



Restaurant Brands International Inc. Moves to Quash its Franchisee Rebellion: How Will its Stock Respond?

Description

Restaurant Brands International Inc. ([TSX:QSR](#))([NYSE:QSR](#)) has moved to take legal action against an assortment of Tim Hortons franchisees who have allegedly leaked confidential information. This represents the next stage in what has been a bitter dispute between the recently formed Great White North Franchisee Association and its parent company Restaurant Brands.

The dispute in question erupted in the spring as a selection of Tim Hortons franchisees had become disgruntled with the direction the parent company was taking. They allege that Restaurant Brands has stifled the Tim Hortons culture with lack of transparency and has hurt franchisee profits with new procurement policies. The group also had issues with the performance metrics undergone to improve efficiency.

Restaurant Brands issued default notices to nine directors of the association, which could eventually lead to the removal of said franchisees and deal a huge blow to the association. CEO Daniel Schwartz, who was a former partner at the investment firm 3G Capital, which holds a substantial stake in Restaurant Brands, has been dealing with the crisis since March. Schwartz gave insight into the dispute in a recent conference call and also stated that the new policies put into place had improved the Tim Hortons brand.

There is concern among franchisees that the Ontario minimum wage hike will eat into profits. The Great White North group has also alleged that Restaurant Brands is passing losses onto franchisees by maintaining low costs at franchises.

Restaurant Brands stock has performed well in September thus far. Shares have increased 5% over the course of the month as of close on September 21. The stock has experienced growth of 25% in 2017 and 35% year over year. The news comes in an inopportune time as Restaurant Brands stock was gathering momentum with the broader Canadian stock market. A stronger Canadian economy also bodes well for the Burger King, Tim Hortons, and Popeyes brands if consumer trends hold up from previous strong periods.

Still, the ongoing dispute with Tim Hortons franchisees has not stalled growth since the association was formed in March. This news may actually encourage shareholders as it may indicate Restaurant Brands is looking to put an end to an ongoing public relations headache. As is usually the case, financial performance will also play a huge role in how things progress.

Daniel Schwartz appears confident in the solid performance that is emerging from the changes at Tim Hortons franchises. If this bears out in the third-quarter results set to be released in October, it will be the Great White North group on poor footing moving forward, assuming the group is still active in the fall.

As of this writing, investors may not have fully digested the news that Restaurant Brands is taking this bold action. It is early, but I believe sentiment may be quite positive as a resolution will bring about the opportunity for Restaurant Brands leadership to act with an even freer hand in improving efficiency among its chains.

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Date

2025/08/18

Date Created

2017/09/22

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