

Cara Operations to merge with Keg Restaurants Ltd.

VAUGHAN, ON, Jan. 23, 2018 /CNW/ - Cara Operations Limited (TSX: CARA) ("Cara"), Keg Restaurants Ltd. ("KRL") and The Keg Royalties Income Fund (the "Fund") are pleased to announce that Cara and KRL have agreed to merge pursuant to the terms of a binding letter of intent.

Vancouver-based KRL is the owner/operator and franchisor of casual dining steakhouse restaurants operating under the trade name "The Keg Steakhouse & Bar" in Canada and select markets in the United States. Over its 45 year history and under Chief Executive Officer David Aisenstat's leadership for the last 20 years, The Keg has established an enviable brand name and reputation as the leader in service, food and ambiance in full service restaurants. Cara is Canada's largest operator and franchisor of full service restaurants and is the third largest of all restaurant groups in Canada.

With this merger, Mr. Aisenstat will assume oversight of Cara's higher-end casual brands, namely The Bier Markt, the Landing Group and Milestones restaurants. This will enable Cara to introduce into these brands the key success factors experienced by The Keg. Cara's size combined with The Keg will also provide synergistic opportunities in marketing, real estate and overall costs that will help further grow the Keg and Cara brands.

Mr. Aisenstat is currently President and CEO of KRL and will remain in this position while overseeing the three additional Cara brands. David will also join the Cara Board of Directors as Vice-Chairman. Bill Gregson will remain as President and CEO of Cara and will remain as Chairman of the Cara Board of Directors.

Cara intends to change its corporate name to reflect this new business composition following the closing of the transaction.

Cara and KRL have confirmed to the Fund that, notwithstanding the merger, The Keg will continue to operate as it has previously under Mr. Aisenstat's leadership, without any change in management's focus on the Fund's unitholders as key stakeholders in the business or the factors that have established The Keg brand's leadership position and supported the consistent payment and growth of the royalty.

The Fund will remain in its current form and will continue to receive royalties from Keg restaurants operated by KRL following the merger. The trustees of the Fund have considered the effect of the transaction on the interests of the Fund's unitholders and the rights of The Keg Rights Limited Partnership under its agreements with KRL, which will be preserved without modification.

Transaction Highlights

Under the transaction, Cara will pay to KRL's shareholders, Fairfax Financial Holdings Limited ("Fairfax") and Mr. Aisenstat, an aggregate purchase price of \$200 million comprised of \$105 million in cash and 3,801,123 Cara subordinate voting shares (based on Cara's closing price of \$24.93 per subordinate voting shares on the Toronto Stock Exchange on January 22, 2018). In addition, Cara may be required to pay up to an additional \$30 million of cash consideration upon the achievement of certain financial milestones within the first three fiscal years following closing.

Cara will fund the cash portion of the purchase price payable at closing by drawing on its existing credit facility.

Cara's management believes that the transaction will provide several compelling strategic benefits, including:

- Cara merging with an iconic brand and the leading full service restaurant chain in Canada. The addition of 106 The Keg restaurants will provide Cara with a network of 1,365 restaurants.
- The Keg restaurants generate approximately \$612.1 million in annual System Sales and approximately \$23.5 million in Normalized EBITDA. When the transaction closes, Cara's Pro Forma System Sales (for the 12 months ended September 24, 2017) will increase to \$3.4 billion and its Pro Forma Operating EBITDA (for the same period) will increase to \$207.9 million, putting Cara on track to achieve the top end of its long-term (2020-2022) System Sales target and well within the Operating EBITDA target range.
- The transaction is expected to be immediately accretive to Cara's Adjusted Diluted EPS.
- The combination of The Keg with the 2016 St-Hubert and Original Joe's transactions gives Cara best in class in full service, preeminence in the Quebec market with a strong retail capability and a strong Western presence along with its historical strength in Ontario.

Approvals

The transaction, which constitutes a "related party transaction" as defined in Multilateral Instrument 61-101 – *Protection of Minority Security Holders in Special Transactions*, was unanimously approved by the board of directors of Cara, on the recommendation of a special committee of the board that was comprised of directors that are independent of Fairfax. In making its recommendation, Cara's special committee received a fairness opinion from Scotiabank to the effect that, as of the date of such opinion and subject to the assumptions, limitations and qualifications set forth therein, the consideration payable by Cara, from a financial point of view, is fair to the shareholders of Cara, excluding Fairfax.

The transaction was also unanimously approved by the board of directors of KRL.

Closing of the Transaction

Closing of the transaction is subject to the finalization of definitive documentation and customary conditions, including the receipt of certain third-party consents and the approval of the Toronto Stock Exchange. The transaction will close as soon as all conditions precedent have been satisfied which is expected to occur in Cara's current reporting quarter.

Of the subordinate voting shares being issued, 3.4 million will be issued to Fairfax as partial consideration which will result in Fairfax beneficially owning 7,224,180 subordinate voting shares following closing, representing approximately 25.8% of the issued and outstanding subordinate voting shares, and 19,903,378 multiple voting shares of Cara, representing approximately 57.9% of the issued and outstanding multiple voting shares. The subordinate voting shares will be acquired in connection with the sale of KRL to Cara, and in the future, Fairfax may discuss with management and/or the board of directors of Cara any of the transactions listed in clauses (a) to (k) of item 5 of Form F1 of National Instrument 62-103 – *The Early Warning System and Related Take-over Bid and Insider Reporting Issues* and it may further purchase, hold, vote, trade, dispose or otherwise deal in the securities of Cara, in such manner as it deems advisable to benefit from changes in market prices of Cara securities, publicly disclosed changes in the operations of Cara, its business strategy or prospects or from a material transaction of Cara. An early warning report will be filed by Fairfax in accordance with applicable securities laws and will be available on SEDAR at www.sedar.com or may be obtained directly from Fairfax upon request at 416-367-4941 (Attention: John Varnell) or at Fairfax Financial Holdings Limited, 95 Wellington Street West, Suite 800, Toronto, Ontario M5J 2N7.

Conference Call

Bill Gregson, Cara's Chief Executive Officer and David Aisenstat, KRL's Chief Executive Officer, will hold an investor conference call to discuss this announcement in further detail at 9:00 a.m. Eastern Time on January 23, 2018.

Presentation slides for the conference call will be made available on Cara's website located at www.cara.com.

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: 3798539. A telephone replay of the call will be available until midnight on February 20, 2018. To access the replay, please dial (416) 849-0833 or 1-855-859-2056 and enter passcode 3798539.

Press Conference

The companies will host a press conference, followed by a question and answer session, to discuss the transaction.

Who: David Aisenstat, President and CEO of KRL and Bill Gregson, President and CEO of Cara Operations

Where: Esplanade Keg Restaurant (26 The Esplanade, Toronto, ON)

When: Tuesday, January 23, 2018 at 11:15 a.m. (Toronto time); doors open at 10:45 a.m. (Toronto time) for setup

For further information regarding the press conference: Boyd Erman, berman@longviewcomms.ca, 416-523-5885

Non-IFRS Measures

This press release 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",

"Operating EBITDA", "Normalized EBITDA", "Adjusted Diluted EPS", "Pro Forma System Sales" and "Pro Forma Operating EBITDA" 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. Cara 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 its restaurant network, the total market share of its brands sold in restaurant and grocery and the overall financial performance of its brands and restaurant owner base, which ultimately impacts its consolidated financial performance.

"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; and (xvi) acquisition related transaction costs.

"Normalized EBITDA" is defined as profit (loss) before: (i) interest, but excluding interest on note payable to The Keg Royalties Income Fund; (ii) income taxes; (iii) depreciation and amortization (including write-downs of property, plant and equipment, if any); (iv) gain (loss) on disposal of property, plant and equipment; (v) fair value gain (loss) and provision; and (vi) certain non-recurring items.

"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.

"Pro Forma System Sales" is defined as System Sales adjusted for the estimated full-year contribution of Original Joe's, Pickle Barrel and the KRL acquisition, as if the acquisitions had occurred on September 24, 2016.

"Pro Forma Operating EBITDA" is defined as Operating EBITDA of Cara adjusted for the estimated full-year EBITDA contribution of Original Joe's and Pickle Barrel and the estimated full year Normalized EBITDA of KRL as if the acquisitions had occurred on September 24, 2016.

Forward-Looking Information

This press release contains "forward-looking information" within the meaning of applicable securities laws. Forward-looking information in this press release includes statements regarding the timing and completion of transaction. 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".

Forward-looking information is necessarily based on a number of assumptions and estimates that, while considered reasonable by Cara, KRL and the Fund, as applicable, 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, including the ability to obtain certain third party consents and approvals and the accuracy of management's assessment of the effects (financial or otherwise) of the transaction. These assumptions and estimates are not intended to represent a complete list of the assumptions and estimates that could affect Cara, KRL or the Fund.

There are several factors that could cause actual results to differ materially from those contained in forward-looking information, including: future operating results; future general economic and market conditions; changes in laws and regulations; and such other factors and risks as described in detail from time to time in documents filed by Cara, KRL and the Fund, as applicable, with securities regulatory authorities in Canada. 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. Neither Cara, KRL nor the Fund undertakes to update any forward-looking information contained herein, except as required by applicable securities laws.

About CARA

Founded in 1883, Cara is Canada's oldest and largest full-service restaurant company. Cara 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, Burger's Priest, Prime Pubs, Original Joe's, State & Main, Elephant & Castle, Bier Markt, Landing restaurants and Pickle Barrel. As at November 30, 2017, Cara had 1,259 restaurants, 1,204 of which were located in Canada and the remaining 55 locations were located internationally. 82% of Cara's total restaurants are operated by franchisees, 4% are operated as a joint venture and the remaining 14% are owned and operated corporately. Cara's shares trade on the Toronto Stock Exchange under the ticker symbol CARA.TO. More information about Cara is available at www.cara.com.

About Keg Restaurants Ltd.

Vancouver-based KRL is the leading operator and franchisor of the Keg steakhouse restaurants in Canada and has a substantial presence in select regional markets in the United States. KRL continues to operate The Keg restaurant system and expand that system through the addition of both corporate and franchised Keg steakhouses. KRL has been named one of the "50 Best Employers in Canada" for the past fifteen years by Aon Hewitt. For more information, visit www.kegsteakhouse.com.

About The Keg Royalties Income Fund

The Fund is a limited purpose, open-ended trust established under the laws of the Province of Ontario that, through The Keg Rights Limited Partnership (the "Partnership"), a subsidiary of the Fund, owns certain trademarks and other related intellectual property used by KRL. In exchange for use of those trademarks and other related intellectual property, KRL pays the Fund a royalty of 4% of gross sales of Keg restaurants included in the royalty pool. For more information, visit www.kegincomefund.com.

SOURCE Cara Operations Limited

For further information: For further information relating to Cara: INVESTOR RELATIONS: Cara Operations Limited, Ken Grondin, (905) 760-2244, Chief Financial Officer, Email: kgrondin@cara.com or investorrelations@cara.com; For further information relating to KRL or the Fund: Neil Maclean, (604) 821-6416, Chief Financial Officer, Email: neilm@kegrestaurants.com.

<https://recipeunlimited.investorroom.com/2018-01-23-Cara-Operations-to-merge-with-Keg-Restaurants-Ltd>