Restaurant Brands International Inc.: Here's Why You Shouldn't Think Much of the Lawsuit

Description

The share price of **Restaurant Brands International Inc.** (TSX:QSR)(NYSE:QSR) is finding positive momentum again as it recovers from a mild ~10% dip it experienced earlier in the month. The management team has its hands full with the recent acquisition of Popeyes Louisiana Kitchen as well as the continued expansion efforts for the Tim Hortons brand, but it appears that a class-action lawsuit by a Tim Hortons franchisee may keep the company busy in the short term.

Tim Hortons franchisees are fed up

A Tim Hortons franchisee alleged that Restaurant Brands improperly used money from a national advertising fund. A subsidiary TDL Group Corp. started charging franchisees additional expenses; in the lawsuit, the franchisee claims that TDL didn't provide statements of the fund's operations. It appears that the unhappy franchisee believes that TDL is "funneling money to itself … at the wrongful expense of the franchisees."

The lawsuit is looking for $500 million in damages, and this may be ringing alarm bells in the ears of investors, but personally, I think the lawsuit is just noise that could potentially result in a great entry point for long-term investors seeking top-tier growth.

It's important to note that none of these allegations have been proven in court, so I don't believe the matter will send shares on another downward trajectory. If it does, investors should rejoice because it's an opportunity to pick up more shares at a better price.

Taking steps to calm down unhappy franchisees

Daniel Schwartz, CEO of Restaurant Brands, has stepped in with the hopes of easing tensionsbetween the management team and franchisees. Many franchisees are upset over additionalexpenses, but I believe the company’s fund has been going towards marketing initiatives, and it’s oneof the major reasons why Tim Hortons has seen impressive same-store sales growth over manyquarters.

You’ve got to spend money in order to make money. Franchisees may not see the immediate benefit for Canadian locations, but in the long term, the brand is getting a major boost, and it’s the price franchisees will have to pay to get the Tim Hortons brand at the same level as the global powerhouse Burger King.

Unhappy franchisees are not unique to Tim Hortons

Personally, I don’t think the franchisees will win in the class-action lawsuit. The rising tensions are a reason to be concerned, but let’s be realistic. Unhappy franchisees aren’t anything new. The relationship between management and franchisees at **McDonald’s Corporation** (NYSE:MCD) hasn’t been perfect over the years either, especially when it came to increased expenses for marketing campaigns.

Restaurant Brands is growing extremely fast, and the management team wants to make Tim Hortons one of the top-tier global brands. Sure, franchisees may start getting upset when expenses rise, but they’re just going to have to suck it up and pay them.

Fellow Fool contributor Will Ashworth seems to think that Restaurant Brands may unravel in a hurry because of the lawsuit and rising tensions.

I think the situation will be in the rear-view mirror soon because customers will still flock to Tim Hortons locations, and it’s unlikely that franchisees will suddenly dump their profitable operation just because of increased expenses. I don’t think the stock will take a tumble, but if it does, it’ll be time to buy more shares of this fantastic growth play.

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