Should Investors Be Concerned About Restaurant Brands International Inc.?

Description

When 3G Capital merged Tim Hortons and Burger King under the banner of **Restaurant Brands International Inc.** (TSX:QSR)(NYSE:QSR) changes were to be expected. 3G Capital has a fairly predictable playbook it follows with companies it acquires, mainly to slash and burn expenses. This is to be expected with any major merger, but especially with a deal like this. Any time you have major companies coming under one roof, redundancies and duplicate positions will be eliminated.

The question for investors is how far 3G Capital will go to cut costs at Tim Hortons. Is this first wave of layoffs all part of the plan or will the quality of the company and the Tim Hortons brand be at stake?

HQ layoffs

One of the conditions that the Government of Canada placed on the merger was that 100% of the 96,000 franchise employees would be protected from job losses. However, the agreement only protected 80% of the 2,000 managers and executives employed by Tim Hortons. Despite several reassurances to the contrary, 350 employees at Tim Hortons HQ and several regional offices have been let go with the aid of an external outplacement agency.

In previous 3G Capital takeovers, the cuts to management and front line staff were quite swift and some felt they compromised the company's ability to operate. With the Tim Hortons integration, 3G Capital will not have the same freedom. The Canadian government has not only limited 3G Capital's ability to cut staff but it has also attached provisions that protect charitable programs, freeze franchise royalties and rent for five years, and prohibit co-branded stores like we saw with the previous Tim Hortons/Wendy's merger.

The plan

Thanks to these government restrictions, 3G Capital will not be able to inflate net income through reducing expenses at the rate we have seen with Burger King or Heinz. This also means that the stock could see a slower price increase than originally anticipated in 2014. There is also the matter of the debt, which equals roughly 50% of the combined revenues of Tim Hortons and Burger King. It was anticipated that the newly formed company would be able to offset its debt repayment thanks in part to the amount of free cash flow currently generated by Tim Hortons.

Then you have the division of shares, as 3G Capital controls 52%, hedge fund Pershing Square holds 19%, and Warren Buffett (through **Berkshire Hathaway Inc.**) holds $3 billion worth of shares. All of this translates into an immense amount of pressure to perform, turn a profit, and not drown in debt.

What's left for everyday investors?

Unlike good old Tim Hortons, this company has no dividend, again as a way to manage the behemoth level of debt. Investors should expect a couple of years of steady growth as 3G Capital makes whatever fiscal adjustments it can to inflate net incomes.

Despite all those efforts, the debt will limit the stock's growth in the near term. Tim Hortons was once a buy and hold until retirement stock, but RBI just might be a short hold. Over the coming years, keep a close eye on trading volumes and watch for the day Buffett and the hedge funds begin their stock purges.

CATEGORY

1. Investing

TICKERS GLOBAL

1. NYSE:QSR (Restaurant Brands International Inc.)
2. TSX:QSR (Restaurant Brands International Inc.)

Category

1. Investing

Date
2025/08/25
Date Created
2015/02/03
Author
cameronconway