



## Acquisition of Original Joe's Franchise Group Inc. by Cara



# Disclaimers

This presentation contains “forward-looking information” within the meaning of applicable securities laws. In some cases, forward-looking information can be identified by the use of forward-looking terminology such as “plans”, “targets”, “expects”, “estimates”, “intends”, “anticipates”, “believes”, or variations of such words and phrases or state that certain actions, events or results “may”, “could”, “would”, “might”, “will” or “achieve”. These forward-looking statements include, among other things, statements relating to:

- the timing and completion of the proposed transaction;
- the completion of the St-Hubert acquisition;
- timing and value of expected synergies;
- growth prospects;
- the purchase price multiple and accretion;
- future business strategy; and
- expectations regarding operations.

Forward-looking information is necessarily based on a number of assumptions and estimates that, while considered reasonable by the Company as of the date such statements are made, are subject to known and unknown risks, uncertainties, assumptions and other factors that may cause the actual results to be materially different from those expressed or implied by such forward-looking information. With respect to the transaction, these assumptions and estimates include: completion of the transaction on terms set out in the subscription agreement and in a manner consistent with management’s expectations; the closing of the St-Hubert acquisition; the accuracy of management’s assessment of the effects of the transaction, including the ability to generate synergies consistent with management’s expectations; and the ongoing performance of the businesses of Cara, Original Joe’s and St-Hubert. With respect to other forward-looking information, these factors and assumptions include: potential volatility of Subordinate Voting Share price; payment of dividends; financial reporting and other public company requirements; forward-looking information; significant ownership by the Principal Shareholders; dilution; limited voting rights of the Subordinate Voting Shares; quarterly operating results may fluctuate; securities analysts’ research or reports could impact price of Subordinate Voting Shares; the restaurant industry; competition with other franchisors; quality control and health concerns; security breaches of confidential guest information; public safety issues; damage to the Company’s reputation; availability and quality of raw materials; reliance on suppliers; growth of the Company; franchisees; franchise fees and other revenue; franchisee relations; revenue reporting risks; opening new restaurants; potential inability to consummate acquisitions; integration of acquisitions and brand expansion; retail licensing opportunities; seasonality and weather; regulations governing alcoholic beverages; laws concerning employees; dependence on key personnel; attracting and retaining quality employees; unionization activities may disrupt the Company operations; reliance on information technology; intellectual property; lawsuits; regulation; and Company’s insurance may not provide adequate levels of coverage. These factors and assumptions are not intended to represent a complete list of the factors and assumptions that could affect the Company. These factors and assumptions, however, should be considered carefully.

# Disclaimers



Although the Company has attempted to identify important factors and assumptions that could cause actual results to differ materially from those contained in forward-looking information, there may be other factors and assumptions that cause results not to be as anticipated, estimated or intended. There can be no assurance that such information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, readers should not place undue reliance on forward-looking information. The Company does not undertake to update any forward-looking information contained herein, except as required by applicable securities laws.



# Non-IFRS Measures

This presentation makes reference to certain non-IFRS measures. These measures are not recognized measures under International Financial Reporting Standards (“IFRS”) and do not have a standardized meaning prescribed by IFRS. They are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement 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”, “EBITDA”, “Operating EBITDA”, “Operating EBITDA Margin”, “Operating EBITDA Margin on System Sales”, “Adjusted Net Earnings per Share”, “Normalized Operating EBITDA”, “Pro Forma System Sales”, “Pro Forma Operating EBITDA” and “Pro Forma Operating EBITDA Margin on System Sales” 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. See “Description of Non-IFRS 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.



# Original Joe's Acquisition Overview

- On August 31, 2016, Cara Operations Limited ("Cara" or the "Company") entered into definitive agreements with Original Joe's Franchise Group Inc. ("Original Joe's") and Diversified Royalty Corp (TSX: DIV) ("DIV" or "Diversified") to acquire a 89.2% ownership interest in Original Joe's for a purchase price of \$93.0 million
- The \$93.0 million purchase price is based on annual Normalized Operating EBITDA of \$14.7 million, representing a purchase price multiple of 7.1x
- Annual synergies of approximately \$2.0 million are expected within 24 months, resulting in a post-synergy purchase price multiple of 6.2x
- \$90.0 million of the \$93.0 million purchase price will be used by Original Joe's to re-acquire its trademarks and royalty rights from Diversified. This will result in the cancellation of top-line royalty payments to DIV (\$12.6 million in royalty payments were made to DIV during the twelve-month period ended June 30, 2016)
- Cara will fund its \$93.0 million investment by drawing on its credit facility
- Diversified will cancel all DIV common shares and related rights currently held by Original Joe's
- The transaction is targeted to close in late 2016



# Acquisition Rationale

- **Original Joe's increases Cara's presence in Western Canada**
  - Three proven and complimentary restaurant-pub concepts comprised of 66 Original Joe's, 23 State & Main and 10 Elephant & Castle restaurants (mostly in Western Canada and 7 restaurants in the U.S.)
  - With the acquisition of St-Hubert and Original Joe's, Cara has a much larger footprint and reach across Canada, including meaningful presence in most major Canadian markets
- **Synergy Potential**
  - Expected annual run-rate synergies of \$2 million after 24 months
- **Accretive to Adjusted Net Earnings per Share while Maintaining Strong Financial Flexibility**
  - Expected to be immediately accretive to Adjusted Net Earnings per Share
  - Pro Forma Net Debt / Operating EBITDA of 2.5x (Pro forma includes St-Hubert and Original Joe's)
- **Increases Cara's System Sales and Operating EBITDA**
  - Annual System Sales of \$251 million after all stores have been opened for 12 months
  - Normalized Operating EBITDA of approximately \$14.7 million before synergies; and,
  - With the addition of Original Joe's and after the acquisition of St-Hubert, Cara's annual System Sales are expected to be approximately \$2.7 billion
- **A proven management team with over 25 years of experience in the restaurant and hospitality sector**

# Financial Outlook

| (C\$ millions unless otherwise stated)   | Fiscal 2012    | Fiscal 2013    | Fiscal 2014    | Fiscal 2015    | Pro Forma St-Hubert <sup>(1)</sup> | Pro Forma Original Joe's | 4-6 Year Target          |
|--|----------------|----------------|----------------|----------------|------------------------------------|--------------------------|--------------------------|
| <b>Total System Sales</b>  | <b>\$1,310</b> | <b>\$1,372</b> | <b>\$1,692</b> | <b>\$1,766</b> | <b>\$2,471</b>                     | <b>\$2,722</b>           | <b>\$2,900 - \$3,700</b> |
| Total System Sales Growth %  | 0.1%           | 4.7%           | 23.3%          | 4.4%           | 39.9%                              | 10.2%                    |                          |
| <b>Number of restaurants (at year-end)</b>   | <b>709</b>     | <b>833</b>     | <b>837</b>     | <b>1,010</b>   | <b>1,127</b>                       | <b>1,226</b>             |                          |
| Net new restaurants vs. prior year   | +20            | +124           | +4             | +173           | +117                               | +99                      |                          |
| <b>Operating EBITDA</b>  | <b>\$47.4</b>  | <b>\$47.9</b>  | <b>\$83.6</b>  | <b>\$111.4</b> | <b>\$161.0</b>                     | <b>\$175.7</b>           | <b>\$203 - \$296</b>     |
| Op. EBITDA as a % of System Sales  | 3.6%           | 3.5%           | 4.9%           | 6.3%           | 6.5%                               | 6.5%                     | 7% - 8%                  |
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(1) Based on management estimates. Adjusted for full-year contribution of New York Fries and pro forma for the St-Hubert acquisition.

(2) Adjusted EPS excludes the impact related to the non-cash deferred tax asset recognition in respect of non-capital losses and other timing differences

(3) Net debt represents balance sheet debt and it includes preferred shares (fiscal 2013 and 2014) and non-cash finance lease charges, net of cash-on-hand

# Original Joe's Business Overview



Total

|   |                                    |                                    |                     |                                    |
|---|------------------------------------|------------------------------------|---------------------|------------------------------------|
| <b>Year Founded</b>                         | 1998                               | 2011                               | 1977                |                                    |
| <b>Purchased by Franworks</b>               | 2006<br>(acquired)                 | 2011<br>(founded)                  | 2012<br>(acquired)  |                                    |
| <b>Store Count</b>                          | 66                                 | 23                                 | 10                  | 99                                 |
| <b>Avg. Unit Sales</b>                      | \$2.4M                             | \$2.5M                             | \$3.3M              |                                    |
| <b>Corp., JV &amp; Franchised Store Mix</b> | 35% Corp.<br>41% JV &<br>24% Fran. | 48% Corp.<br>35% JV &<br>17% Fran. | 100% Corp.          | 44% Corp.<br>36% JV &<br>20% Fran. |
| <b>CDN vs. US Store Mix</b>                 | 100% CDN                           | 96% CDN<br>/ 4% US                 | 40% CDN<br>/ 60% US | 7 stores in US                     |



- Wholly owned design & general construction company
- 2005-2012 exclusively built OJ's and S&Ms (corp & fran)
- 2012 began taking on other retail and restaurant clients





# Improved Geographic Distribution

|                      |    |     |    |    |     |     |    |    |
|----------------------|----|-----|----|----|-----|-----|----|----|
| Cara Q2 2016:        | 6% | 10% | 2% | 1% | 66% | 6%  | 5% | 4% |
| With St-Hubert:      | 5% | 9%  | 2% | 1% | 59% | 15% | 5% | 4% |
| With Original Joe's: | 6% | 13% | 2% | 2% | 55% | 14% | 5% | 4% |

| British Columbia   | Alberta  | Saskatchewan   | Manitoba  | Ontario  | Quebec  | Atlantic   | International                   |
|--|--|--|---|--|---|--|---------------------------------|
| 18<br>17<br>16<br>10<br>9<br>1<br>1<br>1<br>1<br><b>Total 74</b> | 38<br>24<br>23<br>20<br>19<br>13<br>6<br>6<br>5<br>1<br><b>Total 155</b> | 7<br>7<br>5<br>2<br>2<br>1<br>1<br>1<br>1<br><b>Total 27</b> | 5<br>4<br>3<br>3<br>1<br>1<br>1<br>1<br><b>Total 19</b> | 184<br>164<br>65<br>60<br>58<br>51<br>30<br>27<br>5<br>7<br>6<br>6<br>5<br>2<br><b>Total 670</b> | 108<br>48<br>5<br>4<br>1<br>1<br><b>Total 167</b> | 18<br>10<br>7<br>7<br>7<br>3<br>1<br>1<br>1<br><b>Total 55</b> | 45<br>6<br>1<br><b>Total 52</b> |

## Population<sup>(1)</sup> per restaurant

(1) Population based on Statistics Canada as of December 31, 2015

|                        |        |        |         |        |
|------------------------|--------|--------|---------|--------|
| Pre St-Hubert & OJ's:  | 59,158 | 21,146 | 140,419 | 45,657 |
| Post St-Hubert & OJ's: | 41,303 | 20,672 | 49,609  | 43,167 |



# Description on Non-IFRS Measures

The Company's audited financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board and accounting policies adopted by the Company in accordance with IFRS.

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. These measures are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS. They are therefore unlikely to be comparable to similar measures presented by other companies. Rather, these measures are provided as additional information to complement IFRS measures by providing further understanding of the Company's results of operations from management's perspective. This presentation makes reference to certain non-IFRS measures including:

"System Sales" represents top line sales received 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. Pro forma System Sales for the acquisition of St-Hubert include third party sales from the food division which consist of sales to franchise restaurants, grocery, industrial and food service clients net of commercial expenses. Pro Forma System Sales for the acquisition of Original Joe's have been adjusted to reflect 12 months of sales for new stores that were opened for a partial year. 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.

"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; and (vii) impairment of assets, net of reversals.

"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; (x) conversion fees; (xi) net (gain) / loss on disposal of property, plant and equipment; (xii) stock based compensation; (xiii) change in onerous contract provision; and (xiv) lease costs and tenant inducement amortization.

"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.

# Description on Non-IFRS Measures

“Adjusted Net Earnings per Share” is defined as net earnings per share attributable to shareholders of the Company adjusted for the following: (i) gain (loss) on derivative; (ii) write-off of financing fees; (iii) impairment of assets, net of reversals; (iv) losses on early buyout / cancellation of equipment rental contracts; (v) restructuring; (vi) conversion fees; (vii) net (gain) / loss on disposal of property, plant and equipment; (viii) change in onerous contract provision; (ix) normalized interest expense, which adjusts for proceeds from the IPO and certain capital changes related to the IPO; and normalized income tax expense.

“Normalized Operating EBITDA” is defined as St-Hubert and/or Original Joe’s EBITDA adjusted for certain expenses not anticipated to be incurred post-acquisition, non-recurring expenses and annualized contribution for new restaurants opened for a partial year.

“Pro Forma System Sales” is defined as System Sales adjusted for full-year contribution of New York Fries and the acquisition of St-Hubert and Original Joe’s, as if the acquisitions had occurred on December 27, 2015.

“Pro Forma Operating EBITDA” is defined as Operating EBITDA adjusted for full-year contribution of New York Fries and the acquisition of St-Hubert and Original Joe’s, as if the acquisitions had occurred on December 27, 2015.

“Pro Forma Operating EBITDA Margin on System Sales” is defined as Pro Forma Operating EBITDA divided by Pro Forma System Sales.