

The Secretive PE Firm Behind Burger King, Tim Hortons, Skechers and Hunter Douglas (3G Capital)

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SUMMARY

Alex Beering and Daniel Schwarz, co-managing partners of 3G Capital, discuss their unique investment strategy focused on acquiring and operating a single business per fund. Their approach emphasizes deep operational involvement, aligning incentives with ownership, and nurturing talent within the companies they invest in, which has led to successful ventures like Burger King and Hunter Douglas.

- *3G Capital concentrates on one investment per fund, believing that truly great businesses and CEOs are rare.*
- *The firm operates as both investors and operators, stepping in to improve business performance alongside existing management.*
- *Their investment philosophy is rooted in capital preservation and rigorous downside analysis before making decisions.*
- *They prioritize businesses with strong customer relationships to mitigate disruption risks.*
- *3G's model includes a high proportion of house capital, ensuring that partners are heavily invested in each deal.*
- *The firm fosters a culture of ownership and responsibility among its leaders, often promoting young talent to significant roles.*
- *Their approach to investing is characterized by patience and a long-term perspective, focusing on sustainable growth rather than short-term gains.*
- *3G aims to be a preferred partner for family-owned businesses, valuing the long-term commitment and passion of founders.*

My guests today are Alex Beering and Daniel Schwarz, co-managing partners of 3G Capital. 3G's built one of the most distinctive firms in investing around a simple idea. There are only a handful of truly great businesses and even fewer great CEOs. So instead of diversifying broadly, they concentrate deeply. Their model is to raise capital with the intention of making just one investment per fund, commit meaningful amounts of their own money alongside their partners, and focus all their time and the best people on that single opportunity. What sets them apart is that they come to investing as operators. Alex previously ran the largest railroad in Latin America and Daniel served as the CEO of Burger King and many of their partners have spent years as CEOs, CFOs or senior operators inside of complex organizations. When 3G buys a company, they step in as operators, align incentives with ownership and work alongside management to improve the business. That approach has produced a series of iconic deals, including Burger King, Tim Hortons, Hunter Douglas, and Sketchers. Along the way, they've also become known for developing talent, giving young leaders real responsibility and ownership, and holding an unusually high bar. Please enjoy this great conversation with Alex and Daniel. Once

you've heard from Alex and Daniel, I highly recommend you also read our in-depth profile on them and 3G Capital.

They gave our managing editor Dom Cook unprecedented access, and the outcome is an excellent profile about the 50-year history of 3G and how the model began with George Apollo Lemon in Brazil. I want to start with this one investment per fund concept because first of all I just think it's extremely cool to think about having a big pool of capital to deploy into one thing and all the work that goes into that what ends up being that one thing despite looking at countless other businesses. Where did that concept come from? Because it must dictate so much about the nature and culture of the investment strategy firm people. One investment per fund sounds interesting and I know it is from our past discussions. Where did that come from?

>> So that comes from our Brazilian roots where my co-founders had done this beer investment that had worked really well and then as they branched off into private equity and a predecessor firm of this firm in Brazil. They attempted a bit the more traditional approach also that went okay. But then we understood a couple of lessons from that. One was that really really great businesses are rare. There are not that many of them to begin with. Secondly, the ones that exist, they are not oftenly actionable.

So therefore, if you're going to be in the business of putting a lot of your own capital to work and if you're going to be very involved, the people that you're going to need to deploy there and the time are also a scarce resource. So when I started the firm in New York in 2004, we already had those things pretty clearly understood and that was a premise that to the extent that we would get involved with businesses on a strategic long-term basis, it would be one at a time.

>> We have this luxury of only having to find one great business at a time. And I think, you know, if you're investing your own capital and if that's the lens through which you're looking at the investment, you want to be really patient and wait until you find that great business. The other way to look at is it's so hard for us to find a great business to invest in. How are we going to find 10? It's so hard to find great people to be great CEOs. So, like, how are we going to find 10? So, I think it's great to be able to buy one business every once in a while and send in your A++ players to get involved.

>> Is there any psychological fear pressure associated with knowing that it's just one all eggs in one basket and watch the basket very closely? Like what psychology does that feel like? As much as the psychology, I think it drives the investment process a very rigorous analysis of what the downside can be. And in our case, the downside has to be capital preservation with some small return of sorts and that drives business sort of decisions and it also drives capital structure decisions. I think that's where it manifests itself the most. If you were to look at businesses that we didn't buy or deals that we didn't do over a long period of time, I think more often than not that would be a function of us not being comfortable with a potential downside scenario or a downside case as opposed to us not finding a path to a great case. I think it's a healthy pressure that we put on ourselves to make sure that we're not compromising on business quality and we're only rather do nothing than our capital structure being.

>> Exactly. Yeah. Like we're going to buy a great business. We're going to leverage it appropriately, not too much. >> It definitely makes it harder to price risk. If you think about like the traditional portfolio approach where it's the portfolio construction part of your >> Yeah. you have 10 businesses and if one has some idiosyncratic risk or whatever, it's like it's harder to price risk. So, we take that into consideration, >> but then on the other hand, you have this team here who they're really excited to do a great deal and often times they're going to bet their own careers as is the case with Alex and a railroad that he bought in Brazil, as is the case with Burger King that we bought here for me. And so when you're betting your reputation on something, you want to hold it to the highest possible standard.

>> If you think back to that the very first days, 2004 thereabouts through to today, 20 years, how has your idea of what constitutes a great business changed the most through all of these investigations and running the five six businesses? What's most changed about your views? >> We over the years had to refine our investment process in terms of making that determination whether a business is great or not. as a function of how the world changed because of technology. The possibilities of a business being disrupted in this day and age as compared to maybe 20 years ago are significantly higher and therefore the investment process and the investment discussion around disruption needs to be significantly more detailed and thorough.

>> Yeah, I agree with that. Disruption and disintermediation. I think we have a greater appreciation today for businesses that own the relationship with their end customers. If you have that, you're less likely, I mean, it seems obvious, but less likely to be disintermediated through some new disruptive force. >> How did you most learn that specific lesson, the disintermediation lesson? >> Since 2004, we followed restaurant businesses. We followed packaged food and consumer packaged goods businesses. There is this ongoing shift we see in society of the share gain of private label. If you're a large retailer, be it a Walmart and Amazon, Costco, if you own the relationship with your customers, you have this ability to disintermediate the company selling to you.

>> Kirkland happens. Yeah, >> Kirkland's a fantastic brand. It's one of the largest in the country and you and I probably both have plenty of Kirkland products in our household. Compare contrast that with the restaurant business. So Burger King or Tim Hortons, Popeye's or Firehouse Subs, I mean those just a few great brands. I mean, we happen to be involved in them. Each of those brands owns the relationship with our end customers. And so if you want a Whopper, you're coming to a Burger King or in the case of our Hunter Douglas business. If you want blinds, you're coming to a Hunter Douglas dealer or one of our shop at home dealers. And so I think we have a much better appreciation for that. If I think about just the businesses themselves, we were joking before about the simplicity of the business. And maybe when you're talking to Buffett about one of these businesses, don't make the business description complicated. And it's interesting how burgers, shoes, shades, you could actually do it in a word in many cases with your business. You don't even need a whole paragraph. Maybe say a little bit more about that.

>> We're not well suited to manage businesses that require high IQ. be honest with you, >> we have some mutual friends who are much better suited to invest in the next technological >> autoflow. Exactly. We're just not that. We've managed to stay pretty disciplined to stick to good, relatively easy to understand, well-moded businesses that we and our partners here could kind of wrap our heads around. Businesses that have ideally been

around for a long time with strong brand franchises that we could own and grow and maybe improve a little bit. As Munger used to say, "Show me the incentives, I'll show you the outcome." In addition to the one investment per fund, I'd love to understand the other distinguishing features of how the capital is set up, who the LPS are, what the incentives are, how the fees work because almost everything you do is a little bit different than the traditional model.

Maybe you could walk us through what those are because those so then determine the outcomes. >> Two of the things that are different, two or three of the things, one is the proportion of house capital. We and our group of co-founders and partners and whatnot are the largest investors on each and every deal that we do. Number one. Number two, the balance of the capital that's not ours is different from a traditional PE firm in the sense that that's a much higher component of high net worth individuals and families around the world, some sovereigns also, but a very different LP base. and also the fact that we over the years have devised mechanisms that allow us to be invested for a long period of time. We invested on RBI for 15 years in counting and so on. So I think those are the three main differences. One additional large difference in our case is the folks here have largely all been in both investing roles and operating roles. And so in Alex's case, he was the CEO of the largest Brazilian rail and logistics company, the largest Latin American rail and logistics company. I was the CFO and CEO of what was Burger King and now is today Restaurant Brands International. That applies to some of our other partners here as well. I think this experience of being an operator and an investor allows us to ultimately be a better investor and allows us when we get involved in these businesses to be able to send our own people in who are partners of ours here who have also been CEOs and CFOs and operators of businesses and who are well incentivized to create value at the company that's directly linked and aligned with us and our limited partners. If you think about this unique nature of it being so much house capital, you're on the line with all of your LPs and you think about the search for let's say Hunter Douglas, which was a transaction 3, four years ago. Talk about the length of time that you're willing to engage with a company, maybe in that specific case, how long it took you to get to know that business and how the transaction came together.

These are very unique ways and long durations and I'd love just to like put some meat on those bones. I've mapped Ralph in the mid 2000s. First in Switzerland and then we got also close to his family here. The two sons, one resided in Greenwich too recently and the other one resided here near the city and had a good relationship going for a long time. I think that not until few years ago was Ralph aged and he was trying to organize his family affairs and he was trying to carve a solution for the fact that one of his sons wanted to remain involved in the business which is David our partner and he also cared what happened to Hunter Douglas phoning a hundred years in the family And that's the context in which we started a conversation. But that was already 2021 mid year. I visited him in Switzerland in his home and had a conversation about it and he was then brainstorming what to do and I think the outcome of that conversation was that he would give us a window to present him with a proposal and then if he liked that proposal we would move forward. That's sort of how it started.

>> So sort of a 15-year investment of time to get that window >> in this case. That's right. I like that we're inserting the word window here many times, but maybe just some additional color. You had a long-standing relationship with Ralph. I had first met David in 2007. David is Ralph's son, who is now our partner in Hunter Douglas. He he rolled his shares into the transaction a few years ago. They invested alongside us in Burger King.

We built a good relationship, lots of mutual respect.

David came down, Alex, Alex, I guess, and I organized to have some of our partners come visit us in Burger King in 2011 or 2012, and we gave a presentation on what we were doing. And remember spending time with David and he said, "This reminds me in some respects of Hunter Douglas, this kind of entrepreneurial startup type culture in a traditional business." And we kept tabs on their business through the years as well. And we watched David do some transformational acquisitions along the way to evolve that Hunter Douglas business to become even more direct to consumer. So to go to both selling through dealer and direct to consumer.

We were big admirers of that business for many many years and we had the history of following the business for many many many years prior to Alex and Ralph chatting about succession and next steps for the business. So we played the real long game. David did really sort of shape the company through those deals. I think >> he did. David evolved Hunter Douglas into a business that we had an even greater appreciation for 15 years after meeting him.

>> Maybe since it's a company that probably people have seen can imagine is a product that's accessible and simple to understand. Use it as an example to explain the criteria that you love in a business. describe the business and but more importantly what it is about it when you did the transaction that was so appealing. >> The business basically owns the relationships. It doesn't have a concentrated customer or a concentrated supplier. So it's a business that's really well positioned in an industry purchasing windows covering products is not a frequent thing. It's not something that you do every week or every year even. So I think that really sort of set itself well for a business.

>> So I understand that last piece meaning because you do it infrequently, brand and familiarity matter a lot. Like if you're not going to do it often, you'd rather just go >> also a lot of times you do it in the context of a renovation for instance where it's never a big part of that also. So I think it lands itself quality matters. Our quality is almost in a way too good. I wish people would replace the product sooner.

>> The TAM for the interior and exterior window coverings is around \$70 billion. HD is far and away the largest player. We have this combination of scaled manufacturing coupled with scale distribution and that allows us to either through our own sales force or through our exclusive dealer network deliver the product within a week, two weeks, which is typically what people would expect their window coverings to be delivered. Every product is largely custom made to measure. So there's no one single skew.

And so we have billions of permutations of styles, colors, patterns, sizes. And the business was around prior to us buying it for about a hundred years. And we talk about all the things that can change in the world and disruption risks, but we're highly confident about the sun rising and the sun setting. And you see houses are being built with larger and larger windows because people like natural light. And so it's a product that's here to stay. We're the number one leader.

There's some volume growth. There's a little bit of price growth. And as I mentioned, as we mentioned earlier,

there's this historical roll up element of the business where you're buying small players in the industry and we are the natural home for many of these small players. also climate change and the increased awareness of the risks associated with that and the need to save energy and whatnot. I mean, that's a positive driver for this business.

>> A lot of companies brag about all their ESG initiatives and energy savings. Our window coverings actually save people tons of energy. It's a natural way to keep your house cool. I mean, it sounds like sort of the ultimate example of like there are no two kids in a garage in Silicon Valley wondering how to disrupt Hunter Douglas. It would just be a senseless endeavor. >> I think it's one of these things where the TAM is large, but it's not so large and we really have this scaled manufacturing coupled with the scale distribution. And so, I think gaining distribution is hard. It's quite hard given the way you go to market because there's a service component, there's an installation component to this product, this process.

>> Given the returns that you've demonstrated are possible, RBI is up 30x multiple on capital or something and going. Why do you think there are not more firms like 3G that do serial single investment extreme focused style? Why are you the one that I'm aware of? >> I have a few thoughts on this. You've seen how much value and enterprise value has been created in the alternative investments like lands broader landscape and so how often do people Alex tell you why don't you guys buy more businesses why don't you raise larger funds why don't you get more diversified so I think there is this pull to do all that for a reasonably good reason >> I don't presume that our model is superior to others there incredibly successful firms that have very different model, very different way to going about their business than us. And I think what's important for every successful firm, I mean, we're no exception to that, is find out what works well for you. And for us, for a very long, for decades now, that's the model that works really well for us to invest our capital, to compound the capital of the people that are closed and invest with us. And I think we should stick to that and not try to emulate other people's models. And that's probably true vice versa. And most successful firms have their own model that they develop that works for them, for their culture, for their people, for their capital. I think also staying quote unquote small allows us to attract some of the best best best people on the investment side here because we could still offer people founder-like economics, a path to partnership, a path to taking on responsibility much much faster than those people might have if they take a kind of traditional investment path.

>> Yes. And this is a place where we think that over time the firm should always be owned by the people driving it. And historically that has been the case. My co-founders and me and then I'm still here. My co-founders over time become more on the capital side. Daniel was an analyst and sitting here today. I was an analyst early on in the predecessor firm of this. So we do have a demonstrated culture that attracts people that way. I love the notion that both of you ran businesses as the CEO and I'm especially curious about the forged and fire moments from running the Brazilian railway. What were the aspects of operating as the CEO that you most remember that most shaped how you think about running a business well or investing well? Within a few weeks in the business, it was apparent that it was an operations challenge. Meaning the customers around the railroad all wanted to be serviced by the railroad and they couldn't because the service wasn't good enough.

>> >> And the focus on basically turning the assets faster and more safely was really the driver of the company's

success which drove me in turn to spend a week a month in overalls driving trains and going around the country. That allowed me first to get close to the engineers in the business basically which were crucial the people that run the trains and given and understand how important they were in that business in every respect and do things to improve their lives that you could only do if you were out there with them. For instance, I was young and athletic and sitting in a locomotive for eight hours in those really old chairs was really tough and the cabins were cold because they were not sealed properly. So, all of that was not expensive to address. We didn't have the money to buy brand new General Electric locomotives, but we could fix that. And we could also fix all the engineering quarters where people sleep between changeovers which were also in dire straits conditions. And we were able to get them all fixed, get new beds, get satellite TV for sports and get them all that done.

That really drove a lot of support from the engineers. We were able to then capitalize on that by having on board computers rank people on their fuel and safety performance nationwide. I mean real roers are very proud people and that drove 30% reduction in fuel for example which was a number one cost in the company that drove much higher asset turns because we then did the same thing in the yards and there were all the ideas and participation and these people all had the solutions for things. they just needed to be engaged and to address this operating challenge which was the biggest value creation driver. So that taught me a little bit about managing by walking around and not sitting in an office and getting fab information through PowerPoint.

>> It seems like that's one critical lesson in the general category of finding hygiene and inefficiencies within the businesses that you buy to make them a lot better. This like an obvious thing to say like yeah of course you want the business to be more efficient. How else have you learned to do that effectively across several different kinds of businesses? What are the playbooks that you've most enjoyed rolling out businessto business? Not just to fix, but to find the inefficiencies in the first place.

>> One of the things that's interesting, you hear Alex's story in the railroad and a lot of these initiatives he outlined were his, but he benefited from some great advice from co-founders. our co-founders absolutely who >> two of whom were CEOs of operating businesses themselves at relatively young ages and who gave Alex a shot when he was 30 and they gave you some real practical advice which you then passed on to me when I I guess became CFO or CEO of Burger King which if you hear some of this advice you'll be able to connect it to some of Alex's actions which were at the time for me deeply insightful comments that were very contra to how I behaved and acted as an investment analyst. Things like manage the people, not the business. Centralize the what, not the how. Go around asking lots and lots of questions. Don't ever be afraid to ask people questions, even if something that seems obvious to the organization might not be as obvious to you. When we were buying Burger King, I'll never forget to just show how naive maybe I was at the time.

Alex says to me, we announced the deal. and Alice, well, now it's time we got to assemble our team. I'm like, Alex, come on. We just bought this business. It's like \$4 billion. It comes with people, right? And Alex is like, well, it does, but I think it's really important. And we got to assemble like an A+ worldass leadership team. And just kind of dawned on me, which he had experienced this in years, a business is nothing more than a bunch of people kind of running around doing things. And quality of the people is paramount to the quality of the business. In these businesses, you want to create a culture centered around ownership. And that starts with the

leaders of the business who need to act like they are and behave like they are and be the shareholders of the business.

So the leaders need to be the shareholders. The leaders can't just be quoteunquote the management. Management and shareholders need to be one and the same. And so once you've established that, now you can go to the next step. It's like how are you going to manage a business if you are its owner? You're going to look after all the money you spend as if it's your own. You are going to make decisions based on what is in the best interest of the business. You always have to put your business before yourself. And so typically when we come into these businesses, we love doing benchmarking exercises where we will look at expenses cost by area within the business. So let's say by the North American group, the European group, the Asia-Pacific group. And then we look at by category all the way we're spending money. We call this zerobased budgeting.

And we basically give visibility on cost to everyone. And we say, look, if this one group is spending this much on this area, well, why can't we apply policies throughout the organization to benchmark both with ourselves internally and other companies externally? and you find enormous amounts of savings and just doing kind of simple internal and external benchmarking. But you only are able to capitalize and achieve those savings if you have buyin at the top of people who view this as owners of the business who want to run it optimally for the business and not necessarily for themselves.

>> What does centralized the what mean? It's basically to give people freedom to figure out things and focus the discussion in terms of what is it that we want to accomplish which is where I think as a leadership of the company that's an important discussion that you should be really a part of that discussion and then once that's settled then give people freedom to figure out the how because you really want to push push decision making close to the problems and then as long as we are all aligned in terms of what is it that we are trying to achieve on a more broad perspective the actual how you going to do it and how you going to go about it the team should have a lot of autonomy on that really good people that Dan is alluding to which is absolutely key to everything they like freedom to figure out they like to solve problems they like to be challenged and they like the freedom to make decisions. So you shouldn't have a culture where making mistakes is a problem. Making mistakes trying to figure out a problem that's part of the company's ambitious agenda should be something that happens where you learn something from it and you move forward. I think that's what this thing about centralizing the discussion of the what and then decentralizing the how it comes in. What was the most stressful period for you as CEO of Burger King?

What was that moment like? >> I try not to get too stressed work-wise. I try to always keep things pretty even keeled. I had this basketball coach who once said, "Pressure is something you put in a tire." So, I always try to keep that in the back of my head. I'd say there was one time that I I was pretty stressed was this was the summer of 2014. We had bought Burger King in 2010, billion and change of equity. Within a couple years, it was objectively a great outcome. Everyone got all their money and then some back. And by mid 2014, we were like a \$10 billion company. And we had owned 70% of the company. So objectively good. And we all decided, Alex, myself, and Josh Kabza, who was our CFO, we all got really excited about buying Tim Hortons. and we were actively negotiating an acquisition, a merger of Tim Hortons. Alex was meeting with their CEO on a regular

basis. Alex was our executive chairman and I was a CEO then.

And we're in the middle of doing this prolonged negotiated deal. We get wind from the reporters at Bloomberg that they're going to run an article on us at Burger King really centered around our ages, the ages of the management team. We're trying to buy this iconic Canadian institution asset, Tim Hortons. And there were some probably reservations on the Tim Horton side around us and business and Burger King. And so we're in the final stages of negotiating this deal. The article comes out. The title is Burger King is run by children.

>> That wasn't a helpful. >> I'm touring restaurants in India with our local master franchise joint venture partners. We're driving around. I don't know if you've spent much time in Mumbai. We're driving around stuck in bumper-to-bumper traffic and the article comes out. I'm reading it. I'm like, "This is just the worst article that could have come out at the worst time." Meanwhile, everyone's writing us. Oh, congrats. Congrats. What a great investment. Really cool. And I was like, "How are we going to get ourselves out of this? This is exhibit A for the board to not want to do a deal with us." And but we worked and Alex and >> a lot of negotiation took six months.

>> Yeah. I was pretty stressed then. It took a lot of work to get them to be excited about us and we had to point out all the factual inaccuracies in the article. >> I'm gonna come back to the everyone being young thing just in a minute because I think it's so interesting. But when we first had lunch, you told me this story about the funny back and forth with Tim Hortons and your initial outreach to them. Can you tell that story as well?

>> Sure. I was able through a common friend to get a dinner with the CEO near Toronto and I flew out there. We had a great dinner, really hit it off, and he was open to potentially receiving a proposition to put the companies together, which we maybe a week later or two weeks later went to Warren and Warren was super super reassuring as we talked about in a nearly instance. I mean, I remember 10 seconds into the call with Warren, he really really praised the quality of the business and then and I always go back to that and saying how right he was and we didn't even fully appreciate how good a business it ultimately was, which we do now. But anyway, so that went really well. So we had the financing lined up.

He was open to receiving a proposition. We put a proposal together and we presented to him. Then there was radio silence. for a week. We felt radio signs for a week is normal. That's big deal. They're deliberating about it. But then that became two weeks and three weeks to four weeks. >> I had only bought one company at that point. So I'm like, Alex, is this normal? >> I was like, I'm saying that it kind of is. But >> he's like, don't worry. He's like because he wanted me to focus on the like, no, don't worry. It's totally normal. Totally normal. Totally normal.

Take eight weeks or seven weeks. So, six weeks into it or something, I got an email back basically saying, "Listen, thank you so much for your proposal. We're not prepared to move forward." And something like, "Best of luck with your future endeavors." And I really had two lines, maybe a two and a half line, at which point I picked up the phone and called this guy whom I had hit off so well with, and I said, "Listen, thank you for your email. I mean, received of it. Can you elaborate a little further? To which he answered, "No, can't." I mean, what else do

you say?

You know, I hanged up and I called him said, "How did it go?" I said, "Well, it was short. >> Not so well. Kind of short." And then we did some more work and made improvements to our offer. And then we sent it to him, revised it offer to them in the hopes that that would be enticing. And then we were prepared again to sit and wait for an extended period of time >> only to be surprised and get a response back in hours two or maybe within a day.

>> I think I want to say less than a day saying >> thank you for your offer. >> We are not prepared to move forward and we wish you again the best of luck with your future endeavors. The good news is neither of us are shy and both of us are persistent. >> So now we really scrambling and trying to find every possible way of engaging in a dialogue and figuring out what is it that we had to do if anything to get a conversation going. Then ultimately we found ways by means of which were able to meet with him and his chief financial officer and I was able to then track down with me again and engage into a conversation and gain some insight in terms of what is it exactly that we would need to do >> exactly >> to get these companies together.

>> And then after some time in that conversation we're able to have a revised offer that they thought was then enticing enough. We then moved on to the usual drafting and legal and due diligence phase of it only to receive a call on a Sunday afternoon from the Wall Street Journal saying, "Listen, we know you guys are about to announce the deal. We're going to go live with it and you guys have 30 minutes to decide whether you want to say something." It was delicate at the time because Tim Hortons is a brand of a magnitude that I almost want to say that I'm unsure whether exists in the US terms of a consumer.

>> It's ubiquitous in Canada. >> It's just so so large the brand in Canada and so important for the Canadians that this information about a deal coming out the wrong way at the wrong time could have killed it after all this six month. So you ask them when is it that he was nervous? This is when I in spite of my then already abundant of gray hair was nervous. >> How did it ultimately get done and what was the reason that he was slow and quick in his initial two responses? So apparently I mean we were not preview to all the details but the board dynamic there between him and the prior CEO that was chairing the board and whatnot there was some genuine doubt about the deal and they were discussing it intensively >> I think if you rewind a bunch of years earlier it was a subsidiary of Wendy's and >> that's right that's what drove the >> you like do we really want to be attached to burger brand again but ultimately I think we were able convinced them that this was going to be great for everybody, that this was going to be a portfolio of brands, that we would take Tim Horton's international and that most importantly the brand would retain its independence and independent management and focus in Canada. And also I think that what sealed the deal for them of course the financial proposal but it was also the reassurance on our part that our owners in Canada or Tim Horton's owners which were the heart and the core of the brand would really drive under our ownership.

That was key for them. They really cared about that there were thousands of owners in Canada. They made the brand into what it is >> since the franchisees the franchises which which in the case of Tims they call them owners. I think that was key for them. Once we disclosed what our plans were and why we thought that they

would work out and so on and so forth, that went a long way with them as well cuz that helped dismif itself.

>> You mentioned the call with Warren on this one in particular over the years. What have those calls been like? What could we all learn from the sorts of interactions you have with him at the really high level about a potential asset, a potential investment? We learned a lot just by virtue of spending so much time with him. And I think Warren had this uncanny ability to quickly identify whether a business is good or not and really really have clarity around that. a little bit this encyclopedic knowledge of business that he has is something that of course we're nowhere near having here at the firm but we do try to emulate some of that around this table of companies that we follow over a long period of time and the relationships that we build. That's the other thing we learned from him. He really sort of values his relationships.

He builds them oftenly when there's no business to talk about and he's always respectful and mindful and great around that. And I think those are the two things I took personally to heart from all his interactions with them.

>> Anything you'd add? Warren never compromises on business quality and takes discipline and I think what we do here and we like to think that we emulate him in that capacity that we will never compromise on business quality rather do nothing than buy a business we don't think is great >> I want to come back to this young talent thing I have a 3G story that I don't think I've told either of you which is in my prior investing business when I was running a quantitative investing firm we'd be pitching pension funds all the time and I actually pitched the craft hinds and then we ended up managing money for the pension you know a big slug of money and I remember going to the finals meeting that's like this formal bake off between us and others and thinking at the time like wow these guys are like my age I was late 20s or something like this and they were all late 20s and I was like well who are you guys and it was like the CFO the treasurer and whatever you know it was run by children I'll throw it back at you >> but to throw it back at you you were qualified in your late 20s to manage the money So why wouldn't they be qualified to visit?

>> But I want to hear about the roots of how you built this empowering very talented younger people into positions of not just importance but control and ownership and all these things like what is the legacy of this feature? >> It's predicated first and foremost on this desire to be a great place for the best talent. And one of the things that we think is appealing to this sort of cohort of people is that go to a place where they know that there's a decent chance that someone's going to make a bet on them early earlier than probably anywhere else. Then of course just making a bet on them earlier than anywhere else is not good enough if they don't have a real chance of succeeding.

And the real chance of succeeding comes from surrounding them well when you make dispatch. For instance, as Dan said, when he was running Burger King, I was there as active chair for him. I had done it before. I was trying to help him everywhere, each and every way I could. And also we brought people on the team at Burger King that have been involved in prior instances at the brewery and the railroad and other places in senior operating functions on sort of the same processes or things that we wanted to implement there. So that sort of that combination of things set you up for success. Nothing guarantees your success and you have to be prepared. But some of these things will not succeed. some of these risky promotions won't succeed, but you have to maximize the chances that they work. So my co-founders, one of the board of the railroad and was helping me.

One of them was at the board and taught me a lot in that period of time and my other co-founder Marcel gave me all those people from the brewery that were well trained that could help me. So that's a key element into attracting some of the very best people that you're going to make this early best and you're going to maximize the chances that they will succeed and from there some of them will have to actually ch becoming investors again some won't some will prefer to be at a company so but that's a key element of our modus operandi if you will >> we're lucky because I think we both grew up work-wise in these extremely pure meritocracies that genuinely valued ed talent over tenure and I think Alex benefited from that when he led the acquisition of the railroad and the co-founders gave him a shot to be the CEO of the largest railroad company in all of Latin America at age 30. So that was normal to him and after working together for I guess what five plus years we or six years he knew me he trusted me and he knew I'd give everything that I had and I wouldn't let Burger King fail which is why he was comfortable similarly giving me a shot as CFO and CEO because someone gave him a shot and when I was in that role I spent a disproportionate amount of my I'm focused on recruiting and recruiting who I believed would be the best best best people. Not the best people who would be willing to go to work in a burger chain in South Florida, but just the best people period. And whether it's like the rising star at a McKenzie or a Blackstone or a Goldman Sachs or at another company, I'd want the best best best people. And I similarly was willing to give them shots way earlier than they get elsewhere. Both more responsibility and more economics. And one of the early examples of that was Josh Kobza. Josh when he was 25. And when Alex promoted me to be CEO at 32, I think Josh became CFO at 26.

>> Over time, people like Sammy Cers, >> Sammy who was the next year and Thiago and David, >> all those guys, >> all these guys. And I remember at the time when I was getting promoted CEO, Alex asked me, Josh is kind of young. Is it okay? I'm like, he's much better and more mature than I was at that age. And so you guys gave me a shot. I'd like to give him a shot. So when you grow up in this environment, you get more comfortable making a bet on someone who has a little less experience, but who you genuinely believe in. And we're not just shooting from the hip. Alex, I worked for you for six years before you let me go be CFO.

>> Again, you set people up for success through people to mentor them and people on the team to help them the stuff that they don't yet know. So, you have to set it up for success as well. >> I'm thinking about your mentors and your co-founders. I'd be curious if you go one each from Betto Marcel and Georgia. What lesson stands out that each of them taught you? So Georgie has this incredible ability to see very far. So he really understands the potential of a business, the potential of a person and his vision, I think, is unique. He's unique that way. He thinks very clearly and is able to chart a path out of any situation. Betto has this incredible ability to relates to people and lead people and get people even at the shop floor quote unquote of a business excited and enthusiastic and is someone that's completely fearless. And Marcel is probably of the three of them the one that really honed this business model that we all like the most at the brewery when he ran it and he was able to basically create so many good people over the years and a very clear process. Of course what we do and what other companies do have their own different flavors that evolved from it but he was the most involved in creating that operating model. They're all very complimentary if you put the three things I said together.

>> Yeah, sure. >> Super complimentary. >> I had the benefit that I was with Alex, so I got all three. And then some I'd say one of the things that Alex brought to me in this was when you get to the company having this massive sense of urgency because companies have a tendency of moving slowly and don't operate maybe as

quickly as things operate on the investment side. But if you're going to do something, just do it this quarter. If you're going to do it this quarter, do it this month. you're going to do this month, why can't you do it now? And that sense of urgency, getting stuff done fast really, really matters because companies, I think, are 5 10% strategy and 90 95% execution. And execution is getting stuff done quickly, right?

>> How do you inject that very tactically? How do you constantly inject a sense of urgency into a company? >> I think it comes down to two things. one, hiring the right people who want to get everything done yesterday. >> People that are wired that way already. >> People who you have to hold back and not push forward. You yourself as the leader constantly keeping this expectation of wanting to move quickly, never showing any level of complacency whatsoever, wanting to get stuff done very very quickly. My guess is you see that, you Patrick see that in the tech startups that you invest in. They're building new products that are disrupting new categories that every minute, hour day count and they need to move quickly to either get to the next round or get to the next customer, get to and you try to bring that same sense of urgency that exists if you're a tech startup with finite amount of cash to a mature business that's highly cash flow generative. If I were to ask everyone that worked directly for you how you did this, would it round to clear strategic communication and constant check-in? Is that the operating system of this method coupled with extreme levels of transparency, which I also learned from Alex and the guys? You set these big, hairy, ambitious goals for the company and you're constantly letting everyone know how you as senior leaders and the company as a whole is tracking. Because if you're not giving people visibility into this, they might not understand why you're asking for it and acting with such a sense of urgency. The other piece that's crucial to this is making sure everyone's incentives are aligned and that matters a lot. So, as leaders in the company, one level down and two levels down and three levels down, everybody having stock or stock options, knowing that the way that we're going to create value here, the value creation will cascade itself down throughout the organization and having everyone's incentives and goals and systems aligned.

>> What do people screw up about that incentive piece? What have either you yourself done wrong or seen others do wrong that don't unleash that power? becomes a lot more tenure based than achievementbased. That's when you have issues. It's not simple, but you want to have very tal talented people, some that you hire from the outside a lot that groove in the system. They need to have clarity first of all in terms of what is it you're trying to achieve and then they need to have freedom to act to achieve that on their respective team should have that independence to basically decide the how and then everybody's tied into the fortunes of the shareholders all together I think that's the system in a nutshell and if you have all those components in place you tend to do well but of course I mean Patrick this is the degree of difficult ity of doing this increases with company size like to do this in an investment firm with 20 people that we have here much easier than in a \$5 billion company a little harder \$10 billion 30 it just gets harder I think it goes arai when to Alex's point he's going out stock awards to everybody and it becomes an expectation it also goes arai when you try to be fair and this concept of fair is really tricky because If you want to operate as a meritocracy, definitionally, a lot of people aren't going to think you're being fair because they're going to think that they're being underpaid and other people are getting overpaid. And and I learned this from the folks here at 3G that I felt I was being fair. I think I was doing what was right by the people, but I did not allocate stock equally to people. I gave certain people multiples of what other people got based on our thoughts of people's existing and potential future contribution. And not everyone does that. Even as CEOs, there's a lot of pressure to kind of give equal amount political political at times.

>> I always tried learned from these guys. Just never be political. If you genuinely think certain people can contribute more, give them outsized grants or outsized, you know, equity awards. >> One of the things you learned from in this compensation arena that's tough, but it's true is whatever it is that you ultimately do on compensation, you're not going to make everyone happy. So you shouldn't try to do that because it's quasi impossible. You should try to do what you think is fair from a meritocratic standpoint and explain it as well as you can. I think this is a common mistake a lot of CEOs make. And I think because we don't do that, I think that allows us to get some of the best people. especially in the early days that allowed me to attract some of the best best people because I was willing to pay people outside of the normal whatever preset pay curve and preset systems that we had. If there was a superstar and make an exception, I reserve that right as CEO to do that.

Can you talk about the very top of that talent funnel and the things that you have done and still do that are the most effective at finding people when they're very young? I'm interested down to the granular level of what questions are you asking them when you first meet them. What is that very top of funnel for the early mid20s something talent look? >> I'm a step before you. The question is how do you meet them? And it's generally speaking word of mouth and being willing to open as many doors as you can.

Someone made an off-hand comment to me when I was in Hong Kong passing through an investment firm about this superstar analyst who had just left. His name was Josh Kabza. Took note and then cold called Josh. And Josh like how you get my number. Don't worry about that Josh. which is fine. Anyway, brought him to Miami, hired him on the spot. And I would, and I've said this in the past, we'd go to Wharton and HBS and get the resume book, cold email people who had impressive resumes. And if they seemed like they were really passionate and they were looking for like a project and not just a job, I'd offer people jobs on the spot, which again was unheard of.

And I'm sure you have some examples in your world like this. Two comments I would make are when you look at those resumes and when you talk to people, you try to identify the people that achieved a lot for their age on the young cohort because that's indicative of them being hardworking and ambitious in a positive way. I find that speaks volumes in terms of them having a chance of really succeeding because I look here at the firm at cohorts of analysts and young people that we recruited over a long time and then I try to think what is it that makes in hindsight some of the better ones? What made them stand out from the rest? I think they really really really really wanted it. One of the comments I heard, I don't know why I was reminded of this, maybe there's somewhat relation here, which is the concept that when you bought BK originally, that the brand was way bigger than the business. And I just thought that was like an interesting framing. And I'm curious for you to say a little bit more about that insight or that concept and whether or not that's become something that you keep your eye out for where a brand is bigger than a business.

>> Listen, I grew up in Brazil as you know. I used to come to the US since I was seven years old and I was just crazy for Burger King and for Whoppers which every time I mentioned that people thought I was being untruthful about it just because our investment was so successful and I found proof on this letter that I just gave you that shows I wrote this in 1975 meaning I was seven years old.

You can see my handwriting. >> Some nice handwriting. >> Nice handwriting. Yeah. Yeah. >> Writing to my dad saying I ate in this place called Burger King and that I ate Whoppers every single day. >> And then I worked growing up during college as a tour guide for Brazilians that came to Disney World in the US and people just loved Burger King. It was a well-known brand in Brazil. Everyone you talked to and their cousin knew what Burger King was.

There were no Burger Kings in Brazil. And then eventually by the time we bought the company, there were like maybe a dozen. So this is illustrative of the fact that working not only in the United States but globally brand was much bigger than the business which was a unique opportunity because to grow a brand like that it's very hard a lot of time and dollars in case of Burger King yes we can grow the brand further but it was about >> easier to grow burgers than brand >> easy to open stores >> of a brand that everybody already wants.

When we found the company on one of our screening exercises and we ran some math, we concluded it would take a billion and change dollars of equity capital to buy Burger King. At the time, McDonald's was I say like an 8090 billion company. Yum was a \$30 billion company. And Burger King just felt like there was this mismatch. Obviously, we did a lot of work to justify and support this thesis that the brand was bigger than the business. Even just the very first glance, we both said, "It doesn't make sense. It sounds wrong." Of course, Alex was like, "You sure the share count's right? Missed some shares or something and it didn't look right." But it made sure we got the share count right. And it didn't meet the smell test. And we asked some people around us. And I said in the past, I asked my then fiancé was like a doctor and my mom was a lawyer who were objectively smart but not in finance. And McDonald's is \$90 billion. What do you think Burger King's worth? No one said a bill. No one said a billion. like I don't know 20 billion 30 billion and so it met that smell test and we did a lot of work to support the view that we would be able to run the business much much more profitably from IBIDA standpoint from a cash flow standpoint and if we got a few things right we can grow it much faster too >> what was wrong so obviously something had to contribute to the fact that it only took a billion dollars of equity capital to buy the thing what was the issue and then the early levers that you used once you owned >> Well there two or three things, right?

One of them was we were not focused on being a great franchiseor. We're operating too many restaurants in too many places in too many countries and that was not a great source of focus and it muddled the organizational structure. It muddled the clarity of what we were trying to do. That's something that we fixed. But they had almost 2,000 restaurants around >> different go to market, some master franchise, some multi-ranchise, some company Secondly, we didn't have the partners, the right partners in the different parts of the world where the potential was the greatest, namely Brazil, China, France, France was a huge opportunity for us.

>> Zero, right? with zero and now it's the second two billion euro in sales largest market in the world for us and so on and so we have to have the right partners around the world to grow the business >> and domestically the issues that the company was having with its franchises >> it's a great business quick service Russian franchising but you need to never lose sight of the fact that it's a good business if you make money long term and your franchises make money long term and there were some things going on in the US back in the day where there were promotions where sales grew because of a dollar double cheeseburger but the franchises were unhappy and

losing money on that and they were suing the company.

There was real issues around tension around this that we had to fix. I mean those are the three I think main levers I think early on >> from an outside in we felt that the company could be run a lot more efficiently. I think there was 400 in change of Ebida. There was 400. >> It became even more apparent once we >> once we simplified the business. Exactly. And they were basically spending overhead exceeded Ebida and capex was about half the IBIDA despite the fact that it was 90% franchised at the time. And so we felt like we would be able to run the business more efficiently, fix some of these problems and we could create a lot of value. And look in hindsight yes it was a great deal and mentions like 25 times return but at the time these were real issues and I think we had an early appreciation for the strength of the franchise business model that the broader market subsequently more greatly appreciated in the years to come. But look at the time no one else showed up and there was a go shop window shop whatever they call it and no other private equity firm showed up. And I'd say the consensus at the time was that we overpaid >> as the newspaper headlines.

>> Yeah. >> Communicative. >> We bought it from extremely savvy investors who had made a great return on their investment too. I think made five plus times their money on the acquisition of Burger King that they did a decade prior. Maybe the same question asked. I liked how you gave such a simple elegant explanation of Hunter Douglas. Why is Burger King and the franchise model a good business in the first place? Because if you happen to own a brand that is large and meaningful enough that you can have entrepreneurs around the world put their capital and their work into growing the business, investing to grow the business and help finance the marketing to maintain the brand sharp and current. I think to the extent you own such a business, it's just a great business model and something that can grow in a very efficient way globally.

However many businesses you look at, it's hard to find those traits in the business. >> It's a highly free cash flow generative royaltybased model centered around these iconic brands that we get to own. >> And again, you have entrepreneurs aligned with you. >> Yeah. all over the world really 140 countries that they're >> great operators who are going to grow the brand and they will earn their profits and they'll grow the size of the brand for us as the brand owners.

>> Maybe just as like a little vignette in this story. How did you take it from 0 to 2 billion in France? What was the literal story of what happened? >> Obviously everything starts with how lucky we were to found the partner that we did. Right. I mean, Olivia Bertrron has been an incredible partner of ours and there was someone that had some affiliation with the Stella Arto business at some point in Paris. Had a record of buying restaurants in France and turning them around and understood how to operate with excellence in France. was involved with the quick brand for years and someone that knew two core skills of a franchisee which is to find the best locations and to find the best managers.

So he had a demonstrated record of that. >> I think it's just worth talking about our model though. So, as Alex mentioned, we bought the business and some countries had company stores, some countries had multi-ranchise stores, some countries had master franchise partnerships, and we developed this master franchise joint venture model where we said, "Look, the best way for us to run the best restaurants, manage the brand in a way that it's

going to be great for the guests, and grow the brand the fastest would be to have well- capitalized local entrepreneurs as our partners." And we proved that out through the creation of these mastery franchise joint ventures in places like Brazil and in China and in India and in France which is one of the best burger markets in the world. I think we had opened our first restaurant in an airport in the south of France and it was an absolute hit overnight and so we went to France to look to find a partner to manage that country and as time went by we found Olivier Bertrand and he's an incredible restaurant operator and collaborating with him we built this 2 billion euro plus business.

>> I'd love to talk about Craft Hind and the lessons learned from it. It's an interesting one because as we've talked about before, if you just looked on a piece of paper, you'd be like, " it was another investment you made didn't do as well as RBI. It was fine. Everything underneath the surface is far more interesting." So, I'm curious for your perspective on the story now looking back on it, but most especially for just what you take away from the experience that altered how you think about your business investing or anything else.

>> If you look at the craft high story for us, the high investment turned out to be a pretty decent one. we make almost three times our money on it and we're able to return our investors capital and the craft investment which didn't do obviously as well and Patrick I think the lesson for us there is basically I don't know that we underwrote the quality of the business well meaning I mean there were significant portions of the craft portfolio which were relatively commoditized and therefore overly exposed to this changing dynamic IC where private label and the big retailers were essentially getting into the business and taking share and I think we didn't fully understand that from the get- go.

Looking at past financials would not show you that really and I think that was the main issue with it. Did we have some execution issues? Yes, but we fixed those and I don't think those were determinant to the investment not having been so well. In fact, we have many years ago already, but several years ago left our involvement there. I think the company has decent people working there and doing a good job managing it. But it's not like the stock did particularly better. Frankly, the lesson for us is again the how much more difficult and how much more diligent therefore we need to be in evaluating business quality on the investment process which I think helped us beef up the process to make both the Hunter Douglas and investment and then subsequently the Sketchers investment. Even if a business has great historical financials, I think today we likely wouldn't be willing to take big customer concentration risk. And that goes back to that likelihood of or potential of being disintermediated and inability to price risk.

>> What was the concentration issue in that specific case? Pretty much any CPG company in the US is going to have a third of the business or so, sometimes more with Walmart or another big chunk with Costco or Sure, in other countries as well where between one and three retailers, you're going to have the bulk of the business. >> Is it ever fair to just apply like the thing you did with McDonald's market cap versus Burger Kings and just say, I always did this with Spotify. It's like I pay X for Spotify. I think I'd pay 3x like really easily. And that's pricing power.

>> With Sketchers, you could do it something similar to that. I mean, Sketchers is the third largest sneaker

company in the world. >> It surprised people. I bet >> it surprised many people, including us. The first time we >> first two being Nike and Adidas. >> Adidas. >> And the numbers are a little skewed in that I'm referring to sneakers only, and a lot of these companies like Nike and Adidas have apparel businesses and Sketchers is 99% footwear. It's also surprising the distance because Sketcher sells 9 billion a year in sneakers and Adidas sells 14.

>> Yeah. I would not have gotten that right. >> In most people's minds, I mean, back to the McDonald's, the Burger King analogy, most people would be surprised by those figures. >> Yeah. >> Is this a case where the business is ahead of the brand? >> No. >> Because it's growing so fast. twothirds of the business is already outside of the US. And when you look at who is buying the brand and the market share the company has within those customer cohorts, it's actually pretty good.

Broadly speaking, we like footwear. We like athletic footwear. We believe there is a casualization and an athleisure trend within society. >> That's why the industry is growing 7% a year. >> Yeah. That's largely here to stay. It's a multiundred billion dollar category. As Alex said, these trends are driving this mid to high single digits growth. There's not a lot of private label, the same, I don't know, seven or eight sneaker companies or the same seven or eight sneaker companies in most countries. We like the industry backdrop. This first came up on our screen as a fast growing good business sometime around 2018, 2019. And we just followed it. We researched the sneaker industry. We followed the company in 2021 prior to our acquisition of Hunter Douglas. We visited the company. We visited the Sketchers company and the team out there and we introduced ourselves through a mutual friend as long-term business owner operators. We talked a lot about the global franchise restaurant business and because they're also selling a lot of their footwear through Global Franchise Network as well. And we were really impressed with what they were building. I think they were pretty impressed by our businesses and the fact that we had also been in operating roles and we stayed in touch and we'd visit them a couple times a year and we toured their DC and we'd meet them when they'd come to New York for that fall and spring buying seasons and they tell us each year, oh yeah, we're going to add a billion dollars in sales next year. And every time a year later it's like, wow, they did. They added a billion. Sure enough, in the handful of years we knew them, they doubled the size of the business. It's one of these things where to your point maybe some people especially maybe in New York some people wouldn't know that the brand is as big as it is but when you start looking into the numbers if you look back over the last and I'm not going to cherrypick years so you choose the year three year 5 year 10 year 7 year 8y year they would cater sales and volume in the double digits and they had the second highest loyalty rate amongst customers. I think only after Nike. They were the most diversified. They had the highest skew count, most diversified across all categories of athletic footwear, thereby reducing the risk.

There's no hero skew. There's no Air Jordan or Yeezy or Samba or equivalent. >> This growth has basically been anchored by great product development. the product is really good and is developed in such a way that is accessible provides great value for the consumer. And then the second thing is you basically have a great distribution on this business where you don't rely on big boxes or retailers to get your product out there. The bulk of the sales are done through your own 5,000 plus stores and your sites. That's a big difference. Basically, you have highly experienced management who essentially founded the business 30 plus years ago and Robert and his product team coming up with incredible innovation and Michael and his store team building big beautiful stores and David and the supply chain team making sure that they can deliver the shoes to the stores.

>> Great leadership on this company. Otherwise, how would you start from scratch and be reaching out closing in on 10 billion? really impressive what the team built over the last 30 plus years. >> And so as the transaction came together, what was the motivation of the other side to sell equity in the business? >> I think they saw that we have been involved in businesses for decades not years that we don't buy businesses and then flip them and that we ourselves have operating experience running our businesses. And so I think the owner operator and long-term nature of 3G was something they found attractive. And I think given where they were in their life cycle and succession planning and whatnot, it it made sense to explore. At least they've evolved both personally.

They'll keep running the business and they will they will have significant equity in the business because they elected >> this mixed consideration election that allows them to stay invested. From the sounds of it, it sounds pretty well-run. It sounds a little different than the Burger King story. And I'm so curious. Sounds like so much of the return that happened in Burger King happened because you did a lot of cleanup work. You made it efficient and then grew it. In this specific case, is it much more oriented towards let's just make it a little more efficient and focus on growth? What's the balance of consideration?

>> You got it. I mean, I think to keep this thing growing is the first and second and third order of business for us because that's what got the company to where it is and that's what will get the company to where it needs to go. And of course, there are efficiency opportunities. Yes, there are. And we try our best to address as much of that as possible. Yes. Never at the expense of altering that trajectory in any way, shape or form. different this situation where we had a Burger King where we need to actually create that trajectory. It wasn't there.

>> Each transaction is different. I think they're all BK talking about Hunter Douglas. They're all great businesses and I think there are different ways we were able to kind of help in each and this business is certainly growing faster than any of the other businesses that we've been involved in. >> How much do you care that an acquisition has what I'll call like platform potential? BK became RBI. You've got Tim Hortons and Popeye's and Firehouse and these other great franchises that are inside of the original purchase. Is that something that you think about a lot ahead of time whether or not within Hunter or Sketchers you can go do a bunch of other stuff by virtue of the platform?

>> As Dan said, these are all different deals. In the case of Hunter, the company in fact has always been doing consolidation like acquisitions in this space and I think that continues under our ownership. But here it's a little bit different. I think that if you look at the footwear sneaker leading companies for the most part they're not multibrand. >> They're largely mono brand footwear. >> They're mono brand which by the way is great in this case.

>> Well, I'd like to sit here and say the investment memo for Burger King said that it was going to be a platform company and we're great visionaries. >> I have no such memo. >> Well, there was a memo. It just didn't say that. And there isn't a case where we would make I don't know 20 million times our money >> after five years this will be worth three times. Yeah. So getting into Burger King, we didn't know that was going to be the case. And >> but having said that's a different nature here >> with all these businesses, you have to from an outside in do enough work that you get comfortable that you believe they're going to be a good business and you have to hope

to own it forever. But this came up in your interview with Matt and Alex that you only really know and understand a business once you own it and you're inside of it. You only know if it's a forever business once you're really part of it. And we do as much work as we can to maximize the chance that the business we get involved with is going to be the next forever business for us. The first time I ever heard of your business was probably 16 17 years ago. I was in my early 20s doing like a reading tour through investing and I came across that double your profits in six months or less book about zerobased budgeting and obviously 3G is well known for this method but I want to ask the good the bad and the ugly question about zerobased budgeting. Give us your impression of first of all how important the concept is to your success or not but also where it works well where it doesn't considerations that people listening should have if they want to apply a method like this to a business that they own. So I think that it's a great way for you to understand a business and to learn a business and to make it more efficient because you basically as the name indicates you have to think the business from the grounds up.

So you learn a lot and if you undergo that intellectual exercise and it frees up some expenses and it frees up some margin for you to invest and grow in the business and for you to take it to the next level. Having said all of what I just said, I think the importance people assign it to this process in terms of what our investment success has been is a bit exaggerated. If you look at the amount of money we made at RBI and then you try to decompose that okay how much of it was because we did zero base budget successfully in a couple of instances and how much of it is because we grew the businesses originally we had 12,000 restaurants now we have north of 30,000 restaurants so how much of it has to do with that second growth piece of it the bulk of it so again I find it to be a great process. I think it's a helpful process.

Doesn't probably deserve as much credit on our case as it gets. Would you agree? For us, it's like we try to bring this ownership mentality where the folks running the business are large shareholders and they're acting like owners and not management. And then that ownership mentality then needs to be applied both to cost and to revenue, to growth. And when you apply it to cost, as Alex said, you do this bottoms up analysis. And in many cases, it enables you to extract meaningful amount of value in companies, but I wouldn't recommend one of your listeners buy a lousy business with a big zerobased budgeting overhead opportunity because you're just going to have a slightly more profitable lousy business. The ownership mentality and linking goals to compensation, to results, that applies equally to cost and to revenue. And so in the case of the cost, it's let's have a zerobased budget and have a budget of costs that you have to adhere to. If you spend more than your cost budget, there's consequences. And let's also have goals linked to revenue and the goal with restaurant brands or Burger King, the number of restaurants we need to open this year, the target profitability for our franchises this year. And so I think it just comes back to ownership mindset and ownership management.

>> Yeah. So interesting that your reputation for doing this so well can because it's such a nice sounding idea. double your profits in six months or less. A good book title, maybe less. >> Who doesn't want to read an article about zerobased budgeting or cost cutting, whatever. >> I'm really curious for both your very broad perspective on capital markets today. How does the world feel to you? Its conditions, its opportunity set, it's asset prices. How does it feel to you thinking back on today versus your whole careers operating in the business and capital markets world? I should preface this by saying that I don't know that we made a lot of money by virtue of being great macro analysts or predictors and I know that we didn't. Yeah. Yeah.

I'm being polite I didn't make any money by being that and and having said that I find that we probably are in a moment where valuations are more stretched where there is a lot of capital out there trying to do things where that is still abundant and less cheap now but still pretty attractively priced. So not necessarily the easiest investment environment that I have seen over a long period of time. I agree with Alex. It does feel like businesses the world markets are more expensive today than they were in the past and therefore it's harder to buy a good business or a great business at a reasonable price.

With that said, this thing's never been easy. It's easy to look back in hindsight and say, "Oh, in 2010 you bought Burger King and it was so inexpensive." Like I said, no one else showed up. >> Why aren't you happy that we have this business model that we only have to buy one versus we have to buy? >> Yeah, of course. It's so hard to buy one, let alone takes one every five years, >> let alone buy like five or 10 of them.

And if you're going to be disciplined on business quality and price, it's always difficult. It really is. It's easy to look back in hindsight and say, "Oh, it was so easy." >> Wasn't. >> It wasn't. It was always always very difficult to buy a great business at a fair price regardless of kind of what was going on in the world or whatever time period it was. >> It's interesting to say that sometimes we have conversations with our younger partners and case discussions and they're like look when you guys did this and this deal in the past was much easier and we kind of look at each other what are they talking >> yeah it's like I was there I don't remember it being that easy.

>> Yeah. As you think about the broader world again today and the sorts of business models that have become the most exciting to people, how do you think about technology and its role in the businesses that you buy and in the opportunity set in general? It's probably not by accident that all of these have a large hard physical component to them. Harder to disrupt Adam's bits for sure, but in a most market headlines are about bits. How do you think about using it, ignoring it?

How do you relate? about the restaurant business which you would think in principle it's all about burgers or pizza or other types of sandwiches and whatnot and look at what Patrick do accomplished at >> look at what he drove there it's one of the most successful >> stories of all time I mean we're lucky to have Patrick with us now as exact chair at RBI and he basically took so much share from other large players be able to take business that's exactly right >> and he took so much share from the other large players and from the small mom and pop players because he built a tech platform. So that's probably the best example you're going to find and that's true for every other consumer business.

>> Yeah, I'd say we like businesses as we mentioned before well-moded businesses where technology can help improve the business not disrupt the business. So if it's the case of Sketchers having a better e-commerce experience or case of Hunter Douglas having AI tie in to decide when the blinds should go up or down depend on the weather and things like that or with the restaurant businesses. Several of the restaurant businesses are now experimenting with AI enabled voice drive-thru. We like types of businesses that could be improved by technology and we and our teams embrace that, just not the businesses that a new technology is going to completely change and remove.

You're going to wear sneakers tomorrow regardless of whatever technology is out there. >> She's going to eat a burger every now and then. >> Yeah, of course. Block it off in my new Sketchers. What are the most misunderstood or surprising things about 3G do you think from the outside? I think people again may not perceive how focused we are on business quality first and foremostly. If you were to participate on investment discussions here for instance, what proportion of those meetings is dedicated to determining whether a business is really good or not and the bulk of it versus talking about what the cost opportunity is. that's secondary to that and secondary to the quality of the business and the growth potential. I mean that may surprise some people frankly that look at us from the outside in. I think they might be surprised how lean we are as a group of people given the size and global footprint of some of these businesses. I don't know what else. Then >> maybe just to compound an Alex's answer, a few years ago, we had hired a new person to come into our restaurant brands and we do this annual team off sites where each of the brands goes through and talks about the plans for the next year, the big strategic projects that they're focused on. And I remember after the meeting, the person came up to me and said, "Look, you know, I didn't know what to expect here.

Everybody talks about you guys. You got a bunch of cost cutters." There were like 800 pages of content at this offsite. 10 of them covered the costs and the other 790 were related to growth and bettering operations and open up new restaurants. And I think kind of on us to maybe tell our story and get the truth out there. The other thing that I really think would surprise people here is the level of some combination of groundedness and humility that exists within this organization that starts with the co-founders and Alex and myself and our team here. Everyone is deeply intellectually curious and wants to grow, wants to learn. And despite some of the success that senior partners and co-founders have had here, they are some of the most humble people you will ever be around. And they are not afraid to ask anyone basic questions. And there's zero arrogance. Zero. And just this ultra ultra high level of humility.

>> Is there anything you hope that 3G becomes that it's not yet? The last two transactions that we did were essentially family businesses. We were viewed as a great home, a great long-term home for iconic founder family businesses. And so I'd like over time with the success of those two investments for us to hopefully be known as a great home for founder and family controlled businesses.

>> That's very Buffett coded. Is that by design or is it just the nature of what's worked for you and what you enjoy? >> It's also a function of the kinds of businesses that we like which are successful businesses that have been around for a long time. And more often than not, you find that those are still owned or somewhat controlled or influenced or managed by the founding family. And it's linked because if you have an owner who really cares about his or her business and will make the right long-term decisions as opposed to maybe the public company quarter to quarter, those decisions positively compound on themselves over decades. And so that's one of the reasons why some of the times these family businesses tend to be much much better than their public company equivalent.

>> I'd love to say one more word about that. So everyone says think long term. What are the >> Everyone says it >> right. No one does it. >> Very few people do it. >> What are the features of businesses that make them better when they're built very slowly over time than they could be if the same business had been built quickly? If you

are long-term and you're thinking long term and the decisions that you're making are around long term, you will make different decisions than if you are short-term. And a couple very simple examples would be with our restaurant business on people. We spent a disproportionate amount of time recruiting, developing, growing some of this young special talent who in the first many years with us, if we were in it for a two, three, four, five year flip.

>> Just don't bother. Yeah. >> It's negative payback. You're giving them a lot more than they're giving you. Those people 15 years in now run the business. Or France. the first couple few years in France, the amount of money we had to invest to get things going, the amount of time we had to spend, as I mentioned before, there was one restaurant in the South of Brits that was open. You only do that if you're taking a long-term view. And so, even though it wouldn't pay back in the next 6 months or year, a few years, we knew if we're going to be long-term owners of this business, fast forward 10, 15 years, we'll be well off having this 2 billion plus euro sales business. And you see this in the family businesses, especially these multigenerational family businesses where you look at David Sanderberg buying small businesses 10, 15 years ago, which wouldn't make a dent on the size of overall Hunter Douglas back then, but today contribute hundreds and hundreds of millions of dollars in sales. Those are some very tangible examples of the benefits of thinking long term. My friend David Senra who runs the founders podcast is obsessed with this style of entrepreneurship.

This lifelong commitment exit strategy is death type builders. What are these people like as people? You've engaged with so many of them not just the ones that you've bought their businesses but dozens and hundreds more probably that you haven't bought the business. How are the people themselves characteristically most different from other people and entrepreneurs? just how deeply they care about the business. Business is part of their lives, their persona, their families, their pride, their aura, everything. They really have that relationship with the business that they created and that they developed. And I think it's something you need to understand if you're going to engage with them. Need to understand where they're coming from on that.

>> Yeah. Well said. I mean, they're passionate about the business. They genuinely care. You hear this in Sen's podcast all the time. >> Do you feel like there's anything major that we've missed about what makes 3G 3G that's important to cover or do you feel like we've covered it? Well, >> there's a lot of patience as well that's required here because we're only buying one business every many years. And so for those of us who have had a little bit more experience, that's fine. For some of the junior people, it's a little bit harder. And so we definitely have to work with them and overcommunicating the benefits of being patient, establishing real trust with everyone we work with as well. I mean, we talk about this trust as being a scarce asset in this world and building trust with everyone we work with. Be it our partners here, people with whom we'll transact in the future, knowing that we're going to be good partners.

>> What keeps you guys motivated to keep working as hard as you do? You could easily have stopped. Will I keep going? >> I love what we do here. I'm proud of it and I'm highly focused on making sure the firm continues. We wanted this to really be something that has a long long long life. And that's something that brings me great satisfaction to see all this younger partners growing, taking more and more responsibility in the business. I think that's something I'm highly focused on and that highly motivates me still.

>> Yeah, same. One of the most filling parts of this job and of running a restaurant business was seeing the growth of so many of these people throughout the organization inside the organization and now on many onto doing other things as well and want to see that continue here at 3G with next generation under us successfully running our businesses and then down the road successfully running the firm. >> I think you know my traditional closing question for everybody. What is the kindest thing that anyone's ever done for both of you? Lots of people did kind things to me. If I had to highlight one, I would highlight my co-founders having given me the opportunity to go and run that railroad in Brazil. I was 30 years old. hadn't really had more than a couple of people reporting to me in an investment office and making a bet that I could go and run a company with thousands of people that needed a very deep operations driven turnaround was a big bet and bold bet to make and of course they helped me in every way they could but that was something that we did well as an investment in but what I've learned from that enabled me to come out to New York and start this firm and I must thank them for that.

>> You could substitute railroad for Burger King and apply the rest of everything he said. >> Simple and beautiful. It's amazing how this is the most common answer. Someone did a quant study of it. We got like 500 people that have answered this now. And by far the most common is someone that made a bet on me before there was evidence that they should. That's exactly it kind of beautiful and you guys do that a lot as a firm >> and we find ourselves strongly encouraging people and the businesses that we're involved with to similarly do that in their organizations.

>> A beautiful place to end. Thank you guys so much for your time. >> Thanks Patrick.