

Restaurant Brands International Inc.  
Form 10-Q  
October 24, 2016  
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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, 2016**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**Commission file number: 001-36786**

**RESTAURANT BRANDS INTERNATIONAL INC.**

**(Exact Name of Registrant as Specified in its Charter)**

<b>Canada</b> <b>(State or Other Jurisdiction of</b>	<b>98-1202754</b> <b>(I.R.S. Employer</b>
<b>Incorporation or Organization)</b>	<b>Identification No.)</b>
<b>226 Wycroft Road</b>	
<b>Oakville, Ontario</b> <b>(Address of Principal Executive Offices)</b>	<b>L6K 3X7</b> <b>(Zip Code)</b>
<b>(905) 845-6511</b>	
<b>(Registrant's telephone number, including area code)</b>	

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

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

As of October 20, 2016, there were 234,111,128 common shares of the Registrant outstanding.

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**RESTAURANT BRANDS INTERNATIONAL INC. AND SUBSIDIARIES**

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**Table of Contents****PART I Financial Information***Item 1. Financial Statements***RESTAURANT BRANDS INTERNATIONAL INC. AND SUBSIDIARIES**

## Condensed Consolidated Balance Sheets

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

(unaudited)

	As of	
	September 30, 2016	December 31, 2015
<b><u>ASSETS</u></b>		
Current assets:		
Cash and cash equivalents	\$ 1,274.4	\$ 757.8
Trade and notes receivable, net of allowance of \$14.1 million and \$14.2 million, respectively	374.3	422.0
Inventories and other current assets, net	170.8	132.2
Advertising fund restricted assets	57.7	57.5
<b>Total current assets</b>	<b>1,877.2</b>	<b>1,369.5</b>
Property and equipment, net of accumulated depreciation of \$446.6 million and \$339.3 million, respectively	2,095.8	2,150.6
Intangible assets, net	9,434.0	9,147.8
Goodwill	4,762.0	4,574.4
Net investment in property leased to franchisees	100.1	117.2
Other assets, net	924.3	1,051.6
<b>Total assets</b>	<b>\$ 19,193.4</b>	<b>\$ 18,411.1</b>

**LIABILITIES, REDEEMABLE PREFERRED SHARES AND SHAREHOLDERS EQUITY**

Current liabilities:		
Accounts and drafts payable	\$ 352.1	\$ 361.5
Other accrued liabilities	506.8	441.3
Gift card liability	124.2	168.5
Advertising fund liabilities	112.7	93.6
Current portion of long term debt and capital leases	94.1	56.1
<b>Total current liabilities</b>	<b>1,189.9</b>	<b>1,121.0</b>
Term debt, net of current portion	8,421.3	8,462.3

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Capital leases, net of current portion	213.9	203.4
Other liabilities, net	903.5	795.9
Deferred income taxes, net	1,648.7	1,618.8
Total liabilities	12,377.3	12,201.4
Redeemable preferred shares; \$43.775848 par value; 68,530,939 shares authorized, issued and outstanding at September 30, 2016 and December 31, 2015	3,297.0	3,297.0
Shareholders' Equity:		
Common shares, no par value; unlimited shares authorized at September 30, 2016 and December 31, 2015; 234,097,876 shares issued and outstanding at September 30, 2016; 225,707,588 shares issued and outstanding at December 31, 2015	1,935.8	1,824.5
Retained earnings	367.4	245.8
Accumulated other comprehensive income (loss)	(594.9)	(733.7)
Total Restaurant Brands International Inc. shareholders' equity	1,708.3	1,336.6
Noncontrolling interests	1,810.8	1,576.1
Total shareholders' equity	3,519.1	2,912.7
Total liabilities, redeemable preferred shares and shareholders' equity	\$ 19,193.4	\$ 18,411.1

*See accompanying notes to condensed consolidated financial statements.*

**Table of Contents****RESTAURANT BRANDS INTERNATIONAL INC. AND SUBSIDIARIES**

## Condensed Consolidated Statements of Operations

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

(unaudited)

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
<b>Revenues:</b>				
Sales	\$ 586.4	\$ 545.9	\$ 1,635.5	\$ 1,613.2
Franchise and property revenues	489.3	473.8	1,398.9	1,382.0
<b>Total revenues</b>	<b>1,075.7</b>	<b>1,019.7</b>	<b>3,034.4</b>	<b>2,995.2</b>
Cost of sales	455.0	446.6	1,279.0	1,354.6
Franchise and property expenses	111.9	114.4	330.2	365.2
Selling, general and administrative expenses	82.2	104.3	228.5	317.3
(Income) loss from equity method investments	(2.6)	1.0	(16.6)	5.7
Other operating expenses (income), net	8.7	9.4	38.2	82.2
<b>Total operating costs and expenses</b>	<b>655.2</b>	<b>675.7</b>	<b>1,859.3</b>	<b>2,125.0</b>
<b>Income from operations</b>	<b>420.5</b>	<b>344.0</b>	<b>1,175.1</b>	<b>870.2</b>
Interest expense, net	117.3	116.0	349.6	362.3
(Gain) loss on early extinguishment of debt		0.4		40.0
<b>Income before income taxes</b>	<b>303.2</b>	<b>227.6</b>	<b>825.5</b>	<b>467.9</b>
Income tax expense	64.6	44.7	171.0	140.7
<b>Net income</b>	<b>238.6</b>	<b>182.9</b>	<b>654.5</b>	<b>327.2</b>
<b>Net income attributable to noncontrolling interests (Note 12)</b>	<b>84.8</b>	<b>65.8</b>	<b>224.8</b>	<b>71.3</b>
Preferred share dividends	67.5	67.5	202.5	203.7
<b>Net income attributable to common shareholders</b>	<b>\$ 86.3</b>	<b>\$ 49.6</b>	<b>\$ 227.2</b>	<b>\$ 52.2</b>
<b>Earnings per common share</b>				
Basic	\$ 0.37	\$ 0.25	\$ 0.98	\$ 0.26
Diluted	\$ 0.36	\$ 0.24	\$ 0.96	\$ 0.25
<b>Weighted average shares outstanding</b>				
Basic	233.9	202.4	232.5	202.3
Diluted	470.6	476.5	469.7	476.4

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Cash dividends declared per common share	\$ 0.16	\$ 0.12	\$ 0.45	\$ 0.31
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*See accompanying notes to condensed consolidated financial statements.*



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## Condensed Consolidated Statements of Comprehensive Income (Loss)

(In millions of U.S. dollars)

(unaudited)

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Net income	\$ 238.6	\$ 182.9	\$ 654.5	\$ 327.2
Foreign currency translation adjustment	(131.7)	(644.8)	538.8	(1,543.5)
Net change in fair value of net investment hedges, net of tax of \$(2.7), \$(51.8), \$25.9 and \$(94.6)	17.4	345.9	(173.7)	572.0
Net change in fair value of cash flow hedges, net of tax of \$(0.7), \$11.8, \$20.7 and \$33.1	2.4	(33.6)	(58.6)	(92.6)
Amounts reclassified to earnings of cash flow hedges, net of tax of \$(1.9), \$0, \$(3.7) and \$(7.3)	5.4	0.2	10.5	19.2
Pension and post-retirement benefit plans, net of tax of \$0, \$0, \$0 and \$0.1				(0.1)
Amortization of prior service (credits) costs, net of tax of \$0.3, \$0.3, \$0.9 and \$0.8	(0.4)	(0.4)	(1.3)	(1.3)
Amortization of actuarial (gains) losses, net of tax of \$0, \$(0.3), \$(0.1) and \$(0.8)	0.1	0.4	0.2	1.3
Other comprehensive income (loss)	(106.8)	(332.3)	315.9	(1,045.0)
Comprehensive income (loss)	131.8	(149.4)	970.4	(717.8)
Comprehensive income (loss) attributable to noncontrolling interests	32.2	(122.6)	383.2	(521.2)
Comprehensive income attributable to preferred shareholders	67.5	67.5	202.5	203.7
Comprehensive income (loss) attributable to common shareholders	\$ 32.1	\$ (94.3)	\$ 384.7	\$ (400.3)

*See accompanying notes to condensed consolidated financial statements.***RESTAURANT BRANDS INTERNATIONAL INC. AND SUBSIDIARIES**

## Condensed Consolidated Statements of Shareholders Equity

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

(unaudited)

	Issued Common Shares		Accumulated Other Comprehensive			Total
	Shares	Amount	Retained Earnings	Income (Loss)	Noncontrolling Interest	
Balances at December 31, 2015	225.7	\$ 1,824.5	\$ 245.8	\$ (733.7)	\$ 1,576.1	\$ 2,912.7
Stock option exercises	1.5	12.5				12.5
Share-based compensation		24.8				24.8
Issuance of shares	0.2	7.6				7.6
Dividends declared on common shares (\$0.45 per share)			(105.0)			(105.0)
Dividend equivalents declared on restricted stock units		0.6	(0.6)			
Distributions declared by Partnership on partnership exchangeable units (\$0.45 per unit) (Note 12)					(102.3)	(102.3)
Preferred share dividends			(202.5)			(202.5)
Exchange of Partnership exchangeable units for RBI common shares	6.7	65.8		(18.7)	(47.1)	
Restaurant VIE contributions					0.9	0.9
Net income			429.7		224.8	654.5
Other comprehensive income (loss)				157.5	158.4	315.9
Balances at September 30, 2016	234.1	\$ 1,935.8	\$ 367.4	\$ (594.9)	\$ 1,810.8	\$ 3,519.1

*See accompanying notes to condensed consolidated financial statements.*

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## Condensed Consolidated Statements of Cash Flows

(In millions of U.S. dollars)

(unaudited)

	<b>Nine Months Ended September 30,</b>	
	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 654.5	\$ 327.2
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	129.0	137.8
(Gain) loss on early extinguishment of debt		40.0
Amortization of deferred financing costs and debt issuance discount	29.1	25.0
(Income) loss from equity method investments	(16.6)	5.7
Loss (gain) on remeasurement of foreign denominated transactions	16.1	31.1
Amortization of defined benefit pension and postretirement items	(1.9)	
Net losses (gains) on derivatives	15.3	50.1
Net losses (gains) on franchisings and dispositions of assets	10.0	(5.8)
Bad debt expense (recoveries), net	(0.1)	0.9
Share-based compensation expense	25.9	36.9
Acquisition accounting impact on cost of sales		0.5
Deferred income taxes	34.6	(114.8)
Changes in current assets and liabilities, excluding acquisitions and dispositions:		
Reclassification of restricted cash to cash and cash equivalents		79.2
Trade and notes receivable	20.0	35.4
Inventories and other current assets	(3.0)	(5.1)
Accounts and drafts payable	11.8	138.8
Accrued advertising	4.0	29.8
Other accrued liabilities	(23.8)	172.2
Other long-term assets and liabilities	14.1	(34.5)
Net cash provided by operating activities	919.0	950.4
<b>Cash flows from investing activities:</b>		
Payments for property and equipment	(18.2)	(82.9)
Proceeds from franchisings, disposition of assets and restaurant closures	18.1	16.9
Return of investment on direct financing leases	12.5	12.1
Settlement of derivatives, net	4.9	11.8
Other investing activities, net	2.0	2.1
Net cash provided by (used for) investing activities	19.3	(40.0)

**Cash flows from financing activities:**

Proceeds from Senior Notes		1,250.0
Repayments of term debt, Tim Hortons Notes and capital leases	(52.7)	(2,610.6)
Payment of financing costs		(81.3)
Dividends paid on common shares and preferred shares	(396.9)	(238.8)
Proceeds from stock option exercises	12.5	1.6
Proceeds from issuance of shares		2.1
Other financing activities	0.8	(3.9)
Net cash provided by (used for) financing activities	(436.3)	(1,680.9)
Effect of exchange rates on cash and cash equivalents	14.6	(57.2)
Increase (decrease) in cash and cash equivalents	516.6	(827.7)
Cash and cash equivalents at beginning of period	757.8	1,803.2
<b>Cash and cash equivalents at end of period</b>	\$ 1,274.4	\$ 975.5

**Supplemental cashflow disclosures:**

Interest paid	\$ 285.9	\$ 285.8
Income taxes paid	\$ 93.3	\$ 91.8

**Non-cash investing and financing activities:**

Acquisition of property with capital lease obligations	\$ 22.5	\$ 10.4
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*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**

***Description of Business***

Restaurant Brands International Inc. (the Company, RBI, we, us or our ) was originally formed on August 25, 2005 and continued under the laws of Canada. Pursuant to Rule 12g-3(a) under the Securities Exchange Act of 1934, as amended, the Company is a successor issuer to Burger King Worldwide, Inc. The Company serves as the sole general partner of Restaurant Brands International Limited Partnership (the Partnership ), the indirect parent of The TDL Group Corp. (f/k/a Tim Hortons ULC and Tim Hortons Inc.), a limited company existing under the laws of British Columbia that franchises and operates quick service restaurants serving premium coffee and other beverage and food products under the *Tim Hortons*® brand ( Tim Hortons or TH ), and Burger King Worldwide, Inc., a Delaware corporation that franchises and operates fast food hamburger restaurants principally under the *Burger King*® brand ( Burger King Worldwide , Burger King or BK ). On December 12, 2014, a series of transactions (the Transactions ) were completed resulting in Burger King Worldwide and Tim Hortons becoming indirect subsidiaries of the Company and Partnership. We are one of the world's largest quick service restaurant, or QSR, chains as measured by total number of restaurants. As of September 30, 2016, we franchised or owned 4,492 Tim Hortons restaurants and 15,243 Burger King restaurants, for a total of 19,735 restaurants, in more than 100 countries and U.S. territories worldwide. Approximately 100% of current Tim Hortons and Burger King system-wide restaurants are franchised.

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

**Note 2. Basis of Presentation and Consolidation**

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

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

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

Partnership we do not hold.

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

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

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

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

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

**Note 3. New Accounting Pronouncements**

In May 2014, the Financial Accounting Standards Board ( FASB ) issued an accounting standards update that amended accounting guidance on revenue recognition. In August 2015, the FASB deferred adoption of the new standard by one year. Several updates have been issued since to clarify the implementation guidance including, on principal versus agent considerations and on performance obligations and licensing. The new standard will be effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. Early adoption is allowed as of the original effective date, which is for fiscal years, and interim periods within those years, beginning after December 15, 2016. The accounting standards update permits the use of either the retrospective or cumulative effect transition method. We are evaluating the impact of this accounting standards update on our consolidated financial statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of the accounting standards update on our ongoing financial reporting.

In February 2016, the FASB issued an accounting standards update which sets out the principles for the recognition, measurement, presentation and disclosure of leases applicable to both lessors and lessees. The new guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018, with early adoption permitted. We are currently evaluating the impact that the adoption of this accounting standards update will

have on our financial statements, but we expect this new guidance will have a material impact on our consolidated financial statements since the Company has a significant number of operating lease arrangements for which it is the lessee and others for which it is the lessor.

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



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In March 2016, the FASB issued an accounting standards update that amends certain aspects of the equity method of accounting. Amendments in this update are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The amendments should be applied prospectively upon their effective date to increases in the level of ownership interest or degree of influence that result in the adoption of the equity method. Early adoption is permitted. We do not expect the adoption of this new guidance to have a material impact on our consolidated financial statements.

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

In August 2016, the FASB issued an accounting standards update to reduce the existing diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. Amendments in this update are effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. Early adoption is permitted for any entity in any interim or annual period. If an entity early adopts the amendments in an interim period, any adjustments should be reflected as of the beginning of the fiscal year that includes that interim period. An entity that elects early adoption must adopt all of the amendments in the same period. We are currently evaluating the impact that the adoption of this accounting standards update will have on our financial statements.

**Note 4. Earnings Per Share**

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

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

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

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

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
	2016	2015	2016	2015
<b>Numerator:</b>				
Net income attributable to common shareholders - basic	\$ 86.3	\$ 49.6	\$ 227.2	\$ 52.2
Add: Net income attributable to noncontrolling interests	83.8	64.9	222.0	68.4
Net income available to common shareholders and noncontrolling interests - diluted	\$ 170.1	\$ 114.5	\$ 449.2	\$ 120.6
<b>Denominator:</b>				
Weighted average common shares - basic	233.9	202.4	232.5	202.3
Exchange of noncontrolling interests for common shares (Note 12)	227.1	265.0	228.0	265.0
Effect of other dilutive securities	9.6	9.1	9.2	9.1
Weighted average common shares - diluted	470.6	476.5	469.7	476.4
Basic earnings per share	\$ 0.37	\$ 0.25	\$ 0.98	\$ 0.26
Diluted earnings per share	\$ 0.36	\$ 0.24	\$ 0.96	\$ 0.25
Anti-dilutive share options outstanding	5.9	5.2	5.9	5.2

**Table of Contents****Note 5. Inventories and Other Current Assets, net**

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

	As of	
	September 30, 2016	December 31, 2015
Raw materials	\$ 29.0	\$ 22.7
Finished goods	56.2	58.6
<b>Total inventory</b>	<b>85.2</b>	<b>81.3</b>
Refundable and prepaid income taxes	51.7	21.5
Prepays and other current assets	33.9	29.4
<b>Inventories and other current assets, net</b>	<b>\$ 170.8</b>	<b>\$ 132.2</b>

**Note 6. Intangible Assets, net and Goodwill**

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

	September 30, 2016			As of December 31, 2015		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
<b>Identifiable assets subject to amortization:</b>						
Franchise agreements	\$ 665.7	\$ (128.4)	\$ 537.3	\$ 653.0	\$ (106.8)	\$ 546.2
Favorable leases	444.6	(142.0)	302.6	436.5	(107.5)	329.0
<b>Subtotal</b>	<b>1,110.3</b>	<b>(270.4)</b>	<b>839.9</b>	<b>1,089.5</b>	<b>(214.3)</b>	<b>875.2</b>
<b>Indefinite lived intangible assets:</b>						
<i>Tim Hortons</i> brand	\$ 6,476.1	\$	\$ 6,476.1	\$ 6,175.4	\$	\$ 6,175.4
<i>Burger King</i> brand	2,118.0		2,118.0	2,097.2		2,097.2
<b>Subtotal</b>	<b>8,594.1</b>		<b>8,594.1</b>	<b>8,272.6</b>		<b>8,272.6</b>
<b>Intangible assets, net</b>			<b>\$ 9,434.0</b>			<b>\$ 9,147.8</b>

Goodwill \$ 4,762.0 \$ 4,574.4

We recorded amortization expense on intangible assets of \$18.1 million for the three months ended September 30, 2016 and \$19.2 million for the same period in the prior year. We recorded amortization expense on intangible assets

of \$54.2 million for the nine months ended September 30, 2016 and \$58.8 million for the same period in the prior year. The change in the brands and goodwill balances during the nine months ended September 30, 2016 was due to the impact of foreign currency translation.

**Note 7. Other Assets, net**

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

	<b>As of</b>	
	<b>September 30,</b>	<b>December 31,</b>
	<b>2016</b>	<b>2015</b>
Derivative assets	\$ 672.1	\$ 830.9
Equity method investments	152.8	139.0
Other assets	99.4	81.7
Other assets, net	\$ 924.3	\$ 1,051.6

**Table of Contents****Note 8. Equity Method Investments**

The aggregate carrying amount of our equity method investments was \$152.8 million as of September 30, 2016 and \$139.0 million as of December 31, 2015 and is included as a component of other assets, net in our condensed consolidated balance sheets. Below are the names of the entities, country of operation and our equity interest in our significant equity method investments based on the carrying value as of September 30, 2016.

<b>Entity</b>	<b>Country</b>	<b>Equity Interest</b>
TIMWEN Partnership	Canada	50.00%
Carrols Restaurant Group, Inc.	United States	20.81%
Pangaea Foods (China) Holdings, Ltd.	China	27.50%

With respect to our TH business, the most significant equity method investment is our 50% joint venture interest with The Wendy's Company (the TIMWEN Partnership), which jointly holds real estate underlying Canadian combination restaurants. During the three months ended September 30, 2016, TH received \$2.7 million in cash distributions and recognized \$5.1 million of contingent rent expense associated with this joint venture. During the nine months ended September 30, 2016, TH received \$8.3 million in cash distributions and recognized \$14.7 million of contingent rent expense associated with this joint venture.

The aggregate market value of our equity interest in Carrols Restaurant Group, Inc., based on the quoted market price on September 30, 2016, is approximately \$124.4 million. No quoted market prices are available for our remaining equity method investments.

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Revenues from affiliates:				
Franchise royalties	\$ 34.9	\$ 23.0	\$ 94.2	\$ 67.3
Property revenues	6.9	6.7	21.1	20.9
Franchise fees and other revenue	6.8	2.4	14.7	5.8
<b>Total</b>	<b>\$ 48.6</b>	<b>\$ 32.1</b>	<b>\$ 130.0</b>	<b>\$ 94.0</b>

At September 30, 2016 and December 31, 2015, we had \$20.0 million and \$23.9 million, respectively, of accounts receivable from our equity method investments which were recorded in trade and notes receivable, net in our condensed consolidated balance sheets.

(Income) loss from equity method investments reflects our share of investee net income or loss, non-cash dilution gains or losses from changes in our ownership interests in equity method investees and basis difference amortization. We recorded increases to the carrying value of our investment balances and non-cash dilution gains in the amounts of

\$11.6 million during the nine months ended September 30, 2016 and \$10.9 million during the nine months ended September 30, 2015. The dilution gains resulted from the issuance of capital stock by Burger King France SAS ( France JV ) during the nine months ended September 30, 2016 and BK Brasil Operacao E Assesoria A Restaurantes S.A. (Brazil JV) during the nine months ended September 30, 2015, which reduced our ownership interests in these equity method investments. The dilution gains we recorded in connection with the issuance of capital stock by the France JV and Brazil JV reflect adjustments to the differences between the amount of underlying equity in the net assets of equity method investees before and after their issuances of capital stock.

**Table of Contents****Note 9. Other Accrued Liabilities and Other Liabilities, net**

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

	As of	
	September 30, 2016	December 31, 2015
Current:		
Dividend payable	\$ 141.3	\$ 128.3
Interest payable	82.6	63.1
Accrued compensation and benefits	46.2	62.5
Taxes payable - current	79.3	46.9
Deferred income - current	48.6	33.5
Closed property reserve	10.1	14.0
Restructuring and other provisions	8.4	13.5
Derivatives liabilities - current	3.4	
Other	86.9	79.5
<b>Other accrued liabilities</b>	<b>\$ 506.8</b>	<b>\$ 441.3</b>
Noncurrent:		
Unfavorable leases	\$ 292.1	\$ 322.0
Taxes payable - noncurrent	256.2	236.7
Accrued pension	77.9	80.2
Derivatives liabilities - noncurrent	164.6	47.3
Lease liability - noncurrent	28.5	29.5
Deferred income - noncurrent	27.6	23.7
Other	56.6	56.5
<b>Other liabilities, net</b>	<b>\$ 903.5</b>	<b>\$ 795.9</b>

**Note 10. Long-Term Debt**

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

		As of	
	Maturity dates	September 30, 2016	December 31, 2015
Term Loan Facility	December 12, 2021	\$ 5,059.0	\$ 5,097.7
2015 Senior Notes	January 15, 2022	1,250.0	1,250.0
2014 Senior Notes	April 1, 2022	2,250.0	2,250.0
Tim Hortons Notes	various	41.6	39.4
Other	N/A	92.6	88.5

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Less: unamortized discount and deferred financing costs	(196.5)	(224.3)
<b>Total debt, net</b>	<b>8,496.7</b>	<b>8,501.3</b>
Less: current maturities of debt	(75.4)	(39.0)
<b>Total long-term debt</b>	<b>\$ 8,421.3</b>	<b>\$ 8,462.3</b>

As of September 30, 2016 and December 31, 2015, unamortized discount included \$37.6 million and \$43.2 million, respectively, related to our secured term loans (the Term Loan Facility ) under our credit agreement dated May 22, 2015 (the 2015 Amended Credit Agreement ).

As of September 30, 2016, deferred financing costs included \$114.4 million related to the Term Loan Facility, \$7.8 million related to the first lien senior secured notes (the 2015 Senior Notes ) and \$36.7 million related to the second lien senior secured notes (the 2014 Senior Notes ). As of December 31, 2015, deferred financing costs included \$131.3 million related to the Term Loan Facility, \$9.0 million related to the 2015 Senior Notes and \$40.8 million related to the 2014 Senior Notes. Deferred financing costs are amortized over the term of the debt into interest expense using the effective interest method. The amortization of deferred financing costs included in interest expense, net was \$7.9 million for the three months ended September 30, 2016 and \$7.6 million for the three months ended September 30, 2015. The amortization of deferred financing costs included in interest expense, net was \$23.5 million for the nine months ended September 30, 2016 and \$18.7 million for the nine months ended September 30, 2015.



**Table of Contents****Revolving Credit Facility**

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

**Interest Expense, net**

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

	<b>Three Months Ended</b>		<b>Nine Months</b>	
	<b>September 30,</b>		<b>Ended</b>	
	<b>2016</b>	<b>2015</b>	<b>September 30,</b>	<b>2015</b>
Term Loan Facility	\$ 54.6	\$ 52.6	\$ 160.5	\$ 197.8
2015 Senior Notes	14.5	14.4	43.4	20.7
2014 Senior Notes	33.8	33.8	101.3	101.3
Tim Hortons Notes	0.4	0.4	1.1	2.8
Amortization of deferred financing costs and debt issuance discount	9.8	9.7	29.1	25.0
Capital lease obligations	5.2	5.3	15.0	15.7
Other	0.3	0.7	2.0	2.3
Interest income	(1.3)	(0.9)	(2.8)	(3.3)
Interest expense, net	\$ 117.3	\$ 116.0	\$ 349.6	\$ 362.3

**Note 11. Income Taxes**

Our effective tax rate was 21.3% and 20.7% for the three and nine months ended September 30, 2016, respectively. The effective tax rate during these periods was primarily a result of the mix of income from multiple tax jurisdictions, partially offset by the favorable impact from intercompany financing.

Our effective tax rate was 19.6% and 30.1% for the three and nine months ended September 30, 2015, respectively. The effective tax rate during these periods was primarily a result of the mix of income from multiple tax jurisdictions and the revaluation of certain monetary assets and liabilities due to changes in foreign currency exchange rates, partially offset by the favorable impact from a restructuring of certain legal entities.

**Note 12. Shareholders' Equity****Noncontrolling Interests**

Noncontrolling interests represent equity interests in consolidated subsidiaries that are not attributable to us. The holders of Partnership exchangeable units held an economic interest of approximately 49.2% and 50.9% in Partnership common equity through the ownership of 227,049,533 and 233,739,648 Partnership exchangeable units as of September 30, 2016 and December 31, 2015, respectively.

Pursuant to the terms of the partnership agreement, each holder of a Partnership exchangeable unit is entitled to distributions from Partnership in an amount equal to any dividends or distributions that we declare and pay with respect to our common shares. Additionally, each holder of a Partnership exchangeable unit is entitled to vote in respect of matters on which holders of our common shares are entitled to vote through one special voting share of the Company. Since December 12, 2015, the one year anniversary of the effective date of the Transactions, each holder of a Partnership exchangeable unit may require Partnership to exchange all or any portion of such holder's Partnership exchangeable units for our common shares at a ratio of one common share for each Partnership exchangeable unit, subject to our right as the general partner of Partnership, in our sole discretion, to deliver a cash payment in lieu of

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our common shares. If we elect to make a cash payment in lieu of issuing common shares, the amount of the payment will be the weighted average trading price of the common shares on the New York Stock Exchange for the 20 consecutive trading days ending on the last business day prior to the exchange date.

During the nine months ended September 30, 2016, Partnership exchanged 6,690,115 Partnership exchangeable units pursuant to exchange notices received. In accordance with the terms of the partnership agreement, Partnership satisfied the exchange notices by exchanging the Partnership exchangeable units for the same number of newly issued Company common shares. The exchanges represented increases in our ownership interest in Partnership and were accounted for as equity transactions, with no gain or loss recorded in the condensed consolidated statement of operations. Pursuant to the terms of the partnership agreement, upon the exchange of Partnership exchangeable units, each such Partnership exchangeable unit is automatically deemed cancelled concurrently with such exchange.

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

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

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

**Accumulated Other Comprehensive Income (Loss)**

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

	Derivatives	Pensions	Foreign Currency Translation	AOCI
Balances at December 31, 2015	\$ 318.0	\$ (12.3)	\$ (1,039.4)	\$ (733.7)
Foreign currency translation adjustment			538.8	538.8
Net change in fair value of derivatives, net of tax	(232.3)			(232.3)
Amounts reclassified to earnings of cash flow hedges, net of tax	10.5			10.5
Amortization of prior service (credits) costs, net of tax		(1.3)		(1.3)
Amortization of actuarial (gains) losses, net of tax		0.2		0.2
Other comprehensive income attributable to noncontrolling interests	118.8	0.2	(296.1)	(177.1)

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Balances at September 30, 2016	\$ 215.0	\$ (13.2)	\$ (796.7)	\$ (594.9)
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The following table displays the reclassifications out of AOCI (in millions):

Details about AOCI Components	Affected Line Item in the Statements of Operations	Amounts Reclassified from AOCI Three Months Ended			
		September 30,		Nine Months Ended September 30,	
		2016	2015	2016	2015
<b>Gains (losses) on cash flow hedges:</b>					
Interest rate derivative contracts	Interest expense, net	\$ (5.9)	\$ (3.5)	\$ (15.3)	\$ (8.5)
Interest rate derivative contracts	Other operating expenses (income), net				(27.6)
Forward-currency contracts	Cost of sales	(1.4)	3.3	1.1	9.6
	Total before tax	(7.3)	(0.2)	(14.2)	(26.5)
	Income tax (expense) benefit	1.9		3.7	7.3
	Net of tax	\$ (5.4)	\$ (0.2)	\$ (10.5)	\$ (19.2)
<b>Defined benefit pension:</b>					
Amortization of prior service credits (costs)	SG&A (a)	0.7	0.8	2.2	2.2
Amortization of actuarial gains (losses)	SG&A (a)	(0.1)	(0.7)	(0.3)	(2.1)
	Total before tax	0.6	0.1	1.9	0.1
	Income tax (expense) benefit	(0.3)	(0.1)	(0.8)	(0.1)
	Net of tax	\$ 0.3	\$	\$ 1.1	\$
<b>Total reclassifications</b>	Net of tax	\$ (5.1)	\$ (0.2)	\$ (9.4)	\$ (19.2)

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

**Note 13. Fair Value Measurements**

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

Balance Sheet Location	Fair Value Measurements at September 30, 2016		Fair Value Measurements at December 31, 2015	
	(Level 2)	Total	(Level 2)	Total
<b>Assets:</b>				

**Derivatives designated as cash  
flow hedges**

Foreign currency	Trade and notes receivable, net	\$ 1.1	\$ 1.1	\$ 6.6	\$ 6.6
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**Derivatives designated as net  
investment hedges**

Foreign currency	Other assets, net	672.1	672.1	830.9	830.9
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Total assets at fair value		\$ 673.2	\$ 673.2	\$ 837.5	\$ 837.5
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**Liabilities:****Derivatives designated as cash  
flow hedges**

Interest rate	Other liabilities, net	\$ 106.7	\$ 106.7	\$ 40.9	\$ 40.9
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Foreign currency	Other accrued liabilities	3.4	3.4		
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**Derivatives designated as net  
investment hedges**

Foreign currency	Other liabilities, net	57.9	57.9	6.3	6.3
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Total liabilities at fair value		\$ 168.0	\$ 168.0	\$ 47.2	\$ 47.2
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Our derivatives are valued using a discounted cash flow analysis that incorporates observable market parameters, such as interest rate yield curves and currency rates, classified as Level 2 within the valuation hierarchy. Derivative valuations incorporate credit risk adjustments that are necessary to reflect the probability of default by us or the counterparty.

At September 30, 2016, the fair value of our variable rate term debt and bonds was estimated at \$8.8 billion, compared to a principal carrying amount of \$8.6 billion. At December 31, 2015, the fair value of our variable rate term debt and bonds was estimated at \$8.7 billion, compared to a principal carrying amount of \$8.6 billion. The fair value of our variable rate term debt and bonds was estimated using inputs based on bid and offer prices and are Level 2 inputs within the fair value hierarchy.

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

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**Table of Contents****Note 14. Derivative Instruments*****Disclosures about Derivative Instruments and Hedging Activities***

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

***Interest Rate Swaps Outstanding as of September 30, 2016***

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

***Interest Rate Swaps Settled During 2015***

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

The following derivative instruments were also settled during May 2015. During October 2014, we entered into a series of receive-variable, pay-fixed interest rate swaps with a combined initial notional value of \$6,750.0 million that was amortized each quarter at the same rate of the Term Loan Facility. To offset the cash flows associated with these

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

In connection with the interest rate swaps settled during May 2015, we paid \$36.2 million, which is reflected as a use of cash from investing activities in the condensed consolidated statement of cash flows for the nine months ended September 30, 2015. The net unrealized loss remaining in AOCI totaled \$84.6 million at the date of settlement and is being reclassified into interest expense, net as the original hedged forecasted transaction affects earnings. The amount of pre-tax losses in AOCI as of September 30, 2016 that we expect to be reclassified into interest expense within the next 12 months is \$12.5 million.



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**Table of Contents*****Cross-Currency Rate Swaps***

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

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

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

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

***Foreign Currency Exchange Contracts***

We use foreign exchange derivative instruments to manage the impact of foreign exchange fluctuations on U.S. dollar purchases and payments, such as coffee made by our Canadian Tim Hortons operations. At September 30, 2016, we had outstanding forward currency contracts to manage this risk in which we sell Canadian dollars and buy U.S. dollars with a notional value of \$149.2 million with maturities to December 2017. We have designated these instruments as cash flow hedges, and as such, the effective portion of unrealized changes in market value are recorded in AOCI and are reclassified into earnings during the period in which the hedged forecasted transaction affects earnings. Gains and losses from hedge ineffectiveness are recognized in current earnings.

***Credit Risk***

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

**Table of Contents****Credit-Risk Related Contingent Features**

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

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

	<b>Gain (Loss) Recognized in Other Comprehensive Income (Loss)</b>			
	<b>(effective portion)</b>			
	<b>Three Months Ended September 30,</b>		<b>September 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
<b>Derivatives designated as cash flow hedges:</b>				
Forward-starting interest rate swaps	\$ 1.0	\$ (53.4)	\$ (71.6)	\$ (139.3)
Forward-currency contracts	\$ 2.1	\$ 8.0	\$ (7.7)	\$ 13.5
<b>Derivatives designated as net investment hedges:</b>				
Cross-currency rate swaps	\$ 20.1	\$ 397.7	\$ (199.6)	\$ 666.7
<b>Classification on Condensed Consolidated Statements of Operations</b>	<b>Gain (Loss) Reclassified from AOCI into Earnings</b>			
	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Interest expense, net	\$ (5.9)	\$ (3.5)	\$ (15.3)	\$ (8.5)
Other operating expenses (income), net	\$	\$	\$	\$ (27.6)
Cost of sales	\$ (1.4)	\$ 3.3	\$ 1.1	\$ 9.6
	<b>Gain (Loss) Recognized in Other Operating Expenses (Income), net</b>			
	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
<b>Derivatives not designated as hedging instruments:</b>				
Interest rate swaps	\$	\$	\$	\$ (12.4)
Forward-currency contracts	\$	\$ 1.5	\$	\$ 4.3
<b>Ineffectiveness of cash flow hedges:</b>				
Interest rate swaps	\$	\$	\$	\$ (1.6)

**Note 15. Franchise and Property Revenues**

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

	<b>Three Months Ended</b>	<b>Nine Months Ended</b>
	<b>September 30,</b>	<b>September 30,</b>

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	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Franchise royalties	\$ 261.1	\$ 242.8	\$ 738.7	\$ 697.8
Property revenues	194.6	191.7	563.9	567.7
Franchise fees and other revenue	33.6	39.3	96.3	116.5
Franchise and property revenues	\$ 489.3	\$ 473.8	\$ 1,398.9	\$ 1,382.0

**Table of Contents****Note 16. Other Operating Expenses (Income), net**

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net losses (gains) on disposal of assets, restaurant closures and franchisings	\$ 3.3	\$ 0.2	\$ 19.6	\$ (3.2)
Litigation settlements and reserves, net	0.4	(0.1)	2.0	1.8
Net losses (gains) on derivatives		(1.5)		37.3
Net losses (gains) on foreign exchange	4.1	10.8	16.1	45.1
Other, net	0.9		0.5	1.2
Other operating expenses (income), net	\$ 8.7	\$ 9.4	\$ 38.2	\$ 82.2

Net losses (gains) on disposal of assets, restaurant closures and franchisings for the nine months ended September 30, 2016 primarily reflects losses in connection with franchisings in our TH business.

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

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

**Note 17. Variable Interest Entities*****VIEs for Which We Are the Primary Beneficiary***

The number of Restaurant VIEs where TH is the restaurants primary beneficiary was as follows:

	September 30, 2016	As of December 31, 2015	September 30, 2015
Number of consolidated Restaurant VIEs	104	141	198

Sales and operating costs and expenses associated with Restaurant VIEs, prior to consolidation adjustments, were as follows (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Sales	\$ 32.4	\$ 54.6	\$ 98.1	\$ 180.2

Operating costs and expenses \$ 31.3 \$ 53.5 \$ 94.8 \$ 176.6

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

***VIEs for Which We Are Not the Primary Beneficiary***

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

**Table of Contents****Note 18. Segment Reporting**

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

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

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
<b>Revenues by operating segment:</b>				
TH	\$ 789.9	\$ 737.7	\$ 2,207.5	\$ 2,185.4
BK	285.8	282.0	826.9	809.8
Total revenues	\$ 1,075.7	\$ 1,019.7	\$ 3,034.4	\$ 2,995.2
<b>Revenues by country:</b>				
Canada	\$ 708.8	\$ 658.1	\$ 1,973.0	\$ 1,943.1
United States	249.2	244.3	725.0	726.2
Other	117.7	117.3	336.4	325.9
Total revenues	\$ 1,075.7	\$ 1,019.7	\$ 3,034.4	\$ 2,995.2

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, (gain) loss on early extinguishment of debt, taxes, depreciation and amortization, adjusted to exclude the impact of share-based compensation and non-cash incentive compensation expense, other operating expenses (income), net, (income) loss from equity method investments, net of cash distributions received from equity method investments, and all other specifically identified items that management believes are not relevant to management's assessment of operating performance or the performance of an acquired business. Adjusted EBITDA assists management in comparing segment performance by removing the impact of such items, including acquisition accounting impact on cost of sales, TH transaction and restructuring costs, and integration costs. A reconciliation of segment income to net income consists of the following (in millions):

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
<b>Segment Income:</b>				
TH	\$ 287.1	\$ 244.0	\$ 793.9	\$ 663.3
BK	201.8	196.7	581.9	560.3
Adjusted EBITDA	488.9	440.7	1,375.8	1,223.6
Share-based compensation and non-cash incentive compensation expense	11.8	15.5	31.0	37.5
Acquisition accounting impact on cost of sales		(0.3)		0.5
TH transaction and restructuring costs		24.3		79.7
Integration costs	4.4		10.4	
Impact of equity method investments (a)	0.3	4.7	(7.6)	15.7
Other operating expenses (income), net	8.7	9.4	38.2	82.2
EBITDA	463.7	387.1	1,303.8	1,008.0
Depreciation and amortization	43.2	43.1	128.7	137.8
Income from operations	420.5	344.0	1,175.1	870.2
Interest expense, net	117.3	116.0	349.6	362.3
(Gain) loss on early extinguishment of debt		0.4		40.0
Income tax expense	64.6	44.7	171.0	140.7
Net income	\$ 238.6	\$ 182.9	\$ 654.5	\$ 327.2

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

**Note 19. Subsequent Event****Dividends**



On October 4, 2016, we paid a cash dividend of \$0.16 per common share to common shareholders of record on September 6, 2016. On such date, Partnership also made a distribution in respect of each Partnership exchangeable unit in the amount of \$0.16 per Partnership exchangeable unit to holders of record on September 6, 2016. On October 3, 2016, we paid a cash dividend of \$0.98 per Preferred Share, for a total dividend of \$67.5 million, to the holder of the Preferred Shares. The dividend on the Preferred Shares included the amount due for the third calendar quarter of 2016.

On October 24, 2016, our board of directors declared a cash dividend of \$0.17 per common share, which will be paid on January 4, 2017, to common shareholders of record on December 8, 2016. Partnership will also make a distribution in respect of each Partnership exchangeable unit in the amount of \$0.17 per Partnership exchangeable unit, and the record date and payment date for distributions on Partnership exchangeable units are the same as the record date and payment date set forth above. On October 24, 2016, our board of directors declared a cash dividend of \$0.98 per Preferred Share, for a total dividend of \$67.5 million which will be paid to the holder of the Preferred Shares on January 3, 2017. The dividend on the Preferred Shares includes the amount due for the fourth calendar quarter of 2016.

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

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

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

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

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

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

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

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

#### **Overview**

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

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

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

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

Tim Hortons third quarter of fiscal year 2015 began June 29, 2015 and ended September 27, 2015. Tim Hortons first nine months of fiscal year 2015 began December 29, 2014 and ended September 27, 2015. The change to a calendar quarter end of September 30 in 2016 did not have a material impact on our results of operations or key financial measures.

### ***Operating Metrics and Key Financial Measures***

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

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

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

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

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

Adjusted EBITDA, a non-GAAP measure, which represents earnings (net income or loss) before interest, (gain) loss on early extinguishment of debt, taxes, depreciation and amortization, adjusted to exclude specifically identified items that management believes are not relevant to management's assessment of operating performance. See *Non-GAAP Reconciliations*.

System-wide sales growth and comparable sales growth are measured on a constant currency basis, which means the results exclude the effect of foreign currency translation ( FX Impact ). For system-wide sales growth and comparable sales growth, we calculate the FX Impact by translating prior year results at current year monthly average exchange rates. For items included in our results of operations, we calculate the FX Impact by translating current year results at

prior year monthly average exchange rates. We analyze certain financial measures on a constant currency basis as this helps identify underlying business trends, without distortion from the effects of currency movements.

### **Recent Events and Factors Affecting Comparability**

#### ***Integration Costs***

In connection with the implementation of initiatives to integrate the back-office processes of TH and BK to enhance efficiencies, we incurred \$4.4 million and \$10.4 million related to these initiatives during the three and nine months ended September 30, 2016, respectively, primarily consisting of professional fees.

**Table of Contents*****TH Transaction and Restructuring Costs***

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

Financing, legal and advisory fees, share-based compensation expense due to accelerated vesting of equity awards as a result of the Transactions and integration costs related to a realignment of our global structure to better accommodate the needs of the combined business, totaling \$18.3 million and \$51.5 million during the three and nine months ended September 30, 2015, respectively;

Severance benefits, other compensation costs and training expenses of approximately \$6.0 million and \$26.0 million during the three and nine months ended September 30, 2015, respectively, related to a restructuring plan we implemented following the Transactions, which resulted in work force reductions throughout our TH business; and

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

**Results of Operations for the Three and Nine Months Ended September 30, 2016 and 2015**

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

***Consolidated***

	Three Months Ended		Variance		Nine Months Ended		Variance	
	September 30, 2016	September 30, 2015	\$	%	September 30, 2016	September 30, 2015	\$	%
Revenues:								
Sales	\$ 586.4	\$ 545.9	\$ 40.5	7.4%	\$ 1,635.5	\$ 1,613.2	\$ 22.3	1.4%
Franchise and property revenues	489.3	473.8	15.5	3.3%	1,398.9	1,382.0	16.9	1.2%
Total revenues	1,075.7	1,019.7	56.0	5.5%	3,034.4	2,995.2	39.2	1.3%
Cost of sales	455.0	446.6	(8.4)	(1.9)%	1,279.0	1,354.6	75.6	5.6%
Franchise and property expenses	111.9	114.4	2.5	2.2%	330.2	365.2	35.0	9.6%
Selling, general and administrative expenses	82.2	104.3	22.1	21.2%	228.5	317.3	88.8	28.0%
(Income) loss from equity method	(2.6)	1.0	3.6	NM	(16.6)	5.7	22.3	NM

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investments								
Other operating expenses (income), net	8.7	9.4	0.7	7.4%	38.2	82.2	44.0	53.5%
Total operating costs and expenses	655.2	675.7	20.5	NM	1,859.3	2,125.0	265.7	NM
Income from operations	420.5	344.0	76.5	22.2%	1,175.1	870.2	304.9	35.0%
Interest expense, net	117.3	116.0	(1.3)	(1.1)%	349.6	362.3	12.7	3.5%
(Gain) loss on early extinguishment of debt		0.4	0.4	NM		40.0	40.0	NM
Income before income taxes	303.2	227.6	75.6	33.2%	825.5	467.9	357.6	76.4%
Income tax expense	64.6	44.7	(19.9)	(44.5)%	171.0	140.7	(30.3)	(21.5)%
Net income	238.6	182.9	55.7	30.5%	654.5	327.2	327.3	100.0%
Net income attributable to noncontrolling interests	84.8	65.8	19.0	NM	224.8	71.3	153.5	NM
Preferred shares dividend	67.5	67.5		NM	202.5	203.7	1.2	NM
Net income attributable to common shareholders	\$ 86.3	\$ 49.6	\$ 36.7	74.0%	\$ 227.2	\$ 52.2	\$ 175.0	NM

NM Not meaningful

<b>FX Impact</b> Favorable/(Unfavorable)	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>September 30,</b>		<b>September 30,</b>	
	<b>2016</b>	<b>2015 (a)</b>	<b>2016</b>	<b>2015 (a)</b>
Total revenues	\$ (3.1)	\$ (20.9)	\$ (112.8)	\$ (54.4)
Cost of sales			53.5	
Franchise and property expenses	0.4	1.4	11.3	3.8
Selling, general and administrative expenses	1.3	2.7	4.0	6.0
Income from operations	(2.7)	(16.6)	(42.9)	(52.0)
Net income	(0.2)	(17.0)	(44.9)	(49.1)
Adjusted EBITDA	(1.7)	(18.5)	(49.1)	(48.1)

(a) FX Impact for 2015 is only for BK Segment.



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Key Business Metrics	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
System-wide sales growth				
TH	4.8%	8.2%	6.1%	8.3%
BK	7.0%	11.2%	7.5%	10.8%
System-wide sales				
TH	\$ 1,690.4	\$ 1,600.0	\$ 4,783.0	\$ 4,717.1
BK	\$ 4,776.7	\$ 4,520.6	\$ 13,557.6	\$ 12,950.5
Comparable sales growth				
TH	2.0%	5.3%	3.3%	5.3%
BK	1.7%	6.2%	2.2%	5.9%
System Net Restaurant Growth (NRG)				
TH (b)	28	22	79	86
BK	143	141	240	297
Restaurant count at period end				
TH (b)	4,492	4,344	4,492	4,344
BK	15,243	14,669	15,243	14,669
System	19,735	19,013	19,735	19,013

- (b) Restaurant count excludes 436 and 501 limited service kiosks as of September 30, 2016 and 2015, respectively. NRG excludes limited service kiosks. Commencing in the fourth quarter of 2015, we revised our presentation of restaurant counts to exclude limited service kiosks, with the revision applied retrospectively to the earliest period presented to provide period-to-period comparability.

*Comparable Sales Growth*

TH global system comparable sales growth of 2.0% and 3.3% during the three and nine months ended September 30, 2016, respectively, reflects new product launches.

BK global system comparable sales growth of 1.7% and 2.2% during the three and nine months ended September 30, 2016, respectively, reflects successful product launches and promotions.

*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, other than equipment sales related to initial restaurant establishment or renovations that are shipped directly from our warehouses or by third-party distributors to restaurants or retailers, as well as sales to retailers. Sales from Company restaurants, including sales by our consolidated TH Restaurant VIEs (see Note 2 to the accompanying unaudited condensed consolidated financial statements for additional information on 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 goods delivered by third-party distributors to the restaurants for which we manage the supply chain logistics, and for products sold through retailers. Cost of sales also includes food, paper and labor costs of Company restaurants, which are principally costs incurred by our consolidated TH Restaurant VIEs.

During the three months ended September 30, 2016, the increase in sales was driven by an increase in our TH segment of \$40.4 million and a favorable FX Impact of \$0.5 million, partially offset by a decrease in our BK segment of \$0.4 million.

During the nine months ended September 30, 2016, the increase in sales was driven by an increase in our TH segment of \$91.4 million, partially offset by an unfavorable FX Impact of \$67.1 million and a decrease in our BK segment of \$2.0 million.

During the three months ended September 30, 2016, the increase in cost of sales was driven by an increase in our TH segment of \$7.9 million and in our BK segment of \$0.5 million. There was no FX impact.

During the nine months ended September 30, 2016, the decrease in cost of sales was driven by a favorable FX Impact of \$53.5 million and decreases in our TH segment of \$19.9 million and in our BK segment of \$2.2 million.

**Table of Contents***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, revenues derived from equipment packages at establishment of a restaurant and in connection with renewal or renovation, and other revenue. Franchise and property expenses consist primarily of depreciation of properties leased to franchisees, rental expense associated with properties subleased to franchisees, costs of equipment packages sold at establishment of a restaurant and in connection with renewal or renovation, amortization of franchise agreement and bad debt expense (recoveries).

During the three months ended September 30, 2016, the increase in franchise and property revenues was driven by increases in our TH segment of \$11.1 million and in our BK segment of \$8.0 million, partially offset by an unfavorable FX Impact of \$3.6 million.

During the nine months ended September 30, 2016, the increase in franchise and property revenues was driven by increases in our BK segment of \$37.5 million and in our TH segment of \$25.1 million, partially offset by an unfavorable FX Impact of \$45.7 million.

During the three months ended September 30, 2016, the decrease in franchise and property expenses was driven by decreases in our BK segment of \$2.7 million and a favorable FX Impact of \$0.4 million, partially offset by increases in our TH segment of \$0.6 million.

During the nine months ended September 30, 2016, the decrease in franchise and property expenses was driven by decreases in our TH segment of \$19.1 million and in our BK segment of \$4.6 million and a favorable FX Impact of \$11.3 million.

*Selling, General and Administrative Expenses*

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

	Three Months Ended		Variance		Nine Months Ended		Variance	
	September 30, 2016	September 30, 2015	\$	%	September 30, 2016	September 30, 2015	\$	%
			Favorable / (Unfavorable)				Favorable / (Unfavorable)	
Selling expenses	\$ 1.5	\$ 3.0	\$ 1.5	50.0%	\$ 4.3	\$ 11.3	\$ 7.0	61.9%
Management general and administrative expenses	59.0	57.5	(1.5)	(2.6)%	166.9	176.1	9.2	5.2%
Share-based compensation and non-cash incentive compensation expense	11.8	15.5	3.7	23.9%	31.0	37.5	6.5	17.3%
Depreciation and amortization	5.5	4.0	(1.5)	(37.5)%	15.9	12.7	(3.2)	(25.2)%
TH transaction and restructuring costs		24.3	24.3	NM		79.7	79.7	NM
Integration costs	4.4		(4.4)	NM	10.4		(10.4)	NM

Total general and administrative expenses	80.7	101.3	20.6	20.3%	224.2	306.0	81.8	26.7%
Selling, general and administrative expenses	\$ 82.2	\$ 104.3	\$ 22.1	21.2%	\$ 228.5	\$ 317.3	\$ 88.8	28.0%

NM Not meaningful

Selling expenses consist primarily of Company restaurant advertising fund contributions. The decrease in selling expenses for the three and nine months ended September 30, 2016 was primarily a result of a decrease in advertising fund contributions from TH Restaurant VIEs driven by a decrease in the number of Restaurant VIEs from the prior year period.

Management general and administrative expenses ( Management G&A ) are comprised primarily of salary and employee related costs for our non-restaurant employees, professional fees, information technology systems, and general overhead for our corporate offices. The increase in Management G&A for the three months ended September 30, 2016 was driven primarily by increases in expenses related to new master franchisees, partially offset by favorable FX Impact. The decrease in Management G&A for the nine months ended September 30, 2016 was driven primarily by decreases in salaries and benefits, and by favorable FX Impact.

During the three and nine months ended September 30, 2016, the decrease in share-based compensation and non-cash incentive compensation expense was due primarily to the decrease of \$2.7 million and \$10.4 million related to the remeasurement of liability-classified stock options to fair value for the three and nine months ended September 30, 2015, respectively, and the non-recurrence of \$4.6 million related to a stock option modification during the three and nine months ended September 30, 2015, partially offset by additional share-based awards granted during 2016 and 2015. During 2015, we modified a portion of liability-classified awards that resulted in a change in classification of the awards from liability to equity and as such these modified awards are no longer being revalued after the modification date.

**Table of Contents***(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 three months ended September 30, 2016 was driven primarily by improved earnings for Carrols Restaurant Group, Inc. The change in (income) loss from equity method investments during the nine months ended September 30, 2016 was driven primarily by improved earnings for Carrols Restaurant Group, Inc. and Pangea Foods (China) Holdings, Ltd.

*Other Operating Expenses (Income), net*

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Net losses (gains) on disposal of assets, restaurant closures and franchisings	\$ 3.3	\$ 0.2	\$ 19.6	\$ (3.2)
Litigation settlements and reserves, net	0.4	(0.1)	2.0	1.8
Net losses (gains) on derivatives		(1.5)		37.3
Net losses (gains) on foreign exchange	4.1	10.8	16.1	45.1
Other, net	0.9		0.5	1.2
Other operating expenses (income), net	\$ 8.7	\$ 9.4	\$ 38.2	\$ 82.2

Net losses (gains) on disposal of assets, restaurant closures and franchisings for the nine months ended September 30, 2016 primarily reflects losses in connection with franchisings in our TH business.

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

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

*Interest Expense, net*

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2016</b>	<b>2015</b>	<b>2016</b>	<b>2015</b>
Interest expense, net	\$ 117.3	\$ 116.0	\$ 349.6	\$ 362.3
Weighted average interest rate on long-term debt	5.2%	5.1%	5.2%	5.1%

During the three months ended September 30, 2016, there was an increase in interest expense, net compared to the prior year period primarily due to an increase in our weighted average interest rate. During the nine months ended September 30, 2016, interest expense, net decreased compared to the prior year period primarily due to a decrease in outstanding debt as a result of term loan prepayments in May 2015.

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*Income Tax Expense*

Our effective tax rate was 21.3% and 20.7% for the three and nine months ended September 30, 2016, respectively. The effective tax rate during these periods was primarily a result of the mix of income from multiple tax jurisdictions, partially offset by the favorable impact from intercompany financing.

Our effective tax rate was 19.6% and 30.1% for the three and nine months ended September 30, 2015, respectively. The effective tax rate during these periods was primarily a result of the mix of income from multiple tax jurisdictions and the revaluation of certain monetary assets and liabilities as a result of changes in foreign currency exchange rates, partially offset by the favorable impact from a restructuring of certain legal entities.

*Net Income*

We reported net income of \$238.6 million for the three months ended September 30, 2016, compared to net income of \$182.9 million for the three months ended September 30, 2015, primarily as a result of an increase in income from operations of \$76.5 million, partially offset by an increase in income tax expense of \$19.9 million. The increase in income from operations was primarily driven by an increase in sales, an increase in franchise and property revenues and a decrease in selling, general and administrative expenses.

We reported net income of \$654.5 million for the nine months ended September 30, 2016, compared to net income of \$327.2 million for the nine months ended September 30, 2015, primarily as a result of an increase in income from operations of \$304.9 million, the non-recurrence of \$40.0 million loss on early extinguishment of debt, and a decrease in interest expense, net of \$12.7 million, partially offset by an increase in income tax expense of \$30.3 million. The increase in income from operations was primarily driven by a decrease in selling, general and administrative expenses, a decrease in cost of sales, a decrease in other operating expenses (income), net, a decrease in franchise and property expenses, an increase in sales and an increase in franchise and property revenues.

**Table of Contents****Non-GAAP Reconciliations**

The table below contains information regarding EBITDA and Adjusted EBITDA, which are non-GAAP measures, which 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, (gain) loss on early extinguishment of debt, taxes, 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 acquisition accounting impact on cost of sales, Tim Hortons transaction and restructuring costs and integration costs, each of which is associated with the acquisition of Tim Hortons. 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.

	Three Months Ended		Variance		Nine Months Ended		Variance	
	September 30, 2016	2015	\$	%	September 30, 2016	2015	\$	%
<b>Segment income:</b>			Favorable / (Unfavorable)				Favorable / (Unfavorable)	
TH	\$ 287.1	\$ 244.0	\$ 43.1	17.7%	\$ 793.9	\$ 663.3	\$ 130.6	19.7%
BK	201.8	196.7	5.1	2.6%	581.9	560.3	21.6	3.9%
Adjusted EBITDA	488.9	440.7	48.2	10.9%	1,375.8	1,223.6	152.2	12.4%
Share-based compensation and non-cash incentive compensation expense	11.8	15.5	3.7	23.9%	31.0	37.5	6.5	17.3%
Acquisition accounting impact on cost of sales		(0.3)	(0.3)	NM		0.5	0.5	NM
TH transaction and restructuring costs		24.3	24.3	NM		79.7	79.7	NM
Integration costs	4.4		(4.4)	NM	10.4		(10.4)	NM
Impact of equity method investments (a)	0.3	4.7	4.4	93.6%	(7.6)	15.7	23.3	148.4%
Other operating expenses (income), net	8.7	9.4	0.7	7.4%	38.2	82.2	44.0	53.5%
<b>EBITDA</b>	<b>463.7</b>	<b>387.1</b>	<b>76.6</b>	<b>19.8%</b>	<b>1,303.8</b>	<b>1,008.0</b>	<b>295.8</b>	<b>29.3%</b>
Depreciation and amortization	43.2	43.1	(0.1)	(0.2)%	128.7	137.8	9.1	6.6%



Income from operations	420.5	344.0	76.5	22.2%	1,175.1	870.2	304.9	35.0%
Interest expense, net	117.3	116.0	(1.3)	(1.1)%	349.6	362.3	12.7	3.5%
(Gain) loss on early extinguishment of debt		0.4	0.4	NM		40.0	40.0	NM
Income tax expense	64.6	44.7	(19.9)	(44.5)%	171.0	140.7	(30.3)	(21.5)%
Net income	\$ 238.6	\$ 182.9	\$ 55.7	30.5%	\$ 654.5	\$ 327.2	\$ 327.3	100.0%

NM Not meaningful

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

Adjusted EBITDA for the three and nine months ended September 30, 2016 increased over the prior periods primarily due to increases in segment income in our TH and BK segments.

EBITDA for the three and nine months ended September 30, 2016 increased over the prior year periods primarily due to increases in segment income in our TH and BK segments, the non-recurrence of TH transaction and restructuring costs, favorable results from the impact of equity method investments, a decrease in share-based compensation and non-cash incentive compensation and favorable results from other operating expenses (income), net, partially offset by integration costs recognized in the current period.

**Table of Contents****Results of Operations for TH Segment for the Three Months Ended September 30, 2016 and 2015**

	Three Months Ended		Variance		Variance Excluding		
	September 30,		Favorable / (Unfavorable)		FX Impact		
	2016	2015	\$	%	\$	\$	%
<b>Sales and cost of sales (a):</b>							
Sales	\$ 563.0	\$ 522.1	\$ 40.9	7.8%	\$ 0.5	\$ 40.4	7.7%
Cost of sales	434.6	426.7	(7.9)	(1.9)%		(7.9)	(1.9)%
<b>Franchise and property:</b>							
Franchise and property revenues	226.9	215.6	11.3	5.2%	0.2	11.1	5.1%
Franchise and property expenses	79.8	79.2	(0.6)	(0.8)%		(0.6)	(0.8)%
Segment SG&A (b)	17.0	18.5	1.5	8.1%	0.7	0.8	4.3%
Segment depreciation and amortization (c)	25.7	27.3	1.6	5.9%		1.6	5.9%
Segment income (d)	287.1	244.0	43.1	17.7%	1.4	41.7	17.1%

(a) Includes Restaurant VIEs.

(b) Segment selling, general and administrative expenses ( Segment SG&A ) consists of segment selling expenses and management general and administrative expenses.

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

(d) Segment income for the three months ended September 30, 2016 includes \$2.9 million of cash distributions received from equity method investments. Segment income for the three months ended September 30, 2015 excludes (\$0.3) million of acquisition accounting impact on cost of sales and includes \$3.7 million of cash distributions received from equity method investments.

**Sales and Cost of Sales**

During the three months ended September 30, 2016, the increase in sales was driven primarily by an increase in supply chain sales of \$61.6 million due to system-wide sales growth of 4.8%, an increase in retail sales and favorable FX Impact, partially offset by a decrease in Company restaurant revenue of \$21.2 million driven primarily by the conversion of Restaurant VIEs to franchise restaurants.

During the three months ended September 30, 2016, the increase in cost of sales was driven primarily by an increase in supply chain cost of sales of \$25.3 million driven by an increase in supply chain sales as described above, partially offset by supply chain cost savings derived from effective cost management. This increase was partially offset by a decrease in Company restaurant cost of sales of \$17.4 million primarily due to the conversion of Restaurant VIEs to franchise restaurants.

**Franchise and Property**

During the three months ended September 30, 2016, the increase in franchise and property revenue was driven by an increase in royalties and property revenues of \$11.9 million primarily due to NRG of 148 restaurants during the trailing twelve-month period, comparable sales growth, new leases and subleases associated with additional

restaurants leased or subleased to franchisees as a result of converting Restaurant VIEs to franchise restaurants and favorable FX Impact. These factors were partially offset by a decrease in franchise fees and other revenue of \$0.8 million.

During the three months ended September 30, 2016, the increase in franchise and property expenses was not meaningful.

*Segment SG&A*

During the three months ended September 30, 2016, Segment SG&A decreased primarily due to a decrease in selling expenses as a result of a decrease in advertising fund contributions driven by a decrease in the number of Restaurant VIEs from the prior year period and favorable FX Impact.

*Segment Income*

During the three months ended September 30, 2016, segment income increased primarily due to an increase in sales net of cost of sales and an increase in franchise and property revenues net of expenses.

**Table of Contents****Results of Operations for TH Segment for the Nine Months Ended September 30, 2016 and 2015**

	Nine Months Ended		Variance		Variance Excluding			
	September 30,				FX Impact		FX Impact	
	2016	2015	\$	%	\$	\$	\$	%
<b>Sales and cost of sales:</b>								
Sales	\$ 1,565.8	\$ 1,541.2	\$ 24.6	1.6%	\$ (66.8)	\$ 91.4	\$ 91.4	5.9%
Cost of sales	1,219.7	1,292.8	73.1	5.7%	53.2	19.9	19.9	1.5%
<b>Franchise and property:</b>								
Franchise and property revenues	641.7	644.2	(2.5)	(0.4)%	(27.6)	25.1	25.1	3.9%
Franchise and property expenses	231.5	260.7	29.2	11.2%	10.1	19.1	19.1	7.3%
Segment SG&A	48.3	68.6	20.3	29.6%	1.8	18.5	18.5	27.0%
Segment depreciation and amortization	76.9	89.5	12.6	14.1%	3.2	9.4	9.4	10.5%
Segment income (e)	793.9	663.3	130.6	19.7%	(32.5)	163.1	163.1	24.6%

(e) Segment income for the nine months ended September 30, 2016 includes \$9.0 million of cash distributions received from equity method investments. Segment income for the nine months ended September 30, 2015 excludes \$0.5 million of acquisition accounting impact on cost of sales and includes \$10.0 million of cash distributions received from equity method investments.

*Sales and Cost of Sales*

During the nine months ended September 30, 2016, the increase in sales was driven primarily by an increase in supply chain sales of \$164.8 million due to system-wide sales growth of 6.1% and an increase in retail sales, partially offset by a decrease in Company restaurant revenue of \$73.4 million driven primarily by the conversion of Restaurant VIEs to franchise restaurants and unfavorable FX Impact.

During the nine months ended September 30, 2016, the decrease in cost of sales was driven primarily by a decrease in Company restaurant cost of sales of \$62.2 million primarily due to the conversion of Restaurant VIEs to franchise restaurants and favorable FX Impact. These decreases were partially offset by an increase in supply chain cost of sales of \$42.3 million driven by an increase in supply chain sales as described above, partially offset by supply chain cost savings derived from effective cost management.

*Franchise and Property*

During the nine months ended September 30, 2016, the decrease in franchise and property revenue was driven by a decrease in franchise fees and other revenue of \$15.0 million driven by a decrease in sales of equipment packages and unfavorable FX Impact. These factors were partially offset by an increase in royalties and property revenues of \$40.1 million primarily due to NRG of 148 restaurants during the trailing twelve-month period, comparable sales growth, and new leases and subleases associated with additional restaurants leased or subleased to franchisees as a result of converting Restaurant VIEs to franchise restaurants.

During the nine months ended September 30, 2016, the decrease in franchise and property expenses was driven primarily by a decrease in the costs related to sale of equipment packages and favorable FX Impact.

*Segment SG&A*

During the nine months ended September 30, 2016, Segment SG&A decreased primarily due to a decrease in salaries and benefits, a decrease in selling expenses as a result of a decrease in advertising fund contributions driven by a decrease in the number of Restaurant VIEs from the prior year period and favorable FX Impact.

*Segment Income*

During the nine months ended September 30, 2016, segment income increased primarily due to an increase in sales net of cost of sales, an increase in franchise and property revenues net of expenses, and a decrease in Segment SG&A, partially offset by unfavorable FX Impact.

**Table of Contents****Results of Operations for BK Segment for the Three Months Ended September 30, 2016 and 2015**

	Three Months Ended		Variance		FX Impact		Variance Excluding FX Impact	
	September 30, 2016	September 30, 2015	\$	%	\$	\$	\$	%
<b>Sales and cost of sales:</b>								
Sales	\$ 23.4	\$ 23.8	\$(0.4)	(1.7)%	\$	\$ (0.4)	(1.7)%	
Cost of sales	20.4	19.9	(0.5)	(2.5)%		(0.5)	(2.5)%	
<b>Franchise and property:</b>								
Franchise and property revenues	262.4	258.2	4.2	1.6%	(3.8)	8.0	3.1%	
Franchise and property expenses	32.1	35.2	3.1	8.8%	0.4	2.7	7.7%	
Segment SG&A	43.5	42.0	(1.5)	(3.6)%	0.3	(1.8)	(4.3)%	
Segment depreciation and amortization	12.0	11.8	(0.2)	(1.7)%		(0.2)	(1.7)%	
Segment income	201.8	196.7	5.1	2.6%	(3.1)	8.2	4.2%	

*Franchise and Property*

During the three months ended September 30, 2016, the increase in franchise and property revenue was driven primarily by an increase in royalties of \$14.7 million primarily due to NRG of 574 restaurants during the trailing twelve-month period and comparable sales growth, partially offset by a decrease in renewal franchise fees and an unfavorable FX Impact.

During the three months ended September 30, 2016, the decrease in franchise and property expenses was driven primarily by a decrease in rent expense related to leases that were assigned to franchisees during 2015, a decrease in other franchise expenses and favorable FX Impact.

*Segment SG&A*

During the three months ended September 30, 2016, Segment SG&A increased primarily due to an increase in expenses related to new master franchisees, partially offset by a favorable FX Impact.

*Segment Income*

During the three months ended September 30, 2016, segment income increased primarily due to an increase in franchise and property revenues net of expenses, partially offset by an increase in Segment SG&A, a decrease in sales net of cost of sales and unfavorable FX Impact.

**Results of Operations for BK Segment for the Nine Months Ended September 30, 2016 and 2015**

	Nine Months Ended		Variance		FX Impact		Variance Excluding FX Impact	
	September 30, 2016	September 30, 2015	\$	%	\$	\$	%	
<b>Favorable / (Unfavorable)</b>								

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Sales and cost of sales:								
Sales	\$ 69.7	\$ 72.0	\$ (2.3)	(3.2)%	\$ (0.3)	\$ (2.0)	(2.8)%	
Cost of sales	59.3	61.8	2.5	4.0%	0.3	2.2	3.6%	
Franchise and property:								
Franchise and property revenues	757.2	737.8	19.4	2.6%	(18.1)	37.5	5.1%	
Franchise and property expenses	98.7	104.5	5.8	5.6%	1.2	4.6	4.4%	
Segment SG&A	122.9	118.8	(4.1)	(3.5)%	0.2	(4.3)	(3.6)%	
Segment depreciation and amortization	35.9	35.6	(0.3)	(0.8)%	(0.1)	(0.2)	(0.6)%	
Segment income	581.9	560.3	21.6	3.9%	(16.6)	38.2	6.8%	

*Franchise and Property*

During the nine months ended September 30, 2016, the increase in franchise and property revenue was driven primarily by an increase in royalties of \$44.8 million primarily due to NRG of 574 restaurants during the trailing twelve-month period and comparable sales growth, partially offset by a decrease in renewal franchise fees and an unfavorable FX Impact.

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During the nine months ended September 30, 2016, the decrease in franchise and property expenses was driven primarily by a decrease in rent expense related to leases that were assigned to franchisees during 2015, a decrease in other franchise expenses and favorable FX Impact.

### *Segment SG&A*

During the nine months ended September 30, 2016, Segment SG&A increased primarily due to an increase in salary and benefits, partially offset by a favorable FX Impact.

### *Segment Income*

During the nine months ended September 30, 2016, segment income increased primarily due to an increase in franchise and property revenues net of expenses, partially offset by an increase in Segment SG&A and unfavorable FX Impact.

## **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 pay Preferred Share (as defined below) dividends, to repurchase our common shares, to repurchase Class B exchangeable limited partnership units ( 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 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 and the cash dividend requirements of our Preferred Shares.

At September 30, 2016, we had cash and cash equivalents of \$1,274.4 million and working capital of \$687.3 million. In addition, at September 30, 2016, we had borrowing availability of \$498.5 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, Preferred Share dividends, debt service requirements and capital spending over the next twelve months.

At September 30, 2016, approximately 13% of our consolidated cash and cash equivalents balances were held in tax jurisdictions other than Canada and the U.S. Undistributed earnings of our foreign subsidiaries for periods prior to the Transactions are considered indefinitely reinvested for U.S. income tax purposes. Subsequent to the Transactions, we record a deferred tax liability for earnings of foreign subsidiaries with U.S. parent companies when such amounts are not considered permanently reinvested and would be subject to tax in the U.S. upon repatriation of cash.

On August 2, 2016, our board of directors approved a share repurchase authorization wherein RBI may purchase up to \$300 million of our common shares over the next 5 years. Repurchases under the Company s new authorization will be made in the open market or through privately negotiated transactions. In connection with the share repurchase authorization, on August 4, 2016 we announced that the Toronto Stock Exchange (the TSX ) had accepted the notice of our intention to commence a normal course issuer bid. Under this normal course issuer bid, we are permitted to repurchase up to 18,085,962 common shares for the one-year period commencing on August 8, 2016 and ending on August 7, 2017, or earlier if we complete the repurchases prior to such date. Purchases 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 notice, free of charge, by



contacting the Company.

***Debt Instruments and Debt Service Requirements***

*Our long-term debt is comprised primarily of borrowings under our 2015 Amended Credit Agreement, amounts outstanding under our 2015 Senior Notes, 2014 Senior Notes and Tim Hortons Notes (each as defined below), and obligations under capital leases. For further information about our long-term debt, see Note 10 to the accompanying unaudited condensed consolidated financial statements included in this report.*

**2015 Amended Credit Agreement**

As of September 30, 2016, there was \$5,059.0 million outstanding principal amount of secured term loans (the Term Loan Facility ) under our credit agreement dated May 22, 2015 (the 2015 Amended Credit Agreement ). As of September 30, 2016, the interest rate was 3.75% on our Term Loan Facility. Based on the amounts outstanding under the Term Loan Facility and the three-month LIBOR rate as of September 30, 2016, subject to a floor of 1.00%, required debt service for the next twelve months is estimated to be approximately \$192.1 million in interest payments and \$34.3 million in principal payments. In addition, as of September 30, 2016, net cash settlements that we expect to pay on our \$2,500.0 million interest rate swap are estimated to be approximately \$19.3 million for the next twelve months.

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As of September 30, 2016, we had no amounts outstanding under the revolving credit facility available under the 2015 Amended Credit Agreement (the *Revolving Credit Facility* ). Funds available under the Revolving Credit Facility for future borrowings may be used to repay other debt, finance debt or share repurchases, acquisitions, capital expenditures and 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 capacity under this facility by the cumulative amount of outstanding letters of credit. As of September 30, 2016, we had \$1.5 million of letters of credit issued against the Revolving Credit Facility and our borrowing availability was \$498.5 million.

### **2015 Senior Notes**

Two of our subsidiaries (the *Borrowers* ) are parties to an indenture dated May 22, 2015 (the *2015 Senior Notes Indenture* ) in connection with the issuance of \$1,250.0 million of 4.625% first lien senior secured notes due January 15, 2022 (the *2015 Senior Notes* ). The 2015 Senior Notes bear interest at a rate of 4.625% per annum and are payable semi-annually on January 15 and July 15 of each year. At September 30, 2016, we had outstanding \$1,250.0 million of 2015 Senior Notes. No principal payments are due until maturity. Based on the amount outstanding at September 30, 2016, required debt service for the next twelve months on the 2015 Senior Notes is \$57.8 million in interest payments.

### **2014 Senior Notes**

The Borrowers are parties to an indenture dated October 8, 2014 (the *2014 Senior Notes Indenture* ) in connection with the issuance of \$2,250.0 million of 6.00% second lien senior secured notes due April 1, 2022 (the *2014 Senior Notes* ). The 2014 Senior Notes bear interest at a rate of 6.00% per annum, payable semi-annually on April 1 and October 1 of each year. At September 30, 2016, we had outstanding \$2,250.0 million of 2014 Senior Notes. No principal payments are due until maturity. Based on the amount outstanding at September 30, 2016, required debt service for the next twelve months on the 2014 Senior Notes is \$135.0 million in interest payments.

### **Tim Hortons Notes**

At September 30, 2016, we had notes outstanding with the following carrying values and terms: (i) C\$48.0 million of 4.20% Senior Unsecured Notes, Series 1, due June 1, 2017, (ii) C\$2.6 million of 4.52% Senior Unsecured Notes, Series 2, due December 1, 2023 and (iii) C\$3.9 million of 2.85% Senior Unsecured Notes, Series 3, due April 1, 2019 (collectively, the *Tim Hortons Notes* ). No principal payments are due until maturity. Based on the amounts outstanding at September 30, 2016, required debt service for the next twelve months on the Tim Hortons Notes is C\$2.2 million in interest payments and C\$48.0 million in principal payments.

As of September 30, 2016, we were in compliance with all covenants of the 2015 Amended Credit Agreement, the 2015 Senior Notes Indenture, the 2014 Senior Notes Indenture and the indenture governing the Tim Hortons Notes, and there were no limitations on our ability to draw on our Revolving Credit Facility.

### **Preferred Shares**

In connection with the Transactions, Berkshire Hathaway Inc. ( *Berkshire* ) and the Company entered into a Securities Purchase Agreement (the *Security Purchase Agreement* ) pursuant to which National Indemnity Company, a wholly owned subsidiary of Berkshire, purchased for an aggregate purchase price of \$3,000.0 million, (a) 68.5 million Class A 9.0% cumulative compounding perpetual voting preferred shares of the Company (the *Preferred Shares* ) and (b) a warrant (the *Warrant* ) to purchase common shares of the Company, at an exercise price of \$0.01 per common share of the Company, representing 1.75% of the fully-diluted common shares of the Company as of the closing of the

Transactions, including the common shares of the Company issuable upon the exercise of the Warrant, upon the terms and subject to the conditions set forth therein. On December 15, 2014, National Indemnity Company exercised the Warrant in full and received 8,438,225 common shares of the Company. Our articles provide that the maximum number of Preferred Shares that we are authorized to issue is limited to 68,530,939 Preferred Shares, which is the number of Preferred Shares issued to National Indemnity Company in connection with the Transactions.

*Dividend Entitlements*

The holders of the Preferred Shares are entitled to receive, as and when declared by our board of directors, cumulative cash dividends at an annual rate of 9.0% on the amount of the purchase price per Preferred Share, payable quarterly in arrears ( regular quarterly dividends ). Such dividends accrue daily on a cumulative basis, whether or not declared by our board of directors. If any such dividend or make-whole dividend is not paid in full on the scheduled payment date or the required payment date, as applicable

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(the unpaid portion, past due dividends ), additional cash dividends ( additional dividends ) shall accrue daily on a cumulative basis on past due dividends at an annual rate of 9.0%, compounded quarterly, whether or not such additional dividends are declared by our board of directors, until the date the same are declared by our board of directors and paid in cash to the holders of the Preferred Shares. While our board of directors has declared, and we have paid, regular quarterly dividends on our Preferred Shares every quarter since the three months ended March 31, 2015, the board can elect not to declare such dividends in the future and, in such event, additional dividends will accrue on any past due dividends as set forth above.

## **Redemption**

The Preferred Shares may be redeemed at our option, in whole or in part, at any time on and after the third anniversary of their original issuance on the closing date of the Transactions. After the tenth anniversary of the original issue date, holders of not less than a majority of the outstanding Preferred Shares may cause us to redeem the Preferred Shares at a 109.9% premium, or a redemption price of \$48.109657 per Preferred Share, plus accrued and unpaid dividends and unpaid make-whole dividends. Holders of Preferred Shares also hold a contingently exercisable option to cause us to redeem their Preferred Shares at the redemption price in the event of a change in control.

## **Cash Dividends**

On April 4, 2016, we paid a dividend of \$0.14 per common share and Partnership made a distribution in respect of each Partnership exchangeable unit in the amount of \$0.14 per Partnership exchangeable unit. On April 1, 2016, we paid a dividend of \$0.98 per Preferred Share, for a total of \$67.5 million, which included the amount due for the first calendar quarter of 2016.

On July 6, 2016, we paid a dividend of \$0.15 per common share and Partnership made a distribution in respect of each Partnership exchangeable unit in the amount of \$0.15 per Partnership exchangeable unit. On July 5, 2016, we paid a dividend of \$0.98 per Preferred Share, for a total of \$67.5 million, which included the amount due for the second calendar quarter of 2016.

On October 4, 2016, we paid a dividend of \$0.16 per common share and Partnership made a distribution in respect of each Partnership exchangeable unit in the amount of \$0.16 per Partnership exchangeable unit. On October 3, 2016, we paid a dividend of \$0.98 per Preferred Share, for a total of \$67.5 million, which included the amount due for the third calendar quarter of 2016.

On October 24, 2016, our board of directors declared a cash dividend of \$0.17 per common share, which will be paid on January 4, 2017, to common shareholders of record on December 8, 2016. Partnership will also make a distribution in respect of each Partnership exchangeable unit in the amount of \$0.17 per Partnership exchangeable unit, and the record date and payment date for distributions on Partnership exchangeable units are the same as the record date and payment date set forth above. On October 24, 2016, our board of directors declared a cash dividend of \$0.98 per Preferred Share, for a total dividend of \$67.5 million which will be paid to the holder of the Preferred Shares on January 3, 2017. The dividend on the Preferred Shares includes the amount due for the fourth calendar quarter of 2016.

No dividend may be declared or paid on common shares of the Company until a dividend is declared or paid on the Preferred Shares. In addition, if holders of at least a majority of the outstanding Preferred Shares have delivered a notice to exercise their right to have the Company redeem the Preferred Shares, no dividend may be declared or paid on our common shares (except that dividends declared on our common shares prior to the date of such delivery may be paid) unless on the date of such declaration or payment all Preferred Shares subject to such notice have been

redeemed in full.

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 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 20, 2016, we had outstanding 234,111,128 common shares, 68,530,939 Preferred 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 RBI, holders of our common shares vote together as a single class with the Preferred Shares and the special voting share, except as otherwise provided by law. For information on share-based compensation and our outstanding equity awards, see Note 19 to our audited consolidated financial statements in Part II, Item 8 of our Annual Report filed with the SEC and Canadian securities regulatory authorities on February 26, 2016.

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There were 227,049,533 Partnership exchangeable units outstanding as of October 20, 2016. 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 common share for each Partnership exchangeable unit, subject to our right as the general partner of Partnership, at our sole discretion, to determine to settle any such exchange for a cash payment in lieu of issuing our common shares.

### ***Comparative Cash Flows***

#### ***Operating Activities***

Cash provided by operating activities was \$919.0 million during the nine months ended September 30, 2016, compared to \$950.4 million during the same period in the prior year. The decrease in cash provided by operating activities was driven by the reclassification of restricted cash to cash and cash equivalents during 2015 and changes in working capital, partially offset by an increase in net income, excluding non-cash adjustments.

#### ***Investing Activities***

Cash provided by investing activities was \$19.3 million for the nine months ended September 30, 2016, compared to cash used for investing activities of \$40.0 million during the same period in the prior year. The change in investing activities was driven primarily by a decrease in capital expenditures, partially offset by a decrease in proceeds from the settlement of derivative instruments.

#### ***Financing Activities***

Cash used for financing activities was \$436.3 million for the nine months ended September 30, 2016, compared to \$1,680.9 million during the same period in the prior year. The decrease in cash used for financing activities was driven primarily by the repayment of a portion of the Term Loan Facility, the redemption of a portion of the Tim Hortons Notes and payments of financing costs, partially offset by proceeds from the offering of the 2015 Senior Notes in the prior year and higher dividend payments in the current year.

### ***Critical Accounting Policies and Estimates***

This discussion and analysis of financial condition and results of operations is based on our unaudited condensed consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States of America. The preparation of these financial statements requires our management to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues, and expenses, as well as related disclosures of contingent assets and liabilities. We evaluate our estimates on an ongoing basis and we base our estimates on historical experience and various other assumptions we deem reasonable to the situation. These estimates and assumptions form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Volatile credit, equity, foreign currency and energy markets, and declines in consumer spending have increased and may continue to create uncertainty inherent in such estimates and assumptions. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in our estimates could materially impact our results of operations and financial condition in any particular period. For a complete discussion of our critical and significant accounting policies and estimates, please see Management's Discussion and Analysis of Financial Condition and Results of Operations of our Annual Report on Form 10-K filed with the SEC and Canadian securities regulatory authorities on February 26, 2016.

### ***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 three months ended September 30, 2016 to the disclosures made in Part II, Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2015, filed with the SEC and Canadian securities regulatory authorities on February 26, 2016.

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### **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, 2016. Based on that evaluation, the CEO and CFO concluded that the Company's disclosure controls and procedures were effective as of such date.

#### **Internal Control Over Financial Reporting**

The Company's management, including the CEO and CFO, confirm that there were no changes in the Company's internal control over financial reporting during the three months ended September 30, 2016 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

#### **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; and (ii) certain accounting and tax matters.*

*These forward looking statements represent management's expectations as of the date hereof. These forward-looking statements are based on certain 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) significant and rapid fluctuations in interest rates and in the currency exchange markets and the effectiveness of our hedging activity; (3) the ability of our credit facilities and derivatives counterparties to fulfill their commitments and/or obligations; and (4) changes in applicable tax laws or interpretations thereof.*

*We operate in a very competitive and rapidly changing environment. 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 the section entitled Item 1A - Risk Factors of our Annual Report on Form 10-K for the year ended December 31, 2015 filed with the SEC and Canadian securities regulatory authorities on February 26, 2016, 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 6. Exhibits**

The exhibits listed in the accompanying index are filed as part of this report.

<b>Exhibit Number</b>	<b>Description</b>
10.37	Form of Restaurant Brands International Inc. Board Member Stock Option Award Agreement
31.1	Certification of Chief Executive Officer of Restaurant Brands International Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer of Restaurant Brands International Inc. pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Chief Executive Officer of Restaurant Brands International Inc. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Chief Financial Officer of Restaurant Brands International Inc. pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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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, 2016

By: /s/ Joshua Kobza

Name: Joshua Kobza, principal financial officer

Title: Chief Financial Officer

(principal financial officer)

(duly authorized officer)

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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
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document