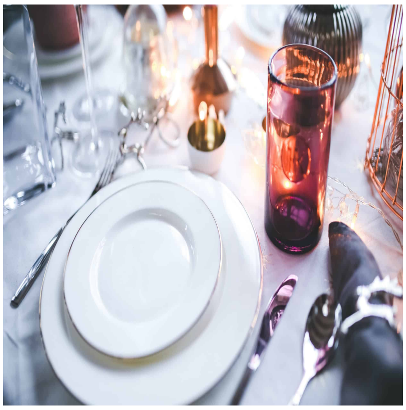

Cara Operations Ltd. Grills Up a Juicy Acquisition: Shares Pop 10%

Description

The parent company of a series of Canadian restaurant chains, **Cara Operations Limited** (TSX:CARA), announced on Tuesday that it had entered an agreement to add yet another iconic Canadian restaurant brand to its portfolio: Keg Restaurants Limited.

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This acquisition was met favourably by the market on Tuesday, with shares of Cara ending the trading day nearly 10% higher on the news. Cara has agreed to pay up to $230 million for The Keg, with $200 million guaranteed in the form of cash and stock. The company will issue an additional 3.8 million shares to complete the transaction, paying $105 million in cash as well.

Given Cara's relatively limited cash position, investors can expect the company to issue debt in the near term to cover the cash portion of the acquisition cost. Given the company's stable cash flow generation and solid margins compared to competitors in the restaurant business, the market appears to be viewing the inevitable debt raise as a necessary cost of the acquisition, which should be repaid in short order.

Given the fact this acquisition is expected to be immediately accretive to earnings, the fact that Cara currently trades around 10 times EBITDA after Tuesday's 10% jump makes this company appear attractive on a fundamental basis. I encourage all investors to take a look at Cara's financials before making an investment decision; however, on the whole, it looks like this acquisition was a fair deal for both parties moving forward.

Unlike other mergers I have covered in the past, this acquisition appears to have plenty of room for synergy creation and growth long term given the management transition, which is expected to take place following the completion of the deal. The Keg's current CEO is expected to take over leadership of three of Cara's brands that have room for growth: Milestones, The Landing, and Bier Markt, driving efficiencies and turning these businesses into even better cash flow machines for the parent company and its royalty fund, **Keg Royalties Income Fund**.

Bottom line

On the surface, this deal looks promising from the potential synergies that may arise as these firms merge into a leaner, more service-oriented company overall. I would recommend investors interested in Cara take a hard look at the company's upcoming earnings release before making an investment decision due to the relatively limited information investors have at present about the deal.

In addition to Cara, here are five other companies every investor should consider, courtesy of The Motley Fool:

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

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2018/01/24
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