



Will Internal Strife Continue to Batter the Stock Price of Restaurant Brands International Inc.?

Description

On Wednesday, July 12, an article in *Bloomberg* shed further light on some of the turmoil that is brewing within **Restaurant Brands International Inc.** ([TSX:QSR](#))([NYSE:QSR](#)).

In the report, Tim Horton's franchisees expressed their dissatisfaction with the parent company's profit-driven initiatives. A coalition of franchisees was formed in March to oppose reforms instituted by management, and the group even filed a class-action suit in June accusing company executives of overreach.

The share price was battered by the news and dropped 3.09% to close at \$77.79. The stock is still up 21% in 2017, and until the rift escalated with the formation of the franchisee coalition things were looking rosy for the fast-food multinational company.

Restaurant Brands International's adjusted per-share earnings were up 45% in 2016, and sales were up at Tim Horton's and Burger King 5% and 7%, respectively. In the first quarter of 2017, total revenues surpassed \$1 billion, which exceeded the \$900 million in Q1 2016. It reported system-wide sales growth of 3% at Tim Horton's and 6% at Burger King.

Should investors ignore the power struggle in Restaurant Brands International and buy the results? Or will this conflict continue to hurt the share price for months to come?

The culture change sweeping franchises is the management style known as the "3G Way," an initiative trumpeted by the privately owned 3G Capital, the largest shareholder for Restaurant Brands International. The system aims to maximize growth by simplifying processes and optimizing the workplace.

One of the major shareholders in 3G Capital is Warren Buffett's **Berkshire Hathaway, Inc.**, which has committed \$3 billion of preferred equity to finance the transformation.

3G Capital and Restaurant Brands International CEO Daniel Schwartz reiterated that the focus for the parent company is growth, not cost cutting, and that anxiety experienced with changes is natural in any

company.

One of the core complaints of the franchisees is the increased cost of bulk product. The long-term effect, they argue, will be the steady ouster of franchisees to be replaced by larger regional bosses which would be more cost effective.

The crisis at Restaurant Brands International is a familiar one for companies that undergo changes from the top down. The challenge for management will be to find a way to make the transition work more smoothly for franchisees and long-time employees who are accustomed to an older model. Changes put into place have yielded growth for the multinational and superb results for shareholders.

Should you buy Restaurant Brands International?

Tim Horton's is a sacred brand in Canada, so it will be in the interest of Restaurant Brands International to exercise a steady hand in navigating the negotiation with franchisees in an attempt to continue with a smooth transformation.

The management team behind the company is world class, but in the short term, the media flare up will likely point to further volatility for the stock price in 2017.

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