



Cara Operations Ltd. Gets Pickled

Description

Cara Operations Ltd. (TSX:CARA) announced October 16 that it is buying all 11 of the Pickle Barrel restaurants in the Greater Toronto Area (GTA) as well as the Glow Fresh Grill, a single-unit restaurant operating at the Shops of Don Mills, an up-and-coming mall in Toronto that caters to food-related businesses.

Talk about a blast from my past.

When I was in high school, me and my friends used to go to the original Pickle Barrel on Leslie St. to get some deli sandwiches and possibly meet some high school girls while we were at it.

Boy, have times changed.

The Pickle Barrel Group of Restaurants now does \$50 million in annual revenue and has catered more than 1.2 million events in its 46-year history. In addition to the restaurants, it also owns a 50% interest in Rose Reisman Catering.

“We’re extremely excited to be joining Cara — its behind-the-scenes support will allow us to focus on strengthening our already successful restaurant and catering businesses, scaling them even faster in the years ahead,” Pickle Barrel president Peter Higley said about the deal. Higley will stay on to run the Pickle Barrel for Cara Operations.

Cara did the deal for three main reasons

1. Cara is primarily an Ontario-based company. At the end of the second quarter, 55% of its locations were in Ontario. It understands the Ontario market, and Pickle Barrel gives it a real leg up in the GTA.

“We view our investment in Pickle Barrel as an opportunity to partner with a proven management team who has a strong track record of operating profitable restaurants and catering businesses under both the Pickle Barrel and Rose Reisman brands,” stated Cara CEO Bill Gregson. “This acquisition is accretive for our shareholders.”

Profits are good.

2. The deal is possibly counterintuitive given that malls are facing retail hell right now, but the company likes the idea of expanding its presence in shopping centres where it's only got New York Fries to do battle with its biggest rival, **MTY Food Group Inc.**

Interestingly, less than 2% of MTY's locations are company owned compared to 14% for Cara, which allows it to kill two birds with one stone. It can capture more business at the malls, while doing it with company-owned rather than franchised restaurants.

3. Pickle Barrel is excellent catering operations give Cara a new business segment to capture, and what better way to do so then to combine Pickle Barrel's know-how with Cara's 16 different brands? It's a big deal to be able to offer catering customers 17 different brands from which to select menu items.

I see the catering angle to be the best reason for buying Pickle Barrel's restaurants. I'd look for big things from catering in the years ahead.

Should you buy CARA stock?

On October 2, I suggested that Cara's stock is worth more today than it was in April 2015, when it went public at \$23 a share. The deal to buy the GTA restaurant operator is like a cherry on top of one of Pickle Barrel's brownie milkshakes.

Cara Operations is a must-have.

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