Leveraged Buyouts: Opportunities and Risks

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Abstract
This article presents a general overview of leveraged buyouts, relating their feasibility as an option for hospitality management. Specifically, the author explores the background and main features of leveraged buyouts, focusing attention on their risks and rewards, management’s opportunities, tax ramifications, planning, and future outlook. Denny’s leveraged buyout is examined in order to provide an insight into the structuring of a buyout for a major food service firm.

Keywords
Elisa S. Moncarz, Leveraged Buyouts: Opportunities and Risks, LBO’s, Debt, Financing, Public/Private, Denny’s, FIU

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Leveraged Buyouts: Opportunities and Risks

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This article presents a general overview of leveraged buyouts, relating their feasibility as an option for hospitality management. Specifically, the author explores the background and main features of leveraged buyouts, focusing attention on their risks and rewards, management's opportunities, tax ramifications, planning, and future outlook. Denny's leveraged buyout is examined in order to provide an insight into the structuring of a buyout for a major food service firm.

While the hospitality industry has not actively participated in the leveraged buyout boom, the recent execution of the buyouts of Denny's, Inc and ARA Services, Inc leads to speculation on the likelihood that leveraged buyouts might become a trend in the hospitality industry. Surely, "the Denny's deal is the first big test of whether the restaurant industry can participate successfully in leveraged buyouts."* A leveraged buyout (LBO), also called a management buyout, occurs when a private consortium of management, investment bankers, and institutional investors borrows money to purchase a company from public shareholders or from a parent company. "By using mainly borrowed funds and putting in a little of their own equity, managers are entering the world of entrepreneurship." In a LBO, the management group that includes the management of the company to be acquired takes the company private in a transaction largely financed by borrowings. Ultimately, the debt is repaid with funds generated by the acquired company's operations or the sale of assets. When it works, it pays off handsomely for all concerned. While entrepreneurial executives obtain a chance to own a company, shareholders are paid a premium for their shares, and debtors are paid a premium for their loans. When it doesn't work, it pays off badly for all concerned. Leveraged buyouts have received increased attention as a business opportunity for owners of hospitality businesses, and a major food service firm.

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As previously noted, LBOs are heavily financed with debt. Financial institutions and other outside sources typically provide between 70 and 90 percent of the purchase price. Equity contributions are normally kept low to achieve the greater upside appreciation and return. The net effect is that debt is used to retire equity, which is known as leveraging up a company's capitalization.115

It is not unusual for the debt to equity ratio of a company to be more than 10 to 1 after an LBO. A leveraged takeover (or institutional buyout) is distinguished from a leveraged buyout in that in a takeover the company is acquired by a group of professional investors who are outsiders, whereas in a leveraged buyout certain members of management acquire the company, division, or subsidiary they are currently managing.

LBOs Are Not New Phenomenon

Although LBOs have been receiving a considerable amount of attention lately, the leveraged buyout concept has been around for over 20 years when it was known as "bootstrapping." General Electric Credit Corporation has been a main purveyor of financing for LBOs for the past 20 years, and has thus been regarded as a pioneer in this area. Prudential Insurance Company has also been involved in LBOs since the early '60s.

Opportunities became abundantly apparent for LBOs in the latter half of the '60s when the conglomerates found themselves flooded with acquisitions. Often they wished to sell pieces of the larger companies they acquired in order to improve group, divisional, or company structures. The first investment banking firm to take notice of the potential rewards of LBOs was Gibbsons, Green and Rice. In 1976, Kohlberg, Kravis, Roberts and Company was formed and became "the undisputed leader in the field of LBO specialists. Until 1979 most of the LBO deals were valued at less than $100 million, and thus were too small to be of interest to large investment banking firms. By 1982, however, LBOs had gained enough momentum and became the preferred method of corporate finance in corporate transactions. Many investment banks opened separate departments dedicated to providing assistance and planning for LBOs.

Over the past few years, a vigorous economic recovery, combined with relatively low interest and inflation rates and increasing corporate cash flow and liquidity, has encouraged a rising tide of leveraged buyouts.118

In the period from January 1 to October 12, 1984, there were 62 LBOs amounting to $13.5 billion, compared to 26 LBOs amounting to $8.7 billion in the period from January 1 to October 12, 1984. The number of leveraged buyouts in the latter half of 1984 grew to a record 150, up from 81 in 1983. The total LBO deals of 1984 were valued at over $25 billion. The LBO market was estimated at nearly $62 billion. The first leveraged buyout in the United States was the acquisition of Federal Express by J. Frank Brown in 1978. Federal Express, a fast-growing company that was not part of a larger corporation, was acquired in order to improve its management, thus allowing it to become a leader in this field. Although LBOs have been receiving a considerable amount of attention since the late '60s, the amount of business done in LBOs has increased significantly in recent years. The leading investment banking firm in the field of LBOs is The First Boston Corporation, which has been involved in over 200 LBOs. The firm has completed over 100 LBOs since 1982, and has become a leader in this field.

Although LBOs are not new, they are currently receiving a great deal of attention. The process of an LBO typically involves a group of investors who raise money by selling equity to a large corporation or investment bank. The investors then use this money to purchase the company they wish to acquire. The company is then run as a separate entity, with the investors serving as the majority owners. The goal is to increase the value of the company and sell it back to a larger corporation at a higher price. This process is known as "leveraged buyout," and it has become a popular method of acquiring a company.

LBOs are often criticized for their impact on the economy. Some argue that LBOs can lead to increased competition and innovation, while others believe that they can lead to decreased competition and increased prices. Despite these criticisms, LBOs have become an important part of the corporate finance landscape, and they are likely to continue to play an important role in the future.
LBOs are not suitable for all types of companies. Promising candidates for LBOs have often been able to concentrate more on the bottom line of the stockholder in their restructuring efforts. The management team is willing to run the business in a manner that maximizes shareholder interest. The lower overhead and higher margins created result in increased profit without sacrificing quality. The company can now focus on growth and expansion, leading to increased revenue. The LBO is a process of separating the company from its parent organization, allowing it to operate independently and with greater flexibility.

Two key benefits of an LBO are: (1) the company can become more innovation-oriented and aggressive in its decision-making, and (2) the company can manage its business in its best long-term interests rather than focusing on the short-run orientation of the stock market. This allows managers to concentrate more on long-term goals, leading to increased profitability and shareholder value.

In summary, LBOs are successful when they result in increased profit and shareholder value while maintaining the company's core competencies and strategic focus. The key to a successful LBO is to attract a strong management team with a proven track record of success, align the interests of the management team with those of the shareholders, and execute a strategic plan that maximizes shareholder value over the long term.
Since private companies are not required to report earnings for public

\[ \text{LBOs Have Tax Advantages} \]

instances in which the board of directors might be frustrated with the

- situations in which there is a threat of hostile takeover attempts
- private companies in which the owner is near retirement (or per-
  - divestitures of divisions that no longer fit the corporate strategy
- public companies that are looking for exit at a fair price
- because of the shareholders' concern for recession, a key factor
  - management-investors take the company private in a LBO.
- public companies that are seeking to add assets below their net asset
- which LBOs are for:
  - divest or division is being sold or divested, the main circumstances in
  - the key for strategic potential opportunities for LBOs in the hospital-
  - earnings growth
  - where have low debt, large and steady cash flows, and prospects for stable
  - their own position
  - lead candidates for LBOs are underperformed competitors that
  - if it is possible to maintain earnings as projected levels during the period
  - by securing the deal
  - that a high proportion of management's stock is held by management
  - can add additional borrowings
  - limited consistency deals which permit the addition of significant
  - LBO's high cash flow characteristically facilitates the repayment of the
  - strong and competent management team expected to stay once

Strong and competent management expected to stay once

- essentially, continuity of management has been regarded as a basic ingredient for a successful LBO.
- High cash generators, thereby facilitating the repayment of the
- Limited outstanding debt which permits the addition of significant
- the transaction is completed. Essentially, continuity of management
- have been regarded as a basic ingredient for a successful LBO.
- Underperforming assets which also allow the repayment of a premium
- have debt.
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- which has been regarded as a basic ingredient for a successful LBO.
- Underperforming assets which allow the repayment of a premium
- have debt.
- Strong and competent management team expected to stay once
shareholders, they can make the fullest use of the liberalized depreciation deductions included in the Economic Recovery Tax Act of 1981, as recently amended. The augmented cash flow derived from the tax savings can then be used to service and retire the large debt incurred during the buyout.

A recent provision of the Tax Reform Act of 1984 (TRA) provides an added tax incentive affecting LBOs. According to TRA, "banks and other commercial lenders will be able to exclude from taxable income 50 percent of the income received on loans to Employees Stock Options Plans (ESOPs)\(^1\)\(^4\). These provisions have also helped some companies sharply reduce their debt, and a number of problems involving debt finance have been reduced. In the extreme, the provision has allowed the parent stock of the entity to become worthy of consideration as a potential buyer of the entity, thereby encouraging a new form of LBO

Management Opportunities Exist

LBOs provide a unique opportunity for talented managers to own and operate the business they are currently managing. Experts have indicated that the opportunity might result in "the revitalization of the chief executive by becoming a mature entrepreneur.\(^1\)\(^5\)

Entrepreneurs often take a different view of the world of professional managers. They have stronger beliefs in property rights and in managing for the long term. "Entrepreneurial managers can make small units grow more rapidly and take advantage of market niches.\(^1\)\(^6\)

The whole emphasis is on management involvement and motivation since owner-managers stand to benefit more. They become more committed, deriving increased productivity for the company. Experience also indicates that buyouts enable managers to be compensated in ways that would be quite difficult to carry out in a publicly-owned company. The likelihood of receiving "bonus plans that give managers as much as 100 percent of company profits above some target profit figure may also yield strong productivity gains.\(^1\)\(^7\)

Moreover, productivity gains can also be achieved through the whole emphasis on management involvement and motivation that often results from the board of directors' decision to buy the company for management. The board of directors, the key decision-makers, is an important instrument in the hands of management to change the emphasis on productivity and profit. If the board of directors can be persuaded to make the board more receptive to the idea of increased productivity and profit, the company can become more competitive in an environment where other companies are being forced to do the same. The board of directors can be changed by a majority of the votes in favor of a management slate. The operation of the board is then in the hands of management, and the company is run for the benefit of the managers, not the shareholders. This is a major change in the way the company is operated, and it can result in increased productivity and profit for the company.

LBOs Do Have Risks

LBOs have been very attractive for all parties involved as a result of the prospects for spectacular returns. For investors putting equity money into buyouts, returns on investments of over 40 percent have not been uncommon. While allowing corporate managers to become corporate owners, selling shareholders usually receive a generous premium above the current market value of their stock. At the same time, deal makers receiving fees for structuring buyouts can make handsome profits. However, the risk of these transactions is high, and the potential for financial losses is great. The risk is further magnified when the company is deep in debt. Shareholders, creditors, and employees all bear the risk. Therefore, the strategy must be considered carefully before undertaking an LBO. The risk is further magnified when the company is deep in debt. Shareholders, creditors, and employees all bear the risk. Therefore, the strategy must be considered carefully before undertaking an LBO.
debt is short-term and tied to prime rate fluctuations as is much of the debt provided in LBO situations. Unknowns can jeopardize the company's existence: an economy downturn and a significant rise in interest rates. "A movement of 3 to 4 points in the prime rate or a credit squeeze may be enough to place the future of a marginal LBO in jeopardy." 

Recently, government officials have expressed concern about the undue risks of LBOs by voicing their warnings and questioning their wisdom. Paul A. Volcker, chairman of the Federal Reserve Bank, warned in June 1984 that "LBO transactions could give the acquired company excessive debt," placing too heavy a demand on cash flows. Similarly, SEC chairman John Shad warned "the more leveraged takeovers and buyouts today, the more bankruptcies tomorrow." Once a company has balanced the rewards and risks associated with LBOs and decided to follow the LBO route, certain steps need to be implemented in planning a successful plan of action:

1. Perform sufficient modeling of alternative interest rates and business conditions in order to evaluate the chances of success.
2. Analyze accounting and tax consequences.
3. Exercise extreme caution in the selection of professionals, which should include:
   - Lawyers: They will play a key role in structuring acquisition and debt agreements and in the negotiating process.
   - Accountants: They will provide tax advice and will assist in the preparation and analysis of financial statements.
   - Investment bankers: Those experienced in LBOs will provide advice and assistance in obtaining financing. They will assist in the determination of the collateral value of property and equipment.
   - Appraisers: They will assist in the determination of the collateral value of property and equipment.

Future Outlook For LBOs

Despite the recent LBO boom, it appears that LBOs have cooled down a bit after reaching a peak in 1984. Lenders and investors have become more wary of buyouts, making it more difficult to raise money and more wary of potential losses. The movement of 3 to 4 points in the prime rate or a credit squeeze may be enough to place the future of a marginal LBO in jeopardy. Lenders and investors have become more careful in assessing the risks and rewards of LBOs.
The private investor group was composed of 29 members of Denny's senior management led by the president and chief executive officer Vern Blue. 

The corporate management was comprised of 29 members of Denny's senior management in charge of the special meeting held on January 24, 1985, to vote on the proposal.

On January 24, 1985, Denny's shareholders approved the LBO offer of 1LBO deal to $737.2 million from $787 million. Of the LBO deal to $737.2 million, a special meeting in the value of $737.2 million, a special meeting to approve the proposal on January 24, 1985, to vote on the proposal.

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The Denny's buyout was structured as a merger in which a wholly-owned subsidiary of a Delaware-based holding company named DH129 merged into Denny's. "As a result of the merger, Denny's would become a wholly owned subsidiary of the new privately-held company, DHI, principally owned by certain members of Denny's management, by Merrill Lynch, and by other financial institutions," according to proxy material sent to Denny's shareholders in advance of the special meeting of January 24, 1985, to vote on the proposal.

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Denny's, Inc. has Buyout

Denny's, Inc has been engaged in the food service business primarily through the development, management, and operation of full-service restaurants (coffee-shop division), donut houses (Winchell's division), and quick service, Mexican-style, char-broiled chicken restaurants (El Pollo Loco division). Denny's sales volume had placed it in first place in the coffee shop and family restaurant segment, significantly ahead of other competitors.

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Denny's was well-suited for buyout

Denny's was considered to be well-suited for a buyout among restaurant companies because it had more than $100 million in cash and generated strong cash flows needed to pay off the debt that was the result of expansion. In addition, Denny's was a conservative company among food service concerns with an attractive record of quality and consistency in earnings. Denny's was an extremely well-managed operation, which had experienced tremendous expansion and increased profitability over the past several years. Analysts perceived Denny's management team as one of the most competent and respected in the restaurant industry. Its operational and financial controls were considered among the best. Denny's was very strong financially. Its debt as a percentage of total assets was reasonable at 55 percent and its liquidity was high. Denny's was a somewhat better producer of positive cash flow than that of comparable firms. The company's management team was considered to be well-managed,��作 which had a significant amount of funds required to finance the buyout came from borrowings, and thus reflected a major increase in Denny's debt load of $568.2 million. (See Exhibit 1). The main portion of debt financing was supplied by Morgan Guaranty of New York and Wells Fargo Bank, providing $372.6 million at one point over prime and $118.7 million at 2.5 points over prime.
### Exhibit 1

<table>
<thead>
<tr>
<th>Sources and Uses of Funds</th>
<th>In Millions of Dollars</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total uses</strong></td>
<td></td>
</tr>
<tr>
<td>Payment to Denny's shareholders ($4.4 a share)</td>
<td>7.42</td>
</tr>
<tr>
<td>Payment of fees and expenses incurred in connection with the merger</td>
<td>18.0</td>
</tr>
<tr>
<td><strong>Total uses</strong></td>
<td>25.42</td>
</tr>
<tr>
<td><strong>Total sources</strong></td>
<td></td>
</tr>
<tr>
<td>Denny's existing cash balances</td>
<td>126.9</td>
</tr>
<tr>
<td>DHI redeemable preferred stock</td>
<td>43.4</td>
</tr>
<tr>
<td>DHI common stock</td>
<td>11.9</td>
</tr>
<tr>
<td>DHI redeemable preferred stock</td>
<td>43.4</td>
</tr>
<tr>
<td><strong>Total debt financing</strong></td>
<td>213.6</td>
</tr>
</tbody>
</table>

**Debt Financing:*

- Subordinated floating rate notes
- Senior fixed rate notes
- Revolving credit loans
- Total debt financing

**Equity Financing:**

- DHI redeemable preferred stock
- DHI common stock
- DHI redeemable preferred stock
- **Total equity**

**Sources and Uses of Funds:**

- Payment to Denny's shareholders ($4.4 a share)
- Payment of fees and expenses incurred in connection with the merger
- **Total uses**

**Sources:**

- Denny's existing cash balances
- DHI redeemable preferred stock
- DHI common stock
- DHI redeemable preferred stock
- **Total sources**

**Note:**

100% of the outstanding equity stock of Denny's and substantially of the mortgage notes

**SOURCE:**


All data and other information are based on the information provided by Denny's or its subsidiaries and the ability of the company to meet the commitments of the debt portion of the financing.
A breakdown of the investments is as follows:

<table>
<thead>
<tr>
<th>Amount in Millions of Dollars</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denny's management group</td>
<td>$8.1</td>
</tr>
<tr>
<td>Merrill Lynch consortium</td>
<td>$34.1</td>
</tr>
</tbody>
</table>

LBOs involve enormous risk for all involved, and Denny's appears to be no exception. Denny's buyers added over $560 million of debt to the company's capitalization, which resulted in raising the debt burden to about $792.5 million. Since the buyout also decreased the equity base to about $44 million, Denny's debt to equity ratio was raised from less than 1 to an excessive level of 18 to 1 (see Exhibit 2).

**Exhibit 2**

<table>
<thead>
<tr>
<th>Long-term debt</th>
<th>9/28/84 Pro forma</th>
</tr>
</thead>
<tbody>
<tr>
<td>$312 million</td>
<td>$963 million</td>
</tr>
<tr>
<td>$358 million</td>
<td>$44 million</td>
</tr>
<tr>
<td>$32.2 million</td>
<td>$7.9 million</td>
</tr>
<tr>
<td>$22.2 million</td>
<td>$1.3 million</td>
</tr>
<tr>
<td>$0.6 million</td>
<td>$0.4 million</td>
</tr>
<tr>
<td>$0.1 million</td>
<td>$0.0 million</td>
</tr>
<tr>
<td>$ 9.2 million</td>
<td>$ 0.2 million</td>
</tr>
</tbody>
</table>

**Debt to equity ratio**

<table>
<thead>
<tr>
<th>Total Capitalization</th>
<th>Denny's LBO</th>
</tr>
</thead>
<tbody>
<tr>
<td>$963 million</td>
<td>$44 million</td>
</tr>
<tr>
<td>$44 million</td>
<td>$963 million</td>
</tr>
</tbody>
</table>

**Denny's Management Group**

- 76.8% of the investment
- $18.2 million

**Profit Sharing Plan**

- 1.8% of the investment
- $3.8 million
Denny's entered into interest rate swap arrangements to mitigate the impact of increases in borrowing costs resulting from fluctuations in interest rates. Nonetheless, interest payments for 1985 are expected to exceed $72 million and every one-point rise in interest rates could cost the company $5 million. As a result of the buyout, however, interest expenses on the massive debt would be expected to retard Denny's aggressive expansion program. Denny's 1984 strategic plan estimated the 1985 revenue to be $1.45 billion with net income estimated at $54 million. It is evident that the investor group that acquired Denny's on a LBO stands to incur substantial losses if Denny's LBO does not prove successful. It should be noted, however, that it is the belief of many analysts that if everything goes as planned, profits could pay off most of the principal and interest within 10 years. In such a case, should the company become highly profitable again, the resale of Denny's to the public would result in dramatic returns to the participating management, investors, and Merrill Lynch. Thus, high stakes are involved in Denny's LBO. Still, if the buyout works according to company's expectations, it might prove to be extremely rewarding for all concerned.

Denny's Post-LBO Strategy

Analysts had predicted that Denny's would slow its past torrid expansion pace in the aftermath of the LBO to "direct cash flow toward accelerated debt service." Nonetheless, confronted with the prospects of slower expansion, Denny's has chosen to launch a selective program of restaurant franchising as a method of expanding the faster growth rate is likely to continue in spite of the LBO.

Some observers have also pointed out that Denny's acquisition of El Pollo Loco division provided a growth vehicle that may be brought public on its own, creating an exciting new restaurant chain with more than 35 units in California and Texas. But Denny's original vision for El Pollo Loco becoming a "Pollo chain" which had the potential to become America's leading restaurant chain, may have to be reconsidered.

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In addition to Denny's LBO, there have been other buyouts floating in the hospitality industry over the past year or so.

ARA Services, Inc., a Philadelphia-based contract feeder, thrilled shareholders when 70 top executives took the company private in December 1984 in a LBO deal valued at $882.5 million. ARA's selling shareholders received $71.75 a share, "a windfall considering ARA's price before takeover talk began earlier in 1984 was in the mid-$40's." As a consequence, the members of management who participated in the LBO attained "35 percent ownership of the company, putting up 2 percent of the capital and borrowing the rest against ARA's assets."45

Recent reports indicate that ARA's pretax operating earnings for the quarter ending March 31, 1985 (the first reporting period as a private company), "rose slightly from $39.7 million in the same period of the previous year."46 Yet "net after-tax profits dropped considerably compared with the $16.2 million of the last year's similar quarter,"47 reflecting the substantial interest that ARA was paying on the buyout debt.

Conversely, a $525 million LBO plan to buy Chicago-based DiversiFoods, Inc., operators of the Godfather's Pizza chain and franchised Burger Kings, was abandoned in 1984. DiversiFoods' former chief executive officer Don Smith and other top executives attempted to take the company private in a LBO transaction, but they dropped the offer after failing to secure financing in the wake of steady declining earnings. This resulted in the forced resignation of Don Smith as head of DiversiFoods.

As part of a refocusing trend among conglomerates (especially grocery product companies), "Ralston Purina signed an agreement to sell its Foodmaker restaurant subsidiary (operators of Jack-in-the-Box) for $500 million to a management group led by Foodmaker's president and chief executive officer Jack Goodall in a LBO transaction."48 However, the LBO plan fell through because the leaders refused to support it due to Foodmaker's declining earnings and unfavorable economic conditions in the hospitality industry. Another conglomerate that is presently planning to sell a number of its restaurant chains is General Mills.

Analysts who followed Hilton have indicated that "a deal to take the company private in a LBO would not be unreasonable," considering that the recent rejection of a Hilton casino license request in Atlantic City could put Hilton's management more amenable to running a private company. If the recent rejection of a Hilton casino license request in Atlantic City was intended to force a LBO, it would not be unreasonable to speculate that the company may seek to take Hilton private in a LBO deal to take the company private. However, such a speculation is not supported by the recent rejection of a Hilton casino license request in Atlantic City.

Another lodging chain that has been considered a likely candidate in an LBO is Hilton Hotels Corp. Investment bankers have been speculating that chairman Barron Hilton may attempt an LBO. Analysts who followed Hilton have indicated that "a deal to take the company private in a LBO would not be unreasonable," considering that the recent rejection of a Hilton casino license request in Atlantic City could put Hilton's management more amenable to running a private company. If the recent rejection of a Hilton casino license request in Atlantic City was intended to force a LBO, it would not be unreasonable to speculate that the company may seek to take Hilton private in a LBO deal to take the company private. However, such a speculation is not supported by the recent rejection of a Hilton casino license request in Atlantic City.
Also, the anti-takeover provisions which were intended to thwart hostile takeover attempts by outsiders and which were approved by Hilton's shareholders in their annual meeting of May 6, 1985, "would not impede a board-approved LBO." For this reason, the anti-takeover measures appeared to have laid the groundwork and buy time for Barron Hilton's management group to structure a possible LBO. For the present, "analysts believe Barron Hilton intends to take the company private within the next five years through a LBO. They see the upcoming sale of the Atlantic City casino as "the first step in taking the company private" since it would enable Hilton to raise funds to eventually undertake the buyout. Conclusion

LBOs have experienced remarkable growth in recent years. It is easy to see why buyouts have become so popular. They can be rewarding for all participants. Equity investors can achieve returns that would be unavailable elsewhere with comparable risk.

Managers-entrepreneurs can receive a unique opportunity to expand their business horizons. Selling shareholders are able to liquify assets that would otherwise be tied up, while receiving a premium for their shares. Similarly, investment bankers and other packagers can receive colossal fees and a share of earnings.

Entrepreneurs and other participants may benefit considerably from LBOs. Hilton's management group and others seeking to acquire control over a business can receive substantial compensation. startups can receive a unique opportunity to expand their business horizons and be rewarded accordingly. Enterprises can receive a unique opportunity to expand their business horizons and be rewarded accordingly. Enterprises can receive a unique opportunity to expand their business horizons and be rewarded accordingly.

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6 Doyle and Spencer, *op. cit.*, p. 22.


10 "Going private the leveraged way," *op. cit.*, p. 1.

11 deAngelo, deAngelo and Rice, *op. cit.*, p. 370.


14 "Going private the leveraged way," p. 2.

15 "Why leveraged buyouts are getting so hot," Business Week, (June 27, 1983), p. 86.


18 Ibid.

19 Shad, *op. cit.*, p. 28.

20 Doyle and Spencer, *op. cit.*, p. 22.


22 A unit of Merrill Lynch Pierce Fenner & Smith, Denny's principal investment banker.

23 Miller, *op. cit.*, p. 98.


26 High real estate costs and market saturation were slowing Winchell's division growth.

27 A class action suit was filed on behalf of the Denny's shareholders, representing the difference between the $43 a share offered and the original $45 a share bid.

28 A newly-formed corporation created expressly for the purpose of completing the buyout.

29 Ibid.


31 Ibid.

32 Denny's Inc, proxy statement, (December 21, 1984), p. 34.

33 Ibid.

34 Ibid.


36 Denny's leveraged buyout, p. 63.


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