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Leveraged Buyouts: Opportunities and Risks

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Abstract
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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

by Elisa S. Moncarz

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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.

Leveraged buyouts (LBOs) have received increased attention in recent years. They have been described as the corporate trend of the '80s, providing a unique opportunity for management to own and operate a business. Although 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 has led 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) 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 an LBO, the investor 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.

"A well conceived, planned and executed leveraged buyout can give an opportunity for significant capital appreciation in a relatively short period of time. When it works, it pays off handsomely for all concerned. While entrepreneurial executives obtain a chance to own a company, stockholders are paid a premium for their shares, and deal organizers get fees and a share of profits. The executive who is paid only in stock may find little incentive to control the acquisition. Executive incentive compensation, unlike its corporate equivalent, is often only a small part of the executive's total package. The buyout structure may not offer a significant financial reward for exceptional management. A buyout is often perceived as an event for the company's management, rather than an opportunity for outside investors."
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 on investment. The net effect is that debt is used to retire equity, which is known as leveraging up a company's capitalization. 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 (or management buyout) in that 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, divestiture, 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 in order to improve group structures, the larger companies acquired conglomerates to sell pieces of their larger companies. The first investment banking firm to take notice of the potential rewards of LBOs was Gibbons, Green and Rice. In 1976, Kohlberg, Kravis, Roberts and Company was formed and became 'the undisputed leader in the field.' Until 1979 most of the LBO deals were valued at less than $100,000 and thus were too small to be of interest to large investment banking firms. By 1982, however, the total LBO deals amounted to $2.4 billion. By 1983, according to Securities Data, there were 62 LBO deals amounting to $13.5 billion, compared to 30 LBOs amounting to $6 billion in the same period in 1983.

Buyouts Require The Restructuring Of Corporate Ownership

A major feature of an LBO is that the equity capital (ownership) is shared between the managers and the outside investors who help finance the acquisition of publicly-held stock. Typically, an investment bank engineer the deal by putting together

Previously, LBOs were seen as a way for management to acquire the company.
The buying group, which is comprised of outside investors and certain members of the company's management. The investor group is interested in purchasing the company with little equity and a great deal of debt, secured by the company's assets. The idea is to complete the buyout with funds raised from pledging or selling existing assets of the purchased company.

Financing for an LBO is often complex and many-faceted. Banks and insurance companies provide the bulk of the required debt financing. They generally require assets such as property and equipment, inventories, or receivables as collateral for their loans. Due to the risk factor, loans are offered in significant excess over prime rate, often through bridge financing and remortgaging. Other financing sources include small business investment companies, venture capitalists, federal and state government agencies, and employee stock ownership plans. Also, pension funds have provided a considerable amount of equity capital for buyout deals.

Immediately after the buyout is completed, there is a restructuring of corporate ownership by replacing the entire public stock interest with full equity ownership by the private investor group. Managers will generally share subsequent equity ownership with outside investors who helped finance the LBO.

If the buyout turns out to be a success, the company can retire the debt within five to 10 years. The investor group can then sell the equity. If the buyout turns out to be a failure, the investor group will have to assume the debt.

Prime Ingredients For Successful LBOs

LBOs are not suitable for all types of companies. Promising candidates among hospitality companies will share many of the following characteristics:

1. Profitability: The company must be profitable, with positive cash flow and strong financial performance. The owner must be willing to sell the company to the investor group.

2. Growth potential: The company must have growth potential, with a solid track record of increasing revenues and profits. The owner must be willing to share the growth potential with the investor group.

3. Management quality: The company must have strong management, with a proven track record of success. The owner must be willing to transfer control to the investor group.

4. Competitive advantage: The company must have a competitive advantage, with a strong market position. The owner must be willing to sell the competitive advantage to the investor group.

5. Industry stability: The company must be operating in a stable industry, with little competition. The owner must be willing to sell the industry stability to the investor group.

6. Financial flexibility: The company must have financial flexibility, with sufficient cash flow to service the debt. The owner must be willing to sell the financial flexibility to the investor group.

7. Corporate governance: The company must have strong corporate governance, with a clear focus on long-term goals. The owner must be willing to sell the corporate governance to the investor group.

8. Industry leadership: The company must be a leader in the industry, with a strong reputation. The owner must be willing to sell the industry leadership to the investor group.

9. Cultural fit: The company must have a culture that fits with the investor group's values. The owner must be willing to sell the culture to the investor group.

10. Global presence: The company must have a global presence, with a strong international footprint. The owner must be willing to sell the global presence to the investor group.

The return to private ownership (going private) "potentially yields material reductions in registrations, listing, and other stockholder servicing costs." Private companies have more freedom in their decision-making process. "Business decisions are addressed solely from their economic viewpoint without regard to the potential impact on earnings per share." Implicit in this argument is that once private, the company can manage its business in its best long-term interests rather than the short-run orientation of the stock market. That is, "private companies are more willing than public companies to make investments in projects that are long-term oriented and may not immediately yield a return."
Strong and competent management team expected to stay once the transaction is completed. Essentially, continuity of management has been regarded as a basic ingredient for a successful LBO.

High cash generators, thereby facilitating the repayment of the new debt.

Limited outstanding debt which permits the addition of significant additional borrowings.

Undervalued assets which also allow the payment of a premium to selling shareholders and a purchase at a reasonable price.

Stable earnings growth. Although the company does not need to be highly profitable, it must have some fundamental strength to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be able to continue to build on so that competent management will be ab...
shareholders, and creditors. The risk is further magnified when shareholders recoup their investment by selling stock that is overpriced because the ESOP has become a major shareholder of the company. When the ESOP transfers its stock to others, as often happens, the company is left with debt.

Despite the potential for impressive returns, LBOs involve sub-
stantial risks. Once the LBO is completed, the company is left with debt.

For a premium price.

Banks have also helped some companies shift numerous divisions from their own balance sheets, thereby reducing their exposure to the risk of defaults. If the bank, and the same amount of equity, as well as recoverable provisions to cover the loss of their stock. The same principle applies to the ESOP. The ESOP is expected to receive a dividend equal to the fair market value of the stock it owns.
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.
   - Appraisers: They will assist in the determination of the collateral value of property and equipment.

The main objective to keep in mind in planning a financing package is to structure a financing package that not only enables the buyout but also permits adequate cash to fund current and future operating needs.

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 risky to complete a deal. In 1984, Lenders and investors have become more selective in the deals they were willing to support.

The future of LBOs is uncertain and future operating needs may change. To help ensure that the buyout is successful and also permits adequate cash flow, the following recommendations are made:

- Government officials have expressed concern about the undue risks of LBOs and the potential for excess leverage.
- The future of LBOs is uncertain and future operating needs may change.
Another issue that might affect the future environment for LBOs is the role that buyouts are expected to play as a defensive maneuver to halt an all-time high hostile takeover trend. To this end, "there are definite signs that LBOs may soon form the arsenal of standard defense measures that have been dreamed up by investment banks to replace unfriendly bidders," better known as corporate raiders. Future trends are clearly toward the continuation of LBOs as long as the potential for substantial wealth remains a strong incentive for all participants. The tax system is also expected to preserve the favored treatment of LBOs, encouraging their future growth. Further, conglomerates are divesting themselves of unwanted units, "offering them to their managers as part of the unwinding of the merger and acquisition craze of the past decade." This provides an opportunity to support the original offer of $45 a share, all the more reason to expect that the auction of the remaining shares will proceed smoothly in the hands of the new privately held company, DHI, "a wholly-owned subsidiary of a Delaware-based holding company named DHI, Inc." The Denny's buyout was structured as a merger in which a new company was formed from the assets of Denny's. The Denny's buyout was approved in a special meeting of shareholders on January 24, 1985, "a transaction that is of a magnitude unprecedented in the food service industry." Originally proposed by Merrill Lynch Capital Markets (Merrill in May 1984 after being consulted by Denny's on the feasibility of disposing of its Winchell's Donut Houses division, the Denny's LBO was expected to be finalized in three to five months. However, the private investor group led by Merrill Lynch was unable to line up all the required financing to support the original offer of $45 a share, delaying the consummation of the buyout until January 1985. At the same time, "the price to be paid to Denny's shareholders was cut to $43 a share from $45 a share, resulting in a reduction in the value of the LBO deal to $774.2 million from $787 million. On January 24, 1985, Denny's shareholders approved an LBO offer of $43 a share (or about $774.2 million) at a special meeting of shareholders in La Mirada, California, "a transaction that is of a magnitude unprecedented in the food service industry."

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 an extremely well-managed operation, which had demonstrated growth and 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 a reasonable 55 percent and its book value per share of Denny's common stock was $19.44 on June 29, 1984, which was seen as an indication of the firm's sound underlying assets. A special committee of Denny's board of directors evaluated the company's financial statements and concluded that the current offer price of $43 per share was fair and adequate for shareholders. Denny's common stock was quoted at $38 per share on September 25, 1984, the last full day of trading prior to public announcement of the decline of the original offer price to $43 a share. The reported closing price on the New York Exchange for Denny's common stock on December 21, 1984, the day the proxy statement was mailed to shareholders, was $41.25 per share of Denny's common stock. The book value per share of Denny's common stock was $19.44 on June 29, 1984, which was seen as an indication of the firm's sound underlying assets.
### Sources and Uses of Funds

#### Denny’s Leveraged Buyout

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denny's existing cash balances</td>
<td>$44.4M</td>
</tr>
<tr>
<td>DHI redeemable preferred stock</td>
<td>$43.2M</td>
</tr>
<tr>
<td>16.75% Subordinated Floating Rate Notes</td>
<td>$43.0M</td>
</tr>
<tr>
<td>15.5% Senior Fixed Rate Notes</td>
<td>$40.5M</td>
</tr>
<tr>
<td>Revolving Credit Loans</td>
<td>$32.6M</td>
</tr>
<tr>
<td>Total Debt Financing</td>
<td>$164.5M</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Use</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Payment to Denny's shareholders ($43 a share)</td>
<td>$185.0M</td>
</tr>
<tr>
<td>Payment of fees and expenses incurred in connection with the merger</td>
<td>$34.2M</td>
</tr>
<tr>
<td>Total Uses</td>
<td>$219.2M</td>
</tr>
</tbody>
</table>

#### Notes:
- All the outstanding capital stock of Denny's and substantially of the wholly-owned non-stock outstanding.

#### Exhibit 1

A breakdown of the common stock investment (common stock investment) with respect to Denny's LBO Transaction follows:

- Denny’s LBO Transaction Collected
- The Denny’s LBO Transaction Plan was issued at 2 percent of the common stock outstanding. The plan paid 77 percent of the $44.4 million of preferred stock outstanding to pay off the $44.4 million of preferred stock outstanding and 77 percent of the $43.2 million of preferred stock outstanding to pay off the $43.2 million of preferred stock outstanding.
- The LBO was financed by Merrill Lynch, a financial institution that owned 77 percent of the $44.4 million of preferred stock outstanding. The LBO was financed by Merrill Lynch, a financial institution that owned 77 percent of the $44.4 million of preferred stock outstanding.
A breakdown of the investments is as follows:

<table>
<thead>
<tr>
<th></th>
<th>Amount in Millions of Dollars</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denny's management group</td>
<td>$8.1</td>
<td>18.2%</td>
</tr>
<tr>
<td>Merrill Lynch consortium</td>
<td>34.1</td>
<td>76.8%</td>
</tr>
<tr>
<td>Profit sharing plan</td>
<td></td>
<td>2.2%</td>
</tr>
<tr>
<td>Merill Lynch consolidation</td>
<td></td>
<td>76.8%</td>
</tr>
<tr>
<td>Denny's management group</td>
<td></td>
<td>18.2%</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 $44.2 million from $312 million, Denny's debt to equity ratio was raised from less than 1 to the excessive level of 18 to 1 (see Exhibit 2).

EXHIBIT 2

<table>
<thead>
<tr>
<th>In Millions of Dollars</th>
<th>Denny's LBO</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt to equity ratio</td>
<td>18 to 1</td>
</tr>
<tr>
<td>Total Capitalization</td>
<td></td>
</tr>
<tr>
<td>Preferred Stock</td>
<td></td>
</tr>
<tr>
<td>Common Shareholders' Equity</td>
<td></td>
</tr>
<tr>
<td>Long-term debt</td>
<td></td>
</tr>
<tr>
<td>Subordinated Fixed Rate Notes</td>
<td></td>
</tr>
<tr>
<td>Subordinated Floating Rate Notes</td>
<td></td>
</tr>
<tr>
<td>Senior Fixed Rate Notes</td>
<td></td>
</tr>
<tr>
<td>Obligations under Capital Leases</td>
<td></td>
</tr>
<tr>
<td>Convertible Debentures</td>
<td></td>
</tr>
<tr>
<td>Long-term notes</td>
<td></td>
</tr>
<tr>
<td>Total Debt</td>
<td>$963.0</td>
</tr>
<tr>
<td>Total Equity</td>
<td>$44.2</td>
</tr>
</tbody>
</table>


The quarter ending September 28, 1984, was Denny's last full reporting period before it went private.
Denny's entered into interest rate swap arrangements to mitigate the impact on Denny's 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." Denny's net income for the fiscal year ending June 30, 1984, was $45 million on revenue of $1.2 billion. As a result of the buyout, however, interest expenses on the massive debt would almost eradicate any prospects for increased earnings and had been expected to retard Denny's aggressive expansion program in 1985. ("Denny's 1984 strategic plan without given recognition to the LBO 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—not to mention the three primary lenders—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, the company would become highly profitable when the debt is retired, creating an exciting public vehicle that may be of interest to investors.

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 that slower expansion could lead to loss of its coffee shop market dominance, Denny's has "decided to launch a selective program of restaurant franchising," reversing a company trend that began in 1970 when many restaurant companies found that beginning in 1970 franchising was a viable option to sustain growth. Meanwhile, with the expansion of the franchising program, the faster growth rate is likely to continue in the aftermath of the LBO to "direct cash flow toward accelerated debt service." As a result, Denny's would slow its past torrid expansion.

Denny's has also pointed out that Denny's 1983 acquisition of El Pollo Loco division provided "a growth vehicle that may be brought public on its own, creating an exciting public vehicle if deemed desirable." But Denny's original "vision for El Pollo Loco becoming America's pollo chain," which accounted for the building up of the chain of El Pollo Loco to over 25 units in California and Texas, may have to be reconsidered. The buyout "has placed enough of a financial strain on the company to raise questions whether it can afford to keep rapidly expanding El Pollo Loco and whether that would divert critical financing resources from Denny's restaurants themselves—which are Denny's main growth vehicle.

"Denny's entered into interest rate swap arrangements to mitigate the impact on Denny's of increases in borrowing costs resulting from fluctuations in interest rates."
Other LBOs Exist in the Industry

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 "31 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 ARKS 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. Diversifood's 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 Jack Goodall in a LBO transaction." However, the LBO plan fell through because the leaders realized that the Foodmaker restaurant subsidiary was a management group led by Foodmaker's president and chief executive officer Jack Goodall in a LBO transaction. Reports had also surfaced that Howard Johnson chairman G. Michael Hostage was trying to put together a group to buy Howard Johnson's. Another lodging chain that has been considered a likely candidate is Hilton Hotels Corp. Investment banking sources had been speculating that chairman Barron Hilton might attempt an LBO. Analysts who followed Hilton have argued that "a deal to take the company private in a LBO would not be unreasonable," assuming that the company's earnings were "improved significantly."48 Yet "little movement in Hilton's stock price" has occurred in the wake of the recent rejection of a Hilton casino license request in Atlantic City, which might "make Hilton's management more amenable to running a private company."49
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 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

LBOs would be an entirely new form of competition for the ownership spectrum. They could be outstanding for the entrepreneur that earns. Moreover, LBOs will have an effect on productivity gains for the new private company. Usually, new ownership will enable LBOs to achieve a unique opportunity to expand their business horizons, assess the market, and create new opportunities. Entrepreneurs can receive a share of earnings and thereby invest. Many of them have become so popular that, for all practical purposes, they are as important as any other firm in the hospitality industry.

Opportunities remain for successful LBOs in the hospitality industry. But this is a matter of conditions. The proper balance of rewards and risks will be essential in identifying prime targets. At this time, everyone seems to be watching Denny's and ARA to see if their deals prove successful. Should that be the case, other suitable candidates among hospitality firms will most likely be considered. The LBO phenomenon will continue to prove exciting for all participants.
References

*Note: The references are formatted in a standard bibliographic style, listing the authors, titles, and publication details.

11. deAngelo, deAngelo and Rice, *op. cit.*, p. 370.
18. ibid.
21. ibid., p. 23.
22. deAngelo and deAngelo, *op. cit.*, p. 2.
27. High real estate costs and market saturation were slowing Winchell's division growth.
28. 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.
29. A newly-formed corporation created expressly for the purpose of completing the buyout.
31. ibid, p. 62.
32. Denny's Inc, proxy statement, (December 21, 1984), p. 34.
33. ibid.
34. ibid.
40. Richard Martin, "Denny's launches aggressive franchising program."
Other References

[References list from the document]