Should You Join Warren Buffett and Invest in Restaurant Brands International Inc.?

Description

2014 was a good year for shareholders of Tim Hortons.

Not only did they get the psychological benefit of knowing that a small percentage of their daily cup of joe goes back to their wallet (a benefit which is constantly underscored, at least in my opinion), but their shares also soared, thanks to being taken over by Burger King. The price eventually settled on was $99 for each Tim Hortons share, which represented a return north of 50% for 2014. If only all of our investments were that good.

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The combined entity is back trading on the stock exchange, under the name **Restaurant Brands International Inc** (TSX:QSR)(NYSE:QSR). Should investors take a look at this new twist on a couple of familiar names? Let's take a closer look.

Operations

Not much needs to be said about the operations of Tim Hortons. That part of the combined entity is firing on all cylinders.

Although management still isn't happy with the percentage of sales that come from coffee, recent efforts to diversify its menu have been relatively successful. Items such as the breakfast sandwiches and the crispy chicken sandwich have proven to be popular, and the company's donuts continue to get good reviews, at least from my taste buds. Although the company hasn't released a huge hit of a menu item recently, there haven't really been any duds either. Same-store sales growth continues to tick up in Canada, and recent growth in the U.S. came in at more than 5% for stores already open a year.

Things are a little messier on the Burger King side, but that's just in comparison to Tim Hortons. The hamburger business is suffering a bit, as younger folks hit up fast casual joints that offer a higherquality meal for a little more money. And although my visits to Burger King restaurants shouldn't be ahuge indicator, my impression is the locations could use a little sprucing up. Still, it remains a solidbrand.

Buffett's role

Billionaire investor Warren Buffett was a key player in the acquisition of Tim Hortons.

Through a subsidiary of **Berkshire Hathaway Inc.** (NYSE:BRK.A)(NYSE:BRK.B), Buffett bought $3 billion worth of preferred shares in the new company with a yield of 9%. With that he also acquired warrants that gave him the right to buy an additional 1.75% of the company's common shares for $0.01 each. Buffett has already indicated to management that he intends to exercise his warrants.

One of the criticisms of this deal was the amount of debt the new company would have. Essentially, the owners of Burger King — Brazilian private equity firm 3G Capital — would use the cash flow from Tim Hortons to pay for its own acquisition, weakening the whole company's balance sheet in the process. Thus, many pundits advised investors to sell the newly combined entity.

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It's not just Buffett who owns a piece of this new company. Bill Ackman's hedge fund, Pershing Square, announced at the end of December it has accumulated more than 38 million shares, which is almost 19% of the company.

Obviously Buffett and Ackman are looking past the company's debt and are willing to bet on the overall operations, a big part of which is Tim Hortons.

At this point, investors have a choice. They can either trust two of the smartest men in the business, or wait until management comes out with a more concrete plan about the future of the combined brands. If you're going to take investment cues from anyone, Warren Buffett seems to be a good idol to emulate. He's buying here, so that probably means that you should be too.

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1. Investing

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