Why Ontario's Minimum Wage Increase Doesn't Matter for Restaurant Brands International Inc. Investors

Description

With Canadian parent of Tim Hortons, Burger King, and Popeyes Louisiana Chicken **Restaurant Brands International Inc.** (TSX:QSR)(NYSE:QSR) receiving a significant amount of press of late over the decision of a few Tim Hortons franchisees to cut employee benefits following a minimum wage increase in Ontario, one might assume that Restaurant Brands might not be able to make it out of this horrible scandal unscathed. I, however, beg to differ for a few key reasons.

Tim Hortons is only a small piece of the Restaurant Brands pie

As most investors know, Restaurant Brands owns and operates two other excellent quick-service growth companies: Burger King and Popeyes Louisiana Chicken.

The lion's share of Restaurant Brands's top- and bottom-line earnings come from Burger King — widely considered to be the key driver of Restaurant Brands's business model. With expectations that improved growth in the company's Burger King and Popeyes locations will drive growth in 2018, and the ever-existing potential for another bolt-on acquisition this year, this issue will long be forgotten very soon for pragmatic investors who are interested in the company's bottom line rather than the tiny, insignificant squabbles that will essentially amount to nothing in the grand scheme of things.

Ontario is only one small operating region for Restaurant Brands

Putting the scope of this dispute further into perspective, it is important to remember that Restaurant Brands is a global organization, with the vast majority of the company's operations located outside Canada. According to the company's most recent annual report, consumer spending in the fast-food industry was estimated to be approximately US$282 billion in the U.S. market and only $26 billion in the Canadian market for the 12-month period ending November 2016, meaning the Canadian market overall represents a drop in the bucket for Restaurant Brands, and the Ontario market is a minuscule drop.

Dollars and pennies, my friends.

Bottom line

With Restaurant Brands's stock price dipping from the ~$85 level during the last trading days of 2017 to the $78 level today, and much of the analysis of the company tethered to headline news stories of "bullying" or "unethical" behaviour by Tim Hortons franchisees, I argue instead that, while crude, franchisees are doing what needs to be done to maintain a viable business model amid a franchise-revenue model which has little flex for changing regulatory environments.

Restaurant Brands will continue to be profitable, perhaps at the expense of Tim Hortons franchisees, and therefore employees, in Ontario. If you're an investor focused on long-term growth and profitability and believe in the Restaurant Brands's business model, accepting bumps along the way is par for the course.

Stay Foolish, my friends.

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