decrease in segment income in our BK segment, and an increase in share-based compensation and non-cash incentive compensation expense.

The increase in EBITDA for the nine months ended September 30, 2018 is primarily due to an increase in segment income in our BK and PLK segments, primarily as a result of including PLK for a full nine months in 2018 compared to six months in 2017, favorable results from other operating expenses (income), net in the current period, a decrease in PLK Transaction costs, and favorable results from the impact of equity method investments in the current period, partially offset by the inclusion of Corporate restructuring and tax advisory fees and Office centralization and relocation costs and a decrease in segment income in our TH segment.

Liquidity and Capital Resources

Our primary sources of liquidity are cash on hand, cash generated by operations, and borrowings available under our Revolving Credit Facility (as defined below). We have used, and may in the future use, our liquidity to make required interest and/or principal payments, to repurchase our common shares, to repurchase Class B exchangeable limited partnership units of Partnership (“Partnership exchangeable units”), to voluntarily prepay and repurchase our or one of our affiliate’s outstanding debt, to fund our investing activities, and to pay dividends on our common shares and make distributions on the Partnership exchangeable units. As a result of our borrowings, we are highly leveraged. Our liquidity requirements are significant, primarily due to debt service requirements.

As of September 30, 2018, we had cash and cash equivalents of \$1,143.5 million and working capital of \$445.1 million and borrowing availability of \$495.4 million under our Revolving Credit Facility. Based on our current level of operations and available cash, we believe our cash flow from operations, combined with availability under our Revolving Credit Facility, will provide sufficient liquidity to fund our current obligations, debt service requirements and capital spending over the next twelve months.

On October 16, 2018, Partnership received an exchange notice representing 11,106,925 Partnership exchangeable units. In accordance with the terms of the partnership agreement, Partnership intends to satisfy the exchange notice by repurchasing 10,000,000 Partnership exchangeable units with cash and exchanging 1,106,925 Partnership exchangeable units for the same number of newly issued RBI common shares. The exchange date will occur on November 6, 2018 and the repurchase of Partnership exchangeable units for cash will be based on the weighted average trading price of RBI common shares on the New York Stock Exchange in U.S. dollars for the 20 consecutive trading days ending on the last business day prior to the exchange date, per the terms of the partnership agreement.

The repurchase of the Partnership exchangeable units is anticipated to be financed with available cash on hand. Prior to the Tax Act, we provided deferred taxes on certain undistributed foreign earnings. Under our transition to a modified territorial tax system whereby all previously untaxed undistributed foreign earnings are subject to a transition tax charge at reduced rates and future repatriations of foreign earnings will generally be exempt from U.S. tax, we wrote off the existing deferred tax liability on undistributed foreign earnings and recorded the impact of the new transition tax charge on foreign earnings during the fourth quarter of 2017. We will continue to monitor available evidence and our plans for foreign earnings and expect to continue to provide any applicable deferred taxes based on the tax liability or withholding taxes that would be due upon repatriation of amounts not considered permanently

reinvested.

On August 2, 2016, our board of directors approved a share repurchase authorization that allows us to purchase up to \$300.0 million of our common shares through July 2021. Repurchases under the Company's authorization will be made in the open market or through privately negotiated transactions. On August 7, 2018, we announced that the Toronto Stock Exchange (the "TSX") had accepted the notice of our intention to renew the normal course issuer bid. Under this normal course issuer

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bid, we are permitted to repurchase up to 24,087,172 common shares for the one-year period commencing on August 8, 2018 and ending on August 7, 2019, or earlier if we complete the repurchases prior to such date. Share repurchases under the normal course issuer bid will be made through the facilities of the TSX, the New York Stock Exchange (the "NYSE") and/or other exchanges and alternative Canadian or foreign trading systems, if eligible, or by such other means as may be permitted by the TSX and/or the NYSE under applicable law. Shareholders may obtain a copy of the prior notice, free of charge, by contacting us. As of the date of this report, there have been no share repurchases under the normal course issuer bid.

Debt Instruments and Debt Service Requirements

As of September 30, 2018, our long-term debt is comprised primarily of borrowings under our Credit Facilities, amounts outstanding under our 2017 4.25% Senior Notes, 2015 4.625% Senior Notes, and 2017 5.00% Senior Notes (each as defined below), and obligations under capital leases. For further information about our long-term debt, see Note 9 to the accompanying unaudited condensed consolidated financial statements included in this report.

Credit Facilities

On October 2, 2018, two of our subsidiaries (the "Borrowers") entered into a third amendment (the "Third Amendment") to the credit agreement (the "Credit Agreement") governing our senior secured term loan facility (the "Term Loan Facility") and our senior secured revolving credit facility of up to \$500.0 million of revolving extensions of credit outstanding at any time (including revolving loans, swingline loans and letters of credit) (the "Revolving Credit Facility") and together with the Term Loan Facility, the "Credit Facilities"). The Third Amendment amends the Credit Agreement to (i) exclude from GAAP any applicable changes with respect to revenue recognition such that the revenue recognition standards from Accounting Standards Codification ("ASC") Topic 605, Revenue Recognition and ASC Subtopic 952-605, Franchisors - Revenue Recognition, solely as it relates to initial and renewal franchise fees and upfront fees from development agreements and master franchise and development agreements, shall continue to apply; (ii) provide for mandatory prepayments equal to 50%, 25% and 0% of annual excess cash flow of the Borrowers and their subsidiaries if the first lien senior secured leverage ratio is above 4.00x, between 3.75x and 4.00x and below 3.75x, respectively (rather than above 3.75x, between 3.50x and 3.75x and below 3.50x, respectively); and (iii) allow for unlimited restricted payments when the total leverage ratio is not greater than 4.75x (rather than 4.50x). As of September 30, 2018, there was \$6,340.3 million outstanding principal amount under our senior secured term loan facility (the "Term Loan Facility") with an interest rate of 4.49%. Based on the amounts outstanding under the Term Loan Facility and LIBOR as of September 30, 2018, subject to a floor of 1.00%, required debt service for the next twelve months is estimated to be approximately \$288.9 million in interest payments and \$51.1 million in principal payments. In addition, based on LIBOR as of September 30, 2018, net cash settlements that we expect to pay on our \$3,500.0 million interest rate swap are estimated to be approximately \$10.1 million for the next twelve months. As of September 30, 2018, we had no amounts outstanding under our senior secured revolving credit facility (the "Revolving Credit Facility" and together with the Term Loan Facility, the "Credit Facilities"), had \$4.6 million of letters of credit issued against the facility, and our borrowing availability was \$495.4 million. Funds available under the Revolving Credit Facility may be used to repay other debt, finance debt or share repurchases, 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 thereunder by the cumulative amount of outstanding letters of credit.

The interest rate applicable to borrowings under our Credit Facilities is, at our option, either (i) a base rate plus an applicable margin equal to 1.25% for the Term Loan Facility and ranging from 0.25% to 1.00%, depending on our leverage ratio, for the Revolving Credit Facility, or (ii) a Eurocurrency rate plus an applicable margin of 2.25% for the Term Loan Facility and ranging from 1.25% to 2.00%, depending on our leverage ratio, for the Revolving Credit Facility. Borrowings are subject to a floor of 2.00% for base rate borrowings and 1.00% for Eurocurrency rate borrowings.

Senior Notes

The Borrowers are party to (i) an indenture (the "2017 4.25% Senior Notes Indenture") in connection with the issuance of \$1,500.0 million of 4.25% first lien senior secured notes due May 15, 2024 (the "2017 4.25% Senior Notes"), (ii) an indenture (the "2015 4.625% Senior Notes Indenture") in connection with the issuance of \$1,250.0 million of 4.625%

first lien senior notes due January 15, 2022 (the “2015 4.625% Senior Notes”) and (iii) an indenture (the “2017 5.00% Senior Notes Indenture”) in connection with the issuance of \$2,800.0 million of 5.00% second lien senior secured notes due October 15, 2025 (the “2017 5.00% Senior Notes”). No principal payments are due on the 2017 4.25% Senior Notes, 2015 4.625% Senior Notes and 2017 5.00% Senior Notes until maturity and interest is paid semi-annually.

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Based on the amounts outstanding at September 30, 2018, required debt service for the next twelve months on all of the Senior Notes outstanding is approximately \$261.6 million in interest payments.

Restrictions and Covenants

As of September 30, 2018, we were in compliance with all debt covenants under the Credit Facilities, 2017 4.25% Senior Notes Indenture, 2017 5.00% Senior Notes Indenture and 2015 4.625% Senior Notes Indenture, and there were no limitations on our ability to draw on the remaining availability under our Revolving Credit Facility.

Cash Dividends

On October 1, 2018, we paid a dividend of \$0.45 per common share and Partnership made a distribution in respect of each Partnership exchangeable unit in the amount of \$0.45 per Partnership exchangeable unit.

Our board of directors has declared a cash dividend of \$0.45 per common share, which will be paid on January 4, 2019 to common shareholders of record on December 17, 2018. Partnership will also make a distribution in respect of each Partnership exchangeable unit in the amount of \$0.45 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.

In addition, because we are a holding company, our ability to pay cash dividends on our common shares may be limited by restrictions under our debt agreements. Although we do not have a formal dividend policy, our board of directors may, subject to compliance with the covenants contained in our debt agreements and other considerations, determine to pay dividends in the future. We expect to pay all dividends from cash generated from our operations.

Outstanding Security Data

As of October 19, 2018, we had outstanding 251,315,753 common shares and one special voting share. The special voting share is held by a trustee, entitling the trustee to that number of votes on matters on which holders of common shares are entitled to vote equal to the number of Partnership exchangeable units outstanding. The trustee is required to cast such votes in accordance with voting instructions provided by holders of Partnership exchangeable units. At any shareholder meeting of the Company, holders of our common shares vote together as a single class with the special voting share except as otherwise provided by law. For information on our share-based compensation and our outstanding equity awards, see Note 15 to the audited consolidated financial statements in Part II, Item 8 of our Annual Report on Form 10-K for the year ended December 31, 2017, filed with the SEC and Canadian securities regulatory authorities on February 23, 2018.

There were 217,543,591 Partnership exchangeable units outstanding as of October 19, 2018. Since December 12, 2015, the holders of Partnership exchangeable units have had the right to require Partnership to exchange all or any portion of such holder's Partnership exchangeable units for our common shares at a ratio of one share for each Partnership exchangeable unit, subject to our right as the general partner of Partnership to determine to settle any such exchange for a cash payment in lieu of our common shares.

Comparative Cash Flows

Operating Activities

Cash provided by operating activities was \$673.1 million during the nine months ended September 30, 2018, compared to \$844.1 million during the same period in the prior year. The decrease in cash provided by operating activities was driven by an increase in income tax payments, primarily due to the payment of accrued income taxes related to the December 2017 redemption of preferred shares, an increase in interest payments, an increase in cash used for working capital and a decrease in TH segment income. These factors were partially offset by an increase in PLK segment income, primarily as a result of including PLK for a full nine months in 2018 compared to six months in 2017, and an increase in BK segment income.

Investing Activities

Cash used for investing activities was \$27.7 million for the nine months ended September 30, 2018, compared to cash used for investing activities of \$851.9 million during the same period in the prior year. The change in investing activities was driven primarily by net cash used for the Popeyes Acquisition during 2017, partially offset by proceeds from the settlement of derivatives in 2017 and an increase in capital expenditures during 2018.

Financing Activities

Cash used for financing activities was \$588.9 million for the nine months ended September 30, 2018, compared to cash provided by financing activities of \$2,162.4 million during the same period in the prior year. The change in financing activities

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was driven primarily by proceeds from the issuance of long-term debt in 2017, an increase in RBI common share dividends and distributions on Partnership exchangeable units during 2018 and the 2018 payments in connection with the December 2017 redemption of preferred shares. These factors were partially offset by the repayment of a portion of our second lien senior notes in 2017, repayment of a portion of our term loan in 2017, the repayment of debt assumed in connection with the Popeyes Acquisition in 2017, payment of financing costs in 2017, preferred dividend payments in 2017 and higher proceeds from stock option exercises in 2018.

New Accounting Pronouncements

See Note 3 – New Accounting Pronouncements in the notes to the accompanying unaudited condensed consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

There were no material changes during the nine months ended September 30, 2018 to the disclosures made in Part II, Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC and Canadian securities regulatory authorities on February 23, 2018.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

An evaluation was conducted under the supervision and with the participation of management, including the Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO"), of the effectiveness of the Company's disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and Exchange Act Rules 15d-15(e)) as of September 30, 2018. Based on that evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures were effective as of such date.

Changes in Internal Controls

Beginning January 1, 2018, we integrated Popeyes into our overall internal control over financial reporting framework.

Internal Control Over Financial Reporting

The Company's management, including the CEO and CFO, confirm that, other than changes in internal controls disclosed above, there were no changes in the Company's internal control over financial reporting during the three months ended September 30, 2018 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

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Special Note Regarding Forward-Looking Statements

Certain information contained in this report, including information regarding future financial performance and plans, targets, aspirations, expectations, and objectives of management, 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. We refer to all of these as forward-looking statements. Forward-looking statements are forward-looking in nature and, accordingly, are subject to risks and uncertainties. These forward-looking statements can generally be identified by the use of words such as “believe”, “anticipate”, “expect”, “intend”, “estimate”, “plan”, “continue”, “will”, “may”, “could”, “would”, “target”, “potential” and other similar expressions and include, without limitation, statements regarding our expectations or beliefs regarding (i) our future financial obligations, including annual debt service requirements, capital expenditures and dividend payments, our ability to meet such obligations and the source of funds used to satisfy such obligations; (ii) the amount and timing of additional general and administrative expenses associated with the Popeyes Acquisition; (iii) the amount and timing of additional general administrative expenses associated with the centralization and relocation of our Canadian and U.S. restaurant support centers; (iv) the amount and timing of additional Corporate restructuring and tax advisory fees related to the Tax Act; (v) our estimates with respect to tax matters as a result of the Tax Act, including the impacts of the Tax Act and the anticipated timing of finalizing our estimates; (vi) the amount and timing of the repurchase of exchangeable units, the exchange of exchangeable units into our common shares and the source of funds used to satisfy such obligations; and (vii) certain accounting and tax matters.

Our forward-looking statements, included in this report and elsewhere, represent management’s expectations as of the date that they are made. Our forward-looking statements are based on assumptions and analyses made by the Company in light of its experience and its perception of historical trends, current conditions and expected future developments, as well as other factors it believes are appropriate in the circumstances. However, these forward-looking statements are subject to a number of risks and uncertainties and actual results may differ materially from those expressed or implied in such statements. Important factors that could cause actual results, level of activity, performance or achievements to differ materially from those expressed or implied by these forward-looking statements include, among other things, risks related to: (1) our substantial indebtedness, which could adversely affect our financial condition and prevent us from fulfilling our obligations; (2) global economic or other business conditions that may affect the desire or ability of our customers to purchase our products such as inflationary pressures, high unemployment levels, declines in median income growth, consumer confidence and consumer discretionary spending and changes in consumer perceptions of dietary health and food safety; (3) our ability to successfully manage our franchisee relationships, including our relationship with our Tim Hortons franchisees, and to effectively counter any adverse impact on guest perceptions due to negative publicity; (4) the success of our franchisees, including the financial and operational impact of the new “Winning Together Plan” on Tim Hortons franchisees; and risks related to our fully franchised business model; (5) the effectiveness of our marketing and advertising programs and franchisee support of these programs; (6) significant and rapid fluctuations in interest rates and in the currency exchange markets and the effectiveness of our hedging activity; (7) our ability to successfully implement our domestic and international growth strategy for our brands and risks related to our international operations; (8) our reliance on master franchisees and subfranchisees to accelerate restaurant growth; (9) the ability of the counterparties to our credit facilities and derivatives to fulfill their commitments and/or obligations; and (10) implications of the Tax Act and future changes in applicable tax laws or interpretations thereof.

We operate in a very competitive and rapidly changing environment and our inability to successfully manage any of the above risks may permit our competitors to increase their market share and may decrease our profitability. New risk factors emerge from time to time and it is not possible for our management to predict all risk factors, nor can we assess the impact of all factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

Although we believe the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, level of activity, performance or achievements. Moreover, neither we nor any other person assumes responsibility for the accuracy or completeness of any of these forward-looking statements. You should not rely upon forward-looking statements as predictions of future events. Finally, our future results will depend upon various other

risks and uncertainties, including, but not limited to, those detailed in Part I, Item 1A “Risk Factors” of our Annual Report on Form 10-K for the year ended December 31, 2017 filed with the SEC and Canadian securities regulatory authorities on February 23, 2018, as well as other materials that we from time to time file with, or furnish to, the SEC or file with Canadian securities regulatory authorities. All forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements in this section and elsewhere in this report. Other than as required under securities laws, we do not assume a duty to update these forward-looking statements, whether as a result of new information, subsequent events or circumstances, changes in expectations or otherwise.

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Part II – Other Information

Item 1. Legal Proceedings

On October 5, 2018, a class action complaint was filed against Burger King Worldwide, Inc. and Burger King Corporation in the U.S. District Court for the Southern District of Florida by Jarvis Arrington, individually and on behalf of all others similarly situated. On October 18, 2018, a second class action complaint was filed against Restaurant Brands International Inc., Burger King Worldwide, Inc. and Burger King Corporation in the U.S. District Court for the Southern District of Florida by Monique Michel, individually and on behalf of all others similarly situation. The plaintiffs in both cases seek to certify a class; however, as of the date of this filing no hearings or motions have been filed or held regarding class certification in either case. Both of the complaints allege that the defendants violated Section 1 of the Sherman Act by incorporating an employee no-solicitation and no-hiring clause in the standard form franchise agreement all Burger King franchisees are required to sign. Each plaintiff seeks injunctive relief and damages for himself or herself and other members of the class. While we currently believe that these complaints are without merit and intend to vigorously defend against these lawsuits, we are unable to predict the ultimate outcome of either case.

In connection with two lawsuits filed in the Ontario Superior Court of Justice by franchisees of Tim Hortons restaurants and described in Part 1, Item 3 of our Annual Report on Form 10-K filed on February 23, 2018, the court granted our motion to strike the named individuals and RBI on October 22, 2018.

Item 6. Exhibits

Exhibit Number	Description
10.10(h)	<u>Amendment No. 3, dated October 2, 2018, to the Credit Agreement.</u>
31.1	<u>Certification of Chief Executive Officer of Restaurant Brands International Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
31.2	<u>Certification of Chief Financial Officer of Restaurant Brands International Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</u>
32.1	<u>Certification of Chief Executive Officer of Restaurant Brands International Inc. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
32.2	<u>Certification of Chief Financial Officer of Restaurant Brands International Inc. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</u>
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

RESTAURANT BRANDS
INTERNATIONAL INC.
(Registrant)

Date: October 24, 2018 By: /s/ Matthew Dunnigan
Name: Matthew Dunnigan
Chief Financial Officer
Title: (principal financial officer)
(duly authorized officer)