



Bestselling Author Derek Foster on the Future of Tim Hortons

Description

Looking to escape the rat race? Derek Foster did just that ... at the age of 34. By borrowing from the ideas of great investors like Warren Buffett, Derek was able to retire by creating a portfolio of high-quality dividend-paying stocks. Today, Derek is a bestselling author of several titles, including *Stop Working*, *The Worried Boomer*, and *The Idiot Millionaire*.

In part 4 of my interview with Derek, I ask him about the future of Canadian coffee icon **Tim Hortons** (TSX: THI, NYSE: THI). Below is the transcript of our conversation; it has been lightly edited for clarity. (Here are parts [1](#), [2](#), and [3](#).)

Robert Baillieul: Tim Hortons has been in the news a lot with shareholder activists demanding that the company exit the United States and increase share buybacks and dividend payments. Is this the best thing for the company?

Derek Foster: I don't know whether they [Tim Hortons] are going to be successful in the U.S. or not. They've had some degree of success in some select markets.

The activists want to lever up the balance sheet — borrow money while it's cheap and buy back shares, as long as they don't incur too much debt and put the company at risk that seems like a reasonable approach. When you borrow money, that becomes a tax-deductible expense. You're paying dividends with after-tax dollars. If they can pay out similar rates or slightly above, it's probably a good move.

As far as exiting the U.S., I don't know how that's going to play out or how long the runway is before they have success. I don't know if they will. But either way, as a shareholder in the company, I think if they successfully expand into the United States that's going to be good for me as a shareholder.

If they don't, if they're not able to crack into that market, they're still going to own the Canadian market for a long, long time. They're still going to make a lot of money, so existing stores don't require a great deal of capital. It's very, very minimal. So I would expect them to keep paying out dividends or buying back shares — and that will be very beneficial for me over the long term. I'm very happy owning that company.

Baillieul: Are you at all worried about Starbucks ([NASDAQ: SBUX](#)) or McDonald's ([NYSE: MCD](#)) encroaching on their territory?

Foster: I think Starbucks is a different product. They have a different clientele. The average Tim Hortons coffee drinker is not necessarily the same as a Starbucks coffee drinker.

McDonald's I'm a little bit more worried about because they have really come on strong the last few years. They have really upped their game and I have been really impressed with McDonald's. So that would worry me to a point. But it becomes a **Coke** or **Pepsi** argument. I don't think Tim Hortons is going to disappear. People have developed a taste for that product [Tim Horton's] and they seem to drink it regularly. But it is something that would cause some concern I guess.

Baillieul: I can attest to that. Although I do enjoy McDonald's coffee as well. So I'm not too sure.

Foster: *[laughter]* I don't even drink coffee so I might be the wrong person to ask.

Coming up next

In the fifth and final part of my interview with Derek, I ask him about **Verizon** abandoning their plans to enter the Canadian telecom market and his recent U.S. investments. [You can learn more about him on his website here.](#)

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Disclosure: Robert Baillieul has no positions in any of the stocks mentioned in this article.

Fool co-founder David Gardner owns shares of Starbucks. Tom Gardner owns shares of Starbucks. The Motley Fool owns shares of McDonald's, PepsiCo, and Starbucks.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:MCD (McDonald's Corporation)

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