

Cara Reports Q1 2017 Results and Continued Success in its Acquisition Strategy - Total System Sales grow 46.4%, Operating EBITDA increases 56.0% and Earnings Before Tax increases 36.8%

VAUGHAN, ON, May 4, 2017 /CNW/ - Cara Operations Limited, today announced results for the first quarter ending March 26, 2017.

"In the first quarter, we continued to deliver on the long-term strategic objectives we laid out at the time of our 2015 IPO. The execution of our acquisition and earnings efficiency strategies are helping to push us closer to our long-term targets and in the first quarter, helped deliver growth in total system sales, EBITDA, EBITDA margin and earnings before tax, compared to Q1 2016. In the first quarter, total systems sales grew \$208.9 million or 46.4% to \$659.1 million. Operating EBITDA increased 56.0% to \$42.9 million. With Operating EBITDA dollar growth in all three operating segments and improved Operating EBITDA Margin from 6.1% in 2016 to 6.5% in the first quarter of 2017, we continue to increase the earnings efficiency of our sales dollars. Earnings before tax also increased 36.8% to \$27.5 million. In the first quarter, Cara entered into the retail grocery space, which was also one of the growth strategies identified at IPO. Swiss Chalet ribs are now being sold in over 1,000 grocery locations across Canada. We are excited about this launch and future retail opportunities for our brands across the Maritimes, Ontario and Western Canada, driven by the St-Hubert Food Manufacturing and Distribution team," commented Bill Gregson, Chief Executive Officer.

"While we continue to move closer to achieving our long-term targets, SRS fell short of our expectations. We continue to work on the SRS improvement initiatives we previously identified including menu innovation, restaurant renovations, enhanced guest experiences, expanded e-commerce sales through improved off-premise applications and customer specific digital marketing initiatives."

Highlights for the 13 weeks ended March 26, 2017:

- Operating EBITDA increased to \$42.9 million for the 13 weeks ended March 26, 2017 compared to \$27.5 million in 2016, an improvement of \$15.4 million or 56.0% for the quarter. The increases have been driven by an increase in contribution dollars in all three of the Company's historical operating segments, being Corporate restaurants, Franchise restaurants and Central operations, and from the addition of St-Hubert in September 2016 and Original Joe's in November 2016.
- Operating EBITDA Margin on System Sales increased to 6.5% for the first quarter compared to 6.1% in the same quarter in 2016.
- Earnings before income taxes was \$27.5 million for the 13 weeks ended March 26, 2017 compared to \$20.1 million in 2016, an improvement of \$7.4 million or 36.8% for the quarter. The increase was mainly attributed to improved restaurant performance resulting in increased contribution dollars from corporate and franchised restaurants, and improved contribution from the central segment driven by the addition of St-Hubert's food processing and distribution and overall cost reductions, partially offset by increased interest expense.
- System Sales grew \$208.9 million to \$659.1 million for the 13 weeks ended March 26, 2017 as compared to 2016, representing an increase of 46.4%. The increase in System Sales is primarily related to the addition of St-Hubert in September 2016, Original Joe's in November 2016 and the addition of 42 new restaurants opened in 2016, partially offset by restaurant closures.

- Same Restaurant Sales ("SRS") Growth for the quarter was a decrease of 0.6% compared to the same 13 weeks in 2016. Compared to Q1 2016, Q1 2017 benefited from Easter falling in Q2 2017. As such, Easter will have a negative impact on Q2 2017 SRS. SRS excludes the impact from the Original Joe's transaction that was completed on November 28, 2016 and will be excluded from 2017 SRS reporting. SRS continues to be impacted by challenges in the western provinces, Newfoundland, and uneven performance in certain restaurant banners.
- 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, expanded off-premise sales through new and improved e-commerce applications that will be expanded to most brands over the next 2 years, and brand specific digital-social media marketing. Some specific developments include:
 - In Q1 the Company launched Harvey's new and innovative build a bowl program;
 - The Company recently launched a new menu at Fionn MacCool's featuring quality ingredients sourced from responsible Canadian farms without the use of antibiotics, added hormones or steroids;
 - In Q2 and Q3, the Company will be ramping up restaurant renovations;
 - In Q1 the Company completed improvements to its websites and mobile applications to simplify and enhance order functionality to improve online sales;
 - In Q1 Cara expanded its on-line aggregator relationships (including UberEATS) to over 100 restaurants to enable customers to place delivery and pick-up orders through the channel and application of their choice; the Company will continue to roll out this initiative across its corporate and franchised restaurants and expects to be active in at least 300 restaurants by August 2017;
 - The Company has implemented tools and is building partnerships with key media partners including Facebook and Google to improve social media presence, to understand customer preferences and to enhance customer specific marketing;
 - In Q2 the Company is launching both a new wi-fi captive portal to collect customer data and a new CRM tool to manage the customer database for improved customer specific marketing and digital relationship management;
 - In Q3 the Company expects to launch a new local store marketing portal that will provide more effective local store marketing tools to help our franchisees and restaurants better connect with guests in their communities; and
 - Starting in Q2, the Company will be using new data management tools to consolidate and analyze customer feedback data to better understand and adjust to customer experience trends and expectations.
- On May 4, 2017, the Company's Board of Directors declared a dividend of \$0.10169 per share of subordinate and multiple voting common stock. Payment of the dividend will be made on June 15, 2017 to shareholders of record at the close of business on May 31, 2017.

For the 13 weeks ended

(\$ millions unless otherwise stated)¹

	March 26, 2017	March 27, 2016
	(unaudited)	(unaudited)
Total System Sales from continuing operations	\$659.1	\$450.2
Total System Sales Growth ²	46.4%	4.9%
SRS Growth ³	(0.6%)	0.5%
Number of restaurants ² (at period end)	1238	997
Corporate restaurant sales	\$98.7	\$63.2
Number of corporate and joint venture restaurants	204	118
Contribution from Corporate segment	\$8.0	\$5.1
Contribution as a % of corporate sales	8.1%	8.1%
Franchise restaurant sales	\$500.8	\$387.0
Number of franchised restaurants	1034	879
Contribution from Franchise segment	\$20.4	\$15.7
Contribution as a % of Franchise sales	4.1%	4.1%
Contribution from Food Processing and Distribution	\$4.7	nil
Contribution from Central segment	\$14.5	\$6.7
Contribution as a % of Total System Sales	2.2%	1.5%
Total gross revenue	\$182.7	\$84.2
Operating EBITDA	\$42.9	\$27.5
Operating EBITDA Margin	23.5%	32.7%
Operating EBITDA Margin on Total System Sales	6.5%	6.1%
Earnings before income taxes	\$27.5	\$20.1
Net earnings	\$43.8	\$14.3
Adjusted net earnings ⁴	\$25.6	\$21.1
Earnings per share from continuing operations attributable to common shareholders (in dollars)		
Basic EPS	\$0.73	\$0.29
Diluted EPS	\$0.71	\$0.27
Adjusted Basic EPS ⁵	\$0.43	\$0.43
Adjusted Diluted EPS ⁵	\$0.41	\$0.40

(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, Casey's restaurants, and Original Joe'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) one-time transaction costs; and (iv) non-cash impairment charges. See "Non-IFRS Measures" on page 24 of the Company's MD&A for definitions of Adjusted Earnings Before Income Tax, Adjusted Net Earnings, Adjusted Basic EPS and Adjusted Diluted EPS.

(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. See "Non-IFRS Measures" on page 24 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 weeks ended March 26, 2017 and Management's Discussion and Analysis are available under the Company's profile on SEDAR at www.sedar.com.

Outlook

Cara's successful acquisition and earnings efficiency strategies, including synergies from the 2016 St-Hubert and Original Joe's transactions, will continue to deliver profitable growth over 2016 and will help the Company achieve the long-term strategic objectives set out at the time of the IPO. On a pro forma basis including St-Hubert and Original Joe's, 2016 total Cara System Sales are approximately \$2.6 billion and Operating EBITDA is approximately \$186 million, bringing the Company closer to its 2020 - 2022 revised IPO targets of \$2.9 to \$3.7 billion of System Sales and \$203 to \$296 million of Operating EBITDA.

Despite progress in growing System Sales, restaurant count, Operating EBITDA, Operating EBITDA Margin as a percentage of System Sales and Net Earnings, management is unsatisfied with SRS. Management remains cautious on the Canadian economy and its potential impact on restaurant sales stemming from the continued challenges in western Canada and Newfoundland. 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 46.4%, the SRS decline of 0.6% in the first quarter fell below Management's expectations. Compared to Q1 2016, Q1 2017 benefited from Easter falling in Q2 2017. As such, Easter will have a negative impact on Q2 2017 SRS. SRS continues to be impacted by challenges in the western provinces, Newfoundland 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 SRS result still has Cara ahead of 2014 levels, we have increased our focus and resources to improve upon the SRS 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, expanded off-premise sales through new and improved e-commerce applications that will be expanded to most brands over the next 2 years, and brand specific digital-social media marketing. As previously outlined in the highlights section of this release, we continue to work on each of these areas.

- *Restaurant Count* — During the 13 weeks ended March 26, 2017, the Company completed 13 new openings and closed 12 restaurants. Management is targeting to open a minimum of 30 net new restaurants in 2017 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 corporate restaurant profitability

of 8.1% for the 13 weeks ended March 26, 2017 compared to 8.1% in 2016. Overall there was improvement in the historical Cara brands, primarily driven by the reduction in food and labour costs across the corporate store portfolio, partially offset by St- Hubert and the Original Joe's corporate restaurants that currently operate below the 10% target contribution level. Management believes there is significant opportunity for improved contribution in the future from St-Hubert and Original Joe's as Management realizes operating synergies from lower food costs and better labour management tools, as well as sales increases as the western provinces and Newfoundland recover from the economic slowdown driven by resource industry challenges.

- *Franchise segment* — Franchise contribution as a percentage of franchise sales remained steady at 4.1% during the 13 weeks ended March 26, 2017 compared to 2016. The continued sales challenges experienced in the western provinces and Newfoundland 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.
- *Food processing and distribution segment* — During the first quarter of 2017, contribution margin from the food processing and distribution segment was \$4.7 million, representing a contribution margin rate of 7.9% on food processing and distribution sales. Overall, the annual 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 6.5% as a percentage of total System Sales for the quarter compared to 6.1% in 2016. The Company will continue to work on all four 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* — The Company currently has a debt to EBITDA ratio of approximately 1.9x. At these debt levels, the Company has the ability to consider more growth opportunities while continuing to reduce its debt with the Company's strong cash flows from operations.

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" 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 include 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 Original Joe's as the transaction was completed on November 28, 2016; 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; and sales from international operations from 49 New York Fries and 3 US 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 second quarter in 2015. To provide comparable quarter over quarter results for 2016, SRS for the first quarter was comprised of 12 weeks compared to the same 12 weeks in the prior year and the second 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) 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.

"Operating EBITDA" is defined as net earnings (loss) 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) changes 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; (xvi) acquisition related transaction costs; and the Company's proportionate share of equity accounted investment in associates and joint ventures.

"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) 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 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; (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 2017 first quarter results at 9:00 am Eastern Time on Friday, May 5, 2017.

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 99226122. A telephone replay of the call will be available until midnight on June 5, 2017. To access the replay, please dial (416) 849-0833 or 1-855-859-2056 and enter passcode 99226122.

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, Original Joe's, State & Main, Elephant & Castle, Bier Markt and Landing restaurants. As at March 26, 2017, Cara had 1,238 restaurants, 1,181 of which were located in Canada and the remaining 57 locations were located internationally. 84% of Cara's restaurants are operated by franchisees and 54% of Cara's locations are based in Ontario. 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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<http://cara.investorroom.com/2017-05-04-Cara-Reports-Q1-2017-Results-and-Continued-Success-in-its-Acquisition-Strategy-Total-System-Sales-grow-46-4-Operating-EBITDA-increases-56-0-and-Earnings-Before-Tax-increases-36-8>