Will Cara Operations Be the Next Tim Hortons?

Description

Among investment opportunities, there's nothing sexier than an initial public offering. They usually feature fast-growing companies with a great story. The filings and investor presentations paint a rosy picture, one with lots of arrows moving up and to the right. The investment banks involved tell a great story too.

It makes you think of high-fliers like **Google**, **Amazon**, and **Dollarama Inc.**, companies that would have made you rich "if only I had bought at the very beginning".

That brings me to Cara Operations, a restaurant chain that is planning to raise $200 million from an IPO. You might not recognize the corporate name, but its brands include Harvey's, Swiss Chalet, Montana's, and Kelsey's. Like previous IPOs, Cara is flying high, with sales growth of nearly 25% and EBITDA growth of nearly 75% last year.

So are Cara's shares set to take off after the IPO? Below we take a look.

A great time for the restaurant industry

In recent years, there have been some incredible successes in the restaurant industry, and some investors have become very wealthy as a result. In Canada, perhaps the most notable one was Tim Hortons, which went public back in 2006. If you had bought the shares at the beginning, you would have more than tripled your money by December. That doesn't include dividends, or the share price surge in Tim Hortons' new parent, **Restaurant Brands International Inc.** (TSX:QSR)(NYSE:QSR).

And there have been some even bigger successes. **MTY Food Group Inc.** shares have also tripled, but over a much shorter time period (the company went public in 2010). Down in the United States, shares of **Chipotle Mexican Grill, Inc.** have surged by 15 times over the past nine years.

Consequently, investors are more than willing to pour their money into restaurant franchises. Just last month, American burger chain **Shake Shack Inc.** raised its offer price from US$14-16 to US$17-19, then up to US$21, all due to strong demand. Up in Canada, the success of Tim Hortons is still fresh in everyone's mind. And with the fall of energy and mining companies, we're all looking for decent investment alternatives.

Not so fast

There’s a reason why Warren Buffett has never bought shares from an IPO. These companies are all very well-hyped, but that usually results in overvaluation. And remember, when you buy shares, part of your money goes towards investment bankers’ fees.

The Globe and Mail recently posted an article that backs up Mr. Buffett’s case. The newspaper looked at the three largest Canadian IPOs in the past five years. And of the 15 IPOs in total, only one of the stocks has gone up by at least 60%. Meanwhile, five have gone down by at least 85%!

The right time for Cara, but not for you

Interestingly, Cara is going public only one year into its turnaround. This is a lot sooner than expected. But after seeing what happened with Shake Shack, you can’t blame Cara for pulling the trigger today.

As for the rest of us, our best bet is to wait on the sidelines until the hype dies down. Then maybe there will be a better opportunity.

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