



## Why Cara Operations Ltd. Is up Over 6%

### Description

#### What?

Full-service restaurant company **Cara Operations Ltd.** (TSX:CARA) is up over 6% in early trading on Tuesday following its announcement that it has agreed to merge with Keg Restaurants Ltd.

#### So what?

Cara will pay Keg Restaurant Ltd.'s shareholders, **Fairfax Financial Holdings Ltd.** and David Aisenstat, an aggregate purchase price of \$200 million, \$105 million of which will be in cash, and the remainder of which will be paid using approximately 3.8 million of Cara's subordinate voting shares. Fairfax and Mr. Aisenstat may also earn an addition \$30 million of cash considerations if certain milestones are met within the first three fiscal years of the completion of the merger.

Here are six other important notes to make about the merger:

1. The Keg Steakhouse & Bar restaurants generate approximately \$612.1 million in annual system sales, so when the merger is completed, Cara's pro-forma system sales for the 12-month period ended September 24, 2017 will increase to \$3.4 billion.
2. The merger is expected to immediately be accretive to Cara's adjusted diluted earnings per share (EPS).
3. The addition of 106 The Keg Steakhouse & Bar restaurants will bring Cara's total restaurant count to 1,365.
4. Cara expects the merger to be completed in the current reporting quarter.
5. Cara intends to change its corporate name upon completion of the merger to reflect its new business composition.
6. **The Keg Royalties Income Fund** (TSX:KEG.UN) will continue to [receive royalty payments](#) from Keg restaurants following the completion of the merger.

#### Now what?

Prior to the announcement of this merger, Cara was already Canada's largest operator and franchisor

of full-service restaurants and the third largest of all restaurant groups in Canada, so this merger will simply grow its market share.

I think The Keg Steakhouse & Bar brand will fit perfectly into Cara's portfolio, because of the brand's reputation and its massive expansion potential, and the fact that this merger will immediately be accretive to Cara's adjusted diluted EPS is icing on the cake. It's also important to note that this is the [second notable acquisition](#) Cara has made in the last four months, showing that the company is dedicated to growth.

I think the market has responded correctly by sending Cara's stock higher in today's trading session, and I would still be a long-term buyer, because it trades at just 16 times fiscal 2018's estimated EPS of \$1.66 and has a solid 1.5% dividend yield, making it very attractive from a fundamental standpoint.

With all of the information provided above in mind, I think Foolish investors seeking exposure to the restaurant industry should strongly consider beginning to scale in to long-term positions in Cara Operations.

## CATEGORY

1. Investing

## TICKERS GLOBAL

1. TSX:KEG.UN (Keg Royalties Income Fund)
2. TSX:RECP (Recipe Unlimited)

## PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

## Category

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