The Future of Tim Hortons Goes Through America

Description

With the release of **Tim Hortons'** (TSX: THI)(NYSE: THI) first quarter results earlier this week, now is the ideal time for investors to take a closer look at the long-term outlook for one of Canada's best known brands.

Compared to the same period a year earlier, total revenues increased 5% to $766 million, and operating income rose 14% to $145 million. Adjusted operating income gained nearly 6%, and earnings per share grew an impressive 17%, from $0.56 to $0.66 per share.

Those results are solid, but Tim Hortons' stock lost nearly 1.4% on the news. Let's take a closer look at Tim Hortons' performance, and whether investors should be buying or selling.

Expectations missed

Despite the encouraging performance relative to the first quarter of last year, the stock lost value because Tim Hortons did not meet analysts' expectations for revenues and earnings.

Analysts expected earnings of $0.68 per share, and revenue of $778 million for the quarter. Tim Horton's missed both figures, delivering earnings per share of $0.66, and revenue of $766 million.

That was enough to send investors, those primarily concerned about short-term performance I suspect, headed to the exits.

Same-store sales growth

However, there is a lot to like about Tim Hortons' performance during the quarter.

Same-store sales, one of the most important metrics in retail, measures revenue growth or decline in stores open for at least 13 months. Last year, Tim Hortons' same-store sales growth was anemic – increasing by just 1.1% in Canada and 1.8% in the U.S.

However, the coffee and doughnut retailer did much better this time around, achieving same-store sales growth of 1.6% in Canada and 1.9% in the U.S, despite a challenging winter that kept many consumers at home. But investors took little solace in the improvement, pointing to the fact that growth came from customers spending more per visit. The number of customers that actually walked into a Tim Hortons was down for the quarter.

Investing for the long-term

Tim Hortons is in the midst of implementing a plan designed to move customer through its restaurants more quickly, including new digital menu boards, eliminating many unpopular menu items and embracing technology to make payment more efficient.

The company is also investing in international expansion, opening between 40 and 60 new restaurants in the U.S. this year. And as part of the strategy, Tim Hortons is creating new menu options designed specifically for the American palate.

The plan appears to be working, but if this were a hockey game, we would still be in the first period.

Do you believe?

This is an important chapter in the incredible growth story that is Tim Hortons. For long-term investors, the critical issue is whether management is making the right investments to grow the Tim Hortons' brand outside of Canada, and effectively compete with **McDonald's** (NYSE: MCD), **Starbucks** (NASDAQ: SBUX), and a whole host of new market entrants.

I think it is still too early to tell. I love the commitment Tim Hortons has demonstrated to investors through share buy backs and dividend increases, but I want to see more evidence that Americans love the Tim Hortons brand as much as we do.

CATEGORY

1. Investing

TICKERS GLOBAL

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

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