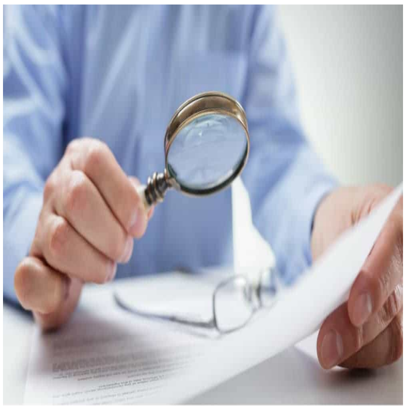

Why Tim Hortons Is Still in Good Shape Despite Struggling Sales Numbers

Description

Restaurant Brands International (TSX:QSR)(NYSE:QSR) released its first-quarter results on Monday, which again showed disappointing results for Tim Hortons. Despite all the initiatives that the company had planned, including offering kids' meals, it has failed to generate any same-store sales growth for the popular coffee shop. It was the only of the major brands owned by Restaurant Brands that didn't see any organic growth. Burger King and Popeyes were both up 2.2% and 0.6%, respectively.

Tim Hortons, meanwhile, saw sales slip by 0.6% in stores that were already open a year ago. And even if we look at system-wide sales, Tim Hortons was also well behind its counterparts, growing at just 0.5% and well short of the 6.8% growth rate achieved by Popeyes and the 8.2% that Burger King rose by. A year ago, the numbers were a bit higher for all the brands, but it still told a similar story: Tim Hortons was just not doing that well.

Restaurant Brands is hoping that expanding the coffee shop into other parts of the world, including China, will help stimulate some much-needed growth for Tim Hortons. Despite the disappointing numbers, however, management remains optimistic for the future. CEO Jose Cil stated, "Overall, we are confident in the long-term growth prospects for each of our three iconic brands and remain focused on providing a great guest experience while driving franchisee profitability."

However, actions speak louder than words, and the efforts the company has been making recently to try and grow Tim Hortons suggests to me that Restaurant Brands knows it has some problems. Although the coffee shop is still very popular among Canadians, with many different options to choose from and competition getting more intense, growing sales isn't going to get any easier.

Ultimately, Restaurant Brands ended up missing expectations for the quarter with earnings per share of $0.53 coming in well below the $0.58 that was being expected by analysts. The good news for the company was that despite the struggling sales, Tim Hortons still brought in the highest adjusted EBITDA of the three brands, although these figures were also down from the prior year.

Should investors be concerned?

Although Tim Hortons might be struggling to grow its sales, that's going to be expected in a very saturated market, especially given that it's still a brand that depends heavily on Canada. As Restaurant Brands builds the brand outside its domestic borders, there will be more of an opportunity to lessen the dependence on Canada for its sales, and that'll be key to more organic growth in future years.

It's still rare to not see a long lineup outside a Tim Hortons location, so I can see that for all the controversy that has surrounded the brand, the coffee shop is still a popular choice for Canadians. The problem is just saturation and over the long term, which is going to be fixed as the brand gains access to other markets.

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