Canadian Centre for Policy Alternatives
October 2014

Trouble Brewing

Why the Tim Hortons Takeover is a Bad Deal for Canadians

Natasha Luckhardt

www.policyalternatives.ca RESEARCH ANALYSIS SOLUTIONS

CCPA
CANADIAN CENTRE for POLICY ALTERNATIVES
CENTRE CANADIEN de POLITIQUES ALTERNATIVES

ISBN 978-1-77125-154-9

This report is available free of charge at www.policyalternatives.ca. Printed copies may be ordered through the CCPA National Office for $10.

PLEASE MAKE A DONATION...

Help us to continue to offer our publications free online.

With your support we can continue to produce high quality research—and make sure it gets into the hands of citizens, journalists, policy makers and progressive organizations. Visit www.policyalternatives.ca or call 613-563-1341 for more information.

The CCPA is an independent policy research organization. This report has been subjected to peer review and meets the research standards of the Centre.

The opinions and recommendations in this report, and any errors, are those of the authors, and do not necessarily reflect the views of the funders of this report.

ABOUT THE AUTHOR

Natasha Luckhardt is a research associate for SEIU Healthcare and a research associate with the Canadian Centre for Policy Alternatives. She is an MA candidate at McMaster University for a Master of Arts in Work and Society in the Labour Studies department. Natasha's undergraduate studies were in Journalism and Political Science at Concordia University in Montreal, where she published articles in various publications.

Trouble Brewing

5 Summary
7 Painful Changes Ahead for Tim Hortons
9 Impact on Workers: Mass Layoffs
12 Impact on Small-Business People: Higher Costs and More Risk
17 Impact on Taxpayers: More Corporate Tax Losses
19 Impact on Consumers: Worse Products, Higher Prices
21 Global Growth Will Not Bring Economic Benefits to Canada
23 Conclusion
24 **Notes**

Trouble Brewing

Why the Tim Hortons Takeover is a Bad Deal for Canadians

Summary

On August 26, Tim Hortons and Burger King announced an agreement to merge the two restaurant chains. If approved, the deal will put Burger King's Brazilian private equity owner, 3G Capital, in control of the merged company and install one 3G partner as board chair and another as CEO.[1] To finance the acquisition, the combined company will take on C$13.7 billion in debt and preferred equity[2] in what amounts to the largest restaurant leveraged buyout in U.S. and Canadian history.[3]

As details emerge, it is becoming clear that the deal is troubling for our country and for fans of Canada's coffee chain. 3G Capital has a well-established post-takeover playbook of cost cutting and mass layoffs, and the billions in new debt will create enormous pressure for changes at Tim Hortons. Furthermore, the commitments 3G Capital has made to win support for the transaction fall far short of what Tim Hortons stakeholders deserve. 3G Capital's track record suggests that the takeover of Tim Hortons is likely to have overwhelmingly negative consequences for Canadians, including:

- *Mass layoffs:* 3G Capital's obsessive cost cutting has frequently resulted in mass layoffs at the companies it acquires. Hundreds of Canadian workers at Heinz and Labatt plants have lost their jobs in re-

cent years after takeovers by 3G Capital and its founders. Just this year, 3G Capital oversaw the closing of a Heinz plant in Leamington, Ontario, costing 740 jobs.[4] If 3G Capital follows its pattern, hundreds of Tim Hortons jobs in Canada could be eliminated. Under one estimate, the number of layoffs of Tim Hortons corporate employees could reach over 700.

- *Squeeze on small-business people:* Most Tim Hortons franchisees are small-business people, with the average owner operating just three or four stores.[5] 3G Capital has shifted substantial cost and risk onto Burger King franchisees and entered into preferential deals with large master franchisees. If 3G Capital applies this model to Tim Hortons, it could mean cuts in investment and services for franchisees and downward pressure on employment.

- *Corporate tax losses:* As was the case with 3G Capital's past deals, the large amount of debt involved in the takeover will have significant negative tax consequences. The takeover has the ability to reduce Tim Hortons' annual Canadian taxes by between C$71 and C$133 million, or between C$355 and C$667 million in the first five years. Based on past performance, 3G Capital is also likely to pursue other tax avoidance strategies that could have an effect on Tim Hortons' effective tax rate.

- *Worse products, higher prices:* When 3G's founders purchased the Budweiser and Beck's brands, among others, consumers noticed lower quality and higher prices. If 3G Capital follows a similar model at Tim Hortons, Canadians will end up paying more for lower quality donuts and coffee.

The deal's potential benefits are insufficient to counter the likely negative impacts. Few Burger King jobs, if any, will migrate to Canada given that Burger King's headquarters will remain in Miami.[6] And the purported advantage of the deal for Canada — that it will help Tim Hortons expand globally, leading to economic gains in Canada — does not hold up in light of 3G Capital's record. 3G Capital has said it plans to grow Tim Hortons globally using the same model it has used at Burger King: partner with wealthy foreign investors that have the resources to quickly open a large number of locations. Burger King relies on these large foreign partners to operate the restaurants, set up supply chains, and support smaller franchisees. None of these func-

tions has created significant jobs at Burger King's U.S. headquarters, where headcount has shrunk by 50 percent since the 3G Capital takeover.

Burger King's acquisition of Tim Hortons must create a "net benefit" for Canada in order to win approval under the Investment Canada Act.[7] Tim Hortons is already a successful business which does not need to be rescued, and Burger King's owners have disclosed few benefits to Canada. Furthermore, the commitments 3G Capital has offered to date will do little to limit the potential negative impacts outlined in this report. 3G Capital has stated that it will agree to make "enhanced and/or additional commitments" of up to C$140 million per year in order to win approval for the takeover,[8] and the government must demand a better deal for Canada if it is to consider approval. Additional conditions should include an enforceable commitment from 3G Capital to preserve all Tim Hortons jobs in Canada and to eschew the practices outlined in this report that will harm small-business people, Canadian taxpayers, and consumers.

Painful Changes Ahead for Tim Hortons

Tim Hortons executives have stated that "business as usual" will continue after the merger,[9] but 3G Capital's track record, along with the massive new financial obligations planned as part of the deal, undermine this claim. 3G Capital and current Tim Hortons management are already disagreeing publicly about the extent of change that is likely to occur at Tim Hortons: 3G Managing Director Alexandre Behring stated, "[T]here are significant opportunities to achieve meaningful synergies through the transaction." Tim Hortons CEO Marc Caira countered, "[T]his transaction is not about synergies" in response to multiple analyst questions.[10] After gaining control of Tim Hortons, 3G Capital is likely to pursue those synergies with the aggressive cost cutting for which it is infamous.

3G Capital's Takeover Playbook

Private equity firm 3G Capital was founded by Brazilians Jorge Paulo Lemann, Marcel Herrmann Telles, and Carlos Alberto Sicupira in 2004. The 3G founders made their fortunes in Brazil's banking, retail, and beer sectors[11] and now control an enormous empire of multinational consumer brands with revenues of C$68.0 billion in 2013.[12] In addition to Burger King,[13] the 3G founders also jointly control Heinz,[14] Anheuser-Busch InBev,[15] and three

prominent Brazilian companies, Lojas Americanas,[16] Sao Carlos,[17] and B2W Digital.[18]

Described by Morningstar analyst Ann Gilpin as "ruthless" and composed of "machete-wielding investment bankers," 3G Capital depends on extracting as much cash as possible from acquired companies to achieve its goals.[19] 3G's founders regularly employ mass layoffs, plant closures, and asset disposals and are renowned for taking cost cutting to extremes. For example, after 3G Capital acquired Heinz, employees were restricted to spending US$15 a month on office supplies and were told they could not use mini-refrigerators to save on electricity.[20]

C$13.7 Billion in Debt and Preferred Equity Will Put New Pressure on Tim Hortons

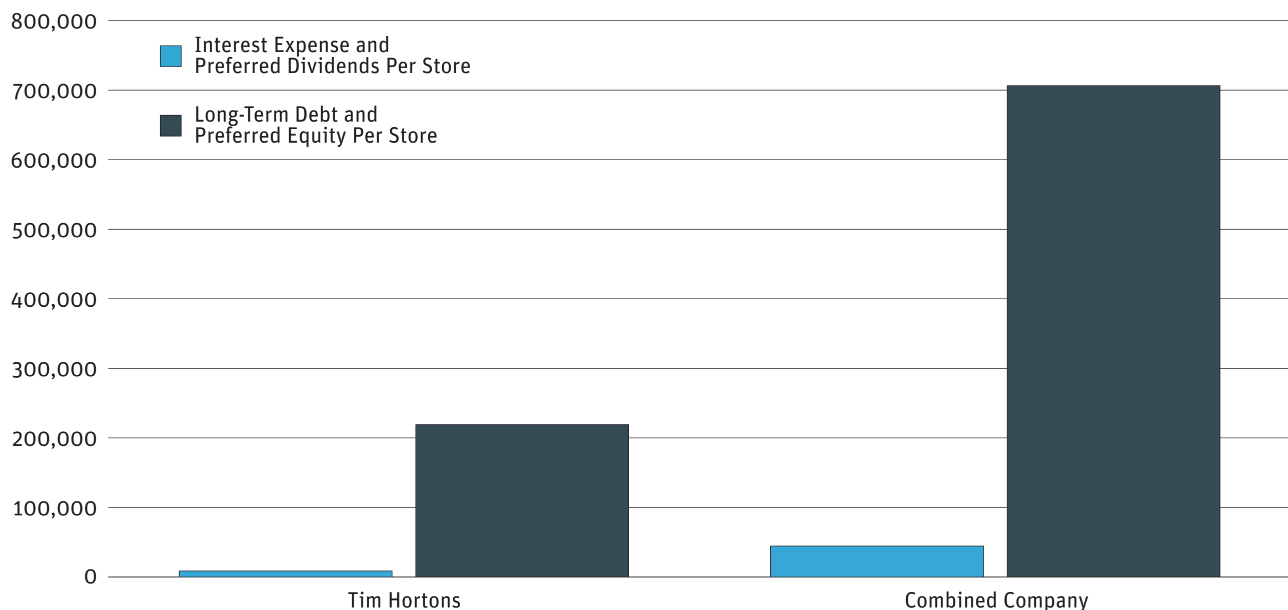
The Burger King-Tim Hortons merger, which is being financed with C$10.4 billion in debt along with C$3.3 billion in preferred equity from Warren Buffett's Berkshire Hathaway,[21] will be the largest restaurant leveraged buyout in U.S. and Canadian history.[22] This new burden led S&P to rate as junk the debt of the proposed new parent company[23] and will, according to Macleans, "loom over every operating decision Tim's makes, thrusting the coffee chain into uncharted territory where it must answer to a cutthroat private investment firm in faraway Brazil that never saw a cost it couldn't synergize."[24]

These new obligations will put pressure on Tim Hortons to cut costs, reduce investments, and squeeze more from its franchisees. To put the impact of the debt and preferred equity in perspective, each Tim Hortons restaurant currently supports debt and preferred equity of approximately C$218,900 and annual per-restaurant interest and preferred dividend payments of C$8,700. If the deal is closed, per store debt and preferred equity will more than double to C$706,500 and the per-store interest and preferred dividend burden will more than quadruple to C$44,600 (see *Figure 1*).

Tim Hortons Distribution and Manufacturing Capacity at Risk

Although Tim Hortons, like Burger King, is largely franchised, the company also operates extensive distribution and manufacturing businesses. But continuing to own and operate these assets runs counter to Burger King's streamlined, royalty payment-focused model, in which 3G Capital takes little responsibility for actually producing, shipping, or selling food. As Burger King CEO and 3G Capital partner Daniel Schwartz has said, "We are the

FIGURE 1 Per-Store Long-Term Debt and Preferred Equity, Tim Hortons vs. Combined Company (in $C)[25]



only really pure play or purely franchise and real estate business. Some of our peers, they have supply chain, they have distribution businesses. But we are really evolving to a purely franchise and real estate business."[26]

Activist investors unsuccessfully pushed Tim Hortons to sell off its distribution system in 2013.[27] Rather than invest in growing the system, multiple investment analysts suggest 3G Capital might well revisit the asset disposal idea after the dust settles from the acquisition.[28] On the merger announcement conference call, three different analysts asked 3G Capital, Burger King, and Tim Hortons executives about their plans for the distribution system. One asked point blank if management is "committed to owning that distribution?" No executive made any commitment to retain or invest in the network, other than the essentially meaningless statement, "at this point in time, kind of business as usual" for the distribution system.[29]

Impact on Workers: Mass Layoffs

3G Capital and its founders typically undertake mass layoffs when they take over a company. Based on its track record at Burger King, 3G Capital could

TABLE 1 Number of Layoffs Within One Year of Takeover

Acquisition	# of Headquarters Jobs Cut	% of Headquarters Jobs Cut	# of Total Jobs Cut	% of Total Jobs Cut
Heinz (2013)[30]	350	33%	4,750	15%
Burger King (2010)[31]	261	50%	650	44%
Anheuser-Busch (2008)[32]	1,300	28%	1,650	6%
Brahma (1989)[33]	Not available	Not available	2,500	10%
Lojas Americanas (1982)[34]	Not available	Not available	6,500	40%

Note Burger King's total job cut figures do not include company-owned restaurant jobs in order to exclude the effect of decreases in restaurant employment due to the sale of stores to franchisees.

cut 714 Tim Hortons jobs at corporate offices, manufacturing facilities, and distribution centres in Canada.

A 30 Year History of Slash and Burn

Dating back to their first takeover of Brazilian retailer Lojas Americanas in 1982, 3G's founders have fired thousands of workers at the companies they acquired. *Table 1* illustrates the drastic job cuts that the 3G founders have implemented just in the first year after each of their past deals.

3G Capital's downsizing practices extend past the first year, as well. For example, only 13 of 23 Brahma plants remain in operation, and the company's Brazilian workforce has been cut from 23,000 to 9,000, a decline of 61 percent.[35] And, in 2010, 3G's founders oversaw a new round of Anheuser-Busch InBev layoffs, with 800 jobs cut across Europe, or 10 percent of the Western European workforce.[36]

3G Capital's job cuts have already affected Canada. This year 3G Capital closed a Heinz plant in Leamington, Ontario, axing 740 employees,[37] and last year 600 Heinz office staff in the U.S. and Canada lost their jobs.[38] In 2010, the 3G founders also oversaw the closing of a Labatt plant in Hamilton, Ontario, leading to 143 layoffs.[39]

Estimated Layoffs at Tim Hortons Corporate in Canada

Tim Hortons is the largest fast food employer in Canada,[40] and jobs across the system could be affected post-merger. 3G Capital will have the most direct impact on the nearly 2,000 Tim Hortons corporate employees in Can-

TABLE 2 Current Employment at Tim Hortons Corporate-Owned Locations in Canada

	Jobs in Canada[43]
Oakville, Ontario Headquarters	700
Canadian Coffee Roasting Facility, Hamilton, Ontario	50
Fondant and Fills Facility, Oakville, Ontario	50
Distribution Facilities and Regional Offices in Guelph, Ontario; Calgary, Alberta; Debert, Nova Scotia; Langley, British Columbia; Kingston, Ontario; Vaudreuil Dorion, Quebec; Lachine, Quebec	823
Total Non-Restaurant	**1,623**
14 Company-Owned Restaurants in Canada	359
Total	**1,982**

TABLE 3 Estimated Tim Hortons Post-Merger Corporate Layoffs in Canada[44]

	Pre-Merger Jobs	Layoffs Under Burger King Scenario
Headquarters	700	350
Other Non-Restaurant	923	364
Total Non-Restaurant	**1,623**	**714**

Note Layoffs under Burger King scenario are equlvalent to 50% of HQ jobs, 39.4% of other non-restaurant jobs, and 44% of total non-restaurant jobs.

ada,[41] who work at company headquarters, manufacturing facilities, distribution centres, regional offices, and company-owned restaurants (see *Table 2*).

If 3G Capital's recent, comparable takeover of Burger King is used as a model, there will be 714 layoffs of Tim Hortons corporate employees in Canada. Forty-four percent of total non-restaurant jobs will be cut, including half of Tim Hortons headquarters staff (see *Table 3*). If 3G Capital chooses to completely sell off Tim Hortons' manufacturing or distribution facilities, the numbers could climb even higher.

The 100,000 Canadians who work for Tim Hortons franchisees[42] could also be affected by the merger, especially if smaller franchisees are squeezed by cost cutting decisions (see Impact on Small-Business People: Higher Costs and More Risk).

3G Capital's Misleading Commitments Protect Few Jobs

3G has committed to maintaining the Tim Hortons headquarters in Canada.[45] In addition, in announcing the merger, 3G Capital's Managing Director Alexandre Behring committed that "there will be no changes to restau-

rant level employment" at Tim Hortons.[46] These commitments are grossly inadequate, especially given 3G Capital's track record.

Because the chain is almost fully franchised, 3G Capital's commitment to maintaining restaurant level employment only covers workers at Tim Hortons' 16 company-owned restaurants (14 in Canada) and not the 4,154 restaurants run by franchisees (3,440 in Canada).[47] Furthermore, 3G Capital's commitment to maintain a headquarters in Canada is not accompanied by a commitment to maintain its current employment level nor does it preclude mass layoffs. The commitments are also notably silent on the fate of jobs at Tim Hortons' other offices, distribution centres, and manufacturing facilities in Canada.[48] As one investment expert close to Tim Hortons stated, "There may not be cuts at the store level, but are there going to be cuts at virtually every other level? Yes."[49]

Without guarantees of continued employment for Canadians, the 3G Capital takeover of Tim Hortons will likely result in job losses in Canada. The federal government could employ the Investment Canada Act approval process to negotiate continued employment for all Canadians as a condition of the merger.

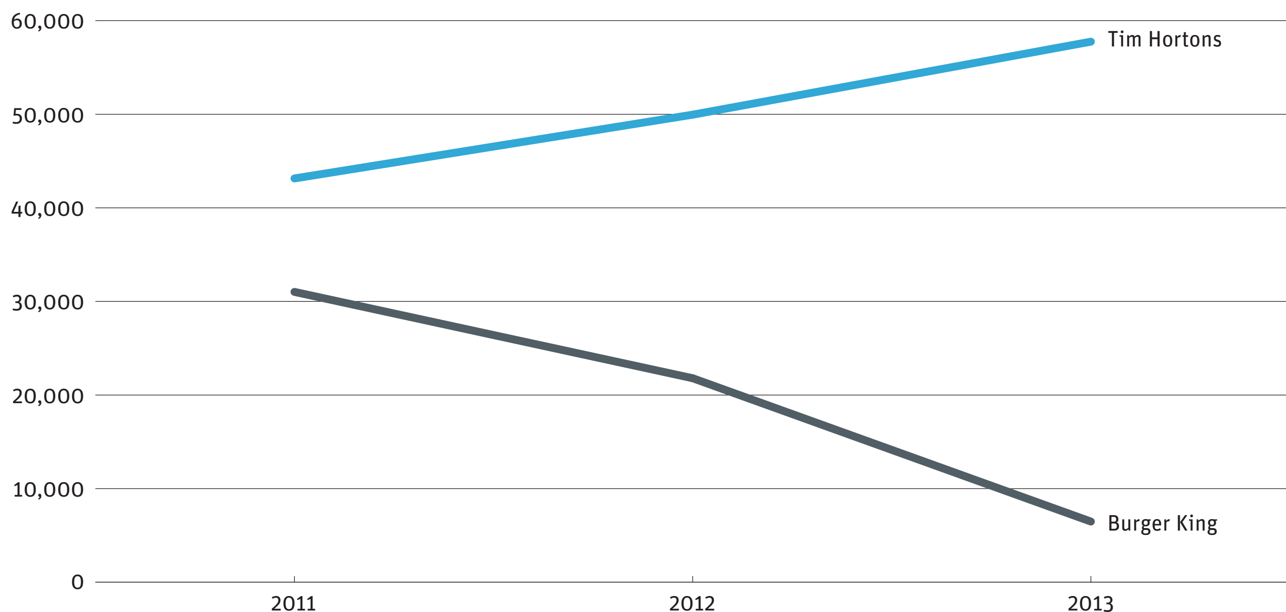
Impact on Small-Business People: Higher Costs and More Risk

Most Tim Hortons franchisees are small business owners who operate, on average, three or four stores.[50] Franchisees depend on Tim Hortons for a wide range of services and supplies, from donuts to real estate, meaning that changes in the chain's strategy could have a major impact on their stores' profitability and level of employment. 3G Capital's record at Burger King is not encouraging, and some Tim Hortons franchisees have already expressed concerns that they will be pressured to turn over more of their earnings to corporate headquarters in order to pay down the billions of debt that accompanies this deal.[51] Further, 3G Capital has demonstrated a preference for partnering with larger, wealthier "master franchisees," who could overshadow the needs of the current small operators in the Tim Hortons system.

Burger King Slashes Support for Franchisees

After its acquisition of Burger King in 2010, 3G Capital began cutting costs in order to pay down debt,[52] including by shifting costs to franchisees and

FIGURE 2 Capital Expenditures Per Owned or Leased Store, FY 2011–13 (in C$)[55]

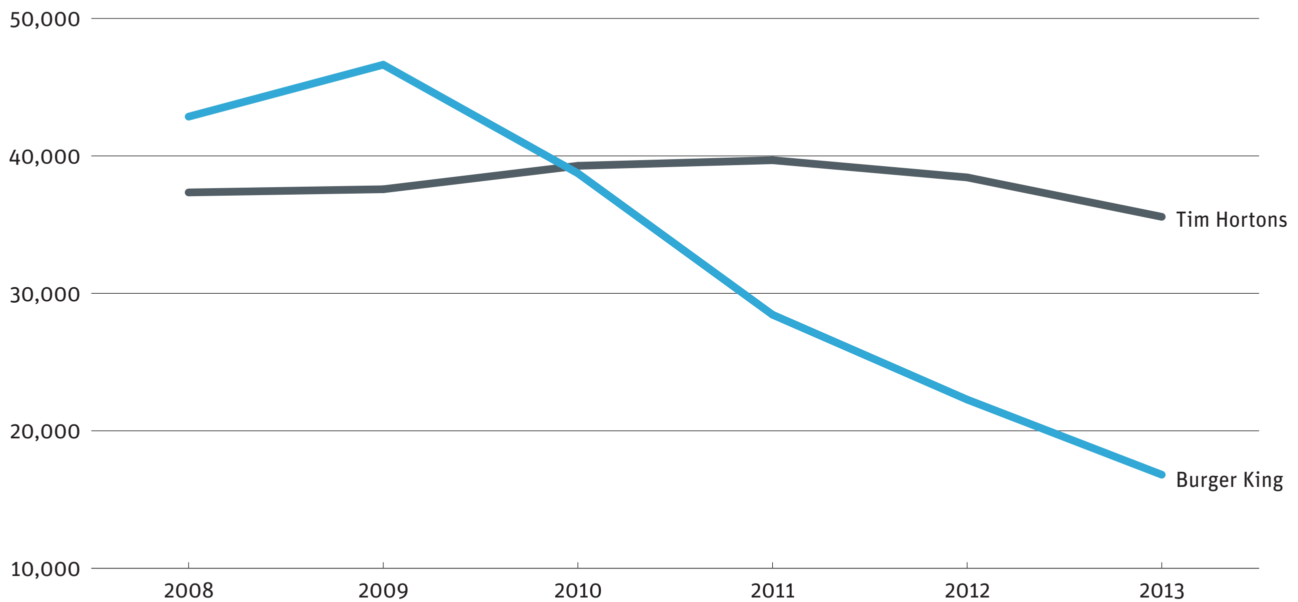


by reducing services and investment that supported franchisees. These cuts included:

- *Cuts in local advertising:* Burger King recently ended its matching of franchisees' local advertising costs dollar for dollar. Burger King North America President Alex Macedo said that the chain would only "spend its media dollars in 'a few high-impact areas,'" which does nothing for franchisees outside those areas.[53]

- *Reduced capital expenditures:* While Burger King has sold almost all of its corporate restaurants to franchisees, executives emphasize that it still owns or controls the real estate for more than 2,000 locations.[54] While retaining control of the real estate, Burger King has drastically reduced capital investment in its stores. From fiscal year 2011 to 2013, Burger King capital expenditures per owned or leased store plummeted from C$31,000 to C$6,500, a 79 percent decline. During the same period, Tim Hortons took the opposite approach, *increasing* its investment by 34 percent, from C$43,100 to C$57,800 per owned or leased store (see *Figure 2*). With the combined com-

FIGURE 3 SG&A Expenses Per Store, FY 2008–13 (in C$)[58]



Note Burger King changed the definition of its fiscal year in 2010 so there is a gap in the data for the latter half of 2009.

pany likely to pull back its support for stores, franchisees may feel pressure to make up the difference out of their own pockets.

- *Cuts in the expense category that includes franchisee support:* Burger King has also trumpeted its reduction in "Selling, General & Administrative Expenses" (SG&A), which includes support for franchisees.[56] While Tim Hortons' SG&A remained relatively flat from fiscal year 2008 to 2013, Burger King cut its SG&A by 61 percent over the same period, from C$42,900 to C$16,800 (see *Figure 3*). These cuts have impacted franchisees in numerous ways, including the elimination of positions whose titles suggest a role in supporting franchisees, such as a franchise development specialist, franchise business leaders, and field marketing managers. These positions were cut as a part of the massive layoffs 3G Capital implemented following the Burger King takeover.[57]

Preferential Treatment of Larger Franchisees

Burger King has also disadvantaged smaller franchisees by giving special privileges to larger franchisees in the United States and Canada, thereby "edging out traditional single-location owners and handing too much control of a chain to a few big players."[59]

In the United States, Burger King has elevated Carrols Corporation, its largest U.S. franchisee, to dominance over a large swath of the market. Burger King gave Carrols the right of first refusal on both new and existing Burger King stores in 20 states, limiting the ability of small franchisees to grow in those states. In 2012, Burger King sold 278 corporate stores to Carrols and took an equity stake in the company.[60]

The master franchise model is not limited to the United States. In Canada, Burger King awarded a master franchise for the entire country in 2013 to Quebec-based Redberry Investments Corp., which now controls some 300 Burger King stores.[61] While most new franchisees in the U.S. and Canada pay 4.5 percent in royalties, Redberry pays a lower rate of 3 percent. Royalties paid by Canadian sub-franchisees are shared between Redberry and Burger King.[62] In addition, in just the four years since 3G Capital took control, Burger King has entered into master franchise agreements in numerous other countries, including Brazil, China, South Africa, Russia, and South Korea.[63]

Tim Hortons Franchisees Worry They Will Be Squeezed

Tim Hortons franchisees are raising concerns that 3G Capital might seek to recoup its investment and pay down debt by squeezing franchisee margins. *The Globe and Mail* reported that some franchisees, who asked not to be named for fear of repercussions, are "anxious that the deal will benefit the new owner and shareholders at their expense." Douglas Fisher, an industry consultant, agrees that franchisees have reason to worry, pointing out that "Burger King — or 3G, really — is a strip-your-assets type of company… [they] can ratchet up their costs to franchisees."[64]

Specific concerns include the risk of being charged more for supplies ranging from coffee to paper cups, and of franchisee rents and royalties increasing. "I feel we will be nickeled and dimed," said one franchisee to *The Globe and Mail*. Said another: "They're saying all the right things… But at the end of the day, this is all about money. It's not about the franchisees."[65]

3G Capital's Commitments Leave Substantial Room for Abuse

Both Burger King and Tim Hortons have tried to reassure franchisees, with Burger King CEO Daniel Schwartz insisting that franchisees are one of Burger King's "two most important constituents."[66] But 3G Capital's actual commitments leave room for the merged company to make numerous changes that would hurt Tim Hortons franchisees.

3G Capital's headline promise to franchisees is to not increase Tim Hortons' rent and royalty structure for five years following the close of the transaction.[67] But the standard Tim Hortons franchise agreement is 10 years,[68] so the commitment offers no additional protection for many current franchisees facing renewal well after the five-year period expires.

Other commitments are either meaningless or lack credibility. For example, 3G Capital promises to "maintain the Company's financial contribution policy [in support of franchisee renovations], in accordance with the Company's current practice and Strategic Plan," but the Strategic Plan calls for the financial contribution to be drastically reduced starting in 2015.[69] 3G Capital also promises to maintain the "current level of staffing commitment provided to the Company's franchisee-facing operational organization" but does not specify what services are included in the company's "franchisee-facing operational organization" or whether this will include the services that matter most to small business franchisees. Given 3G Capital's track record of slashing capital investment and SG&A at Burger King, these commitments fall far short of providing security to franchisees.

Finally, 3G Capital doesn't address two major issues at all: that it might enter into preferential deals with larger franchisees or start charging franchisees more for supplies, either by raising prices itself or by selling the distribution system to a third party.

Without additional guarantees, 3G Capital may employ similar strategies to those used at Burger King. While enriching 3G Capital, these tactics would likely result in increased costs and risk for Canadian small businesses and potential impacts to franchisee employment. 3G Capital could forestall these possibilities by making commitments to the federal government to maintain current rents and royalties for at least the next ten years; sustain existing levels of marketing contribution, capital investment, and specific franchisee-facing services; limit price increases on supplies (including in the event of a sale of distribution assets); and not introduce any new master franchisee or first-refusal rights in Canada for Tim Hortons restaurants.

Impact on Taxpayers: More Corporate Tax Losses

While 3G Capital is promising to grow Tim Hortons internationally, the takeover is actually likely to shrink Tim Hortons' contribution to the Canadian tax base at home. The massive amount of debt undertaken in conjunction with the transaction has the potential to reduce Tim Hortons' annual Canadian taxes by between C$71 and C$133 million a year (46 to 87 percent respectively) subsequent to the acquisition. Over the first five years, the tax loss to the Canadian treasury could be between C$355 and C$667 million.[70] Additionally, based on its track record, 3G Capital is likely to pursue other tax avoidance strategies that are as of yet undisclosed.

Debt Has Reduced Taxes in Previous 3G Capital Deals

At Burger King, 3G Capital loaded Burger King's U.S. operation with a disproportionate share of the company's global expenses to minimize U.S. taxable income, with debt playing a major role. After taking on significant debt as a part of and subsequent to its acquisition by 3G Capital in 2010, Burger King reported C$200 million a year or more in interest expense for the past three years.[71] Yet prior to the deal with 3G Capital, the company reported only C$51.6 million in interest expense.[72] Virtually all of the current debt is held and guaranteed by U.S. corporations and reduces its U.S. earnings accordingly.[73] The result in 2013 was a pre-tax profit margin of 21 percent on U.S. revenues compared to 36 percent for foreign operations, a difference driven almost entirely by interest expense.[74]

The impact of 3G Capital's acquisition of Heinz was similar. The 2013 buyout tripled the company's long-term debt and more than doubled its interest expense, resulting in a substantial loss from continuing operations and the realization of over C$246.6 million in income tax benefits.[75]

Taxes Paid by Tim Hortons Could Decline by More Than 50 Percent

Based on the amount of debt being assumed as part of the Tim Hortons takeover, the current Canadian taxes paid by Tim Hortons could drop by 46–87 percent, depending on where the company decides to take its interest deductions. Even before the preferred equity is factored in, the merged company is expected to have more than double the debt owed by Burger King and Tim Hortons, taken together, prior to the transaction.[76] Post-merger,

TABLE 4 Projected Reductions in Tim Hortons Canadian Tax Liability

C$ MM	Pre-Merger (2013)	Post-Merger (Scenario 1)	Post-Merger (Scenario 2)
Tim Hortons Operating Income in Canada[78]	613.8	613.8	613.8
Tim Hortons Net Interest Expense in Canada[79]	35.5	301.0	537.8
Tim Hortons Earnings Before Taxes in Canada[80]	578.3	312.8	76.0
Total Canadian Tax Liability[81]	153.5	82.9	20.1
Annual Loss to Canadian Taxpayers (% Loss)[82]	0	70.6 (46%)	133.4 (87%)

the total annual net interest expense on all debt is projected to amount to c$537.8 million.[77]

Table 4 provides two estimates of the impact the merger will have on Canadian tax revenues. Scenario 1 assumes that the combined company first maximizes its interest deductions in the United States, where the tax rate is higher, and charges the remaining interest against Canadian earnings. Scenario 2 shows the tax reduction that would result if the merged firm uses its total projected interest expense to offset Canadian earnings, despite the fact that the Canadian tax rate is lower.

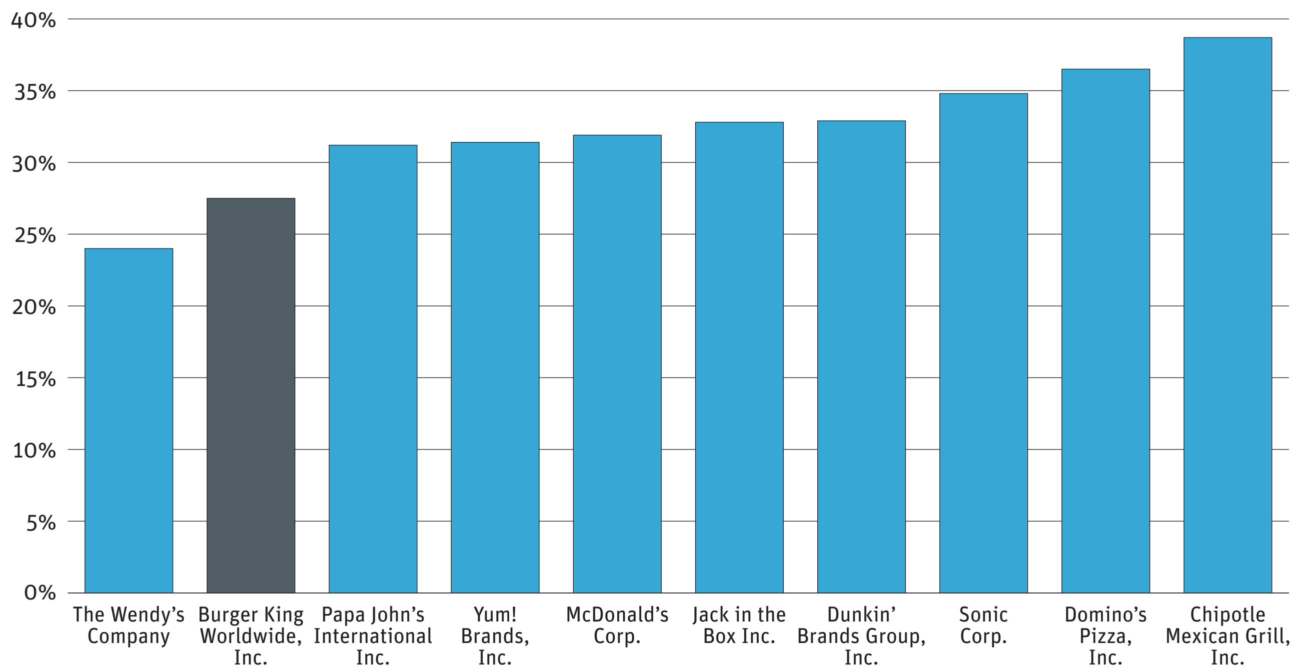
Other Tax Avoidance Strategies

3G Capital has also employed other strategies to minimize taxes.[83] While it is too early to determine what course of action will be taken at Tim Hortons (and as 3G Capital has not disclosed any specifics), 3G Capital's past strategies have led to low effective tax rates at the companies it controls.

For example, Burger King's effective tax rate is 27.5 percent, lower than all but one of its U.S. fast food peers and well below the U.S. statutory rate of 35 percent (see *Figure 4*).

Similarly, Anheuser-Busch InBev, which is controlled by 3G's founders, grew dramatically through acquisitions of other beer manufacturers, while steadily reducing its effective tax rate and dramatically reducing that of the companies it has acquired. In 2008, InBev purchased Anheuser-Busch, which had an effective tax rate between 39 and 40 percent in the prior three years.[85] Following the Anheuser-Busch acquisition, AB InBev's effective tax rate fell to 16.3 percent in 2012.[86] In 2013, the tax rate fell to an all-time low of 11.1 percent.[87]

FIGURE 4 Effective Tax Rates of U.S. Fast Food Companies, FY 2013[84]



Note Starbucks is not included above because it had negative pre-tax earnings in FY 2013, but the company had an effective tax rate of 32.8% in FY 2012.

A Responsible Tax Citizen No More?

While 3G Capital has committed to keep the combined company incorporated in Canada (and thus subject to Canadian taxation) in its submission under the Investment Canada Act, it has not made any commitments to continue Tim Hortons' record of paying its fair share of tax. 3G Capital could address the likely impact to the Canadian tax base by guaranteeing the federal government that it will continue to pay Canadian taxes at least at the same dollar level it has averaged in recent years.

Impact on Consumers: Worse Products, Higher Prices

Tim Hortons is beloved by Canadian consumers. A substantial percentage of Canadians rely on Tim Hortons food and coffee each day. Within the Canadian fast food market, Tim Hortons had a 25.3 percent share in 2013, well ahead of McDonald's (15.1 percent).[88] Yet 3G Capital has not made a single

commitment related to maintaining or improving product quality and product development at Tim Hortons — and 3G's founders' track record is troubling.

Tampering with Beloved Brands

While 3G's founders have earned their reputation for cost cutting and financial engineering, they have not always prioritized investing in the brands they buy,[89] instead resorting to higher prices and lower quality to widen profit margins.[90]

For example, after the 3G founders oversaw the 2008 takeover of Anheuser-Busch, the new company, Anheuser-Busch InBev, increased prices in the United States every year between 2009 and 2013.[91] The company's beer shipments in the United States then declined eight percent from 2008 to 2011, with Budweiser shipments down even more (13%) over the same period, despite the fact that shipments had been increasing before the takeover.[92] The price increases also led to the U.S. Department of Justice challenge of Anheuser-Busch InBev's plan to take over Grupo Modelo in 2013, in which the DOJ asserted that the company's pricing plan in the United States "reads like a how-to manual for successful price coordination."[93]

At the same time, the 3G founders' team enacted a number of cost-cutting strategies at InBev and then Anheuser-Busch InBev, including watering down beers and using cheaper ingredients in the brewing process. The company made news headlines when it reduced the alcohol level of Stella Artois, Budweiser, and Beck's brands in England, leading to a decrease in taxes because alcohol taxes increase with alcohol content. And when new Budweiser management substituted a cheaper ingredient for a traditional one, customers claimed it worsened the taste of the beer. "[3G] are hurting these brands," said Gerard Rijk, a beverage analyst at ING.[94]

Employees have come forward to confirm these practices. In 2013, Anheuser-Busch InBev was hit with a multi-state class-action lawsuit based on claims by former employees at the company's 13 breweries that the company was secretly watering down its beer to reduce alcohol content and cut costs.[95]

No Commitment to Quality

The last time Tim Hortons was taken over by a U.S. fast food company, the popular Canadian chain started making donuts in a factory and shipping them frozen to stores instead of making them fresh on site, leading to customer uproar and a lawsuit.[96] Despite a track record of focusing on cost-cut-

ting to the detriment of product investment, 3G Capital has not made a single commitment to maintain quality standards at Tim Hortons. Because it relies on products with a loyal following — such as Timbits and its coffee — Tim Hortons is at risk of alienating its customers should 3G Capital make changes to these products in an attempt to cut costs. 3G Capital could prevent the merger from having negative consequences on the Tim Hortons customer experience by offering specific assurances related to pricing and quality as part of the federal government's review under the Investment Canada Act.

Global Growth Will Not Bring Economic Benefits to Canada

Given the likely substantial negative consequences for Canada detailed in this report, approval of the Burger King-Tim Hortons merger demands a compelling articulation of the benefits the deal *will* bring. But the primary justification for the merger from a Canadian perspective — the global expansion of the Tim Hortons brand — does not offer much to Canadians because the master franchising model 3G Capital plans to use is unlikely to generate economic activity at home.

Burger King Booms, But Not in United States

Since being bought by 3G Capital in 2010, Burger King has indeed grown rapidly overseas, adding 1,808 stores in four years outside the U.S. and Canada.[97] The primary reason Burger King has been able to grow so quickly is that has turned over the rights to develop stores in overseas markets to large, established restaurant operators and other sophisticated investors.

Master franchisees in these deals, sometimes structured as joint ventures,[98] are massive foreign companies such as Alsea, the largest restaurant operator in Latin America;[99] TAB Gida, a massive Turkish conglomerate that does everything from running restaurants to banking to constructing dams;[100] and leading European multibrand restaurant operator Groupe Olivier Bertrande.[101] Using these large companies as partners means that Burger King can contribute fewer resources to supporting the operation of restaurants under its banner and instead require master franchisees to do the hard work of "provid[ing] certain support services to franchisees on our behalf."[102] Under a different model, Burger King might provide shared services to its franchisees internationally using its own staff.

Burger King has also steered clear of the supply chain business, relying on a third-party coop to supply franchisees in the United States[103] and on suppliers chosen by master franchisees overseas. For example, in major markets such as Turkey,[104] Central America,[105] and Mexico,[106] the Burger King supply chain is in the hands of a master franchisee or otherwise out of Burger King's direct control. The master franchising model has meant that even as Burger King has grown abroad, Burger King has not increased corporate employment in its U.S. home market.

Empty Promises Mark 3G Capital's Plan for Tim Hortons Abroad

3G Capital has stated that it intends to use the master franchising model to grow Tim Hortons' presence abroad. In the companies' August 26 investor presentation about the merger, Burger King CEO and 3G partner Daniel Schwartz stated, "[O]ne of the key value drivers of this transaction is the potential to significantly accelerate Tim Hortons untapped international growth potential, like we did at Burger King." He added, "By leveraging our master franchise joint venture model, our network of global partners and the vast experience of our global management — global development team members, we see no reason why we can't bring the Double Double to the rest of the world."[107]

Given the experience at Burger King, the master franchising approach is unlikely to increase economic activity in Canada. Yet 3G Capital has offered empty commitments that misleadingly promise "significant" and "meaningful" opportunities for Canadians. 3G Capital specifically promised that it will require the new company "to be a significant supplier of shared services to its subsidiaries globally" and that "global shared services will include a meaningful number of the Company's employees."[108] Yet the purpose of using the master franchise model and relying on large foreign partners is that they have the capacity to manage their own affairs and do not require significant shared services from a corporate parent.

Furthermore, if 3G Capital's commitment is to make Tim Hortons a significant supplier of shared services *to its subsidiaries*, then it is not much of a commitment at all. Burger King's subsidiaries do not operate restaurants abroad and therefore receive few shared services.

3G Capital has also made no commitments to use Tim Hortons' existing distribution and manufacturing infrastructure to serve new restaurants outside of Canada. These business lines have not been discussed as a part of global growth by the companies. In fact, multiple analysts believe that 3G

Capital may seek to sell off the distribution and manufacturing businesses to mimic Burger King's asset-lite approach.[109]

As such, there is little evidence to suggest that Canadian workers or businesses will benefit from global expansion of Tim Hortons, if that expansion happens at all. Foreign partners are likely to buy their own coffee, source their own food, do their own accounting, and support smaller franchisees on their own. Under this scenario, new employees at Tim Hortons corporate locations in Canada would not be required to support these new restaurants, even if this expansion proves successful.

Conclusion

The promises 3G Capital has made will do little to limit the potential negative impacts of the deal on Canada. Despite 3G's promises, there could be:

- Layoffs of hundreds of workers;
- From C$355 to C$667 million in tax loss in the deal's first five years;
- Higher costs and more risk for small-business franchise owners;
- Worse products and higher prices for consumers;
- Minimal economic benefits to Canada from global growth.

3G Capital has stated that it will agree to make "enhanced and/or additional commitments" of up to C$140 million per year in order to win Industry Canada approval for the takeover. The government must demand a better deal for Canada if it is to consider approval. Additional conditions should include an enforceable commitment from 3G Capital to preserve all Tim Hortons jobs in Canada and to eschew the practices outlined in this report that will harm Tim Hortons employees, small-business people, Canadian taxpayers, and consumers.

Notes

1 Burger King Worldwide, SEC Form 8-K, August 26, 2014. "Executive Team," 3G Capital, accessed at http://www.3g-capital.com/team.html#.

2 Tim Hortons Inc., SEC Form 8-K, August 26, 2014, pg. 4. Conversion from USD to CAD based on exchange rate at August 26, 2014 close.

3 "Fitch: Inversion Rules Could Test Burger King/Tim Horton's Combo", MarketWatch, Sept 23, 2014, accessed October 9, 2014 at http://www.marketwatch.com/story/fitch-inversion-rules-could-test-burger-kingtim-hortons-combo-2014-09-23. Michael De La Merced, "Ranking the biggest restaurant leveraged buyouts," New York Times, January 16 2014, http://dealbook.nytimes.com/2014/01/16/ranking-the-biggest-restaurant-leveraged-buyouts/?_php=true&_type=blogs&_r=0.

4 "Heinz closes Leamington plant, 740 people out of work," CBC News, Nov 14, 2013, accessed October 9, 2014 at http://www.cbc.ca/news/canada/windsor/heinz-closes-leamington-plant-740-people-out-of-work-1.2426608.

5 Burger King Worldwide, SEC Form 8-K, August 26, 2014, pg.8.

6 Burger King Worldwide, SEC Form 8-K, August 26, 2014, pg. 21.

7 Investment Canada Act (R.S.C., 1985, c. 28 (1st Supp.)), http://laws-lois.justice.gc.ca/eng/acts/I-21.8/page-7.html#docCont.

8 New Red Canada Partnership, SEC Form S-4, September 16, 2014, pg. 199.

9 Burger King Worldwide, M&A conference call, August 26, 2014, pg. 10, 12, and 15, accessed October 9, 2014 through Capital IQ.

10 Burger King Worldwide, M&A conference call, August 26, pg. 7, 9, and 12, accessed October 9, 2014 through Capital IQ.

11 Alex Cuadros, "Jorge Lemann: He Is … the World's Most Interesting Billionaire," Bloomberg BusinessWeek, August 29, 2013, http://www.businessweek.com/articles/2013-08-29/the-brazilian-billionaire-who-controls-your-beer-your-condiments-and-your-whopper#p1.

12 Capital IQ, accessed October 13, 2014.

13 Burger King Worldwide, SEC Form 10-K, February 21, 2014, pg. 23. 3G Capital still owns 69.3% of shares as of September 30, 2014, according to Capital IQ.

14 "Each of 3G Special Situations Fund III, L.P. and Berkshire Hathaway Inc. beneficially own 425,000,000 shares of common stock of Parent," which totals 100% of currently outstanding common stock. H.J. Heinz Company, SEC Form 424B3, May 7, 2014, pg. 119.

15 Anheuser-Busch InBev SA/NV, SEC Form 20F, March 25, 2014, pg. 146–148.

16 "Primerio Aditivo Ao Acordo De Acionistas Sobre Direito De Voto E Outras Avencas," Lojas Americanas, accessed October 9, 2014 at http://ri.lasa.com.br/upload/governancacorporativa/00003950.pdf. "Stockholder's Capital Structure," Lojas Americanas, accessed October 9, 2014 at http://ri.lasa.com.br/en/governanca-corporativa/estrutura-societaria.

17 "Acordo De Acionistas Da Sao Carlos Empreendimentos E Participacoes S.A.," Sao Carlos, accessed October 9, 2014 at http://www.mzweb.com.br/saocarlos2011/web/arquivos/SaoCarlos_Aviso_Acionistas_31102011_port.pdf. "Estrutura Societaria," Sao Carlos, accessed October 9, 2014 at http://www.scsa.com.br/saocarlos2011/index_ri_pt.htm.

18 "Ownership Structure," B2W Digital, accessed October 9, 2014 at http://www.b2wdigital.com/en/governanca-corporativa/estrutura-acionaria.

19 Ann Gilpin, "Anheuser-Busch/InBev: An Uncertain Future," Morningstar, June 1, 2009, http://news.morningstar.com/articlenet/article.aspx?id=293565&part=2.

20 David Welch and Jonathan Levin, "3G Will Make Fat Disappear at Doughnut Chain Tim Hortons," Bloomberg, August 26, 2014, http://www.bloomberg.com/news/2014-08-25/3g-capital-may-make-fat-disappear-at-doughnut-chain-tim-hortons.html.

21 Tim Hortons Inc., SEC Form 8-K, August 26, 2014, pg. 4. Conversion from USD to CAD based on exchange rate of 1.0952 at August 26, 2014 close.

22 "Fitch: Inversion Rules Could Test Burger King/Tim Horton's Combo", MarketWatch, Sept 23, 2014, accessed October 9, 2014 at http://www.marketwatch.com/story/fitch-inversion-rules-could-test-burger-kingtim-hortons-combo-2014-09-23. Michael De La Merced, "Ranking the biggest restaurant leveraged buyouts," New York Times, January 16 2014, http://dealbook.nytimes.com/2014/01/16/ranking-the-biggest-restaurant-leveraged-buyouts/?_php=true&_type=blogs&_r=0.

23 "Research Update: Proposed Parent Of Burger King/Tim Hortons Combo Assigned 'B+' Corporate Credit Rating; Outlook Stable," S&P Research and Markets, September 15, 2014, accessed October 9, 2014 at http://www.researchandmarkets.com/reports/2965738/proposed-parent-of-burger-kingtim-hortons-combo.

24 Jason Kirby, Michael Friscolanti, and Chris Sorensen, "Glazed and Confused", Macleans, August 29, 2014, accessed Oct 9, 2014 at http://www.macleans.ca/economy/business/tim-hortons-glazed-and-confused/.

25 Long-term debt includes capital leases. Figures from Capital IQ, accessed October 8, 2014; New Red Canada Partnership, SEC Form S-4, September 16, 2014, pg. 243 and 250; Tim Hortons Inc., SEC Form 10-K, February 25, 2014, pg. 29–30; and Burger King Worldwide, SEC Form 10-K, February 21, 2014, pg. 5.

26 "Executive Team," 3G Capital, http://www.3g-capital.com/team.html#. Burger King Worldwide, Inc. Presents at 2013 Consumer & Retail Conference, March 13, 2013, pg.2.

27 Francine Kopun, "Tim Hortons latest target for stock activists," Toronto Star, June, 27, 2013, accessed October 9, 2014 at http://www.thestar.com/business/personal_finance/investing/2013/06/27/canadian_businesses_are_easy_targets_for_activists.html.

28 "Burger King Worldwide, Inc.: Deal Announced," Morgan Stanley, August 26, 2014. Jeffrey A Bernstein, "Burger King Worldwide: Acquisition of THI All About Growth", Barclays, Sept 4, 2014, in 'Asset Monetization', pg. 6–7.

29 Burger King Worldwide, M&A conference call, August 26, 2014, pg. 12, accessed through Capital IQ.

30 Number and percent of headquarters jobs cut: "Heinz closes Leamington plant, 740 people out of work," CBC News, November 15, 2013, accessed September 15, 2014 at http://www.cbc.ca/news/canada/windsor/heinz-closes-leamington-plant-740-people-out-of-work-1.2426608. Number of total jobs cut: H.J. Heinz Company, SEC Form 10-KT, February 7, 2014, pg. 15. Percent of total jobs cut: calculation based on Heinz's reported total workforce of 31,900 as of April 28, 2013. 4,750 / 31,900 = 15%. H.J. Heinz Company, SEC Form 10-K, July 9, 2013, pg. 3.

31 Number and percent of headquarters jobs cut: Julie Jargon, "Heinz's New CEO Cut His Teeth At Burger King," The Wall Street Journal, April 11, 2013, accessed September 15, 2014 at http://online.wsj.com/news/articles/SB10001424127887324240804578416354096718938. Number of total jobs cut: calculation based on reported layoffs of 375 office employees in the U.S. and 275 abroad and conservatively excludes the substantial reductions in restaurant employees that have resulted from Burger King's refranchising program. 375 + 275 = 650. Devin Leonard, "Burger King Is Run by Children," Bloomberg Businessweek, July 24, 2014, pg. 3, accessed September 15, 2014 at http://www.businessweek.com/articles/2014-07-24/burger-kings-ceo-daniel-schwartz-is-33-years-old. Percent of total jobs cut: reflects number of non-restaurant jobs cut as a percentage of total non-restaurant jobs. Restaurant employees have been reduced dramatically but this is primarily due to Burger King's refranchising program and therefore is conservatively excluded from this calculation. Burger King does not generally break out its non-restaurant workforce from the total so this number must be estimated. Burger King disclosed that, as of December 31, 2013, it had 2,420 "employees in our Company restaurants, restaurant support centers and field operations." Burger King's largest U.S. franchisee, Carrols Restaurant Group, discloses that it employed 17,340 "restaurant operations personnel" at its 564 Burger King locations as of December 29, 2013, or 30.74 employees per restaurant. Applying this employees/restaurant figure to the 52 Burger King company-owned restaurants as of December 31, 2013 results in an estimate of 1,599 Burger King restaurant employees. The difference between 2,420 and 1,599 is 821 non-restaurant employees. Assuming that there have been no job reductions or increases since the 650 layoffs announced following 3G Capital's acquisition of Burger King in 2010, Burger King's non-restaurant employees count at the time of the layoffs in 2010 was 1,471. 650 / 1,471 = 44%.

32 Number of headquarters jobs cut: Anheuser-Busch cut 1,400 U.S. jobs following the takeover and "about 75 percent of the affected positions are based at the brewer's corporate headquarters in St. Louis, at downtown offices or at its Sunset Hills campus." For the purposes of this calculation, the job cuts at the downtown offices and the Sunset Hills campus are included as headquarters cuts. An additional 250 open positions were also cut, most of which were based in St. Louis. Calculated total: (1,400 x 75%) + 250 = 1,300. "Anheuser-Busch InBev announces workforce reductions in the U.S.," AB InBev Press Release, December 8, 2008, accessed September 15, 2014 at http://www.ab-inbev.com/press_releases/20081208_1_e.pdf. "Anheuser-Busch's new brew," St. Louis Business Journal, August 2, 2009, accessed October 13, 2014 at http://www.bizjournals.com/stlouis/stories/2009/08/03/story2.html?page=all. Percent of headquarters jobs cut: calculation based on estimated jobs in the St. Louis region because a total headquarters employee headcount was not disclosed. 1,650 / 6,000 = 28%. "Anheuser-Busch's new brew," St. Louis Business Journal, August 2, 2009, accessed October 13, 2014 at http://www.bizjournals.com/stlouis/stories/2009/08/03/story2.html?page=all. Number of total jobs cut: calculation based on jobs cut and open positions eliminated. 1,400 + 250 = 1,650. "Anheuser-Busch InBev announces workforce reductions in the U.S.," AB InBev Press Release, December 8, 2008, accessed September 15, 2014 at http://www.ab-inbev.com/press_releases/20081208_1_e.pdf. "Anheuser-Busch's

new brew," St. Louis Business Journal, August 2, 2009, accessed October 13, 2014 at http://www.bizjournals.com/stlouis/stories/2009/08/03/story2.html?page=all. Percent of total jobs cut: calculation based on Anheuser Busch's reported total workforce of 30,849 as of December 31, 2007 less the 1,000 employees who accepted buyouts under a program announced in June 2008 (prior to the acquisition by InBev). 1,650 / (30,849-1,000) = 6%. Anheuser-Busch Companies, SEC Form 10-K, February 29, 2008, pg. 10. "Anheuser-Busch InBev announces workforce reductions in the U.S.," AB InBev Press Release, December 8, 2008, accessed September 15, 2014 at http://www.ab-inbev.com/press_releases/20081208_1_e.pdf.

33 Cristiane Correa, Dream Big (Sonho Grande): How *the Brazilian Trio behind 3G Capital - Jorge Paulo Lemann, Marcel Telles and Beto Sicupira - Acquired Anheuser-Busch, Burger King and Heinz*, Sextante, 2014, pg. 1621.

34 Ibid.

35 Tony Pecinovsky, "Show me the jobs, brewery workers tell InBev Beer and globalization don't mix in St. Louis," People's World, August 20, 2008, http://www.peoplesworld.org/-show-me-the-jobs-brewery-workers-tell-inbev-beer-and-globalization-don-t-mix-in-st-louis/.

36 Matthew Dalton, "AB InBev Plans Job Cuts in Western Europe," Wall Street Journal, January 8, 2010, http://online.wsj.com/articles/SB10001424052748703481004574645661309751576.

37 "Heinz closes Leamington plant, 740 people out of work," CBC News, November 15, 2013, accessed September 15, 2014 at http://www.cbc.ca/news/canada/windsor/heinz-closes-leamington-plant-740-people-out-of-work-1.2426608.

38 Kevin Begos, "Heinz layoffs affect 600 workers in US, Canada," Christian Science Monitor, August 13, 2013, accessed September 18, 2014 at http://www.csmonitor.com/Business/Latest-News-Wires/2013/0813/Heinz-layoffs-affect-600-workers-in-US-Canada.

39 Daniel Dale, "Labatt dismantles Lakeport brewery, angers Hamilton," Toronto Star, April 21, 2010, Accessed October 9, 2014, http://www.thestar.com/business/2010/04/21/labatt_dismantles_lakeport_brewery_angers_hamilton.html.

40 "Tim Hortons aims to hire 5,000 Team Members across Canada," CNW, September 23, 2014, accessed October 9, 2014 at http://www.newswire.ca/en/story/1416186/tim-hortons-aims-to-hire-5-000-team-members-across-canada.

41 Tim Hortons Inc., "2013 Sustainability and Responsibility Report," accessed October 9, 2014 at http://sustainabilityreport.timhortons.com/pdf/gri_la1.pdf.

42 "Tim Hortons aims to hire 5,000 Team Members across Canada," CNW, September 23, 2014, accessed October 9, 2014 at http://www.newswire.ca/en/story/1416186/tim-hortons-aims-to-hire-5-000-team-members-across-canada.

43 Headquarters: Tim Hortons Inc., "Organization Structure," accessed October 9, 2014 at http://www.timhortons.com/ca/en/team/organization-structure.php. Roasting facility: Tim Hortons Inc. "Tim Hortons Inc. Building $30-Million Coffee Roasting Facility in Hamilton, Ontario," accessed October 9, 2014 at http://www.timhortons.com/us/en/corporate/coffee-roasting-facility-in-hamilton.php. Fondant and fills facility: estimate which assumes the same level of employment as at the Hamilton, Ontario coffee roasting facility. Distribution facilities and regional offices: difference between total Canada employment of 1,982 and the sum of the jobs at the other Canadian Tim Hortons corporate locations outlined in the table. Tim Hortons Inc., "2013 Sustainability and Responsibility Report," accessed October 9, 2014 at http://sustainabilityreport.timhortons.com/pdf/gri_la1.pdf. Tim Hortons Inc., SEC Form 10-K, February 25, 2014, pg. 16. Company-owned restaurants: prorated total based on 410 workers at 16 company-owned restaurants in the U.S. and Canada. (410 / 16) x 14 = 358.75. Tim Hortons Inc., SEC Form 10-K, February 25, 2014, pg. 16.

44 3G Capital's track record at Burger King is used to calculate headquarters layoffs and total layoffs. Other layoffs are calculated as the difference between the total and headquarters layoff estimates. Note that the calculation reflects total non-restaurant jobs and does not include jobs at company-owned restaurants. Since being taken over in 2010, Burger King has sold almost all of its company-owned restaurants to franchisees, which has had a substantial impact on Burger King's total employment. Company-owned restaurant jobs are therefore excluded from the calculation of total jobs (and total job cuts) at Burger King in order to avoid counting as layoffs any decreases attributable to a change in ownership. This conservative methodology could miss some layoffs but is more reflective of actual job loss at Burger King. As a result, only non-restaurant job cuts are projected for Tim Hortons under the Burger King scenario.

45 Burger King Worldwide, SEC Form 8-K, August 29, 2014, Exhibit 2.1, Schedule 7.2 - Minimum ICA Commitments.

46 Burger King Worldwide, M&A conference call, August 26, 2014, pg. 6, accessed through Capital IQ.

47 Tim Hortons Inc., SEC Form 10-K, February 25, 2014, pg. 48.

48 Burger King Worldwide, SEC Form 8-K, August 29, 2014, Exhibit 2.1, Schedule 7.2 - Minimum ICA Commitments.

49 Jamie Sturgeon, "Should Tim Hortons brace for job cuts?" Global News, August 28, 2014, accessed October 9, 2014 at http://globalnews.ca/news/1531914/should-tim-hortons-brace-for-job-cuts/.

50 Burger King Worldwide, SEC Form 8-K, August 26, 2014, pg. 8.

51 Marina Strauss, "Franchisees fear footing Tim Hortons takeover bill," The Globe and Mail, September 18, 2014, accessed October 8, 2014 at http://www.theglobeandmail.com/report-on-business/international-business/franchisees-fear-footing-tim-hortons-takeover-bill/article20680937/.

52 Burger King Worldwide, Q2 2011 Earnings Call, Aug 11, 2011, pg. 4 and 7.

53 Venessa Wong, "Burger King's Local Ad Cuts Hurt Restaurants", Bloomberg BusinessWeek, August 05, 2014, accessed September 16, 2014 at http://www.businessweek.com/articles/2014-08-05/burger-king-franchisees-hope-a-boost-in-ad-spending-will-boost-sales#r=hpt-fs.

54 Burger King Worldwide, M&A conference call, August 26, 2014, pg. 12, accessed through Capital IQ.

55 Data drawn from Tim Hortons and Burger King annual SEC filings.

56 Burger King Worldwide, Q2 2011 Earnings Call, Aug 11, 2011, pg. 4.

57 Susan R. Miller, "A glimpse into Burger King's layoffs," South Florida Business Journal, December 8, 2010, accessed October 10, 2014 at http://www.bizjournals.com/southflorida/blog/2010/12/a-glimpse-into-burger-kings-layoffs.html?page=all. Layoff list at separate link: http://www.bizjournals.com/southflorida/pdf/Burger%20King%20layoff%20notice.pdf.

58 Data drawn from Capital IQ, accessed October 2014.

59 Angus Loten,"The Big Get Bigger", The Wall Street Journal, May 18, 2012, http://online.wsj.com/news/articles/SB10001424052702304723304577370431589231276.

60 Carrols Restaurant Group, SEC Form 10-K, March 12, 2013, pg.3, 5.

61 Burger King Worldwide, 2013 SEC Form 10-K, pg. 5. Press Release, Cushman & Wakefield Retail & Franchise Team Helping Redberry With Canadian Burger King Expansion, Yahoo Finance, Sept 29, 2014.

62 Burger King Worldwide, SEC Form 10-K, Feb. 21, 2014, pg. 9.

63 Burger King Worldwide, "Fourth Quarter 2012 Earnings Conference Call" presentation, February 15, 2013, pg. 27, "International Development Agreements", accessed at http://investor.bk.com/conteudo_en.asp?idioma=1&tipo=43578&id=0&conta=44&ano=2012.

64 Marina Strauss, "Franchisees fear footing Tim Hortons takeover bill," The Globe and Mail, September 18, 2014, accessed October 8, 2014 at.http://www.theglobeandmail.com/report-on-business/international-business/franchisees-fear-footing-tim-hortons-takeover-bill/article20680937/.

65 Ibid.

66 Burger King Worldwide, M&A conference call, August 26, 2014, pg. 4, accessed through Capital IQ.

67 Burger King Worldwide, SEC Form 8-K, August 29, 2014, Exhibit 2.1, Schedule 7.2 - Minimum ICA Commitments.

68 Tim Hortons Inc., SEC Form 10-K, February 25, 2014, pg.11.

69 "Winning in the New Era Investor Conference 2014," slide 144, http://www.timhortons.com/us/en/pdf/TH_Investor_Conference_For_Website_(02-26-2014).pdf.

70 Five year estimate assumes minimal Tim Hortons earnings growth in Canada and therefore is 5 x C$71 million.

71 Burger King Worldwide, SEC Form 10-K, February 21, 2014, pg. 62. Currency conversion through Capital IQ.

72 Burger King Holdings, SEC Form 10-K, August 26, 2010, pg. 38. Currency conversion through Capital IQ, exchange rate as of June 30, 2010.

73 Burger King Worldwide, SEC Form 10-Q, October 28, 2013, pg. 39. Burger King Worldwide, SEC Form 10-K, February 21, 2014, pg. 35 and Exhibit 211.

74 Burger King Worldwide, SEC Form 10-K, February 21, 2014, pg. 85 and 104.

75 H. J. Heinz Company, SEC Form 10-Kt, March 7, 2014, pg. 45 and 48. Exchange rate as of December 30, 2013.

76 New Red Canada Partnership, SEC Form S-4, September 16, 2014, pg. 33 and 243.

77 New Red Canada Partnership, SEC Form S-4, September 16, 2014, pg. 250, based on U.S. to Canadian dollar exchange rate as of September 17, 2014.

78 Pre-merger operating income in Canada is calculated by adding the values in the table for Tim Hortons earnings before taxes in Canada and net interest expense in Canada. Post-merger scenarios assume that no change in operating income in Canada will occur.

79 Pre-merger net interest expense is based on the difference between interest expense and interest income, reported on Tim Hortons Inc., SEC Form 10-K, February 25, 2014, pg. 52. The conservative assumption is made that all past interest expense is attributable to Tim Hortons in Canada, which leads to lower estimates of annual loss to Canadian taxpayers. Scenario 1: assumes that the combined company maximizes its tax-deductible interest expense in the U.S. 26 USC 163(j) generally limits the deduction of interest guaranteed by a related party to 50 percent of EBITDA, estimated at C$217.3 million for Burger King and C$19.5 million for Tim Hortons. U.S. Burger King figures were calculated by multiplying North American "segment income" by the proportion of North American revenues derived from the U.S. Net interest expense in Canada is calculated as the difference between the sum of these two figures and the reported net interest expense of combined company. Tim Hortons Inc., SEC Form 10-K, February 25, 2014, pg. 109–111. New Red Canada Partnership, SEC Form S-4, September 16, 2014, pg. 250, based on U.S. to Canadian dollar exchange rate as of September 17, 2014. Scenario 2: New Red Canada Partner-

ship, SEC Form S-4, September 16, 2014, pg. 250, based on U.S. to Canadian dollar exchange rate as of September 17, 2014.

80 Pre-merger Tim Hortons earnings before taxes in Canada is reported on Tim Hortons Inc., SEC Form 10-K, February 25, 2014, pg. 88. Scenarios 1 and 2: Calculated as the difference between Tim Hortons operating income in Canada and the estimates of post-merger interest expense in Canada.

81 Pre-merger Tim Hortons total Canadian tax liability is the sum of the reported values for current and deferred tax liability. Tim Hortons Inc., SEC Form 10-K, February 25, 2014, pg. 88. Scenarios 1 and 2: Total Canadian tax liability is calculated by multiplying the calculated Tim Hortons earnings before taxes in Canada by the Tim Hortons statutory rate of 26.5%. Source for statutory rate: Tim Hortons Inc., SEC Form 10-K, February 25, 2014, pg. 88.

82 Annual loss to Canadian taxpayers is calculated as the difference between the values for total Canadian tax liability and the pre-merger value of C$153.5 million.

83 3G Capital employs a number of strategies to minimize Burger King's tax liability, including maintaining an extensive network of subsidiaries located in tax havens that receive royalty payments from its franchisees around the world. For example, in 2012, Burger King Europe GmbH, a subsidiary based in Switzerland, a country in which Burger King has only 37 stores, earned a profit of C$129.8 million — more than parent company Burger King Worldwide's total net income of C$117.3 million for the year. Switzerland has low corporate taxes and a wide network of tax treaties that allow multinational companies making payments to Switzerland, including royalties, to avoid withholding taxes in their country of origin. This structure allowed Burger King to pay little or no tax in major foreign markets. Sources: Burger King Worldwide, SEC Form 10-K, February 21, 2014, pg. 6. Burger King (Luxembourg) Sarl, 2012 Accounts, Notes to the Annual Accounts, pg. 4; exchange rate as of December 31, 2012. Burger King Worldwide, SEC Form 10-K, February 21, 2014, pg. 63. Currency conversion through Capital IQ, exchange rate as of December 31, 2012. Simon Bradley, "Swiss double tax treaties: a one-sided affair?," January 31, 2014, http://www.swissinfo.ch/eng/swiss-double-tax-treaties---a-one-sided-affair-/37852214. Kerry Capell, "Lower Your Taxes: Move to Switzerland," *Business Week*, September 10, 2009, accessed October 9, 2014 at http://www.businessweek.com/magazine/content/09_38/b4147062134006.htm. Tom Bergin, "Burger King has maneuvered to cut U.S. tax bill for years," September 2, 2014, http://www.reuters.com/article/2014/09/02/us-burger-king-tax-insight-idUSKBN0GX0AI20140902.

84 Capital IQ, accessed September 2014.

85 Anheuser-Busch Companies, Inc., 2007 Annual Report, pg. 44 and 48, accessed 9/18/2014 at http://stockproinfo.com/doc/2007/US0352291035_20071231_US_1.pdf.

86 Anheuser-Busch InBev, 2012 Annual Report, pg. 98–99.

87 Anheuser-Busch InBev, 2013 Annual Report, pg. 105–106.

88 "Passport" (database), Euromonitor International. Available by subscription.

89 Todd C. Frankel, "3 years after InBev deal, a new Anheuser-Busch," St. Louis Post-Dispatch, November 18, 2011, accessed September 18, 2014 at http://www.stltoday.com/business/local/years-after-inbev-deal-a-new-anheuser-busch/article_a655cea7-89e0-5800-bf6a-b717f10662ae.html.

90 David Leonard, "The Plot to Destroy America's Beer," Bloomberg Businessweek, October 25, 2012, accessed September 15, 2014 at http://www.businessweek.com/printer/articles/82076-the-plot-to-destroy-americas-beer.

91 Ben Rooney and Catherine Clifford, "Brace yourself: Beer prices are going up," CNN Money, August 27, 2009, accessed October 9, 2014 at http://money.cnn.com/2009/08/25/news/companies/anheuser_busch/. Tim Logan, "A-B to hike prices this fall", St. Louis Post-Dispatch, July 31, 2012, http://www.stltoday.com/business/columns/lager-heads/a-b-to-hike-prices-this-fall/

article_91dc7e0c-db48-11e1-b596-0019bb30f31a.html. Lisa Brown, "New brands, price increases help lift A-B InBev in 3Q," St. Louis Post-Dispatch, October 31, 2013, accessed October 9, 2014 at http://www.stltoday.com/business/local/new-brands-price-increases-help-lift-a-b-inbev-in/article_eb1913a9-94f4-5075-b71a-046fdd4c4b51.html.

92 David Leonard, "The Plot to Destroy America's Beer," Bloomberg Businessweek, October 25, 2012, accessed September 15, 2014 at http://www.businessweek.com/printer/articles/82076-the-plot-to-destroy-americas-beer.

93 *United States of America vs. Anheuser-Busch InBEV SA/ and Grupo Modelo S.A.B. de C.V.* Case 1:13-cv-00127, Document 1, Filed January 31, 2013, ccessed October 9, 2014 at http://www.justice.gov/atr/cases/f292100/292100.pdf.

94 David Leonard, "The Plot to Destroy America's Beer," Bloomberg Businessweek, October 25, 2012, accessed September 15, 2014 at http://www.businessweek.com/printer/articles/82076-the-plot-to-destroy-americas-beer.

95 Lisa Brown, "Anheuser-Busch waters down beer, lawsuits claim", St. Louis Post-Dispatch, February 27, 2013, accessed October 9, 2014 at http://www.stltoday.com/business/columns/lager-heads/anheuser-busch-waters-down-beer-lawsuits-claim/article_aec2ebe3-c13c-5181-b0a7-00058ff83c38.html.

96 "Tim Hortons' extra large trouble trouble," Maclean's, September 7, 2010, http://www.macleans.ca/economy/business/extra-large-trouble-trouble/.

97 Worldwide totals and U.S./Canada totals from: (2009–11) Burger King Holdings, SEC Form 10-K, March 14, 2012, pg. 32. (2011–13) Burger King Worldwide, SEC Form 10-K, February 21, 2014, pg. 5. (Mid-2014) Burger King Worldwide, SEC Form 8-K, August 1, 2014, pg. 2.

98 Burger King Worldwide, SEC Form 10-K, February 21, 2014, pg. 4.

99 Alsea, "Who is Alsea," accessed October 9, 2014 at http://www.alsea.net/alsea, http://www.alsea.net/uploads/pdf/es/alsea_presentacion_relacion_inversionistas_1t_2014.pdf.

100 Metin Demirsar, "Contractor presides over $2.5 billion food to finance empire," Dunya, December 19, 2012, accessed October 9, 2014 at http://www.dunya.com/contractor-presides-over-2-5-billion-food-to-finance-empire-175216h.htm. Ata Holding website, accessed Oct 13, 2014 at http://en.ataholding.com.tr/?page_id=11.

101 "Burger King Worldwide, Inc. Enters Joint Venture with Groupe Olivier Bertrand," November 26, 2013, accessed September 19, 2014 at http://investor.bk.com/conteudo_en.asp?idioma=1&tipo=43682&conta=44&id=165734&storyId=64216224.

102 Burger King Worldwide, SEC Form 10-K, February 21, 2014, pg. 9.

103 Restaurant Services Inc., "About RSI," accessed October 9, 2014 at http://www.rsiweb.com/net/public/GeneralInformation/aboutrsi.aspx.

104 Ata Holding website, Fasdat Gida section accessed Oct 13, 2014 at http://en.ataholding.com.tr/?page_id=63.

105 "Burger King Worldwide, Inc. and BEBOCA LTD Announce Multi-Country, Master Franchise Joint Venture for Central America," (Press release) Reuters, December 27, 2012, accessed October 9, 2014 at http://www.reuters.com/article/2012/12/27/fl-burger-king-worldwide-idUSnBwbmoYSDa+10e+BSW20121227.

106 "Burger King Worldwide, Inc. and Alsea, S.A.B. de C.V. Sign New Joint Venture to Significantly Expand," (Press release) Daily Finance, December 12, 2012, accessed October 9, 2014 at http://www.dailyfinance.com/2012/12/12/burger-king-worldwide-inc-and-alsea-sab-de-cv-sign/.

107 Burger King Worldwide, M&A conference call, August 26, 2014, pg. 4, accessed through Capital IQ. Schwartz also told analysts, "I'm confident that this [master franchise] model is going to work really well with the Tim Hortons brand around the world."

108 Burger King Worldwide, SEC Form 8-K, August 29, 2014, Exhibit 2.1, Schedule 7.2 - Minimum ICA Commitments.

109 "The language from the release suggests the business model will remain intact, but 'best practices' will be employed, which we expect includes G&A cuts and possible asset disposals." "Burger King Worldwide, Inc.: Deal Announced," Morgan Stanley, August 26, 2014. "Investors have suggested shedding some or all of the vertical integration, therefore reducing capex. While there are no current plans, we expect it may once again be considered long-term." Jeffrey A Bernstein, "Burger King Worldwide: Acquisition of THI All About Growth", Barclays, Sept 4, 2014, in 'Asset Monetization', pg. 6–7.

C C P A
CANADIAN CENTRE
for POLICY ALTERNATIVES
CENTRE CANADIEN
de POLITIQUES ALTERNATIVES