



## How to Play the All-Day Breakfast Wars

### Description

Let the all-day breakfast wars begin.

**McDonald's Corporation** ([NYSE:MCD](#)) announced January 26 that it is launching its all-day breakfast menu country-wide February 21 after extensive testing in select markets showed that its Canadian customers had an appetite for breakfast throughout the day. If you follow the quick-service restaurant industry, you're likely aware that McDonald's in the U.S. has benefited greatly from the introduction of all-day breakfast in October 2015. Since launching south of the border, McDonald's U.S. stores experienced five straight quarters of same-store sales growth.

Unfortunately, that winning streak has come to an end. Its fourth-quarter earnings report released January 23 showed U.S. same-store sales declined by 1.3% year over year. However, before MCD shareholders lose their faith, it's important to remember that its U.S. stores were facing some tough year-over-year comparisons.

"It took 12 months, but McDonald's investors have overcome the 'wall of worry' brought on by the approach of comparable results to those resulting from the launch of all-day breakfast," **Barclays'** analysts wrote in a note to clients Monday. "And importantly, with two-year comps accelerating of late, and the brand stable in terms of [quick-service] market share, we remain bullish."

And they should be.

CEO Steve Easterbrook has done a good job turning around its U.S. stores, which were performing miserably prior to his taking the top job in March 2015. McDonald's had been fumbling for years with the decision of whether or not to take breakfast past 11 a.m., citing grill issues and other behind-the-counter efficiency concerns—Easterbrook quickly ended the debate, completing the rollout within seven months of his promotion.

Beating analyst estimates in Q4 2016, Easterbrook's comments in McDonald's earnings press release were very optimistic, and given his ability to make decisions quickly, I believe he has done what's necessary to position the company for future growth in the U.S., Canada, and around the world.

"I'm confident that we are well positioned to transition to a longer-term focus in 2017," said Easterbrook in its press release.

If he's not worried about the 1.3% decline, MCD shareholders probably shouldn't be either.

This brings me to Canada.

Over the past six months, McDonald's been testing extended hours for its breakfast menu in select restaurants in Vancouver, Montreal, and Toronto. It's not surprising that McDonald's found customers which were eager for all-day breakfast, as this daypart, more than any other time of day, is showing the fastest growth at quick-service restaurants.

It's a no-brainer, which makes me wonder why Tim Hortons isn't jumping on the bandwagon. I like the people behind **Restaurant Brands International Inc.** ([TSX:QSR](#))([NYSE:QSR](#)) and recently [recommended](#) its stock, but CEO Daniel Schwartz's comments that it isn't considering all-day breakfast is a head-scratcher.

McDonald's valuation is at a premium right now; I wouldn't be buying unless you've got a long-term hold of three to five years because any sign of success by McDonald's is going to knock its stock price for a loop.

Another company launching all-day breakfast coast to coast is A&W Food Services. All-day breakfast goes live February 27, and A&W expects to have 95% of its restaurants converted by spring.

While McDonald's will likely take the lion's share of all-day breakfast, A&W is sure to benefit, and that means investors ought to consider **A&W Revenue Royalties Income Fund** ([TSX:AW.UN](#)), which owns the A&W trademarks and gets paid a 3% royalty on sales at all of its franchised locations across the country.

Fool.ca contributor Joseph Solitro just [recommended](#) its stock to income investors—it currently pays a monthly distribution that yields 4% on an annual basis. This is only going to add to revenue numbers at A&W, which then trickle down to the fund.

If you like income and don't want to mess with U.S. stocks, I'd get in before the stock moves higher on the buzz generated by all-day breakfast. But, if you don't mind cross-currency, I'd seriously consider McDonald's stock despite the slip in same-store sales. Globally, it rocks.

## CATEGORY

1. Investing

## POST TAG

1. Editor's Choice

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

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