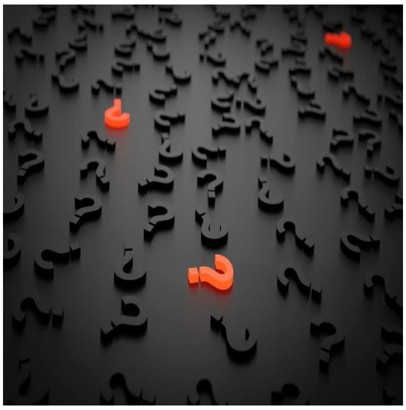

Will Tim Horton's Franchisees Take Down Restaurant Brands International Inc.?

Description

In 2014, Brazilian firm 3G Capital acquired Tim Hortons and merged it with Burger King to form **Restaurant Brands International Inc.** (TSX:QSR)(NYSE:QSR). The $12 billion deal was widely panned by critics and was primarily a tax-inversion move. As for Tim Hortons, the deal was widely expected to fuel U.S. expansion — a market it has struggled to successfully penetrate.

Not all news is good news

Tim Hortons has been in the news for all the wrong reasons. It started almost a year ago, when a group of disgruntled franchisees formed the Great White North Franchisee Association (GWNFA). According to its website, GWNFA was formed "in response to the mismanagement of the Tim Hortons franchise by TDL Group Corp. and parent company Restaurant Brands International (RBI)." This resistance group of franchisees has been a thorn in RBI's side since its inception and has filed multiple class-action lawsuits against RBI.

In early January, the company was blasted for passing the new wage hikes on to its employees. Protests took place country-wide, demanding Tim Hortons' franchisees and RBI reverse claw-backs to workers' benefits and breaks. However, RBI was quick to defer blame onto individual franchisees, further wedging a gap between the two.

If that weren't enough, the company is now being investigated by the Federal government. In response to complaints put forward by the GNWFA, the Ministry of Innovation, Science, and Economic Development will investigate RBI to see if it failed to adhere to the terms of the takeover — terms that led to the company receiving the green light to being taken over by a foreign company.

Price performance

Evidence supports that the escalating war between franchisees and RBI is having a negative impact on shareholders. Since the company was formed, it has performed quite well, returning approximately 45% to its shareholders. This performance far exceeds that of the TSX Consumer Discretionary Index, which has returned 16% over the same time frame. However, the story has changed as of late. Over the past year, RBI has significantly underperformed, losing 8% versus the index's 8% gain. This lack of performance coincides with the creation of the GWNFA.

Not good for anyone

The very public spat between Tims and its parent company is weighing on RBI's shares. It is also having a significant impact on the restaurant's once pristine reputation. This one-time cultural icon fell from fourth to 50th in a recent brand reputation survey. This is no small drop and marks the first time in a decade that it has not been in the top 10. What about its U.S. expansion? It actually has fewer stores south of the boarder today than it did at the time of the acquisition.

On the bright side, it is possible that the involvement of the federal government is a first step towards reconciliation. The current situation, which has been escalating quickly, is not good for anyone. Until there is a clear path to resolution, investors are best to sit on the sidelines.

CATEGORY

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