Cara Operations Unlimited

Cara Reports Q1 2018 Results Led by Solid Same Store Sales Growth

VAUGHAN, ON, May 10, 2018 /CNW/ - Today, Cara Operations Limited announced results for the first quarter ending April 1, 2018.

We are pleased to report positive same restaurant sales growth of 2.1% in the first quarter of 2018, our third consecutive quarter of positive SRS results. We are encouraged by this trend, especially with the negative impact that Easter had on SRS in the first quarter. In the first quarter, total System Sales grew $96.8 million, or 14.7% to $755.9 million and Operating EBITDA increased 10.5% to $47.4 million.

With the merger of the Keg, we are on track to deliver on our long-term strategic objectives. Pro forma The Keg merger and a full year of Keg results, total System Sales will increase to approximately $3.4 billion, compared to our 2020-2022 target range of $2.9 billion to $3.7 billion and Operating EBITDA will increase to approximately $211.0 million, also within Cara's long-term target range of $203.0 million to $296.0 million. However, while The Keg will add EBITDA dollars, royalty payments to the Keg Royalty Income Fund will reduce EBITDA Margin on System Sales below the long-term target 7% to 8% range. As a result, in the first quarter of 2018, Operating EBITDA Margin on System Sales decreased to 6.3% compared to 6.5% in the same quarter last year. Operating EBITDA Margin on System Sales before the royalty paid to the Keg Royalty Income Fund was 6.5%, comparable with 2017. Our focus remains on improving the earnings efficiency of our assets and our increased sales base to grow Operating EBITDA as a percentage of System Sales back to within our 7% to 8% target range by 2020-2022.

"Cara has undergone transformational growth since 2013. As Cara heads into its next generation of growth, the company's name will be changing to recognize and better reflect what the Company has become since Fairfax invested in the Company in 2013, including: the Company's IPO in 2015, the acquisition of St-Hubert, Original Joe's, and New York Fries; and the recent merger with The Keg. The Company will be changing its name to Recipe Unlimited Corporation and will be traded under the new stock symbol "RECP". The name Recipe was selected for both its connection to the many ways we proudly serve food and to signify the broader possibilities of what can and will be created through our processes and methodologies that reflect our values and the strength of our brands, franchisees, associates and our company. In other words, our *Recipe,*" commented Bill Gregson, Chief Executive Officer.

"To help guide us through our next generation of growth, today Frank Hennessey joins Cara as Chief Executive Officer as I transition my duties and take on the role of Executive Chairman of the Board. Frank brings 31 years of invaluable restaurant, food manufacturing and grocery retail experience to Cara and is the ideal candidate for the job. Having Frank on board strengthens our team and he will provide great leadership. I am excited about what lies ahead with this change as it allows me to reduce my time commitment while at the same time ensuring continuity to the growth model we started in October 2013. Since the end of 2013 and pro forma the Keg, System Sales have increased from $1.4 billion to $3.4 billion, EBITDA has increased from $47.9 million to $211.0 million, Net Income Before Tax increased from a loss of $42.0 million in 2013 to a profit of $123 million in 2017 and Debt has been reduced from approximately 8.8x EBITDA to 2.1x, " added Mr. Gregson.

Subject to shareholder approval on May 11th, Cara will be adding two new Board members: David Aisenstat, President and CEO of The Keg and the Honourable Christy Clark, former Premier of the province of British Columbia.

Highlights for the 13 weeks ended April 1, 2018:

- System Sales grew $96.8 million to $755.9 million for the 13 weeks ended April 1, 2018 as compared to 2017, representing an increase of 14.7%. The increase in System Sales is primarily related same restaurant sales increases, the additions of Burger's Priest in June 2017, Pickle Barrel in December 2017, and The Keg in February 2018, partially offset by the first quarter calendar shift where the sales period from December 26, 2016 to January 1, 2017 were included in Q1 2017 but the same holiday week, typically a higher sales week, is not in our fiscal 2018 first quarter which started on January 1, 2018.

- Same Restaurant Sales ("SRS") Growth for the quarter was 2.1% compared to the same 13 weeks in 2017. Management is pleased with 2.1%, despite SRS being negatively impacted by the first quarter including Easter weekend (March 29 to 31, 2018), a low sales period, as compared to 2017 when Easter was included in Q2.

- Operating EBITDA increased to $47.4 million for the 13 weeks ended April 1, 2018 compared to $42.9 million in 2017, an improvement of $4.5 million or 10.5% for the quarter. The increases have been driven by the addition of The Keg, partially offset by The Keg royalty expense paid to the Keg Royalty Income

Fund, and the first quarter calendar shift compared to 2017 where Q1 2018 did not include higher sales from the December 25 to December 31 holiday week, and the shift in Easter negatively impacting System Sales and related corporate and franchise contribution.

- Operating EBITDA Margin on System Sales decreased to 6.3% for the first quarter compared to 6.5% in the same quarter in 2017. The decrease is related to The Keg royalty payment. Operating EBITDA Margin on System Sales before The Keg royalty was 6.5%, comparable with 2017. While The Keg will add EBITDA dollars, because of royalty payments to the Keg Royalty Income Fund, The Keg merger will reduce Cara's Operating EBITDA Margin on System Sales below the target 7% to 8% range. Management's focus will continue to be on improving the earnings efficiency of our assets and our increased sales base to grow Operating EBITDA as a percentage of System Sales back to within our 7% to 8% target range by 2020-2022.

- Earnings before change in fair value and income taxes was $27.1 million for the 13 weeks ended April 1, 2018 compared to $27.5 million in 2017, a decrease of $0.4 million or 1.5% for the quarter. The decrease was primarily related to lower contribution from the St-Hubert food processing and distribution as a result of a change in sales mix at lower gross margins compared to 2017 due to inventory shortages after record sales in December 2017, one-time listing fees with grocery providers for new products added for sale, transaction fees of $0.5 million related to The Keg merger, and the first quarter calendar shift compared to 2017 where Q1 2018 did not include higher sales from the December 25 to December 31 holiday week, and the shift in Easter negatively impacting System Sales and related corporate and franchise contribution.

- On February 22, 2018, the Company completed the merger with Keg Restaurants Ltd. ("The Keg") for approximately $200.0 million comprised of $105.0 million in cash and 3,801,284 Cara subordinate voting shares at the exchange amount. In addition, Cara may be required to pay up to an additional $30.0 million of cash consideration upon the achievement of certain financial milestones within the first three fiscal years following closing.

- On May 10, 2018, the Company's Board of Directors declared a dividend of $0.1068 per share of subordinate and multiple voting common stock. Payment of the dividend will be made on June 15, 2018 to shareholders of record at the close of business on May 31, 2018. With the Company's strong balance sheet and growing cash flows, management will continue to pursue strategic acquisitions and will explore alternatives to return more capital to its shareholders including continuation of its NCIB and increases to the Company's dividend rate.

($ millions unless otherwise stated)[1]	**13 weeks April 1, 2018**	**13 weeks March 26, 2017**
	(unaudited)	(unaudited)
Total System Sales from continuing operations	$755.9	$659.1
Total System Sales Growth[2]	14.7%	46.4%
SRS Growth[3]	2.1%	(0.6%)
Number of restaurants[2] (at period end)	1,382	1,238
Corporate restaurant sales	$146.1	$98.7
Number of corporate and joint venture restaurants	268	204
Contribution from Corporate segment	$13.1	$8.0
Contribution as a % of corporate sales	9.0%	8.1%
Franchise restaurant sales	$543.1	$500.8
Number of franchised restaurants	1,114	1,034
Contribution from Franchise segment	$22.4	$20.4
Contribution as a % of Franchise sales	4.1%	4.1%
Contribution from Food Processing and Distribution	$2.9	$4.7
Contribution from Central segment	$11.9	$14.5
Contribution as a % of Total System Sales	1.6%	2.2%
Total gross revenue.	$246.5	$198.6
Operating EBITDA before Keg royalty	$48.8	$42.9
Operating EBITDA Margin on Total System Sales before Keg royalty	6.5%	6.5%
Operating EBITDA	$47.4	$42.9

Operating EBITDA Margin on Total System Sales .	6.3%	6.5%
Operating EBITDA Margin	19.2%	21.6%
Earnings before income taxes	$29.3	$27.5
Net earnings	$21.5	$43.8
Adjusted net earnings[4]	$25.9	$25.8
Earnings per share from continuing operations attributable to common shareholders (in dollars)		
Basic EPS	$0.36	$0.73
Diluted EPS	$0.35	$0.71
Adjusted Basic EPS[5]	$0.43	$0.43
Adjusted Diluted EPS[5]	$0.41	$0.41

(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.
(3) Results from New York Fries located outside of Canada, East Side Mario restaurants in the United States, Casey's restaurants are excluded from SRS Growth.
(4) "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) change in fair value of Exchangeable Partnership units; (iv) one-time transaction costs; (v) non-cash impairment charges; and (vi) restructuring and other.
(5) "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.

The Company's unaudited interim consolidated financial statements for the 13 weeks ended April 1, 2018 and Management's Discussion and Analysis are available under the Company's profile on SEDAR at www.sedar.com.

Outlook

Management is pleased with the first quarter results especially considering the calendar shift compared to Q1 2017. Management will continue to pursue synergies to deliver profitable growth. In the first quarter, Total Systems Sales grew $96.8 million or 14.7% to $755.9 million, Operating EBITDA before the net royalty expense increased 13.8% to $48.8 million with a contribution margin of 6.5% as a percentage of Total System Sales, and Adjusted Net Earnings increased to $25.9 million. Management provides the following comments regarding its strategies and initiatives:

With the full year impact of the Keg merger, the Company will add approximately $612.0 million in System Sales, taking the Company to approximately $3.4 billion in 2018 compared to the initial 2015 IPO target range for 2020-2022 of $2.5 billion to $3.0 billion, and the updated target range provided in 2016 after the St. Hubert acquisition of $2.9 billion to $3.7 billion. For a full year, on a pro forma basis using prior year results, The Keg merger will add approximately $23.5 million of Operating EBITDA resulting in combined pro forma Operating EBITDA of approximately $211.0 million, also within Cara's updated target EBITDA range of $203.0 million to $296.0 million (based on 7% to 8% of System Sales). However, while the Keg will add EBITDA dollars, because of royalty payments to the Keg Royalty Income Fund, the Keg merger will reduce Cara's Operating EBITDA Margin on System Sales below the target 7% to 8% range. Management's focus will continue to be on improving the earnings efficiency of our assets and our increased sales base to grow Operating EBITDA as a percentage of System Sales back to within our 7% to 8% target range by 2020-2022.

Management provides the following comments regarding its strategies and initiatives:

- *System Sales and SRS Growth* — Management is pleased with total System Sales growth of 14.7% for the quarter and with SRS of 2.1% for the quarter. Management continues to focus on our goal of long-term sustainable SRS growth with both short-term and long-term strategies to improve SRS through restaurant renovations, greater emphasis on menu innovation, enhanced guest experiences, expanded off-premise sales through new and improved e-commerce applications that will be expanded to most brands over the next 2 years, and operational excellence initiatives including using technology to improve timeliness and transparency of data and brand specific digital-social media marketing.

- *Total Operating EBITDA* — The combined contributions from Corporate, Franchise, Food Processing and Distribution, and Central segments resulted in Total Operating EBITDA Margin before the net royalty to the Keg Royalties Income Fund of 6.5% as a percentage of Total System Sales for the quarter compared to 6.5% in 2017. Operating EBITDA after the net royalty was 6.3% for the first quarter. While The Keg will add EBITDA dollars, because of royalty payments to the Keg Royalty Income Fund, The Keg merger will reduce Cara's Operating EBITDA Margin on System Sales below the target 7% to 8% range. Management's focus will continue to be on improving the earnings efficiency of our assets and our increased sales base to grow Operating EBITDA as a percentage of System Sales back to within our 7% to 8% target range by 2020-2022.

- *Corporate restaurant profitability* — Corporate restaurant profitability was 9.0% for the quarter compared to 8.1% in 2017. The improvement during the quarter was mostly from improvements in Original Joe's corporate and joint venture restaurants that currently operate below the 10% target contribution level and the addition of The Keg which operates within our target range. Management believes there is significant opportunity for improved contribution in the future from Original Joe's and Pickle Barrel as Management realizes operating synergies from lower food and beverage costs and better labour management tools. Contribution will also improve as renovated restaurants re-open at higher sales levels, as the western provinces and Newfoundland recover from the economic slowdown and from the sale of certain corporate restaurants in franchise banners.

  Management will continue to pursue the sale of certain corporate restaurants in its franchise banners to franchisees and will pursue the sale of its share in joint venture locations to the Company's joint venture partners to convert joint venture locations to franchise to improve the corporate-franchise portfolio mix. During the 13 weeks ended April 1, 2018, 1 corporate restaurant was sold and re-franchised.

- *Franchise segment* —Franchise contribution as a percentage of franchise sales remain steady at 4.1% in the first quarter of 2018 compared to 4.1% in 2017.

- *Food processing and distribution* — Contribution dollars from food processing and distribution was $2.9 million for the 13 weeks ended April 1, 2018, compared to $4.7 million in 2017. The decrease in the quarter relates to a change in sales mix at lower gross margins compared to 2017 due to inventory shortages after record sales in December 2017, and one-time listing fees with grocery providers for new products added for sale. Management expects to have a new pie production line added in the third quarter which will increase capacity and enable the Company to meet the increased demand for its St-Hubert and Swiss Chalet frozen pie products with less reliance on higher cost third party producers.

- *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.

- *Restaurant Count* —In the first quarter of 2018 before acquisitions, the Company opened 17 new restaurant locations as compared to 13 in 2017. Year to date the Company closed 13 restaurants (excluding Casey's closures) compared to 12 closures in 2017. Included in the closures were underperforming locations where the closure will benefit the overall system performance and the Company's profitability going forward. Closures also included locations that no longer fit the long term strategy of certain brands. Management will continue to review its portfolio of restaurants and will opportunistically close underperforming or non-strategic locations that will benefit the Company long term.

- *The Keg merger initiatives* – Management is focused on realizing synergy opportunities from The Keg merger to improve our combined earnings and earnings efficiency. Management is also excited to add the influence of David Aisenstat to the Milestones, Bier Markt and Landing premium brands.

- *Retail opportunities* – Since the acquisition of St-Hubert in 2017, the Company has successfully launched a number of products, including Swiss Chalet ribs and pot pies, across the country in grocery chains. Management is pursuing the launch of several more Cara branded retail products to expand its retail presence in national grocery chains.

- *Growth and acquisitions* —The Company currently has a debt to EBITDA ratio of approximately 2.1x. At this debt level, and with strong cash flow from operations, the Company has the ability to consider more growth opportunities while continuing to reduce its debt, and by opportunistically repurchasing its subordinate voting shares for cancellation under the NCIB. To supplement cash flow and debt repayment (and our ability to grow), the Company is also planning less capital expenditures in 2018 as we build fewer new corporate restaurants and as we reduce the number of corporate restaurants in franchise banners by selling restaurants to franchisees. However, there will be additional capital expenditures in 2018 compared to 2017 to support the capital expenditures for the Keg brand.

- *Name change* – To recognize and better reflect what the Company has become since Fairfax invested in the Company in 2013, including: the Company's IPO in 2015, the acquisition of St-Hubert, Original Joe's, and New York Fries; and the recent merger with The Keg; the Company will be changing its name to Recipe Unlimited Corporation and will be traded under the new stock symbol "RECP". The name Recipe was selected for both it's connection to the many ways we proudly serve food and to signify the broader possibilities of what can and will be created through our processes and methodologies that reflect our values and the strength of our brands, franchisees, associates and our company. In other words, our "Recipe".

The foregoing description of Cara's outlook is based on management's current strategies and its assessment of the outlook for the business and the Canadian Restaurant Industry as a whole, may be considered to be forward-looking information for purposes of applicable Canadian securities legislation. Readers are cautioned that actual results may vary. See "Forward-Looking Information" and "Risk & Uncertainties" in the Company's MD&A for a description of the risks and uncertainties that impact the Company's business and that could cause actual results to vary.

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 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. System sales also includes sales received from its food processing and distribution division. 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 sold in restaurant and grocery 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 excludes Casey's restaurants as the Company is in the process of winding down its operations; and sales from international operations from 44 New York Fries and 3 US East Side Mario's.

"EBITDA" is defined as net earnings (loss) before: (i) net interest expense and other financing charges; (ii) income taxes; (iii) depreciation of property, plant and equipment; (iv) amortization of other assets.

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

(xv) the Company's proportionate share of equity accounted investment in associates and joint ventures; and (xvi) interest income from the Partnership units.

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

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

"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) change in fair value of Exchangeable Partnership units; (iv) one-time transaction costs; (v) non-cash impairment charges; and (vi) restructuring and other.

"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 news 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, and Adjusted net earnings (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 29, 2018. 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 2018 first quarter results at 9:00 am Eastern Time on Friday May 11, 2018.

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 6892768. A telephone replay of the call will be available until midnight on June 8, 2018. To access the replay, please dial (416) 849-0833 or 1-855-859-2056 and enter passcode 6892768.

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, New York Fries, Prime Pubs, Bier Markt, Landing, Original Joe's, State & Main, Elephant & Castle, Burger's Priest, Pickle Barrel, Taverne Moderne and The Keg. Cara's iconic brands have established Cara as a nationally recognized franchisor of choice. As at April 1, 2018, Cara had 1382 restaurants, 1,321 of which were located in Canada and the remaining 61 locations were located internationally. 85% of Cara's restaurants are operated by franchisees and joint venture partners. Cara's shares trade on the Toronto Stock Exchange under the ticker symbol CARA.TO. More information about the Company is available at www.cara.com.

SOURCE Cara Operations Limited

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