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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. And welcome to the Tim Hortons' second-quarter 2014 analyst conference call.

(Operator Instructions)

As a reminder, this conference is being recorded, and will be available on the Investor Relations section of the Tim Hortons website, following the call.

It is now my pleasure to turn the conference over to Scott Bonikowsky, Senior Vice President of Corporate Affairs and Investor Relations at Tim Hortons. Please go ahead.

Scott Bonikowsky - *Tim Hortons Inc - SVP of Corporate Affairs and IR*

Thanks, operator. Welcome, everyone, to the Tim Hortons' second-quarter 2014 analyst call. We released our results earlier this morning, before the market opened. To access our earnings material and a presentation supporting today's discussion, please visit the Investor Relations section of our website, and click on the events and presentations tab. This material will be available for a period of about one year.

Marc Caira, our President and Chief Executive Officer, along with Cynthia Devine, our Chief Financial Officer, will be joining the call this afternoon. We will be pleased to take questions after our prepared remarks. We would ask you to limit your questions to one at a time, and you can get back in the queue after, so that everybody has the opportunity to ask questions during the call.

Please note that we may provide forward-looking information this afternoon, including discussions about planned initiatives and strategic plans, future performance, results, and outlook based on our current expectations, assumptions, and information, including information about our restaurant development plans, same-store sales expectations, earnings performance, 2014 outlook and targets, and operational initiatives. Forward-looking statements are based on a number of assumptions that contain risks and uncertainties, and our actual results and activities could differ materially from these statements. Please refer to the Safe Harbor Statement on our website, and on slide 3 of today's supporting presentation, and refer to the risks and assumptions in our public disclosures.

All Tim Hortons' results are presented in accordance with US GAAP. And I'll remind you: We report in Canadian dollars, unless otherwise noted.

I will now turn the call over to Marc Caira. Marc?

Marc Caira - *Tim Hortons Inc - President and CEO*

Thank you, Scott, and good afternoon, everyone. I am pleased to report very positive progress in several key areas of our Business in the second quarter. We are seeing momentum in both major markets, supported by the early-stage execution of our strategic road map. I have been particularly pleased with our success in growing average check, delivering menu innovation, and implementing new technology.

Our same-store sales growth in the second quarter was 2.6% in Canada and 5.9% in the US. These growth rates are significantly better than we have seen in recent quarters. In fact, in both markets, this was the best growth we have reported since 2012.

Strong sales performance contributed to solid growth and profitability. Operating income was up 8.9%, and earnings per share increased 13.6%. Our share repurchase program also contributed to our strong EPS growth. It's encouraging to see momentum in our Business in an environment that remains very competitive.

We outlined a new strategic plan in February of this year. We knew we needed to work hard to establish additional traction in the Business, especially in this new era of low growth, competitive intensity, evolving consumer demands, and changing technology. Achieving the goals we set out in the strategic plan will be a long-term process.

We are less than six months into a five-year plan, so, naturally there's still much work to be done. However, as we clearly focus on the long term, it is imperative that we also deliver short-term results that help us to lay the foundation for long-term, sustainable, profitable growth. I believe we are seeing some positive early progress on the initiatives we have focused on to this point.

The centerpiece of our strategic road map is menu innovation. We have identified some key trends we are seeing in the market, including change in demographics; increased emphasis on nutrition, health and wellness; and a desire for bold flavors, along with fresh, quality ingredients. Many of our products already resonate well with our guests on these criteria, which will continue to be a focus for us in our new product development.

Menu innovation is also an important part of our strategy to grow average check. We plan to introduce more value-added premium products, as well as appealing side dishes, that will encourage our guests to purchase combos. At the same time, any decisions on menu items must take into account the ability of our restaurant teams to execute flawlessly; so, simplicity remains important.

There is a long list of criteria we need to satisfy, and our R&D team has been doing a great job of developing our innovation pipeline. Our new frozen hot chocolate beverage was a driver of same-store sales growth in the US this quarter, and a great addition to our cold beverage lineup. In Canada, we continued to benefit from products launched in the previous quarter: the Crispy Chicken Sandwich, which is a premium item for us; the Turkey Sausage Hot Breakfast Sandwich; and our improved hashbrowns. Hashbrowns, along with our brand new Kettle Chips, are side dishes we are promoting as part of our combo options.

We want our guests who currently purchase one item from us, to buy two; and those who buy two items, to buy three. In order to accomplish this goal, we first need the right menu items. And we have other great products in the pipeline besides the ones I've mentioned.

Effective promotion and communication of our combos is also a key enabler, and we are doing this through our menu boards and other activities. With all these initiatives now in place, we have begun to see an increase in our combo penetration rates, particularly at breakfast.

Other innovations in the second quarter included Frozen Green Tea, made with real green tea; our new Greek Yogurt Parfaits; and our smoothies, now being made with standard Greek yogurt. These items also deliver enhanced product benefits that our guests are looking for. We also introduced the OREO Iced Capp Supreme, pineapple-mango smoothies, Ultimate Cinnamon Buns, and a line of strawberry baked goods. Menu innovation was a key element of our strong sales results in the quarter. And it will continue to be a major focus for us.

We know we still have significant opportunities ahead of us. For example, in the US, we continued to grow the breakfast daypart, which is great -- it's what we are known for in that market. And now, we are focusing on extending that momentum into other dayparts, such as lunch. This is a key priority for our US team, as identified in our strategic plan, for one of the key strategic priorities is to grow our AUVs by extending our success beyond breakfast.

There are a number of other important developments that I would like to highlight. We've recently begun our first large-scale pilot of dark roast coffee in our restaurants across the Province of Quebec. Innovation is an important part of our overall coffee leadership strategy. We believe a new blend, like dark roast, is a good start in expanding our appeal to the full spectrum of coffee drinkers.

Also on the topic of coffee leadership, as previously announced, we have begun selling our single-serve coffee platforms through the retail grocery channel. Our products will soon be available at most of the major grocery retailers in Canada. With the grocery segment representing approximately 40% of the single-serve market, it is important for us to be in that channel.

On the technology side, our key accomplishment in the second quarter was the launch of new mobile payment capabilities. We now have barcode scanners in our restaurants across North America, allowing our guests to pay by scanning their smartphones. We are one of the first in our industry to support payments on all four of the major mobile platforms: Android, iOS, Windows, and BlackBerry. Our mobile payment platform is designed to improve speed of service and enhance guest experience.

Subsequent to the quarter, together with our partners, CIBC and Visa, we launched the Double Double co-branded Visa card Canada-wide. It is very early days, but the launch generated a lot of media attention, and we are seeing significant consumer interest in this innovation in the card loyalty space. As a reminder, the Double Double is a two-in-one payment card. Every purchase on the Visa earns 1% Tim Cash that can be redeemed using the same card in our restaurants. The card features first-of-its kind technology in Canada.

This is another example of how we plan to embrace new technologies in a way that will resonate and build loyalty with our guests, while at the same time allowing us to better leverage and aggregate consumer insights. These insights will help us as we implement other aspects of our strategic plan.

This morning, we announced that we have recently signed another development agreement in the US. The latest one is for 25 locations around the New York City and New Jersey DMAs. That takes us to six development agreements, totaling approximately 135 locations, all of which are helping us expand our footprint in a capital-efficient manner.

The last update I will provide is on our international plans. We said in February that we would continue to work on our international strategy throughout 2014. We have completed the first phase of that work, and identified a short list of markets we believe are most suitable for Tim Hortons. In the next phase, we are determining the appropriate size and scale of international growth, and developing tailored strategies for market entries in 2015 and beyond.

Before I conclude, I will say a few words about a major franchisee convention we hosted last month in Toronto. The event was attended by our restaurant owners and key suppliers. The convention helped celebrate our 50th anniversary, so it was a very special occasion, and it was also a great opportunity for our key stakeholders to spend time together, share ideas, and achieve alignment on our strategic road map.

I was very pleased with the owners' response to the new ideas, new technologies, and strategies we showcased for them. There was a lot of excitement and enthusiasm about the opportunities for us to grow our collective Business. That is very important to me because we need our restaurant owners to be fully committed as we embark on the next phase of our growth. They understand that they must be engaged in the restaurants, and be dedicated to deliver the ultimate in guest experience, through flawless execution.

I will now ask Cynthia to provide more details on our financial performance in the second quarter. Cynthia?

Cynthia Devine - *Tim Hortons Inc - CFO*

Thanks, Marc, and good afternoon, everyone. The key to our solid results in the second quarter was the strong sales performance at our restaurants. System-wide sales grew by 6.5% on a constant-currency basis. That breaks down to 5.8% in Canada and 12.3% in the US. System-wide sales growth is driven by the impact of new restaurant development and by same-store sales growth.

Canada same-store sales growth of 2.6% was driven by an increase in average check, resulting from favorable product mix and pricing. Average check benefited from increased sales in both the lunch and breakfast dayparts. This growth in Canada was partially offset by lower same-store transactions, although we continue to grow system-wide transactions through the addition of new restaurants.

Turning to the US: Our strong same-store sales growth rate of 5.9% was supported by gains in average check, resulting from favorable product mix and pricing. Cold beverage sales were an important contributor; and in terms of dayparts, breakfast was the biggest contributor to the growth.

In this morning's disclosure materials, we provided an update on our 2014 target for US same-store sales growth. February, we communicated a target range of 2% to 4% for the year. Q2 year to date, we are at 3.9%, with solid sales momentum heading into the second half of 2014. On that basis, we now believe that we will be at the high end or slightly above that range.

Moving to our overall results: System-wide sales growth was the primary driver of the increase in the two largest components of our total revenues. The distribution sales were up by 9.2% in the quarter, while rents and royalties increased 7.5%. We show these and other revenue line items on slide 15 of today's presentation. You will see on that slide that franchise fee revenues grew at a faster rate, due to an increase in renovations and new restaurant developments, namely in our Canadian market.

Those same activities caused franchise fee costs to increase at a similar rate. We show this on the next slide, along with other expense items.

A 7.8% increase in cost of sales was driven, once again, by system-wide sales growth. Operating expenses increased by 9.6% as a result of higher depreciation and rent expense, driven by the addition of new restaurants and then renovations to our existing restaurants. We expect these same factors to lead to further increases in operating expenses through the remainder of 2014.

We had a 5.8% increase in G&A expense, as we locked a period when we still had unfilled vacancies in the Organization, following last year's reorganization. Higher professional fees, related to the execution of our strategic plan, also contributed to the increase.

As we show on slide 17, operating income increased by a solid 8.9% to CAD192.4 million. On the same slide, you will see that net income, attributable to THI, was flat compared to Q2 of last year. The reason we didn't see growth in net income is partly tied to the recapitalization we completed over the past year.

So, to summarize, we issued CAD900 million of new debt, and we repurchased over CAD1 billion of our shares since August of 2013. So, our interest expense has more than doubled as a result of this new debt. And Q2 was the first period in which the interest on that entire amount of debt was reflected for the full quarter.

Our effective tax rate increased from 26.1% in the second quarter of 2013 to 28.3% in Q2 of 2014. But for the most part, this was due to a favorable tax impact last year, as a result of a change in our reserve balance. The recapitalization and, specifically, the new debt also caused an increase in our effective tax rate for the quarter. As we've explained in the past, our cross-border corporate structure constrains our ability to recognize the full tax benefit that one might expect from additional interest costs related to our new debt.

Despite these increases in interest and income taxes, the recapitalization, as expected, was clearly accretive to our earnings per share. Our repurchase of over 18 million shares in the past year helped us achieve EPS growth of 13.6% to CAD0.92 a share in the second quarter.

We have also provided an update to our target for full-year EPS. We believe that our 2014 EPS will be at the high end or slightly above our previous targeted range of CAD3.17 to CAD3.27 per share.

At this point, I'd like to turn to our performance of our operating segments for the second quarter, which are summarized on slide 19. Operating income in the Canadian segment increased by 8.1% to CAD188.9 million. System-wide sales growth resulted in higher rents and royalties income, as well as a higher allocation of supply chain income. Increased franchise fee income also contributed to our Canadian operating income growth.

In the US segment, we've been very encouraged by the overall strengthening and progression in our Business. This is the result of some very focused initiatives our team has been working on, and it has led to solid improvements in operating income and cash flow contribution. US operating income was CAD9.3 million, an increase of CAD6.7 million over last year. That's a good result for us, and, in fact, the highest quarterly operating income we have reported for the US segment. The biggest factor in the increase in operating income was system-wide sales growth, which resulted in higher rents and royalty income.

Part of the rents and royalty story is that we've been able to significantly reduce the amount of [relief] that we provide to some of our developing restaurants. Relief has declined for a few reasons, but most significantly because of strong sales performance. Relief also declined due to specific operational improvement initiatives, including certain restaurant closings during the overnight hours, which increased operating margins. And finally, we noted lower relief due to the closure -- late in 2013 -- of a small group of underperforming restaurants in non-core markets.

System-wide sales growth also led to a higher allocation of supply chain income in the US segment. And our US operating income benefited from favorable lease termination settlements, as well as foreign currency translation.

Additionally, we've been working to improve our business model, and reduce the capital intensity in the US. I believe we are starting to see the positive results of that new approach.

I will conclude by saying that we are pleased with the progress we saw this quarter in a number of important areas of our Business. The competitive environment remains intense, but we believe we have a solid, strategic plan in place to address the challenges and position our Company for long-term success.

So with that, I'd like to turn the call back over to Scott.

Scott Bonikowsky - *Tim Hortons Inc - SVP of Corporate Affairs and IR*

Great. Thanks, Cynthia. We're now ready for the Q&A portion of the call. It's important to give everybody a chance to have the opportunity to ask a question, so I'll remind everybody to please limit yourself to one question. And then you can jump back in the queue.

And, operator, with that, we'll please proceed with the first question.

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions)

The first question is from Joe Buckley of Banc of America Merrill Lynch.

Andrew Charles - *BofA Merrill Lynch - Analyst*

Great, thank you. It's Andrew Charles, filling in for Joe.

Check growth is very impressive this quarter, but wanted to ask about traffic growth. Are throughput initiatives, like the drive through enhancements, being overshadowed by competitive actions?

Marc Caira - *Tim Hortons Inc - President and CEO*

Andrew, thank you very much for the question. Welcome.

We're very happy with the results that we've had in this quarter, as it relates to average check. In fact, if you refer back to our strategic plan, that is one of the areas that we clearly identified that we wanted to focus on. So we're very happy to start to see the results of that.

Our transaction is also very clearly identified in our strat plan as being a priority for us. That is still a work in progress, and we've identified many initiatives in our strat plan, including the work that we're doing on demand spaces. As you remember, there's nine demand spaces. We do extremely well in four, but there's five that are opportunities. So we're working on those things, and over time, we believe that we can bring new consumers back into our restaurants.

We also have to admit that there's also been some consumers that, perhaps, have left us over the past two months as a result of lineups and some other things. So as we focus more on the ultimate guest experience and then some of the initiatives going on around that, we hope to bring those consumers back.

So we're very pleased with where we are, overall. We're very pleased with the overall results, both top line and bottom line. And again, we're six months into this journey of the strat plan, and we've identified some areas that will also address transactions over time. And that work continues.

Andrew Charles - *BofA Merrill Lynch - Analyst*

Just to clarify -- was traffic flat in the US?

Cynthia Devine - *Tim Hortons Inc - CFO*

It was roughly flat in the US, yes.

Andrew Charles - *BofA Merrill Lynch - Analyst*

Thank you.

Operator

The next question is from Irene Nattel of RBC Capital Markets.

Irene Nattel - *RBC Capital Markets - Analyst*

Thanks. And good afternoon, everyone.

Clearly, in your commentary, menu innovation is a key to driving sales, which is the key to driving profitability. And just wondering, as you think through the next 6, 12, 18, 24 months, how you think about cycling some of these new product innovations to balance off against the simplicity?

Marc Caira - *Tim Hortons Inc - President and CEO*

Sure. Hello, Irene. How are you?

Irene Nattel - *RBC Capital Markets - Analyst*

Getting better, Marc. Thank you.

Marc Caira - *Tim Hortons Inc - President and CEO*

You sound a little bit better.

Irene Nattel - *RBC Capital Markets - Analyst*

Thank you.

Marc Caira - *Tim Hortons Inc - President and CEO*

Again, we're going to keep referring back to the strategic plan, because that's our guiding document. And that is a document which we have aligned the organization to.

And in our strategic plan road map, we very clearly have identified that innovation and, specifically, what we call differentiated innovation is a key priority for us. So we will continue to introduce different and unique products. And you heard some of them that we've introduced in the second quarter. That will continue. Some of these products are ins and outs, or for a limited time. Others that perform very well and our guests demand they be kept on the menu -- then we're going to keep them on the menu. But we also have to be very disciplined about it.

If we keep an item on the permanent list, something else has to go. So again, it's bringing this rigor and this discipline to the operations, because we can't just keep adding things. And we can't just keep adding more complexity into our restaurant and to our operations.

So as we said in the past, we've already discontinued a number of items. That process is going to be ongoing -- it doesn't stop and then start. That's a discipline that would be put into the organization.

But we continue to look at our products and add and remove as we go. But we're very committed to this innovation that is differentiated because, really, in this new era of low growth, very competitive environment, value conscience consumers -- I believe that's how you're going to win. So again, early days. We're just getting started with our strat plan, but we're very happy with what our people in R&D have been doing with innovation thus far.

Irene Nattel - *RBC Capital Markets - Analyst*

That's great. And then, as a follow-up, you mentioned that the proportion of combos at breakfast -- it did increase with the new combo board and reintroduced Hash Browns. Would you care to give us any color around that?

Marc Caira - *Tim Hortons Inc - President and CEO*

Yes. Look, I'm not going to give you a specific number, except to say that we are extremely pleased with how the combos have performed for us during breakfast.

Again, it revolves around innovation and differentiated innovation. And as you know, Irene, we introduced new Hash Browns, improved Hash Browns, which are fantastic. And our guests have really taken a liking to them. And we're selling a lot more combos at breakfast than we have in the past. And it's a significant number that, again, I can't give the specific number, but it's significant. And we're going to do the same thing at lunch.

Irene Nattel - *RBC Capital Markets - Analyst*

That's great, thank you.

Operator

The next question is from Perry Caicco of CIBC.

Perry Caicco - *CIBC World Markets - Analyst*

Yes, thanks.

Wanted to dive a little bit into the US sales numbers. You called out the Frozen Hot Chocolate and the Iced Capp work, but you also had some new breakfast and lunch items you launched earlier this year. I'm just wondering how those have done, what you've learned, and why you're confident that you can get at-or-above the range on same-store sales?

Marc Caira - *Tim Hortons Inc - President and CEO*

Sure. Hi, Perry. How are you doing?

Perry Caicco - *CIBC World Markets - Analyst*

Good.

Marc Caira - *Tim Hortons Inc - President and CEO*

Look, what we said about the US -- again, I'm going to refer back to the strat plan because that's the common ground. When you look at our US business, there's two things we're very pleased with in those core markets that we participate in today.

One is that we have awareness, so people know who we are -- a cafe and bake shop. And the other is that we have convenience, so people find it very easy to get to. So those are great things because that's what we've been working the last five years to establish.

Now what we need to do, is leverage that. And thus far, our success in the US has been really focused on the breakfast dayparts. And we do extremely well in the daypart, and we continue to innovate, and we continue to launch new initiatives in that daypart.

But very clearly, we've identified going beyond breakfast and going into lunch to try and create loyalty beyond breakfast. So again, it's leveraging your asset. We have the restaurant that's sitting there, and there is no reason -- now that we have awareness, now that we have convenience -- that we can't take our business beyond breakfast.

We're going to continue to innovate breakfast. There's still lots of room for us to grow, but the incremental opportunity is for us to develop specific products for lunch, catered to the taste of US consumers. Again, we're not going to assume that what works well in Canada works well in New York, because it doesn't.

Mike Meilleur and his time in the US have done a fantastic job of identifying innovations catered to the US consumer. And we're going to keep launching those, not only in breakfast, but over time, you're going to see a lot more of this innovation going to our lunch daypart.

Cynthia Devine - *Tim Hortons Inc - CFO*

Yes. There's a--

Perry Caicco - *CIBC World Markets - Analyst*

And a -- sorry. Go ahead.

Cynthia Devine - *Tim Hortons Inc - CFO*

The other aspect, Perry, in terms of cold beverage -- as you pointed out, was a nice contributor, as well as take-home. So having the single-serve product -- both platforms now available in the US is a nice contributor as well to the sales results.

Perry Caicco - *CIBC World Markets - Analyst*

And following up that question -- what's the relationship between this early success in the US and the consigning of more area development agreements, over time?

Marc Caira - *Tim Hortons Inc - President and CEO*

Well, look. Like I said to you in previous calls, there isn't a lack of interest in signing area of development agreements. And we're going to do that, but we're going to be very pragmatic and very responsible.

Our first priority, again, in the US -- going back to the strat plan -- is we need to increase [AUVs] in our existing assets in those core and priority markets. And we're going to do that the way that I just explained it -- in breakfast and then leveraging lunch.

But there's also opportunities to build density in those existing markets that we're in, and perhaps, into new Markets and to new [VMAs]. And we're also looking at that, but the key there is that we want to make sure that we align ourselves with the right partners.

There isn't a lack of interest here. I can get lots of partners that want to do business with us, but we're going to make sure it's the right partners. Not only do they need to have the necessary capital, which, quite honestly, today is not that difficult to get, but we want partners that understand the markets, are committed to the food service industry. We want partners that bring something other than -- other things we may not, like access to media, access to supply chain, access to things that, again, Tim Hortons may not readily have available to them.

So that work is ongoing, and you're going to start to see more of these types of area developments. But again, our priority is in building the average unit volumes over existing assets.

Perry Caicco - *CIBC World Markets - Analyst*

Okay, thanks.

Operator

The next question is from David Hartley of Credit Suisse.

David Hartley - *Credit Suisse - Analyst*

Hi. Thank you.

Cynthia, you referenced in the remarks today, favorable timing of certain expenses in the US. Could you help me understand what that consisted of and how much it was worth?

And also, product margin variability, as it relates to your corporate expenses -- can you walk me through that and what that means and how that affects the profitability of the Canadian and US businesses?

Cynthia Devine - *Tim Hortons Inc - CFO*

Sure. Thanks, David.

With regards to the US performance -- first and foremost, it is a growth story about our growth in system-wide sales in the US contributed, mainly, to the profit improvement. But with reference to timing of certain expenses -- for example, G&A was flat in the quarter, and we expect in the balance of the year that timing of certain expenses that there'll be a little bit more G&A. There was lease termination fee, but we're talking in the hundreds of thousands, so it was less than CAD1 million that was favorable.

We had foreign exchange. But again, foreign exchange, as we look out to the back half of the year, is probably a factor that's going to continue for us. So again, the biggest driver of the performance was, really, the system-wide sales growth.

Relief, as well, is something that drove some really good performance for the US. And as you grow same-store sales and continue to have the momentum there, you're going to reduce the relief. But also, some of the proactive initiatives the US team has taken have also helped that -- and some of those will be lapping in the back half of the year.

As it relates to the margin, the supply chain margin -- we've talked about this before, but with regards to sometimes on a quarterly basis, you can have some variability where, for example, when we buy coffee, we buy it for a long period of time. And from a supply chain perspective within the business units, we hold the margin constant. Over time, it will work its way out as the price varies throughout a quarter, but sometimes you'll have these fluctuations where margins will be a little bit lower in corporate but, generally, pretty flat in the [BUs].

Last year, you will note that the corporate services segment actually had favorable margin. And this year, it has negative margin variability. That's likely reverse in the back half of the year. So again, it's really timing and to keep the business units fairly clean, and hold that corporately. Because over calendar year, for the most part, we expect it to be fairly consistent. That make sense?

David Hartley - *Credit Suisse - Analyst*

Okay, thanks. Yes it does, thank you very much.

Cynthia Devine - *Tim Hortons Inc - CFO*

You're welcome.

Operator

The next question is from Jim Durran of Barclays.

Jim Durran - *Barclays Capital - Analyst*

Behind the strong initiatives you've got going on in the US, how much do you attribute the improvement to a stronger consumer in the US?

Marc Caira - *Tim Hortons Inc - President and CEO*

Well, we're not seeing that. We're still seeing consumers are very cautious, perhaps a bit more optimistic, but that's hard to measure. But we take the view that we're still in a very volatile environment, very competitive environment -- the consumer very value-conscience.

And that, we refer to this as the new era. And I, personally, have not seen very much change to that. And, quite frankly, I think we should expect to be operating in this type of environment for the next little while.

Jim Durran - *Barclays Capital - Analyst*

So amongst your target audience, do you see any difference between the Canadian consumer and US consumer at this point?

Marc Caira - *Tim Hortons Inc - President and CEO*

I, personally, see very little. The way I've described the consumer in the US, I would also describe the consumer in Canada.

Jim Durran - *Barclays Capital - Analyst*

Okay. Thanks, Marc.

Marc Caira - *Tim Hortons Inc - President and CEO*

You're welcome.

Operator

The next question is from Michael Van Aelst of TD Securities.

Michael Van Aelst - *TD Securities - Analyst*

Thank you.

You've talked about 2014 being a year of investment, and you're clearly getting some returns already. But can you talk to us a little bit about the magnitude of the investment that you're making, including the professional fees? And how big are these investments, and how much of this will be falling off next year or in the coming years?

Cynthia Devine - *Tim Hortons Inc - CFO*

Thanks, Mike.

With regard to the investment, I think, one of the primary thanks we talked about was investments around capital and renovations of restaurants. So we outlined, in the strategic plan, that we expected 2014 and 2015 to be out a little bit higher from a capital standpoint, as we really try to accelerate a lot of renovations and get the system caught up to our new standard.

So that's probably one of the biggest areas we talk about, in terms of investment. There are other things, from a professional fee standpoint, but generally, I think we've shown through our G&A performance that it hasn't been significant -- it hasn't driven a significant increase in G&A. And I'm not expecting anything too different from that, as it relates to investments around strategic initiatives.

We talked, also, about -- in the first quarter -- about the launch of our new credit card. And so we had an investment in the first quarter that we expect, on a full-year basis, to be cost neutral. But it's those types of things, Mike, as opposed to something specific on a particular line item in the P&L, that we would expect to be material.

Marc Caira - *Tim Hortons Inc - President and CEO*

Yes, I think it also -- it goes a little bit beyond that. And when we talk about investment, we're talking about investment in consumer insights and consumer intellect -- trying to find out more about these demand spaces. And then, what does that mean to us, in terms of how do we go after this opportunity?

It talks about the international piece and really organizing ourself effectively to aggressively go after the international market, as we enter 2015 and beyond. And of course, as Cynthia's pointed out, also technology, which is, for us, a major area as an enabler for the business. So it's not just so much dollars, as Cynthia has mentioned, but it's also getting ourselves organized, both organizationally and behaviorally.

Michael Van Aelst - *TD Securities - Analyst*

Okay. Thank you. And a small follow-up -- can you tell us what the price increases were in the US and Canada?

Cynthia Devine - *Tim Hortons Inc - CFO*

In Canada, they were a little over 1.5 point. And in the US -- a little bit over 2.5 points.

Michael Van Aelst - *TD Securities - Analyst*

Thank you.

Operator

Next question is from John Glass of Morgan Stanley.

John Glass - *Morgan Stanley - Analyst*

Thanks.

First, Cynthia, following up on the guidance in your discussion of investments. If you look at the guidance -- and I know you're saying it could be a little more than the high end of your previous range -- but it would still imply a deceleration in the back half versus the first half. And, maybe, even consensus in the back half was too high -- or at least to get to the high end.

Is there anything -- are you being conservative, or is there anything from a timing perspective we should be aware in the back half that would change the cadence of earnings?

Cynthia Devine - *Tim Hortons Inc - CFO*

Nothing specific, but there's always timing in our business that we have certain things that fall in the back half of the year. But no. I mean, I think, as we said in our prepared remarks, we feel very good about the momentum in the business. And we've said we expect to be at the high end or slightly above the high end of the EPS range, and as well, on our US same-store sales.

So I think we feel very positive about the outlook. And I can't focus as much on where consensus is, as opposed to where we are, so appreciate the comment, but no. I think we feel good about the momentum we have in the business and where the outlook is.

Marc Caira - *Tim Hortons Inc - President and CEO*

I agree. I think it's a difficult one. I mean, it's an outlook at a moment in time. And in this new era of volatility and uncertainty, these things could change very quickly for us.

So I think, as Cynthia has rightly pointed out, we feel very comfortable with what we said at this point in time. And we're going to keep doing all the good things we need to do to ensure that we deliver.

John Glass - *Morgan Stanley - Analyst*

In your mobile platform -- if that's been rolled out system-wide in Canada, does it combine loyalty and payment? And maybe, are there early -- what's your early read on how fast it's being adopted by the customer up there?

Cynthia Devine - *Tim Hortons Inc - CFO*

In terms of mobile? (multiple speakers)

John Glass - *Morgan Stanley - Analyst*

Mobile platform, yes.

Cynthia Devine - *Tim Hortons Inc - CFO*

Yes. Mobile payment. At this point in time, the mobile itself does not include loyalty.

The biggest initiative we have right now, in terms of loyalty, is the credit card that Marc talked about, in terms of our co-branded credit card, which allows people to purchase across any retail outlet and then immediately get the benefit, in terms of Tim Hortons dollars that they can spend back at our restaurant. So we see that as a big loyalty driver.

But right now, it's early days on mobile payment. But the fact that we are able to do it with three different platforms, you know, I think we're probably one of the only ones in the industry, which is phenomenal. And we think it's as we've said before -- we've set the rails, if you will, and now, there's a lot that we can do with that, going forward, to enhance the guest experience.

Marc Caira - *Tim Hortons Inc - President and CEO*

It's a key area for us. And again, I don't want to limit the discussion to mobile payment here, because technology has really been a priority for us, is a key enabler for us. When we look at technology, there's two things we're trying to do. One, which is around what you just touched on. One is to enhance the whole consumer experience, and the other one is to really influence consumer behavior.

Those are the two things that we will do with technology over time. And when you look at what we've done over the last period of months -- 12, 18 months -- we're introducing a single POS system across the organization [lone start]. We've got mobile Apps that we just talked about, we've got Tim's TV national rollout in our stores, we've got the Double Double cards that Cynthia mentioned in collaboration with VISA CIBC and Tim Hortons, we've got the digital menu board.

So I think, when you talk about technology, you're talking about a holistic strategy that, over time, will accomplish these very two very key objectives that we've established.

John Glass - *Morgan Stanley - Analyst*

Thank you.

Operator

Next question is from Peter Sklar of BMO Capital Markets.

Peter Sklar - *BMO Capital Markets - Analyst*

Cynthia, I just have a question on margin. If you look at your cost of sales margin, and if you look at Q2 relative to Q1 and Q4, we've had an improvement of about 150 basis points.

So I'm wondering where the improvement is. Is it on the distribution side? I think, some of it is the variable interest entities performed better, maybe some of it's in corporate stores? Can you talk a little bit about why you're seeing that improvement?

Cynthia Devine - *Tim Hortons Inc - CFO*

I think it is -- those are factors for sure, Peter. As we talked about before, there can be a commodity impact, as well, that helps margin favorability.

There isn't anything particular that I can point to, in terms of being something that's fundamentally different in that area of the business. But I think, over the past, we've had start ups at Kingston and different things like that of our distribution facility. But we don't really have any of those unusual items at this time.

But I do think it is, as you pointed out, the variable interest entities. And the restaurants that we're consolidating -- there has been some improvement there, and minor on the corporate store side of things.

Peter Sklar - *BMO Capital Markets - Analyst*

But is that the way we should think about it? Like is the three buckets on those lines -- the distribution business, the variable interest entities and the corporate stores?

Cynthia Devine - *Tim Hortons Inc - CFO*

Yes, those are really the three buckets that go into that line, for the most part.

Peter Sklar - *BMO Capital Markets - Analyst*

Okay, thank you.

Cynthia Devine - *Tim Hortons Inc - CFO*

Thanks, Peter.

Operator

The next question is from David Carlson of KeyBanc Capital Markets.

David Carlson - *KeyBanc Capital Markets - Analyst*

Hey, guys. I hope everyone is well.

I had a quick question -- it's maybe a different way of asking an earlier question, but I was hoping, maybe, you can quantify. You called out the Hash Browns in the release today. I think it was in the Canadian side. But hoping you guys can quantify how much the focus on increasing the number of add-on orders really played into the overall check growth in Canada and the US during the quarter?

Marc Caira - *Tim Hortons Inc - President and CEO*

Again, unfortunately, you're going to get the same answer. We're not going to give a specific number, but we will tell you that we're extremely pleased at the progress that we've made, in terms of our ability to sell combos at breakfast. We're very encouraged, and we're going to develop more differentiated innovations for breakfast sides, so that we can continue to develop this part of our business.

And then, as I said earlier, we will also take it into our lunch daypart. And we look forward to having similar results in lunch. So for us, it's significant, but I'm not going to put a number to it.

David Carlson - *KeyBanc Capital Markets - Analyst*

Fair enough.

One really quick follow-up -- and I fully understand the 99% franchised model that you currently operate under -- but just wondering your franchisees and the provinces of Canada. Are you guys experiencing wage inflation there to the degree of the wage inflation currently taking place in the United States?

Cynthia Devine - *Tim Hortons Inc - CFO*

You know, there's always a little bit of inflation. There isn't -- over the past number of years, we have had some significant changes, in terms of minimum wage and that.

There isn't anything significant I would say, but it's always a factor. And there are a number of governments that are currently looking at it, particularly in the Ontario market are looking at things, as they relate to minimum wage. So it's always a factor in the business. For the most part, our restaurant owners are paying above minimum wage, but still, as labor costs creep up, it certainly is a factor that affects the restaurant-level performance.

Operator

The next question is from Derek Dley of Canaccord Genuity.

Derek Dley - *Canaccord Genuity - Analyst*

Yes. Hi, guys.

We've seen the coffee futures increase here, quite substantially, in the last two weeks. Just wondering how far you are bought out on coffee, and if you see the need for any price increases, maybe, at the end of this year into next year.

Cynthia Devine - *Tim Hortons Inc - CFO*

Hi, Derek. Thanks for the question.

With regards to coffee, as we talked about on the call last quarter, we had locked in all of 2014 last year. So we did have some quite favorable coffee pricing throughout 2014.

As we now are buying out into 2015, and we have futures bought out for close to the first half of 2015. However it is at a higher price, more reflective of the current commodity environment that you're seeing.

So as we've done in the past, we will work with our restaurant owners, look very carefully at performance and the other factors besides just coffee that go into cost of sales -- including, as per the last question, labor costs and other costs for our restaurant owners -- and then make a determination around pricing at the appropriate time, depending on where other commodities fall out and where the other components of their business are. But there's no doubt, right now, that coffee prices are not at the same level they were in 2014, when we bought back in 2013.

Derek Dley - *Canaccord Genuity - Analyst*

Okay. That's great. I appreciate the color, there.

And just quickly, and understanding that this is a very new initiative in the early stages, but can you gives an update on loyalty card with CIBC? Are you seeing difference in purchasing patterns -- bigger check, anything like that?

Marc Caira - *Tim Hortons Inc - President and CEO*

I can tell you, when we launched it, we've had tremendous interest in this card. Not only from a media standpoint, but also from, obviously, our franchisees, our consumers. So again, we're very optimistic about this particular differentiated innovation.

But to be able to go beyond that and give you more specific, it's too early. So I think we'll save that for the next quarter, and I'm sure that we will have more specific information that we can share with you. But we're extremely pleased with this. Again, it's the only one of its kind, as far as I know, in the world, and it belongs to Tim Hortons. And we're going to leverage that to the best of our ability.

Derek Dley - *Canaccord Genuity - Analyst*

Okay. That's great. Thanks.

Operator

The next question is from Keith Howlett of Desjardins Securities.

Keith Howlett - *Desjardins Securities - Analyst*

Yes, I was wondering if you could give a conceptual outline of these area development agreements you're assigning? Your typical franchise agreement relationship is fairly well-understood or public through the uniform franchise circular, et cetera. But can you sort of conceptually indicate how these new deals are working?

Marc Caira - *Tim Hortons Inc - President and CEO*

Yes. The way that we're going to go about it -- and again, you have to understand that within the total scope of our strategic plan, there's two major strategic pillars. One is to grow the average unit volumes of our current assets in our core and priority markets. And then, the second one is to really add density with the right types of partners.

And I've explained what those right types of partners are, and here, they really put up their capital. We don't put up any of our capital, so it's what's referred to as capital-light, for lack of a better word. And we get involved very much in the branding and menu development and the operations. And we take a royalty off the top.

So it's a very simple model. It's a model that we're also very familiar with, now, because we've also used the same model in the GCC. We're very happy with our results, and again, we've got a pile of people that want to do business with us in both the US and also the international Markets. We're going to be very responsible, very pragmatic, in choosing the right partners. And over time, we will add more of these types of initiatives, as we move forward.

Keith Howlett - *Desjardins Securities - Analyst*

And is there any up-front fee that they're paying, or not?

Cynthia Devine - *Tim Hortons Inc - CFO*

Yes. There would typically be an up-front fee and then ongoing fees, as they open restaurants.

Keith Howlett - *Desjardins Securities - Analyst*

Thank you.

Cynthia Devine - *Tim Hortons Inc - CFO*

And those fees are typically deferred and amortized.

Operator

The next question is from Stephen Anderson of Miller Tabak.

Stephen Anderson - *Miller Tabak - Analyst*

Yes. Good afternoon.

You mentioned about the point of sale system upgrades. I wanted to see if there's been any change in timing. I know you've mentioned, in the past, that you're looking to be scheduled for completion some time first-quarter of 2015, so I wanted to see if there's been any change to that schedule?

Marc Caira - *Tim Hortons Inc - President and CEO*

Yes, I'm not sure that we ever mentioned the first quarter 2015, but obviously, it's a key initiative for us. And we're working in partnership with our franchisees and owners, and we want to move as quickly as possible. But we also want to execute our policy.

So it's going to take us longer than the first quarter of 2015. But we hope that we can get it done -- or most of it done -- by the end of 2015. But that's our current plan.

Stephen Anderson - *Miller Tabak - Analyst*

Alright. Thank you.

Operator

This concludes the question and answer session. I'll now hand the call back over to Scott Bonikowsky.

Scott Bonikowsky - *Tim Hortons Inc - SVP of Corporate Affairs and IR*

Great. Thanks, Operator, and thanks, everyone, for joining us for our second-quarter 2014 conference call. We appreciate everyone's support and ongoing interest in the Company, and, as always, if you have any additional questions that we were not able to discuss on today's call, please feel free to call me at 905-339-6186 or alternatively by e-mail.

Have a great day. Thank you.

Operator

This concludes today's Conference Call. You may disconnect your lines. Thank you for participating, and have a pleasant day.
