



Bill Ackman Is Selling Restaurant Brands International Inc.: Should You?

Description

The latest Securities and Exchange Commission filing by Pershing Square, Bill Ackman's hedge fund, showed that it sold a total of 13 million shares of **Restaurant Brands International Inc.** ([TSX:QSR](#))([NYSE:QSR](#)) in the third quarter, reducing Pershing's shares in the restaurant operator by 32%.

There are two ways to look at this.

First, Ackman is merely taking profits off the table — a wise move in a market that's gotten a little frothy. Alternatively, you can view this share sale as a sign that Ackman sees trouble on the horizon.

Personally, I think it's a little of both.

Taking profits off the table

Bill Ackman got his stake in Restaurant Brands by investing US\$420 million in a special purpose acquisition company trading on the London Stock Exchange that invested US\$1.4 in Burger King in 2012 in exchange for 29% of the merged business. Pershing Square owned 41.9 million shares.

Then came the December 2014 acquisition of Tim Hortons, which created Restaurant Brands. Pershing owned 38 million shares at that point. In the first quarter of 2016, Pershing Square acquired an additional 1.2 million shares for approximately US\$42 million.

So, the hedge fund's total investment in Restaurant Brands was \$462 million.

According to Fool contributor Joey Frenette, Pershing [sold](#) 10 million shares in mid-July at approximately US\$61 a share; they're up 5% in the four months since. Frenette wrote at the time that Ackman's move could cost the investor because the stock was likely to keep moving higher.

He put in US\$462 million, took out US\$610 million in July, and is still sitting on 26.5 million shares worth US\$1.7 billion. That's a 31% annualized rate of return over a little under six years.

Given how many prominent defeats Ackman has had past couple of years, taking profits seems like a

logical idea.

Trouble on the horizon

Ackman had a lot of complimentary things to say about Restaurant Brands in his Q3 2017 shareholders' letter.

"We believe that Restaurant Brands remains a compelling value at 21 times our estimate of 2018 free cash flow per share in light of our belief that the company can grow free cash per share in the mid to high teens for the foreseeable future," Ackman stated.

However, two sentences give me pause.

"Tim Hortons's same-store-sales were roughly flat, as customers have been slow to try the espresso-based drinks and new offerings on the lunch menu that were introduced at the end of the quarter," Ackman said. "We believe sales in recent quarters have also been negatively impacted by the recent public dispute with a group of franchisees."

The disagreement with franchisees is something I've been quite vocal about here at the Fool. In September, I questioned the business rationale of alienating half your Tim Hortons franchisees.

"Under an asset-light business model, such as the one operated by Restaurant Brands, the franchisees are the lifeblood of its business. Without them, it has no business," I [wrote](#) September 29. "You can't expect franchisees to be ripped off on the prices they pay head office and think that all is well in the world. Eventually, as we're seeing, people fight back."

It's possible that Ackman sold the shares as a form of protest. If management doesn't nip this problem with franchisees in the bud, he'll sell more.

Bottom line on QSR stock

I don't think you can take this share sale lightly. Bill Ackman does not want what's been a very positive investment for his shareholders to reverse direction.

You can bet he'll be paying close attention to what's happening with franchisees, and if the situation doesn't get better soon, he might have to step in and get actively involved in fixing the problem.

Should you sell?

I don't think we're at that point, but we could get there in a hurry if the franchisee dispute spreads to the other concepts.

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