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Burger King's Parent Poised for Continued Growth Despite Fourth Quarter Loss

By Dylan Peterson, J.D. Candidate 2017 | February 24, 2015

Restaurant Brands International, the third-largest fast-food chain restaurant group in the world, posted a quarterly loss in the fourth quarter of 2014. The rather large net loss of $514.2 million, attributable to shareholders, is particularly significant because it marks the first quarterly financial data available since the formation of the group through Burger King's purchase of Canadian coffee and doughnut chain Tim Hortons. The loss can primarily be explained by "one-time costs related to the merger."

Investors overlooked the reported net loss, as the company's NYSE-listed stock (QSR) jumped over 10% the same day as the February 17th announcement of the financial data. Shareholders were particularly encouraged by the strong comparable store sales growth of over 3% for each brand during the quarter. New menu items were credited by executives as being responsible for this growth. In comparison, comparable store sales only grew 1.7% for Burger King and 1.8% for Tim Hortons in the fourth quarter of 2013.

Prior to the merger, Burger King was plagued by a period of lackluster financial results. Burger King hoped to change its financial outlook and create new opportunities by relocating its headquarters to Canada. The American company was able to accomplish this and create a more favorable tax environment by acquiring Tim Hortons. Burger King's merger is particularly significant because it allows the company to reinvest its significant tax savings in the company to promote its global expansion goals.

Tim Hortons has long been a dominant force in its industry in Canada with a share of over 70% of the country's baked goods and coffee market. The company has been able to dominate traditional American juggernauts like Starbucks and McDonalds. Tim Hortons has had trouble recreating its Canadian market dominance and appeal in the U.S. The brand's struggle to grow in America is almost entirely attributable to the dominance of major competitors like Dunkin' Donuts, Starbucks, McDonalds, and Yum Brands. Making the company's task particularly difficult is the fact that Tim Hortons is facing a highly saturated market with a vast number of established competitors. The major challenge for the company is to be able to distinguish itself from these entrenched competitors.

While the two restaurant chains will continue to be managed as separate brands under the new company, aggressive growth remains the primary goal for both. The brands are poised for growth after their parent company has spent time since the merger analyzing operational and management areas where the two brands overlap, and making appropriate cuts (primarily to the Tim Hortons brand) to create a more lean and efficient group.

Analysts expect the relationship to create mutually beneficial growth opportunities. Burger King can help Tim Hortons expand in America and internationally, while the Tim Hortons brand is expected to assist Burger King in cutting into McDonald's dominance in the U.S. fast-food

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breakfast market. While expansion of the Tim Hortons brand is expected to take some time, the large net loss reported in the fourth quarter is not expected to repeat itself as Restaurant Brands International's merger restructuring is complete. Analysts see a positive financial outlook for the combined company, and expect the upbeat trend to continue.