



What You Need to Know About the Latest Change at This TSX Champion

Description

A press release from **Alimentation Couche-Tard Inc.** (TSX:ATD.B) hit the news wires January 17 at 5:00 p.m., an hour after the close of trading. If you blinked, you probably missed it.

Just three paragraphs in length, the convenience store operator announced that it is taking its business model “asset-lite” in the province of Ontario by offering Circle K franchises to interested parties — the first time they’ve been offered anywhere in Canada.

“Circle K’s entrance into the Ontario franchise market begins immediately and aims to foster the growth of the brand in the rapidly developing province,” stated the press release. “The franchise locations will also complement Couche-Tard’s nearly 10,000 stores in North America, including over 2,200 in Canada.”

Although this has gotten little attention from investors in the short time since the press release went live, current and potential shareholders ought to take this latest move by Couche-Tard very seriously, because it will no doubt change the way it does business in the future.

I think it’s a smart move

Since the economic crisis of 2008, we’ve seen numerous consumer-facing businesses move from company-owned outlets to franchise operations, offloading expenses on to the franchisees.

When done well, it can be a win/win proposition.

Of course, it can also turn into a public relations disaster, as is currently unfolding with [Tim Hortons](#), one of three restaurant brands owned by **Restaurant Brands International Inc.** ([TSX:QSR](#))([NYSE:QSR](#)).

By now, most Canadian investors already know the story, so I won’t rehash it.

Suffice to say, Restaurant Brands is playing with fire when it comes to the minimum wage issue; so far, it’s managed to dodge a bullet with its share price losing just a couple of bucks since the news first hit

a few days into the new year.

If it's not too careful — up to 50 demonstrations, including 12 outside Ontario, are planned for January 19 — it's going to find itself with an iconic brand that's not nearly as valuable as it once was.

However, risks aside, I think this is another smart move from one of the [five best stocks](#) on the TSX.

The minimum wage

Businesses in Canada and the U.S. are facing the reality that wages are going up after two decades or more of being stagnant, while corporations set profit record after profit record.

Each has its own way to deal with the increase in expenses. Restaurant Brands has made it clear that employment issues are the responsibility of the franchisee, and therefore, it's not a party to decisions to take away benefits, paid breaks, etc.

I think Couche-Tard is making Ontario a test case for Circle K franchising in this country, because if it can work here, it can work anywhere.

Refranchising

McDonald's Corporation started converting its company-owned locations in earnest in 2015. At the end of 2014, it owned 19% of its restaurants; today, it's down to less than 9%. Not surprisingly, its profits are way up.

Very few restaurant operators are able to do well on a mass scale with a lot of company-owned restaurants. Even **Starbucks Corporation**, known for having mostly company-operated stores, has licensed or franchised about half its global locations to someone other than the company. Over at Restaurant Brands, almost its entire system is franchised.

The point being that Couche-Tard could become less of an operator and more of a marketer and real estate owner, while continuing to make acquisitions on a global basis that would grow the Circle K brand.

At the end of the Q2 2018, 9,327 locations out of 15,264 were company owned. That leaves it with a significant refranchising opportunity in the future.

Bottom line on the move

I see this being an excellent way for Couche-Tard to free up cash to use both to pay down debt and acquire additional assets in Asia, South America, and in the U.S. if the right [opportunity](#) became available, such as **Casey's General Stores Inc.**

If you own Couche-Tard stock, you ought to be smiling from this development.

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2. TSX:QSR (Restaurant Brands International Inc.)

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