Big apple falls for Tim Hortons

IPO road show begins: Jaded Wall Street investors turn out in droves U.S. money managers may see Canada as little more than a blip on the map, but they sure seem

Lori McLeod, Financial Post
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Tim Hortons Inc.'s pending initial public offering is so hot that even jaded Wall Streeters turned out in droves for the company's marketing road show yesterday in New York City.

The presentation was actually being broadcast outside for those who couldn't get into the packed New York Palace Hotel meeting room, according to one hedge fund manager who attended.

It seems many investors are hoping they won't be shut out of the IPO the same way.

"I think the demand is enormous from both retail and institutional, and there will be a lot of people cut out and a lot of crying on the day," said Anne MacLean, chief investment officer at money manager Groundlayer Capital, which owns shares of Tim's parent company Wendy's International Inc.

Tim's expects to sell between 29 million and 33.5 million shares at between $21 and $23 per share. Wendy's announced plans to spin off this 15% to 18% of the coffee-and-doughnut chain last year, and is set to make the sale this Thursday.

"Buy Tim Hortons at the issue price if you can!" said **Peter Holden**, analyst at **Veritas Investment**, in a research note. "Based on reasonable growth expectations, Tim Hortons appears to be worth substantially more than the issue price."

Mr. Holden said much of the future growth is expected to take place in the United States, unlike historic growth, which has focused on Canada. For this reason, investors will have to pay close attention to the company's U.S. performance to make sure growth there is profitable, he said.

These issues clearly appeared to be on U.S. investors' minds. At the New York road show, the main questions surrounded Tim's attempt to expand in the U.S. Northeast, why this hadn't worked to date, and where else the company was considering expanding in the United States, the hedge fund manager said.

In addition to a taste for the company's business, U.S. attendees likely also left with full tummies and some decent loot if this road show was anything like the Canadian version earlier this month.

A screened-off section of the Le Royal Meridien King Edward Hotel's Vanity Fair Ballroom in Toronto became a mini-Tim Hortons for the presentation, complete with coffee, doughnuts and a new tea biscuit-sheathed breakfast sandwich, all served up by company executives.

Extra tables were set up to accommodate the crowd, and the flashy show included loot bags containing a variety of coffee paraphernalia.

While there were no burgers at the event, Wendy's will continue to own the rest of the equity in Tim's, and has suggested it could distribute this at some point as a dividend to its shareholders.

This means Wendy's stock could be another option for investors if they can't get into Tim's.

"If you thought you were going to get shut out of the Tim Hortons issue you could buy Wendy's," Ms. MacLean said. "The problem for Canadians is that it's taxable when you get the distribution."

In addition to the tax issue, Wendy's stock won't come cheap. It's been on a tear, hitting a 52-week high of US$65.26 in New York yesterday, compared with its 52-week low of US$43.75 in September, 2005.

The other issue is just what Wendy's shareholders will be left with when Tim's is gone. Some analysts have speculated the company could end up being a takeover target.

There's been a tremendous interest in restaurant stocks lately, and that's another reason for so much interest in the pending Tim's IPO, Ms. MacLean said.

For example, shares of Chipotle Mexican Grill Inc. have doubled since being spun off by McDonald's Corp. in January. The stock closed at US$53.86 in New York yesterday, compared with the IPO price of US$22.

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