Restaurant Brands International Inc.: Beware the Evil Empire

Description

It's been a whirlwind since Brazilian private equity firm 3G Capital acquired Tim Hortons in 2014 and merged it with Burger King to create **Restaurant Brands International Inc.** (TSX:QSR)(NYSE:QSR). Now Restaurant Brands is buying **Popeyes Louisiana Kitchen Inc.** (NASDAQ:PLKI) for US$1.8 billion, and more acquisitions are likely to follow.

Recently, I suggested that the company's next deal could be an all-stock transaction involving Dairy Queen, the iconic ice cream and burger chain owned by **Berkshire Hathaway**.

There's no denying the success Restaurant Brands has had since 3G Capital took charge. Its profits are rising, costs are falling, and shareholders (especially 3G) are getting handsomely rewarded as a result.

Pretty much every Fool.ca contributor that's written about Restaurant Brands has gushed over the company's profitable transformation and future possibilities — including me — but before you make an investment in its stock, you might want to consider what lurks behind the evil empire that is 3G Capital.

When the whole merger situation went down back in 2014, I had an inkling about what was about to happen because I'd read *Dethroning the King: The Hostile Takeover of Anheuser-Busch, an American* by award-winning financial journalist Julie MacIntosh. The book is a very close examination of how 3G Capital does business and the culture clash that existed between the Brazilians and the Americans.

And if you've ever read *Barbarians at the Gate*, the book about the 1988 leveraged buyout of RJR Nabisco, you'll really enjoy *Dethroning the King*. But I digress.

The point I'm trying to make is that 3G Capital has always been about cleaning house, cutting costs, and growing relentlessly to generate substantial returns on its investments. There are no corporate jets, no perks, nothing but hard work, long hours, and promotions based on merit rather than cronyism. It's not rocket science, but that strategy is very hard to execute; few private equity firms can do it well, but 3G Capital has been using this template since 2004 when it was founded. One need not look any further than **Kraft Heinz** to understand they are ruthless about sticking to the plan.

So, when I recently read *Globe and Mail* retail reporter Marina Strauss's excellent article in *ROB Magazine* about the brutal transformation of Tim Hortons, I wasn't surprised one bit about the extent to which CEO Daniel Schwartz and his team of mercenaries went about disassembling Tim Hortons from iconic Canadian brand to just another of 3G Capital's many moneymakers.

That's not necessarily a bad thing when it comes to business, because emotion often stops people from making the decisions that need to be made to create a stronger operation.

However, 3G Capital's management style is not for the faint of heart. As I've mentioned, they're ruthless and they're not going to change.

How do I know this?

Popeyes's long-time CEO Cheryl Bachelder announced March 2 that she was stepping down as its CEO once the acquisition of the chicken franchise closes. That tells me all I need to know about the future of Tim Hortons.

Here's what I said about the Popeyes acquisition in February: "As long as Bachelder remains at the helm of Popeyes — or even takes the helm at the parent company, pushing CEO Daniel Schwartz to some other challenge within the 3G world — I see Restaurant Brands International stock flying higher."

With some acquisitions, you're buying the company for growth or sometimes for strategic reasons, and still other times you're buying the talent within a particular organization. Bachelder was such a talent, but 3G Capital doesn't care — she's not their "prototype" employee — young and ready to work incredibly long hours at the expense of family and friends.

Make no mistake; 3G Capital is the evil empire and might be sucking the soul out of Tim Hortons.

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