Cara Operations Unlimited

Cara Reports Q3 2016 Results - Operating EBITDA grows 27.7% to $36.9 million and to 7.4% of Total System Sales

VAUGHAN, ON, Nov. 9, 2016 /CNW/ - Cara Operations Limited, today announced results for the third quarter ending September 25, 2016 and a new TSX stock trading symbol. Effective today, Cara will be trading under its new TSX stock symbol "CARA", (previously "CAO").

"We had a solid third quarter and are satisfied with our year-to-date results. Our performance in the third quarter marks the second consecutive quarter where our EBITDA contribution rate of 7.4% is within our long-term target range of 7% to 8%," commented Bill Gregson, Cara's Chief Executive Officer.

"Net new restaurant openings and the acquisitions of New York Fries and St-Hubert drove total System Sales growth of $61.5 million, or 14.0% in the quarter and growth of $96.0 million or 7.4%, year to date. Improved performance in all four of our operating segments and the acquisition of New York Fries and St-Hubert drove a 27.7% improvement in Operating EBITDA in the third quarter compared to last year. Year to date Operating EBITDA was $97.3 million compared to $82.2 million in 2015, an improvement of $15.1 million or 18.4%."

Highlights for the 13 and 39 weeks ended September 25, 2016:

- On September 1, 2016, the Company announced that it had entered into a transaction to acquire a majority ownership interest in Original Joe's Franchise Group Inc. ("Original Joe's") for $93.0 million. Original Joe's franchises and operates 99 full-service restaurants in Canada and the United States across three brands - Original Joe's Restaurant & Bar, State & Main Kitchen Bar and Elephant & Castle Pub and Restaurant. Original Joe's restaurants generate approximately $250.0 million in annual normalized System Sales and approximately $14.7 million in normalized Operating EBITDA before synergies. Together with the recent completion of Groupe St-Hubert Inc., total Cara System Sales are expected to increase to approximately $2.7 billion and Operating EBITDA is expected to increase to approximately $178.0 million on an annualized basis. The transaction will be funded by drawing on the Company's existing credit facility. Subject to customary conditions, the transaction is targeted to close by the end of 2016.

- On September 2, 2016, the Company completed the acquisition of 100% of Groupe St-Hubert Inc. ("St-Hubert"), Québec's leading full-service restaurant operator as well as fully integrated food manufacturer for a purchase price of $538.1 million. The transaction was settled through the issuance of $53.9 million in Cara Subordinate Voting Shares to the vendor and management shareholders, $230.0 million in gross proceeds from the offering of subscription receipts, on a private placement basis, and through upsizing the Company's credit facility with Scotiabank and a syndicate of lenders.

- Operating EBITDA increased to $36.9 million for the 13 weeks ended September 25, 2016 compared to $28.9 million in 2015, an improvement of $8.0 million or 27.7% for the quarter. Year to date, Operating EBITDA was $97.3 million compared to $82.2 million in 2015, an improvement of $15.1 million or 18.4%. The increases have been driven by improved performance in all three of the Company's historical operating segments, being Corporate restaurants, Franchise restaurants and Central operations, and from the addition of New York Fries in the fourth quarter of 2015 and St-Hubert in September 2016. The addition of St-Hubert in the quarter has resulted in a new fourth segment added for food processing and distribution.

- Operating EBITDA Margin on System Sales increased to 7.4% for the quarter compared to 6.6% in 2015, representing the second quarter the Company has achieved its long-term Operating EBITDA Margin target of between 7% and 8% of System Sales.   Year to date, Operating EBITDA Margin on System Sales was 6.9% compared to 6.3% in 2015. The Company believes this is a key indicator in our long-term profitability.

- Adjusted earnings from continuing operations before income taxes was $25.8 million and $72.8 million for the 13 and 39 weeks ended September 25, 2016 compared to $19.9 million and $44.9 million in 2015, respectively, representing increases of $5.9 million or 29.6% for the quarter and $27.9 million or 62.1% year to date. The increases were mainly attributed to improved restaurant performance resulting in increased contribution from corporate and franchised restaurants, the addition of corporate restaurants, the addition of New York Fries and St-Hubert, and reduced interest expense related to the reduction of debt for the first 8 months of 2016 before the completion of the St-Hubert transaction.

- System Sales grew $61.5 million to $500.1 million for the 13 weeks ended September 25, 2016 as compared to 2015, representing an increase of 14.0%. Year to date, System Sales grew $96.0 million to $1,400.6 million for the 39 weeks ended September 25, 2016 compared to the same period in 2015, representing an increase of 7.4%. The increase in System Sales is primarily related to the addition of New York Fries in November 2015 and St-Hubert in September 2016.

- Same Restaurant Sales ("SRS") Growth for the third quarter was a decrease of 2.3% compared to the same 13 weeks in 2015. Year to date, SRS was a decrease of 1.2% for the 39 weeks ended September 25, 2016 compared the same period in 2015. SRS for the third quarter continues to be impacted by challenges in the western provinces, and uneven performance in certain restaurant banners. While this result still has Cara ahead of 2014 levels, we have increased our focus and resources to improve upon the 2016 results.

Management continues to focus on both short-term and long-term strategies to improve SRS through restaurant renovations, greater emphasis on menu innovation, enhanced guest experiences, and expanded e-commerce sales through new or improved off-premise applications for most brands over the next 2 years. In addition, we will add several digital marketing initiatives that are expected to launch in 2017 to reach new customer segments and to increase the frequency of existing ones. In order to accelerate these e-commerce and digital marketing initiatives we will be increasing our investment in technology resources and in the third quarter we have hired a Chief Technology Officer and additional resources dedicated to e-commerce and digital development and data analytics.

	For the 13 weeks ended		For the 39 weeks ended	
($ millions unless otherwise stated)[1]	**September 25, 2016**	**September 27, 2015**	**September 25, 2016**	**September 27, 2015**
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
Total System Sales from continuing operations	$500.1	$438.7	$1,400.6	$1,304.6
Total System Sales Growth[2]	14.0%	2.6%	7.4%	4.0%
SRS Growth[3]	(2.3%)	1.9%	(1.2%)	2.7%
Number of restaurants[2] (at period end)	1127	828	1127	828

Corporate restaurant sales	$74.7	$63.4	$206.4	$177.2
Number of corporate restaurants	136	96	136	96
Contribution from Corporate segment	$9.1	$7.5	$23.1	$18.9
Contribution as a % of corporate sales	12.1%	11.9%	11.2%	10.7%
Franchise restaurant sales	$407.7	$375.2	$1,176.6	$1,127.5
Number of franchised restaurants	991	732	991	732
Contribution from Franchise segment	$16.0	$14.6	$47.1	$44.3
Contribution as a % of Franchise sales	3.9%	3.9%	4.0%	3.9%
Contribution from Food Processing and Distribution	$2.7	$ -	$2.7	$ -
Contribution from Central segment	$11.8	$6.7	$27.1	$19.0
Contribution as a % of Total System Sales	2.4%	1.5%	1.9%	1.5%
Total gross revenue from continuing operations	$114.5	$85.7	$287.7	$242.3
Operating EBITDA	$36.9	$28.9	$97.3	$82.2
Operating EBITDA Margin	32.2%	33.7%	33.8%	33.9%
Operating EBITDA Margin on Total System Sales	7.4%	6.6%	6.9%	6.3%
Net earnings from continuing operations	$14.9	$19.2	$47.3	$41.4
Adjusted net earnings from continuing operations before income taxes[4]	$25.8	$19.9	$72.8	$44.9
Adjusted net earnings from continuing operations[4]	$24.3	$20.2	$70.9	$43.7
Earnings per share from continuing operations attributable to common shareholders (in dollars)				
Basic EPS	$0.29	$0.39	$0.95	$1.09
Diluted EPS	$0.27	$0.36	$0.88	$0.89
Adjusted Basic EPS[4]	$0.47	$0.41	$1.42	$1.15
Adjusted Diluted EPS[4]	$0.43	$0.38	$1.32	$0.94

(1) See "Non-IFRS Measures" for definitions of System Sales, SRS Growth, Operating EBITDA, Operating EBITDA Margin & Operating EBITDA Margin on System Sales
(2) Results from East Side Mario restaurants in the United States are excluded in System Sales totals and number of restaurants
(3) Results from New York Fries located outside of Canada, East Side Mario restaurants in the United States and all Casey's restaurants areexcluded from SRS Growth
(4) Adjusted Earnings and Adjusted EPS excludes the impact related to non-cash deferred income tax expense, non-cash impairment charges, non-cash amortization of inventory fair value increases resulting from the St-Hubert purchase, and one-time transaction costs. See "Non-IFRS Measures" on page 27 of the Company's MD&A for definitions of Adjusted Earnings Before Income Tax, Adjusted Net Earnings, Adjusted Basic EPS and Adjusted Diluted EPS.

The Company's unaudited interim consolidated financial statements for the 13 and 39 weeks ended September 25, 2016 and Management's Discussion and Analysis are available under the Company's profile on SEDAR at www.sedar.com.

Outlook

Management believes the Net Earnings and Operating EBITDA improvements achieved during the 13 and 39 weeks ended September 25, 2016 are significant. With Operating EBITDA growth in all 4 segments and the third quarter being the second consecutive quarter achieving Operating EBITDA within our long term range of 7% to 8% of System Sales, we continue to increase the efficiency of our sales dollars. Despite year to date progress in this efficiency factor and improved SRS compared to 2014, management is unsatisfied with the 2016 SRS declines and remains cautious on the Canadian economy and its potential impact on restaurant sales stemming from the continued challenges in western Canada. With respect to 2016, Management provides the following comments regarding its strategies and initiatives:

- *System Sales and SRS Growth* — While Management is satisfied with total System Sales growth of 7.4% year to date, the SRS decline of 1.2% year to date fell below Management's expectations. SRS in the third quarter continues to be impacted by challenges in the western provinces, and uneven performance in certain restaurant banners. As Cara is a multi-branded company, not all brands will have strong results at the same time which can result in overall variable sales and SRS results. While this result still has Cara ahead of 2014 levels, we have increased our focus and resources to improve upon the 2016 results. Management continues to focus on both short-term and long-term strategies to improve SRS through restaurant renovations, greater emphasis on menu innovation, enhanced guest experiences, and expanded e-commerce sales through new and improved off-premise applications for most brands over the next 2 years. In addition, in the third quarter we added several digital marketing initiatives that are expected to launch in 2017 to reach new customer segments and to increase the frequency of existing ones. In order to accelerate these e-commerce and digital marketing initiatives we increased our investment in technology resources and in the third quarter we hired a Chief Technology Officer and additional resources dedicated to e-commerce and digital development and data analytics.

- *Restaurant Count* — During the 39 weeks ended September 25, 2016, the Company completed 24 new openings and closed 17 restaurants for a net increase of 7 restaurants. 12 Casey's restaurants were also closed during the first three quarters of 2016 as part of the wind down strategy. Management is targeting to open a minimum of 30 net new restaurants in 2016 before the impact of Casey's closures and any acquisitions. Management is also pursuing the sale of certain corporate restaurants in its franchise banners to franchisees to continue to improve the corporate-franchise portfolio mix.

- *Corporate restaurant profitability* — Management is pleased with the increase in corporate restaurant profitability from 11.9% to 12.1% as a percent of corporate sales in the third quarter and from 10.7% to 11.2% year to date. The improvement of 0.2 and 0.5 percentage points for the quarter and year to date, respectively, is primarily related to strong Landing and Bier Markt restaurant contribution and the reduction in food and labour costs across the corporate store portfolio.

- *Franchise segment —*Franchise contribution as a percentage of franchise sales improved to 4.0% during the 39 weeks ended September 25, 2016 from 3.9% in 2015 reflecting improved franchise sales and profit performance resulting in less assistance provided to Cara's franchise network. Cara reduced the number of restaurants receiving assistance by 15 restaurants to 157 restaurants from a total of 172 restaurants at December 27, 2015. The continued sales challenges experienced in the western provinces may require the Company to provide financial assistance to certain franchised locations which will result in slower improvements in franchise contribution rate over the short term. In 2016 and beyond, we expect to increase the franchise contribution rate by (1) adding new franchisees at the full 5% standard royalty rate and (2) by continuing to reduce the number of franchisees on assistance over the long term.

- *Food processing and distribution segment* — During the third quarter of 2016, contribution margin from the food processing and distribution segment was $2.7 million, representing a contribution margin rate of 15.2% on food processing and distribution sales. Sales from this segment will typically be higher in the month of September and in the fourth quarter which will result in a higher contribution margin during the third and fourth quarters. Contribution as a percentage of sales from this segment is expected to be higher than Cara's overall 7%-8% target, however, there is also a higher capital requirement associated with this business segment. Overall, the higher Operating EBITDA contribution margin from the food processing and distribution segment should help bring Cara closer to the higher end of its long term target range of 7%-8% Operating EBITDA as a % of System Sales.

- *Central segment* — Going forward, central contribution will continue to improve on our model for growing sales faster than head office expenses, and by expanding our off premise business.

- *Total Operating EBITDA* — The combined contributions from Corporate, Franchise, Food and Distribution, and Central segments resulted in Total Operating EBITDA margin of 7.4% as a percentage of total System Sales for the for the quarter compared to 6.6% in 2015, representing the second consecutive quarter the Company has reached its long-term Operating EBITDA Margin target of between 7% and 8% of System Sales.   Year to date, Operating EBITDA margin was 6.9% compared to 6.3% in 2015. The Company will continue to work on all three segments to achieve its long-term targets to increase both segmented EBITDA Contribution and Total Operating EBITDA in relation to Total System Sales.

- *Growth and acquisitions* — Following the closing of the Original Joe's acquisition and the related increased borrowings to fund the purchase, the Company expects to have a debt to EBITDA ratio of approximately 2.4x. Management is comfortable that at these debt levels and will use the Company's cash flow from operations to support growth and to reduce debt.

Non-IFRS Measures

These measures are not recognized measures under IFRS, do not have a standardized meaning prescribed by IFRS and are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement those IFRS measures by providing further understanding of the Company's results of operations from management's perspective. Accordingly, they should not be considered in isolation nor as a substitute for analysis of the Company's financial information reported under IFRS. The Company uses non IFRS measures including "System Sales", "SRS Growth", "Operating EBITDA", "Operating EBITDA Margin", "Operating EBITDA Margin on System Sales", "Adjusted Earnings before income tax", "Adjusted Earnings", "Adjusted Basic EPS", and "Adjusted Diluted EPS", to provide investors with supplemental measures of its operating performance and thus highlight trends in its core business that may not otherwise be apparent when relying solely on IFRS financial measures. The Company also believes that securities analysts, investors and other interested parties frequently use non IFRS measures in the evaluation of issuers. The Company's management also uses non IFRS measures in order to facilitate operating performance comparisons from period to period, to prepare annual operating budgets, and to determine components of management compensation.

"System Sales" represents top-line sales received from its food processing and distribution division, and sales from restaurant guests at both corporate and franchise restaurants including take-out and delivery customer orders. System Sales includes sales from both established restaurants as well as new restaurants. Management believes System Sales provides meaningful information to investors regarding the size of Cara's restaurant network, the total market share of the Company's brands and the overall financial performance of its brands and restaurant owner base, which ultimately impacts Cara's consolidated financial performance.

"System Sales Growth" is a metric used in the restaurant industry to compare System Sales over a certain period of time, such as a fiscal quarter, for the current period against System Sales in the same period in the previous year.

"SRS Growth" is a metric used in the restaurant industry to compare sales earned in established locations over a certain period of time, such as a fiscal quarter, for the current period against sales in the same period in the previous year. SRS Growth helps explain what portion of sales growth can be attributed to growth in established locations and what portion can be attributed to the opening of net new restaurants. Cara defines SRS Growth as the percentage increase or decrease in sales during a period of restaurants open for at least 24 complete fiscal months relative to the sales of those restaurants during the same period in the prior year. Cara's SRS Growth results exclude Casey's restaurants as the Company is in the process of winding down its operations and will either convert certain locations to other Cara brands or close. SRS Growth also excludes sales from international operations from 45 New York Fries and 3 East Side Mario's. For the first quarter of 2016, SRS excludes the timing impact resulting from Easter weekend occurring in the last week of the first quarter of 2016 as compared to being in the first week of the third quarter in 2015. To provide comparable quarter over quarter results, SRS for the first quarter was comprised of 12 weeks compared to the same 12 weeks in 2015 and the third quarter SRS compares 14 weeks in 2016 to the same 14 weeks in 2015 to include the impact of Easter weekend.

"EBITDA" is defined as net earnings (loss) from continuing operations before: (i) net interest expense and other financing charges; (ii) loss (gain) on derivative; (iii) write-off of financing fees; (iv) income taxes; (v) depreciation of property, plant and equipment; (vi) amortization of other assets; (vii) impairment of assets, net of reversals; (viii) expense impact from fair value inventory adjustment resulting from the St-Hubert purchase relating to inventory sold during the period; and (ix) transaction costs.

"Operating EBITDA" is defined as net earnings (loss) from continuing operations before: (i) net interest expense and other financing charges; (ii) gain (loss) on derivative; (iii) write-off of financing fees; (iv) income taxes; (v) depreciation of property, plant and equipment; (vi) amortization of other assets; (vii) impairment of assets, net of reversals; (viii) losses on early buyout / cancellation of equipment rental contracts; (ix) restructuring; * conversion fees; (xi) net (gain) / loss on disposal of property, plant and equipment; (xii) stock based compensation; (xiii) change in onerous contract provision; (xiv) lease costs and tenant inducement amortization; (xv) expense impact from fair value inventory adjustment resulting from the St-Hubert purchase relating to inventory sold during the period; and (xvi) transaction costs.

"Operating EBITDA Margin" is defined as Operating EBITDA divided by total gross revenue from continuing operations.

"Operating EBITDA Margin on System Sales" is defined as Operating EBITDA divided by System Sales.

"Adjusted Earnings before income taxes" is defined as earnings plus (i) non-cash amortization of inventory fair value increases related to inventory sold during the period resulting from the St-Hubert purchase determined at acquisition date; (ii) one-time transaction costs; and (iii) non-cash impairment charges.

"Adjusted Net Earnings is defined as net earnings plus (i) deferred income tax expense (reversal); (ii) non-cash amortization of inventory fair value increases related to inventory sold during the period resulting from the St-Hubert purchase determined at acquisition date; (iii) one-time transaction costs; and (iv) non-cash impairment charges.

"Adjusted Basic EPS" is defined as Adjusted Net Earnings divided by the weighted average number of shares outstanding.

"Adjusted Diluted EPS" is defined as Adjusted Net Earnings divided by the weighted average number of shares outstanding plus the dilutive effect of stock options and warrants issued.

Forward-Looking Information

Certain statements in this press release may constitute "forward-looking" statements within the meaning of applicable Canadian securities legislation which involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company or the industry in which they operate, to be materially different from any future results, performance or achievements expressed or implied by such forward looking statements. When used in this press release, such statements use words such as "may", "will", "expect", "believe", "plan" and other similar terminology. These statements reflect management's current expectations regarding future events and operating performance and speak only as of the date of this new release. These forward-looking statements involve a number of risks and uncertainties, including those related to: (a) the Company's ability to maintain profitability and manage its growth including SRS Growth, System Sales Growth, increases in net income, Operating EBITDA and Operating EBITDA Margin on System Sales (b) competition in the industry in which the Company operates; (c) the general state of the economy; (d) integration of acquisitions by the Company; (e) risk of future legal proceedings against the Company. These risk factors and others are discussed in detail under the heading "Risk Factors" in the Company's Annual Information Form dated March 3, 2016. New risk factors may arise from time to time and it is not possible for management of the Company to predict all of those risk factors or the extent to which any factor or combination of factors may cause actual results, performance or achievements of the Company to be materially different from those contained in forward-looking statements. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. Although the forward-looking statements contained in this press release are based upon what management believes to be reasonable assumptions, the Company cannot assure investors that actual results will be consistent with these forward-looking statements. These forward-looking statements are made as of the date of this press release.

Related Communications

Bill Gregson, Chief Executive Officer and Ken Grondin, Chief Financial Officer, will hold an investor conference call to discuss 2016 third quarter results at 9:00 am Eastern Time on Thursday, November 10, 2016.

To access the call, please call (647) 427-7450 or 1-888-231-8191, five to ten minutes prior to the start time. Conference ID 94352753. A telephone replay of the call will be available until midnight on December 10, 2016. To access the replay, please dial (416) 849-0833 or 1-855-859-2056 and enter passcode 94352753.

About CARA

Founded in 1883, Cara is Canada's oldest and largest full-service restaurant company. The Company franchises and/or operates some of the most recognized brands in the country including Swiss Chalet, Harvey's, St-Hubert, Milestones, Montana's, Kelsey's, East Side Mario's, Casey's, New York Fries, Prime Pubs, Bier Markt and Landing restaurants. As at September 25, 2016, Cara had 1,127 restaurants, 1,080 of which were located in Canada and the remaining 47 locations were located internationally. 88% of Cara's restaurants are operated by franchisees and 59% of Cara's locations are based in Ontario. Cara's shares trade on the Toronto Stock Exchange under the ticker symbol CARA. More information about the Company is available at www.cara.com.

SOURCE Cara Operations Limited

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