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## At donuts drawn

Restaurant Brands International, Inc. (QSR in New York and Toronto), the subject of a bearish analysis in the [June 2 issue of Grant's](#), issued a stiff admonition to the Tim Hortons franchise association that's resisting management's attempts to import the penurious 3G cost culture into Tim's Canadian operations. At stake are the share price (down 6.9% since the *Grant's* analysis) and the performance metrics of the fast-food chain in which 3G, Warren Buffett and Bill Ackman are boldface shareholders.

The *Grant's* story quoted the dissident franchisees, who have taken the name "Great White North Franchisee Association," in support of the thesis that RBI is over-earning for the shareholders by mulcting its franchisees on coffee, sugar, bacon and other essentials. The franchisee advertising fund is likewise a source of contention.

What makes the charges and coun-

tercharges significant is that, in the 12 months ended March 31, Tim Hortons delivered \$6.5 billion, or 23% of RBI's systemwide sales, and \$1.1 billion, or 55.5%, of the company's adjusted pro forma earnings before interest, taxes, depreciation and amortization. A meaningful portion of those sales and earnings stems from the markup that RBI takes on the supplies that franchisees are contractually obligated to buy from what amounts to the company store. And as this sourcing protocol delivers a substantial part of Hortons' unusually high profit contribution, so it supports the sky-high valuation that RBI continues to command in the stock market.

On June 7, RBI's Toronto law firm fired the aforementioned rocket over the heads of the dissident franchisees. It warned them against leaking confidential information and spreading "false allegations and misinformation." Then, too, it

seems as if someone had been talking to "various financial analysts."

On June 1, the day after the digital delivery of the *Grant's* story, the 30-year-old chief financial officer of Restaurant Brands, Joshua Kobza, fielded a friendly question about the Hortons franchises at the RBC Capital Markets Consumer and Retail Conference. "[T]here has been some noise with the franchisee system in Canada," Kobza replied, according to the Bloomberg transcript. "I think, as [a] company, some of the softness that you've seen in sales, and that we've seen across Canada, and in particular, in some certain regions of Canada, where there's been a bit more economic softness [sic]."

As we went to press on Tuesday, the Great White North franchisees were said to be preparing a legal response to Restaurant Brands.

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