



## Tim Hortons Inc. Announces 2009 Third Quarter Results

**Strong sales performance in Canada and the U.S.;  
 Earnings incorporate impact of reorganization  
 as a Canadian public company**

### Financial & Sales Highlights

Third Quarter Ended	Q3 2009	Q3 2008	% Change
Revenues	\$ 563.6	\$ 509.0	<b>10.7%</b>
Operating Income	\$ 129.2	\$ 122.6	<b>5.4%</b>
Adjusted Operating Income <sup>(1)</sup>	\$ 132.4	\$ 122.6	<b>8.0%</b>
Effective Tax Rate <sup>(2)</sup>	50.5%	32.5%	
Net Income attributable to THI	\$ 61.2	\$ 78.8	<b>(22.3)%</b>
Diluted Earnings Per Share (EPS) attributable to THI	\$ 0.34	\$ 0.43	<b>(21.5)%</b>
Fully Diluted Shares	180.9	182.7	<b>(1.0)%</b>

(\$ in millions, except EPS. Fully diluted shares in millions. All numbers rounded.)

(1) Adjusted operating income is a non-GAAP measure. For information regarding this measure, and a reconciliation to U.S. GAAP, please refer to "Disclosure of Non-GAAP Financial Measures" and Table 1 in this release. The reorganization as a Canadian public company affected third quarter operating income by \$3.2 million for professional advisory fees and shareholder-related transaction costs.

(2) Effective tax rate includes the \$19.9 million in discrete tax items pertaining to the reorganization as a Canadian public company.

Same-Store Sales <sup>(3)</sup>	Q3 2009	2009 YTD	Q3 2008
Canada	3.1%	2.7%	3.8%
U.S.	4.3%	3.6%	(0.6)%

(3) Includes sales at Franchised and Company-operated locations. As of September 27th, 2009, 99.4% of the Company's restaurants in Canada and 99.1% of its U.S. restaurants were franchised.

### Highlights

- Same-store sales increased 3.1% in Canada and 4.3% in the U.S.
- Quarterly results incorporate costs and discrete tax item impacts arising from the Canadian public company reorganization
- Operating income increased 5.4% to \$129.2 million
- Adjusted operating income<sup>(1)</sup>, which excludes impact of the public company reorganization, was up 8.0%

**OAKVILLE, ONTARIO**, (October 30<sup>th</sup>, 2009): Tim Hortons Inc. (TSX: THI, NYSE: THI) today announced its results for the third quarter ended September 27<sup>th</sup>, 2009.

"The underlying performance of our business was healthy in the third quarter and our results continue to demonstrate the strength and resilience of our brand," said Don Schroeder, president and CEO. "Operating conditions continued to be challenging in the third quarter but we remained focused on executing our growth initiatives and responding to the needs of our customers," added Schroeder.

## **Consolidated Results**

All percentage increases and decreases represent year-over-year changes from the third quarter of 2009 compared to the third quarter of 2008, unless otherwise noted.

Systemwide sales<sup>(4)</sup> grew 6.2% on a constant currency basis in the third quarter. Total revenues increased 10.7%, to \$563.6 million versus \$509.0 million last year. Revenues benefited from higher sales, consisting primarily of distribution sales, and from higher rents and royalties. Distribution sales growth was the largest component of the sales increase, driven by new products managed through the supply chain, systemwide sales growth, and higher commodity costs. Sales growth was partially offset by fewer Company-operated restaurants compared to last year, and by lower sales from non-owned consolidated restaurants (formerly referred to as FIN 46R).

Rents and royalties grew 7.5% in the third quarter, relatively consistent with systemwide sales growth including the effects of foreign exchange translation. Franchise fees were up 16.9%, as a result of a higher number of resales and non-standard unit sales that took place compared to 2008, increasing franchise fee costs as well.

Both Canadian and U.S. same-store sales were strong in the third quarter, increasing 3.1% in Canada and 4.3% in the U.S., with contributions from transaction growth and slight improvement in average check.

In the third quarter we had active menu and product-focused promotional programs designed to reinforce value to our customers. We promoted the sausage and a biscuit offering in both Canada and the U.S. at attractive price points. We also continued to benefit from, and provided promotional support for, Chicken Wrap Snackers. This menu item was introduced late in the first quarter to support our focus on the snacking and lunch day parts. Blueberry-themed promotions were featured in both markets. Proving very popular with our customers, these products included Blueberry Bloom donuts, Blueberry Glazed donuts and Whole Grain Blueberry muffins.

In Canada, to increase breadth of our soup program and drive trial, we introduced Italian Wedding soup. We also had a national free sample day for hash browns with the purchase of any breakfast sandwich, and promoted hot beverages featuring French Vanilla Cappuccino. In the U.S. market, we extended blueberry flavors to include Iced Capp and Iced Coffee as part of the Blueberry-themed products promotion, and also featured a US\$1.99 Iced Cappuccino promotion.

Cost of sales were up by 11.9% in the third quarter, reflecting the impact of new products managed through the supply chain and increased product costs primarily associated with commodity cost increases. These factors were partially offset by fewer Company-operated restaurants compared to 2008, and lower cost of sales from non-owned consolidated restaurants.

In the third quarter operating expenses increased 10.2%. The year-over-year increase in operating expenses was due mostly to growth in the number of restaurants in the system compared to last year, as well as percentage rent increases.

Franchise fee costs were up 9.6% during the third quarter. A larger number of resales and higher non-standard unit sales contributed to most of the increase, which also drove franchise fees higher, as noted previously.

As anticipated, general and administrative costs were significantly higher in the quarter, increasing 17.9% versus the prior year, due mostly to the professional advisory fees and shareholder-related transaction costs of \$3.2 million incurred for the public company reorganization. These expenditures accounted for slightly more than 10% of the year-over-year increase.

Equity income in the third quarter was flat compared to last year at \$9.4 million. A slight income decline in the Company's bakery joint venture was entirely offset by slight gains in other joint ventures.

Operating income increased 5.4% to \$129.2 million in the third quarter compared to \$122.6 million in the prior year, and adjusted operating income<sup>(1)</sup>, excluding \$3.2 million in professional advisory fees and shareholder-related transaction costs incurred for the public company reorganization, was up 8.0% to \$132.4 million. Higher systemwide sales drove increased rents, and royalties, which contributed to most of the increase in operating income, which also benefited from higher distribution sales, an increase in franchise sales, and operating income improvement in the U.S. segment.

Net income attributable to Tim Hortons declined by 22.3% to \$61.2 million compared to \$78.8 million last year. This result includes a \$23.1 million impact in connection with the reorganization as a Canadian public company. The reorganization drove substantially all of the increase in effective tax rate for the third quarter, which rose to 50.5% compared to 32.5% last year. Lower net interest expense slightly offset the impact of the reorganization on net income attributable to Tim Hortons, and was \$4.8 million in the third quarter compared to \$5.3 million in the prior year.

Diluted earnings per share attributable to Tim Hortons was \$0.34, decreasing 21.5% compared to \$0.43 in 2008. This includes a \$0.13 impact from public company reorganization costs related to a valuation allowance on deferred tax assets, and professional advisory fees and shareholder-related transaction costs. Diluted earnings per share attributable to Tim Hortons benefited from 1.0% fewer shares outstanding in the quarter compared to the prior year.

## **Segmented Performance Commentary**

### Canada

Same-store sales growth in Canada increased by 3.1% compared to the third quarter of 2008. Menu and promotion initiatives and operational programs drove most of the same-store sales increase. Same-store sales growth also benefited slightly from pricing increases implemented late in the quarter in Ontario, which faced continued economic and unemployment challenges. A total of 36 restaurants were opened in Canada during the quarter.

By the end of the quarter, twelve co-branded Cold Stone Creamery locations had been opened in Canada. Based on positive results and customer response to date in these initial locations, we have reached an agreement with Kahala Corp., parent company of Cold Stone Creamery, for exclusive development rights in Canada in order to provide us flexibility for future expansion. The timing and extent of future expansion will be evaluated on an annual basis commencing in early 2010 in conjunction with our overall development strategies.

Canadian segment operating income was \$140.8 million, a 5.9% improvement from \$132.9 million last year. Improvement in the Canadian segment operating income was primarily due to systemwide sales growth, higher distribution sales and higher franchise sales revenue, partially offset by higher commodity costs.

## United States

The U.S. segment maintained its sales momentum in the third quarter, increasing same-store sales by 4.3% year-over-year. Continued positive results at Cold Stone Creamery co-branded locations made significant contributions to same-store sales growth in the quarter, as the ice cream category entered into its final key selling months for the year. The U.S. segment also continued to benefit from promotional and menu activities. By the end of the third quarter, 65 co-branded Tim Hortons – Cold Stone Creamery locations had been opened, including two Cold Stone locations which were co-branded to include our offering. A total of 20 restaurants were opened in the U.S. during the quarter.

Operating income in the U.S. segment improved by \$3.2 million in the third quarter, to \$1.1 million, compared to a \$2.1 million loss in 2008. Consistent with the last quarter, several factors contributed to the significant improvement in profitability. The decision in late 2008 to close certain underperforming corporate restaurants, and a related market asset impairment charge, resulted in improvement in Company-operated restaurant losses, and lower depreciation and rent expense in the third quarter. These factors collectively benefited operating income in the U.S. segment by \$1.2 million. Higher distribution sales, lower general and administrative expenses, higher same-store sales growth, and contributions from vertical integration in the segment also contributed to the operating income improvement. The largest offsetting factors to U.S. segment operating income were higher franchise relief provided to owner-operator restaurants being converted from Company-operated restaurants, and relief provided to new restaurants opened for less than twelve months.

Internationally, in the Republic of Ireland and the United Kingdom, there are now 292 licensed locations primarily in the convenience store channel operating mainly under the Tim Hortons brand. Tim Hortons has initiated a strategic planning process pertaining to future international growth.

## **Corporate Developments**

### Outlook

We are pleased with the strength of our sales performance in the Canadian segment to the end of the third quarter considering the persistent, challenging economic conditions experienced throughout 2009. Based on year-to-date performance to the end of the third quarter, we currently expect to be at the low end or slightly under our 3% to 5% annual same-store sales growth target for 2009 in the Canadian segment.

We remain confident in our ability to meet our targeted consolidated operating income growth range of 11% to 13% growth excluding the impact of the reorganization as a Canadian public company (targeted rate is 6% to 8% growth excluding the 2008 impacts of asset impairment and related closure costs and the 2009 public company reorganization costs).

### Board approves resumption of previously announced share repurchase program

The Company announced in May this year its decision to defer further purchases in its share repurchase program, pending a change in corporate structure, which was subject to shareholder approval at that time. As a result of the subsequent completion of the reorganization as a Canadian public company, the Board has approved resumption of the previously announced program, beginning in the fourth quarter.

“Our decision to resume our share repurchase program reflects in part efficiencies arising from our new corporate structure as well as our continued confidence in our strong cash flow generation capabilities,” said Cynthia Devine, chief financial officer.

The Company currently expects to spend up to \$150 million during the remainder of the program until it terminates on March 1<sup>st</sup>, 2010. Under terms of the existing program, the Company is authorized to purchase up to \$200 million in common shares, not to exceed the regulatory maximum of 9,077,438 shares or 5% of the outstanding common shares. Prior to the decision to defer the program, the Company spent \$16.7 million to repurchase approximately 0.6 million common shares.

Shares will be repurchased through a combination of a 10b5-1, or automatic trading program, and through management's discretion considering regulatory requirements, and market, cost and other considerations. Repurchases will be made by Tim Hortons on either the Toronto Stock Exchange or the New York Stock Exchange. There can be no assurance as to the precise number of shares that will be repurchased under the share repurchase program, or the aggregate dollar amount of the shares purchased. Tim Hortons may discontinue purchases at any time, subject to compliance with applicable regulatory requirements. Shares purchased pursuant to the share repurchase program will be cancelled.

#### Board declares dividend payment of \$0.10 per share

The Board of Directors has declared a quarterly dividend of \$0.10 per share payable on December 15<sup>th</sup>, 2009 to shareholders of record as of December 1<sup>st</sup>, 2009. The Company's current dividend policy is to pay a total of 20%-25% of prior year, normalized annual net earnings in dividends each year, returning value to shareholders based on the Company's earnings growth.

As of September 28<sup>th</sup>, 2009, dividends are declared and paid in Canadian dollars to all shareholders with Canadian resident addresses. For U.S. resident shareholders, dividends paid will be converted to U.S. dollars based on prevailing exchange rates at time of conversion by the Clearing and Depository Services Inc. for beneficial shareholders and by the Company's transfer agent Computershare Trust Company of Canada for registered shareholders.

As a Canadian public company, dividends paid by the Company are designated as "eligible dividends" for Canadian tax purposes. For resident U.S. shareholders, dividends paid by the Company effective after September 28<sup>th</sup>, 2009 are generally subject to Canadian withholding taxes at a rate of 15% of the gross amount of the dividends paid, which may be eligible as a foreign tax credit for U.S. tax purposes, depending on the individual resident shareholder's tax situation.

Commentary in this release on tax matters is based, as applicable, on current provisions, regulations, administrative and judicial interpretations and proposed provisions or proposed amendments to existing provisions and may not be applicable to all taxpayers, who are urged to consult their own tax or legal advisors for advice applicable to their particular circumstances.

#### Corporate Structure

Approximately 99% of shareholders who voted on the transaction to become a Canadian public company did so in favor of the reorganization. The reorganization became effective on September 28<sup>th</sup>, 2009, subsequent to the quarter, and shares in the new Canadian public company began trading on that day under the same symbol ("THI") on both the New York Stock Exchange and on the Toronto Stock Exchange. Tim Hortons stockholders automatically had their existing common stock converted into an equal number of common shares in the Canadian public company. Tim Hortons shares use the identical CUSIP number 88706M103.

## Disclosure on Non-GAAP Financial Measure

Adjusted operating income is a non-GAAP measure, which does not have a standardized meaning prescribed by U.S. GAAP, and may not be comparable to similar measures presented by other publicly-traded companies. Therefore, adjusted operating income should not be construed as an alternative to other financial measures determined in accordance with U.S. GAAP. Presentation of this non-GAAP measure is made with operating income, the most directly comparable U.S. GAAP measure. Management believes this pro forma adjusted information is important for comparison purposes to prior periods and for purposes of evaluating the Company's operating earnings performance compared to our target for 2009, which did not include the impact of the excluded item. The Company evaluates its business performance and trends excluding amounts related to such item. Therefore, this measure provides a more consistent view of management's perspectives on underlying performance and is more relevant for comparison purposes between periods than the closest equivalent U.S. GAAP measure.

Table 1 Pro forma: Reconciliation of adjusted operating income to U.S. GAAP

Quarter Ended	Q3 2009	Q3 2008	% Change
Reported Operating Income	\$ 129.2	\$ 122.6	5.4%
Add: Public company reorganization costs	3.2	-	N/M
Adjusted Operating Income	\$ 132.4	\$ 122.6	8.0%

(\$ in millions, all numbers rounded.) N/M – Not Meaningful

## Tim Hortons to host conference call at 10:30 a.m. (EDT) Friday, October 30<sup>th</sup>, 2009

Tim Hortons will host a conference call today to discuss the third quarter results, scheduled to begin at 10:30 a.m. (EDT). The dial-in number is (416) 641-6712 or (800) 354-6885. No access code is required. A simultaneous web cast will be available at [www.timhortons-invest.com](http://www.timhortons-invest.com). A presentation supporting the call will be available at this web site under the Events and Presentations section. The call will be archived at this site for a period of one-year and will also be available under the Events and Presentations section. A replay of the call will be available for a period of one week and can be accessed at (416) 626-4100 or (800) 558-5253. The call replay reservation number is 21440280.

## Safe Harbor Statement

Certain information in this news release, particularly information regarding future economic performance, finances, and plans, expectations and objectives of management, is forward-looking as contemplated under the Private Securities Litigation Reform Act of 1995. Various factors including those described as "risk factors" in the Company's 2008 Annual Report on Form 10-K, filed February 26, 2009, and those risk factors set forth in our Safe Harbor Statement, as well as other possible factors not listed or described in the foregoing, could affect the Company's actual results and cause such results to differ materially from those expressed in forward-looking statements. As such, readers are cautioned not to place undue reliance on forward-looking statements contained in this news release, which speak only as of the date hereof.

Except as required by federal or provincial securities laws, the Company undertakes no obligation to publicly release any revisions to the forward looking statements contained in this release, or to update them to reflect events or circumstances occurring after the date of this release, or to reflect the occurrence of unanticipated events, even if new information, future events or other circumstances have made the forward-looking statements incorrect or misleading. Please review the Company's Safe Harbor Statement at [www.timhortons.com/en/about/safeharbor.html](http://www.timhortons.com/en/about/safeharbor.html).

(4) Total systemwide sales growth includes restaurant level sales at both Company and Franchise restaurants. Approximately 99.3% of our consolidated system is franchised as at September 27<sup>th</sup>, 2009. Systemwide sales growth is determined using a constant exchange rate, where noted, to exclude the effects of foreign currency translation. U.S. dollar sales are converted to Canadian dollar amounts using the average exchange rate of the base year for the period covered. For the third quarter of 2009, systemwide sales growth on a constant currency basis was up 6.2% compared to the third quarter of 2008. Systemwide sales are important to understanding our business performance as they impact our franchise royalties and rental income, as well as our distribution income. Changes in systemwide sales are driven by changes in average same-store sales and changes in the number of systemwide restaurants.

### **Tim Hortons Inc. Overview**

Tim Hortons is the fourth largest publicly-traded quick service restaurant chain in North America based on market capitalization, and the largest in Canada. Tim Hortons appeals to a broad range of consumer tastes, with a menu that includes premium coffee, flavored cappuccinos, specialty teas, home-style soups, fresh sandwiches, donuts and fresh baked goods. As of September 27<sup>th</sup>, 2009, Tim Hortons had 3,527 systemwide restaurants, including 2,971 in Canada and 556 in the United States. More information about the Company is available at [www.timhortons.com](http://www.timhortons.com).

### **For Further information:**

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