



Restaurant Brands International Inc.: Where There's Smoke, There's Fire

Description

Restaurant Brands International Inc. ([TSX:QSR](#))([NYSE:QSR](#)) stock is up 43% year to date through October 20, making it one of the year's best-performing TSX large-cap stocks.

That's great news for investors.

What's not so great is the assertion by Great White North Franchise Association (GWNFA) president David Hughes that 50% of the 1,100 Tim Hortons franchisees have joined the so-called rogue organization. If accurate, Tim Hortons and, by extension, RBI are in a whole heap of trouble.

It's one thing to have a few loose cannons causing trouble for the brand — that's why you have lawyers — but when it reaches across the spectrum of owners, both small and large, it becomes an entirely different kettle of fish.

It is worth worrying about

Fool contributor Joey Frenette recently [discussed](#) the battle between the company and franchisees. He doesn't view the issue as anything more than a minor skirmish for investors rationalizing that these misunderstandings happen all the time in franchising.

Maybe they do, but when a large organization has taken steps to increase profits for one group (QSR shareholders) at the expense of another (Tim Hortons franchisees), I'm sorry, but you do have a problem.

Again, we still don't know precisely how many franchisees have joined GWNFA, but I will always side with the little guy in these matters.

If David Hughes says the number is 50%, I believe it's 50%. The fact that the company won't deal directly with the GWNFA isn't right. By preferring to do its bidding through the franchisee board, which, in my experience, is usually stocked with those whose interests align more closely with management, tells me that CEO Daniel Schwartz and his 3G bosses (and let's not forget Warren Buffett) aren't interested in operating a free and democratic business.

A terrible way to do business

The fact that Schwartz has chosen to play hardball with the franchisees, no matter the size of the group, suggests that 3G had this plan in place ever since it launched the takeover of Tim Hortons back in 2014. It's not unlike a company breaking a union, only, in the case of a union, it has labour laws behind it.

Hughes has suggested in his letter to all the Tim Hortons franchisees October 20 that the GWNFA is making progress in its fight to deliver profitability for all franchisees, not just the ones that own enough stores to provide economies of scale. That's a positive development.

You would think all the stakeholders involved including shareholders would want a united group of franchisees. The fact that this isn't the case and both parties continue to stand their legal ground should make owners of QSR stock at least wonder why this is.

Perhaps RBI wanted to see how far it could push Tim Hortons's franchisees — arguably its strongest brand — before they cried foul. Then it would know exactly how far to go with its other brands in future moves to increase margins.

It's a brilliant plan until the palace revolts. Well, the palace is revolting, and it's still too early to tell who has got the upper hand.

Same-store sales falling

"In the last four quarters, Tim Hortons has averaged same-store sales growth of 0.9%, 410 basis points fewer than in the same four quarters a year earlier," I [stated](#) at the end of September. "Worse still, it has had two consecutive quarterly declines in same-store sales and hasn't had a quarter above 3% growth in same-store sales since Q1 2016."

The GWNFA has said that the changes implemented by RBI to deliver higher margins has negatively impacted the quality of its product offerings. I can't speak to that, but if Tim Hortons provides another sub-par quarter regarding same-store sales growth, I think investors will have their answer if they don't already.

Bottom line

If you're thinking about buying QSR stock at these prices — don't. At least not until the problems with franchisees get worked out, because at times, sales or more than double the price to sales of **Starbucks Corporation**. The risks far outweigh the rewards at this point.

Let the revolution begin!

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