

## Is Tim Horton's Worth the Hype?

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It is not often that an excellent investment opportunity presents itself north of the border, but Tim Horton's is one of the best to come along in a while. It may be expensive now, but an opportunity awaits -- Wendy's may unload its stake later this year.

A dream fulfilled ...

Tim Horton's (NYSE: THI) is one company whose IPO I've awaited for a long, long time. I suppose it might be described as the Starbucks of Canada, but more addictive, if you can believe it. I have not had a Tim Horton's doughnut for nearly 10 years, but I can taste it like it was yesterday. Roughly half of all Canadians visit Tim's an average of four times a week or more, and you'd better believe that I wish I was one of them. Even our own Philip Durell of Inside Value fame expresses a love for their tasty treats.

The company is one of the strongest (voted best-managed by Canadian Business in 2004 and 2005) and most cherished brands in Canada. The chain has about 2,600-plus restaurants across Canada, about half located in Ontario, and 292 in the U.S., primarily located in the cities of Columbus, Detroit, and Buffalo. The company mostly sells coffee and doughnuts but has expanded the menu over the years to encompass changing consumer tastes by offering bagels, soups, and sandwiches. It's no slouch in the growth department, having compounded its sales by 16.5%, profits by 17%, and same-store sales by 7% annually over the last ten years.

Tim's was founded by the former Leafs hockey player Tim Horton in 1964, and posted 2005 annual sales of roughly \$1.5 billion and net income of \$191 million. Net income was affected by a \$53 million asset impairment charge, as the company wrote down the value of some recently acquired and underperforming stores in New England. Its restaurants are 97% franchised, which makes for strong operating cash flow, \$378 million in 2005. However, capital expenditures ate up a lot of that cash (as is usual with restaurant chains); they were \$218 million in 2005, up about 10% from 2004. These numbers reflect Tim's extensive expansion in recent years, having added more than 100 stores in Canada and more than 30 in the U.S. each year for the past three years.

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*Source - Motley Fool*

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