



Tim Hortons Unveils Ambitious Growth Plans

Description

“We are energizing the Tim Hortons brand in all of our geographic markets and we are focusing on driving long-term, sustainable, profitable growth.” Those comments came from **Tim Hortons** (TSX:THI)(NYSE:THI) CEO Mark Caira ahead of the company’s investor day on Tuesday.

Caira was referring to Tims’ plans to add 800 more franchise locations by 2018, including 300 in the United States. Another 500 locations are planned for Canada, including as many as 160 in 2014 alone. Tim Hortons also has plans to expand in the Persian Gulf, from about 40 locations today to 260, again by 2018.

Canada’s top quick service restaurant has been under pressure over the past year to scale back its expansion activities and instead use capital towards dividend increases and share buybacks. To the company’s credit, it has generally been supportive of those proposals. Last August the company announced a \$1 billion buyback program, to be funded mostly by a \$900 million increase in debt.

Today’s announcement is a continuation of this trend, since franchise restaurants require a much lower capital commitment than corporate stores. So even though Tim Hortons has big expansion plans, the company should have no trouble returning plenty of cash to shareholders.

While the company has no shortage of ambition, Tim Hortons still faces some very familiar uphill battles. Competition in the coffee market is intensifying, with American competitors **McDonald’s** ([NYSE:MCD](#)) and **Starbucks** ([Nasdaq:SBUX](#)) determined to steal share. Tims still has a dominant share of the Canadian morning market, but that means the company also has plenty of room to fall. Growth and profitability in the United States, where Tim Hortons does not have home field advantage, remains a struggle.

Foolish bottom line

Tim Hortons is one of the few companies in Canada that is able to deliver consistent earnings across nearly all business cycles. But due to the issues the company is facing, investors are as concerned as ever.

It will take a lot more than an ambitious growth plan to put those fears to rest. Questions remain about

the menu, brand extensions, financial targets, and capital allocation. Shareholders are hoping that Mr. Caira will address these concerns at the investor day. He'll certainly have plenty to talk about.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NASDAQ:SBUX (Starbucks Corporation)
2. NYSE:MCD (McDonald's Corporation)

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