

# PALOS

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## Palos Weekly Commentary

Issue No. 51 | DECEMBER 12, 2019

### Palos Funds

By Charles Marleau, CIM

## Restaurant Brands (too much of a good thing)

Restaurant Brands International (TSX/NYSE: QSR) operates fast food restaurants all over the world. They own iconic brands like Burger King (BK), Tim Hortons (TH), and Popeyes (POP). Combined, they have over 40,000 restaurants around the world; and growing. Most of this growth originates from BK and POP locations while TH appears to be slowing. Looking forward to 2020, I remain confident that the TH slowdown will prove temporary and that we'll see better trends next year.

I believe the market is preoccupied with TH while ignoring the explosive growth at POP. In the third quarter of 2019, POP delivered an impressive 9.7% growth in same store sales. While POP is the smallest contributor to QSR's overall EBITDA, the growth potential of POP should not be ignored. The restaurant's famous buttermilk fried chicken has seen incredible demand growth in recent years. It has also received wide praise from famous personalities like Anthony Bourdain, Nicky Minaj, and Beyoncé.

In August, POP decided to offer the famous chicken between two pieces of bread, and this was a game changer for the franchise. A social media campaign that promoted the sandwich along with its \$3.99 price point, was massively successful. The result; POP went through what was anticipated to be a three-month supply in just 14 days! Twitter went viral and POP became victims of their own success.

The franchise is now scrambling as it searches for a solution to its supply chain challenges. In fact, many franchises are struggling to meet demand and continue to run out of sandwiches. Hence, why we saw impressive same store sales numbers in Q3. QSR's success with POP should ultimately translate to growing demand and expansion in the number of store locations. QSR will eventually solve their supply chain and logistics matters. This should lead to the POP store count approaching equilibrium with TH and BK.

*Disclaimer: Palos Funds are shareholders of QSR.*

Chart 1: Palos Domestic Funds versus Benchmarks (Total Returns) <sup>1</sup>	FundServ	NAVPS	YTD Returns
Palos Income Fund L.P.	PAL100	\$8.54	16.19%
Palos Equity Income Fund - RRSP	PAL101	\$5.73	12.86%
Palos Merchant Fund L.P. (Dec 31, 2018) <sup>2</sup>	PAL500	\$1.82	6.59%
Palos WP Growth Fund - RRSP	PAL210	\$7.00	-1.01%
Palos-Mitchell Alpha Fund (Fund Initiated on Jan 29, 2019) <sup>3</sup>	PAL300	\$10.31	9.72%
S&P TSX Composite (Total Return with dividends reinvested)			21.70%
S&P 500 (Total Return with dividends reinvested)			27.74%
S&P TSX Venture (Total Return with dividends reinvested)			-3.50%
Chart 2: Market Data <sup>1</sup>			Value
US Government 10-Year			1.79%
Canadian Government 10-Year			1.58%
Crude Oil Spot			US \$58.76
Gold Spot			US \$1,469.40
US Gov't10-Year/Moody BAA Corp. Spread			202 bps
USD/CAD Exchange Rate Spot			US \$0.7592

<sup>1</sup> Period ending December 11, 2019. Data extracted from Bloomberg

<sup>2</sup> Fund is priced annually

<sup>3</sup> Fund is priced weekly on Tuesdays

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# PALOS

1 Place Ville Marie, Suite 1670  
Montreal (QC) H3B 2B6, Canada

T. +1 (514) 397-0188

F. +1 (514) 397-0199

1 St. Clair Avenue East Suite 504  
Toronto, Ontario M4T 2V7

T. +1 (647) 276-0110

F. +1 (647) 343-7772

[www.palos.ca](http://www.palos.ca)