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Food fight joined

If constant readers are beginning to wonder if *Grant's* knows any other ticker but QSR, and any other name except Restaurant Brands International, Inc.—the $28.5 billion 3G Capital-run, Warren Buffett-blessed franchisor of Tim Hortons, Burger King and Popeyes Louisiana Kitchen—the answer is yes. We know many other tickers and names, though few whose share price is so evidently out of sync with the fast-breaking news.

The story continues to turn on the risks presented by the controversy surrounding the cash cow Tim Hortons. You'll recall that, in the 12 months ended March 31, the iconic Canadian coffee-and-donut-and-more chain delivered 55.5% of RBI's systemwide adjusted pro forma earnings before interest, taxes, depreciation and amortization (EBITDA) on only 23% of that company's sales.

It's old news that a good number of Hortons' Canadian franchisees are out of sorts with the corporate front office. The new news is that almost half of Hortons' American franchisees (of whom there were 683 on Dec. 31, out of a worldwide total of 4,613) have joined their revolting Canadian brothers and sisters. On Monday, the disaffected Americans announced formation of the Great White North Franchisee Association USA to protest their treatment at the hands of Restaurant Brands.

In their inaugural press release, the American association leveled five charges, including two that do not closely echo complaints already heard in Canada. "Imposition of performance metrics designed to enable expropriation without compensation" is one. Management-erected obstruction to the sale of franchises "at fair market value" is the second.

Colleague Evan Lorenz called a Michigan franchisee for comment. According to Lorenz's informant, who asks to go nameless, RBI is using an arbitrary and punitive rating system to force the sale of allegedly underperforming franchised properties at knockdown prices. We have not been able to corroborate the charge, but consolidation of franchisees into larger and larger units is how Restaurant Brands has done business at Burger King. Carrols Restaurant Group, Inc. (TAST on Nasdaq), the No. 1 Burger King franchisee with 788 stores, enjoys right of first refusal for Burger King franchise transfers in 20 states; Restaurant Brands, in turn, owns convertible preferred shares conferring a 20.6% equity interest in Carrols.

On June 19, Canadian franchisees filed a C$500 million suit against Restaurant Brands in the Ontario Superior Court of Justice. The 26-page statement of claim alleges, among other things, that management raided the franchisees' advertising fund to pay for the marketing of a Tim Hortons private-label coffee (among other items) to be sold in supermarkets. Thus did the franchisees unwittingly pay to subsidize their own competitors, or so the complaint contends.

"Hi Evan," began Restaurant Brands' not entirely informative response to Lorenz's questions. "Our Franchise Owners are the foundation of our system and we have always and will continue to seek their counsel and work in close collaboration with them to deliver a great Guest experience every day across our restaurants in the U.S."

Insofar as the accusations have merit, and to the extent that the righting of wrongs reduces the Hortons-derived margins of Restaurant Brands, the result will be a less-great investor experience for the owners of QSR. It is hard to overstate the importance of the Hortons contribution to corporate well-being. Between the first three months of 2015, the first full quarter of Restaurant Brands' stewardship of Timmy's, and the first three months of 2017, the adjusted EBITDA which the parent derives from Tim Hortons jumped by 39%, to $256.2 million.

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